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INDIAN ECONOMY: MONTH IN REVIEW AUGUST 2021

High frequency indicators post mixed performance in Aug 2021, as temporary push related to unlocking peters out

September 2021

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HIGHLIGHTS

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Eight out of 15 indicators posted a weaker YoY performance in August 2021, driven by base normalisation

In MoM as well as pre-Covid terms, the performance of non-financial indicators was mixed in August 2021

Deficient rains boosted electricity generation; likely to have enhanced mining and construction as well

Rising confidence should boost consumption during the festive season; non-availability of semi-conductors to continue to constrain auto output in next few months

The high frequency indicators posted an uneven performance in August 2021, especially when compared to the pre-Covid level, as the temporary push provided by the easing of state-level restrictions petered out. While the early trends for September 2021 are unconvincing, we are cautiously optimistic that rising confidence will boost demand in the festive season.

The year-on-year (YoY) performance of eight of the 15 high frequency indicators weakened in August 2021 compared to July 2021, partly on account of the normalisation of the base (refer Exhibit 1). Moreover, the output of passenger vehicles (PVs) was constrained by the non-availability of semi-conductors. The YoY performance of the remaining seven indicators improved in August 2021, such as the output of Coal India Limited (CIL), electricity, ports cargo traffic, GST e-way bills, non-oil exports, etc. Deficient rainfall temporarily boosted the growth of electricity generation to 15.7% in August 2021 and is likely to have magnified the performance of mining and construction as well.

The performance of the 13 non-financial indicators in August 2021 was decidedly mixed in both month-on-month (MoM) as well as pre-Covid terms (refer Exhibit 2 and 3). Particularly, after a sharp recovery since June 2021, the daily average generation of GST e-way bills rose only mildly to 2.13 million in August 2021 from 2.07 million in July 2021. We believe this may be on account of a stabilisation in dispatches rather than a signal that the industrial growth momentum is plateauing. The mobility for retail and recreation improved to ~16% below the baseline by end-August 2021 from 23% below the baseline by end-July 2021 (refer Exhibit 4; seven-day moving average). Additionally, FASTag toll collections and retail payments rose by ~3% each in August 2021 in MoM terms (refer Exhibit 5 and 6). Relative to the pre-Covid levels, diesel consumption, two-wheeler output, vehicle registrations and domestic passenger traffic recorded lower volumes in August 2021. While the performance of PV output and ports cargo traffic was flattish at the August 2019 levels, six of the 13 non-financial indicators (GST e-way bills, non-oil exports, CIL's output, rail freight, electricity generation and petrol consumption) recorded an encouraging expansion in August 2021.

The early data for September 2021 is unconvincing. The daily average generation of the GST e-way bills in September 2021 so far, remains similar to August 2021; pre-festive season stocking should boost this metric in October 2021. The YoY rail freight growth has halved to 8.2% during Sep 1-10, 2021, but this is on account of the kicking in of the base effect related to the incentives extended last year. While the sales of state refiners in the first half of September 2021 exceeded the pre-Covid levels for petrol, those for diesel declined. With excess rainfall in the ongoing month (29% above LPA), the YoY growth in electricity demand has shrunk to 0.2% during Sep 1-19, 2021 from 17.1% in Aug 2021 (refer Exhibit 7); heavy rains are likely to impair the performance of mining and construction as well, reversing the temporary gains of the previous month. Further, semiconductor non-availability is likely to supress auto production in both September 2021 and October 2021.

Looking ahead, with a gradual improvement in the economic situation, the waning impact of high health-care costs related to the second wave and the improvement in the coverage of Covid-19 vaccines, confidence levels should improve. This should enhance consumption during the festive season, manifesting a perceptible improvement in the performance of the high frequency indicators in October 2021.

- The aggregate auto output (spanning passenger vehicles or PVs, two- and three-wheelers) recorded a YoY contraction after a gap of 11 months of 8.2% in August 2021 (-3.1% in August 2020), led by motorcycles (-14.8%; +5.9% in August 2020). The worsening YoY performance in August 2021, relative to the 22.3% expansion in July 2021 (-29.3% in July 2020) can be partly attributed to the unfavourable base effect related to the sharp recovery after the first wave of Covid-19. In MoM terms, auto output eased by 5.5% in August 2021, reflecting a decline in the output of PVs (-20.9% related to non-availability of semi-conductors), and motorcycles (-9.1%), partly offset by a healthy 15.4% uptick in the output of scooters. Moreover, the auto output in August 2021 trailed the pre-Covid level by 11.0%, driven by scooters and motorcycles (-13.7% and 9.8%, respectively), whereas the dip in PV output was mild at 1.3% (benefitting from continued preference for social distancing in personal mobility). Semi-conductor availability is likely to remain a constraint for production in September and October 2021.
- Moreover, the YoY growth in retail demand for vehicles halved to 14.5% in August 2021 (-25.4% in August 2020) from 33.9% in July 2021 (-35.2% in July 2020), partly on the back of a normalising base. Additionally, the retail demand in August 2021 lagged the level in August 2019 by 14.6%, on account of two-and three-wheeler segments, as well as commercial vehicles, even as the registrations for PVs and tractors surpassed their pre-Covid levels. Subsequently, vehicle registrations stood at 0.8 million during Sep 1-19, 2021, accounting for roughly 60% each of the levels recorded in September 2020 and August 2021. Product/model availability and the inauspicious dates are likely to constrain the performance in September 2021.
- The pace of YoY growth in the output of CIL improved to 14.6% in August 2021 (+7.1% in August 2020) from 14.1% in July 2021 (-3.0% in July 2020), amidst a widening deficit in monsoon rainfall to 24% below the Long Period Average (LPA) in August 2021 (-7% in the previous month), even as the offtake level eased in sequential and YoY terms. In MoM terms, the output of CIL in August 2021 was at par with the July 2021 level, while surpassing the pre-Covid level of August 2019 by a healthy 22.8%. In the ongoing month, the CIL has ramped up the production to improve the supply to thermal power stations amidst an additional demand for domestic coal given the considerable rise in international coal prices.
- As per the provisional data released by the Central Electricity Authority (CEA), the YoY growth in electricity generation (spanning thermal, hydro, nuclear and renewable energy) rose to a healthy 15.7% in August 2021 (-2.2% in August 2020) from the revised 11.5% in July 2021 (-3.0% in July 2020), which we believe was driven by higher agri/irrigation and household demand related to the worsening monsoon rainfall scenario over the same period. In MoM terms, the electricity generation rose by a mild 1.5% in August 2021. Moreover, the overall electricity generation in August 2021 exceeded the August 2019 level by a sharp 13.2%. The electricity demand data released by POSOCO reveals that the YoY growth has plunged to a marginal 0.2% in September 1-19, 2021 from 17.1% in August 2021, in line with the resurgence of rainfall in the ongoing month (29% above LPA), supporting our view that industrial/commercial usage is not the chief determinant of the volatile trend in power consumption in the current scenario.
- The pace of expansion of non-oil merchandise exports (in US$ terms) rose to 36.8% in August 2021 (-8.1% in August 2020) from 35.2% in July 2021 (-3.6% in July 2020), driven by the base effect. In sequential terms, non-oil merchandise exports eased by 3.2% in August 2021, with apprehensions related to the spread of the Delta variant, as well as logistical challenges. Nevertheless, they exceeded the pre-Covid level of August 2019 by 25.6%, fuelled by post-vaccine demand from major export destinations and elevated commodity prices.
- The YoY growth of cargo handled at major ports improved to 11.4% in August 2021 (-10.4% in August 2020) from 6.7% in July 2021 (-13.0% in July 2020), led by petroleum, oil and lubricants, containers, and raw fertilizer shipments. While cargo traffic during August 2021 was similar to the pre-Covid level of August 2019 (-0.1%), its performance trailed that of non-oil merchandise exports (+25.6%), suggesting that higher commodity prices have a large role to play in the relatively superior performance of the latter.

- The daily average generation of GST e-way bills rose mildly to 2.13 million in August 2021 from 2.07 million in July 2021, which we believe may be on account of a stabilisation in dispatches rather than a signal that the industrial growth momentum is plateauing. Moreover, in YoY terms, the expansion improved mildly to 33.3% in August 2021 from 32.7% in July 2021. Subsequently, the daily average generation of GST e-way bills has eased marginally to 2.08 million during September 1-12, 2021, while remaining healthy.
- The YoY expansion in rail freight traffic declined modestly to 16.9% in August 2021 (+3.9% in August 2020) from 18.4% in July 2021 (-4.4% in July 2020), partly reflecting the base effect. In sequential terms, rail freight eased by a muted 1.8% in August 2021 (in tune with the lower dispatches of coal). However, it exceeded the August 2019 level by a healthy 21.5%, benefitting from the tariff and non-tariff measures taken by the Indian Railways at end-August 2020 to boost the operations and improve efficiency. Subsequently, rail freight growth has dipped sharply to 8.2% on a YoY basis in the first 10 days of September 2021, on account of the high base effect related to the impact of the aforementioned measures that had been implemented last year; accordingly, rail freight growth may moderate further in the coming few months.
- In contrast, the YoY growth of diesel consumption improved to 15.6% in August 2021 (-20.7% in August 2020) from 11.5% in July 2021 (-19.5% in July 2020). In sequential and pre-Covid (August 2019) terms, it declined by 8.7% and 8.3%, respectively, in August 2021, in contrast to the rise in petrol consumption (+2.3% and +4.5%, respectively). Subsequently, the preliminary data compiled by state refiners reveals that diesel sales in the first half of September 2021 have dipped by 1.5% on a YoY basis, and by 6.8% relative to the corresponding pre-Covid period of September 1-15, 2019.
- On a normalising base, the YoY growth in consumption of petrol eased to 13.0% in August 2021 (-7.5% in August 2020) from 16.4% in July 2021 (-10.4% in July 2020). Subsequently, the preliminary data compiled by state refiners reveals that the growth of petrol sales declined further to 5.7% on a YoY basis in the first half of September 2021. However, compared to the pre-Covid level, the rise in petrol sales improved from 4.5% in August 2021 to 8.3% in the first half of September 2021, reflecting rising mobility.
- Benefitting from the drop in Covid-19 infection trajectory as well as improving vaccine-led confidence, domestic airlines' passenger traffic recorded a healthy sequential increase of 33.8% in August 2021 to 6.7 million from 5.0 million in July 2021. However, in YoY terms, the expansion eased mildly to 136.6% in August 2021 (-76% in August 2020) from 137.6% in the previous month (-82.3% in July 2020), due to the base effect. In addition, domestic airlines' passenger traffic in August 2021 was a considerable 43.2% lower than the level recorded in August 2019 (11.8 million).
- In YoY terms, the growth in non-food bank credit rose to 6.7% on August 27, 2021 from 6.2% on July 30, 2021, whereas that of bank deposits declined further to 9.5% from 9.8%, respectively. However, non-food bank credit has recorded an incremental decline of Rs. 0.6 trillion in FY2022 so far (up to August 27, 2021), owing to the lingering risk aversion among both lenders and borrowers despite the deepening of the economic recovery. It remains to be seen whether the launch of nationwide loan outreach programme from October 2021 would push the demand for credit for the upcoming festive season. In contrast, aggregate deposits have displayed an incremental rise of Rs. 0.4 trillion in FY2022 (up to August 27, 2021).

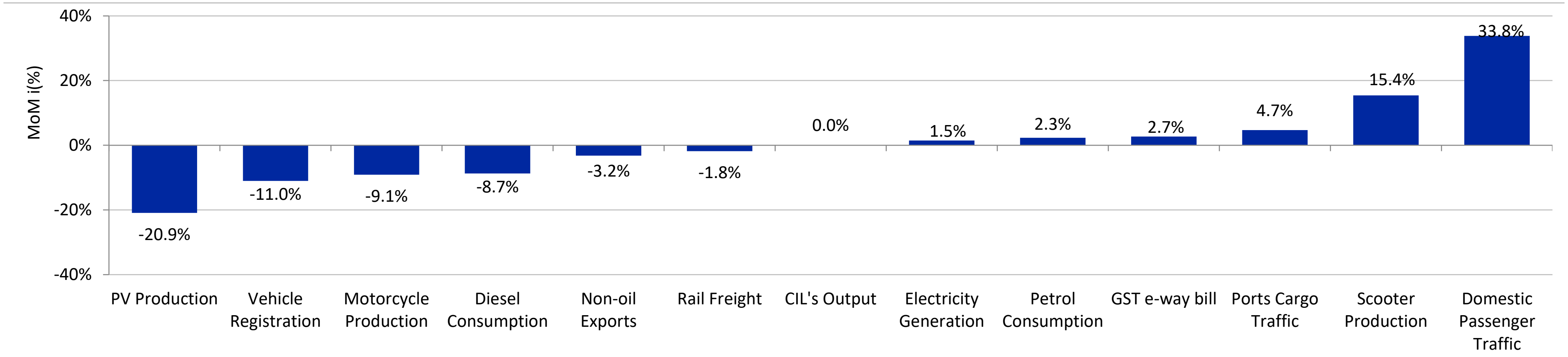
EXHIBIT 1: The YoY performance of eight of the 15 high frequency indicators worsened in August 2021 compared to July 2021, largely driven by the continued normalisation of base

YoY (%)	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
Jun -21	174.9	80.1	38.9	22.4	2.0	8.4	42.1	19.5	25.9	20.5	5.6	-1.5	57.0	10.3	5.9
Jul -21	52.6	31.1	13.2	33.9	14.1	11.5	35.2	6.7	32.7	18.4	16.4	11.5	137.6	9.8	6.2
Aug-21	5.0	1.5	-14.8	14.5	14.6	15.7	36.8	11.4	33.3	16.9	13.0	15.6	136.6	9.5	6.7

^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*

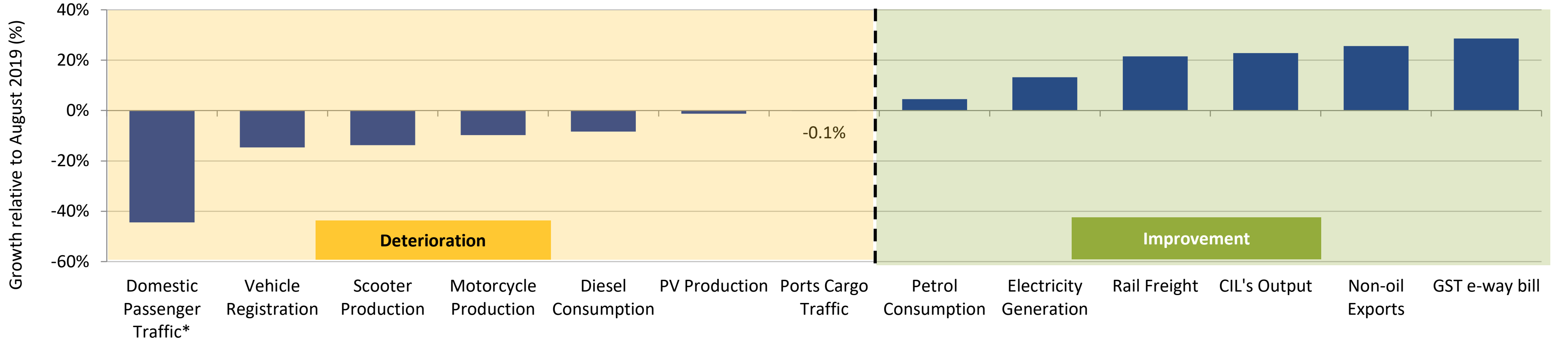
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip

EXHIBIT 2: There was a mixed trend in MoM performance of indicators in August 2021; six indicators such as electricity generation (deficient rainfall), petrol consumption (improving mobility), domestic airlines' passenger traffic (rising vaccine-led confidence for travel) improved in August 2021, whereas diesel consumption, vehicle registrations, and PV (semi-conductor availability) and motorcycle output declined sharply



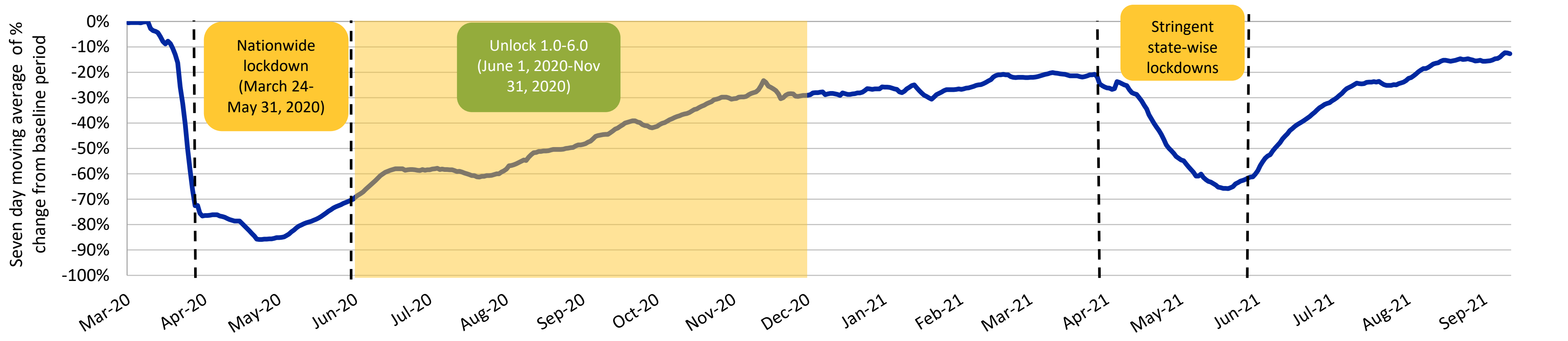
Based on ICRA's estimates for August 2021;* ***Source:* *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research*

EXHIBIT 3: Relative to pre-Covid levels of August 2019, the non-financial indicators display a mixed trend in August 2021; six of the 13 indicators exceeded their pre-Covid levels, PV production and ports cargo traffic were flattish, whereas diesel consumption, two-wheeler output, vehicle registrations and domestic passenger traffic recorded markedly lower volumes



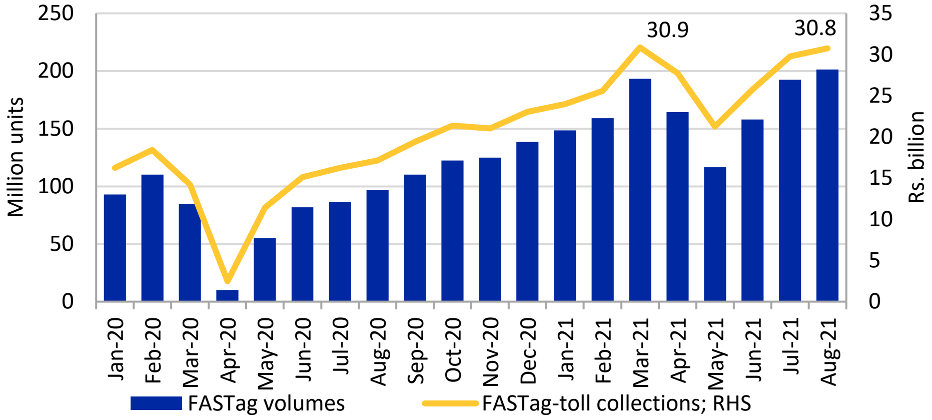
Based on ICRA's estimates for August 2021;* ***Source:* *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA research*

EXHIBIT 4: The mobility for retail and recreation improved modestly to ~16% below baseline by end-August 2021 from 23% below baseline by end-July 2021 (seven-day moving average); subsequently, it has risen mildly to ~13% below baseline as on Sep 11, 2021



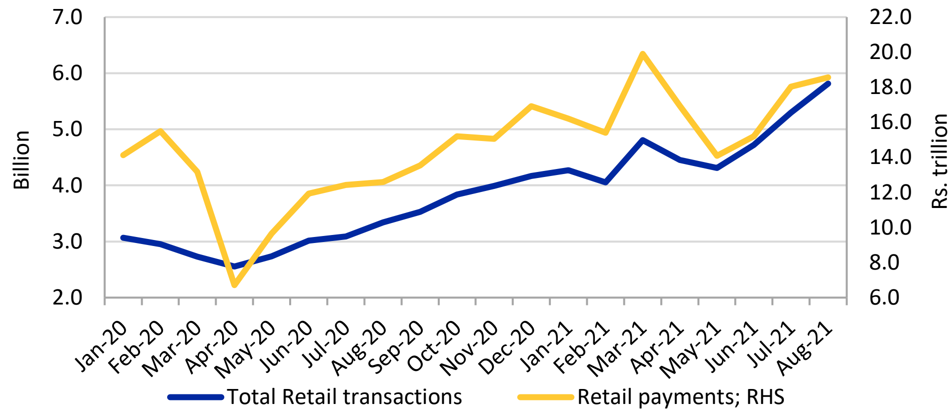
Data is available up to Sep 11, 2021; The percentage change is compared to a baseline value for the same day of the week, Baseline period: Jan 3, 2020- Feb 6, 2020; ***Source:*** *CEIC; ICRA research*

EXHIBIT 5: While FASTag transactions stood at an all-time high 201.2 mn units in Aug 2021, toll collections were a mild 4.1% lower than the record-high level of March 2021



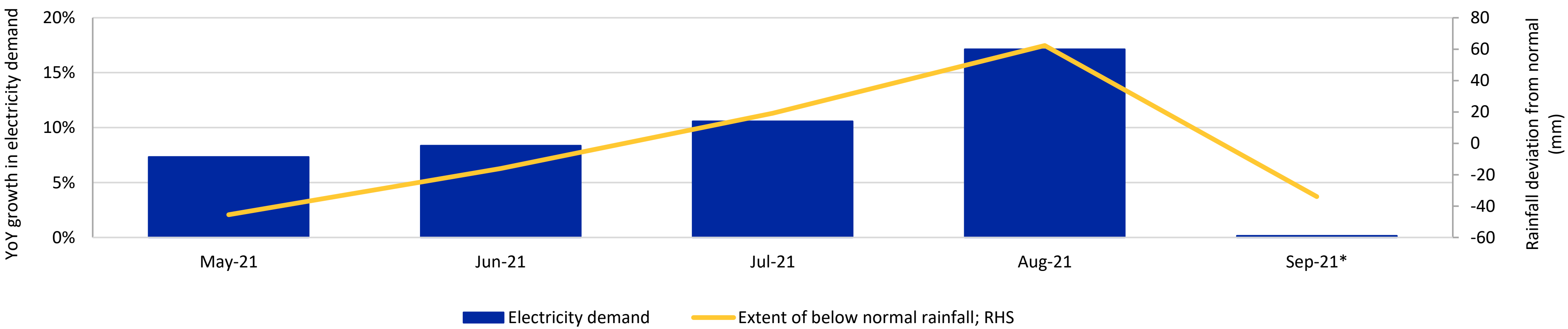
Source: *National Payments Corporation of India; ICRA research*

EXHIBIT 6: Retail payments grew to a four-month high Rs. 18.6 trillion in Aug 2021, 3% higher than Rs. 18.0 trillion in July 2021



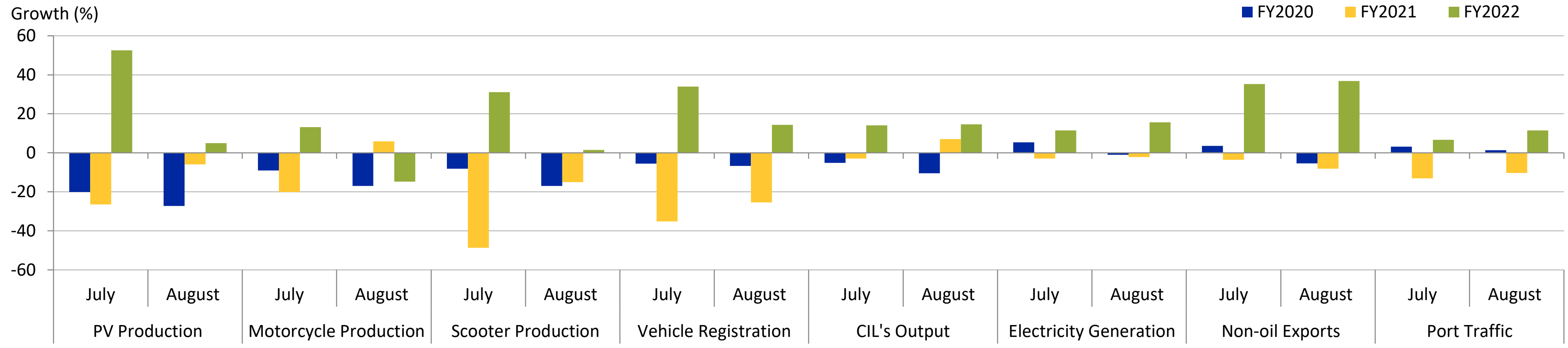
Source: *National Payments Corporation of India; ICRA research*

EXHIBIT 7: With a widening deficit in monsoon rainfall to 62.3 mm in August 2021 from 19.2 mm in July 2021 (relative to the LPA), the agri/irrigation and household demand for electricity surged, boosting the YoY growth in the latter to a robust 17.1% from 10.6%, respectively; subsequently, the electricity demand growth has plunged to 0.2% during Sep 1-19, 2021, with surplus rainfall of 34.0 mm, supporting our view that industrial/commercial usage is not the chief determinant of the volatile trend in power consumption in the recent months



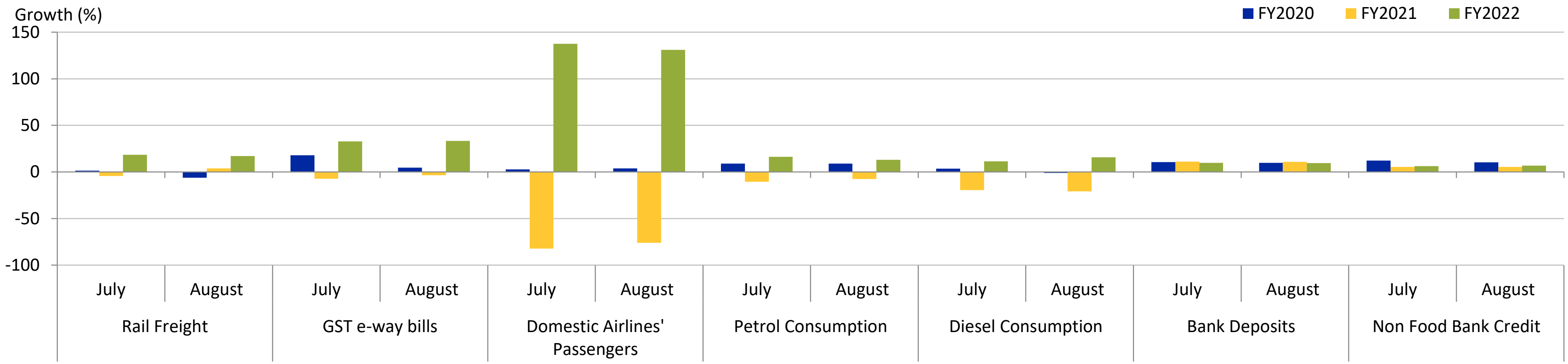
Till September 19, 2021;* ***Source:* *IMD; POSOCO; CEIC; ICRA research*

EXHIBIT 8: YoY Growth for Last Three Years in July and August (Part -I)



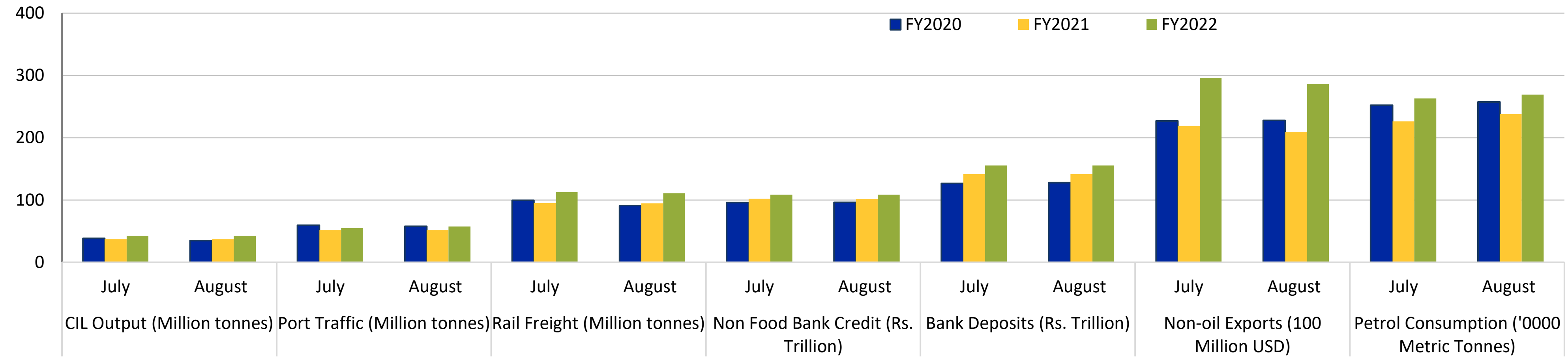
Source: *MoRTH; SIAM; CIL; CEA; Indian Ports Association; Ministry of Commerce, GoI; CEIC; ICRA research*

EXHIBIT 9: YoY Growth for Last Three Years in July and August (Part -II)



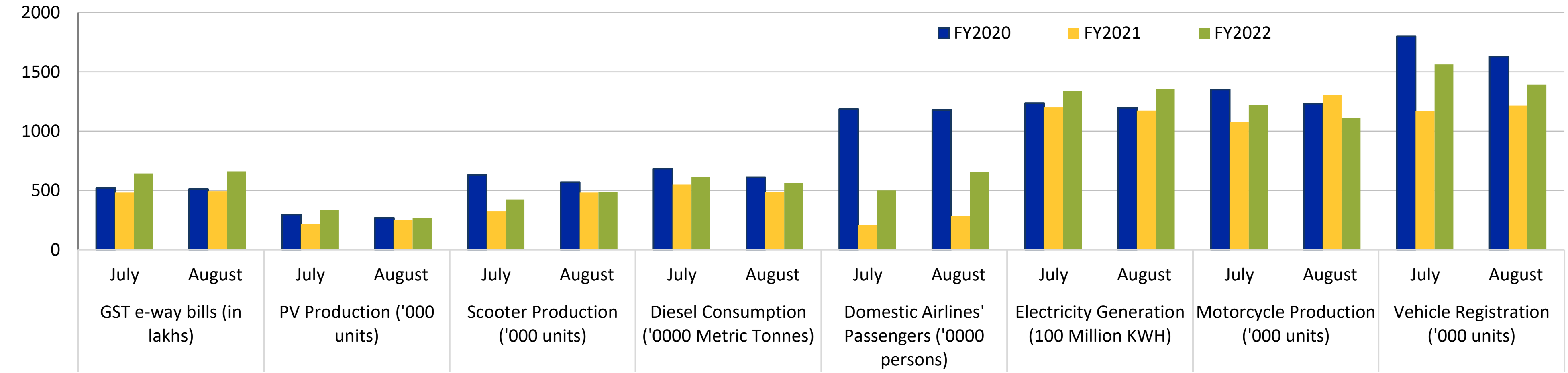
Source: *Indian Railways; GSTN; PPAC; DGCA; PPAC; RBI; CEIC; ICRA research*

EXHIBIT 10: Trends in Volumes for Last Three Years in July and August (Part -I)



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

EXHIBIT 11: Trends in Volumes for Last Three Years in July and August (Part -II)



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

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