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ECONOMY OBSERVER



JUNE 2023

Delayed rainfall pose risk to businesses - Dun & Bradstreet India

“ Domestically, the delayed monsoon and the external geopolitical developments imparts uncertainty on inflation trajectory and pose risks to businesses... ”

Domestically, the delayed monsoon and the external geopolitical developments imparts uncertainty on inflation trajectory and pose risks to businesses, particularly those serving the rural segment. As the full impact of the previous monetary policy actions is still unfolding, lending rates in 2023 is expected to surpass the levels seen in 2019. On the other hand, despite the narrowing of the interest rate differential between USA and India, there is renewed risk appetite from foreign investors, with net investments in equities in May 2023 being the highest level in the last 9 months.



Real Economy

Easing of inflationary pressures would further boost private demand thereby supporting industrial activity, whereas weak external demand is likely to be a drag on industrial activity. The delay in the onset of monsoon pose risk to businesses as the resultant delay in the sowing of kharif crop has raised concerns over the kharif crop output and thereby the sales of agrochemicals and fertilizers. Dun & Bradstreet expects the Index of Industrial Production (IIP) to have grown by 4.5% - 5.0% during May 2023.



Price Scenario

The arrival of the southwest monsoon has been delayed across the country, leading to late sowing of the summer crop. However, despite the delayed monsoon and the impact of heat waves on certain regions of the country, the extent to which the El Nino will contribute to drought-like conditions remains uncertain. To check retail prices, the government has imposed a stock limit on wheat till the end of FY24, besides the imposing restrictions on certain pulses. Given the moderation in the retail inflation and the deflation in the wholesale inflation, we expect an extended pause in the monetary policy. However, it is pertinent to remain vigilant against potential risks from increase in crude oil prices along with unfavourable geopolitical development which might alter the monetary policy roadmap. Dun & Bradstreet expects the Consumer Price Inflation (CPI) to be in the range of 4.1% - 4.2% and Wholesale Price Inflation (WPI) to be around (-) 3.5% - (-) 3.7% in June 2023.



Money & Finance

We expect bond yields to edge upwards. The US Federal Reserve continues to maintain a hawkish stance, suggesting an additional 50 basis points hike, while back home, the Monetary Policy Committee paused the rate hiking cycle and has signaled monetary conditions to remain tight for some time as it looks to attain the 4% inflation target. Dun & Bradstreet expects the 15-91-day Treasury Bills yield to remain at around 6.8%-6.9% and 10-year G-Sec yield to be 7.05%-7.1% for June 2023.

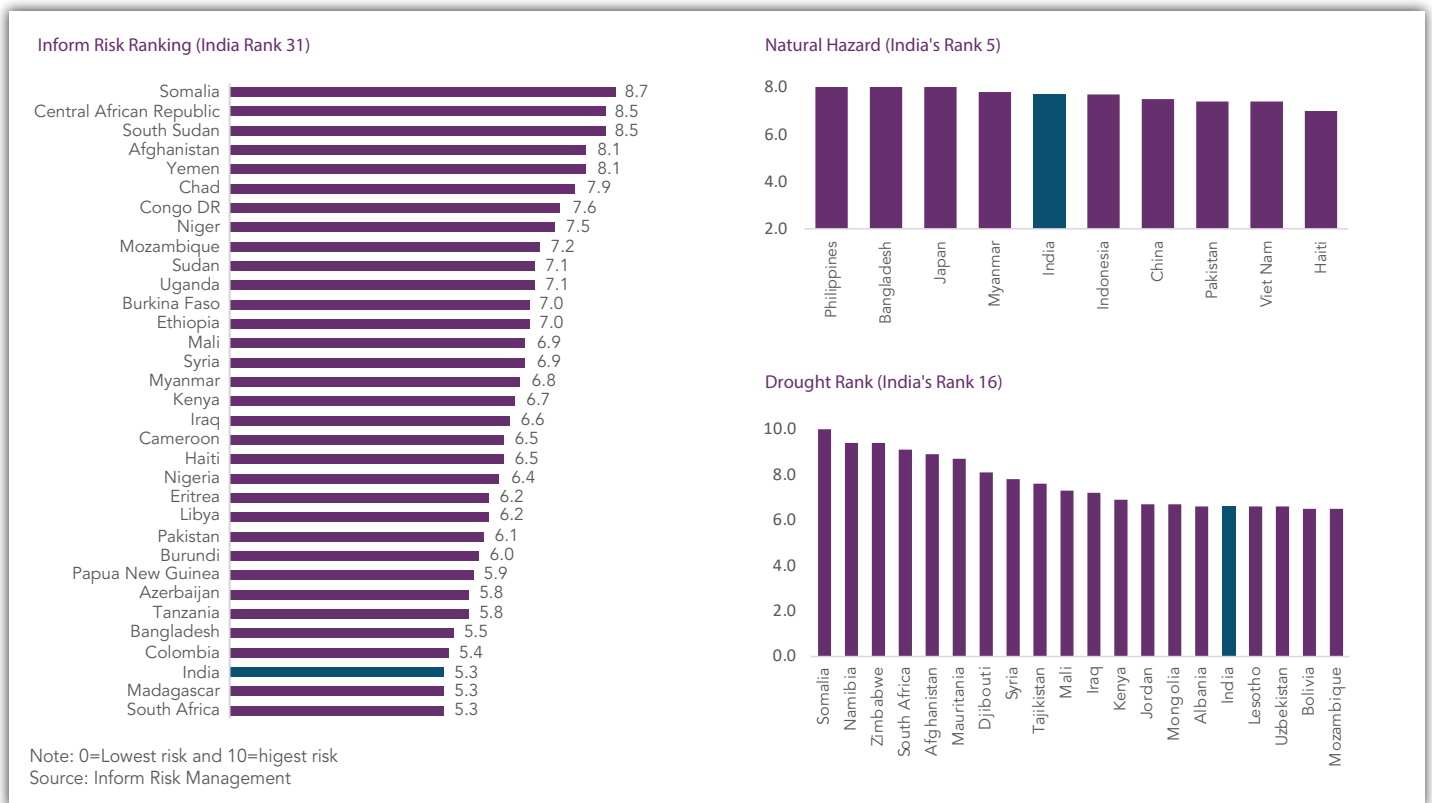
External Sector

The Indian rupee (INR) appreciated (m-o-m) vis-à-vis the US dollar in May 2023 and remained less volatile. Foreign exchange reserves have rebounded from the low of USD 524.5 billion on 21 October, 2022 and now stand close to USD 600 billion (16 June 2023) supporting rupee. Intervention by the Central Bank to support exporters, is expected to keep rupee rangebound, as strong FII inflows are weighing upon rupee. Dun & Bradstreet expects rupee to appreciate, although slightly, from May to 82.2 - 82.3 per US\$ during June 2023.

Dun & Bradstreet's Economy Observer Forecast

Variables	Forecast	Latest Period	Previous period
IIP Growth	4.5 % - 5.0% May-23	4.2% April-23	1.7% March-23
Inflation WPI	(-)3.5% - (-)3.7% June-23	-3.48% May-23	-0.92% April-23
CPI (Combined)	4.1% - 4.2% June-23	4.25% May-23	4.7% April-23
Exchange Rate (INR/US\$)	82.2 -82.3 June-23	82.34 May-23	82.03 April-23
15-91 day's T-Bills	6.8% - 6.9% June-23	6.62% May-23	6.72% April-23
10 year G-Sec yield	7.05% - 7.1% June-23	7.01% May-23	7.18% April-23
Bank Credit	15.6% - 15.8% June-23	15.52% May-23	15.90% April-23

India's position in the global risk assessment for humanitarian crises and disasters (INFORM Risk)

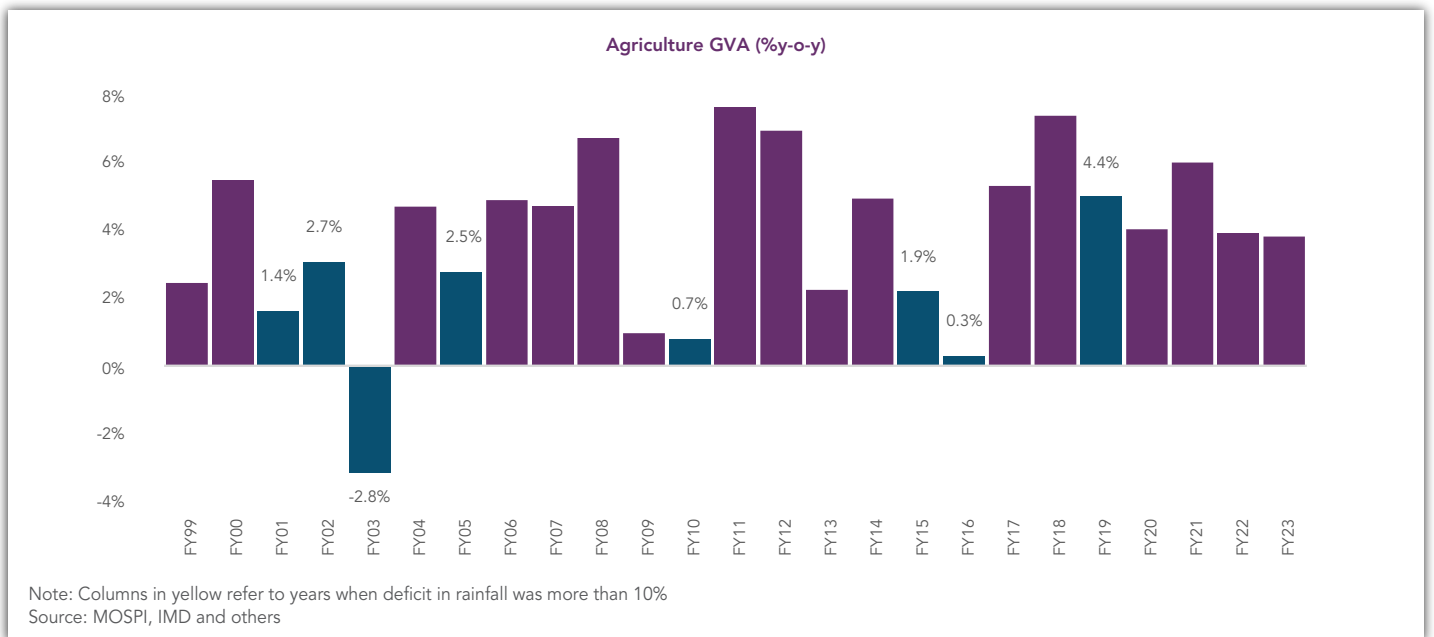


India is categorized as a high risk country and ranks 31 amongst 194 countries under the overall INFORM risk index. With a rank of 5th, it is categorized as a very high risk country under the Natural Hazard dimension, indicating that India is highly prone to various types of natural hazards like earthquake, flood, drought, epidemic etc.

- The INFORM risk index identifies countries at risk from humanitarian crises and disasters and is composed of three dimensions - Hazards and exposure, Vulnerability and Lack of coping capacity.

- Under the various classifications of natural hazard, India ranks 16th for drought. This brings to the fore the concerns that arise when the country witnesses delay in the arrival of monsoon.
- Given that approximately 80% of India's annual precipitation takes place during the summer, the country is highly susceptible to the change on the southwest monsoon patterns. As a result, the nation's prosperity is intricately linked to the monsoon's influence on various factors, including water reservoir levels, agriculture output, fiscal balance (through MSPs and subsidies), electricity generation, and inflation.
- The economic activity in India's agriculture sector and related industries are significantly influenced by the amount of rainfall during the season, as approximately 55% of the country's arable land relies on precipitation.

Drought years and the agriculture gross value added in India



India has been identified as one of the severely drought-impacted countries, with a geographical vulnerability comparable to that of sub-Saharan Africa

- According to the Indian Meteorological Department (IMD), 87% of districts in India exhibit moderate to very high vulnerability to drought, while 27% of districts are classified as highly vulnerable. The state of Madhya Pradesh is the most vulnerable, followed by Uttar Pradesh, Gujarat, and Karnataka.
- A recent study conducted by the IMD, analysing a 30-year period to 2018 reveals that states such as Uttar Pradesh, Bihar, and West Bengal, which have a significant impact on India's agricultural output, have shown a significant decreasing trend in rainfall in the southwest monsoon.
- Data shows that in 8 out of the past 24 years, the Southwest monsoon has experienced a deficiency of more than 10%, leading to drought conditions in India.
- India's Gross Domestic Product (GDP) is estimated to have reduced by 2 to 5% between 1998 and 2017 due to severe droughts in the country according to a report published by United Nations.
- The drought event of 1987, among the various droughts since India's Independence, was exceptionally severe, resulting in an overall rainfall deficiency of 19% that affected approximately 59-60% of the normal cropped area.
- A similar scenario occurred in 2002, with the entire country experiencing a 19% overall rainfall deficiency. This led to a significant decline of 29 million tonnes in food grain production, prompting the Government of India to provide relief measures amounting to approximately US\$ 4500 million. In 2009, the country faced an overall rainfall deficiency of 23%, resulting in a 7% decrease in food grain production compared to the previous year's record output. Moreover, the agricultural and allied sectors only registered minimal growth of 0.7% in 2009-10.
- Additionally, during the years 2014-15 and 2015-16, substantial portions of the country encountered drought conditions, causing widespread hardships for the affected population, particularly in major agricultural states.

Rural activity Indicators

	Q2 2022			Q3 2022			Q4 2022			Q1 2023			Q2 2023	
	Apr-22	May-22	Jun-22	Jul-22	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Two Wheeler Sales (Baseline= Q4 2019)	93	96	78	71	75	71	110	130	79	89	89	101	86	105
Three Wheeler Sales (Baseline= Q4 2019)	74	73	75	82	92	105	109	122	104	108	120	142	116	130
Tractor Sales (Baseline= Q4 2019)	89	104	93	96	80	85	86	126	127	118	112	131	90	114
Fertiliser availability as a % of requirement*	130%	135%	117%	110%	120%	143%	98%	107%	122%	165%	212%	276%	157%	169%
Global food prices index (y-o-y, %)	33%	25%	23%	13%	11%	12%	11%	9%	6%	2%	-3%	-14%	-14%	-16%
Growth in Agriculture exports (y-o-y,%)	21.4%	33.3%	34.5%	22.2%	25.6%	1.8%	-12.3%	6.2%	3.3%	-2.8%	7.5%	9.3%	-13.2%	
Growth in work demanded by households under MNREGA (y-o-y)	-11.2%	15.7%	-6.5%	-34.9%	-35.2%	-30.4%	-24.0%	-10.1%	-11.9%	-11.5%	-11.2%	-6.1%	3.4%	3%
Employment provided as a % of work demanded by households under MNREGA	80.2%	85.1%	86.8%	86.1%	86.1%	85.8%	86.3%	85.4%	87.1%	80.5%	79.2%	83.9%	86.1%	90%

Note: * Urea, DAP, NPK, MOP, SSP

Source: Haver Analytics

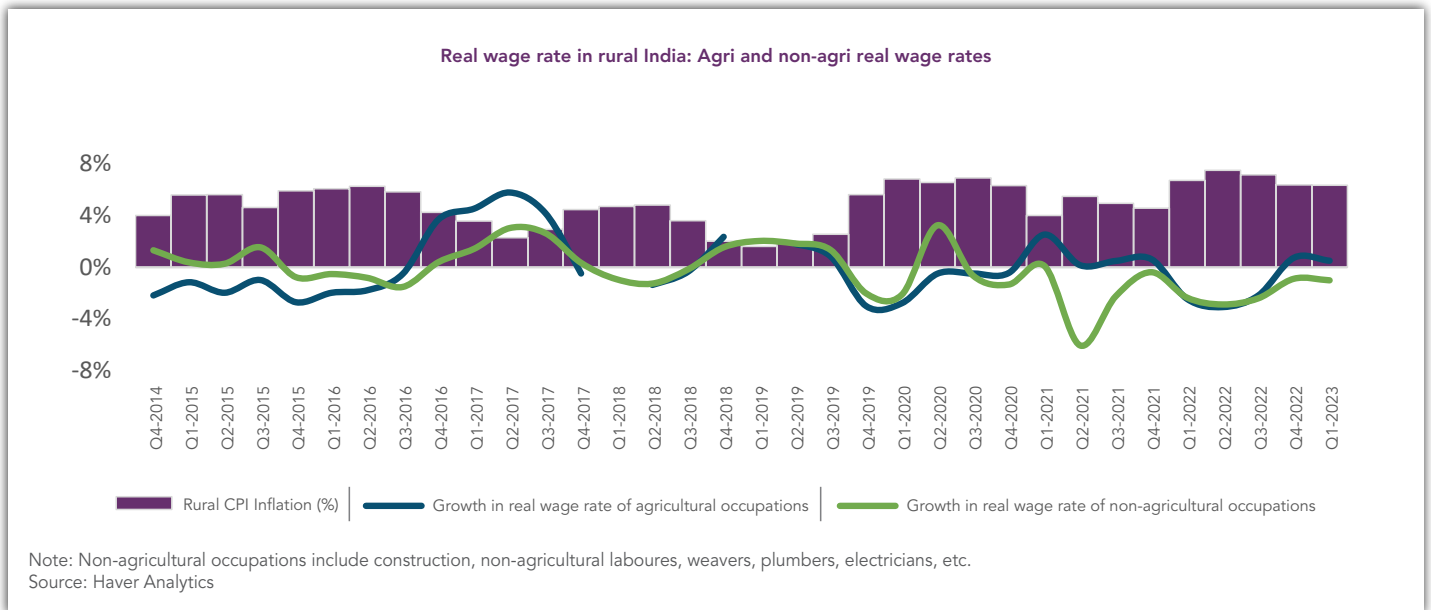
In the event of an uneven and deficient Monsoon there is a risk of food prices soaring, undoing the progress made in controlling inflation, impacting the rural segment.

- Rural demand has recovered compared to the pre-pandemic level as witnessed in the sales of two and three wheelers and tractors.
- However, as the global food prices moderated and global demand tempered, agriculture exports took a hit, evidenced by the decline in exports in April 2023.
- The year-on-year work demanded under MNREGA has been on a declining trend since May 2021 (except for August 2021 and May 2022), suggesting that laborers are finding employment opportunities in the agriculture sector. However, the recent data for April and May reveals a growth, indicating that laborers are now seeking work outside of agriculture. It is noteworthy that the government has not been able to meet the employment demanded by households, as the percentage of employment provided compared to employment demanded

remains low. However, there has been an improvement in this aspect recently.

- The deficit in rainfall and lower sowing area of kharif raises concerns unless rainfall picks up from July onwards. During the period 01 – 14 June, the % departure of rainfall from its Long Period Average (LPA) was a negative (-53%) and area coverage under kharif sowing has been 4.5% lower compared to last year. Even if the rainfall picks up, uneven distribution of rainfall could also harm crops. This factor along with reduced prospects for global trade diminishes the prospects for a robust growth in agriculture and in turn can be a drag on the overall GDP for FY23.

Real wages rates in the rural segment might again turn negative if the delayed monsoon reverses the positive gains made on inflation



In the event of an uneven and deficient monsoon, there is a risk of food prices soaring, undoing the progress made in controlling inflation. This, in turn, would lead to reduced real wages for households reliant on agriculture and non-agricultural occupations in the rural segment. As a response, the government may need to consider implementing measures such as increasing Minimum Support Prices (MSPs), expanding job opportunities through MNREGA, or introducing additional supportive actions.

- Nominal wage rate in the agricultural occupations grew by an average of 5.6% during FY22 and FY23 (post pandemic period). This was higher than the pre-pandemic period (FY18 and FY19) where it grew by an average of 5.1%. During FY20 and FY21 (pandemic period), this grew at an even lower rate of 4.8%.
- On the other-hand real wage rates grew positively during the pre-pandemic period

(FY18 and FY19) by 1.7% as the rural retail inflation remained much below the Central Bank’s target range of 4%-6% averaging at 3.3%.

- As inflation grew steadily, averaging at 5.1% during FY20 and FY21 and 5.9% during FY22 and FY23, real wage rate in the agriculture sector dipped and grew by (-)0.2% and (-)0.3% respectively during the above two periods.
- In the non-agricultural sectors in the rural economy, the trend observed was quite dissimilar. Nominal wage rates did not recover in the post pandemic period and grew at slower pace compared to both the pre-pandemic and pandemic period. Nominal wage rate in the pre-pandemic period grew by 5.1%, which moderated to 4.2% in the pandemic period and further to 3.8% in the post pandemic period. Real nominal wage rates grew positively during both the pre-pandemic (0.1%) and pandemic period (0.1%) and fell into negative territory (-2.0%) during the post pandemic period.
- Given that rural retail inflation has started abating by March 2023 and grew by an average of 4.4% during April and May 2023, it is expected to help demand to recover in the rural segment.

WATCH OUT IN JUNE 2023

IMF World Economic Outlook (WEO)

Watch out for World Economic Outlook to be released in July 2023 which will give the IMF's view of the world economy for 2023.

US FOMC meeting (Federal Open Market Committee Schedule)

Following the pause in rate hike after 15 months, watch out for US FOMC meeting expected to be held in July, that will define the direction of policy rates globally.

Industrial Outlook Survey

Watch out for Industrial Outlook Survey that provides qualitative assessment of the business environment by Indian manufacturing companies for the first quarter of 2023 and the projections for upcoming quarter along with an analysis of specific factors.

Services and Infrastructure Outlook Survey

The Reserve Bank of India is expected to release its quarterly Services and Infrastructure Outlook Survey for Q1 2022-23 that captures qualitative assessment and expectations of Indian companies in the services and infrastructure sectors on a set of business parameters relating to demand conditions, price situation and other business conditions.

Consumer Price Index (CPI)

Watch out for Consumer Price Index (CPI) to be released by Ministry of Statistics & Planning for June 2023 as the retail inflation has dropped to 45 months low in May 2023 within the tolerance band of Reserve Bank of India.

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