



Decide with Confidence

View from the top

Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	8.1%-8.3% Jan-10	7.31% Dec-09
Inflation C.P.I (I.W)	13.8%-14.0% Dec-09	13.51% Nov-09
INR/US\$	45.80-46.00 Jan-10	46.63 Dec-09
I.I.P Growth	10.0%-11.0% Dec-09	11.70% Nov-09
15-91 day's T-Bills	3.7%-3.9% Jan-10	3.31% Dec-09
10 year G-Sec yield	7.6%-7.8% Jan-10	7.25% Dec-09
Bank Credit*	12.5%-13.0% Jan-10	12.2% Dec-09

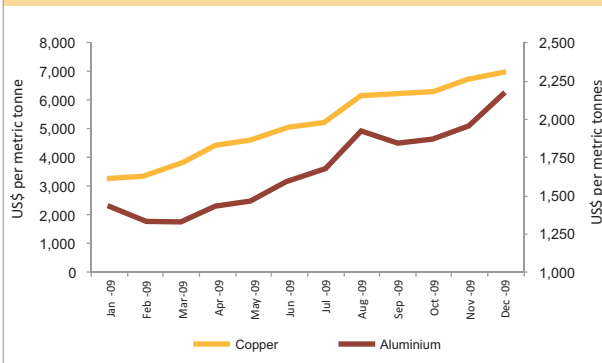
All figures are monthly averages

*Refers to End period

Dun & Bradstreet's GDP Forecasts

	Forecast (Q3 FY10)	Latest Period (Q2 FY10)
GDP	6.8	7.9
Agriculture	-1.9	0.9
Industry	9.1	8.3
Services	9.0	9.3

Rising Prices of Metals



Source: IMF

As we step into 2010, the Indian economy is well on its way to recovery with GDP growing at 7.9% in Q2 FY10 and industrial production clocking double-digit growth for the second month in a row. After a prolonged spell of declining trend that had set in since Oct 08, exports growth have returned to a positive territory and this growth is likely to be sustained in view of the recent sops announced by Government for the ailing export sectors. With cement dispatches growing at an average of 11% during the last three months, commercial vehicles sales posting a strong growth for the third month in a row, bank credit recording a y-o-y growth of 12% (as on 25-Dec-09) and the uptick witnessed in advance tax collections, the overall economic outlook appears positive.

There are thus enough confirmatory macro-economic data that justify a monetary policy reversal by the RBI in the coming months. Moreover, the sharp rise in the prices of food articles have raised concerns of a further spike in inflation in manufactured products going forward. While an accommodative monetary policy action will not have a direct impact in curbing food articles inflation, it will undoubtedly help in arresting inflation expectations. The central concern of the RBI at this juncture will however be to contain emerging cost-push inflation. Prices of commodities such as steel, aluminum, copper and rubber have been rising incessantly owing to a recovery in global demand. For instance, aluminum prices are at a 15-month high, while copper prices have risen to a 17-month high. Rising input costs raise concerns of a second round impact of inflation in the event manufacturers increase prices of their products to maintain profit margins. The feed-through of higher commodity prices into inflation might also push inflation expectations. The RBI has already signaled monetary tightening to tackle these pressures. While a hike in policy interest rates is not likely in the near term, D&B expects a 50 basis points increase in CRR anytime from now in view of the excess liquidity conditions in the system and expected pick up in foreign capital inflows.

Determining the extent and timing of monetary tightening will be at the forefront of RBI's policy agenda, to manage the inflation-growth trade-off. To add to this policy conundrum, if the Government decides to pull back on some of the fiscal stimulus measures (excise roll backs, subsidies etc), it will further affect the impact of monetary measures on growth. In this light, policy announcements in the forthcoming budget will be crucial in ensuring the sustainability of economic recovery.

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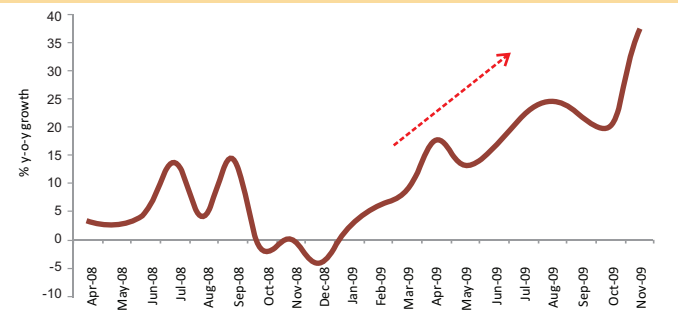
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Real Economy

The improving consumer confidence drives growth in consumer durables sector



Source: CSO

- Industrial output as measured by the Index of Industrial Production registered a significant growth of 11.7 (y-o-y) during Nov-09 as against 2.53% during Nov-08. During Apr-Nov 09, growth in IIP averaged at 7.63% as against 4.10% during Apr-Nov 08.
- Mining, manufacturing and electricity sectors grew by 9.98%, 12.68% and 3.28% during Nov-09.
- Growth in the capital goods sector averaged at 12.16% during Sep-Nov 09 as against 8.52% during Sep-Nov 08.
- The consumer durables sector registered a strong growth of 37.35% during Nov-09, contributing 17.34% to the growth in overall IIP.
- The Index of Six core infrastructure industries grew by 5.3% (y-o-y) during Nov-09 as against 0.8% during Nov-08.

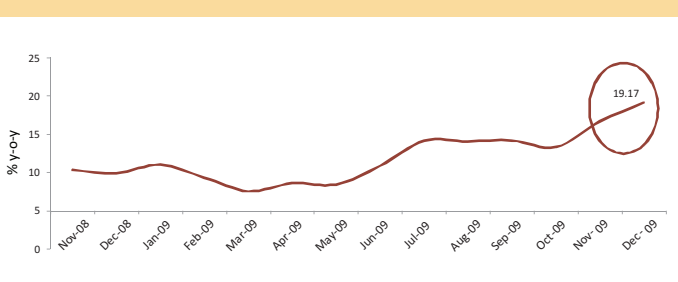
		Actuals	
	Forecast	Latest Period	Previous Period
I.I.P Growth	10.0%-11.0% Dec-09	11.70% Nov-09	10.35% Oct-09

The strong IIP growth for Nov-09 is reflective of the improving consumer confidence and the impact of the government stimulus package on demand, even as the low base effect also continues to play a role. The current surge in consumer goods sector is on the back of the revival in consumer demand consequent to tax concessions and easy availability of credit. Besides, the substantial growth in the production of 'metal products & parts' and 'machinery & equipments other than transport equipments' points toward restoration of investment activity and hence augurs well for the overall industrial sector. However, growth in these sectors will need to continue to ensure sustainability of the economic recovery. The substantial increase in the production of 'basic chemicals & chemical products' and 'rubber, plastic products' continues to drive the growth of intermediate goods sector.

Apart from this, the improvement in exports since last few months, albeit, at low base, is likely to support industrial growth going forward. However, factors like the potential impact of the expected lower agricultural production on demand conditions and mounting inflationary pressures, pose some downside risk to growth momentum. D&B expects the IIP to grow by 8.2% during FY10.

Price Scenario

Food Articles inflation continue a relentless march



Source: Ministry of Commerce

- The WPI inflation surged to 7.31% (y-o-y) during Dec 09, fuelled by a 14.88% rise in the inflation for primary articles. Primary articles inflation during Nov 09 stood at 11.84%.
- The non-food articles witnessed a steep rise in inflation to 7.73% (y-o-y) during Dec 09 as compared to 1.87% recorded during Nov 09.
- Driven by the manufactured food products inflation of 26.40% (y-o-y), inflation in Manufactured Products was placed at 5.17% during Dec 09.
- Inflation in the fuel group entered the positive territory of 4.29% (y-o-y) during Dec 09 after a span of 12 months.
- The minerals inflation continues to remain in the negative territory of -4.44% (y-o-y) during Dec 09.

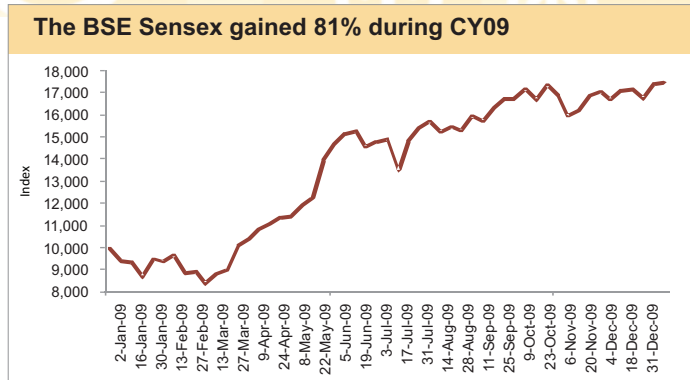
		Actuals	
	Forecast	Latest Period	Previous Period
Inflation W.P.I	8.1%-8.3% Jan-10	7.31% Dec-09	4.78% Nov-09
Inflation C.P.I (I.W)	13.8%-14.0% Dec-09	13.51% Nov-09	11.49% Oct-09

All figures are monthly averages

The headline inflation continued to soar during the month of Dec 09 driven by an unabated rise in the primary articles inflation. Within primary articles, relentless rise in food articles inflation which soared to 19.17% (for Dec 09) is a cause of concern. The rise in the food price inflation might eventually drive inflation in manufacturing goods as well as service sectors, in turn, putting further upward pressure to WPI inflation. Even the raw material prices are slated to increase given the rise in international prices of minerals. The domestic mineral group inflation which is still in the negative zone is thus expected to surge in the near term. Moreover, the recent hike in coal prices by the coal companies would lead to a rise in input prices, especially for the power sector, thereby posing further upward inflationary pressures across sectors.

The inflation in the fuel group which was in the negative territory has turned positive since Dec 09. Given that international fuel prices are on a rise, going forward, this would put considerable upward pressure on the headline inflation. In view of the rising WPI inflation building up, the government has already taken certain measures to check the surging food prices. Nonetheless, monetary action might be warranted in order to restrain any demand side pressures in the wake of excess liquidity in the system.

Money & Finance



- Growth in bank credit increased to 12.2% (y-o-y) outstanding as on 25-Dec-09 as against 10.0% as on 27-Nov-09.
- The yield on the 10-year benchmark gilt averaged at around 6.44% for the week ended 1-Jan-10, while the 15-91 day T-Bill yields remained in the range of 3.40-3.98% for the week ended 1-Jan-10.
- Call rates inched up to 3.40%-3.50% during the later half of Dec-09 as liquidity conditions tightened consequent to cash outflow for advance tax payments.
- With the tightening of liquidity conditions during Dec-09, bank's recourse to reverse repo window declined by almost 31% during Dec-09.
- The BSE Sensex surged to 17,790.33 (intra-day) on 6-Jan-10 - its highest level since 28-Feb-08.

	Actuals		
	Forecast	Latest Period	Previous Period
15-91 day's T-Bills	3.7%-3.9% Jan-10	3.31% Dec-09	3.02% Nov-09
10 year G-Sec yield	7.6%-7.8% Jan-10	7.25% Dec-09	7.79% Nov-09
Bank Credit*	12.5%-13.0% Dec-09	12.2% Dec-09	10.0% Nov-09

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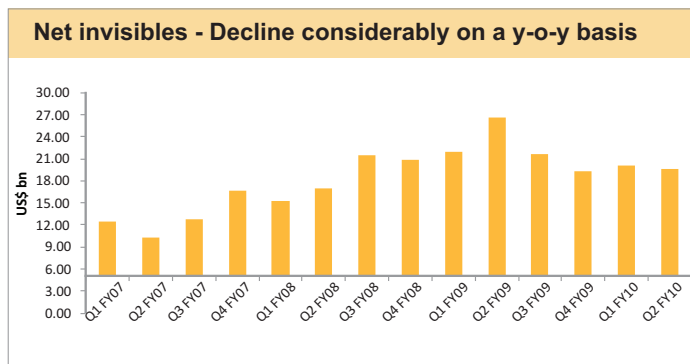
*Refers to End period

The improvement in bank credit growth is indicative of gradual revival in demand for bank credit across sectors as well as reduction in risk aversion on part of banks. With the rise in credit offtake, bank's investment in G-sec declined by about Rs 218.85 bn during the month of Dec-09.

The fact that the Indian economy is set on the revival path has boosted investors' sentiment in the second half of FY10. Improving investor sentiment is evident by the significant gains in the domestic stock market. Equities made a strong comeback, registering a gain of as much as 115% to 17,510 points as on 13-Jan-10 as against a low of 8,160 points as on 9-Mar-09. Further, the volatility of the BSE Benchmark Sensex, which had increased to 3.85% during Nov-08 consequent to intensification of global financial turmoil, has reduced to 1.57% during Nov-09.

In view of the resumption in foreign capital inflows, excess liquidity conditions and spiraling food articles inflation, the RBI is likely to consider taking further monetary measures. D&B expects a 50 basis point hike in CRR very soon, while a status quo is expected to be maintained in terms of policy interest rates.

External Sector



- Export grew by 18.2% (y-o-y) during Nov 09, recording a positive growth after witnessing a decline for 13 months, while imports fell by 2.6% (y-o-y) leading to trade deficit of US\$ 9.69 bn. Oil Imports also turned positive increasing by 7.3% (y-o-y) to US\$ 6.4 bn.
- The current account deficit stood at US\$ 12.63 bn during Q2 FY10 as compared to US\$ 12.58 bn during Q2 FY09. Capital account balance recorded a surplus of US\$ 22.04 bn as compared to a surplus of US\$ 7.84 bn during the year ago period.
- During Q2 FY10 net invisibles surplus financed 60.8% of trade deficit as compared to 67.9% in Q2 of FY09.
- During Q2 FY10, non-software services under net invisibles recorded a decline of US\$ 4.42 bn as compared to a surplus of US\$ 3.79 bn in the year ago period.

	Actuals		
	Forecast	Latest Period	Previous Period
INR/US\$	45.80-46.00 Jan-10	46.63 Dec-09	46.57 Nov-09

All figures are monthly averages

Exports during Nov 09 registered a growth of 18.2% (y-o-y), marking a reversal from the 13-month trend of declining exports. While this indicates stabilising export demand conditions, the y-o-y increase could be partly attributed to the base effect. Further, the government has extended its support to the export sector by announcing certain incentives which would aid the revival of some export oriented sectors. The reducing pace of contraction in imports points to improving domestic demand conditions.

Despite narrowed trade deficit recorded during Q2 FY10, the current account deficit was marginally higher than last year due to lower net invisibles surplus. A decline in net invisibles surplus in Q2 FY10 was mainly on account of non-software services receipts which comprises of business & financial services, construction and royalties, copy rights and licence fees etc. However, with further improvement in the global economic scenario, this segment is likely to witness some growth thereby leading to an improvement in the current account balance going ahead. The capital account balance registered significant improvement during Q2 FY10 bolstered by strong FDI and FII inflows. Given that Indian economy is set on the revival path, foreign capital inflows are likely to increase in the near term. However, this would put upward pressure on the rupee which has seen some appreciation in the recent period.

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

Dun & Bradstreet Information Services India Pvt. Ltd., ICC Chambers, Saki Vihar Road, Powai, Mumbai 400 072

Tel: 91-22-28574190 / 92 / 94 Fax: 91-22-28572060 Email: D&BEconomyObserver@mail.dnb.co.in www.dnb.com