CareEdge RATINGS

CareEdge

Economic Pathway

November 2024

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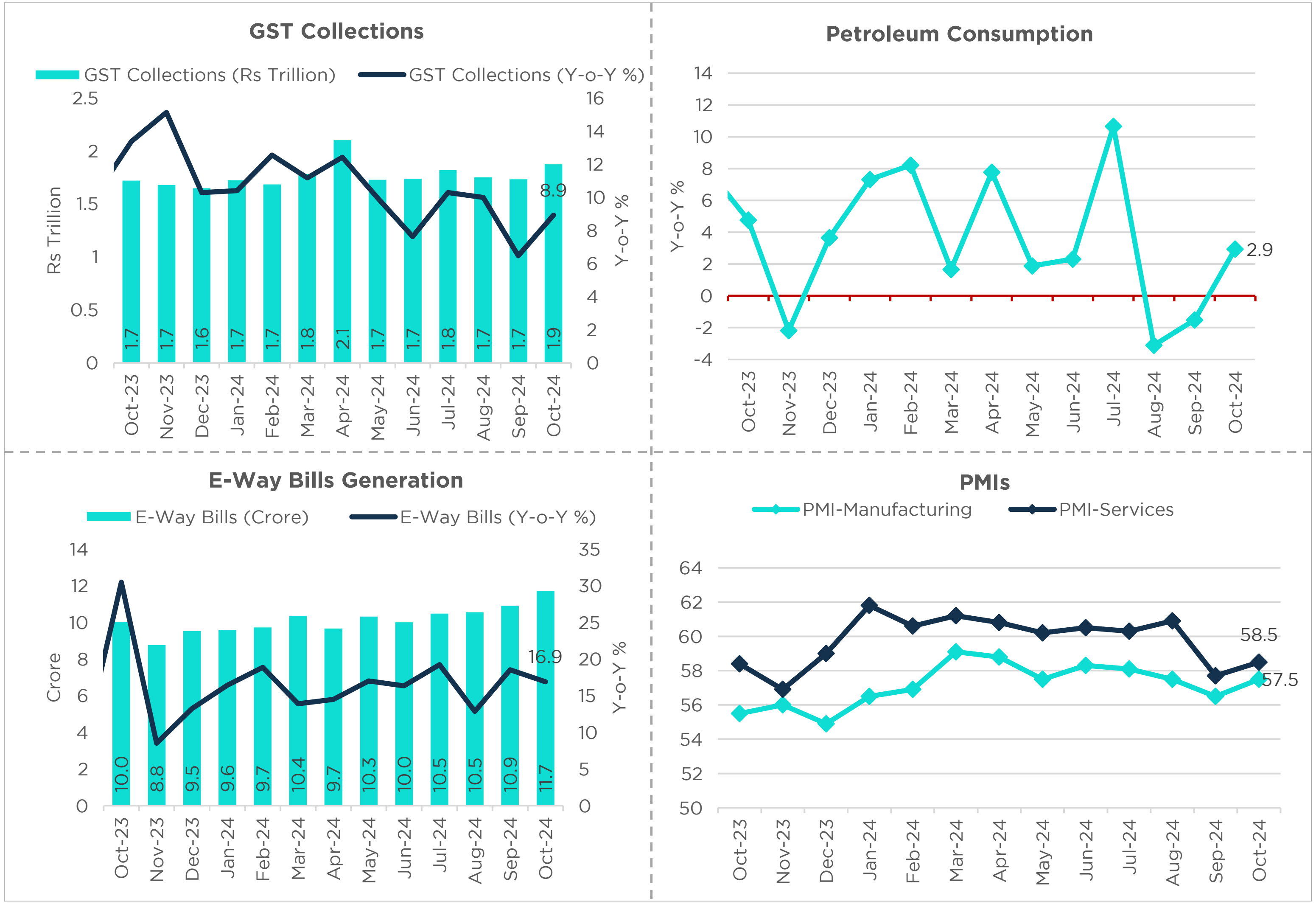
Domestic Economy

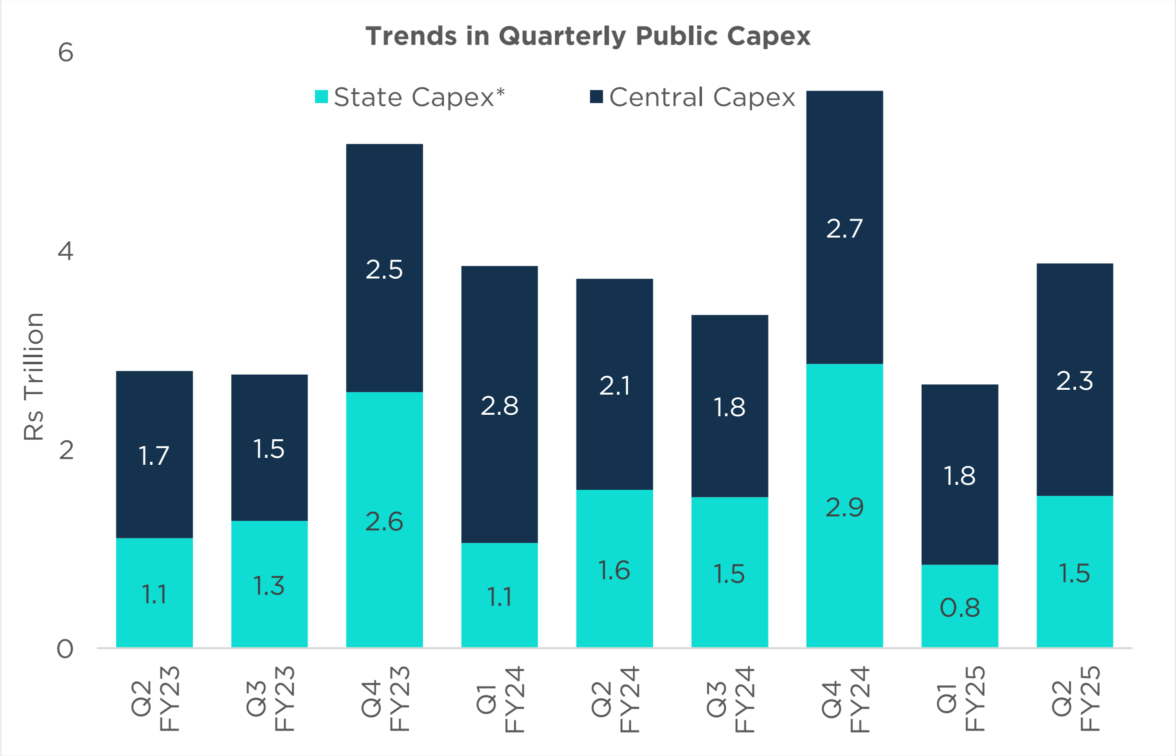
High-Frequency Indicators of Economic Activity Show Slight Improvement in October

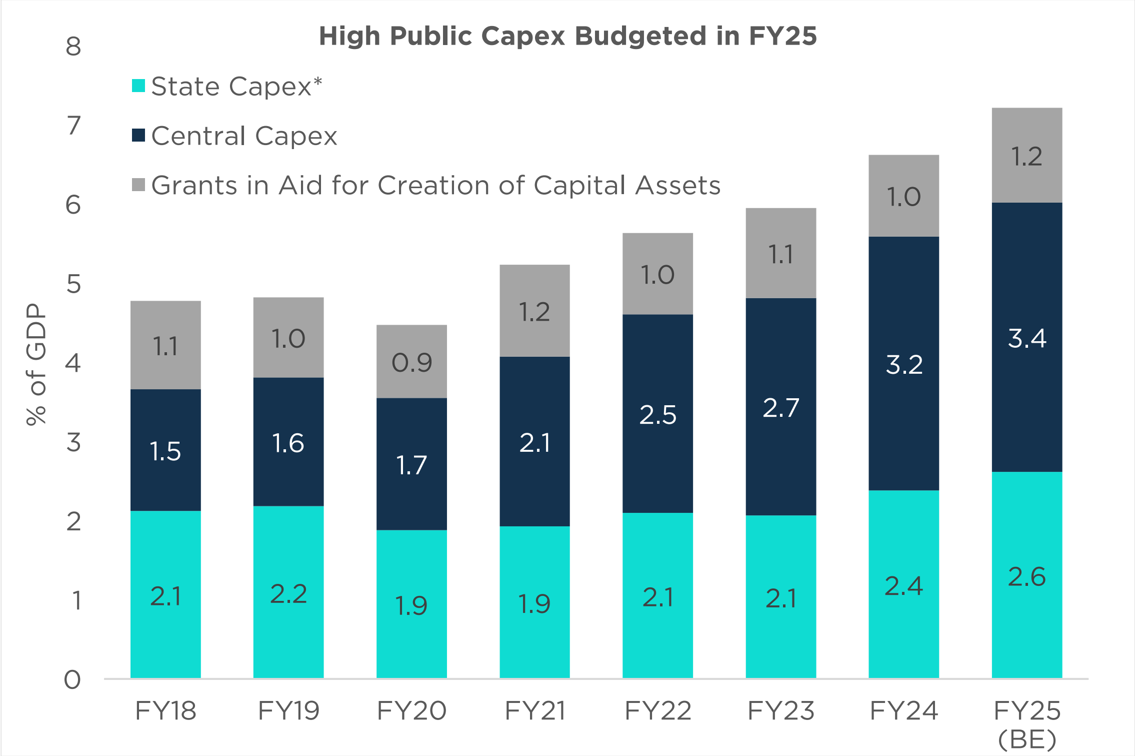


Source: CEIC

- High-frequency economic indicators, including GST, PMIs and petroleum consumption, recovered in October after a temporary blip.
- Improved operating conditions boosted the Manufacturing PMI to 57.5 in October, up from September's eight-month low.
- Robust expansions in output, new business and jobs drove Services PMI recovery to 58.5, surpassing the long-run average of 54.1.
- Cumulative GST collections and e-way bills generation during 7M FY25 recorded a y-o-y growth of 9.4% and 16.5%, respectively.

Public Capex Weak in H1 FY25

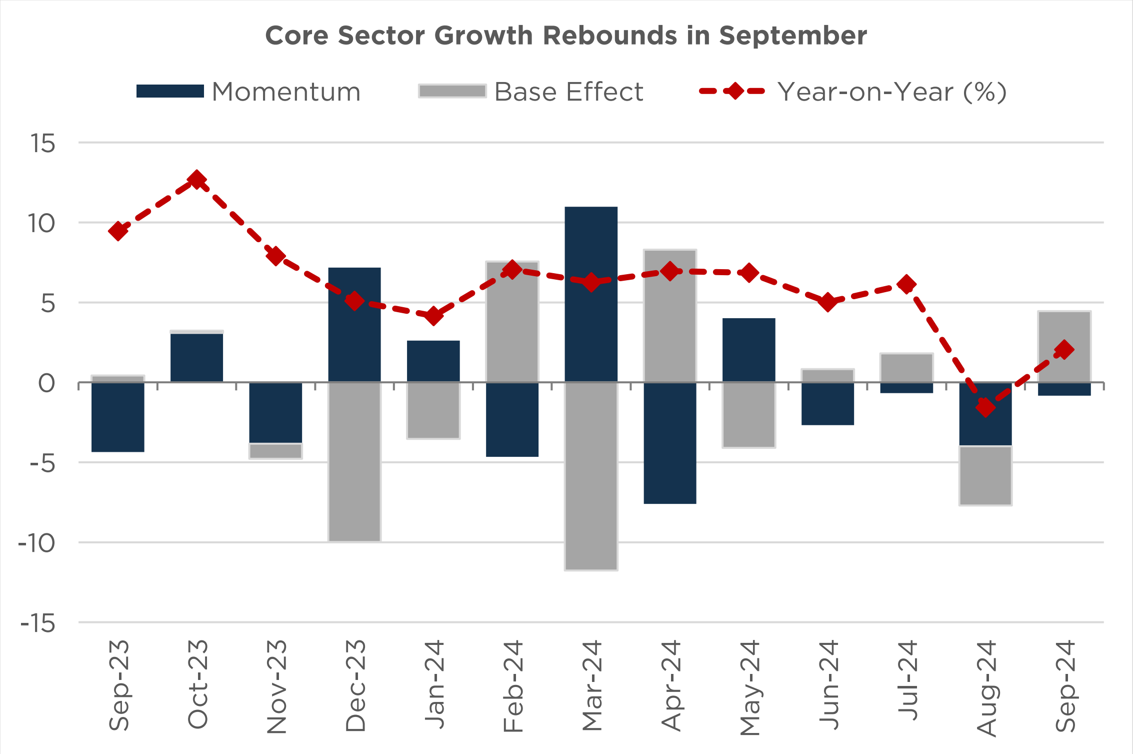




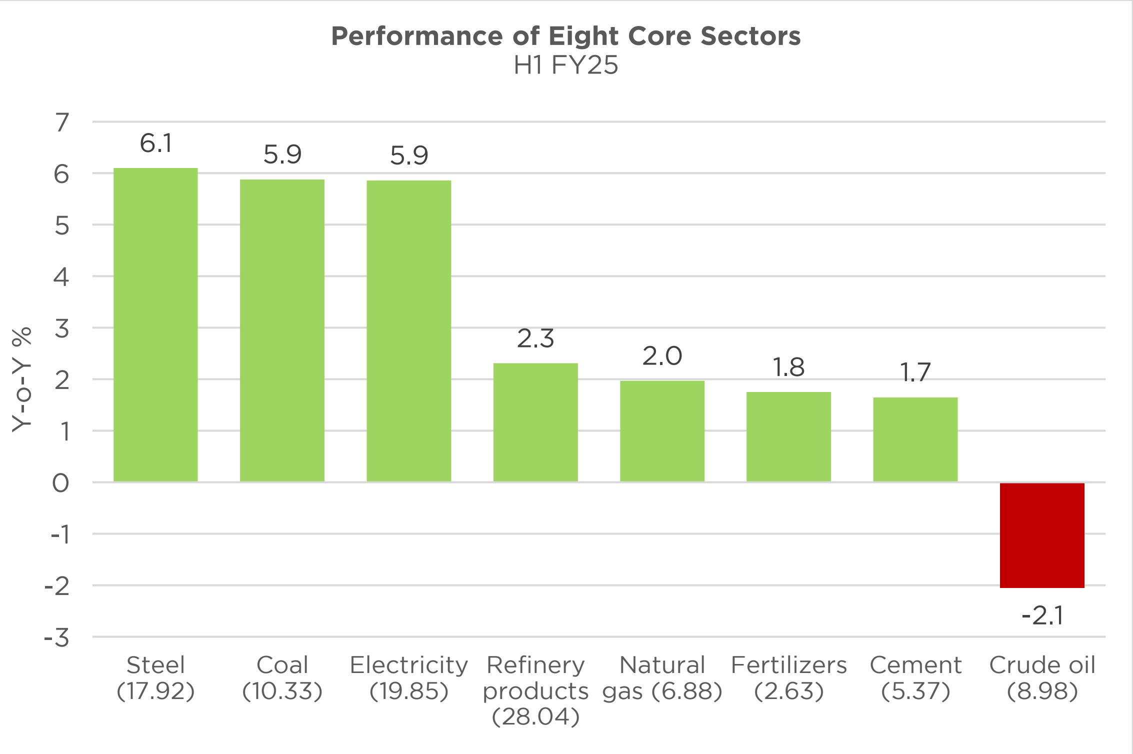
Source: CMIE, CareEdge. *Based on 20 states accounting for ~93% of India's GDP. It excludes: Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Goa. Capex growth of few states for Q2 has been extrapolated based on trend due to missing data.

- Capex by Centre and major state governments (aggregate of 20 states) fell by 15.4% and 10.5% (Y-o-Y) respectively in H1 FY25 due to election-related restrictions in Q1.
- In H1 FY25, the Central and state governments have achieved only 37% and 28% of the full-year budgeted capex target. There is potential for public capex to pick up in H2 FY25.
- On the corporate capex front, order books of companies in the capital goods and infrastructure sector (specifically road) rose by 10.3% and 20.5% in H1 FY25 vis-à-vis end-FY24.
- Deleveraged corporate balance sheets and optimistic order book scenario bode well for a pick-up in capex going forward.
- However, challenges persist in the form of weak domestic demand, geopolitical uncertainties, and external challenges.

Infrastructure Industries Output Growth Back in the Positive Territory



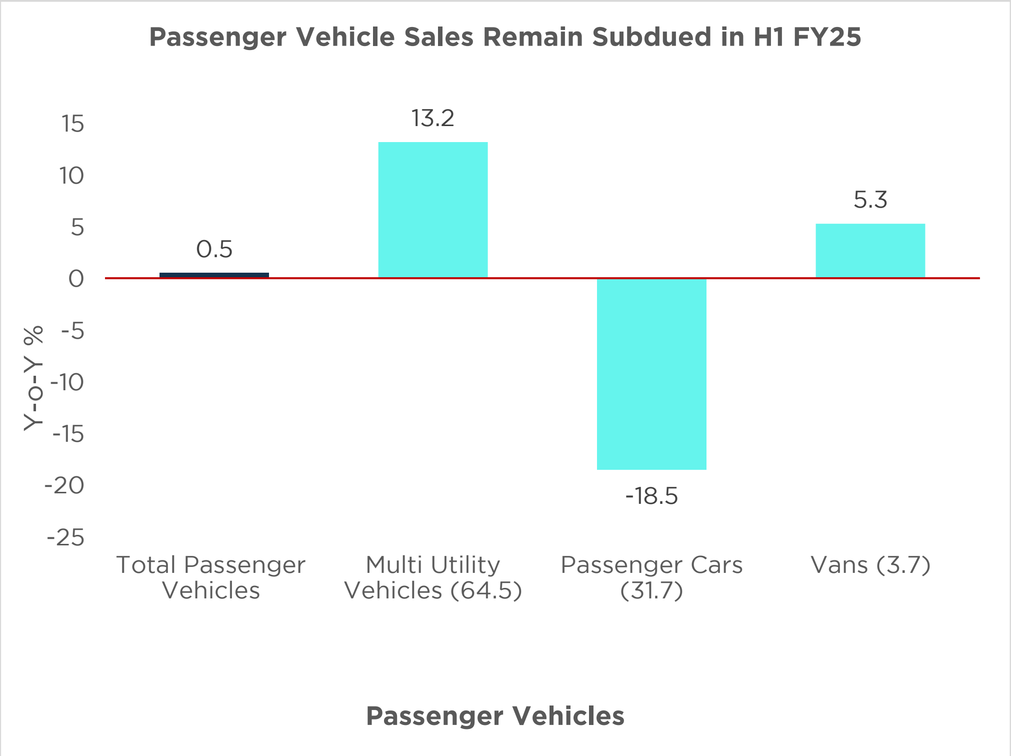
Source: CEIC & CareEdge



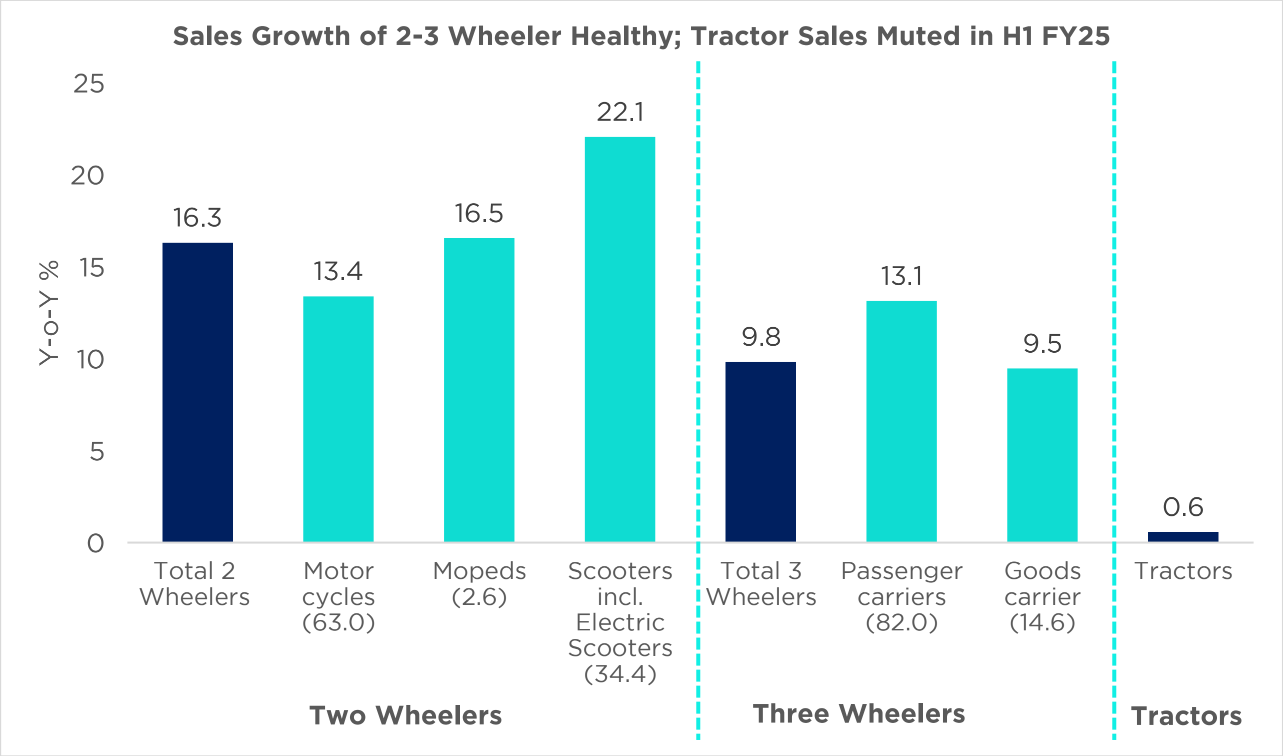
Source: CMIE; Note: Figures in bracket represent weights in overall index

- Core sector performance rebounded with a 2% growth in September 2024, aided by a supportive base, following a contraction in the previous month.
- Output in the eight core sectors has expanded by 4.2% in the 6M FY25, as against 8.2% in the same period, last year.

Auto Sales Points to Tapering Urban Demand; Rural Demand Holds Up Well



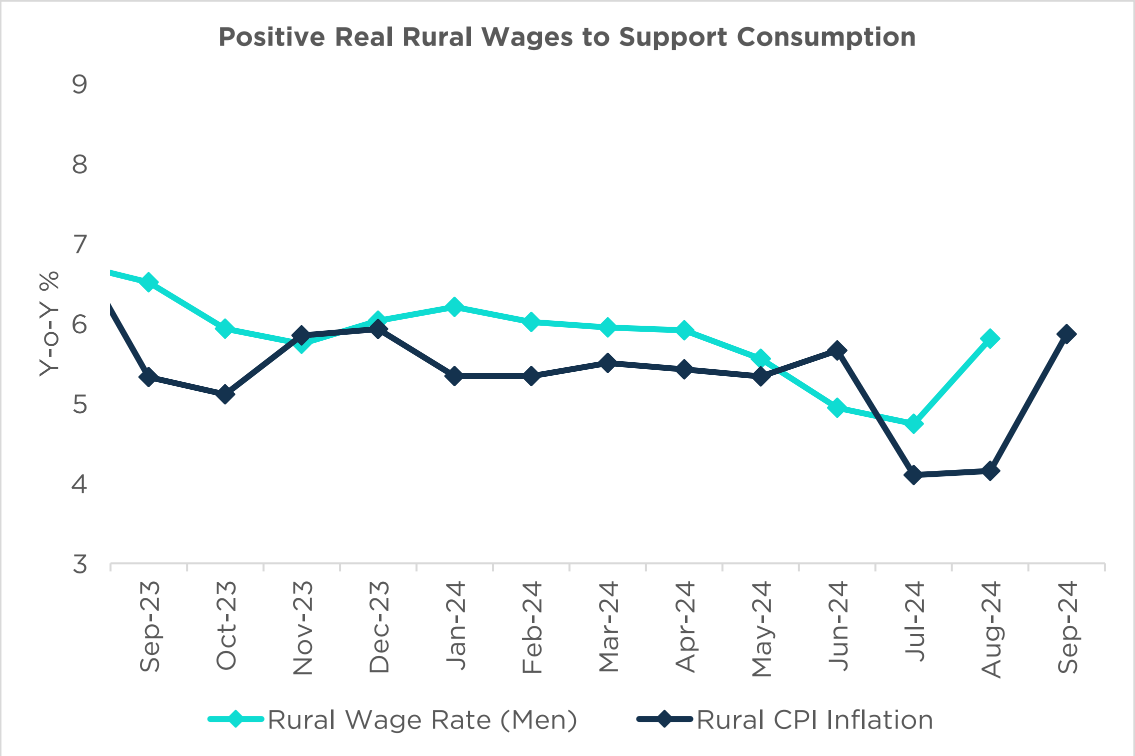
Source: CMIE; Note: Figures in bracket represent percentage share in total PV sales



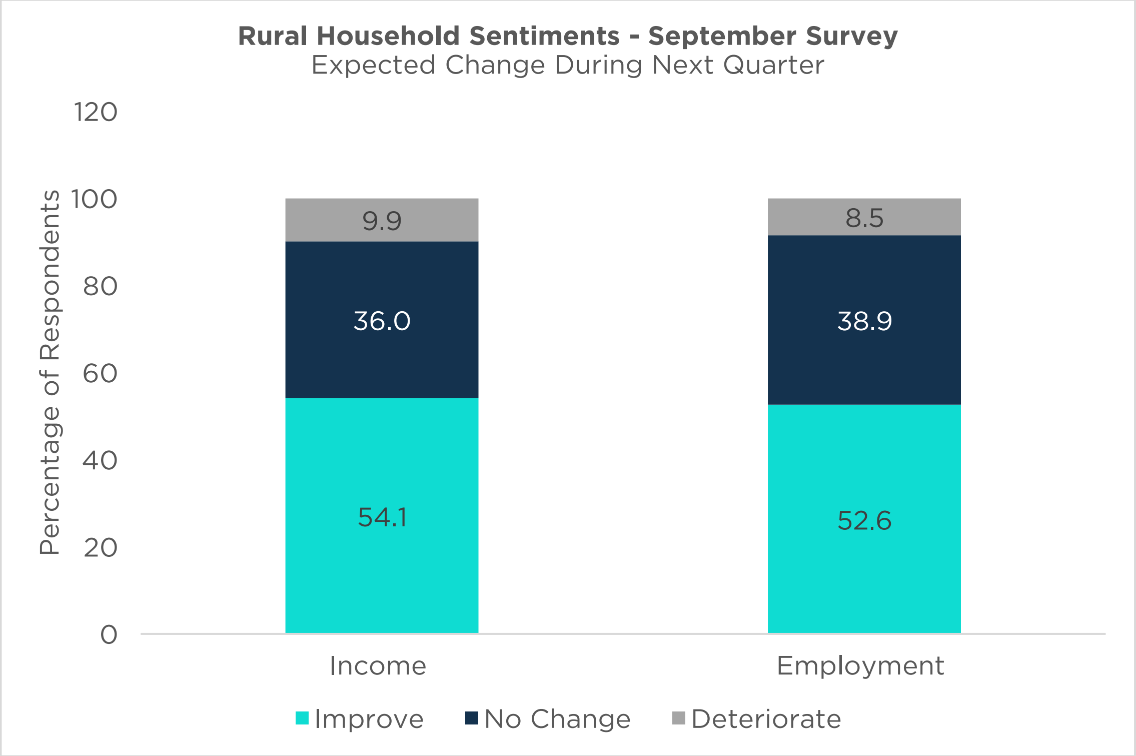
Source: CMIE; Note: Figures in bracket represent percentage share in total 2 and 3 wheelers sales

- PV sales contracted in Q2 FY25 (by 1.8% y-o-y) failing to maintain the optimism seen in Q1 (3% y-o-y). As a result, overall PV sales rose only marginally in H1 FY25.
- Within the PV segment, sales of passenger cars recorded a sharp contraction of 18.5% in H1.
- Sales in the 2 and 3-wheeler segment pointed towards broad-based growth across the sub-categories in H1.
- Tractor sales showed a muted performance rising only marginally in H1.

Rural Wage Growth Outpaces Inflation; Income & Employment Outlook Positive



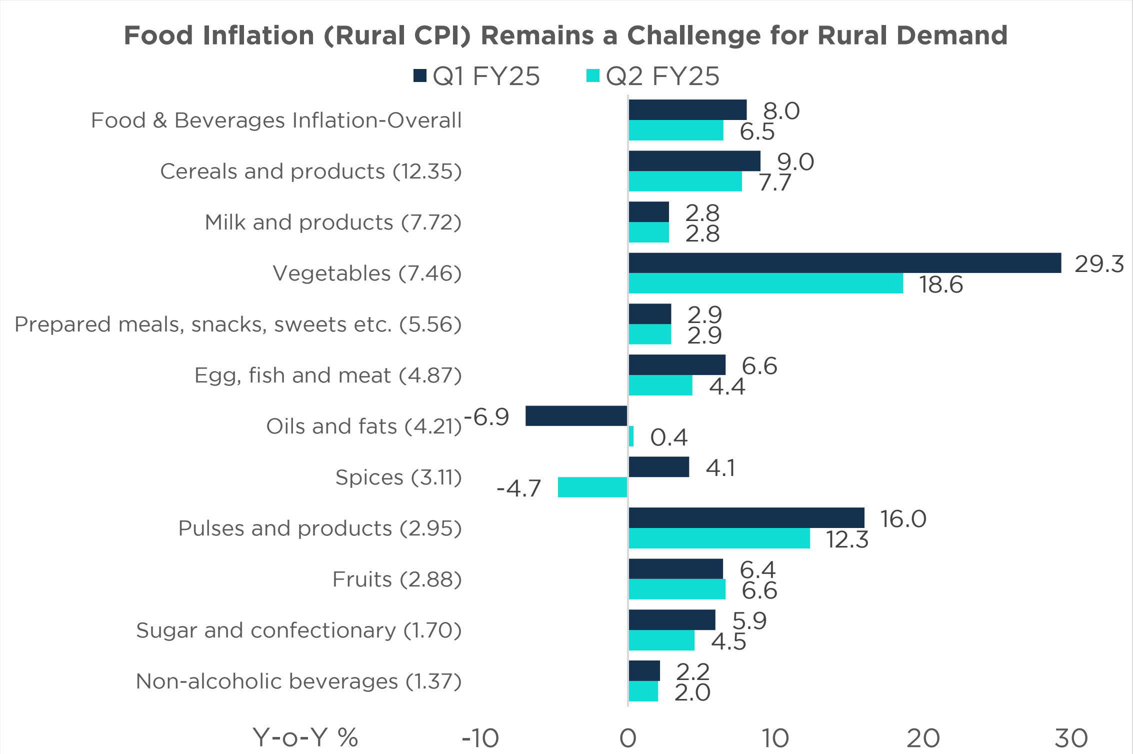
Source: CEIC



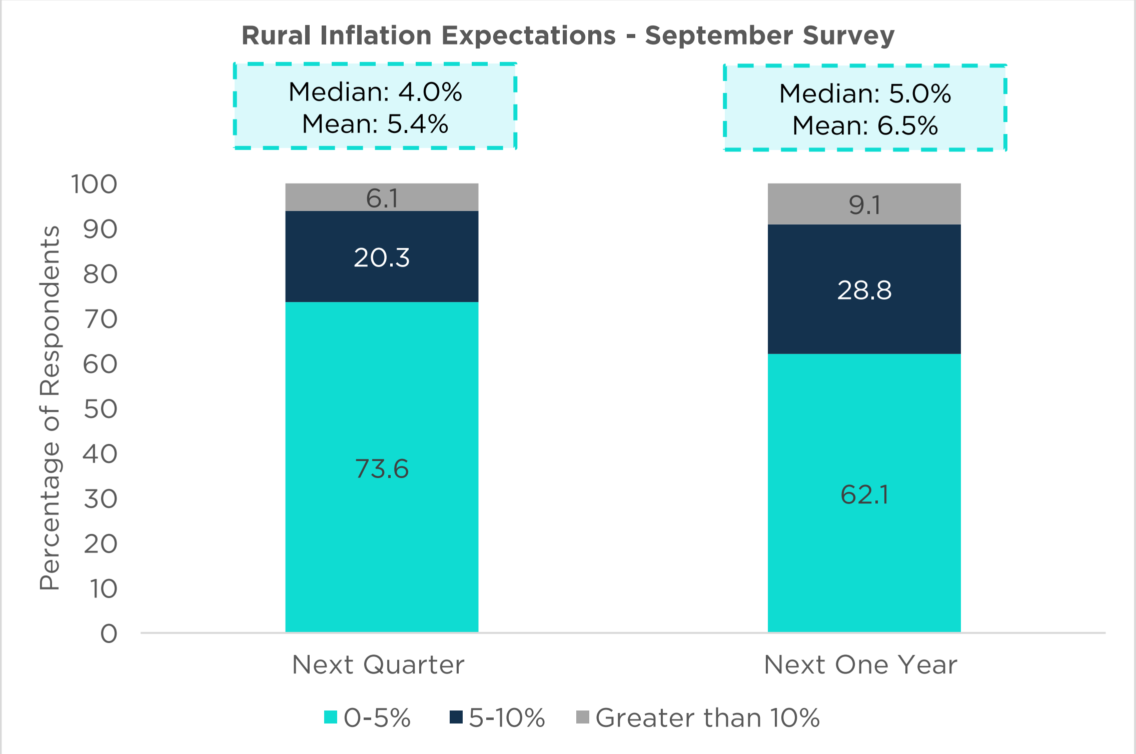
Source: NABARD Rural Economic Conditions & Sentiments Survey Round 1 (September 2024)

- Rural wage growth has remained healthy in the initial months of Q2 FY25, outpacing the rise in CPI inflation.
- Positive real wages in the rural economy are positive for the slow demand recovery.
- Majority of rural households expect their income conditions to improve in the current quarter and year ahead, according a NABARD survey of September 2024.

Food Inflation Continues to Pose a Challenge for Rural Demand



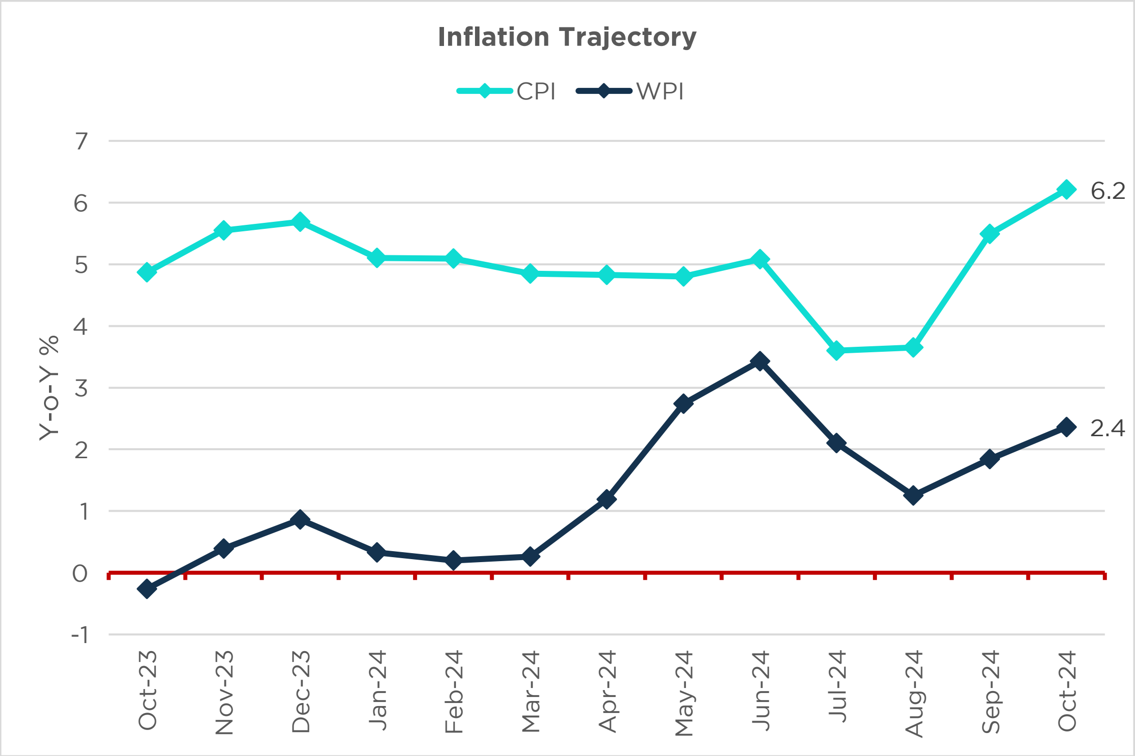
Source: CMIE; Note: Figures in bracket represent weights in overall rural CPI



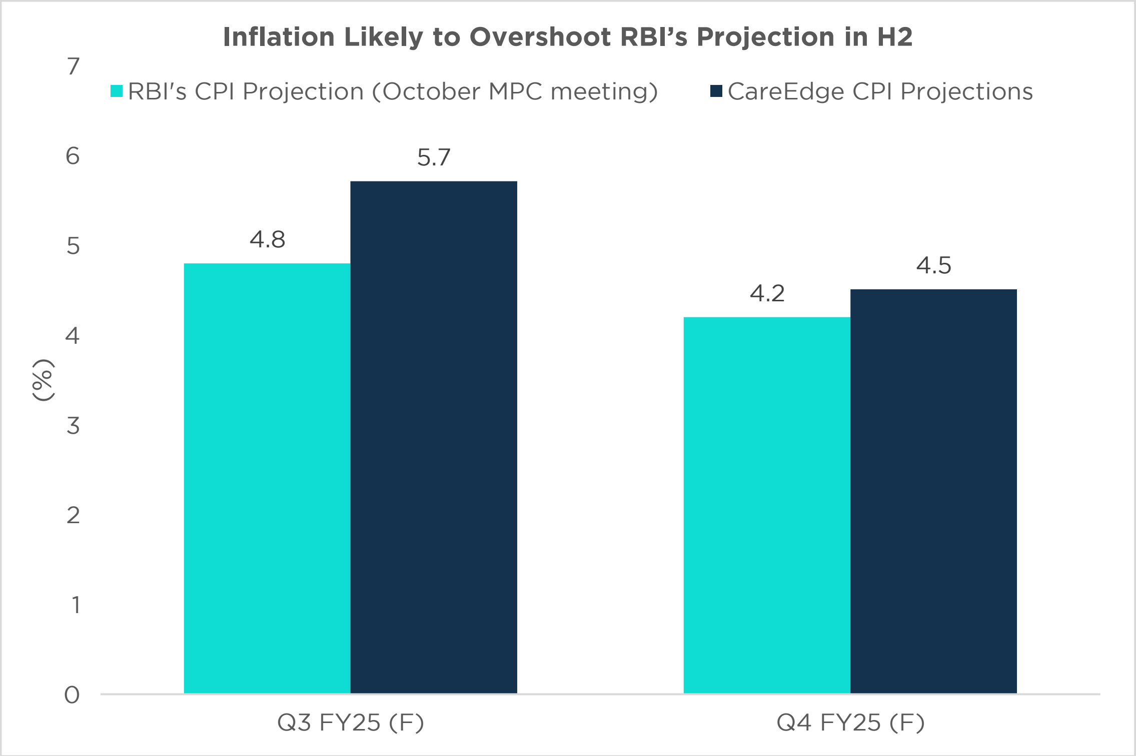
Source: NABARD Rural Economic Conditions & Sentiments Survey Round 1 (September 2024)

- Despite most rural food inflation basket categories showing moderation in Q2, elevated prices in select food items (vegetables, pulses & cereals) remain challenging.
- The rural households' median inflation expectations are seen at 4% for the quarter ahead and 5% for the year ahead.

Inflation Concerns Continue to Linger



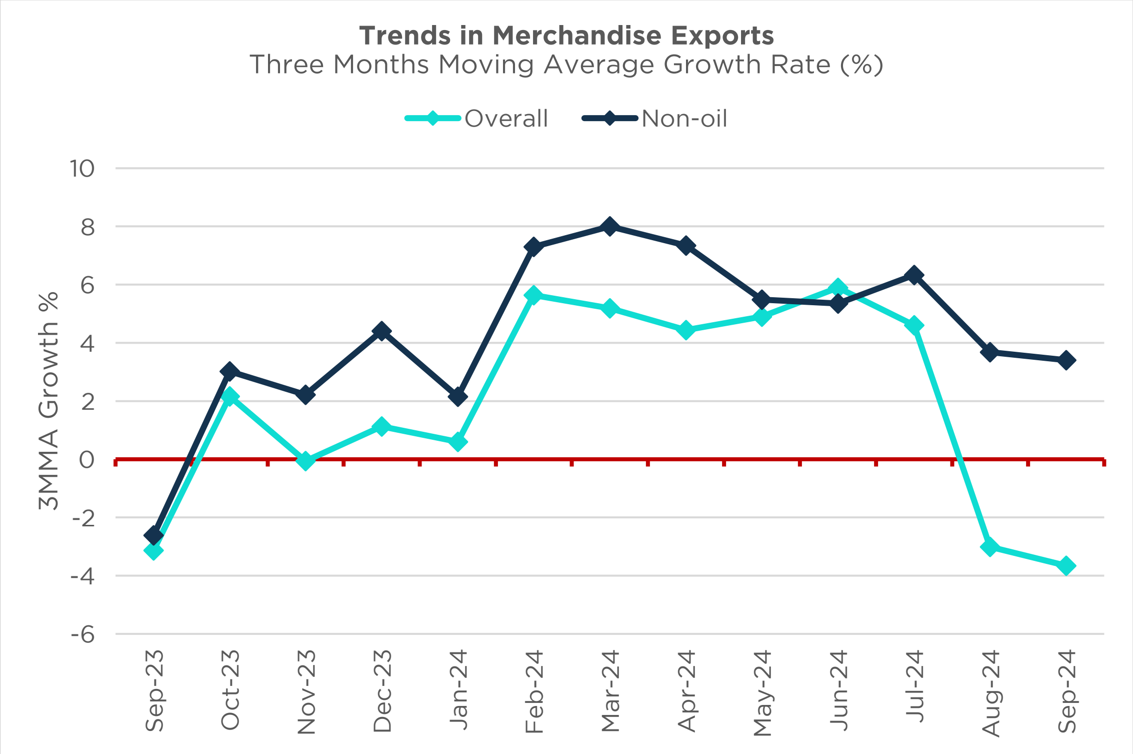
Source: CEIC



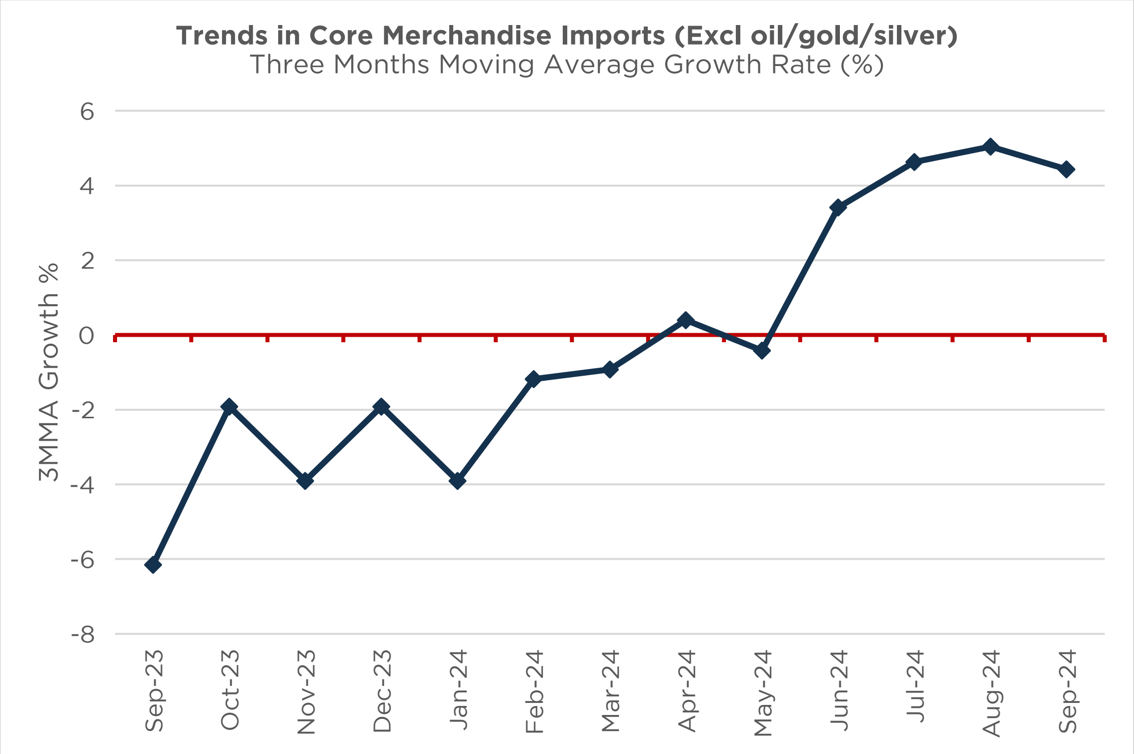
Source: CEIC, MOSPI & CareEdge

- CPI inflation accelerated to a 14-month high of 6.2% in October. Core inflation also saw a minor uptick of 20 bps to 3.7%.
- Food inflation rose to a 15-month high of 9.7% in October. Elevated inflation was seen in categories such as vegetables (42% YoY), edible oil (9.5%), fruits (8.4%), pulses (7.4%) and cereals (6.9%).
- The arrival of fresh Kharif harvest and positive prospects for Rabi sowing are expected to ease inflationary pressures in food. However, current trends suggest that inflation in H2 FY25 may exceed the RBI's October projections.
- We expect the MPC to consider a 25-bps reduction in policy rates in its February meeting.

Merchandise Exports Lose Steam; Imports Maintain Momentum



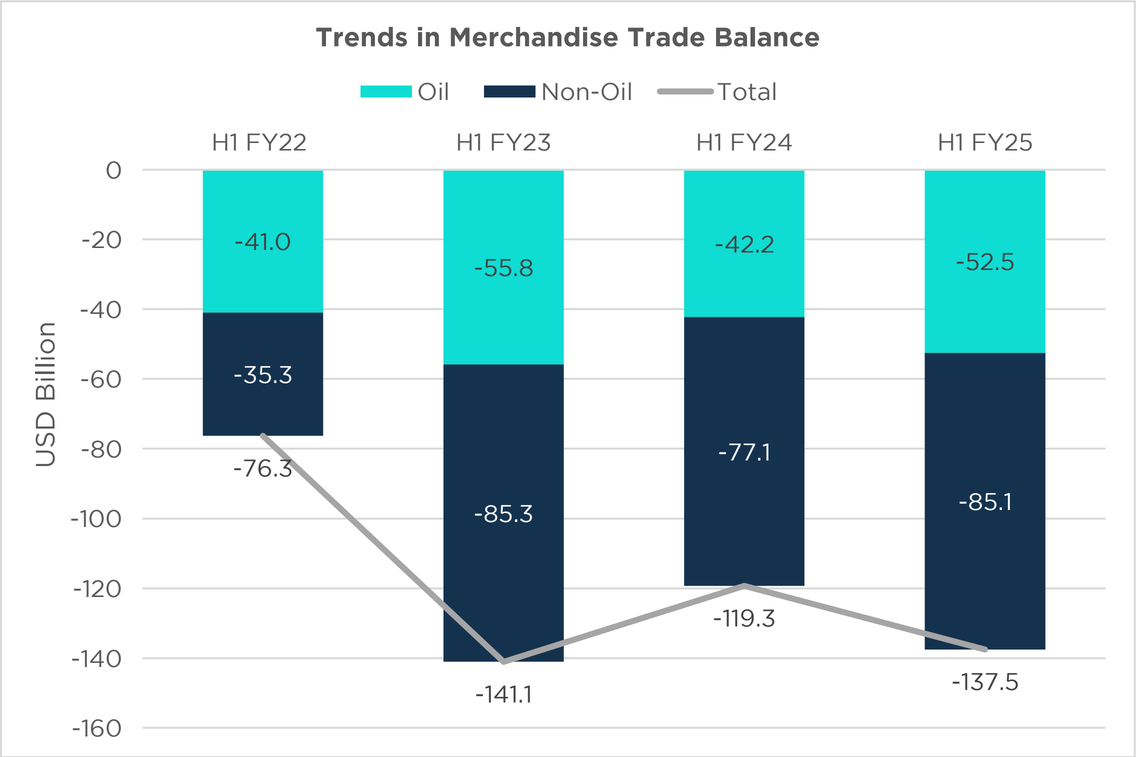
Source: CMIE; CareEdge



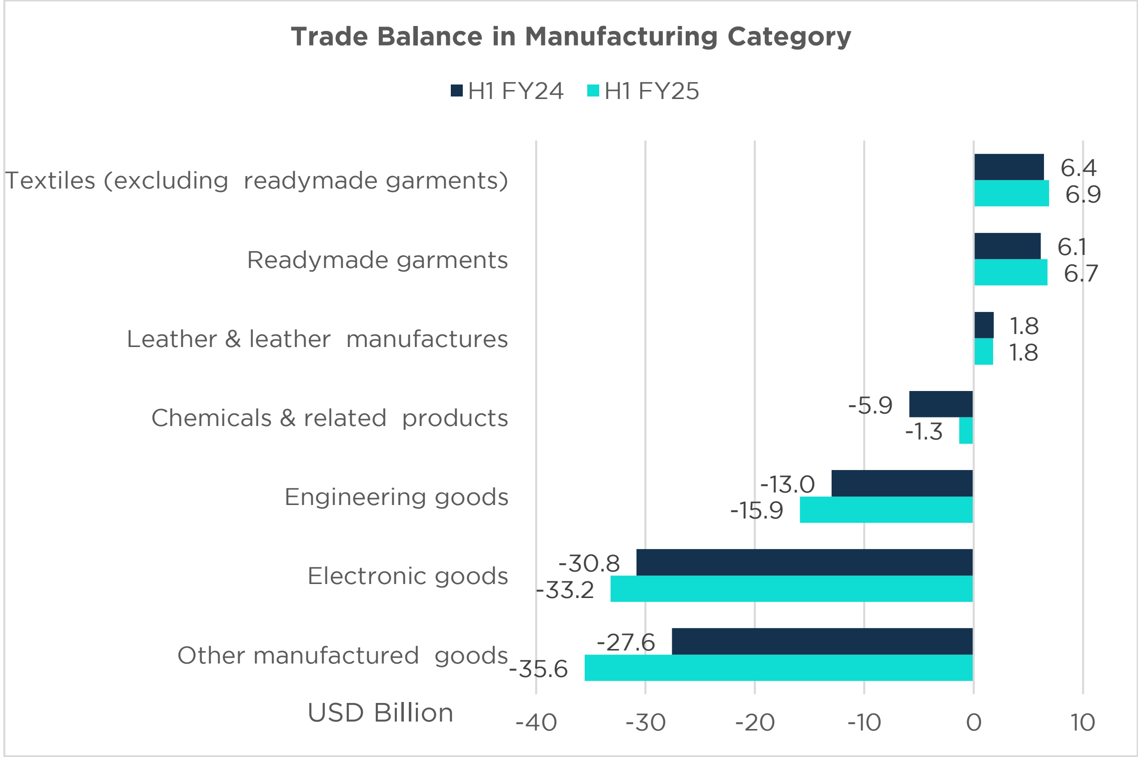
Source: CMIE & CareEdge

- Overall exports derailed in Q2 FY25 following a relatively modest performance in Q1.
- Petroleum exports contracted by 13% (y-o-y) while non-petroleum exports grew by a modest 4.4% in H1 FY25.
- Core imports have maintained the momentum rising by 3.9% in H1 FY25, as against a 7.4% contraction a year ago.
- Amid global economic uncertainties and geopolitical tensions, merchandise exports need to navigate a path of uncertain recovery.

Merchandise Trade Deficit Higher in H1 FY25



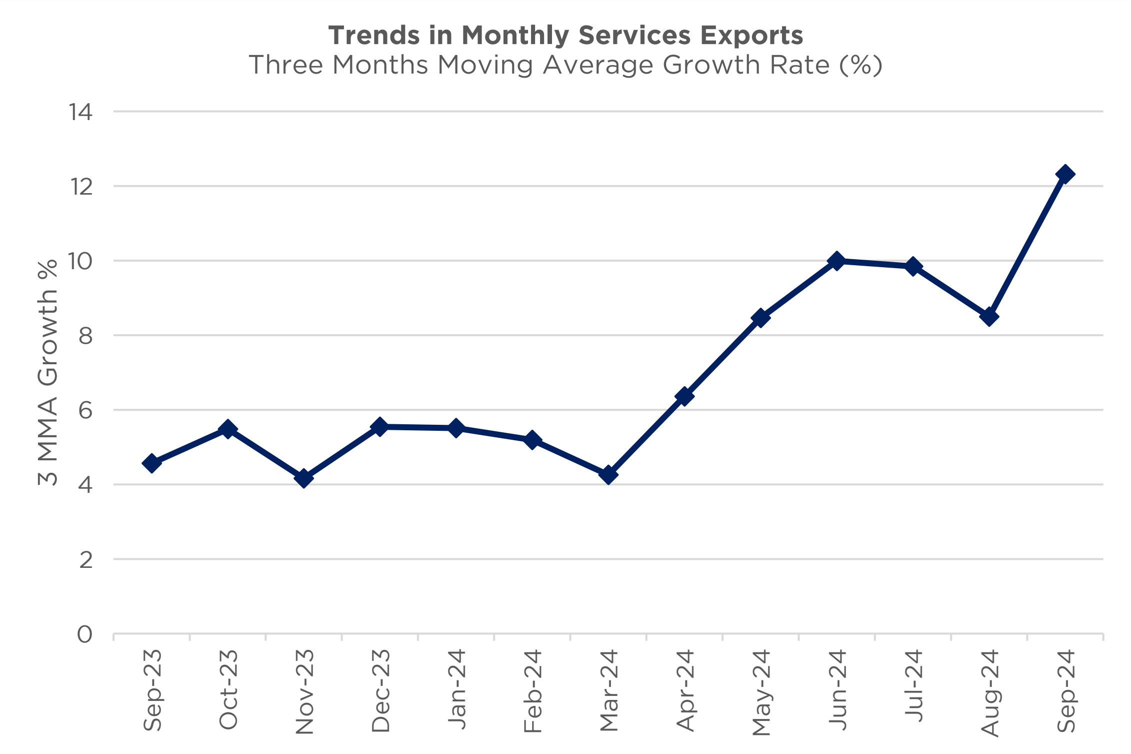
Source: CMIE & CareEdge



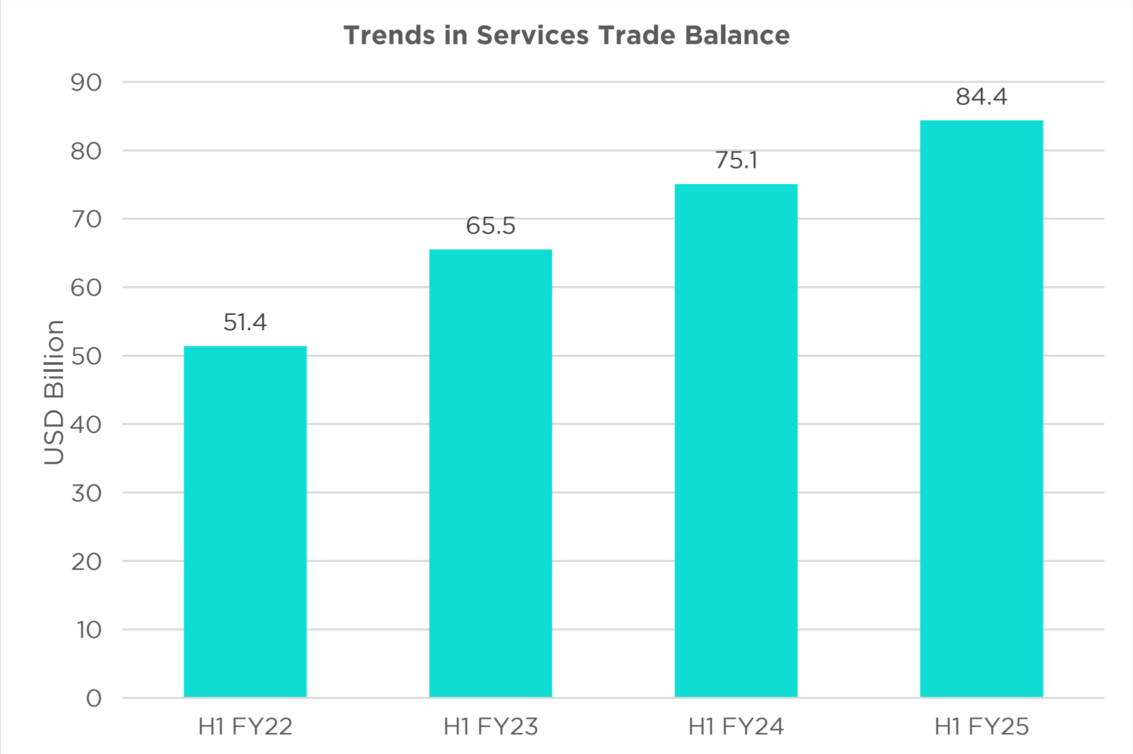
Source: CMIE & CareEdge

- India's merchandise trade deficit remained elevated in H1 FY25 vis-à-vis last year amid higher oil as well as non-oil deficits.
- The deficit within the manufacturing category can be attributed to higher deficits in electronic goods, engineering goods and other manufactured goods categories.
- Higher import demand, rise in global commodity prices (particularly industrial metals) and weakness in exports could keep the trade deficit elevated for the remainder of the fiscal.

Healthy Services Exports Support the External Position



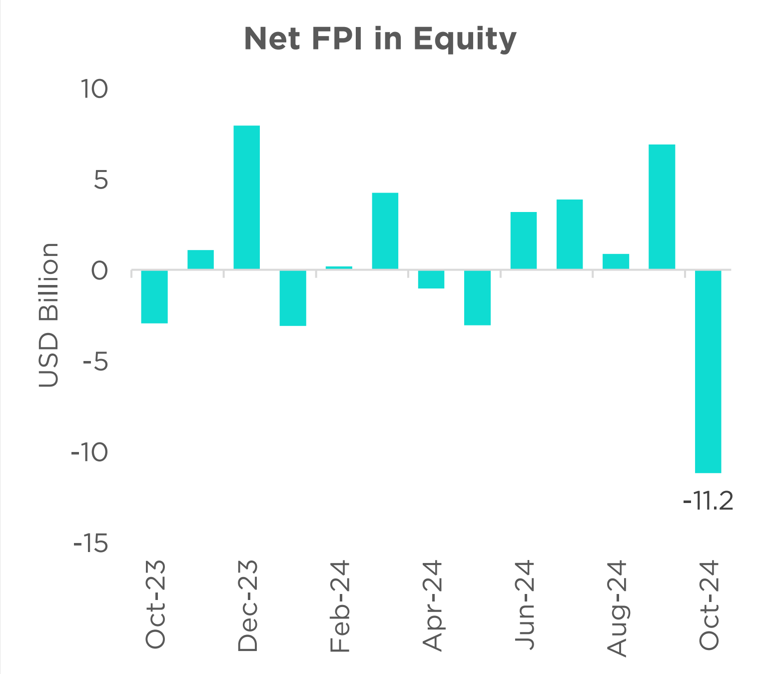
Source: CMIE; CareEdge

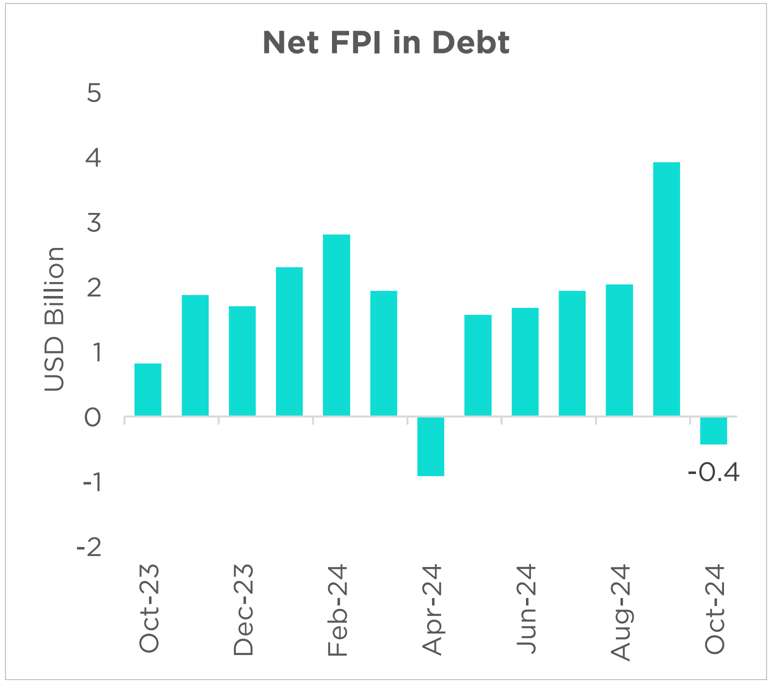


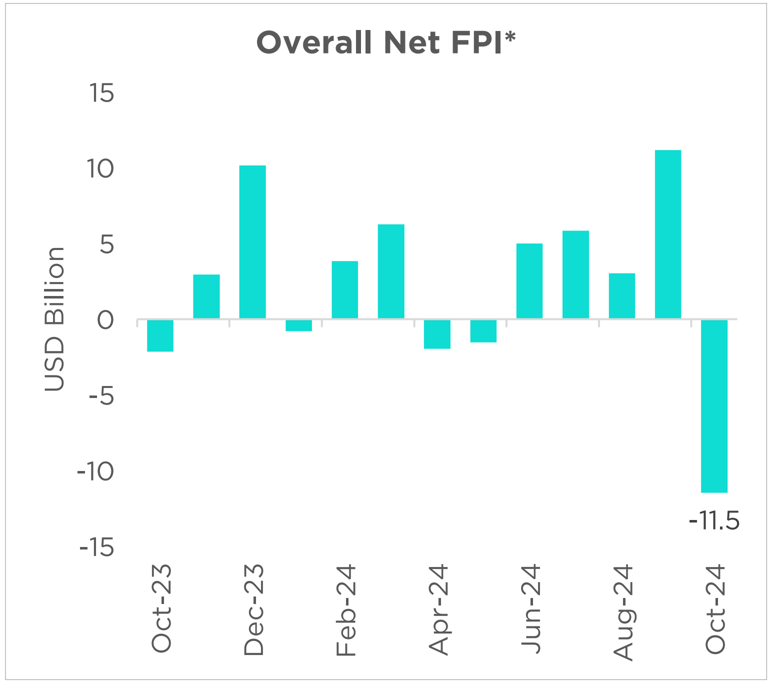
Source: CMIE

- Services trade surplus climbed to USD 84.4 billion in H1 FY25 buoyed by healthy services exports.
- We expect the surplus in services trade to partially cushion the elevated deficit in the goods account.
- Overall, we expect India's current account deficit to be around 1.3% of GDP in FY25.

October Sees Highest Overall Net FPI Outflows in Four Years



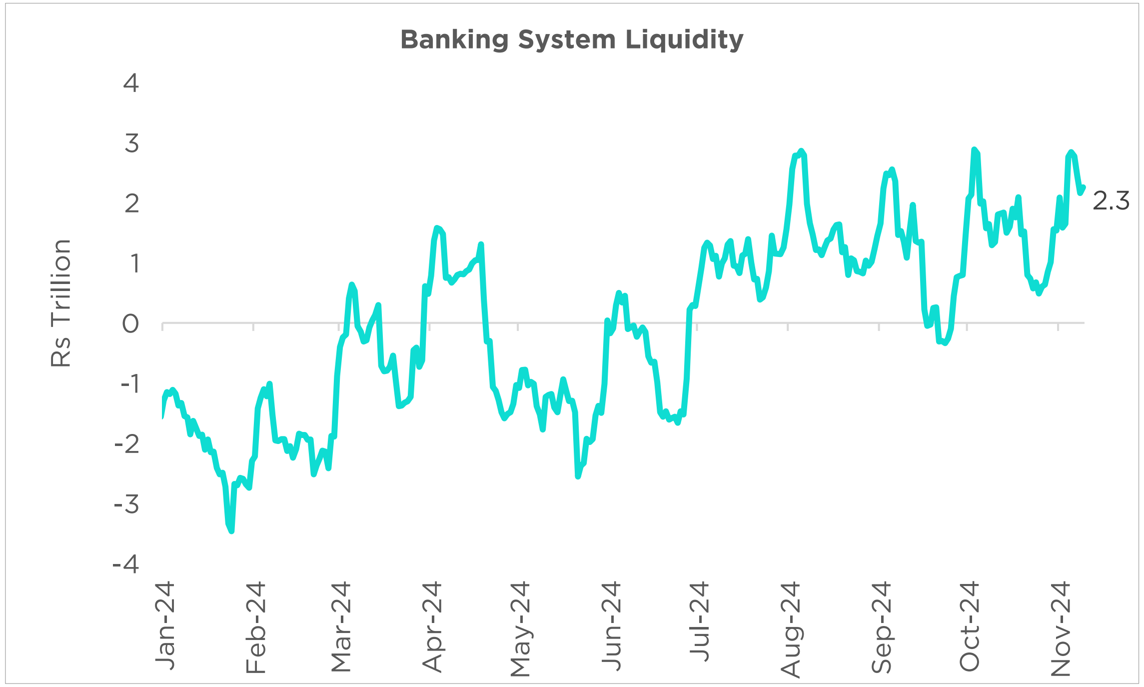




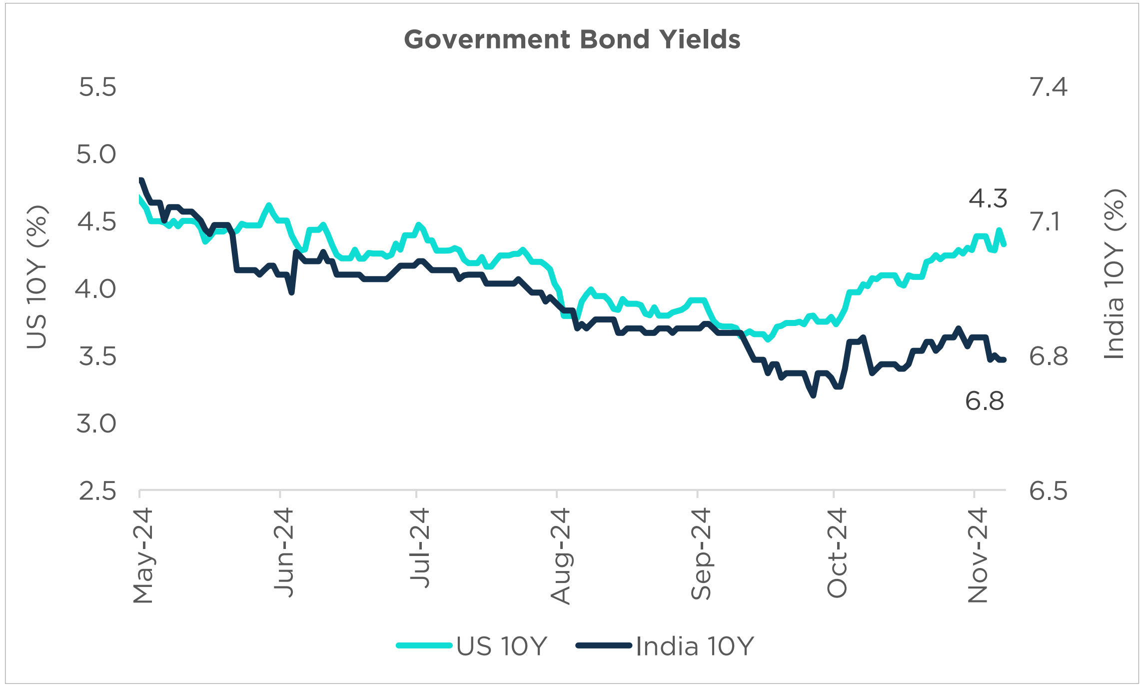
Source: NSDL.
*includes FPI investment in hybrid, mutual funds and AIFs.

- FPI outflows from Indian equities reached a record USD 11 billion in Oct amidst US elections-related uncertainty and as investors shifted to Chinese stocks following the announcement of new economic support measures. Other factors also resulted in outflows such as emerging domestic growth concerns, muted corporate results and high domestic valuations.
- FPIs turned net sellers in debt in Oct for the first time since Apr due to a narrowing India-US interest rate differential as US yields rose.
- Between Apr-Oct FY25, net FPI outflows in equities totalled USD 0.5 billion, while net FPI inflows in debt reached USD 9.8 billion.
- Overall net FPI inflows for Apr-Oct FY25 amounted to USD 10 billion, down from USD 18.6 billion during the same period a year ago.

Liquidity Conditions Comfortable; 10Y GSec Tracks Rise in US Yields



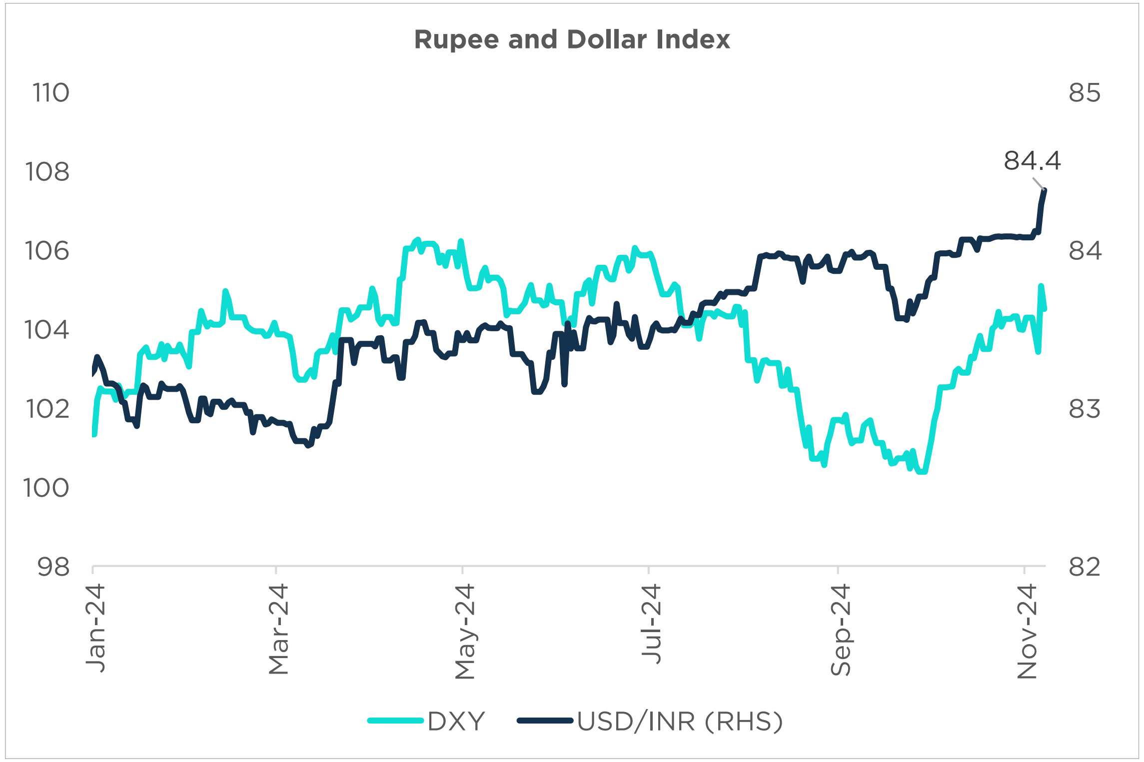
Sources: RBI, CEIC. Data as on November 10. Positive values denote surplus liquidity.



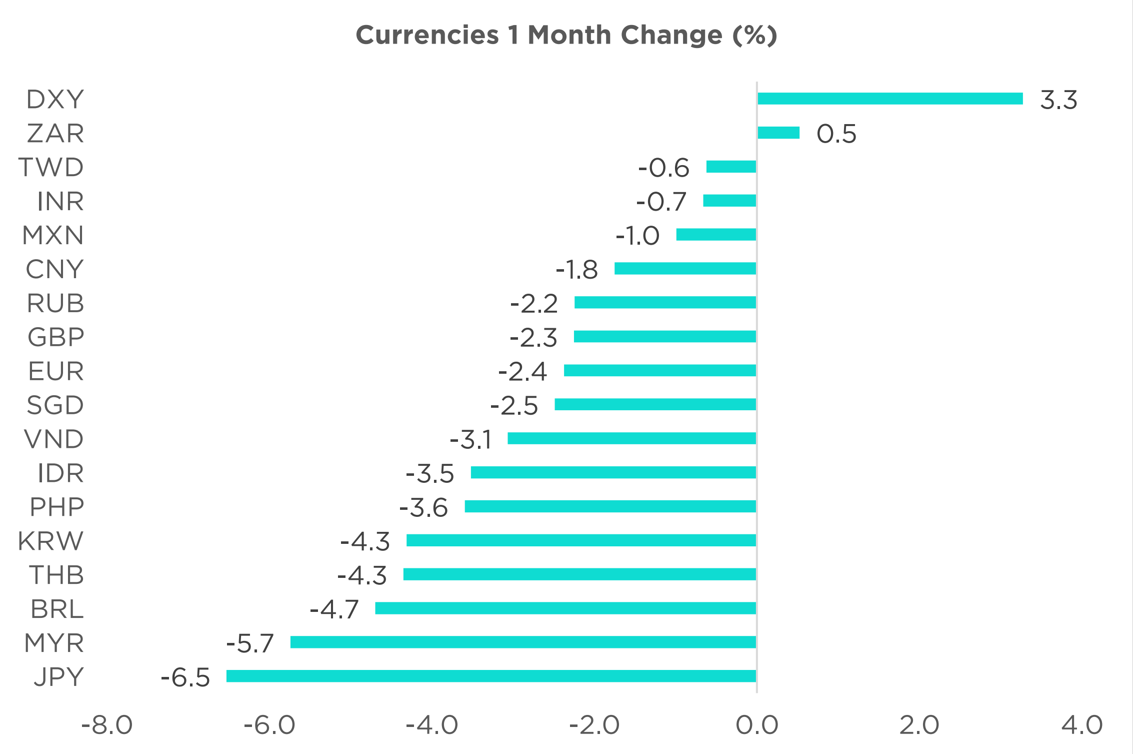
Source: Refinitiv. Data as on November 07.

- Liquidity surplus increased to Rs 2.3 trillion (as of Nov 10) from Rs 1.5 trillion at the end of Oct, driven by month-end govt spending and GSec maturities/redemptions. The RBI has been conducting VRRR auctions so far in Nov to manage liquidity conditions.
- The 10Y Indian GSec yield rose by 6 bps over the last month (up to Nov 07), tracking the rise in US yields, though to a lesser extent. The 10Y US Treasury yield increased by 59bps over the same period amidst expectations that the Fed will slow the pace of rate cuts under Trump's administration, whose policies are expected to be inflationary.
- With Oct headline inflation above the upper end of the RBI's tolerance band, we expect the MPC to remain cautious and maintain the status quo in its Dec meeting. As a result, we have deferred our RBI rate cut expectations from Dec-24 to Feb-25, contingent on food inflation moderating.

Rupee Falls to a Record Low



Source: Refinitiv. Data as on November 07.

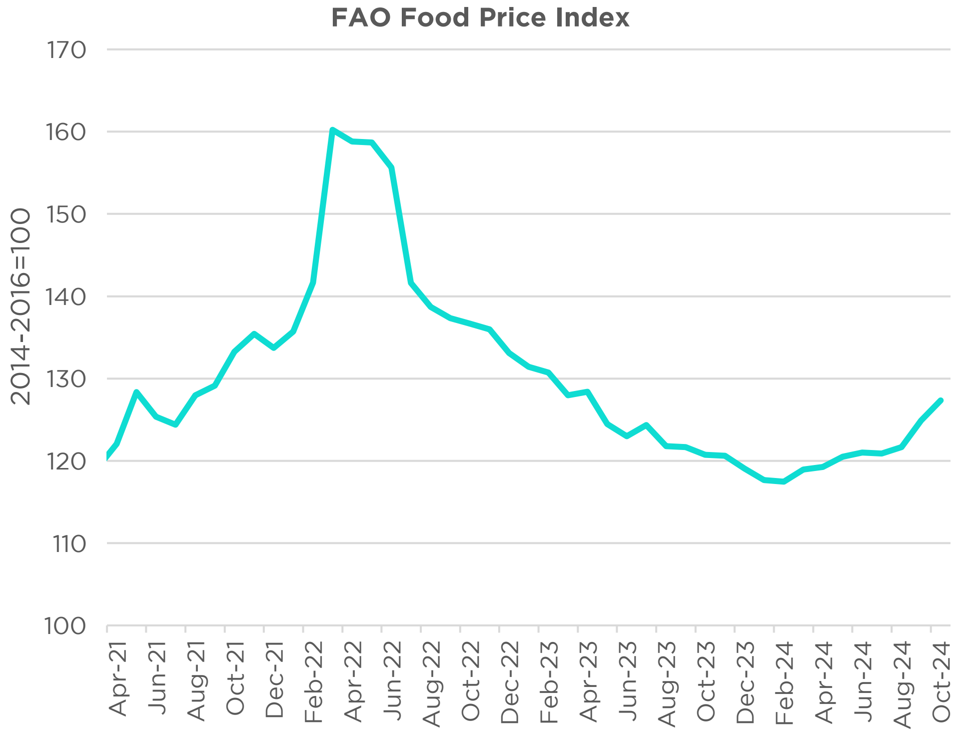


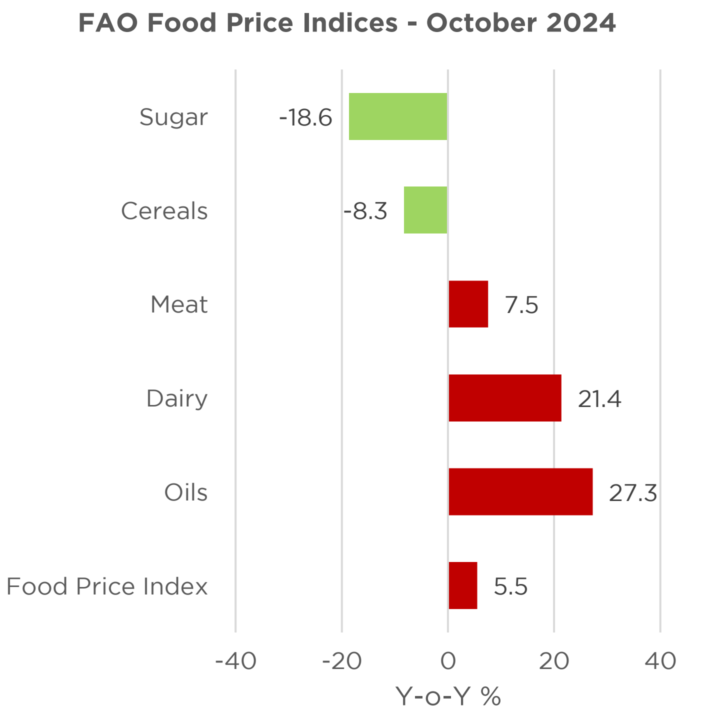
Sources: Refinitiv, CareEdge. Data as on November 07. Negative values imply currency has weakened against USD; DXY measures the dollar's performance against a basket of currencies.

- The rupee hit a record low, driven by FPI outflows and a stronger dollar index, which rose amidst rising US yields.
- However, the rupee's volatility remains low compared to historical levels and Asian peers, supported by RBI interventions.

Monthly Data Insight

Global FAO Food Price Index Rose to an 18-Month High in Oct





Source: Food and Agriculture Organization of the United States (FAO)

- Global FAO food price index increased by 5.5% (y-o-y) to reach the highest level since April 2023.
- Within the sub-components, the largest (y-o-y) acceleration was witnessed in the vegetable oil price index which increased to almost a two-year high on account of higher prices across palm, soy, sunflower and rapeseed oils.
- Lower-than-expected output resulted in the higher prices of vegetable oils.

October
&
November

Round-up

From the Economics Desk @ CareEdge	
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CareEdge Forecasts

Economic Growth
GDP growth projected at **~7%** in FY25

Inflation
Average CPI inflation projected at **4.8%** for FY25

Current Account Deficit
CAD (as % of GDP) projected at **1.3%** in FY25

Fiscal Deficit
Fiscal deficit (as % of GDP) is budgeted at **4.9%** in FY25

Interest Rates
10-Year G-Sec Yields to range between **6.6-6.7%** by end-FY25

Currency
USD/INR projected to be around **83.5** by end-FY25

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