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CORONAVIRUS LOCKDOWN: IMPACT OF INDIAN ECONOMY

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KEYWORDS :

INTRODUCTION:

Corona virus outbreak was first reported in Wuhan, China on 31 December, 2019. Before reading in detail about the impact, first, let us study about corona virus. Corona virus (CoV) is a large family of viruses that causes illness. It ranges from the common cold to more severe diseases like Middle East Respiratory Syndrome (MERS-CoV) and Severe Acute Respiratory Syndrome (SARS-CoV). The novel corona virus is a new strain of virus that has not been identified in human so far. WHO is working closely with global experts, governments, and other health organisations to provide advice to the countries about precautionary and preventive? Its life itself that is affected, profoundly so and almost at a genetic level. And that means at every other extended level of human experience. Emotional and psychological, to begin with, and from there to what we go about doing with our daily lives. Earning our bread, trying to survive-or thrive. By March 11, 2020, when the WHO declared COVID-19 as a pandemic, its impact was being felt across the globe, by the 7.8 billion humans living on the planet. With an overwhelming majority of them in no position to help themselves. India has not evolved to a stage where those ratios—of humanity feeling the pain—can be assuaged by the State in any appreciable manner. In an evolving crisis, when no one is able to say for sure when it will be contained and what its long-term impact could be, the stress will be placed unequally on the individual and society, and on the government—which takes the responsibility for anticipating risk and putting in the structural buffers. And the structural risk, which affects everyone, is as economic as it is biological.

India has the recent experience of demonetisation: a sudden, unannounced alteration to our basic economic grammar. Globally, many are drawing parallels with the financial crisis of 2008 and the Great Depression in the 1930s. The present IMF chief, , is only the second woman to be in that position—at a time when the IMF chief economist too is an Indian woman,. Which is appropriate because the effects of most economic crises are unequally borne by women? Our "financial systems are more resilient now," assuage anxieties, comparing it to 2008. But, given that no one is sure how long the crisis will last or unfold, even she found it necessary to say: "Under any scenario, the global growth in 2020 will drop below last year's level. How far it will fall, and for how long, is difficult to predict, and would depend on the epidemic, but also on the timeliness and effectiveness of our actions."

India's internal buffers ensured that it was not too affected by the financial crisis of 2008, even if our GDP growth slipped from 8.5 per cent to 6.5 per cent. But this time, given the pre-existing economic slowdown on which the COVID-19 crisis is acting, the fears are of GDP growth falling below 4 per cent—officially. To put India in perspective, the overall global economic health is itself expected to be hit—especially in countries that depend on exports, tourism and other services sectors, some worse than others.

Impact of Corona Virus on the Indian Economy:

To combat with COVID-19, Indian Government extended the date of lockdown to 3rd May, 2020. Recently an industry survey that is jointly conducted by industry body Ficci and tax consultancy Dhruva advisors and took responses from about 380 companies across the sectors. It is said that businesses are grappling with "tremendous uncertainty" about their future. According to the survey, COVID-19 is having a 'deep impact' on Indian businesses, over the coming month's jobs are at high risk because firms are looking for some reduction in manpower. Further, it is added that already COVID-19 crisis has caused an unprecedented collapse in economic activities over the last few weeks. The present situation is having a "high to very high" level impact on their business according to almost 72 per cent respondents. Further, 70 per cent of the surveyed firms are expecting a degrowth sales in the fiscal year 2020-21. Ficci said in a statement, "The survey clearly highlights that unless a substantive economic package is announced by the government immediately, we could see a permanent impairment of a large section of the industry, which may lose the opportunity to come back to life again."The survey found:- In respect to the approved expansion plans, around 61 per cent of the respondents expect to postpone such expansions for a period of up to 6 or 12 months, while 33 per cent expect it to for more than 12 months.

- Surveyed firms of around 60 per cent have postponed their fund-raising plans for the next 6-12 months. Also, nearly 25 per cent of the firms have decided the same.
- Surveyed firms around 43 per cent have reported that they do not predict an impact on exports. Further, 34 per cent said that exports would take a hit by more than 10 per cent.

According to Dun & Bradstreet, COVID-19 no doubt disrupted human lives and global supply chain but the pandemic is a severe demand shock which has offset the green shoots of recovery of the Indian economy that was visible towards the end of 2019 and early 2020. The revised **Gross Domestic Product (GDP)** estimates for India downwards by 0.2 percentage points for the fiscal year 2020 to 4.8 per cent and by 0.5 per cent for the fiscal year 2021 to 6 per cent. Further, it is stated that the extent of the actual impact will depend upon the severity and duration of the outbreak. There are three major channels of impact for Indian businesses according to the report namely linkages, supply chain and macroeconomic factors. The data of the Dun & Bradstreet shows that at least 6,606 Indian entities have legal linkages with companies in countries with a large number of confirmed COVID-19 cases. And business activity in the foreign markets is slow which implies a negative impact on the top line of these companies. Sectors that would be much affected includes logistics, auto, tourism, metals, drugs, pharmaceuticals, electronic goods, MSMEs and retail among others Further, according to the World Bank's assessment, India is expected to grow 1.5 per cent to 2.8 per cent. And IMF projected a GDP growth of 1.9 per cent for India in 2020 because the global economy is affected by the COVID pandemic, the worst recession since the Great Depression in the 1930s. Also, we can't ignore that the lockdown and pandemic hit several sectors including MSME, hospitality, civil aviation, agriculture and allied sector. According to **KPMG**, the lockdown in India will have a sizeable impact on the economy mainly on consumption which is the biggest component of GDP. Reduction in the urban transaction can lead to a steep fall in the consumption of non-essential goods. It can be severe if disruption causes by the 21-day lockdown and affect the availability of essential commodities. Due to weak domestic consumption and consumer sentiment, there can be a delay in investment which further add pressure on the growth.

We can't ignore that post-COVID-19, some economies are expected to adopt de-risking strategies and shift their manufacturing bases from China. This can create opportunities for India. According to KPMG, opportunities will largely depend on how quickly the economy recovers and the pace at which the supply chain issues are addressed. KPMG India Chairman and CEO said: "Apart from providing robust safety nets for the vulnerable, a focus on ensuring job continuity and job creation will be imperative". "And there is urgent need to mobilise resources to stimulate the economy for increased demand and employment".

According to the KPMG report "It is expected that the course of economic recovery in India will be smoother and faster than that of many other advanced countries". **In terms of trade,** China is the world's largest exporter and second-largest importer. It accounts for 13% of world exports and 11% of world imports.

Up to a large extent, it will impact the Indian industry. **In imports,** the dependence of India on China is huge. Of the top 20 products (at the two-digit of HS Code) that India imports from the world, China accounts for a significant share in most of them. India's total **electronic imports** account for 45% of China. For automotive parts and fertilisers China's share in India's import is more than 25%. Around 65 to 70% of active **pharmaceutical** ingredients and around 90% of certain **mobile phones** come from China to India. Therefore, we can say that due to the current outbreak of corona virus in China, the import dependence on China will have a significant impact on the **Indian industry. In terms of export,** China is India's 3rd largest export partner and accounts for around 5% share. The impact may result in the following sectors namely organic chemicals, plastics, fish products, cotton, ores, etc. We also can't ignore that most of the Indian companies are located in the eastern part of China. In China, about 72% of companies in India are located in cities like Shanghai, Beijing, provinces of Guangdong, Jiangsu, and Shandong. In various sectors, these companies work including Industrial manufacturing, manufacturing services, IT and BPO, Logistics, Chemicals, Airlines, and tourism. It has been seen that some sectors of India have been impacted by the outbreak of corona virus in China including shipping, pharmaceuticals, automobiles, mobiles, electronics, textiles, etc. Also, a **supply chain** may affect some disruptions associates with industries and markets. **Overall, the impact of corona virus in the industry is moderate.** According to CLSA report, pharma, chemicals, and electronics businesses may face supply-chain issues and prices will go up by 10 percent. The report also says that India could also be a beneficiary of positive flows since it appears to be the least-impacted market. Some commodities like metals, upstream and downstream oil companies, could witness the impact of lower global demand impacting commodity prices. According to CII, GDP could fall below 5% in FY 2021 if policy action is not taken urgently. It is said that the government should take some strong fiscal stimulus to the extent of 1% of GDP to the poor, which would help them financially and also manage consumer demand. In the third quarter (October-December) growth is slowed down to 4.7% and the impact of COVID-19 will further be seen in the fourth quarter. Ficci survey showed 53% of Indian businesses have indicated a marked impact of COVID-19 on business operations. And 42% of the respondents said that up to three months could take for normalcy to return.

Let Us Have A Look At The Sector-Wise Impact On Indian Industry:

Chemical Industry: Some chemical plants have been shut down in China. So there will be restrictions on shipments/logistics. It was found that 20% of the production has been impacted due to the disruption in raw material supply. China is a major supplier of Indigo that is required for denim. Business in India is likely to get affected so people securing their supplies. However, it is an opportunity. US and EU will try and diversify their markets. Some of the business can be diverted to India which can also be taken as an advantage.

Shipping Industry: Corona virus outbreak has impacted the business of cargo movement service providers. As per the sources, per day per vessel has declined by more than 75-80% in dry bulk trade.

Auto Industry: Its impact on Indian companies will vary and depend upon the extent of the business with China. China's business no doubt is affected. However, current levels of the inventory seem to be sufficient for the Indian industry. If the shutdown in China continues then it is expected to result in an 8-10% contraction of Indian auto manufacturing in 2020.

Pharmaceuticals Industry: Despite being one of the top formulations of drug exporters in the world, the pharma industry of India relies heavily on import as of bulk drugs. Due to the corona virus outbreak, it will also be impacted.

Textiles Industry: Due to corona virus outbreak, several garments/textile factories in China have halted operations that in turn affecting the exports of fabric, yarn and other raw materials from India.

Solar Power Sector: Indian developers may face some shortfall of raw materials needed in solar panels/cells and limited stocks from China.

COVID-19 Map: List Of All The Countries In The World Affected By Corona Virus:

Electronics Industry: The major supplier is China in electronics being a final product or raw material used in the electronic industry. India's electronic industry may face supply disruptions, production, reduction impact on product prices due to heavy dependence on electronics component supply directly or indirectly and local manufacturing.

IT Industry: The New Year holidays in China has been extended due to corona virus outbreak that adversely impacted the revenue and growth of Indian IT companies.

Tourism and Aviation: Due to the corona virus outbreak, the inflow of tourists from China and from other East Asian regions to India will lose that will impact the tourism sector and revenue.

An outbreak of COVID-19 impacted the whole world and has been felt across industries. The outbreak is declared as a national emergency by the World Health Organisation. In India the three major contributors to GDP namely private consumption, investment and external trade will all get affected. World and Indian economy are attempting to mitigate the health risks of COVID-19 with the economic risks and necessary measures needed will be taken to improve it.

Corona Virus Lockdown Impact: Indian Economy Likely To See Only 2% Growth In 2021:

The country's GDP forecast amid the COVID-19 crisis and expects the economy to grow at just 2 per cent in the current fiscal. It said the nationwide lockdown announced to contain the corona virus outbreak has impacted industries and their operations have come to a standstill. "The Indian economy is likely to witness a sharp contraction of 4.5 per cent (de-growth) during Q4 FY20 and is expected to recover gradually, to post a GDP growth of just 2 per cent in FY21," the rating agency said. It said the concerns on account of Covid-19 have morphed from the impact of imports from China on domestic supply chains, into a domestic and external demand shock, with social distancing and lockdowns leading to production shutdowns and job losses in some sectors. The rating agency's vice president and sector head (corporate ratings) said, "Amid uncertainty as to when the situation will normalize, we expect a sharp downturn in various indicators of the manufacturing and services sectors from March 2020 onwards."

This primarily includes the discretionary activities like travel, tourism and hospitality; labour intensive sectors like construction, transport and manufacturing of non-essential items; exports; and supporting sectors like electricity, he said. Domestically, the impact of the coronavirus pandemic could lead to slowdown in domestic demand, erosion of purchasing power due to job losses or pay cuts and trickle-down effect of demand deferral will have a longer-lasting impact on some other sectors, especially where demand is discretionary in nature, it said. Global economic slowdown and lockouts is likely to impact sectors with high dependence on global demand especially that of key impacted markets like Europe, North America and South-East Asia, the rating agency said. It said lower global demand and price realisation will have an impact on commodities like oil and gas, metals. "Foreign exchange rate fluctuations will have bearing on import-heavy sectors with forex-denominated cost structure," it said. The high impact sectors in terms of risk on account of COVID-19 are aviation, hotels, restaurants, jewellery, retail, shipping, ports and port services. The medium impact sectors are automobiles, building materials, residential real estate's while the low impact sectors includes education, dairy products, fertilisers, FMCG and healthcare among others.

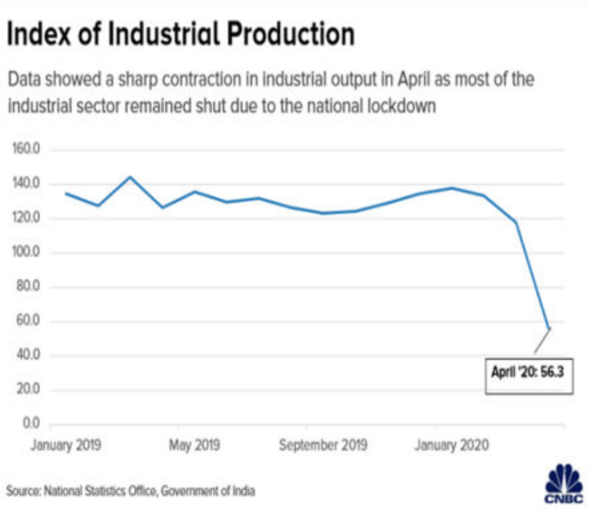
According to the rating agency, in the current scenario, extended demand disruptions are likely to lead to elongated payment cycles. "Since an entity's liquidity position is of paramount importance to support its credit profile, it is expected that several entities would endeavour to conserve cash, either by invoking force majeure clauses to revoke payments; or by deferring payments to the extent possible," it said. Consequently, many entities are expected to face working capital blockage as their receivables get stretched and inventory doesn't run-down simultaneously. The rating agency's head (credit policy), Jitin Makkar, said regardless of the RBI's three-month moratorium, entities with weak liquidity buffers are likely to report significant weakening of their credit profile over the next couple of quarters.

India's Economy was hit By the Corona Virus Lockdown. These Charts Show How:

India is one of the world's worst hit countries in the corona virus pandemic, with reported cases spiking in recent weeks as the country emerged from a strict nationwide lockdown. Cumulatively, India has reported more than 400,000 cases of infections since January. Though, relative to its population size, the percentage of infected individuals is still low. India also says the number of people who have recovered is higher than those currently affected by the virus. The country's lockdown began in late March and was subsequently extended several times. Stringent restrictions halted most economic activities and caused millions of people, many of them daily wage earners, to lose their jobs and revenue streams.

Investment bank Goldman Sachs last month predicted a massive 45% economic decline in the three months between Aprils to June. Ratings agency Moody's slashed India's credit ratings to the lowest investment grade level. India's recovery trajectory is going to be weak as the country is struggling to get past the peak of the pandemic, according to, head of India and Southeast Asia economics at Oxford Economics. She also said India's fiscal policy response has been "quite meagre" compared to the stringency of the lockdown. To mitigate the economic fallout, Prime Minister Government had announced a $266 billion support package containing both fiscal and monetary measures, said to be worth around 10% of India's GDP. But economists have said the package will do little to stimulate growth, as it includes very little planned government spending and benefits of several measures are expected to only be seen in the medium term. While the impact on India's gross domestic product for the current quarter will not be known for a few more months, these charts below paint a snapshot of how economic activities were hampered during the lockdown.

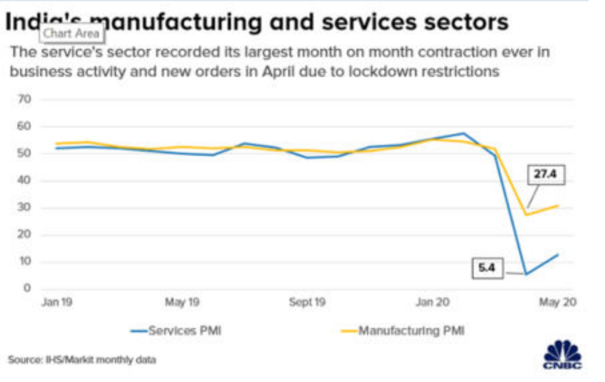
Industrial Production:



India's industrial production dropped sharply in April when the country went into lockdown and most factories were not in operation. The index contracted by 55.5% compared with the same period a year earlier. That includes sectors such as mining, manufacturing and electricity. Manufacturing of consumer durables saw the sharpest decline for the month. The government said that the majority of industrial establishments reported no production for April. "Consequently, it is not appropriate to compare the IIP of April, 2020 with earlier months," the Ministry of Statistics and Programme Implementation said in its adding that the information will "undergo revision" in the coming months.

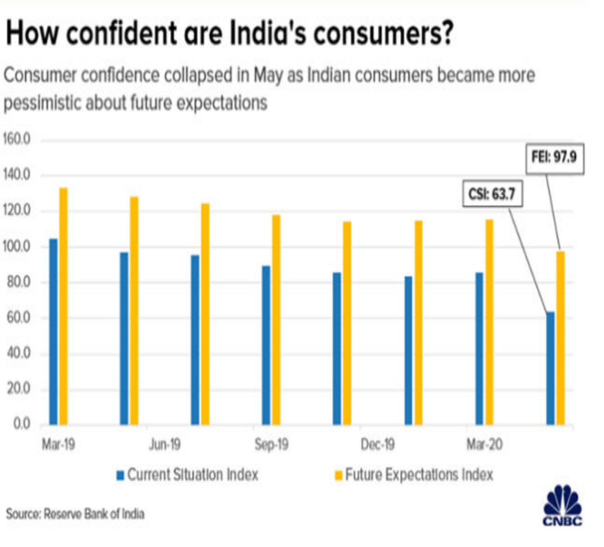
Business Activity and New Orders:

The services industry collapsed in April as most businesses were shut due to the lockdown. A private survey by IHS showed "extreme decline" in activity. The services business activity index compiled by the firm came in at a shocking 5.4, far below an industry forecast of around 40. Readings above 50 indicate expansion while those below that level represent contraction. Business activity in the services sector also fell drastically in May as the pandemic hindered operations, reduced footfall in shops and led to a decline in demand. The number last month was 12.6 and IHS said in its report that survey data "still pointed to extreme month-to-month declines in output and new orders." Domestic travel and tourism sectors also declined sharply, contributing to the fall in services business activity. IHS pointed to India's auto sector in a separate note this month. Production was largely shut in April before lockdown conditions started to be gradually eased. Citing the Society of Indian Automobile Manufacturers, the note pointed out the daily turnover lost for the auto manufacturing sector for each day of closure was around $300 million per day.



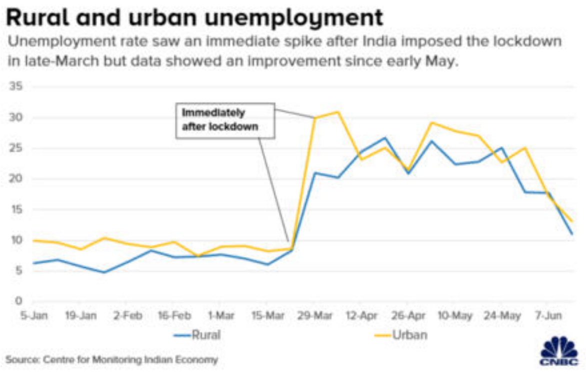
Consumer Confidence:

One of India's most lucrative assets is its large consumer base. But people appeared to be less optimistic about their current situation and future expectations. Data from the Reserve Bank of India showed consumer confidence collapsed last month. The current situation index and the future expectations index were both below 100, indicating that consumers were pessimistic. A reading above 100 represents optimism. "Consumer perception on the general economic situation, employment scenario and household income plunged deeper into contraction zone," the RBI said in its release. "While expectations on general economic situation and employment scenario for the year ahead were also pessimistic." The survey for May was conducted through phone interviews of 5,300 households in 13 major cities across the country.



Unemployment rate:

Data, anecdotal evidence and media reports all suggest that millions of people in India lost their jobs due to the lockdown. Experts said that would disproportionately affect daily wage earners and low-income households. Information compiled by the Centre for Monitoring Indian Economy showed that the unemployment rate in both rural and urban areas rose sharply in late March. It remained relatively high in April, before showing signs of improvement starting in May when some activities resumed. CMIE said unemployment is "witnessing a very rapid fall" in June, accompanied by an increase in the labour force participation rate. On a national level, India publishes a periodic labour force survey over 12-month periods. In the latest figures released for the fiscal year 2018-2019, data showed the unemployment rate fell to 5.8% from a more than four-decade high the previous year, media reports said. The lockdown's impact on employment in India will likely be captured in the next survey, which will not be released until next year.



CONCLUSION:

COVID-19 the biggest global issue after the Great Depression, with all of 165 countries affected, N.R. Bhanumurthy, professor at the National Institute of Public Finance and Policy, points out that the impacts on both the global and Indian economy are still evolving. Only the disruptions have started, he says, and at this stage it is going to be very difficult to predict anything very concretely about the future. Much depends on how long the crisis stretches. Even the usual data-backed analysis is cramped for space, and we will need to wait for future economic historians for a final tally. At the present moment, "this crisis is disturbing how all the economic activity is conducted," says Bhanumurthy. "The impact is going to be across the board. Now we have to wait and watch how the India story is going to play out. We will know only after this lockdown period......".

We will have abundant leisure to count our losses later. Profits? Well, humans have invested in and profited from various forms of social misery. But staying alive and viable in tough times is a natural instinct. An overall economic shock obviously means millions of individual repercussions, many of them drastic: loss of jobs and earnings, and temporary shortages of several products and services. At the same time, the crisis will test, at least in the short and medium term, the ability of individuals to think in terms of savings and investments. Will this bring about a philosophical change in how people approach their lives? If there are interim income losses, will savings and investments rise? And can that make up? At present, the answer to the last one seems to be a huge 'No'. This is one of those rare, and horrifying, situations when all asset categories are down. Globally, stock markets have crashed by a third, or more. Ditto with India. We are already into a real estate slump that has lasted for a few years—2020 was supposed to be the turnaround! After corona virus, it seems like realty will be down for the next several quarters. The indices will stay at home.

How should investors think about this moment? Well, the extreme volatility in commodities and crude oil can be both helpful and stressful to nations. But for investors, even the professional ones, it is risky as the price swings are huge, and one doesn't know when the tide may change within a few hours, or because of one event. Everyone initially felt that bullion, or rather gold, would be the safe place to park one's money. Initially, gold prices zoomed, which indicated the truth of such a belief. However, in the past few weeks, gold prices have come down by 10 per cent. One isn't sure if it is safe. More importantly, how much gold can one buy? In the following series of articles, we talk about the impact of the corona virus on different asset categories, as also the investment strategies that can help you safeguard your principal, if not help you earn profits, and also keep your financial head above the turbulent waters. And also, plenty scope to think about the human fundamentals that gird all of that.

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