

India's private consumption trend is solid despite weak motor vehicle sales due to regulatory factors

SHOHEI TAKASE
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
A member of MUFG, a global financial group

3 OCTOBER 2019

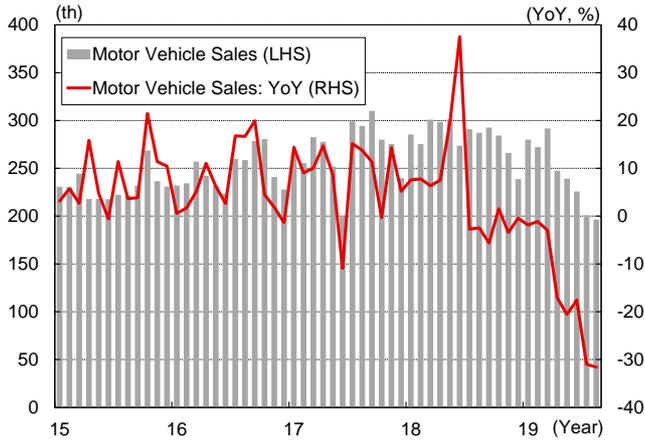
(ORIGINAL JAPANESE VERSION RELEASED ON 30 SEPTEMBER 2019)

In India, the pace of economic expansion started to slow down in the first half of this year and real GDP growth rate stood at +5.0% YoY in Apr-Jun, the lowest growth rate since Jan-Mar 2013. Private consumption recorded the lowest growth rate in around four and a half years, government consumption decelerated and gross fixed capital formation (GFCF) remained low.

It looks as if such economic slowdown is synchronized with global economic slowdown, however it is to be noted that exports, which should be linked to overseas economic trend, have been increasing and therefore some factors inherent to India should actually be contributing the slowdown. It is highly likely that a slowdown in private consumption is mainly due to a substantial decline in motor vehicle sales which has been affected by sluggish automobile sales finance and the new emission standard that is to be introduced in April 2020. In fact, motor vehicle sales have been weak since the second half of last year (see chart 1). Some point out that there are a few factors behind this; 1) a funding problem prevailed among sales finance companies after individual non-banks went bankrupt, 2) there has been restrained buying on the basis of speculation that old-model vehicles that are not compliant with the new regulation will be banned from running in the future after the introduction of the new emission standard had been decided (in October 2018), and 3) policy uncertainties ahead of the elections (in April-May). A decline in motor vehicle sales accelerated recently when the new models that are compliant with the new regulation were released (in June) which prompted price increase.

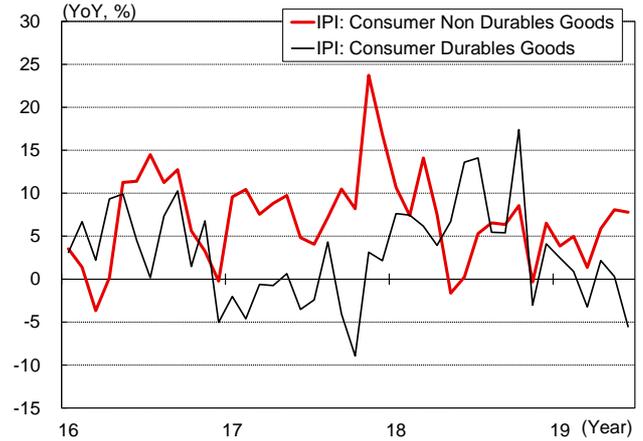
Nevertheless, private consumption outlook is not necessarily gloomy. Firstly, on the monetary side, the government announced a fresh capital infusion of INR700 billion into public sector banks to encourage lending, and the central bank has been implementing monetary easing measures (1.1ppt rate cut in total since February). Secondly, the government announced that it would allow the old-model vehicles to run even after the new emission standard is introduced, reiterating that the current car purchase will not suffer losses. Adding the potential of market growth (low penetration rate) to these, it is unlikely that a concern over prolonged decline in motor vehicle sales will become a reality, depending on the future environmental regulations. Turning eyes to factors other than automobile, Industrial Production Index (IPI), for example, shows that non-durable consumer goods such as clothing and food remained firm (see chart 2), and it can be said that the trend of private consumption is reasonably solid.

Chart 1: Motor Vehicle Sales in India



Source: Society of Indian Automobile Manufacturers (SIAM),
MUFG Bank Economic Research Office

Chart 2: Consumer Goods Production in India



Source: Government of India Central Statistics Office (CSO),
MUFG Bank Economic Research Office

(Translated by Makiko Stokes)

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Shohei Takase<shiyouhei_takase@mufg.jp>

This report is intended for information purposes only and shall not be construed as solicitation to take any action such as purchasing/selling/investing financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee its accuracy. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by the copyright act. No part of this report may be reproduced in any form without express statement of its source. This report is also available for viewing online.