



Decoding the consumption canon in the Indian economy

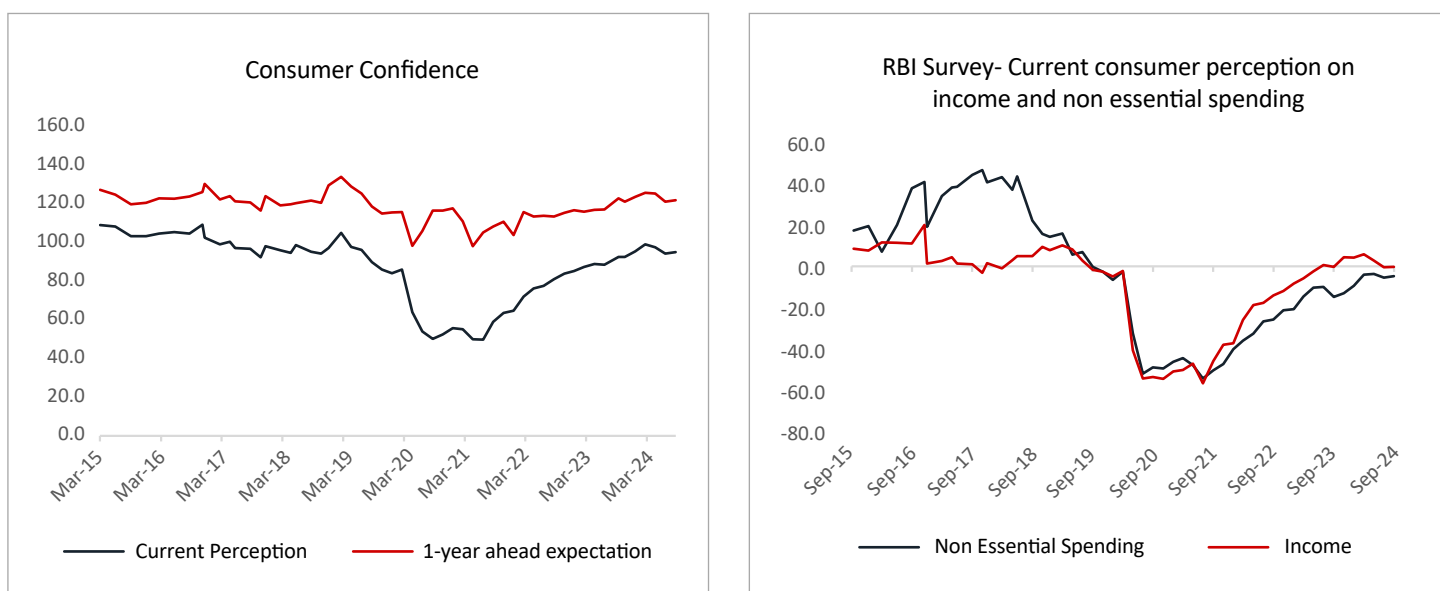
As the Indian economy prepares to go full throttle to become the third largest global economy, by the turn of the ongoing decade, consumption is one of the major tailwinds propelling this growth narrative. At present, consumption accounts for ~50%-60% of the overall GDP in India. Accordingly, the health of the consumer is an important metric to track, when decoding the overall health of the economy.

In the years post Covid, India has been able to grow at a high rate and is, today, one of the fastest growing major economies – this unparalleled position has been driven by a sustained increase in consumption, as well as robust government spend on capex. In this scenario, let us take a look at the state of play of the Indian economy, with a focus on how the consumers are evolving.

Assessing India's consumption trajectory

While analysing consumers, among the most important aspects to consider are the underlying employment activity in the economy, and the perception of consumers on employment and the general economic outlook. The Reserve Bank of India carries out a survey of consumers every 2 months, to understand their sentiment on these parameters and the same has indicated a decline in overall consumer confidence, over the last 2-3 rounds. Further, there has also been a decline in the year ahead expectations, with regards to the overall general economic situation. The last couple of rounds have also highlighted a worsening in sentiment, around employment and income levels, potentially translating into the sentiment on discretionary spend moving slightly lower, in the current survey round.

Exhibit 1 – Consumer survey outcomes



These concerns around employment have also been corroborated by other indicators like the Naukri Job Speak Index, which has been on a decline in the last few months, in addition to the weaker employer perception on employment in the manufacturing, services and infrastructure sectors, witnessed in a survey carried out by the RBI.

Exhibit 2 – Naukri Job Speak Index results

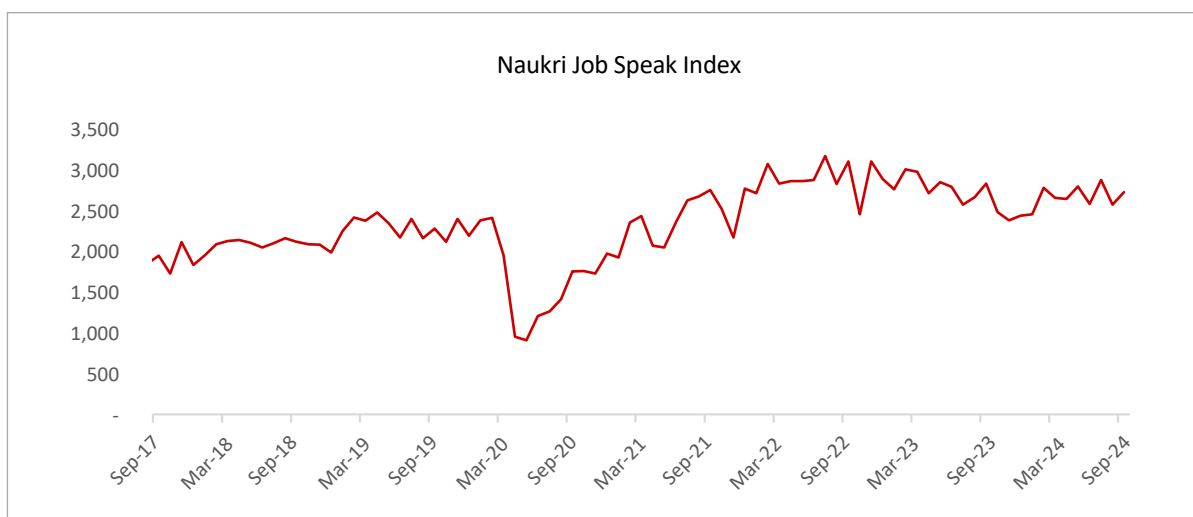


Exhibit 3 – Employer perception on employment survey

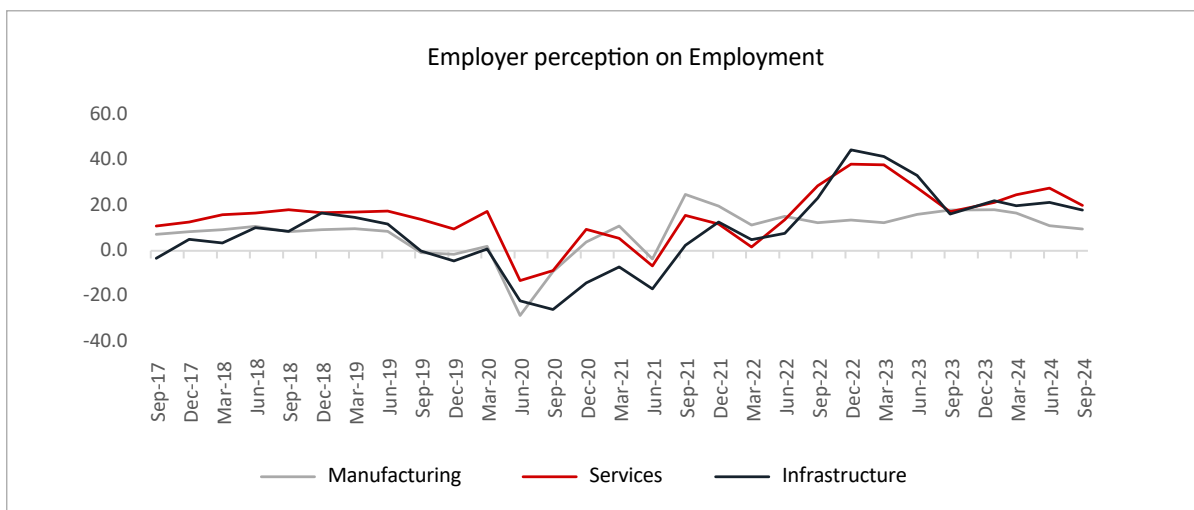
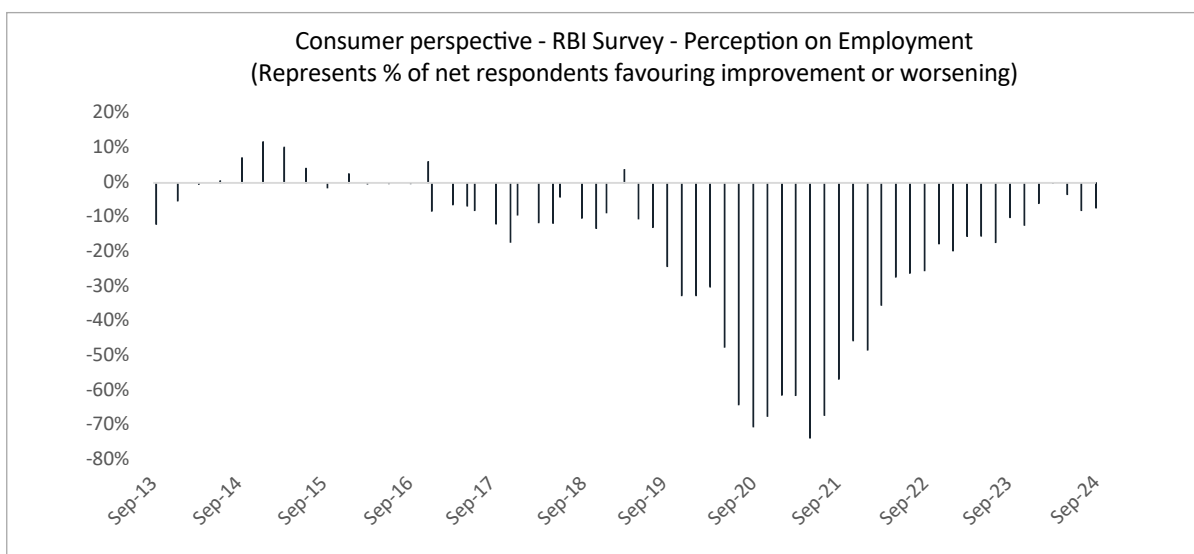
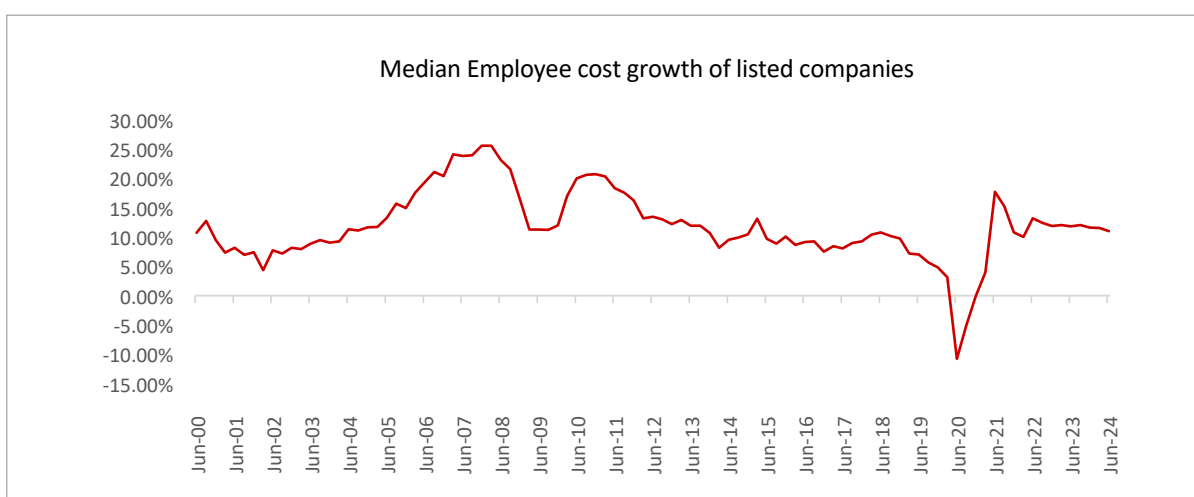


Exhibit 4 – RBI survey on consumer perspectives



Apart from these, a glance at the growth in employee spends of listed companies in India also depicts a decline, albeit extremely slow, in the last few quarters.

Exhibit 5 – Employee cost growth

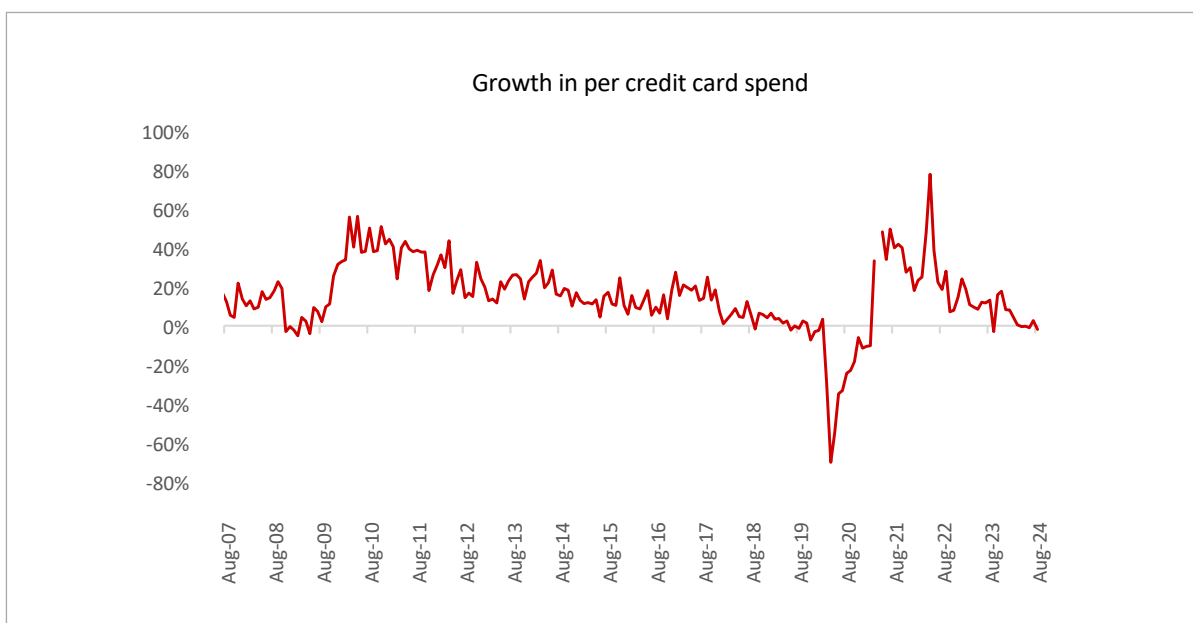


Slowdown at hand?

Although these are early signs of a slowdown in the incomes of consumers, especially in urban India (these are more of urban India indicators), we need to keep an eye out for any further worsening going forward. This is a significant concern because the slowdown has already translated into de-growth in per card spends, over the last few months, on credit cards and other items of non-discretionary spend, such as 4-wheeler sales.

However, festive season demand has reversed the trend in decline in 4-W sales in the month of October. During the month demand saw a significant boost, however, the rise in demand was partly driven by aggressive discounts offered to reduce inventory. With the wedding season in the coming months, and inventory still high we may see the aggressive discounts continue to lure customers, indicating demand still is dependent on discounting. Further, September quarter results indicate that leading FMCG companies including HUL, Nestle, Dabur, and Tata Consumer Products reported a softness in demand from the urban market, mainly on account of high food inflation. This is important considering that the urban market contributes to around 62% to 65% of FMCG sales and the rest is from the rural market, which is largely dominated by food products and small offerings¹.

Exhibit 6 – Per credit card spend



Separately, reports also suggest that there has been a rise in defaults in credit card debts. These indicators point to early signs of a rise in stress, as well as slowdown, in consumption activity amongst consumers.

¹<https://economictimes.indiatimes.com/news/economy/indicators/rural-consumption-grows-double-than-urban-market-in-september-quarter-nielseniq/articleshow/115043170.cms?from=mdr>

²<https://economictimes.indiatimes.com/industry/banking/finance/banking/indias-credit-card-losses-spike-for-millennials-swipe-spend-default-habit/articleshow/113695284.cms>

The banking equation



The ongoing stress can be exacerbated by a slowdown in bank lending for retail customers.

- Banks, in a recent survey, indicated that they would tighten the terms and conditions for lending in the retail/personal space.
- A tightening of standards may also have an impact on consumption as many consumers have shifted to borrowings to fund their consumption habits, which has also lowered the savings rate³
- The caution amongst bankers can also be seen in recent months, with the rate of growth in the retail segment slowing down

Exhibit 7 – Growth in personal loans

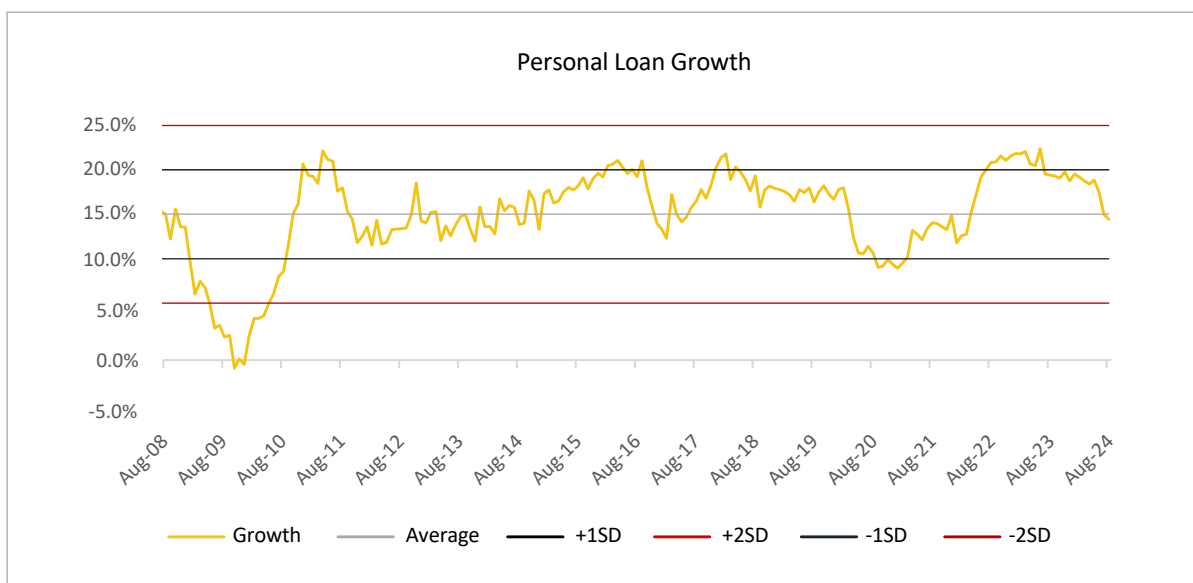
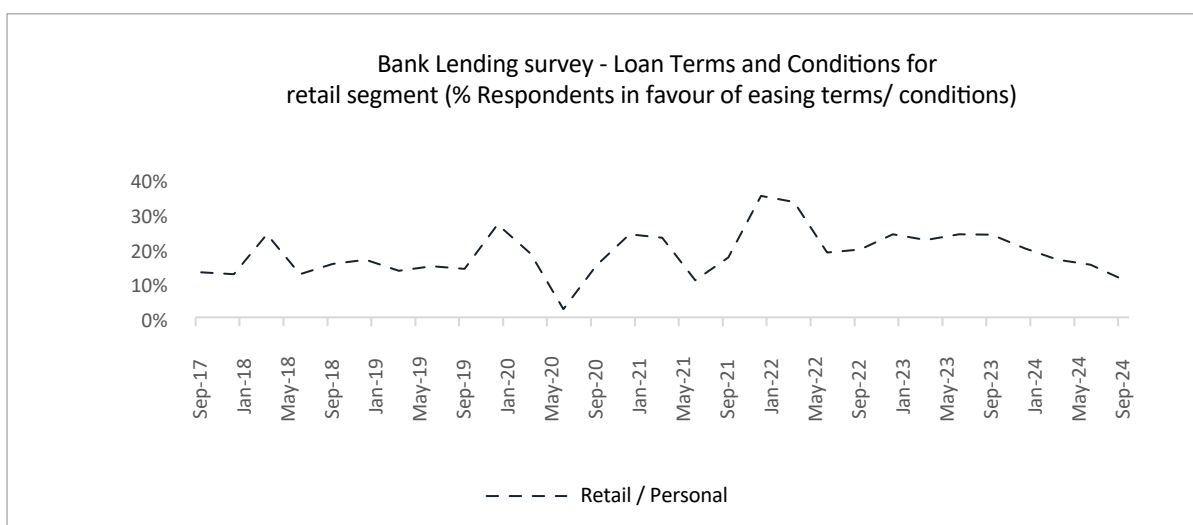


Exhibit 8 – Bank lending survey



³<https://www.indiatoday.in/india-today-insight/story/why-indian-household-savings-fell-to-a-six-year-low-in-fy23-and-how-it-may-impact-economy-2542474-2024-05-22>

Analysing rural consumption

On the rural consumption side, there has been an uptick in recent months, as indicated by the growth in entry level 2-wheeler sales. Further, FMCG consumption in rural India has also outpaced urban India, as per reports⁴. The rural economy in India is dependent on agriculture and thus, the monsoon plays a pivotal role in determining the consumption trends.

Although monsoon has been normal this season, the distribution of rainfall has hardly been that – distribution has depicted unevenness with states like Punjab and Haryana receiving deficit rainfall, even as states in central and south India witnessed excessive showers. Both these phenomena have downsides for crop production in India. Separately, tractor sales have not experienced a strong pickup in demand, even though rural incomes have grown at a moderate pace.

Exhibit 9 – Tractor sales growth

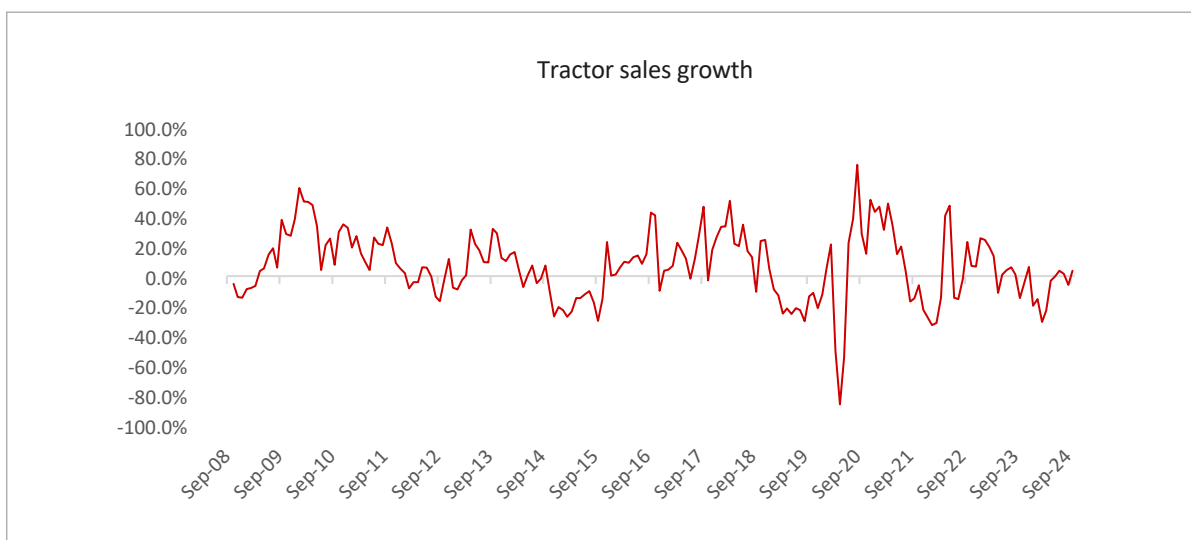
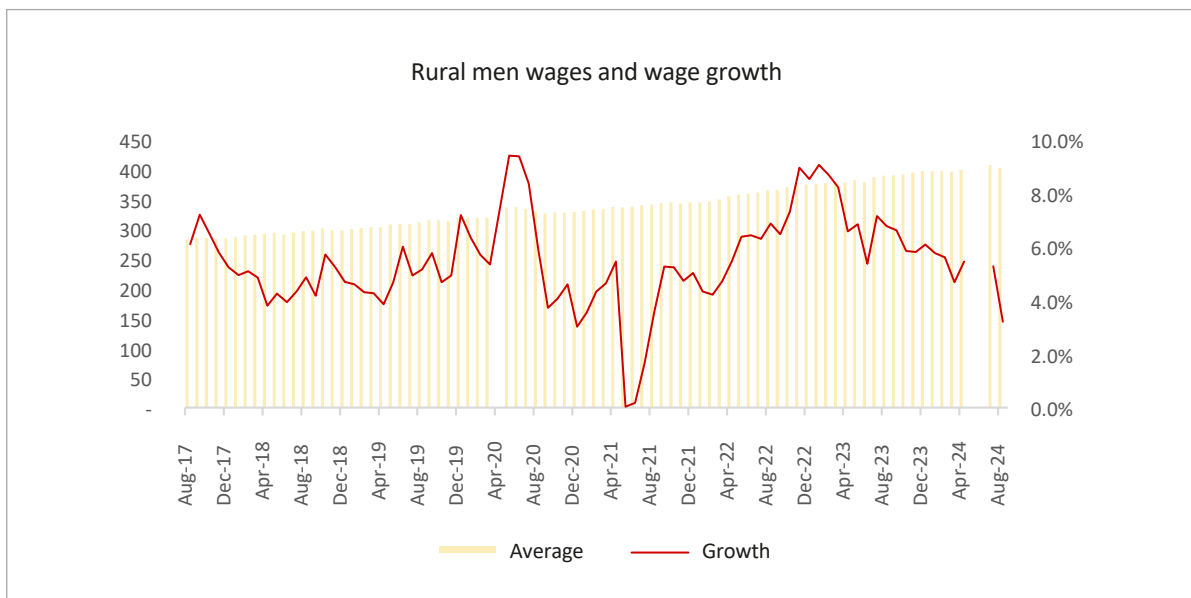


Exhibit 10 – Rural male populace wages



⁴<https://retail.economictimes.indiatimes.com/news/food-entertainment/personal-care-pet-supplies-liquor/rural-india-drives-fmfg-growth-amid-sluggish-urban-demand-niels-eniq-report/112374843>

Conclusion

Consumption demand from rural India is expected to be stable – record foodgrain production in the country is likely to give a fillip to rural incomes and a corresponding boost to rural consumption⁵. September quarter consumption indicates a healthy pace of growth in volumes in the rural markets.

Heading into the last quarter of 2024, India's consumption story is at a crossroads. While the aspect remains a key driver of GDP, recent signs of stress in urban consumption, slowing employment growth, and tightening lending conditions suggest caution. However, the rural economy offers a brighter outlook with promising FMCG growth and moderate income gains, although it remains vulnerable to uneven monsoons. Balancing these urban-rural dynamics will be critical for India's sustained economic growth and its ability to harness the power of domestic consumption to propel the economy forward.

⁵<https://pib.gov.in/PressReleasePage.aspx?PRID=2058534>

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