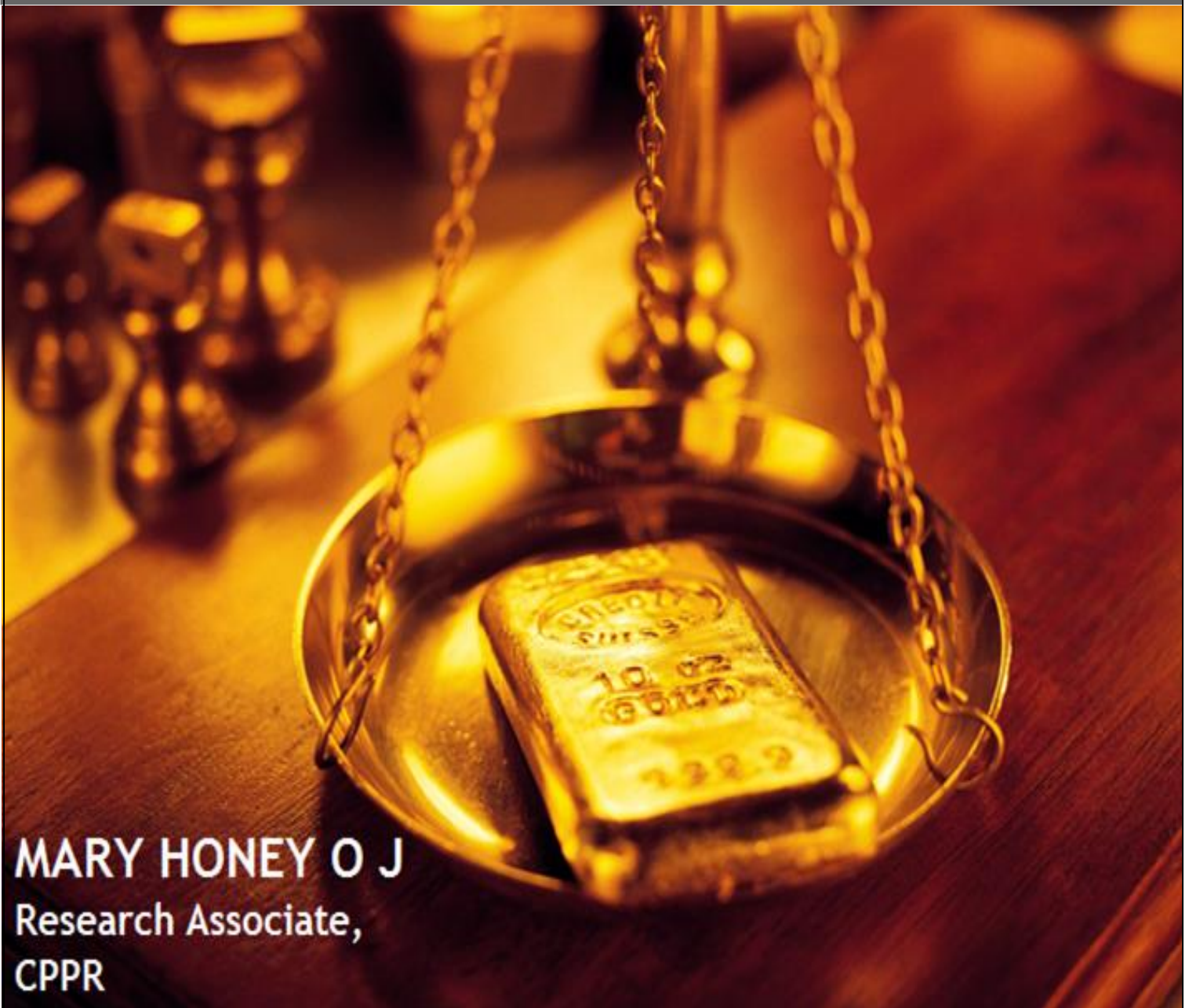


**GOLD AND CONSUMER BEHAVIOUR - A
COMPARATIVE STUDY OF COCHIN AND DELHI**



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Acknowledgments

This paper will not be possible without the assistance and encouragement of many people. On the very outset of this paper; I would like to extend my sincere and heartfelt obligation towards all the personages who helped to complete this endeavor.

I am ineffably indebted to Dr. D. Dhanuraj, CPPR Chairman for his assiduous guidance and encouragement to accomplish this assignment.

I also extend my sincere thanks to all the jewellery owners, the customers, members of All Kerala Gold and Silver Merchants Association for their invaluable guidance and support throughout the completion of study.

I would also like to extend my sincere gratitude for the assistance provided by the graduate students from St. Teresa's College Ernakulam; Azmia, Azmia, Meghana, Navni, Raimy, Neetha, Reshma, Anagha, Ruby, Maneesha, Athira, Lakshmi, Dheeshma; also Lokesh Kumar Vimal and Udit Sharma, graduate students from BRAC, University of Delhi for the completion of data on time

I also acknowledge the contributions of Rose Mary K. Abraham IES (CPPR Board member and Deputy Director, Secondary Markets, Ministry of Finance, India), Lakshmi Ramamurthy (Market Analyst), Aniesh Rajan (IRS), Dr. Martin Patrick (Professor & Director, Rural Academy for Management Studies), Shyam Jagannathan IAS (Commissioner, Commercial Tax, Government of Kerala), Madhu S. (Team Lead, CPPR), Martha Lilly (Research Associate, CPPR), Akash Ramakrishnan (Communications Associate, CPPR), Raju T. Mathews (Accountant, CPPR) who contributed immensely to the study.

Last but certainly not the least, my sincere gratitude goes out to all of my friends and family who directly and indirectly helped me to complete this paper.

Thanks

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Abstract

The primary objective of this paper is to study gold and consumer behavior. The respondents were consumers from various selected gold jewellery outlets in Cochin and Delhi. During the course of this study, the researcher tries to find the various incentives that encourage people to invest in general, and also the level of awareness and the general attitude of consumers towards gold as an investment. It also studies the consumer behavior of how people choose to buy gold, when they do and the various reasons for it. From the study it is found out that the demand for gold as an investment is gaining momentum among consumers, especially in Cochin and Delhi. The study also makes it clear that gold is price sensitive at low prices but it is insensitive to price increase, especially in Kerala. This finding has a lot of implications when Authorities formulate policies to curb consumption of gold.

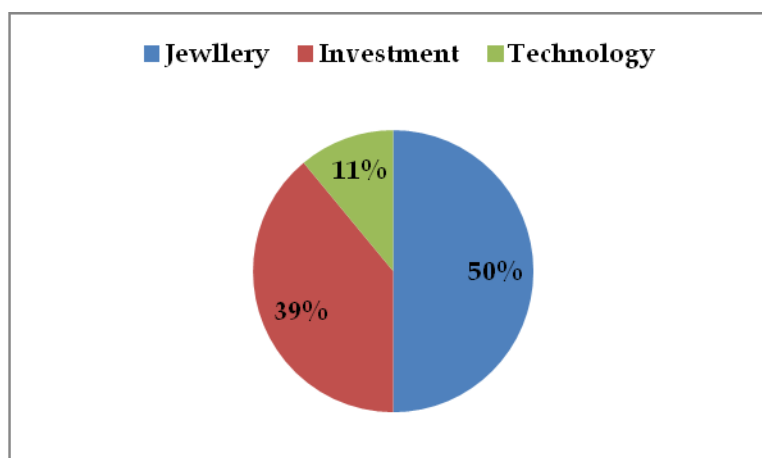
Introduction

Gold is rare among metals. But it can be seen everywhere, from jewellery to technology. Unlike any other metals sometimes gold, the shiny precious yellow metal creates some emotional attachments among people. Gold also plays a huge position in the economy of a country. The year 2013 fired up discussions on 'Gold', the yellow metal or rather a costly non essential item for many in India. Gold's unique demand and supply dynamics ensures its role as a true diversifier for investors. The gold demand is widely dispersed across the world. East Asia, the Indian sub-continent and the Middle-East accounted for approximately 66 percent of consumer demand in 2012. India, Greater China (China, Hong Kong and Taiwan), U.S. and Turkey are represented well over half of consumer demand.

1. Global Trends in Gold

Studies show that global gold demand is mainly for making jewellery, as an investment or for technology. Among them, 'Gold in the form of jewellery' has the highest demand; approximately 50 per cent. Private Investments and more recently Central Bank Net Purchases, account for an additional 39 per cent demand. Applications in technology and other types of fabrication such as use of gold in electronics, medicines, dentistry, etc. constitutes the remaining 11 per cent (Graph 1)

Graph 1: Global Gold demand



Source: World Gold Council 2011

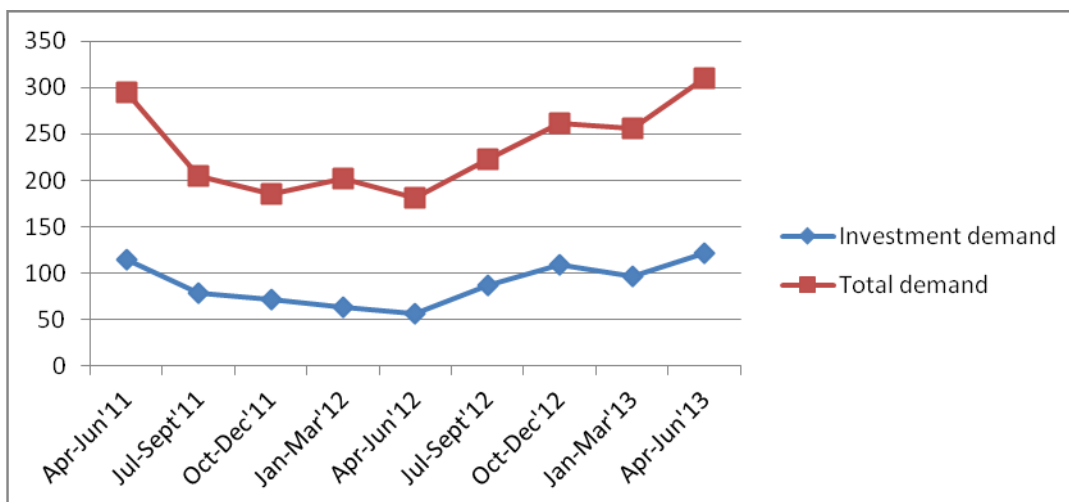
Hundreds of gold mines operate across the world ranging in scale from minor to enormous. Currently, the global gold mine production is relatively stable. Over the last five years the supply from gold mine production has averaged to 2,690 tonnes per year.

Even when the new mines are developed they will be mostly serving to replace the current production than expanding global production. The mining output is relatively inelastic, unable to respond quickly to a change in price outlook.

2. Gold demand and supply in India

According to the report published by World Gold Council (WGC), the market development organization for the gold industry, the demand for gold in India in the fiscal year 2011 and 2012 were 986.3 tonnes and 864.2 tonnes respectively. It is predicted by the WGC that the demand for gold in India in the year 2013 will be in the range of 865 tonnes to 965 tonnes.

**Graph 2: Investment demand for gold in India (tonnes)
2011-13**

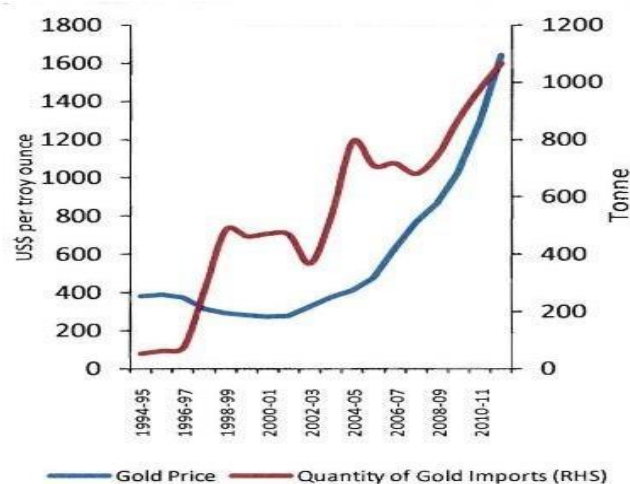


Source: World Gold Council Quarterly report-2011, 2012 &2013

In India, consumer demand for gold in the second quarter from April to June 2013 was 310 tonnes. This shows an increase of 71 per cent as compared to the second quarter of 2012. Gold in the form of investment is exclusively in a physical form, typically a gold bar or a gold coin and sometimes the list includes gold medals as well (Neil 2010). During the second quarter of 2013, gold bars and gold coins investment rose to 116 per cent, while demand for jewellery rose by 51 per cent as compared to second quarter of 2012. An increased demand for gold as an investment can be seen throughout these years as seen above (Graph 2). The expected appreciation for the value of gold and the possibility of raising loans in times of emergency are cited as the reasons why people invest in gold.

Since only three of its gold mines are working full-time (Hutti and Uti mines in Karnataka and the Hirabuddini mines in Jharkand) and producing about 0.5 per cent of the country's annual gold consumption, India has to import gold to meet the stupendous gold demand. Despite the colossal increase in gold prices throughout the years, there has been no sign of decline in procurement of gold for various reasons, among the consumers in India. Graph 3 shows the trends in gold prices and volume of imports to India from 1994-'95 to 2010-'11. This clearly indicates that the gold is price insensitive where consumers buy gold regardless of the hike in price. Even though the price of the Gold was going spiral, the demand was not affected

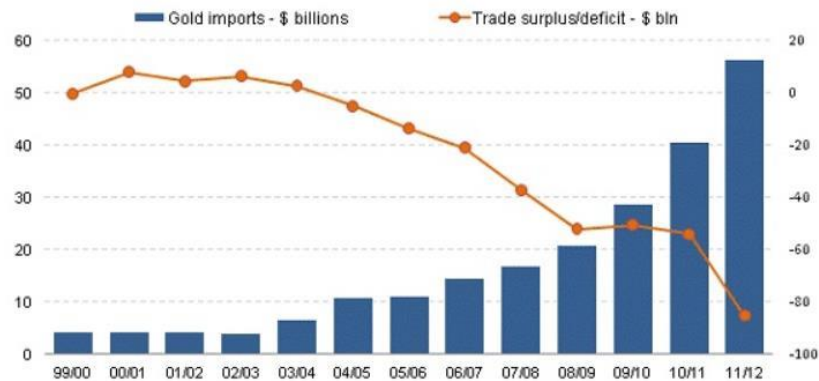
Graph 3: Trends in gold prices and the volume of imports to India



Source: Report of the working group to study the issues related to gold imports and gold loans by NBFCs, 2013 RBI

The soaring import of this yellow metal has also contributed to the widening of India's Current Account Deficit (CAD) (Graph 4). To curb the excess demand for gold in India, the central government in the year 2013 increased the import duty on gold to four times from two per cent to 15 per cent.

Graph 4: India's gold import and Trade Balance



Source: Reserve Bank of India

3. Relevance of the Study

It is in this context Centre for Public Policy Research (CPPR), a Kochi based think tank, conducted a study on gold and consumer behavior in Cochin in comparison to Delhi. A city from both Southern and Northern part of India that consumes most amount of gold has been selected for the study. And the respondents included consumers from various selected gold jewellery outlets in Cochin and Delhi. During the course of this study, the researcher finds out the various incentives that encourage people to invest in general, and also the level of awareness and the general attitude of consumers towards gold as an investment. It also studies the consumer behavior of how people choose to buy gold, when they buy gold and the various reasons for it. Hence, the objectives of the study include:

- To understand the investment patterns of gold among consumers.
- To understand the consumers' behavior towards gold.
- To understand how the fluctuations in the gold market affects its consumers.

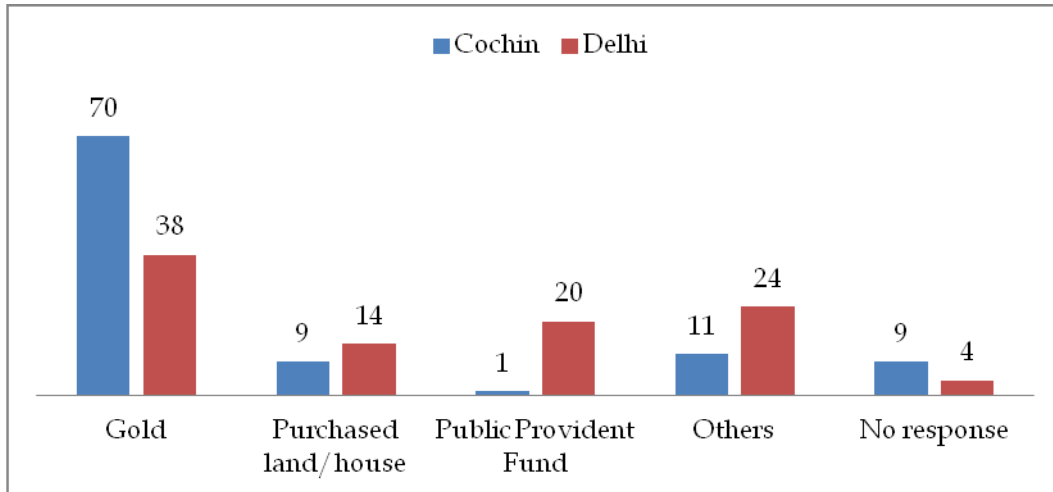
4. Major Findings

4.1 Relevance of the Study

In the last three years, 70 per cent of consumers in Cochin opted for gold as their major investment option as opposed to nine per cent of consumers who chose real estate as their major investment option (Graph 5). Consumers were of the opinion that they choose gold because of its stable nature, as the value of gold does not decrease considerably and also because of its high returns.

Gold is also considered as a safer asset option. The diversified population of Cochin includes people from trade and commerce especially from spice trade, jewellery trade and the traditional seaport trade and employees from IT. But this diversity is not seen among the kind of investment the people prefer in Cochin. Gold is a major investment haven for consumers in Cochin and this portrays the non risk taking behavior of consumers.

Graph 5: Major prioritized investment options among gold consumers in last 3 years (%)



In Delhi, 38 per cent of the respondents opted to invest in gold and 20 per cent opted for Public Provident Fund (PPF) in the last three years as their prioritized investment option (Graph 5). Respondents in Delhi consider PPF as useful after retirement and also are in an opinion that it gives safer and better returns with high interest rate. Delhi is a multi-cultured city with people from almost all parts of India. The major work force of Delhi includes the groups of manufacturing, trade, public administration, education & health. The diversity of employment opportunities in Delhi also makes people aware about other investment options other than gold. Stocks, government and oil bonds, post office savings and insurance come under the major investment preference among consumers in Delhi.

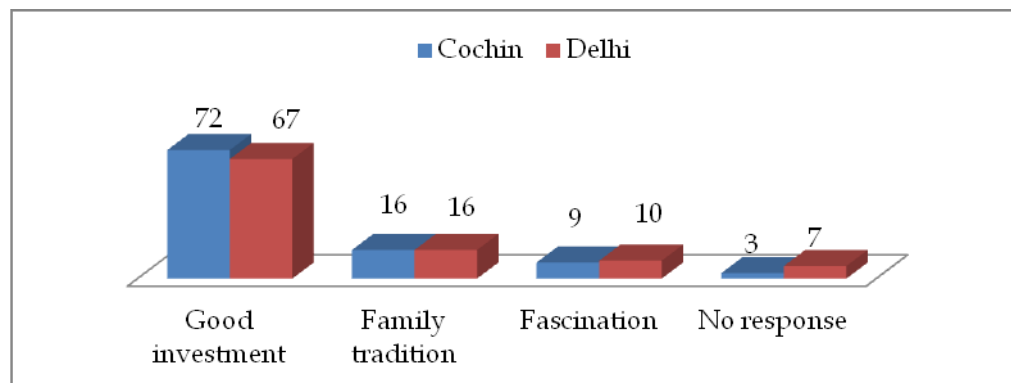
Being the commercial capital of Kerala, the property value in Cochin is proliferating and this has influenced some people to opt for real estate as their major investment option wherein, people either buy land or a house in Cochin. Even then the greater percentage of investment in gold shows the delicate trust of investors in the gold market as compared to the real estate market.

The recent trend among government and non government institutions by offering gold as an incentive has become a new strategy to win the common man's heart. 'Win one gram of gold' is now a familiar caption in many lucky-draws and promotional events, be it any company products, ranging from textile to electronic gadgets. This in a way makes gold an inevitable part of one's life.

4.2 Consumers' behavior towards Gold

Gold is considered as a good investment both in Cochin and Delhi. 72 per cent of consumers in Cochin and 67 per cent of consumers in Delhi purchase gold because it is less risky and investment in gold gives a better return.

Graph 6: Reasons for buying gold (%)

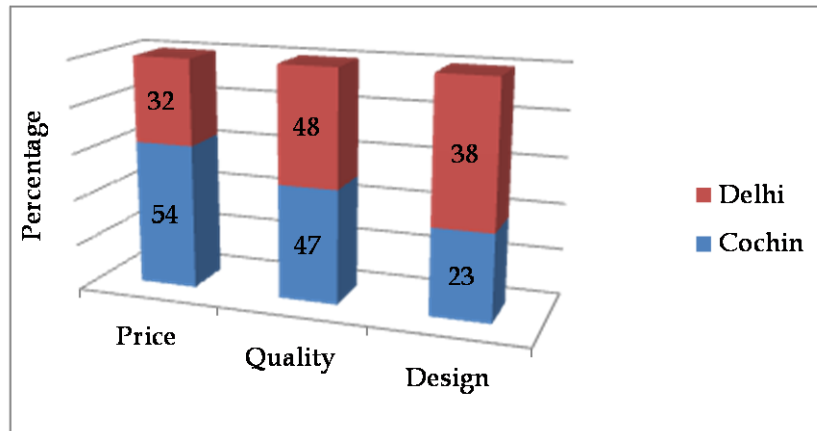


Interestingly 16 per cent of consumers both in Cochin and Delhi obtain gold because of family tradition either to gift gold at the time of family and religious function in the form of jewellery or coins. Tradition shares an equal space to acquire gold among consumers in both the cities. Similarly nine per cent of consumers in Cochin and 10 per cent of consumers in Delhi pick up gold because of their fascination towards the yellow metal. Only a very few consumers in either Cochin or Delhi are passionate about gold because of its lure and charm. (Graph 6)

In Delhi, 80 per cent of consumers go for a planned gold purchase where the planning period ranges from three to six months. Meanwhile in Cochin, only 65 per cent of the consumers plan their purchase in advance. This shows that consumers in Cochin are more impulsive in nature. 'Price' is the most important factor among consumers in Cochin on deciding to buy gold while respondents in Delhi gave high preference to design and quality while choosing gold. Compared to Delhi (38 per cent), design plays an insignificant role among the consumers in

Cochin (23 per cent) as a means for choosing gold (Graph 7). But an equal number of consumers, both in Cochin (47 per cent) and Delhi (48 per cent) give more attention to the quality while buying gold. Quality here refers to the Bureau of Indian Standards Hallmark for gold jewellery.

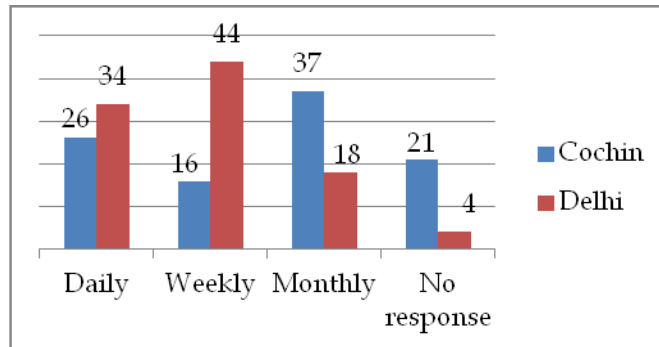
Graph 7: Criteria for buying gold (%)



People in Cochin consider design to be the least important among the other criterion like price and quality which clearly indicates that they do not fancy gold as jewellery with design value. This shows that for consumers in Cochin, gold is more of an investment and so they do not ponder much upon the design of gold while choosing it. Even when the Indian Finance Minister in the year 2013 requested people not to buy gold, it did not stop the consumers from acquiring more and more gold.

The consumers in Cochin are not as frequently updated with gold prices as compared to Delhi. People in Delhi frequently update themselves with the fluctuating gold prices. The daily and weekly updation of gold price among consumers in Delhi comes to 78 per cent when compared to Cochin as 42 per cent. Nearly 37 per cent of consumers in Cochin update themselves on a monthly basis (Graph 8). Even though the consumers in Cochin are not updated every day, they keep on purchasing the gold as an investment option which shows that they have rendered an enduring trust with the yellow metal.

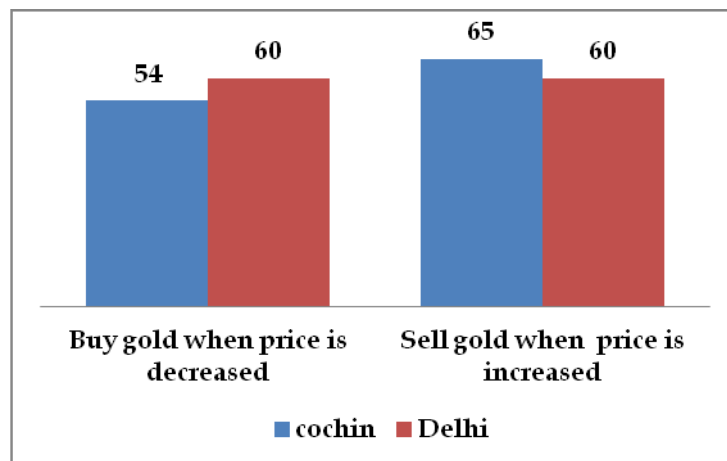
Graph 8: Gold Price Updation (%)



4.3 How the fluctuations in the gold market affect its consumers

54 per cent of the consumers in Cochin and 60 per cent in Delhi wish to buy gold when the prices are lowered. This would enable them to purchase more gold as it can be sold off to meet any of their emergency requirements in the future (Graph 9). Whereas a few consumers in Cochin and Delhi buy gold when the price is on the upsurge, not because of any demonstration effect or for conspicuous consumption, but due to the assumptions that the price may go up further and it will be difficult for them to buy gold if it goes past their affordable range.

Graph 9: Trends in gold price and consumer behavior (%)



Buyers in Cochin (65 per cent) & Delhi (60 per cent) respectively wish to sell off their gold when the prices are peaking and this is done to get better returns (Graph 9). It is interesting to note that people purchase more quantity of gold when price is going down but the demand is not reduced when prices are increased particularly in Cochin. This makes it clear that gold is price sensitive at lower prices but it is insensitive to price increase, especially in Kerala. This finding has a lot of implications when authorities formulate policies to curb consumption of gold.

When asked whether they are ready to go for Inflation Index Bond, an astounding 53 per cent of the respondents from Cochin and 40 per cent in Delhi had no response as the term, 'Inflation Indexed Bonds' appeared to be unfamiliar to most of them. The study also shows that even now, a significant number of the consumers in Cochin are not familiar with the various investment options available to them. The market is open for all these instruments and marketers can exploit these opportunities.

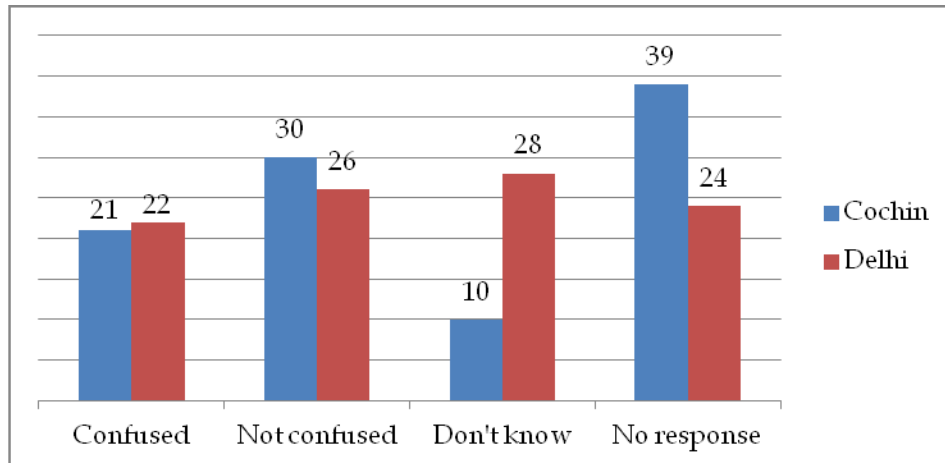
A staggering 70 per cent of the people in Cochin and in Delhi are of the opinion that the government should reduce the import duty on gold as they think that gold is an essential commodity, whether it is for making jewellery or as an investment option. People hope that the government would reduce the import duty on gold before long as it can decrease the price of gold and thus make it affordable for the middle and lower class consumers and provide them with better access to gold.

As compared to other states in India where tax on gold is only one per cent, Kerala is ranked first for having the highest tax rate on gold at five per cent. According to the sources from Kerala Commercial Tax Department (KCTD) 3,335 crores (20 per cent) out of the 16,679 crores worth of gold sold in the year 2011-12, was sold in the neighboring states due to the high tax rates on gold in Kerala. This has led to a huge revenue loss for the state of Kerala. People in Cochin and Delhi are of the opinion that reduction of taxes and duties on gold would reduce the problem of tax evasion and smuggling of gold across borders.

In its Macro Economic and Monetary Developments Report 2012-13, the Reserve Bank of India states that Current Account Deficit (CAD) is the biggest risk to Indian economy. As per the RBI statistics on the principal, commodity-wise import list in India, gold is ranked as the fifth largest import item after petroleum and crude oil, pearls and stones, electronic goods, and other machineries.

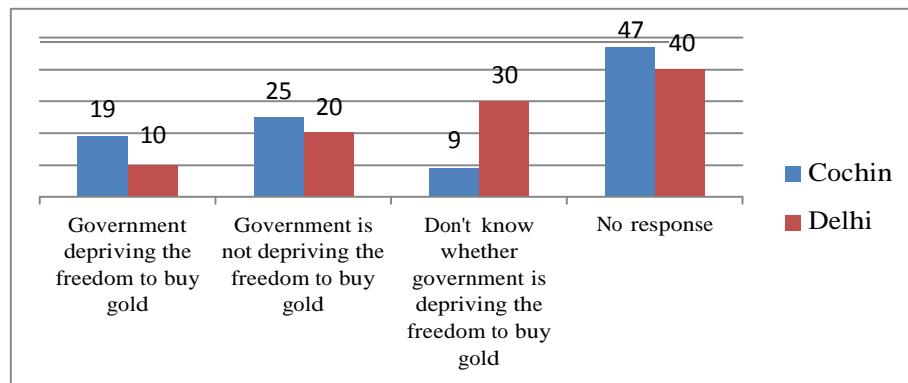
21 per cent of consumers in Cochin and 22 per cent in Delhi are confused as they do not comprehend the logic behind the restrictions put forward by Reserve Bank of India (RBI) on gold loans (Graph 10). They do not know the reason why gold has always been targeted by the government. The answer is simply because gold is the only safe option where people can get returns immediately during emergencies and so restriction on gold loan seems inhumane for ordinary people.

Graph 10: Restriction on gold loan by the Reserve Bank of India (%)



Several respondents in Cochin (25 per cent) and Delhi (20 per cent) are of the impression that the government is asking people not to buy gold for the purpose of financial sustainability and to improve the country's economic growth. While a large number of respondents in Cochin (47 per cent) and Delhi (40 per cent) have no response towards the statement as they were confused whether the government is depriving them of their freedom of choice to buy gold or not (Graph 11).

Graph 11: Reaction towards government policies on gold (%)



5. Conclusion

From the study it can be concluded that the demand for gold as an investment is gaining momentum among consumers, especially in Cochin and Delhi. The investment pattern shows that in the last three years gold was a major investment haven for consumers in Cochin and this portrays the non-risk taking behavior of consumers. Whereas, the diverse employment opportunities in Delhi have made people more aware about other investment options other than gold. Stocks, government and oil bonds, post office savings and insurance come under the category of major investment preferences among consumers in Delhi.

Most of the consumers in Delhi go for a planned gold purchase where as in Cochin consumers are more of an impulsive in nature. 'Price' is the most important factor among consumers in Cochin when deciding to buy gold while respondents in Delhi gave high preference to design and quality while choosing gold. The gold price is not as frequently updated among consumers in Cochin as compared to Delhi. Majority of consumers in Cochin and Delhi wish to purchase gold when the prices are lower and wish to sell gold when the prices are on the rise so as to get higher returns. It is interesting to note that gold is purchased in more quantity when price is slashed down but the demand is not coming down when price is increased particularly in respect to Cochin. This makes it clear that gold is price sensitive at low prices but it is insensitive to price increase, especially in Kerala. This finding has a lot of implications when authorities formulate policies to curb consumption of gold. A staggering number of the people in Cochin and Delhi are of the opinion that the government should reduce the import duty on gold as they think it is an essential commodity, whether it is for making jewellery or as an investment option.

The study draws to a conclusion that the gold customers in Cochin and Delhi are of price insensitive in nature. A price insensitive customer is not influenced by the price of a product when deciding whether or not to purchase it. This study is a slightly different case of consumer behavior. People tend to buy gold regardless of its price because it is an essential commodity; a costly essential commodity as opposed to the Indian Finance Minister's take on gold that it is a costly non-essential commodity.