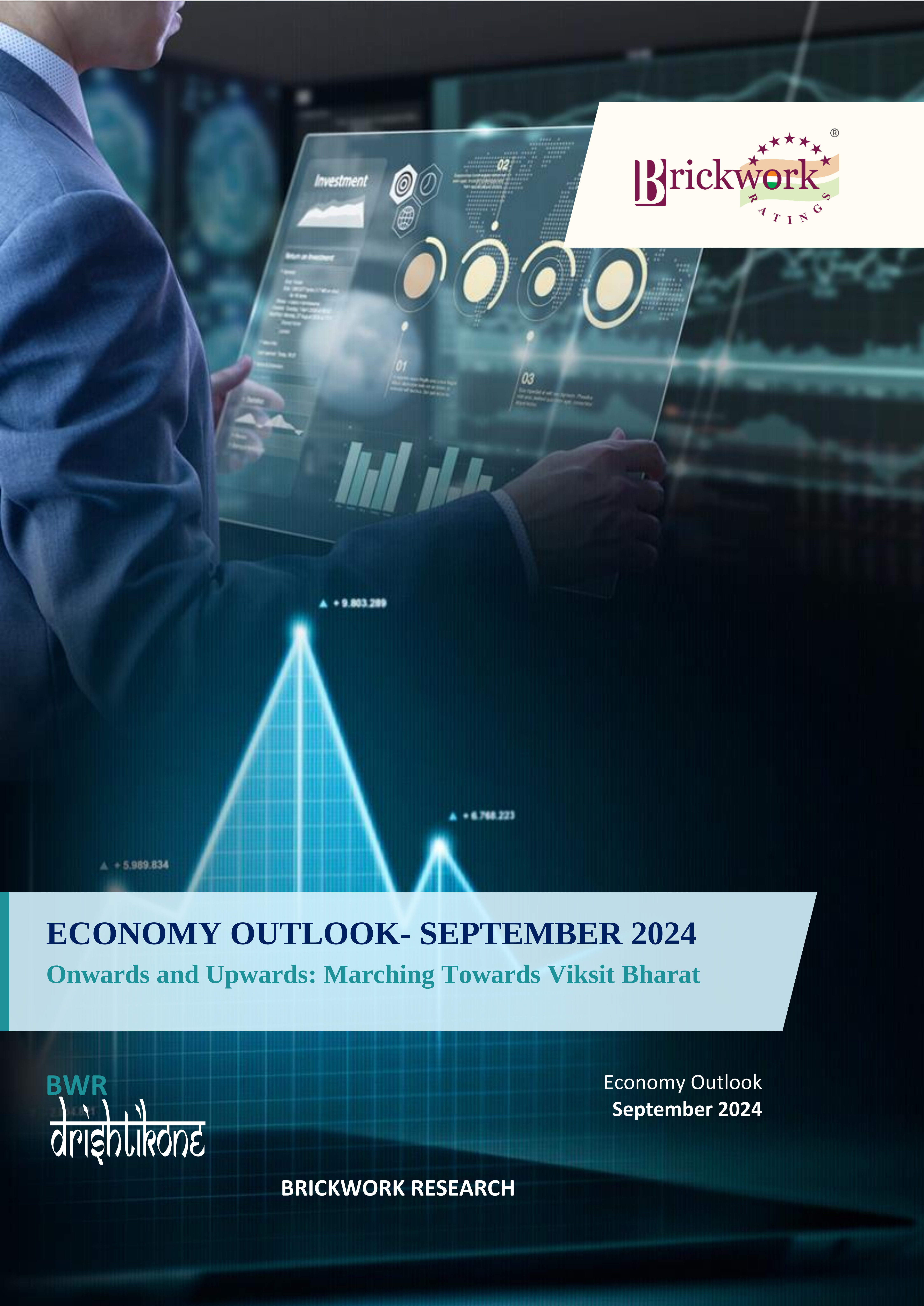


Brickwork Ratings

# ECONOMY OUTLOOK- SEPTEMBER 2024

## Onwards and Upwards: Marching Towards Viksit Bharat

BWR drishtikone

Economy Outlook
**September 2024**

**BRICKWORK RESEARCH**

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## Onwards and Upwards: Marching Towards Viksit Bharat

**— Dr M. Govinda Rao, Chief Economic Adviser, Brickwork Ratings**

After the noise and euphoria following the Union budget presentation, this is the time to take a filtered look at the medium and long-term strategies and policy interventions needed to make India a developed country. According to the World Bank definition, a developed country is one when its per capita Gross National Income (GNI) exceeds USD. 14005. India's GNI is estimated at USD 2600 and that implies, to leapfrog into the developed Country club, the country must multiply its per capita GNI by 5.3 times. This translates into an average annual growth of about 7.5% in per capita GNI of about 9% per year in GNI for the next 23 years. In addition, India's population is likely to stabilize only in 2045, and the Economic Survey estimates that about 8 million new jobs will have to be created in the non-farm sector every year until 2030. In addition to accelerating growth and creating employment avenues, India is a signatory to the Paris Agreement to make a transition to Net Zero by 2070 involving massive investments to phase out fossil fuels.

Accelerating growth requires the economy to enhance both investments and its productivity. At the present incremental capital-output ratio of 5, the investment rate must increase to 40 per cent of GDP from the prevailing 34%. Any shortfall in that will have to be made up by increasing productivity. Therefore, the application of new technologies and imparting greater education and skills to the workforce are equally important. These are difficult challenges and require redefining the priorities and initiating policy reforms without much loss of time.

The Union budget presented by Minister on July 23 attempts to give broad directions by defining the priorities. The budget sets out the priorities of the government in 9 areas and these include improving agricultural productivity and resilience, employment and skilling, human resource development, infrastructure, industry and services urban development innovation, and next-generation reforms. These are comprehensive, but what is important is formulating and implementing specific reform measures in each of these areas and a critical evaluation of the priorities and policy signals can help in steering the right path and making course corrections wherever needed.

The most important measure needed to accelerate investment and productivity is to reduce the cost of borrowing by businesses and to generate generalized externalities. Fiscal consolidation and enhancing capital expenditures have been attempted since 2021-22. Reducing the fiscal deficit to 4.5% of GDP next year should not be difficult, but to get back to the original targets of debt at 3% and the Union government's debt target of 40% of GDP is necessary to leave adequate borrowing space to the private sector. This is particularly important when the household sector's financial savings have declined to 5.3%. Therefore, the government must rework the medium-term fiscal plan targets and present them in the next budget which is just six months away. Equally important is the need to make a calibrated reduction in the statutory liquidity ratio to enhance the efficiency of the financial sector and to bring greater market discipline to government borrowing.

Greater focus on infrastructure investment by enhancing capital expenditure will have to continue at both Union and State levels. That would require considerable rationalization of revenue expenditures. At the Union level, the low-hanging fruits in phasing out revenue expenditure have been exhausted and further reduction in food and fertilizer subsidies will require major reforms in the farm sector which will have to be carried out by both Union and State governments. Substantial increases in expenditures on education, skilling, and healthcare will be required by both the Union and State governments. On the positive side, the buoyancy of the taxes is likely to continue, and further use of technology should help to improve it further. The rationalization of personal income tax by scrapping the old scheme and reducing the number of tax rates to three in the next budget will make the system simpler. The tax bias against foreign companies has been reduced to 35% in this budget and it would be reasonable to tax them on par with domestic companies at 30%. There is an urgent need to rationalize the GST by restricting the exemptions to perishables, expanding the base to items hitherto excluded, reducing the rate categories to two, and keeping the threshold at a reasonably high level to focus on 'whales rather than minnows',

Factor market reforms, particularly the implementation of labour reforms are critical to increase employment and enhance productivity. The MSMEs must become bigger and better and embrace modern technology to become more competitive Restrictive labour laws are an important constraint in their increasing scale. The Union government has already reduced 29 labour laws into 4 codes, and it is important to implement them, as this is in the concurrent list, the States also have an important role in this. It remains to be seen to what extent the incentive offered in this year's budget of paying one month's salary up to Rs. 15000 to first-time employees registering with EFPO, incentives linked to the scale of hiring both the employees and employers over the first 4 years of new hiring and reimbursing the employers their contributions to the EFPO up to Rs. 3000 per month for new workers will be effective. The same is the case with the internship proposal in the top 500 companies by paying Rs. 5000 for 12 months. These proposals also would have significant redundancy.

Another major area of reform is reversing the protectionist trend. Reduction in the tariffs of some commodities gives a positive signal for a more open policy. Hopefully, the promised review of the tariff rates in the next six months will help to reduce and unify the rates in a time-bound manner to make Indian manufacturing competitive. Widening and deepening openness also requires the government to expedite more bilateral trade agreements. Phasing out fossil fuels and moving towards green energy are also factors adding to the downside risks. Much of the financing needed for this and to enhance capital expenditure will have to come from the government vacating the competing areas with the private sector and monetizing these assets. Finally, the reforms are like walking on two legs. Both the Centre and States should partake in them with single-minded focus and that requires harmony, dialogues, coordination and stranger federalism.

## World Bank Raises India's GDP Growth estimate to 7% for FY25

- The World Bank has revised India's FY25 economic growth projection to 7%, citing stronger performance from private consumption and investment
- This revision in estimates by the World Bank comes after a similar revision by the IMF in July 2024. The IMF revised India's GDP growth projection for FY25 by 20 basis points to 7%, citing a 20 basis point increase in private consumption, especially in rural areas
- The World Bank's India Development Update highlights trade's crucial role in boosting growth, highlighting India's competitiveness through the National Logistics Policy and digital initiatives
- The Indian economy continues to grow at a healthy pace despite challenging global conditions, according to World Bank
- The World Bank predicts India's medium-term outlook to remain positive, with growth forecasted to reach 7% in FY24-25 and to remain strong in FY25-26 and FY26-27. The debt-to-GDP ratio is expected to decline from 83.9% to 82% by FY26-27

## GST Collections Surge 10% to Rs 1.75 Lakh Crore in August 2024

- The Goods and Services Tax (GST) collections in the month of August 2024 increased by 10% year-on-year (y-o-y) to Rs 1,74,962 crore across all categories, including Central GST, State GST, Integrated GST, and cess, reflecting higher domestic consumption, while gross GST revenues from domestic transactions rose by 9.2% to about Rs 1.25 lakh crore
- The total gross GST mop-up in July 2024 was Rs 1.82 lakh crore, a significant increase from Rs 1.59 lakh crore in August 2023
- The cumulative GST collection so far in 2024 increased by 10.1% to Rs 9.13 lakh crore, compared to Rs 8.29 lakh crore in the corresponding period of 2023
- In April 2024, the total GST mop-up reached a record high of Rs 2.10 lakh crore, surpassing the Rs 2 lakh crore mark for the first time
- In August 2024, domestic revenue increased by 9.2% y-o-y to Rs 1.24,986 crore, while gross GST revenues from import of goods rose by 12.1% y-o-y to Rs 49,976 crore.

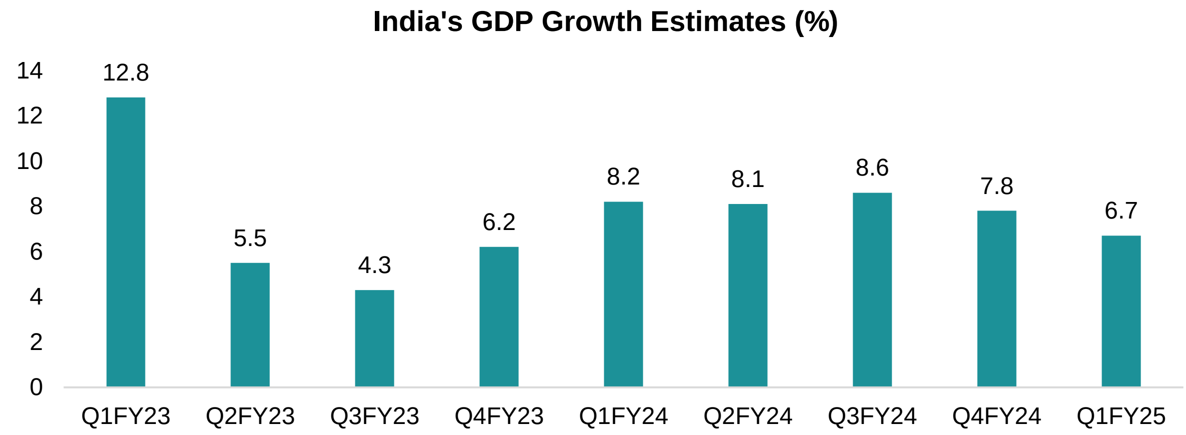
## India's GDP Growth at 6.7% in Q1 FY25; marks 15-month low and decline from 8.2% in previous quarter

- India's Gross Domestic Product (GDP) growth in Q1 FY25 dropped to 6.7%, the lowest in five quarters, and below the Reserve Bank of India's estimate of 7.1% for the same period. This marks a significant decline from 8.2% GDP growth recorded in Q1 FY24 and 7.8% in Q4 FY24
- The Reserve Bank of India (RBI) has forecasted an annual GDP growth of 7.2% for FY25, with quarterly estimates of 7.1% for Q1, 7.2% for Q2, 7.3% for Q3, and 7.2% for Q4.

This moderation in GDP growth is attributed to various key factors including:

- **Lower government spending**, possibly due to parliamentary election-related activities and adverse effects of weather conditions like heatwaves
- Weak performance in the **agriculture** sector and deceleration in the **services sector**
- Softer **manufacturing sector** growth: The manufacturing sector's growth has slowed, contributing to the overall GDP decline, despite previous resilience, as recent data indicates it has not maintained its momentum
- Base effect from last year's higher growth

**Quarterly Real GDP Growth Estimates**



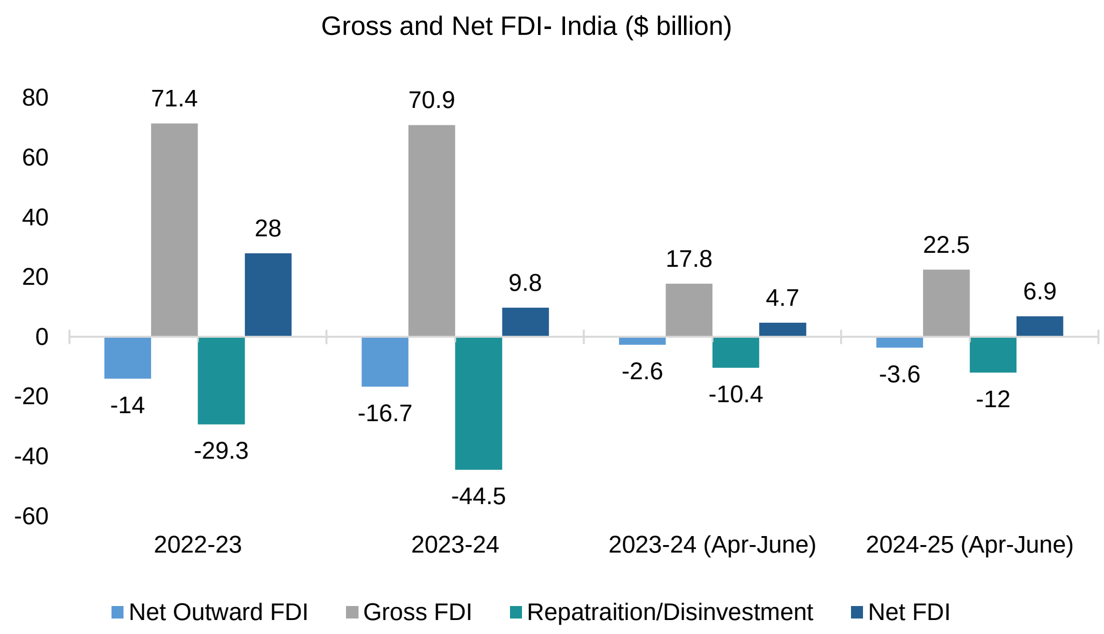

**(For further details, please refer to BWR Economic Brief, 24 July, 2024, [https://www.brickworkratings.com/Research/IndiaGDP-Growth-Q1FY25.pdf](https://www.brickworkratings.com/Research/IndiaGDP-Growth-Q1FY25.pdf))**

## India's Gross Inward FDI Grew 26.4% y-o-y in Q12024-25

- India's gross FDI in Q1 2024-25 increased by 26.4% year-on-year (y-o-y) to $22.5 billion, with manufacturing, financial, communication, computer, and energy sectors accounting for 80% of inflows, according to the RBI's August 2024 bulletin.

- Net FDI increased to $6.9 billion y-o-y in Q12024-25, up from $4.7 billion a year ago, primarily due to an increase in gross FDI flows

- The first half of 2024 (H1 2024) saw over $635 billion worth of cross-border investment projects announced globally, marking the fourth-highest half-yearly global FDI since 2003. Energy transition and digitization drove the sector, with renewables, semiconductors, and communications accounting for half of the projects. The semiconductor sector rose to second, electronics sector slipped




### Foreign portfolio investors (FPIs) turned buyers in July 2024 with net inflows of $5.2 billion

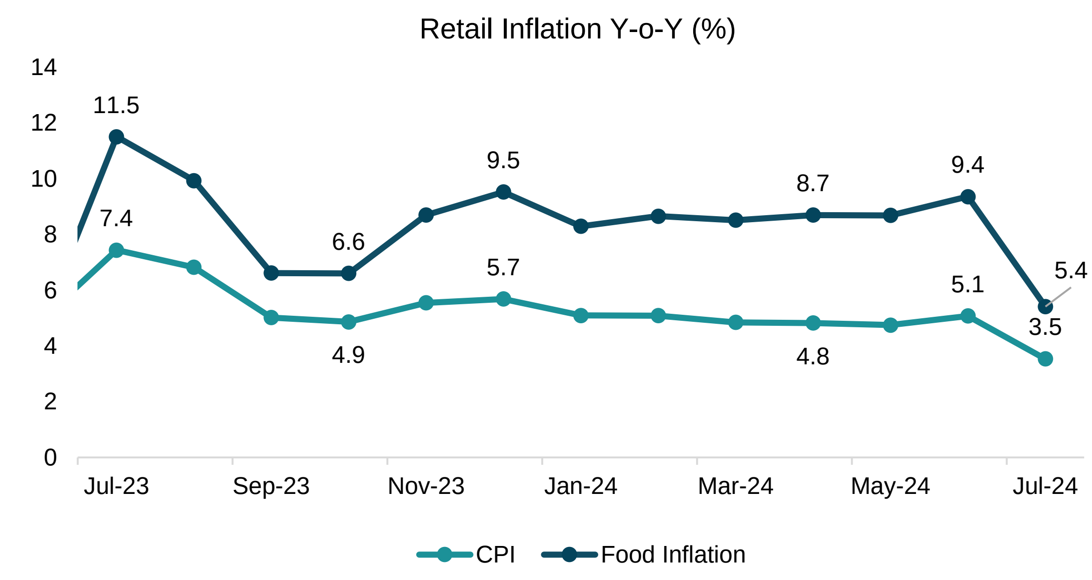
- In July 2024, foreign portfolio investors (FPIs) bought $5.2 billion in the Indian equity segment, with the highest in sectors like information technology, metals and mining, and automobiles

- The debt segment continued to attract FPI inflows, with Indian government bonds included in JP Morgan's GBI-EM index. In August 2024, net FPI outflows were $0.8 billion on concerns over the US economy slowdown and the volatile Japanese market

### Non-Resident Deposits Inflows surged to $4 billion in Q1FY25

- During Q12024-25, non-resident deposits saw net inflows of $4.0 billion, up from $2.2 billion a year ago, primarily in the Non-Resident (External) Rupee Accounts, NRO, and FCNR(B) accounts

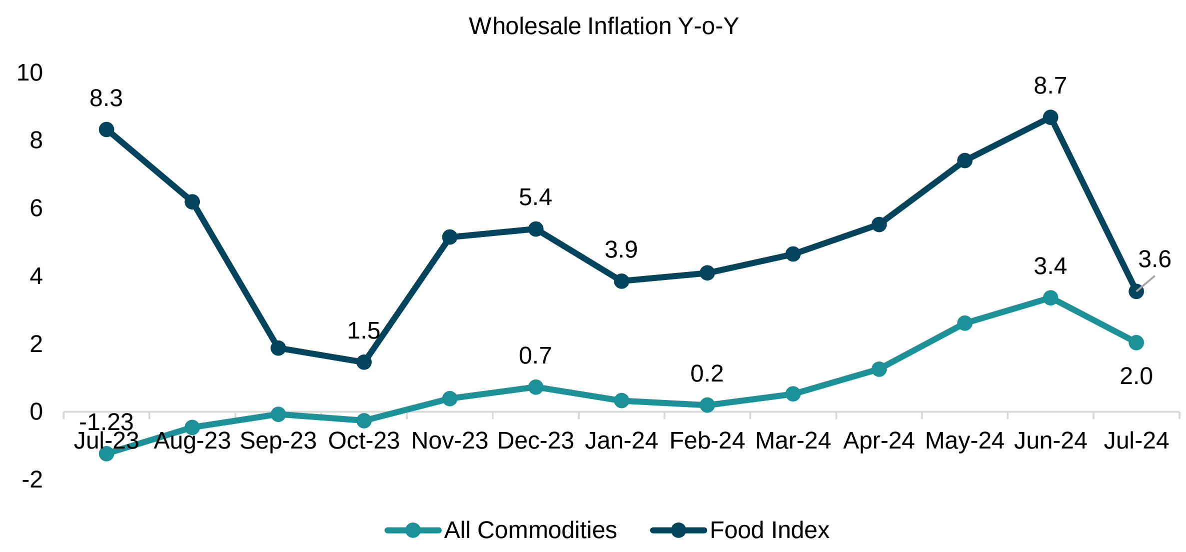
## India's CPI Inflation Drops to 3.54% in July 2024, lowest in five years




*Source: RBI*

- India's Consumer Price Index (CPI) inflation fell sharply to 3.54% in July 2024 from 5.1% in June 2024, the lowest in five years and below the Reserve Bank of India's 4% target since September 2019
- This drop was primarily due to a sharp decrease in vegetable prices, resulting in a substantial reduction in the weighted contribution of vegetables to the overall CPI, from 1.77% in June 2024 to 0.55% in July 2024
- Vegetable inflation decreased significantly from 29.3% in June 2024 to 6.8% in July 2024, reducing food inflation and contributing to a broader decline in CPI inflation due to seasonal price fluctuations and crop arrivals
- Food price inflation in India moderated significantly, dropping to 5.42% in July 2024 from 9.36% in June 2024, marking the lowest level since June 2023. This decline was largely due to a high base effect from the previous year, which saw inflation at 11.51%
- Fuel and light prices contracted by 5.48% in July 2024, resulting in a decrease in overall inflation rates
- Core CPI inflation slightly increased in July 2024 due to higher mobile tariffs and transport and communication costs, potentially impacting household costs, discretionary spending, and overall consumer demand

## Wholesale inflation in India fell to a 3-month low of 2.04% in July 2024 led by decline in food and fuel prices




*Source: Ministry of Commerce & Industry, Government of India*

- India's wholesale inflation fell to three-month low of 2.04% in July 2024 from 3.36% in June 2024, marking a significant decrease from the previous month's 16-month high
- This decline in WPI inflation in July 2024 was primarily due to a decline in food and fuel prices and a higher base effect. Further, the ongoing price contraction of manufactured products also led to a decrease in WPI inflation
- Wholesale vegetable prices contracted by 8.93% in July 2024, while pulses' prices increased by 20.27%, higher than the previous year's 9.59% figure

### BWR VIEW

The July 2024 CPI inflation rate suggests a general trend of easing inflationary pressures in India, but concerns arise about potential future fluctuations due to monsoon conditions and other economic factors.

India's retail inflation fell below RBI's target in July 2024, but base effects and core inflation pressures persist. RBI remains cautious about food price volatility and transport and communication sector inflation. They plan a wait-and-see approach for interest rate adjustments. Geopolitical tensions influence inflation outlook. The RBI is monitoring potential future inflationary pressures due to uneven monsoon rainfall distribution and crop damage, which could impact food prices.

- The inflation rate for primary articles decreased to 3.1% in July 2024 from 8.80% in June 2024 and 8.24% in July 2023
- Food inflation, a significant contributor to the index, decreased to 3.55% in July 2024 from 8.68% in June 2024 and 7.75% in May 2024
- Inflation rate in food articles eased to 3.45% in July 2024, down from 10.87% in June 2024 and 15.1% in July 2023, mainly due to a month-on-month decline in prices of vegetables, cereals, pulses and onion
- Wholesale vegetable prices contracted by 8.93% in July 2024, compared to a 38.76% increase in June 2024
- However, wholesale onion price inflation accelerated to 88.8% in July 2024 as against 6.84% in June 2024
- Moreover, the prices of cereals, paddy, pulses, vegetables, and onion prices decreased in July 2024. However, the prices of wheat, potato, fruits, milk, eggs, fish, and meat increased
- The fruit inflation eased to 15.62% in July 2024 from 9.97% in July 2023. However, it expanded on a month-on-month basis from 10.14% in June 2024
- The non-food articles experienced a price decline of 2.90% in July 2024, surpassing the 1.95% decrease reported in June 2024
- The fuel and power segment experienced a 1.72% inflation rate in July,2024, up from 1.03% the previous month, indicating a slight increase in inflation
- In July 2024, crude petroleum and natural gas prices rose by 9.12%, compared to a 12.55% increase in June 2024
- The inflation rate for manufactured products increased to 1.58% in July 2024 from 1.43% in June 2024, while the index decreased by 0.14% month-over-month
- Wholesale inflation eased in July 2024 due to a slowdown in primary article prices and moderate increase in manufactured goods and fuel, influenced by rising food articles and manufacturing sectors
- Wholesale potato prices experienced a 76.23% inflation rate in July 2024, a significant increase from the 24.06% contraction seen in the previous year (July 2023)

**BWR VIEW**

The decline in food inflation in July 2024 is significant for the Reserve Bank of India (RBI) as it aligns with the central bank's goal of maintaining price stability.

Food inflation decline is expected to alleviate financial pressure on households, lower grocery bills, benefiting consumer spending and economic stability, but RBI warns persistent high prices could trigger inflationary pressures

WPI inflation outlook is expected to remain moderate in the near-term due to monsoon boost, and Kharif sowing progress.

## India's Manufacturing Sector Resilience in July 2024, eased marginally to 58.1; Fastest expansion in international sales

- India's manufacturing sector showed resilience in July 2024, with the Manufacturing Purchasing Managers' Index (PMI) reading at 58.1, slightly down from 58.3 in June 2024
- The sector's growth is evident, with the figure remaining above the neutral threshold of 50.0, indicating overall improvement in manufacturing conditions
- In July, the growth in India's manufacturing sector remained impressive despite softer new orders and output increases
- International Sales Surge: July's report showed a significant international sales expansion, reaching the second-highest level in over 13 years, driven by increased demand from Asia, Europe, North America, and the Middle East
- New orders and production: The manufacturing industry experienced a marginal slowdown in new orders and production volumes, despite strong demand, contributing to a reduction in the PMI. New orders increased at a softer pace in July 2024. Domestic demand remained strong, with new orders and output growing healthy. Despite a slight decrease in new orders and output, the overall performance remains above the long-run average, indicating the sector's continued strength.
- Job Creation: Manufacturers increased purchasing and staff hiring in July 2024, indicating positive future production sentiment. The report indicates a strong job creation environment, with 7% of firms hiring, indicating a cautious approach to meet the ongoing demand in the sector
- Inflationary Pressures: Manufacturers increased selling prices at fastest rate since October 2013 due to rising input costs, essential materials like coal, leather, and steel, and rising labor costs. Buoyant demand pushed prices up, with input costs rising at a rapid rate in nearly two years, leading to the steepest increase in selling prices since October 2013
- Manufacturers remain optimistic about future growth, citing favourable demand conditions and ongoing marketing efforts. Their sentiment towards production remains stable, indicating confidence in continued expansion

The July 2024 PMI results indicate a slight deceleration in the manufacturing sector, yet it remains resilient amidst broader economic conditions.

India's manufacturing sector has significantly benefited from government spending initiatives aimed at boosting industrial growth

## India Services Sector Growth Slows in July 2024

### Services sector continues expansion driven by robust demand and technology investment

In July 2024, India's services PMI experienced a slight drop, falling to 60.3 in July 2024 from 60.5 in June 2024, marking 36th consecutive month of growth in the services sector, albeit at a slower pace compared to the previous month

The services sector has demonstrated resilience, sustaining growth above the 50 mark on the PMI scale, indicating continuous expansion

The latest PMI reading is primarily driven by substantial investment in technology and online services, new business growth, and high demand

- **Expansion in Business Activity:** The services sector experienced a significant increase in business activity, with new orders and export orders rising at the third-strongest pace since September 2014

- **International Sales Expansion:** International sales experienced the fastest expansion in nearly a decade, leading to increased new orders and hiring of full and part-time workers

- **India's export orders** have seen a surge in July 2024, marking the third-strongest increase since September 2014, driven by rising global demand for Indian services, with notable contributions from Austria, Brazil, China, Japan, Singapore, Netherlands, and US

- **Employment Growth:** The services sector experienced significant employment growth, with hiring reaching its highest rate in nearly two years, primarily due to the need to manage increased workloads

- **Input Cost Inflation:** The service sector experienced a steep increase in prices due to higher wages and material costs, despite these pressures, the service sector remained optimistic about future growth. Higher wages and material costs led to an increase in input costs, resulting in the fastest increase in output prices in over 11 years

- **Optimistic Sentiment:** Despite a slight decrease in the PMI, business sentiment remained optimistic due to strong demand and enhanced customer engagement.

- **Moderation in new business growth:** New business growth moderated, indicating a cooling off after rapid expansion, potentially impacting overall service activity

- **Inflationary Pressures:** Service providers face rising costs due to higher food, fuel, and labor expenses, affecting profit margins and business sentiment, despite the weakest inflation pace in four months

### India Composite PMI revised downward in July 2024

- **India Composite** PMI recorded a downward revision in July 2024 at 60.7, from an earlier flash estimate of 61.4. indicating 36 consecutive months of expansion in the private sector, following a reading of 60.9 in June 2024

- The manufacturing sector contributed significantly to growth, despite a slight slowdown in new orders, and job creation continued at a steady pace across both sectors

### HSBC Flash India PMI for August 2024: Continued economic expansion in India

- The HSBC Flash India PMI for August 2024 shows continued economic expansion in India, with a Composite PMI Output Index of 60.5, despite a slight decrease in manufacturing activity

- **The Services PMI** increased to 60.4, indicating a robust performance in the services sector, which has been a significant economic driver post-pandemic

- **The Manufacturing PMI**, which decreased from 58.1 in July 2024 to 57.9 in August 2024, is still above the historical average of 54.0, indicating ongoing sector health improvement

- **New business inflows** remain strong, boosting private sector sentiment, but manufacturing new order growth slows to its weakest since February

- **Employment growth** was robust across both sectors, bolstering overall expansion and assisting in managing production backlogs

- **Input cost inflation** has decreased, but output price inflation has reached an 11-year high in the manufacturing sector, posing challenges for businesses in balancing profitability with consumer demand

- Manufacturing sector saw a softer rise in output, while services firms saw a quicker rise in business activity

- New order growth for manufacturing slowed to its weakest since February, but expansion pace remained sharp

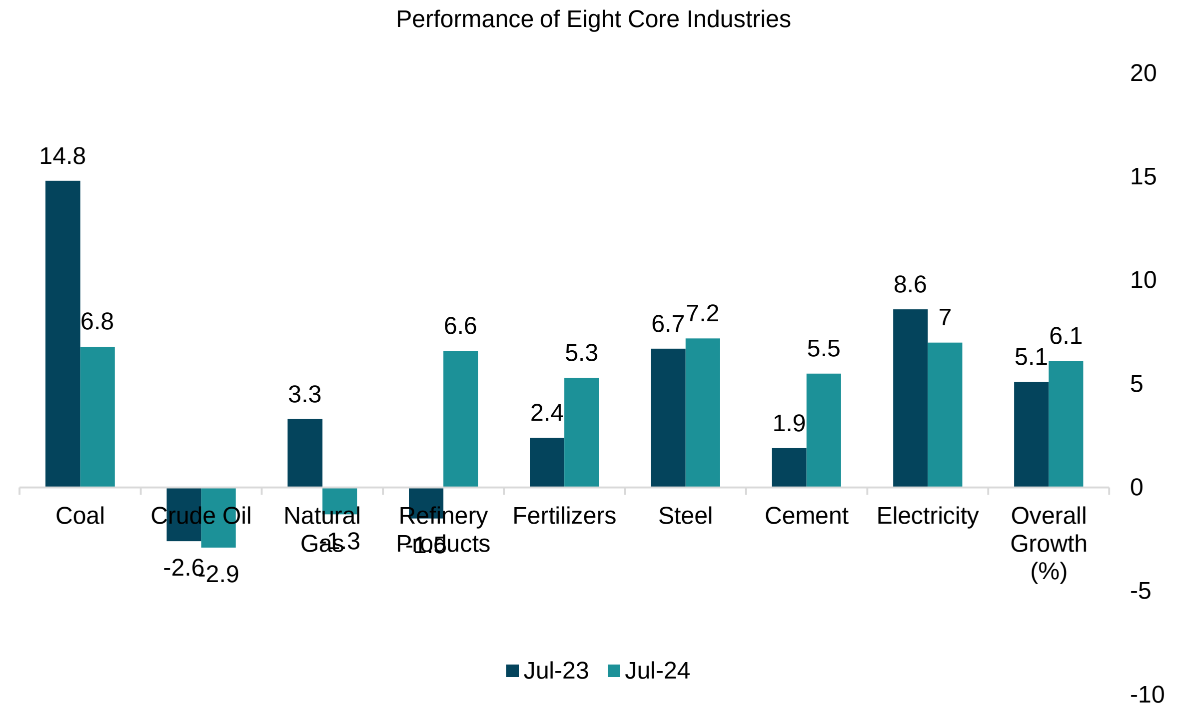
**BWR VIEW**

The PMI shows moderate decline, but the services sector's performance remains robust, positively impacting India's economic landscape.

Global economic uncertainties, such as high interest rates and geopolitical tensions, may have impacted business confidence and spending, leading to a slight dip in the PMI.

The services sector is experiencing expansion, but businesses are taking a cautious approach due to changing market conditions.

## India's Core Sector Growth Moderates to 6.1% in July 2024




*Source: Ministry of Commerce & Industry, Government of India*

- India's core sector, comprising eight critical industries, experienced a robust 6.1% year-on-year (y-o-y) growth in July 2024, a significant improvement from the previous month's revised 5.1% y-o-y, albeit slower than 8.5% growth in July 2023
- The increase was largely due to strong performance in steel, electricity, coal, refinery products, cement, and fertilizers, despite declines in crude oil and natural gas production
- **Steel** production reached a three-month high of 7.2% y-o-y in July 2024. This was the highest growth rate among all the core sectors
  - The sector's robust performance is crucial as it holds a significant position in the core sector index (17.92% weightage in the core sector basket)
- **Cement** output increased by 5.5% y-o-y due to a surge in construction activity due to urbanization and government infrastructure spending, despite a slower start to public capital expenditure in the fiscal year
- **Electricity** generation has experienced a 7.0% y-o-y increase in July 2024 due to increased demand and effective supply management during the monsoon season
  .
- **Coal** output growth fell to 6.8% in July 2024, its lowest in 13 months. Coal production has seen a 6.8% y-o-y increase in July 2024. The Ministry of Coal's initiatives aimed to ensure stable supply for both power and non-power sectors contributed to the growth in coal production
- **Refinery sector rebounds in July 2024 after negative growth in June 2024.** Petroleum refinery products sector, a crucial infrastructure sector, experienced a 6.6% y-o-y increase in July 2024, marking its highest output in eight months. This marks a significant turnaround from a negative growth (-1.5%) in June 2024 and (-0.3%) growth recorded in March 2024
  - The rebound in refinery products, which has a 28.04% weight in the core sector basket, was a key driver of the overall growth in the core sector in July 2024
  - The recovery in the refinery sector is a promising sign, strengthening the core sector and indicating potential for further growth in the coming months
- The production of **fertilizers** surged by 5.3% y-o-y due to favourable monsoon conditions and government subsidies, alleviating financial strains on farmers
- However, **crude oil** and **natural gas** output declined by 2.9% y-o-y and 1.3% y-o-y respectively in July 2024
- The core sector's cumulative growth rate from April to July 2024 remained at 6.1%, lower than the 6.6% growth recorded during the same period last fiscal year

**BWR VIEW**

The core sector, which accounts for around 40.27% of the Index of Industrial Production (IIP), is showing signs of recovery and resilience, but challenges persist in areas like crude oil and natural gas production.

The growth in sectors like steel and electricity indicates ongoing infrastructure development and industrial activity.

The refinery sector's positive performance in India boosts the core sector and indicates a healthier economic outlook, despite concerns about reduced government capital expenditure impacting growth. However, the decline in crude oil and natural gas production poses potential challenges for future economic stability.

## India's Index of Industrial Production (IIP) growth eased to 4.2% in June 2024

### Index of Industrial Production, Y-o-Y Growth

| | Mining | Manufacturing | Electricity | General |
|---|---|---|---|---|
| **June 2024*** | **10.3** | **2.6** | **8.6** | **4.2** |
| June 2023 | 7.6 | 3.5 | 4.2 | 4.0 |
| Weight in IIP | 14.4 | 77.6 | 8.0 | 100 |

Source: Ministry of Commerce & Industry, Government of India

**Index of Industrial Production, April 2024-June 2024**

| | Mining | Manufacturing | Electricity | General |
|---|---|---|---|---|
| **Y-o-Y Growth** | **7.9** | **3.8** | **10.9** | **5.2** |

*Source: Ministry of Commerce & Industry, Government of India*
** Figures for June 2024 are Quick Estimates*

- India's industrial output growth slumped to a five-month low of 4.2% in June 2024, down from 6.2% growth in May 2024, indicating a slowdown in industrial activity

- The IIP index value reached 150.0, up from 143.9 a year earlier. The growth was driven primarily by strong performances in various sectors, particularly mining, manufacturing, and electricity

**Sectoral Performance**

- **Manufacturing:** Manufacturing output growth reached a seven-month low of 2.6%, nearly half of the previous month's growth
    - Within the manufacturing sector, nine out of 23 manufacturing segments, including beverages, textiles, leather products, and pharmaceuticals, experienced contraction
    - The top three positive contributors to manufacturing are the production of basic metals (4.9%), electrical equipment (28.4%), and motor vehicles, trailers, and semi-trailers (4.1%)
    - India's **electricity sector** experienced a robust 8.6% growth rate in June 2024, contributing to the overall industrial output. India's electricity sector's performance in June 2024 demonstrated significant performance metrics due to high demand and various operational measures

- **Consumer non-durables'** output shrank 1.4% from last June, marking the second such contraction in three months

**Consumer durables** increased by 8.6% during the month of June 2024, compared to the previous year. Primary goods experienced a 6.3% growth in June 2024

- **Moderation in Capital Goods:** Capital goods output growth decreased from 2.9% in May 2024 to 2.4% in June 2024

- **Intermediate goods** production growth decreased from 3.9% in May 2024 to 3.1% in June 2024, reflecting a cooling trend

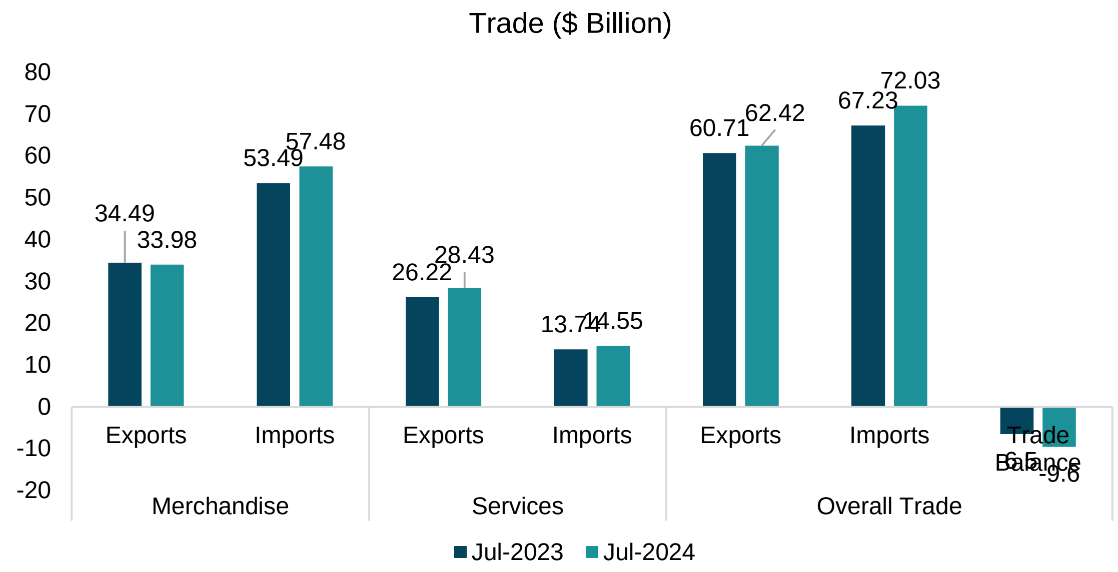
### BWR VIEW

**Mining** was the only segment to clock an acceleration in growth in June 2024 as it experienced a 10.3% growth in June, while three manufacturing sectors saw double-digit increases: electrical equipment, furniture, and computers and electronics.

The growth in mining sector was due to increased crude oil petroleum and natural gas production, while other mining and quarrying decreased by 5.1%.

IIP growth moderated in June 2024, with a slowdown in the manufacturing sector, but strong consumer durables production remained.

## India's Trade Deficit Reaches $23.5 Billion in July 2024; Highest level in nine months




*Source: Government of India, Ministry of Commerce & Industry*

- India's merchandise trade deficit rose sharply to reach $23.5 billion in July 2024 compared to $21 billion in June 2024 and $19 billion in July 2023, the highest level in the last nine months, indicating ongoing trade balance challenges

- This increase in the deficit was primarily due to a rise in merchandise imports to $57.48 billion in July 2024, while exports slightly decreased to $33.98 billion in July 2024 from $35.20 billion in June 2024

- The widening of trade deficit in July 2024 was led by rising import costs, particularly for crude oil, and declining exports in key sectors

**Imports**

- **Merchandise Imports:** Total imports increased by 7.5% y-o-y to $57.48 billion in July 2024, primarily driven by higher crude oil imports

- Crude oil imports in India surged 17.4% year-on-year (y-o-y) to $13.87 billion, driven by higher global energy prices and India's expanding oil refining sector, filling fuel market gaps due to Western sanctions.

- Gold imports dipped by 10.65% y-o-y to $3.13 billion in July 2024. However, on a month-on-month basis, gold imports increased by $70 million in July 2024 boosted by reduced duties on gold imports announced in the new budget.

**Exports**

- In contrast to the rising imports, **total merchandise exports** fell by 1.4% y-o-y to $33.98 billion, primarily due to a 22% drop in petroleum product exports to $5.23 billion due to reduced global demand and increased domestic consumption

- Moreover, jewellery experiencing significant declines, with exports down 20.4%. However, electronic goods experienced exports surged 37.3% to reach $2.81 billion, reflecting growing global demand

- **India's services exports** rose 8.4% to $28.43 billion in July 2024, despite a merchandise trade deficit, resulting in a services trade surplus of $13.88 billion for the month

- The growth in services surplus suggests that despite challenges in merchandise trade, the services sector remained strong, contributing positively to the current account balance

- The trade deficit has remained above $20 billion for three consecutive months, with July's figure being a significant increase from previous months

- India's services surplus partially offsets merchandise trade deficit, highlighting strength in IT and professional services, despite widening trade deficit in July

- India's major import sources in July 2024 were China ($10.29 billion), UAE ($5.73 billion), Russia ($5.42 billion), and the US ($3.71 billion), with a significant trade deficit with China

**BWR VIEW**

Despite a decline in merchandise exports, sectors like engineering, electronics, drugs & pharmaceuticals have shown resilience, contributing positively to export figures

India faces trade challenges due to fluctuating global energy prices and reliance on key partners, requiring ongoing monitoring and policy adjustments to enhance export performance and manage import dependencies effectively

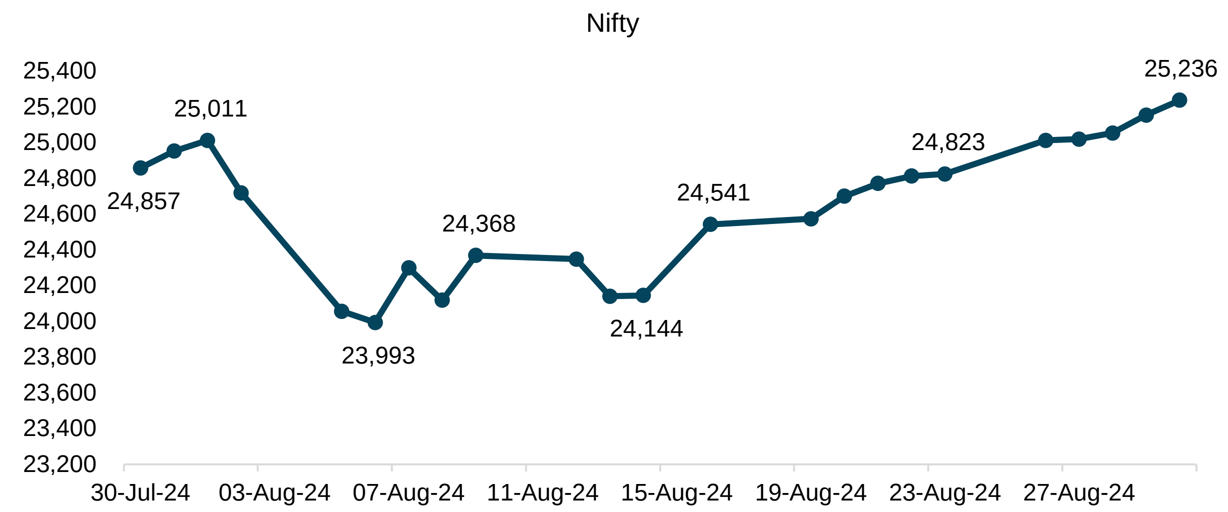
India has made progress in export categories, but the broader economic environment and sectoral challenges continue to pose significant risks to its trade balance

The persistent trade deficit in India raises concerns about the stability of the economy, potentially leading to currency depreciation and increased external debt

The trade deficit in July 2024 has grown significantly due to rising import costs, particularly for energy and gold, and a decline in export performance, necessitating strategic measures for improvement

## Stock Markets

### NSE Nifty and BSE Sensex experienced significant upward trends in August 2024, reaching record highs by the end of the month

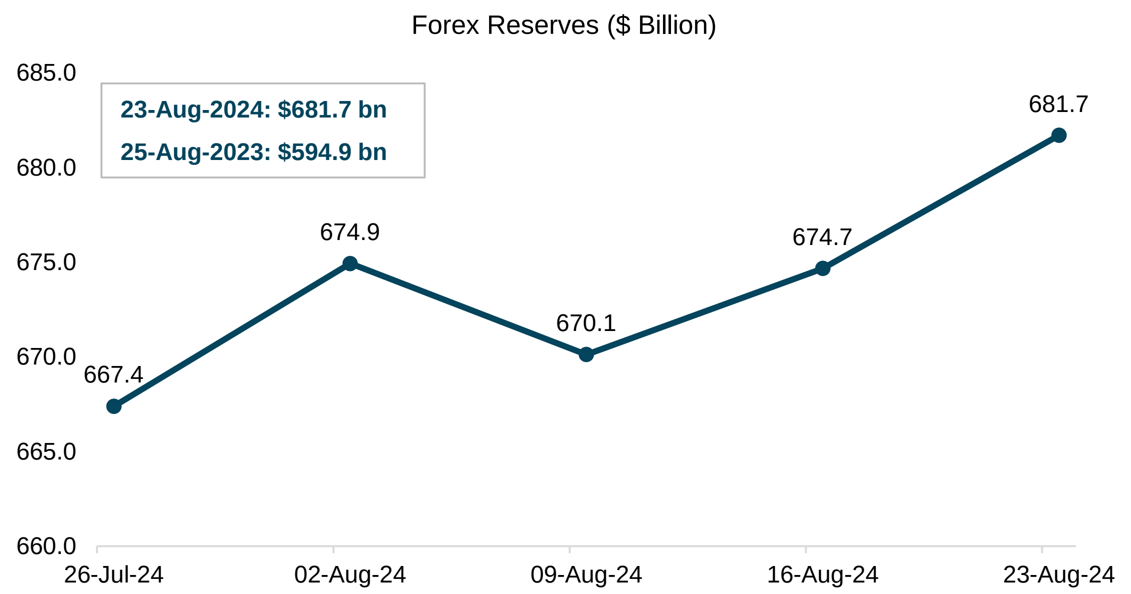



*Source: BSE and NSE*

- The Indian stock market experienced strong bullish sentiment in August 2024, with IT and Pharma sectors outperforming the indices due to favourable market conditions and positive global cues
- NSE Nifty index experienced a significant recovery in the month of August 2024, reaching a record high of 25,129, marking a significant turnaround from its previous struggles
- The Nifty index experienced significant fluctuations in August 2024. The Nifty experienced an initial decline, dropping from 24,800 to 23,960 on August 6, marking a significant low for the month.
- Post the low, the index began a steady climb, reclaiming the 25,000 mark and continuing its upward trajectory throughout the month and reached a record high of 25,129 on August 28, 2024
- The Nifty 50 index experienced a 0.8% increase in August 2024, with a robust rally, reaching a record high of 25,129.6 points on August 28 and closing at 25,141.55
- The IT sector experienced significant gains, driving the Nifty to new highs, indicating strong investor interest in technology stocks. Alongside IT, other sectors like pharma and small-cap stocks also showed strong momentum
- Lower global crude oil prices have bolstered markets, as they can alleviate inflationary pressures and enhance corporate margins, especially in energy-intensive sectors
- Further, US Federal Reserve Chair Jerome Powell's comments suggesting potential interest rate cuts in September boosted investor confidence, boosting equity markets as lower rates typically encourage spending and investment
- Foreign portfolio investors' return contributed to the upward momentum in Indian markets, partly due to positive global sentiment surrounding rate cuts and economic recovery prospects

## Forex

### India's Foreign Exchange Reserves reached a record high of $671 billion




*Source: RBI*

**BWR VIEW**

The Nifty's August 2024 recovery demonstrates a resilient market responding to sectoral strengths and broader economic indicators, despite initial volatility

The liquidity in the Indian equity markets remains strong, supported by domestic inflows and recent trends indicating foreign institutional investors are also turning net buyers, boosting market sentiment

The Indian equity market for September 2024 is cautious yet optimistic, with solid economic fundamentals and sectoral strengths in IT and banking

- India's foreign exchange reserves reached a record high of $681.69 billion in the week ended August 23, 2024. This marks an increase of $7.023 billion from the previous week's record of $674.66 billion.
- India's foreign exchange reserves increased by around $60 billion in 2023, while they declined by $71 billion in 2022.
- The reserves have been increasing steadily, with a cumulative increase of approximately $60 billion in 2024. These reserves serve as a buffer to protect domestic economic activity from global challenges.

- **Foreign currency assets:** The RBI's data indicates that India's foreign currency assets, comprising the majority of its forex reserves, rose by $5.983 billion to $597.552 billion, reflecting appreciation or depreciation of non-US currency units in foreign exchange reserves

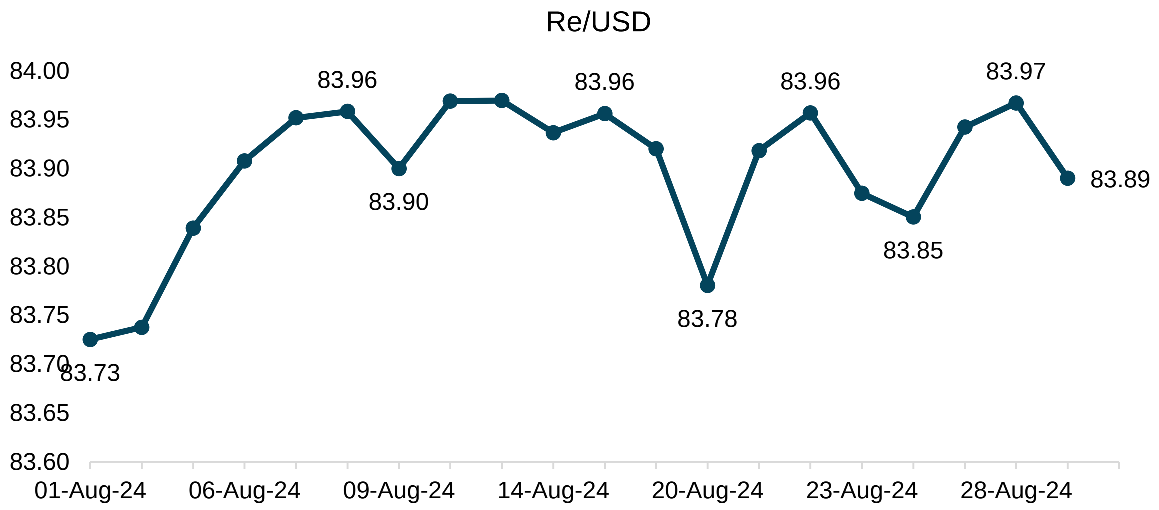
- India's **gold reserves** increased by $893 million to $60.997 billion as of August 23, 2024, a $893 million increase from the previous week, indicating continued growth in foreign exchange reserves.
  - The Reserve Bank of India (RBI) is increasing its gold reserves to diversify its foreign exchange reserves and decrease its reliance on the US dollar.
  - Gold serves as a hedge against inflation, ensuring its value holds or increases in times of currency weakening, thus safeguarding India's foreign reserves' purchasing power.
  - A robust gold reserve in India can boost foreign investor confidence due to its robust financial position and stability.

- **India's reserve position with the IMF** increased by $30 million to $4.68 billion in the reporting week

- The **Special Drawing Rights (SDRs)** increased by $118 million to reach a total of $18.459 billion

## Rupee

### Rupee witnessed significant volatility in August; hit record low against the US dollar




*Source: RBI*

- In August 2024, the Indian rupee experienced significant volatility, reaching an all-time low of 83.97 against the US dollar due to global equity sell-off, U.S. economy slowdown, and rising Middle East geopolitical tensions
- The rupee hit a record low against the dollar, prompting RBI intervention by selling dollars to stabilize the currency
- Despite RBI interventions, the rupee experienced fluctuations between 83.65 and its record low, indicating ongoing pressure from strong dollar demand and reduced foreign investment inflows
- In July and June 2024, the rupee experienced stability, but August 2024 saw net outflows of $1.3 billion in domestic stocks, causing a decline in investor sentiment. As of August 30, 2024, the rupee was trading at 83.8934, slightly lower than its previous close of 83.97, due to market challenges and RBI's currency management efforts
- Market sentiment was cautious during the August 2024 month, influenced by upcoming economic data and global trends. The rupee's performance was linked to RBI's monetary policy decisions and foreign investment
- The USD/INR exchange rate increased slightly in late August 2024, with the RBI's actions and global economic conditions likely to continue influencing the rupee's trajectory
- The Indian rupee experienced volatility in August 2024, with RBI intervention and a cautious market outlook amid economic uncertainties

**BWR VIEW**

India's foreign exchange reserves have demonstrated strong growth, indicating a robust position to safeguard the economy from global economic fluctuations.

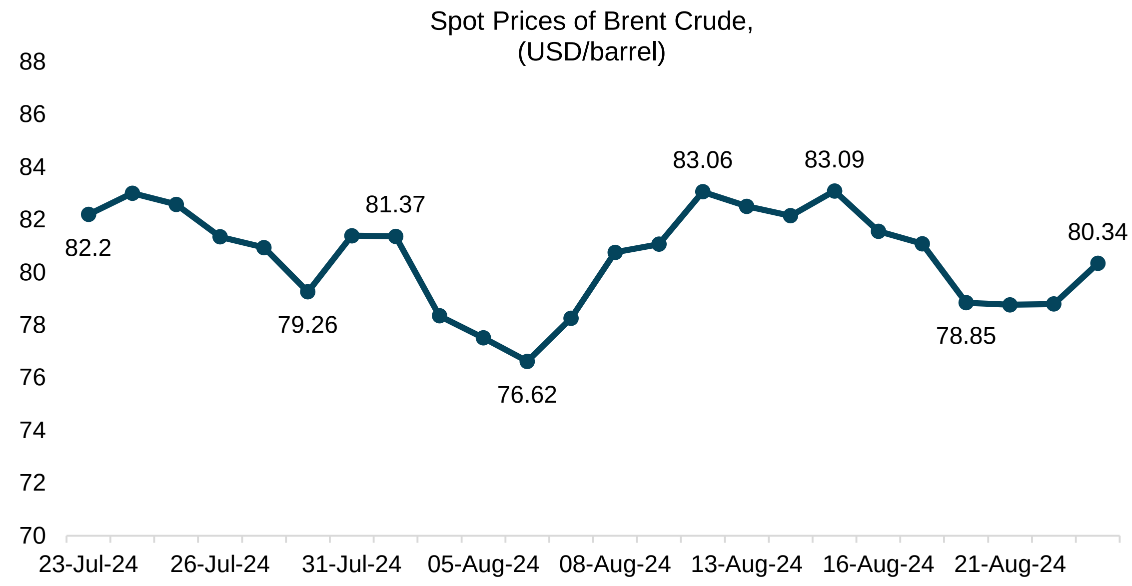
India's forex reserves have seen significant strengthened largely due to increased foreign investments, rising foreign currency and gold reserves, and improved economic policies

The outlook for India's foreign exchange reserves appears positive driven by prudent management by the RBI, despite global economic uncertainties, to ensure growth objectives and address external vulnerabilities

The Reserve Bank of India (RBI) manages forex reserves and intervenes in the foreign exchange market to maintain stability and prevent excessive rupee exchange rate volatility

## Oil

### Crude Oil Prices Decline Amid Global Demand Concerns; Broader economic indicators cause global slowdown fears




*Source: U.S. Energy Information Administration*

- Crude oil prices experienced significant volatility in the month of August 2024 due to weakening demand from major oil consumers, negative market sentiment, and anticipated oil supply increases from OPEC+ and non-OPEC sources
- Brent crude oil began the month at $81.13 per barrel but dropped sharply to $75.05 per barrel by August 5, marking a $6.08 decline within a few days. However, Brent crude made a brief recovery as the prices rebounded to $81.04 by August 15, then fell again to $75.65 by August 21.
- Further, economic concerns, supply dynamics fluctuations and a complex geopolitical landscape weighed on oil futures
- China's slow economic recovery, as the world's largest oil importer, has been the primary factor affecting prices. This has led to reduced imports and refinery activity, exacerbated by disappointing economic data, including weaker-than-expected purchasing managers' index figures from the U.S.
- Despite the demand challenges, global oil supply increased due to rise in OPEC+ production
- Moreover, fears of a US recession impacted market sentiment, leading to reduced energy demand and a drop in crude oil prices, especially in early August 2024 due to weak economic data from the US and China.
- Unfavourable economic indicators in the U.S., including weaker job data and potential recession concerns, have dampened market sentiment, leading to lower oil demand and price decline
- Fear of a US recession has heightened volatility and selling pressure among traders, leading to a significant drop in oil prices from $85 per barrel to below $75
- Geopolitical tensions in the Middle East, particularly between Iran and Israel, caused a price spike, leading oil prices crossing $83 a barrel mark but were overshadowed by broader economic concerns, as supply disruptions were insufficient to sustain higher prices
- However, Libya's political turmoil led to a spike in crude oil prices in late August 2024, but global demand concerns prevented significant price rise despite supply disruptions

**BWR VIEW**

Crude oil prices in September 2024 are expected to remain stable, with average prices around $82-$85 per barrel, influenced by OPEC+ production decisions and global economic trends

Geopolitical tensions could significantly impact crude oil prices in September 2024, but their impact depends on duration, OPEC+ responses, and economic conditions, determining price rise or stability

# GLOBAL

## German GDP Fall in Q2 2024

- The German economy experienced a 0.1% decrease in GDP in Q2 2024 compared to Q1 2024, indicating a cooling of the economy after a slight increase in Q1.
- GDP increased by 0.2% in Q1 2024, but slowed in Q2. Consumption expenditure remained stable, but capital formation declined. Manufacturing and construction performance declined.
- Consumer spending remained stable, slightly increasing in Q1 2024 compared to Q1 2023, with private consumption falling 0.2% and government spending rising 1.0% compared to Q1 2023.
- In Q2 2024, gross fixed capital formation significantly decreased, with equipment investments falling by -4.1% compared to the previous quarter, primarily in machinery, devices, and vehicles.

## FOMC Minutes: Strong consensus for potential interest rate cut at September meeting

- The Federal Open Market Committee (FOMC) released minutes indicating a strong likelihood of an interest rate cut in September 2024, with officials suggesting policy adjustments if economic data aligns.
- The FOMC has opted to maintain the federal funds rate between 5.25% and 5.50% for the eighth consecutive meeting, indicating a cautious approach to inflation trends.
- The minutes showed a slight decrease in inflation, with confidence in achieving the 2% target, but concerns persist about job gains and an increased unemployment rate.
- The FOMC reports a balanced outlook for employment and inflation goals, despite steady economic growth and moderated job gains.

## UK Economy Grew by 0.6% in Q2 2024; Service Sector Drives Growth

- The UK economy witnessed a strong expansion in Q2 2024. UK GDP is estimated have grown by 0.6% quarter-on-quarter (q-o-q) and 0.9% year-on-year (y-o-y) in Q2 2024, following a 0.7% q-o-q increase in Q1 2024, marking the fastest growth in over a year
- This GDP expansion follows two consecutive quarterly declines of 0.1% in Q3 2023 (July to Sept) and 0.3% in Q4 2023 (Oct to Dec) 2023
- The latest quarter's growth was primarily driven by strong performance in services sector. Services experienced a 0.8% growth in output, despite a 0.1% decrease in production and construction sectors. The service sector, particularly scientific research, IT, and legal services, drove growth over the three-month period
- Recent economic indicators suggest a cautiously optimistic outlook for the United Kingdom (UK) economy, indicating a recovery from a technical recession in late 2023 driven by GDP growth, inflation trends, and labour market conditions
- The UK economy is predicted to experience a soft landing in 2024, as per various economic forecasts and analyses. IMF predicts a faster-than-expected recovery in 2024 in the UK economy after a mild technical recession, with growth projected to reach 0.7% in 2024 and 1.5% in 2025

## SUMMARY

- The World Bank has revised India's FY25 economic growth projection to 7%, citing improved private consumption and investment performance, following a 20 basis point increase in private consumption, particularly in rural areas.

- The Goods and Services Tax collections in August 2024 rose by 10% y-o-y to Rs 1,74,962 crore, while gross GST revenues from domestic transactions rose by 9.2% to about Rs 1.25 lakh crore

- India's GDP growth in Q1 FY25 fell to 6.7%, the lowest in five quarters and below the Reserve Bank of India's estimate of 7.1%, a significant decline from 8.2% in Q1 FY24 and 7.8% in Q4 FY24.

- India's CPI inflation dropped to 3.54% in July 2024, the lowest in five years, primarily due to a decrease in vegetable prices, reducing their weighted contribution to the overall CPI.

- India's wholesale inflation dropped to a three-month low of 2.04% in July 2024, primarily due to a decrease in food and fuel prices and a higher base effect.

- In July 2024, India's manufacturing sector showed resilience, with a slightly downtick in the Manufacturing Purchasing Managers' Index (PMI), despite softer new orders and output increases.

- India's services PMI fell to 60.3 in July 2024, marking its 36th consecutive month of growth, despite a slower pace. The sector's resilience is attributed to substantial investment in technology, online services, and high demand.

- The India Composite PMI decreased to 60.7 in July 2024, indicating 36 consecutive months of private sector expansion, following a reading of 60.9 in June 2024.

- India's core sector, including eight critical industries, saw a 6.1% YoY growth in July 2024, despite declines in crude oil and natural gas production.

- India's industrial output growth fell to 4.2% in June 2024, indicating a slowdown in industrial activity, with strong performances in mining, manufacturing, and electricity sectors driving growth.

- India's merchandise trade deficit reached $23.5 billion in July 2024, the highest level in nine months, primarily due to increased imports and slightly decreased exports, indicating ongoing trade balance challenges.

- In August 2024, the Indian stock market experienced strong bullish sentiment, with IT and Pharma sectors outperforming indices. The NSE Nifty index reached a record high of 25,129.

- India's foreign exchange reserves reached a record high of $681.69 billion in the week ending August 23, 2024, an increase of $7.023 billion from the previous week.

- In August 2024, the Indian rupee hit an all-time low of 83.97 against the US dollar due to global equity sell-off, US economy slowdown, and Middle East geopolitical tensions.

- Crude oil prices experienced significant volatility in August 2024 due to weakening demand, negative market sentiment, and anticipated supply increases from OPEC+ and non-OPEC sources. Brent crude oil initially dropped to $75.05 per barrel, then rebounded to $81.04.

### Global:

- The German economy saw a 0.1% decrease in GDP in Q2 2024, indicating a cooling after a slight increase in Q1.

- The Federal Open Market Committee (FOMC) predicts an interest rate cut in September 2024, with policy adjustments suggested if economic data aligns, maintaining a cautious approach to inflation trends.

- UK GDP expanded by 0.6% and 0.9% in Q2 2024, following a 0.7% increase in Q1 2024. This growth follows two consecutive quarterly declines in Q3 and Q4.

* Views are personal

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