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Has the economy picked up?

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Contact:

Economics team:
Madan Sabnavis
Kavita Chacko
Dr Rucha Ranadive
Sushant Hede

+91-22- 6837 4433

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-67543573

A question in everyone's mind is whether the economy has picked up? Various economic indicators give an indication that things are better but there are issues in interpretation. For example, the PMI increasing only reflects that the companies surveyed feel they are better off in a month relative to the previous month, which is to be expected as the economy opened up. Year-on-year growth numbers would tend to be lower, but they do not capture the essence of things looking better progressively compared with the previous months. This is significant today because April and May were periods of extreme lockdown where there were severe limitations on both production and consumption.

On the other side some scattered data on the retail sales registered by some e-commerce companies have been impressive giving the feeling that things are back to normal. The qualification here is whether this can be sustained? The issue of pent up demand is very relevant because what could not be done in the first few months of the lockdown would tend to present itself in an amplified manner especially during the festival time which started in September and can go on till December.

One way of ascertaining the pace of recovery in the economy is to examine movements in certain indicators which reflect production and consumption. For the time period, the immediate preceding three months can be viewed as they would give an idea on whether cumulatively the variable is better off compared with last year. Hence the July-September or August-October numbers can be compared on a year on year basis. This will be probably a better period than the cumulative picture since April as the first two months performance would dampen any number.

This approach will indicate whether there are signs of a recovery with the caveat that the cumulative picture till December has to be tracked even if there is a recovery to even out the 'pent up demand' phenomenon.

The indicators that are looked at here are:

- GST collections reflect overall consumption levels as this is a consumption-based tax.
- E-way bills generated indicate the transportation of goods in the country and hence the macro production tendencies.
- Electricity generation is reflective of economic activity as while household consumption was high during the lockdown, any recovery in the economic sectors would require higher demand and hence production of power.

Also, this parameter is not affected by inventories holding which can be the case with manufactured goods (example being auto).

- Steel and cement are reflective of advances in the infrastructure space which has a dominant state presence.
- Auto sales are indicative of consumption spending which also broadly could give an opinion on the spending power of households which had otherwise been affected by employment growth or degrowth and salary cuts.
- Non-oil, non-gold and non-silver imports also reflect the domestic demand in the economy.
- On account of the lockdown, consumers have also shifted to online shopping and digital payments and this is also a good indicator to gauge whether consumers are spending.
- Demand scenario can also be assessed from the performance of the corporate sector as well as the employment scenario in the country which has remained a cause of concern.

What do these indicators show?

1. GST collections were marginally higher for the period August-October at Rs 2.87 lkh crore as against Rs 2.85 lkh crore in FY20. Hence overall consumption has shown signs of coming back to the pre-covid levels in the last three months.
2. E-way bills generated for the period August to October have been significantly higher by 9.3% at 171.1 mn as against 156.5 mn last year. This is a positive development as it does show that there is a lot of freight being transported across the country. There could be a skewness in terms of the higher e-commerce sales and restocking of inventories by businesses also getting into this uptick.
3. Power generation is a more direct indication of economic activity as the consumption is directly by industry besides other parties. The July-October production was 479,346 mn kwh compared with 467,629 mn kwh last year and hence indicates an improvement (2.5% increase) .
4. For the vehicles segment, there has been good news for the August-October period. Sales of passenger cars at around 546,432 was marginally higher than that of last year which was 541,866. In case of two wheelers sales were up from 5.82 mn to 6.42 mn again reflecting robust pick-up in demand and hence consumption.
5. On the infra side, for Q2, while production numbers were slightly lower, the deviation was not too significant for steel. In case of cement production was 69.3 mn (77.5 mn). In case of steel production was at 27.1 mn tonnes (27.9mn tonnes).
6. Imports after reducing oil, gold and silver account for almost 3/4th of the total imports and were $68.2 bn in Aug-October 2020, 15% lower than the corresponding period last year. This negative growth is notably lower than the 43% contraction registered during the period April-June 2020, indicative of sharp improvement.
7. The total volume (in units) of UPI transactions as reported at the NPCI platform aggregated to 5.5 bn in Aug-October 2020 compared with 3 bn transactions in the corresponding period last year which reflects robust spending by the consumers via the digital route.
8. In Q2 FY21, net sales of the corporates (1,878 companies) have declined to Rs. 16.59 lakh crore, 4.4% lower than Rs. 17.36 lakh crore in same quarter last year, indicating muted demand.
9. CMIE's unemployment rate in October 2020 showed marginal improvement to 7.1% as against 8.1% in the same month of FY20.

Concluding remarks

Putting these indicators together, it can be surmised that as was expected when we forecast GDP growth at -8.2% for the year, it was premised on this negativity coming down progressively from 24% in Q1 to 9.9% in Q2 and further lower in Q3 and end with a marginally positive growth rate in Q4. We do believe that pent up demand has gotten reflected in the buoyancy in EWay bills being generated and auto sales which will get tempered in course of the balance part of the year. This will also get reflected in the consumption oriented indicators such as GST collections, auto sales, UPI transactions etc.

Also, the alarm noting of various states on the supposed second wave of the virus and the localized lockdowns and restrictions which are already being invoked by some of them can cause a downside to the recovery process.

Table 1: Snapshot of indicators

Indicators	Unit of measurement	Period	FY20	FY21	Change
GST collections	Rs. lakh crore	Aug-Oct	2.85	2.87	↑
E-way bills	million	Aug-Oct	156.5	171.1	↑
Power generation	mn kwh	Jul-Oct	467,629	479,346	↑
Passenger car - sales	Units	Aug-Oct	5,41,866	5,46,432	↑
Cement production	mn	Jul-Sept	77.5	69.3	↓
Steel production	mn tonnes	Jul-Sept	27.9	27.1	↓
Imports (Non-oil, Non-gold, Non-silver)	$ bn	Aug-Oct	80.7	68.2	↓
UPI transactions	bn	Aug-Oct	3	5.5	↑
Corporate performance - Net sales	Rs. lakh cr.	Jul-Sept	17.36	16.59	↓
CMIE unemployment rate	%	October	8.1	7.0	↑

CORPORATE OFFICE:
CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

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