

## The Consumption piece: A Silver lining or a dark cloud

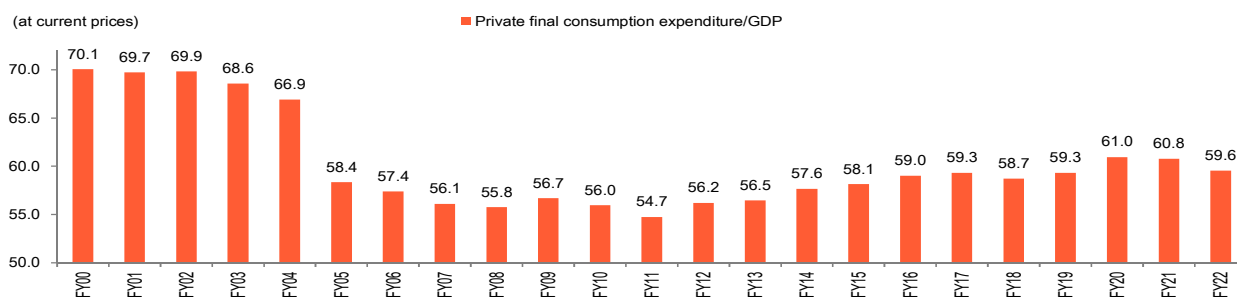
Consumption, with a major share in GDP is an important indicator when talking about how growth has fared. But we do not have much high frequency data to track it on a monthly basis, as retail sales data are not available. True automobile sales gives us a signal whether people are spending or not. Company financials of FMCG and non FMCG segment also gives an idea but it comes on a quarterly/annual basis. GST collection data is also an indicator of how spending has been on goods and services. But it is in nominal terms and can be influenced by inflation. A way out is to look at the domestic production to get an idea about demand, assuming stocks don't build up.

In this exercise, we have looked at production data on production for various consumer products in the Apr-Jul'23 period and compared it to the pre pandemic level. This we believe is a better way of looking at data as there were sharp movements in 2020 and 2021 in both the directions which tend to inflate growth numbers both ways. Interestingly, the economy looks as if it is 'moving' as reflected in the increased production of bottled water, creams and lotions, liquor, travel goods, aerated drinks etc. Even the PV sales data especially the high end segment reflect the same. Digital inclination persist as production of computers, laptops and mobile devices are increasing at a faster pace. This is notwithstanding an increase in prices. What has been a concern is that major daily items of consumption ranging from biscuits, tea, cakes, pastries & muffins, toilet soap, toothbrush, readymade garments and footwear registered considerable drop in production which is below the pre pandemic period. Prices are also considerably elevated for these products and in double digits if we consider the build-up in inflation since Feb'20. So we expect 'pocket pinch' to hurt the hardest especially for middle class consumers.

## How the consumption picture panned out?

**Consumption showing mixed picture:** Consumption demand comprises a major share in overall GDP. Post Covid, this sector has been badly hit whether it may be the inflationary impact or reduction in purchasing power on account of slowdown in overall economic activity/employment. From around 70% as a share of GDP in FY04, the share of private final consumption expenditure (PFCE) went down to 59.6% in FY22.

**Fig 1 – FY22 noticed a slowdown in consumption demand due to Covid-19 pandemic**

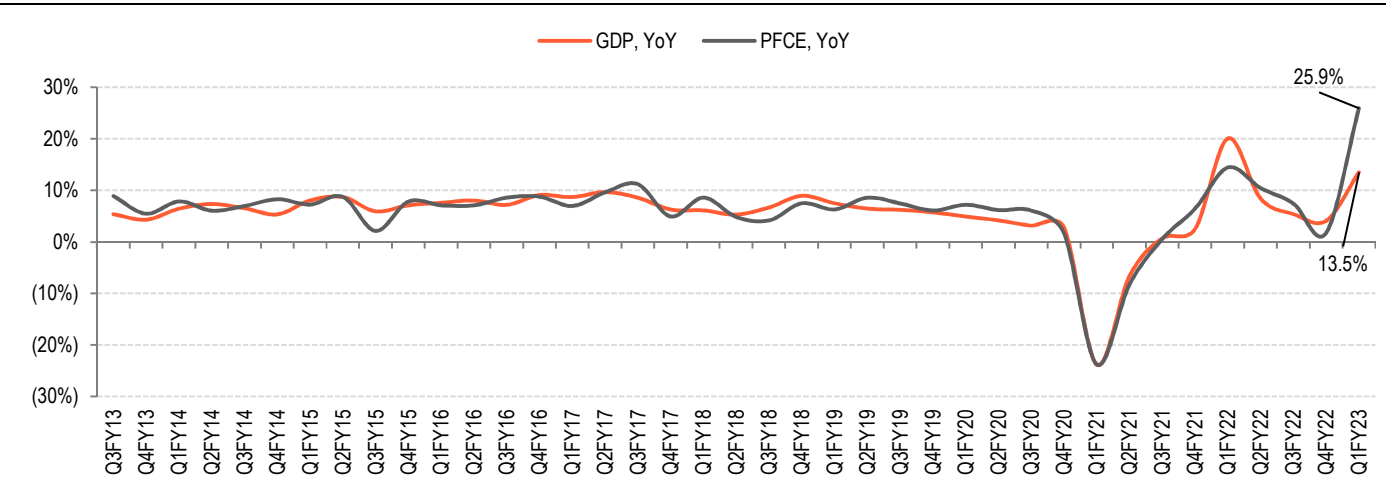


Source: CEIC, Bank of Baroda Research

However, the Q1FY23 data showed some revival as the economy gained traction. In real terms, PFCE growth rate rose by 25.9% from 1.8% in Q4FY22 and 14.4% in Q1FY22. In nominal terms, PFCE rose by 35.9% in Q1FY23, thus there is around a 13.6% deflator, which is pretty high, not seen in the past decade. Also the GST collection data showed continuous improvement. It must be noted that GST is an indirect tax which is imposed on all items of consumption and hence serves as a good indicator for tracking the momentum of consumption demand. However, this is a nominal tracker and tends to ignore the real impact.

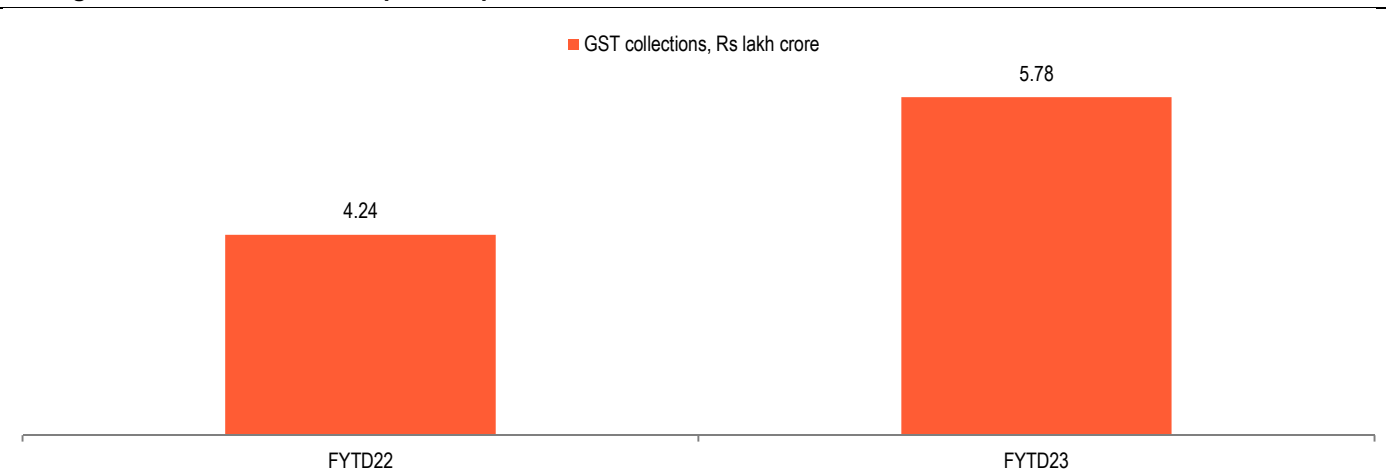
Figure 2 places growth in private consumption with GDP (both in real terms). The two move together in harmony meaning thereby that as consumption increases there is a positive thrust to overall growth. This follows from the fact that nearly 60% of GDP is accounted for by consumption.

**Fig 2 – Q1FY23 noticed pickup in consumption demand as economic activity started normalizing**



Source: CEIC, Bank of Baroda Research, Note: Growth rate in constant prices

**Fig 3 – GST collections have picked up**



Source: CEIC, Bank of Baroda Research, FYTD: Apr-Aug

Figure 3 provides an illustration of growth in GST collections. GST is a consumption based tax and if there is a sharp increase in collections as shown in the diagram it must indicate that the overall consumption levels have been buoyant this year. There is however the inflation impact to consider as it does tend to inflate both the consumption and tax numbers. Further, higher collections might also be attributed to the phenomenon of more entities coming into the net and complying with the same. Further the government had also increased the GST rates on certain products based on the recommendations of the GST Council.

**What do IIP growth numbers indicate?**

If we look at the IIP data, there also picture is blurred by the impact of elevated base which distorts the growth rate in Apr-Jul'22, hence the current fiscal growth numbers look subdued.

Figure 4 shows that consumer durable goods have registered growth of 19.6% during the first 4 months of the year which comes on top of 76.7% growth in 2021. However, the two preceding years witnessed declines indicating that growth was negative even before the pandemic. In case of non-durables which comprises primarily the FMCG segment growth was virtually flat this year over 11.6% in 2021. The drop in 2020 was by 12.1% which appeared to be made up in the following year. As these are more in the domain of essential goods which normally tend to get consumed, consumption should ideally be steady.

**Fig 4 – Both consumer durables and non-durables production have been lower compared to same period of last year**

Sectoral (%)	Weight	Apr-Jul'20	Apr-Jul'21	Apr-Jul'22	Apr-Jul'23
IIP	100.0	3.4	-29.3	33.9	10.0
Consumer Durables Goods	12.8	-2.6	-56.4	76.7	19.6
Consumer Non-Durables Goods	15.3	7.4	-12.1	11.6	0.3

Source: CEIC, Bank of Baroda Research

Given these contrasting pictures, we have attempted to get a better idea by looking at the actual production data. Out of total 15.33 weightage of consumer non-durables basket in overall IIP, we have evaluated production data of 72% of the items. For the consumer durables segment which has a share of 12.84% in the IIP basket, we have covered 52% of the items. The remaining we have corroborated with the sales data wherever it is available (especially for automobiles), to get a better picture of the consumption demand.

### The swing factors: Production and Price

1. Production of around 43% of items of consumer non-durables have declined during Apr-Jul'23 compared to the same period of previous year.
2. Amongst these, sharp drop is seen for items such as disinfectants, hair dye, butter, cakes, pastries & muffins, biscuits and toilet soap. Even production of ~50% of these FMCG items are still below the pre pandemic level.
3. Some important patterns of consumption for FMCG items may be noteworthy:
  - a. Savouries and sweet items production (except honey) have seen sharp drop in Apr-Jul'23 period, as build up in inflation (since Feb'20) for these items have been in double digits.
  - b. Grooming products such as creams and lotions have seen pick up in production, signifying that people have started moving out of their homes, post Covid.
  - c. Digital inclination have impacted the production of newspapers which have fallen sharply, probably implying a post pandemic behavioural shift.
4. Items such as bottled water and liquor production showed firm double digit growth, signifying momentum in economic activity as hotels, and restaurant chains are running at full capacity.
5. Concerns of growth slowdown emanate from decline in production of daily usage items such as biscuits, shampoo, and toothpaste and toilet soap. Here inflation was a contributory factor.
6. For consumer durables segments, we get interesting conclusions:
  - a. Production of electronic items such as computers and peripherals, telephones and mobile instruments have shown sharp increase despite increase in prices. This is because of the evolving era of digitisation where the new work and study model implies increased reliance on these products.
  - b. Production of major white goods have also remained considerable above the pre pandemic period.
7. Thus two diverse picture emerges-one is that FMCG goods are under production and price pressure but production of durable goods has fared comparatively better despite price increase.

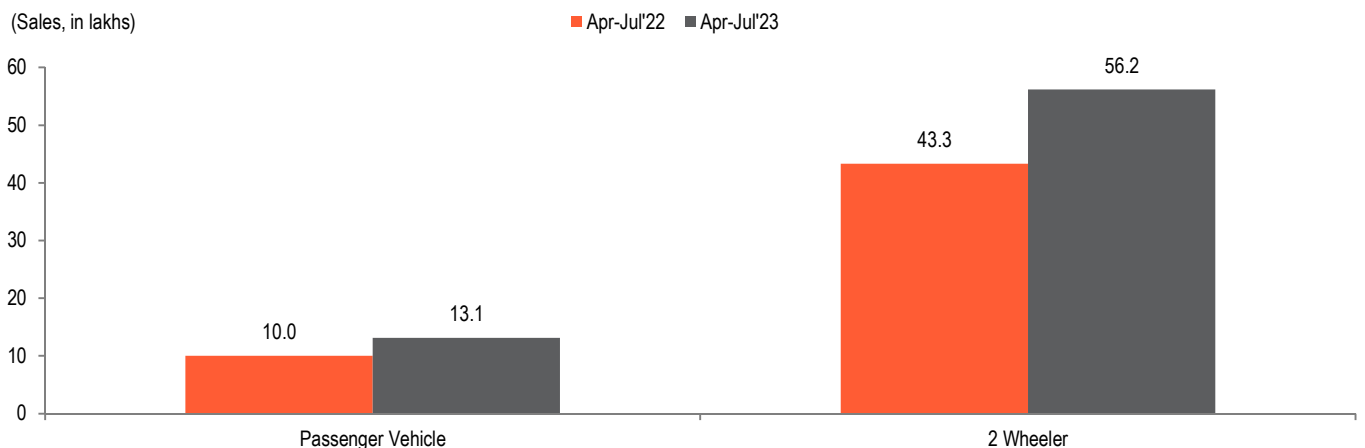
## Analysing in detail the pattern of consumption through production and price

For actual consumption we have the sales data of passenger cars and 2 wheelers from FADA. For all other components, we tried to form an idea about consumption demand of the economy from the production and price angles.

### Considerable 'Gear Up' happened: the auto story

- Here the actual sales data showed pick up. A number of factors came into play. The automobile sector has been under pressure with regard to deliverables for quite some time now. Be it chip shortage or shifting to BS compliant norms or the current focus towards EVs. Even on the demand side there has been considerable laggard. But post pandemic with some resilience in economic activity, the pent up demand gained pace. Also good harvest season supported this ongoing momentum.
- It is also important to note that, high range cars noted considerable increase in production of above 40% during Apr-Aug'23 period compared to last year.
- Compared to the pre pandemic level (Mar-20), PV sales are up by 21.6% and 2 Wheeler sales are up by only 1.2%.

**Fig 5 – Both PV sales and 2 wheeler sales in absolute terms picked up**

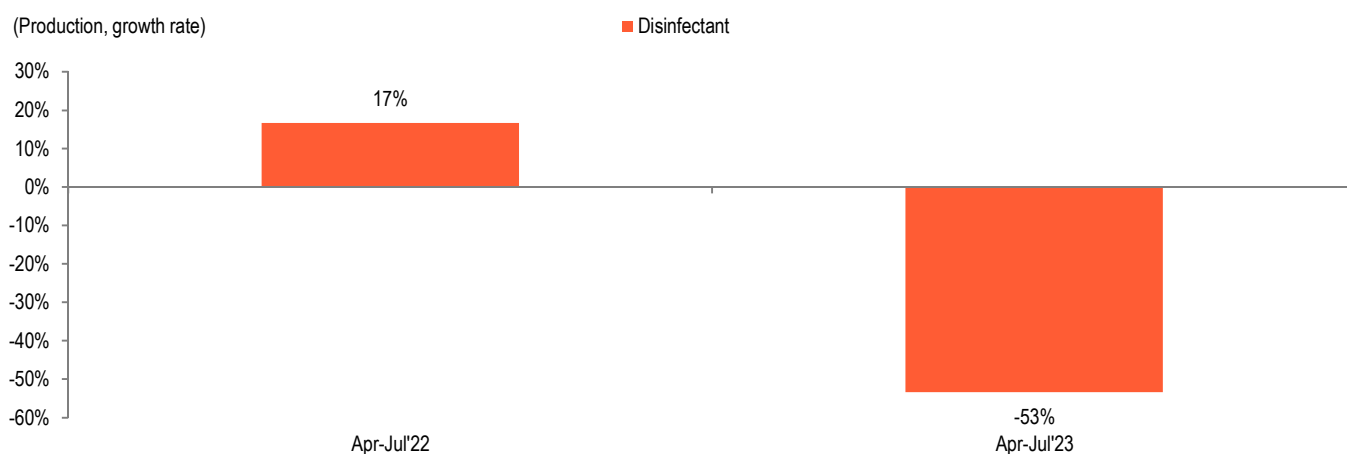


Source: FADA, Bank of Baroda Research

### 'Covid scare retreating':

- Disinfectant noticed sharpest decline in Apr-Jul'23, against same period of last year. This is because Covid scare is slowly retreating. Even compared to the pre pandemic period, production of disinfectant is down by 53%.
- Production of toilet soap has declined by 8.2% in Apr-Jul'23 period and by 13.4% compared to the pre pandemic level.
- For Antibiotics, production growth moderated to 7.2% in Apr-Jul'23 from 10.6% in the same period of last year. The reduced hospitalisation rate has also resulted in decline in production of IV Fluid which has moderated to 20.8% from 42.4% last year.
- Honey production has fallen by 8.4% compared to its pandemic level, as people are drinking less of home-made medicated drinks.
- Travelling is also back in vogue as production of travel bags rose by 65.6% in Apr-Jul'23 compared to same period of last year and is above 12.8% above the pre pandemic level.

**Fig 6 – Production of disinfectant fell sharply**



Source: CMIE, Bank of Baroda Research

### Flying back to 9-5:

- With the reopening of offices, grooming products are back in shelves. As we can see, production of creams and lotions has increased by 300% in Apr-Jul'23 against 222% in the same period of last year.
- Production of garments is still in double digits at 38.2%, in the same period, albeit down by 9.1% compared to pre pandemic level on account of higher prices.
- Edible oils have also shown double digit production of 10.9%.
- Production of bottled water remained in double digits at 62.4%.
- On the other hand production of tea, coffee showed moderation; as people have opted aerated drinks and fruit juice concentrate, visible in the increased production of both these items (others component of Table 1).
- Even production of auto components/spares and accessories rose by 11% since the pre pandemic period, indicating people are 'wheeling' more due to work/recreation.

**Table 1: Grooming Product shows economy is 'moving out'**

Consumer Non-durables	Wts_IIP	Production growth (%), (Apr-Jul'22)	Production Growth (%), (Apr-Jul'23)	Growth over pre pandemic (Apr-Jul'20)
Edible Oil	0.74	26.5	10.9	2.1
Grooming Product-Creams, Lotions etc.	0.13	221.8	300.2%	264.8
Garments	1.32	53.9	38.2	-9.1
Non alcoholic Beverages	0.64	33.8	30.8	-13.9
w/w Bottled water	0.01	65.0	62.4	-38.7
Tea	0.30	17.9	-2.7	-6.1
Coffee	0.04	10.5	6.6	21.0
Others	0.33	44.6	51.2	-11.7

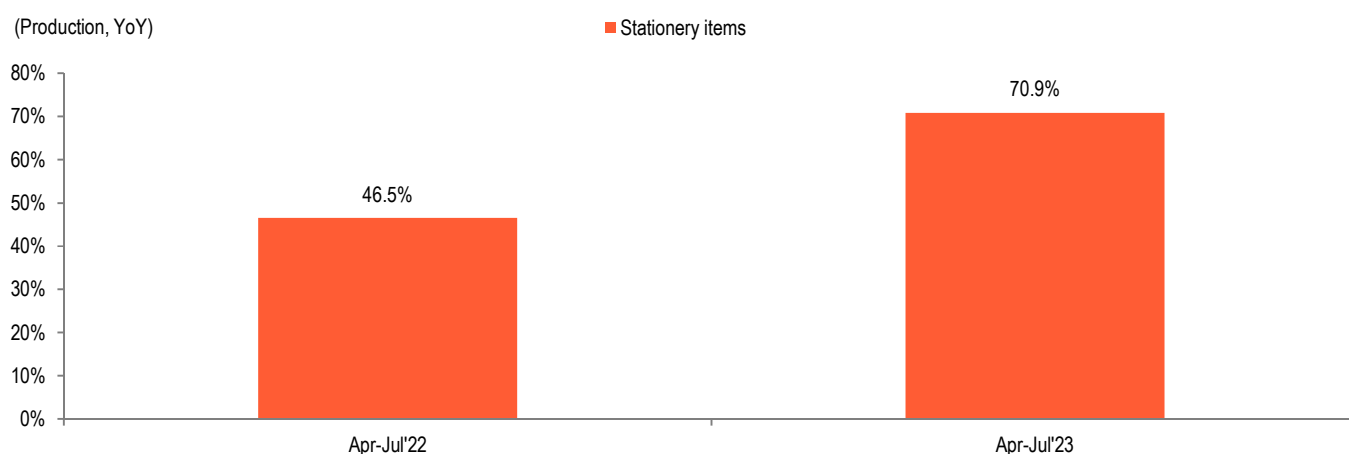
Source: CMIE, Bank of Baroda Research, Others include aerated drinks and fruit juice concentrate

### Back to School

- With reopening of schools, production of stationery items showed considerable increase.
- Also ice cream production was above 100% in Apr-Aug'23 compared to same period of last year and is 24.5% above the pre pandemic level.

- Chocolate and coco powder also noted double digit growth of 25.1% in Apr-Aug'23, albeit considerably lower compared to 46.4% seen in Apr-Aug'22. It is above 35.8% compared to the pre pandemic period.

**Fig 7 – Production of Stationery items picked up**



Source: CMIE, Bank of Baroda Research

### Addictions reined in:

- Both production of smoking product and liquor remains unaffected. In fact for liquor, production went up considerably, with reopening of hotels, restaurants.

**Table 2: Sin goods**

Sin goods	Wts_IIP	Production growth (%), (Apr-Jul'22)	Production Growth (%), (Apr-Jul'23)	Growth over pre pandemic (Apr-Jul'20)
Smoking Products	0.56	16.8	16.0	-2.2
Liquor	0.70	39.2	54.9	-5.6

Source: CMIE, Bank of Baroda Research

### White goods pale?

- For white goods, if we compare the production growth during Apr-Jul'23 compared to the same period of last year, the number is much lower at 25.2% as against 94.3%.
- But comparison with the pre-pandemic period shows virtually flat production (-0.3%), gives us a better picture. Apart from refrigerators and 'others' components, all major white goods are operating above the pre pandemic level of production. Considerable growth was seen for TV and AC and air cooler, contributed by long and heated summers.
- Production of fans has just gone up by only 3.9% since the pandemic period as real estate activity remained staggered in all these years. New constructions need to pick up to uplift demand and hence consumption of items like fans.

**Table 3: Production of white goods above the pre pandemic level**

Consumer Durables	Wts_IIP	Production growth (%), (Apr-Jul'22)	Production Growth (%), (Apr-Jul'23)	Growth over pre pandemic (Apr-Jul'20)
White Goods	0.74	94.3	25.2	-0.3
w/w TV	0.31	96.0	12.6	19.9
Refrigerator	0.09	78.3	74.3	-16.1
Washing Machine	0.09	26.4	57.4	10.3
AC+Air cooler	0.08	289.3	111.6	12.9
Fans	0.16	109.8	0.1	3.9
Others	0.01	200.0	-83.3	-88.9

Source: CMIE, Bank of Baroda Research, Others include Electric Water heaters/ geysers

## Where Prices didn't deter consumers

As pent up demand did come into play it should be pointed out that inflation too tended to be on the higher side. Inflation build-up for some of these products is provided in Table 4. Here it seems pent up demand came into play, irrespective of the price rise. The price of TV rose at a sharp pace yet its buying remain unaltered and rather picked up as can be concluded from the rising production data. For majority of the white goods, the build-up in inflation calculated since Feb'20 have remained in double digits.

**Table 4: Are white goods expensive?**

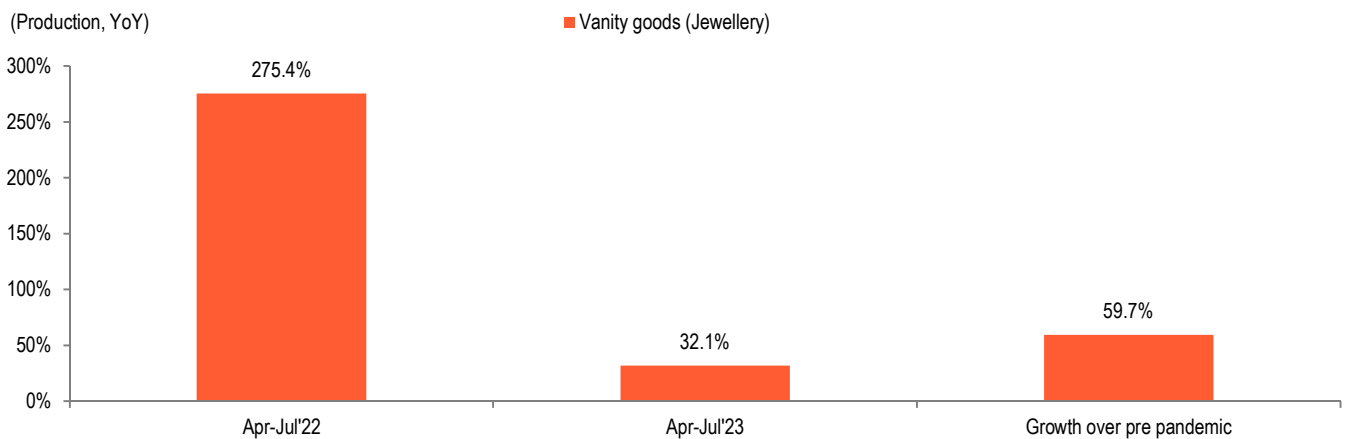
Consumer Durables	Wts_CPI	CPI Inflation (%), (Apr-Jul'22)	CPI Inflation (%), (Apr-Jul'23)	Buildup over pre pandemic (Aug'22/Feb'20)
<b>White Goods</b>	<b>0.41</b>	<b>7.29</b>	<b>8.6</b>	<b>19.8</b>
w/w TV	0.16	11	11.2	27.7
Refrigerator	0.09	5.3	5.5	12.8
Washing Machine	0.02	4.0	6.0	14.0
AC+Air cooler	0.05	4.9	5.9	16.9
Fans	0.02	2.5	7.8	14.0
Others	0.06	3.97	8.9	13.8

Source: CMIE, Bank of Baroda Research, Others include Electric Water heaters/ geysers

## 'Be-jewelled'

If we look at the growth numbers since pandemic, it is considerably high with easing restrictions on marriage and other ceremonies. People preferred the 'good old gold' to be used on these occasions. The sector was impacted by lockdown which engendered a variety of restrictions on social gatherings. With normalcy returning it has been boom time again for these goods with several marriages being deferred that are materializing now.

**Fig 8 – Production of ornaments and jewelry**



Source: CMIE, Bank of Baroda Research

## Electrifying 'Electronic Production':

Production of items such as computers, laptops and mobile devices have picked up. This shows the growing importance of digitisation as work/study models are slowly shifting towards the same. There has been a change in work culture where working from home or a hybrid mode has been pursued by several establishments. This has led to higher demand for these products thus giving a thrust to this industry. Interestingly, there has also been considerable price pressures seen for these items.

**Table 5: Production of Computers and laptops increasing at a fast pace**

Electronics	Wts_IIP	Production growth (%), (Apr-Jul'22)	Production Growth (%), (Apr-Jul'23)	Growth over pre pandemic (Apr-Jul'20)
Computers & peripherals	0.1676	93.4	197.8	339.4
Telephones and mobile instruments	0.1864	5.3	33.8	-36.6
Others (LCD/ LED monitor )	0.0222	141.2	189.9	63.5

Source: CMIE, Bank of Baroda Research

**Table 6: Prices continued to remain elevated**

Electronic items	Wts_CPI	CPI Inflation (%), (Apr-Jul'22)	CPI Inflation (%), (Apr-Jul'23)	Buildup over pre pandemic (Aug'22/Feb'20)
<b>Electronics</b>	<b>2.34</b>	<b>5.5</b>	<b>7.6</b>	<b>15.2</b>
Computers & peripherals	0.11	6.1	10.1	20.2
Telephones and mobile instruments	2.22	5.5	7.5	15.0
Others (LCD/ LED monitor )	0.01	3.3	2.3	6.6

Source: CMIE, Bank of Baroda Research

### Where concerns remain?

Majority of items of daily consumption have lagged behind on production front. Even on the price front as well, considerable upside risk persist. This is indeed a pinch on middle class budgets. Apart from this, with reopening of the economy as seen in the foreign tourist arrival data (18 lakh tourist arrivals in Apr-Jul'23 period against 2 lakh tourist arrivals in the same period of previous year) as well as increase in air passenger traffic (12crore in Apr-Aug'23 from 5 crore in Apr-Aug'22), these items should have a higher consumption demand. With production falling short, price pressure would aggravate even further.

**Table 7: Daily items of consumption faring badly**

Items of daily consumption	Wts_IIP	Production growth (%), (Apr-Jul'22)	Production Growth (%), (Apr-Jul'23)	Growth over pre pandemic (Apr-Jul'20)
Biscuits	0.15	-3.3	-11.0	-5.7
Cakes, pastries & muffins	0.02	-16.0	-16.8	-45.9
Jams, jellies, marmalades and puree	0.02	10.1	-7.9	-26.1
Pickles/Sauces	0.03	32.7	3.3	-0.2
Tea	0.30	17.9	-2.7	-6.1
Toilet soap	0.61	-13.6	-8.2	-13.4
Tooth paste	0.32	-3.0	-2.7	-19.0
Garments	1.32	53.9	38.2	-9.1
Travel goods	0.08	247.4	65.6	12.8

Source: CMIE, Bank of Baroda Research, Others include Electric Water heaters/ geysers

**Table 8: Even the pocket pinch is pretty high**

Items of daily consumption	Wts_CPI	CPI Inflation (%), (Apr-Jul'22)	CPI Inflation (%), (Apr-Jul'23)	Buildup over pre pandemic (Aug'22/Feb'20)
Biscuits	0.88	3.1	8.6	16.0
Jams, jellies, marmalades and puree	0.02	4.4	4.1	11.9
Pickles/Sauces	0.09	12.4	8.7	24.3
Tea	0.96	15.5	5.1	28.2
Toilet soap	0.64	5.5	14.8	27.1
Tooth paste	0.36	5.0	5.1	12.8
Garments	5.58	5.7	9.27	19.0
Travel goods	0.00	7.5	4.8	19.4

Source: CMIE, Bank of Baroda Research

### Concluding Remarks:

- Consumption demand shows a fuzzy picture when analysed from sales, production and price angle. There are different images emerging from different sets of commodities which have been driven by factors such as shock from covid, pace of opening up, changing environment, inflation etc.
- Items of daily consumption showed drop in production (both in the Apr-Jul'23 period as well as compared to pre pandemic level).
- Price pressures on these items remain elevated.
- FMCG goods have shown strain both in terms of price and production.
- For Consumer durables segment, production of most of white goods have remained above the pandemic level.



- Analysing the granular data, gives us an idea of how the economy is operating at better capacity. Bottled water, creams and lotions, liquor, travel goods, aerated drinks, PV sales especially the high end segment all show momentum in economic activity.
- The inclination towards digital products continue as computers, laptops and mobile phone devices have noted considerable jump in production.

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