

India Macro Meter

24 June 2019

Not out of the woods yet, but the worst may be behind

April'19 ended with over 73% of lead indicators in positive territory, better than the 66.7% suggested by the early indicators, helped by industrial production data beating expectations. Early indicators for May'19 suggest that 66.7% of indicators are in positive territory, lower than the previous month, but better than 4QFY19. Overall, we can conclude that while the economy may not be out of the woods, the worst may be behind. GDP growth in 1QFY20 is likely to be around the same level as in 4QFY19. Rural wages have largely been steady at ~5% YoY over the past couple of months, while government spending also witnessed a pick-up in April' 2019, after a significant slowdown in March'19. However, discretionary spending remains under pressure, with tractor and two-wheeler sales continuing to decline. Survey based indicators were flat, but manufacturing sector indicators witnessed a mild rebound. The Nikkei manufacturing PMI improved to 52.7 in May'19 from 51.8 in April'19. Manufacturing output, as measured by the Index of Industrial Production or IIP was up 2.8% YoY in April'19 after a 0.4% YoY decline in March'19. Exports grew by 3.9% YoY in May'19, up from 0.6% YoY in the previous month. Capital goods production also registered a mild pick-up, but capital goods imports slowed. Services sector indicators were mixed. The Nikkei services sector PMI slowed to 50.2 in May'19 from 51 earlier. Although other services sector indicators were sluggish they did not indicate significant deceleration. Non-food bank credit growth stood at 12.6% YoY in May'19, down from 13.1% in April'19. Deposit growth stood at 10.1% YoY, up from 9.7% earlier. The credit to deposit ratio is still hovering ~77% level, which is hampering transmission. The MCLR was up by 1bps in May'19 while the weighted average lending rate on outstanding rupee loans was up 7bps despite 75bps of rate cuts (including June) by the Reserve Bank of India (RBI). Going forward, we expect transmission to accelerate as banks reset lending rates. The decline in bond yields to below 7% should also help transmission with the rise in treasury income.

Rural wages steady, but pressure on discretionary consumption sustains: Rural wages have largely been steady at ~5% YoY over the past couple of months, while government spending also witnessed a pick-up in April'19, after a significant slowdown in March'19. Central government expenditure was up 14% YoY in April'19 after a 14.1% YoY decline in March'19. However, discretionary spending remains under pressure, with tractor and two-wheeler sales continuing to decline. Overall motor-vehicle sales declined 8.6% YoY, passenger vehicle sales were down 20.5% YoY, commercial vehicle sales declined 10% YoY and two-wheeler sales contracted 6.7% YoY. Tractor sales were down by 15.7% YoY.

Manufacturing witnesses a mild rebound: The manufacturing sector witnessed a mild rebound. The Nikkei manufacturing PMI improved to 52.7 in May'19 from 51.8 in April'19. Manufacturing output, as measured by the IIP, was up 2.8% YoY in April'19 after a 0.4% YoY decline in the previous month. Exports grew by 3.9% YoY in May'19, up from 0.6% YoY in April'19. Non-oil and non-gold imports however remained weak, declining by 1.31% YoY, indicating relatively weak demand conditions. Capital goods production grew by 2.5% YoY in April'19 after a 8.7% decline in the previous month, but capital goods imports slowed, growing by 2.9% YoY in May'19, down from 6.6% earlier.

Services sector indicators are mixed: Services sector indicators were mixed. The Nikkei services sector PMI slowed to 50.2 in May'19 from 51 earlier. Although other services sector indicators were sluggish they did not indicate significant deceleration. Air traffic growth stood at 3.3% YoY in May'19 after a 4.2% decline in April'19. Rail freight traffic grew by 2.9% YoY, down from 3.2% YoY earlier. Foreign tourist arrivals have been sluggish over the past couple of months and grew by a muted 0.7% YoY in May'19, down from 3.5% YoY in April'19. Petrol consumption was up 11.3% YoY and diesel consumption was up 3.1% YoY - both slightly improving from the previous month.

Transmission is lagging, but likely to see acceleration: Non-food bank credit growth stood at 12.6% YoY in May'19, down from 13.1% in April'19. Deposit growth stood at 10.1% YoY, up from 9.7% earlier. The credit to deposit ratio is still hovering ~77%, which is hampering transmission. The MCLR was up by 1bps in May'19 while the weighted average lending rate on outstanding rupee loans was up 7bps despite 75bps of rate cuts (including June) by the RBI. Going forward, we expect transmission to accelerate as banks reset lending rates. The decline in bond yields below 7% should also help transmission with the rise in treasury income.

Teresa John, CFA

Research Analyst (Economist)

teresa.john@nirmalbang.com

+91 22 6273 8114

Exhibit 1: Not out of the woods yet, but the worst may be behind

	Oct-16	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
Currency in circulation (% YoY)	17.2	80.0	75.5	57.1	37.0	32.9	29.8	27.7	25.1	22.7	21.2	20.0	21.1	19.6	19.1	18.4	17.0	14.5	14.2
M3 (% YoY)	10.4	10.0	10.4	10.3	9.5	10.6	10.0	10.4	9.9	10.8	10.0	10.0	10.4	10.5	10.4	10.8	10.5	10.0	10.3
Rural wage (% YoY)	6.8	4.4	3.1	3.7	3.0	2.4	2.7	3.4	2.9	3.1	3.3	4.4	5.3	4.4	5.3	5.1	5.7	5.2	-
Consumer durable production (% YoY)	5.3	2.1	7.6	7.5	4.1	4.5	6.4	13.4	14.3	5.3	5.2	18.0	(2.1)	3.9	2.3	1.2	(5.1)	2.4	-
Consumer non-durable production (% YoY)	6.9	16.6	10.7	7.4	12.7	7.9	(2.1)	0.2	5.5	6.5	6.1	8.8	(0.6)	5.9	3.3	4.2	0.3	5.2	-
Motor vehicle sales (%YoY)	8.1	36.4	30.7	22.8	18.2	17.4	12.1	25.2	8.0	3.4	3.7	15.3	5.0	(3.0)	(4.7)	(3.6)	(14.2)	(15.9)	(8.6)
Passenger vehicle (% YoY)	4.5	5.2	7.6	7.8	6.4	7.5	19.7	37.5	(2.7)	(2.5)	(5.6)	1.6	(3.4)	(0.4)	(1.9)	(1.1)	(3.0)	(17.1)	(20.5)
Commercial vehicle (% YoY)	11.9	52.6	39.7	31.1	24.6	76.0	43.1	41.7	29.7	29.6	24.1	24.8	5.7	(7.8)	2.2	(0.4)	0.3	(6.0)	(10.0)
Two wheeler (% YoY)	8.7	41.5	33.4	23.8	18.3	16.9	9.2	22.3	8.2	2.9	4.1	17.2	7.1	(2.2)	(5.2)	(4.2)	(17.3)	(16.4)	(6.7)
Tractor sales	44.3	27.7	38.1	38.6	52.2	20.4	19.6	35.5	19.9	8.9	(12.3)	23.2	31.2	8.9	2.4	(0.5)	(15.0)	(13.2)	(15.7)
Petrol consumption (% YoY)	13.8	10.3	16.2	10.1	14.2	9.5	2.3	15.2	8.1	8.0	4.4	5.0	9.1	10.5	13.2	8.0	7.2	8.0	11.3
Diesel consumption (%YoY)	5.2	8.5	14.6	6.1	8.0	2.7	0.3	7.8	4.9	4.3	(0.7)	6.9	(4.8)	3.6	6.3	2.7	1.4	2.7	3.1
Cement production (% YoY)	6.2	18.9	19.6	23.0	13.5	21.9	13.0	13.3	11.0	14.7	11.8	18.5	8.9	11.6	11.0	8.0	15.8	0.7	-
Steel production (% YoY)	16.9	2.5	1.7	5.0	4.8	3.0	(0.1)	3.4	6.9	4.0	3.2	2.6	5.8	12.9	5.5	4.9	6.7	1.4	-
IIP (%YoY)	4.9	7.3	7.5	6.9	4.6	4.8	3.9	6.9	6.5	4.7	4.5	8.4	0.3	2.6	1.4	0.1	(0.1)	3.4	-
Mining (% YoY)	1.0	1.2	0.3	(0.4)	3.1	4.0	5.8	6.6	3.4	(0.5)	0.1	7.2	2.7	(1.0)	3.9	2.2	0.8	5.1	-
Manufacturing (%YoY)	5.9	8.7	8.7	8.4	4.7	5.3	3.7	6.7	7.0	5.1	4.6	8.2	(0.6)	3.0	1.0	(0.4)	(0.4)	2.8	-
Electricity (%YoY)	3.0	4.4	7.6	4.5	5.9	2.1	4.2	8.5	6.7	7.6	8.2	10.8	5.1	4.4	0.9	1.3	2.2	6.0	-
Capital goods production (%YoY)	(4.7)	13.2	12.4	16.6	(5.7)	11.9	6.9	9.8	2.8	9.3	6.5	17.0	(3.4)	4.9	(3.4)	(8.9)	(8.7)	2.5	-
Capital goods imports (%YoY)	2.9	9.1	28.1	27.7	25.9	8.7	34.2	31.5	30.3	45.3	5.8	12.0	15.5	12.5	9.5	3.1	2.5	6.6	2.9
PMI Manufacturing Index	54.4	54.7	52.4	52.1	51.0	51.6	51.2	53.1	52.3	51.7	52.2	53.1	54.0	53.2	53.9	54.3	52.6	51.8	52.7
PMI Services Index	54.5	50.9	51.7	47.8	50.3	51.4	49.6	52.6	54.2	51.5	50.5	52.2	53.7	53.2	52.2	52.5	52.0	51.0	50.2
PMI Composite Index	55.4	53.0	52.5	49.7	50.8	51.9	50.4	53.3	54.1	51.9	51.6	53.0	54.5	53.6	53.6	53.8	52.7	51.7	51.7
Rail freight traffic (% YoY)	(2.6)	7.0	6.4	4.1	3.9	8.3	6.2	4.9	4.1	5.2	3.7	9.6	5.1	3.3	2.8	4.3	6.6	3.2	2.9
Air traffic (% YoY)	23.3	17.8	19.7	24.4	28.2	26.1	16.9	18.7	21.2	17.1	19.0	13.3	11.0	12.9	8.9	5.6	0.1	(4.2)	3.3
Major port traffic (%YoY)	13.2	5.0	12.9	9.1	2.9	1.8	3.0	7.1	4.8	9.4	5.1	6.4	1.6	(4.0)	(2.3)	(0.5)	4.0	5.7	-
Foreign tourist arrivals (%YoY)	8.6	15.1	8.4	10.1	13.4	4.4	5.1	2.7	3.5	9.1	(0.1)	1.7	1.4	2.0	5.3	3.7	(4.8)	3.5	0.7
Export growth (% YoY)	8.8	12.5	11.6	4.5	(0.7)	5.4	20.4	17.9	15.7	19.0	(2.7)	16.6	(0.4)	0.4	3.7	2.4	11.0	0.6	3.9
Import growth (% YoY)	9.7	21.0	26.0	10.4	7.1	2.9	14.7	20.9	29.8	26.8	12.7	19.2	5.6	0.6	1.0	(4.2)	1.4	4.5	4.3
Bank non-food credit growth (%YoY)	8.8	11.2	11.0	11.1	10.2	12.5	13.2	10.9	12.4	14.4	12.6	14.8	16.3	13.4	14.4	14.5	13.3	13.1	12.6
Personal credit (% YoY)	17.0	18.9	20.0	20.4	17.8	19.1	18.6	17.9	16.7	18.2	15.1	16.8	17.2	17.0	16.9	16.7	16.4	15.7	-
Credit to industry (%YoY)	(1.7)	2.1	1.1	1.0	0.7	1.0	1.4	0.9	0.3	1.9	2.3	3.7	4.0	4.4	5.1	5.6	6.9	6.9	-
Credit to services (%YoY)	9.3	14.7	13.2	14.2	13.8	20.7	21.9	23.3	23.0	26.7	24.0	27.4	28.1	23.2	23.9	23.7	17.8	16.8	-
Deposit growth (%YoY)	9.2	3.6	4.6	5.4	6.2	7.7	8.1	6.8	7.8	9.9	8.1	9.0	9.4	7.9	9.5	10.2	10.0	9.7	10.1
Commercial Paper issuance (%YoY)	22.6	13.1	20.0	22.1	(6.4)	1.8	19.3	49.3	96.5	71.1	41.5	20.1	18.4	21.9	15.6	14.5	29.7	21.3	18.2
Central Government expenditure (% YoY)	10.8	20.3	(4.7)	17.6	(36.6)	(7.7)	15.1	22.4	15.5	27.5	17.4	6.2	(15.9)	(0.6)	20.3	17.6	(14.1)	14.0	-
Indirect tax (%YoY)	25.7	(14.3)	(21.3)	(8.8)	(43.4)	66.0	3.9	(10.9)	(13.3)	13.1	1.2	5.1	15.1	13.4	14.7	5.09	11.9	14.2	-
CPI (%YoY)	4.2	5.2	5.1	4.4	4.3	4.6	4.9	4.9	4.2	3.7	3.7	3.4	2.3	2.1	2.0	2.6	2.9	2.9	3.0
Core CPI (%YoY)	5.0	5.12	5.14	5.2	5.37	5.9	6.2	6.4	6.29	5.9	5.8	6.2	5.7	5.7	5.4	5.3	5.0	4.6	4.3
WPI (%YoY)	1.3	3.6	2.8	2.5	2.5	3.2	4.4	5.8	5.1	4.5	5.1	5.3	4.6	3.8	2.8	2.9	3.2	3.1	2.5
10 year G-Sec yields (%)	6.79	7.33	7.43	7.73	7.40	7.77	7.83	7.90	7.77	7.95	8.02	7.85	7.60	7.37	7.29	7.41	7.35	7.41	7.03
Credit to deposit ratio (%)	74.4	74.7	74.5	74.9	75.5	74.8	75.2	75.4	74.7	75.4	76.1	76.7	77.1	78.2	78.0	77.9	77.7	77.05	76.99
Weighted average deposit rate of banks (%)	7.4	6.5	6.5	6.6	6.7	6.7	6.7	6.7	6.7	6.8	6.8	6.8	6.9	6.9	6.9	6.9	6.89	6.85	-
Weighted average lending rate of banks (%)	11.15	10.36	10.28	10.33	10.25	10.26	10.25	10.26	10.26	10.35	10.32	10.34	10.36	10.35	10.38	10.36	10.35	10.42	-
Median MCLR (%)	9.30	8.30	8.30	8.30	8.40	8.43	8.49	8.52	8.55	8.60	8.70	8.73	8.75	8.75	8.80	8.80	8.75	8.74	8.75
Negative (Red+ Amber)	8	5	7	6	9	7	8	8	7	9	12	8	18	12	16	19	19	12	9
Positive (Green + Blue)	37	40	38	39	36	38	37	37	38	36	33	37	27	33	29	26	26	33	18

Red- Negative, Amber-Watch, Blue-Neutral, Green-Positive

Source: Nirmal Bang Institutional Equities Research, Reserve Bank of India, Central Statistical Office, Government of India, Bloomberg, CEIC

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Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010