सत्यमेव जयते

Economic Diplomacy Division

Ministry of External Affairs

MONTHLY ECONOMIC REPORT

SEPTEMBER 2024

CONTENTS

Introduction

India's economic recovery, now in its fourth year, continues to show momentum, although some indicators are softening. The agriculture and services sectors performed well, bolstered by above-normal monsoons and adequate reservoir levels. This helped drive kharif sowing above last year's levels and the five-year average. While manufacturing momentum softened slightly, RBI surveys indicate improved business expectations for the coming quarters. Heavy monsoon rains moderated mining, construction, and road transport services, but overall business sentiment remains positive. Rural demand is strengthening, reflected in rising FMCG volume sales and increases in three-wheeler and tractor sales. However, urban demand has moderated due to softening consumer sentiments, higher rainfall, and seasonal purchasing trends.

Consumer price inflation rose in September due to erratic monsoon impacts on vegetables. However, inflation in other food items, such as pulses, declined significantly due to government interventions like Bharat Dal. Core inflation remains stable, with no pass-through from food inflation. Adequate buffer stocks and a promising kharif harvest are expected to ease price pressures further. The external sector remains robust, with forex reserves surpassing US$700 billion, placing India among the top four countries with reserves above this threshold. Capital inflows and a stable rupee support the external sector, although the merchandise trade deficit widened due to weak global demand and rising imports driven by strong domestic demand. Services exports and remittances helped cushion the current account deficit, which increased to 1.1% of GDP in Q1 FY25.

The labour market remains steady, with a 3.2% unemployment rate for 2023-24, driven by rising female workforce participation and formal employment growth across sectors like manufacturing. High-frequency indicators, such as EPFO payroll additions, the Purchasing Managers' employment sub-index, and the Naukri Job Speak Index, confirm rising formal employment. However, emerging concerns over AI potentially displacing jobs require close monitoring. The Indian economy is projected to grow between 6.5% and 7.0% this fiscal year, supported by a strong external sector, positive agricultural prospects, festive season demand, and likely increased government spending. Key risks to this growth include geopolitical conflicts, geo-economic fragmentation, uncertain trade policies from significant economies, and potential volatility in financial markets.

Evaluating the performance of the Indian Economy during H1 of FY25

- Rural demand continues to strengthen in H1 FY25, driven by above-normal monsoons boosting kharif sowing, increased Minimum Support Prices (MSP) for kharif crops, and higher allocations for the Mahatma Gandhi National Rural Employment Guarantee Scheme.

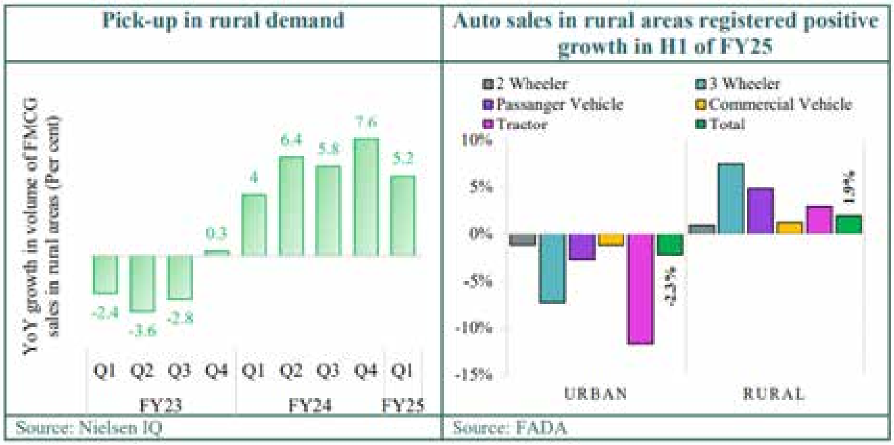
- FMCG sales reported by Nielsen IQ grew by 5.2% in Q1 FY25 (volume growth), outperforming the 4% growth seen in Q1 FY24, reflecting improved rural demand.

- Auto sales, a key indicator of consumer confidence, rose by 2% in rural areas during H1 FY24, with notable increases in three-wheeler sales (7.4%) and passenger vehicles (4.9%), according to the Federation of Automobile Dealers Association (FADA).

- NABARD's Rural Economic Conditions and Sentiments Survey highlighted buoyant rural economic activity: 37.6% of households reported higher income and 80.1% noted increased consumption expenditure over the past year.

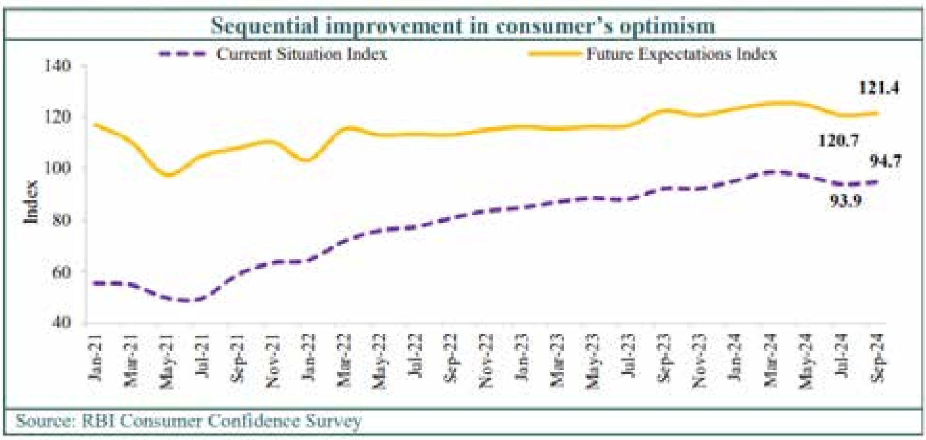
- Optimism prevails among rural households, with over 50% expecting improved income and employment conditions in the next quarter and the coming year.

- Favourable agricultural conditions, higher MSP for rabi crops, better crop harvests, and continued government support are expected to propel rural demand further.



Moderation in urban demand

- Urban demand shows signs of slowing, as reflected in critical indicators during H1 FY25.
- FMCG volume growth in urban areas declined sharply from 10.1% in Q1 FY24 to 2.8% in Q1 FY25, according to Nielsen IQ.
- Auto sales in urban areas dropped by 2.3% in H1 FY25, with weaker performance in Q2 FY25 compared to last year, as reported by FADA.
- Housing sales and new launches decreased in Q2 FY25, reflecting subdued urban demand.
- Factors contributing to this slowdown include softening consumer sentiments, reduced footfall due to above-normal rainfall, and seasonal purchase reluctance.
- The RBI Consumer Confidence Survey for September 2024 shows sequential improvement in consumer sentiment, driven by better perceptions of economic conditions, income, and employment.
- Both the Current Situation Index and Future Expectations Index indicated positive trends, suggesting potential demand recovery.
- The festive season and improved consumer confidence may boost urban demand, though early indicators remain cautious.



Industrial momentum softens

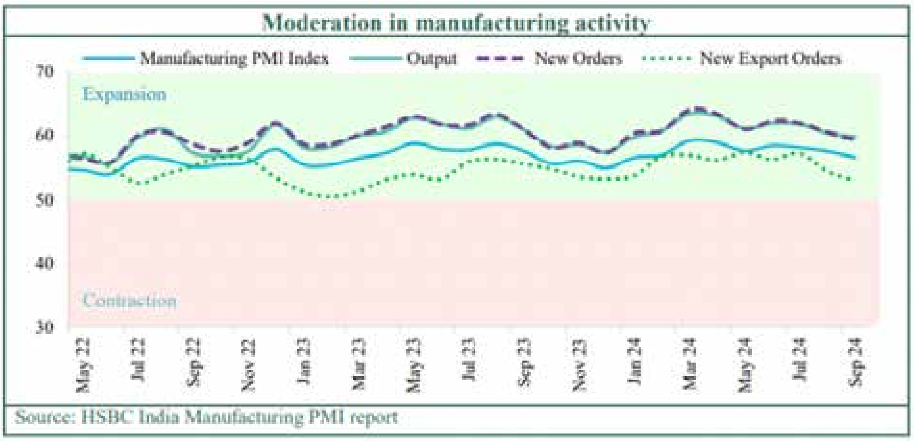
- Manufacturing momentum softened in September 2024, with the HSBC India Manufacturing PMI declining to 56.5 from 57.5 in August, though it still indicates expansion.

- The output index remained above its long-run average, and manufacturers' order books grew, albeit at a slower pace. International export orders rose moderately, with the export orders index aligning with its long-run average.

- The Index of Industrial Production (IIP) for manufacturing showed only 1% growth in August 2024, but overall IIP growth for the first five months of FY25 was robust at 4.2%.

- Growth in the eight core industries moderated to 4.6% during this period, influenced by lower international oil prices, increased oil imports, and reduced refinery output.

- The steel sector's output was affected by slower automobile growth, while excessive rainfall in states like West Bengal and Jharkhand impacted mining activities.



- The RBI's Order Books, Inventories, and Capacity Utilisation Survey (OBICUS) for October 2024 shows expanded capacity utilisation in the manufacturing sector.

- The survey reported a 12.3% year-on-year growth in new orders for the quarter ending June 2024. Finished goods and raw material inventories remained stable relative to sales in Q1 FY25.

- According to the RBI's Industrial Outlook Survey, manufacturing companies experienced moderate demand growth during Q2 FY25, though the business assessment index remained in the expansion zone.

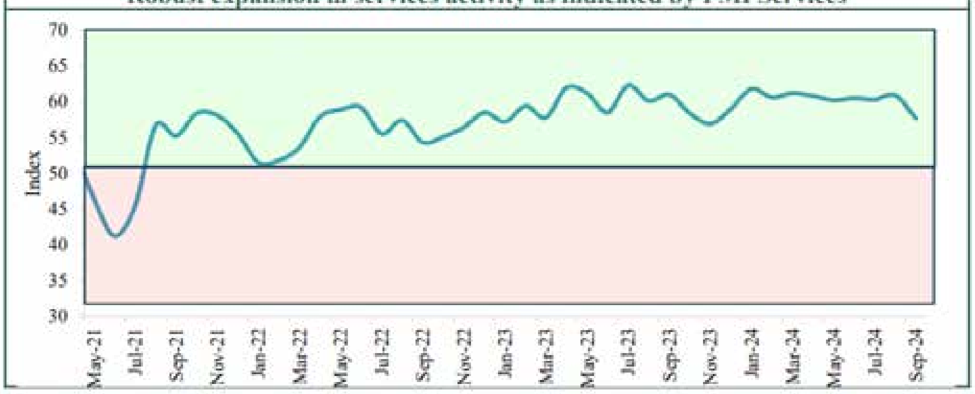
- Manufacturers remain optimistic about demand conditions, with positive expectations for Q3 FY25, especially in production, order books, employment, capacity utilisation, and overall business outlook for Q4 FY25 and Q1 FY26.

- Input cost pressures are expected to persist, but manufacturers are confident in retaining pricing power and increasing selling prices due to robust demand conditions.

Source: RBI's Quarterly Industrial Outlook Survey
Note: * indicates expectations for the upcoming quarters
*The survey results are summarised through a measure called Net Response, constructed as the difference between the proportions of respondents giving 'optimistic' and 'pessimistic' replies.

Steady Services Activity

Services Sector: The services sector continued to be a key growth driver in Q2 of FY25, although the pace of growth moderated slightly. The PMI-Services remained well above the 50 mark, indicating ongoing expansion. The RBI's Services and Infrastructure Outlook Survey reflected positive sentiment among service sector firms, with expectations for turnover and employment still upbeat, albeit with slightly reduced optimism compared to the previous quarter. Pressures from finance costs, input prices, and wages eased, while growth in selling prices and profit margins moderated but remained optimistic.



Residential and Office Real Estate:

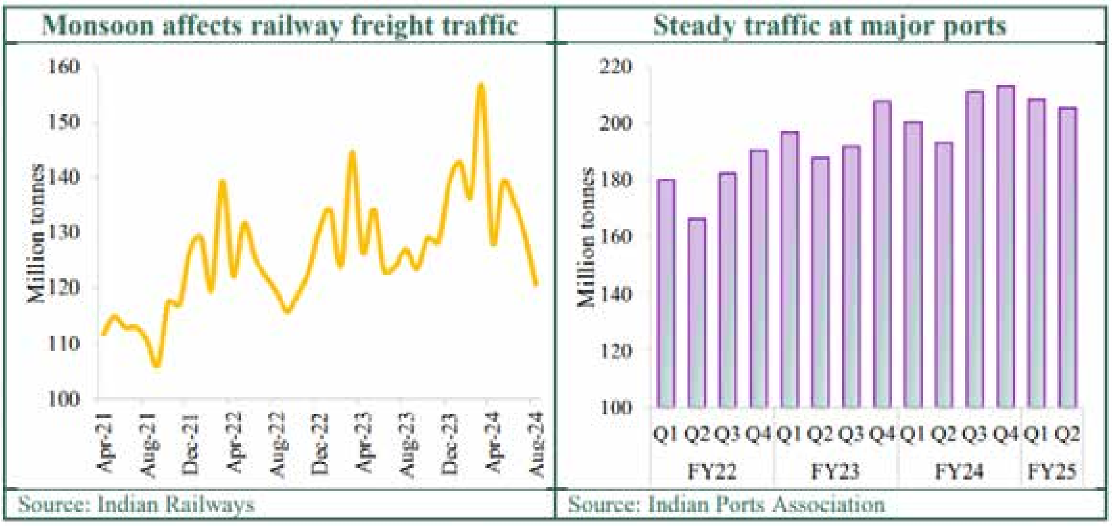
Residential: The demand for residential real estate has moderated in urban areas after a sharp increase in the previous quarters. Housing sales in India's top 8 cities declined by 5% in Q2 of FY25, according to Proptiger's quarterly report. This tempering is a healthy response to rising prices, contributing to more sustainable growth in the sector.

Office Space: Conversely, the demand for office space strengthened, with leasing activity rising 66% year-on-year in Q2 FY25. This marked the second-highest quarterly leasing volume in the sector's history. As a result, the vacancy rate across the top eight cities fell to 17.1%, the lowest in 14 quarters. Leasing is expected to surpass 80 million square feet in 2024, outpacing the 74.5 million square feet leased in 2023.

Transport-Related Services:

The heavy monsoon rains in Q2 FY25 impacted road traffic, as evidenced by the decline in e-toll collections and diesel consumption, proxies for road transport activity. However, the volume of E-way bill generation continued to grow steadily.

Rail freight traffic saw a slight decline, down 0.2% in July-August 2024, primarily due to a decrease in cement freight shipments. Meanwhile, domestic air freight and air passenger traffic continued to grow steadily, and cargo traffic at major ports increased by 6.2% YoY in Q2 FY25, driven by a rise in import shipments.



Source: Indian Railways
Source: Indian Ports Association

Monsoon-led disruptions impact retail inflation.

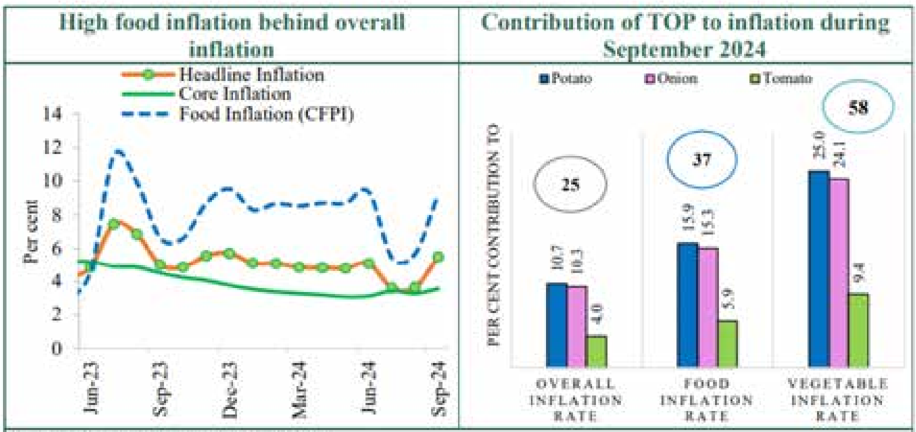
- Consumer price inflation rose to 5.5% in September 2024, driven by food inflation. The uneven monsoon caused supply disruptions, leading to significant price hikes in tomatoes, onions, and potatoes.

- However, inflation for pulses, meat, fish, sugar, and spices dropped, with pulses inflation falling to single digits for the first time since June 2023, thanks to Bharat Dal initiatives and stock monitoring.

- Spices inflation remains negative, while core inflation (excluding food and fuel) increased slightly from 3.3% in August to 3.5% in September, but still low.

- Inflation for H1 FY25 stood at 4.6%, down from 5.5% in the same period last year, with core inflation easing to 3.3% compared to 5.0% in H1 FY24.

- Government measures, including stock management, open market operations, subsidies on essential foods, and trade policies, have played a key role in controlling inflation.



Source: Consumer Price Index, MoSPI
Note: TOP stands for Tomato, Onion and Potato

- The near-term path of food inflation will depend on price trends in tomatoes, onions, and potatoes, necessitating focused efforts to control these prices.

- On a positive note, favourable monsoon conditions, sufficient reservoir levels, progress in Kharif sowing, and strong food grain buffer stocks should help contain food price pressures.

- Core inflation remains low, likely reflecting a slowdown in demand growth in H1 FY25.

- IIM Ahmedabad's Business Inflation Expectations Survey shows a sharp decrease in one-year-ahead inflation expectations to 4.41% in August 2024, down from 4.87% the previous month, aligning with the headline inflation trend.

- The decline in inflation expectations also aligns with slower economic activity observed over the past three months.

- The Reserve Bank of India projects a CPI inflation rate of 4.8% for Q3 FY25 (October-December).

- The Monetary Policy Committee has kept the policy repo rate unchanged at 6.5% and shifted its stance from withdrawing accommodation to neutral.

Recovery in global trade continued in the first half of 2024

- The global trade recovery continued through the first half of 2024, driven by a rise in goods and services trade, especially in Q2.

- A critical factor in this recovery was a significant increase in imports from the US, spurred by higher spending on equipment, as well as stronger trade volumes from emerging economies like China, Brazil, and India.

- Global container shipping, air freight, and international passenger traffic showed upward trends, reflecting continued trade strength.

- However, export order surveys indicate a decline, suggesting that the trade surge in mid-2024 may have been partly due to early orders for peak season in developed economies to avoid future congestion.

- The IMF's October 2024 WEO projects global trade volume (goods and services) to grow at 3.25% annually in 2024 and 2025, following stagnation in 2023.

- Despite increasing cross-border restrictions affecting geopolitically distant blocs, the global trade-to-GDP ratio is expected to remain stable.

- Global current account surpluses, which peaked in 2022, are expected to decline, reflecting a reversal in commodity-exporting countries' surpluses.

- The outlook for global trade remains uncertain, with risks from regional conflicts, including in the Red Sea, Russia-Ukraine, and Gaza-Israel, potentially disrupting trade and driving up commodity prices.

- India's Current Account Deficit (CAD) widened to 1.1% of GDP in Q1 of FY25, up from 1% in Q1 of FY24, due to an increased merchandise trade deficit.

- The merchandise trade deficit rose to US$65.1 billion in Q1 of FY25, from US$56.7 billion in the same quarter last year, driven by higher domestic demand and weak outbound shipments.

- However, rising net services and private transfer receipts helped cushion the wider deficit.

- Net services receipts grew to US$39.7 billion in Q1 of FY25, up from US$35.1 billion a year ago, with IT services, business services, construction, travel, and transportation services seeing the largest increase in exports.

- Other business services accounted for 26% of total services exports in Q1 of FY25, after IT services.

- Private remittances increased from US$27.1 billion in Q1 of FY24 to US$29.5 billion in Q1 of FY25.

- Despite the widening CAD, India's current account deficit remains within historical ranges and is not a concern.

- The capital account recorded a surplus of US$9.2 billion in Q1 of FY25, driven by positive net foreign investment, portfolio investment, and other investments.

- Net FDI inflows rose to a five-quarter high of US$6.3 billion in Q1 of FY25, compared to US$4.7 billion in Q1 of FY24.

- External Commercial Borrowing (ECB) inflows remained steady at US$1.8 billion.

- Capital inflows were driven by India's strong economic growth, solid macroeconomic fundamentals, and a favourable business environment.

- With robust capital inflows and ample foreign exchange reserves, the rupee remained stable in the range of 83.4-83.9 against the USD, with a coefficient of variance of 0.23% during the first half of FY25.

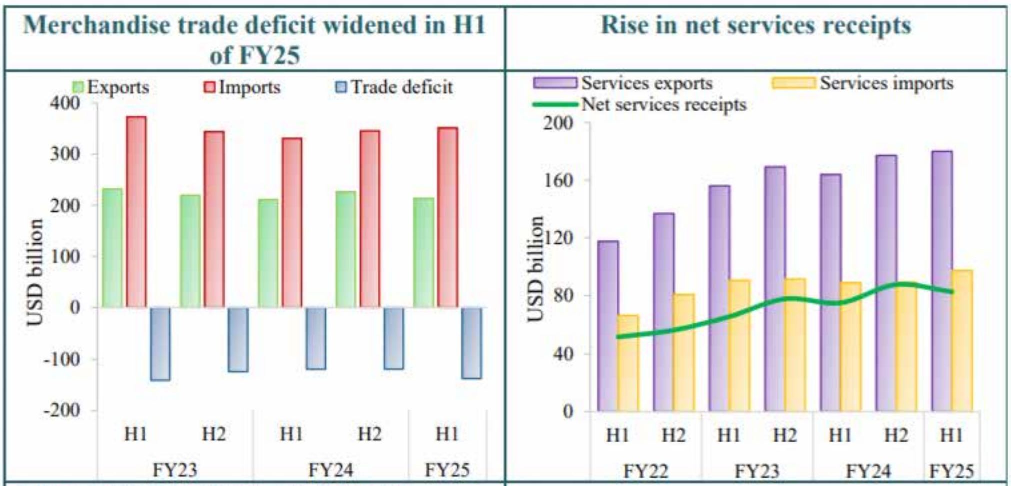
External sector performance in H1 of FY25

- Non-petroleum exports also remained subdued, affected by weak global demand and challenges in scaling up production, productivity, and competitiveness.

- India's merchandise imports rose by 6.2% YoY in H1 of FY25, driven by strong domestic demand.

- As a result, the merchandise trade deficit widened to US$137.4 billion in H1 of FY25, up from US$119.2 billion in the same period of the previous year.

- Services exports maintained an uptrend, growing by 9.8% in H1 of FY25, leading to a rise in net services receipts from US$75.1 billion in H1 of FY24 to US$82.6 billion in FY25.



Source: DGCIS, M/o Commerce & Industry

- India witnessed strong capital inflows in H1 of FY25, with foreign portfolio investments (FPI) and foreign direct investments (FDI) rising.

- FPI inflows increased from US$20.8 billion in H1 of FY24 to US$21.6 billion in H1 of FY25.

- Net FDI inflows surged by 85.6% YoY, rising from US$8.5 billion in April-August 2023 to US$15.7 billion in FY25.

- These strong capital inflows contributed to increased foreign exchange reserves, which stood at US$701.2 billion as of 4 October 2024.

- India became the fourth country in the world to surpass US$700 billion in forex reserves, following China, Japan, and Switzerland.

- The forex reserves are sufficient to cover more than 12 months of imports and over 100% of external debt as of June 2024, providing a strong buffer against global economic shocks.

- As domestic demand increases, particularly during the festive season, merchandise imports are expected to rise.

- However, a decline in international commodity prices, especially oil, is likely to reduce the overall value of imports.

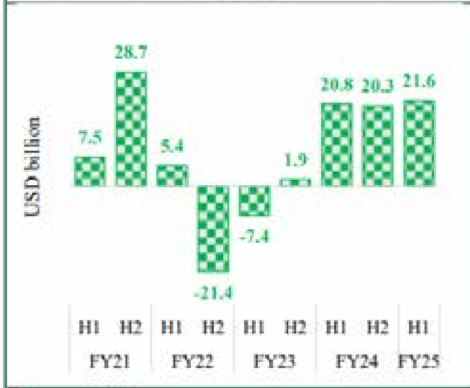
- The success of the Production Linked Incentive (PLI) scheme, increased utilisation of Free Trade Agreements (FTAs), and potential rate cuts by India's major exporting partners should boost merchandise exports.

- A global growth recovery will lead to higher services exports and remittance receipts.

- The capital account outlook remains positive, with improved FDI inflows in the first five months of FY25, supported by India's strong macroeconomic fundamentals.

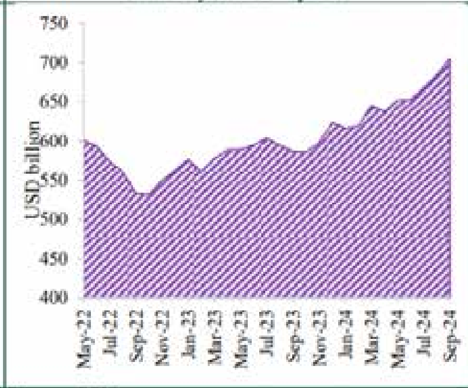
- FPI flows have been mixed this year, with October seeing significant outflows; however, year-to-date inflows in FY25 remain positive.

FPI investors remained net buyers in H1 of FY25



Source: NSDL

Forex reserves sufficient to cover more than a year's imports



Source: RBI

Continued expansion of the labour market

- The labour market outlook is strong, with formal job creation rebounding. The EPFO added 9.3 lakh new members in August 2024, 59.3% in the 18-25 age group, primarily first-time job seekers.

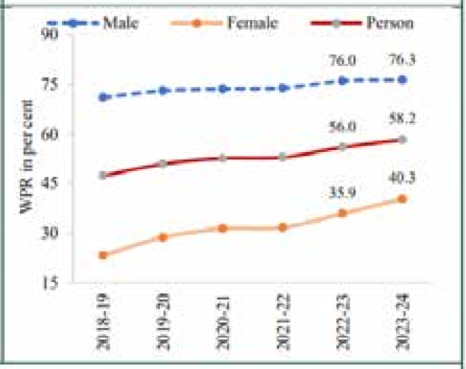
- The purchasing managers' employment sub-index remained in the expansionary zone for the seventh consecutive month in September. However, employment in the manufacturing sector softened due to a reduction in part-time and temporary workers.

- The Naukri JobSpeak index grew by 6% YoY in September 2024, driven by a resurgence in the IT sector, with FMCG and Oil & Gas sectors also showing growth. AI/ML roles continued to rise, though job opportunities for professionals with 0-3 years of experience declined by 7%.

- The Periodic Labour Force Survey 2023-24 showed an increase in the worker population ratio (WPR) from 56% in 2022-23 to 58.2% in 2023-24, driven by higher labour force participation and stable unemployment rates.

Rising Labour Force Participation pushed up Worker Population Ratio in 2023-24

Rising female worker population ratio driving overall employment growth



Source: PLFS Annual Report, 2023-24, MoSPI
Note: For usual status, age 15 years and above

- The rise in female workforce participation continues, contributing to the overall increase in employment since 2017-18.
- The share of self-employed workers rose, while casual labour declined. Regular wage/salaried workers saw a slight increase in 2023-24.
- The agriculture sector's share in employment increased slightly, while the construction sector's share declined from 13% in 2022-23 to 12% in 2023-24. Manufacturing remained stable at 11.4%.
- The Annual Survey of Industries 2022-23 showed steady growth in organised manufacturing employment and increased employment per factory, although net value added per person engaged cooled off. Emoluments per worker continued to rise, and the emolument-to-NVA ratio increased from 0.32 to 0.34.
- Concerns remain about AI displacing workers despite the overall positive employment trends.

Outlook

The Indian economy showed a satisfactory performance in the first half of FY25, supported by strengthened rural demand, enhanced agricultural activity, a growing services sector, and a stable external sector. However, underlying demand conditions require close monitoring. Risks to growth come from escalating geopolitical conflicts, increasing geoeconomic fragmentation, and elevated valuations in financial markets in some advanced economies. These global developments could spill over India, that may impact household sentiments and change spending intentions on durable goods.

Aside from the sharp rise in some vegetable prices, inflation remains well-contained. In the medium term, favourable factors such as improved reservoir levels, healthy Kharif crop sowing, and ample food grain stocks are expected to help contain price pressures. Surveys by the RBI and IIMA also indicate that inflation expectations among households and businesses have been softening. However, the headline inflation rate, often influenced by a few food items, may not fully reflect the underlying economic demand conditions.

Investor sentiment towards India remains positive, both among direct and portfolio investors. Sustaining India's growth momentum is critical to converting this positive sentiment into actual investments, which will help support and enhance the country's economic performance.

For more information:
Ministry of Finance, Department of Economic Affairs
MONTHLY ECONOMIC REPORT SEPTEMBER 2024

सत्यमेव जयते
Economic Diplomacy Division
Ministry of External Affairs