

# Turning the corner

For the economy, the best is yet to come

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If things are going well, you don't hear about it. That probably captures what is going on in the economy. Rural recovery can hardly match rural distress when it comes to television rating points. No one can blame you if you haven't heard rural recovery as much as rural distress. Teething problems in GST made splashy headlines, but recovery in GST collections and stabilising e-way bill hardly make even whispers, let alone being fodder for breaking news. So is the case with the visible signs of turnaround in capex cycle, IIP numbers and so on. After long time, one gets to feel that all cylinders at last may be coming together to fire up the economic engine.

## Pick-up in investment demand

For the economy, it has been a story of choked capex cycle for the last few years. It has been running only on a few cylinders (especially consumption), while its critical capex (private investment demand) cylinder was too clogged and sputtered to lend any material support. As for the reasons, it wasn't that difficult to decipher what was at the root of the so called investment inertia during that time. Over capacity and gross under-utilisation in many sectors led to sharp slow-down in the need for capacity expansion and thus causing serious slump in investment demand.

Back then, the hope was that the sustained consumption demand will eventually lead to higher utilisation which in turn will lead to recovery in private investments in early 2017, if not little later. But the two successive disruptions in the form of DeMon and GST, dashed this hope with consumption and the broader economy coming under severe strain under these disruptions for the past 12 months.

It is now time for pay-off from

these disruptions. With the imprints of DeMon fading and with GST gradually gaining traction, consumption is back with vigour, leading to recovery in gross utilisation numbers across sectors. The surge in order books reported by companies in the capital goods sector and the acceleration in IIP numbers in the last three months are the cases in point and provide evidence to early signs of recovery in investment cycle. Add to this, the optimism on monsoon, agri growth and rural recovery. All these add up as a huge ammunition for the economy to aspire for 8 per cent plus growth sooner, may be as early as FY20, than expected.

One doesn't need to go too far to find supporting evidence for the aforesaid economic narrative than to have quick look at the latest monetary policy commentary from the RBI.

Of course, there are macro risks like rising crude and hardening domestic yield including negative global cues such as rising bond yield in the US and potential acceleration in Fed rate hikes that could cause

temporary uncertainties. That said, if luck favours a little, we are looking at huge economic tailwinds and consequently robust corporate earning cycle in the coming months for India.

## Markets' outlook

Coming to markets, in their obsession to price the political/election risk, it has barely noticed the underlying acceleration in the corporate earning cycle. Weakening macro could be another reason why markets are yet to fully price-in the growth acceleration.

But the good news is, this macro drift is unlikely to derail the carefully crafted recovery that is underway in the micro (corporate earnings growth).

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