ICICI Bank's i360° Indices

October 2020

ICICI Bank family of indices

Objective

- In an attempt to palliate economic uncertainties and provide a mirror of activity on an (almost) real-time basis we introduce a suite of indicators that help assess conditions both in the financial markets and the real economy

Our family of indices include

- **UFI** – The Business Resumption Index by ICICI Bank – Released weekly every Wednesday
- **iD80 Index** – The Diffusion Index by ICICI Bank – Released monthly every third week of the month
- **i4Markets Index** – The Financial Conditions Index by ICICI Bank – Released monthly every first week of the month

UFI

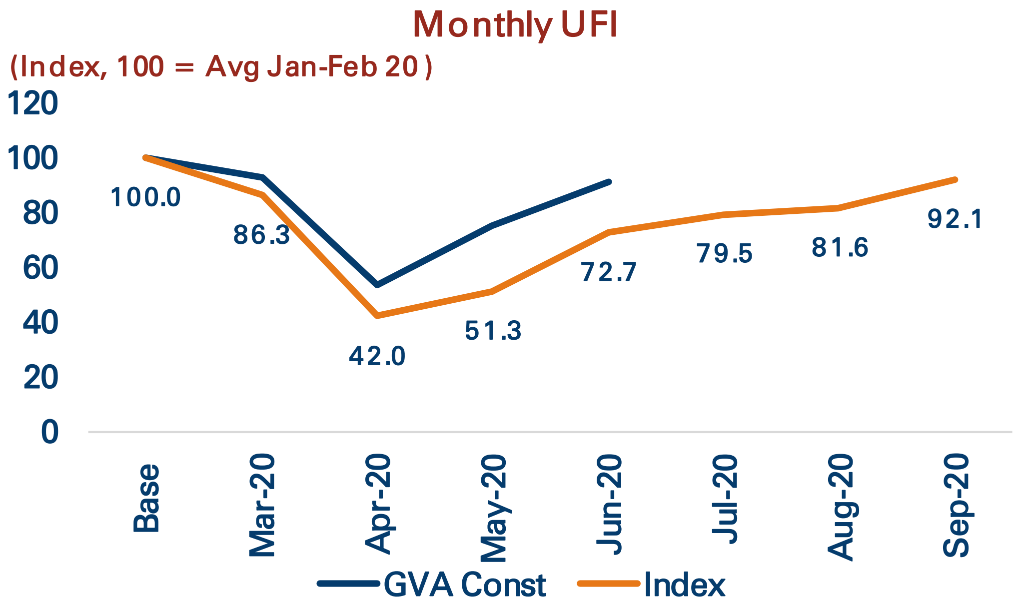
What is UFI?

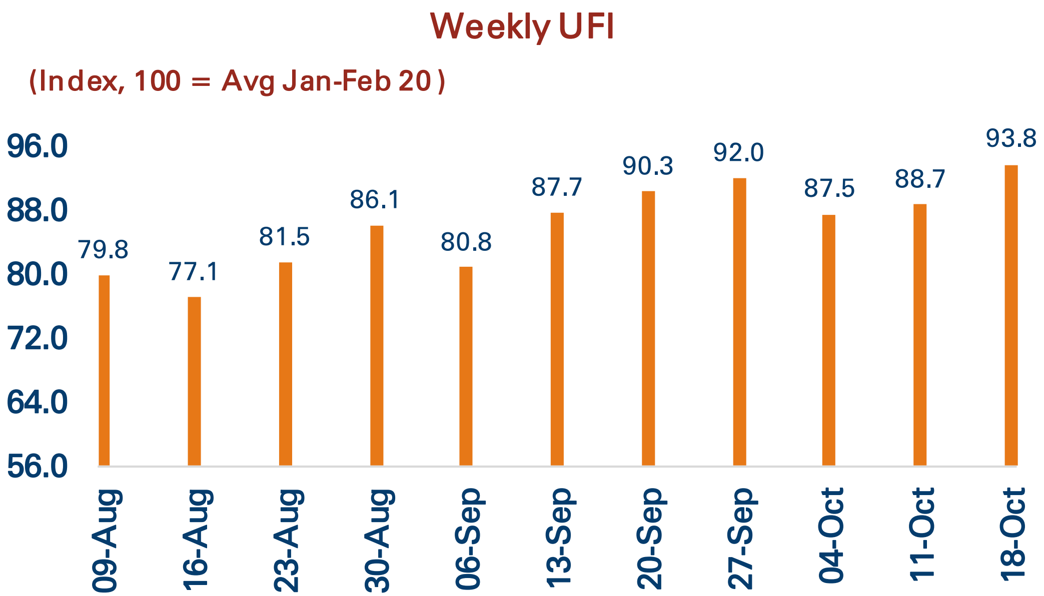
- UFI is an indicator to assess resumption in activity on a weekly/ real-time basis
- It measures the level of underlying activity compared to the base which we have taken as average of January-February 2020 levels (pre-COVID times)

How do we read it?

- UFI reading of 60 for a respective month or week indicates that the activity levels are at 60% of January – February 2020 levels (pre-COVID levels)
- State-wise UFI heat map measures business resumption and activity differentials across states indicating which states are leading or lagging the recovery

Improvement in activity seen in the month of September





- Proprietary UFI saw a sharp recovery over May-July, then plateaued out in Jul-Aug. However, in September index stood at 92 showing activity levels are ~92% of the pre-COVID times
- Week ending on 18th October is showing sharp improvement in activity compared to prior week. Prime drivers for this are a sequential improvement in vehicle registrations, e-way bill collection, rail freight revenues, stable labour market indicators, and improvement in Google and Apple mobility indicators, as more people step out for leisure and work

Source: POSOCO, Raildrishti, Google, Apple, GSTN, Vahan, CMIE, ICICI Bank Research

State-wise heat map shows Punjab, Uttar Pradesh and Delhi leading the recovery process, while Tamil Nadu, Maharashtra and Karnataka continue to be laggard performers

State-wise UFI													
	India	Maharashtra	Uttar Pradesh	Tamil Nadu	Karnataka	Gujarat	West Bengal	Rajasthan	Kerala	Delhi	Bihar	Punjab	Odisha
Jan-Feb (Base)	100	100	100	100	100	100	100	100	100	100	100	100	100
Mar-20	86.3	99.0	92.5	80.2	92.9	95.3	109.6	102.8	86.9	82.6	103.7	101.8	90.1
Apr-20	42.0	37.6	63.7	32.4	38.9	42.8	54.0	47.2	46.0	63.5	46.7	116.2	42.6
May-20	51.3	46.0	56.2	51.8	48.6	53.6	52.5	64.7	61.2	62.3	56.7	59.7	55.3
Jun-20	72.7	57.2	78.1	64.1	65.3	99.5	78.5	84.4	75.7	88.9	88.0	113.1	79.6
Jul-20	79.5	71.6	97.6	64.3	65.9	132.6	88.0	85.1	77.3	93.3	84.7	125.0	91.1
Aug-20	81.6	67.0	95.9	79.3	80.8	126.9	80.7	80.6	74.4	103.7	91.9	106.6	101.4
Sep-20	92.1	80.8	110.1	77.4	84.1	100.0	97.5	88.6	91.0	108.9	100.4	114.4	97.8
% contribution to GVA		13.4	8.6	8.5	7.8	7.6	6.0	5.1	4.1	3.9	3.0	2.7	2.5

- Improvement in Punjab is driven by rail freight revenues and google mobility indicators accompanied by lower unemployment rate
- Recovery in Tamil Nadu is getting dragged by rise in unemployment rate and fall in rail freight revenues while vehicle registrations, google mobility indicators and peak power demand improved slightly

Source: POSOCO, Raildrishti, Google, Apple, GSTN, Vahan, CMIE, ICICI Bank Research

iD80 Index

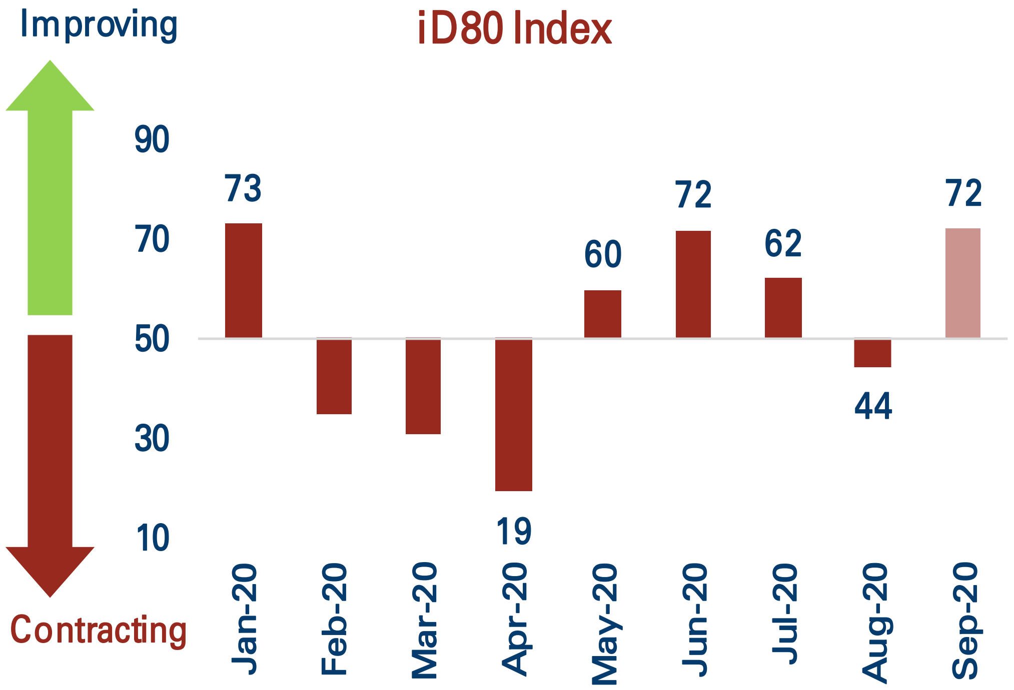
What is iD80 Index?

- iD80 Index is a breadth/width indicator of economic activity - captures the strength of the economy and directional change in momentum.
- It measures the proportion of economic high frequency indicators that have improved or showing positive momentum, compared to the previous month, and is used to assess the strength of the economy
- ICICI Bank's iD80 index, uses a list of more than 80 high frequency indicators to capture the sequential movements in growth. We also divide the indicators under industry and services sub-categories and demand and investment sub-categories to understand the underlying movements as per the GVA and GDP sub-classifications, respectively

How do we read it?

- Similar to the commonly known PMI index, our iD80 Index reading above 50 indicates improving economic activity, while a reading below 50 indicates contracting activity
- While a reading of 51 followed by a reading of 52 indicates, economic activity is growing at a faster pace, a reading of 52 followed by 51 will indicate economic activity is still growing but at a lower pace, compared to last month

iD80 index indicates uneven recovery, September upturn could be on account of….

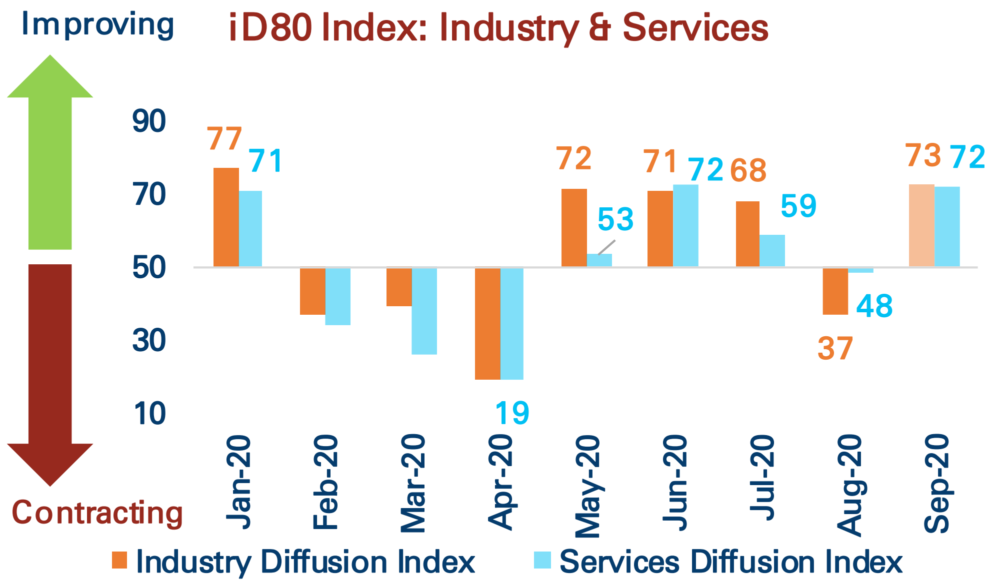


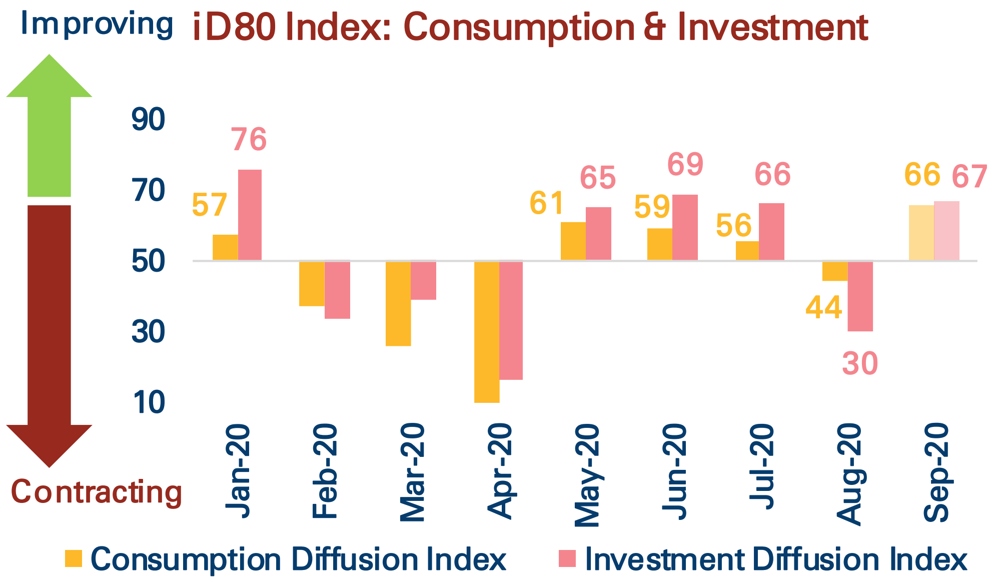
*September numbers are provisional

- DI gives you an indication of improvement in activity compared to the previous month
- After improving over May-June, activity started slowing in July and further deteriorated in August
- September data is showing improvement, aided by: easing restrictions, inventory re-stocking for the festive season, pent-up consumption with COVID fatigue setting in
    - Data showing sequential improvement include: auto sales, coal production and offtake, petroleum consumption, steel production, cement freight, iron ore and steel freight traffic
    - Indicators that continue to contract include: bank credit, consumer confidence on income, spending and employment (RBI survey data)

Source: CEIC, ICICI Bank Research

…pre-festive restocking, pent-up demand, leading to recovery across sectors; government capex and festive consumption could provide tailwinds to Q3





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- Improvement in rail freight and port cargo, industrial imports, along with power demand bode well for the industrial sector, reflecting inventory replenishment for the festival season. Lower oil and commodity prices, could also aid recovery at the margin. Similar trends were visible in investment spending, though a sustained recovery in private capex might still be far
- Pent-up demand consumption, higher mobility and travel indicators has led to improving consumption and services indices, supported by auto sales, petroleum consumption, passenger travel, tractor sales and could continue to see improvement over the next few months, with higher purchases and more pick up in travel
- Governments capex and consumption push could also drive recovery at the margins

Source: CEIC, ICICI Bank Research

i4Markets Index

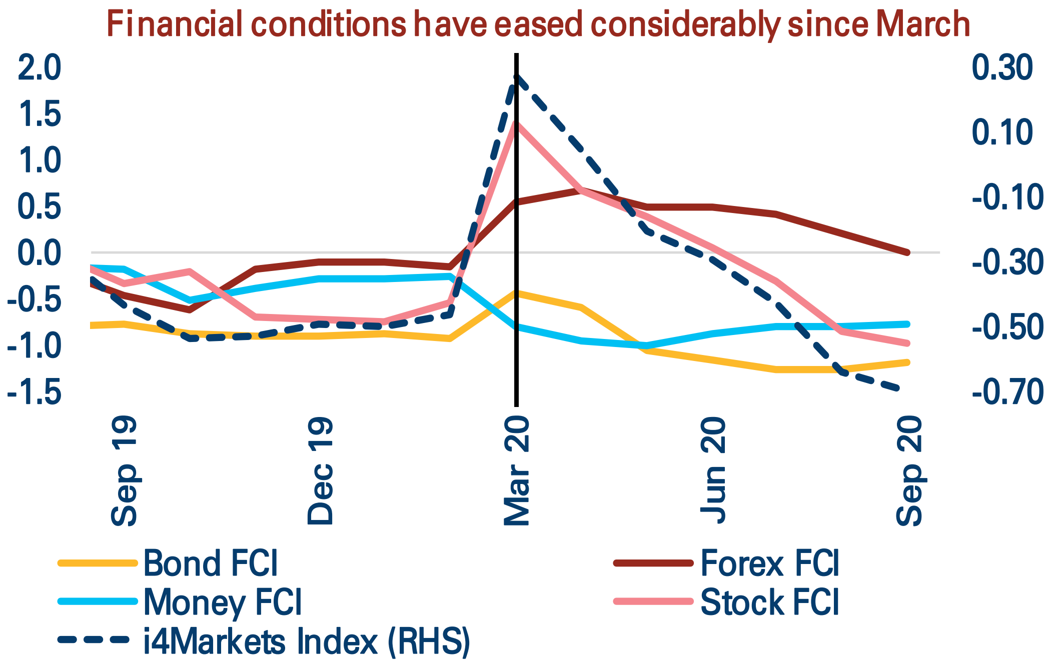
What is i4Markets Index?

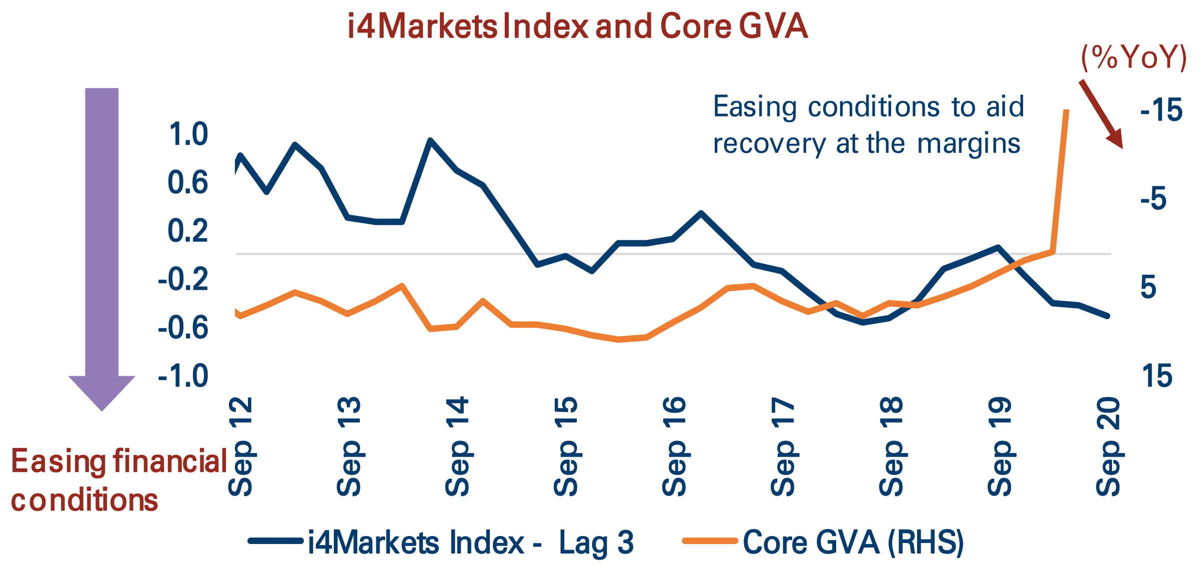
- i4 Markets Index is an index that synthesizes information represented by financial variables across markets - bond, money, equity, forex
- Stress in one market could transfer to other markets or be nuetralised by favourable conditions in other markets, creating contradictory signals. Thus an aggregate index, summarises information across markets
- A co-incidental indicator of financial conditions and a lead indicator for economic activity

How do we read it?

- Since all the Financial Conditions Indices are based on standardized scores, stress (tightening conditions) could be defined as all values above Zero, while easing conditions are all values below Zero
- Moreover, two sub-indices are non-comparable (Bond market vs. Stock market Financial Conditions Index for example) although the direction of movement signifies change in stress
- In fact, the index depicts stress in an ordinal manner. So a reading of 2 vs. 1 will imply that conditions have tightened and not that the tightening is double in magnitude

Financial conditions continue to ease, to provide floor to current recession





*GVA axis inverted

- RBI action has assisted in easing conditions in bond and money markets, while global liquidity and domestic flows has buoyed sentiment in stock markets
- Financial conditions in Forex markets have eased slightly aided by lack of RBI intervention, risk sentiment and flows seen over the last few months
- FCI is a lead indicator of GDP, with financial conditions up to 3-4 preceding quarters affecting GDP. Given that aggregate financial conditions have been easing over the last two quarters, H2 growth momentum could be aided somewhat by these easing conditions in the financial markets

Source: Bloomberg, CEIC, ICICI Bank Research

i4 MARKETS INDEX
The Financial Conditions Index by ICICI Bank

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iD80 INDEX
The Diffusion Index by ICICI Bank

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UFI
ULTRA FREQUENCY INDEX
The Business Resumption Index by ICICI Bank

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Thank you