India: The Economic Pathway

October 2023

Global Economy

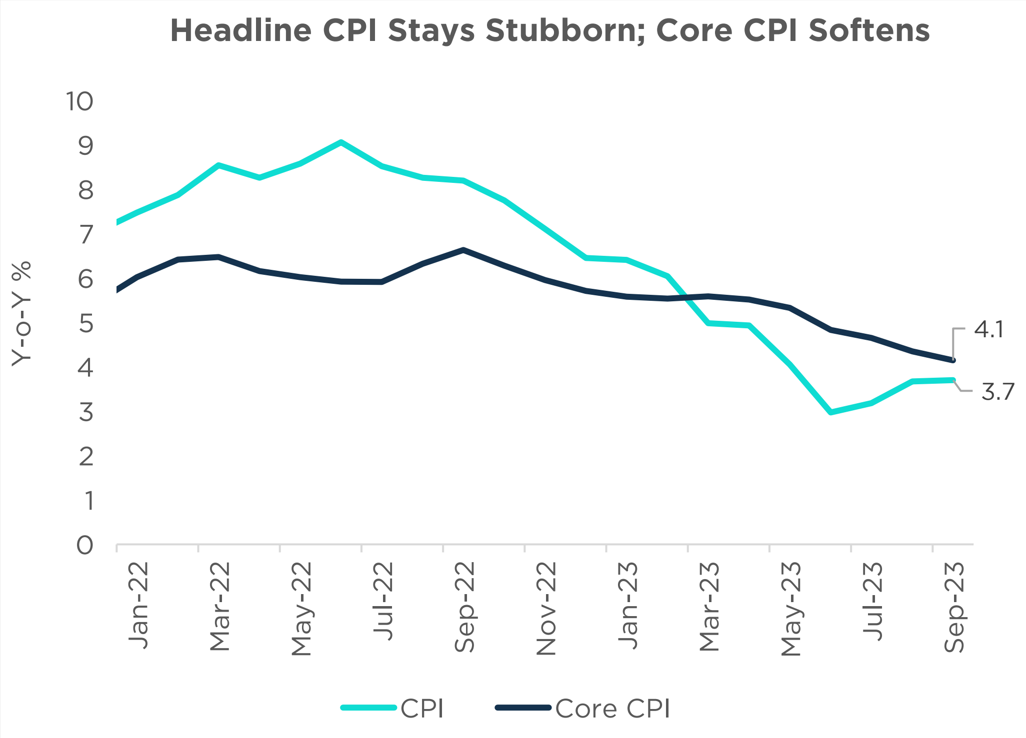
IMF GDP Growth Projections

	Real GDP October Forecast (%)			Difference from July Projections	
	2022	2023P	2024P	2023	2024
World	3.5	3.0	2.9	0.0	-0.1
Advanced Economies	2.7	1.5	1.4	0.0	0.0
US	2.1	2.1	1.5	0.3	0.5
Euro Area	3.3	0.7	1.2	-0.2	-0.3
Japan	1.0	2.0	1.0	0.6	0.0
EMDEs	4.0	4.0	4.0	0.0	-0.1
China	3.0	5.0	4.2	-0.2	-0.3
India	7.2	6.3	6.3	0.2	0.0

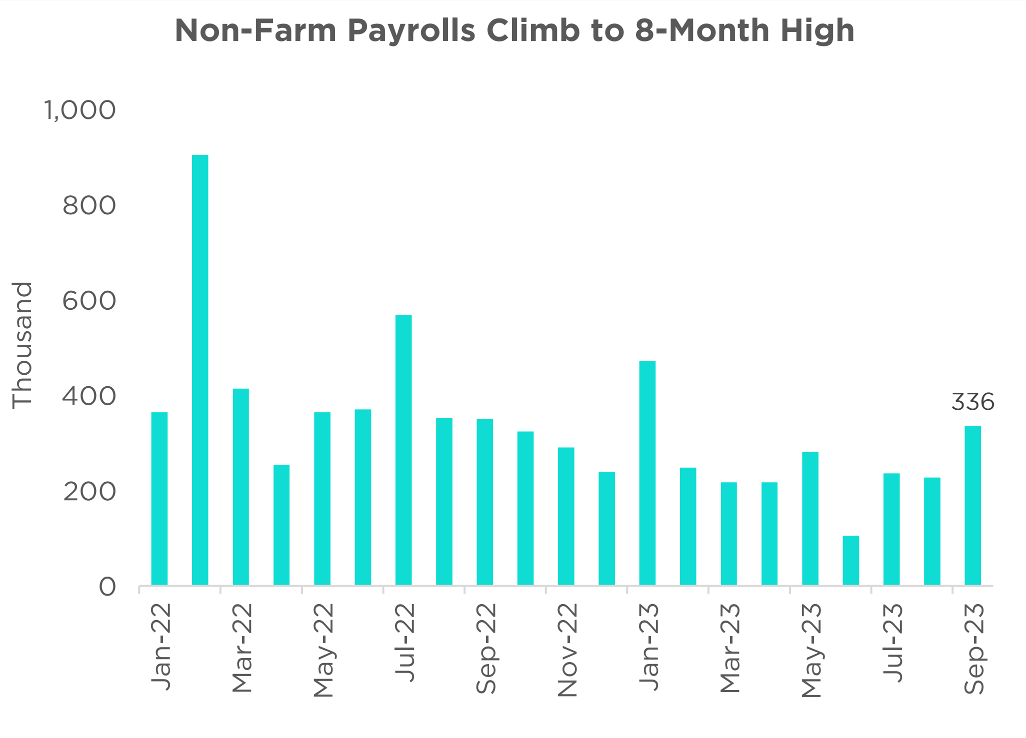
Source: IMF (Note: Projection for India is for fiscal year starting April 2023)

- IMF left global GDP growth forecast for 2023 unchanged at 3%; 2024 forecast revised 10bps lower to 2.9%.
- US 2023 GDP growth forecast upgrade attributed to healthy consumption, resilient job market and healthy business investment.
- China's growth forecast lowered by 20 bps and 30 bps for 2023 and 2024, respectively, amidst property market concerns.
- India's 2023 GDP growth forecast revised higher on the back better-than-expected consumption.

US Inflation and Jobs Data Postpone Fed Rate Cut Bets



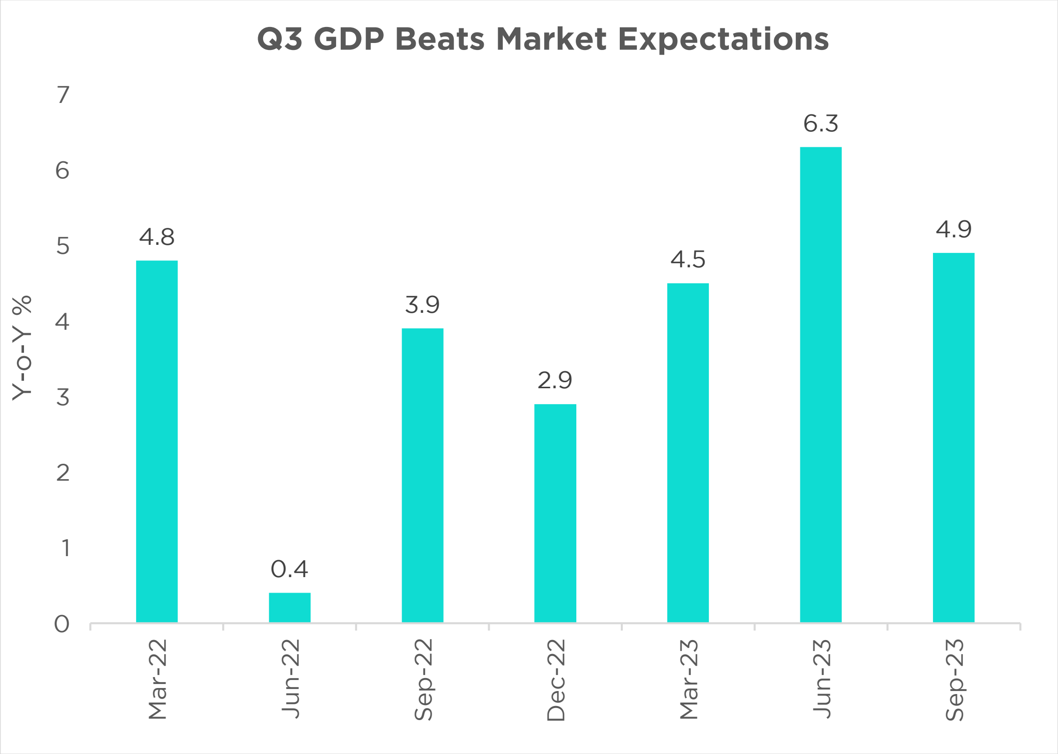
Source: Refinitiv



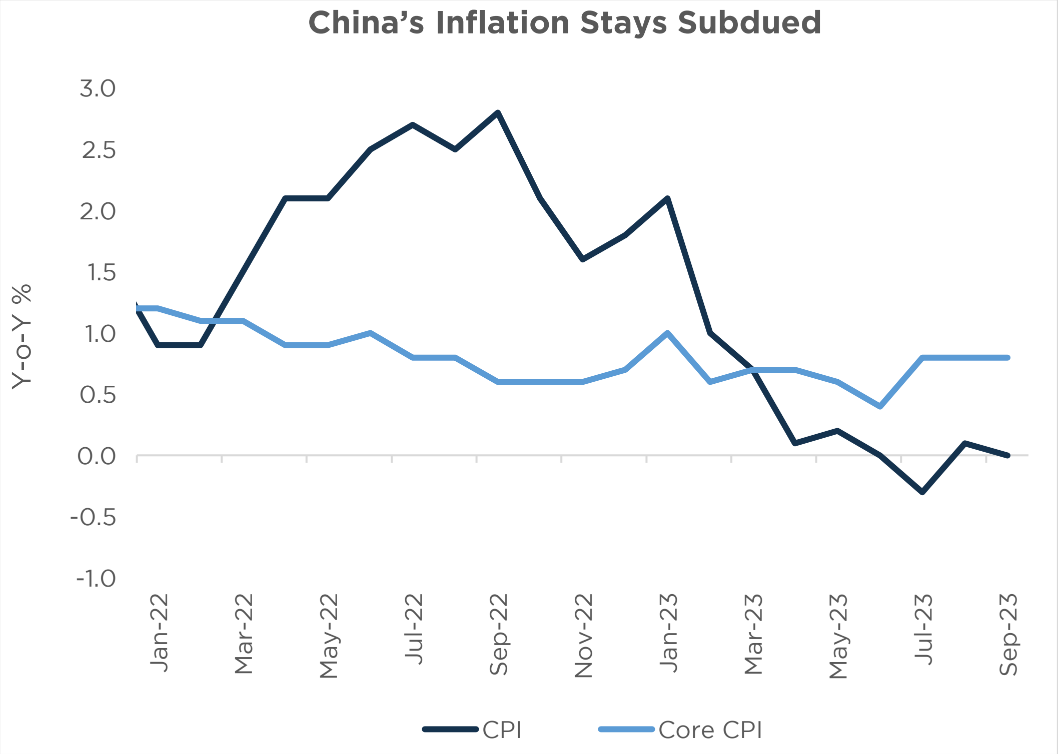
Source: Refinitiv

- US headline inflation remained unchanged at 3.7% y-o-y in September, with core CPI moderating for the sixth straight month to 4.1% y-o-y.
- Nonfarm payrolls rose to an 8-month high of 336K in September, signaling continued strength in the labor market.
- First advance estimate for US Q3-2023 GDP surges to 4.9%.
- While a Fed rate hike in November seems unlikely, probability of rate cuts have now shifted to September 2024.

China Q3 GDP Beats Expectations



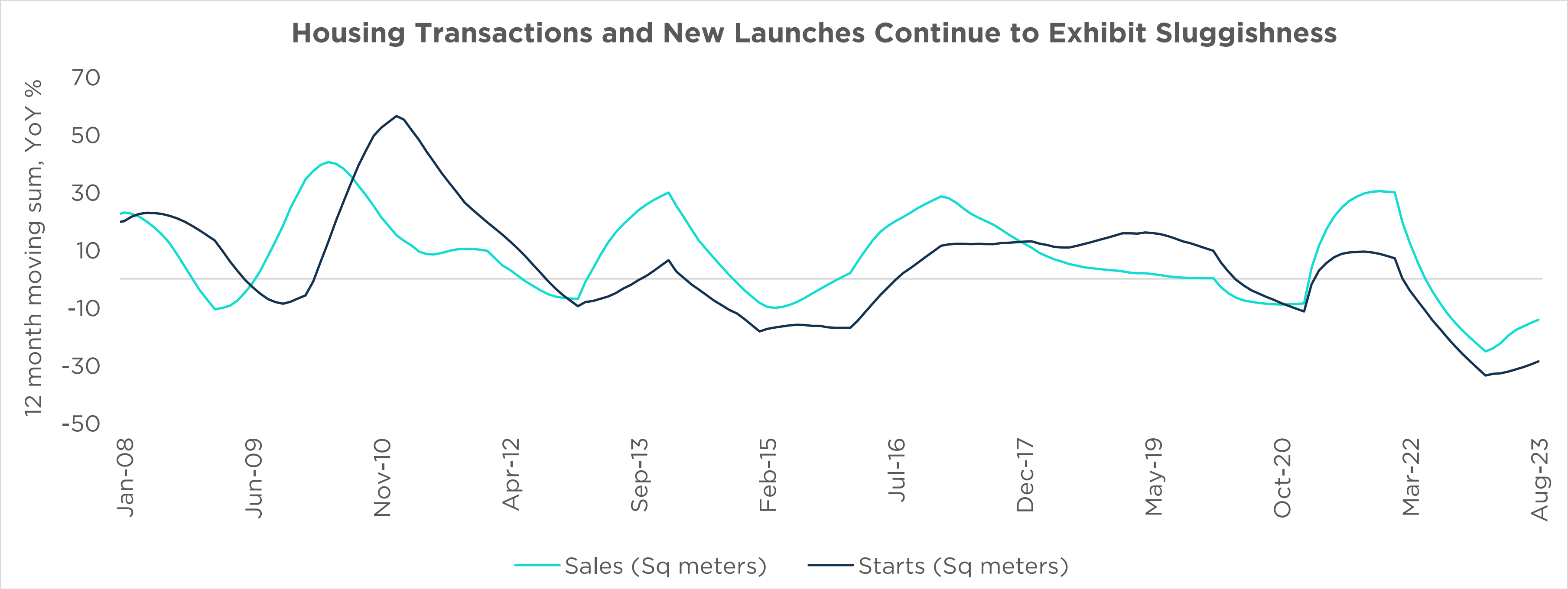
Source: Refinitiv



Source: Refinitiv

- China's Q3 GDP growth came in at 4.9% y-o-y, above market expectations of 4.2%.
- Headline CPI remains flat in September, after rising 0.1% y-o-y in August, while factory output remains lackluster.
- However, the underlying economic environment continues to exhibit weakness amidst the ongoing subdued inflationary trend and slowdown in the property market.

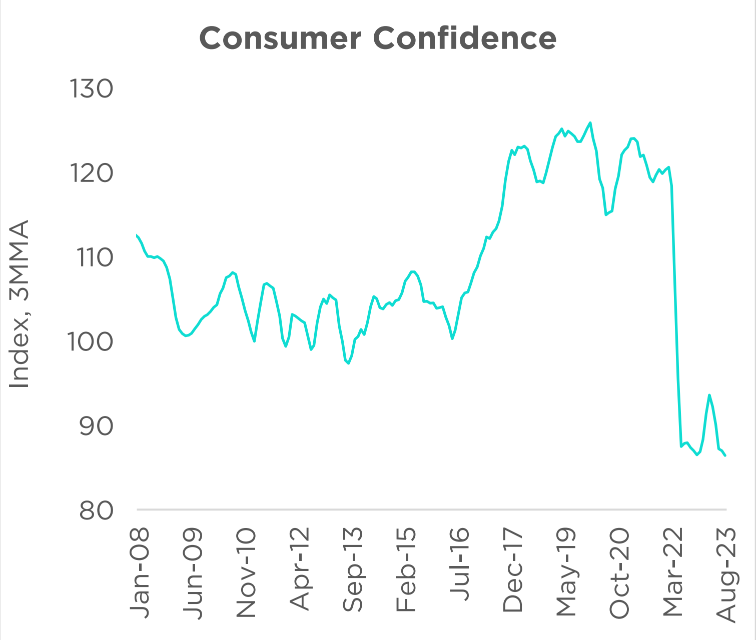
China: Property Sector Woes Remain



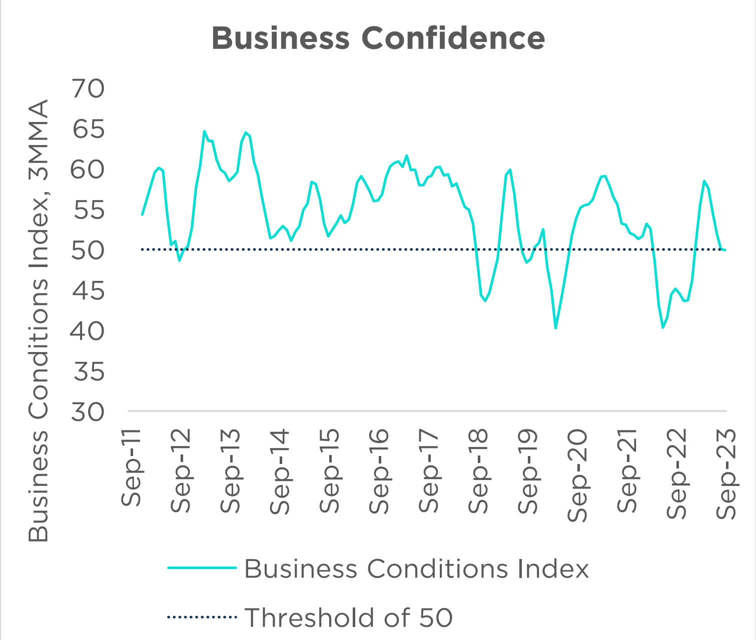
Source: Refinitiv

- Developers have struggled to raise funds and deliver projects on time since the introduction of the “three red lines” in August 2020.
- About 50% of top 30 developers have defaulted on bonds. There have been spillovers to shadow banks and local governments as well.
- Regional banks with exposure to unsold inventory and weak public finances are expected to be more vulnerable to the property slowdown.
- The government/PBoC are expected to continue to intervene with smaller-scale stimulus measures to mitigate potential contagion risks.
- The probability of widespread shock to the banking sector remains low for now.

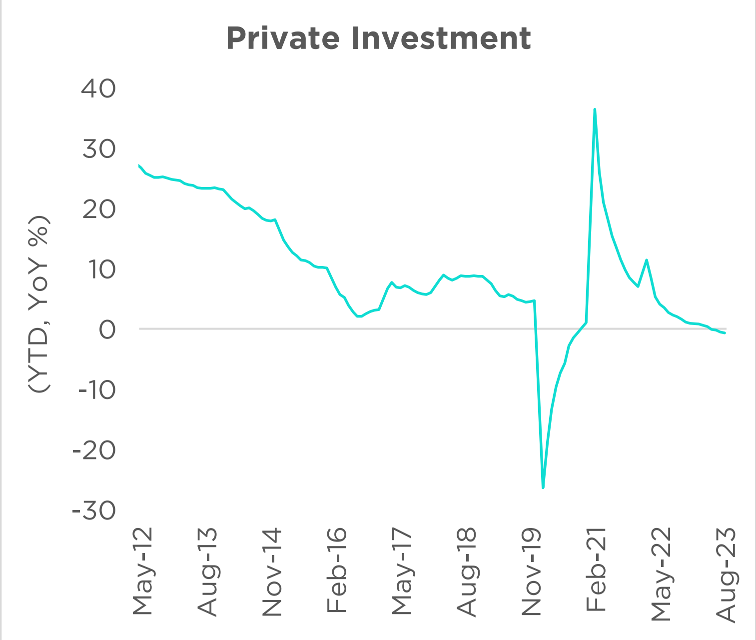
China: Private Sector Confidence Remains Low



Source: Refinitiv



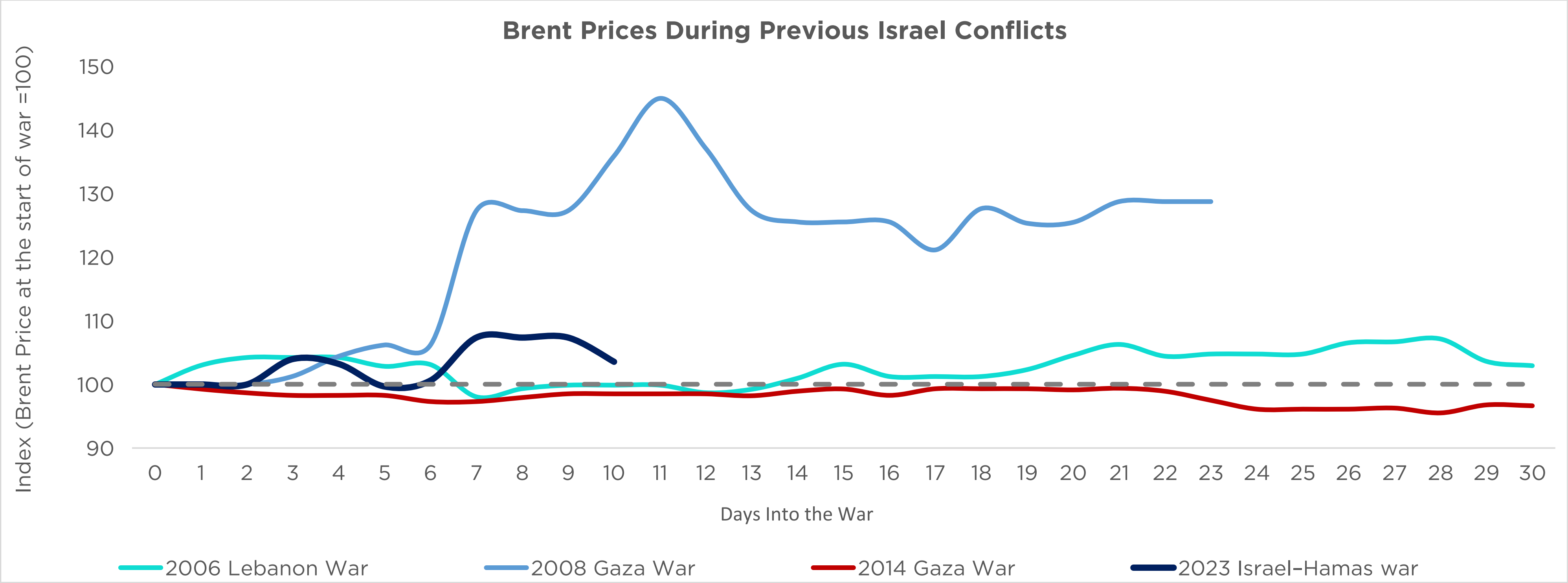
Source: Cheung Kong Graduate School of Business



Source: Refinitiv

- Consumers have faced dual brunt of zero-Covid policy and China’s crackdown on key employment generating sectors.
- Businesses are delaying private investment amidst export slowdown and consumer pessimism.
- However, China’s property sector slowdown highlights the need for China to transition to a consumption driven sustainable growth model.

Limited Israel Conflict Won't Impact Brent Prices Significantly



Source: Refinitiv DataStream

- Historically, oil prices have remained relatively stable during previous conflicts, with the notable exception of the year 2008 when heightened volatility was primarily attributed to other factors.
- However, any potential engagement of major regional players such as Iran and Saudi Arabia could precipitate a significant oil price shock.

Iran's Involvement Can Result in an Oil Shock

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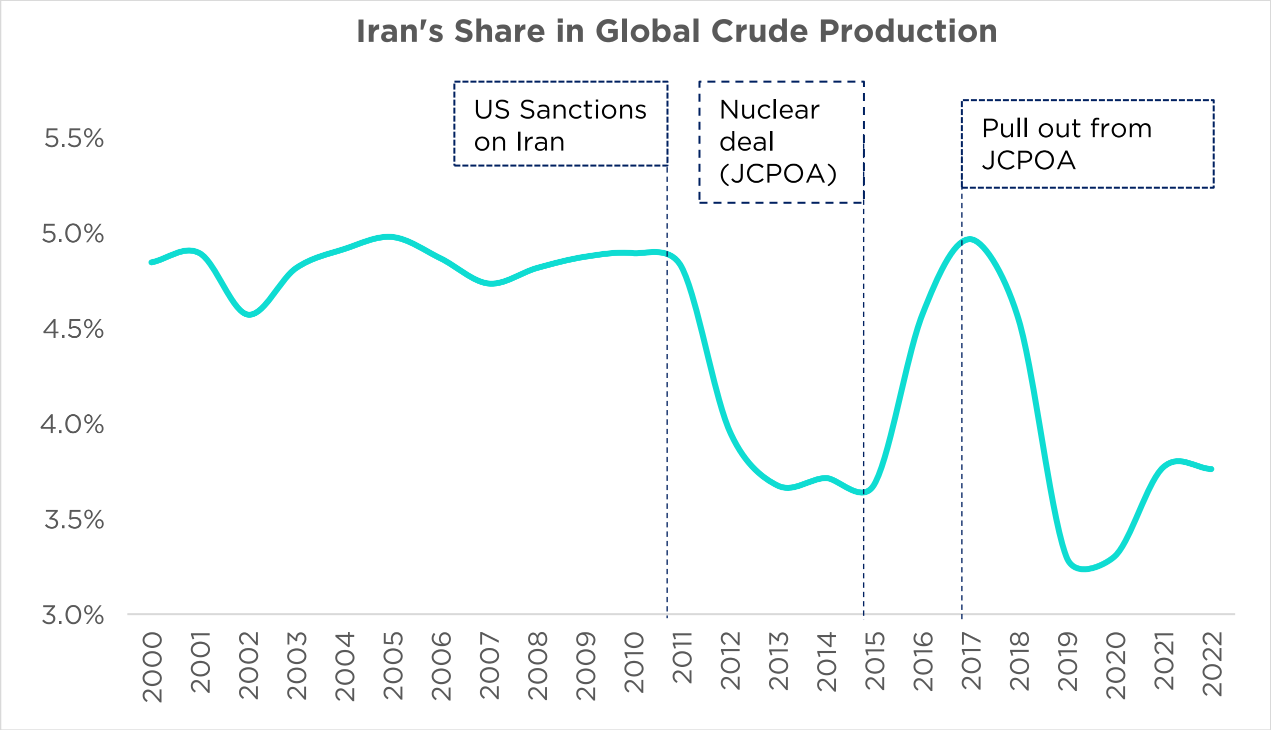


Source: CareEdge, CEIC

- Iran, even after sanctions, remains a significant oil producer, producing ~3.8% of the global crude oil. Any involvement of Iran can result in wider turmoil in the middle east thereby impacting crude oil market.
- The Strait of Hormuz is a critical gateway to the global oil industry, with more than a fifth of global oil supply flowing through it and is used by countries like Iran, Saudi Arabia and the UAE.
- Daily oil flow in the Strait of Hormuz averaged 21 million barrels per day in 2018, according to the EIA which is ~ 21% of global petroleum liquids consumption.

Domestic Economy

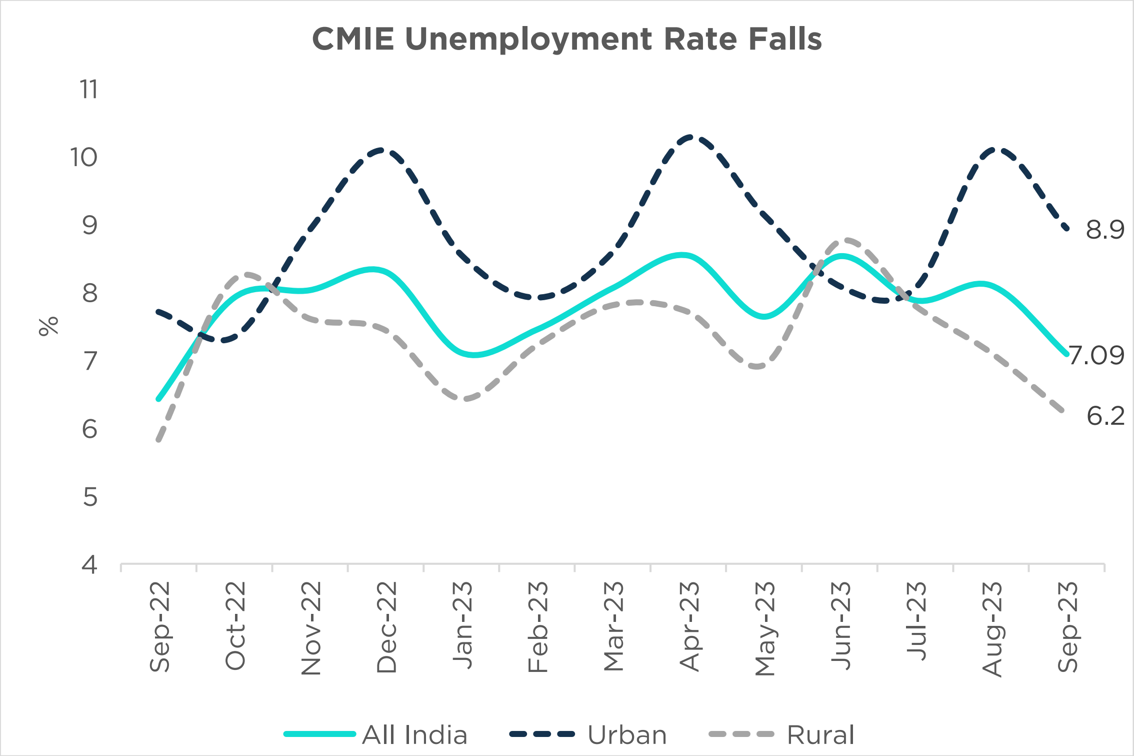
Demand Scorecard Ahead of the Festive Season

	Unit	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Urban Indicators														
Index of Current Economic Conditions	Index	76.6	82.4	79.5	77.0	81.2	84.1	88.3	91.6	92.5	94.1	94.1	89.5	91.6
Index of Consumer Expectations	Index	74.2	79.2	78.7	78.1	80.1	87.3	91.4	92.5	92.8	95.6	92.0	94.2	98.6
Domestic Sales of Passenger Vehicles	Lakh	3.1	2.9	2.8	2.4	3.0	2.9	2.9	2.8	2.9	2.8	3.0	3.1	3.2
IIP-Consumer Durables	Y-o-Y %	-5.5	-18.1	5.0	-11.2	-8.2	-4.1	-8.0	-2.4	1.5	-6.7	-2.6	5.7	
Rural Indicators														
Index of Current Economic Conditions	Index	82.2	85.9	83.6	82.6	87.3	90.6	91.1	95.8	98.6	97.2	97.7	97.2	100.0
Index of Consumer Expectations	Index	77.6	81.5	81.8	80.6	83.9	88.7	90.8	92.8	92.2	95.8	99.1	95.2	101.2
Domestic Sales of Two Wheelers	Lakh	17.4	15.8	12.4	10.5	11.8	11.3	12.9	13.4	14.7	13.3	12.8	15.7	17.5
Domestic Sales of Three Wheelers	Lakh	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.4	0.5	0.5	0.6	0.6	0.7
Tractor Sales (Including Exports)	Lakh	1.3	1.3	0.8	0.7	0.7	0.7	0.9	0.9	0.9	1.1	0.7	0.6	1.1
IIP-Consumer Non-Durables	Y-o-Y %	-5.7	-13.0	10.0	7.9	6.5	12.5	-1.9	11.4	8.9	0.3	7.9	9.0	

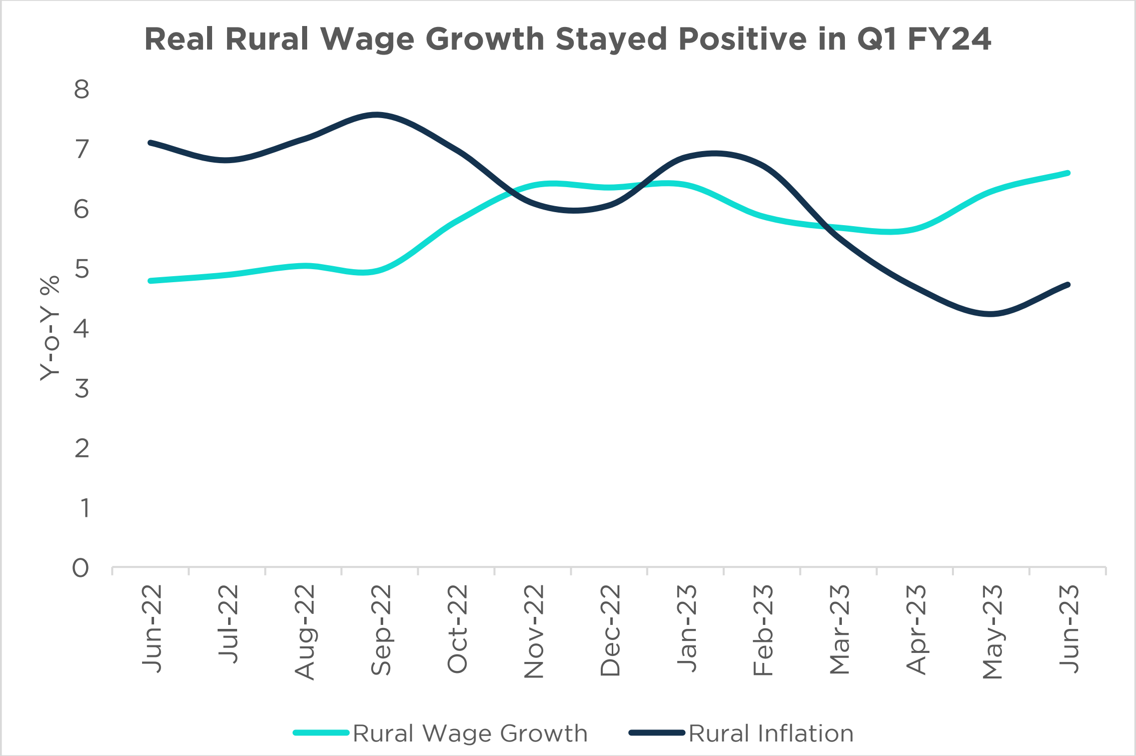
Source: CMIE

- Forward looking CMIE index of consumer expectations in September rose to the highest level since the beginning of the pandemic.
- Going ahead, the moderation in inflation and the upcoming festive season could provide the much-needed boost to domestic demand scenario.

Rural Labor Market Shows Signs of Improvement



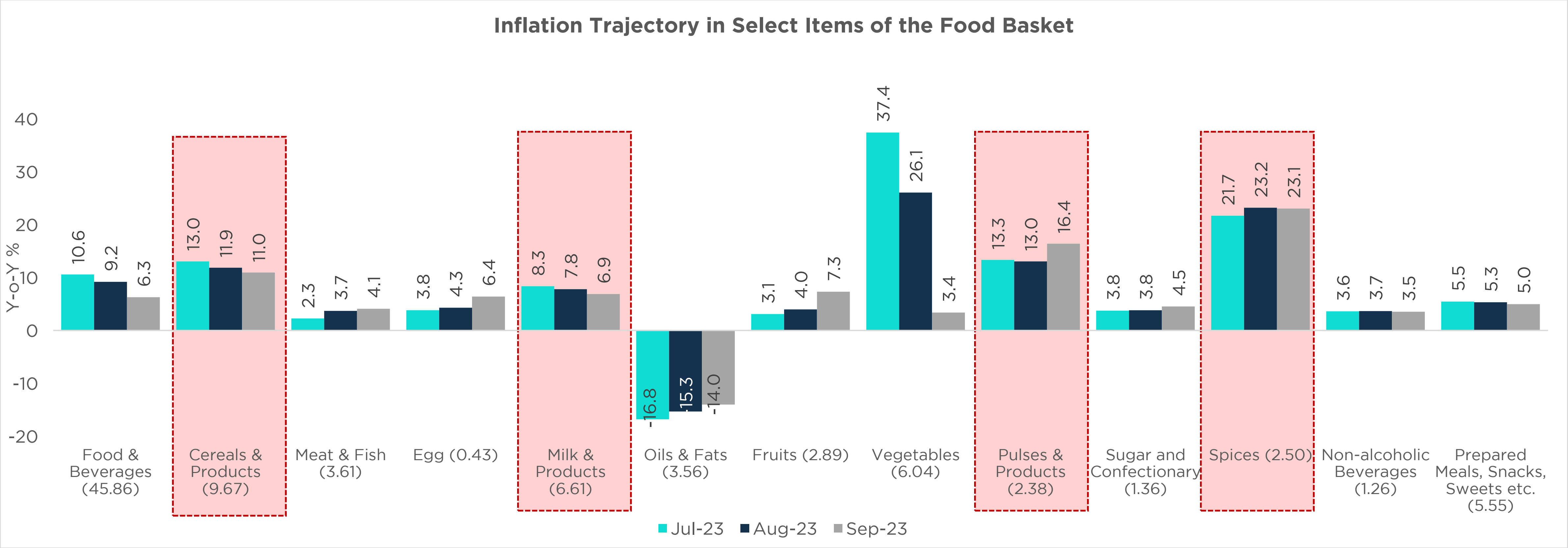
Source: CMIE



Source: CEIC

- All India unemployment rate in September declined to the lowest level in past 12 months. Rural unemployment rate eased for the 3rd consecutive month.
- Rural inflation retreated close to 5% in September after having spiked above 7% in the last two months. This moderation in inflation will support real wage growth in the coming months.
- Falling rural unemployment, moderating inflation and healthy rural wage growth bodes well for the rural demand recovery.

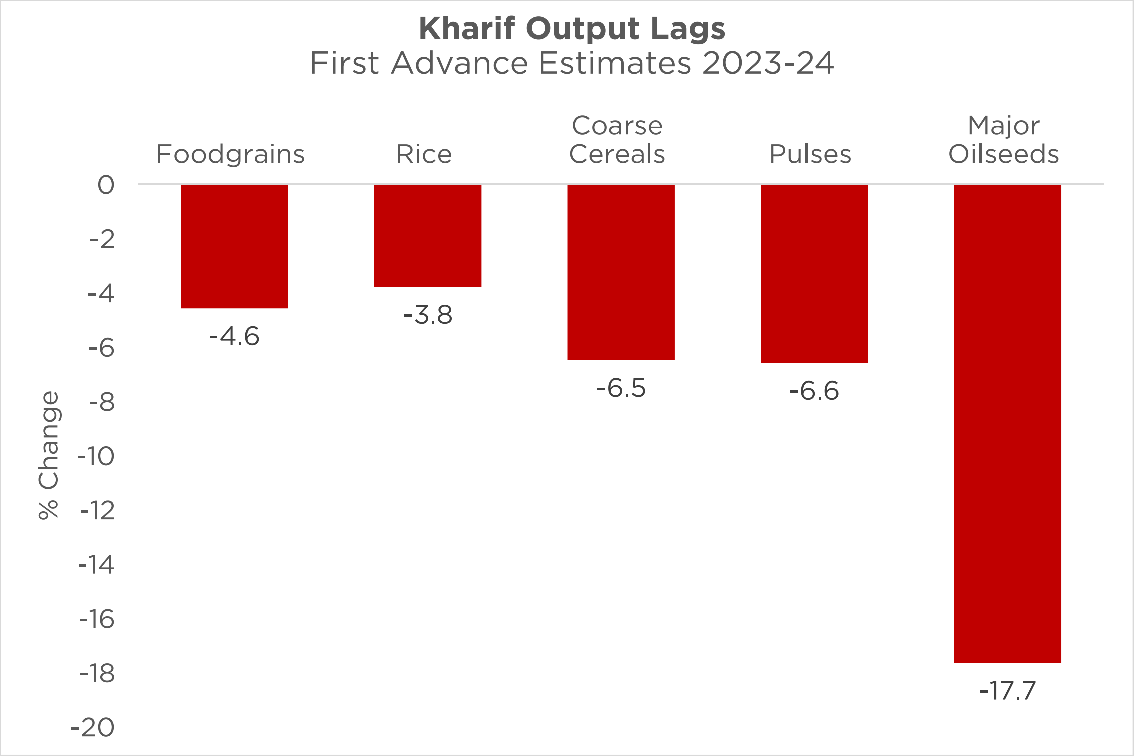
Select Items of Food Basket Remain a Pain Point



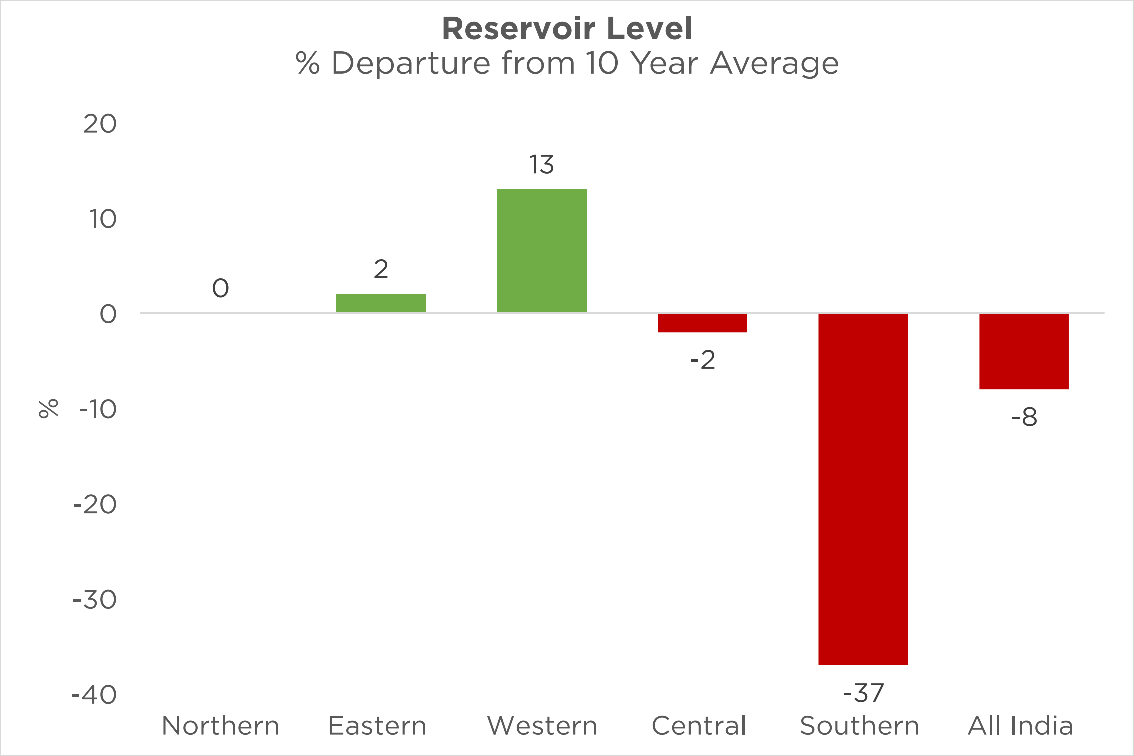
Source: CMIE; Note: Figures in bracket represent weight in overall CPI

- Retail inflation moderated for the second straight month easing to 5% in September aided by sharp correction in vegetable prices.
- While food & beverages inflation eased, it was not broad-based with persistent inflation seen in items such as cereals, pulses and spices.

Upside Risks to Inflation Persist



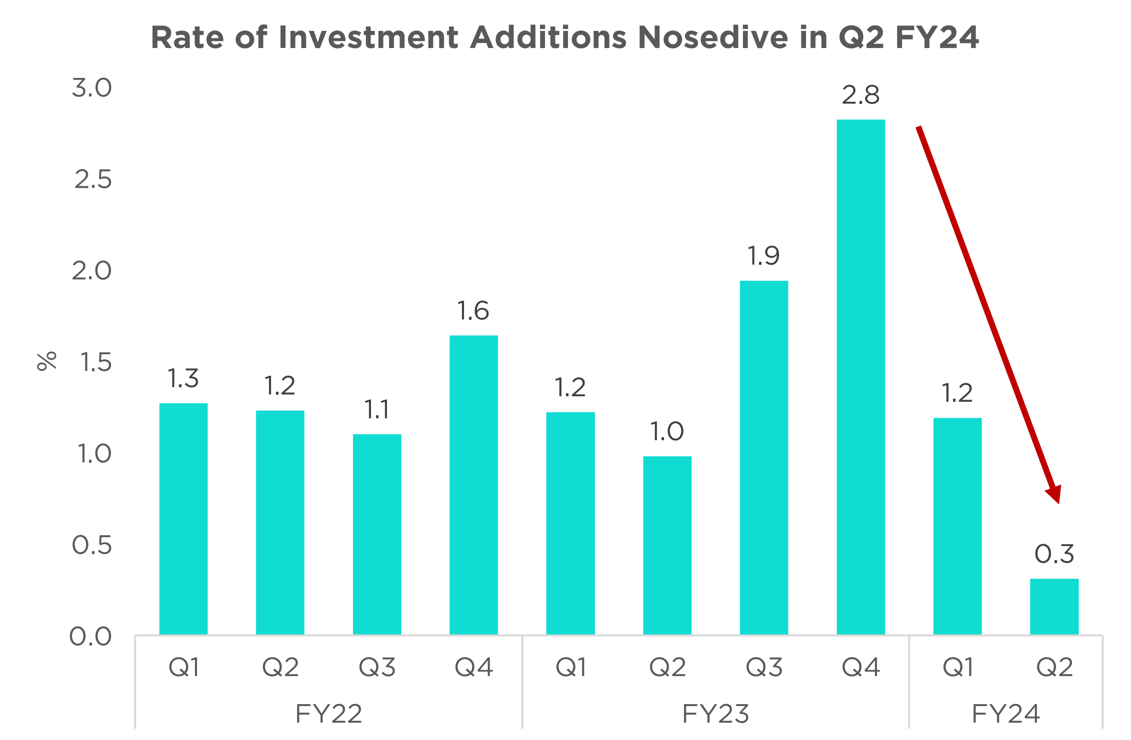
Source: CMIE; Note: Change calculated over final estimate of 2022-23



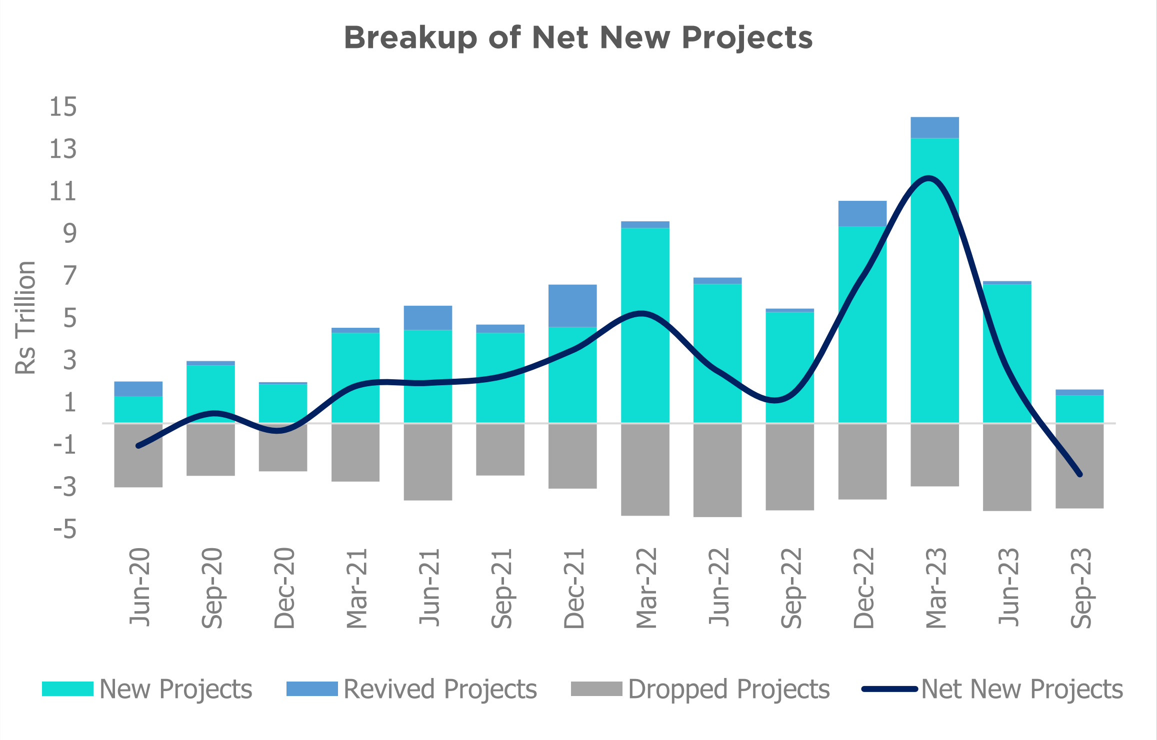
Source: Central Water Commission; Data as on 26th October 2023

- Erratic monsoon impacts yield resulting in lower kharif output which could add to the inflationary woes in the economy.
- Lower reservoir levels can impact rabi output.

Investment Scenario Disappoints



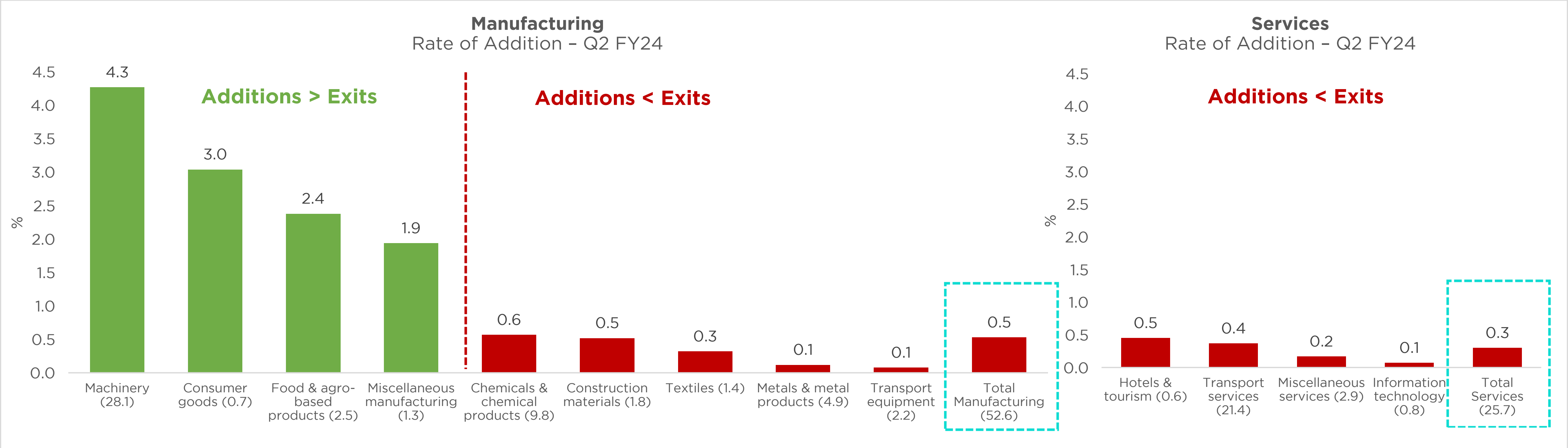
Source: CMIE; Note: Rate of addition is the ratio of new investment projects announced to the sum of projects completed and projects dropped. If this ratio is greater than one, it indicates that the additions to the stock of investment projects are greater than the exits from the stock.



Source: CMIE, CareEdge
Net New Projects = New Projects + Revived Projects - Dropped Projects

- New investment announcements were at Rs 1.3 lakh crore in Q2 FY24, lowest in almost two decades. Net new projects entered negative territory in Q2 FY24.
- PLI Scheme for High Efficiency Solar PV Modules (March-23) supported two project announcements in Q2, having a share of nearly 20% in total project announcements.

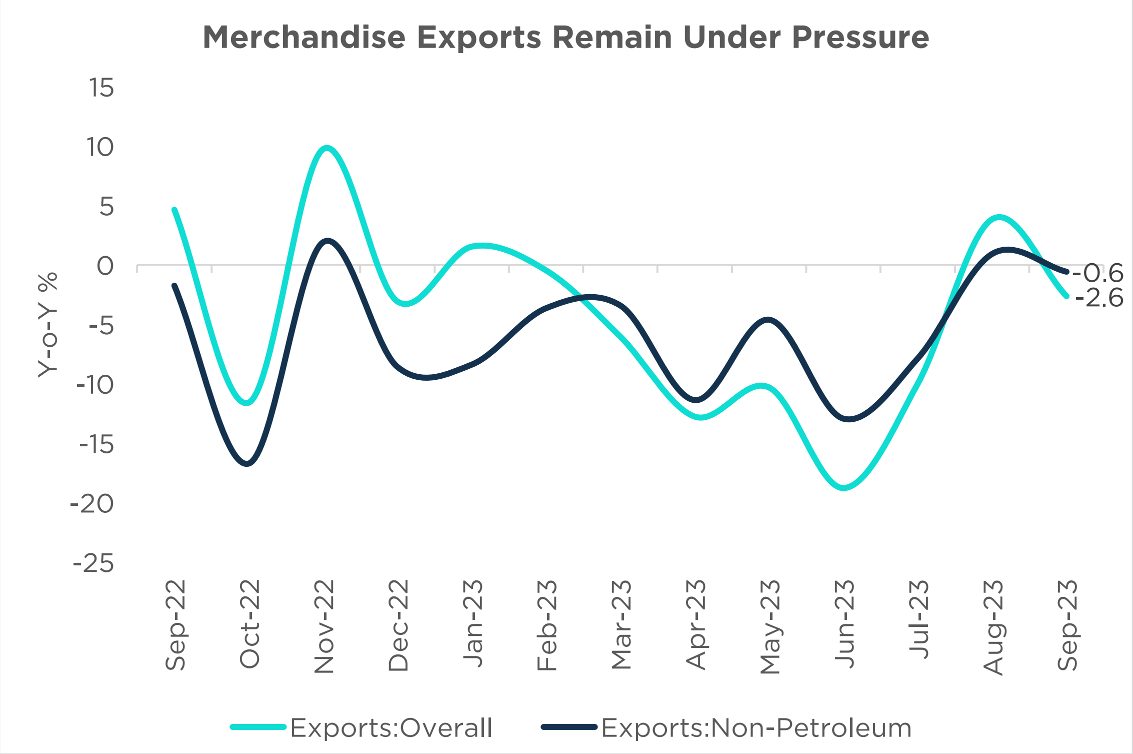
Investment Additions in Manufacturing & Services



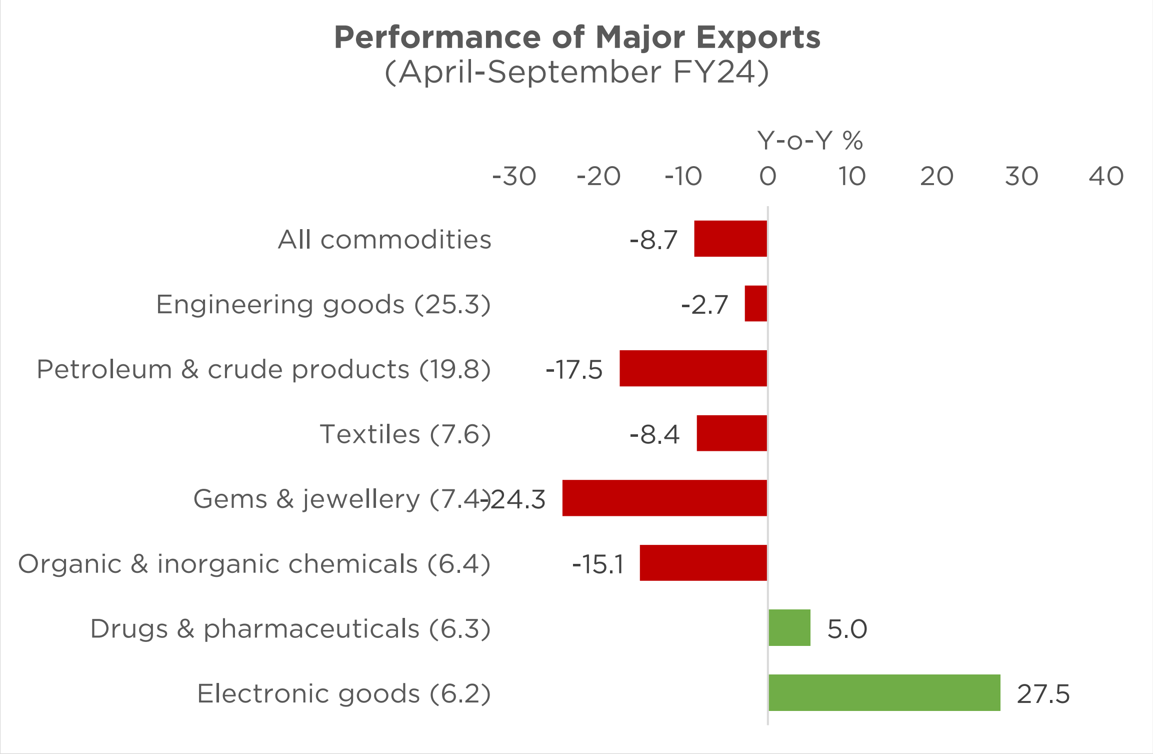
Source: CMIE; Note: Rate of addition is the ratio of new investment projects announced to the sum of projects completed and projects dropped. If this ratio is greater than one, it indicates that the additions to the stock of investment projects are greater than the exits from the stock.; Figures in bracket represent % share in new investments.

- While machinery, consumer goods and agri sector showed a healthy net addition in Q2 FY24, chemicals, construction and metals segment disappointed.
- Electricity segment (20% share in new investments) too witnessed a dip in rate of addition to 0.6% in Q2 FY24 from 0.9% in Q1 FY24.
- We believe that the overall conditions remain suitable for a pick-up in private capex cycle due to deleveraged corporate balance sheet and rising capacity utilization.

Merchandise Exports Reeling Under Slowdown Impact



Source: CMIE



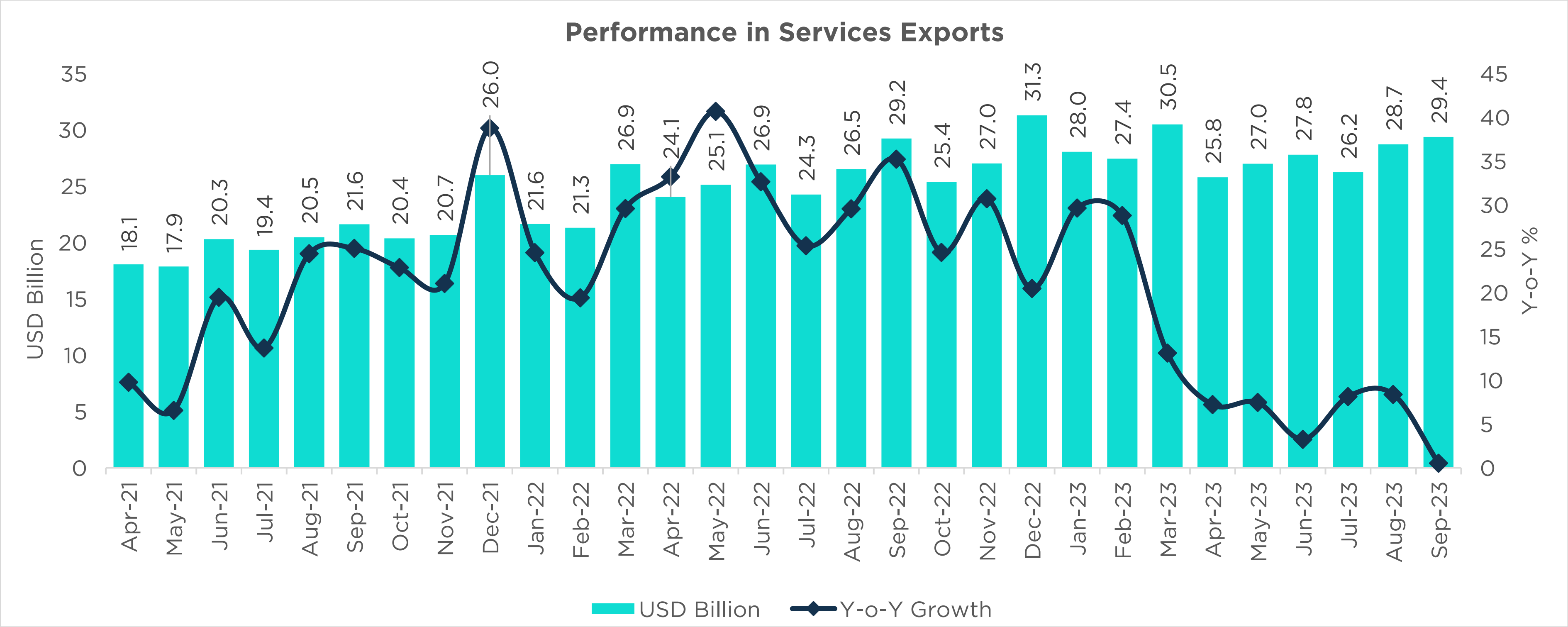
Source: CMIE; Note: Figures in bracket represent % share in total exports

- Export weakness in volume terms in select items (gold & other precious metal jewellery, organic/inorganic & agro chemicals) signals weak global demand.
- For the full fiscal, we project merchandise exports to contract by 6.5% in FY24 as weakness in external demand is likely to persist.

Directional Snapshot of Merchandise Exports

Source: CMIE; Note: Figures in bracket represent % share in total exports

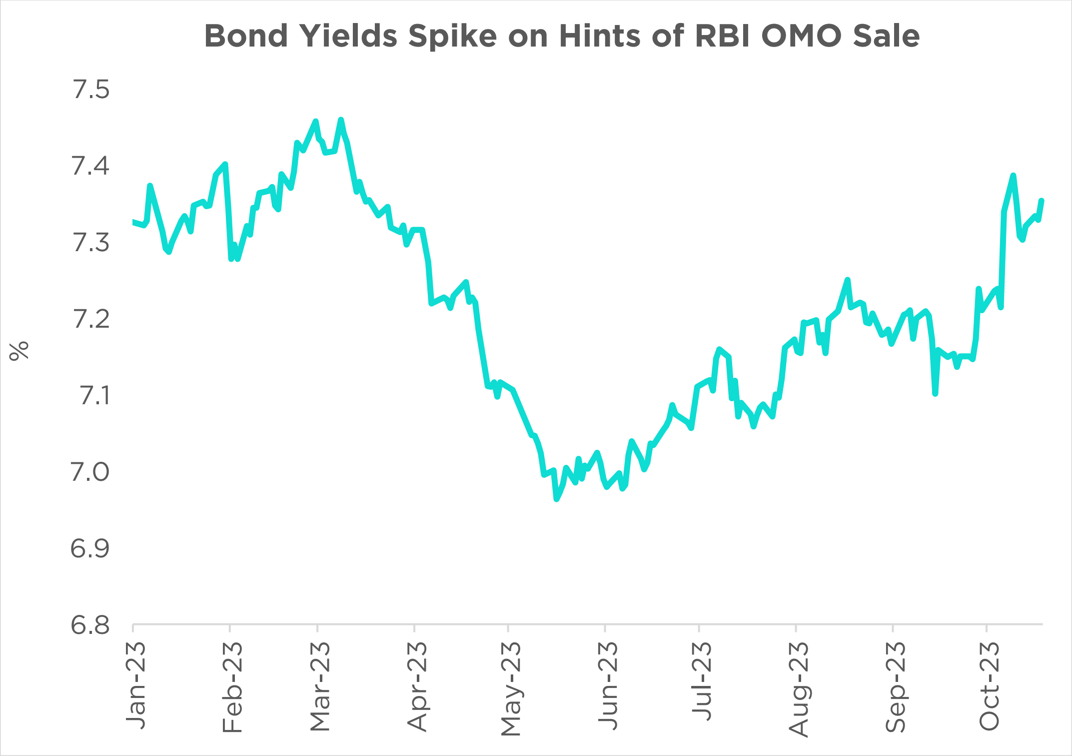
Services Exports Hold Up Well



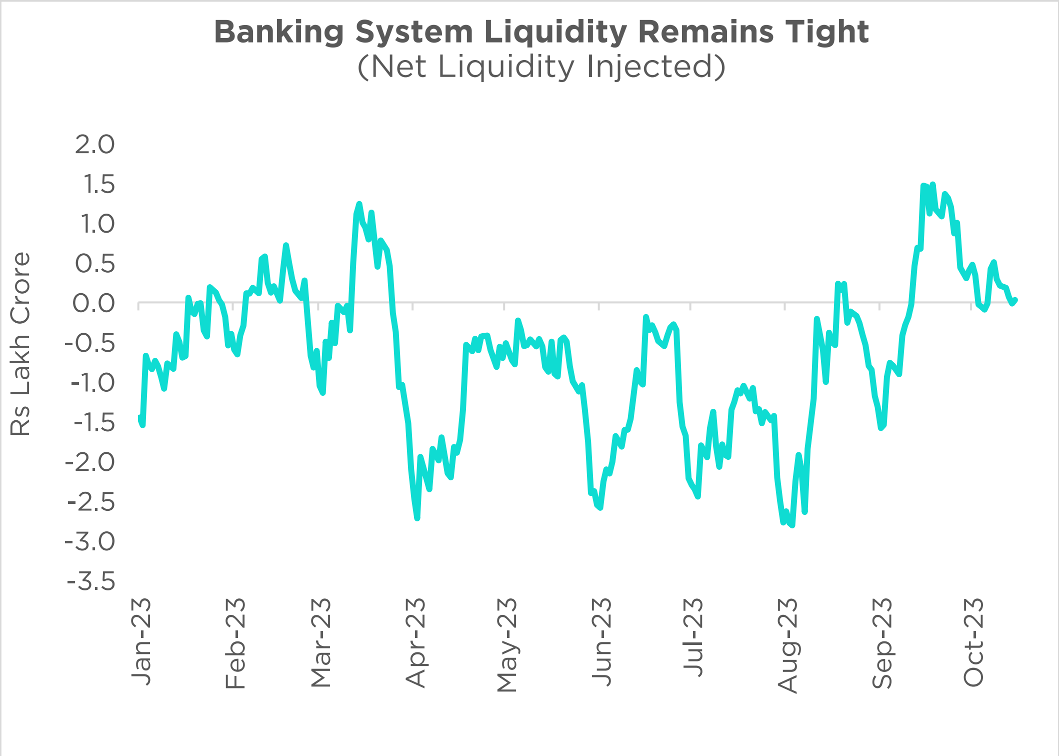
Source: CEIC

- Growth in services exports has plateaued in the recent months with monthly export receipts stabilizing above USD 25 billion.
- Going ahead, the weakness in global tech spending could weigh on the performance of India's services exports.

RBI OMO Sale Likely in November



Source: Refinitiv



Source: Refinitiv; Note: (-) denotes surplus, (-) denotes deficit

- 10-year bond yield rose to a six-month high on prospects of RBI OMO sale following a hawkish October MPC meeting.
- Given that threat of inflationary risks continue to linger, RBI is expected to ensure enough liquidity to meet credit demand.
- Liquidity conditions remained tight over the last month, with some pressure easing as the last phase of I-CRR reversal took place on October 7.
- With Rs 1.43 lakh crore worth of G-sec redemption in November, we could expect the RBI to announce OMO sales next month.

Rupee Falls to Record Low as Yield Differential Narrows

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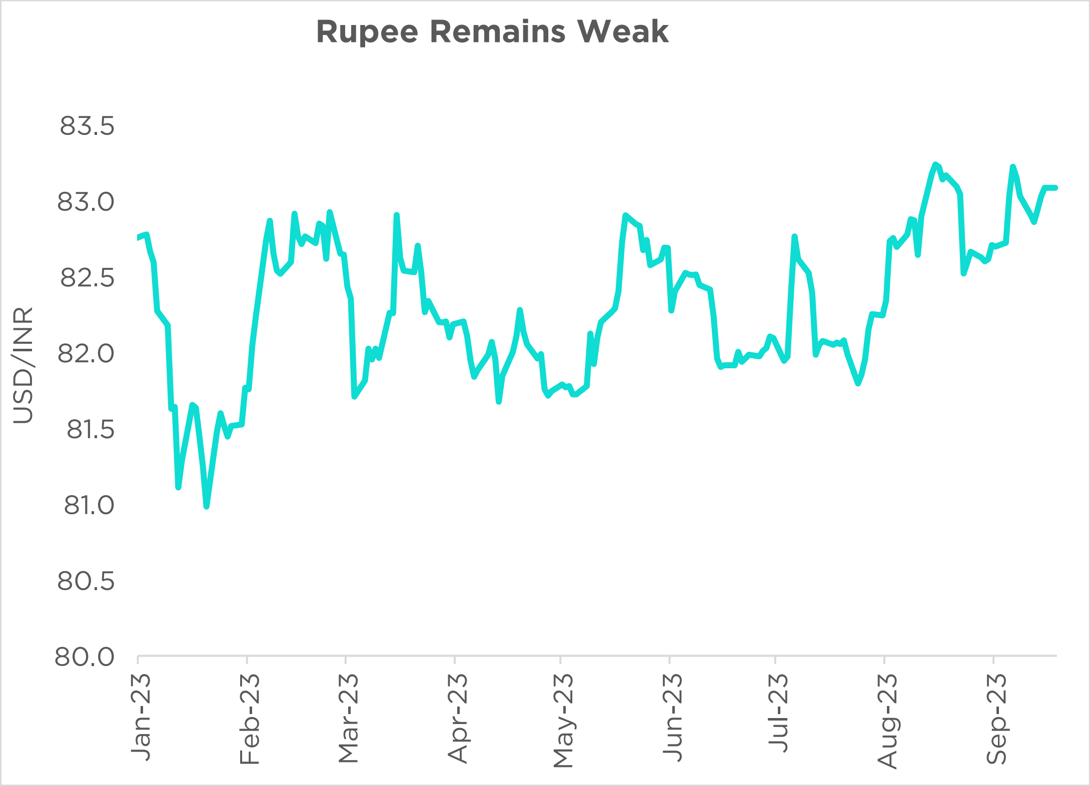
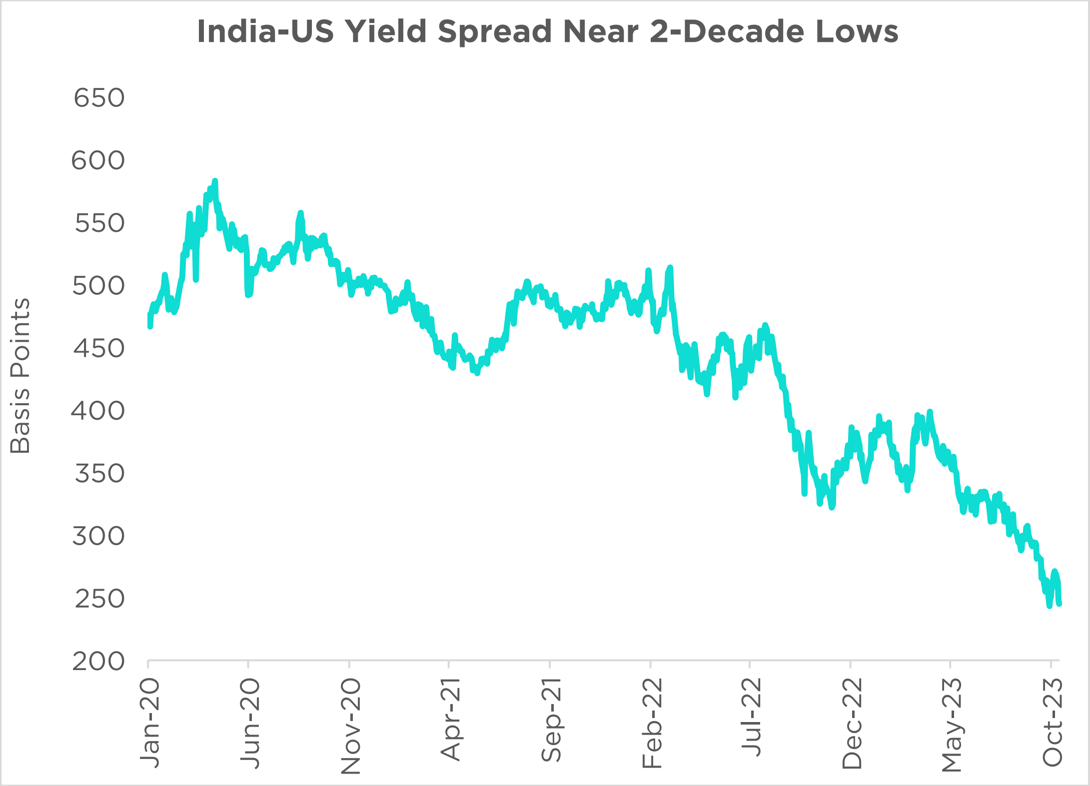


Source: Refinitiv (Data for Sep 2023 up to Sep 15)



Source: CEIC (Note: Net Debt includes VRR; Data for Sep 2023 up to Sep 15)

- Rupee depreciated to its lowest level in 2023 amidst a narrowing yield differential, slowing FPI flows and a rise in oil prices.
- RBI's FX intervention expected to reduce volatility in rupee going ahead.

CareEdge Economy Outlook

CareEdge RATINGS

Economic Growth

GDP growth projected at **6.5%** for FY24

Inflation

Average inflation projected at **5.6%** for FY24

Current Account Deficit

CAD (as % of GDP) projected at **1.8%** in FY24

Fiscal Deficit

Fiscal deficit (as % of GDP) pegged at **5.9%** in FY24

Interest Rates

10-Year G-Sec Yields to range between **7-7.2%** by end-FY24

Currency

USD/INR projected to be at **82-84** by end of FY24

October Round-Up

From the Economics Desk @ CareEdge	
India's Capex Story	Read Here
China's Property Sector Woes Call for Consumption-Led Growth Model	Read Here
Monetary Policy Outcome	Read Here
Debt Market Update	Read Here
IIP Report	Read Here
CPI Report	Read Here
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Economics Research Team

Rajani Sinha
Chief Economist
rajani.sinha@careedge.in
+91 - 22 - 6754 3525

Sonali Vahadane
Senior Economist
sonali.vahadane@careedge.in
+91 - 22 - 6754 3549

Mihika Sharma
Associate Economist
mihika.sharma@careedge.in
+91 - 22 - 6754 3538

Akanksha Bhende
Associate Economist
akanksha.bhende@careedge.in
+91 - 22 - 6754 3524

Mradul Mishra
Media Relations
mradul.mishra@careedge.in
+91-22-6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

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