

Is consumption in India slowing down?

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
+91-22- 6837 4433

Author

Vahishta M. Unwalla
Research Analyst
vahishta.unwalla@careratings.com
+91-22-6837 4408

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6837 4424

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Industrial Production - lowest in past three years, subdued activity in manufacturing sector, uneven quarterly GDP growth with a low of 5.8% in Q4-FY19, low oil consumption, subdued corporate results, reduced private investments.....are some of the key indicators the country has witnessed in the past few months. This leads us to the question "Is consumption in India slowing down?"

Consumption reflects the growth and success of the economy. Low consumption could be due to several factors including slow growth in disposable income, rising unemployment, high inflation, high tax rates and interest rates, etc. Slow growth or a decline in consumption can be a worry for the economy, as it directly gets reflected in low Gross Domestic Product (GDP) numbers, leading to negative sentiments among consumers, businesses and investors.

In this Report, we analyse some of the leading indicators of consumption in our country and try to draw a conclusion on the state of consumption in the country.

The latest estimates of national income for FY19 shows that consumption grew by 12.0% (in current prices) in FY19 compared with 10.6% in FY18 and hence does not really indicate a slowdown in consumption as a whole in the year gone by.

It is interesting to note that the slowdown in consumption issue has come to the fore of late when some of the corporates in the automobile sector and FMCG segment have indicated building inventories and declining demand. The foregoing analysis looks at various measures of consumption to gauge whether or not there has been a slowdown.

Consumer durables

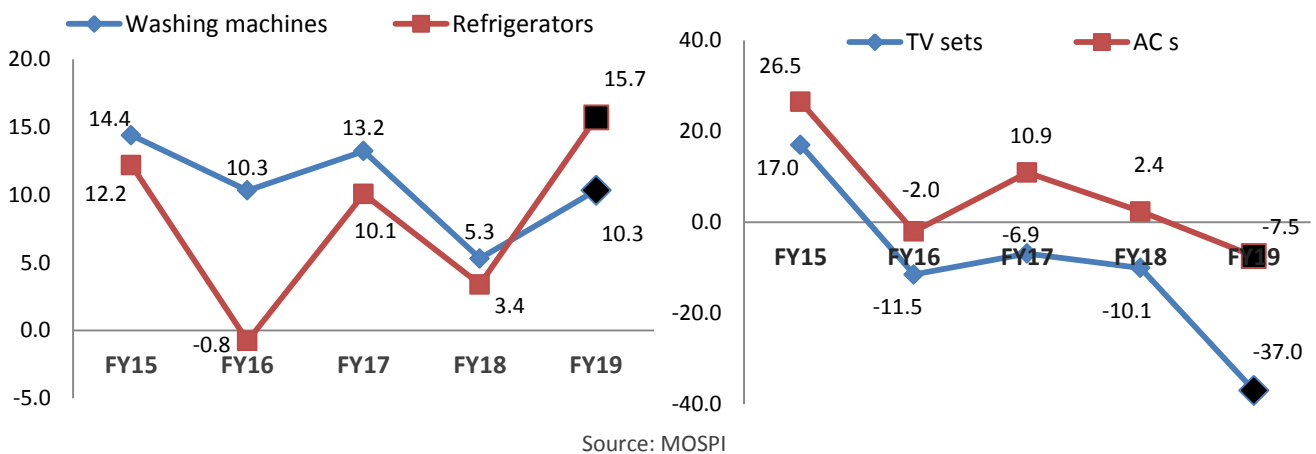
Focusing on the consumption oriented industries, the consumer durables segment output grew 5.3% Y-o-Y in FY19, the highest in past five years. Within this segment, washing machines and cooking appliances have seen healthy growth in production numbers; electric heaters and refrigerators posted 5-year high growth of 15% and 16% respectively.

Items of daily use such as plastic jars, bottles, containers, glassware, and watches also grew in volume terms.

However, output of TV sets and ACs has been on a decline recently. TV sets show a downward trend since the past four years, where FY19 saw the sharpest fall of 37%. ACs production fell in FY19 by 7%, after a marginal growth of 2% in FY18.

The fall in production of some consumer durable products can be attributed to the very nature of such products, which are purchased with a gap of 3-7 years. Along with this, the drop in consumer demand owing to lesser purchasing power can be evidenced from the fall in outstanding loans growth for this segment, which reduced by Rs. 134 bn Y-o-Y in FY19. Further, washing machines and refrigerators are considered to be more of necessities than TV sets and ACs which are considered to be 'comfort' goods.

Charts 1 a & b: Yearly production growth of consumer durables (%)



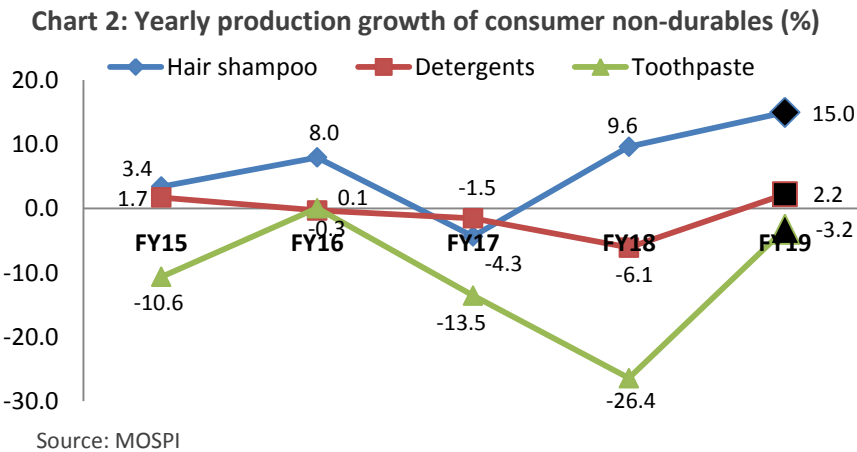
Manufacture of computers and electronic products has marked a healthy growth of 13.5% in FY19, though lower than 17% in FY18, yet much higher than low-single digit growth rates recorded five years back. The healthy growth in FY19 can be attributed to the increasing emphasis of digitisation in the country and the growing demand for hardware in office spaces, with replacement demand every ~5 years or so. The upsurge in demand for mobile phones in the face of the telecom revolution and the advancement of technology across offices and homes has kept output buoyant.

Within the sports equipment category alone, there are varied growths. While manufacture of carom boards, cricket balls and gymnasium/athletics articles has fallen; cricket bat and football has risen. Furniture made of plastic, wood and steel has also grown.

Fast Moving Consumer Goods (FMCG) / Consumer non-durables

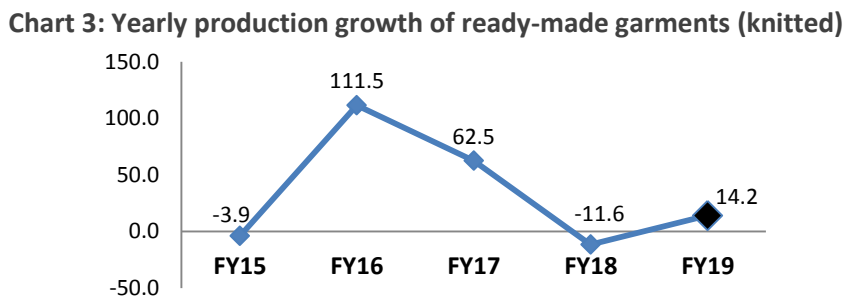
The FMCG / consumer non-durables segment showed moderate production growth of 3.8% in FY19, less than half of the growth in FY18 of 10.5%. Within this segment, output of detergents and toilet soaps grew marginally by 2.2% and 2.7% in FY19. Hair shampoos posted growth of 15%, but toothpaste production is on a decline since past three years. The relatively higher prices of some of these products contributed to the lower demand growth.

Manufacture of food products and beverages has shown signs of growth after almost four years of sluggishness. The robust growth of E-commerce segment has complimented the FMCG industry by helping in increasing distribution reach.



Ready-made garments

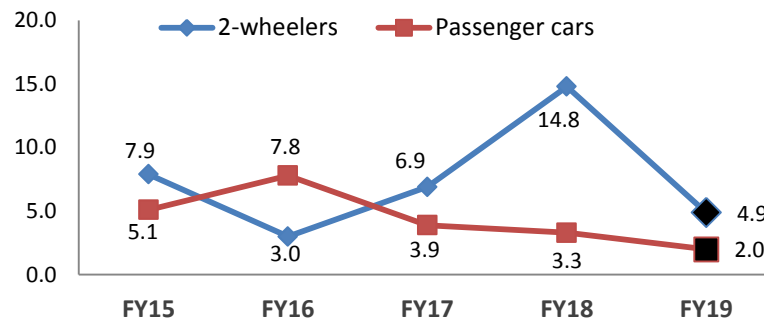
Ready-made garments (knitted) showed signs of improvement in FY19, growing by 14.2%, after declining 11.6% in FY18. Denim and fitness wear were the fastest growing sub-segments in men’s wear, while in women’s wear robust growth was seen, with the rising number of working women and increasing college going females. Also, the changing consumer preference and easy availability of ready to wear apparel in various colours, size and patterns led the growth.



Automobiles

In the automobiles sector, domestic sales of both 2 wheelers and passenger cars have slowed down during the year, which grew 4.9% and 2% respectively in FY19. The drop in sales volume can be attributed to lower spending power and possible diversion of savings to housing especially the affordable segment. Further the increase in the prices of petrol and diesel prices and insurance costs affected demand. Additionally, the liquidity crunch in the NBFC space beginning H2-FY19 led to low lending in this segment, which is reflected in the 36% decline in incremental credit growth for vehicle loans during the year.

Chart 4: Yearly growth in domestic sales volume of 2 wheelers and passenger cars (%)

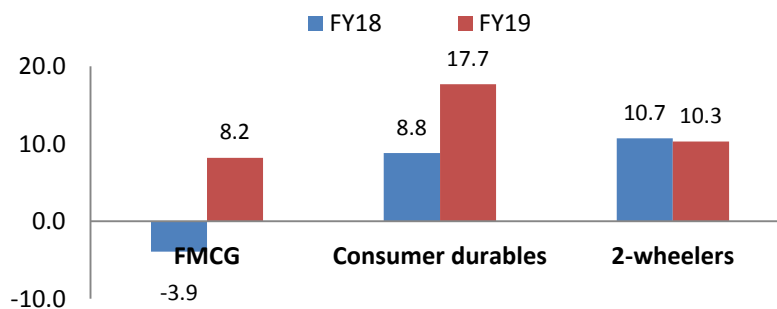


Source: CMIE

Corporate performance

- For a universe of 40 companies in the FMCG sector, net sales have grown by 8.2% in FY19, against de-growth of 3.9% in the year ago period. Out of the total sample size, 33 companies have shown growth in net sales, while remaining 7 companies de-grew. This segment includes products in the category of consumer foods and household and personal products.
- Only 1 company out of our sample size of 7 companies in consumer durables industry, had witnessed de-growth in net sales. The industry’s growth rate in FY19 was double at 17.7%, compared with 8.8% in FY18.
- In the 2-wheelers industry, cumulative net sales growth rate of 4 companies of our sample size were in line with previous year’s growth rate. In FY19, it was at 10.3%, compared with 10.7% in FY18.

Chart 5: Yearly net sales growth in %



Source: Ace Equity

On analysing some leading indicators of consumption in the country over the past five years, it can be said that some indicators show a positive growth, while some display a falling trend.

However, when we study all four quarters of FY19, we understand that the slowdown in consumption is apparent in the last quarter of the year.

- In Q4-FY19, production of consumer non-durables/ FMCG grew by 2.6% Y-o-Y, compared with 10.7% in the corresponding period last year. Manufacture of food products and beverages in this quarter was at 12.4%, much lower than 21.5% in Q4-FY18. Beverages posted a fall of 3.2% as against a growth of 8.9% in year ago period.

- Manufacture of computer, electronic and optical products grew by 5.1% in Q4-FY19, compared with 18% in Q4-FY18. Production of ready-made garments (knitted) posted a positive growth of 7.5%, as against a fall of 4.8% in year ago period.
- Production of consumer durables declined for the first time in past 6 quarters and de-grew 0.7% in Q4-FY19. While production of Air Conditioners fell by 5.8%, washing machines and refrigerators posted a growth in production of 10.8% and 19.2% respectively. However, production of TV sets plummeted 54.8% in the quarter. A total of 4.03 lakh TV sets were manufactured in this quarter, as against 8.9 lakh TV sets produced in the year ago period.
- Domestic sales (volume) of 2 wheelers in Q4-FY19, was the lowest in past five quarters. It decelerated 9% Y-o-Y compared with a bumper sales growth of 24.8% in March 2018 quarter. Domestic sales (volume) of passenger cars de-grew by 4.7% in Q4-FY19, as against a marginal growth of 0.9% in year ago period. Higher insurance premium payment and interest rates impacted consumer sentiments in this industry.

Net sales growth in Q4-FY19

- For a universe of 59 companies in the FMCG sector, net sales grew by 10.2% in Q4-FY19, against de-growth of 5.3% in the year ago period. Out of the total sample size, 17 companies have shown a fall in their sales growth during the quarter.
- In the consumer durables industry, 11 companies were analysed which cumulatively posted 14.1% growth in net sales during the Q4-FY19 quarter, as against a growth of 13% in year ago period. 2 out of 7 companies posted a decline in net sales during the quarter.
- In the 2-wheelers industry, cumulative net sales growth rate of our sample size of 6 companies clocked just 1% growth in Q4-FY19, as compared with 22.1% in the corresponding period last year.

Possible reasons for a slowdown in consumption:

- **Slowdown in rural growth:**
Slowdown in sales volume in the FMCG sector was credited to lower demand mainly from rural segment. Usually, the growth numbers posted by rural segment are higher compared with urban, due to inherently lower penetration levels in rural. However, in Q4-FY19, rural growth lowered to reach same level as urban.
- **Lower realisation of crops than the MSPs:**
After the announcement of Minimum Support Price (MSP) for kharif crops in Aug-18, there were expectations for a rise in farmer income in the subsequent months. Though the MSPs for such crops have risen in the range of 9-25% Y-o-Y, the average realisation by farmers were lower than the MSPs, which translated to lower income for the rural segment and affected consumption growth and demand pickup from this side.
- **Unemployment:**
According to CMIE, unemployment in India gradually rose to 7% in Q4-FY19. The rate was higher in urban region at 8.1%, while in rural it was 6.4%. This translates to a slowdown in job creation during the period, which led to lower discretionary spends.
- **Low oil consumption and rising oil prices:**
The recent oil sanctions on Iran and Venezuela, tariff wars between China and USA, an expectant slowdown in the economy and control of production exercised by OPEC, had resulted in volatile crude oil prices in FY19. Oil

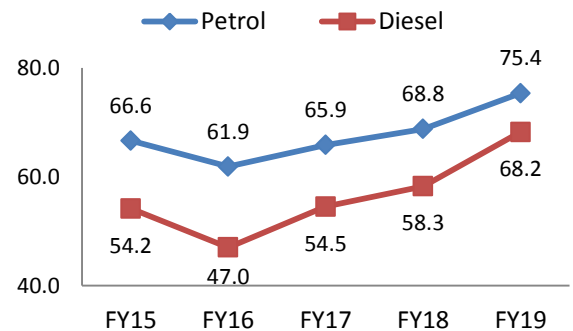
imports reduced during the year, leading to lower crude processing and effectively lesser consumption for industrial usage. As shown in table 1, a slowdown in consumption of petrol, diesel and ATF was witnessed in FY19, indicating pressure points in the economy. Higher prices of fuel products and lower consumption growth have had a bearing also on demand for vehicles.

Table 1: Yearly growth of crude oil imports, processed and consumption of natural gas and petroleum products (%)

	FY15	FY16	FY17	FY18	FY19
Crude oil imports	0.1	7.1	5.5	3	2.8
Crude oil processed by refineries	0.4	4.3	5.4	2.7	2.1
Consumption of :					
- Natural gas	-1.8	11.6	5.8	4.7	1.7
- Petrol	11.4	14.5	8.8	10.1	8.1
- ATF	4	9.4	11.8	9.1	9.1
- Diesel	1.5	7.5	1.8	6.6	3

Source: PPAC and CMIE

Chart 6: Retail prices of petrol and diesel

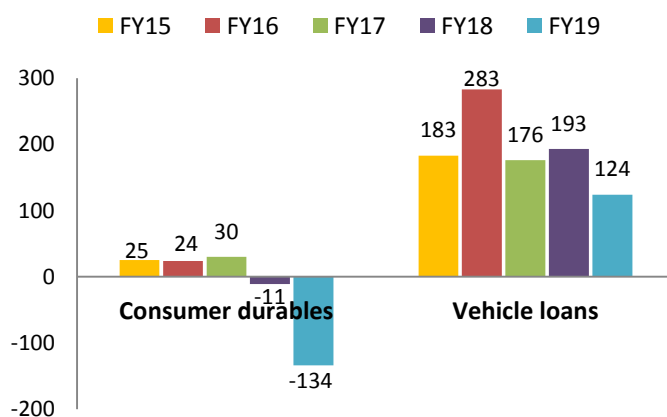


Source: CMIE; Note: prices for Delhi

Fall in incremental credit growth in consumer durables and vehicle loans:

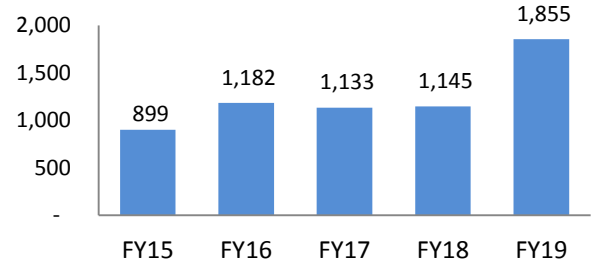
Within the personal loan segment, credit used for purchase of consumer durables and vehicles have fallen sharply in FY19 (chart 7 a). However, the housing segment grew 62% in FY19, after a fall in prior two years (chart 7 b). This indicates a shift in preference for housing vis-à-vis consumer goods as it is more permanent and adds to wealth. Increase in outflow of cash for servicing of home loans, leading to lesser disposable income in hands of consumers for spending on other items.

Chart 7 a & b: Incremental credit growth (Rs. Bn)



Source: RBI

Housing (Including Priority Sector Housing)



Some ways to boost consumption are as follows:-

- Rise in disposable income through increased job creation

- Cut in commodity tax rates leading to lower price of products to increase discretionary spends
- Smaller packaging for non – consumer durable goods / FMCG encouraging users to try new products
- Easier access to loans
- Growth in advertising spends to increase visibility and persuade consumers to purchase the product
- Improved access and distribution in rural segment ensuring last mile delivery of products, etc.

Concluding remarks

There is not much evidence to suggest that consumption growth has slowed down in the economy. The top line growth in consumption expenditure is probably the leading indicator to suggest that spending is up. There have however been certain pockets like automobiles and non-necessity based durable goods where growth in demand has been lower. Also within the FMCG goods higher prices may have been a deterrent at the margin. Lower rural income levels has had an impact on general demand for consumer goods as spending power has gotten constricted due to lower price realization on some crops.

A push for consumption may be provided through tax cuts on commodities while companies can spread awareness as well as bring in more products with smaller packaging.