# PMI™
by S&P Global

# Week Ahead Economic Preview

## US core PCE data, BoJ, BI meetings and inflation data

16 December 2022

More **central bank meetings** are expected in the coming week across **Japan and Indonesia** following a busy week in which the Fed and ECB signalled further rate hikes in the coming months. The **US core PCE** figures and **final Q3 GDP** readings will also be anticipation in addition to personal income and consumption figures. In Europe, the **UK also releases revised Q3 GDP** numbers while the **eurozone consumer confidence** figures will be eagerly assessed for signs that any downturn is being softened by lower inflation prospects and fiscal help with the region's energy crisis. **China's Loan Prime Rate** will also be updated alongside key **inflation figures in Japan and Singapore**.

More rate hikes are coming was the main takeaway from the latest Federal Open Market Committee (FOMC) meeting, followed by a similar hawkish tone at the ECB and a matching 50 basis point hike by the Bank of England. However, while the central bankers went to great lengths to manage expectations of the likely need for more rate hikes in 2023, the reality is that all three banks have slowed the pace of tightening. Both the lagging official CPI data and more timely PMI price gauges are signalling a peaking of inflation, with the latter pointing to a potentially marked cooling across the board as weakened demand meets improved supply (see box). The cost of this fight against inflation is meanwhile becoming increasingly evident via further economic contractions in the US and Europe in December. At present, policymakers seem to be accepting of this cost, but markets will be increasingly looking out for a pivot.

Once again, this means a firm focus on the data signals in the coming week with the core US PCE gauge due alongside personal income and consumption data, all of which will shed more light on inflation and consumer demand conditions. Consumer confidence figures will also be released.

Finally, following the series of central bank meetings across the US, UK and eurozone, the Bank of Japan and Bank Indonesia are set to update monetary policy settings for the final time in 2022. Bank Indonesia will be one to watch for further tightening despite the fact that Indonesia's manufacturing sector continue to grapple with weak external demand in line with the wider Asia region. Inflation figures will also be due from export-oriented Asian economies, Japan and Singapore.

### Peak inflation

A peaking of inflation has been hinted at by recent official data in the US, eurozone and UK, but these moderations in the rate of growth of consumer prices is nothing compared to the easing of price pressures signalled by the latest flash PMI data for December. The surveys indicate that two key forces which helped drive inflation sharply higher over the past year are now reversing.

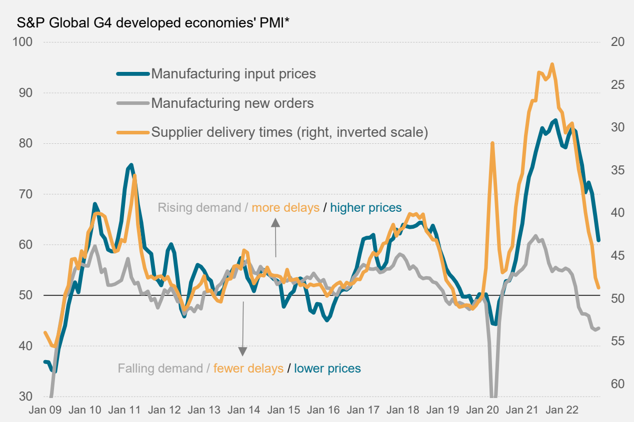
First, surging demand has given way to falling demand, as higher interest rates and the soaring cost of living erode spending power and companies seek to work down high levels of warehouse inventories in the face of growing recession worries.

Second supply chains have healed, to the extent that suppliers' delivery times are now shortening in the US and Eurozone. Shorter (faster) deliveries are a function of fewer logistical delays as the pandemic-related issues fade, as well as suppliers being less busy due to the drop in demand for their products and services.

Hence, pricing power is now moving from the seller to the buyer, reflected most clearly in a sharp reduction in the rate of increase of producer input prices in the December PMI surveys. However, note that service sector cost growth is also cooling markedly now.

These price and supply gauges are important, as they tend to lead price development sin the wider economy and on the high street. For more detail, see our special report on page 4.

**Developed world manufacturing input costs, supply and demand**




* GDP weighted average of the US, UK, Eurozone and Japan. Source: S&P Global

## Key diary events

**Monday 19 December**
Malaysia Trade (Nov)
Germany Ifo Business Climate New (Dec)
Canada Producer Prices (Nov)
United States NAHB Housing Market Index (Dec)

**Tuesday 20 December**
Australia RBA Meeting Minutes (Dec)
New Zealand Trade Balance (Nov)
China (Mainland) Loan Prime Rate 1Y and 5Y (Dec)
Germany Producer Prices (Nov)
Taiwan Export Orders (Nov)
United States Building Permits (Nov)
United States Housing Starts Number (Nov)
Canada Retail Sales MM (Oct)
Eurozone Consumer Confidence (Dec, flash)
Japan BOJ Rate Decision (20 Dec)

**Wednesday 21 December**
Australia Composite Leading Index (Nov)
Germany GfK Consumer Sentiment (Jan)
United States Current Account (Q3)
Canada CPI Inflation (Nov)
United States Consumer Confidence (Dec)
United States Existing Home Sales (Nov)
United Kingdom GDP (Q3)

**Thursday 22 December**
Thailand Customs-Based Trade Data (Nov)
Japan Leading Indicator (Oct, revised)
United Kingdom Current Account (Q3)
Norway Labour Force Survey (Nov)
Taiwan Jobless Rate (Nov)
United States GDP (Q3, final)
United States Initial Jobless Claims
United Kingdom House Price Rightmove (Dec)
Indonesia 7-Day Reverse Repo (Dec)

**Friday 23 December**
*China Market Holiday, United Kingdom (partial)*
Japan BOJ Summary of Opinions (Dec)
Japan BOJ Meeting Minutes (Oct)
Japan CPI (Nov)
Singapore CPI and Manufacturing Output (Nov)
Taiwan Industrial Output (Nov)
United States Personal Income and Consumption (Nov)
United States Core PCE Price Index MM (Nov)
United States Durable Goods (Nov)
Canada GDP (Oct)
United States UoM Sentiment Final (Dec, final)
United States New Home Sales (Nov)
Thailand Manufacturing Production (Nov)

* Press releases of indices produced by S&P Global and relevant sponsors can be found here.

## What to watch

**Americas: US Q3 GDP (final est.), November core PCE, personal income and consumption, December consumer confidence data, Canada CPI**

The final reading of US Q3 GDP will be unveiled in the coming week, though the focus is likely to be with the November core PCE release after November's weaker than expected CPI numbers. The Fed, at the latest December meeting, reiterated their commitment in tackling inflation, signalling that more hikes are to come. That said, asset prices reflected some scepticism and it will boil down to the data to do the work in providing further guidance. As such, the core PCE reading, the Fed's preferred inflation gauge, will be keenly watched to provide clues on the Fed's path forward. November personal income and consumption data, durable goods orders, consumer sentiment and a plethora of housing market statistics will also be of interest as we assess the health of the US economy against the backdrop of rapidly rising interest rates.

**Europe: UK Q3 GDP, eurozone consumer confidence and German Ifo business climate index figures**

In the UK, revised Q3 growth figures will be released on Wednesday to confirm the contraction seen in the third quarter. Preliminary figures pointed to GDP shrinking 0.2% quarter-on-quarter. This follows flash PMI updates for December, which indicated a further contraction in the fourth quarter, albeit with some signs that the pace of decline may be moderating.

Across the eurozone, consumer confidence will likewise be expected for December after the region's flash PMI releases pointed to a moderating downturn and a marked cooling of price pressures. German Ifo figures will also be of interest after PMI data showed improving supply chains.

**Asia-Pacific: BOJ, BI meetings, China Loan Prime Rate, Japan and Singapore CPI data**

In APAC, the Bank of Japan and Bank Indonesia will convene with the BoJ still staying put with CPI unlikely to reach the central bank's target in a sustainable manner while BI persists on their hiking path. Japan's November inflation data will also be released while Singapore's CPI and manufacturing output data will outline conditions for the export-oriented economy that has been seeing an increasingly challenging economic climate.

## Special reports:

**Flash PMI Data Signal Worsening Developed Market Economic Growth, but also Point to a Further Sharp Cooling of Price Pressures** | Chris Williamson | page 4

**India's Economic Expansion Continues as Inflation Pressures Ease** | Rajiv Biswas | page 8

## Recent PMI and economic analysis from S&P Global

| | | | |
|---|---|---|---|
| **Global** | Flash PMI survey data signal growing impact from rate hikes on economy and inflation | 16 Dec | Chris Williamson |
| | PMI surveys show emerging markets outperforming global benchmarks in November but trend deteriorating | 15-Dec | Joseph Hayes |
| | Global Autos production slumps in November amid declining demand | 15-Dec | Laura Denman |
| | Global employment trend softens in November but labour shortages and hiring challenges support continued jobs growth | 9-Dec | Andrew Harker, Joseph Hayes, Pollyanna De Lima |
| | Global sector data reveal broadening slowdown with financial services leading the downturn | 7-Dec | Jingyi Pan |
| **Americas** | Expectations of further Fed tightening in December, as PMI survey data suggest policy is helping cool inflation and reduce demand | 9-Dec | Sian Jones |
| **Europe** | Eurozone recession fears ease as flash PMI signals slower rate of contraction for second month | 16-Dec | Chris Williamson |
| | Flash UK PMI data signal cooling inflation and moderating downturn, but jobs are cut amid uncertain outlook | 16-Dec | Chris Williamson |
| | Recruitment downturn signals cooling wage growth in UK | 12-Dec | Chris Williamson |
| **Asia-Pacific** | Asia PMI indicates region slipping further into contraction ahead of 2023 arrival | 12-Dec | Jingyi Pan |
| | Japanese service sector activity picks up following recent roll-out of National Travel Discount Programme | 18-Nov | Laura Denman |
| **Commodities** | Weekly Pricing Pulse: Significant price rises for commodities | 16-Dec | Michael Dall |

## S&P Global Economics & Country Risk highlights

### Purchasing Managers Index (PMI) Global Webinar [Replay]

Join our webcast to learn about the latest economic trends from the world's leading survey data. Based on a global survey of more than 28,000 companies, our Purchasing Managers' Index™ (PMI™) provides a unique and comprehensive picture of worldwide economic growth, employment, and inflation across both manufacturing and services in all major economies, with a special focus on supply chains and pricing.

**Click here to watch the replay**

### Purchasing Managers Index: Stocks of finished goods and a new data set


Tune in for the latest trends seen in our Purchasing Managers Index data. Our economists discuss the strength of Middle East economies and challenges facing economies within Africa. They also look at what's driving the rise in global manufacturing stocks of finished goods and highlight a new data set within the PMI offering that aims to quantify the impact of common themes like demand inflation and delivery times.

**Click here to listen to this podcast by S&P Global Market Intelligence**

## For further information:

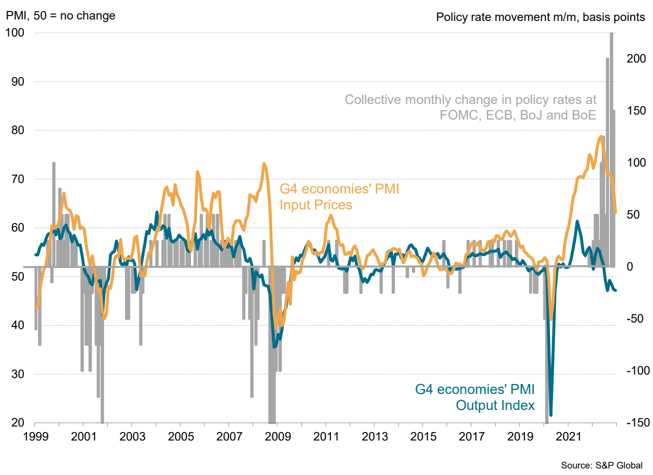
For more information on our products, including economic forecasting and industry research, please visit the Solutions section of **www.ihsmarkit.com**. For more information on our PMI business surveys, please visit **www.ihsmarkit.com/products/PMI**

**Special Focus**

# Flash PMI Data Signal Worsening Developed Market Economic Growth, but also Point to a Further Sharp Cooling of Price Pressures

*Flash PMI survey data for December showed the pace of economic growth weakening across the developed markets on average to register one of the steepest declines since the global financial crisis. Although there are some variations by country, with parts of Europe in particular showing signs of a milder recession than previously anticipated, the general trend is one of falling demand accompanied by healing supply chains. Jobs growth has cooled markedly as the need to work through an unprecedented accumulation of backlogs of work goes into reverse. As such, the environment appears to be shifting from one of strong inflationary forces this time last year to one where disinflationary forces are starting to dominate.*

**G4 developed markets PMI vs. GDP**

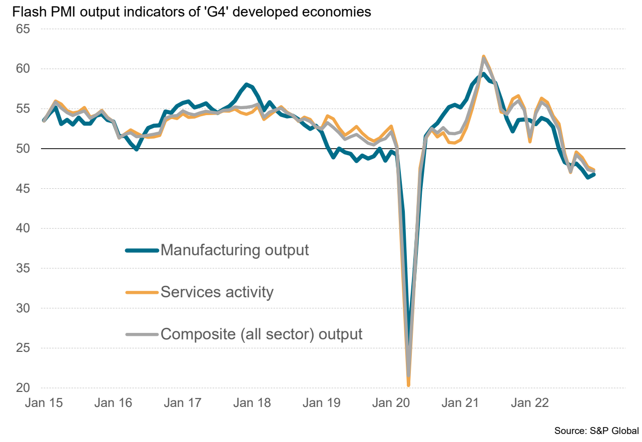



## Sixth successive monthly contraction of developed world output

The flash PMI data indicated a further deterioration in the health of the global economy at the end of 2022. Collectively, the survey data covering the US, eurozone, UK and Japan pointed to output falling across the major rich-world economies for a sixth successive month in December. The rate of decline accelerated to the highest since August and, excluding the initial pandemic lockdowns, was the steepest since the series inception in October 2009.

Output fell at similar rates in aggregate across both the manufacturing and service sectors of the four main developed economies, albeit with manufacturing reporting a slightly slower rate of contraction while the service sector decline accelerated slightly.

**G4 developed markets PMI output by sector**



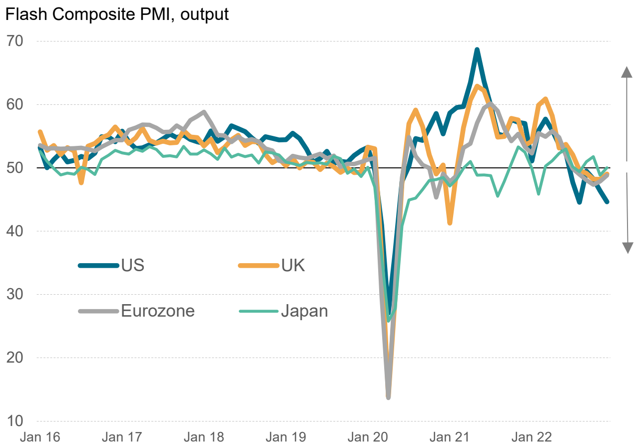

There were mixed trends within the four major economies, however, with an accelerating downturn in the US contrasting with moderating rates of decline in the eurozone and the UK. Business activity meanwhile stabilised in Japan after having slipped into decline in November.

Comparisons with official statistics suggest that the PMI data are consistent with US economy contracting at a quarterly rate of approximately 0.4% in the fourth quarter while more modest declines of 0.2% and 0.3% are signalled for the eurozone and UK respectively. Modest growth is meanwhile indicated for Japan.

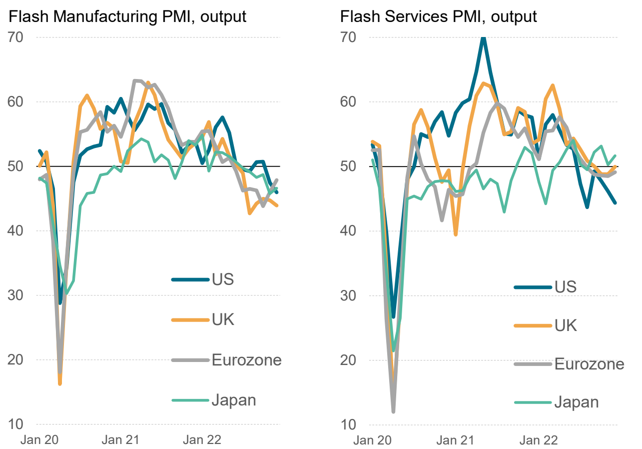
While manufacturing output fell across all G4 economies, led by an accelerating decline in the UK, service sector activity trends were more varied. Service sector output rose slightly in Japan and stabilised in the UK, with a moderating rate of decline seen in the eurozone. In contrast, service sector output fell at an increased rate in the US.

**Continued…**

**G4 developed markets PMI output**




Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)




Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

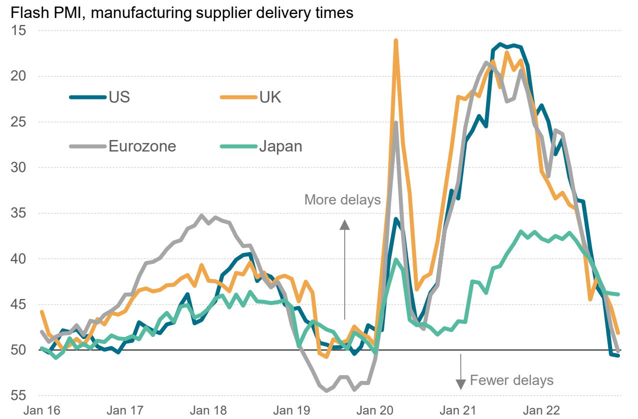
## Supply delays ease

A major consequence of the downturn seen in the major developed economies, and in particular manufacturing, is the alleviation of supply chain constraints.

While the pandemic had been characterised by shipping delays and shortages of raw materials and goods around the world, this situation is now reversing. Not only have many of the logistical issues from the pandemic been resolved, but demand for many goods and raw materials is now falling. Hence supply chains are healing and suppliers are less busy. In fact, December saw average supplier delivery times shorten for a second month running the US and shorten for the first time since the pandemic began in the eurozone, led by a notable improvement in Germany. Supplier delays meanwhile also eased sharply in the UK and, to a lesser extent, Japan.

In all, the latest supply chain developments represent a major contrast to the unprecedented supply delays seen throughout 2021 and into the early months of 2022.

**Manufacturing supplier delivery times**



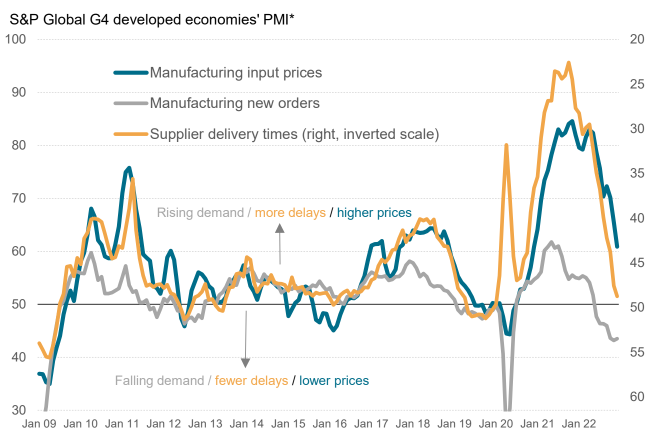

Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

## Price pressures fall sharply

This combination of falling demand and alleviating supply disruptions took further pressure off prices in December, with average prices paid for inputs by manufacturers across the G4 rising at the slowest rate for two years.

A further weakening of price pressures should also be anticipated in the coming months, given the current environment of supply and demand, with the surveys generally pointing to the shifting from a sellers' market to a buyers' market, a process which is being further supported by evidence from the PMI surveys of factories moving from a position of inventory building to cost-cutting inventory reduction.

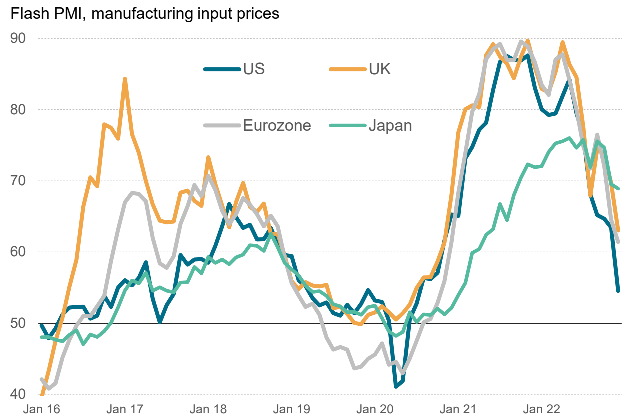
**Manufacturing input costs, supply and demand**




* GDP weighted average of the US, UK, Eurozone and Japan. Source: S&P Global

All G4 economies reported slower manufacturing input cost inflation, with the US reporting by far the steepest easing while Japan saw price inflation remain more persistently elevated.

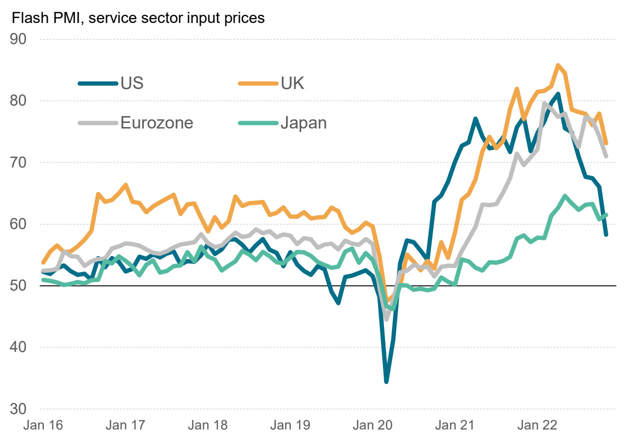
**Manufacturing input cost inflation**




Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

Service sector input cost inflation rates have likewise moderated in the US and in Europe, with the US seeing an especially steep decline in the rate of increase. Japan was an exception, reporting a slight uptick in service sector input cost inflation amid ongoing supply-side constraints, but these constraints are showing signs of calming in the US and Europe alongside lower energy prices.

**Service sector input cost inflation**

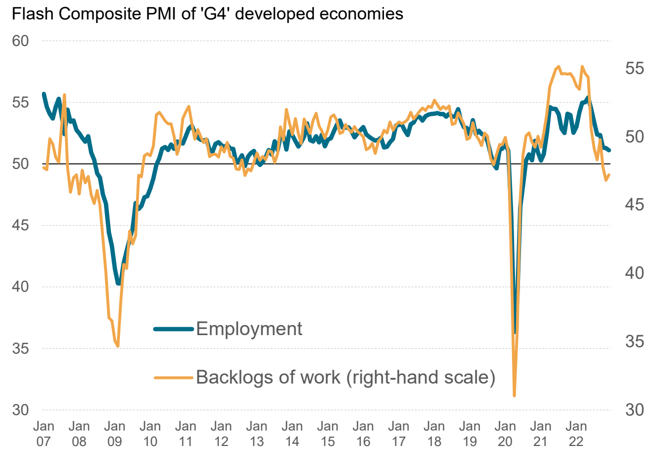



Sources: S&P Global, CIPS (UK), au Jibun Bank (Japan)

## Weaker jobs growth

A development helping to moderation of input cost inflation, especially in services, has been a cooling of labour markets, which has taken upward pressure off wages in many cases. Whereas the pandemic had seen companies struggle to find workers, leading to a large rise in backlogs of work, these backlogs are now falling across the major developed economies at a rate not seen since the global financial crisis (excluding initial pandemic lockdown months). Hence companies are now taking a more cautious approach to hiring, with the overall rate of job creation in the G4 economies slipping further in December to only a very modest pace which was the lowest since the early months of 2021.

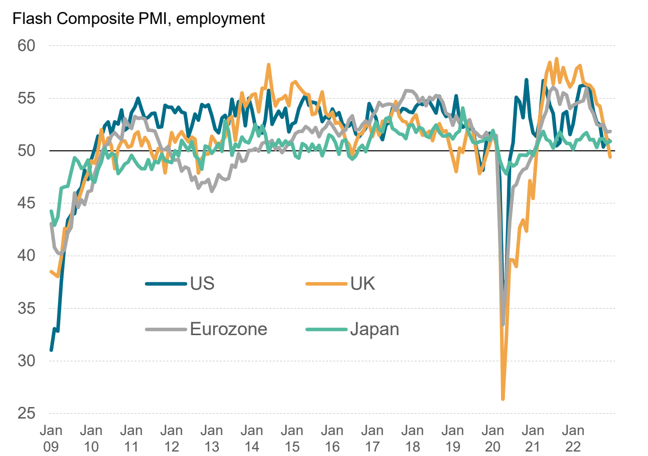
**Employment and order book backlogs in the G4**




Source: S&P Global

Jobs are in fact now being cut in the UK for the first time since the early months of the pandemic, and recent months have also seen the slowest job gains in the US and Eurozone recorded over the past two years.

**G4 employment**




Sources: S&P Global, au Jibun Bank (Japan)

## Six key reversals

The survey data are therefore indicating a major reversal of six important economic trends in the developed markets compared to this time last year.

First, output has deteriorated from a position of surging growth to registering the steepest downturn since the global financial crisis, barring only the early months of the pandemic.

Second, demand for goods and services, buoyed this time last year by the reopening of economies from the pandemic, has turned strongly negative, with spending eroded by the surging cost of living, the energy crisis (linked to the Ukraine war) and rising interest rates, as well as inventory reduction policies.

Third, unprecedented shortages fueled by a lack of materials and labour during the pandemic are now being replaced with excess supply in many instances, with increasing numbers of companies even reporting the need to reduce inventory due to the accumulation of excess stocks amid lower than expected sales.

Fourth, backlogs of work – driven up at record rates by shortages – are now falling, pointing to excess operating capacity.

Fifth, widespread demand for labour to help reduce backlogs of work is switching to a more cautious hiring approach, and in some cases, leading to falling employment.

Sixth, surging price pressures associated with soaring demand and supply side constraints are now giving way to weakening price pressures, with growing instances of discounting in order to stimulate sales and pare back unwanted inventories.

All of the above therefore suggest that an economic slowdown is leading to the build-up of disinflationary factors. There are some caveats, notably the possibility of resurgent global supply chain issues emanating from COVID-19 in mainland China and a possible spike in energy prices amid an escalation of the Russia-Ukraine conflict (or adverse winter weather). It is also possible that we are seeing some bottoming out of the downturn in Europe, though it is far from clear that the recent PMI data improvements in the UK and eurozone represents a turning point, especially as the Bank of England and the ECB continued to tighten policy aggressively (by historical standards) in December. The impact of these rate hikes, and a further rate rise in the US, has yet to feed through to the economy, posing downside risks to growth. It remains to be seen whether this aggressive stance is maintained in the coming months if the official data on economic growth, inflation and the labour markets follow the trends signalled by the PMI surveys.

For interest, so history of lagged policy responses to survey data, and misleading signals from official data at key periods of policymaking, can be found here.

[Case study: PMI data sent early signals of GFC impact on Eurozone GDP | S&P Global (spglobal.com)]

[Case study: anticipating the UK recession during the global financial crisis | S&P Global (spglobal.com)]

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**Special Focus**

# India's Economic Expansion Continues as Inflation Pressures Ease

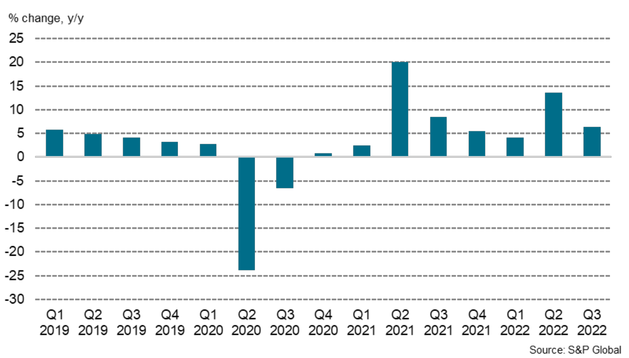
*The Indian economy has shown sustained economic expansion in the first three quarters of the 2022 calendar year, with real GDP growth of 6.3% year-on-year (y/y) in the July-September quarter of 2022. For the first half of the 2022-23 fiscal year that started in April 2022, India's real GDP growth rate was even higher, at 9.7% y/y.*

*India has also become an increasingly attractive location for multinationals across a wide range of industries, with foreign direct investment inflows (FDI) reached a new record high of USD 84 billion in the 2021-22 fiscal year. Foreign direct investment inflows into the manufacturing sector rose by 76% y/y in 2021-22, reaching level of over USD 21 billion.*

## India's economic expansion continues in 2022

The Indian economy has continued to grow rapidly in 2022, the second year of economic recovery since the 2020 recession caused by the COVID-19 pandemic. Indian GDP data for the July to September quarter of 2022 showed real growth of 6.3% y/y, indicating continued strong expansion underway in the Indian economy.

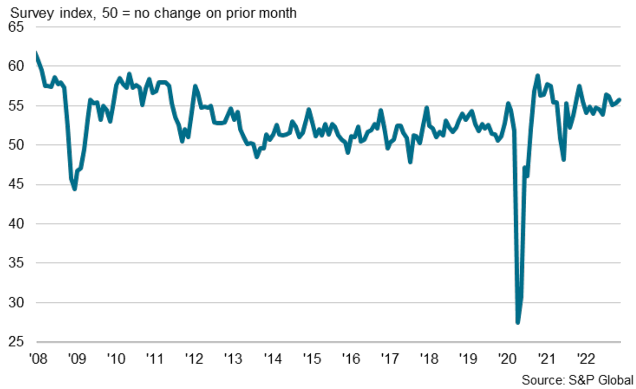
**India GDP growth, 2019-2022**




Economic indicators in late 2022 remain positive, signalling expansionary economic conditions going into early 2023. The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index posted 55.7 in November, up from 55.3 in October, indicating continued expansionary operating conditions. The headline figure was also above its long-run average of 53.7.

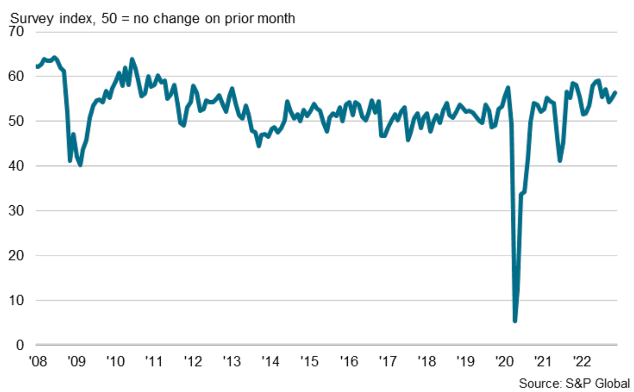
A stronger upturn in factory orders helped drive the headline PMI higher in November. According to survey participants, demand strength and successful marketing efforts boosted overall sales. Companies also reported a notable improvement in international demand for their goods, with new export orders expanding at the second-fastest pace since May.

**S&P Global India Manufacturing PMI**




The seasonally adjusted S&P Global India Services PMI Business Activity Index rose to 56.4 in November from 55.1 in October. The survey results indicated a sharp increase in output that was the quickest in three months. New orders placed with service providers in India showed expansion for the sixteenth consecutive month in November.

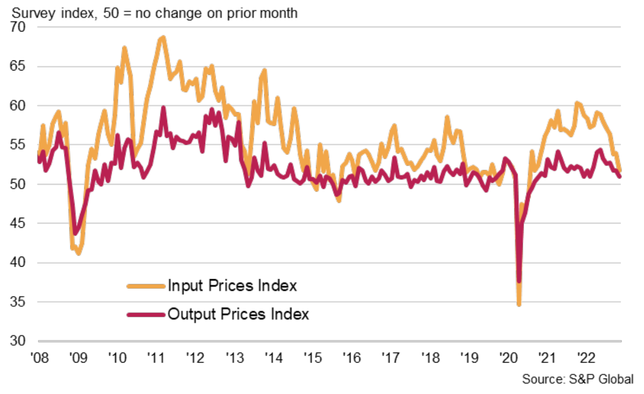
**S&P Global India Services Business Activity Index**




## Inflationary conditions

Despite robust demand for inputs, the rate of cost inflation in the Indian manufacturing sector softened considerably in November, according to the latest PMI survey results. The latest rise in prices was the joint-weakest in 28 months and well below its long-run average. Firms reported higher prices for metals, paper and transportation but noted lower fees for other items. Subdued cost pressures facilitated a slower increase in output prices. The rate of charge inflation eased to a nine-month low, and was only slight, as the vast majority of panellists (92%) kept their output prices unchanged from October.

**India Manufacturing PMI Input Prices and Output Prices**




Services companies across India again reported higher operating expenses in November. In addition to greater transportation costs, firms mentioned higher prices for energy, food, packaging, paper, plastic and electrical products. Although little-changed from October, the overall rate of inflation was marked and above its long-run average. Prices charged for the provision of services in India continued to increase in November, as companies transferred part of their additional cost burdens on to consumers. The latest rise was the twenty-first in consecutive months and the strongest since July 2017.

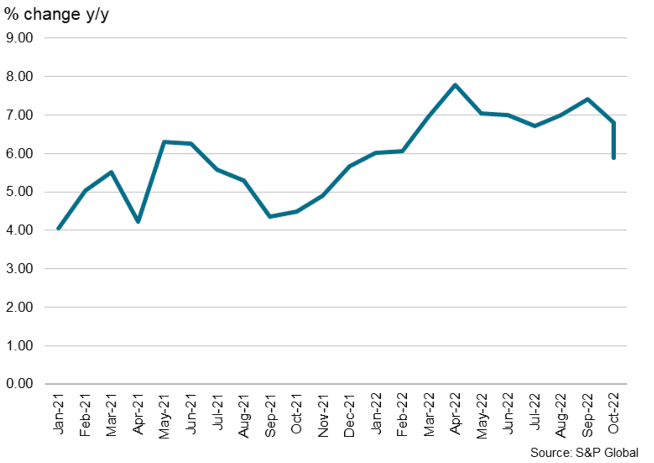
Latest statistics on India's Consumer Price Index showed that the headline CPI inflation rate has moderated significantly, from a pace of 6.8% y/y in October to 5.9% y/y in November. November's CPI inflation rate was the lowest since December 2021, when CPI inflation rate was at 5.7% y/y. A key factor contributing to the lower inflation rate was the Food and Beverages CPI sub-index, which moderated from 7.0% y/y in October to 5.1% y/y in November, helped by a 8.1% y/y decline in vegetable prices in November.

The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) decided to raise the policy repo rate by 35 basis points to 6.25% at its meeting on 7 December. The RBI in its Monetary Policy Statement of 7th December projected CPI inflation for the current fiscal year 2022–23 at 6.7% y/y, assuming an average crude oil price of US$100 per barrel.

The near-term trajectory of CPI inflation is projected in the RBI Monetary Policy Statement at 6.6% y/y for the October–December quarter of 2022, moderating to 5.9% in the January–March quarter of 2023. CPI inflation for the April–June quarter of 2023–24 is projected at 5.0% and for the second quarter at 5.4%, based on the assumption of a normal monsoon.

Looking ahead, the MPC also decided at its December 2022 meeting to remain focused on further withdrawal of monetary policy accommodation to ensure that inflation remains within the target going forward, while supporting growth. However, the MPC was split on that part of the decision, with four MPC members voting in favour of maintaining a focus on further withdrawal of monetary policy accommodation while two members voted against it.

**India headline CPI inflation rate**




## Foreign Direct Investment

Net new foreign direct investment into India has risen very rapidly in recent years, with FDI reaching a new record level of USD 84 billion in the 2021-22 fiscal year, after inflows of USD 82 billion in the 2020-21 fiscal year. This compares with FDI inflows of just USD 4 billion in the 2003-04 fiscal year. Rapid growth in FDI inflows has been evident over the past decade, with technology-related FDI having become an important source of investment. The Computer Software and Hardware sector was the largest recipient of foreign direct investment equity inflows in the 2021-22 fiscal year, at around 25% of the total inflows.

US technology firms have been a key source of recent FDI inflows into India. In 2020, Google established the "Google for India Digitization Fund", through which it announced plans to invest USD 10 billion into India over seven years through a mix of equity investments, partnerships, and operational, infrastructure and ecosystem investments. Also in 2020, Facebook announced an investment of USD 5.7 billion in Jio Platforms, owned by Reliance Industries Limited.

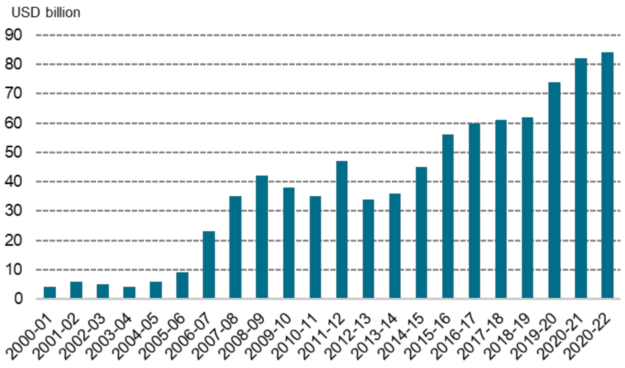
Infrastructure investments have also been an important sector for FDI inflows. A large FDI deal in 2020 was the USD 3.7 billion investment by Singapore's GIC and Canada's Brookfield Asset Management in the acquisition of Tower Infrastructure Trust, which owns Indian telecom towers assets.

In the 2020-21 fiscal year, FDI from Saudi Arabia also rose sharply, reaching USD 2.8 billion. Saudi Arabia's Public

Investment Fund acquired a USD 1.5 billion stake in Jio Platforms and a USD 1.3 billion stake in Reliance Retail in 2020.

Reliance Retail also received investment from other foreign firms in 2020, with Singapore's GIC and TPG Private Capital having invested a combined amount of USD 1 billion, while US private equity firm Silver Lake Partners also invested USD 1 billion.

India: foreign direct investment inflows




Source: RBI

## Unicorns

The rapid growth in numbers of Indian unicorns (start-ups that have achieved a valuation of over USD 1 billion) over the past five years has also become a major focus for foreign direct investment inflows into India. By September 2022, there were 107 Indian unicorns, with 44 of these having reached unicorn status within the 2021 year and 22 in the 2022 year-to-date, according to Invest India, the National Investment Promotion & Facilitation Agency.

Indian start-up firms have attracted large-scale foreign direct investment from global venture capital and private equity firms such as Blackstone and Sequoia Capital. Japan's SoftBank has been a leading global investor in Indian tech start-ups, having invested over USD 14 billion into Indian firms over the past decade, with an estimated USD 3 billion of new FDI in calendar 2021.

## Electronics sector investment

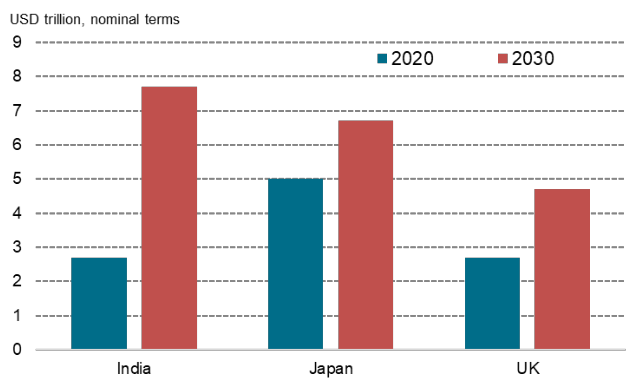
As in many other auto manufacturing hubs worldwide, global semiconductors shortages caused significant disruption to Indian auto production in 2021, constraining new auto output and sales. With India still highly reliant on imported chips, the Indian government announced a large new incentive package of USD 10 billion in December 2021, to try to encourage the development of semiconductors and display manufacturing in India. The new incentive scheme will provide 50% financial support for the cost of establishing new semiconductors fabrication and packaging plants as well as display plants in India. Many major international electronics firms have commenced initial discussions about establishing production facilities in India. India already has strong capabilities in semiconductor design, with an estimated 24,000 design engineers working in India. The federal government will work with state governments in order to establish high-tech clusters for semiconductor fabs and display fabs.

India has already made considerable progress in developing its domestic electronics manufacturing industry over the past decade, with total electronics manufacturing estimated to have risen from USD 30 billion in 2014-15 to USD 75 billion in 2019-20. The growth in electronics exports has been helped by rapid growth in exports of mobile phones as major global electronics firms have rapidly expanded their production of mobile phones in India. India's mobile phone exports rose from USD 0.2 billion in the fiscal year 2017-18 to USD 3.2 billion in the 2020-2021 fiscal year, rising further to USD 5.5 billion in the 2021-22 fiscal year.

## Indian economic outlook

The acceleration of foreign direct investment inflows into India over the past decade reflects the strong long-term growth outlook for the Indian economy. India's nominal GDP measured in USD terms is forecast to rise from USD 3.2 trillion in 2021 to USD 7.7 trillion by 2030. This rapid pace of economic expansion would result in the size of the Indian GDP exceeding Japanese GDP by 2030, making India the second largest economy in the Asia-Pacific region. By 2030, the Indian economy would also be larger in size than the largest Western European economies, notably Germany, France and the United Kingdom.

**India's GDP to surpass Japan by 2030**




Source: S&P Global

The long-term outlook for the Indian economy is supported by a number of key growth drivers. An important positive factor for India is its large and fast-growing middle class, which is helping to drive consumer spending. The rapidly growing Indian domestic consumer market as well as its large industrial sector have made India an increasingly important investment destination for a wide range of multinationals in many sectors, including manufacturing, infrastructure and services.

The digital transformation of India that is currently underway is expected to accelerate the growth of e-commerce, changing the retail consumer market landscape over the next decade. This is attracting leading global multinationals in technology and e-commerce to the Indian market.

By 2030, 1.1 billion Indians will have internet access, more than doubling from the estimated 500 million internet users in 2020. The rapid growth of e-commerce and the shift to 4G and 5G smartphone technology will boost home-grown unicorns like online e-commerce platform Mensa Brands, logistics startup Delhivery and the fast-growing online grocer BigBasket, whose e-sales have surged during the pandemic.

The large increase in FDI inflows to India that has been evident over the past five years is also continuing with strong momentum in 2021 and 2022. This is being boosted by large inflows of investments from global technology MNCs such as Google and Facebook that are attracted to India's large domestic consumer market, as well as a strong upturn in foreign direct investment inflows from manufacturing firms.

Overall, India is expected to continue to be one of the world's fastest growing economies over the next decade. This will make India one of the most important long-term growth markets for multinationals in a wide range of industries, including manufacturing industries such as autos, electronics and chemicals to services industries such as banking, insurance, asset management, health care and information technology.

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