

India COVID-19 Chartbook

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Economics - India

A season of competing narratives

- ◆ Looking beyond mobility indicators suggests that an actual recovery is underway, but more gradual than swift
- ◆ Rising fuel prices alongside incomplete pass-through to consumers pose upside risks to inflation
- ◆ Some MPC members believe that liquidity needs to be adjusted lower, while keeping the repo policy rate unchanged

COVID-19: The good news continues: Daily new cases continue to decline. And after a dip, the daily vaccination rate is looking up. Total shots administered have crossed the 1bn mark. 53% Indians have now received at least one vaccine shot.

Growth recovery: More gradual than swift: Our activity tracker is riding high, almost 8% above the pre-pandemic level, but led mostly by improved mobility. Looking beyond mobility, however, suggests that goods production is just about at pre-pandemic levels, and services, although improving, are still well below pre-pandemic levels. Furthermore, the ongoing chip shortages are hurting some sectors, such as automobiles. Finally, more jobs have been lost in urban areas (than rural), where wages are 2.5x higher. This could weigh on demand. All of this suggests that a recovery is underway, but a gradual one. We think India's GDP could get back to pre-pandemic levels soon, but remain below its earlier trend.

External balances: Surplus today, gone tomorrow: Imports had lagged exports until August, but in September, the tables turned. As a result, the trade deficit has widened and expectations are that the large BoP surplus of the last few quarters could fall sharply.

Inflation: Food versus core: Inflation eased in the past few months, led by lower food prices and base effects. Inflation expectations fell as well, adding to the cheer. However, core inflation has been over 4% for the last 19 months, and there are upside risks coming from soaring energy prices. All of this is even more relevant because the pass-through of high input costs from producers to consumers is currently incomplete.

The RBI Minutes highlighted upside risks around inflation and downside risks related to growth, both deriving from global developments. Some MPC members spoke about gradually normalizing liquidity (Goyal and Saggiar). Others spoke about the need to hike the reverse repo rate (Varma). But there was a sense that the repo rate should stay put for longer. Two members spoke about real rates in the negative 1-1.5% range as being appropriate (Goyal and Varma). **We believe** the RBI should press ahead with gradual normalization i.e. narrow the policy corridor over Dec and Feb, but hike the 4% repo rate much later.

This is an abridged version of a report by the same title published on 26-Oct-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Aayushi Chaudhary

Economist

HSBC Securities and Capital Markets (India) Private Limited

Pranjul Bhandari

Chief Economist, India

HSBC Securities and Capital Markets (India) Private Limited

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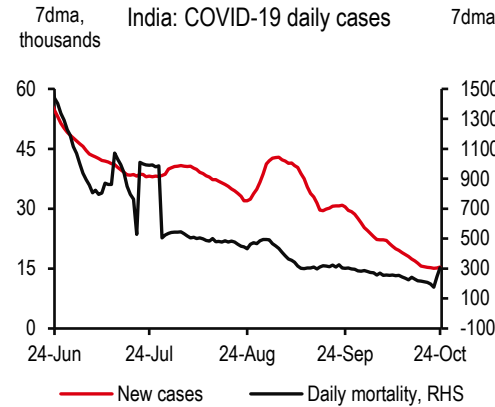
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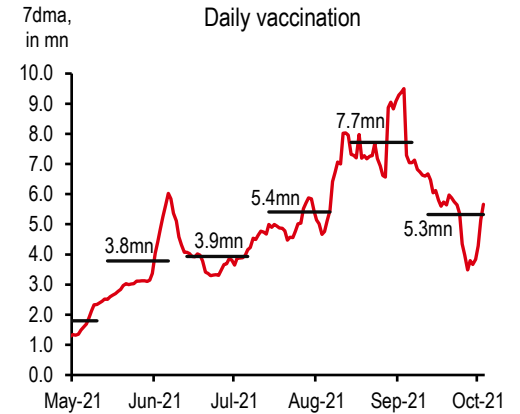
COVID-19: The good news continues

Chart 1: Daily new cases are declining, and testing is growing faster than daily cases



Source: CEIC, HSBC

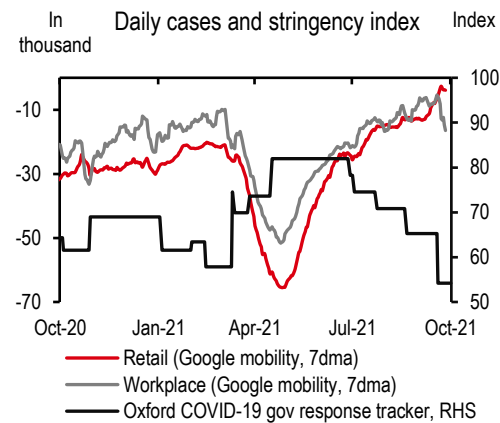
Chart 2: After a dip, daily vaccinations are looking up; overall vaccine shots have crossed the 1bn mark



Source: CEIC, HSBC

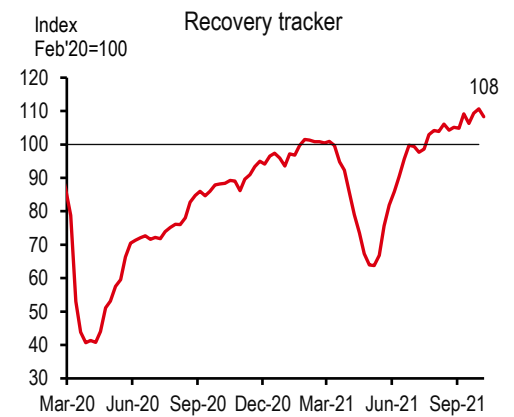
Growth recovery: More gradual than swift

Chart 3: A fall in stringency has led to a sharp rise in mobility



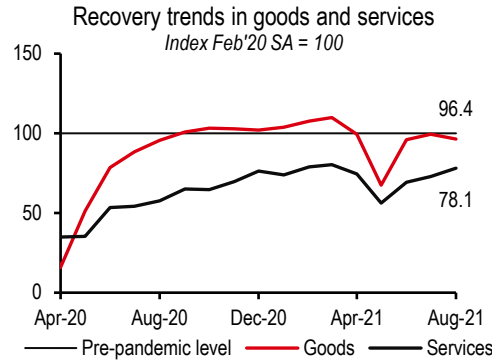
Source: CEIC, HSBC

Chart 4: Our activity tracker is 8% above pre-pandemic levels, but largely driven by improved mobility



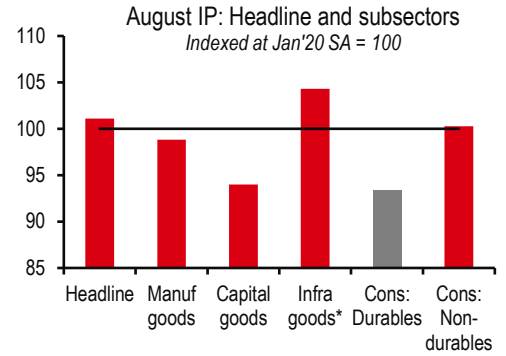
Source: CEIC, CMIE, HSBC. Note: recovery tracker includes mobility indicators (recreation and workspace mobility by Google, driving by Apple), electricity consumption, labour force participation and E-way bill generation

Chart 5: Drilling deeper, the demand for goods is just about at pre-pandemic levels, and services, although rising, have a long way to go



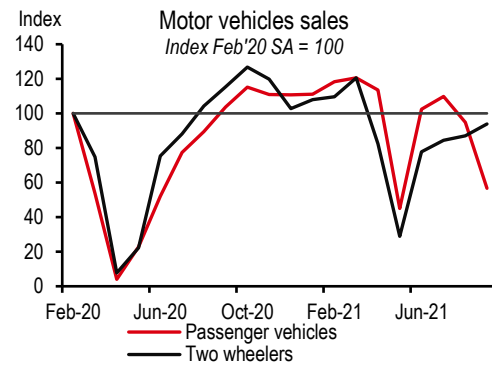
Source: CEIC, HSBC. Note: **Goods tracker** includes PV and 2W sales, IP Consumer durables and non-durables, IIP Capital goods, IP Infrastructure & Construction goods and tractor sales. **Services tracker** includes railway passenger and freight, air passengers and cargo, port volume and motor vehicle registration.

Chart 6: Breaking down domestic production shows that discretionary spending remains weak...



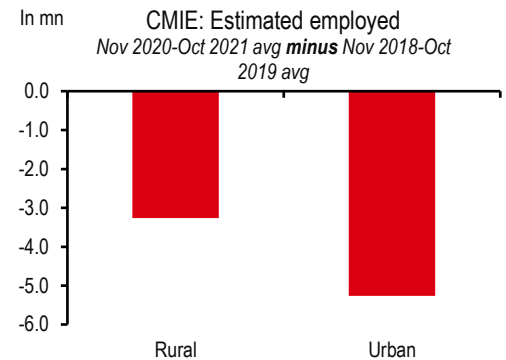
Source: CEIC, HSBC. Note *Infrastructure and construction goods

Chart 7: ...and global supply disruptions (e.g. chip shortages) are hurting sectors such as automobiles



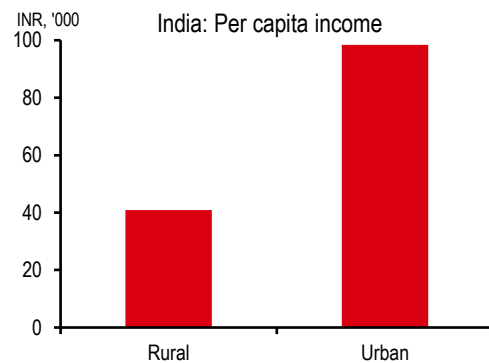
Source: CEIC, HSBC

Chart 8: On the labour market front, more jobs have been lost in urban India versus rural



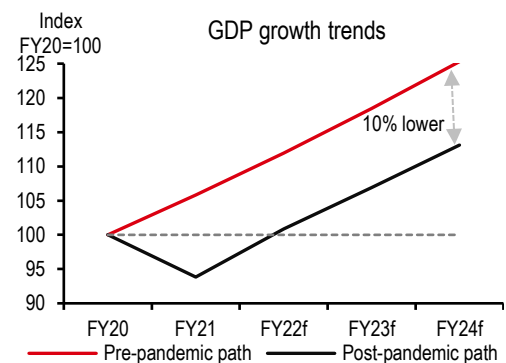
Source: CMIE, HSBC

Chart 9: This could hurt demand, as urban jobs pay 2.5x more than rural jobs



Source: Media report, MOSPI, HSBC

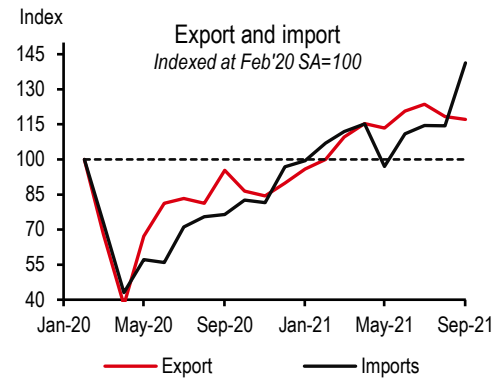
Chart 10: All told, India could get back to pre-pandemic GDP levels soon, but remain below the pre-pandemic trend



Source: HSBC estimates

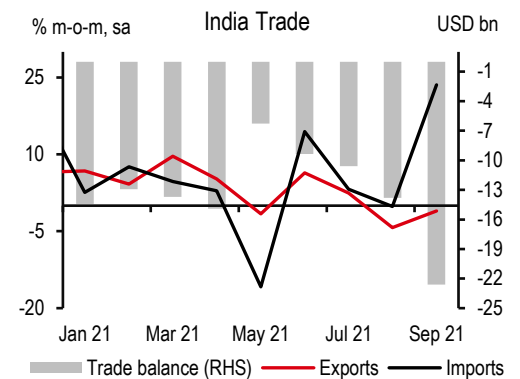
External balances: Surplus today, gone tomorrow

Chart 11: Imports had lagged exports until Aug, but the tables turned in Sep, when (core, oil and gold) imports rose suddenly



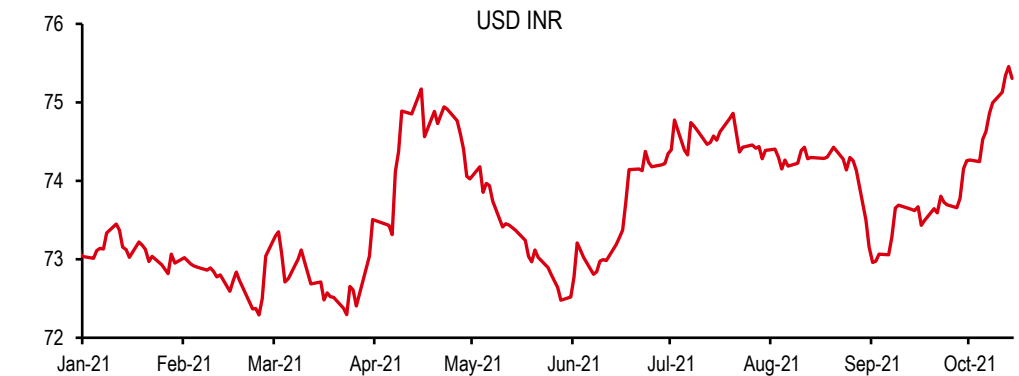
Source: CEIC, HSBC

Chart 12: As a result, the trade deficit widened sharply



Source: CEIC, HSBC

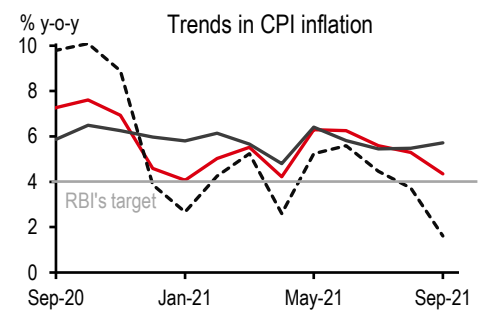
Chart 13: The narrative around the BoP surplus has changed suddenly¹, and the rupee has weakened against the dollar



Source: CEIC, HSBC

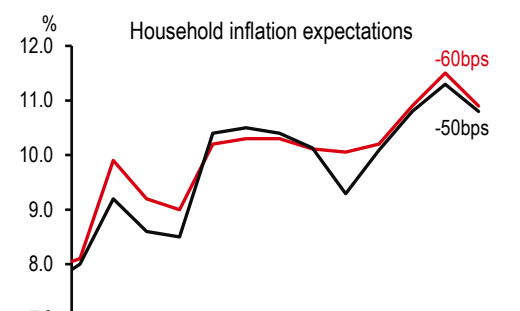
Inflation: Food versus core

Chart 14: Inflation eased in the past few months, led by low food prices and base effects



Source: CEIC, HSBC

Chart 15: Some fall in inflation expectations added to the cheer



Source: CEIC, HSBC

¹ The BoP surplus was at USD30bn in the June quarter, and could fall sharply thereafter, led by a rising trade deficit, and despite strong FDI inflows.

Chart 16: But core inflation remains elevated (over 4% for 19 months)

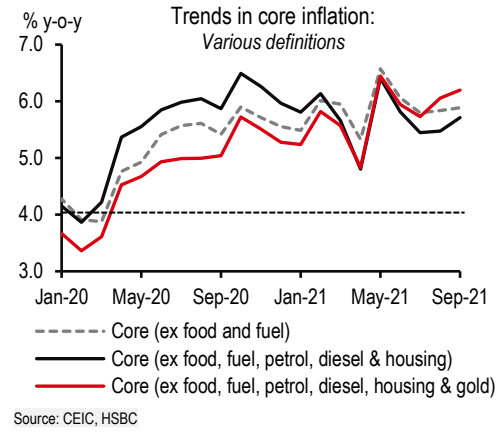
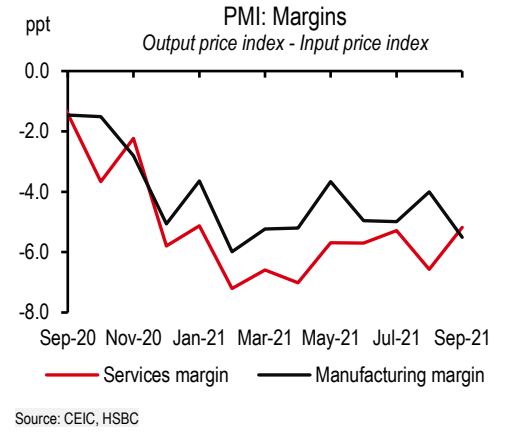


Chart 17: And high energy prices pose upside risks, particularly as producers haven't fully passed on high prices to consumers



Disclosure appendix

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HSBC Securities and Capital Markets (India) Private Limited
Registered Office
52/60 Mahatma Gandhi Road
Fort, Mumbai 400 001, India
Telephone: +91 22 2267 4921
Fax: +91 22 2263 1983
Website: www.research.hsbc.com
SEBI Reg No. INH00001287
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