State of the Economy

Global economy faces headwinds

- Perceptible slowdown in growth together with elevated inflation in several countries characterise the global economy at present. The trajectories of growth and inflation, however, continue to diverge between countries. This has impelled some central banks to embark on aggressive policy tightening to quell inflation risks, while a few others, mostly emerging market economies (EMEs), continue to maintain accommodative policies. The adverse spill overs from such divergent policy responses could materialise quickly on the global and domestic outlook. Policy making is getting increasingly complex in this environment.

- The global composite purchasing managers' index (PMI) slipped to an 18 month low of 51.4 in January 2022, with weakness in both services and manufacturing. World merchandise trade continues to grow. There are, however, headwinds emanating from persistent container and labour shortages, and elevated freight rates. In its January 2022 update of the World Economic Outlook, the International Monetary Fund (IMF) revised global output and trade growth projections for 2022 downward to 4.4 per cent and 6.0 per cent from its earlier forecasts of 4.9 per cent and 6.7 per cent, respectively.

Domestic growth trajectory faces Ukraine War uncertainties

- As per the second advance estimates (SAE) of national income released by the National Statistical Office (NSO) India’s Real Gross Domestic Product (GDP) at Constant (2011-12) Prices in the year 2021-22 is estimated to attain a level of ₹ 147.72 lakh crore, as against the First Revised Estimate of GDP for the year 2020-21 of ₹ 135.58 lakh crore. The growth in GDP during 2021-22 is estimated at 8.9 per cent as compared to a contraction of 6.6 per cent in 2020-21.

- Rising crude oil prices pose heightened risk to India’s growth momentum. The latest Economic Survey (2021-22) projected India’s GDP growth at 8-8.5 per cent assuming crude oil prices at USD 70-USD 75 per barrel. However, with Brent crude oil price crossing USD 115 per barrel, the highest in nearly eight years, growth estimates are at a risk. Economists believe that rising crude oil prices will prove detrimental for economic growth. It is expected that if crude oil prices were to sustain around USD 100 per barrel, the 8.1 per cent GDP growth estimate for 2022-23 could see 45-50 basis points (bps) of downside risk.

Industrial activity stagnates

- Industrial activity appears to have remained bleak in January 2022. The IHS Markit manufacturing PMI, which measures economic activity in India’s manufacturing sector, fell by 6.4 per cent y-o-y to 54. The decline in December 2021 had been less pronounced, at 1.6 per cent. PMI services continued to exhibit expansion at 51.5 in January 2022, though the pace weakened from 55.5 in December.

- Business confidence seems to have sobered a bit. According to RBI’s industrial outlook survey, 67.6 per cent of the 1,082 manufacturing companies that were surveyed expected improvement in overall business situation in the next quarter, i.e. January-March 2022. The percentage in the preceding round of the survey had been much higher, at 73.1 per cent.

- Fast-frequency data for January 2022 that is available for select industries also indicate subdued industrial performance. Sales of passenger cars and two wheelers continued to fall y-o-y, by 14.8 per cent and 17.2 per cent, respectively. Tractor production declined by 24.9 per cent. Consumption of petroleum products and conventional electricity generation also fell marginally, by 0.2-0.4 per cent. Coal and finished steel were the exceptions, with an increase in production of 6.3 per cent and 1.2 per cent, respectively. Increased restrictions on mobility in January 2022 led to a decline in goods transportation activity by roadways and ports. These factors indicate continued weakness in industrial activity.

Employment levels witness a fall

- Employment fell rather sharply in the first two months of 2022 in India. A total of 8.8 million jobs were lost during this period. January saw a job loss of 3.3 million and February witnessed a bigger loss of 5.5 million jobs. February ended with total employment at 397 million. This is the lowest level of employment since June 2021 when the economy was still reeling under the impact of the second wave of Covid-19.

- The fall in employment during the first two months of 2022 was highly concentrated among small traders and daily wage labourers. Between January and February nearly 21 million of this group lost their livelihoods.

Ray of Hope: Consumer Sentiments improved

- The improvement in sentiments during the early months of 2022 essentially reflects an increase in the proportion of households that believe that their current household incomes are better than they were a year ago.

- In December 2021, 8.3 per cent of the households believed that their incomes were higher than they were a year ago. This proportion was in single digits from April 2020 through December 2021. In January 2022, the proportion jumped to 11.4 per cent and in February it rose further to 12.1 per cent. In the first week that ended in March, 13.1 per cent of the households believed that their incomes were higher than they were a year ago.
Inflation Outlook

- Retail inflation rose to a seven-month high of 6.01 per cent in January, breaching the upper tolerance level of the medium-term inflation target of 4+-2 per cent set by the Reserve Bank of India (RBI). The rise was mainly on account of high food inflation, which jumped to a 14-month high of 5.43 per cent, along with an unfavourable base.
- Inflation at the wholesale level in January softened to 12.96 per cent from 13.56 per cent a month ago but marked the tenth consecutive month of being in double digits. Wholesale food inflation was, however, at a 24-month high of 9.6 per cent. Wholesale Price Index (WPI)-based inflation rate is reflective of the price pressures on the inputs side and of manufacturers passing on the higher input costs to their output prices.

Interest Rate Outlook

- The 10 year bond yields stayed between the wide range of 6.68-6.92 % during the month of February.
- In the wake of Union Budget pegging the market borrowing at ₹14.95 trillion for the next fiscal, bond yields rose sharply in the initial days of the month of February. However, RBI continued with an accommodative and dovish stance to revive & sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy.
- The RBI surprised by not only doubling down on its familiar orthodoxy of keeping rates and stance unchanged, but also expressed a dovish outlook for inflation for FY23, forecasting it at 4.5%. RBI in fact suggested that it is likely to remain behind the curve, until macro circumstances warrant a shift of gears.
- Bond yields declined as RBI took a more dovish than expected stance: India’s 10-year benchmark bond yield fell 11 basis points to a monthly low of 6.68%, in reaction to the policy.
- As the Ukrainian crises continued to unfold, the interest rate movement was affected by the Ukrainian crisis and pull out of the FIIs for Indian market.
- While the rise in crude oil prices, put upward pressure on the yields, the growing demand for secure instruments in these uncertain times kept the increase in interest rates in check.

- RBI had projected India’s average inflation to soften to 4.5 per cent in 2022-23, down from an estimated 5.3 per cent in 2021-22. The RBI’s inflation projections are “robust” but contingent on downside and upside risks associated with the movement of global crude oil prices.
- The record Rabi acreage, propelled by a significantly higher acreage of oilseeds and pulses, along with prospects of higher yields for wheat, augur well for a bumper harvest of key food items. Further, considering the advance estimates of a robust kharif harvest, and on the assumption of a normal monsoon, there is room for considerable optimism on the food inflation trajectory over the next financial year.

Source: MoSPI, GoI; Figure 2: CMIE

Figure 1: Inflation:CPI and WPI

Figure 2: CPI Inflation Projections

Figure 3: G-Sec 10 yr bond yield movement

Source: CMIE

For the upcoming month, the interest rate would be under pressure. Geopolitical tensions and consequent rise in crude oil price is a big risk for Indian bonds. Indian bond yields will continue to track the crude oil movement closely.
- Yields may face upward pressure as crude oil prices continue to rise and the Ukrainian crises deepens.
Operation Greens Scheme was announced in the Union Budget for 2018-19 to promote Farmer Producer Organisations (FPOs), agri-logistics, processing facilities and professional management for Tomato, Onion and Potato (TOP) crops.

In pursuance of Budget announcement 2021-22, the scope of this scheme has been expanded from TOP to Twenty-Two Perishable products.

Subsidy is provided at the rate of 50 per cent on transportation and storage at the time of harvest for evacuation of surplus production of TOP crops from the producing area to the consumption centres. The scope of short term measures under the scheme was extended from TOP to TOTAL (41 notified fruits and vegetables) w.e.f. 11.06.2020 as a part of ANB announcement.
ii. Deficiencies in the upstream and downstream segment of the agricultural value chain

The deficiencies are: Nearly 1.3 billion tonnes of food is wasted due to an inefficient supply chain. Approximately 155 million children suffer stunted growth while two billion people are overweight and the existing global food system is responsible for approximately 30% GHG emissions, 70% freshwater withdrawals and 70% biodiversity loss.

iii. Remarkable growth in investment

AgriTechs in India have secured cumulative investments worth over USD 1.5 billion in the last ten years, exhibiting 14 times growth starting from USD 45 million in 2011. Currently, the market size of AgriTech start-ups in India is valued at USD 204 million, which is estimated to be 1% of the current addressable market opportunity of USD 24 billion. India is next only to the US and China in terms of AgriTech funding. At present, supply chain and output market linkages are the major investment areas in the Indian agri start-ups space, followed by Agri-FinTechs, precision agriculture and traceability start-ups.

iv. Type of business model adopted

In the survey, around 54% of the start-ups reported that they have adopted business to farmer model, while 41% reported that they have adopted business to business to farmer model, and 39% have suggested that they have farmer to business model.

v. Linkages with other entities

74% (or around 32 of the start-ups surveyed) have established linkages with other entities. Out of this, 78% of the respondents reported having links with at least one FPO while 75% of the start-ups have linkages with at least one government organisation.

vi. Challenges faced in operations

In the survey conducted by PwC and FICCI, 53% of the start-ups reported that the market is yet to mature, 40% reported scaling the business to the country wide geography as one of the main challenge, 37% of the start-ups reported that there is lack of infrastructure in the country to run businesses and 35% of start-ups pointed at the government policies as one of the major challenges.

vii. Wish list of the investors

In the survey, around 58% of the investors of start-ups reported that investments in AgriTech require more policy efforts from the Government, 47% of the investors also pointed out that they prefer to invest when a business is well established rather than in the early stages and 51% of the investors said that they have limited subject knowledge.

viii. Looking ahead

As part of the future plans, 88% of the start-ups reported that they seek to expand their operation across value chain and 86% reported that they were looking for corporate tie-ups in technology commercialisation and 77% of the start-ups informed that they were increasing investment in core technology upgradation.

ix. Learn from the best

While Indian AgriTechs embark upon their journey of prominence and profitability, it is important to learn from a few of the best AgriTech practices from leading AgriTech countries like Israel, Netherlands and China. Public-private partnership (PPP) and the development of a composite innovation-investment-interdependence ecosystem emerge as key observations from the best practices in these countries. The current status of Indian AgriTechs makes it incumbent on them to pursue the collaboration and partnership agenda and consolidate themselves for long-term sustainability. They may collaborate based on thematic areas, institutional or regional priorities, and complementary capabilities. Such collaboration would support the evolution of Indian AgriTech start-ups from their current state of dynamic change to one of greater stability.

x. Realising AgriTech potential through collaboration and partnerships

According to the survey, ‘collaboration’ will drive this burgeoning framework. This collaboration can be in the form of thematic partnerships, institutional partnerships to augment innovations, scalability and value chain profitability, corporate-AgriTech collaborations, and geographical collaboration to exchange best practices, among others. Understanding the capabilities and areas of expertise of agri start-ups and how the solutions developed can be made affordable and scalable, will pave the way for applying these solutions to address the unique challenges faced by Indian farmers.