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Automobile sector slowdown: An analytical study of consumer psychology

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Abstract
Although, a concrete plan to address the problem is being developed in consultation with Prime Minister Narendra Modi. However, a section of the industry and many economists have criticised the government for not being prudent enough to read the distress signs and for treating the slowdown as temporary and transient. The economy grew by a mere 5.7% in the quarter ended June 2017. In the first quarter of this financial year, growth fell to 5.7% as against 7.9% in the same period last fiscal year. Sectors including automobile, real estate, financial services - Non-Banking Finance Companies (NBFCs) in particular, and manufacturing have shown signs of impact from this economic slowdown. The present research paper notes the slowdown in the automobile sector and the impact of the same on the economy. It does an introspection of the factors from the consumer perspective.

Keywords: automobile sector, sluggish, demand

Introduction

Domestic commercial vehicle sales are seen as an economic indicator of industrial activity. Faster sales indicate a robust activity on the infrastructure and industrial front. Commercial vehicles are used to move around finished as well as semi-finished goods. Sales of these vehicles during April to June 2019 fell by 9.5%, the highest contraction in five years, telling us that all is not well on the investment front. Between April to June 2018, sales had gone up by 51.6%. Almost all these economic indicators suggest that the economy is well into an economic slowdown, and it can possibly get worse from here.

The car market, which is primarily driven by urban disposable income, is indicating severe stress in job and loan finance market. Experts said this could be a sign of economic slowdown, along with squeeze in credit. According to Rajiv Singh, CEO, Karvy Stock Broking Ltd. "This is due to many factors. First, a broad-based cyclical slowdown in the economy; second, auto sales are sensitive to availability of credit and credit crunch has taken its toll; third, while timely data is not available, wage growth may have come under some pressure, leading to a slowdown in consumption," India faced an unexpected slowdown in consumer demand, and this has led to a build-up in inventory. It is believed that an inventory correction is underway and can exaggerate the extent of final demand.

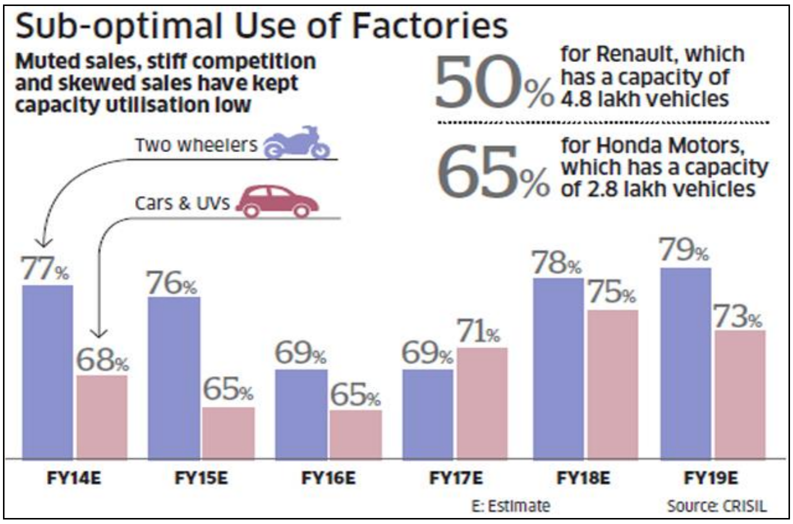


Fig 1

Causes of Economic Slow Down

The cause of the problem as shared by some of the experts consists of supply-side shocks. Besides, three important Contributors to this problem include Demonetisation & stressed banking sector, GST Implementation and problems in Agriculture sector.

No demand - No Investment: Vicious Circle operates

Since it is capital formation, or investment, that drives growth in the economy, investment is an immediate source of demand as firms that invest buy goods and services to do so. It also expands the economy's capacity to produce. The two sources of investment are private and public. The Private investment source is depressed as of now due to the factors cited above and is difficult to revive unless some external force is applied for example – tax sops, incentives for investment, creating demand for certain products through public funded projects among others.

When there is no demand, supply has to be stopped due to piling up of stocks and production units go idle, leading to cut in labour force. It further reduces the income leading to less demand and further reduction in supply and stopping of production. Since, investment involves committing funds for a long period under uncertainty, the stepping-up of public investment when private firms are unwilling to invest more is required. Increased public investment increases demand and quickens growth and also encourages private investors, as the market for their goods expands.

Structural Reforms

Structural reforms are being taken by almost all the governments or they have been claiming to be doing for more or less a quarter of a century now. Since 2014, in particular, "the ease of doing business" has received great attention from this government. But, the economy today is still less regulated than it was in 1991. Labour market reforms have not been taken up yet in Parliament. Share of manufacturing may rise if the labour market is liberalised. Another fact is how the economy came close to achieving 10% growth in the late 1980s and during 2003-08 when the policy regime was no more liberal than it is now. It is also difficult to relate slowing domestic growth to sluggish world trade as data show 2016-17 to be a year of a major turnaround in exports. On the other hand, capital formation as a share of output has declined almost steadily for six years now. In 2014-15 it rose slightly.

Supply-side shocks

A few of the experts see it as a temporary or technical issue and think that its effects would soon fade out while others view this as a more serious crisis created by a barrage of supply-side shocks to the economy. However, the crisis is seen as a deep structural issue rather than merely a short-run one. Now the government has to play a key role and understand the economic realities and avoid adventurism in policymaking and implementation.

Criticism on Government

Although, a concrete plan to address the problem is being developed in consultation with Prime Minister Narendra Modi. However, a section of the industry and many economists have criticised the government for not being prudent enough to read the distress signs and for treating the slowdown as temporary and transient. The economy grew by a mere 5.7% in the quarter ended June 2017. In the first quarter of this financial year, growth fell to 5.7% as against 7.9% in the same period last fiscal year.

Table 1

Reason for Slowdown
▪ uring 2012-14, the GDP growth slipped below 5% mark on the account of what is now known as policy paralysis.
▪ Policy paralysis is an inability to move or do something.
▪ When policies are in place but the person who has to move them does not perform the relevant changes due to many reasons.
▪ Like- Corruption, Environment clearances etc.

Demand Slumps in Car Sales of Major Car Makers – A Snapshot

The top four automobile companies in India, including the largest car maker Maruti Suzuki, have reported about 20 per cent decline in auto sales in May 2019 compared to last year, in the middle of an economic slowdown. The auto industry has been facing weak demand sentiments and high inventory levels. Indian car makers, including Maruti, Mahindra & Mahindra, Tata Motors and Honda Cars India, together sold 2,29,294 units till May this year, a fall of 20 per cent compared to the corresponding period last year.

Maruti Suzuki

Maruti Suzuki has announced a significant drop in sales in May 2019, and except Super Carry, all other vehicles, including Ciaz and Vitara Brezza, posted negative growth.

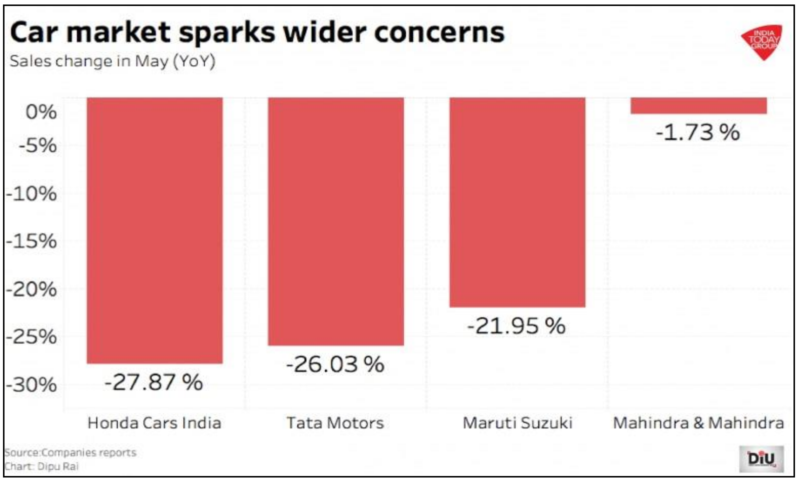


Fig 2

Maruti Suzuki reported its worst sales figures since 2015 with a 22 per cent drop in May 2019, compared to the same period last year. The company sold 1, 34,641 units till May 2019, down from 1, 72,512 units the preceding year. Its domestic sales fell by 23.1 per cent 1.25 lakh units as compared to 1.63 lakh units in May last year.

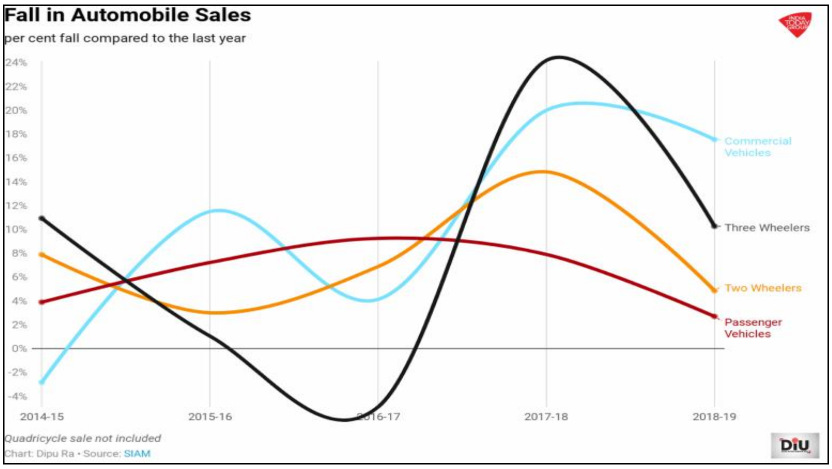


Fig 3

Mahindra and Mahindra

Another leading automobile company, Mahindra & Mahindra, has also reported a 3 per cent drop in auto sales. It sold 45,421 units till May this year as against 46,848 the same period last year.

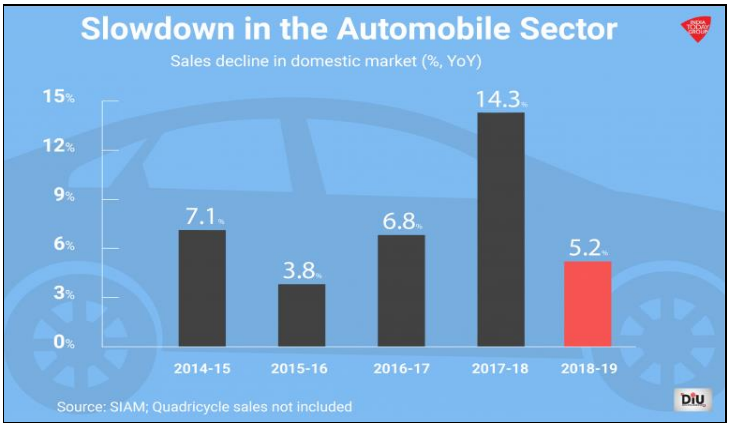


Fig 4

The slowdown is not limited to car sales only; the demand for tractor has also been subdued. The sales data of Mahindra & Mahindra, one of the largest tractor producers, shows that domestic tractor sales in May 2019 fell 17 per cent at 23,539 units, as against 28,199 units till May 2018.

Tata Motors and Toyota

Tata Motors also reported its numbers and the story is no different. The company registered a drop of 26 per cent in the domestic market. The company sold only 40,155 units as compared to 54,290 in the corresponding period last year. Toyota, a Japanese automaker, reported sales of 12,138 units till May 2019 a drop of 7.4 per cent.

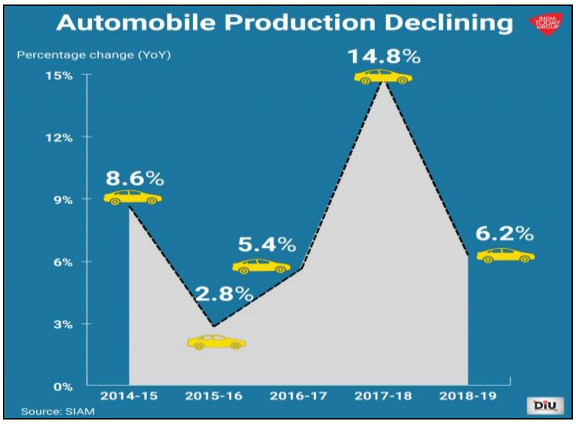


Fig 5

After observing the fast expansion between 2015 and the first half of 2018, experts had predicted that India would soon overtake Japan and Germany to become the world's third largest motor market. After this expansion of Indian automobile market, especially the car market, US management consulting firm McKenzie had said, "In the Automotive Mission Plan 2026, the government and industry set a target to triple industry revenues to $300 billion and expand exports seven-fold to $80 billion."

Significance of India's Automobile Sector

India automobile Industry is estimated at Rs 4.8 lakh Crore. The sector employs 37 million people (direct and indirect). It contributes 7.5% to the country's GDP and 49% to the manufacturing GDP, is staring at a multi-layered crisis. In March, a sales growth figure of nearly every segment was in the red. Passenger vehicles (-2.96%), commercial vehicles (0.28%), two- wheelers (-17.31%) and three-wheelers (-8.54%)—all registered poor sales. For very different reasons, even the externally- driven exports de-grew by 9.64% in 2018-19.

Dealer woes

Overhang of inventory bulld-up around festivals since last October has hurt dealers; discounts are still on offer

Stretched thin: Dealers are hurting as expansion, Renovation, stiff competition and discount war among auto players intensify

Skewed sales: 90% of the top 15 selling models comes from two stables – marutl and Hyundal – making others fringe players

Tlght liquidity: High costs and inventory bulld-up with poor sales mean many of over 15,000 dealers are strugglling to stay afloat

The rough ride in motown India has been deep and wide leaving few unscathed. While the annual industry sales growth has been positive at 2.70%; 10 out of the 17 car companies jostling space on Indian roads posted negative sales growth. Also, the annual average masks the bumpy ride that monthly sales in 2018-19 has seen. In september, sales degrew by more than 5%and in november- typically the peak festivel month when sales are the highest—growth fell by more than 3%. Two-wheeler sales followed a similar trend. Sales of five leading players plunged by an average 24% in march. Hero motoCorp was at-21.5%, honda Motorcycle and scooters India (HMSI) was at -46t.73%, TVS motor co was at -6.58% and royal enfield clocked -21% sales growth.

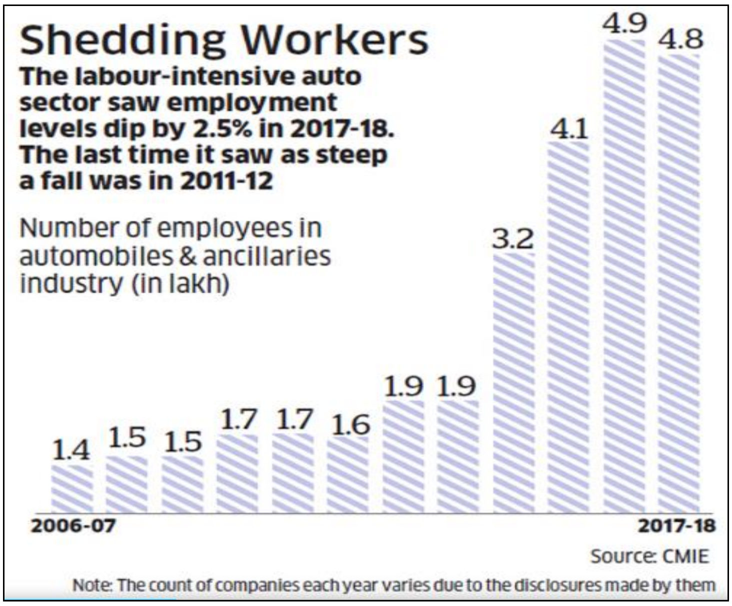


Fig 6

However, Bajaj Auto has been an outlier, clocking 29% annuaql domestic sales growth. But like HCIL's Goel, Bajaj Auto's Rajiv Bajaj is not ebullient either. "Nobody knows when growth is going to come back, "he told ET in an interview earlier this month.

When India's economy is growing at more than 7%, just how is the auto industry hurting so much? The answer lies in something of a perfect storm that has hit the induastry,s horizons.

Speed bumps

A set of wide-ranging factors--- from industry-specific challenges to policy resets and macro-economic factors to poor consumer sentiments – have converged to dent sales. Let's first look at the short-term factors. Last year, the bad news kiced off with kerala floods. Then, in october, insurance regulator IRDAI changed its policy on insurance cover. For instance, third-party insurance cover on motorcycles now needs to be paid upfront for five years instead of one year previously. "For two-wheelers, insurance cost rose by 14%, which had an adverse impact on sales," says Hetal Gandhi, director, CRISIL.Tightening liquidity in the NBFC sector made things more difficult in an industry where financing plays a critical role---80% of new cars being sold are financed.

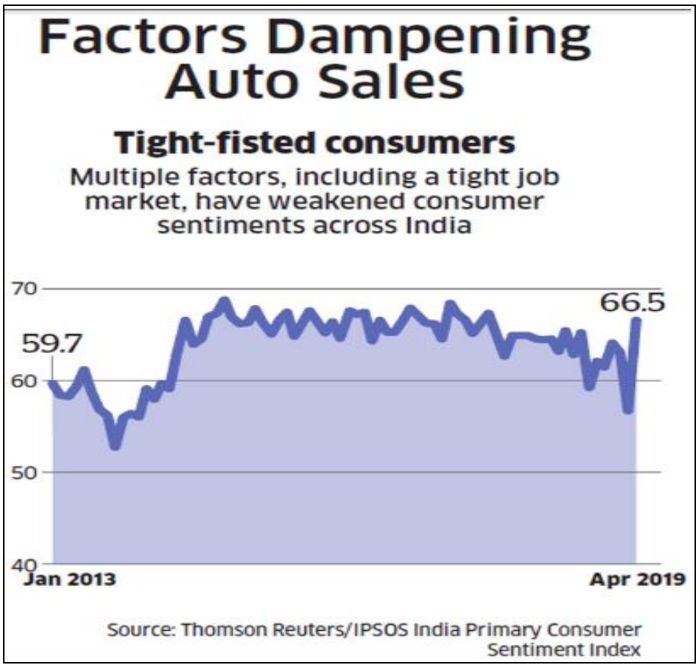


Fig 7

These unexpected developments meant while automakers built up inventory gearing up for the festivals, sales remained elusive. Urban India, reeling form a difficult job market, took a pause. Rural India, hurting from farm distress (over 60% of farm produce has reportedly been sold below the minimum support price), wasn't buying, either. As a result, inventory piled up, hurting everyone, especially the dealers. "India has mostly had a two-speed automotive market. If rural was hurting, urban markets compensated and vice-versa. This time, bothy rural and urban are hurting, " says Anil Sharma, associate director at Markets and Markets, a market research firm.

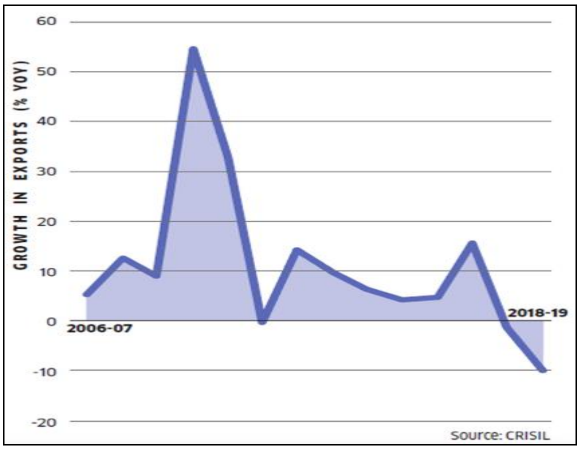


Fig 8

Multiple policy shocks have impacted sales. Some like demonetization and GST affected India Inc at Large. But many others have been more industry-specific. Take for example the emission norms. In 2016, the NDA government decided to leapfrog from BS-IV to BS-VI emission norms by April 1, 2020. The industry is now investing upwards of Rs 70,000 corer to comply.

Freak policy/regulatory announcements made matters worse. For example, last year, west Bengal restricted two-wheeler registration only to people with license, hitting sales, says Mathura. The Supreme Court ban on diesel vehicles was another instance. With multiple ministries interfering, policy flip-flops have been aplenty. "A dedicated ministry for such an important industry will help in effective policymaking". Two other factors—growth of shared mobility trend (Uber and Ola) and market structure (Maruti and Hyundai together have nearly 70% market share)—have amplified the pain for Motown. Not surprisingly, some, like Ford and General Motors, are re-evaluating or exiting the Indian market.

The new emission norms will push up prices across the board, especially the diesel vehicles, making it tougher for consumers to buy. Due to stiff emission norms, auto companies will phase out non-compliant models and pull the plug on non-viable variants, especially diesel. This means companies will have fewer models to lure buyers. Maruti just announced that it will cease diesel vehicle sales by April 2020. A small consolation is that BS-VI compliance will open up many more export markets for made-in-India vehicles.

Remedies for the India Economy Slowdown

Leading economists and market researchers suggest following remedies to bring the Indian Economy on high growth track.

More Government Expenditure

Government needs to spend more now to overcome the situation. Although the government has already spent much of its budgeted expenditure, it needs to spend more to spur investment and demand in the economy. An immediate boost without worrying much for consequences is needed by way of spending.

Let Indian Rupee be weaker

Even a weaker Indian rupee should not be a problem. Stronger rupee is hurting both the exports and the business. Imports are surging and they are eating into the domestic market share. India needs growth now, so there is no need for ratings as of now.

Lower Lending rates

The recently announced monetary policy of RBI has not given any relief to boost Indian economy. The economists now advocate a steep rate cut in the benchmark lending rates to allow for monetary policy expansion. The Reserve Bank needs to cut interest rates for banks, thereby making borrowing cheaper for the industry and spurring investment.

Certainty in Business required

More certainty in the business environment is required. Businesses should be without shocks like demonetization. In fact, after demonetization shock, there is an environment of uncertainty in the economy. This stops the Private sector short of announcing the new projects. There should be an environment of certainty that no such disruptive moves would rock the economy in the near term.

No need for excuses: Acknowledge and spend in rural areas

The government needs to spend more on rural areas. Increasing rural people's incomes can drive up the consumption demand, which in turn will boost the industry. To create more demand the Government needs to spend more in rural areas, construction sector and the unorganised sector

World Bank hopeful: Slow down to wane soon

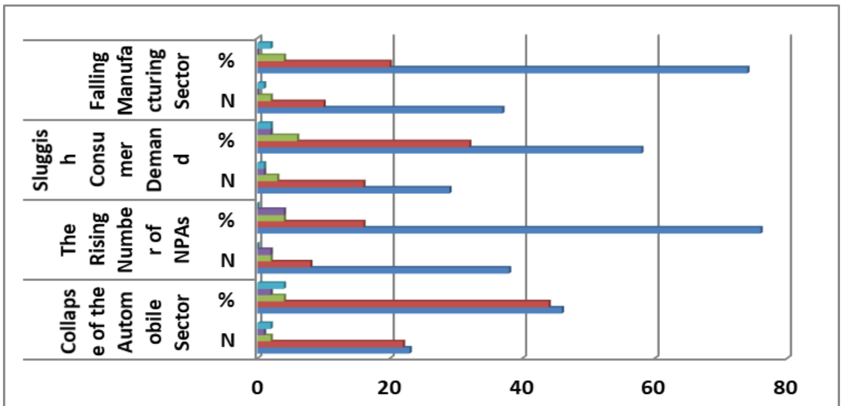
The recent slowdown in India's economic growth is temporary and is an "aberration" mainly due to the temporary disruptions in preparation for the GST. It will get corrected in the coming months. The World Bank President Jim Yong Kim said that the Goods and Services Tax (GST) is going to have a hugely positive impact on the Indian economy. According to him, "We think that the recent slowdown is an aberration which will correct in the coming months, and the GDP growth will stabilize during the year. We've been watching carefully, as Prime Minister Modi has really worked on improving the business environment, and so, we think all of those efforts will pay off as well." Accordingly, if the due corrective steps are taken, Indian Economy could come back on rails with a high growth achievement of 9-10%.

Analysis and Interpretation of Data

A survey was done mustering the data from 50 respondents across Bangalore from different walks of life asking their opinion about the factors relating to the economic slowdown. The analysis of the responses received are arrayed as under-

Macro-Economic Factors decelerating the Growth Rate of India economy

Key: TFE-To Full Extent; TGE-To Great Extent; TME-To Moderate Extent; TSE-To Small Extent; NAL-Not at All

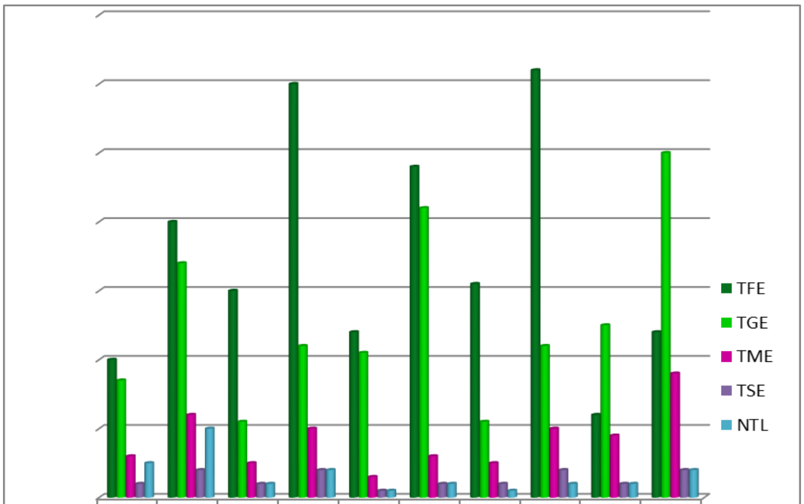


	Collapse of the Automobile Sector		The Rising Number of NPAs		Sluggish Consumer Demand		Falling Manufacturing Sector	
	N	%	N	%	N	%	N	%
NTL	2	4	0	0	1	2	1	2
TSE	1	2	2	4	1	2	0	0
TME	2	4	2	4	3	6	2	4
TGE	22	44	8	16	16	32	10	20
TFE	23	46	38	76	29	58	37	74

Fig 9

A question regarding the Macro-Economic Factors decelerating the Growth Rate of India economy with four variables has been posed to the respondents. The collapse of the Automobile Sector is opined by 46% of the respondents indicate the impact is to a full extent. 4% of the respondents feel the impact to be at moderate extent. The rising number of NPAs is felt by 4% of the respondents to have impacted to a moderate extent. Nine-tenth of the respondents felt the Sluggish Consumer Demand has decelerated the Growth Rate of India economy.

The Key Sectors Bearing the Brunt of Indian Economy Slowdown



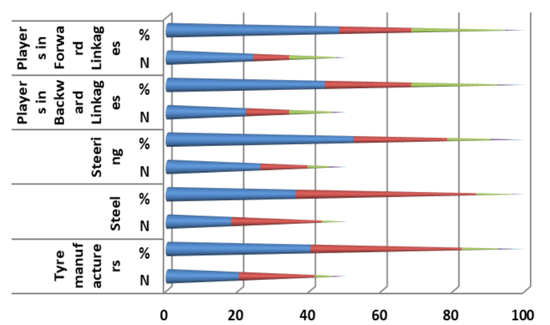
	Agriculture N	Agriculture %	Automobile N	Automobile %	Real estate N	Real estate %	FMCG N	FMCG %	Other N	Other %
TFE	20	40	30	60	24	48	31	62	12	24
TGE	17	34	11	22	21	42	11	22	25	50
TME	6	12	5	10	3	6	5	10	9	18
TSE	2	4	2	4	1	2	2	4	2	4
NTL	5	10	2	4	1	2	1	2	2	4

Fig 10

Key: TFE-To Full Extent; TGE-To Great Extent; TME-To Moderate Extent; TSE-To Small Extent; NAL-Not at All

The economy slowdown in Indian economy has had wide impact across the various sectors. Agriculture being the prominent sector has been opined by four-tenth of the respondents to have been impacted to full extent. About 90% of the respondents contend that the real sector is believed to have been effected by the economy slowdown.

Impact of Slowdown in Car Sales on the Associated Industries



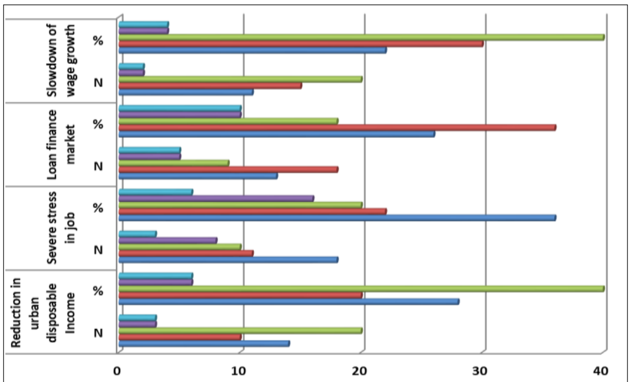
	Tyre manufacturers N	Tyre manufacturers %	Steel N	Steel %	Steering N	Steering %	Players in Backward Linkages N	Players in Backward Linkages %	Players in Forward Linkages N	Players in Forward Linkages %
SA	20	40	18	36	26	52	22	44	24	48
A	21	42	25	50	13	26	12	24	10	20
N	5	10	5	10	6	12	12	24	13	26
DA	2	4	1	2	3	6	2	4	2	4
SD	2	4	1	2	2	4	2	4	1	2

Fig 11

Key: SA- Strongly Agree; A- Agree; N-Neutral; DA-Disagree; SDA- Strongly Disagree

The Car manufacturing Sector is a major Industry nurturing many other industries. The impact on the associated industries is very evident. The impact on the Tyre manufacturing industry is agreed upon by 82% of the respondents. One-tenth of the respondents show disagreement in respect of the Steel manufacturing industry. 52% of the respondents expressed strong agreement that the Steering Industry has been impacted by the Slowdown in Car Sales. 68% of the respondents tend to contend that the Slowdown in Car Sales have impacted the Players in Backward and Forward Linkages.

Consumer – End Factors Leading to Reduction in Demand in the Car Market



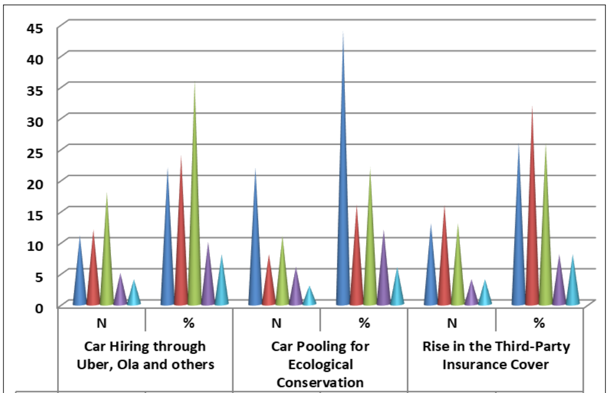
	Reduction in urban disposable Income N	Reduction in urban disposable Income %	Severe stress in job N	Severe stress in job %	Loan finance market N	Loan finance market %	Slowdown of wage growth N	Slowdown of wage growth %
SD	3	6	3	6	5	10	2	4
DA	3	6	8	16	5	10	2	4
N	20	40	10	20	9	18	20	40
A	10	20	11	22	18	36	15	30
SA	14	28	18	36	13	26	11	22

Fig 12

Key: SA- Strongly Agree; A- Agree; N-Neutral; DA-Disagree; SDA- Strongly Disagree

Four variables were identified for the Consumer – End Factors Leading to Reduction in Demand in the Car Market. Reduction in the urban disposable income is strongly agreed upon by 28% of the respondents while four-tenth of the respondents expresses the neutral opinion. Slowdown of the loan finance market is declined by 20% of the respondents.

Psychological Factors of Consumers Leading to fall In Demand for Cars



	Car Hiring through Uber, Ola and others		Car Pooling for Ecological Conservation		Rise in the Third-Party Insurance Cover	
	N	%	N	%	N	%
SA	11	22	22	44	13	26
A	12	24	8	16	16	32
N	18	36	11	22	13	26
DA	5	10	6	12	4	8
SD	4	8	3	6	4	8

Fig 13

Three variables in respect of the Psychological Factors of Consumers Leading to fall In Demand for Cars have been identified and put across to the respondents. The Uber, Ola and others have simplified the hiring of cars and made it easy for the people who want to avail the same. The increased awareness among the common people has brought about the mind set to avail public transport like Buses and metros. The same is agreed upon by 60% of the respondents.

Conclusion

The road ahead looks bleak. But it is also true that consumer sentiment- that biggest catalyst for consumption - is so much more a matter of the heart than the hard reality of purchasing power. And that really is the best hope for Motown India—that a stable government and rising economic sentiment could just reverse the tide for the industry.

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