Our View

This Diwali – clearer skies for sure, return of brightness may be a bit further!

Ever since the Corona outbreak in March, two topics have been widely discussed – health and economy. The initially foreseen risk of uncontrolled community spread of the virus is a reality today and the major effects of the extended lockdown on economy is very evident. During the complete lockdown of initial two months, dark clouds enveloped the Indian economy with most economic activities coming to a grinding halt. The depressing images of migrant daily wage earners on road truly symbolized the then state of the economy.

With the phased reopening of activities, and the various fiscal and monetary measures announced to reboot the economy, the dark clouds seem to be receding and at a decent pace. Following initial indicators are showing positive signs and point towards recovery:

Power and fuel consumption: Power and Fuel are critical inputs as they fulfill energy requirements of several industries and commercial establishments. Power demand is back to pre-lockdown levels with the September consumption showing a y-o-y growth of 5.6% compared to a decline of 10% in June. While consumption of petroleum products showed signs of worry during July and August, with a y-o-y decline of 12% and 16% respectively, in the first 15 days of September, petrol consumption grew by 2% and diesel consumption de-grew just by 5.5% y-o-y. This indicative positive trend reversal, if sustained, will have a multiplier effect on the economy.

Consumption: More than the consumption of essential commodities, non-essential consumption like automobile sales is a good indicator of growth. Sales (by volume) of 2-wheelers and tractors are already in the green territory compared to previous year, with a growth of 0.2% and 65%, respectively, in August. The passenger vehicle sales is also almost back to earlier levels with August sales being only 2% below the sales during the same month last year.

Core sectors: Core sectors like cement and steel which enable construction and real estate also witnessed a recovery. Consumption of flat steel and long steel were down y-o-y by only 5% and 10% respectively in August as against being down by 43% and 15% respectively in June. Registering 24.2 MT during August, cement production y-o-y de-grew by 15% as against a de-growth of 21% in May.

Severely impacted sector: Aviation, one of the worst-hit sectors due to the pandemic and lockdown is also seeing a strong uptick. Ever since domestic flights resumed services on May 25, number of weekly average daily fliers increased from ~38,000 in the week of May 29 to a whopping ~1,35,000 in the week of Sep 25. While the number of domestic passengers is still lower than pre-lockdown levels, a strong month on month uptick of 34% in August gives us comfort that there is light at the end of tunnel for this sector as well.

Revenue collection: All the above recoveries should finally culminate into improved tax inflows for the government. While advance tax collections look grim, a major positive indicator has been the GST collections in September which stood at INR 95,000+ Cr., witnessing a positive YoY growth after hovering in the negative territory for the previous 6 months.

Based on the above, there is a consensus amongst market commentators that the GDP for the current year would witness a de-growth of 9-10% and the fiscal deficit would remain in the range of 8-9%. Of course, the worry around inflation remains prominent.

Propelled by the pent-up demand and the various government and regulatory interventions like the "Atmanirbhar Bharat" package, structural reforms in certain sectors, policy rate cuts, reduced cash reserve ratio, targeted LTRO operations and extended moratorium to cash-strapped borrowers, the overcast shadows of the pandemic on economy are gradually fading. This has brought the much-needed hope and the markets are witnessing a rebound.

A recovery fueled by just monetary and fiscal stimulus could be short lived and may have serious side effects like inflation and deficit to deal with. To sustain the recovery, structural reforms in areas like agriculture, land, labour, power, taxation, tariff and trade, public sector, and financial sector; and their unwavering implementation will be key.

With the current encouraging economic recovery and positive signs of revival, ***I believe we are now on way to a clearer than expected Diwali this year. The return of brightness should not be too far!***

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