



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

**MoM momentum of activity dips in
February 2023 owing to a lower
number of working days**

MARCH 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, declined by 3.0% to 119.8 in February 2023 from 123.5 in January 2023, partly on account of lower number of working days. While the year-on-year (YoY) growth in the index eased to 10.7% from 12.6%, respectively, it remained in double digits for two months in a row, aided by a favourable base related to Covid 3.0 wave in India. Based on the early trends and a high base, the YoY growth in ICRA Business Activity Monitor is likely to slip into mid-single digits in March 2023, despite a likely sequential ramp-up in the last month of the fiscal year.

- **ICRA Business Activity Monitor recorded a lower YoY growth in Feb 2023:** The YoY growth in the ICRA Business Activity Monitor eased to 10.7% in February 2023 (+2.3% in February 2022) from 12.6% in January 2023 (+1.3% in January 2022), while staying in double digits for the second consecutive month, on account of a favourable base related to Covid 3.0. As many as 12 of the 16 constituent indicators deteriorated in February 2023, relative to January 2023 in YoY terms.
- **Mixed MoM picture in Feb 2023 vs. Feb 2021:** When comparing the MoM trends in February 2023 with February 2021 (since February 2020 was a leap year), the performance of seven of the 14 non-financial indicators (such as production of PVs and motorcycles, ports cargo and rail freight traffic, domestic air passenger traffic and GST e-way bills) recorded a deterioration in February 2023. While growth in index relative to pre-Covid levels of February 2020 was healthy at 13.9% in February 2023, it was weaker than the corresponding trend seen in January 2023 (+16.6%).
- **Discouraging YoY trends for early-March 2023:** As per the early data, the YoY performances of daily average vehicle registrations, and rail freight traffic worsened in March 2023, relative to February 2023, partly on account of base effect related to the recovery seen after Covid 3.0 in March 2022. Similarly, the electricity demand growth has dipped in the ongoing month amidst a high base of heatwave-led surge in demand in March 2022. While the ICRA business activity monitor would display a sequential pick-up in the current month owing to seasonal year-end trends and a higher number of days, the YoY growth is likely to slip into mid-single digits in March 2023 on a high 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 decelerated by 3.0% MoM in Feb 2023, owing to lower number of working days

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

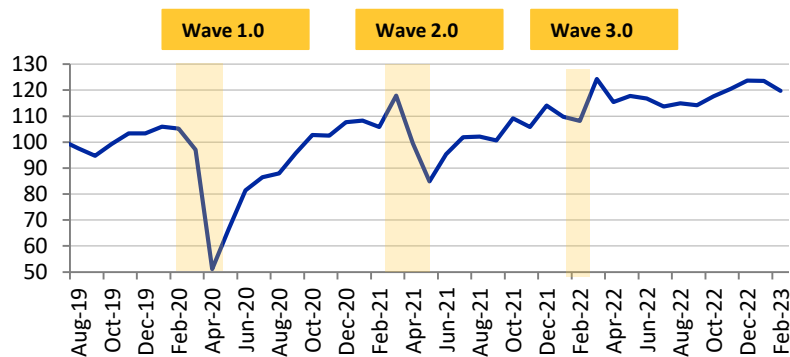
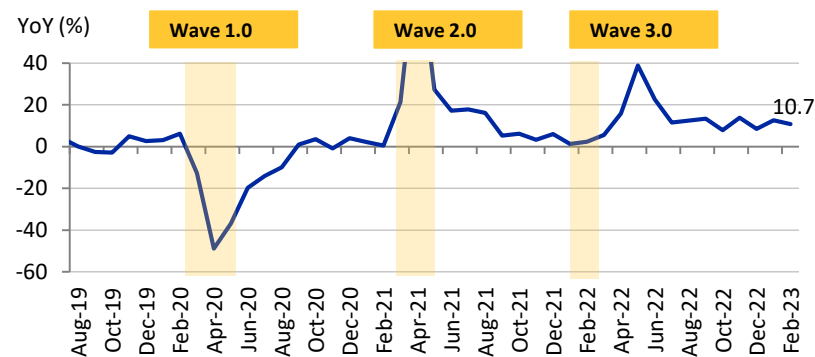


Exhibit: YoY growth of ICRA Business Activity Monitor



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

- After remaining largely steady in January 2023, the ICRA Business Activity Monitor declined by 3.0% MoM to 119.8 in February 2023, partly reflecting the impact of a lower number of working days. Nevertheless, the MoM trend in February 2023 was weaker when compared to the trends seen in February of FY2020 (-0.7%), FY2021 (-2.4%) and FY2022 (-1.4%).
- Moreover, the YoY growth in the ICRA Business Activity Monitor eased to 10.7% in February 2023 (+2.3% in February 2022) from 12.6% in January 2023 (+1.3% in January 2022) while staying in double digits for the second consecutive month, on account of a favourable base owing to the third wave of Covid-19.

YoY performance of most high-frequency indicators worsened in Feb 2023 vis-à-vis Jan 2023, while remaining healthy partly aided by Covid 3.0 base

Exhibit: Heatmap of high frequency indicators

YoY (%)	Auto Output			Vehicle Registration	CIL output	Electricity Generation*	Non-oil Exports	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													
Nov-22	28.9	45.8	7.5	18.5	12.8	12.2	12.1	2.0	5.2	32.0	12.8	11.1	8.2	19.2	9.6	17.6
Dec-22	3.2	9.8	-11.6	-6.9	10.3	9.1	1.8	10.4	3.1	17.5	15.9	13.7	5.9	6.6	9.2	15.3
Jan-23	21.1	5.1	-5.3	13.6	11.5	10.0	-8.4	12.2	3.9	19.7	4.4	95.7	14.3	12.7	10.5	16.7
Feb-23	7.9	12.0	-12.7	15.5	7.0	6.9*	-4.3	12.0	3.6	18.4	11.1	54^	8.8	7.4	10.1	15.9

YoY growth; sequential pick-up

YoY growth; sequential dip

YoY growth; no sequential change

YoY contraction; sequential pickup

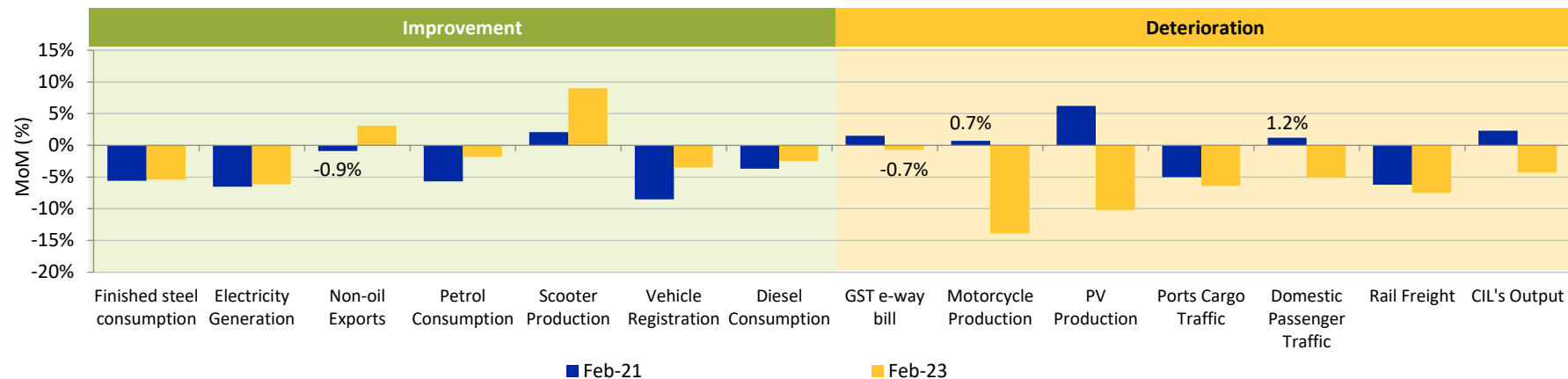
YoY contraction; sequential dip

However, scooter production, non-oil exports, vehicle registrations and steel consumption witnessed an improved YoY performance in February 2023, relative to the prior month, although the uptick in the latter two indicators was partly attributed to the base effect.

^As per ICRA's estimates; *excluding renewable energy; 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

Weaker MoM performance of half of the 14 non-financial indicators in Feb 2023 vis-à-vis Feb 2021

Exhibit: MoM performance of non-financial economic indicators

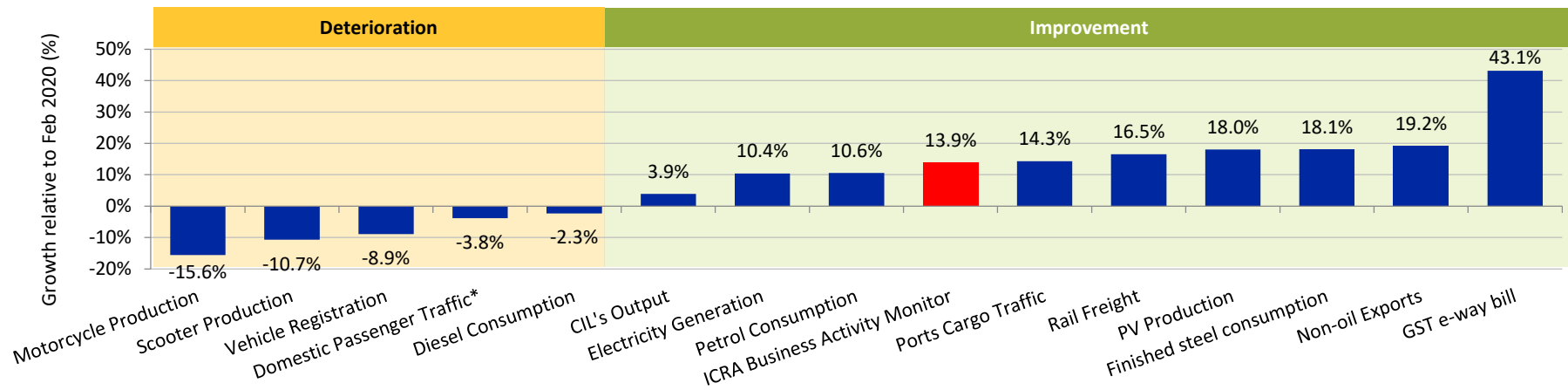


- When comparing the MoM trends in February 2023 with February 2021 (since February 2020 was a leap year), the performance of seven of the 14 non-financial monthly indicators (such as production of PVs and motorcycles, CIL's output, ports cargo and rail freight traffic, domestic airlines' passenger traffic and GST e-way bills) recorded a deterioration in February 2023.
- In contrast, the other seven indicators, namely scooter production, vehicle registrations, non-oil exports, electricity generation, as well as consumption of steel, petrol and diesel witnessed an improvement in their MoM performance in February 2023, relative to February 2021.

**Based on ICRA's estimates for air passenger traffic data in Feb 2023; 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*

Nevertheless, ICRA Business Activity Monitor stood at ~114% of pre-Covid levels in Feb 2023

Exhibit: Performance of non-financial economic indicators in Feb 2023 vs Feb 2020 (pre-Covid)

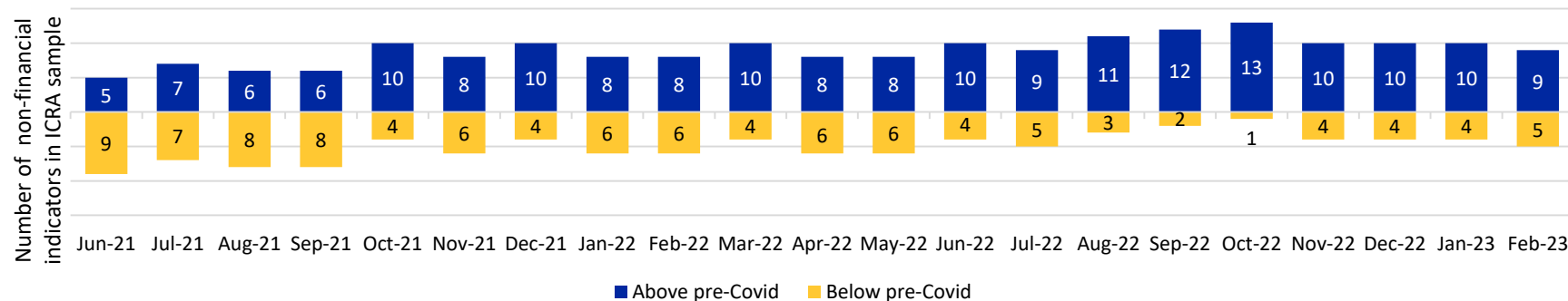


- The ICRA Business Activity Monitor indicates that activity in February 2023 exceeded the pre-Covid level of February 2020 by a healthy 13.9%, albeit lower than the 16.6% expansion seen in January 2023 vis-à-vis January 2020.
- Out of the 14 non-financial indicators, nine exceeded their pre-Covid performance in February 2023, with their growth rates ranging from just 3.9% (CIL's output) to as high as 43.1% (generation of GST e-way bills).

**Based on ICRA's estimates for air passenger traffic data in Feb 2023; 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 declined to nine in Feb 2023, from 10 each in previous three months

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

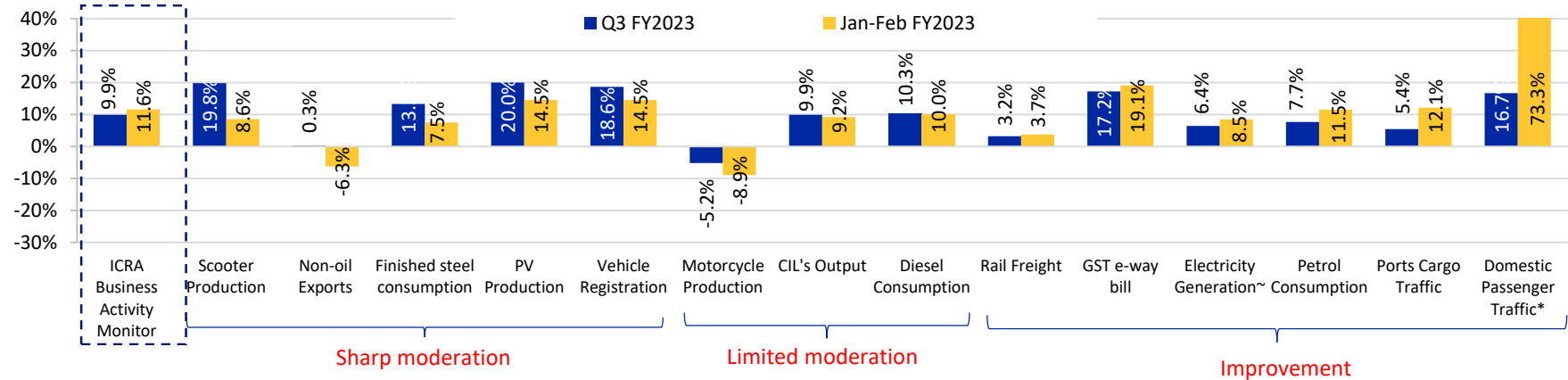


Note: Pre-Covid level for FY2023 has been taken as FY2020; Note: While the monthly data for 16 indicators is available, for computation of ICRA Business Activity Monitor, we have clubbed the production of PVs, scooters and motorcycles together as a single indicator; Source: ICRA Research

- Amidst a deceleration in the growth performance of the index relative to the pre-Covid levels in February 2023, relative to January 2023, the number of non-financial indicators above pre-Covid volumes declined to nine in February 2023 from 10 each seen in the previous three months.
- Diesel consumption also recorded below pre-Covid volumes in February 2023, after exceeding the same in the previous month. Additionally, in February 2023, the two-wheeler segment (weak sentiments owing to multiple price hikes, elevated ownership costs, and inflationary headwinds), aviation (delayed recovery in contact intensive services), and vehicle registrations continued to trail their respective pre-Covid volumes, similar to the trend seen in January 2023.

YoY performance of most high frequency indicators displayed either limited moderation or an improvement in Jan-Feb 2023, vis-à-vis Q3 FY2023

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

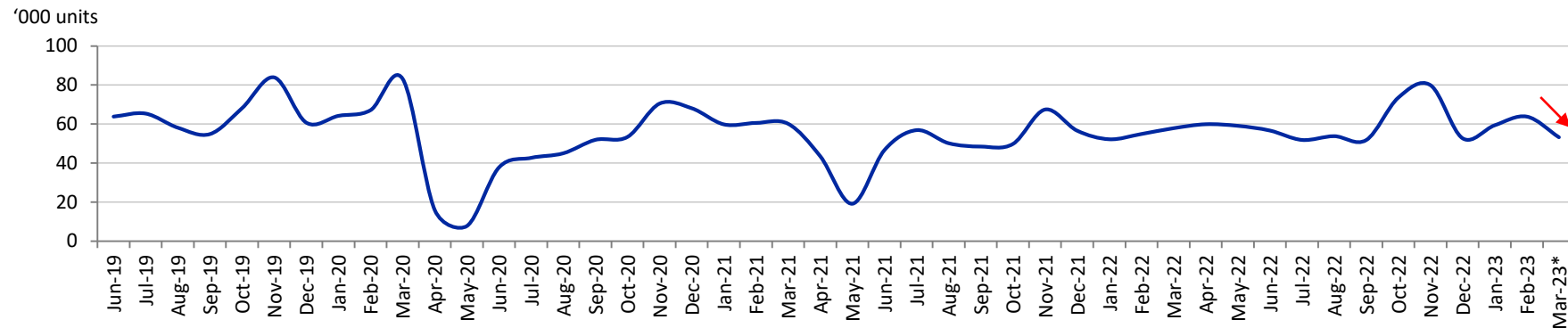


*ICRA's estimates for air passenger traffic data in Feb 2023; ~excludes renewable energy; Source: ICRA Research

- Overall, the ICRA Business Activity Monitor recorded an improved YoY expansion of 11.6% in Jan-Feb FY2023, relative to 9.9% seen in Q3 FY2023.
- The YoY performance of eight of the 14 non-financial indicators witnessed a moderation in Jan-Feb FY2023, relative to Q3 FY2023, although the extent of easing was relatively modest.
- However, non-oil exports slipped into a YoY contraction in Jan-Feb FY2023 (+0.3% in Q3 FY2023), mainly led by the slackening of external demand. Moreover, the continued base normalisation in several indicators such as scooter and PV production, CIL's output, and finished steel consumption resulted in a dampening of their YoY growth in Jan-Feb FY2023 relative to Q3 FY2023.

Auto retail volumes moderated sharply in Mar 2023 so far

Exhibit: Daily average vehicle registrations at all-India level

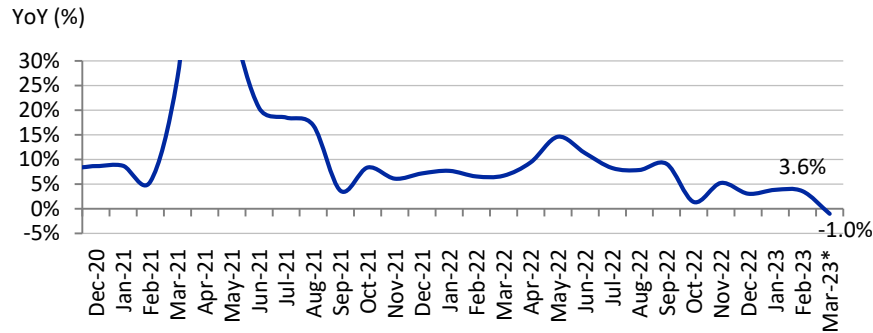


*Till Mar 16, 2023; Source: Vahan, MoRTH; CEIC; ICRA Research

- After recording a sequential uptick in Jan-Feb 2023, the average daily vehicle registrations dipped sharply by 16.6% MoM to 53.3k units during March 1-16, 2023, as per the data provided on the Vahan portal.
- Additionally, the average daily registrations in March 2023 so far stood 8.1% lower than the year-ago levels, partly on account of a high base owing to the recovery seen after Covid 3.0 in March 2022. Moreover, it trailed the pre-Covid levels of March 2019 by a steep ~20% in March 2023.

Rail freight traffic and electricity demand growth have witnessed a dip in March 2023 so far

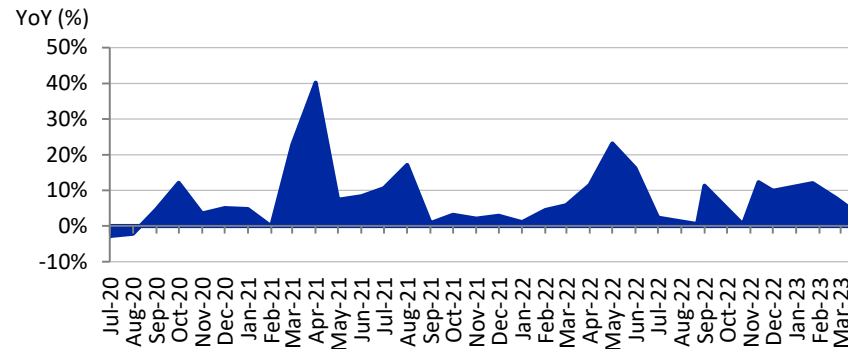
Exhibit: YoY trends in rail freight traffic



*Till March 10, 2023; Source: Indian Railways; ICRA Research

- The YoY growth in rail freight traffic slipped into a marginal YoY contraction of 1.0% during Mar 1-10, 2023 from 3.6% in Feb 2023.

Exhibit: Electricity Demand at all-India level



*Till Mar 15, 2023; Source: POSOCO; ICRA Research

- The all-India electricity demand growth has nearly halved to 3.5% during Mar 1-15, 2023 from 7.7% in Feb 2023 on a high base of heatwave-led surge in demand in March 2022. Regardless, demand has consistently stayed above 4.0 BU/day in the ongoing month, amidst a rise in temperatures.
- Average spot power tariffs in the day-ahead-market (DAM) eased to Rs. 6.3/unit in Mar 1-16, 2023 from the nine-month high of Rs. 6.7/unit seen in Feb 2023, while remaining elevated amidst lower coal stocks compared to the normative requirements.

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.

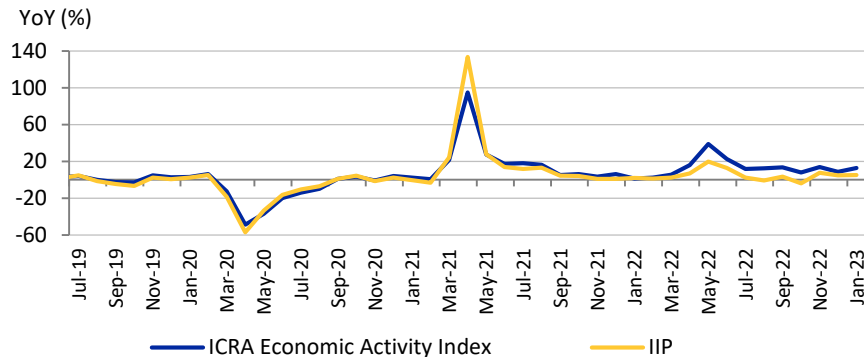
The ICRA Business Activity Monitor is constructed using 14 monthly high frequency indicators – auto production (comprising passenger vehicle, motorcycle and scooter production clubbed into a single indicator), output of Coal India Limited, electricity generation, non-oil merchandise exports, rail freight 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 123.5 in January 2023 from 123.7 in December 2022, signifies that the economic activity has deteriorated in January 2023 relative to December 2022. Moreover, the activity in January 2023 (123.7) is 16.6% higher than the pre-Covid level in January 2020 (106.0).

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 January 2023 was released on 10th March 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 January 2023 is available by mid-February 2023), thereby enabling a faster assessment of economic activity in the immediately preceding month.

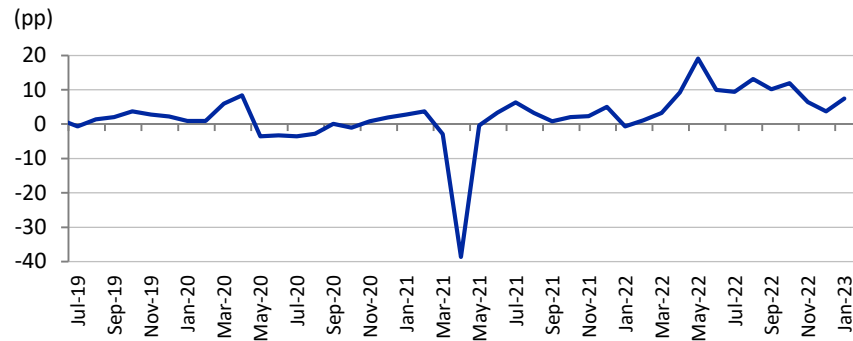
Annexure A.2: ICRA Business Activity Monitor

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

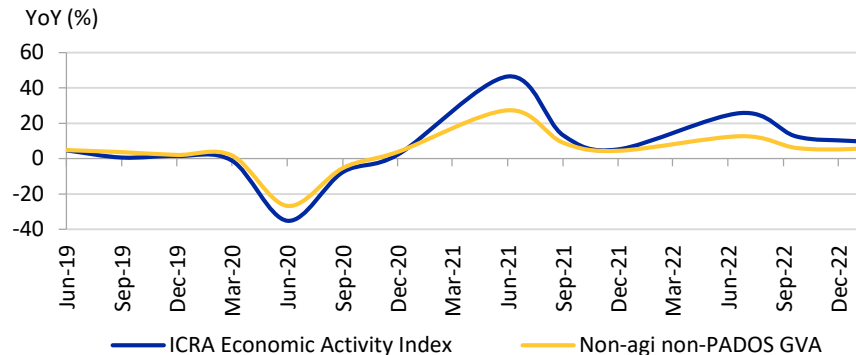


Source: ICRA Research

- 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 46 months between April 2019 and January 2023.
- Further, the ICRA Business Activity Monitor correctly predicted the YoY growth accelerations and decelerations in the IIP on 38 of the 46 occasions during this period. The deviations in the YoY growth between the ICRA Business Activity Monitor and the IIP were positive/negative in 30/16 of the 46 months.

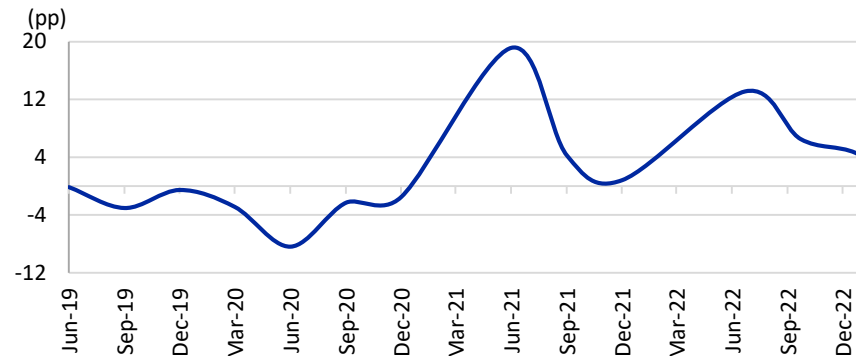
Annexure A.3: ICRA Business Activity Monitor

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

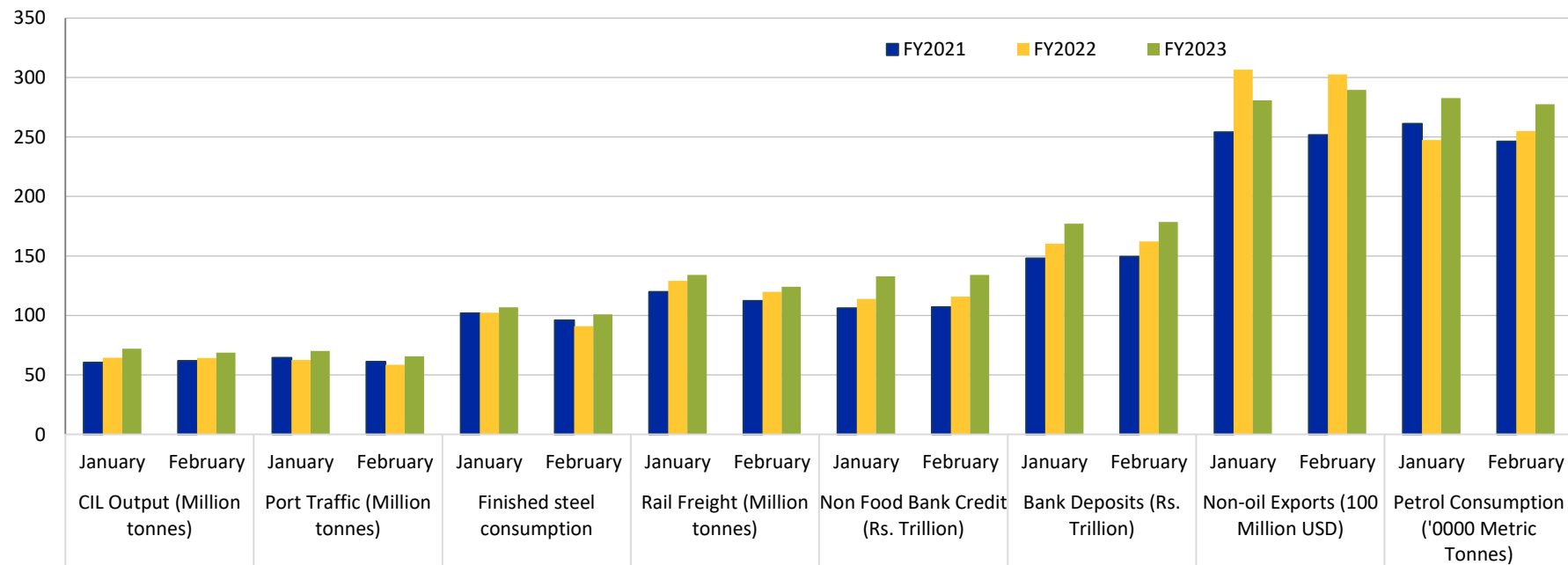


Source: ICRA Research

- 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 15 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 Feb 2023 in YoY terms- I

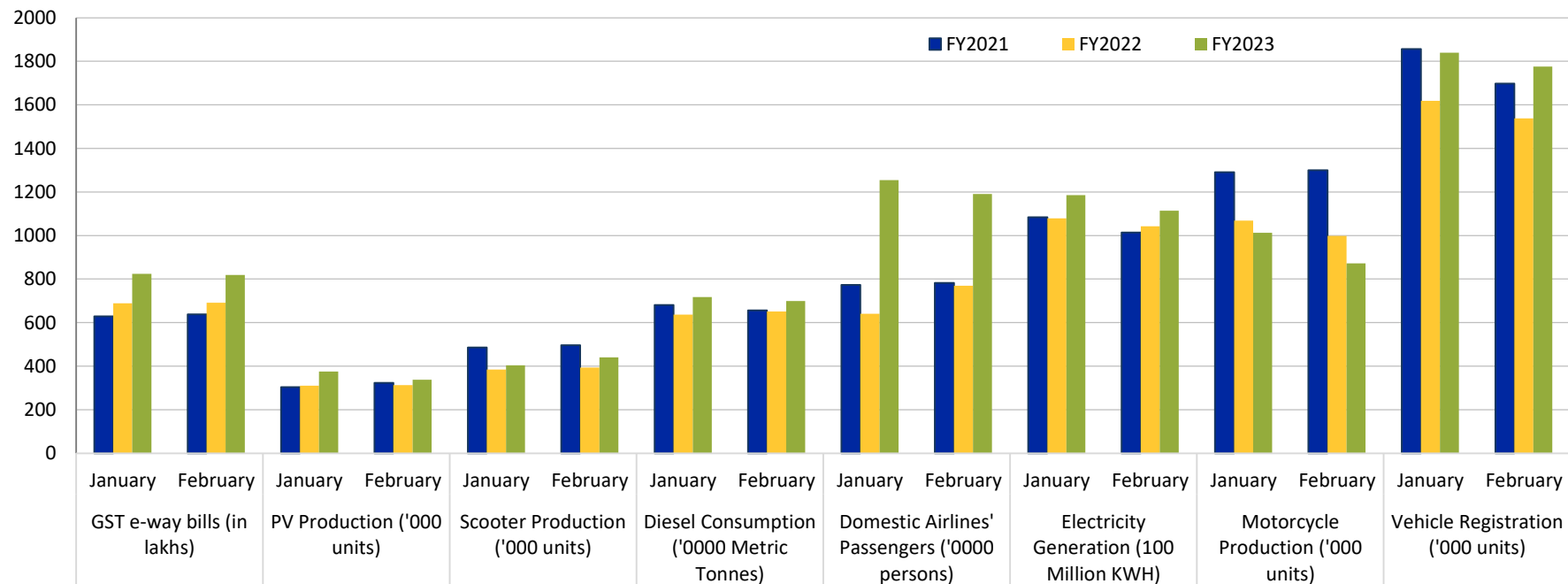
Exhibit: Trends in Volumes for Last Three Years in January and February(Part -I)



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 Feb 2023 in YoY terms- II

Exhibit: Trends in Volumes for Last Three Years in January and February(Part -II)



*Excluding renewable energy as the data for Feb 2023 is not yet available; Source: SIAM; PPAC; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA Research



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