

A study of gold jewellery market in India

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Abstract

In last one decade gold sector in India has witnessed tremendous growth. The demand for gold is increasing day by day making India the second largest consumer of gold in the world next to China. It is seen to be a pure investment.

Gold occupies a special place in the history of India. Since ages it is regarded as a symbol of wealth, prosperity and good luck. It is required for both aesthetic and investment purposes. It has a special religious significance in our country due to which people are emotionally attached with this metal.

This paper is an attempt to study the gold market in India and also the trend of demand and prices of gold in India.

Keywords: gold, jewellery, demand, price, market

Introduction

In Hindu mythology Goddess Lakshmi, symbolising fertility and prosperity, is said to have been bathed by elephants that carried pure water in golden vessels. Since ages gold is considered as the most revered metal in our country. Be it festivals, weddings or birthdays gold is bought by people on every auspicious occasion. Jewellery has been an integral part of the Indian culture as they were in demand and in fashion since ancient civilization of Harappa and Mohenjo-Daro.¹ It has also been considered important for both aesthetic and investment purposes. Gold is seen as a symbol of wealth and prosperity in the Hindu religion.

During the preindependence period people used to look up to gems and jewellery as a means of investment only. They would spend their meagre earnings to buy gold and preserve it to use during unforeseen contingencies. But after Independence with an increase in income and change in attitude of consumers now they have also started buying gold to flash it out as an instrument to display their status in the society. We Indians have lot of emotional quotient attached to gold which adds a special significance to this precious metal. With this India has become the second largest consumer of gold in the world after China and its share in global market is consistently increasing.

Objectives of Paper

- To study the demand for gold in Indian Market.
- To study the causes for rise in price of gold in India.

Research Methodology

Data collection methods are an integral part of research design. Both the primary and the secondary data are used in this research. The primary data have been collected through an interview schedule constructed for the purpose of the study. The interview schedule has been designed keeping in view the objective of the study. It was duly pretested and pilot study

was also carried out. The data was collected through convenience sampling in Lucknow District through personal interviews covering a total sample of 25 buyers. The secondary data needed for the study was collected from the World Gold Council Report, leading national and international journals, magazines, research projects, and web portal.

Gold jewellery market in India

India's love for gold is timeless. It is deep rooted in our tradition and culture which is vast and diverse. Despite this heterogeneous mix of different cultures, sub-cultures, customs, food, etc. the love for gold is universal across the length and breadth of the country. Since ancient times gold has been used as a common medium of exchange in the form of gold coins. It was regarded as a means of store of value. People used to look up to it during contingencies like natural calamities, wars, etc.

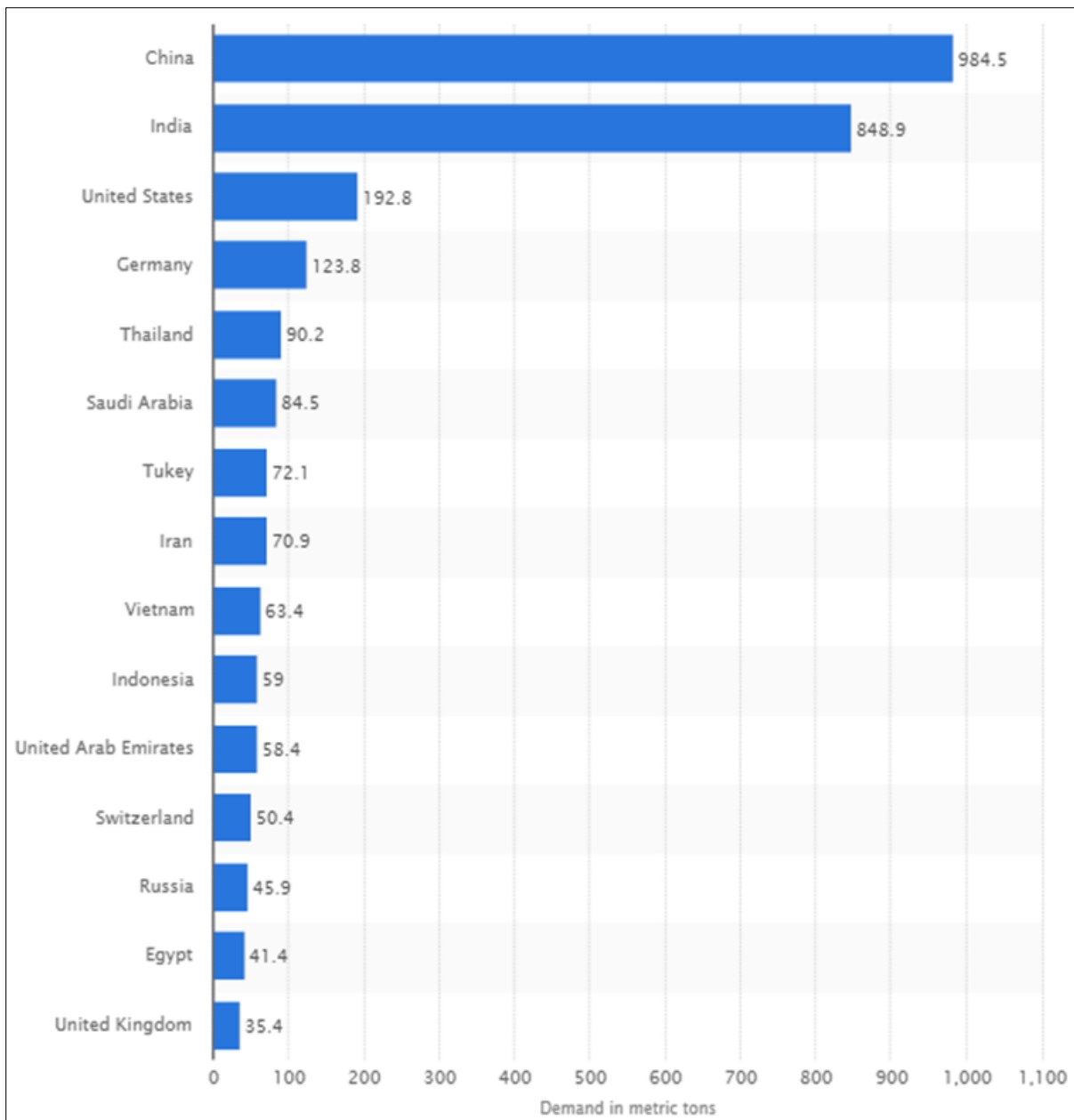
Gold purchase in India is also connected with religious beliefs. Hindus regard it as an auspicious metal of purity, prosperity and good fortune. As per Indian customs and traditions gold is bought for special occasions like weddings, births, birthdays and various festivals. Gold is also offered to Indian Gods. In India gold is equated with Goddess Lakshmi who is a symbol of wealth and prosperity.

In India gold ornaments are worn on almost every part of the body, called 'solahshringar' which includes sixteen types of body adornments like bangles, nose rings, necklaces, waistbands, etc. The demand for gold in India is at its peak during Diwali festival, which falls around October-November. Other important festivals for purchase of gold jewellery are Onam, Pongal and Durga puja. There are several other auspicious special occasions in India when purchasing gold is considered to bring good luck and prosperity. According to the Hindu Calendar, one such occasion is Akshaya Tritiya. On this day, people enter into new business ventures, make travel plans and also celebrate weddings.

According to The World Gold Council (WGC), India is the world's second biggest consumer of gold having been surpassed by China. However, India remains a major player in the gold market. Although estimates vary, India is now thought to hold close to 18,000 tonnes or 10% of the world's entire above-ground gold stocks. Seven percent of India's total household savings is currently held in gold.² According to the WGC, in the last decade, 75% of gold demand in India has taken the form of jewellery. More than two-thirds of that demand comes from the country's rural population. Gold is the second largest import item for India after petroleum. Over 90% of the gold consumed in India is imported. Be it urban India or rural India, rich or poor India, each one tries to buy gold at the first available opportunity. As our country is changing so does its gold industry. In 2000,

around 90% of India's gold retailers were 'unorganised'. The Industry was dominated by small retailers who often were family jewellers, with limited marketing and advertising. Despite the fact that unorganised retailers still dominate the market yet organised retailers have taken greater market share. India is the one of the world's largest gold jewellery consumers, outstripping the combined jewellery demand of the Middle East, Europe and the US. In 2016, India bought 663t of gold jewellery, second to China, but ahead of the US, Europe and the Middle East combined. Over recent years, it has consistently been one of the world's largest gold jewellery consuming countries.

Consumer gold demand in major consuming countries in 2015 (in metric tons)



Source: www.statista.com

Fig 1

This statistic shows the gold consumer demand in 2015, sorted by major consuming country. In that year, China topped the list of major gold consuming countries by demanding approximately 985 metric tons of gold for consumption. By comparison, world gold production from mines in 2015 was estimated to have been some 3,000 metric tons.

Over the past ten years, the value of gold demand in India has increased at an average rate of 13% per year, outpacing the country's real GDP, inflation and population growth by 6%, 8% and 12% respectively. Based on WGC estimates, the nation owns over 18,000 tonnes of Gold. Indians buy nearly 20% of the world's gold every year and 95% is used in jewellery.

There are also vast differences in consumer behaviour between urban India and rural India. While the whole country is crazy about this yellow metal, it is more so in rural India. It is observed that demand for gold jewellery increases in rural India as income of people increases.

Causes for increase in demand for gold in India

Despite rising prices the demand for gold in India is continuously increasing. Some of the reasons are as follows:

- **Best liquid asset:** Gold is considered as highly liquid asset as it can be converted into cash anytime when contingency arises.
- **Good investment:** Gold is one asset whose value is continuously increasing and therefore people consider it as safe and secure form of investment. People may conveniently invest in gold now and gain more by selling it again when the prices increase.
- **Status symbol:** Especially in India gold is regarded as status symbol. It symbolises wealth. Gold bought by bride's family in marriages shows their status in the society.
- **Great religious significance:** Gold is considered as a revered metal in Hindu religion. It is regarded as a symbol of Hindu Goddess Lakshmi and considered as highly auspicious. Purchase of gold is considerably high on auspicious occasions like Dhanteras, Akshya Tritiya, etc.
- **Great value as heirloom:** Gold is an asset which can be preserved throughout the life and also can be passed from one generation to another as ancestral property. It will remain the same and will maintain its value throughout ages.
- **High Ornamental value:** Gold ornaments are never out of fashion. Women of every age and time love wearing different gold ornaments. It also increases their status in the society.
- **No Income tax:** Gold is an asset on which no income tax is payable. Therefore people tend to buy more gold as their income increases.

Gold Rate Trend in India

The below chart represents the historical movement of gold prices in India. It's important to note that the gold prices would fluctuate during the year and the amount mentioned below is a representation of the average price for that year.

Table 1: This chart contains the average price for gold for per year since 1964 – present. The prices indicated are for 10 grams of gold and prices are in Indian Rupees.

Year	Price
1964	Rs. 63.25
1969	Rs. 176.00
1974	Rs. 506.00
1979	Rs. 937.00
1989	Rs. 3,140.00
1995	Rs. 4,680.00
2000	Rs. 4,400.00
2005	Rs. 7,000.00
2010	Rs. 18,500.00
2015	Rs.26,343.50
2016	Rs.28,623.50

Source: www.bankbazar.com

With the exception of a few lows between some years, it can be seen from the table that the gold price trend has historically been on the rise, lending credit to the argument that gold is a safe investment over long periods of time.

Causes for rise in price of gold in India

- **Demand & Supply:** Gold price is much dependant on the demand and supply pattern of gold in India. When the demand for gold increases the prices also increases and vice versa. In India gold is one such scarce commodity whose demand has consistently been high since past so many years which is the main reason for increase in price of the yellow metal.
- **International price of gold:** India being the second largest consumer of gold in the world imports around 800-900 tonnes of gold every year. Therefore, the international price of gold, which is dependant on various global factors, will directly affect the price of gold in India as well.
- **Inflation:** Gold is steady as compared to currency. It holds significant value and is used to hedge against inflation. This is why investors prefer to hold gold rather than currency. As a result, when the inflation is high, the demand for gold increases and vice versa. The price of gold will then shoot up as a result of high demand from customers. This holds true for both international inflation as well as that which occurs in India
- **Interest Rates:** When the Reserve Bank of India hikes the rates of interest, people start selling gold to invest in government bonds and bank deposits. This leads to fall in gold demand which in turn leads to fall in price. Similarly, when RBI cuts down the rates of interest, people get encouraged to choose gold as a safe investment option and this will increase demand for it. Rise in demand will lead to a price hike. Hence, whenever interest rate falls, gold prices increase and vice versa.
- **Currency fluctuation:** Trade in gold and other commodities is held on international platforms in US dollars. That means, imported gold in India is valued in US dollars which is later converted to Indian rupee for domestic trade. Hence, price of gold fluctuates with variation in rupee-dollar exchange rates. If the Indian rupee gains against the dollar, domestic gold prices will

go down. If the rupee depreciates, it becomes costlier to import gold. During this year, gold rates have increased in India even though there is fall in the international gold price due to the rupee's depreciation against the US dollar.

- **Import duty:** We do not produce gold therefore it is imported from abroad. Fluctuations in gold price in India is also due to the change in import costs. This year, the hike in import duties on gold to curb the imports by Indian government has made the yellow metal more expensive in India.
- **Government reserves:** Government holds reserves in the form of both paper currency and gold. When RBI start holding gold reserves and procuring more gold, the price of gold goes up. This is because the flow of cash in the market is increased while the supply of gold goes down. Gold Reserves in India remained at 557.77 Tonnes in the second quarter of 2017.³
- **Seasonality:** In India, demand for gold during festivals, marriages and other auspicious occasions is higher. Therefore, prices tend to be higher during these times.

Conclusion & Suggestions

Demand of the gold is constantly increasing with each passing year. India and China are the two most popular gold consuming countries in the world. In India, they use a lot of gold for many cultural functions like wedding etc. In China, gold bars are one of the most popular traditional forms of saving. Thus owning gold now can be proved to be highly beneficial and great idea of investment. Gold being a precious metal holds a special significance and its price has been on a roller coaster ride for centuries. Though the process of determining the price of this yellow metal is informal in India, it keeps fluctuating depending on the global market conditions, country's economic and political conditions and also basis the consumer sentiment. The government needs to revamp its policies concerning gold. It should bring changes in taxation system as well as import policies. The challenge is to meet the everlasting demand with the limited supply of this scarce commodity at a steady price.

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