Economic Division

Monthly Economic Review

October 2022

आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS

सत्यमेव जयते

Table of Contents

Abstract

The global economy continues to navigate an increasingly turbulent and uncertain environment. Despite the current slowdown in global growth, inflation has risen to a multi-decade high in many economies, amid elevated food and energy prices. Retail inflation in the US was significantly above the Federal Reserve's medium-term target of 2 per cent at 7.7 per cent in October while eurozone inflation soared to a record 9.9 per cent in September 2022. Persistently high inflation has triggered a monetary tightening cycle that has thus far accelerated sharply. The Federal Reserve has raised the federal funds target rate by a cumulative 375 basis points since January 2022. The European Central Bank (ECB) and the Bank of England (BoE) have implemented cumulative hikes of 200 bps and 250 bps, respectively, since November 2021. However, the People's Bank of China (PBoC) decreased its prime lending rate as the country's economic activity struggles to maintain momentum in the face of the government's Zero Covid policy and a precariously positioned real estate sector.

Alongside tighter financial conditions and a steep fall in consumer confidence, indicators of global economic activity have deteriorated. The global composite PMI output index shrank for the second consecutive month in September, led by weakness in advanced economies (particularly in the euro area), as elevated uncertainty and high energy prices dented confidence. These unfavourable developments have led the IMF to downgrade its outlook on the global economy, revising downward its projections of 2023 growth rates for most economies. Amidst this deteriorating outlook, the Federal Reserve and the ECB telegraphed a hawkish stance in their fight against inflation. Higher interest rates may tip economies into recessions if central banks stay their course. Additionally, higher borrowing costs may expose fault lines in corporate and sovereign debt structures, further accentuating global macroeconomic stress.

Along with an uncertain macroeconomic outlook, the year 2022 also brought to the fore the vulnerability and interconnectedness of the global food system to shocks. Russia and Ukraine being key suppliers of agricultural commodities, their conflict has choked the supply and fuelled food inflation, impacting overall global food security. International sanctions, including trade restrictions imposed on Russia, have also contributed to the breakdown of global supply chains. Heatwaves and adverse climatic events in several countries have further impacted food production and restricted their supply to the world market. India's food system has also been adversely impacted by the conflict and vagaries of nature. Domestic prices of some food items have risen in the wake of the rise in international prices. India's grain availability was impacted by the untimely heatwaves and deficiency of the southwest monsoon in the current year. However, export restrictions have ensured that the country's needs are fully met. Further, efficient government actions through NFSA and PMGKAY, enabled by well-

ordered procurement and offtake operations of FCI, have ensured accessibility of food supplies up to the last person. India's food security has remained intact. Sharp rise in tractor sales in September and October also point towards improved sentiments and an expected increase in crop area sown.

The impact of disruption in food supplies is also visible in inflation numbers. Food inflation has contributed significantly to overall CPI inflation. During the first five months of 2022, food inflation was imported from elevating global prices of oils and fats. Since June 2022, however, domestic seasonal factors have been the major source of food inflation, mostly seen in the elevated prices of vegetables, cereals, and their products. As food inflation subsides, so should the overall CPI inflation as pass-through of input costs, which can harden CPI inflation, appears to be complete with the narrowing of the wedge between CPI and WPI inflation. The wedge has declined from a peak of -10 per cent in November 2021 to -1.6 per cent in October 2022, indicating only limited scope for future pass-through. The wedge may temporarily widen when retail inflation further declines after lower international commodity prices directly get transmitted to consumer prices. Going forward, the current retail inflationary pressures are expected to ease with fresh Kharif arrivals and a pass-through of lower input costs to consumers, also affirmed by RBI's inflation projections for the next two quarters.

Even as the strengthening of food systems and moderating inflation is helping to ensure living standards in lower income segments of the population, other aspects of inclusivity have also been building up, as reflected in various social indicators. The UNDP Multi-Dimensional Poverty Index (MPI) released in October 2022 shows 41.5 crore people exiting multidimensional poverty in India during the last 15 years. India's success in reducing poverty has also contributed to a decline in poverty in South Asia with South Asia no longer remaining the most multi-dimensionally poor region.

India's response and containment measures, followed by near universalisation of vaccination, have been considered a public health care marvel in subduing the pandemic. However, even before the successful Covid management, other success stories were slowly unfolding, including those of Infant Mortality Rate and Maternal Mortality Rate, which declined between 2019 and 2020. This could be attributed to strategic investments taken under National Health Mission (NHM).

In general, inclusivity is perhaps best demonstrated by job creation. In India, too, the recovery in economic activities across sectors has improved the overall employment situation in the country. The PLFS shows the urban unemployment rate declining for the fourth consecutive quarter ending June 2022. Net payroll additions in EPFO have witnessed double-digit growth in September 2022, reflecting improved formalisation of the economy. The Naukri Job Speak

Index shows that most key industries maintained hiring expansion during October 2022. The TeamLease Employment Outlook Report also documents a step-up in hiring activity in the quarter ending September, driven by a rebound in new business gains, with the growth in the index of hiring intentions being strongest in India.

A rapid deterioration in global growth prospects, high inflation, and worsening financial conditions have increased fears of an impending global recession. The spillovers of the global slowdown may dampen India's exports businesses outlook; however, resilient domestic demand, a re-invigorated investment cycle along with strengthened financial system and structural reforms will provide impetus to economic growth going forward. Easing international commodity prices and new Kharif arrival are set to dampen inflationary pressures in the coming months. Hiring by firms is likely to witness an improvement in upcoming quarters driven by a rebound in new business gains as firms continue to benefit from the lifting of the COVID-19 restrictions and the possible sustaining of the sales momentum witnessed during the festival season.

Monetary tightening in the United States has not yet resulted in a significant tightening of financial conditions in that country. That is a future risk. When that happens, global financial conditions will tighten. That could mean lower stock prices, weaker currencies and higher bond yields, resulting in higher borrowing costs for many governments around the world. In times such as this, the best contribution that governments make to economic growth is through policies that prioritise economic and financial stability, as India has demonstrated in the last two and half years.

Global Outlook

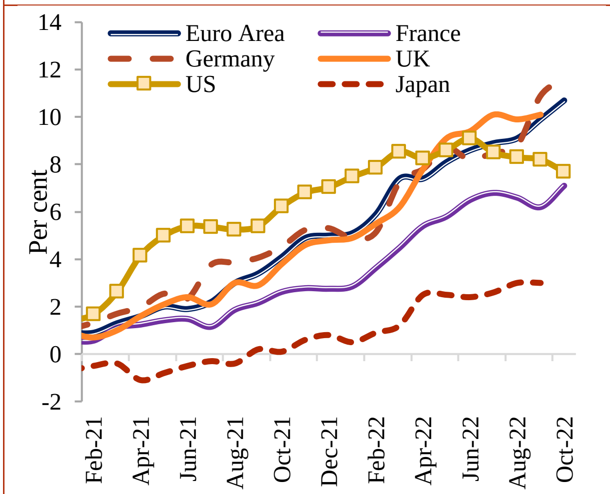
Persistently high global inflation despite accelerated monetary tightening is increasing macroeconomic uncertainty, while hawkish monetary stances run the risk of tipping economies into recession.

1. The global economy continues to navigate turbulence, with macroeconomic uncertainty persisting. Despite significant increases in policy rates and quantitative tightening measures adopted by central banks worldwide, inflationary pressures remain stubbornly high. These factors have, in turn, caused multiple downward revisions to global output, with the level of economic activity gradually declining and stagflation risks rising.

2. The origin of high inflation in advanced economies has been attributed to the enormous fiscal packages and rock-bottom interest rates implemented to counter the economic fallout from the Covid-19 pandemic. Even as these pressures were being misinterpreted as being transient in nature, supply chain disruptions in critical commodities arising out of the Russia-Ukraine conflict further accentuated inflation.

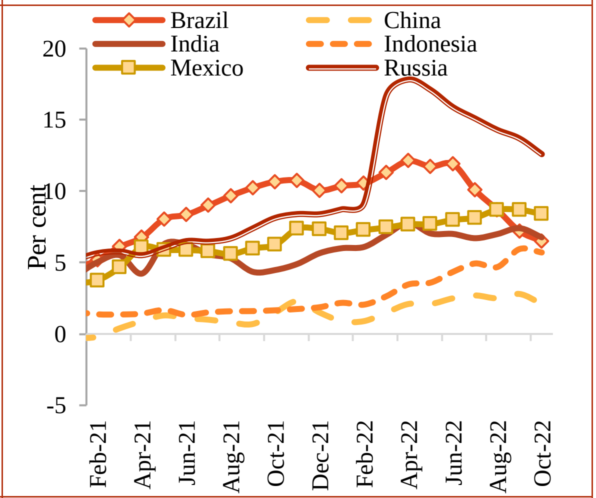
3. Now, in the United States, an extremely tight labour market combined with higher food prices seems to be keeping inflation significantly above the Federal Reserve's medium-term target of 2 per cent. US Retail inflation for October 2022 remained high at 7.7 per cent. In Europe, high energy and food prices pushed inflation above the 9 per cent in August and September 2022, with the inflation for September 2022 coming in at a record 9.9 per cent. The high energy, food, and input prices have also caused inflation in EMEs to rise to uncomfortable levels.

Inflation in Advanced Economies



Source: OECD

Inflation in Emerging Market Economies



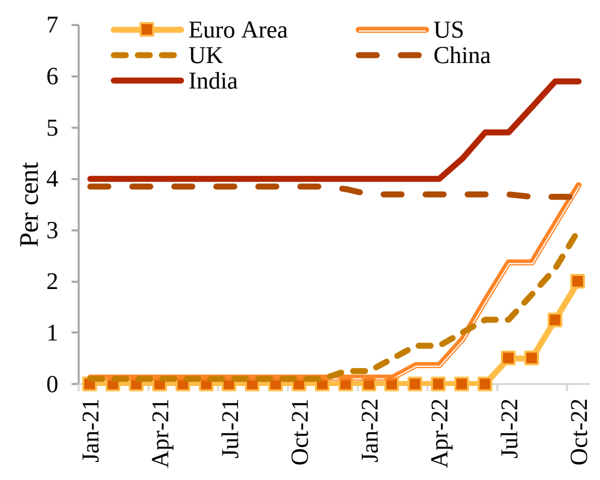
Source: OECD

4. Central banks around the world have tightened their monetary policies in pursuance of their mandate to maintain price stability. Persistently high inflation has triggered an accelerated normalisation of interest rates in several advanced economies. The Federal Reserve and the

ECB implemented an increase of 75 basis points (bps) each in October 2022, while the BoE went in for a 75-bps hike in November 2022. The Federal Reserve has raised the federal funds rate by a cumulative 375 bps since November 2021, while the European Central Bank (ECB) and the Bank of England (BoE) have raised their policy rates by 200 bps and 250 bps, respectively, over this period. The Reserve Bank of India (RBI) has also increased the repo rate by a cumulative 190 bps. On the other hand, the People's Bank of China (PBoC) has decreased its prime lending rate by 15 bps even as the country's economic activity struggles to maintain momentum in the face of strict restrictions following the country's Zero Covid policy and due to the collapse in activity in the overextended real estate sector.

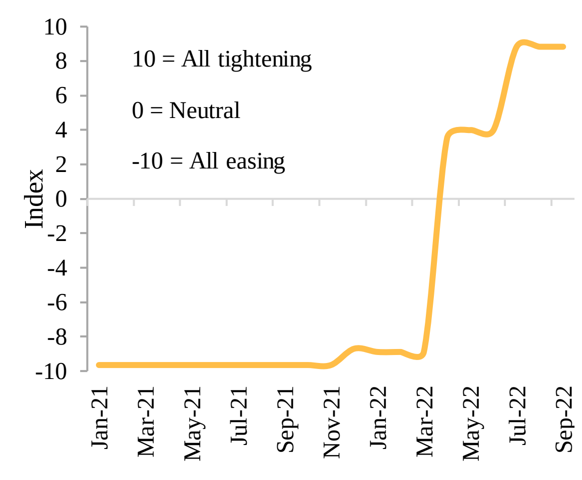
5. As inflation became pervasive, a larger number of countries implemented tightening policies. The CFR Global Monetary Policy Tracker witnessed a sharp climb from a value of minus 8.89 in March 2022 to 8.83 in July 2022, indicating that a significantly larger number of countries have begun to tackle inflation by tightening monetary policy.

Global Central Bank Policy Rates



Source: Bloomberg, RBI

CFR Monetary Policy Tracker



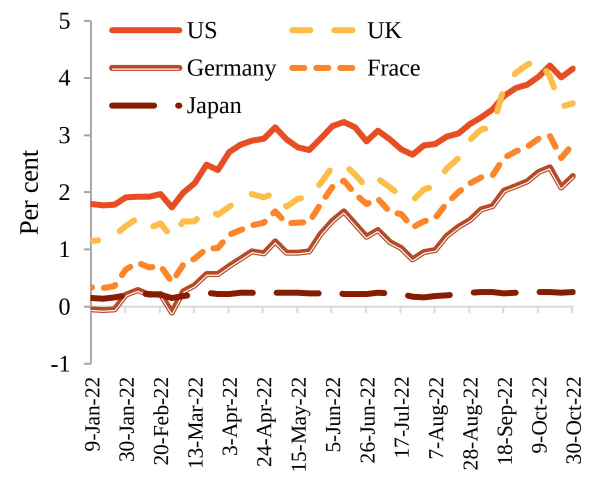
Source: Council on Foreign Relations

6. Rising interest rates have also caused sovereign bond yields in AEs to spike. The US 10-year and UK 10-year bond yields have increased by 240 bps and 237 bps between January and October 2022. However, bond yields in EMEs have mainly remained stable over this period. In India's case, this has translated to a lower risk premium, with the spread between the US 10-year yield and India's 10-year yield falling from 478 bps to 331 basis points over this period.

7. The prospect of a global economic slowdown has led to an outflow of portfolio investments from most countries into safe-haven US treasuries. This, combined with higher policy rates deployed by the Federal Reserve to counter inflation, has significantly strengthened the US dollar vis-à-vis other currencies. The US dollar index has increased by 13.3 per cent between January 2022 and October 2022. The depreciation of most currencies has also led to a global drawdown of foreign exchange reserves to protect their values and prevent volatility in the foreign exchange market. Total foreign exchange reserves as estimated by the IMF have

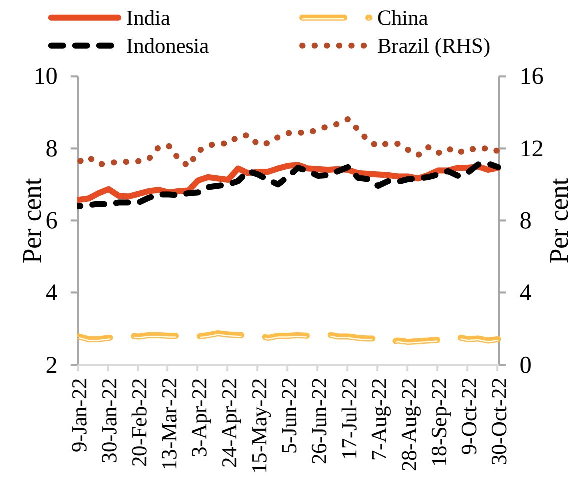
fallen from USD 12.9 trillion at the end of December 2021 to USD 12 trillion at the end of June 2022.

10 Year bond yields in AEs



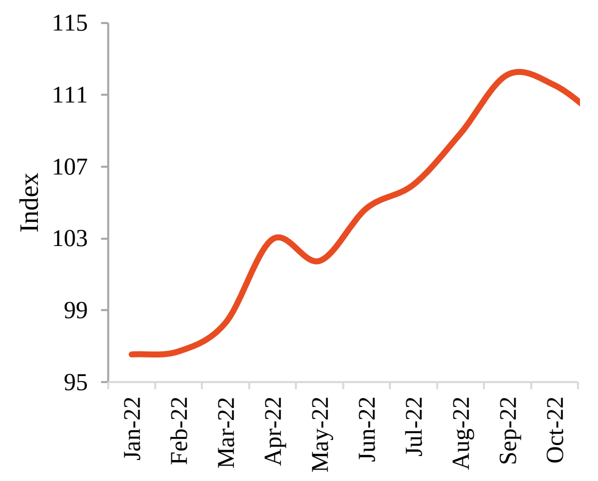
Source: Bloomberg

10 Year bond yields in EMEs



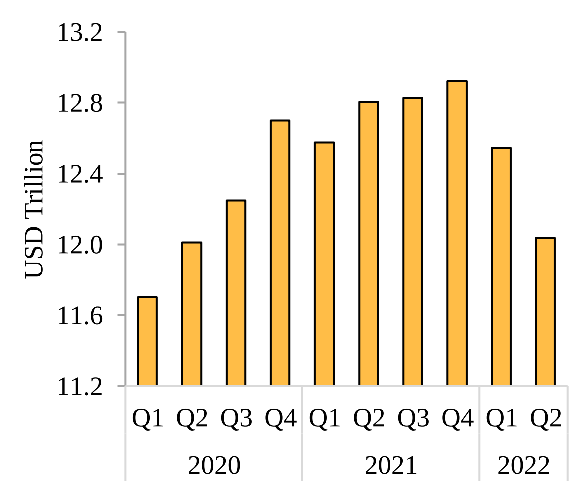
Source: Bloomberg, RBI

US Dollar Index



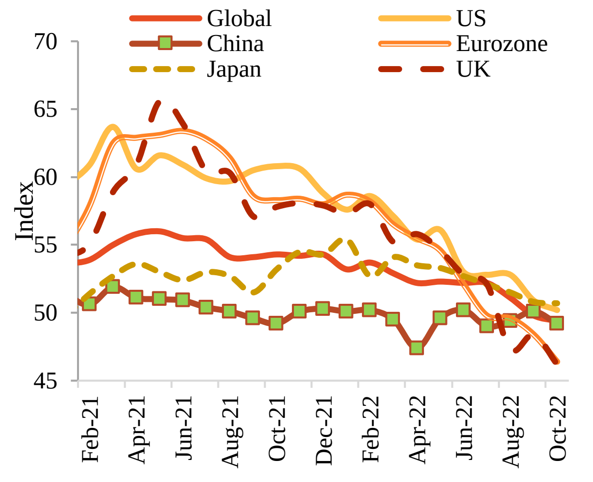
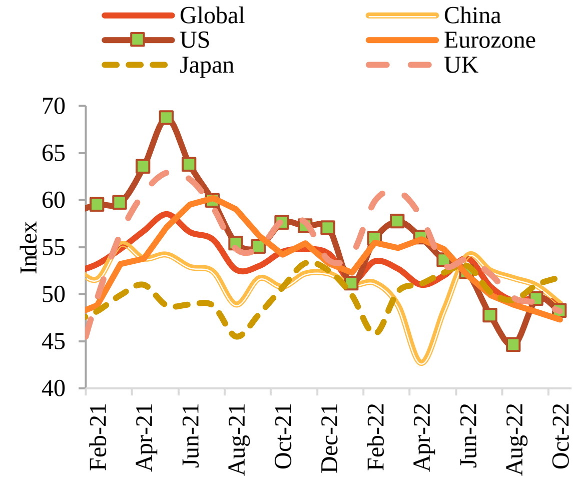
Source: Bloomberg

Global Total Foreign Exchange Reserves



Source: IMF

8. The impact of increased borrowing costs and stubbornly high inflation is beginning to show in multiple leading indicators of global economic activity. The global manufacturing PMI has now dipped in the contractionary zone of below 50 for the months of September and October 2022, while the global composite PMI, a measure of overall economic activity, has remained in the contractionary zone since August 2022. In October 2022, manufacturing activity in the UK, China, and the Eurozone as indicated by the manufacturing PMI contracted while overall economic activity in the US, UK, China, and Eurozone as indicated by the composite PMI also contracted. Since China is a global manufacturing hub, its slowdown has affected global trade exacerbating the global effects of high inflation and borrowing costs by affecting global trade. China's exports contracted in October 2022, the first time since May 2020, as local curbs and lower global demand impacted the country's trade.

Manufacturing PMI	Composite PMI
	
Source: Bloomberg	Source: IHS Markit

9. The above unfavourable developments have resulted in downward revisions by the IMF to output in countries across the board in its October edition of the World Economic Outlook (WEO). The WEO has also projected growth in world trade volumes to slow down significantly from 4.3 per cent in 2022 to 2.5 per cent in 2023 while estimating that consumer price inflation will remain elevated through the rest of the year.

	Growth Projections (%)		Change from WEO Update (July 2022) (%)	
	2022	2023	2022	2023
World	3.2	2.7	0	–0.2
Advanced Economies	2.4	1.1	–0.1	–0.3
United States	1.6	1	–0.7	0
Euro Area	3.1	0.5	0.5	–0.7
UK	3.6	0.3	0.4	–0.2
Japan	1.7	1.6	0	–0.1
Emerging Market Economies	3.7	3.7	0.1	–0.2
China	3.2	4.4	–0.1	–0.2
India*	6.8	6.1	–0.6	0

Source: IMF

***Projection for India is for its fiscal year (Apr-Mar) while for the other economies, it is from Jan-Dec.**

10. The confluence of high inflation, increasing borrowing costs and geopolitical tensions and the resulting supply chain constriction and China's persistence with zero covid strategies continue to dampen the global economic outlook and add to uncertainty in the near term. While the Federal Reserve has telegraphed a hawkish stance in its fight against inflation in the October 2022 Federal Open Markets Committee (FOMC) meeting, it has hinted at smaller increments to the federal funds rate in the future. However, it has signalled a higher peak Federal funds rate in this tightening cycle than what the financial market has priced in. The ECB too has conveyed a similar position. Higher interest rates may tip economies into recessions if central

banks stay their course. Additionally, higher borrowing costs may expose fault lines in their financial systems which will further accentuate global macroeconomic stress. This stress may prove to be harsher than expected due to the ramifications of stresses developing in global shadow banking whose size was estimated to be US$ 226.6 trillion in 2020 by the Financial Stability Board (FSB). Total financial assets held in global banks were lower at US$180.4 trillion. Recent financial upheavals in crypto exchanges and connected intermediaries is a reminder of unknown unknowns.

Food Security

Global food security deteriorates and India may turn out to be an outlier with proactive and pre-emptive government interventions.

11. The year 2022 brought to the forefront not only the issues of macroeconomic and geopolitical risks but also the vulnerability and interconnectedness of the global food system to shocks. The geopolitical conflict and climatic events have moved the focus to the issues of fragility and over-dependence on a few countries or regions for global food security.

12. Russia and Ukraine are among the most important producers of essential agricultural commodities, including wheat, maize, sunflower seeds and inputs like fertilisers. Together with other countries bordering the Black Sea, they constitute the world's breadbasket. The Black Sea serves as a critical supply and transit hub to move food commodities from these countries to the rest of the world. As the conflict choked the hub, the movement of food items from these countries to the rest of the world got affected, threatening people's livelihoods directly/indirectly connected with the food business in the Black Sea region. At the same time, the restricted movement of key agricultural items from the Black Sea region quickly translated into global food insecurity.

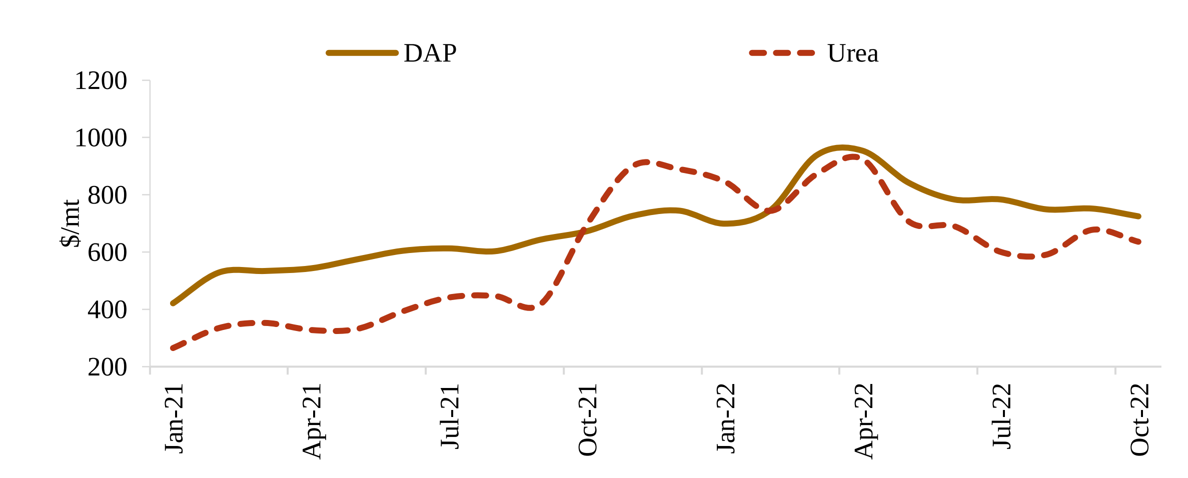
13. International sanctions imposed on Russia, in the form of shipping and financial constraints, further squeezed the supply. Though none of the sanctions directly covered food and fertiliser supply, these indirectly led to the breakdown of global supply chains. To ease grain supply and bring relief to consumers, the Black Sea Grain Initiative was signed in July 2022. A recent United Nations Conference on Trade and Development (UNCTAD) report indicates a gradual rise in ship departures post-signing the initiative (October 2022), although. However, shipments are still about 40-50 per cent below pre-conflict levels.

14. Further, in a bid to ensure domestic supply and protect food access, trade-related restrictions imposed by countries surged post conflict. The World Bank Latest Food Security Update, as of October 21, 2022, indicates that twenty countries have implemented twenty-five food export bans, and eight have undertaken twelve export-limiting measures.

15. Adding to this, heatwaves and adverse climatic events in various countries resulted in poor harvests, further restricting the supply to the world market. The conflict induced increase in world prices of crude oil, urea, and Di-ammonium phosphate increased the cost of

production in agriculture, impacting the overall profitability of the sector and changing production patterns across countries. The overall impact has been witnessed in the increased prices of food items in the consumer basket, affecting overall affordability.

International prices of Inputs



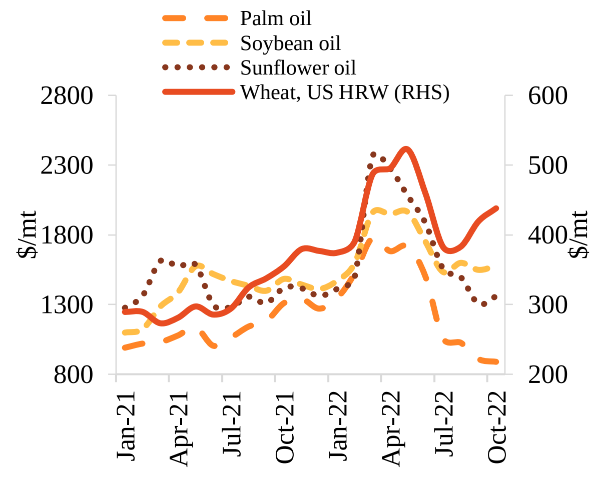
Source: World Bank

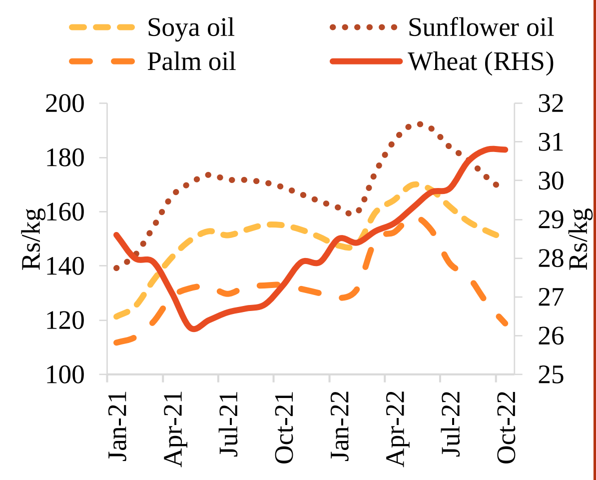
16. FAO's latest report on 'The State of Food Security and Nutrition in the World states that besides the direct impact of the conflict on affordability, the conflict also poses a number of additional risks that will impact agriculture production and nutrition levels, including shifting of the food budget to other priorities and hampering the humanitarian assistance received by many countries.

17. Apart from these concerns, worries about long-term supply disruption remain. Various agencies have placed the projected harvest for 2022-23 in Ukraine below normal levels due to lower acreage and a far-from-normal geopolitical outlook. The prolonged impact will likely delay the return to the status quo for the world economy. These developments had an impact on India's food system too. However, whether this has led to the weakening of India's food security can be analysed through the lens of affordability, availability and government food security programmes.

18. On account of supply disruptions arising out of the geopolitical conflict, international prices of multiple food commodities and input items for which India is a net importer rose, including sunflower oil, of which Russia and Ukraine are major suppliers. As the supply of sunflower oil fell, prices of its substitutes - palm oil and soybean oil, - rose. The increase in global prices led to an uptick in domestic prices, potentially threatening the affordability of food supplies. However, with the Black Sea Initiative and proactive interventions taken by the government, including the imposition of stock limits on edible oils and oil seeds up to 31st December 2022, the price pressure eased. Further, to enable the smooth availability of fertilizers to farmers at affordable prices, the rise in the international prices of fertilizers was primarily absorbed by the Union Government.

International prices of food items	Domestic prices of food items



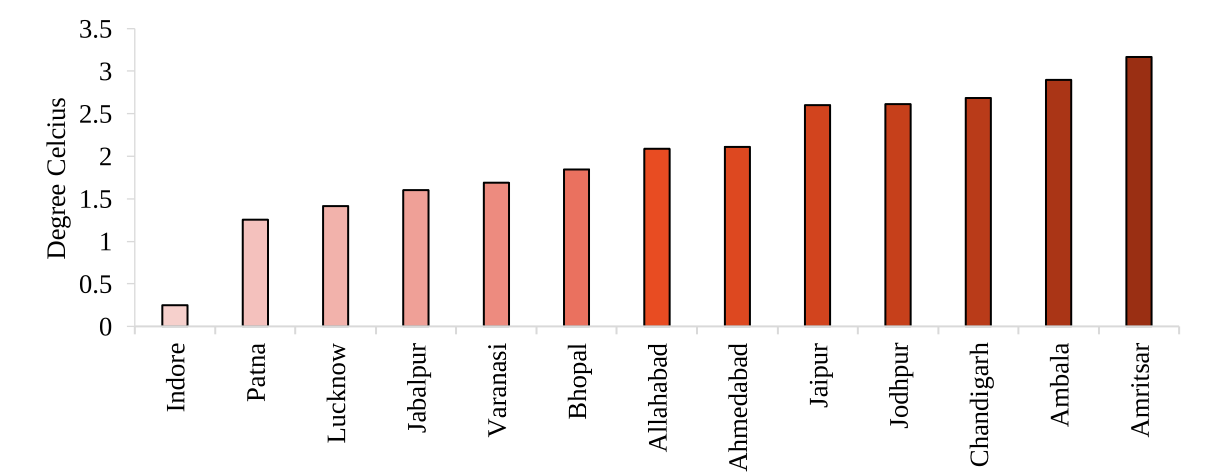


Source: World Bank

Source: Department of Consumer Affairs

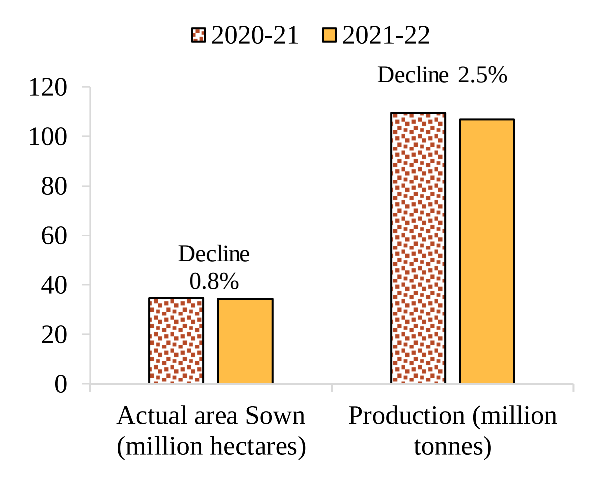
19. India's grain availability was, however not significantly affected as, in recent decades, India has achieved self-sufficiency in grain production along with ensuring its effective distribution. However, heatwaves beginning in mid-March 2022 had a marked impact on India's wheat production. Wheat yield witnessed a substantial reduction, reducing India's projected production for 2021-22 by nearly 2.5 per cent but still 2.8 per cent higher than the 5-year average. India has never been a major wheat exporter, yet with the current geopolitical crisis creating the global demand-supply mismatch for wheat, India graduated to becoming a major global supplier of wheat. However, with heat wave impacting domestic production, the government on May 13, 2022, announced restrictions on wheat exports to curb a spike in domestic prices.

Maximum Temperature: Departure from Normal: March-May average



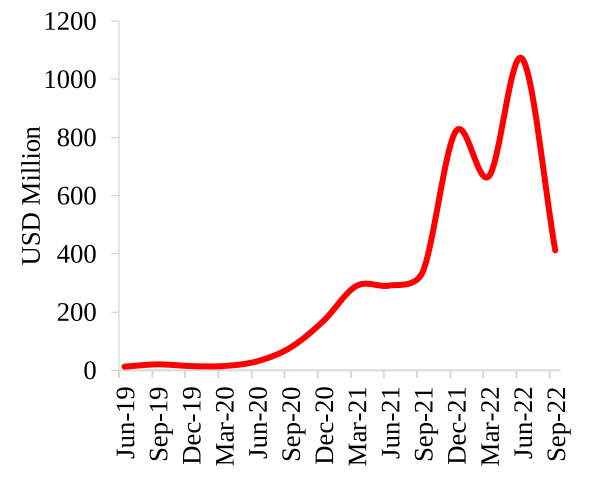
Source: IMD. Notes: Major wheat growing states: UP, Punjab, Haryana, Bihar, Rajasthan, MP, Gujarat. These areas may not be major wheat growing areas in those states but they help capture the extend of temperature increase in respective states

Declining wheat yield



Source: World Bank

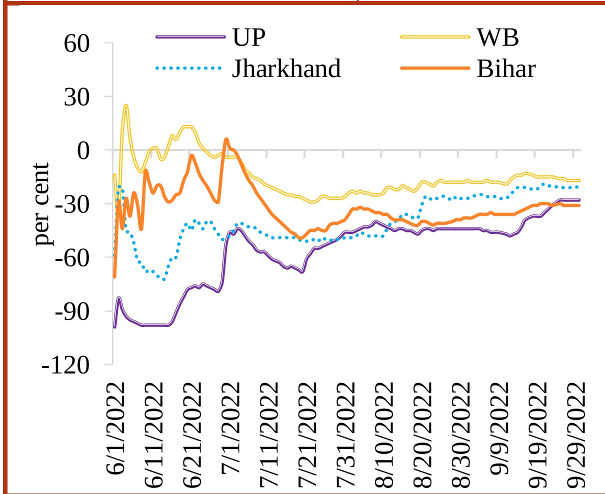
Wheat exports



Source: Department of Commerce

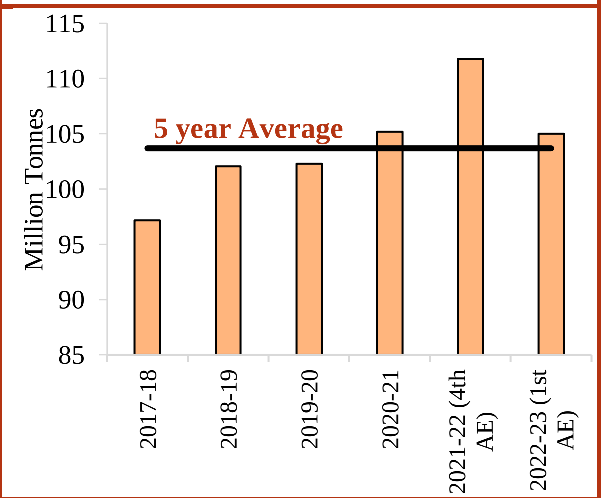
20. On the other hand, a severe deficiency of south-west monsoon in parts of the major rice-producing states impacted paddy sowing activities. As a result, the first advance estimates of rice Kharif production for 2022-23 is projected to decline by around 6 per cent compared to last year's record level. In order to ensure adequate availability and domestic price stability, in September 2022, India banned the export of broken rice and imposed an export duty on non-Basmati rice.

Cumulative rainfall (Deviation from Normal)



Source: IMD

Rice Production

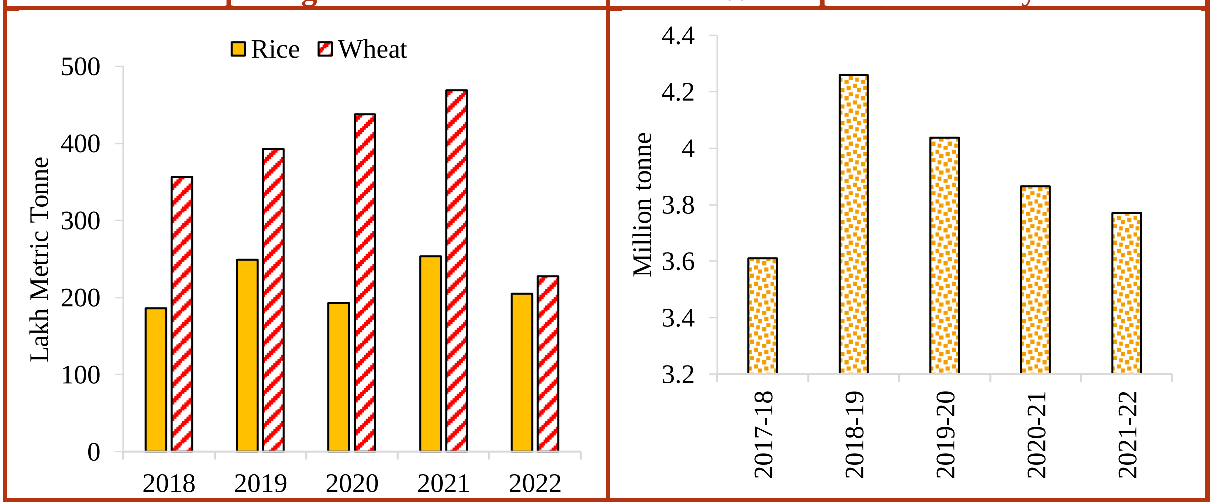


Source: Department of Agriculture and Famers Welfare

21. Even amid current unfavourable circumstances, Government of India has been undertaking efforts to meet its goal under SDG (Goal 2: Zero Hunger). The Government, through programmes like NFSA and PMGKAY, ensured foodgrain accessibility to poor and vulnerable sections of society during times of crisis. Various international studies have also recognised the role played by India's food subsidies in helping minimise the impact of COVID-

19 on food and economic insecurity. A recent KPMG study done with German institution Kfw concluded that PMGKY significantly lowered the likelihood of consumers consuming less food. Recently PMGKAY has been further extended till December, 2022. The distribution under government schemes is well supported by efficient procurement and offtake operations of Food Corporation of India (FCI).

22. In the current year, there has been a decline in procurement by FCI due to higher purchase of wheat by traders induced by an increase in the market price. As a result, at the beginning of October 2022, the volume of wheat stocks in the central pool stood at 227.5 LMT, lower than the stock in October 2021. However, despite the fall in procurement, wheat stocks in October 2022 are still higher than the buffer norms and sufficient to meet the requirement of NFSA, and other schemes, including additional requirement of PMGKAY. Compared to wheat, rice stocks have seen lesser shortfall in 2022 and are in line with the levels seen in 2021.



Source: FCI

Source: FCI

23. As a long-term initiative to enhance the resilience of the food supply channels and limit the vulnerabilities in foodgrain production to climate risks, Government of India has taken measures including National Mission for Sustainable Agriculture, promoting use of drought-tolerant and climate-resilient crops, focussing on building resilient food systems and helping farmers prepare and adapt to weather shocks. Government has also been promoting the use of digital technology, drone usage and working on Digital Agri Mission to improve the decision-making ability of farmers and enhancing capability to better manage risks and variability.

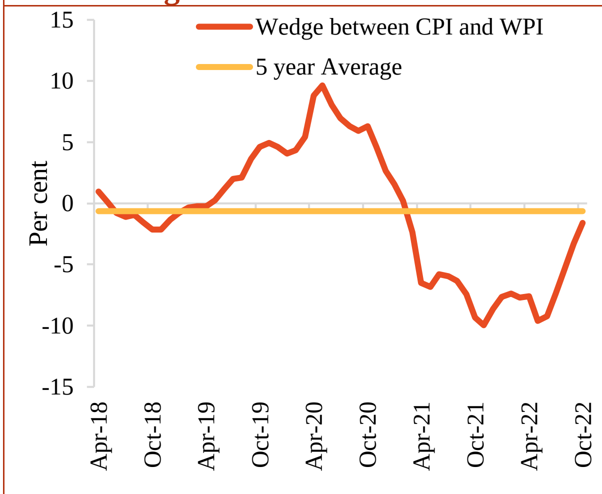
24. India’s food security is stable with food security programmes well provided for to meet the needs of the poor, supplemented by export restrictions. Affordability in the free market has also been increasing with prices of various items like edible oils, egg in the CPI food basket declining. Increase in tractor sales in September and October also point towards improved sentiments and an expected increase in crop area sown.

Inflation

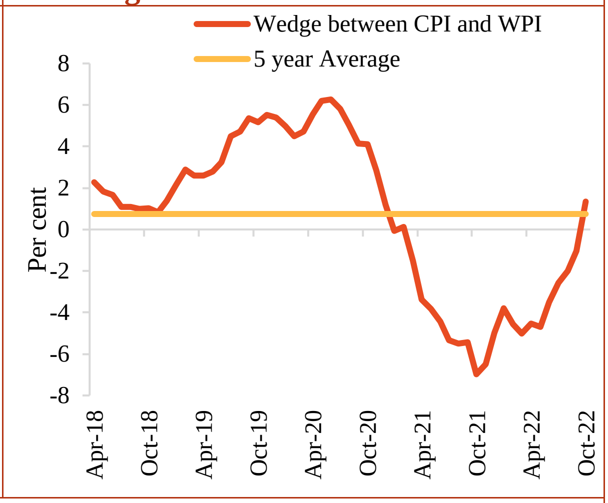
CPI-WPI Inflation differential narrows with the transmission of high input cost to retail inflation appearing to be nearly complete.

25. Inflation dynamics in India since the outbreak of the pandemic have been influenced by various domestic and global factors. While low global commodity prices led to subdued wholesale inflation in 2020, pandemic-induced domestic restrictions were the initial drivers of retail inflation during this period. The year 2021 however commenced with rising global commodity prices as pandemic-hampered global supply chains could not match the recovering global demand. Commodity prices got a further boost in early 2022 with the onset of the Russia-Ukraine conflict.

Wedge between CPI and WPI



Wedge between Core CPI and WPI



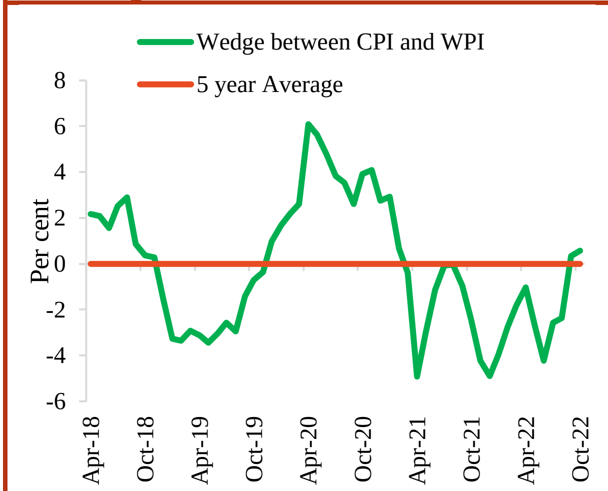
Source: MoSPI

26. The low and even sometimes negative wholesale inflation in 2020 created an unfavourable base effect in 2021 when commodity prices started to soar. Consequently, wholesale price inflation, indicative of the input cost for producers, was in double digits for eighteen consecutive months beginning April 2021. At the same time, however, consumer price inflation remained broadly stable throughout 2021 before breaching the 6 per cent mark in January 2022.

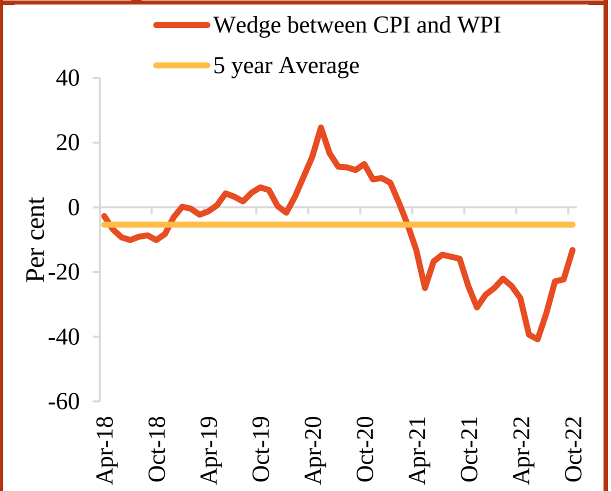
27. The transmission of high input cost to consumer price inflation occurs with a lag. Thus, as long as WPI inflation was rising with stable CPI inflation in 2021, the negative gap between CPI and WPI inflation was widening before it peaked to a high of -10.0 per cent in November 2021. Thereafter, the negative gap began to narrow until April 2022 to -7.6 per cent as retail inflation rose, before spiking again to -9.6 per cent in May 2022 as the impact of the Russia-Ukraine conflict on commodity prices worked its way into the domestic economy. The wedge between CPI and WPI inflation has been closing again due to two reasons. First, a moderation of international commodity prices has led to an easing of wholesale inflation. Second, the pass-through of input prices by producers to consumers amid robust demand has led to an increase

in retail inflation. Thus, the gap has narrowed to -1.6 per cent in October 2022 signalling that higher input prices pass-through is near completion. The magnitude of the pass-through of input cost to retail inflation is likely to be lower in the coming months.

Wedge between Food CPI and WPI



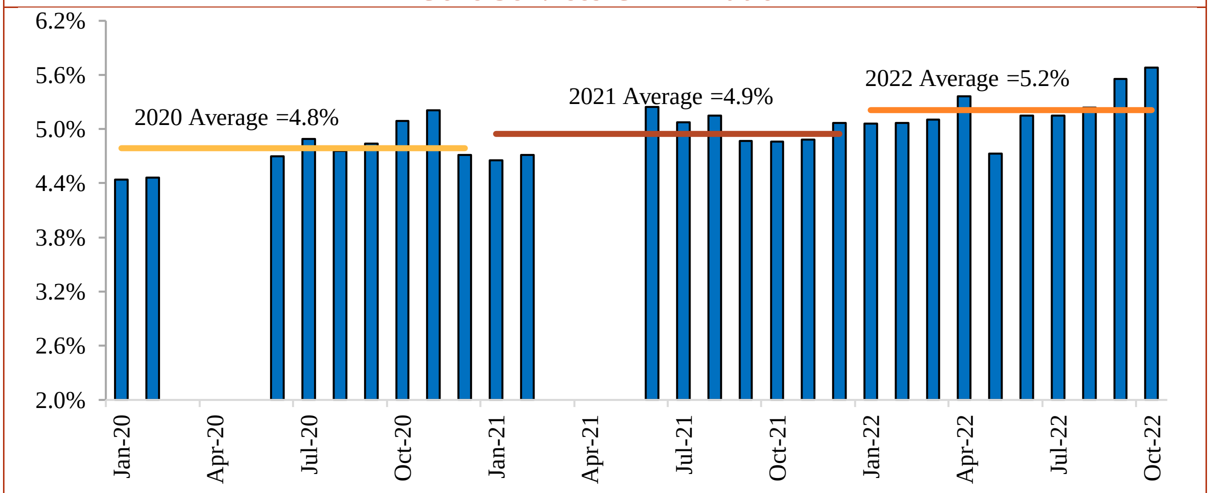
Wedge between Fuel CPI and WPI



Source: MoSPI

28. The component-wise gap between CPI and WPI indicates that the fuel inflation gap is the major contributor to the wedge, while the core and food inflation gap had already closed in October 2022. The core inflation gap turned positive in October, as the core component in CPI also includes services which have started to pick up while the WPI only deals with manufacturing goods. The core inflation gap may continue to remain positive until the pass-through of input costs in manufacturing goods gets completed along with the rise in services inflation.

Core Services CPI Inflation

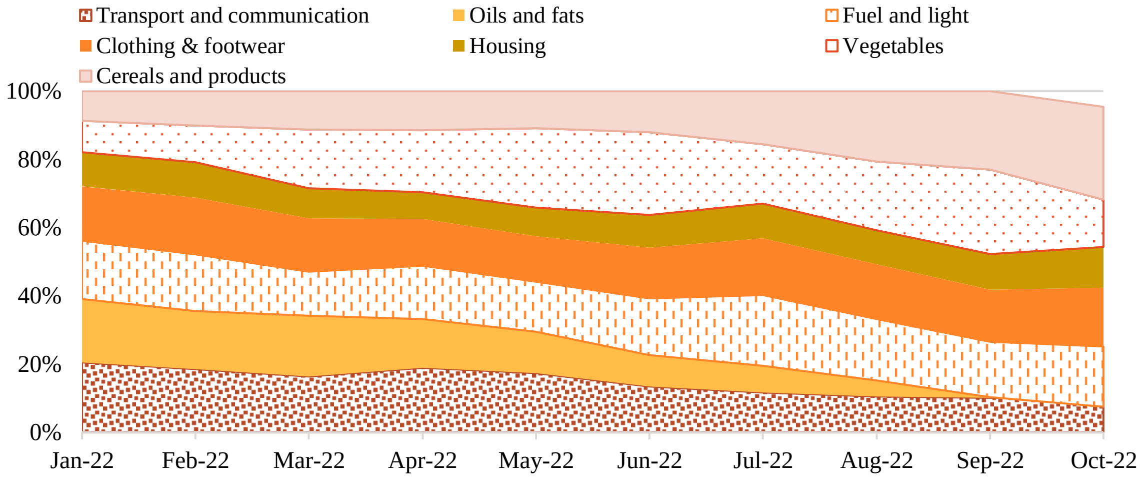


Source: MoSPI, Internal calculation

Inflation dynamics have shifted from imported inflation to domestically driven inflation now

29. During Jan-Oct 2022, CPI inflation was largely driven by food inflation (48.3 per cent contribution) with major contributors being imported food items like oil and fats during the first five months of 2022. Since June 2022 however, domestic seasonal factors have increased the inflation of vegetables, cereals and their products, which have contributed to elevating food inflation. Fuel and light inflation has, on average, remained a moderate contributor at 9.7 per cent. On the other hand, the contribution to inflation by miscellaneous components, including transport and communication, health and others, decreased from 30 per cent in January 2022 to 24 per cent in October 2022.

Selected Components and their contribution to CPI Inflation



Source: MoSPI

Future Prices				
	Energy		Base Metals	
	Brent Future	**Natural Gas**	**Copper**	**Aluminium**
	USD/Barrel	USD/MMBtu	USD/pound	USD/MT
Dec-22	95.0	6.4	3.69	2381.8
Jan-23	98.8	6.8	3.68	2369.5
Feb-23	97.1	6.5	3.68	2370.5
Mar-23	95.5	5.9	3.67	2377.3
Apr-23	94.0	5.0	3.67	2383.3
May-23	92.8	5.0	3.67	2417.3
Jun-23	91.6	5.0	3.67	2424.3

Source: Intercontinental Exchange, Chicago Mercantile Exchange

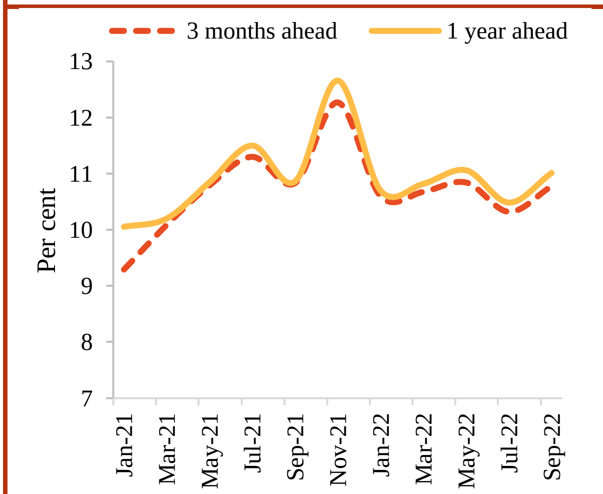
30. Wholesale inflation has been declining from around 16.6 per cent in May 2022 to 8.4 per cent in October 2022 with the easing in international commodity prices. Looking ahead, the decreasing trend in future prices of international commodities for upcoming months under energy, base metals (barring aluminium), fertilisers and agriculture products also suggest that broadly input cost pressures are likely to continue easing under the assumption of a stable global scenario. RBI's enterprise surveys also indicate that the input price pressure is expected to reduce in the second half of the current financial year.

Future Prices				
	Fertilisers		**Agriculture**	
	Urea	**DAP**	**Malaysian Crude Palm Oil**	**Soybean Oil**
	USD/Tonnes	USD/Tonnes	USD/ MT	USD/ MT
Dec-22	570.0	680.0	925.0	77.2
Jan-23	592.5	652.5	921.3	74.9
Feb-23	597.5	645.0	913.8	
Mar-23	605.0	640.0	903.5	72.8
Apr-23	600.0	640.0	900.5	
May-23	590.0		894.3	71.0
Jun-23	572.5		891.0	

Source: Chicago Mercantile Exchange

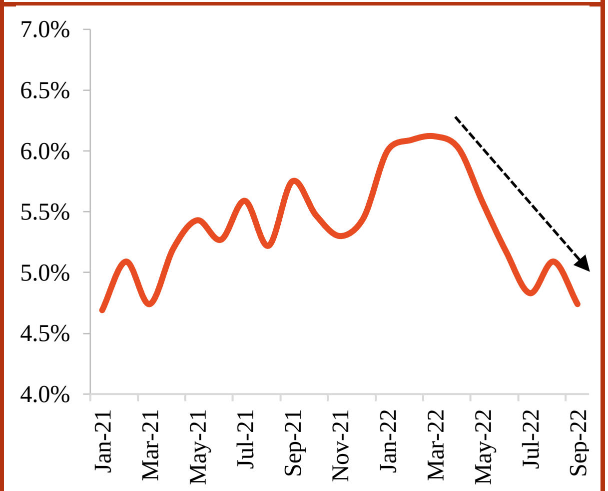
31. RBI's households' inflation expectation survey for September 2022 revealed that the three-month and one-year ahead expected inflation rates increased to 10.8 per cent and 11.0 per cent, respectively compared to 10.3 per cent and 10.5 per cent in the July 2022 survey. While inflation expectations have increased, they tend to be influenced more by the present conditions than the decline in international commodity prices. Hence, the elevated inflation in the current period has led to an increase in household inflation expectations.

RBI Household Inflation Expectation Index



Source: RBI

IIMA Business Inflation Expectation Index



Source: IIMA

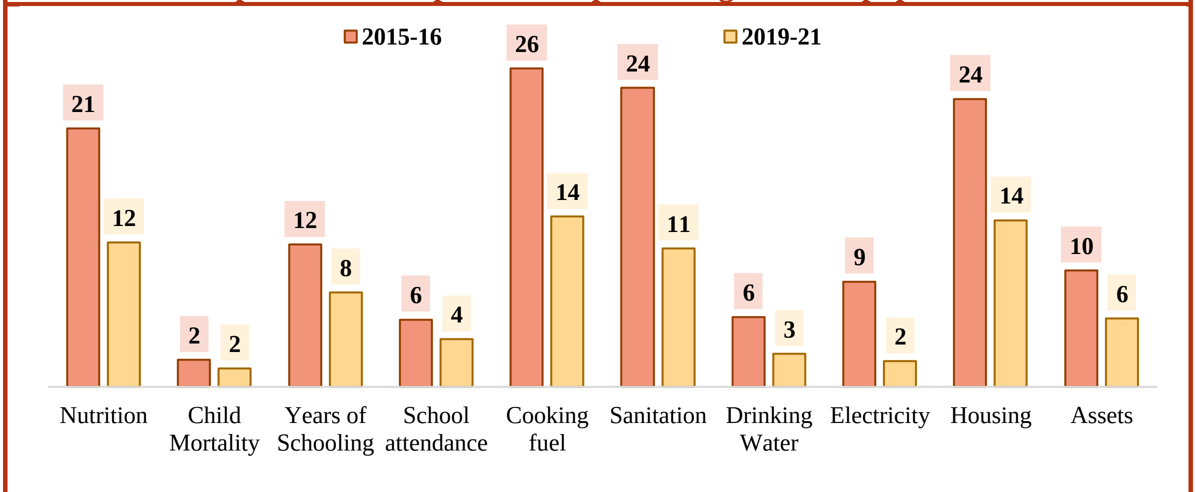
32. On the other hand, the Business Inflation Expectations Survey (BIES) conducted by IIM-Ahmedabad (IIMA) captures the producer's expectations on cost, profit, sales levels etc. The survey results reveal moderation in the one-year ahead inflationary expectations since April 2022 amid a decrease in international commodity prices. Going forward, the current retail inflationary pressures are expected to ease aided by Kharif arrivals and pass-through of lower global commodity prices, also affirmed by RBI's inflation projections for Q3 at 6.5 per cent and Q4 at 5.8 per cent, with risks evenly balanced and 5.0% for Q1:2023-24.

Poverty

The multidimensional Poverty Index witnessed an improvement.

33. The UNDP Multi-Dimensional Poverty Index (MPI) released in October 2022 estimates 41.5 crore people exiting multidimensional poverty in India during the last 15 years. All 10 MPI indicators have shown a significant reduction in deprivation resulting in the MPI value and incidence of poverty declining by more than two-thirds. The indicators owe their improved performance to consistent and visible investment by the government over the years in boosting access to sanitation, cooking fuel, and electricity. India's success in reducing poverty has also contributed to a decline in poverty in South Asia. For the first time, South Asia, with 385 million poor people, has dropped down to second place after Sub-Saharan Africa, with the largest number of poor people at 579 million.

People who are deprived as a per centage of total population



Source: UNDP

34. As per the UNDP July 2022 report,[1] the impact of the Covid-19 pandemic on poverty (calculated based on the proportion of the population falling into poverty as a result of soaring food and energy prices vis-à-vis the benchmark scenario across different poverty thresholds) in India has been relatively low compared to other countries which could be attributed to well-

[1] https://www.undp.org/publications/addressing-cost-living-crisis-developing-countries-poverty-and-vulnerability-projections-and-policy-responses

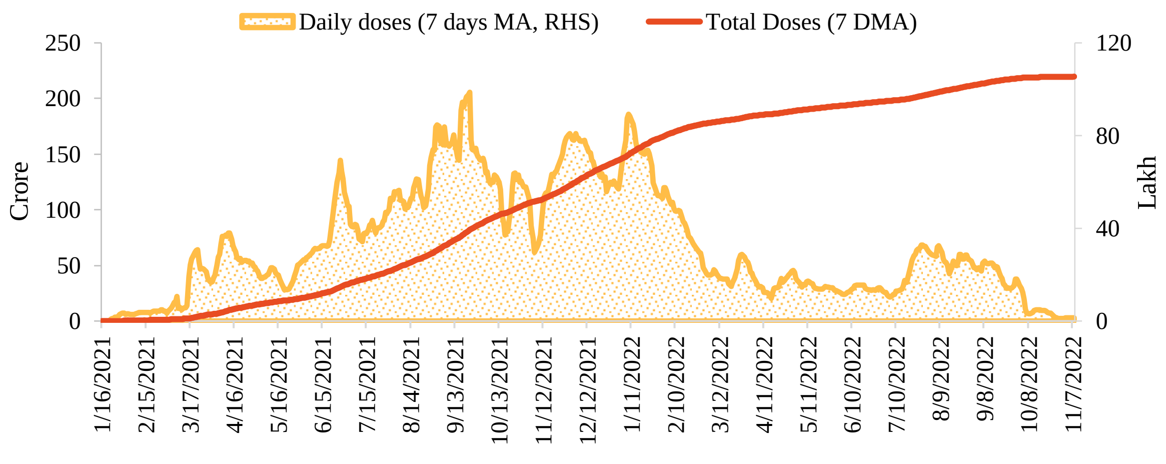
targeted social security support. The social protection measures implemented through the Pradhan Mantri Garib Kalyan Yojana (PMGKY) to respond to the livelihood impact of Covid-19 in India have been pro-poor and broad-based in outreach. A study by KPMG[2] shows that PMGKY has been instrumental in supporting the vulnerable section of the population from the economic impact of the Covid-19 pandemic. Access to PMGKY reduced the probability of cutting down the consumption of utilities by 75 per cent across the source and destination locations, accompanied with a reduction in the likelihood of borrowing money by 67 per cent for all respondents.

Health

Response and containment measures with an emphasis on vaccination led to a decline in the spread of the Covid-19 pandemic.

35. As on 31st October 2022, India's Covid-19 vaccination coverage has administered 219.6 crore doses. 92.2 crore beneficiaries aged 18 years and above have received at least one dose, and 86.5 crore have received both doses. The significant role played by technology and the way it was leveraged during the pandemic for increasing accessibility to healthcare services through e-Sanjeevani, Cowin portal, and Arogya Setu app, among others lent speed and efficiency to the country's vaccination drive. Earlier, India's multi-pronged approach to tackling the COVID-19 pandemic, which had resulted in a substantial decline in daily cases and a steady increase in recovery rate, had laid the foundation for successful progress in the vaccination drive. The approach comprised timely measures taken by the government for testing, tracking, and treating the patients while limiting the speed of the pandemic spread through containment zones, community surveillance, and protocols for home isolation.

Daily Doses (7 Days Moving Average)



Source: Ministry of Health and Family Welfare

[2] KPMG Report on 'Effectiveness and Adequacy of Cash Transfers under PMGKY for Urban Poor and Migrants: Performance, Challenges and Opportunities, 2022

Remarkable improvement in child and maternal health indicators

36. The Sample Registration Report of the Registrar General of India shows India's infant mortality rate (IMR) declining from 30 per 1000 births in 2019 to 28 in 2020 with the under-five mortality rate dropping even further from 35 in 2019 to 32 in 2020. Preceding this has been the improvement in the Maternal Mortality Ratio (MMR) declining from 113 in 2016-18 per 100,000 live births to 103 in 2017-19. With IMR and MMR declining and the total fertility rate also coming down from 2.1 in 2019 to 2.0 in 2020, social progress in India is evident. The notable improvements in child and maternal health indicators could be attributed to strategic investments under National Health Mission (NHM) through various schemes which have been consistently yielding increasing dividends. Remarkable gains have been made under quality-of-care endeavours like Pradhan Mantri Surakshit Matritva Abhiyan (PMSMA) and Labour Room Quality Improvement Initiative (LaQshya), in conjunction with the existing schemes of Janani Shishu Suraksha Karyakram and Janani Suraksha Yojana. The maternal and infant mortality deaths are now captured on Maternal Perinatal Child Death Surveillance Response (MPCDSR) software launched in 2021 to create a one-stop integrated information platform. This helps in improving the impact and effectiveness of maternal and childcare schemes.

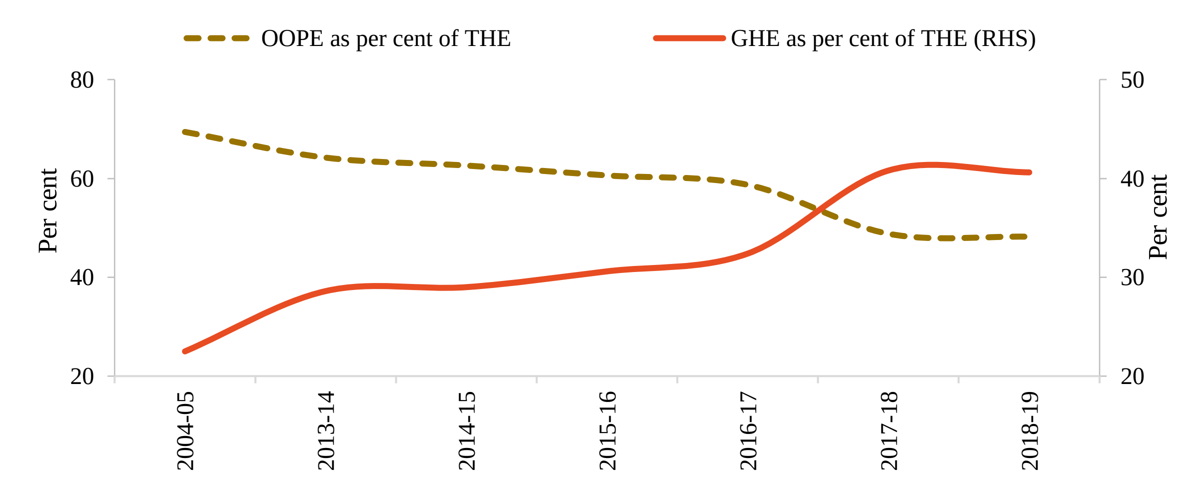
Details and progress of schemes to improve Maternal and Child Health		
Scheme Name	**Scheme details**	**Progress**
Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana (AB-PMJAY)	Provides health services through empanelled hospitals for Hospitalisation benefits (secondary and tertiary)	• 15.9 crore Ayushman cards created as of 31st October 2022 • 28,580 hospitals empanelled under AB-PMJAY • 3.7 crore authorized hospital admissions • 1.15 lakh operationalized Health and Wellness Centres (HWC) in India with 22,300 Primary Healthcare Centres (PHCs)
Pradhan Mantri Matru Vandana Yojana (PMMVY)	Cash benefits are provided to pregnant women in their bank account directly to meet enhanced nutritional needs and partially compensate for wage loss	₹ 1592.8 crore disbursed to 35.6 lakh pregnant women and lactating mothers during April-September 2022
Mission Indradhanush 4.0	Ensures that Routine Immunization (RI) services reach unvaccinated and partially vaccinated children and pregnant women	A total of 416 districts have been identified across 33 States/UTs for vaccination coverage for children and pregnant women

Pradhan Mantri Surakshit Matritva Abhiyan (PMSMA)	Provides pregnant women fixed day, free of cost assured and quality Antenatal Care on the 9th day of every month	3.6 crore pregnant women examined under PMSMA as of 31st October 2022
Labour Room and Quality Initiative Service (LaQshya)	Improve the quality of care in the labor rooms and maternity operation theatres to ensure that pregnant women receive respectful and quality care during delivery and the immediate post-partum period	202 Labour Rooms and 141 Maternity Operation Theatres are State LaQshya certified and 64 Labor Rooms and 47 Maternity Operation Theatres are National LaQshya certified

Source: Complied through various PIB releases

37. Out of Pocket Expenditure (OOPE) on health by households, when large, can push individuals and families into poverty. The latest National Health Account Survey shows households' OOPE substantially declining by almost 16 per centage points of total health expenditure (Current expenditure and Capital expenditure incurred by the Government and private sources including external/donor funds) from 2013-14 to 2018-19, along with a decline in per capita OOPE as well. In part, this has been facilitated by an increased focus of the General Government on primary health care, which now stands at 55.2 per cent of the overall general Government expenditure on health. The share of social security expenditure on health (which includes the social health insurance program, government-financed health insurance schemes, and medical reimbursements made to government employees) has also increased from 6 per cent in 2013-14 to 9.6 per cent in 2018-19 to ensure that the common people are better equipped and well provided for, in terms of healthcare at their doorsteps.

Out of Pocket Expenditure (OOPE) and Government Health Expenditure (GHE)



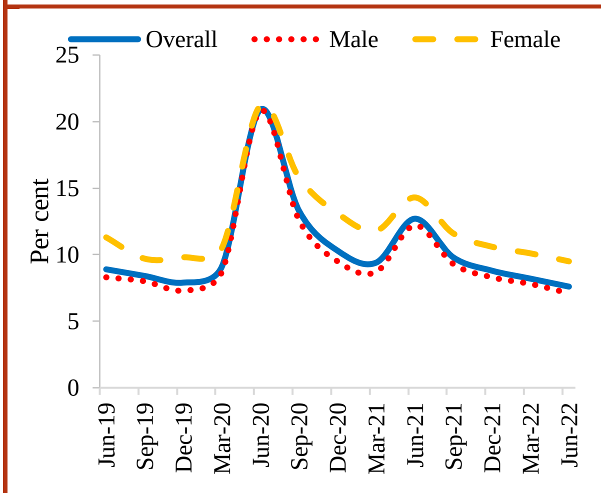
Source: National Health Account Estimates 2018-19
Note: THE stands for Total Health Expenditure

Employment

Rising economic activity has led to a decline in the unemployment rate

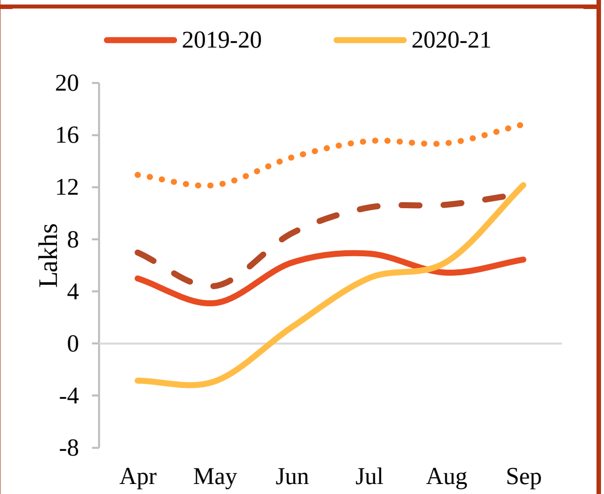
38. With the recovery in economic activities across sectors, the overall employment situation has also improved, overcoming the impact of the pandemic. The Periodic Labour Force Survey (PLFS) shows the urban unemployment rate for people aged 15 years and above declining from 12.6 per cent in the quarter ending June 2021 to 7.6 per cent one year later (quarter ending June 2022). This is accompanied by an improvement in the labour force participation rate (LFPR) as well, reflecting that by the time the current year was one-quarter over, the economy had come out of the grip of the COVID-19-induced slowdown.

Urban Unemployment Rate as per Current Weekly Status (CWS)



Source: PLFS, MoSPI

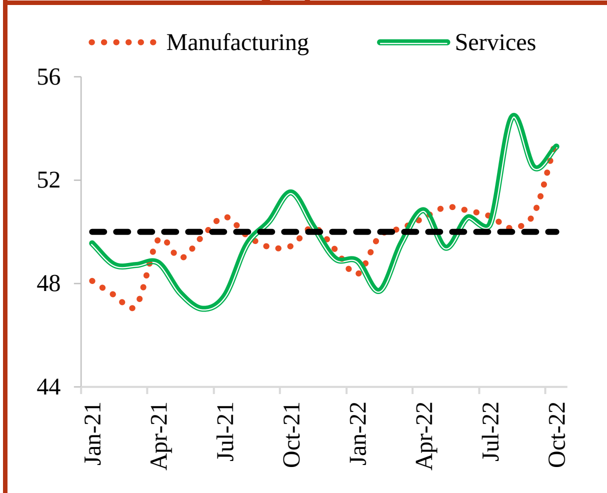
Net Payroll Additions under EPFO



Source: EPFO

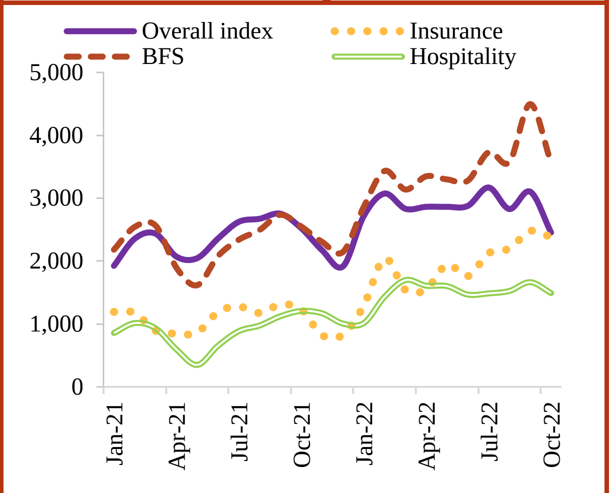
39. High-Frequency Indicators (HFIs) also support an improvement in employment generation across sectors. Based on the EPFO records, net payroll additions in September 2022 registered year-on-year growth of 46 per cent reflecting improved formalisation of the economy coming along with a pick-up in economic activity. Employment components of PMI Manufacturing and PMI Services continue to be in an expansionary zone, with October 2022 data highlighting the eighth month of successive increase in employment across the Indian manufacturing industry driven by sales growth and a rise in output. Employment in services companies also witnessed a rise in October 2022 to support greater output requirements owing to a further upturn in new businesses. The Naukri Job Speak Index released by Naukri.com shows hiring activity moderating in October 2022 compared to the previous month owing to festivities yet showing resilience with a growth of 13 per cent compared to the festive window last year. Most key industries maintained hiring expansion during October 2022, which is likely to get stronger as the year-end approaches. Sectors such as Insurance, BFSI, Real estate, Travel and Hospitality, and Auto witnessed maximum hiring.

PMI Employment Index



Source: IHS Markit

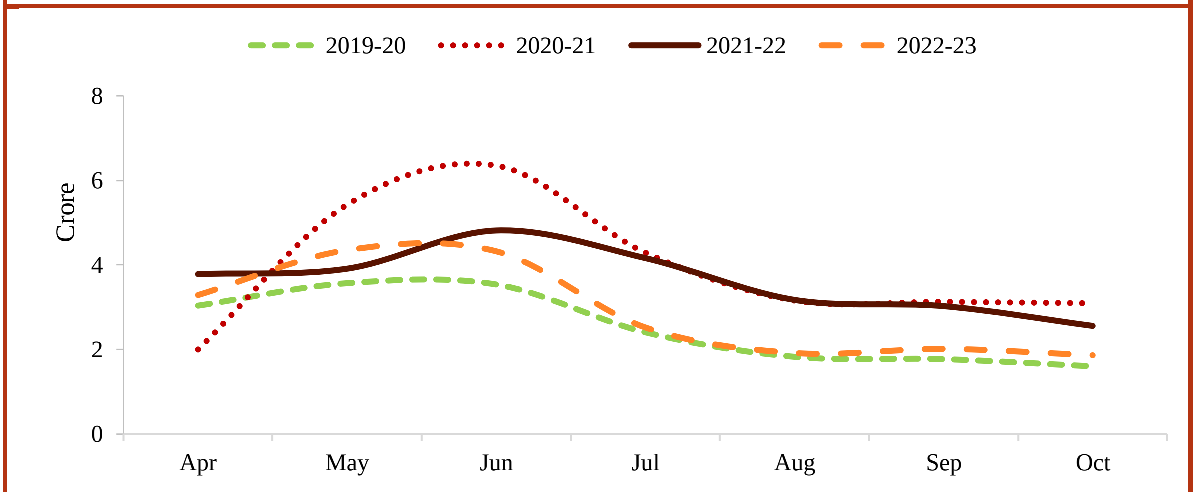
Naukri Job Speak Index



Source: Naukri.com

40. Demand for work under MGNREGS has been declining since May 2022 and was at its lowest in October 2022 since the beginning of the current financial year, signalling a decline in the unemployment rate in rural areas and a rise in employment in agricultural and non-agricultural activities stemming from the normalisation of the rural economy and stabilisation in the rural job market.

Number of Persons demanding work MGNREGS



Source: NREGAsoft

41. The TeamLease Employment Outlook Report[3] states that Global employment growth, having recovered by 2.7 per cent in 2021, is expected to grow sharply further by the end of 2022 and slow down again in 2023. A step-up in hiring activity in the quarter ending December 2022 is expected on account of a rebound in new business gains, with the growth in the index of hiring intentions being strongest in India. However, going forward, the high talent demand

[3] https://group.teamlease.com/insights/employment-outlook-report-q3-october-december-2021/

for the IT and educational Services sectors in India will make the services sector lead job creation by a wide margin compared to other categories. Mature businesses display an incrementally higher intent to hire than start-ups and are likely to create a sizeable volume of jobs due to favourable market conditions.

42. The government has implemented a series of measures to boost employment generation, such as the rollout of the Production Linked Incentive (PLI) scheme to enhance India's manufacturing capabilities, increase in capital expenditure and the launch of the National Career Service Portal for providing employment related services such as vocational guidance, information on skill development training courses, etc. The Start-up India initiative, launched in January 2016 to empower start-ups to grow through innovation and design and catalyse the Indian start-up ecosystem, has also shown promising employment generation. Since the initiative's launch, the total number of start-ups recognised by the DPIIT as on 30th June 2022, stands at 72,993, providing employment to 7.68 lakh individuals. In October 2020, the Aatmanirbhar Bharat Rojgar Protsahan Yojana (AB-RPY) was launched to incentivise employers to create new employment along with social security benefits to restore loss of employment suffered during the COVID-19 pandemic. One year later, and as on 31st October 2022, employment under the scheme has been availed of by 60 lakh beneficiaries through 1.5 lakh establishments.

Details and progress of the schemes to boost employment	
E-Shram Portal	• As on 31st October 2022, 28.4 crore unorganized workers are registered on the e-Shram portal with the highest registration from the agricultural sector.
Universal Account Number (UAN) Seeding of Insured Persons	• As on 31st October 2022, 1.4 crore accounts have been assigned UAN.
National Career Service (NCS) Scheme	• 178 job fairs have been organized with the participation of 311 employers. 3,578 candidates were shortlisted for jobs during the month. • As of 31st October 2022, around 4.05 lakh employers are registered on the Portal and the active vacancies count stands at 4.14 lakh.
Pradhan Mantri Shram Yogi Maan-Dhan (PMSYM) Yojana	• As on 31st October 2022, 49.1 lakh unorganized workers have been enrolled under the scheme

Source: Ministry of Labour and Employment

Outlook

43. A rapid deterioration in global growth prospects, coupled with high inflation and worsening financial conditions, has increased fears of an impending global recession. Global slowdown may dampen India's exports businesses outlook; however, resilient domestic demand, a re-invigorated investment cycle along with strengthened financial system and structural reforms will provide impetus to economic growth going forward. So far in the current year, India's food security concerns have been addressed and will continue to receive the utmost priority from the government. Easing international commodity prices and new Kharif arrival are also set to dampen inflationary pressures in the coming months. Hiring by firms is likely to witness an improvement in upcoming quarters driven by a rebound in new business hiring as firms continue to benefit from the lifting of the COVID-19 restrictions and optimism engendered by the vigorous sales volumes experienced during the festive season.

44. In a world where monetary tightening has weakened growth prospects, India appears well-placed to grow at a moderately brisk rate in the coming years on account of the priority it accorded macroeconomic stability. Second, as the private sector – financial and non-financial – was repairing balance sheets, capital formation suffered. The financial system stress in the second decade of the millennium, a consequence of the lending boom witnessed in the first decade-plus, is now behind us. Private sector financial and non-financial balance sheets are healthy and incipient signs of a new personal sector capital formation cycle are visible. But, more importantly, when the private sector turned cautious due to its balance sheet stress, the government raised capital expenditure substantially. Budgeted capital expenditure rose 2.8X in the last seven years, from 2015-16 to 2022-23. Fourth, it undertook structural reforms such as the introduction of the Goods and Services Tax and the Insolvency and Bankruptcy code. Fifth, it dealt with challenges on the external security front firmly. Sixth, it facilitated the emergence of an affordable and advanced public digital infrastructure, enabling the increasing formalisation of the Indian economy and widening the tax base, among other benefits. Seventh, it used fiscal and monetary resources prudently during the pandemic to provide targeted relief to the needy segments of the population.

45. Continued macroeconomic stability of which fiscal prudence is a part and execution of various path-breaking policies such as Gati Shakti, National Logistics Policy and the Production-Linked Incentive schemes to boost the manufacturing share of employment lend further upside to India's growth prospects.

***

To track the progress of the Indian economy since the outbreak of the Russia-Ukraine conflict, the HFI table has been rebased to January 2022.

-186.4	100	256.2

Performance of High-Frequency Indicators
Base Month Jan 2022= 100

Indicator	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Agriculture									
Tractor sales	98.5	138.1	169.0	155.3	179.0	104.6	99.9	215.4	234.1
Fertilisers sales	84.8	80.4	91.2	102.4	110.5	120.1	119.4	108.2	103.7
Industry									
8-Core Industries	94.8	109.3	99.7	103.2	99.0	97.2	96.5	95.4	
IIP-Consumer Durable goods	95.3	108.8	93.4	96.1	105.7	102.4	100.1	105.6	
IIP-Consumer Non-Durable goods	89.1	97.3	90.0	89.1	94.6	91.8	86.5	88.7	
Domestic Auto sales (Excluding Commercial vehicles)	94.4	106.3	101.0	108.8	114.5	121.6	131.3	146.4	142.9
Domestic Passenger vehicles sales	103.4	109.9	98.9	98.3	106.2	114.0	110.1	121.9	114.0
PMI Manufacturing	101.7	100.0	101.3	101.1	99.8	104.4	104.1	102.0	102.4
Power consumption	97.1	115.6	118.0	120.7	119.0	114.0	111.7	109.9	98.6
Natural gas production	91.0	100.9	98.8	101.8	98.3	100.7	101.2	99.7	
Cement production	95.1	112.7	96.9	93.8	100.6	87.9	85.9	89.6	
Steel consumption	89.0	95.6	89.2	93.3	85.0	88.8	92.0	92.0	98.5

Indicator	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Services									
Electronic Toll Collection	111.5	113.5	120.4	120.9	123.3	115.4	117.7	121.6	123.4
Domestic air passenger traffic	119.7	165.5	163.2	178.3	163.4	151.0	157.5	160.7	
Port cargo traffic	93.7	111.2	103.9	105.4	105.4	101.4	100.1	98.7	99.5
Rail freight traffic	92.8	107.9	94.7	102.1	97.3	94.7	92.5	89.7	92.2
PMI Services	100.6	104.1	112.4	114.4	115.0	107.8	91.5	86.9	88.2
Fuel consumption	99.8	110.2	103.2	103.6	106.0	100.0	101.1	97.7	104.3
UPI (Value)	99.4	115.5	116.6	125.0	121.9	127.6	128.8	141.8	145.4
UPI (Volume)	98.1	117.1	116.8	128.8	127.0	136.2	142.5	147.0	158.2
Inflation									
WPI	101.7	104.2	106.3	107.8	107.8	107.6	107.1	106.4	106.6
CPI	100.2	101.2	102.7	103.6	104.2	104.6	105.2	105.8	106.6
CPI_food	99.8	101.2	102.7	104.4	105.4	105.5	106.2	107.2	108.3
Crude price (Brent_Dubai_WTI)	111.4	134.0	123.2	131.2	139.2	125.3	114.4	105.1	107.6
Crude oil Indian basket	110.8	135.0	122.2	129.8	136.9	125.7	116.0	107.6	109.0
External Sector									
Merch Exports	105.5	126.2	113.0	111.0	120.4	103.1	93.7	92.6	84.6
Non-oil exports	98.7	113.4	103.9	99.7	103.6	97.7	91.8	86.7	81.8
Non-oil non-gold imports	93.8	109.7	103.2	101.2	111.9	103.8	101.0	98.4	92.7
Baltic Dry Index	104.2	139.9	126.1	167.1	135.7	118.0	80.2	84.5	103.0
Exchange Rate	100.7	102.4	102.3	103.9	104.9	106.9	106.9	107.8	110.7
NEER	99.2	98.9	98.5	99.8	99.8	98.7	98.9	99.6	

Indicator	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Fiscal									
Gross tax revenue (Central Govt)	104.4	256.2	137.3	101.2	145.9	129.4	89.3	219.4	
Capital Expenditure	86.9	215.1	157.7	56.3	135.9	67.2	87.2	181.0	
GST	94.4	100.7	119.2	100.0	102.1	105.7	102.1	104.8	106.4
E-way Bill Volume	100.5	113.7	109.0	107.0	108.3	109.9	113.7	122.1	111.8
Monetary and Financial									
M3	101.2	102.7	103.8	103.7	103.6	105.4	105.5	105.6	106.8
Non-food credit	101.7	103.9	104.6	105.1	105.5	108.6	109.4	110.7	113.2
Sensex	97.0	101.0	98.4	95.8	91.4	99.2	102.6	99.0	104.7
Nifty	96.9	100.7	98.6	95.6	91.0	99.0	102.4	98.6	103.9
10-year G sec Yields	101.3	102.4	106.9	111.1	111.5	109.6	107.6	110.8	111.5
10-Year Corporate Bond Yields (AAA)	99.4	99.0	114.6	112.3	110.5	114.0	110.7	109.2	111.9

Note: Scale is reversed for inflation, exchange rate, 10-year G-sec yields and 10-year corporate bond yields indicators.

For feedback, contact:

1. Mr. Rajiv Mishra, Economic Adviser (r.mishra67@nic.in)
2. Ms. Shreya Bajaj, Deputy Director (shreya.bajaj@gov.in)
3. Ms. Megha Arora, Deputy Director (megha.arora1506@gov.in)
4. Ms. Sonali Chowdhry, Consultant (sonali.chowdhry@nic.in)
5. Mr. Bharadwaja Sastry Adiraju, Young Professional (bharadwaj.adiraju@govcontractor.in)
6. Ms. Hema Rana, Economic Officer (hema.rana92@nic.in)