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DOGGED BY INFLATION: THE HINDU EDITORIAL ON PRICE RISE AND POLICY MEASURES

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

Two recent sets of macro-economic data — the Government's Index of Eight Core Industries for May, and S&P Global's survey-based Purchasing Managers' Index (PMI) for the manufacturing sector for June — posit an economy where industrial momentum is being weighed down by relentless price pressures. Provisional output in May across the eight core industries, spanning coal to electricity, grew by an average 18.1% from the corresponding month in 2021, when the COVID-19 pandemic's second wave had badly disrupted economic activity. Core output growth was led by double-digit year-on-year expansions in refinery products, electricity, steel and coal, which together account for three-fourths of the index. The four sectors bearing weights of about 28%, 20%, 18% and 10%, respectively, posted expansions of 16.7%, 22%, 15% and 25.1%, respectively. Cement and fertilizers, too, saw robust growth of 26.3% and 22.8%. However, on a sequential basis, growth in output over April 2022's levels was significantly slower, reflecting the 'optical illusion' created by low production in the year-earlier period. While the index as a whole registered month-on-month growth of 2.6%, petroleum products expanded 1.9%, electricity grew by 1.5%, and steel by a relatively healthier 5%. Disconcertingly, cement, a key building material that reflects activity levels in the job-intensive sectors, actually saw output shrink 3.2% from the preceding month.

The more up-to-date June PMI data separately show price pressures dampened manufacturing growth to the slowest pace in nine months. June's PMI reading eased to 53.9, from 54.6 in May, amid a broad-based slowdown in orders, production, exports and input buying as customers cut back on spending amid inflation worries. Inflation, in fact, so dominates companies' assessment of the outlook that it depressed business confidence to the lowest level in 27 months. A majority 95% of the purchasing managers at the approximately 400 manufacturing companies polled by S&P Global cited the elevated price pressures as the main reason why they foresee no change in output from current levels in the year ahead. The silver lining in the survey, though, is that manufacturers reported their first shortening of input lead times since the onset of COVID-19, a positive augury for businesses' ability to scale up production quickly once demand revives. The onus is on policymakers to ensure that both monetary and fiscal action is focused on reining in inflation. Anything less risks affecting recovery.

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