



Decide with Confidence

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Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	8.9%-9.1% Feb-10	8.56% Jan-10
Inflation C.P.I (I.W)	14.5%-14.7% Jan-10	14.97% Dec-09
INR/US\$	46.20-46.40 Feb-10	45.96 Jan-10
I.I.P Growth	13.5%-14.5% Jan-10	16.80% Dec-09
15-91 day's T-Bills	3.7%-3.9% Feb-10	3.50% Jan-10
10 year G-Sec yield	7.6%-7.8% Feb-10	6.46% Jan-10
Bank Credit*	14.0%-15.0% Feb-10	14.8% Jan-10

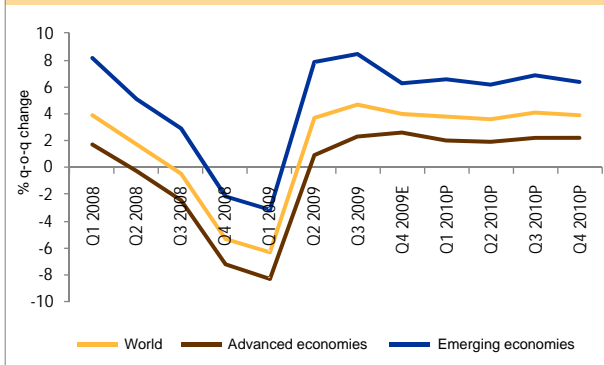
All figures are monthly averages

*Refers to End period

Dun & Bradstreet's GDP Forecasts

	Forecast (Q3 FY10)	Latest Period (Q2 FY10)
GDP	7.3	7.9
Agriculture	-1.9	0.9
Industry	11.5	8.3
Services	8.5	9.3

Stabilising world economic activity



Note: E: Estimate and P: Projection
Source: IMF, World Economic Outlook Update January 2010

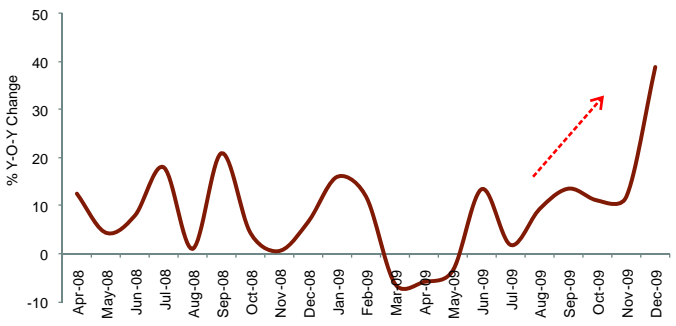
Robust growth of 16.8% in the industrial production (IIP) during Dec-09, though on a lower base, clearly indicates a strong and broad based recovery in the industrial activity. This substantial growth in the industrial sector might off-set some of the negative impact of the expected lower agriculture sector growth and support the overall GDP in second half of FY10. However, a sustained increase in domestic demand would be essential for a continued acceleration in the IIP growth going forward. Factoring in the robust growth in industrial activity during the third quarter, D&B is revising its GDP forecast upwards to 7.3% from 6.8% during Q3 FY10. According to the RBI's report on Macroeconomic and Monetary Developments: Third Quarter Review 2009-10, after a moderate sequential recovery in the aggregated sales of some sample companies during the second quarter, sales growth during Q3 FY10 (y-o-y; based on partial sample) has turned significantly positive. This to a certain extent is an indication of recovering demand conditions. Further, recuperating export as well as import demand, sustained growth in consumer and capital goods production also bodes well for the future growth in economic activity. While robust growth rates of many of these indicators can be partly attributed to the low base of previous year, the prospect of a stronger and quicker recovery appear bright. However, with the mounting inflationary pressures and fears of a double dip recession emerging in few developed countries, some downside risks do persist.

The stimulus provided by the Government in the form of duty cuts, tax benefits and increased government spending has been instrumental in supporting the economic activity in the current fiscal so far. Now that the economy seems to have a strong hold on the recovery path an important question that arises is; will the current pace of revival continue in case the government rolls back the stimulus provided earlier and RBI tightens the monetary policy further? While the positive economic environment has built a case for stimulus roll back, it is necessary that the roll back is gradual and aligned with emerging economic conditions. D&B expects that the government is likely to begin the unwinding of the stimulus from the forthcoming budget and would phase it out entirely in a gradual manner in an attempt to consolidate the high fiscal deficit.

Going forward, the RBI is also likely to tighten its monetary stance further. D&B expects that, the RBI would hike the policy interest rates during Apr-10, in order to arrest the rapidly building inflationary expectations. While a rate hike by RBI might put some pressure on the bank credit growth, which has begun to see some improvement, it is unlikely to have significant impact on investment decisions of the corporates in the short-run given that an increased proportion of funds are being sourced from non-bank avenues.

Real Economy

Domestic investment activity witnesses improvement



Note: Data pertains to growth in IIP capital goods; Source: CSO

- Industrial production as measured by the IIP registered a record growth of 16.80% (y-o-y) during Dec-09 as against a decline of 0.25% during Dec-08.
- The capital goods sector witnessed a substantial growth of 38.76% during Dec-09 as against 6.56% during Dec-08.
- Production in the consumer durables sector grew by almost 45.97% during Dec-09 as against a decline of 4.18% during Dec-08; base year effect in play.
- India's GDP is estimated to grow by 7.2% during FY10 as compared to a growth rate of 6.7% in FY09, as per the CSO advance estimates. Agriculture sector is estimated to decline by 0.2% in FY10, while the industry and services segments are estimated to grow by 8.2% and 8.7% respectively during the same year.

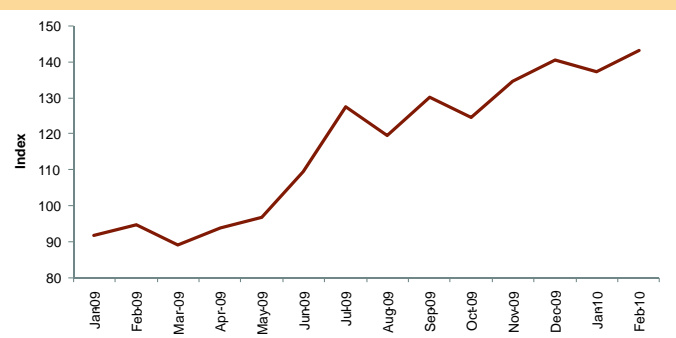
	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	13.5%-14.5% Jan-10	16.80% Dec-09	11.81% Nov-09

Although D&B had expected double digit growth in IIP during Dec-09, a record growth of 16.8% came as a pleasant surprise. The record growth in industrial production for Dec-09 indicates that low base effect partially plays a role in boosting IIP numbers. The current surge in capital goods sector is due to the commencement of capacity expansion plans that were deferred in the previous fiscal due to liquidity crunch & economic slowdown. Amongst manufacturing sector, as many as 15 out of 17 industry groups have witnessed a positive growth during Q3 FY10, pointing towards the strong and broad based recovery of the industrial activity.

Production in the consumer durables sector also witnessed a sharp increase during Dec-09, indicating the improving consumer confidence. The domestic demand conditions have witnessed some improvement in the current fiscal so far as reflected in improved performance of automobile industry and imports demand. However, given that the government might start unwinding the fiscal stimulus from the forthcoming budget, the improvement in consumer demand and investment activity needs to continue to ensure the sustainability of the current growth momentum. Given the sustained improvement in the industrial activity during Q3 FY10, D&B is revising its GDP forecast upwards to 7.3% from 6.8% during Q3 FY10.

Price Scenario

Continued surge in international commodity fuel prices



Note: the commodity fuel index includes crude oil, natural gas and coal price indices
Source: IMF

- The headline inflation stood at 8.56% (y-o-y) for the month of Jan 10 as compared to 7.31% during Dec 09.
- Prices of the manufactured products inched to 6.55% (y-o-y) driven by the surge in prices of Chemical and Chemical Products and Textiles.
- Fuel group inflation increased to 6.90% (y-o-y) during Jan 10 from 4.29% during Dec 09 as international fuel prices continue to surge.
- Food articles inflation moderated to 17.43% (y-o-y) during Jan 10 from 19.17% during Dec 09 on the back of lower prices of fruits and vegetables, while food grains (cereals and pulses) remained at an elevated level of 17.88%.

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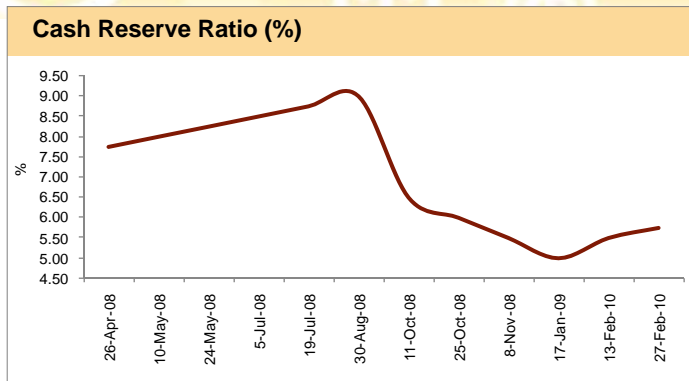
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WPI inflation, which turned positive during Sep 09, gathered pace to accelerate to 8.56% during the month of Jan 10. This level was achieved much earlier than the RBI's projection of 8.5% by end-March 2010. Improvement in the domestic activity as witnessed in the various macro economic indicators is likely to fuel inflationary pressures in the economy. D&B expects the WPI inflation be around 9.7% by Mar 10.

A steep rise was witnessed in the fuel group inflation mainly due to a rise in the industrial fuel prices. Given increased international prices of fuels, domestic fuel prices are expected to increase further which in turn is likely to feed into the input cost of the manufactured goods that are already being impacted by the rise in prices of other raw materials such as steel, aluminum, copper, rubber etc. Further, any hike in petrol and diesel prices by the government will add to inflationary pressures in the economy in the medium term.

Food article inflation has shown some moderation due to lower prices of fruits & vegetables, though it still remains at elevated levels. Expected better production in rabi crops might not provide respite to food prices, given that overall food production is likely to be lower due to an estimated decline in kharif output.

Money & Finance



Source: RBI

- The RBI announced a hike in the Cash Reserve Ratio (CRR) of SCBs by 75 bps to 5.75% in two tranches.
- Growth projection for GDP for FY10 revised upwards to 7.5% from a projection of 6.0% made in Q2 FY10 review of the monetary policy.
- Projected money supply (M3) growth for FY10 placed at 16.5% as compared to a projection of 18.0% made in Q2 review of the monetary policy.
- The WPI inflation projection for end-March 2010 revised upwards to 8.5% from a projection of 6.5% made in Q2 FY10 review of the monetary policy.
- The RBI issued guidelines for the replacement of the Benchmark Prime Lending Rate (BPLR) system with a new Base Rate system (w.e.f. 1-Apr-10).

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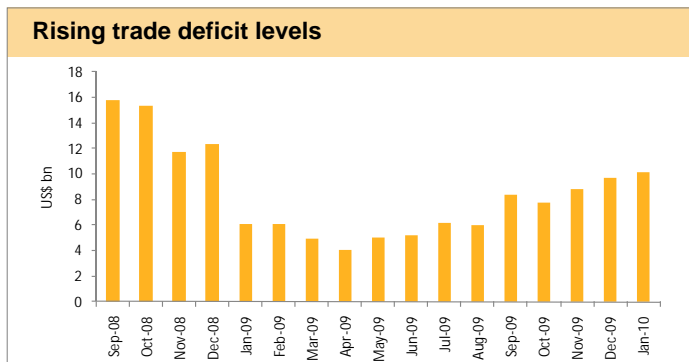
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With the mounting inflationary pressures in the economy, D&B had expected a hike in CRR, albeit of 50 bps at this point, and another 25 bps by end-Mar 2010. The policy announcement of the 75 bps hike in CRR over two tranches indicates that containing inflationary expectations has become paramount on the RBI's policy agenda. D&B expects a hike in policy interest rates in Apr-10, given that the sharp rise in prices of food articles & some metals raise concerns of second round impact of inflation in the form of higher wage costs & input costs. Further, in view of some downside risks to growth, monetary policy will need to be carefully calibrated to manage growth, particularly if fiscal stimulus measures are rolled back in the near future.

Growth in bank credit though continued to improve in Jan-10; stands significantly lower than the same in the corresponding period of the previous fiscal. While this can partly be attributed to the muted demand for bank credit, availability of credit from non-bank avenues such as own capital of corporates, capital markets, NBFCs and foreign capital investment, also translated into the lower growth in bank credit.

External Sector



Source: Ministry of Commerce

- India's exports increased by 9.26% (y-o-y) to US\$ 14.6 bn during Dec-09 while imports recorded a high growth rate of 27.23% to US\$ 24.75 bn.
- Trade deficit touched a double digit of US\$ 10.1 bn after a period of 12 months.
- Oil imports during Dec 09 increased by 42.8% to US\$ 6.5 bn. For the period Apr-Dec FY10 oil imports, however, declined by 29.8% as compared to the year ago period.
- Non-oil imports during Dec 09 increased by 22.4% (y-o-y) to US\$ 18.22 bn.
- Rupee appreciated from an average of Rs 46.63 during the month of Dec 09 to Rs 45.96 during Jan 10.

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	46.20-46.40 Feb-10	45.96 Jan-10	46.63 Dec-09

All figures are monthly averages

Exports registered a positive growth for the second consecutive month in Dec 09, thereby indicating stabilising external demand conditions. However, foreign capital inflows coupled with dollar's weakness against major global currencies have led the rupee to appreciate in the near term which could have an impact on the export competitiveness. While rupee is expected to appreciate in the medium term, it will marginally depreciate from the level reached during Jan 10 and average at around 46.20-46.40 per US\$ during Feb 10 mainly due to some foreign fund outflows.

After witnessing a sustained decline for 11 months in a row imports clocked a significant growth of 27% (y-o-y) during Dec 09, primarily due to high oil import bill. While the high growth rate on a y-o-y basis can be partially attributed to the low base, imports have witnessed a sizeable growth on a month on month basis, in absolute terms, indicating improving domestic demand conditions.

Going forward, international oil prices are expected to remain at elevated level and will lead to further increase in oil imports (value terms). This is likely to affect the trade balance, which touched a double digit deficit level after a period of 12 months during Dec 09. Continuance of high trade deficit is likely to put pressure on the current account balance in the near future.