Ministry Of External Affairs
Government Of India

ECONOMIC DIPLOMACY & STATES DIVISION

MONTHLY ECONOMIC REPORT

OCTOBER 2020

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STATE OF THE ECONOMY

A steady contraction of active COVID-19 cases, and a low case fatality rate has definitely brought optimism amongst people. However the worst is not yet behind us. Across the world, a second wave has hit and is a reminder of how easy it is to fall back in the same chaos when caution is compromised.

Resurgence of economic activity is evident from the movement of high frequency indicators in October, notably in healthy Kharif output, power consumption, rail freight, auto sales, vehicle registrations, highway toll collections, e-way bills, rebound in GST collections and record digital transactions. Manufacturing Purchasing Managers' Index (PMI) rose from 56.8 in September to 58.9 in October, indicating significant recovery of the sector in over a decade. PMI Services index also rose to 54.1 in October, ending the seven-month sequence of contraction, evidence of improved market conditions.

India's response to the pandemic period has been illustrated by additional Government spending done to ensure basic sustenance for the vulnerable people, relief measures for the MSME sector, creating additional health infrastructure, services to fight COVID-19, and a host of measures to boost the economy, inspite of a dip in revenue collection. Given that there are indications of India's GDP growth in the current year being higher than currently projected by various agencies, the fiscal space is set to widen to accommodate other initiatives by the government.This is evident in the GST collections crossing ₹ 1 lakh crore in October – first time since February.

Indian economy is set to recover to pre-COVID levels by the end of the year. This continuous improvement in consumption and business sentiment augurs well for a strong economic revival, which can be validated by IMF's October 2020 projection of 8.8 percentreal GDP growth of India in FY2021-22, the highest across the globe.

CURRENT COVID SCENARIO IN INDIA

With India showing a steady decline in daily COVID-19 cases in October, India's position in number of active COVID cases has moved from the 2nd to 4th after US, France, and Spain as on 31st October. The recovery rate improved to above 90 per cent as on 31st October vis-à-vis 83.3% as on 30th September. Case fatality rate continued to decline to 1.48 per cent as on 31st October as compared to 1.57 per cent as on 30th September.

(source: India COVID-19 Tracker. https://www.covid19india.org)

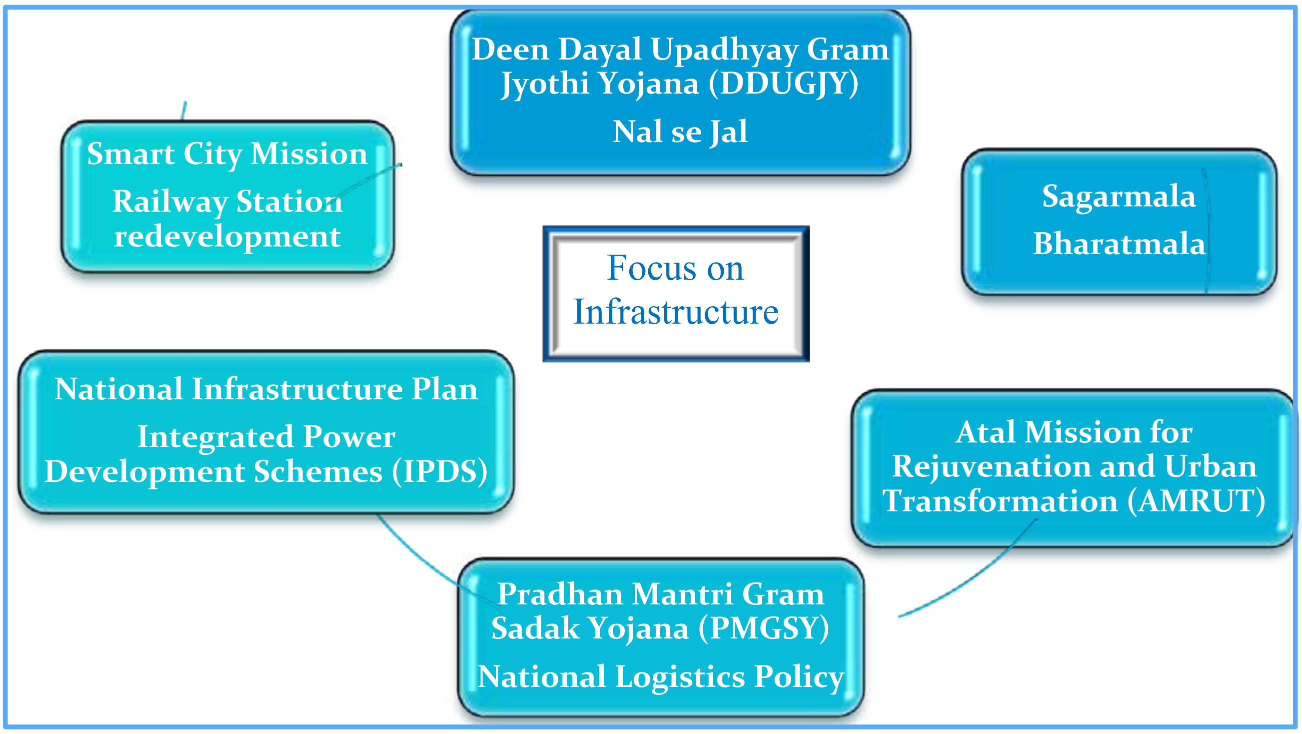
Maharashtra, Karnataka, Kerala, and West Bengal account for around half of the active COVID cases and daily new confirmed cases as on date. The share of daily COVID cases in October when compared with the share in last month, Andhra Pradesh, Maharashtra and Telangana have shown improvement while Karnataka, Kerala and Tamil Nadu need further focussed action.

CONSTRUCTION SECTOR-

Being the largest job generator, next only to agriculture, the construction sector employs nearly 12% of the nation's working population. As a part of manufacturing, it contributed an average of 8 percent to the overall Gross Value Added (GVA) in the last five years. The related services sector of 'real estate, ownership of dwelling & professional services', further, contributed 15.5 percent of the GVA during the same period. Thus, the sector contributes more than one-fifth of the total GVA of the country. With construction activities limited due to the lockdown, the sector contracted by a massive (-) 50.3 percent during Q1 of FY 2020-21 – contributing to around one-fifth of the contraction in total GVA during the quarter.

Despite, the current challenging situation, the construction sector, owing to its contribution to GVA and employment can play the role of a catalyst in the recovery of the economy. The Government has had a prime focus on building infrastructure across various sectors and has launched various Schemes in the last few years (Figure1).

Figure 1: Focus of Government on Infrastructure through various Schemes



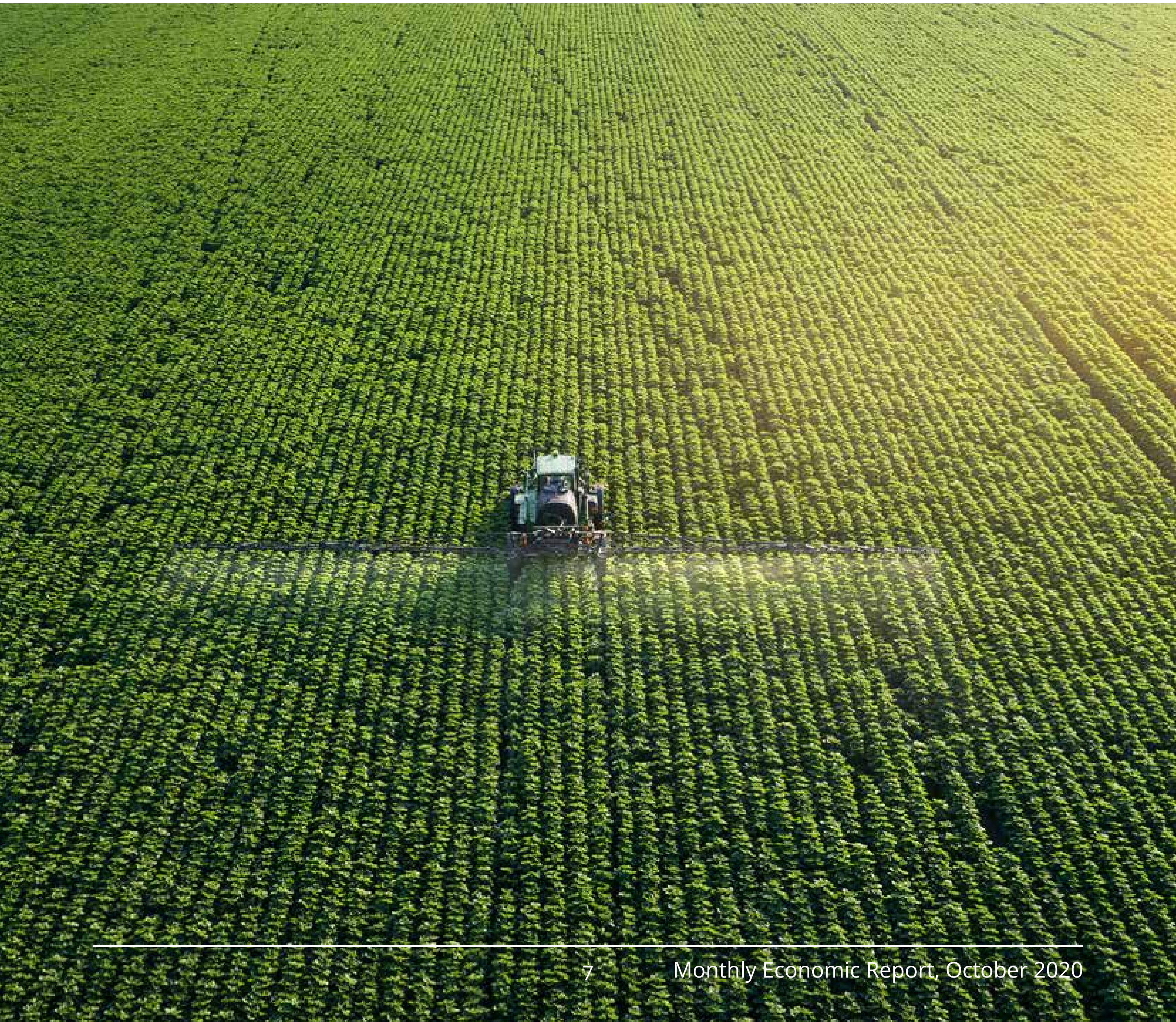
ECONOMIC INDICATORS EMBODYING REVIVAL OF THE ECONOMY

Increase and momentum in the country's high frequency indicators in October are evident of the resurgence of economic activity. These indicators include healthy Kharif output, and increase in power consumption, rail freight, auto sales, vehicle registrations, highway toll collections, E-way bills, GSTcollections, PMI indices and digital transactions. With the onset of the festive season, overall consumption is expected to see further uptick in the coming months and enhance prospects of faster economic normalisation.

Healthy Kharif Output

This year India saw a 109 per cent rainfall of the Long Period Average (LPA) in the monsoon season this year. All regions received cumulative rainfall higher than the LPA except North-West India that received rainfall 16 per cent below LPA. As on 29th October 2020, the live storage in major reservoirs was 86 percent of the full reservoir level (FRL), marginally lower than previous year's level (by 4 per cent) but higher than decadal average by 17 per cent. This augurs well for upcoming Rabi sowing and rural demand.'

This has facilitated the healthy sowing of Kharif crops at 4.8% higher than last year. Production of total kharif pulses and oil seeds is estimated to be substantially higher than in the previous year with an increase of 20.6 percent and 15.1 percent respectively.Rising tractor sales are an indication of a healthy kharif output and prospect of a healthy rabi sowing.



Augmented Auto demand

In wake of the festive season the sales of passenger vehicles, two and three-wheelers have exceeded previous levels in September. Increase in registrations for commercial and agricultural tractors from March to October is further indicative of strengthening rural demand.

Recovery in Industrial Production

Industrial production is showing signs of recovery with year-on-year (YoY) growth in IIP (Index of Industrial Production) showing a smaller contraction in August at 8.0 percent as compared to 10.8 percent in July . Among the components of IIP, electricity was the most resilient with a contraction of 1.8 percent with manufacturing sector registering a decline of 8.6 per cent, while the output of mining fell by 9.8 per cent. Within manufacturing, tobacco products, transport equipment and basic metals have shown positive growth of 2.9 per cent, 1.7 per cent and 0.1 per cent respectively in August. In the case of chemicals and pharmaceutical products, there is marginal contraction on a YoY basis but the momentum is favorable compared to July. Products like wood and paper products, apparel, recorded media, petroleum products and furniture have contracted more than 20 percent on a YoY basis. With the PMI-Manufacturing recovering to record levels and PMI Services recording expansion in October and the festive season ahead, the outlook in coming months seems positive.

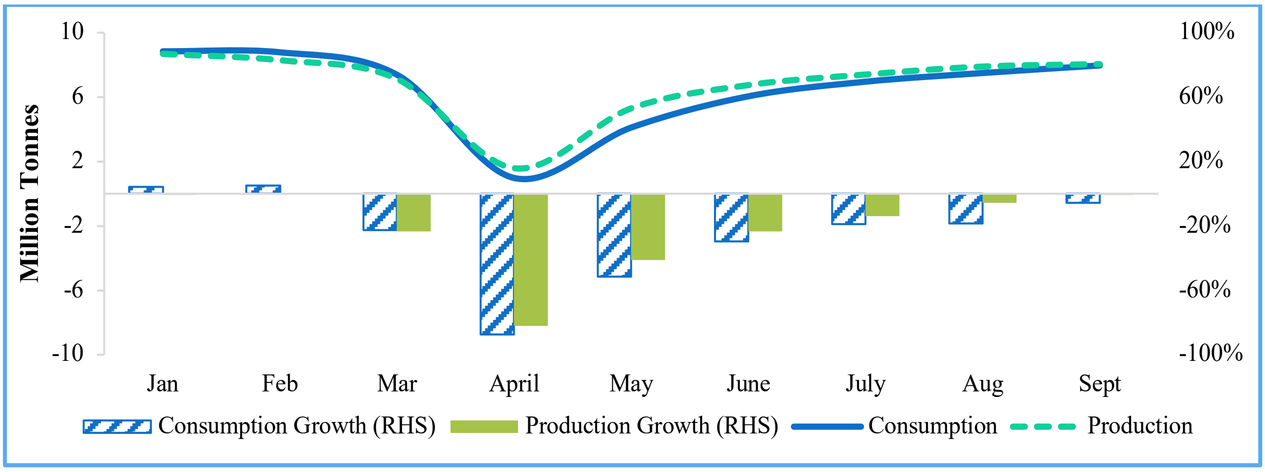
Manufacturing Purchasing Manager's Index

India's manufacturing purchasing managers' index (PMI) showed significant growth to reach 58.9 in October - highest in over a decade. This growth was led by intermediate goods category with robust growth also in the consumer and investment goods sub-sectors, supported by improved market conditions amid relaxation of COVID-19 restrictions and increase in any new requirement.

Steel sector

Positive trend in steel consumption and production continued in September with YoY contraction declining to 5.7 per cent and 0.7 per cent respectively and is expected to further strengthen with resumption of construction activity and adoption of digital technologies, thereby reaching previous year's levels. (Figure 2).

Figure 2: Steel Consumption and Production



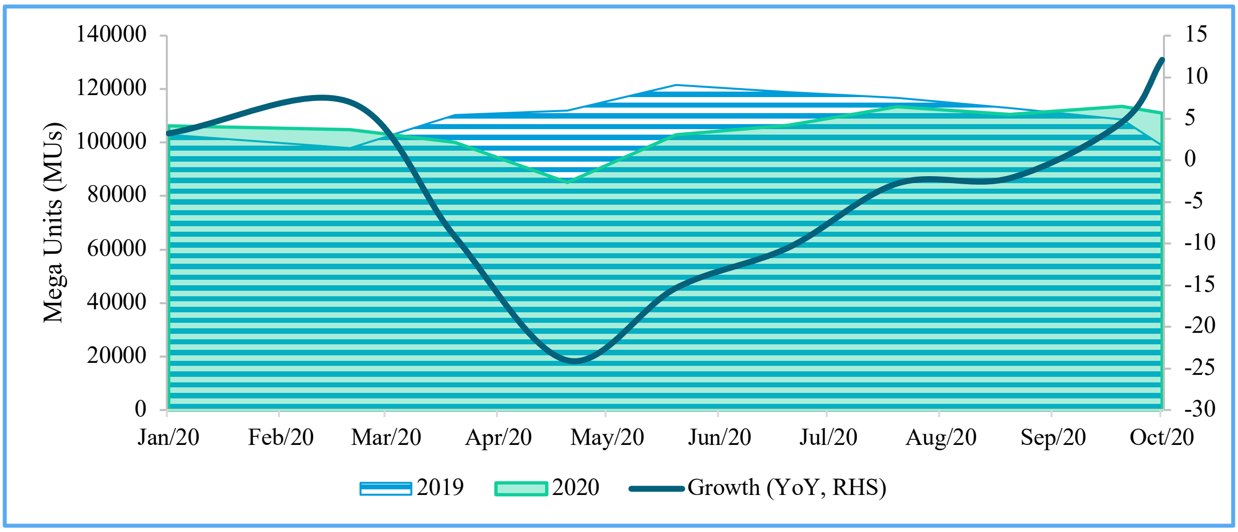
Source: Joint Plant Committee, M/o Steel

Source: Joint Plant Committee, M/o Steel

Augmented Power consumption and E-Way bills

Power consumption showed a double-digit YoY growth of 12.1 per cent in October, bolstered by recovery in commercial and industrial activity as compared to a growth of 4.6 per cent in September 2020. (Figure 3).

Figure 2: Steel Consumption and Production



Source: POSOCO

Marking strong economic revival, total value of E-way bills generated increased by 19 per cent in October. E-way bills generated have consistently improved since mid-August to reach US$ 230.6 billion in October, surpassing previous year corresponding levels of US$ 193.6 billion. Persistent improvement in E-way bills generated, a strong leading indicator of revenue collections, supply chain corrections and logistics growth, bodes well for faster economic recovery. This is evident from GST collections swelling to an eight month high at US$ 14.4 billion in October, registering a positive year on year growth of 10 per cent (Figure 33).

Highway toll count and collections have also surpassed their pre-COVID levels (average of January and February) levels in October, moving in tandem with other growth indicators.

Improvement in Rail Freight

Railway freight traffic has improved immensely since August owing to economic revival and rising demand. In the months of September and October it grew at 15.5% and 15.4% respectively, driven by food grains, domestic coal for steel plants and thermal power houses, pig iron and finished steel, iron-ore for exports, clinker cement and domestic containers. Easing of lockdown restrictions, and unlocking of the economy, was accompanied with recovery in Rail Passenger Earnings.

Domestic aviation and Cargo Trafficpicks up

Cargo traffic volumes have almost reached previous year levels in September reporting a lower YoY contraction shrinking to 1.9 per cent as compared to a contraction of 10.4 per cent in August, driven by healthy growth in traffic of iron-ore, finished fertilizers and containerized cargo.

Domestic aviation also showed signs of improvement in October and is expected to recover further with the onset of festive season. The number of passengers increased from 2.8 lakh in May to 28.32 lakh in August and 39.43 lakh in September.

Optimistic digital retail transactions with increased UPI payments

Resuming economic activity has triggered growth in retail financial transactions via the NPCI platform. UPI payment transactions have also increased to US$ 52.3 billion in value and 2.07 billion in volume terms in October.

Slight lowering inExports

After a strong rebound in September, India's merchandise exports at US$ 24.8 billion contracted by 5.4 percent in October 2020 as against US$ 26.2 billion in October 2019, primarily driven by weak oil exports. India's merchandise imports in October 2020 stood at US$ 33.6 billion as against US$ 38.0 billion in October 2019, with YoY contraction easing to 11.6 percent from 19.6 per cent in September 2020. This resulted in a higher merchandise trade deficit of US$ 8.8 billion, as against the deficit of US$ 11.8 billion in October 2019.

Table 1: Major Export and Import Commodities shown highest Increase/

DecreaseDecrease

	Top Increase			Top Decline		
	Commodity group	**Change in value (USD Million)**	**% Change**	**Commodity group**	**Change in value (USD Million)**	**% Change**
Exports	Drugs and pharmaceuticals	372.1	21.8	Petroleum Products	-1835.6	-53.3
	Rice	359.8	112.2	Gems & Jewellery	-790.4	-21.3
	Organic and Inorganic Chemicals	143.9	73.9	Leather and Leather manufacturers	-248.1	-3.8
Imports	Electronic goods	768.7	16.1	Petroleum, crude and products	-3747.7	-38.5
	Pearl, Precious and Semi-Precious Stones	768.5	50.5	Transport equipment	-1459.4	-56.3
	Gold	660.2	35.9	Machinery, electrical & non-electrical	-462.6	-15.6

Source: Quick Estimates (QE) for October, 2020, Department of Commerce.

With exports and imports of services at US$ 16.4 billion and US$ 9.6 billion respectively, in August 2020, the trade balance was US$ 6.8 billion in August 2020, as against US$ 6.2 billion in August 2019. India's overall trade balance (Merchandise and Services combined) is estimated to be in surplus at US$ 17.7 billion in 2020-21(April-September), with overall exports and imports estimated to be US$ 221.9 billion and US$ 204.1 billion respectively.

Foreign Direct Investment (FDI) and FPI inflow

FDI continues to remain a major driver of economic growth. During April-August, 2020, total FDI inflow stood at US$ 35.73 billion, the highest ever for first 5 months of a financial year and 13 per cent higher as compared to first five months of 2019-20 (US$ 31.60 billion). It has been the endeavour of the Government to put in place an enabling and investor friendly FDI policy and address any challenges faced. These trends are an endorsement of India's status as a preferred investment destination amongst global investors.

FPI inflows remained robust in October supported by increasing pace of economic normalisation and surplus liquidity in global markets. FPI witnessed net inflow of US$ 3.2 billion in October 2020 compared to an outflow of US$ 0.16 billion in September. Net inflows in equities and debt stood at US$ 2.70 billion and US$ 0.39 billion respectively in October.

Centre Extends Support to States

The Central Government has continued to support the State Governments towards a faster economic recovery. As on 23 October 2020, the State Governments had raised US$ 56.21 billion as gross market borrowings during FY21, which is 49.4 per cent higher than the states' gross borrowings during the corresponding period in FY20.

In order to give a new thrust to capital expenditure by the States, the Central Government announced a special interest-free 50-year loan to States for US$ 1.65 billion Capital Expenditure.

The Scheme comprises of ₹1600 crore loan for the eight North East states (200 crore each), ₹ 900 crore loan for the states of Uttarakhand and Himachal Pradesh, ₹ 7,500 crore for remaining states, and ₹ 2,000 crore for those states which fulfil at least 3 out of 4 reforms mentioned under enhanced borrowing provision in Atmanirbhar Bharat Package.

To provide support to the States dealing with the pandemic, the Centre had released funds amounting to ₹ 11,092 crore in April 2020, which was further raised in September 2020 by 50%, in order to support efforts for containment of COVID-19 including measures for quarantine, sample collection and screening, and procurement of essential equipment .

CONCLUSION

As is evident from the aforesaid trends, India is poised to recover at a fast pace and reach pre-COVID levels by the end of the year – despite the second wave. The improvement in consumption and business sentiment for the next year augurs hope of a strong economic rebound. This is also corroborated by IMF's October 2020 projection of 8.8 per cent real GDP growth of India in FY 2021-22, highest globally.

For more information: Ministry of Finance, Department of Economic Affairs
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