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INDIAN ECONOMY: MONTH IN REVIEW MAY 2021

**Sequential slackening continued in May
2021 as state-level restrictions widened**

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HIGHLIGHTS



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The YoY performance of 13 of the 15 high frequency indicators moderated in May 2021, relative to April 2021

Sequential slackening continued in May 2021 as state-level restrictions widened

As many as 10 of the 13 non-financial indicators recorded lower volumes in May 2021 relative to pre-Covid levels, i.e. May 2019

With a phased unlocking underway, we expect the sequential momentum to improve in June-July 2021, although the evidence is mixed so far

The impact of the second Covid surge and the widening state-wise restrictions led to a sequential decline in volumes across most indicators in May 2021. This, in conjunction with a receding of the favourable base effect, led to a deceleration in the year-on-year (YoY) expansion of many indicators in May 2021 relative to April 2021. Nevertheless, given the distortion related to the lockdown base, we have compared the volumes in May 2021 with the pre-Covid levels of May 2019. As many as 10 of the 13 non-financial indicators recorded lower volumes in May 2021 relative to May 2019. With the fresh cases having moderated substantially and a phased unlocking underway, we expect the sequential momentum to improve over a variety of high frequency indicators in June-July 2021, although the evidence is mixed so far.

As expected, the YoY performance of 13 of the 15 high frequency indicators (except port cargo traffic and non-food bank credit) recorded a deceleration in May 2021, relative to April 2021 (refer Exhibit 1). This was on account of the widening of state-level restrictions in May 2021 related to the second Covid surge, as well as an easing base related to last year's stringent nationwide lockdown. Reflecting the former, most indicators recorded a month-on-month (MoM) decline in volumes in May 2021 (refer Exhibit 2), such as automobile output (-57.0%), generation of GST e-way bills (-32.0%), consumption of diesel (-17.2%) and petrol (-16.6%), electricity demand (-7.4%), ports cargo traffic (-1.8%) and non-oil merchandise exports (-0.2%). While the output of Coal India Limited (CIL) and rail freight traffic did rise in MoM terms in May 2021, the pace of the uptick was muted at 0.5% and 2.9%, respectively.

Given the distorted base of May 2020 for many indicators, we have compared the performance of in May 2021 to the pre-Covid levels, i.e. May 2019, to gauge the momentum of activity across sectors (refer Exhibit 3). As many as 10 of the 13 non-financial indicators recorded lower volumes in May 2021 relative to May 2019, including domestic airlines' passenger traffic, electricity generation, vehicle registrations, automobiles' output, consumption of petrol and diesel as well as CIL's output. In contrast, the performance of rail freight, port cargo traffic, and non-oil merchandise exports improved in May 2021 relative to May 2019.

With the fresh cases having moderated substantially and a phased unlocking underway, we expect the sequential momentum to improve over a variety of high frequency indicators in June-July 2021. However, the evidence is mixed so far. On the positive side, the daily average GST e-way bills generated have improved to 1.6 million in June 1-13, 2021 from 1.3 million in May 2021. Petrol and diesel consumption have improved sequentially, but still remained lower than the year-ago level by 3.5% and 7.5%, respectively, during June 1-15, 2021. Moreover, the vehicle registrations in June 2021 so far (till June 21, 2021) are only around 65.4% of the level in June 2020, suggesting that the boost from pent up demand may be limited this time around.

- The aggregate auto output (spanning passenger vehicles or PVs, two- and three-wheelers) stood at 0.8 million units in May 2021, around 57% lower than April 2021, reflecting the adjustment of production in line with the closure of many retail outlets amidst widening state-level restrictions, weak sentiment towards big-ticket purchases, and the ensuing low sales. There was a broad-based sequential decline in the auto output in May 2021 relative to April 2021 across scooters (-78.4%), passenger vehicles (-58.1%) and motorcycles (-50.3%). Moreover, the aggregate auto output in May 2021 trailed the pre-Covid, i.e. May 2019 level by 66.6%.
- Additionally, the retail demand for vehicles in May 2021 (~0.5 million) was around 55% lower than the demand in April 2021 (~1.2 million), similar to the trend in auto output. Further, vehicle registrations in May 2021 were a sharp 70.6% lower than May 2019 (~1.8 million). Subsequently, the vehicle registrations stood at 0.7 million during June 1-21, 2021. While this was higher than the month of May 2021, it was equivalent to only ~65.4% of the total registrations in June 2020, suggesting that the boost from pent-up demand may be limited in 2021 relative to 2020.
- The pace of YoY growth in the output of CIL stood at a low 1.7% in May 2021 (-11.3% in May 2020). In MoM terms, the output of CIL in May 2021 (~42.1 million tonnes) was a mild ~0.5% higher than in April 2021 (~41.9 million tonnes). Nevertheless, production in May 2021 was 9.8% lower than the pre-Covid level, i.e. May 2019 (~46.7 million tonnes).
- The provisional data released by the Central Electricity Authority indicates that the YoY expansion in electricity generation (spanning thermal, hydro, nuclear and renewable energy) stood at 7.5% in May 2021 (-15.4% in May 2020). In MoM terms, the electricity generation in May 2021 was 7.5% lower than in April 2021. In addition, the electricity generation in May 2021 was 9.0% lower than May 2019 level. The electricity demand data released by POSOCO reveals that the pace of growth has moderated to 6.8% in June 1-20, 2021 from 7.3% in May 2021.
- Despite the widening of state-wise restrictions, non-oil merchandise exports (in US\$ terms) in May 2021 were just 0.2% lower than April 2021 level. Moreover, they were 8.5% higher than the level in May 2019, supported by healthy demand from major exporting countries with a rise in their vaccination coverage, as well as higher commodity prices. These trends suggest that India may be well poised to benefit from recovering demand in the advanced economies.
- Contrary to the trend displayed by modest other indicators, the pace of YoY growth of cargo handled at major ports improved to 33.0% in May 2021 (-23.3% in May 2020) from 29.5% in April 2021 (-20.9% in April 2020). This was driven by iron ore, containers, thermal and steam as well as other liquid shipments. Moreover, the cargo traffic in May 2021 was higher than the pre-Covid level i.e. May 2019, albeit by a modest 2.2%, led by the trend in iron ore (+45.0%), containers (+4.9%) and raw fertilizers (+64.7%), partly offset by a dip in the shipments of POL (-7.8%), coking coal (-20.1%), other cargo (-11.7%), etc.
- The daily average GST e-way bills generated in May 2021 stood at 1.3 million, trailing the April 2021 level by a sharp 32.0%. Moreover, the bills generated in May 2021 were 26.3% lower than the pre-Covid level i.e May 2019. Subsequently, the daily average generation of GST e-way bills has risen to 1.6 million in the first 13 days of June 2021 from the 1.3 million reported in the month of May 2021, which is an encouraging sign.
- Additionally, rail freight traffic in May 2021 recorded a sequential rise of 2.9% over April 2021, and a 9.5% expansion relative to the pre-Covid i.e. May 2019 level.
- However, the consumption of diesel recorded a MoM reduction of 17.2% in May 2021 to 5.5 million tonnes, possibly reflecting some shift to rail freight amidst high diesel prices. Additionally, petrol consumption declined by 16.6% to 2.0 million tonnes in May 2021, in line with the reduction in personal mobility amid regional lockdowns and restrictions to travel. Compared to May 2019, both petrol and diesel usage fell in May 2021, by a sharp 27.3% and 28.9%, respectively. Subsequently, the data compiled by the state refiners reveals that

petrol and diesel sales have improved by 13% and 12%, respectively, in the first half of June 2021, relative to the level recorded in May 1-15, 2021, amid the unlocking, while trailing the year-ago levels by 3.5% and 7.5%, respectively.

- Additionally, domestic airlines' passenger traffic stood at 2.1 million in May 2021, declining by a substantial ~63.1% relative to April 2021, on account of the rise in Covid-19 cases during that month. Moreover, compared to the pre-Covid levels, domestic airlines' passenger traffic in May 2021 was a considerable ~82.6% lower than May 2019 (12.2 million).
- The YoY growth in non-food bank credit outstanding inched up to 5.9% on May 21, 2021 from 5.7% on April 23, 2021, while that of bank deposits declined to 9.7% from 10.3%, respectively. The dip in the latter can be attributed to a rise in the demand for cash in hand for precautionary purposes amid the second wave of Covid-19.

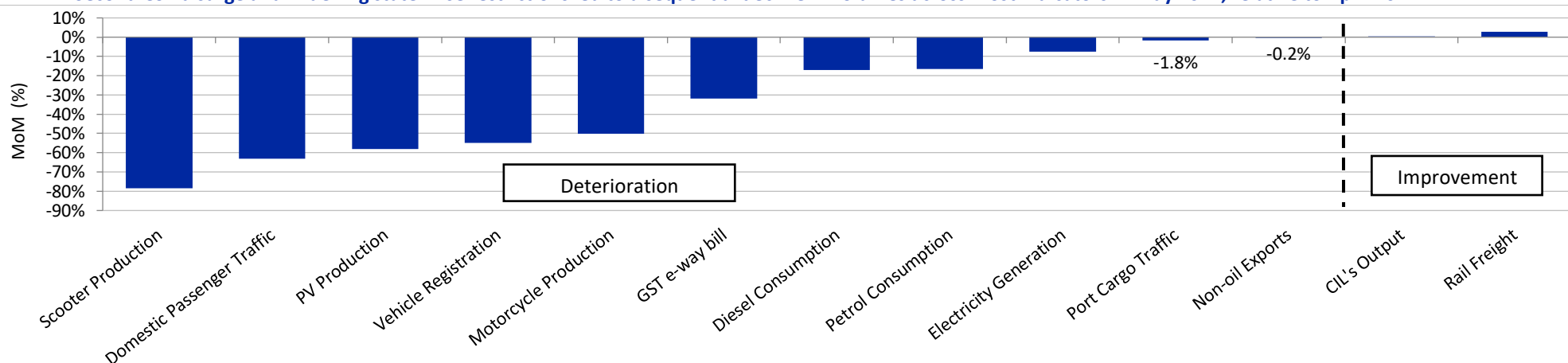
EXHIBIT 1: The YoY expansion of most indicators flattened in May 2021, as the base effect eased, and volumes recorded a sequential moderation with widening state-level restrictions

Months	PV	Scooter	Motor Cycle	Vehicle registration	CIL Prod.	Electricity Gen.	Non-oil Exports	Ports Cargo traffic	GST e-way bill	Rail Freight	Petrol	Diesel	Domestic Airlines' Passenger	Bank Deposit	Non-Food Bank Credit
Mar -21	78.7	56.3	75.5	-27.7	-3.8	22.5	63.6	16.4	75.2	26.6	27.1	27.8	0.8	11.4	5.5
Apr -21	163510.7	*	8759.5	215.4	3.7	38.8	196.3	29.5	582.5	70.7	145.3	105.4	*	10.3	5.7
May -21	340.1	277.9	111.2	158.2	1.7	7.5	54.6	33.0	56.8	39.1	12.5	0.8	650.0	9.7	5.9

*Scooter Production and Domestic Airlines Passenger Traffic stood at 0.4 million units and 5.7 million, respectively, in April 2021 vs. nil each in April 2020; ^Electricity generation comprises thermal, hydro, nuclear and renewable energy; **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); Ministry of Petroleum & Natural Gas; 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

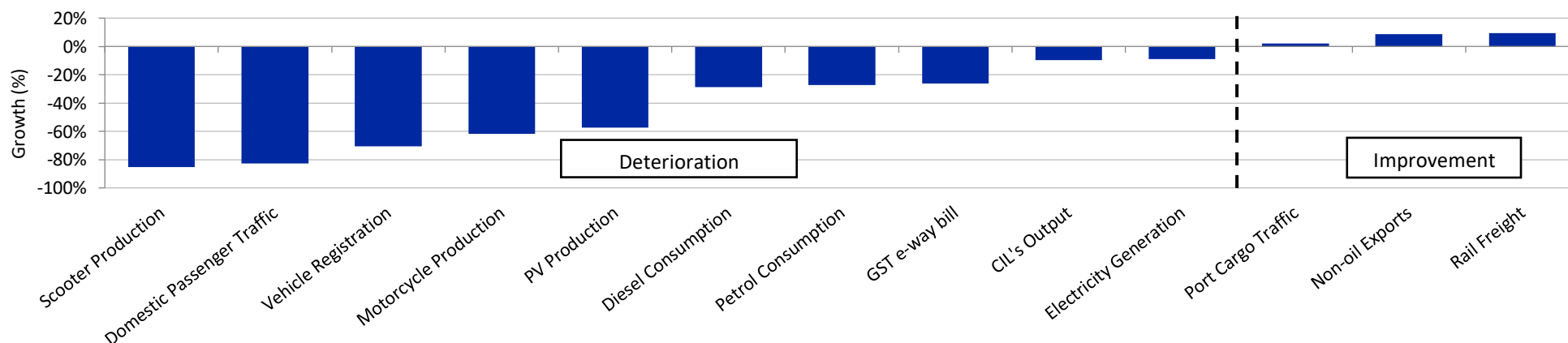
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip
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EXHIBIT 2: Second Covid surge and widening state-wise restrictions led to a sequential decline in volumes across most indicators in May 2021, relative to April 2021

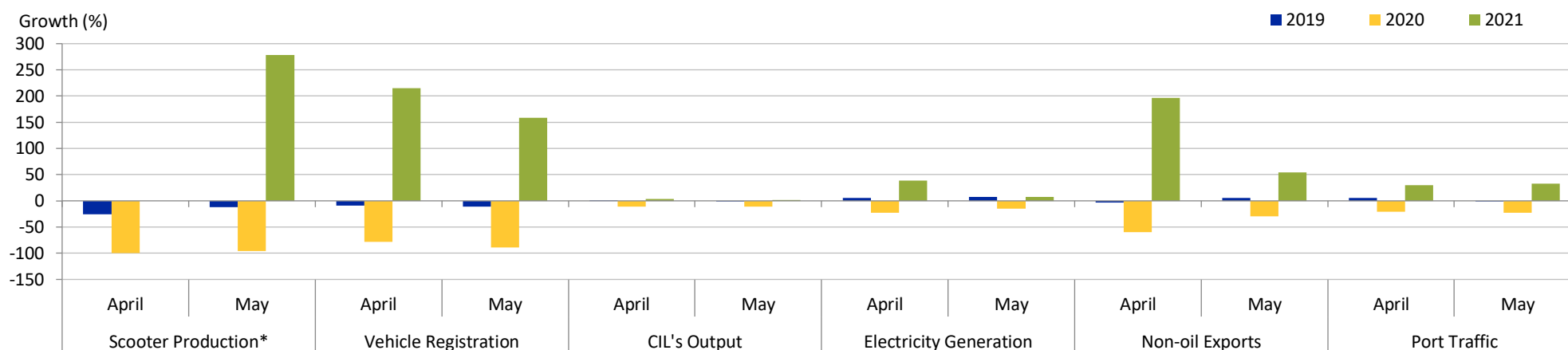


Source: SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

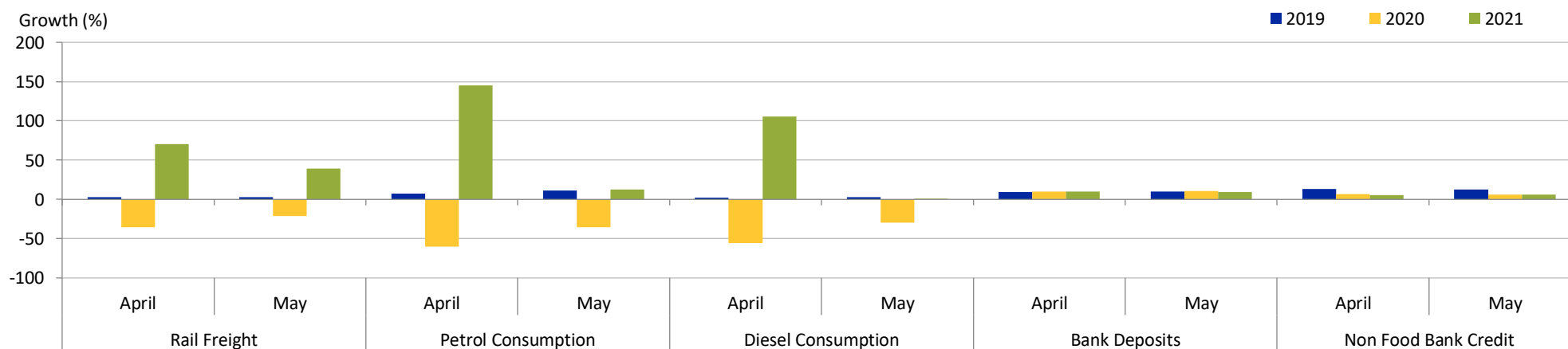
EXHIBIT 3: As many as 10 of the 13 non-financial indicators recorded lower volumes in May 2021 relative to May 2019



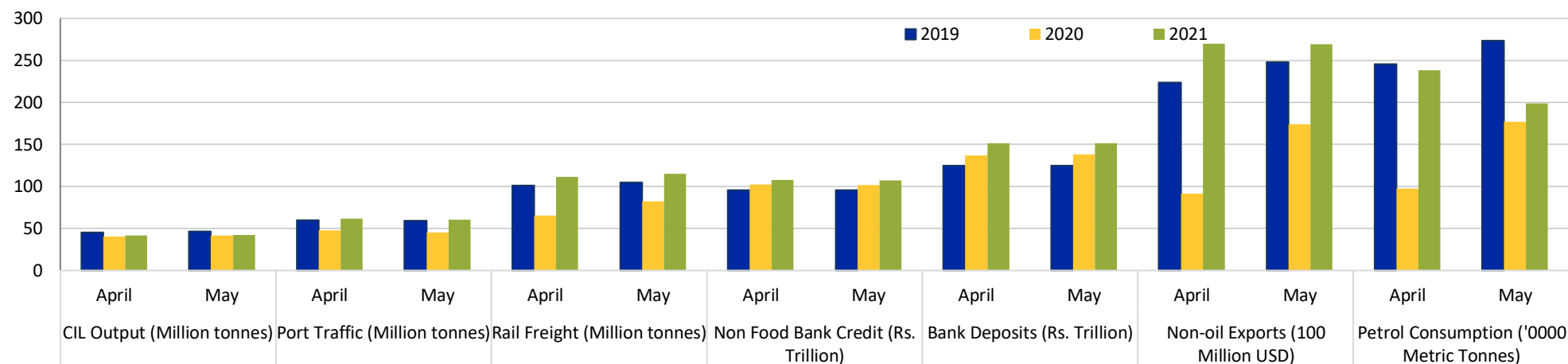
Source: SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research

EXHIBIT 4: YoY Growth for Last Three Years in April and May (Part -I)


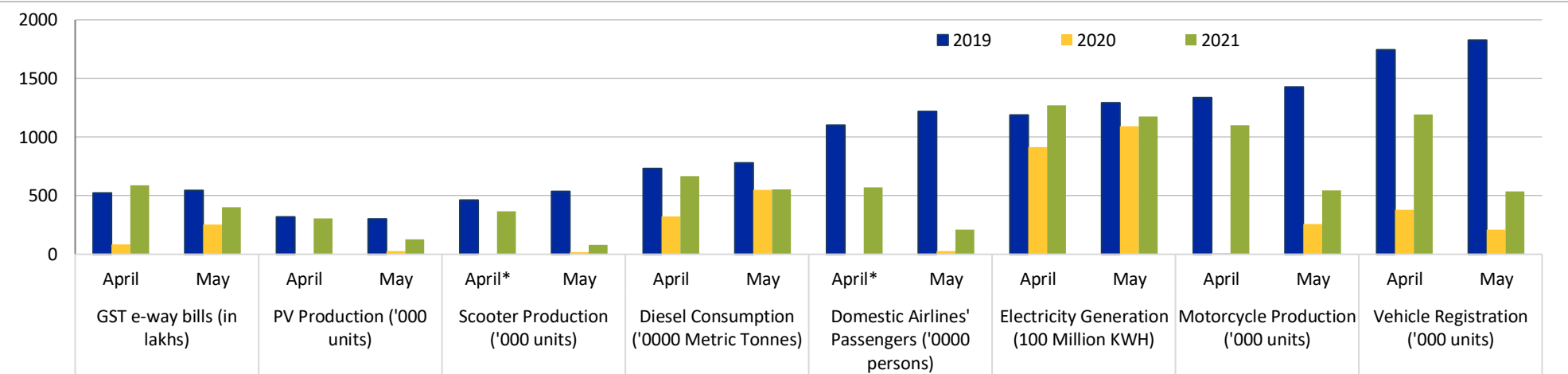
*Scooter Production stood at 0.4 million units in April 2021 vs. nil in April 2020; ^We have not included PV and Motorcycle production as they have recorded an exceptionally high growth in April 2021 and May 2021; **Source:** MoRTH; SIAM; CIL; CEA; Indian Ports Association; Ministry of Commerce, GoI; CEIC; ICRA research

EXHIBIT 5: YoY Growth for Last Three Years in April and May (Part -II)


^We have not included GST e-way bills and Domestic Airlines Passenger Traffic as they have recorded an exceptionally high growth in April 2021 and May 2021, respectively; **Source:** Indian Railways; PPAC; RBI; CEIC; ICRA research

EXHIBIT 6: Trends in Volumes for Last Three Years in April and May (Part -I)


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

EXHIBIT 7: Trends in Volumes for Last Three Years in April and May (Part -II)


*Scooter Production and Domestic Airlines Passenger Traffic stood at 0.4 million units and 5.7 million, respectively, in April 2021 vs. nil each in April 2020; **Source:** SIAM; PPAC; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA research



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ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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