Global Economic Outlook

U.S. Economy continues to expand but pace decelerated
- The ISM’s Purchasing Managers Index (PMI) for April 2022 registered a reading of 55.4%, a decrease of 1.7 percentage points (pp) from the March 2022 reading of 57.1%. Similar trend was observed in Service sector, which recorded a PMI of 57.1% in April 2022, 1.2 pp lower than March 2022 reading of 58.3%.
- This is for the straight 23 month that the economy showed the sign of expansion (a reading of 50 or higher signals growth) after a contraction seen in April and May 2020. US manufacturing sector remains in a demand-driven, supply chain-constrained environment while the service sector continues to face the inflation, supply chain issues and access to qualified workers.

Payroll growth accelerated in April 2022
- U.S. Bureau of Labour Statistics reported an increase in nonfarm payroll employment by 4,28,000 in April 2022, led by gains in leisure and hospitality, in manufacturing, and in transportation and warehousing sectors. The employment rate remained unchanged at 3.6% in April 2022.
- The job market continues to move forward, buoyed by strong employer demand. The April 2022 job growth comes after the U.S economy witnessed a deceleration in the first quarter of 2022.

China factory output contracts in April 2022 amid lockdown
- The general manufacturing PMI fell to 46 in April 2022 from 48.1 in March 2022. This is for the second straight month since the beginning of 2022 that the figures are below 50, which is the mark that separates contraction from growth on a monthly basis.
- The effect was severe on the service industry whose PMI fell to 36.2 in April 2022, down from 42 in March 2022, amid tighter COVID curbs leading to halting the industry, sharper reductions in new businesses and employment.

Domestic Outlook

CEA forecast India’s GDP growth in range of 7-8.5% for FY23
- According to the Chief Economic Adviser, India’s GDP growth is expected to be in the range of 7-8.5% given the global uncertainties.
- He added that forecasts about the country’s economic growth will depend on how long the current conflict in Europe will last and its impact on the price of hydrocarbon fuel, fertiliser and food. He further pointed out that spill over effects is likely to come from the monetary policy tightening by central banks in the advanced countries.

Indian Economy continues to expand
- India PMI clocked a strong start to FY 23 by posting a value of 54.7 in April 2022 compared to 54.0 in March 2022. The Services PMI Business Activity Index jumped to a 5-month high of 57.9 in April 2022, from 53.6 in March 2022, showing a fastest growth since November 2021.
- Both Indices posted strong figures despite rising inflation, owning to rising commodity prices, the Russia-Ukraine war and greater transportation costs.
- However, the survey pointed the lack of pressure on firms’ operating capacities alongside mild job creation. Intensification of inflationary pressure, with a near-record upturn in input costs continues to dampens business confidence. Also, the expectations regarding growth prospects still remains subdued.

Inflation in April Expected to be high
- RBI Governor in the meeting held on 4th May 2022 pointed towards elevated retail price inflation in April 2022. According to Barclays, inflation is expected to breach Reserve Bank of India’s upper tolerance limit for the fourth straight month and inflate to 7.5% or upwards. Persistent inflation will prompt monetary policy committee to undertake another 50 basis points in June 2022 meeting, they added.

Source: CMIE

Prepared by Vinay Dhanaji Jadhav (AM)
Editorial team: Dr. K J S Satyasai (CGM), Dr. Vinod Kumar (GM), Smt Balwinder Kaur (DGM)
Published by Department of Economic Analysis and Research (DEAR), NABARD Head Office, Mumbai
E-way Bill generation falls by 4% in April 2022

- According to the data on goods and services network (GSTN), e-way bills generation declined by 4% to 75.2 million in April 2022 from 78.1 million generated in March 2022. This would lead to lower GST collection in May 2022 than Rs.1.68 trillion GST mop-up in April 2022.

Interest Rate Outlook

US Federal Reserve hikes Interest Rate

- US Federal Reserve on 4th May 2022, raised its benchmark interest rate by half a percentage point, targeting to keep the rate to a range between 0.75% to 1%, the biggest jump in 22 years.
- The expected rate hike came against the backdrop of tightening labour market and high inflation.
- In the first three month, US economy added 1.7 million jobs and in the month of March 2022, employment rate hit a post pandemic and near five decades low of 3.6%. On the inflation front, Powell added that the total Personal Consumption Expenditure (PCE) prices rose 6.6% over the last 12 months ending in March 2022 and inflation, still remaining well above the Fed long term target of 2%.

Economist expects more aggressive rate hikes from RBI

- Monetary Policy Committee (MPC) on 4th May 2022, raised the repo rate by 40 bps to 4.40% in its first-rate move in two years.
- Economists now forecast a cumulative 125-150 basis points of rate hikes over the next 12 months, compared with about 50 basis points expected three months ago, on the grounds that inflation could remain around 7% for at least three months more due to soaring global energy, food, and manufacturing prices.

Bank of England Raises Interest Rate to Highest in 13 years

- In a bid to combat inflation fuelled by high energy prices due to war in Ukraine and lingering concerns about COVID-19, Bank of England on 5th May 2022, raised its key interest rate by quarter percentage point, to 1% (highest level in 13 years).

Bond Yield rises

- The yield on the US benchmark 10-year Treasury note dipped initially on 4th May after Fed Chair announced that a more aggressive 75- basis-point hike was not on the cards. The yield rose 12 basis points to 3.04% on 5th May 2022, hitting its highest level since 2018.
- India benchmark 10-year bond yield jumped to 7.42%, its highest since May 2019, right after RBI announced the hike in repo rate on 4th May 2022. The yield on the 10-year bond closed at 7.38%.

Forex Reserve fall by USD 2.7 billion

- India’s foreign exchange reserves fell by USD 2.7 billion to USD 597.7 billion during the week ended 29 April 2022. Foreign currency assets, the largest component of India’s foreign exchange reserves, decreased by USD 1.1 billion to USD 532.8 billion. Both, gold reserves and special drawing rights (SDRs) shrank, by USD 1.2 billion and USD 362 million, respectively.

Table 1: Weekly Benchmark Bond Yield Movement (%)

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<th>Date</th>
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<th>04 May</th>
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<td>4.10</td>
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Source: CMIE, worldgovernmentbonds.com

India’s 10 yr benchmark bond movement forecast

<table>
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<th>Date</th>
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<tr>
<td>09-May-22</td>
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<td>Dec-22</td>
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<td>Jun-23</td>
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Source: worldgovernmentbonds.com

Weekly Expectation

- The yield on the benchmark 10-year bond is expected to be on the higher side of the range 7.45 to 7.55% (9th May- 15th May) as the inflation figure, according to Barclays is expected to rise to 7.5% in April 2022, the highest print in 17 months.