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INDIAN ECONOMY: MONTH IN REVIEW JANUARY 2022

**Growth momentum briefly interrupted in
Jan 2022; early Feb data portends healthy
rebound with rapid ebbing of third wave**

February 2022

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HIGHLIGHTS



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Economic activity lost momentum in Jan 2022 following the emergence of third Covid wave and associated restrictions across many states

The adverse impact was concentrated in indicators of contact-intensive services, mobility and payments, whereas the industrial sector appeared relatively unscathed

As the third wave ebbs rapidly and restrictions are lifted, the early data for Feb 2022 portends a quick rebound

The emergence of the third wave of the Covid-19 pandemic in India and resultant state-wise restrictions temporarily interrupted the momentum of economic activity in January 2022, as evidenced by the deteriorating year-on-year (YoY) performance of a majority of the high frequency indicators, relative to December 2021. While the performance in January 2022 on a month-on-month (MoM) basis was mixed, the adverse impact was largely concentrated in contact-intensive services, mobility and payments. Encouragingly, the industrial sector indicators appeared relatively insulated from the third wave, with a sequential rise in coal and auto output, and electricity and a very mild dip in GST e-way bill generation. Moreover, the early data for February 2022 suggests a quick rebound in the non-agri non-government component of economic activity, given the pick-up in generation of GST e-way bills, electricity demand, fuel sales, etc. following the easing of restrictions.

The YoY performance of 10 of the 16 high-frequency indicators deteriorated in January 2022 compared to December 2021 (refer Exhibit 1). These include motorcycle production, domestic airlines' passenger traffic, fuel consumption, generation of GST e-way bills, non-oil merchandise exports, electricity generation, ports cargo traffic as well as aggregate deposits and non-food credit of scheduled commercial banks. In contrast, the performance of Coal India Limited (CIL), passenger vehicles (PVs) and scooters production, finished steel consumption, vehicle registrations and rail freight recorded an improvement in January 2022, relative to the previous month, in spite of the third wave and the associated restrictions.

In MoM terms, half of the 14 non-financial indicators posted a decline in January 2022, dominated by contact-intensive sectors, and indicators of mobility and payments (refer Exhibit 2). There was an expected steep fall in domestic airlines' passenger traffic, an immediate fallout of the surge in infections and travel curbs. The decline was moderate for fuel consumption and vehicle registrations, and modest for non-oil exports and GST e-way bills. Among the financial indicators, FASTag toll collections and retail payments eased in January 2022, while the monthly mobility for retail and recreation slipped below the baseline level following the impact of state-wise restrictions triggered by the third wave (refer Exhibit 5, 6 and 7). However, indicators such as the output of CIL and automobiles, as well as electricity generation registered MoM growth in January 2022, which suggest that the third wave was not hugely disruptive for the industrial sector. **We expect the growth of the Index of Industrial Production (IIP) to rise to 1-2% in YoY terms in January 2022 from 0.4% in December 2021, as the base effect eases.**

A larger number of sectors slipped below the pre-Covid volumes of January 2020 - the number of indicators exceeding their pre-Covid volumes slipped to eight in January 2022 (refer Exhibit 3), from 10 in December 2021 (refer Exhibit 4). The output of PVs and motorcycles reverted to below pre-Covid levels in January 2022 from above pre-Covid in December 2021.

Following the rapid abatement of the third wave, early data for February 2022 is positive. The daily average generation of the GST e-way bills rose to 2.36 million during February 1-13, 2022 from 2.22 million seen in January 2022, within striking distance of the record-high generation of 2.37 million seen in October 2021. Moreover, the YoY growth in electricity demand rose to 3.0% during February 1-15, 2022 from 1.1% in January 2022. In addition, with an improvement in mobility after the removal of restrictions, the sales of petrol and diesel of state refiners have risen in February 1-15, 2022, relative to January 1-15, 2022, but trailed their pre-Covid volumes of February 1-15, 2020. These trends suggest that non-agri non-government economic activity will stage a quick rebound after the subsiding of the less severe third wave.

- The aggregate auto output (spanning passenger vehicles or PVs, two- and three-wheelers) recorded a YoY contraction for the sixth consecutive month, and the pace of the same worsened somewhat to 15.7% in January 2022 (+7.7% in January 2021) from 14.1% in December 2021 (+9.0% in December 2020). This was driven by the trend in the output of motorcycles (to -17.2% in January 2022 from -9.2% in December 2021, on account of an unfavourable base), even as the PV output¹ posted a YoY growth in January 2022 after four months, of a modest 2.1% (-13.2% in December 2021). Moreover, the YoY decline in scooters narrowed to 23.6% in January 2022 (+12.0% in January 2021) from 27.4% in the prior month (-10.0% in December 2020), despite an adverse base. In MoM terms, auto output rose by an encouraging 13.6% in January 2022; this trend was broad-based, led by scooters (+52.6%) and to a milder extent, PVs (+13.2%) and motorcycles (+3.9%). Nevertheless, relative to the pre-Covid level of January 2020, aggregate auto volumes were a moderate 9.2% lower in January 2022, reflecting the trend for scooters (-14.4%) and motorcycles (-6.8%), while there was a marginal dip in the output of PVs (-0.2%).
- Retail demand for vehicles saw a sequential decline of 7.6% in January 2022, as per the data released by FADA, partly impacted by the restrictions related to the third wave across several states. However, in YoY terms, it recorded a narrower contraction of 10.7% in January 2022 (-8.6% in January 2021) relative to 16.1% in December 2021 (+11.6% in December 2020), predominantly on account of a favourable base. The YoY decline in two-wheeler volumes recorded a base-effect led easing to 13.4% in January 2022 from 19.9% in December 2021, amidst elevated cost of ownership (acquisition price and fuel costs). Moreover, the YoY performance of commercial vehicles (CVs; to +20.5% from +13.7%), PVs (to -10.1% from -10.9%) and tractors (-9.9% from -10.3%; on a low base) improved in January 2022, relative to the previous month. Compared to the pre-Covid volumes of January 2020, overall retail demand was a considerable 18.4% lower in January 2022, driven by all major categories, barring tractors (+1.4%). Subsequently, the daily data provided in the Vahan portal² reveals that vehicle registrations stood at ~0.75 million during February 1-16, 2022, equivalent to 49% and 52%, respectively, of the year-ago and previous month level.
- The YoY growth in the output of CIL rose to a three-month high 6.7% in January 2022 from 3.3% in December 2021. In MoM terms, the output of CIL rose by a healthy 7.1% in January 2022, while the offtake level was steady. Moreover, relative to January 2020, the output in January 2022 was higher by a modest 2.2%.
- As per the provisional data released by the Central Electricity Authority (CEA), the YoY growth in electricity generation (spanning thermal, hydro, nuclear and renewable energy) dipped to an 11-month low 0.6% in January 2022 (+5.5% in January 2021) from the revised 2.9% in December 2021 (+5.1% in December 2020), partly reflecting the unfavourable base effect. In MoM terms, the electricity generation in January 2022 posted a 1.7% rise, with an increase in thermal energy (+3.4%) outweighing the decline in the generation of other sources. Overall, electricity generation in January 2022 was 6.1% higher than the level in January 2020, led by renewable (+16.8%) and thermal energy (+6.2%), even as hydroelectricity generation recorded a significant decline (-11.9%). As per the data released by POSOCO, the YoY growth in electricity demand has risen to 3.0% in February 1-15, 2022 from 1.1% in January 2022, following the lifting of state-wise restrictions.
- In addition, the YoY decline in the domestic consumption of finished steel (non-alloy, alloy and stainless) narrowed to 5.1% in January 2022 (+11.0% in January 2021) from 9.5% in December 2021 (+18.6% in December 2020). This was driven by non-alloy items³, the contraction in which compressed to 3.9% in January 2022 from 9.7% in the prior month. Moreover, finished steel consumption in January 2022 grew by 3.9% in MoM terms, and exceeded the pre-Covid level of January 2020 by 5.3%. With the subsiding of fresh Covid-19 cases, back-ended capex push by the Centre, and easing of rainfall-led disruptions, the execution of infra projects may improve further in the ongoing quarter, boosting steel demand.

¹ The output for PVs provided by SIAM does not include that of Tata Motors Limited.

² Vahan portal provided by the Ministry of Road Transport & Highways does not cover the vehicle registration data for Madhya Pradesh, Andhra Pradesh and Telangana.

³ Non-alloy comprises 93% of the total finished steel consumption in FY2020-21, whereas the rest was contributed by alloy (including stainless steel).

- The pace of YoY expansion in non-oil merchandise exports (in US\$ terms) moderated sharply to 19.4% in January 2022 (+12.1% in January 2021) from 28.3% in December 2021 (+6.0% in December 2020), partly reflecting the unfavourable base as well as a seasonal dip after the Christmas-related shipments. While such exports eased by 5.0% MoM in January 2022, they exceeded the pre-Covid level of January 2020 by a considerable ~34%, partly boosted by the elevated commodity prices.
- Moreover, the YoY contraction in cargo handled at major ports deepened to a three-month low of 2.8% in January 2022 (+4.2% in January 2021) from 0.6% in December 2021 (+4.2% in December 2020). However, relative to the pre-Covid level of January 2020, the cargo traffic grew by 1.3% in January 2022. Nevertheless, this was significantly lower than the surge displayed by merchandise exports (+33.5%) as well as merchandise imports (+26.2%) in that month, reaffirming the role of higher commodity prices in the relatively superior performance of the value of merchandise trade.
- The daily average generation of GST e-way bills eased only mildly to 2.2 million in January 2022 from 2.3 million in December 2021, while remaining higher than 2.0 million in November 2021, indicating that the momentum of industrial activity was not severely disrupted by the third wave compared to the second wave (2.3 million in Mar 2021; 2.0 million in Apr 2021; 1.3 million in May 2021). Similarly, the YoY growth dipped to 9.5% in January 2022 from 11.6% in December 2021 but was higher than 5.9% recorded in November 2021. Subsequently, the daily average generation of GST e-way bills has risen appreciably to 2.36 million during February 1-13, 2022, within striking distance of the record-high of 2.37 million seen in October 2021. This suggests that economic activity will stage a quick rebound after the subsiding of the less severe third wave.
- Encouragingly, the YoY growth in rail freight traffic improved to 7.7% in January 2022 (+8.7% in January 2021) from 7.2% in December 2021 (+8.7% in December 2020). Sequentially, it rose by 1.8% or 2.2 million tonnes in January 2022, with an uptick in cement (+1.5 mn tonnes), iron ore (+1.1 mn tonnes) and foodgrains (+0.3 mn tonnes) outweighing the modest decline in fertilizers (-0.5 mn tonnes) and POL (-0.4 mn tonnes). Moreover, rail freight exceeded the January 2020 level by a sharp 17.1%, benefitting from the tariff and non-tariff measures that had been undertaken in August 2020 to boost the rail operations.
- Reflecting the impact of state-wise restrictions imposed in January 2022, diesel consumption slipped back to a YoY contraction of 6.5% in that month from the subdued 1.7% growth seen in December 2021. Moreover, it lagged the pre-Covid level by 8.3% in January 2022. However, the preliminary data compiled by state refiners reveals that diesel sales have risen by 6.7% during February 1-15, 2022, relative to January 1-15, 2022, following the easing of restrictions by several states. Nevertheless, in YoY terms, consumption in the first half of February 2022 contracted by ~7.0%, and also trailed the corresponding pre-Covid volumes of February 1-15, 2020 by a significant 14.7%.
- Similarly, petrol consumption reverted to a YoY decline of 5.3% in January 2022, after having risen by 4.1% in December 2021, mirroring the dip in mobility amidst state-wise restrictions. Nonetheless, consumption in January 2022 was a mild 0.7% higher than the January 2020 level. Subsequently, with a sequential growth of 7.3%, petrol sales of state refiners in the first half of February 2022 have displayed a marginal YoY rise of 0.1% as per the preliminary data, given the pick-up in mobility, but trailed the pre-Covid volumes by ~2.1%.
- Domestic airlines' passenger traffic plunged by 42-43% MoM to ~6.4 million in January 2022 (as per ICRA's estimates), resulting from the emergence of the third wave and the associated restrictions. Moreover, after showing a YoY growth for the previous 10 months, passenger traffic reported a contraction of ~17% in January 2022 (-39.5% in Jan 2021; +52.9% in Dec 2021; -43.7% in Dec 2020). In addition, traffic in January 2022 was around half of the level witnessed in January 2020 (-49.9%; 12.5 million).
- The YoY growth in outstanding bank deposits and non-food bank credit dipped to 8.3% each as on January 28, 2022 from 10.3% and 9.3%, respectively, as on December 31, 2021.

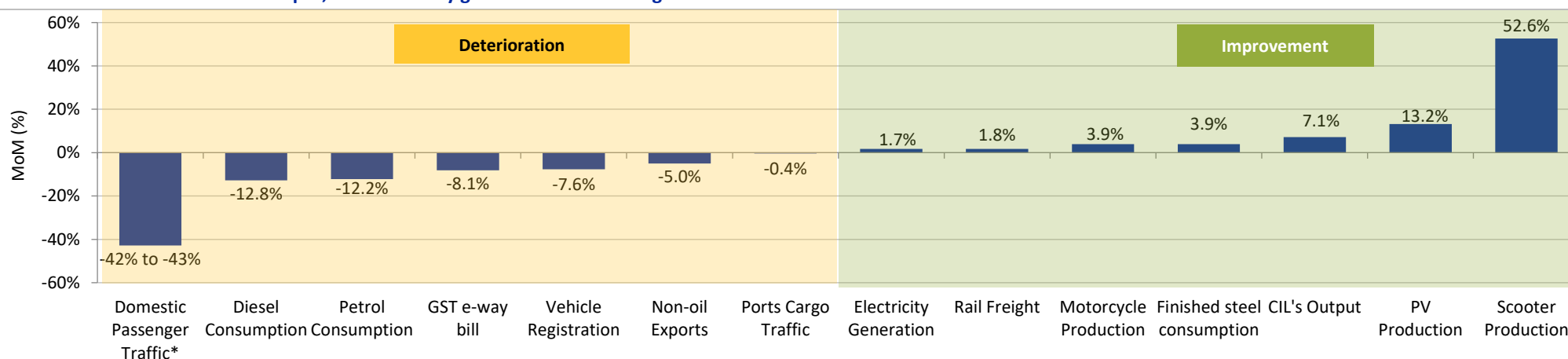
EXHIBIT 1: The YoY performance of 10 of the 16 lead indicators weakened in January 2022 relative to December 2021, such as motorcycle production, domestic airlines' passenger traffic, electricity generation, GST e-way bills, non-oil exports, ports cargo traffic, fuel consumption, bank deposits, non-food bank credit, etc.; however, indicators such as the output of PVs, scooters, CIL, finished steel consumption and rail freight recorded an improvement in January 2022, compared to the prior month

YoY (%)	PV Prod.	Scooter Prod.	Motor cycle Prod.	Vehicle registration	CIL Prod.	Electricity Gen.	Non-oil Exports	Ports Cargo traffic	GST e-way bill	Finished Steel Consumption	Rail Freight	Petrol	Diesel	Domestic Airlines' Passenger	Bank Deposit	Non-Food Bank Credit
Nov-21	-9.5	-37.9	-24.5	-2.8	4.1	2.1	18.2	-0.2	5.9	-7.1	6.1	-0.7	-7.6	65.5	9.8	7.1
Dec-21	-13.2	-27.4	-9.2	-16.1	3.3	2.9	28.3	-0.6	11.6	-9.5	7.2	4.1	1.7	52.9	10.3	9.3
Jan-22	2.1	-23.6	-17.2	-10.7	6.7	0.6	19.4	-2.8	9.5	-5.1	7.7	-5.3	-6.5	-17*	8.3	8.3

*Based on ICRA's estimates; Electricity generation comprises thermal, hydro, nuclear and renewable energy; Consumption of finished steel includes non-alloy and alloy (including stainless steel); **Note:** The output for PVs provided by SIAM does not include that of Tata Motors Limited; **Source:** Society of Automobile Manufacturers (SIAM); CIL; Central Electricity Authority (CEA); Indian Ports Association; Ministry of Commerce, Government of India (GoI); Goods and Services Tax Network (GSTN); Federation of Automobile Dealers Associations of India (FADA); Ministry of Petroleum & Natural Gas; Directorate General of Civil Aviation (DGCA); Petroleum Planning and Analysis Cell (PPAC); Indian Railways; Joint Plant Committee (JPC); Reserve Bank of India (RBI); Ministry of Road Transport and Highways; ICRA Research

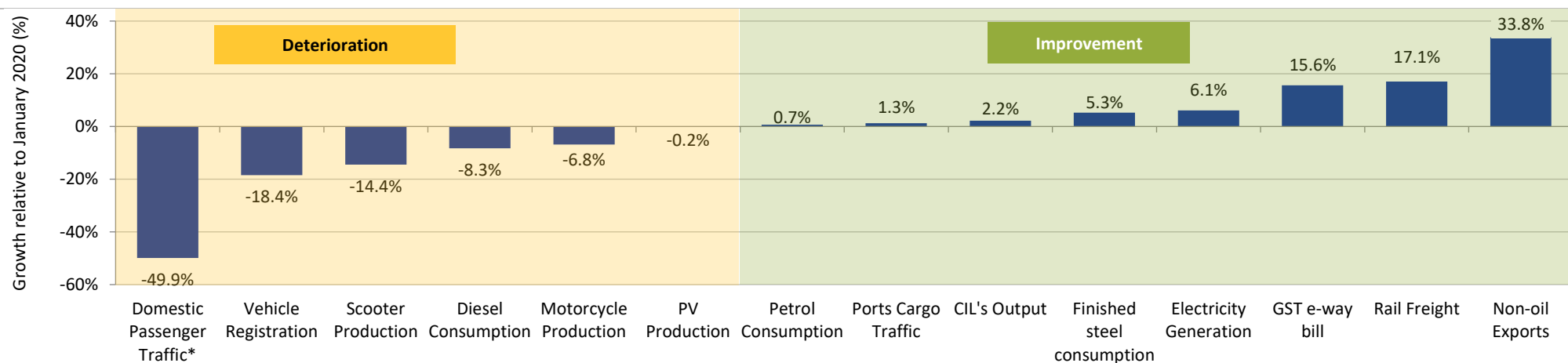
YoY growth; sequential pickup	YoY growth; sequential dip	YoY growth/contraction; no sequential change	YoY contraction; sequential pickup	YoY contraction; sequential dip
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EXHIBIT 2: The MoM trend was mixed in January 2022- half of the 14 non-financial monthly indicators registered a decline, particularly those related to contact-intensive services and mobility, with a steepest fall in airline passenger traffic, followed by fuel consumption, vehicle registrations, exports, GST e-way bills and ports cargo traffic; however, many industrial indicators such as CIL and auto output, and electricity generation saw MoM growth



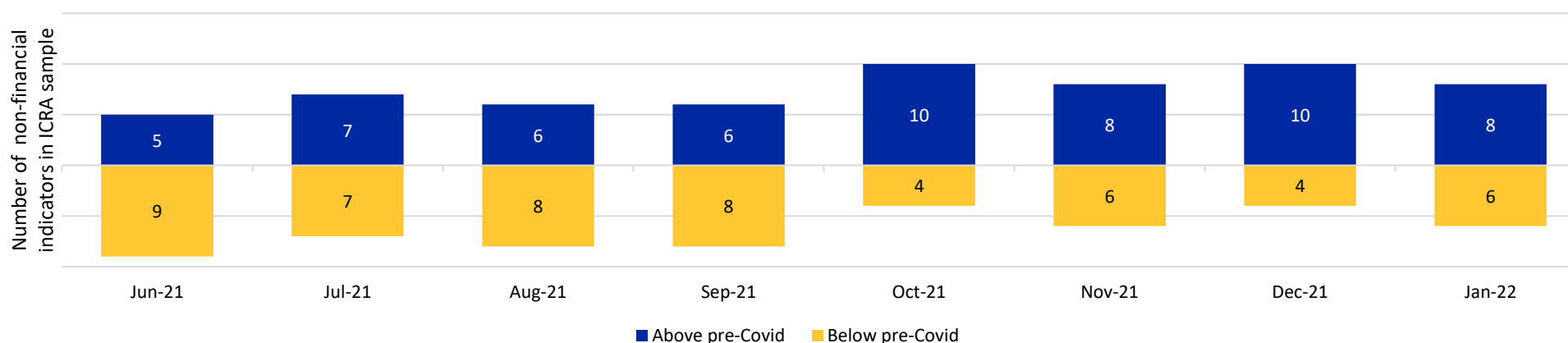
*Based on ICRA's estimates; **Source:** SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research

EXHIBIT 3: Relative to the pre-Covid levels of January 2020, eight of the 14 non-financial indicators recorded improved volumes in January 2022, whereas the remaining six indicators-domestic passenger traffic, auto output, vehicle registrations and diesel consumption lagged their pre-pandemic volumes



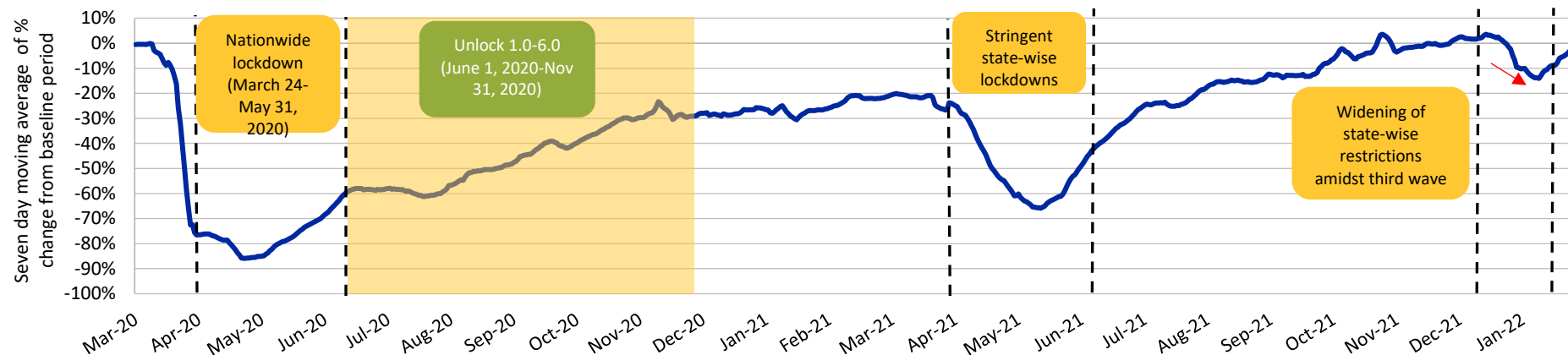
*Based on ICRA's estimates; **Source:** SIAM; CIL; CEA; Ministry of Road Transport and Highways; Ministry of Commerce, GoI; Indian Ports Association; Indian Railways; GSTN; DGCA; PPAC; JPC; RBI; CEIC; ICRA Research

EXHIBIT 4: Out of the 14 non-financial monthly indicators, the number surpassing the corresponding pre-Covid volumes declined to eight in January 2022 from 10 in December 2021; output of PVs and motorcycles reverted to below pre-Covid in January 2022 from above pre-Covid in December 2021



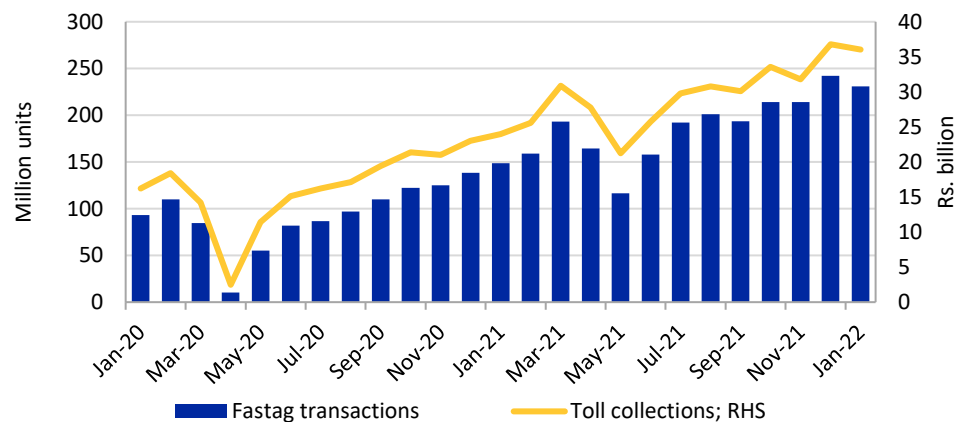
Source: ICRA Research

EXHIBIT 5: The mobility for retail and recreation had slipped back below baseline level at end-Jan 2022 by 5.6% (seven-day moving average), following the restrictions imposed across many states when the third wave peaked in Jan 2022; subsequently, it exceeded the baseline level by a mild 2.9% as on Feb 12, 2022, following the rapid lifting of restrictions



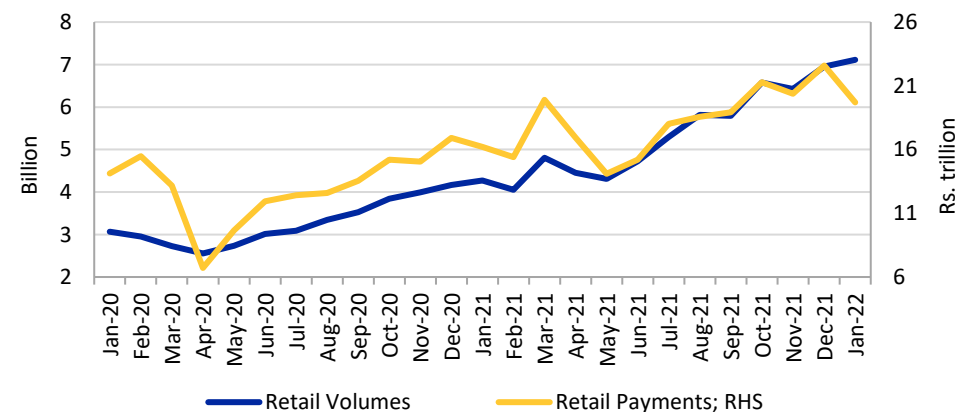
Data is available up to February 12, 2022; The percentage change is compared to a baseline value for the same day of the week, Baseline period: Jan 3, 2020- Feb 6, 2020; **Source:** CEIC; ICRA Research

EXHIBIT 6: After reaching record-highs in Dec 2021, FASTag transactions and electronic toll collections eased by 4.6% and 2.1%, resp., in Jan 2022 amid third-wave restrictions

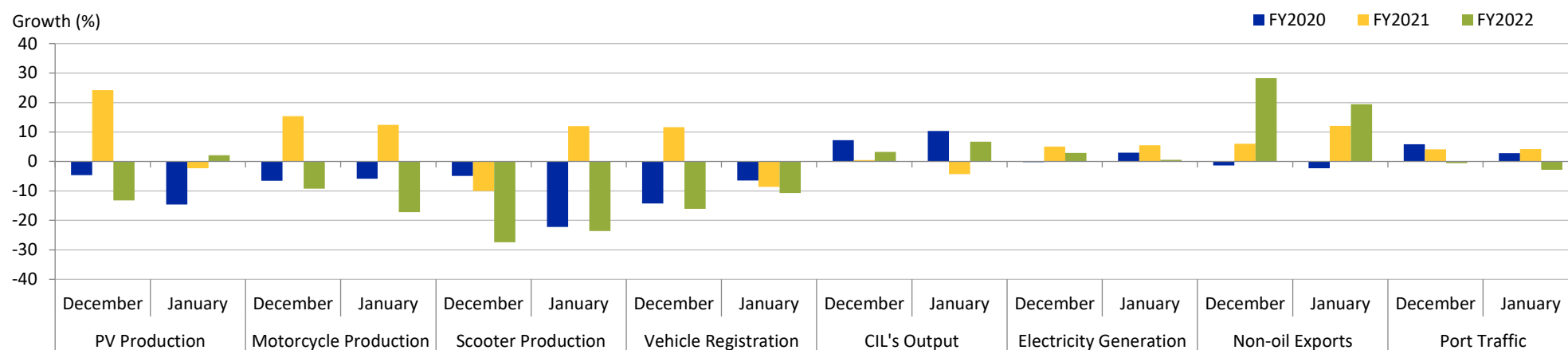


Source: National Payments Corporation of India; ICRA Research

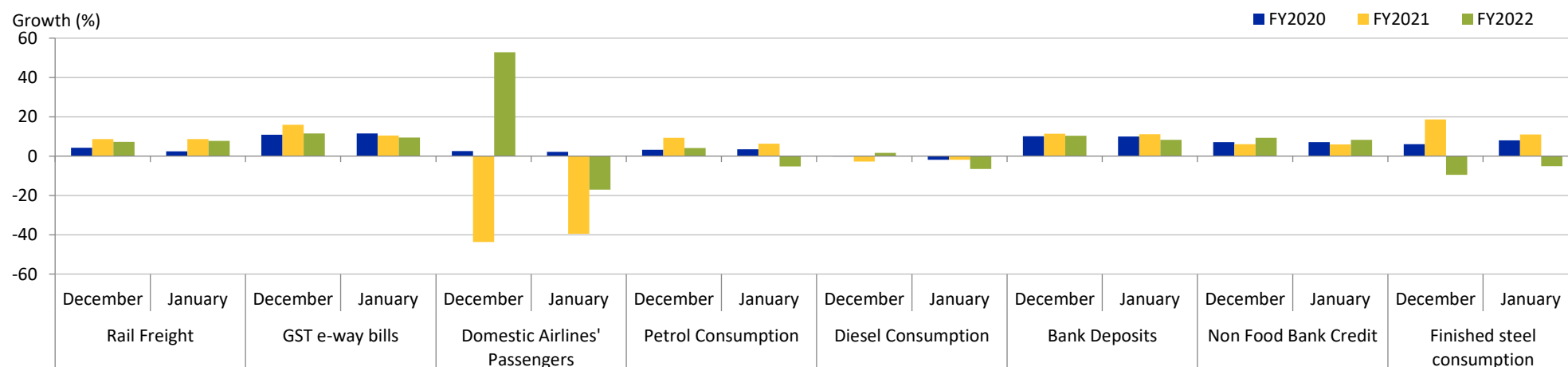
EXHIBIT 7: While retail transactions rose by 2.3% MoM in Jan 2022, payments witnessed a sharp sequential decline of 12.8% in that month



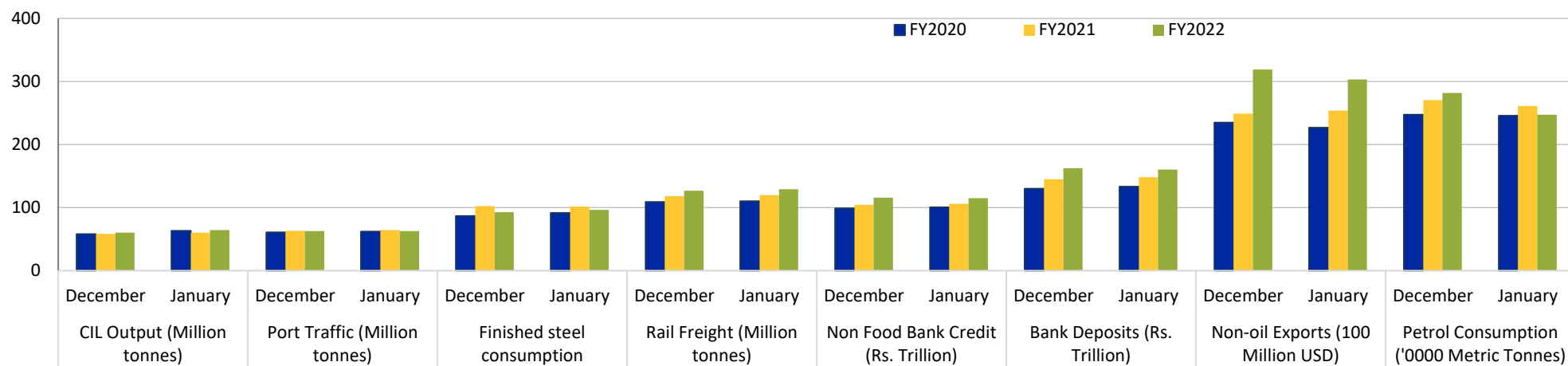
Source: National Payments Corporation of India; ICRA Research

EXHIBIT 8: YoY Growth for Last Three Years in December and January (Part -I)


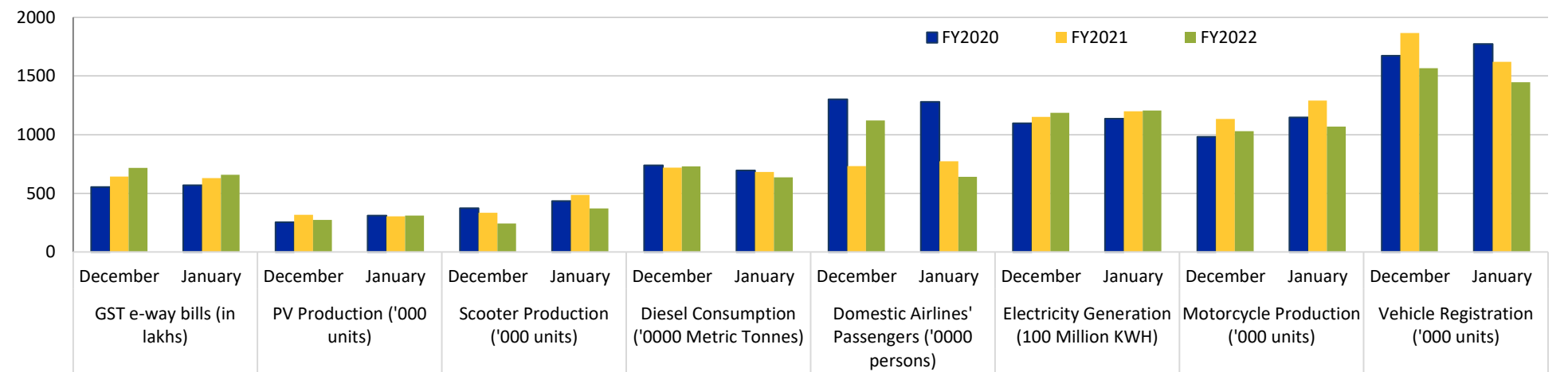
Source: MoRTH; SIAM; CIL; CEA; Indian Ports Association; Ministry of Commerce, GoI; CEIC; ICRA Research

EXHIBIT 9: YoY Growth for Last Three Years in December and January (Part -II)


Source: Indian Railways; GSTN; PPAC; DGCA; PPAC; RBI; JPC; CEIC; ICRA Research

EXHIBIT 10: Trends in Volumes for Last Three Years in December and January (Part -I)


Source: CIL; Ministry of Commerce, GoI; Indian Railways; Indian Ports Association; JPC; RBI; PPAC; CEIC; ICRA Research

EXHIBIT 11: Trends in Volumes for Last Three Years in December and January (Part -II)


Source: SIAM; PPAC; CEA; GSTN; DGCA; Ministry of Road Transport and Highways; CEIC; ICRA Research



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