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The Gold Price Hike in Kerala: An Analysis of Trends and Impacts

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Abstract

This research article examines the recent trends in gold prices in Kerala, analyzing the factors contributing to the price hike and its socio-economic implications. The study utilizes historical data, survey results, and graphical representations to provide a comprehensive understanding of the gold market in Gold prices vary across countries. Even in India the prices differ across states and cities. Apart from international rates, the price of the yellow metal is determined by various other factors like demand and supply, import duties, and rupee-dollar exchange rate. In addition, there are a few more variables that add to the equation in Kerala. Kerala's affinity for gold is not just a trend but an integral part of its societal fabric. The state exhibits a pronounced fondness for gold, evident in its substantial contribution to India's gold demand. Monthly per-person gold expenses in Kerala's rural areas average at Rs 208.55 and Rs 189.95 in urban settings. Festivities and traditional ceremonies further amplify this penchant for gold, making it an indispensable part of celebratory customs.

Index Words: Gold, Hedge, Tangible asset, Investment portfolio

INTRODUCTION

Gold has significant cultural and economic importance in Kerala, known as the "land of gold." The state has a long-standing tradition of gold jewellery, which plays a crucial role in weddings and festivals. This study aims to explore the recent increases in gold prices, analyzing the causes and consequences on consumers and the economy. But why does gold seem more accessible in this region? Kerala's gold rates are primarily shaped by the All Kerala Gold and Silver Merchants Association, responsible for determining daily gold prices based on numerous influential factors. The pivotal driver behind Kerala's comparatively affordable gold prices hinges on the intricate dynamics between demand and supply. Gold is one of the earliest precious metals that humans have ever encountered and has been utilized as a medium of exchange for thousands of years. Gold has been the currency at one point of time, gold has been a wealth and status symbol, gold has been used in rituals and as a part of traditions, gold has been transferred to generations as ancestral property and gold has been an ornamental metal from time immemorial. We can examine the importance of gold as an asset.

Gold: An Asset

During troubled times, gold, the precious metal, is one of the most sought-after investments. Year after year, global investment in precious metals has increased. Since 2001, the metal has grown at a rate of about 15% per year. Since the financial crisis rocked the markets in 2008-2009, the unique quality of the haven jewellery metal has renewed focus on effective risk management. The shifting rate of economic growth has compelled even institutional investors to engage in this asset, which provides long-term profits. It also serves as a diversifier, mitigating losses during stock market volatility.

The precious metal is a notable liquid asset that comes in useful during stormy times. The yellow metal protects against inflation and currency depreciation. Aside from that, the metal shines when equities and debt fall in stock markets. India, the gold-loving country, has a stronger fondness for the metal and currently ranks second in global consumption. It serves as both an investment opportunity and a luxury item. Metal's value has increased dramatically throughout the years, making it one of the safest assets to invest in.

Major reasons for Investment in Gold

Some of the reasons why you must invest in Gold in India are:

- It acts as a hedge against any decline in asset types such as real estate and equities. This means it is one of the assets that offers a great possibility for diversification.
- It also brings some relief from hard situations, especially during any financial crunch.
- Another advantage of gold is that it is relatively liquid, making it one of the better asset classes than real estate, which is considerably more difficult to sell.
- Gold, a brilliant and precious metal, has enjoyed great value and importance in India for centuries. The metal symbolizes wealth and prosperity. Gold has been a part of Indian culture since its use in traditional jewellery and religious ceremonies. Understanding the history of gold prices in India provides insight into the economic, social, and cultural context of the country.
- Gold in India dates back to the Indus Valley Civilization. This is one of the earliest urban civilizations in the world. Archaeological evidence suggests that gold was used for ornaments and trade. Gold was highly prized for its purity, and the metal was often used as currency.

METHODOLOGY

- **Data Collection**: Historical gold price data from various sources (e.g., Gold Council, local jewellers) for the last decade.
- **Surveys**: Conducted among 100 households in Kerala to understand purchasing behaviour and perceptions regarding gold.
- **Analysis Tools**: Statistical tools and graphical representations to illustrate trends.

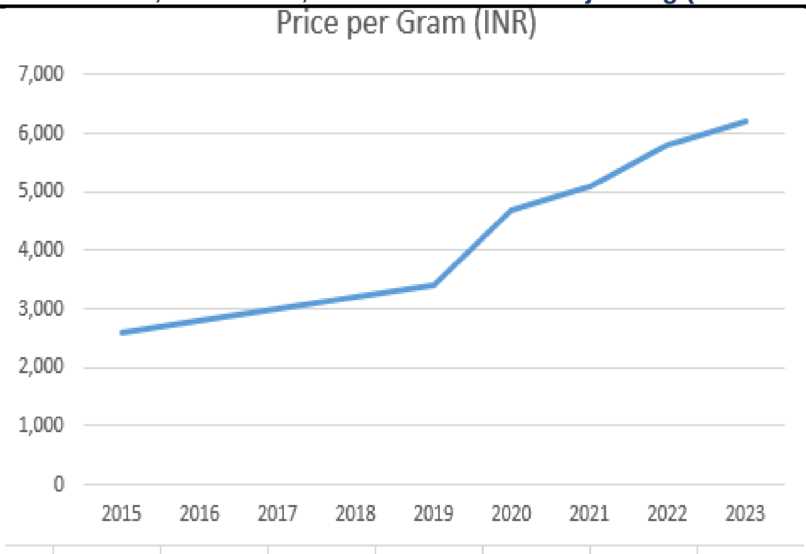
Historical Price Trends

Table 1: Average Gold Prices in Kerala (2015-2023)

Year	Price per Gram (INR)
2015	2,600
2016	2,800
2017	3,000
2018	3,200
2019	3,400
2020	4,700
2021	5,100
2022	5,800
2023	6200

Source: Annual Gold Report, 2023

It is seen from the table that the average gold prices in has been increasing since 2015. It has reached a record hike in 2023.



Factors Contributing to Price Hike

- **Global Market Trends**: Fluctuations in international gold prices due to geopolitical tensions, currency fluctuations, and changes in global demand.
- **Inflation**: Rising inflation rates contribute to increased demand for gold as a safe- haven investment.
- **Local Demand**: Cultural practices and festivals in Kerala lead to heightened demand, particularly during wedding seasons.
- **Supply Chain Disruptions**: The COVID-19 pandemic affected gold supply chains, leading to reduced availability and increased prices.
- **Increasing Demand-**People buy gold for a number of reasons all over the world, with national sociocultural influences, local market conditions, investment perspectives and macroeconomic considerations all playing their respective parts. Gold is always read with its emotional, cultural, and financial worth. Due to the wide range of uses for which gold is employed, including jewellery, technology, central banks, and investment, distinct sectors of the gold market emerge at certain points in the global economic cycle
- **Limited Supply**- Gold is not consumed like coffee or oil. Nearly all of the gold that has ever been extracted is still in existence, and more is added every day. On the other hand, annual demand requires more gold than can be extracted; the difference is filled by recycling. Changes in pricing do not immediately affect mine-production.
- **Interest Rates -**The monetary policy of the central bank is important to players in the financial markets, especially to those who trade and own gold. The increase in short-term interest rates drives up the cost of storing gold. The higher the interest rate, the less money that would have been made had gold been held in place of interest-bearing assets. Because of this, the market price of gold increases along with the fall in interest rates and rise in the desire for the metal.
- **Gross Domestic Product -**Gold prices are significantly influenced by GDP growth over the long term for a number of reasons. The demand for gold jewellery is positively correlated with rising incomes (World Gold Council, 2023). The need for gold in technological applications increases in lockstep with economic expansion. Additionally, the proportion of household savings allocated to gold increases with affluence. Moreover, GDP growth has historically had the greatest positive impact on long term gold prices in emerging markets like Asia.
- **Hedge Against Inflation-** An inflation hedge refers to an investment strategy that aims to protect a currency from losing value owing to inflation or macroeconomic increases in expenses, ultimately leading to a decline in buying power. With its value increasing in line with the cost of living and frequently reaching its maximum point during periods of severe inflation, gold is arguably the only commodity that both maintains its value and guards against inflation.
- **Liquidity -** Because gold is so liquid, investors can exchange it in times of need for cash or in an emergency. This valuable metal is always in demand, making it simple to sell even under the most trying circumstances.
- **Tangible Asset -**Since gold is one of the handful tangible assets, investors tend to feel safer while investing in it. Purchasing gold is less complicated than buying other tangible assets, such as real estate.

Analysis of data

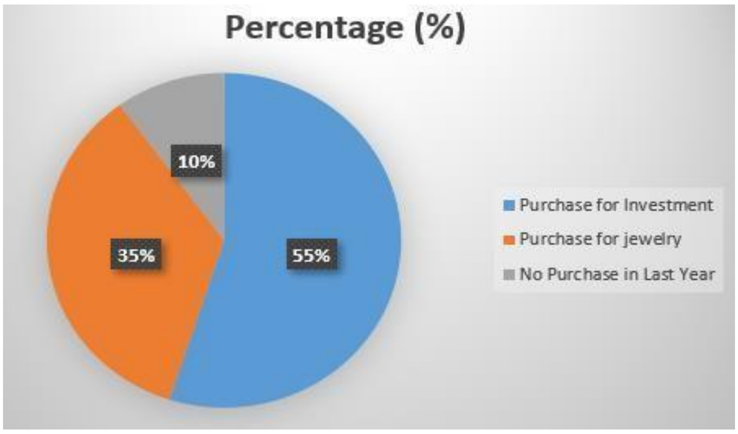
The result of the collected data analysed for inferences are discussed below. The behaviour of the consumers on purchasing gold is shown the following table and diagram. From the surveyed respondents (100), it is observed that major reason for purchasing gold are for investment purpose and purchase for jewellery is also significant.

Table 2: Consumer Behavior Regarding Gold Purchases

Parameter	Percentage (%)
Purchase for Investment	55
Purchase for jewelry	35
No Purchase in Last Year	10

Source: Annual Gold Report, 2023

It could be seen from the table that more than 50% of the respondents purchase gold for investment. The purchase for jewellery is also significant.



SOCIO-ECONOMIC IMPACTS

- **Increased Financial Burden**: Many families are struggling to afford gold, impacting wedding budgets and savings.
- **Shift in Investment Strategies**: Consumers are exploring alternative investments due to high gold prices, leading to a diversification of assets.
- **Cultural Implications**: The rising cost of gold may alter traditional practices related to weddings and celebrations.

CONCLUSION

The significant hike in gold prices in Kerala over recent years reflects broader global trends and local demand dynamics. The socio-economic implications of this trend warrant attention, as they affect consumer behavior, cultural practices, and financial planning. Policymakers and stakeholders must consider these impacts when addressing the gold market in Kerala. The history of gold prices in India is an interesting picture of the country's economic, social, and cultural development. Individuals, entrepreneurs, and policymakers need to understand the factors affecting gold prices and their economic impact. As India grows and develops, gold is likely to become an important asset in the lives of its citizens and an important part of the national economy.

RECOMMENDATIONS

1. **Consumer Education**: Initiatives to educate consumers on investment alternatives and financial planning.
2. **Market Regulation**: Implement measures to stabilize the gold market and protect consumers from extreme price fluctuations.
3. **Support for Local Jewellers**: Encourage local artisans and jewellers to promote sustainable practices and fair pricing.

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