

Economic activity moderated to five-month lows in Jul'21

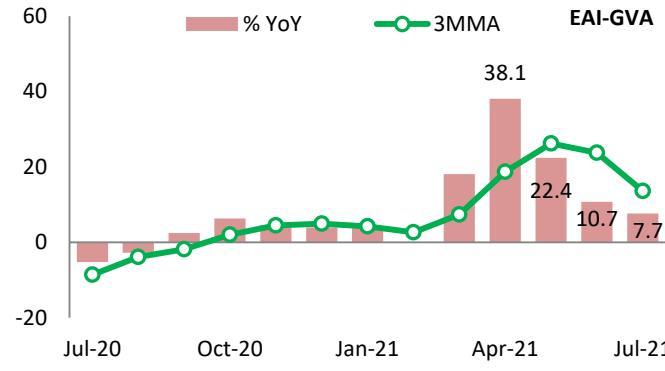
Expect real GDP growth of 7–8% YoY in 2QFY22

- Our in-house Economic Activity Index (EAI) for India's real GVA (called EAI-GVA) posted growth of 7.7% YoY in Jul'21 (the lowest in five months), against 10.7% YoY in Jun'21 and a contraction of 5.2% YoY in Jul'20. This was led by broad-based moderation in Jul'21.
- On the contrary, EAI-GDP exhibited better growth of 5.6% YoY in Jul'21, against 2.7% YoY growth in Jun'21, but much weaker v/s Mar–May'21. While investments grew at the lowest level in five months in Jul'21, private consumption grew at a three-month-high pace during the month. Within investments, government capex declined for the second time in the first four months of FY21, while the private sector grew decently on the low base of Jul'20.
- Core revenue spending (excluding interest and subsidies) by the central government, however, declined for the third time in four months. Excluding government consumption, EAI-GVA grew 7.1% YoY in Jul'21, faster than 3.2% YoY in Jun'21, but slower v/s Mar–May'21.
- Most of the indicators that we analyze on a monthly basis to track the progress in economic growth paint a mixed picture for Aug'21. While e-way registrations, toll collections, mobility indices, and power generation have increased at a faster rate, auto registrations, merchandise exports and the Manufacturing PMI have weakened in the recently concluded month. The fear of a potential third wave seems to be restricting economic activity at this stage.
- Overall, our in-house estimates suggest some moderation in EAI-GVA growth in Jul'21, largely due to weaker fiscal spending, while there was decent growth in private spending (consumption and investments). Accordingly, we expect real GVA growth of 7–8% YoY in 2QFY22 v/s 20.1% YoY growth in 1QFY22.

Preliminary estimates indicate India's EAI for GVA posted growth of 7.7% YoY in Jul'21, the lowest in five months.

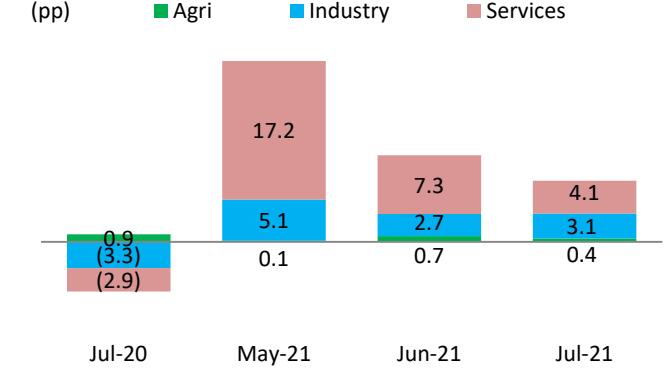
- **EAI-GVA grew slower at 7.7% YoY in Jul'21...**: Preliminary estimates indicate India's EAI for GVA posted growth of 7.7% YoY in Jul'21 (the lowest in five months), against 10.7% YoY in Jun'21 and a contraction of 5.2% YoY in Jul'20. This was led by broad-based moderation in Jul'21 (*Exhibit 1, 2*).
- **...while EAI-GDP grew faster at 5.6% YoY in Jul'21**: EAI-GDP, on the other hand, exhibited better growth of 5.6% YoY in Jul'21, against 2.7% YoY growth in Jun'21, but much weaker v/s Mar–May'21. While private consumption grew at a three-month-high pace, investments grew at a five-month low and government consumption declined for the third time in four months (*Exhibits 3, 4*).

Exhibit 1: India's EAI-GVA growth came in at five-month lows of 7.7% YoY in Jul'21...



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

Exhibit 2: ...primarily due to lower contribution from the Services sector



Source: Various national sources, CEIC, MOFSL

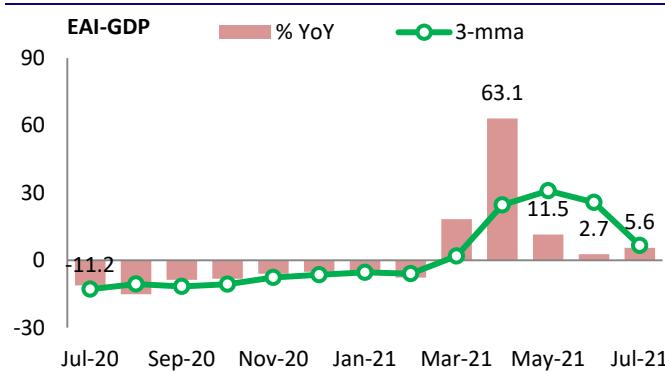
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Exhibit 3: EAI-GDP, however, grew faster in Jul'21...

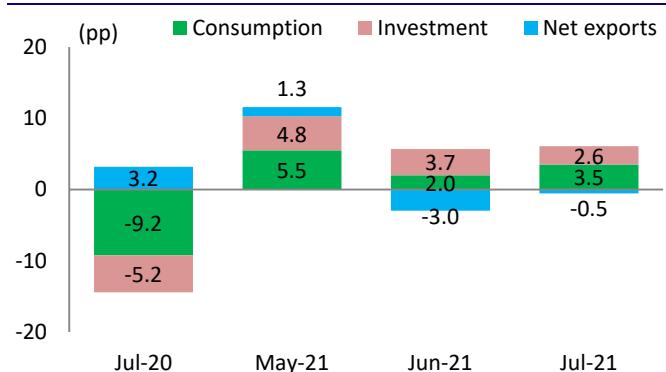
Please refer to our earlier [report](#) for details

While government capex declined for the second time in the first four months of FY21, the private sector saw decent growth on the low base of Jul'20.

While the Manufacturing sector grew strong, weak construction activity, slower growth in auto sales, and decline in government spending led to slower growth in the Non-Farm sector.

India's real GVA might grow 7-8% YoY in 2QFY22.

Exhibit 4: ...led by higher growth in consumption spending



Source: Various national sources, CEIC, MOFSL

- **Investment growth moderated in Jul'21...:** Total investments grew at five-month lows of 12.1% YoY in Jul'21 v/s +18.5% in Jun'21 and 21% decline in Jul'20 (*Exhibit 5*). Within investments, while government capex declined for the second time during the first four months of FY21, the private sector (reflected in power generation, diesel sales, cement production, industrial credit, and the Manufacturing PMI) grew decently on the low base of Jul'20 (*Exhibit 11 for the heat map*).
- **...but private consumption grew at the three-month highest pace in Jul'21:** According to our estimates, total consumption grew 5.1% YoY in Jul'21 v/s +2.7% in Jun'21 and -12.1% in Jul'20 (*Exhibit 6*). Within consumption, private consumption grew at a three-month high of 6.9% YoY (*Exhibit 12 for heat map*), though government consumption fell 31% YoY in Jul'21. Excluding government consumption, EAI-GVA grew faster at 7.1% YoY in Jul'21 – faster than 3.2% YoY in Jun'21, but slower v/s Mar–May'21. Further, faster growth in imports v/s exports led to negative contribution from external trade to EAI-GDP in Jul'21.
- **Broad-based deceleration in EAI-GVA growth in Jul'21:** EAI-GVA details suggest that while the Farm sector grew 4.3% YoY in Jul'21 (v/s 4.6% in Jun'21), the Non-Farm sector grew at 9.5% YoY in Jul'21, the lowest in five months (*Exhibit 7, 8*). While the Manufacturing sector grew strong, weak construction activity, slower growth in auto sales, and decline in government spending led to slower growth in the Non-Farm sector (*Exhibit 13 for the heat map*).
- **Third wave fears seem to be restricting economic growth in Aug'21 as well:** Most of the indicators that we analyze on a monthly basis to track the progress in economic growth paint a mixed picture for Aug'21. While e-way registrations, toll collections, mobility indices, and power generation have increased at a faster rate, auto registrations and the Manufacturing PMI have weakened in the recently concluded month. Fears of potential third wave seem to be restricting economic activity at this stage (*Exhibit 14 for the heat map*).
- **Expect real GVA to grow 7–8% YoY in 2QFY22:** Overall, our in-house estimates suggest some moderation in EAI-GVA growth in Jul'21, largely on account of weaker fiscal spending. On the other hand, private spending (consumption and investments) has grown decently. Although there is no one-to-one correlation between our EAIs and the official GDP/GVA due to the underlying differences, our composite indices move in sync with the official real GDP (ex-discrepancies) and real GVA estimates (*Exhibits 9, 10*). Accordingly, we expect real GVA growth of 7–8% YoY in 2QFY22 v/s 20.1% YoY growth in 1QFY22.

Exhibit 5: Total consumption grew faster by 5.1% YoY in Jul'21...

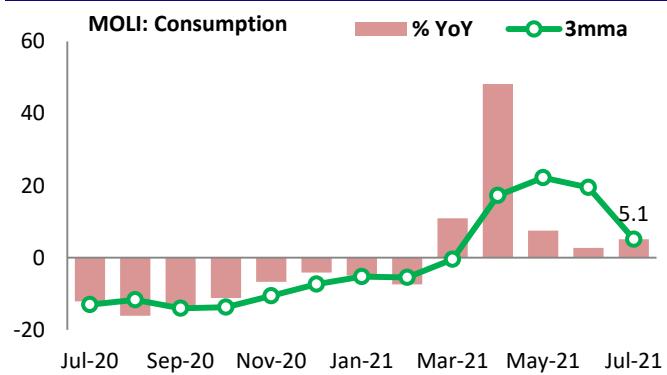


Exhibit 6: ...but investments posted the lowest growth in five months

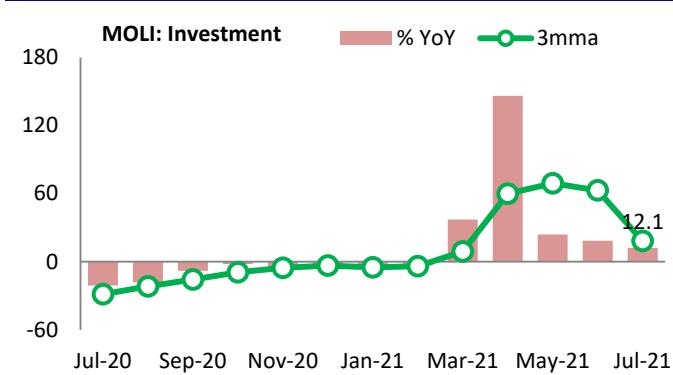


Exhibit 7: Industry activity was subdued in Jul'21...

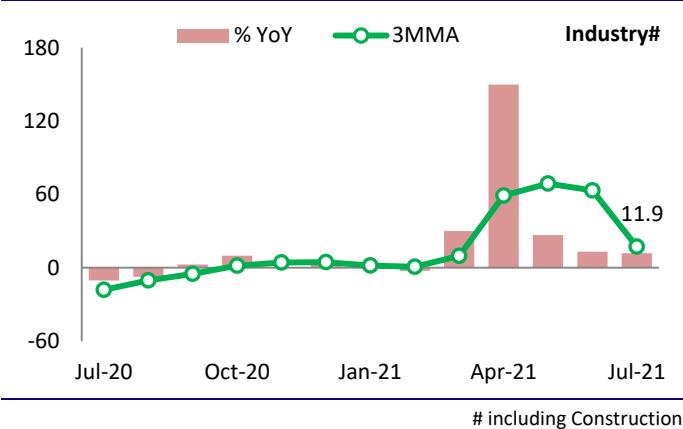


Exhibit 8: ...as was the Services sector activity

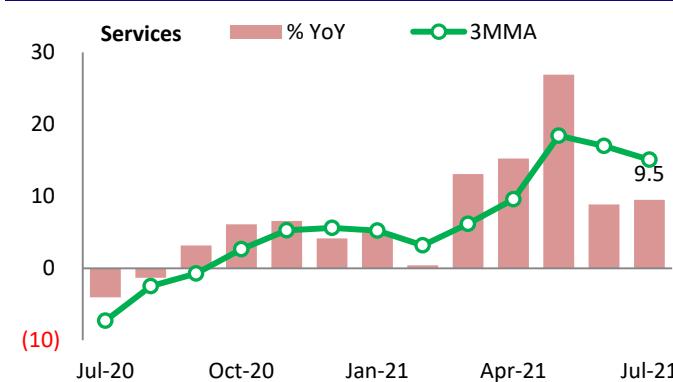
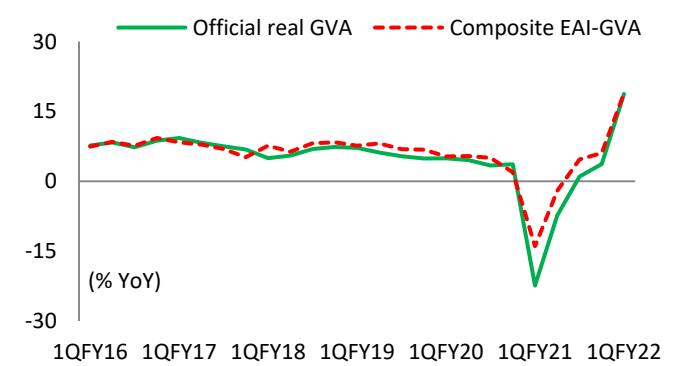
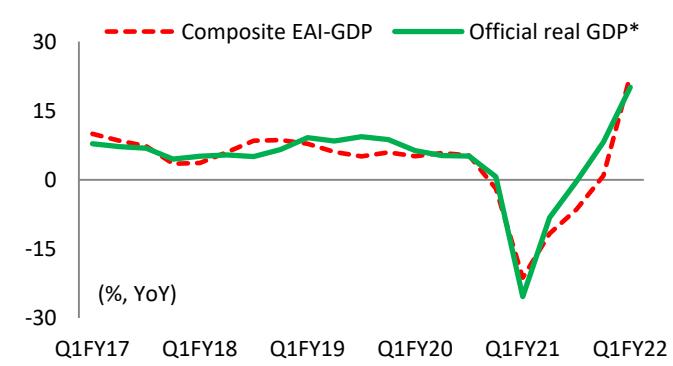


Exhibit 9: Our estimates of EAI-GVA moves in line with the official real GVA...



Source: CEIC, various official sources, MOSL

Exhibit 10: ...and EAI-GDP is aligned with the official real GDP*



*Excluding discrepancies

Exhibit 11: Key leading indicators for consumption

% YoY	Passenger traffic ¹	Revenue spending ²	Petrol sales	Rural wages ³	Consumer durable: IIP	Currency	Auto sales ⁴	Imports ⁵	Foreign tourists arrival	Personal credit	Services PMI
Jul-20	(97.7)	24.4	(10.4)	1.9	1.8	22.2	(14.0)	(16.9)	(100.0)	9.0	34.2
Aug-20	(96.4)	(26.6)	(7.5)	0.3	(3.0)	23.2	4.2	(24.4)	(100.0)	10.6	41.8
Sep-20	(93.9)	(43.3)	3.3	(1.2)	2.4	22.7	13.3	(5.1)	(100.0)	9.2	49.8
Oct-20	(90.6)	(21.0)	4.5	(1.6)	7.3	20.3	16.5	0.9	(100.0)	9.3	54.1
Nov-20	(82.1)	46.0	5.1	(1.0)	(0.7)	22.2	12.1	6.5	(100.0)	10.0	53.7
Dec-20	(72.1)	29.4	9.4	2.0	1.9	22.2	8.5	25.7	(100.0)	9.5	52.3
Jan-21	(66.2)	26.6	6.3	2.9	(5.4)	21.5	7.3	15.6	(100.0)	9.1	52.8
Feb-21	(57.1)	(9.4)	(1.9)	2.6	(3.8)	20.8	11.4	18.6	(100.0)	9.6	55.3
Mar-21	(27.2)	68.9	27.1	2.8	29.2	16.6	78.4	65.1	(59.8)	10.0	54.6
Apr-21	n/a	(45.9)	145.3	0.7	94.9	15.2	n/a	133.1	n/a	12.6	54.0
May-21	n/a	47.0	12.5	(2.0)	1.4	13.5	40.7	47.6	n/a	12.4	46.4
Jun-21	n/a	(8.6)	5.6	(3.2)	(4.5)	12.3	14.9	73.0	n/a	11.9	41.2
Jul-21	n/a	(30.9)	16.4	(2.4) ⁶	(0.2) ⁶	10.3	3.7	21.5	n/a	11.2	45.4

¹ Railways and Aviation² Revenue spending less interest payments by the central government³ Real rural wages deflated by CPI for rural workers⁴ Includes Passenger Vehicles and Two-Wheelers⁵ Imports of Agricultural items, Leather products, Newsprint and Electronic Goods, Textiles (excluding gold, silver, and precious metals)⁶ Our forecasts

Exhibit 12: Key leading indicators for investments

% YoY	Cargo traffic ¹	Electricity	Auto sales ^{2, **}	Diesel sales	Capital goods' imports ³	Cement Production	IIP: Non-metallic products	IIP: Capital goods	Industrial credit	Govt capex ⁴	Manufacturing PMI
Jul-20	(7.7)	(2.4)	(59.0)	(19.5)	(37.7)	(13.5)	(14.5)	(22.8)	0.9	(47.1)	46.0
Aug-20	(1.8)	(1.8)	(48.2)	(20.7)	(42.0)	(14.5)	(12.5)	(14.4)	0.5	(20.9)	52.0
Sep-20	8.9	4.8	(39.5)	(5.9)	(29.2)	(3.4)	(7.5)	(1.2)	(0.0)	(38.9)	56.8
Oct-20	9.1	11.2	(32.2)	7.5	(23.8)	3.2	3.4	3.2	(1.7)	129.5	58.9
Nov-20	6.7	3.5	(26.7)	(6.9)	(10.0)	(7.3)	(3.8)	(7.5)	(0.7)	248.5	56.3
Dec-20	7.1	5.1	(27.0)	(2.7)	0.6	(7.2)	(4.8)	2.2	(1.2)	62.7	56.4
Jan-21	7.0	5.5	(31.9)	(1.9)	(13.7)	(5.8)	(6.1)	(9.0)	(1.3)	335.1	57.7
Feb-21	4.2	0.2	(9.0)	(8.4)	(5.4)	0.2	(6.8)	(4.2)	(0.2)	16.9	57.5
Mar-21	22.8	22.5	188.7	27.8	17.9	32.7	30.9	50.4	0.5	(36.8)	55.4
Apr-21	53.4	38.5	1544.1	105.4	127.3	582.7	637.3	1042.9	0.4	66.5	55.4
May-21	36.9	7.3	51.0	0.8	36.5	7.9	18.3	78.2	0.8	(41.1)	50.8
Jun-21	20.2	8.3	49.8	(1.5)	83.8	7.4	6.0	25.7	(0.3)	46.8	48.1
Jul-21	14.3	9.1	(61.2)	11.5	29.2	21.7	7.2 ⁵	26.9 ⁵	1.0	(28.2)	55.3

¹ Railways and waterways² Includes Commercial Vehicles and Three-Wheelers³ Machinery and equipment, transport equipment, machine tools, and project goods⁴ Capital spending by the central government⁵ Our forecasts

** Data for total CV sales starting Apr'20 derived using CV sales of Ashok Leyland, Eicher Motors, Mahindra & Mahindra, and Tata Motors. The four companies account for ~98% of all CV sales


 Worse than the 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 the previous month and the year ago

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

% YoY	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
Agriculture and allied activities													
IIP: Fertiliser	6.9	7.3	(0.3)	6.3	1.6	(2.9)	0.8	(3.7)	(7.1)	3.9	(9.6)	2.0	0.5
Domestic tractor sales	35.9	64.8	26.7	9.0	48.3	41.2	47.5	30.4	170.4	480.8	(2.4)	22.1	8.2
Real rural wages ¹	1.9	0.3	(1.2)	(1.6)	(1.0)	2.0	2.9	2.6	2.8	0.7	(2.0)	(3.2)	(2.4) ⁸
Reservoir levels	71.5	3.6	1.4	(3.6)	(6.9)	(9.6)	(8.5)	(8.2)	(18.5)	(17.0)	(12.4)	(2.0)	22.0
Agriculture sector	10.4	10.0	5.3	3.3	7.3	6.3	7.3	5.2	19.9	54.5	0.9	4.6	4.3
Industrial sector													
Coal	(5.7)	3.6	21.0	11.7	3.3	2.2	(1.9)	(4.4)	0.3	9.5	6.9	7.4	18.7
Crude oil	(4.9)	(6.3)	(6.0)	(6.2)	(4.9)	(3.6)	(4.6)	(3.2)	(3.1)	(2.1)	(6.3)	(1.9)	(3.2)
Natural gas	(10.2)	(9.5)	(10.6)	(8.6)	(9.3)	(7.2)	(2.1)	(1.0)	12.3	25.0	20.1	20.6	18.9
IIP: Mining	(12.7)	(8.7)	1.4	(1.0)	(5.4)	(3.0)	(2.4)	(4.4)	6.1	36.3	23.3	23.1	20.0 ⁸
Mining	(6.7)	(4.3)	2.9	0.7	(1.8)	0.6	0.7	0.7	9.3	28.0	17.4	20.9	20.0
Electricity	(2.4)	(1.8)	4.8	11.2	3.5	5.1	5.5	0.2	22.5	38.5	7.3	8.3	9.1
IIP: Manufacturing	(11.4)	(7.6)	0.4	4.5	(1.6)	2.7	(0.9)	(3.4)	28.4	197.9	33.5	13.0	11.4 ⁸
Credit growth ²	1.1	0.1	(1.3)	(3.0)	(2.9)	(3.1)	(3.7)	(4.8)	(6.8)	(9.3)	(10.9)	(11.0)	(9.1)
Fuel consumption	(16.7)	(18.7)	(3.9)	9.2	(3.5)	(2.2)	(1.9)	(6.5)	21.9	95.2	5.7	(0.4)	6.7
Manufacturing	(12.9)	(11.2)	1.4	10.5	0.0	3.7	1.2	(2.9)	33.3	189.3	28.7	11.1	13.6
Steel production	(6.5)	0.5	6.2	5.9	0.7	3.5	8.2	2.2	27.3	472.7	59.3	24.9	9.3
Cement output	(13.5)	(14.5)	(3.4)	3.2	(7.3)	(7.2)	(5.8)	0.2	32.7	582.7	7.9	7.4	21.7
IIP: NMMP ³	(14.5)	(12.5)	(7.5)	3.4	(3.8)	(4.8)	(6.1)	(6.8)	30.9	637.3	18.3	6.0	7.2 ⁸
IIP: Construction	(8.2)	0.0	4.0	10.9	2.1	3.1	2.3	(3.5)	35.1	596.1	45.6	19.1	12.8 ⁸
Construction	(8.2)	0.0	4.0	10.9	2.1	3.1	2.3	(3.5)	35.1	596.1	45.6	19.1	12.8 ⁸
Industry	(10.4)	(7.5)	2.6	9.8	0.4	3.3	1.5	(2.7)	30.0	149.8	26.7	13.1	11.9
Services sector													
Auto sales [#]	(16.8)	1.0	10.0	13.5	9.5	5.4	4.2	10.1	82.7	0.0	41.2	16.0	5.3
Trade credit ⁴	14.9	12.0	10.0	12.6	12.2	12.5	12.8	3.6	4.5	(0.2)	(0.6)	(0.8)	(3.4)
Foreign tourist arrivals	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)	(59.8)	0.0	0.0	0.0	0.0
Freight traffic ⁵	(7.7)	(1.8)	8.9	9.1	6.7	7.1	7.0	4.2	22.8	53.4	85.0	20.2	14.3
Passengers traffic ⁵	(98.0)	(96.8)	(94.3)	(91.2)	(82.6)	(72.6)	(66.6)	(57.4)	(27.6)	0.0	0.0	0.0	0.0
MFs AUMs	10.8	7.5	8.2	5.8	8.5	14.7	6.8	10.9	30.8	22.2	19.1	17.9	17.2
Fiscal Spending ⁶	5.4	(26.0)	(43.1)	(6.5)	66.5	34.1	60.2	(7.5)	38.2	(39.0)	13.8	(10.7)	(37.5)
Real deposits ⁷	12.4	10.5	9.1	9.7	8.2	8.7	8.4	6.9	3.2	0.4	(3.2)	(2.1)	(1.2)
Telecom subscribers	(2.1)	(2.0)	(2.2)	(2.7)	(0.1)	0.1	0.2	0.6	2.0	2.9	3.0	3.6	3.1 ⁸
PMI: Services	(36.4)	(20.2)	2.3	10.0	1.9	(1.9)	(4.9)	(3.8)	10.8	0.0	0.0	22.3	32.7
Services sector	(4.0)	(1.3)	3.2	6.1	6.6	4.2	5.0	0.4	13.1	15.3	26.9	11.5	9.5
Aggregates													
EAI-GVA	(5.2)	(2.7)	2.5	6.3	4.7	3.9	4.1	(0.1)	18.1	38.1	22.4	10.7	7.7
Non-farm EAI-GVA	(6.3)	(3.6)	2.6	7.1	4.4	3.7	3.6	(0.8)	17.8	34.6	26.9	11.9	9.5

¹ Rural wages deflated by CPI for rural workers² Industrial credit growth for Banks deflated by WPI³ Non-metallic mineral products (NMMP)⁴ Non-food trade credit for Banks deflated by WPI⁵ Railways and Aviation⁶ Total spending of the Central government, excluding interest and subsidies, deflated by WPI⁷ Bank deposits deflated by WPI⁸ Our forecasts

Sale of Commercial Vehicles within total Auto sales starting Apr'20. The same has been derived using CV sales of Ashok Leyland, Eicher Motors., Mahindra & Mahindra, and Tata Motors. The four companies account for ~98% of all CV sales

Exhibit 14: Fears of a potential third wave seem to have restricted economic growth in Aug'21

	Unit	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
PMI: Manufacturing ¹	Index	52.0	56.8	58.9	56.3	56.4	57.7	57.5	55.4	55.5	50.8	48.1	55.3	52.3
E-way registrations ²	% MoM	2.2	20.0	8.1	-7.1	7.6	-2.1	12.4	0.8	-14.8	-34.2	41.4	13.5	5.5
Toll collection ²	% MoM	11.8	17.5	7.6	5.5	7.3	7.8	17.9	9.8	-12.1	-31.4	40.0	17.9	4.6
FX reserves ³	USD bn	498.9	502.2	517.6	533.5	542.2	547.2	542.6	536.7	546.1	554.1	568.7	620.1	616.9
Currency in circulation ⁴	% MoM	0.3	0.1	1.3	2.1	0.3	1.0	1.0	0.6	1.9	2.1	0.9	2.1	-0.1
Vahaan registrations	% MoM	4.2	13.3	5.2	29.4	-0.6	-13.2	-6.1	10.2	-28.9	-54.9	127.4	27.9	-11.1
Apple mobility (driving)	% MoM	26.5	22.0	12.0	19.5	14.6	3.5	3.3	-11.7	-30.7	-40.4	89.0	41.9	8.2
Google mobility (R&R)	%	-51.5	-41.9	-33.8	-28.1	-27.5	-27.6	-22.7	-22.1	-38.0	-62.6	-40.4	-24.6	-16.3
Exports	% MoM	-3.5	20.9	-9.6	-5.4	15.5	1.1	0.3	25.7	-11.6	5.2	0.7	9.0	-6.5
Imports	% MoM	3.5	2.8	12.4	-0.8	27.0	-2.3	-3.4	19.4	-5.5	-15.7	8.6	10.8	1.3
Power Generation	% YoY	-0.9	4.9	12.8	3.7	5.3	5.6	4.1	23.3	40.1	7.5	8.3	10.2	16.1

¹ Reading below 50 indicates contractions; above 50 means expansion² Based on daily volume (in million)³ Recent data as of 20 August, 2021⁴ Recent data as of 27 August, 2021

	Worse than the preceding quarter and a year ago
	Worse than the preceding quarter, but better than a year ago
	Better than the preceding quarter, but worse than a year ago
	Better than the preceding quarter and a year ago

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