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Economic Round-up: April 2024

Markit global manufacturing PMI slipped from 20-month high of 50.6 in Mar'24 to 50.3 in Apr'24. However, the index remains in the expansionary zone and was supported by solid activity in China, US, India and Brazil. On the other hand, Eurozone economies continue to perform poorly, led by Germany and France. IMF's WEO (Apr'24) also notes these divergent trends in growth. Further, owing to resilience in US economic activity, rebound in China, and sustained momentum in India's growth story, the Fund revised its global growth forecast upwards to 3.1% for CY24, from 2.9% earlier (Oct'23). IMF also expects world inflation to come down 5.9% in CY24 from 6.8% in CY23, primarily due to moderation in Advanced Economies (2.6% from 4.6%). Inflation in EMs is expected to remain unchanged at 8.3%. US macro data points (labour market, core PCE, consumer confidence, manufacturing PMIs) are also indicating that the economy is not slowing as much as anticipated, leading analysts to believe that Fed's 1st rate cut opportunity is now pushed to Sep'24. BoE is expected to cut rates in Aug'24 and ECB is expected to embark upon the rate cut cycle from Jun'24. However, traders have trimmed their hopes on quantum of rate cuts this year. RBI is also expected to cut rates in Aug'24.

Global growth: Divergence in global growth is visible with US and India's economy maintaining momentum and China attempting a comeback at the start of CY24. In the US, production, consumer sentiment and labour market trends remain steady. With inch up in global commodity prices (mainly oil), businesses across countries are facing input price pressures. In India, heat wave conditions are impacting food production. A normal monsoon (as predicted by IMD) may provide relief to inflation in the near-term. In China, recovery remains uneven, with boost to GDP provided by manufacturing and exports, while domestic consumption and property market still remains weak. Eurozone's struggle to stabilize continues, but Germany is showing some improvement in business sentiment on hopes of lower interest rates in the coming months.

Global Central Banks: In Apr'24, US Fed, ECB, and BoE, kept their respective rates on hold. Fed's statement clarified that decision to cut rates will be data dependent (trajectory of core PCE). With Fed's benchmark inflation gauge coming hotter than expected, analyst believe Fed may be able to cut rates only once this year in Sep'24. In contrast, bets are on that ECB and BoE may cut rates before Fed and maybe 1-2 times this year. BoE and ECB are expected to give more indication in their policy statements next week. RBI is expected to keep rates on hold for now and analyse the inflation trajectory in light of ongoing heat-wave conditions and timing and distribution of monsoon, before deciding to cut rates.

Key macro data releases: The latest data on **foreign trade** shows that in FY24, exports declined by 3.1% compared with an increase of 6.9% in FY23. Imports declined by 5.4% following an increase of 16.8% in FY23. Service exports decelerated to 4.5% due to an elevated base (43% in FY23). As a result, India's overall trade deficit narrowed to US\$ 78.1bn in FY24 compared with US\$ 121.6bn in FY23. This implies that the current account is likely to be in a small surplus in Q4FY24. **Overall, we expect a CAD of ~0.8% of GDP in FY24 and ~1% in FY25.** **CPI inflation** was at 4.9% in Mar'24, on YoY basis, versus 5.1% in Feb'24. **Core inflation** in Mar'24 remained unchanged from the previous month at 3.3%.

Global developments

Global growth: Heading for soft landing

IMF has recently revised its global growth forecasts in its Apr'24 edition of the World Economic Outlook (WEO). The Fund believes that overall inflation is moderating and growth is divergent but remains broadly stable, which has increased the probability of a soft landing rather than a hard landing. As per latest estimates, global growth will remain stable at 3.1% in CY24 (2.9% projected in Oct'23 edition of WEO), unchanged from CY23. The upward revision comes from stronger growth expected in the US (2.1% versus 1.5% earlier), China (4.6% versus 4.2%), India (6.5% versus 6.2%), Russia (2.6% versus 1.1%) and Mexico (2.7% versus 2.1%). In contrast Eurozone economy is projected to perform worse than expected (0.9% versus 1.2%), dragged by weaker growth in Germany (0.5% versus 0.9%) and France (1% versus 1.3%).

US GDP growth in Q1CY24 (as per 1st advanced estimates) slowed to 1.6% from 3.4% in Q4CY23. This was driven by slowdown in personal consumption expenditure and government spending. In here, while moderation in government spending was broad-based, within PCE, expenditure on goods (durables and non-durables) dropped, but momentum was maintained in case of spending on services. Private domestic investment also improved in Q1 versus Q4 supported by steep jump in residential investment. Exports eased, while import growth picked up pace. Mixed trends in GDP report suggests that US economy is still holding ground on certain fronts. Labour market also remains relatively tight, with jobless claims for the week ending 27 Apr 2024 remaining unchanged from the previous week at 208k. Continued claims also remained unchanged from previous week's level at 1.77mn. Further, core PCE remained sticky at 2.8% in Mar'24, unchanged from Feb'24 and higher than street estimate of 2.7%. On the consumer side, confidence indices (both conference board and University of Michigan) are showing that optimism for future outlook is fading. In case of conference board data, the headline index dropped to 97 in Apr'24 from 104.7 in Mar'24. The present situation index fell to 142.9 (146.8 in Mar'24) and expectations index fell to 66.4 (74). Food and gas prices were the major areas concerning the consumers. One-year inflation expectation as per University of Michigan's survey inched up, to 3.2% from 3.1% earlier. On the production side, US ISM manufacturing index shows that activity eased in Apr'24 (49.2), from Mar'24 (50.3), dragged by slowdown in new orders (including export orders) and production. Employment improved. Input price index also rose. Noting these conditions, only one rate cut is expected from Fed this year.

Manufacturing conditions in the Eurozone remain weak as PMI shows that the index fell further in Apr'24 to 45.7 (4-month low) from 46.1 in Mar'24. Conditions worsened further in France, while improved slightly in Germany. Services sector on the other hand is helping pull the growth up. Flash Eurozone PMI shows that the index rose to 52.9 in Apr'24 (11-month high) from 51.5 in Mar'24. Rebound was visible in both Germany and France and rest of Eurozone economies as well. Germany's IFO business sentiment index also shows a similar trend. The index rose to 89.4 in Apr'24 from 87.9 in the previous month, led by pick up in both current situation and expectations index. Sector-wise, sentiment was positive only in case of services. In case of manufacturing, trade and construction the sentiment was less negative in Apr'24. Germany skirted recession in Q1, as the economy expanded by 0.2% in Q1 following (-) 0.5% decline in Q4 (revised down from -0.3%). France, Italy and Spain's economy also reported 0.2% growth in Q1, thus signalling improved prospects of growth in CY24.

China's GDP growth in Q1CY24 surprised positively as it rose by 5.3% (est.: 4.6%), following 5.2% growth in Q4CY23. This was led by manufacturing sector, in particularly "high-tech" manufacturing (EVs, solar panels and batteries), and exports. Industrial production rose by 6.1% in Q1, although reported some slowdown in Mar'24 (4.5% from 7% in Jan-Feb'24). Investment also gathered momentum as FAI growth rose to 4.5% from 4.2%,

supported by state owned enterprises (+7.8% in Q1). Private investment rose by only 0.5%. In contrast, property investment fell sharply by (-) 9.5% in Q1. Consumption side still remains weak. New property sales fell by (-) 27.6% in Q1 (-20.5% decline in Jan-Feb'24), and retail sales growth was muted at 3.1% in Mar'24 from 5.5% in Jan-Feb'24. Now at the start of Q2CY24, official manufacturing PMI shows that activity slowed again in Apr'24 as the index eased to 50.4 from 50.8 in Mar'24. However, in case of smaller companies (as covered in Caixin/S&P global manufacturing PMI survey), the performance improved in Apr'24 as the index rose to 51.4 (highest since Feb'23) from 51.1 in Mar'24. This was due to strong demand (domestic and foreign) for investment goods and reduction in selling price to boost demand. Profits of companies fell in Mar'24 compared with Jan-Feb'24 period.

RBI

MPC members, with 5-1 vote in the Apr'24 policy meeting, kept the policy rates steady with repo rate unchanged at 6.5%, SDF at 6.25% and MSF and bank rate at 6.75%. RBI also left the stance of “withdrawal of accommodation” unchanged so as to “ensure that inflation progressively aligns to the target, while supporting growth”. For FY25, while the Central Bank did make any revisions to the headline print (7%), quarterly projections were revised with growth estimated lower in Q1 (7.1% versus 7.2% projected in Feb'24 policy), and higher in Q2 (6.9% versus 6.8%) and Q4 (7% versus 6.9%). Q3 number was left unchanged at 7%. Similarly, while headline CPI for FY25 has been retained at 4.5%, the bank now expects Q1 (4.9% versus 5%), Q2 (3.8% versus 4%), and Q4 (4.5% versus 4.7%) inflation to be slightly lower. Q3 inflation is projected to be the same at 4.6%. We continue to expect that the earliest possibility of 1st rate cut by RBI is in Aug'24.

Global central bank decisions

US Fed kept its policy rates unchanged at 5.25-5.5% for the 6th consecutive time in Apr-May'24 meeting. Owing to hotter than expect core PCE data in Mar'24 (2.8% versus est.: 2.6%), continued resilience in US economic growth, and labour market still remaining tight, analysts now expect only one rate cut in CY24, instead of 3 rate cuts predicted in the Mar'24 meeting. According to CME FedWatch tool, earliest probability (43.5% chance) of a rate cut (by 25bps) is only in Sep'24. Rates are expected to be held at the current levels (highest in 23 years) in Jun'24 and Jul'24 meetings.

Bank of England (BoE) left its policy rate unchanged at 5.25%—at 16 year high, in its Mar'24 meet. The decision was not unanimous. 8 out of 9 members opted for a pause, while 1 member voted for a 25bps cut. This was the first time since CY20 when no one voted for a rate hike, thus signalling that the Central Bank is confident that rates are at restrictive levels to bring inflation down to targeted path. Now, as inflation has come down from its peak of 11.1% in Oct'22 to 3.2% in Mar'24, markets are more optimistic of an impending rate cut. However, expectations have been tempered from 6 rate cuts predicted for CY24 to 1-2 rate cuts predicted now. Consensus expects first rate cut in Sep'24, followed by 50-50 chance of second rate cut towards the end of the year.

Amongst the major central banks, **ECB** is expected to cut rates first in its Jun'24 meeting (no change expected in May'24 meeting), after the keeping the rates unchanged in the Mar'24 meeting. In the previous meeting, it was the first time when members started discussing rate cuts, as opposed to the earlier meetings when it was pointed out that rate cut talks are “premature”. Since the last policy meeting, macro data available has further raised

hopes of a rate cut in Jun'24. Inflation in Apr'24 was unchanged from Mar'24 at 2.4%. In addition, core inflation slowed from 2.9% to 2.7%.

BoJ in line with market expectation, kept its monetary policy rates unchanged in its Apr'24 meeting and reaffirmed that it will continue to maintain ultra-loose policy till inflation doesn't rise to its targeted level on a durable basis. The stamen further hinted that BoJ may hike rates in the coming months, depending upon the trajectory of prices. However, the currency market traders feel that the policy is still too loose hence is unable to support the Yen. This is after it had ended its negative rate regime—a first in 8 years in Mar'24 meeting. At that time, it had hiked the short-term rate target to 0-0.1% from -0.1% earlier. This was the first rate hike in 17 years. BoJ had also ended its bond Yield Control Curve (YCC) policy which capped the long-term rates around 0%.

Special studies

Impact of increase in crude oil prices

In this note we briefly analysed various aspects through which increase in international crude oil prices impacts the various macro variables of India economy. For the purpose of our study, we looked at inflation (WPI and CPI), import bill, and exchange rate. Our study indicates that, amongst inflation indices, WPI fuel inflation has a weight of 13.15%, within which mineral oil index alone contributes to ~7.7% weight, implying that a 10% increase in oil prices can lead to an increase of 1% in WPI taking into account the indirect effects too. In case of CPI, we observe that 10% increase in oil prices contributes to 35-40bps increase in headline CPI. In case of external sector, higher oil prices have a negative impact on our currency and also balloon our import bill. Our analysis shows that for every 10% increase in oil prices on a permanent basis, oil imports are likely to inch up by US\$ 15-20bn.

Movement of crude oil in the past: Global crude oil prices in recent years, apart from being impacted by regular demand and supply conditions, have also been impacted by shocks due to escalated geopolitical tensions. For instance, average crude oil prices jumped from US\$ 70.94/bbl in CY21 to US\$ 99/bbl in CY22, this was not only due to re-opening of global economies post Covid-19 lockdowns, but also due to the outbreak of Russia-Ukraine war in Feb'22. As the chart below (Fig 1) shows, following the war, oil prices jumped in Mar'22 and averaged US\$ 112.5/bbl, noting a US\$ 18.4/bbl MoM increase. After this, oil prices remained above US\$ 100/bbl till Aug'22.

Further in Oct'23, a war broke out between Israel and Hamas. While this did not have an immediate impact on oil prices, gradual expansion of tensions engulfing other Middle Eastern nations, led to increase in oil prices from Jan'24. Tensions in the Red Sea region led to changes in shipping routes and escalation in shipping costs. Currently, average crude oil prices are hovering near US\$ 90/bbl. We do not rule out oil crossing the US\$ 100/bbl mark in the short-term in case of a full scale war.

Impact on WPI: In India's wholesale price index (WPI), fuel & power inflation has a weight of 13.15%. Of this, 7.68% is the weight of mineral oil index, 3.06% is of electricity index, and 2.14% is of coal index. Within mineral oils, highest weights have been assigned to high speed diesel (3.1%) and petrol (1.6%). 10% permanent rise in the crude oil prices can push up inflation by 1% if both the direct and indirect effects are considered assuming an even increase in all the related products. Also our analysis shows that: Out of 16 occasions where crude prices rose more than 20% YoY, WPI: fuel inflation rose at a higher rate on 13 occasions. Notably, the correlation coefficient between WPI: fuel and power inflation and crude price was at 0.45 since FY14 onwards.

In FY23, WPI fuel & power inflation jumped significantly higher than jump seen in crude oil prices also, signalling more than 100% pass through. The stickiness in prices was seen in FY24, as international oil prices declined, a complete pass through was not seen WPI fuel inflation. This also indicates, that prices once increased, are difficult to be brought down to previous levels.

Impact on CPI: In India's retail inflation (CPI), fuel & light inflation has a weight of 6.84%. Of this, 2.26% is the weight of electricity index, 2.07% is of firewood & chips, and 1.29% is of LPG (excl. conveyance). Another sub-head which feels the heat of rising fuel prices is 'miscellaneous'. This carries a weight of 28.32% in overall CPI and

within this, 8.59% weight is of 'transport and communication' component. Under this sub-head, 2.19% weight is of 'petrol for vehicles' and 0.15% is of 'diesel for vehicles'.

- From the perspective of increase in fuel prices and its impact on inflation, LPG prices are still government regulated. Much of the impact of oil prices is absorbed through subsidies. Hence we do not see any major impact in this segment.
- In terms of direct impact, pressure point will arise from impact on petrol and diesel for vehicles components (2.33% weight together). Indirectly, rise in petrol and diesel prices increase transportation costs for companies, which in turn translates into price hike of their products.

We believe that a 10% increase in oil prices will contribute to 35-40bps increase in headline CPI.

Price build-up: Indian government completely de-regulated retail petrol prices from 2010 and diesel prices from 2014. As a result, shocks in international crude prices are felt on pump prices as well.

For instance, in Jan'22, the pump price of petrol in Delhi was Rs 95.41/lit. Following the outbreak of Russia-Ukraine war, this jumped to Rs 101.81/lit in Apr'22. The price breakup shows (table 2) that the base price itself jumped from Rs 47.98/lit in Jan'22 to Rs 53.34/lit in Apr'22 (+11.2% increase). In turn, price charged to dealers also went up by the same amount and VAT also increased. Base price continued to increase till Oct'22. Following the Israel-Hamas war, pump prices managed to remain unchanged at Oct'22 levels and have only recently (in Apr'24) registered Rs 2/lit decline to Rs 94.72.

Similarly in case of diesel prices, pump prices jumped from Rs 86.67/lit in Jan'22 to Rs 93.07/lit in Apr'22. In here as well, base price continued to increase till Aug'22, and remained unchanged till Oct'23. No change in diesel prices was also observed following the Israel-Hamas crisis. In Apr'24, pump price for diesel has also come down by Rs 2/lit to Rs 87.62.

Oil bill: As oil prices increase, our import bill increases almost in a similar proportion. For instance, in FY21, when oil prices fell by 24% due to Covid-19 pandemic shock, our oil imports by value fell by 36%. In following year, as countries re-opened for business, oil prices jumped by 73%, leading to 95% increase in oil import bill, with only 11% increase in volume seen that year.

After FY22, following the outbreak of Russia-Ukraine war, India has managed to cushion the impact of oil prices, by importing oil from Russia at a cheaper price. In FY24, a 13.7% dip in oil prices led to 13.9% drop in oil import bill. This data shows that in FY24, for oil import, India paid ~US\$ 647/ton. Using this, we believe if oil prices increase by 10% increase to ~US\$ 712/ton, our import bill will increase by US\$ 15-20bn to US\$ 195-200bn in FY25.

Impact on exchange rate: Considering we are an oil importing nation, theoretically speaking, any increase in international oil prices leads to depreciation of USD/INR. Apart from this, other critical factors impacting our currency are:

- FPI flows are likely to increase due to the inclusion of Indian in global bond indices.
- Dollar strength will vary with the Fed's decisions on the rate.

- FDI and ECB flows to look better due to better growth prospects in India and continued low interest rates in the US for the next few months.
- Exports of goods and services. Exports would get a price boost on this score.

It was observed that despite dip in oil prices in FY21, our currency depreciated. This was the time when global uncertainty was at its peak due outbreak of Covid-19 pandemic. In FY22, even as US\$ dollar remained weak (DXY was down by 0.1%), pressure on INR remained due to significant increase in oil prices. Continued increase in prices FY23, added further pressure on the currency. In FY24, even as oil prices eased and US\$ was weak (DXY fell by 2%), currency fell, due to other factors. Rupee would be under pressure depending on how these factors work out.

In conclusion, it can be said that a permanent increase in price of crude oil will have inflationary effects, though more on the WPI rather than CPI. The government has not completely passed on the cost increase to the consumer which may be expected this time too. The trade balance will be pressurized, though the currency will be driven also by other factors. But intermittent volatility cannot be ruled out.

IMD-Forecast for South West Monsoon

- IMD its first long range forecast for the year has stated the South-West Monsoon (Jun-Sep) this year is expected to be above normal. The country will witness rainfall at 106% of the LPA (model error of +5%). The LPA (Long period average) for the whole season over the country is expected to be around 87cm.
- On weather conditions, IMD stated they expect El Nino conditions moderating over the equatorial pacific region with certain agencies forecasting possible fading of these conditions and turning to neutral ENSO (El Nino Southern Oscillation) conditions. In the latter half of the South west monsoon (Aug-Sep), there is a possibility of the formation of La Nina conditions. These conditions result in cooling of the sea surface temperature and they contribute to higher rainfall. The ENSO conditions occurs in span of 2-7 years and in 3-phases, El Nino, La Nina and Neutral. A strong El Nino condition last occurred in the year 2023.
- Currently, there are neutral IOD conditions forming over the Indian Ocean and there is likelihood of this conditions turning positive in the later part of the monsoon.
- In terms of spatial distribution, regions such as North West, Eastern and North Eastern regions are expected to witness below normal rainfall while other regions continue to record above normal rainfall across the country.

Out of the last 8-years, this is the first time in 2024, IMD has forecasted for above normal rainfall (104-110% of LPA) in its first forecast. In the year 2022, the country actually witnessed above normal rainfall, against the expectation of normal rainfall. Last year in 2023, in line with expectations the country actually witnessed normal rainfall at 94% of LPA.

Impact on Economy: IMD forecast of above normal rainfall comes in the wake of the extreme heatwave conditions ongoing in the country. The water reservoir level has also been lower at 33% of their total capacity compared with 39% reservoir levels noted last year (as of 12.4.2024). However, the expectations of normal monsoon bodes well for the agriculture sector and will also keep a check on food prices. RBI while retaining its inflation and growth

projections, in its recent monetary policy statement had assumed a normal monsoon which will also be positive for the Kharif crops.

India's General Election-2024

World's largest democracy will hold General Elections this month with over 96.8cr eligible voters expected to participate in this spectacle and elect 543 members to the Lok Sabha. The study looks at various macroeconomic factors in the last election cycle back in 2019 and how they look in the present calendar year. The focus will be on the months wherein election is scheduled specifically, Apr-May period.

Evolving macroeconomic picture during the Election months: Starting from Apr-19 to Jun-1, India has begun the process of its 18th General Elections. Lok Sabha elections are to be held in over 7-phases for a period of over 44-days and the results will be announced by June 4. Back in 2019, the elections were held during Apr'19 and May'19 with the results being announced on 23 May 2019. A range of macroeconomic variables has been considered including inflation, movement of bond yields, currency, equity markets, government capex and new investments projects in the analysis.

For inflation, the CPI in 2019 started going up post July and peaked in December. It was steady for the Apr-May'19 period. It does not look like that there was any untoward pressure on inflation due to the Elections spending in 2019 in the immediate months though lagged effects cannot be ruled out.

For the current year, inflation is expected to remain at the current levels with the possibility of some moderation during the election months. This follows more from the RBI forecasts of inflation put out which are likely to materialize.

Credit Growth: During the election months for 2019, credit growth registered stable growth of 13% for the month of Apr and May'19. It did slow down relative to March but this could also be due to the seasonal impact of being the beginning of the year

10Y Yield: The 10Y bond yield inched up by 4bps in Apr'19 and declined by 9bps in May'19. Notably, post the election months, bond yields did drop sharply. Therefore it is possible to say that bond yields tended to be firm during this Elections period and softened. However, liquidity conditions too were tight at this time and had eased subsequently. This year in 2024, bond yields are on an upward path for now.

Equity Market: Sensex had registered modest gains in Apr'19. However, these gains were wiped out in May'19. The pattern was jagged again in the next two months. Hence, no clear pattern emerges on the stock market front. So far in 2024, stable gains have been recorded in domestic market.

Similar to the movement in the Sensex market, even for the Nifty index, modest gains were noted in the month of Apr'19 and the index in May'19 registered losses. Thereby, concluding no strict trend was noted during these months. In 2024 so far, the year has started with some modest gains.

FPI flows: FPI for the year 2019, recorded net inflow of US\$ 19 bn with net inflow of over US\$4 bn in the elections months. In Feb'24, inflows of US\$ 4bn have been recorded in the current year, followed by US\$ 6.2bn in Mar'24.

AUM of Mutual Funds. The net assets under management for mutual funds have been rising steadily in the months of Apr'19 and May'19 to Rs 24.8 lakh crore and 25.9 lakh crore respectively. There was a decline subsequently but the outstanding amount was range bound for the larger part of the year. AUM crossed the Rs 26 lakh crore mark in October and was range bound between Rs 26-27 lakh crore.

Notably in the year 2024, assets under management for mutual funds have increased to Rs 53.4 lakh crore in Mar'24. The increase could continue as the stock market has been performing quite well in April reflecting optimism.

INR: For the months of Apr'19 and May'19, the currency had depreciated by (-) 0.6% and post the elections it made steady improvement as the currency appreciated in the month of Jun'19 and Jul'19. However, due to other macroeconomic factors, the currency depreciated from Aug'19 onwards to Dec'19. It does look like that the Elections may not have had an impact on the value of the currency, which was driven more by external fundamentals. INR has recently registered appreciation in the last 3-months up by 0.1%.

Government Capex: During the elections months (Apr-May), of the total capex target of Rs 3.3 lakh crore in the Budget for FY20, only 14.1% share of capex was utilized in the election months. This was lower than the shares witnessed in the previous two years. It is possible to conclude that the ongoing elections could have had an impact on government capex spending as certain decisions could have been deferred due to the ongoing Elections. It would be interesting to see how this turns out in 2024.

FDI: For FDI, in FY20 the total FDI was over US\$ 50 bn and its share during the election months of Apr-May'19 turned out to be 18.1%. This share was lower than that in FY19 as well as post Covid-19 years which can mean that foreign investors could be studying the progress and result of the Elections before taking decisions. This may also hold in 2024.

New investments projects announced: A total of new projects announced in FY19 were to the tune of Rs 19 lakh crore and during Q1 a proportion of 11% had been announced. This has been lower than the share in other years indicating thereby that there could be a wait-and-watch approach taken by companies when announcing new projects.

Conclusion: It does look like that during the Elections there is a watchful stance taken by the government on capex. This is also witnessed for company investment announcements as well as foreign investors. But indicators like inflation, credit, currency, bond yields, stock markets etc. have not quite shown any specific tendency in the Last Elections during the polling months. It would be interesting to see if there are any such exogenous shocks for these variables this time.

Global commodity price movements (Mar'24): Prices ease

With the global economy largely adjusting to the new normal in terms of geo-political stability commodity prices have tended to be stable, if not ease, across various commodity groups. Commodities which are driven by weather conditions would continue to be driven by supply side factors. However, those in groups like metals and energy would be driven by how demand forces work out during the course of the year. The China factor will play a role

here. Precious metals will be driven by financial markets developments as they become dearer when conditions are volatile.

We analysed the changes witnessed in prices in the last one year with the period ending March 2024. The data is sourced from World Bank.

- Crude prices have moved up by around 9% on a year on year basis.
- Prices of coal and natural gas have however come down over this period.
- On the domestic side contrary pictures were witnessed. Crude oil inflation was up by 16.5% (February) while natural gas was down by 7.8%. In case of coal there was an increase of just 0.3%
- Prices have tended to increase across the commodity spectrum with cocoa prices in particular rising sharply by almost 160%. This has had a strong impact on input costs in the confectionery segment. Cocoa products witnessed inflation of 6.8% during this period.
- The higher prices of tea, coffee and coffee are mainly due to swings in supply conditions with demand being steady or increasing marginally across the board.
- In the domestic market, tea inflation was negative while that of coffee positive with an increase of 9-16% for different coffee varieties.
- With the exception of coconut oil, palm kernel oil and groundnuts, the oil complex witnessed a decline in prices indicating excess supply conditions even as the world economy came back to normal.
- In India too prices across the board came down for all varieties of edible oils. Interestingly, prices of groundnuts also witnessed a decline unlike what was seen on the global front
- Prices of wheat and maize have fallen globally while that of rice has gone up sharply by almost 29%.
- In India, paddy inflation was 10.3% while it was 2.3% for wheat and 2.7% for maize
- Prices of cash crops have tended to increase over the year with rubber rising significantly by over 50%. In India too rubber prices were up by 14.9% (Feb over Feb).
- Inflation for sugar in domestic markets was high at 7.9%.
- Cotton prices had fallen by 11.8% while tobacco products were up by 4.3%.
- With crude price up and natural gas down, fertilizers prices tended to decline for potassium, phosphate and TSP. It increased in case of urea.
- In domestic markets, fertilizers prices as a group witnessed decline of inflation of 3.3%.
- Metal prices came down due to low and stable growth conditions in the world. The slowdown in China in particular affected demand for these metals. With the exception of tin, there were declines in prices of all other metals.
- Falling prices was also witnessed in India with aluminium, copper, zinc, lead witnessing negative inflation.
- Gold prices increased sharply during the year mainly due to uncertain global economic environment. This was a year where there was uncertainty on the central bank actions which also made the dollar tend to be volatile. In this environment gold became a safe investment. Demand increased from central banks which sought diversification in their forex reserves. Further, with ETFs seeing a boom, demand for the metal also increased.
- The price movements witnessed in the global market for all the precious metals was also witnessed in India with the WPI index for both gold and silver moving up by 5.6%.

Manufacturing growth recap

Situation so far: Growth in industrial production this year has been marginally higher at 5.9% compared with 5.4% in the same period last year. Amongst major components, mining and manufacturing growth has noted an improvement over last year. Given that manufacturing accounts for over 75% of total weight in IIP it is important to look at this sector closely to ascertain if there are some industries which are outperforming or underperforming.

Out of a total of 23 sub-sectors, only 7 have shown an improvement in growth rate over the last year. Within this, performance of pharma products and electrical equipment has been impressive. It must be noted that both these sectors are covered under the government's production linked incentive (PLI) scheme and are reported to have made good progress under the said scheme.

After declining by 4.5% in FYTD23, production of pharma products increased by 9.1% in FYTD24. It must be noted that pharmaceutical industry in India is highly competitive globally. Pharma exports account for ~6% of India's total exports with US being the biggest market. In FY23, close to 30% of India's pharma exports were to the US, followed by Europe. Exports of drugs and pharmaceuticals has picked up this year, increasing by 20% compared with 3% growth last year (Apr-Feb). This is consistent with a resilient growth picture in the US. Pharma companies have also alluded to an improvement in export demand from the US. This coupled with declining costs of raw materials has benefited the sector. Within pharmaceuticals, production of antibiotics has seen a sharp improvement in FYTD24, while production of APIs and vitamins has continued to contract in both FYTD23 and FYTD24. Production of Ayurveda and homeopathy medicines has also picked up significantly, probably due to a shift in consumer preferences.

For electrical equipment, production was 6.2% higher in FYTD24, after declining by 7.3% in FYTD23. Within this, production of small appliances such as electric heaters, UPS, geysers and fans has seen an improvement. This is consistent with the trend seen in increased demand during the festive season, which in turn resulted from higher advertising spending by major players. On the other hand, production of intermediate inputs such as AC motor, optical and PVC fibers, electrical wires etc. was lower than last year. In the case of machinery and equipment, production growth was sustained at 7.4% this year, after an increase of 10.3% last year. Production of construction-related equipment such as cranes, lifting and hoisting machines, mixers, Lorries etc. has been higher. On the other hand, production of agricultural tractors has contracted.

On the other hand, production of computers and other electronics has seen a sharp decline this year at 14%, building up on a contraction of 3.1% last year. Specifically, production of consumer durables such as computers (decline of 30.4%), telephones (-19.8%) and TV sets (-4.8%) has seen a sharp decline. This can perhaps be explained by tepid demand, particularly in the rural areas due to uneven monsoon and high inflation. However, the situation is likely to improve in the coming quarters as rural demand is showing signs of recovery.

Production of auto and other transport equipment continued to register double-digit growth even in FYTD24, even though there was moderation due to a base effect. Production of motor vehicles moderated from 22.2% in FYTD23 to 11.8% this year. Within this, production of passenger cars declined by 7.2%. For commercial vehicles, production

moderated to 4.3% from 39.2% last year. It must be noted that the financial performance of auto companies has been robust, led by strong domestic demand and easing input prices. Hence, it is surprising that this has not been reflected in the production figures. Lower domestic production can perhaps be due to limited capacity and many companies have indicated plans to ramp up capacity expansion to clear the order backlog. Production of other transport equipment such as ship building, railway coaches etc was steady. Two-wheeler production was marginally lower at 7.5% compared with 12.2% last year. Given that demand for 2-wheelers picked up in Q3FY24, we can expect production to catch up in the coming months.

Basic metals, which has the highest weight in the manufacturing index, saw an improvement in FYTD24. Production of basic metals increased by 11.9% this year, after increasing by 8% in FYTD23. This sector has been doing well due to government's push on infrastructure development. Hence, it is no surprise that barring a few exceptions, almost all products in this category witnessed an improvement over last year.

Production of fabricated metals too saw an increase of 7.1% in FYTD24 compared with a decline of 0.7% in FYTD23. This was supported by higher production of steel frameworks for construction, as well as steel utensils. Production of textiles was marginally higher than last year. Between Apr-Jan'23 textiles production had declined sharply by 8.8%. This was led by higher production of cotton yarn. Production of home textiles improved led by festive demand, even though companies reported a slowdown in momentum slowed post festive season. On the other hand, production of wearing apparel declined sharply by 17.5% compared with a fall of 2.9% last year. Weak global demand due to inflationary pressures in major markets remained a key factor. However, with a decline in inflationary pressures, exports and hence production is likely to improve.

Chemicals and chemical products, which have a weight of 7.9% in the overall manufacturing index, have seen a decline in production. After increasing by 6.9% in FYTD23, production of chemicals is down by 1.9% this year. It must be noted that the industry has been facing challenges on the macro front such as weak global demand and lower sowing in some key cropping areas. Even so production of urea has been steady. On the other hand, deceleration was seen in the production of NPK fertilizers. Similarly, while production of paints witnesses a decline in FYTD24, varnish saw an improvement.

For food products, production decelerated to 1.6% in FYTD24 from 4.4% in FYTD23. Within this, production of major edible oils such as groundnut oil (-57.9%), palm oil (-10.7%), mustard and rapeseed oil (-7.2%) and soyabean oil (-0.2%) has been lower this year. This mirrors the trend in the production of these oilseeds which is expected to be lower this year as per the 2nd Advance Estimates released by the government. Similarly, production of dal, sugar and non-basmati rice is also lower. Production of spices too has moderated to just 1.2% this year, compared with 8.2% in the same period last year which can help explain the rising inflation in this category.

Production of coke, which has the second highest weight in the manufacturing basket, has also been lower at 4.2% this year, as compared to 6.3% last year. Within this, production of aviation turbine fuel (ATF) has moderated sharply from 45.8% in FYTD23 to 16.1% in FYTD24. Production of PET coke and LPG has declined. On the other hand, production of naphtha, hard coke and kerosene has seen a rebound.

Data Releases

Sectoral growth in credit in FY24

In general there has been an improvement in growth in credit in FY24 at 16.3%. Services and agriculture registered highest growth rates of 20.2% each.

In case of industry, growth was lowest at 8.5% which was higher than 5.6% in FY23. Credit to large industry recovered at 7% which is a positive sign that there is some investment activity. MSMEs also witnessed higher growth in credit.

Personal loans slowed down to 17.7% against 21% last year. This was mainly due to sharp slowdown in 'other personal loans' to 18.7% and vehicle loans at 17.3%. Home loans maintained growth at 17.4% over 15.2% last year. Credit cards growth slowed down but was still high at 25.6%. Education loans saw an increase of 23.3% in FY24.

Within services, growth to NBFCs slowed down to 15.3% from 29.9%. Trade loans were maintained virtually at 17.4%. Aviation growth has been significant and can be linked to aircraft purchases by some airline companies. Growth in tourism, hotels and restaurants, though just 12% is impressive as it comes over 2.4% growth last year. It can be said that the higher capital norms imposed by RBI on unsecured and NBFC loans did help to slowdown the credit growth rates for these segments.

Preliminary corporate results

Preliminary findings from the financial results of India Inc. indicates a revival in sales growth in the final quarter of FY24. In our sample of 219 companies, sales growth improved marginally to 15.1% from 14.6% in Q4 FY23. Incidentally, net sales had increased by only 6.1% in Q3 FY24. PAT growth has also shown improvement over the same period last year. However, there has been some moderation on a sequential basis. Excluding the BFSI sector which tends to overstate the actual picture, there has been a significant decline in profitability for the Ex. BFSI segment. This is because the tailwinds from lower input costs have largely dissipated. On the positive side, demand conditions seem to have improved with sales growth inching up.

Core sector growth

India's eight core industries rose at a much slower pace at 5.2% in Mar'24 from 7.1% in Feb'24. Apart from refinery and fertilizers which registered a contraction in Mar'24, other industries registered a positive growth for this period. Output of coal, cement and electricity recorded a growth equal to or above 8% in Mar'24. For FY24, infrastructure index registered a growth of 7.5%, a tad lower than FY23 at 7.8%.

India's Foreign Trade in FY24

Export growth in FY24: In FY24, exports declined by 3.1% compared with an increase of 6.9% in FY23. Amongst major commodities, exports of oil which accounted for ~17% of total exports declined the most by 14.1% compared with an increase of 44.5% last year. This can be attributable to lower oil prices which declined by 13.7% in the same period. Exports of gems and jewellery were also lower by 13.8%, following up on a decline of 2.9% last year. Lower discretionary spending amidst weakness in growth in major markets could explain the decline. Exports of chemicals was also lower by 3.3%. On the positive side, exports of engineering goods, which have the

highest share in India's export basket, rebounded and rose by 2.3%, after declining by 4.6% in FY23. Even pharmaceuticals exports showed improvement and rose by 9.7%. Electronic exports continued to post impressive double-digit growth.

Goods import: India's imports declined by 5.4% following an increase of 16.8% in FY23. The decline was due to lower oil imports which fell by 14.1% in FY24, supported by lower oil prices. On the other hand, gold imports surged by 30.1% in FY24, compared with a decline of 24.2% in FY23 as it became an attractive investment option. Interestingly, gold prices were up by 10.1% in FY24. Non-oil-non-gold imports fell by 4.1% in FY24 compared with an increase of 16.4% in FY23, which can be attributed to lower domestic demand. Within this, imports of vegetable oils and coal dropped significantly. Imports of chemicals was also lower as higher prices weighed on demand. Imports of capital goods declined by 4.8% in FY24, suggesting that investment demand continues to remain weak. On the other hand, imports of pulses picked up sharply amidst a shortfall in domestic production.

Services trade: India's service exports decelerated to 4.5% due to an elevated base. In FY23, services exports had increased by 43%. Services imports declined by 3% in FY24, compared with an increase of 38.3% in FY23. As a result, net services balance increased to US\$ 163.3bn in FY24 versus US\$ 143.3bn in FY23.

As a result, India's overall trade deficit (goods + services) has narrowed to US\$ 78.1bn in FY24 compared with US\$ 121.6bn in FY23. This implies that the current account is likely to be in a small surplus in Q4FY24. Overall, we expect a CAD of ~ 0.8% of GDP in FY24.

Outlook: For FY25, we expect a further recovery in both goods as well as services exports as global economy recovers. Import growth is also expected to be steady as domestic demand picks up. Global commodity prices have remained largely stable so far, however risks remain from escalation in geo-political conflicts as well as a recovery in China's growth outlook. Even so, the drag on CAD is likely to be curtailed by buoyant remittances. We expect CAD of ~1% of GDP in FY25, which is likely to be met by strong FPI inflows. Reversal in global interest rate cycle also bodes well for the outlook on FDI and ECB inflows. Hence, we may see an accretion of US\$ 40-50bn in India's foreign exchange reserves in FY25 as well. This is positive for INR

WPI inflation picked up pace

WPI inflation rose to 0.5% in Mar'24 from 0.2% in Feb'24, bringing the FY24 headline inflation to (-) 0.7% from 9.6% in FY23. Within this, food inflation stood at 3.2%, down from 6.4% in FY23, fuel inflation at (-) 4.4% versus 29.4%, and manufactured product inflation at (-) 1.7% versus 5.7% last year. In Mar'24, the build-up was visible across all three major sub-heads—food, fuel and manufactured products. Food inflation accelerated to 4.6% from 4.1% in Feb'24. Within food, built-up in pressure was on account of cereals (both wheat and paddy), vegetables, fruits and other items. Within cereals, inflation for pulses eased slightly but still remains at elevated levels. Within vegetables, onion and potato inflation inched up sharply. Fuel & power inflation fell at a slower pace, owing to jump in electricity price index, and slower rate of deflation in mineral oil index. Manufactured inflation also picked up, led by increase in basic metals. International commodity prices are showing signs of increased pressure. Going ahead, continued escalation in international crude oil prices, heat wave conditions impacting electricity demand and vegetable inflation, remain key causes of concern.

CPI inflation

CPI inflation was at 4.9% in Mar'24, on YoY basis, versus 5.1% in Feb'24. Food inflation eased to 8.5% in Mar'24 from 8.7% in Feb'24. Within food, pressure moderated in case of vegetables (28.3% in Mar'24 versus 30.2% in Feb'24), fruits (3.1% versus 4.8%), egg (10.3% from 10.7%) and milk (3.4% from 3.9%), inflation. on the other hand, build-up in pressure was observed in case of cereals and products and meat and fish.

Core CPI (excl. food and fuel) inflation in Mar'24 remained unchanged from the previous month at 3.3%, on YoY basis. Amongst major sub-indices, only recreation & amusement and personal care and effects noted slight inch up in Mar'24. On the other hand, inflation for household goods & services, health, transport & communication and education reported marginal easing in Mar'24 from Feb'24.

Growth in Industrial Production

IIP growth fastened to 5.7% in Feb'24 from 4.1% in Jan'24. The improvement was broad-based. Manufacturing output rose by 5% in Feb'24 from 3.6% in Jan'24. Mining output was up by 8% from 5.9%, and electricity production rose by 7.5% from 5.6%. Within manufacturing, a total of 19 sub-sectors marked an improvement in growth in Feb'24, relative to Jan'24. Sharp improvement was visible in production of computer, electronics & optical products, paper & products, furniture and electricals equipment.

Within use-based, barring consumer non-durables and capital goods, other sun-head noted an improvement in Feb'24 versus Jan'24. Output of consumer durables jumped by 12.3% from 11.9%, while that of intermediate goods rose by 9.5% from 5.3%. Infra and construction goods output was up by 8.5% from 5.5%.

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