NABARD

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ECO WATCH
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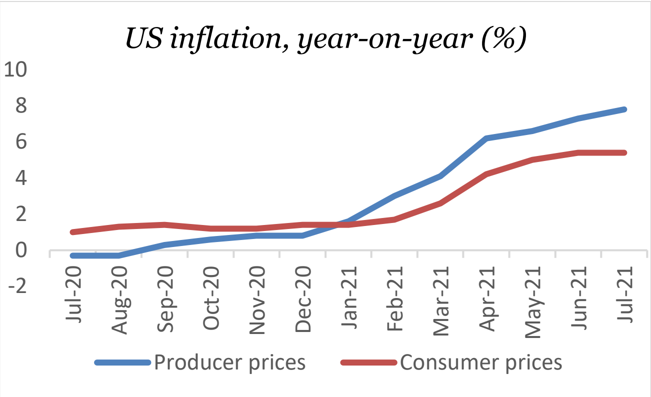
Global Economic Outlook

- The unemployment rate in USA declined by 0.2 percentage point to 5.2 percent in August. The number of unemployed persons edged down to 8.4 million, following a large decrease in July. Both measures are down considerably from their highs at the end of the February-April 2020 recession. However, they remain above their levels prior to the coronavirus (COVID-19) pandemic (3.5 percent and 5.7 million.
- Producer prices in USA rose 7.8% year-on-year (y-o-y) in July, the quickest in more than a decade, as businesses across sectors struggled to get raw material supplies. The pressure is spilling over to retail, straining households' buying power at a time when real wage growth is muted. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, slowed in July to a modest increase of 0.3%, falling from a 1.1% rise in June.



Source: US Bureau of Labour Statistics

- The Eurozone's retail inflation rose 3% y-o-y in August, the most in 10 years, from 2.2% in July. This increases pressure on the European Central Bank (ECB) to act before inflation rises further with rising demand amid tight supply chains.
- China, y-o-y export growth slid below 20% for the first time this year in July and August figures are expected to be further below. The hit has come from China's prompt curbs after the recent surge in covid cases. A major trading port (Ningbo-Zhoushan port) stayed shut for two weeks, clogging supplies when foreign demand was slowing.
- Goldman Sachs made a sharp downward revision to China's Q3 GDP growth forecast by 3.5 pp to 2.3% QoQ vs. 5.8% previously. A bounceback is predicted in Q4 with 8.5% QoQ vs. previous projected 5.8%, citing an expected removal of restrictions and stimulatory fiscal and monetary policy to remain in place.

Domestic Outlook

- As per NSO data, GDP at Constant (2011-12) Prices in Q1 of 2021-22 is estimated at Rs 32.38 lakh crore, as against Rs 26.95 lakh crore in Q1 of 2020-21, showing a growth of 20.1 percent as compared to contraction of 24.4% in Q1 2020-21. However, economists are largely of the view that the low base effect of the previous year's record contraction has contributed to the increase.
- Government final consumption expenditure (GFCE) contracted by 4.8% in Q1 this year — the only demand segment to show a fall.
- High frequency indicators for the Indian economy on an average since June 2021 (ie post the second virus wave peak) have been pointing towards an uptick in economic activity thereby moving the economy back on the track of economic recovery. GST collection (in August 2021 crossed Rs. 1 lakh crore for the second month in a row), e-way bills, mobility levels, power demand (18.6% increase over last year), auto sales and exports have been on a rise.
- Final estimates for August 2021 by CMIE show that the unemployment rate increased to 8.3 per cent from 7 per cent in July. The loss was essentially in farm jobs. Non-farm jobs increased to absorb a very large proportion of the jobs shed in the farm sector to leave a net deficit of 1.9 million jobs.
- However, the non-farm jobs that expanded were mostly not the kind that could be considered as good quality jobs. Much of the labour shed by agriculture was absorbed in the services sectors. Industry could not absorb any.

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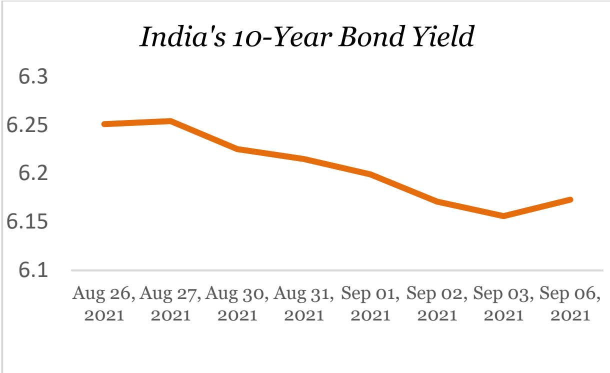
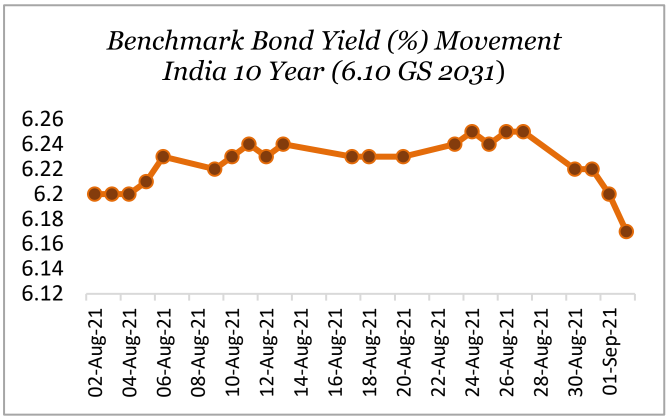
- The IHS Markit India Manufacturing Purchasing Managers' Index stood at 52.3 in August compared with 55.3 in July indicating a softer face of manufacturing growth.
- India's exports rose 45.17 per cent to USD 33.14 billion in August, driven by healthy growth in sectors such as engineering, petroleum products, gems and jewellery and chemicals, according to provisional data from the commerce ministry.
- From a macroeconomic perspective, rising exports are a positive sign for India's economy as it recovers from the economic shock induced by the second wave of the Covid pandemic, which has differentially blunted three out of the four engines of GDP growth — private consumption, investments and government consumption.
- Imports rose to USD 47.01 billion in August from USD 31.03 billion in the same month of 2020. The trade deficit stood at USD 13.87 billion in August 2021 compared to USD 8.2 billion in August 2020.
- FPIs ploughed $1.1 billion into equities and $1.85 billion in debt in August, adding up to about $3 billion.
- The surge in inflows has caused the rupee to strengthen sharply against the dollar in the past few days, helping it become the second-best performing currency among its Asian peers in August.
- According to IMD, the rainfall in August 2021 has been deficient by 26% so far. The below normal rainfall may impact future sowing and harvesting and may raise concerns for inflation and economic growth in rural areas over the medium term.

Interest Rate Outlook

- U.S. government bond yields rose on 03 September 2021 after Labor Department data showed U.S. employers pulled back on hiring in August during a surge in Covid-19 cases. The yield on the benchmark 10-year Treasury note finished the session at 1.322%, according to Tradeweb, and the 30-year bond yield rose to 1.942%.
- Bond yields in India dropped across the curve last week, with those on the benchmark 10-year bond declining ten basis points, the biggest weekly drop since April.



- According to a Bloomberg poll of 15 traders, fund managers and economists, the benchmark 10-year yield is expected to climb to 6.40% by Dec.2021.



- There are fears that the delta coronavirus variant may put the brakes on the global economic recovery. Further China's PMI, European PMI and global PMI in general a recording poor results in the month of August. In such a situation, the softening of bond yields over the world is expected as it is a safer instrument than equity.
- In the wake of our reading of the global and domestic situation, we expect Indian benchmark 10-year bond yield to remain in the range of 6.15-6.20.

For an interesting read on: Will government bond yields soften further? Watch out on Nabnet for our staff article.