

'Q2 MANUFACTURING EXPECTATIONS DROP'

Relevant for: Indian Economy | Topic: Issues relating to Mobilization of resources incl. Savings, Borrowings & External Resources

Hard times: The summary index of current business conditions for manufacturing declined for Q1. SUSHIL KUMAR VERMA

Early results from the RBI's June Industrial Outlook Survey show that not only has the summary index of current business conditions for the manufacturing sector dropped for the current quarter, but also that the index of expectations for the second quarter of FY2022 has declined, as per observations made by Shashanka Bhide, member of the RBI's Monetary Policy Committee, at the MPC meeting earlier this month. The RBI on Friday released the minutes of the meeting.

"These perceptions of business conditions point to the adverse economic conditions," Dr. Bhide noted.

He said while the data on the impact of the second wave of the COVID-19 pandemic was limited, qualitative data from the surveys of households and enterprises suggest 'significant dent' in consumer and business sentiment. "The survey of Consumer Confidence conducted by RBI in the last week of April and up to May 10, in 13 major cities... reveals a sharp rise in the percentage of respondents who perceive the current general economic conditions to be worse than a year back, compared to a similar survey conducted two months back," he added.

Importantly, 51.5% of the respondents opined that economic conditions would be worse a year ahead.

Observing that the economy's recovery would hinge on the decline in the spread of the disease, he said, "acceleration in the vaccination program and availability of health care would be a key to boost the confidence of the consumers, workers and producers in the resumption of their economic lives".

Ashima Goyal, another member, cautioned against laying too much store by the latest round of the RBI's surveys, noting that these were conducted during a "period of highest fear and uncertainty that very likely affected consumer responses" given that the number of fresh cases peaked on May 7. "Robust inferences have to await surveys taken in more normal times," she suggested.

'Forecasts less reliable'

Dr. Goyal also noted that the MPC had moved to data-based guidance, given that expectations and forecasts were less reliable in times of 'such uncertainty', a view echoed by fellow member Jayanth R. Varma.

Prof. Varma said the MPC must be sensitive to the risk that inflation expectations could become entrenched if inflation remains elevated for too long.

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