Written by Administrator
Friday, 30 July 2010 11:00 - Last Updated Friday, 30 July 2010 11:36

The Financial Express 30.07.2010

FE Editorial : Start on stats

The reported move by the ministry of housing and urban poverty alleviation to introduce a housing start-up index that will measure the construction of housing projects is welcome. The much-needed index, likely to be introduced in December this year, was first suggested by RBI two years ago. Then the National Buildings Organisation under the ministry was deputed to collect data on building permits issued for new residential buildings in various cities. But the work for creating the index went into limbo because of data collection issues. Such an index, which exists in countries like the US, the UK, Germany, Canada and Australia, will help all stakeholders to gauge the demand and supply in the housing market. Housing starts are also considered a lead indicator of economic activity because of their strong forward and backward linkages with other sectors, and will help policymakers understand the pace of economic activity, investment trends geographically and consumer optimism on new housing. The index will also become an important input in monetary policy and help authorities detect property bubbles in their early stage. An early warning in case of a bubble can help home buyers take informed decisions on purchases and pay a realistic price for the property. The buyer and the seller can compare the index price with the offer price and this would help to keep speculators at bay.

Timely and quality data on housing starts can help companies in industries like steel and cement—the two most important raw materials for housing—plan their inventory and capacity

addition. The cement industry is challenged with overcapacity at the moment—a situation that has been carried over from the time there was a sharp slowdown in construction activity after the crisis. The index, when in place, can help check such misallocation of private resources. The index will also be useful for developers, help them to ascertain the risk of building in a particular area and prevent them from entering a location where there is excessive construction and saturated demand. However, the success of the housing start-up index will depend on the accuracy of data collection, coding and processing. Checks must be performed on the data quality and municipalities will have to ensure that they keep data in digital form, which will lower the risk of reporting errors.