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What has been the consumption story so far in manufacturing?

The ongoing festival season which also coincides with the harvest time in rural areas will be crucial in determining the future direction of industry. The performance of industry in the first 5 months of the year has been steady with growth in IIP at nearly 6.1% (7.7%). Consumer goods however have grown at just 4% which is the same as last year. Production is being driven by a series of factors largely on the demand side. The supply side disruptions which started during the lockdown and ended by 2021 are a thing of the past. The shock of Ukraine war was short-lasting and it does look like that the system has adjusted to this disruption quite well.

In this context, we can look at how consumer goods production has fared in the first 5 months of the year.

A. Durable goods.

Production of jewellery of gold has probably the most impressive performance with growth of 27.2% on top of 53.8%. Here it can be seen that demand has been robust for two reasons. Also the pent up demand would have contributed to this upsurge. The return to normal has meant that weddings are taking place in a big way where jewellery is purchased. Second, the progressive use of gold as an investment option has also caught on which happens during inflationary times. Therefore there has been a double benefit here. In fact, gold is considered a safe investment when other asset prices are volatile and this is what is seen here today.

For the bulk of consumer durable goods, growth has been low or negative as the table below shows.

Growth in some consumer durable goods

%	Growth in Apr-Aug 2022	Growth in Apr-Aug 2023
Refrigerators	51.0	-2.5
LCD/LED Monitors	168.5	0.4
Storage batteries	14.5	-0.8
Washing machines	40.5	2.7
Air conditioners	93.8	0.9
TVs	12.2	-2.6
Mobiles/telephones	29.2	-20.1
Cookers	11.8	-11.6
Readymade garments	19.3	-16.0

Source: CMIE

What is interesting here is that the high base effect has lowered the growth rate in 2023. Quite significantly in all the industries barring readymade garments, the production levels in 2022 were much higher than the pre-pandemic times which means that there is no longer the case of production levels being boosted due to declines witnessed during the lockdown phases.

The explanation then is that the pent up demand seen in 2022 has gotten diluted considerably here in 2023 which is what is being witnessed. The fall in output of mobiles/telephones does come as a surprise as this means that demand may be getting saturated. But given that PLI is to boost domestic manufacturing that goes beyond assembling parts, one can expect a revival here. Also based on what has been reiterated in the media by companies, high inflation has come in the way of demand.

Normally when inflation is high households tend to cut back on discretionary spending which is what is being seen today.

B. FMCG industries

Here, a more diverse picture has been witnessed so far. Inflation has been high for products like detergents powder, toothpaste, soaps, coffee, instant foods etc. at above 5%. It has been more modest at less than 3% for hair oil, cigarettes, wines, oils, spirits, tea and shampoos. But generalized inflation has eroded real income and hence demand for some of these products.

The table below gives the growth rates for the two period. With the exception of tea, soft drinks, toothpaste and detergent soaps, production of all other goods had returned to normal by 2022. Hence the base effect of recovering from a fall in production was not witnessed in most products.

Growth in output in some FMCG industries

% change	Growth in Apr-Aug 2022	Growth in Apr-Aug 2023
Shampoo	3.8	-18.1
Hair dye	-15.9	-16.7
Detergent powder	6.0	-3.8
Tea	-0.1	-3.8
Ice cream	76.4	-13.6
Groundnut oil	-30.4	-55.6
Hair oil	-5.1	7.5
Toothpaste	-2.5	4.1
Detergent soap	-14.8	1.5
Bathing Soap	-7.2	3.8
Cigarettes	27.0	2.9
Soft drinks	46.5	4.8
Wines	17.4	24.4
Spirits	19.2	1.2
Coffee	7.2	5.6
Instant foods	9.4	2.4

Source: CMIE

Again it can be seen that with the exception of wines where growth of 24% was registered on top of 27% last year, a large part of the growth this year was due to the base effect. Anecdotal evidence shows that the famous 'lipstick effect' worked last year and to some extent this year as reported by companies in these industries where preference has been shown to lower priced products or smaller packets with lower weight. Again the generalized inflation factor has been at work where real income has come down thus leading to lower purchasing power.

The next couple of months will determine whether consumption has actually picked up as producers increase their output. Rural demand will hold the clue here and there can be some pressure from lower output in some crops. Urban demand has been good for premium products so far which will persist through the season for both goods and services. Companies have so far reported on output performance up to September where a cautious picture has been painted.

The World Cup Cricket tournament would have added some spice to overall growth though could be more in the services space than manufacturing. The coming state government elections to be followed by the General Elections would also provide another nudge if not push to spending. Hence the stage does seem set for a take-off which can set the tone for future growth in FY25 with the usual caveats in place.

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