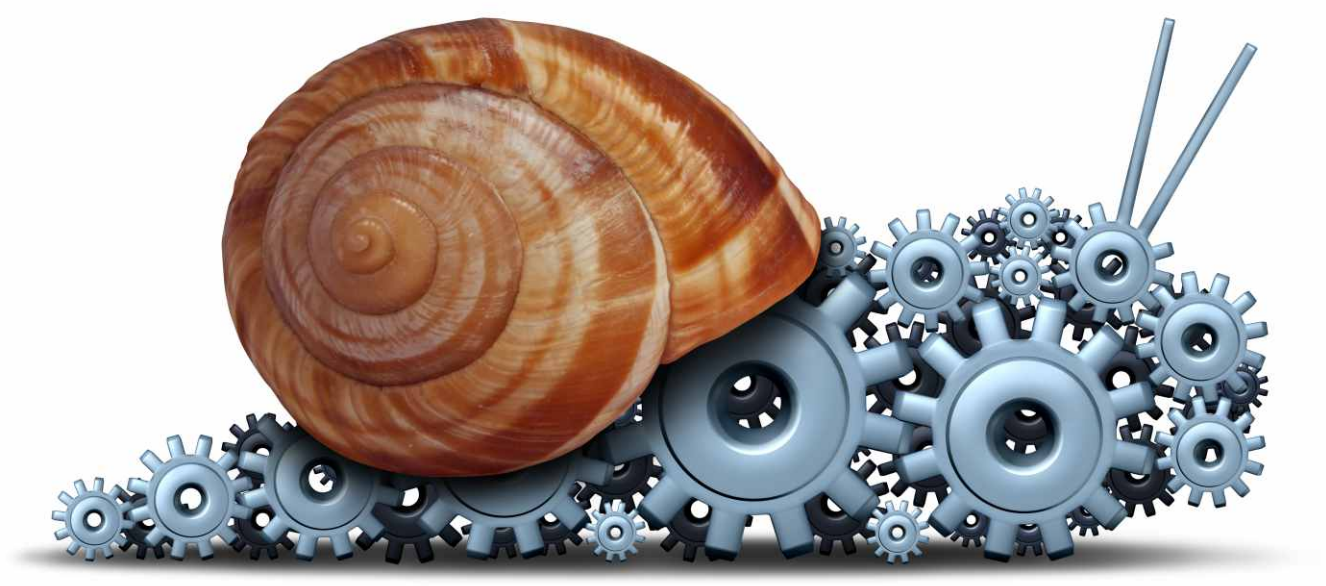
MONTHLY UPDATE
APRIL - JULY 2019

ECONOMY
SLOWING DOWN



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

GLOBAL UPDATE

Recession in Global Economy; India to remain unaffected: Morgan Stanley

As per Morgan Stanley, escalating trade tensions between the US and China is one of the major factors that has been pushing the global economy towards a recession. As per the study, this recession could become a reality in the next nine months. The study further states that even though the Indian economy is slowing down, and in some sectors the situation is very precarious, recession is less likely to affect India. Apart from escalating trade tensions between the US and China, the threat of recession also hangs over the UK and other economies in Europe.

Slowdown in the Indian Economy

Over the past few months, the slowdown in the economy has started to make its presence felt. In fact, international lending agencies have in recent months revised their growth outlook for India. The International Monetary Fund (IMF) and the Asian Development Bank (ADB) have both downgraded India's growth forecasts on account of headwinds in the global and domestic markets. It needs to be noted that GDP growth in the last quarter of FY19 slipped to 5.8%. More recently, the Reserve Bank of India (RBI), country's central bank, also lowered the GDP growth forecast from 7% in June 2019 to 6.9% in August 2019 as announced in its third bi-monthly 'Monetary Policy Statement 2019–20'. During this period, the GDP is expected to grow in the range of 5.8%–6.6% in H1 2019 and in the 7.3–7.5% range in H2 2019. As the slowdown in the Indian economy has started to stare us in the face, things are set to be equally gloomy on the global front. The IMF expects the global economy to grow by 3.2% in 2019. The revised growth rate is 0.1 percentage points lower than the forecast in April 2019 and 0.3 percentage points lower than the estimate made at the start of the year. The factors that are responsible for trimming off the global growth rate include a continuation of the trade war between the U.S. and China, lingering BREXIT worries and muted inflation.

India seventh largest economy: The World Bank

According to the data compiled by The World Bank, India has slipped to the seventh position in the global GDP rankings in 2018 from it's previous sixth spot in 2017. As per the 2018 rankings, the top spot was occupied by the US, followed by China and Japan. Other countries in the top 10 after Japan, in order of their rank are Germany, the UK, France, India, Italy, Brazil and Canada. As per the survey findings, the US economy had a GDP of $20.5 trillion in 2018. The Indian economy, on the other hand, had a GDP of $2.7 trillion. Nirmala Sitaraman, Union Minister for Finance and Corporate Affairs, in her maiden budget speech on 5 July 2019 stated that the Indian economy will grow into a $3 trillion economy in the current year. In her speech, she further stated, “It is well within our capacity to reach $5 trillion in the next five years.”

India jumps five places in global innovation index 2019

India moved up five places in the Global Innovation Index (GII), 2019, compared to the previous year and was placed at the 52nd position, among 129 countries. It must be noted that India was placed at the 81st position in the 2014 rankings. While the country has made rapid progress on this front in five years, the aim is to reach higher up the ladder. While releasing the survey findings, Piyush Goyal, Union Minister for Railways, Commerce and Industry stated, “India will continue its efforts to reach upwards of the top 50.” GII rankings are published every year by Cornell University, INSEAD and UN World Intellectual Property Organisation. The 2019 rankings were the 12th edition of the rankings. Further, the latest edition ranked 129 economies on 80 indicators, which included factors like intellectual property filing rates, mobile application creation, education spending and technical publications. Switzerland topped the table followed by Sweden, the United States of America, the Netherlands, the United Kingdom, Finland, Denmark, Singapore, Germany and Israel.

INDIA UPDATE

Policy rate reduced by 35 bps

RBI, in its 'Third Bi-monthly Monetary Policy Statement 2019–20', reduced the policy rates by 35 basis points (BPS/bps). As a result of this reduction, the repo rate now stands at 5.40%, the lowest in a decade. Also, the recent reduction in policy rates is the fourth successive cut in a year, largely done to revive the economy that has been slowing down in recent times. As already mentioned earlier, the central bank also revised the growth estimates downwards for 2019–20. From a projected growth rate of 7% in the June 2019 policy, the forecast has been revised to 6.9%, in the range of 5.8%–6.6% for H1 2019 and 7.3%–7.5% for H2 2019. The reduction in policy rate announced in the third bi-monthly Monetary Policy statement 2019 – 20 in August 2019 has started to result in financial institutions reducing interest rates. To give an example, the State Bank of India reduced its Marginal Cost of Funds based Lending Rate (MCLR) by 10 bps. Similarly, other financial institutions also followed suit, like Bank of India by 25 bps, Syndicate Bank by 25 bps, IDBI Bank between 5–15 bps, Allahabad Bank by 15–20 bps, Bank of Maharashtra by 10 bps and UCO Bank by 15 bps. Further, the government is also planning to give the much-needed boost to the economy through a stimulus package, which is largely expected to be centred around tax cuts and sops for different sectors. We do hope that these measures provide the much-required stimulus to the economy to arrest the slide and reverse the declining trend.

Rise in Aadhaar-enabled transactions

As per the National Payments Corporation of India (NPCI), there has been a significant increase in transactions using the Aadhaar Enabled Payment System. As of July 2019, over 22 crore transactions have been done through the Aadhaar Enabled Payment System. The total volume of transactions amounted to INR 9,685 crore. The use of payments through such a model is typically used for cash withdrawal, cash deposit, funds transfer and balance enquiry.

Efforts to reduce NPAs in PSBs

Regular efforts are being made, largely in the form of 4Rs, to reduce the non-performing assets (NPAs) of public sector banks (PSBs). Due to the measures adopted, NPAs, after reaching a high of INR 8,95,601 crore as of 31 March 2018, declined to INR 7,89,569 crore as of 31 March 2019. Measures to reduce NPAs include change in credit culture and timely resolution of NPAs. In fact, as a part of the reform process, several measures have been implemented in public sector banks. These include measures like tying up necessary clearances, approvals and linkages before disbursement, scrutiny of group balance sheet and ring-fencing of cash flows, non-fund and tail risk appraisal in project financing. Further, there is emphasis on using third party data when carrying out the necessary due diligence, monitoring is being done in a sharper way and lastly to ensure timely and better realisation in one-time settlements, online end-to-end platforms have been set up.

Low on consumer confidence

As per the findings of the latest consumer confidence survey, by the Reserve Bank of India, Indian households are low on confidence, especially with regards jobs and the general economic condition. As per the findings, the current situation index stood at 95.7 in July 2019, down from 97.3 in May 2019 and 104.6 in March 2019. In addition, the future expectations which stood at 128.4 in May 2019 also slumped to 124.8. These findings are a result of a survey conducted across 13 cities and which covered 5,351 respondents. The survey seeks to gather information of households about perceptions and expectations about the economy, employment scenarios, prices and income and spending. Additionally, the survey reveals that Indians are not that optimistic about spending. It is worth noting that because of a slowdown in consumption, households are more likely to postpone big ticket purchases.

Slowdown in the auto sector

The crisis in the Non-Banking Financial Companies (NBFCs) sector has hit the automobile sector hard. Till June 2019, passenger car sales have been on a downhill trend for eight months in a row. As per the Federation of Automobile Dealers Association (FADA), around 2 lakh workers in the automobile sector have lost their jobs in the past three months. According to some estimates, manufacturers and dealerships have laid off close to 3.5 lakh people since April. In fact, most auto majors have in the recent past cut down on production. For a sector which, directly and indirectly, employs close to 3.5 crore people, the impact of the recent slowdown will be huge. Increase in registration charges have only made matters worse for the sector. Significantly all auto majors have witnessed a decrease in sales of passenger vehicles in July this year, compared to the same period last year. For more news on this front, please watch out for this space.

Slow moving consumer goods

The slowdown in the economy has also hit the consumer goods sector. In fact, post July–September 2018, the growth in the FMCG sector has hit a four-month low, both in terms of value and volume. If one looks closely, there are a couple of factors that have influenced the growth of the FMCG sector. First, apart from slowdown in the rural market, traditional asset classes or wealth generating factors are in the midst of a slowdown—the stock markets and the real estate sector being the prominent ones.

No minimum balance penalty

As per guidelines of the RBI, banking products like basic savings bank deposit accounts and accounts opened under the Pradhan Mantri Jan Dhan Yojana, there is no requirement for maintenance of the minimum balance. It has been further clarified that in case of such accounts, banks will provide certain basic facilities free of charge. As per the RBI Master Circular 'Customer Service in Banks' dated 1 July 2015, banks can fix charges on various charges rendered by them but they need to ensure that those charges are reasonable and 'not out of line with the average cost of providing these services'. Banks have also been advised to educate customers about the service charges and any changes in the charges will be implemented after notifying the customers.

Broadband readiness index

Very soon a Broadband Readiness Index will be prepared for states and union territories of the Indian Union. The first estimate of the same will be made in 2019 and every year post that, till 2022. A memorandum of understanding to this effect was signed between the Department of Telecom (DoT) and the Indian Council for Research on International Economic Relations (ICRIER). This index will help apprise the condition of digital infrastructure in states and union territories. At a micro level, the index will consist of two parts. The first part will delve into development of infrastructure based on nine different parameters. The second part of the index will look at the demand side parameters. The information on this account will largely be collected through primary sources. Among other things, the information collected will include indicators like percentage of households using computers/laptops with internet connection.

ECONOMIC UPDATE

Manufacturing PMI inches up

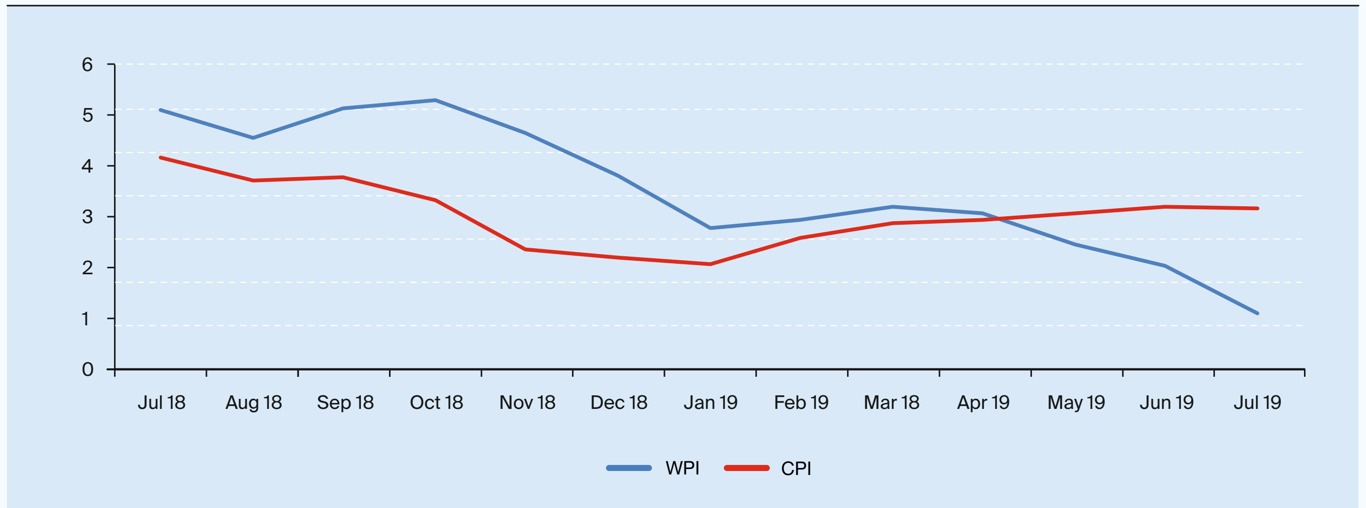
The Nikkei India Manufacturing Purchasing Managers' Index (PMI), which stood at 52.1 points, in June 2019, moved up to 52.5 points in July 2019. As per the survey, the upward movement in PMI can be attributed to an increase in demand which is a result of successful marketing efforts, competitive pricing and favourable public policies. A score above 50 points towards economic expansion, while one lower than 50 is a sign of economic contraction. Further, the manufacturing PMI has inched up, in July 2019, compared to the previous month, it needs to be noted that in June 2019 the growth rate of the index of core sectors came to a grinding halt, in fact, it touched a 50-month low.

Services PMI moves up

The Nikkei India Services Business Activity Index, which stood at 49.6 points in June 2019 moved up to 53.8 points in July 2019. The upward movement of the index was largely driven by strong growth in international demand. As in the case of the manufacturing PMI, so also it is with the services PMI, a score above 50 points towards economic expansion, while one under 50 is an indication of economic contraction.

CPI and WPI lose steam

INFLATION



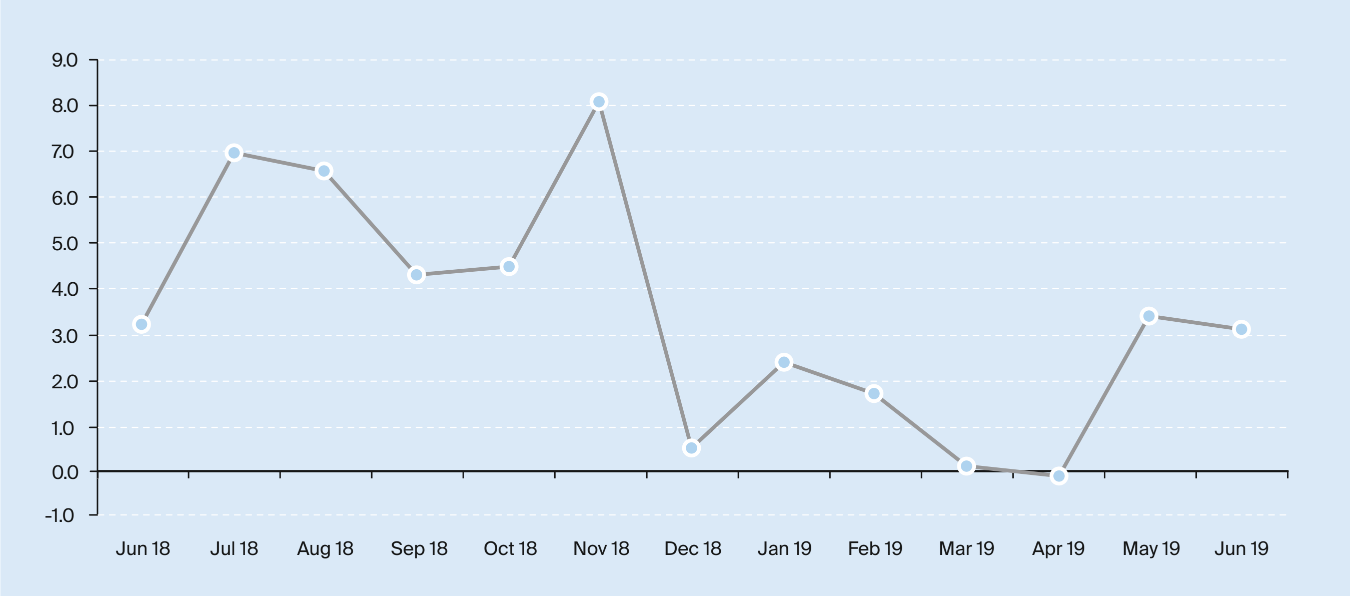
Source: Ministry of Commerce and Industry, Ministry of Statistics and Programme Implementation, Government of India

Retail inflation hit a 19-month low in January 2019, post that however, the Consumer Price Index (CPI) has been slowly inching up. In July 2019, however, the CPI decreased marginally compared to the previous month. The CPI stood at 2.05% in January 2019, gradually moving up to 2.57% in February 2019, 2.86% in March 2019, 2.92% in April 2019, 3.05% in May 2019, 3.18% in June 2019 and finally settling at 3.15% in July 2019. What is worth noting is that the retail inflation in rural India was 2.19%, while the same stood at 4.22% in urban India. Further, the Food Price Index has moved up in July 2019, compared to the previous month. In April 2019, the Food Price Index stood at 1.10%, in May 2019 it was 1.83%, in June 2019 it climbed to 2.17% and finally settled at 2.36% in July 2019. The rate of the price growth was in the red in case of fruits (-0.86%) and sugar and confectionary (-2.11%) and fuel and light (-0.36). The rate of price growth in case of other product categories was largely positive. Among major product categories, the rate of price growth, in July 2019, compared to the same period last year was 4.87% for housing, 4.65% in case of miscellaneous items and 4.89% for pan, tobacco and intoxicants. Among sub-categories, the highest rate of price growth, in July 2019, compared to the same period last year was witnessed in case of meat and fish (9.05%), and health (7.88%).

The slide in the Wholesale Price Index (WPI) has been for a more prolonged period as compared to the CPI. The WPI, which was at a three-month high in March 2019, settled at 3.07% in April 2019. In May 2019, WPI cooled down to 2.45% and in June 2019, it further went down to 2.02%. In July 2019, the WPI further slipped to 1.08%. The primary reason for the cooling down of WPI is the reduction in the rate of price growth of 'fuel and power' in July 2019 compared to the same period last year. In fact, the rate of price growth of 'fuel and power' was in the red (-3.64%) in July 2019, compared to the same period last year. Of the three components (LPG, Petrol and Gas) that form the 'fuel and power' category, the rate of price growth was negative in case of LPG (-15.01%), Petrol (-5.73%) and HSD (-3.72%). With respect to other categories, the rate of price growth of primary articles was 5.03%. What is, however, worth noting is that even though the rate of price growth of primary articles was positive, there were certain product categories wherein the rate of price growth was in the red, in July 2019, compared to the same period last year. These product categories include potato (-23.63%) and crude petroleum (-15.05%). There were certain products within 'primary articles' which witnessed astronomical increase in prices in June 2019, compared to the same period last year. These include pulses (20.08%), fruits (15.38%) and minerals (13.46%)

IIP slips further

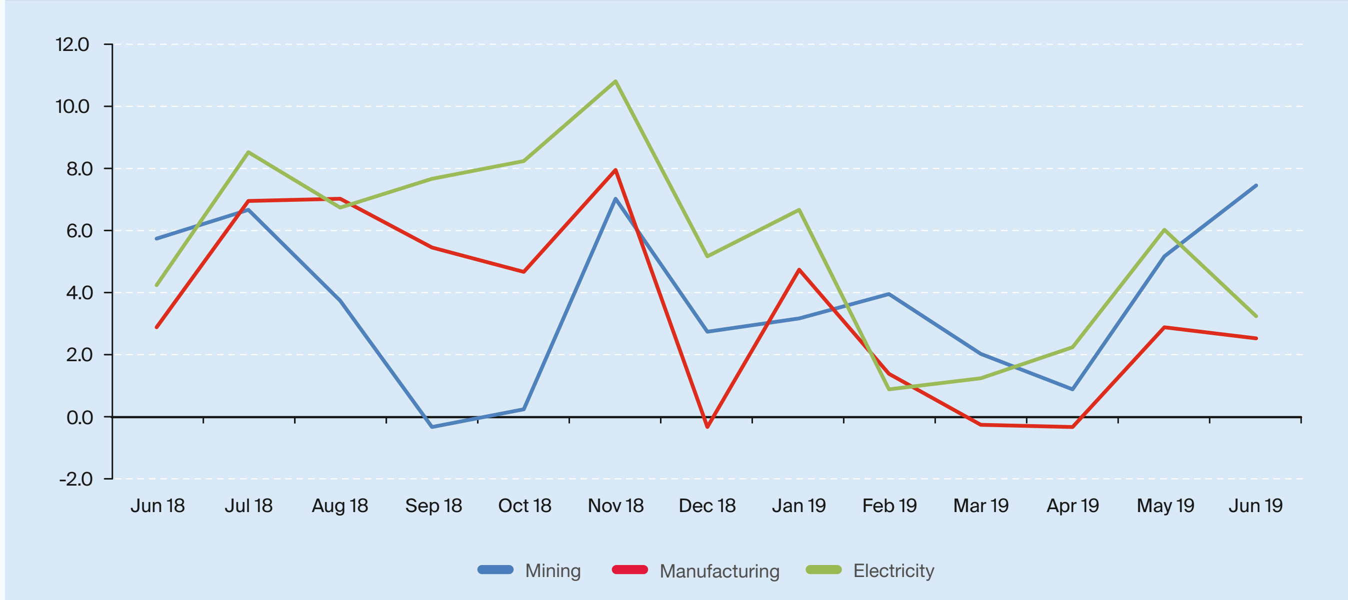
IIP (GENERAL INDEX)



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

The growth rate of the Index of Industrial Production (IIP), post October 2018, has been rather lacklustre. From a growth rate of 8.1% in October 2018, the growth rate of the IIP slipped to -0.1% in March 2019. Post March 2019, however, the growth rate had been on its way up. In April 2019, the growth rate had recovered to 3.4% and finally settled at 3.1%, in May 2019. In June 2019, the growth rate slipped again to 2%.

IIP (SECTOR WISE)

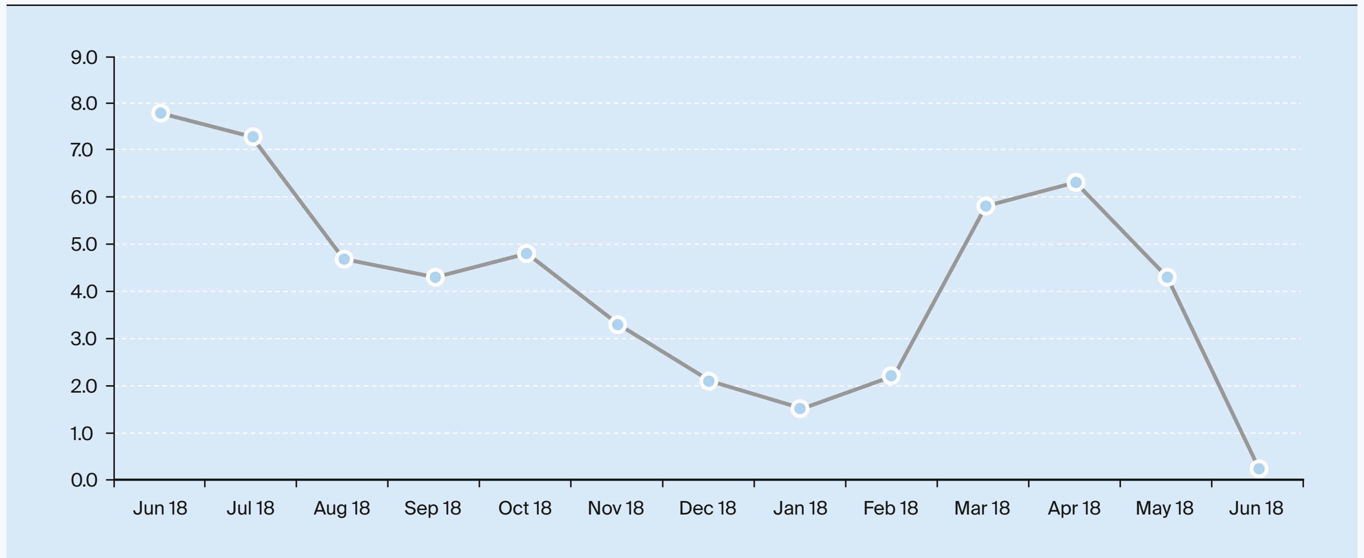


Source: Ministry of Statistics and Programme Implementation, Government of India

The sliding fortunes is reflected in the growth rates recorded by sectors (between May–June 2019) that make up the IIP. Of the three sectors that make up the IIP, two of them recorded lower growth rates, in June 2019, compared to the previous month. The two sectors that recorded lower growth rates, in June 2019, compared to the previous month, are mining (1.6%) and manufacturing (1.2%). Only the electricity sector recorded a stellar performance, in June 2019, compared to the previous month

Core sector at a 50 month low

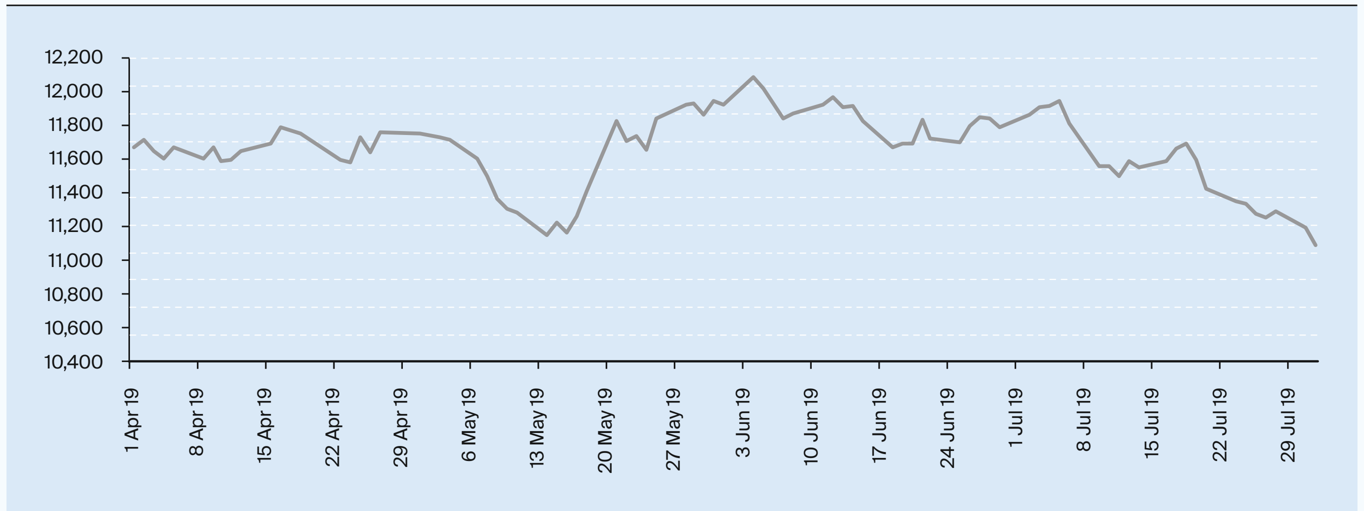
INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce and Industry, Government of India

Over the past one year the growth rate of the core sectors has largely been upside down. From a high of 7.8% recorded in June 2017, it came crashing down to 0.2% exactly a year later. Between this period, the growth of the core sector was never consistent. What is striking about the growth rate in June 2019 is that, it has almost come to a standstill, after recording 4.3% in May 2019 and 6.3%, in April 2019. And if one looks at data prior to June 2018, then the growth rate recorded in June 2019 is a 50-month low. It must be noted that out of the eight sectors, four sectors witnessed contraction in June 2019. These include sectors like refinery products (-9.3%), crude oil (-6.8%), natural gas (-2.1%) and cement (-1.5%). Even though the growth rate of the four sectors was positive, only two recorded growth rates higher than 5%—electricity (7.3%) and steel (6.9%). The other two sectors recorded just about decent growth rates—coal (3.2%) and fertilizers (1.5%). What is also worth noting is that in the past two months, among all the sectors that comprise the core sector, the growth rate of natural gas was 0% in May 2019.

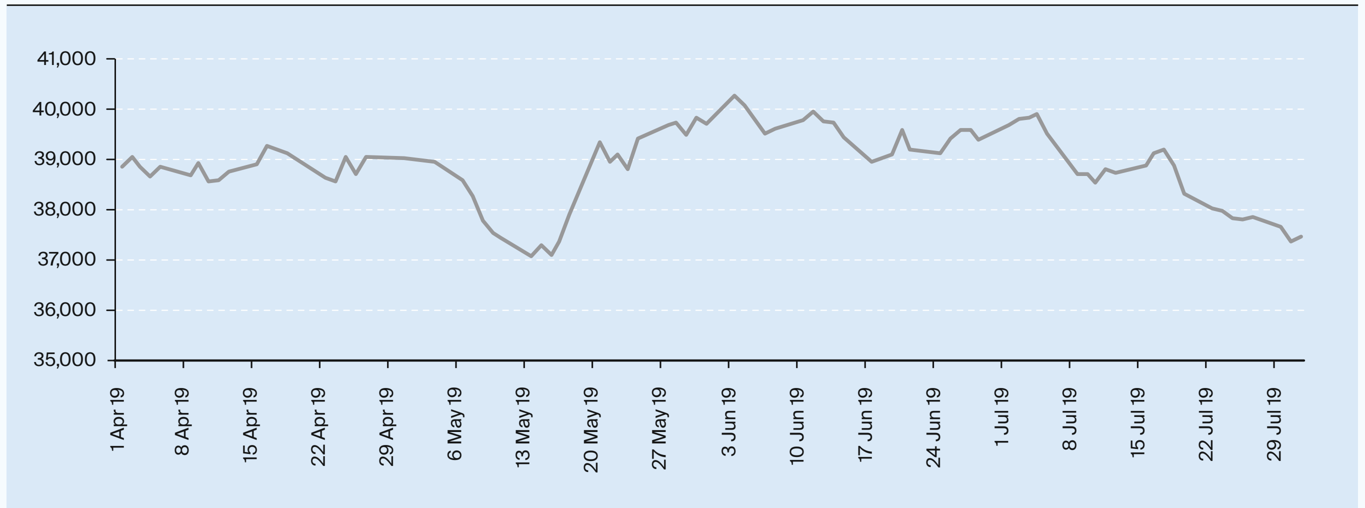
NIFTY 50



Source: National Stock Exchange

The NIFTY 50 lost 5% between 1 April 2019 and 31 July 2019

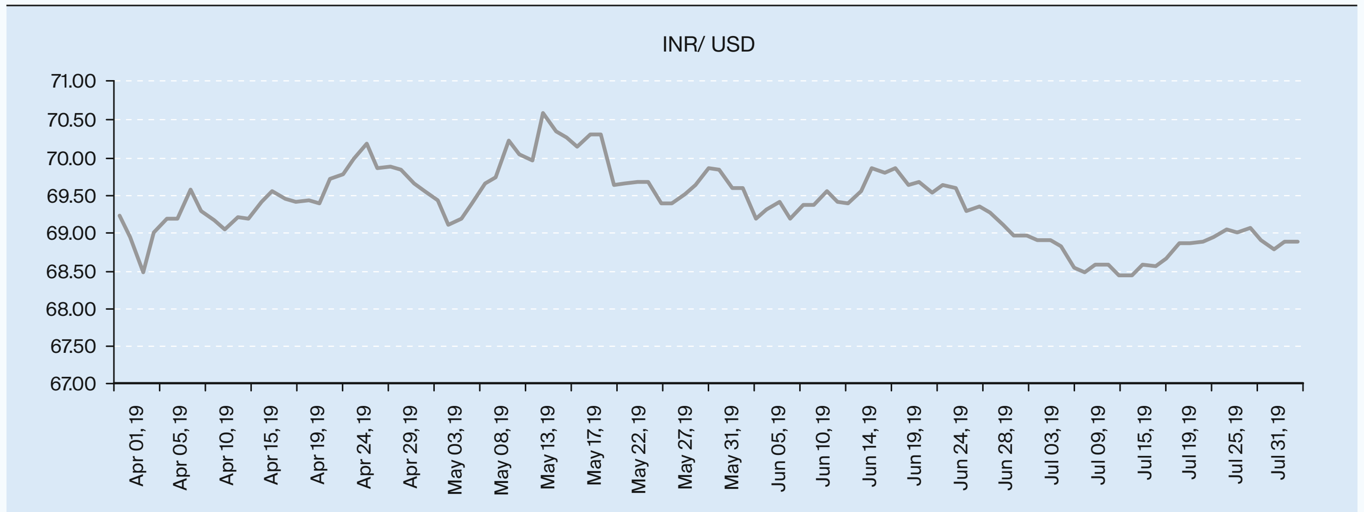
S&P BSE SENSEX



Source: Bombay Stock Exchange

The S&P BSE SENSEX lost 4% between 1 April 2019 and 31 July 2019.

CURRENCY



Source: https://in.investing.com

The INR gained 0.5% against the USD between 1 April 2019–31 July 2019

INDIA
Infrastructure & Realty update

Indian railways to go green

The Indian Railways plans to go 100% green in the near future. If this plan of the Indian Railways is successful, then it will be the first railway network in the world to go completely green. Piyush Goyal, Minister for Railways and Commerce and Industry, stated that the Indian Railways is planning to expand it's use of solar energy. As per the plan, solar panels will be set up on unused railway land. It needs a mention that the Indian Railways had, earlier this year, announced plans of investing INR 18,000 crore for solar units to be set up along railway tracks. Highlighting the twin advantages of installing solar panels on unused railway land, Mr Goyal stated that apart from the land being saved from encroachments, the electricity generated will be fed into the power grid. Also, the Indian Railways plans to achieve 100% electrification of railways tracks by 2022.

Development of Amaravati?

The new capital of Andhra Pradesh, post bifurcation of the state—Amaravati, was the second greenfield state capital to be developed in the 21st century, the first being Naya Raipur. Post bifurcation, the plan was to build a new capital for the state. While the development process went through its ups and downs, recent developments have put the project under rough weather. The World Bank, which had committed $300 million for the development of the new capital city, pulled out of the project. A week after The World Bank pulled out of the project, the Asian Infrastructure Investment Bank (AIIB), which had committed $200 million, also withdrew from the project. For more updates on this front, please watch this space.

Helping hand to homebuyers

A three-judge bench of the Supreme Court of India headed by Justice Rohinton F Nariman ruled that the rights of homebuyers will be at par with lenders. What this means is that priority will be given to homebuyers and they will be treated at par with banks and financial institutions when recovering dues from insolvent real estate companies. In the recent past, there have been many instances of real estate companies going bankrupt, thereby leaving many homebuyers in the lurch.

Update on PMAY (Urban)

Under Pradhan Mantri Awas Yojayan (Urban), the Ministry of Housing and Urban Affairs has approved construction of around 1,40,134 more affordable houses. The said approval was given in the 45th meeting of the Central Sanctioning and Monitoring Committee (CSMC). The cumulative number of houses sanctioned under PMAY(U) is 85,11,574. CSMC considered proposals from eight states, namely Uttar Pradesh (54,277), West Bengal (26,585), Gujarat (26,183), Maharashtra (8,499), Assam (9,328), Chhattisgarh (6,507), Rajasthan (4,947) and Haryana (3,808).

Development of the Chennai-Bengaluru industrial corridor

Work on the Chennai-Bengaluru Industrial Corridor has been completed and emphasis is now being laid on developing nodes on this corridor. The three nodes identified for development are Krishnapatnam (14,000 acres), in Andhra Pradesh, Ponneri (21,966 acres), in Tamil Nadu and Tumakuru (9,630 acres), in Karnataka. Land acquisition for the development of these nodes have been initiated by the respective state governments. The Japan International Co-operation Agency (JICA) has prepared the overall perspective plan of the said corridor and the initial master plan for the three nodes. As the project is in the development stage, the completion date for the same has not yet been fixed.

Development of the Vizag-Chennai industrial corridor

The Conceptual Development Plan of the Vizag-Chennai Industrial Corridor has been prepared by the Asian Development Bank (ADB). There are four nodes on this corridor that have been identified for development. These nodes are Visakhapatnam, Machilipatnam, Donakonda and Chittor. The initial master planning for nodes at Viskhapatanam and Machiliptnam have been made by the ADB.

Engineering cluster at Nashik district

An engineering cluster has been established by the Department for Promotion of Industry and Internal Trade (DPIIT), in Nashik District. The project—Nashik Engineering Cluster—was built at a cost of INR 67.26 crore. The project has been completed and the necessary infrastructure has also been put in place.

Iconic tourism sites to be developed

Seventeen sites have been identified in 12 clusters, by the Ministry of Tourism, for development as iconic sites. These sites are Taj Mahal and Fatehpur Sikri (Uttar Pradesh), Ajanta and Ellora (Maharashtra), Humayun's Tomb, Red Fort and Qutub Minar (Delhi), Colva (Goa), Amer Fort (Rajasthan), Somnath and Dholavira (Gujarat), Khajuraho (Madhya Pradesh), Hampi (Karnataka), Mahabalipuram (Tamil Nadu), Kaziranga (Assam), Kumarakom (Kerala) and Mahabodhi Temple (Bihar). Under the programme, the ministry shall be developing the above-mentioned sites in collaboration with the central ministries, state governments and local bodies. The ministry will work towards improving connectivity to the destination, providing better facilities/experience for the tourists at the site, skill development, involvement of local community and it will also consider the promotion and branding by bringing in private investment.

More routes added under UDAN

The UDAN scheme under the 'Regional Connectivity Scheme' has added nine more routes. With the latest addition, 194 routes are now being covered by this regional connectivity scheme. The new routes that have been added under the programme are Mysore–Hyderabad–Mysore, Mysore–Goa–Mysore, Mysore–Kochi–Mysore, and Kolkata–Shillong–Kolkata.

More services through FASTAG 2.0

Ever since the introduction of FAS Tag smart cards, movement on the highways (i.e. toll plazas) has become a smooth and easy drive, in most cases. Till now all that these smart cards were useful for was for paying of toll at the toll plaza. To ensure that the movement of traffic movement is smooth in case of vehicles with FAS Tag, there is even a different lane in some cases. Going forward, apart from paying the toll at the toll plaza, one can also use the smart card to buy fuel. IDFC First Bank is the first financial institution that has received the Reserve Bank of India's (RBI) approval for extending this facility.

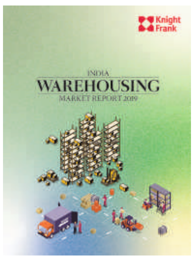
RESEARCH

Gulam Zia
Executive Director
gulam.zia@in.knightfrank.com

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

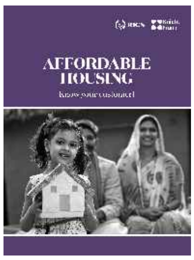
RECENT MARKET-LEADING RESEARCH PUBLICATIONS

INDIA REAL ESTATE
JAN - JUN 2019



INDIA WAREHOUSING

BRICK BY BRICK



AFFORDABLE
HOUSING

CIN No. – U74140MH1995PTC093179