

## Economic activity continued to improve in Oct'20

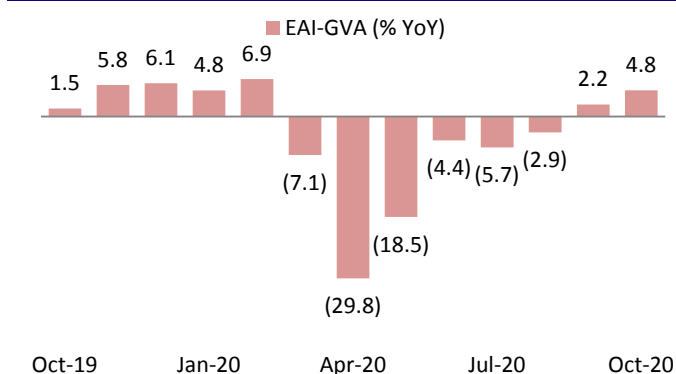
### Expect real GDP to decline 1-2% YoY in 3QFY21

- Our in-house Economic Activity Index (EAI) for India's real GVA (called EAI-GVA) grew 4.8% YoY in Oct'20, marking the second consecutive growth, following an increase of 2.2% YoY in Sep'20. This is the first month in a year when non-farm activities (both industrial and services) grew faster than the farm sector.
- However, EAI-GDP index (our in-house measure of official GDP) continued to contract for the eighth successive month – down 9% YoY in Oct'20, following a contraction of 8.1% in the previous month. While personal consumption expenditure (PCE) continued to contract in double-digit for the seventh consecutive month, total investments declined 5%, the slowest fall in eight months. Excluding government spending, EAI-GDP contracted 7.6% YoY in Oct'20 v/s a fall of 5.1% YoY in Sep'20.
- Overall, EAI-GVA continues to show an improvement in economic activity, while demand measures (EAI-GDP) continue to lag. Based on a few indicators available for Nov'20 – power generation, manufacturing PMI, e-way registrations, etc., growth seems to have cooled off last month. If so, it suggests that the growth peaked out in Oct'20 (as per our expectations) and is likely to moderate in coming months. Real GDP could contract again in 3QFY21 before posting a growth in 4QFY21. The second wave of the COVID-19 pandemic, however, remains a valid risk.

Preliminary estimates reveal that EAI-GVA grew 4.8% YoY in Oct'20, marking the second consecutive growth and better than the 2.2% YoY in Sep'20

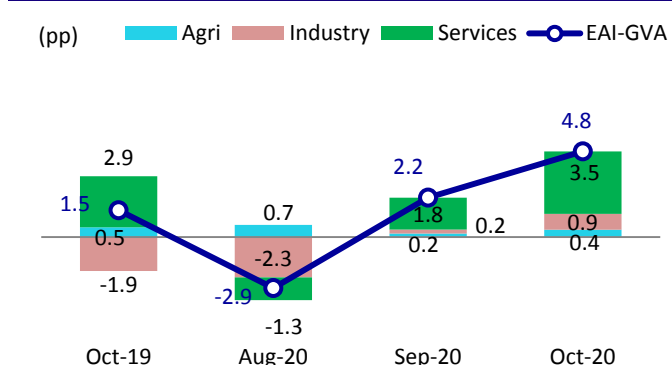
- **EAI-GVA continues to gather pace in Oct'20...** Preliminary estimates reveal that EAI-GVA grew for the second consecutive month in Oct'20. At 4.8% YoY, EAI-GVA posted its highest growth in eight months, following an increase of 2.2% YoY in Sep'20 (*Exhibit 1*). Although farm activities grew for the sixth successive month, non-farm sector (both industrial and services) grew faster for the first time in a year (*Exhibit 2*).
- **...while EAI-GDP contracted at a faster pace:** EAI-GDP, however, continued to contract for the eighth consecutive month in Oct'20 and that too faster than the previous month (*Exhibit 3*). While personal consumption expenditure (PCE) continued to contract in double-digits for the seventh consecutive month, total investments declined 5%, the slowest fall in eight months (*Exhibit 4*). Excluding government spending, EAI-GDP contracted 7.6% YoY in Oct'20 v/s a fall of 5.1% YoY in Sep'20.

**Exhibit 1: India's EAI-GVA gathers pace in Oct'20...**

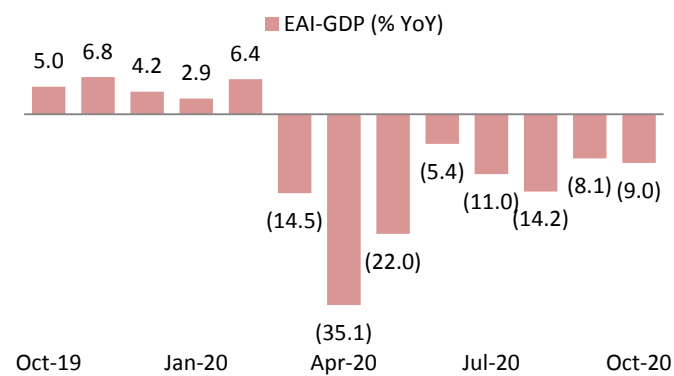


Please refer to our earlier [report](#) for details

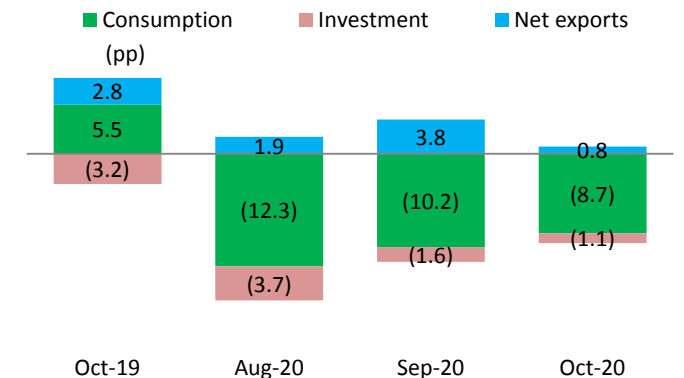
**Exhibit 2: ...led by strong growth in the non-farm sector**



Contribution of different components to EAI-GVA growth  
Source: Various national sources, CEIC, MOFSL

**Exhibit 3: EAI-GDP, however, declines faster in Oct'20...**

We have updated our model w.r.t. PCE estimation

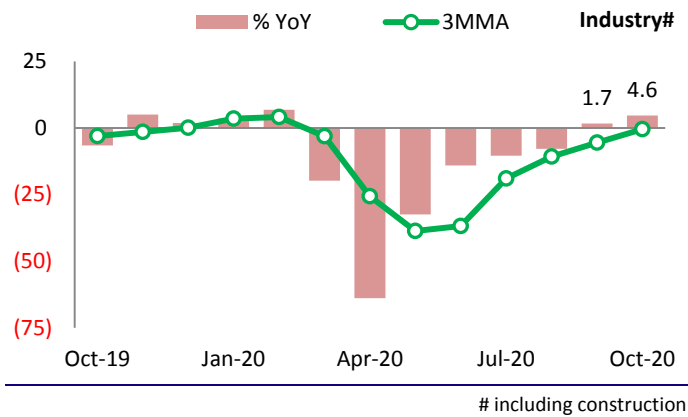
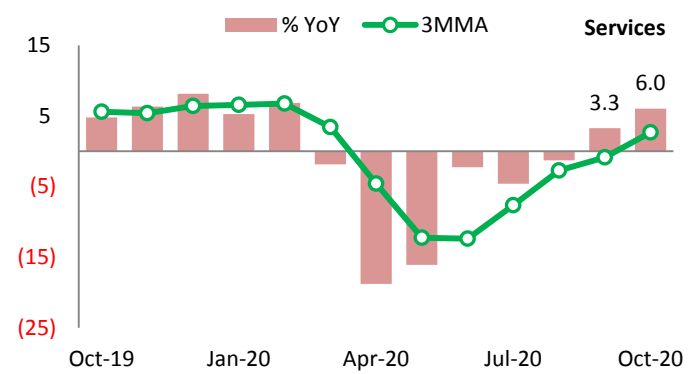
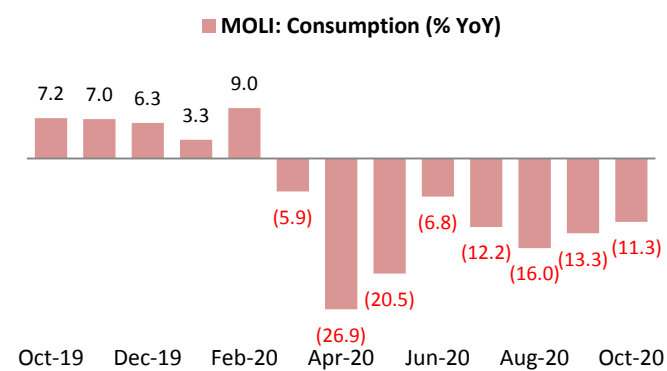
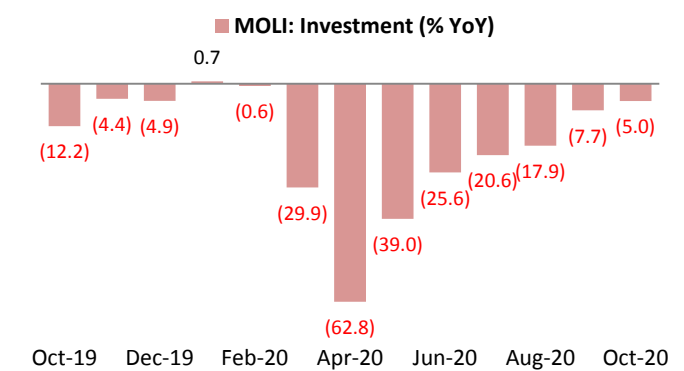
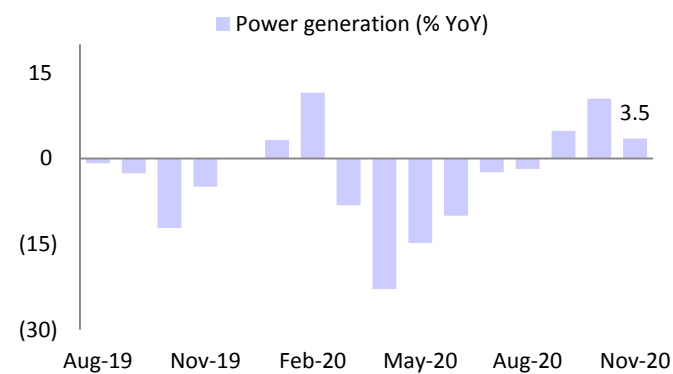
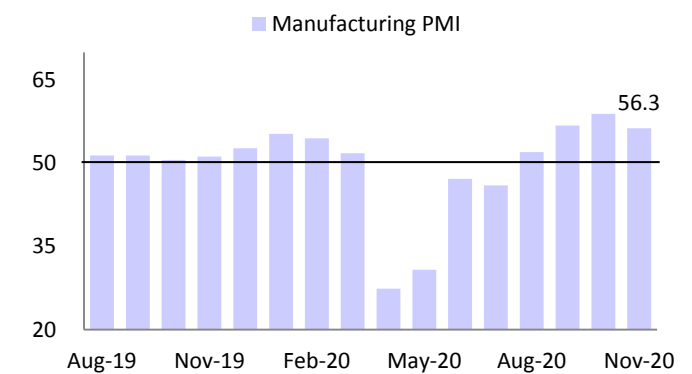
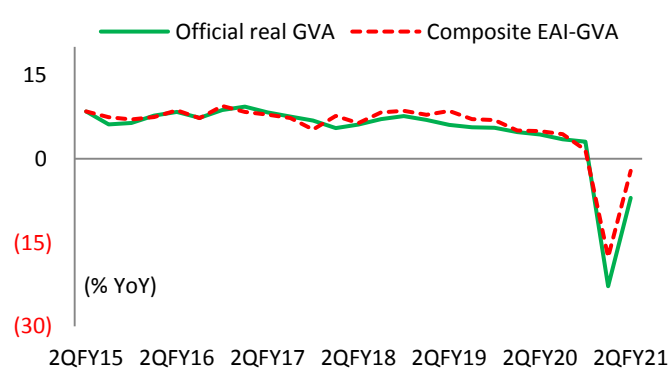
**Exhibit 4: ...led by lower external trade surplus**

Source: Various national sources, CEIC, MOFSL

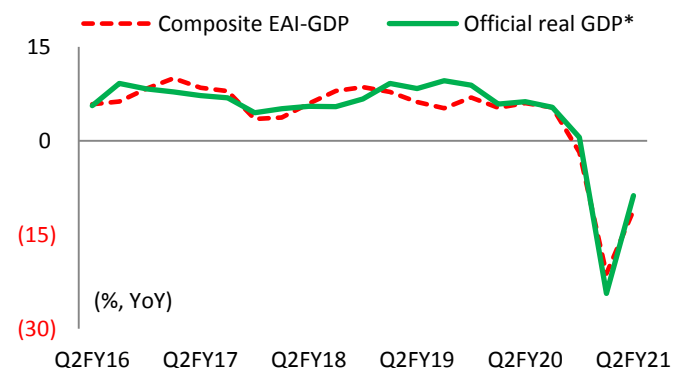
While PCE declined 10.2% YoY, government consumption spending fell 19% YoY in Oct'20

Based on few indicators available for Nov'20 – power generation, manufacturing PMI, e-way registrations, etc., growth seems to have cooled off last month

- **Non-farm sector drove EAI-GVA growth:** Details of EAI-GVA suggest that while the farm sector grew 3.5% YoY in Oct'20, industrial activity increased 4.6% YoY and services expanded by 6% (*Exhibit 5-6*). Sharp growth (9% YoY, a 27-month high) in industrial fuel sales and eight-month high growth of 10% YoY in power generation supported the industrial sector, while strong growth in automobile sales, freight traffic, financial sector (deposits/trade credit) and services PMI led to better growth in the services sector (*Exhibit 13*). Consequently, the non-farm sector grew 5.4% YoY in Oct'20 – faster than the farm sector for the first time in a year.
- **Consumption continues to post double-digit fall in Oct'20...:** Our updated model suggests that consumption (personal + government) spending declined by 11.3% YoY in Oct'20, marking its fourth straight double-digit fall (*Exhibit 7*). While PCE declined 10.2% YoY, government consumption (revenue spending *less* interest payments *less* subsidies) fell 19% YoY in Oct'20. Faster growth in consumer automobile sales and petrol consumption helped real PCE decline at its slowest pace in seven months (*Exhibit 14*).
- **...while investments declined at a slower pace:** Investments shrank by only 5% YoY, marking the 16<sup>th</sup> fall in the past 17 months, but the slowest contraction in the past eight months (*Exhibit 8*). Strong growth in freight traffic, diesel sales and cement production helped reduce the contraction rate in investments in Oct'20 (*Exhibit 15*).
- **Expect 1-2% decline in 2QFY21 real GDP:** Overall, EAI-GVA continues to show an improvement in economic activity, while demand measures (EAI-GDP) continue to lag. Based on few indicators available for Nov'20 – power generation, manufacturing PMI, e-way registrations, etc., growth seems to have cooled off last month (*Exhibit 9-10*). If so, it suggests that the growth peaked out in Oct'20 (as per our expectations) and likely to moderate in coming months. Although there is no one-to-one correlation between our EAI and the official GDP/GVA due to the **underlying differences**, our composite indices are moving in sync with official real GDP (ex-discrepancies) and real GVA estimates (*Exhibit 11-12*). We believe that real GDP could contract again in 3QFY21 before posting a growth in 4QFY21. The second wave of the COVID-19 pandemic, however, remains a valid risk.

**Exhibit 5: Industrial activity grew 4.6% YoY in Oct'20...****Exhibit 6: ...and services sector growth at eight-month high****Exhibit 7: Total consumption continued its double-digit fall...****Exhibit 8: ...while investment decline moderated in Oct'20****Exhibit 9: Power generation growth was up only 3.5% YoY...****Exhibit 10: ...and manufacturing PMI also eased in Nov'20****Exhibit 11: EAI-GVA moving in line with official real GVA...**

Source: CEIC, Various official sources, MOFSL

**Exhibit 12: ...and is linked with official real GDP\* growth also**

\*Excluding discrepancies

**Exhibit 13: Key indicators used in the creation of EAI-GVA on a monthly basis**

% YoY	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
<b>Agriculture and Allied activities</b>													
IIP: Fertiliser	11.8	13.6	10.2	(0.1)	2.9	(11.9)	(4.5)	7.5	4.2	6.9	7.3	(0.3)	6.3
Domestic tractor sales	(5.5)	(12.8)	4.0	3.3	19.6	(50.2)	(80.1)	0.5	20.2	35.9	64.8	26.7	9.0
Real rural wages <sup>1</sup>	(3.6)	(4.6)	(6.0)	(5.6)	(4.8)	(4.1)	(1.3)	1.1	2.4	1.9	0.3	0.9 <sup>8</sup>	0.8 <sup>8</sup>
Reservoir levels	36.0	49.4	58.7	65.6	55.5	75.2	65.9	83.1	115.7	71.5	3.6	1.4	(3.6)
<b>Agriculture sector</b>	4.0	3.9	6.0	5.8	7.2	(0.1)	(3.4)	7.1	10.8	10.4	10.0	5.4	3.5
<b>Industrial sector</b>													
Coal	(17.6)	(3.5)	6.1	8.0	11.3	4.0	(15.5)	(14.0)	(15.5)	(5.7)	3.6	21.2	11.6
Crude oil	(5.1)	(6.0)	(7.4)	(5.3)	(6.4)	(5.5)	(6.4)	(7.1)	(6.0)	(4.9)	(6.3)	(6.0)	(6.2)
Natural gas	(5.6)	(6.4)	(9.2)	(9.0)	(9.6)	(15.1)	(19.9)	(16.8)	(12.0)	(10.2)	(9.5)	(10.6)	(8.6)
IIP: Mining	(8.0)	1.9	5.7	4.4	9.6	(1.3)	(26.9)	(20.4)	(19.5)	(12.8)	(9.0)	1.4	0.3 <sup>8</sup>
<b>Mining</b>	(5.6)	0.2	1.7	3.1	5.0	(1.7)	(18.0)	(14.7)	(12.6)	(6.7)	(4.4)	3.0	1.2
<b>Electricity</b>	(12.2)	(4.9)	(0.0)	3.2	11.5	(8.2)	(22.9)	(14.8)	(10.0)	(2.4)	(1.8)	4.8	10.5
IIP: Manufacturing	(5.7)	3.0	(0.3)	1.8	3.8	(22.8)	(66.6)	(37.8)	(17.0)	(11.6)	(7.9)	(0.6)	(2.0) <sup>8</sup>
Credit growth <sup>2</sup>	3.4	1.8	(1.1)	(1.0)	(1.6)	0.3	3.4	5.2	4.1	1.1	0.1	(1.3)	(3.1)
Fuel consumption	(8.8)	7.8	(0.0)	1.8	5.3	(19.1)	(49.6)	(24.1)	(9.8)	(16.7)	(18.7)	(4.0)	9.1
<b>Manufacturing</b>	(4.8)	9.3	2.8	5.2	8.3	(22.3)	(67.9)	(34.9)	(13.2)	(13.0)	(11.4)	0.7	5.7
Steel production	(0.5)	7.0	8.7	1.6	2.9	(21.9)	(82.8)	(40.4)	(23.2)	(6.5)	(1.7)	2.8	(2.7)
Cement output	(7.7)	4.3	5.5	5.1	7.8	(25.1)	(85.2)	(21.4)	(6.8)	(13.5)	(14.5)	(3.5)	2.8
IIP: NMMP <sup>3</sup>	(9.2)	1.4	2.1	4.2	9.5	(23.7)	(86.6)	(27.3)	(10.0)	(13.5)	(12.5)	(7.1)	(6.4) <sup>8</sup>
IIP: Construction	(9.7)	(0.7)	0.2	(0.3)	2.8	(24.3)	(85.0)	(39.0)	(18.3)	(8.6)	(1.6)	0.7	(0.5) <sup>8</sup>
<b>Construction</b>	(9.7)	(0.7)	0.2	(0.3)	2.8	(24.3)	(85.0)	(39.0)	(18.3)	(8.6)	(1.6)	0.7	(0.5) <sup>8</sup>
<b>Industry</b>	(6.6)	5.0	1.9	3.5	6.8	(19.8)	(63.9)	(32.4)	(14.1)	(10.4)	(7.8)	1.7	4.6
<b>Services sector</b>													
Auto sales <sup>#</sup>	(13.3)	(12.1)	(13.1)	(13.8)	(19.1)	(45.0)	(100.0)	(84.1)	(41.5)	(16.6)	1.2	10.4	13.4
Trade credit <sup>4</sup>	5.2	4.0	2.9	1.2	4.4	4.2	9.2	9.8	8.1	9.4	12.0	10.0	12.4
Foreign tourist arrivals	6.2	7.9	2.9	0.6	(6.9)	(66.4)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)
Freight traffic <sup>5</sup>	(7.1)	0.5	4.9	2.8	5.7	(10.8)	(30.0)	(22.0)	(10.2)	(7.8)	(1.6)	8.9	9.1
Passengers traffic <sup>5</sup>	(2.3)	0.2	(1.3)	(1.7)	4.5	(38.1)	(101.2)	(100.6)	(99.4)	(98.0)	(96.8)	(94.3)	(91.2)
MFs AUMs	18.4	11.9	13.0	15.1	15.0	(6.8)	(1.9)	(2.0)	7.0	10.8	7.5	8.2	5.7
Fiscal Spending <sup>6</sup>	35.4	14.9	54.4	(14.9)	16.1	31.3	42.1	(20.3)	105.0	5.5	(26.2)	(42.9)	(4.5)
Real deposits <sup>7</sup>	10.2	8.9	6.7	7.3	7.8	7.4	11.7	14.4	11.7	12.4	10.5	9.1	8.5
Telecom subscribers	1.1	(1.5)	(2.1)	(2.2)	(2.0)	(0.5)	(1.2)	(1.6)	(2.2)	(2.1)	(2.0)	(1.3) <sup>8</sup>	(1.6) <sup>8</sup>
PMI: Services	(5.7)	(1.9)	0.2	6.3	9.5	(5.2)	(89.4)	(74.9)	(32.1)	(36.4)	(20.2)	2.3	10.0
<b>Services sector</b>	4.8	6.3	8.1	5.3	6.9	(1.8)	(18.8)	(16.1)	(2.3)	(4.6)	(1.3)	3.3	6.0
<b>Aggregates</b>													
<b>EAI-GVA</b>	1.5	5.8	6.1	4.8	6.9	(7.1)	(29.8)	(18.5)	(4.4)	(5.7)	(2.9)	2.2	4.8
<b>Non-farm EAI-GVA</b>	1.1	6.1	6.1	4.8	7.0	(7.9)	(32.6)	(21.2)	(6.0)	(6.8)	(3.7)	2.3	5.4

<sup>1</sup> Rural wages; deflated by CPI for rural workers<sup>3</sup> Non-metallic minerals products (NMMP)<sup>5</sup> Railways and aviation<sup>7</sup> Bank deposits; deflated by WPI

# Sale of commercial vehicles within total auto sales starting Apr'20 has been derived using CV sales of Ashok Leyland, Eicher Motors Ltd., and Mahindra &amp; Mahindra Ltd.; the three account for ~50% of all CV sales

<sup>2</sup> Banks' industrial credit growth; deflated by WPI<sup>4</sup> Bank's non-food trade credit; deflated by WPI<sup>6</sup> Total non-interest spending by the central government; deflated by WPI<sup>8</sup> Our forecasts

	Worse than previous month and a year ago
	Worse than the previous month but better than a year ago
	Better than the previous month but worse than a year ago
	Better than previous month and a year ago

Exhibit 14: Key leading indicators for consumption

% YoY	Passenger traffic <sup>1</sup>	Revenue spending <sup>2</sup>	Petrol sales	Rural wages <sup>3</sup>	Consumer durable: IIP	Currency	Auto sales <sup>4</sup>	Imports <sup>5</sup>	Foreign tourists arrival	Personal credit	Services PMI
Oct-19	(2.2)	42.7	8.9	(3.6)	(3.3)	15.1	(13.2)	(5.4)	6.2	17.2	49.2
Nov-19	0.4	20.9	9.3	(4.6)	1.1	12.8	(12.4)	(4.2)	7.9	16.4	52.7
Dec-19	(1.2)	49.1	3.3	(6.0)	(3.2)	11.9	(14.2)	(5.2)	2.9	15.9	53.3
Jan-20	(1.6)	(8.1)	3.5	(5.6)	(0.6)	11.9	(14.6)	(3.6)	0.6	16.9	55.5
Feb-20	4.6	36.0	11.3	(4.8)	(0.3)	11.5	(18.1)	1.3	(6.9)	17.0	54.5
Mar-20	(38.1)	45.7	(16.4)	(4.1)	(22.3)	14.5	(41.7)	(28.5)	(66.4)	15.0	49.3
Apr-20	(101.1)	50.6	(60.4)	(1.3)	(48.1)	15.7	(100.0)	(47.5)	(100.0)	12.1	5.4
May-20	(100.6)	(32.8)	(35.3)	1.1	(9.7)	18.4	(84.0)	(31.9)	(100.0)	10.6	12.6
Jun-20	(99.2)	98.7	(13.5)	2.4	6.9	20.6	(39.8)	(36.4)	(100.0)	10.5	33.7
Jul-20	(97.7)	24.5	(10.4)	1.9	1.8	22.2	(14.0)	(16.9)	(100.0)	11.2	34.2
Aug-20	(96.4)	(26.9)	(7.5)	0.3	(2.3)	23.2	4.2	(24.5)	(100.0)	10.6	41.8
Sep-20	(93.9)	(43.0)	3.3	0.9 <sup>6</sup>	4.1	22.7	13.3	(5.2)	(100.0)	9.2	49.8
Oct-20	(90.6)	(19.0)	4.5	0.8 <sup>6</sup>	3.9 <sup>6</sup>	20.3	16.5	1.0	(100.0)	9.3	54.1

<sup>1</sup> Railways and aviation<sup>2</sup> Revenue spending less interest payments of the central government<sup>3</sup> Real rural wages; deflated by CPI for rural workers<sup>4</sup> Includes passenger vehicles and two-wheelers<sup>5</sup> Imports of agricultural items, leather products, newsprint and electronic goods, textiles (excluding gold, silver, precious metals)<sup>6</sup> Our forecasts

Exhibit 15: Key leading indicators for investment

% YoY	Cargo traffic <sup>1</sup>	Electricity	Auto sales <sup>2,**</sup>	Diesel sales	Capital goods' imports <sup>3</sup>	Cement Production	IIP: Non-metallic products	IIP: Capital goods	Industrial credit	Govt capex <sup>4</sup>	Manufacturing PMI
Oct-19	(7.1)	(12.2)	(14.6)	(7.3)	(6.1)	(7.7)	(9.2)	(22.4)	3.4	(5.1)	50.6
Nov-19	0.5	(4.9)	(6.8)	9.1	(21.8)	4.3	1.4	(8.9)	2.4	(12.3)	51.2
Dec-19	4.9	(0.0)	0.2	(0.0)	(16.5)	5.5	2.1	(18.3)	1.6	104.4	52.7
Jan-20	2.8	3.2	(3.8)	(1.8)	6.6	5.1	4.2	(4.4)	2.5	(31.8)	55.3
Feb-20	5.7	11.5	(32.1)	6.2	14.1	7.8	9.5	(9.6)	0.7	(15.7)	54.5
Mar-20	(10.8)	(8.2)	(76.8)	(24.2)	(16.5)	(25.1)	(23.7)	(38.8)	0.7	(4.4)	51.8
Apr-20	(30.0)	(22.9)	(100.0)	(55.6)	(54.2)	(85.2)	(86.6)	(92.7)	1.7	(7.5)	27.4
May-20	(22.0)	(14.8)	(86.4)	(29.5)	(33.6)	(21.4)	(27.3)	(65.9)	1.7	57.2	30.8
Jun-20	(10.2)	(10.0)	(67.4)	(15.5)	(42.1)	(6.8)	(10.0)	(37.4)	2.2	116.2	47.2
Jul-20	(7.8)	(2.4)	(55.9)	(19.5)	(37.7)	(13.5)	(13.5)	(22.8)	0.8	(47.1)	46.0
Aug-20	(1.6)	(1.8)	(45.7)	(20.7)	(42.0)	(14.5)	(12.5)	(14.8)	0.5	(20.9)	52.0
Sep-20	8.9	4.8	(34.1)	(5.9)	(29.2)	(3.5)	(7.1)	(3.3)	(0.0)	(38.9)	56.8
Oct-20	9.1	10.5	(33.7)	7.4	(23.8)	2.8	(6.4) <sup>5</sup>	(7.3) <sup>5</sup>	(1.7)	129.5	58.9

<sup>1</sup> Railways and waterways<sup>2</sup> Includes commercial vehicles and three-wheelers<sup>3</sup> Machinery and equipment, transport equipment, machine tools and project goods<sup>4</sup> Capital spending of the central government<sup>5</sup> Our forecasts

\*\* - Data for total CV sales starting Ap'20 derived using CV sales of Ashok Leyland, Eicher Motors Ltd., and Mahindra &amp; Mahindra Ltd.; the three account for ~50% of all CV sales

	Worse than previous month and a year ago
	Worse than the previous month but better than a year ago
	Better than the previous month but worse than a year ago
	Better than previous month and a year ago

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NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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