Consumption jump, slower capex likely

Rural spending may drive consumption growth, while capex may moderate amid fiscal constraints

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Driven by a slowdown in government capital expenditure and sluggish private investments, growth in infrastructure investment is expected to moderate in the current financial year (FY25) compared to FY24, according to the first advance estimates of gross domestic product (GDP) for FY25 released by the National Statistics Office (NSO) on Tuesday. However, pick up in rural spending may lead to higher overall consumption growth in FY25 compared to FY24.

NSO data shows that the share of Gross Fixed Capital Formation (GFCF), a proxy for infrastructure investment in the economy, is expected to fall to 30.1 per cent of GDP in FY25 from 30.8 per cent in FY24 in nominal terms. Meanwhile, in real terms, growth in investment demand is likely to slump to 6.4 per cent in FY25 compared to 9 per cent in the previous financial year.

Paras Jasrai, senior economic analyst at India Ratings, said that the expected decline in GFCF growth reflects the subdued investment demand in the economy as government capex, which was the lifting factor in revival of investment demand post-pandemic, appears to have tempered off largely due to general elections and focus on fiscal consolidation.

"While household investments, which are mostly in the real estate sector, have been steady in FY25, private investment has been muted. Private investment, which has been prevalent in some sectors such as chemicals, renewables, roads, etc., has not taken off yet in a broad-based manner. The prolonged impact of slack consumption demand (in FY24) appears to have kept the corporates in a wait-and-watch mode," he added.

However, Aditi Nayar, chief economist at ICRA, said that the GFCF growth is likely to turn out to be higher than the NSO's implicit estimate, amid expectations of a pick-up in government capex and some improvement in private capex activity, which were adversely impacted due to the elections in the first half of FY25.

On the other hand, the share of Private Final Consumption Expenditure (PFCE) in GDP, which is a proxy for household consumption, is expected to rise to 61.8 per cent in FY25 from 60.3 per cent in FY24 in nominal terms. Also, private spending growth is projected to rise to 7.3 per cent in FY25 from 4 per cent in FY24 in real terms.

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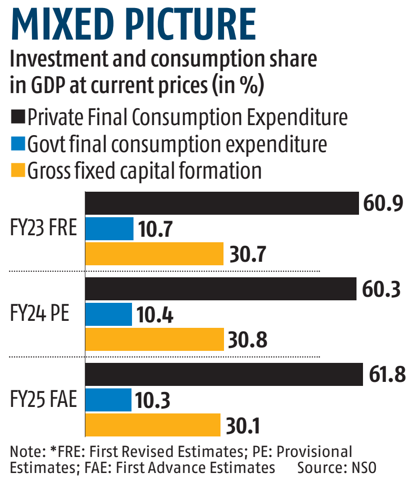

"The main indicators of consumption so far indicate that the skewness in consumption growth is correcting somewhat, with pickup in rural real wages, two-wheeler sales, etc. The quarterly results of FMCG companies also point to a sustained recovery in rural demand, which is favourable both for consumption as well as GDP growth. However, the slack in urban demand is persisting as indicated by commentaries from some FMCG companies," Jasrai said.

Dharamkriti Joshi, chief economist, CRISIL, said that private consumption has performed relatively well over a weak base, matching overall GDP growth.

"Rural consumption, which constitutes about 60 per cent of India's total private consumption, will receive a boost from healthy kharif production and promising prospects for the rabi season. This is reflected in higher agricultural growth estimated for this financial year. Moreover, the anticipated decline in food inflation will support discretionary spending, particularly among low-income households, with a higher proportion of food in their consumption basket," he added.