



India's Economic Performance Review for June 2022

India witnessed an overall upturn in economic activities during June 2022 backed by an uptick in services activity and solid industrial growth, though universal inflationary pressures continue to result in demand-supply disparities. In tandem with other global central banks, the Reserve Bank of India (RBI) has raised repo interest rate by 90 basis points since April 2022 and it pledges to keep intervening until the inflation rate comes below the target ceiling of 6%. The predicted “normal” monsoon this year is expected to accelerate agricultural growth. India’s policymakers are currently busy resolving the problems of core inflation and rising current account deficit. Overall, the business sentiment seems positive though it remains uncertain due to continuing disruptions from the Russia-Ukraine conflict.

Retail businesses reported sales value gains in June that were 13% higher than that of corresponding period pre-Covid in 2019. Passenger vehicle sales picked up significantly from the previous month despite the continuing disruptions in chip supplies. On the supply side, the Markit Purchasing Managers’ Indices (PMI) for Manufacturing was down marginally while the PMI for Services was slightly up from the May level. The Composite PMI also moved downwards a bit from May but remained above 50 points, indicating expansion in business transactions. The overall unemployment rate was up to 7.8% from the previous month’s 7.1%, mainly on account of rise in rural unemployment.

Goods and Services Tax (GST) collections were significantly up in June, compared with May, reflecting an uptick in industrial transactions and increase in tax compliance; however, monthly rail freight volume, at 125.5 million tons in June, was 4.7% lower than the May level.

On the external side, India’s foreign trade performance in June continued to be remarkable, with merchandise exports up 3% from May; but imports rose to worrying heights causing current account deficit concerns. The FDI equity inflows in May 2022 rose more than 53% to \$7.72 billion from the previous month. India’s foreign exchange reserves have slipped to around \$580 billion, and the Indian currency fell further against the US dollar in June by nearly 2%; in response the RBI sold \$1.5 billion in the spot market to contain further depreciation of the Rupee.

While food prices eased and lower global edible oil prices moderated the overall consumer price index (CPI) to 7.01% in June 2022 from the previous month’s 7.04%, core inflation, which excludes food and fuel, rose by 6%. The CPI is still above the RBI target ceiling of 6.0%. The wholesale price index (WPI) also dropped to 15.1% in June from the previous month’s 15.88%, but input costs are still high for manufacturers.

The near-term economic growth outlook for India continues to remain uncertain on account of global inflationary pressures, COVID cases, continuing supply chain disruptions and mounting fear of stagflation in developed economies; but the long-term growth prospects remain strong once international energy and commodity prices stabilize. The RBI, IMF, World Bank and ADB have all revised downward their estimates for India’s GDP growth, to the 7.2-7.5% range for FY 2022-23, considering the continuing uncertainties. The government’s fiscal and RBI’s monetary policies will determine the pace of recovery for the Indian economy.

Economic Activities in India

Indicator	IFY 2021-22										IFY 2022-23		
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
PMI*													
— Composite	43.0	49.2	54.8	55.3	58.7	58.3	56.4	53.0	53.5	54.3	57.6	58.3	58.2
— Manufacturing	48.1	55.3	52.3	53.7	55.9	57.6	55.5	54.0	54.9	54.0	54.7	54.6	53.9
— Services	41.2	45.1	56.3	55.2	58.4	58.1	55.5	51.5	51.8	53.6	57.9	58.9	59.2
Industrial output (y-o-y % change)	13.6	11.5	12.0	3.3	4.2	1.0	1.0	1.5	1.5	1.9	6.7	19.6	n.a.
— Manufacturing	13.0	10.5	9.9	3.0	3.1	0.9	0.2	1.3	0.5	1.4	6.3	20.6	n.a.
Passenger Vehicles sales (Numbers)	235,000	264,442	232,224	160,070	260,067	245,262	254,515	254,287	262,484	271,358	293,081	251,052	275,788
Rail Freight (Million Tons)	114.9	112.7	110.7	105.8	117.3	116.8	126.8	129.1	119.8	139.3	122.2	131.7	125.5
Consumer Price inflation (%)	6.3	5.6	5.3	4.4	4.5	4.9	5.7	6.0	6.1	7.0	7.8	7.0	7.0
Wholesale Price inflation (%)	12.1	11.2	11.4	10.7	13.8	14.7	14.3	13.7	13.1	14.6	15.1	15.9	15.1
Unemployment Rate (%)	9.2	7.0	8.3	6.9	7.8	7.0	7.9	6.6	8.1	7.6	7.8	7.1	7.8
GST Collection (\$ Billion)	12.5	15.6	15.2	15.9	17.5	17.4	17.2	18.6	17.7	18.6	22.1	18.1	21.5
Capital Expenditure (\$ Billion)	6.5	2.3	5.9	7.7	3.2	2.7	15.9	6.7	5.7	14.1	10.4	3.6	n.a.
Exports (\$ Billion)	32.5	35.2	33.3	33.8	35.5	29.9	37.3	34.5	34.5	42.2	40.2	38.9	40.1
Imports (\$ Billion)	41.9	46.4	47.1	56.4	55.4	53.2	59.3	51.9	55.5	60.7	60.3	63.2	66.3
FDI Inflows (\$ Billion)	-0.7	2.3	5.0	2.9	1.9	1.6	0.6	5.9	4.3	2.7	5.0	7.7	n.a.
Exchange Rate (INR/USD)	74.4	74.5	74.2	73.6	74.3	75.2	75.4	74.5	75.0	76.3	76.2	77.3	78.0

Sources: Society for Indian Auto Manufacturers, S&P Global Markit PMI, Government of India Ministries, Reserve Bank of India, Controller General of Accounts

Note: 1. Indian Fiscal Year (IFY) is April 1 – March 31

2. Purchase Managers Index (PMI) more than 50 indicates expansion and less than 50 denotes contraction

Demand Recovery Trends

Retail sales in June 2022 showed an overall uptrend in consumption demand. Vehicle sales were up almost 10% from the previous month sales level despite chip shortages and continuing disruptions in supplies. India's automobile sector saw a pick-up in June as some segments such as car and two-wheeler sales showed a pick-up from a month ago. RBI reported bank credit growing 13.16% at the end of June, compared with 12.12% in May.

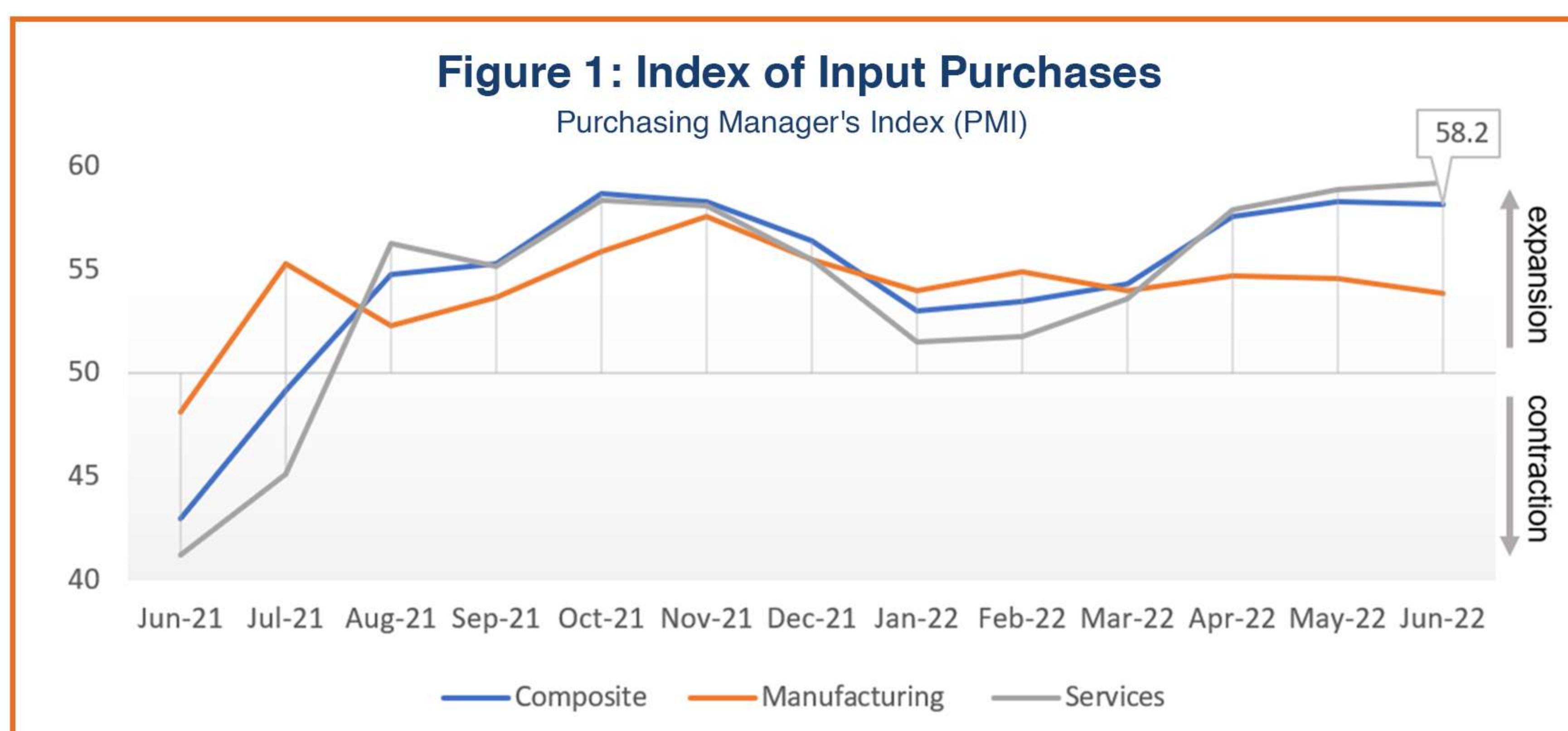
The monthly survey by the Retailers Association of India (RAI) reported 13% higher sales during June compared to the pre-pandemic sales recorded for June 2019; however, this growth rate was less than the growth rate of 24% seen in the previous month. Steady increase in sales was visible across all sectors but the RAI Survey points out that the sales volume slowed down in the later weeks of June, indicating the impact of inflationary prices. While there are positive signals of private consumption picking up, retailers remain skeptical about the sustainability of rising consumer spending over the next few months.

Supply Side Dynamics

Input Purchases

The Composite Markit Purchase Managers Index (PMI) was down slightly in June, to 58.2 (from 58.3 in May), though remains above 50, reaffirming the expansion in economic activity (Figure 1). A PMI above 50 reflects the optimistic mood of businesses that have made bold input purchases in anticipation of increased demand. The Services index was up to 59.2 in June from 58.9 in the previous month amidst receding COVID cases and increasing contact-based activities.

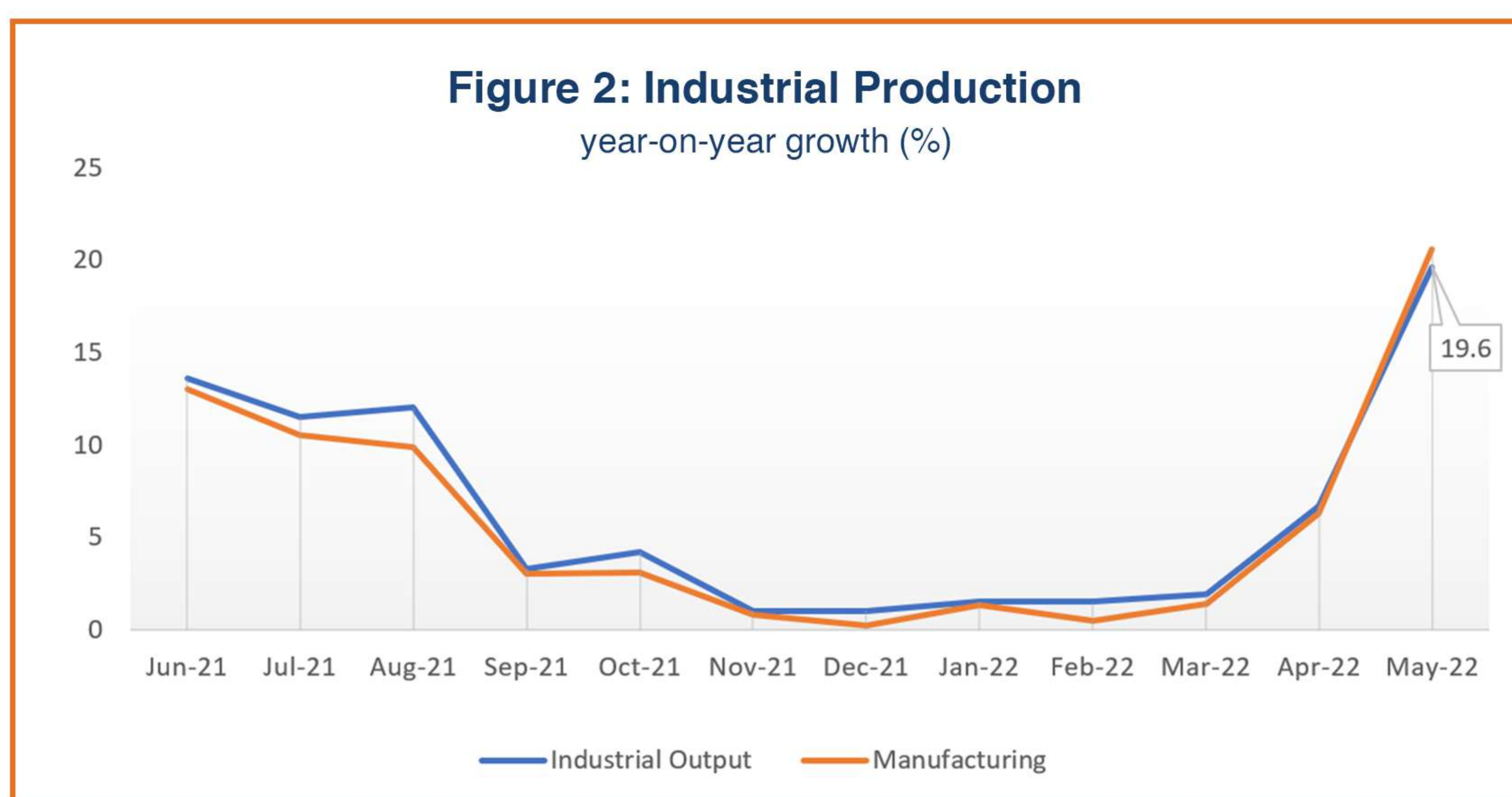
The PMI for Manufacturing dropped marginally to 53.9 from 54.6 in May, indicating continued growth in factory activities albeit at a slower pace. Manufacturing PMI turned to expansion mode in July 2021 and has consistently remained above 50 since then, showing a sustainable expansion pattern in production activities and recovery across the manufacturing sector. However, elevated input costs due to high fuel prices remain a concern that continue to impact demand and output. Manufacturing activity in June saw a rise in export production due to higher global demand as pandemic restrictions ease; this favorable effect was visible in labor markets with more hiring, though the unemployment rate increased to 7.8% from the previous month's 7% due to higher rural employment in the agriculture sector.



Data Source: IHS Markit

Industrial Production

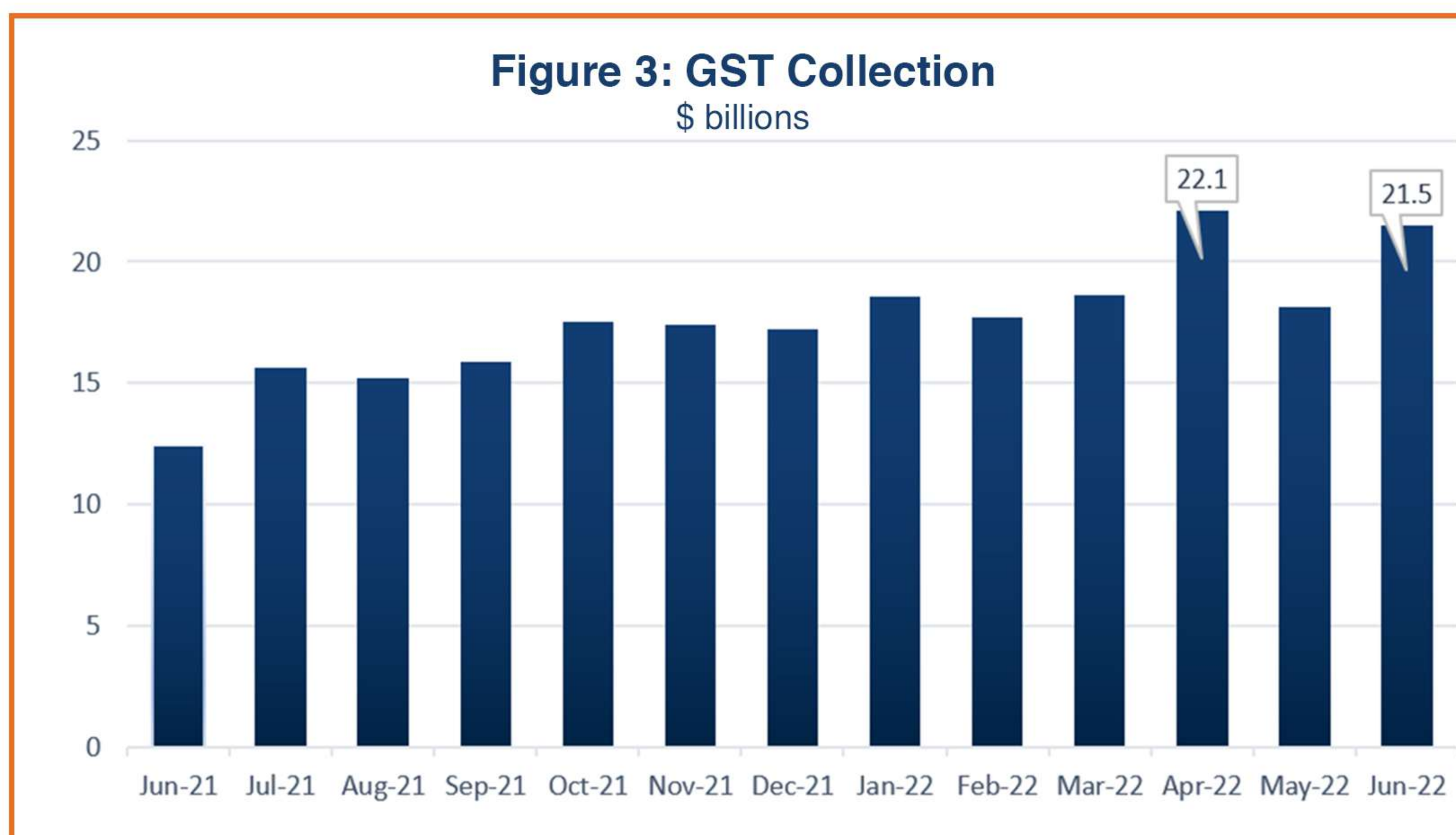
Total industrial production continues to improve compared to last year, rising by 19.1% year-on-year in May 2022, up robustly from 7.1% growth in April (Figure 2). Impressive growth across all segments generated the strongest growth in industrial production in nine months. Manufacturing, which accounts for 77% of total industrial production, increased 20.6% year-on-year in May, from 6.3% the previous month; mining, which comprises 14% of total industrial output, rose almost 11% year-on-year in May, compared with the growth rate of 8% of April, and growth in electricity production (8% of total industrial production) doubled to nearly 23.5%, up from 12% achieved in April. Capital goods production within the manufacturing sector showed a significant 54% growth in May 2022, implying higher growth in investment. A rise in industrial production growth is indicative of positive strides in India's economic recovery, but mounting input costs and an unfavorable geopolitical situation hobble the sustainability in growth. Lately, there have been signs of a reduction in global oil prices, which can benefit manufacturing by way of reduced input costs while helping cut in overall inflation.



Source: GoI, Ministry of Statistics and Program Implementation

GST Revenues

Changes in the value of Goods and Services Tax (GST) collection are an indicator of business transactions and increased tax compliance. The GST collections for June 2022 were up more than 18% from the previous month, to \$21.5 billion (Figure 3). Analysts have indicated that the GST collections are aligned to the uptick in manufacturing and services activities.



Source: GoI Ministry of Finance

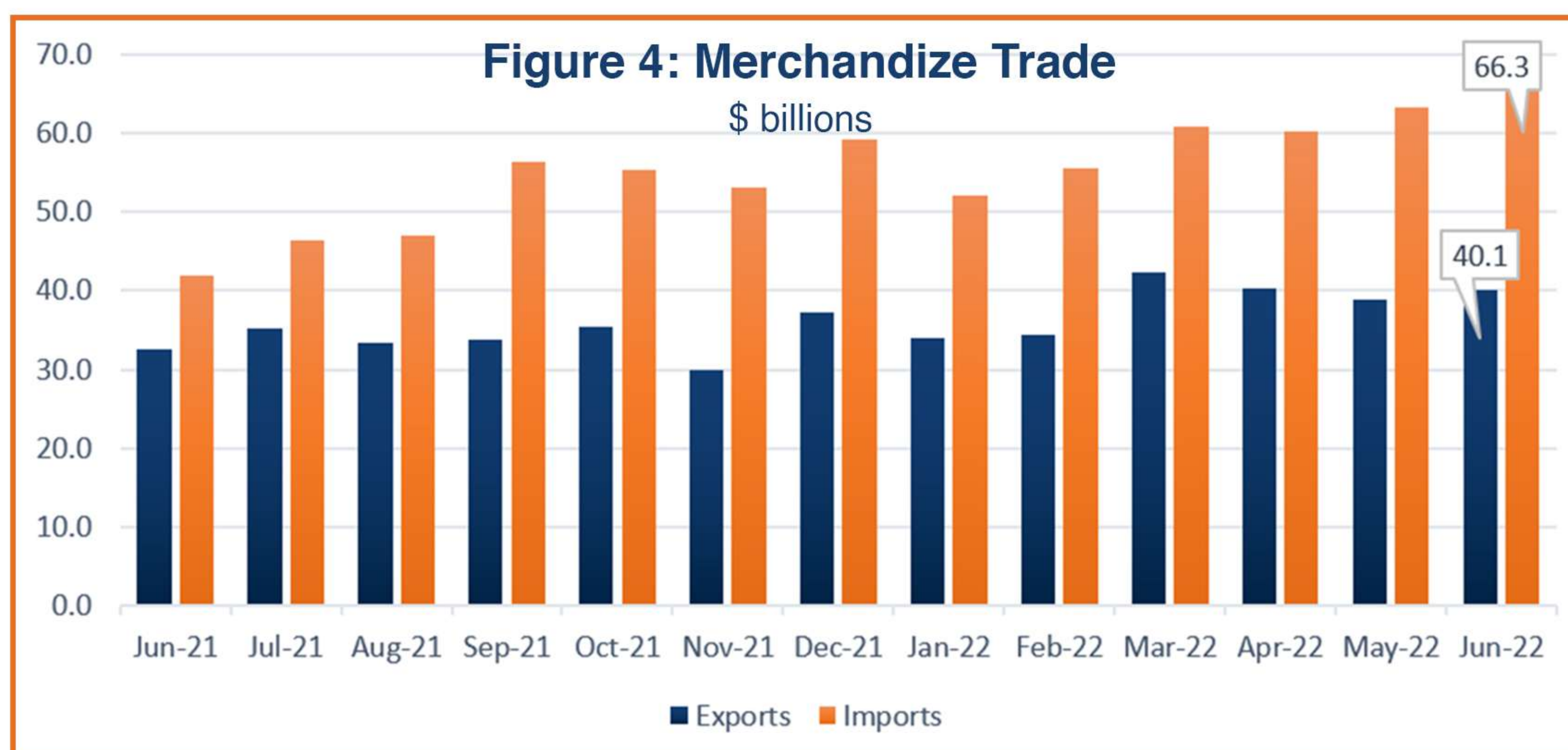
Trade

During June 2022, India's merchandise exports grossed more than \$40 billion, up 3% from the previous month's \$38.9 billion (Figure 4). India's export story has so far in the year remained very positive; however, amidst fears of a global recession and suppressed demand, exports may suffer downward trends in coming months.

India's merchandise imports grew 5% to \$66 billion in June, up from \$63 billion from the previous month, reflecting not only the relative upward movement in industrial activity led by an incremental demand, but also the effect of higher global oil prices that has raised the final cost of most imported goods. The rise in international prices of natural gas, coal, and metals (such as gold), have mainly contributed to the swelling import bill.

India's elevated trade deficit has raised fears of further depreciation in the Indian currency and a bigger current account deficit (CAD). The Ministry of Commerce has started close monitoring of imports in an effort to contain the rising CAD and maintain the country's macroeconomic balance.

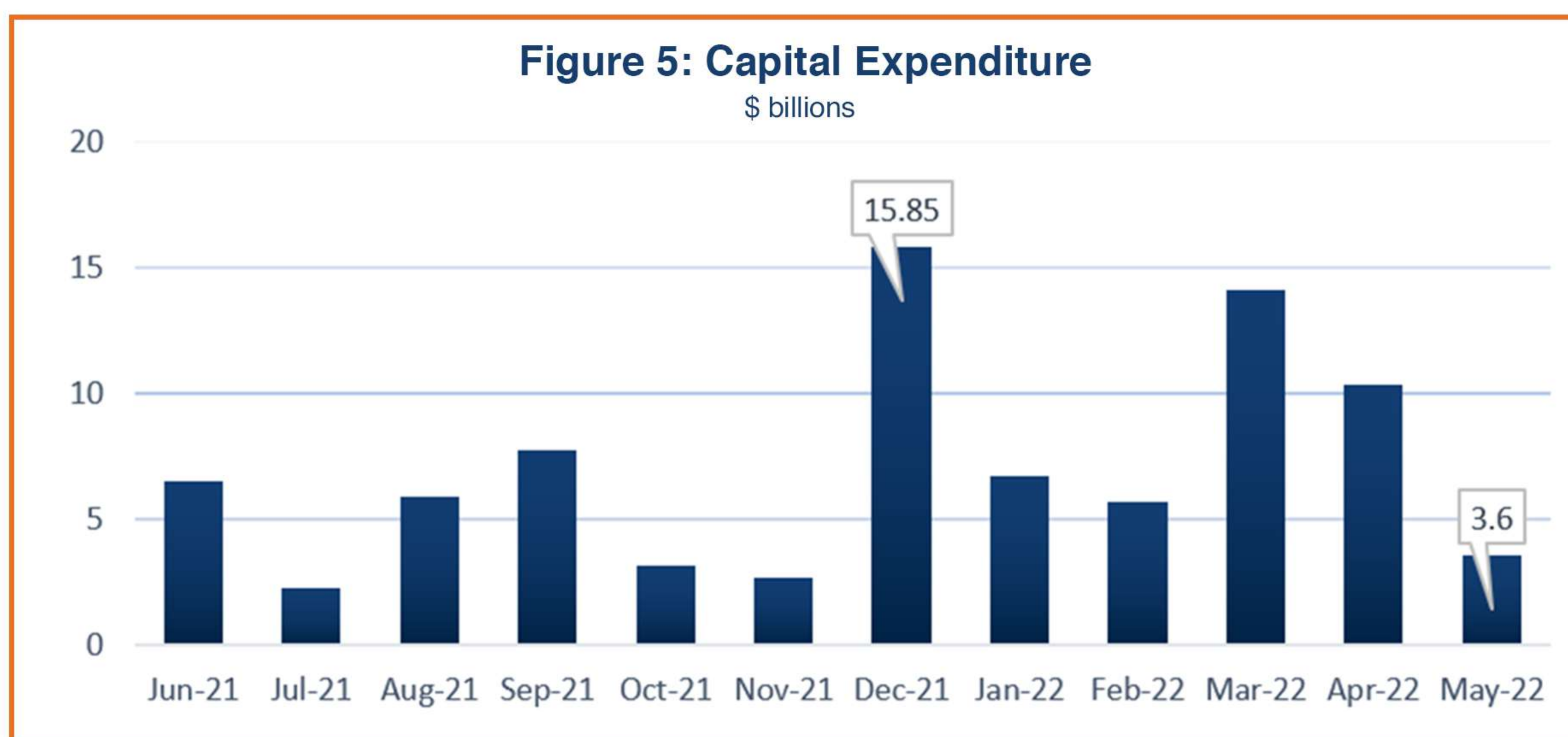
The RBI in June allowed global trade settlements in rupees, a move that will facilitate trade with countries that are subject to sanctions. As a result, India's exports of certain commodities such as tea will likely grow to Russia and Iran, and oil imports from Russia will also be easier under the new mechanism.



Source: Gol, Ministry of Commerce

Government Spending

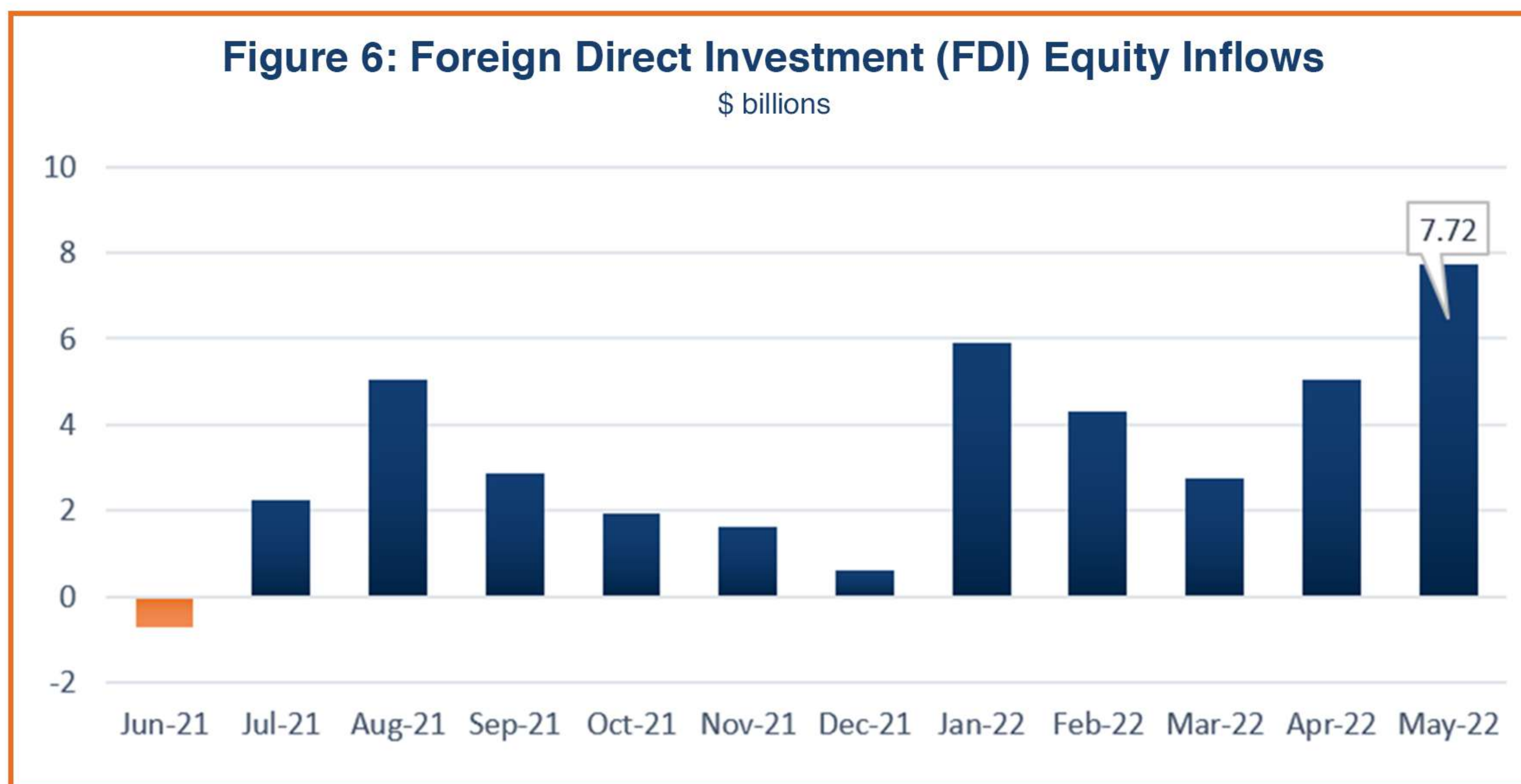
Capital expenditure has been showing mixed trends since January 2022 (Figure 5). The Finance Ministry officials have reiterated their commitment to the planned capital expenditure, noting it will catalyze the country's economic growth in the remaining months of the year despite inflationary challenges and the surging import bill; instead, the government will manage non-capital expenditures, such as wages and subsidies, to avoid fiscal slippage. That said, the government will likely make some upward revision in its projections for the fiscal deficit, currently projected at 6.4% of GDP this fiscal year.



Source: Controller General of Accounts

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) equity flows showed mixed trends throughout the previous fiscal year. According to the latest data released by the Department of Industrial Policy and Internal Trade (DPIIT), in FY2021-22, FDI equity contracted marginally, by 1%, to \$58.8 billion. However, total foreign direct investment (including equity inflows, reinvested earnings, and other capital) into India rose by 2%, peaking at \$83.7 billion in 2021-22. The first month of the new fiscal 2022-23 (April 2022) witnessed India attracting \$5 billion in FDI inflows, followed by a peak of \$7.7 billion in May (Figure 5).

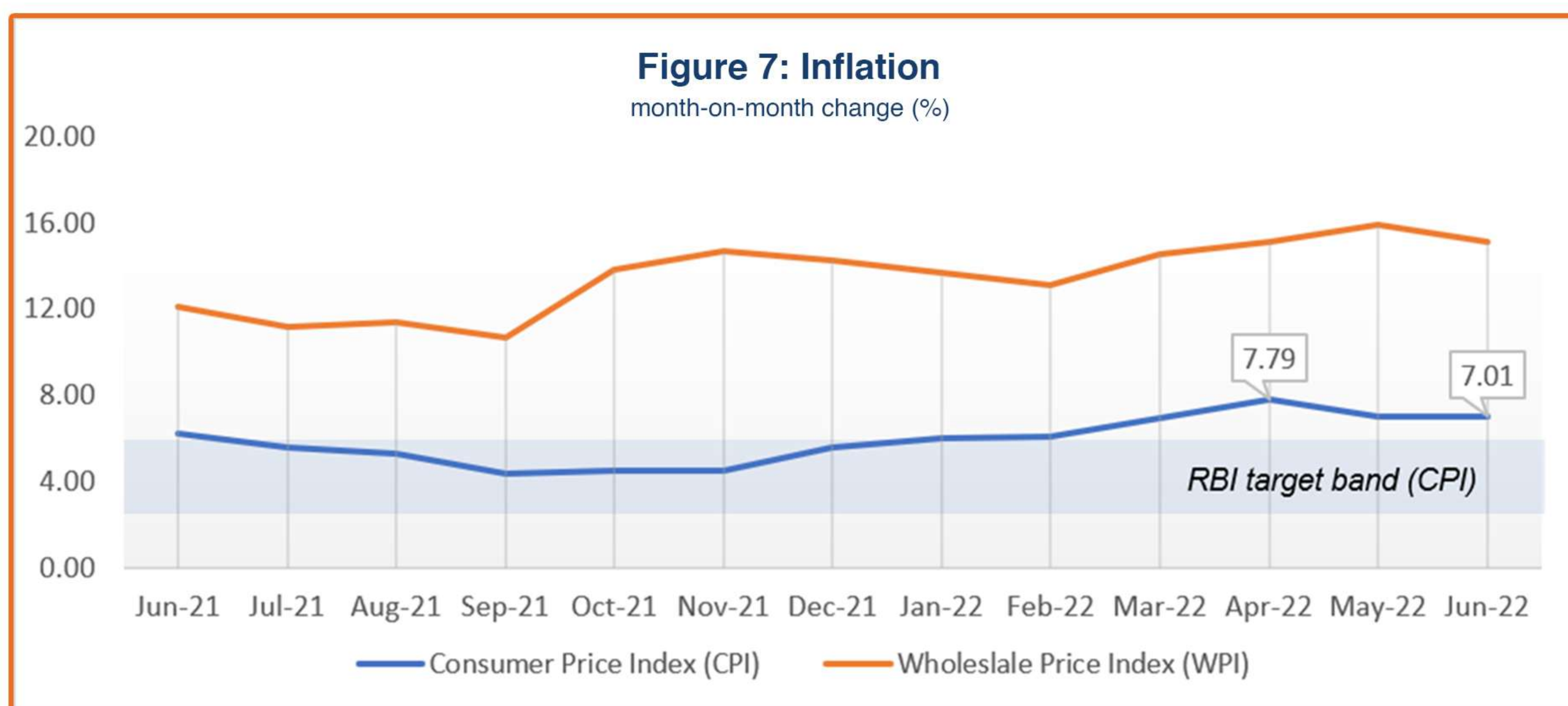


Data Source: GoI, RBI

Inflation

The overall inflation trajectory still looks uncertain. The consumer price index (CPI) slid by a few points to 7.01% in June 2022 from 7.04% recorded in May, but it remained above the RBI's inflation target ceiling of 6.0% for the sixth month in a row (Figure 6) and tackling high inflation remains the biggest concern for the Indian policymakers as in other major economies. While food prices have moderated and global edible oil prices have come down, worries about non-food inflation persist. The RBI continued giving priority to price stability by raising the benchmark policy repo rate by 50 basis points to 4.9% in its June policy meeting.

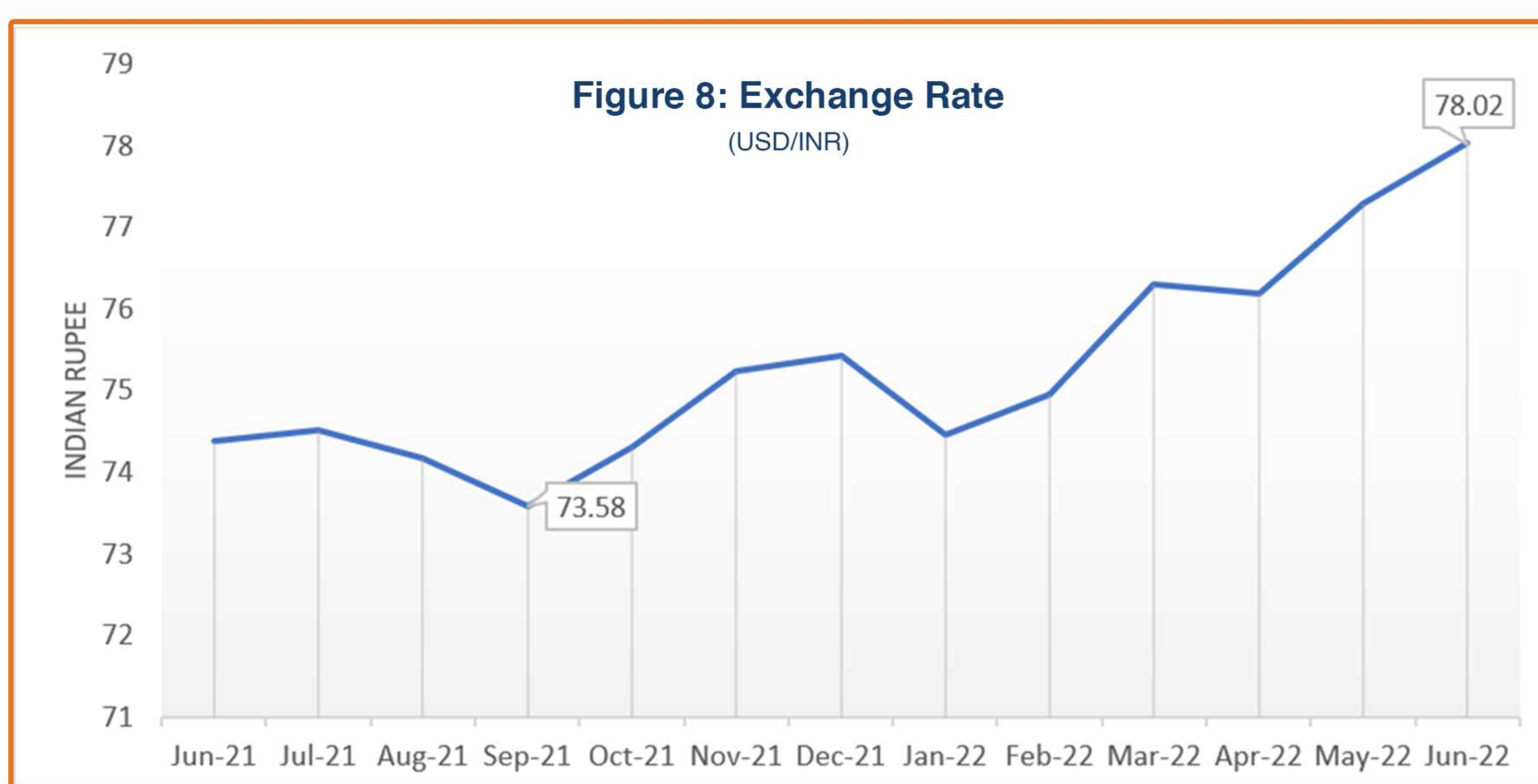
Wholesale Price inflation moderated somewhat, to 15.1% in June from 15.8% in May, but it has remained at a very high level for more than a year now, impacting inputs costs of manufacturers. Persistent high oil prices in the international market also continue to impact output growth.



Source: : Gol, Ministry of Finance

Foreign Exchange

India's foreign reserves were estimated at \$580 billion at the end of June. The RBI has sold more than \$40 billion so far through a mix of spot and forward-market interventions to support the depreciating Indian Rupee against the US Dollar. The Indian rupee moved in the range of 77.37-79.07/USD in June 2022; the average monthly exchange rate for June was INR 78.02/USD (Figure 8). The rupee has lost 6.39% against the US Dollar since January, mainly due to a rise in global crude oil prices, a strengthening dollar and continuing foreign capital outflows from India. Forward contracts have helped maintain India's foreign exchange reserves over the last three months in the face of rising imports. The RBI, through its intervention in the spot, future, forward, and overseas derivative markets, has steadied the rupee's position against its Asian peers, which is expected to help contain the rise in local prices. Some observers also suggest that the RBI's June announcement allowing global trade in rupees will enhance foreign exchange inflows and stabilize the rupee.



Source: RBI

Economic Outlook

The government's GDP growth data for the last quarter of Indian Fiscal Year (IFY) 2021-22 (January-March 2022), released in May, showed slower growth of 4.1% on the back of the inflationary pressures, Omicron coronavirus impact, and the supply disruptions caused by the Russian invasion on Ukraine. The government estimates an overall GDP growth for IFY 2021-22 at 8.7%, compared with the contraction of 6.6% recorded in IFY 2020-21. These numbers confirm that all GDP segments have emerged stronger than their pre-Covid levels, showing sustained momentum of economic activity for most part of the FY 2020-21.



Source: GoI, MoSPI

In view of the continuing uncertainties of the pandemic, Russia-Ukraine crisis, supply chain bottlenecks, international fuel inflation, and slower global growth, the RBI, and other observers, such as the IMF and World Bank, have revised India's GDP growth estimates downwards to the 7.2-7.5% range for FY2022-23. The RBI has also raised its inflation projections to 6.7% for the current fiscal year, while the government has pronounced its intention to manage inflation without reducing the capital expenditure.

Major economies around the world, including India, face challenges of inflation and depreciating currency against the US dollar, but Finance Ministry officials have noted that India is relatively better placed to deal with the challenges because of its stable financial sector and its vaccination success in enabling the economy to open. According to the RBI, India will tackle the near-term challenges carefully without sacrificing its "hard-earned macroeconomic stability," and India is at low risk of stagflation owing to its prudent stabilization policies. Finance Ministry officials have noted that India's medium-term growth prospects remain bright as capacity expansion in the private sector is expected to drive capital formation and employment generation in the rest of this decade. Nonetheless, the economic growth outlook for India continues to remain uncertain currently and will depend on how the global geopolitical scenario unfolds.