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SANGUINE AMIDST SLOWDOWN

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

vector illustration of collage displaying progress and development of India

Any major country in the world would give an arm and a leg for a growth rate of 6% per annum. But, in India, we lament such an achievement as a ‘slowdown’. This is because, somehow, today we perceive any growth below 7% to be unsatisfactory. And not so long ago, we perceived any growth rate below 8% to be less than satisfactory.

What has changed now? It is not as if our per-capita income levels have suddenly shot up to a point where a lower growth rate can be considered satisfying. We are still a lower-middle income country.

What has really changed is our perception of what a satisfactory growth rate will be. Such perceptions do matter as they reflect the mood of the times that influences economic decisions. For instance, usually, growth in discretionary spending is a function of growth in income. But, if income expectations change, then the relationship between income and discretionary spending could also change. Similarly, aspirations and social norms impact decisions. If the mood turns sombre, if aspirations are diluted and if social norms turn less upbeat, economic decisions would be less enthusiastic even if income growth remains unchanged.

Further, if changes in perceptions of individuals result in synchronised waves of optimism or pessimism, such shifts could well determine whether an economy moves towards accelerated expansion or a slowdown. Hence, it makes sense to ask consumers about their perceptions of expected well-being and then derive an aggregated sense of the mood to anticipate future economic trends.

According to George Katona, who pioneered work on consumer sentiments at the University of Michigan, discretionary spending depends on the ability and willingness of a consumer to spend. While ability is reflected in the consumers’ income and assets, willingness to spend is reflected in the consumers’ perception of future prospects.

How have Indians perceived their future in the recent past? There are two regular surveys which answer this question. The Reserve Bank of India (RBI) has been conducting a Consumer Confidence Survey since 2010 and the Centre For Monitoring Indian Economy (CMIE) has been conducting a Consumer Sentiments Survey as a part of its Consumer Pyramids Household Survey (CPHS) since January 2016.

Both show that during 2018, a rising proportion of Indians felt that their incomes would rise over a one-year horizon. Both show that this increase in income-growth expectations of 2018 was of a distinctly sharper gradient than seen earlier.

According to the RBI survey, around the end of 2017, 46.5% of households expected their incomes to increase and 12.7% expected a decline. On a net basis, 34% expected an increase. By end-2018, the net figure had gone up to 57.3%, signifying a major improvement in income expectations during 2018.

The CMIE’s CPHS shows a similar rising trend but at a different level. The net proportion of households that expected an increase in income increased from less than 5% in February 2018

to 23% in May 2019.

Both surveys show that this rising optimism about household incomes has declined in 2019. The RBI's survey shows that the decline began in the first quarter of 2019 while the CPHS shows it began in the second quarter. Interestingly, both showed pessimism on jobs during 2018. The consistent contradiction in both surveys is noteworthy. Households did not see an increase in jobs in 2018 but they did expect incomes to improve. This means hopes were high even in the face of job losses.

Received wisdom on consumer sentiments tells us that people have an uncanny way of revealing their assessment of change in prospects. Bad news during sustained bad times is not really newsworthy and it does not attract much attention. On the other hand, good news or news of hope during a bad patch can change perceptions. Such a hope could have been provided by one-time cash transfers to households last year.

The RBI survey quantifies this eloquently. While 9.5% households, on a net basis, believed that employment conditions had worsened in 2018, 28.5% households believed employment conditions would improve in a year.

Their faith in the future remained intact even in the face of adverse outcomes compared to expectations. In December 2017, 9.4% of the households believed employment levels were worse (on a net basis) than a year ago but simultaneously, 33.6% believed they would improve in a year. A year later, in December 2018, 8.7% still believed the employment levels were worse than a year ago. Yet, a larger proportion — 37.6% believed these would improve in a year.

Optimism continued to prevail even in the latest July 2019 RBI survey, where 13% of households believed that employment conditions had worsened over a year but 31% of them believed that these would improve in a year. Such optimism is seen in income expectations as well. As of July 2019, on a net basis, only 3% of the households believed their incomes were higher compared to a year ago but 48.5% believed these would be better a year later.

How does this optimism on income and employment translate into a willingness to increase spending on discretionary or non-essential items? Here, the RBI and CMIE surveys diverge significantly. The RBI survey is prescient in anticipating a slowdown in the automobile sector. It shows that while households are optimistic on jobs and income in spite of current adverse conditions, they are not similarly gung ho about spending on non-essentials. In mid-2018, on a net basis, 53% of the households expected to spend more on non-essentials a year ahead. By July 2019, this proportion fell to 15%.

The CMIE's CPHS asks a related but somewhat different question, on whether households considered current conditions to be a good time to buy household durables. It shows that till July 2018, respondents who believed that it was a good time to buy consumer durables roughly equalled those who believed it wasn't. Both numbers were at about 22.6%. By March 2019, the proportion of pessimists declined to 17% and that of optimists increased to 30%. The CMIE survey shows an improvement in the mood to spend on discretionary goods. This reflects the fact that sales of domestic appliances began a recovery in the June 2018 quarter and grew at double-digit rates during the December 2018, March 2019 and June 2019 quarters.

Evidently, there isn't any widespread consumer goods slowdown. The slowdown is prominent in the automobile sector but not in other industries. The RBI survey reflects the former and the CMIE survey reflects the latter. It may be worth noting here that the RBI survey is based on a survey from 5,451 respondents from 13 towns while the CMIE's CPHS is based on over 40,000 respondents from over 300 towns and nearly 3,000 villages.

Different parts of the Indian economy are moving in divergent directions but, Indian households maintain hope in a future that will bring in more jobs and more income.

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