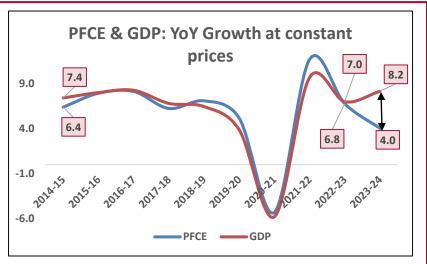
Divergence between GDP Growth and Private Consumption

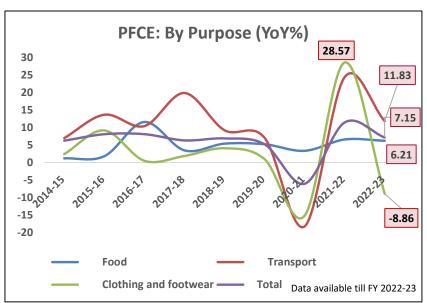
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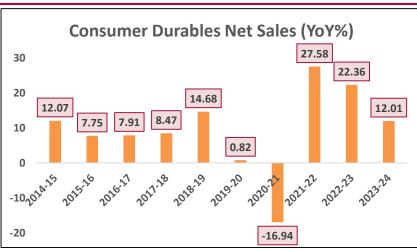
STRATEGIC MANAGEMENT AND ECONOMIC ADVISORY DIVISION

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India's GDP Growth vs Private Consumption







Data Source: CMIE, MoSPI

- India's economy demonstrated robust growth in FY 2023-24, with GDP at constant prices expanding by an impressive 8.2 percent.
- Despite this overall positive trend, there were notable shifts and challenges in Private Final Consumption Expenditure (PFCE).
- PFCE has the highest share in GDP which declined to 55.80% in FY 2023-24 from 58.10% in 2021-22.
- Historically, PFCE growth was closely aligned with GDP growth until FY 2022-23, when a notable divergence occurred. During FY 2023-24, PFCE growth slowed to 4 percent, down from 6.8 percent in the preceding year.
- Following a sharp recovery post-COVID-19, PFCE growth has progressively declined over the past two fiscal years.
- This moderation was particularly evident in essential categories such as food, clothing and footwear, transport, and housing, which collectively comprise a significant portion of household expenditures.
- For example, clothing and footwear, experienced a particularly sharp decline of 8.86 percent in FY 2022-23, contrasting with a growth of 28.57 percent in FY 2021-22. (as per available data)
- This downward trend in consumer spending has also had ripple effects across consumer goods industries, impacting consumer durables.
- Initially, consumer durables saw a substantial 27.58 percent growth in demand immediately post-lockdowns, driven by pent-up demand. However, this sector has since witnessed a persistent decline in growth rates, indicating a pullback in non-essential purchases and a cautious approach to durable goods investment among consumers.
- Rural demand faced challenges due to poor monsoon conditions and reduced crop production. Concurrently, urban demand remained weak due to ongoing employment vulnerabilities.
- However, with the anticipated revival of monsoon conditions in the current fiscal year, rural demand is expected to recover, potentially bolstering overall private consumption.
- While India's GDP growth remains strong, the divergence in PFCE growth signals underlying challenges in consumer spending patterns. Addressing these challenges will be crucial for sustaining economic momentum, particularly through targeted policies to stimulate both rural and urban demand.

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