Demand Shock - Impact of the Pandemic

What is the issue?

- RBI officials including Deputy Governor Michael Debabrata Patra brought an article on the 'State of the Economy'.
- The article has flagged the 'demand shock' inflicted by the second wave of the COVID-19 pandemic.

What are the key indicators?

- There is loss of mobility, impact on discretionary spending and increase in unemployment.
- These are cited as clear signs that demand is in the low phase.
- Several high-frequency indicators for April 2021 have captured the reversal in momentum.
- GST e-way bills, an indicator of the health of domestic trade, contracted 17.5% month-on-month.
- Automobile fuel consumption, commercial vehicle sales and domestic air passenger traffic all shrank from the preceding month.
- The previously relatively unaffected rural economy too saw decreased demand as new COVID-19 infections spread deeper into the countryside.
- Also, unemployment, which hit a four-month high of 8% in April 2021, was at 9.5% on May 18, 2021 based on a 30-day moving average.
- Crucially, rural unemployment captured by the moving average has risen to 8.6%.
- Worryingly, this comes at a time when the pandemic would demand higher spending on health for the rural households.

How does the future look?

- The last fiscal year led to a crippling contraction in the economy.
- The virus continues to spread in the country at a massive scale.
- The pace of vaccinations too have slowed nationwide, more so in rural and semi-rural areas.
- The agriculture sector is likely to face challenges in the coming months, when sowing for the kharif crop will need to be done.
- Rural demand has low scope with only around the barest of essentials

including food and medicines possible.

- Added to this is the rising cost of transport fuels, and the sharp increases in commodity prices, cutting across agricultural and industrial raw-materials segments.
- There is thus ‘a worsening of domestic cost conditions’ as the RBI officials warn.

What is the way ahead?

- Accelerating inflation threatens the economy’s overall consumptive capacity.
- Policy makers also need to be wary of the real danger of stagflation.
- The shrinking fiscal space notwithstanding, authorities need to spend more on an expedited nationwide vaccine roll-out.
- They must also seriously consider direct cash transfers to boost demand.

Source: The Hindu

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