

The Economy hasn't Recovered

Why in news?

\n\n

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

\n\n

Why is 2nd quarter data misleading?

\n\n

\n

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

\n

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

\n

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

\n

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

\n

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

\n

\n\n

How does October's data read in comparison?

\n\n

\n

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

\n

- Despite October being a festive month, consumer durables production

contracted by nearly 7%.

\n

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

\n

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

\n

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

\n

- 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.

\n

\n\n

How is the inflation outlook?

\n\n

\n

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

\n

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

\n

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

\n

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

\n

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

\n

\n\n

What are the challenges?

\n\n

\n

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

\n

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

\n\n

\n\n

Source: The Hindu

\n

