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Week Ahead Economic Preview

ECB, BoC meetings, October flash PMI and US Q3 GDP data

20 October 2023

Central bank meetings in the Eurozone and Canada will be the highlights next week alongside flash October PMI data for the earliest insights into economic conditions in major developed economies at the start of the fourth quarter. Additionally, the US releases Q3 GDP and other key economic indicators such as durable goods orders, core PCE and personal income and spending figures. Several tier-1 data are also expected from APAC economies.

On the back of easing inflationary pressures, a trend likewise highlighted by the IMF in their latest Economic Outlook *(see special report)*, the European Central Bank (ECB) and Bank of Canada (BoC) face reduced pressure for more rate hikes.

That said, the duration in which peak rates will sustain for the ECB remains unclear and has been further complicated by recent geopolitical challenges, especially with rising energy prices posing an upside risk to the easing inflation trend and further pressuring growth to the downside. Upcoming HCOB Flash Eurozone PMI will therefore be keenly watched for updates on both output and price developments.

Meanwhile the BoC, weighing sustained wage pressures and falling CPI, face greater uncertainty in their next move with the market holding mixed views on whether another rate hike will unfold on Wednesday.

More broadly, soaring US government bond yields have captured the market's attention. Equity prices were capped as a result, with geopolitics likewise affecting sentiment. To a large extent, better-than-expected US retail sales data supported the hike in bond yields and further updates in the form of US Q3 GDP, September durable goods orders and personal income and spending figures will be keenly assessed for clues as to yields and the Fed's rate path.

More up-to-date flash PMI for October will also shed light on the growth trajectory at the start of the fourth quarter. With US output having near-stagnated for two consecutive months, according to September's PMI data, growth could slow as we head into Q4. Even worse performances have been seen in the Eurozone and UK, where businesses are likewise facing higher interest rates and the elevated cost of living. Only Japan, spared the hikes in interest rates seen in the US and Europe, has enjoyed sustained services growth.

US consumers see renewed interest in goods

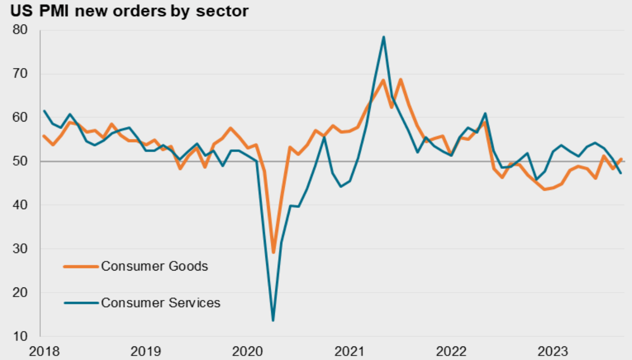
With inflation cooling and the post-pandemic tailwind for travel, tourism and other consumer-oriented services fading, there are signs that US consumer demand is switching back to goods.

Over the past few years, the PMI data compiled by S&P Global have signalled a roller coaster ride for consumer demand. During COVID-19, demand surged for consumer goods as travel restrictions impeded demand for services such as travel and tourism. However, vaccines led to a switch from goods back to services. To illustrate, between June 2020 (after the full impact of the first impact of COVID-19 eased) and January 2021 (when the vaccine roll-out began in earnest), the S&P Global new orders index for US consumer goods averaged 55.7, running well above the 50.0 neutral level to indicate a strong expansion of demand. The corresponding index for new business placed at service providers averaged 46.2 over this period, indicating a steep decline in demand.

The vaccine roll-out meant demand rose for consumer services. This period saw still-robust demand for consumer goods, sustained in part by supply shortages having impeded sales to customers in 2020, but things started to change more noticeably in 2022. Consumer orders for services consistently outperformed orders for goods in all bar two months of 2022; an outperformance that widened as the year progressed and persisted into 2023. Over the first seven months of 2023, the new orders index for consumer services averaged 52.9 against a comparable reading of 47.3 for consumer goods.

In September 2023, however, new orders for consumer services fell back into decline, blamed on cooling demand for recreation, travel and tourism as households tightened their belts. In contrast, new orders for consumer goods rose to outperform services to an extent not seen since 2021. It remains to be seen if this represents a turning point in the pattern of demand, but it certainly adds to concerns that the fillip to global growth received from resurgent demand for consumer services has faded *(see special report)*.

US PMI new orders by sector



Data compiled October 5, 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.

Key diary events

Monday 23 Oct
New Zealand, Hong Kong SAR and Thailand Market Holidays
Singapore CPI (Sep)
Taiwan Industrial Production (Sep)
Taiwan Retail Sales (Sep)
Taiwan Unemployment Rate (Sep)
Eurozone Consumer Confidence (Oct)

Tuesday 24 Oct
India Market Holiday
Australia Judo Bank Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK S&P Global/CIPS Flash PMI, Manufacturing & Services*
Germany HCOB Flash PMI, Manufacturing & Services*
France HCOB Flash PMI, Manufacturing & Services*
Eurozone HCOB Flash PMI, Manufacturing & Services*
US S&P Global Flash PMI, Manufacturing & Services*
South Korea PPI (Sep)
Germany GfK Consumer Confidence (Nov)
United Kingdom Labour Market Report (Aug)

Wednesday 25 Oct
South Korea Consumer Confidence (Oct)
Australia Inflation (Q3)
Germany Ifo Business Climate (Oct)
Canada BoC Interest Rate Decision
United States New Home Sales (Sep)
United States Building Permits (Sep, final)

Thursday 26 Oct
South Korea Business Confidence (Oct)
South Korea GDP (Q3)
Australia Import and Export Prices (Q3)
Thailand Trade (Sep)
Malaysia PPI (Sep)
Singapore Industrial Production (Sep)
Hong Kong SAR Trade (Sep)
Turkey TCMB Interest Rate Decision
Eurozone ECB Interest Rate Decision
United States Durable Goods Orders (Sep)
United States GDP (Q3, advance)
United States Wholesale Inventories (Sep)
United States Pending Home Sales (Sep)

Friday 27 Oct
Australia PPI (Q3)
China (Mainland) Industrial Profits (Sep)
Singapore Unemployment (Q3, prelim)
Taiwan Consumer Confidence (Oct)
France GDP (Q3, prelim)
France Inflation (Oct, prelim)
Spain GDP (Q3, flash)
Italy Business Confidence (Oct)
United States Core PCE Price Index (Sep)
United States Personal Income and Spending (Sep)
United States UoM Sentiment (Oct, final)

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

What to watch

October flash PMI releases

Flash PMIs for major developed economies, including the US, UK, eurozone, Japan and Australia, will be due Tuesday, October 24. With a second month of near-stalled global growth in September, we will be looking to the flash PMI releases for the earliest insights into business conditions at the start of Q4. As highlighted in the IMF's latest Economic Outlook *(see special report)*, regional divergences have been widening, a trend we have long observed via the PMI surveys. Whether the US, the world's largest economy, has avoided a downturn, or if the UK and eurozone have further contracted while Japan remained in solid contraction, will all be answered with the upcoming flash PMI update.

Americas: BoC meeting, US Q3 GDP, durable goods orders, core PCE and personal income and spending

The Bank of Canada convenes with mixed views on whether the central bank will vote for another 25 basis points (bps) hike. While a historically tight labour market and rising wages back another hike in rates, latest indications of easing price inflation, including via September PMI data, says otherwise.

The first estimate of US Q3 GDP will meanwhile be the key data highlight alongside the core PCE reading for September. GDP is expected to have surged higher, with the Atlanta Fed GDPNow tracker for example pointing to an annualised rise of around 5%. Growth should weaken in the fourth quarter, however, due to rising headwinds.

EMEA: ECB meeting, UK labour market report

The European Central Bank's penultimate monetary policy meeting unfolds next week with no changes to rates expected according to consensus. Amid easing inflationary pressures in the eurozone, the ECB is widely seen to have reached the peak of their current tightening cycle, though uncertainty over how long peak rates will likely be maintained will be closely examined with upcoming meeting materials.

Besides the flash PMI releases, key releases from Europe include the UK's full labour market report due Tuesday, delayed from October 17. Consensus expectations point to an unchanged unemployment rate, but employment is set to remain under pressure. French GDP figures are also due.

APAC: South Korea GDP, Singapore CPI

Several tier-1 data are spotted in APAC including Q3 GDP from South Korea and inflation data from Singapore.

Special reports:

Reviewing the IMF Global Economic Outlook and Risks via PMI Signals | Chris Williamson | **page 4**

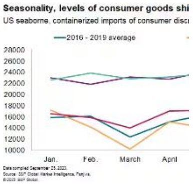
India's Manufacturing Output Surges While Inflation Pressures Ease | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Emerging markets PMI signal growth momentum slowing at end of third quarter	12-Oct	Jingyi Pan
	Monthly PMI Bulletin: October 2023	9-Oct	Jingyi Pan
	Renewed fall in global demand fuelled by rising impact of higher interest rates	9-Oct	Chris Williamson
	Trade conditions continue to deteriorate at end of third quarter	9-Oct	Jingyi Pan
	Global PMI signals near-term downturn risks amid falling backlogs of work	5-Oct	Chris Williamson
	Global PMI data hint at higher goods prices offsetting cooler service sector inflation	5-Oct	Chris Williamson
	Worldwide factory prices on the rise again in September	2-Oct	Chris Williamson
EMEA	Eurozone flash PMI fuels further downturn worries as demand weakness intensifies	22-Sep	Chris Williamson
	Flash PMI signals deepening UK economic downturn in September	22-Sep	Chris Williamson
US	US flash PMI points to slowing economy expansion amid stubborn price pressures	22-Sep	Chris Williamson
Asia-Pacific	Taiwan's Exports Turn Positive in September 2023	13-Oct	Rajiv Biswas
	Vietnam GDP growth improves in third quarter of 2023	5-Oct	Rajiv Biswas
Commodities	Weekly Pricing Pulse: Commodities up as supply concerns grow	24-Aug	Michael Dall

S&P Global Market Intelligence highlights

Time, tariffs and tracking: Supply chain outlook for fourth quarter 2023



Supply chain activity has largely returned to normal, although uncertainties remain around corporate strategy, global trade policy, and environmental measures. Lower consumer demand is evident in US seaborne imports of consumer goods that have fallen by 26%.

Click here to read our research and analysis

PMI Insights: Extreme weather impact

2023 has delivered some extreme weather, from extreme heat in Southern Europe to a dry spell that affected crop yields in Southeast Asia and Australia, often with tragic human consequences. Extreme weather events like droughts and floods also present risks to economies and supply chains.

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 **https://www.spglobal.com/**. For more information on our PMI business surveys, please visit **here**.

Special Focus

Reviewing the IMF Global Economic Outlook and Risks via PMI Signals

The IMF's latest assessment of the global economy corresponds closely with the picture portrayed in advance by the PMI surveys, with worldwide growth slowing albeit with widening regional divergences. Inflation is meanwhile headed lower, although some uncertainty persists regarding the final leg toward central bank targets. Monitoring the PMI data going forward will not only help determine how the assessment is likely to change in the months ahead, but will also allow us to gauge whether key risks identified by the IMF are developing.

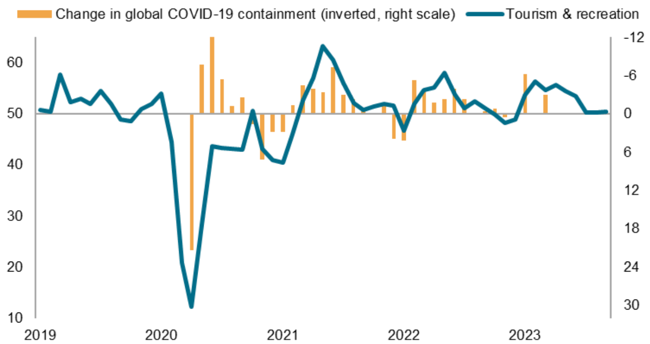
Fading demand for services

Global In the latest Economic Outlook report, the IMF declares the global economy to be "limping along, with growing divergences". Its projections "are increasingly consistent with a 'soft-landing' scenario", where "inflation is brought down without a major downturn in economic activity". Three global forces are seen to be at play.

First, "the [post-pandemic] recovery in services is almost complete". In other words, don't expect pent-up demand for services to help boost global growth in the coming months, as we had seen earlier in the year, especially in tourism-oriented sectors and economies. Growth in the service sector is in fact already evaporating. However, there's an upside here, in that "services activity is now weakening alongside a persistent manufacturing slowdown, suggesting services inflation will decrease in 2024 and labour markets and activity will soften".

All of these are of course developments that have been flagged in advance by the PMI surveys. The July PMI surveys, for example, had already been warning of the short-lived nature of the second quarter growth spurt. More recently, the likely cooling of service sector inflationary pressure is something we have been eager to highlight, given the development of surplus operating capacity within the sector, as signalled by the PMIs' backlogs of work index.

Global PMI tourism & recreation new orders and COVID-19



Data compiled October 2023 including PMI data to September 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month. S&P Global Market Intelligence COVID-19 index scale inverted and advanced one month.
Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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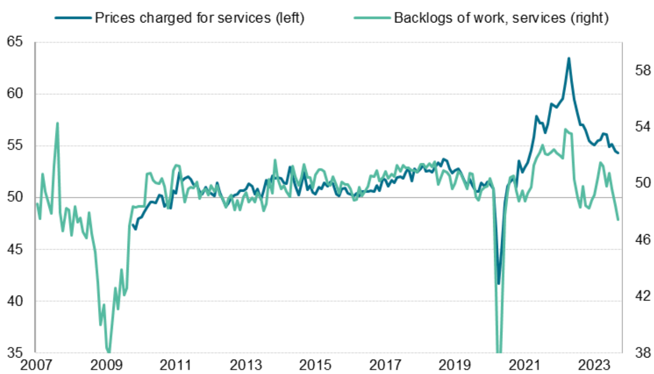
Global services pricing power and backlogs of work



Data compiled October 2023 including PMI data to September 2023.
PMI index value of 50 = no change on prior month.
Source: S&P Global PMI with J.P.Morgan.
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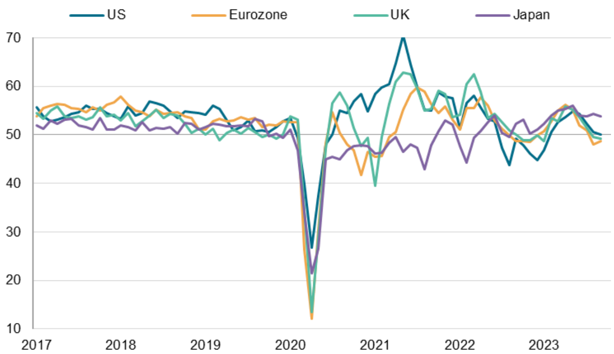
Visible policy impact

Second, the IMF notes how "part of the slowdown is the result of the tighter monetary policy necessary to bring inflation down. This is starting to bite", with the report citing how the impact of tighter credit conditions is affecting Europe and, to a lesser extent, the US to the greatest degrees.

Again, these are developments that had been warned of well in advance by the PMI surveys (See Flash PMIs signal developed world contraction as higher interest rates exert a growing toll, August 24, 2023), with business activity now falling in both the Eurozone and UK and close to stalling in the US. In Japan, which has been spared rate hikes, business activity – notably in the interest rate sensitive services economy is showing resounding resilience.

Major developed economies, services output



Data compiled October 2023 including September 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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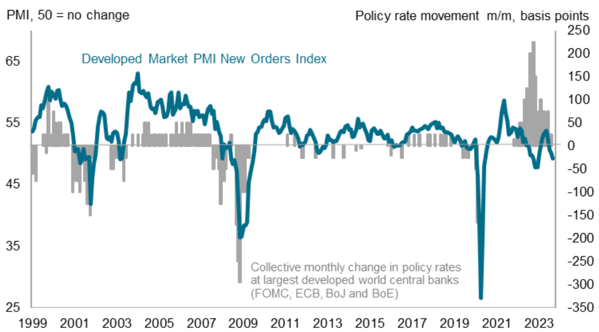
Comparisons of PMI data on new orders – a useful proxy for demand growth – meanwhile illustrates how rising interest rates have subdued demand growth in the developed world, the downward trend of which was interrupted by the fillip to demand received from the brief post-pandemic travel tailwind in early 2023, but now looks to be accelerating again (See [Renewed fall in global demand fuelled by rising impact of higher interest rates](), October 9, 2023).

Developed world PMI new orders vs. monetary policy



Data compiled October 2023.
PMI covers manufacturing and services.
Sources: S&P Global PMI, S&P Global Market Intelligence, J.P. Morgan.
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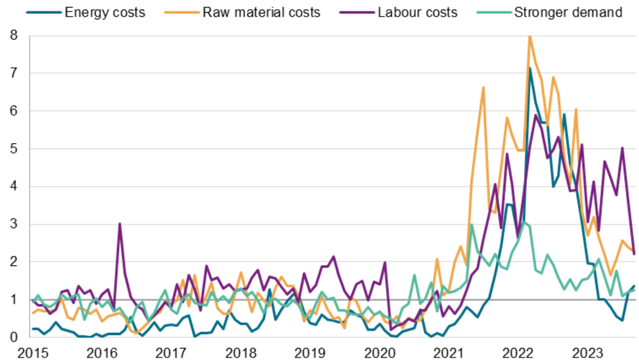
Waning inflation

Third, the IMF notes important regional divergences in inflation, and in particular the causes of inflation, which help build the case for the soft landing. The IMF first identifies how the energy price spike following Russia's invasion of Ukraine disproportionally hit Europe, where "the pass through of higher energy prices played a large role in driving core inflation upward." However, that's in contrast to the United States, "where core inflation pressures reflect instead a tight labour market." The good news, in that the IMF finds "scant evidence of a wage-price spiral" which, alongside the cooling of energy prices in Europe, bodes well for the inflation outlook.

Anecdotal evidence, collected in the PMI surveys, corroborates this analysis, notably via the PMI Comment Tracker indicators, which reveal the factors which companies have determined to be the main drivers of price changes. From these data, the easing of the commodity price shock is clearly evident over the past year, both in terms of the reduced upward pressure on prices from raw materials and energy. Meanwhile, the upward pressure on prices from wages and salaries, which spiked higher earlier in the year amid the resurgence in demand for labour – notably in the service sector – is likewise moderating.

S&P Global PMI: drivers of higher selling prices



Data compiled October 2023 including PMI data to September 2023.
Axis scale 1 = long term average. Covers goods and services.
Source: S&P Global PMI.
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Risks to the outlook

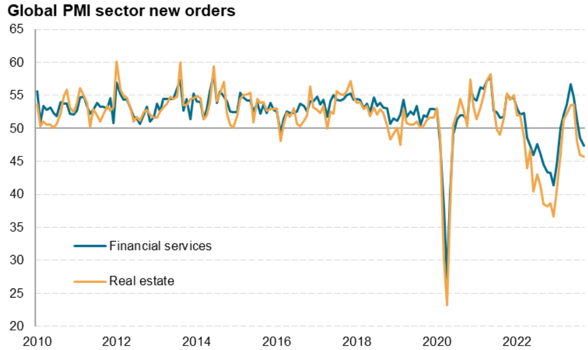
As for risks, IMF alludes to the persistent possibility of renewed financial stress, in particular emanating from the real estate market, as well as the potential for further volatility in commodity markets, especially given how intensifying geopolitical uncertainties could cause prices to spike higher again.

The persistent elevated nature of inflation therefore remains a key risk identified by the IMF, raising the likelihood of stubbornly high inflation expectations becoming entrenched.

The future ability of governments to fight downturns or crises is meanwhile seen to be impeded by the erosion of fiscal buffers amid higher debt levels, with higher interest rates making state support more costly and therefore more difficult to put in place. A final concern of the IMF is that a sharp repricing of risk, especially in emerging markets, could drive the US dollar higher, triggering debt distress.

The PMI data can help to monitor these risks.

Global PMI sector new orders



Data compiled October 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI, JPMorgan.
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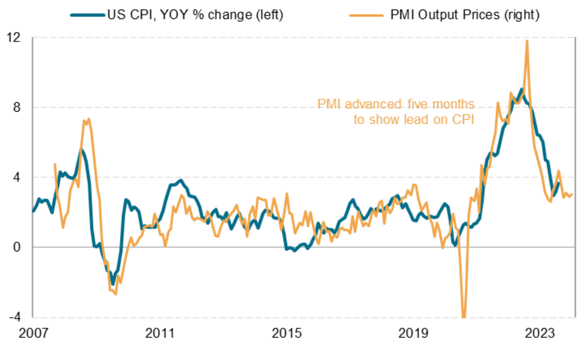
Sector PMI detail is already demonstrating how real estate activity is slumping worldwide, leading a broader financial services downturn, and any further deterioration in this sector risks driving down prices further and raises the likelihood of escalating defaults.

Although easing, inflation remains stubbornly high globally, with the PMI data point to some stickiness in the US most importantly, at 3-4% in the coming months. It is our expectation that the demand slowdown will help lower inflation, as per the comparison of prices with backlogs of work above, but the full cooling of global inflation to central bank target is not yet currently being signalled, meaning the PMI data on costs and selling prices need to be monitored carefully.

US inflation



Data compiled October 2023 including PMI data to Sept 2023.
PMI covers manufacturing only pre-2009 but manufacturing & services thereafter.
Source: S&P Global PMI, BEA via S&P Global Market Intelligence.
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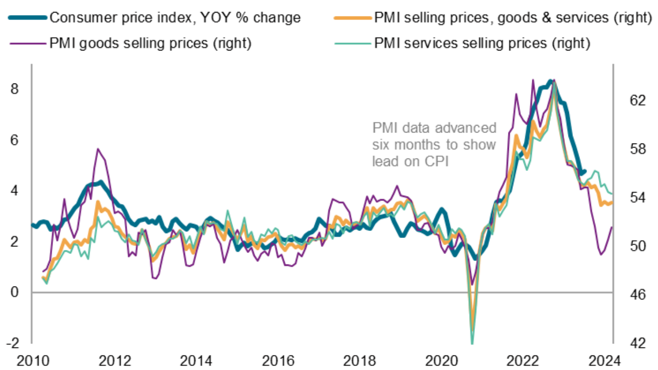
Indeed, the very latest PMI data already point to some reversal of commodity-driven disinflation, linked to higher oil prices and fewer supply-chain-related price cuts (See [Global PMI data hint at higher goods prices offsetting cooler service sector inflation](), October 6, 2023).

Global consumer price inflation and PMI selling prices



Data compiled October 2023 including PMI data to September 2023 advanced six months.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Sources: S&P Global PMI with J.P. Morgan, S&P Global Market intelligence.
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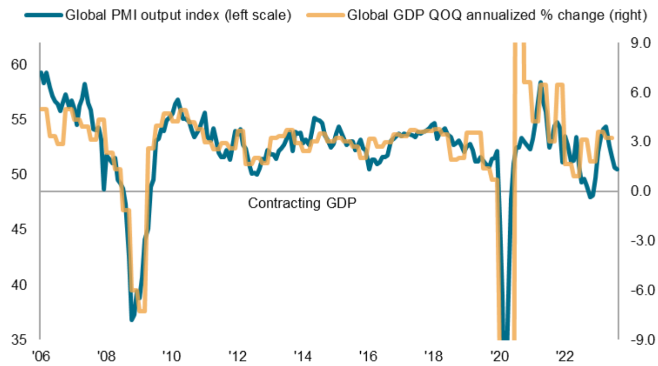
As for the risks to the economic outlook from the lack of fiscal leeway and debt distress, these again are developments that will likely first appear via the PMI data on emerging market growth and the global demand environment more generally. One aspect to note is that the risk aversion caused by recent weaker economic growth indicators and the uncertainty caused by geopolitical tensions is already driving safe haven demand for the US dollar higher, adding to all of the problems that would be associated with renewed dollar strength.

As for the broader theme of the soft landing, the latest PMI data perhaps provide some word of caution. If pandemic lockdown months are excluded, the headline global PMI's output index is already down to one of its lowest levels since the eurozone debt crisis of 2012, and backlogs of work are drying up at a rate not seen since the global financial crisis (See [Global PMI signals near-term downturn risks amid falling backlogs of work](), October 5, 2023).

Global economic growth and the PMI



Data compiled October 2023 including PMI data to September 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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With such weak forward-looking indicators amid intensifying global uncertainty caused by events in the Middle East, it could be argued that growth risks remain firmly tilted to the downside while inflation risks have nudged higher.

We will know more about how these risks and the current economic environment are developing with the release of flash PMI data for the US, eurozone, UK, Japan and Australia on 24th October. To find out more, contact economics@spglobal.com.

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Special Focus

India’s Manufacturing Output Surges While Inflation Pressures Ease

After rapid economic growth of 7.2% in the 2022-23 fiscal year, economic momentum has remained strong, with industrial production rising by 10.3% year-over-year (y/y) in August 2023 and GDP growth of 7.8% y/y in the April-June quarter of 2023. The S&P Global India Services PMI Business Activity Index for September signalled continued rapid expansion for output and new orders, while the September Manufacturing PMI survey also showed strong manufacturing operating conditions. Meanwhile CPI inflation pressures eased in September, with the headline CPI inflation rate moderating to 5.0% y/y in September, compared with 6.8% y/y in August.

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 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.

India’s industrial production grew by 10.3% y/y in August 2023, according to data released by the Government of India’s National Statistical Office, compared with a year-over-year rise of 6.0% in July. For the first five months of the 2023-24 fiscal year, industrial production rose by 6.1% y/y.

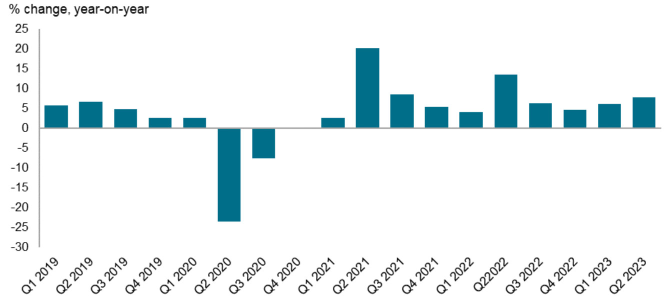
Manufacturing output rose by 9.3% y/y in August, with an increase of 1.2% month-over-month (m/m). For the first five months of the 2023-24 fiscal year, manufacturing output rose by 5.8% y/y. Crude steel production rose by 12.8% y/y in August, while consumption of finished steel rose by 16.9% y/y.

Electricity output showed very rapid growth of 15.3% y/y in August, with an 8.1% increase m/m. This reflected strong growth in electricity demand from households due to hot summer weather conditions.

Output of capital goods showed rapid growth of 12.6% y/y in August while output of infrastructure and construction goods rose by 14.9% y/y. For the first five months of the 2023-24 fiscal year, output of infrastructure and construction goods rose by 13.3% y/y, signalling strengthening investment expenditure due to sustained rapid growth in the Indian economy.

Output of consumer non-durables also showed rapid expansion at a pace of 9.0% y/y in August, while output of primary goods rose by 12.4% y/y in August.

India GDP growth, 2019-2023
% change, year-on-year



Source: S&P Global Market Intelligence.
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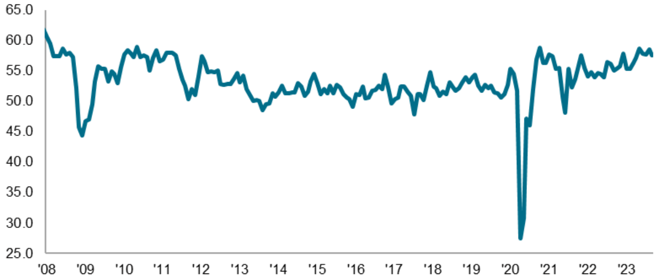
The seasonally adjusted S&P Global India Manufacturing Purchasing Managers’ Index (PMI) registered 57.5 in September, moderating slightly from 58.6 in August, but still signalling a strong rate of expansion in the manufacturing sector. New orders, the largest sub-component of the PMI, continued to rise, albeit at a softer pace in September.

Survey evidence indicated that Indian manufacturers were confident output volumes would increase over the course of the coming 12 months, with the overall level of positive sentiment improving to its highest in 2023 to date. Buoyant customer appetite, advertising, and expanded capacities all boosted optimism, according to anecdotal evidence. The positive outlook for production and demand strength fed through to another round of job creation in the manufacturing industry. Employment growth picked up since August and was strong by historical standards.

India Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global PMI.
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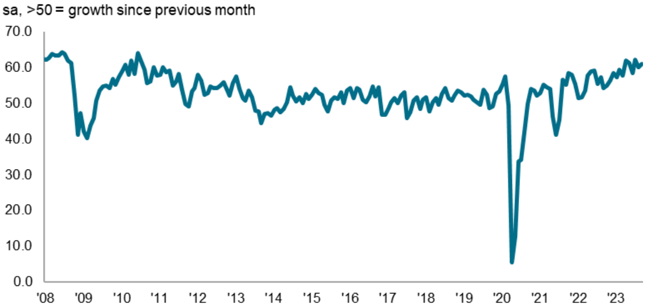
The seasonally adjusted S&P Global India Services PMI Business Activity Index rose from 60.1 in August to 61.0 in September, signalling a sharp upturn in output that was one of the strongest in over 13 years.

The latest data showed a substantial increase in new business placed with Indian service providers, one that was the second-fastest since June 2010. Anecdotal evidence indicated that market dynamics remained favourable, supporting demand. Advertising was also cited as a key factor boosting sales. Besides the rise in total sales, firms noted an upturn in export orders.

India Services Business Activity Index
sa, >50 = growth since previous month



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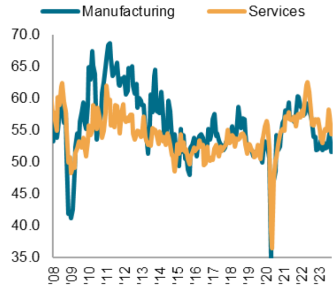
However, India's exports of goods and services for the April-July 2023 period contracted by 6.0% y/y, due to a significant decline in merchandise exports of 14.5% y/y in the April-July quarter. The decline of merchandise exports was mitigated by strong growth in services exports, which rose by 7.8% y/y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

CPI inflation pressures have moderated

September PMI survey data showed a let-up in the recent surge in costs faced by Indian goods producers. After quickening to a one-year high in August, the rate of inflation receded to its lowest mark in over three years. Panellists indicated paying more for copper, electronic components, foodstuff, iron and steel, but noted lower costs for aluminium and oil. Nevertheless, reportedly driven by higher labour costs and demand strength, average prices charged by Indian manufacturers rose at a solid and faster rate that outpaced its long-run average.

India PMI input costs
sa, >50 = growth since previous month



Source: S&P Global PMI.
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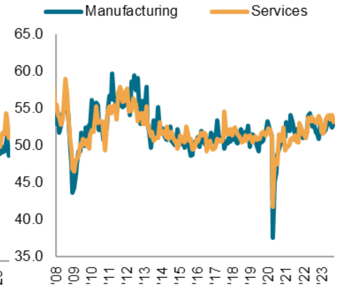
India PMI output prices
sa, >50 = growth since previous month



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The latest statistics on India's consumer price index (CPI) showed that the headline CPI inflation rate fell sharply to 5.0% year over year in September, compared with 6.8% year over year in August.

The September CPI data has brought India's CPI inflation rate back within the Reserve Bank of India (RBI's) inflation target for CPI inflation of 4% within a band of +/- 2%.

A key factor contributing to the moderation in the headline CPI inflation rate was a substantial easing in the food and beverages CPI subindex. The food and beverages CPI subindex rose by 6.3% y/y in September, compared with an increase of 9.2% y/y in August and 10.6% y/y in July.

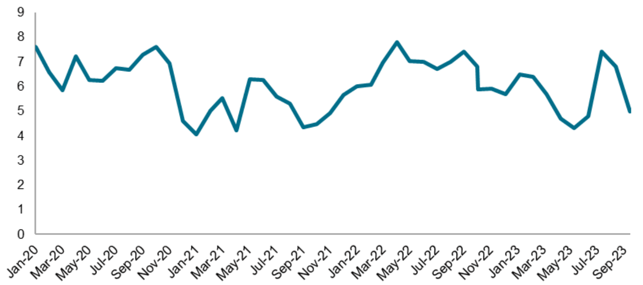
An important factor that contributed to the significant slowdown in the food and beverages CPI subindex was a sharp easing of the inflation rate for the vegetables CPI subindex, which rose by 3.4% y/y in September after surging by 26.1% y/y in August and 37.3% y/y in July. A very substantial moderation in prices for tomatoes, which had soared in mid-2023 owing to weather-related disruptions to production, was an important factor contributing to the moderation in vegetable prices. However, prices for pulses continued to show a strong increase, rising by 16.4% y/y in September compared with 13.0% y/y in August. A key concern for the Indian government has also been rapid rises in rice prices, with the overall cereals subindex up by 11.0% y/y in September, similar to the increase of 11.9% y/y for August.

High energy prices were 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 during late 2022 and the first half of 2023, as well as the impact of base-year effects owing to the spike in world oil prices in the second quarter of 2022. The fuel and light subindex contracted by 0.1% y/y in September 2023, after having risen by 4.3% y/y in August. This was helped by increased government subsidies for LPG cylinders for qualifying households, which helped to constrain fuel costs for households.

The RBI in its October Monetary Policy Statement maintained its projected CPI inflation rate for the current fiscal year (2023–24) at 5.4%, the same rate as the y/y projection made in the August Monetary Policy Statement. This represents a significant moderation from the 6.5% rise in CPI inflation in fiscal year 2022–23. The near-term trajectory of CPI inflation was projected in the RBI October Monetary Policy Statement at 6.4% y/y for the July–September quarter, 5.6% 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.

The RBI's October Monetary Policy Statement had correctly anticipated that the headline CPI inflation rate would likely moderate significantly in the September inflation data. However, the RBI also noted some 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 renewed upturn in world oil prices since July has also added some additional upside risk factors to the inflation outlook.

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



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Helped by strong economic growth conditions, residential property prices rose by an estimated 7% in 2022 and were estimated to have risen by around 5% y/y in the June quarter of 2023, according to the All-India Home Price Index of the Reserve Bank of India. Despite moderate monetary policy tightening by the Reserve Bank of India in 2022 and early 2023, residential property price rises were boosted by post-pandemic pent-up demand as well as rising construction costs. Residential property markets in New Delhi, Bangalore, and Pune were among the leaders in terms of price gains in 2022, with Delhi housing prices rising by an estimated 15% year over year in the June quarter of 2023, while housing prices rose by an estimated 7.6% y/y in Mumbai in the June quarter of 2023

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 FX 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.

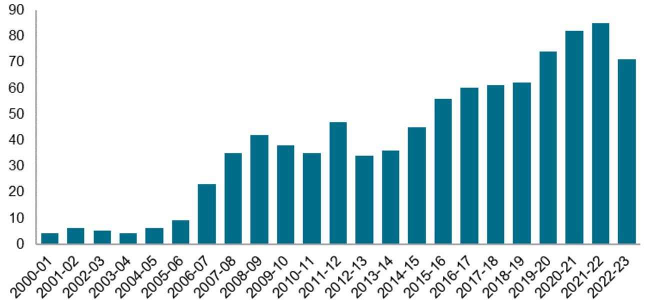
Infrastructure investments have also been an important sector for FDI inflows. A large FDI deal in 2020 was the USD 3.7 billion investment by Singapore's GIC and Canada's Brookfield Asset Management in the acquisition of Tower Infrastructure Trust, which owns Indian telecom towers assets.

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.

Continued…

India: Foreign direct investment inflows
USD billion



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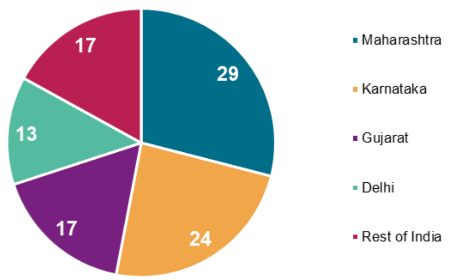
By source of origin of FDI inflows, Singapore, Mauritius and United Arab Emirates were three of the four top sources of FDI inflows into India in FY 2022-23, alongside the USA. This highlights the growing importance of India's bilateral economic and investment relationships with global financial hubs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

In FY 2022-23, the state of Maharashtra accounted for the largest share of total FDI inflows, at 29% of the total. Karnataka accounted for a further 24% of FDI inflows, while Gujarat and Delhi were also major recipients of FDI inflows.

India: FDI by state in 2022-23
% of total



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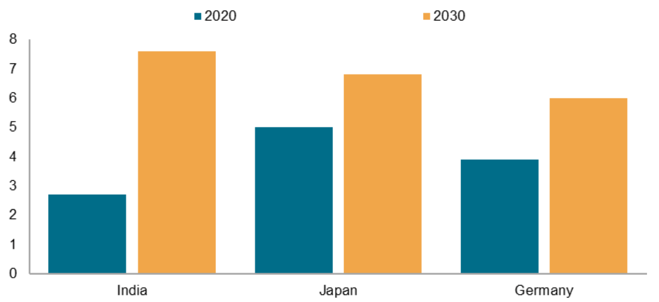
The rapid growth in numbers of Indian unicorns (start-ups that have achieved a valuation of over USD 1 billion) over the past five years has also become a major focus for foreign direct investment inflows into India. By mid-2023, there were an estimated 108 Indian unicorns, with 44 of these having reached 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 2023 calendar year. The near-term economic outlook is for continued rapid expansion during the remainder 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.

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