

## Decoding consumption: Rural spending contracted in 2QFY24

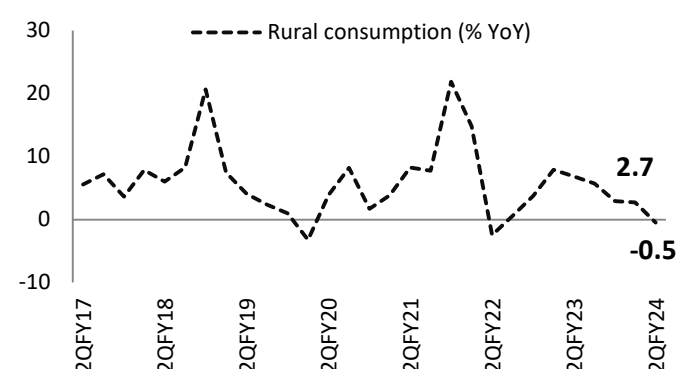
### Urban sector growth hits four-quarter high

- A simple average of 10 proxy indicators suggests that rural spending declined for the first time in eight quarters at the rate of 0.5% YoY in 2QFY24 (vs. 6.8%/2.7% in 2QFY23/1QFY24). This was mainly led by sharply deteriorating reservoir level, the first fall in two-wheeler sales in six quarters, and first contraction in fertilizer sales in seven quarters. Besides, tractor sales shrank for the second successive quarter (at a faster pace) and real farm exports fell for the fourth consecutive quarter (at a slower pace) in 2QFY24. Our analysis is also supported by the MGNREGA data. Employment demand by households under MGNREGA was much higher in the first seven months of FY24 compared with FY23 and FY18-20 average.
- In contrast, urban consumption – compiled by using nine proxy indicators – grew at four-quarter high of 7.4% YoY in 2QFY24 vs. 10.1%/6.9% YoY growth in 2QFY23/1QFY24. This was mainly led by stronger growth in passenger vehicle sales and first growth in five quarters in IIP for consumer durable goods. Further, real growth in salary & wages of BSE500 companies continued strongly, along with real personal credit growth and petrol consumption.
- Overall, it is evident that rural spending, especially the agricultural sector, weakened considerably in 2QFY24. This was the tenth consecutive quarter when the urban sector growth outpaced the rural sector. Although the urban spending grew at a four-quarter high in 2QFY24, it is likely that the rural sector pulled personal consumption growth down during the quarter. Against this backdrop, we expect real private consumption growth at 5-5.5% in 2QFY24, compared to 6% in 1QFY24. Notably, with five states assemblies going into elections over the next month and general elections scheduled in May'24, the hope of a revival in the rural sector is alive.

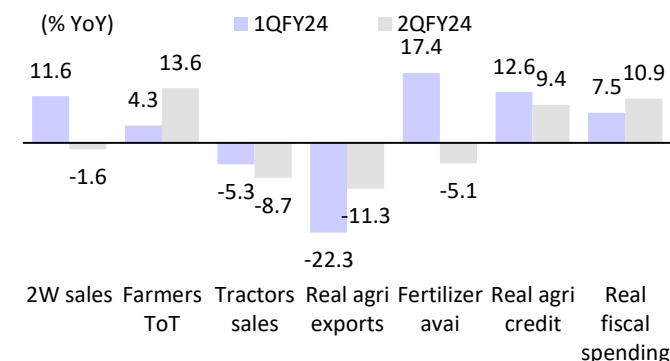
Rural spending declined for the first time in eight quarters at the rate of 0.5% YoY in 2QFY24 vs. 6.8%/2.7% in 2QFY23/1QFY24

**Rural consumption growth at an eight-quarter low in 2QFY24:** A simple average of 10 proxy indicators<sup>1</sup> suggests that rural spending declined for the first time in eight quarters at the rate of 0.5% YoY in 2QFY24, vs. 6.8%/2.7% in 2QFY23/1QFY24 (*Exhibit 1*). This was mainly led by sharply deteriorating reservoir level, first fall in two-wheeler sales in six quarters, and first contraction in fertilizer sales in seven quarters. Besides, tractor sales shrank for the second successive quarter (at a faster pace) and real farm exports fell for the fourth consecutive quarter (at a slower pace) in 2QFY24 (*Exhibit 2*).

**Exhibit 1: Rural consumption contracted 0.1% YoY in 2QFY24, the worst in eight quarters...**



**Exhibit 2: ...mainly led by contraction in two-wheeler sales, tractor sales, and fertilizer sales**



Source: Various national sources, CEIC, MOFSL

<sup>1</sup> The 10 proxy indicators include: 1) Two-wheeler sales, 2) Farmers' terms of trade (ToT), 3) Tractor sales, 4) Real agricultural exports, 5) Fertilizer sales, 6) Real agricultural credit, 7) IIP food products, 8) Reservoir levels, 9) Fiscal real rural spending, and 10) Real farm GVA. The rural consumption spending growth is estimated as simple average of these 10 indicators. Data on real agricultural and non-agricultural wages are not included in our analysis because they are not available for 2QFY24.

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

Rural consumption indicators	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	FY19	FY20	FY21	FY22	FY23
Real agricultural GVA@	2.5	4.7	5.5	3.5	3.0	2.1	6.2	4.1	3.5	4.0
Two-Wheeler sales	13.6	7.2	7.6	11.6	(1.6)	4.9	(17.8)	(13.2)	(10.9)	17.7
Farmers' terms of trade\$	(11.7)	(12.6)	(6.3)	4.3	13.6	(4.9)	5.8	5.8	(11.2)	(11.2)
Tractors sales	4.0	7.2	12.4	(5.3)	(8.7)	9.5	(10.5)	26.5	(1.7)	10.2
Real agricultural exports#	2.6	(13.0)	(6.0)	(22.3)	(11.3)	(1.2)	(15.9)	11.3	15.4	(0.8)
Fertilizer availability^	4.3	14.8	1.9	17.4	(5.1)	3.6	5.9	3.3	(0.7)	7.0
Real farm credit#	5.3	4.9	7.9	12.6	9.4	3.7	(0.8)	7.5	3.6	7.9
IIP: food products	0.9	4.3	3.8	0.6	3.0	12.2	2.0	(2.6)	5.9	3.8
Reservoir level	21.4	9.3	(3.3)	(2.6)	(18.4)	5.6	31.8	5.1	(2.8)	8.6
Fiscal real rural spending#	25.4	30.5	5.9	7.5	10.9	2.9	16.1	33.4	5.0	10.7
Rural consumption*	6.8	5.7	2.9	2.7	(0.5)	3.8	2.3	8.1	0.6	5.8
<b>Other indicators</b>										
Real agricultural wages	(0.6)	0.9	1.0	0.6	...	2.7	(3.0)	0.3	0.6	0.2
Real non-agricultural wages	(1.4)	(0.7)	(0.9)	0.3	...	1.9	(3.1)	1.0	(0.4)	(1.1)

\*Simple average of indicators

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

@ Our forecast for Sep'23/2QFY24

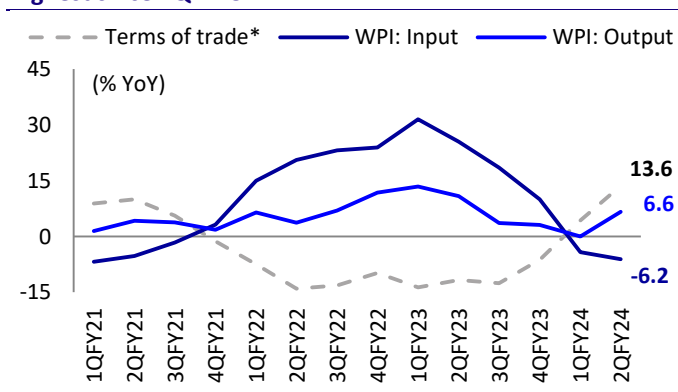
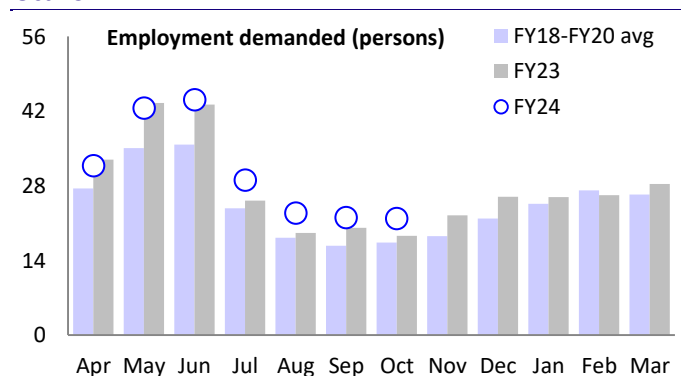
\$ Output price inflation over input price inflation

^ Domestic production (Core infrastructure index) + imports

Source: Various national sources, CEIC, MOFSL

Seven out of the ten proxy indicators have either posted a contraction or a deceleration in growth

A detailed analysis of various components suggests that seven out of the ten proxy indicators used for assessing the rural spending trends have either posted a contraction or a deceleration in growth (*Exhibit 3*). Two-wheeler sales declined for the first time in six quarters, tractor sales posted the second successive contraction and the first fall in fertilizer availability in seven quarters and continued declines in exports and reservoir levels. They were only partly offset by improving farmers' terms of trade (*Exhibit 4*), higher growth (vs. 1QFY24) in fiscal rural spending and IIP for food products.

**Exhibit 4: Terms of trade grew 13.6% YoY in 2QFY24, the highest since 4QFY15****Exhibit 5: Employment demand much higher in Jun'23-Oct'23**

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

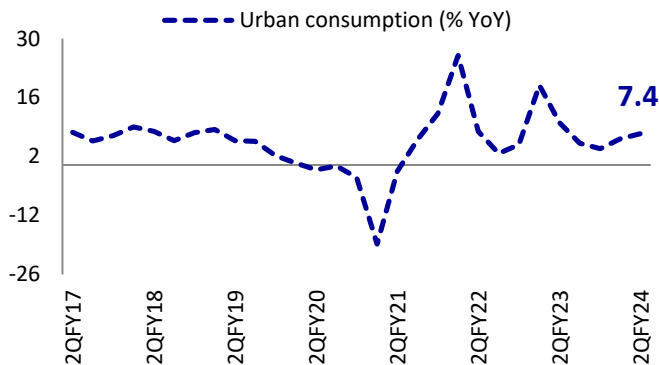
Source: Various national sources, CEIC, MOFSL

As many as 22m people demanded employment under MGNREGA each in Sep'23 and Oct'23, 10-18% higher than in the corresponding months of FY23

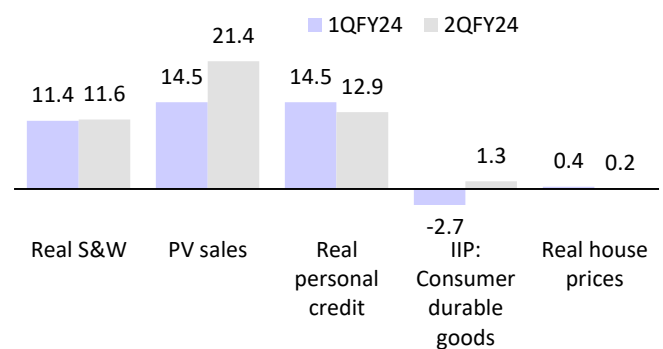
Our analysis of the subdued rural sector is also supported by MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) data. One of the key indicators to gauge the stress in rural areas is to analyze work demand under MGNREGA. The higher the NREGA demand, the more stress there is in the rural sector. As many as 22m people demanded employment under MGNREGA each in Sep'23 and Oct'23, 10-18% higher than in the corresponding months of FY23, and 26-31% higher than the pre-Covid period (*Exhibit 5*).

**Urban consumption at a four-quarter high in 2QFY24:** On the other hand, urban consumption<sup>2</sup> – compiled by using nine proxy indicators – grew 7.4% YoY in 2QFY24 vs. 6.3% YoY growth in the previous quarter and the highest in four quarters (*Exhibit 6*). This is mainly led by robust growth in salary & wage bill of BSE500 companies, PV sales, real personal credit growth, and the first growth in five quarters in IIP of consumer durable goods (*Exhibit 7*). Further, real house prices grew for the second consecutive quarter in 2QFY24, after falling for more than five years.

**Exhibit 6: Urban consumption grew 7.4% in 2QFY24 vs. 6.3% in the previous quarter...**



**Exhibit 7: ...led by S&W bill of BSE500 companies, PV sales, personal credit, and IIP of consumer durables**



Source: Various national sources, CEIC, MOFSL

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

Urban consumption indicators	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	FY19	FY20	FY21	FY22	FY23
Real non-farm GVA@	5.8	4.7	6.7	8.5	6.6	6.5	3.6	(5.7)	9.8	7.6
Real S&W of BSE500 companies	11.5	10.0	15.7	11.4	11.6	12.1	5.8	1.9	7.1	11.2
CPI non-food inflation	6.7	6.7	6.6	5.2	4.6	5.6	3.6	5.2	6.7	6.7
Domestic: PV sales	34.4	21.4	10.7	14.5	21.4	2.7	(21.6)	(6.1)	8.4	27.4
Real personal credit#	12.2	13.7	14.0	14.5	12.9	12.1	12.2	4.5	6.8	14.0
IIP: Consumer durable goods	(2.7)	(8.9)	(6.8)	(2.7)	1.3	5.5	(8.8)	(11.0)	7.4	0.6
Petrol consumption	9.1	7.7	9.8	6.8	5.7	8.1	6.0	(6.8)	10.4	13.4
Real house prices@	0.4	(1.8)	(0.2)	0.4	0.2	(1.8)	(1.1)	(1.1)	(1.3)	0.0
Real non-farm consumer imports#	13.2	(7.2)	(21.4)	(2.3)	2.6	(0.3)	(8.8)	(9.3)	29.4	0.2
Urban consumption*	10.1	5.1	3.9	6.3	7.4	5.6	(1.0)	(3.3)	9.7	9.0

\*Simple average of indicators

@ Our forecasts for Sep'23/2QFY24

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

Source: Various national sources, CEIC, MOFSL

Five out of nine indicators have shown an improvement in 2QFY24, while two others grew decently

A detailed analysis of the nine indicators employed to evaluate urban consumption confirms that five out of the nine indicators displayed improvement in 2QFY24. Furthermore, two other indicators (personal credit and house prices) exhibited noteworthy growth during this period. Domestic PV sales have grown at a three-quarter high of 21.4% in 2QFY24 vs. 14.5% in 1QFY24. Non-farm consumer imports grew 2.6% YoY (the first growth in four quarters) in 2QFY24 vs. a fall of 2.3% in 1QFY24. Consumer durables goods came in the positive territory in 2QFY24 after contracting for four straight quarters. Salaries and wages of BSE 500 companies grew as strongly in 2QFY24 as in 1QFY24 (11.6% in 2QFY24 vs. 11.4% in 1QFY24). Other two indicators – real personal credit (12.9% in 2QFY24 vs. 14.5% in 1QFY24) and petrol sales (5.7% in 2QFY24 vs. 6.8% in 1QFY24) — witnessed slower but decent growth.

<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

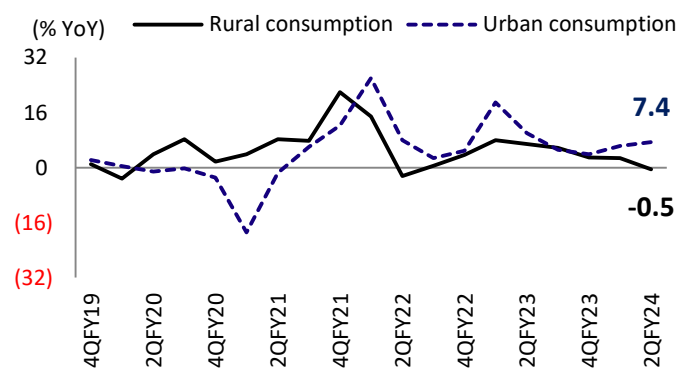
This was the tenth consecutive quarter when the urban sector growth outpaced the rural sector

### Conclusion: Rural spending weakened in 2QFY24, general elections next year keep hope for a revival alive

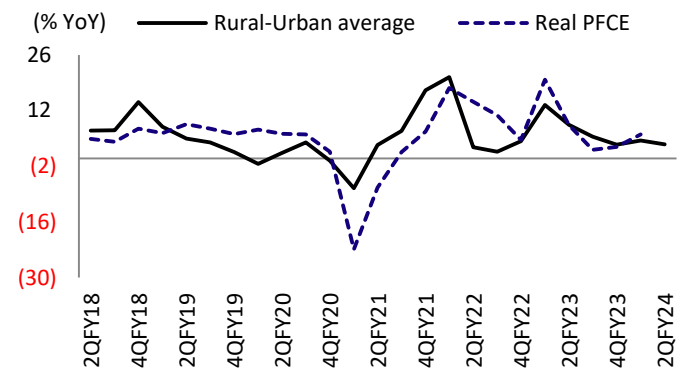
Overall, it is evident that rural spending, especially the agricultural sector, weakened considerably in 2QFY24. This was the tenth consecutive quarter when the urban sector growth outpaced the rural sector (*Exhibit 9*). The stress in the rural sector is also visible in MGNREGA data, as employment demand was much higher in Jun'23-Oct'23, compared with the corresponding months of FY23 and the pre-Covid period (FY18-20 average).

Although the urban spending grew at a four-quarter high in 2QFY24, it is likely that the rural sector pulled personal consumption growth down during the quarter. Against this backdrop, we expect real private consumption growth at 5-5.5% in 2QFY24, compared to 6% in 1QFY24 (*Exhibit 10*). Notably, with five state assemblies going into elections over the next month and general elections scheduled in May'24, the hope of a revival in the rural sector is alive.

**Exhibit 9: Rural spending weakened in 2QFY24, though urban sector picked up**



**Exhibit 10: We expect real PFCE growth to weaken to 5-5.5% YoY in 2QFY24**



Source: Various national sources, CEIC, NREGA, MOFSL

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