Economic Slowdown

What is the issue?

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In the backdrop of slowing economic growth, it is essential to analyse on the signs of recovery.

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How is the economy at present?

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- The economic growth has slumped to 5.7% in the first quarter of the current fiscal year, the slowest pace of expansion in three years.
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- The overall consumption demand has gone down, especially the rural demand, primarily driven by the effects of demonetization and farm crisis.
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- The private sector companies are not in sound financial health to launch new projects, largely because of the excess debt.
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- Some transient factors are attributed to this current slowdown, which include:
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i. inventory destocking by companies before the implementation of GST.
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ii. technical problem of the deflators used to convert nominal output growth to real output growth.
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How are the signs of recovery?

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- The possibility for the economy to bounce back once these transient factors go away are uncertain or rather the signs are mixed.
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- The favourable signs are:
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i. The manufacturing purchasing managers index (PMI) moved into expansion territory in the recent month.
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ii. High-frequency indicators such as cars, two-wheelers, tractors, air traffic and railway freight are positive.
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iii. The foreign trade sector also offers scope for hope.
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- The unfavourable signs are:
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i. The services purchasing managers index (PMI) is not very optimistic.
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ii. The data for cement, coal and steel continues to be disappointing.
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- A comprehensive look at these high-frequency indicators suggest that economic growth in the second quarter could see some recovery.
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- However, it is to be noted from the precedents that the business cycle takes time for recovering from the slowdown point.
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- Also, the expansion of the Indian economy without affecting the inflation target is a challenge.
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What is the way forward?

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- The economists in the finance ministry, the RBI and the new economic advisory council will have to address these technical challenges.
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- The policymakers and investors have to differentiate the transient factors from the structural ones which are behind the current slowdown.
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- A clear economic thinking on the structural causes can ensure that the economy is not further pushed down but is taken on the path of recovery.
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Source: Livemint

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