Macro Perspectives

December 18, 2022

L&T Financial Services

Dr. Rupa Rege Nitsure
Group Chief Economist

Global Briefs

- **Multilateral organisations like the IMF, World Bank, WTO, OECD, etc, have raised concerns about a worsening global outlook, while hopeful that China's reopening will help support world growth.** The IMF expects global growth to slow from 3.2% in 2022 to 2.7% next year while the World Bank has expressed a deep concern that world will slip into recession. According to the director general of the WTO, global trade faces real challenges and growth in trade was losing momentum. As per the WTO estimates, global goods trade will only grow 1% in 2023, a sharp slowdown from the estimated 3.5% expansion in 2022. OECD sees 2023 global economic growth slowing to 2.2% and inflation will begin to pivot in the middle of the year.
- **In the 12 months through November, the consumer price index in the US climbed 7.1%. That was the smallest advance since December 2021, and followed a 7.7% rise in October 2022.** The Fed's aggressive monetary policy stance is dampening demand. Fed Chair Jerome Powell said last month that the central bank could scale back the pace of its interest rate hikes "as soon as December".
- **On Dec 14, the Federal Reserve raised its benchmark interest rate by 50 bps (instead of 75 bps) to the highest level in 15 years.** The Bank of England & European Central Bank too eased the pace of their interest rate hikes, raising them by 50 bps on Dec 15 but stressed significant tightening remained ahead and laid out plans to drain cash from the financial system as part of a dogged fight against runaway inflation.
- **Even after Russia cut most natural gas to Europe amid the war in Ukraine, EU countries largely were able to fill gas storage for the winter heating season** by tapping new supplies, saving energy and benefiting from mild weather and low demand from China amid COVID-19 lockdowns.
- The British economy is estimated to have grown by 0.5% between September and October 2022, statistics showed, but **a lengthy recession is still expected in the UK.**
- Nearly **a fortnight after China lifted its Covid Zero restrictions following a spate of protests, the country was reeling under a massive coronavirus wave,** with a Chinese diplomat blaming 'foreign forces' for the anti-government demonstrations. Key data released on Dec 15 showed business, investment & consumption activities slumped to their weakest levels since the Shanghai lockdown in the Spring. The Govt's abrupt abandonment of its long-held Covid Zero strategy has made the outlook for the Chinese economy very uncertain as factories brace for disruption and labour shortages rise.

Indian Agricultural & Rural Scene

- During the ongoing rabi season, the average area sown for wheat is up by 25% (y-o-y), as of Dec 9. Area under oilseeds, too, is at record levels. **All of this augurs well for bumper rabi crops** that can offset a less than normal kharif output in FY23 (Jul-Jun).
- **Agriculture and allied activities were estimated to grow at 4.5% and 4.6% after adjusting for inflation in Q1 and Q2 FY23, respectively—the highest in 10 quarters since Jan-Mar 2020** - although the first advance estimates of crop production indicated a lower kharif output during the current agricultural year.
- As on December 15, **live storage in 143 reservoirs was 79% of capacity, 103% of live storage a year ago and 119% of the average storage during the last 10 years** according to the Central Water Commission. For such reasons, the current uptrend in winter sowing may well enable higher agricultural growth this fiscal but not as much as the Q2 number indicated.
- **As per the CMIE data, rural India witnessed the addition of 4.3 million jobs in Nov 2022**, resulting in an increase in the employment rate from 37% in October to 37.5% in November.
- **Higher prices of food grains, esp. that of wheat & rice and improving employment & MGNREGA wage rates in rural areas have boosted "investment demand" in rural belts** as reflected in the sales of tractors & other agricultural inputs. However, relatively weak rural consumption demand is evident in the lackluster sales of entry-level motorcycles & FMCG in rural belts.

India's Economic & Policy Briefs

- **According to JP Morgan, India's economic growth will slow in FY24 from ~7% in FY23**, on the back of a sharp global slowdown. A broader private investment cycle would also take time to fructify amidst elevated global uncertainty, slowing growth, tighter monetary conditions and low manufacturing utilization rates. Retail inflation is expected to remain sticky in the coming months before gradually rolling off in FY24.

- **According to Credit Suisse (CS), India is growing faster than what is captured by the country's official data.** According to CS, the country will grow at 7% in FY24, as against the consensus estimates which peg the real growth to slip below 6%. The CS' expectations are based on the movement of several growth drivers like revival in government spending, increase in low-income jobs, and easing of supply-chain bottlenecks, which should partly offset the impact of rate hikes, a slowing global economy and the need to reduce the BOP deficit.
- **India's retail price (CPI) inflation declined to 5.9% in Nov 2022 – the lowest in the past 11 months.** A fall in CPI inflation was primarily driven by a significant seasonal correction in the prices of vegetables & fruits. **Similarly, India's WPI inflation declined to 5.6% - the lowest in the past 21 months,** driven by a significant decline in food & manufactured product price inflation and moderation in global commodity prices. A favourable statistical base also aided.
- **As on Dec 2 2022, Indian commercial banks' credit growth stood at 17.5% (y-o-y) and deposit growth at 9.9% (y-o-y). This brings the incremental credit deposit ratio to 126.98%.** India's Forex reserves stood at US $564.07 billion as on Dec 9 2022. According to India's Finance Minister, the RBI net sold US$ 33.42 billion in the foreign exchange market during Apr-Sept, FY23 to defend the rupee from excess volatility.
- **According to the World Bank, India's central government is on track to meet its fiscal deficit target of 6.4% of the GDP for FY23 on the back of strong growth in revenue collections.** High nominal GDP growth in Q1, FY23 supported strong growth in revenue collection, especially in GST, despite tax cuts on fuel. Notwithstanding an increase in spending due to expanded fertilizer subsidies and food subsidies for vulnerable households in response to the commodity price shock, the government is on track to meet its FY23 fiscal deficit target. The general Govt deficit is projected to decline to 9.6% in FY23 from 10.3% in FY22.
- **India's merchandise exports registered a modest growth of 0.6% in November** after recording a sharp contraction of 16.7% in the previous month, helping the trade deficit to narrow month on month. The trade deficit stood at $ 23.89 billion in November, down from USD 26.91 billion in October.
- **India's Current Account Deficit (CAD) for Q2, FY23 is projected to have reached nearly a 10-year high on firm oil prices and a weak rupee that has put further pressure on the trade deficit.** The India Ratings report said that global headwinds can be gauged from the fact that goods exports tumbled in October 2022 for the first time after February 2021.

India's Industrial & Services Sectors

- **The lingering weakness in India's factory activity or manufacturing sector is evident** in the contraction of manufacturing GVA (at constant prices) by 4.3% in Q2, FY23; contraction of manufacturing output by 5.7% in Oct 2022 as revealed by the index of industrial production, a negative or lowly positive growth in exports during Oct-Nov 2022 and reduced margins/profitability of companies in Q2, FY23. Even the WPI (producer price index) shows a sustained sequential decline in manufactured product prices for the past six months despite elevated costs.
- **India's** unemployment rate **for November has jumped to 8%, compared with October's 7.77%**, thus hitting the highest mark in three months, data from the Centre for Monitoring Indian Economy (CMIE) showed. The urban unemployment rate rose to 8.96% in November from 7.21% in the previous month, while the rural unemployment rate slipped to 7.55% from 8.04%.
- **A recent survey report has revealed that the service sector has emerged as the highest employment generator in 2022,** as the market showed a 5 to 7% (Y-o-Y) growth in hiring, with hiring standing at around 16% last year. Avsar, a tech-enabled service provider catering to all talent management needs, revealed in its survey report that this year, flex mode, white-collar, and blue-collar workforces were actively onboarded across service sectors. It was followed by the FMCG and manufacturing sectors experiencing an increase of 3 to 5% this year as compared to last year.
- **According to Sa-Dhan, an association of MFIs, the NBFC-MFI market share has dominated the sector for the first time in years with a share of 37.53%,** while banks have slipped to second position with a share of 36.18%. This reflected the healthy growth in disbursements & outstanding loan book of NBFC-MFIs.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai – 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com

Indian Financial Markets

- **Liquidity in the banking system was in the surplus of Rs 976 billion on Dec 16 2022**. The surplus is expected to narrow in the coming days due to outflows of Rs 1 -1.50 trillion as advance tax payment for Oct-Dec, 2022.
- **The overall sentiment in Indian bond markets is weak** because of the hawkish commentary from central bankers across the world. The GOI benchmark 10-Yr yield declined two basis points this week to 7.28%, after rising eight basis points last week.
- **India's fixed income investors will now wait for the Union Budget announcement** before getting into longer duration government bonds. Until then, the ten year bond yield will be range-bound,
- **Corporate bond issuances jumped significantly in November as most companies and banks tapped the market to refinance their high-cost borrowings after rates on these instruments eased.** According to SEBI data, Indian corporates and lenders raised Rs 765.63 billion by placing 140 bonds in November compared to Rs 346.99 billion in October.
- The Indian rupee declined against the dollar on Dec 16 2022 and forward premiums fell after the US Federal Reserve forecasts indicated no rate cuts next year. **According to the Forex experts, the Fed outcome does not provide the trigger for a sustained move in Rupee in either direction.** The INR forward premium could face some more downward pressure as short-term US rates could remain elevated due to the Fed stance on smaller-but-longer rate hikes.
- **Domestic equities are likely to remain subdued in the coming weeks as growing concerns that major advanced economies are on the verge of slipping into a recession** will continue to keep investors risk averse.
- **According to a World Bank blog, crude oil prices have fallen by about one-third from their June highs but remain extremely volatile.** Slowing global growth and concerns about a global recession have thus far outweighed worries about insufficient oil supply. Oil prices are forecast to average $92/bbl in 2023 and $80/bbl in 2024, down from a projected $100/bbl in 2022. However, prices will remain well above their recent five-year average of $60/bbl.

L&T Finance holdings Limited
Brindavan, Plot No. 177
C. S. T Road, Kalina, Santacruz (E)
Mumbai - 400 098, India

T +91 22 6212 5343
E rupa.nitsure@ltfs.com