The headline seasonally-adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) rose to 53.7 (index reading) in September as against a reading of 52.3 in August. With sales rising at a stronger rate, firms scaled up production and purchased additional inputs. There was also a faster upturn in international sales and an improvement in business confidence. On the price front, the PMI report indicated an intensified trend in September due to lingering shortages of raw materials as well as higher fuel and transportation costs.

Labour market data from CMIE’s Consumer Pyramids Household Survey show a dramatic all-round improvement in September 2021. Jobs increased by 4.5% in Q1FY22, and the exports of farm and allied products saw an increase of 21.8% in Q1 2020

With a target of 307.3 mt of foodgrain production for FY22, the first advance estimates of the production of major kharif crops for FY22 show a record foodgrain production of 150.5 mt, 7.8 mt higher than the average foodgrain production of the past five years.

India's merchandise trade deficit rose to USD 22.9 billion in September 2021, as per preliminary data released by the Ministry of Commerce. This is the highest ever level of trade deficit recorded in the country. In September 2019 in comparison, the trade deficit had amounted to USD 11.7 billion. India recorded double-digit growth in both imports and exports in September 2021, over the corresponding period in 2019. But the increase in imports was much sharper, resulting in a widening of the trade deficit.

The Indian stock market remained buoyant through the better part of September, backed by continued buying interest from foreign portfolio investors (FPIs) and mutual funds. Despite witnessing a fall towards the end of September, the BSE S&P Sensex and the Nifty 50’s performance in September was good, with returns ranging between 2.7 and 2.8 per cent.

**Inflation Outlook**

- India’s retail inflation in August 2021 marginally eased to 5.30%, staying within Reserve Bank of India (RBI)'s target range of 2%-6% for second month in a row. Inflation trended lower on the back of favorable base effects and moderating sequential food prices in most segments barring oil and fats. Core inflation also rose by a slower 5.8% y/y in August vs average 6.1% in the prior three months.
- As per NSO data, India’s wholesale price index (WPI)-based inflation accelerated to 11.39% in August after easing for two consecutive months, as growth in prices of manufactured items gained pace. Food inflation contracted 1.29% in August while fuel inflation and manufactured products inflation rose to 26.09% and 11.39%, respectively during the same month.
- In the latest bi-monthly monetary policy statement, governor said that inflation has been below the RBI’s projections but core inflation however remains sticky. CPI inflation has been forecasted at 5.3% for this fiscal, from earlier estimate of 5.7% based on the current moderation in the liquidity trajectory. In Q2, it is seen at 5.1%, 4.5% in Q3 and 5.8% in Q4, with risks broadly balanced. Food inflation expected to remain muted in coming month on back of record production of foodgrains. Headline inflation continues to be significantly influenced by very high inflation in select items like petrol, diesel, medicines among others
- The Asian Development Bank sees rising input costs fueling inflation to a faster 5.5% pace in 2021-22, than the 5.2% previously estimated. The reasons cited for the uptick in India’s inflation were rising global oil prices and higher duties on gasoline and diesel fuel, along with double-digit consumer price inflation for pulses and vegetable oil.
Economic Outlook

- United Nations Conference on Trade and Development (UNCTAD) has projected India’s economic growth at 7.2% in 2021 as a whole, insufficient to regain the pre-covid-19 income level. It mentioned that income and wealth inequalities have widened, and social unrest has increased in India. Also, it projected global economy to see a strong recovery in 2021, growing at 5.3% after a 3.5% fall in 2020, albeit with a good deal of uncertainty clouding the details.

- With vaccination rates fast picking up pace, consumption recovery is expected from early 2022. Morgan Stanley Research has predicted recovery in consumption and exports over the coming quarters coupled with policy measures such as lower corporate tax rates, labour reforms, Production Linked Incentive (PLI) schemes and companies looking to diversify incremental production are likely to help improve private capex growth in the next 12-15 months. As per Morgan Stanley, a favourable environment with negative real rates and improvement in corporate revenue growth boding well for improvement in balance sheet positions.

- The India’s merchandise trade deficit in September was $22.94 billion, as per preliminary data released by the government on 01.10.2021. Merchandise exports rose to $33.44 billion for the month from $27.56 billion in the same period last year, while imports rose $56.38 billion in September from $30.52 billion last year. The country’s foreign exchange reserves declined by $997 million to reach $638.646 billion in the week ended September 24 as per RBI data released on 01.10.2021.

- Consumer sentiments have improved well in September 2021. As of September 25, 2021, the index of consumer sentiments stood at 58.2. It was 53.9 in August and 53 in July. While the climb-back of the rural consumer sentiments index in recent months is impressive, its return to the pre-Covid levels is still very far. The index was at 110 in December 2019.

- The Indian economy began regaining momentum in June as shown by the high frequency demand data. The upcoming festive season along with the release of arrears of ‘dearness’ allowances for public sector workers, should provide a consumption boost. Rainfall picked up in September, resulting in normal monsoons this year, which should be a positive for the rural economy.

<table>
<thead>
<tr>
<th>Change in high frequency demand data (%) (M-o-M)</th>
<th>Apr-21</th>
<th>May-21</th>
<th>Jun-21</th>
<th>Jul-21</th>
<th>Aug-21</th>
<th>Sep-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger Car sales</td>
<td>-10.1</td>
<td>-70.58</td>
<td>192.22</td>
<td>7.17</td>
<td>-16.58</td>
<td>NA</td>
</tr>
<tr>
<td>Two wheeler sales</td>
<td>-33.5</td>
<td>-64.3</td>
<td>399.33</td>
<td>18.77</td>
<td>6.18</td>
<td>NA</td>
</tr>
<tr>
<td>Domestic tractor sales</td>
<td>-25.5</td>
<td>-12.3</td>
<td>98.5</td>
<td>-40.92</td>
<td>-17.62</td>
<td>NA</td>
</tr>
<tr>
<td>GST E way Bill</td>
<td>-17.5</td>
<td>-31.9</td>
<td>36.79</td>
<td>17.33</td>
<td>2.69</td>
<td>3.11</td>
</tr>
<tr>
<td>Finished steel Cons.</td>
<td>-8.5</td>
<td>-8.07</td>
<td>3.61</td>
<td>-1.72</td>
<td>-1.47</td>
<td>NA</td>
</tr>
<tr>
<td>Total GST Collection</td>
<td>14.1</td>
<td>-27.4</td>
<td>-9.6</td>
<td>25.36</td>
<td>-3.76</td>
<td>4.45</td>
</tr>
</tbody>
</table>

Source -CMIE

Interest Rate Outlook

- The Reserve Bank of India (RBI) maintained status quo in its bi-monthly Monetary Policy meeting held on October 8. The six-member Monetary Policy Committee (MPC) of India’s central bank kept the key lending rate — repo rate unchanged at 4 per cent for the eighth time in a row. Reverse repo rate remained unchanged at 3.35 per cent. The MPC continues to maintain its ‘Accommodative’ stance.

- RBI has announced that the Variable Reverse Repo (VRR) auctions will be stepped up fortnightly from ₹4 trillion to ₹6 trillion. RBI may complement the 14-day VRR auctions with 28-day VRR auction. Further, Governor has said that there is no need for undertaking further G-SAP operations now given the liquidity overhang and the absence of fresh government borrowing for GST compensation.

- Moody’s Investors Service has changed India’s sovereign rating outlook to stable from negative. However, there is no change in the credit rating. The decision to change the outlook to stable reflects Moody’s view that the downside risks from negative feedback between the real economy and financial system are receding.

- As per Morgan Stanley, Indian sovereign bonds stand a high chance of being included in global bond indices in early 2022. With its inclusion, it would be in a position to attract a one-off index inflow of ₹40 billion in 2022-23 and ₹170 to ₹250 billion in bond inflows over the next decade. It could flatten the bond curve issued by the Indian government by 50 basis points and help the rupee appreciate by 2%.

- As per the recently released Reserve Bank’s data relating to India’s International Investment Position at end-June 2021, it was observed that the ratio of international assets to international liabilities has gradually improved to 73.2 per cent in June 2021 from 68.5 per cent a year ago. The share of non-debt liabilities in total international liabilities edged up to 52.7 per cent in June 2021.

- The 10-year G-sec yield increased to 6.31 per cent as on 8th October, 2021 from 6.20 per cent at the beginning of September 2021.
DEAR ECO THINK
Issue 49/ September 2021

Dashboard on the Status of Fisheries Sector in India

Contribution of Fisheries Sector to the Agriculture Economy (%)

State-wise % of Fishermen Population

Fish Production (in Lakh Tonnes)

Marine Fish Production 2019-20 (in lakh tonnes)

State-wise Inland Fish Production (%)

Trend of Export of Fish and Fish Products

Pradhan Mantri Matsya Sampada Yojana (PMMSY)
The PMMSY is a step forward from the erstwhile Blue Revolution scheme and aims to harness the potential of the fisheries sector in a sustainable, responsible, inclusive and equitable manner. The targets of PMMSY include:

- Increasing fish production to 22 million metric tons by 2024-25 from 13.75 million metric tons in 2018-19.
- Enhancing aquaculture productivity to 5 tons per hectare from the current national average of 3 tons.
- Increasing contribution of fisheries sector to the Agriculture GVA to about 9% by 2024-25 from 7.28% in 2018-19.
- Doubling export earnings to Rs.1,00,000 crores by 2024-25 from Rs.46,589 crores in 2018-19.
- Doubling the incomes of fishers and fish farmers.
Forests, Food Systems and Livelihoods: Trends, Forecasts and Solutions to Reframe Approaches to Protecting Forests, 2021

- This edition of ‘Report Think’ covers the captioned report released in September 2021 by the World Economic Forum. The report provides a close examination of how commodity-driven deforestation occurs at the centre of the competing objectives of food security, rural development, global trade and environmental protection.

KEY FINDINGS

- Dramatic Increase in Demand for Agricultural Commodities: Globally, the annual consumption of food and agricultural products rose by about 48% between 2001 and 2018, growing at more than twice the rate of increase in the human population. The increase in demand was largest in Asia, accounting for 60% of total growth in demand.
- Adverse Impact on Environment: Food systems are responsible for more than 30% of global greenhouse gas (GHG) emissions and put biodiversity, fresh water and the world’s forests at risk. In turn, deforestation and forest degradation affects the lives of 1.6 billion people whose livelihoods depend on forests.
- Significant Shift of Agricultural Production towards tropical regions: This shift in production to tropical regions has increased the importance of trade between fast-growing middle-income countries and the emerging tropical agriculture exporter hubs in Latin America and South–Asia.
- Tropical forest loss remains stubbornly high: The majority of this loss is associated with agricultural activities. Global Forest Watch (GFW) shows that since 2002, more than 60 million hectares of primary forest have been lost in the tropics, equivalent to an area of the size of France. The vast majority – more than 80% – of tropical deforestation occurs in landscapes where agriculture is the dominant driver. The share that can be directly attributed to expansion of agricultural production is between half and three-quarters of the total deforestation.
- Deforestations and Conversion to pasture: Between 2001 and 2015, 36% of cumulative agricultural tree cover loss was due to conversion to pasture, and 20% was associated with the production of palm oil, soy, cocoa, coffee and wood fibre.

CHALLENGES REMAIN

- Demand for key agricultural commodities will continue to grow in future. The global middle class is expected to increase by a further 1.8 billion between now and 2030, with 89% of the growth driven by Asia. Further, economic growth and the expansion of the middle class will continue to push increases in per capita consumption across most emerging markets.
- Climate change and demographic shifts are expected to pose a significant risk to agricultural production in the tropics. The Intergovernmental Panel on Climate Change (IPCC) has established that climate change has already had an adverse impact on food security and terrestrial ecosystems, and that the tropics and subtropics are projected to be the most vulnerable to crop yield decline due to climate change. This, coupled with tropical countries facing a shrinking agricultural labour force – by as much as 20 million by 2030 – suggests that the rural development models that have underpinned the expansion of tropical agriculture in the previous few decades of the century are coming under increasing pressure from several angles.

WAY FORWARD

- Systemic solutions that respond to emerging trends are urgently needed to help reduce tropical forest loss. In the context of rebuilding from the ravages of COVID-19 and the increased urgency in relation to climate and biodiversity action, there is a unique opportunity to harness an even greater momentum for change and advance the broader food and land use transitions that are needed.
- A food systems approach holds promise: Commodity-driven deforestation and the conversion of other critical ecosystems cannot be treated in isolation, as an environmental issue, or a supply chain problem, because it sits at the heart of the challenges facing global food systems.
- Improving rural livelihoods must be at the centre of solutions: To solve deforestation linked to commodity production, the livelihoods and resilience of farmers must be enhanced.
- Financing solutions and incentives are needed to support the transition. Mobilizing finance to create incentives for farmers to conserve more while producing food is critical, with potential sources coming from both carbon finance and domestic finance for rural credit.
- Collective action is crucial to success: Success can be achieved only through collective action and collaboration, across geographies, sectors and stakeholders, both within and beyond supply chains.