

## Decoding consumption: Rural spending growth weakened in 4QFY23...

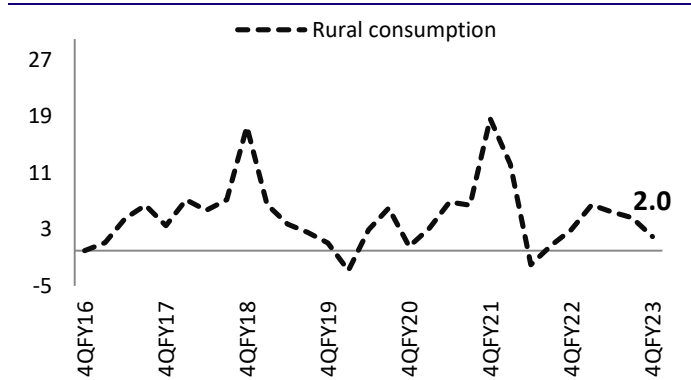
...but base effect pushes FY23 growth higher

- An analysis of 12 proxy indicators suggests that rural consumption spending grew 2.0% YoY in 4QFY23, marking the weakest growth in five quarters. Continued contraction in agricultural wages, farmers' terms of trade and farm exports, along with deterioration in reservoir levels, fiscal spending, and fertilizer sales led to a five-quarter low growth in 4QFY23. Notwithstanding weak growth in 4Q, rural spending grew 4.6% in FY23, better than 0.5% in FY22. The base effect helped push FY23 growth higher.
- An analysis of nine other indicators suggests that the urban consumption sector experienced its slowest growth rate in five quarters, with a YoY increase of 4.5% in 4QFY23. Three among the nine indicators – non-farm consumer imports, house prices, and IIP for consumer durable goods – witnessed contraction, while salary & wages of BSE500 companies, personal loans, and petrol sales grew faster. Accordingly, urban spending increased 9.5% in FY23, following 10.2% growth in FY22.
- A comparison of rural v/s urban spending in FY23 confirms that despite a favorable base, the former lagged the latter. Nevertheless, a comparison of the post-pandemic period (FY20-FY23) v/s the pre-pandemic years (FY17-FY19) suggests that the deceleration in the urban areas (4.2% v/s 7%) was faster than in the rural areas (3.3% v/s 4.9%).
- Overall, it is clear that the rural spending continues to remain weak, dragging the entire consumption growth in the economy. As highlighted in our recently released [analysis](#) of 2023-24 State Budgets, there is no significant growth budgeted in rural spending for FY24, even with the upcoming state and general elections this year. Further, it would be interesting to watch whether the monsoon negatively impacts the struggling agriculture sector in rural areas.

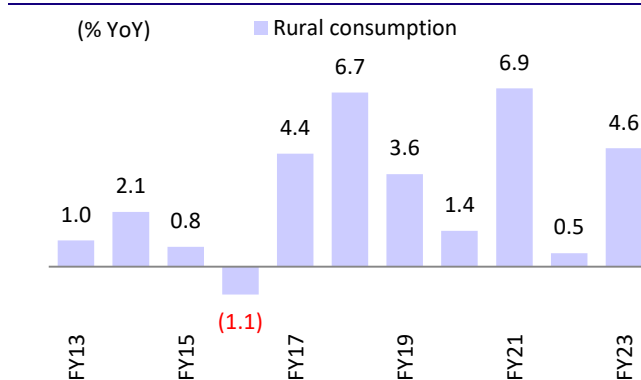
Notwithstanding weakening growth in 4Q, rural spending grew 4.6% in FY23, compared to just 0.5% in FY22

**Rural consumption growth weakened in 4QFY23...** An analysis of 12 proxy indicators<sup>1</sup> suggests that rural consumption spending grew 2.0% YoY in 4QFY23, marking the weakest growth in five quarters (*Exhibit 1*). This clearly suggests that the base effect was playing an important role in pushing growth higher at 5-6% in each of the previous three quarters. Notwithstanding weakening growth in 4Q, rural spending grew 4.6% in FY23, compared to just 0.5% in FY22 (*Exhibit 2*). Interestingly, rural spending growth was at a nine-year high in the COVID year (i.e., FY21), supported by fiscal spending, higher tractor sales, and rising output prices.

**Exhibit 1: Rural consumption grew at a five-quarter low of 2% YoY in 4QFY23...**



**Exhibit 2: ...and the base effect helped it to grow faster at 4.6% in FY23**



Source: Various national sources, CEIC, MOFSL

<sup>1</sup> 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 simple average of these 12 indicators.

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A detailed analysis of various components confirms that continued contraction in rural wages (especially, non-farm) and farm exports, along with unfavorable farmers' terms of trade, deterioration in reservoir levels, fiscal spending, and fertilizer sales led to a five-quarter low growth in 4QFY23 (*Exhibit 3*).

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

Rural consumption indicators	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	FY19	FY20	FY21	FY22	FY23
Real non-agricultural GVA@	4.1	2.5	2.4	3.7	4.6	2.1	6.2	4.1	3.5	3.4
Real agricultural wages@#	(0.6)	(0.4)	(0.6)	0.9	1.1	2.7	(3.0)	0.3	0.6	0.2
Real non- agricultural wages#@	(1.0)	(1.3)	(1.4)	(0.7)	(0.7)	1.9	(3.1)	1.0	(0.4)	(1.0)
Two-Wheeler sales	(23.0)	54.4	13.6	7.2	7.6	4.9	(17.8)	(13.2)	(10.9)	17.7
Farm terms of trade\$	(9.8)	(13.7)	(11.7)	(12.6)	(6.5)	(4.9)	5.8	5.8	(11.2)	(11.2)
Tractors sales	(21.6)	17.4	4.0	7.2	12.4	9.5	(10.5)	26.5	(1.7)	10.2
Real agricultural exports#	3.3	14.9	2.6	(13.0)	(6.0)	(1.2)	(15.9)	11.3	15.4	(0.8)
Fertilizer sales	24.6	6.8	4.3	14.8	1.9	3.6	5.9	3.3	(0.7)	7.0
Real farm credit#	3.6	6.1	5.3	4.9	7.9	3.7	(0.8)	7.5	3.6	7.9
IIP: food products@	2.7	6.2	0.9	3.9	4.6	12.2	2.0	(2.6)	5.9	4.0
Reservoir level	5.0	2.2	21.4	9.3	(3.3)	5.6	31.8	5.1	(2.8)	8.6
Fiscal real rural spending#~	48.4	(17.5)	25.4	30.5	0.6	2.9	16.1	33.4	5.0	8.7
Rural consumption*	3.0	6.5	5.5	4.7	2.0	3.6	1.4	6.9	0.5	4.6

\*Simple average of indicators

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

@ Our forecast for Mar'23/4QFY23

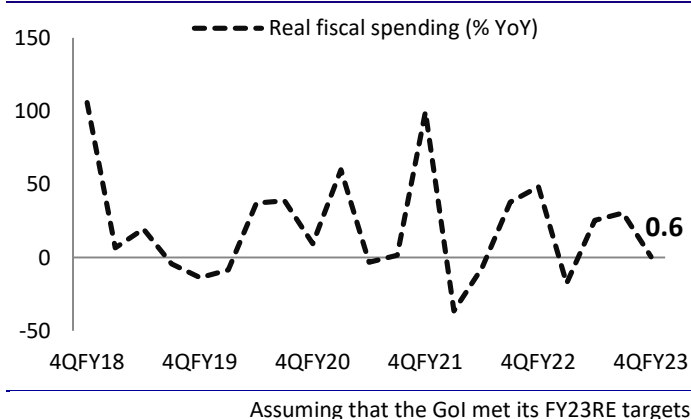
~ Assuming that the GoI meets its FY23 revised estimates (FY23RE)

\$ Output price inflation over input price inflation

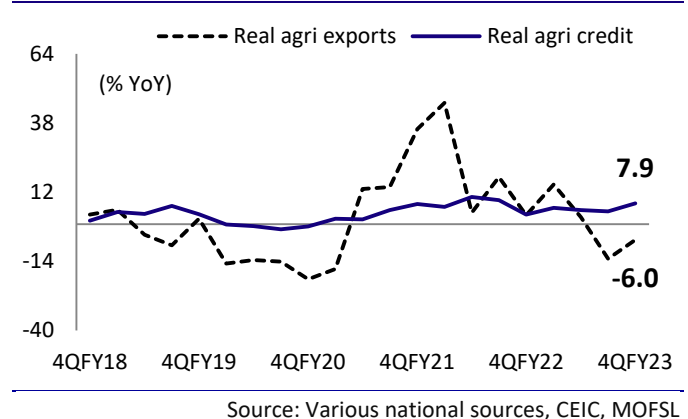
Source: Various national sources, CEIC, MOFSL

Assuming that the Government of India (GoI) meets its FY23 revised estimates (FY23RE), fiscal real rural spending is likely to have increased just 0.6% YoY in 4QFY23, the slowest in three quarters and compared to ~50% growth in 4QFY22 (*Exhibit 4*). Further, real farm exports also posted its second consecutive contraction in 4QFY23, after nine successive quarters of strong growth, while agricultural credit continued to grow decently (*Exhibit 5*).

**Exhibit 4: Fiscal real rural spending grew at three-quarter slowest pace in 4QFY23...**

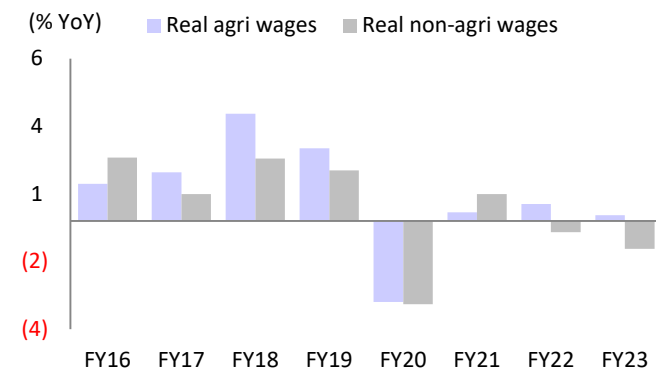
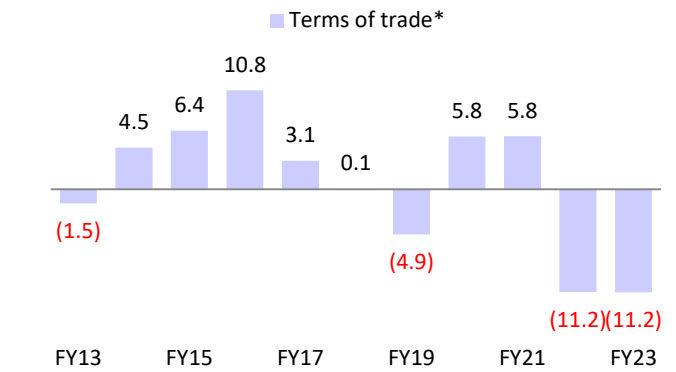


**Exhibit 5: ...and farm exports declined again in 4Q, while farm credit continued to grow decently**



Within the rural sector, it is clear that the farm community continues to suffer more

Within the rural sector, it is clear that the farm community continues to suffer more, as rural wages and farm terms of trade (the ratio of output prices and input prices, measured through wholesale price index (WPI)) remained extremely weak in 4QFY23 and the full-year FY23 (*Exhibit 6-7*).

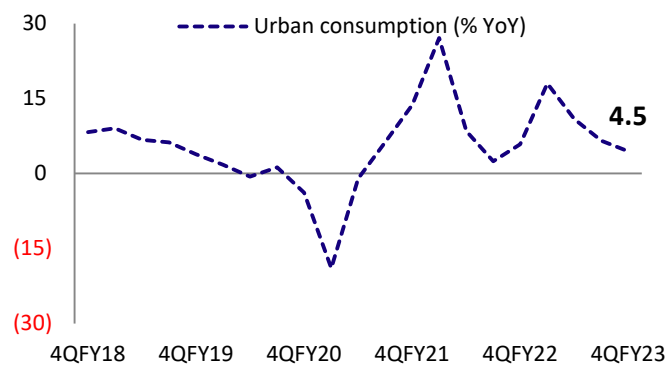
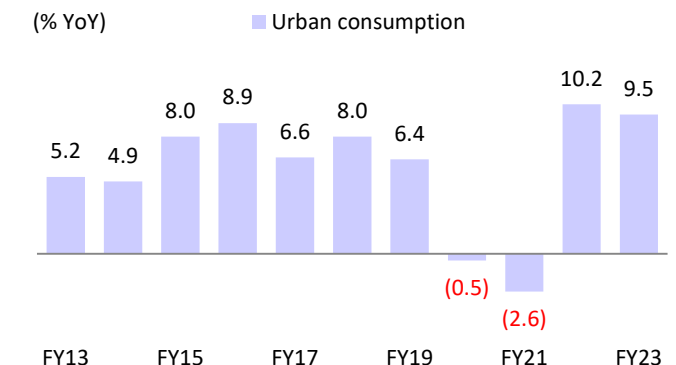
**Exhibit 6: Rural non-farm wages contracted again in FY23, though agricultural wages grew slightly****Exhibit 7: Input prices continued to grow faster than output prices for the farm sector**

\* Output price inflation over input inflation for the farm sector

Source: Various national sources, CEIC, MOFSL

Urban spending grew at an average of 10% during the past two years, following an average decline of 1.5% in the previous two years

**Urban consumption also grew slowly in 4QFY23:** Urban consumption<sup>2</sup> – compiled by using nine proxy indicators – also grew 4.5% YoY in 4QFY23 v/s 6.6% YoY growth in the previous quarter and the slowest in five quarters (*Exhibit 8*). Like rural spending, there was clear base effect in the urban consumption spending as well. A simple average of the nine indicators suggests that urban spending grew 9.5% in FY23, slightly lower than 10.2% growth in FY22 (*Exhibit 9*). It means that urban spending grew at an average of 10% during the past two years, following an average decline of 1.5% in the previous two years. The average growth in urban consumption spending, thus, was 4.2% during the past four years, much weaker than in the pre-COVID years.

**Exhibit 8: Urban consumption growth was also at five-quarter low in 4QFY23...****Exhibit 9: ...but it grew 9.5% in FY23, only slightly slower than 10.2% growth in FY22**

Source: Various national sources, CEIC, MOFSL

A detailed analysis of the nine indicators used in the urban consumption confirms that the three indicators – non-farm consumer imports, house prices, and IIP for consumer durable goods – witnessed contraction, while salary & wages of BSE500 companies, personal loans, and petrol sales grew faster in 4QFY23.

<sup>2</sup> 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

**Exhibit 10: Summary of key indicators used in gauging urban consumption spending (% YoY)**

Urban consumption indicators	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	FY19	FY20	FY21	FY22	FY23
Real non-farm GVA@	3.9	13.8	5.9	4.8	5.5	6.5	3.6	(5.7)	9.8	7.3
Real S&W of BSE500 companies	9.4	6.5	11.4	18.8	15.4	12.1	5.8	1.9	7.1	13.0
CPI non-food inflation	6.4	6.8	6.7	6.7	6.6	5.6	3.6	5.2	6.7	6.7
Domestic: PV sales	(6.1)	33.9	34.4	21.4	10.7	2.7	(21.6)	(6.1)	8.4	24.1
Real personal credit#	6.8	11.2	12.2	13.7	14.0	12.1	12.2	4.5	6.8	14.0
IIP: Consumer durable goods@	(5.7)	27.2	(2.7)	(8.8)	(5.9)	5.5	(8.8)	(11.0)	7.4	0.9
Petrol consumption	1.5	29.4	9.1	7.7	9.8	8.1	6.0	(6.8)	10.4	13.4
Real house prices@	(1.7)	(0.2)	0.4	(1.8)	(0.4)	(1.8)	(1.1)	(1.1)	(1.3)	0.0
Real non-farm consumer imports#	38.2	33.5	21.0	(3.3)	(15.7)	7.3	(3.7)	(4.2)	36.3	6.0
Urban consumption*	5.9	18.0	10.9	6.6	4.5	6.4	-0.5	-2.6	10.2	9.5

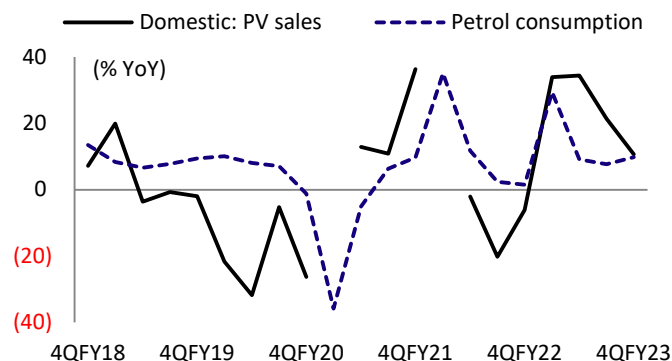
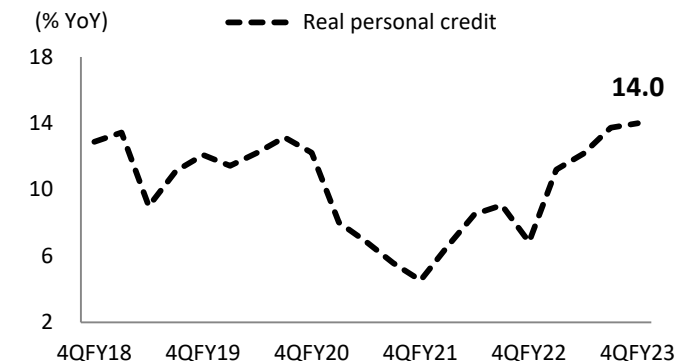
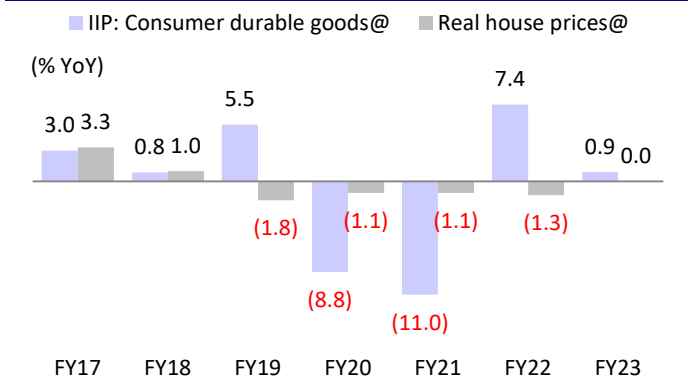
\*Simple average of indicators

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

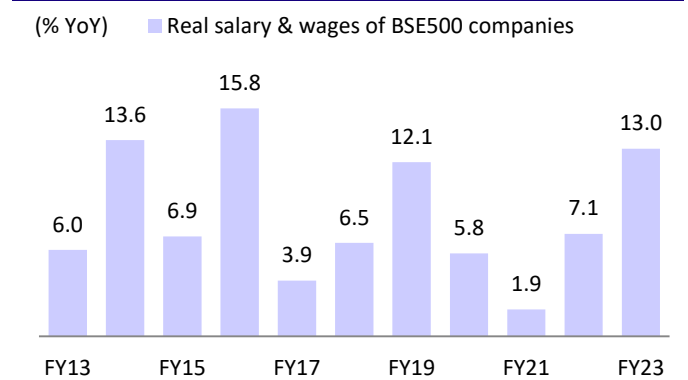
@ Our forecasts for Mar'23/4QFY23

Source: Various national sources, CEIC, MOFSL

As expected, there are similar movements in the sales of passenger vehicles (PVs) and petrol consumption in the country. The growth in PV sales and petrol consumption has weakened in the past couple of quarters (*Exhibit 11*). At the same time, personal credit growth continues to remain strong at 14% YoY in 4QFY23, the highest in more than five years (*Exhibit 12*). Interestingly, despite consumer durable goods and house prices remaining stagnant in FY23, salary & wages of BSE500 companies grew 13% last year, which is the highest increase in the past seven years. (*Exhibits 13-14*).

**Exhibit 11: PV sales and petrol consumption growth has weakened in the past few quarters...****Exhibit 12: ...though personal credit growth was at 21-quarter high in 4QFY23****Exhibit 13: Consumer durable goods & real house prices remain weak...**

@ Our forecast for Mar'23/4QFY23

**Exhibit 14: ...but real S&W of BSE500 companies grew strongly last year**

Source: Various national sources, CEIC, MOFSL

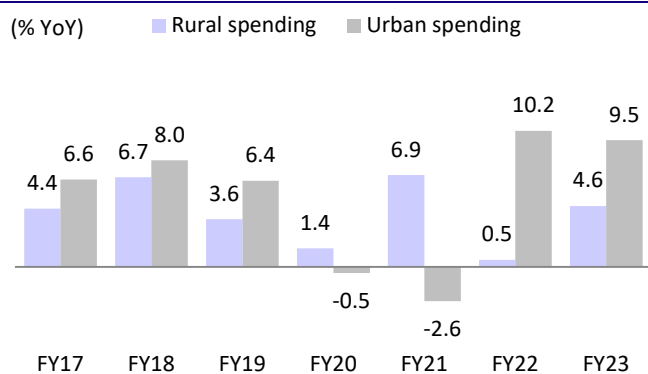
### Conclusion: Rural spending continues to remain weak

In recent quarters, the base effect has had a significant impact and is likely to continue doing so in the near future. Despite slow growth in the rural sector and a robust recovery in the urban spending in FY22, the growth rate in the urban sector was twice that of the rural sector in FY23.

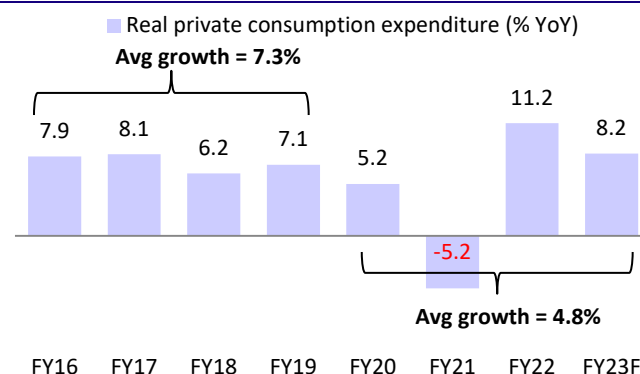
However, one must also consider that the urban sector suffered disproportionately during FY20 and FY21, when it posted an average fall of 1.5% during the two years. Thus, the four-year (FY20-FY23) average growth was 3.3% for the rural sector and 4.2% for the urban sector, compared to 4.9% and 7%, respectively, in the pre-COVID years (FY17-FY19). Thus, the urban sector has demonstrated a strong recovery from the pandemic years and has outpaced the rural sector in growth rates in FY22 and FY23. However, in the post-pandemic period, the deceleration in the growth rate of the urban sector compared to the pre-pandemic years has been faster than that in the rural sector (*Exhibit 15*).

while the urban sector has recovered strongly from the pandemic years and outpaced the rural sector in FY22 and FY23, the deceleration in the former in the post-pandemic period compared to the pre-pandemic years is faster than in the latter

**Exhibit 15: Urban spending has recovered sharply in FY22-FY23, but weakened considerably v/s pre-COVID years**



**Exhibit 16: Private consumption growth has weakened in recent quarters**



Source: Various national sources, CEIC, MOFSL

the rural spending continues to remain weak, dragging the entire consumption growth in the economy

Apart from the base effect, it is evident that the rural spending continues to remain weak, dragging the entire consumption growth in the economy (*Exhibit 16*).

As highlighted in our recently released [analysis](#) of 2023-24 State Budgets, there is no significant growth budgeted in rural spending for FY24, even with the upcoming state and general elections this year. Further, it would be interesting to watch whether the monsoon negatively impacts the struggling agriculture sector in rural areas.

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