41. HEALTH OF THE ECONOMY AND ITS MEASURING INDICATORS

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ABSTRACT

Health of the economy is an integral part of development and it is determined by the socio – economic factors like education, employment, population growth, income and environment. If the economy is not healthy internally, then it will not be able to interact effectively externally. Economists use a variety of indicators to assess the performance of the economy at a given time. By looking at changes in GDP we can see whether the economy is growing. GDP doesn't necessarily tell us much about the state of the economy. But change in GDP does. If GDP goes up, the economy is growing. If it goes down, the economy is contracting. To a certain extent, we can forecast future economic trends by analysing several leading economic indicators. Many different economic indicators are tracked in order to evaluate the health of economy in different ways or from different perspectives. To keep the economy growing strong, people must spend money on goods and services. A reduction in personal expenditures for things like food, clothing, appliances, automobiles, housing, and medical care could severely reduce GDP and weaken the economy. When an economic indicator is a statistic that will provides valuable information about the economy health. The majority of economic indicators are collected and released by government and/or non-profit groups. Thus, economists and businesspeople typically track only a select few that are most pertinent to their professional, financial and economic interests.

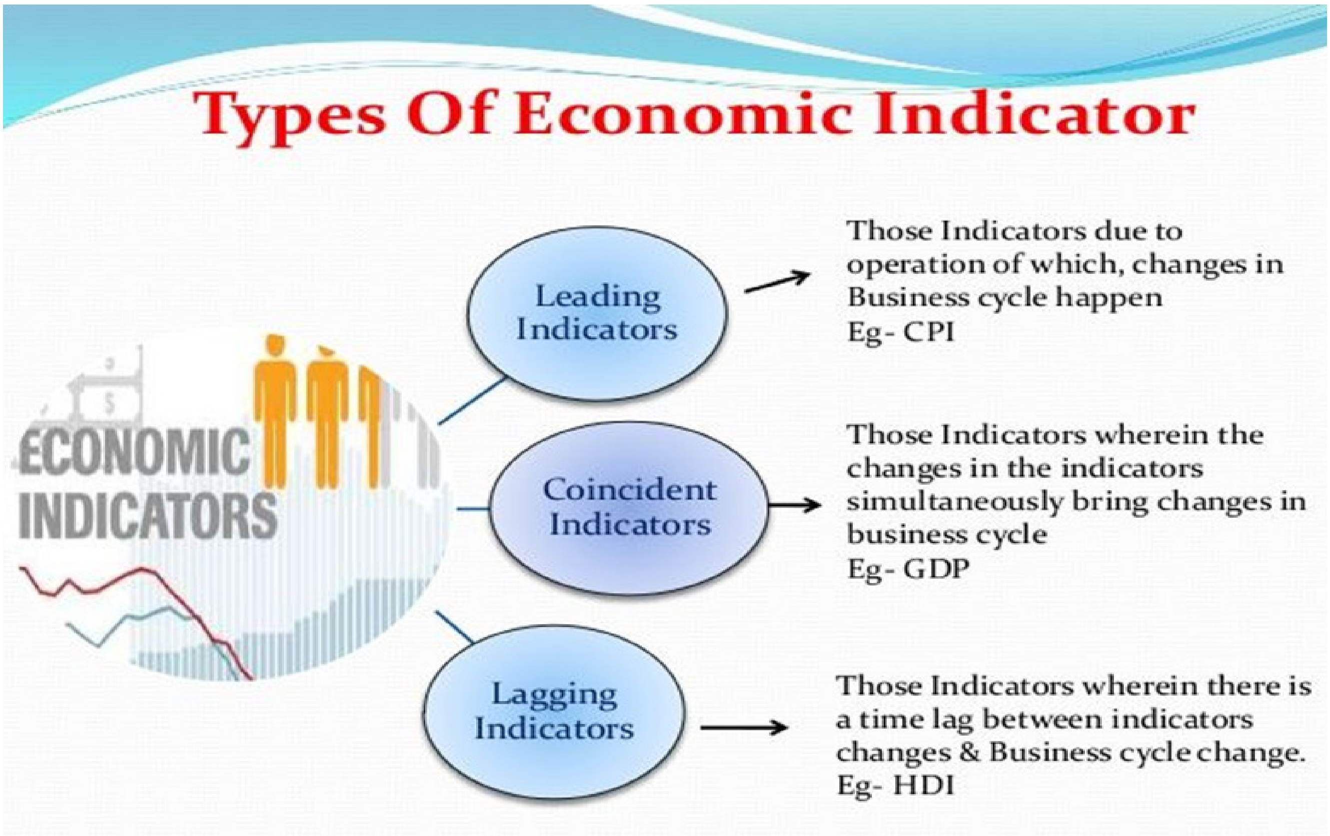
KEYWORDS

Socio-economic factors, Health of the economy, Economic indicators, Growth. GDP, Development.

INTRODUCTION

An economic indicator is a piece of economic data that is used by analysts to interpret current or future investment possibilities and in other wordeconomic indicator is a statistic about economic activity. An economic indicator is a statistic about an economic activity. These indicators also help to judge the overall health of an economy. Economic indicators can be divided into categories or groups. Most of these economic indicators have a specific schedule for release, allowing the speculators to prepare for and plan on seeing certain information at certain times of the month and year. The following graph explain the types of economic indicator.

Types of Economic Indicator
Figure - 1



India, a land of wonderful diversity and interesting opportunities, industrialisedcountry, remains high on the list of investment destinations by international investors and businesses with an average growth rate of approximately 7% over last two decades. According to global investment bank, by 2035 India would the third largest economy in the world in terms of purchasing power and is going to touch new height in coming years. But what should one look at before considering investing in India?

With a lot of positives like a large, educated English speaking population, stable government in the centre, standardized Share market - India seems to be on a firm growth path with the expectation of a double digit growth rate.

However, regulatory inefficiencies, corruption, a slow growth rate over the last decade, bureaucratic red tape in starting and running businesses, political pressures, and heavy financial burdens are some of the challenges facing India's economy and business environment. Because of the economic indicators and its associated parameters provide the important data points to enable informed decision making. This article discusses about important indicators used to analyse the health of the economy.

GROSS DOMESTIC PRODUCT (GNP)

Economists and statisticians use several indicators to track growth and health of the economy. The most well-known and frequently tracked is the gross domestic product (GDP). The Gross Domestic Product (GDP) of a country is the total value of all final goods and services produced within a country over a period of time. It is the face of the economy. If the GDP value is increasing, it is a signal of a strong economy. Therefore an increase in GDP is the increase in a country's production. In other word we define economic growth in an economy by an outward shift in its Production Possibility Curve (PPC). But some economists have highlighted limitations and biases in the GDP calculation. Organizations such as the Bureau of Labour Statistics (BLS) and the Organization for Economic Co-operation and Development (OECD) also keep relative productivity metrics to gauge economic potential. GDP doesn't necessarily tell us much about the state of the economy. But change in GDP does. If GDP goes up, the economy is growing. If it goes down, the economy is contracting. The following recorded at 6754.30 US dollars in 2019, when adjusted by graph explain the GDP growth of the India. The Gross Domestic Product per capita in India was last.

GDP Growth Rate of India

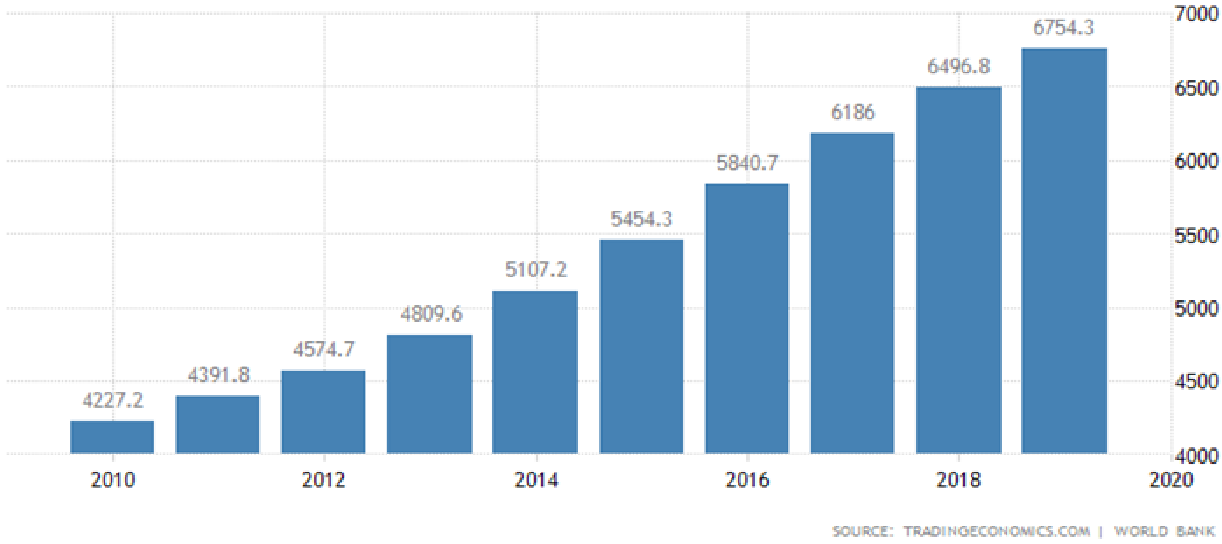


Figure - 2

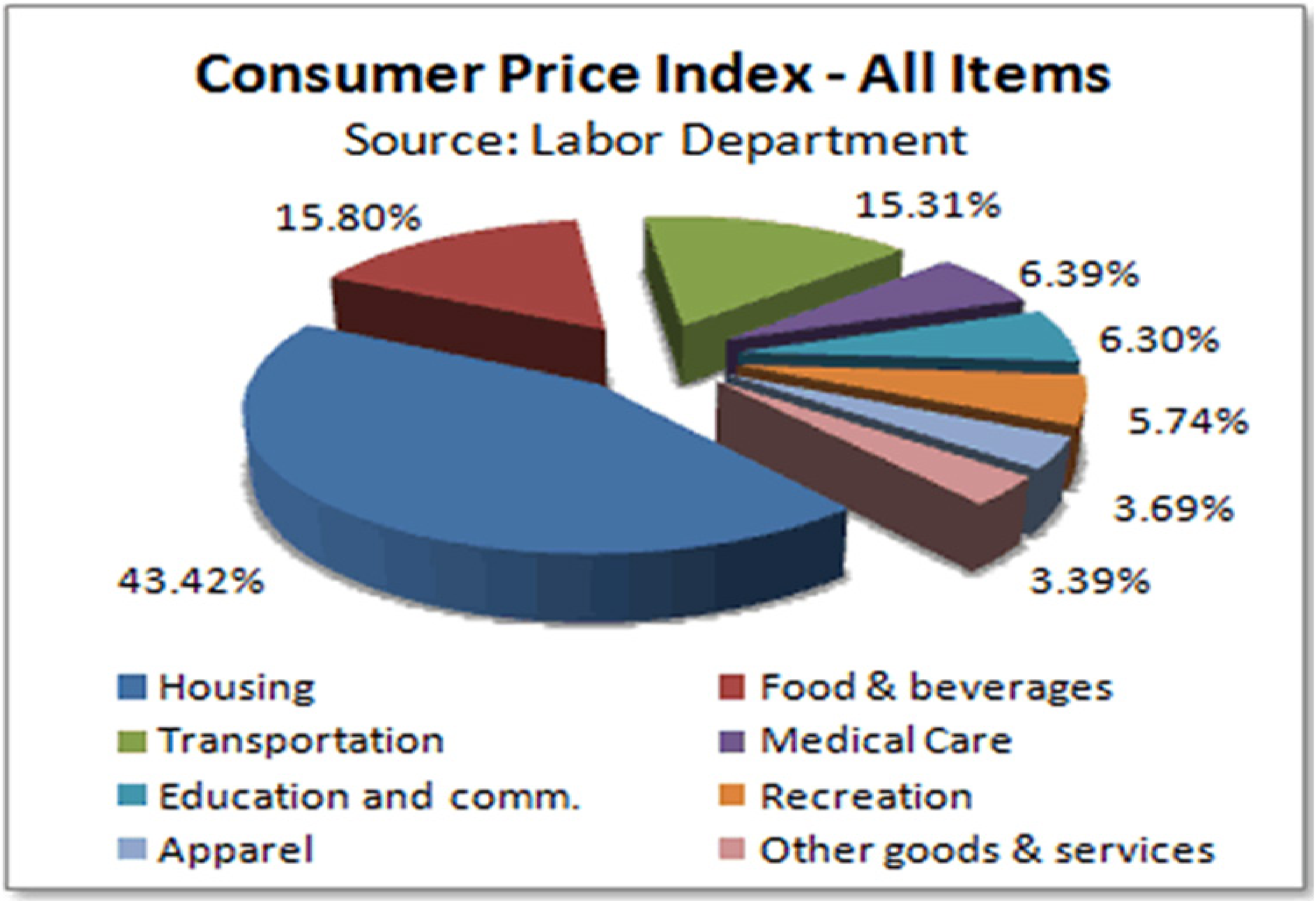
purchasing power parity (PPP). The GDP per Capita, in India, when adjusted by Purchasing Power Parity is equivalent to 38 percent of the world's average.

GDP is disliked as an indicator of economic growth by some because it is not a perfect measure of welfare.It does not include aspects of the good life such as some leisure activities. Nor does it include economically valuable activities that are not paid for, such as parents teaching their children to read. But it does include some things that lower the quality of life, such as activities that damage the environment. But, it is not a perfect indicator. However, it is one of the lagging indicators which tell what has already happened not what is going to happen. Despite many businesses adjust their payroll, expenditures, and inventory based on GDP quarterly or annual results. Especially in India where GDP is one of the most recognized economic indicators which uses by financial advisors, economists, research analysts, investors, and traders to check upon the recent economic developments.

CONSUMER PRICE INDEX (CPI)

A comprehensive measure used for estimation of price changes in a basket of goods and services representative of consumption expenditure in an economy is called consumer price index. The basket represents the prices of a cross-section of goods and services commonly bought by the households in economy. The most widely publicized measure of inflation is the consumer price index (CPI), which is reported monthly by the Bureau of Labour Statistics. The CPI measures the rate of inflation by determining price changes of a hypothetical basket of such as food, housing, clothing, medical care, appliances, automobiles, and so forth, bought by a typical households. It could be seen in the graph of consumer price index. The CPI measures inflation, one of the greatest threats to a healthy economy. If the inflation rate is too high, it hurts the economy. Since everything costs more, manufacturers produce less. Ultimately, they are forced to lay off workers. As aneconomic indicator the CPI is the most widely used measure of inflation and is sometimes viewed as an indicator of the effectiveness of government economic policy.

Basket of Goods and Services in CPI- Figure - 3

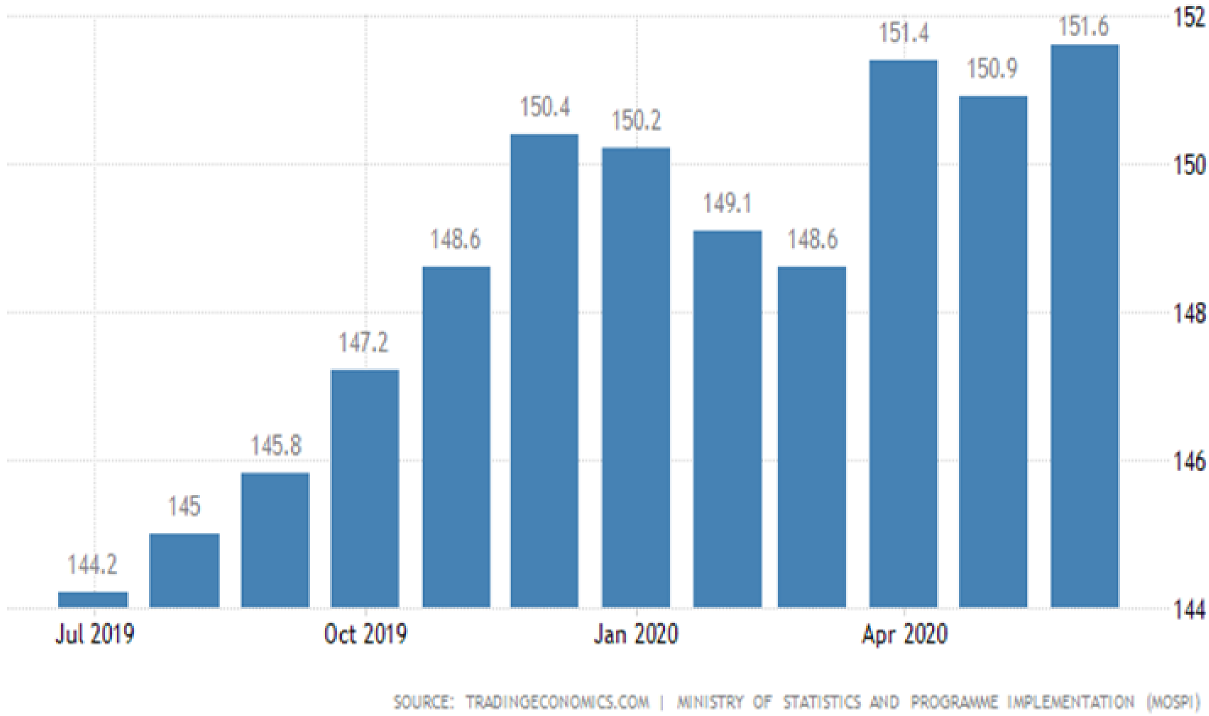


It provides information about price changes in the Nation's economy to government, business, labour, and private citizens and is used by them as a guide to making economic decisions. In addition, the President, Congress, and the Federal Reserve Board use trends in the CPI to aid in formulating fiscal and monetary policies. The calculation involved in the estimation of CPI is quite rigorous. Various categories and sub-categories have been made for classifying consumption items on the basis of consumer categories like urban or rural. Based on these indices and sub-indices obtained, the final overall index of price is calculated mostly by national statistical agencies. It is one of the most important statistics for an economy and is generally based on the weighted average of the prices of commodities. It gives an idea of the cost of living. It is one of the crucial economic indicators which used to measure inflation and deflation rate.

The best thing about this index is that it calculates the inflation from the consumer's end. On top of that, it includes services which account for 60 percent of GDP approx., plus, it also includes both rural and urban part of the country. It measures the change in the prices of the total basket of goods and services such as transportation, medical care, and food over a period of time. This is why it is also known as the Cost of Living Index. Increasing inflation usually indicates a decrease in purchasing power which can lead to major problems in future. Hence, the average standard of living declines with the rise in inflation. Inflation also influences job growth, GDP, and employment rate. The following graph explain the CPI of India.

Consumer Price Index CPI in India increased to 151.60 points in June from 150.90 points in May of 2020. India's Consumer Price Index (CPI) growth was measured at 5.8 % in Mar 2020, compared with a rate of 6.6 % in the previous month. India's Consumer Price Index growth data is updated monthly, available from Jan 1958 to Mar 2020, with an averaged number of 6.8 %. The data reached an all-time high of 34.6 % in Sep 1974 and a record low of -11.3 % in Jun 1976. CEIC calculates Consumer Price Index Growth from monthly Consumer Price Index. Central Statistics Office provides Consumer Price Index with base 2012=100. Consumer Price Index Growth prior to January 2012 is sourced from the International Monetary Fund and covers Industrial workers only.

Consumer Price Index Growth
Figure - 4



Like GDP, there are difficulties related to the CPI also. In a vast country like India, different people have different standards of living. Thus, one CPI cannot justify the entire diversity. Thus, because of these reasons, the change in the cost of living is questionable while calculating the CPI.

INTEREST RATES

In India, the Interest rate decisions and monetary policies are handled by the Indian authority – Reserve Bank of India (RBI). It is considered a major economic event in India where the interest rates are decided by the RBI in the interest of businesses, consumers,

, investors, and country's economy. It is also one of the lagging indicators which represent the money lent from one bank to another. In India, these monetary policies are determined by the Monetary Policy Committee (MPC). For instance, when the monetary policy committee decides to increase the interest rates then the commercial banks or other lenders have to pay more interest to obtain money which they compensate by lending money to the borrowers at higher rates, which thereby make borrowers difficult to take out loans. As a result, the borrowers or consumers hesitate to take loans and the companies discouraged to expand their operations and businesses. As a result, the GDP growth affected. But, if the interest rates are too low, it is also not beneficial for the economy since there will be an increased demand for money and a rise in inflation. So, the interest rate is one of the crucial economic indicators which can suggest where the economy might be headed.

In India, interest rate decisions are taken by the Reserve Bank of India's Central Board of Directors. The official interest rate is the benchmark repurchase rate. In 2014, the primary objective of the RBI monetary policy became price stability, giving less importance to government's borrowing, the stability of the rupee exchange rate and the need to protect exports. In February 2015, the government and the central bank agreed to set a consumer inflation target of 4 percent, with a band of plus or minus 2 percentage points, from the financial year ending in March 2017.

India Interest Rate (2004 – 2020)
Figure - 5

The Reserve Bank of India unexpectedly lowered its benchmark repurchase rate by 40 basis points to 4 percent in an emergency move on May 22nd, amid an ongoing nationwide lockdown to prevent further spreading of the coronavirus. The reverse repo rate was also lowered by 40 basis points to 3.35 percent and the marginal standing facility rate to 4.25 percent. The committee also decided to continue with the accommodative stance of monetary policy aiming to achieve the medium-term inflation target of 4 percent +/- 2 percent, and mitigate the impact of COVID-19 on the economy, while supporting growth.

The Reserve Bank of India (RBI) launched a special liquidity facility for mutual funds (SLF-MF) of 500 billion rupees (USD 6.56 billion) to ease pressure due to the coronavirus pandemic. The bank will conduct repo operations for 90 days' tenor the fixed repo rate. The scheme is available from April 27, 2020 till May 11, 2020 or up to utilization of the allocated amount, whichever is earlier. The Reserve Bank will review the timeline and amount, depending upon market conditions. Exposures under this facility will not be reckoned under the large exposures framework and stand to be classified as held to maturity, even in excess of the permissible 25 percent of total investments. Policymakers had already cut its benchmark repurchase rate by 75bps to 4.40 percent on March 27th.

CONCLUSION

There are a lot of other economic indicators which tell a lot about a country's economic health and future inflation or deflation in the country. Among these leading and lagging economic indicators, the gross domestic product (GDP), consumer price index (CPI)and interest rate, are key indicators in India which not only monitored by the economists or analysts but also by investors and traders who are invested in the stock market or other financial market.

For this reason, to accurately analyse the state of the economy, you must learn to do analysis based on various economic indicators. Just don't forget some economic indicators work best in the corporation with other economic indicators. By the corporation, you can make better decisions regarding your investments and future goals.

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