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Outlook of Demand in India

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Abstract

Indian economy faced its gloomy days; depleting growth, crushed consumption demand, and low investment levels in 2019. Mostly as a result of the implementation of new policies (like demonetization), the unemployment rates grew and the major sectors like pharmaceuticals, automobile, etc. were badly hit. The framers faced troubles due to hikes in their costs of production which further pushed the prices up and increased the burden on the ultimate consumers. This slowdown was encouraged further by the outbreak of the coronavirus in December of 2019. Thus, following 2020, it contributed to the squashing of the economy with human miseries (illnesses and deaths), business uncertainties, employee layoffs, lower dividends, migrant crisis, and cash crunch in the entire nation. The government's approach to managing this condition via introducing economic packages and announcing national lockdown is studied. And finally, we inquire; what the big picture is?

Keywords: *Decelerating growth, crushed demand, economy, Coronavirus, industrial economy, India*

1.0 2019

With the spurring of Financial year 19, India has caved into spirals of decelerating growth and a sluggish economy. Not only has it been a victim of lessened consumption demand but also of weakening investment. The worst-hit sectors that faced a constant and serious decline in demand were the automobile, construction, and real estate sectors. This had a repercussion on the workers being laid off with an overall increase in unemployment of 3.53 % which was recorded by the Centre of Monitoring Indian Economy (CMIE). In the words of the former Reserve Bank of India's (RBI) Governor, Raghuram Rajan – "these are the signs of a deep malaise in the Indian economy." Corporate and household debt have escalated causing distress in the financial sector, unemployment has reached its peaks, export demand went into shreds, poor housing demand (with an unsold inventory of 4,50,000 housing units), and the rural demand shrunk. Last year witnessed a period of the negative wealth effect. This was due to lower returns on bank deposits, considering them to be a primary source of savings for a majority chunk of Indians. Triggers of such an economic slowdown were the past changes in policies like the demonetisation of currency, domestic and global supply gluts, significant structural changes in the trading patterns, and distinct troubles faced among countries like the US, China, UK, the Middle East affecting Indian exports of pharmaceuticals, chemicals, engineering goods, IT skill prospects, etc.

The demand was crushed as its foes were many! Rural people had their troubled times with policy changes and reducing incomes vis-a-vis shooting prices of their farm inputs i.e. insecticides, pesticides, tractors, etc. Thus, in turn, the consumer demand ached. The automobile and real estate sectors carry weights of high taxation and regulator rent-seeking, high Goods and Services Tax (GST) on key inputs like cement, high priced steel, prohibition stamp duty, and registration charges. A demand slowdown in these two sectors had a rippling effect on all those industries having forward and backward linkages with them. The depressing business sentiment infused them with a lack of need for fixed investment and thus investment had taken a toll on the Gross Domestic Product (GDP). With the supplementary losses on account of exports, the foes disrupting the demand kept the economy at its worst.

Though a trail of remedies was implemented by the government to rectify this horrendous situation, it affected only to a pint-sized level. However, strongly agreeing that "rather than the fiscal stimulus, the monetary approach could be used to uplift the sagging economy." as per the International Monetary Fund Advisory. Fiscal stimulus in terms of fiscal expenditure by the government will shift the aggregate demand with a multiplier effect of the expenditure made, but the budget will adversely be affected.

2.0 2020

As the year 2020 approached, the future still seemed bleak. It was certainly a difficult issue to tackle but wasn't impenetrable. However, the worst was yet to come. The outbreak of CoronaVirus (COVID-19) has further squashed the neck of our economy. To protect its human capital, the government practised a nationwide lockdown. The economy has halted. This has caused an unprecedented collapse in the economic activities of the entire nation (yahoo! finance, 2020). The income, consumption, investment patterns with the distorted and uncertain business landscape, have now reached their poorest levels. What happened exactly? As the industries are suffering a massive stopover in their operations, they are unable to yield income for their stakeholders. Consequently, they are reducing their costs and hence have commenced the cutting off of salaries and in worse cases, laying off of the employees. This is further contracting the incomes, reducing the money supply, and creating despair among the employees. With such a shortage of income, their reduced demands have further drooped.

The consumer demand is operating in a way that only needs are to be fulfilled and desires are shunned. Due to such a large scale loss of incomes, Fitch Solutions said "There will be a deeper contraction in fixed investments as businesses will cut back on capital expenditure to conserve cash amid economic uncertainty."(Business Standard, 2020) India's annual fuel demand has fallen by 5.6% in this period. The cement industry is facing yet another decline in demand after posting negative growth last fiscal year. The migrant workers, daily wage workers, with no work are fighting just to survive. So eventually, their demand is entirely stooped down to the daily need products. There have been recent cash deposit transfers to HDFC banks signifying that people are looking for safe spots to keep their savings rather than investing them. Falling investments are a threat to the rising of an economy. There are wide-ranging dimensions and dilemmas taking place at all levels due to this cash crunch, lack of money supply, low income, and decelerating demand graph.

Such a harrowing situation has shaken the government and it has thus retaliated to it by announcing an economic package of 20 lakh crore rupees. This, upon implementation in different tranches, will lead to a massive infusion of liquidity in the economy. It involves direct cash transfers to Micro, Small and Medium Enterprises (MSMEs) which will be a great support for the poor people at the bottom of our economic pyramid. This will further induce them to elevate their demands not only for food and groceries but also for products like inputs required for their businesses to survive this pandemic. Another major focus providing 30,000 crore rupees of special liquidity schemes granted for Non-Banking Financial Companies (NBFCs), housing finance companies, and microfinance institutions will encourage their way through such times. Another twin incentive the government intends with this was a partial guarantee on loans worth 45,000 crore rupees to them so as, in turn, they provide credit to MSMEs. Focus on the five pillars – economy, infrastructure, demand, systems based on 21st-century technology-driven arrangements and vibrant demography will uplift all segments in our economy. This has also involved the prior action posed by RBI in the last week of March in form of huge liquidity support through Long-Term Repo Rate Operations (LTRROs), a cut of 1000 base points in Cash Reserve Ratio (CRR), and special liquidity facilities for National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), National Housing Bank (NHB), and mutual funds. This is an immense relief for all the borrowers, small and mid-sized NBFCs.

Such a fund will act as a bridge between this crisis and recovery and then support in the recovering phase. It will act as a pillar to help the firms withstand such a pandemic and preserve the productive capacity of the economy. Thus, in a way, upon reaching the industrial break-even point, it will be able to maintain the cost of its employees which will create income. More money in people's pockets will generate greater demand which will power the wheel of the economy. Thus, we shall revive demand in terms of consumption, investment, and export patterns.

However, there is a downside to such a quantum of the fund. Considering the analysis of the budget of last year, it has unrealistic revenue targets and reports vis-a-vis lower revenues on the budget and the disinvestment proceeds. So, the question remains, how was the government able to arrange such a huge amount of the fund? It brings us to a conclusion that it was financed through borrowing large amounts of money from IMF and the World Bank. Such borrowings will threaten the credit standing of India and hiking taxes on a financially stressed nation will be a highly unlikely situation. So, it will sum up to a further gigantic fiscal deficit in the budget. Therefore, a vicious circle will be formed.

Conversely, the real blessing lies in how honestly the implementation is made, which is yet to be seen. If the intended reforms are implemented authentically, the reforms will bring returns, however not immediately. It will take time for the economy to grump and with time the economic productivity and growth potential of the future will increase. Thus, gradually the fiscal deficit will pave its way to improvement. This will prove to be a huge boost for entrepreneurs as well as consumers!

3.0 Big Picture

With the foresight of successful implementation of the government's support and the economy recovering from such a deadly climate and gradually phasing out from economic lockdown, it is expected that there will be increasing demand for sectors of healthcare, pharmaceuticals, infrastructure, entertainment apps, games, e-books, transport, aviation, telecommunication, electronics, infrastructure, manufacturing, ports, semiconductors, and production of indigenous products. On the other hand, large expenditure involving products will have comparatively repressed demands - automobile, housing, hotels and restaurants, constructions and related cement industries, emerging start-ups.

They will take time off at least 2-3 years to the minimum to pace up with its original position around the breakeven point. On grounds of global trading, the countries are aiming to shift their markets from China; thus the next ideal country from which they can extract skilled manpower, infrastructure, power, ports, transport, and communication in India. To target concentrated foreign investment, the government should make provisions to improve the infrastructure to the maximum. This will pull the investment curve upwards and we can enjoy a multiplier of the investment as an increment to the Indian GDP! The combined improvement of consumption, exports, and investment will be a cheery welcome for India to enter its advanced stage with simultaneous recovery from the pandemic!

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