ICRA

INDIAN ECONOMY: MONTH IN REVIEW SEP 2020

Recovery broadened and strengthened in September 2020; signs of durability awaited

OCTOBER 2020

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The recovery in the Indian economy from the pandemic-induced lows seen in April 2020, both broadened and strengthened in September 2020. While five of the high frequency indicators posted a narrower year-on-year (YoY) contraction, as many as nine non-financial indicators recorded growth in September 2020, up from just three in August 2020. The recovery in GST e-way bills, electricity, petrol and diesel in September 2020 provides a meaningful pointer to a broader economic revival, in our view. The improvement in some of the other indicators, such as auto output, reflects a combination of pent-up demand, healthy rural sentiment, and inventory build-up ahead of the upcoming festive season. This trend may persist in the coming one-to-two months, before settling at more sedate levels after the festive season is over. Additionally, sharp favourable base effects have contributed to the high performance of some outliers, such as the output of Coal India Limited (CIL), which are likely to be unsustainable. Moreover, we remain cautious regarding the improvement in the performance of non-oil merchandise exports, in the light of a fresh wave of Covid-19 infections in many trading partners. Overall, the sustainability of the upturn that emerged in September 2020 is unlikely to be universal, and while fatigue may drive festive season sales, the momentum may subsequently subside.

In terms of the quarterly trends, there was a broad-based but expectedly uneven recovery in the performance of most of the non-financial indicators in Q2 FY2021 relative to the lockdown-ridden Q1 FY2021. The output of CIL and motorcycles, thermal electricity generation, and rail freight turned around to a growth in that quarter from the YoY decline in Q1 FY2021. As many as 11 other indicators continued to post a YoY contraction in Q2 FY2021, while hydroelectricity generation slipped back into a YoY decline in Q2 FY2021 from the muted growth in the previous quarter. Based on these trends, we expect the contraction in India's real GDP to narrow to around 11-12.5% in Q2 FY2021 from the sharp 23.9% recorded in Q1 FY2021.

- Aggregate auto production recorded an expansion of 11.7% in September 2020, after having displayed sustained YoY contraction for the previous 22 months. The output of passenger vehicles (PVs) and scooters witnessed a turnaround to a rise of 16.2% and 2.2%, respectively, in September 2020, from the YoY decline of 6.0% and 15.0%, respectively, in August 2020, driven by the building up of inventories ahead of the festive season. Moreover, the pace of YoY growth in motorcycles output improved further to a healthy 21.1% in September 2020 from 5.9% in August 2020, on the back of sustained rural demand, as well as channel restocking.
- However, the situation at the retail level was less positive; vehicle registrations remained below the pre-Covid levels in September 2020 across most automotive segments, and the appreciable narrowing in the pace of contraction to 9.7% (-13.4% in September 2019) from 25.5% in August 2020 (-6.7% in August 2019), was partly driven by the favourable base effect, as well as the robust increase in registrations of agricultural tractors (to +86.6% from +28.1%, respectively).
- The pace of expansion in the output of CIL rose substantially to 31.6% on a YoY basis in September 2020 (-23.5% in September 2019) from the moderate 7.1% in August 2020 (-10.5% in August 2019). While the offtake levels did improve modestly in September 2020, the high growth in output is an outlier, which largely reflects the favourable base effect related to the deep contraction in September 2019, with output having been curtailed by excessive rainfall in that month. Accordingly, growth is unlikely to sustain at a similar pace in the ongoing month, in our view.
- Moreover, electricity generation recorded a turnaround to a growth of 4.2% in September 2020 (-3.2% in September 2019) from the 3.3% YoY decline in August 2020 (+0.2% in August 2019), reflecting a broader economic recovery as well as a favourable base. Thermal electricity generation rose by 8.4% on a YoY basis in September 2020 (-9.6% in September 2019) after having recorded a modest contraction of 2.2% in August 2020 (-3.1% in August 2019), partly benefitting from the base effect, whereas the YoY decline in hydroelectricity generation worsened to 8.9% from 4.9%, respectively. According to POSOCO data, after having recorded a YoY decline of 2.1% in August 2020, the demand for electricity posted a growth of 4.6% in September 2020 and a sharp 11.5% on a YoY basis in the first half of October 2020. This improvement in the YoY performance in September-October 2020 partly reflects the muted consumption in September-October 2019 related to the substantial rainfall in that period.
- Non-oil merchandise exports (in US$ terms) witnessed a YoY growth of 6.1% in September 2020, after six months of continued contraction. The turnaround from the 8.8% contraction in August 2020 was led by the exports of drugs and pharmaceuticals, engineering goods, organic and inorganic chemicals, etc. However, we remain circumspect regarding the sustainability of this trend, in the light of the second wave of Covid-19 infections being experienced in many trading partners.
- Additionally, the pace of YoY contraction in cargo handled at major ports narrowed to a muted 1.9% in September 2020 from 10.4% in August 2020, partly driven by the improvement in coking coal and container shipments.

- The pace of growth in rail freight traffic rose to a healthy 15.5% in September 2020 from 3.9% in August 2020, which may have been partly driven by the sharp uptrend in coal despatches, and therefore may not sustain going forward. However, the healthy 9.6% increase in the generation of GST e-way bills on a YoY basis in September 2020, in contrast to the contraction of 3.5% in August 2020, provides a clearer signal that a wider revival in economic activity may be underway.
- With the broader economic recovery, preference for social distancing in personal mobility as well as a modestly favourable base effect, petrol consumption registered a growth of 3.3% in September 2020 (+6.3% in September 2019) as opposed to the 7.5% YoY decline in August 2020 (+9.0% in August 2019). While diesel consumption continued to contract, the pace of the same narrowed sharply to 6.0% in September 2020 (-3.1% in September 2019) from 20.7% in August 2020 (-1.1% in August 2019), reflecting the recovery in economic activity.
- With a sequential rise in the operating capacity, the contraction in domestic airlines' passenger traffic as well as ATF consumption narrowed to 65.8% and 52.0%, respectively, in September 2020, from 76.0% and 61.5%, respectively, in August 2020. Nevertheless, these indicators continued to underperform the rest of the economy given the prolonged avoidance of travel during the pandemic.
- With a worsening in the YTD decline in incremental non-food credit to Rs. 1.1 trillion in H1 FY2021 amid the pandemic from Rs. 0.2 trillion in H1 FY2020, non-food bank credit growth weakened to 5.1% on September 25, 2020 from 5.5% on August 28, 2020. While remaining healthy, the YoY expansion in bank deposits eased slightly to 10.5% from 10.9%, respectively.

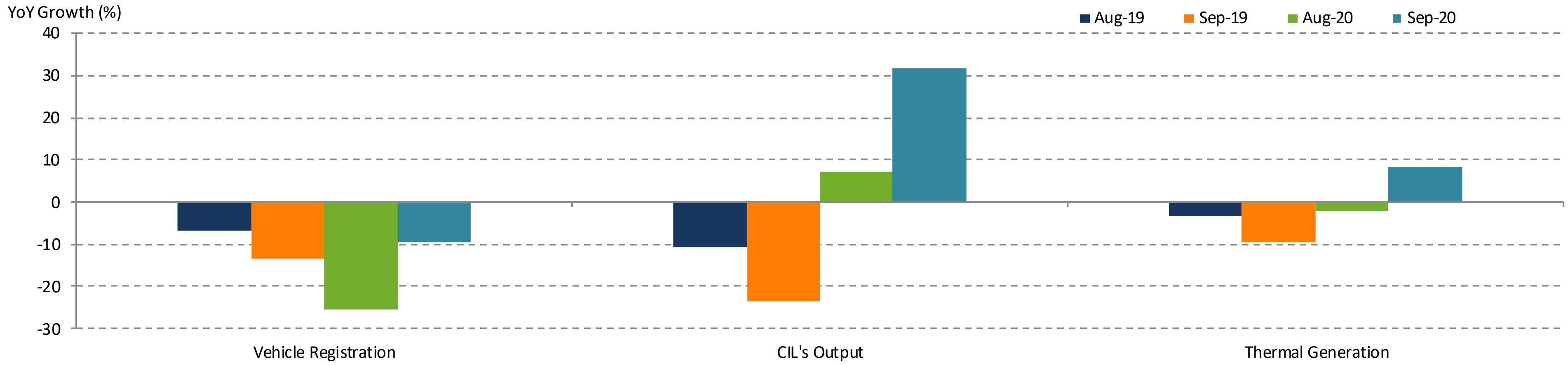
Exhibit 1: The performance of 14 out of the 17 indicators improved in September 2020 relative to August 2020; five indicators posted a narrower YoY contraction, while as many as nine non-financial indicators recorded a YoY growth in September 2020 (up from just three in August 2020), reflecting a broader economic revival, stock building prior to the festive season, and favourable base effects

Months	PV	Scooter	Motor cycle	Vehicle registration	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
Jul-20	-26.4	-48.7	-20.1	-35.2	-3.0	-2.2	13.6	-3.6	-13.2	-7.3	-4.6	-10.4	-19.5	-82.3	-64.5	11.1	5.4
Aug-20	-6.0	-15.0	5.9	-25.5	7.1	-2.2	-4.9	-8.8	-10.4	-3.5	3.9	-7.5	-20.7	-76.0	-61.5	10.9	5.5
Sep-20	16.2	2.2	21.1	-9.7	31.6	8.4	-8.9	6.1	-1.9	9.6	15.5	3.3	-6.0	-65.8	-52.0	10.5	5.1

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); Ministry of Road Transport and Highways; CEIC; ICRA research*

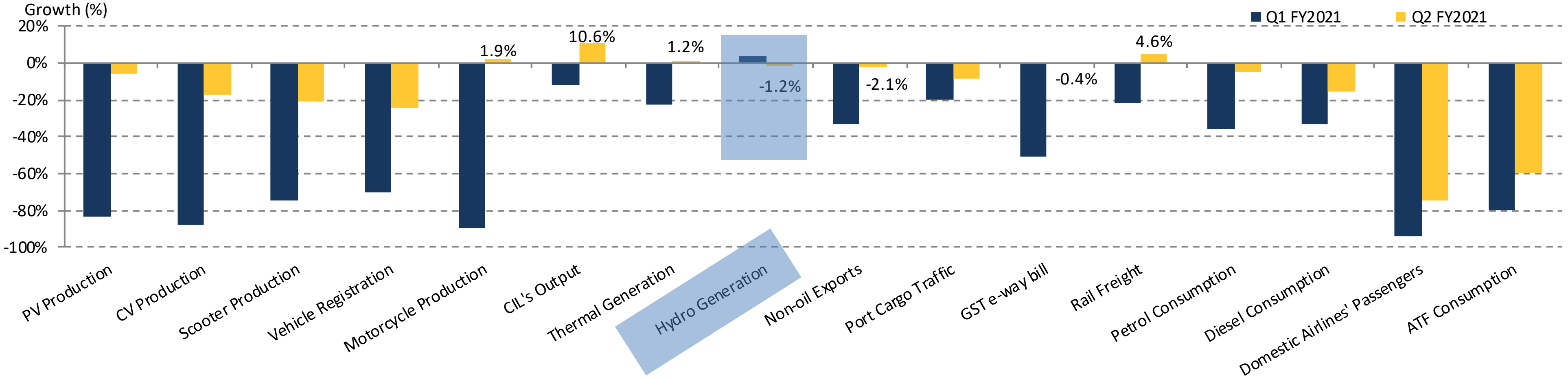
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip

Exhibit 2: The sharp improvement in the YoY performance of CIL, thermal electricity generation and vehicle registrations in September 2020 relative to August 2020 partly reflects the favourable base effect



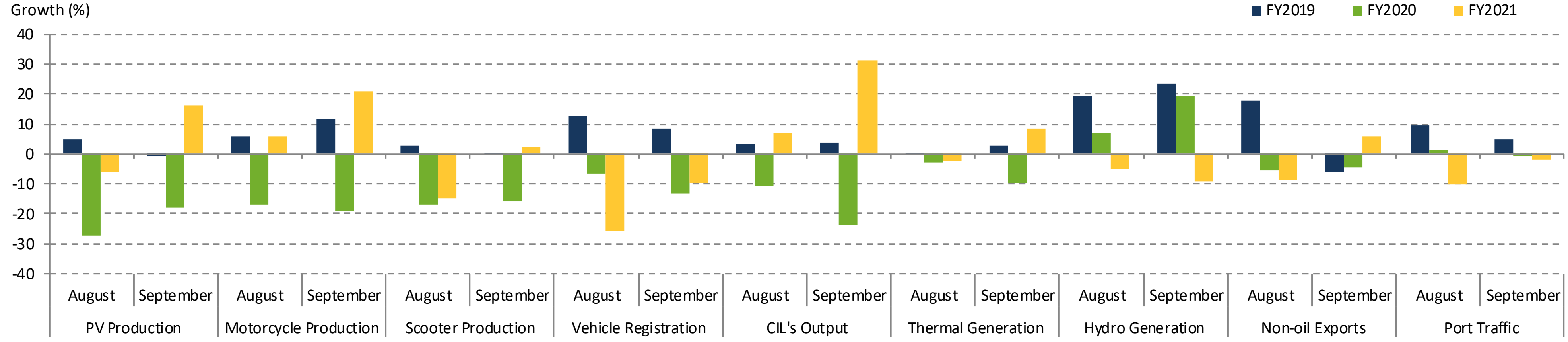
Source: *CIL; Ministry of Road Transport and Highways, GoI; CEA; ICRA research*

Exhibit 3: Broad-based albeit uneven recovery in the performance of non-financial indicators in Q2 FY2021 relative to Q1 FY2021; output of CIL and motorcycles, thermal electricity, and rail freight turned around to a growth in that quarter from the YoY decline in Q1 FY2021; 11 other indicators posted a narrower YoY contraction in Q2 FY2021, while hydroelectricity generation slipped back into a contraction in that quarter from a mild growth in Q1 FY2021



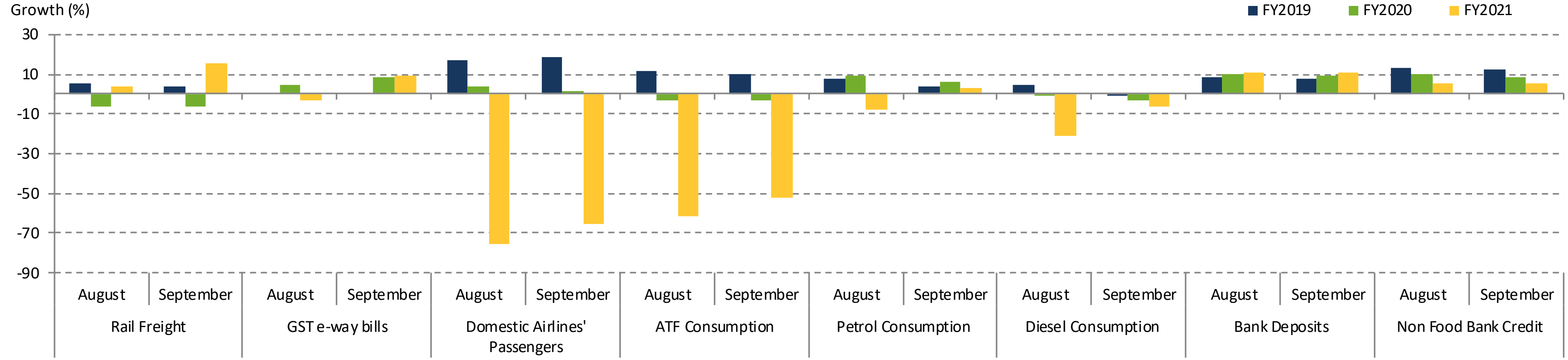
Source: *SIAM; CIL; CEA; Indian Ports Association; Ministry of Commerce, GoI; GSTN; DGCA; PPAC; Indian Railways; RBI; Ministry of Road Transport and Highways; CEIC; ICRA research*

Exhibit 4: YoY Growth for Last Three Years in August and September (Part -I)



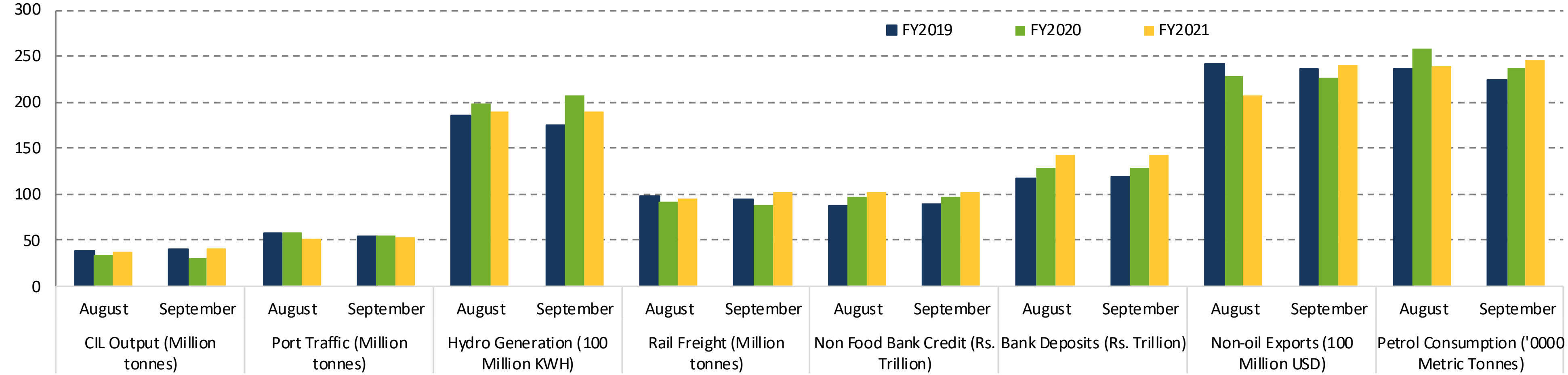
Source: *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; CEIC; ICRA research*

Exhibit 5: YoY Growth for Last Three Years in August and September (Part -II)



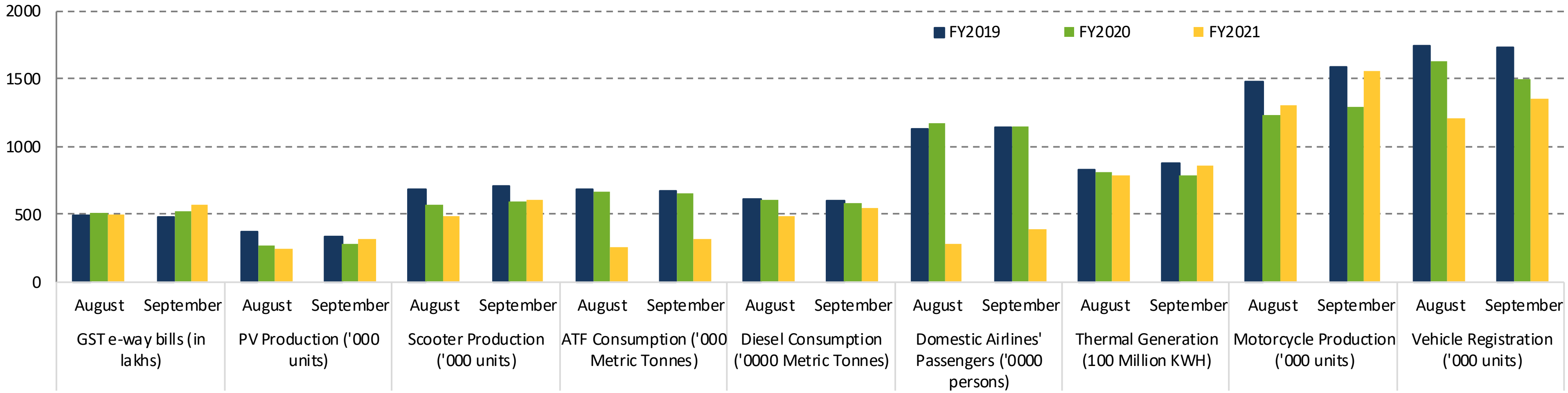
Source: *Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research*

Exhibit 6: Trends in Volumes for Last Three Years in August and September (Part -I)



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

Exhibit 7: Trends in Volumes for Last Three Years in August and September (Part -II)



Source: *SIAM; PPAC; GoI; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA research*

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