Global Economic Outlook

- The Organization for Economic Co-operation and Development (OECD) has pared its 2021 growth forecast significantly—the US’ to 6% and the UK’s to 6.7%, partly due to the Delta variant risk. Sustaining growth and averting a slowdown is becoming a challenge.

- The US Federal Reserve has said that the US economy continues to strengthen, albeit at a slower rate because of the Delta variant of Covid. Inflation, which measures the increase in the cost of living over time, is running at 5.3% - the highest in nearly 13 years. It comes amid surging consumer demand, rising energy prices, and supply chain-related shortages. Despite this, the Federal Open Market Committee (FOMC), which sets US monetary policy, said overall indicators of economic activity "have continued to strengthen".

- The Eurozone’s retail inflation rose 3% y-o-y in August, the most in 10 years, from 2.2% in July. Spiralling natural gas and electricity prices and supply bottlenecks are keeping the pressure up. In the longer run, Europe’s green transition is also likely to put the heat on inflation. A Danske Bank report said that temperature changes and more frequent adverse weather events, rising carbon prices and higher production costs could have an upward impact on retail inflation.

- China may be diving head first into a power supply shock that could hit Asia’s largest economy hard just as the Evergrande crisis sends shockwaves through its financial system. The crackdown on power consumption is being driven by rising demand for electricity and surging coal and gas prices as well as strict targets from Beijing to cut emissions.

- Germany's Ifo economic institute has cut its growth forecast for Europe’s largest economy for this year as supply chain disruptions and a scarcity of chips and other intermediate goods are slowing down the recovery from the COVID-19 pandemic. The institute now sees Germany’s gross domestic product (GDP) growing 2.5% this year, down 0.8 percentage points from its previous forecast, and 5.1% next year, up 0.8 points.

Domestic Outlook

- The Asian Development Bank has cut its forecast for India’s GDP growth in 2021-22 to 10%, from 11% projected earlier, with downside risks dominating the economic outlook. The ADB also sees rising input costs fuelling inflation to a faster 5.5% pace, than the 5.2% previously estimated.

- The high 20.1% growth recorded in the April to June quarter notwithstanding, ADB pointed out that India’s economy was yet to recover to its value ‘just before the pandemic hit’ and the adverse impact of the second wave was reflected in the 12.4% quarter-on-quarter contraction recorded in the first three months of 2021-22, in seasonally adjusted terms.

- Ratings agency Icra has revised up its 2021-22 real GDP growth estimate for India to 9 per cent from the earlier 8.5 per cent. The agency has revised up its GVA (gross value added) growth estimate for agriculture, forestry and fishing to 3 per cent each in second and third quarters of 2021-22 from the earlier projection of a tepid 2 per cent rise.

- The Nomura India Business Resumption Index eased to 100.6 for the week ending September 19 from 101.4 the prior week, although still above its pre-pandemic level of 100. While mobility continued to improve despite mixed indicators, other economic indicators such as e-way bills and rail freight remained uneven. The generation of e-way bills under goods and services tax as of mid-September was at 35.4 million, lower than in mid-August of 47.3 million and mid-July of 63.8 million. The report noted that vaccination has picked up to an average 8 million doses/day so far this month, up from 5.4 million in August (~15% of the population is fully vaccinated).

- Data available for the first three weeks of September show that the labour market indicators are improving. The labour participation rate is stable but the unemployment rate is falling.
In August, the country exported goods worth USD 33.3 billion. These were 45.8 per cent higher than a year ago. Exports of petroleum, oil & lubricants (POL) grew by 144.6 per cent. This was a combination of improvement in export volumes and a steep 58.6 per cent rise in price of Indian basket of crude oil. Non-POL exports too grew y-o-y by 36.8 per cent to USD 28.6 billion in August 2021.

A large part of the goods trade deficit in August 2021 was offset by surplus in services trade of USD 7.4 billion. Services exports in August 2021 rose y-o-y by 17.3 per cent to USD 16.1 billion, while their imports increased by 24.1 per cent to USD 9.3 billion.

The Indian farm sector exhibited a robust growth of 4.5% in Q1FY22, and the exports of farm and allied products saw an increase of 21.8% in April-August. 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 (FY17-FY21). In terms of inflation, rising foodgrain production will help bring down consumer price inflation.

Interest Rate Outlook

As announced in Governor’s statement of June 04, 2021, the Reserve Bank will conduct open market purchase of government securities under the G-sec Acquisition Programme (G-SAP 2.0) for an aggregate amount of ₹15,000 crore on September 30, 2021. RBI will sell short-term maturity bonds for the same amount on that day. RBI conducts simultaneous buy and sale of government bonds to manage the yield curve in the bond market.

The US Federal Reserve has kept its benchmark interest rate unchanged at the record-low level of near zero, while signaling that the central bank may begin tapering asset purchases soon despite the ongoing economic uncertainty.

Federal Reserve chair Jerome Powell said if the US economy continues to strengthen, the central bank would soon dial down its monthly asset purchases of $120 billion and conclude the tapering process by mid-2022. Although the Fed did not set a date to start the tapering process, it has indicated that it could be as early as its next scheduled monetary policy meeting in November. The policy rates have remained unchanged since mid-March 2020, when it was reduced by 100 basis points (bps) in an emergency move in the wake of the coronavirus outbreak.

The 10-year G-sec yield eased to 6.18 per cent on September 24, 2021 from 6.22 per cent at end-August 2021. The term spread, usually measured as the difference between the 10-year and the 2-year G-sec yield, has been increasing, reflected in a steepening of the yield curve since July 2021.

The 10-year Treasury yield breached 1.45% on September 24, 2021 to hit its highest level in almost three months as investors continued to react to the Federal Reserve’s policy announcement. The United States 10 Years Government Bond has 1.446% yield on 27th September 2021.