



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

**Economic activity improves further in
Dec 2022; base normalisation tempers
YoY growth to nine month low**

JANUARY 2023





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ICRA Business Activity Monitor is a composite indicator that comprises:

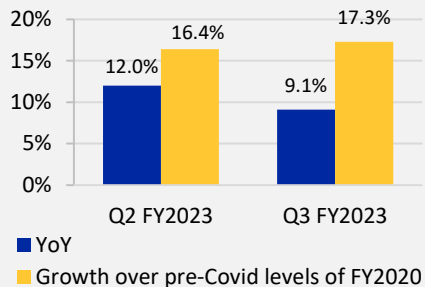
- Auto production (2Ws and PVs)
- Vehicle registrations
- Output of Coal India Limited (CIL)
- Power generation
- Rail freight traffic
- Non-oil merchandise exports
- Cargo handled at major ports
- Consumption of petrol and diesel
- Finished steel consumption
- Generation of GST e-way bills
- Domestic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

The ICRA Business Activity Monitor – an index of high frequency indicators*, has displayed a sustained uptrend since July 2022, touching a nine-month high of 122.2 in December 2022. Further, the month-on-month (MoM) performance in December 2022 was better than that recorded in December 2019. Moreover, relative to the pre-Covid levels, the index expanded by a robust 18.2%, up from 15.7% in November 2022. However, the year-on-year (YoY) growth in the ICRA Business Activity Monitor decelerated to a nine-month low of 7.1% in December 2022 from 13.0% in November 2022. While a continued base normalisation optically slowed the YoY growth in the ICRA Business Activity Monitor to 9.1% in Q3 FY2023 from 12.0% in Q2 FY2023, the growth performance over pre-Covid levels of FY2020 improved to 17.3% from 16.4%, respectively. We forecast the YoY GDP growth to ease to 5.0-5.5% in Q3 FY2023 from 6.3% in Q2 FY2023, although the expansion over FY2020 levels would rise to 11.5-12.0%, from 7.6% in Q2 FY2023.

- **YoY growth of ICRA Business Activity Monitor reverted to single digits in Dec 2022:** The YoY growth in the ICRA Business Activity Monitor decelerated to a nine-month low of 7.1% in December 2022 (+6.1% in December 2021) from 13.0% in November 2022 (+3.4% in November 2021), partly on account of an unfavourable base effect, satiation of demand for goods post the festive season and slackening external demand. As many as 14 of the 16 constituent indicators witnessed a weaker YoY performance in December 2022, relative to November 2022.
- **MoM performance was better in Dec 2022 vis-à-vis Dec 2019:** The index posted the fifth consecutive sequential increase in December 2022, rising by an encouraging 2.1% MoM as against the 0.1% decline seen in December 2019 (both these trends are free from a typical post-festive rebound as the festive season in these two years had ended around similar time in early-November~). The performance of eight of the 14 non-financial monthly indicators such as motorcycle production, electricity generation, GST e-way bills, fuel consumption, domestic airlines' passenger traffic, non-oil exports and ports cargo traffic was relatively better in December 2022.

*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; ~festive period: a) 2022 – Sep 26, 2022 to Nov 6, 2022; b) 2021 – Oct 7, 2021 to Nov 17, 2021; c) 2019: Sep 29, 2019 to Nov 9, 2019; Source: ICRA Research

EXHIBIT: YoY and pre-Covid performance of ICRA Business Activity Monitor in Q2 and Q3 of FY2023



Source: ICRA Research

- **Growth of index over pre-Covid levels improved in Dec 2022, relative to Nov 2022:** The ICRA Business Activity Monitor indicates that activity in December 2022 exceeded the pre-Covid level of December 2019 by a healthy 18.2%, higher than the 15.7% expansion seen in November 2022 over the November 2019 levels, with a better performance in eight of the 14 indicators. However, the number of non-financial indicators that posted volumes above pre-Covid levels remained at 10, at par with November 2022.
- **ICRA Business Activity Monitor rose by 9.1% YoY in Q3 FY2023:** While a continued base normalisation post the Covid 2.0 wave optically slowed the YoY growth in the ICRA Business Activity Monitor to 9.1% in Q3 FY2023 from 12.0% in Q2 FY2023, growth performance over pre-Covid levels of FY2020 improved to 17.3% from 16.4%, respectively. Based on these trends, the festive-led recovery in demand for goods, sustained healthy consumption of services, and prospects for agri output amidst a likely deeper drag from net exports, we peg the YoY GDP growth at 5.0-5.5% in Q3 FY2023, lower than 6.3% seen in Q2 FY2023. Nevertheless, it would exceed the MPC's estimate of 4.4% for the quarter. Relative to the corresponding FY2020 levels, GDP expansion is likely to improve in Q3 FY2023 from the 7.6% recorded in Q2 FY2023.
- **Early data for Jan 2023 is mixed with recovery remaining uneven:** The average daily vehicle registrations during January 1-17, 2023 declined by 5.1% to 45.5k units from 48.0k units in December 2022 amidst multiple price hikes undertaken by the OEMs from Jan 1, 2023 across segments, as well as some satiation of demand post festive season. However, the YoY decline narrowed to 2.5% from 5.1% in December 2022. Encouragingly, the all-India electricity demand growth rose to a healthy 15.4% in Jan 2023 so far (till Jan 16, 2023) from 9.8% in Dec 2022, supported by the winter-led surge in demand from Northern and Western regions, and a low base.

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 sustained an uptrend in Dec 2022, although YoY growth dipped to a nine-month low of 7.1%

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

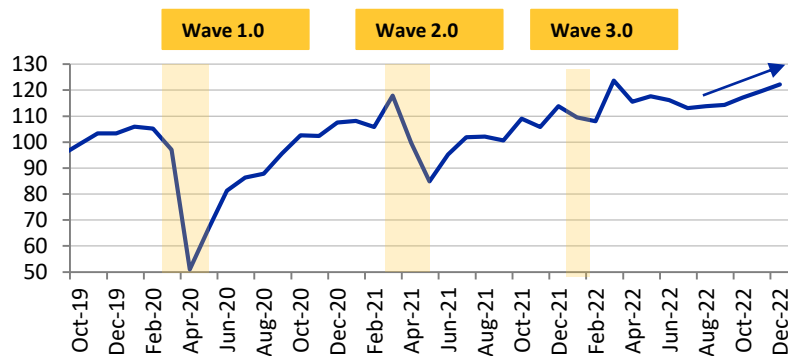
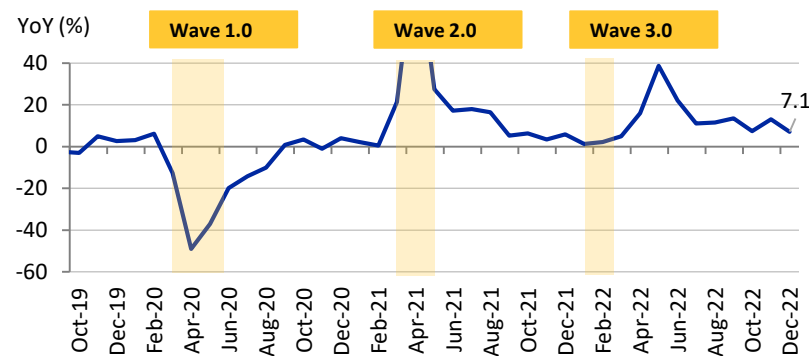


Exhibit: YoY growth of ICRA Business Activity Monitor



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 ICRA Business Activity Monitor has displayed a sustained uptrend since July 2022, touching a nine-month high of 122.2 in December 2022.
- The index recorded an encouraging MoM uptick of 2.1% in December 2022. This was in contrast to the MoM dip of 0.1% seen in December 2019 - both these trends are free from a typical post-festive rebound as the festive season in these two years had ended around similar time in early-November.
- However, the YoY growth in the ICRA Business Activity Monitor decelerated to a nine-month low of 7.1% in December 2022 (+6.1% in December 2021) from 13.0% in November 2022 (+3.4% in November 2021), partly on account of an unfavourable base effect, satiation of demand for goods post the festive season and slackening external demand.

YoY performance of as many as 14 of the 16 frequency indicators worsened in Dec 2022, relative to Nov 2022

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													
Aug-22	25.0	10.9	14.3	5.9	8.5	0.5	-1.8	8.0	7.9	18.7	14.3	51.0	11.6	13.0	9.5	16.0
Sep-22	88.0	6.4	11.0	9.1	12.3	11.0	-2.1	14.9	9.1	23.7	11.7	46.5	8.8	13.4	9.2	16.9
Oct-22	28.7	6.8	-9.7	48.5	6.3	-1.3	-17.6	3.6	1.4	4.6	11.1	27.0	8.9	5.5	9.5	18.3
Nov-22	28.9	45.8	7.5	18.7	12.8	12.2	1.1	2.0	5.2	32.0	13.4	11.1	8.2	19.2	9.6	17.6
Dec-22	3.2	9.8	-11.6	-5.1	10.3	9.2	-9.2	10.4	3.1	17.5	8.2	15^	5.9	6.5	9.2	15.3

YoY growth; sequential pick-up

YoY growth; sequential dip

YoY growth; no sequential change

YoY contraction; sequential pickup

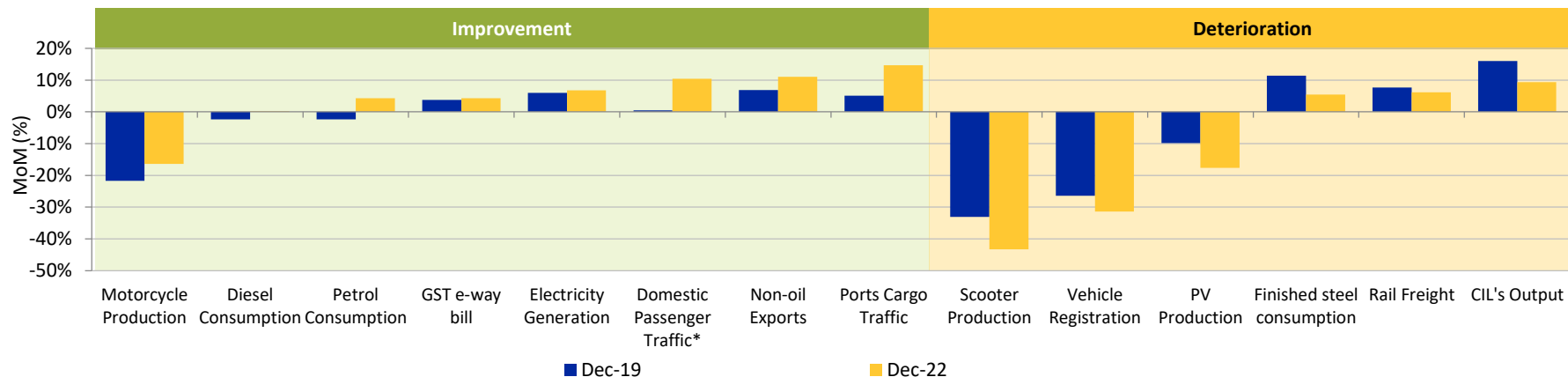
YoY contraction; sequential dip

However, ports cargo traffic and domestic airlines' passenger traffic, displayed an improved YoY performance in December 2022, relative to the prior month, benefitting from the rise in pre-holiday shipments and the year-end boost in demand for travel, respectively.

*excluding renewable energy; ^as per ICRA's estimate; 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, 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 eight of the 14 non-financial indicators improved in Dec 2022 vis-à-vis Dec 2019

Exhibit: MoM performance of non-financial economic indicators

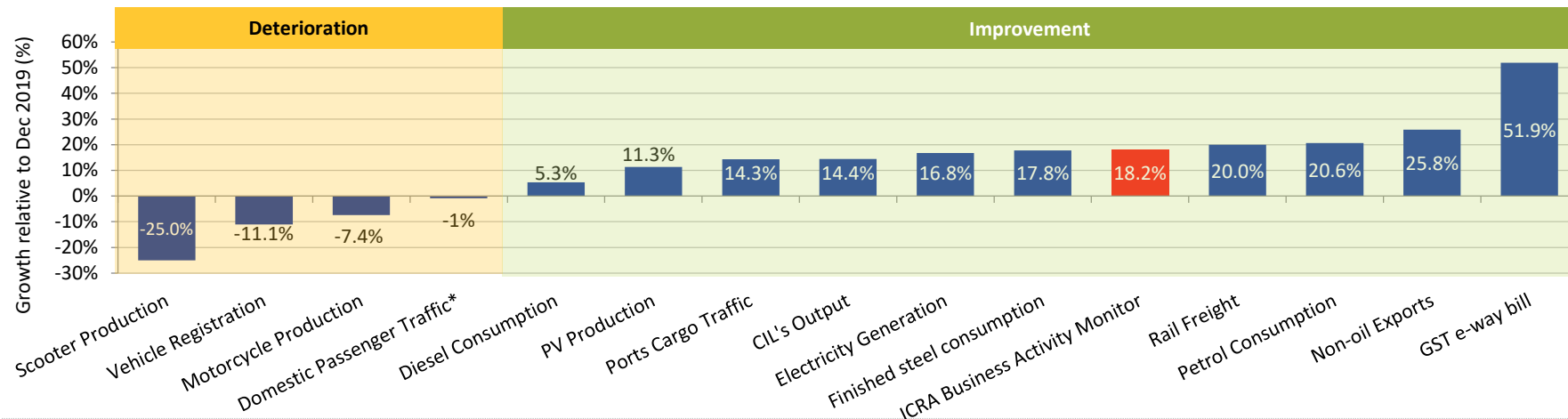


- When comparing the MoM trends in December 2022 with December 2019, the performance of eight of the 14 non-financial monthly indicators (such as motorcycle production, electricity generation, GST e-way bills, fuel consumption, domestic airlines' passenger traffic, non-oil exports and ports cargo traffic) was relatively better in December 2022.
- In contrast, six indicators displayed a weaker MoM performance in December 2022, vis-à-vis December 2019, with three of them reporting a deeper contraction (production of PVs and scooters, and vehicle registrations - reflecting the year-end inventory correction at dealer level amidst some satiation of demand post festive season) and the remaining three indicators posting a lower growth (CIL's output, rail freight and finished steel consumption).

**Based on ICRA's estimates for air passenger traffic data in Dec 2022; Data on electricity generation does not include renewable segment; 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, Govt; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research*

ICRA Business Activity Monitor exceeded pre-Covid levels by 18.2% in Dec 2022

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

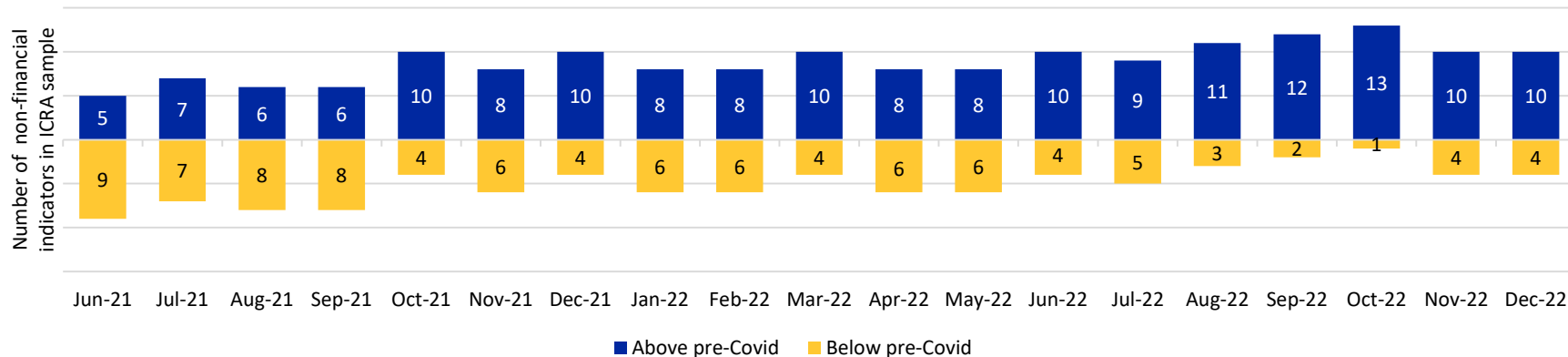


- The ICRA Business Activity Monitor indicates that activity in December 2022 exceeded the pre-Covid level of December 2019 by a healthy 18.2%, higher than the 15.7% growth seen in November 2022 over November 2019.
- Out of the 14 non-financial indicators, 10 exceeded their pre-Covid performance in December 2022, with their YoY growth rates ranging from 5.3% (diesel consumption) to as high as ~52% (generation of GST e-way bills).

**Based on ICRA's estimates for air passenger traffic data in Dec 2022; Data on electricity generation does not include renewable segment; 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*

Number of indicators above pre-Covid volumes stood unchanged at 10 in Dec 2022, compared to Nov 2022

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

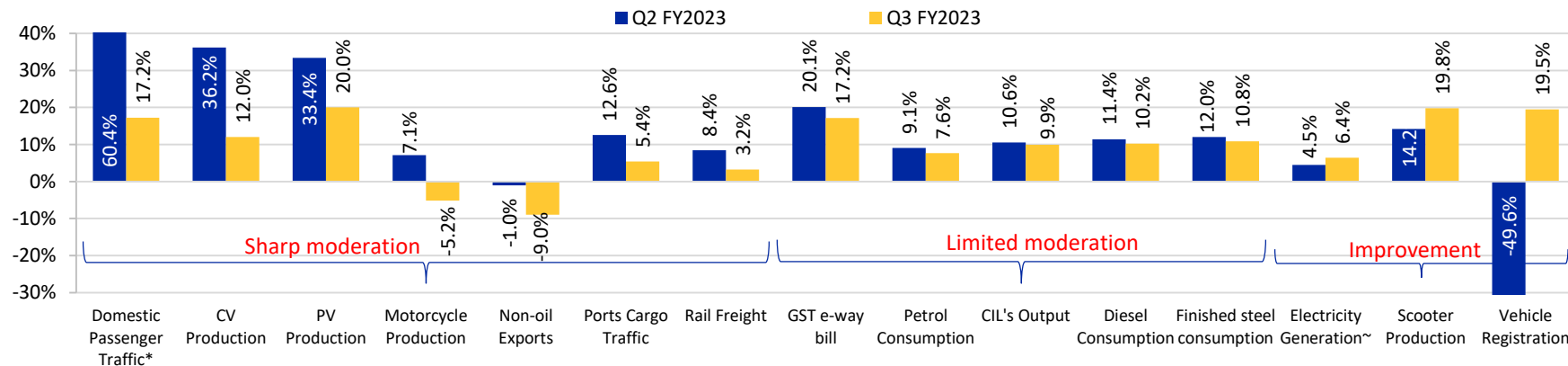


- While the growth performance of the index relative to pre-Covid levels saw an improvement in December 2022, relative to November 2022, the number of non-financial indicators above pre-Covid volumes stood at 10, at par with November 2022.
- The indicators that trailed the pre-Covid volumes in December 2022 are related to two-wheeler segment (weak sentiments owing to multiple price hikes, elevated ownership costs, and inflationary headwinds), and aviation (delayed recovery in contact intensive services, albeit now seeing a rapid catch up to pre-Covid levels).

Note: Pre-Covid level for FY2023 has been taken as FY2020; 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

YoY performance of most indicators worsened in Q3 FY2023, amidst continued base normalisation, although extent of moderation was limited for some

Exhibit: YoY performance of non-financial indicators in Q2 and Q3 FY2023

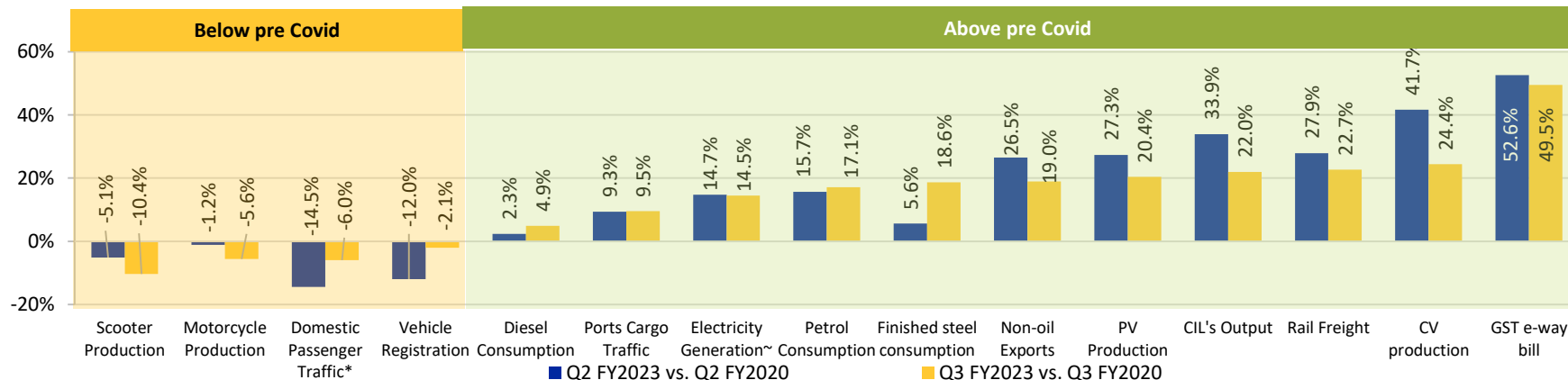


*ICRA's estimates for air passenger traffic data in Dec 2022; ~excludes renewable energy; Source: ICRA Research

- Continued base normalisation led the YoY performance of 12 of the 15 non-financial indicators (barring vehicle registrations, electricity generation, and scooter output) to deteriorate in Q3 FY2023, relative to Q2 FY2023. However, the extent of moderation in Q3 FY2023 was limited for some indicators, reflecting resilience in economic activity.
- The worsening performance of ports cargo traffic and non-oil exports in Q3 FY2023 relative to Q2 FY2023 was mainly driven by slackening of external demand. Moreover, the output of motorcycles slipped into a YoY contraction in Q3 FY2023, led by some satiation in demand after the festive season.
- Overall, we expect the YoY GDP growth to ease further to 5.0-5.5% in Q3 FY2023 from 6.3% in Q2 FY2023, modestly higher than the MPC's estimate of 4.4%. However, this deceleration would largely be optical; we expect growth over pre-Covid levels to improve in Q3 FY2023 as against the 7.6% seen in Q2 FY2023.

Eleven of the 15 non-financial indicators exceeded their pre-Covid volumes in Q3 FY2023, similar to Q2 FY2023

Exhibit: Performance of non-financial indicators in Q2 FY2023 and Q3 FY2023, relative to respective pre-Covid levels of FY2020

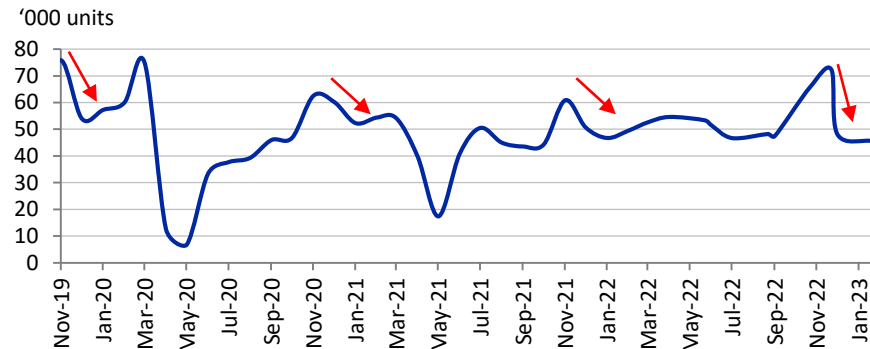


*ICRA's estimates for air passenger traffic data in Dec 2022; ~excludes renewable energy; Source: ICRA Research

- The volumes of 11 of the 15 non-financial indicators in Q3 FY2023 printed above pre-Covid levels of FY2020, similar to the trend seen in Q2 FY2023, including GST e-way bills, CIL's output, rail freight traffic, non-oil exports, electricity generation, consumption of petrol, diesel and finished steel, etc., indicating a continued recovery in economic activity, amidst a healthy festive demand.
- The growth over pre-Covid volumes in Q3 FY2023 ranged widely from 4.9% (diesel consumption) to as high as 49.5% (GST e-way bills).
- Notably, the contraction in domestic air passenger traffic and vehicles registrations narrowed to low single digits in Q3 FY2023, relative to Q2 FY2023, aided by festive demand, and a robust demand for leisure and business travel. On the contrary, the output for 2Ws worsened in Q3 FY2023 relative to Q2 FY2023, when compared with their pre-Covid levels.

Auto retail volumes have remained largely stable in Jan 2023 so far; electricity demand has been healthy, aided by low base

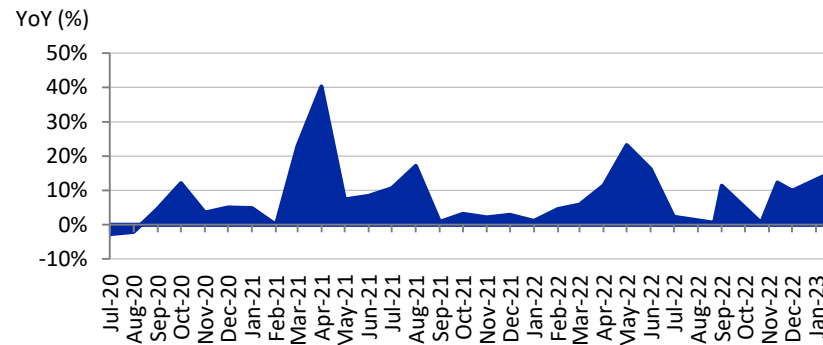
Exhibit: Daily average vehicle registrations at all-India level



*Till Jan 17, 2023; 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 January 1-17, 2023 moderated by 5.1% to 45.5k units from 48.0k units in December 2022, amidst price hikes undertaken by OEMs across segments w.e.f. Jan 1, 2023.
- Notably the MoM dip in January 2023 so far is narrower than the sharp ~34% MoM fall seen in Dec 2022 (satiation of demand post-festive season).
- Additionally, the YoY decline stands at 2.5% in January 2023 so far (-5.1% in December 2022). When compared to the pre-Covid levels of January 2020, average daily vehicle registrations are ~20% lower in January 2023 so far.

Exhibit: Electricity Demand at all-India level



*Till Jan 16, 2023; Source: POSOCO; ICRA Research

- The all-India electricity demand growth has risen to 15.4% in Jan 2023 so far (till Jan 16, 2023) from 9.8% in Dec 2022, supported by the winter-led surge in demand from Northern and Western regions, and a low base.
- Average spot power tariffs in day-ahead-market (DAM) stood at Rs. 6.9/unit in Jan 2023 so far (till Jan 17, 2023), up from Rs. 5.2/unit seen in Dec 2022, amidst elevated demand and coal prices, and lower-than-required domestic coal stock levels (11 days till Jan 17, 2023 vs. required 23).

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.

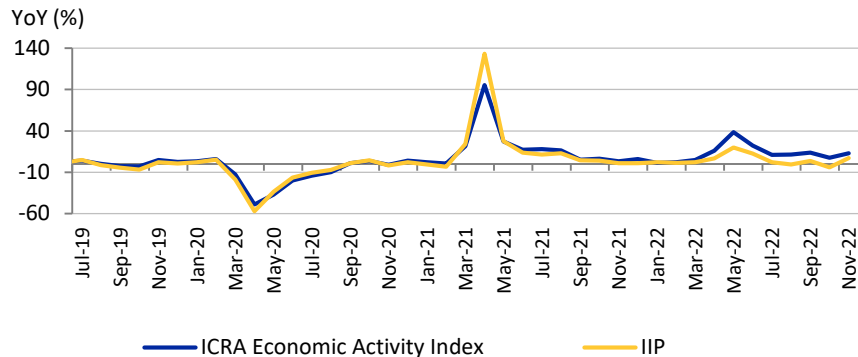
The ICRA Business Activity Monitor is constructed using 14 monthly high frequency indicators – auto production (comprising passenger vehicle, motorcycle and scooter production clubbed into a single indicator), output of Coal India Limited, electricity generation, non-oil merchandise exports, rail freight 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, an increase in the value of the index to 119.7 in November 2022 from 117.1 in October 2022, signifies that the economic activity has improved in November 2022 relative to October 2022. Moreover, the activity in November 2022 (119.7) is 15.7% higher than the pre-Covid level in November 2019 (103.4).

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 November 2022 was released on 12th January 2023). 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 November 2022 is available by mid-December 2022), thereby enabling a faster assessment of economic activity in the immediately preceding month.

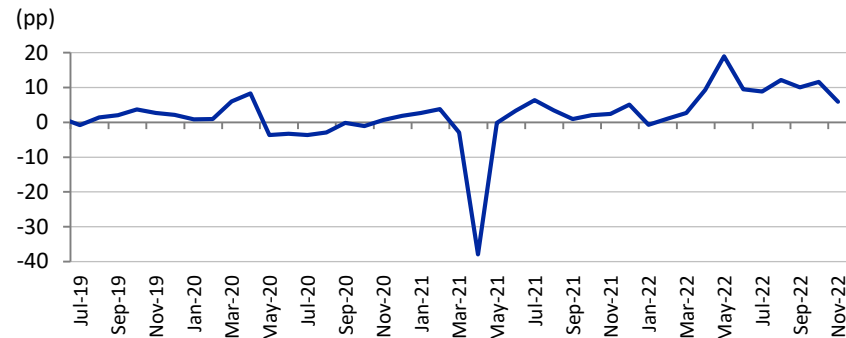
Annexure A.2: ICRA Business Activity Monitor

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

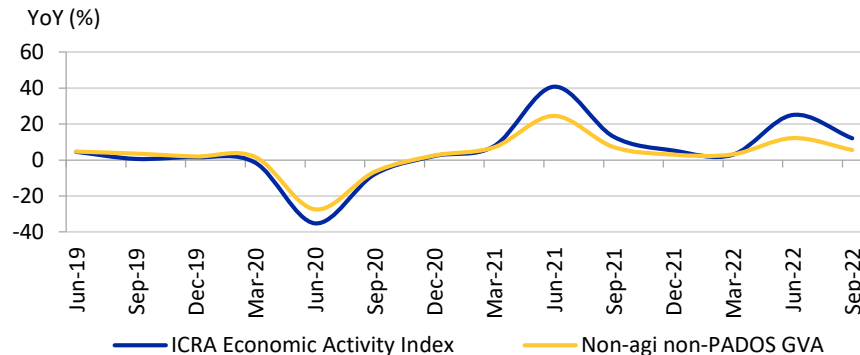


Source: ICRA Research

- 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 15 and 33, respectively, of the 44 months between April 2019 and November 2022.
- Further, the ICRA Business Activity Monitor correctly predicted the YoY growth accelerations and decelerations in the IIP on 37 of the 44 occasions during this period. The deviations in the YoY growth between the ICRA Business Activity Monitor and the IIP were positive/negative in 28/16 of the 44 months.

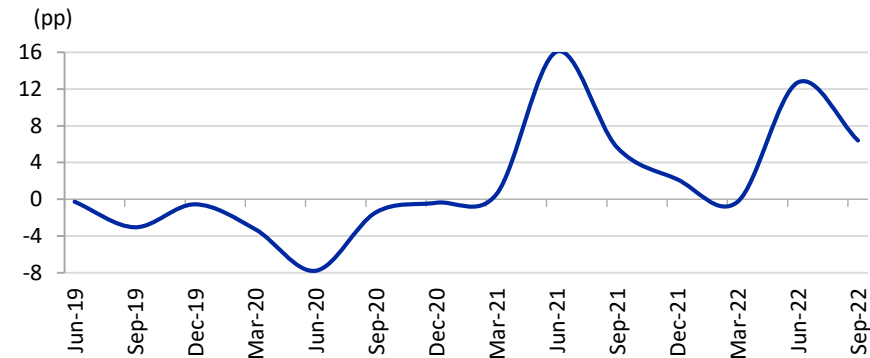
Annexure A.3: ICRA Business Activity Monitor

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

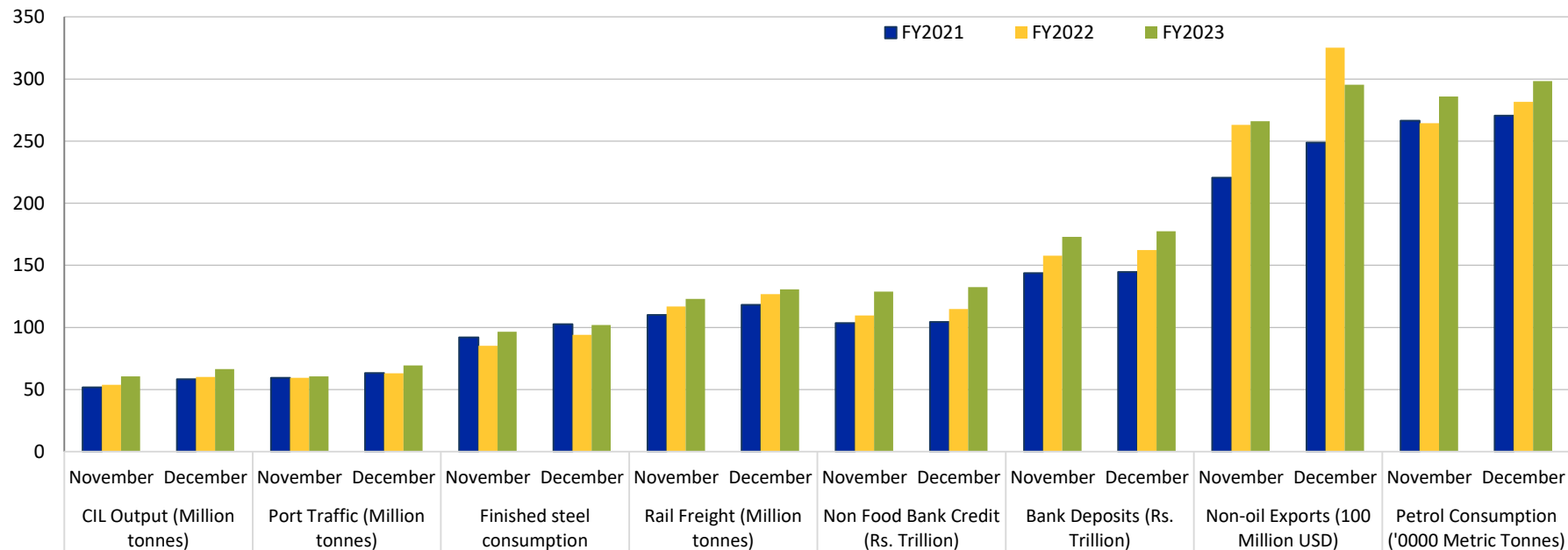


Source: ICRA Research

- 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 gauges 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 10 of the 14 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 most indicators rose in Dec 2022 in YoY terms- I

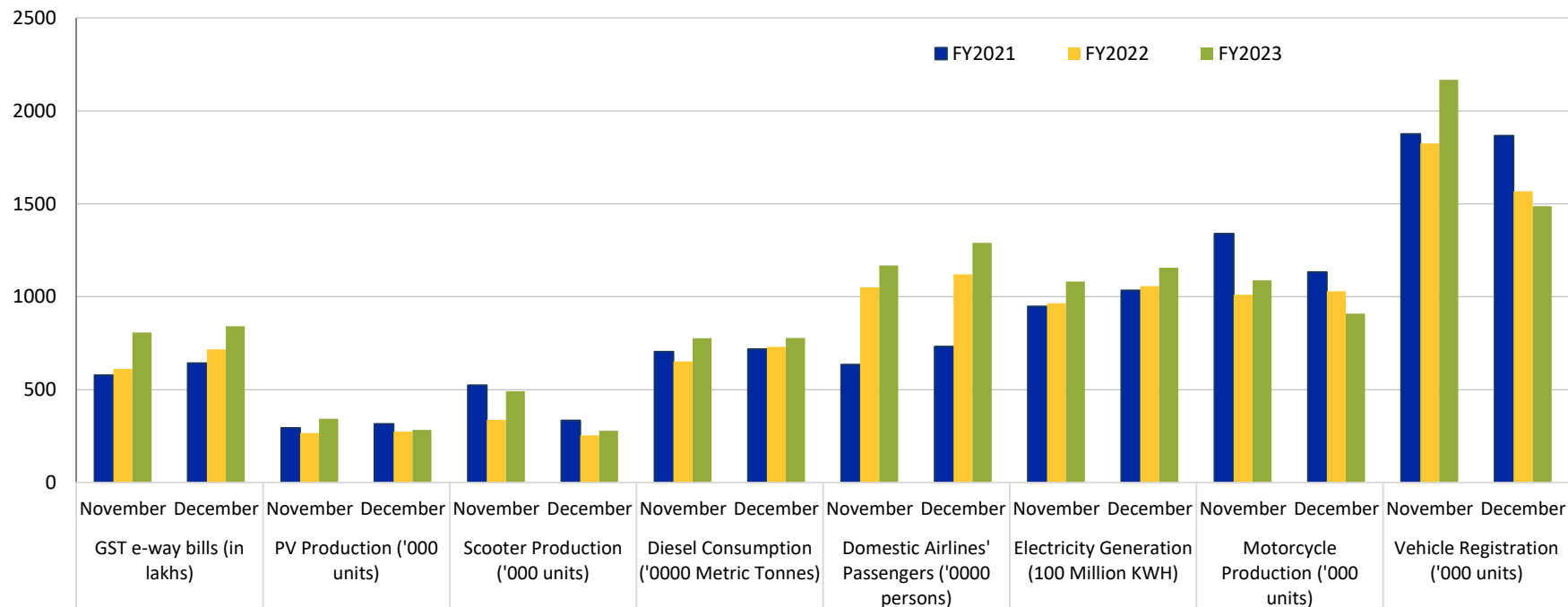
Exhibit: Trends in Volumes for Last Three Years in November and December (Part -I)



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

Annexure B.2: Volumes of most indicators rose in Dec 2022 in YoY terms- II

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



*Excluding renewable energy as the data for Dec 2022 is not yet available; Source: SIAM; PPAC; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA Research



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