

## **The Economy hasn't Recovered**

### **Why in news?**

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With prices rising and manufacturing slowing, the economy hasn't completely recovered.

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### **Why is 2<sup>nd</sup> quarter data misleading?**

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- An impressive 2nd quarter (July to Sep) growth of 6.3% after slowing for at least 4 quarters was touted as a recovery.

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- Sovereign rating upgrade by a global agency and an improvement in World Bank's 'ease of doing business' index was also a positive.

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- But the official data for the 3<sup>rd</sup> quarter, so far suggest that factors such as rising oil prices could upset the fragile recovery.

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- Notably, manufacturing growth in the 2<sup>nd</sup> quarter was a major factor in the second quarter growth pick-up.

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- But this was primarily driven by restocking by producers after the rollout of the GST - a onetime event and not a sustainable trend.

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### **How does October's data read in comparison?**

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- After 2 months of robust 4%-plus Industrial growth, the 'Index of Industrial Production - IIP' slipped in October to just 2.2%.

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- Despite October being a festive month, consumer durables production

contracted by nearly 7%.

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- Mining activity was virtually stagnant, and manufacturing growth moderated to 2.5% from 3.8% last October.

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- Also, at a time when global trade is picking up, India has seen a 1.1% export slump after over 13% in the 2<sup>nd</sup> quarter.

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- There has also been a nearly 10% drop in GST collections in October compared to September.

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- The IIP has now grown just 2.5% in the first seven months of 2017-18, compared to 5.5% in the same period last fiscal.

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### **How is the inflation outlook?**

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- With job creation still poor, latest inflation data reflects a broad-based price rise under way, primarily due to fuel & food inflation.

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- From just 1.5% in June to 3.6% in October, CPI inflation currently touches 4.88%, which is a 15 month high.

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- Within food, rising onion and tomato prices pushed vegetable inflation to a 16-month high of 22.5% and egg prices rose by 8%.

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- While some of this food inflation could wane soon, there is greater concern about core inflation (excluding food and fuel).

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- Also, recently oil prices breached the \$65 a barrel mark for the first time in over 2 years - which would constrain our imports.

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### **What are the challenges?**

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- Slashing fuel taxes could calm inflation, but it would hit revenue collections that are already uncertain owing to GST.

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- Not cutting taxes would leave less room for the central bank to lower interest rates due to inflation fears.  
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- Notably, 'Economic Survey' has stated that if oil persists at \$60-65 a barrel, it would further dent consumption and investment.  
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**Source: The Hindu**

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