Automobile sales slump

What is the issue?

- India's automobile industry is experiencing a snowballing crisis of demand that shows no signs of abating, leave alone reversing.
- Domestic sales across all vehicle categories slid 19% year-on-year in July 2019.

Why is there a slide?

- As **passenger vehicle dispatches plunged** 31% to register the segment's steepest fall in almost 19 years, the domestic sales across all vehicle categories slid.
- With the 2-wheeler deliveries contracting 17% and commercial vehicle shipments slumping at 26%, the picture is one of widespread gloom.

What could be interpreted from the data?

- It could be interpreted that **demand has dried up in all corners** and among all key consumer segments — urban, semi-urban and rural and personal and institutional.
- Nine months of contraction in passenger vehicle sales has also begun extracting a toll in terms of **showroom closures and lay-offs** at dealerships, component suppliers and vehicle makers themselves.
- The **Federation of Automobile Dealers Associations** recently warned of more jobs being at risk, on top of about 2 lakh positions that have already been shed.
- The **Society of Indian Automobile Manufacturers** said that the industry had laid off at least 15,000 contract workers in the last 3 months.
- The **broader economy is experiencing a serious slowdown** has been evident for some time now and the latest data from the auto sector only bears proof to it.
- RBI acknowledged that private consumption, the mainstay of aggregate demand remains sluggish.

What are the factors that are bedevilling demand in the auto sector?

- There is a liquidity crunch in the NBFC industry and the resultant

tightening of credit availability to finance vehicle purchases.

- An increase in up front insurance costs and the 28% GST charged on cars, motorcycles and scooters.
- An overlooked fact is that the manufacturers overestimated demand when setting up capacity, especially of fossil-fuel powered vehicles.
- E.g., Maruti Suzuki has announced plans to stop selling diesel cars from April 1 as demand has slumped.
- The ride-share industry has mushroomed in recent years have incentivized rapid adoption of app-based commuting.

Why the outlook looks far from hopeful?

- The RBI's July round of its Consumer Confidence Survey reflected a **decline in consumer confidence** in July, 2019.
- It shows that 63.8% of respondents expect discretionary spending will stay the same or shrink one year ahead.
- In June 2018, the comparable reading was 37.3%.
- The onus now lies on the government to urgently formulate policy interventions to address this sectoral crisis or risk wider contagion.

Source: The Hindu

