MONTHLY UPDATE
DECEMBER 2017

Knight Frank

# INFLATION SURGES AHEAD; CPI AT A 15 MONTH HIGH

GLOBAL UPDATE | INDIA UPDATE | ECONOMIC TRENDS | INDIA INFRASTRUCTURE & REALTY UPDATE

# GLOBAL UPDATE


## FED RESERVE RAISES INTEREST RATES

The Federal Reserve raised interest rates by a quarter of a percentage point, from 1.25% to 1.50%, but left its rate outlook for the coming years unchanged. The move, coming at the final policy meeting of 2017 and on the heels of a flurry of relatively bullish economic data, represented a victory for a central bank that has vowed to continue a gradual tightening of monetary policy. Having raised its benchmark overnight lending rate three times this year, the Federal Reserve projected three more hikes in each of 2018 and 2019 before a long-run level of 2.8% is reached. Further, the Fed revised its forecast for growth in 2018 to 2.5%, well above its previous forecast of 2.1% published in September.

## POLICY RATES REMAIN UNCHANGED IN JAPAN

The Bank of Japan maintained status quo on interest rates as inflation is still far from the targeted 2% despite a growing economy. At the end of its two-day policy meeting, the central bank stated that it is maintaining its short-term interest rate at -0.1% and the target for the 10-year government bond yield at 0%.

## GLOOMY FORECAST FOR UK: IMF

The International Monetary Fund has strongly defended its gloomy forecasts for the UK after Brexit, saying pre-referendum warnings of slower growth were coming true. Christine Lagarde, IMF's managing director, has stated that the vote to leave the EU in June 2016 was already having an impact and Britain's weaker growth this year (in 2017) was in contrast to accelerating activity in the rest of the world.

## 1.48 MILLION JOBS ADDED IN THE US IN 2017

According to the Labour Department, the US economy added 1.48 million jobs in 2017. As a result, unemployment remained at a 17-year low at 4.1%. Wages, on the other hand, grew by 2.5% compared to 2016. Wages, however, are still aren't growing as quickly as the Federal Reserve would like. Manufacturing, an industry that President Trump has sought to boost, added almost 200,000 jobs. Construction added 210,000 jobs in 2017. Bars and restaurants hired about 250,000 waiters, cooks and hostesses. Health care continued to lead the pack, adding 300,000 jobs in 2017. There were however, weak spots. Retail stores lost 67,000 jobs. Traditional stores are struggling, and some are going out of business altogether, as more people shop online. The number of Americans who are working part time but want a full-time job is about 5 million. That number has come down significantly since it peaked at 9.1 million in 2010. But these workers often are paid less, receive far fewer benefits like health care and are much more likely to live in poverty.

## 2018 EXPECTED TO BE BETTER THAN 2017

With macro fundamentals broadly intact, the global economy is expected to have another solid year; UBS forecasts 3.9% global economic growth in 2018, up slightly from last year. But this may not necessarily translate into significantly higher asset prices, like it did last year, as monetary, political and technological context are all changing, among others.

## CHINA'S STEEL PRODUCTION EXPECTED TO SLOWDOWN IN 2018

China's steel production growth is expected to slow sharply in 2018 as state-mandated factory closures and policies to protect the environment begin to bite. As per a poll of 15 analysts in a *Financial Times* survey, the world's largest producer of the metal will experience just a small rise in output of 0.6%. Steel is often viewed as a barometer of economic activity because it is used in car making, construction and manufacturing, which means a significant price move, could have repercussions for the broader economy. For the steelmakers, the Chinese slowdown could have positive effects. A modest increase in production from China, which accounts for about half the 1.7 bn tonnes churned out worldwide, could restore balance to a global market that was ravaged by a collapse in prices two years ago due to oversupply.

## EGYPTIAN BOOM IN THE OFFING

Encouraged by Egypt's economic reforms, a major gas fund, streamlined business rules and a devalued currency, investors are increasingly optimistic about prospects for the North African country after years of political turmoil. Foreign holdings of treasury bills hit a record high in December, foreign inflows into the stock market last year were the highest since 2010 and direct investment by foreign firms and private equity funds is on the rise again. Key for many longer-term foreign investors are the natural gas fields that have come on stream in the last few months, including the offshore Zohr field, whose estimated 30 trillion cubic feet makes it the largest in the Mediterranean.

# INDIA UPDATE


## GOOD RATINGS FOLLOW FOR INDIA

After Moody's and Standard & Poor's ratings, Fitch Ratings has also backed India. The New York and London headquartered Fitch Ratings has put India on top of its list of countries with growth potential. As per Fitch Ratings, India's growth potential is higher than countries like China, Indonesia, Turkey, Brazil, Russia, South Korea and Mexico. Fitch Ratings also took note of India for having an impressive rate of capital accumulation per worker, implying increasing productivity. However, it has said that in terms of total factor productivity (TPF), i.e. a measure that captures improvements in the efficiency of the production process, India has been 'surprisingly weak given its low level of GDP per capita'.

## HOME LOAN GROWTH HITS AN AIR POCKET

In 2016, the real estate sector got impacted at two levels—the implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA) and the Goods and Services Tax. As was expected, the sector did face teething problems, in dealing with these two policy measures, the effects of which as visible in the home loan growth between April–October 2017. As per data from CMIE, during the April–October 2017 period home loan growth fell 32.7% compared to the same period last year. In recent years, this has been the largest fall in home loan growth. The massive fall in home loan growth is due to RERA and GST.

## LINKING OF PAN WITH AADHAAR

As per the Central Board of Direct Taxes over 14 crore Permanent Account Number (PAN) have been linked with Aadhaar. Thus till now about 41% of the PANs have been linked with Aadhaar. In a recent move, the Central Board of Direct Taxes (CBDT), which is the policy making body of the income tax department, has extended the deadline of linking the PAN with Aadhaar to 31 March 2018.

## FOREIGN TOURIST ARRIVALS IN NOVEMBER 2017

The number of foreign tourist arrivals (FTAs) in November 2017 was 10.05 lakh as compared to FTAs of 8.78 lakh in November 2016 and 8.16 lakh in November 2015. FTAs during the period January– November 2017 were 90.01 lakh, which is a growth of 15.6% over the same period in 2016. The top 15 countries from which tourists arrived into India are Bangladesh (16.77%), USA (14.77%), UK (9.93%), Russian Federation (4.41%), Canada (4.39%), Australia (3.96%), Malaysia (3.50%), Germany (2.90%), France (2.51%), Sri Lanka (2.32%), China (2.26%),  Singapore (2.04%), Japan (2.03%), Thailand (1.87%), and Rep. of Korea (1.31%).

## POS MACHINES IN FAIR PRICE SHOPS

Out of the total 5.27 lakh fair price shops (FPSs), more than 2.82 lakh FPSs have been automated so far. In other words, in the 2.82 lakh FPSs electronic point of sale (ePOS) devices have been installed. The reasons for installing ePOS devices in these 2.82 lakh FPSs are authentication of beneficiaries and electronic recording of subsidised food grain distribution to beneficiaries.

## SPECIAL PACKAGE FOR EMPLOYMENT GENERATION IN LEATHER AND FOOTWEAR SECTOR

The Union Cabinet chaired by Prime Minister Shri Narendra Modi has approved the special package for employment generation in the leather and footwear sector. The package involves implementation of the Central Sector Scheme 'Indian Footwear, Leather & Accessories Development Programme' with an approved expenditure of ₹2,600 crore over the three financial years from 2017–18 to 2019–20. The scheme would lead to development of infrastructure for the leather sector, address environment concerns specific to the leather sector, facilitate additional investments, employment generation and increase in production. Enhanced Tax incentive would attract large-scale investments in the sector and reform in labour law in view of seasonal nature of the sector will support economies of scale.

## INDIA IS THE SECOND LARGEST PRODUCER OF HORTICULTURAL CROPS AND FRUITS IN THE WORLD

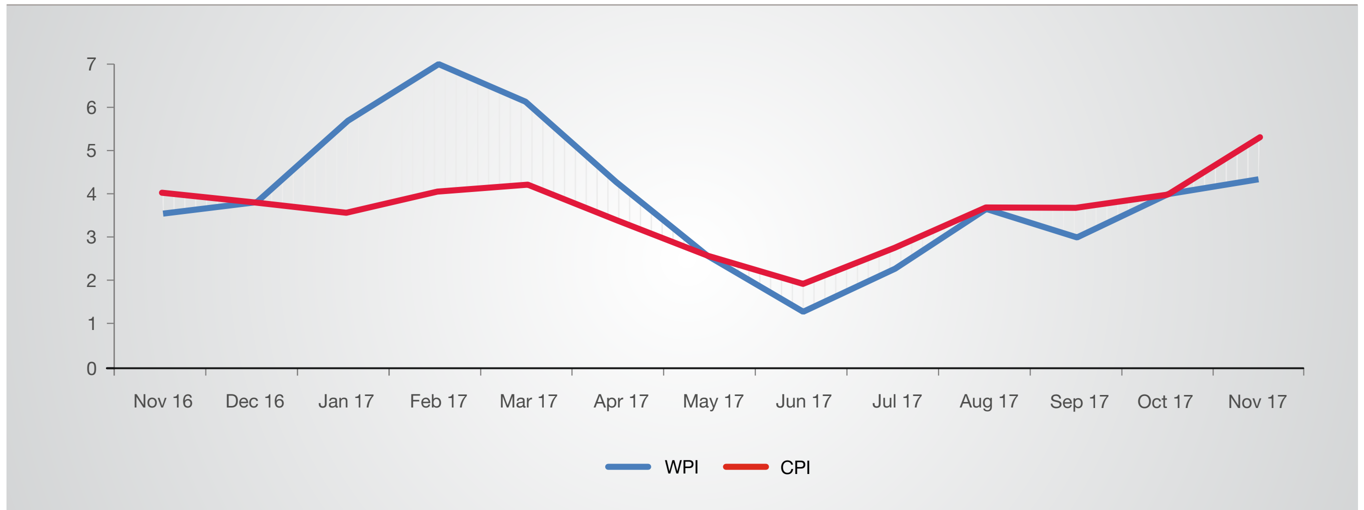
Research and development projects in horticulture crops have yielded encouraging results and as a result, the production of horticulture crops have been more than food grains irrespective of adverse climatic conditions. After China, India is the second largest producer of horticultural crops and fruits. More than 9 crore metric tonnes of fruits on 63 lakh hectares of land were produced during 2015–16. According to an estimate, production of 30 crore metric tonnes of horticulture crops on 2.5 crore hectare land is expected during 2016–17 in which contribution of fruit is significant. The record achievement includes 42 million tonnes of fruit production on 65 lakh hectares of land. In terms of area in India, the citrus fruits hold second position (10.37 lakh hectares) and third (12 million tonnes) in production.


## PURCHASERS MANAGERS' INDEX (PMI) MOVES UP IN DECEMBER

The Nikkei India manufacturing Purchasing Managers' Index (PMI), grew at the fastest rate in five years in December. This has come in the backdrop of a pickup in merchandise exports and output of eight infrastructure sectors in November which has fuelled expectations of a revival in the Indian economy. The manufacturing PMI moved up to 54.7 in December 2017 from 52.6 in the previous month. A reading above 50 denotes expansion and one below it signals contraction.

## CPI AT A 15 MONTH HIGH

**INFLATION**

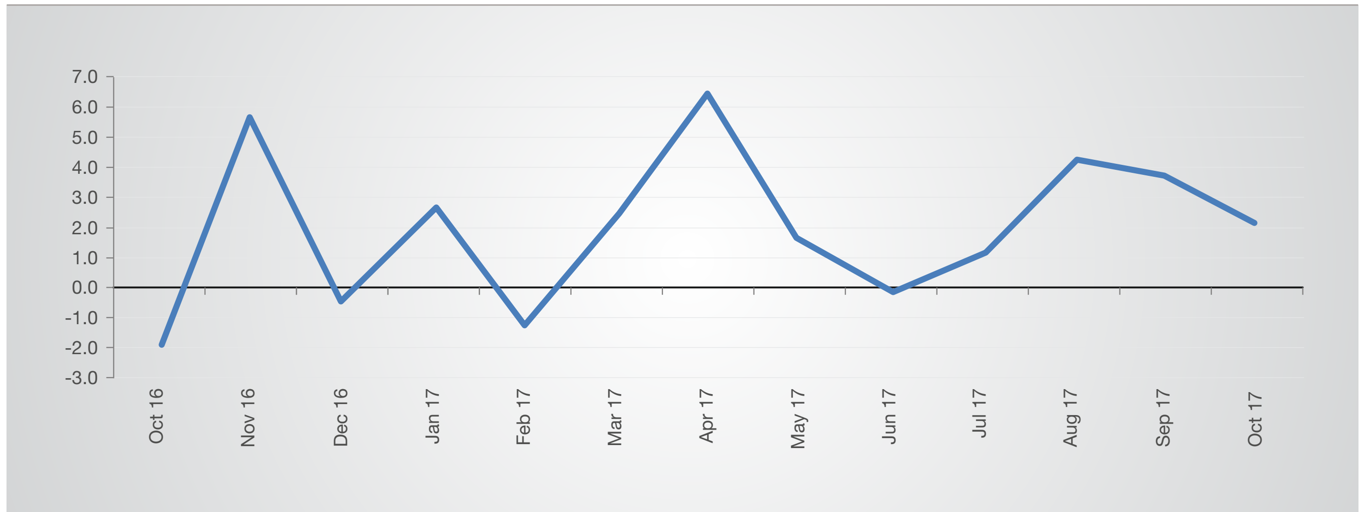



*Source: Ministry of Commerce & Industry, Ministry of Statistics and Programme Implementation, Government of India*

The Consumer Price Index (CPI), which hit a low of 1.54% in June 2017, hit a 15-month high of 4.88% in November 2017. The last time the CPI hit a high was in August 2016 when it touched 5.05%. The consumer food price index, which was at 1.90% in October 2017, shot to 4.42% in November. In November 2017, most of the categories and sub categories witnessed a positive growth in prices compared to November 2016. The categories that experienced growth were food and light (7.92%), pan, tobacco and intoxicants (7.75%), housing (7.36%) and food and beverages (4.41%). Among the sub categories, the prices of vegetables witnessed an increase of 22.49%, egg by 7.975%, milk and products went up by 4.52% and that of meat and fish shot up by 3.27%. Interestingly, the prices of pulses and products came down by 23.53%. The fall was much sharper in urban areas where prices of pulses and products came down by 30.13% compared to a fall of 20% in rural areas. The WPI, which too had maintained a steady march northwards after a low of 0.9% in June 2017, moved up in November 2017 compared to October 2017. The rise in WPI, however, was not as prominent compared to the CPI. As of November 2017, the WPI was at an eight-month high.

## IIP SLOWS DOWN FURTHER

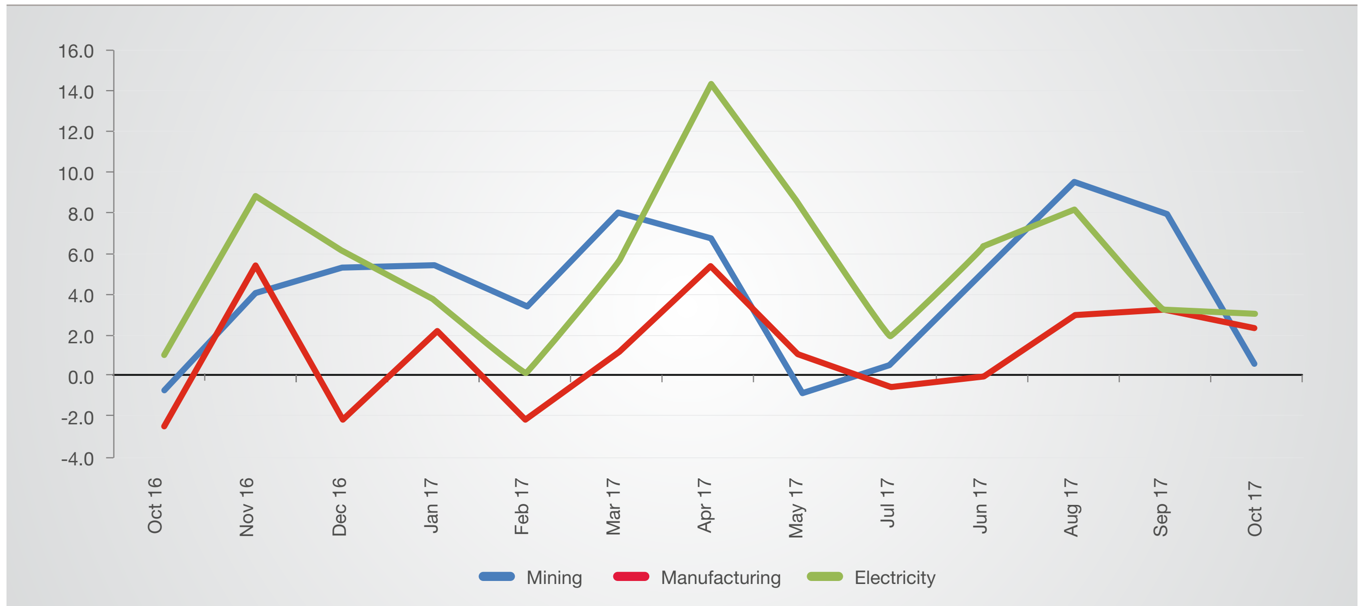
**IIP (GENERAL INDEX)**




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

The IIP, which hit a nine-month high in August 2017, saw moderated growth in September 2017. This growth further slowed down to 2.2% in October 2017.

**IIP (SECTOR WISE)**

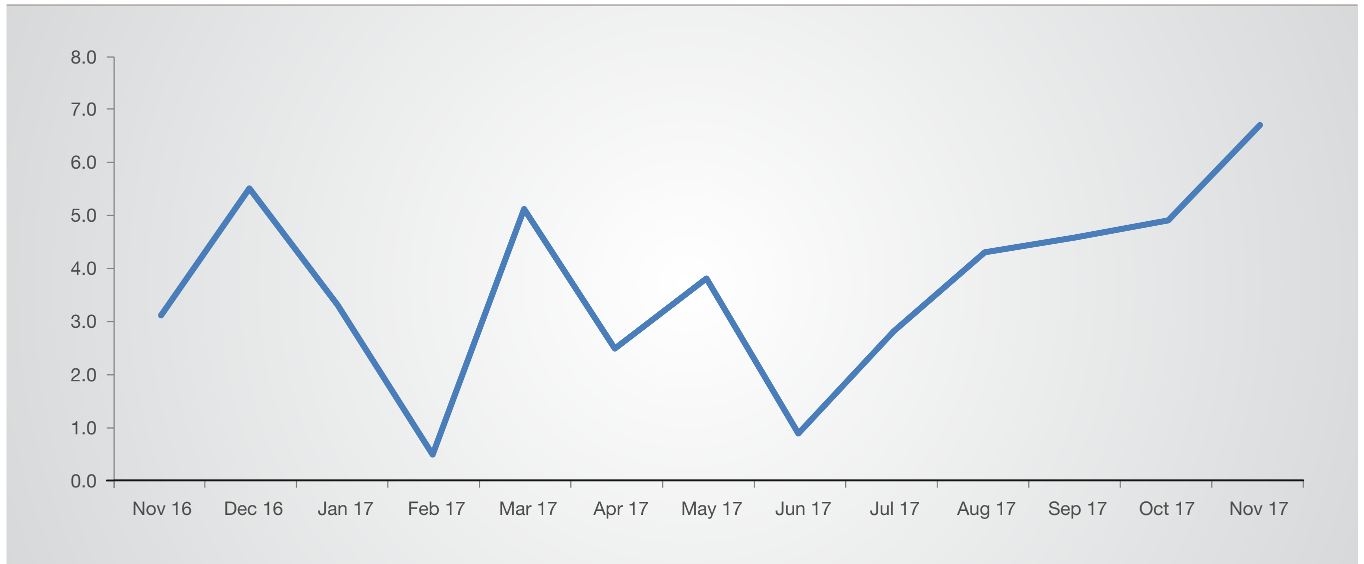



*Source: Ministry of Statistics and Programme Implementation, Government of India*

Even though the growth rate of IIP has further moderated in October, it has remained positive; the same holds true for its indices—mining, manufacuting and electricity. Among indices, the highest drop in growth rate has been witnessed in mining where the rate of growth slipped from 7.9% in September to 0.2% in October. In other two indices, the fall in growth rate has not been that severe. In manufacturing, the growth rate shrunk from 3.4% in September to 2.5% in October. Similarly in electricity, the growth rate has dropped from 3.4% in September to 2.4% in October.

## CORE SECTOR MOVES UP

**INDEX OF EIGHT CORE INDUSTRIES**

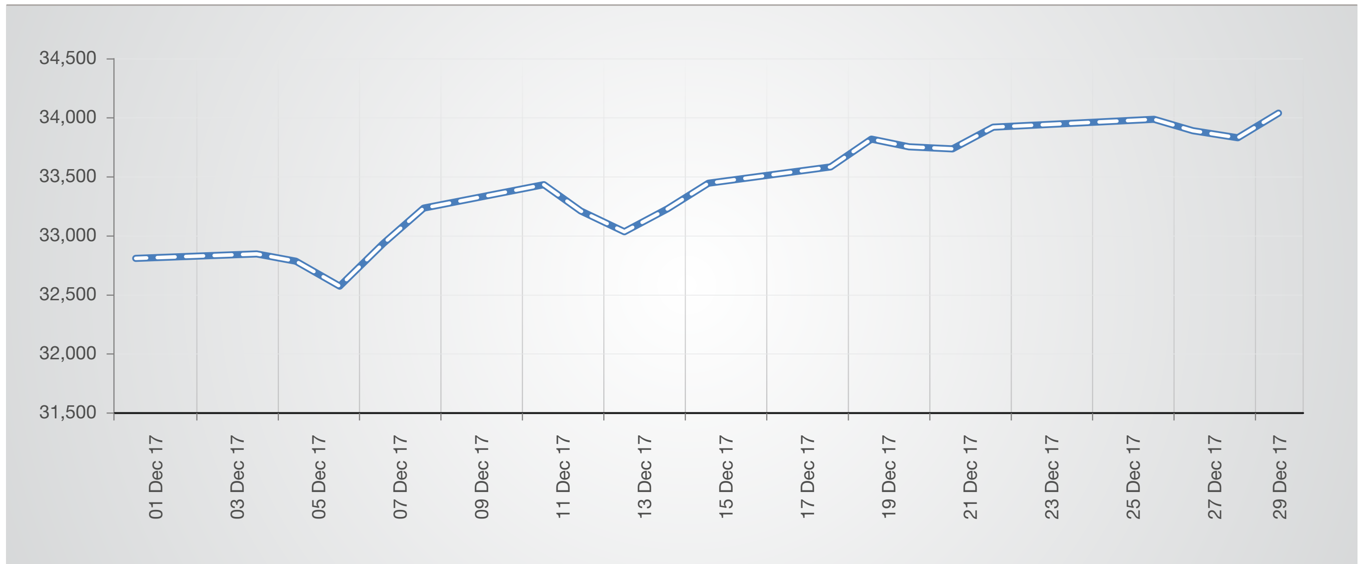



*Source: Ministry of Commerce & Industry, Government of India*

After holding on to the growth rate of 4.7% in September and October, the growth rate in the core sector moved up north in November 2017 recording a growth rate of 6.8%. This recorded growth rate by the core sector is a 13-month high. The last high growth rate recorded by the core sector was in October 2016 when it clocked a growth rate of 7.1%.

## SENSEX

**S&P BSE SENSEX**

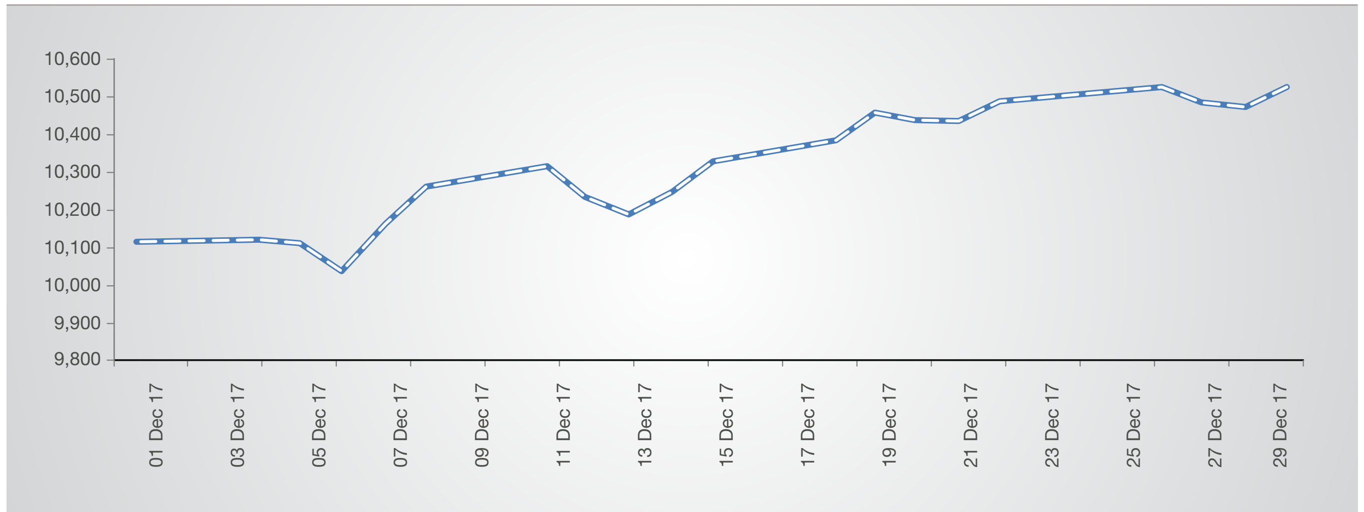



*Source: Bombay Stock Exchange*

The S&P Sensex gained 4% in December 2017. It is worth noting that the S&P Sensex closed at a record high at the end of the year at 34,057 points.

## NIFTY

**NIFTY 50**




*Source: National Stock Exchange*

The NIFTY 50 gained 4% in December 2017.

## CURRENCY

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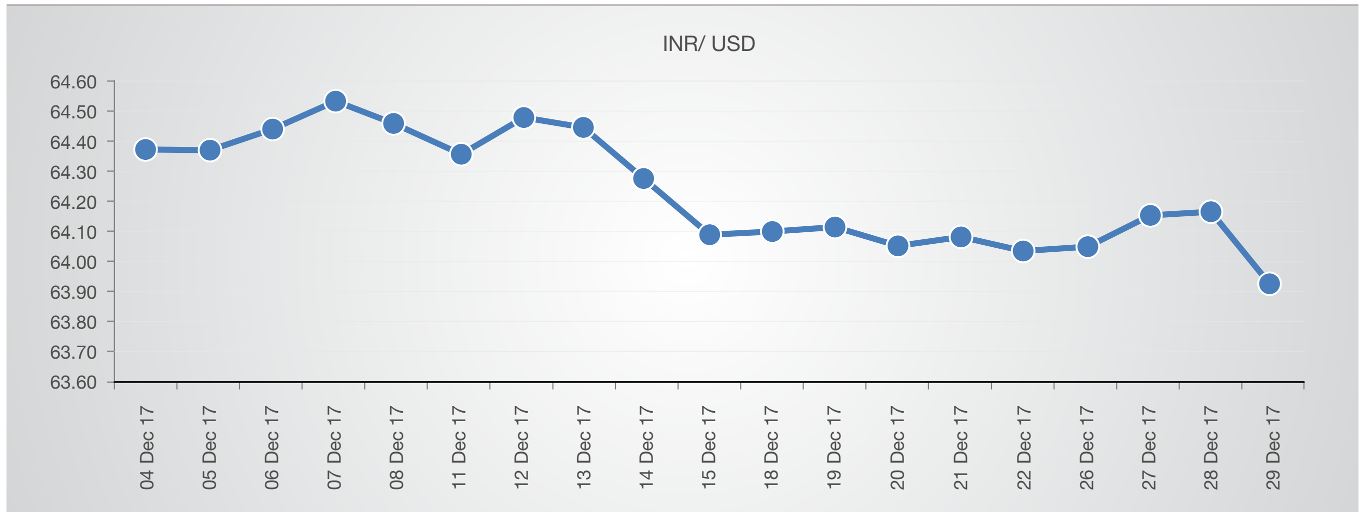


*Source: Reserve Bank of India*

The INR lost 0.1% to the USD in December 2017.

# INDIA INFRASTRUCTURE & REALTY UPDATE

## ELECTRIFICATION OF RAILWAY ROUTES

The Ministry of Railways has chalked out a plan for electrification of its broad gauge routes till 2021–22. As per the plan, 38,000 kilometres of broad gauge lines will be electrified till 2021–22. The electrification of the broad gauge lines will not be restricted to state boundaries. Among the major beneficiaries of this plan of the Ministry of Railways are the states of Gujarat, Assam, Karnataka, Rajasthan, Tamil Nadu and Uttar Pradesh, where more than 1,000 kilometres of broad gauge lines will be electrified.

## LINKING CHARDHAM THROUGH RAILWAYS

Final Location Survey (FLS) for Char Dham (Yamunotri, Gangotri, Kedarnath, Badrinath) has been sanctioned in 2017–18. The tender for the FLS has been taken up. The details are as mentioned below.

| Dham | Starting point | Terminal point |
|---|---|---|
| Yamunotri | Doiwala | Uttarkashi - Palar |
| Gangotri | Doiwala | Uttarkashi - Maneri |
| Kedarnath | Karnaprayag | Saikot - Sonprayag |
| Badrinath | Karnaprayag | Saikot - Joshimath |

*Source: Press Information Bureau*

## INCENTIVES FOR OFFICIALS FOR TIMELY IMPLEMENTATION OF BHARATMALA PROJECT

In order to expedite implementation of the Bharatmala Pariyojna, the National Highways Authority of India (NHAI) has decided to start an incentive scheme for its officials. The scheme not only envisages completing the projects earlier than the scheduled time, but also aims at savings on account of cost overruns due to time delays. The scheme will reward hardworking, meritorious officials and will act as a catalyst to motivate other officials to work more efficiently. Under this scheme, cash incentives and other rewards such as certificates, trophy and appreciation letters would be given to the NHAI officials to complete the assigned task in a time-bound manner.

## UPGRADATION AND DEVELOPMENT OF NEW HARBOURS AND PORTS

The expansion, modernisation, development and upgradation of port infrastructure in the country is an ongoing process and includes construction of new berths or harbours and terminals and mechanisation of the existing ones. The government has launched Sagarmala Programme to promote port-led development, under which a master plan for all the 12 major ports have been prepared. 142 port capacity expansion projects have been identified in the master plan for implementation over the next 20 years.

## DEVELOPMENT OF NATIONAL WATERWAYS

Under the National Waterways Act, 2016, a total of 111 waterways have been declared as National Waterways (NWs). Out of these 111 NWs, NWs-1, 2 and 3 are operational and cargo and passenger vessels are moving on them, while for NW-4, the development works under Phase-I from Muktyala to Vijaywada started in 2017. Further, for development of NW-5, preparation of DPR including Front End Engineering Design (FEED) for the construction of weirs/barrages with navigational locks and check dams between Pankapal and Paradip/Dhamra (Phase-I) has been sanctioned. The Jal Marg Vikas Project (JMVP) has been commissioned with technical and financial assistance of The World Bank for the capacity augmentation of NW-1 (Ganga) from Haldia to Varanasi (1380 km). The JMVP aims at developing the fairway to enable safe navigation of 1,500–2,000 tonne vessels. The project would be completed by 2022–23 at an estimated cost of ₹5,369 crore.

## DEVELOPMENT OF BUS TERMINALS

The Ministry of Road Transport and Highways formulated a scheme namely, 'Development of Bus Terminals on BOT basis' for implementation during the Twelfth Five-Year Plan. This scheme provides for financial assistance to engage Project Development Consultants for development of bus terminals on BOT basis. The Ministry has received proposals from 6 states, i.e. Himachal Pradesh, Rajasthan, Jharkhand, Andaman and Nicobar, Uttar Pradesh and Arunachal Pradesh. The Project Development Consultant cost is to be shared between the Government of India, State or UTs and successful bidder as per scheme guidelines. This scheme is to be appraised for continuation with completion of the twelfth Five-Year Plan.


**RESEARCH**

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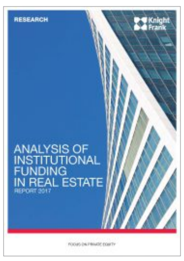


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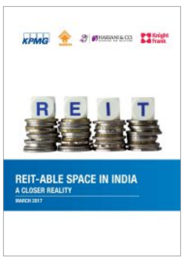


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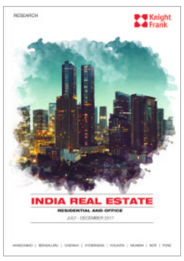
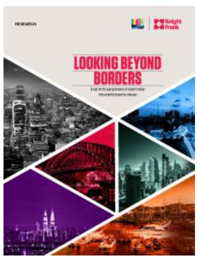



INDIA REAL ESTATE OUTLOOK JUL TO DEC 2017




LOOKING BEYOND BORDERS



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