India GDP Likely to Increase +5.5% in 2019:4Q and +6.9% in 2020:4Q

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India GDP Likely to Increase +5.5% in 2019:4Q and +6.9% in 2020:4Q

India’s economy has slowed sharply and even with some improvement in 2019:2H, real GDP y/y in 2019:4Q appears likely to be only +5.5%. Our regression model projects a reacceleration to +6.9% in 2020:4Q mainly due to lagged effects of monetary ease. But the rise in the trade weighted rupee and slower global growth (represented in the model by US GDP) both restrain India GDP.

Fiscal spending is likely to be boosted to help lift growth.

Consensus forecasts are bound to be reduced sharply for 2019, but as of now they show real GDP up +6.9%. For 2020, the consensus is + 6.8%.

Further implementation of structural reforms is key to sustaining strong growth longer term (see page 9). Despite the fact that PM Modi won reelection in a landslide and increased his majority in Parliament, making critical structural changes has proven politically difficult.

April (IMF) -- Fiscal policy is estimated to provide modest stimulus of +0.3% of GDP in 2019 and the exert restraint of -0.2% in 2020.

June 21 (BB) -- The Modi government plans to spend $1.4 trillion on infrastructure in the next five years.
Current India Indicators Mixed

Short-term indicators had been mostly positive but now have turned mixed: The LEI has hooked down. PMIs for services and mfg have been volatile, although both remain above the neutral 50.0%. Vehicle sales have plunged over the past six mos. IP remains at a high level and is in a rising trend. Overall, these indicators depict an economy that is struggling.

Sep 3 (BB) -- The slowest expansion in six years has put India behind China, Indonesia, and a few others in the region. Waning consumption, at home, troubled banks, and a gloomy global outlook are being blamed, prompting a flurry of measures from the government. At risk are efforts to reduce poverty and the ability to generate jobs for the more than 10 million young people entering the workforce each year.
India Consumer Spending Remains The Key Driver But Has Slowed

Consumer confidence has declined a little but remains high, and employment expectations are positive. However, spending growth has slowed recently from its strong prior trend. Disruptions from the currency replacement and the introduction of the GST appear to have diminished but are not entirely over.

Positive fundamentals suggest the advance in real consumer spending is likely to continue with an increase of about +5.0% y/y in 2019:4Q and +6.0% in 2020:4Q. However, these estimates are about 2% slower than seemed likely six months ago.

☑ Sep 3 (BB) -- The economy has been shedding jobs, banks have curbed loans and farmers’ incomes have been subdued. The jobless rate jumped to a 45-year high of 6.1% in 2018 and anecdotal evidence suggests there is more pain to come as the struggling auto sector continues to cut jobs.
India Capex Has Slowed But Probably Will Reaccelerate

Company earnings have increased again y/y but have fluctuated back and forth over the past 5 years. Industrial expectations are moderately strong. The mfg operating rate remains fairly low but has improved recently. Capex has slowed over the past year but is likely to reaccelerate a little, increasing about +5.0% y/y in 2019:4Q and +7.0% in 2020:4Q.

July 14 (BB) -- Investment growth has turned lower over the past decade, staging only a marginal recovery in the last couple of years. Declines in the value of private projects under implementation and announcements of new ones point to a bleak outlook for private capex.
India Net Exports Likely to Be Negative for GDP in 2019 and 2020

Both exports and imports have increased y/y, but since imports have increased more, net exports have declined. Exports will be lifted by the global expansion, but imports will also increase due to rising consumer and business demand. With a lag, the recent rise in the trade-weighted rupee will reduce competitiveness. Overall net exports will likely be negative for GDP in 2019 and 2020. Trade tensions create uncertainty, but for India there could be a plus from the US-China dispute.

Aug 29 (BB) -- Seeing a big opportunity in Sino-US trade war, India has identified some of the global manufacturers that could be approached for making investments. These global firms could invest in telecom, autos, and phamas.

India’s largest exports include: petroleum products, precious stones, machinery, iron and steel, chemicals, vehicles, apparel. India’s largest trading partners are: US (15.2%), UAE (11.4%), Hong Kong (4.6%).
CPI and WPI Inflation Has Turned Lower, And RBI Is In An Easing Mode.

Inflation as measured by the WPI has slowed again, helped by the decline in oil prices. The headline CPI has also slowed to +3.1% y/y in July, in part reflecting a deceleration in food prices; the target is +4.0%. What happens to food and beverage prices will be key as they are 45% of the weight in the CPI. The core CPI has also slowed and was up +4.9% in July.

At present, the real policy rate is down to 2.30% (ie, repo rate of 5.40% minus +3.1% in the CPI). In light of the slowing trend in the CPI in the past several years, the RBI has turned its attention to weak demand; more easing appears very likely, following the four moves already made this year.

Dec 13 (WSJ) -- A slide in oil and food prices has curbed inflationary pressures recently.

Aug 2019 (RBI) -- Addressing growth concerns by boosting aggregate demand, especially private investment, assumes the highest priority at this juncture while remaining consistent with the inflation mandate.
India Financial Conditions Now Mixed

Bond yields have declined sharply over the past six months, reflecting slower inflation, RBI easing (see page 8), and generally lower rates around the world; India yields are still high by global standards. The SENSEX is up +1.6% ytd after rising +6% in 2018. Earnings have rebounded from their low in 2015 but are down -8% from their high in 2018 and are still −16% below their peak in 2011.

The private banking sector has fairly good financial fundamentals. But the public banks are weak: The govt has just announced the consolidation of govt-owned banks, down to 12 from 27 in 2017. Nonbank lenders have problems.

Please see Rich Ross’s technical perspective on India’s stocks (NIFTY Index) on page 11.

✓ July 4 (WSJ) -- A pair of defaults and failures by nonbank lenders in India has cut down on consumer and business credit, weighing on the country’s economic growth and prompting calls for tighter regulation.

<table>
<thead>
<tr>
<th>Stock Markets</th>
<th>2019 YTD%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI EMs</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Russia</td>
<td>+25.2%</td>
</tr>
<tr>
<td>China</td>
<td>+19.7%</td>
</tr>
<tr>
<td>Brazil</td>
<td>+16.8%</td>
</tr>
<tr>
<td>Singapore</td>
<td>+2.6%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>+1.8%</td>
</tr>
<tr>
<td><strong>India</strong></td>
<td><strong>+1.6%</strong></td>
</tr>
<tr>
<td>US</td>
<td>+18.6%</td>
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<tr>
<td>Eurozone</td>
<td>+16.0%</td>
</tr>
<tr>
<td>UK</td>
<td>+7.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>+5.4%</td>
</tr>
</tbody>
</table>

Investors can obtain exposure to Indian stocks -- long or short -- through iShares INDA ETF.
More Structural Reforms Are Needed, But There Has Been Some Progress.

One structural positive -- also a challenge -- is huge labor force growth; median age of the population is only 28. The current account deficit has widened.

India has major structural problems that are reflected in fair-to-poor international rankings on ease of doing business and related measures -- although there has been some improvement. Infrastructure is poor in power, transport, and water. Sprawling bureaucracy hinders reforms. Farmers are struggling.

The Modi govt has made some progress on deregulation and labor market flexibility. In addition, infrastructure investment is picking up. Despite this progress, more action is needed: For India’s long-term growth, especially its ability to create jobs, it is critically important to press ahead with the structural reform program.

Jan 5, 2018 (WSJ) -- India must create almost a million new jobs a month to keep up with the rapid growth of its working age population.

March 14 (BB) -- India has reduced red tape and supply bottlenecks. The Modi administration has streamlined regulations on bankruptcy and FDI, and is bringing public services online and encouraging digital transactions… The government is infusing capital into public sector banks and, together with RBI, has made some headway in cleaning up banks’ bad loans. India’s ranking on ease of doing business has jumped, reflecting these reforms.

Aug 29 (BB) -- Improving investment sentiment will require continuing focus on improving ease of doing business, reforms in factors of production such as land and labor, and capitalizing on opportunities amidst global trade wars.

Aug 29 (BB) -- RBI noted that a core problem is that 44 percent of India’s total labor force is absorbed in the agriculture sector which generates only about 17 percent of gross value added, with an annual average growth of about 3.1 percent.
India Impacted By Two Big Structural Changes

**Demonetization and GST:** India replaced its currency starting in Nov 2016, and it inaugurated a national goods and services tax (GST, similar to a sales tax) in July 2017. Both actions were undertaken for good reasons, but both temporarily disrupted economic activity.

**Demonetization:** In Nov 2016, PM Modi announced that existing 500 rupee ($7.42) and 1000 ($14.84) rupee bank notes would no longer be legal currency. The central bank collected about 99% of the cancelled notes. The main reasons for this “demonetization” were to reduce the black market, counterfeiting, and tax evasion.

**The GST System:** The national goods and services tax started on July 1, 2017. It replaced a patchwork system of national, state, inter-state, and local taxes that required checkpoints and levies across the country, slowing commerce. The aim is to create one system leads to a more efficient economy and faster transmission of goods and services.

*May 30 (WSJ) -- Two of Modi’s biggest overhauls -- the voiding of close to 90% of the country’s currency to fight corruption and the complicated rollout of a nationwide goods and services tax -- hurt growth. Economists generally agree the crackdown was ill-advised and ineffective, while they view the new tax as a necessary reform that was badly implemented.*

### Industry/Company Perspectives on India
From Evercore ISI Analysts

<table>
<thead>
<tr>
<th>Industry</th>
<th>Analyst</th>
<th>Current Input</th>
</tr>
</thead>
<tbody>
<tr>
<td>ENERGY SERVICES</td>
<td>JAMES WEST</td>
<td>There is a strong growth profile for the increased consumption of LNG in India. Chart Industries’ purchase of VRV and subsequent alignment will position the company well to be the leading supplier of equipment in the country. Other beneficiaries of the LNG trend are Baker Hughes, through its Turbo Machinery business and TechnipFMC with its world class E&amp;C segment.</td>
</tr>
<tr>
<td>FOOD</td>
<td>DAVID PALMER</td>
<td>Mondelez is expanding its rural distribution network in India. India already contributes about $1b in revenue, and Mondelez already has the #1 share in chocolate. In 2019:2Q the business in India grew at a double digit rate driven by improving distribution in both chocolate and cookies.</td>
</tr>
</tbody>
</table>
Rich Ross:
Technical Perspectives on NIFTY

NIFTY - Stabilizing After 12% Correction; Long Term Trend Intact
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