MCCI
1901

OUTLOOK 2023

OUTLOOK 2023
OUTLOOK 2023
OUTLOOK 2023

Global Outlook 2023

The year 2022 was a challenging one. From the Russia-Ukraine war to four-decade-high inflation to heightened volatility in financial markets. There were confluence of factors that impacted gold prices. Gold, as an asset class, touched an all-time high of around $2,070 in March in terms of prices as a risk aversion measure triggered by the Russia-Ukraine war. But later, as the geopolitical risk premium waned coupled with the Federal Reserve's tightening spree to combat sky-high inflation, prices faced heavy downside pressure.

Stepping into 2023, one can't be sure of this continued reaction given that inflation in the US remains well above the Fed's 2% target. While the Fed has made it clear that the pace of rate hikes could slow down, the slower pace does not mean lower rates which the markets had started anticipating. The terminal rate is expected to be higher than previously expected at above 5% as per the dot plot after the FOMC meeting in December. This translates into another 50-75 basis points of hikes in 1H 2023, which could result in bouts of volatility in both risk assets and gold as real rates rise in an environment of cooling inflation and higher nominal rates.

Complicating the inflation trajectory is the Russia-Ukraine war, which is in its 10th month and shows no signs of easing. This could further fan the inflation fire, leaving no choice for policymakers but to press harder on brakes to bring down demand-side pressures on inflation. Thus, negative surprises on the Fed policy rate cannot be ruled out.

Manufacturing, housing, and consumer sentiment in the US are showing signs of slowing. The monetary inflation rate is also set to remain in a downward trend until at least a few months into 2023 depriving hopes of support for the economy and markets. Unlike 2022 when the anticipation of a slowdown was celebrated by markets as a nudge for Fed to turn dovish, 2023 will bring the slowdown into reality, hurting risk assets.

There could be a stagflationary environment and it could be more bullish for gold. And if the Fed caves in as a response to slower growth amidst sticky inflation, it could be incredibly bullish for gold.

In another scenario where inflation cools amid recessionary conditions and favourable base effects, gold will still benefit as the Fed pivots and the dollar depreciates. Post which both risk assets and gold are likely to do well as monetary conditions become conducive again, with risk assets leading gold. However, it will also depend on how bad the impact on the economy is and how much the Fed will be able to support given the criticism of pumping too much liquidity post-Covid.

However, it is unlikely of the Fed achieving a soft landing for the US economy, where inflation cools and growth doesn't falter, risk assets will prevail over gold.

The Indian Outlook 2023

"Indian markets underperformed their Asian peers mainly over concerns that recessionary fears in key major economies will have a spill-over effect on the local growth prospects going ahead. Investors are also worried that mounting Covid cases in China may lead to further deterioration in global economic health prompting traders to cut their equity market exposure. Technically, one more time the Nifty found near 18450 and corrected sharply, and also formed a long bearish candle on daily charts which is broadly negative. As long as the index trades below 18350, the weak formation is likely to continue and below the same it could slip till 18100-18050. On the flip side, a fresh pullback rally is possible only after the dismissal of 18350. Above which, the index could move up to 18450-18475.", according to Parashnath Tapse , senior VP, Research, Mehta Equities.

THE RBI Outlook

I. State of the Economy

The balance of risks is increasingly tilted towards a darkening global outlook and emerging market economies (EMEs) appear to be more vulnerable, even though incoming data suggest that global inflation may have peaked. The near-term growth outlook for the Indian economy is supported by domestic drivers as reflected in trends in high frequency indicators. Equity markets touched a string of new highs during November buoyed by strong portfolio flows to India. Headline inflation moderated by 90 basis points to 5.9 per cent in November driven by a fall in vegetables prices even as core inflation remained steady at 6 per cent. Waning input cost pressures, still buoyant corporate sales and turn-up in investments in fixed assets are heralding the beginning of an upturn in the capex cycle in India which will contribute to a speeding up of growth momentum in the Indian economy.

II. Anatomy of Inflation's Ascent in India

Highlights:

- The initial inflationary pressure was delivered by successive supply shocks but as their impact waned, a revenge rebound in spending and especially a swing from goods to contact-intensive services is generalising price pressures and making them persistent. Transitory shocks, particularly in vegetables, however, imparted some volatility in headline numbers.

- The contribution of cyclically sensitive components of headline inflation seems to be rising in recent months, indicating demand pressures.

- Historical decomposition of contributors to inflation shows that in the most recent period (Q2 of 2022-23), second-round effects of commodity prices on core inflation contributed significantly to the deviation of inflation from its target.

III. Assessing Inflation Expectations Adjusting for Households' Biases

Highlights:

- There are multiple sources of bias - ranging from the overwhelming influence of own consumption basket of a household in influencing expectations, to individual assessment of the outlook for one's income and employment and ability to sustain consumption and savings, which could be influenced by the level of inflation, state of economic growth, interest rates, and supply shocks facing the economy.

- When the household inflation expectations data series is adjusted for estimated biases, such a series exhibits better alignment with headline CPI inflation, with higher predictive power for forecasting headline inflation than the unadjusted inflation expectations series.

- The inflation expectation anchoring index, which captures the dimensions of sensitivity, consistency and stability of inflation expectations, shows that anchoring improved in the FIT period even though repeated supply shocks that are being encountered post-COVID pose the risk of de-anchoring expectations.

IV. Government Finances 2022-23: A Half-Yearly Review

Highlights:

- The finances of the Central government as well as the States improved significantly in H1:2022-23 with receding negative spillover effects induced by the pandemic, even as the war in Europe has led to targeted fiscal measures.

- The Centre had recorded robust tax collections, both direct taxes and GST, reflecting sustained recovery of the economy, improved tax governance and administration as well as healthier balance sheet of the corporate sector.

- The States too have strengthened their fiscal parameters as is evident from the decline in their consolidated GFD and net market borrowings. However, the capital expenditure of the States has remained weak.

V. Measuring India's Digital Economy

- India's core digital economy (hardware, software publishing, web publishing, telecommunication services, and specialized and support services) increased from 5.4 per cent of Gross Value Addition (GVA) in 2014 to 8.5 per cent in 2019. Including the sectors that have witnessed digital disruptions, the share of digitally dependent economy hover around 22 per cent in 2019.

- India's digital economy grew 2.4 times faster than the Indian economy, with strong forward linkages to the non-digital sectors. The digital output multiplier has increased over time, highlighting the role of digital economy investments to drive growth.

- The employment estimates show that 4.9 million people were employed in the core digital sector. Considering the total digitally dependent economy, around 62.4 million workers are employed in digitally disrupted sectors.

VI. A Composite Coincident Index for Unorganised Sector Activity in India

- Since the cyclical pattern and seasonal variation in agriculture and non-agriculture activity differ substantially, separate UNCCIs are developed for agricultural and non-agricultural activity. An overall UNCCI is then generated by taking a weighted average of the two, where respective sectoral share in overall GVA are used as weights. A total of fourteen high frequency indicators (HFIs) were identified for construction of the UNCCI. The UNCCIs have been developed using a dynamic factor model to derive the common trend from the constituent indicators.

- The UNCCIs depict an uptick in unorganised activity since July 2022. The overall as well as the sectoral (agriculture and non-agriculture) UNCCIs showed reasonable co-movement with growth in unorganised Gross Value Addition (GVA) published annually by the National Statistical Office (NSO).

VII. Agriculture in 2022-23: Kharif Performance and Rabi Outlook

Highlights:

- In 2022-23, though the cumulative southwest monsoon rainfall was above normal, its uneven temporal and spatial distribution and heavy rains towards the end of the season could have an adverse impact on the standing Kharif crop production.

- As regards the Rabi outlook, the prospects for wheat production are good with higher MSP, adequate reservoir levels and soil moisture conditions, and climatic factors supporting higher acreage and yield.

VIII. Financial Inclusion through Microfinance – An Assessment of the North-eastern Region of India

Highlights:

- Microfinance, which took roots in the southern region, has over time spread to the historically under-banked eastern and north-eastern regions, thus, partly bridging the regional banking divide. However, there are state-level differences in the access and usage of microfinance within the north-eastern region.

- Going forward, the focus on the north-east needs to be sustained, while giving greater attention to States that are relatively underserved within this region to further the cause of financial inclusion.

MCCI Outlook 2023

Based on the studies made by the experts MCCI is of the view that recessionary pressures may come on the global economy from the end of the first quarter or second quarter of 2023

Inflation may further tighten consumption.

Even as Fed may slow down in increasing rates, there are least possibiitis of rates coming down.

Input cost for manufacturing may continue to rise under inflationary pressures.

Energy market will continue to remain under doldrums.

Under Indian context energy audit in every state is a must.

Rural India may drive a consumption growth in 2023 sinceRavi harvest is expected to be better. Therefore corporate India can look at investments in the rural segment though corporate and PSU banks are expected to have little appetite for lending to private sector investment in rural India.

Although micro financing is extending in North East India, which is largely unbanked, increasing micro loans are a matter of concern for increasing NPAs in micro lending schemes.

Again in the global front China closing down for Covid will bring both challenges and opportunities for India. Challenges in terms of global metal trading. Opportunities in terms of shifting manufacturing base.

There may be erosion of capial seen th equity markets across the globe. Investments are highly recommendable on risk free asset class like gold. Though it wil be a good time to investment in properties but properties have to kept in hold to yield value.

Overall 2023 doesn’t look too bright and hopeful but restrained financial activities, waiting and watching the markets and selective investments may yield results.

ABOUT MCCI

MCCI is a 122 years old non-government, not-for-profit, industry-led and industry-managed organization, with 700 direct members and 15,000 indirect members covering a wide cross-section of small, medium & large industries, trade and services besides, 10 Associations of Industry & Trade are also affiliated to MCCI.

MCCI addresses various aspects of the industry, trade and service sectors, their issues & Challenges and through several learning and best practices forums, guide them to the future. MCCI also helps members to explore international business opportunities through its international connect initiatives.

MCCI has been working on the development of an indigenous vibrant industrial base in the country, especially in Eastern India. The indomitable spirit and quest to build an institution to safeguard the interests of the indigenous business community led to the birth of Vaishya Sabha and with the changing times, now it stands as MCCI. MCCI has evolved to reinvent itself to address the challenges in this era of new normal.

MCCI works as a bridge between businesses and the policy makers to create a conducive economic environment for the industry to prosper and flourish while benefitting all the stakeholders in the economy. The Executive Committee, which has 30 Councils reporting to it, is the principal facilitating structure of the Chamber.

We are one of the leading Chambers of Eastern India relentlessly working for the betterment of MSMEs through several initiatives. MSME Helpdesk, IP facilitation, connecting with Banking and Financial institutions, technology for MSMEs, besides taking up members' issues at the appropriate level. Several Business meets are organized for the benefit of the members.

Merchants' Chamber of Commerce & Industry
15B, Hemanta Basu Sarani, Kolkata – 700 001 • Ph : 2262-5070 to 74 (5 lines)
E-mail : mcciorg@mcciorg.com • Website : www.mcciorg.com