

Decoding consumption trends: Rural and urban perform well in 1QFY23

Farm sector indicators emit mixed signals

- The rural and urban sectors have been exhibiting contrasting consumption trends over the past two years. In FY21, rural consumption performed better while urban consumption suffered heavily during the pandemic. In FY22, however, the trends reversed completely – while the urban sector delivered highly impressive growth driven by the reversal of rural support, normalization of economic activity and the base effect, the rural sector posted much slower growth. With the first Covid wave arriving in 1QFY21 and the second wave in 1QFY22, the analysis of 1QFY23 has obviously become complicated. That said we analyze the trends in rural and urban consumption indicators for 1QFY23, in this note.
- Our analysis of 12 indicators within the rural sector reveals that the sector grew 10.4% YoY in 1QFY23 v/s 6.3%/13.0% YoY in 4QFY22/1QFY22, respectively, with a growth of 2.4% YoY in FY22. Conversely, nine indicators within urban consumption suggest that the sector rose 19.7% YoY during 1QFY23 v/s 7.2%/60.5% YoY in 4QFY22/1QFY22, respectively.
- Rural consumption reported the four-quarter highest growth propelled by strong growth in two-wheelers, tractor sales, farm exports and farm credit, partly offset by continued contraction in rural wages, further deterioration in terms of trade and contraction in government spending. In addition, faster growth in auto sales, personal credit, IIP for consumer durable goods and petrol consumption drove the four-quarter highest growth in urban consumption too in 1QFY23.
- Consequently, real private consumption expenditure (PCE), which had grown at a five-quarter low rate of 1.8% YoY in 4QFY22, is expected to clock notably faster growth at ~13% YoY in 1QFY23.
- A close look at the farm sector, within the rural sector, suggests a mixed bag. While agricultural wages continue to remain very weak, along with deteriorating terms of trade, normal monsoon season as well as improved tractor and fertilizer sales provides support to the farm economy. Besides, agricultural credit continues to grow at a decent pace.
- Overall, while the rural and urban sectors have performed well in 1QFY23, the base effect continues to drive growth. It is very likely that the commentary on the very weak rural economy will start changing in the coming months. However, within the rural sector, the farm economy is also not entirely out of the woods yet, although some improvements are certainly visible. Importantly, fiscal rural spending, which has been a boon (more in FY21 than in FY22) to the rural sector in the past two years is now significantly low. This is a serious sign of worry for the sector as a whole. Therefore, although we see strong growth in real PCE in 1QFY23, it will wane gradually as we proceed into the year and the base effect normalizes.

Rural consumption spiked 10.4% YoY in 1QFY23, while urban consumption grew 19.7% YoY

Rural and urban consumption performed well in 1QFY23.... Our analysis of proxy indicators of rural consumption¹ suggests that the sector grew 10.4% YoY in 1QFY23 v/s 6.3%/13.0% YoY in 4QFY22/1QFY22, respectively, with a growth of 2.4% YoY in FY22. Conversely, urban consumption² indicators show that the sector grew 19.7% YoY in 1QFY23 v/s 7.2%/60.5% YoY in 4QFY22/1QFY22, respectively, and 11.6% YoY in FY22. As mentioned above, growth in consumption during the quarter is a combination of low base of 1QFY21 and high base of 1QFY22.

¹Compiled using twelve indicators – 1) Real Agri wages, 2) Real non-agri wages, 3) Two-wheeler sales, 4) Farmer terms of trade, 5) Tractor Sales, 6) Agri exports, 7) Fertilizer sales, 8) Agriculture credit, 9) IIP food products, 10) Reservoir levels, and 11) Fiscal rural spending and 12) Nominal agriculture GVA

²Compiled using nine indicators – 1) Employee cost of BSE500 companies, 2) CPI non-food inflation, 3) Personal credit, 4) IIP Consumer durable goods, 5) Petrol consumption and 6) Real House Prices and 7) Non-farm consumer imports, 8) PV Sales and 9) Nominal non-agriculture GVA

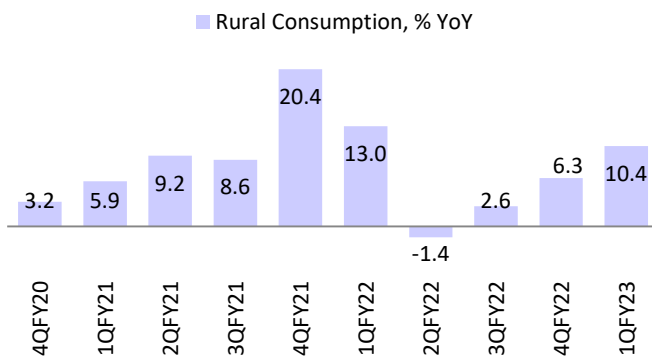
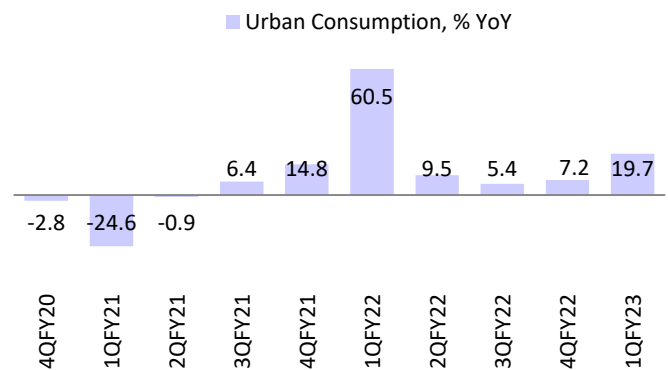
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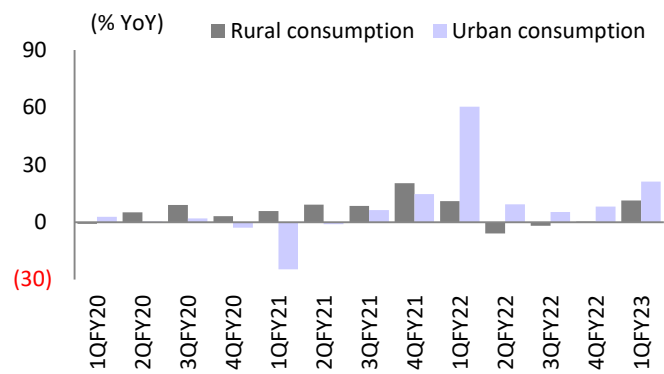
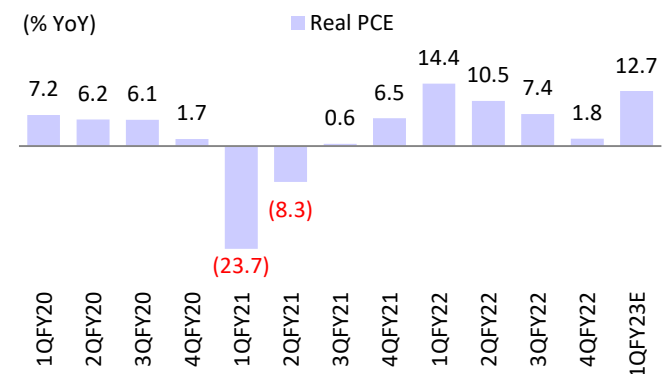
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Exhibit 1: Rural consumption grew at a four-quarter high of 10.4% YoY in 1QFY23...**Exhibit 2: ...and urban consumption too rose sharply by 19.7% YoY last quarter**

Source: Various national sources, CEIC, MOFSL

...leading to an expected sharp growth of ~13% YoY in real PCE: In 4QFY22, slowdown in both rural and urban consumption led to a five-quarter low growth of only 1.8% YoY in real PCE. In 1QFY23, however, real PCE is likely to clock a strong growth of 12.7% YoY fueled by faster overall consumption growth.

Exhibit 3: Sharp growth in both rural and urban consumption in 1QFY23...**Exhibit 4: ...might lead to ~13% YoY growth in Real PCE during the quarter**

Source: Various national sources, CEIC, MOFSL

Strong growth in two-wheelers, tractor sales, farm exports and farm credit, was partly offset by continued contraction in rural wages, further deterioration in terms of trade and contraction in government spending

Indicator-wise analysis of rural consumption reveals that the four-quarter highest growth was on account of strong growth in two-wheelers, tractor sales, farm exports and farm credit, partly offset by continued contraction in rural wages, further deterioration in terms of trade and contraction in government spending. In addition, faster growth in auto sales, personal credit, IIP for consumer durable goods and petrol consumption drove the four-quarter highest growth in urban consumption too in 1QFY23 (*Exhibits 5 and 6*).

Exhibit 5: Rural consumption rose at a four-quarter high of 10.4% YoY in 1QFY23

Economic indicators, % YoY	FY18	FY19	FY20	FY21	FY22	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Nom agri GVA	12.4	7.1	10.8	7.5	10.3	8.3	6.9	9.6	15.2	14.7
Real agri wages	4.0	2.7	(3.0)	0.3	0.6	0.3	0.8	2.0	(0.6)	(0.4)
Real non-agri wages	2.3	1.9	(3.1)	1.0	(0.4)	(1.6)	(0.3)	1.2	(1.0)	(1.3)
Two-wheelers	14.8	4.9	(17.8)	(13.2)	(10.9)	85.7	(12.3)	(24.8)	(23.0)	54.4
Terms of trade*	0.1	(4.9)	5.8	5.8	(11.2)	(7.5)	(14.0)	(13.2)	(9.8)	(11.7)
Tractors sales	20.5	9.5	(10.5)	26.5	(1.7)	45.5	(4.8)	(9.5)	(21.6)	17.4
Agri exports	13.2	3.0	(8.4)	24.0	16.5	44.1	1.7	19.2	8.7	29.5
Fertilizer sales	1.8	3.6	5.9	3.3	(0.7)	(2.5)	(5.3)	(11.9)	24.6	6.8
Agri credit	3.8	8.5	7.7	10.5	9.9	10.6	14.3	14.5	9.9	13.0
IIP: food products	9.4	12.2	2.0	(2.6)	5.9	18.8	4.5	1.0	2.7	4.9
Reservoir	(5.1)	5.6	31.8	5.4	(0.2)	(11.6)	(4.6)	(0.1)	13.0	10.1
Fiscal spending	14.1	5.1	25.0	41.0	10.2	(34.2)	(3.6)	43.4	57.0	(12.2)
Rural Consumption*	7.6	4.9	3.9	9.1	2.4	13.0	(1.4)	2.6	6.3	10.4

*Simple average of indicators

Source: Various national sources, CEIC, MOFSL

Exhibit 6: Urban consumption grew strongly by 19.7% YoY in 1QFY23

Economic indicators, % YoY	FY18	FY19	FY20	FY21	FY22	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Non-farm GVA	10.7	11.6	6.0	(3.7)	20.2	31.4	20.0	17.5	15.2	22.1
Real S&W	6.5	12.1	5.8	1.3	3.3	7.6	8.3	5.6	4.6	7.7
CPI non-food inflation	4.8	5.6	3.6	5.2	6.7	6.6	6.7	6.9	6.4	6.8
Domestic: PV sales	7.9	2.7	(21.6)	(6.1)	8.4	317.7	(2.1)	(20.2)	(6.1)	33.9
Personal credit	17.8	20.0	19.0	10.3	12.6	12.2	11.5	14.3	12.6	18.1
IIP: Consumer durable goods	0.8	5.5	(8.8)	(11.0)	7.4	53.3	9.9	(3.5)	(5.7)	26.6
Petrol consumption	10.1	8.1	6.0	(6.7)	10.4	35.0	11.7	2.4	1.5	29.4
Real house prices	1.0	(1.8)	(1.1)	(1.1)	(1.3)	(1.8)	(1.4)	(0.5)	(1.7)	(0.4)
Non-farm consumer imports: YTD	21.6	7.3	(3.7)	(4.2)	36.3	82.2	21.1	25.9	38.2	33.5
Urban consumption*	9.0	7.9	0.6	(1.8)	11.6	60.5	9.5	5.4	7.2	19.7

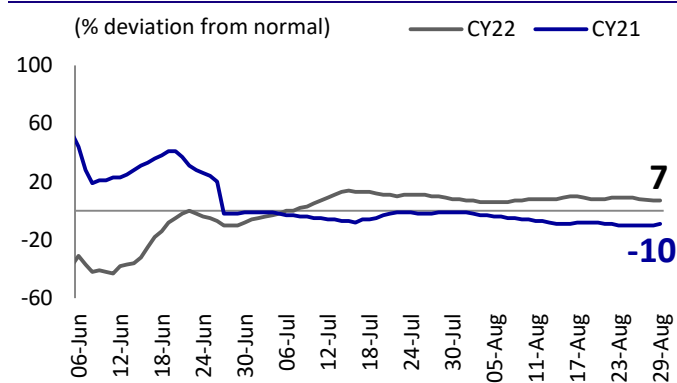
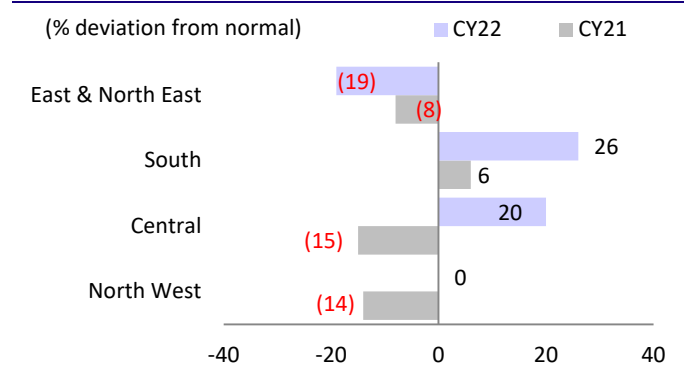
*Simple average of indicators

Source: Various national sources, CEIC, MOFSL

South West monsoon (SWM) rainfall was 7% higher than normal all over the country as of 29th Aug'22, with as much as 26% higher rainfall in South India and 20% higher rainfall in Central India

Farm sector indicating a mixed bag... The farm sector remains a bright spot; following is the list of factors indicating the same:

1. According to data from the India Meteorological Department (IMD), the South West monsoon (SWM) rainfall was 7% higher than normal all over the country as of 29th Aug'22, with as much as 26% higher rainfall in South India and 20% higher rainfall in Central India (*Exhibits 7 and 8*).

Exhibit 7: All-India cumulative rainfall was 7% above normal as of 29th Aug'22...**Exhibit 8: ...due to surplus rainfall in the southern and central regions**Up to 29th August for both years

Source: Various national sources, CEIC, MOFSL

2. Kharif sowing as on 26th Aug'22 was 96.3% of normally sown area, the lowest in three years (*Exhibit 9*).
3. Water reservoir level, at 84.7% of live storage, is at a multi-year high in FY23 so far (*Exhibit 10*).

Exhibit 9: Kharif sowing as on 19th Aug'22 is at a three-year low...

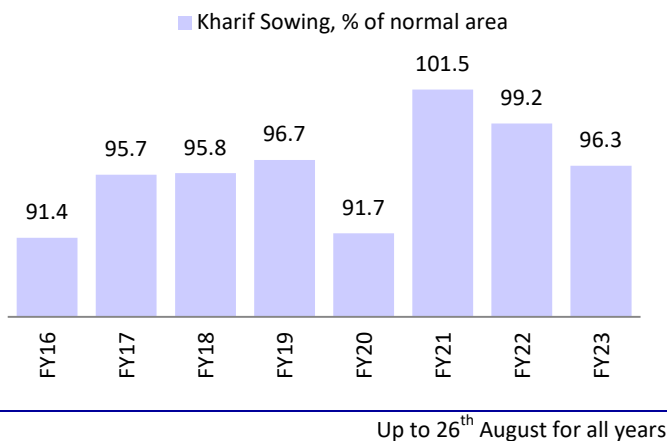
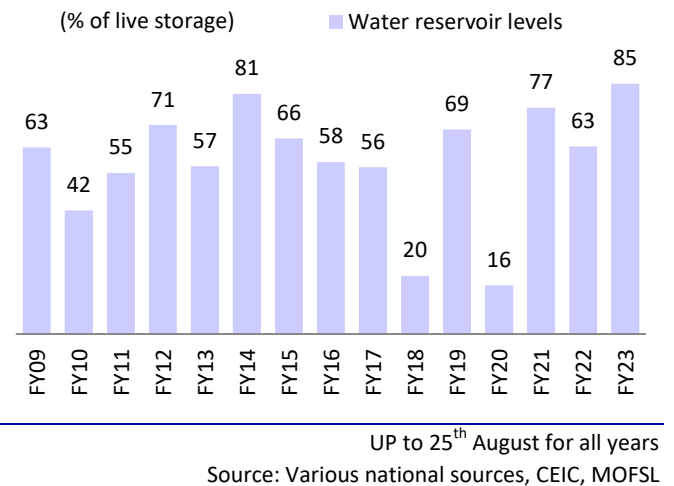


Exhibit 10: ...but water reservoir level in the country is at a multi-year high



Fiscal rural spending contracted 12.2% YoY in 1QFY23 v/s a decline of 34.2% YoY in 4QFY22. Consequently, the share of rural spending in the total spending reduced to only 9.4% in 1QFY23 from 12% in 1QFY22 and a 12-year high of 18.8% in 1QFY21

...and government's support is wavering: The government was very sympathetic towards the rural sector in FY21, largely due to the adversity inflicted by the pandemic. However, that support seems to be ebbing significantly in FY23. Rural spending by the government (including Ministry of Agriculture and Farmer's Welfare, Department of Fertilizers, Drinking Water and Sanitation, Ministry of Panchayati Raj and Ministry of Rural Development) contracted 12.2% YoY in 1QFY23 v/s a decline of 34.2% YoY in 1QFY22. Consequently, the share of rural spending in the Center's total spending reduced to only 9.4% in 1QFY23 from 12% in 1QFY22 and a 12-year high of 18.8% in 1QFY21 (*Exhibits 11 and 12*).

Exhibit 11: Fiscal rural spending has been low since 4QFY22...

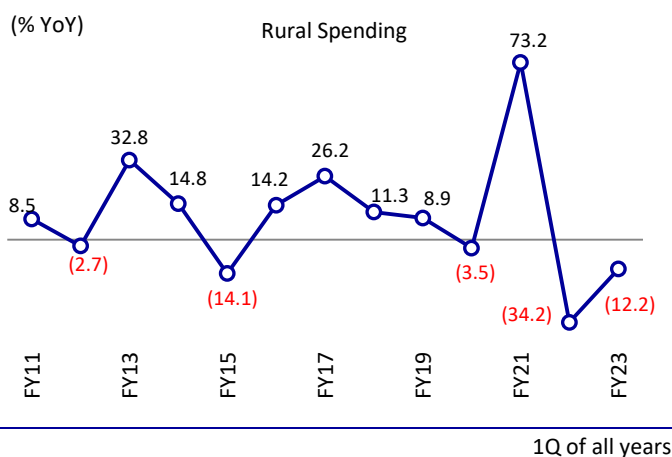
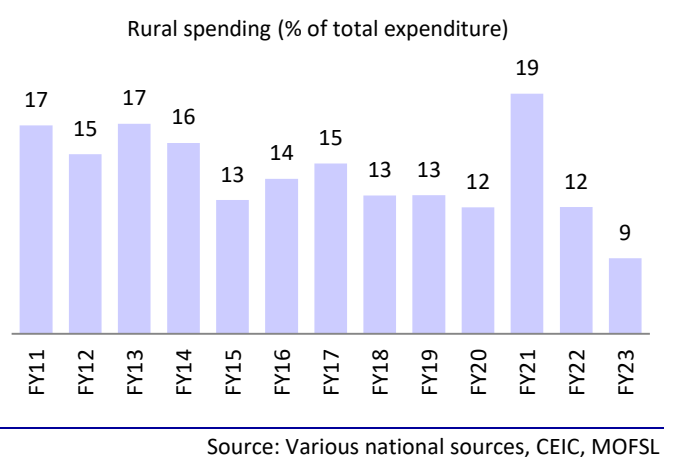
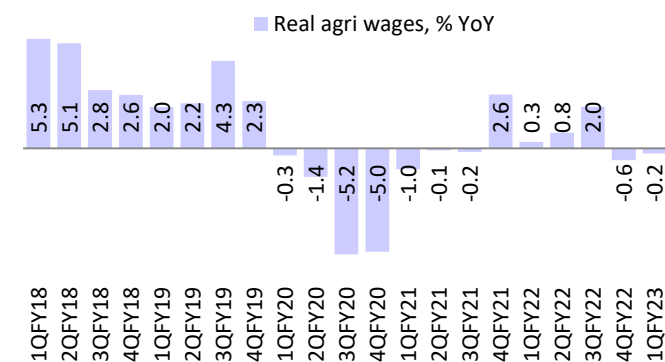
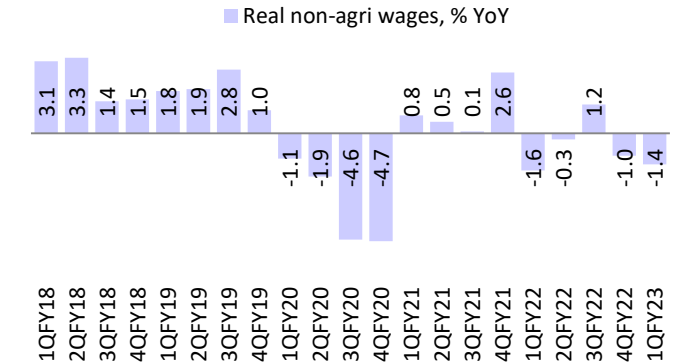


Exhibit 12: ...and so is its share as % of total spending



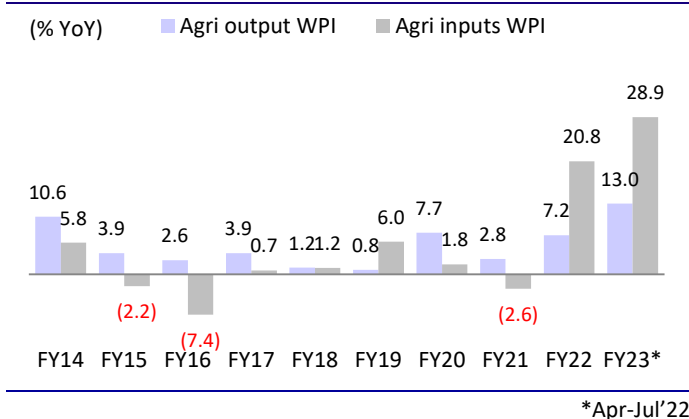
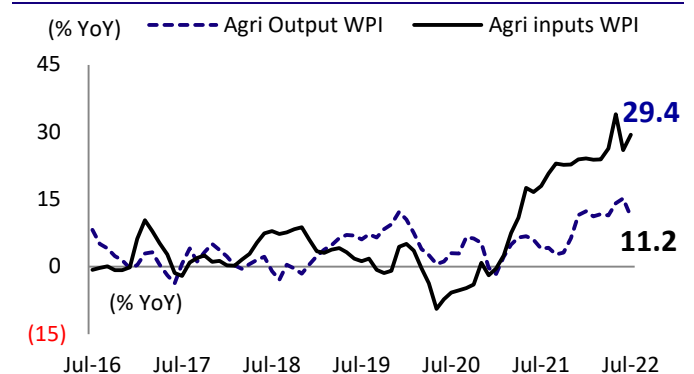
Other farm sector/rural economy indicators imply slowdown:

1. We compile real farm wages using five agricultural activities – ploughing/tilling, sowing, harvesting/winnowing/threshing, picking and animal husbandry. After contracting for the first time in five quarters in 4QFY22, real farm wage continued its downtrend (albeit at a slower pace) in 1QFY23. We also compile non-farm rural wage using another set of five professions – carpenter, blacksmith, mason, tractor driver and sweeper. Data suggests the situation of real non-farm wage is worst in the sense that it has contracted four times in the past five quarters and the lone quarter when it grew was also very meager at 1.2% YoY in 3QFY22 (*Exhibits 13 and 14*)

Exhibit 13: Real rural farm wages continued contracting in 1QFY23...**Exhibit 14: ...and so did real rural non-farm wages last quarter**

Source: Various national sources, CEIC, MOFSL

2. Finally, the 'terms of trade' for the farm sector too has improved. Based on five items (high-speed diesel, electricity, fertilizers, pesticides and agricultural machinery & implements), we estimate that farm input prices grew 29% YoY during Apr-Jul'22 v/s a growth of only 13% seen in farm output prices during the corresponding period (*Exhibits 15 and 16*). This highlights continued stress in the farmers' income.

Exhibit 15: Farmers' terms of trade continue to be unfavorable during Apr-Jul'22...**Exhibit 16: ...with the gap between input and output prices only widening**

Source: Various national sources, CEIC, MOFSL

Conclusion: Rural/urban consumption picked up in 1QFY23

There are three key takeaways from the analysis of proxy indicators of rural and urban consumption in 1QFY23:

1. Our analysis of 12 indicators within the rural sector reveals that the sector grew 10.4% YoY in 1QFY23 v/s 6.3%/13.0% YoY in 4QFY22/1QFY22, respectively, with a growth of 2.4% YoY in FY22. Conversely, nine indicators within urban consumption suggest that the sector rose 19.7% YoY during 1QFY23 v/s 7.2%/60.5% YoY in 4QFY22/1QFY22, respectively.
2. A close look at the farm sector, within the rural sector, suggests a mixed bag. While southwest monsoon season has performed well this year v/s CY21, leading to very high water reservoir levels, Kharif sowing hasn't been great. Additionally, both farm and non-farm rural wages continue to be low and farmers' terms of trade have been unfavorable since FY22. To top it all, fiscal rural spending contracted in 1QFY23. On the brighter side, however, agricultural credit as well as improved tractor and fertilizer sales brings some solace to the rural sector.
3. Overall, while the rural and urban sectors have performed well in 1QFY23, the base effect continues to drive growth. It is very likely that the commentary on the very weak rural economy will start changing in the coming months. However, within the rural sector, the farm economy is also not entirely out of the woods yet, although some improvements are certainly visible. Importantly, fiscal rural spending, which has been a boon (more in FY21 than in FY22) to the rural sector in the past two years is now significantly low. This is a serious sign of worry for the sector as a whole. Therefore, although we see strong growth in real PCE in 1QFY23, it will wane gradually as we proceed into the year and the base effect normalizes.

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