

# INDIAN ECONOMY: MONTH IN REVIEW AUGUST 2020

Fragmented recovery in lead indicators in August 2020

September 2020

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The high frequency lead indicators for August 2020 suggest that a fragmented recovery is underway. The year-on-year (YoY) performance of 11 of the 16 available indicators staged a pickup in August 2020 relative to July 2020. In particular, the output of Coal India Limited (CIL), motorcycles, and rail freight traffic posted a turnaround to a YoY expansion in August 2020, after having displayed a contraction in the previous month. The pace of contraction in the production of scooters and passenger vehicles (PV), domestic airlines' passenger traffic, port cargo traffic, GST e-way bills, and the consumption of ATF and petrol, narrowed at a varying rate in August 2020. In contrast, the YoY performance of diesel consumption, thermal and hydroelectricity generation, non-oil merchandise exports as well as bank deposits, worsened in August 2020 compared to July 2020, reiterating that there may be intermittent setbacks before the economy fully recovers from the impact of the ongoing crisis. Moreover, the available trends suggest that the contraction in the Index of Industrial Production (IIP) could ease to 6-8% in the just-concluded month from 10.4% in July 2020, in ICRA's view.

- *The YoY decline in the output of PV and scooters moderated to 6.0% and 15.0%, respectively, in August 2020 (-27.2% and -16.9%, respectively, in August 2019) from 26.4% and 48.7%, respectively, in July 2020 (-20.1% and -8.1%, respectively, in July 2019), benefitting from pent-up demand and restocking of inventories ahead of the festive season, as well as the base effect. Moreover, supported by the low base and sustained rural demand, output of motorcycles recorded a 20-month high growth of 5.9% in August 2020 (-17.0% in August 2019), as opposed to the sharp 20.1% contraction in July 2020 (-9.1% in July 2019).*
- *After four months of contraction, CIL's output posted a moderate 7.1% expansion on a YoY basis in August 2020 (-10.5% in August 2019). This turnaround from the 3.0% de-growth in July 2020 (-5.1% in July 2019), benefitted from a mild improvement in the offtake levels as well as the favourable base effect.*
- *However, the de-growth in electricity generation deepened somewhat to 3.1% in August 2020 from the low 0.7% in July 2020. There was a sharp deterioration in hydroelectricity generation to a contraction of 2.9% on a YoY basis in August 2020 from the 13.6% expansion in the previous month, while the de-growth in thermal electricity generation worsened marginally to 2.4% from 2.2%, respectively. With heavy rainfall, the YoY demand for electricity declined in the second half of August 2020 (-5.5%) relative to the mild pickup in the first half (+1.5%) of that month, according to POSOCO data. Subsequently, the demand has improved by 1.2% on a YoY basis, in the first half of September 2020. Overall, with a contraction in electricity generation from August-December 2019, this sector may out-perform much of the rest of the economy in the next few months, led by favourable base effects.*
- *Discouragingly, the contraction in non-oil merchandise exports (in US\$ terms) worsened to 8.8% in August 2020 from 3.6% in July 2020, with demand constrained by rising Covid-19 infections in various trading partners. The deterioration was led by the exports of agricultural products, engineering goods, and organic and inorganic chemicals. However, cargo handled at major ports witnessed a modest improvement in August 2020, with pace of YoY de-growth narrowing to 10.4% in that month from 13.2% in July 2020, driven by some recovery in thermal and coking coal as well as POL shipments.*
- *The YoY decline in the generation of GST e-way bills halved to 3.5% in August 2020 from 7.3% in the previous month. Moreover, rail freight grew by 3.9% in August 2020 (-6.1% in August 2019), in contrast to the 4.6% contraction in July 2020 (+1.5% in July 2019), although the extent of this turnaround largely reflected the base effect. Additionally, the pace of YoY contraction in petrol consumption improved further to 7.5% in August 2020 from 10.4% in July 2020.*
- *Striking a discordant note with the aforementioned indicators, the YoY decline in diesel consumption worsened further to 20.7% in August 2020 from 15.4% in June 2020 and 19.4% in July 2020.*
- *While deeply under-performing the other sectors, the de-growth in domestic airlines' passenger traffic and ATF consumption eased to 76.0% and 61.5%, respectively, in August 2020 from 82.3% and 64.5%, respectively, in July 2020, given some pickup in demand with the graded resumption of air travel services.*
- *The YoY expansion in bank deposits eased to 10.9% on August 28, 2020 from 11.1% on July 31, 2020, while the growth of non-food bank credit inched up to 5.5% from 5.4%, respectively.*

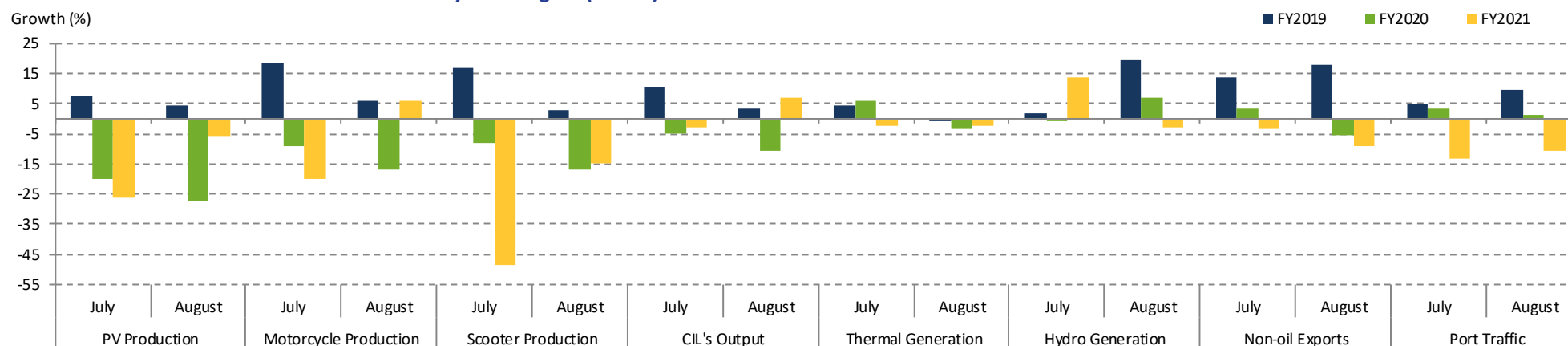
**Exhibit 1: Indicators such as the output of CIL and automobiles, port cargo and rail freight traffic, GST e-way bills, domestic airlines' passenger traffic as well as consumption of ATF and petrol continued to recover in August 2020 relative to July 2020; however, the performance of electricity generation, non-oil merchandise exports, diesel consumption and bank deposits deteriorated sequentially in that month**

Months	PV	Scooter	Motor cycle	CIL Prod.	Thermal Gen.	Hydro Gen.	Non-oil Exports	Ports Cargo traffic	GST e-way bill	Rail Freight	Petrol	Diesel	Domestic Airlines' passenger	ATF	Bank Deposit	Non Food Bank Credit
Jun-20	-57.7	-74.2	-42.4	-12.8	-17.1	18.6	-10.1	-14.5	-12.7	-7.7	-13.5	-15.4	-83.5	-65.9	11.0	6.0
Jul-20	-26.4	-48.7	-20.1	-3.0	-2.2	13.6	-3.6	-13.2	-7.3	-4.6	-10.4	-19.4	-82.3	-64.5	11.1	5.4
Aug-20	-6.0	-15.0	5.9	7.1	-2.4	-2.9	-8.8	-10.4	-3.5	3.9	-7.5	-20.7	-76.0	-61.5	10.9	5.5

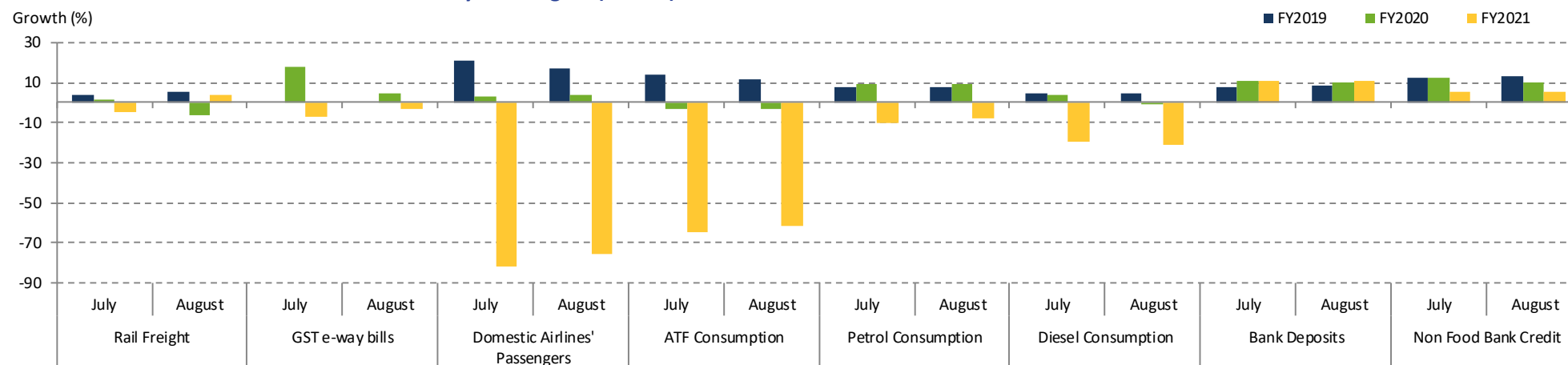
Source: Society of Automobile Manufacturers (SIAM); CIL; Central Electricity Authority (CEA); Indian Ports Association; Ministry of Commerce, Government of India (GoI); Goods and Services Tax Network (GSTN); Directorate General of Civil Aviation (DGCA); Petroleum Planning and Analysis Cell (PPAC); Indian Railways; 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
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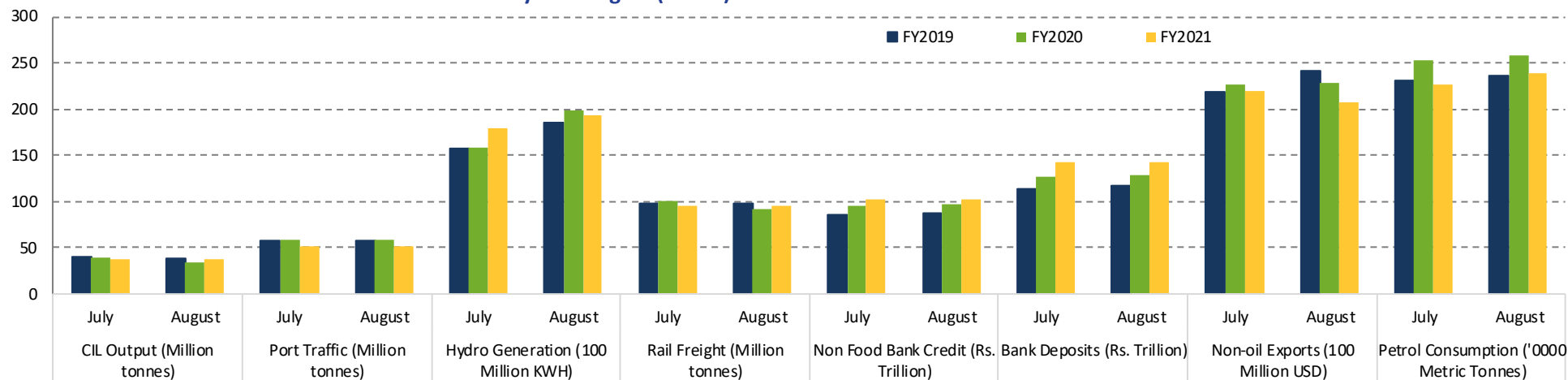
**Exhibit 2: YoY Growth for Last Three Years in July and August (Part -I)**



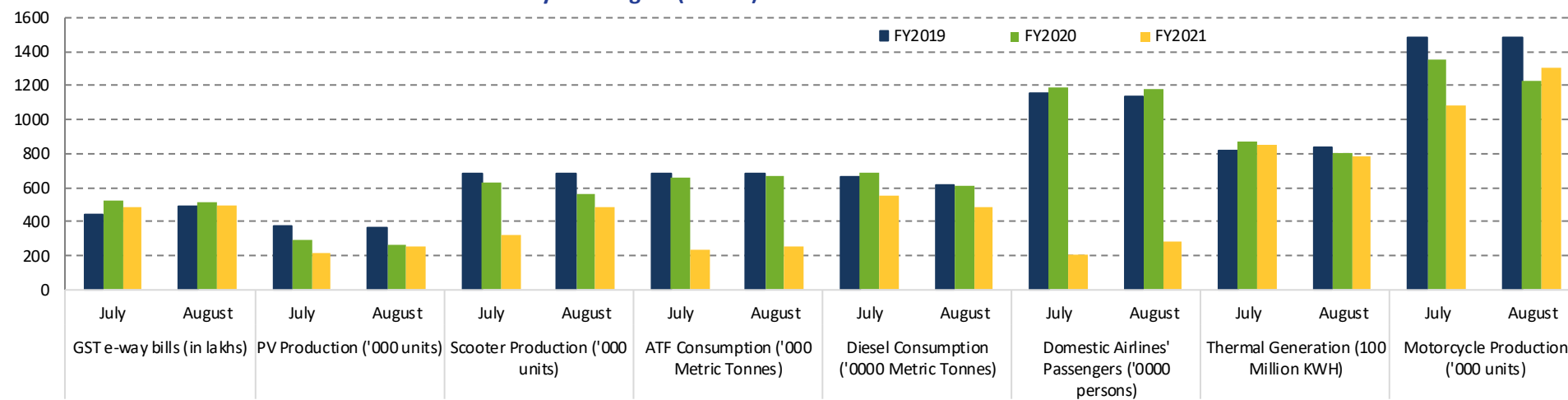
Source: SIAM; CIL; CEA; Ministry of Commerce, GoI; Indian Ports Association; CEIC; ICRA Research

**Exhibit 3: YoY Growth for Last Three Years in July and August (Part -II)**

Source: Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

**Exhibit 4: Trends in Volumes for Last Three Years in July and August (Part -I)**

Source: CIL; CEA; Ministry of Commerce; Indian Railways; Indian Ports Association; RBI; CEIC; PPAC; ICRA Research

**Exhibit 5: Trends in Volumes for Last Three Years in July and August (Part -II)**

Source: SIAM; PPAC; Gol; CEA; GSTN; DGCA; CEIC; ICRA research





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