HIGH COMMISSION OF INDIA
London
(Economic and Commerce Wing)

18th June 2012

Economic and Commercial Report on the United Kingdom for the week ending 16.06.2012

Economy

Inflation

CPI annual inflation stands at 2.8 per cent in May 2012, down from 3.0 per cent in April. The annual rate is the lowest since November 2009 when it was 1.9 per cent. The CPI stands at 122.8 in May 2012 based on 2005 = 100

The largest downward pressures to the change in CPI annual inflation between April and May came from motor fuels and food & non-alcoholic beverages

The largest upward pressures to the change in CPI annual inflation between April and May came from air and sea transport, where the timing of Easter had a significant impact on the April to May movement (see background note 1)

RPI annual inflation stands at 3.1 per cent in May, down from 3.5 per cent in April. The annual rate is the lowest since December 2009. The largest downward pressures to the change in RPI annual inflation between April and May came from petrol & oil and food. Partially offsetting these was an upward pressure from other travel costs which includes air transport. The RPI stands at 242.4 in May 2012 based on January 1987 = 100

CPI: Percentage change over 12 months

Source Officer for National Statistics, published on: 19 June 2012

Index of Production, April 2012

The seasonally adjusted Index of Production fell by 1.0 per cent in April 2012 compared with April 2011

The seasonally adjusted Index of Manufacturing fell by 0.3 per cent in April 2012 compared with April 2011
The seasonally adjusted Index of Production remained unchanged between March 2012 and April 2012
The seasonally adjusted Index of Manufacturing fell by 0.7 per cent between March 2012 and April 2012

UK Trade in Goods Analysed in Terms of Industry, Q1 2012

In Quarter 1 of 2012, the deficit on trade in goods widened by £1.3 billion to £25.5 billion, compared with the deficit of £24.2 billion in Quarter 4 of 2011.

In Quarter 1 of 2012, total exports fell by £0.4 billion (0.5 per cent) to £76.7 billion, but total imports rose by £0.4 billion (0.8 per cent) to £102.2 billion.

Bilateral Merchandise Trade (in £ million)

Year	UK Exports to India	% change	UK Imports from India	% change	Total	% change	India's Balance of Trade
2005	2798	+25.25	2781	+21.60	5579	+23.40	-17
2006	2693	-3.75	3121	+12.23	5814	+4.21	+428
2007	2968	+10.21	3809	+22.04	6777	+16.56	+841
2008	4135	+39.32	4490	+17.88	8625	+27.27	+355
2009	2941	-28.88	4558	+1.51	7499	-13.06	+1617
2010	4071	+38.42	5781	+26.83	9852	+31.38	1710
2011	5677	+40.04	6114	+4.83	11791	+19.33	+397
2012 Jan-April	1629		1849		3478		

(Source: Office for National Statistics and Overseas Trade Statistics, HM Customs & Excise)

Trade/Investment Enquiries

During the week ending 16th June 2012 the following enquiries from UK and India were received by the Economic & Commerce Wing of the High Commission apart from some enquiries over phone about procedures and regulations to do business within India:

From India

Broad Items	Number of Queries
Export of PVC Pipes	1
Export of Food product	3
Export of Pipe flanges	1
Export of Fruits and Vegetables	1

Export of Aloe Vera Products	1
Export of Handicrafts	1
Export of Agricultural Products	2
Export of Textiles	2
Export of silk yarn and products	1

From UK

Broad Items	Number of Queries
Manufacturing of feminine Sanitary care products	1
Rice milling companies in India	1
Steel tubine manufacturing in India	1

Tenders from India

Organisation	Number of Tenders
Tenders from Ordnance Factory	2

MEDIA REPORTS

Cable backs pay-offs for weak staff
FT: 11th June 2012

Vince Cable will pledge today to make it easier for employers to persuade underperforming staff to leave voluntarily in return for a pay-off. The business secretary will announce a clause in the enterprise and regulatory reform bill to facilitate "settlement agreements". Liberal Democrat ministers see this as a fairer way to deal with underperformance than the proposal by Adrian Beecroft, venture capitalist and Tory donor, to allow employers to fire at will. Settlement agreements, known as "compromise agreements", are already used by many larger businesses, but Mr Cable wants to widen their appeal by making them easier and quicker. That involves changing legislation so that the offer of a settlement, in cases where there is no existing dispute, will not be admissible as evidence in an unfair dismissal tribunal case. The idea is being promoted by Norman Lamb, employment relations minister and a former employment lawyer. Mr Lamb believes the move will make employers more confident in using the agreements. Mr Cable said: "Settlement agreements are smart, fair and pro-business reforms. which deliver results for employees and employers. "It empowers employers by enabling them to keep their workforce flexible and encouraging alternative ways of solving workplace problems as an alternative to resorting to a tribunal. But, crucially, it does so in a way that keeps the necessary protections for employees in place." The business department has just finished a call for evidence on a watered-down version of Mr Beecroft's proposal for "compensated no-fault dismissals", potentially allowing its use by employers with fewer than 10 staff. But David Cameron is set to drop the idea after opposition from Liberal Democrats. However, David Ruffley, a Conservative member of the Commons Treasury committee, said the "settlement agreement" plan went some way towards meeting the Beecroft objectives and was a sign that Mr Cable had "seen the light".

May unveils tough curbs on family migration

FT: 12th June 2012

Theresa May has announced new restrictions on family migration that aim to cut the number of people entering the UK to join their partners, parents or children by about a third each year. The measures, unveiled yesterday in parliament, include a "financial independence" requirement that sets a minimum salary threshold of £18,600 for those from outside the EU who want to bring in a spouse also from outside the EU. The figure rises to £22,400 for families with a child, with each additional child adding £2,400 to the threshold. The home secretary's policies form the last in a series of changes which are intended to bring down net migration to the UK from an annual level of 250,000 to the "tens of thousands" by 2015. The latest adjustments are expected to reduce the number of family visas granted by upto 18,600 a year. This will save the UK taxpayer £570m in health costs, £530m in benefit claims and £340m in education costs over the next decade, the Home Office predicts. Ms May told MPs: "We welcome those who wish to make a life in the UK with their family, work hard and make a contribution but family life must not be established here at the taxpayer's expense." Yvette Cooper, shadow home secretary, questioned why the government had backed away from an earlier plan of incoming migrants paying a "bond" that could be redeemed against any use of public services.

Manufacturing output falls sharply in April
FT: 13th June 2012

'Manufacturing output fell unexpectedly sharply in April as the eurozone crisis exacerbated the problems of an economy in a double dip recession. Economist's were surprised to see the official measure of manufacturing output, which accounts for about a tenth of the economy, fall 0.7 per cent between March and April. They had expected a 0.1 per cent decline. Manufacturers were the engine of the UK's economic recovery in 2010 and early 2011 but lost momentum at the end of last year amid growing turmoil in the eurozone, the country's biggest trading partner.
Simon Wells, an economist at HSBC, noted' that manufacturing output was now 2 per cent lower than in May last year. "A likely global slowdown in trade and continued uncertainty in the eurozone probably means that things will get worse before they get better," he said. The unofficial purchasing managers' index survey of the sector suggested that conditions deteriorated further in May, with activity falling at the steepest rate since 2009. However, overall industrial production - of which manufacturing accounts for two-thirds - held steady in the previous month after people turned up their heating in response to the coldest April for more than two years.

Energy groups hit at reforms
FT: 13th June 2012

Fears of political interference and a complex set of ill-defined reforms to their market are starting to threaten investment in the UK, executives from some of the country's biggest energy companies told MPs yesterday. "This country used to be seen as a fantastic energy market to invest in," said Keith Anderson, Scottish Power chief, whose company, owned by Spain's Iberdrola, is a leading UK wind farm investor and operates several coal and gas power stations. That was because "everyone had absolute faith and trust" that policy was drawn up according to independent evidence-based research, he told the energy and climate change committee. There had been an "awful lot of noise" in the past six months about "political influence" in the latest government review of renewable energy support, he said, a reference to reports that George Osborne, chancellor, was backing calls from some Conservative backbenchers to cut wind farm subsidies. "That detracts and damages confidence to invest in this market," said Mr Anderson, adding that it could make investors worry that political pressure would also affect sweeping electricity market reforms that parliament is due to debate later this year. After much consultation, the government finally published a draft energy bill last month aimed at spurring the £110bn of investment ministers say is needed over the next decade to upgrade the UK's ageing electricity infrastructure.

£100bn plan to beat 'debt storm'
FT: 15th June 2012

George Osborne last night announced plans for a £100bn support programme tor the British economy as he battened down the hatches for a worsening "eurozone debt storm". The chancellor told a City audience that he was working with Sir Mervyn King, Bank of England governor, to "deploy new firepower" amid fears turmoil in the eurozone could lead to a severe credit crunch and higher interest rates in Britain. Mr Osborne's aides spoke of a "maxing out of Plan A" - taking advantage of the country's record of fiscal discipline and credibility with the markets to unleash an aggressive monetary policy offering cheaper loans to businesses and households. Sir Mervyn also raised the prospect of a new round of quantitative easing, saying that "the case for a further monetary easing is growing". At the heart of the package is a BoE "funding for lending" scheme to cut bank funding costs in exchange for lending commitments. The Treasury claims the programme, designed to address the rising costs of loans and mortgages, could support an estimated £80bn in new loans. The scheme is to become operational "within a few weeks" and will provide long term funding for banks at below-market rates. The support will be conditional upon "the performance of banks in sustaining or expanding their lending to the UK non-financial sector during the present period of heightened uncertainty". The BoE will receive a government indemnity to undertake the scheme and lend to banks against collateral. The BoE will also today activate an emergency scheme, running for a minimum of four months that offers six-month liquidity to banks in tranches of no less than £5bn a month. The initiatives are part of what Sir Mervyn called "a textbook response" to Britain's economic woes, combining tight fiscal policy and active monetary policy.

BoE moves to unblock credit generation
FT: 14th June 2012

Sir Mervyn King, governor of the Bank of England, took aim yesterday at that part of the UK economy deemed to have been most badly broken by the financial crisis and the most difficult to repair: credit generation. Data from the BoE show that outstanding loans to the UK's private, non-financial companies - which form the backbone of the economy - have fallen by roughly £90bn, or 20 per cent, since the peak in October 2008. Lending to PNFCs has shown a year-on-year contraction every month since June 2009. Moreover, despite ultralow BoE rates, the difference between that rate and what households and businesses pay to borrow remains very wide. In recent months, it has shown signs of growing wider and for the smallest businesses; the differential is at a record. Banks say that lending is falling because businesses do not want to borrow and that rates cannot fall further because their own borrowing costs are rising. The BoE has conceded that demand is weak but concluded that if it was as weak as bankers say, spreads would be much tighter.

What Sir Mervyn sketched out, therefore, was aimed at addressing what banks claim is the single largest obstacle to the distribution of affordable finance: their own rising costs. That is in part because rules force them to hold more assets that they can sell quickly - in other words, gilts instead of loans to business - and because as their own borrowings mature, they have to pay higher rates to replace them. To combat these problems, he signaled there is scope to relax current rules that force banks to keep large stores of liquid assets. Regulators around the globe may do so, too, he said. Second, he sketched the outlines of two facilities that will allow banks to cut their own borrowing costs, with the first of these likely to be aimed at new lending. This "Funding for Lending" programme, to be unveiled in conjunction with Treasury in a few weeks and with around £80bn available, would allow banks to use new loans to business and households as collateral.

Osborne plays his hand with growth strategy
FT: 15th June 2012

George Osborne claims that for two years he has been banking economic credibility. Last night at Mansion House, the chancellor made it plain that he is about to start spending it. With Britain languishing in recession and pressure mounting on all sides for the chancellor to come up with a more aggressive growth strategy, Mr Osborne finally played his hand. The result is a support progarmme for the UK economy which the Treasury believes could top £100bn, a package intended to tackle the economy's present woes and act as insurance against a possible eurozone meltdown. A £5bn monthly liquidity injection is intended to keep banks functioning and a new "funding for lending" scheme is supposed to support £80bn of cheaper credit. More quantitative easing could be on the way. Mr Osborne's message to his City audience was clear: the Bank of England can only operate this ambitious emergency support operation because of the credibility he has built up that Britain's public finances are sound. "In May 2010 the UK's cost of borrowing tracked Italy and Spain; today Spain's borrowing costs hit a record 7 per cent; Italy is borrowing at more than 6 per cent; while our 10-year gilt rates are just 1.7 per cent," he said. "The credibility we have enables us to do a great deal more than some other countries at present." This mix of tight fiscal policy and active monetary policy was described by Sir Mervyn King, governor of the BoE, as a "textbook response".

Trade deficit widens in April
FT: 16th June 2012

The outlook for the UK economy turned gloomier as exports showed a sharp and unexpected decline in April amid slowing overseas car sales, while the construction industry also suffered. The Office for National Statistics said the UK's trade-in-goods deficit widened to £10.1bn in April from £8.7bn in March, with car exports down markedly because of weaker demand from buyers outside the eurozone, according to yesterday’s release. The decline in car exports to the US, China and Russia was notable. "There are no bright spots for UK exporters it seems, with demand weakening across the board in overseas markets, from Asia through to the Americas," said Chris Williamson, Chief economist at Markit. Total output in the construction sector for April fell to £7.8bn, from a revised, 9bn in March - a drop of 13.2 per cent month on month. Several economists noted that the fall in construction was sharper than that seen in April 2011 and added that Britain's economy would struggle to show growth in the second quarter of this year. The effect of an additional holiday for the Queen's diamond jubilee had made calculations for the quarter problematic, said Richard Barwell, economist at Royal Bank of Scotland. Many had expected some growth in gross domestic product after the contraction in the first quarter of this year. "Coupled with recent bad news on production in April we think it is game over for the second quarter," Mr Barwell said. But economists said the trade figures were particularly worrying. While they had expected that sales of goods to the eurozone would be hit, the slowdown in sales to non-EU nations had been expected to offset these.

Events

Renewable Energy Investor Meet in London

Dr. Farooq Abdullah, Union Minister of New and Renewable Energy (NRE) addressed a gathering of over 40 international investors in London on 12th June 2012. He urged the investors to invest in the Indian Renewable Energy sector and support India’s quest for a low-carbon and environmentally sustainable growth path. He told the investors that India today stands among the top five countries in terms of renewable energy capacity, with an installed base of over 25,000 MW, which is around 12.5% of the total power generation capacity, contributing to about 6 per cent in the electricity mix. Dr. Abdullah informed the investors of India’s decision to increase the share of renewable energy in power production during the 12th Plan period by increasing the installed capacity by about 30,000 MW for which India would require investment of US$50bn. The investments will be for the development of Off-shore Wind, CSP Solar, Wind Forecasting, Storage Technologies and Smart Grid, which shall together catapult the Renewable sector into a new growth orbit, making it a practical alternative to the existing fossil fuel based energy technologies. The Minister also announced that the NRE Ministry is setting up an Investment Promotion Cell to provide a single point of contact for information dissemination on potential of renewable energy, and policies and incentives for their development.

Dr. Farooq Abdullah was accompanied by a delegation of senior officials including Secretary NRE, Chairman of IREDA and senior officials of IDFC. The Minister held a number of meetings in London including bilateral meeting with Mr. Gregory Barker, UK Minister for Energy and Climate Change and discussed collaboration in renewable and low carbon energy between the two countries. The delegation also visited the Fuel Cell project in the Imperial College and participated in the Off-Shore Wind Energy exhibition at the Excel exhibition centre in London.

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