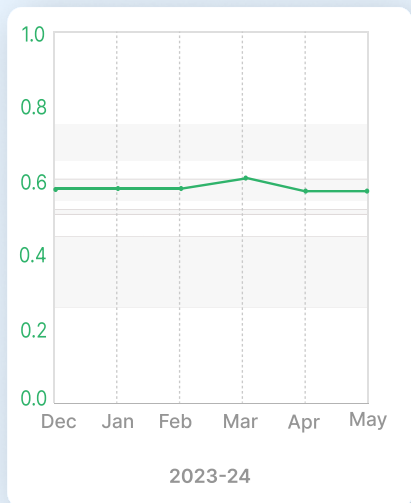


Cautious Optimism for MSMEs



**Insights from India's First
MSME Economic Activity Index**





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May'24 Jocata Sumpoorn 0.55

Jocata Sumpoorn stood at 0.55 in May, the same level as in April 2024, indicating that the sales activity of credit-seeking MSMEs remains in the phase of mild expansion.

Sumpoorn Reflects Cautious Optimism for MSMEs

Even as the Indian economy is slated to be the fastest-growing major economy globally in FY25 with robust investment and consumption, there are a number of signals tempering optimism. One of these, as called out by the Reserve Bank of India, is adverse weather shocks caused by climate change. The IMD predicted above-average rainfall this year, and the monsoon began two days earlier than normal; however, its progression in June was retarded across the country, delaying the sowing of the kharif crop. Rainfall in June, which usually accounts for 15% of the total rain, now came in at 147.2 mm against a normal of 165.3 mm for the month. Going ahead, the IMD predicts a recovery in July, but this comes with the caveat of increasingly high occurrence of flash floods, especially in cities. All in all, the spatial and temporal dimensions of monsoon are getting more critical with climate change.

Impact of Heatwave

In fact, the searing heatwave in May across large parts of the country has hit production and sales. Large firms reported the impact on production due to above-normal temperatures in April and May and this is reflected in Sumpoorn showing mild growth in the sales activity of MSMEs. The HSBC PMI Manufacturing index declining in May and the Services PMI fell to its lowest since December 2023; respondents explicitly called out heat as a factor contributing to a lower index, as working hours were reduced. The growth of the eight core sectors slowed in May to 6.3 percent yoy from the 6.7 percent clocked in April. While declines were shown by production of cement, crude oil and fertilisers over last May, interestingly, electricity supply has held its own, registering a 12.8 percent growth yoy. Though local shortages have been reported, these are of very short periods for less than half an hour and the power supply has kept up with the increased demand due to the heat; an efficient energy management system has significantly reduced the probability of a grid failure.

Rural Demand Set for Low Growth

The RBI has noted a pickup in rural demand and expects this to be sustained through the year. Yet, the Third Advance Estimates for agricultural year 2023-24 have set total foodgrain production at 3288.52 lakh tonnes, which is lower than last year's record production of 3296.87 lakh tonnes. While cereals are estimated at a record 3043.59 lakh tonnes, pulses are down to a four-year low at 244.93 lakh tonnes; sugarcane and cotton are estimated to have a lower output than the previous year. Going forward, the uncertainty in rainfall pattern will cast a shadow on expectations of high growth this year. Note that kharif sowing was delayed, fertiliser sales were subdued leading to high inventories, and tractor sales in May were only marginally higher than last year by 0.5 percent. While FMCG sales of some products moved up, the summer months have also been a challenge for some FMCG sales, as consumers did not step out of their homes in the heat. Further, some firms reported last-mile servicing to be an issue as sales staff did not step out, especially in rural areas.

Mixed Signals Give Hope

RBI's survey on consumer confidence reflects some moderation, dropping to 97.1 in May from 98.5 in March, remaining in the pessimism zone below 100. Yet, consumers expect to be spending more on essential and non-essential items over the year ahead, and this augurs well for small businesses.

The export front has been giving positive signals, with non-petroleum merchandise exports up at USD 31.36 billion in May, compared to USD 29.10 billion last year. Services exports also rose to USD 30.16 billion in May compared to USD 26.99 billion last year. This is promising, given the congestion at ports, container shortage, and rising shipping costs primarily due to the Red Sea crisis. However, geopolitical risks remain heightened marring prospects of high growth.

Lastly, bank credit to MSMEs continues to be robust, growing at 19.4 percent yoy in May compared to 14.0 percent yoy last year. However, as pointed out by RBI Deputy Governor Shri Swaminathan J. recently, “we still have a long way to go to meet the credit needs of the MSMEs”. Going ahead, the MSME sector is looking to the upcoming Budget for greater support through lower tax rates, considering all export-oriented MSMEs as SEZ industry irrespective of location of the unit, expanding ambit of PLI scheme to sectors such as apparel, toys and furniture, etc.


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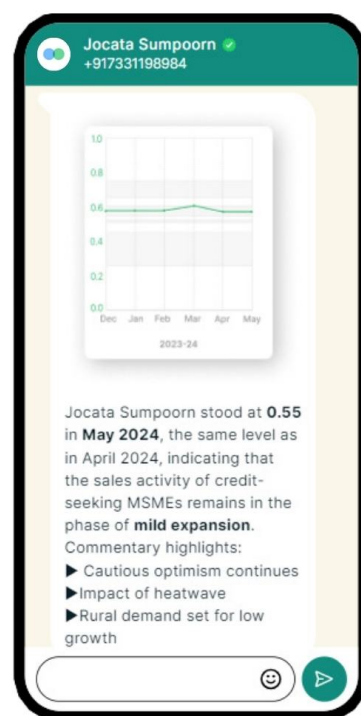
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What is Jocata Sumpoorn in association with SIDBI?

Jocata Sumpoorn in association with SIDBI is an MSME-specific high frequency indicator built using consent-led and anonymised sales data of 76,000+ MSMEs seeking credit from financial institutions.

The sample is well-distributed across geography, turnover size and sectors.

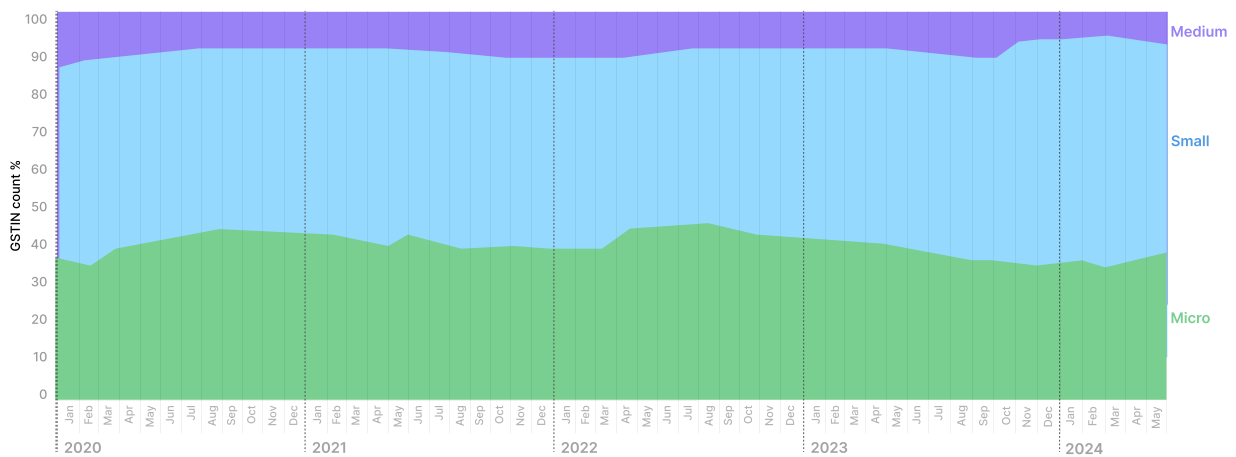


Fig - % Distribution by turnover size within MSME sample

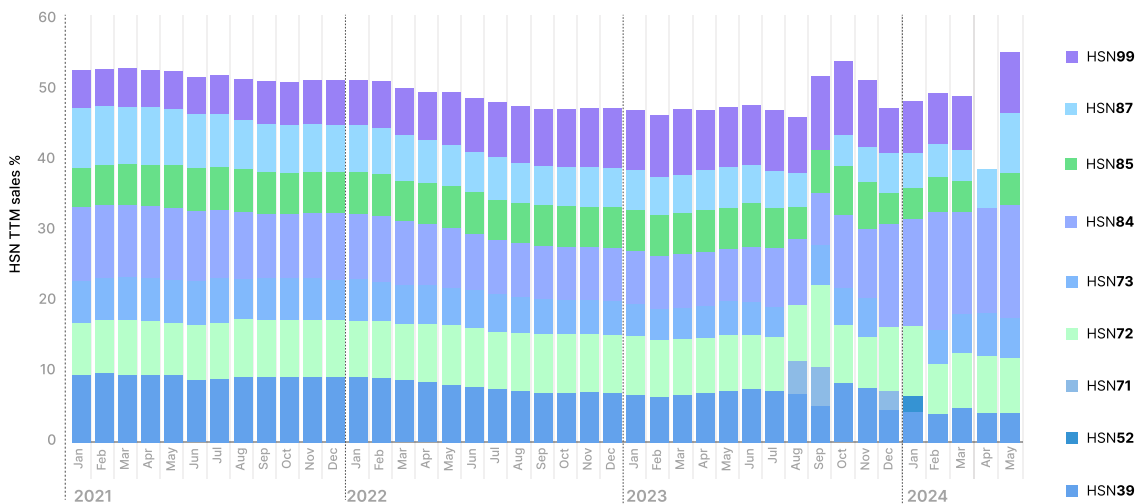


Fig.- % Distribution by value of top 7 HSNs within MSME sample



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