iD80 INDEX

The Diffusion Index by ICICI Bank

ICICI Bank Global Markets

What is the iD80 Index telling us?

Economic activity expectedly remained muted for the month of May as almost all State Governments had announced or extended localised lockdown measures to arrest the spread of the virus in the country. **ICICI Bank's iD80 index reflected the subdued economic activity seen in the month of May with an index reading of 19 (vs. 15 in April), indicating only 19% of the indicators improved over April, while others worsened.** The reading for May indicates the brunt of the second wave of infections on economic activity.

A marginal recovery could gather momentum post June on the back of the gradual unlocking of activity, and the same will likely take time to entrench itself over Q2. While the economic impact of the first wave was more pronounced due to complete lockdowns, some activity continuance through the second wave will imply a more muted economic impact. The industrial sector's performance in the second lockdown phase (Apr - May 2021) cushioned the overall impact on the economy to an extent, as the measures taken by the State Governments were less restrictive as compared to the first lockdown phase (Mar - Apr 2020). However, uneven recovery will still be the hallmark of 2021, as a muted impetus for the services sector (affected severely in both the waves) will be evident, alongside a more resilient industrial sector.

After the level of stress seen over the April-June quarter, more opening up will bring back some pent up demand over Q2, though more demand recovery is expected only in the second half of the fiscal year. Risks to this include limited consumption impetus due to recency bias of suffering through a severe second wave, inflation risks from logistics and fuel components, employment resumption, and general uncertainty on the outlook. However, a shift in demand to the second half of the year is likely to bring about a moderate improvement in the growth outlook. The recent uptick in vaccination numbers is encouraging, and the pace needs to be maintained along with the ebbing of the second wave to provide comfort on activity and sentiment. The demand and supply side measures announced in the latest fiscal package will also stave off greater risks over the near to medium term, as recovery takes hold. A boost to agriculture from the monsoons and a robust trajectory expected for exports, will attenuate downside risks. We retain our GDP growth projection at 9-9.5% YoY in FY2022.

Sumedha Dasgupta
sumedha.dasgupta@icicibank.com

Kaushal Aryan
kaushalkumar.aryan@icicibank.com

01 July, 2021

Please see important disclaimer at the end of the report

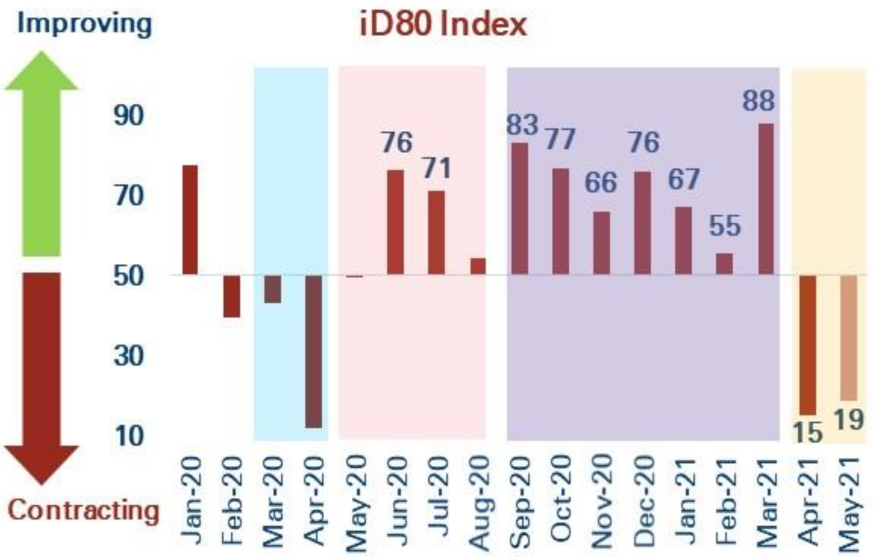
- All sectors' index readings were in the contractionary territory for the second consecutive month in May 2021, amidst the restrictive norms put in place by the State Governments
- The Core Sector output remained muted as crude steel production, electricity generation and cement production moderated, sequentially. However, coal offtake and coal production improved sequentially in May
- The large fiscal stimuluses and higher vaccination coverages in the developed economies are fuelling the rebound in the economic recovery in these countries. Thus, the demand for Indian exports remained robust, as evidenced by the sequential improvement seen in exports in May. Even though muted domestic demand hurt overall imports especially for oil and gold, non-oil non-gold imports declined only marginally, reflecting the underlying strength for industrial imports
- Goods transportation remained weak due to various restrictions put in place for the movement of freight. Airport cargo and port cargo traffic saw a sequential moderation. However, rail freight traffic recorded an improvement over April
- The Automobile Sector witnessed a sharp moderation in May, as the discretionary spending on automobiles took a hit owing to the second wave of infections. Production cuts by major manufacturers and closing of the dealerships due to low footfall amidst the mobility restrictions weighed on both wholesale and retail sales for May
- The Purchasing Managers' Index (PMI) for both manufacturing and services sectors also saw a sharp moderation in May compared to April. The services PMI fell into the contractionary territory for the first time after eight months, and challenges for this sector can be expected to ebb only when mobility returns meaningfully. Manufacturing PMI remained slightly above the 50-mark in May, mainly driven by robust export orders as the domestic demand remained subdued. The latest print on manufacturing PMI looks worrisome, as contraction is evident, but the same could be expected to recover gradually over July-August, as a gradual demand impetus returns and uncertainty on operational constraints ebb for manufacturers.

State-wide lockdown restrictions expectedly curbed activity impulses in May

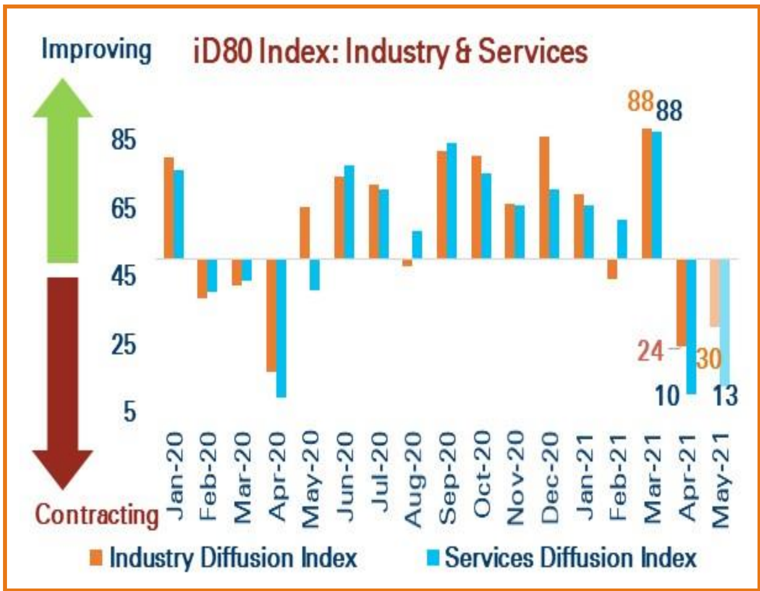
- **iD80 index for May is showing a reading of 19 (contractionary territory for the second straight month), indicating that only 19% of the economic indicators improved in May 2021 over Apr 2021, as compared to an improvement of 15% of indicators seen in Apr 2021 over Mar 2021**
- All sectors' indices remained in the contractionary territory for the second consecutive month. Moreover, the services and consumption based indictors were more severely affected than industry and investment indicators, reflecting the expected effects of lack of mobility amidst the health crisis
- Industrial and investment indicators which saw a further sequential moderation in May as compared to April included electricity generation & demand, crude steel production, manufacturing PMI and non-oil non-gold imports; while indicators such as exports, rail freight traffic and coal production & offtake improved in May compared to the previous month, which aided the index performance
- Services and consumption based indicators which moderated further compared to April included automobile sales, petroleum consumption, airport & rail passenger traffic and services PMI. Elevated crude oil prices and other global commodity prices also weighed on the services and consumption indices for the month of May
- **Going forward, we expect the index to show a modest improvement in June on the back of the unlocking of the restrictive measures by the State Governments. However, a more durable improvement can be expected only in a slightly longer time frame, as demand resumption will probably be shifted to the second half of the fiscal year. The recent uptick in vaccination numbers is encouraging, and the pace needs to be maintained along with the ebbing of the second wave to provide comfort on activity and sentiment.**

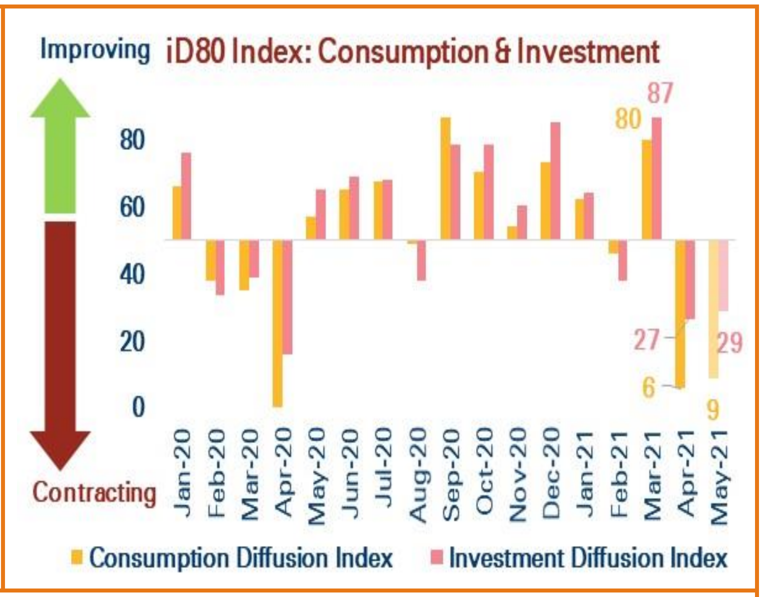
What is ICICI Bank's Proprietary iD80 Index?

ICICI Bank's iD80 index, is a breadth/width indicator of the economic activity and captures the strength of the economy and directional change in momentum. It measures the proportion of economic high frequency indicators (combination of lead and co-incident data) that have improved or are showing positive momentum, compared to the previous month. A 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 that the economic activity is growing at a faster pace, a reading of 52 followed by 51, will indicate that the economic activity is still growing but at a slower pace, compared to last month. We use 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.



Lockdown 1.0 (March - April) | Opening-Up (May - August) |
Nomalisation (September onwards) | Lockdown 2.0 (Apr21 – May21)





*May-21 numbers are provisional

Source: CEIC, Bloomberg, ICICI Bank Research

ICICI Bank: ICICI Bank Towers, Bandra Kurla Complex, Mumbai- 400 051. Phone: (+91-22) 2653-1414

Economic Research Group		
Shivom Chakravarti	Senior Economist—Global Markets	shivom.chakravarti@icicibank.com
Sumedha Dasgupta	Economist	sumedha.dasgupta@icicibank.com
Kaushal Aryan	Research Analyst	kaushalkumar.aryan@icicibank.com
Aniket Gaikwad	Research Analyst	aniket.gaikwad@icicibank.com
Asha Sasikumar	Research Analyst	asha.sasikumar@icicibank.com
Jyoti Sharma	Research Analyst	sharma.jyoti@icicibank.com
Tanisha Ladha	Research Analyst	tanisha.ladha@icicibank.com
Nihal Kumar	Research Analyst	nihal.kumar@icicibank.com
Sarbartho Mukherjee	Research Analyst	sarbartho.mukherjee@icicibank.com

Treasury Desks			
Treasury Sales	(+91-22) 6188-5000	Currency Desk	(+91-22) 2652-3228-33
Gsec Desk	(+91-22) 2653-1001-05	FX Derivatives	(+91-22) 2653-8941/43
Interest Rate Derivatives	(+91-22) 2653-1011-15	Commodities Desk	(+91-22) 2653-1037-42
Corporate Bond	(+91-22) 2653-7242		

Investors should note that any products mentioned in this document, any offering material related thereto and any interests therein have not been approved or licensed by the UAE Central Bank or by any other relevant licensing authority in the UAE, and they do not constitute a public offer of products in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

DISCLOSURE FOR RESIDENTS IN HONGKONG

This document has been issued by ICICI Bank Limited in the conduct of its Hong Kong regulated business (i.e. type 1 license) for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571 of Laws of Hong Kong) (the "SFO")) customers; it is not intended for and should not be distributed to retail or individual investors in Hong Kong. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document has not been reviewed, authorized or approved by any regulatory authority.

ICICI Bank and/or its affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. As a result, you should be aware that a conflict of interest may exist. In accordance with the regulatory requirements and its own conflicts of interest policies, ICICI Bank has in place arrangements, internal policies and procedures to manage conflicts of interest that arise between itself and its clients and between its different clients. Where it does not consider that the arrangements under its conflicts of interest policies are sufficient to manage a particular conflict, it will inform you of the nature of the conflict so that you can decide how to proceed.

DISCLOSURE FOR RESIDENTS IN SINGAPORE

ICICI Bank Limited, India ("ICICI India") is incorporated under the laws of India and is regulated by the Reserve Bank of India. ICICI Bank Limited, Singapore branch ("ICICI") is regulated by the Monetary Authority of Singapore.

As mentioned, ICICI India is regulated by the Reserve Bank of India. Hence, in relation to your dealing with ICICI India, you understand that your interest will be subject to protection of local laws and regulations in India, which may offer different or diminished protection than available under Singapore laws and regulations. You also understand that the Monetary Authority of Singapore will be unable to compel the enforcement of the rules of the local regulators.

For more detailed disclaimer, please visit https://www.icicibank.com/disclaimer/disclaimertnc.html