State of the Economy

What is the issue?

- Our economy relies on public investment and private consumption to revive private investment and growth.
- Therefore the recent official statistics on prices and industrial activity signals tough times ahead.

What are the worrying trends?

- **Industry -** The industrial output dropped by 0.4% in December 2016 i.e a 2% decline in manufacturing and a 6.8% decline in consumer goods.
- This might result in low employment generation and price rise of finished goods.
- **Consumer & Wholesale price -** In December consumer prices had risen fractionally faster (3.4%) than wholesale prices (3.39%).
- But in January, wholesale prices have risen at 5.25% and the pace of price rise at the consumer level was at 3.2%.
- Soon the consumer prices will catch up with the whole sale price, raising the inflation levels.
- This price rise is not because of the food prices. The food prices are not a problem currently because of a normal monsoon.
- The current whole sale price rise is because of the rise in consumer prices of non-food articles and fuel.
- The price of fuel and power rose at 18.14%, manufactured products grew by

4% and minerals by 1%.

- **Oil Price -** There is a belief that higher shale gas output will check a further spike.

- Yet a rise in oil prices beyond $65 a barrel would be a cause for concern for India's growth and Centre's fiscal arithmetic.

- Excise duties on petroleum products were raised when prices were low to protect consumers from an upward price shock.

- Cutting those duties will upset revenue calculations, but leaving them untouched will affect spending and growth.

- **Interest rate -** The RBI has cited 'transitory effects of demonetisation on inflation and output' as the rationale for not changing the interest rates and shift from an accommodative monetary stance to 'neutral'.

- RBI is unlikely to ease its stance unless it sees executive action against inflation risks.

Source: The Hindu