

What production and price data of consumer goods say?

A lot of talks are ongoing about the consumption picture of Indian economy. Broadly indicators of private consumption demand have painted a mixed picture. Retail credit has remained firm while some moderation in services activity such as PMI data, air passenger and passenger vehicle sales data, have shown that pent up demand phenomenon is slowing down. The core inflation data, especially core services, which also captures the consumption demand has softened considerably. As per our calculation, 'core services' inflation is trailing below 4% for the past three months (currently at 3.6%). Thus, we have looked at the production and price angle for both non-durables/FMCG and durable consumer goods segments.

For the production angle, cumulative growth rate of IIP for Apr-Nov period is compared with same period of previous year. Production is taken to be synonymous with consumption as data on the latter is not separately available. For the price picture, disaggregated data of CPI has been used. Notably for CPI, the cumulative growth rate is for Apr-Dec period and for IIP the corresponding is for Apr-Nov period, as IIP comes with a lag of one month. But nevertheless, it gives a broad idea, and the one month lag of IIP is ignored in this analysis.

Key highlights:

- *Among the 42 items of consumer non-durables or FMCG segment within IIP, production of 24 items have registered moderation in growth during Apr-Nov'23 compared to the same period of previous year.*
- *Within consumer durables, out of 27 items, 18 items have registered a drop in production.*
- *The price picture also enumerates some softening of underlying demand conditions, with sharp moderation seen in major discretionary spending reflected in softening of price of durable goods.*
- *The price-production data when put together clearly shows that for major consumer non-durables/FMCG food products, inflation has impacted sales, which is reflected in the moderation in production data.*
- *For consumer durables, the pent up demand phenomenon for major white goods has gotten diluted, which have impacted their production.*
- *However, moderation in production of certain items such as essential wear, passenger cars and some daily items of household consumption such as hair oil, tooth paste, despite moderation in inflation reflect certain degree of strain on the underlying demand conditions.*

Section 1. FMCG segment:

Here two things clearly emerges 1) for certain food products, higher inflation has impacted sales, reflected in lower production data, 2) for certain daily items of household consumption, production has fallen despite softening of inflation, reflecting strain in demand conditions.

Amongst food products, except butter and ghee, the growth in all segments is trailing behind last year. The fall in production is more pronounced for fruit Juice including concentrates, chocolate & cocoa powder, spices, coffee, jams, jellies, marmalades and skimmed milk. It can be said that higher inflation in these categories has impacted demand for these products, which in turn was reflected in their moderation in production.

However for other items such as Breads, buns, croissants, biscuits, cakes and other bakery products, both price and production have been lower. However price inflation is still high at above 5% across the board and hence have witnessed higher increase in prices for the second successive year. These are processed food items, thus increase in prices is attributed to elevated prices of wheat and maida which goes into the making of these products.

Table 1: Price-Production data of major items show that higher inflation has impacted sales, reflected in the production numbers

FMCG Food Products	Wts	Items of IIP (Non durables), Growth (%) Apr'22-Nov'22	Items of IIP (Non durables), Growth (%) Apr'23-Nov'23	Wts	Items of CPI, Apr'22-Dec'22	Items of CPI, Apr'23-Dec'23
Food Products						
Fruit Juice including concentrates	0.04	20.3	1.3	0.05	4.4	5
Jams, jellies, marmalades and puree	0.02	-1.5	-2.2	0.02	4.7	4.9
Full-cream/ Toned/ Skimmed milk	0.42	2.3	1.8	6.42	6.8	7.4
Butter	0.04	-20.5	31	0.01	6.3	8.9
Ghee	0.03	0.2	7	0.47	9.8	13.2
Ice cream	0.04	56	-11.4	0.01	7.9	5
Wheat flour (atta)	0.11	7.7	1.9	2.56	14.9	9.6
Bread, buns & croissant	0.03	-2.1	0.2	0.11	11.4	7.3
Biscuits/ cookies	0.15	-9.6	-0.3	0.88	10.2	6.3
Cakes, pastries & muffins	0.02	-18.3	-5.6	0.55	8.5	5.7
Instant food (ready to eat)	0.10	5.8	3	2.42	7.3	5.6
Beverages						
Tea	0.30	0	0.2	1.0	4.6	3
Coffee, instant	0.04	7.5	2.9	0.1	8.1	15.6
Spices						
Iodized Salt	0.02	2.4	-2.6	0.16	17.5	10.5
Spices (including mixed spices)	0.11	7.1	2.1	2.5	15	20.8

Source: CMIE, Bank of Baroda Research, Note: some CPI items have been used interchangeably due to unavailability of data, Items whose production and inflation have fallen have been shaded

For **miscellaneous items**, different price production picture emerges. For *toothpaste and hair oil*, increase in production is line with falling inflation, as well as a negative base effect. In addition to this, demand for items such as shampoo, creams and lotions which may be a discretionary spending for certain categories of consumer, have witnessed fall in production even with inflation easing. This is indicative of households reallocating their expenditures and moving more to essential goods. Detergent soaps are essential and have witnessed high inflation of 6.1% even though lower than last year. Hence demand has been relatively more positive.

Table 2: Price-Production data of household items

FMCG Products	Wts	Items of IIP (Non durables), Growth (%) Apr'22-Nov'22	Items of IIP (Non durables), Growth (%) Apr'23-Nov'23	Wts	Items of CPI, Apr'22-Dec'22	Items of CPI, Apr'23-Dec'23
Miscellaneous Household Items						
Newspapers	0.22	4.9	-1.5	0.18	6.2	5.4
Journals/ periodicals	0.01	4	-20.9	0.56	3.2	4.7
Detergent cake, washing soap cake/ bar	0.46	-15.6	4.7	0.64	15.5	6.1
Tooth paste	0.32	-4.7	3.2	0.36	5.4	5.1
Hair oil	0.06	-5.9	3.8	0.45	4.4	2.4
Hair shampoo	0.09	-3.3	-11.1	0.45	4.4	2.4
Creams and lotions	0.13	48.4	-12	0.39	6.7	5

Source: CMIE, Bank of Baroda Research, Note: some CPI items have been used interchangeably due to unavailability of data, Items whose production and inflation have fallen have been shaded

Table 3: Price-Production table of major sin goods

FMCG Products	Wts in IIP	Items of IIP, Growth rate (%), Apr'22-Nov'22	Items of IIP, Growth rate (%), Apr'23-Nov'23	Wts in CPI	Items of CPI, Growth rate (%), Apr'22-Dec'22	Items of CPI, Growth rate (%), Apr'23-Dec'23
Sin Goods						
Wines	0.04	11.7	27.3	0.40	0.1	3.0
Beer & other undistilled and fermented alcoholic liqueurs other than wines	0.37	72.2	3.8	0.06	1.2	3.2
Cigarettes	0.29	24.3	1.6	0.23	0.6	2.1

Source: CMIE, Bank of Baroda Research, Note: some CPI items have been used interchangeably due to unavailability of data, Items whose production and inflation have fallen have been shaded

In case of sin goods inflation has been relatively low at between 2-3.2%. Growth in wine consumption has increased which could be reflective of changing consumer tastes. Beer production growth was low at 3.8% over a very high base of 2022. The same holds for cigarettes though it is possible that health concerns may have slowed down demand. However, it needs to be seen if such a pattern continues for a longer period of time before the conclusion can be validated.

Section 2. Durables segment:

Here one interesting thing which is seen from the table is that for certain items the pent up demand phenomenon is slowly fading. This is seen for items such as refrigerators, travel goods, watches, AC, mobile and computers. For most products growth in 2022 was very high which has moderated or declined in 2023. The fall in production of computers may also be due to return to work rather than work from home phenomenon which was seen during the Covid period. The fall in production of passenger cars despite moderation in prices, somehow hints at moderation in purchasing power. Even fall in production of essential wear despite moderation in prices also reflect some strain in demand conditions. Inflation too has played a role with rates being above 5% for most products. Interestingly in 2022 higher inflation did not come in the way of demand as households increased consumption due to the limited access to such products during the pandemic.

Table 6: Price-Production table of major durable goods items where pent up demand has faded

Durable goods	Wts in IIP	Items of IIP, Growth rate (%), Apr'22-Nov'22	Items of IIP, Growth rate (%), Apr'23-Nov'23	Wts in CPI	Items of CPI, Growth rate (%), Apr'22-Dec'22	Items of CPI, Growth rate (%), Apr'23-Dec'23
Mattresses	0.05	-18.1	-18.4	0.05	8.8	5.1
Two-wheelers (motorcycles/scooters)	1.36	15.7	2.8	0.79	8.1	6.7
Washing machines/laundry machines	0.09	23.6	1.1	0.02	5.5	6.1
Readymade Garments, not knitted	1.01	8.1	-15.8	5.58	9.8	5.2
Refrigerators for domestic use	0.09	25.1	-0.5	0.09	5.2	2.7
Travel goods, handbags, office bags, etc.	0.08	31	4	0	3.7	3.4
Shaving razors/ razor blades	0.03	-12.7	-47.5	0.1	3.6	2.8
Watches, automatic/quartz	0.1	44.7	5.9	0	7.1	5.9
Wooden Furniture	0.05	20.7	-18.5	0.02	7.1	5.1
Air conditioners (ACs)	0.04	54.1	9.4	0.05	5.6	0.6
Telephones and mobile instruments	0.19	26.5	-20	0.14	6.5	3.8
Passenger cars	0.39	62.5	-4.8	1.37	6.9	2.7
Essential wear	0.05	44.9	-28.7	0.49	11.2	4.7
Computers & peripherals	0.17	119.5	-28	0.11	9.7	5.1

Source: CMIE, Bank of Baroda Research, Note: some CPI items have been used interchangeably due to unavailability of data, Items whose production and inflation have fallen have been shaded

Another side of the durable goods data, is pick up in production of items such as ceiling fan, bicycle. The first hints at pickup in real estate activity, which is noteworthy. Inflation has also moderated for

all these items, which in turn supported demand. However the same is not witnessed in case of TV sets where growth in production is marginal after falling in 2022. Here it can be attributed to changing tastes of consumers as people have switched over to watching OTT programmes on laptops and mobile phones thus obviating the need to have a TV set at home. Therefore even though inflation was marginally negative, it did not lead to an increase in production.

Table 7: Price-Production table of major durable goods items where production picked up

Durable goods	Wts in IIP	Items of IIP, Growth rate (%), Apr'22-Nov'22	Items of IIP, Growth rate (%), Apr'23-Nov'23	Wts in CPI	Items of CPI, Growth rate (%) Apr'22-Dec'22	Items of CPI, Growth rate (%) Apr'23-Dec'23
Ceiling or table or pedestal fans	0.16	-12.6	17.4	0.02	7.6	3
Bicycles -all types	0.09	-15.2	1.6	0.13	9.8	3.4
Jewellery of gold	0.44	23.6	33.5	1.08	6.2	16.3
T.V.set	0.31	-5.9	0.8	0.16	9.3	-1.3

Source: CMIE, Bank of Baroda Research, Note: some CPI items have been used interchangeably due to unavailability of data, Items whose production and inflation have fallen have been shaded

Section 3. Price Production matrix:

In this exercise, we examine how the price-production dynamics of consumer goods-FMCG and durable goods segment have panned out in totality. The last **two sections** have given us a disaggregated picture, where some bit of lost momentum was observed in case of demand for durable goods. The matrix is an attempt to consolidate the same and arrive at a conclusion.

Here also we get the same conclusion, for FMCG segment, the matrix is more distributed, with 29% of the items noting fall in production and the corresponding increase in price level, clearly reflecting the price-production relationship. *However, here also demand story shows some bit of strain as 27% of items are noting both fall in production as well as fall in prices.*

Table 6: Matrix of FMCG goods

Production	Price	
	Increase	Decrease
Increase	20%	24%
Decrease	29%	27%

Source: CMIE, Bank of Baroda Research

The matrix of durable goods comes as a pretty conclusive one, as 63% of durable goods items have registered both fall in production and fall in prices. Thus, this part of consumption demand has been impacted due to fading pent up demand phenomenon.

Table 7: Matrix of durable goods

Production	Price	
	Increase	Decrease
Increase	0%	33%
Decrease	4%	63%

Source: CMIE, Bank of Baroda Research

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