MADISON'S TIMBER PREVIEW

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Much ballyhooed last year as 'the next China', India is currently undergoing a minor slowdown in the pace of its economic growth. The population of India is slated to surpass that of China in a few short years, more importantly that increase will carry with it a significant demographic shift. India has the fastest-growing middle class in the world. This is a middle-class looking to buy cel phones and inexpensive cars, unlike in China where the middle-class aims to move into a home with electricity.

The World Bank sees India's flat GDP growth in 2011-2012 at 6.8 per cent, to prevail until the end of 2012-13, according to Business Line Thursday. This compares with the Bank's forecast of 2.5 per cent for the global economic growth rate for calendar year 2012.

India's Economic Advisory Council to the Prime Minister (PMEAC) released its own "Review of the Economy 2011-12" at a press conference Thursday in New Delhi.

In general, the Review finds, "The effort of public policy, especially monetary policy, seems to have had its desired effect. The headline rate dropped to 9.1 per cent in November and further to 7.5 per cent in December and has dropped further in January 2012 to 6.55 per cent. The welcome developments in the easing of inflationary pressures will enable the RBI to adjust its monetary stance over the next several months. However, the continued pressure from the fiscal side will continue to impose some limitations."

The Review specifically addresses issues like investment, inflation, and federal debt payments.

"With a return of price stability, it is possible to visualize an improvement in the investment rate, notwithstanding difficult conditions in the international financial markets," says the Review. "An improvement of 1.5 to 2 percentage points of GDP can be envisioned in the fixed investment rate in 2012/13. Price stability will also normalize consumption demand. The weaker currency is likely to improve the prospects for net export demand. Under these circumstances the Council feels that the economy is likely to grow in the range of 7.5 to 8 per cent."

The Review explains that government investment in infrastructure, particularly for the transportation sector, would do the most for "expansion of economic activity across the country."

"Inflationary pressure," says the Review, "will continue to ease through 2012/13 and will remain around 5-6 per cent for the year."

The Review also states, " The Current Account Deficit (CAD) for the year 2012/13 will be 3 per cent. It will however, be judicious to try and limit the CAD over the medium term to between 2 and 2.5 per cent of GDP."

And in terms of India's deficit, the Review maintains, "The fiscal balance of the Central government in 2011/12 is likely to expand beyond its budgeted estimate of 4.6 per cent of GDP. This development has been occasioned primarily by much higher than budgeted subsidies – especially that on refined petroleum products."

Another assessment of India's economy came out Thursday, this time by CARE Ratings, a leading credit rating agency in India, with its report on economic prospects for Fiscal Years 2012 and 2013.

According to CARE, "Fiscal consolidation will restrict the ability of the government to spend in large manner as the focus shifts towards tightening. Therefore increase in growth by around 1 per cent point appears to be farily optimistic."

CARE estimates the rate of growth in 2012 is estimated at 7.1 per cent, marginally higher than the projection of 6.9 per cent of India's Central Statistical Organisation, due to better growth in agriculture and construction. Capital formation, meanwhile, is projected to slip to 29.3 per cent, a decline of almost 4 percentage points over the last four years. It had reached a peak of 32.9 per cent in 2008 then dropped to 32.3 per cent 2009, to 31.6 per cent 2010 and to 30.4 per cent last year.

In contrast to the PMEAC estimate, CARE finds that India's Balance of Payments position will be tight and current account deficit to end at 3.6 per cent for the year. In the fiscal year to date, the nominal terms of trade weighted 6-currency index fell by 14 per cent, while in terms of the inflation adjusted effective exchange rate the decline was 11 per cent.

There has, however, been some recovery against the US dollar in the course of January and February 2012, with the rupee recovering about 7.5 per cent.

Canada's Bilateral Trade with Asia Pacific, Latest Year-to-Date (C$000s)
January - September 2011

	Exports	% Change	Imports	% Change	Total Trade	% Change
China	11,342,668	33.61	34,787,739	7.67	46,130,408	13.07
Japan	7,838,808	20.28	9,107,586	-8.84	16,946,395	2.66
South Korea	3,746,800	38.72	4,969,343	13.45	8,716,143	23.09
Hong Kong, SAR	1,836,076	50.78	251,441	-7.98	2,087,517	40.01
India	1,709,899	17.93	1,861,850	22.93	3,571,749	20.48
Total	33,882,078	26.84	64,876,940	7.44	98,759,018	13.39

Source: Trade Data Online. Industry Canada.

Looking forward to 2012, CARE projects that India's economy is likely to grow between 7.5 to 8 per cent, with mining and manufacturing to show substantial improvement. Inflationary pressure, meanwhile, will ease 5-6 per cent.

"The growth projection for 2013 between 7.5-8 per cent will require a big push from consumption, investment or government spending," concludes the CARE report. "Private sector investment has slowed down and the RBI will only gradually lower interest rates during the year. The PMEAC assumes that manufacturing will rebound by 7.5 per cent in 2013 and services maintain the 9 per cent plus rate. While the latter appears to be feasible, industrial revival will be the clue to the GDP growth number."

Canada's Trade with India (C$)

	January - December		January - September	
	2009	2010	2010	2011
Exports	2,045,153,027	2,009,625,748	1,449,925,385	1,709,899,460
Imports	2,002,788,410	2,122,990,732	1,514,597,963	1,861,849,810
Trade Balance	42,364,617	-113,364,984	-64,672,578	-151,950,350

Source: Trade Data Online. Industry Canada.

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