

State of the Economy

What is the issue?

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- Our economy relies on public investment and private consumption to revive private investment and growth.

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- Therefore the recent official statistics on prices and industrial activity signals tough times ahead.

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What are the worrying trends?

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- **Industry** - The industrial output dropped by 0.4% in December 2016 i.e a 2% decline in manufacturing and a 6.8% decline in consumer goods.

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- This might result in low employment generation and price rise of finished goods.

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- **Consumer & Wholesale price** - In December consumer prices had risen fractionally faster (3.4%) than wholesale prices (3.39%).

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- But in January, wholesale prices have risen at 5.25% and the pace of price rise at the consumer level was at 3.2%.

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- Soon the consumer prices will catch up with the whole sale price, raising the inflation levels.

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- This price rise is not because of the food prices. The food prices are not a problem currently because of a normal monsoon.

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- The current whole sale price rise is because of the rise in consumer prices of non-food articles and fuel.

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- The price of fuel and power rose at 18.14%, manufactured products grew by

4% and minerals by 1%.

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- **Oil Price** - There is a belief that higher shale gas output will check a further spike.

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- Yet a rise in oil prices beyond \$65 a barrel would be a cause for concern for India's growth and Centre's fiscal arithmetic.

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- Excise duties on petroleum products were raised when prices were low to protect consumers from an upward price shock.

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- Cutting those duties will upset revenue calculations, but leaving them untouched will affect spending and growth.

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- **Interest rate** - The RBI has cited 'transitory effects of demonetisation on inflation and output' as the rationale for not changing the interest rates and shift from an accommodative monetary stance to 'neutral'.

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- RBI is unlikely to ease its stance unless it sees executive action against inflation risks.

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Source: The Hindu

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