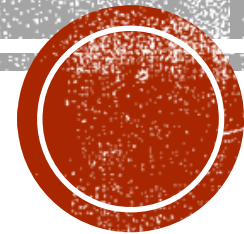


Monthly Review of the Economy

January 2023



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

Monthly Highlights

- Inflation rate in the United States has continued to moderate, after peaking in mid-2022, raising expectations of milder policy rate hikes from the Federal Reserve Board in the coming months.
- As per the First Advanced Estimates (FAEs) for the year, India's Gross Domestic Product (GDP) is projected to grow at 7.0 per cent in FY2022-23. Gross Value Added (GVA) growth is estimated at 6.7 per cent, and among the GVA components, services are expected to grow at 9.1 per cent and the manufacturing sector is anticipated to grow at 1.6 per cent vis-à-vis a corresponding figure of 9.9 per cent in FY2021-22.
- The Reserve Bank of India (RBI) released its Financial Stability Review report in December 2022, which showed improvement in the health of the Indian banking system. Alongside a recovery in the bank's asset quality, the report also highlighted a continued expansion in credit growth.
- High-frequency indicators reveal that the domestic economy has remained resilient. The Purchasing Manager's Index (PMI) for both manufacturing and services continued exhibiting an expansionary momentum; GST collections were buoyant; the demand for tractors and two-wheelers was sturdy, and growth in bank credit remained robust. Inflationary pressures have been moderating since October 2022 on account of softening food, vegetable, and commodity prices. India's foreign exchange reserves increased, and the rupee strengthened marginally against the dollar. Even so, merchandise exports declined in December 2022, thereby widening the trade deficit. The unemployment rate, as per the survey of Centre for Monitoring Indian Economy (CMIE), increased for the third consecutive month due to an uptick in the urban unemployment rate.
- With markets anticipating less aggressive rate hikes, investor sentiments in global equity markets improved in January 2023. Yields on major government securities in India remained flat; foreign investors pulled out of equity markets; and equity markets corrected.

Global updates and data releases

- US inflation slowed down for the sixth consecutive month, falling to 6.5 per cent in December 2022 from 7.3 per cent in November 2022 (Figure 1). [US Inflation rate December 2022 | Wall Street Journal](#)
- The World Bank has lowered its global economic growth projection for 2023 to 1.7 per cent from its previous estimate of 3.0 per cent, anticipating the risk of a global recession in 2023. [World Bank cuts its growth forecast for global economy to 1.7 per cent | \(cnbc.com\)](#)
- UK inflation has decreased to 10.5 per cent in December 2022 from 10.7 per cent in November 2022. Inflation in Japan inched up to 4 per cent (Figure 2). [UK inflation rate dips for second straight month to hit 10.5 per cent | \(cnbc.com\)](#)

Figure 1: Headline Inflation in USA

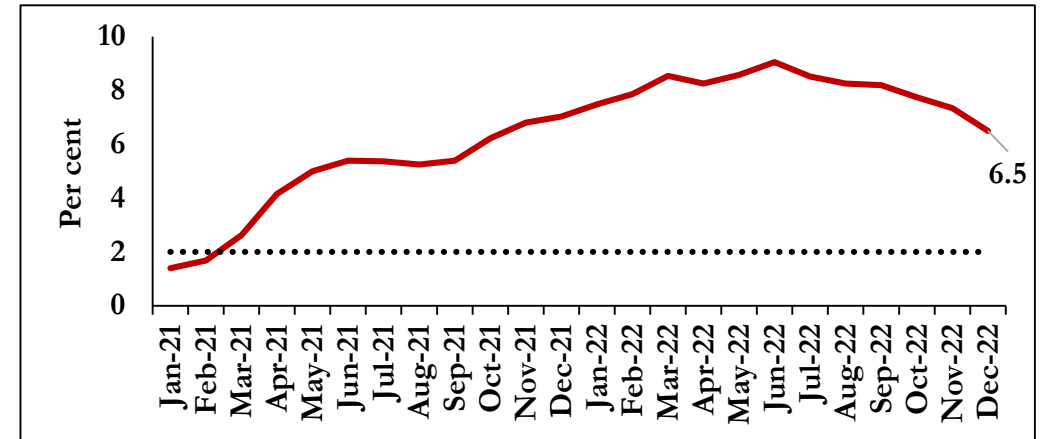
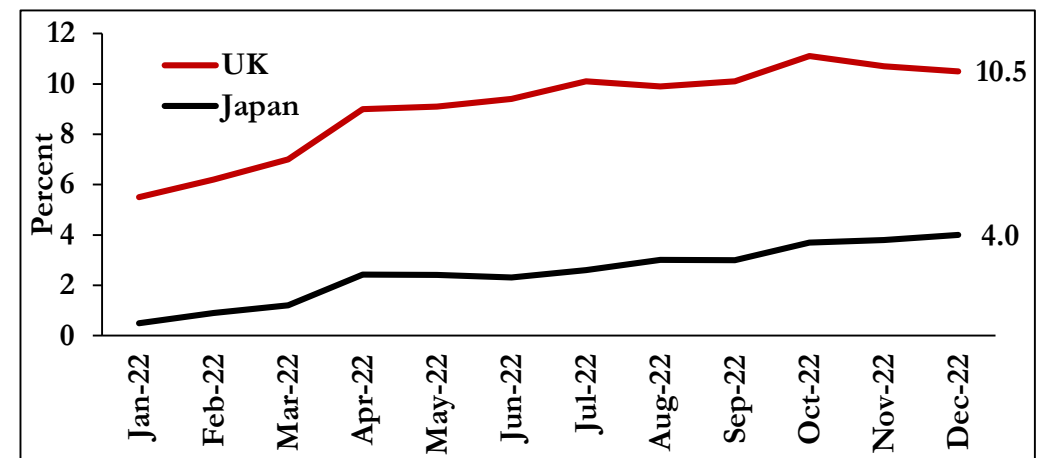


Figure 2: Headline Inflation in Advanced Economies



Source: US Bureau of Labor Statistics (Figure 1); Office for National Statistics; Statistics Bureau (Figure 2).

First Advanced Estimates FY2022-23 for India showed that all GDP components have surpassed the pre-pandemic levels

- First Advanced Estimates (FAEs) for GDP and GVA for FY2022-23 were released on 8 January 2022.
- As per the estimates, real GDP growth is projected at 7.0 per cent and GVA at 6.7 per cent for FY2022-23. The services sector is expected to grow by 9.1 per cent in FY2022-23 as compared to 7.2 per cent in FY2021-22. Manufacturing and mining are anticipated to lag behind, with expected growth rates of 1.6 per cent and 2.4 per cent in FY2022-23, respectively (Figures 3 and 4).
- GDP and its components are anticipated to surpass the pre-pandemic levels in FY2022-23 (Figure 5).

Figure 3: GDP and Components Growth Rate

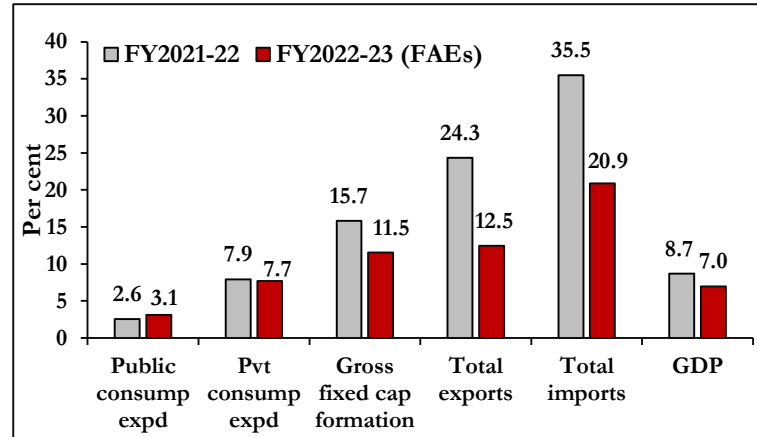


Figure 4: GVA and Components Growth Rate

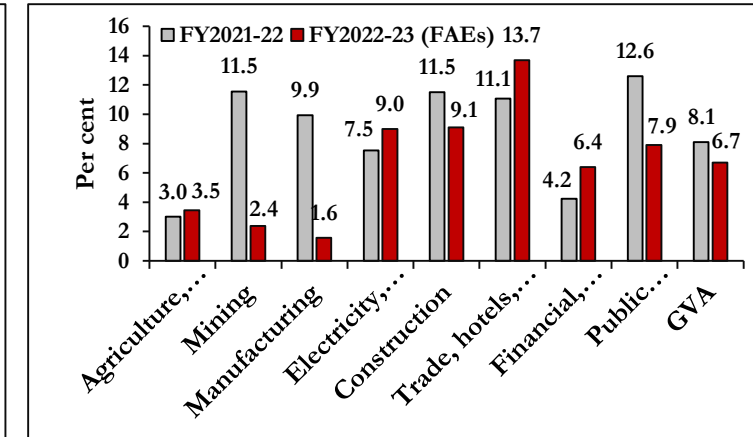
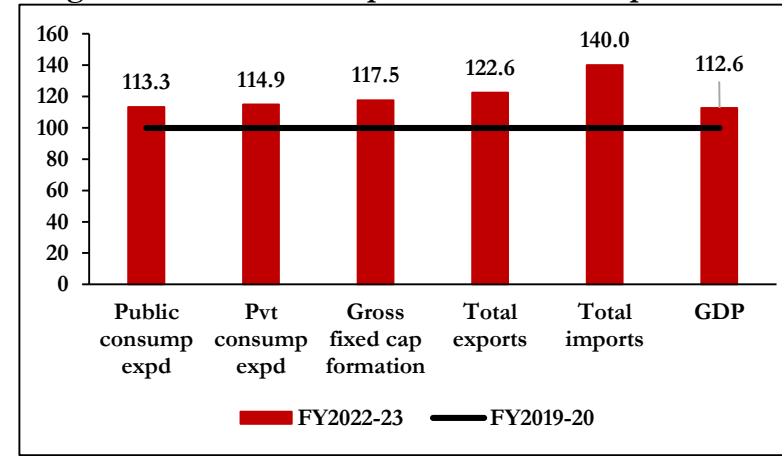


Figure 5: GDP and Components Level Comparison



Source : Ministry of Statistics and Programme Implementation (Figures 3, 4, and 5).

Indian economy remained buoyant; PMI and IIP indices exhibited an expansionary momentum

- The Purchasing Manager's Index (PMI) for manufacturing increased to 55.8 in December 2022 from 55.7 in November 2022. The PMI for services also improved from 56.4 in November 2022 to 58.5 in December 2022. Together, they led to an increase in the composite PMI to 59.4 in December 2022 from 55.5 a month earlier (Figure 6). [India's December manufacturing PMI expands to 57.8; highest in over 2 yrs | Business Standard News \(business-standard.com\)](#)
- The Index of Industrial Production (IIP) rose by 7.1 per cent in November 2022 on a yearly basis, amid a rise in output in sectors such as manufacturing and mining (Figure 7). [Industrial production expands by 7.1 per cent in November yoy as per govt data | Business Standard News \(businesss-standard.com\)](#)
- The combined Index of Eight Core Industries (IIP Core) increased by 5.3 per cent in November 2022 vis-à-vis November 2021 (Figure 7).

Figure 6: PMI Indices

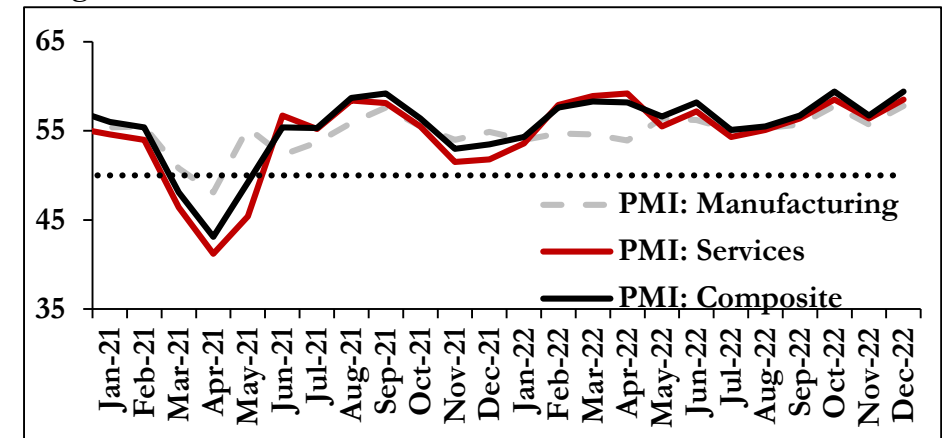
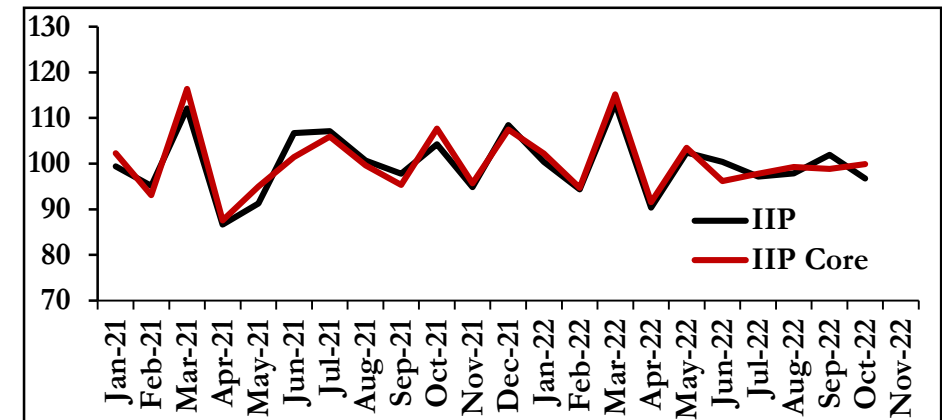


Figure 7: Index of Industrial Production (IIP) and IIP for Core Industries



Source: IHS Markit (Figure 6); Ministry of Statistics and Programme Implementation, Government of India (Figure 7).

Note: For Figure 7, series are indexed to June 2019 =100.

GST revenue collection remained buoyant; E-way bills increased

- Goods and Service Tax (GST) collections increased to Rs. 1.49 lakh crore in December 2022 as compared to Rs. 1.45 lakh crore in November 2022, registering a year-over-year growth of 15.2 per cent (Figure 8).
- GST E-way bills collection increased by 17.0 per cent year-over-year in December 2022 (Figure 9).
- The digital payments platform in India, Unified Payments Interface (UPI), processed 7.8 billion transactions, amounting to Rs. 12.8 lakh crore in December 2022, according to the data published by National Payments Corporation of India, reaching its highest collection since its launch in 2008. [UPI witnessed the highest ever 7.82 cr transactions worth a record of Rs 12.8 lakh crore in December 2022 | The Times of India](#)

Figure 8: GST Revenue

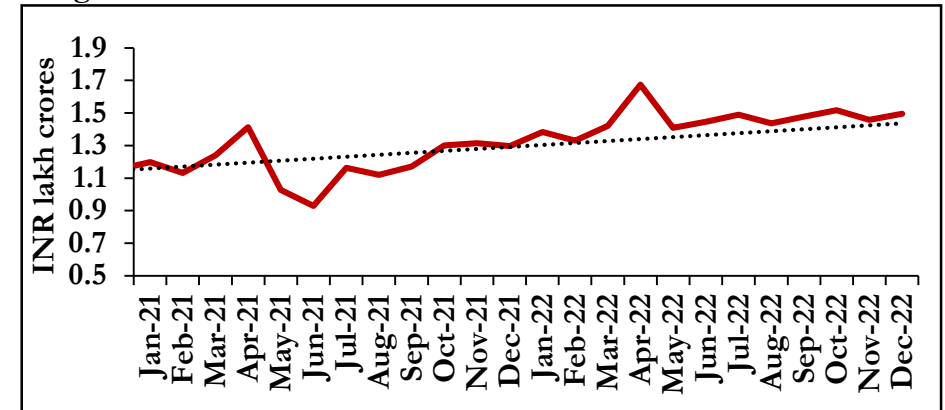
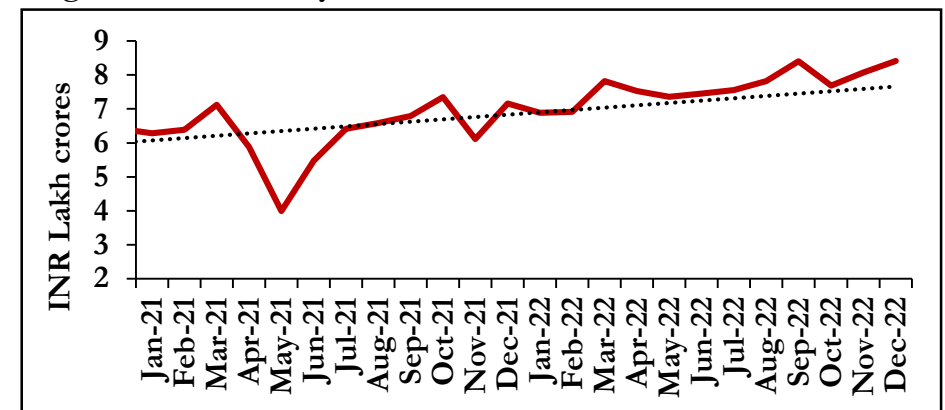


Figure 9: GST: E-Way Bills



Source: Goods and Services Tax Network, GSTN (Figures 8 and 9).

Farm tractor and automobile sales continued to grow on a yearly basis

- In December 2022, the production of tractors increased by 47.0 per cent, while the sales of tractors increased by 39.9 per cent year-over-year (Figure 10).
- The sales of two-wheelers increased by 14.8 per cent year-over-year (Figure 11), though they showed a sequential decline of 33.5 per cent over the previous month in December 2022.
- In December 2022, India's retail automobile sales dropped 5 per cent vis-à-vis December 2021, after experiencing a strong increase in the festive months of October and November 2022. [Retail auto sales fall in December, face near-term headwinds: FADA- The New Indian Express](#)

Figure 10: Farm Tractor Production and Sales

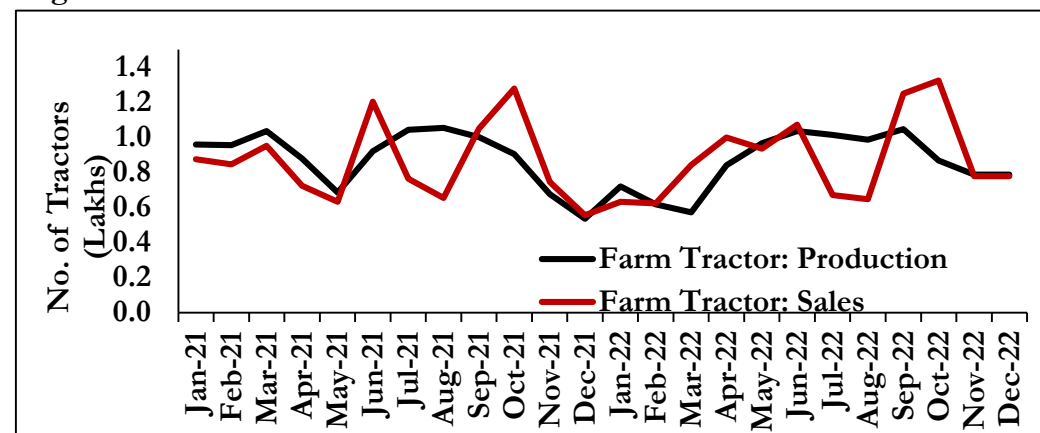
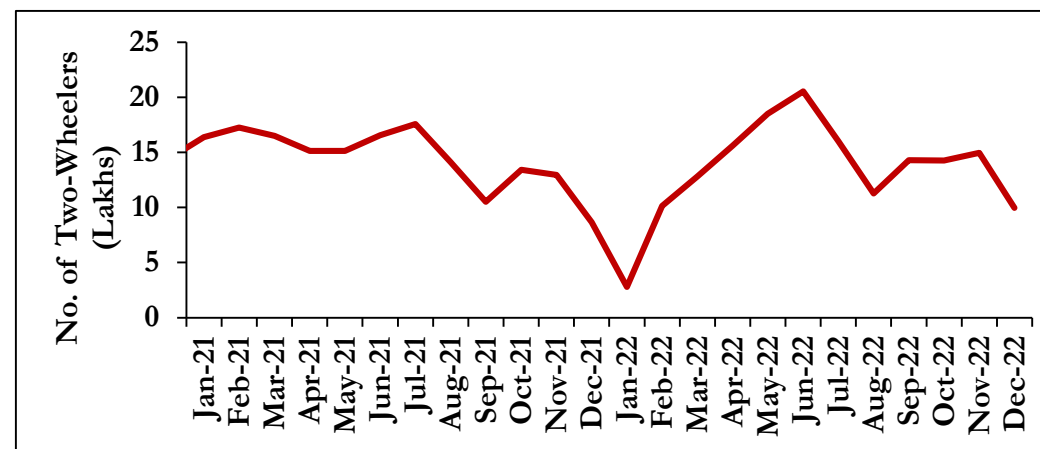


Figure 11: Automobile Sales: Two-Wheelers

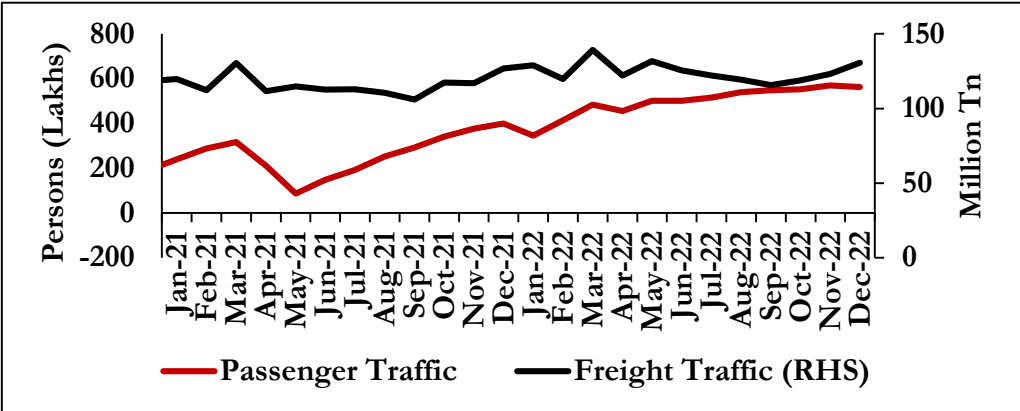


Source: Tractor and Mechanization Association (Figure 10), Society of Indian Automobile Manufacturers (Figure 11).

Railway traffic showed a continued momentum; air traffic grew

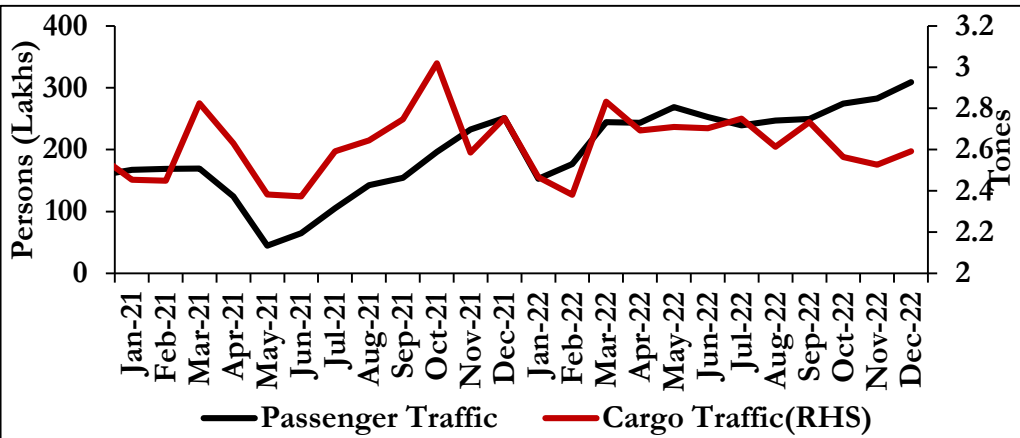
- Rail passenger traffic marked a year-over-year growth of 40.7 per cent in December 2022. An originating freight loading of 130.7 million tonnes was recorded in December 2022 as compared to 126.8 million tonnes in December 2021, recording a year-over-year growth of 3.1 per cent (Figure 12).
- Air passenger traffic recorded a year-over-year growth of 23.1 per cent in December 2022, whereas air cargo traffic registered a year-over-year decline of 5.9 per cent in December 2022 (Figure 13).

Figure 12: Rail Freight and Passenger Traffic



Source: Indian Railways.

Figure 13: Air Passenger Traffic and Cargo Traffic



Source: Airports Authority of India.

Trade deficit widened; merchandise exports declined

- India's merchandise exports decreased to USD 34.5 billion in December 2022 from USD 39.3 billion in December 2021, registering a decline of 12.2 per cent on a yearly basis. Merchandise imports were flat in December 2022, at USD 58 billion, and the merchandise trade deficit stood at USD 23.8 billion in December 2022 (Figure 14).
- Services exports increased modestly in December 2022, to touch USD 27.3 billion as compared to USD 27.0 billion in the previous month. The import of services too increased modestly in December 2022, with the trade surplus remaining flat at about USD 12 billion (Figure 15).

Figure 14: Merchandise Trade

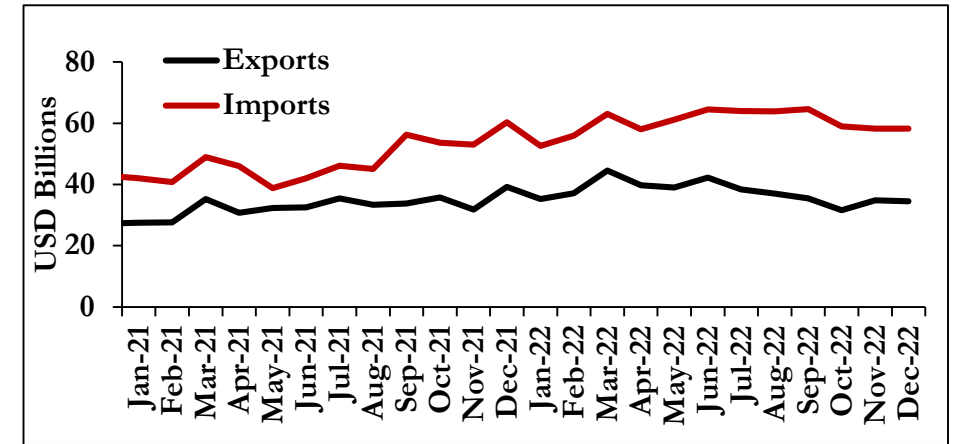
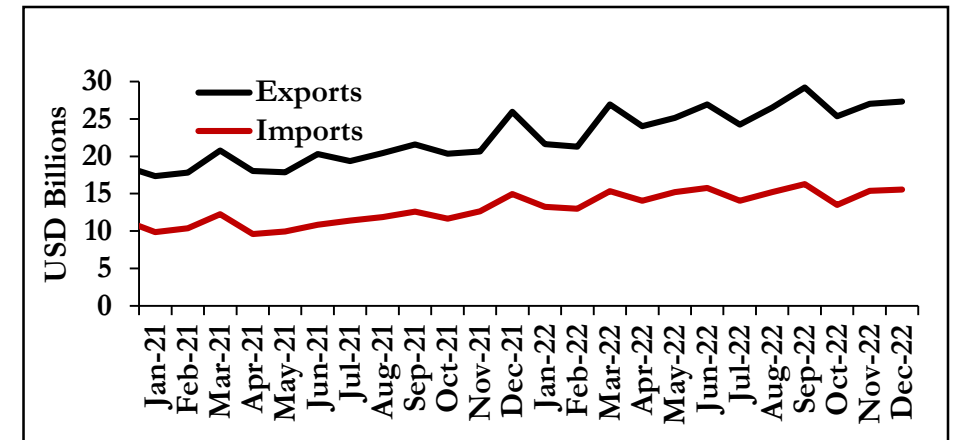


Figure 15: Services Trade



Source: Ministry of Commerce and Industry, Government of India (Figures 14 and 15).

Headline inflation moderated as food inflation continued to decline

- The Consumer Price Index (CPI) headline inflation for December 2022 decelerated to 5.7 per cent, from 5.9 per cent in November 2022. Core inflation rose marginally to 6.1 per cent in December 2022 (Figure 15).
- Food inflation continued to decline, falling to 4.2 per cent in December 2022 from 4.7 per cent in November 2022 (Figure 16).
- The Wholesale Price-based Inflation (WPI) dropped to a 22-month low of 5.0 per cent in December 2022. Inflation of food items, mineral oils, natural gas, and chemicals registered a decline (Figure 17).

Figure 16: Consumer Price Indices Inflation Rates

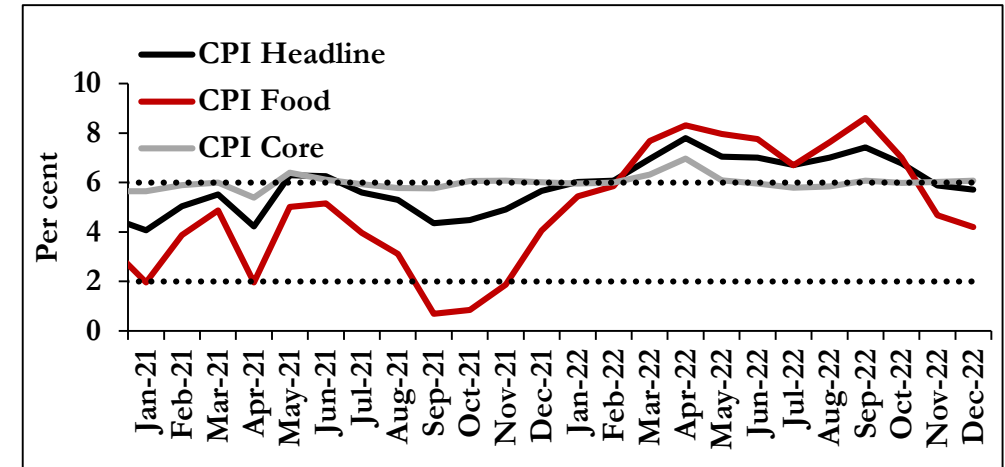
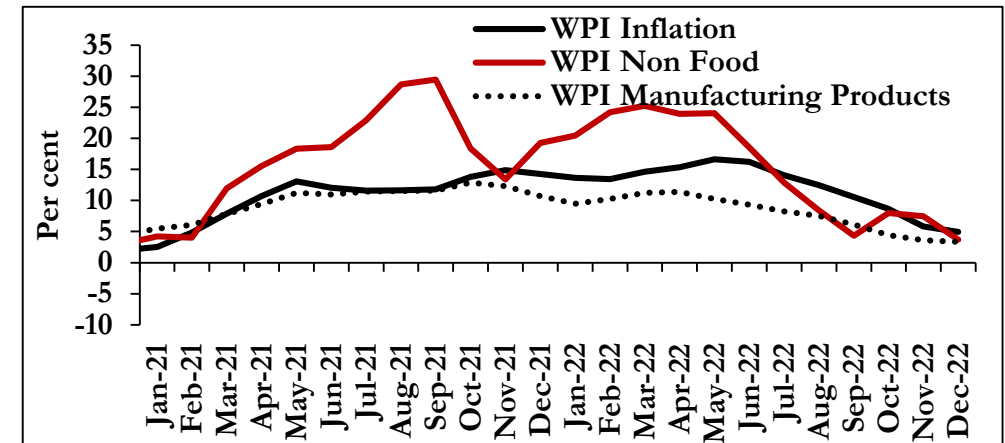


Figure 17: Wholesale Price Index Inflation Rate



Source: Central Statistics Office (Figure 16); Ministry of Commerce and Industry (Figure 17).

Robust growth in bank credit

- Bank credit to the commercial sector expanded by 14.3 per cent on a yearly basis in December 2022 (Figure 18).
- The expansion in credit remains robust overall in all the three sectors of the economy, registering growth of 13.8 per cent in the agriculture sector, 13.1 per cent in industry, and 21.3 per cent in services (Figure 19).

Figure 18: Bank Credit to Commercial Sector (Growth)

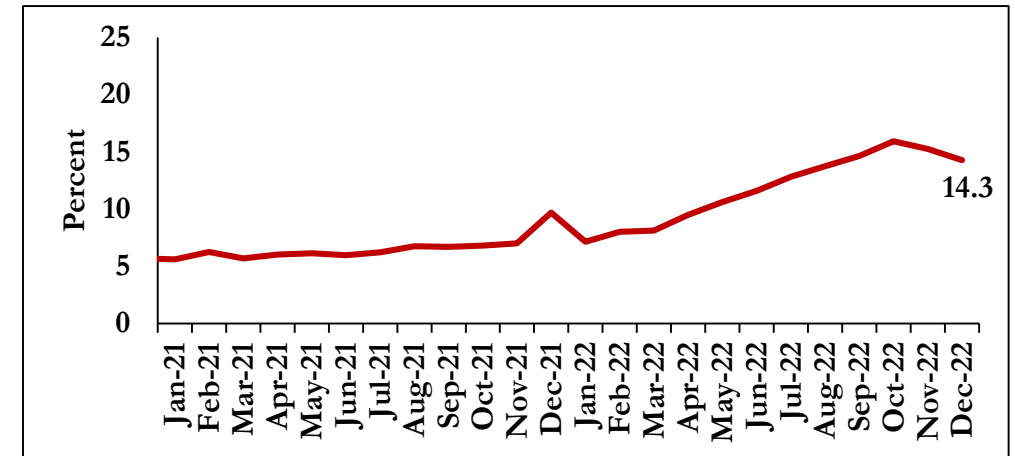
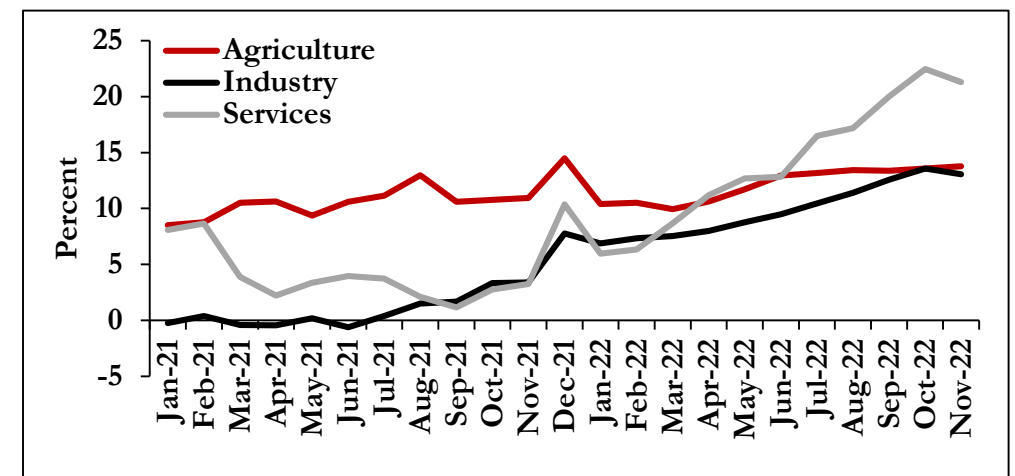


Figure 19: Sectoral Deployment of Credit by Scheduled Commercial Banks (Growth)



Source: Reserve Bank of India (Figures 18 and 19).

Banking system shows improved health - RBI's Financial Stability Review report

- Capital holdings of Scheduled Commercial Banks (SCBs) remained robust, as of September 2022.
- The ratio of Capital to Risk Weighted Assets Ratio (CRAR) for SCBs stood at 13.0 per cent, reflecting strong capital adequacy (Figure 20).
- Net Non-Performing Assets (NNPA) have dropped to a ten-year low of 1.3 per cent of total assets while the Provisioning Coverage Ratio (PCR) has been increasing steadily since March 2021 to touch 71.5 per cent (Figures 21 and 22).
- The profit after tax of SCBs registered a growth of 40.7 per cent. Profit after tax of SCBs grew by 40.7 per cent in the first half of the current fiscal |

Figure 20: SCB's Capital to Risk Weighted Assets Ratio (CRAR)

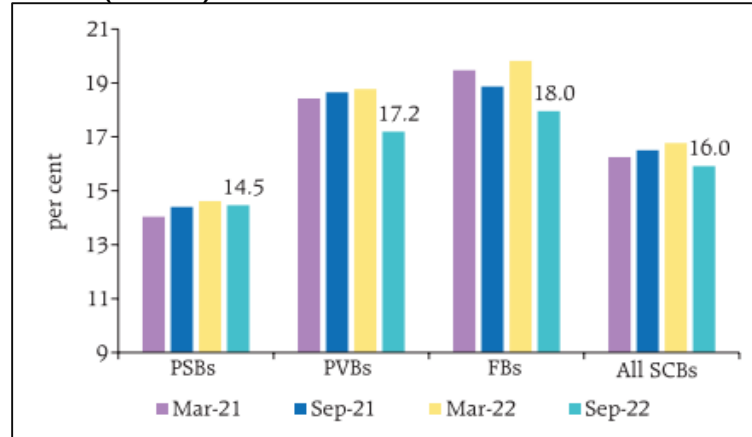


Figure 21: SCB's Net Non-Performing Assets Ratio

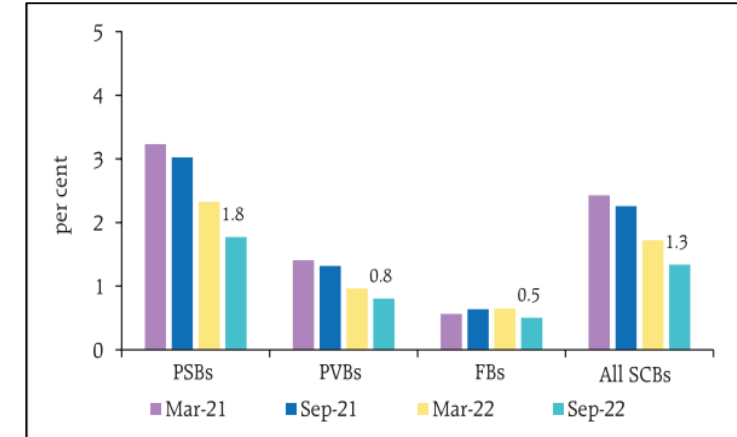
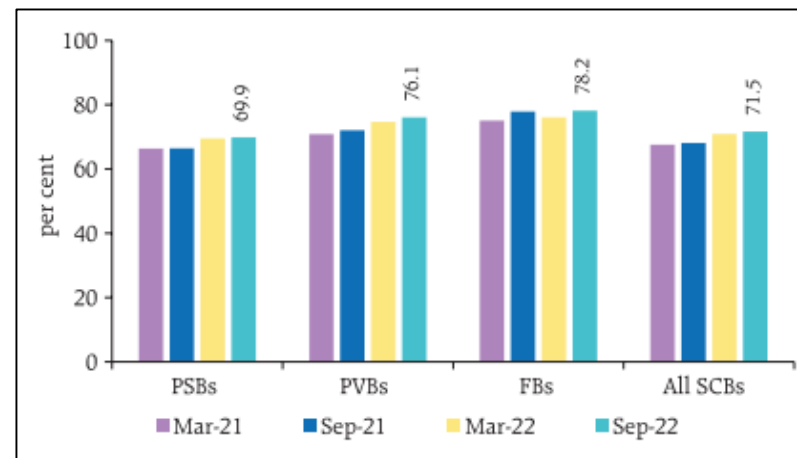


Figure 22: SCB's Provisioning Coverage Ratio (PCR)



Source : RBI [Reserve Bank of India - Press Releases \(rbi.org.in\)](https://www.rbi.org.in) (Figures 20, 21 and 22).

Uptick in urban unemployment rate (CMIE); increase in online hiring as per Naukri JobSpeak Index

- CMIE data reflects that the all-India unemployment rate increased to 8.3 per cent in December 2022 from 8.0 per cent in the previous month. It was driven by a spike in the urban unemployment rate, which stood at 10.1 per cent in December 2022 vis-à-vis 9.0 per cent in November 2022. The rural unemployment rate fell to 7.4 per cent in December 2022 as compared to 7.6 per cent in November 2022 (Figure 23).
- Recruitment activity in India increased by 4.0 per cent in December 2022 as compared to December 2021, witnessing a hiring uptick in the non-IT sectors like Insurance, Banking, and Real Estate (Figure 24). [Understanding hiring trends with Naukri job speak report December 2022 | Naukri.com](#)

Figure 23: Unemployment Rate

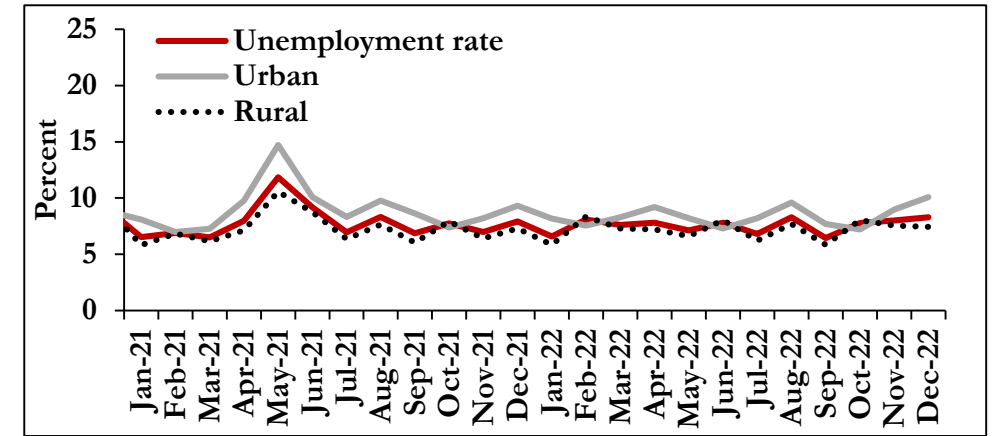
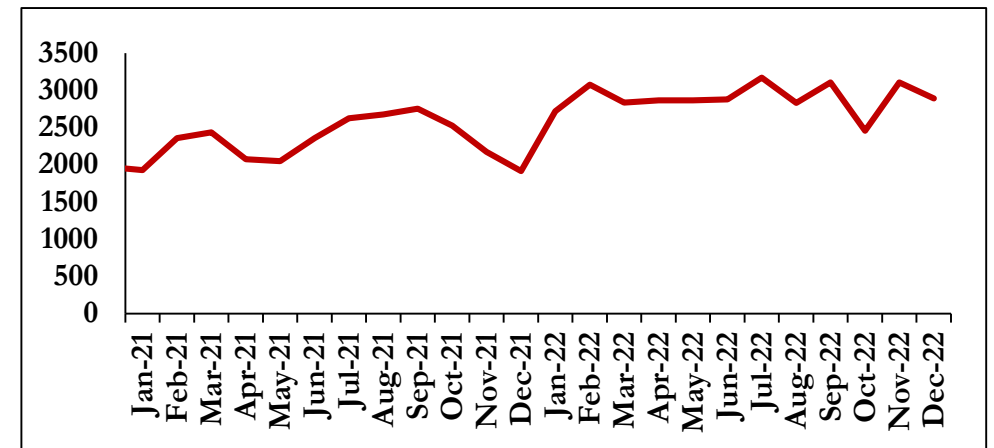


Figure 24: Naukri JobSpeak Index - Overall



Source : Centre for Monitoring Indian Economy (Figure 23); Info Edge (India) Limited (Figure 24).

Expansion in EPFO's new subscribers; demand for jobs under MGNREGA moderated

- The Employees' Provident Fund Organisation (EPFO) added 14.0 lakh net new subscribers, recording a year-over-year growth of 26.6 per cent in November 2022 as compared to November 2021 (Figure 25).
- In the rural sector, the demand for work under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) decelerated by 14.0 per cent year-over-year in December 2022. However, sequentially, the demand for work increased by 15.1 per cent in December 2022 vis-a-vis November 2022 (Figure 26). [Household demand for MNREGA work up by 14% in December 2022 compared to November 2022 | EconomicTimes.com](#)

Figure 25: EPFO Net New Subscribers

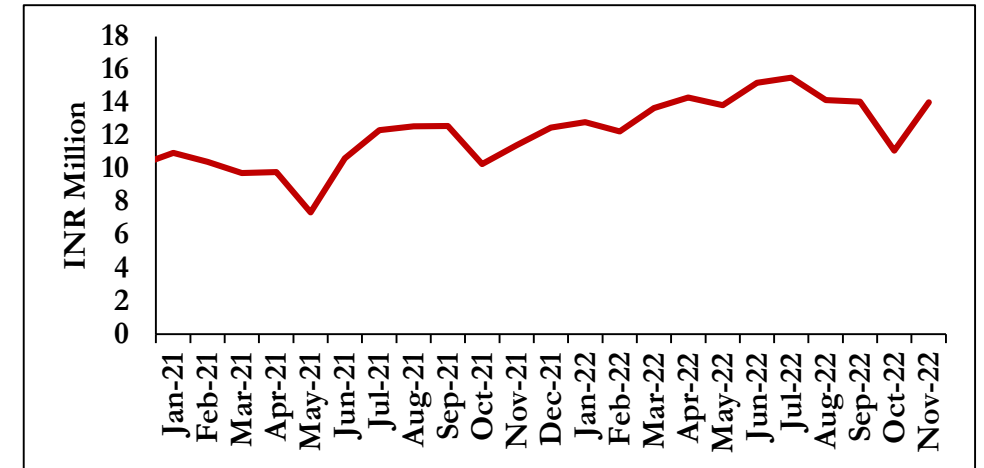
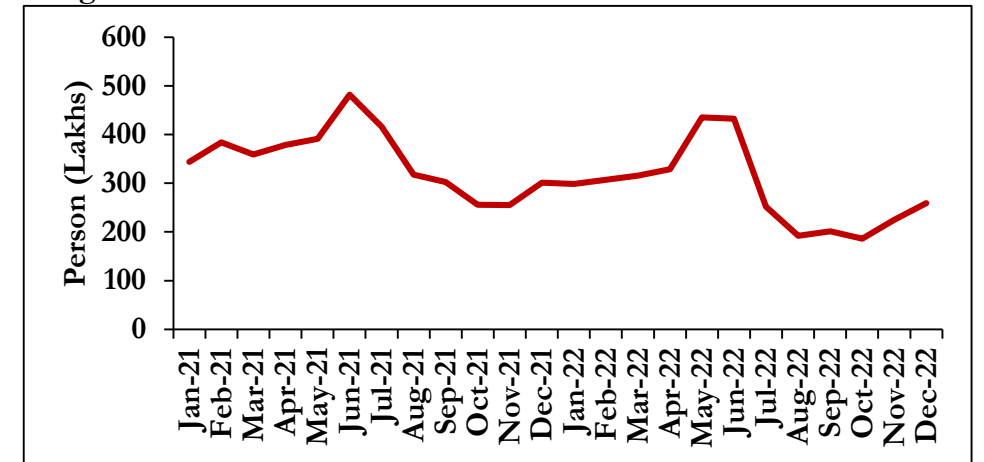


Figure 26: Work Demand under MGNREGA



Source : Employee's Provident Fund Organization (Figure 25); Ministry of Rural Development (Figure 26).

Fiscal outcomes for FY2022-23 are in line with the budget estimates

- As of November 2022, the fiscal deficit is restrained, and reached 58.9 per cent of the Budget Estimate (BE) for FY2022-23 (Figure 27).
- Revenue inflows were buoyant and covered 64.5 per cent of the budget projection in November 2022 for FY2022-23 due to strong corporate tax, income tax, and GST collections (Figure 28). [India's April to November revenue receipts increase to 64.5% of the BE for FY23 | currentaffairs.adda247](https://www.currentaffairs.adda247.com/indias-april-to-november-revenue-receipts-increase-to-64-5-of-the-be-for-fy23/)
- Total expenditure reached 61.9 per cent of the overall Budget Estimate (BE) for FY2022-23 in November 2022, higher than 59.6 per cent of the BE a year ago, for FY2021-22 (Figure 29).

Figure 27: Fiscal Deficit

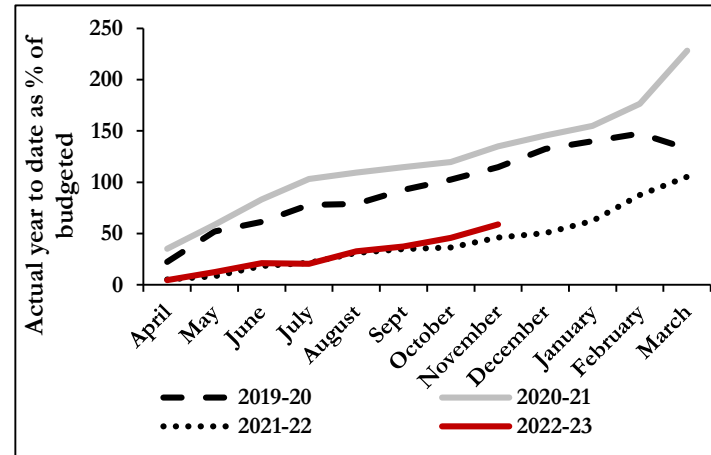


Figure 28: Revenue Receipts

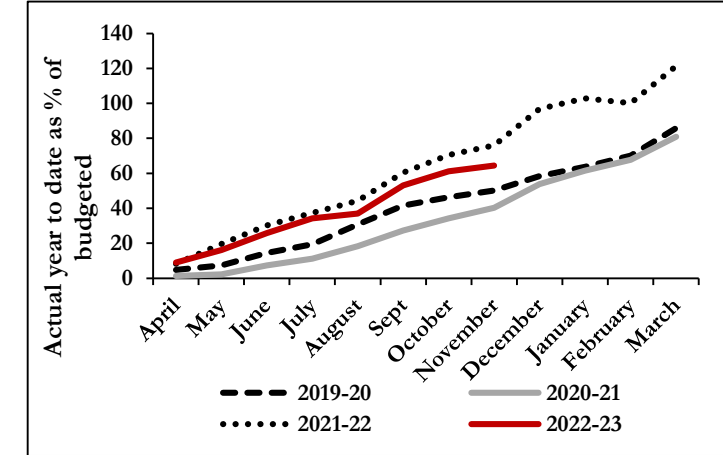
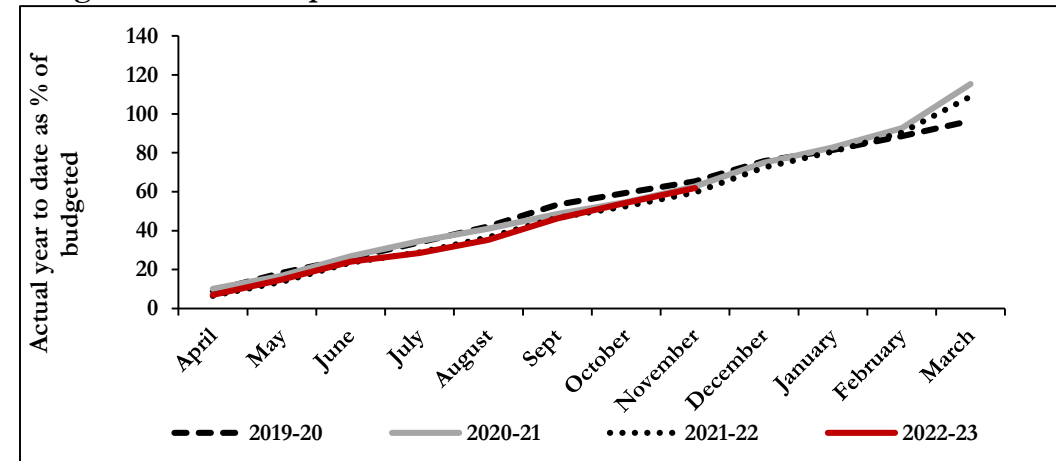


Figure 29: Total Expenditure



Source : Controller General of Accounts (Figures 24, 25, and 26).

Oil prices remained range-bound; the rupee appreciated against the dollar; forex reserves increased

- The average price for Brent crude oil increased modestly to USD 83.4 as of 25 January 2023 as compared to USD 81 per barrel at end-December 2022 (Figure 30).
- The rupee appreciated by 0.7 per cent in January 2023 after depreciating by 0.9 per cent in December 2022. The value of the rupee stood at 81.9 per dollar as of 25 January 2023 (Figure 31).
- Foreign exchange reserves increased by USD 22 billion to reach USD 572 billion as of 20 January 2023, as compared to 550 billion at the end of December 2022 (Figure 32).

Figure 30: Brent Crude Oil Price

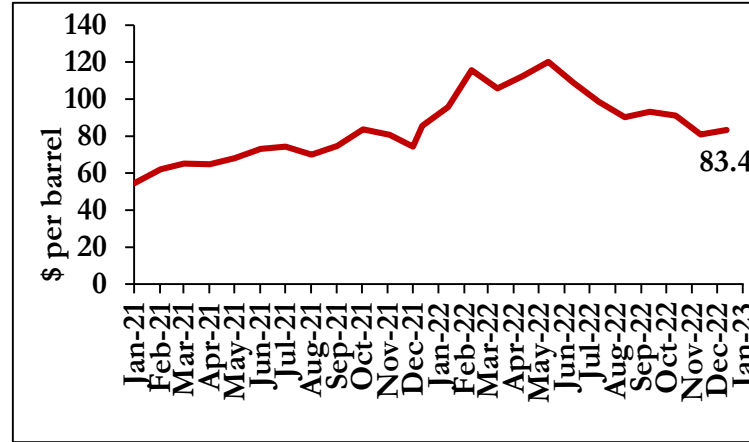


Figure 31: Exchange Rate

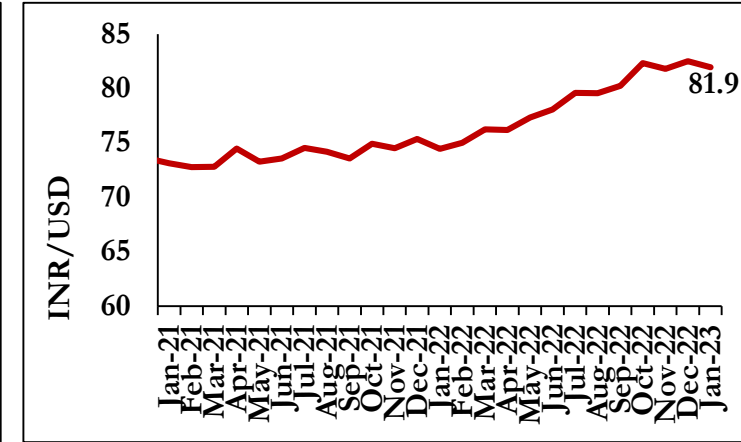
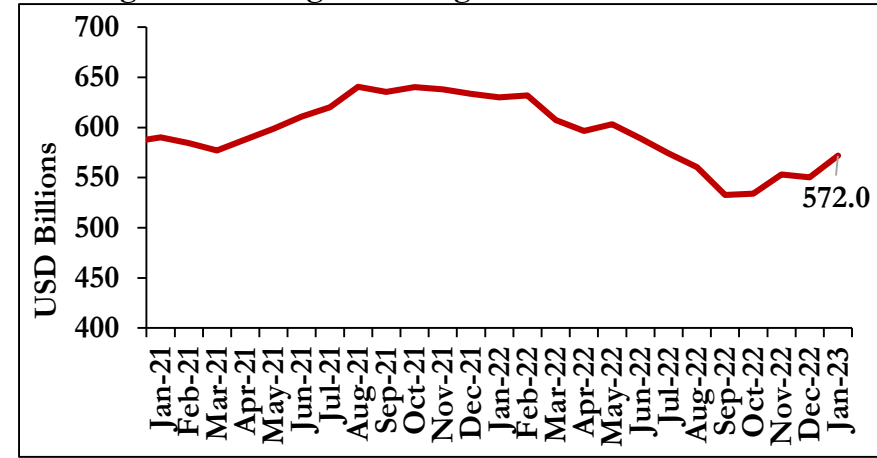


Figure 32: Foreign Exchange Reserves



Source: World Bank Pink Sheet Data (Figure 30) and Reserve Bank of India (Figures 31 and 32).

Note: Data for Figures 30 and 31 is available until 25th January 2023 and for Figure 32 is as of 20 January 2023.

Equity markets corrected; yields on government debt were stable

- The Morgan Stanley Capital International (MSCI) Index for India declined by 0.5 per cent while the MSCI Index for World and Emerging Markets rebounded by 2.6 per cent and 4.9 per cent, respectively, during January, as of 25 January 2023 (Figure 33).
- Yields on Indian government securities remained stable during January 2023. The yield on 1-year, 5-year, and 10-year government securities stood at 6.8, 7.2, and 7.3 per cent, respectively, as of 25 January 2023 (Figure 34).

Figure 33: Indian Equity Markets

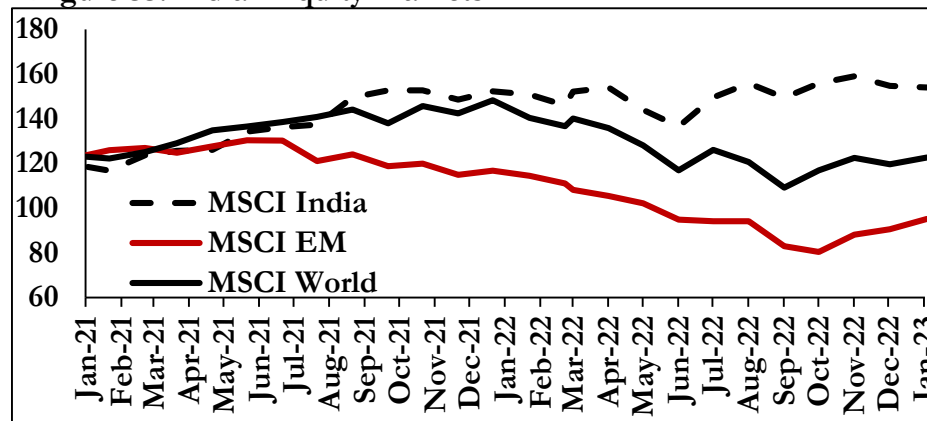
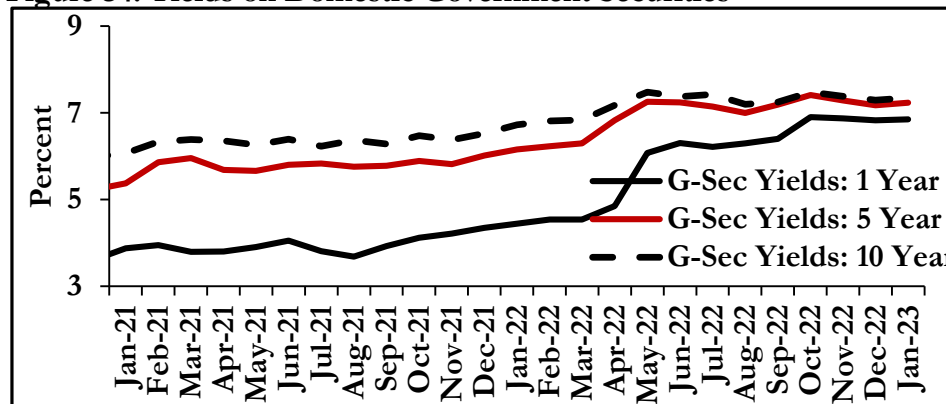


Figure 34: Yields on Domestic Government Securities



Source: Investing.com (Figure 33); Clearing Corporation of India Ltd (Figure 34).

Note: Data for Figures 33 and Figure 34 in the panel has been taken as the daily average up to 25 January 2023.

Foreign portfolio investors turned net sellers in January, 2023

- Foreign portfolio equity investment flows declined by USD 2.0 billion during January 2023 (as of 25 January 2023). Net inflows of debt investments were modest at USD 0.3 billion (Figure 35).
- The cumulative net outflows of foreign portfolio investments since November 2021 is at USD 24 billion, as of 25 January 2023 (Figure 36).

Figure 35: Foreign Portfolio Investment

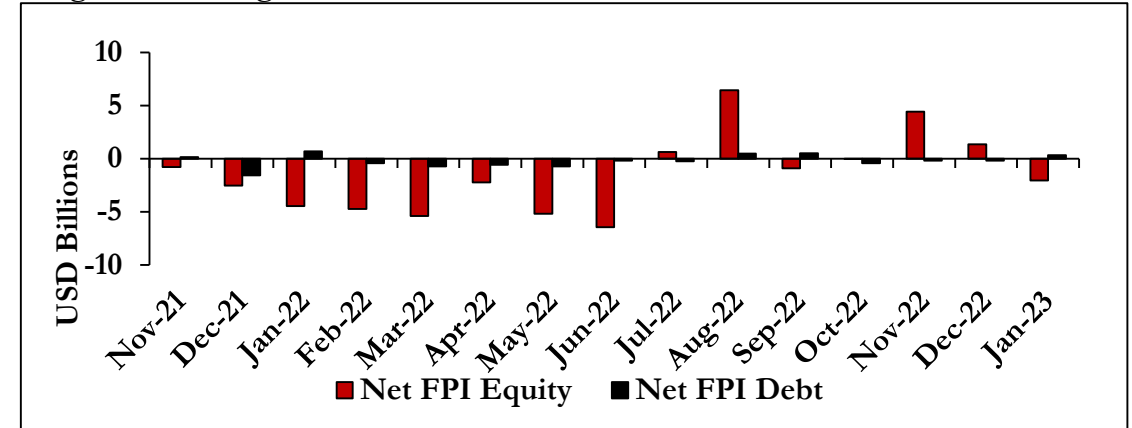
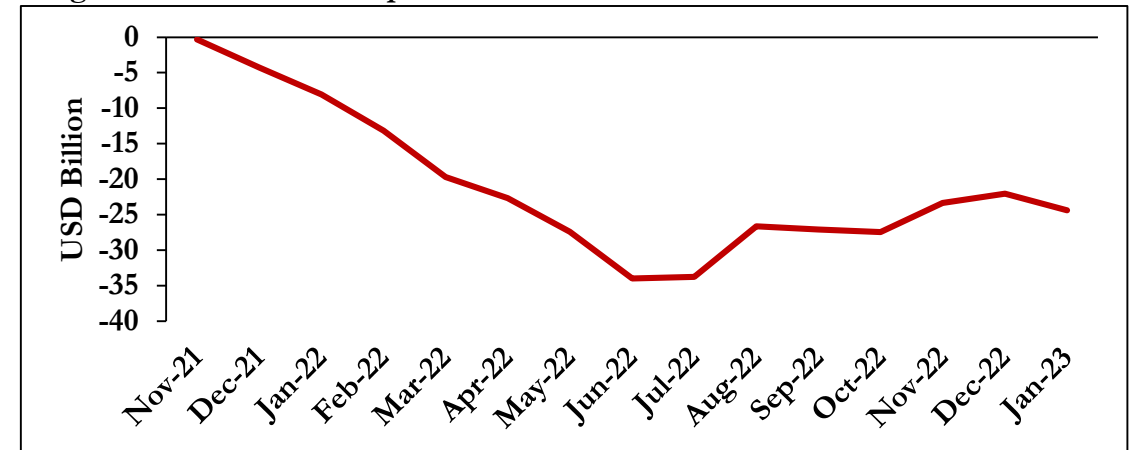


Figure 36: Cumulative Capital Outflow



Source: National Securities Depository Limited (Figures 35 and 36).

Note: Data given in Figures 35 and 36 is as of 25 January 2023.

Heatmap for high-frequency indicators

Indicators	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Freight Traffic	7.7	6.6	6.7	9.4	14.6	11.3	8.3	7.9	9.1	1.4	5.2	3.1
Cargo Traffic: Air	0.5	-2.8	0.3	2.3	13.8	13.9	6.1	-1.2	-0.5	-14.5	-2.3	-5.9
Passenger Traffic: Air	-8.7	4.7	44.2	95.3	502.4	288.1	127.4	73.1	61.6	40.0	21.8	23.1
Automobile Sales (2-wheelers)	-21.1	-27.3	-20.9	15.4	255.3	24.0	10.2	17.0	13.5	2.3	17.7	3.9
Automobile Sales: All	-8.1	-6.5	-3.9	-3.8	185.1	19.1	11.1	21.1	92.0	28.6	28.1	
Tractor Sales	-27.8	-26.4	-11.6	38.1	47.7	-10.9	-12.2	-1.0	18.9	3.6	4.4	19.2
Fertilizer Sales: Urea	0.1	22.7	50.6	64.3	17.3	5.5	14.3	15.0	-3.3	16.5	26.3	
Crude Steel Production	5.7	7.8	6.2	8.0	17.7	5.9	2.8	0.4	1.8	2.6	5.7	-0.1
Natural Gas Production	11.7	12.5	7.6	6.4	7.0	1.2	-0.3	-0.9	-1.7	-4.2	-0.7	
Electricity Supply	1.9	4.6	6.5	12.8	24.2	16.4	3.7	2.0	12.9	1.0	13.1	8.9
IIP Manufacturing	1.90	0.15	1.40	5.62	20.72	12.87	3.05	-0.45	2.20	-5.65	6.1	
Gross Tax Revenue	-4.4	17.6	19.8	36.5	20.1	12.8	33.3	-7.7	14.5	20.8	-3.8	
GST	15.5	17.6	14.7	18.5	37.2	55.8	28.0	28.2	26.2	16.6	10.9	15.2
NPCI Retail Payments	67.4	66.9	83.6	104.2	81.6	70.6	60.9	64.0	55.7	55.4		
Merchandise Export	27.9	34.5	26.4	29.1	20.8	30.2	8.1	10.9	4.8	-12.1	0.6	-12.2
Services Export	24.5	19.4	29.6	33.2	40.7	32.6	20.2	24.3	29.7	24.6	26.9	5.2
Net FDI	309.4	953.6	304.2	125.5	-39.0	695.5	247.0	-94.0	-53.7	175.1	-210.8	
SCB bank Credit: Total Outstanding	8.2	8.0	8.6	11.1	12.1	13.1	14.5	14.3	15.2	16.8	16.0	
SCB bank Credit Non-food: Personal Loans	12.3	12.7	12.6	14.5	16.3	18.1	18.8	19.5	19.6	20.2	26.1	
SCB bank Credit Non-food: Agriculture	10.4	10.5	9.9	10.6	11.7	13.0	13.2	13.4	13.4	13.6	19.0	
SCB bank Credit Non-food: Industry	6.9	7.4	7.5	8.0	8.8	9.5	10.5	11.4	12.6	13.6	17.0	
SCB bank Credit Non-food: Services	6.0	6.3	8.7	11.2	12.7	12.8	16.5	17.2	20.0	22.5	29.2	
CPI	6.0	6.1	7.0	7.8	7.0	7.0	6.7	7.0	7.4	6.8	5.9	5.7
NIFTY Index	27.2	15.6	18.9	16.9	6.4	0.4	8.9	3.7	-3.0	1.9	10.5	4.3
Naukri JobSpeak Index	41.1	30.5	16.3	38.2	39.9	22.0	20.8	5.8	12.7	-2.7	42.9	50.9
Indices												
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
PMI Manufacturing	54	54.9	54	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8
PMI Services	51.5	51.8	53.6	57.9	58.9	59.2	55.5	57.2	54.3	55.1	56.4	58.5
Unemployment Rates	6.6	8.1	7.6	7.8	7.1	7.8	6.8	8.3	6.4	7.8	8.0	8.3

Lowest  Highest

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