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Economic Round-up: July 2022

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High frequency indicators (PMIs, consumer/business sentiment index) in US, China and Eurozone are pointing towards slowdown in economic activity. Reduced supply of gas to Europe has further aggravated concerns. This has even led to downgrade of global growth forecasts by the IMF. While so far major central banks (Fed, ECB, BoE) remain on policy tightening spree, it is being anticipated that pace of rate hikes will have to ease in order to stop global economy slipping into recession.

Global growth: With GDP growth faltering in US and China and other high frequency indicators showing signs of stress, risks to slowdown in global growth have increased. In US, jobless claims have picked up to highest since Nov2'21, while consumer confidence and home sales have dipped. In China, following a rebound in economic activity in Jun'22, manufacturing PMI has slipped again in Jul'22. IMF has slashed global growth forecast by 40bps to 3.2% for CY22, stating the "outlook has darkened significantly since Apr'22". ADB has lowered forecasts for South Asia's growth, mainly owing to downward revision in India and Sri Lanka's forecasts. This has re-ignited debates over the future course of policy tightening by major central banks.

Global Central Banks: So far, Fed remains on track to increase policy rates and has delivered another 75bps hike in Jul'22. Even ECB raised rates (50bps) more than expected and at the fastest pace in 11 years. Central Banks of Singapore, Canada and Philippines have also tightened their monetary policies. This week, both BoE and RBI are expected to increase rates. However, deviation in global central bank actions continues, with BoJ and Bank of Russia remaining accommodative.

Key macro data releases: India's core sector registered growth of 12.7% in Jun'22. Even if compared against Jun'19 which was pre-pandemic growth was impressive at 8%. The performance however was not broad-based. While, power and coal were the drivers with growth, steel production, crude oil and gas trailed in terms of growth. Trade deficit expanded to a new historic high of US$ 26.2bn in Jun'22 from US$ 24.3bn in May'22, taking Q1FY23 print to US$ 70.8bn versus US$ 31.4bn in Q1FY22, mainly owing to higher commodity prices. Exports in Q1 were up by 25% while imports rose by 50%.

Headline CPI print for Jun'22 came in at 7% (unchanged from May'22). For Q1FY23, the print stands at 7.3%, against RBI's forecast of 7.5%. Food inflation moderated slightly to 7.7% from 8% in May'22. Core inflation edged down to 5.9% in Jun'22 from 6% in May'22, supported by transport and communication. We believe RBI will hike rates by 25 bps which is contrary to market expectations of 50 bps.

Global developments

Global growth slows

Preliminary estimates of US GDP print for Q2CY22 show that economic activity contracted for the 2nd consecutive quarter. GDP fell by (-) 0.9% in Q2 versus estimated increase of +0.5% and following (-) 1.6% decline in Q1. Other macro prints are also showing signs of stress with initial jobless claims (256,000 for week ending 23 July 2022) at its highest since Nov'21 and services PMI (47 versus 51.6 in Jun'22) down to 26-month low in Jul'22. Manufacturing activity also slowed with PMI reading at 52.3 in Jul'22 versus 52.7 in Jun'22. Consumer confidence index dipped for the 3rd consecutive month in in Jul'22 to 95.7 (lowest since Feb'21), and home sales fell by 8.1% in Jun'22, signalling unease amongst buyers amidst elevated inflation and rising interest rates.

In Eurozone too risks of economic recession have increased with Russia reducing the supply of gas to Europe. Eurozone business activity has already begun shrinking with composite output PMI dropping to 49.4in Jul'22 (17-month low) from 52 in Jun'22. Further, Germany's IFO business climate dropped to its lowest level (88.6) in more than 2-years, fuelling concerns of global economic slowdown.

Even China is showing signs of weak growth with GDP in Q2CY22 rising by only 0.4% versus est.: 1.2% and 4.8% in Q1. This was mainly the impact of stringent lockdown imposed to curb the spread of Covid-19 in early Q2. However, since than while the activity rebounded in Jun'22, it has again slowed in Jul'22. Industrial production in Jun'22 rose by 3.9% versus 0.7% in May'22. Even retail sales improved in Jun'22 (3.1%) versus May'22 (-6.7%). However, latest official PMI shows that manufacturing activity contracted in Jul'22 (49) compared with Jun'22 (50.2). Markit manufacturing PMI, which primarily covers small businesses too reported weakening activity (50.4 versus est.: 51.5 and 51.7 in Jun'22). Both domestic and export orders are seen faltering and it is impacting employment growth as well.

With global growth facing headwinds, IMF in the World Economic Outlook has downgraded global growth forecast by 40bps to 3.2% in CY22, stating the "outlook has darkened significantly since Apr'22". This is led by stalling of growth in US, China and Euro Area in the aftermath of Russia- Ukraine war, aggressive interest rate hike by Fed to tame inflation and strict Covid-19 induced lockdowns in China. ADB has lowered forecasts for South Asia's growth to 6.5% in CY22 (7% projected earlier in Apr'22) and 7.1% in CY23 (7.4% earlier). This was mainly owing to downward revision in India and Sri Lanka's forecasts. India's GDP for FY22 is now expected at 8.7% (8.9% earlier) and at 7.2% (7.5% earlier) in FY23.

Global central bank decisions

In line with market expectations, US Fed hiked policy rate by 75 bps in its latest meeting. Cumulatively in CYTD22, the Fed has now raised rates by 225 bps, to combat record-high inflation. The FOMC statement noted that inflation remains elevated (9.1% in Jun'22) and labour market conditions remain tight, thus necessitating the rate action, even though economic activity appears to have slowed down. Against this backdrop, we believe that the RBI's MPC may hike rates by only 25bps, instead of a front-loaded hike of 50bps or higher. Inflation trajectory has evolved much in line with RBI's projections, and in absence of any fresh shocks is likely to moderate in the coming quarters. Softening oil prices and a stabilizing currency will also help ease pressure on the inflation outlook.

ECB surprised the markets and raised rates (+50bps) much higher than anticipated (+25bps) for the first time in over 11 years, with inflation concerns trumping growth objective. Accordingly, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility have been increased to 0.50%, 0.75% and 0.00% respectively, with effect from 27 July 2022.

Elsewhere, Central Banks of Canada, Singapore and Philippines have further tightened their monetary policies to rein in inflation.

Bank of England (BoE) is also expected to hike rates for the 6th consecutive time in Aug'22, and more aggressively (possibly by 50bps) this time. This would be the sharpest increase in 25 years.

On the other hand, BoJ continued in its path of policy divergence by following ultra-dovish monetary response to support growth, despite projecting inflation to surpass 2% target in the current fiscal year (2.3% versus 1.9% projected earlier). It kept the policy rate unchanged in its Jul'22 meeting and has denied any implicit 25bps hike in 10Y bond yield target. The Bank has maintained target of (-) 0.1% for short-term rates and 0% for 10Y bond yield.

Russia has cut policy rate by 150bps (est.: 50bps cut) to 8%, citing slowdown in inflation. This is the 4th consecutive cut this year.

Special studies

Bonds' Wrap

Global sovereign 10Y yields have moderated in the current fortnight with Germany and US 10Y yield falling as much as 32 and 27bps respectively. Fear of recession improved demand for sovereign securities. India's 10Y yield also fell by 12bps against only a tad decline in the previous fortnight, led by concerns of a spill over impact of global financial tightening and growth slowdown. However, the most notable fact in the current fortnight has been the significant jump in yields of short end papers which has reduced the yield gap (10Y and short end papers). This has made the yield curve considerably flatter compared to the previous fortnight. Importantly, in the 22 Jul 2022, auction, 91-day T-Bill borrowing cost rose to its 3-year high. This happened primarily on account of reduction in surplus liquidity in the system. It is worth mentioning that system level liquidity surplus reached its lowest since 23 Sep 2019 remaining between Rs 492-499bn (0.3% of NDTL) on 26th and 27th Jul. RBI's conduct of 3-day variable day repo auction of Rs 500bn (last conducted on 21 Jan 2022) was also to support the liquidity in the system. The sudden reduction in liquidity surplus was on account of higher credit demand, RBI's forex intervention and seasonal upshot of government's cash balance (Rs +5tn against +Rs 3tn seen in the previous fortnight). Going forward, in the next fortnight, we expect India's 10Y yield will trade in the range of 7.35-7.45%, with upside risks on account of withdrawal of liquidity. All eyes will be on RBI's policy and its forward guidance. We expect a 25bps rate hike against market consensus of 35-50bps. Even CPI print scheduled next week will impact bond yield trajectory. We expect some softening of the print on account of moderation in commodity prices.

Monsoon and Sowing: Update

South-West monsoon picked up pace and registered above normal rainfall at 9% above LPA till 29 Jul 2022. The actual rainfall for this period has exceeded and moved past the normal range. Out of 36, 7 subdivisions have received deficient rainfall during this period and 7 states are in the deficient zone. On storage levels, Southern region continue to record higher storage levels as the region continued to receive bountiful rains. Coming weeks remain crucial in terms of distribution of rainfall and impact of the same will be reflected on kharif sowing.

Sown area of pulses (2.9%) and oilseeds (0.8%) has improved. Within pulses, sown area of moong has grown by 15.7%, while that of Arhar had declined by 13.5%. Amongst coarse cereals, the sowing area of crops such as Bajra and Jowar has risen by 28.5% and 2.6% respectively. Area sown for oilseeds have also inched up by 0.8%. However, sowing area of jute and mesta has dropped lower by 1.4%

Western region of India including states such as Rajasthan, Gujarat and Maharashtra have received excess rainfall. On the other hand, following states including Delhi, Uttar Pradesh, Bihar, Jharkhand and West Bengal have been lagging behind other dates and have received deficient rainfall.

IMD in its forecast stated in the coming few days, the Central region and East and North East region will receive fairly widespread rainfall. Additionally, it expects moderate rainfall in Western India and Rajasthan.

Job scene in India Inc.

FY22 was a year when the Indian economy got back on its feet. Growth in GDP was 8.7% this year which came over a negative number in FY21. Compared with FY20 growth was 1.5% in FY22. Against this background the discussion on employment is important. While recovery was witnessed in most sectors and the services segments too did operate at fuller capacity the question is whether or not companies were hiring more people?

Employment data from Annual Reports of companies provide useful clues when aggregated across industries. As companies are still in the process of publishing their Annual Reports the foregoing study looks at a sample of 675 companies which had an aggregate of 4.12 mn employees and analyses the changes in employment across over 30 sectors. These are early indications, given the size of the sample, but may point to broad trends.

Total employment for the sample companies increased from 3.74mn in FY21 to 4.12mn in FY22. In FY21, growth was flat as headcount in FY20 was 3.73mn. Hence growth of 10.2% is quite impressive.

Interestingly, out of the net increase of 3.82 lakh in employment witnessed for the sample companies, 93% was accounted for by the IT, banking and finance sectors. Therefore growth was not broad based. If these sectors were excluded growth in employment would be just 1.8%. It must be pointed out here that these three sectors were operating largely in a normal manner during the lockdown with substantial activity being conducted in these businesses. The IT sector did not get into the hiring mode in FY21 but more than made up in FY22. Banks have maintained growth of 4-5% with the private sector banks taking a major lead in hiring of staff. For NBFCs, employment declined in FY21 and then recovered in FY22 to grow by double digits.

14 sectors witnessed fall in employment in FY21 with healthcare witnessing the highest decline in absolute terms. Most sectors which witnessed decline in headcount were in the services space. The exceptions were automobiles, consumer durable goods, paper, alcohol, non-ferrous metals, construction material and electricals.

It does appear that the companies have been cautious when hiring more employees and are going slow in recruitment depending on the demand conditions. Even sectors that had fewer restrictions by the end of March 2022 have moved slowly along the path. The picture for services could improve as it was only late towards the end of the fiscal that the restrictions on operations were eased.

Investment scenario and funding

Investment climate in India in Q1FY23 started on a weaker tone with data pointing towards sharp drop in new project announcements relative to Q4FY22. The decline was broad based but sharpest drop was visible in the manufacturing sector. However, compared with the other years, Q1FY23 announcements were higher than those in 2019, 2020 and 2021.

We juxtaposed this picture with the major sources of funding for investment, to see whether they were also showing the same trend. Importantly, bank credit has shown a considerable pickup in Q1FY23. However, if we look at the sectoral composition, industry credit is still lagging. The major accretion in Q1FY23 happened in the personal loan segment. However, sectoral data is only for Apr'22 and May'22, and should be read with caution. Further, within industry only chemicals and infra (especially roads and power) have seen some accretion. So the increase is not broad based within industry.

Further, if we look at the borrowing data through the debt market, it is also reflective of the fact that issuance in the corporate debt market has slowed in Q1FY23. Also 66% of issuances were by companies in the financial services space. So funding for infra projects has been minimal.

Also, through the ECB channel as well, approvals had been muted in Apr'22 and May'22 compared to Q4FY22. The share of new project financing through the ECB route has been only 29%.

On the positive side, FDI remained stable. Going forward, with tightening of global and domestic financial conditions against the backdrop of a rising interest rate environment, cost of capital will go up. Elevated growth concerns might dent investor sentiments. Thus, favourable business friendly policies and reduced uncertainty in policy space can comfort the business climate. Central government has announced a larger capex programme for the year which will provide the initial impetus. However, for overall capital formation to increase, private investment will have to pick up at a faster pace than is happening today.

This will hinge on improvement in capacity utilization across all sectors, as well as interest in infrastructure, which is limited today.

Easing pressure on commodity prices

After sharp increase in global commodity prices, post the outbreak of Russia-Ukraine war, prices have witnessed a dip in the last month. Key reasons for moderation in prices is a mix of fear of global growth slowdown and improvement in supply chains as bottlenecks eased. In early Q2CY22 major cities in China remained in lockdown to combat surge in Covid-19 cases. This impacted demand of several metals and coal. However in June, lockdown restrictions eased, also helping in easing pressure on supply chain bottlenecks.

US high-frequency data prints are also showing that high interest rates are beginning to take a toll on economic activity. Initial jobless claims for the week ending 23 Jul 2022 were at 256,000 versus estimated 251,000. Previous week's claims were revised upward by 10,000 to 261,000. In addition, US manufacturing activity slowed (Markit PMI) in Jun'22 while services activity contracted.

However, cooling global commodity prices have come in as a breather for India's WPI. In the table below, we have compared the trends in global commodity prices in Jun'22 versus Feb'22, and drawn a parallel to commodity-wise movement in India's wholesale prices.

While most of the commodity prices in India's WPI are moving in tandem with international prices, there some items where dip in prices have not been passed on as yet. For instance, in case of natural gas, while international prices are up by 32%, in India's WPI it is up by 74%. India import dependence for natural gas is at ~50%. In case of other major commodities like Iron ore, copper, and palm oil, while internationally prices are declining by 8.5%, 9.2%, 1.4% respectively, in India's WPI they continue to inch up by 6.4%, 0.1% and 10.3%, respectively. Palm oil accounts for 50% of India's import of vegetable oils.

Even aluminium prices have fallen (2.6%) only marginally so far compared with decline in global prices (21%). Other commodities like coffee and groundnut oil, are also witnessing increase in domestic prices, while global prices have come down significantly. However, in this case domestic factors are more at play since India is an exporter of groundnut oil and coffee. On the other hand, prices of crude oil, gold, silver, rice, wheat, sugar, soybean oil and sunflower oil are moving much in tandem with international prices.

Key policy developments

- The Prime Minister launched the Ministry of Power's flagship Revamped Distribution Sector Scheme, which is aimed at improving the operational efficiencies and financial sustainability of Distribution Companies. With an outlay of Rs 3.03 lakh crore over a period of five years from FY22-26, the scheme aims to provide financial assistance to DISCOMs for modernization and strengthening of distribution infrastructure, aiming at improvement of the reliability and quality of supply to end consumers. The PM also launched the national portal for Rooftop solar, which will enable online tracking of the process of installation of rooftop solar plants, starting from registering the applications to release of subsidy in residential consumers' ('beneficiaries') bank account after installation and inspection of the plant.

- To make BSNL financially viable, the Union Cabinet approved the revival package of BSNL amounting to Rs 1.64 lakh crore. Revival measures approved will focus on infusing fresh capital for upgrading BSNL services, allocating spectrum, de-stressing its balance sheet, and augmenting its fibre network by merging Bharat Broadband Nigam Limited (BBNL) with BSNL. To improve existing services and provide 4G services, BSNL will be allotted Spectrum at the cost of Rs 44,993 crore through equity infusion. To meet the projected capital expenditure for next 4 years, Government will fund capex of Rs 22,471 crore.

- Central government has rolled out scheme for strengthening pharmaceuticals industry with focus on MSMEs and clusters. In order to strengthen the supply chain of Pharmaceuticals industry, GoI will incentivize the intending MSME units going in for acquiring Schedule M certification or WHO GMP Certification through the sub-scheme Pharmaceuticals Industry Technology Upgradation Assistance Scheme (PTUAS). The MSME unit shall have the option to choose from either Capital subsidy or Interest subvention. At the cluster level, the sub-scheme 'Assistance to Pharmaceuticals Industry for Common Facilities' (APICF) envisages to support creation of common facilities like Testing Labs, Common Effluent Treatment plants and other such common facilities by providing Govt support in the form of capital grant to the extent of up to 70% subject to a ceiling of a maximum of Rs 20 crore.

- According to second Advance Estimates (2021-22) of area and production, total horticulture production in 2021-22 is estimated to be 341.63mn ton, an increase of about 7.03mn ton (increase of 2.10%) over 2020-21 (final). Increase in production of fruits, vegetables and honey while decrease in production of spices, flowers, aromatics & medicinal plants and plantation crops over previous year, is envisaged. The fruits production is estimated to be 107.10mn ton compared to 102.48mn ton in 2020-21. The production of vegetables is estimated to be 204.61mn ton, compared to 200.45mn ton in 2020-21.

- Central government will provide a total incentive of Rs 120 crore spread over three financial years starting FY22. Provisional list of 23 PLI beneficiaries has been released which includes 12 drone manufacturers and 11 drone component manufacturers. Eligibility norm for MSME and startups is specified as Rs 2 crore of annual sales revenue for drone manufacturers and Rs 50 lakhs of annual sales revenue for drone component manufacturers. Eligibility norm for Non-MSME is specified as Rs 4 crore of annual sales revenue for drone manufacturers and Rs 1 crore of annual sales revenue for drone component manufacturers. Minimum value addition is specified as 40% of net sales.

- Results of the third edition of Ranking of States on support to Startup ecosystems were released. Gujarat and Karnataka emerged as the best performers in a category of States which included NCT of Delhi. Meghalaya won the top honour among UTs and North-eastern (NE) States. While Kerala, Maharashtra, Orissa and Telangana got the top performers award among states, Jammu & Kashmir emerged as the top performer among UTs and NE states.

Data Releases

Central government finances

Centre's fiscal position in Q1FY23 remains healthy, with gross tax revenue rising by 22.4%, supported by 35% increase in direct taxes and 11% increase in indirect taxes. Centre's net revenue receipts are also maintaining a steady growth (5%) so far with collections at Rs 5.7 lakh crore versus Rs 5.4 lakh crore during the same period last year. Further, spending by the government continues to remain on the higher side with overall expenditure growth at 15% (Rs 9.5 lakh crore) compared with 0.7% (Rs 8.2 lakh crore) in Q1FY22. The jump is led by pick up in both capex (57% versus 26% last year) and revenue spending (8.8% versus -2.4%). With this, fiscal deficit (12MMA basis) was at 6.6% in Q1FY23 compared with 6.8% registered last year in the same period.

Core industries performance

Notwithstanding a base effect of growth of 9.4% in June 2021, the core sector has registered growth of 12.7% in Jun'22. Even if compared against Jun'19 which was pre-pandemic growth was impressive at 8%. The performance however was not broad-based. Power and coal were the drivers with growth of 15.7% and 31.1% respectively. Pickup in economic activity meant that demand for power increased and coal production kept pace. Post June due to the monsoons we can expect moderation for coal. Cement continues to grow at 19.4% which will again ebb in the monsoon season. Companies have building up stocks for the season. Steel production slowed down by 3.3% against a high base of 25.2%. Government capex in infra is the driving force. Crude oil and gas trail in terms of growth while refinery products were up, partly due to the export demand as well as domestic consumption picking up.

Currency outlook: INR stages a comeback

Global currencies edged up against a weaker dollar. DXY index fell amidst expectations that the Fed may slow down the pace of monetary policy tightening going forward. JPY, GBP and EUR strengthened against the dollar. INR too ended the fortnight higher by 0.9% after depreciating to a fresh record low. A weaker dollar and revival in FPIs supported gains in USD/INR. Further, active intervention by RBI in the foreign exchange market has also ensured an orderly movement in the exchange rate. It must be noted that RBI's foreign exchange reserves have fallen to a near 20-month low of US$ 571.6bn as of 22 Jul 2022. In FY23 so far, foreign exchange reserves are down by US$ 46.1bn. Apart from the RBI policy meet, US CPI and jobs report will guide the trajectory of INR. We expect, INR to trade in the range of 79.15-79.75/$ in the next fortnight.

Trade

India's exports rose to US$ 40.1bn in Jun'22, rising by 23.5% on a YoY basis compared with US$ 38.9bn in May'22. In Q1FY23, exports have increased by 24.5% to US$ 119bn compared with US$ 95.5bn in Q1FY22. Commodities exhibiting the maximum increase in this period are: oil, chemicals, agricultural products and gems and jewellery. On the other hand, exports of drugs and pharmaceuticals have declined in the period.

Imports accelerated further to a fresh record-high of US$ 66.3bn (57.6% YoY) compared with US$ 63.2bn in May'22. In Q1FY23, imports have increased by 49.5% to US$ 189.8bn from US$ 127bn in the same period last year. The surge in imports this year can be attributed to oil (US$ 30.9bn in Q1FY23 versus US$ 13.2bn in Q1FY22) and gold (US$ 10.4bn in Q1FY23 compared with US$ 7.9bn in Q1FY22). Non-oil-non-gold imports have also increased to US$ 118.7bn compared with US$ 88.7bn in Q1FY22.

India's trade deficit expanded to a new historic high of US$ 26.2bn in Jun'22 from US$ 24.3bn in May'22. With this, trade deficit in Q1FY23 now stands at US$ 70.8bn compared with US$ 31.4bn in Q1FY22. This has been on the back of higher commodity prices, including oil. For FY23, we expect trade deficit to rise to a record high of US$ 250bn or 7.3% of GDP. This implies CAD of ~US$ 100bn of 3% of GDP. A widening CAD along with persistent FPI outflows will weigh on the INR going forward.

Favourable base supported CPI

Against our estimate of 6.8% and compared to market consensus of 7.1%, headline CPI print for Jun'22 came in at 7% same seen in May'22, on YoY basis. For Q1FY23, the print stands at 7.3% against RBI's forecast of 7.5%. Food inflation moderated slightly to 7.7% from 8% in May'22. However, inflation rose for major components forming 55% of the overall food basket. These include: cereals whose inflation rose to 5.7% compared to 5.3%, meat and fish (8.6% from 8.2%), milk and products (6.1% from 5.6%), fruits (3.1% from 2.3%) and spices (11% from 9.9%). However, outlook for food inflation in the coming months might get some comfort from government measures to control edible oil prices, normal monsoon (till 7% above LPA) and some downside risks to demand from rising interest rate cycle.

Core inflation edged down by 10bps to 5.9% in Jun'22 from 6% in May'22, on YoY basis. The major drag down was on account of transport and communication inflation (6.9% from 9.5% in May'22), on account of cut in excise duty on petrol (Rs 8/lt) and diesel (Rs 6/lt). However, demand side pressure was clearly visible. Inflation in the Clothing and footwear segment inched up to 9.5% in Jun'22 from 8.9% in May'22. Even housing inflation rose to 3.9% from 3.7%. For household goods and services as well, the uptick was visible (7.5% from 6.8%), recreation and amusement rose to 7% from 6%, education to 4.5% from 4.2%. Despite slight moderation of gold prices in Jun'22, personal goods and services component inched up to 6.7% from 6.2%. Overall, 79.2% of the overall core basket registered an increase in inflation on YoY basis.

The latest print got some respite from government's reduction of excise duty on petrol and diesel. There was also seen a sequential drop in major items of food inflation on account of declining commodity prices across the board. The question is whether it would sustain? Prices are generally sticky in nature and till now the pass through of higher wholesale into CPI inflation is yet to be translated. Further, domestic fuel prices doesn't have the scope to be reduced further as OMCs might look at their margins before doing so. Services are still running at full capacity as seen in the marked improvement of the latest PMI services data. We expect inflation to still be heated at around 6.5% in FY23.

WPI remains elevated

WPI for Jun'22 has come in at 15.2%, down from the peak of 15.9% in May'22, supported by softening global commodity prices. Barring food index, other sub-heads such as manufacturing and fuel, registered deceleration in inflation in Jun'22. World Bank's pink sheet reveals that international commodity prices have been on a downtrend since May'22. On a MoM basis, WPI print was flat (0%) following 1.4% rise seen in May'22.

Food inflation in Jun'22 continued to inch up and reached 12.4% from 10.9% in May'22. This is owing to jump in prices of fruits (20.3% in Jun'22 versus 10% in May'22) and continued pressure on vegetable prices (56.7% versus 56.4%). Even prices of milk (6.3% versus 5.8%) and eggs (11% versus 8.9%) went up.

Fuel and power inflation in Jun'22 moderated marginally to 40.4% compared with 40.6% in May'22. Sharp dip in mineral oil index (57.5% in Jun'22 versus 61.9% in May'22) was countered by increase in electricity prices (24.4% versus 16.2%). Coal prices on the other hand remained unchanged at 2.8%. International price coal on the other hand moderated for the second consecutive month in Jun'22 (135% versus 171% in May'22).

Core inflation eased for the second consecutive month in Jun'22 to 9.3% from 10.4% in May'22. Manufactured products inflation was also down at 9.2% in Jun'22 from 10.1% in May'22. Of the 22 commodity sub-indices, 9 indices rose at a slower pace in Jun'22 than May'22 led by basic metals, fabricated metal products, computer and electronic products, machinery and equipment, motor vehicles, furniture and other manufacturing items. Within basic metals, price of copper (4.5% in Jun'22 versus 5.1% in May'22) and aluminium (19.5% versus 26.5%) has significant easing, while that of Zinc have increased. While almuminium and copper prices are in line with trends in international prices, zinc prices are up despite moderation seen on global level. World Bank's data shows that price of aluminium has seen a substantial dip (4.8% versus 16.3%), and copper prices continue to contract, albeit at a slower pace (6.3% versus 7.7%). Zinc prices have seen marginal moderation (23% versus 26.5%). Within metallic minerals, iron ore prices have seen considerable dip (-22.8% in Jun'22 versus -15.8% in May'22) as international prices also remain weak (-39% versus -37%).

IIP inched up

Industrial output rose to highest since May'21 to 19.6% in May'22, against our estimate of 14.5% and consensus of 20.8%. This was led by sharp improvement in manufacturing sector output which rose by 20.6% from 5.8%, on YoY basis. Within manufacturing, beverages (128% versus 28% in Apr'22), leather and leather products (48.9% from 5%), wood and wood products (56% from 9.2%), electrical equipment (59.6% from 8.5%), motor vehicles etc. (88.7% from 6.5%) and other transport equipment (128.5% from 0.4%), noted considerable jump. Even electricity output rose by 23.5% from 11.8%. Mining rose by 10.9% from 8%. A favourable base did uplift the overall print.

Within use-based, capital goods production rose to 54% from 13.3%. Even consumer durables segment noted considerable jump of 58.5% from 7.4%. Primary goods output rose by 17.7% from 10.1%. Sequential momentum: Even on MoM, basis, IIP rose by 2.3% from -9.5% in Apr'22, showing broad based improvement, with mining rising by 3.4% from -19.5%, manufacturing by 2.1% from -9.3% and electricity by 2.8% from 1.8%.

The economy appears to be on solid footing on the back of the pickup in economic activity and reflected by high frequency indicators including GST collections, air passenger traffic and port cargo. However, the recovery is laden with challenges on the back of concerns surrounding stickiness of inflation, impact of the ongoing Russia-Ukraine conflict on energy prices and concerns over global economic slowdown.

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