



## PREFERENTIAL CONSUMPTION PATTERN OF GOLD CONSUMERS IN INDIA AND ABROAD

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### ABSTRACT

*This paper is to study preferential consumption pattern of gold consumers in India and Abroad. 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.*

**Key Words:** Consumption Pattern, Gold ornaments, Purchasing Behaviour, Speculative Motive, Gold is a Natural Portfolio

### Introduction

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.

Gold, an obstinate yellow colored metal, was almost certainly the first metal known to the early hominid that, on finding it as nuggets and spangles in the soils and stream sands were certainly involved by its inherent beauty, great flexibility and implicit indestructibility. Irrespective of age, gender, community, status and country, people like gold and gold ornaments very much. Gold ornaments are not only a pleasure to own and possess but also a good investment. The metal is accepted by all throughout the ages and around the world. It is an obsession among many people that gold and gold ornaments are symbols of prestige and social status and their values are determined by the quantity of gold worn or owned by them.

The purchasing behaviour of Indians towards ornamental gold is something different from the gold purchases of the world people. The important aspect of gold purchasing among the Indians is that it is a better investment. Buying of gold is considered as buying an asset. Indians feel that buying of gold is a process of asset maximization. It has made the researcher to have big doubt in their mind that, why, Indians

like ornamental gold very much and whether both genders equally like the ornamental gold or only female like it.

### **Importance of Gold and Indian Society**

The Indian society considers gold as part and parcel of Indian culture and symbol of their wealth identification. Ornamental gold is part of Indian culture and an indivisible part of them. India is famous for ornamental gold and it has largest consumers of gold. Even now, Indian parents have a practice to give ornamental gold to their children as a gift at the time of marriage, because they hope that ornamental gold can be converted into cash at any time and can be pledged and sold as it is a highly liquid asset. In addition, they practically think that *Stridhan* is the best security to their female children whether they are educated or uneducated and employed or unemployed. The buying behaviour of people towards gold is different from the buying behaviour of other goods and services. There are many factors attributed to gold purchase by the world people. It is common among the people that whenever the prices of gold are increasing along with other precious metals, people start buying gold with future expectation. They want to buy them at current lower prices than at higher prices in the future. Therefore, anticipating increase in prices of gold in future, they want to buy them at current prices. The very first factor that motivates people to buy gold is its value in terms of money. The new Italian and French styles and even platinum jewellery don't really suit the Indian psyche. They are nice and certainly have stirred some interest, but the bulk of Indian ornamental gold buying is still rooted in tradition, something that has undoubtedly been modified and shaped by fashion trends and a design element over the years. The important thing is that it moved from being the prerogative of priestly men to women.<sup>2</sup> The big question is that why Indian woman likes yellow metal.

### **Indian Women Vs Men: Reason for liking of Ornamental Gold**

Gold is symbol of females' smile? Of course, gold is 'everything a woman is', thus ends a gold sales advertisement campaign these days. But what it is about the glowing yellow metal, that binds the Indian woman forever to it. The modern Indian woman consumer is on the lookout for gold jewels that reflects her attitude, a mix of both traditional and modern designs. She loves to experiment with a fusion of different designs and greatly appreciates jewels that is creative, unusual and reflects her changing lifestyle. However, it is interesting to note that gold has more facets to the Indian woman, because.

#### **1. Gold is auspicious**

In India, gold is always being considered a holy item in the Hindu way of life because they believe that gold is symbol of Goddess *Lakshmi*. Not only in Hindu religion but also in functions of all religions gold is inevitable one.

#### **2. Gold is contemporary**

Branded jewellery, with modern designs, is gaining in popularity, particularly in the urban areas. With the availability of branded gold jewellery in India such as World Gold Council-Promoted Collection, consumers now have the option of buying new gold designs in the domestic market at affordable prices.

#### **3. Gold is source of confidence and womanliness**

Women buy and wear their gold jewellery for the way it makes them feel, for the warmth with which it endows them and for the glow it gives them. And they buy it for the tradition embedded in its rich history, chronological and spiritual. Gold jewellery is traditionally given in *stridhan* to the woman at the time of marriage. It remains the only one asset that is truly hers forever. Studies conducted by independent market research agencies to ascertain the value of gold to the Indian consumer revealed that gold has universal appeal that cuts across age, gender, geography, social and economic class.<sup>3</sup> Finally the reason for Indian women buying more gold is that investment in gold results in long term capital appreciation; gold is a natural portfolio diversifier; no other investment option matches the versatile qualities of gold; it is a store of value; it is an asset of last resort; it goes beautifully with Indian skin, and keeps you glowing. Among the entire world, gold is not only a precious metal but also for its unique shining beauty, easy to process strong and unbreakable or non destroyable metal, and can be depended on forever. There's no other metal or precious stone that can combine all these qualities.

The craze for gold is buried deep in the Indian psyche. The Indian male abhors spending money on gold but loves to exhibit his passion for the yellow metal. The male usually pays for the gold, can only shrug and accept the inevitable because refusal to go along could generate ripples and revolts at home. The male purchase of gold is not only a status symbol but the best method of saving too. While most of the male regard gold as a necessary drain on their purse basically they love the yellow metal. In matters of ornamental gold, the purchasing decisions are taken by women, in matters such as the amount of gold to be bought for weddings, the designs of bangles, ear rings, necklaces and *odyanams* with the men remaining mute spectators wondering when they should declare bankruptcy.

### **Fascinating Facts about Investment in Ornamental Gold**

The Indian consumer's love for gold has been prolific and gold has historically been the first choice of saving. During Indian festivals like Deepavali, wedding, temple festival or the birth day, gold in some form finds a place in the celebrations. Indian household has traditionally been hoarding ornamental gold or gold ornaments or jewels as resources of financial security for the future monetary requirements. Any form of Gold metal is considered a family legacy and a woman's greatest and very much liked and better monetary supporter at the time of misfortune. In most of the rural India investment in Insurance and Mutual Funds are never considered as good investment, but investments in gold ornaments are considered as a smart investment. Hoarding of gold ornaments also gives pleasant satisfaction and financial sport to family since it is kept at store. Gold ornaments or any kind of gold metals have become a common phenomenon during the past half a century, when people began storing jewels instead of gold bars or coins.

Apart from being revered for its prestigious values, it has been a safety net and insurance for the millions of Indians cutting across the social and economic strata. Even with new savings options available in the market, studies show that gold still remains the single most important form of saving. Rural India accounts for approximately 65 per cent of the country's total gold demand. Also, more than a saving mechanism, gold jewellery is actually a smart investment, and in the opinion the woman, there are several reasons, to invest in gold, even though there are times when other investment avenues appear to be stable and offer better returns. While investors in equities, bonds and deposits were thinking of the next best thing, gold had given 20 per cent returns over the 2011, a performance second only to that of gilt funds." If you compare gold with most currencies or industrial commodities, in terms of their long-term values, gold emerges a clear winner. In fact, from 1975 to 1999, while the US dollar appreciated approximately 4.07 times against the Indian rupee, the price of gold rose 6.37 times. Investment bankers say that an ideal investment portfolio generally consists of assets that provide optimal returns and minimize risks. They say that stocks, bonds and other investments that sounds very complicated and are difficult for the small investor to analyse, do offer better returns. But, they also acknowledge that an investor needs an asset that will lessen the impact of economic and political uncertainties on an investment portfolio. They recommend gold as the asset of choice.

Buying of gold is more suitable investment for small investor, because it is consistently maintaining its store of value since it performs the functions of money. This may be possible because, gold is everlasting, fairly rare, cannot be cooked up or manufactured, is easily identifiable, is accepted as a mode of cash payment and is a form of currency that finds global acceptance. Gold is globally accepted asset and it can be converted into any country's money at any moments. Globally, gold market is open for all the 24 hours in a day. Gold is also an 'effective portfolio diversifier' and this is principally due to its low to downbeat association with other asset classes. Put simply, it means that gold price movements occur independent of stock exchange indices and other economic forces, keeping the woman's investment safe from the fickle markets.

Apart from its ornamental purpose, gold has been a good investment option along with real estate. In fact, over the years, it has managed to keep pace with inflation, thus protecting the investor's wealth. The instant liquidity for gold has made it a currency of sorts which can be traded or pledged to raise funds with ease. More importantly, it has weathered many a crises and emerged stronger each time. Therefore, gold is a good diversifier in our portfolio and an insurance against inflation and financial crises. It ideally forms about 10 per cent of our investment portfolio.

### Gold Price Movements in Global and India Aspects

Typically, commodity prices tend to have longer cycles that could extend to even decades. Gold has been in the midst of such an upward cycle for the past decade or so powered by a number of factors. From about \$276 per ounce in 2000, gold prices rose more than six times to touch \$1,890 before falling to about \$1,403 now. Though gold was on a downward spiral in dollar prices over the previous decade, favourable movement of rupee ensured that Indians were not adversely affected. The INR which was around Rs.35 to an US dollar in 1990s depreciated all the way to about Rs 56.76 presently. Gold price has declined in the past few months during 2013. This is primarily due to the changed global economic scenario and the resultant alteration in investors' asset allocation. America, Europe and Japan created a lot of liquidity to help recession. A part of this liquidity found its way into the safe haven of gold. But with the US starting to recover and positive vibes emanating from Japan, there is a risk of this cheap liquidity retreating. This fear made investors sell gold. The fear of excess supply from central bank sales, especially the European countries that were in crisis, too, was a factor that led to the slide of gold prices. The American stock market hitting record highs has made investors allocate more to that asset. Simply put, the relative attractiveness of gold has diminished recently leading to a sell-off.

In India, during 1970, the gold rates were as low as Rs 208 per 10 grams and it further decreased to Rs 195 in just one year. During seventies the rates were fluctuating between Rs 200 and Rs 700 but in next decade it crossed four digit marks. During 1981, the gold was priced at Rs 1,740 and it again fell to Rs. 1,710 in 1982. Since then there was a stable increase in gold rates till 1996 it reached Rs. 5,140. The gold prices again fluctuated in the year 1997 and ended at a price of Rs. 4,590 followed by Rs. 4,350, Rs. 4,485 in 1998 and 1999 respectively. After 2001, the price of gold jewels started its increased pattern from Rs.3,368 and reached Rs.3,392, Rs.4,152, Rs.4,696 and Rs.6,144 during 2002, 2003, 2005 and 2006 respectively. The increased ornament gold price pattern of Rs.1,000 tremendously changed to Rs.4,000, because during 2008 the ornament gold price increased to Rs.10,320, further it increased to Rs. 13,864, Rs.15,640, Rs.21,984 and finally reached Rs.24,424 during 2009,2010,2011 and 2012 respectively.<sup>8</sup> The year 2013, was not very fair for ornament gold price, because on 18.04.2013 the ornament gold price faced very big change from its price level trends and on the day the ornament gold price was Rs. 19,400 and it increased to Rs.20,832 on 26.04.2013.<sup>9</sup>

### Factors Determining the Gold Price

Generally, the biggest consumer only decides the price of any product or commodity and this kind of consumer only dominates the market and dictates demand. Unfortunately in India the largest consumer does not have much say in determining gold prices. Because gold is an internationally traded commodity and there are many factors that influence its price and demand. The following are some factors that impact gold price for Indian investors.

1. **Cost of Production** is a major or direct determinant of market price of gold, it is important to note that gold cannot be traded below the cost of production for too long. This could act as a floor for gold price in a way.
2. **Supply and demand:** Supply could be from new production, scrap sales and sales by central banks. Demand is for investment and jewellery. Evolution of Exchange Traded Funds (ETF) has added a new dimension to this equation. And financial crises trigger a scramble for this metal which could boost demand temporarily.
3. **Global Liquidity:** When a lot of money is pumped in by the central banks during times of recession, the resultant low cost funds tend to find their way into gold, thus pushing up its price.
4. **Real interest rates:** Gold prices tend to appreciate during times of negative real interest rates. That is, when interest rates in an economy are lower than the inflation rate, people tend to prefer gold, thus increasing its demand and price.
5. **Dollar-Rupee Equation:** Gold is traded internationally in US\$. Therefore, relative movement between these two currencies impacts the price that we pay for gold.
6. **Taxes and Duties:** The Indian government levies duty on import of gold and the state government levies VAT. These two also increase the cost of gold.

### **Gold Consumers' Behaviour and Attitude: India Vs Others**

The researcher brings out the gold buyers' behaviour and attitude in global aspects from the research study of World Gold Council. The World Gold Council conducted a qualitative and quantitative research on consumers' behaviour during the months March to April and July to August 2005, in six major gold markets, namely India, USA, China, Saudi, Italy and Turkey. For the purpose, approximately 1,500 women respondents aged from 15 to 65 years in Saudi Arabia and USA, the respondents' minimum age being 16 years and India and Italy of 18 years were interviewed for 60 minutes from each market.

Estimated growth of core target group, during 2002, in China was 37 millions of women, in India 25 millions of women, in South Africa 3 millions of women and in USA it was 36 millions of women. During 2005, it increased to 65 millions of women in China, 32 millions of women in India, 4 millions of women in South Africa and in USA it was 56 million women. Women were dressed in gold jewels because it reflected their personality too. In addition they believe that wearing of gold jewels makes them feel confident and daringly express their uniqueness and fashion. The emotional and sentimental reasons are also responsible for the female gender choice of gold jewels. 78 women respondents said that gold ornaments reflect their taste and personality, 73 said that they wear gold just for them and not for others, 72 said that gold jewels are favourite items and they had boosted their sentimental value, 69 agreed that, they are not only fashion items but also are investments, 63 liked to wear because they are unique, 61 said that wearing of gold jewels make them feel superior, 58 liked searching but don't have intention to buy and 55 said, yellow metal was coming back in fashions. The reasons for wearing ornamental gold are: (1) gold is worn from the sentimental value point of view: 46 per cent globally, 24 per cent in China, 47 per cent in India, 54 per cent in Italy, 39 per cent in Saudi Arabia, 63 per cent in USA and 51 per cent in Turkey. (2) Gold expresses individuality aspects: 35 per cent agreed globally, 40 per cent in China, 54 per cent in India, 47 per cent in Italy, 29 per cent in Saudi Arabia, 59 per cent in USA and 26 per cent in Turkey. (3) Be modern or up-to-date point of view: 28 per cent agreed globally, 33 per cent in China, 35 per cent in India, 31 per cent in Italy, 43 per cent in Saudi Arabia, 40 per cent in USA and 25 per cent in Turkey. (4) Be cool or trendy: 21 per cent agreed globally, 15 per cent in China, 38 per cent in India, 23 per cent in Italy, 41 per cent in Saudi Arabia, 29 per cent in USA and 7 per cent in Turkey. (5) Creates good first impression: 18 per cent agreed globally, 21 per cent in China, 29 per cent in India, 16 per cent in Italy, 31 per cent in Saudi Arabia, 28 per cent in USA and 6 per cent in Turkey. (6) Be admired or respected aspects: Globally 18 per cent agreed, 23 per cent in China, 36 per cent in India, 11 per cent in Italy, 32 per cent in Saudi Arabia, 19 per cent in USA and 4 per cent in Turkey. During 2002; globally 33 per cent agreed that they would buy gold ornaments, in China 11 per cent agreed, in India 68 per cent, in Italy 39 per cent, in Saudi Arabia 58 per cent and in USA 32 per cent. Weekend away: Global by 28 per cent agreed, in China 29 per cent agreed, in India 8 per cent, in Italy 36 per cent, in Saudi Arabia 12 per cent and in USA 3 per cent. Fine fragrances aspects: Globally 16 per cent agreed, in China 10 per cent agreed, in India 8 per cent, in Italy 20 per cent, in Saudi Arabia 35 per cent and in USA 12 per cent. Go for Consumer durables point of view: Globally aspects 16 per cent agreed, in China 14 per cent agreed, in India 26 per cent, in Italy 11 per cent, in Saudi Arabia 11 per cent and in USA 14 per cent. During 2005, when the same question was raised, in globally 43 per cent agreed that they buy gold ornaments, in China 15 per cent agreed, in India 86 per cent, in Italy 29 per cent, in Saudi Arabia 53 per cent, USA 53 per cent and Turkey 62 per cent. Weekend away: Globally 27 per cent agreed, in China 27 per cent agreed, in India 9 per cent, in Italy 43 per cent, in Saudi Arabia 10 per cent, USA 50 per cent and in Turkey 11 per cent. New design or luxury clothes point of view: Globally 21 per cent agreed, in China 28 per cent agreed, in India 22 per cent, in Italy 35 per cent, in Saudi Arabia 11 per cent, USA 39 per cent and in Turkey 6 per cent. Meal at a nice looking aspect: Globally 17 per cent agreed, in China 7 per cent agreed, in India 17 per cent, in Italy 17 per cent, in Saudi Arabia 8 per cent, USA 47 per cent and Turkey 8 per cent. Investments of savings in Bonds etc aspects: Globally 17 per cent agreed, in China 16 per cent agreed, in India 26 per cent, in Italy 8 per cent, in Saudi Arabia 3 per cent, USA 31 per cent and in Turkey 5 per cent. Overall purchasing levels increased slightly with buying capacity of women, during 2002: Globally aspects 50 per cent, in China 25 per cent, in India 71 per cent, in Italy 54 per cent, in Saudi Arabia 68 per cent, in USA 66 per cent and in Turkey 63 per cent, during 2005, globally 47 per cent, in China 27 per cent, in India 51 per cent, in Italy 60 per cent, in Saudi Arabia 76 per cent, and in USA 57 per

cent. Types of purchases among these countries, during 2002: purchase of ornamental gold for self purpose globally 31 per cent, in China 20 per cent, in India 34 per cent, in Italy 31 per cent, in Saudi Arabia 65 per cent, and in USA 44 per cent. During the same period, purchase of ornamental gold for gift purpose: globally 34 per cent, in China 12 per cent, in India 32 per cent, in Italy 50 per cent, in Saudi Arabia 57 per cent, and in USA 35 per cent. During 2005, purchase of ornamental gold for self purpose: globally 36 per cent, in China 21 per cent, in India 65 per cent, in Italy 31 per cent, in Saudi Arabia 54 per cent, and in USA 56 per cent. During the same period purchase of ornamental gold for gift purpose: globally 31 per cent, in China 8 per cent, in India 32 per cent, in Italy 40 per cent, in Saudi Arabia 44 per cent, and in USA 38 per cent.

### **Conclusion**

From the study it can be concluded that the demand for gold as an investment is gaining. The yellow metal, a previous one for both Indian men, women has become a one of the important instrument of investment since ancient times. It has made Indian second largest consumer of the Gold after China today. Inspire of many other opinions available in the finance market, the utility towards Gold by the Indians had made it is a valuable asset. Savings point of view but it has become an Indian question in the society. So there is direct consumption as well as continuous consumption has lead to the variation of the Gold price. Even the poor among the people they prepare Gold as dowry in the place of money which is another reason for the increasing value of gold in the national and international market. After the formness for land, everyone plays Gold as an important instrument for Indian savings due to its appreciation of value, this will continuous tomorrow.

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