

Business

India economy growing at 4.7% as consumer demand weakens

Govt seeks parliament nod for \$2.7 billion extra spending

NEW DELHI: India's economy probably expanded at its weakest pace in more than six years in the quarter to September, a Reuters poll showed, as consumer demand and private investment weakened further and a global slowdown hit exports. The median of a poll of economists showed annual growth in gross domestic product of 4.7% in the quarter, down from 5.0% in the previous three months and 7% for the corresponding period of 2018.

Economic growth could dip to around 4% in the September quarter, two domestic television channels said on Wednesday, citing government sources. If the latest figure for expansion of gross domestic product is 4.7% or less, the quarter will have registered the slowest expansion in 26 quarters, since 4.3% in January-March 2013. Prime Minister Narendra Modi's government has taken several steps, including cutting corporate tax in September, to boost investments and bolster economic growth.

Economists in a Reuters poll predicted the Reserve Bank of India would cut its repo rate for the sixth time in a row, by 25 basis points, to 4.90% at its Dec 3-5 meeting. "Agrarian distress and dismal income growth so far, coupled with subdued income growth expectation in urban areas, have weakened consumption demand considerably," said Devindra Pant, chief econo-

mist at Fitch arm India Ratings & Research. "Even the festive demand has failed to revive it," he said, citing data on non-food credit, auto sales and select fast moving consumer goods.

'Economic emergency'

On Wednesday, in a heated parliamentary debate on the economic slowdown affecting jobs, opposition parties said million of people had lost their jobs and the country faced a "economic emergency". In her reply, Finance Minister Nirmala Sitharaman said the economy faced a slowdown but no "recession" and cited several government measures to support economic growth. Yesterday, she sought parliament's approval to spend \$2.7 billion in addition to a budgeted 27.86 trillion rupees (\$388 billion) in the 2019/20 fiscal year.

Economists said with persistently tight domestic credit and weak corporate profits, India's recovery could be delayed and the pick-up would remain below potential. India needs to grow at around 8% to create enough jobs for its millions of young people joining the labor force each year. The unemployment rate in October rose to 8.5%, its highest since August 2016, according to the Centre for Monitoring Indian Economy (CMIE), though the government estimates that urban unemployment declined.



ALLAHABAD: A shepherd leads a flock of sheep on a pontoon bridge in Allahabad. — AFP

Some economists, however, said economic growth could pick up in the second half of the current fiscal year, after the government took steps to support real estate and non-bank finance companies. "The economic slowdown has bottomed out in the September quarter,"

said NR Bhanumurthy, an economist at the National Institute of Public Finance and Policy, a Delhi-based government think tank. "With easing of credit and pick up in festival demand, economic growth is expected to pick up from October onward." — Reuters

Air India focused on day-to-day survival; shutdown fears bite

MUMBAI: India's debt-crippled national airline is focused solely on daily survival and keeping its flights in the air, a spokesman said yesterday, after the government warned it would have to shut down unless a buyer was found. Air India owes more than \$8.6 billion and has struggled to pay salaries and buy fuel, with losses mounting following earlier privatization attempts. The company is unable to pay its debts and its outlook is "gloomy", spokesman Dhananjay Kumar said. "We are concentrating on day-to-day operations and not focusing on the future," he said. "Whatever resources we have, we are trying to use them in an optimum manner and trying to run our flights." Aviation minister Hardeep Singh Puri said Wednesday that the airline would "have to close down if it is not privatized", adding the government would soon invite takeover bids.

The company's debt mountain may be hived off in a bid to make it more attractive to potential buyers, according to media reports. Kumar said Air India was not yet in discussion with the ministry over any shutdown plans. But in more bad news for the beleaguered airline, a planned sale of the Air India headquarters in Mumbai may be blocked after Prime Minister Narendra Modi's party was ousted from power in Maharashtra state, local media reported.

The previous state government had agreed to buy the building to help clear the airline's debts. Founded in 1932 and formerly India's monopoly airline, the company was once known affectionately as the "Maharaja of the skies". But it has been hemorrhaging money for more than a decade and has lost market share to low-cost rivals in one of the world's fastest-growing but most competitive airline markets. — AFP

Japan retail sales slump as tax hike hits demand

TOKYO: Japan's retail sales tumbled at their fastest pace in more than 4-1/2 years in October as a sales tax hike prompted consumers to cut spending, raising a red flag over the strength of domestic demand. The Japanese government increased the nationwide sales tax to 10% from 8% on Oct 1, in a bid to fix the industrial world's heaviest public debt burden, which is more than twice the size of the country's gross domestic product.

However, some analysts have warned the tax hike, previously postponed twice, could leave the economy without a growth driver amid a slump in exports and production and as other factors drag on the consumer sector. Retail sales fell 7.1% in October from a year earlier, pulled down by weak demand for big ticket items such as cars and household appliances as well as clothing, trade ministry data showed yesterday, with department stores hit particularly hard.

The drop was the biggest since a 9.7% fall in March 2015 and worse than a 4.4% decline predicted by economists in a Reuters poll. "Regardless of today's outcome, consumption has been of a weak tone, and consumer sentiment is getting worse," said Taro Saito, executive research fellow at NLI Research Institute. "Incomes haven't been rising originally, so consumption hasn't been growing since before the sales tax hike."

The slump was also sharper than the declines reported after the previous two sales tax hikes, in 1997 and 2014, suggesting other factors are dragging on consumption. "Retail sales fell more sharply in October than after previous sales tax hikes," said Tom Learmouth, Japan economist at Capital Economics. "The fall in sales was slightly larger than the 13.7% m/m plunge which followed both the 1997 and 2014 sales tax hikes," he wrote in a note. Sales fell 4.3% in April 2014, the month of the previous tax hike.

Seasonally-adjusted retail sales dropped 14.4% month-on-month in October, the data showed. The negative reading comes after separate data this month showed Japan's economy nearly stalled in the third quarter, while exports in October shrank at their fastest pace in three years. The gloomy conditions have led to calls for the government to compile a big spending package to keep the country's fragile economic recovery on track.

Price pressures persist

The 2014 previous tax hike to 8% from 5% hit the broader economy hard as households tightened their purse strings after front-loading purchases before the hike. Policymakers this time around do not expect the October tax hike to trigger such a big swing in demand, given the smaller hike and various measures to help offset the hit to spending.

However, analysts said retail sales in October were also hit by poor weather, after a huge typhoon ripped through central and eastern Japan, forcing stores and restaurants to temporarily close. Others also noted more structural pressures faced by retailers even before the sales tax hike, such as the prolonged decline in real wages. Data earlier this month showed inflation-adjusted wages rose 0.6% in the year to September, their first increase since the end of last year.

All those factors pose challenges to a government seeking to shake consumers out of a long-entrenched deflationary mindset, which has weighed on prices, hurt company profits and established a prolonged regime of ultra-easy monetary policy. Adding to these woes is the risk retailers will continue to cut prices to offset the hit from the tax hike, while many stores are also offering discounts for cashless payments.

The government has introduced a rebate program for cashless transactions designed to both soften the tax hike blow to retailers and encourage Japanese consumers to use electronic payments instead of cash. Other retailers are simply reducing prices to lure customers. "This could spark stiff price competition and induce deflation. Small firms that lack competitiveness will be forced out of business," Yukio Kawano, the head of Japan Supermarket Association said. — Reuters