

RBI to launch house starts index to gauge realty sector

THE Reserve Bank of India (RBI) is on the verge to launch a house start index, which will help gauge activity in the construction sector that employs a significant chunk of the country's labor force.

The index is expected to give an indication of the level of activity in the construction sector, which in turn will help the central bank gauge the state of the real estate sector. It will be a valuable input in monetary policy formulation, as asset price inflation assumes significance in the economy.

Housing activity is considered as amongst the important lead indicators of economic activity, given its strong and substantial forward and backward linkages with other sectors of the economy. In particular, information on trends in the number of new houses being started can provide useful information on the likely pace of economic activity over a horizon that is of interest to the central bank. An increase in the number of houses getting started (measured through Housing Start-Up Index, HSUI) would be indicative of an increase in investment, business and consumer optimism and vice-versa.

Unlike in many other countries, information on various indicators of housing activity is quite less. Therefore, Information on residential and commercial property prices is also of recent origin in our case and the same is available for only some select cities and for short periods.

Source: Economic Times.