



CareEdge

► Economic Pathway

December 2024



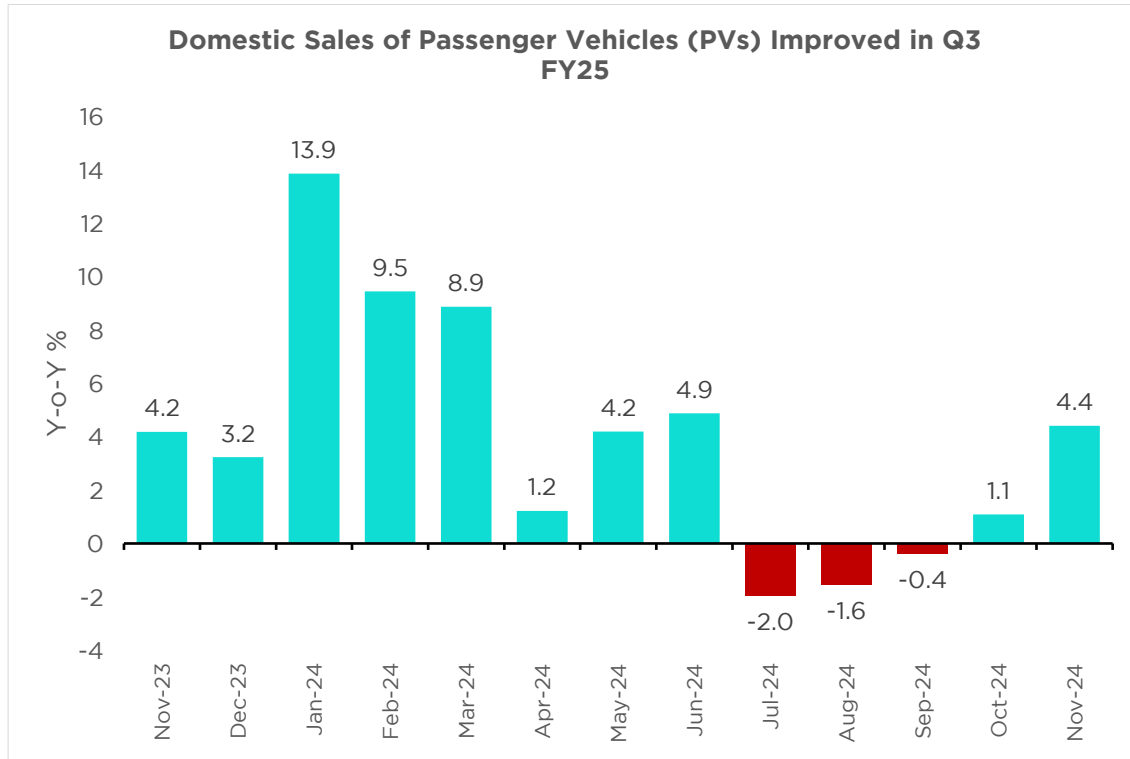
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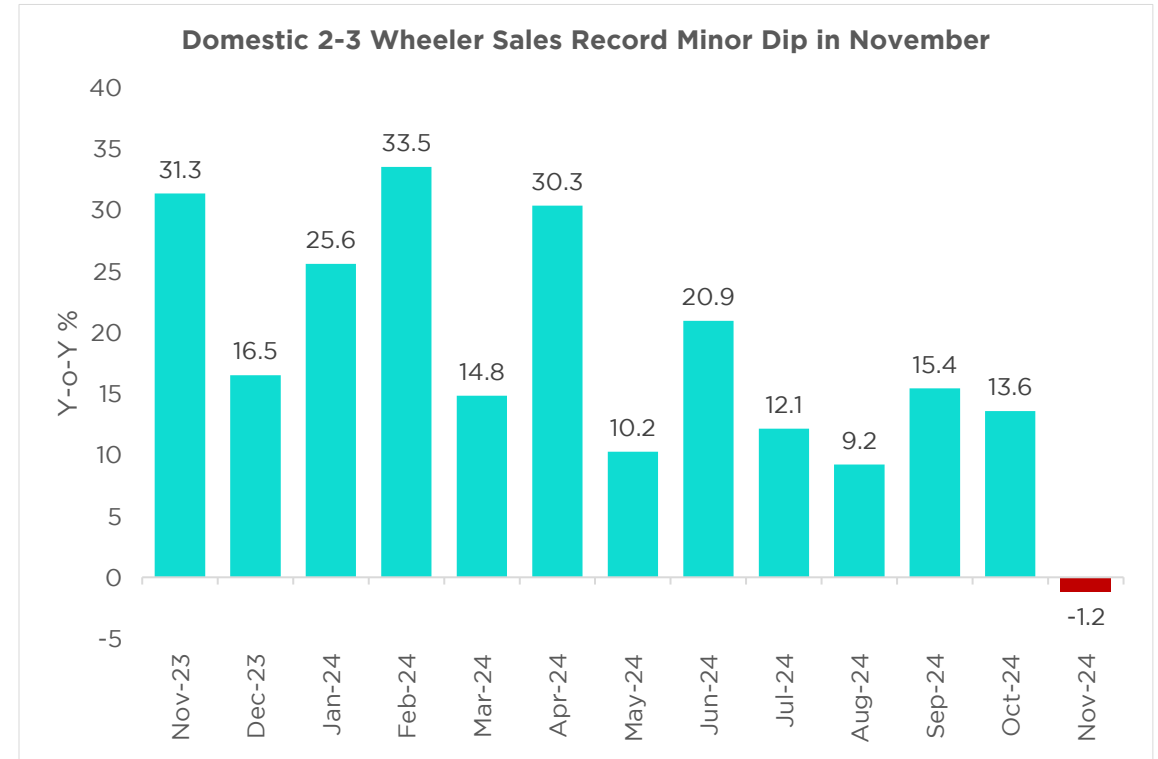


≡ Domestic Economy

Growth in PV Sales Shows Some Improvement; 2-3 Wheeler Sales Record a Minor Dip



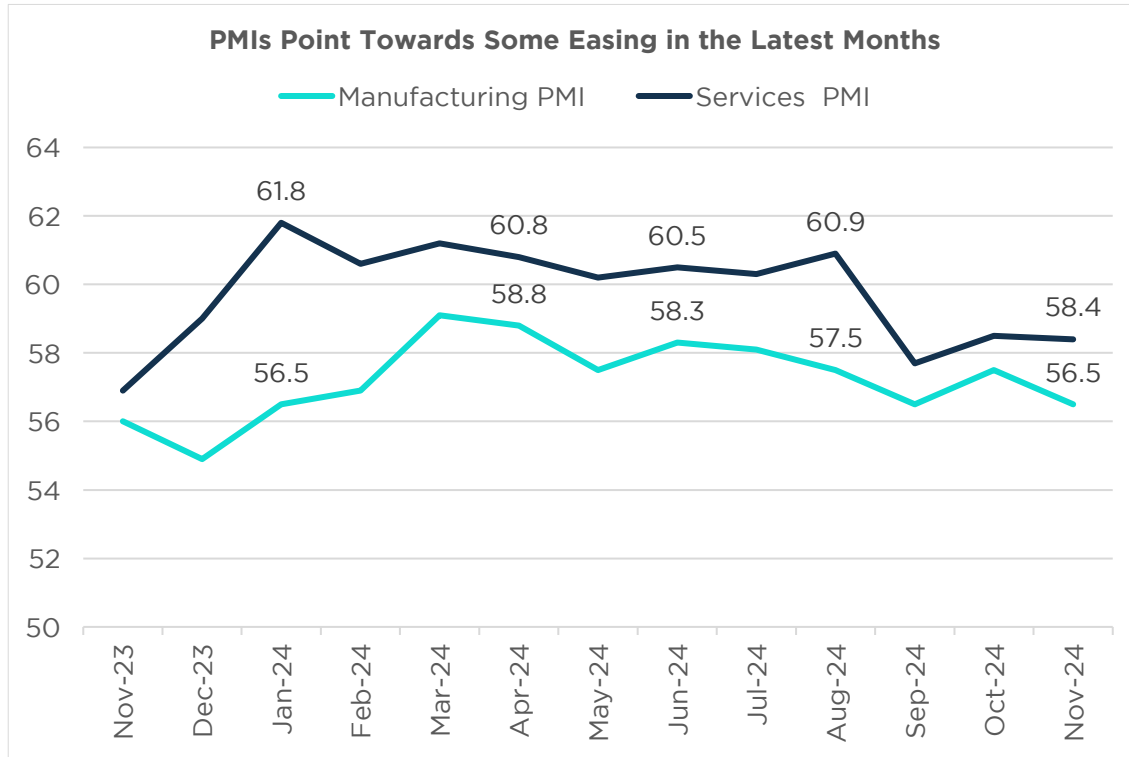
Source: CMIE



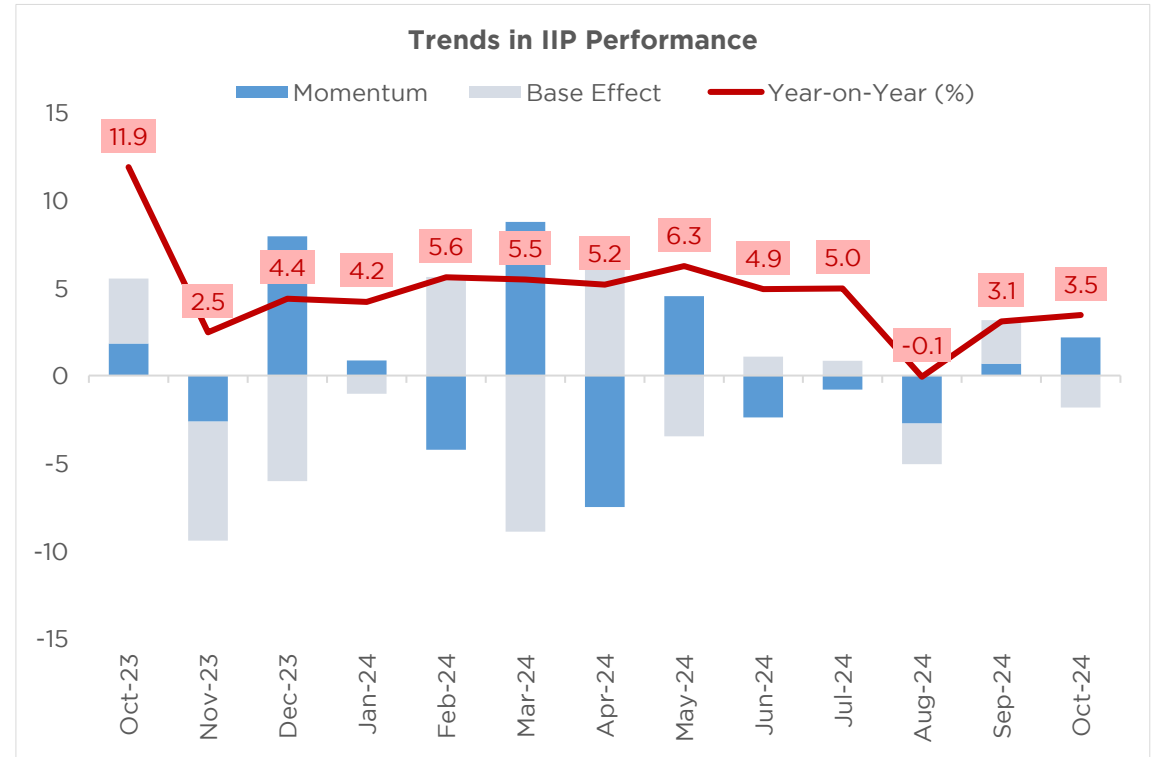
Source: CMIE

- Following a weak Q2, domestic PV sales showed some improvement in Q3. However, FYTD growth remained subdued at 1% in FY25 vis-à-vis 7.8% in the same period last year.
- Domestic sales of 2-3 wheelers recorded a minor dip in November; however, FYTD growth remained healthy at 13.4% in FY25 vis-à-vis 10.7% in the same period last year.
- As we advance, healthy agricultural production and expected moderation in food inflation remain positives for a broad-based and durable consumption recovery.

Improvement in Consumption and Investment Remains Crucial for Industrial Activity



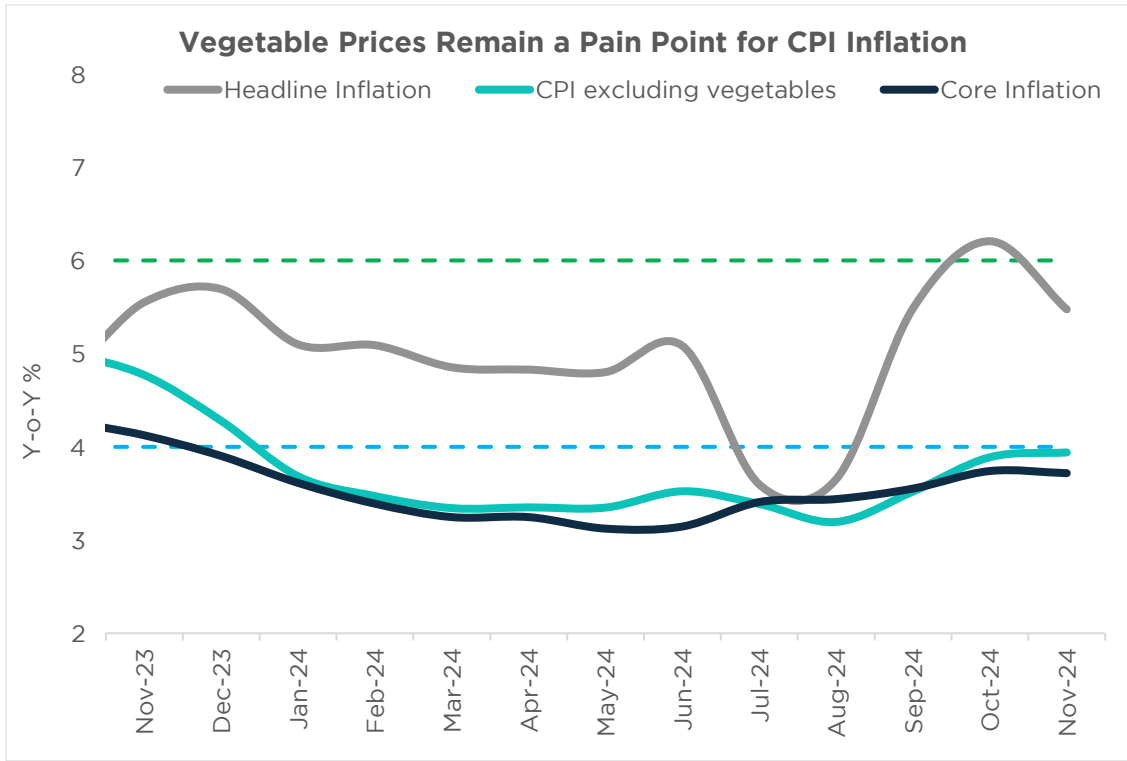
Source: CMIE



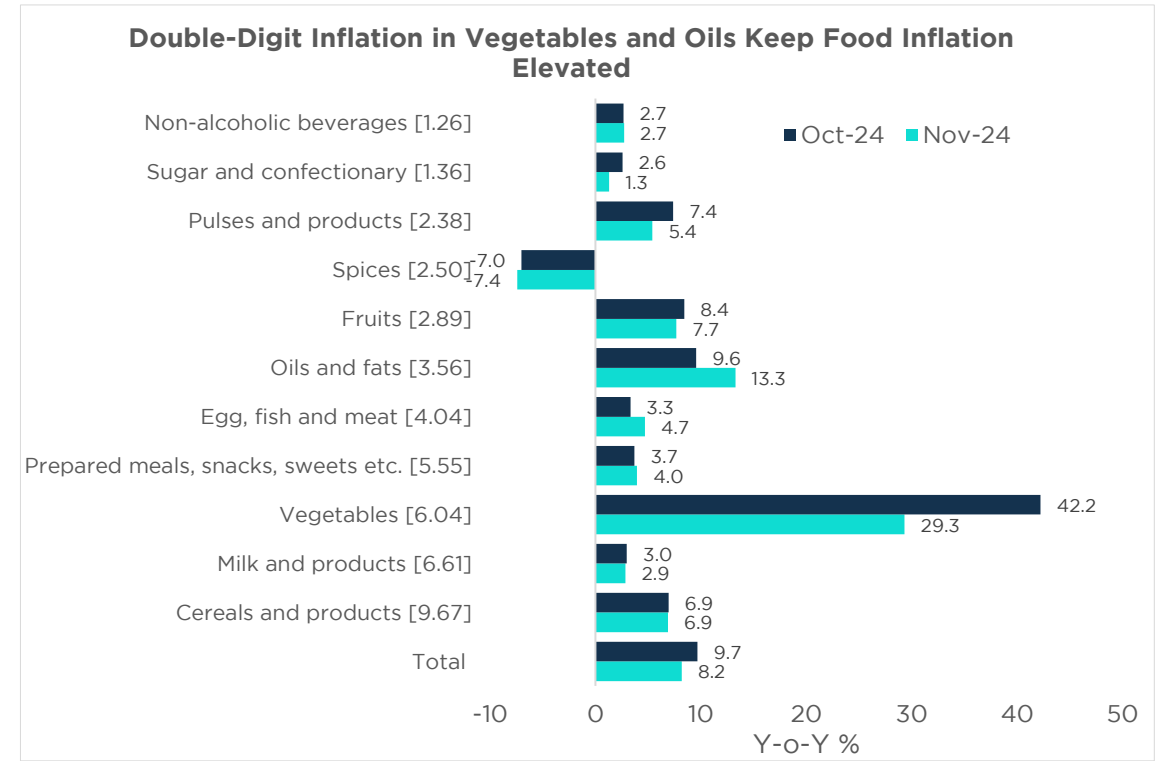
Source: CEIC & CareEdge

- Though PMIs remained comfortably in the expansion zone, the data has shown some moderation in the recent months vis-à-vis the beginning of the fiscal year.
- However, flash (early estimate) PMIs point towards some improvement in both manufacturing and services activity in December.
- IIP growth has been at 4% in the year so far (April-October) vis-à-vis 7% growth in the corresponding period last year.
- With external demand remaining pressured, domestic consumption and investment recovery remain crucial for industrial activity.

CPI Inflation Eases Amid Some Moderation in Food Inflation



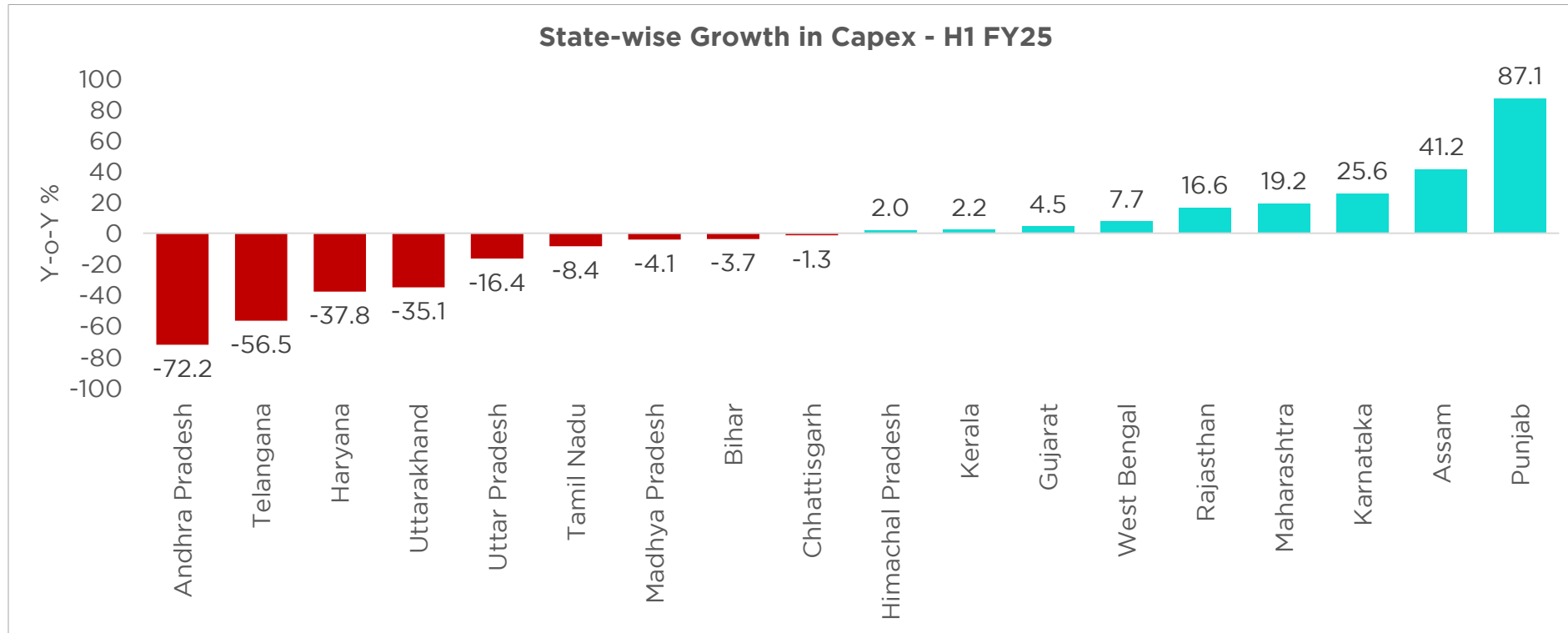
Source: MOSPI & CareEdge



Source: MOSPI; Note: Figures in bracket represent weights in overall CPI Inflation

- CPI inflation eased to 5.5% in November from 6.2% in October, primarily due to moderation in food and beverages inflation.
- The arrival of fresh harvests has led to a seasonal correction in food prices. CPI inflation, excluding vegetables, was at 3.9% in November.
- Healthy reservoir levels and good soil moisture from prolonged monsoons are positives for Rabi sowing. Furthermore, good Kharif output should support easing in food prices.
- Average CPI inflation is projected at 4.8% in FY25 and 4.5% in FY26.
- We expect the RBI to cut the policy rate by around 50-75 bps in 2025.

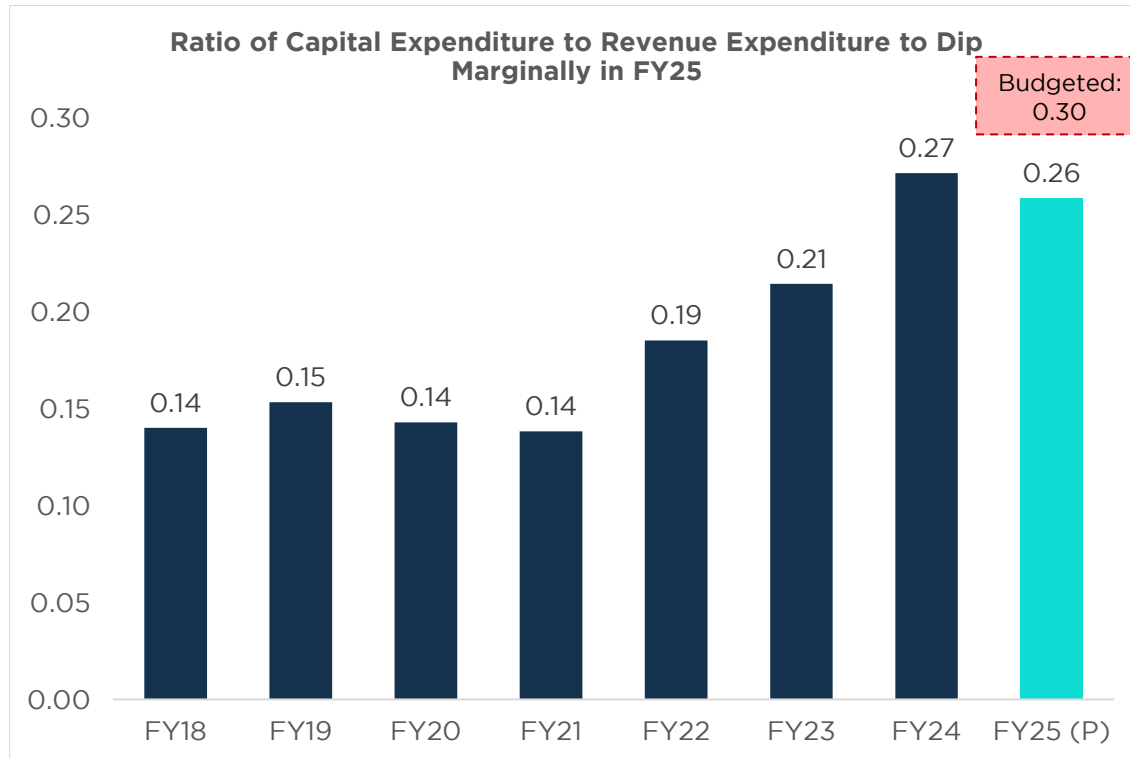
State Tax Collections Slowed But Remained Healthy; Capex Lags in H1 FY25



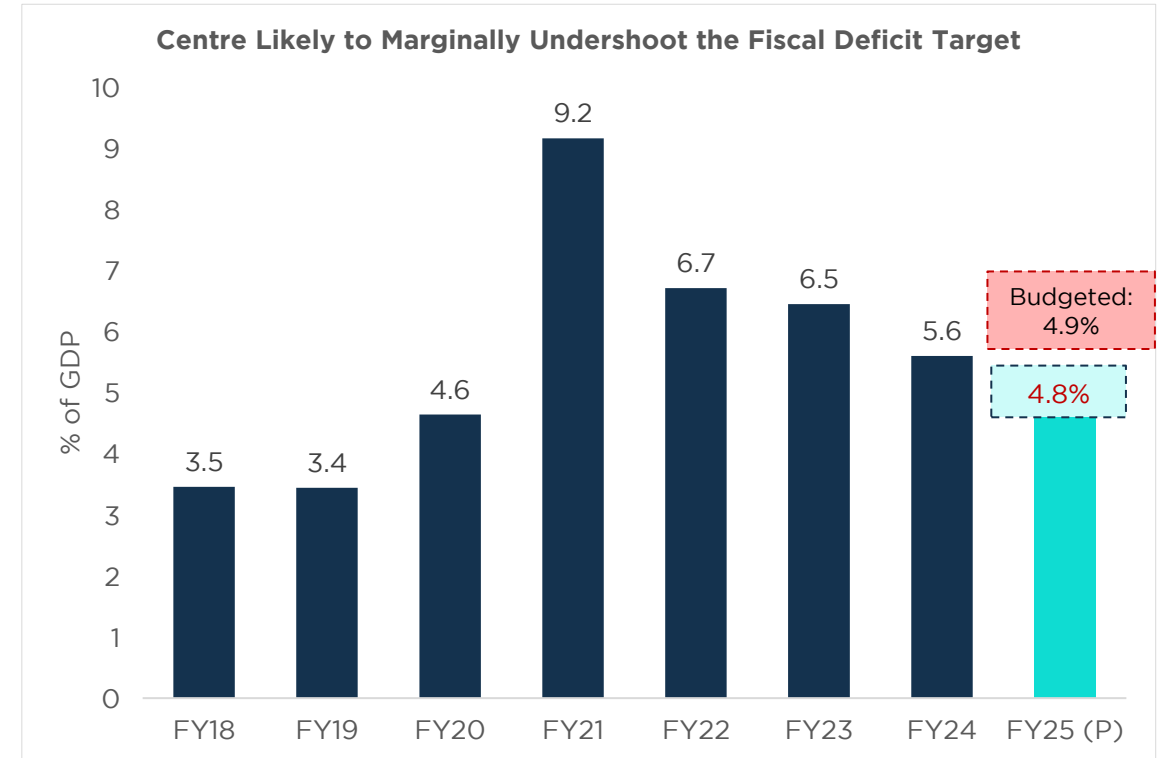
Source: CAG, CEIC and CareEdge

- Capex of our sample (20 major states) fell by 9.8% in H1 FY25; Revenue expenditure remained strong, rising by 9.9% in the same period.
- State tax revenue logged healthy growth of 11.1% in H1 FY25, though lower than the budgeted 13.4% growth.
- Non-tax revenue collections contracted by 7% in H1 FY25, impacting total receipts.
- Aggregate fiscal deficit for the top 20 states stood at 2.9% of projected GSDP in H1 FY25, slightly higher than 2.7% in the corresponding period a year ago.

Centre's Tax Collections Comfortable; Capex Underperforms during Apr-Oct FY25



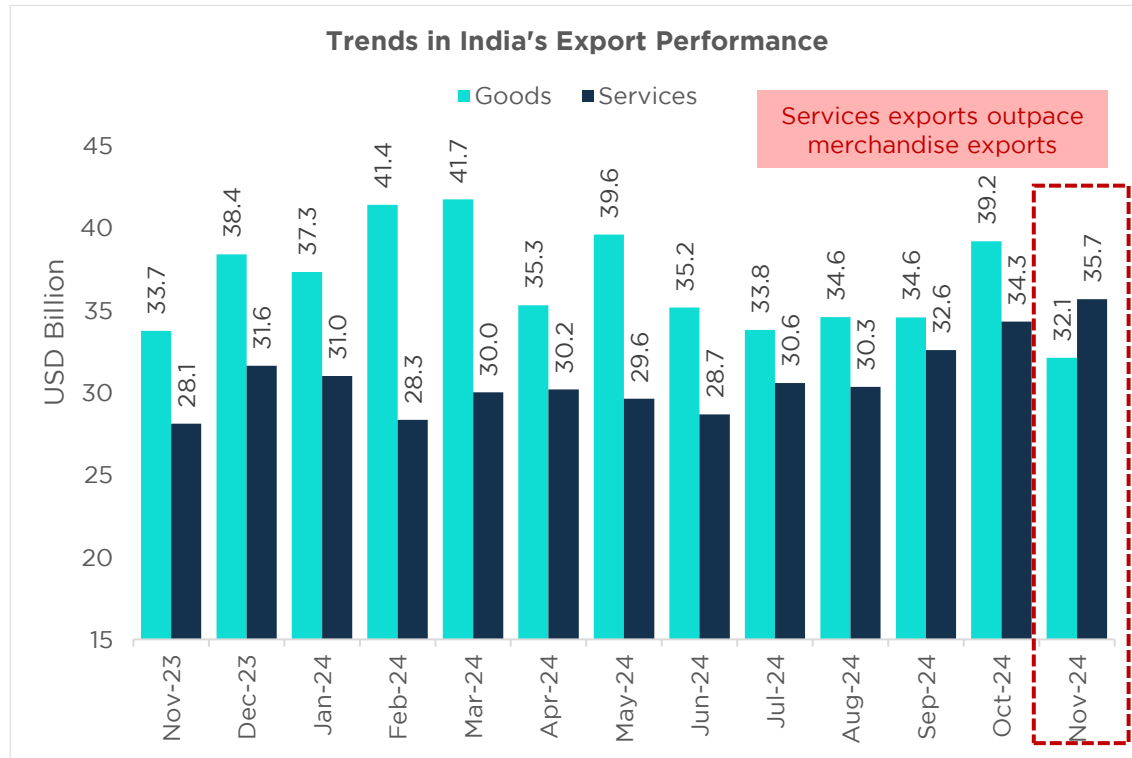
Source: CMIE; P: CareEdge Projection



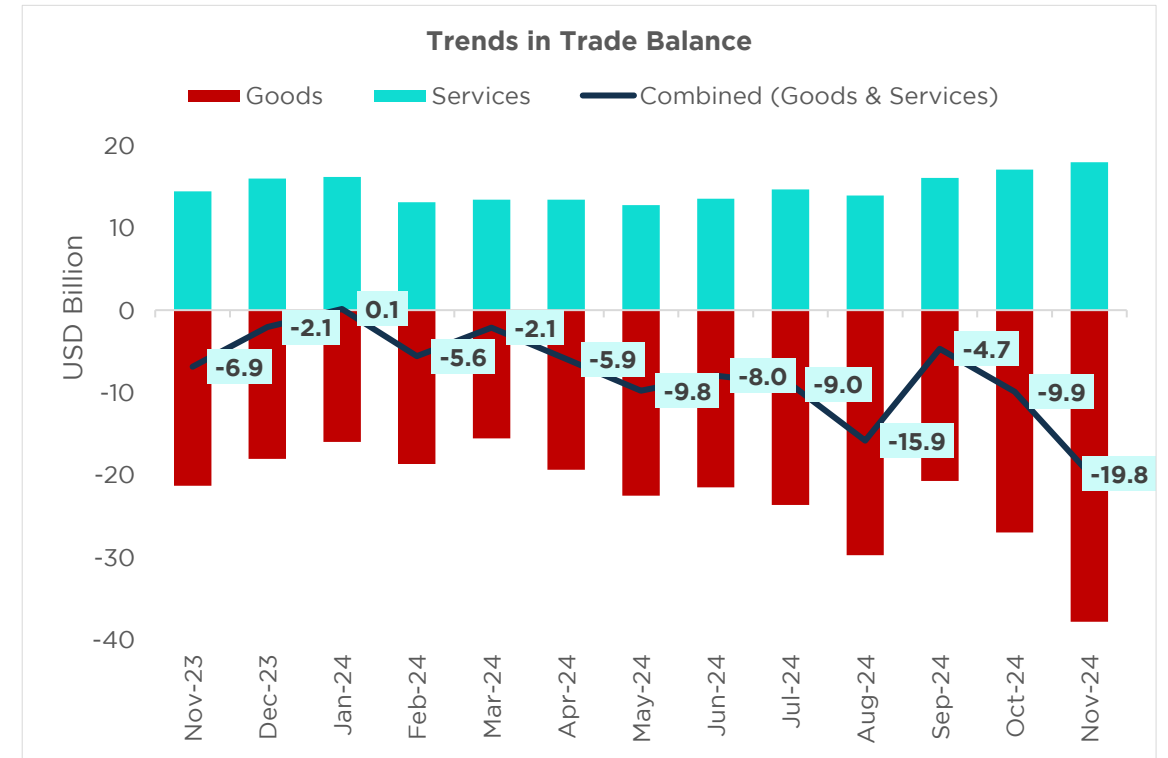
Source: CMIE; P: CareEdge Projection

- Gross tax revenues rose 10.8% (y-o-y) in Apr-Oct FY25 amid healthy GST and income tax revenue, partially offsetting the weakness in corporate tax and union excise duty revenue.
- Non-tax collections were bolstered by RBI's dividend transfer of Rs 2.11 trillion; Disinvestment shortfall expected at Rs 0.35 trillion in FY25.
- Revex rose 8.7% (y-o-y) while capex fell 14.7% (y-o-y) in the fiscal year. Full-year capex is projected at Rs 9.6 trillion, missing the full-year target of Rs 11.1 trillion.
- Nominal GDP growth is projected to be lower at 9.9% compared to the budgeted growth of 10.5% for FY25.
- Fiscal deficit projected at 4.8% of GDP in FY25, marginally lower than the budgeted 4.9%.

Strong Show in Services Exports Partially Offset the Weakness in Goods Exports



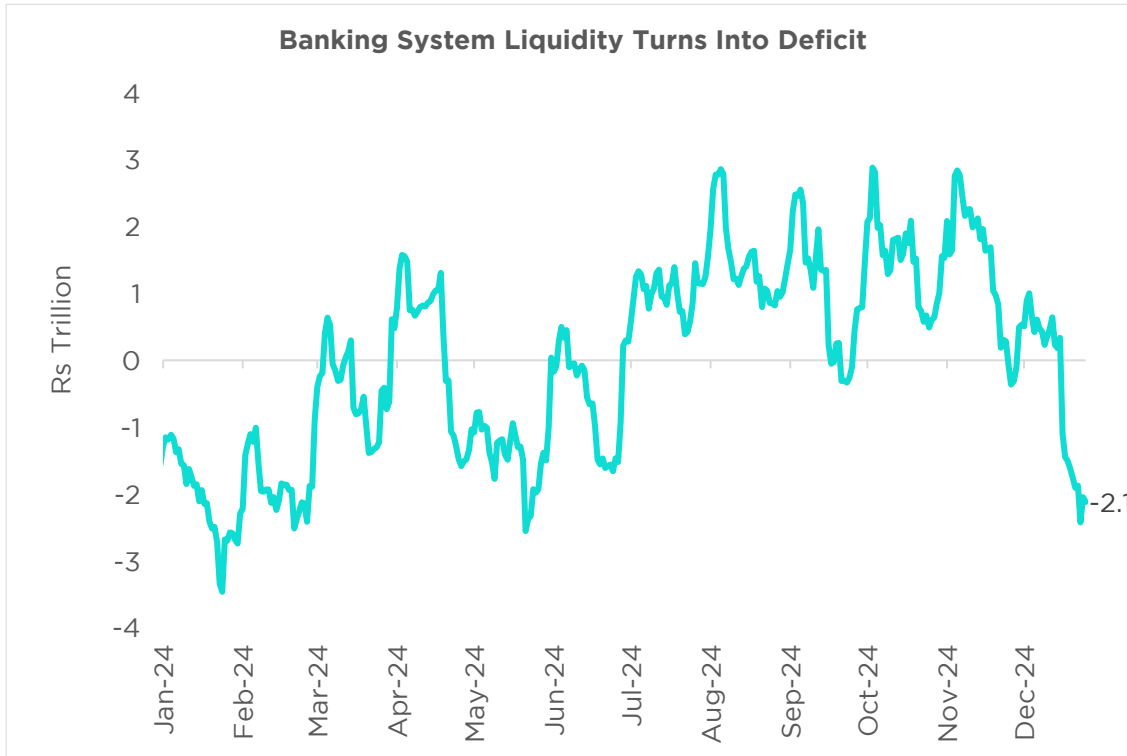
Source: CMIE



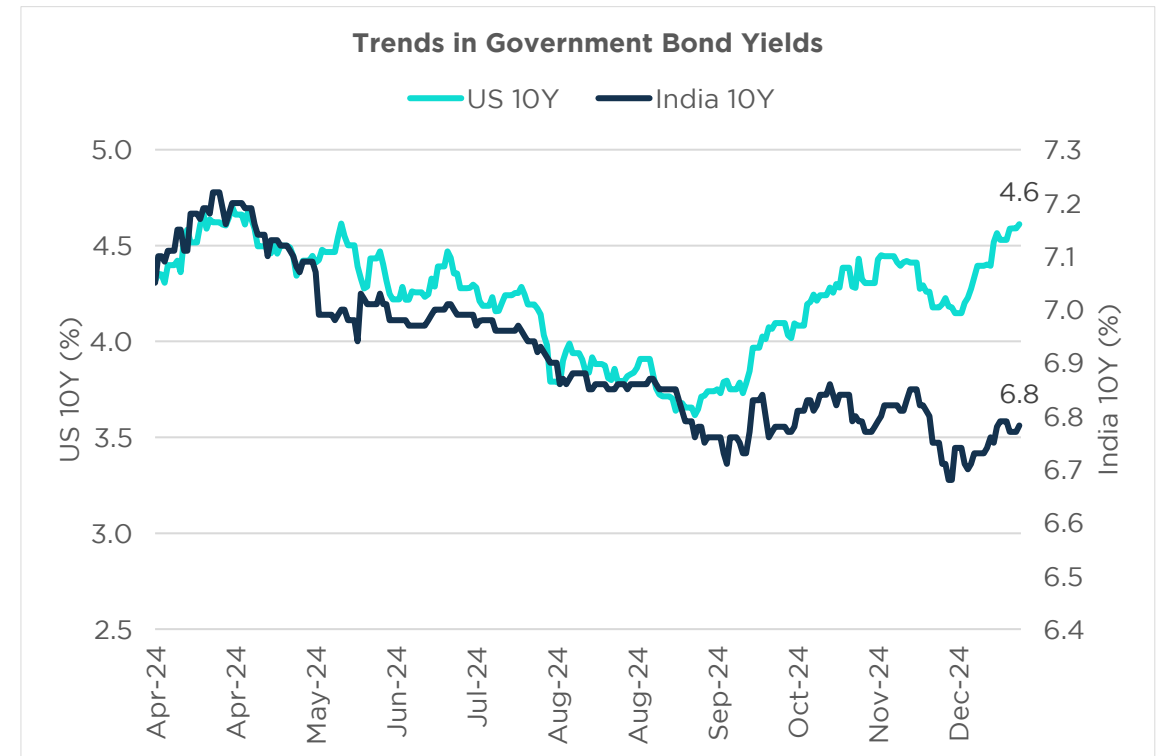
Source: CMIE

- Services exports rose by a substantial 26.9% in November, outpacing goods exports in value terms which contracted by 4.8% (y-o-y).
- Contraction in goods exports can be attributed to lower petroleum exports (-49.7% y-o-y) in November amid weakening oil prices; Non-petroleum exports rose 7.8% (y-o-y).
- Goods deficit widened to a record high (USD 37.8 billion) in November amid weak exports and a surge in gold imports. However, some confusion about the gold import data remains.
- Overall, a record-high services trade surplus (USD 18 billion) helped partially cushion the impact of the widening goods trade deficit.
- In FY25, goods and services exports are projected to rise by 2.5% and 13%, respectively; the current account deficit is projected to remain manageable at 0.9% of GDP in FY25.

Liquidity Turns Into Deficit; G-Sec Yield Tracks Rise in US Treasury Yield



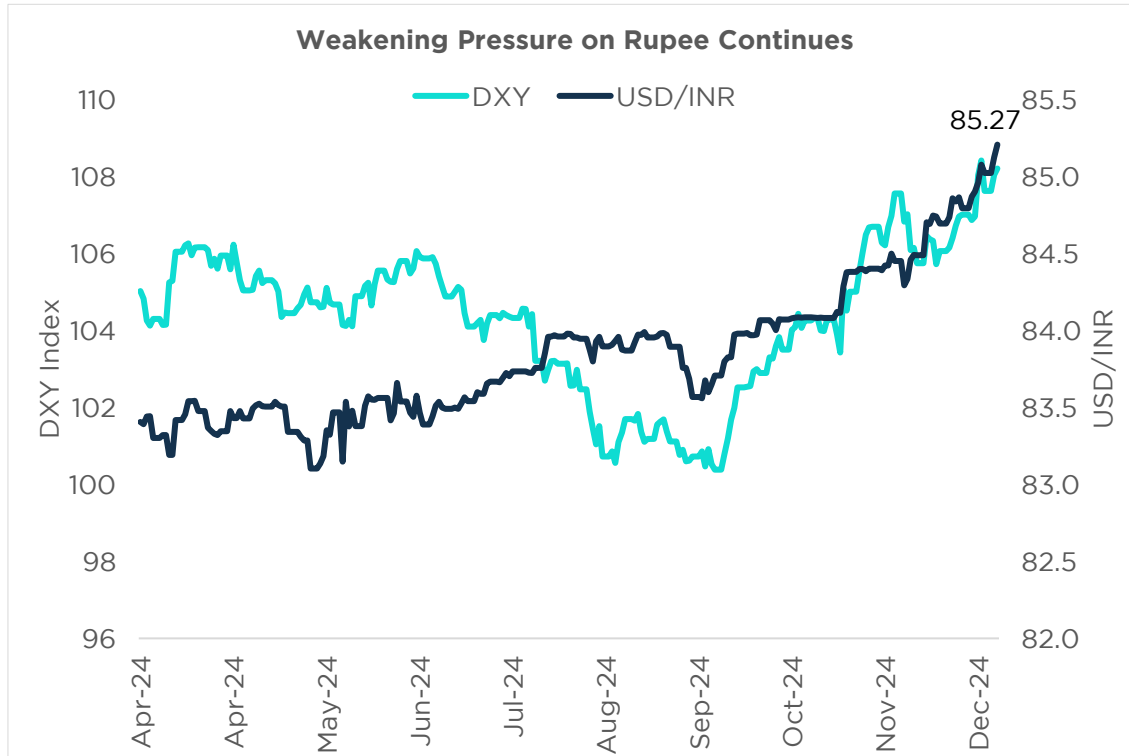
Source: CEIC, RBI; Data as on December 25th 2024, Negative values denote liquidity deficit



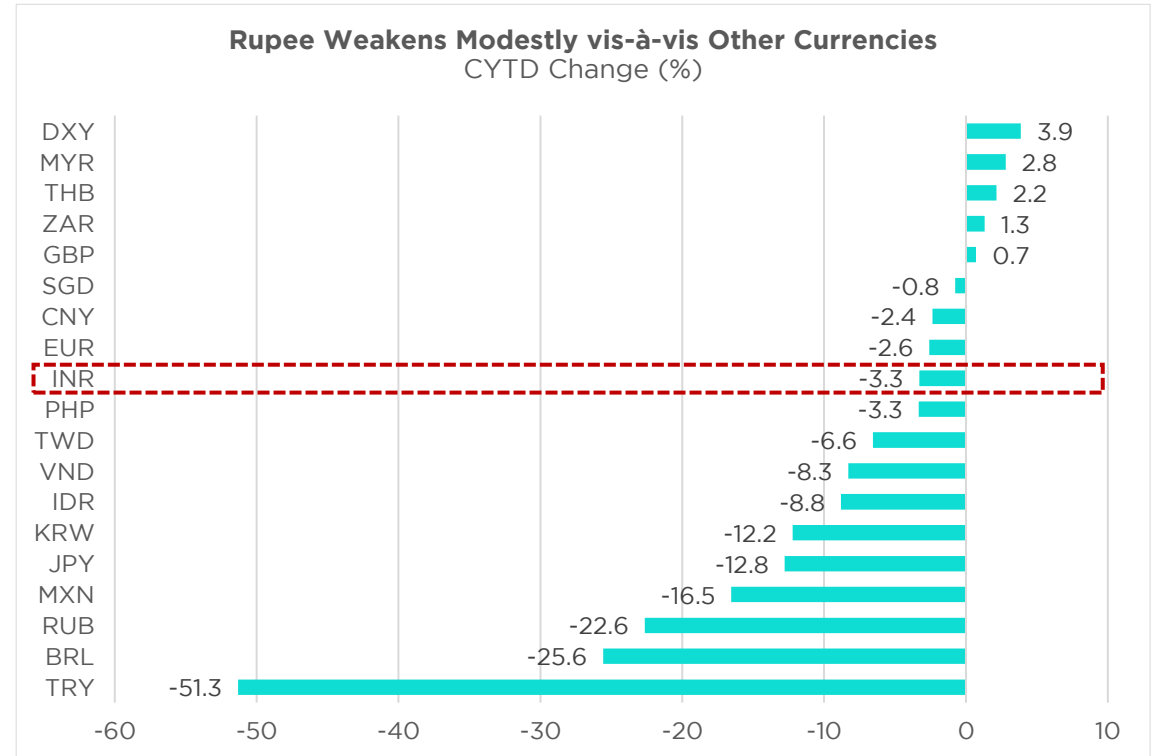
Source: Refinitiv; Data as on 24th December 2024

- Banking system liquidity turned into a deficit of Rs 2.1 trillion (as of December 25th) as against a surplus of Rs 0.3 trillion as of mid-December.
- Tightening liquidity conditions can be attributed to GST outflows, advance tax payments and likely RBI interventions to support the Rupee.
- RBI's VRR auctions, reduction in CRR and government's month-end spending should offer some support to the liquidity conditions.
- India's 10Y G-sec yield rose around 10 bps so far in December tracking a rise in 10Y US Treasury yield, though to a lesser extent.
- 10Y G-Sec yield likely to trade between 6.5-6.6% by the end of FY25 and 6.1-6.3% by the end of FY26.

Rupee Hits a Fresh Low



Source: Refinitiv; Data as on 26th December 2024



Sources: Refinitiv, CareEdge. Data as on December 26th. Negative values imply currency has weakened against USD; DXY measures the dollar's performance against a basket of currencies

- Weakening pressure on Rupee continued amid a firm dollar and expectations of fewer Fed rate cuts due to Trump's proposed inflationary policies.
- However, Rupee has weakened relatively less against Dollar when compared with other currencies.
- Rupee is likely to trade between 84-86 in 2025.

December Round-up



From the Economics Desk @ CareEdge

CPI Report - December 2024	Read Here
IIP Report - October 2024	Read Here
Global Economy Update	Read Here
RBI Monetary Policy Expectations	Read Here
RBI Monetary Policy Outcome	Read Here
Corporate Profitability Contracts Further in Q2 FY25 Amid Slowing Sales	Read Here
Update on States & Central Finances	Read Here

CareEdge Forecasts



Economic Growth

GDP growth projected at **6.5%** in FY25 and **6.7%** in FY26



Inflation

Average CPI inflation projected at **4.8%** for FY25 and **4.5%** in FY26



Current Account Deficit

CAD (as % of GDP) projected at **0.9%** in FY25



Fiscal Deficit

Fiscal deficit (as % of GDP) projected at **4.8%** in FY25



Interest Rates

10-Year G-Sec Yields to range between **6.5-6.6%** by end-FY25 and **6.1-6.3%** by end-FY26



Currency

USD/INR projected to trade between **84-86** in 2025

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