Global Economic Outlook

U.S. Consumer Sentiments hit record low in June 2022
- The University of Michigan US consumer sentiment hit a new record low in June 2022 amid growing concerns about inflation.
- The final monthly index reading of Survey of Consumers was 50 in the month of June 2022. The final June 2022 index reading was 14.4% below the May 2022 reading which represented the lowest recorded level since the university started collecting consumer sentiment data in November 1952.
- According to the survey, about 79% of consumers expected bad times in the year ahead for business conditions, the highest since 2009.

Eurozone growth slows sharply in June 2022
- Eurozone economic growth deteriorated sharply to a 16-month low in June 2022, according to preliminary PMI data, reflecting a stalling of demand growth.
- Manufacturing output contracted for the first time in two years and service sector growth cooled considerably, making them to reach at a value of 49.3 (24-month low) and 52.8 (5-month low) in June 2022.
- Both the stagnation of demand and worsening outlook were widely blamed on the rising cost of living, tighter financial conditions and concerns over energy and supply chains linked to the Ukraine war and ongoing pandemic disruptions.

Japan manufacturing slows in June 2022
- The au Jibun Bank flash Japan Manufacturing purchasing managers' index (PMI) slipped to 52.7 in June 2022 from a final 53.3 in May 2022, marking the slowest expansion since February when it also was 52.7.
- The slow growth came on the backdrop of associated weaker demand due to COVID-19 restrictions in mainland China, which placed additional pressure on supply chains.

Domestic Economic Outlook

Indian economy above pre-pandemic level but growth concerns loom
- According to Nomura India Normalization Index (NINI), the Indian economy is now racing back to above pre-pandemic levels, led by broad-based improvements across consumption, investment, industry and the external sector.
- However, the impending growth slowdown in the United States has forecasted by the firm, is set to hamper the growth trajectory of India in the medium term.

Rural India witnessed higher inflation in May 2022 compared to the preceding month
- Point to point rate of inflation based on the CPI-AL and CPI-RL stood at 6.67% & 7.00% in May, 2022 compared to 6.44% & 6.67% respectively in April, 2022.
- The food group, which accounts for sizeable proportion of the consumption basket for both the indices, saw inflation rise to 5.44% & 5.51% in May, 2022 compared to 5.29% & 5.35%, respectively in April, 2022.

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According to PLFS, Unemployment rate in urban India declined to 8.2% in the quarter ended March 2022 from 8.7% in the quarter ended December 2021.

The labour force participation rate (LFPR) remained unchanged at 47.3% in the March 2022 quarter compared to the preceding quarter.

However, the share of regular wage/salaried among the employed persons has seen a decreasing trend over the quarters, showing a sign of deteriorating job quality.

Operating profit growth of private companies decelerated - RBI

According to RBI data, Operating profit growth of listed private companies decelerated across broad sectors in the January-March quarter of 2021-22, on the back of rise in expenditure.

Operating profit of manufacturing, services sector (non-IT), service sector (IT) companies decelerated sharply to 7%, 6.1% and 5.9%, respectively in the fourth quarter of last fiscal as against 70%, 62.5% and 19.7% in the corresponding quarter of the preceding fiscal.

Interest Rate Outlook
The Federal Reserve strongly committed to inflation, hints recession a possibility.

Fed Chair Powell presented the Federal Reserve’s semi-annual Monetary Policy report to Congress this week. In his testimony, he said that the central bank is “strongly committed” to bringing down inflation and can do so with its monetary policy tools.

At the same time, he acknowledged that, tightening monetary policy in order to reduce inflation may result in a recession.

Last week, the Fed raised its benchmark overnight interest rate by three-quarters of a percentage point - its biggest hike since 1994 - to a range of 1.50% to 1.75%, and signalled its policy rate would rise to 3.4% by the end of this year.

Minutes of Monetary Policy Committee Meeting (June 6 to 8, 2022)

According to RBI latest assessment, the average annual inflation in the current year (2022-23) is expected to be 6.7%, with the first three quarters remaining above 6%.

According to Dy Governor MD Patra, Inflation will fall back to below 6% by the fourth quarter of 2022-23. In 2023-24, it should moderate to 4%. He further added that, headline inflation levels will remain high across the world for some time.

RBI governor noted that the repo rate is still below the pre-pandemic level and the liquidity surplus is still higher than what it was prior to the pandemic. He further added, RBI’s policy in recent months has been unambiguously focussed on withdrawal of accommodation, both in terms of liquidity and rates.

Rupee dives to fresh record low

The rupee declined by 19 paise to settle at an all-time low level of 78.32 against the US dollar on Wednesday due to unabated foreign fund outflows and losses in the domestic equities.

According to forex traders, a stronger greenback overseas also weighed on the rupee sentiment. However, receding crude prices in the international market restricted the rupee’s loss, they added.

Forex Reserve fall by USD 5.9 million

India’s foreign exchange reserves fell by USD 5.9 billion to USD 590.6 billion during the week ended 17 June 2022.

Foreign currency assets, the largest component of India’s foreign exchange reserves, decreased by USD 5.4 billion to USD 526.9 billion. Both, gold reserves and special drawing rights (SDRs) shrank by USD 258 million and USD 233 million, respectively. India’s reserves position in International Monetary Fund (IMF) deteriorated by USD 17 million to USD 5 billion during the week ended 17 June 2022.

<table>
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</table>

Source: CMIE, worldgovernmentbonds.com

The yield on the government benchmark 10-year bond for the week (27 June to 01 July) is expected to be in the range 7.35% to 7.45% as weak economic data signifying recessionary trends may weigh on market sentiments.