

Private consumption picks up pace as inflation cools

Sector optimistic on times ahead as govt's mega capex drive kicks in

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Mumbai, 5 March

ILLUSTRATION: AJAY MOHANTY

Private consumption in India has picked up marginally in the first two months of 2023, compared to the same period last year, taking into account sales of several consumer product companies.

Chief executive officers (CEOs) say the outlook for the quarters ahead is positive as commodity prices taper off and rural income picks up.

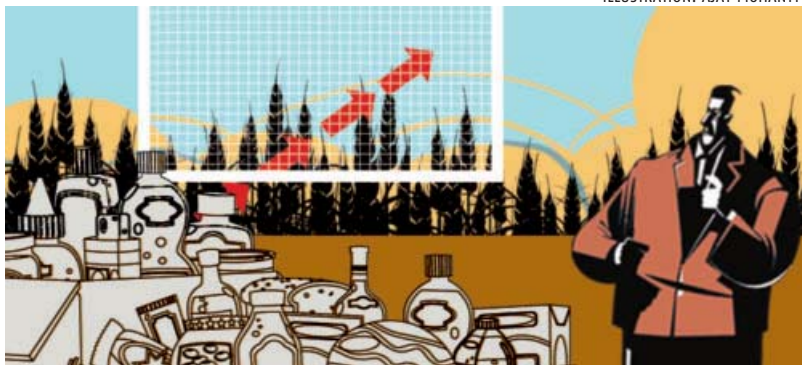
With the central government leading a major capital expenditure drive, CEOs are optimistic that consumer spending will pick up in the months to come.

"There is resurgence in demand, especially in rural areas, as rabi harvesting gets going. It's a bumper wheat crop this year. Farmers expect a good price for their crops since prices are high. The sentiment has been positive since January. We have witnessed sequential pick-up in demand. Demand was affected after Diwali, but has since recovered," says Mayank Shah, senior category head, Parle Products. Figures for the first two months show higher automotive sales, electricity consumption, and other consumer goods sales. A falling rural-urban unemployment rate, improving consumer confidence, and tapering inflation expectations ought to support consumption, say analysts at CARE Ratings.

CEOs said in the October-December quarter (third quarter, or Q3) of 2022-23 (FY23), the growth needle moved by about 200 basis points – value growth moved from 6 per cent to 8 per cent, urban growth moved from 8 per cent to 10 per cent, rural growth moved from 3 per cent to 5 per cent with the commensurate reduction in negative volume across urban and rural.

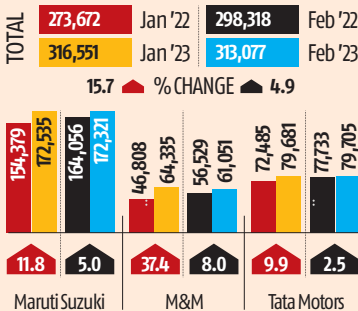
Although rising prices hit consumer wallets, there are palpable signs of a tamp-down, they say. "In the first half of 2023, there is going to be price growth, albeit at lower levels, which will essentially be a carryover from last year. Therefore, the rate of inflation will be lower. But we have still not reached a level where we can say that commodity prices have started deflating," says Sanjiv Mehta, managing director and CEO, Hindustan Unilever.

Mehta says in the next two years, there will be a period of flux - price growth will become lower, but volume growth will start kicking in only when companies pass the benefits of lower



LOOKING UP

CARS



Source: Company press release

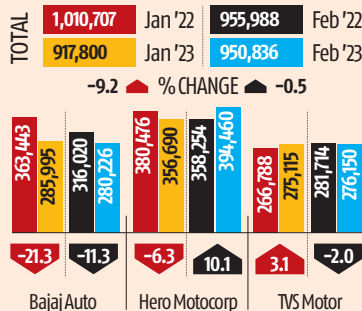
PERSONAL LOANS

Outstanding as on Jan 27, 2023	₹ cr	YoY Chg %*
Consumer durables	36,910	43.6
Housing (including priority sector housing)	1,888,144	15.4
Advances against Fixed Deposits	109,749	30.2
Credit card outstanding	186,783	29.6
Education	95,226	15.7
Vehicle loans	496,662	25.5
Loans against gold jewellery	85,928	14.9
Total Personal Loans	3,958,874	20.4

€ Over a year-ago period

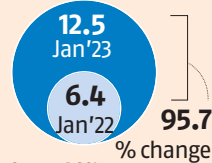
Source RBI

AUTO SALES



AIR TRAFFIC

Domestic airlines
● Passengers
(in million)



Source: DGCA
Data compiled by
BS Research Bureau

commodity prices on to consumers.

"We will need a trigger for commodity prices to start deflating. If the Russia-Ukraine war ends, we will find commodity prices descending. Should they remain at inflated levels, there will be some degree of consumer stress," he says.

"I believe volume growth should be better in the second half of the calendar year, assuming nothing new or extraordinary comes up. When commodity prices remain either tamed or start waning, we should start seeing volume growth returning," he adds.

In Q3FY23, growth in private consumption had moderated to 2.1 per cent and was a notable deceleration from the 9.7 per cent reported in the preceding July-September quarter, largely on the back of an unfavourable base effect.

"The ratio of private consumption to gross domestic product has improved to 61.6 per cent, from 59.5 per cent in the previous quarter. Tapering off of pent-up demand and high inflation affecting non-essential consumption could be reasons behind lower consumption growth," observes CARE Ratings.