Acuite RATINGS & RESEARCH

Press Release

AMEP index reaches a new high in Mar-23

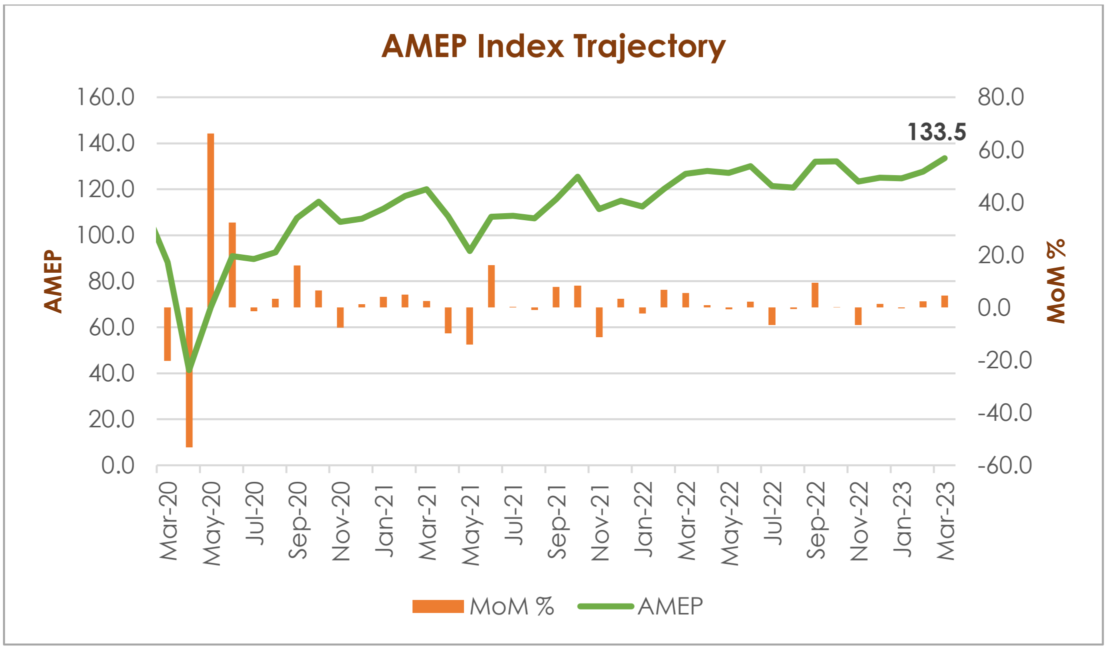
Economic activity likely to move to a lower gear in FY24

20-April-23

Acuité Macroeconomic Performance index (AMEP index) has climbed to a new high in March-23, reflecting the heightened economic activity at the fiscal year end and the continuing resilience in domestic demand despite the increased global headwinds. The index print has risen by 5.3% YoY as compared to Mar-22 and 4.6% MoM over the seasonally adjusted value reported in Feb-23.

For the past financial year as a whole (FY23, Apr-Mar'23), the average AMEP index has grown in double digits by 12.8% as compared to that in FY22, given the significant base advantage with some Covid lockdown impact in the latter year.

Chart 1: AMEP index has seen a largely steady and upward trajectory in FY23



Source: CMIE, Acuité Ratings and Research, Base Month: Aug-2019: 100

Note: AMEP index has been constructed deploying sixteen high frequency indicators across four major categories– consumption demand, industrial production, external sector, and employment. The data for Feb has been adjusted for the lesser number of days in the month.

From the range of sixteen high-frequency indicators, fourteen domestic demand indicators have witnessed a sequential rise in Mar-23 after factoring in the adjustments for Feb-23. The residual two parameters – PMI Services and Unemployment Rate have seen a modest drop in Mar-22 vis-à-vis Mar-22. On an annualized basis, there were also three indicators that reported a contraction on expected lines – both exports and imports have reported a drop of 9.1% and 4.4% respectively as compared to Mar-22. While exports of both commodities and manufactured goods have been adversely impacted in FY23 due to the global uncertainty, imports have also seen a declining trend given the moderation in crude purchase prices and slower demand for imported consumption goods. Additionally, power generation has dipped by 3.1% YoY in Mar-23 which we attribute to the lower residential demand amidst relatively moderate weather in the previous month as compared to the heat wave experienced in previous March.

While auto sales have clocked a modest 1.2% YoY volume growth in Mar-23 along with a healthy 8.0% MoM print, it can be partly traced to increased dealer dispatches by OEMs during the year end. Auto volumes had been on a relatively slower track in H2FY23 after the peak festive season in Sep-Oct'22; it is driven by the continuing weakness in rural demand and the sharp drop in exports particularly of two wheelers due to the global slowdown.

Domestic steel production has also grown only marginally on a YoY basis. While higher public expenditure in infrastructure has driven domestic demand, steel exports have seen a significant dip due to the imposition of export duty in May-22.

On the other hand, some of the indicators continue to demonstrate resilience so far with both healthy positive growth both on an annualized and sequential basis – namely railway freight, passenger traffic, tractor sales, retail fuel consumption, credit growth and GST collections. With both the PMI indices- Manufacturing and Services holding on well in the band of 55-58, a healthy optimism continues in the business environment.

Says Suman Chowdhury, Chief Analytical Officer, Acuité Ratings & Research "The economic activity in India is estimated to have grown by 33% over the period Aug'19-Mar'23, that covers the pandemic pain period. Except for railway passenger traffic, auto sales and employment rate, all the other high frequency indicators are significantly higher than the pre pandemic level (Aug 2019, Base -100). However, the growth print has been on a decline with the gradual elimination of the base factor along with the weakness in the export sector and lack of strength in rural demand. While the overall GDP growth for FY23 is estimated to be close to 7.0%, that in Q4FY23 is estimated to be around 4.0%-4.5%. Notwithstanding the heightened global risks and the impact of increased interest rates, we believe that India can post a 6.0% growth print in FY24 on the back of a buoyancy in the services sector, moderation in inflation and the consistency in public sector capital expenditure."

About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 9,500 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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