

Consumption demand broadbased; govt capex boosts investment

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In what could be a sign of recovery in consumption demand, growth in private final consumption expenditure (PFCE), which represents the economy's consumption potential, improved to 7 per cent during April-June (Q1FY26) from a five-quarter low of 6 per cent in Q4FY25.

Economists reckon this recovery could be a sign of the broadbasing of consumption in the economy. The latest data released by the National Statistics Office (NSO) on Friday also showed the share of PFCE in nominal gross domestic product (GDP) stood at 60.3 per cent in Q1FY26, up from 58.3 per cent in Q4FY25.

Paras Jasrai, associate director, India Ratings, said growth in sales volumes of fast-moving consumer goods picked up to 6 per cent in Q1FY26 from 5 per cent in Q4FY25.

Rural areas continued to outpace urban areas in growth in volumes for six consecutive quarters.

Favourably, the gap in growth in volumes is narrowing.

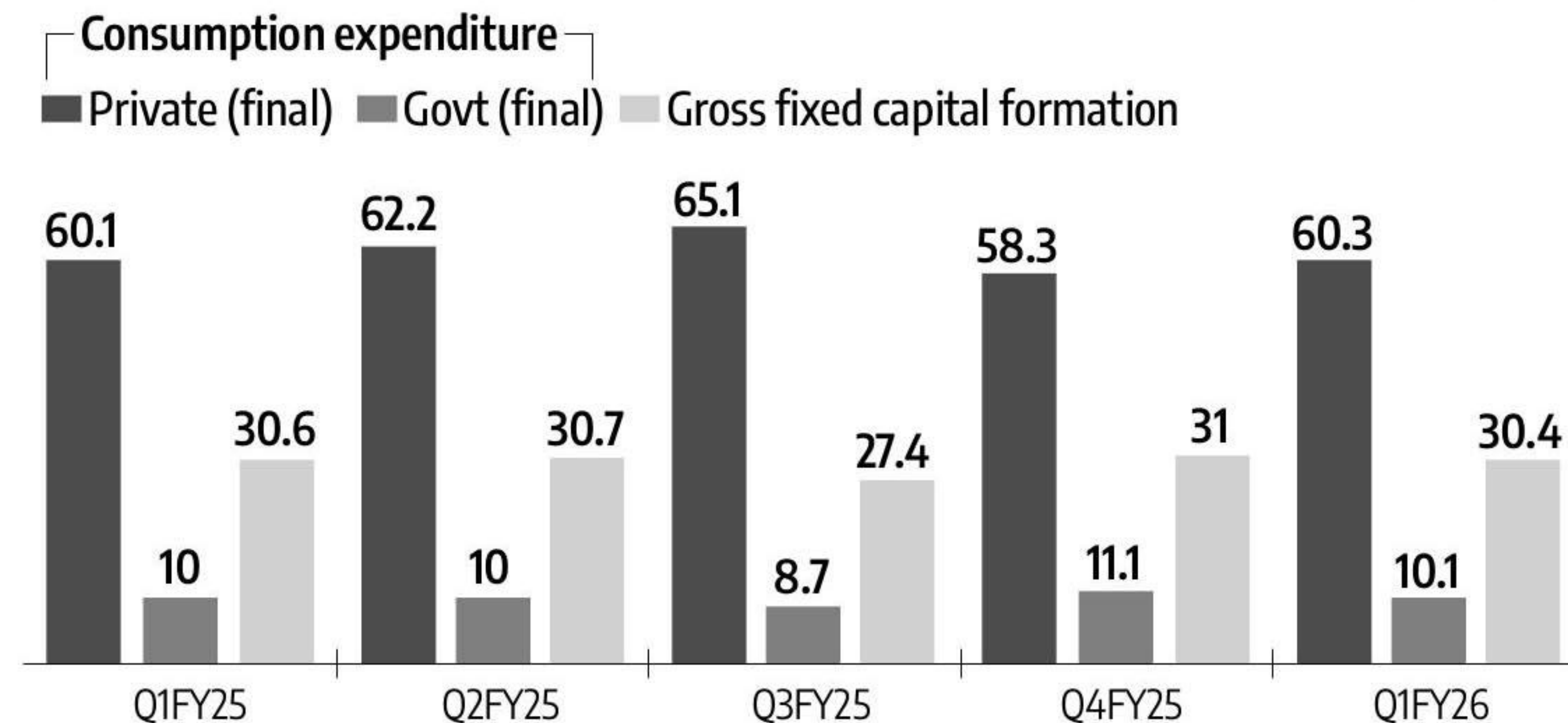
"In addition, the sharp jump in import also points to a pickup in spending by the upper-end income strata. This was facilitated by a significant pickup in the real-wage growth of the formal sector (private non-financial companies), which stood at



an eight-quarter high of 7.4 per cent in Q1. Even rural real-wage growth (for agriculture) remained positive for the fourth straight quarter," added Jasrai.

Echoing similar views, Icra Ratings Chief Economist Aditi Nayar said the outlook for private consumption was bolstered by developments like income-tax relief, a cut in the repo rate by 100 basis points, healthy progress in kharif sowing, and the upcoming rationalisation of slabs in goods and services tax, even as discretionary purchases by households could be deferred in the second quarter, until tax cuts came during the festival season.

Investment and consumption share in GDP* (%)



*At current prices, Source: NSO

The data also showed gross fixed capital formation (GFCF), which is taken as a proxy for investment demand in the economy, recorded a robust growth rate of 7.8 per cent in Q1FY26, albeit lower than the 9.4 per cent in Q4FY25.

As a share in nominal GDP, it slid to 30.4 per cent in Q1FY26 from 31 per cent in the preceding quarter.

"Capex by the Union and 25 state governments increased 33.3 per cent during Q1, which is indicative of frontloading by governments and has helped in propelling investment demand. There was also some momentum in the private sector as indi-

cated by a robust capital goods output growth rate of 9.8 per cent in Q1. It is vital that governments maintain the capex momentum and frontload capex plans (like in FY24) in view of unprecedented volatility and uncertainty in the global economic environment," said Jasrai.

Moreover, government spending, as represented by government final consumption expenditure (GFCE), clocked a robust growth rate of 7.4 per cent during the quarter from the contraction observed (-1.8 per cent) in the preceding quarter. As a share in nominal GDP, it fell to 10.1 per cent from 11.1 per cent in Q4FY25.