Consumption's Not All Gloom, There are Many Rays of Hope

Not all sectors hit by consumption slowdown, there is underlying demand in certain pockets and wage growth can help accelerate consumption

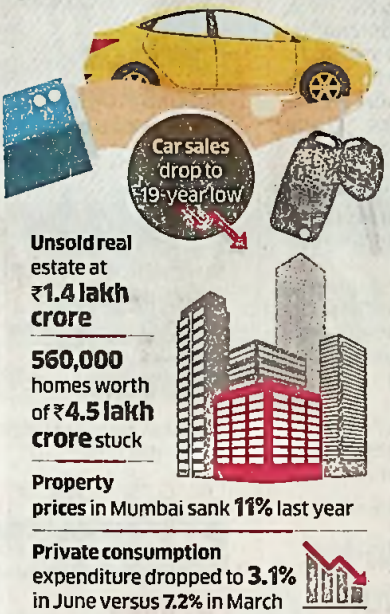
OUR BUREAU

The drastic fall in car and home sales and the rise in shared mobility and outbound tourism are clear indicators that India's consumer behaviour is fast changing. The fall in car sales to two-decade low is being attributed to the advent of Ola & Uber and the changing spend patterns of the millennials. What has made matters worse is the mounting unsold inventories of the real estate sector with consumers preferring to live on rent.

"There's a change in ownership pattern; earlier, the ownership of a vehicle would have been a priority. Today, with the advent of shared mobility, spends are moving to holidaying, electronics," said Rakesh Singh, head of investment banking & markets, HDFC Bank. "An interesting data point is that 10 million tourists travel within India and 30 million travel outside India. Consumption in some sectors is dropping but there is still consumption in other sectors."

Over the past five years, the total consumption expenditure of Indian households had accelerated with an average growth rate of 7.8%, compared with an average of 6.1% in 2011-14. But the recent sharp fall in private final consumption expenditure in the June quarter to 3.1% compared with 7.2% in the March quarter has significantly contributed to the recent slowdown. But Singh believes that some sectors still hold promise.

Consumption Halt



You need housing by up to five times the demand of commercial real estate. It may translate into housing demand after two to three years

UNESH REVANKAR
CEO, Shriram Transport Finance

"There is a visible slowdown but there is an underlying demand that we continue to see in certain pockets," Singh said. "We are seeing significant amount of demand in warehousing, transmission side and renewables — these sectors are still consuming capital and growing."

Despite talks that some sectors are contributing to the demand that has blackened; India grew at 5% at the end of June, slowest in 25 quarters. Low wage inflation for the workplace has exacerbated issues as the salary structure has stagnated for the past few years due to which the consumption slowdown is more entrenched and has declined by ₹1.5 lakh crore in Q1 FY20 compared to Q4 FY19.

"There is a need for wage growth. If you look at entry-level salaries in the private sector, there hasn't been significant growth," said Singh. "The moderated inflation number that could be little higher would have helped in pushing up growth which can lead to higher consumption. If you look at the new generation, people are happier to consume, if you increase wage growth, it will accelerate consumption."

Significant deceleration in growth of gross domestic product of 'financial, real estate and professional services' within services sector from 9.5% in Q4 FY19 to 5.9% in Q1 FY20 indicates that the current problem is of inadequate demand propelled by a low wage growth. Professional services constitute 75% of the 'financial, real estate and professional services' segment.

The other missing link in the fall in household consumption has been the significant drop in real estate sales. The country's top developers are sitting on unsold inventory worth nearly ₹1.4 lakh crore while their revenues dropped 7.2% and profits rose only 7%.

An analysis of about 11,000 home builders by research firm Liases Foras in February showed that developers on an average have to repay twice as much in debt each year as the income they generate that can be used to service it. This comes as property prices in India's biggest cities are flagging — home values in Mumbai dropped 11% last year following a 5% decline in 2017.

"When the body has cancer, one of the weakest moments is when the tumour is removed. The tumour of black money was removed by repeated operations of demonetisation, GST, RERA and the liquidity crisis in NBFCs," said Dinanath Dubhashi, CEO, L&T Finance Holdings. "The patient (real estate) may be now cancer-free, but it will take time to recuperate."

The collapse of infrastructure financier IL&FS in September last year, which led to a liquidity squeeze and a slowdown in the non-bank lending space, also added to their woes.

"There are not many strong NBFCs which are not ready to give capital to the retail sector," said Dubhashi. "They want to grow in retail and slow down the wholesale book, infrastructure, real estate... these have become bad words and money is flowing out of it. While there has been a slowdown in the non-bank lending space, there is a genuine slowdown in primary demand."

The Indian government has taken a series of measures to weed out black money from the real estate sector and formalise the unorganised sector. After demonetisation removed black money from the sector overnight, the Goods and Services Tax introduced two years ago has led to additional tax burden leading to a significant drop in customers. The introduction of Real Estate (Regulation and Development) Act, 2016 has brought in strict punishments against construction delays and ring-fencing customer money in projects.

As many as 560,000 homes worth ₹4.5 lakh crore ($65 billion) are stuck or delayed across the top seven Indian cities, according to Anarock Property Consultants.

"Our research shows that while there's a slowdown, there is still demand for homes; there have been issues regarding submission of PAN card and Aadhaar card for transactions," said Dubhashi.

"I wouldn't comment on whether black money is out of the system but the ability of an individual to use this money has gone down. The investment demand in real estate has disappeared overnight. When the total demand was investment plus consumption, even if the latter has increased a little bit, investment demand dropping off has been the death knell for the industry. This is the new normal."