



THE

GREAT INDIAN LOCKDOWN

Tracking the impact of COVID-19-led
restrictions on the Indian economy



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Overview

The COVID-19 (C19) crisis has led to significant human and economic losses.

Globally, more than 890k lives have succumbed to the pandemic, and livelihoods of millions have been hit hard. According to the World Bank, the pandemic could push 100mn into poverty,¹ while the International Labour Organisation (ILO) and the United Nations Children's Fund (UNICEF²) estimate child labor to ramp up by millions. Consensus is that the 2020 global recession is expected to be the biggest since WW II, edging past the 2009 global financial crisis (GFC).

India has around 4.2mn confirmed active cases (second in the world) and reported over 74k deaths. RBI expects growth to turn negative in FY2020-21 even as fiscal stimulus kicks in (the Atmanirbhar package announced in May '20 is expected to pump \$277bn into the economy).

Through this chartbook, the Acuity macro team will track the Indian economy (covering the impact and recovery) in a series of fortnightly publications.

1. <https://www.weforum.org/agenda/2020/06/world-bank-coronavirus-covid19-extreme-poverty/>
2. <https://www.unicef.org/press-releases/covid-19-may-push-millions-more-children-child-labour-ilo-and-unicef>

The 3 W's and H of data

WHAT IS IT/ WHAT'S IN IT?



- » Chart the Indian economy through the lockdown/unlock phases while it struggles to control the outbreak and contain the economic impact
- » Illustrations to showcase the impact on the economy during the various phases of the lockdown/unlock time periods using:
 - High frequency data
 - Leading indicators
 - Macroeconomic variables
- » Publish macro and alternative datasets and insights on a fortnightly basis to track the economic recovery

WHY NOW?



- » Relevant to track the impact on various sectors of the economy with rise in the number of C19 cases
- » A guide for those looking for direction as official data for various macroeconomic indicators come with a lag

FOR WHOM IS THIS RESEARCH?



- » Financial analysts:
 - Fund managers
 - Equity analysts
 - Portfolio managers
 - Economists
- » Those looking for a collation of information in one place to save time and effort
- » Someone who is not a business insider (with limited knowledge) looking for a quick update on the C19 impact during lockdown/unlock phases in India

HOW DOES IT HELP?



- » Ready-to-use macro and alternative datasets in one place ([click here](#) to receive fortnightly updates) avoiding hundreds of hours required in data collection and validation
- » A unique representation of various high frequency proxy indicators help gauge economic uncertainty
- » Easy-to-read charts cover all lockdown/unlock phases since the start of the pandemic

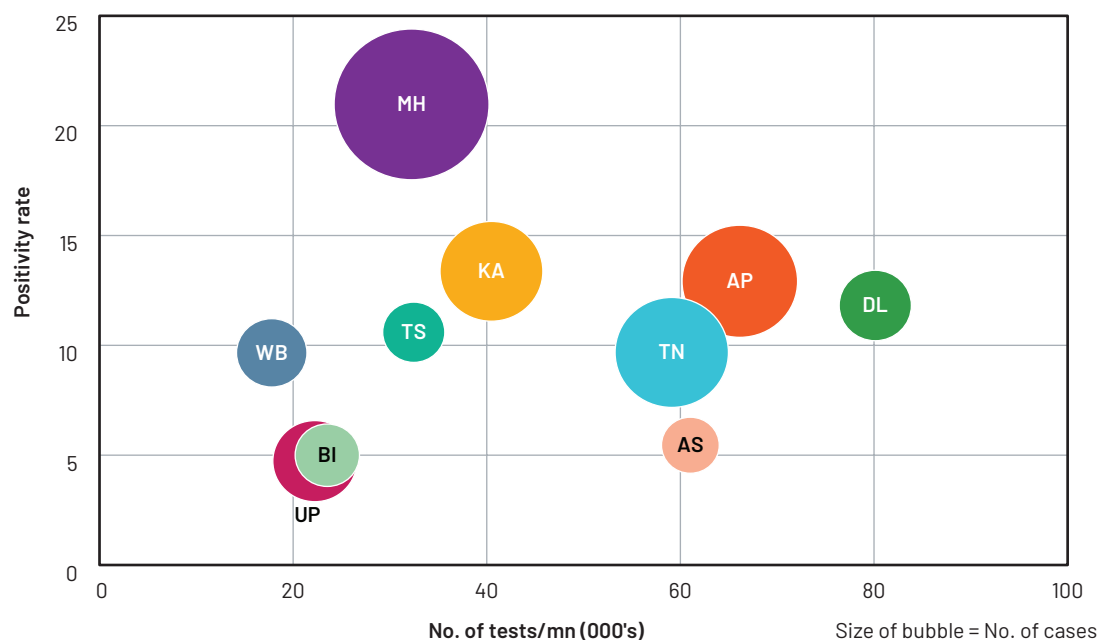
Key highlights

The chart below gives an update on the C19 situation by state:

- » Maharashtra remains at the top, with the most number of confirmed cases and deaths
- » Delhi leads the way with tests of around 80.4k/mn, while West Bengal is at the bottom (17.8k/mn)
- » The positivity rate (total cases/total tests) is the highest in Maharashtra (21.0%), followed by Karnataka (13.3%)

Top 10 COVID States

Source: MoHFW, State Government Websites, TheWire, Acuity Knowledge Partners. Data as of September 03, 2020



01.

MOBILITY CAME TO A STANDSTILL

The main goal of the lockdown was to cut mobility so as to limit and delay the outbreak (see page 5 and 6)

02.

OFFLINE TO ONLINE

With over 1.3bn people under lockdown, online businesses thrived while other activities suffered (see pages 7 and 8)

03.

MELTDOWN OF MARKETS AND TRADE

Markets remain volatile while companies face existential crisis. On the external front, trade continues to suffer (see pages 9, 10 and 13)

04.

COLLAPSE OF SENTIMENT AND JOB MARKET

Pandemic-related uncertainty led to an erosion of sentiment. With the employment situation turning grim, the unemployment rate soared (see pages 11 and 12)

05.

FISCAL STIMULUS – THE NECESSARY EVIL

A downturn in activity forced the government to announce measures to revive the economy despite constraints (see page 14)

06.

BLEAK OUTLOOK

The damage caused by the pandemic resulted in frequent forecast revisions even as downside risks persist (see page 15)

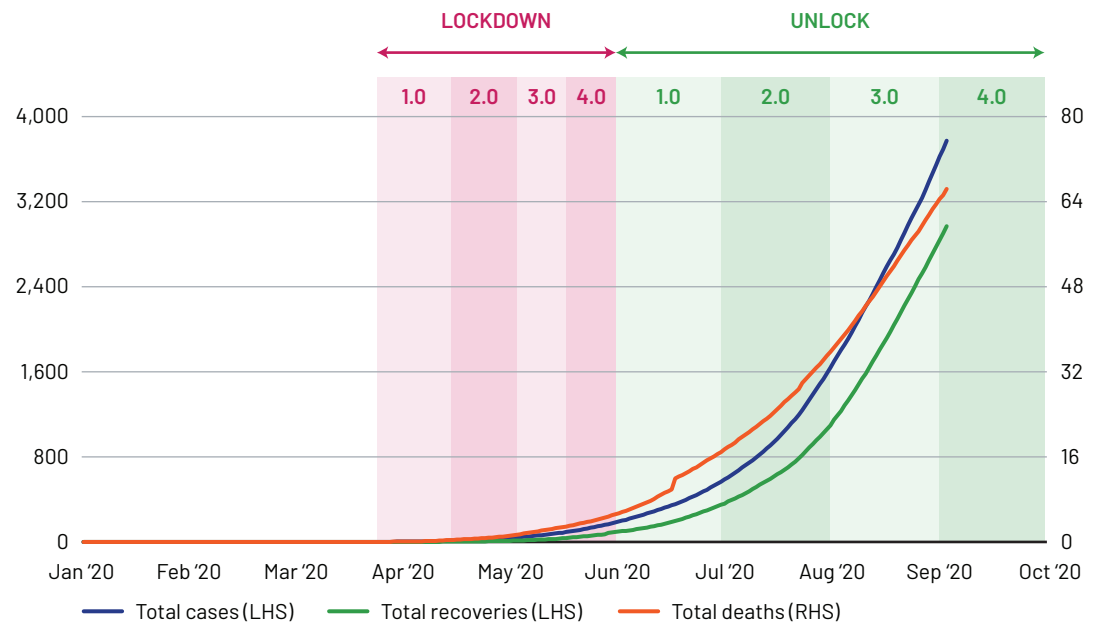
C19 stats

India is climbing up the C19 ladder...

Cumulative C19 cases (in 000's)

Source: OWID, Worldometer, Acuity Knowledge Partners

Note: Data as on September 03, 2020



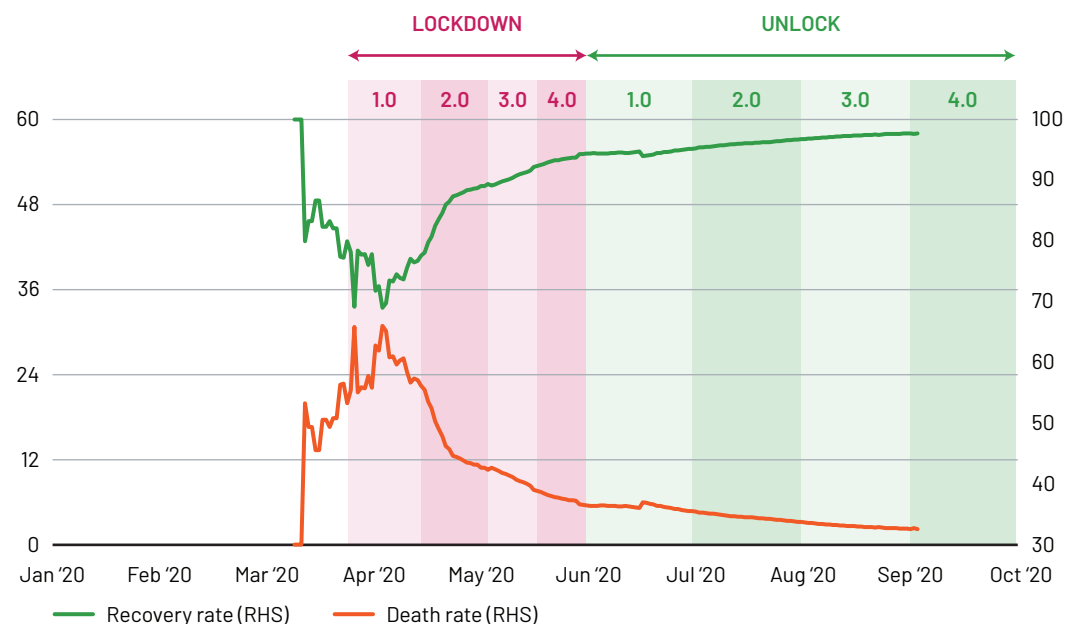
- » India reported its first C19 case in January; cases have since increased sharply.
- » The govt. announced a series of lockdowns (from 25 March) to slowdown the spread of the disease.
- » Total cases and deaths (per mn) are far better than the US, but India lags in total tests conducted (35.8k/mn).
- » With a rapid rise in daily new cases, the curve is yet to reach the point of inflection amid the community transmission threat.
- » The unlock phases are aimed at boosting the economy. However, state-level lockdowns continue.

...but the recovery rate has improved

Outcome of total closed cases (%)

Source: Worldometer, Acuity Knowledge Partners

Note: Data as on September 03, 2020



- » Looking at the number of closed cases, the gap between the recovery and death rates has widened significantly.
- » At 98% (approx.), the recovery rate has come a long way from 69% seen in end-March.
- » Clinical management methods (home isolation, teleconsultation, etc.) have helped reduce the mortality rate to some extent.
- » High population density and poor healthcare infrastructure are major challenges.

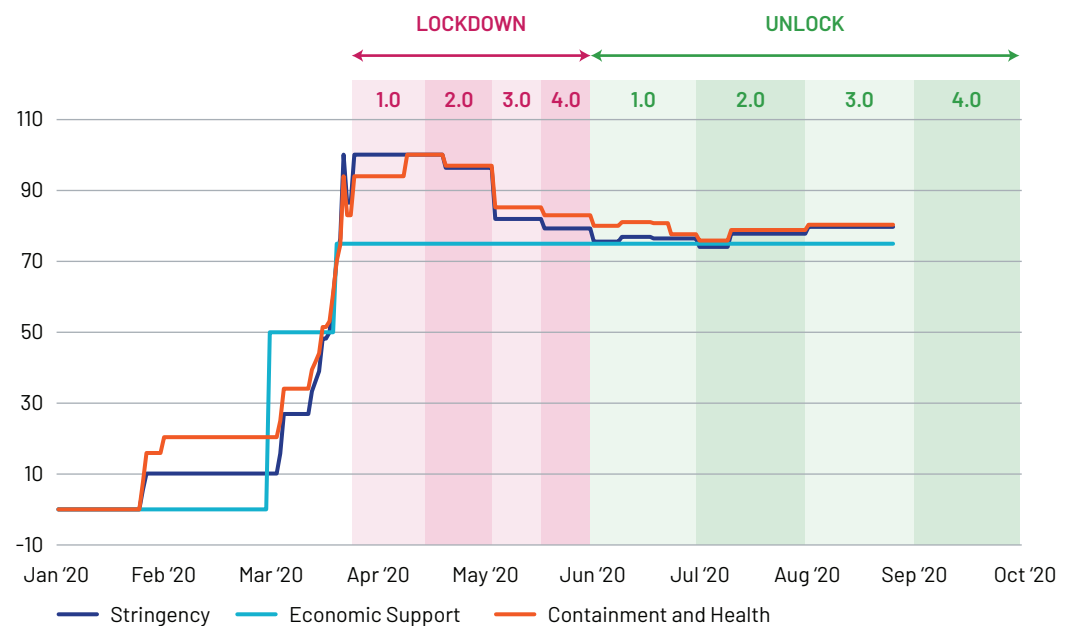
Restrictions to curb mobility

Relaxations have gone up...

Oxford stringency and policy indices

Source: OxCGRT (As on September 03, 2020), Acuity Knowledge Partners

Note: These indices simply record the number and stringency of government policies and should not be interpreted as "scoring" the appropriateness or effectiveness of a country's response



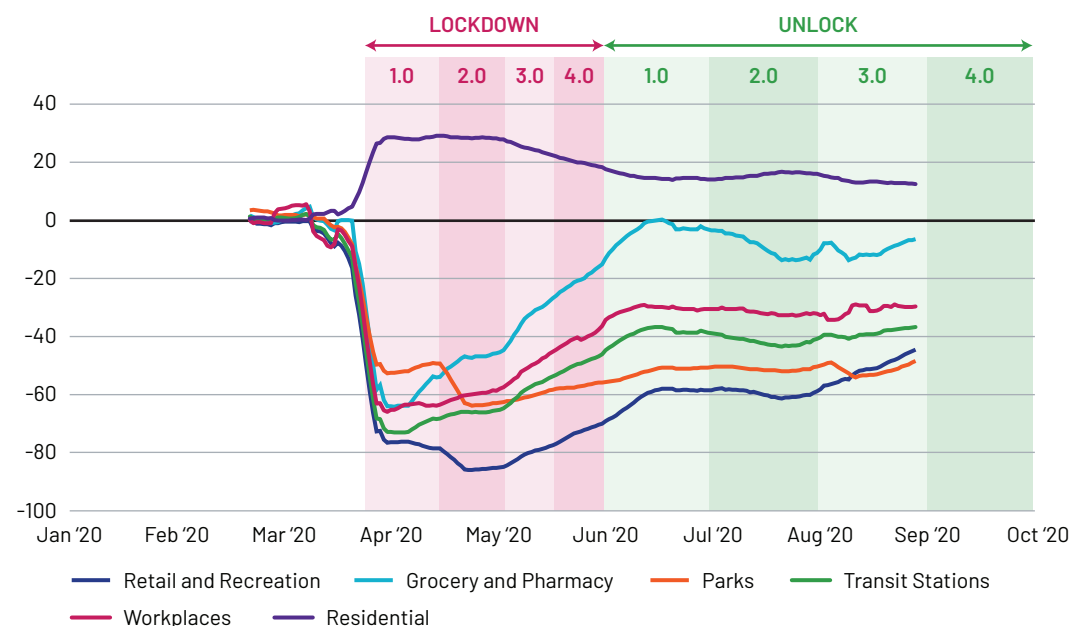
- » India was no exception to imposing restrictions to contain the outbreak, despite the economic loss.
- » As per OxCGRT, the stringency index (based on 17 variables measuring govt. responses) hit 100 during Lockdown 1.0.
- » At the end of August (Unlock 3.0), the stringency index was a tad below 80 even as confirmed cases continued to rise.
- » An Oxford Economics official has termed India's fiscal policy response as "quite meagre" compared to the stringency of the lockdown.

...and mobility restrictions have loosened up

Google mobility changes (7d ma)

Source: Google Community Mobility Report (As on September 03, 2020), Acuity Knowledge Partners

Note: Data highlights the change in the number of visits (in percentage) to the above-mentioned places within a geographic area compared to the pre-C19 baseline



- » Google Mobility Reports can help one understand the stringency measures of the lockdowns better.
- » During Lockdown 1.0 when people stayed at home, the residential index moved up (from the baseline/pre-pandemic level of 0) while other variables turned a deep negative.
- » Over the course of the unlock phases, as activity resumed, Grocery and Pharmacy briefly touched 0 in June before falling again in July. It started to move towards 0 again in end August.

Online activity bails out services sector

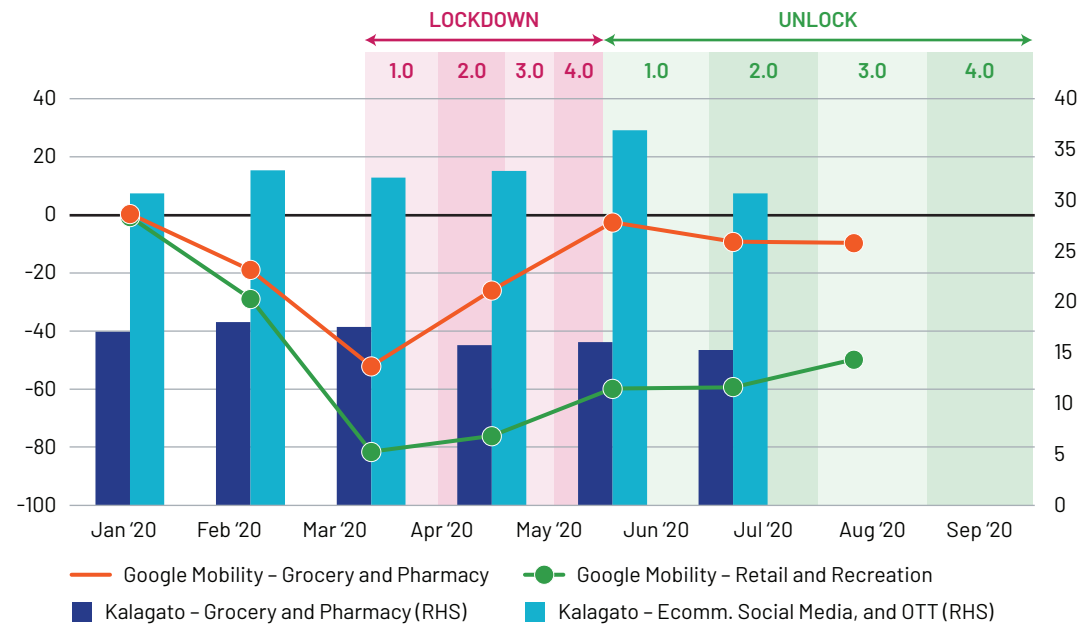
Online business activity thrived...

Google mobility reports vs Kalagato survey

Source: Google Community Mobility Report, Kalagato 2020 Covid Report, Acuity Knowledge Partners

Note: Data for August is MTD

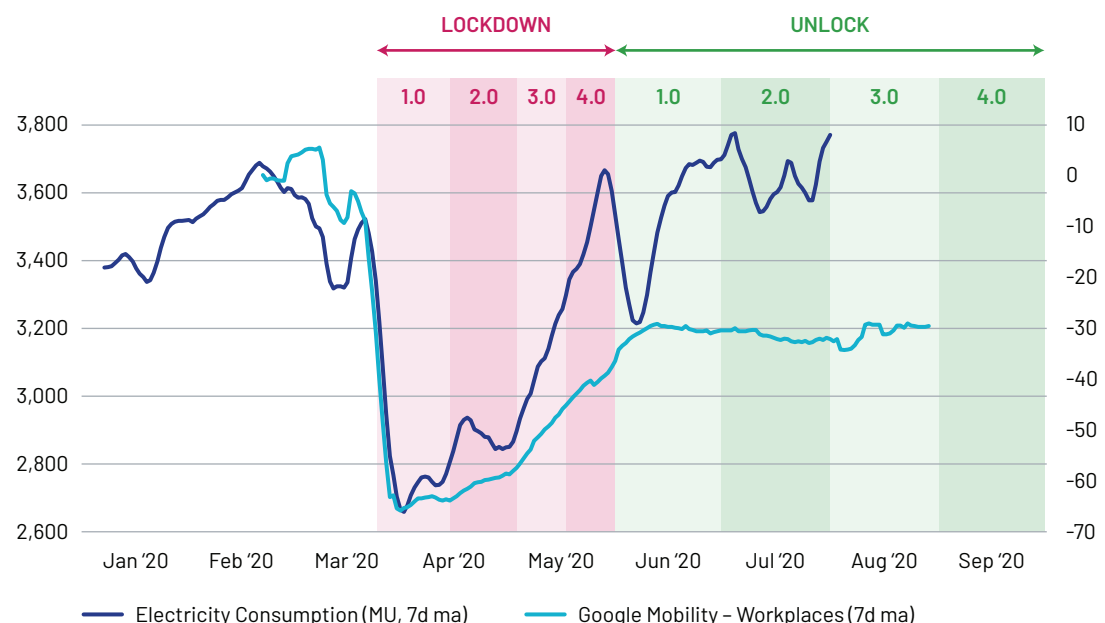
1. <https://www.news18.com/news/tech/smartphone-users-in-india-crossed-500-million-in-2019-states-report-2479529.html>



- » As per Google Mobility Report, Retail weakness abated in Unlock 3.0 while Grocery and Pharmacy moved further away from 0.
- » According to Kalagato survey, daily active users of E-comm. websites, social media and OTT platforms continued to increase in the unlock phases, while live streaming trend declined.
- » Average orders for online pharmacy remained steady, offsetting the weak online grocery demand.
- » Given that only 38%¹ of the population own a smartphone in India, one needs to read this data with caution.

...but power consumption turned erratic

Source: POSOCO, Google Community Mobility Report (As on August 30, 2020), Acuity Knowledge Partners



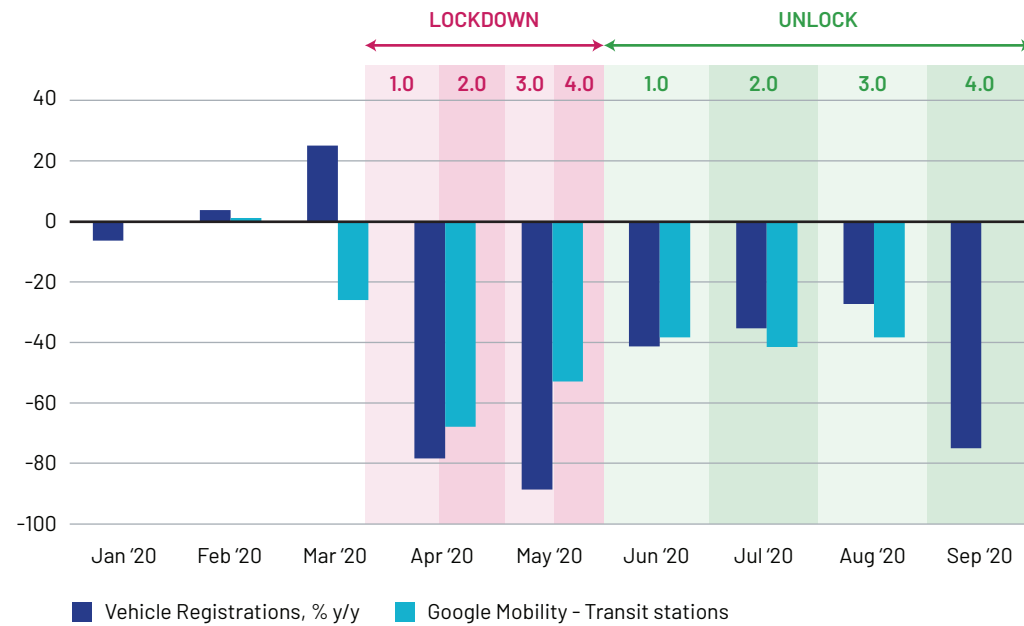
- » Electricity consumption fell significantly in April as a result of the nationwide lockdown.
- » This is in line with the fall seen in Google's workplace mobility tracker (moved away from the baseline), as factories and offices remained closed, taking a toll on industrial electricity consumption.
- » It returned to a recovery path in the subsequent months with the arrival of summer and resumption of economic activities.
- » Power usage has been uneven, but could strengthen further in the near term, driven by renewed industrial demand and weather factors.

Restrictions limit consumption

Motor vehicle registrations remain weak

Source: Google Community Mobility Report, MORTH, Acuity Knowledge Partners

Note: Data for September is MTD

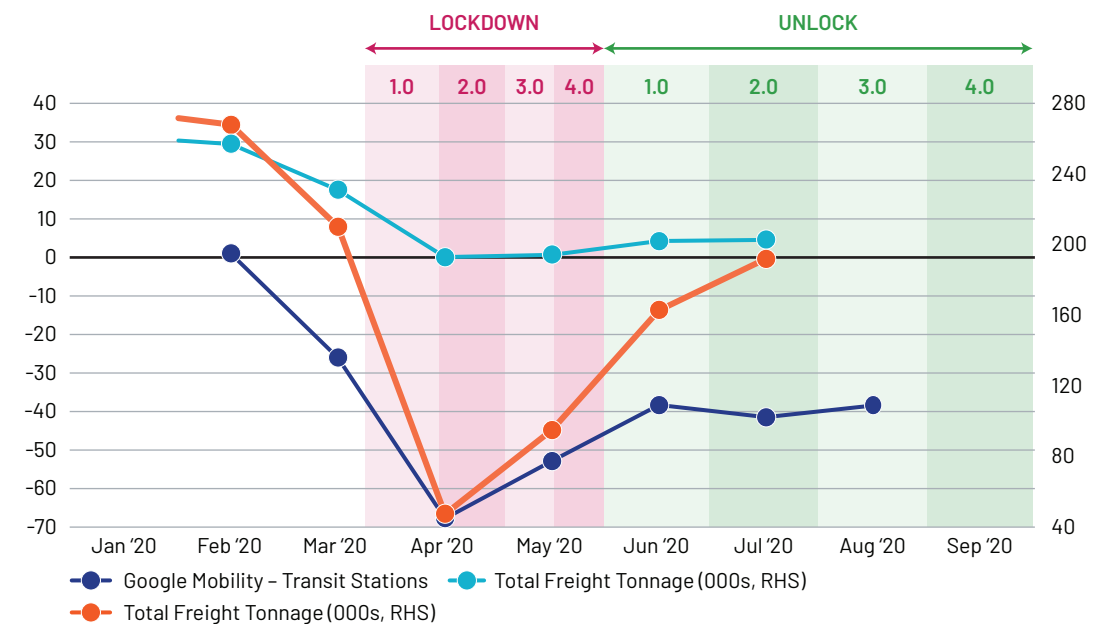


- » Vehicle registrations in unlock phases fell slowly as a result of auto dealerships and workshops reopening during unlock phases.
- » Initial estimates for September suggest motor vehicle registrations will contract again.
- » The dip in registrations is likely due to consumers facing financial adversity; it may take longer than expected to return to normalcy.
- » Google mobility transit stations data (covering movement in subway stops and bus and train stations) is likely to move closer to the baseline, following further relaxation of public transport restrictions.

Passenger traffic yet to find its foothold

Air traffic (passenger + freight)

Source: Google Community Mobility Report, AAI, Acuity Knowledge Partners



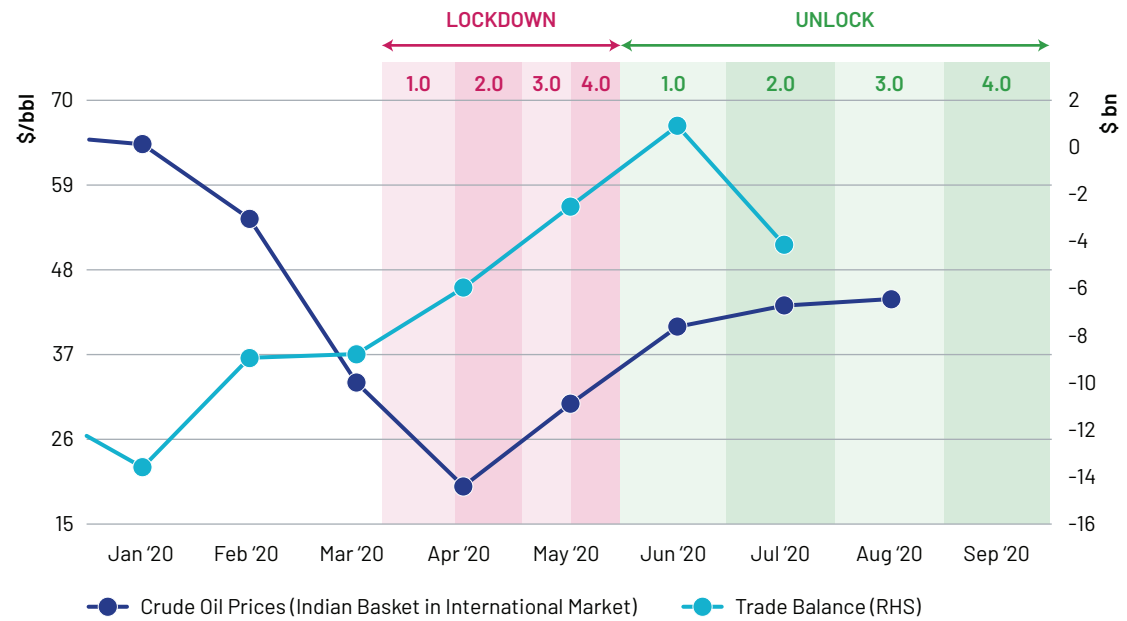
- » The lockdown impacted airways, falling in line with the transit stations index.
- » The July air traffic data spiked (mostly in freight) due to a partial resumption of airways (domestic flights resumed on 25 May).
- » Minor improvement seen in passenger traffic may not sustain in the upcoming months as reports suggested that airlines struggled to fill seats.
- » Overall, airline companies will have to wait a little longer for demand to pick up, while they cope up with the new normal.

Pharma matters to trade – then and now

Trade balance – deficit re-emerged...

Source: PPCA, DGCIS, Acuity Knowledge Partners

Note: Trade data for June and July is provisional

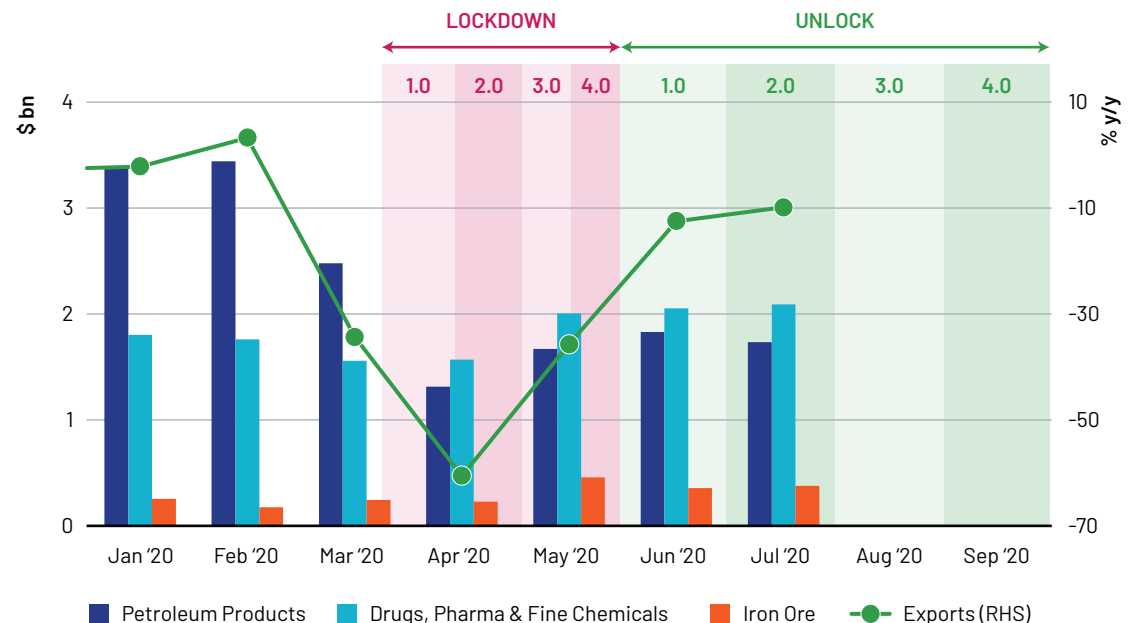


- » India posted its first goods trade surplus of USD0.8bn (in over 18 years) in June, but returned back to deficit in July.
- » Both exports and imports growth remained negative in y/y terms, but the pace of contraction slowed compared to June.
- » Imports continue to be hurt as domestic demand remains fragile.
- » While oil imports declined 32% y/y in July, crude oil prices (Indian basket in the intl. market) fell at the same rate.
- » To some extent, this has helped improve the trade balance during the tumultuous lockdown/unlock phases.

...even as drugs and pharma exports saved the day

Source: Ministry of Commerce and Industry, DGCIS, Acuity Knowledge Partners

Note: Data for June and July is provisional



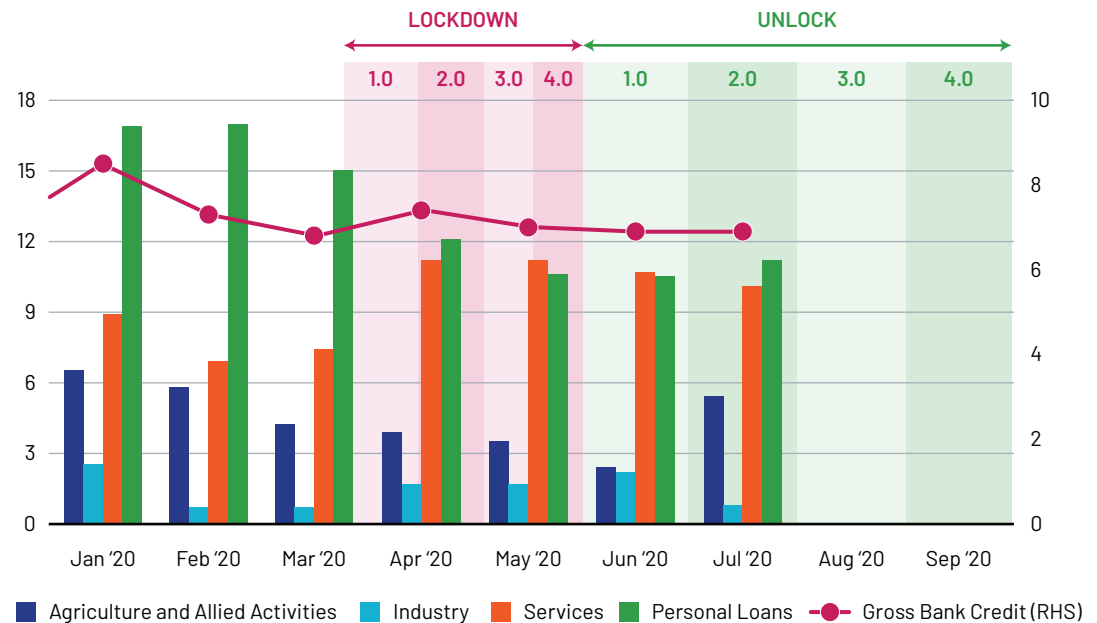
- » Exports growth started to contract in March, in line with the fall in petroleum product exports (declined by around 50% y/y in July).
- » Looking at non-oil exports, iron ore exports continue to grow, by 40% y/y in July.
- » India is the leading exporter of generic drugs (accounting for about 10% of India's total exports).
- » Apart from few other commodities (spices and rice), drugs and pharma held its ground, printing positive yet again in July (21% y/y).

And the credit goes to...

Credit ain't bad at all...

Sectoral deployment of bank credit (% y/y)

Source: RBI, Acuity Knowledge Partners



- » Agricultural credit rose in July, printing 5.4% y/y in July vs. 6.5% y/y in January.
- » Credit growth in Services edged down as credit flow to NBFCs got derailed during the unlock phases.
- » RBI expects stabilisation in market financing conditions for NBFCs, given the targeted policy measures.
- » Personal loans performed well on higher vehicle loans, hinting early signs of economic normalisation amid all other bleak signals.

...but can it save companies from closing shutters?

Source: IBBI, Acuity Knowledge Partners

Note: As on June 30, 2020

Sectoral Distribution of CIRPs (Corporate Insolvency Resolution Process)	No. of CIRPs		
	Admitted	Closed	Ongoing
Manufacturing:	1,595	765	830
» Textiles, Leather, and Apparel Products	274	143	131
» Basic Metals	277	129	148
Real Estate, Renting, and Bus Activities	777	352	425
Construction	421	168	253
Wholesale and Retail Trade	390	181	209
Hotels and Restaurants	89	43	46
Electricity and Others	120	38	82
Transport, Storage, and Communication	117	65	52
Others	402	191	211
Total	3,911	1,803	2,108

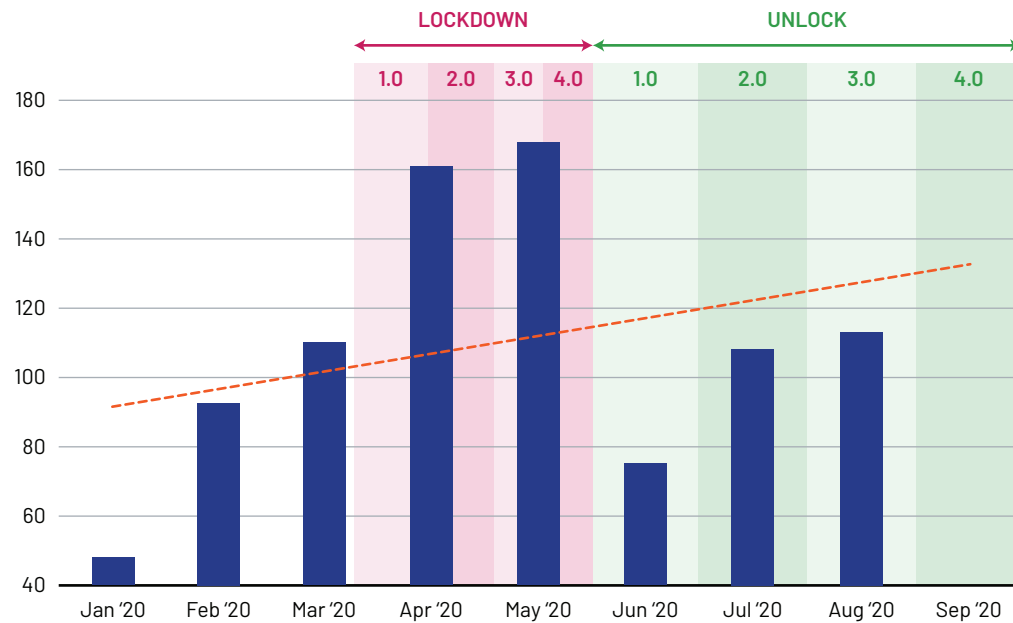
- » A series of lockdowns has brought most companies under stress with reduced/negative growth and revenue, increasing the risk of insolvency/bankruptcy.
- » In Q2 '20, the number of ongoing insolvency cases was around 2,108 (vs. 2,087 in Q1), with manufacturing again topping the chart (39% of the total).
- » We expect the number of CIPR cases to increase after the filing of insolvency suspension is lifted, even though the threshold amount of default (required to initiate CIPR) was increased to INR10mn from INR100k in March.

Uncertainty disrupts labor market

Policy uncertainty has crawled back up...

Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com, Acuity Knowledge Partners

* The Economic Policy Uncertainty index is constructed based on newspaper articles regarding policy uncertainty.

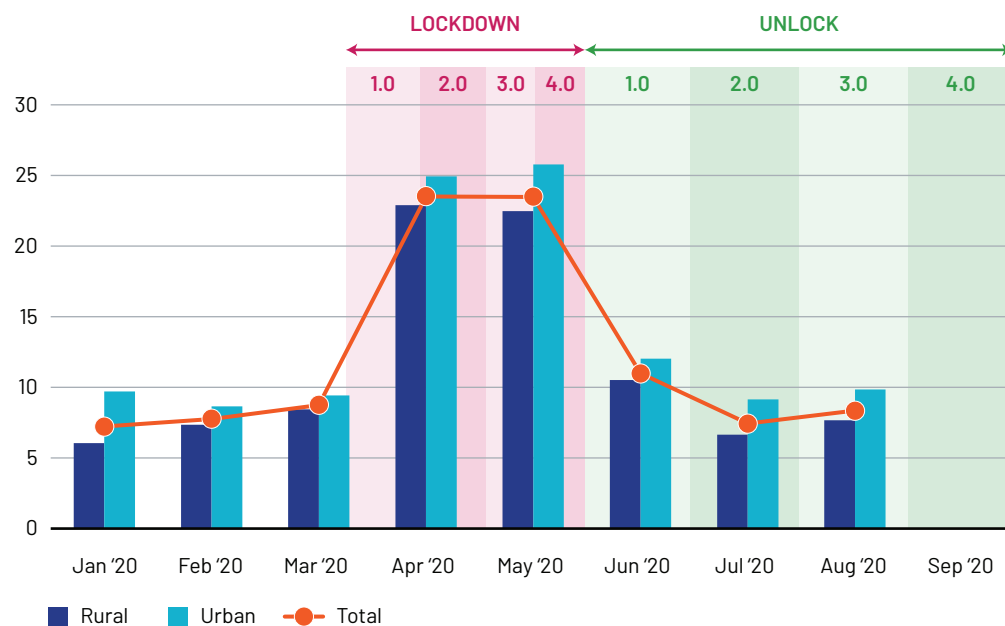


- » Economic policy uncertainty index* recorded its lowest in January (48.1). However, the subsequent months saw a sharp increase, with May touching a high of 168 (levels last seen in H2 2013).
- » While uncertainty fell sharply in June as the unlock phases began, it continued to increase again in July and August, driven by prolonged state and city-wise lockdowns, as India ranks second in terms of total number of serious/critical C19 cases.

...and so has unemployment rate

Source: CMIE, Acuity Knowledge Partners

Note: Data for August is MTD



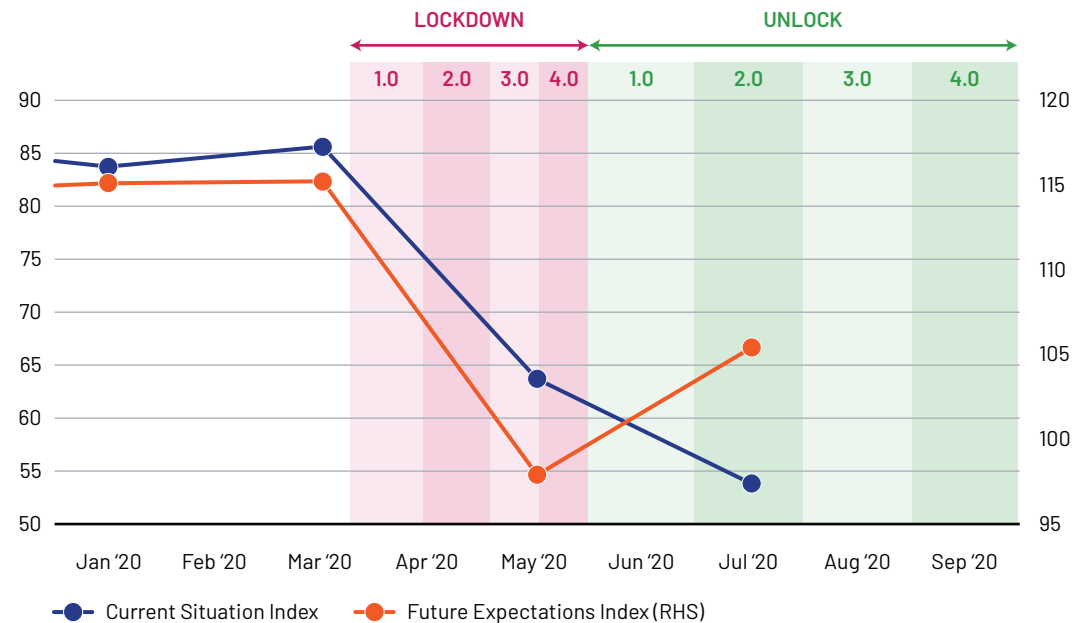
- » The CMIE unemployment rate saw a sharp spike in April-May (23.5%) as lockdowns halted the activity.
- » It fell in July (close to pre-C19 levels), but crawled back up in August, reflecting the worsening formal job market. We wait for September data to gauge the trend.
- » Rural unemployment jumped to 7.7%, taking into account migrant labour force.
- » We are looking at a possible recession as FY Q1-21 GDP contracted a historic 23.9% y/y, with labour intensive sectors, such as Construction and Manufacturing suffering the most.

Collapse of sentiment

Consumer sentiment remains bleak...

RBI consumer confidence survey

Source: RBI, Acuity Knowledge Partners

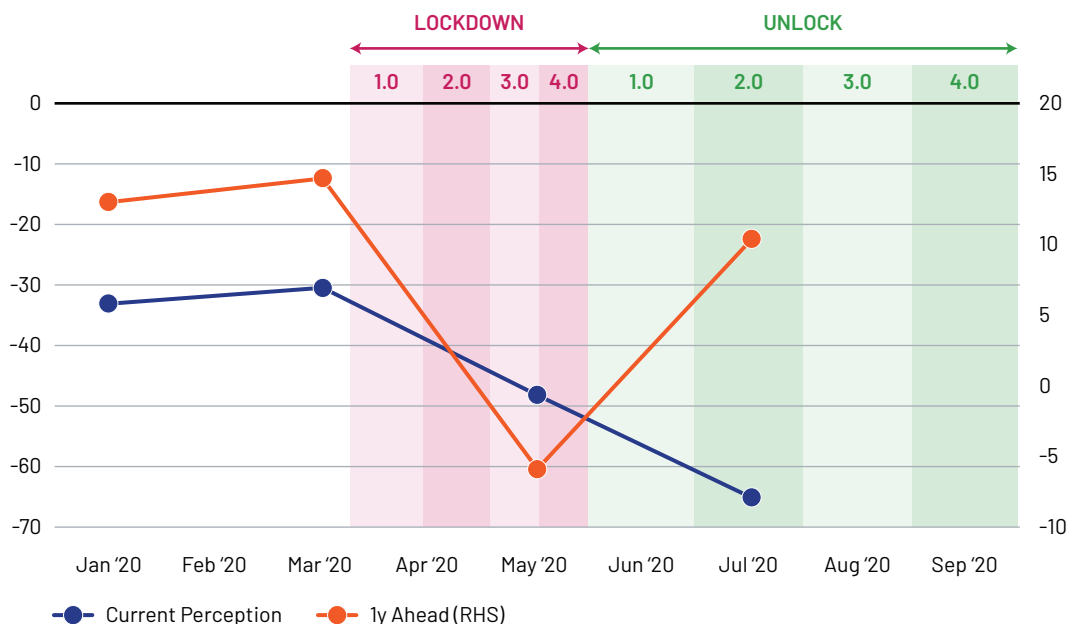


- » As per the RBI survey, consumer sentiment (current situation) plunged to a historical low in July.
- » General economic situation turned gloomy with current income and price levels turning worse than the previous print.
- » Consumers have turned wary of spending, with non-essential spending falling more than essential.
- » With the exception of spending, respondents turned optimistic about other parameters one year from now (future expectations).

...with the employment situation deteriorating further

RBI employment expectations (net responses)

Source: RBI, Acuity Knowledge Partners

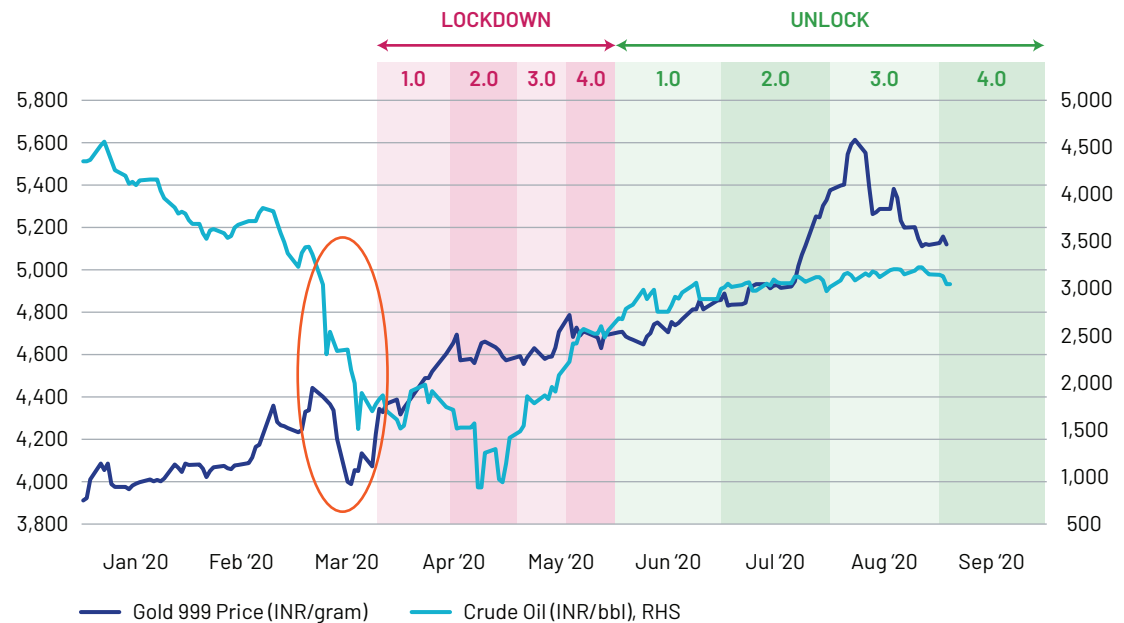


- » Employment is another important variable in consumer sentiment composition.
- » It continued to take a hard beating, similar to other components. While current situation recorded a new low, future expectations improved.
- » The "current employment situation" comes in line with the CMIE report, which showed the total unemployment rate rising again in August after falling in July (refer to the previous page).

Carnage in the market

Commodities demand went down...

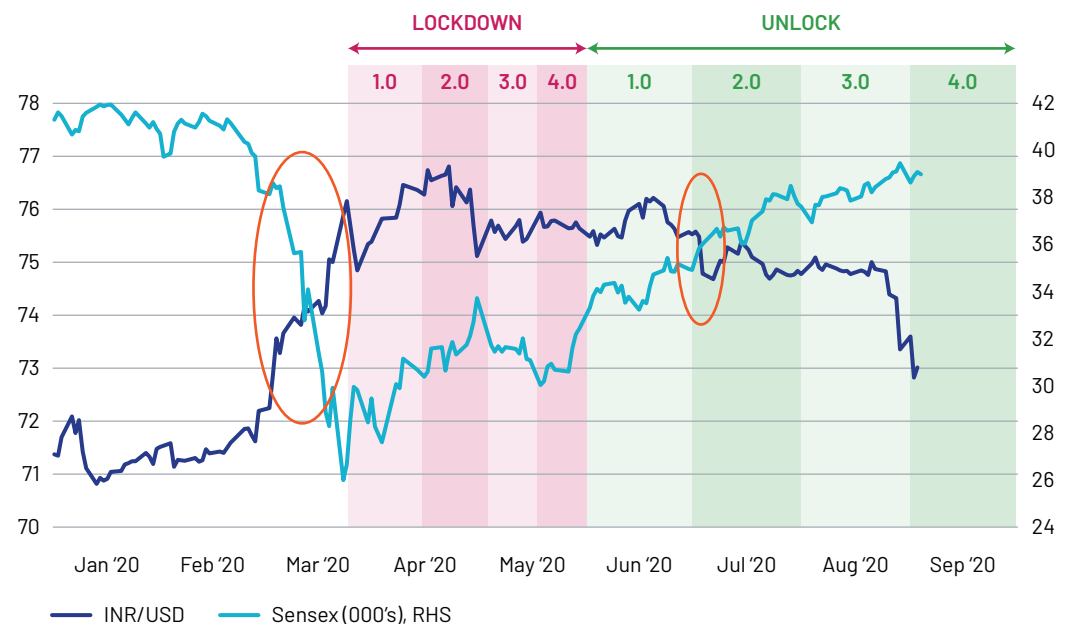
Source: IBJA, MCX, Acuity Knowledge Partners
Note: Data as on September 03, 2020



- » Gold and crude oil prices have broken their negative correlation and seen huge swings many a times since the outbreak.
- » While investors turned to gold on the traditional "safe haven" premise, crude oil prices continued to fall till end-April, supported by a fall in the international market.
- » Crude oil prices rose in June (increase in intl. markets + dom. taxes), but low consumption arrested the price increase in July and August.
- » Gold prices breached the 50k level in end-July and has been range-bound since then (led by a rise in uncertainty as C19 cases spiked).

...while FX made an August presence

Source: FBIL, BSE Sensex, Acuity Knowledge Partners
Note: Data as on September 03, 2020



- » In March, the rout in the INR (>3% fall) was temporarily halted by a series of RBI measures (FX intervention, reduction in key rates and the announcement of liquidity measures).
- » After trading around 74 in between July and end August, the INR started to strengthen, reaching 72.8 on 1 September.
- » Equity markets also recorded a free fall in March (losing ~12k points) as the outbreak spooked investors and eroded market sentiment.
- » The announcement of government measures helped put a cap on the fall and calmed the market. Sensex is currently trading in the 39k range, well below from where it started in 2020.

Fiscal support: The necessary evil

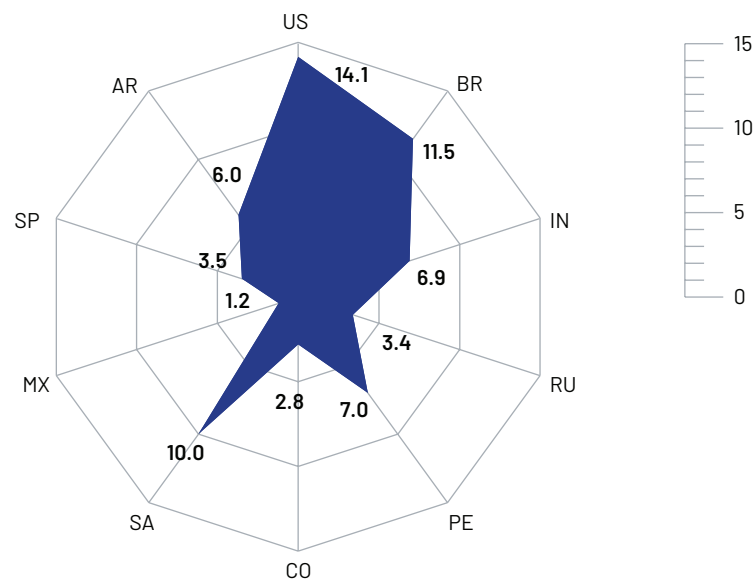
Government had to loosen its purse strings...

Fiscal stimulus (% of 2019 GDP) in Top 10 C19 nations

Source: Worldometer (As on September 03, 2020), IMF Policy Tracker (As on August 28, 2020), Tralac.org, Acuity Knowledge Partners

Note: Fiscal stimulus measures include tax and spending as well as loans and guarantees

* Government response: Fiscal measures with direct and indirect impacts on budget balance.

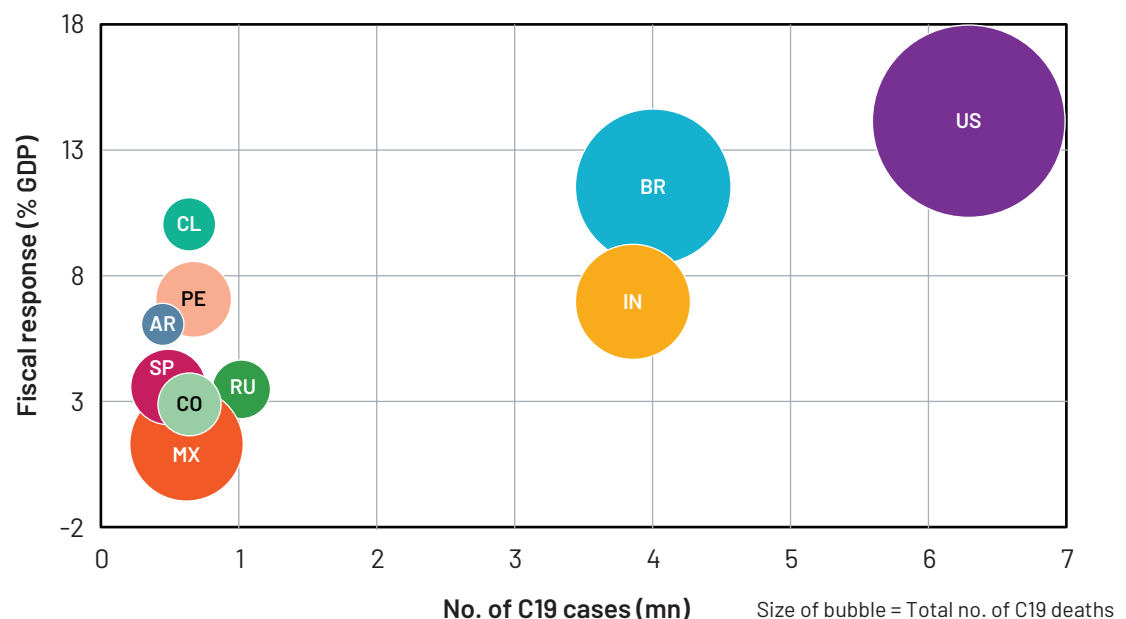


- » Monetary and fiscal policies go hand-in-hand to help the economy recuperate in time of crisis.
- » Worldwide, almost every C19-affected nation has had to make fiscal policy accommodative.
- » This chart looks at the top 10 C19 countries (total number of cases) and the corresponding C19-related government response.
- » Among DM countries, the US tops the chart with the biggest fiscal stimulus, while in EM, Brazil is ahead of other nations.

...as the pandemic rampaged the economy

Source: Worldometer (As on September 03, 2020), IMF Policy Tracker (As on August 28, 2020), Tralac.org, Acuity Knowledge Partners

Note: Fiscal stimulus measures include tax and spending as well as loans and guarantees



- » India is in the second place (total number of cases) but its fiscal stimulus has been quite limited (almost at the bottom of the table compared to other top C19 countries).
- » Direct spending amounts to 1.9% of GDP (total: 6.8%) as India lacks the fiscal space to do more.
- » With the fiscal measures announced till May, deficit is expected to breach government's 5% target.
- » This resulted in Moody's rating downgrade in June and change in outlook (to Negative).
- » India is now a step away from falling in the speculative/junk category.

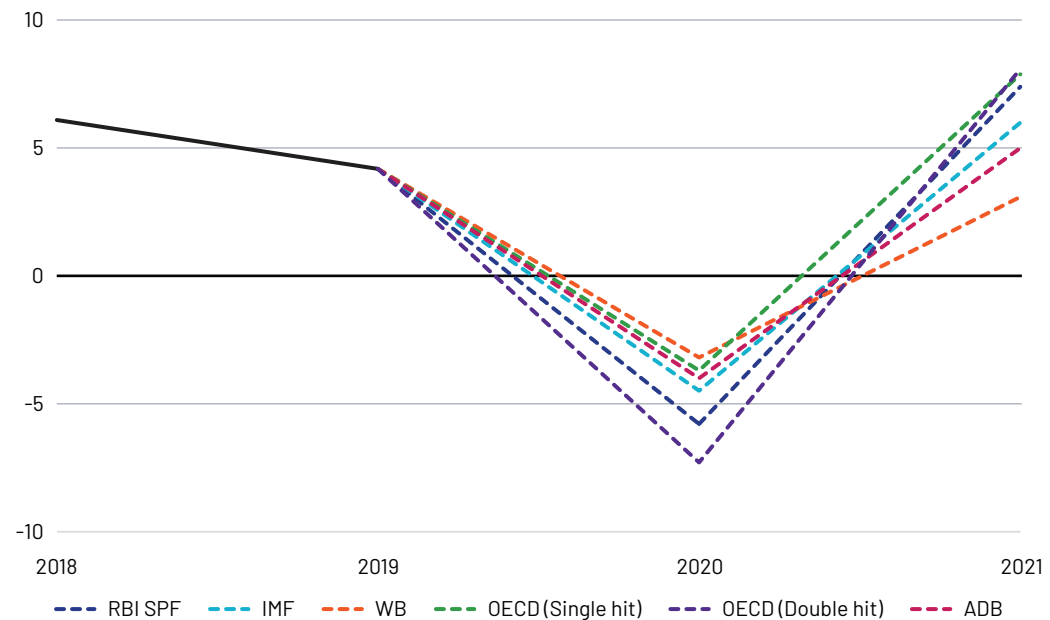
Growth engine derailed

Predicting a "V-shaped" growth recovery...

Real GDP growth rate (% , FY)

Source: Various Institutions, Acuity Knowledge Partners

Note: Single-hit scenario – A second wave is avoided



- » A global recession looks inevitable for 2020 – most international agencies revised down the growth profile to incorporate the pandemic impact.
- » Consensus expects a "V-shaped" recovery for India – OECD projects a steep fall of 7.3% (double-hit scenario), while the IMF estimates a 4.5% decline in FY2020.
- » RBI has kept mum on the extent of growth contraction; key downside risks include – surge in disease spread, deviation from projected monsoon, and global financial market volatility.

...with range-bound inflation

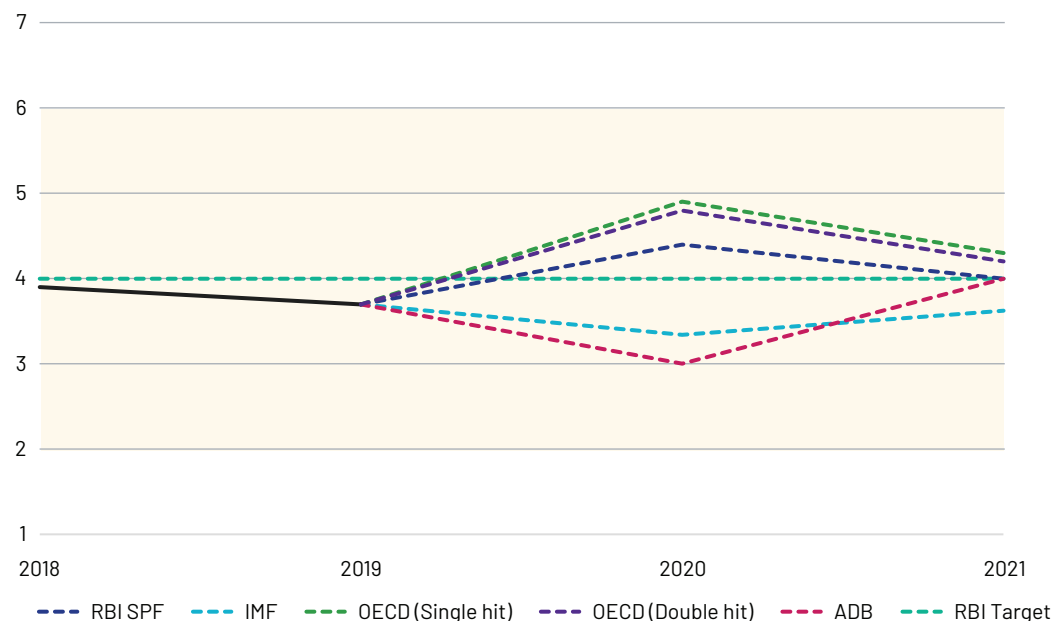
CPI (annual growth rate, %)

Source: Various Institutions, Acuity Knowledge Partners

Note: Single-hit scenario – A second wave is avoided

* The RBI's inflation target is fixed in the range of 2-6%, with 4% as the mean inflation target rate.

^ Base effects is a distortion in the inflation rate due to a sudden fall/spike in prices in the same period a year ago.



- » Inflation outlook for 2020-21 remains range-bound*.
- » The RBI expects inflation to remain elevated in Q3 2020 on increasing food prices (one reason being supply-chain disruptions) and oil prices (higher domestic taxes).
- » It is expected to ease in 2021, helped to some extent by favourable base effects^.

The story is far from over

Unlike other major countries, India is yet to peak in terms of total cases. A series of lockdowns (pre-emptive + extended) and unlock phases has only delayed the inevitable and, in an increased uncertain environment, a second wave of the outbreak/reinfections will be a double whammy for economic growth.

India's growth had started to lose steam before the pandemic –manufacturing barely grew in FY2019 while services growth slowed down. The situation worsened with the pandemic striking all channels of economic growth, hitting the weakest link first.

Overall, India faces a lot of challenges, on both domestic and global fronts (including geopolitical tensions). As the government and the central bank fight the devil head on, the battle with the pandemic rages on.

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We provide our clients with unique assistance not only to innovate, implement transformation programmes and increase operational efficiency, but also to manage costs and improve their top lines.

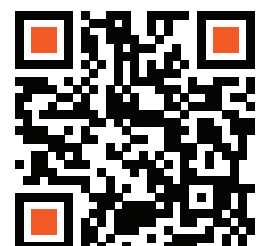
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- » Commercial Lending support: across origination, credit assessment, underwriting, and covenant and portfolio risk for all lending types
- » Private Equity: origination, valuation and portfolio monitoring support
- » Asset Management services support: across marketing, investment research, portfolio management/optimisation, risk and compliance
- » Corporate and Consulting services: market and strategic research; survey work; treasury and counterparty risk support; and CEO office support, including M&A, FP&A and investor relations support
- » Compliance support: AML analytics, KYC, counterparty credit risk modelling and servicing across banks, asset managers and corporates
- » Data Science: web scraping, data structuring, analytics and visualisation These services are supported by our proprietary suite of Business Excellence and Automation Tools (BEAT) that offer domain-specific contextual technology.

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