

Economic Round-up: November 2023

Global economy is showing signs of soft landing rather than hard landing, with US economic growth proving to be more resilient than expected and UK economy giving slight miss to start of the recession in Q3. However, conditions remain bleak in Eurozone, but prospects of improvement are emerging (PMI business confidence, Germany IFO business sentiment index). Growth in China remains in a tight spot, as signalled through official PMIs, while domestic consumption seems to be holding ground (retail sales). Amongst these, India remains a bright spot and has maintained its position of fastest growing major economy in the Sep'23 quarter, despite noting slight moderation in GDP print. Weakness in US economy is more prominent in Q4 and based on this, analysts expect no more rate hikes by Fed. Timing of rate cut is debatable, but is widely expected to start by mid CY24.

Global growth: Global growth seems to be faltering in Q4, with labour market in the US loosening, housing sector slowing and manufacturing activity also faltering. In case of Eurozone and UK, weakness continues to persist and Q4 is expected to be no better. However, as inflation pressures ease globally, domestic demand can be expected to provide growth some push. In China, growth is awaiting more fiscal/monetary stimulus from the government for revival. Ongoing problems in the real estate sector (EverGrande bankruptcy) are expected to hamper economic activity. On the other hand, expectations of improvement in demand from Europe and less than expected slowdown in US can provide support to China's trade engine.

Global Central Banks: In Oct/Nov'23, US Fed, ECB, BoE, BoJ and Bank of Canada held rates unchanged. Fed Chair and other members have consistently reiterated that rate hike is not off the table if data warrants and any talks of rate cuts a premature. However, looking at high-frequency data from the US it is clear that Fed may no longer need to hike rates but may choose to keep rates 'higher for longer'. Other central banks such ECB and BoE are also expected to follow the same path keep rate elevated. In UK rate cuts are not expected before Jul'24. On the other hand, BoJ continues to maintain ultra-loose monetary policy, despite market indicators signalling need for shift in stance. BoJ members have highlighted that real wage growth remain negative hence there is need for ultra-loose policy and talks of shift in stance are premature.

Key macro data releases: India's GDP growth surprised positively, rising by 7.6% in Q2FY24, following a 7.8% growth in Q1FY24. The moderation was led by slowdown in private consumption, while upward push was given by improvement in sectors including government consumption, followed by investment. GDP growth is expected to register some moderation in H2 in line with RBI's projections. However, given the upcoming general elections, government spending is expected to pick up and support growth estimates.

CPI inflation came in at 4.9%, slightly higher than our estimate of 4.7%. The print was marginally lower compared to previous month's level of 5%. Food inflation was sticky at 6.6% in Oct'23. Core CPI (excl. food and fuel) moderated to 4.3%. All broad sub-components of core noticed a drop in inflation in Oct'23. Amongst them, the demand driven components such as household goods and services, personal care and effects and clothing and footwear have noticed considerable drop in inflation. Only health inflation remains sticky at 5.9%.

Global developments

Global growth: prepare for soft landing

In the US, Q3CY23 GDP growth was revised upward to 5.2% from previously estimated growth of 4.9% and 2.1% in Q2. The upgrade was on account of higher than expected business investment (in particular warehouse and healthcare facilities), government spending (state and local), and residential investment. In Q4, some slowdown can be expected as reflected in high frequency indicators. US manufacturing ISM remained unchanged from Oct'23 at 46.7 (est.: 47.8) in Nov'23. New export orders, production and employment sub-index fell the most. Input prices also noted very little decline and were seen inching towards an increase. In Q4 so far, ISM index has averaged 46.7, down from 47.7 in Q3. Labour market is also seen to be loosening as initial jobless claims for the week ending 25 Nov 2023 rose by 7k to 218k from 211k in the week before. More interestingly, continuing claims for the week ending 18 Nov 2023 rose to 1.93mn (est.: 1.87mn) from 1.84mn in the previous week, thus reach its highest level since Nov'21. This indicates that people getting laid-off are unable to find another job easily. In addition, US factory orders have fallen more (-3.6%) than expected (-3%) in Oct'23 following 2.3% in Sep'23. Core orders (proxy for business investment) is also suffering (-0.3% versus -0.1%). US existing home sales have dropped by (-) 4.1% in Oct'23 to reach 13-year low level of 3.79mn units (est.: 3.9mn units), as buyers face supply and mortgage rate issues. On the upside, resilience in consumer spending is observed, noting not so significant deterioration in household balance sheet. Retail sales in Oct'23 fell less (-0.1% MoM) than expected (est.: -0.3%) after rising by 0.9% in Sep'23. Mastercard's data shows that during black Friday sale month (upto 24 Nov'23), retail sales in the US were up by 2.5% on YoY basis, supported by higher sales in restaurants, sporting events and e-commerce.

Economic conditions in the Eurozone remain much weaker than other nations. Continued contraction in manufacturing activity remains a key drag. Markit manufacturing PMI for Nov'23 came in at 44.2, up from 43.1 in Oct'23 but still indicates conditions of strong deterioration. Flash services PMI also suggests that activity dropped further in Nov'23 (48.2), albeit less sharply (47.8 in Oct'23). In the manufacturing sector, downturn in Italy (44.4 versus 44.9) intensified, while in France (42.9 versus 42.8) it was broadly unchanged and in Germany pace of contraction slowed only a tad (42.6 versus 40.8). In Eurozone overall, backlog of orders declined even more, and employment fell at the fastest rate since Aug'20. However, going forward, PMI survey suggests improving business confidence on the back of prospects of soft landing of global economy rather than hard landing. Germany's IFO business climate index also increased to 87.3 in Nov'23 from 86.9 in Oct'23, supported by improvement in the expectations index (85.2 versus 84.8) owing to hopes of less pessimistic business conditions in the coming months.

China's official manufacturing PMI shows that activity fell deeper into contraction in Nov'23 as PMI index dropped to 49.4 (est.: 49.7) from 49.5 in Oct'23 due "insufficient market demand". The non-manufacturing PMI index also noted further slowdown in activity (50.2—lowest since Dec'22) compared with the previous month (50.6 in Oct'23). This more on account of softening condition in the services sector than the construction sector. Within services, real estate, leasing and business services posted contraction in activity. In terms of external sector, contraction in China's exports deepened (-6.4% in Oct'23 versus est.: -2.9% and -6.2% in Sep'23), mainly on account of valuation (price factor). On the other hand, imports improved (+3% versus est.: -4.5% and -6.2% in Sep'23), driven by sectors such as: energy, metals and semiconductors. On the consumption side, retail sales jumped to 7.6% from 5.5% in Sep'23, due to base effect. On the production side, industrial output registered steady growth (4.6% in Oct'23 versus 4.5% in Sep'23), as volume of exports stabilised.

RBI

RBI in its upcoming policy this week, is expected to keep the repo rate unchanged at 6.5%. MPC members are also expected to keep the stance unchanged and reiterate their focus on bringing inflation below 4% mark. We expect 10-20bps upward revision in RBI's real GDP growth forecast as average growth in H1FY24 has come in at 7.7%, higher than 7.25% projected by the central bank. Inflation forecasts are expected to remain unchanged.

Global central bank decisions

US Fed again left its policy rates unchanged at 5.25-5.5% in the Oct/Nov'23 meeting. While analysts believe that policy rates in the US may have reached their peak, the current pause remains hawkish in nature, as the Governor reiterated that inflation remains elevated and economy activity is resilient, hence the central bank will not shy away from hiking rates if needed. However, for the Dec'23 meeting as well, most analysts believe that the central bank will leave rates unchanged. Significant decline in core PCE (-60bps in Q3) has comforted the Fed that inflation is on track to be brought to sub 2% levels. On the other hand, as strength in the economy continues (upward revision to Q3 GDP to 5.2% from 4.9% estimated earlier), there remains uncertainty whether Fed will provide guidance on rate cuts or not. For now Fed Chair has maintained the stance that rate cut talk is premature.

Bank of England (BoE) for the second consecutive time since Dec'21 left its policy rate unchanged 5.25% in its Nov'23. The decision was not unanimous with 6 out of 9 members opting for a pause and the other three voted for a 25bps hike. In line with Central Bank's expectations, CPI in Oct'23 fell below 5% mark to 4.6% after remaining sticky at 6.7% in Sep'23 and Aug'23. However, core inflation continues to remain elevated and stickier in nature (5.7% in Oct'23 from 6.1% in Sep'23). Data further shows 7% increase in wage growth in Oct'23 which could feed into services inflation. Acknowledging these risks, BoE is expected to maintain 'higher for longer' stance and no rate cuts can be expected before Jul'24.

Following other major central banks, ECB also decided to pause in its Oct'23 meeting, after hiking rates for 10 consecutive times since Jul'22. ECB President has recently repeated that monetary policy is expected to remain tight and no rate cuts can be priced in for the time being. According the latest forecast, CPI is expected to average 5.6% in CY23, which implies that the central bank again expects inflation to pick up to 4-4.5% range in Dec'23, after positively surprising in Nov'23 (2.4% from 2.9% in Oct'23). As base effect fades and impact of accelerating wage index (+4.7% in Q3 versus +4.4% in Q2) shows, most analysts expect rebound in Eurozone inflation from Dec'23 onwards (above 3%), hence reducing the probability of announcement of rate cut by ECB.

Bank of Japan has maintained its stance of keeping the monetary policy ultra-loose monetary policy. However, in the last policy statement we noted a hawkish tilt, as the policy tweaked the Yield Control Curve (YCC) again. BoJ will now accept upper limit for 10Y sovereign bond at 1% "as a reference". In addition, inflation forecasts were also revised upwards. For the Dec'23 policy meet, analysts are expecting no shift in monetary policy stance, even as investors are pushing for BoJ to begin its tightening cycle. However, as per BoJ members latest remarks, talk of a shift at this stage are premature, as real wage growth continued to decline for the 18th consecutive month in Sep'23 and increase in inflation is noted to be on account of cost push factors, rather than demand push factors.

Special studies

India on track to be the fastest growing economy

India's GDP expanded at a robust pace of 7.6% in Q2FY24, beating market expectations. The data lent support to the narrative that India is the fastest growing economy in the world, a fact which is often reiterated by international agencies. In this brief analysis, we compare India's GDP growth in the quarter ending Sep'23 with other major economies in the World. This gives a sense of India's relative under/over-performance vis-à-vis other major advanced as well as developing economies, which are comparable in terms of both structural and level of economic development.

India has outperformed all major countries in terms of growth in real GDP in the Sep'23 quarter. In fact, India has done remarkably well when compared with its developed counterparts.

- Growth in the Eurozone continues to languish, led by a sharp and protracted slowdown in Germany.
- Amongst developed countries, US has performed the best, even so at 2.8%, it is still much below India.
- An interesting thing to note here is that Emerging economies have done much better than the developed economies, and the trend is likely to continue.
- To put this in perspective, while the average growth differential between India and advanced economies is about 7%, for EMs it is much lower at ~4%.
 - Growth in some EMs such as Indonesia, Vietnam, Turkey and Philippines has been noteworthy, even though it continues to trail India.
 - China, which was once touted as the engine of global growth, continues to grapple with the after effects of the long-drawn Covid-19 pandemic and property sector crisis. It registered a subdued growth of just 4.9%.

It is to be noted here that there are country specific factors which are shaping the growth trajectory in each of these countries. While all the countries were faced with the twin blow of the pandemic and the commodity price shock, the fiscal and monetary responses have been divergent as also the linkage with the global economy in terms of coupling, which in turn are defining the growth outcomes of these countries.

India will continue to outperform

Based on projections by the International Monetary Fund (IMF) in Oct23, India is expected to be the fastest growing major economy in the World. While IMF expects India's GDP growth at 6.3%, there is likely to be an upward bias to this number in subsequent updates. Amongst major economies, China is expected to grow by 5%; however given the recent headwinds, its growth path will not be easy. US economy while showing significant and unexpected traction, is expected to grow at a below trend pace of 2.1%

In H1FY24, growth has been 7.7%.

- While growth is likely to be lower in H2 led by an unfavourable base as well as headwinds from external and agriculture sector, the underlying momentum is expected to be maintained. Export is anticipated to remain weak due to a slowdown in global demand. Agriculture sector is likely to come under further duress due to lower Rabi sowing, which will put further pressure on rural demand which has remained lacklustre even in H1.

- On the positive side, high frequency indicators such as core sector output, auto sales, air passenger traffic, PMIs, credit growth etc., indicate a continued strength in the economy. Apart from this, festive demand and buoyant investment activity, will also play a part in boosting growth. Overall, we expect FY24 GDP in the range of 6.6-6.7%.

Corporate performance: Q2FY24

India Inc.'s performance based on a sample of a 3,265 companies spread out across 35 sectors in Q2-FY24 has been ambivalent. The quarter was marked by increased profitability, even as sales growth remained muted. At a disaggregated level, while banks and service related sectors benefited from higher credit offtake and pent-up demand respectively, signs of stress were visible in certain pockets. Consumer oriented industries such as FMCG etc. noted muted growth as rural demand continues to lag. This will be a key factor to monitor going forward.

Corporate performance of India Inc. in Q2-FY24 has been marked by higher profitability even though revenue growth has moderated to a large degree. Lower commodity prices have resulted in lowering input costs and improved profitability. On the other hand, sales growth has remained muted for the second consecutive quarter. While base effect can explain some part of this moderation, delay in festive season and patchy monsoon have also weighed on revenue growth as demand was affected.

For a sample of 3,265 companies, sales growth in the last quarter rose at a meek pace of 2.8%, compared with a 24.3% growth in Q2-FY23. Expenditure growth has declined sharply by 4.2%, after increasing by 28.5% in Q2-FY23. This was led largely by a decline in costs of raw materials. As a result, profitability parameters have shown a sharp improvement. Operating profits, profit before tax and net profits have all registered double digit growth in Q2-FY24. Profits after tax, which had declined by 2% in Q2-FY23, rose at an impressive pace of ~30% in Q2-FY24.

The overall performance has been skewed to an extent due to the inclusion of BFSI sector which includes banks, finance and insurance companies. To get a clear picture, we exclude the BFSI sector, and the sample reduces to 2,749 companies. While the overall picture remains the same of higher profits and lower sales, the magnitude is different. Excluding the BFSI sector, net sales have declined by 0.5%, which is in contrast to a small but positive growth in the overall sample. However, profit growth is even higher led by a relatively higher decline in expenses.

Interest cover ratio of the companies has shown a marked improvement, led by both lower growth in interest costs as well as higher growth in profits. The interest cover ratio of the companies has improved to 5.64 from 4.49 last year. This bodes well from the perspective of debt service capability of these companies.

Sector-wise movement in interest cover

It must be noted that RBI has kept its policy rate unchanged since Feb'23. However, in order to meet their business requirements, banks have increased the rates charged on fresh rupee loans. In fact, the weighted average lending rate (WALR) on fresh loans stood at 9.38% in Sep'23 versus 9.2% in Jun'23 and 8.59% in Sep'22. Overall growth in bank credit for this quarter was 17.6% which was marginally lower than 18.9% last year. Even so, the ICR has shown an improvement as the higher interest costs have been offset by a sharp uptick in profits.

As stated earlier, there has been an improvement in the interest cover ratio (PBIT/interest) for major sectors (excluding BFSI) during Q2-FY24. The following observations can be made:

- The improvement in ICR for the sample companies is a reflection of the fact that the increase in interest rates has not really lowered the debt servicing capability of companies. Therefore the fear that higher repo rate leading to higher lending rates would pressurize companies has been put aside.
- Barring telecom and iron and steel all other sectors had an ICR of above 2. (The performance of steel industry has been distorted by the presence of one company which posted high losses due to special conditions).
- Interestingly the 10 largest indebted sectors such as power, crude oil, infrastructure, realty, automobiles, chemicals, logistics and textiles, besides the two mentioned earlier have witnessed improvement in their ICR.
- A total of 5 sectors had an ICR of 2-3. These included: textiles, infrastructure, agro products and logistics.
- 19 of the 32 sectors had ICR of above 5.
- 16 sectors witnessed an improvement in ICR in Q2-FY24 vis-à-vis Q2-FY23.

Quite clearly the ICR will be dependent mainly on performance of companies in terms of growth in profits. Based on trends witnessed in the first two quarters it does seem like that growth in profits will be maintained in the following two quarters too given that the WPI inflation numbers which reflect to a large extent the growth in input costs has been under control at low if not negative levels. If this feature continues it will also have a soothing effect on the quality of assets.

Sector-wise performance

In terms of sector wise performance, net sales in 19 sectors has been higher than the sample average which is 4.3% (excl. miscellaneous). However, when compared with last year, only 7 sectors have seen higher growth in net sales relative to the same quarter last year. These include: banks, finance, real estate, electricals, mining, healthcare and media and entertainment.

For net profits, the number of sectors showing higher growth than the average of 22.1% are 16. Even when compared with the same period last year, 11 sectors show higher growth in profits. Hence, clearly the profit picture which seems upbeat at an overall level requires a much closer look.

The table below gives an overview of growth in sales and net profits of various sectors in Q2FY24 on a YoY basis, divided into different ranges. The following points stand out:

- As has been the case for the last few quarters, banks have continued to perform extremely well in Q2-FY24 as well, with both profits as well as sales increasing by more than 20%. Buoyant credit demand, along with higher interest rates and improved asset quality has helped profitability of banks. This is also true for the finance sector as well which comprises of NBFCs and HFCs etc.
- Infrastructure oriented industries and capital goods have also done reasonably well in Q2FY24. This also holds true for real estate and construction materials. On the other hand, despite some traction in sales, profits in mining and non-ferrous metals remained negative.
- Services continued to do well supported by pent-up demand. This is especially true for hospitality which exhibited double-digit growth in both sales and profits. On the other hand, both net sales and profit

growth in the retail sector remained muted amidst a drop in discretionary spending and delay in festive season.

- The performance of IT services has remained downbeat this quarter amidst a challenging global macro-economic environment.
- Auto sector has also recorded a good performance this quarter with both sales and profits registering double-digit growth. Strong demand, easing semi-conductor issues and lower commodity prices aided this performance.
- However, the performance of other consumer goods, such as FMCG and consumer durables was somewhat dismal, with both registering muted sales growth. Weak rural demand due to delayed and patchy monsoon as well as shift in festive season were the primary reason for the weak performance.

Concluding remarks

Corporate performance in Q2FY24 has been broadly in line with the trend seen last quarter. While profit growth has seen a marked improvement, sales growth has been much more sombre. A correction in commodity prices and the resulting decline in input costs for companies has contributed to the uptick in profits.

However, various sectors have performed differentially. Even so, performance of banks and financial institutions has been consistently remarkable. Apart from this, infrastructure linked industries have also continued to perform well amidst the government's big capex push. Auto, real estate and hospitality industries are also benefitting from pent-up demand and changing consumer preferences amidst emergence of a growing middle-class. On the other hand, other consumer driven sectors such as FMCG, consumer durables etc. have been impacted due to weak rural demand due to patchy monsoon, elevated food inflation and delay in festive season.

On the positive side, the outlook for almost all sectors looks bright with companies betting big on the festive demand. Positive tailwinds will also come from lower commodity prices and a dip in domestic inflation. However, this will be contingent on a pickup in rural demand which in turn will demand. While kharif sowing has progressed well despite some irregularities, concerns remain over the Rabi crops due to low reservoirs level in the country.

IPO boom: An analysis

India's economy continues to report strong growth with our estimate now being 6.5-6.6% that is much higher than its global counterparts (Global growth: 3%), and making it's a one of the top contenders in the global IPO market space. This year itself more than 150 initial public offerings (IPOs) have already been listed on the exchanges. The uncertainty in the global landscape coupled with lacklustre growth and growing geopolitical tensions, has made India a much attractive destination on the back of strong macroeconomic condition and stable political climate. The study discussed how the IPO markets have performed in the last 2-years.

Global Market

Global IPOs have been gaining momentum indicating rapid demand and growing attractiveness towards this sector. Higher number of IPOs have also translated in to rising IPO proceeds in the global financial market space. For the year 2021, a total of 2436 IPOs had been listed, resulting in the total proceeds of US\$460bn.

Domestic trend

In the last 5-years, IPO market has expanded with the number of issues almost doubling in this period. The cumulative issue size across these years have also grown from Rs 16,754 crore in the year 2018 to Rs 1,38,894 crore in 2021-22. This implies the accelerated demand for equities and also showcases the investors' confidence in the financial market.

The cumulative issue size for the year stood at Rs 55,638 crore with 151 companies participating across industries. Of the 93 firms with IPO listing in the year 2022, a big majority of over 76 firms had registered some listing gains. On other hand, 16 of them have been listed at discount. Industries such as insurance, edible oil, courier service and textile have been biggest contributor in terms of the issue size.

IPO market in 2023: Story so far

The cumulative issue size for the year so far stands at Rs 37,768 crore with over 200 companies participating across industries. Of the 96 firms with IPO listing in the year 2022, over 82 firms had registered flat or at premium prices, thereby investors receiving listing gains through the subscription. On other hand, 14 of them were listed at discount. This year, the industries that have been the biggest contributor in terms of issue size includes Pharmaceuticals, trading, port, Hospital & healthcare services and retail sector to name a few.

Concluding remarks

Strong optimism in the domestic market have fueled the surge in the IPO listing in the last 2-years. Across these years, following industries have contributed the most including pharma, insurance, healthcare, edible oil and textile. Notably, large number of IPOs have also been listed at premium making this a win-win situation for investors. However, this space needs to be seen with caution as it remains to be seen if the euphoria will continue in the upcoming election year too.

Study on asset-turnover ratio for H1-FY24

Depressed sales in H1-FY24 has impacted the turnover to fixed asset ratio of India Inc. This ratio is a closely used proxy for capacity utilization rate of the non-financial sector, in particular. Fixed asset creation has still picked up in H1, with auto companies among others hinting at expanding its total production capacity. Even crude oil and infrastructure companies have spoken of balanced capex and growth mix, with former hinting at production augmentation plans. However, what has been a concern is the muted growth in sales in comparison to the existing stock of fixed assets. This held for industries such as chemicals and consumer durables where some momentum was visible in H1FY23, but is now losing steam due to depressed sales. Some core capital goods sectors such as infrastructure and iron and steel have held up well.

- Turnover to Fixed assets ratio of companies, which can be used as a proxy for capacity utilization of the economy, has witnessed moderation in H1FY24 compared to H1FY23. However, it was higher than that in 2019, 2020 and 2021.
- Excluding Banking and financial services (BFSI) the ratio has also come off, albeit higher than the pre pandemic level.
- Depressed level of sales compared to pace of asset creation has resulted in the same.

- Sectoral data shows infrastructure, consumer durables and ship building were at the top end of the spectrum. Major infra related sectors such as capital goods, auto and ancillaries and chemicals were in the median range.

What H1 numbers reflect?

- A way of looking at capacity utilization in the economy is through the lens of ratio of turnover to fixed assets ratio of India Inc. especially for the non-financial sector. Here we analysed balance sheets and P/L data of 1,982 companies for H1FY24. Excluding BFSI companies, the count comes to 1,752 companies. For turnover, we have used the half yearly net sales data and for fixed assets we have used the sum of fixed assets and Capital work in progress.
- The H1 data for the aggregate sample has moderated to 1.25 from 1.29, seen in the corresponding period of previous year. Excluding BFSI sector, the turnover to fixed asset ratio has come off to 1.04 from 1.14 in H1FY23, albeit remaining above the pre pandemic level of 0.80, seen during H1FY19. Interestingly RBI data for Q1FY24 showed capacity utilization rate of the economy moved down to 73.6% from 76.3% in Mar'23. The main reason behind this is the softening of sales numbers which is visible since the beginning of this financial year and the trend is continuing this quarter as well. Notably, if we exclude the outlier industries (trading, diamond and jewellery and IT) which have an inflated turnover to fixed assets ratio, due to their inherent way of functioning, the ratio is below 1 at 0.98.

Industry wise picture:

- Industries such as infrastructure, electricals and realty were at the top end of the spectrum, posting a better ratio in H1FY24. Major infra related sectors such as capital goods, auto and ancillaries and chemicals were in the median range while telecom, power, construction materials, gas transmission and iron and steel were at the bottom. Noticeably industries related to intermediate goods are the ones where fixed asset creation happens at a faster pace than consumer centric industries where focus is on sales. Thus these industries have a tendency of depressed turnover to asset ratio.
- 18 of the 32 industries captured in this analysis registered a decline in turnover/assets ratio in H1-FY24. But interestingly, with the exception of alcohol, FMCG, consumer durables and ship building (albeit a very small sample size), all other industries had higher ratios compared with pre-pandemic times.
- If we compare the H1FY24 ratio with H1FY23, 92.5% of companies in our sample have registered a drop in turnover, while only 45% of the industries have noted drop in their pace of fixed asset creation in H1FY24 compared to H1FY23. This has brought down the overall turnover to asset ratio of the sample. Only for infra, the ratio has shown some degree of momentum in H1FY24 compared to H1FY23 (+52bps increase in ratio). This was driven by improvement in ratio of companies related to Transmission Towers/Equipment. Other than infrastructure, Automobile & Ancillaries also showed 15bps increase in the ratio largely driven by lower pace of creation in fixed assets rather than improvement in sales numbers.
- For sectors such as chemicals, industry gas and fuels and consumer durables, the drop in ratio was more on account of sharp drop in sales compared to that of fixed assets. In case of crude oil, increase in pace of asset creation as is the trend historically, has led to a lower ratio of the sector. For Iron and

Steel sector, despite an improvement in fixed asset creation, fairly stable sales numbers have supported the ratio.

- However, what comes as a comfort is that despite some moderation in the overall ratio, 68% of companies have shown a ratio which is higher than the aggregate sample. So there is some in-built momentum that is prevalent. These companies were in sectors such as automobiles, capital goods, consumer durables, crude oil and infrastructure. However, Power, Telecom and construction materials due to their inherent nature disappoint on this front.

Mutual funds back in favour in first 7 months

Mutual funds have been an alternative avenue for savings in the country and has grown in importance as the capital markets have deepened. RBI data on financial savings of households show that the flow of funds in mutual funds rose from Rs 0.64 lakh crore in FY21 to Rs 1.60 lakh crore in FY22 and further to Rs 1.79 lakh crore in FY23. In terms of share in overall financial savings stock of households, it was 7.6% in FY21 and 8.5% and 8.4% respectively in the following two years.

Hence it can be seen that while assets under management (AUM) mutual funds are still of a lower magnitude compared with banks deposits, they have been gaining importance of late with investors becoming financially savvy. More importantly, risk aversion has started coming down, which is natural as individuals become more financially savvy.

AUM of mutual funds increased from Rs 37.57 lakh crore in FY22 to Rs 39.42 lakh crore in FY23. In the first seven months of the year there has been a sharp increase to Rs 46.72 lakh crore.

The interesting part of the story has been that the investors have progressively become less risk averse as seen by the migration to the equity oriented schemes.

- The share of debt schemes has come down. There are two reasons for this. First, the interest rate cycle turned in FY23 where banks offered higher deposit rates which caused a shift to bank deposits. Second, the recent budget has removed the capital gains tax benefit on debt schemes which makes them less efficient now.
- However, the risk taking ability can be seen from the migration to growth/equity, hybrid and 'other schemes'.
- The booming stock market has enabled investments in the equity segment. The returns have been volatile. In FY22 it was 18.3% but became virtually flat in FY23. However, from March 2023 to October 23 the gain was around 11%.
- Hybrid schemes have a dominance of equity with a good modicum of debt thus reducing the risk but still bestowing tax benefits analogous to equity schemes.
- The 'other schemes' category is basically index funds and ETFs which have become popular with share of almost 17% of total AUM.

How do mutual funds stand vis-a-vis bank deposits?

Bank deposits grew by 9.6% in FY23 and 8.5% in FY24 on WTD basis (up to November 3). Mutual funds growth was sluggish at 4.9% in FY23 but impressive at 18.5% in FY24 (YTD). Banks were able to claw back in FY23 as interest rates were increased thus making deposits a superior asset as they go with nil risk. However, in FY24 so far, mutual funds have made a comeback with equity and hybrid schemes growing by 23.9% and 22.7% respectively.

In terms of shares in total of o/s deposits + AUM, bank deposits recovered in FY23 and declined marginally by 0.4% to 80.7%.

Concluding remarks

Mutual funds have grown in stature for sure and do compete with bank deposits all the time. While one can see a direct correspondence between debt schemes and bank deposits where risk-return tradeoffs are different, the migration to equity and index schemes is a reflection of the individual investor becoming more aware of the alternatives and willingness to take risk. This could be the pattern going ahead.

How FPI flows have moved?

FPI flows in the past few months have been disappointing. This was in line with muted flows globally. Heightened geopolitical tensions, pressure on currency and volatility in US treasury yields impacted investor confidence which in turn got reflected in muted flows. Going ahead, with some correction in US 10Y yield, some reversal in the trend may be expected.

How month wise flows have moved:

Since Aug'23, FPI flows have moderated considerably. From US\$ 6.8bn inflow seen in May'23, it fell to US\$ 2.2bn in Aug'23. Both in Sep'23 and Oct'23, outflow amounted to US\$ 3.8bn. A multitude of factors came into play which resulted in somber flows. Uncertainty over Fed policy outlook and the puzzling growth inflation dynamics continue to weigh on US treasury yield, which exhibited sharp upturn. Upside risks to inflation have also not receded completely. On top of that, heightened geopolitical tensions have resulted in volatility in crude prices. Growth remained on a mixed footing. While in the US some high frequency indicators pointed towards resilience; in Eurozone and China, it remained uncertain. This impacted direction of flows

Interestingly, equity flows pattern and Sensex moved in tandem. In 4 out of 6 months, Sensex moderated on a sequential basis and also witnessed flows getting hampered. Needless to say there is no one to one correspondence as some degree of support is also provided by domestic intuitional investors which have often countered these flows. In FYTD24 (Apr-Sep'23), net inflows under Mutual Fund rose to Rs 2.1bn from Rs 427mn in the same period of previous year. Better quarterly earnings of companies in Q1 especially profit indicators posting buoyant growth have helped in retaining confidence of domestic investors.

In FYTD24, US 10Y yield went up considerably. Expectation of a tighter financial condition on the back of overheated economic conditions have resulted in the same. Despite a falling gap between India and US 10Y yield (in Apr'23, it was at 373bps and in Nov'23 it is at 271bps; historical average spread is at 442bps), debt inflows

have maintained some momentum. This is attributable to risk off sentiment in the event when volatility in global markets have resurfaced due to uncertain geopolitical space.

How flows in other economies have moved?

In other EMs as well, there have been pressure with regard to flows. During Oct-Nov'23 period, there have been outflow in the equity segment for almost all EMs. The more pronounced outflow is visible in case of China, Taiwan, South Korea, amongst others. The macro indicators of these region are currently giving very conflicting signals. In China, worries persist as major high frequency indicators such as PMIs, exports have remained benign. In economies such as Indonesia and South Korea inflation is sticky and growth gaining ground. The future direction of flows will also be contingent on Fed's policy guidance.

How sector wise flows have moved?

As per Assets under Custody as of 31 Oct 2023, sector wise data showed that financial services followed by IT and oil and gas space dominated the flows in the equity segment.

Way forward:

- Going ahead, FPI flows will be contingent on a number of factors. The US 10Y yield movement holds the key narrative. Fed officials gave mixed signals in their recent statement with Minneapolis Fed President hinting at the fact that fight against inflation is still not over. Fed Governor Waller on the other hand has called run up in US treasury yield as an 'earthquake' for the bond market. The direction of US 10Y yield is hard to predict, yet some correction in the trajectory is expected in the near term, which might resume some flows into EMs.
- Expectation that US Fed policy rate has already peaked, and will keep a lid on INR. Apart from this, RBI's intervention would also arrest fall in currency, this would likely support some degree of flows in the coming months. Notably, in 4 out of the 7 months in this fiscal, INR weakened and this might be one of the factors that kept flows muted.
- Results of India Inc will also hold key to flows. Till now, corporate performance was marked by higher profitability and lower volume growth, similar to the trend seen in last quarter. However, pressure on margins were witnessed by major financial companies which has impacted sentiments of investors. Hence some volatility in FII flows might persist in this earning season.

What has been the investment pattern of India Inc. in first half?

A question often raised is whether or not investment has picked up in the current year. Looking purely at the financing side the picture is uncertain; as bond issuances or borrowings from banks by large corporates appear to be restrained. Bank credit growth to large industry was just 6.1% on y-o-y basis while aggregate credit growth was 20% as of September. All other sectors had registered higher growth in credit. In case of bond market 84% of the total funds of Rs 4.12 lakh crore raised for the first 7 months were by finance companies.

Data on investment intentions based on announcements is also not very encouraging as there is no broad based picture revealed. 83% of such announcements came from transport, power and chemicals with transport having share of 57%.

One way to look at progress in investment is to examine what India Inc. has done this year. The balance sheets of companies for the period ending September 2023 provides some clues. The sum of gross fixed assets and capital work in progress are summed and compared over time. September 2023 is compared over March 2023 to reckon growth rate which is compared with the same for 2022. At another level the growth rate over September 2022 is reckoned which is the year-on-year concept.

Some of the takeaways are the following:

- Growth in stock of fixed assets for a sample of 1,420 companies was higher at 3.6% over March compared with 2.1% in the six month period March-September 2022. Hence, while the growth rate is higher than last year, the stock has grown at a relatively subdued rate.
- On a year on year basis growth was 7.9% for year ending September 2023.
- The industries which registered growth in fixed assets that was higher than the sample average were mainly in the infra space with some services like media and retailing picking up post the covid-19 induced lockdown. Consumer durables did register a higher than average growth though as can be seen the growth over March was lower in 2023 compared with 2022 which had witnessed higher growth due to the investments made to meet pent up demand which has weakened over time. Diamonds and jewellery witnessed sharp growth in fixed assets which can be corroborated with the high growth in production witnessed due to robust demand conditions.
- The industries which witnessed growth lower than the sample average in September 2023, but in terms of growth over March, which represents activity in the financial year so far, there was a recovery over last year, included: FMCG, hospitality, and logistics among others, which were affected by the lockdowns in 2020 and 2021 and have been witnessing stable recovery.
- Sectors which witnessed lower than sample average growth on y-o-y basis as well as lower growth in the current financial year on TYTD basis were: the ones in infra like power, telecom, auto and banks. Healthcare and textiles along with realty have also been laggards.
- It can hence be concluded that investment activity is not yet broad-based. It is in limited pockets. In terms of overall share, around 43% of the industries by size of fixed assets performed better than the average. 5 major sectors however continue to trail which includes power and telecom.

How has state capex performed in H1FY24?

Continuing its push on capex spending, Centre's capital expenditure in H1FY24 has shown a steady increase. On a YoY basis, Centre's capex has increased by 29% to Rs. 4.9 lakh crores. This translates to 49% of FY24BE, which is much higher than 29% in the same period last year. The Centre remains on track on delivering its budgeted target of Rs. 10 lakh crores. In comparison, based on data available for a total of 23 states, state capex has increased by a sharp 52.8% in the same period. However, in terms of meeting the budgeted target, states

have been lagging the Centre. Out of a budgeted capital expenditure of Rs 8.09 lakh crores, actual capex is Rs 2.63 lakh crores, which is around 32.3% of the Budgeted amount. However, this is higher than last year. In fact, in H1FY23, states' capex spending stood at 25.2% of the budgeted amount.

State wise capex picture

Out of a total of 23 states, 17 showed an improvement in capex spending this year, when compared with the same period last year. Incidentally, these states accounted for over 80% of the total capex spent so far in FY24. In fact, only 6 states, namely, Kerala, Himachal Pradesh, Gujarat, Chhattisgarh, Karnataka and Punjab have seen capex spending lower than last year.

In terms of state wise performance, the following observations can be made:

- Telangana has performed remarkably well in terms of capex spending this year and has met 60.9% of its FY24 target, which is much higher than 26.5% in the same period last year. In YoY terms, capex spending by the state has increased at over 190%. A part of this can be attributed to the upcoming assembly elections in the state which are scheduled later in the month.
- Andhra Pradesh which had been at the forefront of capex spending in Q1FY24, has slipped a place and is currently lagging behind Telangana in terms of capex spending. Even so, it has seen a sharp 142% increase in capex in H1FY24. This translates to around 53.4% of the budgeted expenditure in FY24, compared with 22.3% of BE in H1FY23.
- Madhya Pradesh, another poll bound state, has also performed well on capex in H1FY24. Capex spending by the state is up by 60.4% this year, meeting 53.1% of the budgeted target for FY24. In the corresponding period last year, this figure stood at 39% of BE.
- There are six states which have achieved more than 30% of their budgeted capex in H1FY24. These are: Bihar, Kerala, Tamil Nadu, Sikkim, Himachal Pradesh and Rajasthan. Within this, capex spending of Kerala and Himachal Pradesh has been lower than last year, on both a YoY basis as well as a percent of BE.
- The next 10 states, have achieved more than 20% of their budgeted target in H1FY24. Interestingly, for Gujarat the capex spend as a % of BE is lower at 29.6% compared with 39.8% of BE in the same period last year. This is notwithstanding the fact that there was a more than 45% increase in the state's capex in H1FY24. It must be noted that the state underwent an assembly election last year which can explain the higher capex spend last year.
- Amongst major states, performance of Karnataka continues to remain worrisome. Capex spending by Karnataka has declined by around 32% in H1FY24. As a % of BE, the actual capex spending has been lower at just 16.9% compared with 33.3% in the same period last year. It accounts for about 7% of the total budgeted capex of states in FY24. This is in consonance with the Karnataka government's stance on reducing capital spending and focusing on revenue expenditure instead.

- Capex spending in Maharashtra has picked up in Q2FY24, after a lacklustre first quarter. On a YoY basis, capex by the state is higher by 40.4%. It has achieved 20.8% of its budgeted target for FY24, up from 16.8% last year. Even so, it lags behind other major states such as Uttar Pradesh.
- Uttar Pradesh accounts for ~18% of total budgeted capex of the 23 states, and has exhibited a near 85% YoY growth in its capital spending. As a % of BE, this equals to 28% of the FY24BE, which is higher than 18.5% in the same period last year.

The increased capex spending has been financed by higher borrowings. In H1FY24, states' borrowings have surged by ~30% to Rs. 3.58 lakh crores. Apart from this, states' capex has also received a substantial push from the Central Government's scheme for Special Assistance to States for Capital Investment through which the Central government provides financial support to states in the form of interest free loans of 50 year tenure, subject to fulfillment of some pre-set conditions. In FY23, Centre had disbursed Rs. 81,195 crores under this scheme to states. In FY24 (upto Sep'23), capital spending of Rs. 93,870 has been approved under the scheme, which is more than 70% of the total allocation of the scheme in FY24. Actual disbursements stand at Rs. 53,541 crores.

Conclusion:

Capital expenditure is known to have a multiplier effect, which can crowd in private investment. So far, the private investment picture has remained hazy, and hence the government has been left to do the heavy lifting on this front. Government capex, both at the Centre and state levels has seen traction in H1FY24. Given the fact that five states accounting for ~20% of the budgeted capex for FY24, are going to polls this year, it is encouraging to note that capex spending has continued at a robust pace and has not suffered due to likely predisposition towards higher revenue expenditure in the run-up to the elections. This is particularly important since some studies have suggested that state capex has a higher multiplier than Centre's capex. In this regard, an uptick in state spending towards capital expenditure is a positive sign for India's economic outlook. It will be important to note if the momentum continues even in H2FY24.

State of States as they underwent elections

Five States across the country witnessed assembly elections. This was the last round of state elections in 2023 and will be followed by the general elections scheduled to be held in May'24. Following states went in for elections: Chhattisgarh, Mizoram, Madhya Pradesh, Rajasthan and Telangana. The only state to have elections in 2-phases was Chhattisgarh, with polling beginning from 7 Nov and second phase on 17th Nov. A total of 1.77 lakh polling stations were created across the 5-states with over 60-lakh first time voters expected to participate. Around 680 seats were being contested for these states.

Rajasthan's **GSDP** had registered a growth of 8.2%, while Chhattisgarh and Telangana grew at a robust pace of 8% and 7.8% respectively in FY23. On CAGR basis too, most of the states had grown at a healthy pace of 3%-4.5%, considering this includes the pandemic period too which witnessed lockdowns.

In terms of **per capita income of states** (current prices) for FY23, Telangana has per capita NSDP of Rs 3.12 lakhs followed by Rs 1.99 lakhs for Mizoram and Rajasthan at Rs 1.56 lakhs. MP and Chhattisgarh have relatively lower per capita income.

Inflation varied across states in FY23, ranging between 4.7% and 8.6%. Telangana had the highest inflation rate in FY23 while Chhattisgarh had the lowest. Inflation data for Sep'23 indicates that Rajasthan witnessed highest inflation compared with other states though it should be noted all the states have experienced moderation in inflation in Sep'23 from Aug'23.

The **unemployment rate** (as of Jun'23) for both Rajasthan and Telangana was 4.4% followed by Chhattisgarh, Mizoram and Madhya Pradesh. On Labor Force Participation Rate (LFPR), amongst other states, Chhattisgarh had the highest LFPR (54%) closely followed by Madhya Pradesh (48%) and Telangana (47%), as of Jun'23.

Niti Aayog has highlighted that the share of multidimensional poor in the country has gone down to 15% in the year 2019-20 from 24.9% in the year 2015-16. The headcount ratio shows the **proportion of multidimensional poor in the population**. For Madhya Pradesh, 20.6% of the population is considered to be poor, while this proportion stands at 16.4% for Chhattisgarh, 15.3% for Rajasthan and 5.8% for Telangana. Mizoram has the lowest proportion of population that is poor.

In terms of **health parameter**, over 15.4% of the total population in Madhya Pradesh is deprived of nutrition. For Chhattisgarh and Rajasthan, it stands at around 13.2% and 12.2% respectively. The child and adolescent mortality is defined as the household will be deprived if the child under 18 years of age has died in last 5-year (preceding the survey). A small proportion of population is deprived in this indicator across all states. Number of hospital beds per lakh of population is highest for the state of Mizoram, followed by Rajasthan, Madhya Pradesh and Chhattisgarh.

On **education**, over 7.9% of the population in Madhya Pradesh and 6.2% in Rajasthan have been deprived of years of schooling, (not even one member of the household (above the age of 10) has completed 6-years of schooling).

Similarly other indicators such as **standard of living and infrastructure** sheds light on how each of the states have been performing across indicators. States such as Madhya Pradesh and Rajasthan have scored low on access to cooking fuel and sanitation. The deprivation levels are also higher in Chhattisgarh. Furthermore, over 17.6% of the population in Madhya Pradesh and 14.4% from Chhattisgarh have been deprived of housing as per the report.

In terms of **per capita availability of power** there is wide variation across the states. Telangana tops with 2004kw-hr while Mizoram is way below at 613. The other three states are in the range of 1180-1300kw-hr. Rajasthan has the highest installed capacity of renewable power at around 10,200 MW with MP and Telangana considerably below at 5,200 and 4,400 respectively. This is where potential lies.

In terms of **forest cover**, Madhya Pradesh has the highest forest cover amongst other states, with Chhattisgarh coming a close second. On cold storage capacity, Madhya Pradesh once again tops the chart with Rajasthan, Telangana and Chhattisgarh coming subsequently, though lower by over 50%.

Fiscal health of state is another indicator, which shows variation. On **fiscal deficit**, both Rajasthan and Madhya Pradesh are keeping a target of 4% of GSDP for FY24. States like Telangana and Chhattisgarh are targeting 2.7% and 3% of GSDP respectively as fiscal deficit. As per their budgets, **capex as a % of total expenditure** is

expected at 20.8% and 19.4% respectively for Chhattisgarh and Madhya Pradesh. Clearly these two states have given a big push to infrastructure development.

Chhattisgarh and Mizoram are less strained by **interest burden** with debt levels being manageable. This is not the case with MP, Rajasthan and Telangana. The picture is different for other committed expenditure in the form of salaries and pensions which are highest in Rajasthan followed by Chhattisgarh and MP.

Concluding remarks

The economic and social profiles of the five states are very different from one another. Telangana does the best in terms of per capita income which is the best indicator of economic prosperity. GDP growth on the other hand has been quite even. Telangana and Mizoram do very well in terms of the poverty count (multi-dimension poverty count) while MP, Rajasthan and Chhattisgarh have some distance to traverse. Telangana also excels in power availability compared with the other states. Telangana also does well on headline fiscal deficit number but faces pressures on committed expenses. The central Indian states are more aggressive in capex.

Data Releases

Currency outlook: Rupee continues to be better placed on global scale

Prospects that the Fed may soon start cutting its policy rates next year, have weighed on the dollar which has been trailing at a ~4-month low. Probability of a rate cut by the Fed as early as Mar'24 have increased to 55% as per the CME Fed Watch Tool. US treasury yields, which had traced multi-year highs last week have corrected sharply, putting further downside pressure on DXY. While most global currencies have gained from this, the performance of INR has been underwhelming. The local currency remained under pressure and fell to a record-low several times during the last month alone. Strong dollar demand from importers have been fuelling the weakness in INR, even as the macro backdrop has been supportive. RBI has been proactive in managing the level as well as the volatility in INR and the trend is likely to continue. We expect INR to trade in the range of 83-83.5/\$ in the next fortnight.

Bond Market Round-up

Global yields got comfort from expectation of easing financial conditions in the coming year. CME Fed watch tool is pricing in a rate cut by Fed from Mar'24 onwards. Fed Chair's comments remained balanced. Yield of other AEs also followed US. Even yields in major EMs noticed a sharp correction in Nov'23. Inflation is showing signs of moderation in major economies on the back of stable energy prices. However indicators of growth remained blurry. Thus going forward, global yields will be guided by movement of US 10Y yield, where correction on the downside would persist in Dec'23 as well.

India's 10Y yield fell at a slowest pace compared to its major peers. The moderation in yield was arrested by tighter liquidity conditions. In the coming days as well, pressure on liquidity is going to persist as incremental credit and deposit gap in financial year till date is ~ Rs 3.4 lakh crore. Thus, RBI did not conduct any OMO sale in the secondary market in Nov'23. We expect India's 10Y yield to remain in the range of 7.25-7.35% this month. CPI data print for this month and RBI's articulation would be closely monitored.

India's Q2 GDP growth in 4th gear

India's GDP growth surprised positively, rising by 7.6% in Q2FY24, following a 7.8% growth in Q1FY24. Even as, this was slightly lower than previous quarter, India continues to remain the fastest growing economy across the globe. In line with expectations, agriculture growth softened amidst the threat of El Nino which resulted in erratic rainfall; impacting the kharif output. However, amidst poor rainfall, sector such as construction, manufacturing and mining registered an uptick and supported growth. Strong growth in firms in Q2 was reflected with earnings data. Globally, sluggish pace of growth in world economy and uneven recovery in rural economy is expected to drag India's growth lower in H2FY24. However, we do expect some support from government spending and boost from the delayed festive season to assist growth. Given this, India's economy is expected to clock a growth higher for FY24 with upward bias of 0.1-0.2%.

Fiscal update

Centre's fiscal deficit has reached Rs 8 lakh crore as of Oct'23 (FYTD basis) which is only 45% of the budget estimate, compared with 45.6% of the target achieved last year. As % of GDP it is currently running at 6.1% versus targeted 5.9%. The deficit ratio has been on a downward trajectory since Aug'23. In Oct'23, centre's both

receipt and expenditure growth has seen some moderation when compared with H1FY24 (as of Sep'23). Amongst the receipts, corporate tax collections and indirect tax collections (mainly customs and excise) have been a major drag. On the spending front, government has achieved 53.2% of its budget estimate, lower than 54.3% last year (as of Oct'22). Major ministries which have spent less than budgeted compared with last year include, ministries of road transport, railway, consumer affairs, rural development and chemicals & fertilizers. This also suggests that spending in H2 will be higher in order to meet the targets. We continue to believe that centre will meet its fiscal deficit target of 5.9% in FY24.

CPI inflation

CPI inflation came in at 4.9%, slightly higher than our estimate of 4.7%. The print was marginally lower compared to previous month's level of 5%. Food inflation was sticky at 6.6% in Oct'23. 5 out of 12 broad categories of food inflation witnessed an increase in inflation in Oct'23 compared to Sep'23. Among them, the sharpest increase was visible in case of pulses (18.8% in Oct'23 from 16.3% in Sep'23), fruits (9.3% from 7.3%), and eggs (9.3% from 6.5%). Double digit inflation still persist for cereals and products, pulses and spices.

Core CPI (excl. food and fuel) moderated to 4.3%. All broad sub-components of core noticed a drop in inflation in Oct'23. Amongst them, the demand driven components such as household goods and services (3.9% in Oct'23 from 4.3% in Sep'23), personal care and effects (7.8% from 8.5%) and clothing and footwear (4.3% from 4.6%) have noticed considerable drop in inflation. Only health inflation remains sticky at 5.9%.

Way forward: Despite some bumpy roads, we expect CPI to moderate gradually towards the 4% targeted level. Our forecast for the next two quarters lie below 5%. The key upside risks are the recent spike in onion prices. However, this spike coincide with the Oct-Dec'23 Kharif harvest. But the Kharif harvest comprises only a part of production as majority of transplanting is done in Rabi season whose harvest arrives in the market during Mar-May. We expect that with government astute supply management policies such as increasing buffer stock of onions, prices will remain in check.

Apart from the transient veggie price shock, what poses an underlying risk is the sub-optimal Kharif output and lower reservoir level which may affect wheat sowing. Cereal inflation has already remained in double digits for 14 months in a row. Going forward, this is a key watchable to overall inflation outlook in the near term.

Industrial growth in September

Industrial growth for September 2023 came in at 5.8% which is lower than our forecast of 6.5%. For the entire period growth is now 6% with manufacturing at 5.7%. This does indicate steady growth for the year and considering that things should improve or remain stable in the next few months, industry appears to be on the right path provided consumption recovers.

Consumer goods in particular grew by 1% (durables) and 2.7% (non-durables) in September. These numbers are expected to show further traction in the Q3 period as this is when festival spending should add momentum. Rural demand has to be watched closely as kharif crop could be sub-optimal.

Within manufacturing, 14 of the 23 industries showed positive growth. A notable exception was electronics and computers where growth was negative again. This has been a major disappointment as this is the leading sector

for PLI. There has been negative growth for the 6 month period at -15.1%. The sustained growth in machinery is a good sign which has led to capital goods growing at 7.4% in September. Infra related sectors have done well: non-metallic minerals, metals etc. as the government push has helped to accelerate production. Hence infrastructure industries have grown by 7.5% this month. Coal and power have done well which was also reflected in the core sector data.

The overall performance is encouraging and should lead to stable industrial growth for the year. The crux will be pick up in consumption and investment. Readymade garments has been a low performer due to exports being low. October has indicated that exports could have turned the corner and if sustained can provide the requisite boost for the textiles sector.

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