CONSULATE GENERAL OF INDIA
SAN FRANCISCO

MONTHLY COMMERCIAL REPORT July – 2013

Important Commercial News – July 2013

1 U.S. INTERNATIONAL TRADE IN GOODS AND SERVICES

Goods and Services

- Exports decreased to $187.1 billion in May from $187.6 billion in April (revised). Goods were $130.3 billion in May, down from $131.1 billion in April. Services were $56.8 billion in May, up from $56.4 billion in April.

- Imports increased to $232.1 billion in May from $227.7 billion in April (revised). Goods were $193.7 billion in May, up from $189.5 billion in April. Services were $38.4 billion in May, up from $38.2 billion in April.

- For goods, the deficit was $63.4 billion in May, up from $58.4 billion in April (revised). For services, the surplus increased $0.2 billion from April (revised) to $18.4 billion.

Goods by Category (Census basis)

- The April to May decrease in exports of goods reflected decreases in *consumer goods* ($1.2 billion); *industrial supplies and materials* ($0.9 billion); and *foods, feeds, and beverages* ($0.1 billion). Increases occurred in *capital goods* ($0.8 billion); *automotive vehicles, parts, and engines* ($0.3 billion); and *other goods* ($0.2 billion).

- The April to May increase in imports of goods reflected increases in *industrial supplies and materials* ($1.0 billion); *consumer goods* ($1.0 billion); *automotive vehicles, parts, and engines* ($0.8 billion); *other goods* ($0.5 billion); *foods, feeds, and beverages* ($0.4 billion); and *capital goods* ($0.3 billion).

Services by Category

- Exports of services increased $0.4 billion from April to May. The increase was mostly accounted for by increases in *other private services* ($0.2 billion), which includes items such as business, professional, and technical services, insurance services, and financial services, and in *passenger fares* ($0.1 billion). Changes in the other categories of services exports were relatively small.

- Imports of services increased $0.2 billion from April to May. The increase was mostly accounted for by increases in *passenger fares* ($0.1 billion) and in *travel* ($0.1 billion). Changes in the other categories of services imports were relatively small.

May Total Trade

Rank	Country	Exports	Imports	Total Trade	Percent of Total Trade
---	**Total, All Countries**	**133.0**	**196.8**	**329.8**	**100.0%**
---	**Total, Top 15 Countries**	**90.8**	**147.2**	**238.0**	**72.2%**
1	Canada	26.5	28.3	54.8	16.6%
2	China	8.8	36.6	45.4	13.8%
3	Mexico	19.2	24.5	43.8	13.3%
4	Japan	5.8	11.2	17.0	5.1%
5	Germany	4.1	9.9	13.9	4.2%
6	Korea, South	3.2	5.7	8.9	2.7%
7	United Kingdom	4.1	4.6	8.7	2.6%
8	Saudi Arabia	1.8	4.5	6.3	1.9%
9	France	2.6	3.6	6.2	1.9%
10	India	1.9	4.2	6.1	1.9%
11	Brazil	3.4	2.6	6.0	1.8%
12	Taiwan	2.2	3.5	5.7	1.7%
13	Switzerland	2.2	3.2	5.4	1.6%
14	Netherlands	3.4	1.5	5.0	1.5%
15	Italy	1.6	3.3	4.9	1.5%

2 Inflation shows signs of stability after downward drift

Consumer prices picked up in June and underlying inflation pressures showed signs of stabilizing; keeping on course expectations the Federal Reserve will start reducing its bond purchases later this year. While inflation remains benign, the increase last month should help ease worries among some Fed officials that price pressures in the economy were too low.

"Inflation is carving out a bottom. We are likely to see inflation tick up slightly in the second half of this year," said Ryan Sweet, a senior economist at Moody's Analytics in West Chester, Pennsylvania. "The modest acceleration is welcome news for the Fed." The Labor Department said, its Consumer Price Index increased 0.5 percent, the largest gain since February, after nudging up 0.1 percent in May. A 6.3 percent surge in gasoline prices accounted for about two thirds of the increase.

In the 12 months through June, the CPI advanced 1.8 percent, an acceleration from the 1.4 percent logged in the period through May and the largest increase since February. Stripping out energy and food, consumer prices increased 0.2 percent for a second straight month.

That took the increase over the past 12 months to 1.6 percent, the smallest rise since June 2011. The core CPI had gained 1.7 percent in May. Although both inflation measures remain below the Federal Reserve's 2 percent target, the report showed signs of fading disinflation pressures, with medical care costs increasing after being subdued for the past two months.

Prices for new motor vehicles, apparel and household furnishings also rose. The signs of stabilization offered by the monthly core measure fit in with Fed Chairman Ben Bernanke's assessment that a downward drift in the inflation rate was temporary. Bernanke said last month the central bank would likely later this year start cutting back the $85 billion in bonds it is purchasing each month to keep borrowing costs low. Economists expect the Fed to begin reducing the amount in September.

"The lack of further slowing in core inflation on a monthly basis in the last two months helps keep Fed tapering on track," said Jim O'Sullivan, chief U.S. economist at High Frequency Economics in Valhalla, New York.

3 BETTER GROWTH PROSPECTS

While the year-on-year core CPI rate could slip further in coming months, it should reverse course as economic growth accelerates over the last half of the year, economists said.

They expect a drop in unemployment to boost wage growth. That optimism about the economy's prospects was bolstered by a separate report from the Fed showing output at the nation's factories, mines and utilities rose 0.3 percent in June after a flat reading in May.

The increase reflected a 0.3 percent rise in manufacturing output. Economists said it suggested some pickup in economic activity at the end of the second quarter. Growth in the April-June period is forecast at an annual pace of between 0.5 percent and 1.0 percent, far below the first-quarter's 1.8 percent rate.

"If manufacturing growth is on the verge of accelerating into the second half of the year, this, along with solid gains in housing, should support growth in the second half of 2013," said John Ryding, chief economist at RDQ Economics in New York.

Another report showed confidence among single-family home builders soared to a 7-1/2 year high in July, amid expectations of stronger sales and buyer traffic. U.S. financial markets were little moved by the data as investors awaited testimony Bernanke is set to deliver to Congress on the economy. Tepid growth has kept a lid on inflation pressures, but some pockets of pricing power are starting to emerge.

Last month, owners' equivalent rent, which accounts for about a third of the core CPI, increased 0.2 percent after a similar gain in May. Apparel prices recorded their largest increase in nearly two years, while new motor vehicle prices rose after being flat in May. Medical care services rose 0.4 percent, the largest increase in a year. Medical care, which makes up about 10 percent of the core CPI, had been subdued in April and May. The cost of medical care commodities rebounded 0.5 percent, reversing the prior month's decline, as the price of prescription drugs increased. Tame medical care costs have been one of the key contributors to the low inflation rate over the past months.

Economists cite a host of reasons for the lack of pressure on health care costs, ranging from the expiration of patents on several popular prescription drugs to government spending cuts that have cut payments to doctors and hospitals for Medicare. "We think the impact of these transitions has started to fade away and we expect that drug price inflation may start to pick up over the months ahead," said Ryan Wang, a U.S. economist at HSBC in New York.

4 <u>US State, Local Officials Seek Indian Business Partners</u>

At least eight US governors and mayors have scheduled visits to India this year in an effort to tap into the country's developing economy and explore trade and investment opportunities.

"Our state officials increasingly understand that as the fastest-growing market for US exports, India provides significant opportunities to drive US job growth and bring economic opportunity to the American workforce," said Robert Blake, US Assistant Secretary of State for South and Central Asia, at a recent presentation at the University of California's Berkeley Institute of International Studies.

Blake went on to cite a 2012 report by the Confederation of Indian Industry (CII) that said Indian companies in the US had invested more than $820 million in developing their US facilities, while collectively forging 72 mergers and acquisitions since 2005, and making investments in research and development activities forecasted to reach as much as $190 million this year alone.

Impressive growth, but there are challenges to be faced, he said.

India's expanding economic base, from high-technology and media to finance and tourism, would be more attractive, commented Blake, "if the Indian

Government addresses policy and regulatory restrictions that constrain imports from the United States and elsewhere."

The country, he added, "faces enormous resource constraints, particularly in infrastructure. Current estimates suggest that 80 percent of the infrastructure required to sustain and support India in 2030 has yet to be built," he said.

Reviewing the US-India trade relationship overall, "there is perhaps no nation in the world that's traveled faster and farther over the last fifteen years than India," said Blake. "Over the past decade, bilateral trade between the two countries has nearly quadrupled, reaching nearly $100 billion last year.

Indian companies operating in the US "are adding tremendous value to the local economies in which they operate, the most tangible effects of which are felt at the state and county levels," said Blake. "That's why one of our top priorities in building the partnership with India is to expand state-and local-level engagement."

One example of "building the partnership" was a successful six-day, 100-member trade mission by officials from the state of Maryland to India in 2011. Headed by Gov. Martin O'Malley and Maryland Department of Business and Economic Development Secretary Christian S. Johansson, the mission's visit to Mumbai resulted in an agreement between the state and the US-India Importers Council (USIIC) committing the two regions to boost trade.

The Council was created to support Indian companies that import goods and services from the US with the goal of doubling US exports to India over the next five years.

As part of the agreement, Maryland and India pledged "to collaborate in business, trade and economic relations and assist companies in both regions with connecting to potential trade partners."

Another is the US-India Partnership to Advance Clean Energy, initiated in 2009, which has mobilized more than $1.7 billion in public and private resources for clean energy projects in India.

California isn’t far off the curve. Gov. Jerry Brown has said he will visit India later this year to promote the state. Considered by some to be a nation in its own right, the state already exports goods and services to India valued at more than $3.7 billion annually.

Yet, despite the challenges, he concluded, “businesses and citizens on both sides are recognizing the benefits of increased partnership,” he concluded.

5 From copper to cameras; feeling the heat from China slowdown

China's manufacturing engine lost further momentum in July and the job market weakened, a survey showed on July 24, 2013, complicating a transition to consumer-driven growth and boding ill for so many leveraged to the world's second-largest economy.

The knock-on effects are already being felt farther a field - from a slowdown in Japanese export growth despite a weaker yen to Apple Inc lamenting a rare drop in Chinese demand for its premium brand of gadgets.

"China's slowdown is starting to become more dangerous," warned Yasuo Yamamoto, a senior economist at Mizuho Research Institute in Tokyo.

Since taking office in March, China's new leaders have said they are prepared to tolerate tamer growth and push a restructuring of the economy toward domestic consumption, but there have been mixed messages on how much of a slowing they would tolerate. The flow of data suggests their task of changing the shape of the massive economy will only get harder.

July 24th's flash HSBC/Market Purchasing Managers' Index showed output, employment and new orders all declining at a faster pace in July. The overall index of business conditions fell to 47.7 from June's final reading of 48.2, a third straight month below the watershed 50 line which divides expansion from contraction, and the weakest level since August 2012.

The employment sub-index slid to 47.3 in July, the weakest since the depths of the global financial crisis in early 2009. "This print could reignite fears of a Chinese hard landing," said Annette Beacher, head of Asia-Pacific research at TD Securities in Singapore. "We expect economic growth to continue moderating towards 7 percent."

China's economy grew 7.5 percent in April-June from a year earlier, the ninth quarter of slowdown in the past 10 quarters. While top leaders have stressed in recent weeks that reform is the priority - the latest being President Xi Jinping - they were also at pains to assure investors that Beijing would not allow the economy to slip too far.

The industry ministry said it was putting a priority on restructuring and reforming traditional industries such as steel, shipbuilding, cement and aluminium, once drivers of growth, but now plagued with overcapacity.

A GLOBAL DRAG

Some analysts note China is also hostage to the health of global markets.

"China cannot change its weak economic growth situation due to still weak external demand and overcapacity problems in the domestic market," said Wang Jian, a senior researcher with the China Society of Macroeconomics, a research body affiliated with the National Development and Reform Commission (NDRC).

"China's economic growth rate will probably fall below 7 percent in the fourth quarter this year and may fall under 6 percent in some quarter next year," Wang wrote in the China Securities Journal on Wednesday.

While that's at the extreme end of market forecasts, China has become such a major importer of goods that any weakness in demand is increasingly felt worldwide. Japan reported annual growth in its exports to China eased to 4.8 percent in June from 8.3 percent in May, and camera maker Canon Inc trimmed its sales targets and annual profit forecast, blaming the China slowdown.

"Chinese consumers tend to be very fond of cameras, especially high-end ones such as SLRs, but an economic slowdown has hit just as sales were recovering from last year," Chief Financial Officer Toshizo Tanaka told an earnings briefing.

In the United States, Apple reported quarterly revenues from Greater China dived 43 percent from the previous quarter, and fell 14 percent from the same time last year - an abrupt turnaround for the Silicon Valley giant which has come to count on endless growth in the world's biggest smartphone market. The country accounted for 13 percent of all Apple's April-June sales, up 10-fold in the past four years but down from nearly 19 percent in the previous quarter.

The same goes for commodity exporters. China consumes around half of the world's iron ore and coal and 30-40 percent of global production of base metals such as copper.

London copper futures briefly fell from 1-month peaks in the wake of Wednesday's China data, while the Australian dollar took a knock as China is the country's single biggest export market.

"It adds to the concern about the outlook for demand, and brings into question just how strong Chinese commodities demand will be," said Alexandra Knight, economist at National Australia Bank.

6 Forever 21 makes its Indian comeback

Forever 21, a premium apparel brand from the US, is set to make a comeback after fading away in its initial foray into India in 2010.

The Los Angeles-based brand, which is partnering DLF Brands in its second coming, plans to open 40 to 50 stores in the next five years. In keeping with Indian sensibilities, the brand has slashed its entry-level prices by over 20% from the tags that it sported in its first time.

“In India, Forever 21 aims to impress middle-class customers with offerings starting at just R180,” said Timmy Sarna, managing director, DLF Brands. DLF is the 51:49 majority stake holder in the new partnership.

“We plan to open six to 10 stores every year, where the store size would vary between 8,000 square feet and 20,000 square feet,” Sarna said. In California, the

Forever 21 brand showcases huge boutique stores averaging over 150,000 square feet in size. The brand has seven retail outlets in Delhi and Mumbai as of now. In its 2010 foray, Forever 21 had partnered West Asia-based Sharaf Retail group, and had just one store.

DLF Brands is a subsidiary of real estate giant DLF, and operates 150 single-brand stores for global brands such as Mothercare, Boggi, Ferragamo and DKNY through joint ventures or long-term franchise deals.

The company is targeting Rs. 1,000 crore revenues in the next three years. “The uncertainty in Indian political and macro-economic scenario is slowing up investments in multi-brand retail segment,” Sarna said. “However, our targets are intact as single brand retail has not been impacted and we haven’t seen any impact on footfalls till now.”

7 U.S. Trade Hails India's Preferential Market Access Policy Review

A leading U.S. trade association, seeking stronger commercial relations with India, has welcomed the Indian government's decision to review the preferential market access (PMA) policy for domestically manufactured electronic goods.

The U.S.-India Business Council (USIBC) comprised of more than 350 of the top-tier U.S. and Indian companies said it has consistently argued for market-based incentives, not mandates, to encourage manufacturing in India.

Specifically, USIBC supports carving out the private sector from any preferential market access manufacturing policy being considered by the Indian government, it said.

"India's rethink of its PMA policy sends a strong and welcome signal that India is listening to investors and that channels of communication through organizations such as the US-India Business Council are working," USIBC President Ron Somers said

"There are many US companies manufacturing in India, and they want to expand," said Somers. "But they want to do so based on market-based "principles, including adequate infrastructure, business-friendly policies, and access to a skilled workforce -all elements associated with a free-market economy. A mandated approach will only drive job creators away."

USIBC noted the entire PMA policy will be reviewed and will not impose domestic manufacturing requirements on the private sector. India's Department of Electronics and Information Technology (DEITY) is expected to draft a revised policy in the next four weeks.

USIBC had urged India to reconsider its policy to mandate manufacturing of electronic goods in India with the aim of creating jobs in India, and to prevent any security breaches to India's vast telecom and IT sector. Arguing that the "flawed policy" would not help in either case, American firms and USIBC had argued that any reference to private sector mandates should be excised from any policy.

Regarding security, USIBC has suggested that high-level dialogues be convened to share best practices and protocols about how India and the United States can bolster security.

8 Visit California conducts multi-city seminars for Indian travel trade

Continuing its commitment to the Indian market, Visit California has conducted several educational seminars in tier I and tier II cities. These educational seminars were held in the cities of Delhi, Mumbai, Chennai, Bangalore, Pune, Ahmadabad, Kolkata, Chandigarh and Hyderabad. Over 12,000 travel agents were trained during the period of July 2012 to June 2013. The objective of these seminars is to focus on expanding and strengthening the Indian travel industry's knowledge on California, help in creating customized itineraries for their clients and to maintain a positive relationship and ongoing engagement with the travel trade industry.

The training topics include California's distinctive twelve regions, attractions, beaches, lifestyle, entertainment, and shopping, self-drive and outdoor activities. The most essential strategy of these seminars was to educate travel trade that California is a year around destination with diverse experiences to offer to Indian consumers.

India is among the fastest growing emerging travel markets for California and Visit California has been active in the market since 2009. In 2011, India ranked

the eighth largest overseas market by volume for California with 194,000 visitors, which is 5 per cent growth over 2010 visitation.

9 <u>Trade Delegations</u>:

a No trade related delegation visited the jurisdiction of this Post from India during this month.

b No trade delegation visited India from the jurisdiction of this post during this month.

10 <u>Business and Tourist visas</u>

During the month of July 2013 this Post issued **714** Business visas and **2804** Tourist visas.

11 <u>Trade Enquiries:</u>

Following individuals/ companies approached this Consulate for trade related queries and each one of them were given appropriate replies.

a Dr. Sanjeev Arora, Arizona
b Vaikundam Associates, Bangalore
c DT Exports, New Delhi
d Jolly Industries, Ludhiana
e Venus Industrial Corporation, Ludhiana
f Harsha Exports, Chennai
g Mr. Mahesh Patel, California
h Mr. Michael Risdell, California
i Mr. Ghazi Jamshed, California
J Mr. Madhan Santhanam, California
K Mr. Amit Bagthalia, Rajkot

l Mr. Kosha Patel, Ahmedabad
m Ms Chamkaur Brar, California
n Om Sai Sourcing, Noida

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