PRESS MONITOR
Financial Express, Delhi
Monday, 16th August 2021; Page: 1
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REPORT CARD

Eco growth nascent, faces mixed prospects

High frequency indicators like GST, exports & imports, auto sales suggest recovery in July, but chief economic agents ambivalent; monetary stimulus can't last too long

FE BUREAU
New Delhi, August 15

DESPERATE ATTEMPTS BY some economic actors to come out of a crisis that lasted for a frustratingly long period enabled some indicators to move up in July after being trammelled by the second Covid wave in May-June.

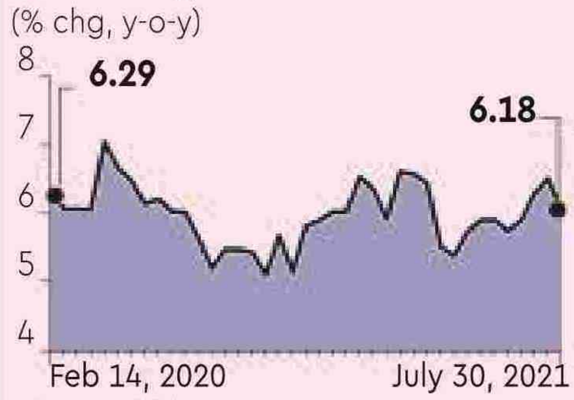
However, since the principal economic agents — private investors, lenders and consumers — don't yet seem to have overcome an extreme risk aversion and the government-sector doesn't appear to be living up to its task, the pace of recovery in the second half of FY22 could be lower than predicted by government managers.

As it happens, credit growth continues to be subdued and industrial output is below the pre-Covid level. Also, the services sector that constitutes much of the aggregate demand, is weak.

Though a section of Corporate India reported decent operating margins even in Q1 by reining in costs, that hardly reflects the state of the economy; profits of most firms remain under pressure and the MSMEs are in graver crisis.

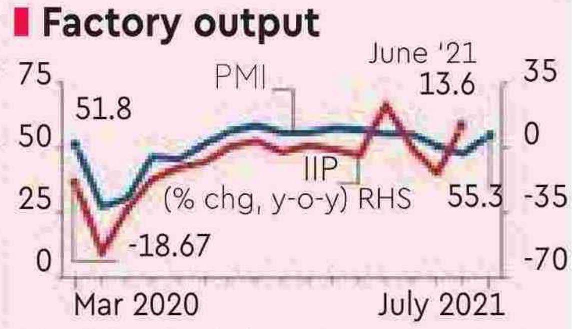
Rising commodity prices and shipping costs could continue to impact the larger industry through the current quarter and beyond, and slow the momentum of recovery.

Credit growth
(% chg, y-o-y)



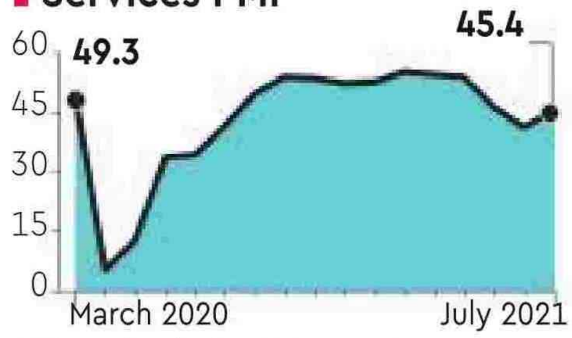
Source: RBI

Factory output



Note: PMI reading below 50 suggests contraction and above it indicates expansion; IIP for April & May 21 compared with April & May 2019; Source: IHS Markit, MoSPI

Services PMI



PMI reading below 50 suggests contraction and above it indicates expansion
Source: IHS Markit

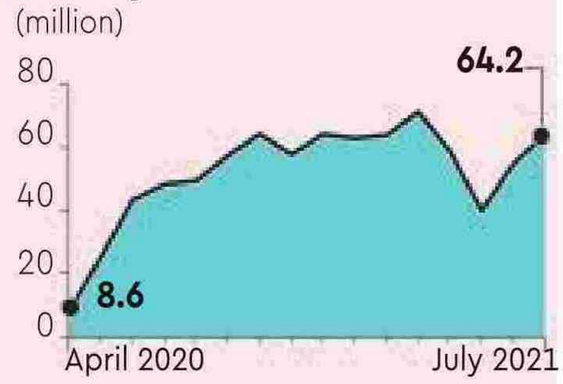
Investments
(Value of new investment, ₹ lakh cr)

Source: CMIE

Retail auto sales
(% chg, y-o-y)

Note: April & May 21 compared with April & May 2019; Source FADA

E-way bills
(million)



Source: GSTN

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Eco growth nascent, faces mixed prospects

The finance minister made it clear that growth is being accorded top priority and the monetary policy stance is in concert with this approach. However, given that inflationary pressures are real and the US Federal Reserve has signalled its intent to raise interest rates later this year, the Reserve Bank of India may have to soon start gradually unwinding the monetary stimulus; it dropped hints of this at the latest policy review. The RBI may also shift stance from 'accommodative' to 'neutral' and even hike rates marginally by the end of the current fiscal year.

As for the high-frequency indicators, gross Goods and Services Tax (GST) collections came in at an impressive ₹1.16 lakh crore in July (largely June transactions), up a third on year and a quarter on month. That in July, the average daily e-way bill generation was 14% higher than the level in June and 60% higher than in May indicates the August collections (from July sales) could be even higher. Daily e-way bill generation stood at 19.5 lakh in the first eight days of August, 1.3% higher than the average for first 11 days of July, yet 5.8% lower than the daily average for the full month of July.

Manufacturing activity, as measured by the Purchasing Managers Index (PMI), reversed a contraction witnessed in June and grew at its fastest pace in three months in July, as states relaxed curbs imposed in the wake of the second Covid wave. Output rose at a robust pace, with over one-third of companies reporting a monthly expansion in production. But services activity shrank for a third straight month in July, although the contraction level narrowed from June.

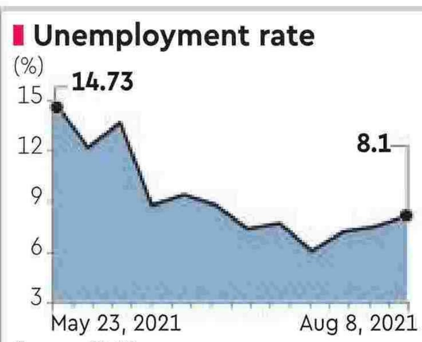
Buoyed by robust external demand and a rise in global commodity prices, merchandise exports exceeded the pre-pandemic level (same months in 2019) for five months in a row through July. Exports surged 50% in July from a year before and 35% from the corresponding month of 2019. Imports, too, shot up by 63% from a year before and 15% from the same month in 2019, suggesting a gradual rise in domestic demand.

Favourable base effect drove up the index of industrial production (IIP) by 13.6% in June (it had shrunk 16.6% in June 2020). But the IIP still remained 5.2% lower than the June 2019 level. Also, the output of eight core infrastructure sectors grew 8.9% year-on-year in June but it still trailed the June 2019 level by 4.7%.

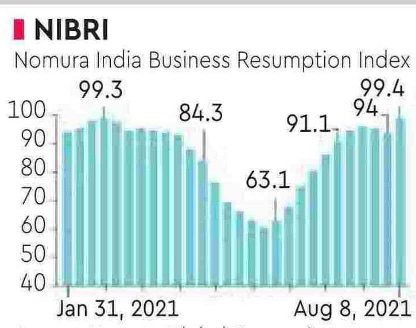
As dealerships re-opened across the country after the Covid-induced lock-down, retail auto sales picked up across categories in July, registering year-on-year growth of 34%, albeit on a low base. Importantly, sales of passenger vehicles in July were up 24.3% on the July 2019 (pre-pandemic) level. Of course, on an overall basis, auto sales in July were still 13.2% lower than registered during the same month in 2019, but the deficit narrowed. The commercial vehicle segment too have started witnessing an increase in demand, especially for the medium and heavy commercial vehicles. Demand continued to be positive in the two-wheeler segment too in July, but the rate of recovery remained rather sluggish.

Demand for electricity shot up to a multi-month high level of 124.4 billion units (bu) in July, from 108.8 bu in May. Petrol sales too smartly recovered to 2.63 million tonne (mt) in July from 1.99 mt in May.

India's joblessness rate rose to a six-week high of 8.1% in the week ended August 8, according to data compiled by the Centre for Monitoring of Indian Economy (CMIE); the rate had fallen to 5.98% in the week ended July 18. The latest rise in the unemployment rate was apparently on the back of an increase in the labour force participation rate (LFPR), so much less of a worry.



Source: CMIE



Source: Nomura Global Economics