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The Indian consumer is slowly coming out of the frugal mindset that set in since the onset of the economic slowdown—points out data from Boston Analytics as part of its monthly Consumer Survey

November 17, 2009: With industrial output expanding at the fastest pace in 22 months in August and GDP growth forecasts being revised with upward, there are signals that the economy has begun to recover. Data collected from monthly consumer surveys conducted by Boston Analytics indicates sentiment related to consumer spending has improved in the last few months. The Indian consumer appears to be slowly coming out of the frugal mindset that set in since the onset of the economic slowdown.

Basic necessities: Despite soaring food prices, expenditure on basic necessities remains strong. Though respondents continue to exhibit optimism about observed and expected change in expenditure on basic necessities, there has been a marginal decline in optimism levels in the last month.

Exhibit 1: **Observed Change** (compared to 12 months ago) **in Expenditure on Basic Necessities** (Depicted by the Optimism Score)

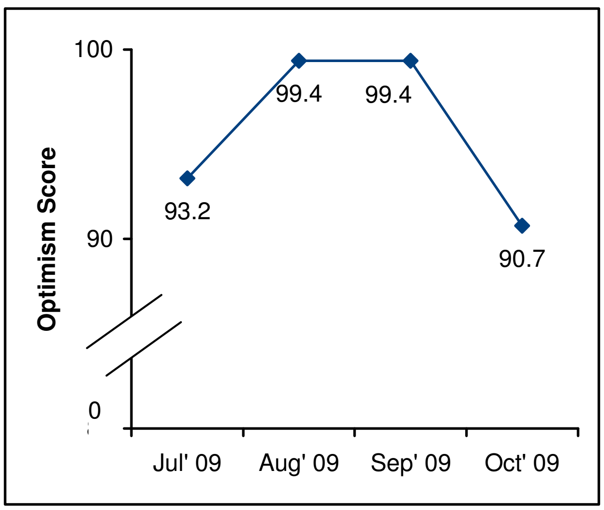
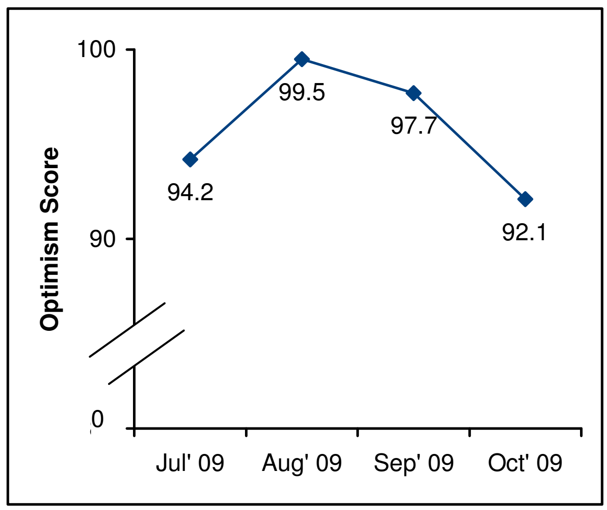


Exhibit 2: **Expected Change** (in the next 12 months) in **Expenditure on Basic Necessities** (Depicted by the Optimism Score)



* 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.

The Optimism score for observed change expenditure on basic necessities fell from 99.4 in September 2009 to 90.7 in October 2009. Following a similar pattern, the Optimism score for expected change in expenditure on basic necessities decreased from 97.7 in September 2009 to 92.1 in October 2009.

Consumer data also signals that the shopping basket of the average Indian consumer has remained intact despite the economic slowdown. Observed and expected change in expenditure on products groups such as packaged foods and beverages, personal care products, clothing and footwear, etc, remains strong. The increasing influence of the media, exposure to new retail formats, and expanding presence of branded products have resulted in product groups such as food and beverage, personal care products, clothing and footwear etc, transitioning from groups discretionary to non-discretionary spending.

Exhibits 3–8 depicts the reported change in observed and expected change in expenditure on packaged foods and beverages, personal care products, and clothing and footwear.

Exhibit 3: **Observed Change** (compared to 12 months ago) **in Expenditure on Packaged Food and Beverages** (Depicted by the Optimism Score)

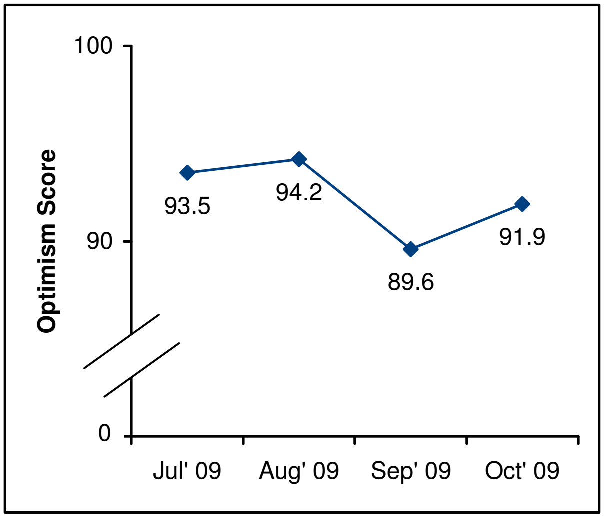


Exhibit 4: **Expected Change** (in the next 12 months) in **Expenditure on Packaged Food and Beverages** (Depicted by the Optimism Score)

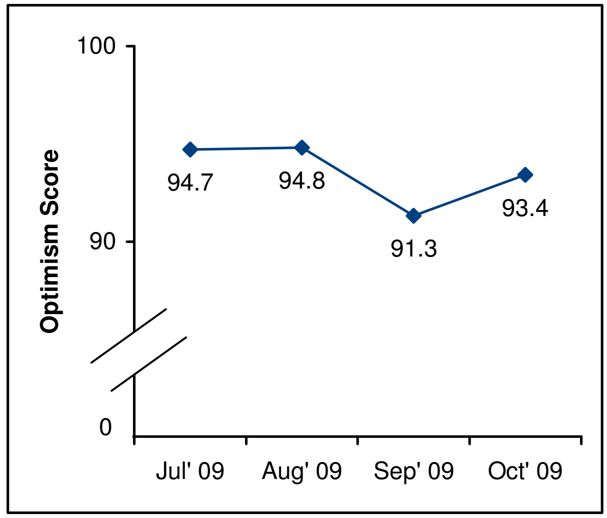


Exhibit 5: **Observed Change** (compared to 12 months ago) **in Expenditure on Personal Care Products** (Depicted by the Optimism Score)

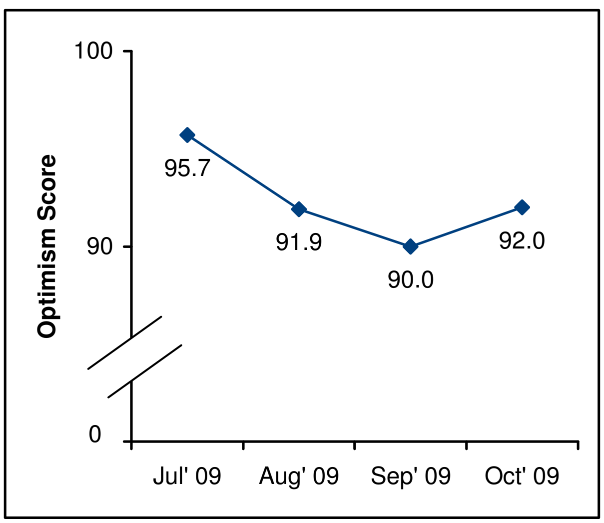


Exhibit 6: **Expected Change** (in the next 12 months) in **Expenditure on Personal Care Products** (Depicted by the Optimism Score)

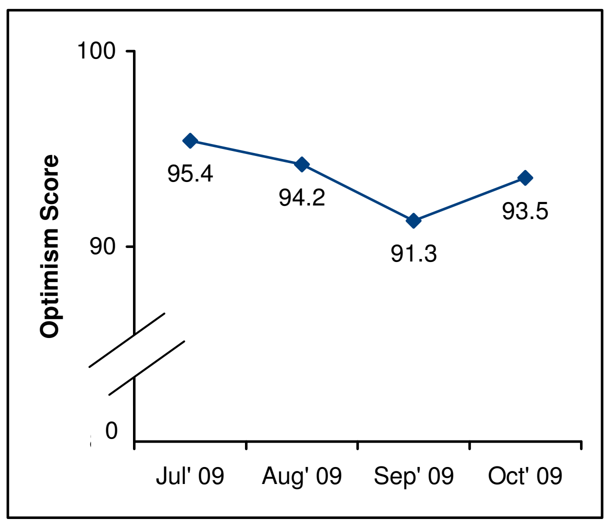


Exhibit 7: **Observed Change** (compared to 12 months ago) **in Expenditure on Clothing and Footwear** (Depicted by the Optimism Score)

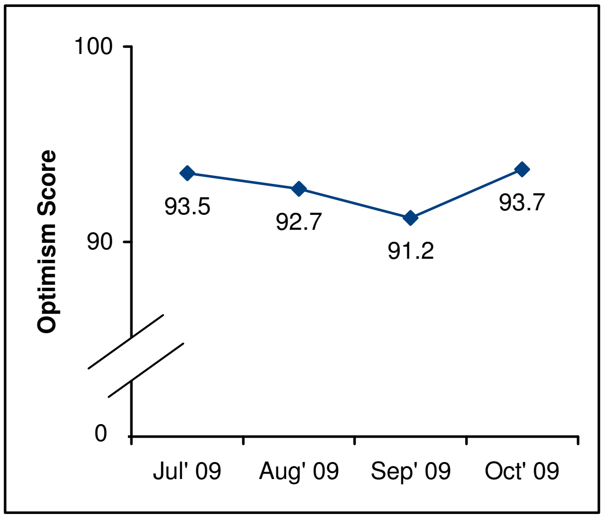
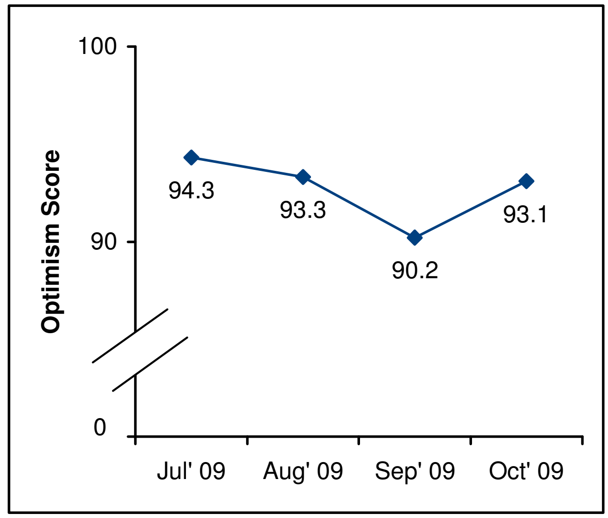


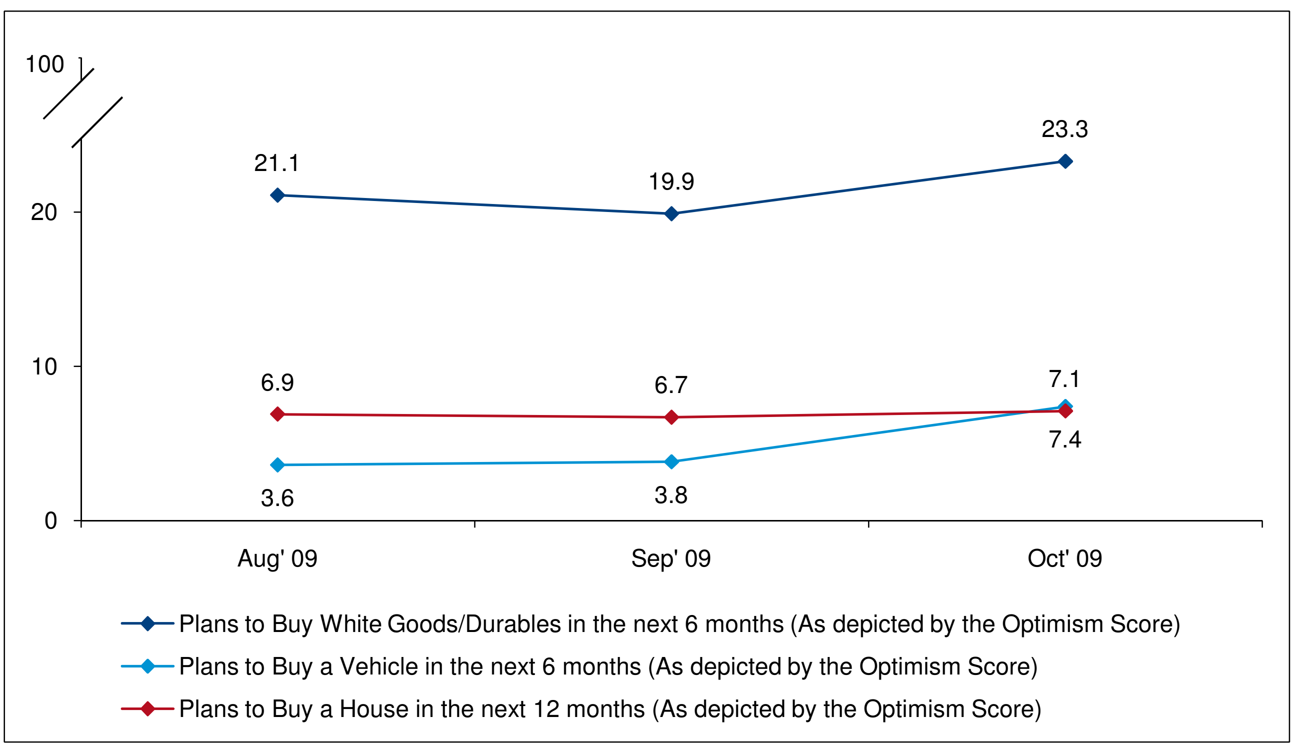
Exhibit 8: **Expected Change** (in the next 12 months) in **Expenditure on Clothing and Footwear** (Depicted by the Optimism Score)



As depicted in Exhibits 3–8 spending sentiment related to packaged foods and beverages, personal care products and clothing and footwear has and are likely to remain very optimistic.

Pessimism related to discretionary spending plans has recorded some improvement in the last months as depicted in Exhibit 9. However, it may be early to comment if this is reversal of trend or a result spending during the festive period.

Exhibit 9: **Spending Plans on Durables/White Goods and Vehicles** in the next six month and **House Purchase Plans** in the next 12 months



One thing is certain that the Indian consumer still remains cautious and may take a while before exhibiting spending patterns prior to the onset of the economic downturn. While spending on basic necessities is very strong, discretionary spending on items such as clothing, durables, cars, etc, remains weak. Retailers will have to continue with discounts, rewarding loyalty programs, and cross promotions to boost consumer spending.

Boston Analytics conducts monthly consumer surveys to gauge spending sentiment on items of both discretionary (white goods/durables, vehicles (two wheeler and for wheeler) and a house) and non-discretionary spending items (essential groceries, packaged food and beverages, personal care products, clothing and apparel, housekeeping supplies, etc.) targeting 10,000 respondents cross 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.

About Boston Analytics: