

MONTHLY UPDATE
JANUARY 2018



UNION BUDGET

2018-19

**BIG THRUST ON
INFRASTRUCTURE
& SOCIAL SECTOR
DEVELOPMENT**



GLOBAL UPDATE

BLOODBATH AT THE DOW

Even though the Dow Jones Industrial Average recovered by 7 February, 5 February 2018 was one of the worst days the US markets have seen since 2011. The fall in the markets was largely on the back of a healthy wage growth, which is a good thing, but it also signals that a rise in inflation is in the offing. This coupled with the fact that the yield of 10-year Treasury notes jumped to its highest point since early 2014. The fall was so severe that at one point the Dow fell over 1,500 points to close the day down 1,175 points, a fall of 4.6% in a single day.

HIGHER RATES IN THE OFFING: BANK OF ENGLAND

Even though the Bank of England has maintained status

quo on interest rates, it has given enough indications that a rate hike is in the offing. As of now, the Bank of England has kept interest rates at 0.5%. It is worth noting that the Bank of England had for the first time in 10 years, in November 2017, raised the cost of borrowing from 0.25% to 0.5%.

BANK OF JAPAN HOLDS ON TO INTEREST RATES

In line with market expectations, the Bank of Japan (BOJ) maintained status quo on interest rates in its meeting held in January 2018. As a result, the short-term policy rate was left unchanged at negative 0.1% and the 10-year yield target around 0%. Japan's central bank expects inflation to reach 2% by fiscal 2019. BOJ expects consumer prices, excluding food prices, to go up by 1.4% in fiscal 2018 and by 1.8% in the 2019 fiscal.

UK UNEMPLOYMENT RATE COULD GO BELOW 4%

The lowest the unemployment rate in the UK has gone in recent history was in 1973 when it hit 3.4%. This time around most forecasters are of the view that the unemployment rate will be around 4.3%; however, Michael Saunders, an external member of the Bank of England's Monetary Policy (MPC) thinks otherwise. As per Saunders, the unemployment rate could go sub 4%.

IMPROVED OUTLOOK FOR SAUDI ARABIA: IMF

In a recent move, the International Monetary Fund improved the growth projection for Saudi Arabia. The growth projection for Saudi Arabia was improved largely on the back of high

oil prices but the international lending agency retained its estimates for the region. As per the IMF, the economy of Saudi Arabia contracted by 0.07% last year. The international lending agency however, feels that the economy should grow by 1.6% in 2018. Further in 2019, the economy of Saudi Arabia is expected to grow by 2.2%.

CANADA, THE MOST EDUCATED COUNTRY: OECD

As per a recent study by the Organisation for Economic Co-operation and Development (OECD), Canada is the most educated country, followed by Japan, Israel and Korea. Interestingly, countries like the United Kingdom and United States of America are 5th and 6th in the rankings. Other countries in the top 10 are Australia, Finland, Norway and Luxembourg.



INDIA UPDATE

ECONOMY TO GROW BETWEEN 7-7.5 IN 2018-19: ECONOMIC SURVEY 2017-18

The Economic Survey, which was tabled in the Parliament on 29 January 2018, suggested that the economy was in the pink of health. During FY 2017-18, the real GDP growth is expected to reach 6.75% and is expected to grow between 7-7.5% in 2018-19. The survey made a special note of the fact that as a result of a slew of reforms that were introduced, the economy started to accelerate in the second half of the year. Agriculture, industry and service sectors are expected to grow at the rate of 2.1%, 4.4% and 8.3%, respectively, in 2017-18. After remaining in the negative territory for a couple of years, growth of exports rebounded and turned positive in 2016-17, and is expected to grow at a much faster rate in 2017-18. The survey makes note of the point that GDP growth in India between 2014-15 to 2017-18, averaged 7.3%, which is among the highest growth rates among major economies

in the world. The survey however, does make a mention of the fact that increasing crude oil prices in the international market could dampen GDP growth in the coming year. As per the survey, focus areas in the medium term will be employment, education and agriculture.

MAJOR PUSH TO AGRICULTURE

Taking cues from the Economic Survey, the Union Budget 2018-19 had a lot to offer to the farm sector. In his budget speech, Arun Jaitely, the Union Finance Minister, stated, "We consider agriculture as an enterprise and want to help farmers produce more from the same land parcel at lesser cost and simultaneously realise higher prices for their produce." To meet this objective, the Union Finance Minister put forth many proposals like the government's decision to keep the minimum support price (MSP) for all unannounced crops of kharif season at least at one and a half times of the cost of their production cost. The Union Budget also spoke of setting

up of an Agri-Market Infrastructure Fund for developing and upgrading agriculture marketing infrastructure.

RBI MAINTAINS STATUS QUO ON POLICY RATES

In its sixth bi-monthly Monetary Policy Statement 2017-18, the Reserve Bank of India held on to key rates. Thus, the repo rate under the liquidity adjustment facility (LAF) remains unchanged at 6%. Further, the reverse repo rate under LAF remains unchanged at 5.75% and the marginal standing facility (MSF) rate and the Bank Rate at 6.25%. The RBI has however, raised concerns about the future growth outlook and inflation. In its statement, the banking regulator stated that the inflation outlook beyond the current year is likely to be shaped by several factors. Prominent among them are international crude oil prices, non-oil industrial raw material prices and the monsoon. Against this backdrop, CPI inflation for 2018-19 is estimated to be between 5.1%-5.6%. Further, the GVA growth for 2018-19 is projected at 7.2%.

TAX EVADERS BEWARE; THE INCOME TAX DEPARTMENT IS HITTING HARD

The Income Tax Department has started criminal proceedings against a large number of tax evaders. Criminal proceedings have been initiated against offences like wilful attempt to evade tax or payment of any tax; wilful failure in filing returns of income; false statement in verification and failure to deposit the tax deducted/collected at source or inordinate delay in doing so. The Income Tax Department, during FY 2017, till end November had filed prosecution complaints in 2,225 cases. The number of complaints compounded by the Department during the current FY (till end of November) stands at 1,052.

POSITIVE GROWTH AT MAJOR PORTS BETWEEN APRIL-DECEMBER 2017

The 8 major ports in the country [Kolkata (incl. Haldia), Paradip, Visakhapatnam, Chennai, Cochin, New Mangalore, JNPT and Kandla] recorded a growth of 3.64% and together handled 499.41 mn tonnes of cargo during the period April-December 2017 as against 481.87 mn tonnes handled during the corresponding period of the previous year. With regards the cargo handled at these 8 major ports, the highest growth was registered by Cochin Port (17.27%). Paradip (14.59%) came a close second and was followed by Kolkata (12.45%), New Mangalore (6.60%) and JNPT (5.94%). Kolkata Dock System (KDS) registered traffic growth of 1.92%. Whereas Haldia Dock Complex (HDC) registered positive growth of 17.67%.

ATAL PENSION YOJANA HAS OVER 80 LAKH SUBSCRIBERS

Swavalamban Yojana also known as Atal Pension Yojana (APY) is the pension scheme of the Government of India for the unorganised sector. This pension scheme started on 1 June 2015 and is available to all Indian citizens between 18-40 years. Under this scheme, a subscriber will receive a minimum guaranteed pension of INR 1,000-5,000 per month, depending on the contributions, after he/she reaches 60 years. On the demise of the subscriber and the spouse, the accumulated wealth will be given to the nominee. The investment pattern of the APY scheme is the same as applicable to the NPS contribution of Central Government employees. In FY 2017, it earned a return of 13.91%. The number of subscribers under the APY has now crossed 80 lakh.

INSURANCE FOR RAILWAY PASSENGERS

The next time you book a railway ticket through www.irctc.co.in and look into the breakup of the total fare that needs to be paid, you will realise that you have also been charged a small fee of ₹0.92. This is towards the premium that you have been charged for the accident insurance that the railways offer. Below mentioned are the details of the accident insurance scheme.

The sum assured to be given to victim/family or legal heir of the victim are as follows:

- In case of death: ₹10 lakh,
- Permanent total disability: ₹10 lakh,
- Permanent partial disability up to: ₹7.5 lakh,
- Hospitalisation expenses for injury: ₹2 lakh,
- Transportation of mortal remains: ₹10 thousand.

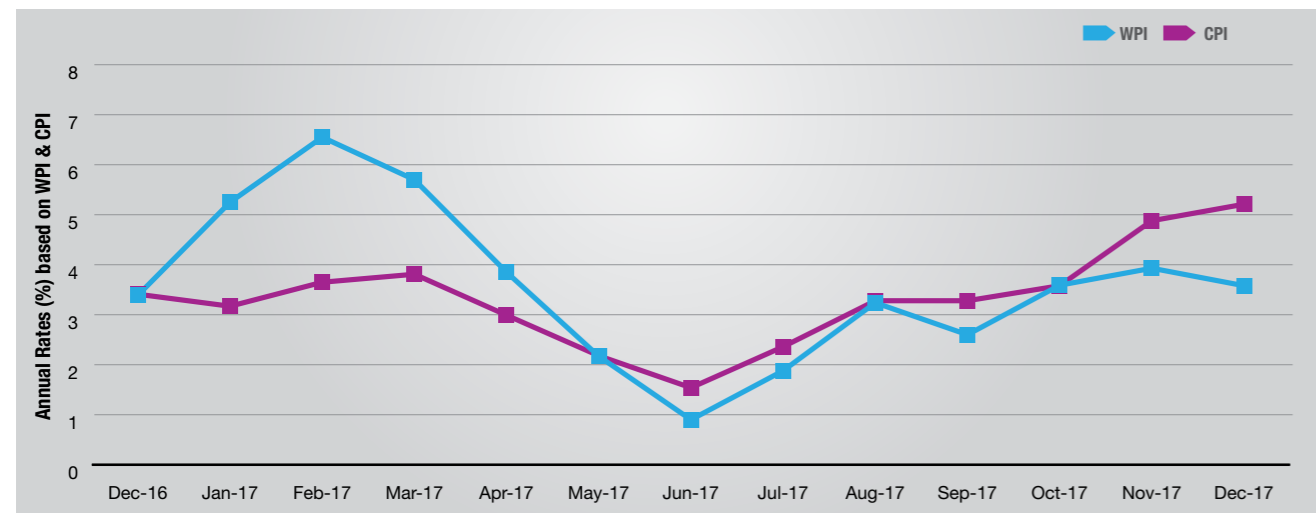
ECONOMIC UPDATE

PMI SLIPS IN JANUARY

The Nikkei India Manufacturing Purchasing Managers' Index (PMI), which grew at the fastest rate in five years in December 2017, slipped in January 2018. From a five-year high of 54.7 in December 2017, the index has slipped to 52.4. Even though the PMI has contracted in January 2018, compared to the previous month, it is still above 50. A reading above 50 denotes expansion and one below it signals contraction.

CPI CONTINUES ITS NORTHWARD MARCH

INFLATION

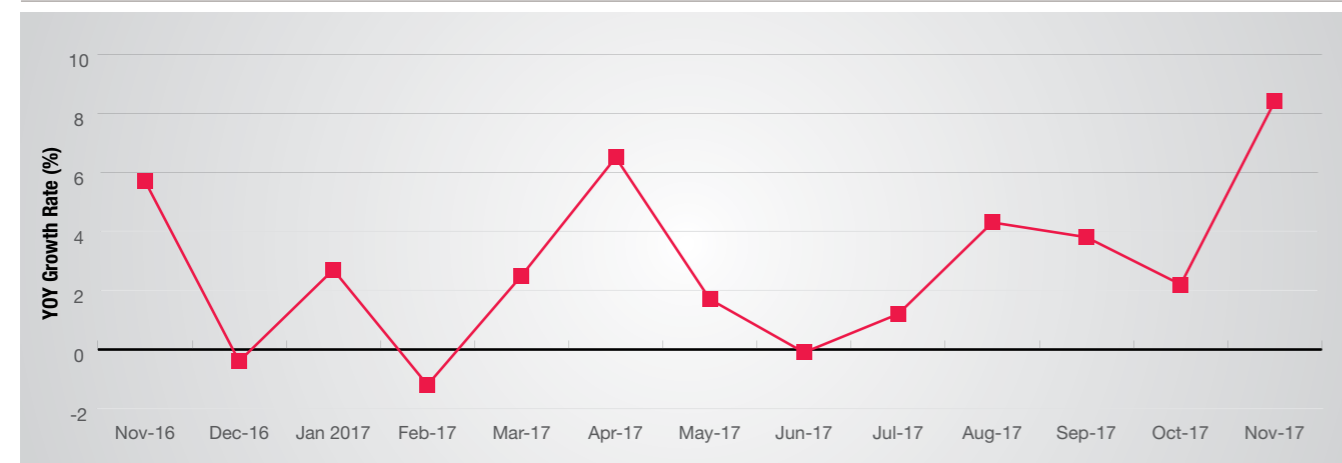


Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Government of India

The CPI after having hit a low of 1.54% in June 2017 has been on its way up since then. In November, the CPI hit a 15-month high of 4.88%. In December, the northward march of the CPI intensified further and it hit a 17-month high of 5.21%. The consumer food price index too hit a high of 4.96% in December 2017 compared to 4.42% in the previous month. The only sub category that witnessed a drop in prices, in December 2017, compared to the same period last year was pulses. Prices of pulses and products dropped by 23.47%, the fall was however more pronounced in urban areas. All other major groups and sub groups witnessed an increase in prices in December 2017, compared to the same period last year. The sub category of vegetables witnessed the maximum increase of 29.13% in December 2017 compared to the same period last year. Among major groups that witnessed an increase in prices in December are housing (8.35%), fuel and light (7.90%), pan, tobacco and intoxicants (7.76%), food and beverages (4.85%) and clothing and footwear (4.80%). Compared to CPI, the WPI however, eased a bit in December 2017 compared to the previous month. After having moved up to 3.93%, in November, the growth rate of WPI cooled down to 3.58%, largely on the back of declining prices of vegetables.

IIP'S MOST IMPRESSIVE SHOW IN RECENT YEARS

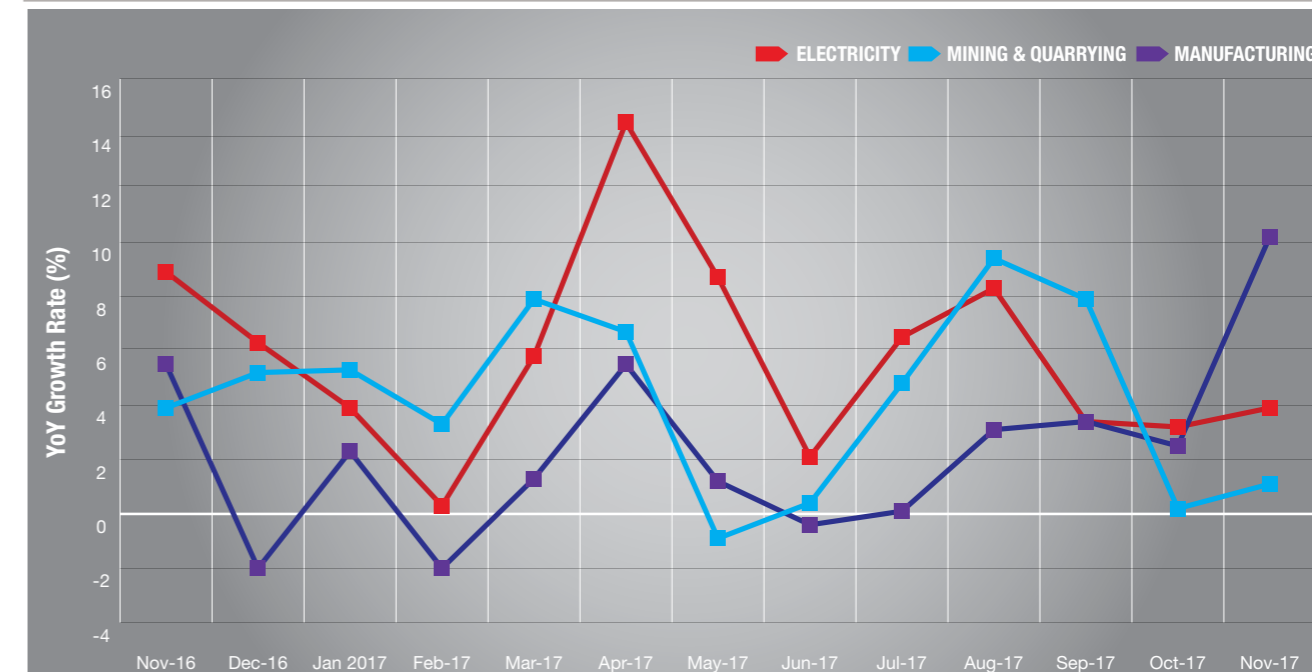
IIP (GENERAL INDEX)



Source: Ministry of Statistics and Programme Implementation, Government of India

The growth rate of the IIP, which had been slowing down after hitting a high of 4.3% in August, registered its most impressive growth in recent times. In November 2017, the IIP registered a growth of 8.4%.

IIP (SECTOR WISE)

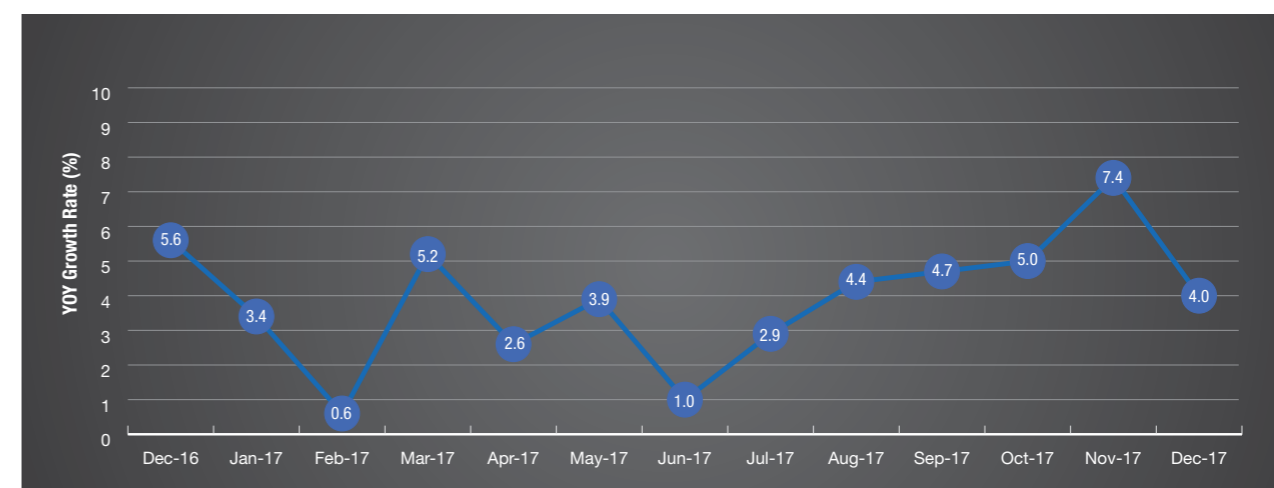


Source: Ministry of Statistics and Programme Implementation, Government of India

The impressive growth rate of the IIP, in November 2017, was largely on the back of a healthy growth rate registered by manufacturing, which witnessed an impressive growth of 10.2% in November 2017. This double digit growth registered by the manufacturing sector has been the highest that the sector has registered in recent times. The growth rate of other sectors too was a marked improvement from the previous month, i.e. October 2017. The electricity sector grew by 3.9%, while the mining sector grew by 1.1%.

POOR SHOW BY THE CORE SECTOR

INDEX OF EIGHT CORE INDUSTRIES

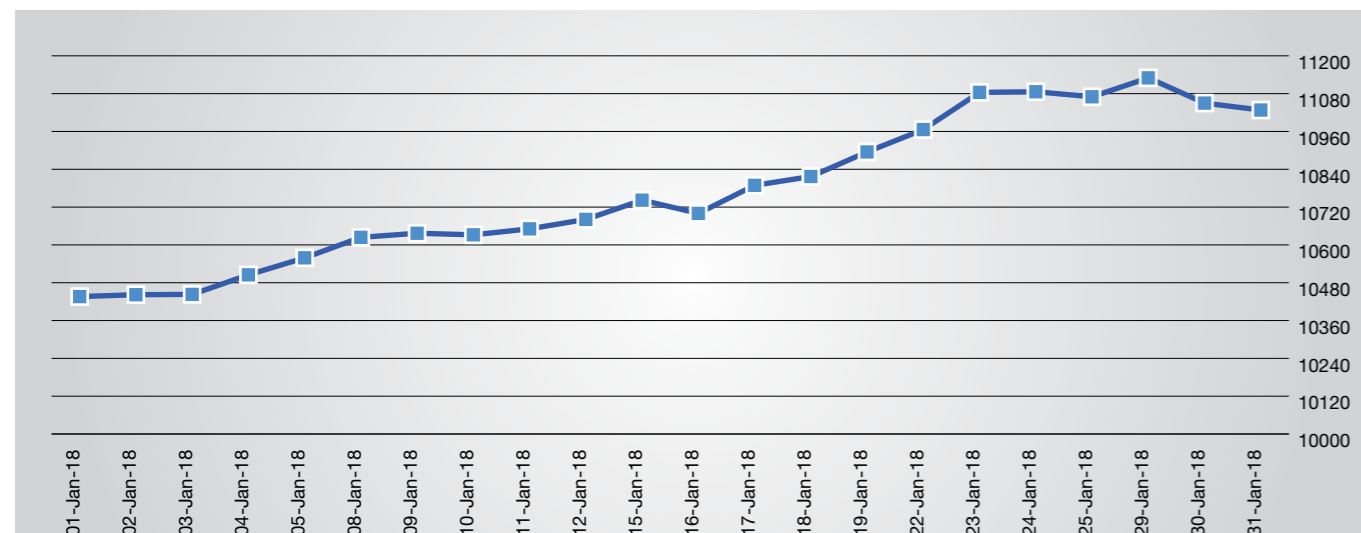


Source: Ministry of Commerce & Industry, Government of India

While the IIP registered its most impressive growth rate in recent years, the core sector did not perform in the same manner. The growth rate of the core sector dropped to a five-month low. The core sector grew by 4% in December 2017 compared to 7.4% in the previous month. Of the 8 sectors that comprise the core sector, growth in 6 of those sectors was less than what they had registered in November 2017. In fact in case of coal and crude oil, the growth rate went in the red. Only the cement sector grew at a higher rate than it registered in November 2017.

NIFTY

NIFTY 50

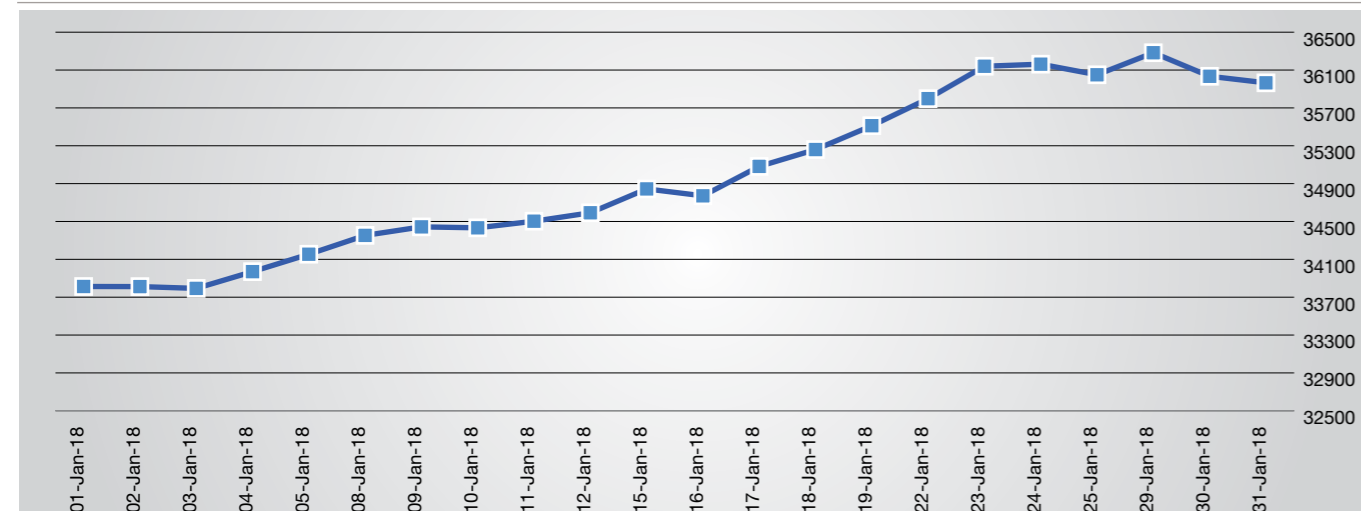


Source: National Stock Exchange

The NIFTY 50 gained 6% in January 2018. It is however, worth mentioning that the NIFTY 50 for the first time crossed the 11,000 mark and remained above that mark at the end of the month.

SENSEX

S&P BSE SENSEX



Source: Bombay Stock Exchange

The S&P BSE Sensex gained 6% in January 2018. Further, for the first time it crossed two milestones. First, it crossed the 35,000 mark and even breached the 36,000 mark; however, it closed just a shade below 36,000 at the end of January 2018.

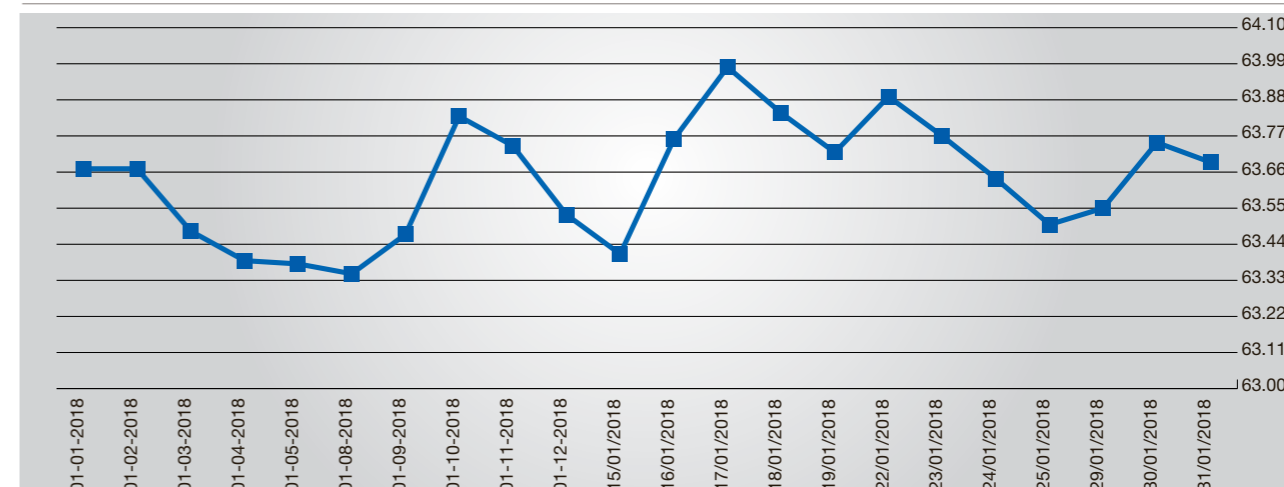
MARKETS UPDATE

While the S&P BSE SENSEX and the NIFTY 50 both gained 6% during January, both the indices tanked on 1 February 2018, the day the Union Budget 2018–19 was tabled in the Parliament. Both the indices that had made healthy gains in January 2018 went downhill on 1st and 2nd February. Even though the NIFTY 50 opened 17 points higher on 1 February, it ended the day at 27 points down. On 2 February 2018, the NIFTY 50 again opened in the red, down 79 points from the previous day's close and ended the day 178 points lower than the opening figure. In short, after the close of day on 31 January 2018, the

NIFTY 50 lost 267 points by end of day on 2 February. The S&P SENSEX fared even worse. On the day of the Union Budget, the index opened in the red, down 84 points from the previous day's close and ended the day 142 points down from where it opened. On 2 February, the free fall intensified further. On that day, the S&P Sensex opened 199 points down compared to the close of 1 February. By the end of day on 2 February, the S&P SENSEX had lost 641 points. Within two days the S&P SENSEX had lost 898 points. The bloodbath at the markets continued even on 5 February, after the markets opened after the weekend. The markets got spooked because of a couple of factors, the most prominent was the proposal to introduce 10% long-term capital gains tax (LTCG), in the Union Budget 2018–19 proposals. Other factors that contributed to the meltdown are the proposal to hike customs duty; a move to give fillip to the "Make in India" campaign and correction in global markets.

CURRENCY

CURRENCY



Source: Reserve Bank of India

The INR gained 0.02% to the USD in January 2018.





INDIA INFRASTRUCTURE & REALTY UPDATE

THE BIG INFRA PUSH

One of the major focus areas of the Union Budget 2018–19 was infrastructure development. Some of the key proposals in the Union Budget 2018–19 towards infrastructure development are as follows:

- Rohtang Tunnel has been completed. Contract towards building an all-weather tunnel under the Zozila, in Jammu and Kashmir, is in progress. Construction of tunnel under the Sela Pass has been proposed.
- Proposal to develop 10 prominent tourist sites into iconic tourism destinations
- Tourist amenities at 100 Adarsh monuments to be upgraded.
- Water supply contracts for 494 projects and sewerage work for 272 projects have been awarded.
- Ministry of Finance will seek the help of India Infrastructure Finance Corporation to help finance

major infrastructure projects.

- Government confident of completing more than 9,000 kilometres of national highways in 2017–18.
- Work on Eastern and Western dedicated freight corridor is going on in full swing.
- Redevelopment of 600 major railway stations
- Railway stations with more than 25,000 footfalls to have escalators.
- All trains and railway stations to be provided with CCTVs and WiFi.
- Modern train-sets with state-of-the-art amenities are being designed. First such train-set will be commissioned in 2018–19.
- Ninety kilometres of double line tracks to be added to the Mumbai suburban railway; 150 kilometres of additional suburban network is under planning.

- To aid smooth functioning of the bullet train, an institute to train manpower for high speed rail projects is coming up at Vadodara.
- The Regional Connectivity Scheme (RCS) will connect 56 unserved airports and 31 unserved helipads. Operations have already started to 16 such airports.
- Airport capacity to be expanded 5 times.

Even though the Union Budget 2018–19 did not have much for the real estate sector, the big push to infrastructure development should help the real estate sector in the long run. It has generally been seen that any form of infrastructure development perks up the real estate sector in its surrounding areas.

TOUCHING UPON THE REAL ESTATE SECTOR

In his budget proposals, Arun Jaitley, the Union Finance Minister, did touch upon the real estate sector. It was with regard taxing income from capital gains, business profits and other sources with respect to immovable property. In such cases, the consideration or the circle rate value, whichever is higher, is adopted and the difference is counted as income in the hands of the seller as well as the buyer. This may give room for variations for properties in the same locality because of variety of factors. As per the budget proposals, no adjustment will be made in case where the circle rate value does not exceed 5% of the consideration. This proposal however, will have a marginal impact on the property market.

INDIA'S FIRST INLAND WATERWAY

India's first inland waterway between Varanasi and Haldia, on the River Ganges should soon become a reality. The development of this waterway will give a boost to jobs especially in the cargo and logistics sector in one of the most populous regions of the country. An agreement for the development of the waterway has been signed between the Union Government and The World Bank. As per the agreement, The World Bank will give a loan of \$375 million. As per a statement from The World Bank, the capacity augmentation of National Waterway 1 (Jal Marg Vikas) Project will help save more than 150,000 tons of carbon dioxide equivalent in greenhouse gas emissions annually by moving cargo away from fossil fuel-consuming road and rail networks.

INCREASING SPEED OF TRAINS ON INDIAN RAILWAYS

Mission Raftar was announced in the Railway Budget 2016–17. Under the said project, the average speed of trains in the Indian Railways was to be increased. The mission envisages a target of doubling of the average speed of freight trains and increasing the average speed of all non-suburban passenger trains by 25 kmph in the next 5 years. Six routes have been identified for increasing the speed of trains under Mission Raftar. These six routes are as follows: Delhi–Mumbai, Delhi–Howrah, Howrah–Chennai, Chennai–Mumbai, Delhi–Chennai and Howrah–Mumbai. These six routes have been identified because even though they form 16% of the total railway network in the country, they carry 58% of freight traffic and 52% of coaching traffic.

IDEAL DISTANCE BETWEEN TWO TOLL PLAZAS

The desirable distance between two toll plazas on the same stretch of the National Highway, in the same direction, is 60 kilometres. This is as per the National Highways Fee (Determination of Rates and Collection) Rules, 2008. This condition however, can be relaxed depending on site specific constraints.

FOOD AND BEVERAGE KIOSKS AT NHAI TOLL PLAZAS

Highway Nests (Mini) have been inaugurated on toll plazas at select locations on some National Highways. These kiosks sell refreshments, food and water for the convenience of highway users. There will also be a provision for public conveniences at such Highway Nests. Two Highway Nests (Mini) have been inaugurated already – one at Narayanpura Toll Plaza on NH-76 on the Udaipur–Chittorgarh–Kota route and another at the Hyderabad–Vijaywada section of the NH-65, Korlapahad Toll Plaza. Such kiosks are now under construction at all the 372 toll plazas on the National Highways. Efforts are being made to have the Highway Nests (Mini) in place on all the remaining toll plazas by the end of March 2018.



GLOBAL BRIEFING

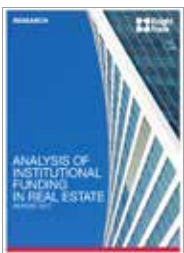
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RESEARCH

Dr. Samantak Das
Chief Economist &
National Director- Research
samantak.das@in.knightfrank.com

Pankaj Toppo
Vice President - Research
pankaj.toppo@in.knightfrank.com

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