

Rural rules, urban follows

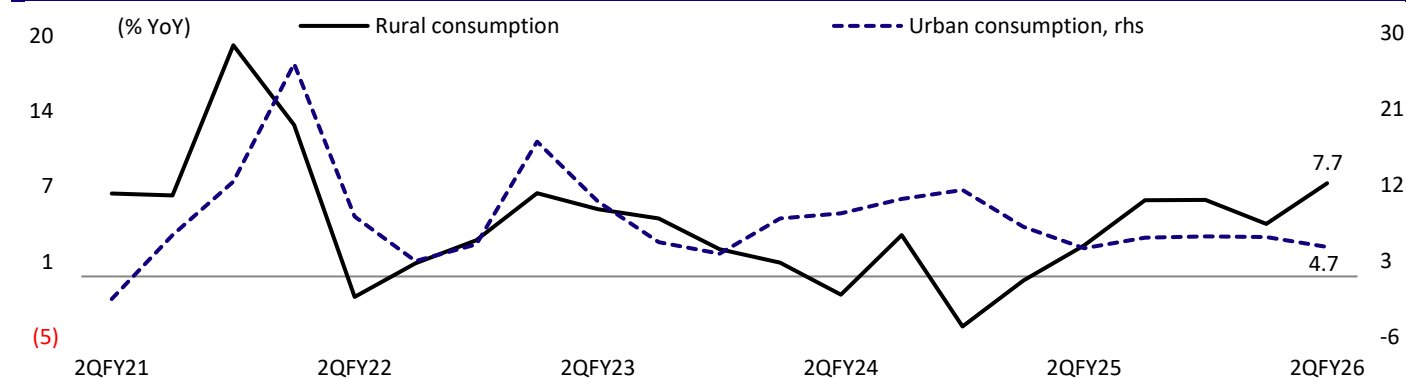
We had an opportunity to meet more than 40 investors in the last one month. The key area of interest among investors was the consumption trends in the rural and urban markets after the implementation of GST 2.0. We have composed a proprietary monthly rural and urban consumption tracker to simplify the analysis for our readers.

Key Takeaway: We observed that rural consumption continues to outperform urban consumption despite the income tax cuts and GST 2.0 reforms, which are aimed at boosting urban consumption. Undoubtedly, urban consumption has recovered since 22nd Sep'25 and also from 3QFY25; but rural consumption outshines because of income guarantee schemes, better rainfall outcomes, NBFC-led credit growth, easing input costs and steady MSPs.

The October high frequency data is overall positive consumption which is the first full month of GST implementation. Indicators like E-way bills, petrol consumption, mall footfalls, PMI manufacturing/services are strong.

- Our rural demand tracker shows that rural consumption has been on a steady uptrend since 2HFY25, strengthening further in 2QFY26 (up 7.7% YoY) to its highest level in 17 quarters.
- The upturn was supported by firm growth in real agri and non-agri wages, higher tractor and fertilizer sales, and robust farm credit. Better rainfall distribution and reservoir levels boosted sowing activity, while easing input costs and steady MSP procurement helped improve farm incomes.
- The urban demand tracker shows that spending remained subdued in 2QFY26, ahead of the festive season, with several high-frequency indicators showing softer momentum after a stable 1Q. Personal credit growth, petrol demand, and non-farm imports remained firm in 2QFY26, reflecting resilience in day-to-day discretionary spending, though passenger traffic stayed flat.
- Urban consumption in 3QFY26 is expected to pick up with the GST 2.0 implementation and passthrough of price cuts. Indicators released so far and our channel checks on retail side reflect positive turnaround on urban consumption. However, we also note sector wise variations.
- As per our consumer analyst' channel check, auto and jewelry sector have performed well; footwear, paints, FMCG and textile sector pickup has been mixed. In the FMCG segment, general trade (GT) feedback has been that demand has not seen much improvement in Oct either, with limited traction in festive-driven products. We do concur that any meaningful growth in alternate channels can create growth divergence for FMCG companies.
- **Outlook:** As the current wave of pent-up demand subsides with the end of the festive season, the key question is whether this momentum can be sustained into 2HFY26. Our view is that:
 - Rural demand is expected to remain on a steady upward trajectory, underpinned by rising real wages (both agri and non-agri). Healthy rabi prospects, coupled with lower rural inflation, should help to sustain the ongoing improvement in consumption.
 - Urban consumption remained weak through 2QFY26 but started improving toward late Sep'25, led by a strong rebound in jewelry demand, which stayed firm through Oct'25 despite high gold prices. In contrast, paints and FMCG categories remained soft, impacted by extended monsoons, pricing transitions under GST 2.0, and muted festive traction. With discretionary categories like jewelry gaining momentum and supply disruptions easing, we expect urban spending to revive in 3QFY26.
- Our base case for real GDP growth stands at 6.8% for FY26, with an upside potential (~20-30bp) if tariff-related uncertainties abate. Our nominal GDP growth is projected at 9% for FY26, tempered by a weaker deflator, reflecting subdued price pressures across key sectors.

Exhibit 1: Rural spending strengthened in 2QFY26, while urban spending remained subdued



Source: CEIC, CEIC, MOFSL

Exhibit 2: Rural Sentiment Heatmap

Indicator	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Real agricultural GVA	Deep Red	Light Green	Deep Red	Light Green	Light Green	Light Green	Light Red	Light Red	Light Green
Real agricultural wages	Light Red	Light Red	Light Red	Light Green	Light Green	Light Green	Light Green	Light Green	Light Red
Real non-agri rural wages	Light Red	Light Red	Light Green	Light Red	Light Green	Light Green	Light Green	Light Red	Light Green
Two-wheelers	Deep Red	Light Green	Light Green	Deep Red	Deep Red	Deep Red	Light Red	Deep Red	Light Green
Terms of trade	Light Green	Deep Red	Light Red	Light Red	Deep Red	Light Green	Deep Red	Deep Red	Deep Red
Domestic tractor sales	Deep Red	Light Green	Deep Red	Light Green	Light Red	Light Green	Light Green	Deep Red	Light Green
Real farm exports	Light Green	Light Red	Light Green	Light Green	Light Green	Light Green	Deep Red	Light Green	Light Green
Fertilizer sales	Deep Red	Light Green	Deep Red	Light Green	Light Green	Light Green	Light Green	Deep Red	Light Green
Real farm credit	Deep Red	Light Green	Light Green	Deep Red	Light Red	Deep Red	Light Red	Deep Red	Light Green
IIP: Food products	Light Green	Light Red	Light Red	Deep Red	Light Green	Light Red	Deep Red	Light Green	Deep Red
Water reservoir levels	Deep Red	Light Red	Light Green	Deep Red	Light Green	Light Green	Deep Red	Light Green	Deep Red
Real fiscal rural spending	Light Green	Deep Red	Light Green	Light Green	Deep Red	Light Green	Light Green	Light Red	Deep Red
Rural consumption	Deep Red	Light Green	Deep Red	Light Green	Light Green	Light Green	Yellow	Light Red	Light Green

Deep Green	Larger Increase (>2)
Light Green	Smaller Increase (≤2)
Deep Red	Larger Decrease (>2)
Light Red	Smaller Decrease (≤2)
Yellow	No Significant Change (≤0.1)

*The 12 proxy indicators for gauging rural demand 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.

Exhibit 3: Urban Sentiment Heatmap

Indicator	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Non-farm GVA									
Real S&W									
CPI non-food inflation									
Domestic: PV sales									
Personal credit									
IIP: Consumer durable goods									
Petrol consumption									
Real house prices									
Non-farm consumer imports: ytd									
Urban consumption									

Deep Green	Larger Increase (>2)
Light Green	Smaller Increase (≤2)
Deep Red	Larger Decrease (>2)
Light Red	Smaller Decrease (≤2)
Yellow	No Significant Change (≤0.1)

^The 9 proxy indicators for gauging urban demand include: 1) Real 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

Details of rural demand indicators:

An analysis of 12 proxy indicators suggests that spending in rural markets* grew at a 17-quarter high rate in 2QFY26. Rural spending increased by 7.7% YoY in 2QFY26 vs. 4.3%/2.6% YoY growth in 1QFY26/2QFY25 (Exhibit 1). Real rural spending growth averaged 6% YoY in 1HFY26 compared to 1.1% in 1HFY25.

- A detailed analysis of these key indicators suggests that eight out of the 12 proxy indicators used for assessing rural spending trends grew at a faster pace in 2QFY26 compared to 1QFY26 (*Exhibit 8*).
- The acceleration in 2QFY26 was led by firm growth in real agri and non-agri wages, higher tractor and fertilizer sales, robust farm credit and exports. Two-wheeler sales witnessed an improvement too. Better rainfall distribution and reservoir levels boosted sowing activity, while easing input costs and steady MSP procurement helped to improve farm incomes.
- Real farm wages grew at the fastest pace in over a decade, while non-farm wages rose at a 40-quarter high pace, supported by lower rural inflation and improved agricultural prospects (Exhibits 4 and 5).
- Farm terms of trade contracted 3.3% in 2QFY26, led by a contraction in output prices. At the same time, input prices remained flat (WPI output contracted 3% in 2QFY26, WPI input grew 0.3%) (*Exhibit 7*).

Exhibit 4: Real farm wages grew at a 31-quarter high pace in 2QFY26...

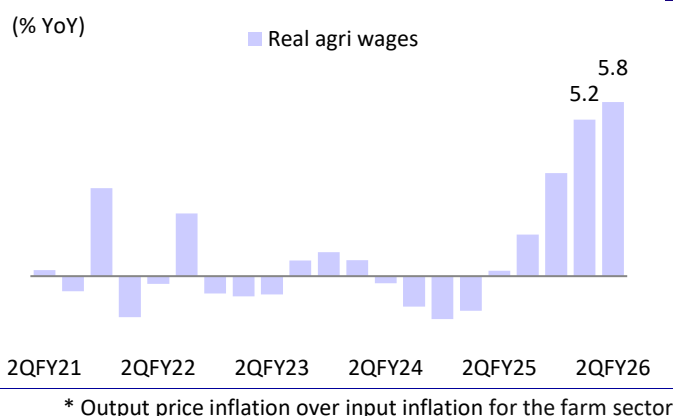


Exhibit 5: ...while real non-farm wages grew at a 26-quarter high rate

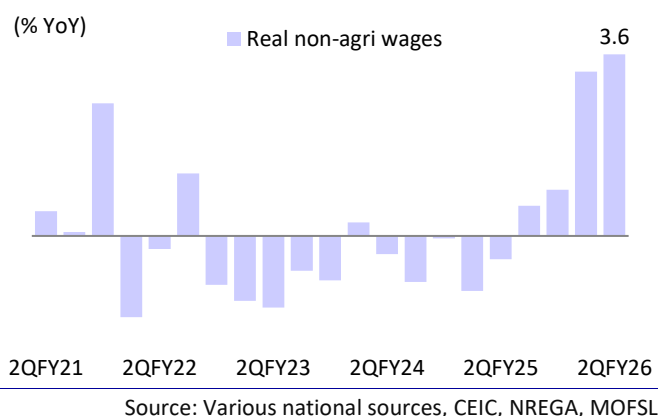


Exhibit 6: Two-wheeler sales increased 7.4% in 2QFY26, tractor sales grew at a 17-quarter high pace

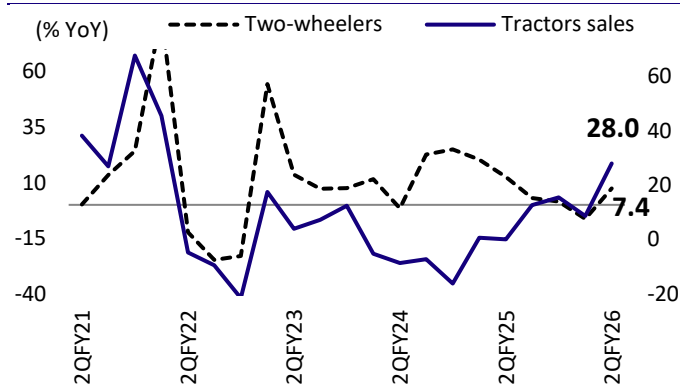


Exhibit 7: Farm terms of trade contracted 3.3% in 2QFY26, driven by decline in output prices

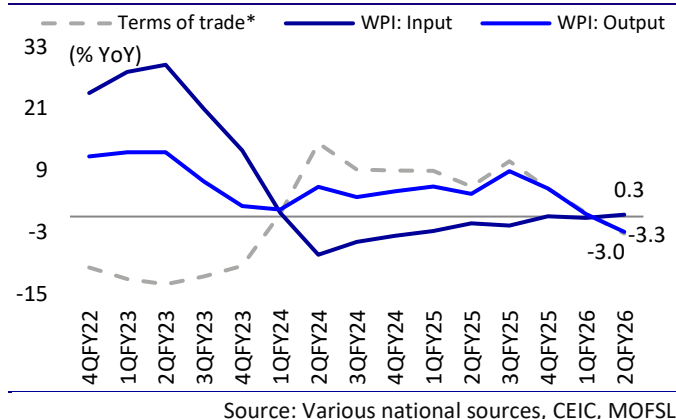


Exhibit 8: Summary of key indicators used in gauging rural consumption spending (% YoY)

Rural consumption indicators	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	FY21	FY22	FY23	FY24	FY25
Real agricultural GVA@	4.1	6.6	5.4	3.7	3.9	5.4	4.0	5.2	4.9	3.4
Real agricultural wages@#	0.2	1.4	3.4	5.2	5.8	0.3	0.3	0.1	(0.5)	0.7
Real non-agricultural wages@#	(0.5)	0.6	0.9	3.3	3.6	0.5	(0.1)	(1.0)	(0.3)	(0.3)
Two-Wheeler sales	12.6	3.0	1.4	(6.2)	7.4	(13.2)	(10.9)	17.7	13.4	9.1
Farm terms of trade\$	5.8	10.8	5.4	0.7	(3.3)	5.8	(11.2)	(11.2)	9.1	7.1
Tractors sales	0.0	12.7	15.5	8.7	28.0	26.5	(1.7)	10.2	(9.8)	7.6
Real agricultural exports#	(5.6)	12.6	2.1	2.8	9.4	11.3	15.4	(0.8)	(14.4)	0.6
Fertilizer sales	1.1	7.9	17.9	(9.0)	27.9	3.3	(0.7)	7.0	0.1	5.0
Real farm credit#	9.4	7.1	6.4	4.0	6.4	8.8	4.8	7.8	12.0	6.4
IIP: food products	0.7	(1.1)	(4.3)	1.0	(2.7)	(2.6)	5.9	3.8	1.5	(2.6)
Reservoir level	19.3	25.3	21.3	38.8	13.1	5.1	(2.8)	8.6	(16.2)	15.7
Fiscal real rural spending#	(16.5)	(11.7)	0.3	(1.0)	(7.2)	33.4	5.0	10.7	(14.2)	(8.7)
Rural consumption	2.6	6.3	6.3	4.3	7.7	7.0	0.7	4.8	(1.2)	3.7

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

@ Our forecast for 2QFY26

\$ Output price inflation over input price inflation

Source: Various national sources, CEIC, MOFSL

Details of urban demand indicators:

Urban consumption[^]—estimated by compiling nine proxy indicators—grew at a four-quarter low of 4.7% YoY in 2QFY26 (vs. 5.9%/4.6% in 1QFY26/2QFY25). (Exhibit 1). Urban spending growth averaged 5.3% in 1HFY26 vs. 5.8% in 1HFY25.

- Deceleration in urban spending was mainly led by lower growth in real salary and wages (S&W) of BSE500 companies, slowdown in real house price growth and contraction in PV sales. On the other hand, petrol consumption, personal credit and non-farm imports remained firm (Exhibit 13).
- Real S&W of BSE500 companies likely grew 2.4% in 2QFY26 vs. 4.1% growth in 1QFY26 (Exhibit 9). At the same time, real house prices grew 0.2% in 2QFY26 vs. 0.6% growth in 1QFY26 (the lowest growth in eight quarters) (Exhibit 10).
- PV sales contracted by 1.5% YoY in 2QFY26 (worst in four quarters), marking its second consecutive contraction, after showing steady growth through FY24-25. The slowdown likely reflects pre-festive season deferment in purchases and a high base effect, alongside signs of a softening in urban discretionary demand (Exhibit 11).
- Real personal credit growth moderated to 8.7% YoY in 2QFY26, broadly stable over the past few quarters but well below the FY24 peak of over 20%. The trend reflects a normalization in consumer borrowing following the post-pandemic surge, even as overall household credit demand remains resilient amid stable interest rates and steady income growth (Exhibit 12).

Exhibit 9: Real S&W grew at a slower pace in 2QFY26...

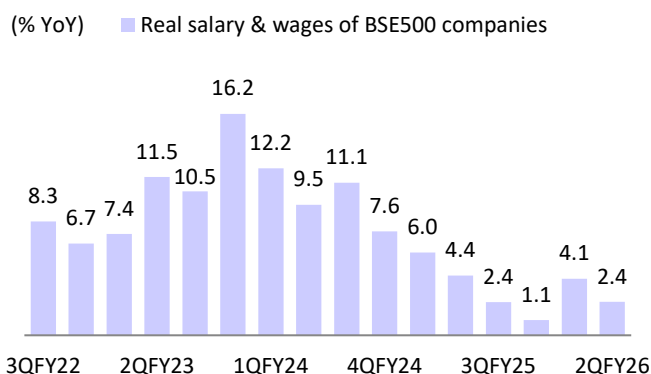


Exhibit 10: ...with real house prices remaining weak too

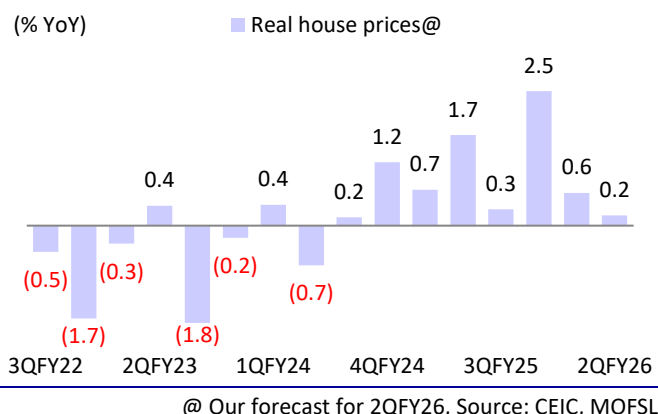


Exhibit 11: Exhibit 9: Domestic PV sales contracted 1.5% in 2QFY26

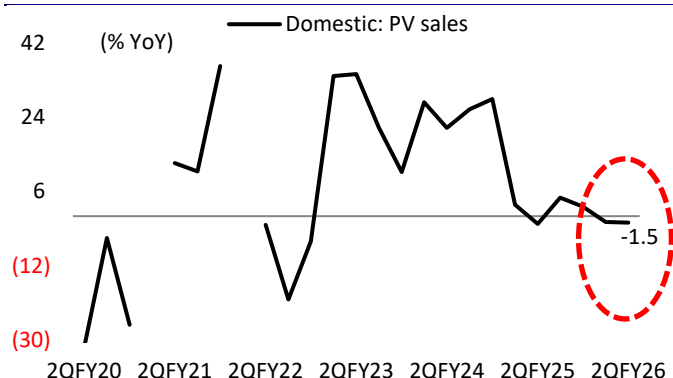
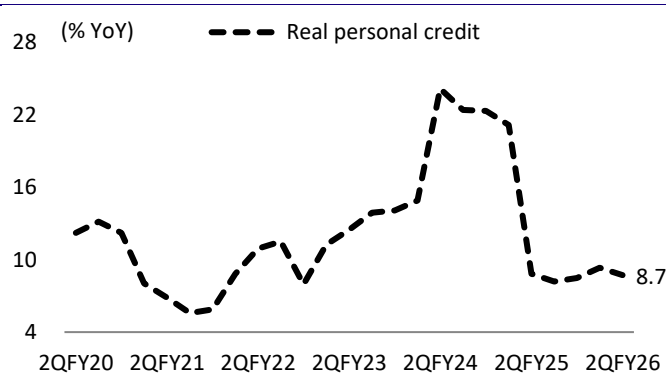


Exhibit 12: Exhibit 10: Personal credit growth remained steady



Source: Various national sources, CEIC, MOFSL

Exhibit 13: Exhibit 11: Summary of key indicators used in gauging urban consumption spending (% YoY)

Urban consumption indicators	1QFY25	1QFY25	2QFY25	4QFY25	1QFY26	FY21	FY22	FY23	FY24	FY25
Real non-farm GVA@	6.0	6.5	7.0	8.2	7.2	(5.6)	10.3	7.4	9.6	6.7
Real S&W of BSE500 companies	4.4	2.4	1.1	4.1	2.4	(2.0)	9.6	11.4	10.0	3.5
CPI non-food inflation	2.5	3.1	3.5	4.1	4.1	5.2	6.7	6.7	4.0	2.9
Domestic: PV sales	(1.9)	4.5	2.3	(1.4)	(1.5)	(6.1)	8.4	24.1	25.7	1.9
Real personal credit#	8.8	8.2	8.5	9.3	8.7	5.9	7.9	14.1	11.3	12.3
IIP: Consumer durable goods	6.6	9.0	5.9	2.6	7.0	(11.0)	7.4	0.6	3.6	8.0
Petrol consumption	7.3	9.7	5.8	7.1	6.4	(6.7)	10.3	13.4	6.4	7.5
Real house prices@	1.7	0.3	2.5	0.6	0.2	(1.1)	(1.3)	(0.5)	0.2	0.7
Real non-farm consumer imports#	5.5	8.5	17.1	18.1	7.7	(9.3)	29.4	0.2	5.8	9.3
Urban consumption^	4.6	5.8	6.0	5.9	4.7	-3.4	9.9	8.6	8.5	5.9

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

Source: Various national sources, CEIC, MOFSL

@ Our forecasts for 2QFY26

^The nine proxy indicators include: 1) Real 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) PV sales, and 9) Real non-farm GVA

Outlook:

As the current wave of pent-up demand subsides with the end of the festive season, the key question is whether this momentum can be sustained into 2HFY26. Our view is that:

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- Urban consumption remained weak through 2QFY26 but started improving toward late Sep'25, led by a strong rebound in jewelry demand, which stayed firm through Oct'25 despite high gold prices. In contrast, paints and FMCG categories remained soft, impacted by extended monsoons, pricing transitions under GST 2.0, and muted festive traction. With discretionary categories like jewelry gaining momentum and supply disruptions easing, we expect urban spending to revive in 3QFY26.

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