

India Macro Chartbook

HDFC Bank, May 2023

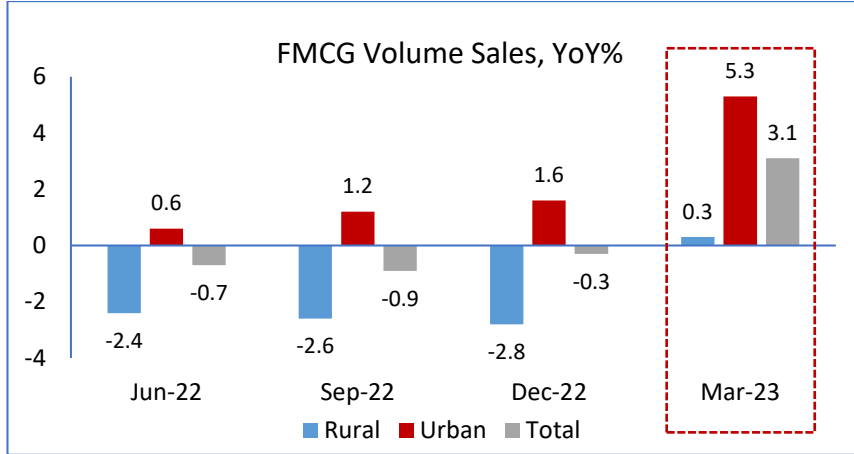
Summary

Challenges around global growth have been on investors' radar for a while now. While global services segment appears to be holding up well, manufacturing sector has taken a hit. More recently, optimism around China is fading away as high frequency indicators suggest a slower than expected recovery in China. Against this backdrop, we analyse the performance of the domestic economy.

- **Mixed picture on consumer demand:** After a rebound in rural FMCG sales in Q4, an increase in two-wheeler sales, healthy traction in agriculture exports indicates that recovery in rural demand continued in April 2023 as well. On the urban side an increase in PV sales, air freight traffic and continued momentum in retail loans segment indicates that demand remains intact. However, a decline in non-oil non-gold imports by ~13% indicates that demand could be beginning to slowdown in some segments.
- **Industrial & Investment activity shows some signs of slowdown in April:** Recent data indicates some seasonal slowdown in economic activity in April-23. Indicators like, e-way bills, steel consumption, cement freight traffic (proxy for cement production) moderated in April. On the brighter side, manufacturing and services PMI moved up and diesel consumption growth improved in April.
- **External Demand:** With growth slowdown in major trading partners, goods export growth dipped for the third consecutive month in April-23. That said, the decline has not been broad based. Besides electronic goods and agriculture products, exports of Pharma products have picked up. Additionally, services exports also remained healthy. In contrast, import growth dipped by 14% in April, with a decline across segments, with which the trade balance narrowed to a 20-month low during the month.
- **Inflation:** Headline inflation moderated to 4.7% in April from 5.7% earlier. Encouragingly, the moderation was not limited to the base effect, seasonal momentum also eased. Going forward, we expect headline inflation to remain below 5% levels and average at 4.7% in Q1 and 5.0% in FY24. The expected moderation in inflation is likely to give comfort to the RBI to continue keeping the policy rate unchanged. That said, we also see limited possibility of rate cuts in FY24, as the central bank is likely to remain vigilant and watch out for a sustained drop in inflationary pressures towards its median target of 4% before pivoting.
- **Labour Market:** At the aggregate level labour market conditions are holding up, but there are sector wise variations. Naukri job speak index has stagnated after dipping in October. The dip in IT and BPO hiring has been offset by an increase in BFSI and real estate segments. On rural side, demand for MGNREGA work has been normalising and moving closer to pre-pandemic levels.
- **Economic activity held up in Q4 FY23:** High frequency data suggests that economic activity held up in Q4 FY23. While slowdown in external demand weighed on domestic manufacturing sector GVA, the moderation in input costs and global commodity prices is likely to have been positive for profit margins. On the agriculture side, record wheat production bodes well for the sector's outlook. We estimate Q4 GDP growth at 4.9% YoY vs. 4.4% in Q3.

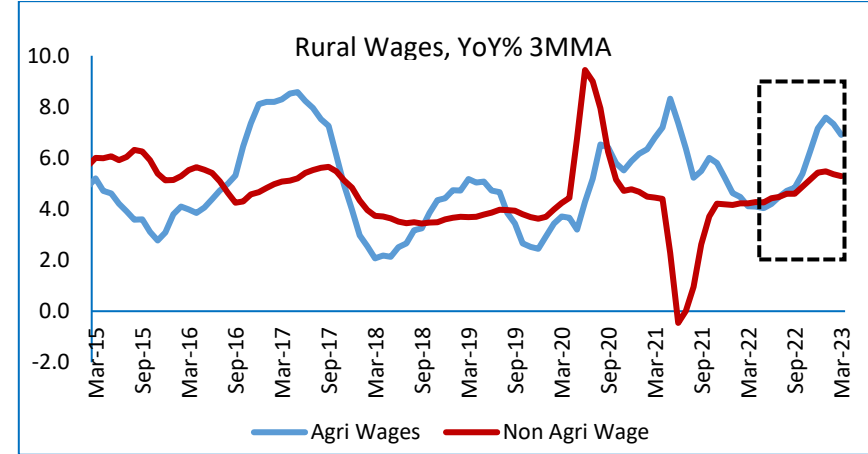
Domestic Demand: Signs of recovery in rural demand

1. Q4 Turnaround: FMCG volume sales turned +ive, with pickup in rural sales



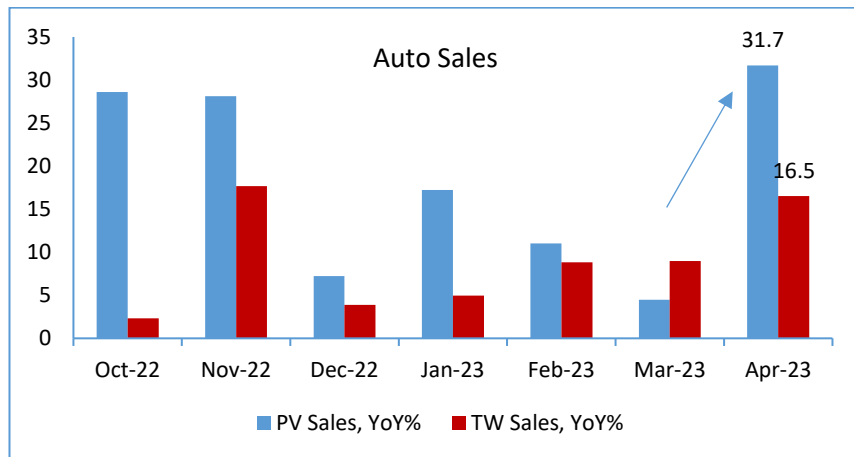
Source: Nielsen, HDFC Bank

2. Rural wage growth is gaining traction – A +ive for rural consumption



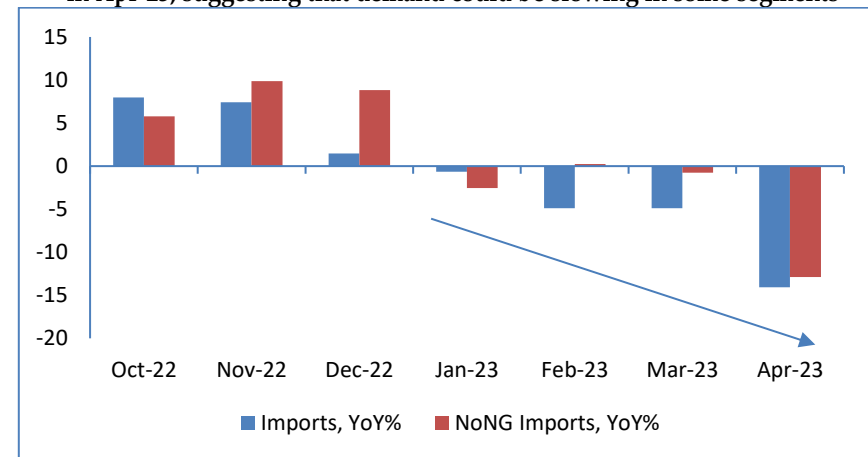
Source: RBI, CEIC, HDFC Bank

3. After moderating in March, auto sales picked up in April-23



Source: SIAM, CEIC, HDFC Bank

4. However, non-oil non-gold imports fell for a second consecutive month in Apr-23, suggesting that demand could be slowing in some segments



Source: Department of commerce, CEIC, HDFC Bank

Wedge between rural and urban demand is bridging

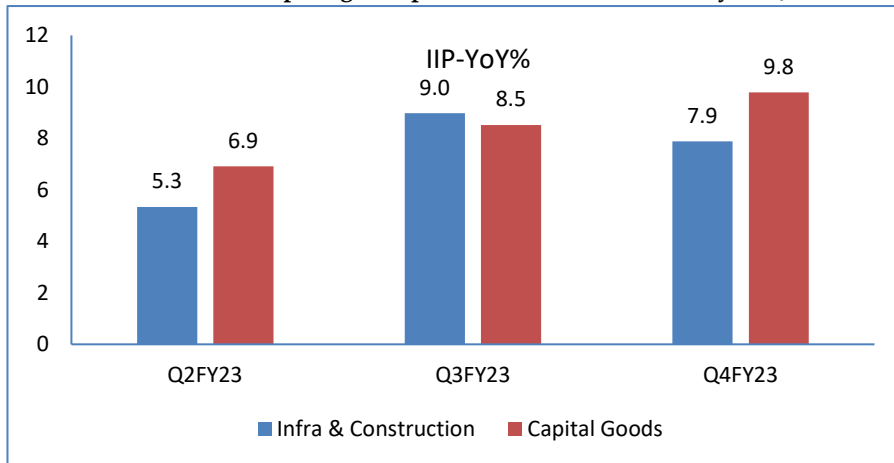
5. Post Pandemic Demand Recovery: Urban demand holding up; Rural is beginning to recover

Demand Related High Frequency Indicators (FY20 Average=100)									
	Apr-22	May-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
Rural Demand									
Two Wheeler Sales	79	86	109	85	72	82	78	89	92
Tractor Sales	152	139	210	116	95	112	106	141	135
Fertiliser Sales	92	98	103	119	115	113	87	89	74
Consumer Non-Durables	96	95	90	112	120	113	106	100	
Agri Exports	139	133	121	142	158	147	167	187	162
Urban Demand									
Domestic Air Passenger Traffic	86	94	97	100	109	107	102	109	108
Consumer Durables	93	96	89	94	91	91	91	99	
PV Sales	114	114	132	125	107	135	132	132	150
Personal Loans	138	139	151	152	157	158	160	163	

Source: SIAM, RBI, Department of Commerce, CEIC, HDFC Bank

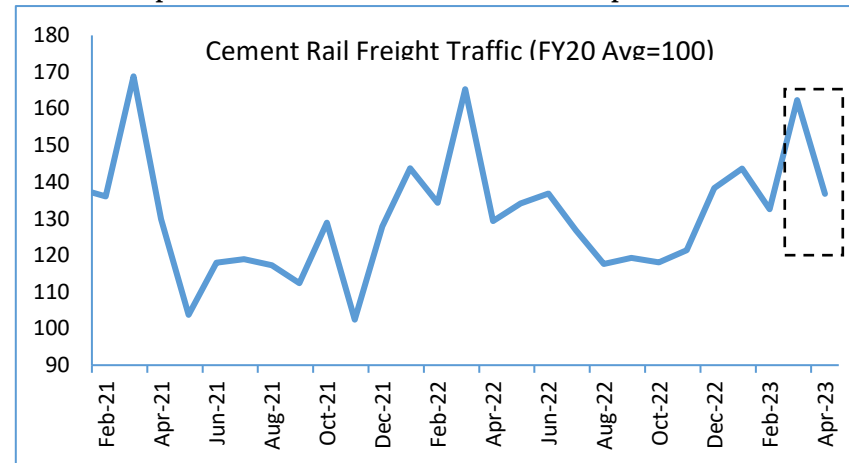
Capex: Some seasonal slowdown in April

6. Infrastructure and capital goods production remained healthy in Q4



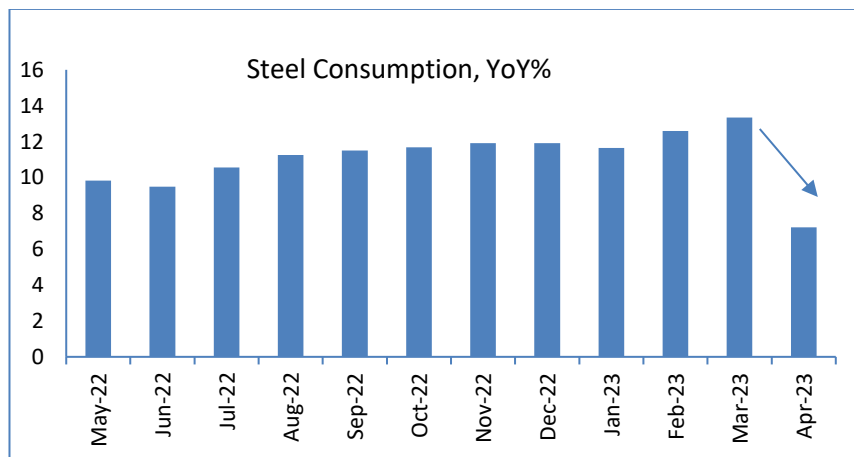
Source: Mospi, CEIC, HDFC Bank

7. Cement production seems to have moderated in April... ..



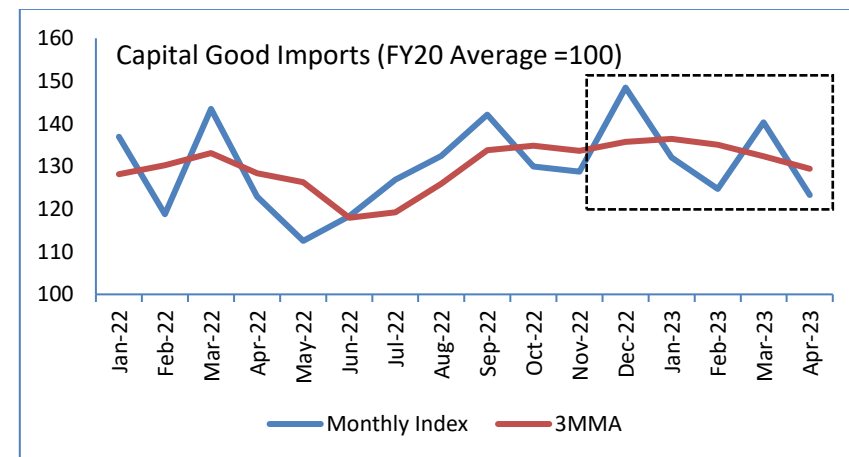
Source: CEIC, Ministry of Railway, HDFC Bank

8. ...so has steel consumption



Source: CEIC, HDFC Bank

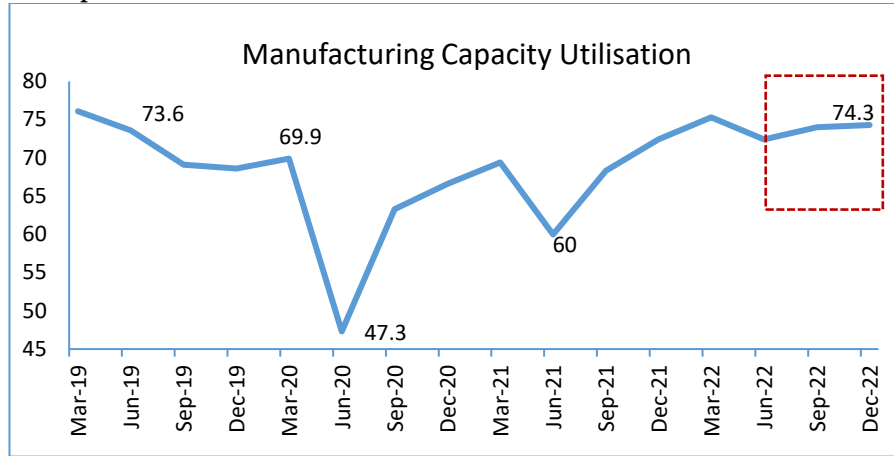
9. Capital goods import growth have flattened out suggesting possibility of stagnation in manufacturing related investment



Source: CEIC, Department of Commerce HDFC Bank.

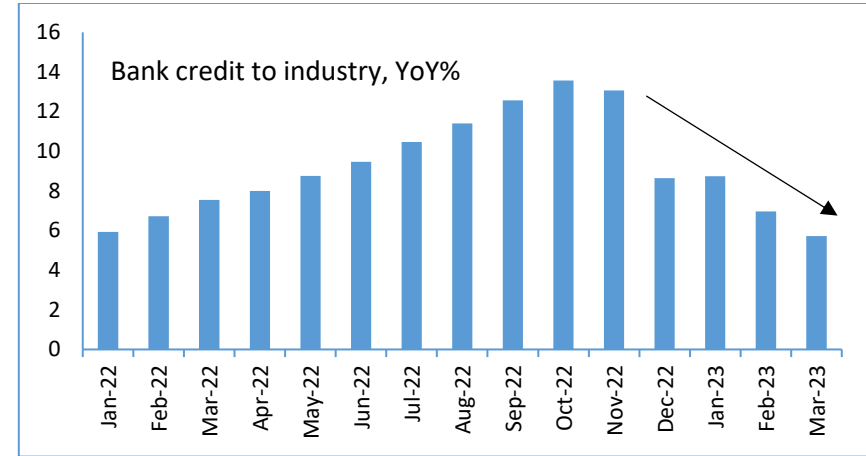
Private capex: financing tilted towards corporate bonds

10. Manufacturing capacity utilisation has been improving—enabler for private capex



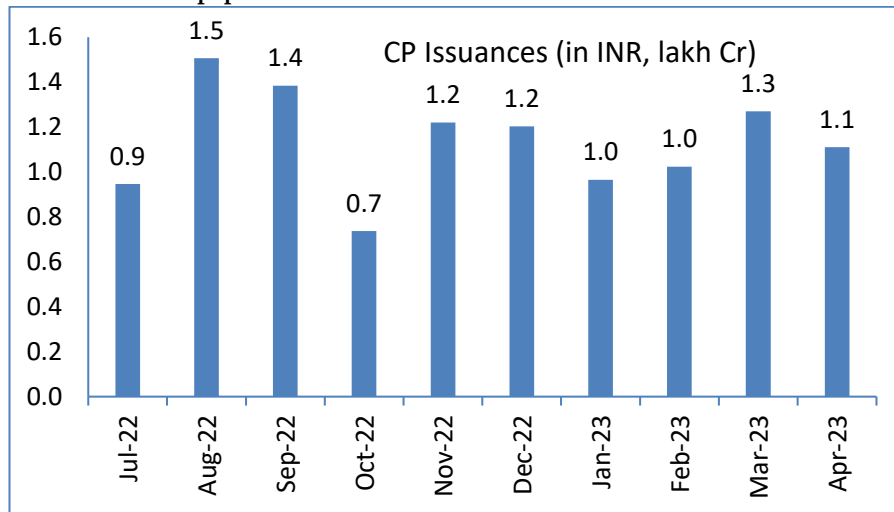
Source: RBI, CEIC, HDFC Bank

11. Industry credit growth is moderating



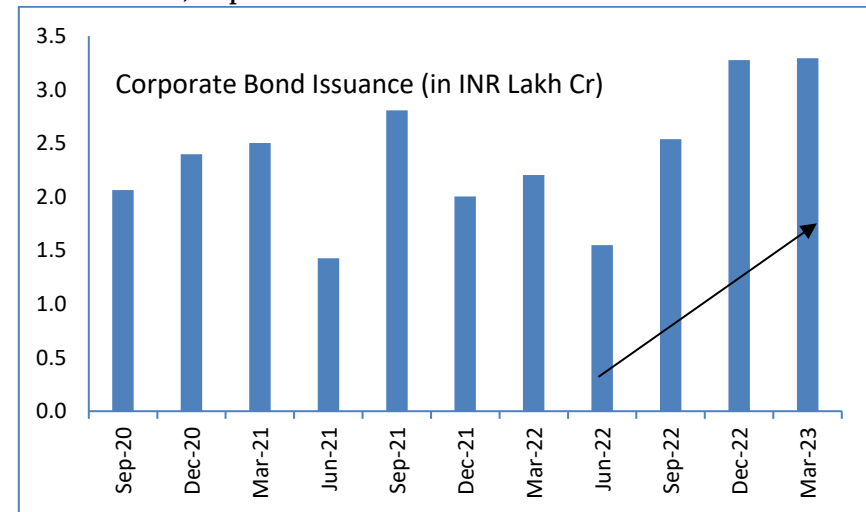
Source: RBI, CEIC, HDFC Bank

12. Commercial paper issuance remains flat



Source: RBI, CEIC, HDFC Bank

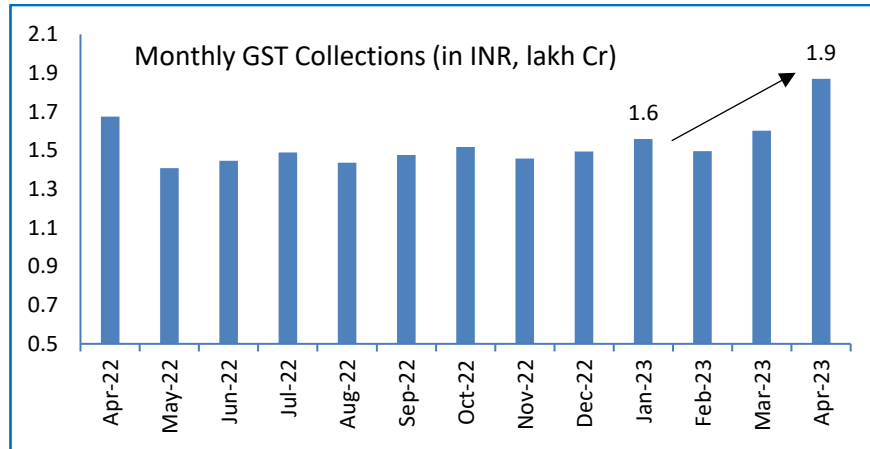
13. In contrast, corporate bond issuances rose



Source: CEIC, Department of Commerce HDFC Bank.

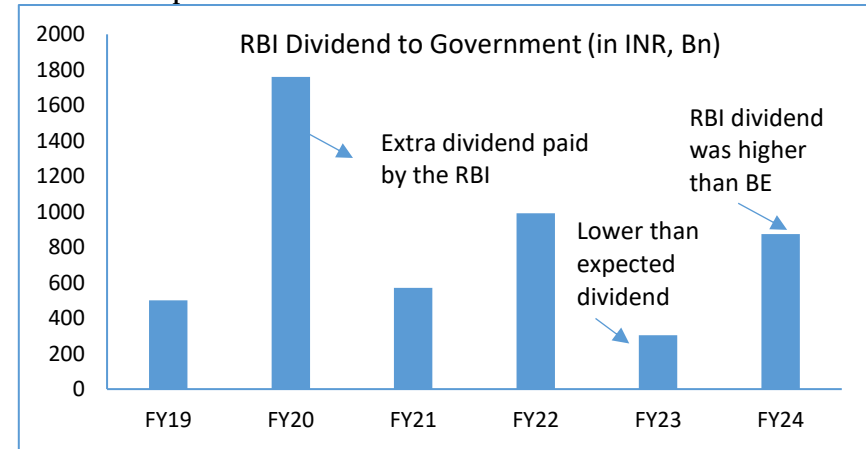
GST, RBI dividend to support FY24 fiscal math

14. GST collections rose to a record high in April-23, with support from year-end sales in Mar-23



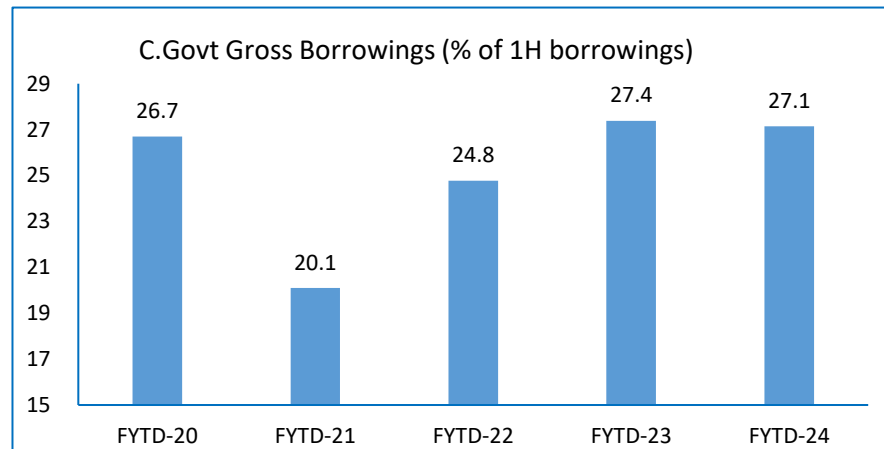
Source: PIB, CEIC, HDFC Bank

15. More than expected dividend transfer from the RBI could ease off some of the fiscal pressure



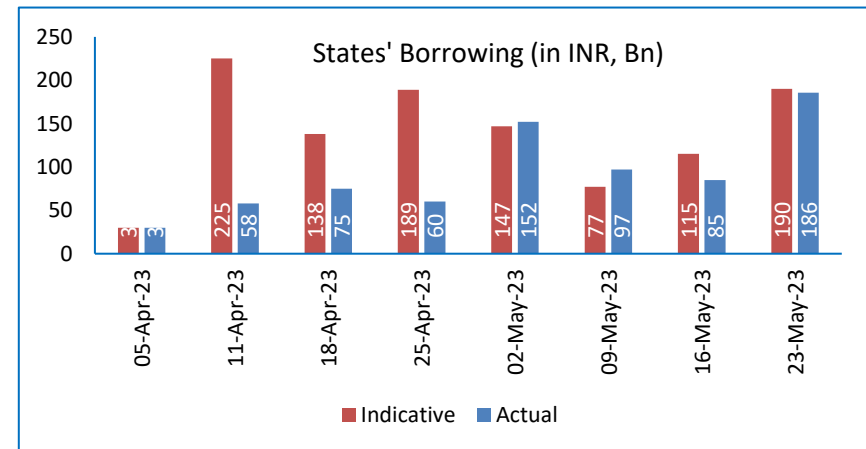
Source: RBI, HDFC Bank. Note: RBI dividend for a year is part of government's revenue for next year

16. Central Government bond issuances are on track (vs. previous years)



Source: RBI, HDFC Bank

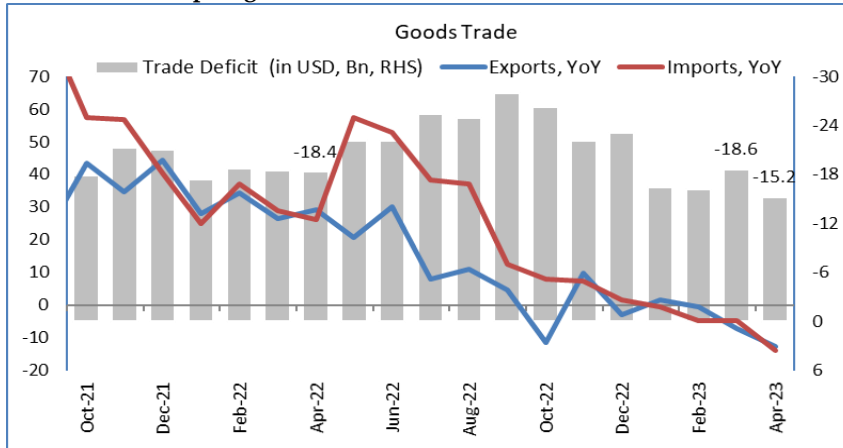
17. SDL issuances have picked up in May-23



Source: RBI, HDFC Bank

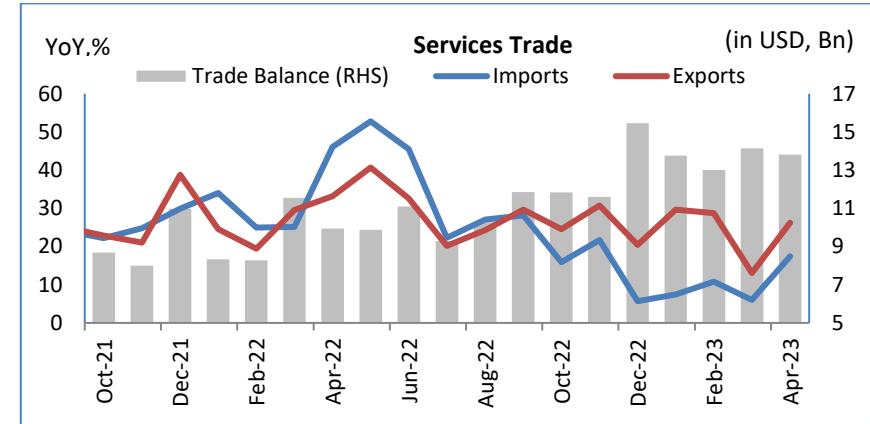
Services exports demand offsetting the impact of a dip in goods (export) demand

18. The goods trade deficit narrowed to a 20 month low in Apr-23 on account of a decline in import growth



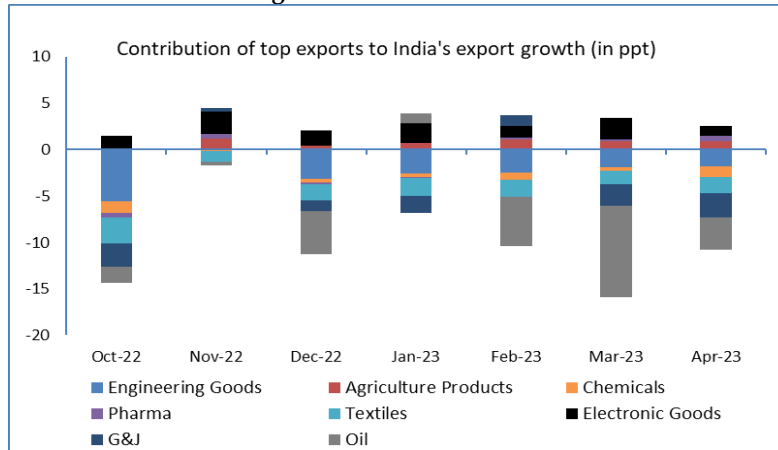
Source: CEIC, Ministry of Commerce, HDFC Bank

21. Net Services trade surplus stood firm in Apr-23



Source: CEIC, Ministry of Commerce, HDFC Bank

22. Export growth: Demand for pharma, electronic goods and agriculture exports up; demand down in other segments



Source: CEIC, Ministry of Commerce, HDFC Bank

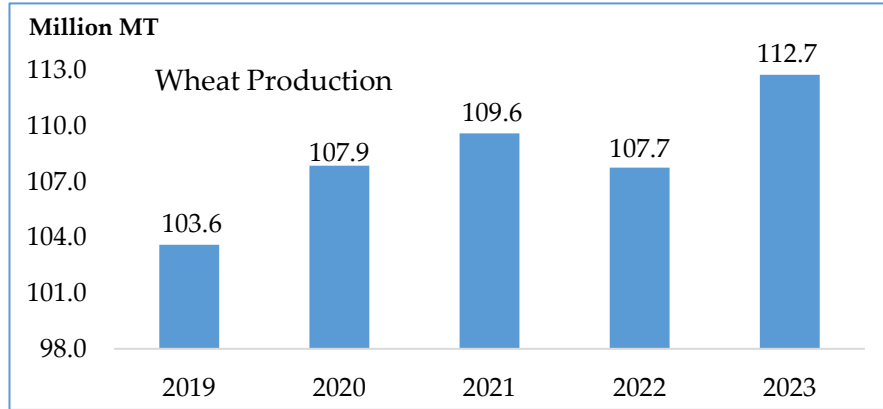
23. Imports: A broad base decline

India's Top Imports, YoY%				
	FY21	FY22	FY23	Apr-23
Oil	-36.4	96.0	28.4	-14.0
Electronic Goods	-0.3	35.7	4.9	-5.7
Coal	-27.6	95.1	56.8	-28.5
Electric & Non Electric Machinery	-20.2	32.7	13.8	15.2
Gold	22.6	33.4	-24.1	-41.5
Organic & Inorganic Chemicals	-4.0	52.7	10.5	-31.4

Source: CEIC, Ministry of Commerce, HDFC Bank

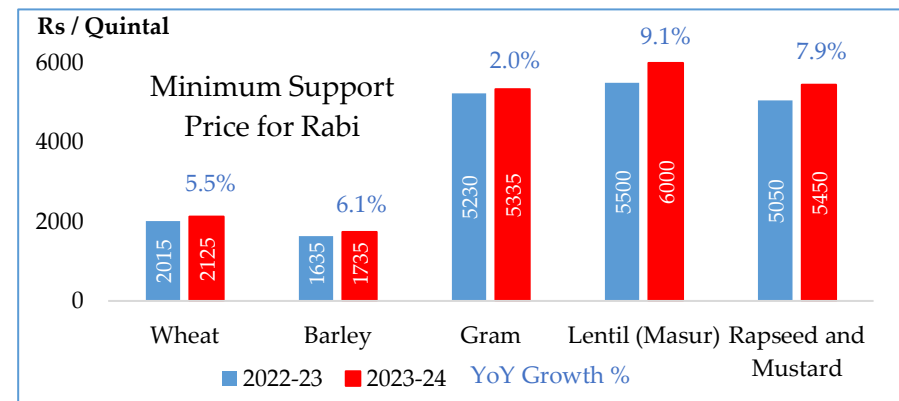
Record wheat output and moderation in farm input costs to support agri performance

19. Record wheat production in 2022-23



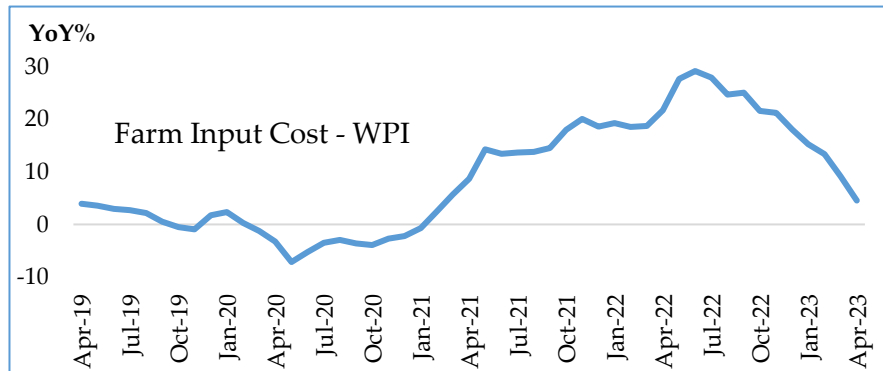
Source: MoAFW, CEIC, HDFC Bank

20. Minimum Support Price increased for all major rabi crops in current season



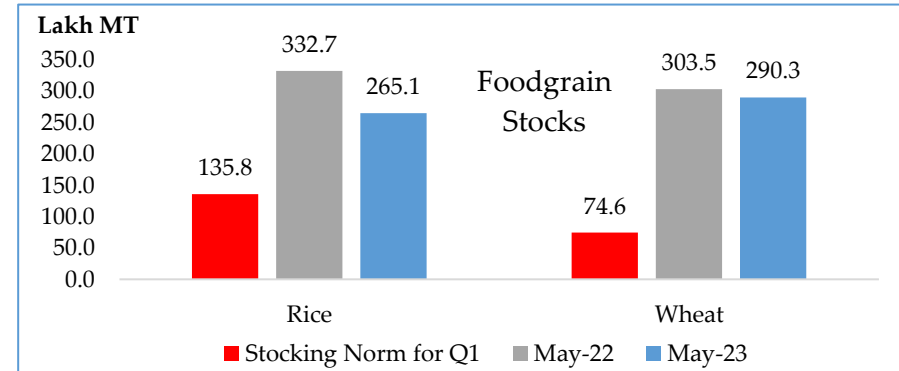
Source: PIB, CCEA, HDFC Bank

21. Farm input costs have moderated



Source: DPIIT, CACP, HDFC Bank

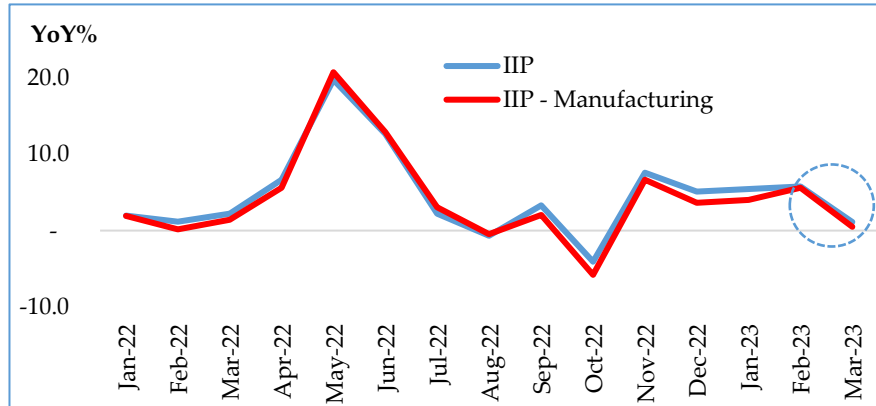
22. Government's Foodgrain stock remains comfortably above stocking norms



Source: Department of Food and Public Distribution, HDFC Bank

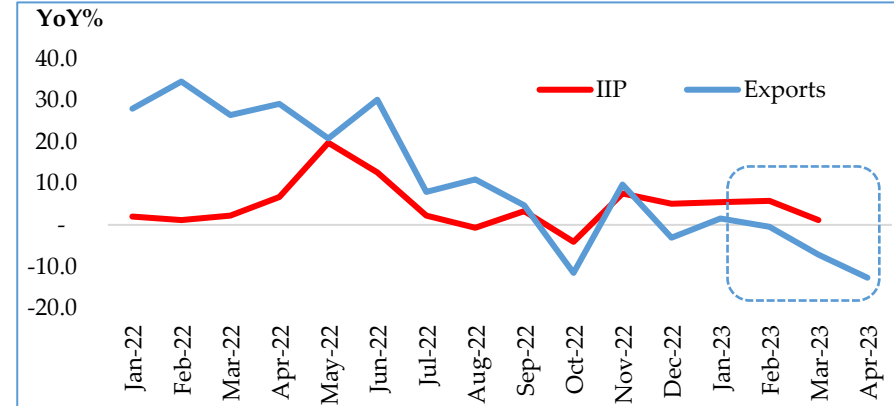
A dip in external demand is impacting domestic industrial activity

23. Manufacturing output led weakness in Industrial activity in March



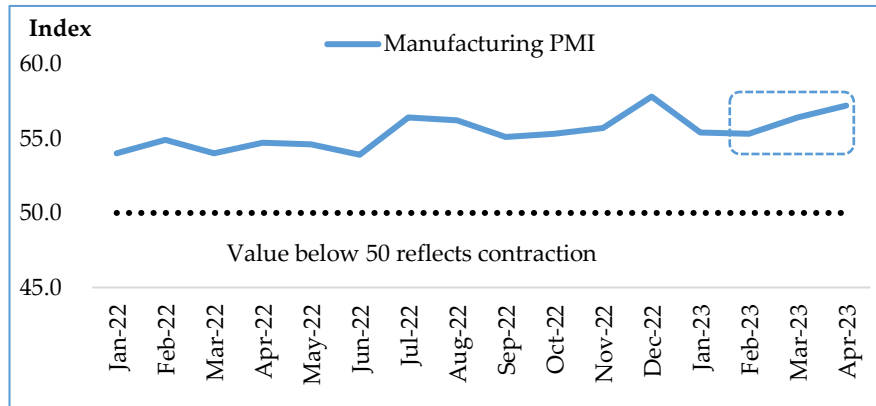
Source: CEIC, MoSPI, HDFC Bank

24. Weak external demand weighing on industrial production



Source: CEIC, DPIIT, HDFC Bank

25. Manufacturing activity has improved going by PMI in April



Source: CEIC, S&P Global, HDFC Bank

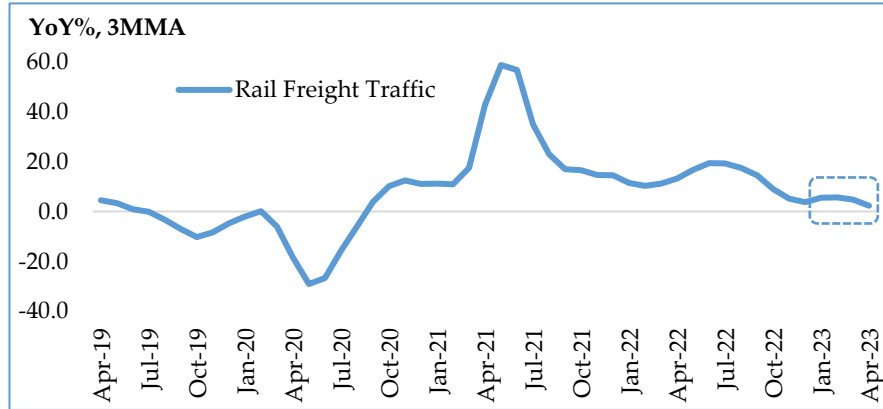
26. Q4 FY23 Corporate performance: healthy sales and improved profitability

	Net Sales YoY%		PAT YoY%	
	Q3'FY23	Q4'FY23	Q3'FY23	Q4'FY23
Auto anc	20.1	13.7	38.3	6.5
Automobiles	23.4	28.3	161.0	204.3
Banking	24.9	31.9	43.1	27.1
Cement	16.0	13.7	-30.2	-9.9
Consumer durables	3.5	10.7	-29.5	9.4
Energy	16.7	7.5	-25.0	18.5
FMCG	9.2	8.1	7.6	11.7
Pharma	12.0	11.8	22.7	18.2
IT	19.4	16.4	1.6	6.7
Steel	2.6	-1.5	-86.5	-63.1
Chemicals	13.3	5.8	-0.1	-12.5
All Sectors	16.4	13.6	4.3	11.3

Source: Equity Master, HDFC Bank

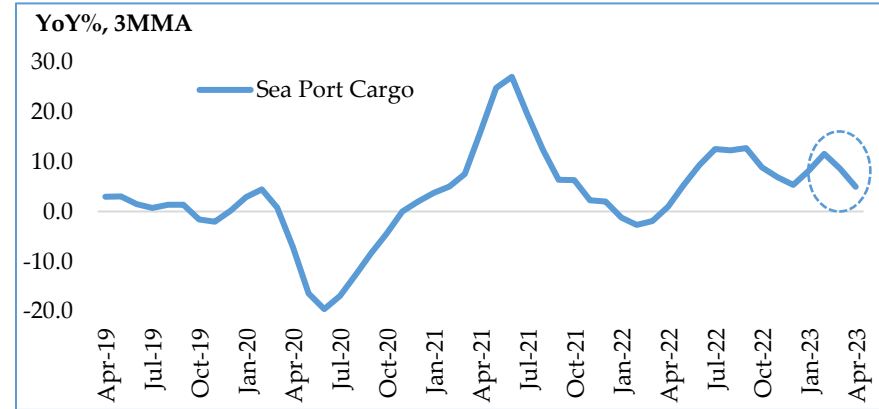
Mixed signals in services related indicators

27. Rail freight traffic remains weak



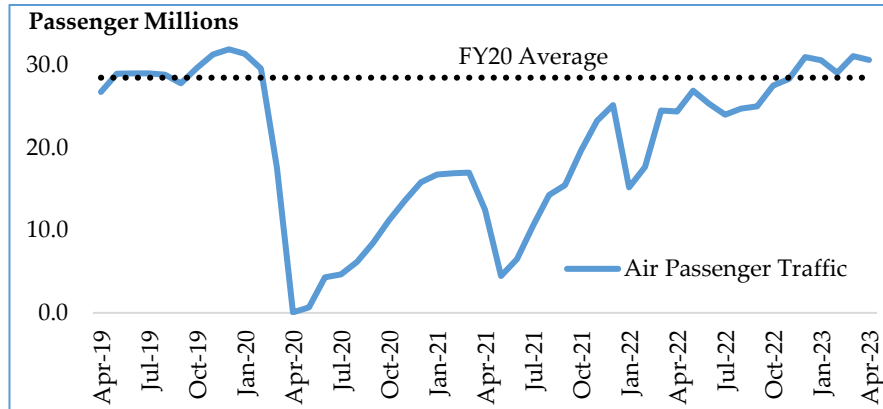
Source: CEIC, Airport authority of India, HDFC Bank

28. Sea port cargo traffic moderated on weak external trade



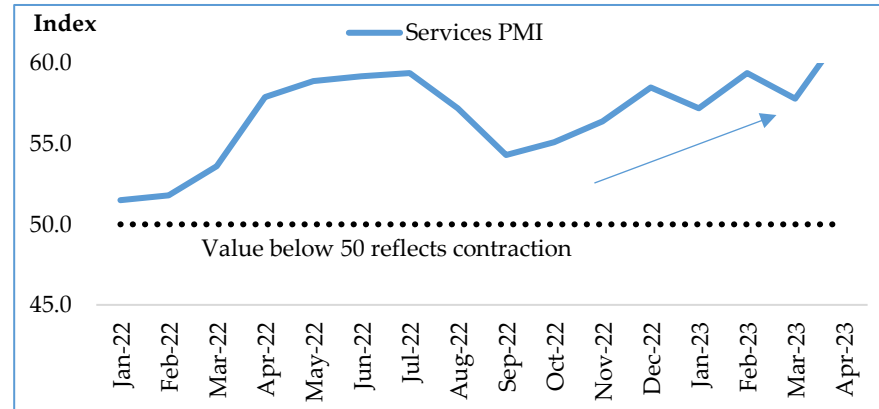
Source: CEIC, IPA, HDFC Bank

29. Although, air Passenger Traffic has reached the pre-pandemic normal



Source: CEIC, DGCA, HDFC Bank

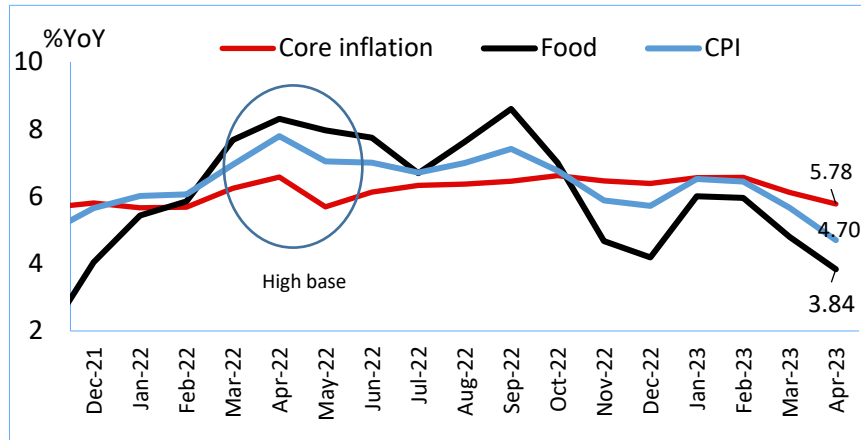
30. Services PMI shows continuous improvement in services activity



Source: CEIC, S&P Global, HDFC Bank

Inflationary pressures moderating

31. Headline CPI moderated to 4.7% in April, driven by high base effect



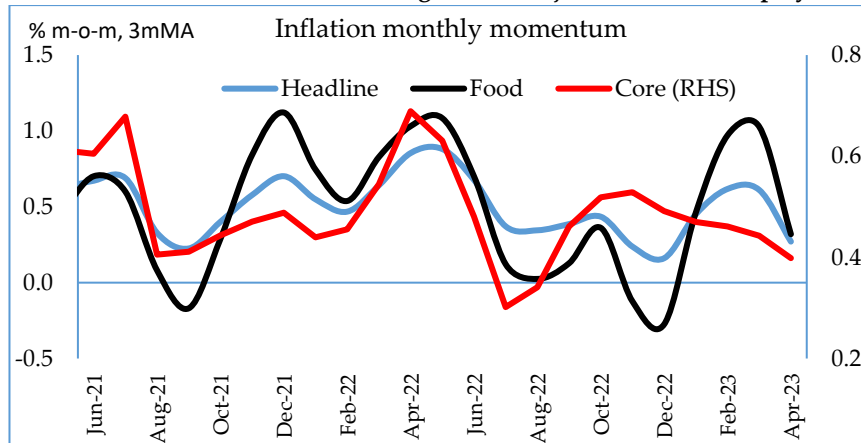
Source: CEIC, MoSPI, HDFC Bank. Note: Core is ex food, energy & petrol & diesel

32. A broad-based decline in inflation with both food and core CPI falling

% YoY	Jan-23	Feb-23	Mar-23	Apr-23
Food Inflation	6.0	6.0	4.8	3.8
Oils and fats	1.4	-0.5	-7.9	-12.3
Vegetables	-11.7	-11.5	-8.4	-6.5
Cereals	16.3	16.7	15.3	13.7
Milk and Milk Products	8.8	9.6	9.3	8.8
Core Inflation	6.6	6.6	6.1	5.8
Household Goods and Services	7.3	7.4	7.0	6.5
Health	6.4	6.5	6.6	6.3
Education	5.8	5.6	5.4	5.7
Recreation and amusement	5.1	4.9	4.3	3.8
Transport and Communication	4.5	4.5	4.0	1.2
Personal Care and Effects	9.6	9.4	8.3	9.0

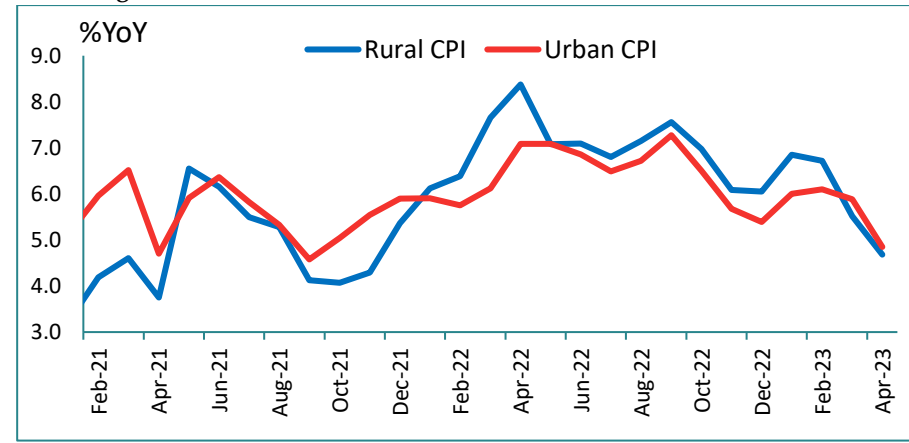
Source: CEIC, MoSPI, HDFC Bank. Note: Core is ex food, energy & petrol & diesel

33. Inflation momentum also slowing down, not just base effects at play



Source: CEIC, MoSPI, HDFC Bank. Note: Data is seasonally adjusted

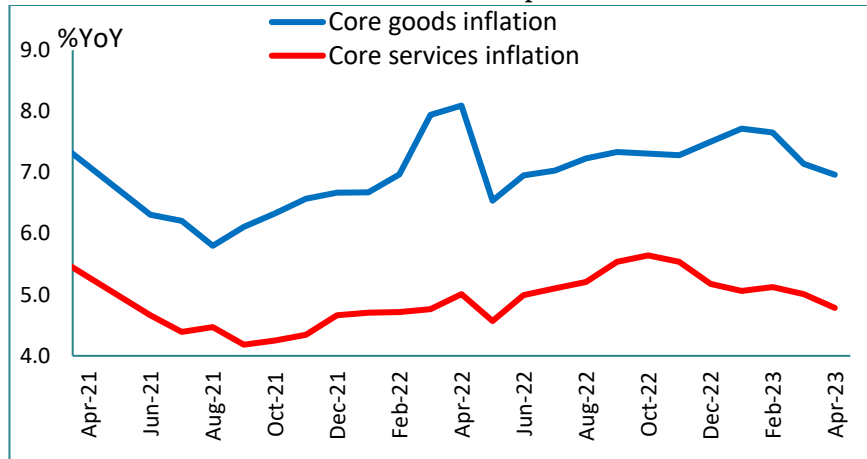
34. Wedge between rural and urban CPI closes



Source: CEIC, MoSPI, Ministry of Commerce, HDFC Bank

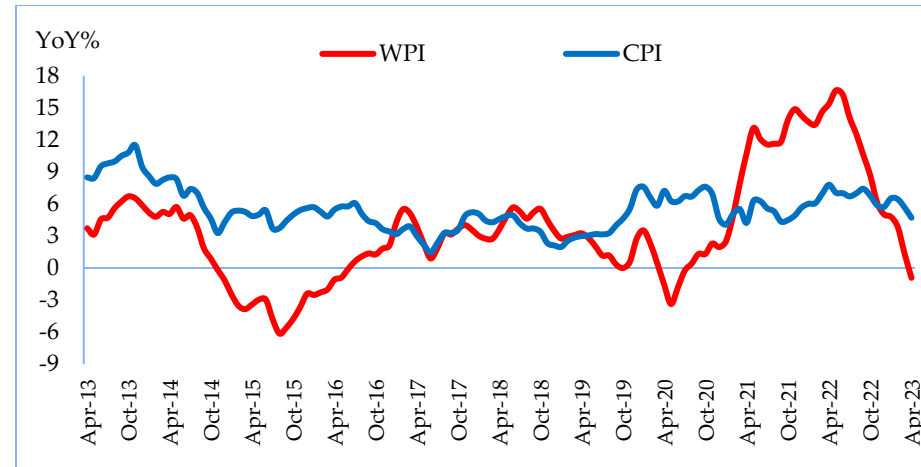
A broad based decline in inflation

35. Goods and services inflation seem to have peaked



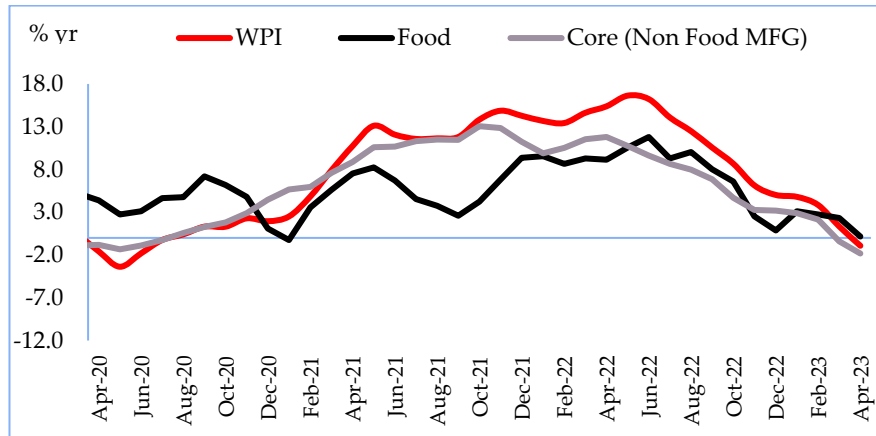
Source: CEIC, MoSPI, HDFC Bank

36. Wholesale inflation undershoots retail inflation



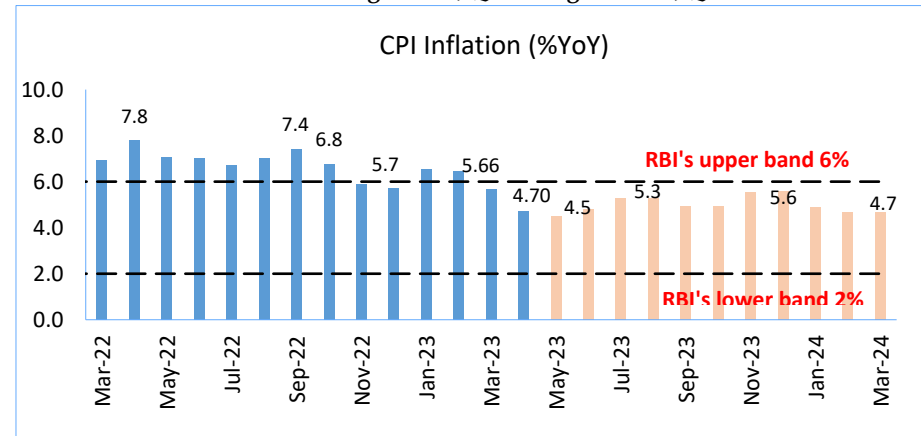
Source: CEIC, MoSPI, HDFC Bank

37. The decline in WPI has been broad based



Source: CEIC, MoSPI, HDFC Bank

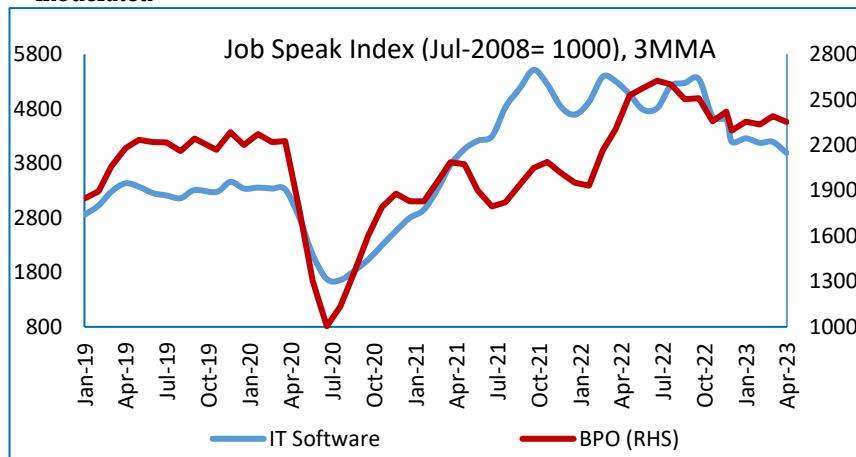
38. We see FY24 inflation average at 5%, Q1 average at 4.7%, Q2 at 5.2%



Source: CEIC, MoSPI, HDFC Bank Estimates

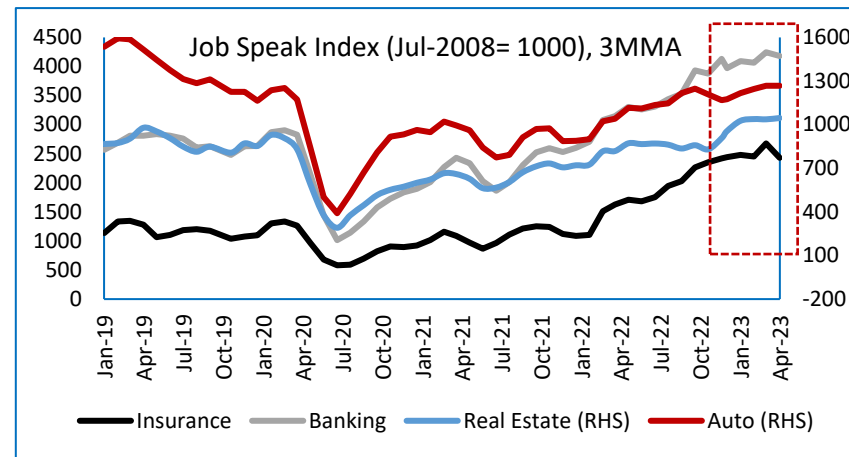
Labour market conditions holding up, but there are variations across sectors

39. After the post pandemic boom, hiring intent in IT and BPO industries has moderated



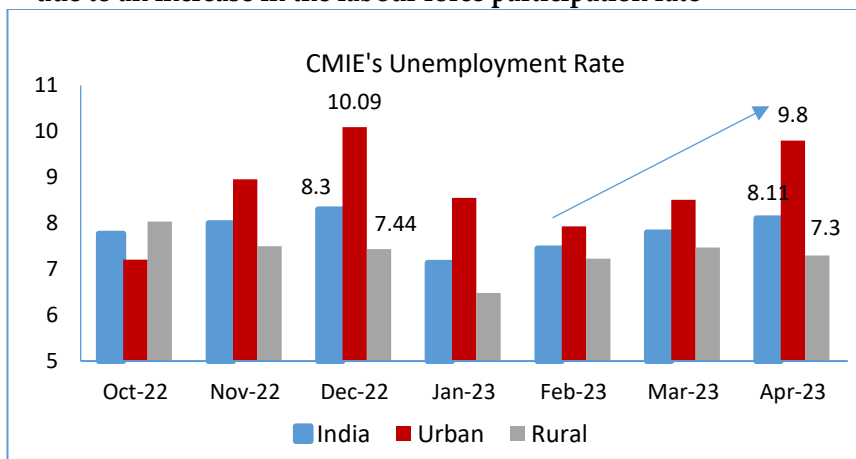
Source: Infoedge, CEIC, HDFC Bank

40. In contrast, hiring intent in BFSI, real estate and auto sector is increasing



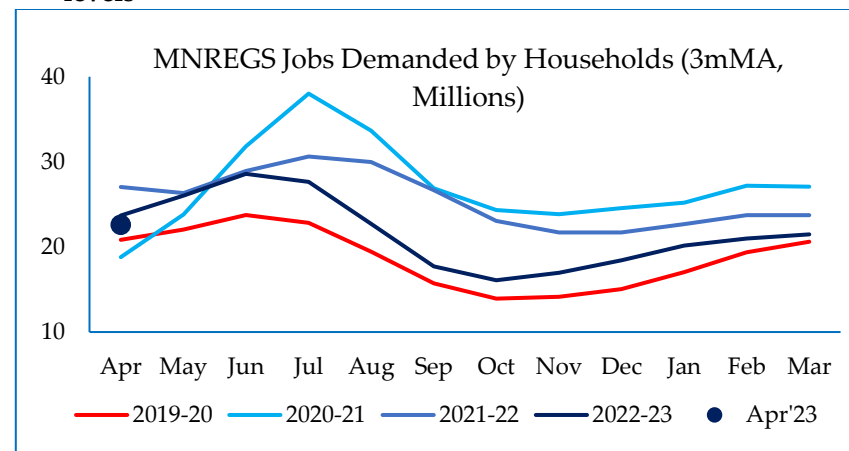
Source: Infoedge, CEIC, HDFC Bank

41. As per the CMIE, the unemployment rate has been rising primarily due to an increase in the labour force participation rate



Source: CMIE, HDFC Bank

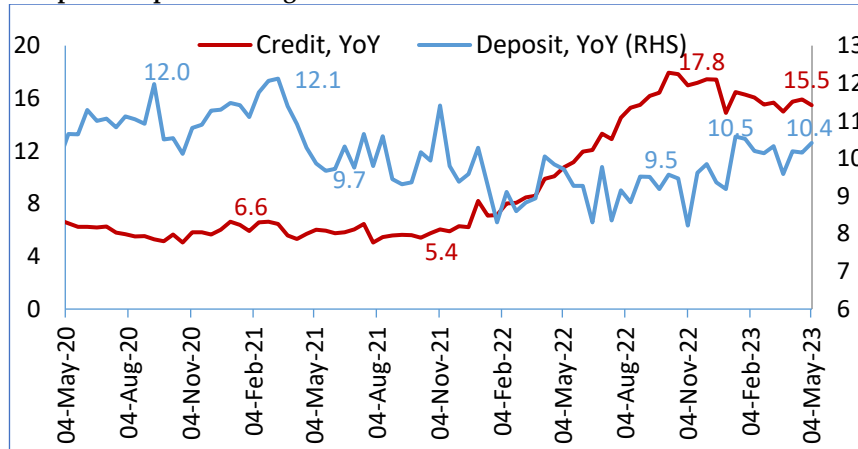
42. MGNREGA work demand is shifting closer to pre-pandemic levels



Source: MGNREGS Dashboard, HDFC Bank

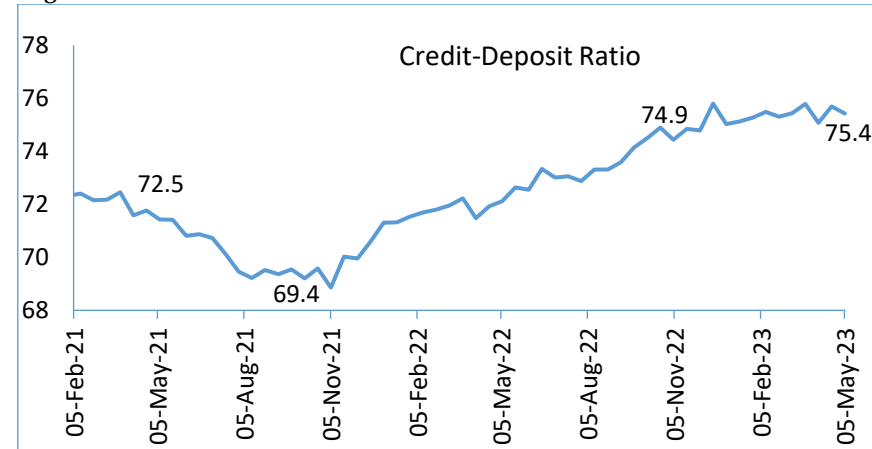
Credit-deposit ratio beginning to flatten out

43. Credit growth has been tracking in 15-16% range, deposit growth has picked up at the margin



Source: CEIC, RBI, HDFC Bank

44. C-D ratio decreased at the margin, led by some improvement in deposit growth



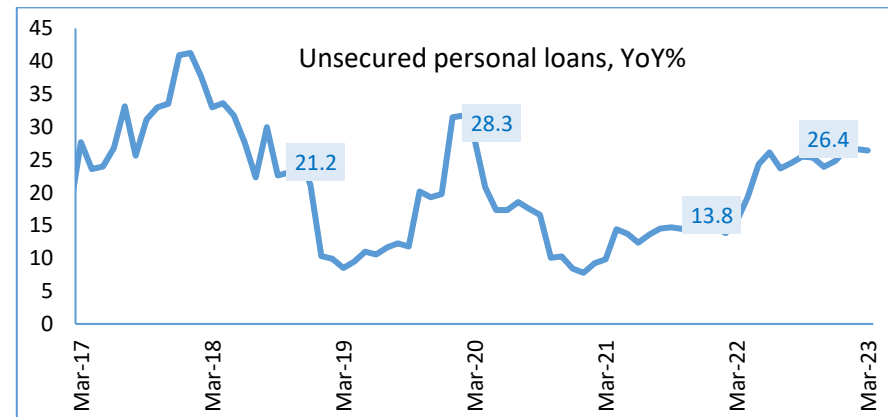
Source: CEIC, RBI, HDFC Bank

45. Retail and agriculture credit growth has been tracking in double digits, supporting bank credit growth while industry credit moderates

YoY%	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
Agriculture	13.8	11.5	14.4	14.9	15.4
Retail Loans	19.6	20.0	20.4	20.4	20.6
Housing	16.2	16.1	15.4	15.0	15.0
Vehicle	22.5	24.7	25.5	23.4	24.9
Gold Loans	23.0	23.8	25.4	25.8	26.2
Services	21.5	19.5	21.5	20.7	19.8
Industry	13.1	8.6	8.7	7.0	5.7
Micro & Small	19.6	13.7	15.2	13.2	12.3
Medium	29.7	15.4	18.1	13.5	19.6
Large	10.5	6.9	6.5	5.0	3.0

Source: CEIC, RBI, HDFC Bank

46. Rise in unsecured personal loans: A cause for concern



Source: CEIC, RBI, HDFC Bank. Note: unsecured loans constitute consumer durables, credit card and other personal loans.

Forecasts

47. Outlook: our estimates

	FY22	FY23E	FY24E
GDP growth (%)	9.1	6.9	5.8-6.0
Nominal GDP (%)	18.4	15.9	9.0-9.5
GVA growth (%)	8.8	6.8	5.7-5.8
CPI Inflation (%)	5.5	6.7	5.0
Repo rate (% , period end)	4.00	6.50	6.50
Fiscal Deficit (% GDP)	6.7	6.4	5.9
Borrowing (INR lakh crore)	11.27	14.21	15.40
Benchmark 10-year bond yield (% , period end)	6.84	7.32	6.80-7.0
Brent Crude (USD/barrel) (period average)	79.9	95.12	80-85
Merchandise Exports Growth (%)	44.8	0.5	-8.5
Merchandise Imports Growth (%)	55.3	15.4	-7.5
Current Account Balance (% of GDP)	-1.2	-1.8	-1.3
BOP (USD bn)	48	3.4	24.6
USR/INR (period end)	75.90	82.17	80.50-81.50
Credit Growth (% , period end)	8.6	15	9.0-10.0
Deposit Growth (% , period end)	8.9	9.6	10.0-11.0

Source: CEIC, Reuters, HDFC Bank Estimates

Treasury Economics Research Team

Abheek Barua	Chief Economist	abheek.barua@hdfcbank.com	+91 (0) 124-4664305
Sakshi Gupta	Principal Economist	sakshi.gupta3@hdfcbank.com	+91 (0) 124-4664338
Mayank Jha	Senior Economist	mayank.jha1@hdfcbank.com	+91 (0) 124-4664338
Avni Jain	Economist	avni.jain@hdfcbank.com	+91 (0) 124-4664354
Swati Arora	Economist	swati.arora1@hdfcbank.com	+91 (0) 124-4664354

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