

7th pay panel: Markets may not be happy, but consumption story to get a leg-up

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The seventh pay commission hike cleared by the cabinet on Wednesday may not fuel a broad rally in stock markets immediately but would definitely provide a major boost to India's consumption-story going ahead that would in turn, translate to wealth creation in consumer-focused stocks, said stock market experts.

"We may not witness a sharp rally in Sensex or Nifty going ahead, but companies in the automobile, refrigerator, AC and even home finance space would get a major impetus from the salary hike to thousands of government employees," said G Chokkalingam, founder and managing director, Equinomics Research & Advisory. The 7th pay commission proposals will come into effect from 1 January, 2016.

At a time when growth in other sectors are yet to pick up momentum due to both global and domestic factors, the consumption-push has potential to offer a major solace for the **Narendra Modi**-government, market experts said.

The seventh pay commission means a wage hike of 23.55 percent for central government employees in their salaries, allowances and pension benefits for more than 1 crore government staff and pensioners. However, this is estimated to put an additional burden of Rs 1.02 lakh crore, or nearly 0.7 percent of the GDP, on the state exchequer.

This would mean that the minimum pay in the government is set to be Rs 18,000 per month, more than double than Rs 7,000 currently. The maximum pay is set at Rs 2,25,000 per month for apex scale and Rs 2,50,000 per month for cabinet secretary and others at the same pay level (as against the current Rs 90,000 per month).

The increase in the disposable income (even a peon will earn a minimum Rs 18,000 monthly salary while for top babus it can go up to Rs 2.25 lakh per month), will help revive the consumer demand, especially in urban areas. In the past, there were reports that during the sixth pay commission years, consumer spending on items such as transport equipment (cars, two-wheelers and the rest), health and housing went up marginally, but all others (hotels, household goods etc) recorded a decline.

"In last few years several consumption-related companies have reworked their overall business strategy, focusing more on products that would drive sales. With the hike in pay packet, consumption will be a much bigger theme to be played out in the medium

term. Along with government spending in key infrastructure projects, increased consumption will definitely help push up growth in this fiscal," said market expert Sudip Bandyopadhyay.

Also, the IIP numbers, which have remained weak in the recent months due to weak growth and slow pick up government spending, also could see some revival going ahead amid rise in consumption, said A K Prabhakar, head of research at IDBI Capital.

A K Prabhakar has cited companies such as Maruti Suzuki, M&M, Tata Motors, Eicher Motors in the automobile space will gain traction on hopes of increased sales, while white goods makers such as Whirlpool, Voltas, too, would benefit from the rise in volumes.

However, analysts also concur that any heightened activity in consumption could trigger rise in inflation. The consumer price index (CPI) inflation is already inching towards the 6 percent mark, making the central bank over cautious on its policy course in the months ahead.

On the other hand, India Ratings does not see any immediate threat to inflation due to the award of 7CPC. Though consumer price inflation may inch up somewhat due to higher prices of services, impact on wholesale price index is likely to be muted due to the counter balance provided by the deflation in commodity prices and the availability of excess capacity in several manufacturing sectors. A rise in demand is likely to not only increase capacity utilisation but may also help revive the investment cycle earlier than expected.

All hopes ride on good monsoon and lower commodity and oil prices, which could then offer some cushion to the inflation, a Firstpost [report](#) said. A good monsoon, along with the pay commission push, could thus give a fresh impetus to the growth story.