State of the Economy

What is the issue?

\n\n

\n
- Our economy relies on public investment and private consumption to revive private investment and growth.
\n
- Therefore the recent official statistics on prices and industrial activity signals tough times ahead.
\n

\n\n

What are the worrying trends?

\n\n

\n
- **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.
\n
- This might result in low employment generation and price rise of finished goods.
\n
- **Consumer & Wholesale price -** In December consumer prices had risen fractionally faster (3.4%) than wholesale prices (3.39%).
\n
- But in January, wholesale prices have risen at 5.25% and the pace of price rise at the consumer level was at 3.2%.
\n
- Soon the consumer prices will catch up with the whole sale price, raising the inflation levels.
\n
- This price rise is not because of the food prices. The food prices are not a problem currently because of a normal monsoon.
\n
- The current whole sale price rise is because of the rise in consumer prices of non-food articles and fuel.
\n
- The price of fuel and power rose at 18.14%, manufactured products grew by

4% and minerals by 1%.
\n

- **Oil Price -** There is a belief that higher shale gas output will check a further spike.
  \n
- 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.
  \n
- Excise duties on petroleum products were raised when prices were low to protect consumers from an upward price shock.
  \n
- Cutting those duties will upset revenue calculations, but leaving them untouched will affect spending and growth.
  \n
- **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’.
  \n
- RBI is unlikely to ease its stance unless it sees executive action against inflation risks.
  \n

\n\n

\n\n

Source: The Hindu

\n\n

\n

