

## RESEARCH

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A Prognosis

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How prices look in May'23

#### Daily macro indicators

Ticker	31-May	01-Jun	Chg (%)
US 10Y yield (%)	3.64	3.60	(5bps)
India 10Y yield (%)	6.99	6.98	(1bps)
USD/INR	82.73	82.41	0.4
Brent Crude (US\$/bbl)	72.7	74.3	2.2
Dow	32,908	33,062	0.5
Hang Seng	18,234	18,217	(0.1)
Sensex	62,622	62,429	(0.3)
India FII (US\$ mn)	30-May	31-May	Chg (\$ mn)
FII-D	78.4	(12.6)	(91.0)
FII-E	295.1	464.2	169.1

Source: Bank of Baroda Economics Research

## SUMMARY

### INDIA ECONOMICS: INDIAN ECONOMY FY24

Growth Outlook: Global growth expected to slow down in 2023, led by Advanced Economies. India expected to be the fastest growing major economy with GDP growth expected at 5.9% as per IMF. Our GDP estimate is slightly higher. We expect GDP growth in FY24 to range between 6-6.5%. This takes into account expected slowdown in the global economy, which may impact the external sector, and continued resilience of our domestic economy.

[Click here for the full report.](#)

### INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Downward revision to Germany's Q1CY23 GDP (-0.3% versus -0.5% in Q4CY22) has reignited fears of global growth slowdown on account of elevated prices, and aggressive tightening by central banks. Further fuelling these fears is incoming macro data from China, which shows weakening momentum in its manufacturing sector and less than expected pick-up in consumer spending (retail sales, services PMI). In case of US, while labour market still remains tight, consumer confidence has begun to get impacted and inflation expectations continue to remain elevated.

[Click here for the full report.](#)

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## INDIA ECONOMICS: GDP

Indian economy rose by 7.2% in FY23 after expanding by 9.1% FY22. Higher than anticipated GDP was on the back of strong growth led by agriculture (4% against 3.5%) and trade, transport sector (14% from 13.8% in FY22). In order to understand how each of the sectors have performed since the pandemic as there have been several base effects in play the CAGR growth has been estimated since FY19.

[Click here](#) for the full report.

## INDIA ECONOMICS: COMMODITY TRENDS

CPI print for May'23 is due to be released. As a forward signaling, our in house BoB Essential Commodity Index (BoB ECI) showed further dip in reading in May'23. The index moderated to 1.4% in May'23 from 2.8% in Apr'23, on YoY basis. 11 out of the 20 sub components of the Index have noticed a dip in May'23. We expect CPI to further edge down to 4.5% in May'23 from 4.7% in Apr'23. Even moderation in commodity especially oil and gold prices and a 7% favourable base supports our view.

[Click here](#) for the full report.

## INDIAN ECONOMY FY24

01 June 2023

### A Prognosis

Global growth expected to slow down in 2023, led by Advanced Economies. India expected to be the fastest growing major economy with GDP growth expected at 5.9% as per IMF. Our GDP estimate is slightly higher. We expect GDP growth in FY24 to range between 6-6.5%. This takes into account expected slowdown in the global economy, which may impact the external sector, and continued resilience of our domestic economy.

Chief Economist  
Aditi Gupta | Jahnvi Prabhakar  
Economist

### Sectoral breakup of growth

- GVA growth expected in the range of 5.8-6.4%
- Agriculture to continue to grow at a healthy pace.
- Industry growth to recover.
  - This will be driven by the construction sector.
  - Manufacturing to benefit from base effect.
    - Specific sectors to see steady growth which will not be broadbased
- Services sector to remain resilient.

### Agriculture expected to be steady

- IMD has predicted a normal monsoon at 96% of LPA, which bodes well for agricultural production.
  - Skymet forecast is lower at 94% of LPA.
- Food grain production estimated to increase by 2.5% to 323 mn tonnes in 2022-23.
  - We expect foodgrain production to increase by 2-3% this year.
- However, there are some downside risks:
  - spatial distribution of rainfall
  - heatwave conditions due to El-Nino
  - unseasonal rainfall and late departure of monsoon



**MONTHLY ECONOMIC BUFFET**

02 June 2023

**Economic Round-up: May 2023**

Downward revision to Germany's Q1CY23 GDP (-0.3% versus -0.5% in Q4CY22) has reignited fears of global growth slowdown on account of elevated prices, and aggressive tightening by central banks. Further fuelling these fears is incoming macro data from China, which shows weakening momentum in its manufacturing sector and less than expected pick-up in consumer spending (retail sales, services PMI). In case of US, while labour market still remains tight, consumer confidence has begun to get impacted and inflation expectations continue to remain elevated.

**Sonal Badhan**  
Economist

This month, BoE and ECB are expected to further hike their respective policy rates, while Fed's decision remains uncertain. On the domestic front, India's growth surprised positively as it rose by 6.1% in Q4FY23 compared with an increase of 4.5% in Q3FY23. In FY23, economy rose by 7.2% (7% as per 1st AE) compared with 9.1% in FY22. Central government has also announced that it has met fiscal deficit target of 6.4% in FY23 and we maintain that it remains on track to lower the deficit to 5.9% in FY24.

**Global growth:** Fears of slowdown in China (PMI, FAI, trade) has reignited fears of global growth slowdown. In addition, manufacturing activity remains weak across regions (US, UK, Europe), while service sector seems to be the engine of growth so far. In US also, mixed signs are emerging. While inflation expectations are inching up, labour market still remains tight, and housing sector seems to be recovering. However, consumer confidence has taken a beating as mass lay-offs by tech companies is beginning to show its impact. Spending cuts agreed to reach the US debt ceiling deal will also have an impact on growth going forward. Elsewhere, aggressive tightening by ECB has already begun to show the impact on Germany economy which entered a technical recession in Q1.

**Global Central Banks:** While it is almost certain that BoE and ECB will be hiking rates in their Jun'23 policy meetings, Fed's stance still remains unclear. While some believe that continued strength in labour market will lead to Fed hiking by 25bps in Jun'23, other are of the view that Fed may opt for a pause and await for more macro data points to decide on the next hike/pause decision. Reserve Bank of Australia is also expected to hike rates in Jun'23 as inflation has surprised on the upside in Apr'23. BoJ on the other hand has reiterated to maintain its ultra-loose monetary policy stance, while the IMF has advised it to re-anchor inflation expectations.

**Key macro data releases:** Latest macro data released shows that economic growth has been resilient so far with GDP rising by 7.2% in FY23 and even Q4FY23 GDP (6.1%) surpassed RBI's expectations (5.9%). We maintain our growth forecast of 6-6.5% for FY24, in the wake of slowing global economic conditions.



**GDP**

02 June 2023

**Looking closer at GDP Estimates**

Indian economy rose by 7.2% in FY23 after expanding by 9.1% FY22. Higher than anticipated GDP was on the back of strong growth led by agriculture (4% against 3.5%) and trade, transport sector (14% from 13.8% in FY22). In order to understand how each of the sectors have performed since the pandemic as there have been several base effects in play the CAGR growth has been estimated since FY19.

**Jahnavi Prabhakar**  
Economist

Also, an attempt has been made to study how GDP forecasts have varied at different points of time given that there are advance, revised and provisional estimates provided for each year with a further change being made in the succeeding year. For example, the advance estimates for FY23 are provided first in January 2023, followed by a revised one in February and a provisional one in May. In May 2024, there will be the final estimate provided for FY23.

**Growth in FY23**

India's growth surprised positively as it rose by 7.2% in FY23 much more than anticipated. High growth of Q4FY23 at 6.1% pushed the overall growth much higher. Covid-19 pandemic had wreaked havoc across the globe, India too was not immune to this disaster. The impact of this was clearly visible with growth across sectors declining. Subsequently there have been sharp increases in the next two year.

With the objective to understand the FY23 growth in complete light, CAGR growth has been calculated from FY19, to see the real growth. The compound growth rate will tell us as to how much the economy has moved over the period of 4 years. The base has been taken as FY19 as it was normal. FY20 was largely normal but the lockdown imposed in the last week of March 2020 came in the way of companies pushing forward with their yearend targets. Therefore FY19 has been chosen as the base year.

- Indian economy's CAGR growth form 2019-23, has been a meagre 2.7%, while that for 2020-23, stands at 2.4%.
- In comparison to annual growth, CAGR growth in the agriculture sector has remained strong at 3.5%. this is one sector that was not impacted by the lockdown as it is considered to be 'essential' and was exempted from the restrictions placed on other sectors.
- Notably, mining has not performed as well, with the CAGR growth contracting down to 0.1% raising concerns around the sector.
- Manufacturing sector has registered a steady CAGR growth of 2.4% which is higher than the FY23 growth estimate. Geopolitical challenges at play including the Russia-Ukraine conflict, supply side challenges, global covid-19 pandemic and elevated global inflation print had added to the pressure of firms with their margins levels hitting the most during this period.



## COMMODITY TRENDS

02 June 2023

### How prices look in May'23

CPI print for May'23 is due to be released. As a forward signaling, our in house BoB Essential Commodity Index (BoB ECI) showed further dip in reading in May'23. The index moderated to 1.4% in May'23 from 2.8% in Apr'23, on YoY basis. 11 out of the 20 sub components of the Index have noticed a dip in May'23. We expect CPI to further edge down to 4.5% in May'23 from 4.7% in Apr'23. Even moderation in commodity especially oil and gold prices and a 7% favourable base supports our view.

Dipanwita Mazumdar  
Economist

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

#### Price picture using BoB Essential Commodity Index:

- On YoY basis, BoB ECI has moderated further to 1.4% in May'23 from 2.8% in Apr'23. Notably, in Apr'23, Consumer Food Price Index (CFPI) rose by 3.8%.
- Among the administered 20 commodities, 11 commodities have noticed YoY drop in prices. Among them, sharp decline in prices were observed for items such as tomato, (amidst harvesting of the vegetable) sunflower, soya and mustard oil and also wheat (atta). Apart from this, prices of potato, tea and Vanaspati have also fallen.
- However, on a sequential basis, BoB ECI has slightly inched up to 0.4% in May'23 compared to 0.2% decline in Apr'23. On a seasonally adjusted basis, the BOB ECI inched up slightly by 0.3%. The slight blip in the sequential picture is on account of modest seasonal increase in price of vegetables.

#### Which commodities pose upside pressure?

- Milk is still at double digit and stubbornly high amidst reports of difficulty in procuring feed and also lumpy skin disease in cattle. It rose by 10.9% in May'23 on YoY basis from 10.8% in Apr'23.
- Even sugar prices are inching up, amidst reports of fall in output in States such as Maharashtra and Karnataka. Thus Gur prices are also increasing.
- Even pulses could pose another round of spiral as Tur, Urad and Moong are noticing an upsurge. This is on account of shortage in production and would be comfortable once new harvesting season begins in October.



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