

Consumer spending to get a leg-up with 7th Pay Commission raise

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The Cabinet's decision to give the green light to recommendations of the Seventh Pay Commission will boost consumer spending across a broad range of categories. Chief among them will be consumer goods, retail, automobiles, travel and tourism and bank credit in the near term. This is because the hike, as recommended by the commission, will put a significant amount of money in the hands of public sector employees. This is expected to give pent-up demand a boost.

Harsh Mariwala, chairman, Marico, said, "Greater disposable income will find an outlet into both discretionary categories as well as staples. This will spur not only demand, but also give economic growth a fillip. With the south-west monsoon advancing well across the country, rural consumption, which had taken a hit, will revive. Add to that the Seventh Pay Commission hike, which will impact largely urban areas. The net result is all-round consumption gets a boost."

Kishore Biyani, chief executive officer, Future Group, said, "Premium retailers may not gain as much as those who are in the mid- to value-segment. Coming when the festive season kicks in next month and we have our sales and offers, I see a good season ahead for us." According to India Ratings & Research, the pay package will boost consumption in the economy by Rs 45,110 crore (or 0.3 per cent of GDP) and increase savings by Rs 30,710 crore (or 0.2 per cent of GDP). The ratings agency also said the central government's net tax revenue (after sharing with states) will increase by Rs 14,100 crore (or 0.09 per cent of GDP) this financial year. All of this is significant and the full impact will be felt in FY18 (2017-18), the agency said, when big-ticket items get a fillip. Real estate off-take, for instance, will kick-off with a lag, said experts. As far as the auto sector is concerned, government employees and pensioners accounted for 10-15 per cent of the 2.78 million passenger vehicles sold in India in 2015-16. This translated into a pool of more than 400,000 buyers.

Sunil D'Souza, managing director, Whirlpool of India, said, "The pay commission will put extra money in the hands of a large section of Indian consumers. This is great positive for consumer durables since it will spur demand for discretionary and aspirational products." Bankers, however, say that the effect on retail lending will be indirect.