

Weekly Economic Bulletin

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News Feature

March IIP grows 13.5% on manufacturing

Industrial output grew 13.5% in March-its sixth month of double digit growth-helping the economy to finish the 2009-10 fiscal with a spectacular 10.4% expansion in industrial production. Factory output dipped to just 2.8% in 2008-09 fiscal as production seized up in the wake of the global financial meltdown.

Reacting to the data, finance minister Pranab Mukherjee told that the industrial growth in March was good enough for the estimated 7.2% GDP growth in the just completed financial year. Planning Commission deputy chairman Montek Singh Ahluwalia said the March IIP data is not going to change the GDP growth estimates for 2009-10. "We are hoping that during 2010-11, we will close the fiscal with double digit factory output," he said.

Crisil principal economist D K Joshi underscored that optimism. "Industrial output growth is likely to stabilise at 9-10% in the current fiscal."

Commenting on the March numbers, Yes Bank chief economist Shubhada Rao said though the output growth in March was off the peak of 17.7% recorded in December, it still, is a healthy double digit expansion. Government data shows industrial output growth was just 1% at the beginning of last fiscal, but gained momentum by June to scale 11%. It then hovered between 7-12% in the next four months and accelerated further in December to the peak of the year. Output growth then started moderating slowly.

Joshi said as there are no surprises in the latest numbers, there is no message in it for the RBI. He anticipated that the central bank may raise key policy rates gradually by 25 basis points in the coming days. The banking regulator had raised key rates twice since March 19 by a total of 50 basis points citing inflationary pressures in an improving economy.

Joshi said that the economy is expected to have grown at the estimated rate of 7.2% last fiscal. Industrial sector accounts for 27% of the gross domestic output, or the total value of the economy's output.

Manufacturing, which accounts for four-fifths of industrial output, grew by a robust 14.3% in March against a 0.3% fall in the same month a year ago. In the whole 2008-09 fiscal, manufacturing output shot up 10.9%, compared to 2.8% in the previous year. Power generation growth too improved to 7.7% in March from 6.3% in the same period a year ago.

<http://www.financialexpress.com/news/march-iip-grows-13.5-on-manufacturing/618022/>

Overseas Investment

Increase FDI in defence, says CII survey

The debate on raising FDI in defence has divided not just Indian defence companies, but also the central government.

With the government evaluating a decision on enhancing the current 26 per cent foreign direct investment (FDI) cap in defence production, a Confederation of Indian Industry (CII) survey suggests that the Indian defence industry supports enhanced FDI levels, while opposing 100 per cent FDI in the sector.

A majority of Indian companies (57 per cent) favours an increase in the FDI cap to 49 per cent or higher; a minority of just 17 per cent of Indian companies want to retain the status quo; while 26 per cent say “maybe”.

The debate on raising FDI in defence has divided not just Indian defence companies, but also the government of India. While the Ministry of Commerce and Industry has signalled its willingness to support 100 per cent FDI in defence, the Ministry of Defence (MoD) has opposed any enhancement of the 26 per cent cap.

Two applications for setting up joint ventures (JVs) with 49 per cent foreign holding — the first between the Mahindra Group and UK-headquartered BAE Systems; and the second between L&T and European conglomerate, EADS — have already been turned down by the MoD.

The Ministry of Commerce and Industry had allowed private industry into defence production in 2001, subject to government licensing and a 26 per cent FDI cap. In the Defence Procurement Procedure of 2008 (DPP-2008), the defence ministry had permitted a 49 per cent FDI on a case-by-case basis. Last year’s Economic Survey had also suggested that 49 per cent FDI would be allowed. And, since early this year, the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry has been talking up allowing 100 per cent FDI in defence in order to attract foreign technology and to position India as a global hub for defence production.

The CII survey suggests that the current 26 per cent FDI levels have failed to attract global defence investment, pointing out that a mere Rs 70 lakh have been invested as FDI in Indian defence production between April 2000 and February 2010.

But the survey also notes significant opposition to the argument for developing India as a “home market” for global defence giants. Reflecting the opinion of Indian corporates that have invested heavily into defence research and development (R&D) and production, a viewpoint that the defence ministry highlights and supports, the survey notes the belief of these companies that permitting increased foreign control would hamstring the organic growth of the Indian defence industry.

<http://www.business-standard.com/india/news/increase-fdi-in-defence-says-cii-survey/394480/>

Trade News

Indo-China trade will touch USD 60-bn by 2010-end

Bilateral trade between India and China is expected to touch the USD 60-billion mark by the end of this year, a senior Chinese diplomat said.

"We expect our bilateral (India and China) trade to touch the USD 60-billion mark by December this year," Chinese consul general Wang Donghua told on the sidelines of a retail products' exhibition.

The Chinese diplomat said that though there was a decline in trade volume because of the global meltdown, it was expected to rise again in the near future.

"Trade had come down because of the downturn in the global economy. In 2008, our bilateral trade stood at USD 51.47 billion. But it declined to USD 43.3-billion in 2009. We expect it to rise to USD 60 billion this year," Donghua said.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/Indo-China-trade-will-touch-USD-60-bn-by-2010-end-Sr-diplomat/articleshow/5927477.cms>

India for further expanding trade ties with Nigeria

India has expressed keen interest in further expanding its trade ties with Nigeria, even as the country has become the African nation's second largest trading partner with the total volume of trade of \$10.3 billion.

"The total trade volume between India and Nigeria as at March last year stood at was \$10.3 billion, ranking India as the second largest trading partner to Nigeria after the US," Indian High Commissioner to Nigeria Mahesh Sachdev said at a meeting with Nigerian Minister of Commerce and Industry Jubril Martins Kuye and his deputy Josephine Tapgun.

Nigeria currently enjoys about \$7 billion trade surplus with India, adding that Indian companies in Nigeria are the second largest employer of labour after government, said the high commissioner.

"We are here to seek your advice and guidance as to what we can do together to boost Nigeria's health industry and to increase the bilateral ties substantially," said Sachdev, who became the first envoy to pay a courtesy visit to the ministers who were appointed barely a month ago.

Sachdev was leading a delegation of Indian businessmen. "It is on record that Indian companies occupy top positions while also contributing immensely to the development of Nigeria especially in the areas of pharmaceuticals, steel development and power transmission," the envoy said.

Sachdev used the opportunity to highlight the rise in trade between both the countries.

The current volume of trade between both nations transactions has surged more than 30 per cent from what was available before 2008, he said.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/India-for-further-expanding-trade-ties-with-Nigeria/articleshow/5926062.cms>

India offers stunning opportunities to US companies

A booming Indian economy, that is spending billions in building infrastructure and meeting energy needs, besides making defence purchases, offers stunning opportunities to US companies, an official has said.

Ron Somers, president of the US India Business Council said with the US economy emerging from a devastating global recession, it was fortunate for the country to have India as a "vigorous trading partner".

"A true partner with the United States in every sense of the word, India is a nation comprised of a free people who look forward to a bright future - imbued with hope and determination, and a vision that will shape the destiny of the 21st century," Somers wrote in an op-ed in The Hill, a congressional newspaper.

"The Indian consumer values state-of-the-art technology and is likely to buy American-made goods and services before all others," he wrote.

Somers, who played a key-role in the US-India civilian nuclear deal, said the new opportunities being made available to the American companies in part can be attributed to the nuclear agreement initiative bearing fruit.

"This agreement, overwhelmingly passed by Congress in 2008, means job creation for both countries: In the United States, as it digs out from a crushing recession, and in India, as it attempts to employ three-quarters of a billion people younger than 35," he said.

"India is meeting this demand by continuing to strengthen its commercial ties with US businesses," he said.

He pointed out that the country recently purchased \$6 billion worth Boeing aircraft from the US, which will create thousands of American jobs at a time when they are so desperately needed.

"Moreover, this procurement attracts an offset obligation in India, which means US suppliers will be enlisting American and Indian vendors and subcontractors to manufacture some of this order on India soil," he said.

<http://economictimes.indiatimes.com/news/economy/indicators/India-offers-stunning-opportunities-to-US-companies/articleshow/5926135.cms>

Trade pact with Asean may boost Indian investments in Indonesia

India is set to strengthen its ties with the Association of South-east Asian Nations (Asean) as well as Indonesia.

According to the Indian envoy in Indonesia, Mr Biren Nanda, the Free Trade Agreement (FTA) with Asean on investment and services may be through within a year.

The treaty is expected to boost Indian investments in the natural resource-rich Indonesia substantially.

Mr Nanda said the discussion on the Indo-Asean FTA on services and investment had been initiated.

“It will, we hope, will conclude soon, may be in a year or less than a year. I do not think it will be a very complicated issue, as there is a general keenness to get it done,” he said.

India recently entered into an FTA on goods with the Asean and is targeting \$70 billion trade with the Asean countries in the next two-three years, currently increasing at an annual rate of 28 per cent.

Reiterating India's nearly two-decade-old ‘Look-East’ policy, Mr Nanda said that Indian trade was consistently being redirected to the East Asian countries during the last two decades.

The FTA with Asean on goods has opened the doors for Indian companies to expand their reach in the South-East Asian markets.

Indian automotive sector is a major beneficiary of the treaty.

Resource-based trade

Indonesia has already emerged as the second largest trading partner of India in the Asean (after Singapore), registering a growth of trade volume from \$4 billion in 2005 to \$10 billion in 2008. After remaining flat in the recession-hit 2009, the Indo-Indonesian trade has expanded by over 20 per cent in the first two months of 2010.

What is more important is, the share of the resource-based trade, mostly import of coal and palm oil, has come down from 50 per cent to 40 per cent of the total trade volume, indicating a faster growth in the non-resource based trade.

“In an emerging trend, Indian companies are taking increasing interest in not merely leveraging the energy resource of Indonesia but also value addition in the country.

This is further increasing the export of engineering goods from India,” he said.

A case in point in this direction is the recent proposal by Nalco (National Aluminium Company) to set up a 0.5 million tonnes smelter and 1,250 MW power plant at the coal resource-rich Kalimantan in Borneo islands using imported alumina from India.

Essar and Jindal Steel have already set up facilities in the country.

<http://www.blonnet.com/2010/05/15/stories/2010051551431800.htm>

'India, Israel close to finalising free trade pact'

A high-level delegation from Israel will visit India later this month to engage in discussions that will eventually pave the way for a Free Trade Agreement (FTA) between the two nations, according to a senior official of the Israel Mission in India.

Mr Eli Belotserkovsky, Deputy Chief Mission, Embassy of Israel, said that there are very few issues that need to be sorted out to finalise a FTA between the two nations .

The FTA is expected to triple trade between the two countries.

“The bilateral trade is evenly matched at about \$2 billion. As per estimates, this trade volume will go up to \$6 billion once the FTA is signed. Apart from engagement between the two Governments in various projects, the trade growth would be expanded through public-private participation projects and business to business ties,” he said.

Mr Belotserkovsky said Israel has concluded FTAs with Canada, Mexico and the US and their FTA with the EU dates back to 1975.

“We believe that manufacturers from India could benefit as they will also have access to other markets through Israeli agreements with other nations,” he said.

Software services, telecom, medical equipment, agriculture and homeland security are among the key focus areas.

“We are not good at mass production or heavy equipment, where India can play a big role. Textiles is another area which has immense potential between the two nations,” he felt. Through Government-to-Government cooperation, special attention has been given to agriculture.

As a part of this arrangement, centres of excellence for agriculture are being set up in Haryana and Maharashtra, with cooperation from the respective State Governments.

These centres will serve as demonstration farms.

The land owners will have access to latest technologies, cultivation techniques, pesticides and post-harvesting support to improve yields by saving on water consumption and optimising investments.

Two such centres are coming up in Haryana at Karnal and Sirsa. One of the centres is for fruits and the other, for vegetables.

“Once these would be operational by October, we will take up three more centres in Maharashtra. The idea is to help these centres serve as model farms for replication in other States and by farmers within these States,” he said.

<http://www.blonnet.com/2010/05/17/stories/2010051751181300.htm>

Sectoral News

Air traffic flies high with 22% growth

Against the backdrop of sustained recovery in the aviation sector, domestic carriers have registered a 22.05% growth by carrying 162.82 lakh passengers during the January-April 2010 period as against 133.41 lakh passengers in the same period a year ago.

While private carrier Jet Airways has maintained its number one position in terms of market share at 25.4% in April, Kingfisher is second at 21.4%. Flag carrier Air India has secured the number three slot at 21.4%. According to industry observers, the figures indicate improved yields and capacity utilisation for the aviation industry.

Jet Airways CEO Nikos Kardassis said, "With seven consecutive months of stellar growth, our airline has continued to build on its leadership position. A buoyant global economic environment coupled with the relaxation of governmental and corporate travel restrictions have resulted in an upswing in air travel demand."

Jet has also been proactive in responding to market demand, a testimony to which was the successful launch of 'Konnect Select', the airline's new premium cabin offering on Jet Konnect flights during the summer peak season, he added.

Meanwhile, in the low-cost space, Delhi-based Indigo has a market share of 15.7%, SpiceJet has 12.6% share and GoAir has 5.9% share of the travel market pie. The DGCA figures showing the percentage change over the month indicate that demand has grown faster than the capacity.

Factors that have contributed to the growth in passenger traffic include lower crude oil cost at around \$75-\$80 a barrel compared to last year's \$90 a barrel during the same period. Airfares were also moderate, nearly 30% lower to what it was in 2009. Also, March and April are considered peak season due to summer vacations.

In terms of seat factors, Jet had a 72% load factor in April as against 66.5% in March, JetLite had 74.2% in April. Kingfisher has registered load factors of 75.8% in the month under review. Air India stood third at 72% loads as against 66.5%.

<http://www.financialexpress.com/news/air-traffic-flies-high-with-22-growth/619084/>

Auto sales grow highest in a decade

Several new launches in the compact car category, easier availability of finance and the low base effect of last year helped the Indian automobile industry to continue its growth

momentum of 2009 into April 2010 as well, with passenger car sales registering their highest growth in a decade.

According to the Society of Indian Automobile Manufacturers (SIAM), total passenger car sales in the country surged 39.5 per cent last month at 1,43,976 units, as against 1,03,227 units during the same month last year. This is the highest growth in car sales in April in the last 11 years. Car sales had grown 50.3 per cent in 1999.

“Low base of last year has resulted in surge in passenger car sales in April and, while this will continue to play a prominent role even in the next two months, there could be a little bit of tempering in the second quarter, when higher sales of last year impact growth rates,” said Vaishali Jajoo, senior auto analyst, Angel Broking.

However, on a month-on-month basis, there has been a decline of 7.4 per cent in domestic passenger car sales in April, signalling the upcoming impact of increasing commodity prices. SIAM data showed 1,55,600 units of passenger cars were sold in March; 1,53,845 units in February; and 1,45,905 units in January.

According to Jajoo, while new launches in the compact car category and easier availability of finance were some factors that supported growth so far, demand would get impacted second quarter onwards, as raw material prices continue to shoot up and higher base effect comes into play.

Sales of Maruti Suzuki India went up 22.1 per cent at 68,668 units in April 2010 as compared to 56,228 units the same month last year, while its closest rival Hyundai Motor India posted a jump of 28.1 per cent at 28,501 units last month vis-à-vis 22,241 units, and sales of Tata Motors went up 76.4 per cent at 19,762 units, as compared to 11,202 units during the same month last year.

“On the back of overall improvement in the economy over the last few quarters, there is an improvement in customer sentiment and, therefore, high sales in April, which is traditionally a lean month, as people advance their purchases. However, we have already started seeing moderation in demand and, going forward, it could stabilise at these levels,” said Vishnu Mathur, the newly-appointed director-general of SIAM.

With high growth in the commercial vehicle segment and two-wheelers, the overall domestic sales also went up 25.24 per cent at 1,120,081 as compared to 8,94,380 units in April last year.

While the total two-wheeler sales in April grew 22.06 per cent at 8,55,670 units as against 7,00,987 units in April 2009, sales of commercial vehicles went up 64.5 per cent at 49,086 units vis-à-vis 29,842 units in the year-ago period.

“In the commercial vehicle segment, freight rates have increased and this has encouraged owners to invest on new vehicles. Thus, the higher sales,” said Mathur, adding that sales of LCVs went up 42.2 per cent in April at 26,759 units as compared to 18,819 units, M&HCVs registered two-fold jump in sales at 22,327 units as compared to 11,023 units in the same month last year.

<http://www.business-standard.com/india/news/auto-sales-grow-highest-indecade/394471/>

'India will be among top-5 civil aviation markets in 5 years'

The Union Minister of State for Civil Aviation, Mr Praful Patel, has said that the country will be in the top-five civil aviation markets in the world in the next five years.

Inaugurating the new integrated terminal building of Mangalore airport, he said that the country's civil aviation sector was not recognised in the world until a few years ago. Today, India is the ninth largest civil aviation market in the world.

"Within the next five years, India will be in the top-five civil aviation markets all across the world. That, I think, is a great achievement in the remarkably short period of time," he said. Stating that substantial improvements have been made in the civil aviation sector in the country, he said today flying is no more a luxury for the common man.

Mr Patel said that country's infrastructure is undergoing a sea change under the leadership of the Prime Minister, Dr Manmohan Singh.

For the first time there is a Cabinet Committee on Infrastructure headed by the Prime Minister. That is why projects were being monitored and implemented on time, he said.

<http://www.thehindubusinessline.com/2010/05/17/stories/2010051750821300.htm>

Grain production estimates up at 218 mn tonnes

The marginal revision is supported by higher-than-expected wheat, rice output.

The agriculture ministry made an upward revision in the country's foodgrain production during 2009-10 in its third advance estimates to 218.19 million tonnes.

The ministry in its second estimates in February had put the figure at 216.85 million tonnes. The marginal revision is supported by the higher-than-expected wheat and rice output. However, it is almost 7 per cent lower than the previous year, because the kharif crop output was affected due to drought. In 2008-09 foodgrain production stood at a record 233.88 million tonnes.

Due to deficient and erratic distribution of rainfall during the last monsoon, production of most kharif crops had been affected adversely. A substantial drop has been projected in the main kharif crops like rice, maize, oilseeds and coarse cereals. This has led to a spike in food prices and caused a surge in food inflation, which almost touched 20 per cent in December last year.

Food inflation, however, softened after the rabi crop harvest at 16.04 per cent for the week ended April 24.

The good news is that the country's wheat production is estimated to beat the previous year's record of 80.68 million tonnes, reaching 80.98 million tonnes in 2009-10. While

wheat output was revised upwards to 80.98 million tonnes from 80.28 million tonnes, rice was raised from 87.56 million tonnes to 89.31 million tonnes.

<http://www.business-standard.com/india/news/grain-production-estimatesat-218-mn-tonnes/394626/>

India becoming major medical tourism destination in Asia

India is surging ahead in the race for medical tourism leaving behind countries like Malaysia, Thailand and Singapore which were earlier considered preferred destinations of foreign patients.

India holds a strong appeal for Americans as the exploding costs of medical treatment in the US are forcing them to venture to exotic places to get heart surgery, cancer therapy, and dentistry.

Many Indian hospitals have been quietly negotiating with US companies to send their employees to India for medical treatment at "rock-bottom rates", as one brochure of a Bangalore-based hospital in circulation in the New York/New Jersey region professes.

India companies are acquiring firms in Singapore and Thailand which enables them to take advantage of a large trans-Asia presence that results in boosting business, besides strengthening infrastructure and treatment possibilities for foreign patients.

Many foreign patients who arrive in India have already acquired some exposure to and confidence in Indian medical experts and nurses who maintain a ubiquitous presence in hospitals in the USA, Canada, UK or even Australia.

Studies have forecasted that India's medical tourism market will be worth some USD 2 billion a year by 2012 compelling the Indian Government to introduce a new category of medical visas for foreigners to facilitate their stay in India.

The visa issued to the patient and an accompanying caretaker, could be extended up to three years.

Indian hospitals in Mumbai and Bangalore - and also in other cities - report of a steady rise in the number of patients from the United States.

"Even with airfare, the cost of going to India for surgery can be markedly cheaper, and the quality of services is often better than that found in the United States and UK.

<http://economictimes.indiatimes.com/news/economy/indicators/India-becoming-major-medical-tourism-destination-in-Asia/articleshow/5940630.cms>

News Round-Up

IT, energy can push exports to \$1 tn by 2020: FIEO

Sectors like IT and energy have the potential to raise the value of India's exports to \$1 trillion, or 5 percent of the global trade, by 2020, but the government needs to devise a concerted strategy, FIEO said.

The Commerce Ministry aims to take India's exports to \$1,000 billion in the next 10 years from the present \$177 billion, FIEO, the apex body of exporters said.

"The export target for grabbing India's share of 5 per cent in the world trade is challenging but achievable," FIEO President A Sakthivel said, adding a concerted strategy needs to be devised by the government.

India's exports in 2009-10 were estimated at \$177 billion.

The government should push sectors like high technology exports, processed foods, leather, carpets and handicrafts, IT & ITES, energy, textiles and clothing, pharma and healthcare, FIEO said.

FIEO said India is likely to get major investment in high technology sector over the next decade as opportunities in the US, Japan and Europe are on the decline.

"We can look forward for an export of \$400 billion from this segment," Sakthivel said. Over 250 fortune 500 countries have already set their R&D base in the country.

IT and IT enabled exports could increase to \$250 billion by 2020. "The growth will come from new verticals like health care, media, utilities etc," he said.

On the energy front, FIEO suggested that emphasis on reducing carbon emission would pave the way for natural gas exports. India with its largest gas hydrate deposits in the world can become the largest producer of gas as well.

By 2020, the pharmaceutical market is anticipated to more than double to \$1.3 trillion, with the E7 -Brazil, China, India, Indonesia, Mexico, Russia and Turkey- accounting for one fifth of the global pharmaceutical sales, the chamber said.

Besides, India needs to target a steady growth of 15 percent to 20 percent in textile exports to enable the sector to increase its share in world textiles and clothing exports.

<http://economictimes.indiatimes.com/news/economy/foreign-trade/IT-energy-can-push-exports-to-1-tn-by-2020-FIEO/articleshow/5940719.cms>