

Bounce back in economy

November 6, 2020

Coronavirus induced depression is showing signs of recovery with the slowdown in the number of active cases and also various steps taken by the government and RBI. The economy is on a path of pre pandemic numbers if one looks at high frequency indicators.

In news: India's manufacturing output showed the strongest growth in 13 years in October, 2020.

Placing it in syllabus: Economy

Dimensions

1. Greenshoots
2. Rural economy
3. Revenge shoppers and tourism
4. Economic indicators (RBI)

Content:

Greenshoots:

- "Green shoots" is a term used to describe signs of economic recovery or positive data during an economic downturn.
- IHS Markit India **purchasing managers' index (PMI) showed that economic recovery is gaining** ground after the lifting of lockdown restrictions.
- Rising to 58.9 in October from 56.8 in September, PMI pointed to the strongest improvement in the health of the sector in over a decade.
- The index is compiled from responses in the second half of the month from around 400 manufacturers, which indicates the direction of change compared to the previous month.
- The **growth was led by the intermediate goods category,**

but there were also robust expansions in the consumer and investment goods sub-sectors.

- The **relaxation of Covid-19 restrictions, better market conditions and improved demand** helped the manufacturers secure new work.
- The upturn in sales was the strongest since mid-2008.
- New export orders rose at a quicker pace.
- The quantities of purchases rose at the quickest pace in just under nine years.
- There was a **strong jump in e-way bills (electronic permits for goods movement)** in October, that is, 21% higher than what was generated in October 2019 and 11% higher than what was generated in September this year.
- **GST collection figures for October showed a robust uptick**, rising past the 1 lakh crore mark.
- Despite increase in demand, manufacturers recorded a further **reduction in employment**.

Rural economy:

- India has been among the countries hardest hit by the coronavirus pandemic with more than 7.5m cases recorded, second only to the US.
- But since the pandemic hit India's heartland economy, **rural India has performed well in comparison to urban areas, mainly due to good crop season rural wages and government stimulus**.
- The hope that rural India will lead the country's economic and corporate recovery has spawned and has now become a popular investment theme.
- The candidates are with direct ties to agriculture, such as tractor makers Mahindra & Mahindra and Escorts, which have reported strong sales.
- Their share prices have more than doubled from lows in March, when India first went into lockdown.
- Two-wheeler makers like Hero Motocorp, India's largest, have reported strong rural demand for its affordable

motorcycles and scooters.

- Fast-moving consumer goods companies like Hindustan Unilever or Britannia, which thrive on selling cheap snacks or sachets of shampoo in rural markets, have also benefited.
- The **government has provided a record number of jobs under MGNREGA.**
- But the structural factors that have long held back rural India, such as low productivity and under-developed services won't change all of a sudden.
- In the months to come, millions of migrants who left India's cities for their villages during the lockdown are expected to return to urban India having failed to find opportunities in the farm lands.
- This could in turn serve to drain rural areas of a chunk of the demand to which investors have reacted.

Revenge shoppers and tourism:

- Revenge consumption is a phrase coined by Chinese social media users to describe **an anticipated flood of post-lockdown purchases – in the post-COVID era.**
- It refers to overindulgence in retail therapy by consumers who have missed shopping at their favourite outlets due to the lockdown.
- Especially, the high net worth individuals, who are flush with cash and could not spend due to lockdown, may go on a spree of buying luxury goods.
- **Buying groceries and other essentials may not be called a Revenge Buying.**
- As cities have opened up and e-commerce sites like Flipkart and Amazon are offering festive season sales, an increasing number of consumers are in "revenge shop" mode.
- According to a recent consumer sentiment survey, 90% consumers are looking to shop during the festive sales.

Revenge tourism:

- 'Revenge Tourism' is used to describe **the bottled-up demand for travel after several months of lockdown.**
- Hospitality industry is seeing a surge in bookings in all segments, from luxury to basic, and occupancy at some places has already touched 80 per cent during weekends and holidays.
- While travel is picking up, people are choosing destinations just within 3-5 hours of driving distance.
- The adjoining State travel is another trend which is picking up.
- With affluent Indians unlikely to travel abroad during this time, domestic tourism is seeing a boost.

Economic indicators (RBI):

- According to the monetary policy statement of RBI, relative to pre-COVID levels, several high-frequency indicators are pointing to the easing of contractions in various sectors of the economy.
- There is an uneven pace of recovery across sectors and segments.
- It shows domestic sales of tractors, two wheelers and consumption of steel, electricity, payment of life and non life insurance premium have crossed the base levels recorded in February 2020.
- However, Domestic air passenger traffic, domestic air cargo, port cargo and exports and imports have continued to remain below the February base levels.
- The Monetary policy committee (MPC) has projected that **inflation would ease closer to the target by March 2021.**
- The rise in prices is due to supply side shocks as the effect of lockdowns and restrictions in movements across the country.
- To renew its tryst with its pre-COVID growth trajectory, the **country's focus must shift from containment to revival.**

Mould your thought:

1. What is aiding the post pandemic recovery process?
Highlight the role played by RBI and the government in this regard?

Approach to the answer:

- Define green shoots and write about present economic indicators
- Write about the boost in rural economy
- Write how tourism and shopping are contributing
- Conclusion