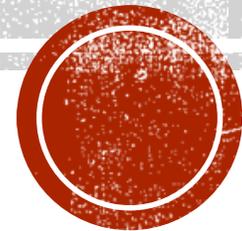


Monthly Review of the Economy

May 2022



This report has been prepared by Ayesha Ahmed, Research Associate at NCAER. Comments are welcome at aahmed@ncaer.org. Khushvinder Kaur has helped with formatting and Anupma Mehta has provided editorial guidance. The findings, interpretations, and conclusions expressed are those of the author and do not necessarily reflect the views of the Governing Body or Management of NCAER.

Monthly Highlights

- The Monetary Policy Committee decided on an off-cycle policy rate hike increasing the repo rate by 40 bps from 4.0 to 4.4 percent. ([*Reserve Bank of India - Press Releases \(rbi.org.in\)*](#))
- Life Insurance Corporation of India (LIC) initial public offerings were opened on May 4, 2022. The floatation was nearly three times oversubscribed during the six day application period. However, the listing price declined by 7.8 percent over the opening price. ([*How Lic's Ipo, India's Biggest, Ended In A Downbeat Debut | Mint \(livemint.com\)*](#)).
- The Supreme Court on 19 May, 2022 ruled that the Goods and Services Tax (GST) Council's recommendations would not be considered binding on either the Union Government or the States. The court rejected the Centre's argument that the entire GST structure would be disrupted if the Council's mandates would not be considered enforceable. ([*SC: GST panel proposals not binding, can disrupt fiscal federalism | India News, The Indian Express*](#))
- The Government of India had decided to prohibit wheat export on account of the extreme heatwave in the last month of harvest resulting in a reduction in procurement and shortfall in domestic supply .The export ban came amid disruption in global wheat supplies due to the Ukraine-Russia war. However, the ban was diluted soon after. ([*Wheat export ban: India's extreme heat wave having ripple effects on world's food supply | The Economic Times*](#))



Macro Monitor – Economy remained buoyant in April 2022

- The Purchasing Manager's Index (PMI) for manufacturing and services shows improvement in activity in April 2022. PMI Manufacturing increased from 54.0 in March 2022 to 54.7 in April 2022 and PMI services, due to a surging demand, rose from 53.6 to 57.9.
- GST revenue stood at an all-time record of 1.68 lakh crores reflecting improvement in compliance behaviour and economic recovery but e-way bills have dipped a notch in April 2022.
- Industrial production has been better than expected. The Index of Industrial Production (IIP) has risen by 1.9 percent in March 2022 with significant increases in mining and electricity.

Figure 1: PMI Indices

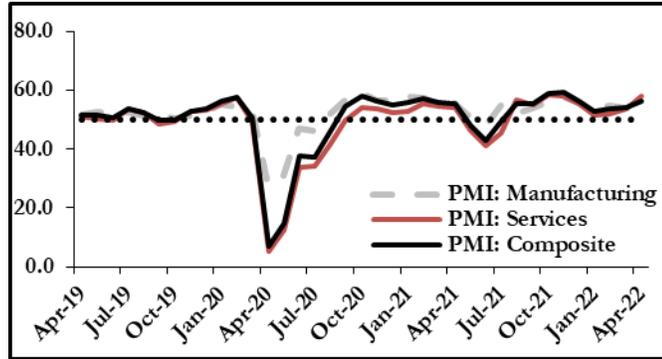


Figure 2: GST Revenue

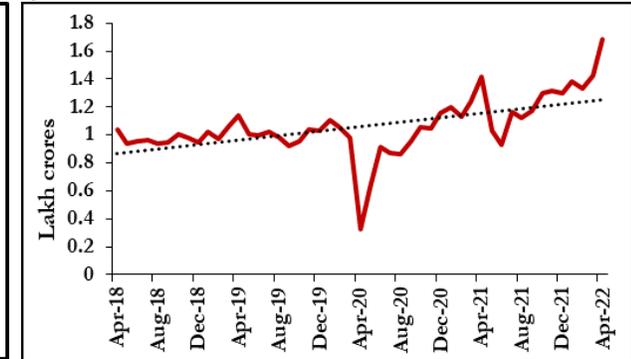


Figure 3: Index of Industrial Production

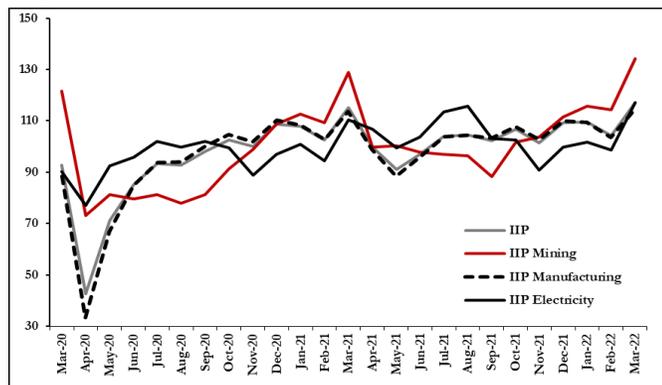
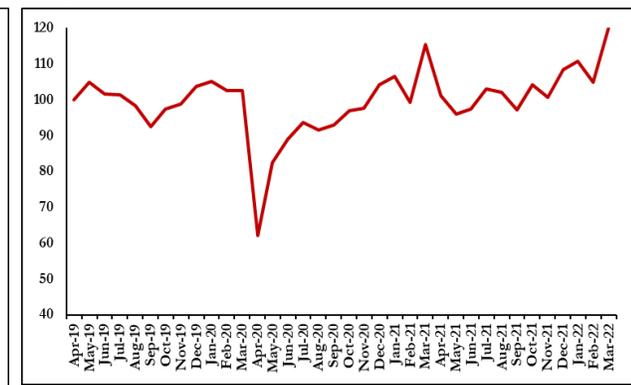


Figure 4: Index for Core Industries



Source: IHS Markit; GSTN, Ministry of Finance; MoSPI; Ministry of Commerce and Industry.

Note: Figures 3 & 4 are indexed to April 2019 = 100.



Resilient exports; services exports at USD 250 billion in FY 2021-22

- Merchandise exports grew by 24.2 percent in April 2022; imports grew by 26.5 percent due to strong domestic demand. The trade gap was \$20.07 billion in April 2022 against \$15.29 billion in the year-ago period and \$18.51 billion in March 2022.
- During the FY 2021-22, India's services exports have totaled USD 250 billion, registering a growth of 21.3 percent over FY 2020-21.
- In the fiscal year 2021-22, India has recorded the largest annual Foreign Direct Investment (FDI) inflow of USD 83.57 billion. The largest share of FDI has been in the computer hardware and software sector.

Figure 5: Merchandise Trade

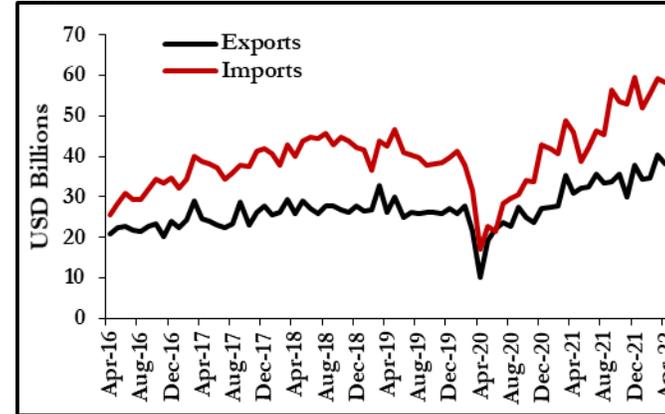


Figure 6: Services Trade

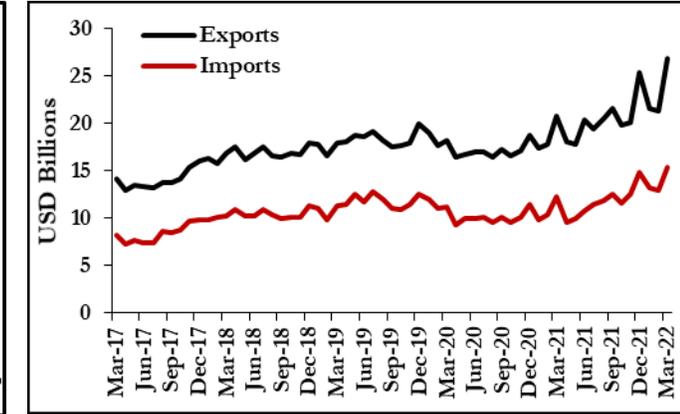
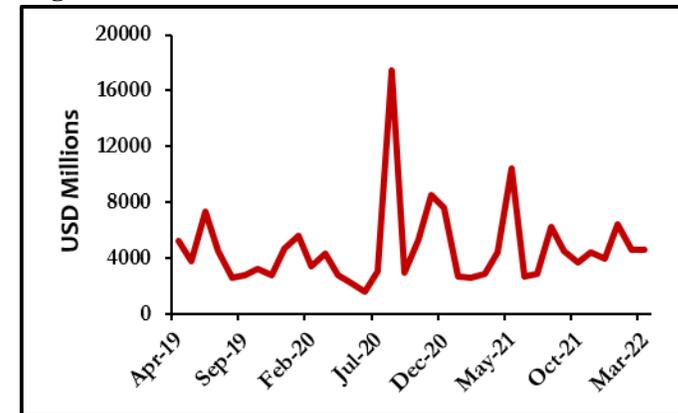


Figure 7: FDI Inflow



Source: Ministry of Commerce and Industry (Figures 5 and 6); Reserve Bank of India.



Inflation remains high and sticky

- Disruptions and shortages induced by the geopolitical tensions and sanctions have exacerbated inflationary pressures.
- Global commodity price dynamics are driving the path of food inflation in India. Headline Consumer Price Index (CPI) inflation was 7.8 percent and food inflation was 8.4 percent in April 2022. Fuel prices had also increased by 10.8 percent in April 2022 led by kerosene and LPG.
- Wholesale Price Index (WPI) inflation stood at 15.1 percent in April 2022 compared to 10.7 percent in April 2021. The high rate of wholesale inflation in April, 2022 was primarily due to rise in prices of mineral oils, basic metals, crude petroleum & natural gas, food articles, non-food articles, food products and chemicals & chemical products.

Figure 8: Consumer Price Indices

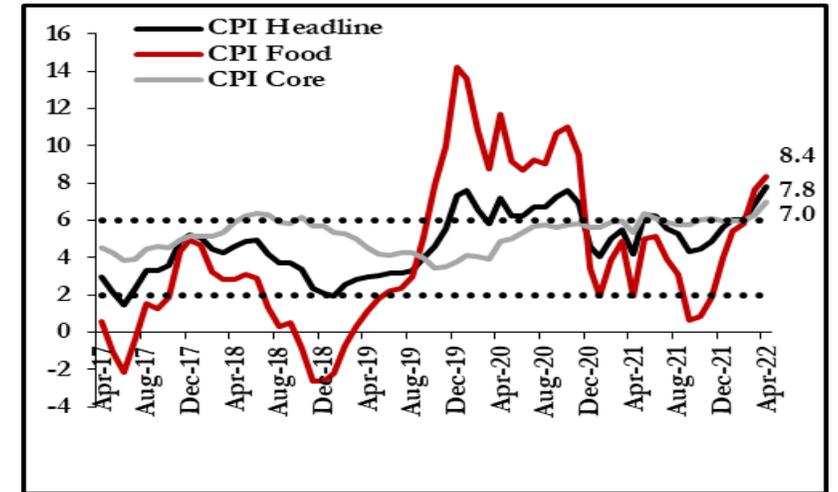
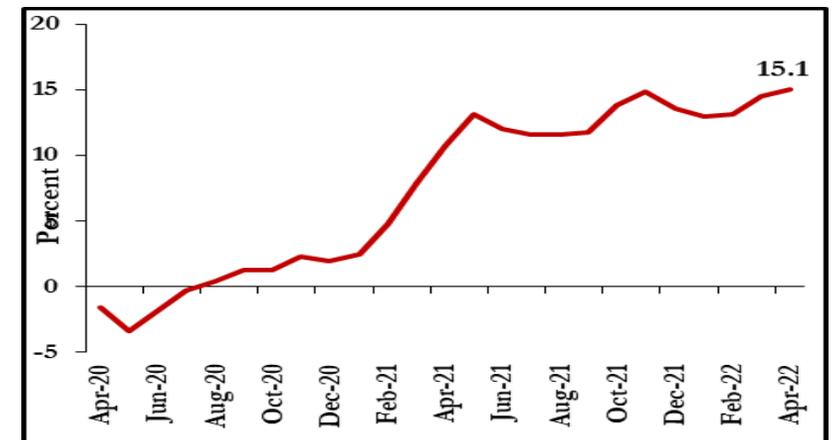


Figure 9: Wholesale Price Index



Source: Central Statistics Office; Ministry of Commerce and Industry
Note: All growth rates are on a year-on-year basis unless mentioned otherwise.

High-frequency indicators show a mixed picture for rural demand

- Rural economy is witnessing a decline in real wages, high unemployment, and spiraling inflation negatively affecting the rural demand. (*[Rural India / Food Price : Rural India, a cause no one worries about: fall in real wages, unemployment, food price rise hit hard \(indiatimes.com\)](#)*)
- Two wheeler sales have dipped in March 2022 and April 2022. Fertiliser sales reduced by 8.0 percent in FY 2021-22. Rural Consumer Price Index inflation was at 8.4 percent in April 2022 while rural food inflation stood at 8.5 percent. Work creation under Mahatma Gandhi National Employment Guarantee Scheme (MGNREGS) has been low in FY 2021-22.
- The Indian Meteorological Department (IMD) has predicted a normal monsoon for India this year.

Figure 10: Tractor and 2-wheeler sales

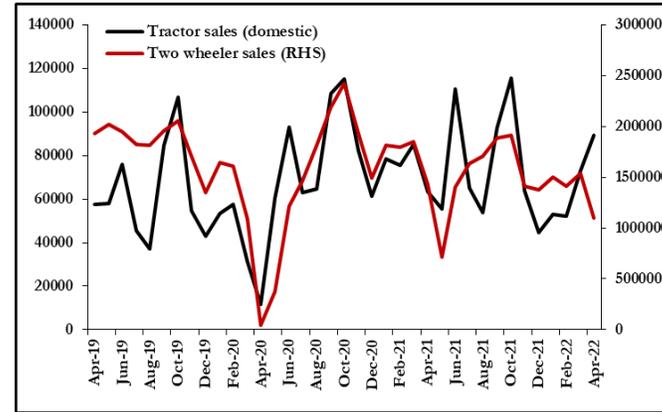


Figure 11: Fertiliser sales down by 8 percent in FY 22

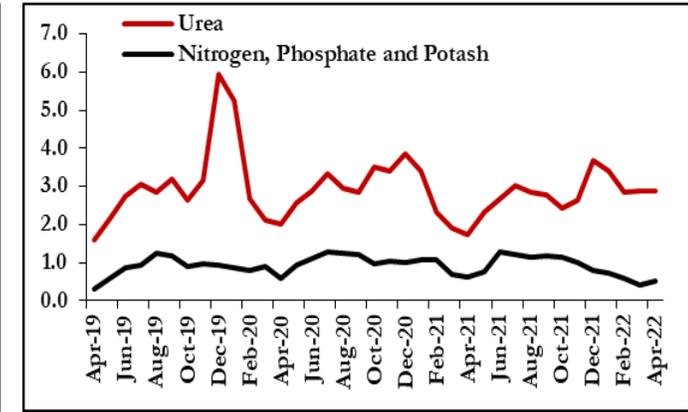


Figure 12: Rural CPI Inflation

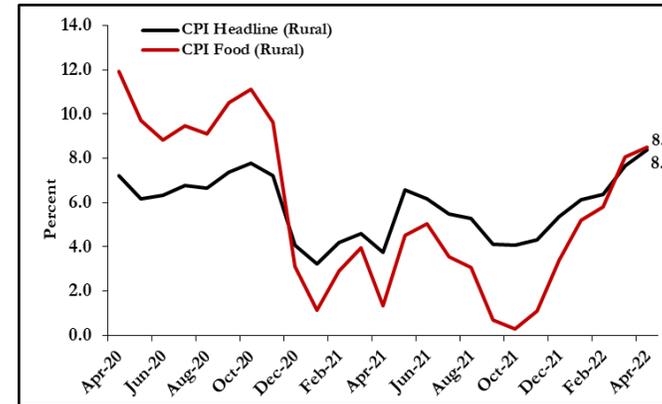
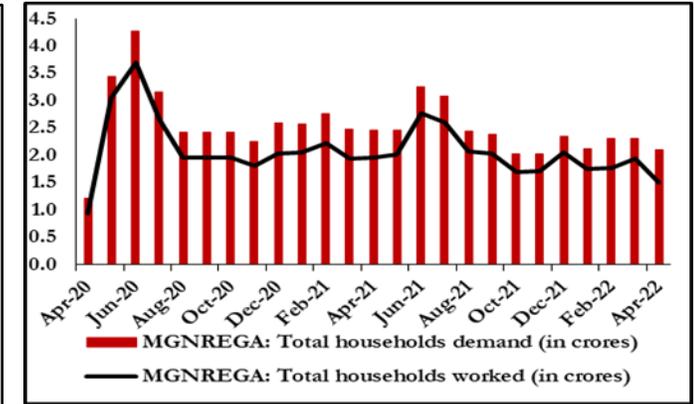


Figure 13: Work Creation under MGNREGA falls in FY 22



Source: Society of Indian Automobile Manufacturers; Ministry of Agriculture and Farmer's Welfare; MoSPI; Ministry of Rural Development.



Online hiring sees robust growth; unemployment rate inched up

- India's unemployment rate rose to 7.8 percent in April 2022 from 7.6 percent in March 2022 as per Centre for Monitoring Indian Economy (CMIE). Urban unemployment rate rose to 9.2 percent in April 2022 from 8.3 percent the previous month; rural unemployment rate slipped to 7.2 percent from 7.3 percent.
- According to the Naukri JobSpeak report, online hiring showed robust recovery in April 2022 registering a 38 percent growth. The worst hit sectors during the pandemic such as travel and hospitality have witnessed significant increases.
- After dipping to its lowest in May 2021, addition of new subscribers to pension schemes has increased. In March 2022, addition of new subscribers increased by 8.5 percent and 35.0 percent to National Pension Scheme and Employee's Provident Fund, respectively, vis-à-vis a year ago.

Figure 14: Unemployment rate

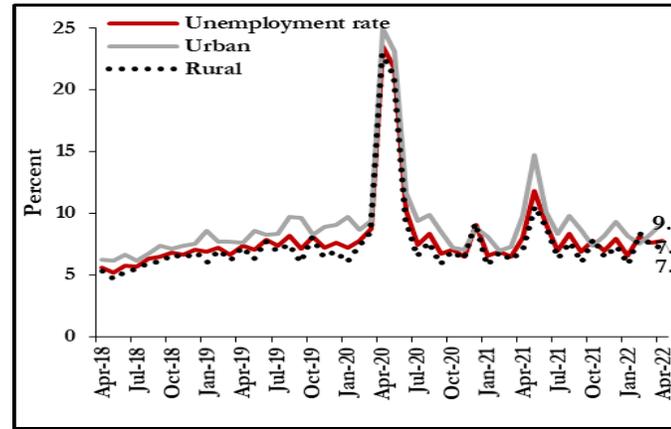
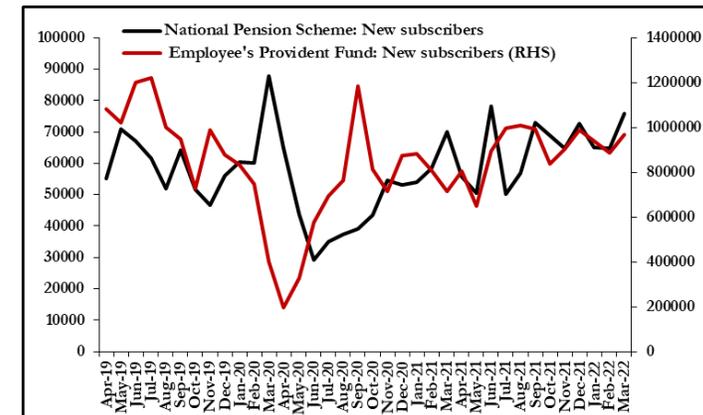


Figure 15: Naukri JobSpeak Index



Figure 16: New subscribers added to the pension schemes



Source : Centre for Monitoring Indian Economy; Naukri Job Speak Report (May 2022), Employee's Provident Fund Organisation.



Rupee weakened against dollar; forex dropped below USD 600 billion

- Monetary policy normalization and global uncertainty is pushing investors towards safer assets such as gold and US dollars, putting pressure on currencies of emerging economies causing them to depreciate significantly in the last month. Rupee stood at 78 per dollar as of 27th May, 2022.
- With elevated crude oil prices (at \$108.5 on 19th May, 2022), a weak rupee will widen the current account deficit as 80 percent of crude oil is imported, making the external front weak.
- The foreign exchange reserves of the Reserve Bank of India (RBI) have dropped below USD 600 billion in May 2022.

Figure 17: Exchange Rates of Emerging Economies

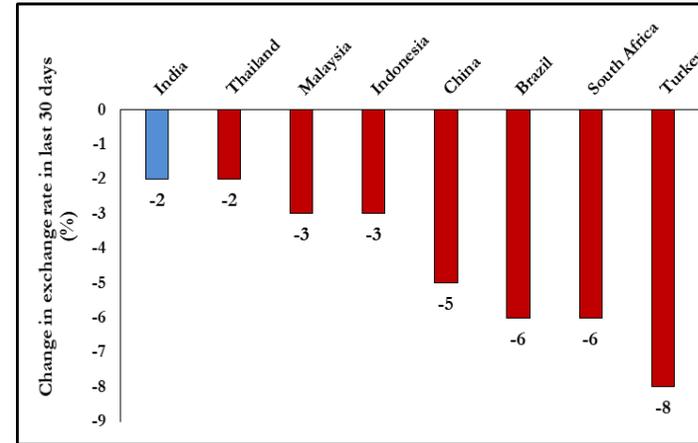


Figure 18: Brent crude-oil Price

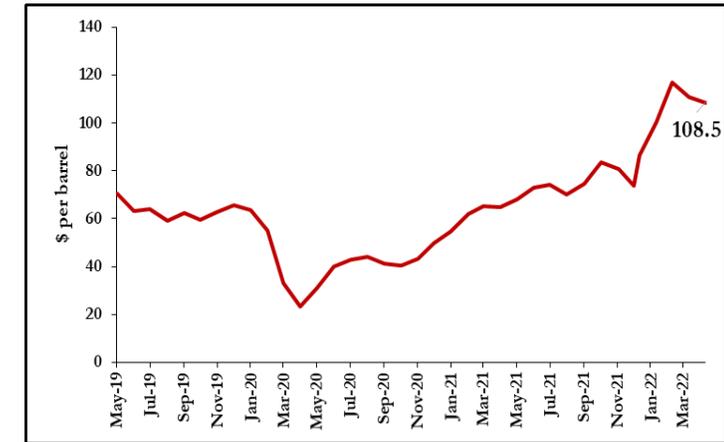
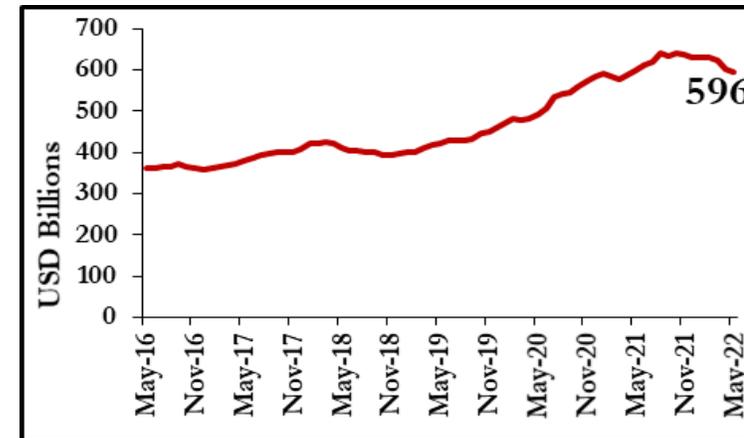


Figure 19: Foreign Exchange Reserves



Source: Global Markets Monitor, International Monetary Fund; Reserve Bank of India.
Note: The data in the panel is as of 19th May, 2022.



Equity markets corrected; yields on government securities high

- Globally, yields on US Treasury have risen as well. Investors in the global equity markets have remained cautious of the evolving geo-political dynamics and associated downside risks. The MSCI indices show stock markets correcting in emerging and advanced economies.
- Global developments have left investor sentiments bearish. Indian stock markets have seen their steepest decline in more than two months as investors are dumping risky assets amidst growing concerns over rising inflation. Uncertainty and inflationary concerns have also led to a pull back in foreign institutional inflows to India.
- Higher demand for safer assets is also driving up the yields on domestic government securities by 30-50 bps across tenor since mid-April 2022.

Figure 20: Indian Equity Markets

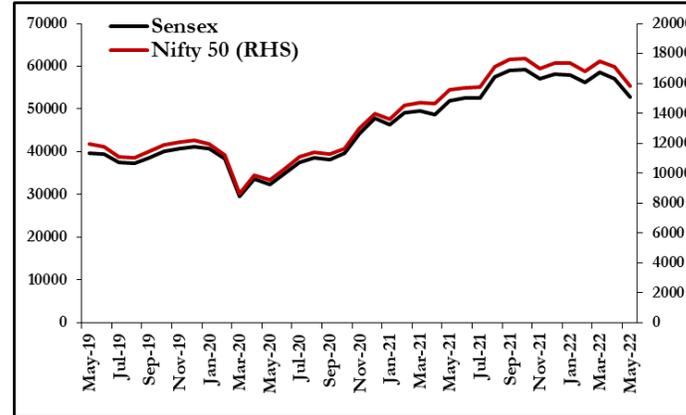


Figure 21: Equity Markets of Emerging Economies in last 30 days

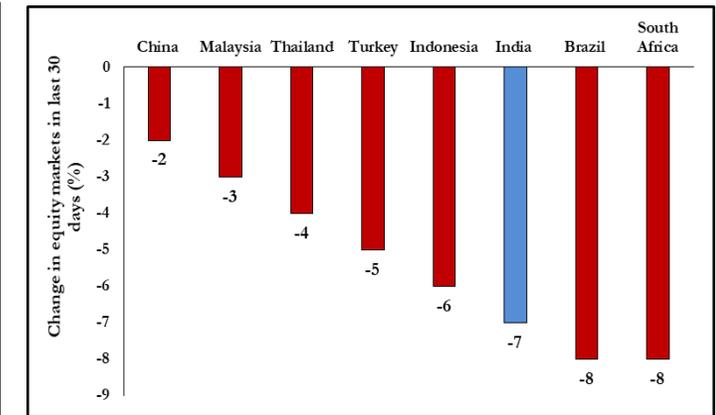


Figure 22: Foreign Institutional Inflows

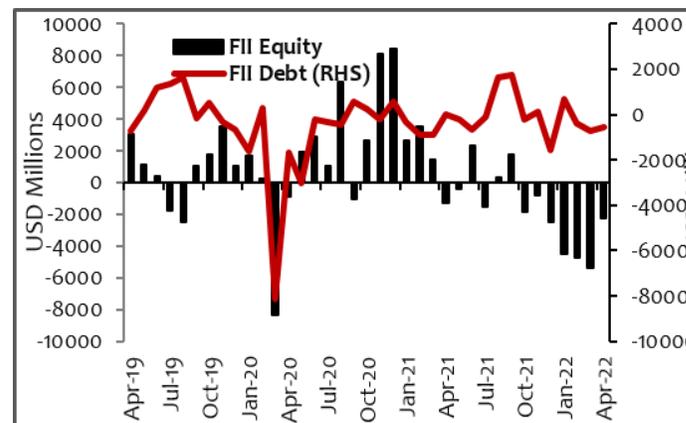
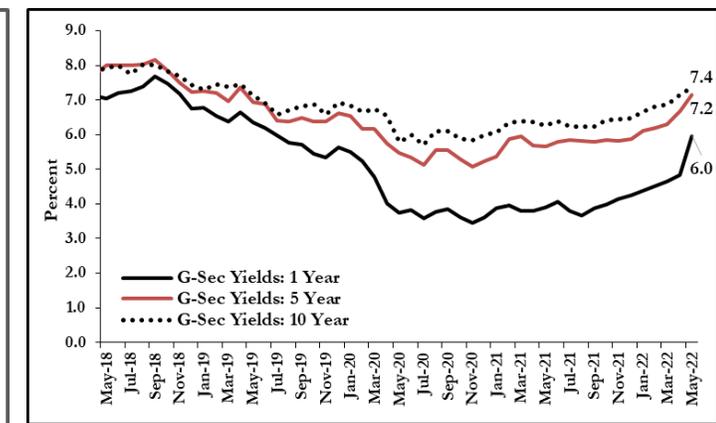


Figure 23: Yields on Domestic Government-securities



Source: BSE Ltd, NSE Ltd; Global Markets Monitor, IMF; National Securities Depository; Clearing Corporation of India Ltd.
 Note: The data in the panel is as of 19th May, 2022.



Global updates - Persistent supply bottlenecks fuel global inflation

- Resurgence of COVID-19, lockdowns in certain economies, and geopolitical tensions have led to persistent supply bottlenecks fueling inflationary pressures due to which commodity and energy prices have soared.
- Lockdowns and soaring costs have alarmed Chinese policymakers of worries of a slowdown in growth. Consumer spending has fallen, exports are weak and the real estate market is mired in a downturn. ([At 5.5%, China sets lowest economic growth target in decades / Business Standard News \(business-standard.com\)](#), [China will step up infrastructure construction to boost growth: Xi Jinping / Business Standard News \(business-standard.com\)](#))
- Stagflation concerns in US market are being raised ([Most Wall Street Experts Now Predict Stagflation—Here's What That Means For Investors And The U.S. Economy \(forbes.com\)](#)).
- The United Kingdom faces the biggest drop in living standards since the 1950s due to a 7 percent inflation print in the 12 months through March 2022 fueled by extremely high energy prices.



Heatmap for high-frequency indicators

	Apr-18	Jul-18	Oct-18	Jan-19	Apr-19	Jul-19	Oct-19	Jan-20	Mar-20	Jul-20	Nov-20	Jan-21	Apr-21	Jun-21	Sep-21	Dec-21	Feb-22	Mar-22	Apr-22
Agriculture																			
Tractor sales (All)	21.84325	16.87191	23.60405	2.752556	-14.7008	-11.9545	-5.54567	3.268508	-50.1797	35.92112	48.34637	47.52135	480.7643	22.08762	-9.49348	-22.4784	-26.3927	-11.6023	38.11999
Fertilizer Sales (Urea)	59.28339	6.236934	7.506297	23.71357	8.793456	-0.32798	23.10216	52.47237	-18.5343	9.542613	8	-35.0439	-13.7846	-7.58048	-2.38179	-5.22639	22.45073	50.41841	64.81375
Industry																			
IIP (mining)	102.60	95.50	108.20	119.10	107.80	100.20	99.50	124.30	131.00	87.50	106.60	121.30	107.60	105.50	95.10	120.40	123.20	144.60	
IIP (electricity)	153.70	162.00	166.00	150.90	162.90	170.50	145.80	155.60	146.90	166.30	144.80	164.20	174.00	169.10	167.90	162.50	160.80	191.00	
IIP (manufacturing)	123.10	127.60	133.90	135.50	126.20	133.70	126.30	137.90	111.60	118.50	128.50	136.60	124.60	121.20	131.90	139.80	130.40	144.60	
PMI (manufacturing)			0.00	0.00	0.00	52.50	50.60	55.30	51.80	46.00	56.30	57.70	55.50	48.10	53.70	55.50	54.90	54.00	54.70
PMI (services)			0.00	0.00	0.00	53.80	49.20	55.50	49.30	34.20	53.70	52.80	54.00	41.20	55.20	55.50	51.80	53.60	57.90
Auto sales	18.39251	10.3611	16.25037	-3.85371	-13.6417	-15.6723	-11.1613	-10.4977	-42.0678	-23.1847	4.466128	3.798284	3022.216	26.66736	-15.3105	-8.05557	-17.7551	-13.7185	
Natural gas production	5.10333	-5.07953	-0.38313	5.431399	-0.26474	0.162151	-5.59791	-8.20391	-14.2236	-10.1037	-9.05555	-2.2106	22.68058	19.50116	26.54784	19.45458	12.79062	7.464181	6.607908
Crude steel production	5.165289	10.08628	7.692308	2.533675	4.25286	4.702506	-4.53869	-2.96111	-19.3985	-8.35003	7.567447	10.65864	190.1276	21.85757	6.324421	2.138829	7.808322	6.15458	6.208774
Electricity production	1.427338	6.943016	11.7548	1.219707	5.656089	6.664408	-12.7729	3.951127	-8.67796	-3.72408	3.122971	4.382929	38.47428	8.9422	0.172842	3.364797	4.62945	6.50143	12.83396
Crude oil production	-0.82979	-5.38563	-5.02712	-4.32536	-6.73672	-4.39465	-5.08596	-5.29874	-5.49588	-4.8881	-4.88733	-4.57547	-2.06571	-1.79422	-1.73895	-1.80662	-2.17205	-3.36746	-0.94615
Services																			
Air passenger traffic	21.74981	18.61564	11.35478	8.360125	-5.37233	0.967058	2.860032	1.269489	-37.78	-83.8872	-56.5352	-46.5674	-53.3224	-77.4905	-44.371	-21.139	-40.1773	39.31157	39248.65
Cargo traffic -all airports	6.120888	10.51113	14.16981	4.345067	-3.11323	-2.98437	-6.3683	-1.38626	-31.9167	-34.673	-12.9209	-11.0047	-4.51643	-13.4222	-3.7428	-2.59858	-11.1082	34.60921	458.1932
Cargo traffic	1.864956	4.163424	5.363665	3.155371	5.673584	1.92703	0.395436	1.144177	0.833644	-17.967	-10.4435	-7.38461	2.491429	2.212803	-0.34833	1.049931	1.153313	2.145612	36.74062
National highways construction								1.485465	-5.95315	-11.874	4.179255	15.23028	7.70202	5.986079	-17.2653	-10.879	-8.42345	2.149067	175.2381
Foreign tourist arrival	3.77964	3.488218	2.681389	6.31687	3.975394	1.442294	6.155087	0.738947	-66.4392	-98.4532	-93.5029	-92.5109	-91.0357	-95.9533	-85.8014	-75.2284	-76.3466	4.265559	
NPCI retail payments - volume	51.70605	57.99066	56.33012	60.76037	67.72268	75.92857	59.73074	59.92456	23.63869	21.62827	47.03109	39.30194	100.0718	100.958	126.5151	139.8506	129.7976	194.0542	220.2461
Trade																			
Exports- total	5.575692	15.52801	16.53763	3.934314	0.339843	1.853705	-1.73038	-2.09813	-34.3299	-9.53957	-8.25242	6.517444	18.09821	29.82064	29.98655	45.06383	24.60146	96.47603	295.5773
Exports- non oil	6.483795	11.65117	13.02114	8.16603	-2.88406	3.802604	1.518685	-2.2849	-34.8192	-3.37917	0.612072	12.06548	20.63228	27.45993	26.74	38.54001	23.11775	81.56785	257.6515
Import – non oil non gold		21.00666	14.18384	1.014125	-8.1487	-8.21588	-13.9486	-10.8283	-34.7295	-24.5318	0.846702	5.991154	8.544563	23.08632	35.46837	47.36186	42.7285	99.73262	186.3563
NEER (trade weighted 40 currencies)	-4.91601	-4.73671	-8.50645	-6.07386	-1.06722	1.301098	4.656983	0.034063	-3.52777	-6.45519	-4.39473	-3.30749	-6.78297	-6.44888	-3.9507	-4.59819	-4.49809	-2.6345	-0.7242
Gross FDI	45.96757	-32.6365	59.61735	55.78588	1.703451	48.54462	-3.85169	27.75813	22.67057	-17.7652	84.25744	-40.0791	-8.22895	-49.1232	44.75698	-16.3585	19.91817	6.086127	
Net FPI (USD million)	-166.963	-91.1617	-280.033	-122.5	-202.305	-231.445	-142.809	-118.565	-326.423	-204.018	161.5705	1267.791	-149.26	-5.52612	303.5569	-1118.87	-499.152	-58.7937	50.96626
Fiscal																			
GST: E-way bills					87.6146	18.00131	-1.19047	11.57482	-25.9511	-7.28855	8.12348	10.45712	11.87831	9.937654	29.6366	29.31982	20.91541	92.24434	773.9781
Monetary and Financial Markets																			
Non food credit	12.47398	12.47263	14.7847	14.70018	13.13782	12.07262	8.818891	8.013727	6.053229	6.285353	5.927092	5.888188	13.11827	11.80206	12.21274	16.30221	15.30214	14.70289	16.56449
Non food credit outstanding – personal loans	19.0866	16.73623	16.84762	20.56877	19.19717	20.80921	19.45484	18.9628	18.42742	9.406482	9.212357	8.66518	24.08005	21.08066	21.47039	24.34185	23.10848	24.41074	



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