NABARD

DEAR
Eco Watch

Issue No. 109/ 21 August - 3 September 2023

1. Global Economic Outlook

The Federal Reserve organised Jackson Hole Symposium with the theme of 'Structural Shifts in the Global Economy' hosting economists, central bankers and policymakers from across the world. The Fed remained focused on bringing inflation down to its 2% goal. Hawkish stance of the Fed in monetary policy has brought down the headline inflation from the 7% level in June 2022 to the level of 3.3% in July 2023. During the same period, core inflation declined from 5.4% to 4.3%. However, growth rates of GDP have remained above expectations despite significant tightening of interest rates. Moderating inflation to the 2% level is expected to take more time and the Fed could keep raising interest rates considering the evolving outlook and risks.

In the US labour market, rebalancing of demand and supply is not complete. The unemployment rate in the US jumped to 3.8% in August 2023. While labour supply has improved as immigrants rejoined the workforce post the pandemic, demand for labour has reduced in response to the U.S. central bank's hefty rate hikes to cool demand in the economy. Nominal wages have moderated, but real wages rose due to falling inflation which calls for further monetary policy response.

The world economy is expected to face larger supply shocks due to climate change and trade fragmentation, which could lead to both higher global inflation and higher investments to mitigate these risks.

UK economy showed signs of slowdown as Bank of England continued interest rate hike in response to higher inflation. In June 2023, UK Consumer Price Index (CPI) inflation stood at 7.9%, the lowest rate since March 2022 and down from 8.7% in May 2023. However, inflation remains four times higher than the 2% target set by Bank of England, partly due to strong wage growth. With interest rates rising in August despite falling inflation, business confidence in UK remains below pre-pandemic levels.

China economy showed signs of slowing growth due to declining consumption, weakening currency, unsteady real estate sector and unsustainable levels of local government debt, etc. China's manufacturing sector contracted for a fifth straight month in August. Last week, the Chinese Yuan fell to its lowest level in 16 years. The impact of slowing Chinese economy could be felt across the world having close manufacturing, trading and investment ties with it.

2. Domestic Economic Outlook:

India registers 7.8% GDP growth in Q1 2023-24. As per the estimates of National Statistical Office (NSO), Real GDP i.e. GDP at Constant Prices (2011-12) in Q1 2023-24 is estimated to attain a level of ₹ 40.37 lakh crore, as against ₹ 37.44 lakh crore in Q1 2022-23 registering a growth of 7.8% as against 13.1% in Q1 2022-23. An expenditure-side analysis of the GDP numbers indicates that private consumption and investment have played an important role in driving the growth momentum. Private Final Consumption Expenditure and Investment spending contributed 59.7% and 29.3% to the GDP of Q1 2023-24, respectively. In terms of Gross Value Added (GVA), the service sector contributed almost three-fourth to the overall growth in GVA by growing at 10.3% on a year-on-year basis.

Retail inflation, measured by the Consumer Price Index (CPI), is expected to have remained elevated at 7.60% in August as compared to 7.44% in July (CMIE). Prices of food crops in India have been on the rise from early 2022 and have remained elevated since. The wholesale price of most cereal and pulse crops stand at levels significantly higher than in 2021. Tomato prices responsible for high inflation in July, likely played an important role in August's inflation as well. Prices of tomatoes only fell by around 8% in August, compared to July. Amongst vegetables, onion prices rose by around 13% month-on-month. An inflation of 24.20% is expected in onions in August, compared to 11.72% in the month prior. Prices of key commodities such as rice, wheat, tur and moong are expected to see a small correction once the kharif harvest of these crops hit markets in December 2023. However, prices are unlikely to return to the levels seen pre-2022. This is due to uncertainty over crop output and supply position in India and globally in 2023-24. Weather conditions marred by an *El Nino* are also likely to take a toll on crop production.

India headed for weakest rainfall in 8 year According to IMD, *El Nino* dampened rainfall in August and is expected to impact the September rainfall negatively. It is likely that current South-West monsoon season may end with a rainfall deficit of at least 8% of the LPA, the highest since 2015.

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Published by Department of Economic Analysis and Research (DEAR), NABARD Head Office, Mumbai

Trade deficit has widened with merchandise trade deficit widening to USD 20.7 billion in July 2023 from USD 18.8 billion in the preceding month. A month-on-month increase in the prices of most commodities affected merchandise imports in the month of July 2023. For exports, it was likely a decline in the quantity exported. The import bill slid month-on-month by a meagre 0.4%, whereas the export bill contracted by a much larger 6% in July 2023. Petroleum, oil, and lubricants (POL) can be deemed responsible for the widening of the trade deficit in July 2023. Both exports and imports of POL fell month-on-month in July. The large disparity in the change in import and export led to the POL trade deficit widening. POL exports slid by a whopping 32.2% to USD 4.6 billion. On the other hand, POL imports shrank by 6.3% to USD 11.8 billion. The fall in the exports and imports of POL has occurred despite a 7.8% month-on-month increase in the average spot crude oil prices in July 2023.

Rupee likely to remain below 83 per USD. As treasury yields continue to influence the INR, minutes of August Federal Open Market Committee (FOMC) meeting which suggested that interest rates in the US are expected to remain elevated will impact valuation of Rupee in currency market. Within India, factors affecting the country's current account as well as foreign inflows have remained largely stable. Foreign Portfolio Investments (FPIs) have also remained robust. These factors combined have caused a rise in US treasury yield, which in turn led to the appreciation of the US Dollar Index. On 23 August 2023, US treasury yields fell on account of weak US data. This caused the INR to appreciate to a three-week high on the day that followed. Thus, in September, we expect the INR to be volatile and average around Rs.83 per USD, owing to a sharp increase in US government borrowings. This could cause a notable depreciation of the INR in the September quarter to around Rs.82.60 per USD compared to Rs.82.30 per USD in the June quarter.

India to be among G20's highest working-age populations by 2030. McKinsey stated in its report, titled, 'Driving Sustainable and Inclusive Growth in G20 Economies' that India, China and Indonesia would be three largest working-age populations among G20 countries by 2030. While China and India drive G20 growth, other nations excel in inclusiveness and sustainability. European, Japanese and Korean advancements in life expectancy and financial access stand out. McKinsey further stated that India needs to spend USD 5.3 trillion between 2021 and 2030, which is equivalent to about 13% of its GDP over the decade, to bridge the empowerment gap.

3. Interest Rate Outlook

There is marginal decline in bond yield in Indian bond market. After declining marginally for last two weeks, the yield of US 10-year bond rose on Friday, after the August non-farm payrolls report indicated that the world's largest economy added more jobs than expected last month. However, the unemployment rate rose with a slight decline in wage inflation. The unemployment rate increased to 3.8%, up from 3.5% in July but still below the Fed's latest median estimate of 4.1% by the fourth quarter of this year. The 10-year Indian government bond yield eased to 7.17% on 01 September 2023, down from previous week's closing at 7.22%. The Indian 10-year, 5-year and 3-month bond yield declined marginally to 7.17%, 7.17 % and 6.60%, respectively. Following cues from the US bond market, Indian government bond yields are likely to rise marginally at the start of the week after the U.S. peers ended the previous week with higher yield following mixed jobs report for August 2023, which could be the last such data before the central bank's next meeting.

Weekly Benchmark Bond Yield Movement (%)						
Date	21 Aug	23 Aug	25 Aug	28 Aug	30 Aug	01 Sep
USA 10 yr	4.34	4.20	4.23	4.20	4.11	4.18
Ind 10 yr	7.22	7.20	7.20	7.18	7.17	7.17
Ind 5 yr	7.21	7.18	7.19	7.17	7.17	7.17
Ind 3 M	6.82	6.80	6.80	6.76	6.75	6.60

Source: worldgovernmentbonds.com, CMIE