

India's Economic Performance Review for May 2023

The performance of high-frequency indicators for May 2023 indicates a pickup in economic activity in India despite the continuing worldwide challenges of inflation and supply chain disruptions; overall, business sentiment was positive. Domestic demand patterns showed resilience despite continuing global challenges, manufacturing and service activities sustained momentum, and inflation remained within the RBI-prescribed band; but the external sector remained gloomy, with marginal gains in export sales and the Indian rupee (INR) further weakening against the US dollar. The unemployment rate also dipped during May 2023.

Retail businesses reported a 7% year-on-year gain in sales value in May 2023 on a healthy increase in urban demand and improved demand in rural areas. Consumer spending gained momentum as CPI inflation eased. On the external side, India's trade performance continues to disappoint; the month of May witnessed only slight gains in merchandise exports as global demand remained suppressed.

On the supply side, the Composite Markit Purchasing Managers' Indices (PMI) for Manufacturing remained above 60, indicating expanding business transactions in a sustainable manner. According to government data, industrial output in May recovered substantially from the previous month due to a marked acceleration in manufacturing sector performance. As expected, Goods and Services Tax (GST) collections were down slightly in May, compared with the end-of-fiscal-year peak recorded in April. Monthly rail freight volume was 6% higher than in April, reflecting increased business activities.

Net FDI inflows picked up in May 2023 compared to April, and foreign exchange reserves remained at about the previous month's level, but the Indian currency weakened slightly against the US dollar. Retail and wholesale inflation both fell on the back of lower food inflation and better vegetable output.

The near-term economic growth outlook for India appears improved on account of better domestic dynamics. The Indian economy recorded an impressive 6.1% growth in the final quarter of FY2022-23 (January-March 2023), on the back of a strong performance in the agriculture and services sectors, resilient domestic demand, and increased government spending. Growth in manufacturing also showed recovery signs but continued volatility in the external sector poses challenges to the economic growth outlook as net FDI inflows and merchandise exports remain moderate. Demand from India's main global markets (the US and the EU) does not appear likely to recover in the coming months despite signs of easing inflationary pressures in these countries. India's economy is poised for solid growth backed by a rise in consumer and government spending that is expected to crowd in more private investment. However, the external sector may constrain growth to a degree in the current fiscal year (FY2023-24).

Economic Activities in India

Indicator	IFY 2022-23											IFY 2023-24	
	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Passenger Vehicles sales (Nos. '000)	251.1	275.8	293.9	281.0	307.0	291.1	276.2	235.3	298.1	291.9	292.0	283	334.3
Capital Expenditure (\$ Billion)	3.6	8.6	4.23	5.5	11.3	8.0	4.7	5.2	9.7	2.5	17.8	9.6	n.a.
Merchandize Exports (\$ Billion)	39.0	42.3	38.3	37.0	35.4	31.6	34.9	38.1	35.8	37.0	41.9	34.7	35.0
Merchandize Imports (\$ Billion)	61.1	64.4	63.8	61.9	63.4	57.9	57.0	61.2	52.2	53.2	60.0	49.9	57.1
PMI													
— Composite	58.3	58.2	56.6	58.2	55.1	55.5	56.7	59.4	57.5	59.0	58.4	61.6	61.6
— Manufacturing	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7
— Services	58.9	59.2	55.5	57.2	54.3	55.1	56.4	58.5	57.2	59.4	57.8	62.0	61.2
Industrial output (y-o-y % change)	19.6	12.7	2.4	-0.7	3.1	-4.2	7.3	4.3	5.5	5.6	1.1	4.2	n.a.
— Manufacturing	20.6	12.9	3.2	-0.5	1.8	-4.9	6.4	2.6	4.0	5.3	0.5	4.9	n.a.
GST Collection (\$ Billion)	18.1	21.5	18.7	18.0	18.5	18.4	17.9	18.1	19.1	18.1	19.5	22.8	19.1
Rail Freight (Million Tons)	131.7	125.5	122.1	119.3	115.8	118.9	123.9	130.7	133.7	124.0	144.6	126.5	134.2
Unemployment Rate (%)	7.1	7.8	6.8	8.3	6.4	7.8	8.0	8.3	7.1	7.5	7.8	7.9	7.7
Net FDI Inflows (\$ Billion)	4.9	3.7	5.4	0.3	0.9	2.8	-2.43	1.95	4.1	1.9	0.4	2.8	n.a.
Consumer Price inflation (%)	7.0	7.0	6.7	7.0	7.4	6.8	5.9	5.7	6.5	6.4	5.7	4.7	4.3
Wholesale Price inflation (%)	15.9	15.1	13.9	12.4	10.7	8.4	5.9	5.0	4.7	3.9	1.3	-0.9	-3.48
Exchange Rate (USD to INR)	77.3	78.0	79.5	79.6	80.1	82.3	81.6	82.4	81.8	82.6	82.3	82.0	82.3

Sources: Society for Indian Auto Manufacturers, S&P Global Markit PMI, Center for Monitoring Indian Economy (CMIE), Government of India Ministries, Reserve Bank of India, Controller General of Accounts

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

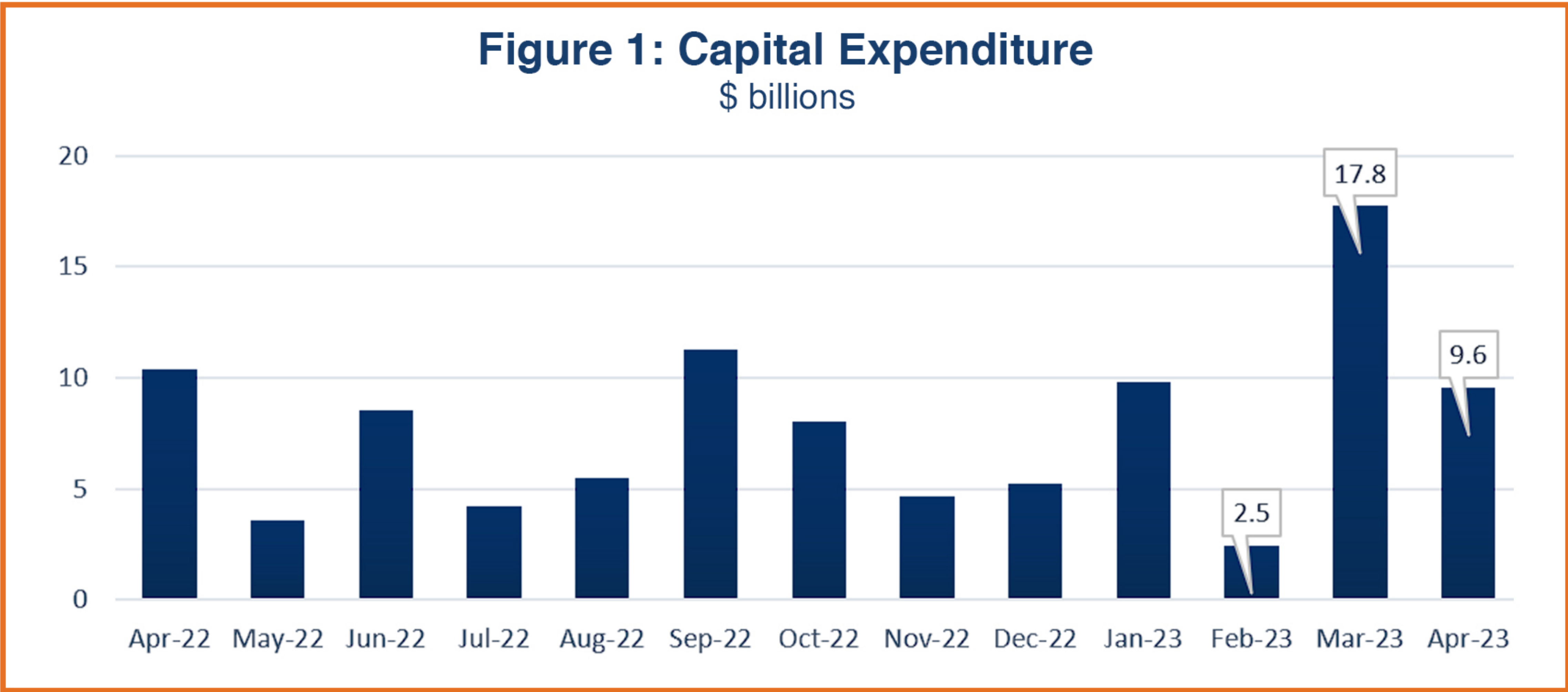
2. Purchase Managers Index (PMI) >50 indicates expansion and <50 denotes contraction

Demand Indicators

Retailers reported growing urban and rural demand with the easing of inflation in India, as seen in the higher sales of two-wheel vehicles and a handsome increase in passenger vehicle retail sales. According to the Retail Association of India (RAI), May 2023 sales numbers were up 7.0% year-on-year. The RBI reported healthy bank credit growth at 15.4% at the end of May, up slightly from the previous month, even though the cost of credit remains high due to liquidity tightening during the last fiscal year. The sustained positive sentiment in the market during FY2022-23 suggests domestic demand continues to drive the economic recovery in India.

Government Capital Expenditure

Public sector capital expenditure (capex) was erratic during fiscal year 2022-23 (Figure 1), and private sector capex did not pick up to the desired extent. However, the combination of an upswing in the property cycle and several large government infrastructure initiatives is likely to drive capex in FY2023-24. According to market observers, a meaningful capex revival is likely in India once borrowing costs fall and demand rises.



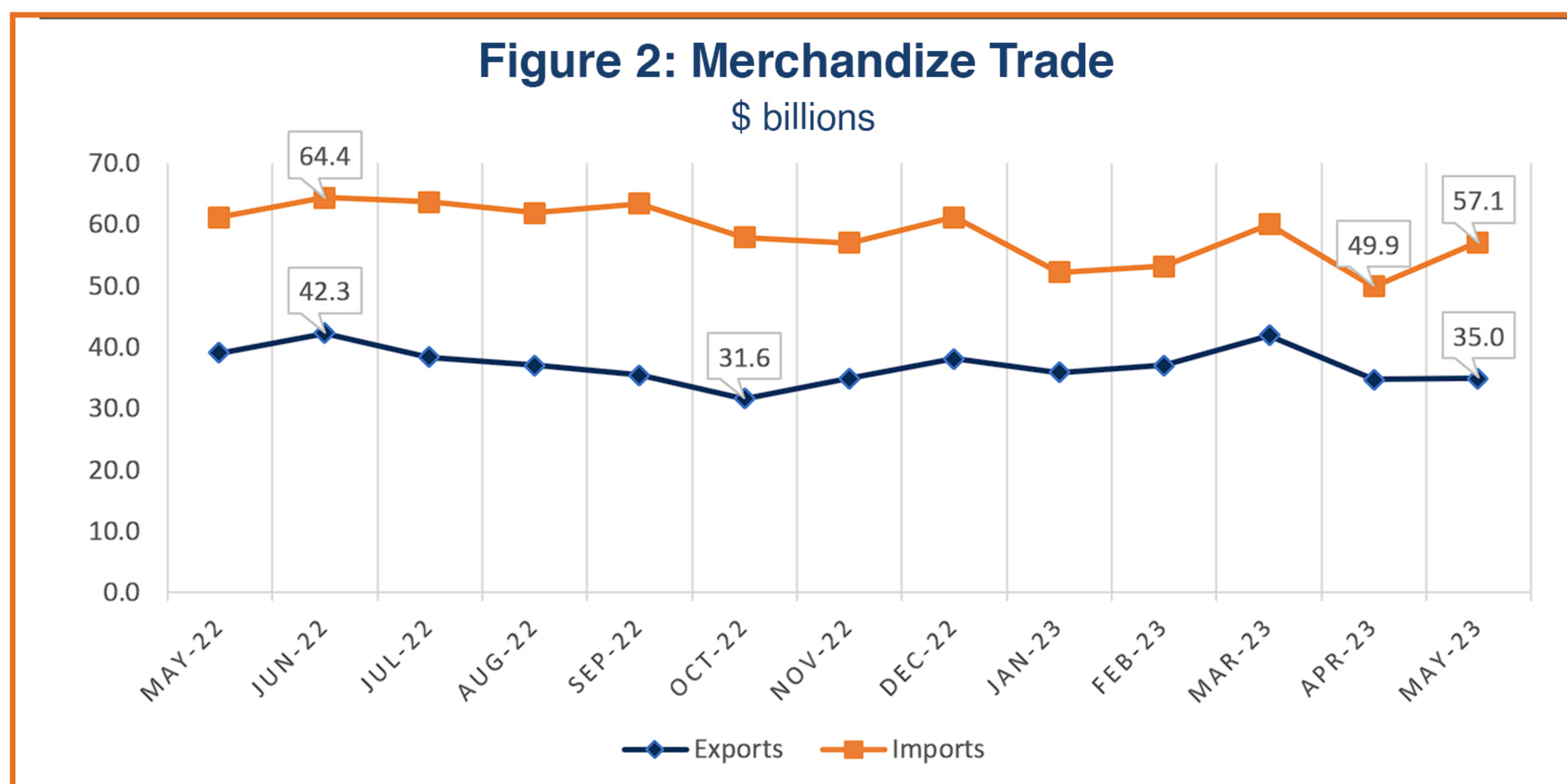
Source: Controller General of Accounts

Trade

India’s merchandize exports were up 0.7% to \$34.98 billion in May 2023 from the previous month’s \$34.74 billion (Figure 2). Export performance continues to lag since the onset of the global economic slowdown. Exports of electronic goods, oil meals, oil seeds, and spices grew significantly in May while most other major categories decelerated, such as petroleum products, gems and jewelry, textiles, chemicals, and plastics. Global demand for these products has weakened due to the continuing gloomy economic conditions.

India’s merchandize imports, at \$57.1 billion in May 2023, were significantly up from \$49.9 billion in April, when India’s imports across most product categories decelerated. Overall, India’s trade deficit in May rose more than 44% to \$22.1 billion from \$15.3 billion, in line with the symmetrical decline in exports and increase in imports.

In FY2022-23 India’s goods exports totaled more than \$450 billion, an increase of 6.7% over the previous fiscal year. Total goods and services exports for FY2022-23 surged 14.7% to nearly \$776 billion.

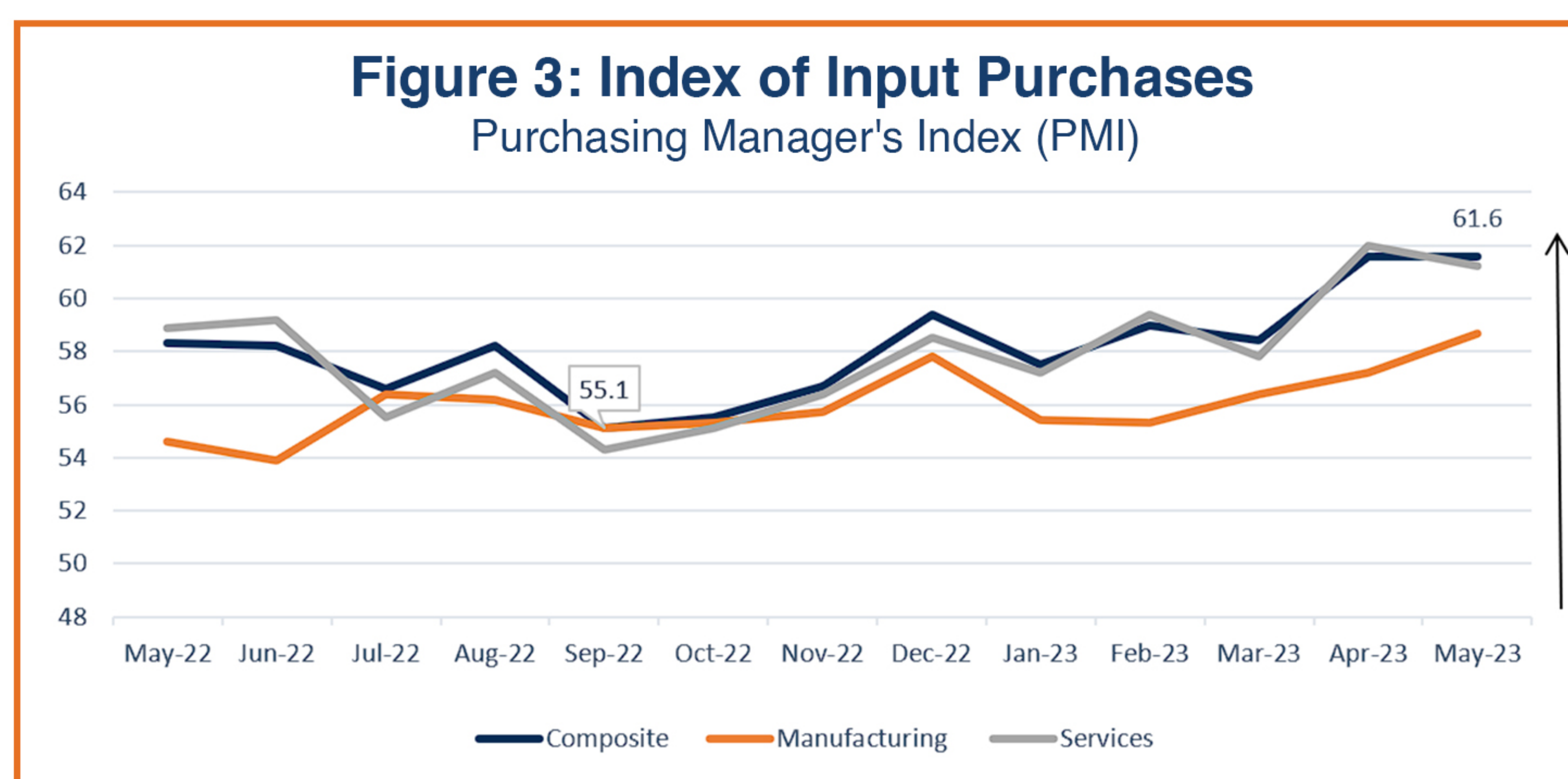


Source: GoI, Ministry of Commerce

Supply Side Indicators

Input Purchases

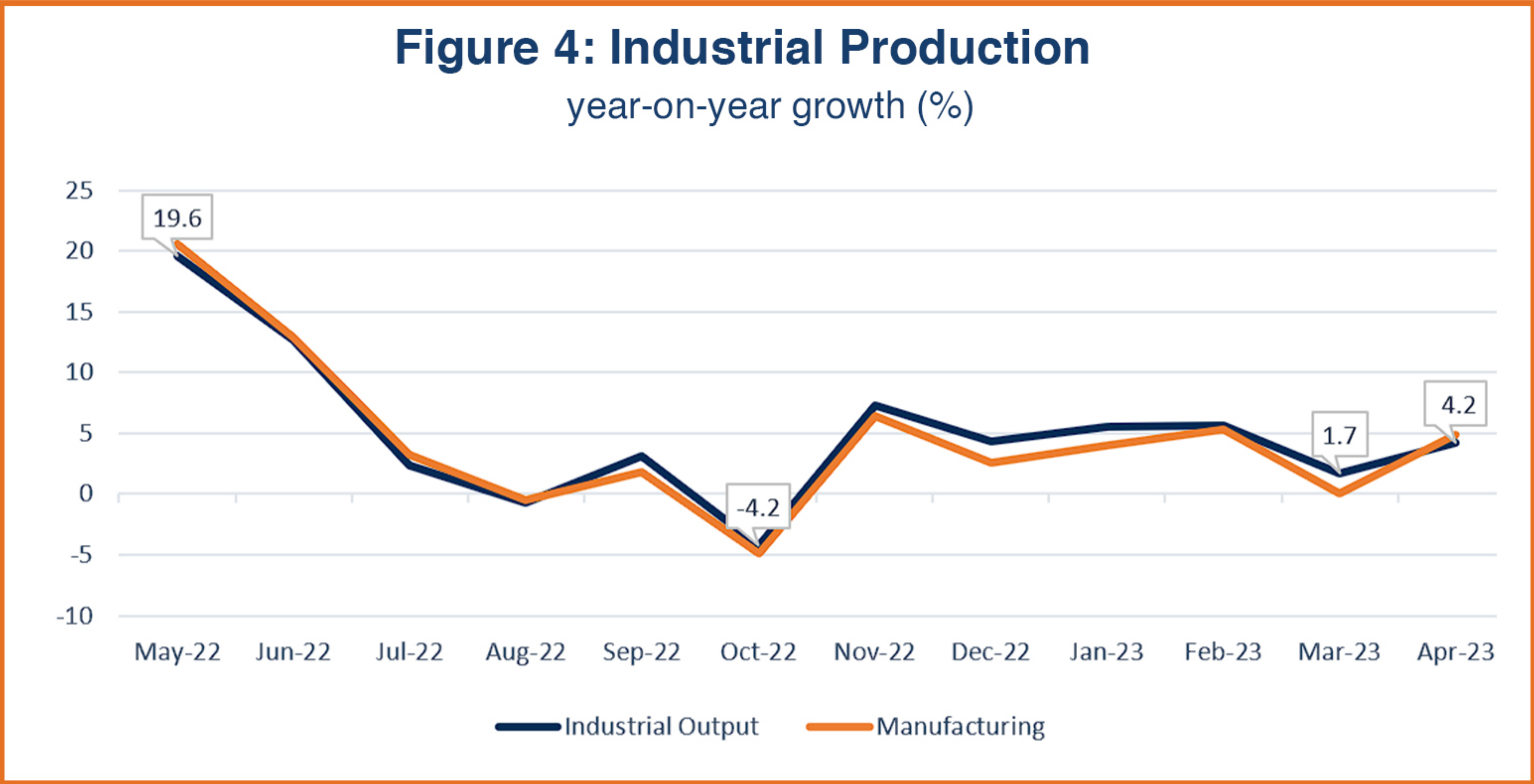
Overall business sentiment in May 2023 was strong, with the Composite Markit Purchase Managers Index (PMI) steady at 61.6. Continuing demand for goods and services led to rapid expansion in both manufacturing and services activities (Figure 3; a PMI above 50 reflects the optimistic mood of businesses that have made bold input purchases in anticipation of increased demand). The latest reading recorded the twenty-second consecutive month of business activity expansion, reaffirming sustained economic recovery. The Services PMI for May 2023, at 61.2, was slightly lower than the peak of 62.0 in the previous month, but still reflects continued momentum in service activities. India's May Manufacturing PMI at 58.2 is the strongest of the post-COVID era, supported by strong domestic demand. According to the S&P Global Survey, output growth was at a 28-month high, new orders expanded at the steepest rate of increase since January 2021, and factory employment also increased.



Source: IHS Markit

Industrial Production

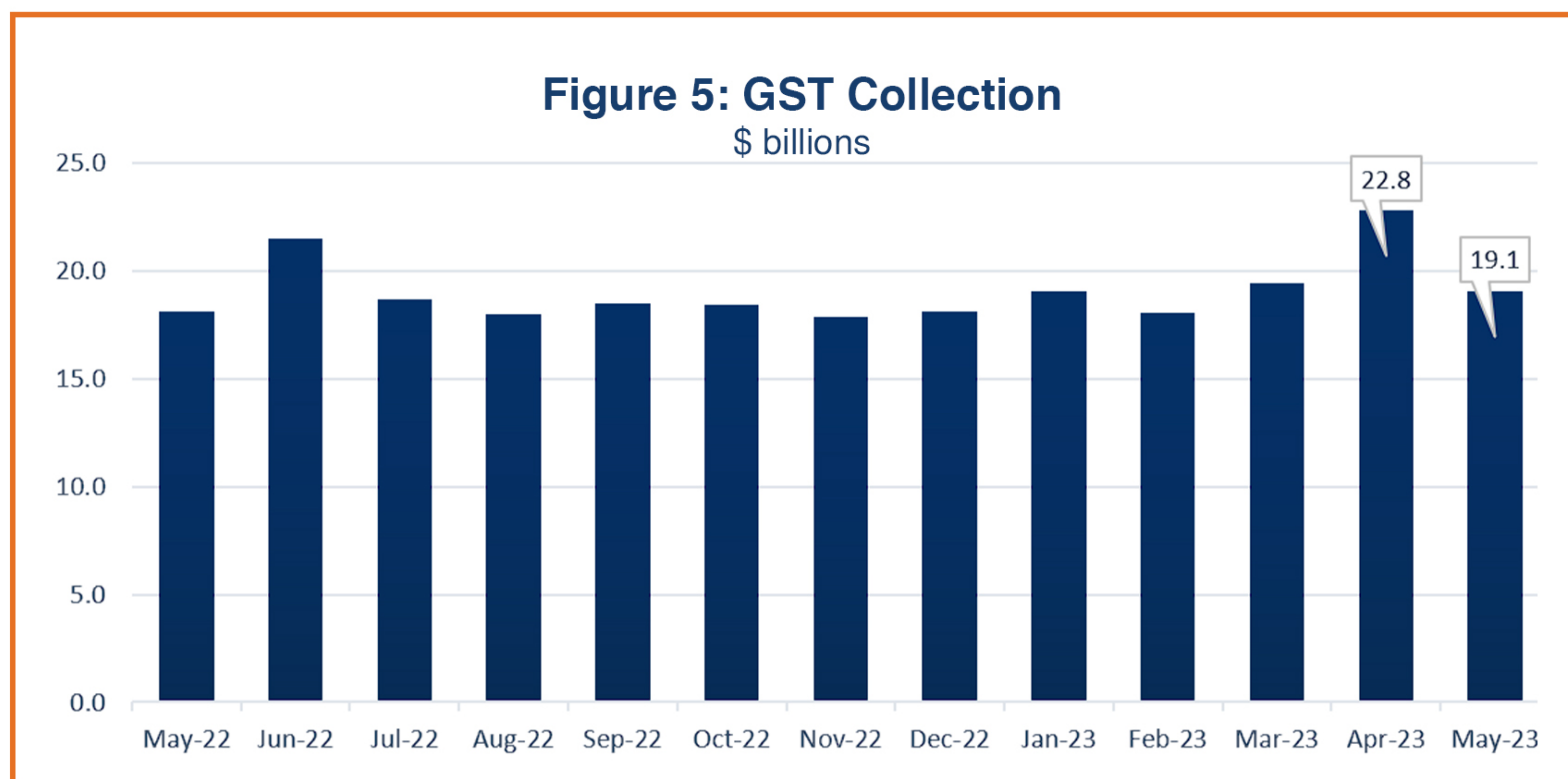
India’s industrial production growth rate basis accelerated on a year-on-year (y-o-y) to 4.2% in April 2023 from an upwardly revised figure of 1.7% in the previous month. Growth in industrial production was led by manufacturing output (Figure 4). Manufacturing, which accounts for 77% of total industrial production, recorded 4.9% growth, compared with an upwardly revised figure of 1.2% growth in the previous month; mining output growth, which comprises 14% of total industrial output, was 5.1%, compared to the 8.4% growth in the previous month; but power generation (8.0% of total industrial production) declined 1.6%, compared with the previous month’s 8.2% growth. Capital goods production (a proxy for investments) within the manufacturing sector increased 6.2% in April, slower than the 9.1% increase seen in March.



Source: Gol, Ministry of Statistics and Program Implementation

GST Revenues

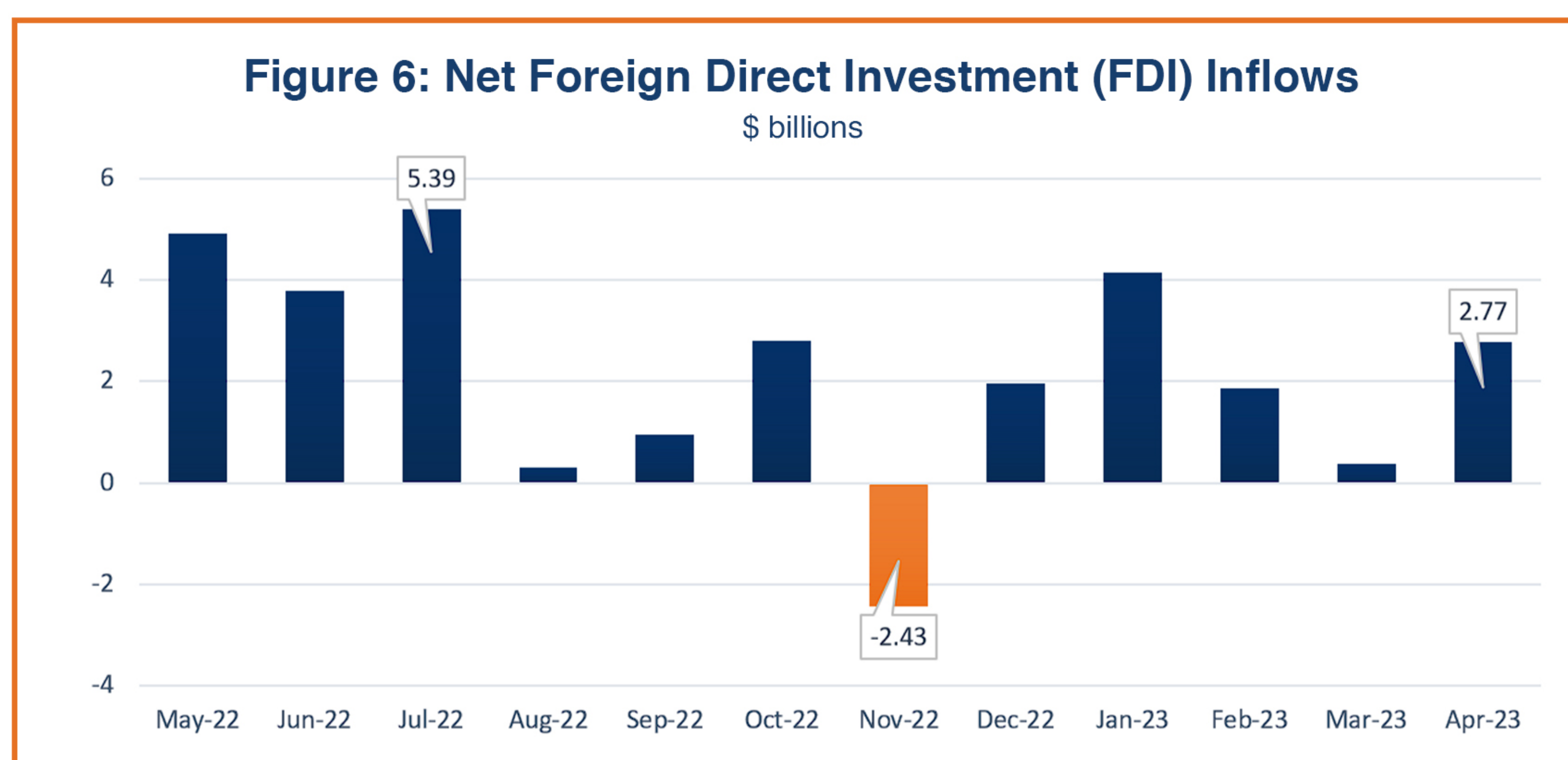
India’s Goods and Services Tax (GST) collections in FY2022-23 showed moderate recovery. In April 2023 collections reached an end-of-fiscal-year peak of \$22.8 billion and, as expected, the May GST revenues were down slightly at \$19.1 billion (Figure 5). Analysts note that rising GST collections reflect a combination of a pick-up in economic activity, increased tax rates, increased compliance, and some effect of inflation.



Source: GoI Ministry of Finance

Net Foreign Direct Investment

Foreign direct investment (FDI) flows showed mixed trends throughout fiscal year 2022-23. Net FDI inflows peaked in July 2022 at \$5.39 billion, after which flows reversed drastically, becoming a \$2.43 billion net outflow in November 2022. FDI inflows regained momentum starting in December 2022, albeit with little stability (Figure 6), which the government attributed to the uncertainty of geopolitical tensions and economic slowdown. In keeping with the UNCTAD World Investment Report, 2022 warning that "investor uncertainty and risk aversity could put significant downward pressure on global FDI", net FDI inflows in India in fiscal year 2022-23 collapsed by more than 27%, to \$28 billion from the previous year's \$38.62 billion. Nonetheless, the RBI reported solid Net FDI inflows of \$2.77 billion in April, the opening month of the new fiscal year 2023-24



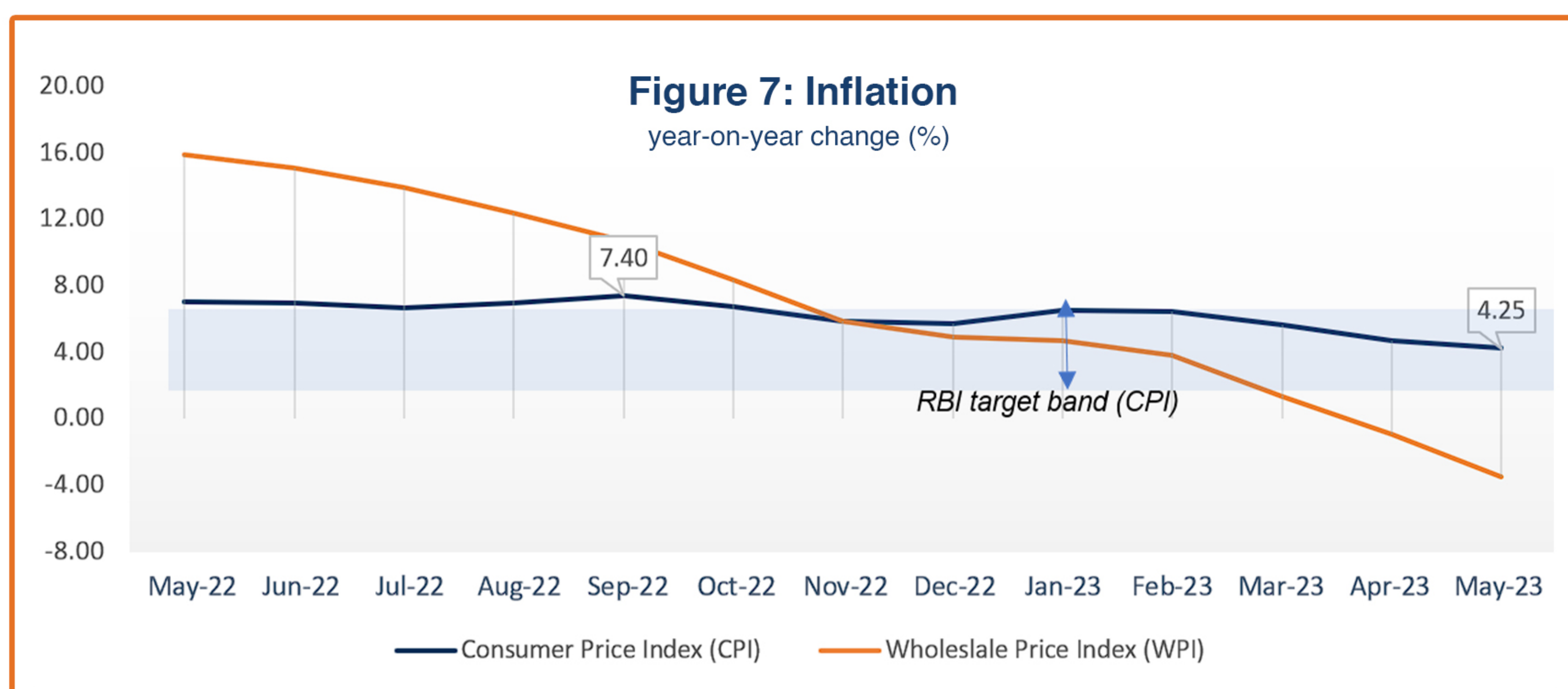
Data Source: GoI, RBI

Inflation

Consumer Price Index (CPI) inflation unexpectedly fell to a two-year low of 4.3% in May 2023, from 4.7% in April, remaining below the Reserve Bank of India's (RBI) upper target limit for the third consecutive month.). Food prices, which account for about 40% of the CPI total, were softer during the month following a good harvest, leading to the drop in CPI inflation; core inflation (non-food excluding fuel) also eased slightly in May, to 5.3% from 5.5% in the previous month. A sharp fall in international prices of liquified petroleum gas (LPG) and kerosene led to lower fuel inflation in May. The RBI, in its April Monetary Policy Committee meeting, decided to pause its liquidity tightening through repo rate hikes; however, the Bank continues to monitor inflationary movements closely.

Wholesale Price inflation in May 2023 contracted 3.5% on account of falling prices of mineral oils, basic metals, food products, textiles, non-food articles, crude petroleum and natural gas, and chemicals. Business sentiment appears to be improving following the easing of wholesale input prices.

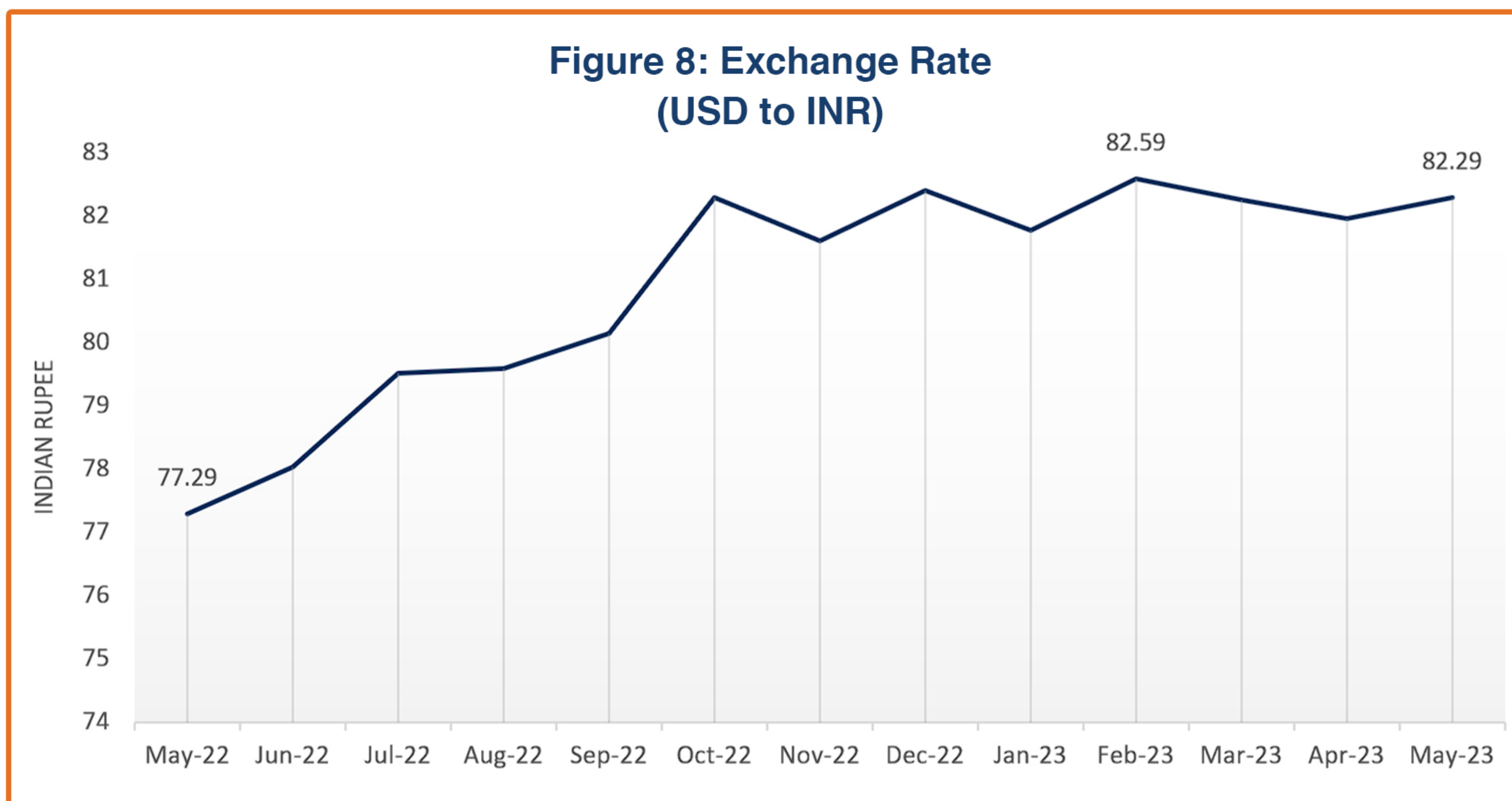
In its recent Monetary Policy Committee meeting on June 8, the RBI cautioned against upside risks to food and commodity prices from potential supply cuts. They signaled they expect CPI inflation will remain above the 4% target for the remainder of FY2023-24.



Data Source: : GoI, Ministry of Commerce & Industry

Foreign Exchange

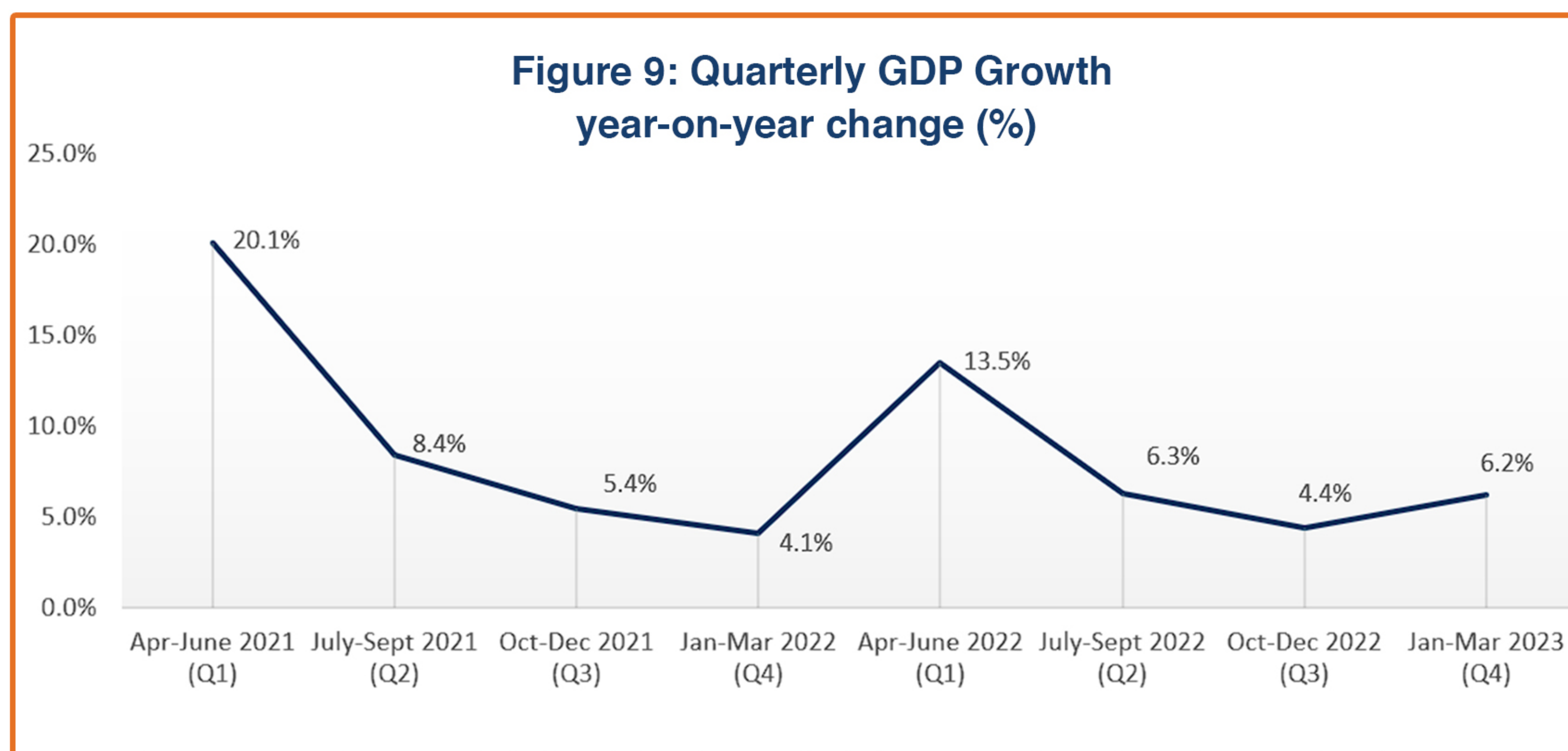
India's foreign exchange reserves were more than \$589 billion at the end of May 2023, largely unchanged from the April-end level. The RBI intervened intermittently in the foreign exchange market for liquidity management, including the selling of dollars to manage depreciation in the rupee, which impacted exchange reserves. The Indian rupee (INR) remained weak throughout May, falling to 82.89/USD on May 23; however, later in the month it recovered. The average monthly exchange rate for May was INR 82.29/USD, compared to the previous month's INR 81.95/USD (Figure 8).



Source: RBI

Economic Outlook

India's gross domestic product (GDP) grew more than expected at 6.1% in the last quarter of FY2022-23 (Jan-Mar 2023), leading to an estimated growth rate of 7.2% for the full fiscal year. The robust performance of services (travel and retail) and the farm sector, coupled with resilient demand, drove the more-than-expected growth in the fourth quarter. Falling food and global oil prices helped sustain domestic demand. India's GDP growth rate in the third quarter (October-December 2022) had slowed to 4.4% from 6.3% in Q2 and 13.2% in Q1 (Figure 9).



Source: GoI, MoSPI

In a positive movement, growth in industrial and manufacturing output has started increasing. In addition, continuing growth in the agriculture and services sectors, along with a sustained domestic demand and credit growth, augur well for sustained GDP growth; however, continuing volatility in global conditions, as well as India's lackluster export performance, continue to weigh upon GDP growth prospects. India's total exports of goods and services grossed \$776 billion in FY2022-23, printing an approximately 14% growth from the previous year. While FDI declined significantly in FY2022-23, economists are expecting a recovery in FDI inflows in FY2023-24 as India remains the fastest-growing economy in the G20. According to the Economic Advisor, India's real GDP growth for FY2023-24 is projected at 6.5%, with Q1 at 8.0%, Q2 at 6.5%, Q3 at 6.0%, and Q4 at 5.7%.

The Union Budget for the current fiscal year (FY2023-24) features a significant increase in capital expenditures, at 3.3% of GDP (up 0.6% compared to the FY2022-23 level) to support infrastructure-led economic growth and private investment. This spending must be implemented in a timely fashion to attract greater private investment, strengthen demand, and raise India's baseline growth potential.