Dun & Bradstreet

ECONOMY OBSERVER

Issue 26 | June 2009

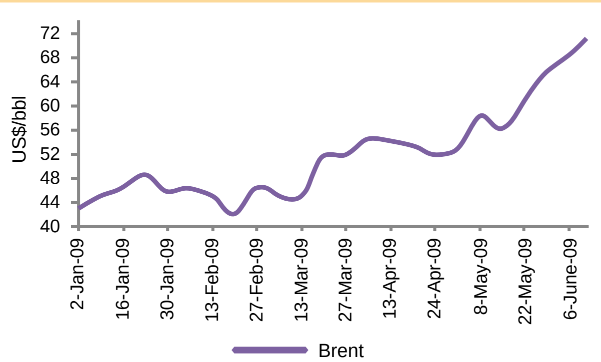
View from the top

Dun & Bradstreet's Macro Economic Forecasts		
	Forecast	**Latest Period**
Inflation W.P.I	(-)1.2% - (-)1% Jun-09	0.45%May-09
Inflation C.P.I (I.W)	9.0-%-9.20% May-09	8.70% Apr-09
INR/US$	47.00-47.50 Jun-09	48.53 May-09
I.I.P Growth	0.5%-1.5% May-09	1.43% Apr-09
15-91 day's T-Bills	3.8%-4.2% Jun-09	3.00% May-09
10 year G-Sec yield	6.8%-7.0% Jun-09	7.00% May-09
Bank Credit*	16.8%-17.2% Jun-09	16.55% May-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%

Rising Global crude oil prices



Source: WTRG

Resilient performance of GDP during Q4 FY09 coupled with positive growth in IIP in Apr-09, improvement in infrastructure sector and direct tax collection definitely calls for some optimism within economy. However, there is a need for caution as a sustained recovery in the economic activity would require substantial improvement in manufacturing sector backed by revival in the domestic demand conditions. Nonetheless, these positive indications do form a base for a recovery to take place in H2 FY10.

While the headline inflation is expected to have entered the negative zone in the first week of June-09, some potential inflationary threats (increase in global oil prices, excess liquidity) are increasingly visible and might prove to be a hindrance for economic revival. Given some underlying inflationary pressures and some signs of economic stability, D&B do not expect the RBI to lower policy rates in the near term. If banks reduce interest rates going forward (given the moral suasion by the RBI and the Government), lending to productive sectors and demand for interest sensitive products might pick up.

Further, recent GDP data points towards improvement in the domestic consumption expenditure in H2 FY09 as against H1 FY09. However, a major proportion of this growth has emanated from significant increase in government expenditure, which is unlikely to continue at the same pace going forward, given the already high fiscal deficit. Thus, a persistent improvement in private consumption as well as investment demand is inevitable for an economic recovery to take place. Although a sustained revival in the domestic demand would take some time, there are some early signs of domestic demand conditions stabilising. This to a certain extent is evident from 16% increase witnessed in consumer durables production in Apr-09. Further, improvement in the intermediate goods production augurs well for overall IIP going forward.

In the forthcoming budget, the Government is not only expected to continue its emphasis on the social sector and infrastructure development, but also announce some more stimulus measures for the ailing sectors such as textiles, leather and gems & jewellery. Further, disinvestment activity is likely to get a push in the forthcoming budget and would be a welcome move as it might constrain the fiscal deficit to a certain extent. Policy announcement in forthcoming budget along with the Government's effort towards maintaining fiscal prudence will play a crucial role in setting the Indian economy on the path of sustained recovery.

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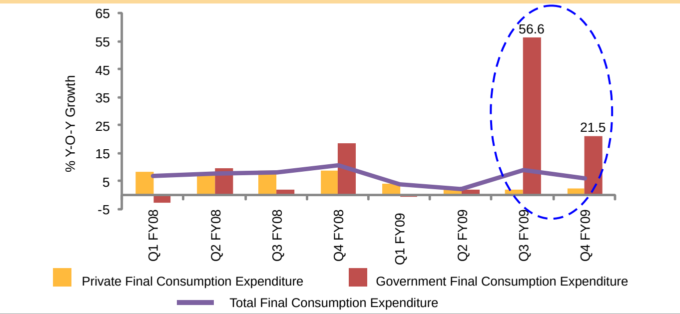
Real Economy

Government spending supports consumption expenditure



Source: CSO

- IIP grew by 1.4% (y-o-y) during Apr-09 aided by mining & quarrying and electricity sectors.
- Intermediate goods production, which was witnessing sustained decline since Aug-08, registered growth of 7.1% during Apr-09.
- Output in six core industries rebounded to 4.3% during Apr-09.
- In line with D&B expectations, GDP grew by 6.7% during FY09.
- Gross Fixed Capital Formation (GFCF) grew by 8.2% during FY09 as against 12.9% during FY08.
- While growth in private final consumption expenditure remained subdued at 2.9% during FY09, Government final consumption expenditure grew by 20.2%, taking growth in total final consumption expenditure to 5.4%.

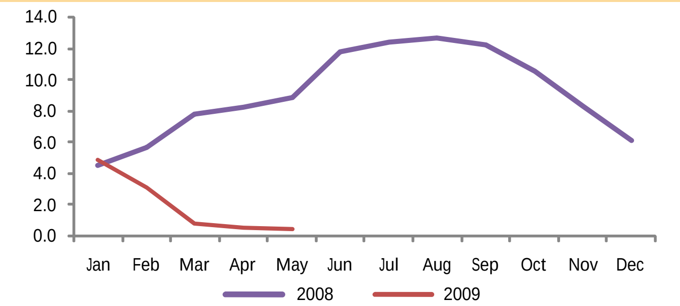
		Actuals	
	Forecast	Latest Period	Previous Period
I.I.P Growth	0.5%-1.5% May-09	1.43% Apr-09	-0.75% March-09

The sharp contraction in economic activity – witnessed during past few months – seems to be abating now. A 1.4% (y-o-y) growth in industrial production during Apr-09 and an upward revision in the IIP growth figures for Mar-09 are positive signs for overall IIP going forward. Furthermore, better than expected GDP growth during Q4 FY09, improvement in growth of intermediate goods & consumer durables sectors coupled with output in six infrastructure industries rebounding to 4.3% during Apr-09 are expected to provide a base for the inevitable recovery to take place in the second half of the current fiscal.

While the earlier mentioned factors do provide hopes for recovery, the weakness in exports and moderate domestic demand will continue to weigh on the domestic economic activity atleast in the short term. Further, the GDP figures for FY09 reveal that services and construction sectors were the major contributors to GDP. The growth in manufacturing sector is still low and hence is a cause of concern. Thus, to provide support to the domestic manufacturing activity, the Government is expected to announce more stimulus measures in the forthcoming budget. Besides, if banks reduce interest rates, given the increased moral suasion by the Government and the RBI, lending to productive sectors of the economy might pick up. Moreover, the foreign fund inflows, which have helped in the strong growth of the Indian economy in the past few years, are expected to resume, providing some support to the domestic investment and industrial activity going forward.

Price Scenario

High Base effect likely to drag WPI inflation into the negetive zone



Source: Ministry of Commerce

- The headline inflation marched towards zero level, with the WPI inching down to 0.13% for the week ended 30-May-2009
- The WPI inflation for the month of May-09 moderated to 0.45% from 0.57% in Apr-09
- Surging prices of food grains, fruits and vegetables, milk and other food articles fuelled the food articles inflation, which increased to 8.23% during May-09 from 7.6% in Apr-09.
- With steep rise in prices of 'Sugar, Khandsari & Gur' and oil cakes, inflation in manufactured food products surged to 13.37% during May-09 as against 11.38% during Apr-09.
- While the soaring prices of manufactured food products exerted upward pressure on manufactured products inflation, the decline in Index of basic metal alloys & metal products, Machinery & Machine Tools and Chemicals & Chemical Products helped the manufactured products inflation to moderate further to 0.91% in May-09 from 0.98% in Apr-09.

		Actuals	
	Forecast	Latest Period	Previous Period
Inflation W.P.I	(-)1.2% - (-)1% Jun-09	0.45% May-09	0.57% Apr-09
Inflation C.P.I (I.W)	9.0-%-9.20% May-09	8.70% Apr-09	8.03% March-09

All figures are monthly averages

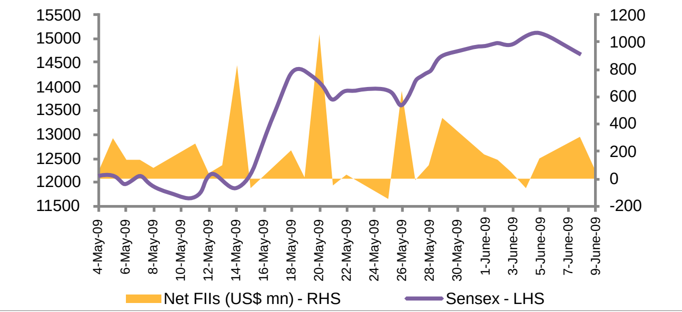
Although the headline inflation is nearing the zero level, the surge in food articles as well as manufactured food product prices remain a cause for concern. Moreover, the rising international crude oil prices, which have surged by more than 60% since the beginning of the year 2009, hold a potential inflationary threat to the economy going forward.

The various measures taken by the government such as banning sugar trading etc to rein in the surge in sugar prices, might provide some respite to the manufactured food products inflation. Sugar prices contributed to around 75% of the increase in manufactured food products inflation during May-09. Further, the forecast of near normal monsoon by the Indian Meteorological Department augurs well for the agricultural production and food prices going forward. However, the expectations about developments in the El Nino weather pattern, which might pose a threat to the Indian monsoon, needs to be watched with caution.

D&B expects the WPI inflation to have slipped into the negative zone during the first week of June (the data for which is yet to be released). However, this is mainly due to the high statistical base and does not reflect actual contraction in the price level. In fact, the WPI inflation is unlikely to remain at the sub-zero level for a long period as rising global crude oil prices, excess liquidity in the system and some revival in the domestic demand might exert upward pressures on prices especially in the H2 FY10.

Money & Finance

Sensex surges on fresh FII inflows



Source: SEBI & RBI

- Bank credit recorded growth of 15.9% (as on 22-may-09) – lowest in five years.
- The issuance size of the dated Government securities increased from Rs 120 bn to Rs 150 bn in each of the two auctions scheduled to be held during the period from May 15-29, 2009.
- Since the beginning of FY10 till 11-Jun-09, the Government issued marketable dated securities worth Rs 1,320 bn, which is almost half of the H1 FY10 borrowing target.
- The yield on the ten-year benchmark bond continued to remain elevated at 6.96% for the week ended 29-May-09.
- Buoyed by strong FII inflows in equities, the BSE benchmark Sensex once again breached the 15,000 mark (as on 4-Jun-09), after a period of nine months.

		Actuals	
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15-91 day's T-Bills	3.8%-4.2% Jun-09	3.00% May-09	3.63% Apr-09
10 year G-Sec yield	6.8%-7.0% Jun-09	7.00% May-09	7.42% Apr-09
Bank Credit*	16.8%-17.2% Jun-09	16.55% May-09	18.5% Apr-09

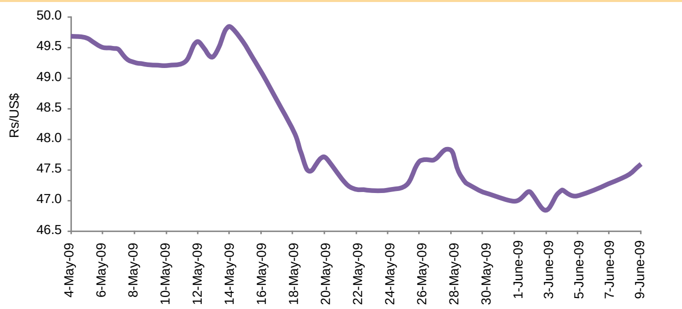
All figures are monthly averages **Refers to End period*

Despite a significant reduction in the key interest rates by the RBI to boost lending activity and comfortable liquidity conditions, growth in bank credit has remained low. However, the rising global oil prices and the absence of Special Market Operations (SMOs) by the RBI might induce oil companies to take higher recourse to bank credit in the coming weeks.

Although liquidity conditions in the bond market have improved substantially, the ten-year benchmark bond yield remained elevated on account of increased Government borrowing, the RBI's temporary retreat from Open Market Operations and sale of debt securities by foreign institutional investors & some mutual funds. Given that the issuance size of dated Government securities has been increased to Rs 150 bn from Rs 120 bn, long-term bond yields are expected to remain high in the near future. Furthermore, the reduction in Bank's BPLR has not been commensurate with the RBI rate cut, thereby constraining the RBI's efforts to lower interest rates. Given that the key interest rates are already at low level and domestic food articles prices and global crude oil prices are rising, the further reduction in the policy interest rates is unlikely. Hence the Government and the RBI are likely to use moral suasion as a tool to induce banks to cut BPLR.

External Sector

The Rupee Appreciates substantially



Source: RBI

- India's exports declined for the seventh consecutive month, by 33.2% (y-o-y, US$ terms) during Apr-09.
- With imports declining by 36.6% (y-o-y, US$ terms) during Apr-09, at a greater pace than exports, trade deficit narrowed to US$ 5.0 bn as against US$ 8.7 bn during Apr-08.
- While oil imports declined by almost 58.5% (y-o-y, US$ terms), non oil imports fell by 24.6% during Apr-09.
- The strong FII inflows (US$ 5.5 bn between 4-May-09 and 12-Jun-09) led the rupee to appreciate substantially from 50.22 per US$ on 29-Apr-09 to 47.38 per US$ on 8-Jun-09.

		Actuals	
	Forecast	Latest Period	Previous Period
INR/US$	47.00-47.50 Jun-09	48.53 May-09	50.06 Apr-09

All figures are monthly averages

Given the dependency of India's merchandise exports on the growth outlook of advanced economies such as US & UK, growth in domestic exports is likely to remain weak in short term. On the other hand, the rising global crude oil prices might curb the rapid fall in oil imports bill in the coming months. A sharp decline in non-oil imports is also likely to be constrained 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. These developments, in turn, will result in widening of trade deficit.

A sustained decline in exports is a serious concern and hence requires prudent measures to mitigate the impact of global economic slowdown on domestic exports. Going forward, the Government should implement policies that reduce transaction costs, upgrade export infrastructure facilities and improve productivity of Indian exporters. These measures will help Indian exporters in improving their competitiveness in terms of price and quality. Moreover, exports diversification in terms of markets and products will ensure sustained exports growth in the long run.

The strong FII inflows helped the rupee to appreciate substantially during the month of May-09. Given that the real effective exchange rate (REER) has continued to remain undervalued, D&B expects further appreciation in the rupee in the medium to long term period.

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