

Decoding consumption: Rural spending increases 5.7% in 3QFY25

Rural spending growth outpaces urban for the first time in last 15 quarters

- An analysis of 12 proxy indicators suggests that the rural sector's spending grew at a ten-quarter high pace of 5.7% YoY in 3QFY25 vs. (2.5%/-2.0% in 2QFY25/3QFY24), marking its second consecutive expansion after declining for four straight quarters. The acceleration in rural spending in 3QFY25 was led by improvement in agri and non-agri wages, farm terms of trade, tractor sales, reservoir levels, farm exports, fertilizer sales and expected higher real agri GVA growth in 3QFY25. These factors were partly offset by the fifth successive contraction in the fiscal real rural spending, a five-quarter low growth in two-wheeler sales, and an eight-quarter low growth in real agri credit. In 9MFY25, rural spending grew 3.0%, higher than a contraction of 0.7% in 9MFY24.
- Urban consumption – estimated by compiling nine proxy indicators – grew at a slightly higher rate of 5.4% YoY in 3QFY25 vs. 5.0% in 2QFY25, but much lower than 8.9% in 3QFY24. The acceleration in growth was mainly due to three-quarter high growth in PV sales, higher consumer durable goods output, and a seven-quarter high growth in petrol consumption. These factors were partly offset by a 17-quarter slow growth in real salary & wages of BSE500 companies, an expected five-quarter slow growth in real non-farm consumer imports; and projected slower growth in real house prices. In 9MFY25, urban spending growth decelerated to 5.3% vs. a growth of 7.8% in the same period last year.
- For the first time in last 15 quarters, rural sector growth outpaced the urban sector growth in 3QFY25. Annual growth in both rural and urban sector picked up in 3QFY25; however, the former witnessed sharper acceleration than the latter.
- A simple average of rural and urban spending indicates total consumption growth of 5.6% YoY in 3QFY25, the highest in nine quarters. Accordingly, we expect real private consumption growth to remain broadly unchanged at 6% YoY in 3QFY25.

Rural¹ consumption growth at ten-quarter high in 3QFY25: An analysis of 12 proxy indicators suggests that the rural sector's spending grew at a ten-quarter high pace of 5.7% YoY in 3QFY25 vs. (2.5%/-2.0% in 2QFY25/3QFY24), marking its second consecutive expansion after declining for four straight quarters (*Exhibit 1*).

Exhibit 1: Rural consumption growth at ten-quarter high in 3QFY25...

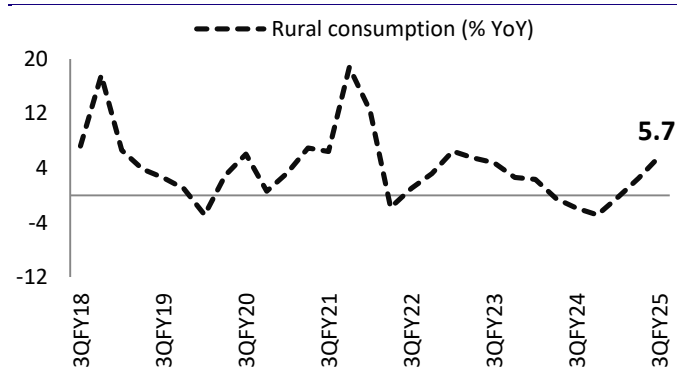
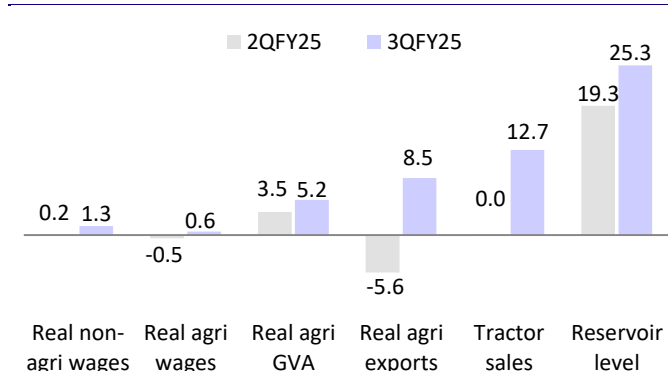


Exhibit 2: ...led by improvements in agri exports, wages, tractor sales, and reservoir levels



Source: Various national sources, CEIC, MOFSL

The acceleration in rural spending in 3QFY25 was led by improvement in agri and non-agri wages, farm terms of trade, tractor sales, reservoir levels, farm exports, fertilizer sales and expected higher real agri GVA growth in 3QFY25 (*Exhibit 2*). These factors were partly offset by the fifth successive contraction in the fiscal real rural spending, a five-quarter low growth in two-wheeler sales; and an eight-quarter low growth in real agri credit.

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In 9MFY25, rural spending grew 3.0%, higher than a contraction of 0.7% in 9MFY24. Improvement in real agri wages (0.1% in 9MFY25 vs. -0.2% in 9MFY24), two wheeler sales (11.6% in 9MFY25 vs. 10% in 9MFY24), tractor sales (4.4% in 9MFY25 vs. -7.0% in 9MFY24) and reservoir levels (14.1% in 9MFY25 vs. -16.4% in 9MFY24) aided this acceleration in rural spending growth (*Exhibit 3*).

A detailed analysis of key indicators suggests that nine of the 12 proxy indicators used for assessing rural spending trends witnessed an improvement in 3QFY25 vs. 2QFY25. Agricultural wages grew at a 12-quarter high pace of 1.3% in 3QFY25, marking its second successive expansion; non-agricultural wages grew 0.6% in 3QFY25, marking its first expansion after declining for five straight quarters; reservoir levels witnessed its second successive expansion in 3QFY25 (up 25.3%) after declining for six straight quarters; tractor sales grew at the ten-quarter high pace of 12.7% in 3QFY25; real farm exports marked its first expansion after declining for 8 straight quarters; and farm terms of trade grew at a five-quarter high in 3QFY25. On the other hand, fiscal real rural spending declined for the fifth successive quarter in 3QFY25 (-11.7% in 3QFY25 vs. -16.5% in 2QFY25), two-wheeler sales growth came down to a five-month low of 3.0% and real farm credit growth decelerated to an eight-month low of 7.1% (*Exhibit 3*).

Exhibit 3: Summary of key indicators used in gauging rural consumption spending (% YoY)

Rural consumption indicators	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	FY22	FY23	FY24	9MFY24	9MFY25
Real agricultural GVA@	0.4	0.6	2.0	3.5	5.2	4.6	4.7	1.4	1.8	3.8
Real agricultural wages@#	(1.0)	(1.4)	(1.1)	0.2	1.3	(0.0)	0.0	(0.5)	(0.2)	0.1
Real non-agricultural wages#@	(0.9)	(0.0)	(1.1)	(0.5)	0.6	(0.4)	(1.1)	(0.3)	(0.3)	(0.3)
Two-wheeler sales	22.6	24.9	20.4	12.6	3.0	(10.9)	17.7	13.4	10.0	11.6
Farm terms of trade\$	10.0	8.2	9.6	6.0	10.9	(11.2)	(11.2)	9.1	9.4	8.8
Tractors sales	(7.2)	(19.8)	0.6	0.0	12.7	(1.7)	10.2	(9.8)	(7.0)	4.4
Real agricultural exports#@	(12.1)	(10.5)	(6.1)	(5.6)	8.5	15.4	(0.8)	(14.4)	(15.7)	(1.2)
Fertilizer sales@	3.1	(13.8)	(4.5)	1.1	7.9	(0.7)	7.0	0.1	4.4	1.7
Real farm credit#	10.8	12.0	9.7	9.4	7.1	4.8	7.8	12.0	10.8	7.1
IIP: food products	1.9	0.3	(5.4)	0.7	(1.9)	5.9	3.8	1.5	2.1	(2.2)
Reservoir level	(19.9)	(15.5)	(20.0)	19.3	25.3	(2.8)	8.6	(16.2)	(16.4)	14.1
Fiscal real rural spending#~	(30.6)	(19.4)	(6.9)	(16.5)	(11.7)	5.0	10.7	(11.3)	(7.0)	(12.4)
Rural consumption*	(1.9)	(2.9)	(0.2)	2.5	5.7	0.7	4.8	(1.2)	(0.7)	3.0

*Simple average of indicators

Nominal data deflated by CPI for agricultural workers/rural workers (CPI-AW/RL)

@ Our forecast for 3QFY25

~ Assuming that the GoI meets its FY24RE targets

\$ Output price inflation over input price inflation

Source: Various national sources, CEIC, MOFSL

¹ **The 12 proxy indicators include:** 1) Real agricultural wages, 2) Real non-agricultural wages, 3) Two-wheeler sales, 4) Farmers' terms of trade, 5) Tractor sales, 6) Real agricultural exports, 7) Fertilizer sales, 8) Real agricultural credit, 9) IIP food products, 10) Reservoir levels, 11) Fiscal real rural spending, and 12) Real farm GVA. The rural consumption spending growth is estimated as the simple average of these 12 indicators.

Farm terms of trade growth (using output and input price inflation from WPI) accelerated to 10.9% in 3QFY25 (the highest in five quarters), vs. 6.0% in 2QFY25 and 10% in 3QFY24. It was mainly led by an acceleration in output prices and a simultaneous reduction in input prices (*Exhibit 4*). One of the key indicators to gauge the stress in rural areas is to analyze work demand under the MGNREG program. The higher the NREGA demand is, the more stress there is in the rural sector. Around 57m households demanded employment under MGNREGA in

3QFY25 (vs. 51m in 2QFY25), up 1.7% vs. the corresponding period in FY24 and 27.6% higher than the pre-Covid period of FY18-FY20 (*Exhibit 5*).

Exhibit 4: Terms of trade grew 10.9% in 3QFY25 vs. +6.0% in 2QFY25 and +10.0% in 3QFY24

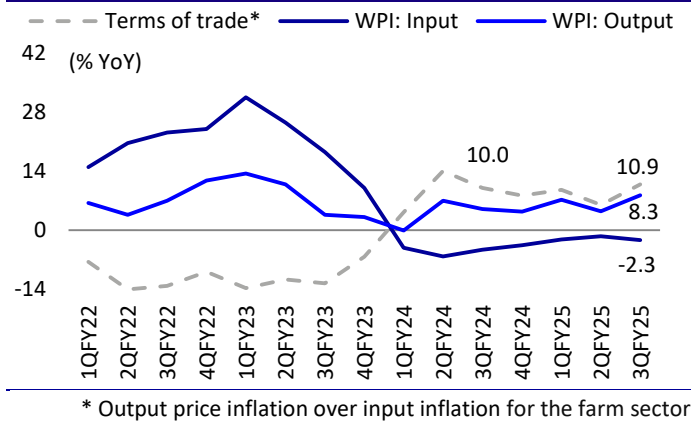
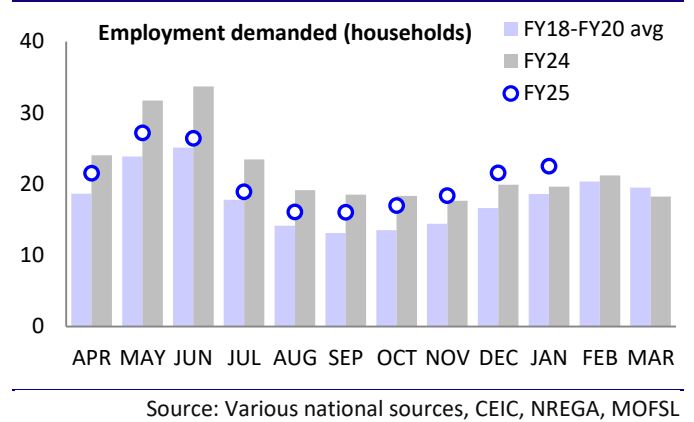


Exhibit 5: Total individuals demanding work under MGNREGA rose in 3QFY25 (+1.7% YoY)



Urban consumption growth improved slightly to 5.4% in 3QFY25: Urban sector – estimated by compiling nine proxy indicators – grew at a slightly higher rate of 5.4% YoY in 3QFY25 vs. 5.0% in 2QFY25, but much lower than 8.9% in 3QFY24 and last five quarters barring 2QFY25. The acceleration in growth was mainly due to three-quarter high growth in PV sales, higher consumer non-durable goods output, robust real personal credit growth; and a seven-quarter high growth in petrol consumption. These factors were partly offset by a 17-quarter slow growth in real salary & wages of BSE500 companies, a five-quarter slow growth in real non-farm consumer imports; and a four-quarter slow growth in real house prices (*Exhibits 6-7*).

Exhibit 6: Urban consumption growth improved slightly in 3QFY25, but still remain weak

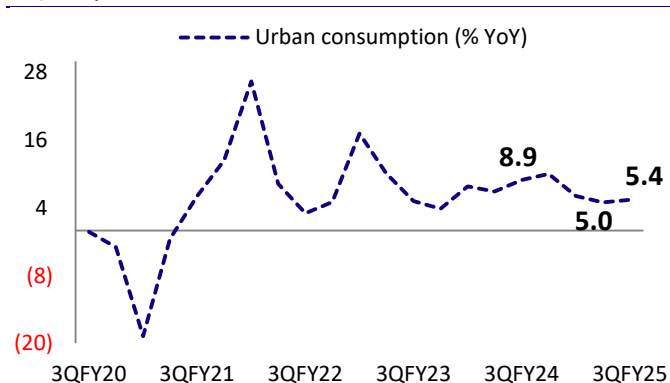
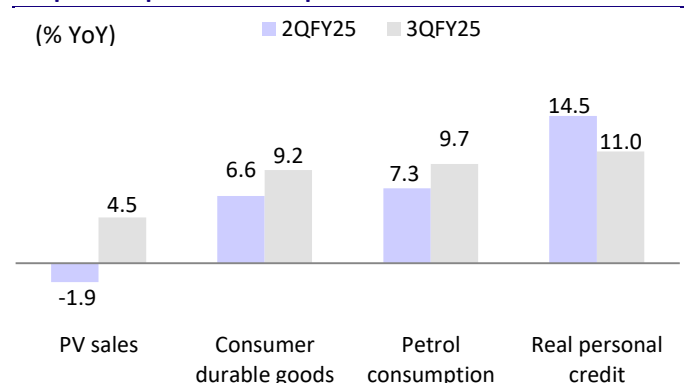


Exhibit 7: ...due to an uptick in PV sales, consumer durables output and petrol consumption



Source: Various national sources, CEIC, MOFSL

In 9MFY25, urban spending growth decelerated to 5.3% vs. a growth of 7.8% in the same period last year. The deceleration in urban spending was led by slower growth in real salaries & wages of BSE500 companies (4.0% in 9MFY25 vs. 10.1% in 9MFY24), PV sales (1.7% in 9MFY25 vs. 24.8% in 9MFY24) and likely lower non-farm real GVA growth (6.5% in 9MFY25 vs. 8.6% in 9MFY24) (*Exhibit 8*).

² The nine proxy indicators include: 1) Real Salary & Wages (S&W) of BSE500 companies, 2) CPI non-food inflation, 3) Real personal real credit, 4) IIP consumer durable goods, 5) Petrol consumption, 6) Real house prices, 7) Real non-farm consumer imports, 8) Passenger Vehicle (PV) sales, and 9) Real non-farm GVA.

A detailed analysis of the nine indicators used in urban consumption confirms that three indicators witnessed a deceleration in growth in 3QFY25 vs. both 2QFY25 and 3QFY24, and another variable witnessed a deceleration in comparison to 2QFY25 but improved in comparison to 3QFY24, while five other variables witnessed an acceleration in growth in 3QFY25 (*Exhibit 8*).

Exhibit 8: Summary of key indicators used in gauging urban consumption spending (% YoY)

Urban consumption indicators	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	FY22	FY23	FY24	9MFY24	9MFY25
Real non-farm GVA@	8.3	7.3	7.6	5.9	6.0	10.3	7.1	8.3	8.6	6.5
Real S&W of BSE500 companies@	9.8	6.6	5.6	3.8	2.5	9.7	11.5	9.2	10.1	4.0
CPI non-food inflation	3.5	2.8	2.4	2.5	3.1	6.7	6.7	4.0	4.4	2.7
Domestic: PV sales	25.9	28.3	2.8	(1.9)	4.5	8.4	24.1	25.7	24.8	1.7
Real personal credit#	12.1	11.3	12.4	14.5	10.0	7.9	14.1	11.3	12.1	11.0
IIP: Consumer durable goods	5.3	11.2	10.7	6.6	9.2	7.4	0.6	3.6	1.1	8.8
Petrol consumption	4.7	8.4	7.1	7.3	9.7	10.3	13.4	6.4	5.7	8.1
Real house prices@	0.2	1.2	0.7	1.7	0.5	(1.3)	(0.5)	0.2	(0.1)	0.9
Real non-farm consumer imports#@	10.8	12.9	5.8	4.5	2.5	29.4	0.2	5.8	3.6	4.3
Urban consumption*	8.9	10.0	6.1	5.0	5.4	9.9	8.6	8.3	7.8	5.3

*Simple average of indicators

Nominal data deflated by CPI-for industrial workers (CPI-IW)

@ Our forecasts for 3QFY25

Source: Various national sources, CEIC, MOFSL

Domestic PV sales grew at a three-quarter high pace of 4.5% in 3QFY25 (vs. -1.9%/+25.9% in 2QFY25/3QFY24) and petrol consumption grew at a seven-quarter high pace of 9.7% (vs. 7.3%/4.7% in 2QFY25/3QFY24) during the quarter (*Exhibit 9*). On the other hand, real salaries & wages growth witnessed a deceleration in 3QFY25. It grew 2.5% in 3QFY25 vs. 3.8% in 2QFY25 and 9.8% in 3QFY24, lowest growth in 17 quarters. (*Exhibit 10*).

Exhibit 9: Domestic PV sales and petrol consumption witnessed an uptick in growth in 3QFY25...

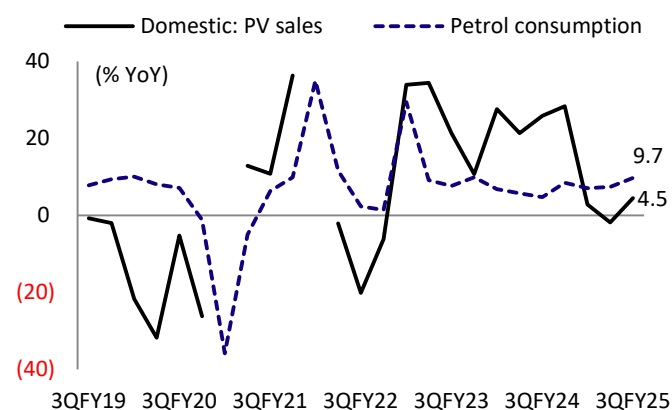
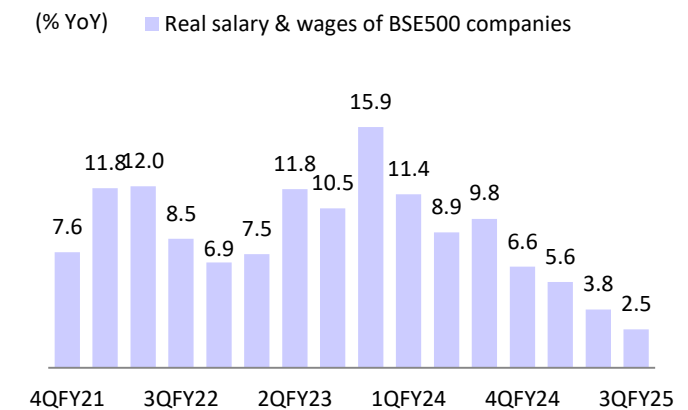


Exhibit 10: ...while real salaries & wages grew at a 17-quarter low in 3QFY25



Source: Various national sources, CEIC, MOFSL

Conclusion: Divergence narrows significantly, as the rural sector spending spikes

Overall, it is evident that growth in rural spending has picked up in 3QFY25, marking its second consecutive expansion after contracting for four straight quarters. At the same time, urban sector also grew faster than in the previous quarter. However, since the pick-up in the rural sector outpaced the urban sector in 3QFY25, the former outpaced the latter for the first time in last 15 quarters, (*Exhibit 11*).

A simple average of rural and urban spending indicates total consumption growth of 5.6% YoY in 3QFY25, the highest in nine quarters. Accordingly, we expect real private consumption growth to remain broadly unchanged at 6% YoY in 3QFY25 (*Exhibit 12*).

Exhibit 11: Rural spending growth outpaced that of urban sector for the first time in 15 quarters

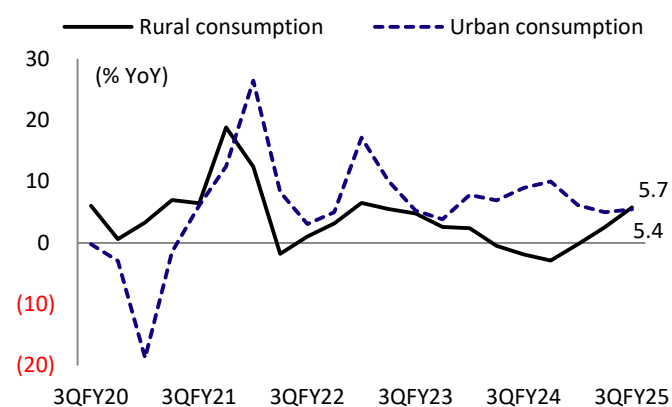
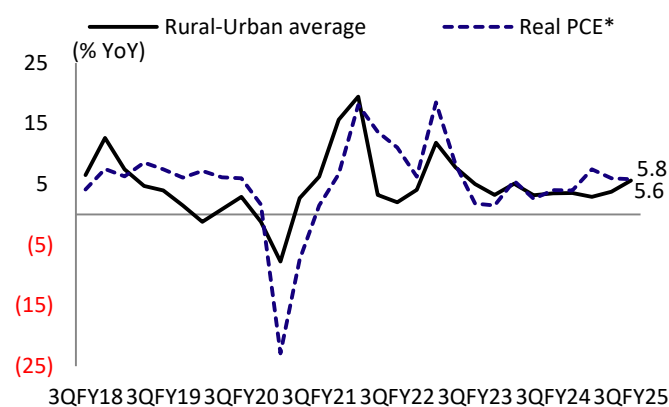


Exhibit 12: Real PFCE is likely to grow at ~6% in 3QFY25 vs. 6.0/4.0% in 2QFY25/3QFY24



* 3QFY25 is our forecast

Source: Various national sources, CEIC, MOFSL

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