Reading the tea leaves on consumption

Are we on the verge of a phenomenal unleashing of consumption? This column takes a consumer-based stab at assessing what may happen — consumer-based assessments explain phenomena better than company performance-based, or worse still, listed-company performance-based assessments.

Let's examine the situation of the three major drivers of household consumption growth: When people get more money — whether earned, borrowed, or through welfare; when things people want to buy become cheaper or when the cost of loans become cheaper; and when people feel the economic environment is getting better and there is nothing lurking in the future that makes it unsafe for them to spend today.

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Cuts in the goods and services tax (GST) rates have decreased prices across the board, from Mercedes cars to mustard oil, and hotel rooms to health insurance. Unlike segment-specific welfare transfers, or income-tax cuts, or category-specific excise duty cuts, this measure benefits everybody. It incentivises high-income, heavy-spending buyers of premium goods and services who contribute a large chunk to private consumption expenditure and have comfortable surplus income to spend even more . It also enables modest-income, modest-spenders who desire more than they can afford to increase spending. The festival-season–timed GST rate slash, in an environment of low inflation and potentially lower borrowing costs, creates a strong tailwind for consumption.

Companies have historically shown bearish and bullish behaviour in terms of their marketing efforts, rarely staying a steady course, except for a few seasoned consumer marketers. When they see a supportive environment, they spend on marketing and absorb increases in material costs, betting on getting a return on it by way of increased revenue. However when the environment is tough and they need to appease the stock market, they do the reverse and choose profit growth over revenue growth. The corporate flavour this season is bullishness, and the high festival push by companies and retailers adds to the tailwind for consumption.

Before we get to income, always the fly in the ointment of India's consumption story, let's examine consumer confidence. The Prime Minister's branding of this as GST Bachat Utsav, semiotically linking it to festival celebrations, sends a strong signal to Consumer India — there is no cause for consumption timidity, it is safe to seize the moment. Consumer confidence has been low in Urban India, according to the Reserve Bank of India (RBI) Urban Consumer Confidence Survey. (The metric of confidence in the future is not a sensitive one in India because every study shows that Indians always remain very optimistic about the future, no matter how stressed they are in the present. What makes more sense is to track the progress of the metric of how they perceive the situation today, compared with a year ago).

Urban consumer perceptions on the economic situation are still in the negative zone, though getting progressively less negative from January 2025. Income perception has entered the positive zone since March 2025, and spending on non-essentials has just turned non-negative. If the information technology (IT) sector holds off layoffs, the upper- and upper-middle-income urban consumption will respond well to the price cuts and supplier push.

As for rural consumption, the July 2025 RBI Rural Consumer Confidence Survey (RCCS) shows far less positive news than the Nabard Rural Economic Conditions and Sentiment Survey (RECS) for the same period. RBI RCCS shows only slightly positive perceptions of the economy and employment, but mildly negative income perceptions, although all indicators have been improving since January 2025. We know that when positive acts of God (good monsoon and yields) and government (support prices, subsidies and transfers, infrastructure improvement, credit flows) coincide, rural consumption does very well. Nabard RECS points in that direction, with strongly positive perceptions on income improvement over the past year, even more so on road infrastructure, and 89 per cent of households reporting that they received government transfers or subsidies, with 30 per cent of them saying that it accounted for over 10 per cent of their income. We know support prices have been upped. Add GST-led price cuts to this, and it seems safe to bet on strong rural consumption growth across incomes. As we know, half of India's upper-income consumers are rural.

Who gains will depend on choices that different segments of consumers will make based on their own particular logic. Consumer durables of all sizes and categories will be universal favourites, as most are considered necessary productivity and life-efficiency tools — with the sweet spot being upper-middle to high-income buyers who are replacing and upgrading. On durables, the modest-income consumer's mantra has always been "stretch for more, not settle for less" and price cuts incentivise this further. There will be a lot of latent planned but repressed demand that will get triggered, "*chalaa lete hain*" (let's make do with what's there) will get pushed into "*Kar hi lete hain, mauka acha hai*" (let's go for it, it's a good opportunity). However, some of this is borrowed sales from the future and should not be considered the new normal.

The positive effects of the price drop will slowly unfold over the next year, as the urban consumers' reality and sentiment improve. Travel and entertainment experiences will be the new aspirational categories for all, and premium services will be lapped up by upper-income households. There will be severe cross-category competition, as has been for a while now. Toiletries and grocery savings even by lower income groups may not be used to up-trade within the category but for more fuel or higher borrowings (EMI).

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