dun & bradstreet

ECONOMY OBSERVER

OCTOBER 2024

FESTIVE DEMAND AND ROBUST LIQUIDITY TO SUSTAIN INDIA'S GROWTH PROSPECTS - DUN & BRADSTREET

"India's economic outlook shows a mix of resilience and caution. Industrial production fell in August, but a recovery is expected with seasonal changes and increased demand due to festivity. The financial sector remains stable, supported by strong credit and liquidity. However, high food prices and supply issues are keeping inflation above the Reserve Bank's target, limiting rate cuts. The rupee faces pressure from foreign investment outflows and a strong US dollar, along with geopolitical uncertainties. Despite these challenges, India's large foreign exchange reserves provide a buffer against external shocks. Overall, the outlook emphasizes domestic strengths while advocating for caution"

Dr. Arun Singh
Global Chief Economist

dun & bradstreet

POSITIVES

- *Direct tax collections remained in Double digits in Aug, with income tax collections growing by 25.5% in Aug 2024.*
- *India's trade deficit narrowed to five month low in Sep 24, standing at USD20.78 bn*
- *Service trade remained in surplus, with exports growing by 9.8% from April-Sep 24.*
- *Non-food bank credit grew at 15.1% in Aug 2024, with highest deployment to agriculture and allied activities.*
- *The gross GST collection grew by 6.5% (y/y) in Sep 24*
- *The Gross Fiscal Deficit stood at 17.2 percent in Aug 24, of the budget estimates, marking its lowest level in over a decade.*

NEGATIVES

- *Retail inflation climbed up to14 month high, at 5.81% in Sep 24, with food prices remaining elevated.*
- *Wholesale Price inflation has risen by 1.8% in Sep 2024, as the prices for food articles and primary goods climbed up significantly.*
- *Index of Industrial Production has contracted by 0.14% in Aug 24.*
- *Trade Deficit has widened to USD29.7 bn in Aug 24, imports at all-time high at USD64.36 bn.*
- *India's core industries contracted by 1.8% y/y in Aug 2024, lowest in 42 months.*
- *The number of new EPF subscribers dropped to a four-month low in August 2024.*

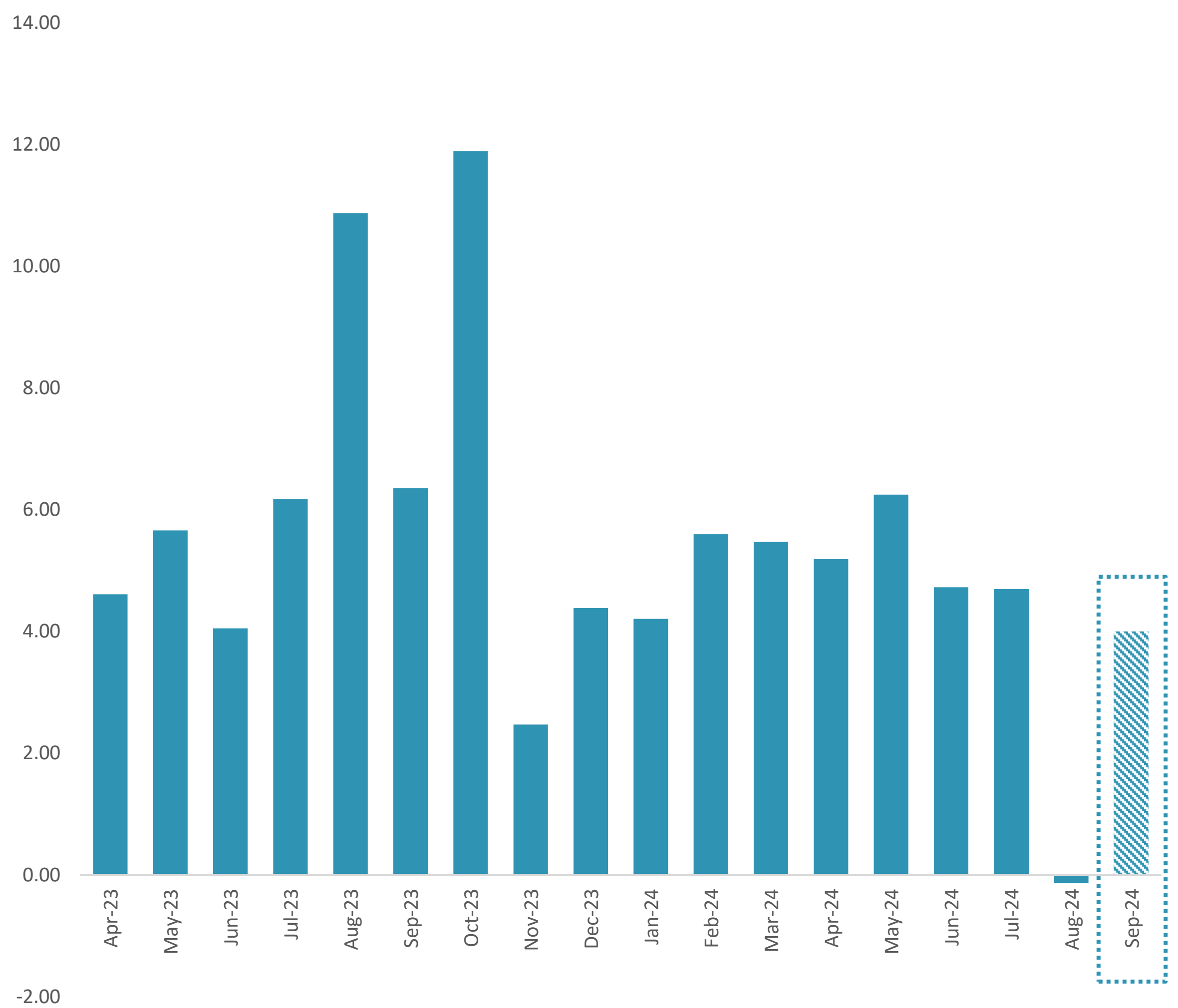
D&B's Economy Observer Forecast

Variables	**Forecast**	**Latest Period**	**Previous period**
IIP Growth	4.00% Sep-24	-0.14% Aug-24	4.70% July-24
Inflation WPI	2.00% Oct-24	1.84% Sep-24	1.31% Aug-24
CPI (Combined)	5.3% Oct-24	5.49% Sep-24	3.65% Aug-24
Exchange Rate (INR/USD)**	84.1 Nov-24	84.0 Oct-24	83.81 Sep-24
91-day T-Bills*	6.6% Oct-24	6.64% Sep-24	6.64% Aug-24
10-year G-Sec Yield*	6.8% Oct-24	6.83% Sep-24	6.91% Aug-24
Bank Credit	12.0% Oct-24	13.0% Sep-24	13.6% Aug-24

**Weekly Average ** Dun and Bradstreet Forecasts*

Real Economy

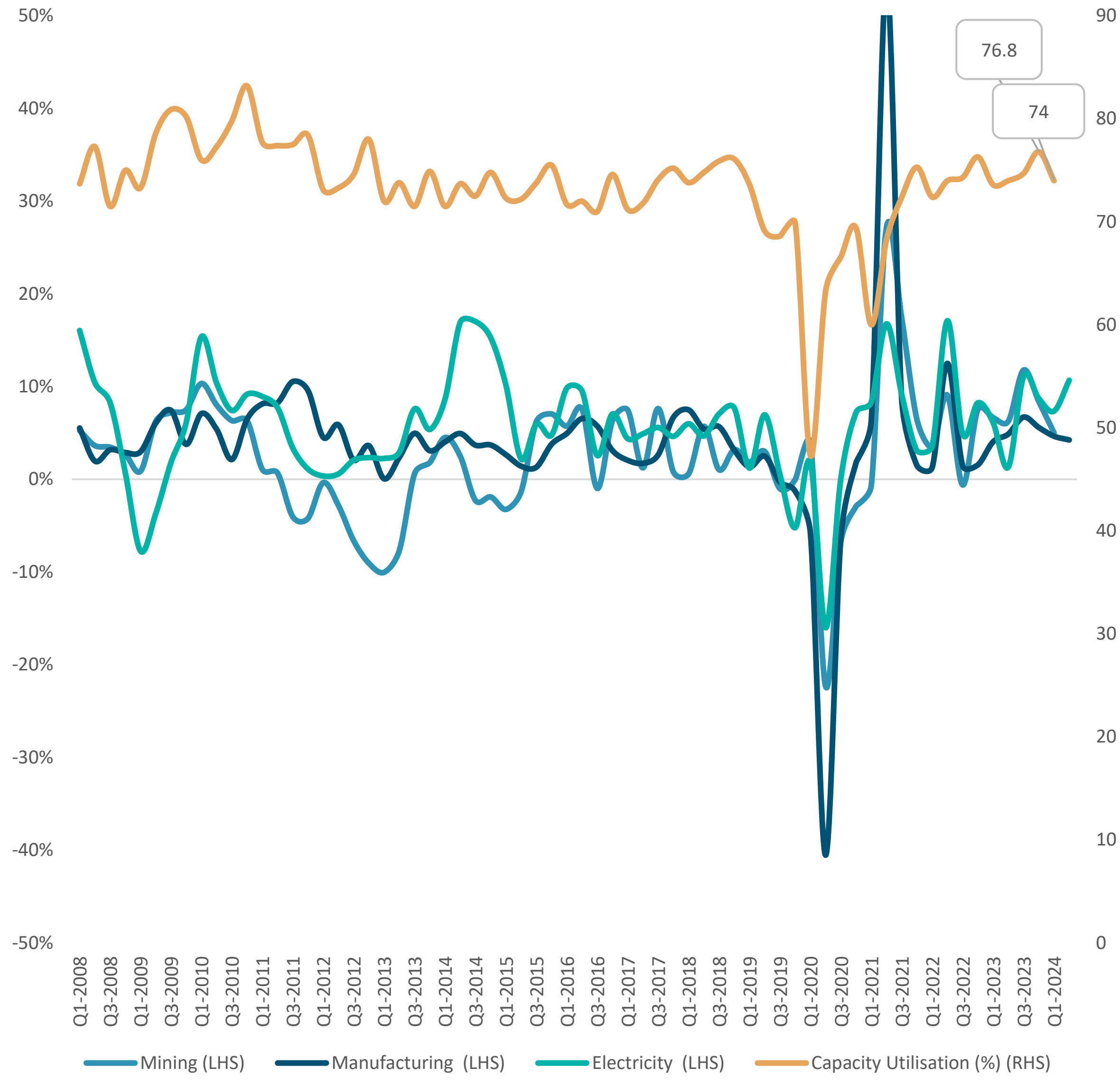
Industrial Production (IIP)



The Index of Industrial Production (IIP) contracted by 0.1% y/y in August 2024, following growth of 4.7% y/y in July 2024. The mining sector continued its sluggish performance with a sharp contraction of 4.3%, mainly due to monsoon-related seasonality. The electricity sector also witnessed de-growth, while the manufacturing sector posted a marginal improvement, growing by 1.0% y/y. Nonetheless***, Dun & Bradstreet expects industrial production to rebound, with IIP growth projected at 4.0% in September 2024***. The revival in industrial performance is to be driven by festive demand and growing appetite for capital investment.

Source: RBI, Dun & Bradstreet

As Industrial production moderates, there is pressure on capacity utilization

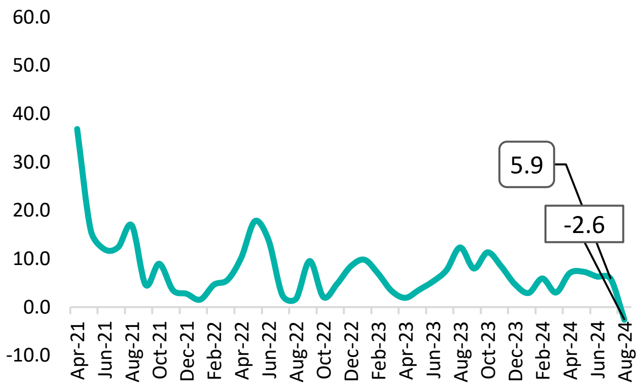


The mining sector remained sluggish, impacted primarily by monsoon seasonality. The electricity sector also saw a decline, while manufacturing showed only slight improvement. Stagnant capacity utilization reflects underlying challenges for businesses striving to maintain momentum and points to a need for renewed growth drivers. With industrial activity showing limited progress for the second consecutive quarter of 2024, this prolonged stagnation and easing capacity utilization are expected to delay the next cycle of capacity creation until next year.

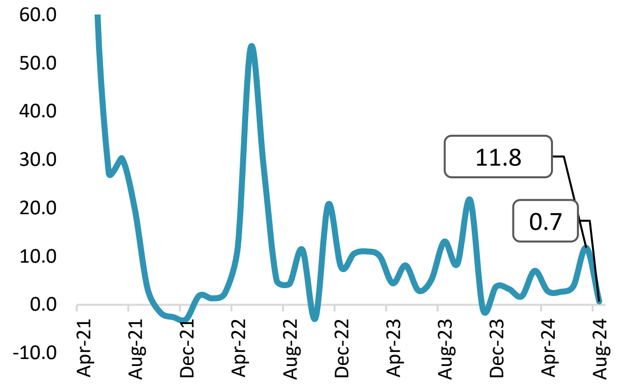
Source: RBI, MOSPI

Use-based classification of IIP

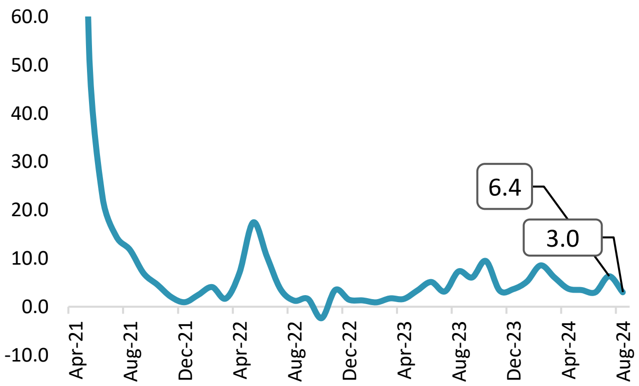
Primary goods



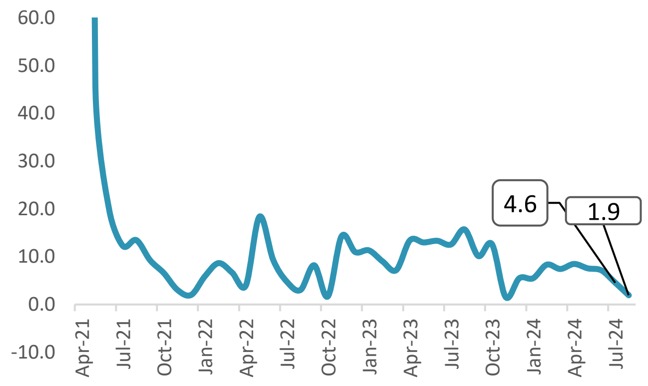
Capital goods



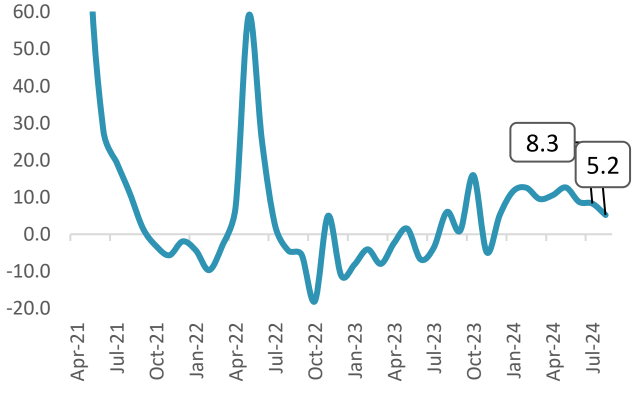
Intermediate goods



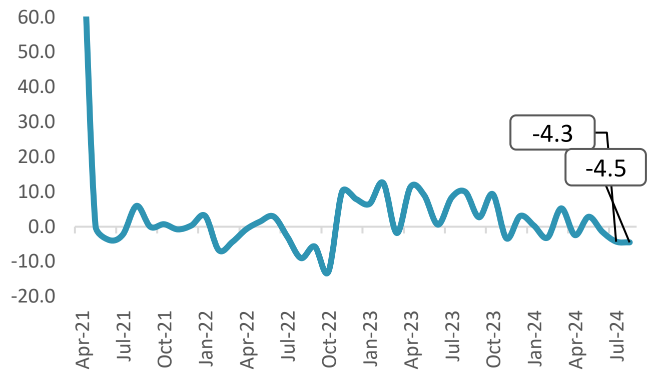
Infrastructure/ construction goods



Consumer durables



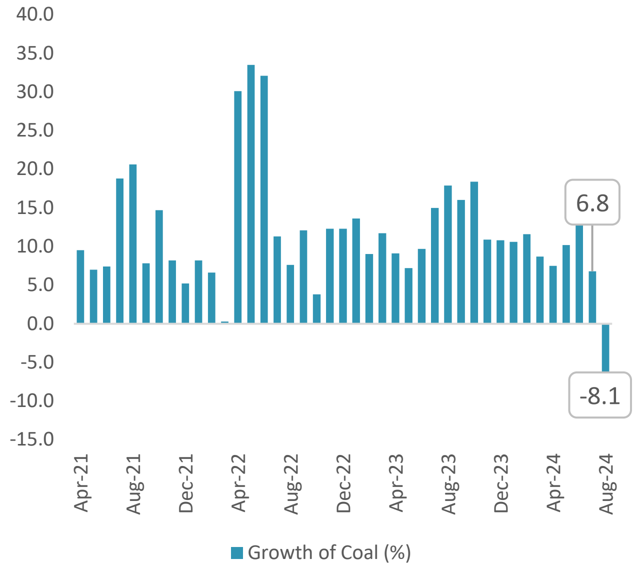
Consumer non-durables

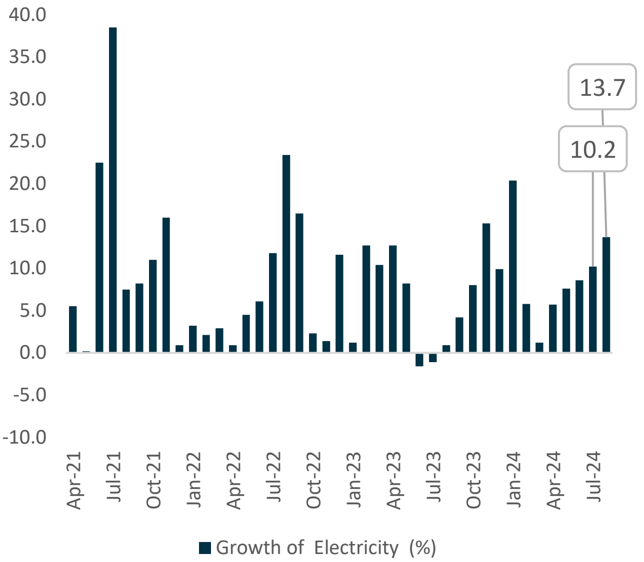


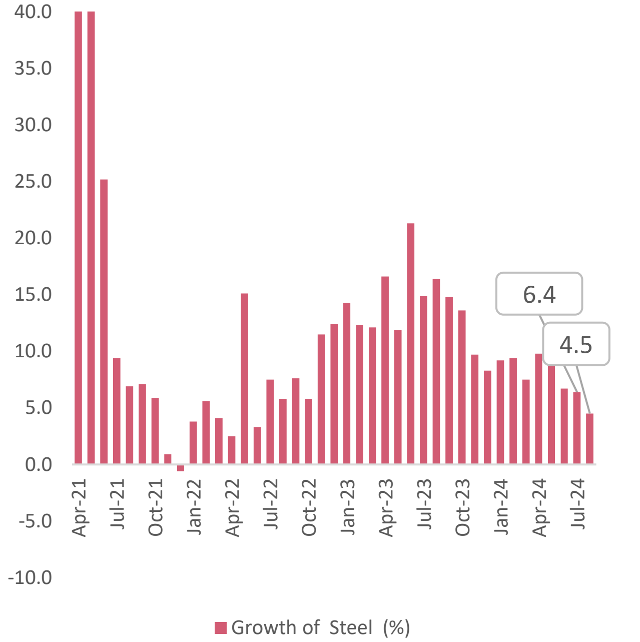
Use-based indices point to broad-based weaknesses across sectors, highlighting challenges in sustaining industrial momentum. Primary goods and consumer non-durables have both registered declines, reflecting reduced demand and underlying production constraints. Growth in capital goods and the construction and infrastructure sectors has also softened, suggesting cautious industrial outlook

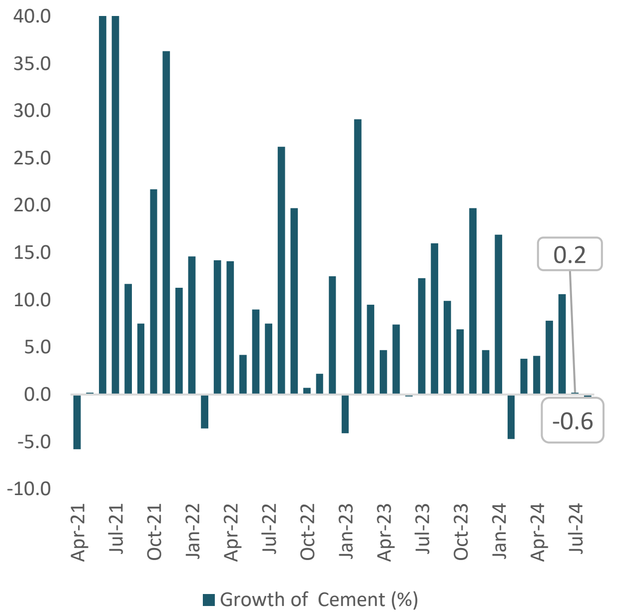
Source: MOSPI

Core Industries





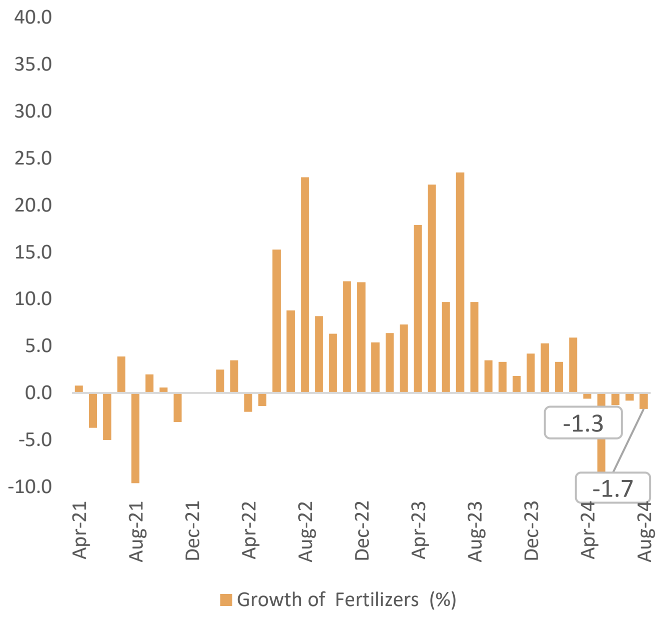


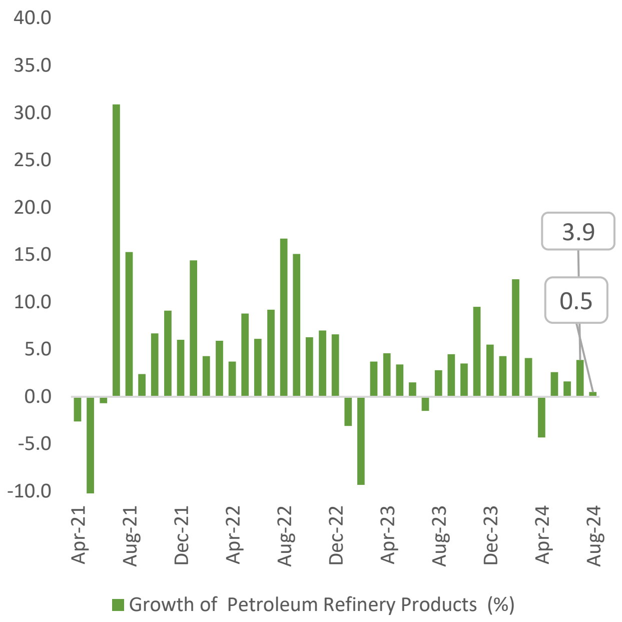


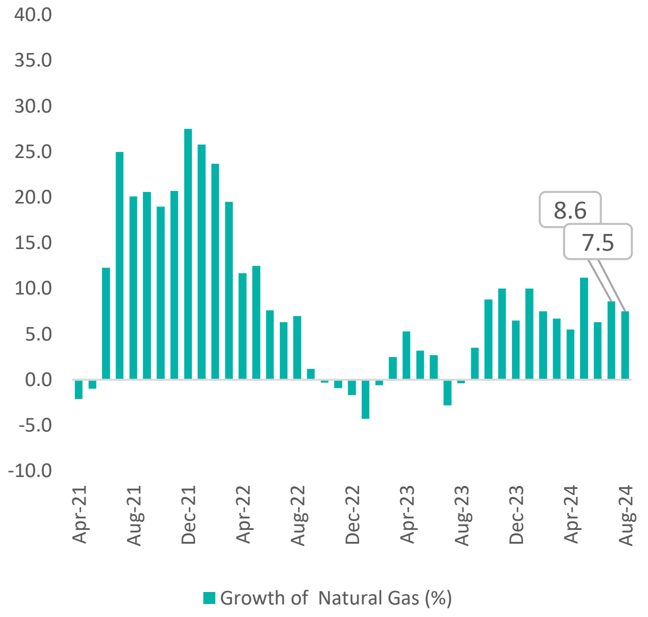
Coal, electricity, steel, and cement are essential pillars of industrial growth and infrastructure development in India. Recent sluggish performance in these sectors is mainly attributed to monsoon seasonality and a high base effect. However, if this trend persists, it raises concerns given the crucial role these industries play in sustaining India's growth momentum.

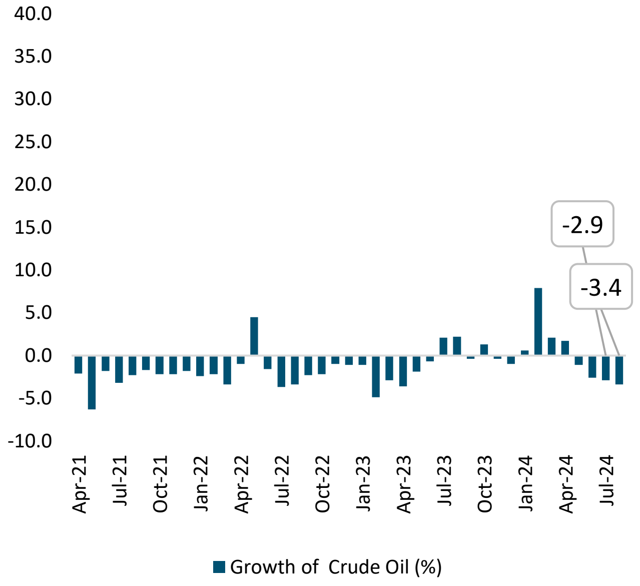
Source: EIA

Core Industries





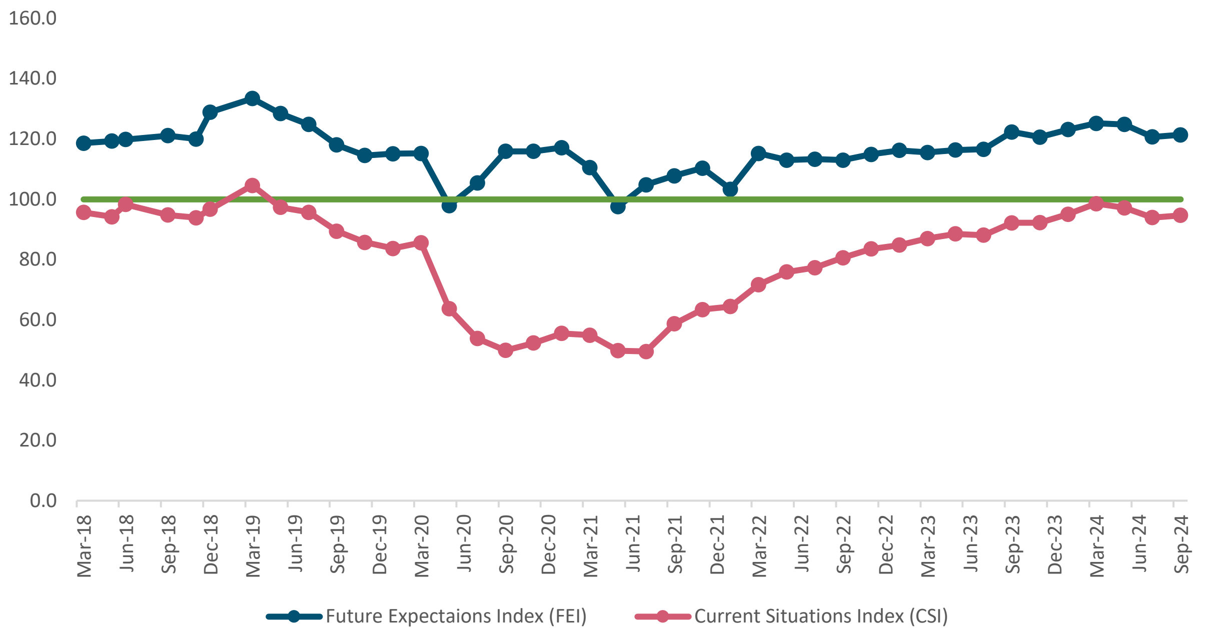


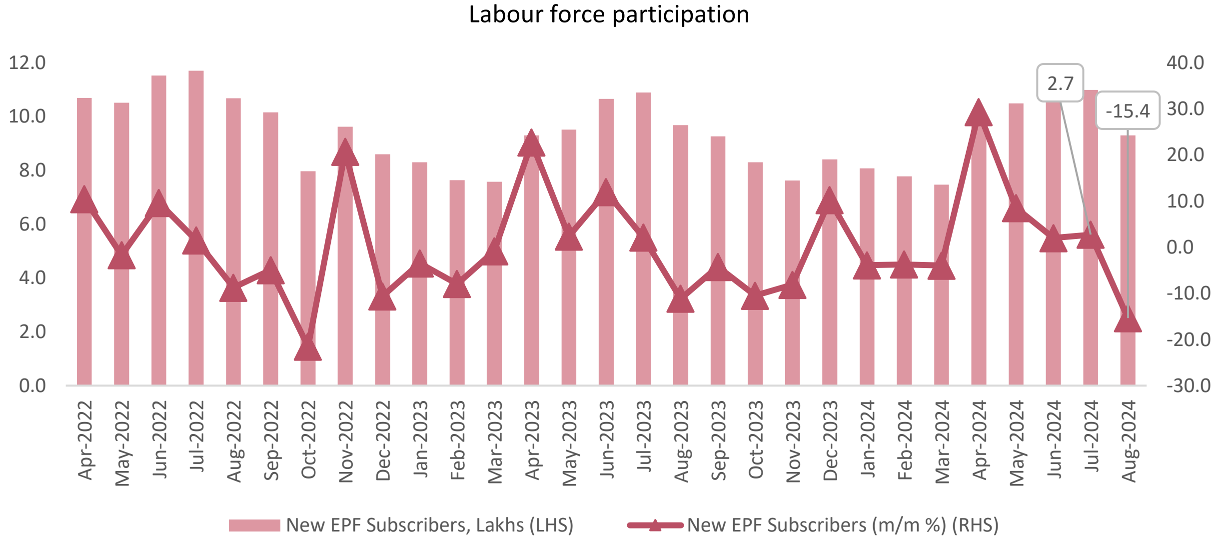


A production downturn in fertilizers, crude oil, petroleum, and natural gas is expected to raise energy dependency risks, and escalate input costs for agriculture and industries, potentially intensifying inflationary pressures and adding strain to the current account deficit.

Source: EIA

Consumer confidence and Labor force participation

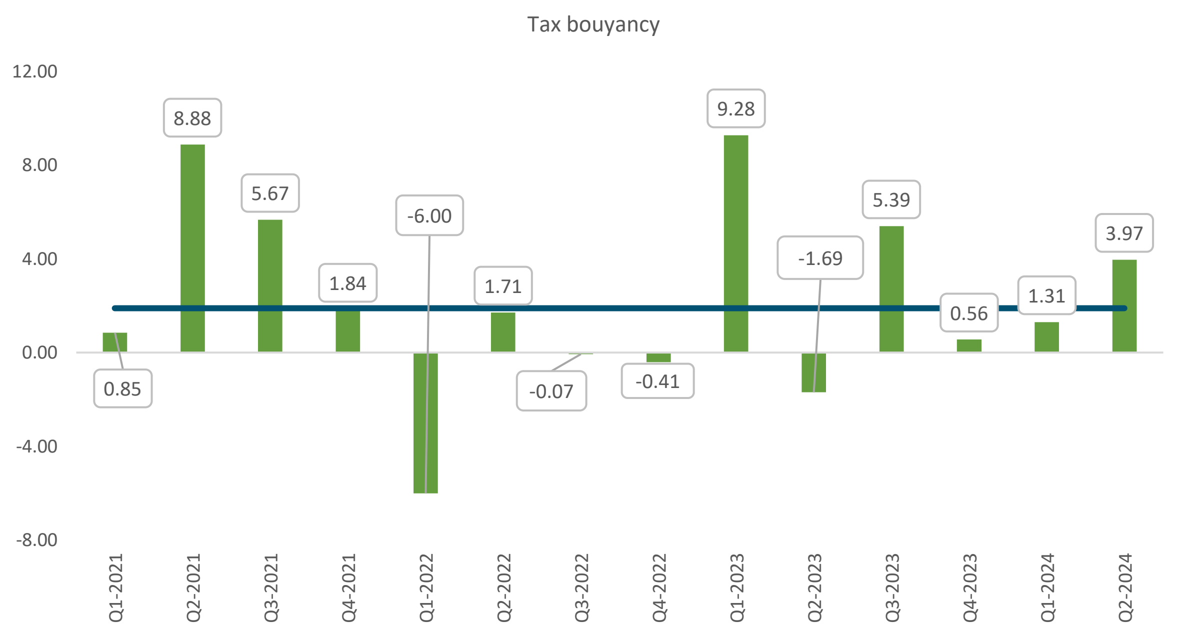


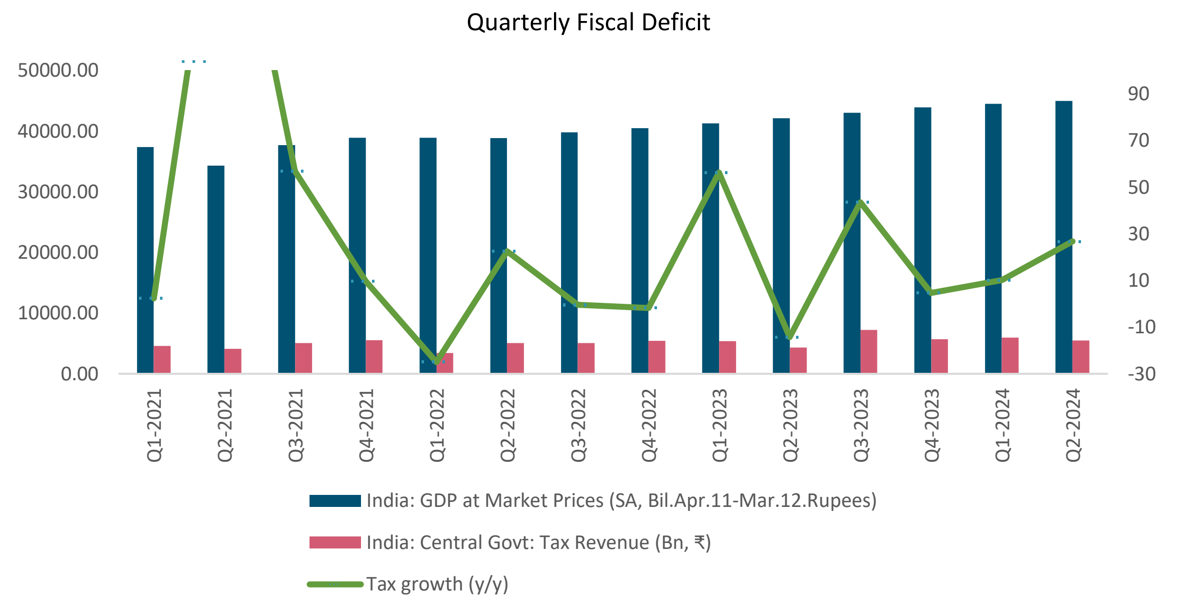


Consumer sentiment in India is expected to see a moderate improvement, rising by 0.7 percentage points in the upcoming year. This boost, while modest, aligns with the festive season's typically supportive influence on demand. However, labor market conditions have softened, reaching a four-month low in Aug 24. This dip in employment metrics suggests underlying pressures in the economy, which may temper the pace of consumer-driven growth in the near term.

Source: RBI, MOSPI

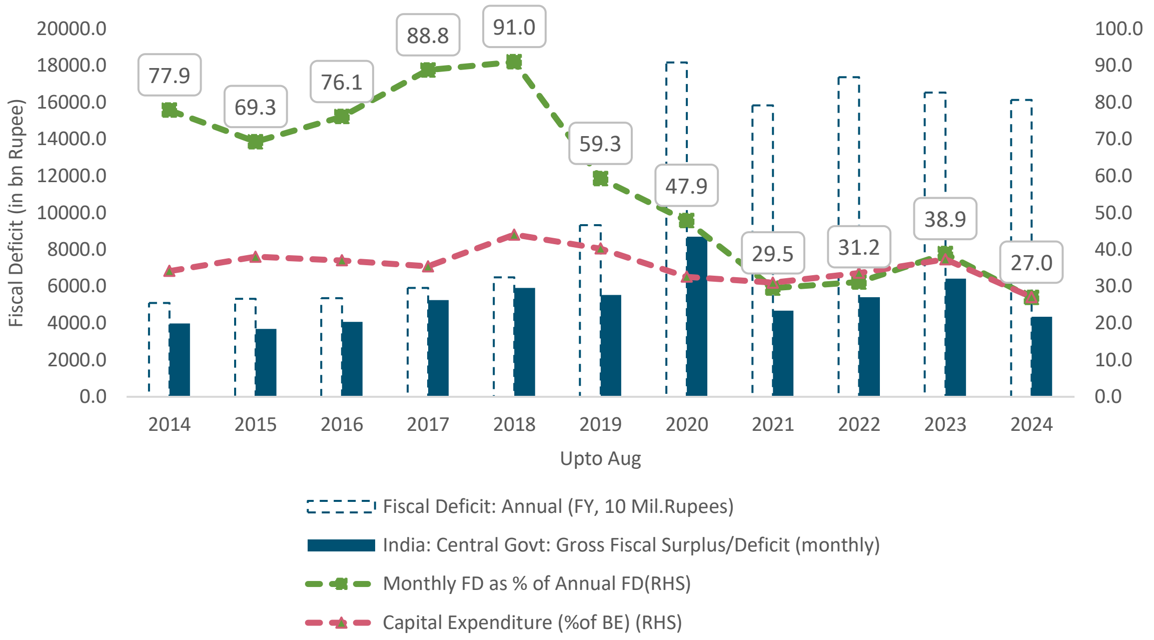
Tax Buoyancy and Fiscal Deficit

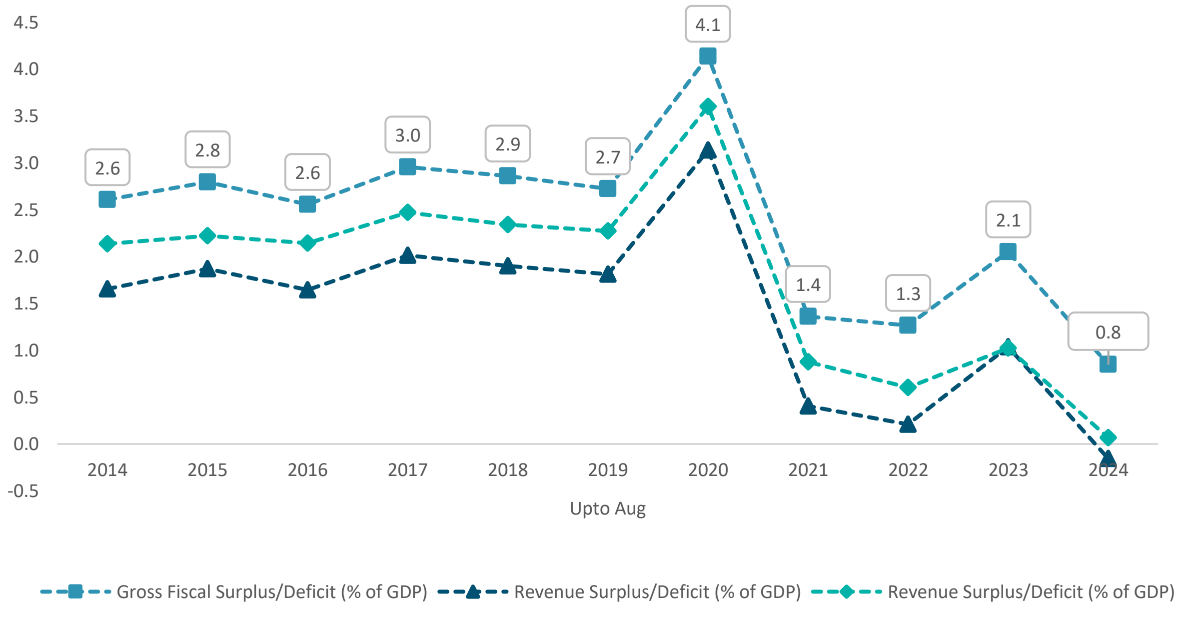




India's fiscal capacity continues to show resilience, supported by strong tax performance. Additionally, quarterly tax revenue growth has maintained an upward trend, driven by both direct and indirect tax inflows. This is expected to provide sufficient fiscal space for significant infrastructure investments, while sustaining tax performance will be critical for India to progress on the path of fiscal consolidation.

Economy remains on the path of fiscal consolidation

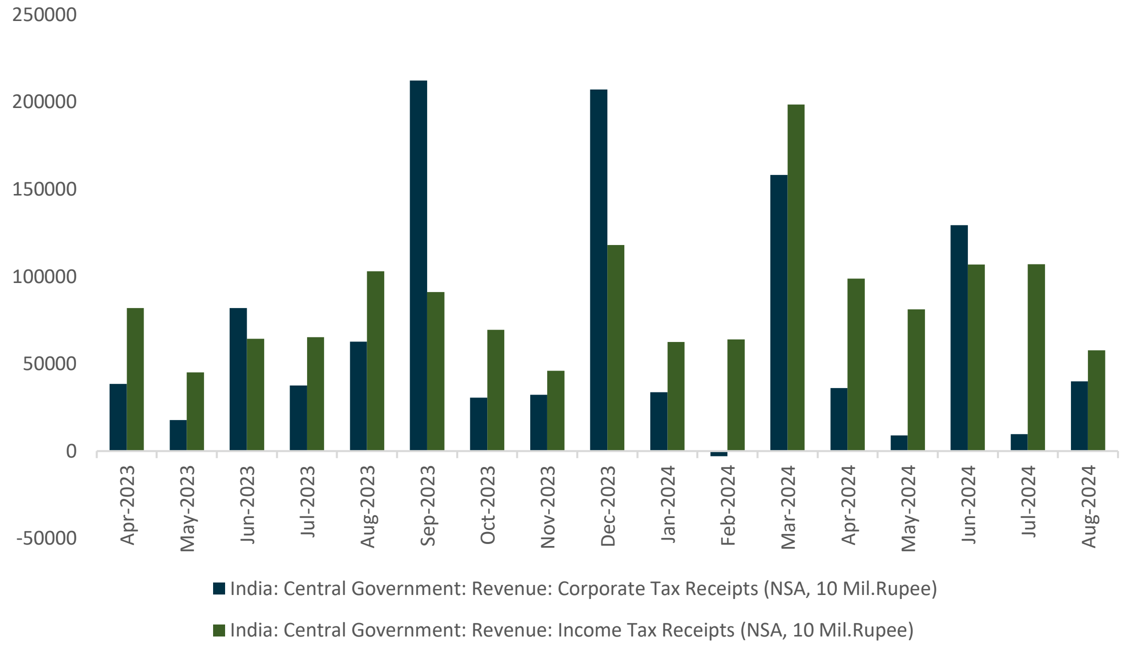


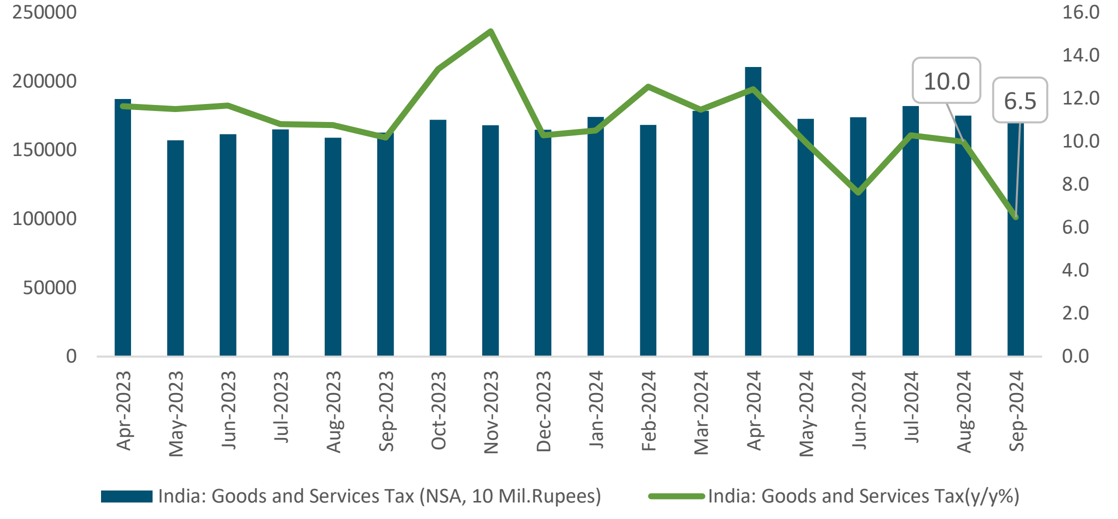


Centre remains committed on the path of fiscal prudence, as reflected in the declining monthly fiscal deficit as a percentage of the annual target, which has dropped to 17.2%. This reduction provides sufficient fiscal space to manage spending in the coming months, demonstrating successful control over the fiscal deficit through careful, gradual expenditure.

Source: CGA, Havers

Direct & Indirect Tax Collections



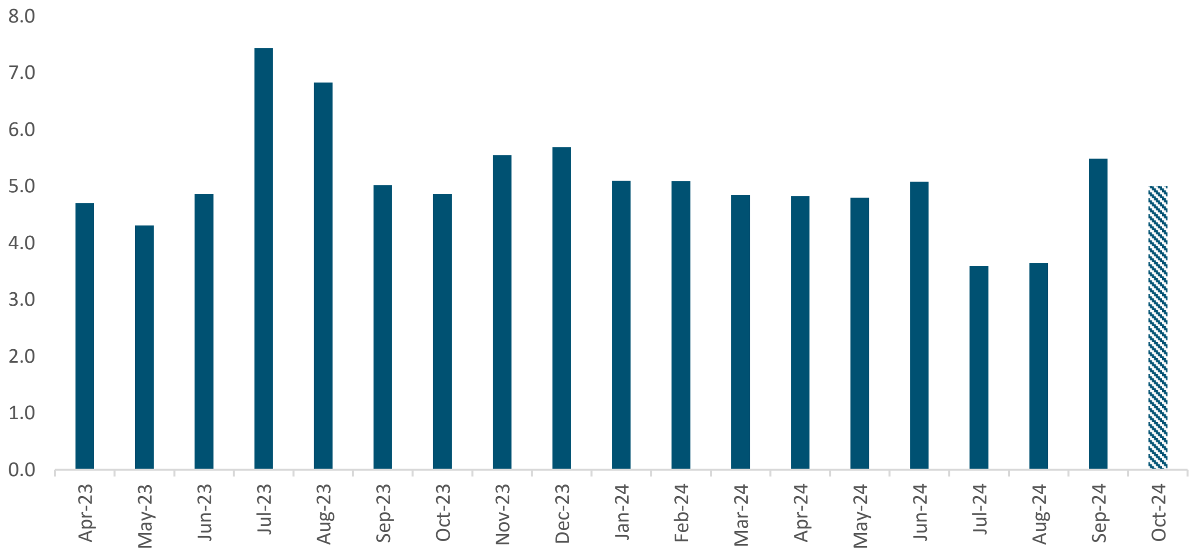


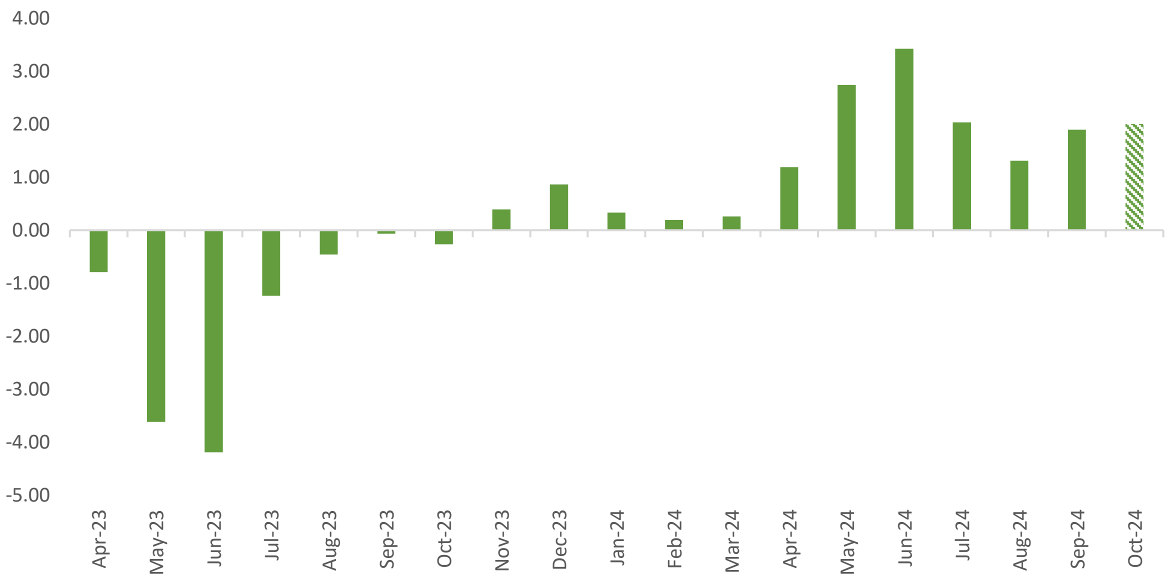
Direct tax collections have soared significantly, indicating improved compliance and robust income growth among individuals and corporations. This surge is a positive for expanding fiscal base of Indian economy.
However, the growth in Goods and Services Tax (GST) collections has moderated, reflecting sluggishness in business performance, likely due to factors such as fluctuating consumer demand and supply chain disruptions.

Source: CGA, Havers

Price Scenario

As Industrial production moderates, there is pressure on capacity utilization

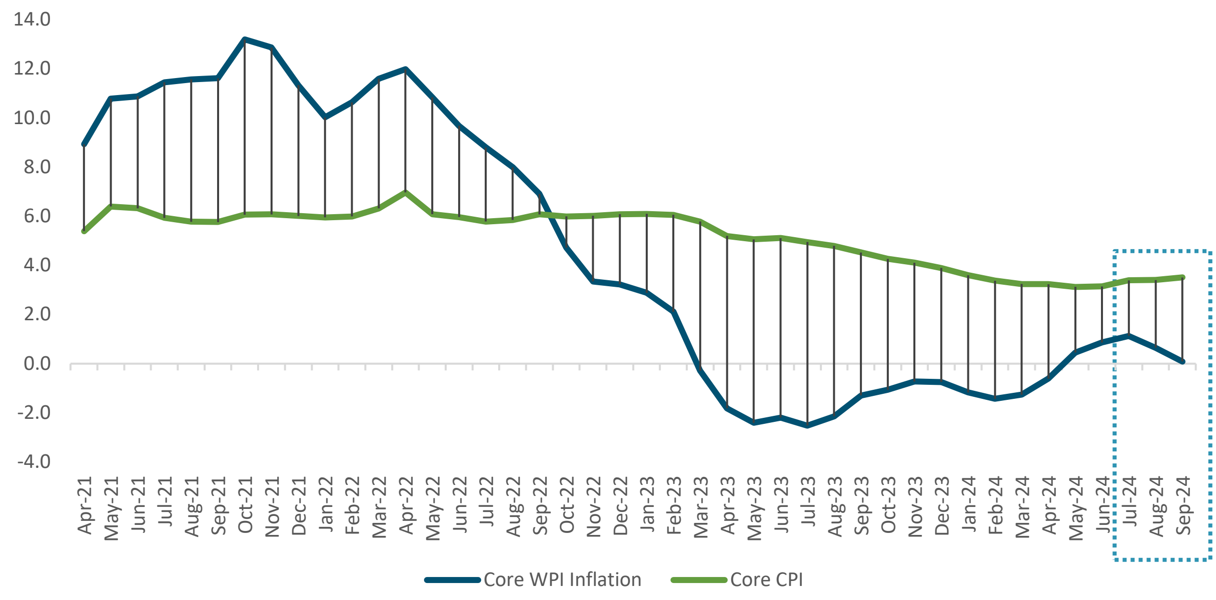


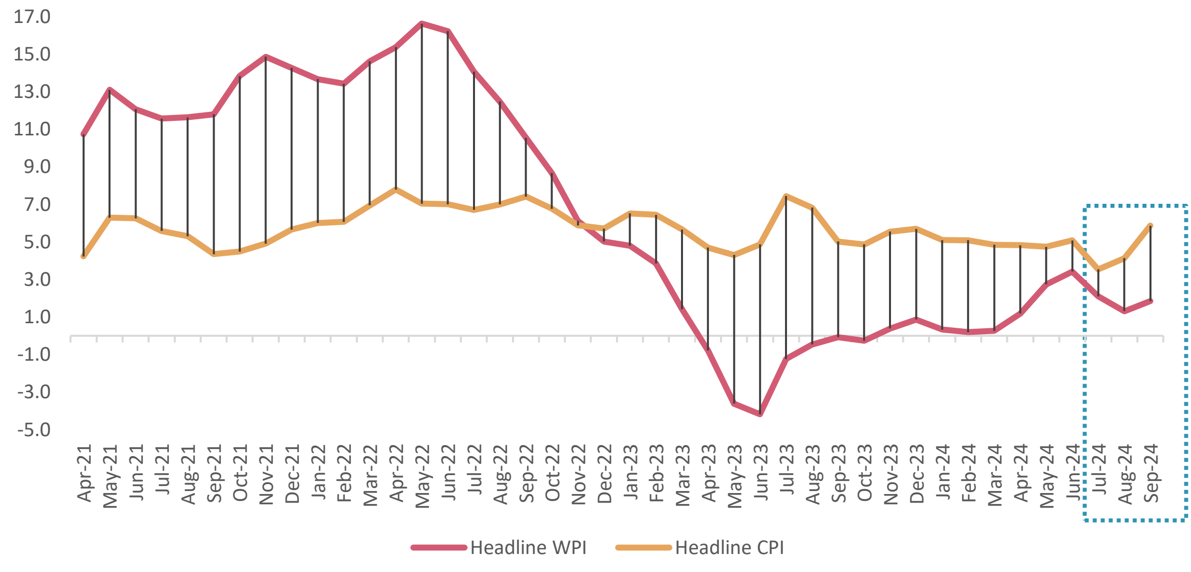


Consumer price inflation surged to a nine-month high of 5.5% in September 2024, whereas wholesale price inflation picked up to 1.8% y/y. The incessant rise of food prices in September, soaring by more than 9%, has been responsible for the rise in both WPI and CPI. ***Dun & Bradstreet expects wholesale inflation to settle at 2.0%, while retail inflation is forecasted to remain above the central bank's target at 5.3% in October 2024.***

Source: MOSPI, Dun & Bradstreet

Core Consumer Price Inflation & Wholesale Price Inflation

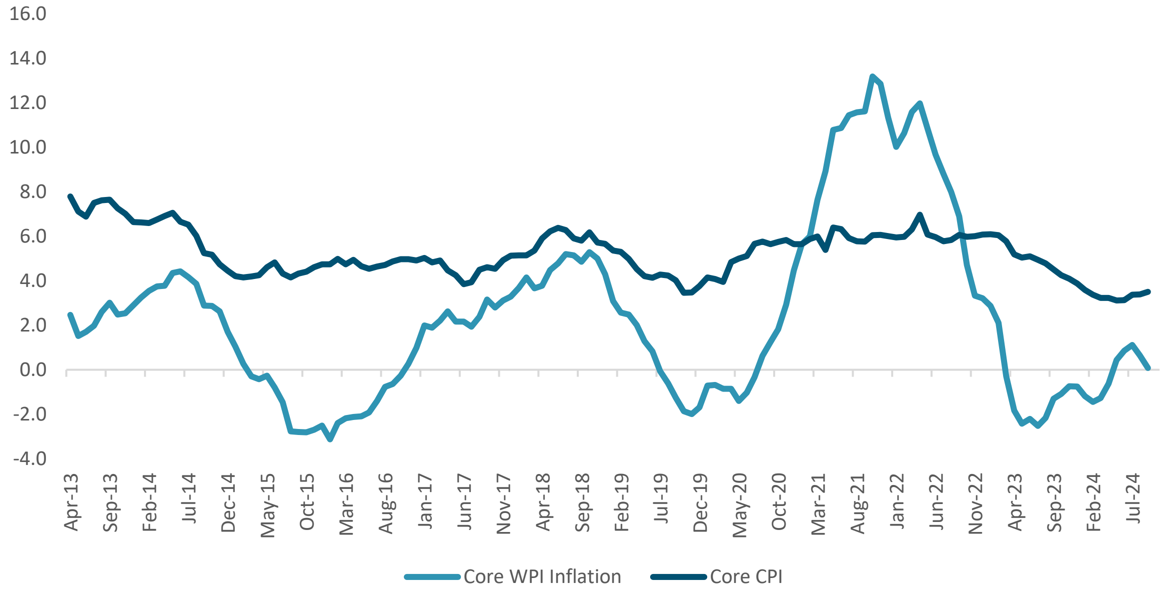


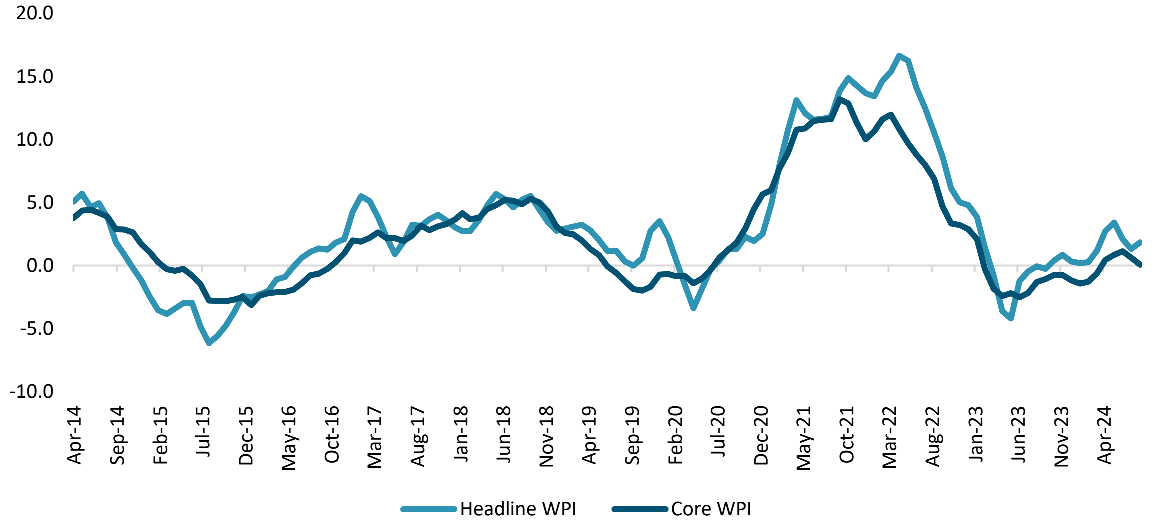


Upward convergence of headline inflation in both wholesale and retail indices, driven by rising food prices as a common factor. Meanwhile, core inflation has shifted from convergence to divergence, with recent data showing widening gaps between CPI and WPI, highlighting the need for caution. This divergence of core components, coupled with the sequential rise in food prices, suggests that the RBI will likely maintain a vigilant stance on monetary policy.

Source: MOSPI, EIA

Dissecting Inflation among constituents: Movement of Core & Headline CPI & WPI

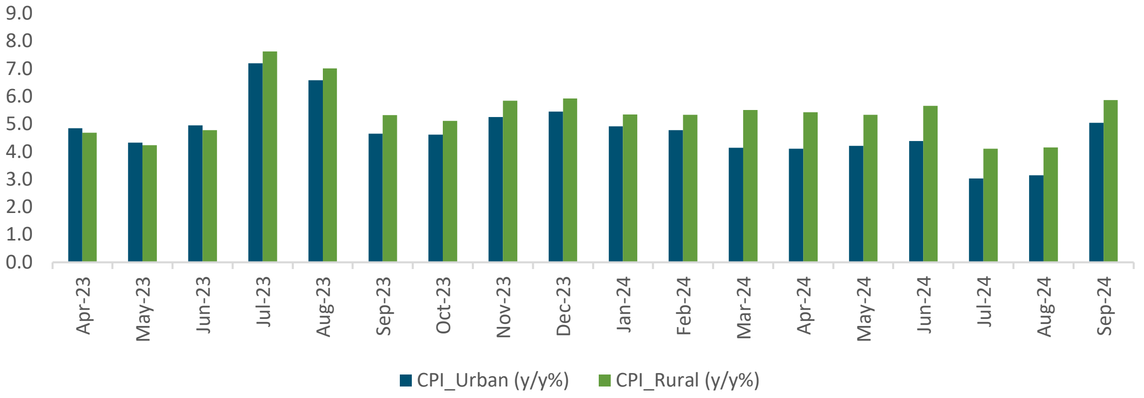


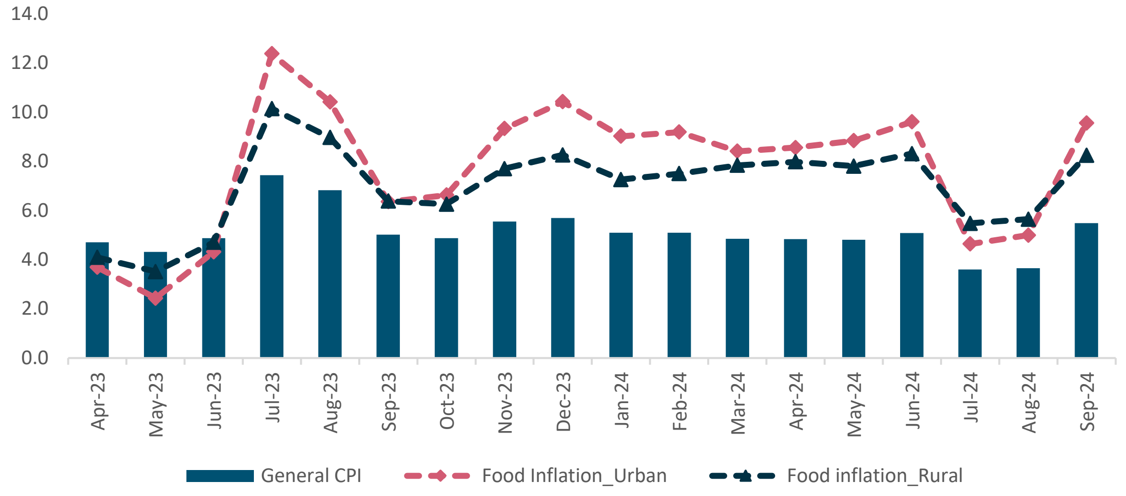


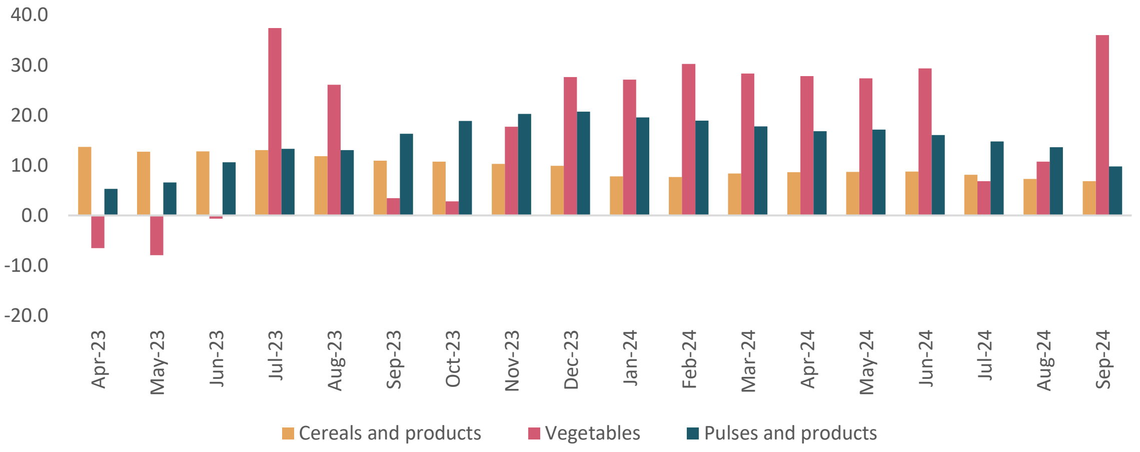
In September 2024, both wholesale and retail inflation were significantly influenced by volatile non-core components, reflecting price fluctuations in essential goods and services. This volatility is mainly attributed to- Non-core components, particularly in the food and energy sectors, often experience sharper price swings, exerting considerable pressure on overall inflation rates.
Despite these fluctuations, core inflation—comprising goods and services with more stable prices—remained relatively stable for both retail and wholesale levels

Source: MOSPI, EIA

Making sense of Rural & Urban Inflation



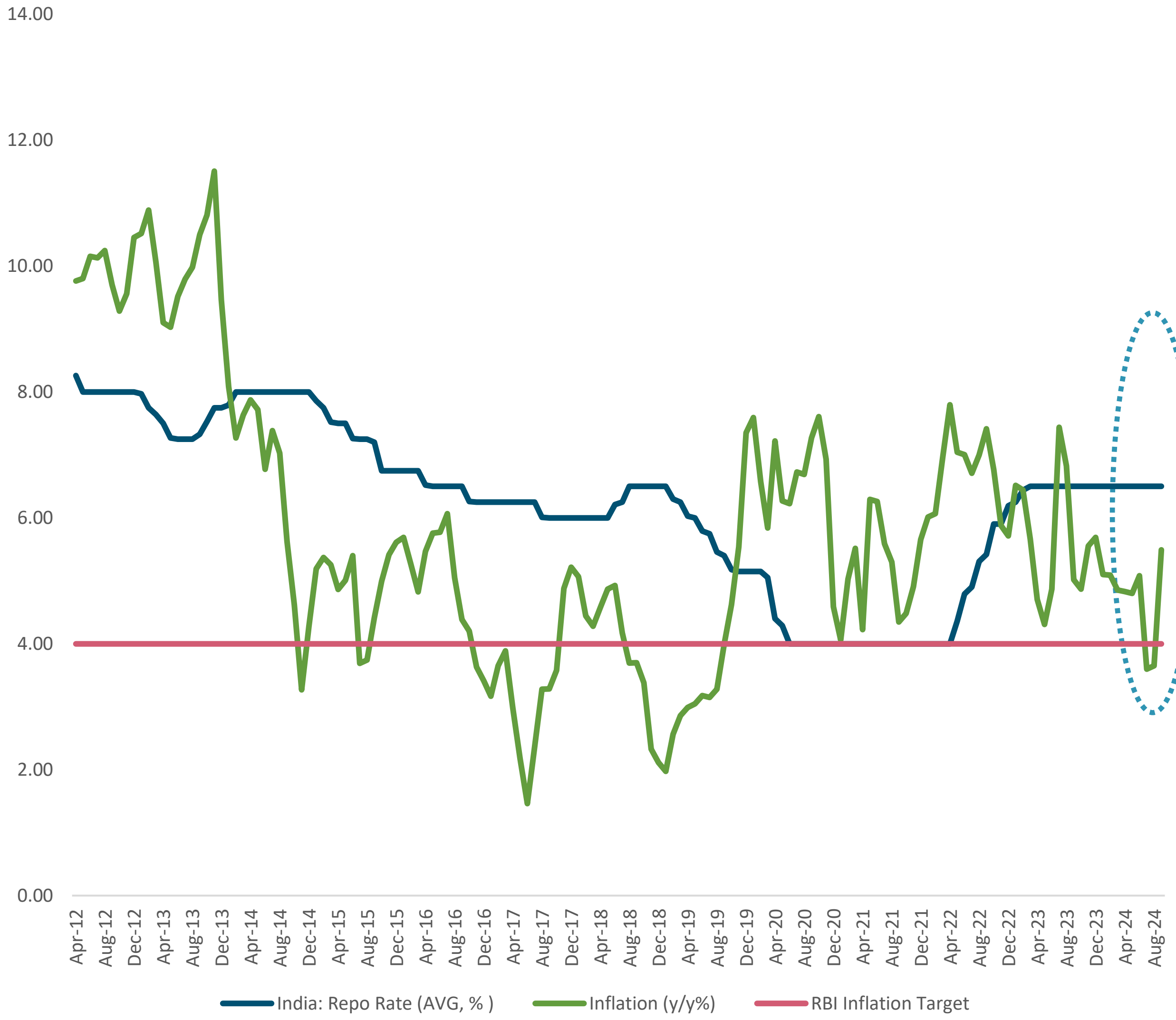




The food and beverages segment, which comprises 45.9% of the CPI, and India's crude oil dependence amid geopolitical tensions underscore inflation risks, as rising vegetable prices and erratic monsoons drive food inflation back up after a brief decline.

Source: MOSPI

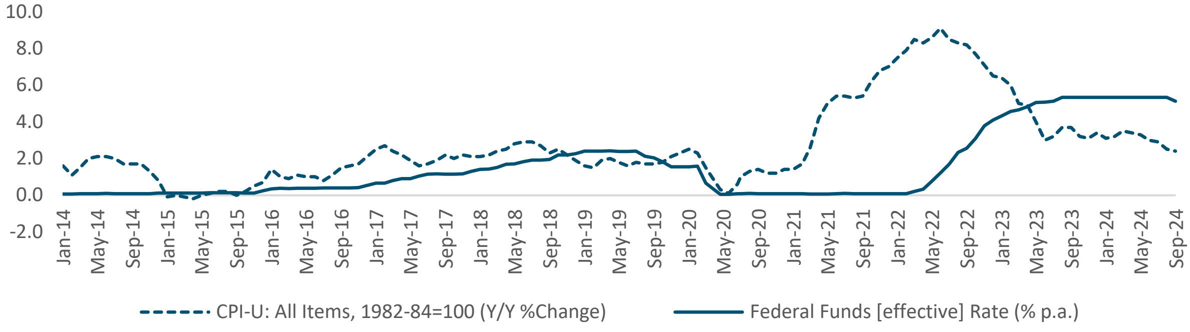
Fine balancing of price control and growth optimization remains cornerstone of monetary policy

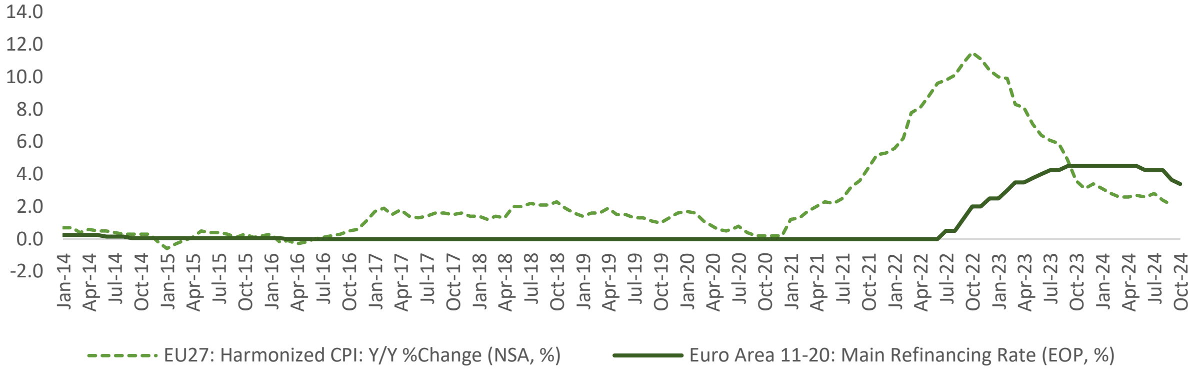


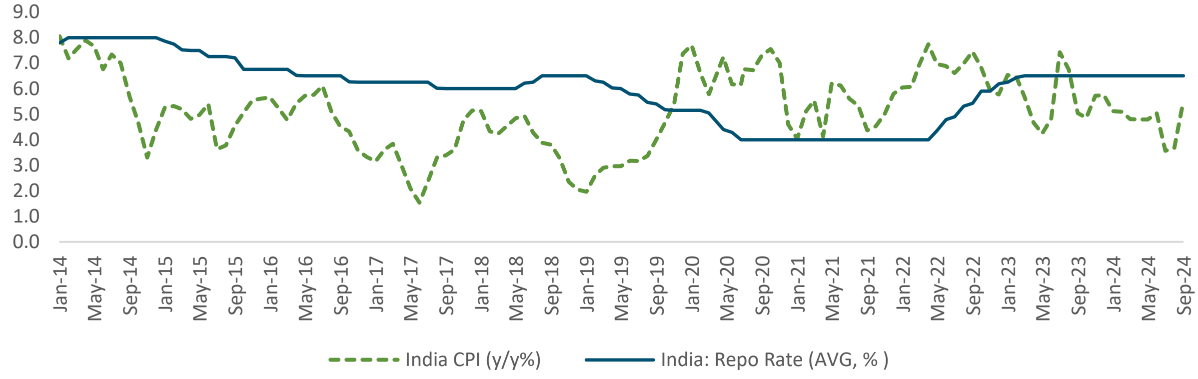
With Consumer Price Inflation remaining at upper-end of RBI’s target range of 2% - 4%, the central bank continues to pursue a cautious monetary policy stance. Vegetable prices continue spiral upwards, and food inflation has only started to moderate after a prolonged period of nine-months of price increases. With the high base effect remaining a critical determinant, the RBI has fewer policy choices than to regulate demand by maintaining high policy rates.

Source: MOSPI, RBI

Despite challenges, India remains on strong growth path, ahead of global advanced economies- offering attractive business proposition





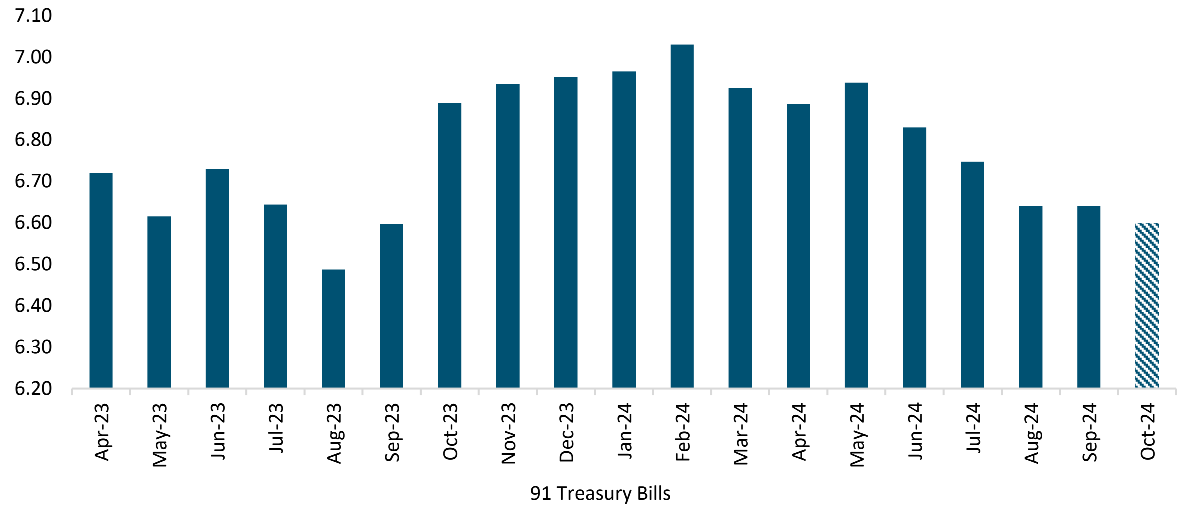


While for the US & EU, inflation trend is definitive downward and likely to reach to long-term average in next 12 months; for India inflation has been hovering around its long-term average for a while and should be moving in a close band subject to monsoon, global commodity prices including oil and a balanced monetary policy

Source: Havers, Dun & Bradstreet

Money Market

91 days Treasury bills & 10-year yield

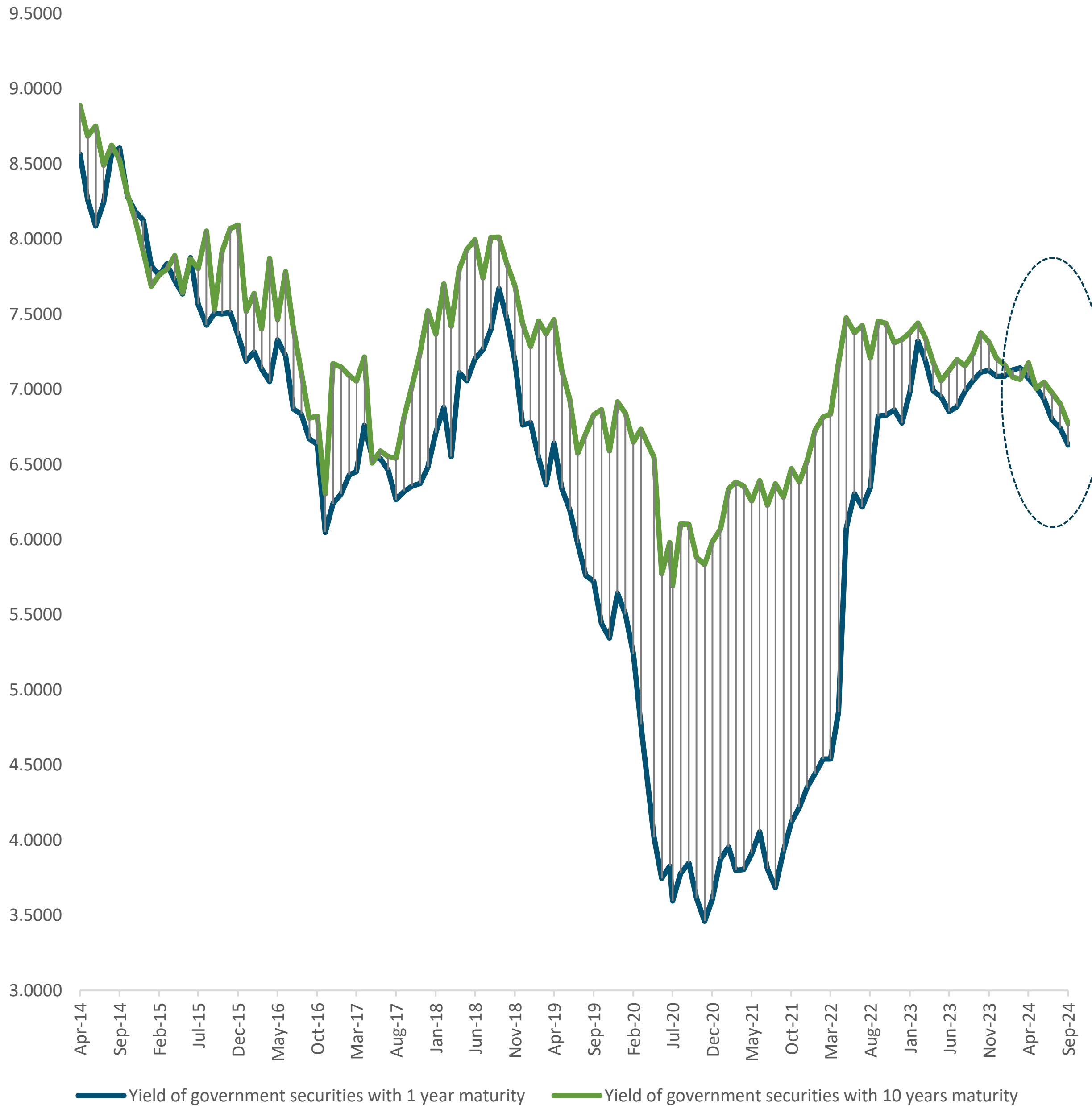


The softening of short-term yields signals stability in India's financial markets, reinforcing sufficient liquidity and a smooth growth trajectory. This is further supported by the early redemption of 10-year government bonds, infusing further liquidity in the economy. ***Dun & Bradstreet expects the yield on 15-91 days Treasury Bills to remain stable at 6.6%, while the 10-year G-Sec yield is projected to hover around 6.8% in October 2024.***

While long-term yields have seen slight fluctuations due to inflationary pressures, the prospect of rate cuts has diminished. The monetary policy actions in developed markets and uncertain geopolitical events would continue influencing the yield trajectory.

Source: RBI, Dun & Bradstreet

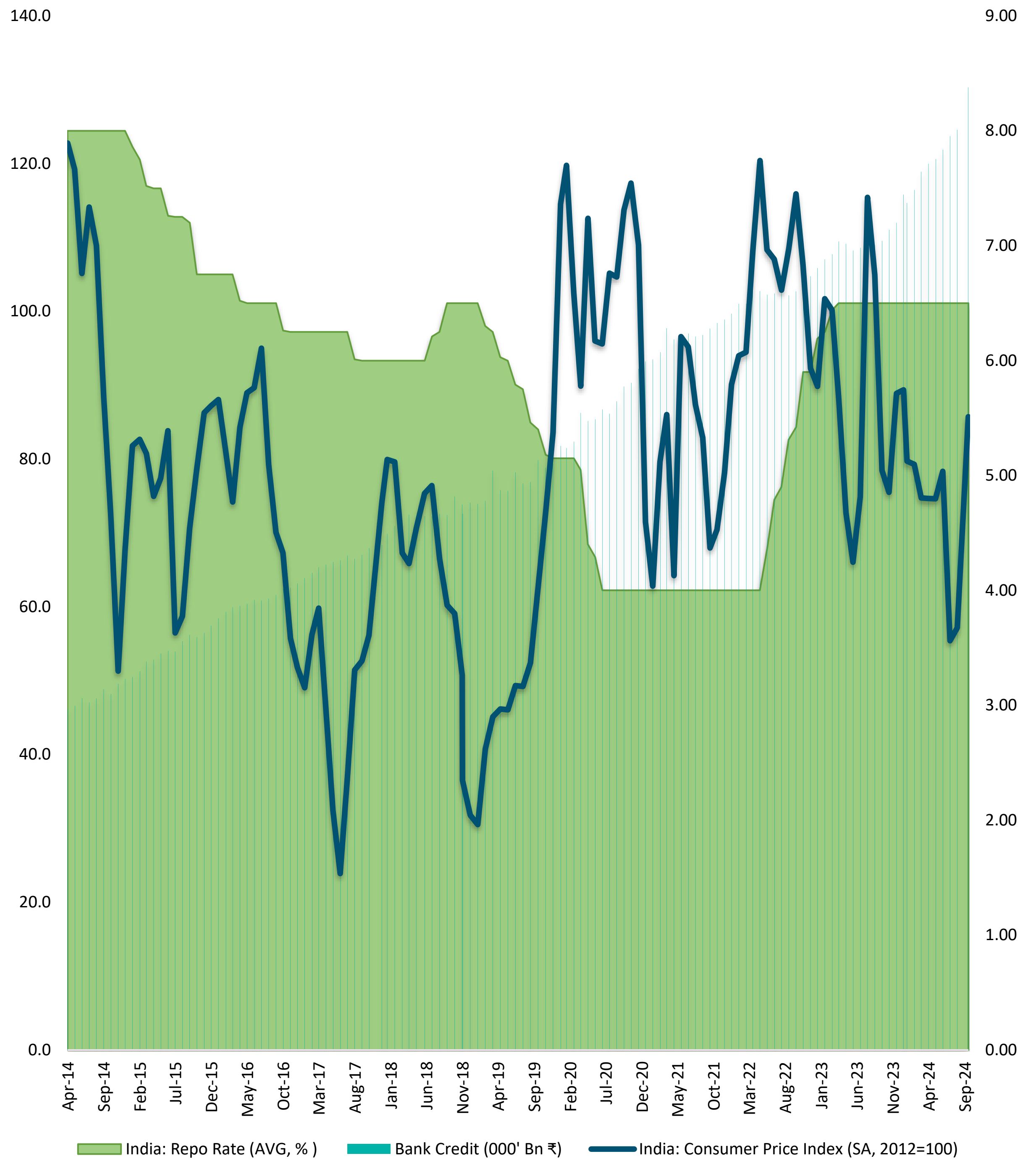
Policy Rates



The spread between short-term (1-year) and long-term (10-year) yield curves has narrowed over the past year reflecting the market's expectation that Indian economy is on the path of achieving long-term growth potential despite uncertain global outlook. The softening of the long-term yield curve suggests an improvement in the long-term growth prospects for the Indian economy, while the stability of short-term yields suggest sufficient credit flow into the economy and an unambiguous growth trajectory.

Source: Havers, RBI

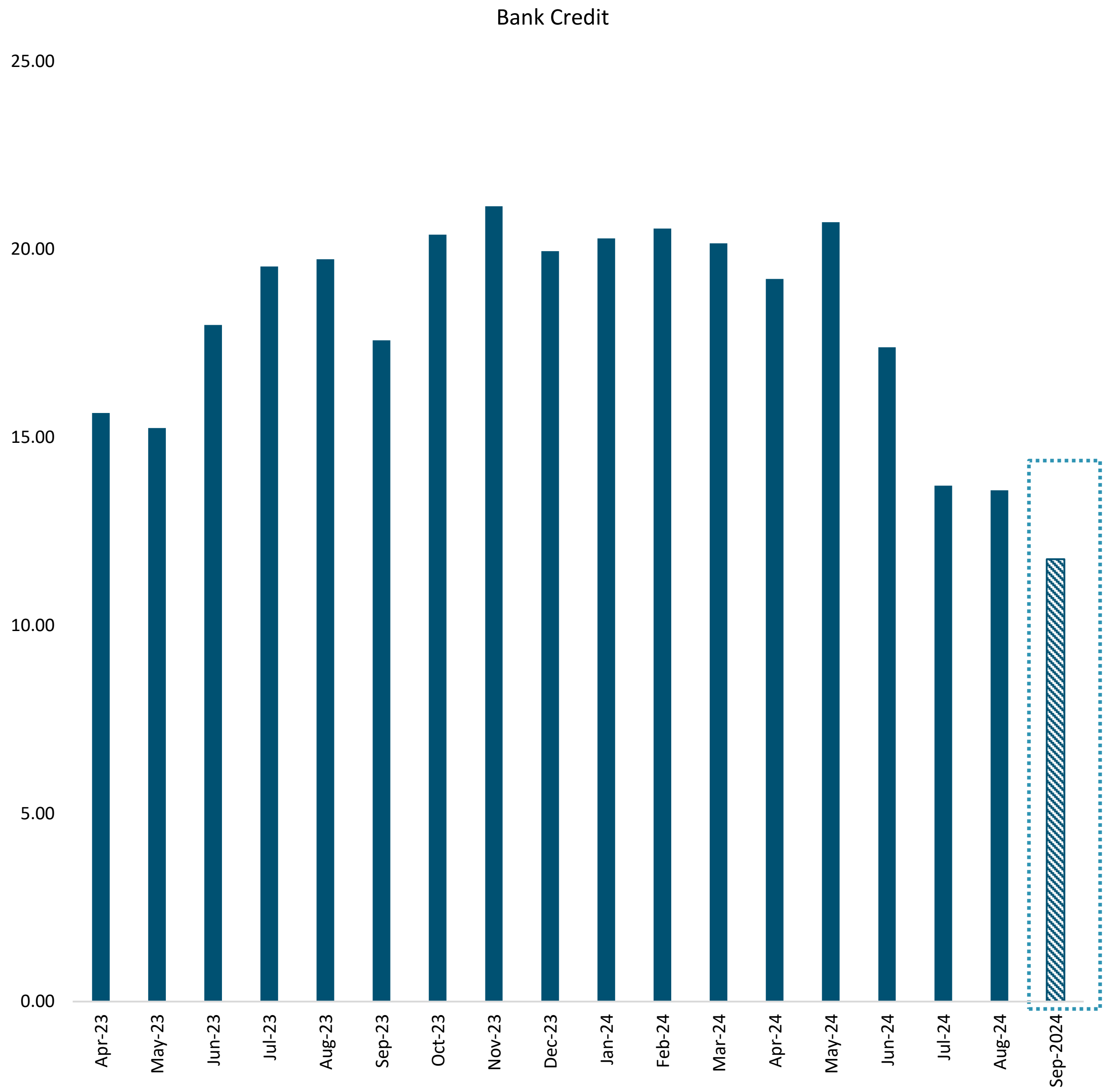
Tracking Banking sector resilience



The anticipated rate cut has resulted in a flattening yield curve, with the gap between long-term and short-term yields narrowing after October 2023. However, over the past month, stability has been reached, and interest rates are aligning with long-term trends. The long-term outlook improves, particularly with certain election outcomes.

Source: RBI, Dun & Bradstreet

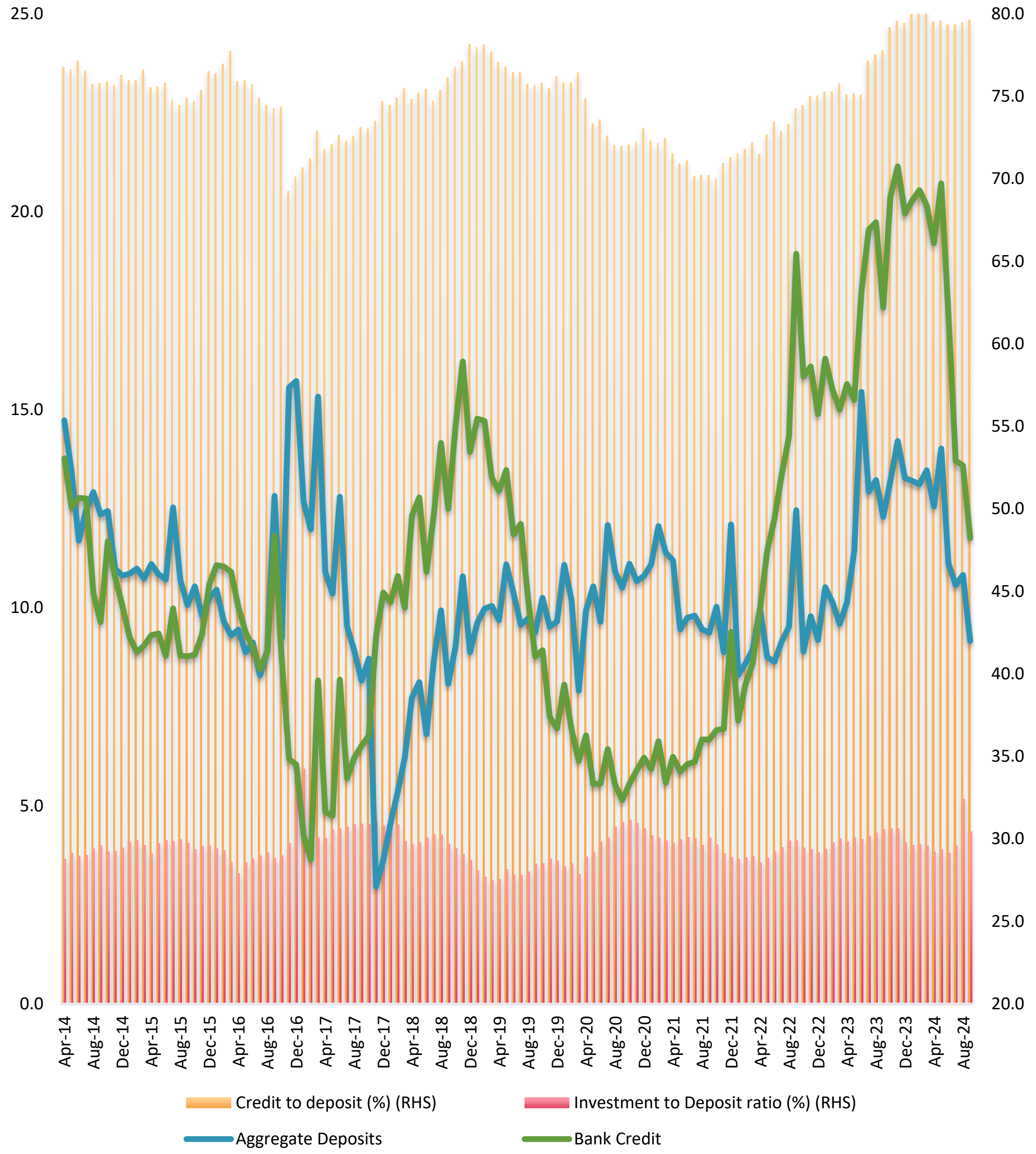
Bank Credit



Dun & Bradstreet expects credit growth to decelerate further to 12% in October 2024, as the Reserve Bank of India (RBI) sustains its restrictive policy stance aimed at maintaining asset quality amid rising inflationary pressures and global economic uncertainties. This measured stance is anticipated to mitigate potential credit risks and support long-term financial stability, albeit at the cost of more tempered credit expansion in the near term.

Source: RBI, Dun & Bradstreet

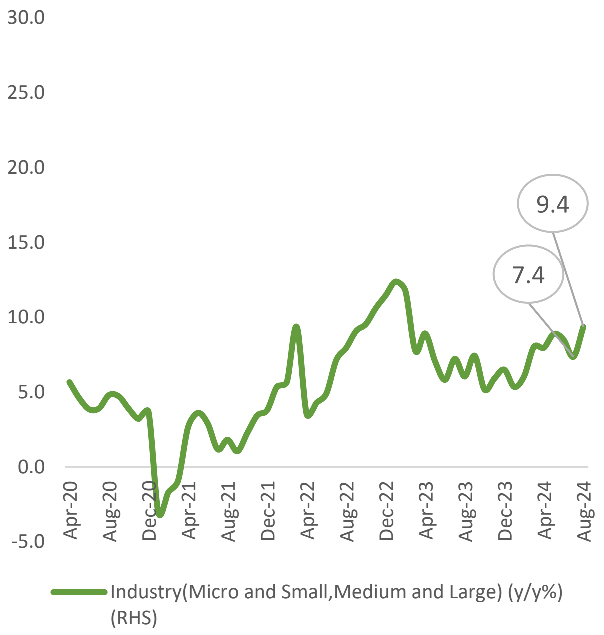
Tracking Banking sector resilience

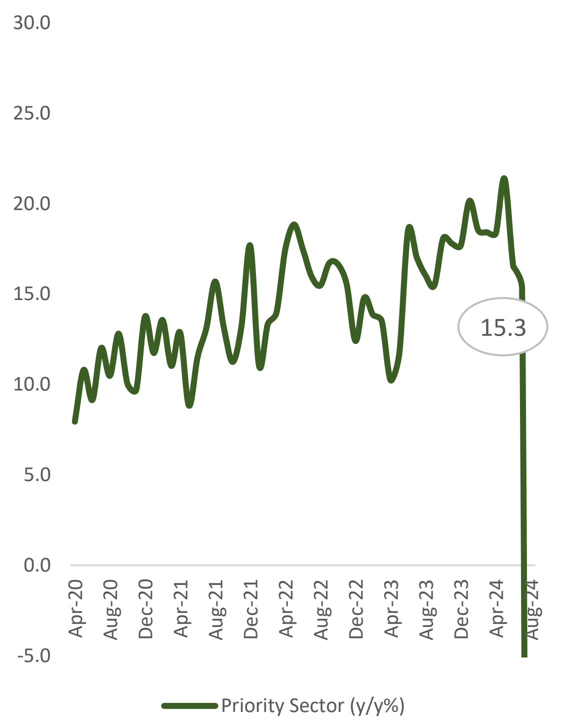


Credit growth experienced a deceleration in September 2024, driven by a series of regulatory interventions, including a prohibition on new lending by specific regulated entities and more stringent funding conditions. These actions are anticipated to lead to a sustained contraction in credit expansion across both banks and non-bank financial companies. Concurrently, a slowdown in deposit growth may adversely affect the profitability of the banking sector by restricting liquidity and squeezing net interest margins.

Source: RBI, Dun & Bradstreet

Sectoral Deployment of Credit

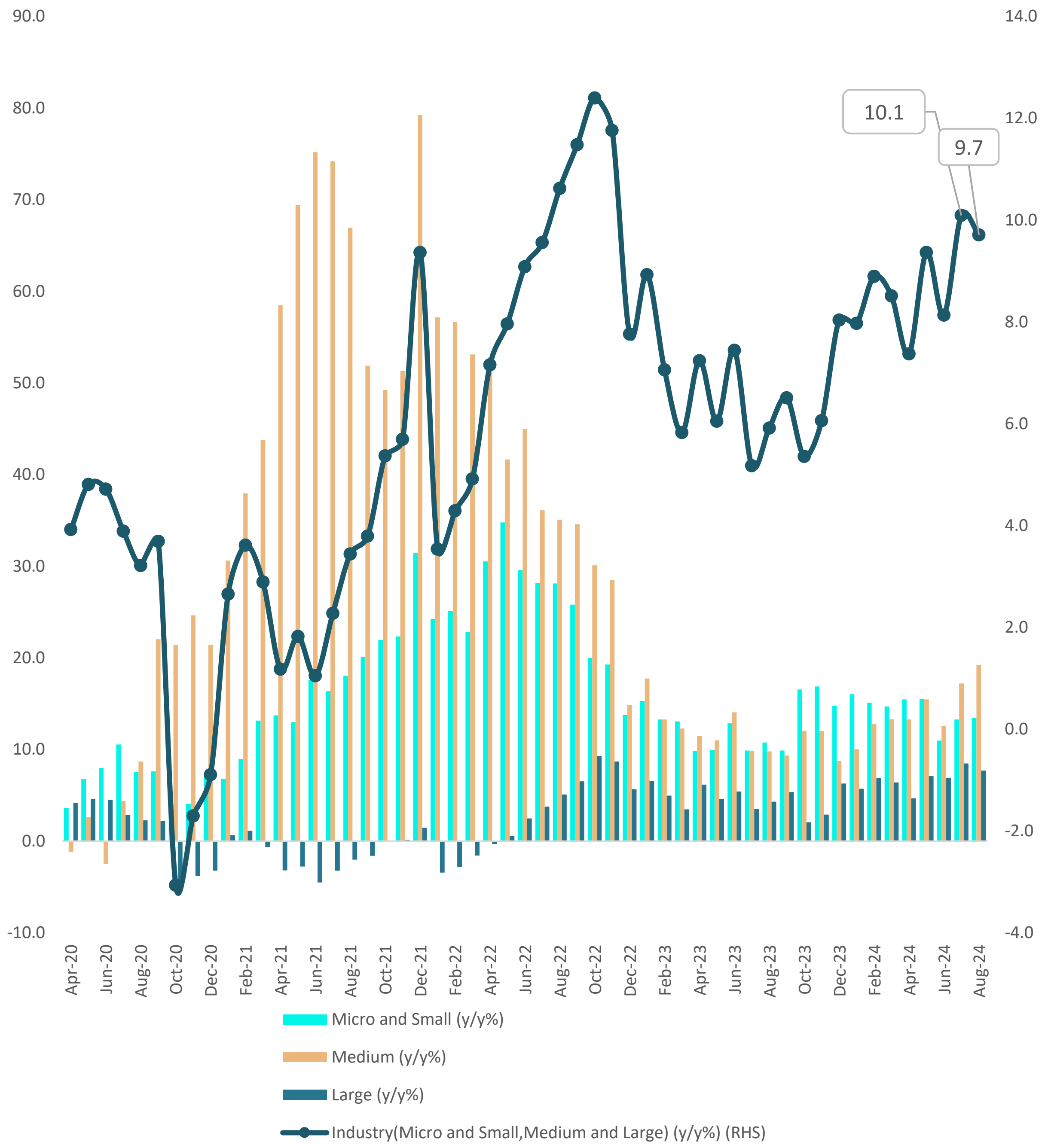




Credit growth softened across most sectors in August 2024, with the exception of the industrial segment. This trend is attributed to regulatory measures aimed at preventing overheating in specific retail segments, which have tempered retail credit demand. Additionally, tightening credit conditions in the NBFC sector have further constrained liquidity for key market participants.

Source: RBI, Dun & Bradstreet

Micro, Small, Medium and Large lending (%y/y)

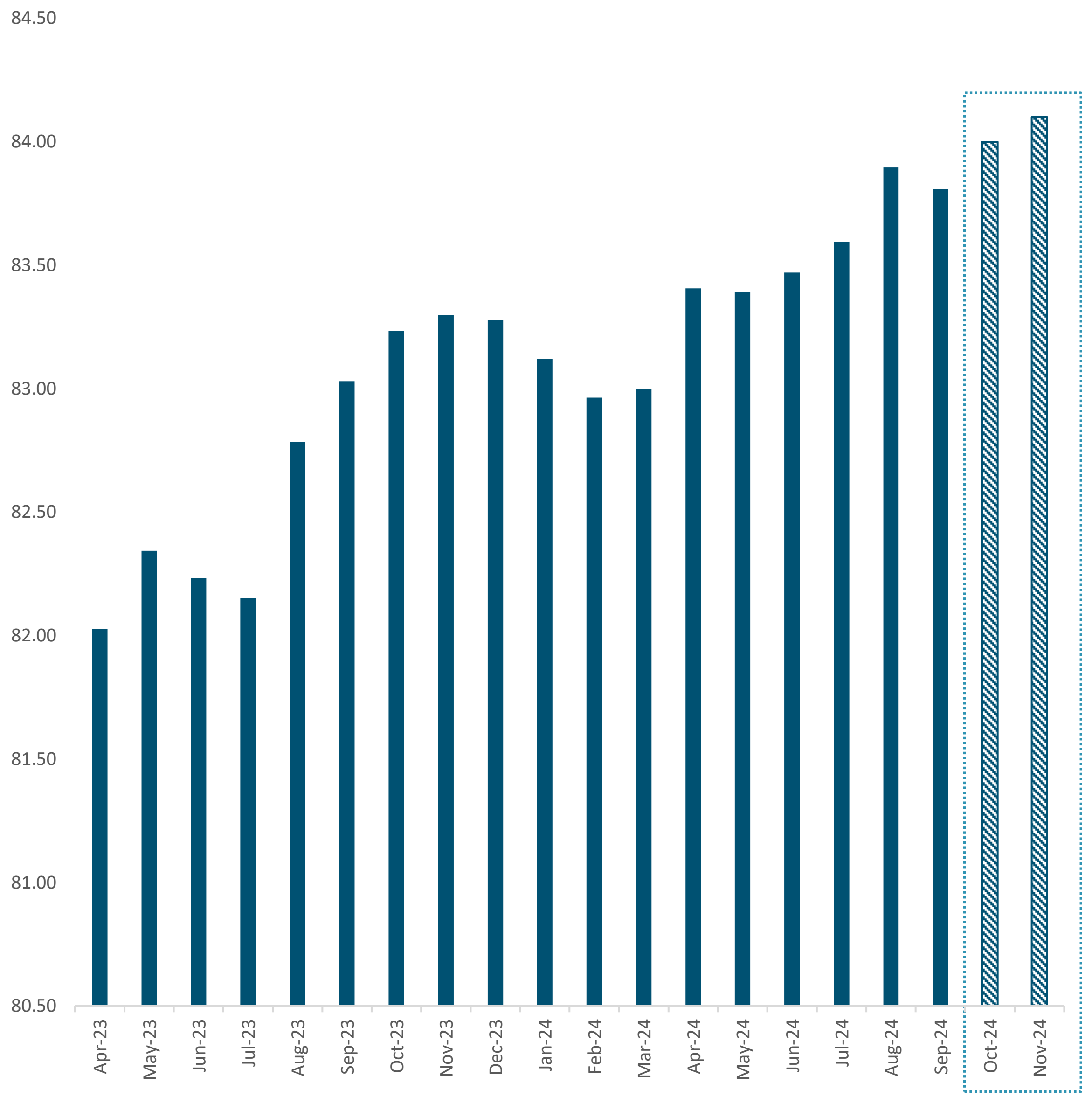


Industriallending has accelerated, with MSMEs capturing the largest share, highlighting the growing importance of small and medium-sized enterprises in driving industrial growth and economic activity.

Source: RBI, Dun & Bradstreet

External Situation

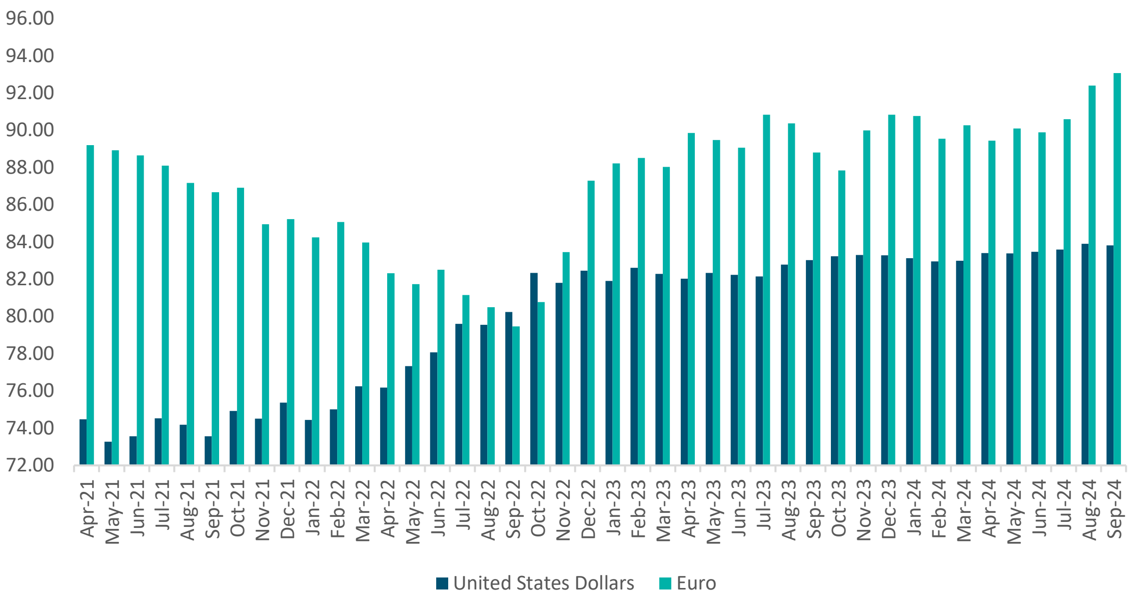
Exchange Rate

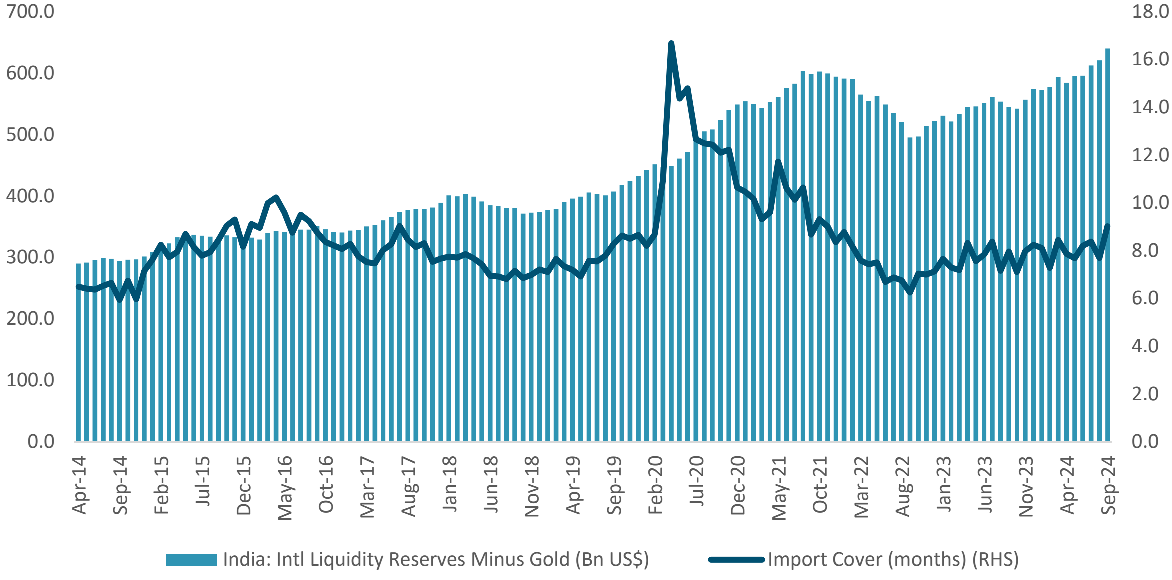


India's external sector is facing newer challenges, with Foreign Portfolio Investment (FPI) inflows tapering off and exports continuing to struggle against build-up in import demands. The monetary stimulus offered by developed markets to support their sluggish growth, combined with looser monetary policies, has caused the recent FPI outflows. This, in turn, has weakened the Indian Rupee (INR) against the US dollar (USD). Dun & Bradstreet forecasts the INR to depreciate further, reaching INR84.1: USD1 by November 2024. Geopolitical tensions, supply chain disruptions and capital market vulnerabilities are expected to keep the currency under pressure in the near term. However, India's strong appeal as an investment destination remains intact, supported by a favourable investment profile and near-record-high foreign exchange reserves, which provide substantial import cover.

Source: RBI, Dun & Bradstreet

Indian currency movement viz a viz Dollar & Euro

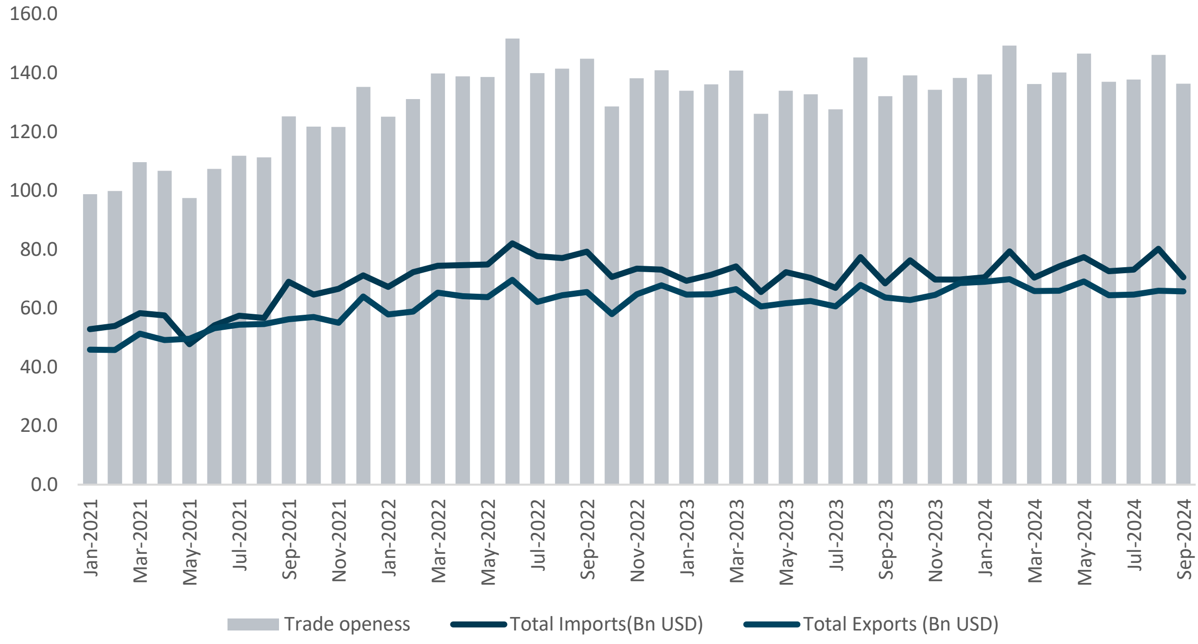


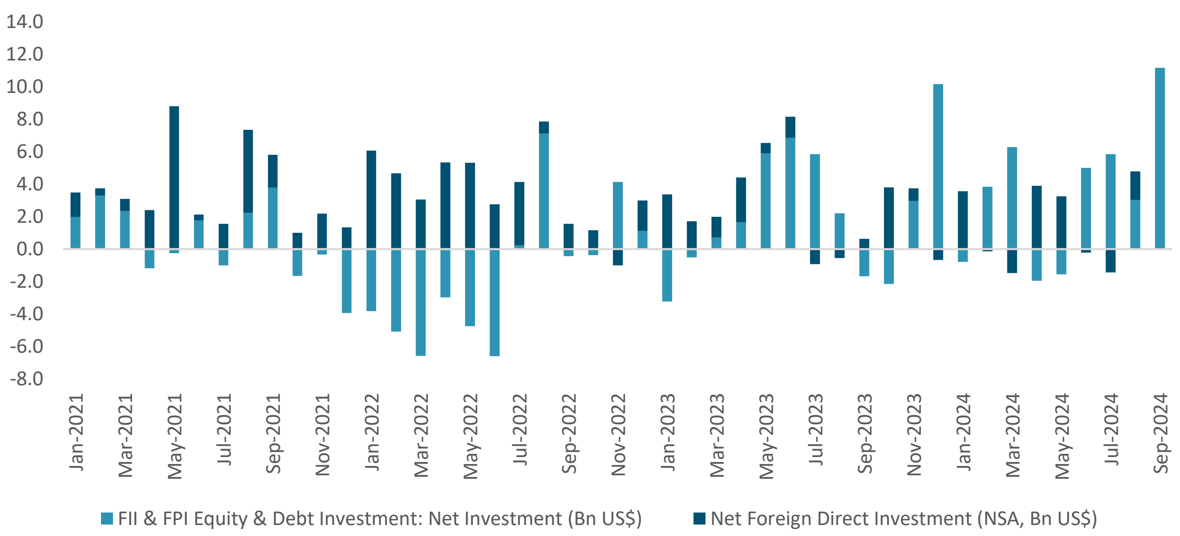


In September 2024, India's foreign exchange reserves neared an all-time high, supported by net capital inflows that enhanced import cover. However, the external sector faces challenges in Oct as Foreign Portfolio Investment (FPI) inflows decline, driven by monetary stimulus in developed markets and looser policies that have prompted recent outflows. The currency's future stability will largely depend on geopolitical development and the loosening of monetary policy.

Source: RBI, Dun & Bradstreet

India’s Trade position and dynamics of capital flows

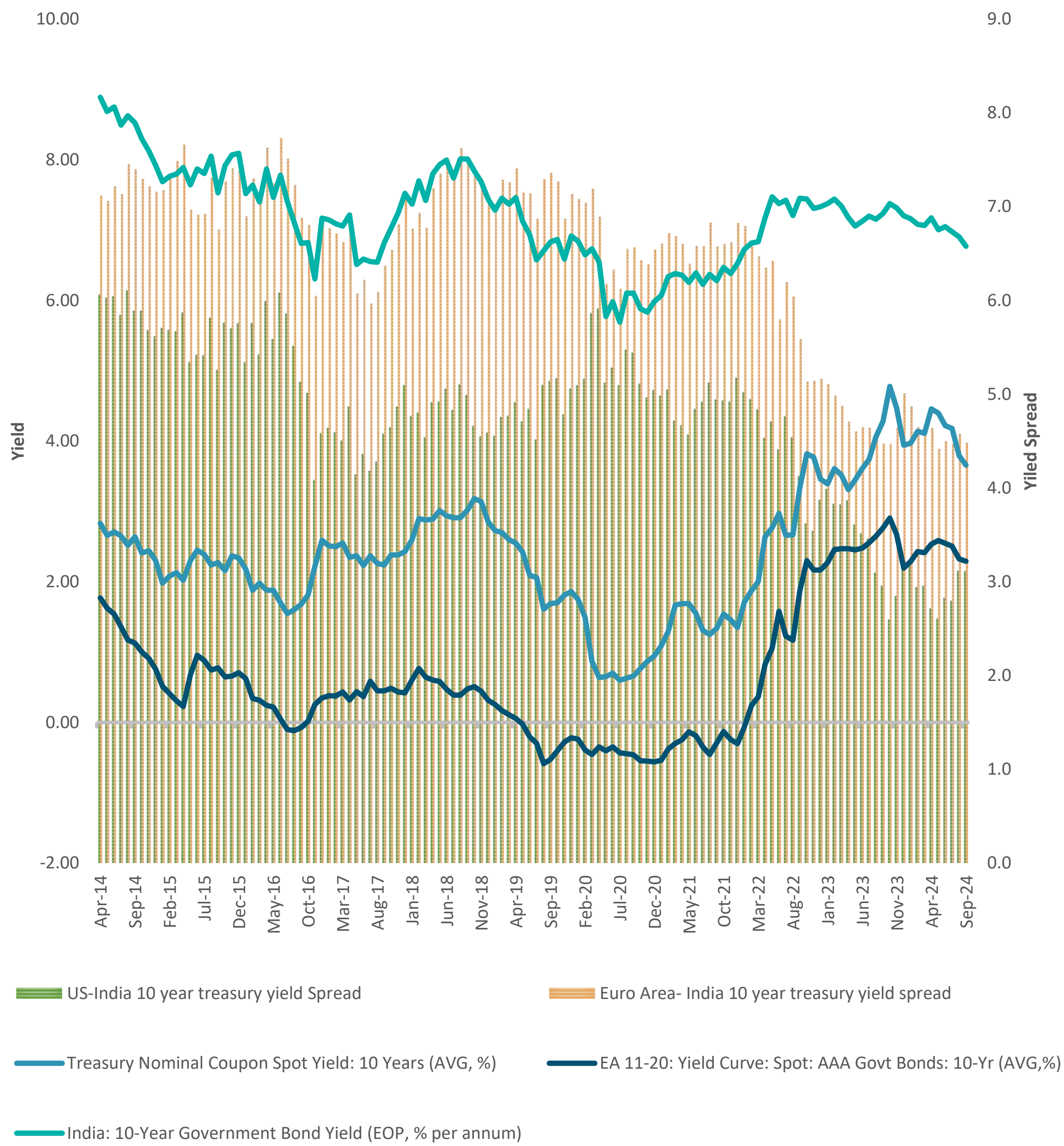




In September 2024, India's trade deficit narrowed due to lower import bill. Volatility in commodity prices—driven by geopolitical tensions, supply chain disruptions, and an uncertain demand outlook—poses ongoing risks to merchandise trade in the near term.
Despite tighter monetary and fiscal conditions, along with moderating yield curves in developed markets, Indian capital markets have emerged as an attractive investment destination. Global portfolio funds continue to view India as a safe port-of call amid global volatility, as reflected in the significant Foreign Portfolio Investment (FPI) numbers for September 2024.

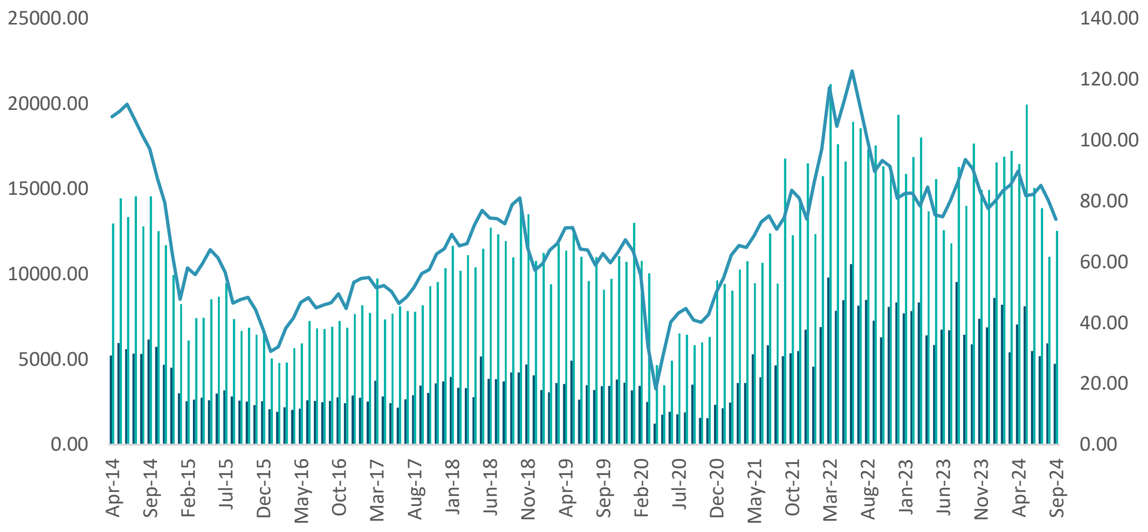
Source: Havers, Dun & Bradstreet

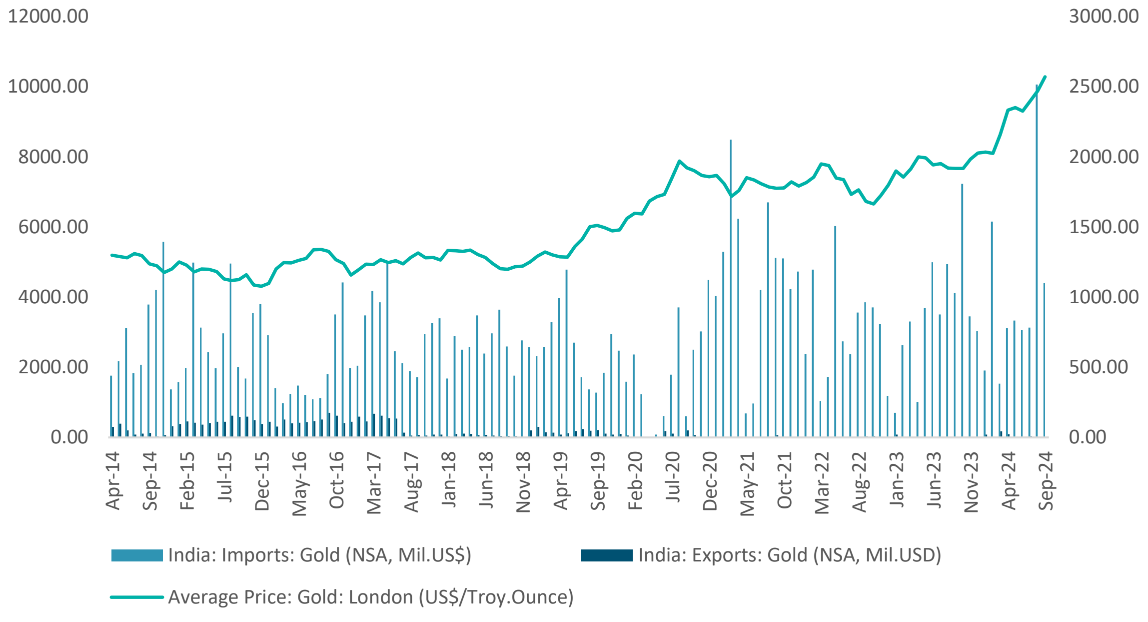
Yield Spread



India's strong appeal as an investment destination remains intact, stemming from its growing appetite for foreign capital flow, a conducive investment profile, and a safer port-of-call amid uncertain and volatile capital markets globally. Despite growing clamour of rate cuts globally, RBI continues to pursue a guarded approach – with yield spread viz-a-viz other countries including the US and EU narrowing.

Crude Oil





To mitigate its high import bill, India has systematically reduced its oil imports over the past quarter. However, this effort has been somewhat offset by a significant surge in gold imports, which rose by 18% due to robust domestic demand for gold. This increase in gold imports has implications for the country's trade balance, placing additional strain on the exchequer.

The strong appetite for gold in India can be attributed to various factors, including cultural significance, investment demand, and consumer preferences. As gold continues to be a favored asset, the rising import costs in this category may complicate efforts to achieve a more sustainable trade deficit.

Economy Observer is a monthly report that shares an in-depth analysis on key macroeconomic developments in India and provides a monthly forecast of key economic indicators, providing insight into the expected direction of the Indian economy.

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