

Economy on the eve of Diwali

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There are clearly bright lights shining around us when we look at various economic indicators. It does seem that the economy is showing a turnaround, which is looking quite encouraging presently. Will this be sustained or not is a moot question, but for certain, things are looking up. Why do we say so?

The PMI manufacturing has come in higher in October at 55.9 from 53.7 in September. This means manufacturing is picking up as it gears to meet the consumer demand that has already made its presence felt in the markets. The Retailers' Association has vouched for a resurgence in spending which is a good sign.

The PMI Services has come in at a decadal high of 58.4 from 55.2 in September. This is natural as services was opened in September which gathered steam in October. As PMI compares state of the enterprise in the current month relative to the previous month, it is but natural that the number will be better. In fact, one can say with a fair amount of confidence that November can be even better.

GST collections in October are at Rs 1.31 lakh crore, which supports (1) and (2). It is lower than April where it came at a surprising Rs 1.4 lakh crore in the first month of a lockdown. But is the highest since July. Yes, people are spending.

Exports are up by 42.3% which again means that we are riding the global wave of flourishing global trade. Imports too are rising- both oil and non-oil which is good news, especially the latter.

There is bit of dampness reflected by the auto sector despatches which have come down relative to last season. But here the problem could be more on the supply side rather than demand. Therefore, there is hope of a pickup once the semiconductors issue is addressed. Also, unemployment has climbed up in October according to CMIE. This number will be volatile till March 2022.

Overall, we believe that the economy is on the right path and will chug along till March. A third wave looks less likely, and the vaccination drive is progressing well and hence it is reasonable to expect that the impact if at all it comes will be better borne by business. Therefore, while we stick to the 9.1% growth forecast for the year as we had buffered in revival in services in second half, there could be some upward bias, which can take this number to 9.3%. We believe the pent-up demand would get diluted in manufacturing while it will elongate for services progressively. Job creation is the clue in the medium term if consumption is to be kept ticking. We must remember that inflation is a dampener and while statistically it is less than 5%, high fuel cost, prices of services and manufactured goods will hit consumption once the pent-up fury recedes.

We should also keep in mind the fact that all these good numbers are in the realm of consumption and not investment. Infra spending is still restricted to government and the pace of private investment is limited. This will be a major cog in the process of growth, and we expect a revival only in FY23. For the rest of the year, it will be at best stable.

On the eve of Diwali everyone is keen on where is money to be made? Here we give some annual increase in prices of certain categories of possible investment based on average monthly prices in the Diwali month of last year the October of this year. While this will not hold for sure in the coming year, the table is interesting.

Returns between the two Diwalis

Category	% return
Sensex- stock market	34.3
Gold	-4.7
Silver	-2.9
Copper (LME)	45.0
Crude oil (Brent)	95.3
Soya oil	26.8
Coal (Australia)	188.4%
Bank FD	5.5
10-year GSec (if bought in Diwali 2020)	5.88
Corporate bond 5 years (if bought in Diwali 2020)	5.71
Corporate bond 10 years (if bought in Diwali 2020)	6.55