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### View from the top

#### Dun & Bradstreet's Macro Economic Forecasts

	Forecast	Latest Period
Inflation W.P.I	0.10%-0.30% Sep-09	(-)0.71% Aug-09
Inflation C.P.I (I.W)	12.10%-12.30% Aug-09	11.89% Jul-09
INR/US\$	48.10-48.30 Sep-09	48.34 Aug-09
I.I.P Growth	7.00%-8.00% Aug-09	6.78% Jul-09
15-91 day's T-Bills	3.80%-4.00% Sep-09	3.14% Aug-09
10 year G-Sec yield	7.40%-7.60% Sep-09	7.50% Aug-09
Bank Credit*	15.00%-15.50% Sep-09	14.10% Aug-09

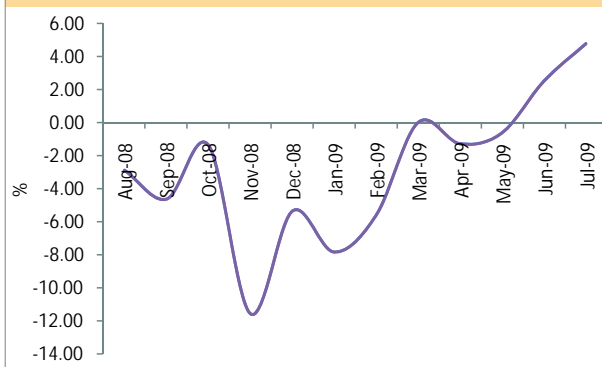
All figures are monthly averages

\*Refers to End period

#### Dun & Bradstreet's GDP Forecasts

	Forecast (Q2 FY10)	Latest Period (Q1 FY10)
GDP	6.2	6.1
Agriculture	-0.1	2.4
Industry	6.4	5.0
Services	7.9	7.8

#### Growth in US Imports (m-o-m)



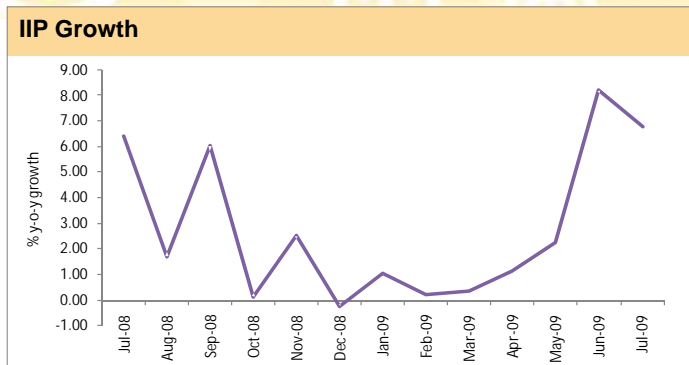
Source: US Bureau of Economic Analysis

A confluence of factors such as the Q1 GDP growth of 6.1% and a sustained improvement in IIP growth in last few months strengthen our initial view that recovery in the economy would begin in the second half of the current fiscal. However, there are certain domestic downside risks that have emerged in the recent period and could have a dampening effect on the overall recovery process. The first and an important one pertains to the deficit rainfall which could have a negative impact on the growth of private final consumption demand going forward. The persistence of weak demand conditions in the revival phase could be detrimental to the industrial growth. Further, growth in the government final consumption expenditure, which had gone up significantly in last two quarters on account of the fiscal stimulus package, is unlikely to continue at the same pace going forward. This indeed will affect the overall GDP growth to certain extent.

The other emerging concern stems from the inflationary pressures that appear to be building up. The deficient rainfall in recent period that led to a substantial decline in the area sown under kharif crop has a potential to affect agricultural production. This, in turn, would exert upward pressure on prices of agricultural commodities. Further, the fall in kharif crop production is likely to widen the gap between market price and minimum support price set by the government. This could have adverse impact on procurement of food grains by the government. Moreover, in the case of rise in hoarding of food grains, prices of agricultural commodities will witness further increase. The spiraling food articles inflation will adversely affect purchasing power of the low-income people and hence would require the government to take some concerted effort like strengthening of the public distribution system to reign in food article prices.

Further, the international prices of food grains and crude oil, though below their year-ago period peak levels, have started rising in recent period. This coupled with the weakness of the rupee is expected to exert upward pressure on prices of imported food articles and crude oil. In view of the high food articles prices, expected lower agricultural output, excess liquidity in the system and the waning base effect, the WPI inflation is expected to rear its head again. D&B has already stated that the WPI inflation rate will turn positive soon and it might reach around 6.0% by Mar-10. In such a scenario, the RBI might consider reversing its expansionary monetary policy. D&B expects that the RBI might announce hike in CRR by the end of current calendar year.

# Real Economy



Source: CSO

- India's GDP grew by 6.1% (y-o-y) during Q1 FY10. The agriculture, industry and services sectors registered y-o-y growth rates of 2.4%, 5.0% and 7.8% respectively.
- Industrial output as measured by the Index of Industrial Production (IIP) grew by 6.8% (y-o-y) in Jul-09 as compared to an upwardly revised 8.2% in Jun-09.
- Consumer Durables sector grew by 19.8% in Jul-09, registering its fourth consecutive double digit growth.
- Given a sustained improvement in the growth of 'textile products', 'paper & paper products', 'leather & leather products', 'basic chemicals & chemical products' sectors, intermediate goods' output grew by 9% in Jul-09.
- The Index of Six core industries registered a growth of 1.8% (y-o-y) in the month of Jul-09.

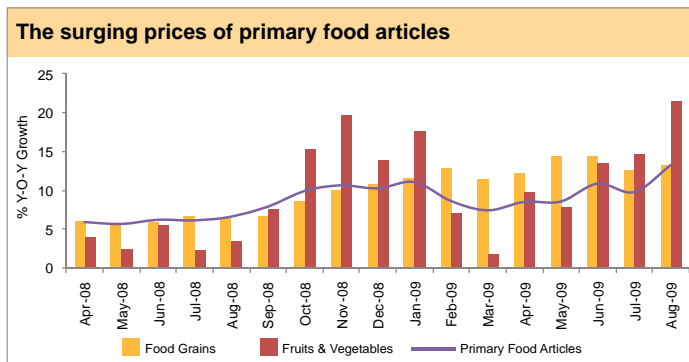
	Forecast	Actuals	
		Latest Period	Previous Period
I.I.P Growth	7.00%-8.00% Aug-09	6.78% Jul-09	8.21% Jun-09

In line with D&B's expectations, GDP grew by 6.1% during Q1 FY10 strengthening our initial view that recovery in the economy would begin in the second half of the current fiscal. While the services sector witnessed some moderation owing to lagged impact of the earlier industrial slowdown on services demand, performance of the industrial sector showed some improvement.

Improvement in industrial activity has continued as is indicated by the 5.6% growth in IIP for manufacturing sector during May-Jul 09 as compared to 0.1% during Feb-Apr 09. Further, the positive growth in 15 out of 17 industrial groups during Jul-09 also provides a glimmer of hope for a sustained industrial recovery. Moreover, double digit growth in consumer durables segment for the fourth consecutive month indicates improving demand conditions and augurs well for the industrial sector.

However, there are some downside risks that have emerged, which could have a dampening effect. The deficient rainfall could have a negative impact on the growth of consumption demand going forward. If weak demand conditions persist in the revival phase, it could hamper industrial growth. Further, concerns on the external front remain, even as investment growth remains slow. On the other hand, inflationary pressures appear to be building up, thus bringing to the fore-front the policy dilemma of managing growth versus inflation.

## Price Scenario



Source: Ministry of Commerce

- The WPI for all commodities declined by 0.7% (y-o-y) during Aug-09 as against a decline of 1.4% during the previous month.
- The surging prices of food grains and fruits & vegetables led to a substantial rise in primary food articles inflation during Aug-09. Inflation in primary food articles stood at 13.3% - the figure last seen in Dec-98.
- Given the elevated prices of primary food articles, inflation in primary articles inched up to 7.6% during Aug-09 from 5.2% in Jul-09.
- Despite inflation in manufactured food products surging to 10.7% during Aug-09, manufactured products witnessed deflation of 0.5% primarily on account of significant decline in prices of basic metal alloys & metal products.
- Although fuel group continues to witness deflation during Aug-09, the rate of decline in fuel group prices has witnessed considerable moderation since last few weeks.

	Forecast	Actuals	
		Latest Period	Previous Period
Inflation W.P.I	0.10%-0.30% Sep-09	(-)0.71% Aug-09	(-)1.36% Jul-09
Inflation C.P.I (I.W)	12.10%-12.30% Aug-09	11.89% Jul-09	9.29% Jun-09

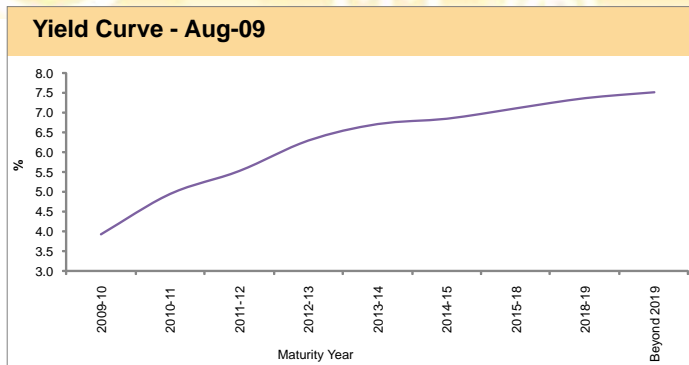
All figures are monthly averages

With the area sown under kharif crop reporting a decline of around 8% (y-o-y) by the end of Aug-09 due to the deficiency in rainfall, concerns of a potential fall in kharif crop production (particularly, rice & groundnuts) and a consequent increase in prices of agricultural commodities have started rising. The shortfall in kharif crop production could have a considerable impact on growth of agriculture sector during the current fiscal as it accounts for more than 50% of total agriculture production.

Further, the fall in kharif crop production is likely to widen the gap between market price and minimum support price set by the government. This could have adverse impact on procurement of food grains by the government. Moreover, in the case of rise in hoarding of food grains, prices of agricultural commodities will witness further increase.

The international prices of food grains and crude oil, though below their year-ago period peak levels, have started rising in recent period. This coupled with the weakness of the rupee is expected to exert upward pressure on prices of imported food articles and crude oil. Given the high prices of primary food articles and waning base effect, D&B expects the headline inflation to turn positive by Sep-09 and it might reach around 6% by the end of current fiscal.

# Money & Finance



Source: RBI

- Bank credit growth remained low at 14.1% (y-o-y) as on 28-Aug-09.
- The scheme of 1% interest subvention on individual housing loans upto Rs 1 mn for construction/ purchase of a new house or extension of an existing house provided the cost of the construction/price of new house/extension does not exceed Rs 2 mn was approved.
- Despite comfortable liquidity conditions, the ten-year benchmark bond yield remained above 7.0% during Aug-09 on account of a huge borrowing programme of the central Government, concerns over rising domestic inflation and higher US treasury yields.
- The BSE Sensex once again crossed 16,000 mark on 7-Sep-09, after a gap of 15 months.

	Forecast	Actuals	
		Latest Period	Previous Period
15-91 day's T-Bills	3.80%-4.00% Sep-09	3.14% Aug-09	3.01% Jul-09
10 year G-Sec yield	7.40%-7.60% Sep-09	7.50% Aug-09	7.15% Jul-09
Bank Credit*	15.00%-15.50% Sep-09	14.10% Aug-09*	15.80% Jul-09

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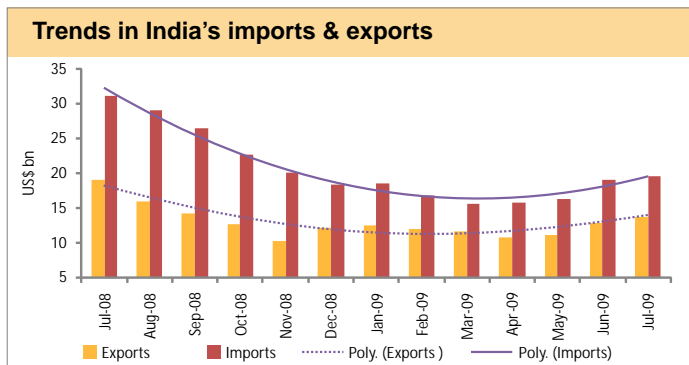
\*Refers to End period  
\*Outstanding as on 28-Aug-09

For the housing sector, approval to the 1% interest subvention on individual housing loans scheme augurs well. The move is expected to have positive impact on demand for housing loans, which had witnessed substantial moderation during FY09 due to increase in real estate prices, economic slowdown and rise in interest rates on home loans.

While short-term yields are likely to remain low in the near future indicating the comfortable liquidity conditions, the medium to long term yields might remain elevated on account of the huge government borrowing programme, thereby leading to the steepening of the yield curve. Besides, uncertainties in the bond market coupled with rising inflationary expectations might result into a steeper yield curve. Given the firming up of long term yields, the RBI might resort to purchase of Government securities through MSS and OMOs.

In view of the potential inflationary threats, the RBI might consider reversing its expansionary monetary policy and prepare for managing the excess liquidity in the system. D&B expects that the RBI might announce hike in CRR by the end of current calendar year.

## External Sector



Source: Ministry of commerce

Note: The trend line is a polynomial of order 2

- The Foreign Trade Policy 2009-2014 has set an objective of achieving an annual export growth of 15% with an annual export target of US\$ 200 bn by Mar-11 has been set.
- Duty Entitlement Passbook (DEPB) Scheme extended beyond 31-Dec-09 till 31-Dec-10.
- The incentive available under Focus Market Scheme (FMS) raised from 2.5% to 3.0% and that under Focus Product Scheme (FPS) raised from 1.25% to 2.0%.
- Exports declined by 28.4 % (y-o-y) to US\$ 13.6 bn while imports registered a decline of 37.1% (y-o-y) to US\$ 19.6 bn during Jul-09, leading to a trade deficit of US\$ 5.99 bn during Jul-09.
- During FY10 so far (up to 11-Sep-09) the FIIs have been net buyers in equity to the tune of US\$ 9.99 bn.

	Forecast	Actuals	
		Latest Period	Previous Period
INR/US\$	48.10-48.30 Sep-09	48.34 Aug-09	48.48 Jul-09

All figures are monthly averages

Although the y-o-y growth in exports (US\$ terms) continued to decline for the tenth consecutive month in Jul-09, the m-o-m growth of seasonally adjusted data for exports indicate towards a reversing trend. Nonetheless, the de-seasonalised data for exports reveals that the Indian exports have witnessed an average m-o-m growth of 10.4% in the Jun-Jul 2009. This reflects that the rapid fall in exports experienced since Oct-08 might have been arrested. However expected lower agriculture production given the drought like conditions in some Indian states, might put downward pressure on agriculture exports - which account for around 11.3% of the total exports. On the import front, the absolute value of imports has witnessed m-o-m increase over the past few months and might be an indication of gradually stabilising import demand conditions. Moreover, as the Indian economy sets on the revival path, imports are likely to see some upward movement and are expected to revive earlier than exports. This in turn might put upward pressure on India's trade deficit going forward.

In the forex market, dollar demand from importers & oil refiners and strengthening of US dollar against major global currencies weighed down the rupee during the month of Aug-09. However, the rupee is expected to appreciate by end of Sep-09 on account of FII inflows.

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

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