

August 16, 2011

Economic Weekly



Indian Economy

* **IIP Growth in June Rises to 8.8% YoY:** IIP growth for June stood higher at 8.8% YoY compared with 5.9% YoY a month ago, largely due to a surge in capital goods growth by 37.7% YoY during the month. The sectoral performance of the rest of sectors remained largely in line with previous month's growth.

* **WPI Inflation in July Eases:** WPI inflation in July 2011 declined to 9.22% YoY compared with 9.44% YoY a month ago largely due to a high base effect. WPI Index in July grew by 0.65% MoM.

* **Spectacular Exports Growth in July:** Exports in July 2011 registered a superb growth of 82% YoY. In July exports stood at \$29.3 bn and imports at \$40.4 bn. Trade deficit widened to \$ 11.1 bn due to a rise in imports during the month. The trade figures have not been officially released and has been quoted from commerce secretary's press conference.

* **Money Supply & Credit Growth Declined:** Money supply (M3) growth eased to 16.36% YoY in the fortnight ending July 30, 2011 compared with 16.66% YoY a fortnight ago. SCB credit growth moderated to 18.50% YoY compared with 19.33% YoY as both food & non-food credit growth declined

* **Forex Reserves Increased By \$0.4 bn:** Forex reserves increased to \$317.2 billion in the week ending July 30, 2011, due to a rise in foreign currency assets.

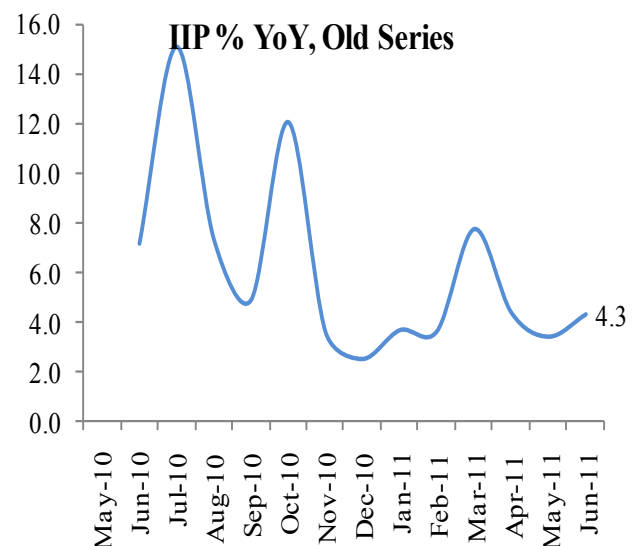
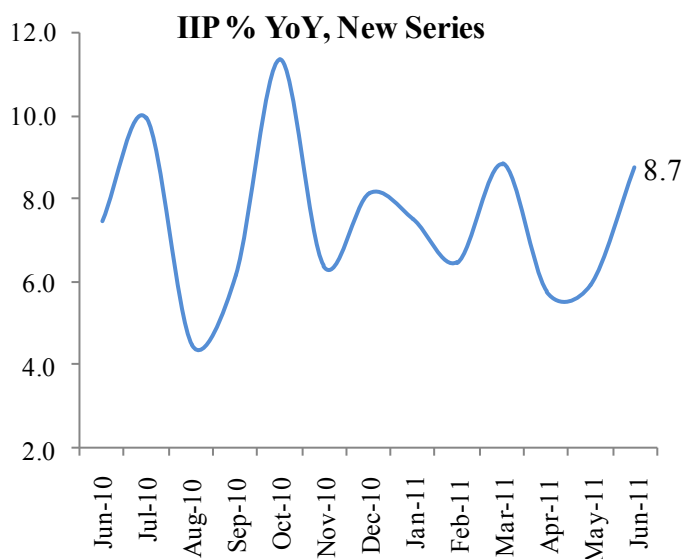
Global Economy

* **Fed to keep interest rates low till 2013:** The Federal Reserve Board has promised to keep interest rates lower till 2013 to stimulate the economy. According to latest FOMC assessment of the US economy, economic growth so far this year has been considerably slower than the Committee expectations.

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IIP Growth of 8.8% YoY in June Surprises

- ◆ IIP growth in June 2011 stood at 8.8% YoY compared with 5.9% YoY a month ago according to the new series (Base:2004-05). The surge in IIP growth has been largely due to sharp rise in capital growth of 37% YoY during the month. During the period April–June 2011, IIP growth stood lower at 6.8% YoY compared with 9.7% YoY in the same period a year ago.
- ◆ **Volatility in Capital Goods Persists:** Capital goods growth in June accelerated to 37.7% YoY from 6.1% YoY a month ago which highlights that the new series isn't far different from the old series. Sharp rise in IIP growth in June has been largely due to higher capital goods growth.
- ◆ **Sectoral Performance:** Growth of the constituents at the sectoral level remained largely unchanged from previous months and a few sectors — such as consumer durables — deteriorated during the month. Basic goods growth stood 7.5% YoY compared with 7.3% YoY a month ago. Intermediate goods growth stood at 1.8% YoY versus 0.3% YoY in May. Consumer durables goods growth eased to 1% YoY compared with 5.2% YoY a month ago. Consumer non-durables goods growth eased to 2.1% YoY compared with 7.9% YoY in May.
- ◆ **IIP Growth According to Industrial Groups:** Manufacturing growth surged to 10% YoY compared with 6.1% YoY a month ago. Electricity growth came down to 7.9% YoY compared with 10.3% YoY in May. Mining growth also slowed to 0.6% YoY compared with 1.3% YoY a month ago.
- ◆ **IIP Growth Far Lower According to Old Series:** According to the old series (Base: 1993-94) IIP growth stood at 4.3% YoY compared with 3.4% YoY a month ago. The old series did not display sharp jump in June as capital goods growth remained lower at 7.5% YoY in June compared with 37.7% YoY growth in new series.
- ◆ **IIP Growth Unlikely to Continue at June Levels:** Sharp rise in IIP growth in June has largely been due to higher capital goods growth this month. As IIP growth excluding capital growth hasn't changed much, it is likely that IIP growth will return to previous month's growth levels. Although there has been an improvement in basic and intermediate goods growth during the month, consumer goods growth, on the other hand, is reflecting the tougher economic environment. With higher interest rates and relentless inflation, industrial growth is likely to trend lower.



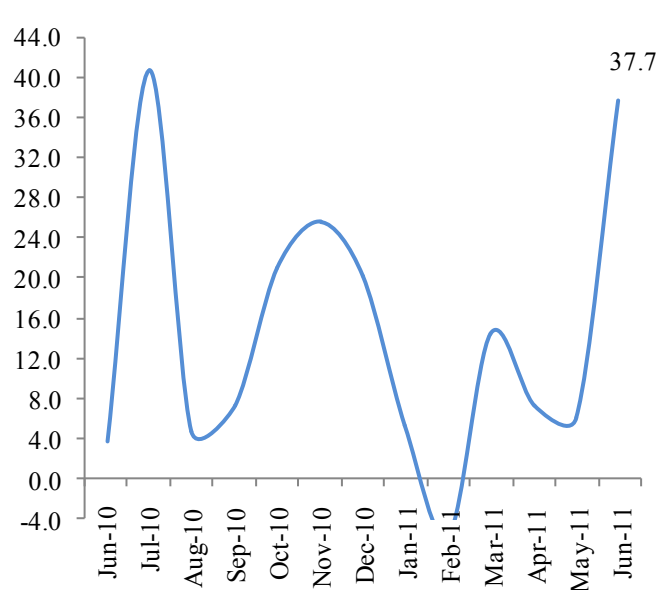
More Details :

In Terms Of Industries: In terms of Industries, 15 out of 22 industry groups have shown positive growth in June 2011 compared with the corresponding month in previous year. In May 2011, 14 industries had shown positive growth.

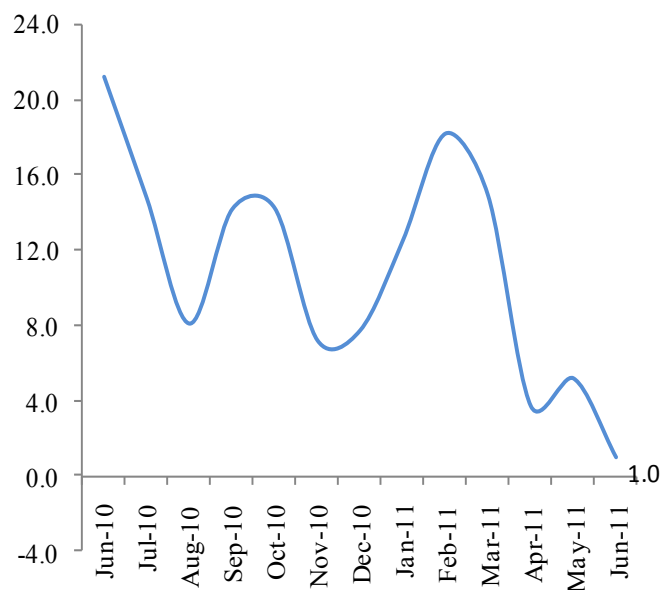
New Series. Base 2004-05:

% YoY	Weight %	Mar-11	Apr-11	May-11	Jun-11
IIP	100	9.4	5.8	5.9	8.8
Mining & Quarrying	14.2	0.3	1.3	1.3	0.6
Manufacturing	75.5	11.0	6.3	6.1	10.0
Electricity	10.3	7.2	6.5	10.3	7.9
Basic goods	45.7	6.5	6.9	7.3	7.5
Capital goods	8.8	14.5	7.3	6.1	37.7
Intermediate goods	15.7	3.1	4.5	0.4	1.8
Consumer goods	29.8	13.3	4.3	6.6	1.6
Consumer Durables	8.5	14.9	3.7	5.2	1.0
Consumer Non Durables	21.3	11.9	4.9	7.9	2.1

Capital Goods, % YoY



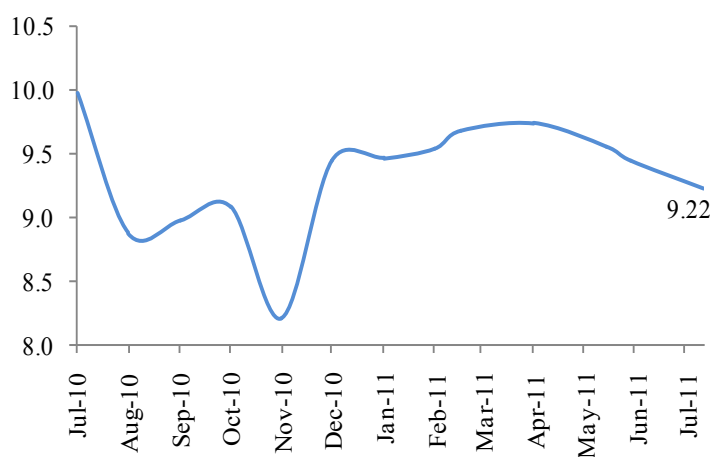
Consumer Goods, % YoY



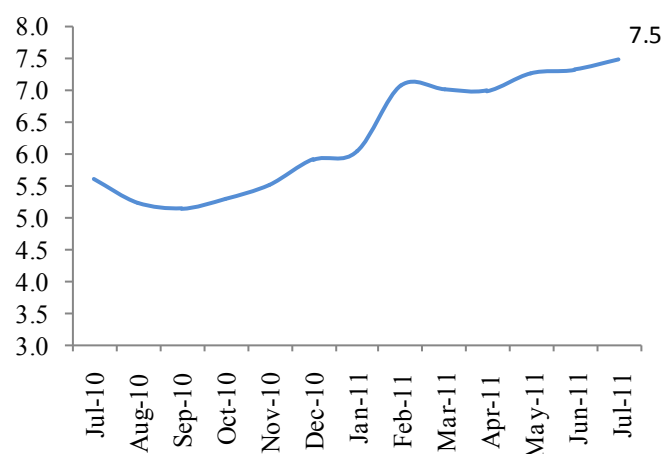
WPI Inflation Eases to 9.22% YoY in July:

- ◆ WPI inflation in July 2011 declined to 9.22% YoY compared with 9.44% YoY a month ago largely due to a high base in the corresponding period last year. WPI index grew by 0.65% MoM during the month. Manufactured products inflation stood unchanged which is a positive highlight of the month. However core inflation increased to 7.5% YoY in July from 7.3% YoY a month ago.
- ◆ **Across the board rise in prices:** All the constituents of the WPI Index posted a rise in July barring non food articles. Food index grew by 1.4% MoM, fuel index by 2.5% MoM and manufactured by 0.3% MoM. Non food articles index declined by 3% MoM.
- ◆ **Revisions:** Inflation for May was revised to 9.56% YoY compared with 9.06% YoY released before in the provisional figures. The trends of upwards revisions continues over the past few months.
- ◆ **Inflation Constituents Trends:** Primary articles inflation stood 11.3% YoY compared with 12.2% YoY a month ago due a high base effect. Food inflation eased to 8.2% YoY vs 8.4% YoY in June. Non-food articles inflation declined to 15.5% YoY compared with 18.6% YoY a month ago. Fuel inflation stood 12% YoY compared 12.8% YoY in June. Manufactured products inflation stood largely unchanged at 7.4% YoY in July.

WPI Inflation, % YoY



Core Inflation, % YoY



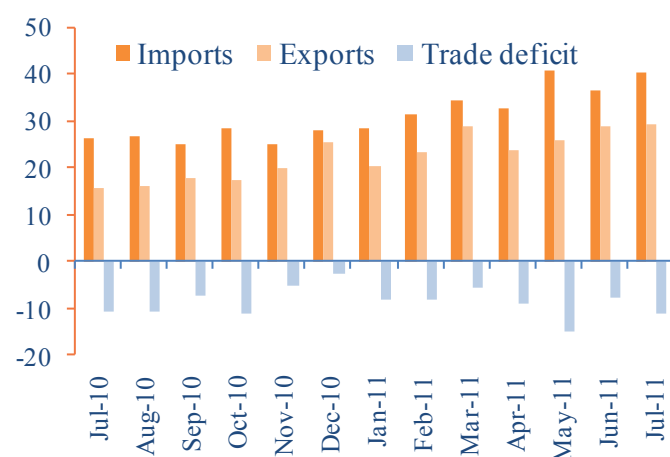
		% YoY	% YoY	% MoM	% MoM
	Index	Jul-11	Jun-11	Jul-11	Jun-11
WPI	154.0	9.2	9.44	0.65	0.86
Primary articles	197.9	11.3	12.20	0.20	2.80
Food Articles	192.8	8.2	8.44	1.42	1.93
Non Food Articles	175.8	15.5	18.60	-3.00	-1.97
Fuel	165.6	12.0	12.80	2.50	0.70
Manufactured products	137.7	7.4	7.43	0.30	0.10

Spectacular Exports Growth in July

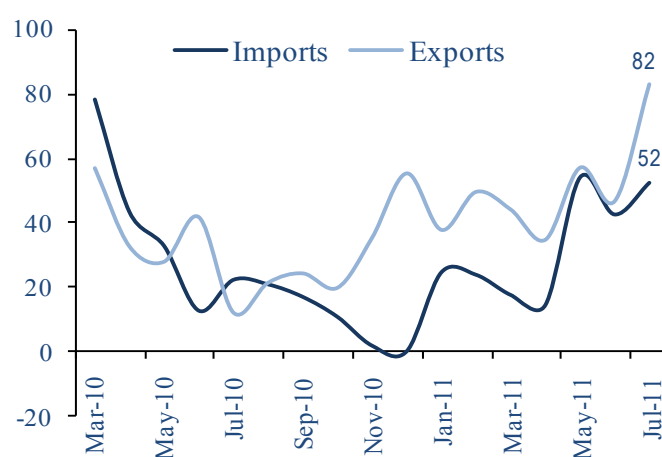
Exports in July 2011 registered a superb growth of 82% YoY. In July, exports stood at \$29.3 billion and imports at \$40.4 billion. Trade deficit widened to \$ 11.1 billion due to rise in imports during the month. The trade figures have not been officially released and have been quoted from commerce secretary Rajiv Khullar's interaction with media persons.

- ◆ Superb exports growth in July 2011 of 82% YoY has come as surprise especially when global economy is showing signs of slowdown. Exports stood at \$29.3 billion in July 2011. Commerce secretary pointed that exports growth might not continue with such pace due to changing global economic environment.
- ◆ Imports in July stood higher at \$40.4 billion compared with \$36.9 billion a month ago. Imports growth stood higher at 52.4% YoY. Higher imports growth is in contrast to slower growth momentum seen in the economy so far.
- ◆ April–July exports have reached \$108.3 billion registering a growth of 54% YoY while imports have grown by 40% YoY. Trade deficit in April–July 2011 period stands at \$42.5 billion compared with \$37.5 billion in the same period a year ago.
- ◆ There has been no major change in the imports pattern. High imports is due to both higher oil and non-oil imports. Imports situation is favorable as non-oil imports continue to maintain 70% share of total imports, which also reflects underlying strong consumption demand.
- ◆ The strong growth in exports is perplexing, given the pervasive economic slowdown in Japan, USA, UK and Europe. Two sets of reasons have been adduced for this strong showing. First, it is believed that the improved export performance is due to Indian exporters diversifying their markets (mainly to Africa and Latin America) and basket of products. The second reason, which sounds more plausible but remains a speculation in the absence of government clarification, is exporters taking rearguard action against the government withdrawing an export incentive — the duty entitlement pass book scheme (DEPB) — by September 2011. This looming deadline is believed to have prompted exporters to frontload their exports to take maximum advantage of the scheme while it's in force. The DEPB scheme is a duty credit entitlement issued on post export basis to neutralize the incidence of customs duty on the import content of the export product.

Trade Balance, \$ bn



Exports & Imports Growth, % YoY



Other Highlights:

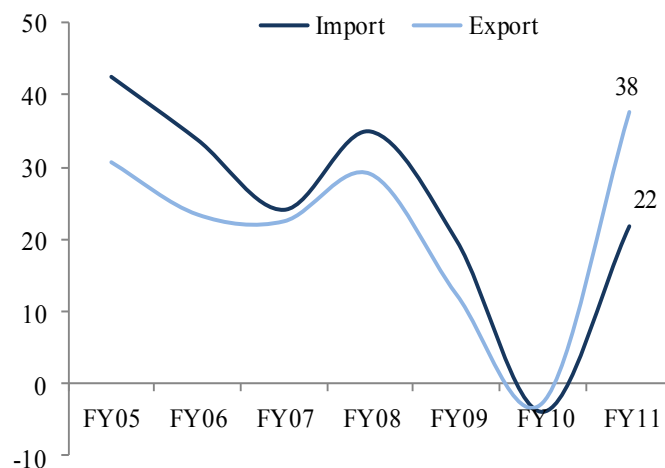
- ◆ Exports growth has been led by engineering goods and petroleum products.
- ◆ Exports of Iron ore, fruits and vegetables and tobacco has been reported to be not doing well.

	Exports		Imports	
\$ bn	Apr-July 2011		\$ bn	Apr-July 2011
Engineering	31.6		POL	42.0
Gems & Jewellery	12.8		Pearls & Precious Stones	11.6
Petroleum & oil Products	18.6		Gold & Silver	21.5
Manmade Yarn	1.7		Machinery	12.0
Electronics	3.7		Electronics	10.3
Readymade Garments	5.0			

Annual Trends, \$ bn



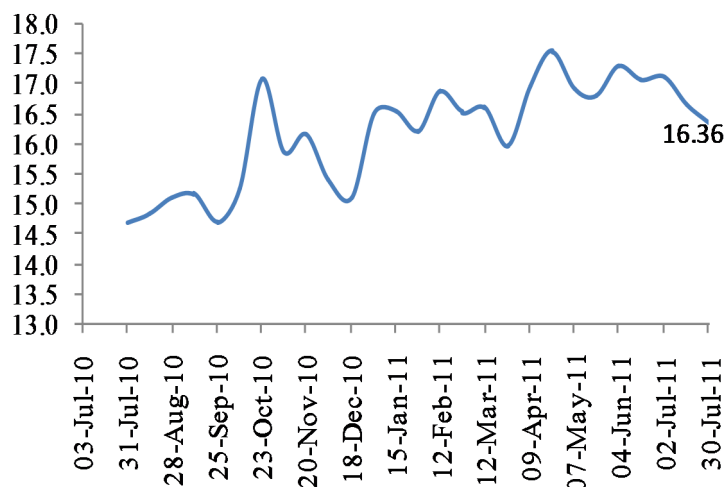
Annual Trends, % YoY



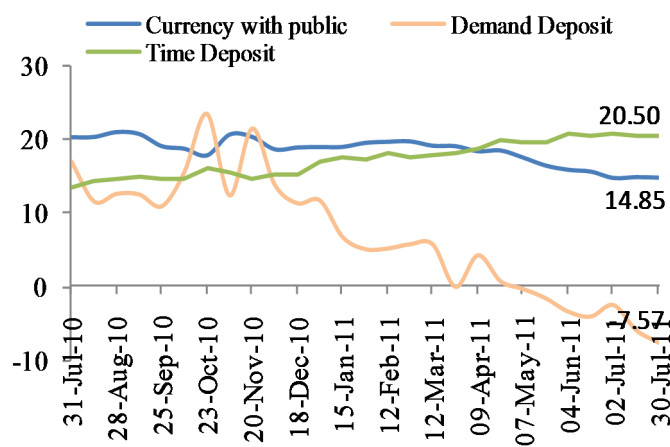
Money Supply & Credit Growth Declined:

- ◆ Money supply & credit growth are both showing signs of moderation due to higher interest rates environment. Money supply (M3) growth eased to 16.36% YoY in the fortnight ending July 30, 2011 compared with 16.66% YoY a fortnight ago. Money supply growth eased as currency with public and demand deposits both declined during the fortnight.
- ◆ During the fortnight ending July 30, 2011, currency with public declined to 14.85% YoY from 14.92% YoY a fortnight ago. Demand deposits posted a decline and contracted by 7.57% YoY compared with a contraction of 5.88% YoY a fortnight ago. Time deposits growth improved marginally to 20.50% YoY compared with 20.47% YoY a fortnight ago.
- ◆ SCB credit growth moderated to 18.50% YoY compared with 19.33% YoY as both food & non food credit growth declined. SCB credit growth has moderated due to higher interest rates and slower industrial growth.
- ◆ Non-food credit growth eased to 18.22% YoY compared with 18.66% YoY a fortnight ago. Food credit growth declined to 36.99% YoY compared with 68.35% YoY in the previous fortnight.

Money Supply (M3), % YoY



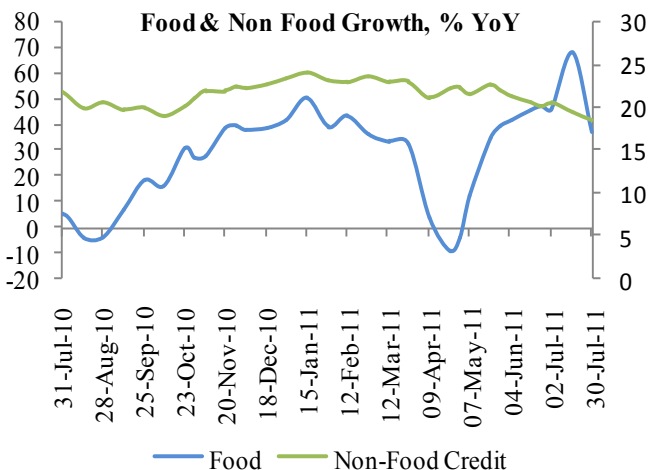
Time and Demand Deposits, % YoY



SCB Credit, % YoY



Food & Non Food Growth, % YoY



Forex Reserves Increased To \$317.2 billion

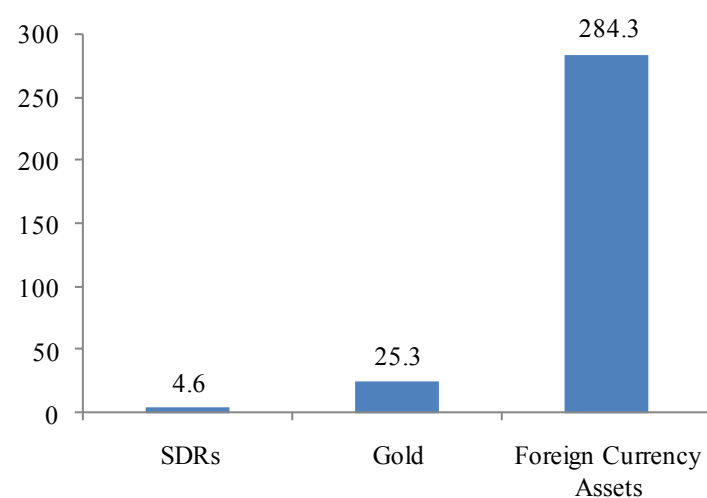
Forex reserves increased to \$317.2 billion in the week ending July 30, 2011, due to a rise in foreign currency assets. During the week, forex reserves increased by \$ 0.4 billion.

Total forex reserves comprise foreign currency assets, SDRs and the central bank's position in gold, all of which are measured in US dollars.

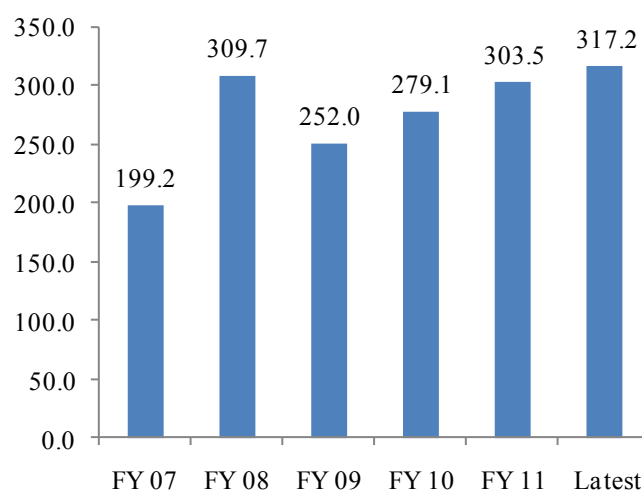
- ◆ During the week ending July 30, 2011, foreign currency assets declined by \$0.2 billion to \$284.3 billion due to revaluation changes which led to fall the overall position in forex reserves, while position in gold increased by \$0.7 billion due to recent spurt in prices of gold following the downgrading of US debt.
- ◆ Reserve position with IMF and SDRs remained unchanged during the week.

US\$ bn	Forex Reserves	SDRs	Reserve Position in IMF	Gold	Foreign currency assets
09-Jul-11	314.6	4.6	3.0	24.7	282.4
16-Jul-11	314.5	4.6	3.0	24.7	282.3
23-Jul-11	316.8	4.6	3.0	24.7	284.5
30-Jul-11	317.2	4.6	3.0	25.3	284.3

Forex Reserves Components (in \$ billion)



Forex Reserves Annual Trends (in \$ billion)

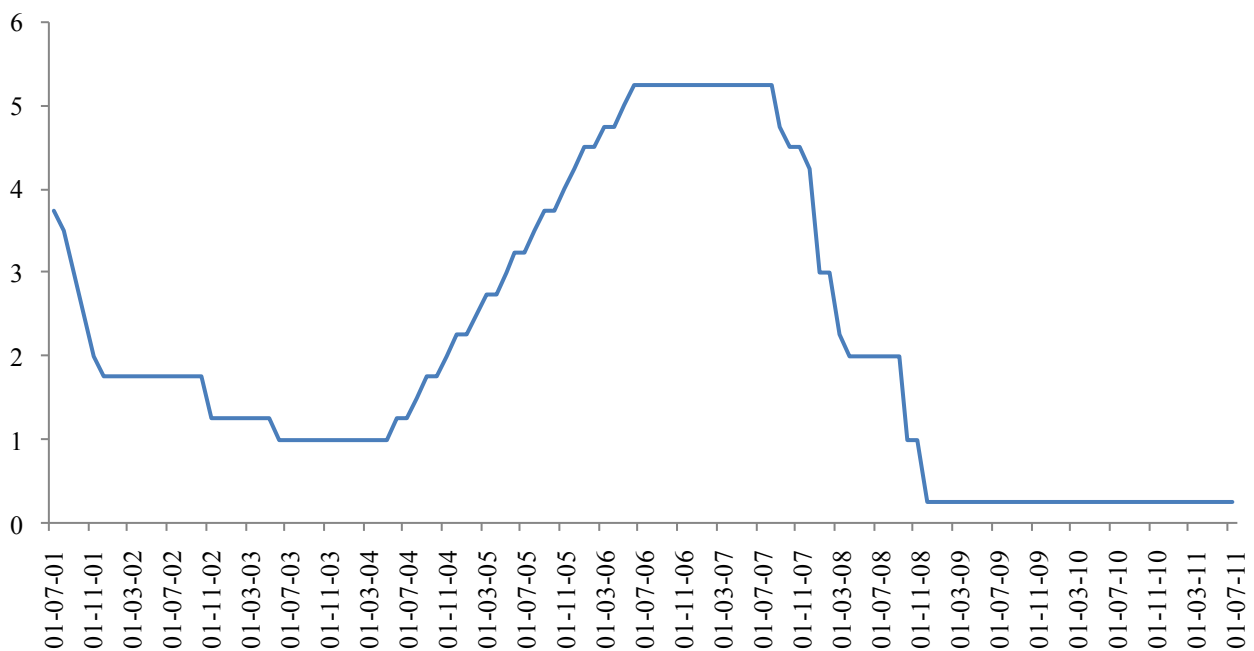


Fed to Keep Interest Rates Low till 2013:

The Federal Reserve Board of USA has promised to keep interest rates lower till 2013 to stimulate the economy. According to the latest assessment of the US economy by the Federal Open Markets Commission (FOMC), economic growth so far this year has been considerably slower than the Committee expectations. The FOMC meet was chaired by the Governor of Federal Reserve Board, Ben Bernanke. However, the action was not met by full consensus as only 7 out of 10 committee members voted for the action. The FOMC is that part of the Fed System which decides on open market operations, while the board of governors of the Federal Reserve System takes a call on the discount rate and the reserve requirements.

- ◆ **The FOMC meet observed:** “Economic Indicators suggest a deterioration in overall labor market conditions in recent months, and the unemployment rate has moved up. Household spending has flattened out, investment in nonresidential structures is still weak, and the housing sector remains depressed. However, business investment in equipment and software continues to expand. Inflation picked up earlier in the year, mainly reflecting higher prices for some commodities and imported goods, as well as the supply chain disruptions.”
- ◆ FOMC statement also noted that inflation has moderated as prices of energy and some commodities have declined from their earlier peaks and expects that long-term inflation expectations are stable.
- ◆ **Outcome of FOMC meet:** To promote the economic recovery, the Committee decided today to keep the target range for the federal funds rate at 0--0.25 per cent. The Committee observed that poor economic conditions and subdued outlook for inflation warrants exceptionally low levels for the federal funds rate at least through mid-2013.

Interest Rate Movement in US:





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