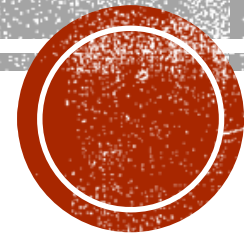


Monthly Review of the Economy

October 2022



This report has been prepared by Aditya Gupta and Aakansha Atal, Research Associates. Comments are welcome at aahmed@ncaer.org. Khushvinder Kaur has helped with formatting. 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

- International Monetary Fund (IMF) in its World Economic Outlook for October 2022 has revised GDP growth projections downward for India for the fiscal year 2022-23 from 7.4% to 6.8% <https://www.livemint.com/economy/imf-lowers-india-s-growth-forecast-to-6-8-for-202223-11665491724545.html>
- Reserve Bank of India's card tokenization will ensure a secure digital payment ecosystem <https://www.livemint.com/industry/banking/how-rbi-s-card-tokenization-will-ensure-a-secure-digital-payment-ecosystem-11664556764413.html>
- Consumer Price Index shot up to 7.4% while Wholesale Inflation falls to 10.7%, showing diverging trends <https://www.hindustantimes.com/india-news/wholesale-inflation-at-10-7-in-september-101665772987531.html>
- World Bank slashes India's economic growth forecast to 6.5 percent for FY23 [world-bank-slashes-india-s-economic-growth-forecast-to-6-5-for-fy23-122100601103 1.html](https://www.worldbank.org/press/2022/10/10/202210100601103-1)
- MSP for rabi crops hiked, “wheat by 5.5 percent, mustard by 7.9%” <https://www.financialexpress.com/economy/msp-hike-union-cabinets-gift-for-farmers-ahead-of-diwali-wheat-by-rs-110-mustard-by-rs-400-per-quintal/2718129/>
- Exports grew by a modest 4.8% year-on-year to US\$35.5 billion (August: US\$33.9 billion) while imports increased by 8.7% yoy to US\$61.2 billion (August: US\$61.9 billion). Trade deficit narrowed to US\$25.7 billion in September (August: US\$28.0 billion)



Macroeconomic monitor: Indian economy continues to be resilient

- India's manufacturing Purchasing Manager's Index (PMI) slipped to a 3-month low in September 2022 to 55.10, however, output still showed strong expansion notwithstanding recession fears in developed countries. Growth in India's services industry slumped in September 2022 to a six-month low due to easing in demand amid high inflation. These factors together led to a fall in PMI composite to 55.1 from 58.2 a month earlier. (Figure 1).
- Goods and Service Tax (GST) collections rose to Rs 1.47 lakh crore in September 2022, an increase of 26.2 percent year on year owing to combined effects of the surged cost of goods and services the higher demand for them, the raised tax compliance by the traders, and the festive season. (Figure 2).
- India's industrial production slipped to an 18-month low, contracting by 0.8 percent in August, mainly due to decline in output of the manufacturing and mining sectors. (Figure 3).
- Core sector growth back on track, upto 7.9 percent in September 2022 after 2 month drop.(Figure 4).

Figure 1: PMI Indices

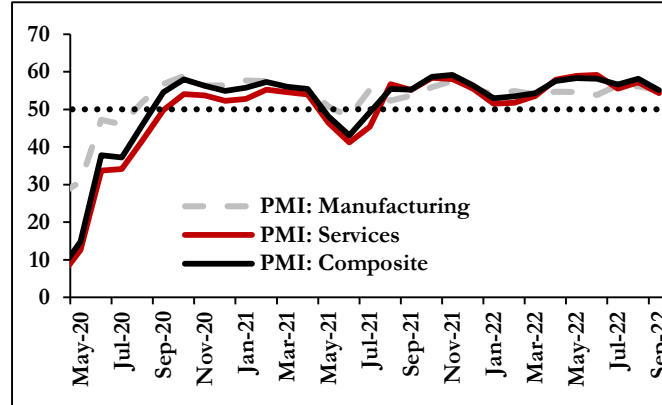


Figure 2: GST Revenue

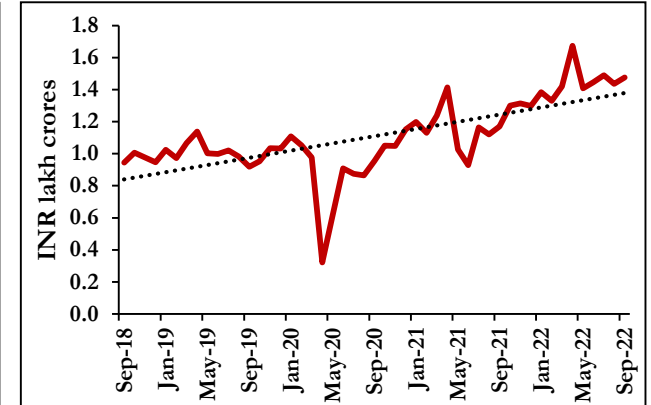


Figure 3: Index of Industrial Production

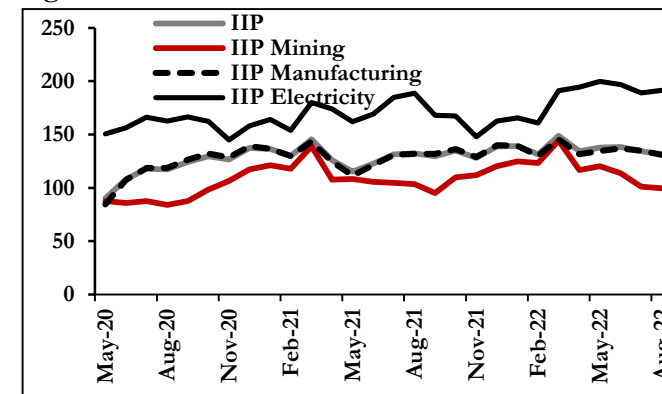
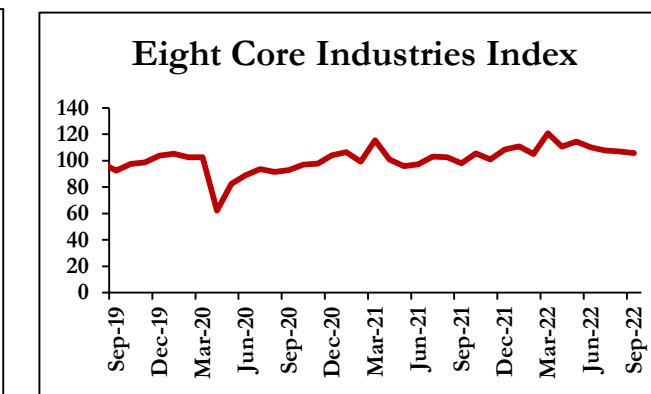


Figure 4: Index for Core Industries



Source: IHS Markit; GSTN, Ministry of Finance; MoSPI; Ministry of Commerce and Industry.
 Note: Figures 3 & 4 are indexed to April 2019 =100. All growth rates are on y-o-y basis unless mentioned otherwise.



Rural demand shows gradual recovery; urban demand remains robust

- Tractor production and sales showed a month-on-month growth of 6.0 percent and 92.8 percent in September 2022, with sales touching a new high depicting a recovery in rural demand as Kharif harvesting season approached. Air passenger traffic shot up by 3.1 percent crossed pre-Covid levels as festive season avails demand.
- Rail passenger traffic marked year-on-year growth of 85.7 percent in September 2022. Comparatively, freight traffic grew by 9.1 percent in September 2022 compared to a year ago.
- Petroleum products' consumption grew at 8.1 percent year-on-year steering up during the festive season, with a volume of 17.2 MT, although declined at 3.6 percent month-over-month (Figure 8).
- The Unified Payment Interface (UPI) saw 6.78 billion transactions in volume, amounting to Rs. 11.16 trillion in value touching a new milestone, up 4.03 percent in value terms on month-on-month basis https://www.business-standard.com/article/companies/upi-processes-over-6-8-billion-transactions-in-sep-worth-rs-11-17-trln-122100300765_1.html

Figure 5: Farm tractor production and sales

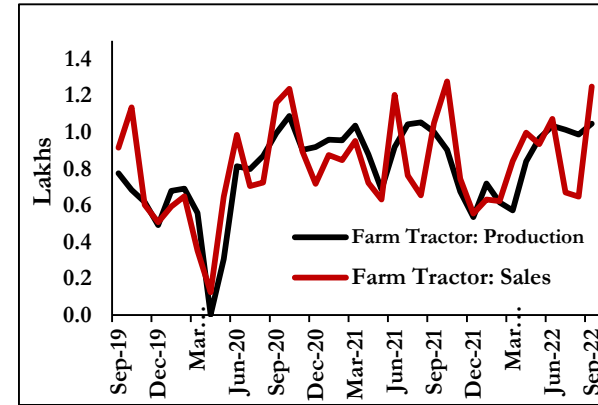


Figure 6: Air traffic

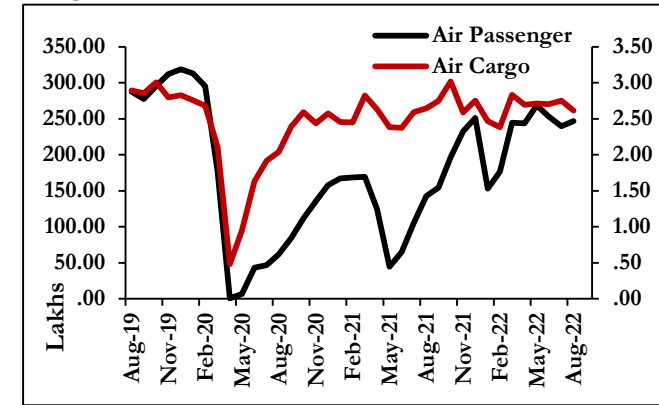
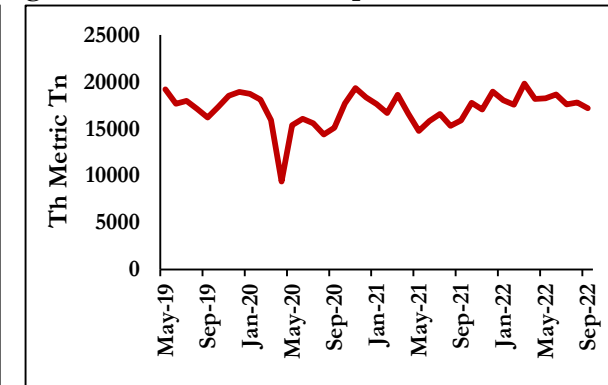
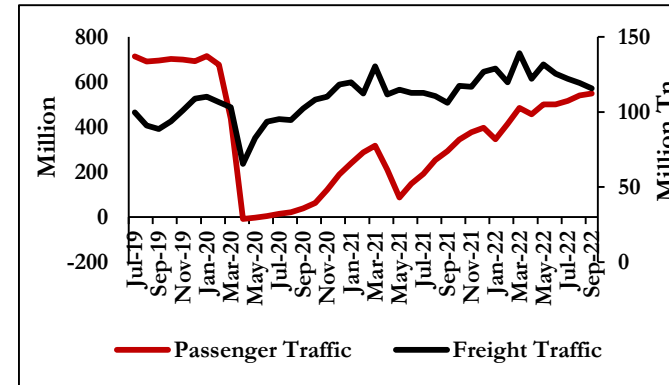


Figure 7: Rail Freight (Million Tn) and Passenger (Mn) Figure 8: Petroleum consumption



Source: Indian Railways; Petroleum Planning and Analysis Cell; Tractor and Mechanization Association



Trade deficit widens

- India's merchandise trade deficit widened to USD 25.71 billion in September 2022, as against USD 22.47 billion in September 2021. On a year-on-year basis, exports grew by a modest 4.8% despite fear of recession in developed countries, while imports expanded by 8.7 per cent (Figure 9).
- Services exports grew 18.72% in September at \$25.65 billion compared to \$21.61 billion in the same month a year ago. Import of services was, however, up 20% at \$15.10 billion in September 2022 compared to \$12.58 billion in September 2021 (Figure 10).
- The Indian central bank's decision to let importers pay with rupees and exporters be paid in rupees is likely to make trade easier with Russia and South Asian neighbours, and will help a long-term goal to internationalize the currency https://www.business-standard.com/article/economy-policy/rupee-settlement-to-help-india-trade-with-russia-iran-and-others-experts-122071200415_1.html

Figure 9: Merchandise Trade

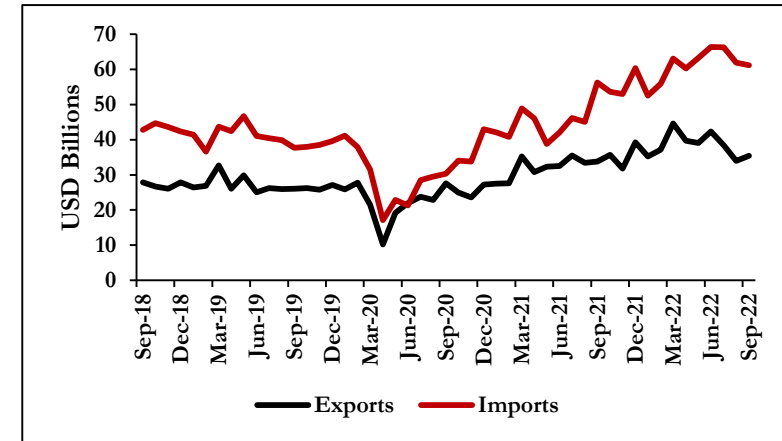
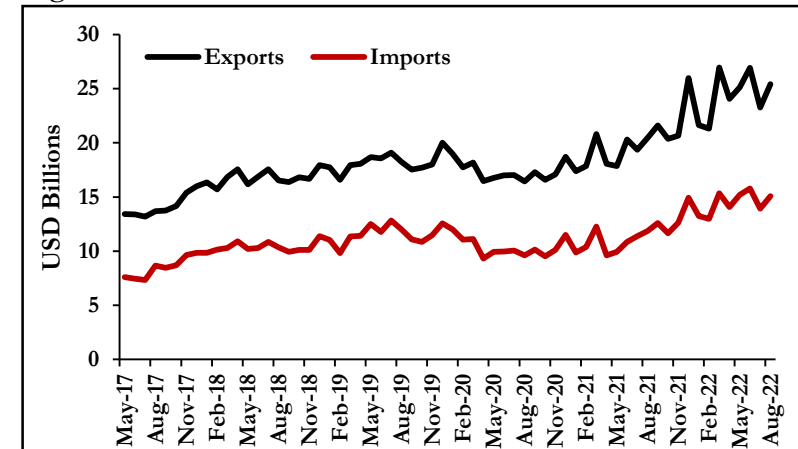


Figure 10: Services Trade



Source: Ministry of Commerce and Industry.



Headline inflation and Wholesale Inflation show diverging trend

- Consumer price index headline inflation increased to 7.41 percent from 7.0 percent in August driven by a 22-month high food inflation rate of 8.4 percent mainly due to supply conditions and inelastic demand. Core inflation remained elevated at 6.0 percent in September 2022. (Figure 11).
- Wholesale price index (WPI) based inflation rate for September 2022 decelerated to an 18-month low of 10.7 percent year on year due to broadbase easing of pricing pressure and helped by a high base a year ago (Figure 12).
- A series of self-inflicted wounds, ranging from China's zero-COVID policy to the United Kingdom's fiscal recklessness, piled on top of persistent supply chain disruptions and the protracted war in Ukraine, have severely constricted space for policy maneuver. High and persistent inflation worldwide, and the actions by central banks to rein it in, are depressing economic activity, dampening household and business confidence, and roiling financial markets.

<https://www.brookings.edu/research/october-2022-update-to-tiger-world-economy-battered-by-high-inflation-and-stalling-growth/>

Figure 11: Consumer Price Indices inflation rates

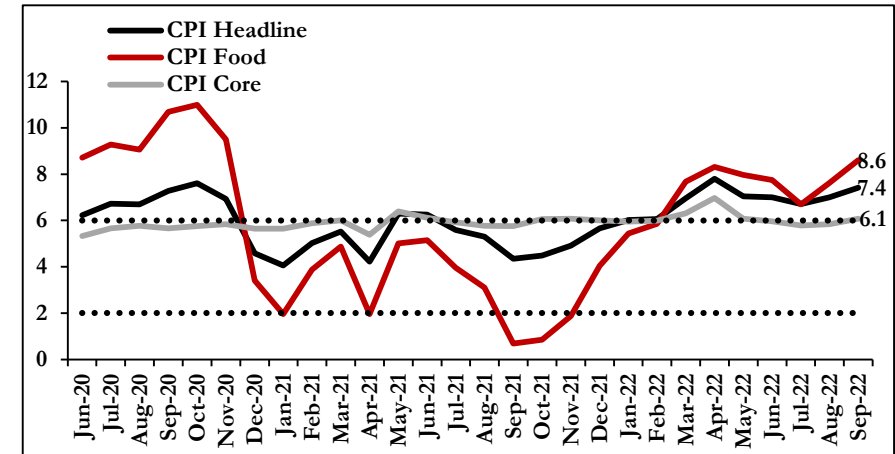
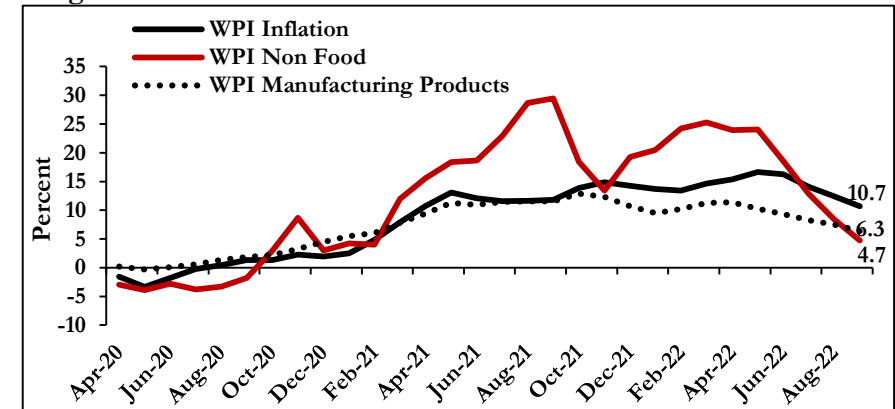


Figure 12: Wholesale Price Index inflation rate



Source: Central Statistics Office; Ministry of Commerce and Industry



Unemployment rate reached its lowest pertaining to recovery in demand due to festive season

- Data from Centre for Monitoring Indian Economy (CMIE) showed a sharp decline in rural, urban and total unemployment rate in September 2022, largely due to domestic demand reviving because of the festive season and seasonal agricultural operations. India's unemployment reached a low of 6.4 percent September 2022, down from 8.3 percent in August 2022. Urban unemployment rate fell from 9.6 percent to 7.7 percent, while rural unemployment declined from 7.7 percent to 5.8 percent (Figure 13).
- Online hiring activity in India picked up pace with a 12.7 percent year-on-year growth in September 2022 as indicated by Naukri Job Speak Index, the second highest level after all-time high in July 2022. The growth in hiring was driven by the festive season as companies ramp up their operations (Figure 14).
- With buoyant labour markets, Demand for work under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) rose marginally 5 percent in September 2022 as compared to August, year-on-year growth lower than September 2021 https://www.business-standard.com/article/current-affairs/demand-for-work-under-mgnrega-rises-marginally-in-september-report-122100300120_1.html#:~:text=The%20individual%20demand%20in%202022,t o%2030.2%20million%20in%202021.
- https://www.business-standard.com/article/companies/epfo-adds-1-69-mn-new-subscribers-in-august-a-14-4-rise-yoy-122102001041_1.html

Figure 13: Unemployment rate

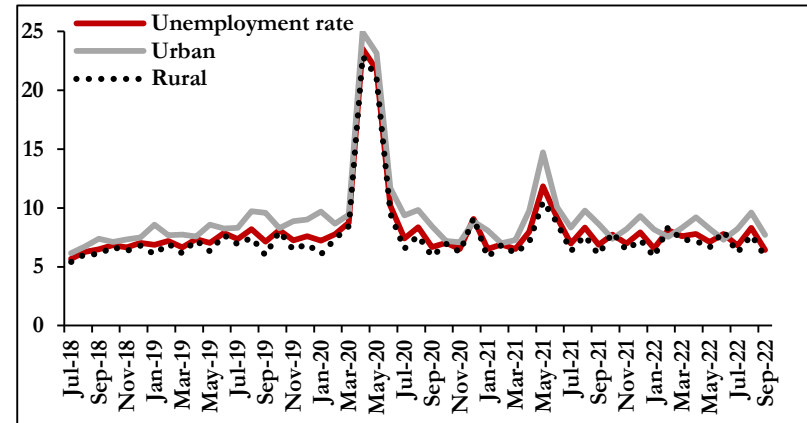
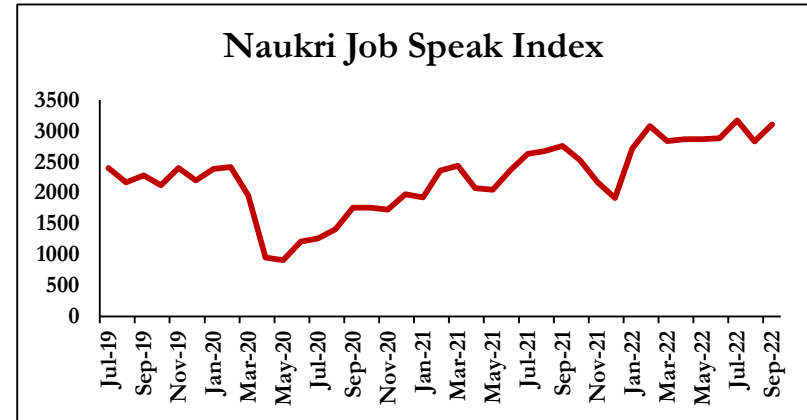


Figure 14: Naukri JobSpeak Index



Source : Centre for Monitoring Indian Economy; Ministry of Rural Development; Naukri Job Speak Report (October 2022)



Oil prices moderate; depreciation in rupee continues

- Surging crude oil prices are seen as a big problem for the domestic market, considering India is a major importer of the commodity. Front-month Brent crude oil prices firmed up to USD 96.4 per barrel as on 28th October 2022 (Figure 15).
- As of 28th October 2022, Indian rupee was trading at 82.41 per dollar (Figure 16). Emerging market currencies remained under pressure with thawing of policy rate hikes nowhere in sight. Rupee depreciated by another 1.3 percent in October (till 28th) on top of a 2.3 percent depreciation in September.
- Foreign exchange reserves have declined by USD 82.8 billion in 2022-23 so far due to RBI's intervention in the foreign exchange market and valuation changes. As of 21st October 2022, foreign reserves were at USD 524.5 billion (Figure 17).

Figure 15: Brent crude-oil Price

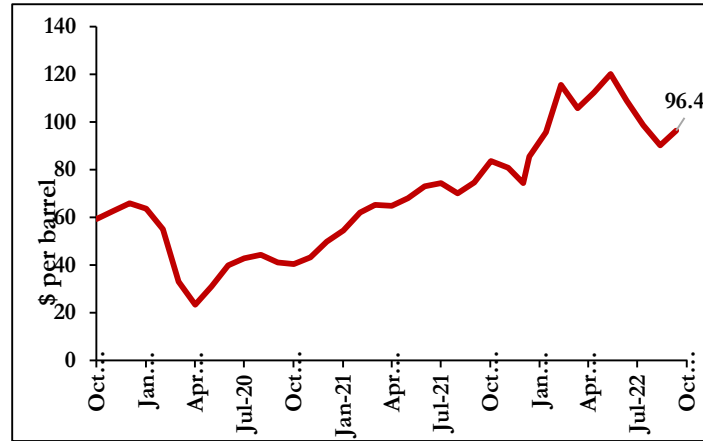


Figure 16: Exchange Rate

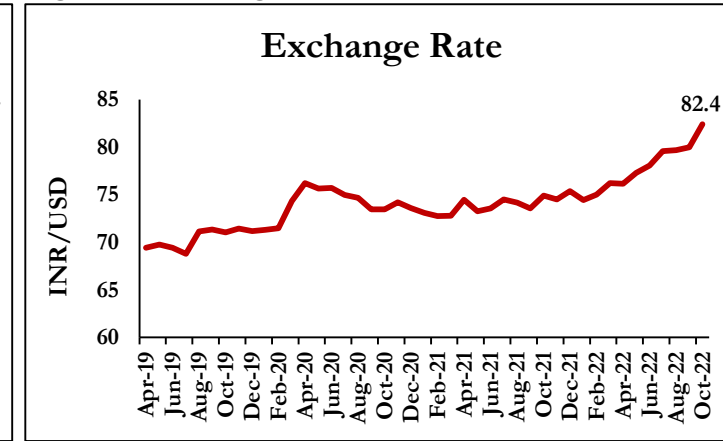
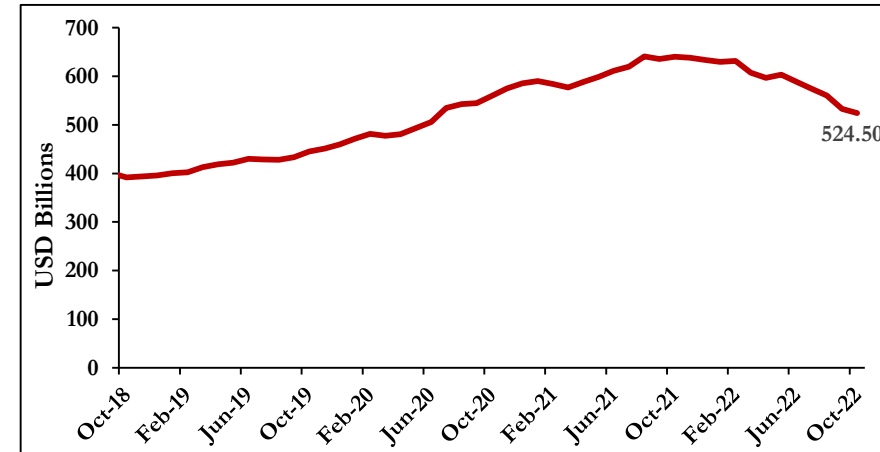


Figure 17: Foreign Exchange Reserves



Source: Global Markets Monitor, International Monetary Fund; Reserve Bank of India.

Note: Data for figures 15 and 16 in the panel is as of 28th October 2022. Data for figure 17 is available up till 21st October 2022.



Financial markets show resilience but remain volatile

- Fed's yield curve barometer starts flashing recession risk
<https://in.investing.com/news/feds-yieldcurve-barometer-starts-flashing-recession-risk-3391756>
- BSE Sensex and NSE Nifty 50 witnessed a positive momentum in October 2022 fully recouping the losses in the second fortnight of October 2022 (Figure 18).
- Foreign portfolio investor sentiments remained bearish in October 2022. Net FPI in equity and debt both turned negative for the month of October 2022 (Figure 19).
- Global bond yields continued its hardening bias in October with continued monetary tightening by central banks. In India, while the 10-year benchmark yield remained stable during the month, the short-end of the curve firmed up (Figure 20).

Figure 18: Indian Equity Markets

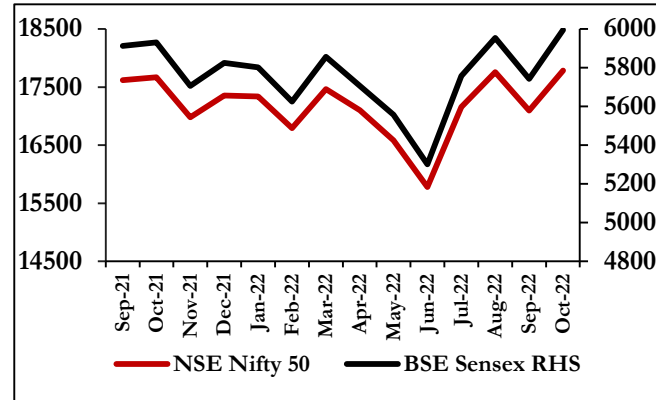


Figure 19: Foreign Portfolio Investment

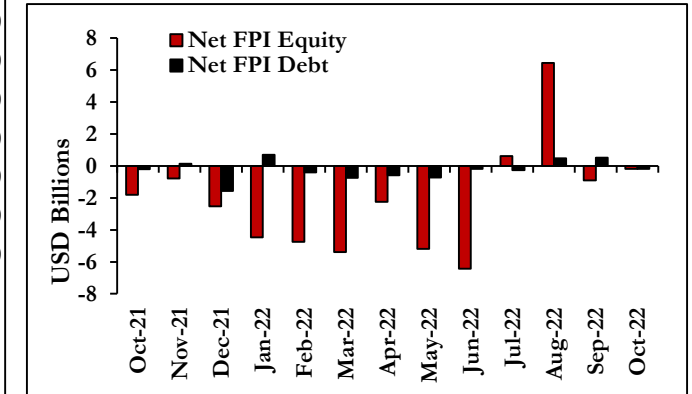
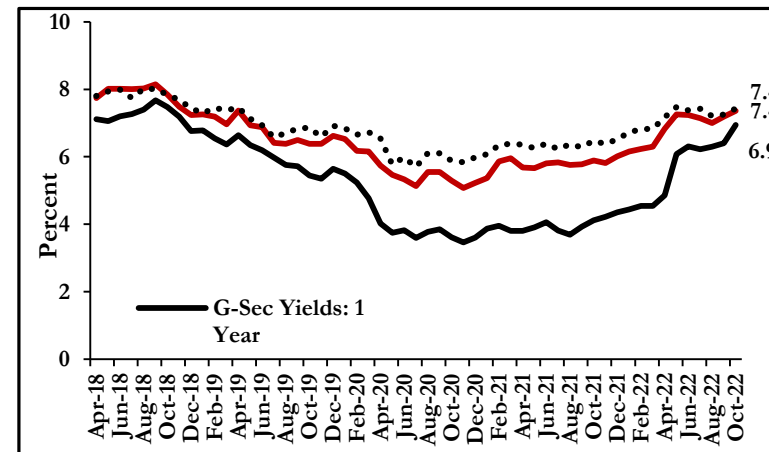


Figure 20: Yields on Domestic Government-securities



Source: BSE Ltd, NSE Ltd; Global Markets Monitor, IMF; National Securities Depository Limited; Clearing Corporation of India Ltd.
 Note: Data for figures 18 to 20 in the panel is up till 28th October 2022.



Heatmap for high-frequency indicators

	Apr-19	Sep-19	Feb-20	Jul-20	Dec-20	May-21	Oct-21	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Agriculture														
Tractor sales (All)	-14.7	0.0	19.6	35.9	41.2	-2.4	3.2	-11.6	38.1	47.7	-10.9	-12.2	-1.0	18.9
Fertilizer Sales (Urea)	8.8	24.4	8.5	9.5	-34.9	-9.8	-31.1	50.4	64.8	17.3	5.5	14.4	15.0	-3.2
Industry														
IIP (mining)	107.8	86.4	123.3	87.5	117.3	108.3	109.8	144.4	116.6	120.4	113.7	101.1	99.6	
IIP (electricity)	162.9	158.7	153.7	166.3	158.0	161.9	167.3	191.0	194.5	199.9	196.9	188.9	191.3	
IIP (manufacturing)	126.2	126.0	134.2	118.5	139.0	111.5	136.4	145.3	131.6	134.6	136.9	134.9	131.0	
PMI (manufacturing)		0.0	54.5	46.0	56.4	50.8	55.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1
PMI (services)		0.0	57.5	34.2	52.3	46.4	58.4	53.6	57.9	58.9	59.2	55.5	57.2	54.3
Auto sales (domestic passenger vehicles)	-17.1	-26.5	-12.3	-3.9	13.6	162.5	-27.1	-3.9	-3.8	185.1	19.1	11.1	21.1	92.0
Natural gas production	-0.3	-4.3	-8.8	-10.1	-7.1	19.1	24.7	7.5	6.6	6.4	1.3	-0.4	-1.0	-1.7
Crude steel production	4.3	-0.5	0.2	-8.4	9.6	44.6	5.1	6.2	8.0	17.7	5.9	2.8	0.4	1.8
Electricity production	5.7	-1.2	11.7	-3.7	4.5	6.6	3.3	6.5	12.8	24.2	16.4	3.7	2.0	12.6
Crude oil production	-6.7	-5.4	-6.4	-4.9	-3.6	-6.3	-2.2	-3.4	-0.9	4.6	-1.7	-3.8	-3.3	-2.3
Services														
Air passenger traffic – all airports	-5.4	0.2	7.2	-83.9	-50.4	564.3	75.9	44.2	95.3	502.4	288.1	127.4	73.1	61.6
Cargo traffic	5.7	1.4	1.4	-18.0	-8.7	31.3	14.6	7.0	5.5	7.2	9.2	10.6	10.1	10.8
Foreign tourist arrival	4.0	4.4	-6.6	-98.5	-92.6	425.1	337.0	177.9	399.2	2043.7	1349.2	783.9	-37.8	
NPCI retail payments - volume	67.7	60.6	54.8	21.6	43.7	57.7	71.3	66.9	83.6	104.2	81.6	70.6	60.9	
Trade														
Exports- non oil	-2.9	-4.5	2.2	-3.4	6.0	54.4	30.1	9.9	17.4	13.1	11.1	1.5	-1.8	-2.1
Import – non oil non gold	-8.1	-14.5	-9.7	-24.5	9.7	41.7	40.2	35.4	34.4	31.7	38.3	42.9	40.6	20.6
Imports	6.1	-12.0	3.6	-29.6	8.4	69.9	57.4	29.0	30.9	62.9	57.6	43.6	37.3	8.7
NEER (trade weighted 40 currencies)	-1.1	2.8	1.6	-6.5	-4.6	-1.2	-1.8	-2.4	1.2	0.1	-0.4	-0.6	-1.0	-0.9
Gross FDI	1.7	-26.2	22.4	-17.8	26.5	208.1	-15.3	51.9	32.9	-34.3	31.5	46.0	-43.6	
Net FPI	-202.3	-132.2	-25.1	-204.0	2396.2	-73.5	-155.7	-379.7	149.7	1735.2	-469.6	-124.1	218.3	-111.6
Fiscal														
GST: E-way bills	87.6	8.9	14.3	-7.3	15.9	56.8	14.5	9.7	28.0	84.1	36.2	17.8	18.7	23.7
Monetary and Financial Markets														
Non food credit	13.1	8.7	6.9	6.3	6.2	5.8	7.0	8.7	10.3	11.9	12.8	13.9	16.0	16.9
Non food credit outstanding – personal loans	20.2	20.1	21.3	14.1	9.3	12.8	11.7	12.6	14.5	16.3	18.1	18.8	19.5	



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