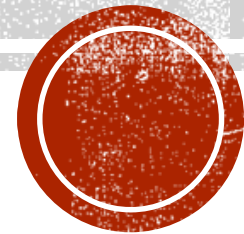


Monthly Review of the Economy

August 2022



This report has been prepared by Ayesha Ahmed. Comments are welcome 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

- The Federal Open Market Committee hiked interest rates by 75 basis points on 27th July 2022, the fastest pace of tightening since the early 1980s. This is likely to slow down eventually, after assessing the impact on the economy and inflation. [Fed Officials Saw Need to Slow Rate-Hike Pace ‘At Some Point’](#)
- RBI’s Monetary Policy Meeting was held from August 3 to 5, 2022. The policy repo rate was increased under the LAF by 50 basis points. [Minutes of the Monetary Policy Committee Meeting, August 3 to 5, 2022](#)
- India’s trade deficit in July 2022 widened to \$31.02 billion from \$26.18 billion in June due to inflated commodity prices, according to the data released by the Commerce ministry. [India’s trade deficit widens to \\$31 billion in July- The New Indian Express](#)
- Area sown to paddy declined by 5.99 per cent to 367.55 lakh hectare as a shortfall in rains has led to less coverage in some states. As per the data, less paddy area is reported from Jharkhand, West Bengal, Chhattisgarh, Uttar Pradesh, Bihar, and Odisha till August 26 this kharif season. [Paddy sowing down by 5.99 per cent so far; major lag in Jharkhand, WB, Chattisgarh- The New Indian Express](#)
- NSO data release on August 31, 2022 places real GDP growth for Q1 2022-23 at 13.5 percent as compared to 20.1 percent in Q1 2021-22. Q-o-Q the growth fell 9.6 percent, largely on account of seasonality. Growth in GVA for Q1 2022-23 is estimated at 12.7 percent vis-à-vis 18.1 percent in Q1 2021-22. [doc202283198501.pdf \(pib.gov.in\)](#)



Q1 2022-23 GDP and GVA estimates reaffirm recovery from the Omicron wave but growth falls somewhat short of expectations

Figure 1: Real GDP growth rate



Figure 2: Growth rates of GDP components

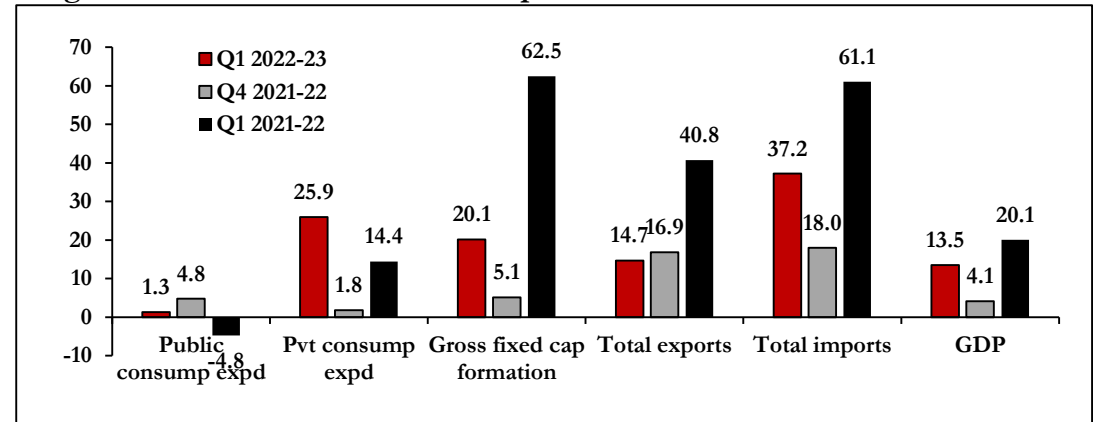


Figure 3: GVA growth rate

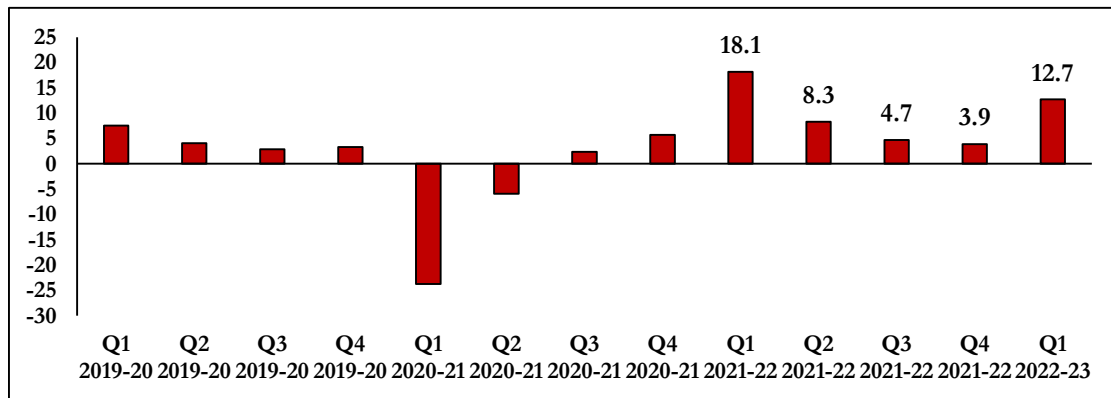
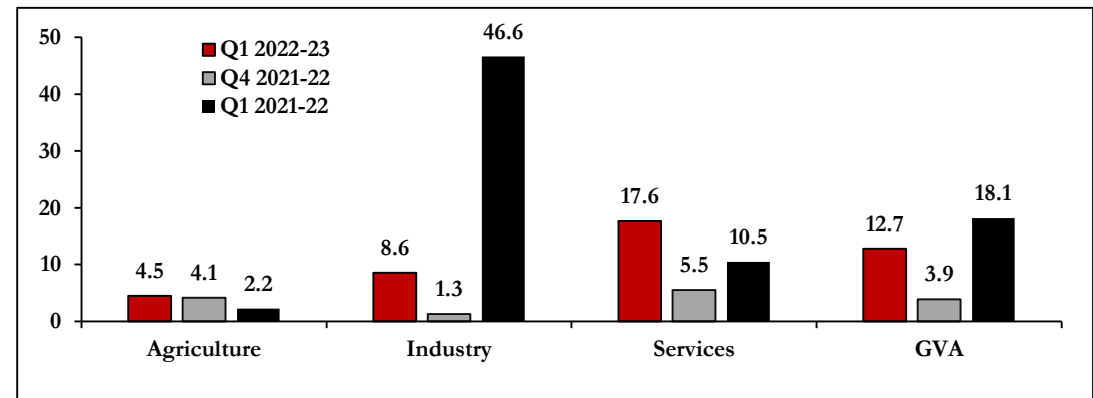


Figure 4: Growth rates of GVA components



Macro Monitor – Economic recovery mixed in July 2022

- India's manufacturing PMI continued to show a strong month-on-month improvement positing a reading of 56.2 in August 2022, only marginally below 56.4 in July 2022 (Figure 5). Softening inflation and a rising new order intakes helped keep the high momentum
- GST revenue collection stood at a robust figure of INR 1.44 lakh crores in August 2022, up 28% year on year (Figure 6).
- Industrial growth as measured by the Index of Industrial Production (IIP) recorded 12.3 percent growth in June 2022. IIP for manufacturing grew at 12.5 percent, while IIP for electricity grew by 16.4 percent in June 2022 (Figure 7).
- India's core sector grew by 4.5 percent in July 2022, as opposed to 12.7 percent in June 2022. Coal, refinery products, cement and electricity output declined sequentially (Figure 8).

Figure 5: PMI Indices

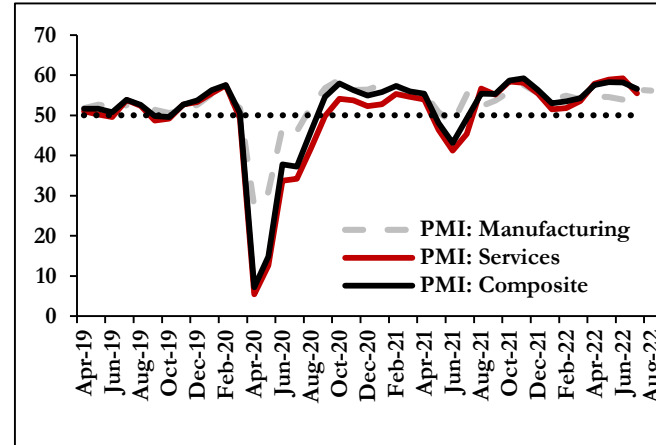


Figure 6: GST Revenue

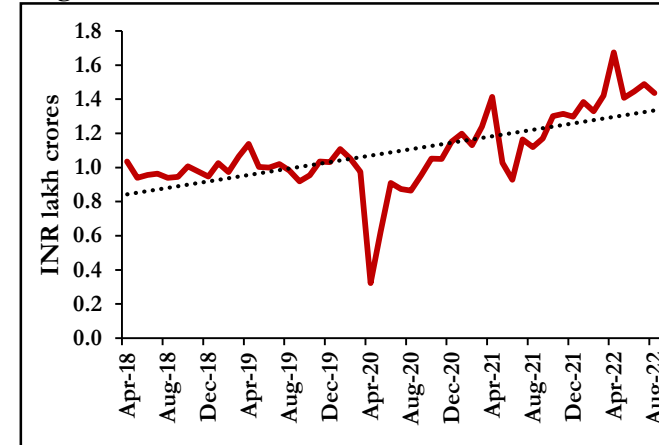


Figure 7: Index of Industrial Production

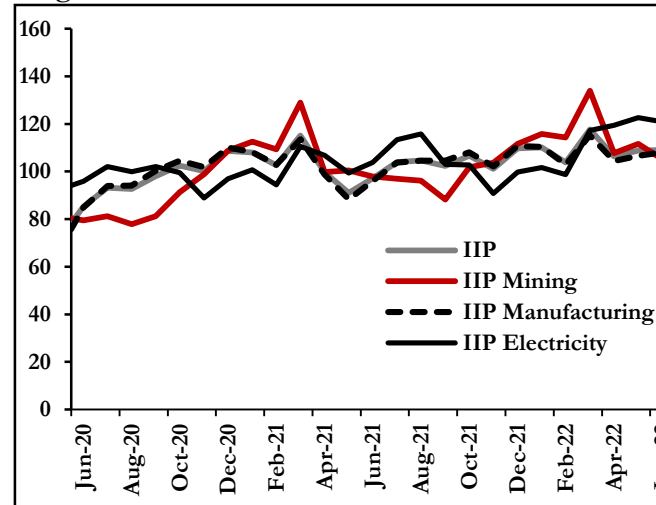
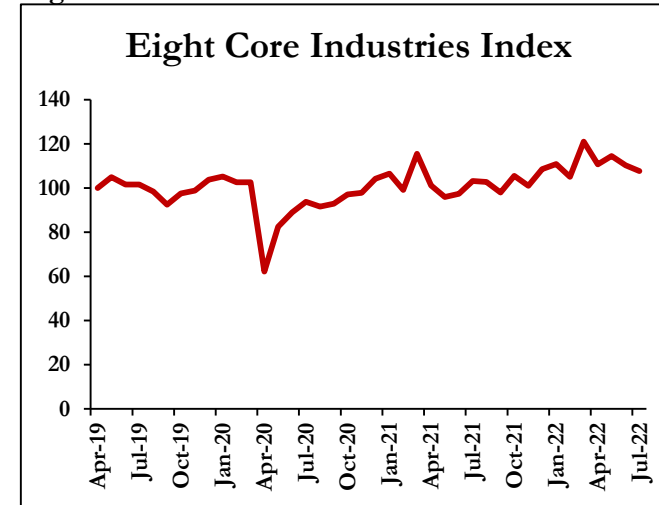


Figure 8: Index for Core Industries



Source: IHS Markit; GSTN, Ministry of Finance; MoSPI; Ministry of Commerce and Industry.
Note: Figures 7 & 8 are indexed to April 2019 = 100. All growth rates are on y-o-y basis unless mentioned otherwise.



Paddy affected in rain deficit states; rural demand showing recovery

- Cumulative rainfall during July-August 2022 was 7.0 percent surplus as per data given by the IMD. However, some states in the east such as Bihar, Jharkhand, West Bengal, and Uttar Pradesh have recorded high rainfall deficits which has severely affected the sowing of paddy (Figure 9 & 10).

[Monsoon 2022: Rain deficit leaves Bihar's fields dry, paddy farmers worried \(downtoearth.org.in\)](https://www.downtoearth.org.in).

- Rail passenger and freight traffic have consistently improved reflecting recovery in rural demand (Figure 11).

- Fuel demand has fallen for the second consecutive month owing to the onset of monsoons which has chipped at consumption at some key sectors (Figure 12). [India's fuel demand continues to fall in August as monsoon sets in \(msn.com\)](https://www.msn.com)

Figure 9: Daily rainfall (mm)

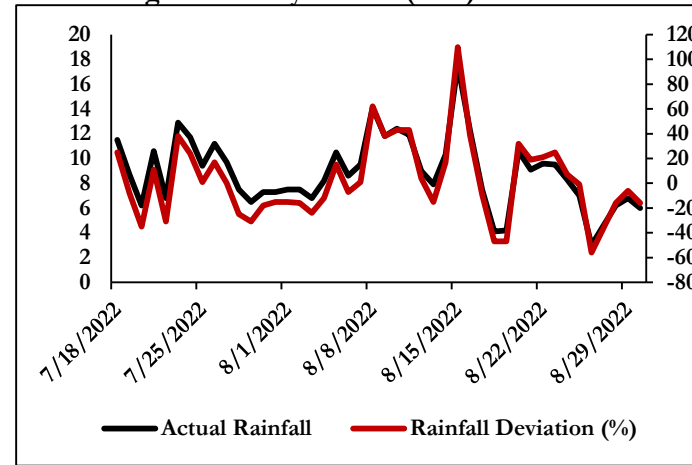


Figure 10: Cumulative rainfall (mm)

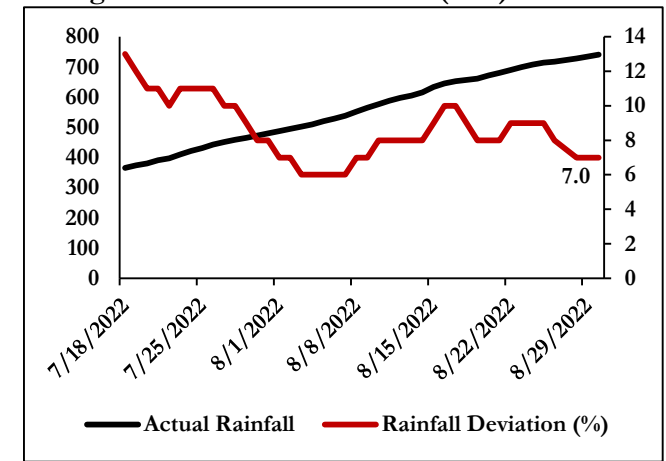


Figure 11: Rail Freight and Passenger

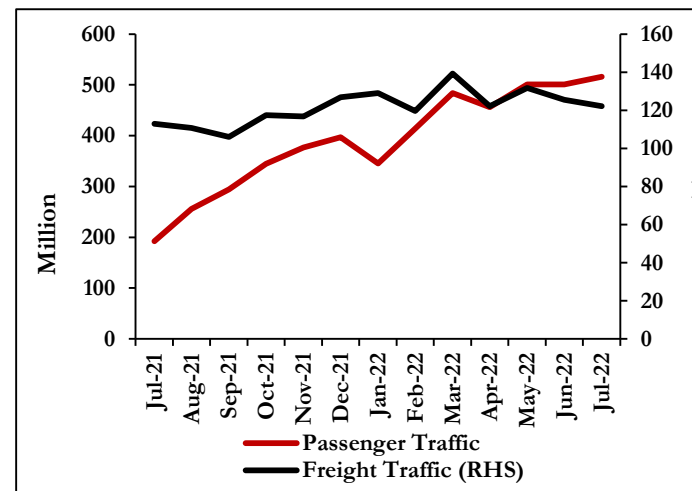
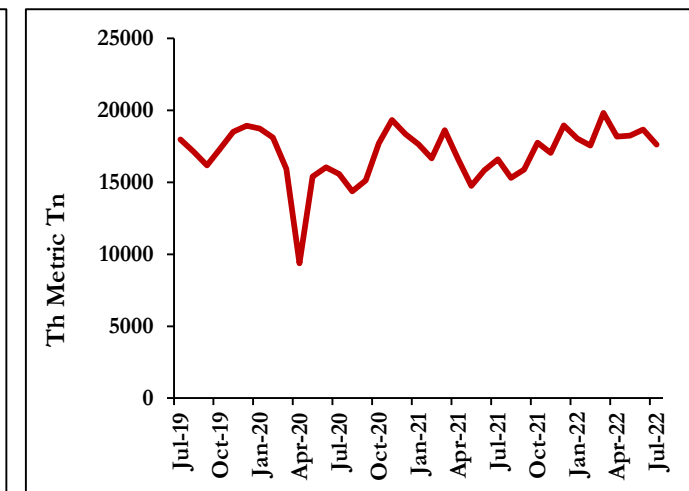


Figure 12: Petroleum consumption



Source: Indian Meteorological Department; Indian Railways; Petroleum Planning and Analysis Cell



Trade deficit widens as import growth accelerates

- India's trade deficit widened sharply to its largest gap on record, as slowing exports and elevated imports dealt a material hit. India's trade deficit surged to a record USD 31.0 billion in July, a material step up from June's USD 26.2 billion deficit. Exports moderated to USD 36.3 billion in July from USD 40.1 billion in June, while elevated commodity prices and a clear surge in the volume of oil imports pushed the import bill to USD 66.3 billion, up from USD 63.6 billion in June (Figure 13).
- One positive aspect is the still-robust services trade – this has been a solid trend. Services exports increased to USD 25.3 billion in June 2022, while services imports stood at USD 15.8 billion. The overall services surplus expanded to USD 9.5 billion in June 2022 from USD 8.4 billion in May 2022 (Figure 14).
- MoUs signed between India and Mauritius on cooperation in promoting the MSME sector of the two countries. [India, Mauritius sign MoUs for cooperation to boost MSME sector; discuss B2B meets, training programmes, more | The Financial Express](#)

Figure 13: Merchandise Trade

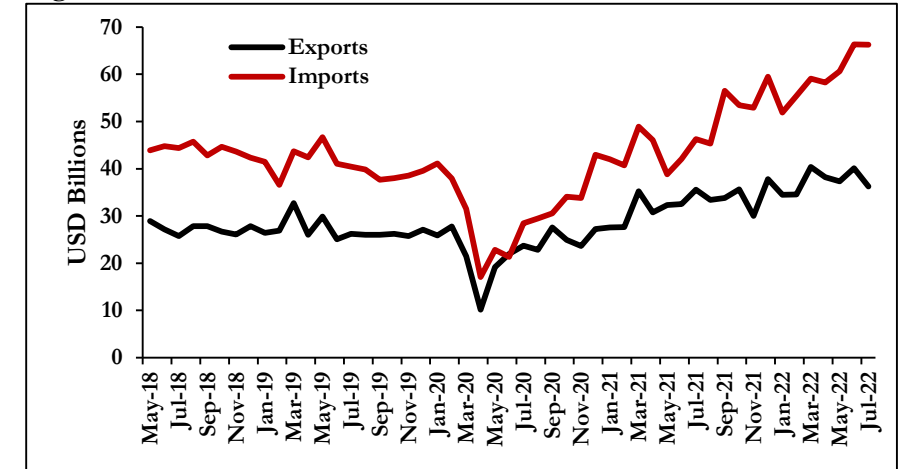
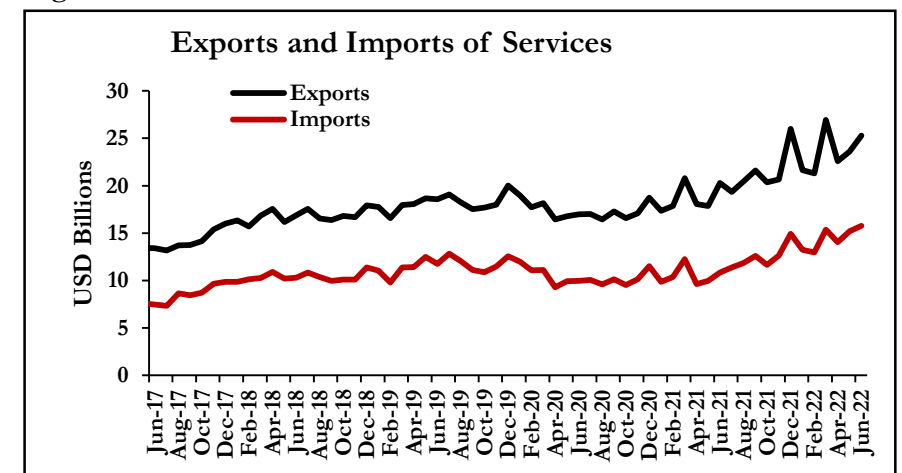


Figure 14: Services Trade



Source: Ministry of Commerce and Industry.



Inflation remains elevated but pace is decelerating

- CPI inflation moderated to 6.7% in July, primarily on lower food inflation, while core inflation was relatively steady. Many imported components also saw price declines in July, reflecting the lagged pass through of international commodity price moderation (Figure 15). **Explained: Why July 2022 retail inflation has fallen to a five month low of 6.71%**
- Wholesale price inflation has moderated too, from 15.2% in June 2022 to 13.9 percent in July 2022. While inflation in India appears to have peaked, the limited moderation in WPI inflation suggests that the price pressures in the economy remain elevated, underscoring the need for the monetary policy to maintain a cautious approach over the coming months (Figure 16).

Figure 15: Consumer Price Indices inflation rates

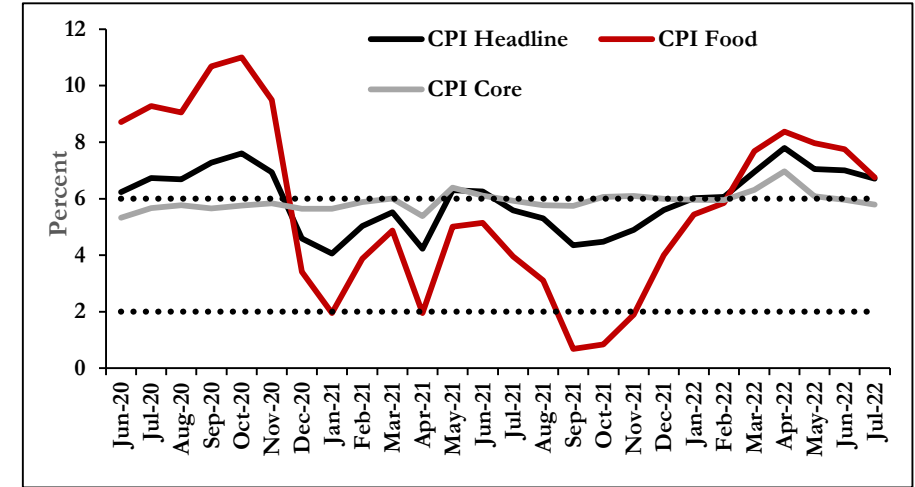
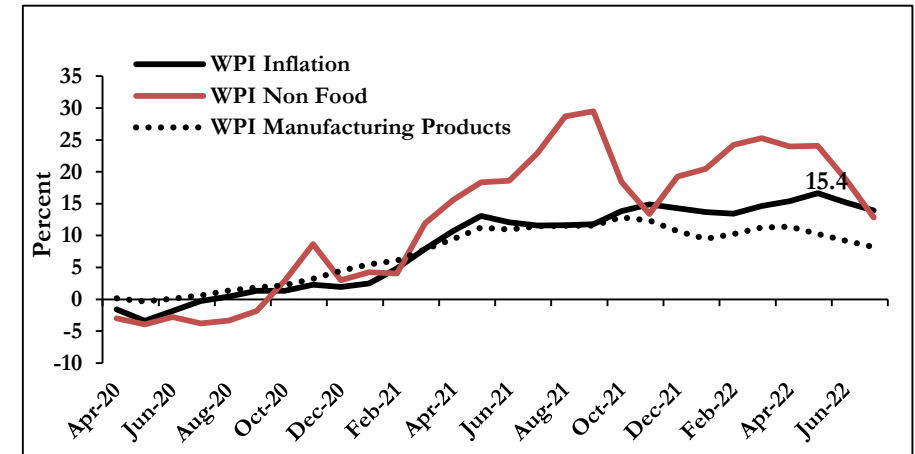


Figure 16: Wholesale Price Index inflation rate



Source: Central Statistics Office; Ministry of Commerce and Industry



Uptick in online hiring; unemployment rate declines

- Data from Centre for Monitoring Indian Economy (CMIE) showed a decline in rural and total unemployment rate from last month, largely due to a better monsoon and a rise in agricultural activity in rural areas. Urban employment rose from 7.3% in June to 8.2% in July 2022 (Figure 17). [India's unemployment rate in July at 6-month low](#)
- Online hiring, as measured by the Naukri JobSpeak Index, after plateauing post April 2022, has seen a rise in July 2022 (Figure 18). [Hiring Activity Beats All Past Records In July'22: Naukri JobSpeak](#)
- Unemployment rate in urban areas eased to 7.6% in April-June 2022 from 8.2% in the trailing quarter, as per the Periodic Labour Force Survey (PLFS) released by NSO on 31st August, 2022. Urban unemployment was 12.6% in the June quarter of 2021.

Figure 17: Unemployment rate

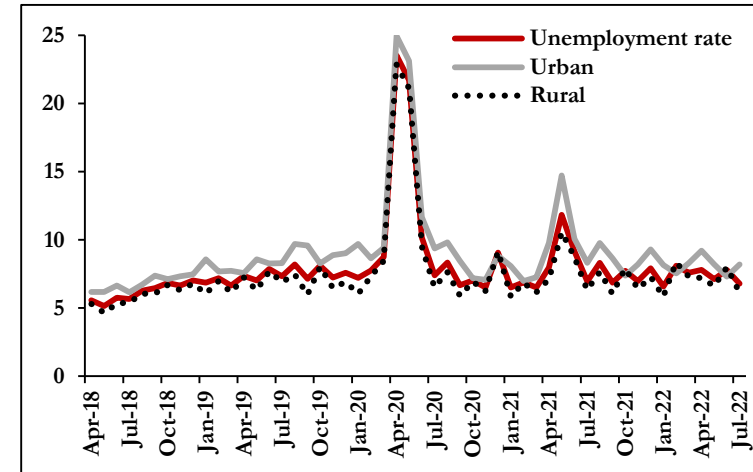
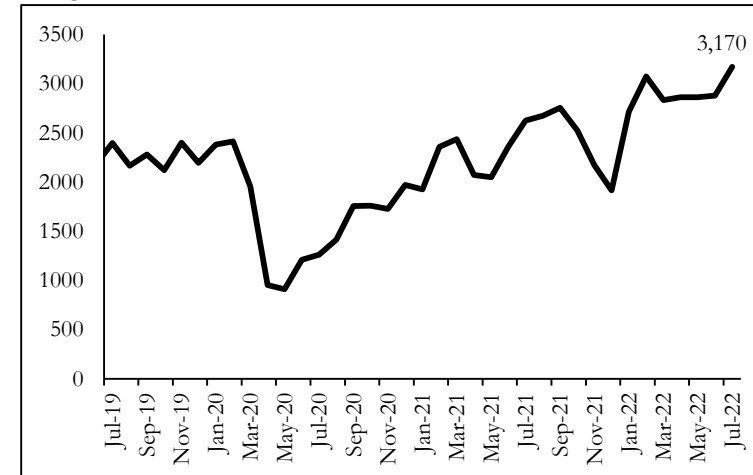


Figure 18: Naukri JobSpeak Index



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



Oil prices below \$100/barrel; rupee depreciation continues

- Owing to fears over recession, Brent crude oil price has fallen below \$100 per barrel. As of 30th August, Brent stood at \$96.0 per barrel (Figure 20). [Brent crude falls 5% on recession fears - The Hindu](#)
- As of 30th August, Indian rupee was trading at 79.7 per dollar (Figure 19). The rupee fell to its all-time low of 80.15 against the US dollar in intra-day trade on 29th August 2022. The rupee's fall these days is mainly due to a strong dollar overseas after US Fed's rate hikes and Fed Chair's communication at the Jackson Hole making dollar expensive against other major currencies. [Rupee Near 80 Against Dollar: Why It Will Hurt Indians More Than Before \(outlookindia.com\)](#)
- Foreign exchange reserves have continued to fall since May 2022. As of 19th August, foreign reserves were at USD 564 billion (Figure 21).

Figure 19: Exchange Rate

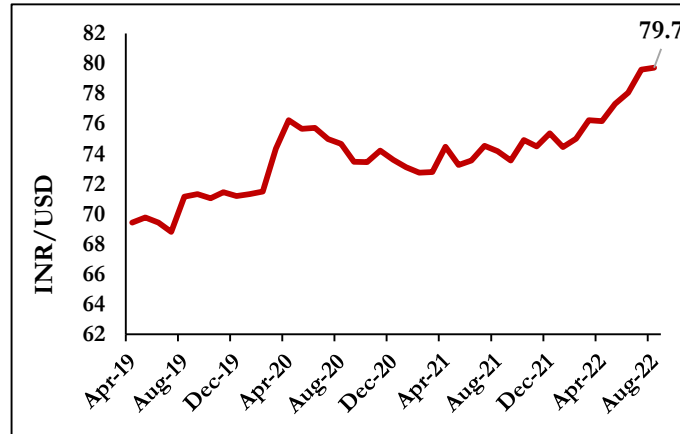


Figure 20: Brent crude-oil Price

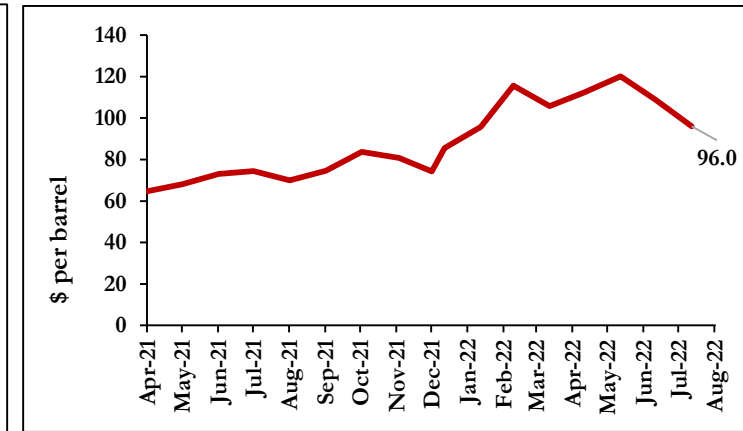
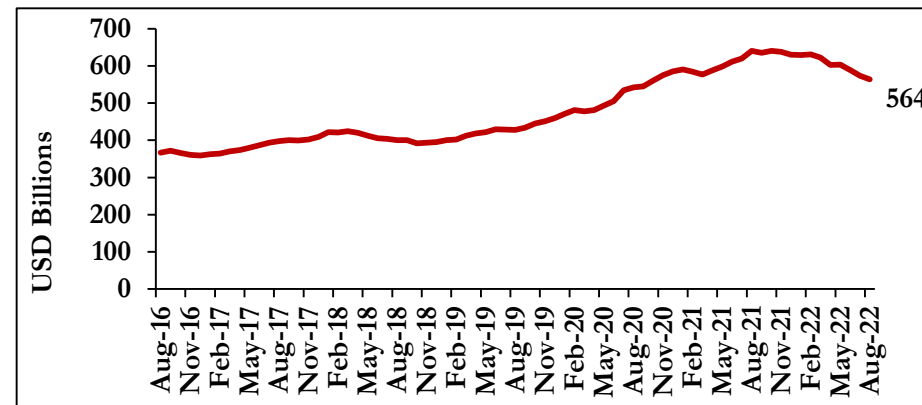


Figure 21: Foreign Exchange Reserves



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

Note: Data for figures 19 and 20 in the panel is as of 30th August 2022. Data for figure 21 is available till 19th August 2022.



Equity markets recover; FPI inflows increase

- BSE Sensex and NSE Nifty 50 are almost 10.0 percent higher in August 2022 than July 2022 (Figure 22).
- After nine consecutive months of relentless selling, foreign investors had turned net buyers in July 2022 on softening dollar index and good corporate earnings (Figure 23). The trend has continued in August 2022. **FPIs invest Rs 22k cr in Indian markets in Aug as inflation concerns soften**
- Risk appetite seems to have retuned in the financial markets. Yields on T-bills and securities have declined in August 2022 (Figure 24). **India's treasury bill yields dip as cash surplus improves, rate hike fears ebb**

Figure 22: Indian Equity Markets

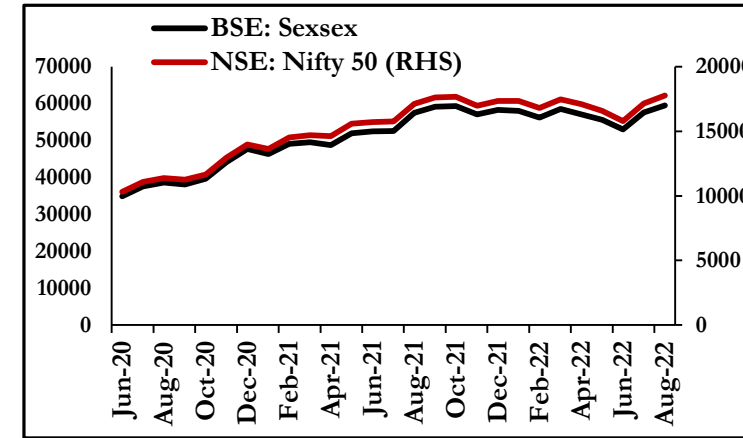


Figure 23: Foreign Portfolio Investment

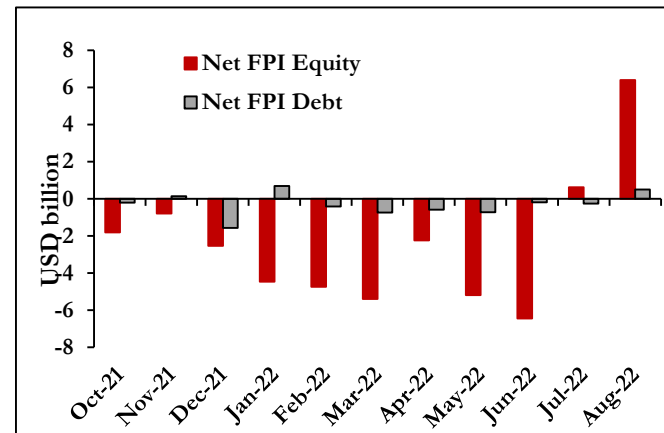
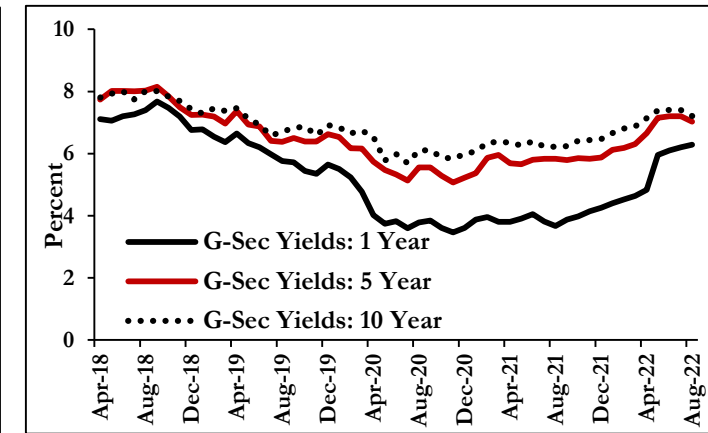


Figure 24: Yields on Domestic Government-securities



Source: BSE Ltd, NSE Ltd; Global Markets Monitor, IMF; National Securities Depository; Clearing Corporation of India Ltd.

Note: Data for figures in the panel is till 30th August.



Heatmap for high-frequency indicators

	Apr-19	Jul-19	Oct-19	Jan-20	Apr-20	Jul-20	Oct-20	Jan-21	Apr-21	Jul-21	Oct-21	Jan-22	Apr-22	Jun-22	Jul-22
Agriculture															
Tractor sales	-13.2	-13.1	-5.0	4.8	-79.4	38.5	7.7	46.7	-436.2	3.3	0.4	-32.6	40.6	-14.4	-15.3
Farm Tractor Production	-11.2	-4.6	-25.8	-7.2	-99.6	14.4	58.8	41.1	34522.0	30.7	-17.0	-24.9	-4.3	12.5	-2.8
Fertilizer Sales (Urea)	8.8	-0.3	23.1	52.5	26.8	9.5	33.5	-35.0	-13.8	-9.0	-31.1	0.2	64.8	5.5	14.4
Industry															
IIP (mining)	107.8	100.2	99.5	124.3	78.8	87.5	98.5	121.3	107.6	104.6	109.8	124.9	116.2	113.4	
IIP (electricity)	162.9	170.5	145.8	155.6	125.6	166.3	162.2	164.2	174.0	184.7	167.3	165.6	194.5	196.9	
IIP (manufacturing)	126.2	133.7	126.3	137.9	42.1	118.5	132.0	136.6	124.6	131.0	136.4	139.2	131.8	136.3	
PMI (manufacturing)			50.6	55.3	27.4	46.0	58.9	57.7	55.5	55.3	55.9	54.0	54.7	53.9	53.9
PMI (services)			49.2	55.5	5.4	34.2	54.1	52.8	54.0	45.4	58.4	51.5	57.9	59.2	59.20
Auto production	-10.7	-11.5	-26.6	-11.5	-99.3	-31.3	31.9	3.6	-20.6	-15.9	3.2	-12.6	11808.1	90.1	
Natural gas production	-0.3	0.2	-5.6	-8.2	-18.6	-10.1	-8.4	-2.2	-0.2	6.5	14.2	9.7	30.8	21.0	
Natural gas consumption	5.5	5.3	3.6	6.9	-30.6	-1.3	7.4	-3.2	1.8	0.6	-0.2	-8.9	39.3	-0.2	
LNG import	12.0	11.3	13.8	26.5	-40.5	7.1	21.9	-4.2	3.3	-5.4	-14.0	-25.4	47.2	-17.1	
Crude steel production	4.3	4.7	-4.5	-3.0	-63.5	-8.4	6.5	10.7	5.9	2.9	11.9	17.0	213.2	28.8	
Electricity demand	5.5	6.7	-12.9	3.8	-22.5	-4.2	11.1	4.5	7.1	5.9	15.9	6.2	58.5	27.0	
Electricity production	5.7	6.7	-12.8	4.0	-22.6	-3.7	11.6	4.4	7.2	6.2	15.3	6.3	56.2	26.8	
Crude oil production	-6.7	-4.4	-5.1	-5.3	-6.4	-4.9	-6.2	-4.6	-8.3	-7.9	-8.3	-6.9	-3.0	-3.5	
Services															
Air passenger traffic – domestic	-6.4	1.3	2.7	1.5	-100.0	-82.3	-56.8	-38.6	-47.6	-58.1	-27.0	-16.2	87.8	247.9	97.9
Cargo traffic - domestic airports	27.6	-9.9	-0.8	36.5	-99.7	-45.0	-21.3	3.7	-8.8	-11.4	-0.6	-27.5	12.8	80.9	37.4
Foreign tourist arrival	4.0	1.4	6.2	0.7	-99.6	-98.5	-95.6	-92.5	-89.8	-91.1	-80.8	-82.0	13833.7	5985.4	4964.1
Telecommunications – number of subscribers	3.1	0.8	1.1	-2.2	-1.2	-2.1	-2.7	0.2	1.7	1.7	-1.3	-0.6	-0.1	1.1	
NPCI retail payments - volume	67.7	75.9	59.7	59.9	14.7	21.6	36.4	39.3	100.1	108.5	133.6	132.1	220.2	184.7	192.5
Trade															
Exports- non oil	-2.9	3.8	1.5	-2.3	-60.3	-3.4	2.6	12.1	203.8	35.0	30.1	20.6	17.6	10.3	0.8
Import – non oil non gold	-8.1	-8.2	-13.9	-10.8	-49.1	-24.5	3.1	6.0	113.1	33.5	40.2	31.3	34.4	38.3	42.9
NEER (trade weighted 40 currencies)	-1.1	1.3	4.7	0.0	-5.0	-6.5	-3.4	-3.3	-1.8	-1.1	-1.8	0.2	1.1	-0.4	-0.6
FDI inflow	-1.8	61.5	-31.6	26.4	-47.2	-31.8	65.9	-51.4	60.2	-6.6	-30.2	136.0			
Net FPI (USD million)	-202.3	-231.4	-142.8	-118.6	-181.5	-204.0	31.6	1267.8	-39.5	-319.9	-155.7	-290.9	149.7	-469.6	-124.1
Fiscal															
GST: E-way bills	87.6	18.0	-1.2	11.6	-83.6	-7.3	21.4	10.5	582.5	32.7	14.5	9.5	28.0	36.2	17.8
Monetary and Financial Markets															
Non food credit outstanding	26.3	25.8	22.1	8.3	6.7	6.4	5.2	4.9	11.7	11.8	12.4	14.7	16.5	19.2	20.9
Non food credit outstanding – personal loans	19.2	20.8	19.5	19.3	17.0	15.0	8.7	8.9	31.4	28.7	21.4	22.3	28.6	32.5	33.0



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