SBI RESEARCH
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Q1 FY23 GDP TRENDING AT ~15.7% WITH AN UPWARD BIAS: FORTHCOMING JACKSON HOLE SYMPOSIUM MIGHT PROVIDE THE FUTURE TRAJECTORY OF FED RATE RAISING CYCLE

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As per SBI Nowcasting model, Q1FY23 GDP growth is expected at 15.7%, with a large possibility of an upward bias. If this materialises, we expect upside to RBI GDP projections at 7.2% for FY23. The significantly high base of FY22 and the low base of FY21 has made the forecasting exercise a difficult one, with a large band around the mean estimates. The SBI CLI Index (a basket of 41 leading indicators) based on monthly data has shown a significant acceleration. Out of the 41 high frequency leading indicators, 89% showed an acceleration in Q1FY23 compared to 75% acceleration in Q1FY22, indicating that growth momentum in Q1FY23 was strong and broad-based and is not merely a reflection of a base. In Q2FY23, leading indicators have continued to accelerate with 81% of the indicators, for which data is available showing an uptrend relative to Q1FY22 .

Importantly, private final consumption expenditure in real terms that had declined significantly by Rs 4.77 lakh crore in Q1FY21 owing to COVID-19 pandemic recovered by 46% in Q1FY22. It remains to be seen how the remaining 54% pent up demand recovered in Q1FY23. We believe, it is likely to be more than 54%, indicating a strong recovery in consumer demand, specifically in services which has helped in the likely strong Q1FY23 numbers. This also accounts for 6.8% of the total GDP contribution in Q1FY23.

At a global level, the Russia-Ukraine conflict's global macroeconomic effects for now seem to have moderated. The conflict is influencing direct trade effects, energy and commodity prices, confidence, and policy responses, particularly in China. Inflation has moved as a policy challenge. Higher U.S. dollar rates is tightening financial conditions, moderate growth, and spill over to other economies, while the ECB tightening will be much more gradual. Against this backdrop, the average real GDP y-o-y growth in Q2 2022 for 20 economies at 4.9% is lower that the preceding quarter due to muted growth in major countries like China, Japan, Germany and US. It appears that global growth momentum has clearly entered a contractionary zone, possibly on the back of heightened uncertainties.

Meanwhile, FMCG Sector continued to witness tepid demand as rising retail inflation in Q1FY23 exerted pressure on share of wallet for FMCG. Consumers, did adjust volumes and prioritized essential spend over discretionary spend to manage household budgets.

Overall, India seems to have managed the global uncertainty quite well till date, with leading indicators continuing to show acceleration. The good thing is that, there has been a rebound of portfolio capital inflows since July 29th with a capital inflow of around $6.7 bn, with crude declining to below $100 and inflation also declining. At this rate, portfolio capital flows in current fiscal could now turn positive from an outflow of $14.7 billion till July 29th. We expect direct investment of around $45 billion, other investment of $30 billion and FII inflows of $15 billion, thereby leading to an overall Balance of Payment deficit of $40-45 billion, that could be further scaled down with evolving situation.

However, recently with $ Index again moving up to 108, the rupee has witnessed weakening trends. Meanwhile, an interesting development is taking place in the global currency market that might eventually thwart this $ uptick. There has been a significant jump in the demand for Yuan arising from short-circuiting the sanctions in place by corporates in select jurisdictions who have been utilizing multitude of non-dollar currencies to procure Crude and other commodities, viz. coal through striking deals in Renminbi/HKD/AED pairs at discounted rates. On a related note, Turkish President Recep Tayyip Erdogan has recently announced that one of the key takeaways from his meeting with Russian President Vladimir Putin in Sochi was bilateral agreement to use Rouble as a monetary unit in trade. The high level talks touched upon gas exports to Turkey with both Central Banks agreeing to partially pay for them in Roubles, and that Russia and Turkey were moving forward to a gradual transition to paying in national currencies only. Russia – Turkey bilateral trade is currently running at about $23.5 billion with both sides committing to increasing this to $100 billion by 2030. With China vowing to anchor the bonhomie with Russia, will 'Dollar Distancing' be a reality in coming days? Its anybody's guess, as Yuan has again weakened following risk-off sentiments.

Clearly, the series of rate hikes in US and even in India seem to have no major impact on US labour market and growth outlook in India. This could open up opportunities for more rate hikes by Fed and even RBI MPC minutes suggests some more rate hikes even as inflation is expected to significantly moderate in H2FY23. We live in an interesting world!

GDP GROWTH IS ESTIMATED AT 15.7% IN Q1 FY23

- Several indicators suggest that the Indian economy is making resilient progress in Q1 FY23 in spite of the drag from global spill overs, elevated inflation and some slackening of external demand as geopolitical developments take their toll on world trade. Domestically, an intense heatwave in major regions limited economic activity in the earlier months, despite which most of the high frequency indicators showed improvement especially in services sector activity. There were also significant improvements in domestic supply delivery time, backlogs and decline in truck freights which was reflected in the fall of index of supply chain pressures for India.
- Against this backdrop, the Q1 FY23 GDP numbers are expected to be much higher (in double digits), though this largely reflects base effects of the steep absolute contraction in the corresponding quarter a year ago.
- **GDP Growth as per SBI composite leading indicator (CLI):** The CLI Index (a basket of 41 leading indicators which includes parameters from almost all the sectors) based on monthly data shows early signals of turning-points in economic activity. Out of the 41 high frequency leading indicators, 89% are showing acceleration, compared to 75% acceleration in FY22.
- **GDP Growth as per SBI 'Nowcasting Model':** To estimate GDP statistically, we have built a 'Nowcasting Model' with 41 high frequency indicators associated with industry activity, service activity, and global economy. The model uses the dynamic factor model to estimate the common or representative or latent factor of all the high frequency indicators from Q4 of FY13 to Q1 of FY23. The details of the full model were shared in ***SBI Ecowrap dated 20 November 2020.***
- As per our (SBI) 'Nowcasting Model', the forecasted GDP growth for Q1 FY23 would be 15.7%, with an upward bias.
- In 2022, India is confronted with high volatility in the foreign exchange market as well as elevated and persistent inflation brought on by external spill overs. Now, however, India deals with these challenges from a position of strength imparted by the resilience of its macro-fundamentals and buffers, and a structural change in the policy environment.

FY23 Real GDP Projections

	SBI	RBI
Q1 P	15.7%	16.2%
Q2 P	7.0%	6.2%
Q3 P	4.5%	4.1%
Q4 P	4.1%	4.0%
Annual P	**7.5%**	**7.2%**

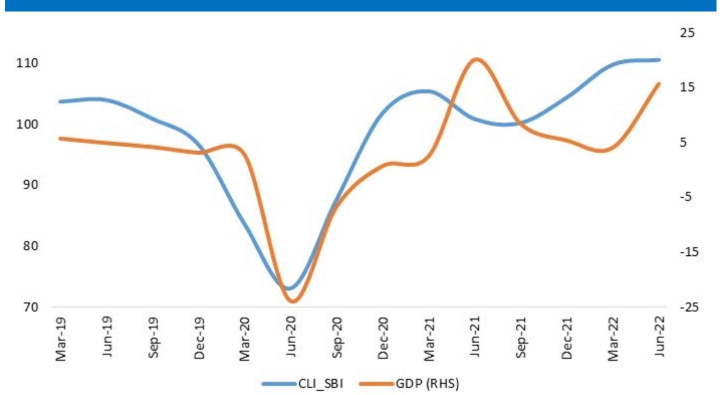
Source: RBI; SBI Research

Mapping of Leading Indicators with GDP Growth

Year	Quarter	% of indicators showing acceleration	GDP Growth (%)
FY18	Q1 FY18	59	6.1
	Q2 FY18	70	5.3
	Q3 FY18	71	6.7
	Q4 FY18	80	8.9
FY19	Q1 FY19	73	7.5
	Q2 FY19	73	6.5
	Q3 FY19	63	6.2
	Q4 FY19	48	5.7
FY20	Q1 FY20	41	4.9
	Q2 FY20	35	4.2
	Q3 FY20	34	3.2
	Q4 FY20	39	2.8
FY21	Q1 FY21	19	-23.8
	Q2 FY21	29	-6.6
	Q3 FY21	50	0.7
	Q4 FY21	59	2.5
FY22	Q1 FY22	75	20.1
	Q2 FY22	70	8.4
	Q3 FY22	61	5.4
	Q4 FY22	61	4.1
FY23	Q1 FY23	89	15.7

Source: SBI Research

SBI Composite Leading Index vs GDP Growth



Source: SBI Research

RS 2.5 LAKH CRORE PENT UP DEMAND IN Q1 FY23

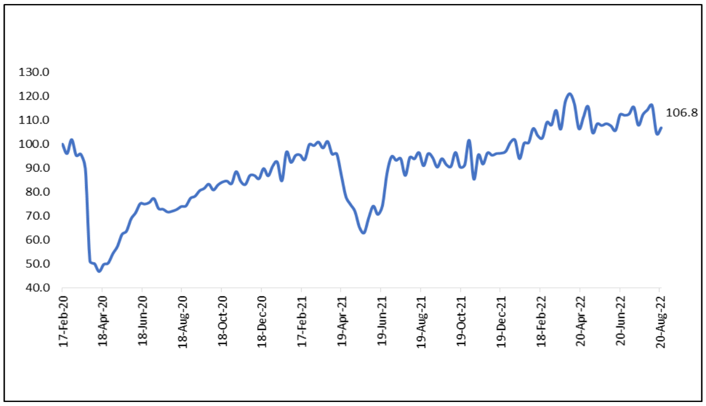
- Private final consumption expenditure in real terms declined significantly by Rs 4.77 lakh crore to Rs 15.32 lakh crore in Q1 FY21 owing to COVID-19 pandemic. However, it recovered by Rs 2.21 lakh crore to Rs 17.53 lakh crore in Q1 FY22. Thus remaining pent up demand is Rs 2.56 lakh crore in Q1 FY23. This accounts for 6.8% of the total GDP in Q1 FY23.

Estimate for Pent-up demand (Rs lakh crore, constant prices)	
PFCE Pre-Covid Level (Q1 FY20)	20.09
Decline in PFCE during Covid (Q1 FY21)	4.77
PFCE recovered in Q1 FY22	2.21
Remaining pent up demand for Q1 FY23	2.56
Source: SBI Research	

BUSINESS ACTIVITY INDEX CONTINUOUS TO IMPROVE

- SBI Business Activity Index also shows pick-up in economic momentum since end-Jan'22, though it has moderated a little in recent months. Electricity consumption, weekly food arrival and RTO revenue collection have all shown positive momentum.

Business Activity Index



Source: SBI Research

COUNTRY-WISE Q2 2022 (OR Q1 FY23) GDP GROWTH

- The Russia-Ukraine conflict's global macroeconomic effects for now seem to have moderated after a healthy start to 2022, including strong household balance sheets in the advanced economies. Risks are clearly on the downside: The conflict will influence direct trade effects, energy and commodity prices, confidence, and policy responses, particularly in China. Inflation has moved as a policy challenge: Higher U.S. dollar rates will tighten financial conditions, moderate growth, and spill over to other economies, while the ECB tightening will be much more gradual.
- Against this backdrop, the average real GDP y-o-y growth in Q2 2022 for 20 economies at 4.9% is lower that the preceding quarter due to muted growth in major countries like China, Japan, Germany and US. It appears that global growth momentum is entering the contractionary zone.

Country-wise GDP Growth (% Y-o-Y)					
Country	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Colombia	18.3	13.7	10.8	8.6	12.6
Saudi Arabia	1.9	7.0	6.7	9.9	11.8
Malaysia	15.9	-4.5	3.6	5.0	8.9
Vietnam	6.7	-6.0	5.2	5.1	7.7
Philippines	12.1	7.0	7.8	8.2	7.4
Spain	17.8	3.4	5.5	6.4	6.0
Indonesia	7.1	3.5	5.0	5.0	5.4
Chile	18.9	17.2	12.0	7.4	5.4
Israel	17.8	5.9	11.3	10.8	4.8
Singapore	15.8	7.5	6.1	3.8	4.4
France	19.0	3.7	4.7	4.9	4.1
Norway	6.2	5.3	5.3	4.9	3.9
Taiwan	7.8	4.4	5.3	3.7	3.0
South Korea	6.2	4.0	4.2	3.0	2.9
Thailand	7.7	-0.2	1.8	2.3	2.5
United States	12.6	4.7	5.4	4.2	2.3
Mexico	19.9	4.5	1.1	1.8	2.1
Germany	10.6	1.8	1.2	3.9	1.5
Japan	7.3	1.2	0.5	0.7	1.1
China	7.9	4.9	4.0	4.8	0.4
Average	**11.9**	**4.4**	**5.4**	**5.2**	**4.9**
Source: SBI Research					

VALUE LED GROWTH IN FMCG COMPANIES: RURAL LAG URBAN DEMAND

- In Q1FY23, around 4000 listed entities reported 3% growth in top line while EBIDTA declined by 2% on sequential basis. However, on YoY top line grew by 41% while PAT grew by 20% led by Bank, Auto, Fertilizers, Chemicals, FMCG etc.
- FMCG sector, as reported by around 80 listed entities, reported 14% sequential growth in net sales. However, on a YoY basis, sector reported top line growth of 25%, mainly on account of value and not in volume term, while EBIDTA and PAT grew by 13%.
- FMCG Sector continued to witness tepid demand as rising retail inflation exerted pressure on share of wallet for FMCG. It is natural for consumers, in such inflationary scenarios, to feel the pinch of increased pressure on their wallets and they adjust volumes and prioritize essentials over discretionary spend to manage the household budgets.
- For example, Dabur reported 8.1% growth in consolidated revenue while domestic FMCG volume grew by 5% in Q1FY23. Consumer switched to more affordable smaller packs of branded consumer goods. However, both rural and urban demand have been at par for Dabur.
- Likewise, domestic revenue at HUL grew YoY by 19% led by price while underlying volumes growth of 6%. Rural growth continues to lag growth in urban markets. Further, Marico also reported quarter of de-growth both in value and volume terms. Food business also reported a slow quarter due to sharp decline in immunity-led categories like honey, among others.
- However, Nestle reported strong growth of 16.4% in Q1FY23. Interestingly, while around 15% of growth is reported in Metro and Mega cities, 30.7% growth is reported in villages, 70%+ population occupation is agriculture.
- Companies are cautiously optimistic that the trends will improve in the coming quarters as the current quarter was impacted by overall rural slowdown and inflationary pressures. We believe, in near term growth to be price led, inflation to continue impacting consumption till it starts to decline meaningfully.

Results of Major Listed FMCG Companies (qtr. ended June'2022)

Company	Volume growth	Value growth	Remarks
Hindustan Unilever Ltd.	6	19	Domestic revenue grew by 19%; 17% growth in Beauty & Personal care, Home care 30% and food & refreshment grew by 9% each; YoY market growth price led. Rural growth continues to lag growth in urban markets.
Marico Ltd.	-6	-4	Domestic revenue degrew by 4% while volumes declined by 6%, dragged by double digit decline in Saffola Oil. Ex-Saffola Oils, domestic volumes grew by 1%. Hair oil value growth is 5%
Nestle India Ltd.	-	16.4	Domestic Sales grew at 16.4% driven by prepared dishes i.e. maggi noodles and cooking aids which grew by 13.9% along with confectionery 24.4% and Powdered and liquid beverages growth is 21.7% in H1 (Jan-June)
Colgate-Palmolive (India) Ltd.	-	2.5	Sales increased by 2.5% in comparison to the corresponding period last year
Godrej Consumer Products Ltd.	-6	12	Indian business grew by 12%, consolidated 8% , Personal Care grew by 25%.
Varun Beverages Ltd.	97	102	Net Revenue from operations grew by 102% YoY in Q2 CY2022 primarily because of robust volume growth (increased by 96.9% to reach 300 mn cases) consisting carbonated soft drinks (CSD), Juice and water
Dabur India Ltd.	5	8.1	Foods & Beverages business reported a strong growth, led by 51% jump in the Beverages business contributed by market share of Real Fruit Juice increased by ~330 bps. Foods business also reported 36% growth during the quarter. Health Supplements declined by 35.5% on account of high bases of Chyawanprash and Honey in Q1FY22 and Q1 FY21. Hair oil portfolio recorded 8.1% growth on a high base of 38.4%. Both rural and urban demand growth have been at par for Dabur

Source: Company reports; SBI Research

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