SBI ECOWRAP

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'Be the Bank of Choice for a Transforming India'

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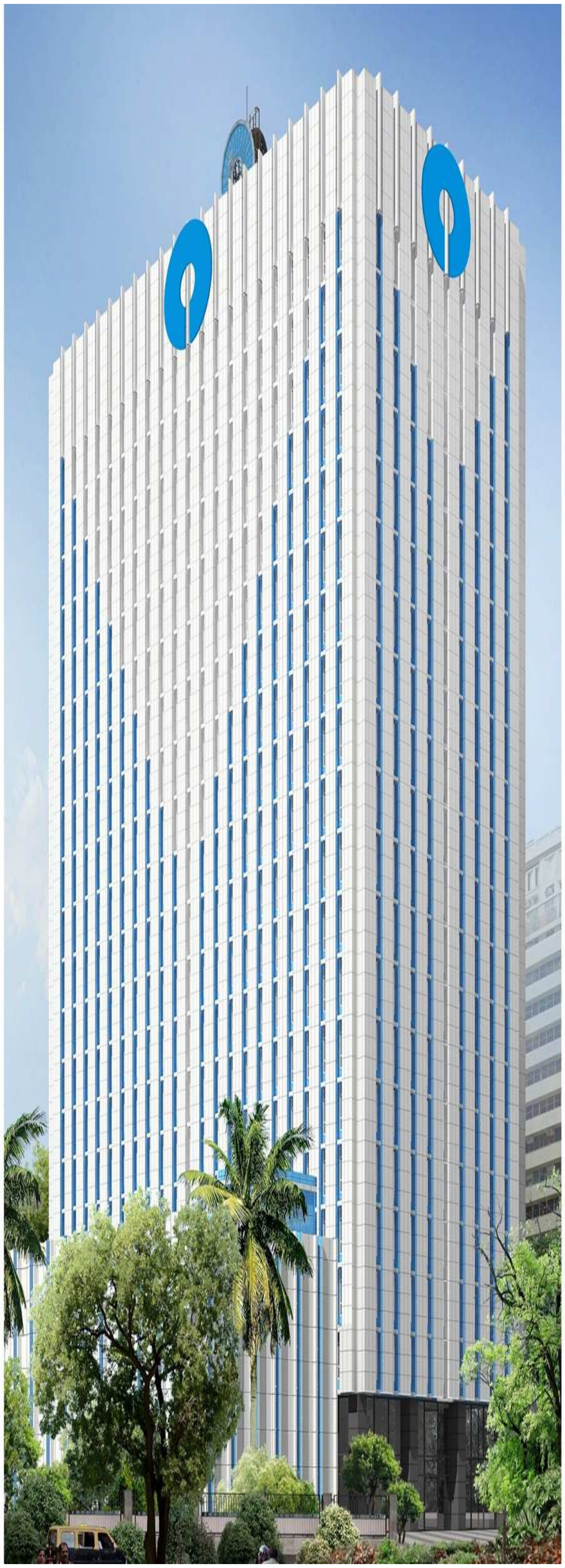
Q2 FY19 GDP GROWTH AT 7.5-7.6%

SBI Composite Leading Indicator (CLI) a basket of 21 leading indicators for Q2FY19 is showing a marginal declining trend. Consequently, the headline Q2 GVA growth could be 7.3%-7.4%, due to the slowing of rural demand. We also believe that the growth numbers in Q2 will be helped by a weak base in Q2FY18. We estimate that the base impact on Q2 GVA growth is around **30 bps.** Based on tax collections, we subsequently expect Q2 GDP growth at 7.5%-7.6% (Q1 at 8.2%).

Commercial vehicle sales, domestic air passenger traffic and cement production has maintained double-digit growth during July'18 to Sep'18. All these indicators pushed up GVA in the Q2 of FY19.

The Monthly data of various indicators for October'19 however suggest, the GVA growth is slowing down due to decline in demand. Of particular concern, is that non-food credit, bank deposits and sale of passenger and commercial vehicles have slowed down as compared to previous month. Also with a slowdown in Government Spending in H2FY19, the fiscal impulses to growth would now be clearly missing.

We are particularly concerned of a global growth slowdown, the timing of which looks uncertain, but 2019 could be the inflection point. We believe, beginning with talks of a V-shaped recovery, then a U-shaped recovery, followed by a W-shaped recovery, the global economy has gone through several turbulence. Perhaps, economies across the world are witnessing a Z-shaped recovery with significant scale down of potential growth. Under such circumstances obfuscation with rigid policy targets/prescriptions (fiscal and monetary) may not be the correct option. For example, with liquidity deficit currently at Rs 1.2 lakh crore and set to expand further post GST it is now increasingly becoming pertinent for RBI to proactively manage liquidity. It is imperative that yields move down commensurately reflecting the recent meltdown in crude prices benefitting the financial system in terms of a lower term structure of interest rates thus overcoming any possible demand slowdown.



*"**When the global crisis occurred in 2008, we said it would be a V-shaped recovery. When it persisted, we said it would be a U-shaped recovery. When the sovereign debt problem caused another dip, we said it would be W-shaped. Thank goodness, English has 26 alphabets. This will end**"*

\- **Prof. Kaushik Basu**

SBI'S CLI INDEX SHOWS GDP TO GROW AT 7.5-7.6% IN Q2FY18

- ***SBI Composite Leading Indicator (CLI)*** a basket of 21 leading indicator for Q2FY19 is showing a marginal declining trend. Consequently, the headline Q2GVA growth could be 7.3%-7.4%, due to the slowing of rural demand. We also believe that the growth numbers in Q2 will be helped by a weak base in Q2FY18. We estimate that the base impact on Q2GVA growth is around 30 basis points.
- Based on tax collections, we subsequently expect GDP growth at 7.5%-7.6% (Q1 at 8.2%)

Leading Indicators driving GVA in Q2 FY19

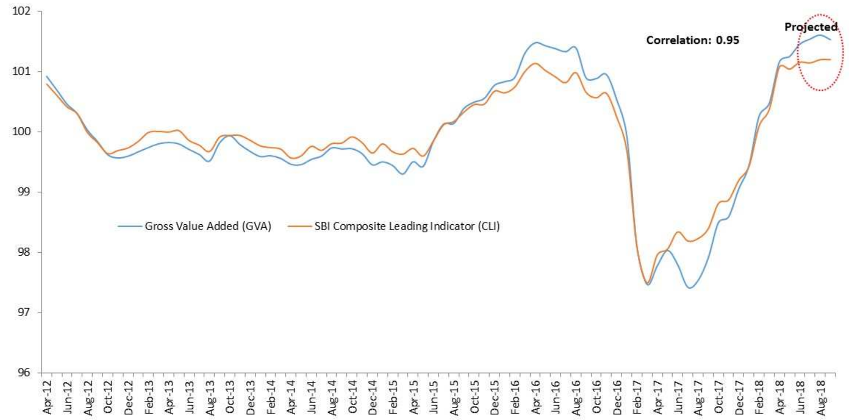
Leading Indicators	Q2 FY18	Q2 FY19
Non Food Credits	8.1	13.1
Automobile Sales_Passenger Vehicle	4.2	-2.7
Automobile Sales_Commercial Vehicle	22.4	27.4
Cargo_Traffic_All Airports	14.5	7.3
Freight Traffic_Railway	6.1	7.0
Aircraft Movement	12.2	14.5
Crude Steel Production	5.5	4.1
IIP_Genral	4.8	5.2
IIP_Mining	3.0	1.0
IIP_Manufacturing	5.4	5.6
Imports	17.2	21.4
Exports	18.2	11.2
Number of Cellular Subscribers	21.8	6.8
Electricity_Supply	5.6	7.0
Crude Oil Production	-0.1	-4.4
Natural Gas Production	2.8	-2.0
FDI Inflows	-83.2	-76.9
Government Expenditure	13.8	20.1
Cement Production	5.3	12.5

Source: SBI Research

METHODOLOGY OF CLI

- For constructing CLI, a set of 21 economic indicators selected out of 33 indicators has been based on their proximity with the reference series, i.e, GVA, and their composite index provides a robust signal of future turning points.
- We obtained monthly time series data for each Leading Indicator (LI). The reference series is used as GVA which is available quarterly and interpolated through cubic spline method to make arrive at monthly series so that there could be uniformity with in the leading indicators. Post selection of indicators, we removed the seasonality and long term trend from the data with the appropriate econometric tools as the presence of a trend and seasonality in economic activity can distort evaluations of cyclical events.
- Our CLI index posits strong correlation with GVA growth. However, CLI Index is showing a stagnant trend in since July and this is likely to result in a slowdown in GVA numbers going forward.

CLI vis-a- vis GVA Growth Trend



Source: CEIC, SBI Research

RESULT OF CLI & GDP GROWTH

- The result suggest, the CLI trend is coming in line with the GVA growth and the correlation between these two is 0.95. We also back tested the series for validating our results.
- Major indicators driving GVA in Q2 FY19 are cement, passenger traffic, sale of commercial vehicle and increase in Government Expenditure, non-food credit growth and aircraft movements.
- Commercial vehicle sales growth which is an indicator of demand for transport has strengthened in last three months. Domestic air passenger traffic – another indicator of urban demand – has maintained double-digit growth during July'18 to Sep'18. Sustained and continuous increase in cement production also further indicating that construction activity has picked up its pace and all these indicators have combinedly driving GVA in the Q2 of FY19.

MoM Growth (%) in Leading Indicators				
Indicators	Jul'18	Aug'18	Sep'18	Oct'18
Non Food Credit	-0.6	1.9	2.3	0.5
Passenger Vehicle Sales	7.4	-1.9	0.8	-4.3
Commercial Vehicle Sales	-6.2	10.4	12.7	-10.1
Freight Traffic	1.6	-0.4	-2.4	6.5
Currency with Public	-0.9	-0.7	-0.2	1.7
Money Supply: M1	-1.0	1.8	2.4	-1.3
Money Supply: M3	0.5	1.4	1.1	0.0
Imports: USD	-2.3	3.5	-7.5	5.2
Exports	-5.0	7.6	-0.1	-3.3
SENSEX	2.8	4.5	-1.7	-7.7
Electricity: Power: Supply	0.4	2.6	-2.9	1.8
Electricity: Power: Demand	0.4	2.6	-2.8	1.7
Total Deposits	0.3	1.0	1.3	-0.2
Time Deposits	0.6	1.2	0.7	0.4
Demand Deposits	-2.5	-0.2	6.6	-5.5

Source: SBI Research

- The Monthly data of various indicator for October'19 however suggest, the GVA growth is slowing down due to decline in demand and higher base effect. Of particular concern, is that both non food credit, bank deposits and sale of passenger and commercial vehicles have slowed down significantly as compared to previous month.

CORPORATE GVA PICKED UP PACE IN Q2

- The Manufacturing GVA and Corporate GVA (defined as sum of PBIDT and Wages/Salaries) are strongly positively correlated. Corporate GVA which decelerated since Q1 FY18 rebounded in Q1 FY19 and exhibited positive growth of 8.0% (based on the data of 3956 listed companies) and the Q2 result suggest of 1648 companies suggest, the Corporate GVA has improved further to13.82%.
- In Q2, we are also expecting manufacturing GVA to further pickup with better performance of listed companies.
- Overall manufacturing sector which grew by 5.7% in FY18 could now accelerate in FY19 with possible support from both crude oil prices and subsequent strengthening of rupee.

Corporate GVA growth vis-à-vis Manufacturing GVA			
Qtr Period	No of Listed Companies	Corporate GVA (% YoY)	Manufacturing GVA (% YoY)
Q1FY17	4472	4.1%	9.9%
Q2FY17	4432	8.0%	7.7%
Q3FY17	4444	14.6%	8.1%
Q4FY17	4400	10.3%	6.1%
Q1FY18	4369	-0.3%	-1.8%
Q2FY18	4331	1.6%	7.1%
Q3FY18	4277	2.6%	8.5%
Q4FY18	4227	-9.5%	9.1%
Q1FY19	3956	8.0%	13.5%
Q2FY19	1648	13.8%	-

Source: CLine; SBI Research

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ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of "tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis".

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management , corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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