

CONSUMER CONFIDENCE SURVEY BY RBI: AN ANALYSIS

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INTRODUCTION

The Reserve Bank of India (RBI) has been conducting Consumer Confidence Survey (CCS) on a quarterly basis since June, 2010 and on a bi-monthly basis since March, 2016.¹ Consumer Confidence Survey is done by private entities as well, so as to understand what confidence the customer/client holds. This helps the business to adapt and prepare accordingly. Nations perform such surveys as well. It aids the nations to prepare for the future by introducing plans and policies. CCS started as Michigan index by George Katona and Survey Research Centre of University of Michigan. Research on consumer confidence has the main objective of determining economic outcome.² The survey also helps to determine political votes as economic situation heavily influences it. (Lewis-Beck, 1988; McDonnell, 1993; Zagrski, 1994). Optimism and pessimism in consumers towards changes in the economy can heavily affect socio-political thinking of the people. There is existing debate on whether the CCS is meaningful, whether it covers information already covered by other economic indicators, whether customer expectation can be a ground for future events and whether is it even required at all. More than 15 articles on the survey have been published in the New York Times and between July 2002 and June 2003 igniting the debate.³ In 2020, the survey has been done three times and the same has been reported on February 6th, April 3rd and June 4th. The results have been degrading in toto, considering all the reports. The survey is done periodically in 13 major cities of India i.e. Ahmedabad, Bangalore, Bhopal, Chennai, Delhi, Guwahati, Hyderabad, Jaipur, Kolkata, Lucknow, Mumbai, Patna and Thiruvananthapuram, covering about 5300 households The survey is done on people aged 21 and

¹ 'Consumer Confidence Survey (CCS) : Falling Consumer Confidence in March 2020 on Account of Sliding Economic Conditions' *India Macro Advisors* (Bangalore, 3 April 2020) <<https://www.indiamacroadvisors.com/page/category/economic-indicators/leading-indicators/-consumer-confidence-survey/>> accessed 9 June 2020

² Jeff Dominitz and Charles F. Manski, 'How Can We Measure Consumer Confidence ?' (2004) 18 *The Journal of Economic Perspectives* 51 <<http://www.jstor.com/stable/3216890>> accessed 9 June 2020

³ Sydney C. Ludvigson, 'Consumer Confidence and Consumer Spending' (2004) 18 *The Journal of Economic Perspectives* 29 <<https://www.jstor.org/stable/3216889>> accessed 9 June 2020

above. The factors considered on CCS can vary from company to company, when it comes to personal survey and from nation to nation, when it comes to national survey. In India, the RBI considers five factors for evaluation; employment, price levels, expenditure, economic condition and income. People present their opinion on these five factors.

Consumers are surveyed on their perceptions and expectation on income, expenditure, employment, economic situation and price levels. The current situation response are given by the people based on what the situation has been in the present while comparing it to a year ago. Further, in case of future expectation, response are given by the people based on what the situation will be a year after in comparison to the present situation. The people can "vote" if the factor considered (for ex: employment) has/will improve, remain same or worsen in the span of one year. Net percentage of "voters" is then derived. Therefore, consumer confidence survey is based on the opinion of the people on these five factors. Present Situation Component and Expectations Component help in determining the economic situation of the nation. The level of the present conditions component serves as a good proxy for the level of economic activity, while the expectations component is more closely correlated with the rate of economic growth.⁴ The Future Expectation Index (FEI) and Current Situation Index (CSI) has hit historical lows on the report published on April 3rd, 2020 and June 4th, 2020. Even the FEI has entered the zone of pessimism i.e. below 100 out of a total of 200. 100 is the dividing line between pessimism and optimism. The survey has continuously seen lack of confidence among the people throughout 2020 making it question the aim of India to achieve 5% GDP growth in 2020.⁵

As already mentioned, consumer confidence is based on two indices: Current Situation Index (CSI) and Future Expectation Index (FEI). It is also known that the net response is measured in percentage. $CSI \text{ and } FEI = 100 + \text{Average of Net Responses of the above five factors}$. CSI and FEI are calculated separately as the former compares the present situation with the past (1 year ago) and the latter predicts the future situation in comparison to the future (1 year

⁴ Id.

⁵ Shreya Sinha, 'Can RBI's January Consumer Confidence Survey see an Improvement?' *BFSI* (Noida, 3 January, 2020) <<https://bfsi.economictimes.indiatimes.com/news/policy/can-rbis-january-consumer-confidence-survey-see-an-improvement/73071919>> accessed 9 June 2020.

from present). The CSI and the FEI can take values between 0 and 200. Value over 100 implies that consumers are optimistic while under 100 implies the consumers are pessimist.⁶

SALIENT FEATURES AND CRITICAL ANALYSIS OF THE REPORT

The survey analyzes consumer confidence based on two indices. The survey was done through interviews via telephones, from May 5th - 17th. 5300 households from across major cities in India were interviewed. The first one is Current Situation Index (CSI) and the second one is Future Expectation Index (FEI). From the name itself, we can conclude that one analyzes what people have actually reported while the other analyzes what people expect in the future. Since the report of March, 2017, the Current Situation Index has been below 100⁷ (zone of pessimism), the only exception being the report of March 2019 with CSI of 104.6.⁸ A sharp fall was seen in the year 2013. Report released on October-December, 2013, which analyzed June-September, 2013 showed sharp fall with CSI decreasing from 101.7 - 88.0 and FEI decreasing from 109.8 - 90.5.⁹ In the present survey, we can see that even the FEI has decreased to the zone of pessimism. Last time that the FEI was under the zone of pessimism was on report on September, 2013 (90.5).¹⁰ CEI too had taken care to not fall under zone of pessimism since June, 2014 (100.4)¹¹ until March, 2017. The last report on March, 2020 showed change in CSI from 83.7 to 85.6 and FEI from 115.1 to 115.2. The latest report on May, 2020 (reported on 4th June, 2020), shows change in CSI from 85.6 to 63.7 and FEI from 115.2 to 63.7. Consumer confidence here took a sharp fall which is even more than the figures during 2013.

Analysis of Current Situation Index of the Survey (TABLE-I)

⁶ cf *India Macro Advisors* (n1).

⁷ Reserve Bank of India, Consumer Confidence Survey (Report of May, 2020) <<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/CCS0504201754CD5D2E91ED418A9FCCAD5A623D70AF.PDF>>

⁸ Reserve Bank of India, Consumer Confidence Survey (Report on March, 2019) <<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/CCS04042019FCB649ED07F14620A25DD3BE3EB3624D.PDF>>

⁹ Reserve Bank of India, Consumer Confidence Survey (Report on March, 2014) <<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/CCS16010414.pdf>>

¹⁰ Reserve Bank of India, Consumer Confidence Survey (Report on December, 2013) <<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/04CCSIM270114F.pdf>>

¹¹ Reserve Bank of India, Consumer Confidence Survey (Report on September, 2014) <<https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/CCS290914.pdf>>

1. Factors whose net percentage is positive but has deteriorated (One)

Factors	Current Net Percentage	Change in Net Percentage between Report of March and May		Change in Net Percentage between Report of January and March	
		March	May	January	March
Spending	43.2%	69.2%	43.2%	73.1%	69.2%

Difference in Net Percentage (Confidence)	26% Drop	3.9% Drop
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2. Factors whose value is positive but has improved (One)

Factors	Current Net Percentage	Change in Net Percentage between Report of March and May		Change in Net Percentage between Report of January and March	
		March	May	January	March
Price Level	-75.8%	-84.6%	-75.8%	-88.7%	-84.6%

Difference in Net Percentage (Confidence)	8.8% Increase	4.1% Increase
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3. Factors whose value is positive and has deteriorated (Three)

Factors	Current Net Percentage	Change in Net Percentage between Report of March and May		Change in Net Percentage between Report of January and March	
		March	May	January	March
Economic Situation	-60%	-23.9%	-60%	-27.8%	-23.9%

Difference in Net Percentage (Confidence)	36.1% Drop	3.9% Increase
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Employment	-48.2%	-30.5%	-48.2%	-33.1%	-30.5%
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Difference in Net Percentage (Confidence)	17.7% Drop	2.6% Drop
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Income	-40.8%	-2.2%	-40.8%	-5.0%	-2.2%
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Difference in Net Percentage (Confidence)	38.6% Drop	2.8% Increase
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4. Factors whose net percentage is positive and has improved (Zero)

Analysis of Future Expectation Index of the Survey (TABLE-II)

1. Factors whose net percentage is positive but has deteriorated (Two)

Factors	Current Net Percentage	Change in Net Percentage between Report of March and May		Change in Net Percentage between Report of January and March	
		March	May	January	March
Spending	55.6%	72.3%	55.6%	74.7%	72.3%

Difference in Net Percentage (Confidence)	16.7% Drop	2.4% Drop
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Income	18.1%	44.2%	18.1%	42.7%	44.2%
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Difference in Net Percentage (Confidence)	26.1% Drop	1.5% Drop
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2. Factors whose net percentage is negative but has improved (One)

Factors	Current Net Percentage	Change in Net Percentage between	Change in Net Percentage between
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		Report of March and May		Report of January and March	
		March	May	January	March
Price Level	-66.4%	-70.4%	-66.4%	-60.7%	-70.4%

Difference in Net Percentage (Confidence)	4% Increase	9.7% Increase
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3. Factors whose net percentage is negative and has deteriorated (Two)

Factors	Current Net Percentage	Change in Net Percentage between Report of March and May		Change in Net Percentage between Report of January and March	
		March	May	January	March
Economic Situation	-11.7%	15.1%	-11.7%	11.9%	15.1%

Difference in Net Percentage (Confidence)	26.8% Drop	3.2 % Increase
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Employment	-5.9%	14.7%	-5.9%	13.0%	14.7%
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Difference in Net Percentage (Confidence)	20.6% Drop	1.7% Increase
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4. Factors whose net percentage is positive and has improved (Zero)

Economic Situation

Majority (74.4%) reported that the economic situation has worsened. In the last survey, people reported the same but the majority was restricted to 52.3%. Further, majority of the people (49.8%) in the last survey had confidence that the economic situation would improve

in the future. In the present, the people (51.4%) have expected that the economic situation would worsen in the future. As shown in the Table -I, there has been 36.1% drop in net percentage of people favoring improvement in economic situation, while as there was 3.9% increase in the last report. Expectation of improve in economic situation has seen 26.8% decrease in the net percentage while there was 3.2% increase in the last survey (Table-II). The GDP growth has been the lowest (1.9%) since the 29 years¹², which contributes to the net response presented. Therefore, people, while predicting economic situation have changed from being optimist to pessimist.

Employment

In the current situation, majority (67.4%) reported that the employment situation has worsen. The same number was 55.7% in the last report. Further, in the last survey, people (48.8% majority) had expected that the employment sector would improve but in the present survey, people (47.4%) expect that it will worsen. The case of employment is similar to that of economic situation. Majority in the last report expected employment sector to improve but now they expect the sector will degrade. The change in net percentage of people favoring employment sector has dropped 17.7% while it was 2.6% drop in the last report (Table-I). Expectation of improving employment has seen 20.6% drop while it was 1.7% increase in the last report (Table-II). The unemployment rate has been the highest since the last few years which is the reason for such downfalls. Unemployment rate has hit a steep 26% amidst the lockdown as well.

Price Level

Majority of people (79.1%) in the present survey reported an increase in prices. The same number was 87.2% in the last survey. Majority of people (75.8%) expect increase in prices in the future, in the present survey while the same number was (78.1%) in the last survey. The net difference in percentage of people favoring improvement in price level (cheaper) has increased from 4.1% increment to 8.8% increment. (Table-I) The net difference in percentage of people expecting improvement in the sector has decreased from 9.7% increment to 4% increment. Here, the data shows positive sign. The CSI and FEI data both show increment. Although the increment in confidence or net percentage of population favoring price level shows improvement, the actual

¹² Gaurav Noronha, 'Ind-Ra Cuts India's FY21 GDP Growth Further to 1.9%, lowest in 29 years' *The Economic Times* (New Delhi, 27 April, 2020) <<https://economictimes.indiatimes.com/news/economy/indicators/ind-ra-cuts-indias-fy21-gdp-growth-further-to-1-9-lowest-in-29-yrs/articleshow/75403539.cms>> accessed on 9 June, 2020

price is still high. Similar improvement can be seen in case of inflation as well. Although, majority predicts increase in inflation, the number of people predicting so has decreased in comparison to the last survey. We can see improvements in this section, the improvements are itself very minute. Further, negative change in other factors are drastically significant hence, they manage to nullify such improvement.

Income

Majority (53.4%) people have reported that income has decreased while the majority (52.4%) reported that income has remained constant. People (39.5%) expect that income will increase, while the same number was 52.0% in the last survey. The net percentage of people who favored income increment has decreased by 38.6 % since last survey while there was 2.8% increment in the last survey. (Table I). The net percentage of people expecting increase in income has dropped from 26.1% to 1.5%. (Table II). High unemployment rate contributes to this factor as well. Therefore, we can conclude that people have expected increase in income in the surveys but the reality has always been the stark opposite.

Spending

Majority (46.4%) people have reported that their spending has increased while 42% of the people in the last report reported that their spending has not changed. In the present survey people (42.4%) expect that their expenditure will remain the same while the same number was 43.5% in the last report. The change in net percentage of people reporting increase in spending has seen 26% drop while there was 4% drop in the last report. (Table-I). The change in net percent of people expecting favorable spending has seen 16.7% drop while the same number was 2.4%. (Table-II). It is understood that high income can cause high spending. It is also understood that low income causes higher percentage of income to be spent. Further, high price of goods can also cause large portion of income to be spent. Low income and high price can also trigger savings which decreases expenditure. Therefore, expenditure can be based on various factors.

We can see a huge drop in net response on income while comparing the net response of the present survey to the last survey. Spending has also decreased in comparison to the last report. It is a basic concept in economics that basic-essential items are inelastic in nature which means, demand for such goods will not change even if there is change in price. For example,

demand for salt will not decrease even if the price of salt soars. When it comes to non-essential goods, if the price increases, the demand falls. For example, if the price of gold increases, the demand for jewelry will decrease. Since the May 2019, the net response on expenditure on essential good has remained fairly the same despite some changes in other factors but in the present report, the net response on expenditure on essential goods has drastically changed. The net responses were 77.1%, 79.1%, 81.2%, 80.9%, 82.7% and 80.6% since the report of May, 2019 till the report of March, 2020 but in the present report, the net response is 59.5% which is a huge change when it comes to essential goods. Similar pattern can be seen when it comes to non-essential goods. The net response has dropped from -2.6% to -32.5% since the last report. Weak spending of the people of a nation can heavily affect the economic cycle of the nation.

Additional Analysis

We observe sharp fall in most of the sectors of consumer survey. Such sharp fall can be co-related to the present pandemic as well. Economic activities of people have either slowed down or shut down in its entirety. Unemployment has risen to the highest in decades. Daily wage earners are facing the worst of it. With the lockdown approaching its fourth month, it is obvious that the economic cycle has faced a lot of barriers. Cases of Covid-19 is increasing daily and therefore affecting the financial stability and mental health of people. The survey shows facts that income, economic activities, spending and employment have been adversely affected. This is a result of the pandemic, but again, a question arises if the expectations have been exaggerated.

It is logical that people feel more optimistic only when the present looks good for them. When economic indicators are strong, people are optimistic of the future (MacKuen, Erikson, and Stimson 1992; Blood and Phillips 1995). Consumer confidence is highly influenced by variables such as equity prices and interest rates.¹³ Increase in interest rates have been a fact in India and such facts provide for increase in pessimism. When inflation rates increases or unemployment hits double digits, economic evaluations become more pessimistic (Fuhrer 1988; Krause 1997). This situation can be seen in the present Indian economy. But there can also exist irrational pessimism which means an event affects a person's psychology more than it should.

¹³ K. H. McIntyre, 'Reconciling Consumer Confidence and Permanent Consumer Income Consumption' (2007) 33 Eastern Economic Journal 257 <<https://www.jstor.org/stable/20642350>> accessed 9 June, 2020

"Negativity Bias" is a phenomenon due to which individuals react strongly to negative events in comparison to positive events even if the events are of equal magnitude. (Holbrook, 2001; Lau, 1985; Calgett, 1989) This phenomenon has been a subject of study for economists, political scientists and psychologists. There are empirical evidence supporting the phenomenon's existence. Further, study by behavioral economists show that personal losses affect individuals strongly than personal gains. This is known as "loss aversion". (Benartzi & Thaler, 1995; Tversky and Kahneman, 1991).¹⁴ Further, the unfavorable impact (pessimism) in expectation from the economy is not only by the people who are directly affected by unemployment but also by the people who are known about such lack of employment opportunities.¹⁵ Therefore, even the news and social medias heavily influence the FEI in CCS. Exaggeration by the medias and people in their social media can cause a pessimistic impact on the people's expectation from the economy. Nonetheless, in the present situation, with the rise in unemployment, price and decrease in income due to the lockdown, the present and expected FEI and CSI are reasonable.



CONCLUSION

Consumer Consumption Survey plays a quintessential role in measuring confidence of the customer in the present and the future, through its indices. This can help a country to introspect on its activities and make plans and policies for the future. Such survey is highly correlated with the present state of economy and reflects present and near-term economic prospects.¹⁶ There are evidences that a well undertaken measure of public sentiment can predict future economic behavior. Public opinion can also shape public policy.

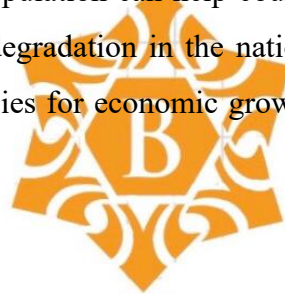
Although RBI only considers five factors for determining consumer consumption, external factors like interest rates, news and medias, wars and natural disasters can profoundly affect the consumer consumption. Further, the word "survey" itself has some limitation to it. Survey is only conducted on a sample population. Such sample population should incorporate

¹⁴ Gregory P. Casey and Ann L. Owen, 'Good News, Bad News and Consumer Confidence', (2013) 94 Social Science Quarterly 292, <<https://www.jstor.org/stable/42864468>> accessed 9 June, 2020

¹⁵ Eva Mueller, 'The Impact on Unemployment on Consumer Confidence' (1966) 30 The Public Opinion Quarterly 19 <<https://www.jstor.org/stable/2747368>> accessed 9 June, 2020

¹⁶ K. H. McIntyre, 'Reconciling Consumer Confidence and Permanent Income Consumption' (2007) 33 Eastern Economic Journal 257 <<https://www.jstor.org/stable/20642350>> accessed 9 June, 2020

individuals from every class of the society. Absolute incorporation of the entire population of India after every two months is not possible. This survey conducted by the RBI only consists of 5300 households from 13 major cities but in the present situation, during this lockdown, people from lower strata of economic hierarchy are affected more but the survey only incorporates "people with telephone access." As already mentioned, human psychology reacts more to negative situation than to positive ones. Additionally, media nowadays portray the pandemic and predict greater depression than the great depression of 1930s. Nonetheless, downfall of economic situation is a fact in India as it is anywhere else in the world, at the present. The present pandemic can't be an excuse to the ever degrading situation of consumer confidence since March, 2017. There is an urgent need to come up with plans to improve the situation and implement it efficiently. Whether the FEI in the present survey is a "negativity bias" or not can only be seen in the next year as FEI predicts the economic situation after a year. Although the survey doesn't incorporate the entire population, study from the sample population can help countries and companies to plan for the future effectively and avoid further degradation in the national economy/ personal business. A lesson is to be learnt so that the policies for economic growth can be efficiently and effectively implemented.



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