Premium

ExplainSpeaking: What RBI's surveys tell about India's economy

We take a look at the seven surveys conducted by the RBI, ranging from consumer confidence to GDP growth expectations, and what they tell us about the state of the Indian economy.

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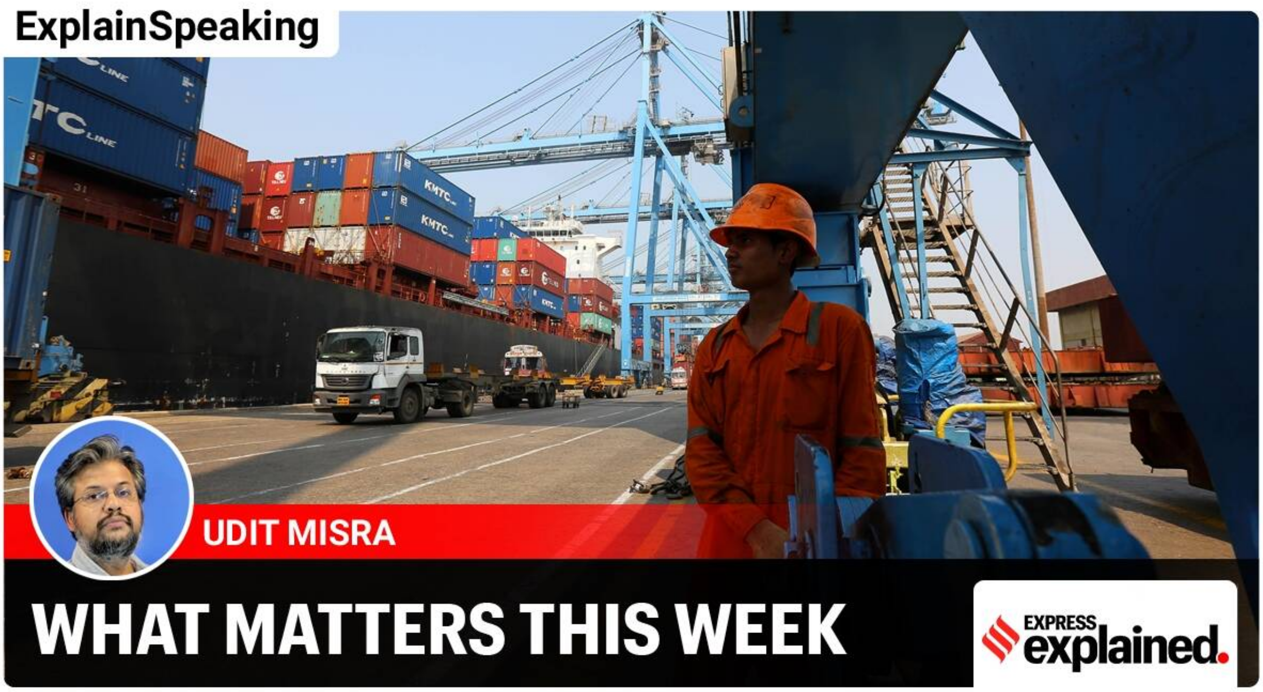


The spike in the trade deficit has been one of the key reasons why the rupee has lost value against the US dollar. In pic, ships unload containers at the Jawaharlal Nehru port. (Express File Photo by Prashant Nadkar)

Dear Readers,

As far as the Indian economy is concerned, there were two big news developments last week.

First, the government released India's trade data for July. Second, the RBI unveiled its **latest monetary policy review** as well as seven surveys that help it ascertain how the economy is doing.

Trade Deficit

The trade data details what goods (only goods, and not services) India imported and exported in July. It presents this in value terms (in Indian rupees or US dollars).

Many of you might recall how towards the end of March this year the government had celebrated India's exports breaching the $400 billion mark — a record — in the 2021-22 financial year. The government had asserted that this jump in exports was a result of "a detailed strategy", which targeted specific countries for specific exports and made the necessary "course correction."

ExplainSpeaking dealt with this topic and explained what the $400 billion exports record hid. **You can click here to read that explainer**.

In short, ExplainSpeaking had alerted that "between the pincer effect of lower (global) growth and higher inflation (which reduces people's purchasing power), the global demand for Indian goods is most likely to suffer in the coming year."

Here's what has happened in the four months since then. Barring April, in each of the last three months — May, June and July — India's trade deficit (that is, the excess of imports over exports) hit an all-time high in each passing month **(see Chart 1)**.

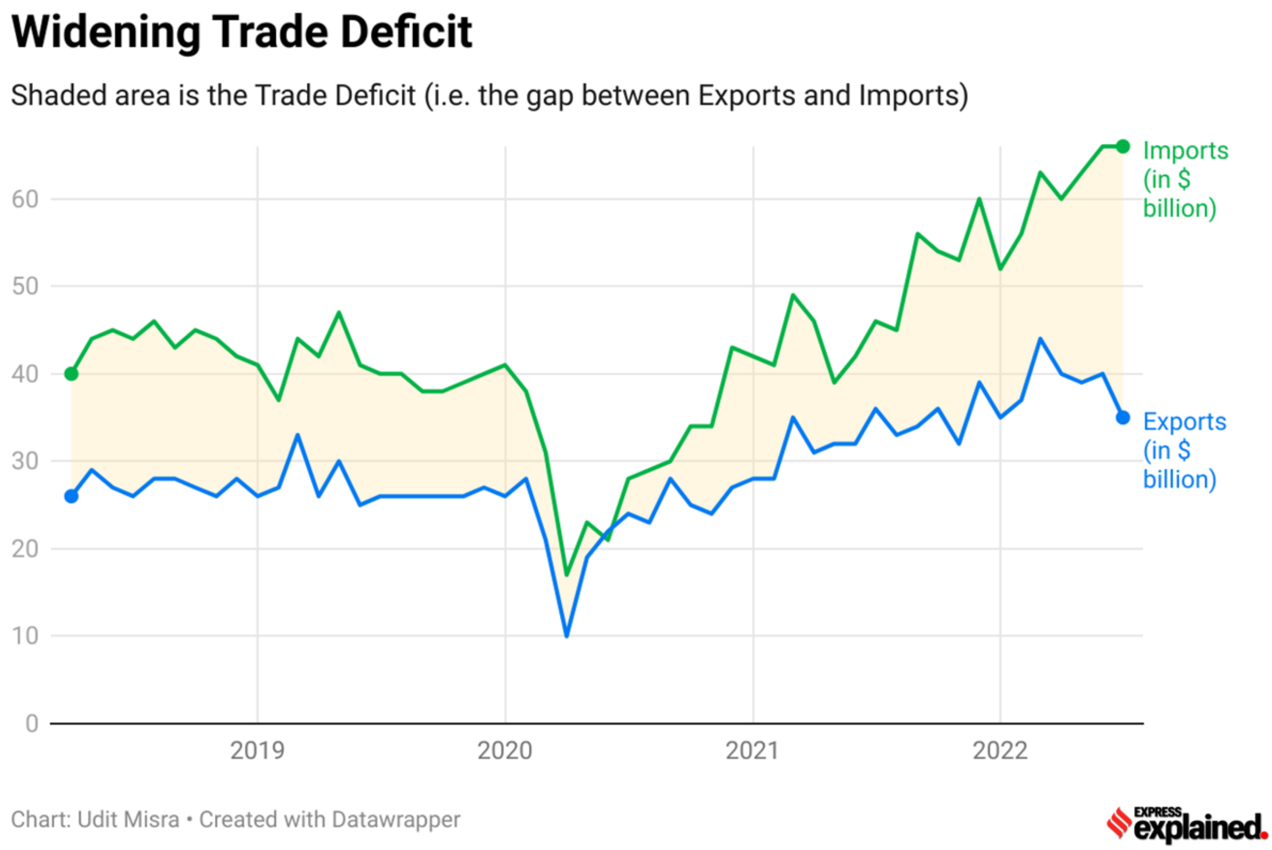
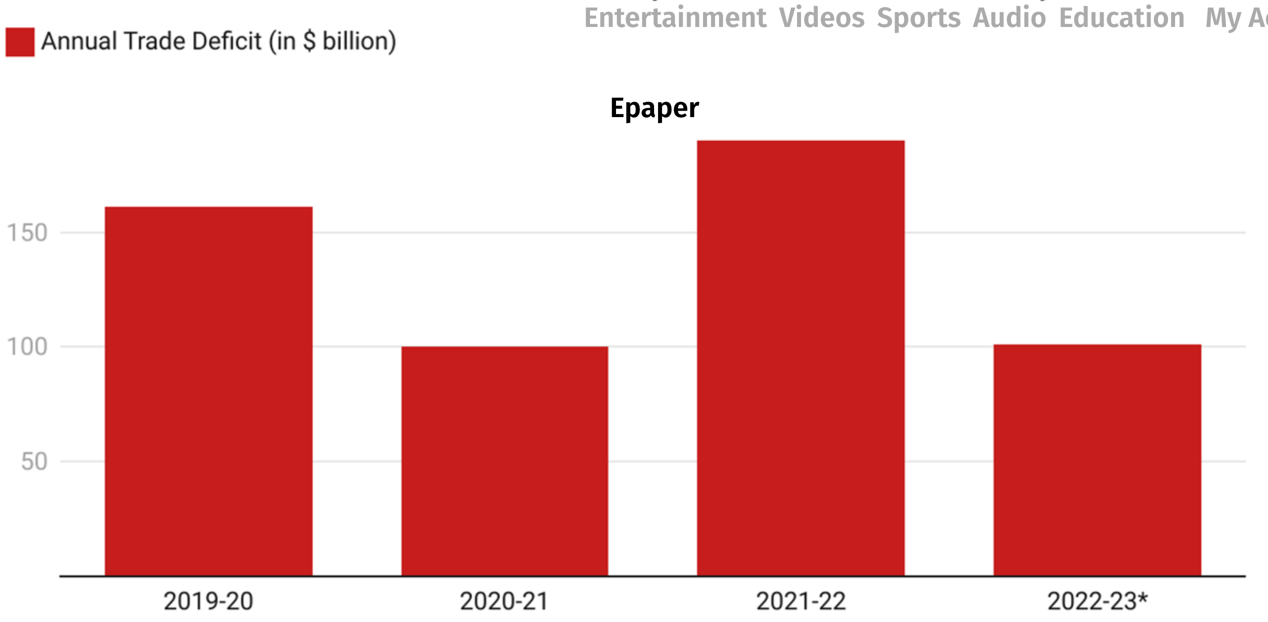


Chart 1: India's trade deficit (i.e. the gap between exports and imports). 2018-2022

The trade deficit has risen so sharply that just in the first four months of the current financial year, it is already equal to the full-year trade deficit of 2020-21 and more than half of the trade deficit in 2021-22 **(see Chart 2)**.

Trade deficit in the first 4 months of FY23 is already more than half of FY22's full year deficit



*First 4 months (April to July)

Chart: Udit Misra • Created with Datawrapper

Chart 2: Comparing the annual trade deficit over the last three FYs with the first four months of FY23

Many analysts now expect India's Current Account Deficit (CAD) — **read this piece to know the link between the trade deficit and CAD** — to balloon from 1.2% of GDP in 2021-22 to around 4% (of the GDP) in 2022-23. This spike in the trade deficit has been one of the key reasons why the rupee has lost value against the US dollar **(see Chart 3)**.

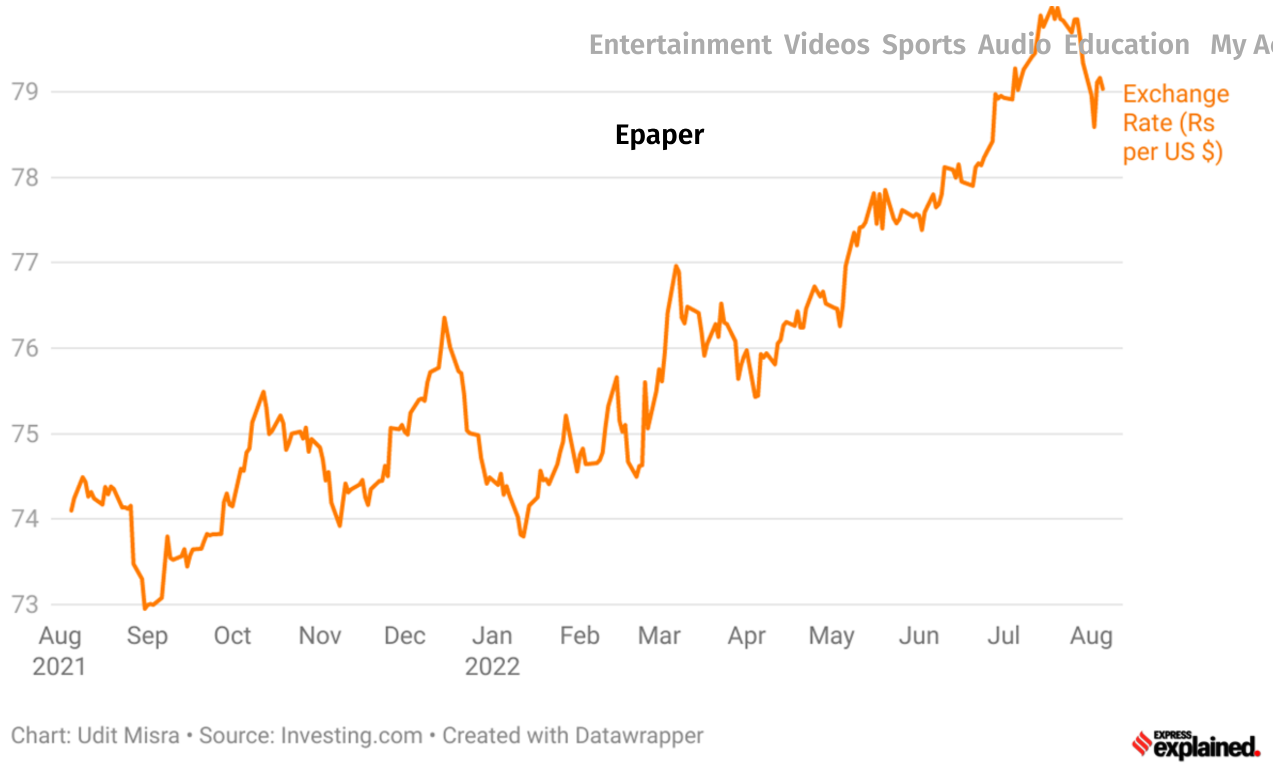


Chart 3: Mapping the decline of rupee's value against the US dollar

If you want to get a slightly more detailed explanation of what the trade deficit is, what's been causing it to soar, how it impacts the economy etc., you can watch last week's episode of **The Express Economist**, a weekly video show on the Indian economy and policy issues.

RBI Monetary Policy Review

Since mid-May, when the **Monetary Policy Committee (MPC)** was forced to hike interest rates in an off-cycle meeting, the RBI has reprioritised its focus from boosting growth to containing inflation. Following in the same path, RBI raised the repo rate — the interest rate at which it lends money to the banking system — by 50 basis points (bps). Since May, repo rates have gone up by 140 bps (or 1.4 percentage points).

However, given the fact that RBI expects inflation to be 6.7% for the current financial year (April 2022 to March 2023), most analysts expect another 50 bps hike in the repo rate later in the year. At 5.4%, already the repo rate is at the pre-pandemic level. Another 50 basis points would take it close to 6%.

Since this is the base rate, expect borrowing rates of all kinds to go up by the same degree or more. Consumers will have to shell out more as EMIs for their home and recovery.

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But this is the most curious bit in the RBI policy. RBI still expects India to grow at 7.2% in the current year. But this is the same GDP estimate that it had in April. At that time, RBI's inflation estimate for the current year was 4.5%. Now, it expects inflation to be 6.7%. Moreover, since April, repo rates have gone up by 140 bps, with another 50 to 60 bps in the offing.

The question is: How can the estimate for GDP growth rate not change when RBI's policy actions to bring down inflation will impede overall economic activity?

As such, don't be surprised if RBI revises downward the GDP growth rate projection in the coming months as the financial year winds down.

RBI's Surveys

Speaking about the state of the Indian economy, the RBI also released the results of seven surveys that it conducts. Each of these surveys throws light on some aspect or the other of the Indian economy.

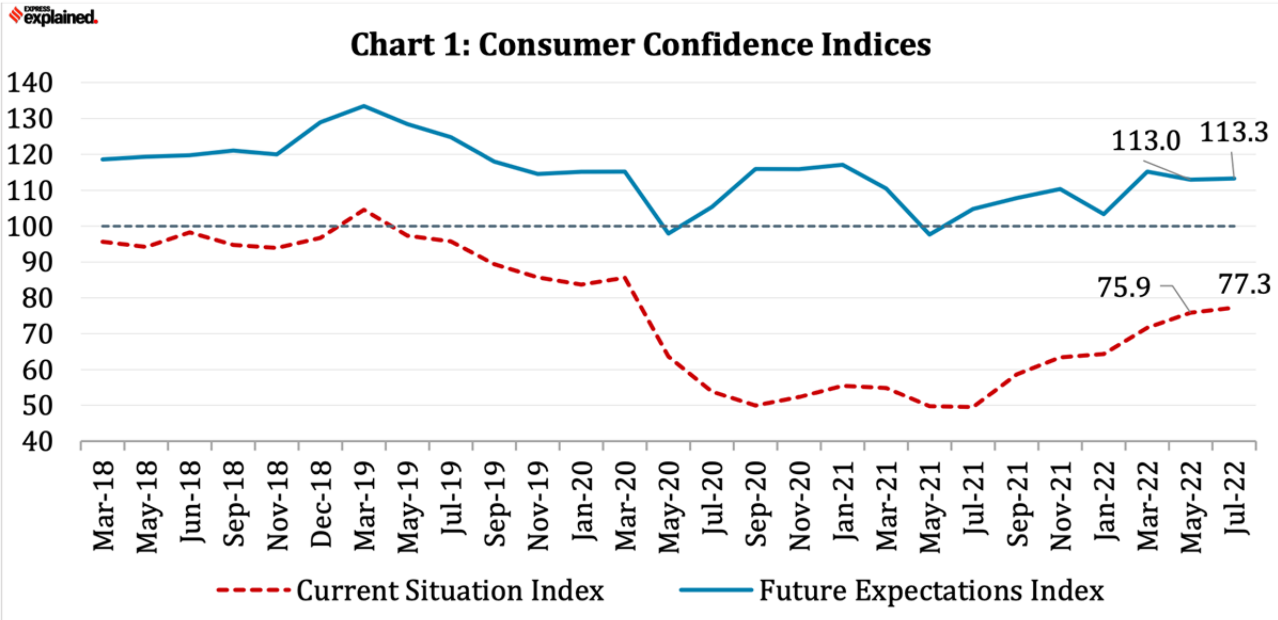
Here's a summary of what they are and what they found.

1. Consumer Confidence Survey (CCS)

The CCS asks people across 19 cities about their current perceptions (vis-à-vis a year ago) and one-year ahead expectations on the general economic situation, employment scenario, overall price situation and own income and spending. The latest round of the survey was conducted from July 07 to July 14, 2022, covering 6,083 responses. Based on the responses, the RBI comes up with two indices: the Current Situation Index (CSI) and the Future Expectations Index (FEI).

To read either index it is important to first understand that the value of 100 is the neutral level. An index below the 100 mark implies people are pessimistic and a value higher than 100 conveys optimism.

firmly in the negative territory — suggesting consumer confidence is still considerably adrift from the neutral territory.



CCS chart: India's Current Situation Index (CSI) and the Future Expectations Index (FEI) from March 2018 to July 2022

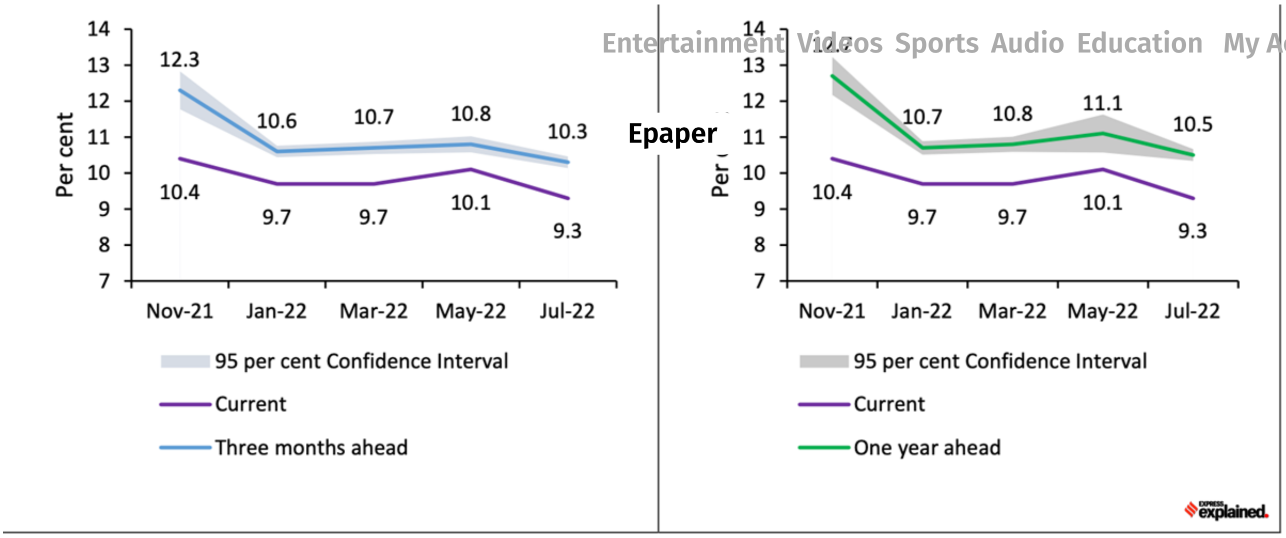
The FEI is in the positive territory but even now it stays below the pre-pandemic levels.

2. Inflation Expectations Survey (IES)

This is another key survey for the RBI. It tracks people's expectations of inflation. The biggest worry during phases of rapid inflation is that if inflation is not controlled soon, it can lead to people getting into the habit of expecting high inflation; that, in turn, alters people's economic behaviour. Often central bank heads can be found saying they want to prevent people's inflation expectations from becoming "unanchored".

This survey provides an answer to whether that is happening in India or not.

As the **IES charts** show, households' inflation perception for the current period has moderated by 80 bps to 9.3 per cent in the latest survey round. "Their three months and one-year ahead median inflation expectations also declined by 50 bps and 60 bps, respectively, from the May 2022 round of the survey," finds the RBI.

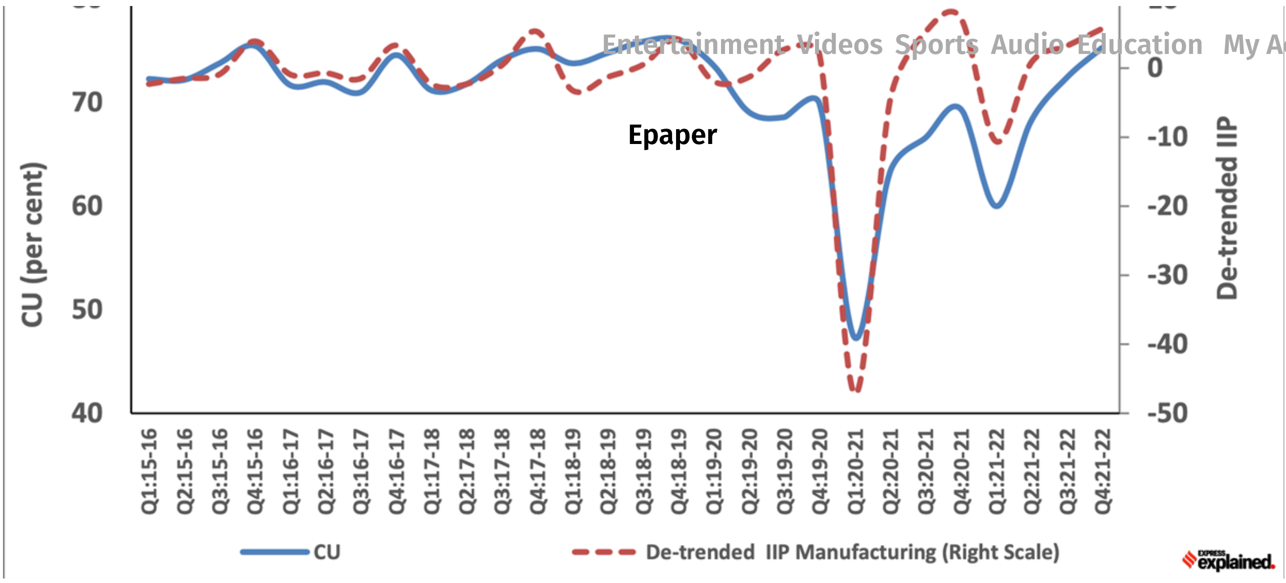


IES chart shows the three months and one-year ahead median inflation expectations

3. OBICUS Survey

OBICUS stands for "Order Books, Inventories and Capacity Utilisation Survey". This survey covered 765 manufacturing companies in an attempt to provide a snapshot of demand conditions in India's manufacturing sector from January to March 2022.

The key variable here is Capacity Utilisation (CU) — shown in the blue line in the **OBICUS chart**. A low level of CU implies that manufacturing firms can meet the existing demand without needing to boost production. That, in turn, has negative implications for job creation and the chances for private sector investments in the economy.



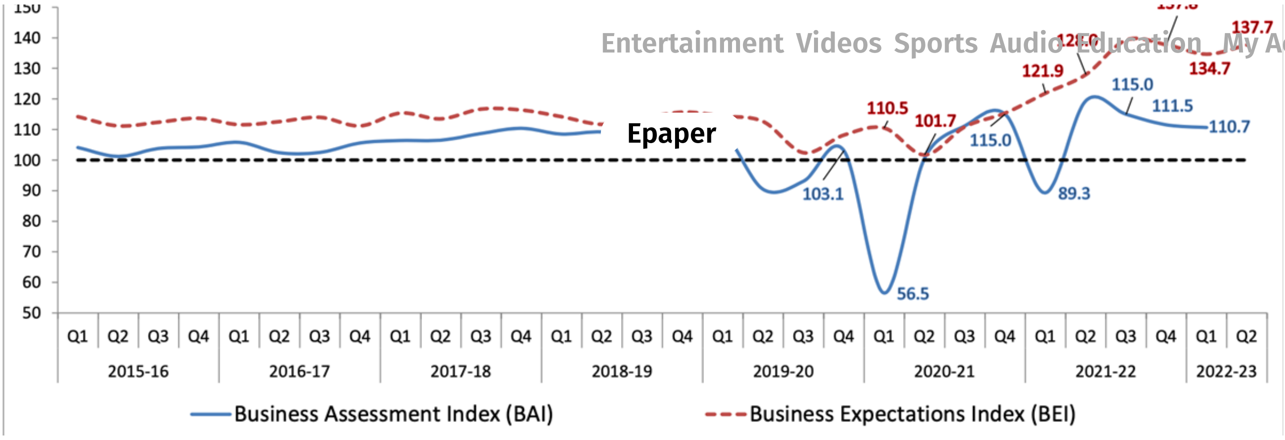
OBICUS chart: The Capacity Utilisation (CU) is above pre-pandemic levels

Here again, the news is heartening. The CU is well above the pre-pandemic level — suggesting India's aggregate demand is recovering steadily.

4. Industrial Outlook Survey (IOS)

Just like the CCS tries to suss out consumer confidence, this survey tries to track the sentiments of the businessmen and businesswomen. "The survey encapsulates qualitative assessment of the business climate by Indian manufacturing companies for Q1:2022-23 (April, May and June) and their expectations for Q2:2022-23 (July, August and September)," according to the RBI.

As the **IOS chart** shows, businesses were optimistic (above the 100 level) in Q1, although not as much as they were in the recent past. But, they do expect things to improve as the months roll by. This tallies with the steadily improving capacity utilisation from the OBICUS.

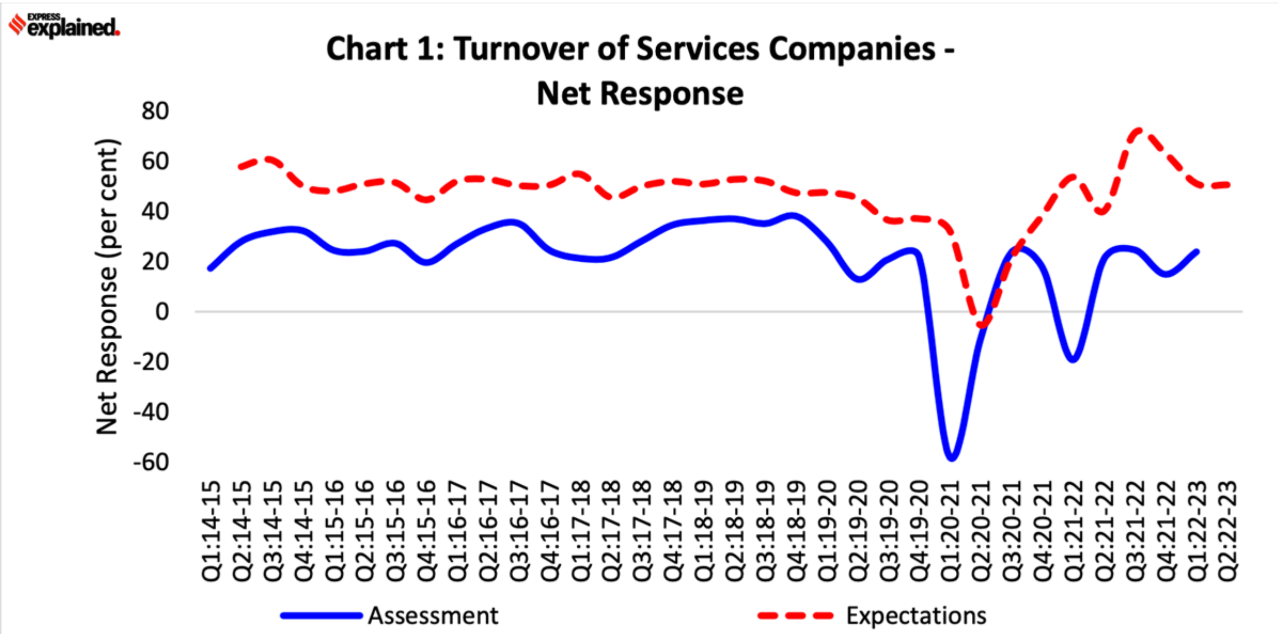


IOS chart shows the business expectations index from FY 16 to FY 23

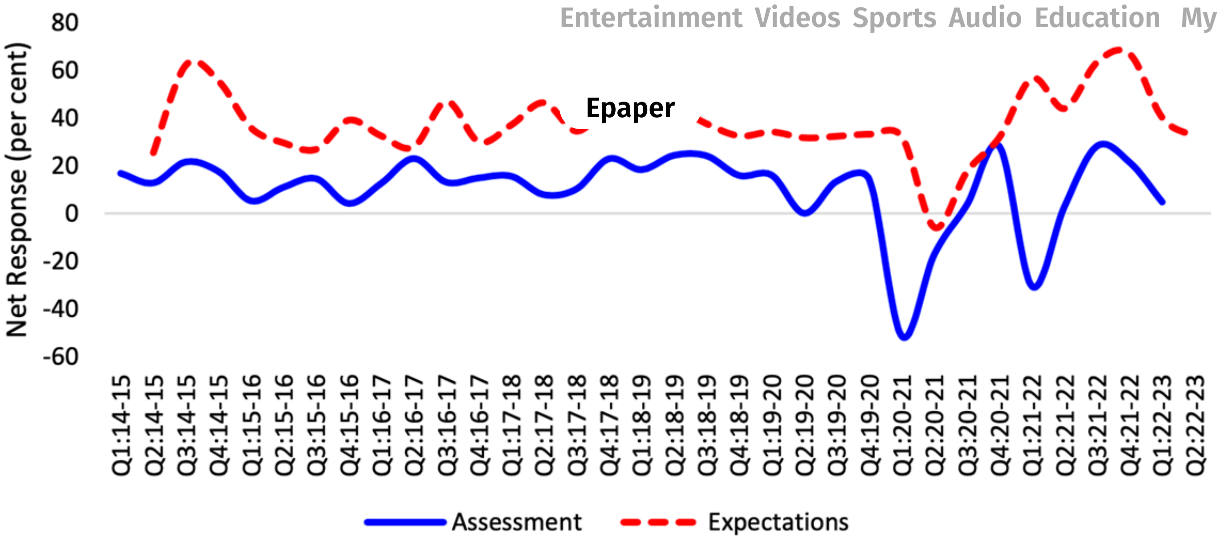
5. Services and Infrastructure Outlook Survey (SIOS)

Again, much like the CCS and IOS above, this survey does a qualitative assessment of how Indian companies in the services and infrastructure sectors view the current situation and the future prospects. This round of SIOS surveyed 758 companies on their assessment for Q1:2022-23 and expectations for Q2:2022-23. The questions were on parameters relating to demand conditions, price situations and other business conditions.

As the **SIOS charts 1** and **2** show, the companies in the services space are far more optimistic than the companies in the infrastructure sector.



SIOS chart 1: The chart maps the responses of 758 companies on their assessment for Q1:2022-23 and expectations for Q2:2022-23



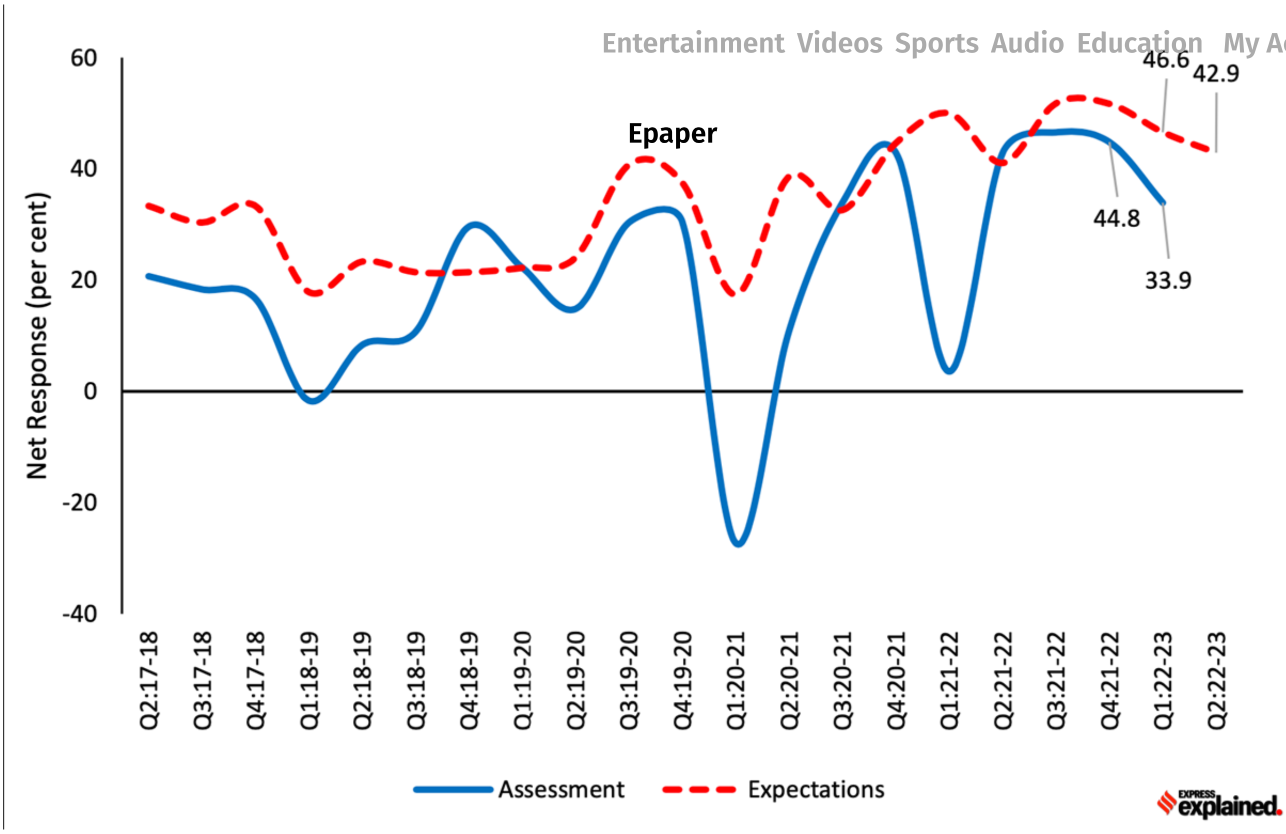
SIOS chart 2: The chart maps the responses of 758 companies on their assessment for Q1:2022-23 and expectations for Q2:2022-23

But the important thing is that the net responses — that is, the difference between the percentage of respondents reporting optimism and those reporting pessimism — is positive for both sectors.

6. Bank Lending Survey (BLS)

This survey captures the mood — qualitative assessment and expectations — of major scheduled commercial banks (SCBs) on credit parameters (viz., loan demand and terms & conditions of loans) for major economic sectors.

The BLS found that the bankers' assessment of loan demand in Q1: 2022-23 remained positive for all major sectors though the sentiments were somewhat toned down from the level reported in the previous quarter. Sentiments on overall loan demand in the second, third and fourth quarters also remained upbeat (**see BLS chart**).



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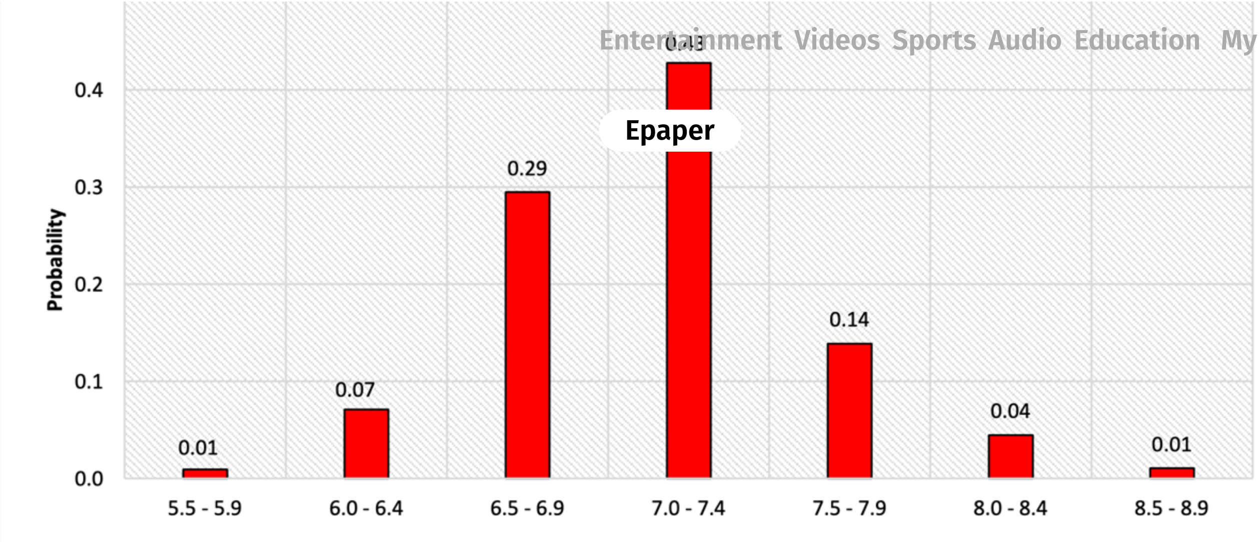
7. **Survey of Professional Forecasters (SPF)**

Lastly, there is a survey of 42 professional forecasters (outside the RBI) on key macroeconomic indicators such as GDP growth rate and inflation rate in the current year and the next financial year.

India's real GDP is expected to grow by 7.1 per cent in 2022-23 — projections revised down by 10 basis points from the last survey round— and it is expected to grow by 6.3 per cent in 2023-24.

As shown in the **SPF chart**, it is noteworthy that while the highest probability is that GDP growth will range between 7%-7.4%, the second most probable outcome is that the growth rate will decelerate to 6.5%-6.9% range.



The Survey of Professional Forecasters shows that the highest probability is that GDP growth will range between 7%-7.4%

Do you agree with the assessment of the RBI's surveys? Share your views and queries at udit.misra@expressindia.com.

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