

## 1. Global Economic Outlook

### US Inflation accelerates in December 2023-

According to the US Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in December 2023 on a seasonally adjusted basis, after rising 0.1% in November 2023. Over the last 12 months, the all-items index increased 3.4% before seasonal adjustment compared to an increase of 3.1% increase for the 12 months ending November 2023.

The all items less food and energy index rose 3.9% over the last 12 months, after rising 4.0% over the 12 months ending November 2023.

### US Manufacturing sector sees recovery in December 2023-

The ISM Manufacturing PMI in the US improved slightly to 47.4 in December 2023 from 46.7 in November 2023, and better than market forecasts of 47.1. However, the reading still points to the 14th month of contraction in factory activity, prolonging the most extended period of declining activity since 2000-2001. Production rebounded (50.3 vs 48.5) but new orders (47.1 vs 48.3), employment (48.1 vs 45.8), and inventories (44.3 vs 44.8) continued to shrink. Also, price pressures decreased (45.2 vs 49.9), as soft energy markets offset increases in the steel and aluminium markets.

## 2. Domestic Economic Outlook

**Rabi sowing gains momentum:** Total area under rabi crops was at 67.3 million hectares until 12 January 2024 recording a marginal decrease of 0.7% from the same period last year. This is a significant progress from the week ended on 29 December 2023 when area under rabi crops was 2.6% lower from the same period last year.

Wheat was sown on 33.6 million hectares by 12 January 2024 compared to 33.5 million hectares (mha) in the same period last year. Area under pulses retained a significant lag. Pulses were sown on 15.2 million hectares by 12 January 2024 against 16.0 mha in the same period last year. Oilseeds sustain higher area. Rapeseed and Mustard area recorded an increase of 2% at 9.9 mha.

**IIP rises by 2.4% in November 2023-** Industrial output, measured by the index of industrial production (IIP), rose by 2.4% on a year-on-year basis in November 2023. The growth was lower than the 11.6% growth registered in the preceding month.

The growth in November was the lowest registered in the last eight months.

Output of mined products grew by 6.8%, while electricity generation increased by 5.8%. The manufacturing sector reported a 1.2% growth in production in November 2023. The fall was broad-based, with 17 of the 23 sub-groups of the manufacturing sector reporting a fall in production. 6 sub-groups reported a rise in production.

### GDP to grow by 7.3% in FY24: NSO's 1st

**Advance Estimates:** India's real Gross Domestic Product (GDP) has been projected to grow by 7.3% in 2023-24, as per the first advance estimates released by the National Statistical Office (NSO). Gross fixed capital formation (GFCF) is projected to drive the GDP growth with a 10.3% expansion. Private final consumption expenditure (PFCE) has been projected to grow by 4.4%, while government final consumption expenditure (GFCE) has been projected to grow by a lower 4.1%. According to the NSO's estimates, trade deficit would jump to 4.8% of GDP in 2023-24 from 2.1% in 2022-23.

### Agriculture Sector growth expected to slow-

As per the NSO estimates, agriculture sector is expected to record a small growth of 1.8% in 2023-24 as kharif harvests were bad. El Nino had an impact on the kharif season. Deficient soil moisture also affected rabi sowings in the first few weeks. Major crops like sugarcane and soybean are expected to see a decrease in production. The data also showed that at current prices, GVA for agriculture, forestry and fishing is projected to grow at 5.5% in FY24 as against 12.1% in FY23. This translates into an inflation impact of 3.7% in FY24 as against 8.1% in FY23.

As per first advance estimates of production of major kharif crops 2023-24, production of almost all Kharif crops is down in 2023-24 due to uneven rainfall while the initial sowing of some Rabi crops has also been impacted because of deficient soil moisture. Production of rice, the main crop during the Kharif season, could drop by 3.79% in 2023-24 to 106.31 million tonnes (MT) as compared to the 110.5 MT as per the final estimate of 2022-23 due to uneven monsoon. Kharif crops such as moong, urad, soybean and sugarcane could lead this drop.

**Retail Inflation rises to 4 month high of 5.69%-** Retail price inflation, measured by the Consumer Price Index (CPI), rose to 5.7% in

December 2023 from 5.6% in November 2023. This is the highest inflation recorded in the last 4 months. Inflation in urban India rose to 5.5% from 5.3% in November 2023 and that in rural India increased to 5.93% from 5.85%.

At the all-India level, inflation in the food & beverages group rose to 8.7% in December 2023 from 8% in November 2023. The fuel & light group reported deflation of 1% in December 2023, as compared to a disinflation of 0.8% seen in November 2023. The clothing & footwear group, on the other hand, reported inflation of 3.6%, which was lower than the inflation seen in the preceding month.

However, compared to overall index, Core CPI inflation (CPI excluding food group and fuel& light group) fell to a 48-month low of 3.9% in December 2023 from 4.1% in November 2023.

**GST revenue in December falls to 3-month low despite on-year jump-**

The gross GST revenue collected in the month of December 2023 stood at ₹1.65 lakh crore, with year-on-year growth slowing to a three-month low of 10.3% from a 15.1% rise in the previous month.

However, the December figures marks the seventh month so far this year with collections exceeding ₹1.60 lakh crore. During the April-December 2023 period, gross GST collection witnessed a robust 12% y-o-y growth, reaching ₹14.97 lakh crore, as against ₹13.40 lakh crore collected in the same period of the previous year (April-December 2022).

**3. Interest Rate Outlook**

**Banks submit bids worth more than notified at Variable Rate Repo (VRR) auction of RBI:**

At the Variable Rate Repo (VRR) auction on 12 January 2024, banks submitted bids totalling ₹3.9 trillion, exceeding the notified ₹1.8 trillion. The Reserve Bank of India (RBI) increased the duration of the auction to 13 days, in contrast to the previous seven-day auctions. The central bank accepted bids at 6.71%, nearly matching the Marginal Standing Facility (MSF) rate of 6.75%.

Similar situation was also seen on 05 January 2024 where the RBI at the seven-day variable rate repo (VRR) auction received bids worth ₹2.7 trillion from banks against the stated amount of Rs.1 trillion. The

bids were accepted by the central bank at a cut-off rate of 6.6%, which is less than the 6.7% MSF rate.

The higher-than-notified bids at the VRR auction on 12 January 2024, indicate increased demand for short-term funds among banks. RBI’s decision to extend the auction duration to 13 days suggests a need to address this demand over a more extended period compared to previous seven-day auctions.

**Rupee appreciates to a four-month high-**

The Indian rupee on 12 January 2024, closed at its highest level in four months. According to Bloomberg data, the rupee has appreciated by 0.4 % so far in January 2024. On 12 January 2024, it closed at ₹82.9 per US dollar, which is its highest closing level since September 12, 2023 (Economic Times).

Date	01 Jan	03 Jan	05 Jan	08 Jan	10 Jan	12 Jan
USA 10 yr	3.87	3.91	4.04	4.02	4.01	3.94
Ind 10 yr	7.20	7.22	7.23	7.20	7.18	7.18
Ind 5 yr	7.07	7.13	7.10	7.07	7.06	7.06
Ind 3 M	6.98	6.99	6.97	6.94	6.95	6.94

Source: worldgovernmentbonds.com, CMIE

**Fed sees rate cut likely by end of 2024-**

The minutes of the Federal Open Market Committee (FOMC) monetary policy meeting held on December 12-13, indicated fed to be convinced about inflation coming under control, with “upside risks” diminished. Almost all participants indicated a lower target range for the federal funds rate by the end of 2024, though they appeared to provide little in the way of when that might occur. The officials were also concerned about the damage that “overly restrictive” monetary policy might do to the economy, the minutes pointed.