Week Ahead Economic Preview

ECB meeting, US CPI, UK GDP and China's data deluge

8 September 2023

The week ahead sees the European Central Bank convening to update monetary policy, though the spotlight will also fix on US CPI figures ahead of the Fed FOMC meeting later this month. Activity data such as retail sales and industrial production figures will be eagerly awaited from both the US and mainland China, while the UK releases labour market and monthly GDP data. Special reports including the S&P Global Investment Manager Index and GEP Global Supply Chain Volatility Index will meanwhile provide further insights into key themes being watched by the market at present.

The ECB meeting will be the central bank highlight with policymakers having indicated their flexibility with regards to another rate hike at the September meeting. Between slowing – but still-elevated – inflation and softening growth conditions, there is a lot of uncertainty about whether the ECB might decide to sit on its hands awaiting more data.

While global growth is showing signs of weakening, we are seeing stubborn inflation having persisted into August via PMI price indices. Headline US CPI is hence expected to climb higher, in line with the trend preluded by the S&P Global US PMI Output Prices Index. Some stickiness around the 3% is signalled in the coming months and any surprise to the upside for the upcoming CPI release may trigger a repricing of assets, especially with the market growing less convinced that the Fed will hold rates unchanged until the end of 2023, according to the CME FedWatch tool.

That said, upcoming US activity data may build the case for rates to hold steady. The August S&P Global US Composite PMI revealed slowing growth, which will likely be confirmed with official releases such as retail sales and industrial production numbers. Other major economies such as the UK and mainland China will also update key activity data, all of which are expected to underscore the state of slowing growth momentum if PMI trends are followed.

Against such a backdrop, it will be of interest to examine how sentiment among money managers is shifting, and what is driving sentiment, with the S&P Global Investment Manager Index released. The GEP Global Supply Chain Volatility Index will also be of interest after global producer prices showed nascent signs of rising in August, though with energy prices in part driving this change.

Global PMIs: a whiff of stagflation?

Global economic growth slowed for a third successive month in August, according to the Global PMI data compiled by S&P Global. The headline PMI, fell from to its lowest since the current global economic upturn began in February. The current reading is broadly consistent with annualized quarterly global GDP growth of just under 1% midway through the third quarter, well below the pre-pandemic ten-year average of 3.0%.

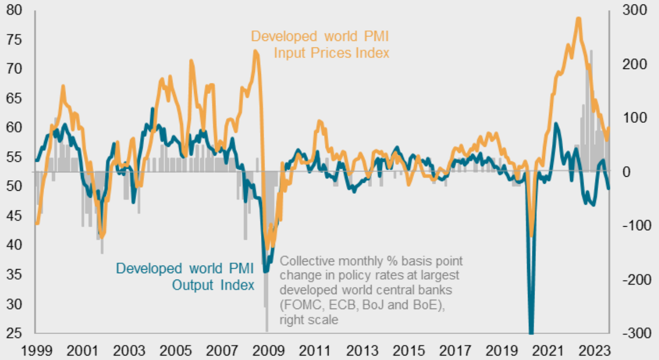
The PMI for the developed world was even worse, slipping into contraction for the first time in seven months in August. Falling output in Europe led the deteriorating picture, but the US also came close to stalling.

A third month of falling worldwide factory output amid weakened global trade was accompanied by a further faltering of this year's recent revival of service sector growth. Previously-fast growing consumer services and financial services sectors, which had enjoyed a post-pandemic growth spurt, are now seeing falling demand as interest rates rise.

Global selling price inflation meanwhile remained elevated due to some bottoming-out of manufacturing prices, higher oil prices and stubborn wage-led service sector price gains.

This mix of weak output alongside stubborn price pressures hints at stagflation. However, inflation may soon have further fall, as job markets are cooling. Developed world labour markets came close to stalling in August. An intensifying downturn in companies' backlogs of work meanwhile hints at further near-term downside risks to hiring and output.

Developed world PMI output and prices vs. monetary policy



Data compiled September 6, 2023.
PMI (50 = no change on prior month) covers manufacturing and services.
Sources: S&P Global PMI, S&P Global Market Intelligence.

Key diary events

Monday 11 Sep
Malaysia Industrial Production (Jul)
Malaysia Retail Sales (Jul)
Turkey Industrial Production (Jul)
United States Consumer Inflation Expectations (Aug)
China (Mainland) M2, New Yuan Loans, Loan Growth (Aug)

Tuesday 12 Sep
United Kingdom Labour Market Report (Jul)
Eurozone ZEW Economic Sentiment (Sep)
India Industrial Production (Jul)
India Inflation (Aug)
Brazil Inflation (Aug)
OPEC Monthly Report
S&P Global Investment Manager Index* (Sep)

Wednesday 13 Sep
South Korea Import and Export Prices (Aug)
South Korea Unemployment Rate (Aug)
Japan PPI (Aug)
United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Jul)
Hong Kong SAR Industrial Production (Q2)
Eurozone Industrial Production (Jul)
United States CPI (Aug)

Thursday 14 Sep
Japan Machinery Orders (Jul)
Australia Employment (Aug)
Singapore Unemployment Rate (Q2, final)
Japan Industrial Production (Jul, final)
South Africa Inflation (Aug)
India WPI (Aug)
Eurozone ECB Interest Rate Decision
United States Retail Sales (Aug)
United States Jobless Claims
United States Business Inventories (Jul)
GEP Global Supply Chain Volatility Index* (Aug)

Friday 15 Sep
South Korea Trade (Aug)
Singapore Non-oil Domestic Exports (Aug)
China (Mainland) House Prices (Aug)
China (Mainland) Industrial Production (Aug)
China (Mainland) Retail Sales (Aug)
China (Mainland) Unemployment Rate (Aug)
China (Mainland) Fixed Asset Investment (Aug)
Indonesia Trade (Aug)
Germany Wholesale Prices (Aug)
Eurozone Trade (Jul)
India Trade (Aug)
United States Import and Export Prices (Aug)
United States Industrial Production (Aug)
United States Capacity Utilisation (Aug)
United States UoM Sentiment (Sep, prelim)

* Access press releases of indices produced by S&P Global and relevant sponsors here.

What to watch

Americas: US CPI, PPI, retail sales, industrial production and UoM sentiment data

The US sees a busy economic calendar in the week ahead, with August CPI data being the highlight. Consensus expectations point to core CPI staying unchanged at 0.2% while headline CPI is expected to rise from 0.2% month-on-month in July. This is in line with price indications from S&P Global US Composite PMI, which suggest that US CPI may rise in the near-term and remain sticky with PMI output price index preceding the trend for US CPI.

Meanwhile retail sales and industrial production numbers will be important to track in the coming week amidst indications of lacklustre production performance and softening services growth, according to early PMI indications.

EMEA: ECB meeting, Eurozone ZEW sentiment, UK monthly GDP and labour market report

Policymakers at the European Central Bank convene in the coming week with a rate hike on the table, though the likelihood of the ECB further tightening financial conditions has ebbed in recent weeks. Current PMI data suggest that eurozone inflation remains on a broadly easing path, though attainment of the ECB's 2% target still looks difficult. Downturn, and recession, risks have meanwhile intensified.

Key releases from the UK meanwhile include July GDP growth and employment figures. While faring better than the eurozone, UK growth near-stalled in July, pre-empting a weaker output figure at the start of the third quarter.

Asia-Pacific: China's retail sales and industrial production data, India inflation

In APAC, the focus will be with a deluge of data from mainland China, including loan growth, house prices, retail sales and industrial production after recent Caixin PMI revealed a further slowdown in August.

India's inflation numbers will also be key after India's PMI figures showed selling price inflation in the private sector rose midway into the third quarter.

Investment Manager and Supply Chain Volatility Indices

Two special reports will be due in the coming week including the S&P Global Investment Manager Index for the latest views from US equity investors and the GEP Global Supply Chain Volatility Index after worldwide producer prices were shown to rise for the first time in four months in August.

Special reports:

Global PMI Shows Recovery Fading Further in August as Developed World Output Falls | Chris Williamson | **page 4**

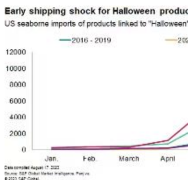
India's GDP Growth Remains Buoyant in 2023 | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Developed world jobs growth cools further in August as emerging market hiring accelerates	7-Sep	Chris Williamson
	Global PMI shows recovery fading further in August as developed world output falls	6-Sep	Chris Williamson
	Factory gloom deepens as downturn persists amid falling world trade	5-Sep	Chris Williamson
	Worldwide producer prices rise in August for first time in four months	1-Sep	Chris Williamson
EMEA	Nowcasting South Africa: Utilising PMI and official data to provide early estimates of GDP	29-Aug	David Owen, Paul Smith, Ph.D.
	UK Flash PMI data signal renewed economic downturn in August, selling price inflation cools	23-Aug	Chris Williamson
	Eurozone downturn deepens according to flash PMI but inflation pressures tick higher	23-Aug	Chris Williamson
US	US stagflation risks rise as service sector falters alongside manufacturing downturn	6-Sep	Chris Williamson
	US factory gloom deepens as production and order book downturns intensify in August	5-Sep	Chris Williamson
Asia-Pacific	China PMI signals further slowdown in August, prices edge higher	5-Sep	Chris Williamson
	Singapore narrowly averts recession in first half of 2023	5-Sep	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodities up as supply concerns grow	24-Aug	Michael Dall

S&P Global Market Intelligence highlights

Halloween creeps a little closer: Seasonal supply chains accelerate



Retailers are preparing for Halloween sales earlier than ever, in part due to concerns about a downturn in consumer spending. That's led to earlier shipments of Halloween products than prior years, with decorations outstripping outfits. (Worryingly, clown costumes are doing better than others.)

Click here to read our research and analysis

PMI Insights: Divergent trends in goods and services

Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists explore the divergence in the performance of the manufacturing and services sectors in countries including Australia and Greece. They zero in on how this is showing up in labour markets, looking at employment growth and wages.

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

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Special Focus

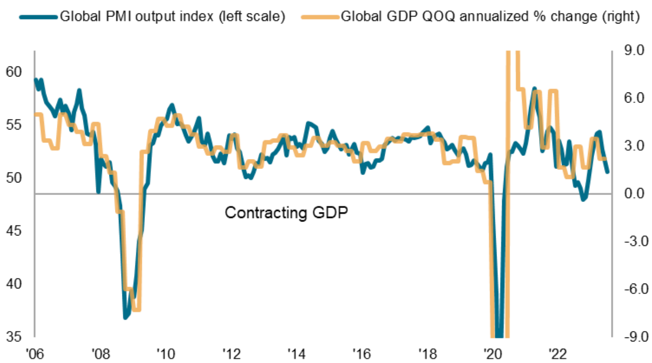
Global PMI Shows Recovery Fading Further in August as Developed World Output Falls

Global economic growth slowed for a third straight month in August, according to the S&P Global PMI surveys, based on data provided by over 27,000 companies. A third month of falling worldwide factory output amid weakened global trade was accompanied by a further faltering of this year's recent revival of service sector growth.

The slowdown was driven by the first fall in developed world output since January, hinting at the intensifying drag on growth from higher interest rates and the cost-of-living crisis. Falling output in Europe led the deteriorating picture, but the US also came close to stalling, leaving Japan as the only major developed economy sustaining growth.

However, growth also slowed in mainland China, dampening the overall emerging market expansion. India remained a notable bright spot.

Global economic growth and the PMI



Data compiled September 2023 including PMI data to August 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month..
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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Global recovery loses further momentum

Global economic growth slowed for a third successive month in August, according to the Global PMI data compiled by S&P Global.

The headline PMI, covering manufacturing and services across over 40 economies and sponsored by JPMorgan, fell from 51.6 in July to 50.6, its lowest since the current global economic upturn began in February and closer to the 'no-change' level of 50.0.

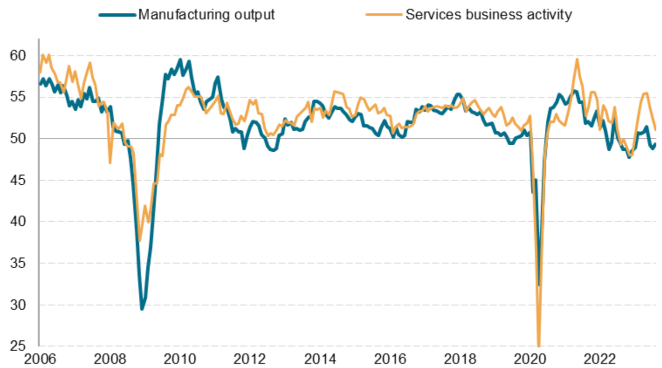
The current reading takes the PMI further below the survey's long-run average of 53.3 and is broadly consistent with annualized quarterly global GDP growth of just under 1% midway through the third quarter, well below the pre-pandemic ten-year average of 3.0%.

Further manufacturing decline accompanied by weakened service sector

The global slowdown was again led by manufacturing, which saw output decline for a third consecutive month in August, albeit at a reduced (and only modest) rate. Only India, mainland China, Russia and Brazil reported higher production.

More noteworthy was a third successive monthly slowing in global service sector activity to the weakest since the sector's upturn began in February. Although services still outperformed manufacturing in all major economies except Australia, India and Brazil, any significant gains were limited to India, Russia and Japan. Only marginal increases were seen in Brazil and the US and declines were recorded elsewhere, led by France and Germany.

Global PMI output by sector



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PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Sources: S&P Global PMI with J.P.Morgan, S&P Market Intelligence
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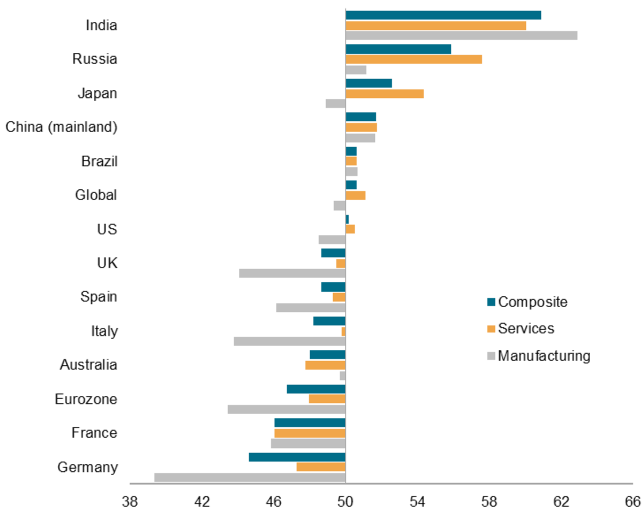
Continued…

PMI output index



Data compiled September 2023 including PMI data for August 2023.
PMI index 50 = no change on prior month.
Sources: S&P Global PMI, J.P. Morgan, HCOB, CIPS, au Jibun Bank, Judo Bank, Caixin.
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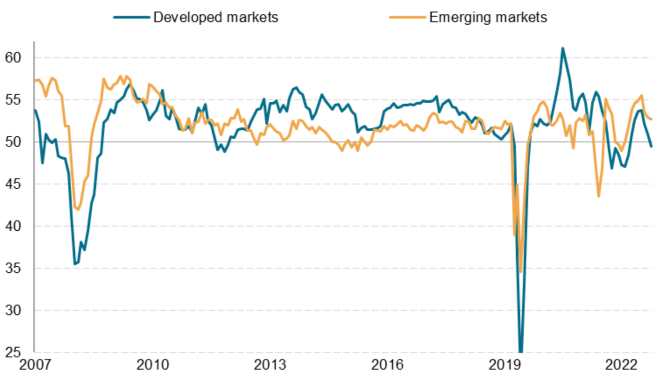
Developed world output contracts

The slowdown was most pronounced in the developed world, where output contracted – albeit only modestly – for the first time since January.

Emerging market output rose for an eighth successive month in August, though the rate of expansion was the slowest since January.

Global PMI output by market



Data compiled September 2023 including PMI data to August 2023.
PMI index value of 50 = no change on prior month
Sources: S&P Global PMI, S&P Market Intelligence, J.P. Morgan.
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Europe leads developed world into renewed downturn, Japan remains resilient

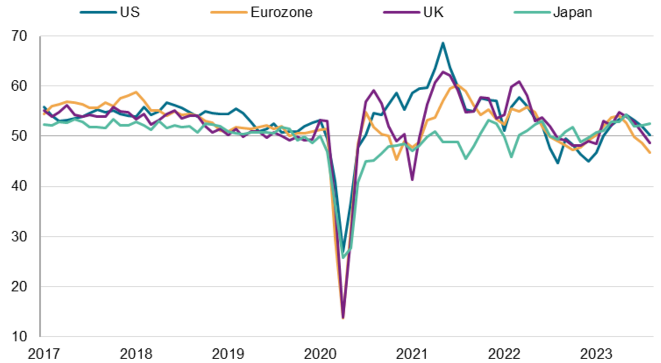
The eurozone led the weakening developed world picture, with output dropping for a third successive month and at the fastest rate since November 2020. A fifth month of falling manufacturing output was accompanied by the first fall in services activity since December.

Output also fell in the UK, dropping for the first time since January. A deepening factory downturn was joined by a renewed drop in services activity; down for the first time since the start of the year.

Growth meanwhile came close to stalling in the US, the rate of expansion cooling for a third month to show the smallest rise since February. A markedly weaker rate of services growth, down to near stagnation, was met with a renewed fall in manufacturing output.

That left Japan as the only one of the four largest developed economies reporting any noteworthy growth. Japan's growth edged up to a three-month high as a faster upturn in the service sector offset an ongoing manufacturing decline.

Major developed economies, output (manufacturing & services)



Data compiled September 5, 2023 including August PMI data.
PMI index value of 50 = no change on prior month, covers manufacturing and services.
Sources: S&P Global PMI, S&P Global Market Intelligence, HCOB, CIPS, au Jibun Bank.
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Emerging market output rises for eighth month despite China weakness amid ongoing Indian growth spurt

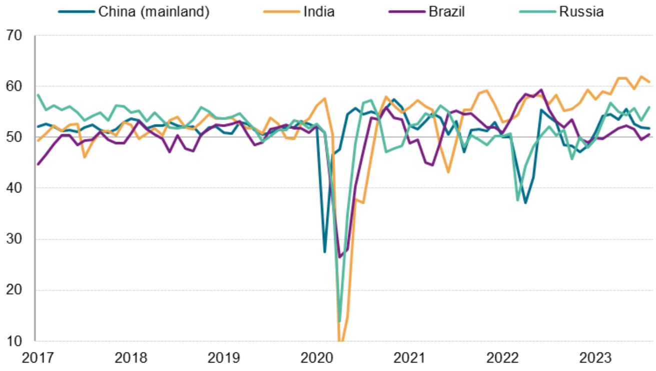
In the emerging markets, India once again stood out by sustaining its best growth spell for 13 years despite the pace slipping lower thanks to a weaker (but still impressive) rise in services activity. India's factory sector meanwhile reported the fastest output growth since January 2012 barring only the initial pandemic reopening months in 2020.

In contrast, growth slowed for a third straight month in mainland China, down to the lowest since January. Although factory output returned to modest growth after dipping in July, services growth was the lowest since China's post-pandemic upturn began at the start of the year.

Growth meanwhile picked up in Russia, as faster services growth offset a factory slowdown.

Brazil meanwhile enjoyed a modest return to growth after output fell into decline in July, lifted by the first rise in manufacturing output for ten months and further modest services growth.

Major emerging economies, output (manufacturing & services)



Data compiled September 5, 2023 including August PMI data.
PMI index value of 50 = no change on prior month, covers manufacturing and services.
Sources: S&P Global PMI, S&P Global Market Intelligence, Caixin.
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Access the global PMI press release here.

Chris Williamson

Chief Business Economist
S&P Global Market Intelligence
London

chris.williamson@spglobal.com

Special Focus

India's GDP Growth Remains Buoyant in 2023

India is expected to be the fastest growing nation in 2023 among the G-20 grouping of the world's largest nations that attended the G-20 Leaders' Summit hosted by India in New Delhi on 9th -10th September. After rapid economic growth of 7.2% in the 2022-23 fiscal year, economic momentum has remained strong in the April-June quarter of 2023, with GDP growth of 7.8% year-on-year (y/y). The S&P Global India Services PMI Business Activity Index for August also signalled continued rapid positive momentum for output and new orders, while the August Manufacturing PMI survey showed strong expansion.

India has also become an increasingly attractive location for multinationals across a wide range of industries, with foreign direct investment inflows (FDI) having reached a new record high of USD 85 billion in the 2021-22 fiscal year.

India's rapid economic expansion continues in mid-2023

India's GDP growth rate rose to a pace of 7.8% y/y in the April–June quarter of 2023, compared with growth of 6.1% y/y in the January–March quarter of 2023, according to data released by India's National Statistical Office. The strong growth rate was despite high base year effects after GDP growth of 13.1% y/y in the April–June quarter of 2022.

Private consumption grew by 6.0% y/y in real terms in the April–June quarter of 2023, improving on the 2.8% y/y pace of growth recorded in the January–March quarter.

Gross domestic fixed capital formation remained strong, growing at a pace of 8.0% y/y in the April–June quarter of 2023 compared with 8.9% y/y growth in the January–March quarter of 2023 and buoyant growth of 20.4% y/y in the April–June quarter of 2022.

Construction output rose by 7.9% y/y in the April–June quarter of 2023 compared with the 10.4% y/y growth rate in the January–March quarter of 2023, still showing firm expansion despite high base year effects after growth of 16.0% y/y in the April–June quarter of 2022.

Rapid growth was also evident in key segments of the service sector, with output in the financial, real estate and professional services sector growing by 12.2% y/y in the April-June quarter, while output in trade, hotels, transport and communications services up by 9.2% y/y.

However, manufacturing growth was at a more moderate pace of 4.7% year over year in the April–June quarter of 2023, compared with growth of 6.1% year over year in the April–June quarter of 2022.

Other recent economic indicators for India also continue to signal expansionary economic conditions driven by domestic demand. Steel production rose by 11.9% y/y in the April-June quarter, while consumption of steel rose by 10.2% y/y. Cement production also showed strong growth, rising by 12.2% y/y in the April-June quarter, while coal production rose by 8.7% y/y. Sales of commercial vehicles rose sharply higher in FY2022-23, increasing by 34.3% y/y, while sales of private vehicles rose by 18.7% y/y in FY2022-23.

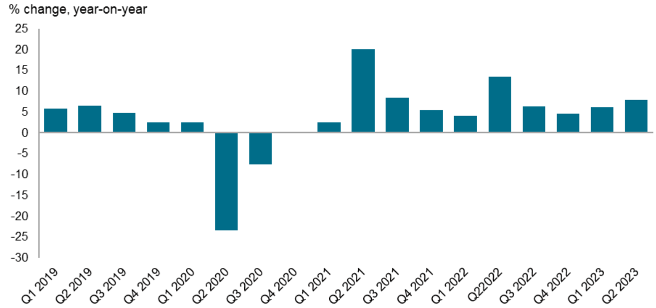
The index of industrial production, which generally shows considerable monthly volatility, recorded growth of 4.5% y/y in the April-June quarter, while manufacturing output rose by 4.7% y/y in the same quarter. For the FY2022-23 from April to March, industrial production was up 5.2% y/y, with manufacturing output rising by 4.7% y/y over the same period.

For FY2022-23, production of capital goods rose by 12.9% y/y, while production of infrastructure and construction goods rose by 12.5% y/y. However, production of consumer durables and non-durables was sluggish, with production of consumer durables growing at a marginal pace of 0.6 y/y in FY2022-23-23 while consumer non-durables grew by 0.5% y/y, according to the National Statistical Office.

In the April-June quarter of 2023, production of capital goods rose by 4.9% y/y, while production of infrastructure and construction goods rose by 14.0% y/y. Output of consumer durables remained weak, contracting by 2.8% y/y, although output of consumer non-durables showed strong momentum, rising by 6.7% y/y.

India GDP growth, 2019-2023

% change, year-on-year



Source: S&P Global Market Intelligence.
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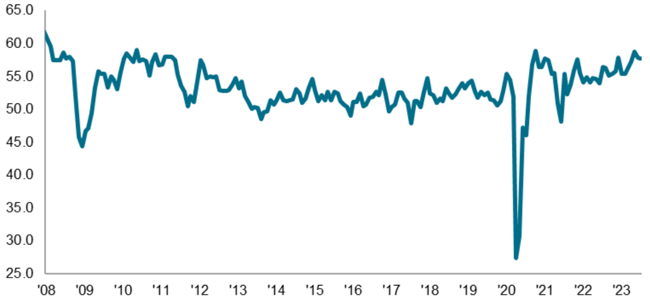
The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index (PMI) rose from 57.7 in July to 58.6 in August, indicating the second-best improvement in the health of the sector for nearly three years.

Demand strength was pivotal to August's robust performance, spurring the fastest upturn in new orders since January 2021. Competitive pricing and advertising were also cited as factors behind sales growth. International sales added to manufacturers' total order books. Not only did new export orders increase for the seventeenth month running halfway through the second fiscal quarter, but also to the greatest extent since November 2022. Panel members reported having secured new work from clients in Bangladesh, China, Malaysia, Singapore, Taiwan and the US.

India Manufacturing PMI

sa, >50 = growth since previous month

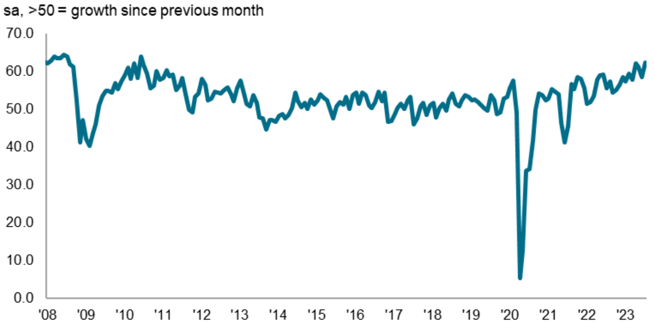


Source: S&P Global PMI.

Despite falling from 62.3 in July to 60.1 in August, the seasonally adjusted S&P Global India Services PMI Business Activity Index indicated one of the strongest increases in output seen since mid-2010. Survey participants mentioned positive consumer appetite, favourable market conditions and successful events. Notably, services firms indicated the sharpest upturn in new export business since the series started in September 2014. Asia Pacific, Europe, North America and the Middle East were among the sources of sales gains reported by panellists. Total new business increased for the twenty-fifth month in a row during August.

India Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global PMI.

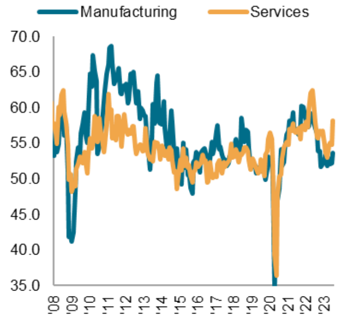
However, India's exports of goods and services for the April-July 2023 period contracted by 6.0% y/y, due to a significant decline in merchandise exports of 14.5% y/y in the April-July quarter. The decline of merchandise exports was mitigated by strong growth in services exports, which rose by 7.8% y/y over the same period.

Inflationary conditions

The overall rate of input price inflation remained above that seen for output charges, despite easing since July. The rate of increase was the second-fastest in over a year and above its long-run average. Monitored companies suggested that food, input and labour costs all rose over the course of August.

India PMI input costs

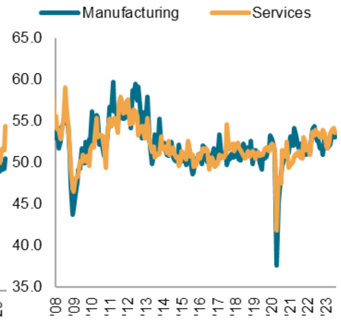
sa, >50 = growth since previous month



Source: S&P Global PMI.

India PMI output prices

sa, >50 = growth since previous month



Source: S&P Global PMI.

The latest statistics on India's consumer price index (CPI) showed that the headline CPI inflation rate surged further to 7.4% y/y in July from a pace of 4.8% y/y in June.

A key factor contributing to the upturn in the headline CPI inflation rate was a further sharp upturn in the food and beverages CPI subindex. The food and beverages CPI subindex rose by 10.6% y/y in July compared with 4.6% y/y in June driven by a surge in vegetables prices, as well as significant price rises for cereals and pulses.

The vegetables CPI subindex had registered significant declines in recent months, falling by 8.2% y/y in May after a decline of 6.5% y/y in April. However, in July vegetables prices rose by 37.3% y/y. A significant contributing factor to the sharp upturn in vegetable prices was a sharp rise in tomato prices, due to crop damage in some regions. Prices for pulses also showed a strong increase, rising by 13.3% y/y in July. A key concern for the Indian government has also been rapid rises in rice prices, with the overall cereals sub-index up by 13.0% y/y.

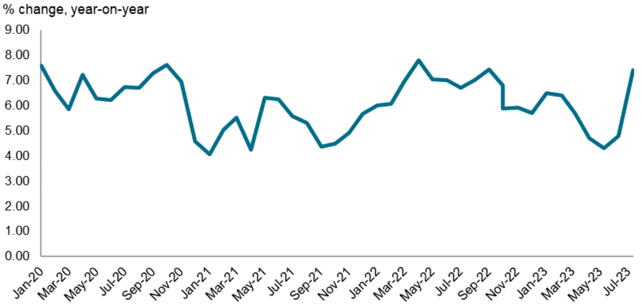
High energy prices have been an important factor contributing to India's CPI inflation pressures over the past year, but have been easing in recent months, helped by some moderation in world oil prices as well as the impact of base- year effects owing to the spike in world oil prices a year ago, in the second quarter of 2022. The fuel and light subindex increase moderated further in July, to 3.7% y/y, compared with 3.9% y/y in June and significantly lower than the 8.9% y/y rate recorded in March.

The Reserve Bank of India (RBI) in its August Monetary Policy Statement raised its projected CPI inflation rate for the current fiscal year (2023–24) to 5.4%, compared with its 5.1% year-over-year projection made in the June Monetary Policy Statement. This nevertheless represents a significant moderation from the 6.5% rise in CPI inflation in fiscal year 2022–23. The near-term trajectory of CPI inflation is projected in the RBI August Monetary Policy Statement at 6.2% y/y for the July–September quarter, 5.7% y/y for the October to December quarter of fiscal 2023–24, moderating to 5.2% y/y in the January-March quarter of 2024, based on the assumption of a normal monsoon.

The RBI's August Monetary Policy Statement had expected that the headline CPI inflation rate would likely witness a spike in coming months on account of disruptions to food production due to adverse weather conditions. The RBI also noted risks to food production from the impact of the skewed south-west monsoon so far, as well as upward pressures on food prices due to a possible El Niño event as well as geopolitical hostilities.

The RBI projection in its August Monetary Policy Statement for real GDP growth for fiscal year 2023–24 remained unchanged at 6.5%. Domestic economic activity is assessed by the RBI to have remained resilient in the April–June quarter of fiscal year 2023–24, as reflected in high-frequency indicators such as passenger vehicle sales and domestic air passenger traffic, as well as steel consumption and cement output. The index of industrial production grew at a pace of 4.5% y/y in the April-June quarter, while core industries output rose by 8.2% y/y in June.

India CPI inflation rate
% change, year-on-year



Source: S&P Global Market Intelligence.
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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 85 billion in the 2021-22 fiscal year, after inflows of USD 82 billion in the previous 2020-21 fiscal year. Although FDI inflows moderated to USD 71 billion in the 2022-23 fiscal year, this compares with FDI inflows of just USD 4 billion in the 2003-04 fiscal year.

The sustained large FDI inflows over the past decade have helped to reduce India's external account vulnerability and have contributed to boost India's foreign exchange reserves.

A key contributor to strong FDI inflows over the past decade has been technology related FDI, which has 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.

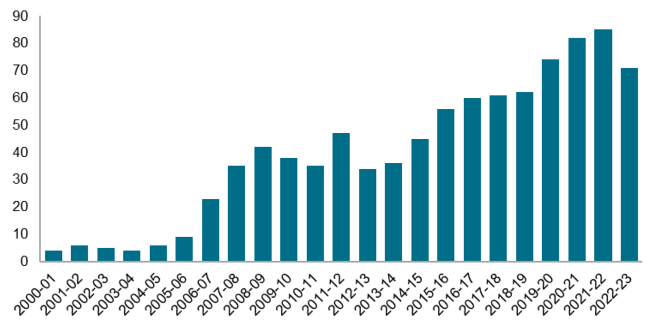
US technology firms have been a key source of recent FDI inflows into India. In 2020, Google established the "Google for India Digitization Fund", through which it announced plans to invest USD 10 billion into India over seven years through a mix of equity investments, partnerships, and operational, 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
USD billion



Source: RBI via S&P Global Market Intelligence.
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By source of origin of FDI inflows, Singapore, Mauritius and United Arab Emirates were three of the four top sources of FDI inflows into India in FY 2022-23, alongside the USA. This highlights the growing importance of India's bilateral economic and investment relationships with global financial hubs in emerging markets, in addition to strong ties with advanced economies like the USA, Japan, EU and UK.

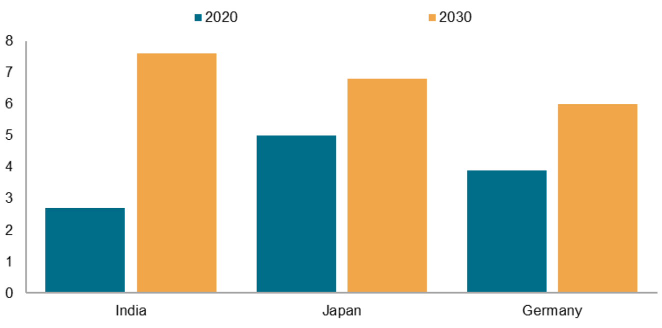
The rapid growth in numbers of Indian unicorns (start-ups that have achieved a valuation of over USD 1 billion) over the past five years has also become a major focus for foreign direct investment inflows into India. By mid-2023, there were an estimated 108 Indian unicorns, with 44 of these having reached unicorn status within the 2021 year and 21 in the 2022 year, according to Invest India, the National Investment Promotion & Facilitation Agency.

Indian economic outlook

After two years of rapid economic growth in 2021 and 2022, the Indian economy has continued to show sustained strong growth during the first half of the 2023 calendar year. The near-term economic outlook is for continued rapid expansion during the second half of 2023 and for 2024, underpinned by strong growth in domestic demand.

The acceleration of foreign direct investment inflows into India over the past decade reflects the favourable long-term growth outlook for the Indian economy, helped by a youthful demographic profile and rapidly rising urban household incomes. India's nominal GDP measured in USD terms is forecast to rise from USD 3.5 trillion in 2022 to USD 7.3 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 2022, the size of Indian GDP had already become larger than the GDP of the UK and also France. By 2030, India's GDP is also forecast to surpass Germany.

India's GDP to surpass Japan and Germany by 2030
USD trillion, nominal terms



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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 evident even during the pandemic years of 2020-2022. India's strong FDI inflows have been boosted by large inflows of investments from global technology MNCs such as Google and Facebook that are attracted to India's large, fast-growing 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.

Rajiv Biswas
Asia-Pacific Chief Economist
S&P Global Market Intelligence
Singapore

rajiv.biswas@spglobal.com

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CONTACT US

Chris Williamson
Chief Business Economist
S&P Global Market Intelligence
London

T: +44 779 5555 061
chris.williamson@spglobal.com

Jingyi Pan
Economics Associate Director
S&P Global Market Intelligence
Singapore

T : +65 6439 6022
jingyi.pan@spglobal.com

The Americas
+1-877-863-1306

EMEA
+44-20-7176-1234

Asia-Pacific
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