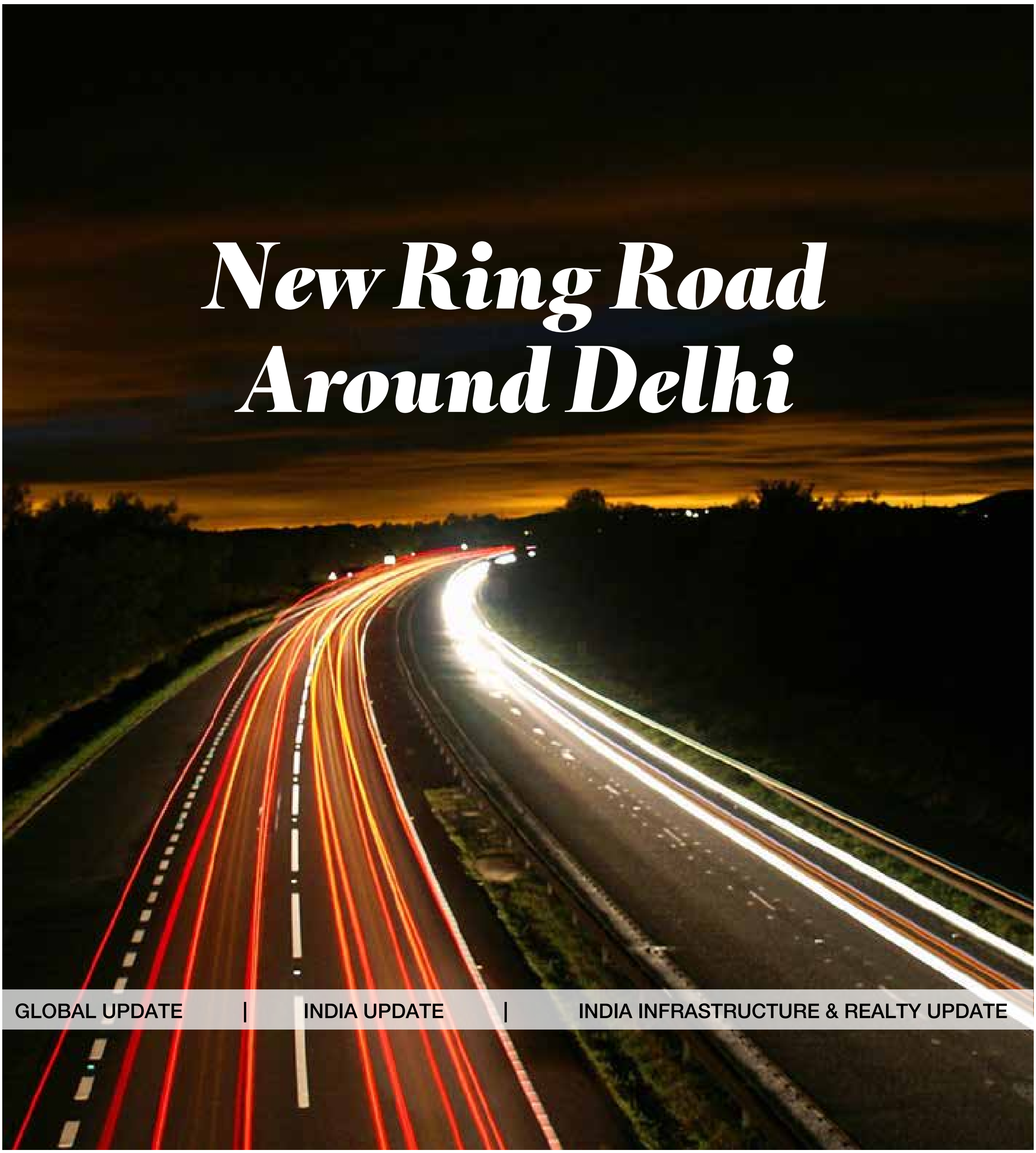
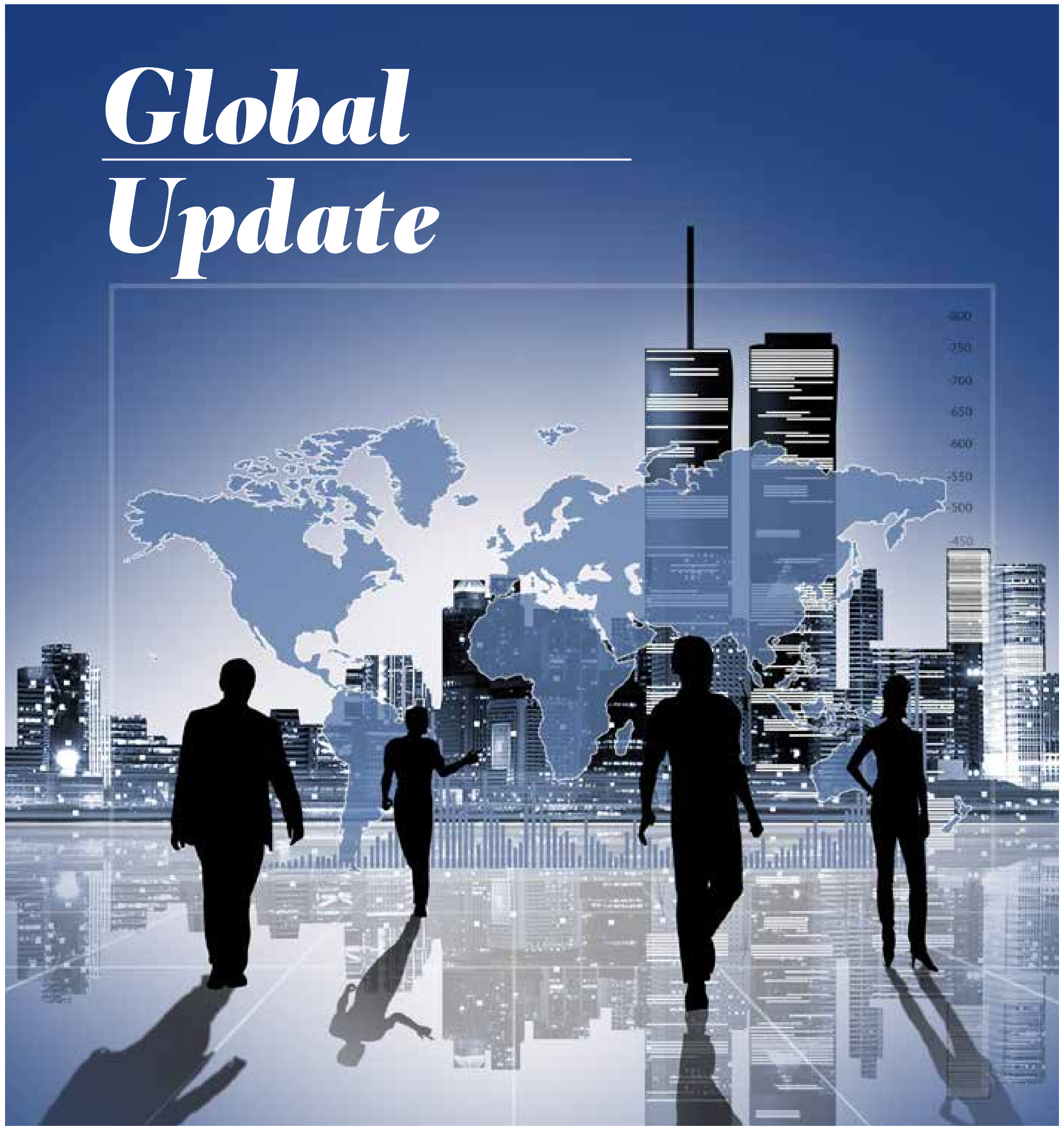
RESEARCH

MONTHLY UPDATE | *SEP-OCT 2018*

New Ring Road Around Delhi



Global Update



Global growth forecast cut

The International Monetary Fund (IMF), in an update of the World Economic Outlook, reduced its growth outlook for 2018 and 2019. The Washington-based international lending agency reduced the growth forecast to 3.7%, both for 2018 and 2019, compared to 3.9% for both the years forecasted by IMF, in July 2018. The reduction in the growth outlook is a result of a couple of factors. These include reasons like introduction of import tariffs between United States and China, weak performance of economies in the Eurozone and Japan, rising interest rates, especially in developed economies which will lead to capital outflows from emerging economies.

India's growth to be at 7.3% in FY 2019

In its latest World Economic Outlook, the International Monetary Fund has maintained that the Indian economy is expected to grow by 7.3% in FY 2019 and 7.4% in FY 2020. Interestingly, the international lending agency had forecasted, in January this year, that the Indian economy will grow by 7.5% in FY 2020. In comparison, the Chinese economy is forecasted to grow by 6.6% and 6.2% in 2018 and 2019, respectively. While the medium-term outlook for the Indian economy is strong, there are certain risks that could act as a dampener. These include factors like high fuel prices, fiscal tightening and trade related issues. In a recent interview IMF chief Christine Lagarde maintained that there is significant growth happening in the Indian economy and it will be in the top three, if not in the top spot.

US economy grows by 3.5% in Q3 2018

The US economy posted one of the best quarter-on-quarter performances compared to the previous four quarters when it grew by 3.5% in the third quarter of 2018. While it can be said that growth in Q3 2018 slipped compared to Q2 2018, when the economy grew by 4.2%, but as already mentioned it is the best q-o-q in recent years. The good show of the economy is a result of consumer and government spending. Even though the current state of the economy is good, there are some concerns that needs to be considered. First, even though the performance of the economy in the third quarter has been satisfactory, it is well below the expectations of the President, Donald Trump, who had promised in July that growth in the third quarter would be much higher. Second, there needs to be some visible progress with regards the shrinking deficit. Lastly, rising interest rates too is another area of concern. The Federal Reserve, this year, has already raised interest rates three times and is expected to do so going forward.

Indian employees amoung the least paid in Asia Pacific

According to a report by the International Labour Organisation (ILO), 41% of Indian employees feel that that they are poorly paid. In the report titled Asia Pacific Employment and Social Outlook India is placed at the bottom of the table just above Mongolia (47.3%), Pakistan (52.1%) and Bangladesh (54.4%). The other countries that topped the table (countries where the percentage of employees who felt that they were poorly paid is low) are Hong Kong (14.6%), Thailand (17.8%), Australia (19.7%), Philippines (23.4%) and Singapore (24%). What is interesting about the study, which is specific to India, is the fact that even though the country is among the high-income countries, in the region, 41% of employees in the country feel that they are poorly paid. Another interesting point in the study is that on an average 48.6% of the workers in the region feel vulnerable. This figure is expected to go up to 49% by 2020. With this being the case, one in every two workers in the region faces uncertainty at work.

India Update

Easing the way to do business

In the latest Doing Business 2019 report of the World Bank, India has jumped 23 positions to be placed at 77th rank, among 190 nations. This a considerable improvement, from last year, when the country was placed at the 100th rank. What's encouraging is that India has made rapid strides in the "Ease of Business Rankings" in the past two years. This study done by the World Bank provides objective measure of business regulations and the manner in which they are enforced across 190 countries on 10 parameters that affect businesses through their life cycle. India has also improved its Distance to Frontier (DTF) score to 60.23 from 60.76. This score shows the gap of an economy to global best practices. Among the different parameters that determine the Ease of Business score, the most significant progress made by India, has been with regards "construction permits" and "trading across the border". With regards "construction permits", India's rank has improved from 181 in 2017 to 52 in 2018. Similarly, in the "trading across borders", India's rank has improved from 146 in 2017 to 80 in 2018. Getting into further details, as regards "construction permits" the number of permits has been reduced from 37 to 20, in Mumbai, and from 24 to 16, in Delhi. Even the time taken to issue construction permits has reduced from 128.5 days to 99 days, in Mumbai, and 157.5 days to 91 days, in Delhi.

Status quo on policy rates

The Reserve Bank of India in its fourth bi-monthly monetary policy statement 2018–19 kept the policy rates unchanged. Thus, the liquidity adjustment facility (LAF) remains unchanged at 6.5%, the reverse repo rate stands at 6.25% and the marginal standing facility (MSF) remains at 6.75%. As regards the outlook on inflation, the banking regulator made the following observations: inflation is expected to be at 4% in Q2 2018–19, 3.9%–4.5% in H2 and 4.8% in Q1 2019–20, with risks "somewhat on the upside." The banking regulator also gave its outlook on the GDP growth rate, going forward. As per the policy statement, the GDP growth projection for 2018–19 is retained at 7.4%. Further, the GDP growth projected for 2019–20 has also been projected at 7.4%.

Work on the new SEZ policy

Work towards making the existing SEZ Policy compliant with WTO standards has been underway. In this regard, a committee headed by Baba Kalyani, Chairman, Bharat Forge, was entrusted with the task of evaluating the existing policy, "suggest measures for maximising utilisation of vacant land in SEZs, suggest changes in the SEZ policy based on international experience and merge the SEZ policy with other government schemes like costal economic zones, Delhi-Mumbai Industrial Corridor, national industrial manufacturing zones and food and textile parks." The Committee has submitted its report on the matter to Suresh Prabu, Union Minister for Commerce & Industry and Civil Aviation. On the occasion, Baba Kalyani also stated that if India needed to become a USD 5 trillion company, then the current environment of manufacturing competitiveness and services had to undergo a basic paradigm shift.

Over 33,700 projects registered under RERA

States were expected to have the necessary systems and processes in place for the smooth implementation of the real estate regulation rules in their state by 1 May 2017. Maharashtra was the only state to have all the necessary systems and processes on the said date. It had notified its real estate rules, had the Authority to implement the rules and had a functional website of the Authority. Other states gradually put in place their own systems and processes. Hardeep Puri, Minister of State (I/C) of Housing and Urban Affairs, speaking at the third regional workshop on "RERA – a new era of transparency and accountability in Real Estate – 2 years of implementation and Way Ahead" provided important updates on the matter. We are in the second year of the implementation of RERA and all states and union territories, except for six north-eastern states (Nagaland, Arunachal Pradesh, Meghalaya, Manipur, Mizoram and Sikkim) and West Bengal, have notified their RERA rules. West Bengal has its own real estate law. In a recent update, the six north-eastern states have finally agreed to implement the Real Estate (Regulation and Development) Act, 2016. As regards registration of projects and real estate agents, 33,750 projects and 26,018 real estate agents have been registered across the country. Maharashtra has been the frontrunner with regards to registrations. So far, 18,392 projects and 17, 188 real estate agents have been registered in the state. With regards the stalled real estate projects in Noida, Greater Noida and Yamuna Expressway, Hardeep Puri stated that the recommendations of the committee (to look in the matter) do not put any additional burden on the homebuyers, instead they will ensure smooth completion of the projects so that the same can be handed over to respective homebuyers.

Exports surge by 17.17% between April-Oct 2018

Between April–October 2018, overall exports are expected to be USD 308.32 billion, which is an increase of 17.17% compared to the same period last year. Further, between April–October 2018, imports are estimated to be USD 374.88 billion, which is a jump of 18.88% compared to the same period last year. If one looks at data only for the month of October 2018, exports during the month moved up by 17.86% compared to the same period last year. Imports during October 2018 went up by 17.62% compared to the same period last year.

GST collection crosses ₹1 lakh crore

The gross GST revenue collection for the month of October has crossed ₹1 lakh crore. The figure stands at ₹100,710 crore. Of the total GST collection, CGST stands at ₹16,464, SGST amounts to ₹22,826 crore, IGST stands at ₹53,419 crore (this amount includes ₹26,908 collected on imports) and Cess stands at ₹8,000 crore (this includes ₹955 collected on imports). The revenue collected in October 2018 is 6.64% higher than the revenue collected in the previous month.

Economic Update

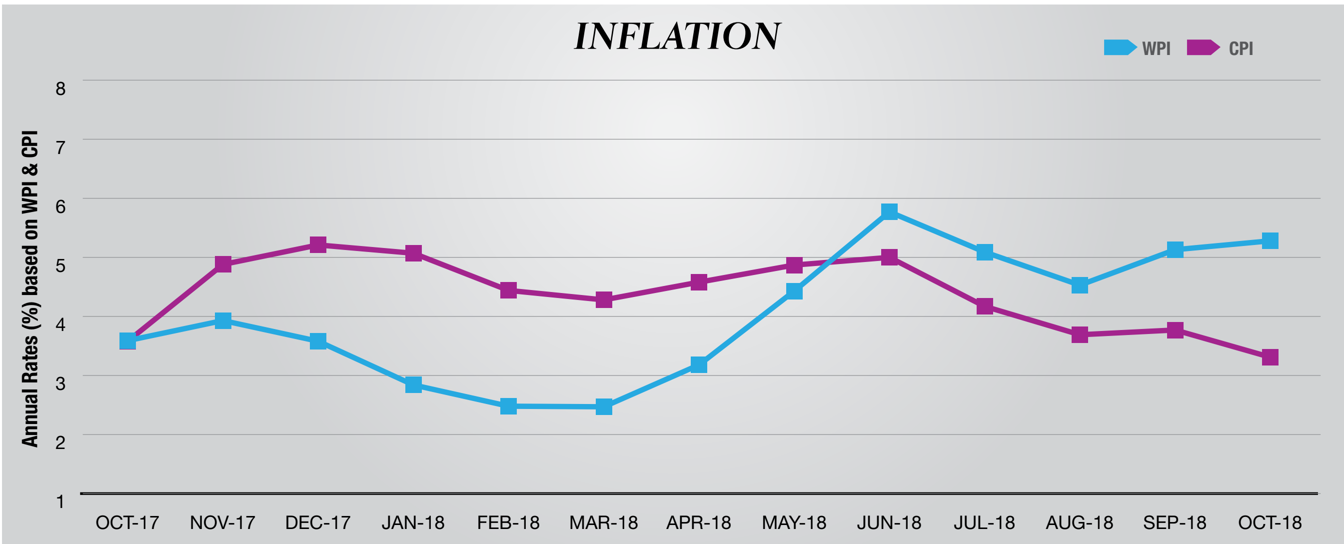
Manufacturing PMI moves up

The Nikkei India Manufacturing Purchasing Managers Index moved up in October 2018, compared to the previous month. The index which stood at 52.2 in September, moved up to 53.1 in October. The upward movement, in the index, was largely a result of production and employment levels being scaled up to meet new business orders. It must be remembered that a score above 50 points towards economic expansion and a one lower than 50 is a sign of economic contraction.

Services PMI gains strength

The Nikkei India Services Business Activity Index, which stood at 50.9 in September 2018, jumped to 52.2 in October. The upward movement in the index is a result of the improving market conditions. As with the manufacturing PMI, even in case of the services PMI, a score above 50 points towards economic expansion, while one under 50 is an indication of economic contraction.

CPI MODERATES; WPI HITS A FOUR-MONTH HIGH

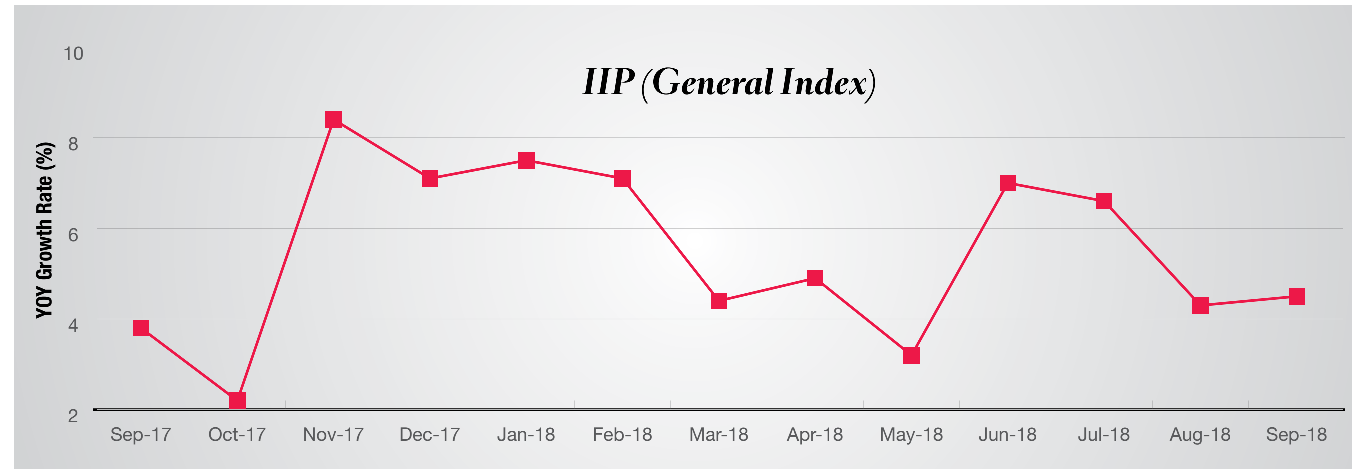


Source: Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Government of India

Retail inflation, which was at 5% in June 2018, has been on a downward slide since then. In July, the Consumer Price Index (CPI) went below 5% and the very next month it went below 4%. In September it hit 3.77% and in October it further cooled down to 3.31%. The cooling down in the growth rate of the CPI, to a great extent, is in line with the banking regulator's decision to hold on to key policy rates, in the recent bi-monthly monetary policy held in October 2018. The softening in CPI is a direct result of a fall in the prices of food products. If one looks at the consumer food price index, the rate of growth shrunk by 0.86%, in October, compared to the same period last year. In comparison, the food price index grew by 0.51% in September 2018 compared to the same period last year. On a year-on-year (y-o-y) comparison, major product categories that witnessed an increase in price growth are fuel and light (8.55%); housing (6.55%); pan, tobacco and intoxicants (6.13%) and clothing and footwear (3.55%). Prices of food products, on the other hand, went down by 0.14%.

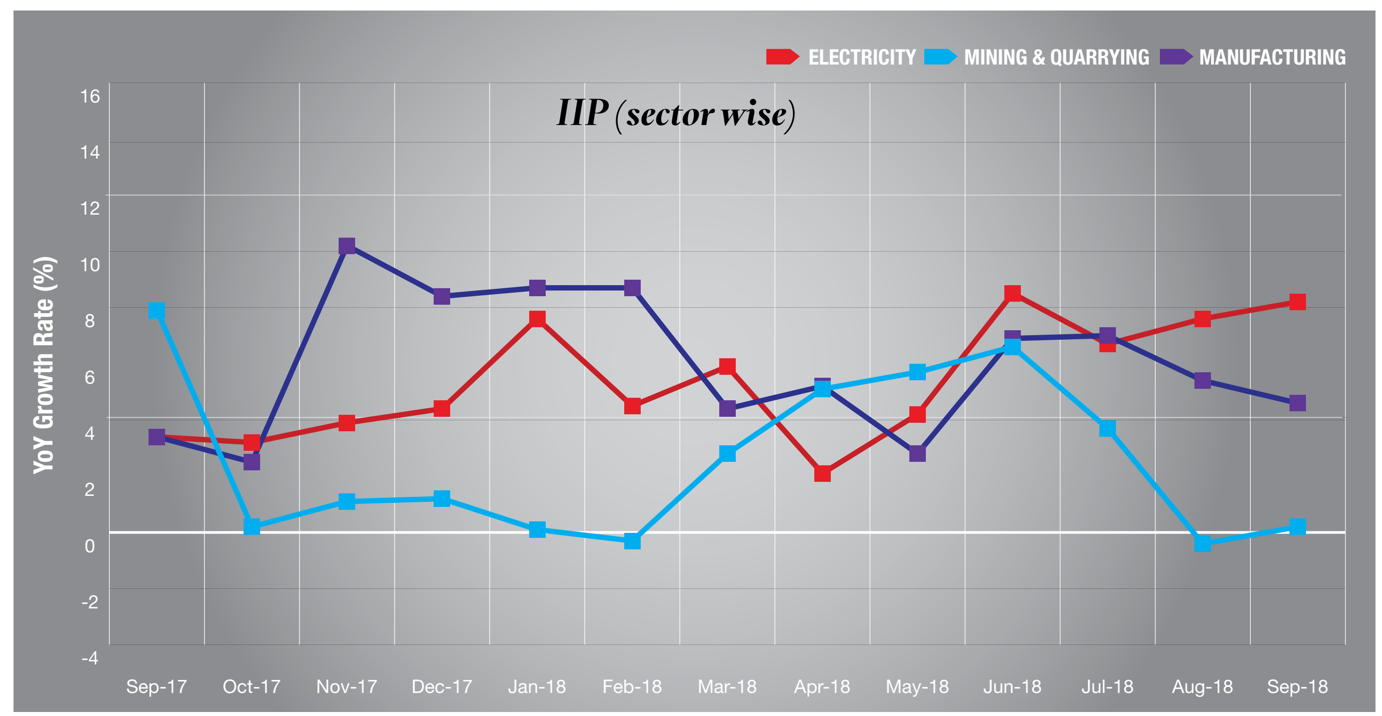
The Wholesale Price Index (WPI), on the other hand, has been moving north in the past few months. In fact, it hit a four-month high in October 2018. The spike in WPI can be attributed largely to increase in prices of fuel and manufactured products. On a y-o-y comparison, prices of primary articles increased by 1.79%, in October 2018, compared to the same period last year. Prices of fuel and power went up by 18.44% and that of the manufactured products by 4.49%, in October 2018, compared to the same period last year.

IIP MOVES UP SLIGHTLY



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

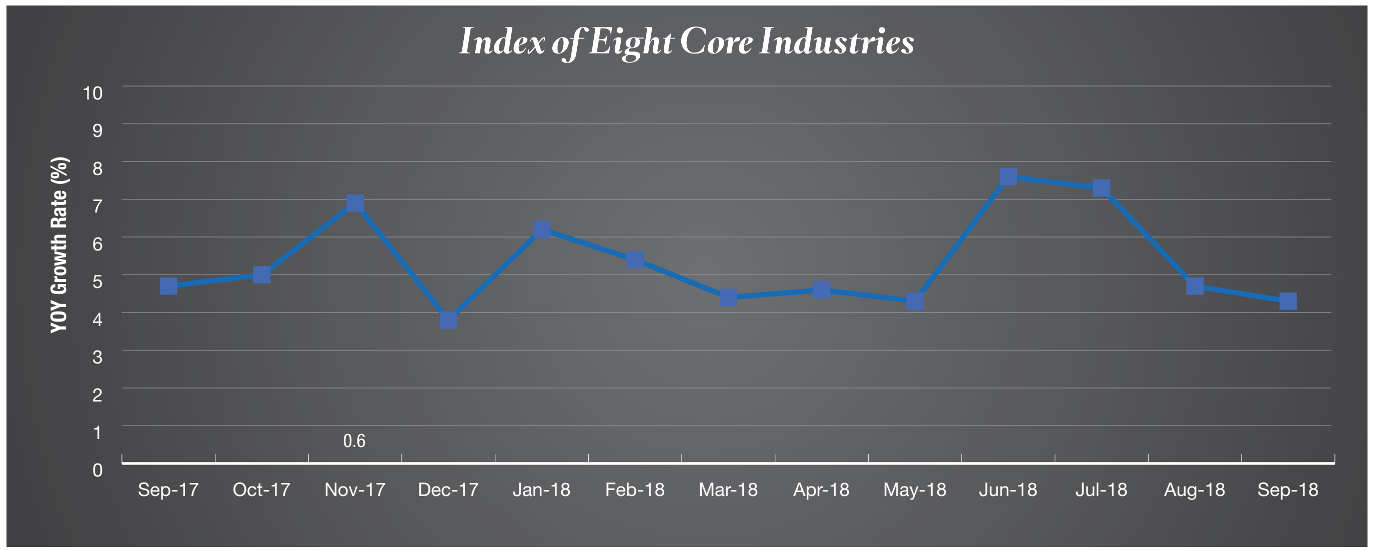
The impressive show that the Index of Industrial Production (IIP) recorded in November 2017 moderated slightly in the following months but its growth rate remained above 7%. In March 2018, however, the growth rate of the IIP hit a five-month low, recording a growth rate of 4.4%. In April 2018, the IIP recovered, albeit marginally, to record a growth rate of 4.9%. In May, the growth rate of the IIP hit a new low, post October 2017, to record a growth rate of 3.2%. In June 2018, however, the IIP bounced back to record a growth rate of 7%. In July, even though the growth rate of the IIP remained healthy at 6.6%, it was marginally lower than the previous month. In August and September, however, the growth of the IIP slipped to sub 5% levels. In August, the growth rate of the IIP stood at 4.3% and in the following month, it stood at 4.5%.



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

The growth rate of the IIP moved up slightly in September 2018, compared to the previous month and that is reflected in the growth rate of the sectors that comprise the Index of Industrial Production. The growth of the mining sector, which was in the negative, in August 2018, turned positive in September and settled at 0.2%. Even though the growth rate is marginal, the good thing is that it is positive. It is worth nothing that in the past one year, since August 2017, the growth rate of the mining sector has turned negative only twice, once in February 2018 and the second time was in August 2018. Even though the growth rate of the manufacturing sector has remained positive, in September 2018, it has tapered off a bit compared to the previous month. The growth rate of the electricity sector has improved, in September 2018, compared to the previous month.

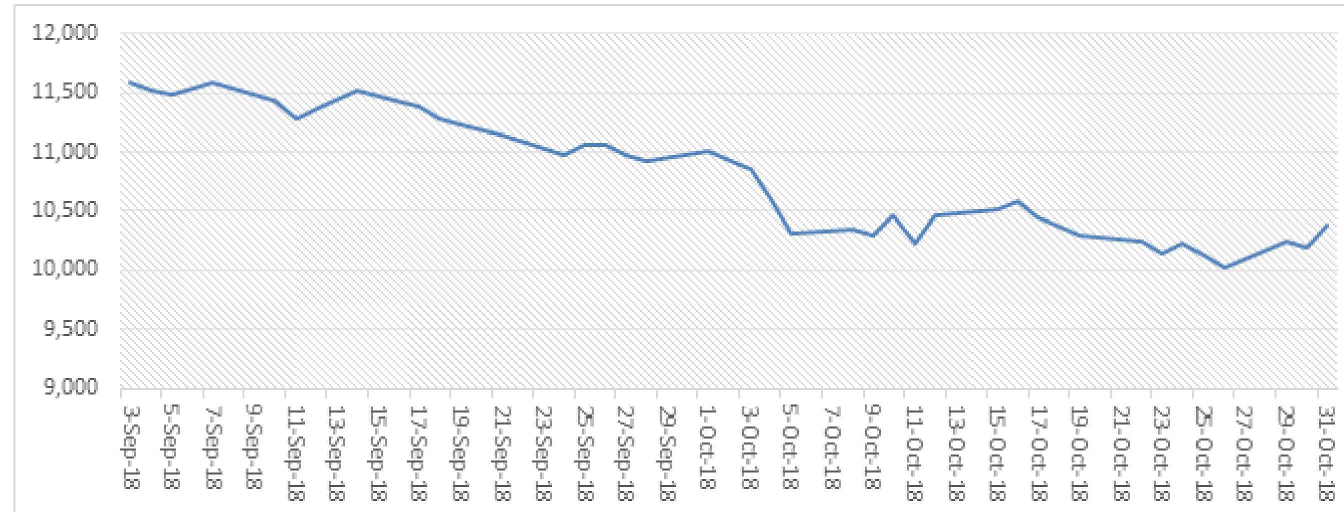
CORE SECTOR GROWTH EASES MARGINALLY



Source: Ministry of Commerce and Industry, Government of India

For two continuous months, June and July 2018, the growth rate of the core sector remained above the 7% mark. In fact, it is the most impressive performance of the core sector, in the past one year, i.e. post August 2017. The performance of the core sector post July 2018 has remined positive but it has tapered off. In August and September 2018, the growth rate of the core sector was 4.7% and 4.3%, respectively. Of the eight sectors, the growth rate of two sectors were in the red in September 2018, three under-performed compared to August 2018, while three sectors fared better, in September 2018, compared to the previous month. However, sectors like coal, electricity and fertilizers performed better than they did in August 2018.

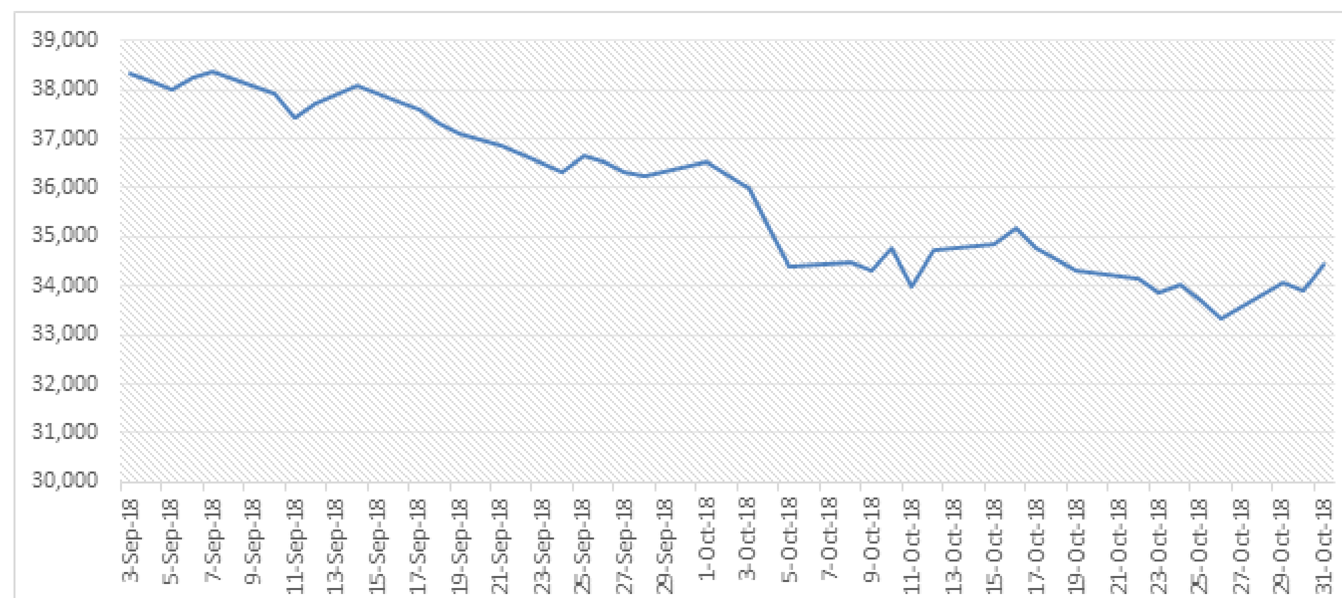
NIFTY



Source: National Stock Exchange

The NIFTY 50 lost 10% between September–October 2018. The NIFTY 50 opened at 11,751.8 points on 3 September 2018 and ended at 10,386.6 on 31 October 2018.

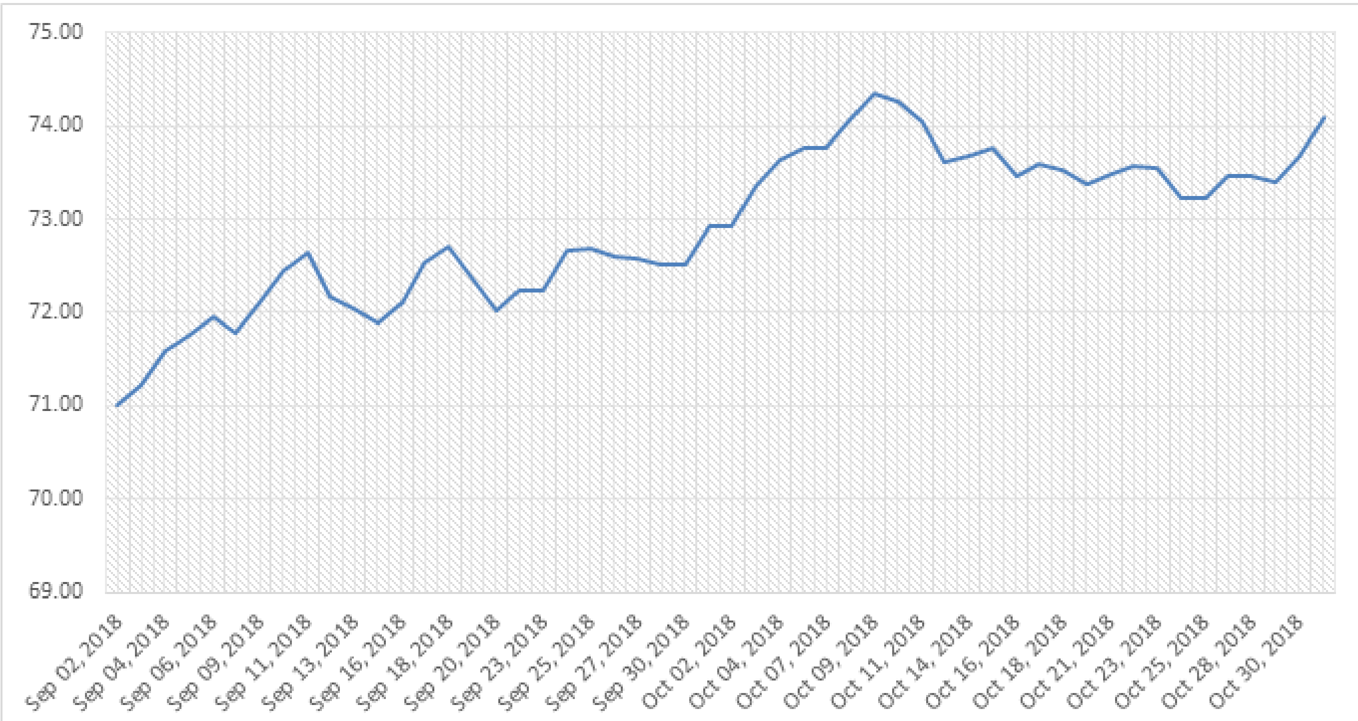
SENSEX



Source: Bombay Stock Exchange

The S&P BSE SENSEX lost 10% between September–October 2018. While the Sensex opened at 38,915 points on 3 September 2018, it closed at 34,442 points on 31 October 2018.

CURRENCY



Source: https://in.investing.com

The USD gained 4% against the INR between August–September 2018.

India Infrastructure and realty update

Major infra boost in NCR

Finally, the Kundli Manesar Palwal (KMP) Expressway is fully operational. The Honourable Prime Minister, Narendra Modi, inaugurated the stretch between Manesar and Kundli, an 83-kilometre stretch, which was the last remaining section to be completed. With completion of the KMP or the Western Peripheral Expressway and combined with the Eastern Peripheral Expressway, the national capital now has a 270-kilometre long ring road around it. Among other things, this ring road is expected to reduce pollution in the national capital. Also, with this major infra boost in the National Capital Region (NCR), the push to real estate, in the long run, cannot be ruled out. It needs to be remembered that the KMP, which was conceived in 2003 was to be completed in 2009. The project, however, got delayed and work on the same started only in 2014 after the intervention of the Supreme Court of India. The infrastructure project, which when completed will give a major boost to the real estate sector in the Delhi NCR, is the Dwarka Expressway. This project was conceived in 2006 and was supposed to be commissioned in March 2012.

Work starts on longest bridge in India

By 2026 the country should have its longest bridge. The proposed bridge, 20 kilometres long across the Brahmaputra river, will connect Dhubri, in Assam to Phulbari, near the Bangladesh border. Once the bridge is operational, it will cut the distance between the two places by 203 kilometres. As a result, the travel time will be cut to just about 20 minutes. In the present day there are two ways in which people commute between the two places. First, they cross the Brahmaputra river in small boats, which takes more than two hours, or they have to travel 100 kilometres before the Narayan Bridge. Details of this project are being worked out by the Ministry of Road Transport and Highways along with the National Highways and Infrastructure Development Corporation Ltd (NICL). The Japan International Cooperation Agency (JICA) has agreed to fund the project as well. The project is expected to be completed by 2026–27.

First multi-modal inland waterways hub at varanasi

Varanasi has another feather in its cap. The holiest city in India now has the country's first multi-modal inland waterways hub. The National Waterway-1 or NW-1, measuring 1,620 kilometres long, is the longest waterway in India. This waterway is also known as the Ganga-Bhagirathi-Hoogly river system. The hub located at Varanasi is one of the four terminals to be constructed on the NW. These hubs are part of the World Bank-funded Jal Vikas Project of the Inland Waterways Authority of India.

Delhi gets its Signature Bridge

After having missed many deadlines, the Signature Bridge was finally opened for public use in the first week of November. The history of this bridge dates to 1998, when 28 school students had died on the narrow Wazirabad bridge, in north-east Delhi. Post that accident, the Delhi government had plans of constructing a wider bridge, to ease traffic congestion in that area. Finally, on 4 November, this new icon of the national capital was inaugurated. The construction of the bridge, which was built by Delhi Tourism and Transport Development Corporation (DTTDC), has been valued around ₹1,518.37 crore. With the opening of this bridge, the travel time between the inner sections of Delhi and north-east Delhi has now been reduced to 10 minutes, from the earlier 50 minutes.

Status check on the dedicated freight corridors

Even though the project related to the Dedicated Freight Corridors (DFCs) received the Union Cabinet's approval way back in 2006, it has missed many deadlines due to multiple reasons. Some of the major reasons that have led to delays are problems related to land acquisition, procedural wrangles, environmental reasons and other related issues. However, the project has made good progress, in the past few years, and the entire project should be complete in the very near future. It must be remembered that a part of the project (between Ateli, in Haryana, and Phulera, in Rajasthan) already opened this year. Going forward, the 200 kilometres Khurja-Bhadan section, in the eastern DFC, is expected to be opened by the end of November 2018. Further, the 300-kilometre stretch between Rewari, in Rajasthan, and Madar, in Rajasthan, is expected to be opened by the end of this year. Also, the 143-kilometre stretch between Bhadan and Bhaupur, in Uttar Pradesh, on the eastern DFC, is planned to be completed by the end of January 2019. And by February 2019, the 128-kilometre section between Madar and Marwar is expected to be commissioned. Further, the Bahupur-Mughalsarai section, in Uttar Pradesh, on the eastern DFC, is expected to be completed by August 2019 and the Sonenagar (in Bihar)-Mughalsarai section is expected to be completed by October 2019. The entire DFC is expected to be commissioned by March 2020.

Private partnership in Delhi Metro

The phase IV of the Delhi metro is expected to happen in 2025. This phase consisting of six corridors measures approximately 104 kilometres. The corridors are Mukundpur-Maujpur, Rithala-Narela, Tughlakabad-Aerocity, Inderlok-Indraprastha, Lajpat Nagar-Saket G Block and Janakpuri (West)-RK Ashram. What is unique about the phase IV of the Delhi metro is the involvement of private parties. A proposal to involve private players to run trains in the phase IV has been approved by the Ministry of Housing and Urban Affairs. Delhi Metro will pay a private firm for using their train services. In addition, Delhi Metro has also proposed involvement of private players in the running of essential services across all metro stations.

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Arvind Nandan
Executive Director-Research
arvind.nandan@in.knightfrank.com

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

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