

## Decoding consumption slowdown and its potential for revival

### Recovery in consumption might not be sustainable unless income levels improve

- Private consumption expenditure (spending on goods and services by households) is a cornerstone of economic growth in India. It is a key component of economic growth, accounting for ~60% (average of the last 10 years) of India's Gross Domestic Product (GDP). Therefore, it is essential to comprehend the current slowdown in consumption, its underlying causes, and the potential for recovery. This report aims to address these issues.
- Following a 5.3% contraction during the pandemic in FY21, real private final consumption expenditure (real PFCE) rebounded strongly in FY22 (rising 11.7% YoY; 58.1% of GDP). It maintained a strong pace of growth in FY23 as well, printing 7.5%. However, the consumption rebound was short-lived, debt-fueled, and primarily led by higher welfare spending by the government. Real PFCE slowed markedly in FY24. It grew at a three-year low pace of 5.6% in FY24, and its share in real GDP reduced to a five-year low at 56.1% of GDP. Over the last four years (FY21-FY24), real PFCE growth has averaged 4.9% annually, substantially weaker than the pre-pandemic decade's average of 6.8%.
- To understand the causes of consumption slowdown, we need to understand the determinants of consumption. Household disposable income is the primary driver of consumer expenditure growth. Real GDP per capita growth has slowed steadily since FY18 (5.6%) and finally decelerated to 2.8% in FY20 from a peak of 6.9% in FY17, averaging 3.9% annually in recent years (FY20-FY24). This contrasts with the higher average of 6.2% observed during FY14-FY17. The setback in income growth significantly contributes to the slowdown in private final consumption. Per capita private consumption growth slowed to 4.1% in FY20 from 6.8% in FY17, averaging 3.9% in FY20-FY24 vs. 6.1% in FY14-FY17.
- Inflation impacts consumer spending by weakening purchasing power as real incomes are squeezed without offsetting adjustments to nominal wages. The consumer price index for rural laborers (CPI-RL) has grown at a faster pace than nominal rural wages during the past three years (FY22-FY24), leading to stagnant real rural wages. CPI-RL rose to an average of 7% during FY23-FY24 (vs. an average of 3.4% in FY16-FY19), higher than the average nominal wage growth of 6.5% during the same period (vs. an average of 5.5% in FY16-FY19). This spike in inflation, without offsetting adjustments to nominal wages, squeezed the real incomes of rural households. Real rural wages remained stagnant in FY22-FY24, averaging a meager 0.1%. This is much lower than the average real rural wage growth of 2.3% during FY14-FY19.
- Empirical studies indicate that debt accumulation weakens consumer spending. A rapid increase in debt may boost short-term consumption but ultimately hinders long-term growth. India's household debt increased sharply to a peak of 36.9% of GDP in FY20 from 30.9% in FY15, averaging 34.7% of GDP during FY18-FY19 vs. an average of 31.6% during FY15-FY17. Household debt grew at an average rate of 16.7% in FY18-FY19, much faster than the average income growth of 11%. Notably, the rapid and substantial accumulation of debt led to a cumulative disposable income decline of 4.4 percentage points in three years (FY18-FY20). Consequently, a dip in income levels reduced consumer spending, indicating that debt-fueled consumption spending is not sustainable as it undermines long-term growth.
- The recent consumption slowdown in FY24 mirrors the slowdown in the pre-pandemic period. The post-pandemic revival in consumption spending growth to an average of 9.6% during FY22-FY23 was also led by a sharp rise in household debt growth of 17.5% in FY23 (or 39.8% of GDP), faster than the aggregate disposable income growth of 14.3%. Higher accumulation of debt during FY22-FY24 (which grew 18.1% in FY24) led to a moderation in disposable income growth to 11.9% in FY24 (real consumer spending growth collapsed to 5.6% in FY24) from 18.8% in FY22.
- Real PFCE dipped sharply in FY24 to 5.6% following a two-year expansion after the pandemic. Now the important question is: Will consumption revive? The major reasons behind the slowdown in consumption were higher inflation, lower income levels, and a sharp accumulation of debt. CPI inflation has reduced to 4.6% in FY25 from 5.4% in FY24, giving respite to consumers. Even real rural wages witnessed a slight improvement in Apr-Feb'25 (growing 0.4% vs. 0.2% in FY24), though they remained subdued. However, the real wages of BSE 500 companies (real urban wages) decelerated to 3.8% in FY25 from 9.2% in FY24. Household debt still remains high and is a cause of concern. According to our estimates, it has further risen to 43.5% of GDP in 1HFY25 (from 39.8% of GDP in FY23, an increase of ~4pp), printing a growth of 15.1% in 1HFY25 (vs. 18.1% in FY24).
- Real GDP growth decelerated to 6.5% in Apr-Dec'25 vs. 9.2% in FY24; however, there is some improvement in real consumer spending growth (6.8% in Apr-Dec'25 vs. 5.6% in FY24), but we fear that it is boosted by higher household debt. Against this

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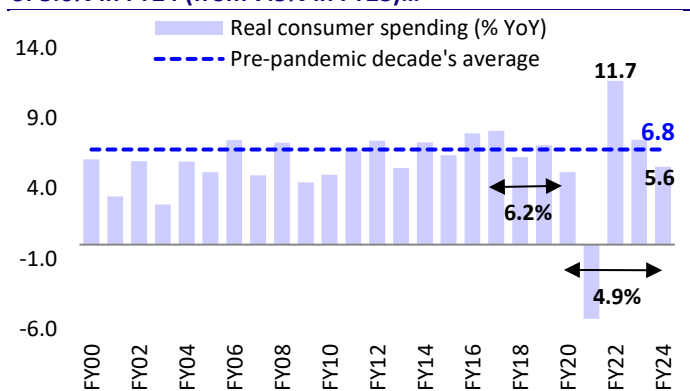
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backdrop, we believe that real consumer spending growth might recover from its FY24 lows on the back of lower inflation and a cut in interest rates, but higher debt is a cause of concern. Consumption recovery might not be sustainable unless income levels improve. With GoI providing some kick to consumption in its FY26 budget with income tax cuts, RBI cutting interest rates, and prospects of another good monsoon, we expect income levels to improve going forward. We expect real GDP to grow by ~6.5% in FY25.

### PFCE slowed markedly in FY24

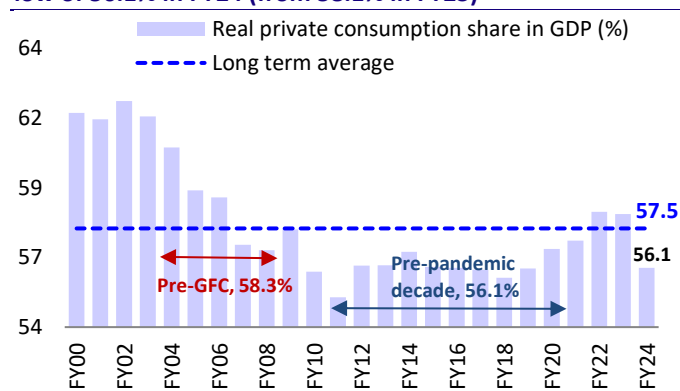
Private consumption expenditure (spending on goods and services by households) is a cornerstone of economic growth in India. It is a key component of economic growth, accounting for ~60% (average of the last 10 years) of India's Gross Domestic Product (GDP). Therefore, it is essential to comprehend the current slowdown in consumption, its underlying causes, and the potential for recovery. Following a 5.3% contraction during the pandemic in FY21, real private final consumption expenditure (real PFCE) rebounded strongly in FY22 (rising 11.7% YoY; 58.1% of GDP). It maintained a strong pace of growth in FY23 as well, printing 7.5%. However, the consumption rebound was short-lived, debt-fueled, and primarily led by higher welfare spending by the government. Real PFCE slowed markedly in FY24. It grew at a three-year low pace of 5.6% in FY24, and its share in real GDP reduced to a five-year low at 56.1% of GDP. Over the last four years (FY21-FY24), real PFCE growth has averaged 4.9% annually, substantially weaker than the pre-pandemic decade's average of 6.8% (*Exhibits 1 and 2*).

**Exhibit 1: Real PFCE growth decelerated to a three-year low of 5.6% in FY24 (from 7.5% in FY23)...**



Source: MOSPI, CEIC, MOFSL

**Exhibit 2: ...and its share in real GDP reduced to a five-year low of 56.1% in FY24 (from 58.1% in FY23)**

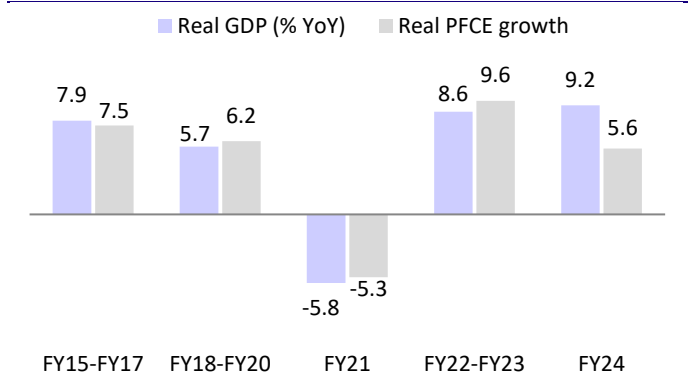


Source: MOSPI, CEIC, MOFSL

### Lessons from the past

The recent consumption slowdown imitated the pre-pandemic three-year (FY18-FY20) slowdown that saw real GDP growth decelerating to 3.9% YoY in FY20 (the lowest growth in 11 years) from a peak of 8.3% YoY in FY17, a decline of ~4pp. It averaged 5.7% in the three years before the pandemic (FY18-FY20), down from an average of 7.9% during FY15-FY17. Real private consumer spending growth decelerated to 5.2% in FY20 from a peak of 8.1% in FY17, averaging 6.2% during FY18-FY20 (vs. 7.5% in FY15-FY17; *Exhibit 3*). Similar to the pre-pandemic three-year slowdown, real private consumer spending fell to 5.6% in FY24 from an average growth of 9.6% during FY22-FY23 (a decline of 3pp), **indicating that the post-pandemic rebound in consumption may not be sustainable, and it may simply reflect pent-up consumer demand after the pandemic.**

**Exhibit 3: The recent consumption slowdown (FY24) imitated the pre-pandemic three-year (FY18-FY20) slowdown...**



Source: MOSPI, CEIC, MOFSL

**Exhibit 4: ...and was concentrated in semi-durable and non-durable goods**

YoY average growth in real terms (%)	Durable Goods	Semi Durable Goods	Non-Durable Goods	Services
FY15-FY17	10.4	4.9	5.2	9.7
FY18-FY20	5.5	3.0	5.9	6.9
FY21	-4.8	-13.4	-0.1	-9.6
FY22-FY23	22.7	15.0	6.7	10.5
FY24	8.0	-2.2	2.3	9.1

Source: MOSPI, CEIC, MOFSL

### The recent consumption slowdown concentrated in semi-durable and non-durable goods

A detailed analysis of consumption spending composition reveals that spending on durable goods is most sensitive to fluctuations in demand. Growth in spending on durable goods averaged 10.4% YoY during FY15-FY17 before decelerating to an average of 5.5% (a decline of ~5pp) during FY18-FY20 (pre-pandemic slowdown). Growth in spending on semi-durables (toys, clothing, and jewelry) and services decelerated too, but less than the decline in durable goods. On the other hand, spending on non-durable goods (food, fuels, and electricity), which are also termed essential commodities, grew at a decent pace.

While the post-pandemic rebound was robust for all the categories, it was more so for durables (averaging 22.7% during FY22-FY23) and semi-durables. Post-pandemic recovery in durable goods spending has been healthy (maybe because of higher borrowings by households), though it did not last long in the case of semi-durables (declined 2.2% in FY24 vs. an average growth of 15% in FY22-FY23). It appears that lower-income households cut back spending on semi-durable goods to maintain spending on essential goods. Even the recovery in non-durable goods has been weak (+2.3% in FY24 vs. an average of 6.7% in FY22-FY23) due to stagnant real rural wage growth (*Exhibit 4*).

### Decoding the causes of consumption slowdown

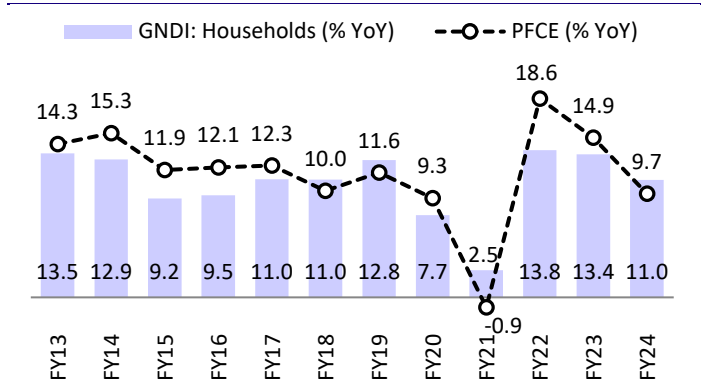
To understand the causes of consumption slowdown, we need to understand the determinants of consumption. **Household disposable income is the primary driver of consumer expenditure growth.** *“The permanent income hypothesis (Friedman, 1957) explains the income–consumption relationship through expenditure adjustments by households in alignment with long-term expectations about their incomes. If income shocks are perceived to be temporary, they are less likely to adjust spending. However, if changes in income are believed to be permanent, households are likely to change or rebalance expenditures”.*

**The most prominent drag on private consumer spending came from the steady slowing of household disposable income growth in the years before the pandemic.** Household disposable income (HDI) growth slowed to 9.5% in FY16 from 13.5% in FY13, leading to a decline in private consumption growth to 12.1% in

FY16 from 14.3% in FY13. Notably, private consumption grew faster than income growth in this period, led by borrowings. Income growth rebounded to 11% in FY17 but then again collapsed to 7.7% in FY20. However, private consumption growth decelerated to 10% in FY18, falling behind income growth for the first time in 5 years. It finally collapsed to 9.3% in FY20. A similar pattern appears to play out in the recent consumption slowdown. Private consumption grew at a much faster pace than income in the post-pandemic rebound (due to a sharp rise in household debt) before finally collapsing to 9.7% growth in FY24 from 18.6% in FY22, lagging behind household disposable income growth (11% in FY24 from 13.8% in FY22; *Exhibit 5*).

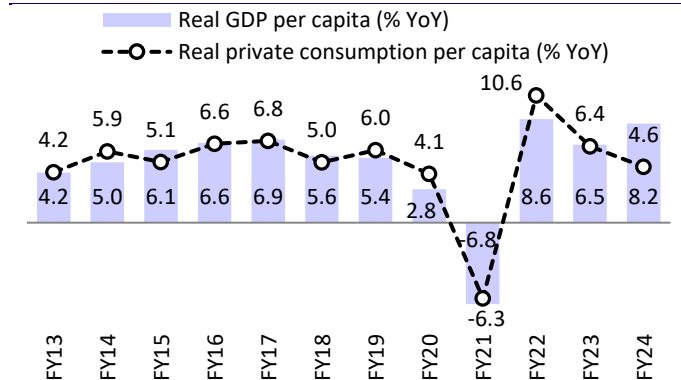
Real GDP per capita growth has slowed steadily since FY18 (5.6%) and finally decelerated to 2.8% in FY20 from a peak of 6.9% in FY17, averaging 3.9% annually in recent years (FY20-FY24). This contrasts with the higher average of 6.2% observed during FY14-FY17. **The setback in income growth significantly contributes to the slowdown in private final consumption.** Per capita private consumption growth slowed to 4.1% in FY20 from 6.8% in FY17, averaging 3.9% in FY20-FY24 vs. 6.1% in FY14-FY17 (*Exhibit 6*).

**Exhibit 5: PFCE growth decelerated to 9.7% in FY24, lower than the 11% growth in GNDI**



Source: MOSPI, CEIC, MOFSL

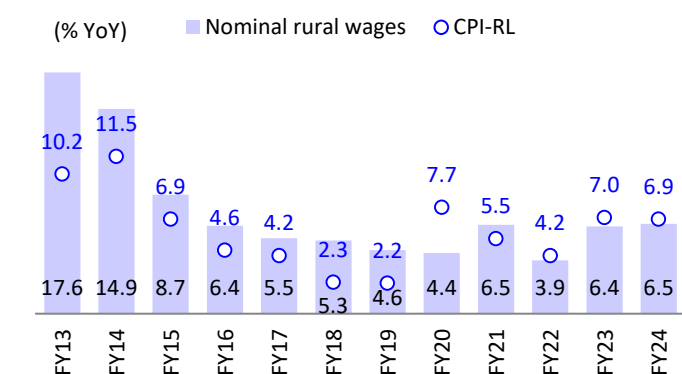
**Exhibit 6: Real private consumption per capita growth fell to 4.6% in FY24 from 6.4% in FY23 and 10.6% in FY22**



Source: MOSPI, CEIC, MOFSL

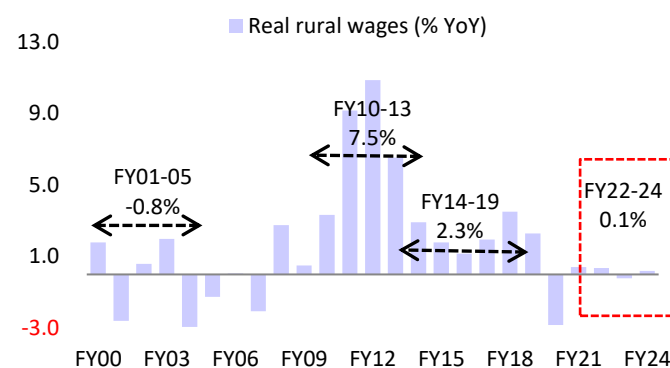
**Inflation impacts consumer spending by weakening purchasing power as real incomes are squeezed without offsetting adjustments to nominal wages.** The consumer price index for rural laborers (CPI-RL) has grown at a faster pace than nominal rural wages during the past three years (FY22-FY24), leading to stagnant real rural wages. CPI-RL rose to an average of 7% during FY23-FY24 (vs. an average of 3.4% in FY16-FY19), higher than the average nominal wage growth of 6.5% during the same period (vs. an average of 5.5% in FY16-FY19). This spike in inflation, without offsetting adjustments to nominal wages, squeezed the real incomes of rural households. Real rural wages remained stagnant in FY22-FY24, averaging a meager 0.1%. This is much lower than the average real rural wage growth of 2.3% during FY14-FY19. Stagnant rural wages are the major cause of weak recovery in consumer non-durable spending (*Exhibits 7 and 8*).

**Exhibit 7: CPI-RL grew at a faster than nominal rural wages growth for the past three years...**



Source: CEIC, MOFSL

**Exhibit 8: ...leading to subdued real rural wage growth, which rose at an average of 0.1% during FY22-FY24**



Source: CEIC, MOFSL

### Debt-fueled consumption spending is not sustainable in the long run

Empirical studies indicate that debt accumulation weakens consumer expenditure. A rapid rise in debt boosts short-term consumption but lowers long-run growth. *Negative income shocks (wage cuts, job losses, and higher inflation) exacerbate the debt burden; initially, inflation erodes the value of debt. Therefore, disposable incomes of highly indebted individuals are more vulnerable to expenditure cuts because economic downturns and aggravated financial stress sharpen the trade-off between spending and saving.*

India's household debt increased sharply to a peak of 36.9% of GDP in FY20 from 30.9% in FY15, averaging 34.7% of GDP during FY18-FY19 vs. an average of 31.6% during FY15-FY17. Household debt grew at an average rate of 16.7% in FY18-FY19, much faster than the average income growth of 11%. Notably, the rapid and substantial accumulation of debt led to a cumulative disposable income decline of 4.4pp in three years (FY18-FY20). Consequently, a dip in income levels reduced consumer spending, indicating that debt-fueled consumption spending is not sustainable as it undermines long-term growth.

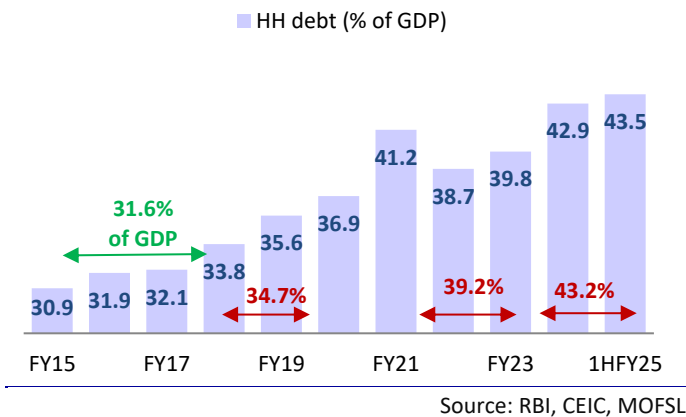
A closer look at the composition of household debt shows that non-housing personal loans (NHPLs), which are mainly taken for consumption purposes (giving rise to debt-fueled consumption spending), increased to an average of 25.2% of total household debt during FY18-FY19 vs. an average of 21.4% during FY16-FY17. Debt-fueled consumption spending growth during FY18-FY19 (averaged 6.7%) was not sustainable, and it finally collapsed to 5.2% in FY20 from 8.1% in FY17.

**Borrowing for lumpy purchases like houses, cars, and other durables, and for consumption smoothing to tide over temporary income fluctuations can impact consumer expenditures.**

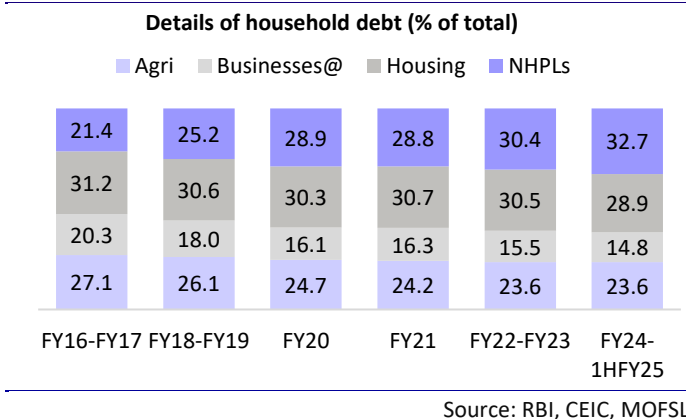
The recent consumption slowdown in FY24 mirrors the slowdown in the pre-pandemic period. The post-pandemic revival in consumption spending growth to an average of 9.6% during FY22-FY23 was also led by a sharp rise in household debt growth of 17.5% in FY23 (or 39.8% of GDP), faster than the aggregate disposable income growth of 14.3%. Higher accumulation of debt during FY22-FY24 (which grew 18.1% in FY24) led to a moderation in disposable income growth to 11.9% in FY24 (real consumer spending growth collapsed to 5.6% in FY24) from 18.8% in FY22 (*Exhibits 9, 10, and 11*).



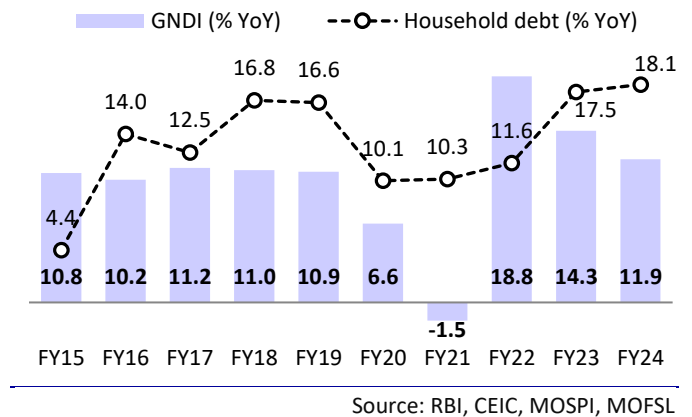
**Exhibit 9: Household debt increased to an average of 39.2% in FY22-FY23 from 36.9% in FY20...**



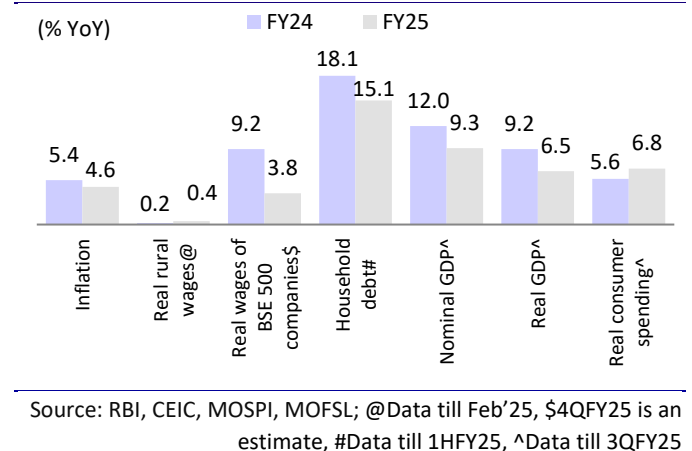
**Exhibit 11: The share of NHPLs in overall household debt increased to 32.7% in FY24-1HFY25 vs. 30.4% in FY22-FY23**



**Exhibit 10: ...it grew 18.1% YoY in FY24, much faster than the disposable income growth of 11.9% YoY**



**Exhibit 12: Real consumer spending grew 6.8% in 9MFY25 vs. 5.6% in FY24**



## Conclusion

Real PFCE dipped sharply in FY24 to 5.6% following a two-year expansion after the pandemic. Now the important question is: Will consumption revive? The major reasons behind the slowdown in consumption were higher inflation, lower income levels, and a sharp accumulation of debt.

CPI inflation has reduced to 4.6% in FY25 from 5.4% in FY24, giving respite to consumers. Even real rural wages witnessed a slight improvement in Apr-Feb'25 (growing 0.4% vs. 0.2% in FY24), though they remained subdued. However, the real wages of BSE 500 companies (real urban wages) decelerated to 3.8% in FY25 from 9.2% in FY24. Household debt still remains high and is a cause of concern.

According to our estimates, it has further risen to 43.5% of GDP in 1HFY25 (from 39.8% of GDP in FY23, an increase of ~4pp), printing a growth of 15.1% in 1HFY25 (vs. 18.1% in FY24). Real GDP growth decelerated to 6.5% in Apr-Dec'25 vs. 9.2% in FY24; however, there is some improvement in real consumer spending growth (6.8% in Apr-Dec'25 vs. 5.6% in FY24), but we fear that it is boosted by higher household debt (*Exhibit 12*). Against this backdrop, we believe that real consumer spending growth might recover from its FY24 lows on the back of lower inflation and a cut in interest rates, but higher debt is a cause of concern. Consumption recovery might not be sustainable unless income levels improve. With GoI providing some kick to consumption in its FY26 budget with income tax cuts, RBI cutting interest rates, and prospects of another good monsoon, we expect income levels to improve going forward. We expect real GDP to grow by ~6.5% in FY25.

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