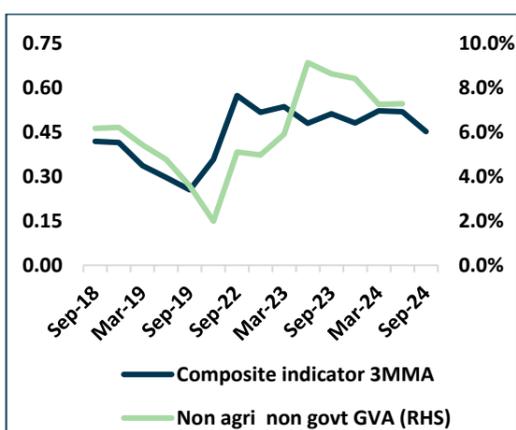


22<sup>nd</sup> October 2024

Fig 1: UBI economic activity indicator shows sharp slowdown in Q2 FY25



Source: CEIC, UBI economic research

### RBI October Bulletin asserts that Q2FY25 GDP growth tracking 6.8% vis-à-vis 7% previously

In the latest monthly Bulletin, the RBI asserted that the nowcast model for Q2 FY25 GDP growth is tracking 6.8% vs 7% previously, which was in line with the MPC's projection of 7% for the quarter. As per RBI, some of the high frequency indicators in the recent past have shown a slackening of momentum in Q2FY25 partly attributable to idiosyncratic factors like unusually heavy rains in August and September.

Similar to RBI, we also have an economic activity indicator (comprising of 23 high frequency indicators) which is signaling a softening in the growth momentum (Fig 1). We can divide the set of indicators detailed in our macro-economic dashboard (pls turn over) as follows:

- Demand side indicators are a mixed bag:** Automobile sales recorded a growth of 13.1% YoY in Sep'24, supported by two-wheelers. Domestic tractor sales also expanded by 3.7% YoY in September. Meanwhile, vehicle registrations contracted in September due to decline in both non-transport and transport vehicles segments. The Federation of Automobile Dealers Associations data also showed overall auto retail sales declined 9.3% YoY in September. Average daily petroleum consumption contracted for second consecutive month in Sep'24, driven by drop in diesel consumption.
- Manufacturing sector indicators have slowed across the board:** Manufacturing PMI, eased to 56.5 in September (eight month low), down from 57.5 in August and 58.1 in July amid softer increases in new orders and output. Core sector output growth contracted by 1.8% YoY in August, lowest in 42 months. Industrial production growth, as indicated by IIP, came in negative by 0.1% in Aug'24, from 4.7% in previous month and vs 10.9% in Aug'23. The reading indicated a sharper slowdown, than our estimate of 0.4%. Auto production and exports being in contraction zone as well as impact of monsoon affected manufacturing growth. The slowdown was witnessed across sectors with four sectors (mining, electricity, primary goods and consumer non-durables) in the negative zone. Additionally, corporate revenue and earnings growth is also expected to have stayed weak in Q2FY25, reflecting a challenging demand environment. Analysts point out that of the 167 firms that have declared Q2 results, their net profit grew just 5% YoY, which was flat vis a vis previous quarter and sharply lower than 16% YoY in the same period last year. Net sales grew a modest 7% YoY in Q2, marking the slowest pace in five quarters.
- Services sector indicators holding up relatively better:** Services PMI fell to 57.7 in September (10 month low) from 60.9 in August and 60.3 in July. GST collections in September grew by 6.5% which was the weakest pace of expansion since June 2021. E-way bills continued to record double digit growth in Sep'24. Toll collections grew by 6.5% y-o-y in September as against 6.8% y-o-y in the previous month. Meanwhile, banks are also facing a slowdown in credit growth numbers even as deposit growth has held up relatively well (detailed below for kind perusal).

Overall, while the RBI acknowledged possibility of growth slowdown in Q2 FY25, it clearly states that "aggregate demand is poised to shrug off the temporary slowdown in momentum in the second quarter of 2024-25 as festival demand picks up pace and consumer confidence improves". Private investment is showing some encouraging signs in terms of lead indicators while consumption spending is shaping up for a festival season revival. RBI believes that consumer spending is expected to be about 25% higher than during Dussehra-Diwali last year. Hence their underlying view of resilient growth momentum remains intact.

More importantly, with regards to inflation, the Bulletin affirms that after remaining below 4% target for two consecutive months, inflation surged to 5.5% in September, as an adverse statistical base effect was compounded by a resurgence in food price momentum. Food price pressures in respect of vegetables could turn out to be transitory with robust kharif harvest arrivals, although the surge in the price momentum of oils and fats can have second order effects impacting overall inflation through inputs costs of FMCGs. **We estimate that the October CPI is tracking above 6% on sustained vegetable price pressures and hence remains a cause for concern for the RBI led MPC.**

**Apart from domestic factors, the RBI is worried about impact of global factors on India's inflation. In fact, it asserts that** "The future course of monetary policy the world over would, therefore have to take into account the risks to both growth and inflation from recent commodity price shocks." Hence, geopolitical tensions (Middle East issues and Trump trade) will also remain on the central bank's radar in the coming months.

### RBI Governor says rate cut at this stage would be risky and premature

RBI Governor Shantikanta Das in an interaction at the India Credit Forum hosted by Bloomberg, stated that it would be "very premature" and risky to lower interest rates at this stage. October CPI print is expected to be high and inflation would moderate in Nov/Dec'24. While inflation is expected to moderate going forward, the central bank would only think of rate cuts when it has confidence that inflation is durably aligned to its medium-term target. Speaking about the rupee, Das said that the RBI is "not managing the exchange rate" but buys dollars when there is an opportunity and supplies them when the currency faces pressure.

### Credit-deposit growth wedge narrows for SCBs as credit begins to slow.

Credit deposit wedge narrowed for the fortnight ended 4th Oct'24. The YoY growth under aggregate deposits of SCBs as on 4th Oct'24 stood at 11.8% and gross advances YoY growth was 12.8%. With this the wedge between growth of deposit and credit for SCB has narrowed to 0.98% (lowest since Jun'22) from 1.49% in the previous fortnight ended 20th Sep'24. As on 4th Oct'24, the CD ratio of SCBs was at 78.9%, with incremental CD ratio being 84.7% (lowest since June 2023). This trend is in line with the analysis in RBI Financial Stability report that there have been episodes of credit and deposit growth divergence in high growth phases which typically last for 2 to 4 years with convergence seen via fall in credit growth. Hence, the RBI actions with respect to credit excesses have borne fruit driving convergence of credit growth with deposit growth.

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# Economy Dashboard

MACRO-ECONOMIC DASHBOARD														
Industrial Sector	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
IIP (YoY Gr%)	10.87	6.35	11.89	2.47	4.39	4.21	5.60	5.47	5.19	6.25	4.73	4.70	-0.14	-
Mining (YoY Gr%)	12.35	11.50	13.14	7.01	5.20	6.02	8.13	1.30	6.77	6.56	10.30	3.75	-4.29	-
Manufacturing (YoY Gr%)	9.98	5.13	10.58	1.31	4.62	3.64	4.94	5.90	4.18	5.10	3.25	4.36	1.04	-
Electricity (YoY Gr%)	15.26	9.87	20.38	5.76	1.23	5.63	7.59	8.62	10.24	13.74	8.58	7.94	-3.72	-
Core Infra Growth (YoY Gr%)	13.37	9.45	12.68	7.89	5.08	4.16	7.06	6.25	6.94	6.86	5.13	6.14	-1.77	-
Cement Production (YoY Gr%)	19.74	4.73	16.95	-4.75	3.84	4.06	7.82	10.58	0.16	-0.63	1.90	5.48	-3.02	-
Steel Production (YoY Gr%)	16.36	14.81	13.59	9.74	8.28	9.17	9.44	7.53	9.83	8.94	6.72	6.42	4.54	-
Petroleum Products (YoY Gr%)	9.55	5.49	4.29	12.36	4.09	-4.30	2.63	1.59	3.92	0.50	-1.54	6.62	-1.03	-
Fertilizers Production (YoY Gr%)	1.83	4.17	5.33	3.33	5.85	-0.59	-9.50	-1.27	-0.76	-1.66	2.45	5.31	3.15	-
Coal Production (YoY Gr%)	17.88	16.00	18.38	10.87	10.79	10.57	11.57	8.70	7.51	10.20	14.78	6.82	-8.05	-
Capital Goods Production (YoY Gr%)	13.05	8.37	21.67	-1.11	3.70	3.24	1.72	6.99	2.81	2.63	3.82	11.75	0.65	-
PMI Manufacturing	58.60	57.50	55.50	56.00	54.90	56.50	56.90	59.10	58.80	57.50	58.30	58.10	57.50	56.50
PMI Services	60.10	61.00	58.40	56.90	59.00	61.80	60.60	61.20	60.80	60.20	60.50	60.30	60.90	57.70
Banking Sector	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Bank Credit (YoY Gr%)	19.73	19.96	19.73	20.64	19.95	20.30	20.50	20.16	19.01	19.78	17.36	13.59	13.59	-
Agriculture Credit (YoY Gr%)	16.48	16.66	17.39	18.11	19.39	19.99	20.00	19.97	19.84	21.60	17.41	18.07	17.73	-
Industry Credit (YoY Gr%)	5.91	6.51	5.36	6.06	8.04	7.97	8.89	8.51	7.37	9.36	8.13	10.09	9.71	-
Services Credit (YoY Gr%)	24.98	25.39	24.03	25.75	23.34	24.20	24.26	23.49	22.02	23.18	17.36	13.99	13.92	-
Retail Credit (YoY Gr%)	30.36	30.03	29.56	30.03	28.41	28.61	28.11	27.46	26.70	28.73	25.60	14.99	13.93	-
Bank Deposits (YoY Gr%)	13.22	9.90	13.22	14.21	13.28	13.20	13.12	13.47	12.56	14.02	11.12	10.57	10.83	11.54
Demand (YoY Gr%)	9.36	-1.32	8.06	15.04	10.71	9.19	10.12	12.08	9.88	14.83	6.24	8.25	10.56	13.33
Time (YoY Gr%)	13.75	11.54	13.95	14.10	13.64	13.76	13.53	13.67	12.93	13.91	11.83	10.88	10.87	11.31
C-D Ratio (%)	77.50	78.60	79.20	79.60	79.50	80.00	80.20	80.30	79.50	79.60	79.30	79.30	79.50	79.60
Weighted Average Lending Rate Fresh Rupee Loans (%)	9.47	9.38	9.50	9.41	9.32	9.43	9.36	9.37	9.55	9.39	9.32	9.40	9.41	-
Weighted Average Deposit Rate (%)	6.60	6.70	6.76	6.79	6.83	6.85	6.86	6.89	6.91	6.92	6.91	6.92	6.93	-
Banking Sector	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
UPI (No. in Cr)	1058.60	1055.57	1140.88	1123.53	1202.02	1220.30	1210.27	1344.00	1330.40	1403.58	1388.51	1443.56	1496.30	1504.17
IMPS (No. in Cr)	48.92	47.29	49.29	47.24	49.88	50.88	53.46	58.06	55.04	55.77	51.68	49.03	45.33	42.99
NPCI Retail Transaction value (Y-o-Y Gr%)	26.71	20.61	23.52	25.99	21.14	25.16	28.51	22.19	23.95	22.01	22.83	22.96	20.51	20.62
NPCI Retail transactions volume (Y-o-Y Gr%)	46.68	43.68	42.59	46.93	44.96	44.68	50.01	46.69	44.24	42.86	44.14	39.05	37.43	38.96
Inflation	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
CPI (Y-o-Y Gr%)	6.83	5.02	4.87	5.55	5.69	5.10	5.09	4.85	4.83	4.80	5.08	3.60	3.65	5.49
Core CPI (Y-o-Y Gr%)	4.79	4.52	4.26	4.11	3.89	3.59	3.37	3.24	3.23	3.12	3.14	3.39	3.40	3.50
WPI (Y-o-Y Gr%)	-0.46	-0.07	-0.26	0.39	0.86	0.33	0.20	0.26	1.19	2.74	3.43	2.10	1.31	1.84
Consumer	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Electricity Consumption (YoY Gr%)	16.12	11.76	23.46	6.15	0.80	5.54	8.86	9.99	9.02	13.62	8.01	3.98	-4.96	-0.70
Petroleum Consumption (YoY Gr%)	11.69	-1.97	1.91	-4.37	9.41	6.46	-4.84	15.31	-2.56	8.18	8.97	7.39	1.07	-7.96
Consumer Durables (YoY Gr%)	6.02	0.97	15.93	-4.83	5.24	11.58	12.56	9.53	10.55	12.63	8.73	8.29	5.19	-
Consumer Non Durables (YoY Gr%)	9.93	2.66	9.29	-3.38	3.04	0.30	-3.17	5.22	-2.46	2.80	-1.50	-4.30	-4.52	-
Unemployment (YoY Gr%)	8.10	7.09	9.42	8.88	8.65	7.40	8.10	7.40	8.10	7.00	9.20	7.90	8.50	7.80
Trade	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
Merchandise Export (YoY Gr%)	3.41	-2.77	5.80	-3.27	0.80	4.26	11.87	-0.63	1.99	13.30	2.45	-1.73	-9.33	0.49
Merchandise Import (YoY Gr%)	0.68	-14.02	10.28	-3.32	-6.64	1.99	13.69	-6.39	11.47	8.07	5.93	7.46	3.31	1.60
Service Export (YoY Gr%)	8.34	-2.74	10.66	4.16	1.74	10.75	3.43	-1.40	17.06	9.69	3.16	16.61	5.66	7.69
Service Import (YoY Gr%)	-0.87	-10.41	-0.41	-11.13	-1.05	0.10	1.72	-2.12	19.99	6.18	-3.08	15.72	8.83	11.96
Logistics	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
E Way bill generated (Nos. in Cr)	9.34	9.20	10.03	8.76	9.53	9.60	9.73	10.35	9.67	10.32	10.01	10.49	10.55	10.91
Air Freight (YoY Gr%)	6.86	-0.25	13.15	6.58	10.80	15.52	22.66	17.32	9.98	15.57	15.94	18.06	12.46	-
Fiscal	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24
GST Collection (YoY Gr%)	10.76	10.17	13.37	15.12	10.28	10.39	12.54	11.17	12.42	10.13	7.63	10.28	9.99	6.47
Govt. Expenditure (YoY Gr%)	10.55	3.19	-14.01	-13.82	7.13	-14.03	20.44	-0.62	39.26	-37.87	-18.42	0.12	20.94	-

Source: CEIC, RBI, UBI research

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