PMI®

by S&P Global

Week Ahead Economic Preview

Fed minutes and flash PMI releases

17 November 2023

A busy data week includes November flash PMIs, GDP readings from Germany and Thailand, and inflation figures for Canada, Japan and Singapore. Nestled among which are meeting minutes from the US Fed and RBA, shedding light on their latest decisions. Additionally, more central bank meetings unfold in Turkey and Indonesia.

Flash PMI releases across major developed economies will offer the earliest clues on growth and inflation trajectories. Inflation in both the US and in Europe has fallen faster in recent months than many had expected, though the data have merely fallen in line with the signals from the PMI price indices. Hence the survey price gauges will be carefully monitored to assess the speed with which inflation targets may come into view.

Whether recessions are the cost of inflation being beaten will meanwhile be gauged by the PMI output and order book data. The October surveys showed growth stalling globally, albeit with the US showing somewhat greater resilience than the Eurozone and UK. The sustained impact of past interest rate hikes on demand conditions will therefore be scrutinised, and could potentially lead to a re-pricing of rate expectations in 2024. Employment data from the PMIs will also be eagerly awaited, following signs of the October surveys that businesses were becoming increasingly concerned over payroll numbers, especially in manufacturing.

The spotlight also falls on the release of the Fed's meeting minutes. While the Fed contemplates the risks of both doing too much and too little, the market perceives a dovish tilt.

Several tier-1 data will also be anticipated in the coming week, including the final Q3 GDP readings from Germany and Thailand. Japan's inflation print will meanwhile be especially closely watched given recent yen fluctuations. Softening growth momentum and falling GDP, alongside signs of cooler inflation, as seen via October's au Jibun Bank Japan PMI, have so far provided some support for the BOJ's accommodative stance.

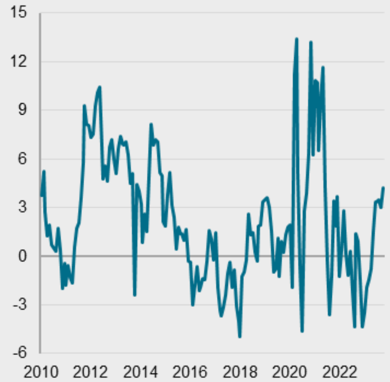
Finally, central bank meetings in Turkey and Indonesia are expected in the coming week where further tightening of monetary policy are not ruled out as policymakers seek to fight surging inflation and shore up the currency respectively.

US-Europe divergence in focus

Flash PMI survey data will be published in the coming week, with markets eager to glean further insights into growth and inflation trends, and the extent to which regional divergences are persisting. In October, the eurozone was the weakest link, with output having fallen for a fifth successive month, dropping at an accelerating rate commensurate with GDP declining at a quarterly rate of around 0.3%. The UK also saw output fall, down for a third consecutive month, albeit declining at a more moderate pace than in the Eurozone, consistent with GDP dropping at a mere 0.1% quarterly rate.

The US, in contrast, saw output not only rise in October but growth also accelerated – albeit remaining modest compared to earlier in the year. The US outperformance relative to Europe is now the sharpest seen outside of the pandemic lockdowns since early 2015, raising the possibility of the US enjoying a soft landing while Europe slips into recession.

Outperformance of US vs. Eurozone as measured by PMI output index



Data compiled November 2023.
PMI covers goods and services (chart shows US minus Eurozone Output Index)
Sources: S&P Global PMI, HCOB.
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Such a US-European divergence was also signalled by the S&P Global Business Outlook Survey, which monitors firms' expectations for the coming year. US firms are clearly more upbeat than their European counterparts. While US firms' expectations of output, capex, R&D spend and employment were all little changed, or in some cases improved, on earlier in the year, all gauges fell in the eurozone.

The flash PMI new orders data are therefore likely to be a primary avenue through which we get visibility on the changing demand environment facing businesses, and will provide an important assessment of whether the US-European divergence is persisting.

Key diary events

Monday 20 Nov
China (Mainland) Loan Prime Rate (Nov)
Thailand GDP (Q3)
Malaysia Trade (Oct)
Germany PPI (Oct)
Taiwan Export Orders (Oct)

Tuesday 21 Nov
South Korea PPI (Oct)
New Zealand Trade (Oct)
Australia RBA Meeting Minutes (Nov)
Switzerland Trade (Oct)
United Kingdom Labour Productivity (Q3, prelim)
Hong Kong SAR Inflation (Oct)
Canada Inflation (Oct)
Canada New Housing Price Index (Oct)
United States Chicago Fed National Activity Index (Oct)
United States Existing Home Sales (Oct)
United States Fed FOMC Minutes

Wednesday 22 Nov
Australia Westpac Leading Index (Oct)
South Africa Inflation (Oct)
Taiwan Unemployment (Oct)
United Kingdom CBI Industrial Trends Orders
United States Durable Goods Orders (Oct)
Eurozone Consumer Confidence (Nov, flash)
United States University of Michigan Sentiment (Nov, final)

Thursday 23 Nov
United States, Japan Market Holiday
Australia Judo Bank Flash PMI, Manufacturing & Services*
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*
Singapore GDP (Q3, final)
Singapore Inflation (Oct)
Norway GDP (Q3)
Indonesia BI Interest Rate Decision
Taiwan Industrial Production (Oct)
Taiwan Retail Sales (Oct)
Turkey TCMB Interest Rate Decision
South Africa SARB Interest Rate Decision

Friday 24 Nov
United States, India (Partial) Market Holiday
Japan au Jibun Bank Flash Manufacturing PMI*
US S&P Global Flash PMI, Manufacturing & Services*
New Zealand Retail Sales (Q3)
Japan Inflation (Oct)
Malaysia Inflation (Oct)
Singapore Industrial Production (Oct)
Germany GDP (Q3, final)
Germany Ifo Business Climate (Nov)
Mexico GDP (Q3, final)
Canada Retail Sales (Sep)

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

What to watch

November flash PMI releases

Flash PMI data for the major developed economies – including the US, UK, Eurozone, Japan and Australia – will be released over 23-24 November amid holidays in the US and Japan.

The penultimate set of flash PMI data for 2023 will be closely watched for the earliest insights into where the global economy is headed after worldwide business activity stalled at the start of Q4. That said, inflationary pressures have eased alongside the slowdown in activity, with central bank inflation targets coming into view. As such, any indications of a further easing of price pressures may help feed the current market view that rates have peaked.

Americas: Fed minutes, US durable goods orders, home sales, Canada inflation

Minutes from the latest November 1 FOMC meeting will be released on Wednesday for insights into the Fed's thoughts after the benchmark overnight interest rate was again maintained at the 5.25%-5.50% range. Post-meeting Fed rhetoric suggested a wait-and-see approach given evolving economic conditions. Amid rising expectations that the Fed will commence cutting rates before June next year, according to the CME FedWatch tool, insights into the qualifying factors will be sought from the minutes.

Meanwhile, Canada's inflation will be due on Tuesday. According to the S&P Global Canada Composite PMI, which comprises the newly launched S&P Global Canada Services PMI, selling prices rose at a steeper rate in October.

EMEA: Germany Q3 GDP, PPI, Ifo Business Climate data, Turkey TCMB meeting

The key release in the coming week is expected to be the flash UK and Eurozone PMI data. Besides which, Germany's final Q3 GDP will be due Friday, after October PPI and the Ifo business climate data releases.

In Turkey, the TCMB convenes next week with another hike not ruled out for the coming meeting.

APAC: RBA minutes, China Loan Prime Rate, BI meeting, Japan, Singapore inflation, Thailand GDP

In APAC, watch for RBA minutes from the November meeting while Bank Indonesia convenes. Key data releases meanwhile include inflation readings from Japan.

Special reports:

Global PMI Data Show Prices Rising at Slowest Rate Since December 2020 | Chris Williamson | **page 4**

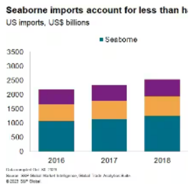
India's Rapid Growth Continues as Inflation Pressures Ease Further | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Emerging markets PMI signal further loss of growth momentum in October	16-Nov	Jingyi Pan
	Monthly PMI Bulletin: November 2023	9-Nov	Jingyi Pan
	Deterioration of trade conditions continues into Q4	8-Nov	Jingyi Pan
	Worldwide business activity stalls in October as global PMI hits 50.0	7-Nov	Chris Williamson
	Global PMI data show prices rising at slowest rate since December 2020	7-Nov	Chris Williamson
	Global factories remain in the doldrums, job losses mount, as demand continues to weaken	3-Nov	Chris Williamson
	Worldwide factory prices rise again in October, but wage pressures cool	2-Nov	Chris Williamson
EMEA	Flash PMI points to UK economic downturn extending into fourth quarter	24-Oct	Chris Williamson
	Rising recession risks as eurozone flash PMI falls in October, price pressures ease further	24-Oct	Chris Williamson
US	US soft landing hopes boosted as flash PMI lifts higher and price pressures abate	25-Oct	Chris Williamson
Asia-Pacific	Singapore's economic growth improves in third quarter of 2023	10-Nov	Rajiv Biswas
	South Korea's exports rebound in October 2023	3-Nov	Rajiv Biswas

S&P Global Market Intelligence highlights

Your guide to leveraging trade data for supply chain resilience



The past decade, and particularly the pandemic-era economic disruptions, show the importance of building supply chain resilience. During 2024, supply chains will continue to face challenges ranging from tariff policy and water stress to geopolitical rivalry, kinetic conflict and labor strikes, as discussed in Time, tariffs and tracking: Fourth quarter 2023 supply chain outlook.

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

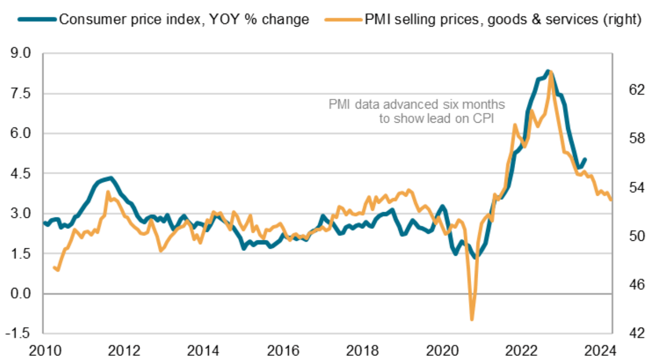
Global PMI Data Show Prices Rising at Slowest Rate Since December 2020

Global inflationary pressures moderated in October to their lowest since late-2020, according to PMI® data compiled by S&P Global across over 40 economies and sponsored by JPMorgan.

Although the overall rate of inflation of selling prices for goods and services remains above its pre-pandemic average, amid some stickiness of services inflation and a modest upturn in goods prices, there is encouraging news on underlying - or core - price pressures cooling further in the coming months. In particular, wage pressures have moderated markedly in recent months and companies' pricing power has been hit by reduced demand. Demand-pull price pressures are reverting to their long-run average.

Central bank inflation targets have now consequently come into view in the US and eurozone. Some price stickiness is more evident in the UK, though even here the rate of inflation looks set to moderate sharply in the coming months.

Global consumer price inflation and PMI selling prices



Data compiled November 2023 including PMI data to October 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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Global prices rise at slowest rate since December 2020

Average prices charged for goods and services rose globally at the slowest rate for nearly three years in October. The global PMI selling price index – compiled by S&P Global and covering prices charged for both goods and services in all major developed and emerging markets – fell from 53.6 in September to 53.0 in October, its lowest since December 2020.

The further decline in the selling price index from its all-time high recorded in April 2022 brings global inflationary pressures closer to the survey's long run average of 52.2 (and closer to the five-year pre-pandemic five-year average of 51.6).

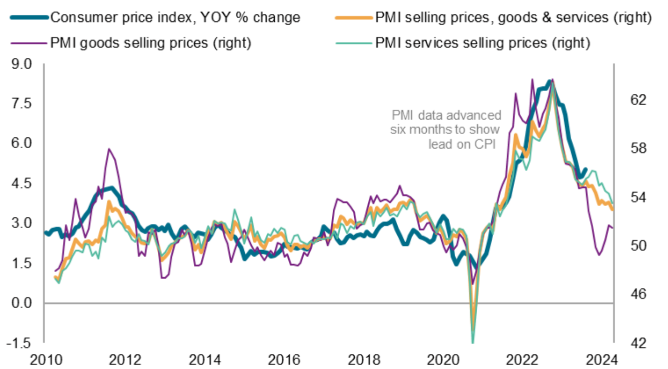
The leading-indicator properties of the PMI mean that global inflation is set to cool further from the 5.0% annual rate estimated from various national sources for July, potentially dropping to around 3.5% early in the new year.

Although a 3.5% rate remains somewhat elevated by historical standards (in the decade prior to the pandemic, global CPI inflation averaged 2.7%), there are good reasons to believe underlying price pressures will continue to moderate even further in the months ahead.

Cooler services inflation

Looking at sector divergences, recent months have seen some firming of goods prices, linked in part to higher oil prices as well as a waning of the deflationary impact of healing supply chains. Encouragingly, service sector prices, which provided a major lift to global inflation earlier in the year as demand for consumer services surged, continued to show a slower rate of increase in October. The overall global rise in services prices at the start of the fourth quarter was the smallest since February 2021.

Global consumer price inflation and PMI selling prices



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Sources: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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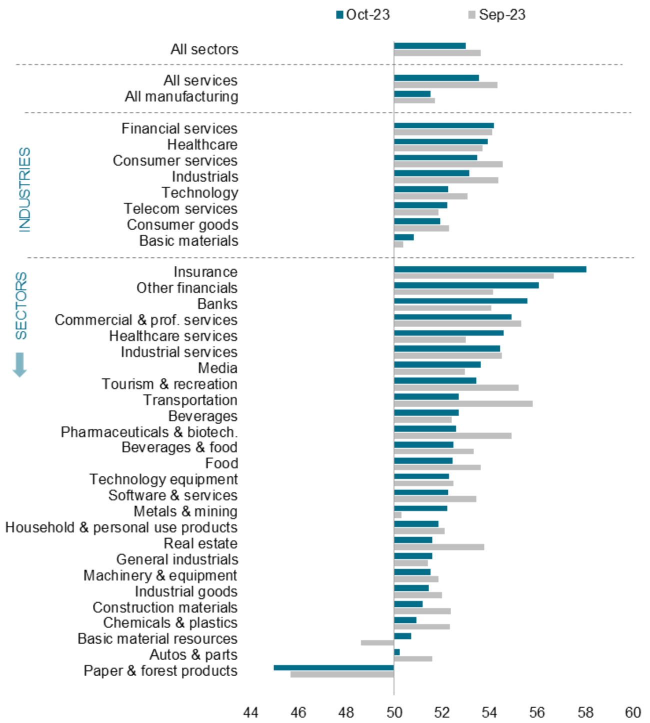
Looking in more detail, prices fell in only one of the 26 sub-sectors covered by the PMI – Forestry & Paper products – but rates of increase only gathered pace in nine sectors, and of these three were from financial services, in part reflecting higher interest rates.

S&P Global PMI, global prices charged index



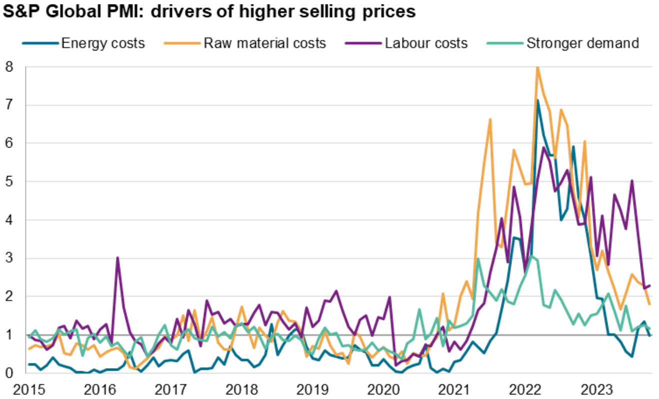
Data compiled November 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI with J. P. Morgan.

Energy cost pressures up only modestly from recent lows

One of the big uncertainties facing the inflation outlook is the impact of changing oil prices, notably in response to the geopolitical risks. However, there seems to be some good news in this respect. Analysing the reasons for changing selling prices cited by PMI survey respondents around the world, the impact of higher energy prices remains in line with its long-run average, albeit with this representing higher pressures than seen before the recent oil price rise.

Upward pressure from broader raw material inputs has meanwhile fallen to its second-lowest since January 2021.

S&P Global PMI: drivers of higher selling prices

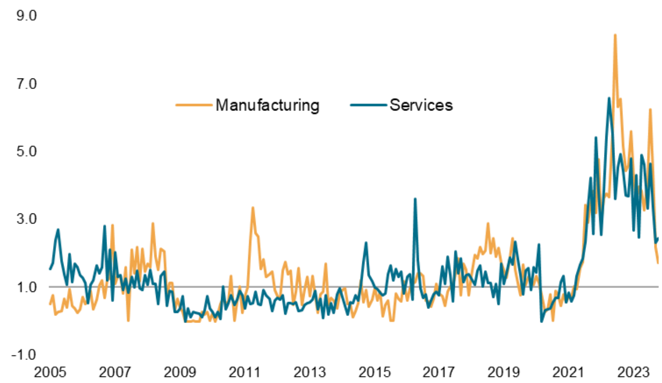


Data compiled November 2023 including PMI data to October 2023.
Axis scale 1 = long term average. Covers goods and services.
Source: S&P Global PMI.

Lower wage pressures

A further key development in the inflation dynamic has been a marked reduction in upward pressure from wages. The inflationary impact of wages on average prices charged for goods and services has fallen to its second-lowest since June 2021. While the easing inflationary impact of wage pressures was most marked in the manufacturing sector in October, pressures have also clearly cooled substantially in services compared to that seen over the past two years.

S&P Global PMI: wages as a driver of higher selling prices



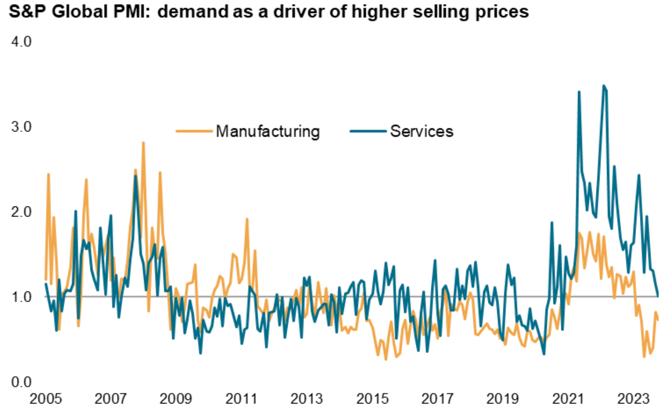
Data compiled November 2023 including PMI data to October 2023. Axis scale 1 = long term average.
Source: S&P Global PMI.

Demand-pull price effect evaporates

However, perhaps the most interesting development is the degree to which demand-pull inflationary forces have moderated. Lower demand has removed pricing power from manufacturers over the past nine months – as proxied by price pressures dropping below their long-run average. Additionally, upward demand pressures on prices in the service sector have now also fallen to a level in line with their long-run average amid the weakened demand environment.

The overall demand-pull effect on prices consequently evaporated at the start of the fourth quarter, boding well for a further easing of core inflationary pressures around the world.

S&P Global PMI: demand as a driver of higher selling prices



Data compiled November 2023 including PMI data to October 2023. Axis scale 1 = long term average.
Source: S&P Global PMI.

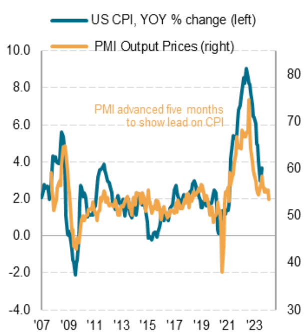
FOMC and ECB inflation targets in sight

Looking at price trend variations around the world, the steepest decline in inflationary pressures has been seen in the eurozone, where the PMI's selling price index covering goods and services has fallen to its lowest since February 2021 and is now only 1.6 index points above its pre-pandemic long run average. At this level, the PMI index is signaling CPI inflation to fall further from 2.9% in October to closer to the ECB's target of 2% at the turn of the year.

The Fed's 2% target has also come into sight after the PMI's selling price index across the US fell to its lowest since October 2020 to a level just 1.2 points above its pre-pandemic decade average.

Inflation looks stickier in the UK, however, as the PMI's selling price index rose 0.2 points in October, and remains 4.1 points above its pre-pandemic 10-year average. The latest readings are nevertheless consistent with UK annual CPI inflation moderating from its current 6.7% rate to a range closer to 4% as we move into 2024.

US inflation



Data compiled November 2023.
PMI (Purchasing Managers' Index) value of 50 = no change on prior month, covers manufacturnig and services.
Sources: S&P Global PMI, BEA.
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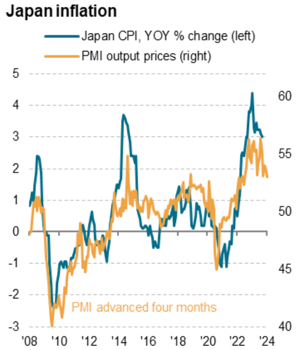
Japan inflation



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PMI (Purchasing Managers' Index) value of 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI, au Jibun Bank, CEIC.
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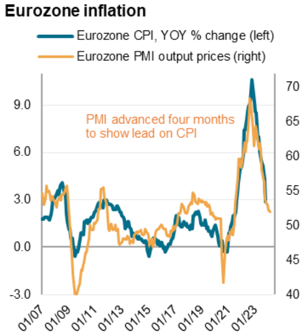
Eurozone inflation



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PMI (Purchasing Managers' Index) value of 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI with HCOB, Eurostat via S&P Global Market Intelligence.
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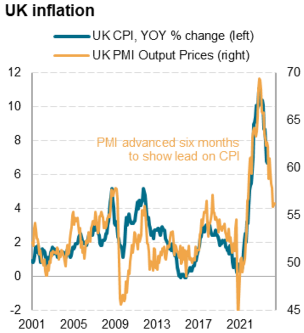
UK inflation



Data compiled November 2023.
PMI based on 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI with CIPS, ONS via S&P Global Market Intelligence.
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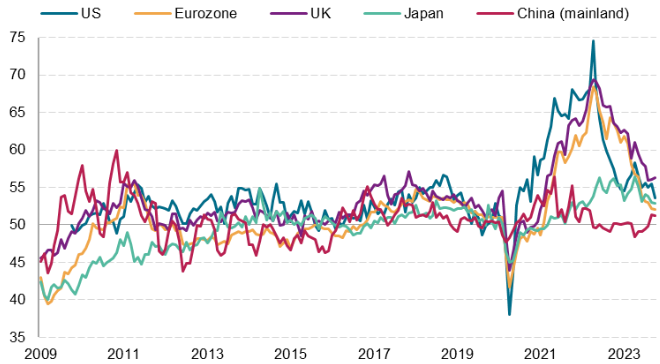
In Asia, the PMI hints at inflation dipping below 2% in Japan in the coming months, while in mainland China the recent ground gained by the PMI selling price index has helped allay fears of deflation.

PMI prices charged for goods & services



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PMI (Purchasing Managers' Index) 50 = no change on prior month.
Sources: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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Access the Global PMI press release here.

Special Focus

India’s Rapid Growth Continues as Inflation Pressures Ease Further

After rapid economic growth of 7.2% in the 2022-23 fiscal year, economic momentum has remained strong, with industrial production rising by 6.0% year-over-year (y/y) in the first six months of fiscal 2022-2023 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 October continued to signal expansionary conditions for output and new orders, while the October Manufacturing PMI survey also reflected expansionary operating conditions for the manufacturing sector. Meanwhile CPI inflation pressures eased further, with the headline CPI inflation rate moderating to 4.9% y/y in October from 5.0% in September.

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. 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’s rapid economic growth 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% year-over-year 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% year-over-year growth in the January–March quarter of 2023 and buoyant growth of 20.4% y/y r 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 5.8% year-over-year in September 2023, according to data released by the Government of India’s National Statistical Office, compared with a year-over-year rise of 10.3% in August. For the first six months of the 2023-24 fiscal year, industrial production rose by 6.0% y/y.

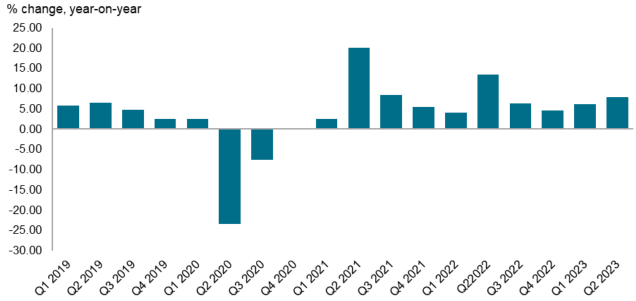
Manufacturing output rose by 4.5% y/y in September. For the first six months of the 2023-24 fiscal year, manufacturing output rose by 5.8% y/y. Crude steel production rose by 12.8% y/y in August, while consumption of finished steel rose by 16.9% y/y.

Electricity output showed very rapid growth of 9.9% y/y in September. This reflected strong growth in electricity demand from households due to hot summer weather conditions.

Output of capital goods showed rapid growth of 7.4% y/y in September, albeit easing from 12.6% y/y in August. Output of infrastructure and construction goods rose by 7.5% y/y in September. For the first six months of the 2023-24 fiscal year, output of infrastructure and construction goods rose by 12.1% y/y, signalling strengthening investment expenditure due to sustained rapid growth in the Indian economy.

Output of consumer non-durables moderated to a pace of 2.7% y/y in September, while output of primary goods rose by 8.0% y/y in September.

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



Source: S&P Global Market Intelligence.
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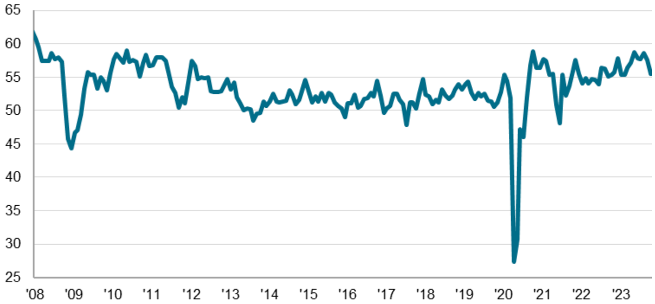
Posting 55.5 in October, the seasonally adjusted S&P Global India Manufacturing Purchasing Managers’ Index (PMI) signalled an improvement in the health of the sector for the twenty-eighth month in a row. The latest reading was above its long-run average of 53.9 but slipped from 57.5 in September.

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



Source: S&P Global PMI.
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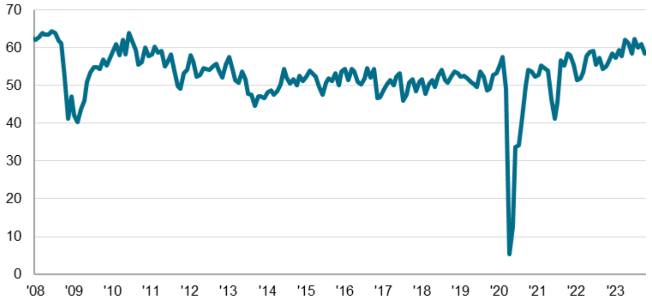
At 58.4 in October, the seasonally adjusted S&P Global India Services PMI Business Activity Index continued to signal strong expansion in service sector business conditions, albeit easing from 61.0 in September.

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



Source: S&P Global PMI.
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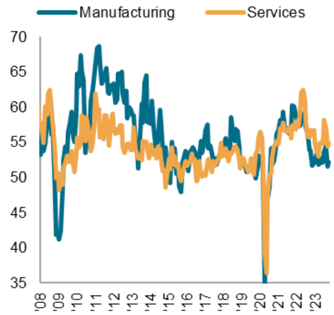
India's exports of goods and services in October 2023 rose by 9.4% y/y. However, India's exports of goods and services for the April-October 2023 period showed a modest contraction of 1.6% y/y, due to a decline in merchandise exports of 7.0% y/y in the April-October period. The decline of merchandise exports was mitigated by strong growth in services exports, which rose by 6.2% y/y over the same period.

CPI inflation pressures have moderated

Input price inflation across India's private sector picked-up pace in October but remained below its long-run average. The service economy registered a stronger rate of increase in cost burdens than the manufacturing sector. October PMI survey data showed increases for both manufacturing input costs and output charges. Input price inflation accelerated while output prices rose to a weaker extent. When listing materials that had increased in price, firms mentioned aluminium, chemicals, leather, paper, rubber and steel.

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

Source: S&P Global PMI.
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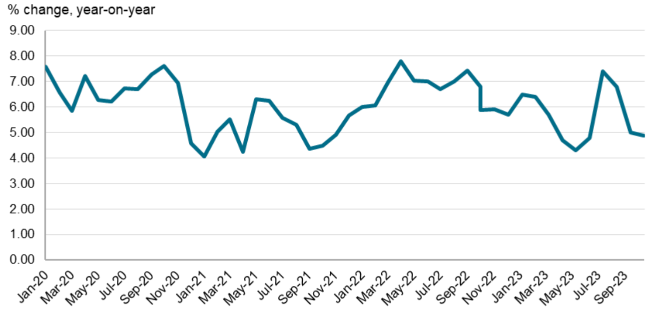
The latest statistics on India's consumer price index (CPI) showed that the headline CPI inflation rate fell sharply to 4.9% y/y in October compared to 5.0% y/y in September and 6.8% y/y in August.

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

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



Source: MOSPI.
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Factors contributing to the moderation in the headline CPI inflation rate were a further contraction in the fuel and light subindex and further easing of the food and beverages CPI subindex.

High energy prices were an important factor contributing to India's CPI inflation pressures in 2022 but have eased during 2023. This has been 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. In October, the fuel and light subindex contracted by 0.4% y/y, after having declined by 0.1% y/y in September 2023. This compared with a rise of 4.3% y/y in August. The recent decline in the fuel and light subindex was helped by increased government subsidies for LPG cylinders for qualifying households, which helped to constrain fuel costs for households.

The food and beverages CPI subindex rose by 6.2% y/y in October, compared with 6.3% y/y in September, significantly lower compared with the increase of 9.2% y/y in August and 10.6% y/y in July.

An important factor that has contributed to the significant slowdown in the food and beverages CPI subindex in recent months has been a sharp easing of the inflation rate for the vegetables CPI subindex, which rose by 2.7% y/y in October, following a rise of 3.4% y/y in September after having surged by 26.1% y/y in August and 37.3% y/y in July. However, prices for pulses continued to show a strong increase, rising by 18.8% y/y in October after rising by 16.4% y/y in September. A key concern for the Indian government has also been rapid rises in rice prices, with the overall cereals subindex up by 10.7% y/y, similar to the increase of 11.0% y/y in September.

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 year-over-year 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% year over year for the July–September quarter, 5.6% y/y for the October to December quarter of fiscal 2023–24, moderating to 5.2% year over year in the January–March quarter of 2024.

The Reserve Bank of India (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.

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. The renewed upturn in world oil prices since July and risks of escalating conflict in the Middle East has also added some additional upside risk factors to the inflation outlook.

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.

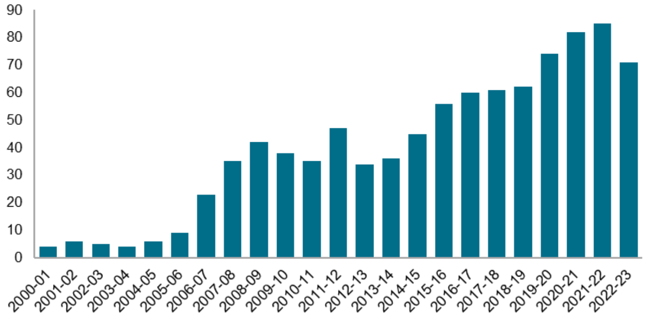
US technology firms have been a key source of recent FDI inflows into India. In 2020, Google established the "Google for India Digitization Fund", through which it announced plans to invest USD 10 billion into India over seven years through a mix of equity investments, partnerships, and operational,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

India: Foreign direct investment inflows
USD billion



Source: RBI.
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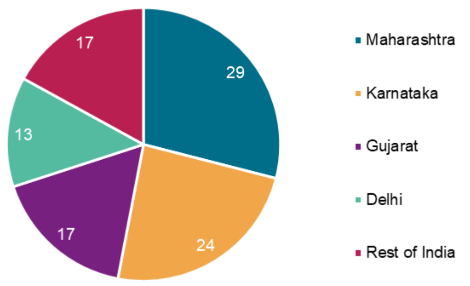
By source of origin of FDI inflows, Singapore, Mauritius and United Arab Emirates were three of the four top sources of FDI inflows into India in FY 2022-23, alongside the USA. This highlights the growing importance of India's bilateral economic and investment relationships with global financial hubs 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 source



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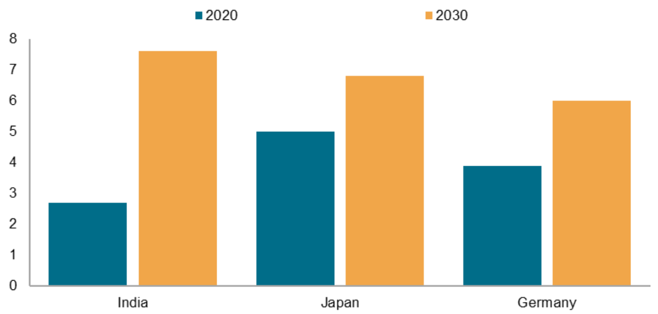
The rapid growth in numbers of Indian unicorns (start-ups that have achieved a valuation of over USD 1 billion) over the past five years has also become a major focus for foreign direct investment inflows into India. By mid-2023, there were an estimated 108 Indian unicorns, with 44 of these having reached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