For Fortnight Ended
30th November 2019
Vol: 5/2019

PNB GILTS LTD (Subsidiary of Punjab National Bank)

# ECONOMY & GILT WATCH

## ***Consumer Expenditure Survey: Data issues or data suppression?***

The recent controversy of government de legitimizing the National Sampling Survey Office's Consumer Expenditure Survey for the period 2017-18 has raised concerns over the credibility of the survey data and its increasing divergence with the National Accounts data which shows a highly contrasting picture. The survey report has revealed a contraction in Monthly Per Capita Expenditure (MPCE) in real terms from Rs. 1,501 in 2011-2012 to Rs. 1,446 in 2017-2018 as per leaked newspaper data. The data release was withheld by the government which cited data quality issues and concerns over the adverse findings on consumer expenditure in the economy.

### ***INSIDE THE ISSUE***

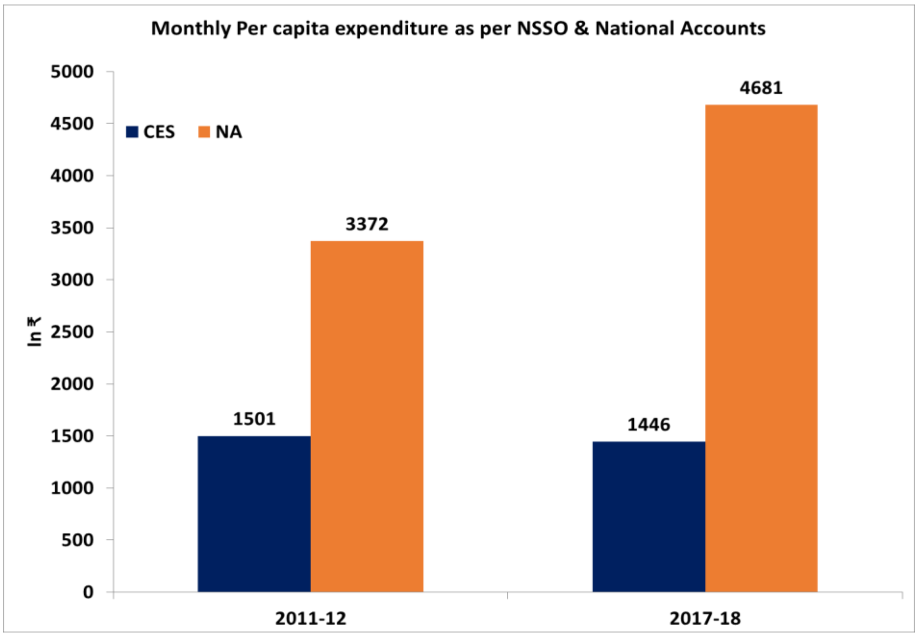


### What's CES all about?

Consumer Expenditure Survey or CES is generally conducted along with the employment-unemployment survey of the NSS at quinquennial intervals (recurring at 5 years interval). The survey is conducted on a representative sample across the entire geography covering both rural and urban households. The survey generates estimates of average household MPCE, the distribution of households and persons over the MPCE range, and the break-up of average MPCE by commodity group (food and non-food), separately for the rural and urban sectors of the country. CES is an important and effective tool when it comes to gauging the changing socio economic patterns in the country. ***From assessing the changing consumption patterns and elasticity, standard of living & inclusivity of growth, the CES provides variables which are important from the perspective of policy formulation. For example, CES provides vital statistics for determination of the poverty line and also the weightage diagram for different commodities in the Consumer Price basket.***

### Credibility in question

Interestingly, this is not the first time when the validity and the credibility of the NSSO surveys have been questioned. In the year 2009-10, NSSO's household consumer expenditure survey had become a subject of much controversy amid questions over poverty estimates, which were based on the survey. The survey was subsequently cancelled and a fresh one was released in the year 2011-12. Despite the questions being raised, we need to note that surveys have certain limitations given that they are conducted on representative samples. Sample based surveys are known to be prone to certain errors such as sampling, non-sampling errors, underreporting of data due to lapse in recall by respondents etc. The issue of deviation from other administrative data, which is being highlighted for the 2017-18 survey, is not a new one. According to a World Bank study, the differences in methodology, coverage, and measurement error imply that discrepancies in National Accounts (NA) and Household Surveys should be expected. And there is no basis for arguing a priori that consumption estimates from NA are more accurate than those from household surveys, or vice versa.




*While the per capita expenditure data is highly divergent in absolute terms, in directional terms also, the National Accounts and Survey data show contrary trends in consumer expenditure.*

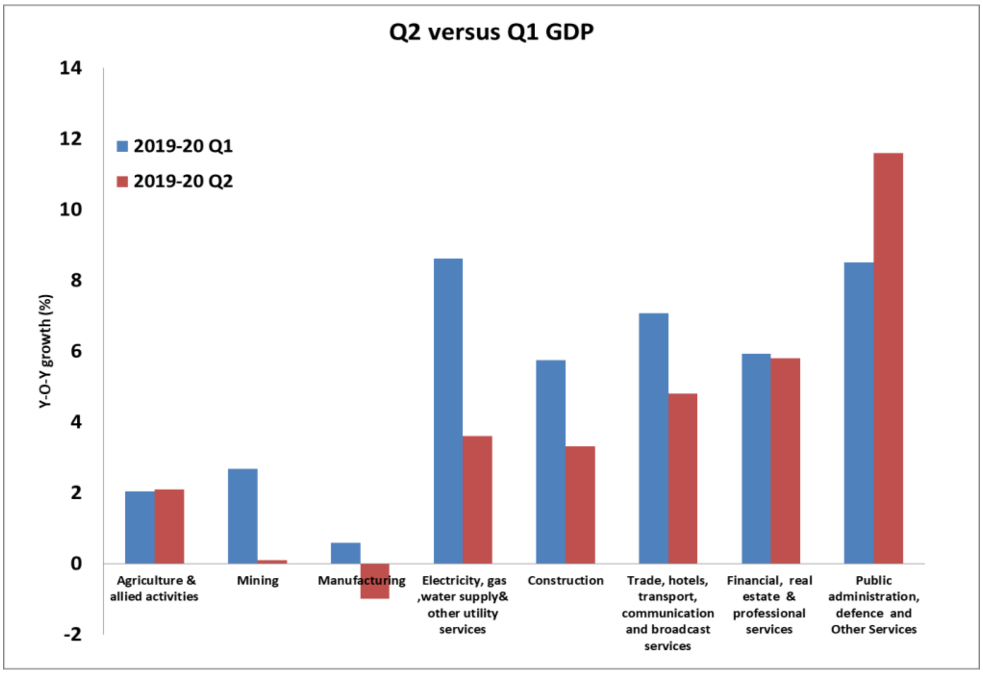
Coming back to the 2017-18 CES survey, the enormity of divergence from the national accounts data does warrant a deep introspection of the methodologies being currently followed by NSSO. A blanket ban on data release would however be counter-productive as access to data would allow independent researchers to identify the loopholes. From enjoying a highly revered position amongst world organization, the Indian Statistical system has certainly hit a rock bottom with questions being raised over data quality. It is to be seen whether this will be taken as an opportunity by NSSO to regain its former glory and take the requisite overhauling steps to address the issues being raised time and again.

## *Q2 GDP: Towards a grinding halt*

As widely anticipated, the GDP growth rate plummeted below the 5% in the second quarter of the year, to a 26 month low of 4.5% y-o-y as against 5% in Q1 of FY 2019-20. The GDP growth print comes in the backdrop of across the board weakness in various economic indicators which had been portending a weak Q2 number since the last few months. On the other hand, the nominal GDP growth came in at 6.1%, weakening substantially from 8% in the previous quarter. ***The sharp drop in the nominal GDP or the inflation adjusted GDP figure does not augur well from the fiscal deficit perspective as the government had based its fiscal deficit estimate of 3.3% taking into consideration 12% y-o-y growth in the nominal GDP.*** The government now faces a double whammy with sharp deceleration in tax revenues along with fall in the nominal GDP growth pointing towards a worsening fiscal deficit ratio.

### Sector Wise Break-up

The slowing momentum in economic activity became even more entrenched across different sectors as growth in mining (0.1% in Q2 vis-à-vis 2.7% in Q1), construction (3.3% in Q2 vis-à-vis 5.7% in Q1) and electricity (3.6% in Q2 vis-à-vis 8.6% in Q1) sectors decelerated sharply compared to the previous quarter. The agriculture sector growth remained flat at 2.1% in Q2 as against 2.0% as prolonged monsoons resulted in disruption of agriculture related activities. The heavier than usual monsoons also played spoil sport for electricity, construction and mining activities as demand for power remained largely subdued. On the other hand, service sector continued to be a supportive factor. The break-up of the services sector show a decline in growth of trade, hotels, transport and communication to 4.8% in Q2 as against 7.1% in Q1. Growth in financial, real estate and professional services remained flat at 5.8% in Q2 vis-à-vis 5.9% in Q1. ***The saving grace of the overall GDP growth in the second quarter was government expenditure on account of Public Administration, defence and other services which grew by 11.6% in Q2, the fastest pace in past 6 quarters***.




***In a tailspin**: GDP growth in Q2 was largely cushioned by government expenditure as private activity continues to remain in doldrums.*

**Going Forward:** The downward spiral is expected to continue as indicated by trends in various high frequency indicators. The festive season failed to provide respite to the flagging demand in the economy as much of the marginal uptick in sales was concentrated in the urban markets. Important indicators, such as electricity generation, coal and cement outputs contracted heavily during the month of October as per the Core Industries data, which portends a worsening economic outlook and manufacturing activity.

## Fixed Income Outlook

## Fundamental View

The bond market continues to operate amidst opposing factors with banking liquidity continuing to stay flush along with a benign interest rate scenario which got yet another affirmation with the release of sub 5% Q2 GD data. On the fiscal front, the scenario continues to remain as uncertain as ever, which has largely prevented the G-sec market from witnessing a sustained rally despite macroeconomic fundamentals (domestic as well as global) being supportive. In the upcoming monetary policy (due on 5th Dec' 19), RBI is widely expected to slash the Repo rate yet again despite the headline inflation lately showing a rising trend as economic growth continues to remain the overriding concern. The market would keenly watch out for the forward guidance given the fact that the Central bank has exhausted much of its firepower and that the demand issues in the economy still remain largely unaddressed. 10-year paper is expected to trade in the range of 6.40% and 6.55% in the coming fortnight.

The coming fortnight will also see release of CPI (Nov) and IIP (Oct) data. Headline inflation is largely expected to remain on an uptrend in the month of November. The impact of unseasonal rainfall in major agrarian states continues to be felt leading to supply disruptions across vegetables, especially onions. Onion prices surged to eye-watering levels in the month of November registering triple digit figures in the retail markets in some parts of the country. We expect the CPI for the month of November to clock a figure of 5.16% on the back of continued upswing in vegetable prices.

## Technical View

### 7.26% GS 2029

**Closing as on 29 Nov' 19 (6.64%):**

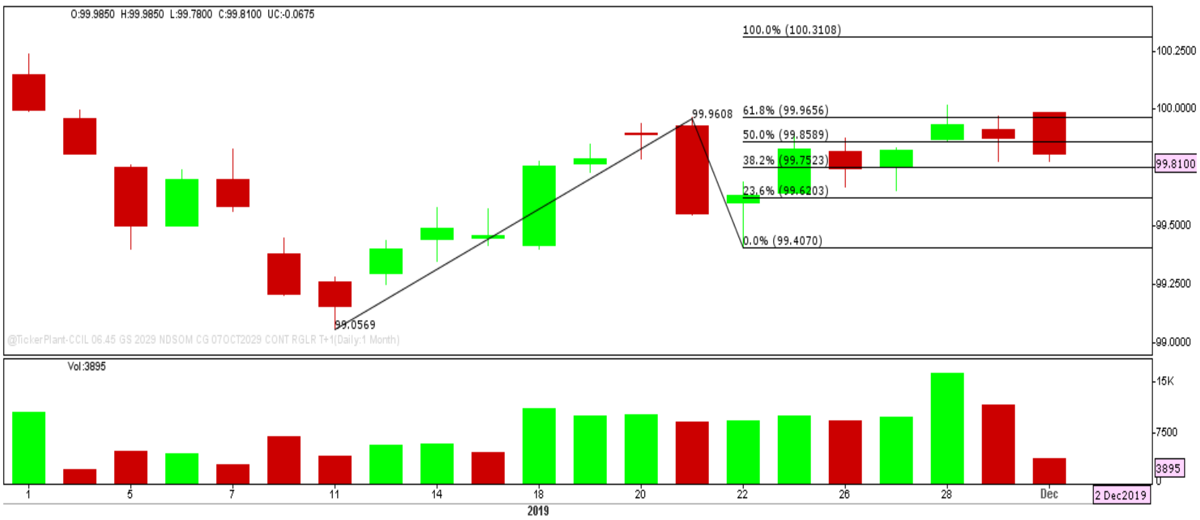
7.26% GS 2029 yield settled at 6.64% on Friday's session. Broadly, yield traded range bound between 6.59% to 6.70% zone. Last fortnight it was the lower Bollinger band which got touched, however lack of further momentum led yields to bounce back and it re-entered the previous consolidation zone.

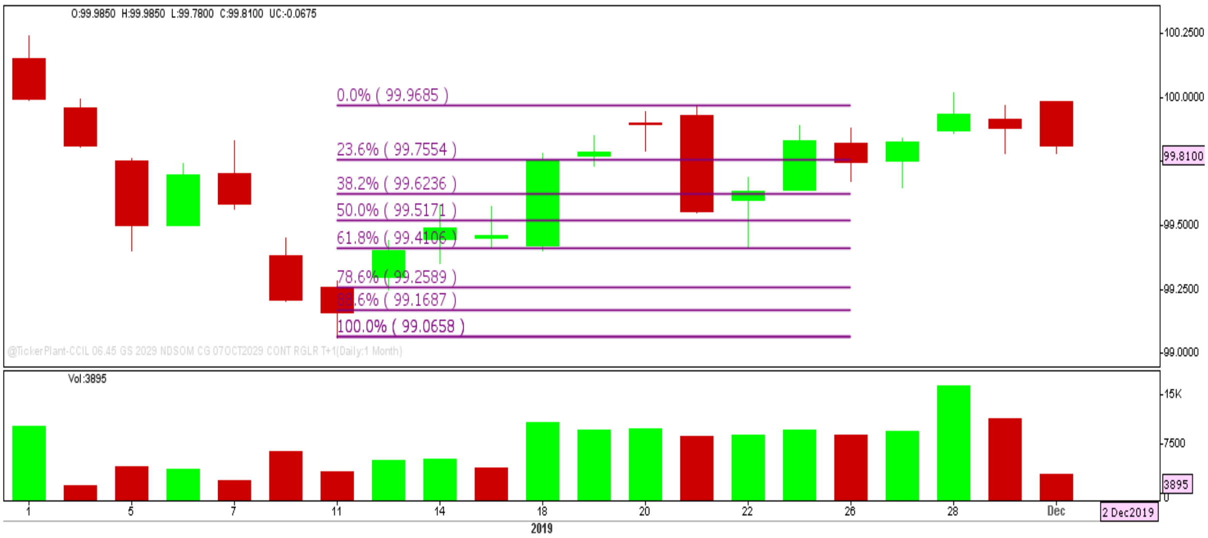
Momentum indicator RSI is hovering in range of 40 to 60. 30 days EMA is trading flat from many a sessions indicating consolidation in the markets. For short term, resistance is placed at 6.68%, which also coincides with 30 EMA level and immediate support is placed around 6.58%. From here on with RBI Monetary policy round the corner, any sustainability above 6.68% may trigger sharp move towards 6.77% level. On lower side, sustainability below 6.58% is necessary for any meaning full weakness in yields.


Chart Source: Tickerplant

## 6.45% GS 2029

The benchmark ten year paper 6.45% GOI 2029, is presently forming a bearish AB=CD pattern from 99.06 onwards, which has a potential to move up till 100.31.






The uptrend which started from 99.06(A) to 99.97(B) had an exact 61.8% at 99.41(C) and subsequently moved up to make a high of 100.02.

Hence, in order to project the length of CD wave which initiated from 99.41, we apply the retracement from B ( 99.97) to C( 99.41) and take the inverse of 61.8% retracement( which is 161.8%). The price level at 161.8% comes at 100.31. Hence, there is scope for 6.45 GOI 2029 paper to have an uptrend till 100.31.

## DATA CHECK

| *Key Events: Upcoming Fortnight* | | |
|---|---|---|
| **Date** | **India** | **US** |
| 02-Dec | Manufacturing PMI (Nov) | Manufacturing PMI (Nov) |
| 04-Dec | M3 Money Supply | |
| 05-Dec | **RBI Monetary Policy** | |
| 11-Dec | | CPI (Nov) |
| | | FOMC |
| 12-Dec | CPI (Nov), IIP (Oct) | PPI (Oct) |
| | | IIP (Oct) |
| 13-Dec | WPI (Nov) | |

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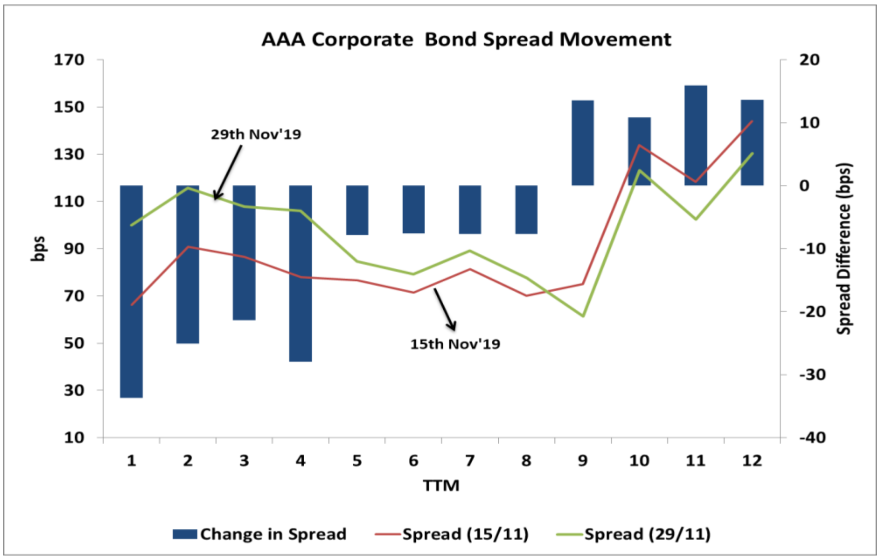
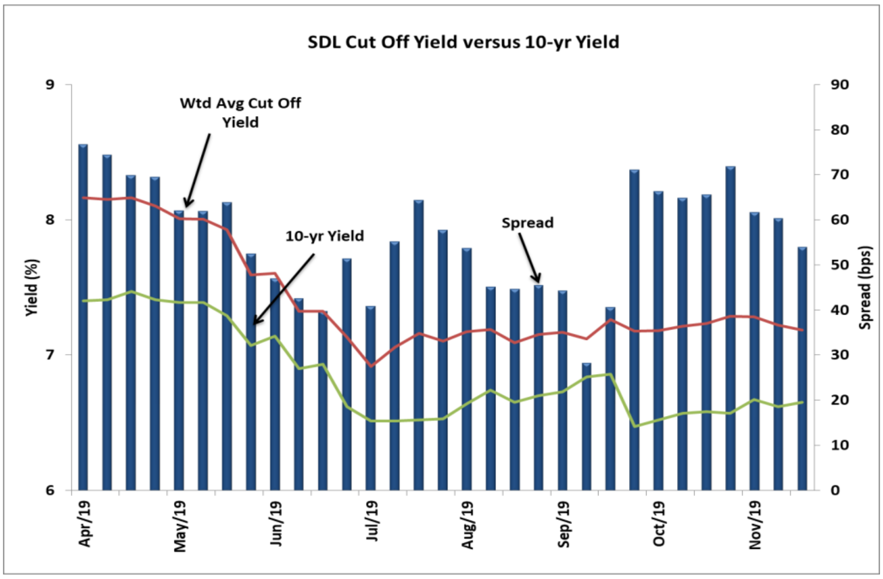
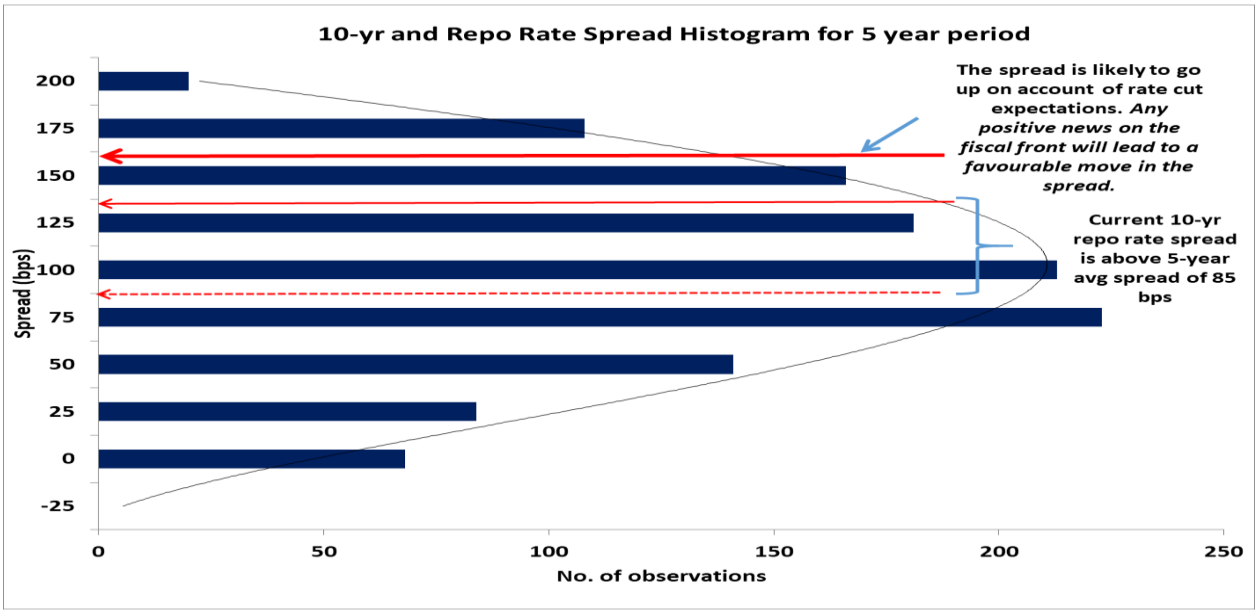
## SPREAD MONITOR




*Short to medium term corporate bond spreads continue to hover near multi year lows on back of easy liquidity conditions prevailing in the system.*




*SDL spreads stay firm as the outlook for state finances remains grim given the increased dependence on the Centre for revenues*



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