

Economy may have bottomed out; showing tentative signs of revival

The deep pessimism of August and early-September, triggered by the rupee's free fall and dismal first-quarter growth numbers, has given way to cautious optimism on tentative signs the economy may have bottomed out and is now starting revival.

Brokerages have described this whiff of a turnaround with the jargon of technical analysis as 'troughing' or 'positive delta' and stock markets have been quick to respond, rising to within striking distance of all-time highs.

There are still no big numbers to provide clinching evidence of recovery, but a few smaller variables suggest the gloom-laden phase for an economy that grew at a decade-low 5% last year may be coming to an end.

Credit growth has picked up, exports have clocked double-digit growth for three months running, and industrial production has at least been positive in recent months.

And, importantly, there's something to look ahead to: A good and extended monsoon will bring the buzz back to the rural sector and the government's push to projects seems to be making a difference, most notably to the power sector.

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Things Are Looking Up...

ON THE GROUND...

- Credit growth has improved of late
- Power output, a worry for factories, has picked up
- Good monsoon set to give a push to rural economy
- Some signs of CCI-driven pick-up in investments
- Poll-related spending to push up demand

...AND IN THE MIND

- Concerns on current account deficit have receded
- Monetary tightening has almost been accepted
- Tapering is expected to be less painful
- Govt's defence of Hindalco coal mine has soothed nerves

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Finance Minister P Chidambaram and RBI Governor Raghuram Rajan expect an improvement in the second half and have been critical of pessimistic full-year growth forecasts by International Monetary Fund, among others.

"The broad macroeconomic indicators are showing improvement and signs of bottoming out," said Atul Joshi, CEO and MD of India Ratings.

Year-on-year credit growth has picked up from 14.9% at end-July to 17.7% by October 4, while non-food credit has grown at nearly 18%, suggesting some pick-up in consumer demand and investments.

Also, the government's push to projects through the Cabinet Committee on Investment (CCI) seems to be making a difference on the margins, most notably to the power sector.

The government could also weigh in with one last burst of legislative reforms in the winter session of Parliament, including a push for higher foreign direct investment in insurance and a reworked direct taxes code Bill.

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There are two other triggers on the demand side - the good monsoon that looks set to deliver a bumper harvest, both rabi and kharif, and election-related spending that has already begun. Upcoming state elections will set the stage for the national poll next year, and an economic revival will help shore up the prospects of Congress-led United Progressive Alliance, which has been buffeted by corruption allegations and accused of an inability to get much done by way of policy changes for much of its term.

"India's best monsoon in 15 years is expected to lay the foundation for an accelerated

recovery in the rural economy, which accounts for 56% of India's total income and 64% of total expenditure," Deutsche Bank said in a report last week.

Higher rural incomes should translate into better demand for consumer goods, both fast-moving consumer goods (FMCGs) and durables, and two-wheelers.

Poll spending, meanwhile, is expected to spur demand for consumer goods, SUVs and various services that drive the electoral process.

GDP growth recovered to 4.6% in August from 4.3% in July, according to an estimate by ZyFin Research, a financial research and analytics firm.

A Morgan Stanley report last week said, "No doubt, economic activity will likely remain sluggish but the delta is likely to turn positive in the short run - and usually markets are concerned about the delta."

The government is cautiously optimistic about the pick-up in the economy, but feels that more steps are needed for the country to return to its growth potential. These measures are in the works, said Department of Economic Affairs Secretary Arvind Mayaram.

"Economy is looking up, but we are still not out of the woods... There is no way economy will come back to its full growth potential unless we continue to deepen reforms," he said, promising more financial sector changes, including putting in place a framework for real estate and infrastructure investment trusts to mobilise long-term funds and steps to de-stress infrastructure sector.

The benchmark BSE Sensex has soared nearly 16% since August-end lows and Deutsche Bank reckons it could go up another 6% to close around 22,000 in the last two months of the calendar year.

There is some evidence also that the government's attempts to push investments through CCI is working, as evident in orders at some infrastructure companies picking up.

India's bellwether for the economy and infrastructure, Larsen & Toubro, reported substantial additions to its order book and strong results. The domestic infrastructure sector saw nearly Rs 11,000 crore of fresh orders in the July-September quarter.

The government is monitoring execution of 328 projects involving investment of Rs 15.6 lakh crore through the project monitoring group (PMG) of CCI, many of these in the coal sector.

The concerted effort to provide fuel linkages to many power projects should see them get up and running in the months ahead, addressing India's dire shortage of electricity to drive the economy.

The key worry at this stage is inflation and the expected rate increase in the key interest

rate in Tuesday's monetary policy by RBI to rein in prices, which the central bank sees as its main task. But there too, RBI could help in other ways. An ET poll, for instance, expects measures aimed at improving liquidity that could have the indirect effect of lowering rates.

"(In) RBI also there is change. There could be a rate hike, but there's some attention to growth through innovative mechanisms," Barua said.

(Economic Times)