



India's Economic Performance Review for October 2023

India's economic performance for October 2023 indicated mixed trends, with positive movements in demand, monetary, and investment indicators, but moderating signals appeared in industrial output growth, input purchases, and trade. Economists say most indicators remain elevated but there are signs of slowing growth.

Retail activity in October 2023 continued to show upbeat demand and consumer spending. With the festival and wedding season picking up, a decent rise in retail sales was visible in the record number of passenger vehicle sales. Rural demand also increased as sales of two-wheel vehicles surged in October. On the supply side, the Markit Purchasing Managers' Indices (PMIs) for Services and Manufacturing were a bit down, yet still well above the breakeven level. The overall unemployment rate in October witnessed a substantial rise from the previous month, mainly due to the substantial increase in rural unemployment owing to the weakest monsoon in five years. Goods and Services Tax (GST) and rail freight revenues were steady in tandem with the market activities and increased compliance. Government investment in infrastructure projects (capital expenditure) more than doubled from the previous month's level.

India's external sector continues to reflect the impacts of volatile conditions and tightening liquidity globally, with merchandise export earnings falling in September. India's trade deficit rose significantly during the month owing to increased import bills. Net Foreign Direct Investment (FDI) saw some positive movement in inflows albeit weaker global investment sentiment continues to show impact. India's foreign exchange reserves increased from the previous month, but the Indian rupee tumbled to record low of 83.23 against the US dollar.

Easing prices for vegetables, fruit, and non-food items led to a further decline in the consumer price index (CPI), which remains well within the RBI target band. While core inflation in India is now controlled, the risks of higher commodity prices continue, and the RBI has noted that it will not cut the repo rate until CPI inflation stabilizes at 4%. The wholesale price index (WPI) also continued in a deflationary trajectory. The RBI-Digital Payment Index (RBI-DPI), which reflects usage of digital payments in India, has risen steadily over the last five years, implying faster liquidity flow in the market.

India's impressive economic growth of 7.8% during the first quarter of FY2023-24 was driven by solid domestic demand, improved government spending, and impressive performances of the agriculture and services sectors. Manufacturing continues to be erratic but government investment in infrastructure is growing and is expected to attract private investment. Corporates have been reporting profits and the overall market sentiment remains buoyant.

The Indian monetary authorities stand ready to manage inflation if required. Economists have cautioned, however, that the risks of resurgent inflation, severe climatic and monsoon conditions, and geopolitical challenges arising from the continuing Ukraine-Russia war and the new Israel-Hamas conflict may moderate pace of the economic growth going forward. India's external sector remains uncertain due to geopolitical tensions, a depreciating currency, and suppressed global demand; however, given that India is domestically oriented, the economic growth is expected to be less affected.

Economic Activities in India

Indicator	IFY 2022-23							IFY 2023-24					
	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Passenger Vehicles sales (Nos. '000)	291.1	276.2	235.3	298.1	291.9	292.0	282.7	334.3	327.0	351.9	359.0	363.7	391.5
Capital Expenditure (\$ Billion)	8.0	4.7	5.2	9.7	2.5	17.8	9.6	10.9	21.4	4.7	6.9	14.1	n.a.
Merchandise Exports (\$ Billion)	31.6	34.9	38.1	35.8	37.0	41.9	34.7	35.0	33.0	32.3	38.5	34.5	33.6
Merchandise Imports (\$ Billion)	57.9	57.0	61.2	52.2	53.2	60.0	49.9	57.1	53.1	52.9	60.1	53.8	65.0
PMI													
— Composite	55.5	56.7	59.4	57.5	59.0	58.4	61.6	61.6	59.4	61.9	60.9	61.0	58.4
— Manufacturing	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8	57.7	58.6	57.5	55.5
— Services	55.1	56.4	58.5	57.2	59.4	57.8	62.0	61.2	58.7	62.3	60.1	61.0	58.4
Industrial output (y-o-y % change)	-4.2	7.3	4.3	5.5	5.6	1.7	4.2	5.2	3.7	5.7	10.3	5.8	n.a.
— Manufacturing	-4.9	6.4	2.6	4.0	5.3	1.2	4.9	5.7	3.1	4.6	9.3	4.5	n.a.
GST Collection (\$ Billion)	18.4	17.9	18.1	19.1	18.1	19.5	22.8	19.1	19.7	20.0	19.2	19.6	20.7
Rail Freight (Million Tons)	118.9	123.9	130.7	133.7	124.0	144.6	126.5	134.2	123.1	124.0	127.0	123.5	129.0
Unemployment Rate (%)	7.8	8.0	8.3	7.1	7.5	7.8	7.9	7.7	8.5	8.0	8.3	7.1	10.1
Net FDI Inflows (\$ Billion)	2.8	-2.43	1.95	4.1	1.9	0.4	2.8	2.7	-0.5	0.7	-1.3	1.6	n.a.
Consumer Price inflation (%)	6.8	5.9	5.7	6.5	6.4	5.7	4.7	4.3	4.8	7.4	6.8	5.0	4.9
Wholesale Price inflation (%)	8.4	5.9	5.0	4.7	3.9	1.3	-0.9	-3.5	-4.1	-1.4	-0.5	-0.3	-0.5
Exchange Rate (USD to INR)	82.3	81.6	82.4	81.8	82.6	82.3	82.0	82.3	82.2	82.5	82.8	83.0	83.2

Sources: Society for Indian Auto Manufacturers, S&P Global Markit PMI, Center for Monitoring Indian Economy (CMIE), Government of India Ministries, Reserve Bank of India, Controller General of Accounts

Note: 1. Indian Fiscal Year (IFY) is April 1 – March 31

2. Purchase Managers Index (PMI) >50 indicates expansion and <50 denotes contraction

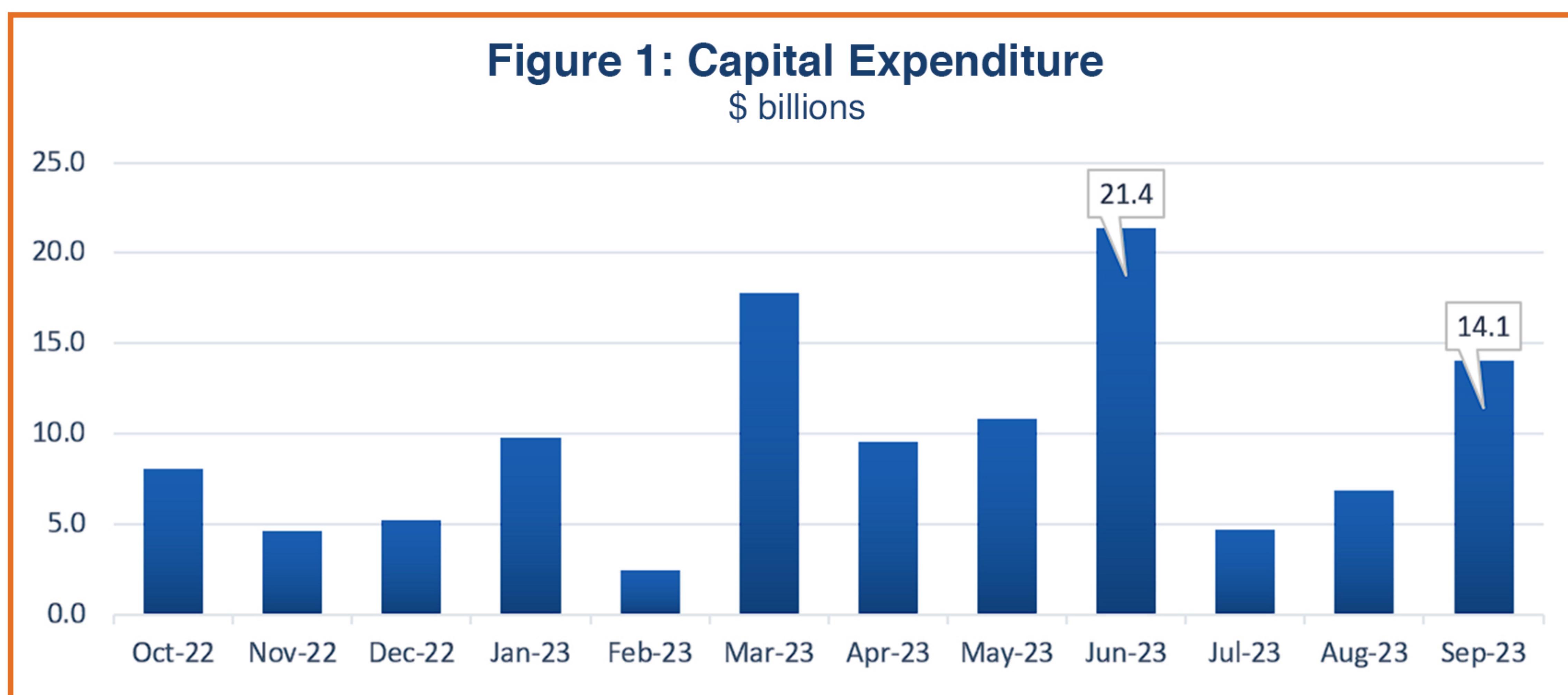
Demand Indicators

Retailers reported growth in urban and rural consumer spending, as seen in the higher sales of two-wheel vehicles and four-wheel passenger vehicles. According to the auto industry statistics, October saw the best sales in ten months, with car dispatches of over 391,400 units. Automakers are optimistic that the demand momentum will sustain and lift sales across segments this festive season.

The festival season that lasts for several weeks has given a boost to domestic demand, with robust customer spending on food, gifts, and home improvements in October 2023. The growth rate of bank credit was steady at about 20%, similar to the previous month's level, even though the cost of credit remains high due to liquidity tightening in effect since April 2023. The sustained positive sentiment in the market during FY2023-24 indicates resilient consumer demand will drive expansion of the Indian economy in the short and medium terms. The Government of India is also continuing fiscal support directed toward the rural economy ahead of polls, which could further push rural consumption.

Capital Expenditure

Public sector capital expenditure (capex, a proxy for infrastructure investment) maintained an upward trajectory during the first quarter of the current fiscal year (Figure 1) and contributed substantially to India's GDP growth rate of 7.8% for the quarter. The private sector capex has also reportedly picked up, compared to the previous year. Companies from capital-intensive sectors including oil and gas, metals, and power have reported impressive capex growth in the first quarter of FY2023-24 compared to the previous year. The government's Production-Linked Incentives (PLIs) in select sectors, such as electronics and appliances, are also helping increase private sector participation in investments. India's corporate sector has reported growth in net profits for the second quarter of IFY2023-24 (July-September 2023) which is expected to help sustain the momentum in private capex. A relatively stable domestic macroeconomic environment and global opportunities are translating into increasing profitability of Indian corporates. Nonetheless, India's capex phase still lacks sustainability and has room for improvement.

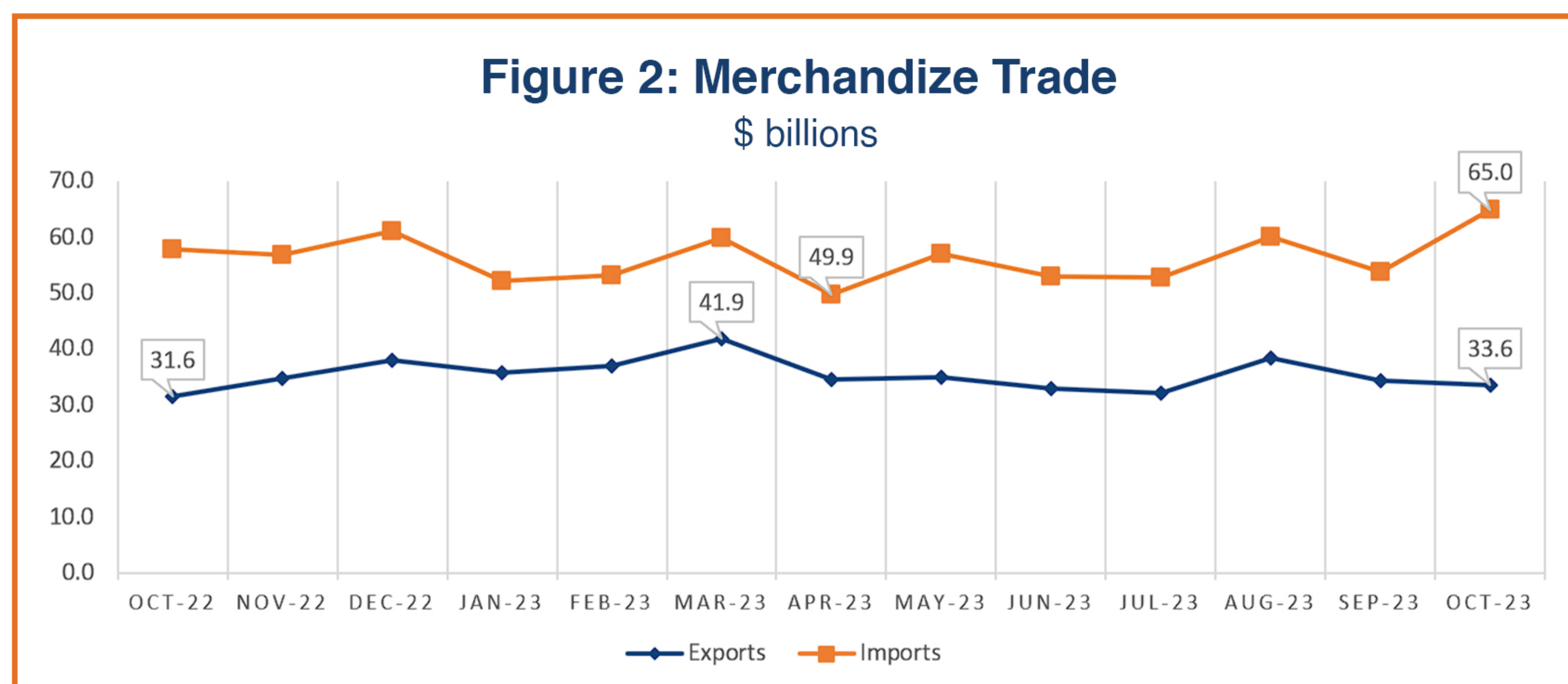


Source: Controller General of Accounts

Trade

India's merchandise exports shrunk nearly 2.6% in October 2023, to \$33.6 billion from the previous month's \$34.5 billion (Figure 2). Export performance remains impacted by the continuing sluggish global economic conditions, including high inflation rates that have reduced demand in developed economies. While a few categories, such as electronic goods, seafood, cotton yarn, pharmaceuticals, iron ore, and engineering items

witnessed growth in October, most major categories moderated, such as petroleum products, gems and jewelry, textiles, chemicals, and plastics. The growth in India's electronics exports is led by mobile phone exports (52% of total electronic exports), which have shown tremendous growth following the government's announcement of the Smartphone Production-linked Incentive (PLI) Scheme in 2020. October's services exports were \$28.7 billion, compared to \$29.4 billion recorded in September 2023. India's Finance Ministry in its September Review has projected that India's exports will recover in the second half of IFY2023-24 (October 2023 – March 2024), adding that India's forex reserve position is "comfortable" and external account "robust".



Source: GoI, Ministry of Commerce

India's merchandize imports, at \$65.0 billion in October, were nearly 21% more than the \$53.8 billion in the previous month, widening the country's merchandize trade deficit to \$31.5 billion, much more than the previous month's \$19.4 billion. The spike in global crude oil prices led to an increase in India's import bill; gold imports also rose by 5.5% to \$29.48 billion on the festive season demand surge. Services imports, however, decreased slightly to \$14.3 billion in October 2023 from the previous month's \$14.9 billion.

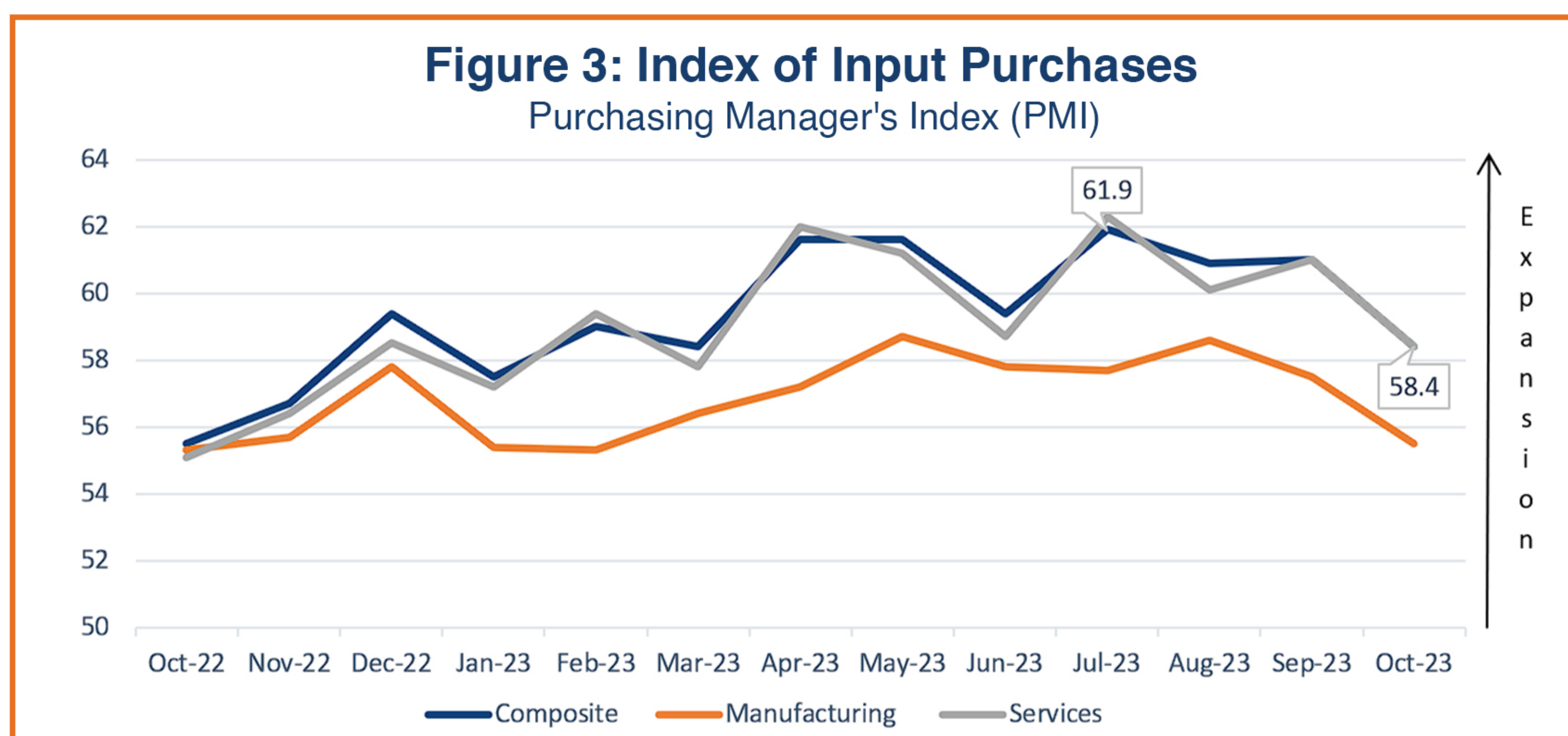
Supply Side Indicators

Input Purchases

Overall business sentiment in October 2023 was not so enthusiastic, with the Composite Markit Purchase Managers Index (PMI) at 58.4, down from the previous month's 61. Slowing demand for goods and services led to contraction in both manufacturing and services activities (Figure 3; a PMI above 50 reflects the optimistic mood of businesses that have made bold input purchases in anticipation of increased demand). While market activities grew at a relatively slower pace during October, the Composite PMI reading recorded the 28th consecutive month of business activity expansion, reaffirming sustained economic recovery in India.

The Services PMI for October 2023, at 58.4 points, dropped from the previous month's reading of 61.0, but service exports remained robust. According to the PMI Survey, growth in services activity in India decelerated in October owing to competitive pressures and inflationary forces. India's services PMI reading has sustained a level above breakeven for 27 months, heightening optimism on the sector's outlook for the remainder of the year.

Manufacturing activity PMI slowed to 55.5 in October 2023, falling to an eight-month low, primarily due to a weaker expansion in new business orders. The Manufacturing PMI eased for the second straight month in October as demand softened and cost of raw material rose that lowered the business confidence according to the S&P Global Market Survey Reports. The Survey also highlighted reports of rising inflation expectations, which were expected to dent demand and subsequently production growth over the course of the coming 12 months. Factory hiring slowed down, resulting in relatively more unemployment. The unemployment rate in October was up to 10.1% from the previous month's 7.1%, marked by major increase in the rural sector due to the weakest monsoon reported in five years that kept rural workers away from agriculture activities.



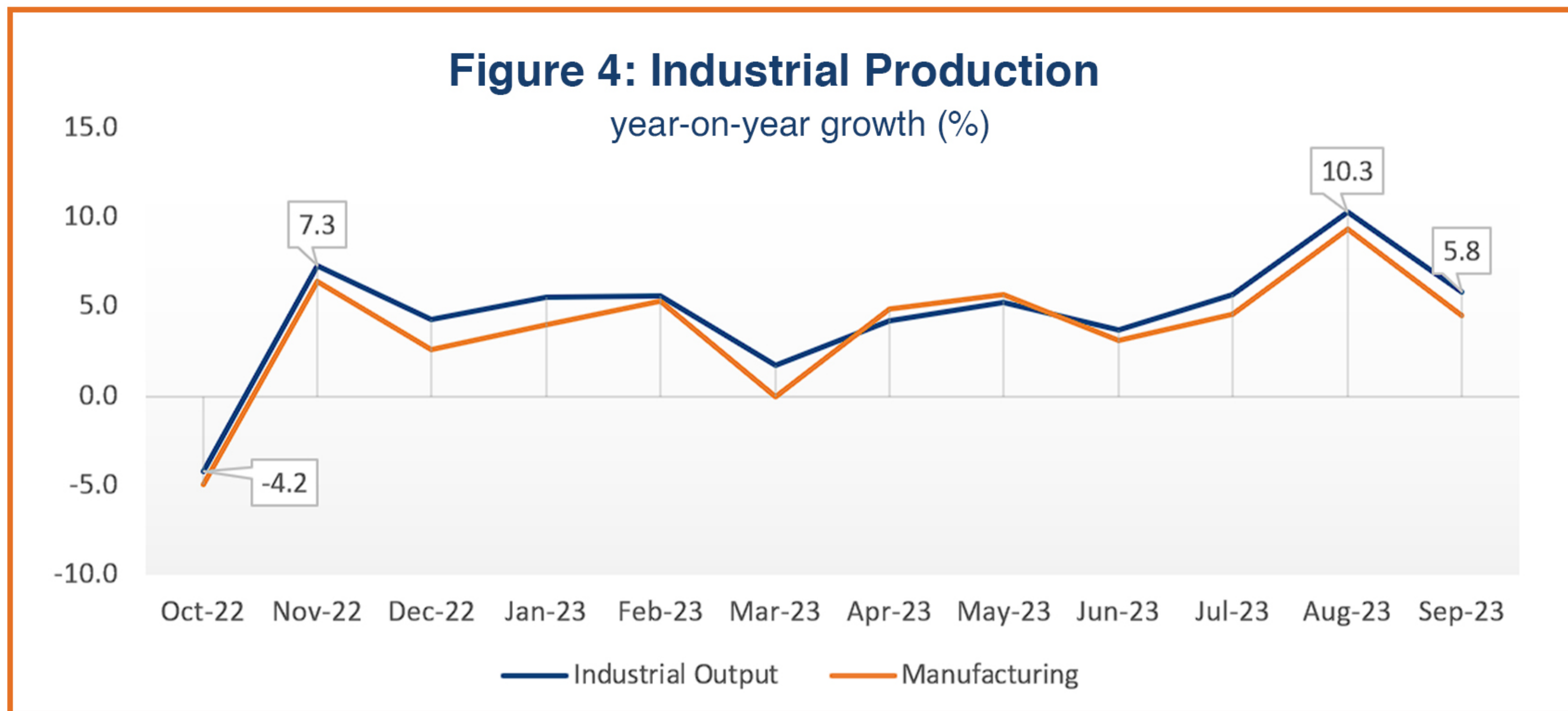
Source: IHS Markit

Industrial Production

India's year-on-year industrial production growth rate nearly halved to 5.8% in September 2023 from 10.3% in the previous month (Figure 4). A less than expected performance by electricity and manufacturing output, and a slower domestic demand due to excessive rainfall and delayed festivals drove moderation in industrial growth in September 2023. Economists, however, remain optimistic on festive demand during the third quarter (October-December 2023) of FY2023-24.

Manufacturing, which accounts for 77% of total industrial production output, recorded growth of 4.5% in September, compared with 9.3% in the previous month. The growth rate in mining output, comprising 14% of total industrial output, also slowed a bit, at 11.5%, compared to the 12.3% growth rate in the previous month. Power generation (8.0% of total industrial production) growth rate was 9.9% in September 2023, compared with the previous month's 15.3%. Production of capital goods (indicative of growth in investments) within the manufacturing sector posted a 7.4% growth rate in September 2023, compared with the 12.6% recorded in August 2023.

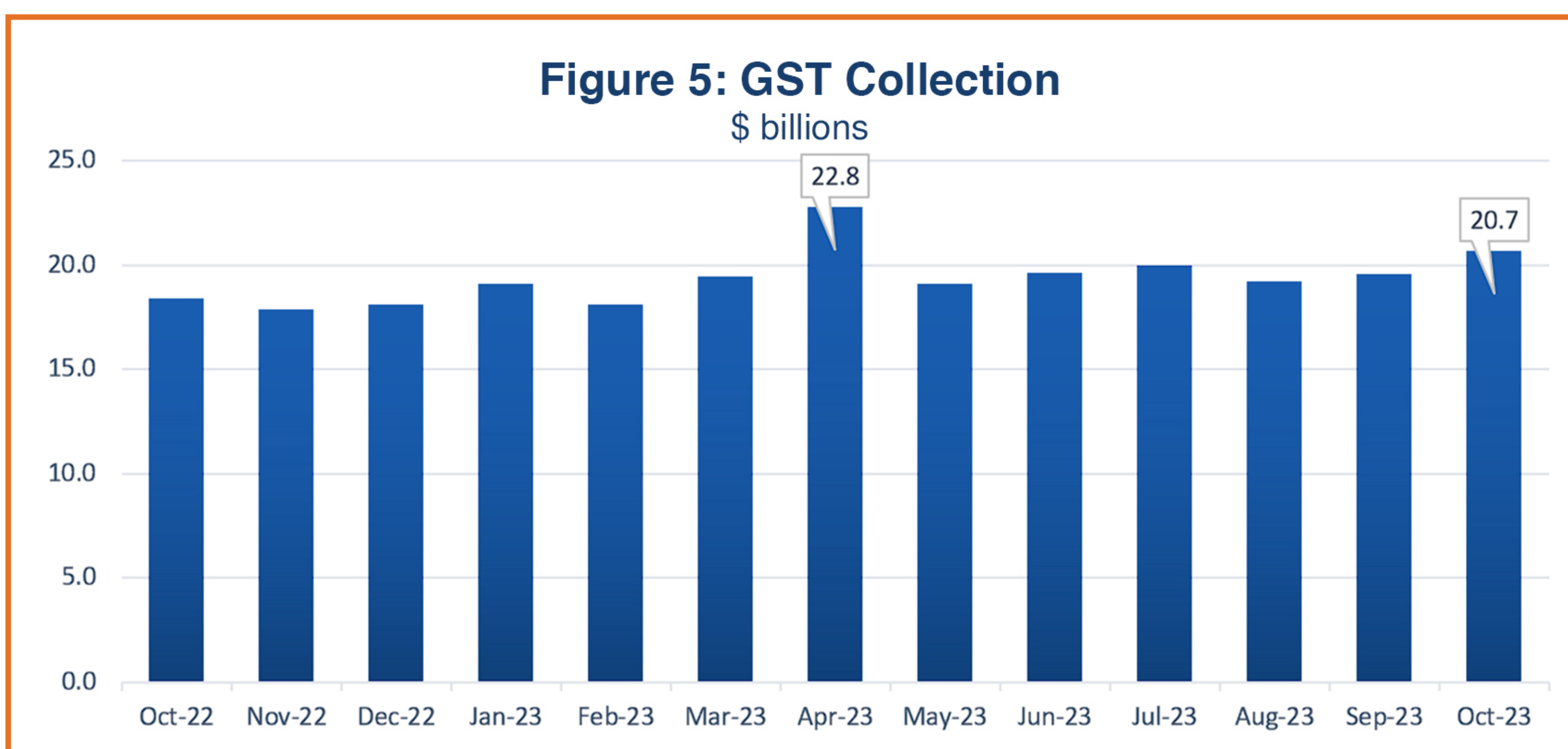
Domestic demand will be the key driver of industrial performance in India for the rest of the current fiscal year as merchandise exports will likely remain weaker due to continued gloominess in global economy. But industrial output also faces downside risks from increasing inflation.



Source: GoI, Ministry of Statistics and Program Implementation

GST Revenues

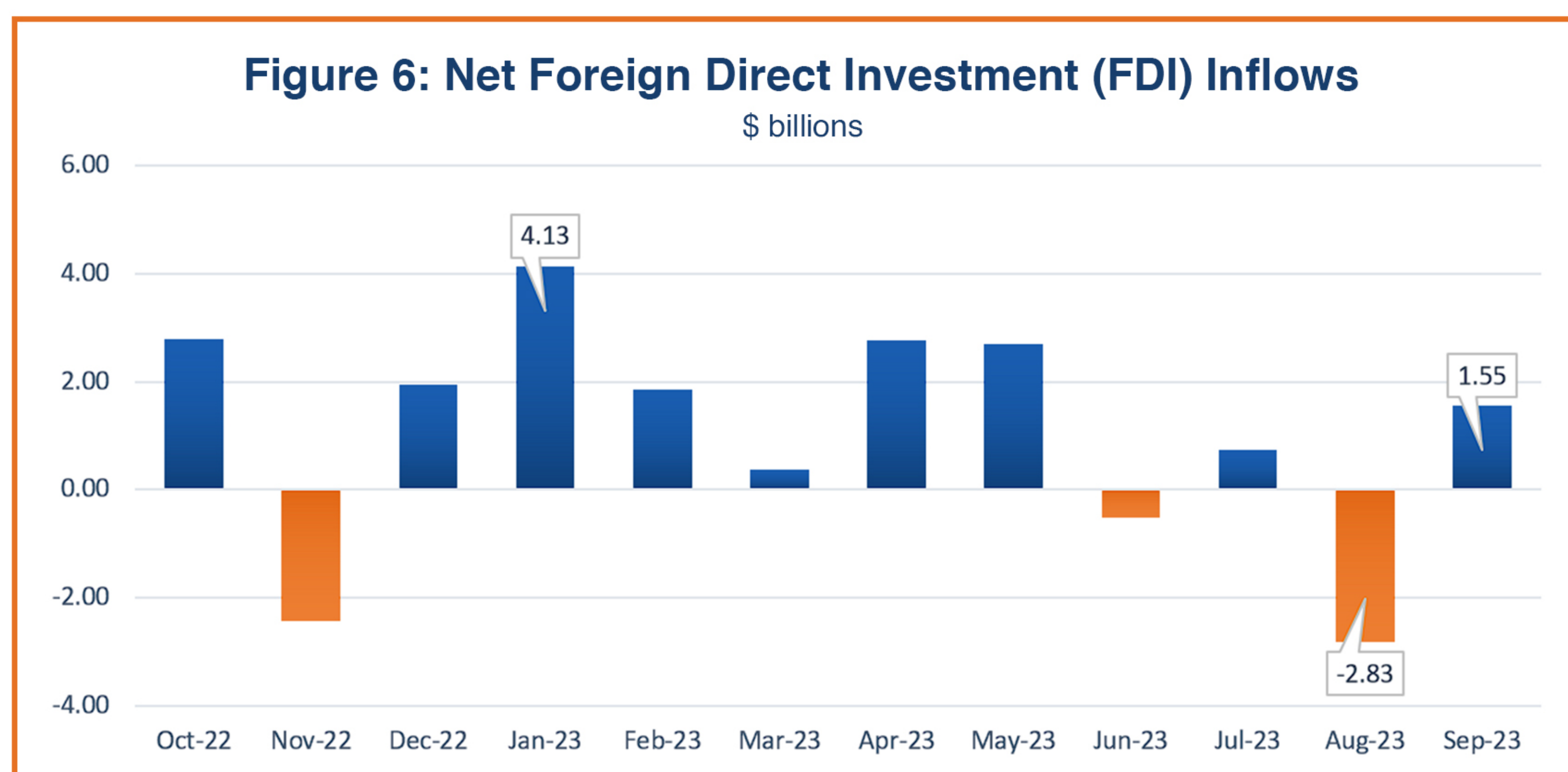
October 2023 Goods and Services Tax (GST) collections, maintaining a robust pace, were more than \$20.7 billion, up from the previous month's \$19.6 billion (Figure 5). A steady rise in average gross monthly GST collections in the current fiscal year reflects increased domestic transactions, as well as improved compliance. The gross GST collections for the first seven months of the current fiscal year (April-October 2023) are about \$121.1 billion, up 11.4% y-o-y; monthly collections will likely rise further in the next two months as festive demand in India lifts consumer purchases. Industry expects the GST authorities will be more open to a rate rationalization proposal as the growth in GST collections stabilize.



Source: GoI Ministry of Finance

Net Foreign Direct Investment

FDI inflows remain lackluster (Figure 6), mainly due to the uncertain geopolitical tensions that are weighing upon investor sentiment globally. According to the latest RBI data, total net FDI for September 2023 was \$1.55 billion. The impact of moderating gross FDI and a rise in repatriation, along with shrinking foreign institutional investments, may further dampen an Indian external sector that is already stressed in IFY2023-24 due to the rising trade deficit.

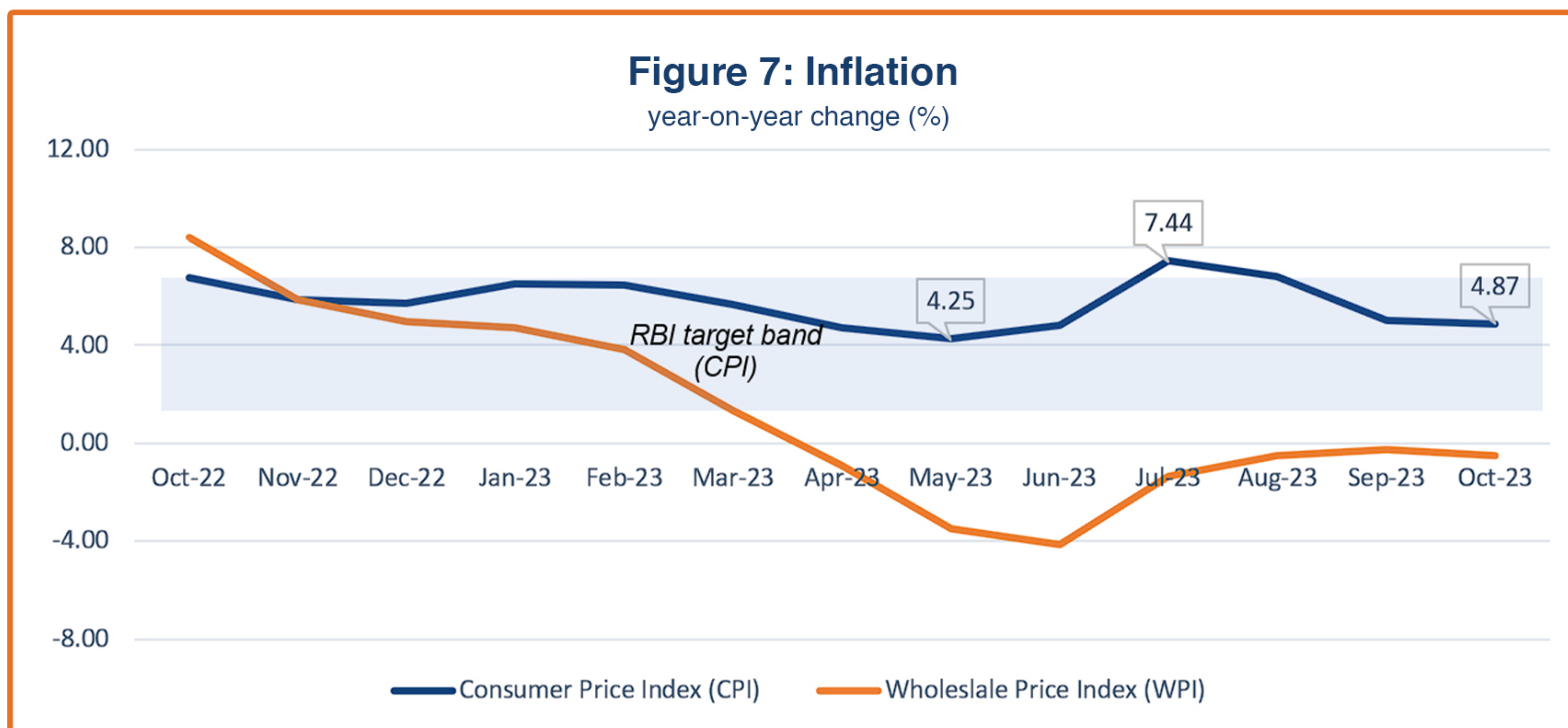


Data Source: GoI, RBI

Inflation

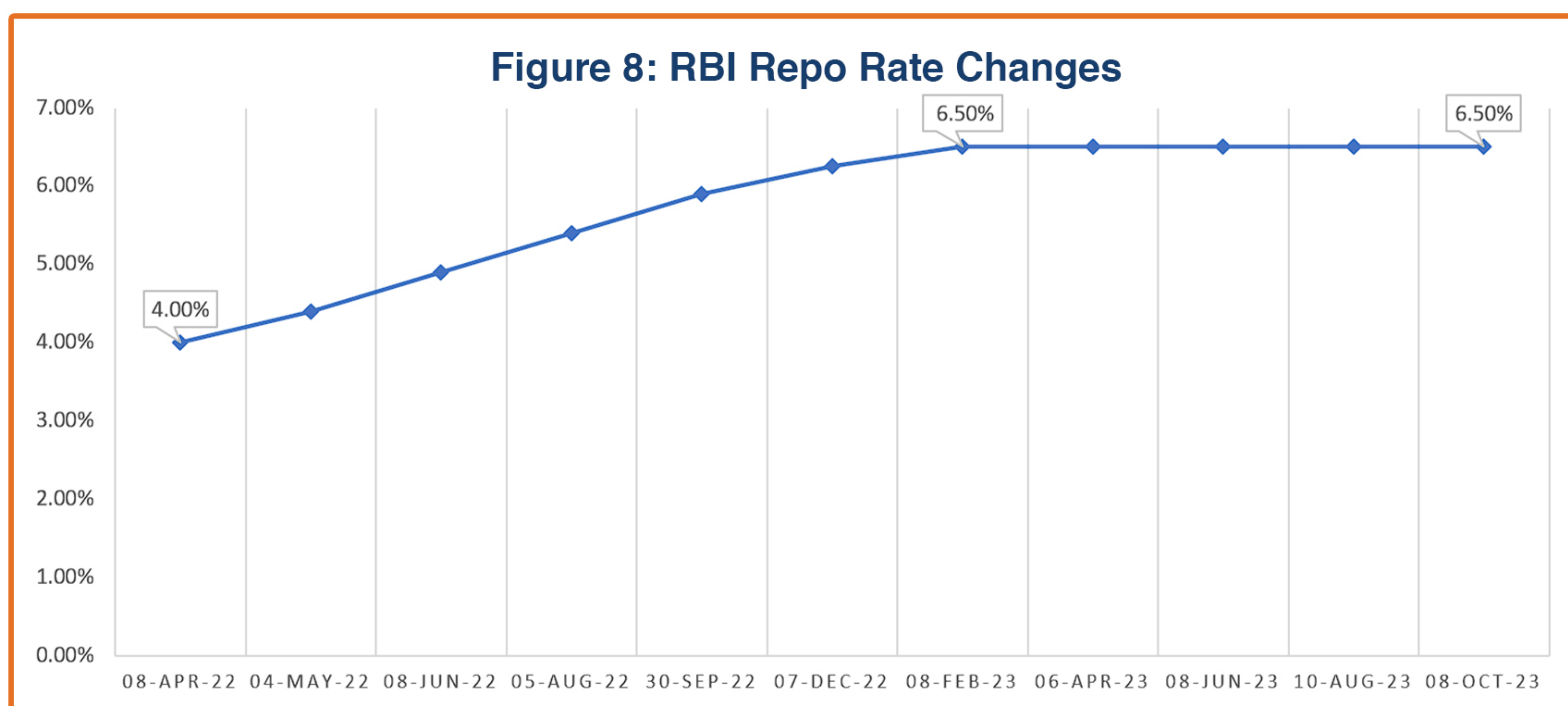
India's retail inflation dropped to 4.87% in October 2023, compared to 5.02% in September. The year-on-year Consumer Price Index (CPI) inflation rate, at 4.87%, is well within the RBI target band of 2-6% (Figure 7); however, the RBI has set a target of 4% retail inflation before it starts lowering repo rates. Food prices, which account for about 40% of the CPI total, cooled off during the month as well as non-food inflation eased. RBI economists have highlighted that core inflation in rural as well as urban areas is stabilizing, as reflected in a broad-based easing of price pressures across goods and services.

Wholesale price index (WPI) deflation continued for a seventh consecutive month, with prices declining 0.52% in October. Lower prices of chemicals, electricity, textiles, food products, basic metal, and paper led to the WPI deflation.



Data Source: : GoI, Ministry of Commerce & Industry

The velocity of money in the economy continues to accelerate with the widespread adoption of digital payments in India, as reflected by the steady rise in the RBI-Digital Payment Index. The RBI's Monetary Policy Committee, in its October meeting, decided to maintain the repo rate at 6.5% (Figure 8), with inflation forecast for the FY2023-24 at 5.4%, and projections of 6.4%, 5.6%, and 5.2% for Q2, Q3, and Q4, respectively. However, the Israel-Hamas conflict adds to the concerns of oil prices exceeding current assumptions, which could subsequently exert pressure on inflation.

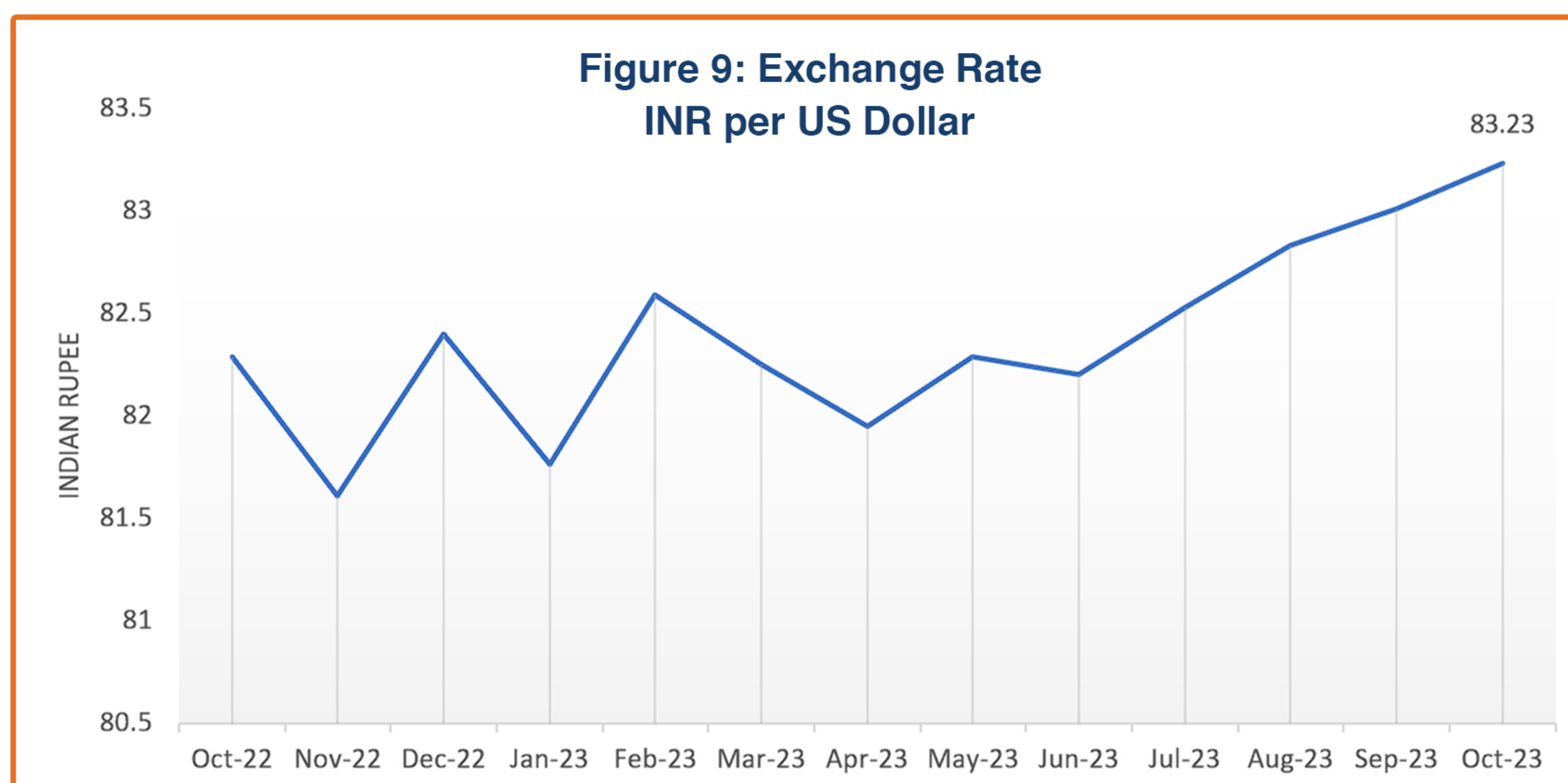


Source: RBI

Foreign Exchange

India's foreign exchange reserves were nearly \$586 billion at the end of October 2023, a total gain of about \$2.58 billion from the previous month. The foreign currency assets, which forms the major component of the foreign exchange reserves, increased by \$2.3 billion, whereas other components, including foreign currency assets, gold, special drawing rights (SDRS, or supplementary reserve assets maintained by the IMF) were up by \$0.28 billion collectively. The reserve levels have declined since their October 2021 peak of \$645 billion as the RBI has actively bought and sold foreign exchange in the market to smooth volatility caused by global developments.

The Indian currency has weakened since the beginning of September as foreign institutional investors (FIIs) started withdrawing their investments from the local markets due to Israel-Hamas conflict uncertainties. The rupee remained weak throughout October 2023, depreciating 0.3% from the previous month, and the average monthly exchange rate peaked at INR 83.23/USD, compared to the previous month's INR 83.01/USD (Figure 9).



Source: RBI

Economic Outlook

India's real gross domestic product (GDP) grew 7.8% in the first quarter of FY2023-24 (April-June 2023; Figure 10), mainly driven by robust consumer demand, increased investments, and impressive output growth in the agriculture and services sectors. The RBI had, however, expected growth of 8% in Q1 FY2023-24.



Source: GoI Ministry of Statistics and Program Implementation

The RBI maintains its forecast of annual economic growth of 6.5% for FY2023-24, with Q2 at 6.5%, Q3 at 6.0%, and Q4 at 5.8%. According to the RBI Governor, domestic economic activity is strong due to robust domestic demand, but risks to India's outlook prevail, including geopolitical tensions, global economic slowdown, and uneven monsoon rains. The start of the festival season and sustained buoyancy in service activities are expected to push up private consumption while increasing corporate profits will promote investment activities.

The International Monetary Fund (IMF) on October 10 projected India's real GDP growth at 6.3% in FY2023-24, up from 6.1% estimated in July, citing momentum from stronger-than-expected growth in consumption during April-June 2023. The World Bank has retained India's growth forecast for FY2023-24 at 6.3% in its India Development Update released on October 3, 2023, projecting strong investment to drive growth. While these projections were released before the terror attacks on Israel in October 2023, and subsequent geopolitical developments may impact the economic growth outlook going forward, no updated projections have been announced.

Domestic demand in India remains buoyant, but the downside risks include inflation, financial instability, and intensifying conflicts around the world. India's export sector remains impacted by the continuing gloominess in the global economy. Overall, external demand, uncertain inflation, and geopolitical tensions continue to pose risks to the RBI's forecast, but India's strong economic fundamentals hold, and the long-term outlook remains optimistic.