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Financial Services

EcoScope
The Economy Observer

# Urban demand eclipses rural

*Urban consumption is quietly reclaiming center stage. After a period during which rural demand led the recovery, momentum is shifting back to cities, supported by cooling inflation, improving credit transmission and one more interest rate cut (25 bps, 125 bps already done). Management commentary across FMCG, retail, and quick-commerce points to stronger traction in metros and Tier-1 markets, while rural recovery remains constrained by pricing pressures. Lower food inflation is boosting urban real incomes without hurting earnings, unlike in rural areas, where it acts as an income shock. From an investor perspective, this sets up a more durable urban-led upcycle, favoring passenger vehicles, consumer durables, organized retail, e-commerce, travel and leisure, and retail-focused financials.*

***Rural demand tracker:*** **After improving through 2HFY25, our rural demand tracker suggests that growth momentum is likely to weaken in the coming months. Rural spending contracted 1.3% YoY in Oct'25 (first contraction in 15 months), signaling that the recovery has begun to lose momentum despite earlier support from wage growth and fiscal spending.**

- **The key pressure point is the continuous deterioration in terms of trade, which turned negative from May'25 as agri output prices declined while input costs remained sticky.**
- **Food inflation has fallen faster in rural areas than in urban areas. For rural households, where incomes are closely tied to crop prices, this results in income loss rather than a consumption boost. In contrast, urban households benefit as lower food bills lift real disposable incomes without hurting earnings.**
- **Other high-frequency indicators also corroborate this slowdown in rural demand. Two-wheeler sales remain volatile, rural credit growth has moderated to low single digits, and real fiscal spending witnessed its third consecutive contraction. Consistently weak prints in IIP food products (4th consecutive contraction) further indicate a lack of downstream demand traction.**
- **While real agri wages have improved, the recovery follows a prolonged period of stagnation that likely eroded savings and raised leverage.**
- **The VB-G RAM G Bill replaces MGNREGA's open-ended job guarantee with a planned, co-funded framework—improving fiscal discipline but limiting the flexibility of rural spending during stress periods.**

***Urban demand tracker:*** **Our urban spending tracker shows that urban spending increased 8.8% YoY in Oct'25 (highest growth in 6 months), up from ~5–6% levels in mid-2025.**

- **PV sales have rebounded after a weak patch, signaling an improving appetite for big-ticket discretionary spending. A pickup in personal credit (the highest growth in 14 months) is supporting consumption smoothing, while healthy non-farm consumer imports point to resilient urban demand.**
- **Importantly, sticky non-food inflation (especially services) continues to keep urban CPI steady, indicating stable wage dynamics and pricing power in urban sectors. This supports nominal income growth even as food inflation eases.**
- **After meeting the SBI's top management led by Chairman Shri C. S. Setty, we infer that credit growth is increasingly urban- and consumption-led, with personal loans, autos, and discretionary segments gaining traction—reinforcing our view that urban-facing sectors are better positioned than rural in the near term.**

***Outlook:*** **Overall, we believe that urban demand momentum is improving and is well placed to outperform rural demand in the next few quarters:**

- **Urban demand is set to outperform rural, supported by easing inflation, stronger credit transmission, and stable services-led income growth. Policy tailwinds — rate cuts, GST rationalization, and income-tax relief—are likely to benefit urban households, lifting real disposable incomes and reinforcing a more durable urban consumption upcycle.**
- **Some positives should support rural demand over time. Robust tractor sales, strong reservoir levels, and improvement in agri wages point to better supply-side conditions and medium-term income support; however, the impact of these factors on consumption plays out with a lag. Agri wages are improving, but after a long phase of stress, households are prioritizing balance sheet repair over spending—keeping rural demand stable but slow to accelerate.**

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### Why urban now? Macro policy tailwinds

Urban demand stands to benefit from a confluence of supportive factors:

- Easing headline inflation, particularly food inflation, which lifts real disposable incomes for urban households
- Prospects of one more (125 bps rate cut already done) 25 bps interest-rate cut in February policy, improving affordability for big-ticket purchases
- Potential GST rationalization and income-tax relief, disproportionately benefiting salaried, consumption-oriented urban households
- Sticky non-food (services) inflation, indicating stable wage dynamics and pricing power in urban sectors
- Together, these factors create a more predictable and durable income environment for urban consumers.

**Urban Consumption**

✓ Income visibility & salaried growth
✓ Strong credit access
✓ Services-led wage momentum
✓ Policy tailwinds (rates, tax, GST)
→ **Durable recovery**

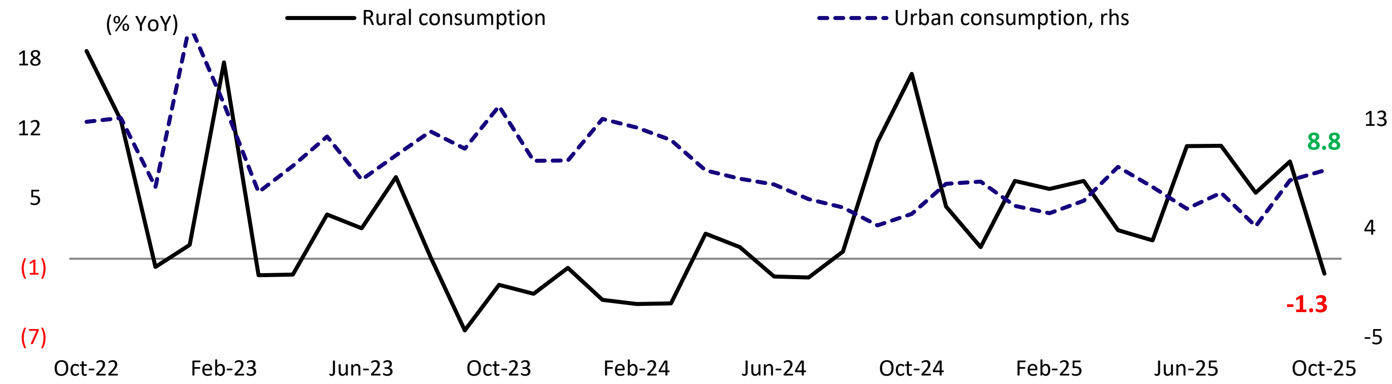
**Rural Consumption**

— Wage recovery with a lag
— Weak terms of trade
— Income hit from food deflation
→ **Stabilizing, not accelerating**

**Sector Winners – Urban Skewed**

Passenger Vehicles & Auto Ancillaries
Consumer Durables & Electronics
Fashion, Organised Retail & E-commerce
Quick Commerce
Travel, QSRs & Leisure
Retail Banks & NBFCs

**Exhibit 1: Urban spending strengthened in Oct'25, while rural spending contracted**




Source: CEIC, CEIC, MOFSL

## Insights from the SBI top management

**Following our interaction with C. S. Setty, Chairman of State Bank of India, management commentary clearly points to an urban-led consumption recovery gaining strength (Link).**

- **SBI highlighted that loan growth is increasingly driven by the Retail, Agri, and MSME (RAM) segments, with a visible pickup in personal loans, auto loans, and unsecured retail credit, even as the broad corporate capex cycle remains muted.**
- **Urban-focused segments—autos, discretionary consumption, and services—have shown visible traction over the past two quarters, supported by stable salaried incomes, resilient consumption demand, and better credit transmission.**
- **The addition of a large number of new salary accounts, stable asset quality, and resilient margins further underline that urban households, supported by income visibility and credit access, are leading the next phase of growth, reinforcing our view that urban-facing sectors are better positioned than rural-linked segments in the near term.**

**Exhibit 2: Urban consumption winners**

| Sector | Urban Exposure | Policy Tailwind (Rates / Tax / GST) | Demand Visibility | Key Urban Drivers | Key Risks to Monitor |
|---|---|---|---|---|---|
| Passenger Vehicles | Very High | High | High | ❖ Rate cuts, salaried income growth, and the replacement cycle | ❖ Fuel prices, sharp rate reversal |
| Consumer Durables & Electronics | Very High | High | High | ❖ EMI affordability, housing churn, and premiumization | ❖ Price competition, FX costs |
| Fashion & Lifestyle Retail | High | Medium | High | ❖ Urban footfalls, premium/value mix, mall recovery | ❖ Inventory risk, discounting |
| Organised Retail (Offline + Online) | High | Medium | High | ❖ Formalisation, omnichannel growth, urban density | ❖ Margin pressure, execution |
| Quick Commerce / E-commerce | Very High | Medium | Medium | ❖ Convenience-led demand, non-food baskets, frequency gains | ❖ Unit economics, expansion discipline |
| QSRs & Leisure | Medium | Medium | High | ❖ Experience-led spending, travel recovery | ❖ Input cost inflation, price sensitivity |
| Retail Banks & NBFCs | Very High | High | High | ❖ Personal credit growth, auto loans, urban leverage cycle | ❖ Asset quality, regulatory tightening |
| Payments & Fintech | High | Medium | Medium | ❖ Digital spends, e-commerce linkage | ❖ Monetisation, competition |

**Company guidance and management commentary:** Company guidance from consumer-facing firms highlights stronger traction in metros and Tier-1 cities, supported by stable incomes, higher discretionary appetite, and better credit access, while rural recovery remains uneven and price-constrained. This reinforces a constructive sector view on urban-oriented categories such as discretionary goods, organized retail, e-commerce, and quick commerce. Importantly, these bottom-up signals align with NielsenIQ's broader trend data, which shows urban demand regaining momentum and narrowing the rural–urban gap, lending empirical support to our strategy preference for urban consumption over the coming quarters.

- **HUL:** HUL has projected stronger volumes in H2 FY26 as easing inflation, benign commodity costs, and demand normalization underpin consumption growth. Management expects the second half of the year to be better than the first, signaling confidence in demand recovery. ***"Charts show tapering rural volume growth and a pickup in urban demand trends — stable demand across categories with early sequential signs of urban momentum."***
- **Britannia: *"Urban consumption — dull for a few quarters — is now picking up, aided by easing inflation and stronger impulse purchases."***

- **Dabur management** also highlighted ***"urban demand improvement aided by modern trade and emerging channels, with guidance for a steady recovery through FY26."***
- **Quick Commerce:** ***"Rapid quick-commerce growth is driven by urban users' higher order frequency and broader SKU baskets, underscoring strong urban demand patterns."***
- **NielsenIQ:** ***"While rural accounted for strong FMCG volume growth, urban recovery is gaining traction through modern channels and e-commerce penetration."***

**Exhibit 3: Management commentary**

| Company / Source | Management / Survey Commentary | Urban vs Rural Signal |
|---|---|---|
| **HUL** | ❖ Urban demand continues to outperform; rural recovery is uneven, and price-led pressures persist. | **Urban stronger than rural** |
| **Britannia** | ❖ Urban markets are showing better traction in value-added and premium segments; rural still constrained. | **Urban > Rural** |
| **Quick Commerce (Zepto / Blinkit)** | ❖ Higher order frequency, premium SKUs, and non-food traction concentrated in metros and Tier-1 cities | **Urban-centric growth** |
| **Retail & Apparel (Channel checks)** | ❖ Footfalls and conversions are stronger in urban malls and organised formats. | **Urban recovery visible** |
| **Auto OEMs / Dealers** | ❖ Urban enquiries and bookings are improving; rural demand remains volatile. | **Urban-led PV recovery** |
| **NielsenIQ** | ❖ Urban recovery is gaining momentum; the rural-urban gap is narrowing, but driven by urban catch-up. | **Urban inflection** |
| **Banks / NBFCs** | ❖ Personal credit and unsecured loans are accelerating in cities. | **Urban leverage cycle** |

## Urban vs Rural: What the data says?

### Rural demand tracker:

An analysis of 11 proxy indicators suggests that spending in rural markets* marked its first contraction in 15 months. Rural spending declined by 1.3% YoY in Oct'25 after showing strong resilience in 2QFY25. (Exhibit 1).

- The terms of trade have turned decisively adverse since mid-2025, as agricultural output prices declined (-3.1% YoY in Nov'25) while input costs remained sticky. Consequently, terms of trade declined 5.5% in Oct'25 and 3.3% in Nov'25, marking its seventh consecutive contraction (*Exhibits 2 and 3).*
- This has resulted in a compression of farm incomes, effectively turning food price deflation into an income shock for rural households.
- Other high-frequency indicators also corroborate this slowdown. Two-wheeler sales remain volatile, rural credit growth has moderated to low single digits, and real fiscal spending witnessed its third consecutive contraction. Consistently weak prints in IIP food products (4th consecutive contraction) further indicate a lack of downstream demand traction (*Exhibits 4 and 5).*
- While real agri wages have improved to ~4-5% YoY in mid-2025, reversing the prolonged weakness seen during 2022-23, the recovery comes after nearly two years of stagnant or negative wage growth that likely eroded rural savings and raised leverage.
- As rural consumption typically responds to income recovery with a lag, the recent wage improvement is stabilizing conditions rather than triggering a new demand cycle.

**Exhibit 4: Agri input prices stable, while output prices fall…**

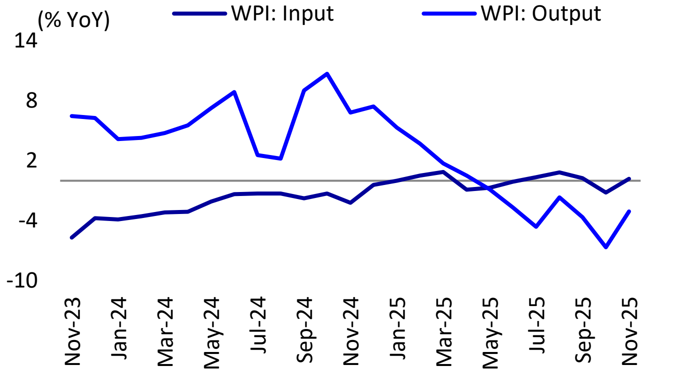
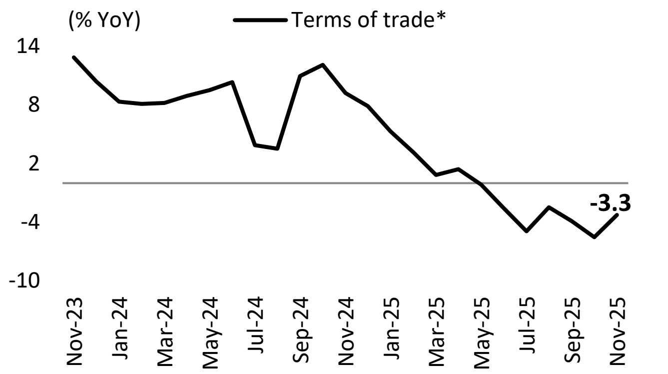



**Exhibit 5: …leading to a deterioration in farm terms of trade**




* Output price inflation over input inflation for the farm sector

Source: Various national sources, CEIC, NREGA, MOFSL

*****The 11 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

**Exhibit 6: Real fiscal spending contracted sharply for the third consecutive month**

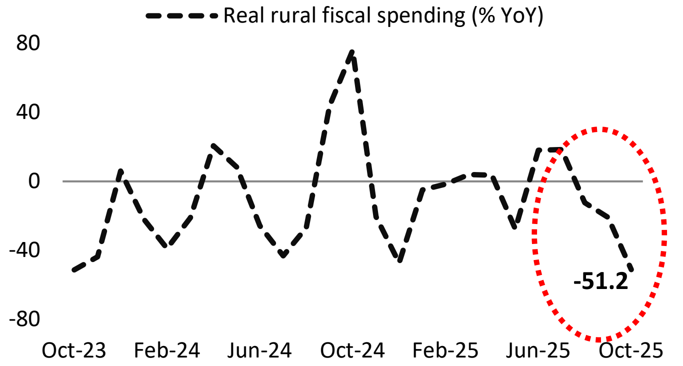
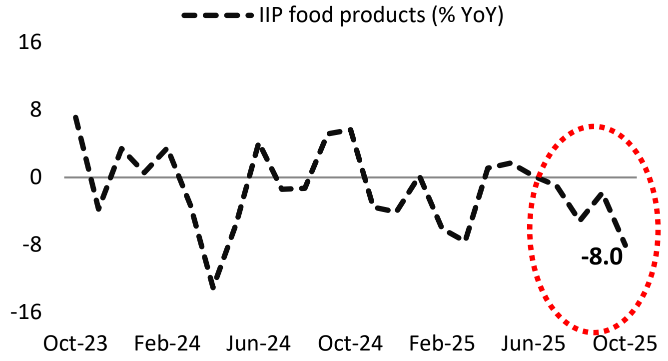



**Exhibit 7: IIP food products contracted 8% in Oct'25, the fourth consecutive month of contraction**




Source: Various national sources, CEIC, MOFSL

## Urban demand tracker:

Urban consumption^—estimated by compiling six proxy indicators—grew at a six-month high of 8.8% YoY in Oct'25 (vs. 7.9%/5.2% in Sep'25/Oct'24). (Exhibit 1).

- PV sales have rebounded after a weak patch, signaling an improving appetite for big-ticket discretionary spending. It grew 18.7% in Nov'25 (highest growth in the last 20 months) vs. 17.2% in Oct'25 (Exhibit 6).
- Personal credit growth has re-accelerated to 11.5% YoY in Oct'25 from single-digit growth in the previous months (highest growth in 14 months), supporting consumption smoothing and discretionary spending. At the same time, non-farm consumer imports remain in healthy double digits, pointing to sustained urban mobility and goods demand (Exhibit 7).
- Importantly, sticky non-food inflation (especially services) continues to keep urban CPI elevated, indicating stable wage dynamics and pricing power in urban sectors. This supports nominal income growth even as food inflation eases (Exhibit 8).
- Food inflation has fallen faster in rural areas than in urban areas, reflecting sharper declines in agri output prices. For rural households, where incomes are closely linked to crop price realizations, this translates into income loss rather than a consumption gain. In contrast, falling food prices are a net positive for urban households, as lower food bills lift real disposable incomes without affecting earnings, supporting discretionary spending (Exhibit 9).

**Exhibit 8: PV sales growth accelerated to 18.7% YoY in Nov'25, the highest in 20 months**

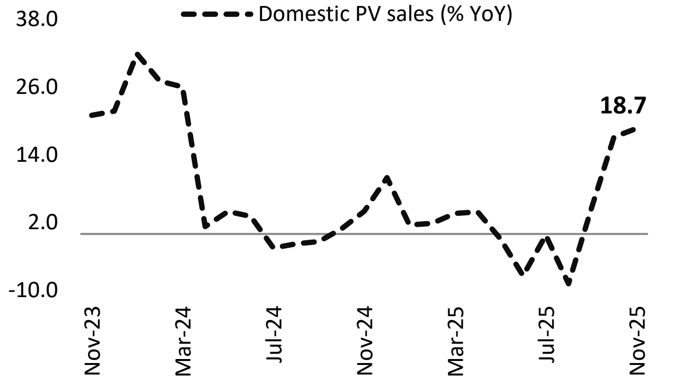
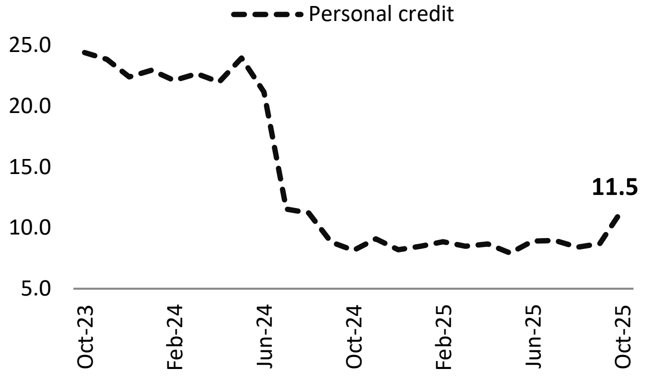



**Exhibit 9: Personal credit grew 11.5% in Oct'25, the highest in 14 months**




^**The 6 proxy indicators for gauging urban demand include:** 1) CPI non-food inflation, 2) Real personal real credit, 3) IIP Consumer Durable Goods, 4) Petrol consumption, 5) Real non-farm consumer imports, 6) passenger vehicle (PV) sales

**Exhibit 10: Non-food inflation remained sticky**

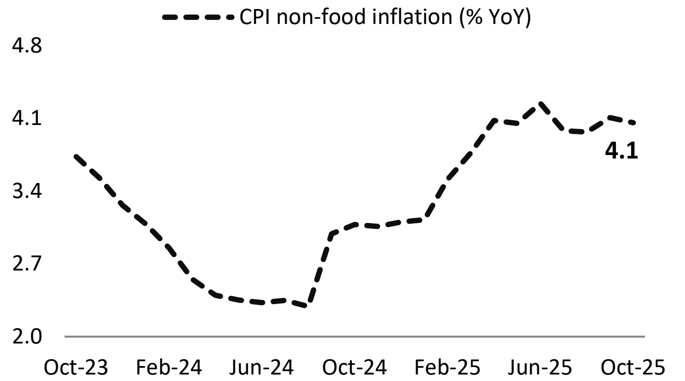
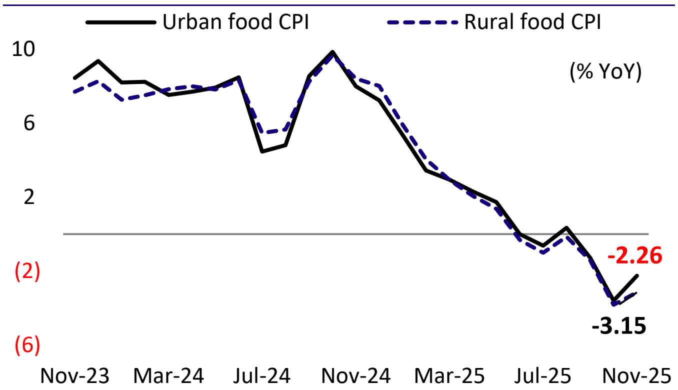



**Exhibit 11: Urban vs. Rural food CPI**




Source: Various national sources, CEIC, MOFSL

## Outlook:

Overall, we believe that urban demand momentum is improving and is well placed to outperform rural demand in the next few quarters.

- Urban demand is set to outperform rural, supported by easing inflation, improving discretionary indicators, stronger credit transmission, and stable services-led income growth. Policy tailwinds – prospective rate cuts, GST rationalization, and income-tax reliefs – are likely to benefit urban households disproportionately, lifting real disposable incomes and reinforcing a more durable urban consumption upcycle.
- Some positives should support rural demand over time. Robust tractor sales, strong reservoir levels, and improving agri wages point to better supply-side conditions and medium-term income support; however, the impact of these factors on consumption typically plays out with a lag.
- As rural consumption typically responds to income recovery with a lag, the recent wage improvement is stabilizing conditions rather than triggering a new demand cycle.

## Knowledge Corner: Why replace MGNREGA?

**What is the VB-G RAM G Bill?**

**The VB-G RAM G Bill, 2025 (Viksit Bharat – Guarantee for Rozgar and Ajeevika Mission, Gramin), is a new rural employment and livelihood law that replaces MGNREGA. The law shifts the focus from a pure employment guarantee to a structured, development-linked rural growth model, combining wage employment with asset creation and livelihood support.**

**Why Replace MGNREGA?**

**MGNREGA was a rights-based, demand-driven program that legally entitled rural households to 100 days of wage employment, with the Center bearing most of the cost. While effective as a safety net, it was increasingly viewed as consumption-oriented, fiscally open-ended, and weak in durable asset outcomes.**

**The new framework seeks to improve spending quality, align employment with productivity, and embed rural work within broader development objectives rather than standalone wage support.**

**Key Features of the VB-G RAM G Bill**

- **The employment guarantee is expanded to 125 days per rural household, but within a planned and budgeted framework.**
- **Funding shifts from near-total central financing to Centre–State cost sharing—roughly 60:40 for most states, with special ratios for NE/Himalayan states and full central funding for UTs without legislatures.**
- **Unlike MGNREGA's open-ended demand response, allocations are normative and predetermined annually. States can also notify seasonal pauses (for example, during peak agricultural activity).**
- **Wage employment is explicitly linked to rural infrastructure, water security, agri-assets, and livelihood missions, and the program moves to fresh digital registration in place of legacy job cards.**

**Implications for State Finances:**

- **States face a higher fiscal burden due to cost sharing, which could strain budgets—especially for fiscally weaker states—in the near term.**
- **However, the move improves fiscal predictability, reduces open-ended liabilities, and nudges states toward higher-quality capital expenditure rather than revenue-heavy rural spending.**
- **Over time, this alters Center–State dynamics by increasing state ownership of rural development outcomes, though it also raises concerns around uneven implementation capacity.**

**Implications for the rural economy:**

- **Higher guaranteed days support employment, but normative allocations may limit availability during stress periods.**
- **The integration with infrastructure and livelihoods shifts rural support from short-term income smoothing to productivity-led income generation.**
- **Seasonal pauses may reduce labor market distortions during peak farming periods, while better rural assets can improve agri productivity, non-farm employment, and credit absorption over time.**

**Key Concerns & Debate:**

**Critics argue the law weakens the enforceable right to work, replacing it with a conditional entitlement tied to budgets and planning norms. Others highlight the risk that state funding constraints could reduce on-ground employment. Concerns also remain around centralization and reduced local responsiveness compared with a demand-driven framework.**

**Exhibit 12: Key differences between MGNREGA and VB-G RAM G Bill**

| Feature | MGNREGA (2005) | VB-G RAM G Bill (2025) |
|---|---|---|
| Legal Basis | ❖ Right to work (justiciable) | ❖ Guarantee within a planned, normative system |
| Days of Employment | ❖ 100 days minimum | ❖ 125 days minimum |
| Funding Model | ❖ Demand-driven, 100% largely central financing | ❖ Normative allocation, 60:40 / 90:10 Center-State sharing |
| Guarantee Mechanism | ❖ Open-ended demand response | ❖ Pre-planned allocation with ceilings |
| Purpose | ❖ Wage employment | ❖ Wage work + Ajeevika & integrated rural development |
| State Role | ❖ Implementation | ❖ Financial partner and planner |
| Local Control | ❖ Decentralized (Gram Panchayats) | ❖ Mixed, with more centralized planning tools/result frameworks |

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|---|---|
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| NEUTRAL | < - 10 % to 15% |
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