

RESEARCH
BOB ECONOMICS RESEARCH | CONSUMPTION AND CREDIT

CC Dynamics-Consumption and Credit picture

Daily macro indicators

Indicator	28-Mar	01-Apr	Chg (%)
US 10Y yield (%)	4.20	4.31	11bps
India 10Y yield (%)	7.07	7.06	(1bps)
USD/INR	83.38	83.40	(0.0)
Brent Crude (US\$/bbl)	87.5	87.4	(0.1)
Dow	39,807	39,567	(0.6)
Hang Seng	16,393	16,541	0.9
Sensex	73,651	74,015	0.5
India FII (US\$ mn)	26-Mar	27-Mar	Chg (\$ mn)
FII-D	297.8	173.0	(124.8)
FII-E	(380.4)	485.1	865.5

Source: Bank of Baroda Economics Research

SUMMARY
INDIA ECONOMICS: CONSUMPTION AND CREDIT

An analysis of consumption demand and bank credit offtake has shown that: The consumption picture is puzzling. But the funding side of demand has evolved strongly. Consumption demand by type of goods such as durables and semi-durables have shown that in FY23 demand elasticities of retail credit has picked up considerably and the same momentum is likely to continue in future. Strong housing demand coupled with the push for affordable housing has also resulted in improved elasticity of housing loans as well. Overall, formal source of finance is playing a crucial part in driving India's consumption demand. However, for certain segments the focus should be on quality lending and cautious monitoring of the same to prevent overheating.

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02 April 2024

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Dipanwita Mazumdar
Economist

Background:

The consumption story of Indian economy is still fuzzy. In fact, for private final consumption expenditure (PFCE), the growth rate as per second advance estimates has been projected to be lower at 3% in FY24 (in real terms) compared to first advance estimates estimate of 4.4%. As per recent report of Retailers Association of India, retail sales growth showed an asymmetric picture with FMCG goods gaining momentum and consumer durables and electronics lagging. The guidance of major consumer goods related companies in its recent quarterly results on the other hand spoke of the concentration of demand towards the high-end segment with non-discretionary spending taking a back seat. High frequency indicators of consumption demand also painted a mixed picture. Vehicle sales (Two, three and PV sales), albeit with a high base, has posted a double-digit growth in both Jan'24 and Feb'24. Domestic air passenger traffic has shown some moderation, so has GST and Eway bills. So, it's very difficult to interpret the demand side dynamics.

However, when we look at the funding side of consumption demand, the picture is entirely different. Of late, retail credit offtake has undergone a decisive shift. The 5-Year CAGR ending FY23 for retail credit (personal loans excluding housing and education) has been at 19.4% and the run rate in FYTD24 (till Jan'24) is at 16.5%. There also have been regulatory checks in place as there was much debate surrounding the sudden spur in uncollateralized loan demand to finance consumption. From FY19 onwards (barring FY21 & FY22), growth in retail credit has exceeded 20%; and FY23 growth rate has been more than a decadal high. Much of this may be attributed to the pent-up demand phenomenon and resumption of economic activity post the Covid induced slowdown as during the same time, rebound was also visible in the PFCE component of GDP.



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