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## **Consumer Sentiment Continues to Drop Due to Broad-Based Slowdown in the Indian Economy**

*Economic Conditions, Employment Conditions, Consumer Spending, and Expectation of Decline in Household Income Drove the Overall Decline in Consumer Sentiment; Inflation-Related Sentiment Recorded Significant Rise in the Past Month*

**MUMBAI, December 17, 2008** – Today Boston Analytics, a customized knowledge services company, released the Boston Analytics Consumer Sentiment Index (BACSI) for November 2008. The BACSI, a monthly barometer of Indian consumer opinion regarding the current state and future expectations of the macro economy, household financial conditions and consumption, declined 2.6% for November to 81.8.

The index is based on a monthly survey targeting a diverse set of Indian consumers. In an effort to capture the country's heterogeneity, the BACSI's November survey has been extended in terms of both geographic coverage and sample size with the inclusion of two more cities. The survey is now conducted across thirteen cities: Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Bengaluru, Ahmedabad, Nagpur, Kochi, Lucknow, Jaipur, Chandigarh, and Bhubaneswar. It addresses macro-level variables reflecting the nation's economic conditions, including indicators such as employment, inflation, interest rates and real estate. The BACSI also studies micro-level variables such as household income, commitment towards expenditure on basic necessities, savings, and other elements.

The BACSI for the month of November stood at 81.8, declining 2.6% from the previous month's reading of 84.0. Disaggregation of the data reveals that the primary drivers of the decline in consumer sentiment were decreases in respondent's confidence in the observed and expected state of the economy. Low job security in the wake of the global economic meltdown was a significant contributing factor to the falling BACSI. There has been an increase in the number of respondents reporting a fall in household income both on observed and expected basis compared to the previous months. Sentiment pertaining to consumer spending continues the persistent dismal decline as consumers appear to be cutting down on discretionary spending during these troubled times.

The BACSI Inflation Sentiment Index, which began moving upward in August, has shown significant improvement in the last month as inflationary fear subsides among respondents.

"The urban consumer in India continues to express significant concern about the future of the Indian economy," said Sam Thomas, Ph.D., Boston Analytics' director of research and development. "The primary drivers of the decline in sentiment are broad-based and appear to be building in momentum on the downside. These fears of continued weakness in the state of the general economy can turn self-fulfilling if monetary and fiscal authorities don't respond rapidly to them. In particular, there is a marked declining trend in consumer spending plans."

The BACSI consists of two sub-indices—the current situation index and the expectation index—and five derived indices covering employment conditions, inflation, real estate, savings, and consumer spending.

### BACSI and Sub-Index Values

Index	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov
Composite Index	100.0	102.7	93.6	95.0	94.2	96.9	93.2	89.9	84.0	84.0	81.8
Current Index	100.0	106.5	92.8	94.2	90.7	95.3	90.7	89.0	88.4	88.1	83.6
Expectations Index	100.0	99.4	98.1	95.7	95.6	100.3	97.9	93.8	83.8	83.4	82.4
Inflation Index	100.0	127.1	57.4	48.4	42.7	36.2	50.1	27.9	39.0	44.0	79.2
Employment Index	100.0	84.6	79.8	77.5	71.1	74.6	67.8	67.5	65.8	65.8	58.2
Real estate Index	100.0	110.6	94.8	96.5	97.0	98.4	98.0	96.5	98.2	96.9	98
Consumer Spending Index	100.0	104.5	107.6	106.8	104.6	114.8	116.4	111.3	95.9	94.2	92.3
Savings Index	100.0	110.2	133.8	88.1	80.3	71.9	114.9	79.5	114.2	156.3	174.3

### Interesting Findings from the November BACSI Survey:

- Inflation sentiment Index is at an all time high since March 2008, as India's WPI-based inflation rate fell to a six month low in November. The BACSI Inflation Sentiment Index, which began moving upward in August, recorded a significant increase of about 80% in the last month, increasing from 44 in October to 79.2 in November 2008.
- Declining job security, a freeze in hiring, and news of layoffs across key sectors continue to lower employment sentiment. The BACSI Employment Sentiment Index fell by 11.6% in the last month from 65.8 in October 2008 to 58.2 in November 2008.
- As the Indian economy continues to slow in the wake of the global financial crisis, the country's real estate sector is also facing a slowdown. The Real Estate Sentiment Index stands below the benchmark value of 100 pointing towards a slowdown in the Indian real estate sector. The current index stands at 98.0, recording a marginal uptick of 1% during the last month. However, it is interesting to note that real estate sentiment has remained more or less intact despite decline in overall consumer sentiment
- Sentiment pertaining to consumer spending continues the persistent dismal decline. The drop in the index value in the last month is mainly attributable to reported reluctance and/or indecision to make big-ticket expenses in these troubled times The BACSI Consumer Spending Sentiment Index for the month of November stood at 92.3, a marginal decline of 2% from the previous month's reading.

### About the BACSI

The Boston Analytics Consumer Sentiment Index (BACSI) for India is based on a systematic and insightful disaggregation architecture supported by economic theory to provide an effective measurement of the level and shifts in consumer sentiment in India over time. Inspired by the product design and index computation methodologies of US indices—such as the University of Michigan's Consumer Sentiment Index and the Conference Board's Consumer Confidence Index—the BACSI has been adapted to the Indian economy's unique conditions by a team led by Sam Thomas, Ph.D., Director of Research and Development for Boston Analytics.

The index is derived from a monthly survey of 7,500 respondents across 11 cities— Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Bengaluru, Ahmedabad, Nagpur, Kochi, Lucknow, Jaipur, Chandigarh, and Bhubaneswar. A stratified sampling process is used with stratum based on socio-economic conditions of respondents to ensure proper representation of the consumer population in urban India. All data are collected via face-to-face interviews. The index value in January 2008 was set to 100 to serve as the starting benchmark value of the time series.

The BACSI is computed from 25 questions of the Boston Analytics Consumer Sentiment questionnaire covering various variables affecting consumer sentiment in India. In the first stage, diffusion values capturing the degree of positive bias in responses are computed for each question. Then a composite index is computed from the ratio of the weighted sum of the diffusion values of the current survey and the

base survey. The weights are based on the importance of each variable on a consumer's consumption sentiment.

Monthly BACSI reports are available for purchase from Boston Analytics. A more detailed description of the BACSI, as well as the executive summary of this month's report, is available at [www.bostonanalytics.com/India\\_Watch/India\\_Watch.html](http://www.bostonanalytics.com/India_Watch/India_Watch.html).

### **About Boston Analytics**

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