Economic Slowdown - March 2019

Why in news?

- Many micro- and macro-economic indicators signal that the economy is slowing down.
- It is imperative, in this context, to look at the reasons behind and the prospects for future growth.

What are the signs of decline?

- Maruti Suzuki, the largest carmaker, posted double-digit growth rates of about 14% in passenger vehicle sales during April-June 2018.
- But it witnessed declining sales for most months except October 2018 and January 2019, with less than 2% growth.
- Maruti Suzuki also recently announced of a cut in car production for March by over 25%.
- Tractor sales for Mahindra, which has a 40% plus market share, declined in December 2018.
- The growth was flat in January 2019 and dropped in February too.
- Two-wheeler sales' growth is very moderate since December 2018.
- In February, the two biggest two-wheeler producers, Hero MotoCorp and Honda Motorcycle, reported lower sales.

How is the consumption side?

- So far, consumption slowdown had affected only discretionary expenditure i.e. in products such as cars and consumer durables.
- But now there are signs of a consumption slowdown spreading to non-discretionary items such as food items too.
- This is a more worrying trend because India continues to be a consumption-led economy.
- Consumption expenditure contributes almost 56% of the country's GDP.

What do the macro indicators suggest?

- Macro indicators too are not presenting any encouraging signs either.
- The 8 core segments (steel, cement, fertilisers, coal, electricity, crude oil, natural gas and refinery products) grew at 1.8% in January.
- This is low in comparison with 2.8% in the previous month.

- Notably, 8 core segments together make up about 40% of industrial production.
- The growth in industrial output itself dropped to 1.7% in January 2019 against a growth of 2.6% in December 2018.
- Moreover, the GDP growth rate in the first 3 quarters (April-June, July-Sep and Oct-Dec of 2018) was 8%, 7% and 6.6% respectively.
- This clearly shows a trend of sequential slowing down.

What are the reasons?

- The demand for passenger vehicles slowed down during the second half (beginning September 2018) of this financial year.
- This is due to many reasons like high interest rates, higher fuel prices and lack of credit.
- Suggestively, consumers have only postponed the decision to purchase vehicles, and so this is not likely a permanent destruction of this demand.
- At a very broad level, demonetisation and introduction of GST naturally had an adverse impact on the economy.
- India has largely been a cash economy, and informal sectors were dealt a harsh blow because of this.
- Cash was squeezed out of the system, and many small businesses continue to find it difficult to cope with the GST regime.
- The currency in circulation post demonetisation dropped by about one percentage point.
- Over the last two years, bank credit slowed down dramatically because banks had to make higher provisions for bad loans.
- 6 public sector banks are under the central bank's prompt corrective action framework, and some others have voluntarily put a hold on lending.
- Resultantly, retail and businesses found it quite difficult to access credit.
- Non-banking finance companies compensated for this gap till the middle of 2018.
- But the default by IL&FS pushed the NBFC segment into a liquidity crisis.
- Alongside these, interest rates continued to remain high.
- So poor bank credit, liquidity crisis and high interest rates all created a huge drag on the economy, resulting in the current slowdown.

How is future growth potential?

- A slowing economy has varied implications to the economy and people, as it affects income of people and job creation in the country.
- The government expects the economy to grow at 7% in 2018-19, which is slower than 7.2% in 2017-18.

- Globally analysing, after growing at 3.1% in 2017, the world economy is estimated to have slowed down to 3% in 2018.
- Moreover, the outlook for 2019 suggests that this would slow down to 2.8% over the next 2 years.
- The prospects over the coming 3 years for both the US and the Euro zone are uninspiring as they point to continuous slowing down.
- China's GDP growth rate is expected to drop to 6% in 2021 from 6.5% in 2018.
- In this backdrop, India seems to be the only economy expected to have a 7.5% in the coming years till 2021.
- The World Bank's latest Global Economic Prospect has suggested the same.

What does it imply?

- Clearly, within India, the narrative is that of an economy slowing down.
- But investors in Hong Kong and New York are celebrating the Indian growth story.
- This probably explains the billions of dollars being pumped by foreign investors into the Indian stock market.
- India thus continues to be a profitable long-term bet for global investors.
- So, given its potential, India can definitely jump into the 8-10% growth orbit.

Source: Indian Express

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