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Review Article

Global Growth Will Slow: But The Hard Landing Subsided

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ABSTRACT:
The global and Indian economic landscape as of September 30, 2023, reveals a complex picture of resilience amidst challenges. Global growth is projected to slow from 2.9% in 2023 to 2.7% in 2024, with a slight recovery to 3.0% expected in 2025, according to reports from the OECD, IMF, and others. The United States, while showing stronger-than-expected performance, faces potential risks of recession due to high debt, weak housing markets, and elevated oil prices. The IMF highlights lopsided global growth, which risks exacerbating vulnerabilities in poorer nations, particularly in light of ongoing geopolitical tensions and inflationary pressures. China's economy is expected to slow further, with growth projected to decline from 5.2% in 2023 to 4.7% in 2024, driven by a deflating real estate bubble and weakening consumer confidence. In contrast, the Euro area may see modest growth improvements, with Germany recovering from a recession. However, uncertainties around interest rate impacts remain. Japan's growth is also anticipated to slow, with a slight rebound forecasted for 2025. The Indian economy stands out with a robust growth projection of 6.3% for FY 2024, supported by strong economic fundamentals. The U.S. economy's unexpected acceleration in Q2 2023, despite the Federal Reserve's aggressive rate hikes, suggests resilience, though concerns about sustained growth persist. Overall, while a hard landing appears less likely, the global economic outlook remains cautious, with significant risks and uncertainties continuing to loom.

KEYWORDS: Global Growth, Inflationary Pressures, Lopsided Growth, Recession Risks, Resilient Economy.

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INTRODUCTION

This article summarises the Global and Indian Economic Scenario for the period ending 30th September 2023. It also details the growth projection for the FY 2024 and in certain cases FY 2025 and the problems surmounting the various countries. The materials presented in this article are based on OECD report, IMF's latest update to its world Economic outlook, US government commerce department report, World Bank South Asia Economic Focus Report and the various 'The Hindu' editorials. It is evident from the analysis that the global economy will slow slightly next year but the risk of hard landing has subsided. Advanced Economies including U.S. holding up better than expected so far. China's economy will slow but in the Euro area growth in seen picking up. As far Indian Eurnomy is concerned all source materials point a strong growth at 6.3% for 2023-24, other fundamentals being strongat moderate levels.[1]

The scenario unfolds as follows:

The global economy will slow slightly next year but the risk of a hard landing has subsided despite high levels of debt and uncertainty over interest rates, the Organisation for Economic Cooperation and Development said. Global growth is set to moderate from 2.9% this year to 2.7% in 2024 before picking up in 2025 to 3.0%, the Paris-based policy forum said in its latest Economic Outlook. Growth in advanced economies that make up the OECD's 38 members was seen headed for a soft landing with the United States holding up better than expected so far. The OECD forecast U.S. growth would slow from 2.4% this year to 1.5% next year, revising up its estimates from September when it predicted U.S. growth of 2.2% in 2023 and 1.3% in 2024.

Though the risk of a hard landing in the United States and elsewhere had eased, the OECD said that the risk of recession was not off the table given weak housing markets, high oil prices and sluggish lending. China's economy was also expected to slow as it grapples with a deflating real estate bubble and consumers save more in the face of greater uncertainty about the outlook. Its growth was seen easing from 5.2% this year to 4.7% in 2024 - both marginally higher than expected in September - before slowing further in 2025 to 4.2%, the OECD forecast. In the euro area, growth was seen picking up from 0.6% this year to 0.9% in 2024 and 1.1% in 2025 as Germany - the region's largest economy- emerged from a recession this year. Nonetheless, the OECD warned that, because of the high level of bank financing in the euro zone, the full impact of interest rate hikes remained uncertain and could weigh more on growth than expected. Meanwhile, Japan, the only major advanced economy yet to hike interest rates in the current cycle, was expected to see growth slow from 1.7% this year to 1.0% in 2024 before picking up to 1.2% in 2024. While countries' growth outlooks were diverging, they shared similar fiscal pressures with debt burdens projected to keep rising for years to come in G7 countries, the OECD warned.

Resilient, but just: On the IMF's economic outlook and lopsided growth

Lopsided growth that bypasses poor nations risks weighing down the global economic edifice. The International Monetary Fund's latest update to its world economic outlook posits a global economy showing signs of having weathered its most recent challenges, including the bank collapses in the U.S. and Switzerland, and likely poised to expand by 3% in 2023. But the Fund's marginal 20 basis points upgrade to its April projections, which were released in the wake of the banking failures, and concerns at the time about the then yet-to-be-resolved U.S. debt ceiling standoff, does little to provide reassurance that the world economy is out of the woods. As the IMF's chief economist Pierre-Olivier Gourinchas cautioned. "many challenges still cloud the horizon... while some adverse risks have moderated, the balance remains tilted to the downside". That risks abound, both known and unsighted, would be an understatement. For starters, the two largest economies, the United States and China, have slowed down appreciably and face increased uncertainty amid global and domestic headwinds. In the U.S., the surpluses from pandemic-era cash transfers, made to help families tide over the distress wrought by COVID-19 and the cost-of-living crisis in its aftermath, have all but depleted. China's post-reopening rebound has begun to fizzle out, with the economy floundering on the shoals of a contraction in the key real estate sector, combined with weakening consumption and slumping overseas demand for its exports. The euro area, another key engine of the global economy, is still reeling from the Ukraine-war induced spike in gas prices with momentum decelerating especially in the largest regional economies of Germany and France. Eurozone business output fell at the fastest rate for eight months in July, S&P Global's latest HCOB flash PMI survey showed this week. Worse, deteriorating forward-looking indicators flag the likelihood of the region's downturn deepening in coming months. And with inflation, particularly core inflation, remaining well above central banks' targets, policymakers may be left with little option but to stay the course on inflation-taming but demand-retarding monetary tightening. Russia's termination of the Black Sea grain deal could also push up grain prices by as much as 15%, Mr. Gourinchas warned, affecting some low-income economies in Africa. The IMF economist also pointed to the heightened debt vulnerabilities among many frontier economies and stressed the urgent need for a concerted global debt resolution initiative to help highly indebted countries from sliding into debt distress. Ultimately, the world's economic leaders must realise that lopsided growth, that bypasses the vulnerable nations, risks having the weakest links weighing down the larger global economic edifice in an interconnected world.[2]

U. S. Q2 GDP growth unexpectedly accelerates to 2.4% despite Fed hikes

The U.S. economy surprisingly accelerated to a 2.4% annual growth rate from April through June, showing continued resilience in the face of steadily higher interest rates resulting from the Federal Reserve's 16-month-long fight to bring down inflation. Estimate from the Commerce Department indicated that the gross domestic product — the economy's total output of goods and services — picked up from the 2% growth rate in the January-March quarter. Last quarter's expansion was well above the 1.5% annual rate that economists had forecast.

Driving last quarter's growth was a burst of business investment, which surged at a 5.7% annual pace, the fastest rate since late 2021. Companies plowed more money into factories and equipment. Increased spending by state and local governments also helped fuel the economy's expansion in the April-June quarter.

Consumer spending, the heart of the nation's economy, was also solid last quarter, though it slowed to a 1.6% annual rate from a robust 4.2% pace in the first quarter of the year. Investment in housing, though, fell, weakened by the weight of higher mortgage rates. "This is a strong report, confirming that this economy continues to largely shrug off the Fed's aggressive rate increases and tightening credit conditions,'' said OluSonola, head of U.S. economics at Fitch Ratings. "The bottom line is that the U.S. economy is still growing above trend, and the Fed will be wondering if they need to do more to slow this economy." In fighting inflation, which last year hit a four-decade high, the Fed has raised its benchmark rate 11 times since March 2022, most recently. The resulting higher costs for a broad range of loans — from mortgages and credit cards to auto loans and business borrowing — have taken a toll on growth. Still, they have yet to tip the United States into a widely forecast recession. Optimism has been growing that a recession isn't coming after all, that the Fed can engineer a so-called "soft-landing" — slowing the economy enough to bring inflation down to its 2% annual target without wrecking an expansion of surprising durability. The International Monetary Fund upgraded its forecast for U.S. economic growth for all of 2023 to 1.8%. Though that would be down from 2.1% growth for 2022, it marked an increase from the 1.6% growth that the IMF had predicted for 2023 back in April. At a news conference after the Fed announced its latest quarter-point rate hike, Chair Jerome Powell revealed that the central bank's staff economists no longer foresee a recession in the United States. In April, the minutes of the central bank's March meeting had revealed that the Fed's staff economists envisioned a “mild” recession later this year. In his remarks, Mr. Powell noted that the economy has proved resilient despite the Fed’s rapid rate hikes. And he said he still thinks a soft landing remains possible. By any measure, the American job market has shown itself to be remarkably strong. At 3.6% in June, the unemployment rate hovers just above a five-decade low. A surge in retirements after COVID-19 hit in early 2020 has contributed to a shortage of workers across the country, forcing many companies to raise wages to attract or keep staffers. Higher pay and job security are giving Americans the confidence and financial wherewithal to keep shopping. Indeed, consumer spending, which drives about 70% of economic activity, rose at a 4.2% annual rate from January through March, the fastest quarterly pace in nearly two years. Americans have kept spending — crowding airplanes, traveling overseas and flocking to concerts and movie theaters and the Conference Board, a business research group, reported that Americans this month are in their sunniest mood in two years, based on the board’s reading of consumer confidence. Indeed, many consumers are finally enjoying some relief from spiking prices: Year-over-year inflation, which peaked at 9.1% in June 2022, has eased consistently ever since. Inflation-adjusted hourly pay rose 1.4% in June from a year earlier, the sharpest such gain since early 2021. “Inflation is easing, moving in the right direction,” said RubeelaFarooqi, chief U.S. economist at High Frequency Economics. ”In other words, the Fed is achieving what it wants without causing damage to the economy, so they don’t need to pushtoo hard from this point on.’’

Still, Ms. Farooqi suggested, the surprisingly healthy GDP report makes it somewhat more likely that the Fed will raise rates again because the economy appears to be “much stronger’’ than what the central bank would like to see. With stronger growth comes a greater likelihood of high inflation. At the same time, the risk remains that the weight of ever-higher interest rates will eventually slow borrowing so much — for homes, cars, renovations, business expansions and other costly expenses — as to pull the economy into recession. Among the economy’s weakest links has been the housing market. In June, sales of previously occupied homes sank to their slowest pace since January. The problem is that a near-historic low number of homes for sale and higher mortgage rates kept many would-be homebuyers on the sidelines. Sales fell 19% compared with June 2022 and were down 23% through the first half of the year.

World Bank lowers India’s growth forecast to 6.3%, says labour market needs to be more inclusive

The World Bank has forecast a 6.3% economic growth rate for India in the current fiscal year (FY) which ends March 31 2024, a downgrade of 0.7 percentage points since its October forecast. The primary reasons for this are high borrowing costs and slower income growth causing weaker consumption, as well as the government tightening fiscal expenditure, the World Bank said in its *South Asia Economic Focus: Expanding Opportunities: Toward Inclusive Growth* report, released ahead of Spring Meetings in Washington DC.[3] While India fared better than the rest of the South Asian region, two major concerns were the female labour participation rate, which had dropped to below 20%, and the informal sector neither becoming more productive nor shrinking, according to the lead economist of the study. The Indian economy is expected to grow at 6.4% in FY 2024-25 , an upgrade of 0.3 percentage points from the previous forecast. The South Asia region as whole is expected to grow at 5.6% this calendar year. “In general, the situation in India is better than in many of the other countries in South Asia,” said World Bank Chief Economist for South Asia Hans Timmer told reporters at a virtual briefing. “And especially the situation in the financial sectoris healthier than many of the other countries,” he said, adding that banks were “in good shape” and had improved after the pandemic. However, the female labour participation rate and the size, and (low) productivity of the informal sector were concerns, according to Mr. Timmer.

“So there is still a huge structural agenda in India to make growth more inclusive to increase participation,” he said, adding that private investment from abroad needed to be increased, especially in the services sector. The services sector — and then the construction sector — were the fastest going industries in India, according to the World Bank. Investment growth remained strong and business confidence was high in India, the report said. “The government has done a lot to improve social protection, but that is by itself not enough. Ultimately, it is about increasing more opportunities in the labor market and there’s still a long way to go,” Mr. Timmer said.

Bleak situation for Sri Lanka and Pakistan

The outlook for India’s neighbours Sri Lanka and Pakistan , both of which have experienced economic difficulties, was bleaker. The World Bank forecast for Sri Lanka this calendar year was -4.3% (i.e., a contraction) and for Pakistan was 0.4% for the year ending June 30, 2023. The political uncertainty in Pakistan made making decisive reforms harder, Mr Timmer said, adding that it was important to have wide buy-in for the “ reform process”. Islamabad is negotiating the release of a $1.1 billion tranche of a larger $6.5 billion bailout package with the International Monetary Fund (IMF), which has been delayed, as the IMF awaits assurances from Pakistan that it can finance this year’s balance of payments deficit. Sri Lanka, which faced economic collapse last year, negotiated a $ 3 billion loan from the IMF at the end of March and is hoping to secure further financing from international institutions. “Hopefully, Sri Lanka can turn the corner now as an IMF program has been put in place which makes it easier also for the World Bank to support Sri Lank,” he said

IMF raises India’s GDP forecast to 6.3% for FY24 However, it has lowered growth projections for the global economy amidst West Asia conflict

Notwithstanding uncertainty triggered by Israel-Hamas conflict, International Monetary Fund (IMF) has upped India’s economic growth forecast by 20 basis points to 6.3 per cent for the current fiscal (FY24) on account of better consumption demand. However, there is no change in the projection for FY25 which has been pegged at 6.3 per cent.

Indian economy grew by 7.2 per cent in FY23.

“Growth in India is projected to remain strong, at 6.3 percent in both 2023 and 2024, with an upward revision of 0.2 percentage point for 2023, reflecting stronger- than-expected consumption during April-June,” IMF said in its annual publication, World Economic Outlook (WEO), released on the eve of Fund-Bank (IMF and World Bank) meeting taking place at Marrakech, Morocco. In its projection made in April this year, IMF pegged the growth rate at 5.9 per cent which it upped in July to 6.1 per cent on the back of a strong growth of 7.8 per cent during the April-June quarter. Earlier this month, World Bank maintained growth projection for current fiscal at 6.3 per cent on account of good investment and consumption. The projections of IMF and World Bank are still lower than the estimates of the Centre and the Reserve Bank of India which pegged India’s GDP growth at 6.5 per cent. While the projections of the Organization for Economic Cooperation and Development (OECD), Fitch Ratings and ADB are similar to the government’s projections, it is higher than S&P Global Ratings’ estimate of 6 per cent. India has a share of 7.3 per cent in the World Economy and 12.5 per cent in emerging marketsand developing economies.

World Outlook

On world economy, WEO lowered the growth projections for 2023 and 2024. “According to our latest projections, world economic growth will slow from 3.5 percent in 2022 to 3 percent this year and 2.9 percent next year, a 0.1 percentage point downgrade for 2024 from July. This remains well below the historical average,” Pierre-Olivier Gourinchas, Economic Counselor and Director of the Research Department, said in a blog post. He further said that the global economy continues to recover from the pandemic, Russia’s invasion of Ukraine and the cost-of-living crisis.

India’s share of global growth to rise to 18% in 5 years: IMF official

India’s contribution to global economic growth will rise by 2 percentage points in 5 years as the Indian economy is projected to grow faster in the coming years, a senior International Monetary

Fund (IMF) official said. "Currently China and India's contribution to global growth is 50%," said Krishna Srinivasan, Director, IMF Asia & Pacific Department. "Out of this India's is 16% and the rest by China. This 16% contribution from India will grow to 18% in the next five years as India is growing faster," he added. Observing that the Asia Pacific region remained a relatively bright spot despite a challenging global environment, Mr, Srinivasan added that the region's economy was expected to grow by 4.6% in 2023 and by 4.2% in 2024, putting it on track to contribute about two-thirds to global growth.

"Growth in India remains strong," he said. "We are projecting growth for FY2023/24 at 6.3% supported by strong government capital expenditure with some crowding in for private sector investment, along with continued consumption growth and despite weakening external demand," he asserted. Stating that India's retail inflation was moderating he said, "after sharp increase in price in tomatoes and other vegetables in the summer, headline inflation has resumed its downward trend and has returned within the RBI's tolerance band (September's print was 5%)," he added. He said India's central government was likely to meet its 5.9% fiscal deficit target in FY24.[4] "Revenue is expected to reach budgeted levels. There is some pressure on expenditure, with higher than budgeted expenditure expected in some areas (for example additional LPG subsidy for the poor, higher MNREGA expenses)," the IMF official noted. "At this stage we see room in the budget to absorb these unexpected increases. State governments' deficit is expected to be 2.8% of GSDP, below the deficit target of 3%, in line with past budget execution performance," he added. In its main policy message for the Asia Pacific region, the IMF has asked countries to maintain a sufficiently restrictive monetary policy stance until inflation was firmly back on track, continue with fiscal consolidation, use macro prudential policies to tackle vulnerabilities in the financial sector and address rising inequality and facilitate the green transition. On the likely impact on the war between Israel and Hamas on the global economy, Mr. Srinivasan said, "It's early to make an assessment. If oil prices go up it will have an impact. For every 10% rise in oil prices, global GDP falls by 0.15% and it will have an impact of 0.4% on inflation. Since many Asian countries are large importers of oil, it depends," he added.

New investment slowed again in Q2 of FY24, drops by 13%

Fresh investment announcements in the July-to-September quarter, the second quarter of 2023-24, have dropped to `6.9 lakh crore, 13% lower than the first quarter, and 21.5% down from a year ago, driven by a sharp dip in proposed outlays by the Union government and foreign investors, and a broad-based contraction across the manufacturing, mining, infrastructure, and electricity sectors. The decline in investment commitments during Q2 comes on the back of a 45.8% sequential decline recorded in the first quarter, as per Projects Today's latest investment survey. A total of 2,238 new projects with an aggregate investment intention of `6.88 lakh crore were announced in Q2, as against 2,745 new projects worth `7.91 lakh crore in Q1, with the projects' tally contracting 18.5%. Private investment plans shrank for the second quarter in a row, albeit at a slower pace of 0.24% compared to the 62.5% contraction in Q1. Within the `3.93 lakh crore of private investment projects in Q2, announcements from foreign investors shrank 66.5% from Q1 levels to around `28,000 crore. Though domestic private players announced 17.8% larger outlays in Q2, the number of new projects fell to 844 from 1,180 in Q1.

Public capex plans down

While public capital expenditure has been driving the investment cycle in recent times, government investments also seem to have lost steam in the first two quarters of this year. Fresh investment intentions sequentially declined 25.6% in Q2 to about `2.96 lakh crore from `3.97 lakh crore in Q1, which marked a 3.2% fall from the previous quarter. Within the government sector, new projects from Union government agencies dropped 47.4% in Q2 following a 20.6% contraction in Q1, bringing proposed outlays between July and September to `1.02 lakh crore from over `2.44 lakh crore in the January-to-March 2023 period.

States' investment plans recorded a milder 4.7% shrinkage in Q2 vis-à-vis Q1, when they had crossed `2.03 lakh crore. The irrigation sector, which is usually driven by smaller-ticket investments initiated by States, was the only segment to clock a sequential uptick in Q2, with project outlays more than doubling to `12,000 crore from under `5,000 crore in Q1.

Mixed outlook

With several State assembly elections looming and geo-political risks to the global economy getting exacerbated amid weak demand conditions, the outlook for the second half of the year is mixed on the investment front, said Projects Today's director and CEO Shashikant Hegde. Any hope for an uptick in Q3 and Q4 would depend on higher project announcements from the Union government ahead of next year's general election. "After the decline observed in Q2, we may see increased capex announcements from the Central government agencies in the next two quarters, while private firms, especially mid-sized ones, could adopt a wait-and-watch approach given the uncertainties about demand in major world markets and the deteriorating geo-political situation," Mr. Hegde noted. Moreover, the focus may shift towards large private investors who have already announced projects, seeking government support in getting those investments off the ground.

Among the States, Odisha and Telangana emerged as the top two States, accounting for over a third of proposed investments in the last quarter. Maharashtra, which saw the highest number of new projects (436) worth `78,550 crore, was ranked third, followed by Karnataka, with projects worth `53,565 crore. Gujarat had the second highest number of projects (222), but was ranked eighth in terms of outlays involved, followed by Madhya Pradesh, which pipped Tamil Nadu that was ranked 10th with 98 projects worth `22,347 crore.

An uneven rebound: On the economy

Inflation, monsoon pose fresh risks even as some residual stress lingers in the economy India's economy, as measured by the Gross Domestic Product (GDP) as well as the Gross Value Added (GVA), grew 7.8% in the first quarter (Q1) of the year. This is the highest GDP uptick in four quarters, but slightly underwhelming relative to the 8% growth estimated by the Reserve Bank of India (RBI). The central bank's 6.5% growth projection for 2023-24 factors in a decline in the uptick rate in each of the subsequent quarters of this year, culminating at 5.7% in the final quarter. One will have to wait till October's meeting of the RBI's Monetary Policy Committee (MPC) to assess how this math is reworked, although the Chief Economic Adviser V. Anantha Nageswaran believes these GDP numbers do not signal any discomfort in hitting the 6.5% mark for the full year. India remains the fastest growing major economy by a comfortable margin, with China recording a 6.3% rise in the same quarter and facing a fresh slowdown.

But the months ahead could prove to be more challenging with global headwinds that have hit goods exports and manufacturing already, combining with domestic pressures from the renewed spurt in inflation and the likelihood of a weak monsoon playing truant with crop yields and farm incomes.[5] Farm sector GVA maintained its growth pace to rise 3.5% in Q1, but may taper off thanks to the monsoon's tepid progress and the fear that low reservoir levels may also hurt the rabi crop. The headline growth rates for the services sectors were robust. Trade, hotels and transport rose 9.2%, but in absolute terms, the employment-intensive segment remained 1.9% below pre-COVID-19 levels, indicating the recovery is still incomplete. While the government has been asserting that the private investment cycle has finally taken off, the gross fixed capital formation trends indicate it is still government capital spending that is doing the heavy lifting. Manufacturing GVA grew for the second successive quarter after six months of contraction, but only accelerated slightly from 4.5% to 4.7%, so a broader rebound in consumption demand is likely still awaited. Private consumption spending rose 6% but economists believe this is still dominated by demand from high income earners. Depending on how long the current streak of spiked inflation, especially in food items, persists, demand from lower income segments would be dented afresh. A feeble recovery in rural demand could also come undone if farm incomes take a hit. Interventions to counter inflation, such as export curbs on rice and onions, will hurt growth and the external trade balance, while relief measures, such as the ₹200 cut in LPG cylinder prices, that may proliferate ahead of the general election, also poserisks to the fiscal math and growth.

Core comfort: on the policy environment

Output at India's eight core sectors strengthened hearteningly in June, with the overall year-on-year growth in production estimated to have quickened to a five- month high of 8.2%. Seven of the sectors, including steel and cement and electricity, logged appreciable advances. Steel, which is the third-largest constituent of the index of eight core industries with a weight of just under 18%, was the standout performer, as output of the key alloy surged 21.9% undergirding the wider advance in the index. And cement posted an almost double-digit increase reflecting the continuing momentum in demand, a slight softening in the pace from the preceding two months on account of the onset of monsoon rains notwithstanding. Steel and cement led the cross-sectoral advance over the April-June period, growing 15.9% and 12.2%, respectively, in the fiscal first quarter. A key driver of demand for these two construction essentials continues to be the infrastructure sector, where the government's efforts to boost outlays including on affordable housing, urban renewal and transportation networks are providing a palpable tailwind. Total capital expenditure by the Centre in June jumped more than 62% year-on-year and almost 24% from the preceding month to `1.10 lakh crore, Controller General of Accounts data showed. Electricity, which makes up a fifth of the core index, also posted its strongest increase in four months despite a cyclonic storm that impacted highly industrialised Gujarat the most, dampening demand. Coal output also rose 9.8% in June, lifting the first-quarter's production by 8.7%. And official data on Tuesday showed output in July surged more than 14%, another positive augury given that coal demand extends beyond the electricity sector to other industrial segments including metal making and process industries where it is used in furnaces and boilers. To be sure, other data from the eight core sectors do point to areas of concern. For all the talk of Aatmanirbharta, India's efforts to secure a degree of independence in the crucial oil sector are yet to yield meaningful dividends; the country is still heavily reliant on crude imports for its overall fuel needs. This is best reflected in the fact that crude oil production remained in the doldrums for a 13th straight month, contracting 0.6%. Along with refinery products, which have the heaviest weight of 28% on the index, crude oil also registered a sequential slide underlining the difficulties the oil sector as a whole continues to face because of regulatory inconsistencies. Policymakers have their task cut out to ensure the policy environment remains supportive especially at a time when global demand remains particularly uncertain.

Industrial growth hit 14-month high of 10.3% in August

India's industrial output surged at a 14-month high pace of 10.3% in August, from a 6% rise in July, aided by favourable base effects from last year when production levels had contracted 0.7% and the best manufacturing performance since this April. Electricity and mining rose a sharp 15.3% and 12.3%, respectively. Manufacturing output rose 9.3% in August, with just seven of 23 major segments recording a contraction compared with nine in July. The export-dependent apparel and chemicals sectors saw production dropped 17.1% and 4.3%, respectively. Computers and electronics' output also fell 8.7%. Consumer goods' production reflected a mixed trend, although durables' output grew for the first time in three months, at 5.7%, and hit the highest levels since September 2022. Non-durable consumer items' output jumped 9% year, but was 3.9% below July levels. Moreover, base effects played a role in their uptick, as durables' output had dropped 4.4% last August, while non-durables had plummeted 9%. Three of the six use-based segments recorded a double-digit surge, on top of positive growth recorded last year, led by infrastructure and construction goods which grew in double digits for the fifth successive month, at 14.9%. Capital goods' output jumped 12.6%, with production reaching the highest levels in 2023- 24, indicating strengthening investment demand. Primary goods grew 12.4% and intermediate goods rose 6.5%. "We need to see if this buoyancy gets reflected in the sales of India Inc in their second quarter results," said Bank of Baroda chief economist Madan Sabnavis. "The next two months should ideally see sustained growth if rural demand revives – this has been a lacuna so far," he noted. "In the coming months, the external environment will be a drag, as major western economies decelerate," said Dipti Deshpande, principal economist at Crisil. "The impact of uneven monsoon on rural demand remains to be seen and the transmission of rate hikes to lending rates could also temper domestic demand," she said.

Sep.IIP Growth falls to 5.8%

India's industrial output growth slid to a three-month low of 5.8% in September from a 14-month high of 10.3% in August, with manufacturing growth halving to 4.5% from the 9.3% recorded in the previous month. Consumption demand appeared weak with consumer durables' production rising just 1% while non-durables' grew 2.7% in September, despite a beneficial base effect from last year when both segments tanked by 5.5% and 5.7%, respectively. Electricity and mining growth also moderated to 9.9% and 11.5%, respectively. Spliced on the basis of usage, primary goods grew the fastest at 8%, cooling from 12.4% in August, followed by infrastructure and construction goods that were up 7.5% and capital goods which rose 7.4%. Intermediate goods output grew 5.8%. While only seven of 23 manufacturing sectors had clocked a contraction in August, nine segments saw drops in output in September, led by furniture (-20.2%).

The apparel segment contracted 17.9%, worse than the 17.1% decline clocked in August. Computers and electronics' output fell 8.9%, while the contraction in chemicals widened from 4.3% in August to 5.6% in September. "Other Manufacturing", that encompasses sectors that are not broadly categorised, fell 13.5%. Overall industrial output is up 6% in the first half of this year, with mining up 8.7%, electricity 6.1% and manufacturing 5.7%. Most economists expected September's Index of Industrial Production or IIP to reflect sharper growth. ICRA's chief economist AditiNayar, who had estimated an 8% uptick, said the numbers were influenced by an unfavorable base, a shift in the festive calendar and excess rainfall in September. "While the moderation was broad-based across all sub-sectors and use-based categories, the performance of consumer goods was especially tepid, resulting in the manufacturing sector's performance trailing that of mining and electricity in September," she said.

The growth dichotomy: On September's Index of Industrial Production data

In September, the Index of Industrial Production or IIP rose 5.8%, almost half the 14-month-high 10.3% growth in August. Most economists anticipated a 7% to 8% uptick in the month that marks the onset of India's packed festive calendar. September's factory output growth was the slowest in three months, but also marked a 2.4% drop in production levels compared to August. Manufacturing led the decline, with year-on-year growth dropping from 9.3% in August to 4.5% in September and production volumes declining 2% month-on-month. In August, just seven of 23 manufacturing sectors had clocked a contraction but that list expanded to nine in September, with furniture dropping 20% and apparel production almost 18%. What is more worrying is that 12 sectors recorded a sequential decline in output this September, belying hopes that firms would ramp up inventories in anticipation of festive spending. Producers' lack of confidence in consumers' impulses is reflected in consumer durables and non-durables, which were up just 1% and 2.7%, respectively, on top of a 5.5%-plus contraction last September. Sequentially, consumer non-durables, what one may broadly consider as fast moving consumer goods involving smaller-ticket spends, were down 3.5% with the lowest output levels seen since November 2022. Electricity generation also fell 6.6% sequentially in September, perhaps due to the higher rainfall recorded over August.

On the whole, September's IIP takes average factory output growth to 7.4% in the second quarter, lifting the uptick in the first half of 2023-24 to 6%. This may still weigh in well with the central bank chief's hopes of Q2 GDP growth outpacing their official projection of 6.5%. But spliced up, the IIP indicates an asymmetry in the economy and a fresh fork lies in the road ahead. Consumer goods' output was just 0.3% higher than pre-COVID-19 levels this September, with durables being the only use-based segment to record a contraction so far this year. By contrast, output has been more resilient in investment-linked sectors such as infrastructure/construction goods and capital goods, up 12.1% and 6.7%, respectively, this year. Public capex on infrastructure sectors has surely lifted output of items such as steel and cement through the first half of the year, while high inflation has eaten into all but the high-income consumers' propensity to spend. Going forward, capex spends that have been front-loaded this year may moderate and additional revenue spends ahead of the Lok Sabha election are likely, especially with sensitive commodities such as fuel, urea and food facing fresh volatility in prices. That infrastructure and construction goods' output in September was the lowest since March 2023, suggests one growth tide may be ebbing, which makes the other, more fragile consumption story even more critical to watch.

Downhill driving: On India's overall trend of exports

After hitting a record $775 billion in 2022-23, India's exports are off to a rocky start this year. Outbound shipments of goods, that had crossed $450 billion last year, have contracted 15.1% through the April to June 2023 quarter. June's provisional export tally, just shy of $33 billion, was the lowest figure in eight months and reflected a 22% drop year-on-year, a scale of contraction last seen amid the initial months of the COVID-19 lockdowns. There has been a decline in the import bill as well over the first quarter, albeit at a slower pace than exports. This 12.7% dip is largely driven by the prevalence of lower commodity prices this year compared to the same quarter last year, when the import bill had shot up 44.5% after the Russia-Ukraine conflict erupted. Excluding gold and oil imports, the value of shipments coming into the country is down 10.5% in the first quarter. Sequentially, the decline in non- oil, non-gold imports has accelerated from 2% in May to 16.7% in June, indicating that domestic demand triggers are also ebbing. While this implies the goods trade deficit may not widen as it had last year, it does not augur well for domestic growth impulses that form India's key armour against the gathering global slowdown.

Services exports are still growing but at a far more sombre pace. That IT majors, who drive most of these intangible exports, have been tentative and decidedly downcast about their earnings guidance for this year, indicates the tide may get worse. Frail global demand may not just impact trade flows but also hurt foreign direct investments even as tightening monetary policies could exacerbate financial market volatility. As the Finance Ministry noted recently, if these trends deepen, the 6.5% growth hopes for the year could wobble. But retail sales in the U.K. have improved in June, although fractionally. The U.S. Treasury Secretary Janet Yellen has exuded confidence that a recession in the world's largest economy may be averted after all. Inflation numbers have eased in Europe and the U.S., triggering hopes of interest rate pauses instead of further tightening to throttle demand and activity. While driving on the hills, one has to prioritise the movement of vehicles climbing up, even if that means reversing a descending automobile up to a point of safe passage. Within the overall downhill trend of exports, the few bright spots such as rising shipments of electronic goods must flourish while trade curbs or obstacles affecting other products must be reviewed. Indian policymakers should redouble efforts to improve competitiveness vis-à-vis rivals such as Vietnam, and keep a closer watch on divergent trends in different markets to help exporters capture incremental, even if fractional, global demand.

Slowing momentum: On palpable softening in economic momentum

Latest data, including the official Index of Eight Core Industries for September and S&P Global's Purchasing Managers' Index (PMI) for the manufacturing sector for October, point to a palpable softening in economic momentum. The government's provisional figures for output across the key infrastructure industries, from cement and coal to steel and electricity, show the average year-on-year growth in production eased appreciably to a four-month low of 8.1% in September, from the 12.5% pace posted in August. The pace of expansion flagged across all but one of the eight sectors, with only fertilizers registering a quickening in growth from the preceding month as farmers stocked up on the key agricultural input ahead of the rabi season. Heavy rains in the final month of the southwest monsoon season, which resulted in 13% surplus precipitation for September, also likely contributed to dampening demand and output for cement, electricity and steel, all of which saw significant slowing in growth from double-digit paces in August. Sequentially, production in fact contracted across all the eight sectors, with the overall index declining 4.8% from August's level. Coal offered the silver lining: the year-on-year growth in output of the fuel eased only slightly to a still robust 16.1% pace, from August's 17.9%, and posted just a 1.5% sequential contraction.Independently, the more up-to-date survey-based manufacturing PMI data for October buttresses concerns that broader economic momentum may yet again be sliding for want of traction. The seasonally adjusted S&P Global India Manufacturing PMI signalled sectoral growth slid to an eight-month low last month, amid a weakening in demand, particularly for consumer goods. Factories saw new orders rise at the slowest pace in a year, with even international sales losing vigour. More worrying is the fact that less than 4% of the about 400 companies surveyed said they were adding staff, thus depressing job creation in manufacturing to the slowest level since April.

Input cost inflation also accelerated. But factory gate inflation was considerably slower indicating that with demand uncertain, producers were forced to temper the pass-through of higher costs.

With business confidence ebbing to a five-month low, the panellists cited rising inflation expectations as the key factor expected to dent demand and production growth over the next 12 months. And the advance estimates for lower kharif output, disconcertingly flag the fact that the farm sector may be able to offer little succour as rural incomes get hit. Policymakers have their task cut out to surmount the twin challenges of slowing growth and persistentinflation.

SUMMARY AND CONCLUSIONS

Detailed analysis of the economic fundamentals point the following scenarios.

1. The global economy will slow. But the risk of hard landing subsided.
2. US growth would slow. Though the risk of hard landing eased the risk of recession is not off the table.
3. China's economy will also slow with a deflating real estate bubble and uncertainty.
4. In the Euro zone, growth is seen picking up but high level of bank financing is an issue.
5. Japan growth will fluctuate.
6. World Bank has forecast a 6.3% economic growth for India for 2023-24 a down grade of 0.7 percentage points since 2022-23.
7. The primary reasons are high borrowing cost, weaker consumption, tightening fiscal expenditure.

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