Economy may shrink by 14.2% in Q1: survey

Labour shortage and weak demand remain major hurdles for companies

India's economy may contract by 14.2% in the June quarter and the absence of a demand stimulus, a second wave of coronavirus infections and continuing curbs will weigh heavily on growth prospects, a survey of economists has found.

The Federation of Indian Chambers of Commerce and Industry (Ficci) said on Sunday that its economic outlook survey conducted in June has shown an annual median growth forecast for FY21 at -4.5% and a quarterly median forecast of -14.2% for the three months ending June.

Official numbers for the first quarter are expected by the end of August.

Activity in sectors such as consumer durables and fast-moving consumer goods (FMCG) are gaining traction, but the majority of the companies are still operating at low capacity, Ficci said.

A dearth of labour and feeble demand remain major issues for the companies, the lobby group said.

"A majority of economists believed that the government could have undertaken a more aggressive fiscal stance than what has been announced in the two packages combined," Ficci said.

The government on Sunday said that the stimulus measures taken so far were reviewed and that a new scheme for bankruptcy resolution of small businesses was being prepared.

Ficci said the government could consider a goods and services tax rate cut on non-essential goods to drive demand. Some tax waivers for low-income groups will also help, it said.

The industry's appeal for demand stimulus comes in the wake of official data showing last week that industrial output had contracted for the third straight month in May, though at a slower pace than in April. Data from the Central Statistical Organization (CSO) on 10 July showed the Index of Industrial Production (IIP) in May contracted by 34.7% against 57.6% in April. This indicated that industrial activity has begun picking up, though getting back to previous levels remains a challenge.

A host of high-frequency data, including tractor sales for June, forecast of a normal monsoon, and improved summer sowing, suggested recovery in economic activities. Many economists have also suggested that the rural economy and supply of essential goods and services remained unaffected by the lockdown and that one should not be carried away by extreme predictions of a contraction in the economy this fiscal.

Travel and tourism and aviation are among the worst-affected sectors with the coronavirus pandemic taking a heavy toll on consumer confidence.