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Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	1.3%-1.5% Oct-09	0.44% Sept-09
Inflation C.P.I (I.W)	12.5%-13.0% Sept-09	11.72% Aug-09
INR/US\$	46.30-46.60 Oct-09	48.44 Sept-09
I.I.P Growth	7.0%-8.0% Sept-09	10.4% Aug-09
15-91 day's T-Bills	3.0%-3.2% Oct-09	3.02% Sept-09
10 year G-Sec yield	7.4%-7.7% Oct-09	7.69% Sept-09
Bank Credit*	12.7%-13.2% Oct-09	12.6% Sept-09

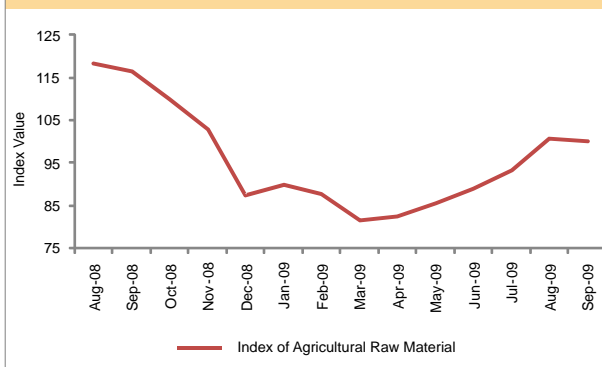
All figures are monthly averages

*Refers to End period

Dun & Bradstreet's GDP Forecasts

	Forecast (Q2 FY10)	Latest Period (Q1 FY10)
GDP	6.3	6.1
Agriculture	-0.1	2.4
Industry	6.5	5.0
Services	7.9	7.8

International Prices of Agricultural Raw Materials



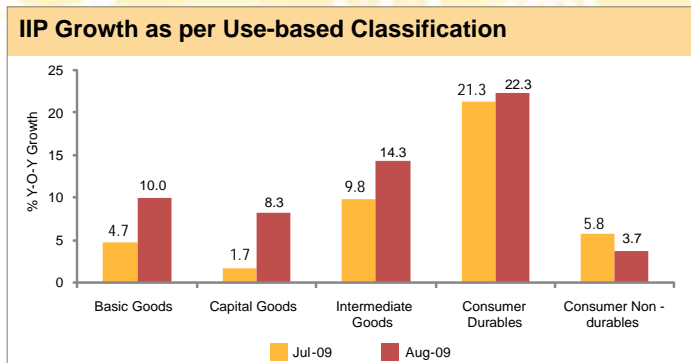
Source: IMF

Although D&B expected the growth in IIP to improve further, a double digit growth of 10.4% for the month of Aug-09 came as pleasant surprise. Sustained improvement in manufacturing activity in the last few months, impressive growth in direct tax collections coupled with surge in foreign capital inflows and largely positive sentiment in the domestic stock markets points to the fact that the Indian economy has set on the recovery path. Further, the improving business sentiment as indicated by the 3% y-o-y growth in the D&B's Composite Business Optimism Index (BOI) for Q4 2009 after seven consecutive declines (y-o-y), reiterates our view that the Indian economy is beginning to revive. However, the sustainability of the current growth momentum hinges on how the post festive season demand pans out. Mounting inflationary pressures and expected slowdown in agriculture sector growth could be key downside risks to growth during the recovery phase.

Given the fueling inflationary expectations on one hand and improvement in economic activity on other, inflation management will be at the forefront of the RBI's monetary policy during the next few months. The RBI may resort to using monetary tools to curb inflation; however, the efficacy of these tools may be limited, given that the current rise in food inflation witnessed in the economy is largely driven by supply side constraints. With some downside risks to growth, the RBI might consider increasing the CRR for draining excess liquidity from the system while maintaining a status quo in terms of policy interest rates i.e. the repo and reverse repo rate.

On the external front, the surge in capital inflows and weakening of dollar against major currencies has exerted upward pressure on the rupee value. The Rupee appreciated by around 5.27% from 48.73/US\$ on 1-Sep-09 to 46.16/US\$ on 14-Oct-09. In case the appreciation in rupee is sustained, exporters might be adversely affected due to decline in export realisation and even impact India's export competitiveness. Given the various countervailing factors at play, the policy responses of the government and the RBI would be vital in shaping the recovery process going forward.

Real Economy



Source: CSO

- Industrial output as measured by the Index of Industrial Production registered a 21-month high growth of 10.4% (y-o-y) during Aug-09.
- Mining, manufacturing & electricity sectors grew by 12.9%, 10.2% and 10.6% respectively during Aug-09.
- Consumer durables sector registered a significant growth of 22.3% during Aug-09, contributing almost 11.3% to the overall growth in industrial production.
- Growth in consumer non-durables sector remained low at 3.7% during Aug-09 primarily due to a substantial decline in production of food products.
- The Index of Six core industries registered a growth of 7.1% (y-o-y) during Aug-09.

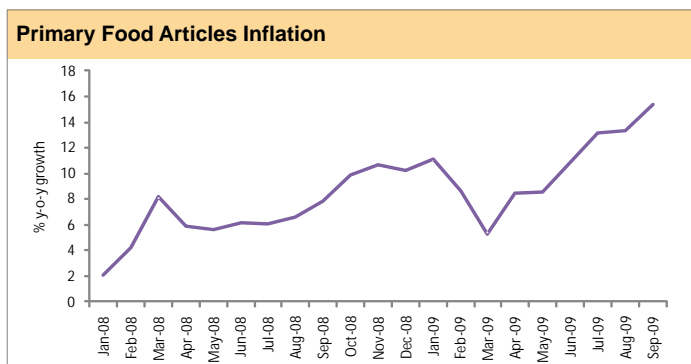
	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	7.0%-8.0% Sept-09	10.4% Aug-09	7.2% Jul-09

Although D&B expected some improvement in the IIP growth, a double digit growth in the industrial production for the month of Aug-09 came as a pleasant surprise. While this is partly attributed to the low base of the corresponding month of the previous year, increased production of consumer durables ahead of festive season and continued mining activity (due to delayed monsoon and drought-like conditions in some part of the country) might also have aided the industrial production during the month of Aug-09.

The double digit growth in industrial output during Aug-09, impressive growth in direct tax collections and improving business sentiment indicate that the process of economic recovery has set in. Nonetheless, there exist certain downside risks to the economic recovery process. A lower agriculture growth might have an adverse impact on the rural consumption demand and subsequently on the industrial sector. The other emerging concern has been the rapidly increasing inflationary pressures due to surging prices of primary food articles.

Inflationary pressures that appear to be building up, brings to the fore-front the policy dilemma of managing growth versus inflation. In fact, considering the sensitivity of consumption demand to inflation as well interest rates, the timing of reversal in monetary policy will be critical.

Price Scenario



Source: Ministry of Commerce

- The WPI for all commodities increased by 0.44% (y-o-y) during Sep-09 as against a decline of 0.41% during the previous month.
- Driven by the primary food article prices, inflation in primary articles surged to 9.13% during Sep-09, as compared to 8.15% in the previous month.
- Food grains, fruits and vegetables, eggs, meat & fish products have contributed to the significant rise in the price of the Primary food articles which increased by 15.38% during Sep-09. Non-food articles and minerals still continue to witness deflation.
- Manufactured products witnessed an inflation of 0.26% during Sep-09 as against a deflation in the past two months owing to the sustained rise in the prices of the manufactured food products.
- Fuel group continues to witness deflation of 8.14% during Sep-09 primarily due to the high base of the previous year.

	Forecast	Actuals	
		Latest Period	Previous Period
Inflation W.P.I	1.3%-1.5% Oct-09	0.44% Sept-09	(-)0.41% Aug-09
Inflation C.P.I (I.W)	12.5%-13.0% Sept-09	11.72% Aug-09	11.89% Jul-09

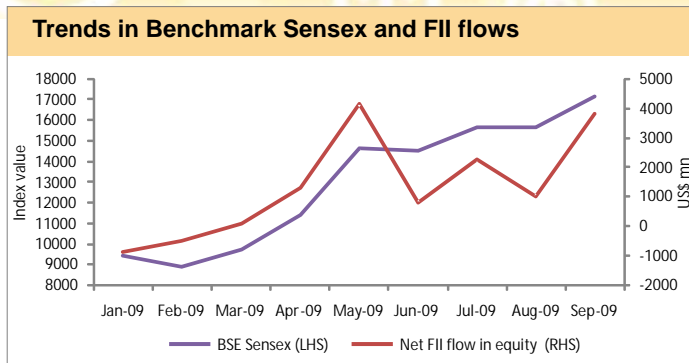
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The WPI inflation entered into the positive territory during the first week of Sept-09 driven by the prices of agricultural commodities. Deficient rainfall, consequent to which 299 districts have been declared drought affected (as of 30-Sept-09), have led to a substantial decline in the area sown under Kharif crop.

Further, the excessive rainfall causing heavy floods in Southern India during the first week of Oct 09 would affect the harvesting of the crops, triggering further loss in food production. Moreover, in the case of rise in hoarding of food grains and the ongoing festive season, prices of primary food articles would witness further upward pressure. Given the high prices of primary food articles, waning base effect and an expected decline in agriculture production, the WPI inflation might surge to around 6% by end of the current fiscal.

Given that the current food inflation is driven by supply side constraints, the efficacy of the monetary policy tools to curb inflation may be limited. Timely Government intervention through suitable measures would be required to ease supply constraints. Expectations are now directed towards the sowing of Rabi crops which would start from Nov 09; the only respite being that following heavy rainfall in some parts of the country during later part of Sep-09, ground water level might have been restored.

Money & Finance



Source: BSE, SEBI

- Bank credit growth moderated to 12.6% (y-o-y) as on 25-Sep-09 as compared to 25.2% during the same period last fiscal.
- Net FII inflows in equities stood at US\$ 3.81bn during the Sep-09 as against a net outflow of US\$ 1.8 bn during Sep-08
- Drawing support from the strong foreign fund flows and improving domestic economic activity, the BSE Sensex breached the 17,000 mark by the end of Sep-09 - the first time since May-08. However, the market remained volatile thereafter on account of consistent profit booking and expectations of good second quarter results.
- The 10-year benchmark gilt yield moderated to 7.09% on 18-Sep-09 from 7.47% on 4-Sep-09, before inching up to 7.32% on 9-Oct-09. The 15-91 day T-Bill yields remained at 2.6%-3.4% for the week ended 2-Oct-09.

	Forecast	Actuals	
		Latest Period	Previous Period
15-91 day's T-Bills	3.0%-3.2% Oct-09	3.02% Sept-09	3.14% Aug-09
10 year G-Sec yield	7.4%-7.7% Oct-09	7.69% Sept-09	7.50% Aug-09
Bank Credit*	12.7%-13.2% Oct-09	12.6% Sept-09	14.1% Aug-09

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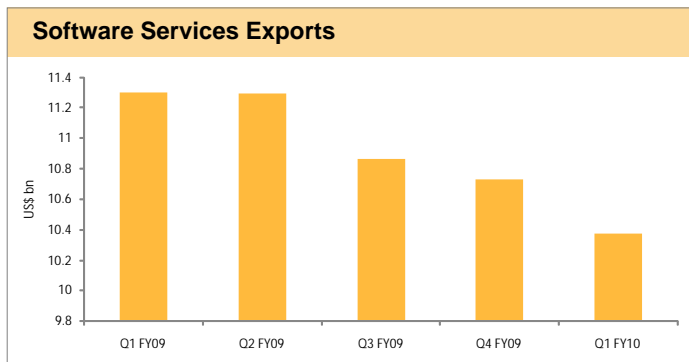
*Refers to End period

Although growth in bank credit (y-o-y) has remained largely muted, fund raising through alternative means such as IPOs, QIPs, ECB etc have witnessed some increase during the last few months. The y-o-y growth rate in bank credit is likely to remain sluggish primarily on account of the high base effect of the previous year. However, the incremental bank credit is likely to improve going forward given the expected increase in credit demand during the beginning of the peak season and the gradual reduction in risk aversion on the part of banks.

Recently, banks have proposed for a hike in the held to maturity (HTM) limit (currently at 25%) by the RBI amidst concerns of making provision for mark-to market losses in the event of rise in G-sec yields. The RBI's stance on raising the HTM cap and the timing of reversal of accommodative monetary policy is likely to play a crucial role in determining the movement of G-sec yield in the short run.

While D&B does not expect any increase in the repo and reverse repo rates in the near future, it does expect that the RBI might increase the CRR to absorb the excess liquidity in the system and contain any demand side pressures on the inflation front.

External Sector



Source: RBI

- India's exports declined by 19.4% (y-o-y) to US\$ 14.3 bn during Aug 09, while imports declined by 32.4% (y-o-y) to US\$ 22.7 bn during Aug 09, leading to a trade deficit of US\$ 8.4 bn.
- The total import of sensitive items during Apr-Jul 09 increased by 34.5% (y-o-y) to Rs 180.61 bn.
- The capital account showed a turnaround from a negative balance in last two quarters of FY09 to a positive balance of US\$ 6.7 billion during Q1 FY10.
- The current account deficit was US\$ 5.8 billion during Q1 FY10 as compared to US\$ 9.0 bn during Q1 FY09.
- Rupee appreciated from an average of Rs 48.34/US\$ during the month of Aug 09 to Rs 46.86/US\$ during Oct 09 (upto 14-Oct-09).

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	46.30-46.60 Oct-09	48.44 Sept-09	48.34 Aug-09

All figures are monthly averages

The turnaround in the capital account balance has revealed the confidence of the foreign investors in India's growth prospects. On the current account front, while higher inward remittances from Indians working overseas provided some support, the declining trend in the earnings for software services is an area of concern. The current appreciation of the rupee vis-à-vis the dollar would further affect the margins of Indian outsourcing companies.

Exports and imports have continued the declining trend during Q2FY10 as well albeit the fact that the rapid pace of decline has been arrested. However, in rupee terms, exports recorded a single digit negative growth rate of 9.2% (y-o-y) during Aug 09 as compared to a decline of 19.4% (y-o-y) in US dollar terms mainly due to the depreciation of the rupee.

However, the rupee has witnessed a steep appreciation since Aug 09 mainly due to weakening of the US dollar and massive capital inflows. This has added to the woes of the exporters who continue to be impacted by the slowdown in overseas demand. While D&B expected the rupee to appreciate, the current increase in value of the rupee is more than our expectation. However, the rupee is unlikely to appreciate significantly in the short term and average at around 46.30-46.60 during the month of Oct-09.

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

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