

Weekly Economic Bulletin

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News Feature

Robust industrial production in Nov bolsters revival

Bearing out a strong recovery of the economy, industrial production grew at a faster-than-expected 11.7% in November from a year earlier. An upturn in demand for consumer durables like two-wheelers and TVs primarily drove the expansion, the biggest in two years, although on a low base.

Some analysts reckon that the high growth in factory output would prompt RBI to tighten the monetary policy coming up for review on Jan 29, by raising the cash reserve ratio. A minority also believes RBI could raise policy rates by 25 basis points. But there are others who think the government's view against using monetary policy tools at this juncture would prevail.

The central bank is apparently waiting for the December numbers of wholesale price inflation, due shortly, to take a final call.

The benchmark 10-year bond yield rose to 7.81%, a 15-month high it reached recently. The latest data on industrial output growth, measured on the index of industrial production (IIP), not only dwarfed the low 2.5% growth reported in November 2008, when the economy was hit by the global crisis, but also outdid the robust October figure of 10.34%. The official data showed that between April and November 2009, industrial output expanded 7.6%, almost double the growth in the year-ago period.

Commenting on the data, Planning Commission deputy chairman Montek Singh Ahluwalia said, "Industrial growth this year is going to be much better than last year...whether it will be 11.3% for the next six months... that is difficult to say." He added, "We have been saying that concerted action taken by the government will lead to revival."

<http://www.financialexpress.com/news/robust-industrial-production-in-nov-bolsters-revival/566678>

Exports rise 9% in December

The government said exports rose for the second successive month in December. The statement came a day before the government unveils a package of incentives for exporters in sectors that continue to face pressure.

Commerce and Industry Minister Anand Sharma told on the sidelines of the Bancon conference that exports from India were estimated at \$14.6 billion (around Rs 66,035 crore) in December 2009, which was 9.4 per cent higher than the level in November. The minister said there was an increase on a year-on-year basis, too, but he did not disclose the extent of the rise.

Sharma said the growth in December was driven by sectors such as pharmaceuticals, engineering and auto components, while leather, handicrafts and apparel continued to be affected by the lower demand in the developed markets.

In November 2009, the 13-month trend of falling exports was reversed, with the country's merchandise exports registering 18 per cent growth, at \$13.2 billion, compared with \$11.16 billion in the same month a year ago. However, exports during April-November 2009 were estimated to have declined by 22.3 per cent to \$104.25 billion from the \$134.2 billion in the corresponding period in 2008.

<http://www.business-standard.com/india/news/exports-rise-9-in-december/382449/>

IIP to be much better in 2009-10: Montek

The Planning Commission said it expected industrial production to beat last year's growth and attributed the revival to various stimulus measures.

His comments came after latest government data showed that factory production grew 11.7 per cent in November last year.

"Industrial growth this year is going to be much better than last year....whether it will be 11.3 per cent for the next six months that is difficult to say", Planning Commission Deputy Chairman Montek Singh Ahluwalia said.

The Index of Industrial Production (IIP) growth during November was robust compared to the dismal 2.5 per cent in the year-ago period. IIP grew by 2.6 per cent in 2008-09.

Attributing high industrial growth rate to stimulus provided by the government to combat the impact of the global financial meltdown, Ahluwalia said, "We have been saying that concerted action taken by the government will lead to revival".

Following the global crisis triggered by the collapse of America's iconic investment banker Lehman Brothers in September 2008, the government has provided stimulus packages that entailed a burden of Rs 1.86 lakh crore for the exchequer.

The overall economic growth during the second quarter of the fiscal (July-September 2009-10) recorded a growth of 7.9 per cent, much more than anticipated by any analyst or think tank.

<http://www.financialexpress.com/news/iip-to-be-much-better-in-200910-montek/566518/>

Overseas Investment

Fx reserves rise to \$284.3 bn

The country's foreign exchange reserves rose \$741 million to \$284.3 billion in the seven days ended January 8, 2010, RBI said in its weekly statistical supplement.

While foreign currency assets increased by \$772 million to \$259.4 billion, gold reserves were held at \$18.3 billion, the central bank said. Special drawing rights with the International Monetary Fund fell \$24 million to \$5.15 billion, while its reserves with the IMF dropped \$7 million to \$1.42 billion.

Total reserves jumped \$29.5 billion in the past year, the bank said. Assets comprise of overseas currencies, gold and special drawing rights with the IMF. The liquidity was abundant and money market rates remained soft. The overnight call rate was seen in a range of 2.65%-3.35%.

<http://www.financialexpress.com/news/fx-reserves-rise-to-284.3-bn/567874/>

FII's head for small & mid-cap stocks

The year 2010 has started off on a positive note for Indian equities, especially in terms of attracting inflows from overseas investors. In the first 15 days of the year, foreign institutional investors (FII) have net purchased Indian equities worth Rs 8,191.6 crore or \$1.8 billion, close to the average monthly inflow of Rs 9,852.18 crore witnessed in the past six months. During 2009, FIIs had net purchased equities worth Rs 83,400 crore, the highest so far in a single calendar year.

However, it has been seen that many of the overseas investors are heading towards small-and mid-cap stocks rather than large-cap stocks. During the first two weeks of January, the BSE small-cap and mid-cap indices have clearly managed to outperform the 30-share Sensex. The small-cap index had generated a return of 7.33%, while the BSE mid-cap index climbed 4.95%, compared with Bombay Stock Exchange Sensex's marginal gain of 0.51%.

"After a long time, we are seeing excitement back in mid and small-cap stocks," said Ramdeo Agarwal, MD, Motilal Oswal Securities, adding, "Since large-cap stocks are looking expensive after last year's record rally, there is some selling coming up and the interest is shifting towards mid-cap counters. We believe the activity in mid-cap counters will really pick up from here".

<http://www.financialexpress.com/news/fiis-head-for-small-&-midcap-stocks/567856/>

FII's raise a toast to India, infuse \$1.6 bn

Portfolio investors have pumped in a net \$1.6 billion into Indian equities within six trading sessions in the new calendar, raising hopes that many overseas fund managers may increase their allocations to India in 2010.

According to foreign portfolio managers, Fidelity, Halbis and Jardine Fleming Asset Management were among the large portfolio investors in India in 2009. Some of the other long-only funds that are bullish on India at the moment, and are planning to increase their allocations for this region include Capital International, Eton Park, Halbis and T Rowe Price.

A significant number of hedge funds too are said to have increased their India exposure. With many of these players seeing a sharp improvement in their performance in the past quarter, inflows into their schemes have shot up.

“The allocation for India is increasing ,” says Manisha Girotra, MD and chairperson, UBS India. “Sectoral funds have also started allocating to India. Investors are coming in with a fatter wallet,” she says.

The global view is that there won't be a double dip in the US and that developed markets are on a steady path to recovery. A greater risk appetite, the underlying recovery in India, and likely earnings upgrades here should help sustain flows to India in the near term.

<http://economictimes.indiatimes.com/markets/analysis/FIIs-raise-a-toast-to-India-infuse-16-bn-in-just-6-days/articleshow/5439092.cms>

Trade News

India, Finland sign revised double taxation pact

India and Finland signed a revised agreement for avoidance of double taxation and prevention of fiscal evasion with regard to tax on income.

According to the revised agreement, withholding tax rates on dividends have been reduced from 15 per cent to 10 per cent. On royalties and fees for technical services, the rate has been reduced from 15 or 10 per cent to a uniform rate of 10 per cent.

“Lowering of withholding tax will promote greater investments, flow of technology and technical services between the two countries,” the finance ministry said in a statement.

The double taxation avoidance agreement, or DTAA, was signed by Central Board of Direct Taxes Chairman S S N Moorthy on behalf of the central government and Terhi Hakala, the Ambassador of Finland to India. The agreement will come into force after internal processes in both the countries are completed.

The revised agreement also expands the ambit of exchange of information in line with current international standards. An Article for limiting benefits to the residents of the contracting countries has also been included to prevent misuse of DTAA.

Other features of the revised agreement include increasing the scope for relieving double taxation through recourse to the Mutual Agreement Procedure and addition of a new Article to ensure assistance in collection of taxes when such taxes are due under the domestic laws and regulation.

<http://www.business-standard.com/india/news/india-finland-sign-revised-double-taxation-pact/382813/>

India, B'Desh sign pacts in trade, infrastructure

In her first visit to India after clinching power at Dhaka with a massive mandate in 2009, Bangladesh Premier Sheikh Hasina held a wide-ranging discussion with the UPA government as both sides clinch key agreements on infrastructure, transport, trade and other issues.

New Delhi is now much more relaxed than it was when Khaleda Zia held the reigns of Dhaka. The bonhomie between Sheikh Hasina and the government leaders was evident from the first day. This was borne out by sumptuous gifts that the Bangladesh Premier brought with her: specially packed Hilsa fish for the top leadership of India and handloom sarees.

Before the meeting with Prime Minister Manmohan Singh, Hasina held crucial meetings with Finance Minister Pranab Mukherjee and External Affairs Minister S M Krishna separately. While Krishna came out of the meeting and said combating terrorism would be the main agenda of the two governments, Mukherjee expressed his happiness over the “successful” meeting and said, “We will ensure that more and more goods and services from Bangladesh come to India.”

The two countries signed three agreements related to security. They will offer mutual legal assistance on criminal matters, sentenced persons would be transferred to their homeland (India will get access to many Ulfa rebels currently behind bars in Dhaka) and the two countries will combat international terrorism, organised crime and illegal drug trafficking.

<http://www.business-standard.com/india/news/india-b/desh-sign-pacts-in-trade-infrastructure/382453/>

Malaysia woos India to invest in realty sector

In order to attract more foreign direct investments (FDI) into its real estate sector, Malaysia is making all efforts to garner major investments from countries like Singapore, UK, Korea and India. The Malaysian government’s Foreign Investment Committee (FIC) has recently announced a comprehensive deregulation of investment guidelines to facilitate smooth inflow of investments into the country. As part of its India investments initiative, the Malaysian government, for the first time, is holding property expo in Chennai from January 22-24. The expo will be inaugurated by Malaysian Prime Minister Mohd Najib Tun Razak, said Kumar Tharmalingam, member, board of governors, Malaysia Property Incorporated (MPI).

“The most important aspect in purchasing Malaysian real estate is the land law system that allows for transparency and enforceability of ownership. Foreigners also have no impediment to buying freehold Malaysian real estate and to sell when the need arises without restriction,” Tharmalingam said.

In 2008, Indian investors were the fourth largest in residential property investments in Malaysia after Singapore, UK and Korea. The locations of choice were Kuala Lumpur, Penang and Johor with a price range of \$150,000-\$300,000.

Tharmalingam further said the seminars will also be conducted over the 3 days at the expo. Speakers will include the Malaysian Investment and Development Authority, ministry of tourism and Malaysia Property Incorporated on investing in the country’s real estate.

<http://www.financialexpress.com/news/malaysia-woos-india-to-invest-in-realty-sector/567021/>

India agrees to cede 17,000 acres to Bangladesh

At last India has decided to settle some of its dues with history with Bangladesh, by agreeing in principle to cede control over some 17,000 acres of territory as part of a larger, comprehensive agreement, in which the remaining tiny part of the 4,096 km-long boundary will be demarcated, while several pockets of adverse possessions and enclaves claimed by both sides are likely to be settled on an “as-is-where-is” basis.

The decision to settle the matter is believed to have been taken at the highest political levels in India, on the eve of Bangladeshi Prime Minister Sheikh Hasina’s visit to India earlier this week, and is in keeping with Prime Minister Manmohan Singh’s view that small disagreements cannot be allowed to come in the way of a dynamic relationship with Delhi’s eastern neighbour.

Home Secretary GK Pillai confirmed that India, during the home secretary-level talks in Dhaka in early December had offered such a comprehensive agreement to Dhaka – demarcating the remaining 6.1 km of the 4,096-km long boundary, plus settling the matter of adverse possessions and enclaves — and had received a positive response from the Bangladeshi government.

India holds as many as 111 enclaves or tiny bits of land within Bangladesh territory, amounting to some 17,000 acres since the partition of the subcontinent in 1947 (initially held by Pakistan, and after 1971, with Bangladesh), while Bangladesh holds some 51 enclaves amounting to about 7,000 acres in India.

It is believed that India has in principle agreed that it will cede control over its enclaves, even though the difference is about 10,000 acres in Bangladesh’s favour. Meaning, once the negotiations are complete, the Indian enclaves within Bangladeshi territory would be absorbed within Bangladesh and vice-versa.

Officials on both sides agreed that such a path-breaking agreement was on the cards, but it would take between 18-24 months to iron out the details. India needs a constitutional amendment on its part to formalise the boundary demarcation. A joint land boundary working group meeting is expected to be held soon.

In addition, both sides agreed during Hasina’s visit that a flyover would be built to connect Bangladesh territory with the Angarpota-Dahagram enclave, separated by a tiny bit of land called the Teen Bigha corridor (literally, 3 bighas, or the size of a football field), so that Bangladeshis would have 24-hour access to their own territory.

<http://www.business-standard.com/india/news/india-agrees-to-cede-17000-acres-to-bangladesh/382717/>

Sectoral News

Top 8 FMCG companies may see 23% growth in net profit

FMCG companies are expected to log a healthy performance during the December quarter on the back of strong volume growth. Mid-sized FMCG companies such as Godrej

Consumer Products (GCPL), Dabur, Marico and Nestle are likely to continue their outperformance over sector biggies HUL and ITC.

An average of total estimates of ETIG and three other broking analysts for leading eight FMCG companies points to a strong 23% increase in net profits during the December quarter against the corresponding quarter in the previous year. FMCG companies are expected to log an average growth of 15% in revenues. These estimates don't show any visible impact of a poor monsoon on the quarterly performance of FMCG companies.

On an aggregate level, the net profit margin for a group of companies studied is likely to increase by 110 bps to 16.4% YoY. Most companies are likely to witness expansion in their profit margins. This is largely so because of lower raw material costs over the same period last year. Adspend is likely to remain high for most companies, as companies have aggressively chased volumes through spending on more ground level (below-the-line) marketing activities.

Raw material costs typically constitute 40-50 % of the turnover of FMCG companies. While the raw material costs are still largely lower than their year-ago levels, rising prices of agri commodities like sugar, palm oil, milk and tea pose a threat to companies' bottomlines. It is a cause for concern for most food companies such as Britannia, Nestle , Dabur and others.

HUL, the FMCG bellwether, is likely to again log a below average performance. While on a sequential basis, the company is expected to report a better performance than that witnessed in the previous quarters of this fiscal, it is still likely to emerge as the sector's largest underperformer for the December quarter.

This quarter, the company is expected to report a growth of 8% in net profit on a 9% rise in net sales. Tobacco-to-FMCG major ITC is likely to witness a healthy 18% growth in earnings on a 16% increase in turnover.

Companies such as Nestle, Dabur and GSK Consumer Healthcare are likely to post an earnings growth of more than 30%. The star performers of the sector are likely to be Godrej Consumer Products and Asian Paints. They could report almost double the profit earned on a revenues growth of more than 50%.

<http://economictimes.indiatimes.com/Top-8-FMCG-companies-may-see-23-growth-in-net-profit/articleshow/5442584.cms>

Commex turnover rises to Rs 70 lakh crore in 2009

Commodity exchanges in the country closed the year 2009 with record turnover of Rs 70,90,442 crore, up by 40.85% from Rs 50,33,872 crore in the previous year.

Higher turnover was despite ban on few farm commodities such as rice, urad, tur and sugar and delay in passing of the Forward Contracts (Regulation) Amendment (FCRA) Bill, which will not only allow options and indices but also put FMC at par with stock market regulator Sebi.

The data, compiled by commodity market regulator Forward Market Commission (FMC), showed that leading commodity exchange MCX clocked the highest business of Rs 59,56,644 crore among 24 commodity exchanges in 2009. MCX, where bullion and energy are largely traded, was able to make 39% jump in its turnover amid high volatility in gold and silver prices during last year.

The turnover of leading agri-commodity bourse NCDEX surged by over 28% to Rs 8,05,707 crore in 2009 following the re-launch of suspended commodities like chana, soya oil, potato and rubber during 2008-end.

<http://www.financialexpress.com/news/commex-turnover-rises-to-rs-70-lakh-crore-in-2009/566161/>

Farm exports surge 40% in three years

The country's farm product exports in value terms have surged by about 40% to over Rs 80,600 crore in the last three years, with foodgrain, oilmeals and fruits and vegetables witnessing maximum demand in the overseas market.

“The value of exports of the agricultural products has increased by about 40% during the last three years,” a government statement said.

The official data showed the country's farm exports stood at Rs 80,613.01 crore in the 2008-09 fiscal, compared with Rs 57,376.67 crore in the 2006-07 fiscal.

The sale of foodgrain in the overseas market jumped to Rs 15,089.80 crore from Rs 7,670.51 crore, while oilmeals shipment rose to Rs 10,269.24 crore from Rs 5,504.32 crore. Export of fruits and vegetables increased to Rs 4,399.04 crore from Rs 2,960.50 crore in the review period.

Among other commodities, the export of tobacco and spices also witnessed a sharp rise in the last three years. Tobacco shipments rose to Rs 3457.79 crore from Rs 1685.16 crore, while spices export went up to Rs 6338.13 crore from Rs 3,157.89 crore.

Export of tea and coffee rose marginally at Rs 2,687.63 crore and Rs 2,255.76 crore, respectively in the last three years.

Interestingly, agri-product export rose significantly by over 29% during 2007-08 from previous year. Comparatively, the shipments in 2008-09 grew by only 8.66%, the data showed.

<http://www.financialexpress.com/news/farm-exports-surge-40-in-three-years/567036/>

Higher volumes set to drive auto results in Q4

Following Bajaj Auto, which recorded a 189% growth in net profit, other auto companies in commercial vehicles and four and two wheeler segments are also expected to witness topline and bottomline growth for the third quarter ended December 31, 2009, on the back of higher volumes.

Easing liquidity conditions, new launches in all vehicle segments, attractive discounts and bumper sales during the festive season are major reasons for appreciable growth in the third quarter, market watchers said.

Finance has started returning to the auto sector, and to a larger extent, in the passenger vehicle segment, due to larger ticket size and lower defaults. Banks and financial institutions have reduced interest rates by almost 350-400 basis points in the last six to eight months, said Vaishali Jajoo and Shreya Gaunekar at Mumbai-based brokerage Angel Securities in their latest report. Commercial vehicles (CV) disbursements are also improving, they said. Auto giants like Maruti Suzuki, Tata Motors, Mahindra & Mahindra (M&M), TVS and Hero Honda witnessed robust volume growth in the period. The quarterly volumes of Tata Motors, including CVs and passenger cars, jumped 65.1% to 161,212 units while Maruti's surged 48.8% to 2.58 lakh units and volumes of M&M climbed 63.3% to 1.16 lakh units.

On the two-wheeler front, the volumes of Hero Honda increased 29.6% to 11.11 lakh units while TVS Motors reported a growth of 21.9% at 3.72 lakh units. In FY09, the two-wheeler segment registered 2.6% year-on-year growth, albeit on a low base. The growth story continued, with the top three two-wheeler makers (Bajaj Auto results already out) estimated to have registered 39.5% year-on-year growth in Q3 FY10, aided by robust growth in the motorcycles segment. The auto index registered a 14% jump during the quarter versus the 2% rise in the Sensex. Sentiment for auto stocks had turned positive in the current fiscal on easing concerns over lower volume growth, following the various stimuli announced by the government and the Reserve Bank to arrest the declining volumes of the industry.

The positive upturn in volume continued in the third quarter and further boosted the stocks of auto firms. Evidently, the stock prices of M&M and Tata registered a growth of 22.7% and 34% respectively during the third quarter although stocks like Maruti and Hero Honda underperformed the auto index by 22.1% and 11.1%

<http://www.financialexpress.com/news/higher-volumes-set-to-drive-auto-results-in-q4/567085/>

Global IT spend to grow 8.1% to \$1.6 trn this year: Forrester

While IT spend in the third quarter of calendar year (CY) 2009 was still down from the same period in 2008, tech purchases in CYQ4 2009 are likely to go up slightly from Q4 2008 levels, said research firm Forrester. In a report 'US and Global IT Market Outlook: Q4 2009' Forrester Research vice-president and principal analyst Andrew H Bartels forecasts that global IT spending will rise 8.1% in 2010 to more than \$1.6 trillion while US IT spending will grow 6.6% in 2010 to \$568 billion.

"In 2010, US business investment in technology goods will grow by 6.6% in Q1, 6.3% in Q2, 9.6% in Q3, and 8.6% in Q4 — more than twice as large as the nominal GDP growth rates of 2.6%, 3.4%, 3.4%, and 3% for the same quarters. The tech boom that started in the late 2007 and early 2008 will be back on track," Bartel said. This would largely be on the back of easing of the credit crunch that are allowing companies to end their capital investment freezes, opening the path to revived investments in 2010 in computer and

communications software and licensed software. Also, the fall of dollar since March 2009 has helped vendors report better revenues and this is expected to continue in 2010 as the dollar slides further.

With regard to sector growth, hardware and software will lead the charge. Measured in dollars, global purchases of computer equipment will be up 8.2%, communications equipment buying will rise by 7.6%, software spending will increase by 9.7%, purchases of IT consulting and systems integration services will grow 6.8% and IT outsourcing services will be 7.1 % higher. Europe will be the strongest performing region. The strongest growth in 2010 will be in Western and Central Europe, where tech purchases will rise by 11.2%, boosted by the dollar's decline against the euro. IT purchases Asia Pacific by 7.8%, and Latin America by 7.7%. The weakest market will be Eastern Europe, the Middle East, and Africa, rising by just 2.4%.

<http://www.financialexpress.com/news/global-it-spend-to-grow-8.1-to-1.6-trn-this-year-forrester/567088/>

Cement despatches grow 11% in Dec

Record highest growth of 12.78% sequentially as demand from infrastructure, housing rises. The 240-million-tonne domestic cement industry has returned to double-digit growth on the back of rising demand, as peak consumption season sets in.

The despatches in December were the largest so far in the current financial year at 17.74 million tonnes. With this, the industry has recorded the highest sequential growth rate at 12.78 per cent, whereas on the year-on-year (y-o-y) basis, after a gap of three months since August last year, the growth was in double digits at 10.8 per cent.

The offtake during December was higher than the industry production of 17.51 million tonnes. Industry analysts said inventories helped fulfill the demand for the building material.

The northern, eastern and central regions of the country did well. Infrastructure demand, especially from roads and power projects, fuelled demand.

<http://www.business-standard.com/india/news/cement-despatches-grow-11-in-dec/382862/>

News Round-Up

India Inc investments rising by more than 50% a year

India's leading industrial houses had been making heavy investments over the last three years. The rate of growth of their investments for the last three financial years had been in excess of 50% and their aggregate investment numbers more than doubled in the three-year phase.

A study of the investment growth of top 25 industrial houses, chosen according to sales numbers, shows the growth rate increased from 56.1% in 2007-08 to 58.1% in 2008-09. In absolute terms, the investment steadily increased from Rs 1.11 lakh crore in 2006-07 to Rs 2.73 lakh crore in 2008-09.

Thanks to the sustained investment growth, the share of investments in proportion to group assets also went up. The investment-to-assets ratio increased from 23.49% in 2006-07 to 27.52% in 2007-08 and then to 31.67% in 2008-09.

<http://www.financialexpress.com/news/india-inc-investments-rising-by-more-than-50-a-year/568113/>

Industrial growth at 2-yr high on durable stimulus

Backed by government stimulus measures and a low base effect, growth in industrial output touched a two-year high in November 2009. The index of industrial production (IIP) grew 11.7 per cent, primarily due to growth in manufacturing (12.68 per cent in November as against 2.7 per cent last year), fuelling a debate on withdrawal of fiscal and monetary stimulus measures.

Consumer durables, a sub-index of manufacturing, grew 37.3 per cent and capital goods posted 12.2 per cent growth in November 2009, as against 0.3 per cent and 0.5 per cent, respectively, in the corresponding period in 2008.

Consumer goods grew 11.06 per cent. Consumer non-durables showed deceleration of 3.14 per cent as against 12.4 per cent in November 2008. Mining and electricity also posted a growth of 9.97 per cent and 3.28 per cent, respectively, as against 0.7 per cent and 2.6 per cent last year. Basic and intermediate goods continued to post robust growth of 5.98 per cent and 19.37 per cent, respectively.

Planning Commission Deputy Chairman Montek Singh Ahluwalia said the growth in IIP in the current fiscal would be more than that achieved in the previous financial year.

“The IIP numbers indicate that the economy is out of the woods and both investment and consumption are on a recovery path,” Planning Commission member Saumitra Chaudhary said.

Overall, IIP grew a meagre 2.5 per cent during the corresponding month in 2008 and 10.35 per cent in October 2009. The cumulative IIP growth rate for April-November 2009 stands at 7.6 per cent as against 4.1 per cent in the corresponding period of 2008-09.

Economists see the numbers more as an impact of government measures and low base effect.

“The growth in industrial production underscores the impact of the government stimulus package in boosting demand, even as low base effect continues to play a role,” said Yashika Singh, head, economic analysis, Dun and Bradstreet.

“Improving consumer confidence can be seen by the growth in consumer durables sector. The growth in capital goods sector is promising and points towards restoration of investment activity. Growth in consumer non-durables continues to remain low reflecting demand dampening effect of high food inflation,” she added.

Experts feel stimulus measures should be continued for some more time and the Reserve Bank should maintain soft policy rates (repo and reverse repo). “Even though growth is much stronger than expected, credit growth has been lacklustre. So, I do not expect RBI to revise the policy rates for the time,” said Rupa Rege Nitsure, chief economist, Bank of Baroda. She added, “This, though I think CRR might be raised by around 50 basis points (in the third quarter monetary policy review), along with other non-conventional liquidity mop-up.”

Federation of Indian Chambers of Commerce (FICCI) and Industry president Harsh Pati Singhania felt the pattern of growth seen in the sub-sectors of industry indicated positive response of the industrial sector to stimulus measures and a sudden withdrawal of stimulus should be avoided.

He added that the growth numbers were in a way slow responses to the stimulus measures that were introduced in the wake of the global economic crisis. “Consumer durables growth is a result of fiscal sops introduced by the government last year and the softening interest rate regime that followed the reduction in policy rates by the central bank,” he said.

<http://www.business-standard.com/india/news/industrial-growth-at-2-yr-highdurable-stimulus/382538/>