The new year begins on a bright note: inflation in some segments is falling dramatically and the latest PMI for manufacturing for December underlines what we have been saying for long now - growth momentum is strong in India.

Source: Economic Times

Despite the precipitous fall in the index of industrial production, the strong new business volume reported showed that industry is not doing as badly as is thought it is doing.

The MSME Business Confidence Survey, conducted by Indicus Analytics in September, had reported expectations of higher sales in Q3 and these appear to have materialised now. While growth estimates will depend on IIP numbers and, therefore, still show less than 7% in Q3, it is time to go beyond the official statistics and look at multiple indicators to get a better sense of where we are headed.

The Markit PMI reports a small uptick in employment, for the first time in five months, the MSME Business Confidence Survey reported a positive change, and the index for employment rose in December, reversing the two-quarter fall and returning to March levels.

Investment and expansion plans have been maintained throughout the last two quarters at levels higher than the early two quarters of 2011. While this does not show yet in the official data, the survey results indicate intent that will translate into action as the rate hikes have now clearly come to halt. The PMI for services sector posted the sharpest rise for December since July and respondents were confident of better times in the year ahead. Clearly, the sparks of optimism that we sensed and spelt out two months ago are now slowly growing brighter.

What about inflation, though? Unfortunately, despite the crash in inflation in primary articles, both food and non-food in December, there are some pockets that will continue to cause stress.

The wholesale price index for November shows higher inflation for iron and semis, basic metal alloys, non-metallic mineral products, cement and lime, etc - in effect, inputs for industry have been under strain.

Going ahead, while depressed growth in China and low projections of global growth will keep commodity price pressures down, the MSME survey indicates expectations of input price pressures easing in Q4.

However, as volatility in these markets is a given, unexpected surges cannot be ruled out. With better business prospects for industry, the return of pricing power is once again on the cards. This will stave off any sharp decline in manufactured products inflation, making it much tougher for the RBI to call and plan rate cuts in the quarters to come.

For the common man, however, inflation in most basic commodities is slowing. Yet, as the new Indicus Price Index that monitors prices of primary food and fuel in real time shows, pressures are building up in some essential items like oilseeds. Prices of especially groundnut have increased since early December, reflecting the impact of expectations of a low rabi output with sowing at less than half of its normal area by the month end.

Further, with oils/fats being the sole item in the FAO Food Price Index to reverse a decline in November and the rupee at depressed levels, imports to make up the shortfall will not be coming cheap. The point is that while overall inflation may look bearable in the months ahead hitting 6-7% levels, pressure points in certain items will continue to plague both firms as well as consumers.

Unfortunately, the pickup in growth and the moderation in inflation are all happening with little help from the government, and are definitely in no way close to what we should be achieving. In fact, the only active participant in trying to fix any problem, the RBI, has to now step back to watch the fallout of the polls and the Budget on further inflation levels.