

India Macro Meter

24 November 2020

Economic activity holds up; but no further acceleration

Early data for October'20 indicate that 57.6% indicators were in the positive territory, unchanged from September'20. Final data for September'20 suggest that 59.18% indicators were in the positive territory. The recovery witnessed in September and October is partially on account of a low base (only 34% of indicators in Sep'19 and 32% of indicators in Oct'19 were in the positive territory), helped by pent-up demand, normalisation of supply and a good festive season. Rural demand continues to hold up although tractor sales growth slowed to 7.7% YoY in October'20 from 28.3% YoY in Sept'20. Two-wheeler sales were up 16.9% YoY in October'20 and passenger vehicle sales were up by 14.2% YoY in October'20. On the flip side, rural unemployment worsened and stood 6.9% in October'20 vs. 5.9% in Sept'20. On the other hand, the urban unemployment situation improved. Government spending is a drag on growth and was down by 26% YoY in Sept'20 after a 15.2% YoY decline in August'20. Formal sector employment is inching back and the Naukri Jobspeak index was down by 17% YoY in October'20. Manufacturing continues to lead the economic recovery with the Markit manufacturing PMI hitting another all-time high of 58.9 in October'20. Manufacturing as measured by the index of industrial production (IIP) also returned to positive territory, growing by 1.4% YoY in Sept'20. However, exports were down by 5.1% YoY in October'20. The services sector witnessed a rebound with the services sector PMI returning to positive territory in October'20. It stood at 54.1 in October'20, up from 48.9 in Sept'20. E-way bill generation was up 21.4% YoY in October'20. Rail traffic was up 15.4% YoY in October'20, but major port traffic was down by 1.2% YoY. Air traffic however was in deep contraction and was down 57.1% YoY in October'20. Petrol consumption was up by 4.5% YoY in October'20 while diesel demand returned to positive territory, rising by 7.4% YoY. Bank credit demand remained sluggish with credit growth remaining stable at 5.1% YoY. Deposit growth declined to 10.1% YoY in October'20 from 10.5% YoY in Sept'20. The credit-to-deposit ratio stood at 72.3% in October'20, marginally higher from 72% in Sept'20, but continues to bode well for transmission. The median MCLR of banks now stands at 7.35% as of October'20, down by 5bps from the previous month.

Rural recovery holding up, but some tell-tale signs of fatigue: Rural demand continues to hold up, although tractor sales growth slowed to 7.7% YoY in October'20 from 28.3% YoY in Sept'20. Currency in circulation also dipped marginally to 20.3% YoY in October'20 from 22.7% YoY in Sept'20 on a higher base. Two-wheeler sales were up 16.9% YoY in October'20 and passenger vehicle sales were up by 14.2% YoY in October'20. However, rural unemployment worsened and stood 6.9% in October'20 Vs. 5.9% in Sept'20. On the other hand, the urban unemployment situation improved with unemployment rate at 7.2% in October'20, down from 8.5% in September'20. Government spending is a drag on growth and was down by 26% YoY in September'20 after a 15.2% YoY decline in August'20. Lower government spending may partially be responsible for the uptick in rural unemployment. Formal sector employment is inching back with the Naukri Jobspeak index down by 17% YoY in October'20.

Manufacturing continues to lead the recovery: Manufacturing continues to lead the recovery, with the Markit manufacturing PMI hitting another all-time high of 58.9 in October'20. Manufacturing as measured by the IIP also returned to positive territory, growing by 1.4% YoY in September'20. The manufacturing sector recovery was aided by Consumer Durables, which returned to positive territory for the first time since the beginning of the pandemic, rising by 2.8% YoY in September'20. This was likely on account of channel stocking for the festive season, supported by normalisation of supply chains. Capital Goods production also improved and was down by just 3.3% YoY in September'20, likely reflecting pent-up demand. Non-oil, non-gold imports were down by 4.9% YoY in October'20 after a 12.6% YoY decline in Sept'20. Exports were however down by 5.1% YoY in October'20 after a growth of 6% YoY in the previous month. .

Services sector witnesses a rebound: The services sector witnessed a rebound, with the services sector PMI returning to positive territory at 54.1 in October'20, up from 48.9 in the previous month. E-way bill generation was up 21.4% YoY in October'20. Rail traffic was up 15.4% YoY in October'20, but major port traffic was down by 1.2% YoY. Air traffic however was in deep contraction and was down 57.1% YoY in October'20. Petrol consumption was up by 4.5% YoY in October'20 while diesel demand returned to positive territory, rising by 7.4% YoY. The construction sector is also witnessing recovery, with steel production returning to positive territory. Steel production was up by 0.9% YoY in September'20. Cement production was down by 3.5% YoY in September'20.

Bank credit growth sluggish, but low rates may set the stage for recovery: Bank credit demand remained sluggish with credit growth stable at 5.1% YoY. Credit to the retail sector slowed to register a growth of 9.2% YoY in September'20 vs. 10.6% YoY in the previous month. Credit to industry slowed to 0% from 0.5% in the previous month while credit to the services sector inched up to 9.1% from 8.6% in the previous month. Deposit growth declined to 10.1% YoY in October'20 from 10.5% YoY in the previous month. The credit-to-deposit ratio stood at 72.3% in October'20, marginally higher from 72% in the previous month, but continues to bode well for transmission. The median MCLR of banks now stands at 7.35% as of October'20, down by 5bps from the previous month. Low rates in our view may ultimately pave the way for a recovery in credit demand. Commercial paper issuances were down by 17.8% YoY in October'20.

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Exhibit 1: Economic activity holds up; but no further acceleration

	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Currency in circulation (% YoY)	14.2	12.7	13.0	12.9	13.6	15.1	12.8	11.9	11.9	11.5	14.5	15.7	18.4	20.6	22.2	23.2	22.7	20.3
M3 (% YoY)	10.3	10.1	10.6	9.8	9.6	10.6	9.8	10.4	11.2	10.2	8.9	10.8	11.7	12.3	13.2	12.6	12.2	11.6
Rural wage (% YoY)	5.1	4.4	5.0	3.5	3.5	2.8	2.6	3.3	4.5	4.5	4.0	-	5.7	-	-	-	-	-
Urban unemployment (%)	8.6	8.3	8.3	9.7	9.6	8.3	8.9	9.0	9.7	8.7	9.4	25.0	25.8	12.0	9.4	9.8	8.5	7.2
Rural unemployment (%)	6.3	7.7	6.9	7.5	6.0	8.0	6.5	6.9	6.1	7.3	8.4	22.9	22.5	10.5	6.5	7.7	5.9	6.9
Naukri job speak index (% YoY)	11.4	6.1	14.1	0.1	7.6	1.5	15.2	10.5	5.8	(0.0)	(17.8)	(61.6)	(61.2)	(44.4)	(47.3)	(35.0)	(23.0)	(17.0)
Consumer durable production (% YoY)	0.3	(10.2)	(2.7)	(9.1)	(9.9)	(18.8)	(1.6)	(5.4)	(3.8)	(6.4)	(36.5)	(95.7)	(70.3)	(34.3)	(23.0)	(9.6)	2.8	-
Consumer non-durable production (% YoY)	8.1	7.1	8.4	3.1	(0.4)	(1.8)	1.5	(3.9)	(0.3)	0.0	(20.2)	(48.1)	(9.7)	14.3	1.8	(2.3)	4.1	-
Motorvehicle sales (% YoY)	(8.6)	(12.3)	(18.7)	(23.5)	(22.4)	(12.8)	(12.1)	(13.1)	(13.8)	(19.1)	(45.0)	(98.0)	(84.8)	(43.0)	(18.6)	(1.3)	7.2	10.5
Passenger vehicle (% YoY)	(20.5)	(17.5)	(31.0)	(31.6)	(23.7)	0.3	(0.8)	(1.2)	(6.2)	(7.6)	(51.0)	(100.0)	(85.2)	(49.6)	(3.9)	14.2	26.5	14.2
Commercial vehicle (% YoY)	(10.0)	(12.3)	(25.7)	(38.7)	(39.1)	(23.3)	(15.0)	(12.3)	(14.0)	(32.9)	(88.1)	(97.8)	(90.0)	(80.0)	(50.0)	(18.0)	(3.0)	(3.6)
Two wheeler (% YoY)	(6.7)	(11.7)	(16.8)	(22.2)	(22.1)	(14.4)	(14.3)	(16.6)	(16.1)	(19.8)	(39.8)	(96.2)	(83.8)	(38.6)	(15.2)	3.0	11.6	16.9
Tractor sales	(15.7)	(13.6)	(13.1)	(16.5)	(4.7)	(5.0)	(13.2)	2.4	4.8	21.3	(49.9)	(79.4)	4.0	22.4	38.5	74.7	28.3	7.7
Petrol consumption (% YoY)	11.4	10.9	8.9	9.0	6.3	8.9	9.3	3.3	3.5	11.3	(16.4)	(60.4)	(35.3)	(13.5)	(10.4)	(7.5)	3.3	4.5
Diesel consumption (% YoY)	3.2	1.7	3.5	(0.9)	(3.1)	(6.9)	9.3	0.2	(1.6)	6.6	(24.0)	(55.6)	(29.5)	(15.4)	(19.5)	(20.7)	(6.0)	7.4
Cement production (% YoY)	2.8	(1.9)	7.7	(5.1)	(1.9)	(7.7)	4.3	5.4	5.1	7.8	(25.1)	(85.2)	(21.4)	(6.8)	(13.4)	(14.6)	(3.5)	-
Steel production (% YoY)	13.31	10.78	8.13	3.81	(1.5)	(1.9)	7.0	8.7	1.6	2.9	(24.1)	(82.8)	(40.4)	(25.4)	(8.2)	(1.7)	0.9	--
IIP (% YoY)	4.6	1.2	4.3	(1.4)	(4.3)	(4.0)	1.8	0.1	2.1	4.5	(16.7)	(57.3)	(33.4)	(15.8)	(10.8)	(7.4)	0.2	-
Mining (% YoY)	2.4	1.5	4.9	0.0	(8.5)	(8.0)	1.8	5.7	4.3	10.0	0.0	(26.9)	(20.4)	(19.6)	(12.8)	(9.0)	1.4	-
Manufacturing (% YoY)	4.5	0.2	4.2	(1.6)	(3.9)	(2.3)	2.7	(0.7)	1.6	3.2	(20.6)	(66.6)	(37.8)	(16.0)	(11.6)	(7.9)	(0.6)	-
Electricity (% YoY)	7.4	8.2	4.8	(0.9)	(2.6)	(12.2)	(5.0)	(0.1)	3.1	8.1	(6.8)	(22.9)	(14.9)	(10.0)	(2.5)	(1.8)	4.9	-
Capital goods production (% YoY)	(2.1)	(6.9)	(7.0)	(20.9)	(20.3)	(22.0)	(8.6)	(18.0)	(4.3)	(9.7)	(38.3)	(92.7)	(65.9)	(37.4)	(22.8)	(14.8)	(3.3)	-
Capital goods imports (% YoY)	2.9	(6.4)	1.9	(9.3)	13.1	(0.8)	(4.1)	(5.2)	9.1	8.3	(36.3)	(55.4)	(33.9)	(42.6)	(30.1)	(41.3)	(34.3)	(14.9)
PMI Manufacturing Index	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7	55.3	54.5	51.8	27.4	30.8	47.2	46	52.0	56.8	58.9
PMI Services Index	50.2	49.6	53.8	52.4	48.7	49.2	52.7	53.3	55.5	57.5	49.3	5.4	12.6	33.7	34.2	41.8	49.8	54.1
PMI Composite Index	51.7	50.8	53.9	52.6	49.8	49.6	52.7	53.7	56.3	57.6	50.6	7.2	14.8	37.8	37.2	46.0	54.6	58.0
Rail freight traffic (% YoY)	2.9	2.0	1.6	(6.1)	(6.6)	(8.1)	0.9	4.3	3.0	6.5	(13.9)	(35.3)	(21.3)	(7.7)	(4.6)	3.9	15.5	15.4
Air traffic (% YoY)	2.8	6.2	1.8	3.9	1.5	4.3	11.5	2.6	2.5	9.0	(32.8)	(100.0)	(97.7)	(83.5)	(82.2)	(75.9)	(65.7)	(57.1)
Major port traffic (% YoY)	(0.5)	(0.5)	3.5	1.2	(0.5)	(5.4)	(0.3)	6.1	2.5	4.5	(5.1)	(21.1)	(23.3)	(14.5)	(13.2)	(10.4)	(1.9)	(1.2)
Foreign tourist arrivals (% YoY)	0.7	5.4	1.4	1.6	4.3	6.1	7.8	2.8	1.3	(6.6)	(66.4)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Export growth (% YoY)	3.4	(7.8)	1.7	(6.2)	(6.3)	(0.6)	(0.5)	(1.6)	(1.7)	2.9	(34.6)	(60.3)	(36.2)	(12.4)	(10.2)	(12.7)	6.0	(5.1)
Import growth (% YoY)	6.2	(8.4)	(10.3)	(13.4)	(12.8)	(16.3)	(12.7)	(8.8)	(0.8)	2.5	(28.7)	(58.6)	(52.4)	(47.6)	(28.4)	(26.0)	(19.6)	(11.5)
Non-oil, non-gold imports (% YoY)	1.5	(10.4)	(0.4)	(8.8)	(6.5)	(8.3)	(10.5)	(8.9)	(4.8)	(1.0)	(30.5)	(53.7)	(34.5)	(42.0)	(30.4)	(29.7)	(12.6)	(4.9)
E-way bills generated (% YoY)	45.8	6.4	18.0	4.6	8.9	(1.2)	18.5	10.8	11.6	14.3	(26.0)	(83.6)	(53.0)	(12.7)	(7.3)	(3.5)	9.6	21.4
Bank non-food credit growth (% YoY)	13.3	11.9	12.1	10.1	8.6	8.8	6.9	6.7	8.0	6.9	6.1	6.7	5.5	5.4	6.1	5.5	5.1	5.1
Personal credit (% YoY)	16.9	16.6	17.0	15.6	16.6	17.2	16.4	15.9	16.9	17.0	15.0	12.1	10.6	10.5	11.2	10.6	9.2	--
Credit to industry (% YoY)	6.4	6.4	6.1	3.9	2.7	3.4	2.4	1.6	2.5	0.7	0.7	1.7	1.7	2.2	0.8	0.5	0.0	-
Credit to services (% YoY)	14.8	13.0	15.2	13.3	7.3	6.5	4.8	6.2	8.9	6.9	7.4	11.2	11.2	10.7	10.1	8.6	9.1	-
Deposit growth (% YoY)	11.1	10.0	10.6	9.7	9.4	10.3	8.3	9.1	11.1	10.2	7.9	9.9	9.7	11.3	12.1	10.9	10.5	10.1
Commercial Paper issuance (% YoY)	18.2	2.5	(20.3)	(21.4)	(17.3)	(21.3)	(18.2)	(16.8)	(20.2)	(23.2)	(28.7)	(23.1)	(22.9)	(22.3)	(26.4)	(25.1)	(21.2)	(17.8)
Central Government expenditure (% YoY)	3.5	(11.1)	23.9	25.9	34.3	9.1	5.5	32.3	(6.4)	5.2	75.0	20.6	(20.7)	45.7	5.63	(15.2)	(26.0)	-
Indirect tax (% YoY)	0.5	(0.5)	(2.3)	10.1	(3.3)	(18.7)	6.5	4.2	14.2	13.1	3.8	(74.9)	(42.8)	(3.21)	14.1	(1.6)	12.0	-
CPI (% YoY)	3.0	3.2	3.1	3.3	4.0	4.62	5.5	7.4	7.6	6.6	5.9	7.2	6.3	6.2	6.7	6.7	7.3	7.6
Core CPI (% YoY)	4.3	4.1	4.3	4.3	4.0	3.5	3.5	3.7	4.2	4.1	4.1	4.8	5.0	5.3	5.7	5.77	5.67	5.77
WPI (% YoY)	2.5	2.0	1.1	1.1	0.3	0.2	0.6	2.59	3.1	2.3	0.4	(1.6)	(3.4)	(1.8)	(0.6)	0.16	1.3	1.5
10 year G-Sec yields (%)	7.03	6.88	6.37	6.56	6.70	6.45	6.47	6.55	6.60	6.4	6.1	6.1	5.76	5.89	5.84	6.12	6.01	5.88
Credit to deposit ratio (%)	76.82	77.25	76.34	75.74	75.69	75.83	75.51	76.23	75.85	75.83	76.44	74.9	73.3	73.6	72.6	72.0	72.0	72.3
Weighted average deposit rate of banks (%)	6.89	6.89	6.85	6.87	6.84	6.75	6.68	6.55	6.52	6.45	6.38	6.07	6.12	6.00	5.96	5.86	5.67	-
Weighted average lending rate of banks (%)	10.31	10.31	10.31	10.32	10.29	10.29	10.27	10.14	10.15	10.11	10.00	9.89	9.88	9.74	9.71	9.65	9.59	-
Median MCLR (%)	8.75	8.70	8.60	8.50	8.45	8.35	8.31	8.30	8.25	8.21	8.20	8.00	7.85	7.68	7.58	7.45	7.40	7.35
Negative (Red+Amber)	20	24	18	27	33	34	23	24	17	17	35	37	38	33	32	33	20	14
Positive (Green + Blue)	30	26	32	23	17	16	27	26	33	33	15	12	12	16	17	16	29	19

Red- Negative, Amber- Watch, Blue-Neutral, Green-Positive

Source: Nirmal Bang Institutional Equities Research, Reserve Bank of India, Central Statistical Office, Government of India, Bloomberg, CEIC, CMIE.

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