MOTILAL OSWAL FINANCIAL SERVICES

EcoScope
The Economy Observer

Decoding consumption: Rural spending contracted yet again in 4QFY24…

…implying FY24 was its worst year in the past quarter of a century

- **An analysis of 12 proxy indicators suggests that rural consumption spending declined for the third successive quarter in 4QFY24, marking the worst in 33 quarters. Rural spending contracted 3.1% YoY in 4QFY24 following a drop of 2.0% YoY in 3QFY24 and a growth of 2.6% YoY in 4QFY23. This was mainly due to a second consecutive contraction in fiscal real rural spending, continuous deterioration in reservoir levels, farm exports, and tractor sales, and the worst contraction in fertilizer sales since 1QFY14 along with muted rural wage growth. They outweighed improvements in two-wheeler sales, decent growth in farm terms of trade, and farm real credit. Consequently, rural spending contracted 1.3% YoY in FY24 – the worst decline since FY99 and its first contraction in eight years – compared to a growth of 4.8% YoY in FY23.**
- **Conversely, urban consumption – estimated by compiling nine proxy indicators – grew at a six-quarter fastest pace of 9.6% YoY in 4QFY24 vs. 9.0%/3.8% YoY in 3QFY24/4QFY23. A simple average of the nine indicators suggests that urban spending grew 7.9% YoY in FY24, slightly lower than 8.9%/10.0% YoY growth in FY23/FY22. It implies that urban spending grew at an average of ~9% during the past three years, following an average decline of 2% in the previous two years. A detailed analysis of the nine indicators used in urban consumption confirms that five indicators – domestic PV sales, petrol consumption, real personal credit, house prices, and IIP for consumer durable goods – witnessed an acceleration in growth, while salary & wages of BSE500 companies and real non-farm consumer imports decelerated in 4QFY24 (vs. 3QFY24).**
- **During the past three years (FY22-FY24), the growth in urban consumption has outpaced rural consumption in each quarter, which is in contrast to FY20-FY21, when the latter grew faster than the former. Within the rural sector, it is clear that agricultural activities have weakened more. Not surprisingly, then, real private consumption expenditure growth is likely to decelerate to 3-4% in FY24, the slowest in two decades (barring FY21).**
- **Will the rural sector see a sharp turnaround in FY25? Well, the FMCG companies are certainly more hopeful, and the predictions of a normal monsoon bode well for rural India's recovery. However, MGNREGA data suggested that employment demand remained at elevated levels in Apr'24 (though lower than Apr'23), and government spending is budgeted to contract for the second consecutive year in FY25. All-in-all, while the hopes may be running high and the rural economy – based on our indicators – may not decline again this year, it may find it challenging to grow more than 5% in FY25, notwithstanding the favorable base.**

Rural spending contracted 1.3% YoY in FY24 – the worst decline since FY99 and its first contraction in eight years – compared to a growth of 4.8% YoY in FY23

Rural consumption declined for the third consecutive quarter in 4QFY24: An analysis of 12 proxy indicators suggests that the rural sector's[1] spending declined for the third successive quarter in 4QFY24, marking the worst in 33 quarters. Rural spending contracted 3.1% YoY in 4QFY24, following a decline of 2% YoY in 3QFY24 and a growth of 2.6% in 4QFY23 *(Exhibit 1)*. This was mainly led by a second successive contraction in fiscal real rural spending, continuous deterioration in reservoir levels, farm exports, and tractor sales, and the worst contraction in fertilizer sales since 1QFY14 along with muted rural wage growth. They outweighed improvements in two-wheeler sales, decent growth in farm terms of trade, and farm real credit. Consequently, rural spending contracted 1.3% YoY in FY24 – the worst decline since FY99 and its first contraction in eight years – compared to a growth of 4.8% YoY in FY23 *(Exhibit 2)*.

[1] **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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Exhibit 1: Rural consumption declined for the third successive quarter in 4QFY24…

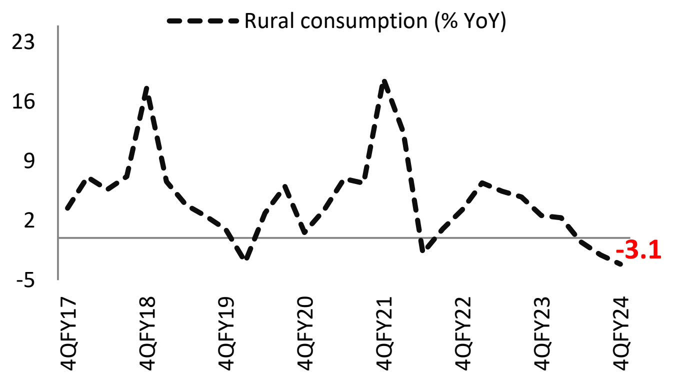
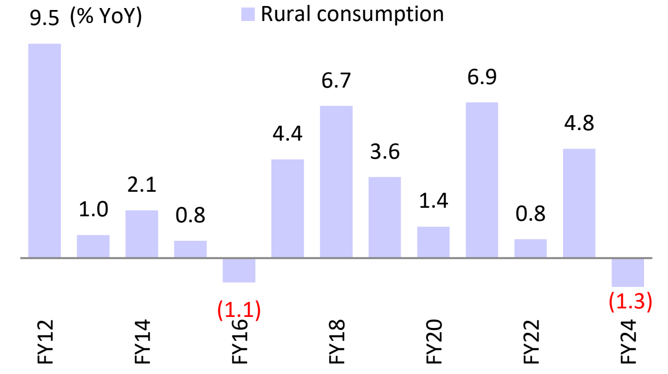


Exhibit 2: …leading to a contraction of 1.3% YoY in FY24, the worst since FY99



Source: Various national sources, CEIC, MOFSL

A detailed analysis of key indicators used suggests that eight out of the 12 proxy indicators used for assessing rural spending trends have posted contraction and another variable witnessed a deceleration in growth in 4Q. Fiscal rural spending declined for the second successive quarter in 4QFY24; tractor sales posted the fourth successive contraction (-19.8% YoY, the worst in eight quarters); agricultural and non-agricultural wages contracted yet again, and farm exports and reservoir levels continued to post double-digit declines. However, two-wheeler sales grew at a seven-quarter high in 4QFY24, and (real) farm credit continued to remain strong. According to the CSO's second advance estimates (SAEs), real agricultural GVA is likely to contract 0.6% YoY in 4QFY24, following -0.8% YoY in 3QFY24; however, we believe that the contraction could be worse than expected *(Exhibit 3).*

On a full-fiscal year basis, as many as six out of 12 indicators posted contractions in FY24 and another four indicators witnessed a deceleration in growth.

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

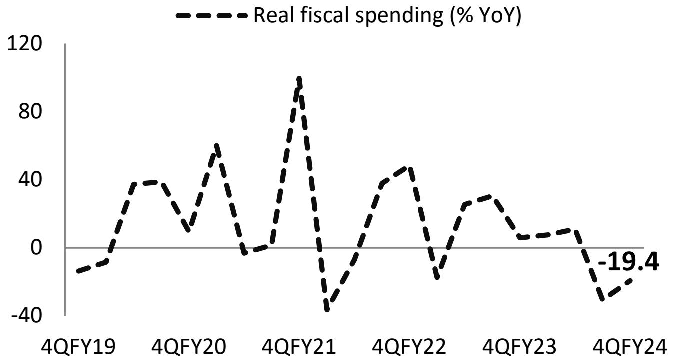
Rural consumption indicators	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	FY20	FY21	FY22	FY23	FY24
Real agricultural GVA@	7.6	3.5	1.6	(0.8)	(1.8)	6.2	4.0	4.6	4.7	0.4
Real agricultural wages@#	0.8	0.5	(0.2)	(1.0)	(0.8)	(3.2)	0.8	(0.0)	0.0	(0.4)
Real non- agricultural wages#@	(0.9)	0.3	(0.4)	(0.9)	0.6	(3.1)	1.0	(0.4)	(1.1)	(0.1)
Two-Wheeler sales	7.6	11.6	(1.6)	22.6	24.9	(17.8)	(13.2)	(10.9)	17.7	13.4
Farm terms of trade$	(6.3)	4.3	14.1	10.0	7.4	5.8	5.8	(11.2)	(11.2)	8.9
Tractors sales	12.4	(5.3)	(8.7)	(7.2)	(19.8)	(10.5)	26.5	(1.7)	10.2	(9.8)
Real agricultural exports#	(6.0)	(22.3)	(11.3)	(12.0)	(10.6)	(15.9)	11.3	15.4	(0.8)	(14.4)
Fertilizer sales	1.9	17.4	(5.1)	3.1	(13.8)	5.9	3.3	(0.7)	7.0	0.1
Real farm credit#	7.9	12.7	9.5	10.9	11.9	(0.8)	7.5	6.1	7.9	11.9
IIP: food products	3.8	0.6	3.8	1.9	(0.4)	2.0	(2.6)	5.9	3.8	1.4
Reservoir level	(3.3)	(2.6)	(18.4)	(19.9)	(15.5)	31.8	5.1	(2.8)	8.6	(16.2)
Fiscal real rural spending#~	5.9	7.5	10.9	(30.6)	(19.5)	16.1	33.4	5.0	10.7	(11.3)
Rural consumption*	2.6	2.3	(0.5)	(2.0)	(3.1)	**1.4**	**6.9**	**0.8**	**4.8**	**(1.3)**

*Simple average of indicators
@ Our forecast for 4QFY24
$ Output price inflation over input price inflation
# Nominal data deflated by CPI for agricultural workers/rural workers (CPI-AW/RL)
~ Assuming that the GoI meets its FY24RE targets
Source: Various national sources, CEIC, MOFSL

Real non-farm wages contracted for the third successive year in FY24, tractor sales were lower in FY24, real farm exports posted a double-digit contraction (the worst in four years), reservoir levels worsened, and real fiscal spending posted its first contraction after nine years. Real farm wages, fertilizer availability, and IIP food products grew slowly in FY24. However, two-wheeler sales and farm credit grew in double-digits in FY24, along with an improvement in farmers' terms of trade.

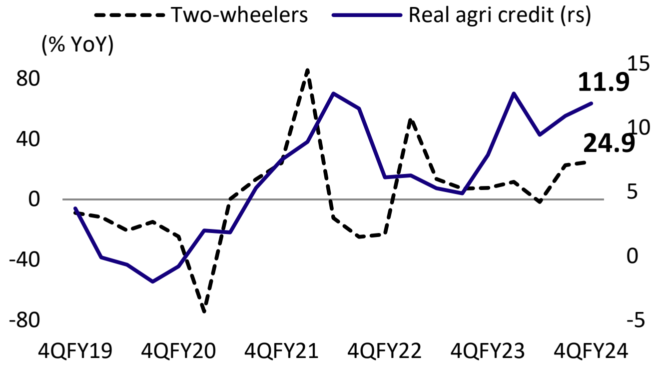
Assuming that the Government of India (GoI) meets its FY24 revised estimates (FY24RE), fiscal real rural spending is likely to have contracted by 19.4% YoY in 4QFY24, marking its second successive contraction *(Exhibit 4)*. At the same time, two-wheeler sales increased sharply to grow at a seven-quarter high of 24.9% in 4QFY24, surpassing pre-Covid levels, and agricultural credit continued to grow decently *(Exhibit 5)*.

Exhibit 4: Fiscal real rural spending contracted for the second successive quarter in 4QFY24…



Assuming that the GoI met its FY24RE targets

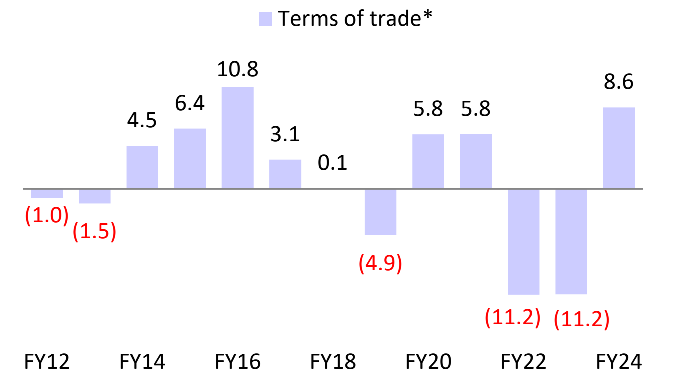
Exhibit 5: …while two-wheeler sales and real farm credit remained strong



Source: Various national sources, CEIC, MOFSL

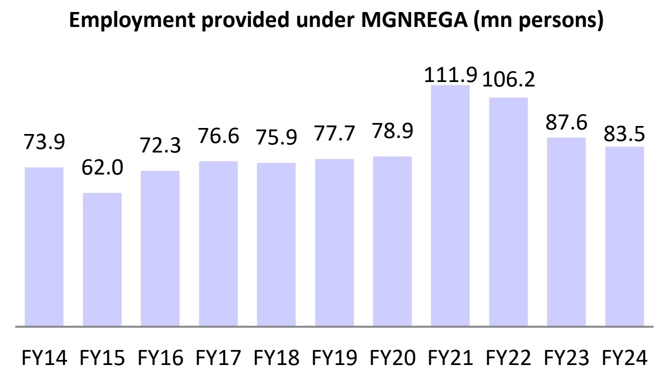
After worsening for two successive years, farm terms of trade (using output and input price inflation from WPI) improved in FY24. It grew 8.6% in FY24 (the highest in eight years) compared to a contraction of 11.2% in FY23, mainly led by a much faster contraction in input prices *(Exhibit 6)*. MGNREGA data also confirms that as many as 83.5m people worked under MGNREGA in FY24, 4.7% lower than FY23 and 7.7% higher than the pre-Covid period *(Exhibit 7).*

Exhibit 6: Input prices dropped faster than the fall in output prices, leading to an improvement in terms of trade



* Output price inflation over input inflation for the farm sector

Exhibit 7: Total individuals worked under MGNREGA are coming off slowly



Source: Various national sources, CEIC, NREGA, MOFSL

Urban consumption grew at a faster pace in 4QFY24: Urban consumption[2] – estimated by compiling nine proxy indicators – grew at a six-quarter fastest pace of 9.6% YoY in 4QFY24 vs. 9.0%/3.8% in 3QFY24/4QFY23. A simple average of the nine indicators suggests that urban spending grew 7.9% in FY24, slightly lower than 8.9%/10.0% growth in FY23/FY22. It means that urban spending grew at an average of ~9% during the past three years, following an average decline of 2% in the previous two years *(Exhibits 8-9)*.

Exhibit 8: Urban consumption grew at a six-quarter high in 4QFY24…

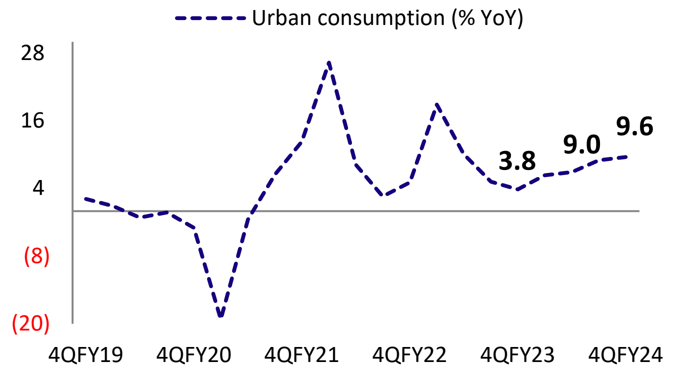
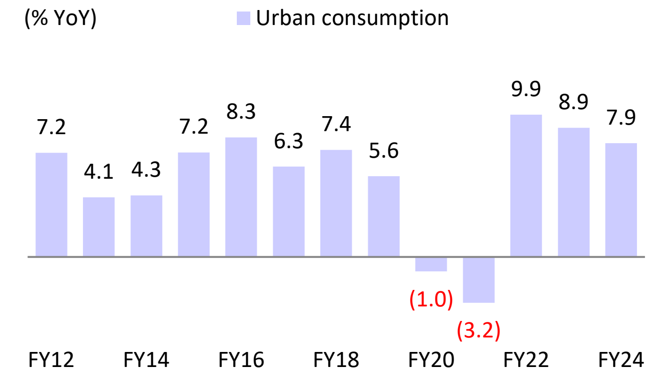


Exhibit 9: …however, it rose 7.9% YoY in FY24, slower than the 8.9% growth in FY23



Source: Various national sources, CEIC, MOFSL

A detailed analysis of the nine indicators used in the urban consumption confirms that five indicators – domestic PV sales, petrol consumption, real personal credit, house prices, and IIP for consumer durable goods – witnessed an acceleration in growth, while salary & wages of BSE500 companies and real non-farm consumer imports decelerated in 4QFY24 vs. 3QFY24 *(Exhibit 10)*.

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

Urban consumption indicators	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	FY20	FY21	FY22	FY23	FY24
Real non-farm GVA@	5.7	9.0	8.5	8.2	7.3	3.6	(5.6)	10.3	7.1	8.2
Real S&W of BSE500 companies	15.8	11.5	8.7	10.4	4.6	5.8	1.5	8.5	11.3	8.6
CPI non-food inflation	6.6	5.2	4.5	3.5	2.8	3.6	5.2	6.7	6.7	4.0
Domestic: PV sales	10.7	14.5	21.4	25.9	28.3	(21.6)	(6.1)	8.4	27.4	22.5
Real personal credit#	14.4	14.8	10.4	12.2	12.3	12.2	4.5	9.0	14.4	12.3
IIP: Consumer durable goods	(6.8)	(2.7)	1.1	5.3	11.2	(8.8)	(11.0)	7.4	0.6	3.6
Petrol consumption	9.8	6.8	5.7	4.7	8.5	6.0	(6.8)	10.4	13.4	6.4
Real house prices@	(0.2)	0.4	(0.7)	0.2	0.6	(1.1)	(1.1)	(1.3)	(0.5)	0.1
Real non-farm consumer imports#	(21.4)	(2.3)	2.6	10.9	10.4	(8.8)	(9.3)	29.4	0.2	5.2
Urban consumption*	**3.8**	**6.4**	**6.9**	**9.0**	**9.6**	**(1.0)**	**(3.2)**	**9.9**	**8.9**	**7.9**

*Simple average of indicators

@ Our forecasts for 4QFY24

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

Source: Various national sources, CEIC, MOFSL

[2] **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

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 improved in the past couple of quarters. PV sales posted a six-quarter high growth in 4QFY24, while petrol consumption grew at a four-quarter high. *(Exhibit 11)*. On the other hand, real salary & wages of BSE500 companies grew at a 14-quarter low growth of 4.6% in 4QFY24 *(Exhibit 12)*.

Exhibit 11: PV sales and petrol consumption growth have improved over the past few quarters…

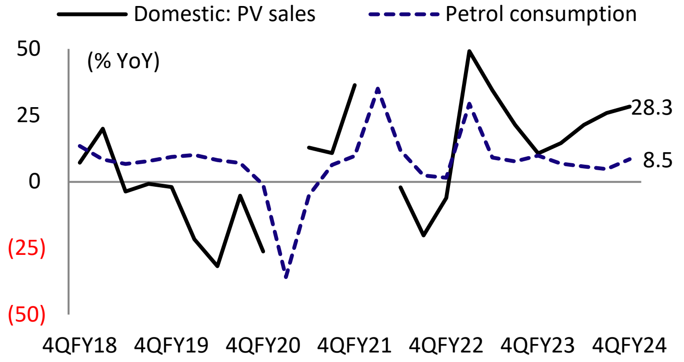
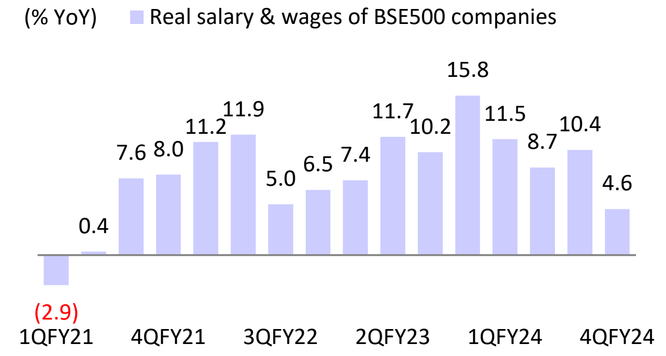


Exhibit 12: …though real S&W growth was at a 14-quarter low in 4QFY24



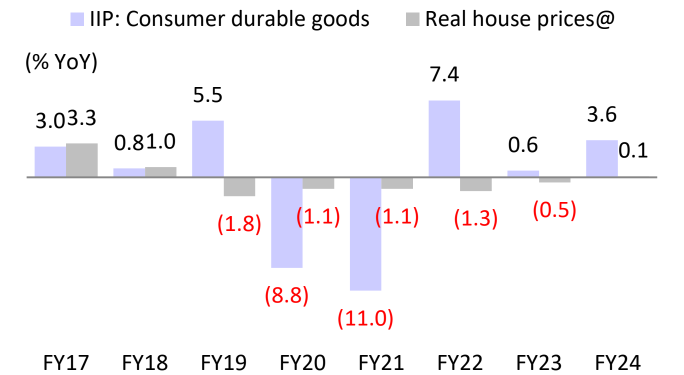
Based on limited data for 4QFY24

Source: Various national sources, CEIC, MOFSL

On a full-fiscal year basis, all the nine indicators posted growth in FY24, of which five variables witnessed a deceleration, while the remaining four saw an acceleration in growth *(Exhibit 10 above)*.

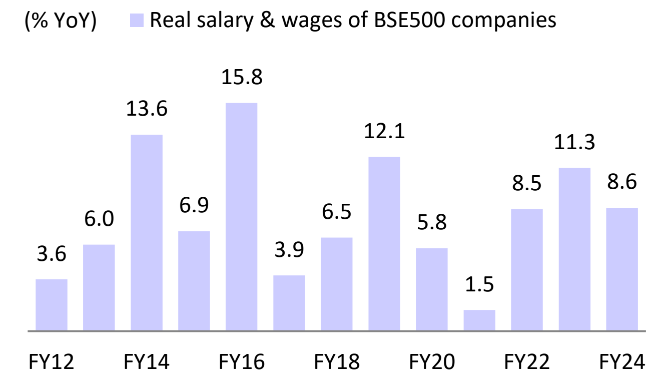
The domestic production of consumer durable goods and house prices showed an improvement in FY24. Output of consumer durable goods likely grew 3.6% YoY in FY24 vs. a growth of 0.6% YoY in FY23. The real house prices (assuming 4% YoY growth in 4QFY24) grew 0.1% YoY in FY24, marking its first growth in six years. The real salary & wages of BSE500 companies likely grew 8.6% YoY last year, lower than 11.3% in FY23, but higher than the three years before that *(Exhibits 13-14)*.

Exhibit 13: Consumer durable goods & real house prices witnessed improvement in FY24…



@ Our forecast for 4QFY24

Exhibit 14: …but real S&W of BSE500 companies grew slowly last year



Source: Various national sources, CEIC, MOFSL

Conclusion: Real PFCE growth eases sharply in FY24…

Rural spending contracted sharply in FY24, marking its worst contraction since FY99. At the same time, the urban sector grew strongly for the third consecutive year in FY24 *(Exhibit 15)*. The divergence between rural and urban spending has increased in the post-pandemic years. During the past three years (FY22-FY24), the growth in urban consumption has outpaced rural consumption in each quarter, which is in contrast to FY20-FY21, when the latter grew faster than the former. Within the rural sector, it is clear that agricultural activities have weakened more.

Although urban spending accelerated to 7.9% in FY24, contractions in rural spending pulled down real private final consumption expenditure (PFCE) growth in FY24. Not surprisingly, then, real private consumption expenditure growth is likely to decelerate to 3-4% in FY24, the slowest in two decades (barring FY21; *Exhibit 16)*.

Exhibit 15: Urban spending outpaced rural spending for the third consecutive year in FY24…

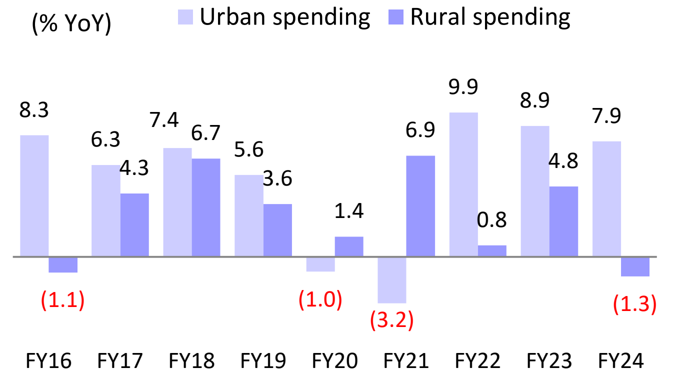
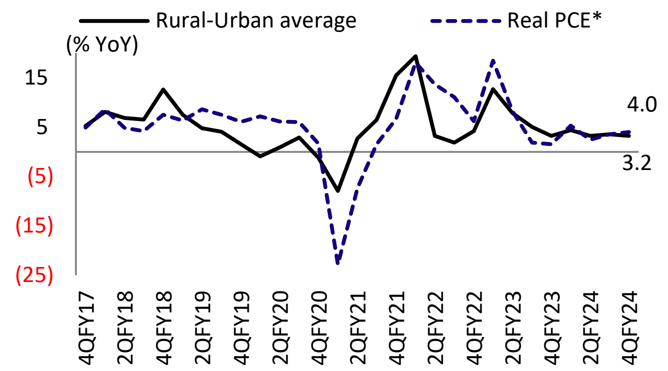


Exhibit 16: …however, real PFCE likely grew at a two-decade low of 3-4% in FY24, due to the rural sector



* 4QFY24 is our forecast

Source: Various national sources, CEIC, MOFSL

…and a substantial recovery in rural sector is still an open debate

Will the rural sector see a sharp turnaround in FY25? Well, the FMCG companies are certainly more hopeful, and the predictions of a normal monsoon bode well for rural India's recovery. However, MGNREGA data suggested that employment demand remained at elevated levels in Apr'24 (though lower than Apr'23), and government spending is budgeted to contract for the second consecutive year in FY25. All-in-all, while the hopes may be running high and the rural economy – based on our indicators – may not decline again this year, it may find it challenging to grow more than 5% in FY25, notwithstanding the favorable base.

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