

Economists say consumption growth estimate optimistic

● Slack in urban demand persisting

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THE FIRST ADVANCE estimates of the National Statistics Office (NSO) have projected private final consumption expenditure (PFCE) to grow by 7.3% in FY25, but economists feel the number is "too optimistic", given subdued urban demand.

"The main indicators of the consumption so far indicate that (skewed nature of) the consumption growth is correcting somewhat with the pick-up in rural real wages. However, the slack in urban demand is persisting as indicated by commentaries from some FMCG companies and also the decline in imports to the tune of 1.3% in FY25," India Ratings and Research (Ind-Ra) noted in a report.

"The PFCE estimate seems to be on the higher side. Wage growth has been lower this year mainly on the urban side, savings have depleted, & high food inflation stays a challenge," noted Dhiraj Nim, economist, ANZ Research. Nim sees PFCE growing between 6.5% and 6.8% in the current financial year. In H1, PFCE had grown 6.7%, meaning in H2 the sector's growth is likely to be 7.8%. In FY24, PFCE grew merely 4%, largely due to tepid rural consumption.



This year, the above-normal monsoon is seen aiding rural consumption recovery. The NSO has estimated the agri sector's GVA to grow 4.5% in H2, up from 2.7% in H1 and 1.4% in FY24. According to D K Joshi, chief economist, Crisil, "Rural consumption, which constitutes about 60% of India's total private consumption, will receive a boost from healthy kharif production and promising prospects for the rabi season."

Emkay Global's Madhavi Arora said that private consumption is seen remaining tepid, as real urban wages continue to decline, with other cyclical headwinds in the form of: (a) fading terms-of-trade benefits on lower commodity prices; (b) tighter lending

standards; and (c) weaker exports.

Looking at the first advance estimates, analysts say the Indian economy remains resilient on the back of the strong festive demand and steady improvement in economic activity, but some downside risks to the projections remain. Some downside risks to these estimations emerge due to global headwinds, especially the threat of tariff war, said Madan Sabnavis, chief economist, Bank of Baroda. "Investment and consumption continue to remain critical factors supporting growth in the coming months," he said. The focus would now move towards the Union Budget, corporate performance and the RBI's rate decision to spur growth.