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 2nd 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 3rd 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 2nd 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 2nd 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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