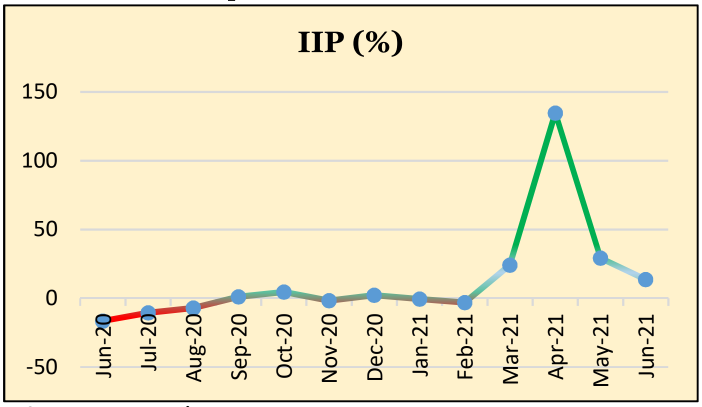
DEAR
ECO THINK
Issue 48/ August 2021

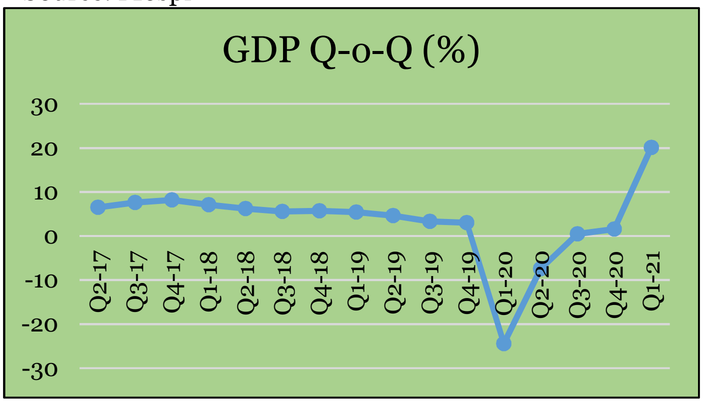
ECONOMY

State of the Economy

- India's Gross Domestic Product (GDP) at Constant (2011-12) Prices in Q1 of 2021-22 grew at 20.1% as compared to contraction of 24.4% in Q1 2020-21.
- GDP figure for June 2021 quarter reaffirms the projection of V- shape recovery made by GOI. However, the rebounded economy still has a huge ground to cover as it is yet to reach the pre-pandemic level GDP figures (GDP at Constant (2011-12) Prices in Q4 of 2019-20 was estimated at ₹ 38.04 lakh crore, while for Q1 2021-22 it is estimated at ₹ 32.38 lakh crore).
- The Private Final Consumption Expenditure (PFCE) which accounts for nearly 56% of the GDP, rose by 19.3% in June 2021 quarter, but still remains 11.9% below the June quarter of FY 20. On the other hand, the Government Final Consumption Expenditure (GFCE) fell 4.77% compared to June 2020 quarter.
- Industrial output, as measured by the Index of Industrial Production (IIP), rose by 13.6% on a year on-year basis in June 2021 from 29.3% in May 2021. The steep decline in daily Covid cases and increase in economic activity owning to opening of the economy has driven the improvement in June 2021 IIP.



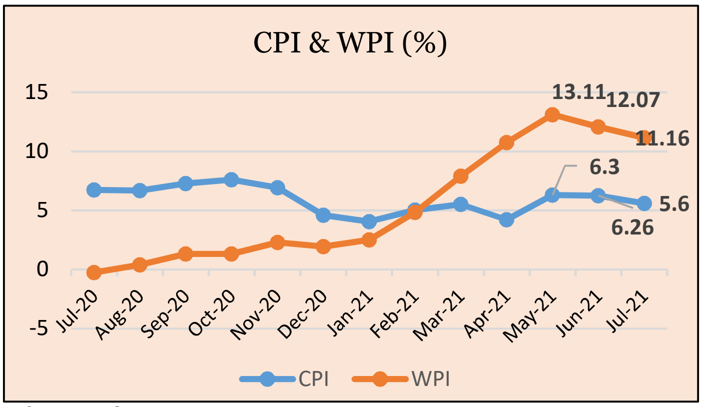
Source: Mospi



Source:Mospi

Inflation Outlook

- Inflation (as measured by CPI) came back within the RBI's target range of 2-6% in July 2021, after posting figures above 6% in May and June 2021. CPI for the month of July 2021 eased to 5.6% from 6.3% in June 2021.
- The softening of Index mainly came on account of food inflation component seeing a substantial decrease (3.96% in July 2021 from 5.15% in June 2021). Supply side interventions by GOI has helped in softening of price pressure on edible oil and pulses.
- Inflation at wholesale level is also showing a decreasing trend since May 2021. It fell to 11.16% in July 2021 on back of easing inflation in Fuel and Power sector.
- However, it remained in double digit for the third consecutive month, mainly due to a low base.



Source: CMIE

- As on 27th August 2021, Area sown under kharif crops is reported at 106.4 million hectares. This is 1.8 per cent lower than the area covered during the corresponding period last year.
- According to IMD, the rainfall in August 2021 has been deficient by 26% so far. The below normal rainfall may impact future sowing and harvesting and may raise concerns for inflation and economic growth in rural areas over the medium term.

Economic Outlook

- India's unemployment rate rose to 8.32% in August after falling to a four-month low of 6.95% in July 2021. The number of employed fell from 399.38 million in June to 397.78 million in August with nearly 90% of fall coming from rural area, driven by low sowing during the Kharif season.
- According to the survey of factory managers by **IHS** Markit, a softer growth in sales led companies to pause their hiring efforts, with business confidence dampened by concerns surrounding the damaging impact of COVID-19 on demand and firms' finances.
- Purchasing Manager's Index (PMI) service grew for the first time in four months to 56.7 in August from 45.4 in June 2021. The index posted a 18 month high largely on the back re-opening of establishments and increased consumer footfall.
- While the prevailing demand conditions in domestic market supported growth, a further boost from businesses abroad was lacking because of contraction seen in new export orders due to spreading of contagious Covid variant and the associated travel restrictions to contain the same.

Prepared by Ms. Shivangi Shubham, AM; Shri Benjamin Thomas Ipe, AM; Shri Vinay Jadhav, AM
Editorial team: Dr. K J S Satyasai, CGM and Dr. Ashutosh Kumar, DGM
Published by Department of Economic Analysis and Research, NABARD Head Office, Mumbai

- The growth in CMIE's Index of Consumer Sentiments (ICS) was not much impressive in August (ICS 53.9 a 1.67% rise on June) compared to July (ICS 53.01 a 10.7% rise over June 2021).
- According to CMIE, the recovery in sentiments last month was much more pronounced at the extremities of income distribution (Household (HH) with income (<1 lakh & >10 lakh)). It needs to percolate in the middle-income household as they form the majority of the population.
- GST collection for July and August crossed the 1 lakh crore mark on back of easing out of Covid restrictions. However, along with moderation in August PMI, (52.3 per cent in August, from 55.3 per cent in July) GST collection M-o-M saw a sequential dip by -3.76%, leading to some warranted concerns regarding the strength of the recovery in the ongoing quarter.
- The growth in passenger car sales, two-wheeler sales and tractor sales eased as semiconductor shortages continues to impact the auto industries. The spread of Covid in East Asia and the subsequent strict lockdown imposed to contain the spread have worsened the supply of semiconductor chips.

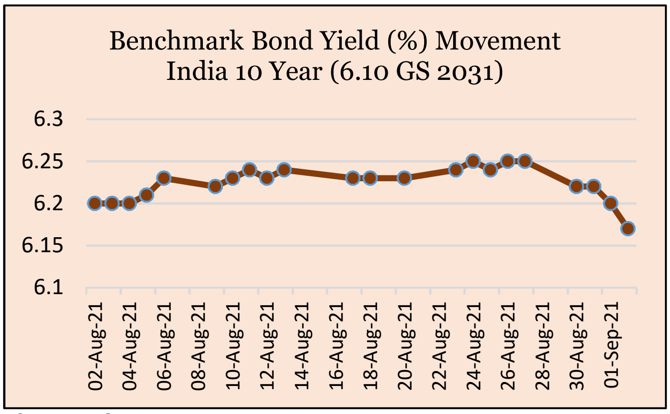
Change in High frequency demand data (%) (M-o-M)

	Apr-21	May-21	Jun-21	Jul-21	Aug21
Passenger Car sales	-10.6	-70.58	192.22	7.17	NA
Two-wheeler sales	-33.5	-64.5	199.33	18.77	NA
Domestic tractor sales	-25.5	-12.3	98.5	-40.927	NA
GST E way Bill	-17.5	-31.9	36.79	17.33	NA
Finished steel Cons.	-8.5	-8	3.6	-1.17	NA
Total GST Collection	14.1	-27.4	-9.6	25.36	-3.76

Source: CMIE

Interest Rate Outlook

- Federal Reserve Chair Jerome Powell, in a speech to Jackson Hole, said, US Inflation have run well above Fed's 2 percent longer-run objective. Outlook for labour market also brightened with job gains rising with an average of 8, 32,000 over the past three months.
- Powell agreed with most participants on US economy recovery and reducing the pace of asset purchase by end of this year if economy evolves as anticipated at Federal Open Market Committee (FOMC)'s July meeting. But cautioned that, reduction in asset purchases should not be taken as direct signal regarding interest rate hike as there is much ground that needs to be covered before rate hike.
- In the Bi-monthly Monetary Policy Committee minutes released on 20th August 2021, RBI observes, the resurgence in inflation since June 2021 is largely driven by adverse-supply side constraints caused by the pandemic and considers this current price shocks to be one-off or transitory.
- It suggests more supply side interventions to ease inflationary pressure and expresses concerns over slow growth of Domestic Demand and considerable slack in the economy.
- MPC minutes reveal, RBI is cautious of possible third wave and feels economy still requires support in terms of maintaining congenial financial conditions and fiscal boosters, but at the same time is watchful of any durable inflationary pressure and sustained price momentum in key components as it aims to bring the CPI inflation back to 4% over a period of time in a non-disruptive manner.
- According to a Bloomberg poll of 15 traders, fund managers and economists, the benchmark 10-year yield is expected to climb to 6.40% by Dec.2021.



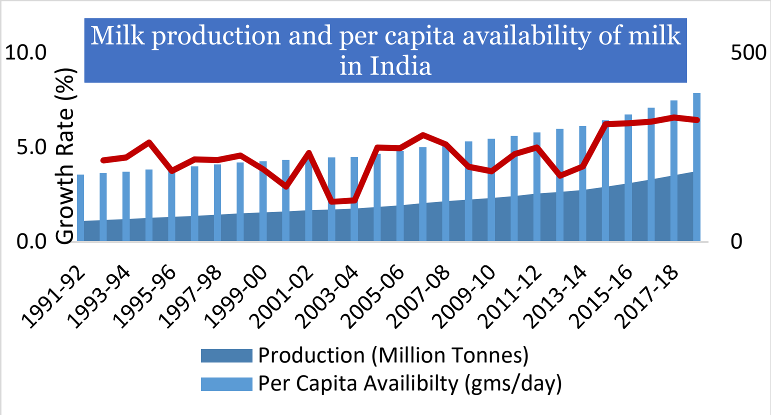
Source: CMIE

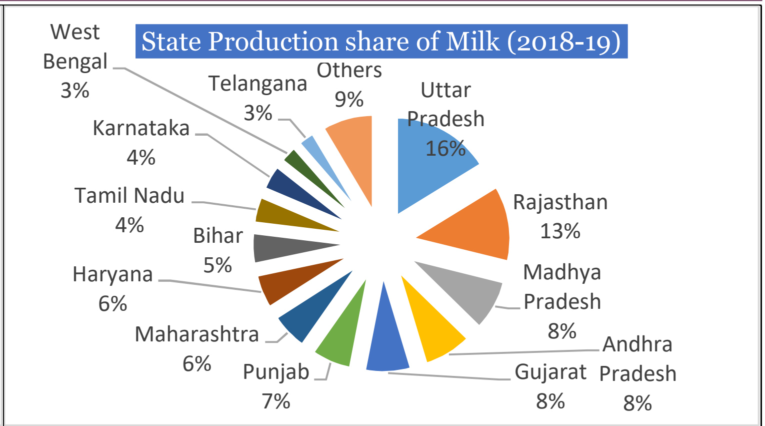
- The yield on the benchmark 10-year bond witnessed a decreasing trend since the last week of August on account of combination of multiple factors. Inflows from Foreign portfolio investor (FPI) remained strong (FPI purchased debt worth 1635 million $ in Aug) after dovish speech from US Federal Reserve Chair which gave no direct signal regarding the timings of interest rate lift-off.
- Significantly better fiscal deficit figures (21.3% of annual target at June 21 end much better than FY-21 when it soared to 103.1% of the estimate) and release of Q1-21 GDP data in line with market expectations further improved sentiments.
- The last few auctions conducted by the central bank reflects improved investors demand. Also, the devolvement in auction has reduced, it was on 30th July 2021, when the last devolvement took place, while on 6th August 2021, RBI rejected all bids on 10-year benchmark bond.
- Similar trend was seen on the most traded G-Sec 5.63% 2026 bond, yields touch to 5.57 on 3rd Sept from 5.71 as observed on 2nd August 2021. The drop was mainly on account of surplus liquidity in the system (estimated to be around Rs 9 lakh crore as on 3rd September).

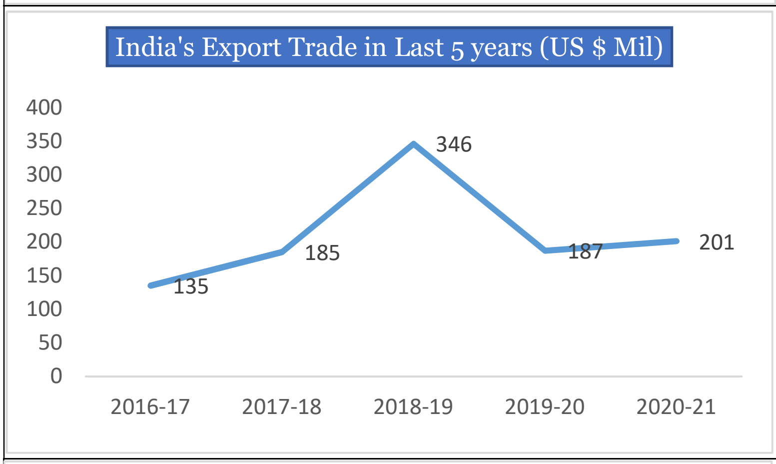
DEAR
ECO THINK
Issue 48/ August 2021

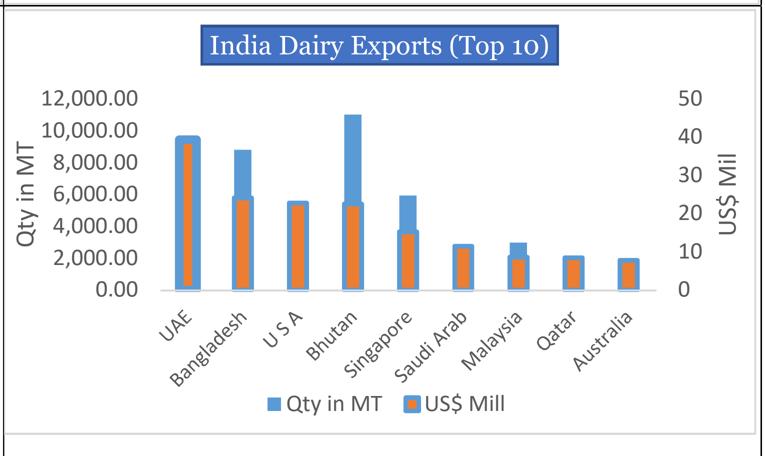
Commodity THINK

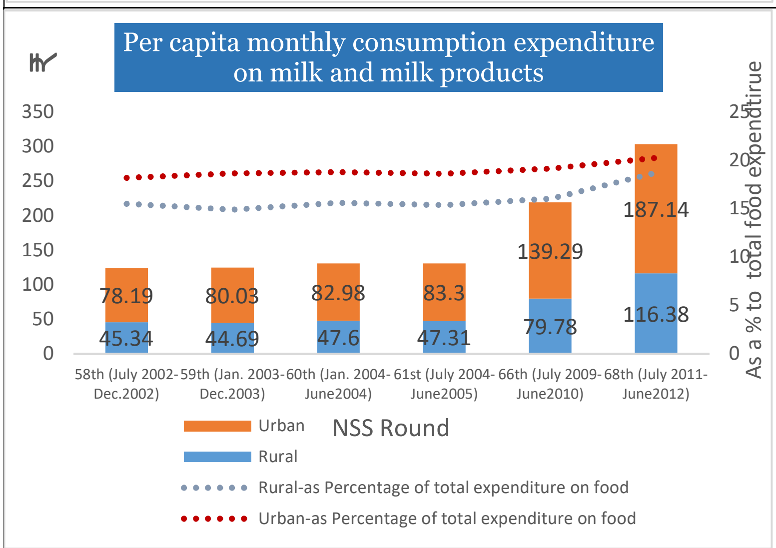
Dashboard on Milk Products with focus on Current Trends

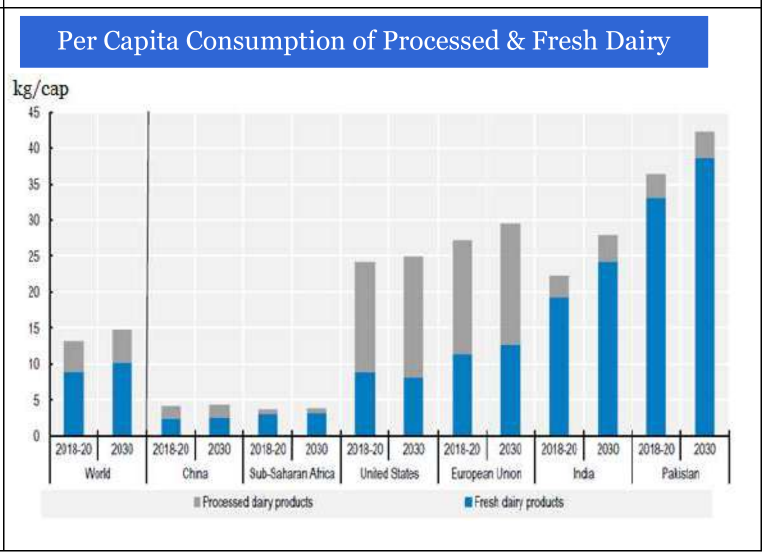












Since 1998, India continues to hold the number one position among milk producing nations of the world. Dairying essentially is an inclusive livelihood option, as majority of the farmers associated have small holding or landless. Increased access to market through producer owned and controlled institutions helps in realizing better price by farmers for their milk. Dairy cooperatives are paying back about 70 per cent of consumer rupee to the dairy farmers – one of the highest across the world. Government of India is making efforts for strengthening infrastructure for production of quality milk, procurement, processing and marketing of milk and milk products through following:

- National Programme for Dairy Development(NPDD)
- Dairy Processing and Infrastructure Development Fund (DIDF)
- Rashtriya Gokul Mission

Sources- NDDB, Basic Animal Husbandry Statistics, DAHD&F, GoI, APEDA, OECD-FAO Agricultural Outlook 2021-2030

Government Initiatives

Report📖THINK

Climate Change 2021: The Physical Science Basis

This edition of Report Think covers the captioned report that is the first installment of IPCC's (Inter-governmental Panel for Climate Change) Sixth Assessment Report (AR6) which will be completed in 2022. The IPCC produces assessment reports every few years that are the most scientific evaluations of the state of earth's climate. The First Assessment Report was released in 1990 while the Fifth Assessment Report (AR5) came out in 2014 in the run up to the climate change conference in Paris. The IPCC reports are created by three working groups of scientists. Working Group-I deals with the scientific basis for climate change. Working Group-II looks at the likely impacts, vulnerabilities and adaptation issues, while Working Group-III deals with actions that can be taken to combat climate change. These assessment reports are the most widely-accepted scientific opinion about climate change. They form the basis for government policies to tackle climate change, and also provide the scientific foundation for the international climate change negotiations.

Findings:

1. **Rising Average Surface Temperature:**
Global mean surface temperature (GMST) has increased by 1.09° C between the pre-industrial baseline period 1850-1900 and the most recent decade of 2011-20. This was more likely than not the warmest in roughly 125,000 years. The Earth will be 1.4-4.4° C hotter than pre-industrial levels by the end of this century depending on whether emissions are rapidly cut to net-zero or continue to rise. In the scenarios studied by the IPCC, there is a more than 50% chance that the 1.5 degree C target is reached or crossed between 2021 and 2040 (with a central estimate of the early 2030s). Under a high-emissions scenario, the world would reach the 1.5 degrees C threshold even more quickly (2018-2037).

2. **Increased Carbon Dioxide Concentrations:**
The world's remaining carbon budget — the total amount that can be emitted and still have a likely chance of limiting warming to 1.5° C — is only 400 gigatonnes of carbon dioxide (GtCO2) as of the beginning of 2020 (a figure which can vary by 220 GtCO2 or more if action on non-CO2 emissions such as methane are factored in). Assuming recent global emissions levels of 36.4 GtCO2 per year, this amounts to about 10 years before the budget gets exhausted. While global emissions dipped due to COVID-19, they have bounced back quickly.

3. **Stronger Understanding of Climate Science including Link to Extreme Weather:**

   It is now unequivocal that human-caused emissions, such as from burning fossil fuels and cutting down trees, are responsible for recent warming. Of the 1.1° C of warming seen since the pre-industrial era, the IPCC finds that less than 0.1° C is due to natural forces, such as volcanos or variations in the sun.

4. **The All-Pervasive Nature of Climate Change:**
The IPCC report shows that no region will be left untouched by the impacts of climate change, with enormous human and economic costs that far outweigh the costs of action. Southern Africa, the Mediterranean, the Amazon, the western United States and Australia will see increased droughts and fires, which will continue to affect livelihoods, agriculture, water systems and ecosystems.

5. **Dangerous and Costly Impacts of Global Warming:**
The report profiles the consequences of the world warming by 1.5° C and how much worse the effects will be if temperatures rise by 2° C or 4° C. Many consequences of climate change will become irreversible over time, most notably melting ice sheets, rising seas, species loss and more acidic oceans. The report finds that carbon sinks like land and ocean are at great risk. They currently absorb more than half of the CO2 that the world emits but become less effective at absorbing CO2 as emissions increase. Under some scenarios studied by the IPCC, the land sink eventually turns into a source, emitting CO2 instead of sucking it in.

Takeaways/Implications of the report for India:

- Extreme heatwaves that would be much hotter than those compared to the past will increase which would not only cause damage to crops and other forms of agriculture but also severely affect human health. This could also lead to increased instances of extreme drought.
- The IPCC report predicts that pluvial floods (flash floods after extreme rainfall or urban floods) will increase due to excess rainfall. This is also the first time that the IPCC has stated with "medium confidence" that urbanization leads to intensification of extreme rainfall. This is an extremely important observation for India as it is a rapidly urbanizing country.
- The report also finds that a significant contributor to warming in addition to CO_2 has been Methane from oil and gas drilling and agriculture. This is significant for India given the large agriculture and livestock sectors in the country.
- The Indian Ocean has warmed faster than the global average and sea temperature over the Indian Ocean is likely to increase by 1-2 degree C over the next 20 years. Further, the snowcaps in the Himalayas will show rapid thawing in the coming decades.

[Sixth Assessment Report (ipcc.ch)]