

Decline in Automobile Sales

What is the issue?

- Leading automobile manufacturers announced a sharp decline of up to 50% in their domestic sales in July 2019.
- The trend is potential of having widespread implications for the economy as a whole.

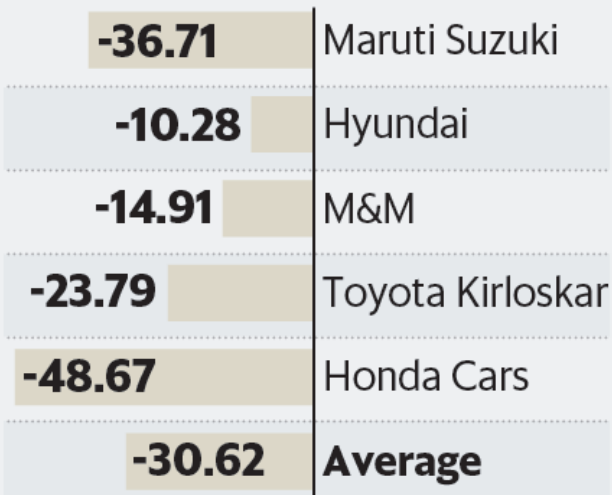
What is the recent happening?

- Market leader Maruti Suzuki reported a 36.2% drop in sales during July 2019.
- Manufacturers are now going for cuts in production.
- Moreover, being one of the biggest job creators in the country, the auto sector is staring at a deep-rooted slowdown and job losses across its value chain.
- **Segments** - The drop in sales is happening across all segments.
- The passenger vehicle sales witnessed a fall of 18.4% in the quarter ended June 2019.
- The commercial vehicle segment witnessed a 16.6% decline.
- The two-wheeler segment too, saw a drop in sales by 11.7% during the quarter.
- This is notably the more affordable form of motorised mobility and an indicator of consumption demand in the hinterland.
- In contrast to the trend, the tractor industry had posted a third consecutive year of double-digit growth up until March 2019.
- However, even tractor sales have consistently fallen since March, recording the biggest monthly fall in production in June 2019.

Losing the way

Maruti Suzuki reported the biggest drop in sales in almost seven years.

Year-on-year growth (in %)



Source: Companies

What are the causes?

- **NBFCs** - The pressure on [non-banking financial companies](#) (NBFCs) and the liquidity squeeze in the market is a big factor for the decline in auto sales.
- E.g. a third of the retail sales of Maruti Suzuki (the country's largest carmaker) were funded by NBFCs
- A liquidity crisis for the NBFC sector has led to a drop in sales for lack of funding for customers.
- **Customer sentiment** - The deteriorating customer confidence is another factor leading to a continuous slide in sales of passenger cars.
- Customers are also postponing their purchase decisions due to various considerations.
- These include an expected fall in GST rates, and the hope that the transition from BS-IV to BS-VI may lead to big discounts between January and March 2020.
- Customers are also expecting discounts in the coming festive season.
- [However, company officials say that they do not expect the trend to be reversed in the near future.]
- Given these factors, July became the twelfth out of the last 13 months in which the auto sector has seen a decline in domestic sales.
- **Other factors** - Apart from the NBFC liquidity stress, the tractor sales was hurt by weak farm sentiment, the slowdown in the rural economy, and fears

of a worse than average monsoon in 2019.

- Truck sales have been hurt by changes made by the government in the axle load norms.

What does this indicate?

- The sharp decline in sales of the leading manufacturer shows the decline in consumer sentiment and indicates an overall slowdown in the economy.
- The drop in sales over the last one year has led major manufacturers to cut production.
- This has put pressure on the overall automotive sector, including the automobile ancillaries.
- There have already been job losses across the value chain of the automobile sector, including in the dealerships and ancillaries.
- The continuing decline in sales is now expected to put pressure on manufacturers to cut down on their costs, and so reduce workers.
- The outlook for the rest of the year will depend on multiple factors.
- These include the progress of the monsoon and the festive season offtake, as well as improvement in the liquidity situation.

Source: Indian Express

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