

## 1. Global Economic Outlook

### US Inflation showing signs of moderation.

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4% in April 2023 on a seasonally adjusted basis, after increasing 0.1% in March 2023, the U.S. Bureau of Labor Statistics reported.

The all-items index increased 4.9% for the 12 months ending April 2023; witnessing the smallest 12-month increase since the period ending April 2021. The all items less food and energy index rose 5.5% over the last 12 months. The energy index decreased 5.1% for the 12 months ending April, and the food index increased 7.7% over the last year.

However, the 0.4% M-o-M gains in headline and core consumer prices in April 2023 leaves core inflation at 5.5%, broadly unchanged from its level at the start of this year, illustrating that the previous downward trend has stalled.

### UK Q1-2023 GDP remains sluggish

The first quarterly estimate of UK real gross domestic product (GDP) shows that the economy increased by 0.1% in Quarter 1 (Jan to Mar) 2023.

In output terms, the services sector grew by 0.1% on the quarter driven by increase in information and communication, and administrative and support service activities; elsewhere, the construction sector grew by 0.7% while the production sector grew by 0.1%, with a 0.5% growth in manufacturing.

In expenditure terms, household consumption showed no growth on the quarter, while there was a positive contribution from gross fixed capital formation.

## 2. Domestic Economic Outlook

### Service sector surged; Industrial production remained subdued

India's services sector surged in April 2023 as the sector's Purchasing Managers' Index (PMI) jumped to 62.0 from 57.8 in March. At 62.0, the services PMI is the highest in nearly 13 years. It has stayed above the key level of 50 that separates expansion in activity from a contraction for 21 months in a row.

India's net earnings from trade in services rose year-on-year by 38.7% to USD 13.9 billion in April 2023. Receipts from services exports rose by 26.2 % to USD 30.4 billion, and payments for services imports rose by 17.4 % to USD 16.5 billion in April 2023.

Industrial output, measured by the index of industrial production (IIP), grew by 1.1% on a year-on-year basis in March 2023. Output of mined products grew by 6.8%, while electricity generation declined by 1.6%. The manufacturing sector reported a meagre 0.5% growth.. Of the 23 sub-groups of the manufacturing sector, only 10 reported rises in production. During the fiscal year 2022-23, the IIP rose by 5.1%, as compared to 11.4% in 2021-22.

### Agri exports rise 9% to \$26.3 bn in FY23

Exports of agricultural and processed food products rose by 9% to \$26.3 billion in 2022-23 as compared to FY22,

driven by a spike in shipment of rice, fruits and vegetables, livestock and dairy products.

According to the Directorate General of Commercial Intelligence and Statistics, the value of rice exports in FY23 rose by more than 15% year-on-year to a record \$11.1 billion from \$9.6 billion in the previous fiscal. In terms of volume, rice shipment grew by 5% to 22.34 million tonnes (MT) last fiscal year-on-year. The increased realization in rice exports has been achieved despite India banning broken rice shipment last year and imposition of exports tax of 20% on white rice. Officials attribute the spike in rice exports to factors such as robust global demand especially from West Asian countries, Africa and Europe and floods in Pakistan, a major grain exporter which had hugely impacted a large chunk of paddy crop.

Fresh and processed fruits and vegetables reported export growth of 18.8% to \$3.8 billion in the last fiscal year. The shipment of cereals, preparations and processed food products rose by 20% to \$4.3 billion in FY23. Exports of meat, dairy and poultry products declined marginally compared to last year at \$4 billion.

### Unemployment rate heightened in April 2023

India's unemployment rate increased in April 2023 to 8.11% from 7.8% in March 2023. The unemployment rate has been on an upward trend since the start of the year, recording an increase for the 4th consecutive month. It was 7.14% in January 2023. Compared to this, the unemployment rate in April is 0.97 percentage points higher. Over the past 12 months, the unemployment rate ranged between 6.4% and 8.3 %, averaging at 7.6%. Therefore, the unemployment rate of 8.11% registered in April is on the higher end of the spectrum.

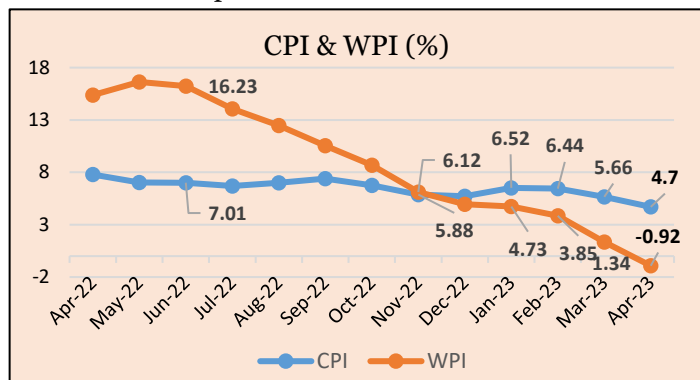
This rise in the unemployment rate was expected, as the weekly data for April 2023 recorded higher levels of unemployment compared to March 2023. The unemployment rate breached the 7.8% level recorded in the month prior, in each of the four weeks of April. The average was close to 8.27%. The lower-than-expected unemployment rate in April comes as a small respite. The unemployment rate increased owing to a rise in the labour participation rate (LPR). The LPR inched up from 39.77% in March to 41.98% in April 2023. This is the highest LPR recorded in the past three years. The significant rise in labour participation rate in April, therefore, is surprising. The labour force expanded substantially, by 25.5 million, to 467.6 million in April. This big jump in the number of people who entered the labour force points to a possible increase in optimism about finding employment. Out of the people who entered the labour force this month, close to 87% were able to secure jobs, while a smaller proportion was left without work. The number of unemployed people in the country rose from 34.5 million in March to 37.9 million in April. Around 3.4 million additional people became unemployed.

### 3. Inflation Outlook

#### Food Inflation expected to ease in April 2023

The reading for retail inflation braked sharply in April 2023 to an 18-month low of 4.7% from 5.5% in March 2023. Inflation in urban India declined by a percentage point to 4.9% from 5.9%, while that in rural India eased to 4.7% from 5.5%. At the all-India level, inflation in the food & beverages group dropped to 4.2% in April 2023 from 5.1% in March 2023. Inflation in the fuel & light group slumped to 5.5% from 8.9% and that in miscellaneous items declined to 4.9% from 5.7%. The clothing & footwear group saw inflation soften to 7.5% from 8.2%, but inflation in the housing group remained virtually unchanged at 4.9% in April 2023. However, the month-on-month price gains based on the provisional Consumer Price Index (CPI) in April showed a quickening to 0.51%, from the 0.23% pace in March.

Inflation at wholesale level, as measured by wholesale Price Index (WPI) fell by 0.9% in April 2023 as compared to its year-ago level. This is the first month of price deflation at the wholesale level since June 2020. The manufactured products group had reported price deflation in March 2023, of the order of 0.8% which intensified to 2.4% in April 2023. Inflation in primary article prices fell to 1.6% from 2.4% in March 2023 and that in power & fuel slumped to 0.9% from 9%. The month-over-month change in WPI for the month of April 2023 over March 2023 remained at zero per cent.



Source: CMIE

### 4. Interest Rate Outlook

#### Way forward for RBI Monetary Policy

In view of retail inflation easing to an 18-month low of 4.7% in April 2023, it is expected that RBI would go for an extended pause. While the impact of the favourable base effect related to geopolitical conflict is likely to have peaked, economists from ICRA see the CPI inflation remaining range-bound at 4.7-5% in May-June 2023, with a high likelihood of a pause from the central bank in its next meeting. However, a pivot to rate cuts appears quite distant.

A surge in funding costs in the Indian money market may impact the RBI's decision to hike benchmark policy rates (Bloomberg). The weighted average call rate, an overnight funding cost rate the central bank monitors, has risen to 6.78% (as on 11 May 2023), above the upper band of the

RBI's interest rate corridor of 6.75%. This increase is almost equivalent to a rate hike (Deutsche Bank). Excess cash that banks park with the RBI has dropped to Rs.788 billion from Rs.9 trillion in 2022, driving up the funding costs. However, the liquidity crunch may ease soon due to the central bank's interventions in the forex market and dividend payments to the government.

#### Fed hikes interest rate but hints at a pause going forward

Both the US Federal Reserve and the European Central Bank (ECB) have hiked interest rates by 25 basis points in their latest monetary policy actions. However, there is a greater chance the Fed might pause with the ECB stating outright it would not do so. The Fed's monetary policy tightening actions over the past 15 months have taken the target rate to 5-5.25%, the peak of the 2004-2006 cycle. However, the pace of the tightening, this time around, has been far quicker, at 500 bps compared with 425 bps over two years in the 2004-06 cycle. Consequently, the impact has been severe, resulting in mortgage rates more than doubling. Interest rates on auto loans are up and borrowing on a credit card is costlier. Looking ahead, it is believed that Fed's future policy moves could be data dependent, as the full impact of the cumulative 500 bps rate hikes continues to work through the economy. With inflation unlikely to come down to the Fed's target of 2% in 2023, no rate cuts are expected during the year.

Benchmark Bond Yield Movement (%)					
Date	02 May	04 May	09 May	11 May	15 May
USA 10 yr	3.43	3.36	3.53	3.38	3.50
Ind 10 yr	7.09	7.01	7.04	7.02	7.01
Ind 5 yr	6.99	6.95	6.98	6.97	6.96
Ind 3 months	6.94	6.89	6.89	6.92	6.88

Source: CMIE and worldgovernmentbonds.com

#### RBI Operations during 01-15 May 2023

RBI on 4<sup>th</sup> May 2023, conducted 15-day variable-rate reverse repo auction for a total notified amount of Rs 50,000 crore, for which it received offers around Rs 8447 crore. The RBI's switch/conversion auction of government securities (G-secs) of Rs 20,000 crore on 15 May remained undersubscribed as liquidity remained tight, and banks demanded higher yields. Banking system liquidity re-narrowed to Rs 80,000 crore this month as against Rs 150,000 crore at the start of the year, pushing up the overnight call money rate to above the benchmark this week. The yield on the 10-year bond had briefly slipped below 7% late last week on a host of positives including lower oil, manageable inflation and firm demand. The yields are expected to remain in the range of 6.95-7.00% during the week ending 19 May 2023.