

India's Economic Performance Review for August 2023

India's economic performance for August 2023 saw positive trends in demand parameters, input purchases, and monetary indicators, on top of an impressive performance by the industrial sector. However, an increase in urban unemployment, a static trade deficit, and reduced capital expenditure in July were worrying spots. Nevertheless, the economy is treading on a firm growth path, posting 7.8% growth for the first quarter of FY2023-24 (April-June 2023) on top of a very high base. Despite the continuing worldwide challenges of inflation and supply chain disruptions, overall business sentiment in India remained optimistic.

Retail activity in August 2023 continued to show upbeat domestic demand and consumer spending, both urban and rural; improvements came as the start of the festival season increased the value of sales on a year-on-year basis. On the supply side, the Markit Purchasing Managers' Index (PMI) for manufacturing improved slightly. At the same time, the PMI for Services showed some moderation from the previous month's peak, though it remained well above the breakeven point. The industrial and manufacturing output year-on-year growth rates improved from the last month. The unemployment rate in August 2023 peaked at 8.3%, mainly due to the erratic rainfall that affected employment. Goods and Services Tax (GST) and rail freight revenues were impressive in tandem with the market activities and increased compliance. However, capital expenditure in July 2023 (latest available data) was down unexpectedly for the first time since the beginning of the current fiscal year.

India's external sector performance remained moderate due to suppressed global demand. Despite the volatile global market, Indian shipments posted 6.9% sequential growth in August 2023, though export performance remained lackluster compared with the previous year. A higher increase in imports than exports led to a higher trade deficit in August 2023 than last month's. The net FDI inflows in July 2023 (latest available data) were less than a billion US dollars, reflecting weaker investor sentiments due to the continuing gloomy global economic conditions. India's foreign exchange reserves recovered to nearly \$600 billion, but the Indian Rupee tumbled to 82.83 against the US Dollar in August, depreciating 0.4% from the previous month's average rate.

Easing vegetable and fruit prices led to the fall in consumer price index (CPI) to 6.83% in August 2023, from the previous month's 7.44%, above the Reserve Bank of India (RBI) target ceiling for the second consecutive month. The RBI expects CPI inflation to continue its downward trajectory for the next two to three months. While core inflation in India is controlled, the risks of higher commodity prices continue. The wholesale price index (WPI) also dropped, but the pace of its decline has reduced.

India's impressive growth of 7.8% during the first quarter of FY2023-24 was driven by solid domestic demand, improved government spending, and impressive performances of the agriculture and services sectors. Growth in manufacturing continues to recover, albeit slowly, and government investment in infrastructure is growing. Indian monetary authorities stand ready to manage inflation if required. Economists have, however, cautioned that the risks of resurgent inflation, severe climatic and monsoon conditions, and geopolitical challenges may continue to pose challenges in the short term and that the economic growth rate may slow down going forward. India's external sector faces uncertainties from geopolitical tensions, a depreciating currency, and suppressed global demand.

Economic Activities in India

Indicator	IFY 2022-23								IFY 2023-24				
	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23
Passenger Vehicles sales (Nos. '000)	281.0	307.0	291.1	276.2	235.3	298.1	291.9	292.0	282.7	334.3	327.0	351.9	359.0
Capital Expenditure (\$ Billion)	5.5	11.3	8.0	4.7	5.2	9.7	2.5	17.8	9.6	10.9	21.4	4.7	n.a.
Merchandise Exports (\$ Billion)	37.0	35.4	31.6	34.9	38.1	35.8	37.0	41.9	34.7	35.0	33.0	32.3	34.5
Merchandise Imports (\$ Billion)	61.9	63.4	57.9	57.0	61.2	52.2	53.2	60.0	49.9	57.1	53.1	52.9	58.6
PMI													
— Composite	58.2	55.1	55.5	56.7	59.4	57.5	59.0	58.4	61.6	61.6	59.4	61.9	60.9
— Manufacturing	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6
— Services	57.2	54.3	55.1	56.4	58.5	57.2	59.4	57.8	62.0	61.2	58.7	62.3	60.1
Industrial output (y-o-y % change)	-0.7	3.1	-4.2	7.3	4.3	5.5	5.6	1.7	4.2	5.2	3.7	5.7	n.a.
— Manufacturing	-0.5	1.8	-4.9	6.4	2.6	4.0	5.3	1.2	4.9	5.7	3.1	4.6	n.a.
GST Collection (\$ Billion)	18.0	18.5	18.4	17.9	18.1	19.1	18.1	19.5	22.8	19.1	19.7	20.0	19.2
Rail Freight (Million Tons)	119.3	115.8	118.9	123.9	130.7	133.7	124.0	144.6	126.5	134.2	123.1	124.0	127.0
Unemployment Rate (%)	8.3	6.4	7.8	8.0	8.3	7.1	7.5	7.8	7.9	7.7	8.5	8.0	8.3
Net FDI Inflows (\$ Billion)	0.3	0.9	2.8	-2.43	1.95	4.1	1.9	0.4	2.8	2.7	-0.5	0.7	n.a.
Consumer Price inflation (%)	7.0	7.4	6.8	5.9	5.7	6.5	6.4	5.7	4.7	4.3	4.8	7.4	6.8
Wholesale Price inflation (%)	12.4	10.7	8.4	5.9	5.0	4.7	3.9	1.3	-0.9	-3.5	-4.1	-1.4	-0.5
Exchange Rate (USD to INR)	79.6	80.1	82.3	81.6	82.4	81.8	82.6	82.3	82.0	82.3	82.2	82.5	82.8

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

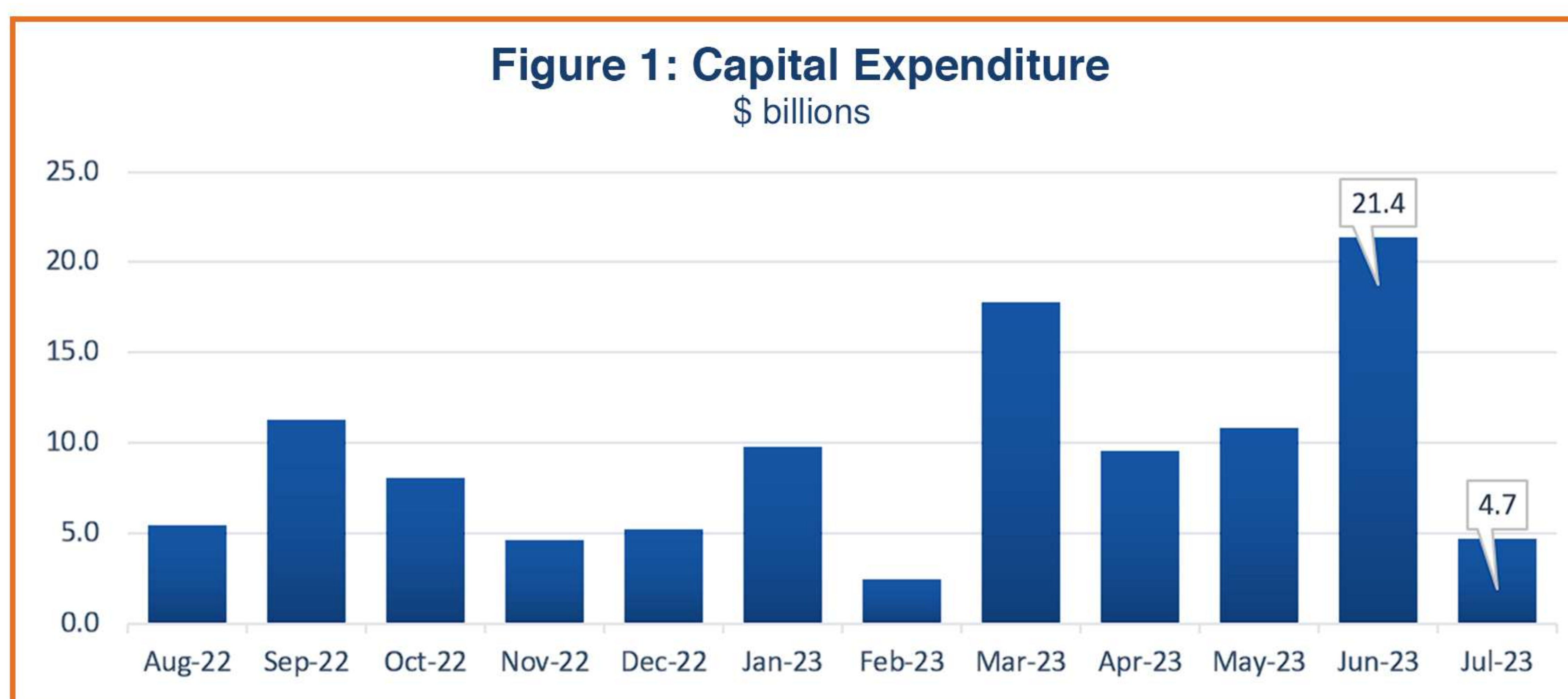
Demand Indicators

Retailers reported growth in urban and rural consumer spending, as seen in the higher sales of two-wheel vehicles and four-wheel passenger vehicles. According to Auto Industry statistics, August is the eighth month in a row when car dispatches to dealers have been over 300,000 units amid a surge in SUV purchases. The start of the festival season in August has given a boost to domestic demand, as reflected in the healthy growth of bank credit at 19.8% at the end of August, similar to the previous month's 20% growth, 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 FY2023-24 suggests resilient consumer demand will drive expansion of the Indian economy in the short and medium terms.

Capital Expenditure

Public sector capital expenditure (capex, a proxy for infrastructure investment) witnessed mixed trends during FY2022-23 but maintained an upward trajectory during the first quarter of the current fiscal year (Figure 1). The private sector capex has reportedly picked up, compared to the previous year. Companies from capital-intensive sectors including oil and gas, metals, and power have reported impressive capex growth in the first quarter of FY2023-24 compared to the previous year. The government's Production-Linked Incentives (PLIs) in select sectors, such as electronics and appliances, are also helping increase private sector participation in investments. According to analysts at Indian credit rating agency ICRA, India's corporates are likely to invest more in capex amidst a relatively stable domestic macroeconomic environment and global opportunities, especially with the China+1 strategy. Nonetheless, some observers remain cautious, saying that India's capex cycle still lacks durability and will not see a meaningful revival until borrowing costs fall and demand rises.

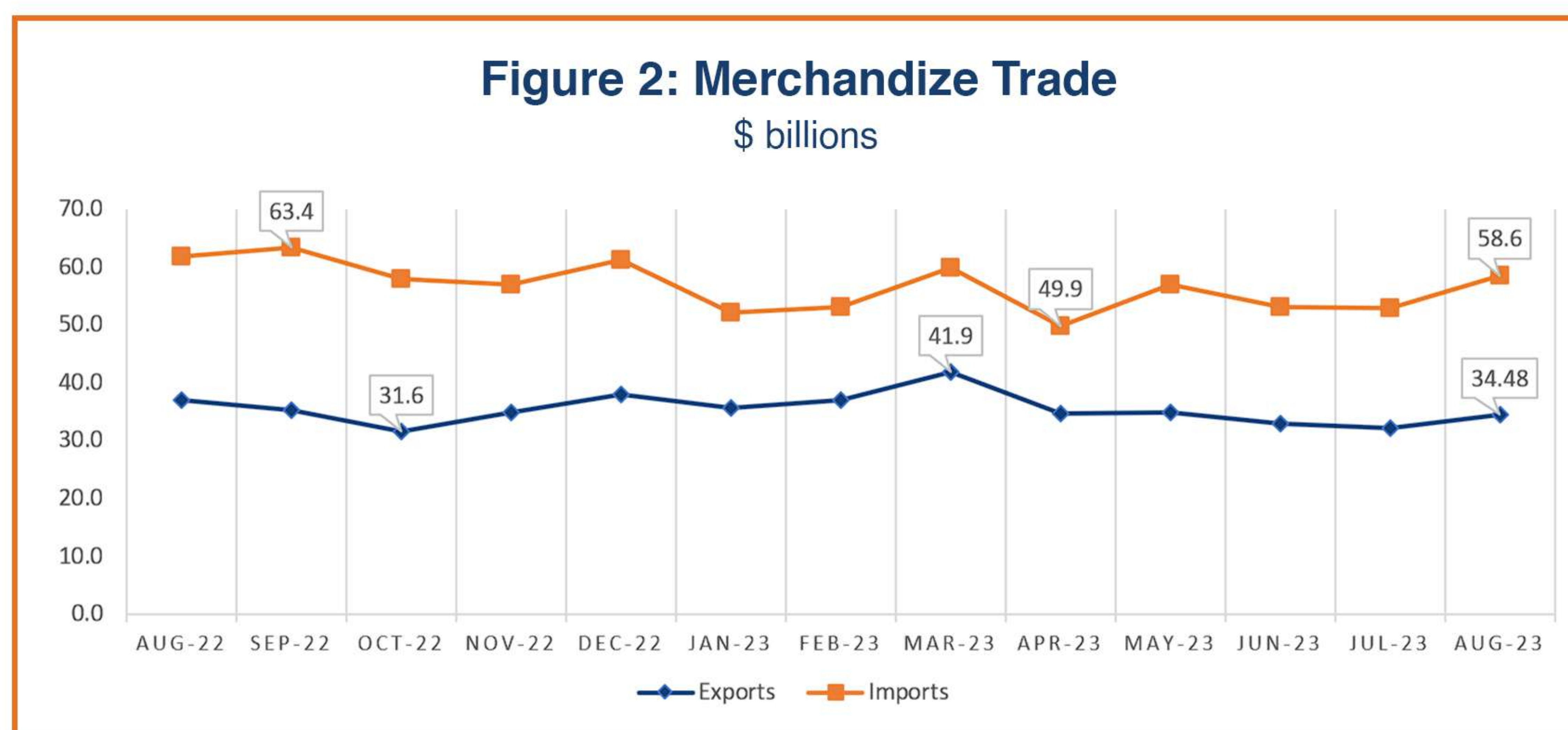


Source: Controller General of Accounts

Trade

In tandem with global trends, India's merchandise exports revived, growing about 7% in August 2023 from the previous month's low of \$32.3 billion (Figure 2). Export performance remains impacted by the global economic slowdown and high inflation rates that have reduced demand in developed economies. While a few categories, such as electronic goods, pharmaceuticals, and engineering items, witnessed growth in August, most major categories decelerated, such as petroleum products, gems and jewelry, textiles, chemicals, and plastics. Commodity prices for petroleum products have declined, resulting in lower export value. The growth in electronics exports is led by mobile phones exports (52% of total electronic exports), which have shown tremendous growth following the government's announcement of the Smartphone Production-linked Incentive (PLI) Scheme in 2020. Services exports were almost stagnant at \$26.4 billion in August 2023, compared with the previous month's \$27.2 billion. According to Commerce Ministry officials, India pursuing free trade agreements

(FTAs) with more countries, especially in Latin America and Africa, which they hope will improve export performance and help the country reach its target of \$2 trillion in exports by 2030.



Source: GoI, Ministry of Commerce

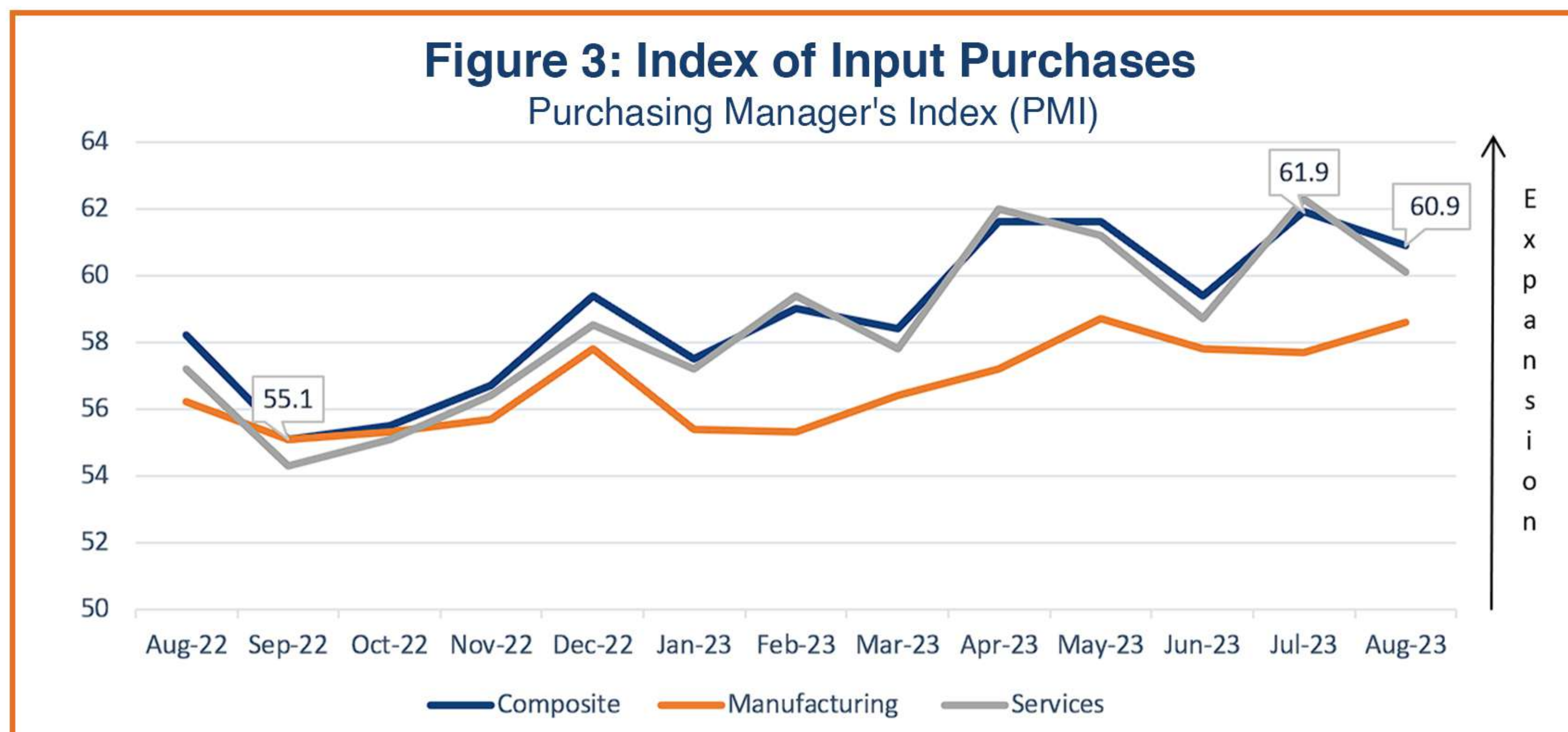
India's merchandize imports, at \$58.6 billion in August 2023, were up almost 11% from July, indicating industrial revival within the country. Imports of chemicals, iron and steel, and machinery showed upward movement. Services imports in August dropped to \$13.9 billion from \$14.9 billion in the previous month.

Overall, India's merchandize trade deficit in August rose to \$24.2 billion, a 10-month high, from the previous month's \$20.7 billion.

Supply Side Indicators

Input Purchases

Overall business sentiment in August 2023 was strong, with the Composite Markit Purchase Managers Index (PMI) at 60.9, one point weaker than the previous month's peak of 61.9. But continuing demand for goods and services led to decent 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 26th consecutive month of business activity expansion, reaffirming sustained economic recovery in India. While the Services PMI for August 2023, at 60.1, slowed slightly from the previous month's 62.3, overall conditions, including service exports, remained robust. India's services PMI reading has remained above breakeven for more than two years, heightening optimism on the sector's outlook in the remainder of the year.



Source: IHS Markit

S&P Global India Manufacturing Purchasing Managers' Index rose to 58.6 last month compared with 57.7 in July. According to the S&P Global Survey, manufacturing activity in India was at a three-month high in August with new orders and output growth expanding at the quickest rates since January 2021.

Industrial Production

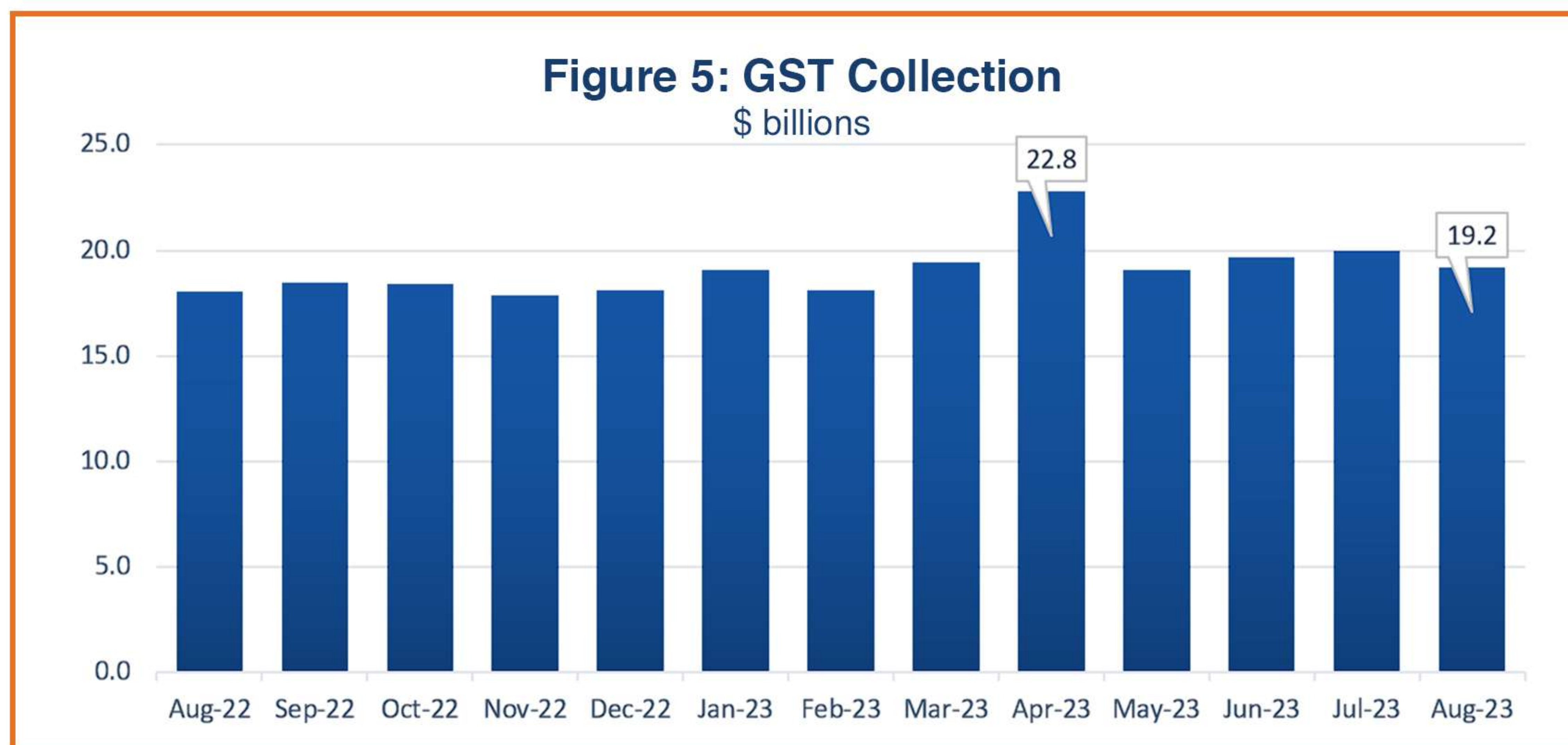
India's year-on-year industrial production growth rate rose to 5.7% in July 2023 from 3.7% in the previous month (Figure 4). A revival in mining, electricity, and manufacturing output drove industrial growth in July 2023. Manufacturing, which accounts for 77% of total industrial production output, recorded growth of 4.6%, compared with 3.1% in the previous month. The growth in mining output, comprising 14% of total industrial output, also improved, rising 10.7% compared to 7.6% in the previous month. Power generation (8.0% of total industrial production) rose 8%, compared with the previous month's growth of 4.2%. Production of capital goods (indicative of growth in investments) within the manufacturing sector increased 4.6% in July 2023, compared with the increase of only 2.2% recorded in June. Domestic demand will be the key driver of industrial performance in India for the rest of the current fiscal year as merchandize exports will likely remain weak due to continued gloominess in global economy. Industrial output also faces downside risks from increasing inflation and uncertain rainfall that can weigh down demand.



Source: GoI, Ministry of Statistics and Program Implementation

GST Revenues

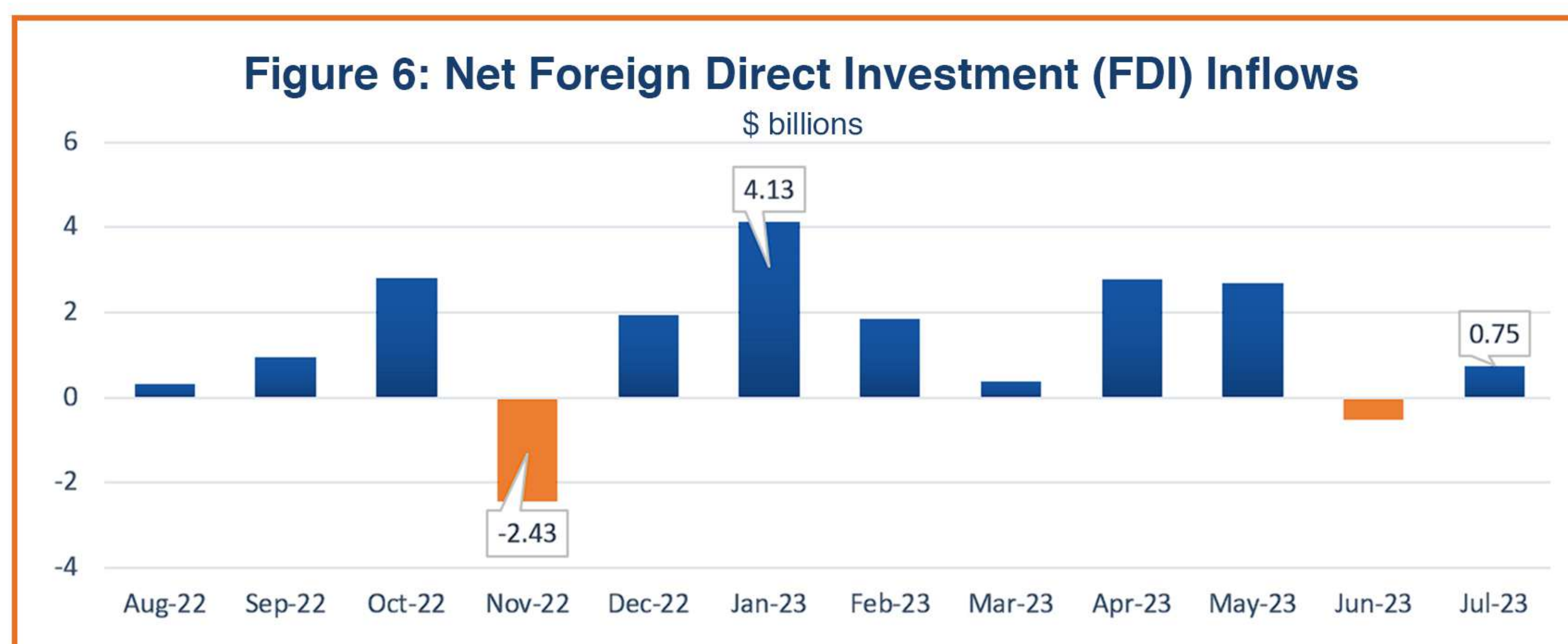
August 2023 Goods and Services Tax (GST) collections, maintaining a robust pace, were pegged at \$19.2 billion, down slightly from the previous month's \$20.0 billion (Figure 5). Analysts note that rising GST collections reflect a combination of increased economic activity, higher tax rates, improved compliance, and some effects of inflation. Industry expects the GST authorities will be more open to a rate rationalization proposal given the recent sustainability in GST collections.



Source: GoI Ministry of Finance

Net Foreign Direct Investment

FDI inflows remain erratic (Figure 6), mainly due to the uncertain geopolitical tensions and economic slowdown conditions that are weighing upon investor sentiment globally. The current fiscal year started with solid net FDI inflows of \$2.77 billion, but it seems the erratic trends are continuing, and the latest RBI data shows a net inflow of \$0.75 billion in July 2023, compared with a net outflow of \$0.51 billion in the previous month. The net FDI inflows in July were driven by a significant increase in direct investments to India.

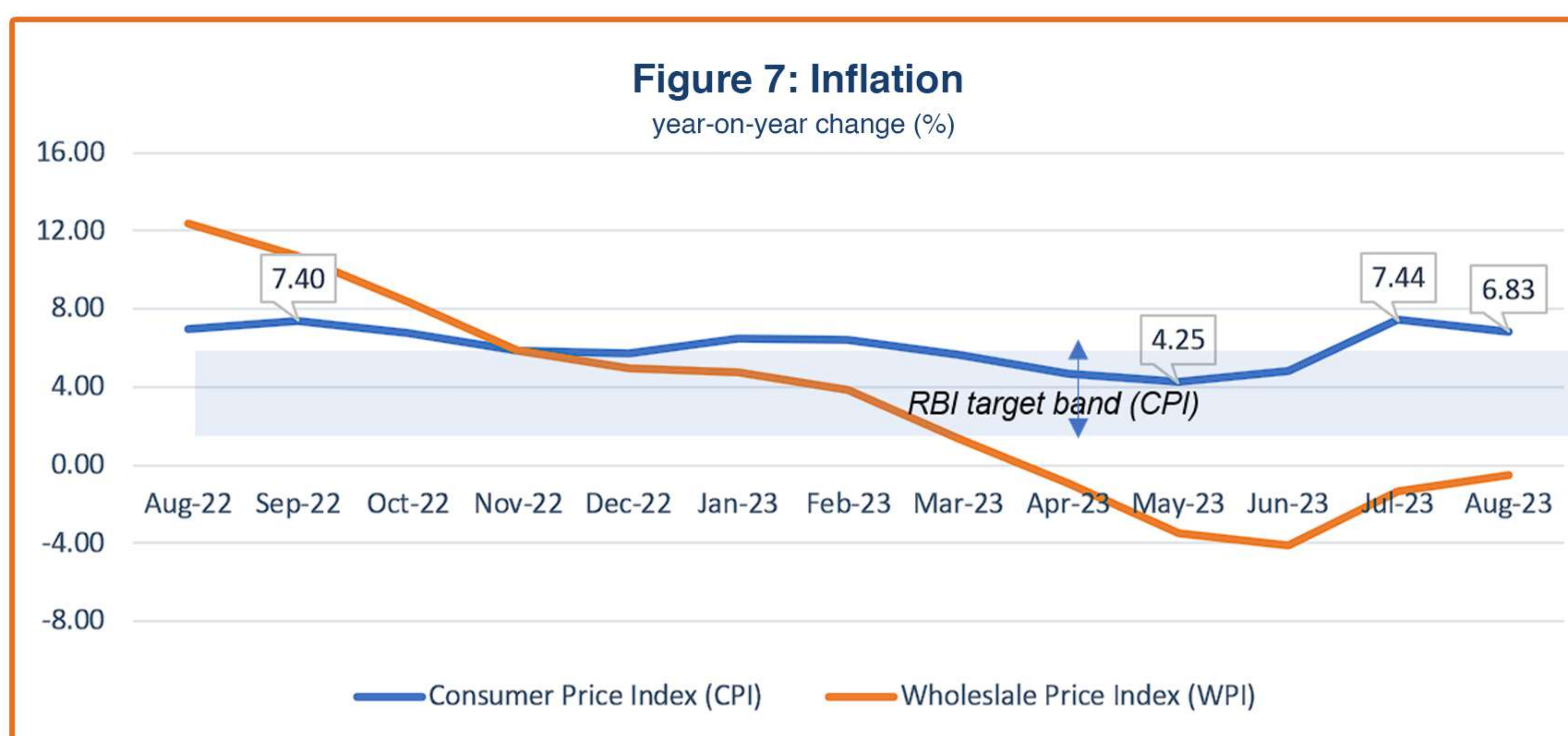


Data Source: GoI, RBI

Inflation

Though the year-on-year Consumer Price Index (CPI) inflation rate fell to 6.83% in August 2023 from 7.44% of July 2023, it remains above the upper limit of the RBI target band of 2-6 per cent. Food prices, which account for about 40% of the CPI total, eased substantially during the month. Economists see inflationary pressures easing from September onwards, on further easing of vegetable prices as well as the impact of the recent cut in LPG fuel prices. RBI economists have acknowledged that core Inflation in rural as well as urban areas is stabilizing, as reflected in a broad-based easing of price pressures across goods and services. The stability of core inflation may be due to prevailing lower input costs for producers, which currently exerts limited pressure on consumer prices. While the RBI held the repo rate steady in its August policy review meeting, it stands hawkish and ready with its monetary policy tools.

Wholesale price index (WPI) inflation continued its downward trajectory for a fifth consecutive month in August, with prices declining 0.95%, albeit at a slower pace than the previous several months. Lower prices of chemicals, textiles, manufactured food, and mineral oils led to the fall in WPI inflation. Observers have, however, alerted that wholesale prices will start rising from September 2023 as base effects fade and stickiness in primary article prices persists.

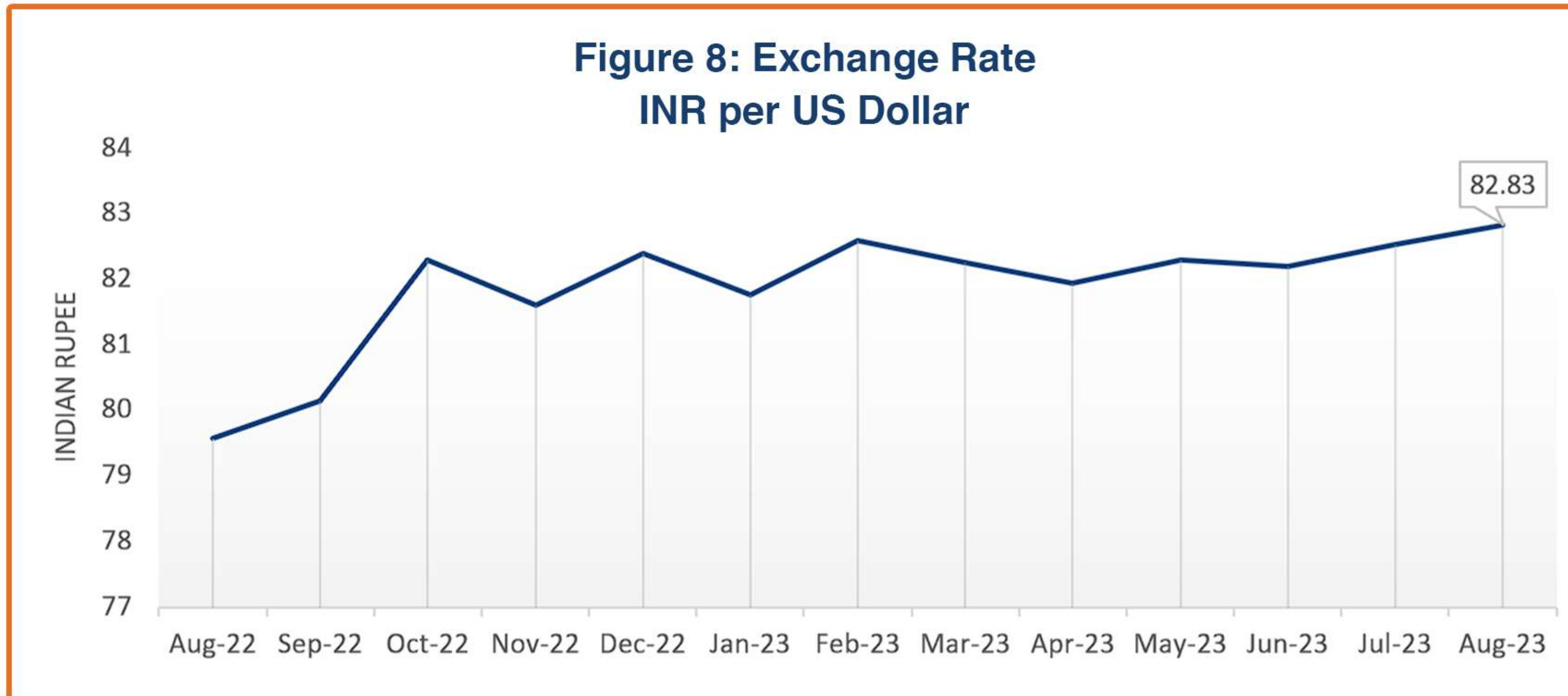


Data Source: : Gol, Ministry of Commerce & Industry

Foreign Exchange

India's foreign exchange reserves were about \$598.9 billion at the end of August 2023, down \$2.6 billion from the July-end level. The reserve levels have been showing diverse trends since October 2021, when reserves peaked at \$645 billion, as the RBI has been actively buying and selling foreign exchange to smooth market volatility caused by global developments. The RBI intervened intermittently in the foreign exchange market for liquidity management, including the selling of dollars to manage depreciation in the Indian rupee (INR), which impacts exchange reserves. The rupee remained weak throughout August, depreciating by 0.4% from the previous

month. The average monthly exchange rate for August was INR 82.83/USD, compared to the previous month's INR 82.53/USD (Figure 8).

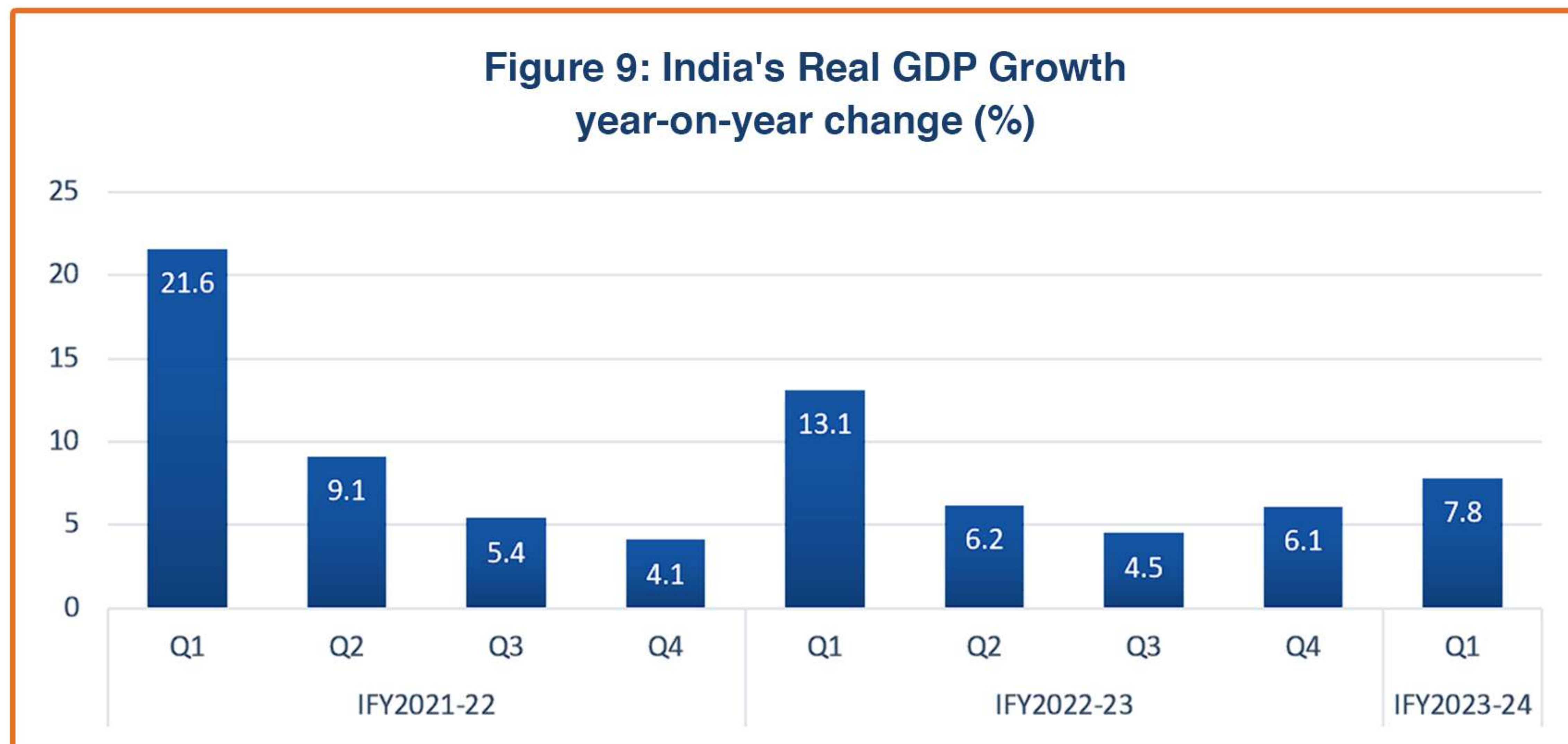


Source: RBI

In a significant move to internationalize its currency, India has allowed more than a dozen banks to settle trades in Indian rupees with 22 countries since last year. India's recent agreements to trade in rupees with the United Arab Emirates and Bangladesh, as well as its agreement with Russia last year for oil purchases in rupee, are testimony to India's bid to promote the INR in the global market.

Economic Outlook

India's real gross domestic product (GDP) grew 7.8% in the first quarter of FY2023-24 (April-June 2023; Figure 9), mainly driven by robust consumer demand, increased investments, and impressive output growth in the agriculture and services sectors. The RBI had, however, expected a growth of 8% in Q1 FY2023-24.



Source: GoI Ministry of Statistics and Program Implementation

The RBI maintains its forecast of annual economic growth of 6.5% for FY2023-24, with Q2 at 6.5%, Q3 at 6.0%, and Q4 at 5.8%. According to the RBI, the pickup in consumer spending in rural areas reflects the incipient revival of rural demand. The start of the festival season and sustained buoyancy in service activities are expected to push up private consumption while increasing corporate profits will promote investment activities. Inflationary pressures are expected to ease from September onwards. The International Monetary Fund (IMF) on July 27 projected India's real GDP growth at 6.1% in FY2023-24, up from 5.9% estimated in April, citing momentum from stronger-than-expected growth in the fourth quarter of 2022 and stronger domestic investment.

Following the Q1FY2023-24 economic performance statistics, Moody's in September 2023 raised India's GDP growth projection for 2023 to 6.7% from the 5.5% projected earlier. However, it lowered the 2024 forecast down to 6.1% from the 6.5% projected earlier due to the high base effect expected in 2023. According to the World Economic Forum Chief Economists Outlook Survey Report released on September 14, 2023, over 90% of economists expect moderate or strong growth this year in South Asia, notably India.

While domestic demand in India remains buoyant, the downside risk of inflationary pressures due to the uneven rainfall and El Nino may affect agricultural yields in FY2023-24. India's export sector is expected to contract due to the continuing gloominess in the global economy. External demand, uncertain inflation, and the geopolitical tensions continue to pose risks to the RBI's forecast, albeit India's strong economic fundamentals hold the overall outlook as optimistic.