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Indian consumers express doubt that interest rates will be reduced further and perhaps as a result, report less comfort borrowing money to finance major purchases – points out Boston Analytics as part of its monthly Consumer Confidence Survey

June 12, 2009: Inflation has declined somewhat over the last two quarters providing greater room for interest rate cuts. From a policymaker's perspective, the emphasis has gradually shifted from combating inflation to propelling economic growth. Acknowledging the role that lower interest rates can play in economic recovery, the Reserve Bank of India (RBI) believes that there is room for banks to reduce their lending rates further and expand their credit.

While consumers feel as though interest rates have definitely come down, they have expressed pessimism that they will continue to fall further over the next 12 months.

- In response to lower interest rates, overall sentiment about *observed change* (compared to 12 months ago) has remained somewhat optimistic (with an optimism score above 50) since February 2009. The optimism score for observed level of loan interest rates for May 2009 was at 58.1 as compared to 59.9 in April suggesting some amount of stabilization in sentiment.
- Consumers are not optimistic regarding future rates however, with an optimism score for expected loan interest rates staying below the benchmark level of 50 in May 2009. It declined from 37.0 in April to 34.0 in May.

Exhibit 1

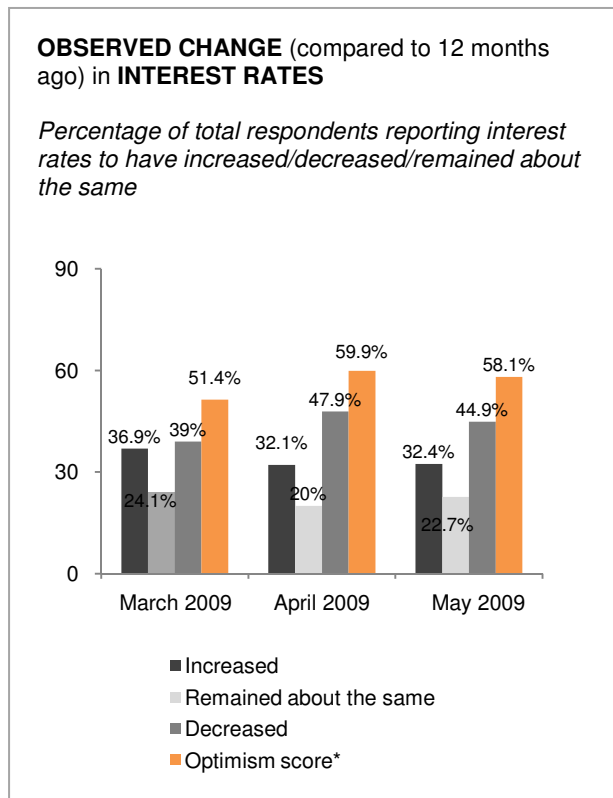
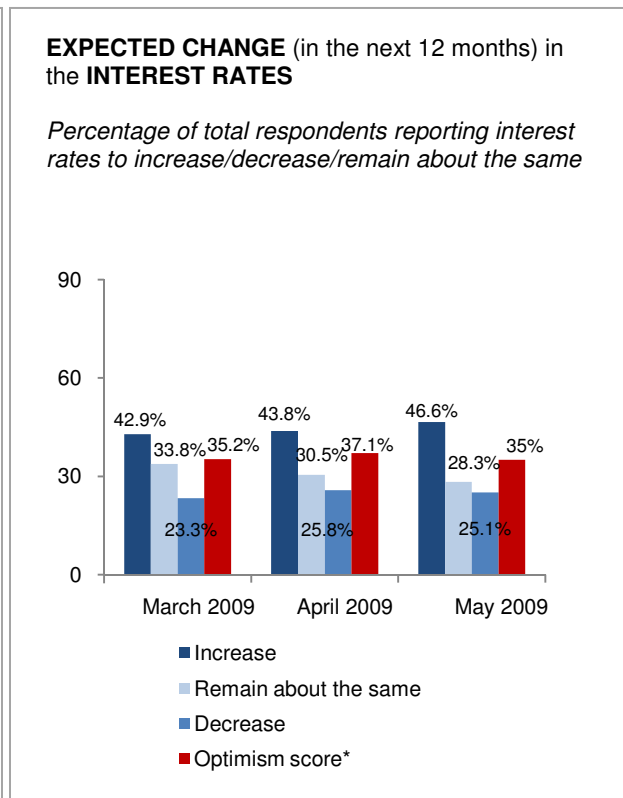


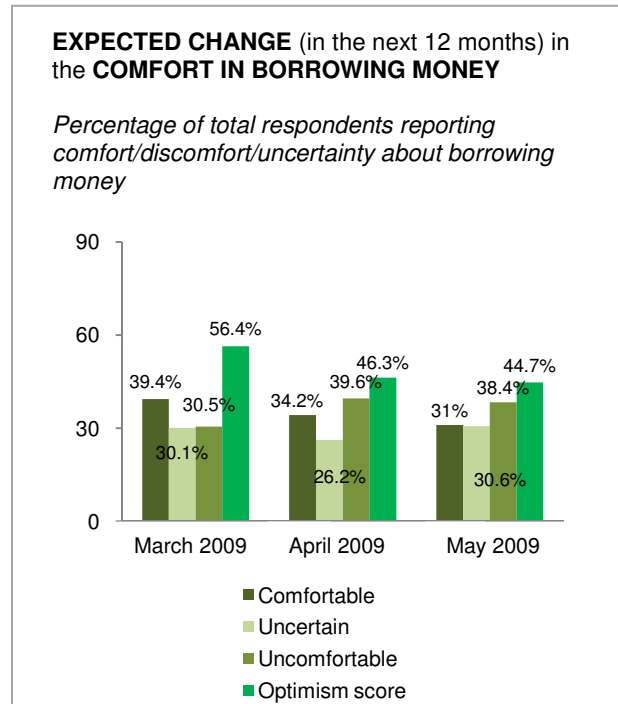
Exhibit 2



*The optimism score measures the degree of optimism expressed by respondents about a particular issue. Optimism scores between 0 and 25 indicate that respondents are very pessimistic, 25 to 50 suggest pessimism, 50 to 75 signify optimism, and a score of 75 or more signifies extreme optimism.

Weak sentiment about *expected change* (in the next 12 months) in interest rates appears to have adversely affected comfort in borrowing money in the near future. The optimism score for expected comfort in borrowing money has remained below the benchmark of 50 signaling increasing discomfort/uncertainty in borrowing money to finance major purchases.

Exhibit 3



The combination of declining optimism about future interest rates, job insecurity, discomfort/uncertainty about borrowing, and pessimism about the state of the economy has led to weaker purchase sentiment. Overall the last few months, there has been a drop in respondents reporting likelihood of committing to big ticket purchases.

- **Durables/white goods:** Nationwide approximately 20% of surveyed respondents reported plans to buy durables/white goods in the May 2009 survey compared to 30% of respondents in February. Correspondingly, the optimism score for likelihood of plans to buy durables/white goods has dropped from 46.3 in March 2009 to 31.2 in May 2009.
- **Automobiles:** Similarly, nationwide, the number of respondents reporting vehicle purchase intentions has been decreasing. In the May survey, only 15% of respondents said they were likely to buy a vehicle in the next six months compared to 23% expressing similar plans in the March survey. The optimism score for likelihood of plans to buy a vehicle has come down from 36.3 in March 2009 to 23.3 in May 2009.
- **Home purchase:** Boston Analytics' survey also reveals that home purchase sentiment continues to move downwards. In the May consumer confidence survey, approximately 13% of surveyed respondents reported that they are likely to buy a house in the next 12 months compared to 17% of respondents with similar purchase plans in the March survey. The optimism score has fallen from 26.8 in March 2009 to 18.4 in May 2009

Consumer sentiment data is derived from a survey of monthly survey targeting 10,000 respondents across 15 cities across fifteen Indian cities—Delhi, Mumbai, Kolkata, Chennai, Hyderabad, Bangalore, Ahmedabad, Chandigarh, Nagpur, Kochi, Jaipur, Lucknow, Bhubaneswar, Patna, and Vishakhapatnam. A stratified sampling process was adopted for this survey, with the strata based on the socio-economic conditions of the respondents in order to ensure a proper representation of the population. All data is collected via face-to-face interviews.