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INDIAN ECONOMY: MONTH IN REVIEW DEC 2019

Several early economic indicators recorded base effect-led weakness in Dec 2019, even as YoY performance improved in Q3 FY2020 relative to Q2 FY2020

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The year-on-year (YoY) performance of 11 of the 18 early economic indicators recorded a deterioration in December 2019 relative to previous month. This was partly driven by a waning of the favourable base effect for several of these indicators, such as crude oil production, non-oil exports, passengers carried by domestic airlines, and consumption of ATF, diesel and petrol, In contrast, the YoY performance of seven of the lead indicators displayed a sequential improvement in December 2019, such as the production of commercial vehicles (CV), scooters and Coal India Limited (CIL), bank deposits as well as traffic related to ports cargo and railway freight. Based on the weaker performance of the manufacturing sectors and non-oil exports, we expect the Index of Industrial Production to revert to a mild contraction in December 2019 from the modest growth in November 2019 (+1.8%). However, the contraction of the core sector industries is likely to narrow further in December 2019 from 1.6% in November 2019, benefitting from the improvement in coal and electricity, which would offset the deterioration in crude oil and refinery output.

While base effects have obscured the monthly trends, 11 of the 16 non-financial indicators recorded an improved YoY performance in Q3 FY2020 as compared to Q2 FY2020. These include the output of passenger vehicles (PV), CV, motorcycles, CIL and refinery output, hydroelectricity generation, non-oil merchandise exports and rail freight traffic. Benefitting from this, we anticipate a pickup in the real GVA and GDP growth in Q3 FY2020 from 4.3% and 4.5%, respectively, in Q2 FY2020.

- ***Aggregate auto production contracted for the fourteenth consecutive month, the pace of which widened to 5.2% in December 2019 (-0.7% in December 2018) from 1.4% in November 2019 (-0.8% in November 2018). This was led by PV (to -3.1% from +4.1%) and motorcycles (to -6.5% from +0.4%), both of which reverted to a YoY decline in December 2019, after having reported a growth in November 2019. In contrast, the pace of contraction in the production of CV (to -9.8% from -16.4%) as well as scooters (to -4.9% from -6.1%) eased in December 2019 relative to the previous month.***
- ***After contracting for five months in a row, the output of CIL reverted to an expansion of 7.2% in December 2019 (-3.9% in November 2019), following an easing of rainfall-related disruption. This should result in an improvement in the performance of the core sectors and mining in the just-concluded month.***
- ***The YoY decline in electricity generation narrowed to 2.2% in December 2019 from the revised 6.3% in November 2019, which should also support the performance of the core sectors. This was led by the easing in the pace of contraction of thermal electricity generation to 4.3% from 9.9%, respectively. However, the YoY growth of hydro electricity generation moderated to 14.2% in December 2019 from a high 23.0% in November 2019.***
- ***Encouragingly, the growth of rail freight improved to 4.3% in December 2019 from the low 0.9% in November 2019. However, diesel consumption reverted to a YoY decline of 0.7% in December 2019 (+3.8% in December 2018), after having recorded a sharp expansion of 8.8% in November 2019 (-4.5% in November 2018), partly reflecting an unfavourable base effect.***
- ***The contraction in crude oil production worsened to 7.4% in December 2019 (-4.3% in December 2018) from 6.0% in November 2019 (-3.5% in November 2018), partly led by an unfavourable base. Moreover, refinery output contracted by 1.0% in December 2019, in contrast to the 3.8% growth in November 2019.***
- ***Cargo handled at major ports recorded a relatively broad-based turnaround to a YoY growth of 6.1% in December 2019 from the mild 0.2% decline in November 2019. On the other hand, non-oil merchandise exports in US$ terms contracted by 1.4% in December 2019 (-1.3% in December 2018), in contrast to the growth of 2.5% in previous month (-5.8% in November 2018), partly led by the base effect, with a YoY decline in exports of chemicals, gems and jewellery etc.***
- ***Moreover, the YoY growth of ATF consumption, passenger traffic by domestic airlines and petrol consumption recorded a considerable sequential deterioration to 1.9%, 2.6%, and 3.2%, respectively, in December 2019 (+8.8%; +12.9%; +10.0% in December 2018) from 5.1%, 11.2%, and 9.3%, respectively, in November 2019 (+4.2%; +11.0%; +8.8% in November 2018), partly on account of the unfavourable base effect.***
- ***With modest credit offtake, the YoY growth of non-food bank credit eased to 7.1% on December 20, 2019 from 7.8% on November 22, 2019, even as the YoY growth of bank deposits rose to 10.1% from 9.7%, respectively.***

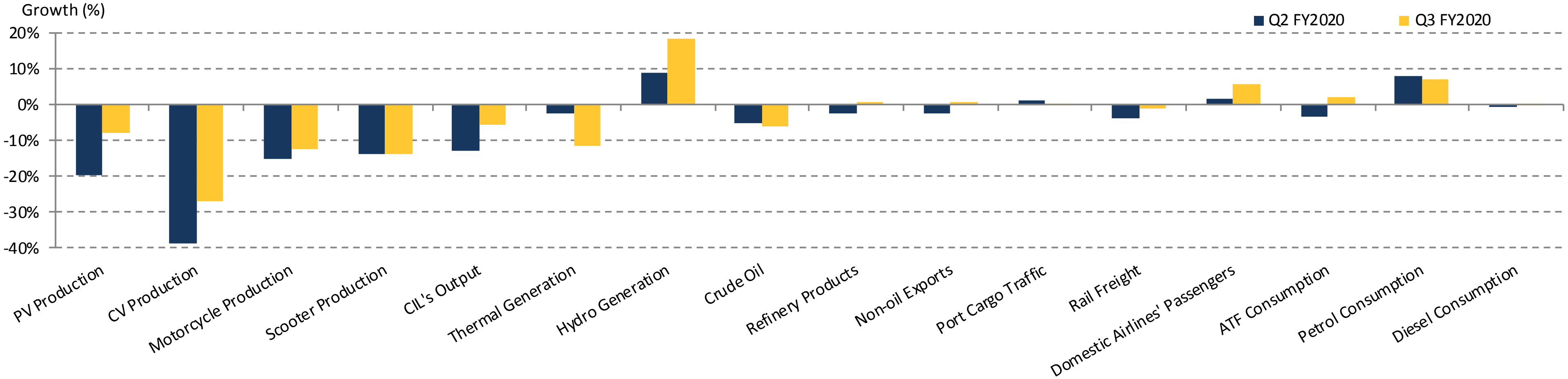
Exhibit 1: The YoY performance of 11 of the 18 early indicators displayed a sequential dip in December 2019. However, there was a YoY uptick in the performance of indicators such as the output of CV, scooters, CIL, thermal generation, ports cargo traffic, rail freight and bank deposits recorded in December 2019

Months	PV	CV	Motor cycle	Scooter	CIL Prod.	Thermal Gen.	Hydro Gen.	Crude Oil	Refinery Product	Non-oil Exports	Ports Cargo	Rail Freight	Domestic Airlines Passengers	ATF	Petrol	Diesel	Bank Deposits	Non Food Bank Credit
Oct-19	-21.1	-45.5	-26.0	-25.4	-20.9	-18.9	17.9	-5.1	0.2	1.4	-5.3	-8.1	4.0	0.2	8.9	-7.4	10.2	8.8
Nov-19	4.1	-16.4	0.4	-6.1	-3.9	-9.9	23.0	-6.0	3.8	2.5	-0.2	0.9	11.2	5.1	9.3	8.8	9.7	7.8
Dec-19	-3.1	-9.8	-6.5	-4.9	7.2	-4.3	14.2	-7.4	-1.0	-1.4	6.1	4.3	2.6	1.9	3.2	-0.7	10.1	7.1

Source: Society of Indian Automobile Manufactures (SIAM); CIL; Central Electricity Authority (CEA); Ministry of Commerce, Government of India (GoI); Ministry of Petroleum and Natural Gas; Indian Railways; Directorate General of Civil Aviation (DGCA); Indian Ports Association; Reserve Bank of India (RBI); CEIC; ICRA research

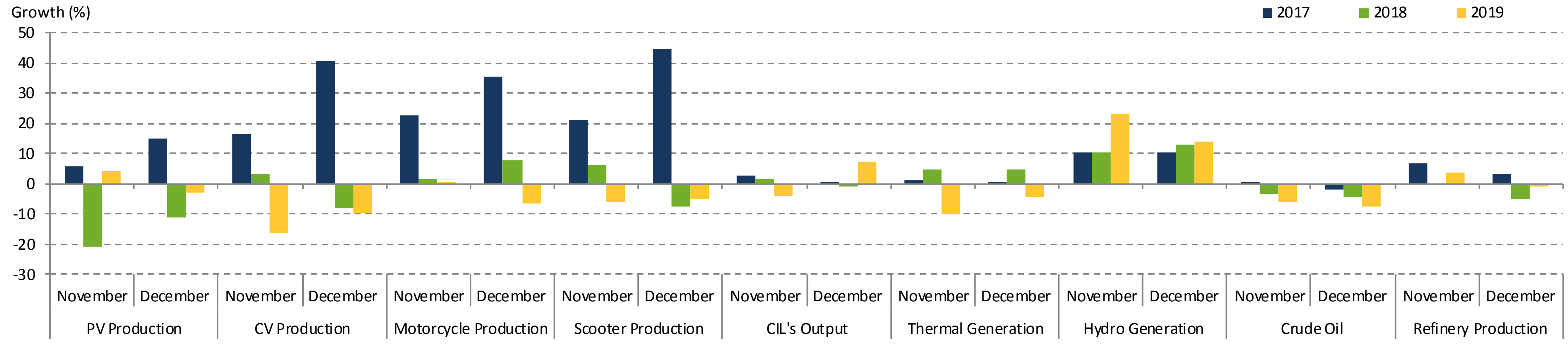
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip

Exhibit 2: Improvement in YoY performance of 11 of 16 non-financial indicators in Q3 FY2020 relative to Q2 FY2020 suggests likely pickup in GVA growth in Q3 FY2020; nevertheless, eight indicators continued to contract in Q3 FY2020



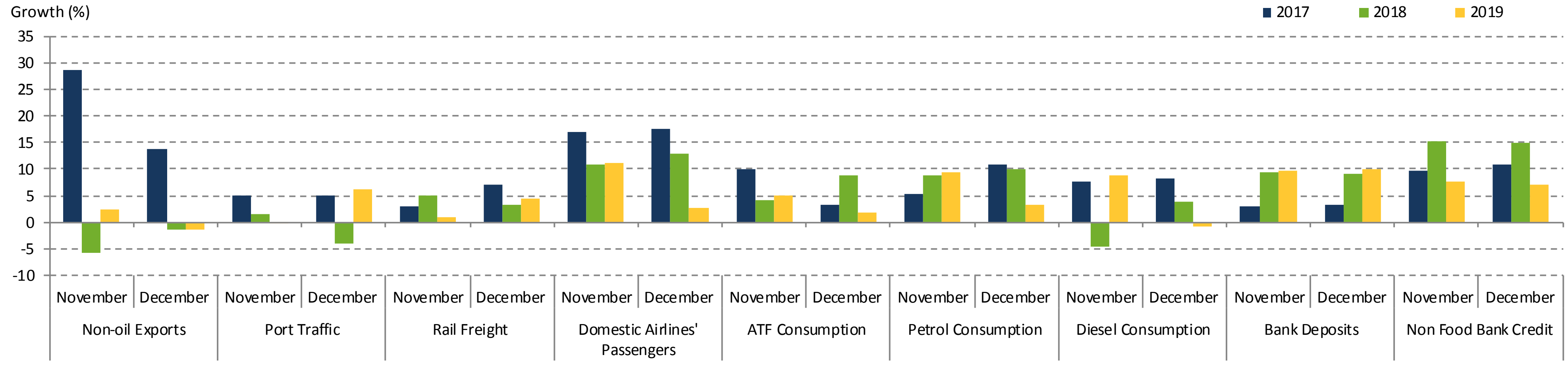
Source: PPAC; SIAM; DGCA; Ministry of Commerce, GoI; CEA; CIL; Indian Ports Association; Indian Railways; CEA; Ministry of Petroleum and Natural Gas; CEIC; ICRA research

Exhibit 3: YoY Growth for Last Three Years in November and December (Part -I)



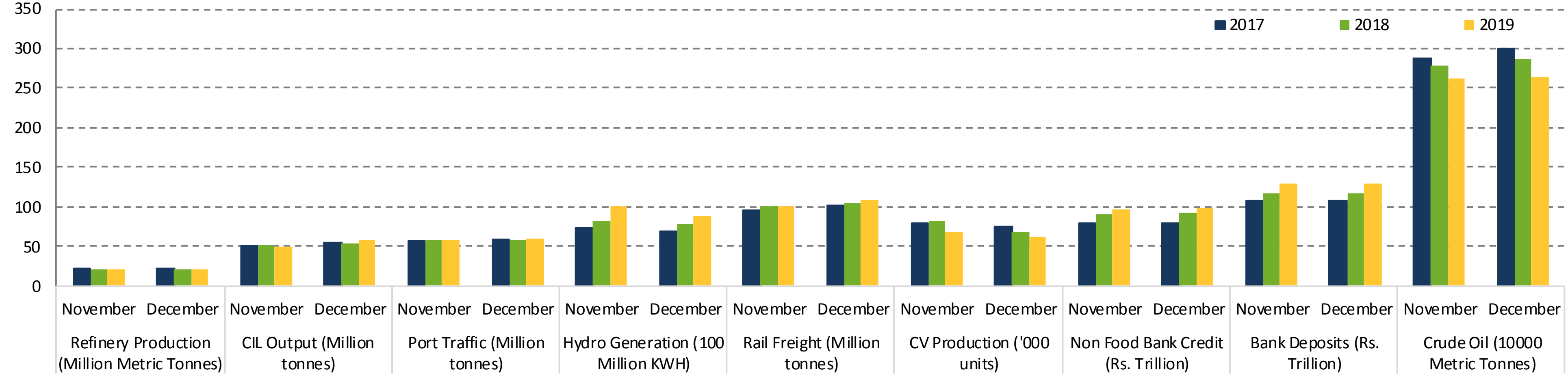
Source: SIAM; CIL; CEA; Ministry of Petroleum and Natural Gas; CEIC; ICRA Research

Exhibit 4: YoY Growth for Last Three Years in November and December (Part -II)



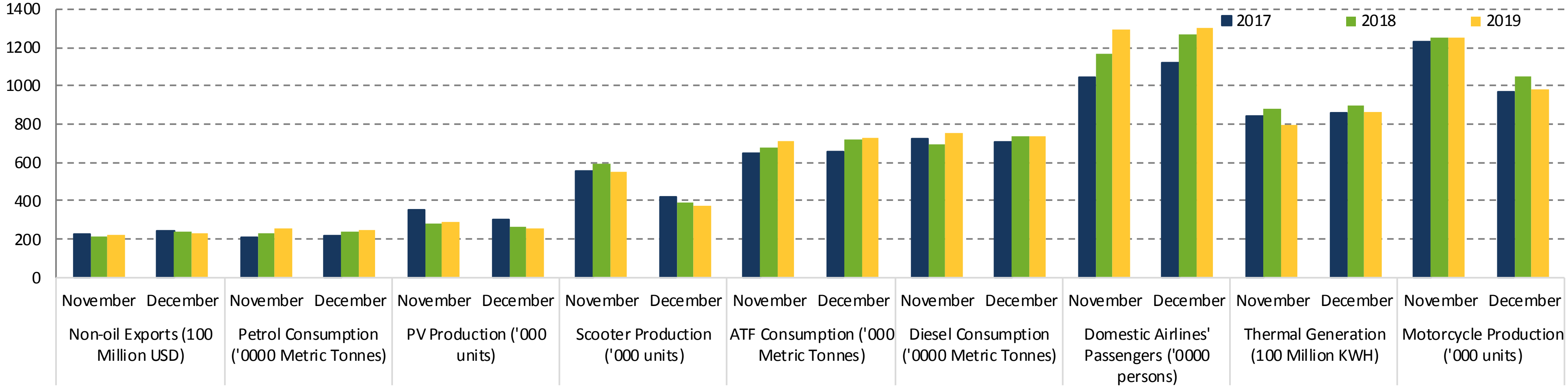
Source: Indian Ports Association; Ministry of Commerce, GoI; Indian Railways; DGCA; PPAC; RBI; CEIC; ICRA research

Exhibit 5: Trends in Volumes for Last Three Years in November and December (Part -I)



Source: CIL; Indian Ports Association; CEA; Ministry of Petroleum and Natural Gas; Indian Railways; SIAM; RBI; CEIC; ICRA Research

Exhibit 6: Trends in Volumes for Last Three Years in November and December (Part -II)



Source: PPAC; SIAM; DGCA; Ministry of Commerce, GoI; CEA; CEIC; ICRA research

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