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View from the top

Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	6.40%-6.60% Dec-09	4.78% Nov-09
Inflation C.P.I (I.W)	11.6%-11.8% Nov-09	11.49% Oct-09
INR/US\$	46.30-46.50 Dec-09	46.57 Nov-09
I.I.P Growth	8.0%-9.0% Nov-09	10.35% Oct-09
15-91 day's T-Bills	3.3%-3.5% Dec-09	3.02% Nov-09
10 year G-Sec yield	7.7%-7.9% Dec-09	7.79% Nov-09
Bank Credit*	10.6%-11.0% Dec-09	10.0% Nov-09

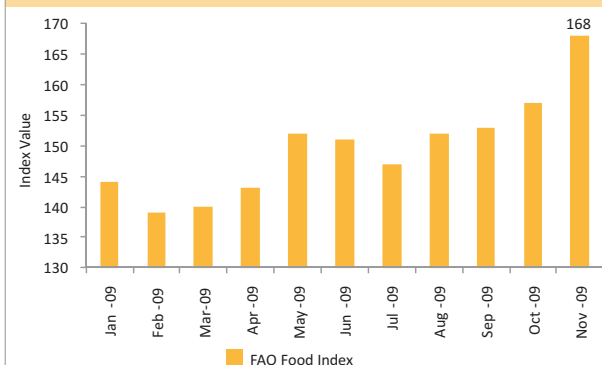
All figures are monthly averages

*Refers to End period

Dun & Bradstreet's GDP Forecasts

	Forecast (Q3 FY10)	Latest Period (Q2 FY10)
GDP	6.5	7.9
Agriculture	-2.0	0.9
Industry	8.1	8.3
Services	9.0	9.3

Spiraling international prices of agricultural commodities



Note: FAO Food Index comprises a food basket composed of cereals, oil seeds, dairy, meat & sugar

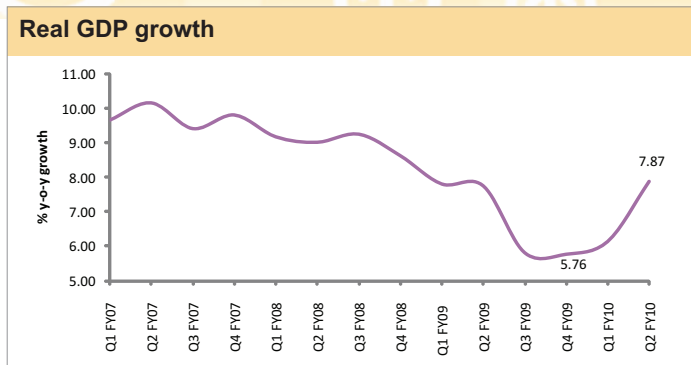
Source: FAO Food Outlook, December 2009

Although D&B expected some improvement in the GDP growth figures during Q2 FY10 on the back of pick up in the domestic economic activities, a 7.9% growth came as a pleasant surprise. The various economic stimuli packages by the Government have played a major role in boosting the Q2 numbers. Going forward, improvement in private sector demand would be crucial in maintaining the growth momentum and mitigating the impact of expected reduction in the Government spending. Besides, the current growth in the production of capital goods will need to continue on a sustained basis over the next few months, to support overall economic recovery.

However, there exists certain downside risks to economic revival. The setback in agriculture sector growth due to deficit rainfall is expected to weigh on the overall GDP growth in the subsequent quarter. Nonetheless, the growth is expected to pick up once again in the medium term given the improving domestic demand conditions as well as sustained and broad based growth in the industrial sector. The return of GDP growth to its FY08 level, indeed, will primarily be dependent on a sustained recovery of exports, which hinges on a full recovery of the global markets.

The unabated surge in prices of primary food articles, particularly food grains and fruits & vegetables has fueled inflationary pressures in the economy. The WPI inflation is fast approaching the RBI's tolerance level and hence is expected to be a key concern in the near future. Further, the unabated rise in prices of primary food articles could exert upward pressure on manufactured products inflation going forward. The rising inflationary concern calls for timely action by the Government and the RBI. The Government already has taken certain supply-side measures to tackle inflationary concerns. On the other hand, the RBI's recent monetary policy followed by its move to tighten certain External Commercial Borrowings (ECB) norms has signaled the gradual exit from an expansionary monetary policy. Further, in view of the excess liquidity conditions and the expected pick up in foreign capital inflows, the RBI might consider taking few more measures to drain out excess liquidity from the system in the near future. D&B expects that while the RBI might consider increasing the CRR anytime now, it may maintain a status quo in terms of other policy interest rates.

Real Economy



Source: CSO

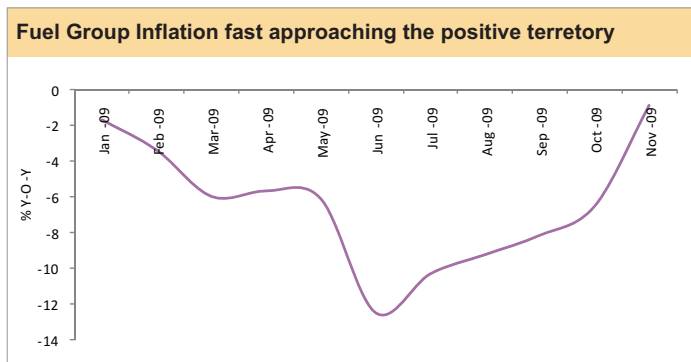
- India's GDP grew by 7.9% (y-o-y) during Q2 FY10 – fastest in the last six quarters. The agriculture, industry and services sectors registered y-o-y growth rates of 0.9%, 8.3% and 9.3% respectively.
- Industrial output as measured by the Index of Industrial Production (IIP) grew by 10.3% (y-o-y) in Oct-09 as compared to 0.1% in Oct-08; base effect in play.
- Consumer Durables sector grew by 21.0% in Oct-09, marking the seventh consecutive month of double digit growth in the consumer durables production.
- 16 out of 17 major manufacturing industries groups witnessed positive growth during Oct-09

	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	8.0%-9.0% Nov-09	10.35% Oct-09	9.63% Sep-09

Impressive performances of both mining and manufacturing sectors has supported the strong GDP growth during Q2 FY10. The various economic stimuli packages by the Government have played a major role in boosting the Q2 numbers. The growth in private final consumption expenditure also increased to 5.63% in Q2 FY10 as compared to 1.63% in Q1 FY10. Going forward, further improvement in private sector demand would be crucial in maintaining the growth momentum and mitigating the impact of reduced support from huge Government spending, as it is gradually withdrawn from the subsequent quarters. Further, sustained and broad based improvement in IIP during the last few months points to the fact that economic revival process has started gaining ground.

GDP growth in Q3 FY10 is expected to be lower compared to Q2 FY10 on account of weak performance of the agriculture sector. Agriculture sector is likely to grow at sub-zero level in the Q3 FY10 as the impact of uneven monsoon on agriculture production is likely to be captured in the third quarter, which is the harvest season. While the agriculture sector is expected to exert downward pressure on growth, industry and services sectors are likely to drive the economic activity. However, factors like mounting inflationary pressures, possible adverse impact of lower agriculture growth on demand conditions, does pose some downside risks to growth momentum of the Indian economy.

Price Scenario



Source: Ministry of Commerce

- The WPI for all commodities increased by 4.8% (y-o-y) during Nov-09 as against 1.3% during Oct-09.
- Inflation in primary articles surged to 11.8% during Nov-09 from 8.7% during Oct-09 primarily due to elevated prices of primary food articles such as food grains, fruits & vegetables, milk and egg, meat & fish.
- Prices of primary non-food articles, which were witnessing a decline for the last four months, registered a growth of 1.9% during Nov-09 on account of rising prices of fibres & oil seeds.
- Driven by sharp rise in prices of manufactured food products, manufactured products inflation rose to 4.0% during Nov-09 as against 1.4% during the previous month.
- Fuel group, though continues to witness deflation of 0.9% during Nov-09, it is fast approaching the positive territory.

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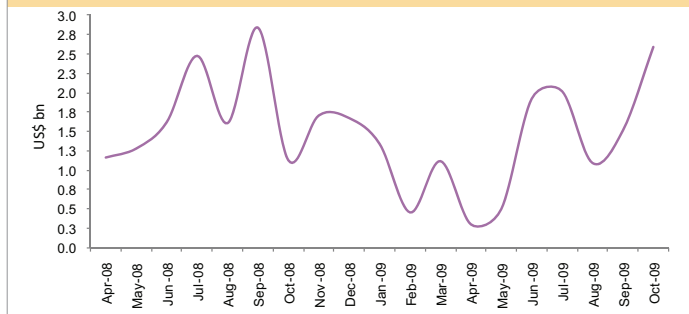
The sharp rise in the WPI inflation driven by the relentless increase in prices of primary food articles is likely to be a key concern in the near future. The recent rise in prices of primary food articles, particularly food grains, can largely be attributed to the domestic supply-side constraints and spiraling international prices of cereals (due to low levels of world cereal stocks). As per the FAO's food outlook for Dec-09, the world production as well as ending stocks of coarse grains & rice are forecasted to decline in the 2009-10 marketing season. With the tightening demand & supply balance for coarse grains & rice globally, international prices of these commodities are expected to remain elevated in the near future, consequently impacting domestic prices.

Further, rising prices of food articles has the potential to spur inflation in manufactured products going forward. Moreover, with the revival in the global economic activity, the demand for crude oil is likely to witness an increase in 2010, leading to a rise in international oil prices. This, in turn, is expected to exert upward pressure on the domestic prices of minerals oil.

In view of rising prices of food articles and manufactured products and the expected increase in the fuel group inflation in the ensuing months, D&B has revised its inflation forecast upwards to more than 7.5% by the end-March FY10 as against the initial estimate of 6%.

Money & Finance

ECBs witnessing surge in FY10



Source: RBI

- Growth in bank credit increased marginally to 10.0% (y-o-y) as on 27-Nov-09 as compared to 9.5% as on 30-Oct-09.
- The 10-year gilt yield remained in the range of 7.1%-8.3% for the week ended 4-Dec-09, while the 15-91 day T-Bill yields remained at 2.7%-3.4% for the week ended 4-Dec-09.
- Call rates remained within the range of 2.50%-2.70% during the month Nov 09.
- The BSE Sensex gained 7.6% to end at 17,101.54 on 4-Dec-09 as compared to 30-Oct-09 on the back of strong FII inflows.
- With improving business sentiment and increasing risk appetite of investors, fund mobilisation from primary markets increased to Rs 439.4 bn during H1 FY10 as against Rs 124.8 bn during H1 FY09.

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10 year G-Sec yield	7.7%-7.9% Dec-09	7.79% Nov-09	7.83% Oct-09
Bank Credit*	10.6%-11.0% Dec-09	10.0% Nov-09	9.5% Oct-09

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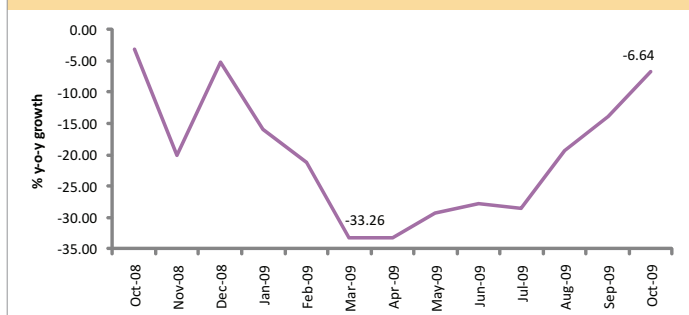
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Unlike in the corresponding period of the previous fiscal, domestic liquidity conditions have remained comfortable in the third quarter of FY10 as reflected in the lower call rates and bank's recourse to reverse repo window. While advance tax payments by the corporate sector in the mid-Dec 09 is expected to result in some cash outflow, redemptions and interest payouts from G-sec & State Development Loans as well as government borrowing holiday for almost three weeks (between 18-Dec-09 to 8-Jan-10) will again inject liquidity in the system.

In view of the improvement in the domestic liquidity conditions and narrowing credit spreads in the international markets, the RBI decided to tighten certain External Commercial Borrowing (ECB) norms relaxed by the RBI during the liquidity crisis period. Further, given the excess liquidity conditions and mounting inflationary pressures in the domestic economy, the RBI might consider taking few more measures (such as increasing reserve ratios, MSS and Open Market Operations) to drain excess liquidity from the system going forward. D&B expects that while the RBI might consider increasing the CRR anytime now, it may maintain a status quo in terms of other policy interest rates.

External Sector

Exports growth marching towards positive territory



Source: Ministry of Commerce

- Exports fell by 6.6% (y-o-y) to US\$ 13.2 bn during Oct-09, while imports registered a decline of 15.0% to US\$ 22.0 bn.
- RBI decided to withdraw the existing relaxation in the all-in-cost ceilings under the approval route for the ECBs w.e.f. 1-Jan-10 and also withdraw the special facility provided to companies to buy back foreign currency convertible bonds w.e.f. 1-Jan-10.
- NBFCs exclusively involved in financing the infrastructure projects have been permitted to avail of ECB from the recognized lender category including international banks under the approval route, subject to complying with the prudential standards.
- RBI has decided to permit eligible borrowers in the telecommunication sector to avail of ECB for the purpose of payment for Spectrum allocation.

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INR/US\$	46.30-46.50 Dec-09	46.57 Nov-09	46.72 Oct-09

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Exports continued to witness some improvement albeit the fact that on a y-o-y basis the exports growth registered the thirteenth consecutive decline in the month of Oct-09. Exports growth is expected to enter the positive territory given the gradually improving global economic scenario. Slower pace of decline in imports during the month of Oct-09 corroborates the fact that demand conditions in the domestic economy are improving. The import demand is likely to witness some improvement in the near future as the domestic economic activity gains momentum.

Tightening of some ECB norms in view of the improvement in the credit market conditions and narrowing credit spreads in the international markets are likely to constrain the external commercial borrowings by the corporate sector, and might induce increased recourse to the bank credit.

In the forex market, the rupee largely remained range bound though with some bouts of volatility. While the rupee is expected to remain around current levels in the short run, it might experience some appreciation in the long run on expectations of sustained capital inflows.

Please send your feedback to Yashika Singh, Head-Operations, Economic Analysis Group

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