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Indian economy has come out of the rough patch of low growth. Some concerns remain, but the overall outlook is promising

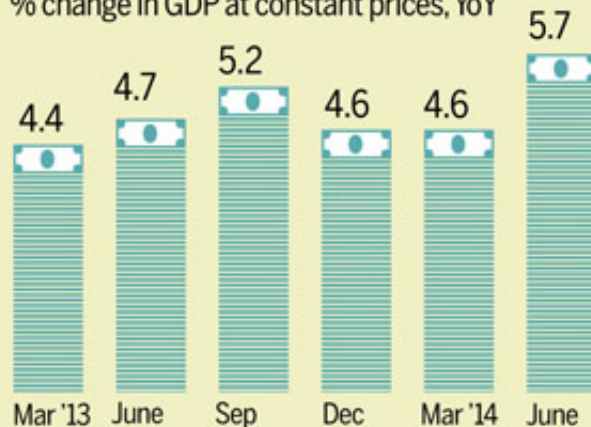
TINA EDWIN AND M.G. ARUN | September 25, 2014 | 20:56



THE STORM HAS PASSED

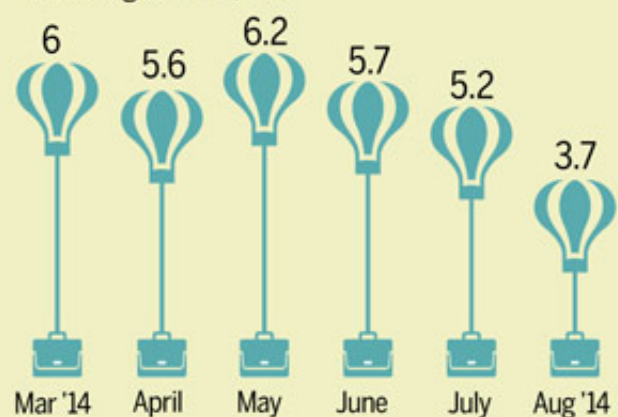
1. GDP rose at its fastest in 10 quarters

% change in GDP at constant prices, YoY



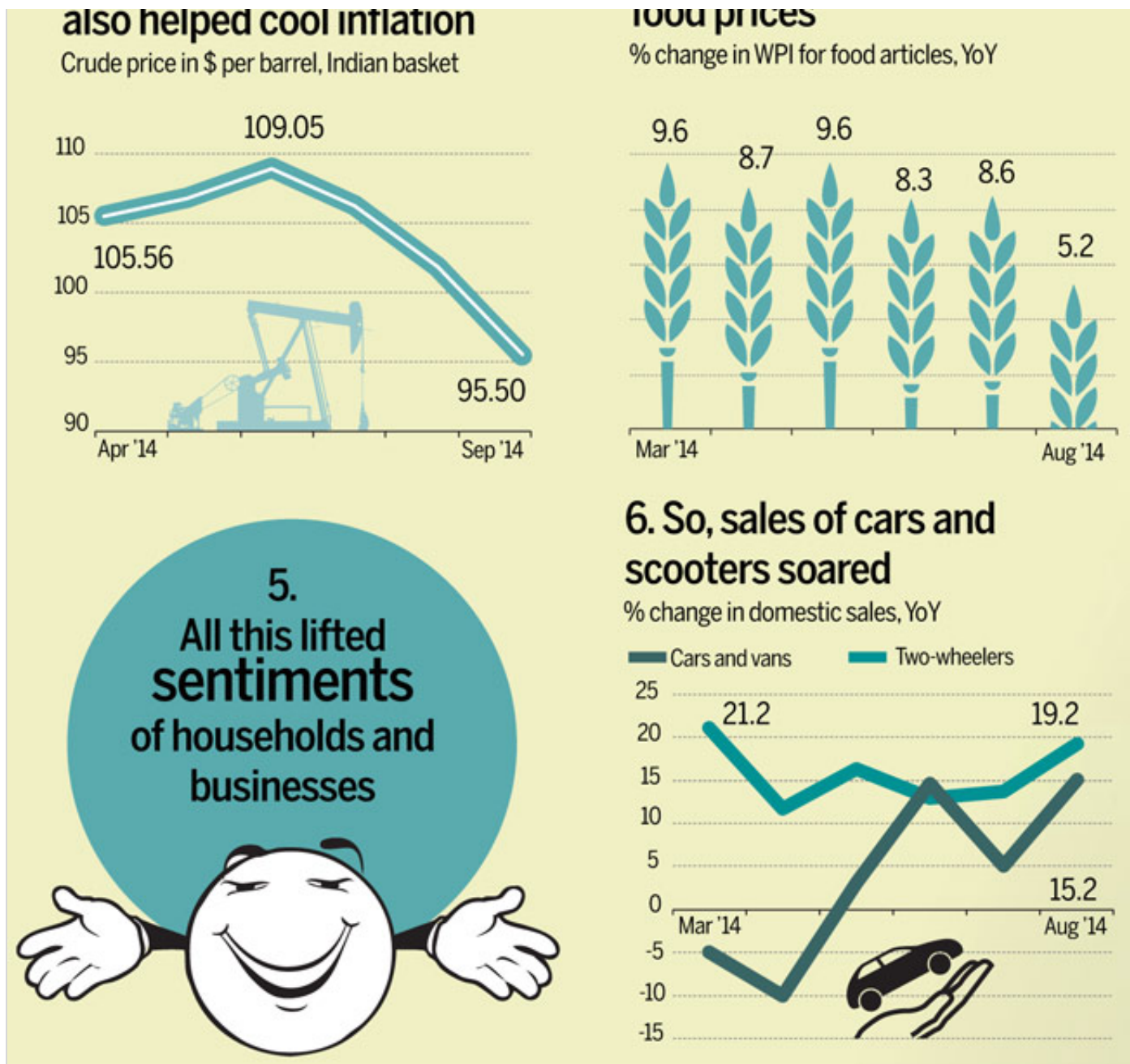
2. Inflation slowed to near five-year low

% change in WPI, YoY



3. Falling crude oil prices

4. As did easing of food prices



The worst is over, but good times are still some distance away. India broke out of slow growth and high inflation as the economy expanded at its fastest in 10 quarters in April-June and the wholesale price-based inflation cooled to its lowest in nearly five years in August. It should get better, but it's not yet time to bring out the bubbly, bullish stock markets notwithstanding.

Raghuram Rajan is all for caution. Macro indicators are improving, the RBI governor told a recent gathering of industrialists and bankers, but recovery is still uneven. More significantly, inflation of food and some non-food items is still above the central bank's level of comfort, so a cut in interest rates at its September 30 review meeting would be premature, he added.

Pronab Sen, chairman of National Statistical Commission, agrees. "The economy is on the mend. Investment activity is picking up. There is across the-board easing of inflation and food prices are moderating," he says. "But the economy isn't yet out of the woods." Inflation eased, in part, due to a fall in crude oil import prices; a barrel costs \$95 in India as compared with about \$110 two months ago. Falling prices of certain food items such as onions too helped. Though both are prone to volatility-oil prices depend

on geopolitical developments and food prices on the vagaries of weather and collusive activities in the market-domestic food prices are unlikely to go up if the Government acts tough while global oil prices are expected to remain stable despite the crises in West Asia. Low oil prices is good news for not just inflation but also fiscal and current account deficit. Overall, a return to high inflation of the past five years looks difficult.

"I do tend to think that the worst is over on inflation, but we have to wait for a while before rates stabilise. A high base effect has helped improve the situation," says Rajesh Mokashi, deputy managing director, CARE Ratings. As for corporate India, sentiment has been largely positive since Narendra Modi won a decisive mandate.

This, however, has not translated into a firm revival of investment. "The revival won't be rapid. Investment had come to a halt, so projects need to be fast-tracked," says Ajit Ranade, chief economist, Aditya Birla Group. Easing environment clearances alone isn't enough. Problems with land acquisition remain, points out Aditi Nayar, senior economist at ICRA Ltd, while power sector is facing problems with feedstock, such as availability of coal.



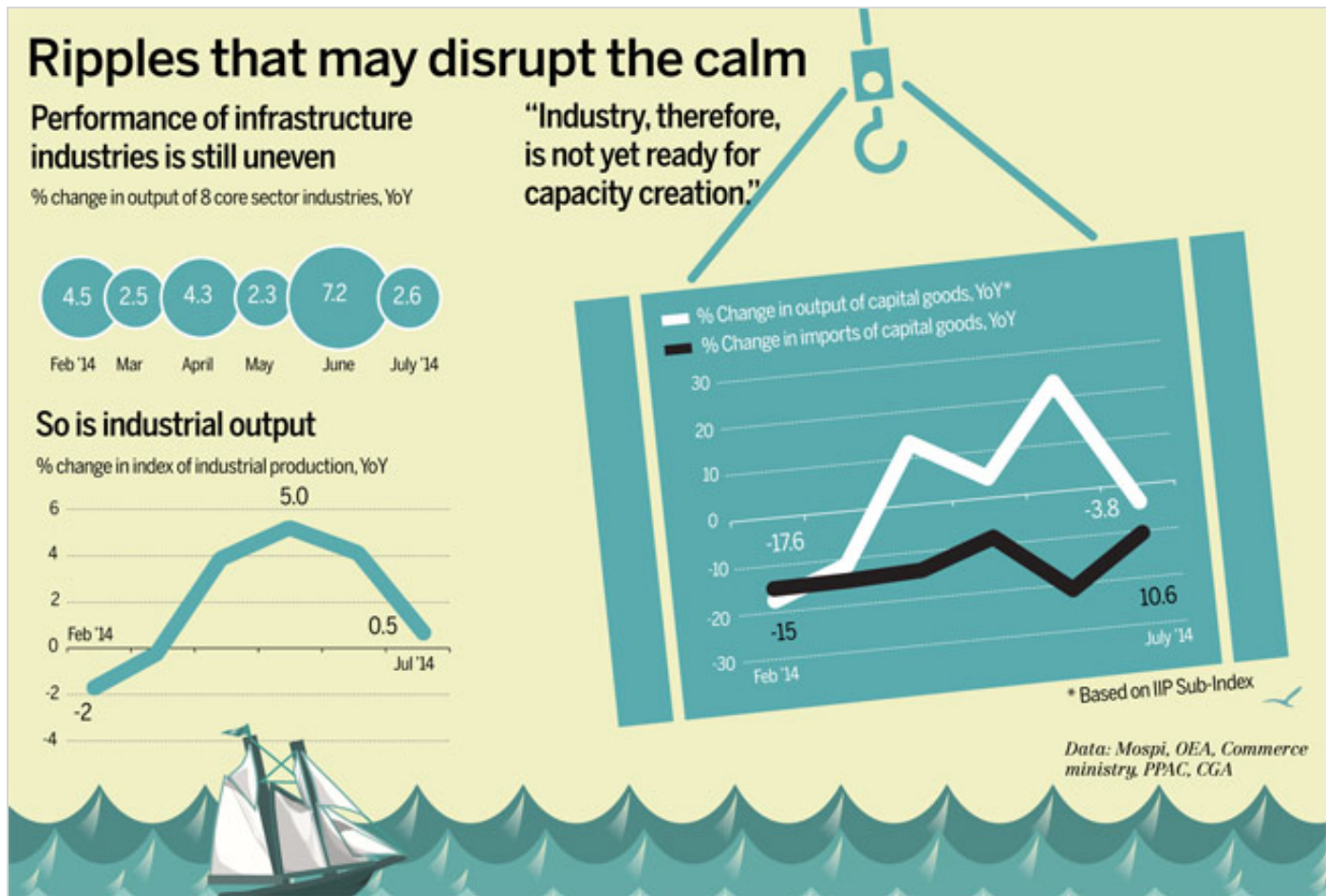
Revival of investment depends also on the return of consumers to the market. There's some problem here. The consumer goods industry has been going through a rough patch, which was aggravated by concerns of a weak monsoon in July and early August. Of late, however, these fears have subsided and agriculture is expected to suffer only a minor setback. This means rural incomes will not suffer.

Ashok Gulati, former chairman of the Commission for Agricultural Costs and Prices, sees no contraction in agriculture output despite a rather sub-par and patchy monsoon. He is surprised that the agriculture ministry has estimated a 7 per cent drop in foodgrain output this kharif season: "Late sowing has not been fully captured. Agriculture's performance in GDP will be similar to that in 2009-10, when output grew despite a rain shortfall," he says.

Since the breadbasket states of Punjab, Haryana and Uttar Pradesh are well irrigated, a weak monsoon there won't impact food output much. Prospects of a good kharif crop should spur demand for consumer durables in the next few weeks, peaking around Diwali, though it has been muted so far this festive season, which began with Onam in early September.

"Sales during Onam in Kerala and Ganesh Chaturthi in Maharashtra disappointed the industry," says Rajeev Karwal, founder of Milagrow Robots. Sales in the lower end of the market, which accounts for the

bulk of consumers, have been very subdued.



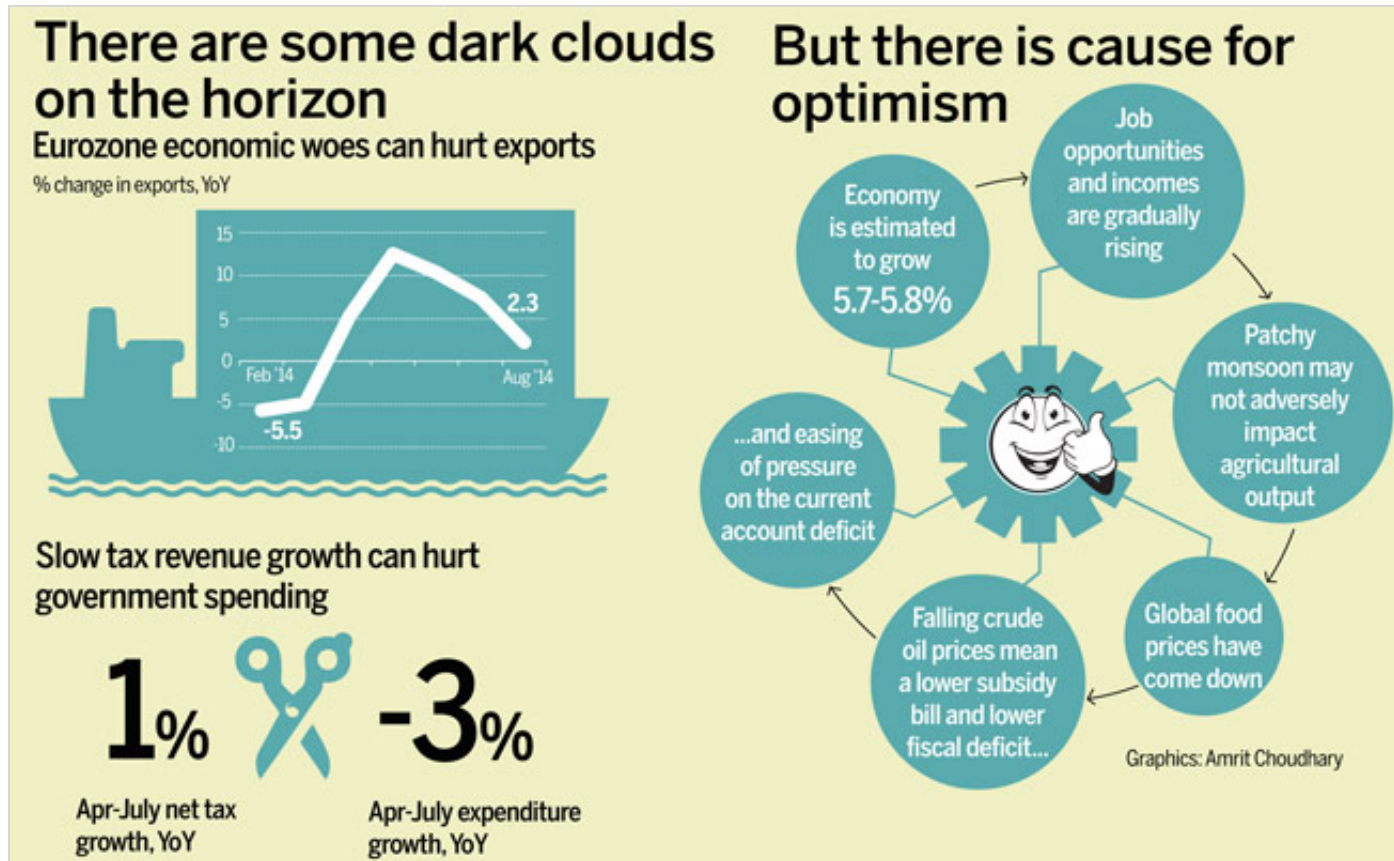
But signs of change are emerging. Kishore Biyani, chairman of the Future Group, says Durga Puja sales in the east have been encouraging. "Consumer mood is changing for good. However, it is too early to comment if it is sustainable, since consumption has picked up after a lull." Indeed, organised retail is reporting increased festive demand, mostly led by apparel sales.

Passenger and commercial vehicle sales too have picked up in recent months. Some models of passenger cars have a three-month waiting period. But much of this growth can be attributed to the low base of last year and improved sentiment, says Dharmakirti Joshi, chief economist at credit rating agency Crisil. He is relatively conservative for the full year. "In 2014-15, we expect 5-7 per cent growth in the passenger car segment and positive growth in commercial vehicles as well."

Recovery in real estate sector, one of the drivers of growth, is mixed. Most new developments are taking place in the residential segment while the commercial segment continues to lag, notes Ashutosh Limaye, head of research at JLL India. Prices are stable currently, but Limaye expects gradual upward movement in the next five-six quarters. Improved economic activity usually leads to more hirings. Shanthi Naresh, principal consultant, Mercer, expects the rise in hirings to be gradual, most of them in industries such as e-commerce that have lately seen expansion and fund infusions. The IT industry has also seen improvement in hiring, particularly of those with specialised skills.

Overall, the Indian economy is expected to grow 5.5-5.8 per cent this fiscal. Sen and Gulati believe that even 6 per cent growth is achievable, but others such as Maruti Suzuki Chairman R.C. Bhargava are circumspect. Bhargava feels that a change in the attitude of the bureaucracy will be a key factor in reviving growth. "If

you want to make major changes in policy, get the implementation in order. Strive to make the industry as competitive as in China," he says.



Capacity-building at state level is another factor that is critical to pushing growth forward. Some states have done better than others, but former Planning Commission member N.C. Saxena feels that there has been a sharp deterioration in states' capacity to design and efficiently implement programmes. "Weak governance, manifesting itself in poor service delivery, excessive regulation and uncoordinated and wasteful public expenditure, is one of the key factors impinging on development and social indicators," he says.

India has not done badly when compared with peers on inflation or growth. It is the second-fastest-growing major economy after China while its inflation rates are relatively low compared with Brazil's. But that's no consolation for underperformance. It is hoped that the 'Make in India' programme launched by Prime Minister Modi will be a gamechanger for Indian manufacturing, and the economy at large.

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