

Don't Ignore Signs of Economic Slowdown

The Needle's Eye



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How many different kinds of evidence do we need to convince ourselves that the economy is slowing dramatically? Consumer price index (CPI) inflation fell to 2.2% in May, but that was put down by facile analysis to plunging food prices and a good monsoon.

The Index of Industrial Production (IIP) base year has been moved from 2004/05 to 2011/12. The result, as I noted in my last column, is that IIP is now stated to have grown by 5.0% in 2016/17; it would have been 0.7% growth on the old base. Newer numbers released last week showed that IIP grew just 3.1% in April. Manufacturing, which constitutes more than three-quarters of the weighting of the IIP, grew just 2.6% in

April after 4.9% in 2016/17.

There were declines in production of everything from axles to air coolers to shelled cashews to commercial vehicles (a key indicator of healthy road transport/commerce that fell 28.8%). The biggest positive growth was in digestive enzymes and antacids which grew 113% - a sign of how acidic and stressed many of us might be feeling?

For some atavistic reason, our policy-makers seem to think that, after three years of middling 'new normal' growth, we are on the cusp of a vertical take-off, thanks to a stronger rupee, a couple of months of rising exports, and the magic wand of the Goods and Services Tax (GST) which the government swears it will roll out on July 1, ignoring a rising chorus of warnings that businesses and technical infrastructure are not fully ready.

On Tuesday, the Manpower Group's survey of 4,910 employers on their plans for the July-September quarter revealed the sixth consecutive quarter of slower hiring activity. The survey said its findings were the "least optimistic since the survey was launched in 2005".

A brief digression: India's economic fundamentals, especially our current-account deficit, which stood at 1.4% of

gross domestic product in the Sept-Dec 2016 quarter, look good because we have been helped by a windfall - the plunge in oil prices since 2014.

Let's look at Brent crude oil, the benchmark. The price per barrel of Brent rose from an average \$38.26 in 2004, the first year of the UPA government, to \$72.44 three years later. In contrast, average Brent prices dropped from \$109.54 in May 2014, the month Prime Minister Narendra Modi took office, to \$52.31 in April this year. Crude prices really started to crash in June 2014, a few weeks after Modi was sworn in. Oil prices look like they will remain low for years to come, with some spikes from a low base: India's April oil bill rose 30% over a year earlier.

Despite the huge fall in our oil import bill (\$138 billion in 2014/15, \$82.66 bil-

lion in 2015/16, \$86.4 billion in 2016/17) our trade deficit has not plunged, because exports have fallen through much of Modi's three years.

Exports fell 1.23% in 2014/15 to \$310 billion, fell further by 15.85% to \$261 billion in 2015/16, and then rose only marginally by 4.7% to \$274.6 billion in 2016/17. The trade deficit stood at \$105.7 billion in 2016/17, down from \$118.7 billion in 2015/16 and \$137.7 billion in 2014/15; this was mainly because imports also fell in a sign of a slowing economy. Exports rose in June last year, breaking 19 months of falls, but then shrank again in July and August before starting to rise again.

The Modi government has certainly carried out a stream of fixing-the-plumbing reforms - from transparent auctions of telecom spectrum or coal licences, to direct transfers of subsidies, to the vast expansion in financial inclusion through the Jan Dhan and Mudra schemes. High-level corruption, which tainted the previous government's second term, is certainly not now a refrain.

There has been a rise in credit and debit card usage and electronic payments after demonetization, but it is not exponential, and the cash economy continues to thrive. A Transparency

REFORM AGENDA



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International survey published in March said India had the highest rate of bribery among the 16 Asian countries surveyed, although 53% felt the government was doing a good job in tackling corruption.

Reserve Bank of India data show 671.5 million electronic financial transactions worth 94 trillion rupees in November 2016 when demonetisation was clamped. This went up to a high of 893.9 million transactions in March (when the financial year ends) worth 149.6 trillion rupees. But this has come down to 851 million transactions worth 111 trillion rupees in May. So, about a 27% rise in transactions since November; and an 18% rise in value. Credit and debit card transactions have gone up modestly, from 205 million (worth 352 billion rupees) in

November to 226 million (worth 441 billion rupees) in May.

Worryingly though, the slowdown in manufacturing, coupled with the abysmally low rates of capital formation, spell long-term stagnation. The government's chief statistician, TCA Anant, noted that gross fixed capital formation has trended below 30% of GDP; it slipped to 29.5% in 2016/17, and needs to go up sharply if momentum is to be restored.

Over the past few weeks, activity has finally begun to rise in battling the tidal wave of non-performing loans and stressed assets swamping our banking system. The finance ministry seems to believe that monetary policy, that is, the easing of interest rates, will kick-start the economy.

But, saddled with mountains of bad debt, banks have been infuriatingly slow in passing on previous monetary easing to borrowers. So long as banks continue to shy away from lending money to businesses, that kick will be missing. RBI data show that outstanding gross bank credit as of March 31, 2017, was a measly 7.4% higher than the previous year at 71 trillion rupees. Outstanding loans to micro and small businesses shrank 0.4%, while credit to medium-sized businesses fell by

8.7%. These two sectors account for the huge bulk of jobs. But official unemployment data is suspect: earlier this month Niti Aayog vice-chairman Arvind Panagariya said a new annual survey of households would be commissioned to better gauge unemployment. Myopically, the government is ignoring a huge, established unemployment survey published by the independent Centre for Monitoring Indian Economy. Every four months, CMIE surveys over 161,000 rural and urban households and publishes a 30-day moving average. As of June 13 the CMIE's unemployment rate stood at 3.91%.

The Bharatiya Mazdoor Sangh (BMS), the trade union wing of the Rashtriya Swayamsevak Sangh has openly attacked Niti Aayog for its sophistry and disconnection from workers' aspirations. BMS president CK Saji Narayanan told Outlook magazine earlier this week that the government needs to focus on creating jobs in the small and micro sectors, and accused Niti Aayog of bias towards employers and corporate lobbies. "Narendra Modi is an inspiring personality, but his efforts are being neutralised by these people and by the defects in policy," Narayanan said. Is Modi listening?

NOTE BAN EFFECT



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