Manufacturing PMI at 8-year high

Rises to 55.3 in Jan, driven by increase in new orders amid rebound in demand

INDIVJAL DHASMANA
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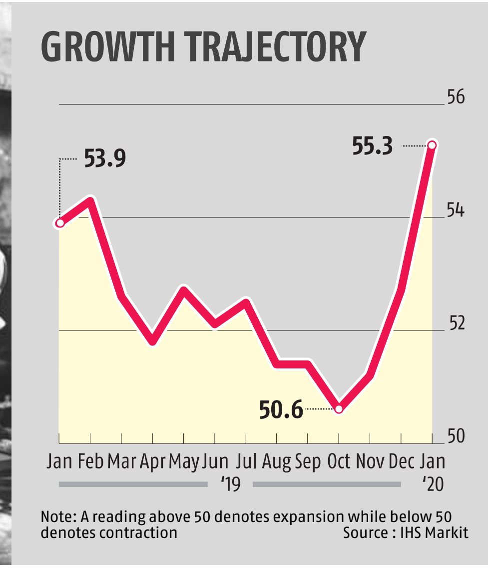

Note: A reading above 50 denotes expansion while below 50 denotes contraction
Source : IHS Markit

The manufacturing sector, which is blamed for dragging down economic growth in the current fiscal year, rose to an eight-year high in January, according to the widely-tracked purchasing managers' index (PMI) survey.

The IHS Markit India Manufacturing PMI rose from 52.7 in December to 55.3 in January, its highest level in just under eight years. According to PMI parlance, a reading above 50 represents growth and the one below it denotes contraction.

Growth was driven by a sharp rise in new business orders amid rebound in demand conditions. This led to a rise in production and hiring activities.

There was, however, less pressure on prices, says the commentary associated with PMI. The Reserve Bank of India's Monetary Policy Committee (MPC) will hold its three-day meeting from Tuesday.

"Manufacturing sector growth in India continued to strengthen in January, with operating conditions improving at a pace not seen in close to eight years," said Pollyanna de Lima, principal economist at IHS Markit.

On the other hand, official advance estimates show that manufacturing is expected to grow by just 2 per cent in the current fiscal year, against 5.7 per cent the previous year. This, among other factors such as crisis in non-banking financial companies, is likely to pull down the economic growth to 5 per cent in FY20, the lowest in over a decade.

In the PMI survey, companies noted the strongest upturn in new business intakes for over five years, which they attributed to better underlying demand and greater client requirements.

The rise in total sales was supported by strengthening demand from external markets, as noted by the fastest increase in new export orders since November 2018.

On employment, hiring activity improved in January, with firms increasing employment at the quickest rate in close to seven-and-a-half years. New business growth and projects in the pipeline were cited as the main reasons for job creation.

Meanwhile, Indian manufacturers were more upbeat about the year-ahead outlook for production. Optimism stemmed from forecasts of better demand, new client wins, marketing efforts, capacity expansion, and product releases.

"To complete the good news, there was also an uptick in business confidence as survey participants expect buoyant demand, new client wins, advertising and product diversification to boost output in the year ahead," Lima said.

On the price front, there were slower increases in both input costs and output charges, the survey noted.

"Companies also benefited from subdued cost pressures, which enabled them to restrict increases in their fees to some extent," Lima said.

Shaktikanta Das is Asia-Pacific central banker of the year

ANUP ROY
Mumbai, 3 February

Reserve Bank of India (RBI) Governor Shaktikanta Das has been named Central Banker of the Year, Asia-Pacific 2020, by *Banker* magazine, a unit of *Financial Times* (FT).

The award is given to central bankers who have "best managed to stimulate growth and stabilise their economy."

Jorgovanka Tabakovi, National Bank of Serbia, was adjudged the Global Central Banker of the Year. The awards were announced in an editorial of *Banker* magazine on January 2.

Nominating Das, the magazine said India's banks had faced a series of challenges, from non-performing loans to issues around fraud. Repeated economic slumps saw the central bank cut interest rates five times during 2019, and it was open to cutting these again, if necessary.

"Faced with these challenges, Shaktikanta Das has taken steps to bring banking in India up to standard via a restrained approach to governance," the magazine said.

"He has brought in measures to tighten the rules around shadow banking, refusing to bail out non-banking financial companies (NBFC). He is aiming instead for issues to be managed within the financial system, possible a risky move but one that will reduce dependence on the central bank," the magazine said.

According to *Banker*, lenders outside the traditional bank network have been placed under greater levels of scrutiny under the RBI governor. Housing finance companies have been brought under the regulation of RBI and will adhere to the same rules framework of NBFCs.

Faced with several challenges from non-performing loans to fraud, *Banker* magazine says Shaktikanta Das has "taken steps to bring banking in India up to standard via a restrained approach to governance"

While ensuring that smaller banks and urban cooperative banks install a robust IT system that will allow them to offer banking services at a lower cost and with safeguards to protect the customer, the banking system itself has not gone without scrutiny.

"Das has been outspoken on the lack of governance in banking, calling for tighter rules for the state-owned banks, which comprise 60 per cent of India's banking sector."

The magazine lauded the governor for setting up a college for supervisors, and mandating banks to select external benchmarks for linking their lending rates.

"An environment of macroeconomic stability, as reflected in low and stable inflation, notwithstanding its recent spike that is expected to be transient; a sustainable current account deficit; and rising foreign exchange reserves have contributed towards maintaining financial stability and laying a platform for sustained growth," he was quoted by the magazine.

Extended pause ahead

ADITI NAYAR

In a move that had surprised the markets, the Monetary Policy Committee (MPC) had unanimously chosen to keep the repo rate unchanged at 5.15 per cent in the December 2019 policy review, given the lack of clarity on the evolving growth-inflation outlook, incomplete transmission of past monetary actions, and the growth-supportive measures that may be introduced in the Union Budget for FY21.

The MPC had sharply revised its CPI inflation forecast for H2FY20 to 5.1-4.7 per cent from 3.5-3.7 per cent, with risks broadly balanced. The subsequent inflation data was unpleasant, with a food price induced hardening of the CPI inflation from 4.6 per cent in October to 7.4 per cent in December, breaching the upper threshold of the MPC's medium-term target of 4 +/-2 per cent.

Prices of some vegetables have corrected in January, aided by the rise in domestic supplies and imports of onions. The favourable rabi sowing trends, coupled with healthy reservoir levels, would support crop yields. However, the retail prices of pulses and oilseeds have seen an uptick. Further, the elevated global food price index poses a risk that needs to be watched. Also, telecom tariff hikes, rail fare hike, and an unfavourable base effect, are likely to push up the core-CPI inflation. In our assessment, the CPI inflation will print around 6.5 per cent in January, and fall gradually toward 4 per cent over the next three quarters, necessitating an upward revision in MPC's inflation projections.

MONETARY POLICY PREVIEW

In December 2019, the MPC had reduced its projection for economic growth in FY20 to 5.0 per cent, from the October 2019 forecast of 6.1 per cent with risks evenly balanced. This was in line with the advance estimate of GDP growth of 5.0 per cent for FY20, released by the CSO in January. But the revised GDP data up to FY19, released subsequently by the CSO, indicates an implicit growth of 5.7 per cent for FY20.

In our view, the proposals made in the Union Budget for FY21 will not trigger a substantive revival in demand in the immediate term. However, recent high frequency indicators offer some evidence that in some sectors a gradual recovery has already set in, including the double-digit growth in Coal India's output as well as the rise in the manufacturing PMI to an eight-year high level of 55.3 in January. The funding of the Centre's fiscal deficit from the small savings pool is likely to go up from ₹1.25 trillion in FY19 to ₹2.4 trillion each in FY20 and FY21. This suggests small savings interest rates are unlikely to undergo any meaningful correction in the coming 4-5 quarters, irrespective of the policy action undertaken by the MPC.

Given the 135 bps of repo cuts undertaken in 2019 to support economic growth, we expect an extended pause from the MPC in H1CY20, until there is clear visibility of a fall in the headline CPI inflation below its medium-term target. Moreover, a change in stance to neutral from accommodative is anticipated in either the February or April reviews.

The writer is principal economist, ICRA