



ICRA BUSINESS ACTIVITY MONITOR - AN INDEX OF HIGH FREQUENCY ECONOMIC INDICATORS

**Economic activity rebounded in
August 2022, ahead of festive
season**

SEPTEMBER 2022





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ICRA Business Activity Monitor is a composite indicator that comprises:

- Auto production (2Ws and PVs)
- Vehicle registrations
- Output of Coal India Limited (CIL)
- Power generation
- Rail freight traffic
- Non-oil merchandise exports
- Cargo handled at major ports
- Consumption of petrol and diesel
- Finished steel consumption
- Generation of GST e-way bills
- Domestic airline passenger traffic
- Aggregate deposits and non-food credit of SCBs

India's economic activity rebounded in August 2022, after the subdued performance in July 2022. The year-on-year (YoY) growth in the ICRA Business Activity Monitor - an index of high frequency economic indicators* rose to 11.4% in August 2022, from 10.9% in the previous month, with an improvement in the performance of nine of the 16 constituent indicators. Encouragingly, the index was a robust 16.6% higher than the pre-Covid levels in August 2022, the highest in FY2023 so far. This was also the widest expansion since the pandemic started, with as many as 11 indicators reporting volumes above their pre-Covid levels.

The month-on-month (MoM) trend also improved in August 2022, relative to 2019, indicating widening of the economic momentum amid some moderation in rainfall, easing of supply-side issues like semiconductor availability for the auto sector, and pre-festive accumulation of inventories. ICRA is cautiously optimistic that the pre-festive stocking implied by the record-high generation of GST e-way bills in August 2022 is an indication of a revival in confidence and imminent improvement in demand for goods. This, in conjunction with the favourable impact of the softening commodity prices, is a positive development ahead of the festive season. While a normalising base will moderate the YoY expansion, GDP growth is expected to rise to ~8.0% in Q2 FY2023 from 3.8% in Q1 FY2023, when compared to the pre-Covid levels of 2019, which is a more tangible signal of the ongoing, yet uneven recovery.

- **Economic activity posted a mild rebound in August 2022:** The ICRA Business Activity Monitor rebounded to 114.1 in August 2022, after having declined to the five-month low of 113.5 in July 2022. In YoY terms, the growth in the index rose to 11.4% in August 2022 (+16.2% in August 2021) from 10.9% in the previous month (+18.2% in July 2021), with an improvement in the performance of nine of the 16 high frequency indicators including the generation of GST e-way bills, production of motorcycle and PVs, vehicle registrations, consumption of finished steel, petrol and diesel.
- **MoM performance was better in August 2022 vis-à-vis 2021 and 2019:** After declining for two consecutive months, the index rose by 0.6% in August 2022, better than the MoM trends seen in August 2021 (+0.2%) and August 2019 (-3.0%), indicating widening of economic activity momentum amid some moderation in rainfall, easing of

**While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Source: ICRA Research*

EXHIBIT: Index Level of ICRA Business Activity Monitor (FY2019=100)

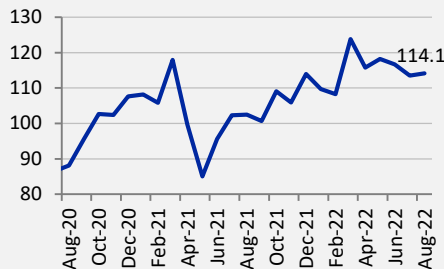
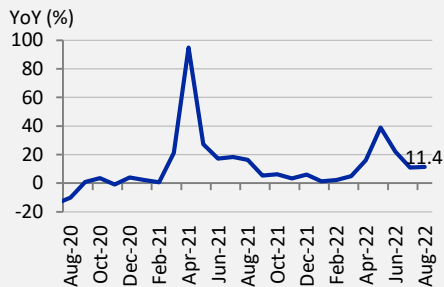


EXHIBIT: YoY trends in ICRA Business Activity Monitor



supply-side issues like semiconductor availability for the auto sector, and pre-festive accumulation of inventories, even as the slowdown in external demand continued to act as a dampener for domestic economic activity.

- **Number of indicators above pre-Covid levels at a high in August 2022:** The ICRA Business Activity Monitor indicates that aggregate activity in August 2022 exceeded the August 2019 levels by a robust 16.6%, the highest in FY2023 so far. The number of non-financial sectors reporting above pre-Covid volumes rose to 11 in August 2022, up from nine in the previous month, the best such performance since the onset of the pandemic.
- **Early data for September 2022 is mixed:** The all-India electricity demand witnessed a healthy surge in September 1-13, 2022 owing to the moderation in rainfall in early part of the month, although the average daily vehicle registrations have recorded an MoM decline of ~7% in September 2022 so far. While the registrations are expected to pick up during the *Navratri* season, the onset of the 15-day *Shradh* period is likely to constrain the overall retail volumes in the month. Notwithstanding the early trends for September 2022, we are cautiously optimistic that the pre-festive stocking implied by the record-high generation of GST e-way bills in August 2022 is an indication of a revival in confidence and imminent improvement in demand for goods. This, in conjunction with the favourable impact of the softening commodity prices, is a positive development ahead of the festive season.
- **YoY GDP growth likely to moderate to 6.5-7.0% in Q2 FY2023 on normalising base:** The ongoing decline in global commodity prices offers some relief for business margins, and the sustained recovery in services demand and signs of inventory build-up prior to the festive season are encouraging. However, the YoY lag in kharif sowing and flagging external demand imbue some caution into the near-term outlook. On balance, we project the GDP expansion at 6.5-7.0% for Q2 FY2023, a base-effect led moderation from 13.5% in Q1 FY2023.
- **GDP growth, relative to pre-Covid levels, to double to 8.0% in Q2 FY2023:** Crucially, GDP growth is expected to rise to ~8.0% in Q2 FY2023 from 3.8% in Q1 FY2023, when compared to the pre-Covid levels of 2019, which is a more tangible signal of the ongoing, yet uneven recovery.

ICRA Business Activity Monitor includes high frequency indicators related to industrial and service sectors

ICRA Business Activity Monitor



**Auto
Production
(PV and 2W)
and vehicle
registrations**



**Coal India
Limited
output**



**Power
Generation**



**Rail Freight
Traffic**



**Non-oil
Merchandise
Exports**



**Cargo
handled at
Major Ports**



**Consumption
of Petrol and
Diesel**



**Finished
Steel
Consumption**



**Generation of
GST e-way
bills**



**Domestic
Airline
Passenger
Traffic**

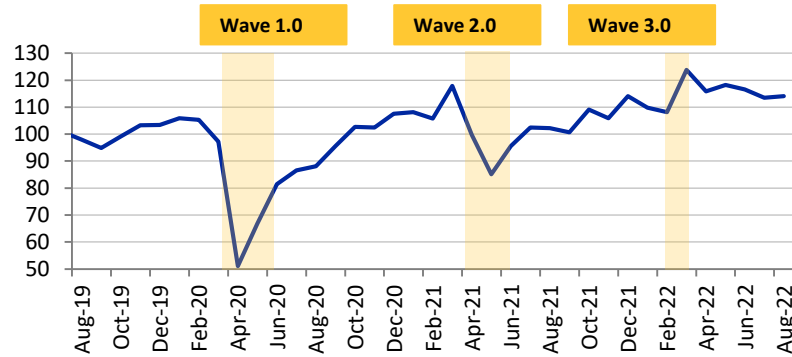


**Aggregate
Deposits and
Non-food
credit of SCBs**

Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator ; SCB: Scheduled Commercial Banks; PV: Passenger Vehicles; 2W: Two-wheelers; Source: ICRA Research

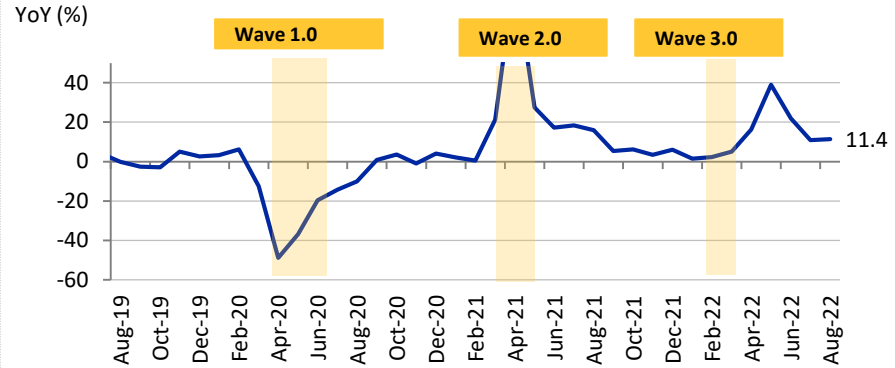
ICRA Business Activity Monitor rebounded in Aug 2022, with uptick in YoY growth to 11.4% from 10.9% in July 2022

EXHIBIT: Level of ICRA Business Activity Monitor (FY2019=100)



Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Source: ICRA Research

EXHIBIT: YoY growth of ICRA Business Activity Monitor



- The YoY growth in the ICRA Business Activity Monitor rose to 11.4% in August 2022 (+16.2% in August 2021) from 10.9% in July 2022 (+18.2% in July 2021). As many as nine of the 16 high frequency indicators witnessed an improvement in their growth performance in August 2022; these include the generation of GST e-way bills, production of motorcycle and PVs, vehicle registrations, consumption of finished steel, petrol and diesel, as well as aggregate deposits and non-food credit of SCBs.
- Moreover, the index rebounded to 114.1 in August 2022, after having declined to the five-month low of 113.5 in July 2022. While the MoM growth was low at 0.6%, it was superior to the MoM trends seen in August 2021 (+0.2%) and August 2019 (-3.0%), indicating a widening momentum of economic activity amid some moderation in excess rainfall (3.5% above LPA in August 2022 vs. 16.8% above LPA in July 2022), easing of supply-side issues like semi-conductor availability for the auto sector, and pre-festive accumulation of inventories, even as the slowdown in external demand acted as a dampener.

Nine of the 16 indicators improved in Aug 2022 relative to July 2022 - reflecting easing supply-side issues, pre-festive stocking

EXHIBIT: Heatmap of high frequency indicators

YoY Growth (%)	Auto Output			Vehicle Registration	CIL	Electricity Generation	Non-oil Export	Ports Cargo Traffic	Rail Freight	GST e-way bills	Finished Steel Consumption	Domestic Airlines Passenger	Petrol	Diesel	Bank Deposits	Non-Food Bank Credit
	PV output	Scooter output	Motorcycle output													
Mar-22	-4.9	-24.7	-17.8	-2.8	-1.1	4.9	8.9	1.2	7.2	9.7	0.7	35.8	6.2	6.7	8.9	9.7
Apr-22	0.5	7.5	-1.2	37.3	27.6	11.6	17.7	5.5	9.4	28.0	1.8	84.2	17.2	7.9	9.8	11.3
May-22	131.5	411.3	111.2	204.6	30.0	23.7	12.6	8.9	14.6	84.1	21.3	442.2	51.5	31.7	9.3	12.6
Jun-22	9.5	78.1	12.4	26.3	28.9	16.7	10.3	13.6	11.3	36.2	5.9	237.6	23.2	23.9	8.3	13.7
Jul-22	7.7	28.2	-3.3	-7.5	11.1	2.4	0.8	15.0	8.3	17.8	12.5	93.8	6.8	8.2	9.1	15.1
Aug-22	25.0	10.9	14.3	5.5	8.5	0.9	-1.8	8.0	7.9	18.7	13.1	52*	11.6	13.0	9.5	16.0

YoY growth; sequential pick-up

YoY growth; sequential dip

YoY growth; no sequential change

YoY contraction; sequential pickup

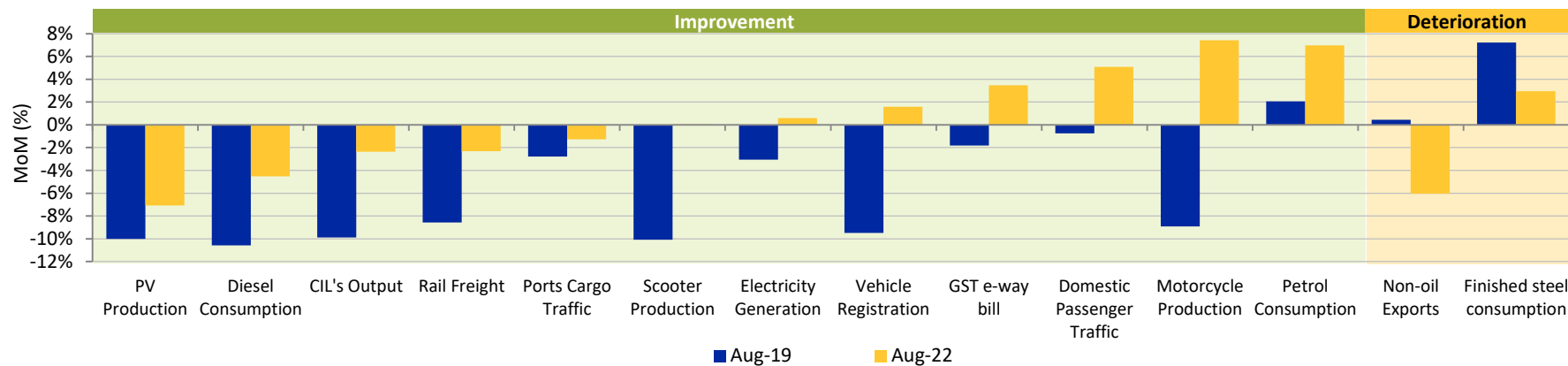
YoY contraction; sequential dip

In contrast, seven indicators witnessed a YoY deterioration in August 2022, relative to the previous month, on account of the continued impact of monsoons, weakening momentum of external demand, as well as base normalisation in some sectors, post the Covid 2.0 wave.

**As per ICRA's estimates, SCBs; Scheduled Commercial Banks; Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Passenger Vehicles (PV), scooter and motorcycle refers to growth in production volumes; CIL: Coal India Limited. Auto includes output of PV, two-wheelers and three-wheelers, CIL refers to growth in production volumes; electricity generation includes thermal, hydro, renewable and nuclear electricity; petrol and diesel refer to growth in consumption volumes; bank deposits and bank credit refer to growth in O/S volumes; Data on finished steel consumption (non alloy and alloy/stainless) is taken from JPC; Source: SIAM; Joint Plant Committee; CIL; CEA; Indian Ports Association; Ministry of Finance; Ministry of Commerce, GoI; Goods and Services Tax Network; Ministry of Petroleum & Natural Gas; Directorate General of Civil Aviation; PPAC; Indian Railways; Reserve Bank of India; Vahan Portal; Ministry of Road Transport and Highways; CMIE; CEIC; ICRA Research*

MoM performance of most indicators was better in Aug 2022 vis-à-vis Aug 2019

EXHIBIT: MoM performance of non-financial economic indicators

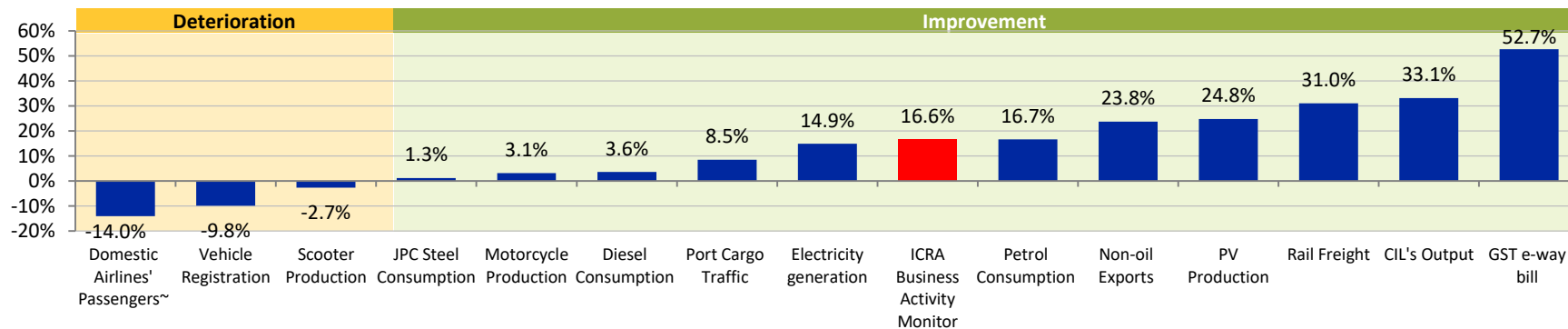


- If we compare the MoM trends with the pre-Covid month (August 2019), as many as 12 out of the 14 non-financial monthly indicators, other than non-oil exports (-5.7% in August 2022 vs. +0.4% in August 2019) and finished steel consumption (+3.0% vs. +7.2%) performed better in August 2022.
- Eight indicators reported a sequential uptick in August 2022, such as the two-wheeler output (motorcycle: +7.4%; scooter: +0.1%), vehicle registrations (+1.6%), domestic airlines' passenger traffic (+5%; as per ICRA's estimates), GST e-way bills (+3.5%), consumption of petrol (+7.0%) and steel (+3.0%) and electricity generation (+0.6%).

Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Source: SIAM; CIL; CEA; MoRTH; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research

ICRA Business Activity Monitor was 16.6% above pre-Covid levels in Aug 2022

EXHIBIT: Performance of non-financial economic indicators in Aug 2022 relative to Aug 2019 (pre-Covid)

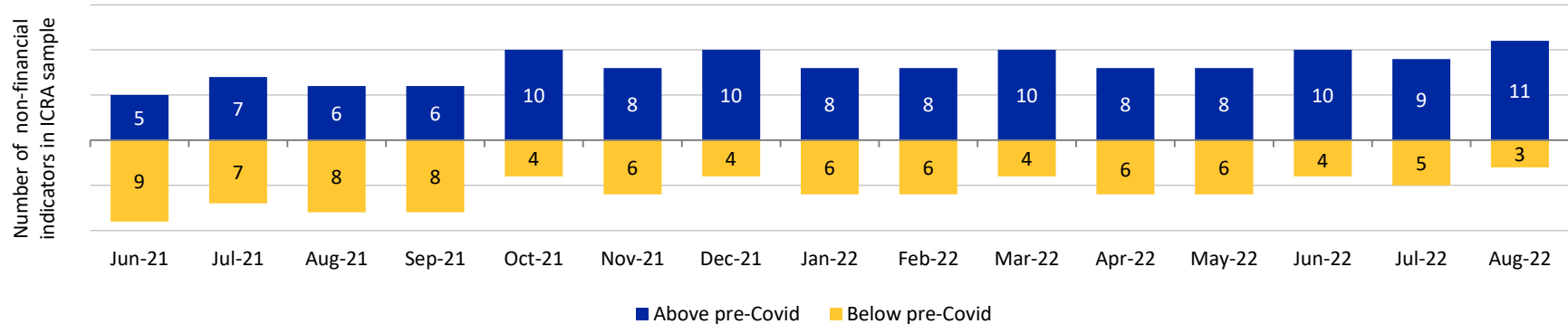


~Includes ICRA's estimates; Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Source: SIAM; CIL; CEA; MoRTH; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research

- The ICRA Business Activity Monitor indicates that aggregate activity in August 2022 exceeded the pre-Covid level of August 2019 by a robust 16.6%, better than the corresponding pre-Covid performance seen in July 2022 (+12.4%), the highest in FY2023 so far.

Number of indicators above pre-Covid volumes improved to 11 in Aug 2022, the highest since the onset of pandemic

EXHIBIT: Number of non-financial economic indicators above and below pre-Covid levels

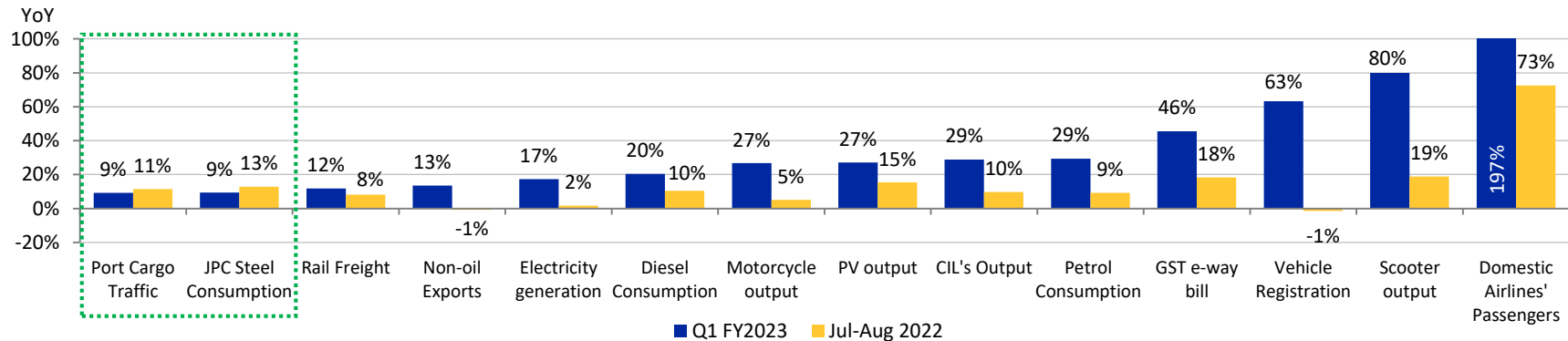


Note: Pre-Covid level for April-July 2022 has been taken as April-July 2019, due to onset of first wave in April 2020, impacting the performance of some indicators in that month; Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Source: ICRA Research

- The number of non-financial sectors reporting above pre-Covid volumes rose to 11 in August 2022, up from nine in the previous month, while registering the highest number of above pre-Covid indicators since the period of analysis after the onset of pandemic. Diesel consumption and motorcycle production turned positive relative to pre-Covid levels in August 2022, after lagging in the previous month.
- Domestic airlines' passenger traffic (indicating incomplete revival in demand for contact intensive services, albeit partly impacted by heavy rainfall), scooter production (on account of elevated cost ownership, erratic monsoon, and low crop realisation weighing on demand) and vehicle registrations (led by 2Ws and tractors) trailed their pre-Covid volumes in August 2022.

Growth of most indicators expectedly moderated in Jul-Aug 2022 on normalised base; GDP growth pegged at ~6.5-7.0% YoY for ongoing quarter

EXHIBIT: YoY performance of high frequency indicators in Q1 FY2023 and Jul-Aug 2022

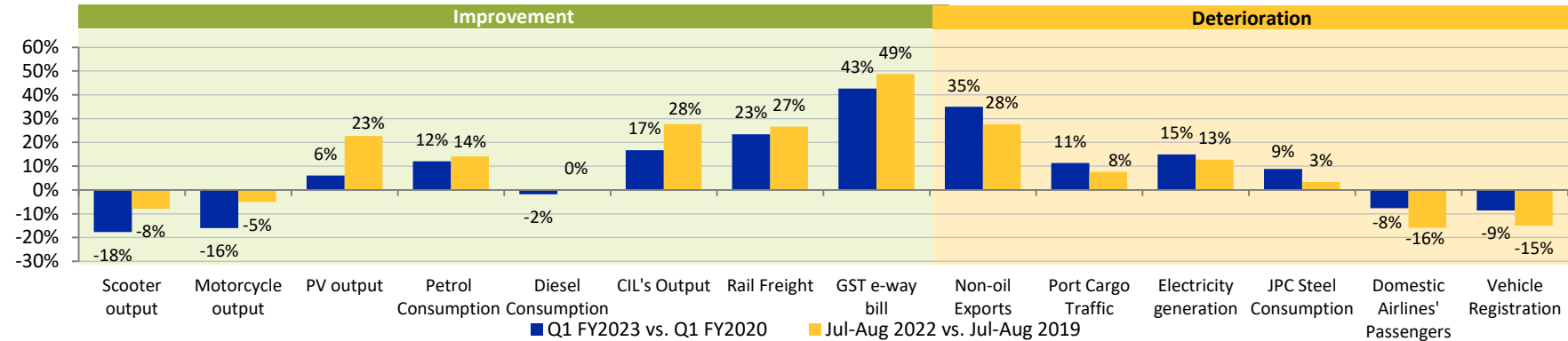


Source: ICRA Research

- The YoY performance of 12 of the 14 non-financial indicators witnessed an expected deterioration in July-August 2022 relative to Q1 FY2023, on account of the normalisation of the base after the easing of the Covid 2.0 wave. In contrast, the growth in ports cargo traffic and finished steel consumption improved in this period.
- The pace of YoY growth in Jul-Aug 2022 ranged widely from 2% (electricity generation) to as high as 73% (domestic airlines' passenger traffic), depending upon the extent of improvement the sector had experienced in July-Aug 2021 after the second wave of Covid-19.
- Only two indicators, namely, non-oil exports and vehicle registrations, slipped into a YoY decline in Jul-Aug 2022, with the former reflecting the impact of slowing external demand and the latter being largely constrained by the lower demand for 2Ws amid elevated ownership costs, and weak sentiments.
- **Given the available trends for the non-agri indicators for Jul-Aug 2022, the decline in global commodity inflation and the recovery in the demand for services amidst the YoY lag in kharif sowing, we project the GDP expansion at 6.5-7.0% for Q2 FY2023, a base-effect led moderation from 13.5% in Q1 FY2023.**

Majority of indicators witnessed an improvement in pre-Covid performance in Jul-Aug 2022; Q2 FY2023 GDP growth to pick up vis-à-vis pre-Covid levels

EXHIBIT: Performance of high frequency indicators in Q1 FY2023 and Jul-Aug 2022, relative to their respective pre-Covid period of FY2020

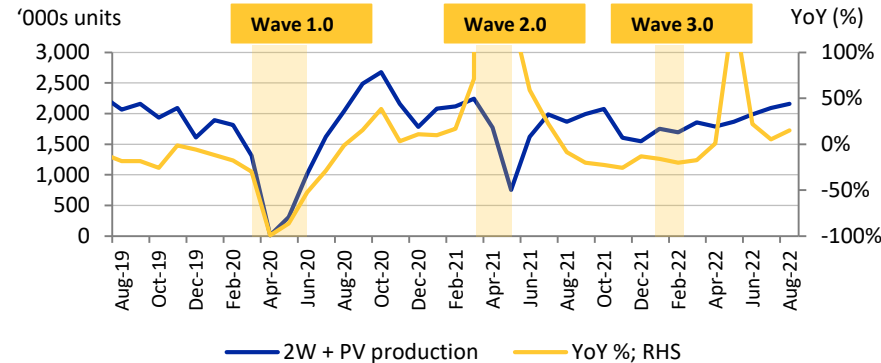


Source: ICRA Research

- While the YoY growth of most indicators posted a base-effect led moderation in Jul-Aug 2022, relative to Q1 FY2023, the performance of eight of the 14 non-financial indicators witnessed an improvement compared to the pre-Covid volumes of Jul-Aug 2019, relative to the corresponding pre-Covid performance of Q1 FY2023. This set of indicators include automobile production, consumption of petrol and diesel, GST e-way bills, rail freight traffic and the CIL's output.
- This implies that the economic recovery gained pace in Jul-Aug 2022 vis-à-vis Q1 FY2023, relative to the pre-Covid levels of 2019, but is yet to become fully broad-based.
- Mirroring the improving trend in the pre-Covid performance of majority of non-agri indicators in Jul-Aug 2022, compared to Q1 FY2023, the increase in real GDP in Q2 FY2023 over Q2 FY2020 is expected to pick up to ~8.0%, twice as high as the 3.8% seen in Q1 FY2023 over Q1 FY2020.

Auto sector showed a positive trend in Aug 2022 boosted by favourable base, pre-festive stocking, and easing of supply-side issues

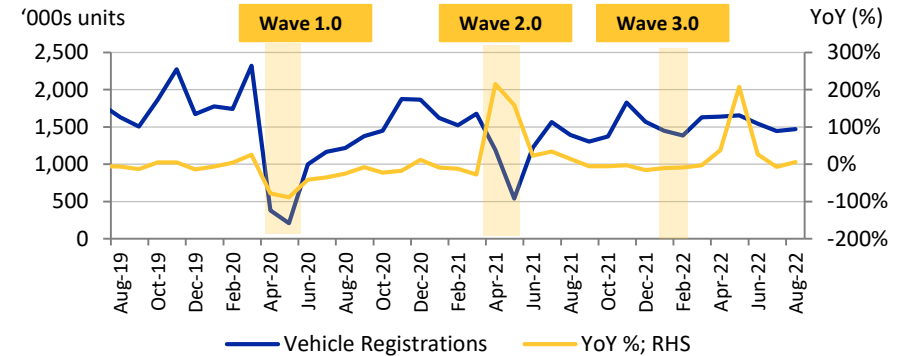
EXHIBIT: Trends in production of PV and two wheelers (2W)



The data on PV production provided by SIAM does not include that of Tata Motors Limited; Source: SIAM; CEIC; ICRA Research

- The YoY growth in the aggregate output of PVs and 2Ws rose sharply to 14.9% in August 2022 from 5.4% in July 2022, reflecting a favourable base (-7.9% in August 2021), improvement in semiconductor availability, and pre-festive stocking.
- However, the output of PVs (-7.1%) recorded a sequential dip in August 2022, while 2Ws (+5.1%) witnessed an MoM uptick, in tune with emerging signs of a demand recovery.
- Relative to pre-Covid volumes of August 2019, volume of PVs recorded a healthy growth of 24.8% in August 2022, while the output of 2Ws recorded a muted growth of 1.3%.

EXHIBIT: Trends in vehicle registrations

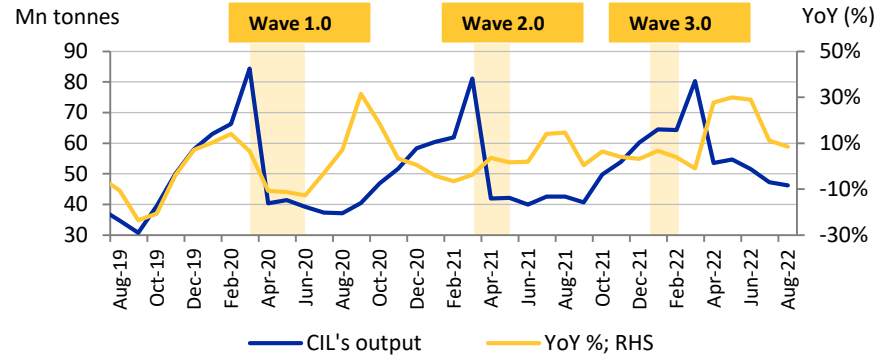


Note: For comparability analysis across different periods, we have removed newly issued data on Andhra Pradesh and Madhya Pradesh; Data on Lakshadweep and Telangana is not available; Source: Vahan, ICRA Research

- Vehicle registrations reverted to a YoY growth of 5.5% in August 2022, after having contracted by 7.5% in July 2022, led by a favourable base effect.
- As per the data released by FADA, retail volumes of PVs (+41.4%) and CVs (+6.2%) exceeded the August 2019 levels in August 2022. In contrast, tractors (-7.2%), 2Ws (-15.9%) and 3Ws (-0.7%) trailed their pre-Covid levels on account of high inflation, erratic monsoon and high cost of ownership.
- ICRA expects PV volumes to grow by 13-16% YoY in FY2023, aided by the improvement in semiconductor supplies. Additionally, ICRA is cautiously optimistic of the 2W demand recovery in FY2023 amid multiple headwinds stemming from elevated ownership costs, persisting inflationary pressures, increase in financing rates and erratic monsoons impacting kharif sowing.

Surplus rains expectedly dampened CIL's output and electricity generation in August 2022; both remained comfortably above pre-Covid levels

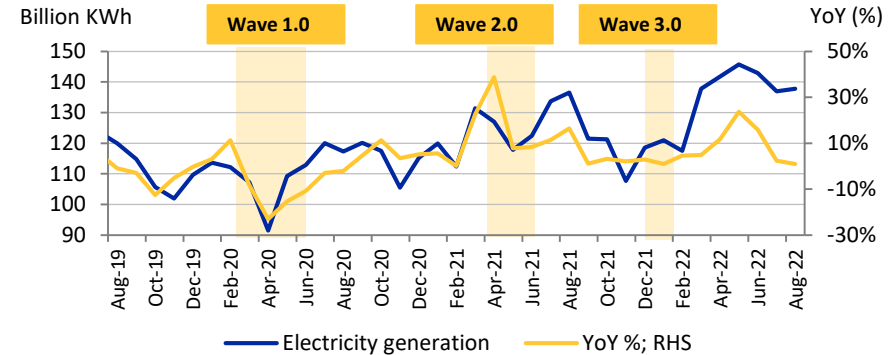
EXHIBIT: Trends in CIL's output



Source: CIL; ICRA Research; MT: Million tonnes

- With an MoM decline of 2.4%, CIL's output fell to an 11-month low of 46.2 MT in August 2022, owing to excess rainfall across several regions. Additionally, the YoY growth in CIL's output eased considerably to 8.5% in the month (five-month low), from 11.1% in July 2022. On a positive note, output exceeded the pre-Covid levels of August 2019 by a sharp 33.1% in August 2022.
- The all-India coal stock level in power plants dipped to 9.8 days as on September 13, 2022 from 10.5 days in August 2022, while remaining much lower than the normative requirement of 19 days.
- Concerns over the higher cost of imported coal and ability of the generation companies to recover such costs from discoms remain monitorable.

EXHIBIT: Trends in electricity generation

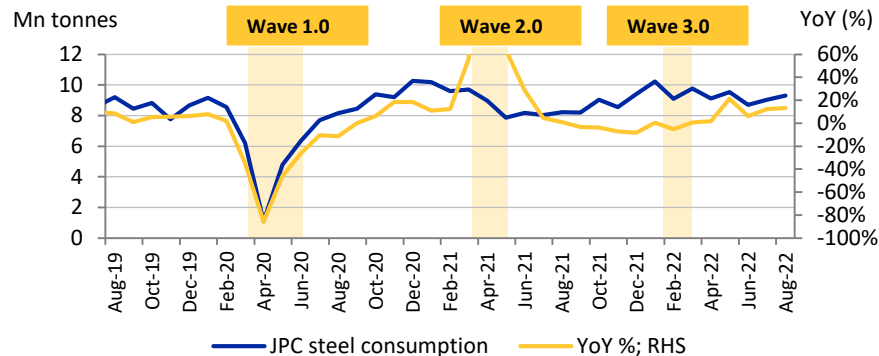


Electricity generation includes thermal, hydro, nuclear and renewable energy; Source: CEA; ICRA Research

- The YoY growth in electricity generation eased to an 18-month low 0.9% in August 2022 from 2.4% in July 2022, with the waning of the favourable base effect and heavy rainfall across states.
- Moreover, the average spot power tariffs in the day-ahead-market (DAM) dipped mildly to Rs. 5.2/unit in August 2022 from Rs. 5.4/unit in July 2022, with moderation in demand coupled with higher supply from non-thermal sources, such as solar and hydro.

Domestic steel consumption rose mildly in Aug 2022; record high generation of GST e-way bills reflects stock build-up ahead of festive season

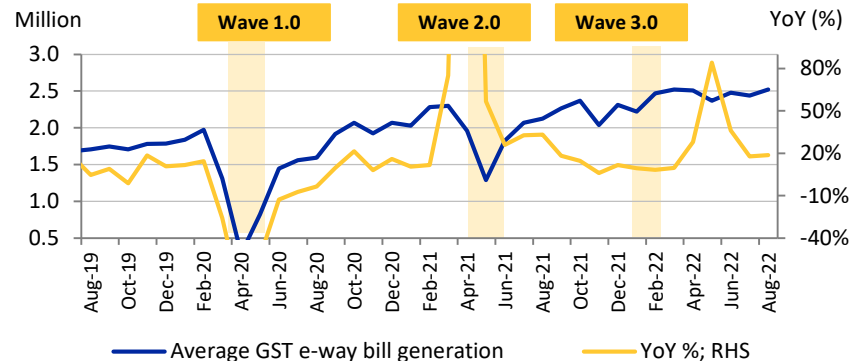
EXHIBIT: Trends in JPC steel consumption



Source: JPC; ICRA Research

- Domestic finished steel consumption (non-alloy, alloy and stainless) rose by a mild 3.0% MoM to 9.3 MT in August 2022 from 9.0 MT in July 2022. The demand for steel seems healthy, despite the excess rainfall across some states, indicating that the seasonal impact on construction/infra activity may not be severe.
- Moreover, this stood out as one of the indicators in ICRA's set to witness an uptick in YoY growth in the month vs. July 2022 (to +13.1% from +12.5%).
- Additionally, finished steel consumption was only a marginal 1.3% higher in August 2022 vis-à-vis August 2019, reflecting the trend for non-alloy items (+2.4%), which was offset by the contraction in alloy consumption (-13.4%).

EXHIBIT: Trends in average generation of GST e-way bills

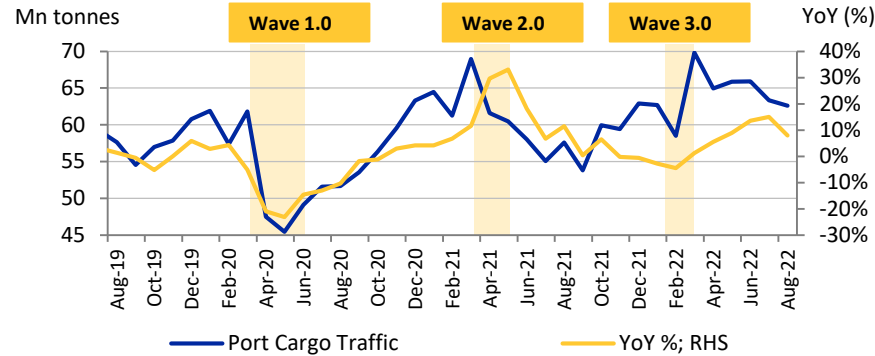


Source: GSTN; ICRA Research

- In terms of the daily average, India witnessed a record-high 2.5 million/day generation of GST e-way bills in August 2022 (2.1 million in Aug 2021), with an uptick in the YoY growth to 18.7% from 17.8% in July 2022 (2.4 million).
- This indicates the onset of building up of inventories ahead of the festive season amid a healthy momentum of activity and consumption of services.
- These trends, along with robust imports and improved compliance portend that the GST collections are expected to remain healthy in September 2022, in the range of Rs. 1.4-1.6 trillion. However, collections may be dampened somewhat by the recent softening in commodity inflation.

Slowdown in external demand weighed on ports cargo traffic and merchandise exports in Aug 2022; near term outlook remains sluggish

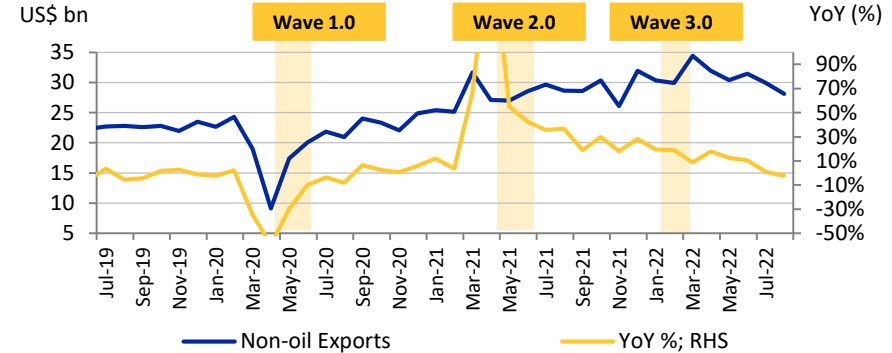
EXHIBIT: Trends in ports cargo traffic



Source: Indian Ports Association; ICRA Research

- Cargo handled at ports declined for the second consecutive month to 62.6 million tonnes in Aug 2022, although the MoM decline was modest at 1.3%.
- While the YoY growth halved to 8.0% in Aug 2022 from 15.0% in Jul 2022, cargo traffic volumes were 8.5% above the Aug 2019 levels, led by coal and containers.
- After touching record-highs in Jul 2022, coal shipments posted a noticeable 12% or 1.6 million tonne MoM fall in Aug 2022, following the Government's directive to relax the [earlier norms](#) for blending of imported coal to meet the fuel requirements. Nevertheless, the coal volumes remain well above the year-ago (+59%) and pre-Covid (+105%) levels, partly supporting the overall cargo shipments.

EXHIBIT: Trends in non-oil merchandise exports

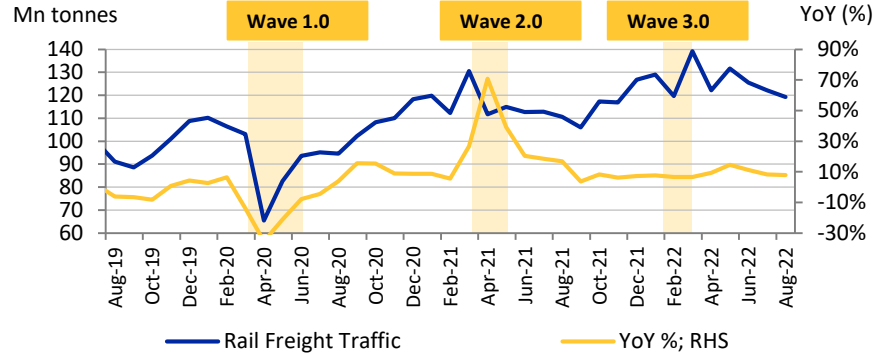


Source: Ministry of Commerce and Industry; ICRA Research

- Similarly, merchandise exports declined, albeit by a sharper 6.5% MoM to US\$34.0 billion in Aug 2022, with the slowdown in external demand and softer commodity prices.
- The fall was led by non-oil exports, which dipped by 1.8% YoY in August 2022, on account of engineering goods, cotton, and gems and jewellery, even as oil exports recorded a healthy ~23% growth.
- ICRA estimates merchandise exports to grow by 7% to US\$447-449 billion in FY2023, with slowdown in global growth amid Monetary Policy tightening. The extent of the moderation in the momentum of exports remains a monitorable, going forward. {Refer to ICRA's [publication](#) on CAD, published in Sep 2022}.

Rail freight traffic at nine-month low in Aug 2022 with lower coal loading; domestic air passenger traffic trailed pre-Covid levels by ~14% in the month

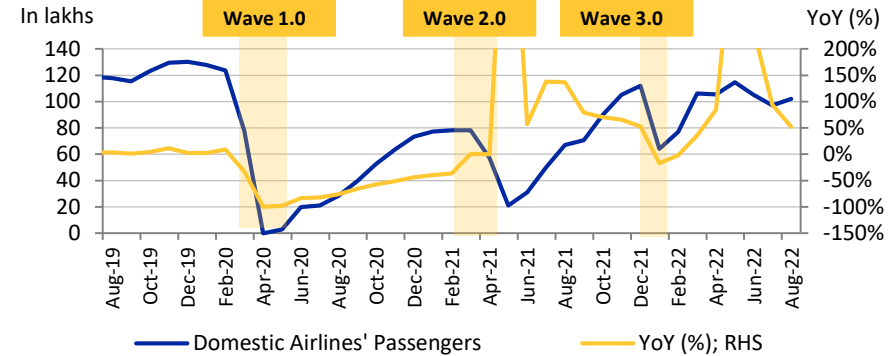
EXHIBIT: Trends in rail freight traffic



Source: Indian Railways, Gol; ICRA Research

- Rail freight traffic displayed a sustained downtrend for the third consecutive month in Aug 2022, with volume dipping by 2.3% MoM to touch a nine-month low. However, on a YoY basis volumes were 7.9% higher in August 2022.
- The loading of coal reported a significant 3.2 MT decline in Aug 2022, amid lower production and imports owing to monsoons and improving stock levels. This was partly offset by higher freight volumes of iron ore (+1.4 MT) and pig iron and finished steel (+0.4 MT).
- Regardless, freight in Aug 2022 was a robust 31.0% higher than Aug 2019 volumes, benefitting from the tariff and non-tariff measures that had been undertaken in Aug 2020 to boost the rail operations.

EXHIBIT: Trends in domestic airline passenger traffic

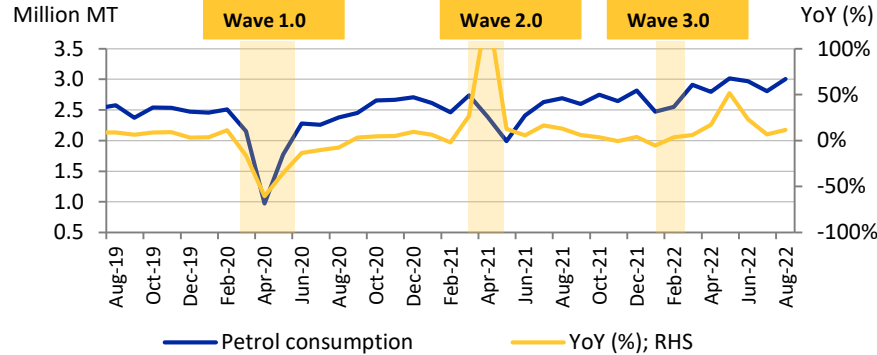


Source: DGCA; ICRA Research

- Domestic airlines' passenger traffic posted a modest 5% MoM rebound in August 2022, and traffic was only 14% lower than the levels seen in August 2019 (11.8 million).
- Nevertheless, the YoY growth in domestic air passenger traffic halved to 52% in August 2022 from 93.8% in July 2022 on a normalising base.
- Overall, the recovery in corporate travel and steady demand from leisure traffic are likely to support passenger traffic in FY2023; nevertheless, any further Covid waves and movement in air fares are monitorables.

Diesel consumption moderated to 11-month low in Aug 2022 on account of excess rains, even as petrol sales witnessed a sequential pick-up

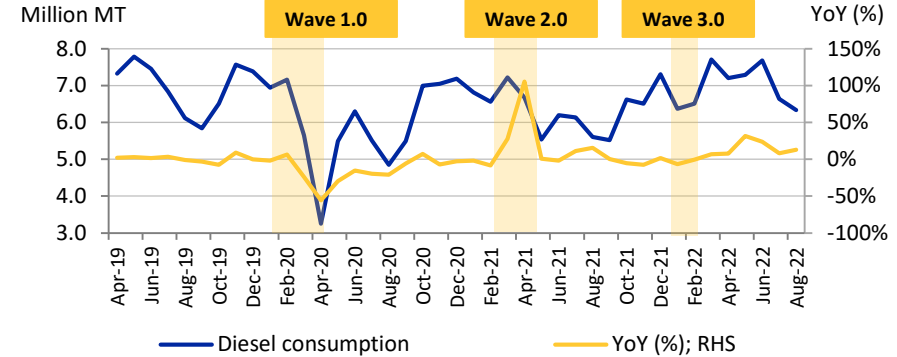
EXHIBIT: Trends in petrol consumption



Source: PPAC; ICRA Research

- Petrol consumption rose by 7.0% MoM to 3.0 million MT in August 2022, with a sharp uptick in the YoY growth to 11.6% in the month, from 6.8% in the July 2022.
- Moreover, volumes in August 2022 were ~17% higher than the pre-Covid sales of August 2019, benefitting from the preference for personal mobility despite higher retail prices.

EXHIBIT: Trends in diesel consumption

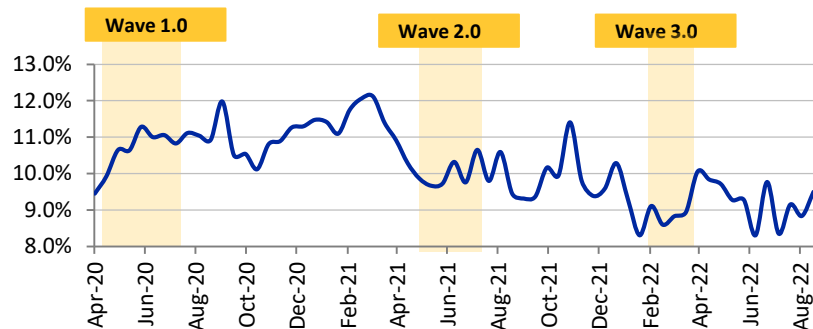


Source: PPAC; ICRA Research

- In contrast, consumption of diesel declined by 4.5% MoM to an 11-month low 6.3 million MT in August 2022, as excess rains in the South Peninsula and Central India continued to weigh on demand from agriculture, construction and other segments.
- Nevertheless, the YoY growth rose appreciably to 13.0% in August 2022 from 8.2% in the previous month on the back of a low base. Besides, such volumes were 3.6% higher than the pre-Covid sales of August 2019.

Non-food bank credit growth sharply outpaced deposit growth at end-Aug 2022

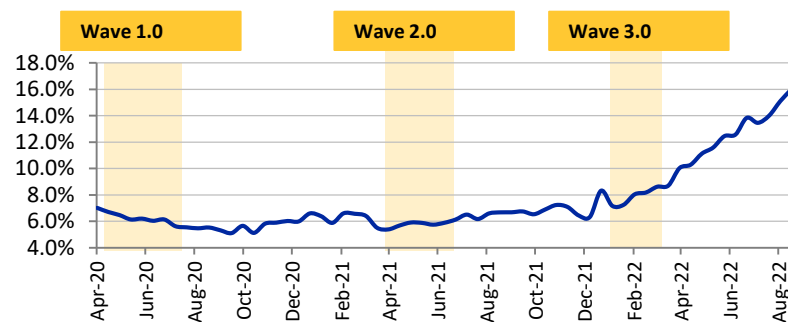
EXHIBIT: Trends in outstanding bank deposits



Source: RBI, ICRA Research

- The YoY growth in outstanding bank deposits inched up to 9.5% as on Aug 26, 2022 from 9.1% as on July 29, 2022, while standing at par with the year-ago levels.
- The incremental deposits in FY2023 till date (as on Aug 26, 2022) stood at Rs. 5.3 trillion, higher than the year-ago levels (Rs. 4.0 trillion as on Aug 27, 2021), while trailing the inflows seen in the same period of FY2021 (Rs. 6.1 trillion as on Aug 28, 2020).
- ICRA foresees an upward revision to our baseline expectation of incremental deposit of Rs. 13.0-14.0 trillion in FY2023, implying a YoY growth in of 7.9-8.5% in outstanding deposits (+8.9% in FY2022).

EXHIBIT: Trends in outstanding non-food bank credit

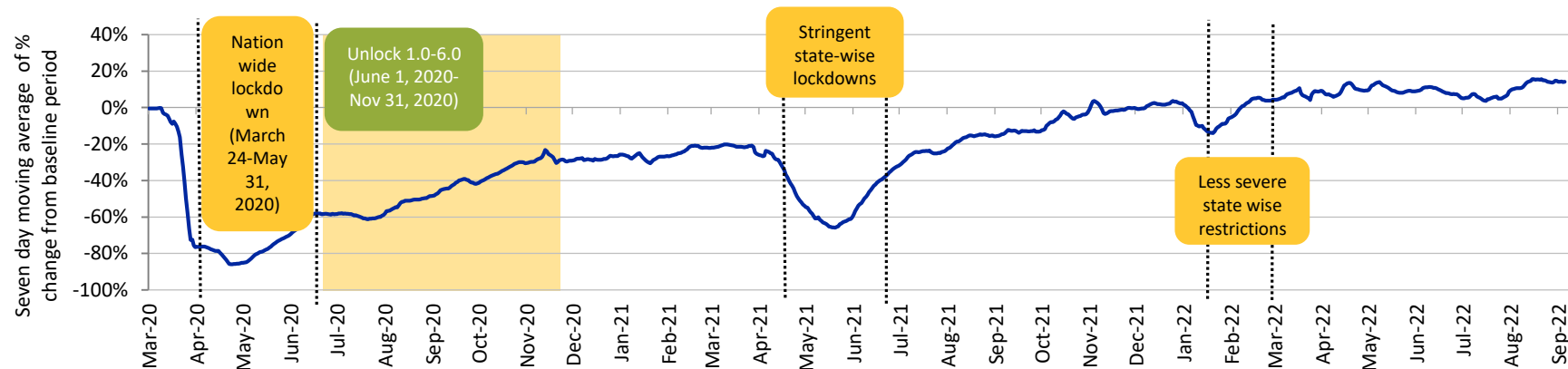


Source: RBI; ICRA Research

- The YoY growth in outstanding non-food bank credit surged to 16.0% as on August 26, 2022 (+15.1% as on July 29, 2022; +5.6% as on Aug 27, 2021), the highest levels since Nov 2013. This has been supported by higher working capital requirements and shift of corporate credit demand from debt capital markets to banks, following faster transmission of rate hikes to the former.
- Moreover, incremental credit in FY2023 so far (till Aug 26, 2022) stood at Rs. 5.9 trillion, in contrast to the negative trend seen during the same period of FY2020-22.
- We foresee an upward revision to our baseline projection of incremental credit of Rs. 12.0-13.0 trillion (YoY in outstanding credit: +10.1% to +11.0%) for FY2023 (Rs. 10.5 trillion; +9.7% in FY2022).

Rebound in mobility for retail, recreation in Sept 2022 with onset of festive season

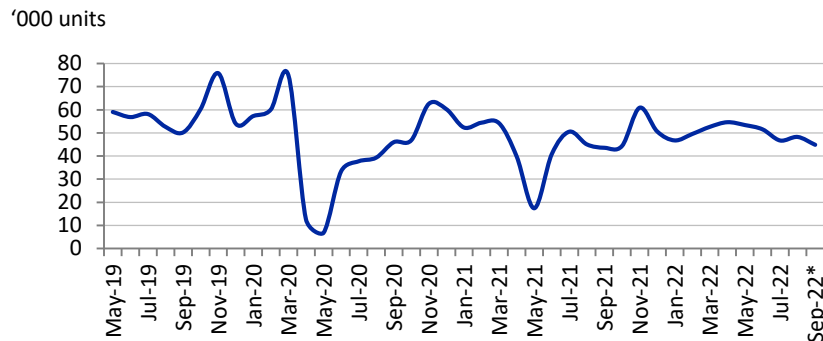
EXHIBIT: Trends in mobility for retail and recreation



Data is available up to Sep 10, 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

- The mobility for retail and recreation was 14.6% above the baseline level at end-August 2022 (seven-day moving average), sharply higher than the trends seen at end-July 2022 (+8.7%).
- Subsequently, the average has consistently remained above the 10% mark in September 2022 so far and stood at 14.3% as on September 10, 2022. This is expected to rise further in the ongoing month with the onset of the festive season.

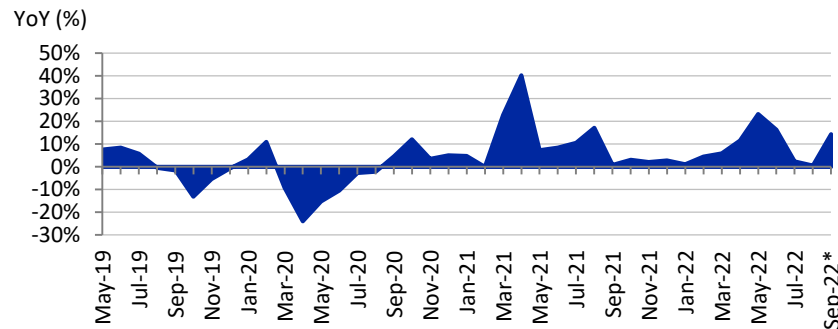
EXHIBIT: Daily average vehicle registrations at all-India level



*Till Sep 15, 2022; Note: For comparability analysis across different periods, we have removed newly issued data on Andhra Pradesh and Madhya Pradesh; Source: Vahan, MoRTH; CEIC; ICRA Research

- The data provided on the Vahan portal reveals that the average daily vehicle registrations during Sep 1-15, 2022 stood at 44.8k units, exceeding the year-ago level by a modest 3%.
- The average daily vehicle registrations have recorded an MoM decline of 7.1% in September 2022 so far. While the registrations are expected to pick up during the *Navratri* season, the onset of 15-day *Shradh* period is likely to constrain overall retail volumes in the month.

EXHIBIT: Electricity Demand at all-India level



*Till Sep 13, 2022; Source: POSOCO; ICRA Research

- After the 18-month low YoY growth of 0.5% in August 2022, all-India electricity demand growth rebounded sharply to 14.5% YoY in September 2022 (till Sep 13, 2022), with deficient rainfall in the early part of the month.
- The surge in YoY growth in September 2022 can also be attributed to the low base of September 2021 (+0.8%), due to surplus rainfall recorded in that month (135% of LPA).

The ICRA Business Activity Monitor - an index of high frequency economic indicators, is a composite tool that gauges economic activity each month. While several high frequency indicators are released every month, each of these provides insights on the performance of a select segment of the economy. It is possible to appraise trends in each of these indicators and provide a qualitative assessment of the overall state of the economy. However, such an evaluation is fraught with challenges, especially when indicators display contradictory trends or point to multi-speed expansions/contractions. The Business Activity Monitor aims to overcome this contention by providing a summary measure of the state of the economy by integrating multiple high frequency indicators into a single index.

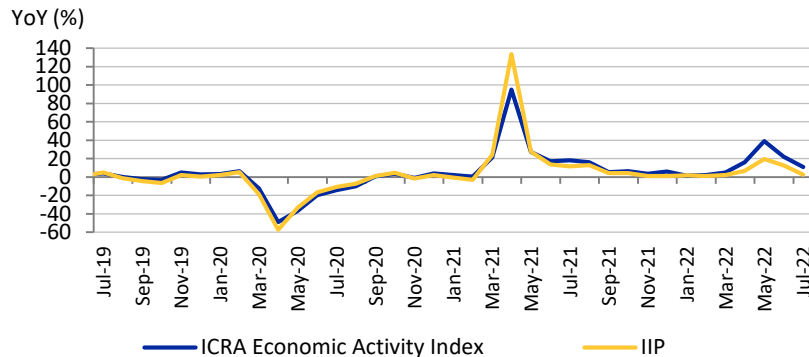
The ICRA Business Activity Monitor is constructed using 14 monthly high frequency indicators – auto production (comprising passenger vehicle, motorcycle and scooter production clubbed into a single indicator), output of Coal India Limited, electricity generation, non-oil merchandise exports, rail freight traffic, ports cargo traffic, non-food bank credit of scheduled commercial banks, bank deposits, vehicle registrations, generation of GST e-way bills, domestic airlines' passenger traffic, petrol consumption, diesel consumption and steel consumption. Each of these indicators are indexed in a way that the average index value for the base year FY2019 amounts to 100. The index is computed by taking the mean of the index values of these 14 indicators.

The ICRA Business Activity Monitor gives us the net direction of our 14 high frequency indicators and can be used to assess economic conditions across time periods. For instance, a decrease in the value of the index to 113.5 in July 2022 from 116.6 in June 2022, signifies that the economic activity has deteriorated in July 2022 relative to June 2022. Moreover, the activity in July 2022 (113.5) is 12.4% higher than the pre-Covid level in July 2019 (100.9).

While summary measures of economic activity such as the GDP and the Index of Industrial Production (IIP) are released by the Government, these are available with relatively longer lags. The GDP data is available for a quarterly or higher frequency and is released with a lag of two months post the end of the quarter. Although IIP data is available on a monthly basis, it is released with a lag of around six weeks post the end of the month (Eg. IIP for July 2022 was released on 12th September 2022). However, the IIP by design excludes the services sector. Since the ICRA Business Activity Monitor is based on a variety of high frequency indicators, it is released with a lag of two weeks (Eg. Business Activity Monitor for July 2022 is available by mid-August 2022), thereby enabling a faster assessment of economic activity in the immediately preceding month.

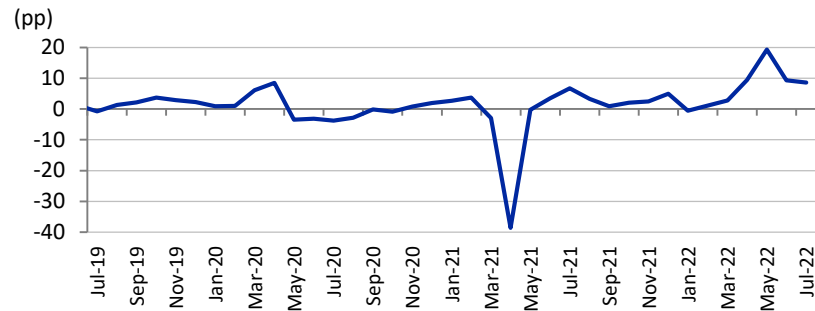
Annexure A.2: ICRA Business Activity Monitor

EXHIBIT: Correlation between YoY trends in ICRA Business Activity Monitor and IIP



Source: ICRA Research

EXHIBIT: Deviation in YoY growth between ICRA Business Activity Monitor and IIP

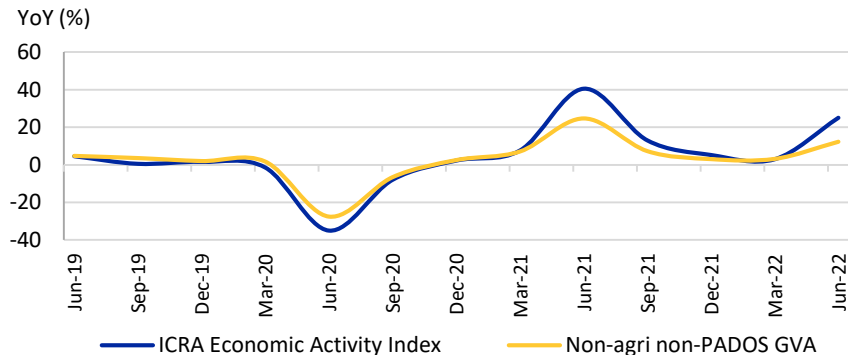


Source: ICRA Research

- The IIP is a measure of industrial activity and does not cover the agriculture and services sectors. The ICRA Business Activity Monitor is a broader measure than the IIP as it also covers some high frequency indicators related to the services sector (measures of mobility such as airlines passenger traffic and petrol consumption and financial services such as non-bank food credit and bank deposits).
- We have observed some degree of correlation between the two (in both absolute and YoY growth terms). The deviation between the growth of the ICRA Business Activity Monitor and the IIP stood at +/- 2% and +/-5% in 14 and 32, respectively, of the 40 months between April 2019 and July 2022.
- Further, the ICRA Business Activity Monitor correctly predicted the YoY growth accelerations and decelerations in the IIP on 31 of the 40 occasions during this period. The deviations in the YoY growth between the ICRA Business Activity Monitor and the IIP were positive/negative in 25/15 of the 40 months.

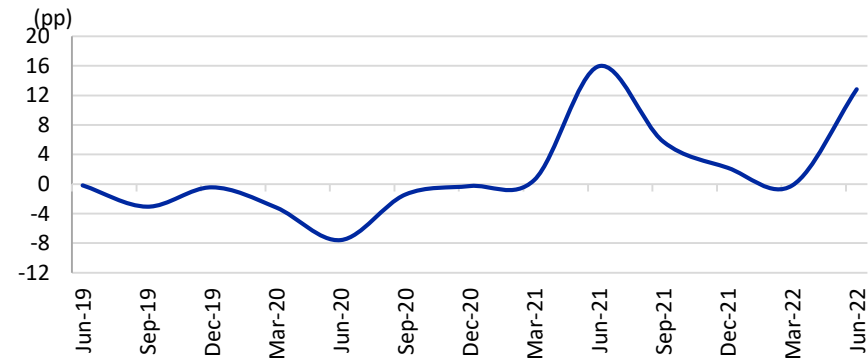
Annexure A.3: ICRA Business Activity Monitor

EXHIBIT: Correlation between YoY trends in ICRA Business Activity Monitor and non-agri non-PADOS GVA



Source: ICRA Research

EXHIBIT: Deviation in YoY growth between ICRA Business Activity Monitor and non-agri non-PADOS GVA

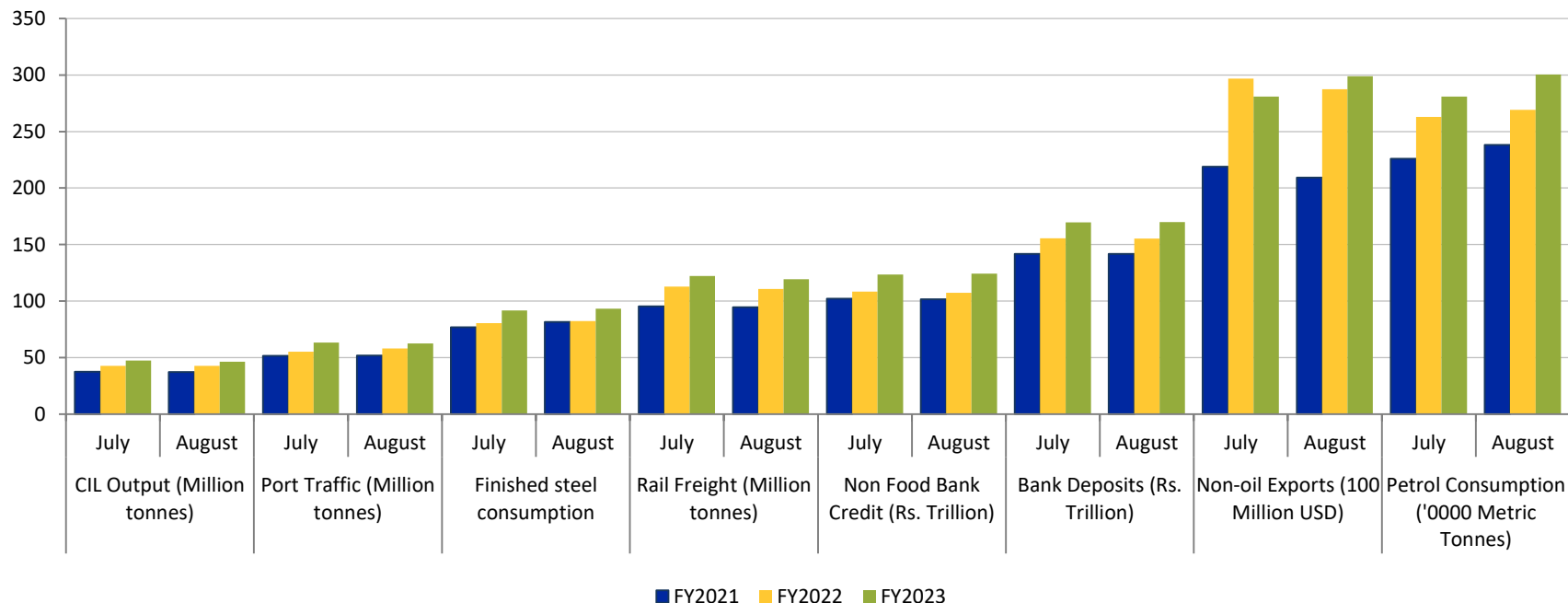


Source: ICRA Research

- On the other hand, notwithstanding some coverage of the services sector, the ICRA Business Activity Monitor is a relatively narrower measure of economic activity compared to the GDP or the Gross Value Added (GVA), which is much more comprehensive in its scope. While the ICRA Business Activity Monitor provides a good gauge of the direction of growth in non-agri non-public administration, defence and other services (PADOS) GVA, the deviation in the growth rates exceeded +/-1% in 11 of the 13 quarters.
- Interestingly, in the period when growth was slowing down (up to Q1 FY2021), there was a negative deviation between the ICRA Business Activity Monitor and the non-PADOS GVA growth, indicating that the former predicted the downturn but magnified its extent. The opposite is true for the period from Q4 FY2021 onwards.
- Since the GVA is a measure of value addition, this could lead to a difference in the magnitude and/or direction of changes between the growth in the GVA and the ICRA Business Activity Monitor, as the former would be affected by changes in margins of businesses following rising/falling commodity prices or cost cutting measures.

Annexure B.1: Volumes of all indicators rose in August 2022 relative to Aug 2021 - I

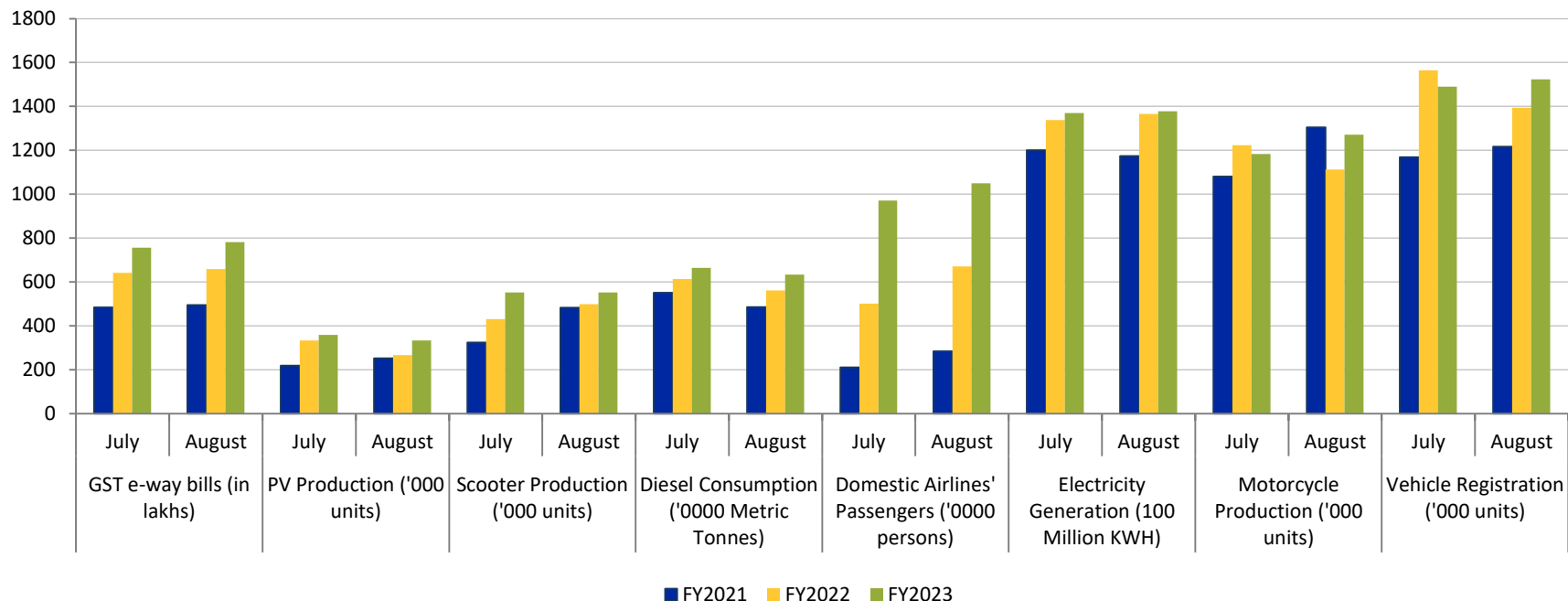
EXHIBIT: Trends in Volumes for Last Three Years in July and August (Part -I)



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

Annexure B.2: Volumes of all indicators rose in Aug 2022 relative to August 2021 - II

EXHIBIT: 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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