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Organised cheer, unorganised fear

India is witnessing the classic K-shaped recovery with the formal sector doing well while the informal one lags

THE LARGE CROWDS that turned up to watch the Tamil film *Master* are a testament to consumers' pent-up demand finding a release. With lockdown restrictions having all but eased, schools are reopening, many more are going to the office, the shops and malls are busier and more flights are taking off each day. In short, as Nomura's resumption of business index shows, business is fast normalising. There is an uptick in the momentum; loan growth, for instance, was a lot healthier in the fortnight to January 1 while core imports have risen by 13% in the fortnight to January 14, up from 8% year-on-year (y-o-y) in December. The jump in the generation of E-Way bills in December was reassuring.

It helps to see the glass as half full, especially as vaccines have arrived. But, we mustn't get carried away by a rebound, which has come in a little ahead of the anticipated timelines. The festive, wedding and holiday seasons have no doubt buoyed sales. But, we seem to be forgetting we have lost two years of growth and that, even beyond FY22, the economy isn't exactly going to be galloping; from the look of things, one could hope for 6-7% growth in FY23. So, while there will be businesses that do exceptionally well—IT players, for instance—and there will be lots of jobs for persons with certain skill sets, for the vast majority of the country's workforce, households and smaller enterprises, it is going to be a slow and painful recovery.

> **Whether it is 10% or 12%, FY22 will see good growth, but the way things are right now, it is difficult to project a growth of more than 6-7% in FY23 if the Budget doesn't repair the Covid-induced damage**

The government's credit support notwithstanding, a large number of mid-sized and small businesses will fall, hit by the weaker demand, lack of access to affordable credit and the increasing formalisation of the economy. They have been struggling since GST and would have become even more uncompetitive now.

Let us remember that larger companies are turning more profitable not merely on the back of higher revenues but also due to better productivity, efficiency and automation. And they are doing increasingly better. In the September 2020 quarter, for instance, listed cement firms grew their volumes by 6% whereas others reported an 11% fall. Again, listed steel players gained 10% in volumes whereas others lost 3%.

As these companies become stronger, smaller businesses become weaker—in turn, hurting those that are even smaller—dealing a blow to employment. By one estimate, 18 million jobs have been lost, and unemployment is running high at 7-8%, according to CMIE. Both the Naukri JobSpeak index and the Monster employment index remained 10% lower y-o-y in December; the Monster index was flat month-on-month. An Edelweiss analysis shows the private sector's wage bill, excluding BFSI and IT, contracted in the six months to September even as the total bill showed a smaller increase. As Pranjul Bhandari, HSBC's India chief economist, has observed, it is the small and informal firms that make up 85% of the labour force. We could also see pressure on rural wages given some part of the migrant labour force would not have moved back to the cities because their jobs no longer exist.

Indeed, in the short run, the accumulated savings of high earners can support the economy. But once that wears off, the lack of demand can potentially lower medium-term growth. Urban consumption has been slowing with several sectors such as construction, tourism, civil aviation, restaurants, retailing and hospitality, and other services hit hard by the pandemic. The continued high rate of deposit growth suggests consumers remain wary of spending; the rise in prices of goods and services—following the rise in prices of commodities—isn't going to make it easier.

For every uptick, there is one that suggests the recovery may turn out to be a very fragile one. Despite the festive fervour, leading stores like Shoppers Stop fared poorly in the December quarter with revenues down sharply. In fact, factory output contracted 1.9% y-o-y in November having expanded in the previous two months; worryingly manufacturing growth turned negative once again. The fall may have resulted from fewer working days in November, but surely an economy that is supposedly recovering well—and one that was crawling in 2019-20 and not exactly galloping in 2018-19—should show a little more spunk.

Again, while the rise in core imports in December has been cheered, capital goods imports contracted 7% y-o-y, the tenth consecutive contraction since March 2020. And, until the capex cycle turns, growth can't pick up meaningfully. As economists have pointed out, the pandemic will hurt the already-anaemic investment by the private sector. Right now, not too many companies are investing since there is more than adequate capacity for the moment and equity capital is hard to come by. But even if they were to make plans, they might not find lenders to back them because banks remain risk-averse. It is also true that India Inc remains leveraged and that in sectors such as roads and construction, very few promoters are creditworthy.

Meanwhile, as investments crawl, kharif income is estimated to grow by only 9.4% this year, as per BofA estimates, slower than 12% in the last season. Moreover, global growth estimates for 2021 are being pared; one estimate now pegs the growth at sub-