

August 9, 2010

Economic Weekly



Contents

Page No

1. Indian Economy

- A) [Exports continue to grow](#) 1
- B) [WPI sub-group inflation](#) 1
- C) [CPI inflation trends mixed](#) 2
- D) [Agriculture](#) 3

2. RBI Watch

- A) [Has fiscal dominance of monetary policy ended?](#) 4
- B) [RBI professional forecasters survey — twelfth round](#) 4

3. Global Central Bank Watch

- A) [ECB maintains rates](#) 4
- B) [Bank of England rates stay](#) 4
- C) [RBA rates unchanged](#) 4

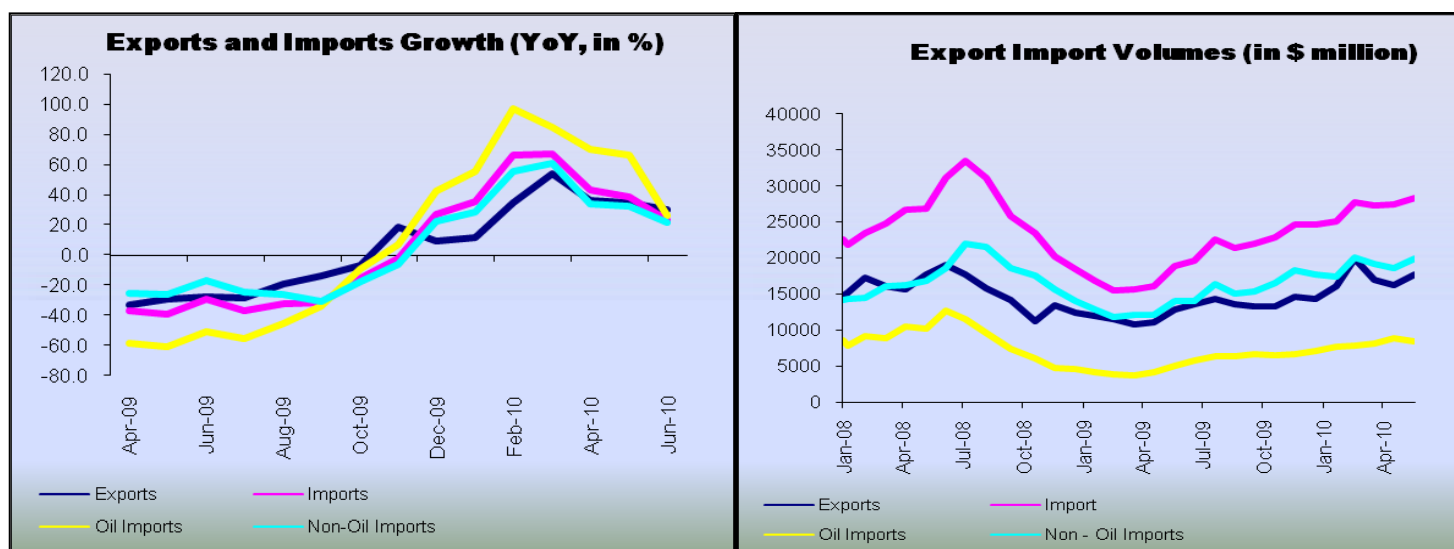
4. Politics

- A) [The BlackBerry Conundrum](#) 5

Indian Economy

Exports Continue To Grow

Exports in June 2010 stood at \$17.8 billion, increasing 30% (YoY). Imports stood at \$28.3 billion, increasing 23%. Within imports, oil imports were recorded at \$8.3 billion, up 27%. The trade deficit for June 2010 stood at \$10.6 billion compared to the \$11.3 billion deficit in May 2010. The deficit declined in June as export growth was higher than import growth.



Source: Commerce ministry

Volumes of exports and imports have been rising steadily. So far, current global economic woes have had little impact on India's exports. However, the global economy will remain a risk for the external sector.

Table 1: Trade Volumes (in \$ billion)

	April 2010	May 2010	June 2010
Exports	16.9	16.1	17.7
Imports	27.3	27.4	28.3
Oil Imports	8.1	8.8	8.4
Non-Oil imports	19.2	18.5	19.9

Source: Commerce Ministry

Sub-Group Inflation

Table 2: WPI Sub-group Inflation At A Glance

	Index (week ended, in units)		Rate of Inflation (YoY, in %)	
	July 17, 10	July 24, 2010	July 17, 2010	July 24, 2010
Primary articles	308.8	308.2	14.5	14.36
• Food articles	299.3	298.7	9.67	9.53
• Non-food articles	288.6	289	21.01	21.28
Fuel group	386.3	386.2	14.29	14.26

Source: Commerce Ministry

Note: Before we look at the WPI inflation trends, let us look at how WPI inflation is computed.

Year on Year (YoY): It means growth rate is calculated between the same period for different years. For instance, growth between October 2008 and October 2009. So if WPI was 100 in October 2008 and 110 in October 2009, YoY inflation for October 2009 is 10%. It is calculated to compare inflation in similar time periods and avoid seasonality issues. Like in India, the festival season is mostly in September and October. So, if we calculate inflation for October 2009, we calculate it based on October 2008. When media reports say inflation is 10%, it is mostly a Y-o-Y number. We also get WPI-inflation for two sub-sectors (i.e. primary articles and fuel group) on a weekly basis (with a delay of a fortnight). In this case, we can also calculate Y-o-Y inflation for weekly numbers. So if the WPI index is 100 in the week ended December 6, 2008 and 110 in the week ended December 5, 2009, YoY inflation for the week ended December 5, 2009 is 10%. Again, this is the preferred approach for reporting weekly inflation.

Month on Month (MoM): It means growth rate is calculated between sequential months in the same year, like for instance September 2009 and October 2009. It is used to understand the trends in a given year. YoY growth rates may not show correct trends because of the base effect. Last year the WPI index increased sharply because of a rise in oil and commodity prices. Hence, MoM analysis is also important.

Week on Week (WoW): In this growth is calculated between sequential weeks in the same year, like primary articles inflation between week ended December 5, 2009 and November 28, 2009. Just like we use MoM to understand monthly trends, we calculate WoW inflation to understand weekly inflation trends in the same year.

Hence, while measuring inflation we usually use YoY changes for simplicity. However, as inflation percentage may be high or low because of the base effect we also see the week on week changes in WPI index.

- **Primary articles:** The primary articles index for the week ended July 24, 2010, declined from 308.8 to 308.2 (WoW, see table 2). The primary articles' inflation decreased to 14.36% (YoY). The primary articles category is broadly divided into three sub-sectors — food, non-food and minerals.
 - ◆ **Food:** The food articles index decreased from 299.3 to 298.7 (WoW). The food articles' inflation stood at 9.53%. The food articles index decreased due to cheaper fruits, vegetables and fish. However, prices of foodgrains like rice, maize, *jowar* and gram increased. Price of *urad*, condiments and spices too rose.
 - ◆ **Non-food:** The non-food articles index increased from 288.6 to 289 (WoW). The non-food articles' inflation stood at 21.28% and continues to surge. The index increased due to higher prices of oilseeds like castor, sunflower, rape and mustard. Prices of copra and silk also increased. However, those of rubber declined.
 - ◆ **Minerals:** We only cover this sub-sector when there is a movement in its index. It moves infrequently but whenever it does, movement is very sharp. The index for minerals fell from 866.2 to 855.2 due to cheaper magnesite, steatite and iron ore.
- **Fuel group:** The fuel group index declined slightly from 386.3 to 386.2 (WoW). Fuel group inflation stood at 14.26%. The index declined due to cheaper aviation turbine fuel.

CPI Inflation Trends Mixed

The consumer price index (CPI) rose in June 2010 compared to May 2010. However, the rate of increase — which is CPI inflation — was lower than previous months. Hence, the decline is mainly because of base-effect. This was seen in the May 2010 data as well.

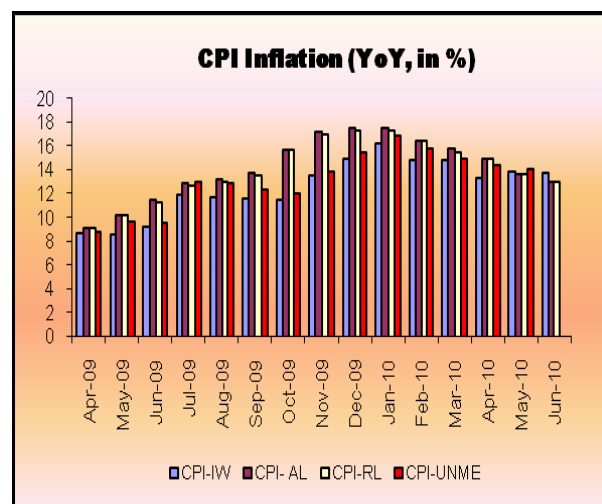
	April 2010	May 2010	June 2010
CPI for industrial workers	13.33	13.91	13.73
CPI for agricultural labour	14.96	13.68	13.02
CPI for rural labour	14.96	13.68	13.02
CPI for urban non-manual employees	14.4	14.1	

Source: Labour Bureau, CSO

The Central Statistical Organisation (CSO) under the statistics and programme implementation ministry calculates CPI for urban non-manual employees (CPI- UNME). This is basically meant for service sector employees living in urban areas. CPI-UNME stood at 14.1% in June 2010 and continues to ease each month compared to the high of 16.9% reached in January 2010.

CPI (UNME) numbers (base 1984-85) were earlier compiled by CSO. The data was collected across 59 urban centres. As the Indian economy changed over the years, the base year became outdated and there was a need for a broad-based CPI (urban) number.

The National Statistical Commission, in its meeting held on February 15, 2008, decided to discontinue the CPI (UNME) series. As CPI (urban) was to be brought out later, NSC suggested releasing CPI-UNME based on the Labour Bureau's CPI (industrial workers) index. In this, prices were used from CPI-IW and weights of CPI (UNME) were used. Hence, CSO releases this compile-linked CPI (UNME) numbers till the new series of CPI (urban) is brought out.



Agriculture

Capital Investment (₹ cr)	
2007-08	5,560
2008-09	10,105.67
2009-10	11,307.07
2010-11	15,042

Source: Ministry of Agriculture

Capital Investment: The government has launched a number of schemes to increase public investment in agriculture, which include Rashtriya Krishi Vikas Yojana, National Food Security Mission and National Horticulture Mission.

Prof K V Thomas, minister of state for agriculture, said that capital investment in agriculture has increased from ₹5,560 crore in 2007-08 to ₹15,042 crore in 2010-11 (inclusive of Rashtriya Krishi Vikas Yojana).

Area under cultivation continues to rise: We have been covering the area under cultivation as and when new data has been released. Sowing picked up following better rains.

Paddy has been sown in 212.32 lakh hectare as compared to 191.93 lakh ha last year -- an increase of 20.39 lakh ha. Pulses were sown in 87.36 lakh ha so far -- 11.91 lakh ha more than this time last season. Coarse cereals have been sown in 166.99 lakh ha -- about 7.44 lakh ha more over last year.

Area Under Cultivation (in million hectares)		
	On July 29, 2010	On July 29, 2009
Rice	212.32	191.93
Coarse cereals	166.99	159.55
Oilseeds	141.97	141.84
Pulses	87.36	75.45
Sugarcane	47.37	41.79
Jute	7.55	6.91
Cotton	95.04	80.63

RBI Watch

Has Fiscal Dominance Of Monetary Policy Ended, Asks Subbarao

RBI governor Duvvuri Subbarao delivered the Tenth C D Deshmukh Memorial Lecture at the Council for Social Development, Hyderabad, on August 5, 2010. He said the crisis has raised many questions about economics and policies. He raised some of those questions during the lecture too see how the crisis has possibly thrown up new answers:

- Have emerging market economies (EMEs) decoupled from the advanced economies?
- Should central banks persist with pure inflation targeting?
- Should financial stability be an explicit mandate of central banks?
- Are controls an appropriate mechanism for managing the capital account?
- Has fiscal dominance of monetary policy ended?

Read the speech for details: http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=515

RBI Professional Forecasters Survey — Twelfth Round

RBI released the quarterly survey of professional forecasters. This is conducted among private sector economists and analysts. The highlights are:

- GDP growth rate forecasts for 2010-11 have been put at 8.4%, higher than the 8.2% in the last survey. Higher growth is driven mainly by increased private final consumption expenditure growth, stronger industrial activity in the first quarter and further contribution of services in the subsequent quarters. Growth rate for 2011-12 is expected at 8.5%.
- Sectoral growth rate forecast for 2010-11 suggests moderate upward revision for agriculture and services. Agriculture growth has been revised marginally upwards from 4% to 4.1%, industry growth is kept at 9% -- same as expected in the last survey -- and services growth is revised slightly upwards from 9% to 9.1%. Sectoral forecast for agriculture, industry and services for FY12 are 3%, 9.1% and 9.5%, respectively.
- Government fiscal deficit is placed at 5.2% of GDP in 2010-11, revised downwards from last survey's 5.6%. The combined gross fiscal deficit is placed at 8.2% of GDP in 2010-11, down from 8.5% in the last survey.
- Repo rate is expected to be at 6.25% in 2010-11, up from 6% last time. Reverse repo rate is expected at 4.75% in 2010-11, which is the same as expected in the last survey. Currently, repo rate is at 5.75% and reverse repo at 4.5%. Hence, as per private sector forecasts, repo rate is expected to rise by 50 bps and reverse repo by 25 bps till March-2011.
- The most important variable analysed in these forecasts is inflation. A higher rise in forecasts of inflation from the previous survey shows build up of inflation expectations. The median estimates for WPI inflation in the first quarter of 2010-11 is at 10.4%, which has been revised upwards from 9.5% in the last survey. Inflation expectations have been revised significantly upwards for all subsequent quarters.

For further details visit: http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=22938

Global Central Bank Watch

ECB Maintains Rate

At its meeting held on August 5, 2010, the European Central Bank voted to maintain its policy rate at 1%.

Bank of England Rates Stay

BoE voted to maintain its bank rate at 0.5% at its meeting held on August 5, 2010.

Reserve Bank Of Australia Rates Unchanged

At its meeting held on August 3, 2010, the Reserve Bank of Australia decided to raise its policy rate by 25 bps to 3%.

Politics

The BlackBerry Conundrum

Nearly two years after it was claimed that all security issues between the government of India and Canada-based Research In Motion (RIM), over the increasingly popular BlackBerry phones, have been solved, the controversy has sprung up again.

The issue remains the same, that of access to data codes, which the government claims are encrypted in such a manner that security agencies are unable to decrypt it. Thus, the government says, the BlackBerry phones are being used by anti-social elements, particularly terrorist organisations.

However, this time the issue is not limited to India. Countries like Saudi Arabia, the United Arab Emirates (UAE) and even China have raised similar issues with RIM. In fact, both the UAE and Saudi Arabia have already banned BlackBerry services.

In India, two services from RIM — the BlackBerry messenger service and the BlackBerry enterprise service — are under intense government gaze.

While the government has so far been able to intercept and monitor voice-calls, SMSes, and emails on BlackBerry phones, the BlackBerry enterprise services and the messenger cannot be tracked.

The government has already warned RIM that it will ban BlackBerry if the company does not provide a solution to the problem within a week's time.

RIM, on its part, claims the issue lies with the nature of the internet itself and not BlackBerry. Speaking to the Wall Street Journal, Michael Lazaridis, co-founder and co-CEO of RIM, said: *"This is about the internet -- everything on the internet is encrypted. This is not a BlackBerry-only issue."*

"If they can't deal with the internet, they should shut it off. But we are going to continue to work with them to make sure they understand the reality of the Internet. A lot of these people don't have PhDs, and they don't have a degree in computer science."

Meanwhile, India has asked RIM to set up a BlackBerry server in India — as it has done in Saudi Arabia — for full interception of data.

The BlackBerry operator had earlier said it would provide the IP address of the enterprise server, located in the customer's premise, as well as the PIN and the international mobile equipment identity number of each BlackBerry phone to enable security agencies access the data in a readable format.

RIM also offered "metadata" and relevant information to security agencies, which will enable them in lawful interception. According to media reports, metadata generally refers to data about data. It provides information about a certain item's content such as how large the picture is, the colour depth, image resolution, when the image was created, and other data.

A text document's metadata may contain information about how long the document is, who the author is, when the document was written and even a brief summary of the message.

With a user base of nearly 1.1 million and growing, BlackBerry/RIM will surely want to end the controversy amicably and *get on with business*. Literally.



Berry Picking

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