CARE Ratings'

Economic Comeback Meter (CECM)

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Backdrop

Following the pandemic induced economic lockdown, the economy has gone through fairly volatile phases, depending on the extent to which the unlock process unfolded. Various high frequency indicators show different pictures of recovery. Some are based on sample surveys while others are on production or collection numbers. Interpretation of these numbers has been a puzzle as the basis of comparison has been varied. Do we compare month-on-month growth rates or year—on-year? Also, do we compare year-on-year growth rates with the previous year or previous month? Judgments vary depending on the assessment of month-on-month growth, year-on-year improvement, comparison of year-on-year growth rates with the rate of increase in the previous year/month. The diverse assessment makes interpretation very subjective. As the unlock process started it was but natural that month-on-month numbers would get better. Also, the case of pent-up demand or preparation for the same would tend to create spikes in production numbers. How then does one compress all these growth rates in a single number?

Objective

The objective of the CARE Ratings' Economic Comeback Meter (CECM) is to assess how certain high frequency indicators have fared since June 2020. April and May 2020 have not been considered as we are focusing on the path of recovery post unlocking of the economy. The aim is to arrive at a score to gauge the recovery path of the Indian economy and quantify the deviation of the present state from the normal.

Indicators

The indicators have been chosen in such a way that it covers three broad aspects/attributes of the economy – Production, Consumption, and Investment. As some of the variables would be related to others, they are used in such a way so as to be representative of one of the broad aspect/attribute of the economy with weights being adjusted to address the issue of multi-collinearity (inter-relation between variables). The choice of variable is also determined by the availability of the data within the first week of a month. Data frequency of all indicators is monthly.Table 1: Snapshot of the Indian Debt Market

Production	Consumption	Investment
Power Generation	GST	Corporate Bond Issuances
E-way Bills	Petrol Consumption	Bank credit
Imports (Non-Oil/Non-Gold)	Passenger Vehicles	Investment
	2/3-Wheeler	

What do the indicators connote?
Production is represented by

- Power generation is linked to the overall business activity in the country. Typically, an economy which is growing witnesses greater demand for electricity in both manufacturing and services.
- E-way bills gives a sense of the goods being transported across the country which is again driven by production.
- Non-oil-gold imports are representative of production as they normally comprise of raw materials or intermediary goods that go into production. Even the final goods that are imported are normally used for further production rather than consumption.

Consumption indicators include

- Passenger cars and two-wheelers cover the demand for durable assets and hence provide a flavor of discretionary consumption
- Petrol consumption covers the spending by consumers towards transportation and travel for essential and non-essential purpose
- GST collections are directly linked with consumption and higher receipts indicate that people are spending money.

Investment indicators include

- Growth in bank credit over March end
- Debt issuances in the market which would directly and indirectly (NBFCs) go towards financing investment.

Methodology

Weights

Indicator	Weights		
	Total	**For growth comparison with same months last year**	**For growth comparison with preceding months**
Production			
• Power Generation	1.5	0.75	0.75
• E-way Bills	1.5	0.75	0.75
• Imports (Non-Oil/Non-Gold)	1.5	0.75	0.75
Consumption			
• GST	2.0	1.0	1.0
• Petrol Consumption	1.5	0.75	0.75
• Passenger Vehicles	0.5	0.25	0.25
• 2/3 Wheelers	0.5	0.25	0.25
Investment			
• Corporate Bond Issuances	0.5	0.25	0.25
• Bank credit	0.5	0.5	Nil
Total	**10**		

Approach

- We have considered the cumulative performance of each variable under consideration from June 2020 onwards, except bank credit which is reckoned over March. That's because April and May were months of low activity and would skew the numbers significantly.
- Absolute values of each variable are cumulated for each successive month from June for the past 3 financial years, 2018-19, 2019-20 and 2020-21.
- Correspondingly, year-on-year growth rates are then computed at the cumulative level for 2019-20 and 2020-21, based on which the score has been assigned.
    - The comparison of the growth rate has been done firstly with the cumulative year-on- year growth for the month under consideration with the growth in the corresponding months of the last year and secondly with the cumulative growth of the preceding month. For example:

For November' 2020	
Growth comparison for same months of last year	Y-o-Y growth of June-November'2020 vs June-November'2019
Growth comparison with preceding months	YoY growth of June-November'2020 v/s June-October 2020

- Because of two growth rate comparisons, the weights are divided equally between comparisons with last year and with the preceding month as shown in the table above.
- Bank credit has been treated differently where the incremental growth rate (over March) is being considered rather than year-on-year growth rates. The rationale is that the variable is a stock quantity unlike the others which are flows. These are then being compared only with last year's growth rate in the same period.
- For the comparison with the preceding months, wherever the growth is positive, it is benchmarked to annual average growth of the last 5 years.

Score Computation

- The score for each variable has been calculated in proportion to (1) the growth in the corresponding (cumulative) months of last year and (2) in proportion to the growth (for the cumulative months) in the preceding month.
- In order to give consideration to movement in the negative growth rate band, we have assigned 1/5th of the weight to such rates while the remaining 4/5th weight has been assigned to positive growth rates.
- For each variable in case the growth is negative and has seen an improvement from the corresponding month of last year it will get proportionate score of 1/5th of the total weight of the indicator. The same will hold for the growth comparison in the preceding month as well. If the negative growth has worsened further in the month under consideration, it will get a negative value and the least score i.e., 1/5th of the total weight of the indicator.
- For each variable in case the growth is positive, it will get a score of 1/5th of the total weight of the indicator plus 4/5th of the total weight in proportion to the growth rates in the corresponding month of last year as well as annual average growth rate for the indicator.
- The least score for the meter is -2 and the maximum value is 10.

How to interpret the Economic Comeback Meter?

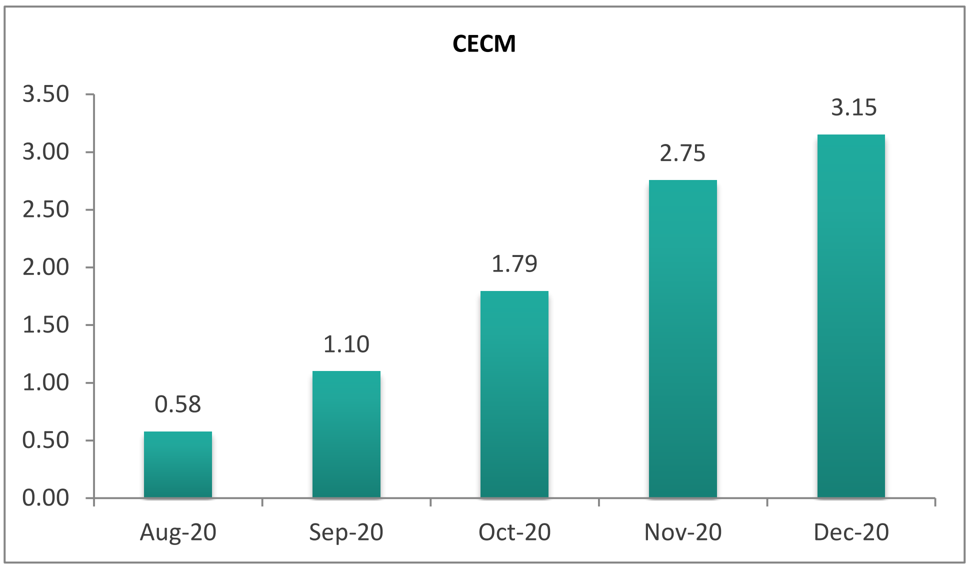
The Economic Comeback meter will be in the range between of -2 to 10.

Scale	Interpretation
-2 – 0	Deterioration
0 – 5	On Comeback path
5 – 8	Comeback
8 – 10	On growth path

How has the CECM moved in the last five months?

The CECM shows that the economy is "on a comeback path". Select parameters have seen a gradual but sustained improvement in the period under consideration. However, it is still far from a comeback.

During December'2020, the CECM score has gone up primarily on account of pick-up in electricity generation, GST consumption and bank credit. Despite the improvement seen in certain indicators like production of passenger cars, 2/3 wheelers and non-oil, non-gold imports, the cumulative contraction in these indicators has capped the upside in the overall score.



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