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Flagging of Consumer Demand

It is a mixed bag when it comes to assessing if India's consumption story is still intact or is it finally running out of steam. This confusion has arisen since there are a few sectors that seem to have done better than expected both in revenue and in profitability growth, while others give very clear sign of being in severe distress or heading towards a more stressful situation. Further, irrespective of sectors, the market leaders have generally given encouraging performance in recent quarters while their peers seem to be struggling in the same environment. Demand seems to be holding up quite well for personal and home care products and in packaged foods, and then for leading national and regional casual dining, fast food, and café chains. At the other end of the spectrum, textile spending is visibly slowing down. Automobile sector also shows not only an unmistakable slowdown but the real possibility of a year-on-year decline in unit volumes for the sector as a whole. Consumer durables and appliances companies have also reported weakness in growth and it would not be a surprise if in the next few quarters, their value growth slides to low single digit levels from the heady double digit levels for almost the entire last decade.

It is extremely important to understand India's private consumption trends since such consumption accounts for almost 60% of India's GDP. With Government's own financial health in complete disarray, it has no headway to provide any stimulus to the faltering growth by increased government spending. If private consumer spending also slows down, there is just no way that the economy can grow at even a 6% level in the coming quarters. Unfortunately, with the results of current state elections now out, it is quite likely that UPA II's policy and reform paralysis will further exacerbate. The worst case scenario would be an attempt from the Government to shore up its tattered finances by raising excise, service tax and other indirect levies in the coming budget which could bring down consumer spending growth rate to a near stall in several sectors such as housing, automobiles, consumer durables and appliances, and textiles to list a few.

A deeper study of India's private spending data over the last 10 years reveals some very fundamental shifts. Till early 2000's, the largest quantum of consumer spending was on intuitively predictable categories with the top 5 being food and groceries, textile & clothing, gold and jewellery, consumer durables and appliances, and non-food & tobacco FMCG. In 2012, the top-5 categories of consumer spending are food & grocery, pharmacy & healthcare, CDIT (consumer durables and appliances, home electronics, personal telecom, and personal computing / IT), education including private coaching, and textiles and apparel. Personal transportation including fuel, insurance, and maintenance, is a very close contender to being in the top-5, and is likely to displace spending on apparel and textiles from the top-5 in the next 2 years or earlier. The much tracked non-food & tobacco FMCG is not likely to figure even in the top-10 consumer spending categories by 2015 with several other categories such as leisure and recreation, restaurants and cafes, and furniture and furnishings growing at a much faster pace.

Hence, it would be prudent for businesses across different consumer goods and services to take a pause and carry out a fresh assessment of the near term prospects of the Indian economy, the changes in consumer spending behaviour and priorities, impact on persistently high inflation on the quantum of discretionary spending money available with their customers, and cross-sector competition for share of the customers' wallets, and then recalibrate their business strategies and modify, where feasible, product attributes and pricing to come closer to what the customers are now seeking and are able / willing to pay. Of course, there is no reason to press any panic buttons yet since there is only a slowdown of growth and in absolute terms, India could still see 5% - 6% real growth in the coming fiscal.

As far as the investors and the analysts tracking leading players in each of these sectors are concerned, while they obviously need to track financial performance of the companies on their radar, quarter by quarter, it would be helpful if they were to also take a somewhat longer term view on the changes in medium and long term consumption trends across different sectors and then calibrate their recommendations and investment decisions accordingly. If consumers are, indeed, deferring spending on high and relatively high value (or discretionary spending) items including housing, automobiles, consumer durables, furniture and apparel etc, they could be giving themselves small treats and rewards such a buying a lipstick or a skincare bottle more, have a more frequent cup of coffee (or a pizza or a burger) at the neighbourhood café and casual dining outlet, or even go to cinema more frequently. However, on an aggregate level, there is already a clear slowdown in consumer spending and it seems that it may further worsen before it shows any buoyancy again.

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