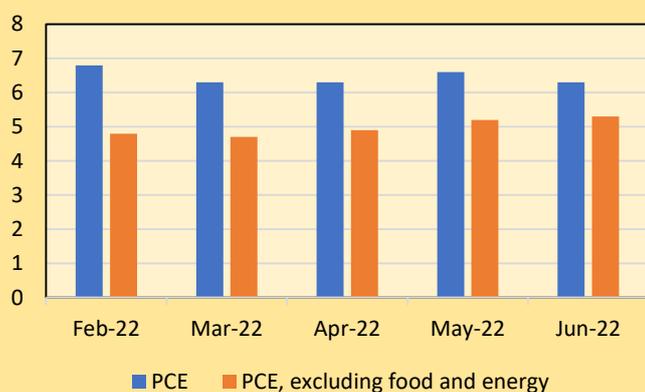


Global Economic Outlook

USA Personal Consumption Expenditures Price Index at 6.8% in June

- The personal consumption expenditures price index, which the Federal Reserve uses for its inflation target, rose 1% from May 2022 and 6.8% on year-on-year basis. This annual increase was the biggest in the previous 40 years.
- The core index, (that is, excluding food and energy), increased by 0.6% compared to the previous month, which is the biggest gain in more than a year. On year-on-year basis, the measure was up 4.8%.

Fig. 1: Change in USA PCE Index (YoY)



Non-farm employment rises in USA

- As per the data released by the U.S. Bureau of Labor Statistics, the total non-farm payroll employment rose by 5,28,000 in July (larger than the average monthly gain during the previous 4 months of 3,88,000), and the unemployment rate edged down to 3.5%.
- Job growth was widespread, led by gains in leisure and hospitality, professional and business services, and health care. Both total non-farm employment and the unemployment rate have returned close to their February 2020 pre-pandemic levels.
- Among the major worker groups, the unemployment rates for adult women (3.1%) and Whites (3.1%) declined in July.
- The labour force participation rate, at 62.1%, and the employment-population ratio, was at 60%. Both measures remain below their February 2020

values (63.4% and 61.2%, respectively).

China's service sector activity expands in July

- The Caixin services purchasing managers' index rose to 55.5 in July, the fastest growth since April 2021, compared to 54.5 in June. It is possible that easing COVID curbs boosted consumer confidence, but foreign demand fell and companies cut staff for the seventh consecutive month.

Domestic Economic Outlook

RBI hikes repo rate by 50 bps to 5.4%

- On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) of RBI at its recent meeting decided to:
 - increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 5.40% with immediate effect.
 - remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.
- With the latest rate hike, the total rate hike since May-2022 has reached 140 basis points. The Standing Deposit Facility (SDF) rate is now at 5.15%, while the Marginal Standing Facility (MSF) Rate stands at 5.65%. The SDF represents the lower band of the interest rate corridor and the MSF the higher.

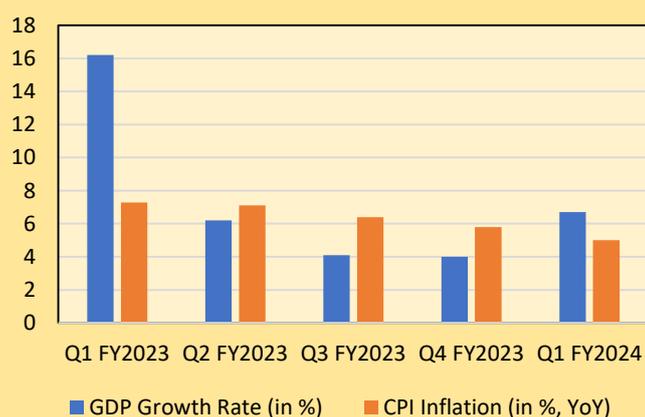
RBI's projection of growth and inflation

- **Growth:** A good progress of the southwest monsoon and kharif sowing would support rural consumption. Urban consumption is expected to benefit from the demand for contact-intensive services, better performance of corporates and improving consumer optimism.
- The increase in capacity utilisation, government's capex push and large expansion in bank credit should support investment activity. According to RBI's survey, manufacturing firms expect sustained improvement in production volumes and new orders in Q2:2022-23, which is likely to

sustain through Q4.

- At the same time, the domestic economy faces headwinds from global forces – protracted geopolitical tensions; rising global financial market volatility; tightening global financial conditions; and global recession risks.
- Taking all these factors into consideration, RBI retains the real GDP growth projection for **2022-23 at 7.2%**.
- **Inflation:** The inflation trajectory continues to be heavily contingent upon the evolving geopolitical developments, international commodity market dynamics, global financial market developments and the spatial and temporal distribution of the south-west monsoon. Domestic edible oil prices are expected to soften further on the back of improving supplies from key producing countries and Government’s supply-side interventions. Household inflation expectations have eased, but they still remain elevated.
- Quarterly projections of real GDP growth and CPI inflation by RBI are given in Fig. 2.

Fig. 2: RBI's Projection of real GDP growth and inflation



E-way bills at 2nd highest level in July

- E-way bills generated by businesses for inter-state commerce in July stood at 75.58 million, up 18% on year and 1.5% on month, suggesting that the goods and services tax (GST) collections in August could be higher than ₹1.5 trillion.

Interest Rate Outlook

More repo rate hikes expected in the coming months

- Many analysts expect the MPC to continue with rate hikes till the policy rate reaches the neutral rate of 6-6.5% by the end of this fiscal. This is also in line with the expectation that Fed may continue to hike interest rates further to bring down inflation.

Inflation expectations of households remain high; Consumer Confidence Improves

- RBI has recently released the results of the latest round of Forward-Looking Surveys, Expectations Survey of (IESH) and Consumer Confidence Survey CCS)- July 2022.
- As per IESH, households’ median inflation perception for the current period moderated by 80 basis points (bps) to 9.3%. Their three months and one year ahead median inflation expectations also declined by 50 bps and 60 bps, respectively, compared to May-2022 round of survey. Overall price expectations were generally aligned with prices of food and non-food products as well as cost of services for both three months and one-year horizons.
- As per the CCS, Consumer confidence continues to recover in successive rounds of the survey after the historic low recorded in July 2021, though it remained in the pessimistic zone; the current situation index (CSI) rose by 1.4 points on account of improved perception on employment, household income and spending.

Weekly Benchmark Bond Yield Movement (%)

Date	01-Aug	02-Aug	03-Aug	04-Aug	05-Aug
USA 10 years	2.80	2.80	2.78	2.67	2.65
India 10 years	7.24	7.20	7.24	7.16	7.30
India 5 years	6.95	6.93	6.99	6.88	7.02
India 3 months	5.58	5.57	5.53	5.50	5.50

Source: CMIE, worldgovernmentbonds.com

- The yield on the government benchmark 10-year bond for the period (08-12 August 2022) is expected to be in the range 7.29% to 7.39%.