Dun & Bradstreet

ECONOMY OBSERVER

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Dun & Bradstreet's Macro Economic Forecasts

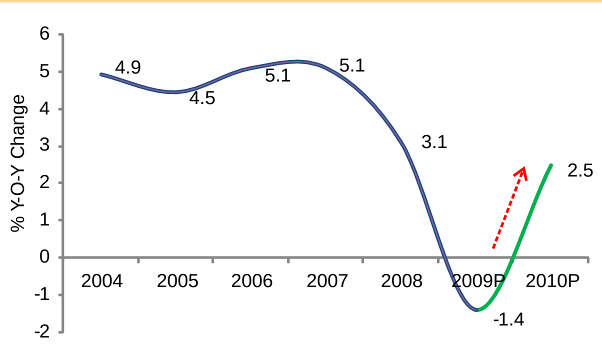
	Forecast	Latest Period
Inflation W.P.I	(-)1.4% - (-)1.3% Jul-09	(-)1.40% Jun-09
Inflation C.P.I (I.W)	8.5% - 8.9% Jun-09	8.63% May-09
INR/US$	48.20 - 48.50 Jul-09	47.77 Jun-09
I.I.P Growth	1.5% - 2.5%Jun-09	2.66% May-09
15-91 day's T-Bills	4.0% - 4.3%Jul-09	3.20% Jun-09
10 year G-Sec yield	6.9% - 7.4%Jul-09	7.24% Jun-09
Bank Credit*	15.5% - 16.0% Jul-09	15.1% Jun-09

All figures are monthly averages *Refers to End period*

Dun & Bradstreet's GDP Forecasts

	Forecast (Q1 FY10)	Latest Period (Q4 FY09)
GDP	6.2	5.8
Agriculture	2.9	2.7
Industry	2.5	1.4
Services	8.9	8.6

World Economic Outlook Projections



P - projections
Source: IMF, World Economic Outlook Update

The positive growth in industrial production for the second consecutive month backed by a rebound in growth of manufacturing sector further strengthens the hopes for economic recovery that is expected to happen in the second half of FY10. The growth in manufacturing sector is expected to provide the much required stimulus to the industrial activity going forward. The growth in consumer durables production is indicative of improving consumer sentiment and point towards early signs of demand revival. Intermediate goods as well as six infrastructure industries also have witnessed significant improvement in growth, which in turn will help the economy to get back on the revival path soon.

Moreover, the measures announced in the Union Budget are expected to provide further impetus to the overall economic activity. While the focus on infrastructure sector is expected to facilitate the overall economic growth given its strong linkages with the rest of the economy, the direct tax proposals of the budget have the potential to stimulate domestic demand. Nonetheless, the high level of fiscal deficit emanating from the increased Government expenditure is a serious concern. The huge Government borrowing programme for the current fiscal to fund this deficit might constraint the availability of funds for the corporate sector when the economic recovery takes place.

The other emerging concern at this point pertains to prices of primary food articles which are showing no signs of tapering. The delay in monsoon and its uneven spread could hamper production of kharif crops and in turn lead to inflationary pressures in food grains. Besides, a decline in kharif crop production could severely impact the rural demand and will have bearing on the economic recovery process. The recent hike in petrol and diesel prices, which is expected to result in higher transportation costs, will exert upward pressure on prices of agricultural commodities. In view of these developments, D&B expects the headline inflation to turn positive earlier than our initial expectations (September 2009), and it could touch 4.5% by the end of Dec-09.

Given these potential inflationary threats, the RBI could face some policy dilemma on interest rates front and hence is expected to maintain a status-quo in terms of policy interest rates in the short term.

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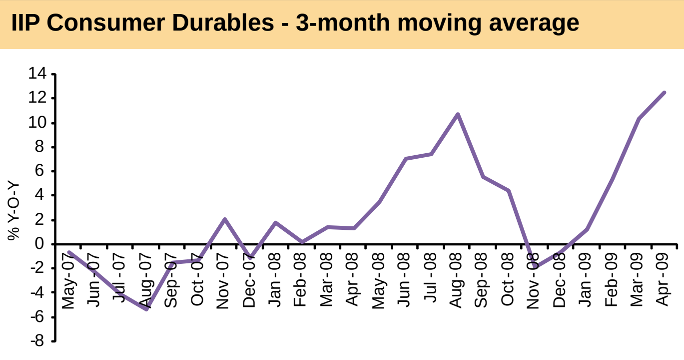
Real Economy



Source: CSO

- Industrial output as measured by the Index of Industrial Production (IIP) grew by 2.7% (y-o-y) in May-09 as compared to 1.2% in Apr-09. The mining, manufacturing and electricity sectors recorded a growth of 3.7%, 2.5% and 3.3% respectively.
- Capital goods segment recorded a negative growth of 7.3% and 3.6% for the consecutive months of Apr-09 and May-09 respectively.
- Significant decline in IIP for food products (-14.7%, y-o-y) during May-09 have pulled down the growth in the consumer non-durables segment to -2.3%
- The index of six infrastructure industries registered a growth of 2.8% (y-o-y) during May-09 as against a growth of 3.1% in the year ago month.

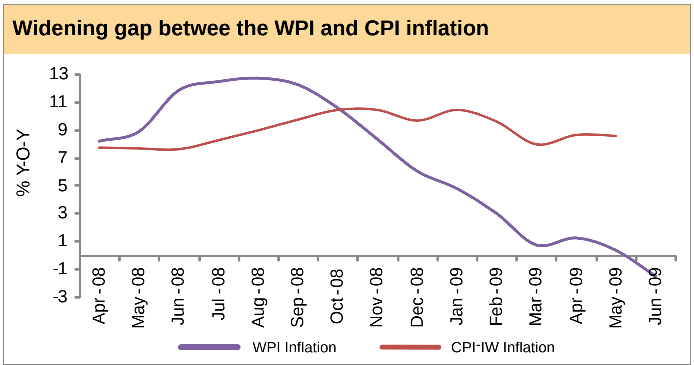
		Actuals	
	Forecast	Latest Period	Previous Period
I.I.P Growth	1.5% - 2.5% Jun-09	2.66% May-09	1.20% Apr-09

Improvement in growth rate of industrial production for the second consecutive month is indicative of stability emerging within the economy. However, it would take some more time for the economy to recover completely and set on a high growth path.

Although the double digit growth in the consumer durables sector could in part be due to the base effect, it does point towards some gradual improvement in the demand conditions in the economy. This asserts D&B's initial view that the recovery in the Indian economy, which is likely to set in the H2 FY10, would be consumption led. Further, the budget proposal of increasing the exemption limits on personal income tax and increased social spending has a potential to stimulate domestic demand.

Although, capital goods production has declined, for the third consecutive month, it is likely to be supported by an expected improvement in investment activity in the medium term period given the increased thrust of the Government on infrastructure development and gradual improvement in domestic demand conditions. The growth in intermediate goods as well as six infrastructure industries will help the economy to get back on the revival path soon. However, concerns persist especially for export oriented industries owing to muted external demand conditions. Also, the expectation of 'delayed and below normal monsoon' does not augur well for the agriculture sector and could turn out to be a major impediment in the revival phase.

Price Scenario



Source: Ministry of Commerce & CSO

- The WPI inflation slipped into a negative zone; stood at -1.6% (y-o-y) for the week ended 19-Jun-09 - the first time in more than 30 years.
- The WPI for Jun-09 declined by 1.4% primarily due to the high statistical base.
- Prices of food grains (both cereals & pulses) as well as fruits & vegetables continues to remain elevated, contributing significantly to the primary food articles inflation which surged to 8.6% during Jun-09 as against 8.2% during May-09.
- Despite rising prices of primary food articles, a decline in prices of non-food articles pulled down the inflation in overall primary articles to 5.4% during Jun-09 as against 6.0% during May-09.
- Fuel group continued to register deflation of 12.6% during Jun-09.
- The consumer price inflation for industrial workers (CPI-IW) remained elevated at 8.6% during May-09.

		Actuals	
	Forecast	Latest Period	Previous Period
Inflation W.P.I	(-)1.4% - (-)1.3% Jul-09	(-)1.40% Jun-09	0.45% May-09
Inflation C.P.I (I.W)	8.5%-8.9% Jun-09	8.63% May-09	8.70% Apr-09

All figures are monthly averages

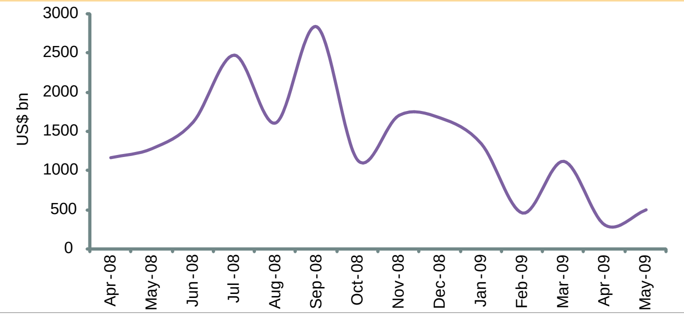
Although the WPI inflation has turned negative since last few weeks, there is no respite for the common man as prices of primary food articles like fruits & vegetables and food grains continue to surge. Prices of primary food articles, particularly kharif food grains are likely to remain high in future owing to the expectation of 'delayed and below normal monsoon'. As per the Agriculture Ministry's Crop Weather Watch Report, sowing of kharif food grains during the current year kharif season has declined significantly by almost 21.4% as compared with the corresponding period of the previous year. The decline in agricultural output could pose a serious threat to food price inflation going forward. Further, with the recent hike in petrol & diesel prices, transportation costs are likely to go up, inturn exerting upward pressure on prices of agricultural commodities.

D&B therefore expects the headline inflation to turn positive earlier than our initial expectations (September 2009), and touch 4.5% by the end of Dec-09. This could have a bearing on the process of economic recovery, which is expected to happen in H2 FY10.

With the WPI inflation in a negative territory and the CPI close to 9%, the gap between the WPI & CPI inflation has widened and remains a serious concern. In such a scenario, the RBI could face some policy dilemma on the interest rate front. D&B expects the RBI to keep its key policy rates unchanged in the short term.

Money & Finance

External Commecial Borrowings



Source: RBI

- Bank credit growth remained muted at 15.8% (y-o-y) as on 19-Jun-09.
- In view of the significant rise in the Government borrowing during FY10, the yield on the ten-year benchmark bond inched up to 7.03% (closing) as on 6-Jul-09 as compared to 6.83% (closing) as on 3-Jul-09.
- The fiscal deficit as a percentage of GDP is projected at 6.8% for FY10 as compared to 6.2% as per provisional accounts FY09.
- The net market borrowing of the Central Government through issue of dated securities in FY10 is estimated to be around Rs 4 trillion, 36.7% higher than estimate of Rs 3.1 trillion in the interim budget announced in Feb-09.

		Actuals	
	Forecast	**Latest Period**	**Previous Period**
15-91 day's T-Bills	4.0% - 4.3% Jul-09	3.20% Jun-09	3.00% May-09
10 year G-Sec yield	6.9% - 7.4% Jul-09	7.24% Jun-09	7.00% May-09
Bank Credit*	15.5% - 16.0% Jul-09	15.1% Jun-09	15.7% May-09

All figures are monthly averages **Refers to End period*

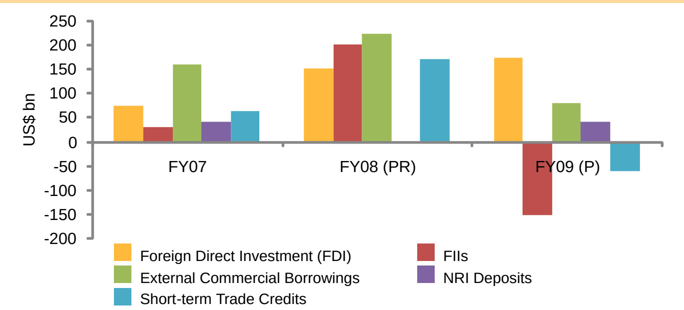
The significant increase in projected government borrowing during FY10 to fund the mounting fiscal deficit is likely to exert upward pressure on the G-sec yields going forward. The hardening of long-term G-sec yield might affect private borrowing programme to some extent.

However, the RBI and the Government are likely to limit the adverse impact of the huge government borrowing on private investment by resorting to measures like MSS, OMO and managing the timing of the borrowing.

While the bank credit off-take has been muted during the past few months, there has been some resumption in foreign fund inflows, increase in Qualified Institutional Placements (QIPs) etc that point towards gradual easing of funding pressures for the corporates. Further, gradual softening of PLR and stability entering the economy might provide some boost to the moderating bank credit demand going forward. Given the gradual hardening of g-sec yield on one hand and mounting potential inflationary pressures on the other, D&B expects the RBI to maintain a status-quo in terms of policy interest rates in the forthcoming monetary policy review.

External Sector

Net Capital Flows



Note: PR- Partially revised, P- Preliminary
Source: RBI

- India's exports declined by 29.2% (y-o-y) to US$ 11.01 bn during May-09, while imports declined by 39.2% to US$ 16.21 bn, resulting in a trade deficit of US$ 5.2 bn.
- The current account balance recorded a surplus of US$ 4.7 bn during Q4 FY09 as against a deficit of US$ 1.5 bn in Q4 FY08. In line with D&B's forecast, the current account deficit for FY09 stood at 2.6 % of GDP.
- Despite the adverse impact of the global financial crisis, software services exports (4.1% of GDP) and private transfer receipts (4.0% of GDP) were higher during FY09 than the previous year.
- India's foreign exchange reserves provided a cover of 109.6% to the external debt stock at the end of Mar-09 as compared to 137.9% as at end-March.

		Actuals	
	Forecast	**Latest Period**	**Previous Period**
INR/US$	48.20 - 48.50 Jul-09	47.77 Jun-09	48.53 May-09

All figures are monthly averages

India's exports declined for the eighth month in a row owing to a sustained weak external demand. Led by a sharp fall in oil imports bill (-60.6%, y-o-y) during May-09, India's overall import bill witnessed a steep decline, leading to a narrowing of foreign trade deficit. Nonetheless, the trade deficit is expected to widen in the medium term as imports might revive faster than exports given that India is expected to be among those countries which are likely to see an early upturn.

The current account balance has witnessed a surplus during Q4 FY09 - last recorded during the fourth quarter of FY07. This was mainly due to the sharp contraction in India's trade deficit coupled with the sustained surplus in net invisibles. While net invisibles have been in surplus, it has experienced some moderation. Moderating net invisibles and expected increase in trade deficit might exert pressure on current account balance going forward. On the capital account front, given the gradual resumption in foreign fund flows we might witness some improvement in the capital account balance in future.

The rupee has experienced some depreciation in the recent period due to the losses in the domestic stock markets. However, D&B expects the rupee to appreciate marginally from the current levels and average around 48.20-48.50 per US$ during Jul-09 mainly due to weakening of dollar and resumption in foreign fund inflows.

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