ICRA

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INDIAN ECONOMY: MONTH IN REVIEW DECEMBER 2021

Economic recovery broadened in Q3 FY2022; durability remains elusive

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HIGHLIGHTS

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Economic activity picked up in Dec 2021, with 10 of the 15 indicators displaying an improved YoY growth, relative to Nov 2021, although the pace largely trailed the levels seen in Oct 2021

In terms of the quarterly performance relative to the pre-Covid levels, nine indicators reported higher volumes in Q3 FY2022, as compared to seven in Q2 FY2022, pointing to a modest widening of the recovery

Early data for Jan 2022 is expectedly weak following the restrictions triggered by the third wave

Economic activity picked up in December 2021, with 10 of the 15 lead indicators registering a year-on-year (YoY) improvement in that month, relative to November 2021, even as the pace of expansion largely trailed the levels seen in October 2021. Moreover, the quarterly data suggests a modest broad-basing of the recovery in Q3 FY2022, relative to Q2 FY2022, when compared to respective pre-Covid volumes. However, the onset of the third wave of Covid-19 has triggered state-wise restrictions, which have expectedly interrupted the momentum in the ongoing month, reiterating that the recovery is yet to attain durability.

The YoY performance of 10 of the 15 high-frequency indicators improved in December 2021 compared to November 2021 (refer Exhibit 1), such as the generation of GST e-way bills, non-oil merchandise exports, electricity generation, two-wheeler output as well as aggregate deposits and non-food credit of scheduled commercial banks. While the performance of Coal India Limited (CIL), passenger vehicles (PVs), vehicle registrations, ports cargo traffic, and domestic airlines' passenger traffic worsened in December 2021, relative to the previous month, this was predominantly driven by an unfavourable base. Regardless, the YoY performance of nine of the 15 high frequency indicators in December 2021 trailed the growth seen in October 2021.

In month-on-month (MoM) terms, as many as 11 of the 13 non-financial indicators (barring vehicle registrations and scooter output) posted an uptick in December 2021 (refer Exhibit 2), reflecting the pick-up in economic activity and easing in disruption caused by November's heavy rainfall. In addition, FASTag toll collections and retail payments rose to all-time highs in December 2021, while the monthly mobility for retail and recreation rose above the level of baseline period for the first time since the onset of Covid-19 (refer Exhibit 6, 7 and 8). Compared to the pre-Covid volumes of December 2019, nine of the 13 non-financial indicators registered an improvement in December 2021 (refer Exhibit 3), whereas four recorded a decline. This is better than the performance in November 2021, when six of the 13 indicators were lower than their pre-Covid levels (refer Exhibit 4). The output of PVs and motorcycles has reverted to above pre-Covid levels in December 2021 from below pre-Covid in November 2021.

In terms of the quarterly performance, nine of the 14 non-financial lead indicators (including commercial vehicle output) reported higher volumes in Q3 FY2022, relative to Q3 FY2020 (refer Exhibit 5); this is moderately better than the pre-Covid performance in Q2 FY2022, when seven indicators (output of CV and CIL, GST e-way bills, rail freight, petrol consumption, non-oil exports, and electricity generation) had recorded higher volumes. Encouragingly, PV output and ports cargo traffic recorded a turnaround, printing above their pre-Covid volumes in Q3 FY2022, suggesting a modest broad-basing of the economic recovery. However, margin compression may have constrained the value-added growth, based on which ICRA expects the real GDP to expand by 6-6.5% YoY in Q3 FY2022 (+8.4% in Q2 FY2022).

Following the re-imposition of state-wise restrictions to curb the third wave of Covid-19, the early data for January 2022 is expectedly weak; the daily average generation of the GST e-way bills dipped to 2.1 million during January 1-16, 2022 from 2.3 million seen in December 2021. After a YoY growth in December 2021, the sales of petrol and diesel of state refiners have slipped back to a contraction in the first half of January 2022. Moreover, the YoY growth in electricity demand eased to 1.9% during January 1-16, 2022 from 2.8% in December 2021 (refer Exhibit 9).

- The aggregate auto output (spanning passenger vehicles or PVs, two- and three-wheelers) recorded a YoY contraction for the fifth consecutive month, although the pace of the same narrowed considerably to 14.1% in December 2021 (+9.0% in December 2020) from the 16-month low 26.2% in November 2021 (+1.7% in November 2020). This was driven by the trend in the output of scooters (-27.4% in December 2021 from -37.9% in November 2021, predominantly on account of a low base) and motorcycles (-9.2% from -24.5%). The output of PVs posted a YoY contraction for the fourth consecutive month in December 2021 amidst the ongoing supply disruptions, and the pace of the same worsened to 13.2% in that month (+24.2% in December 2020) from 9.5% in November 2021 (+4.5% in November 2020),[1] given the high base. Nevertheless, the YoY contraction in aggregate auto output in December 2021 (-14.1%) was narrower than what was recorded in October 2021 (-21.8%), driven by motorcycles (-9.2% in Dec 2021 vs. -21.3% in Oct 2021), and PVs (-13.2% vs. -24.6%), as opposed to the trend displayed by scooters (-27.4% vs -24.4%). Relative to the pre-Covid level of December 2019, aggregate auto output was a moderate 6.4% lower in December 2021, mainly led by scooters (-34.6%) reflecting subdued demand, even as motorcycles (+4.7%) and PVs (+7.8%) exceeded their pre-Covid volumes in December 2021.
- However, the pace of YoY contraction in retail demand for vehicles worsened to 16.1% in December 2021 (+11.6% in December 2020) from 2.7% in November 2021 (-17.5% in November 2020) and 5.3% in October 2021 (-22.3% in October 2020), as per the data released by FADA, partly driven by the weak appetite for two-wheelers as well as an unfavourable base effect. The YoY contraction in two-wheeler volumes worsened sharply to 19.9% in December 2021 from 0.8% in November 2021, amidst the continuing elevated cost of ownership (acquisition price and fuel costs). However, the YoY performance of PVs (to -10.9% from -19.4%; on a low base) and commercial vehicles (CVs; to +13.7% from +13.3%) improved in December 2021, relative to the previous month. Compared to pre-Covid volumes of December 2019, overall retail demand was 6.3% lower in December 2021, driven by 2Ws (-9.9%), 3Ws (-24.5%) and CVs (-1.1%). Subsequently, the daily data provided in the Vahan portal reveals that vehicle registrations stood at ~0.7 million during January 1-17, 2022, equivalent to a muted 44% and 45%, respectively, of the year-ago and previous month level, reflecting the impact of state-wise restrictions being triggered by the third wave of Covid-19.
- Amidst a double-digit YoY expansion in offtake for the third consecutive month, the YoY growth in the output of CIL declined consistently from 6.4% in October 2021 (+18.7% in October 2020) to 4.1% in November 2021 (+3.3% in November 2020) and 3.3% in December 2021 (+0.5% in December 2020). In MoM terms, the output of CIL rose by a healthy ~12% in December 2021, higher than the ~7% uptick in the offtake. Moreover, relative to December 2019, the output in December 2021 was higher by a modest 3.7%.
- 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) inched up to 2.5% in December 2021 (+5.1% in December 2020) from the revised 2.1% in November 2021 (+3.4% in November 2020), while remaining lower than the 3.2% uptick in October 2021 (+11.2% in October 2020). In MoM terms, the electricity generation in December 2021 posted a healthy 9.7% growth, mirroring the trend for demand (+9.9%) amid a moderation in surplus rainfall. Overall, electricity generation in December 2021 was 7.7% higher than the level in December 2019. As per the data released by POSOCO, the YoY growth in electricity demand has eased to 1.9% in January 1-16, 2022 from 2.8% in December 2021, with states imposing fresh restrictions amidst the third wave, and above-normal rainfall.
- Notwithstanding heightened uncertainty triggered by the Omicron variant, non-oil merchandise exports (in US$ terms) surged to a record-high US$31.9 billion in December 2021, with the pace of YoY expansion rebounding to 28.3% in that month (+6.0% in December 2020) from 18.2% in November 2021 (+0.5% in November 2020). Moreover, such exports expanded by 22.4% MoM in December 2021, and exceeded the pre-Covid level of December 2019 by a sharp 36%, partly reflecting the elevated commodity prices. Exports of commodities such as engineering and electronic goods, agricultural goods, organic and inorganic chemicals, and drugs and pharmaceuticals registered a healthy performance in December 2021 relative to the pre-pandemic levels. Subsequently, the YoY expansion in non-oil merchandise exports has reportedly moderated to 25.0% in YoY terms during the first week of January 2022.

[1] *The output for PVs provided by SIAM does not include that of Tata Motors Limited.*

- Despite the MoM growth of 5.9% in December 2021, the unfavourable base led the YoY contraction in cargo handled at major ports to deepen somewhat to 0.6% in that month (+4.2% in December 2020) from 0.2% in November 2021 (+2.9% in November 2020). Moreover, the YoY performance in December 2021 stood in contrast to the 6.5% growth seen in October 2021. Relative to the pre-Covid level of December 2019, the cargo traffic grew by 3.5% in December 2021, significantly lower than the surge displayed by merchandise exports (+39.5%) as well as merchandise imports (+50.2%) in that month, reaffirming the role of higher commodity prices in the relatively superior performance of the value of merchandise trade.
- The daily average generation of GST e-way bills rose to 2.3 million in December 2021 from 2.0 million in November 2021, while trailing the all-time high 2.4 million recorded in October 2021, in line with our anticipation. On a similar note, the YoY growth increased to 11.6% in December 2021 from 5.9% in November 2021, but lagged the 14.5% expansion recorded in October 2021. Subsequently, the daily average generation of GST e-way bills has decelerated to 2.1 million during January 1-16, 2022, following the state-wise restrictions to curb the third wave of Covid-19 infections, which does not augur well for economic activity in January 2022.
- In addition, the YoY growth in rail freight traffic rose modestly to 7.2% in December 2021 (+8.7% in December 2020) from 6.1% in November 2021 (+9.0% in November 2020), while lagging the 8.4% expansion in October 2021. Sequentially, it rose by a healthy 8.5% or 10.0 million tonnes in December 2021; while the trend was broad-based, three commodities, namely, coal (+3.2 mn tonnes), cement (+2.3 mn tonnes) and iron ore (+1.0 mn tonnes) together accounted for 65% of the MoM increase in total freight during December 2021. Moreover, rail freight exceeded the December 2019 level by a sharp 16.5%, benefitting from the tariff and non-tariff measures undertaken in August 2020 to boost the rail operations.
- With a robust 12.3% MoM increase in December 2021, diesel consumption witnessed a healthy turnaround to a YoY growth of 1.6% in that month (-2.7% in December 2020) from the contraction of 7.6% and 5.4%, respectively, in November 2021 (-6.9% in November 2020) and October 2021 (+7.5% in October 2020). Regardless, the consumption of diesel in December 2021 lagged the pre-Covid level by 1.1%. Following the state-wise restrictions, the preliminary data compiled by state refiners reveals that diesel sales have declined by ~5% on a YoY basis in the first half of January 2022, while trailing the pre-Covid level of January 1-15, 2020 by ~8%.
- Similarly, petrol consumption reverted to a YoY growth of 4.1% in December 2021 (+9.4% in December 2020) after having contracted by the muted 0.7% in November 2021 (+5.1% in November 2020). Moreover, the YoY growth in December 2021 was higher than the 3.7% uptick in October 2021. Relative to December 2019, petrol consumption exceeded by a healthy ~14% in December 2021, given the continued preference for social distancing in personal mobility. Subsequently, the preliminary data reveals that petrol sales in the first half of January 2022 have slipped back to a YoY decline of ~3%, mirroring the dip in mobility; nevertheless, it surpassed the pre-Covid volumes of January 1-15, 2020 by ~6%.
- Domestic airlines' passenger traffic registered a sequential uptick of 5-6% to ~11.1 million in December 2021 (as per ICRA's estimates), benefitting from the year-end holiday season demand. Regardless, the pace of YoY expansion moderated further to ~52% in December 2021 (-43.7% in December 2020) from 65.5% in November 2021 (-50.9% in November 2020) and 70.5% in October 2021 (-57.2% in October 2020), on a normalising base. In addition, traffic in December 2021 was a moderate ~15% lower than the December 2019 level (13.0 million). However, the ongoing surge in Covid-19 cases and domestic air travel restrictions being imposed by some states will interrupt the recovery in domestic air passenger traffic.
- With the reporting fortnight coinciding with the quarter-end amid the gradual normalisation of economic activity, the YoY growth in outstanding non-food bank credit rose to 9.3% as on December 31, 2021 from 7.1% on November 19, 2021. Moreover, the YoY growth in bank deposits improved to 10.3% from 9.8%, respectively, following a sizeable influx of Rs. 3.7 trillion in the fortnight ended December 31, 2021, as against a withdrawal of Rs. 0.9 trillion seen in the previous fortnight.

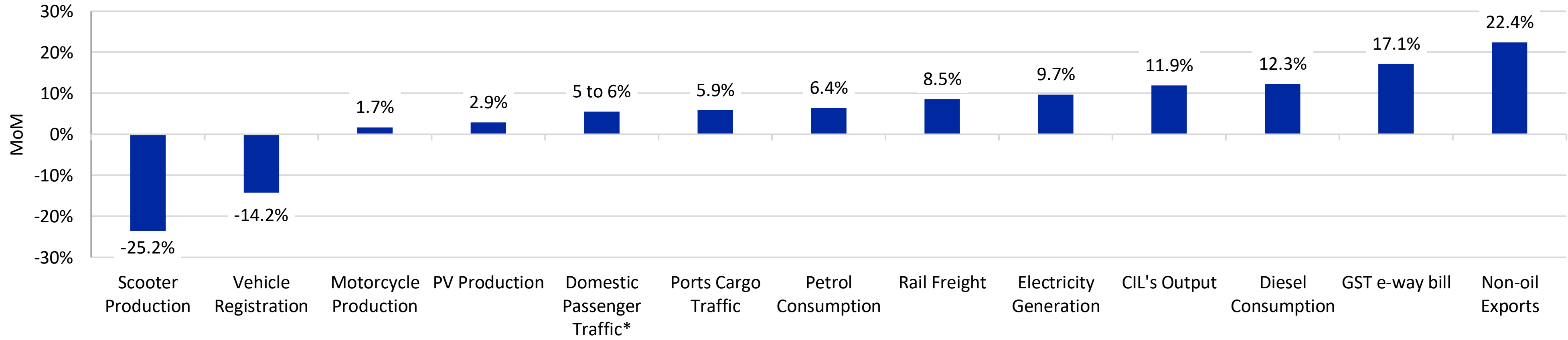
EXHIBIT 1: The YoY performance of 10 of the 15 lead indicators recorded an improvement in December 2021, relative to November 2021, such as electricity generation, GST e-way bills, non-oil exports, output of two-wheelers, bank deposits, non-food bank credit, fuel consumption, etc.; moreover, the deterioration in YoY performance of PVs, CIL, ports cargo traffic and domestic airlines' passenger traffic was predominantly led by the unfavourable base; however, the Dec 2021 growth of many indicators trailed the Oct 2021 levels

YoY (%)	PV Prod.	Scooter Prod.	Motor cycle Prod.	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
Oct-21	-24.6	-24.4	-21.3	-5.3	6.4	3.2	29.8	6.5	14.5	8.4	3.7	-5.4	70.5	9.9	6.9
Nov-21	-9.5	-37.9	-24.5	-2.7	4.1	2.1	18.2	-0.2	5.9	6.1	-0.7	-7.6	65.5	9.8	7.1
Dec-21	-13.2	-27.4	-9.2	-16.1	3.3	2.5	28.3	-0.6	11.6	7.2	4.1	1.6	52*	10.3	9.3

Based on ICRA's estimates; ^Electricity generation comprises thermal, hydro, nuclear and renewable energy;* ***Note:* *The output for PVs provided by SIAM does not include that of Tata Motors Limited;* ***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); Federation of Automobile Dealers Associations of India (FADA); 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; ICRA Research*

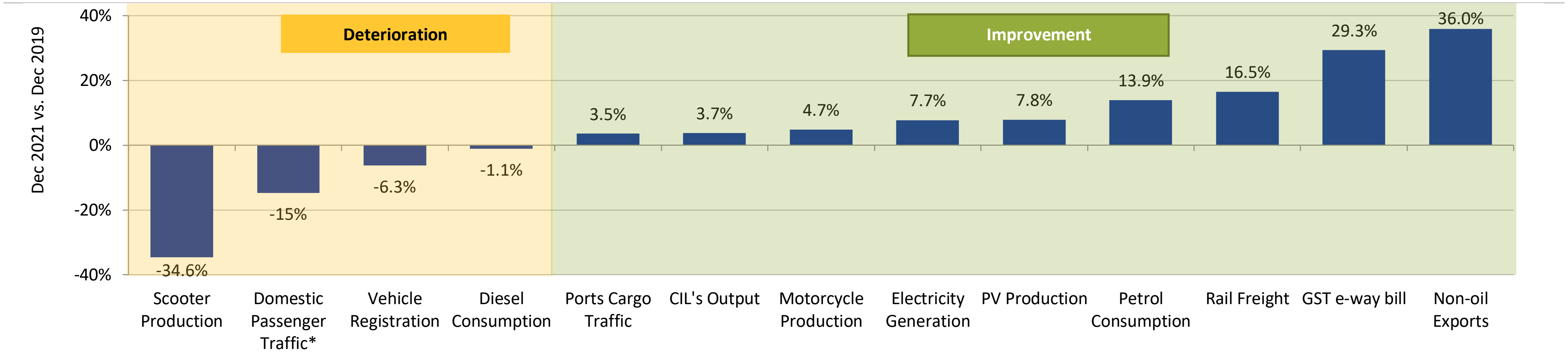
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip

EXHIBIT 2: Except scooter output and vehicle registrations, 11 of the 13 non-financial monthly indicators witnessed MoM growth in December 2021, as the impact of the festive season holidays and rainfall related disruption ebbed; the extent of MoM increase was in a wide range of 1-23%



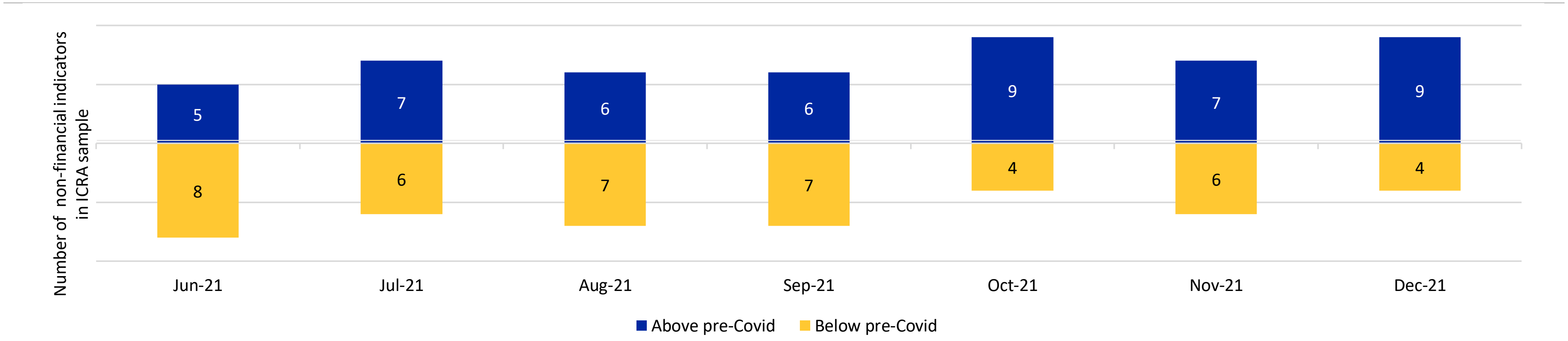
Based on ICRA's estimates;* ***Source:* *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 3: Relative to pre-Covid levels, nine of the 13 non-financial indicators recorded an improvement in December 2021, and only four indicators, namely domestic passenger traffic, scooters' production, vehicle registrations and diesel consumption lagged their December 2019 volumes



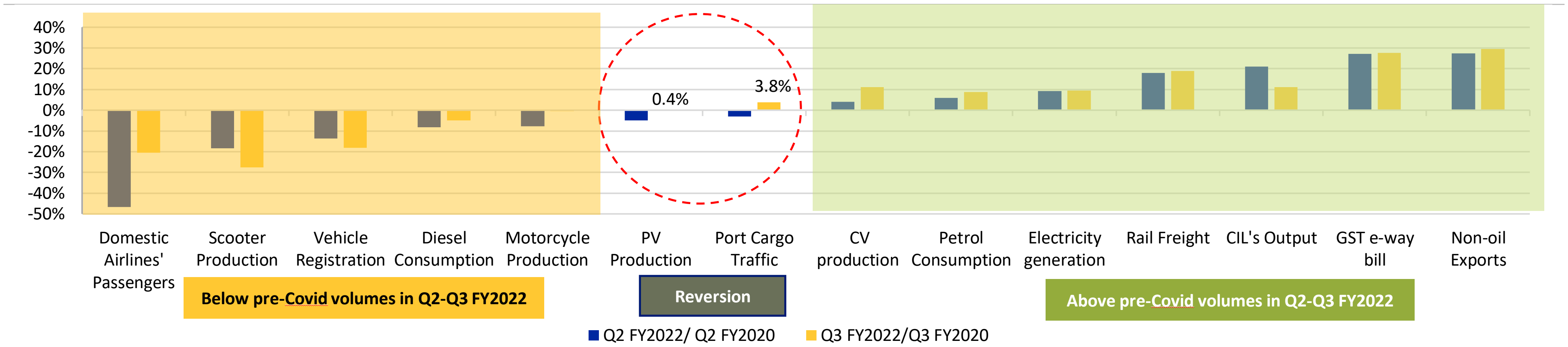
Based on ICRA's estimates;* ***Source:* *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 4: Out of the 13 non-financial monthly indicators, the number surpassing the corresponding pre-Covid volumes improved to nine in December 2021 from seven in November 2021, in line with the trend in October 2021; output of PVs and motorcycles reverted to above pre-Covid in December 2021 from below pre-Covid in November 2021



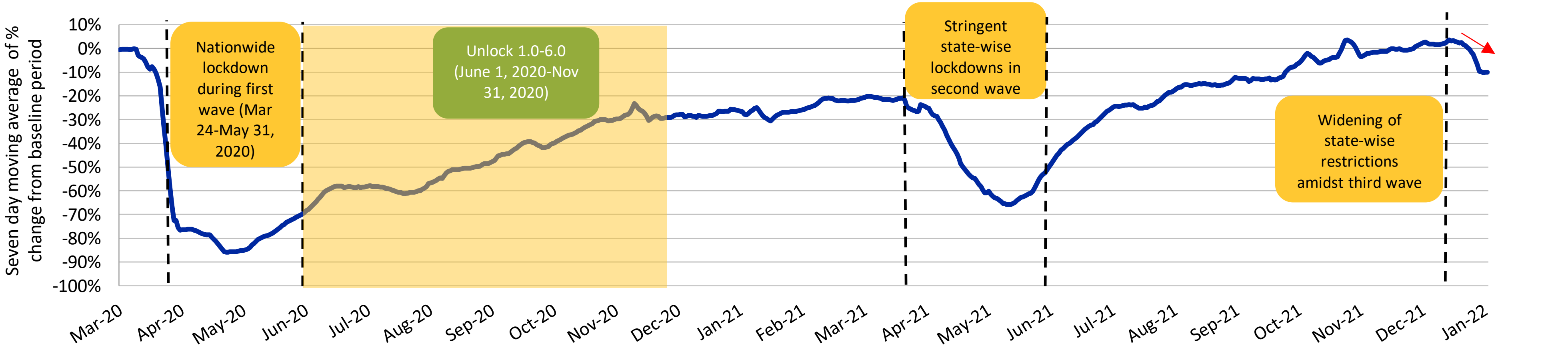
Source: *ICRA Research*

EXHIBIT 5: In terms of the quarterly performance relative to the pre-Covid levels, out of the 14 indicators, nine reported higher volumes in Q3 FY2022, as compared to seven in Q2 FY2022, indicating a modest widening of the recovery



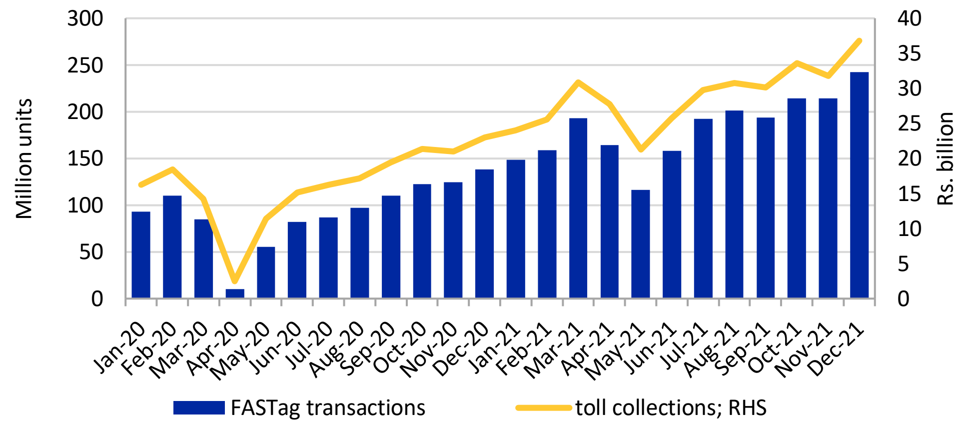
Source: *SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 6: The mobility for retail and recreation had surpassed the baseline level by end-Dec 2021 by 2.4% (seven-day moving average); subsequently, it slipped below the baseline level by a sharp 10% as on Jan 13, 2022, reflecting the impact of re-imposition of state-wise restrictions amidst the third wave of Covid-19



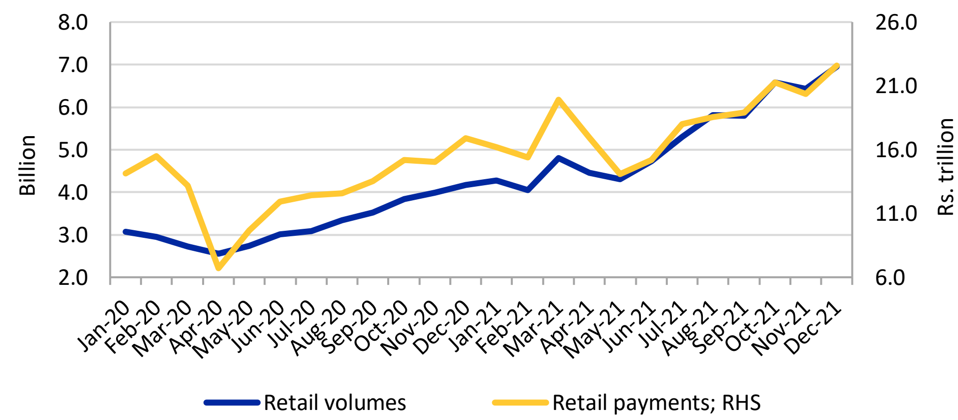
Data is available up to January 13, 2022; The percentage change is compared to a baseline value for the same day of the week, Baseline period: Jan 3, 2020- Feb 6, 2020; ***Source:*** *CEIC; ICRA Research*

EXHIBIT 7: FASTag transactions and electronic toll collections surged to record highs in December 2021, with a healthy sequential rise of 13.0% and 15.8%, respectively



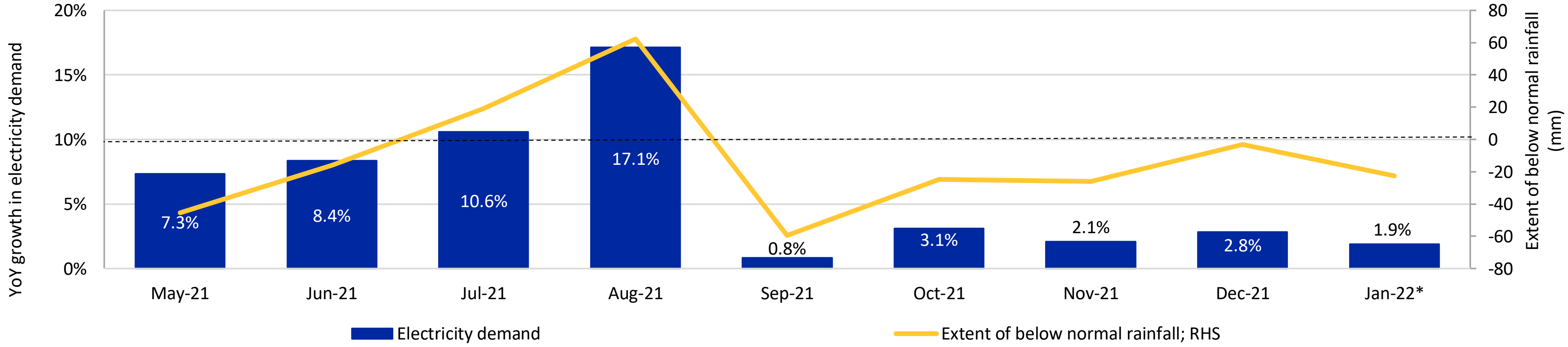
Source: *National Payments Corporation of India; ICRA Research*

EXHIBIT 8: Similarly, retail transactions and payments reached all-time highs in December 2021, indicating an increase of 8.1% and 10.9%, in MoM terms



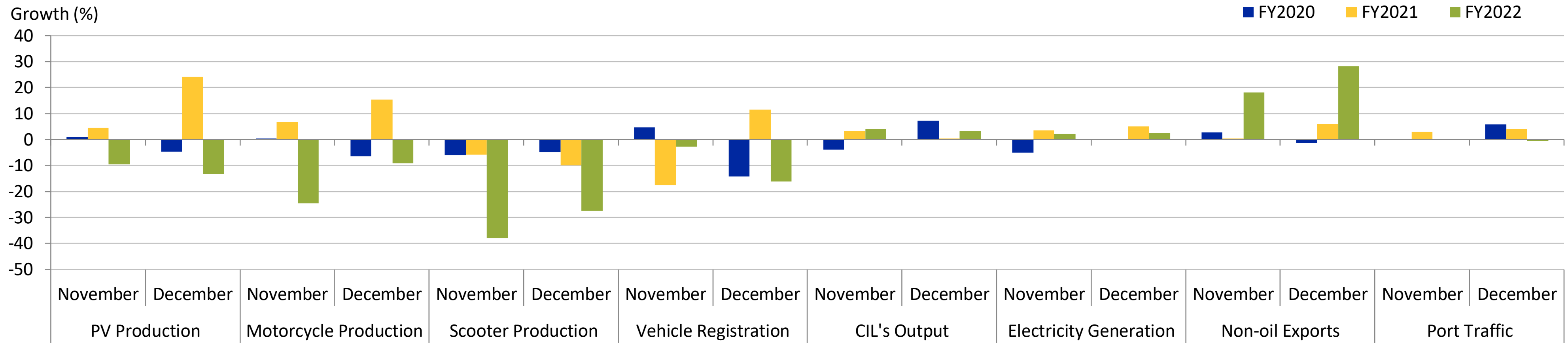
Source: *National Payments Corporation of India; ICRA Research*

EXHIBIT 9: The YoY growth in electricity demand improved to 2.8% in December 2021 from 2.1% in November 2021, with a moderation in surplus rainfall to 3.1 mm from 26.1 mm, respectively, subsequently, it has fallen to a muted 1.9% during Jan 1-16, 2022, following the renewed state-wise restrictions amidst the third wave and higher pan-India rainfall



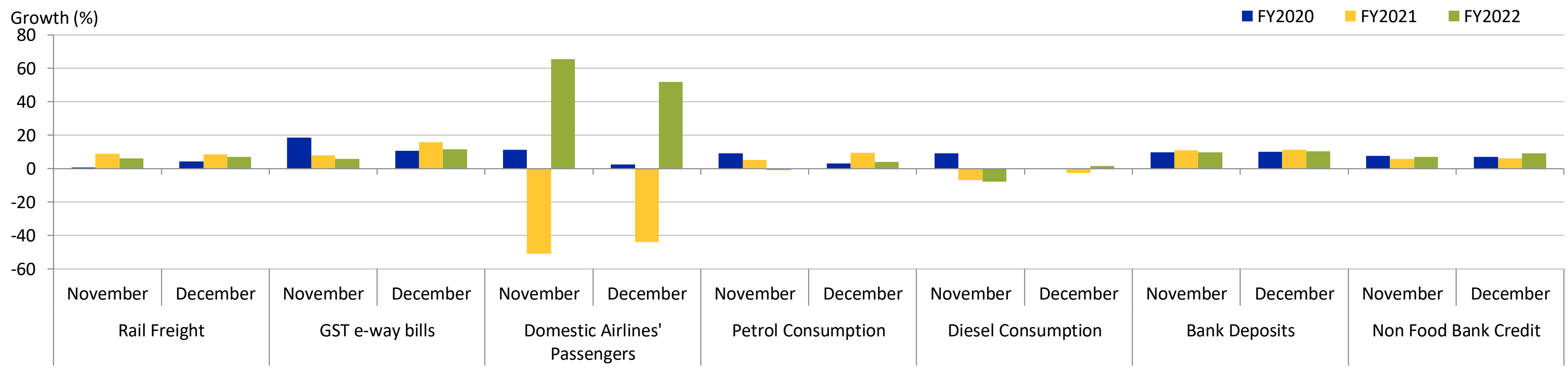
Till January 16, 2022;* ***Source:* *IMD; POSOCO; CEIC; ICRA Research*

EXHIBIT 10: YoY Growth for Last Three Years in November and December (Part -I)



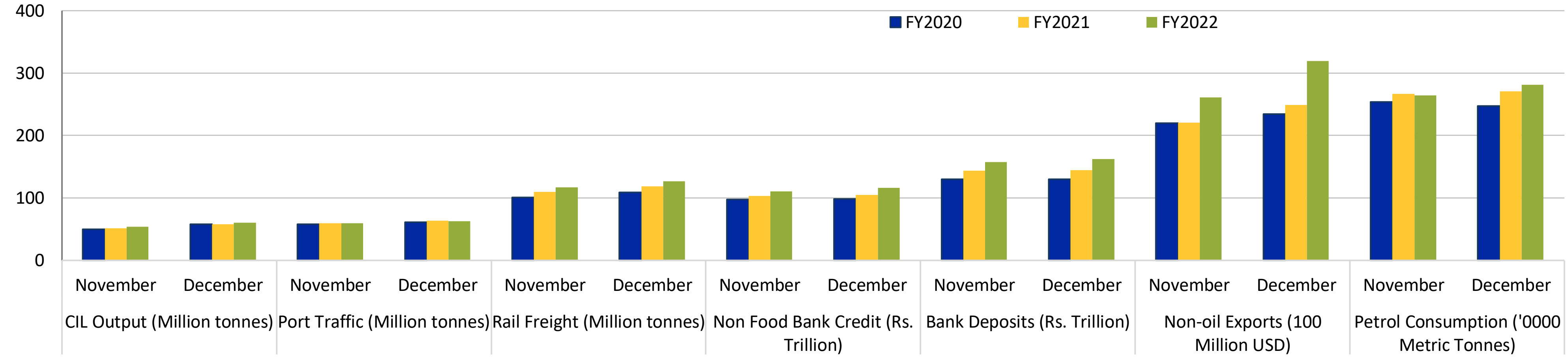
Source: *MoRTH; SIAM; CIL; CEA; Indian Ports Association; Ministry of Commerce, GoI; CEIC; ICRA Research*

EXHIBIT 11: YoY Growth for Last Three Years in November and December (Part -II)



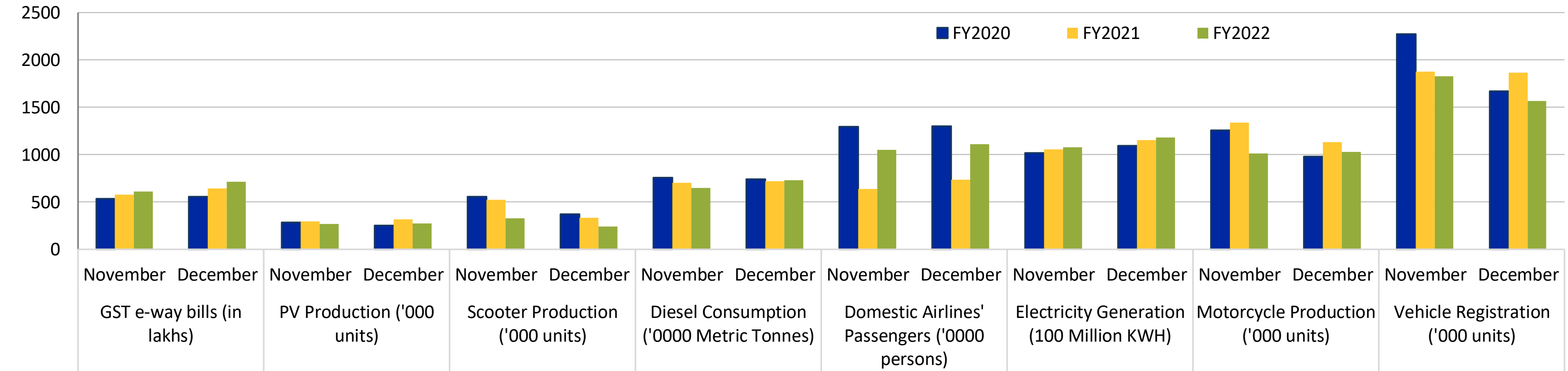
Source: *Indian Railways; GSTN; PPAC; DGCA; PPAC; RBI; CEIC; ICRA Research*

EXHIBIT 12: Trends in Volumes for Last Three Years in November and December (Part -I)



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

EXHIBIT 13: Trends in Volumes for Last Three Years in November and December (Part -II)



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

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