

### **India's Consumption Story: Challenging Times to Continue**

The best thing that can be said about this Budget that it could have been much worse for consumers. With the Government's finances in shambles and a general election not too far away, the risk was always there that the Finance Minister could attempt to raise direct and indirect taxation rates and use some of these additional resources to launch some more populist schemes to woo the votes of the very poor. Fortunately, he has not done so, and hence there is no immediate threat of any further erosion of consumers' confidence and thereby any further deterioration in consumer spending.

Having said so, the outlook for India's consumption story remains cloudy at least in the near future. While the economic survey that was tabled in the Parliament on the 27<sup>th</sup> February reflected optimism on the part of the Government that the worst is over of the economy, unfortunately that may not be the case. For one, the new jobs created last year are an abysmal less than 700,000 while more than 16 million would have been added to the ranks of 18 year olds in the same period. Even if all would not be job seekers, the demand for additional jobs would have still been in several millions.

While the budget does give a hike of about 30% in the plan expenditure, the trickle down impact of such enhanced spending is not likely to provide any significant boost in consumer incomes and therefore, consumer spending, in the coming fiscal.

The Government is projecting some moderation in the consumer price inflation in the coming months. If that does happen (and keeping in mind that the Government's projections on inflation have been consistently wrong in the last 3 years), it may provide some additional disposable income in the hand of the consumer. However, there is nothing significant in the budget that can indicate government's seriousness in removing the various supply-side constraints either through policy reforms or through encouragement of investment activity, and hence it is likely that the consumer price inflation is likely to remain high and worsen further the monsoon is suboptimal in 2013.

In such an environment, consumers will continue to defer or delay purchases of relatively high ticket or discretionary spending items such as housing, automobiles and two-wheelers, consumer durables and electronics, and leisure travel to name a few. Consumers are also likely to continue to downgrade and seek more value across most other categories of consumption including clothing and footwear, and eating out.

On the whole, 2013-14 is likely to remain a challenging year for most consumer goods and services companies with the Budget failing to offer any noticeable boost to consumer sentiment or to their disposable incomes.

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