CARE Ratings' Economic Meter: June 2021

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The concept of economic recovery is nebulous because it appears different depending on the way one looks at it. The parameters examined are important as each one could provide a different picture. Besides, often data comes with a lag and something like GDP involves 2 months (Q4 data comes on May 31st). Further, some data points undergo revisions and at times after three months the direction can also change. Hence it is a bit challenging when it comes to interpreting data.

We had brought out a CARE Ratings Economic Comeback Meter (CECM) last year to track whether or not the economy was on the recovery track. With conditions returning to normal by March the question was not on recovery but pace of acceleration. This was thwarted substantially by the second lockdown which was region specific but became a national phenomenon as it was imposed in all states. April was still a case of the lockdown not being quite pervasive but by May, post the state elections, restrictions on activity became the norm. In June there was some semblance of relaxation of curbs by different states though it was at a hesitant pace. In July there has been some more relaxation though services remain largely closed in most states.

It is against this background that we have reconstructed the CECM and included more variables on which contemporaneous information is available. We now call it CARE Ratings Economic Meter (CEM) as a more holistic picture is conveyed rather than the focus on 'comeback' which was the case earlier. The CEM shows the progress made by the economy on the basis of several high frequency indicators. It is an objective approach which is driven by a formula and hence eschews subjective judgments. By relating bands of the score to different states of economic performance one can position the state of the economy at any point of time.

We have used 11 high frequency indicators for recording the CEM with specified criteria for each. The highest score is 10 while the minimum is zero. Each of the indicators reflect a particular aspect of economic activity in areas such as production, consumption, investment, and foreign trade. The parameters used are:

1. PMI-Manufacturing which is compared over the previous month as well as the norm of being above 50. It gives a sense of manufacturing activity though admittedly the relation with IIP is not very strong. But this is a quick indicator, nonetheless.

2. PMI-Services is compared with the previous month as well as the norm of 50 which is indicative of positive level. It is the only contemporary indicator available on services in the country.

3. eWay bills is an indicator of traffic in goods and is reckoned against the moving average of last three months as well as the average for the last financial year.

4. GST collections are a proxy for overall consumption and reckoned over the norm of Rs 1 lkh cr for FY21 and Rs 1.1 lkh cr for FY22 (based on what the budgets have reckoned for centre and states combined). It is also compared over the three months moving average preceding the month under consideration.

5. Exports reflect the external thrust, and the monthly performance is reckoned with respect to the three months moving average as well as cumulative level during the financial year for comparison with the previous financial year.

6. Imports which include oil and non-oil are linked inexorably with the state of the domestic economy and like exports has a dual criterion of comparison over three months moving average and cumulative numbers during the financial year for comparison with the previous financial year.

7. Bank credit is a very good indicator of overall activity, and three sub-criteria are used here. The first is growth during the year, and the other is growth on YoY basis. In case of CPs growth in outstanding CPs over March is the metric used.

8. For capital markets both debt and equity issuances are important, though the former has a higher weight. Bond issuances are reflective of investment and cumulative issuances are compared over the previous year. The same is done for equity issuances.

9. Power consumption which captures all users is reflective of overall level of activity in the country. Growth on MoM and YoY basis are used.

10. Automobile registrations (reflecting discretionary consumption) have been subdivided into 2 wheelers as well as passenger vehicles (light and medium). For each of these categories comparison with preceding three months moving average as well as cumulative registrations are reckoned.

11. Unemployment is probably the clinching variable for the question: Is the economy growing? Here we use the CMIE's unemployment rate to compare with the preceding month as well as the minimum unemployment rate in the preceding 12 months.

Several indicators used in this exercise may seem to overlap with one another. But this is an observation even in very normal times as a singular view is rarely given by any indicator. At the macro level, IIP growth could be high with capital goods being low. Bank credit could be high due to retail loans, with industrial stagnation. Therefore, this is not unusual.

However, such overlaps in theory are not consistent with reality. For instance, higher GST has gone with lower eWay bills. Similarly, auto sales and GST do not always go together. Further, a revival in PMI or exports would not always gel with bank credit profile. Therefore, we believe that using multiple variables which connote the same aspect of the economy does not involve a duplicate view as they would not necessarily denote the same level of positivity given the complexities in the economic structure. In fact, using multiple variable irons out the picture.

The weights given are as follows:

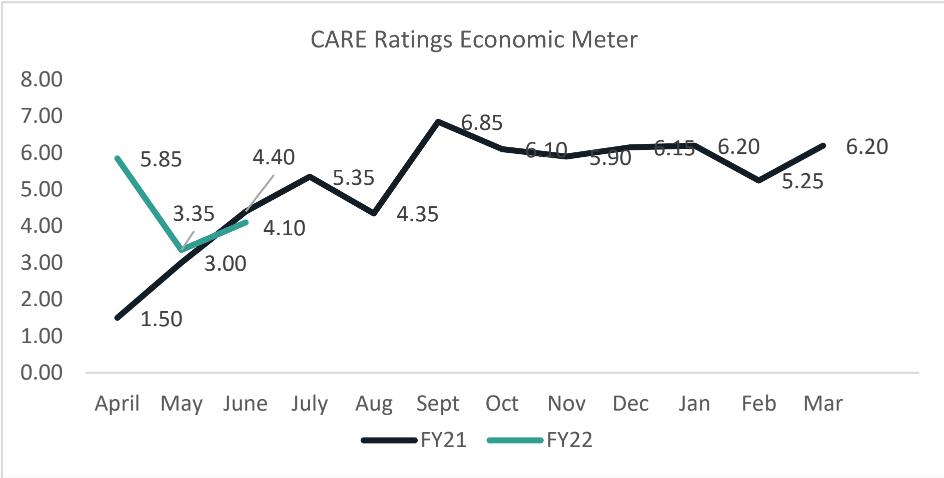
Parameter	Weight
PMI-M	0.5
PMI-S	0.5
eWay bills	1.0
GST collections	1.0
Exports	1.0
Imports	1.0
Bank credit including CPs	1.2
Capital markets	1.0
Power consumption	1.0
Auto sales	0.8
Unemployment	1.0

How to interpret the Meter

Some of the thumb rules are the following:

- Any score less than 4 would be associated with economic downturn.
- 4-6 score would be indicative of a move towards recovery.
- 6-8 would be a steady state growth position.
- Above 8 would be accelerated growth.

How has the economy fared in 2020-21 and 2021-22?



What does the CEM show?

The graph shows that in 2020-21 the CEM was sub-satisfactory level in the first two months when there was a total lockdown. It changed track subsequently as the economy opened up and peaked in September at 6.85 after which there was moderation. However, it remained stable at above 6 in 4 of the 6 months. The year ended at 6.20. In 2021-22.

There was a good start in April which faltered in May where it dipped to 3.35, which still was better than that in May 2020. In June there has been a recovery to cross the mark of 4. However, it is marginally lower than the score in June 2020 meaning thereby that though the lockdowns were state driven the impact on the economy has been perceptible.

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