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India's consumption story

Turning the page after wallowing in a slump

January 2026

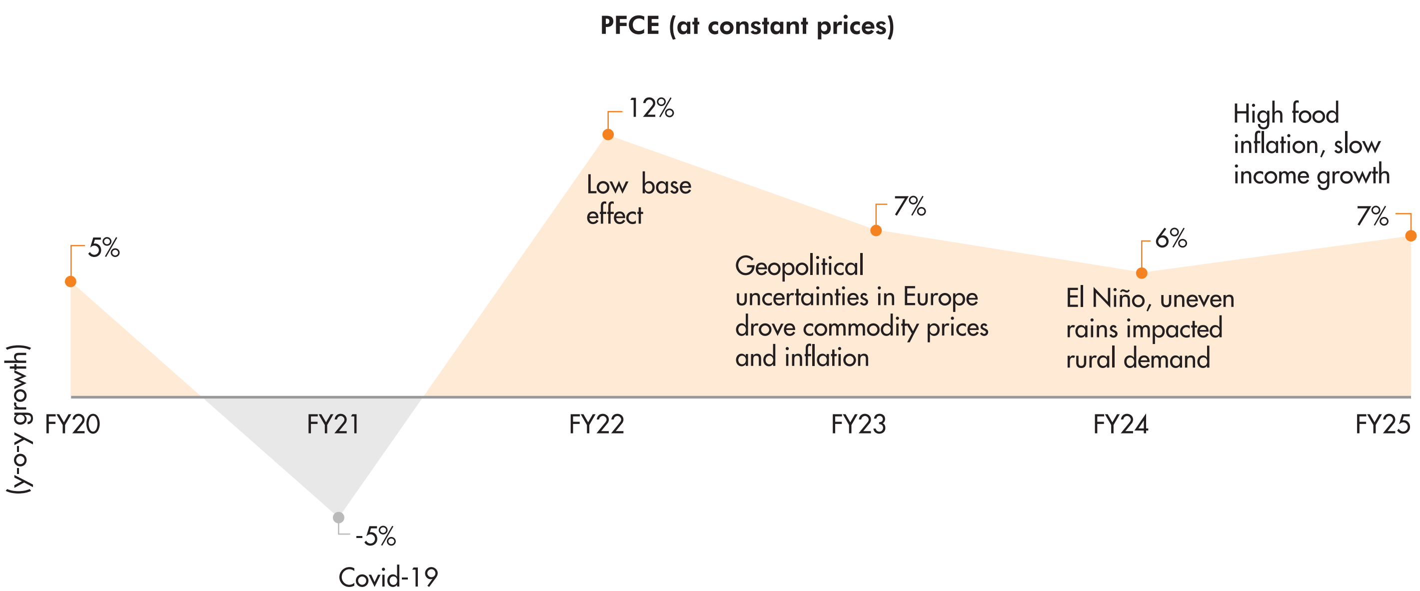
In recent years, sluggish income growth and elevated inflation have slowed down consumption, a key driver of the Indian economy, which accounts for 55% of the gross domestic product (GDP).

However, in the near term, consumption is expected to pick up, aided by lower inflation, a favourable monsoon and supportive measures such as lower goods and services tax (GST) rates, new income tax slabs, government stimulus and the 8th Pay Commission, providing a boost to the economy. Structurally, India's favourable demographics, characterised by a large working population, rapid urbanisation and rising affluence, are poised to drive consumption and economic growth.

Consumption has lost steam lately

High-frequency indicators suggest a moderation in consumption over fiscals 2024 and 2025.

Private consumption moderated after a post-pandemic spurt



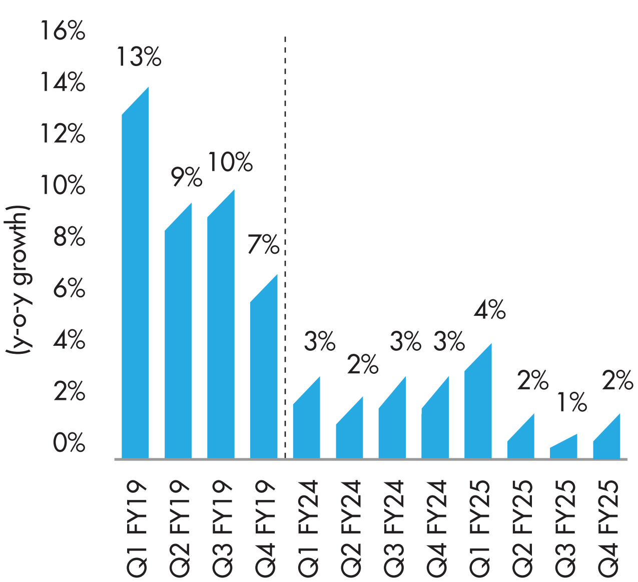
Note: PFCE – private final consumption expenditure
Source: Ministry of Statistics and Programme Implementation (MoSPI), Crisil Intelligence

The fast-moving consumer goods (FMCG) sector, for example, saw its volume growth dip to an average of 2% in the past two fiscals from 10% y-o-y in fiscal 2019.

Similarly, the small appliances segment experienced a sharp slowdown, with revenue growth averaging 3% over the past two fiscals from 23% y-o-y in fiscal 2019.

FMCG volume growth slowed in fiscals 2024 and 2025

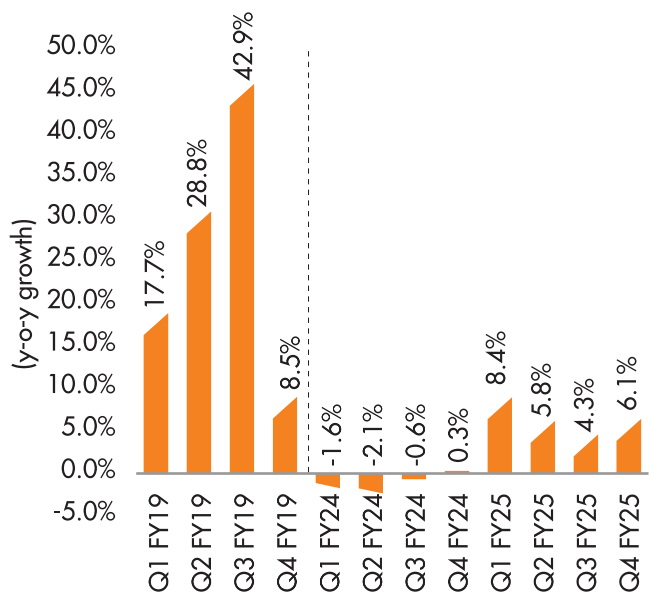
FMCG volume growth



Note: The data represents weighted average volume growth of Hindustan Unilever Limited, Marico and Dabur
Source: Company reports, Crisil Intelligence

Small appliances, too, saw muted revenue growth

Small appliances revenue growth



Note: The data includes financials of Butterfly Gandhimathi Appliances Ltd, TTK Prestige Ltd, Orient Electric Ltd, Crompton Greaves Consumer Electricals Ltd and Bajaj Electricals Ltd
Source: Company reports, Crisil Intelligence

Additionally, real estate demand—especially in the mass market—has been tepid. In fiscal 2025, the residential real estate market in the top seven cities clocked a modest 2% y-o-y increase in supply. Notably, the luxury segment, comprising properties valued at over ₹1 crore ($113,000)[1], drove this growth, whereas the mass segment saw lacklustre demand. This mirrors the broader trend in urban consumption patterns, where high-income individuals continued to opt for premium products, while the middle-class segment saw a slowdown in spending.

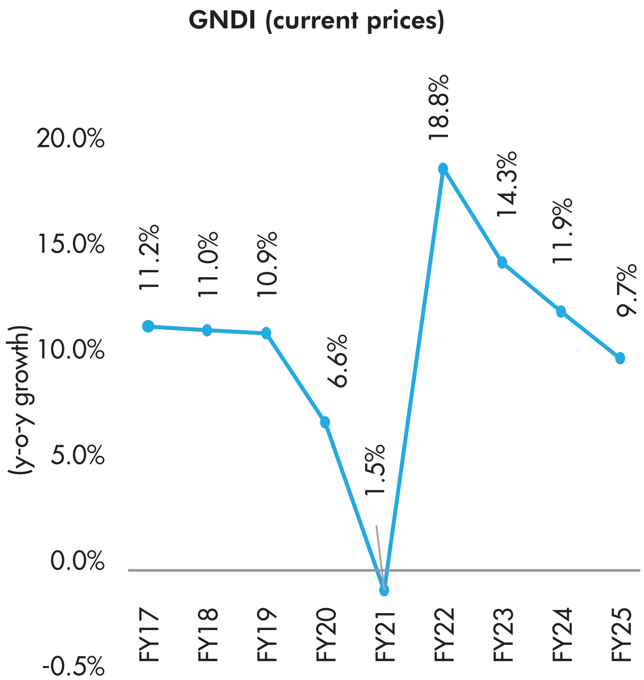
[1]*Exchange rate: $1 = ₹88.8 in the entire document*

The income-inflation squeeze

Slower growth in disposable income and high inflation are the underlying causes of the recent slowdown.

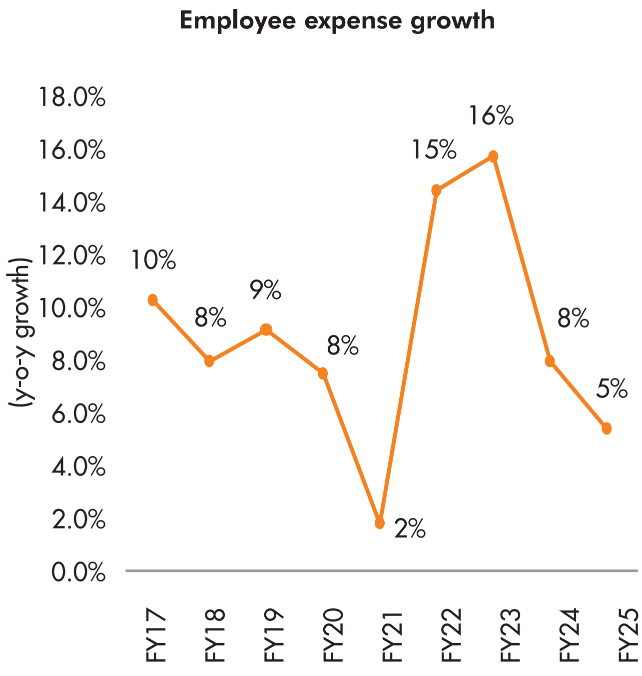
Gross national disposable income (GNDI) growth slowed to 11% on average over fiscals 2024-2025 from an average of 17% in the preceding two fiscals, eroding consumption capacity. Similarly, corporate salary growth, as measured by staff costs (using a set of 767 companies), decelerated to 8% and 5% y-o-y in fiscals 2024 and 2025, respectively, after logging 15-16% y-o-y growth in the preceding fiscals.

Decelerating GNDI growth



Source: MoSPI, Crisil Intelligence

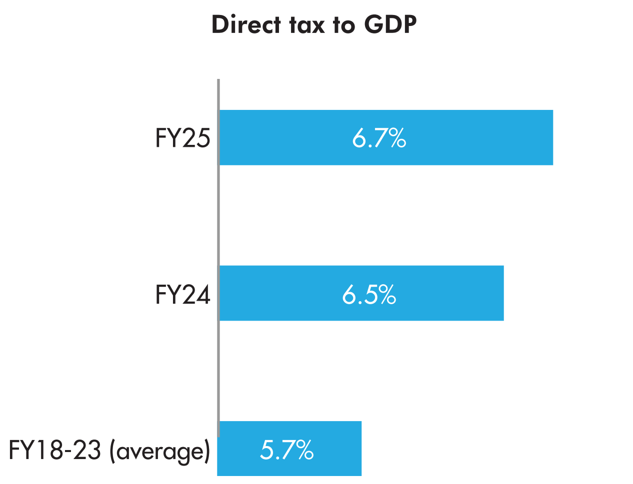
Employee expense also on a downtrend



Note: Employee expenditure has been determined through a bottom-up approach by combining staff expenses of 767 companies.
Source: Company reports, Crisil Intelligence

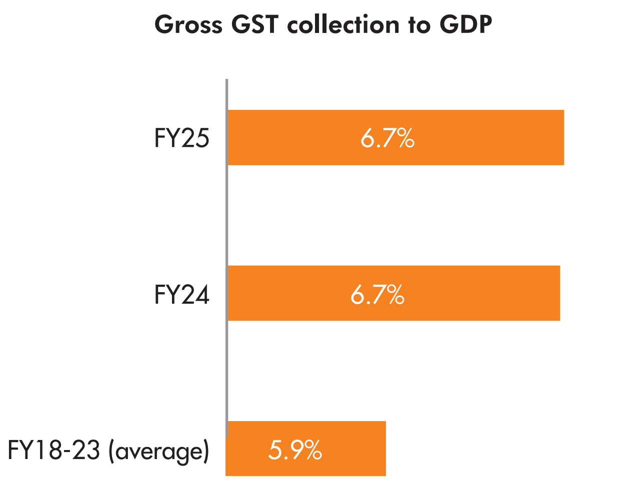
The slowdown in income growth, combined with rising expenses such as higher taxes, inflation and interest rates, has left consumers with limited disposable income for consumption. Notably, the income tax-to-GDP ratio increased to 6.6% on average over fiscals 2024-2025 from an average of 5.7% between fiscals 2018 and 2023. Similarly, the gross GST collection as a percentage of GDP increased to an average of 6.7% over fiscals 2024-2025 from 5.9% during fiscals 2018-2023. This has further reduced consumers' purchasing power.

Direct taxes have inched up recently



Source: Ministry of Finance, MoSPI, Crisil Intelligence

GST collection, too, has increased over the years



Source: GST, MoSPI, Crisil Intelligence

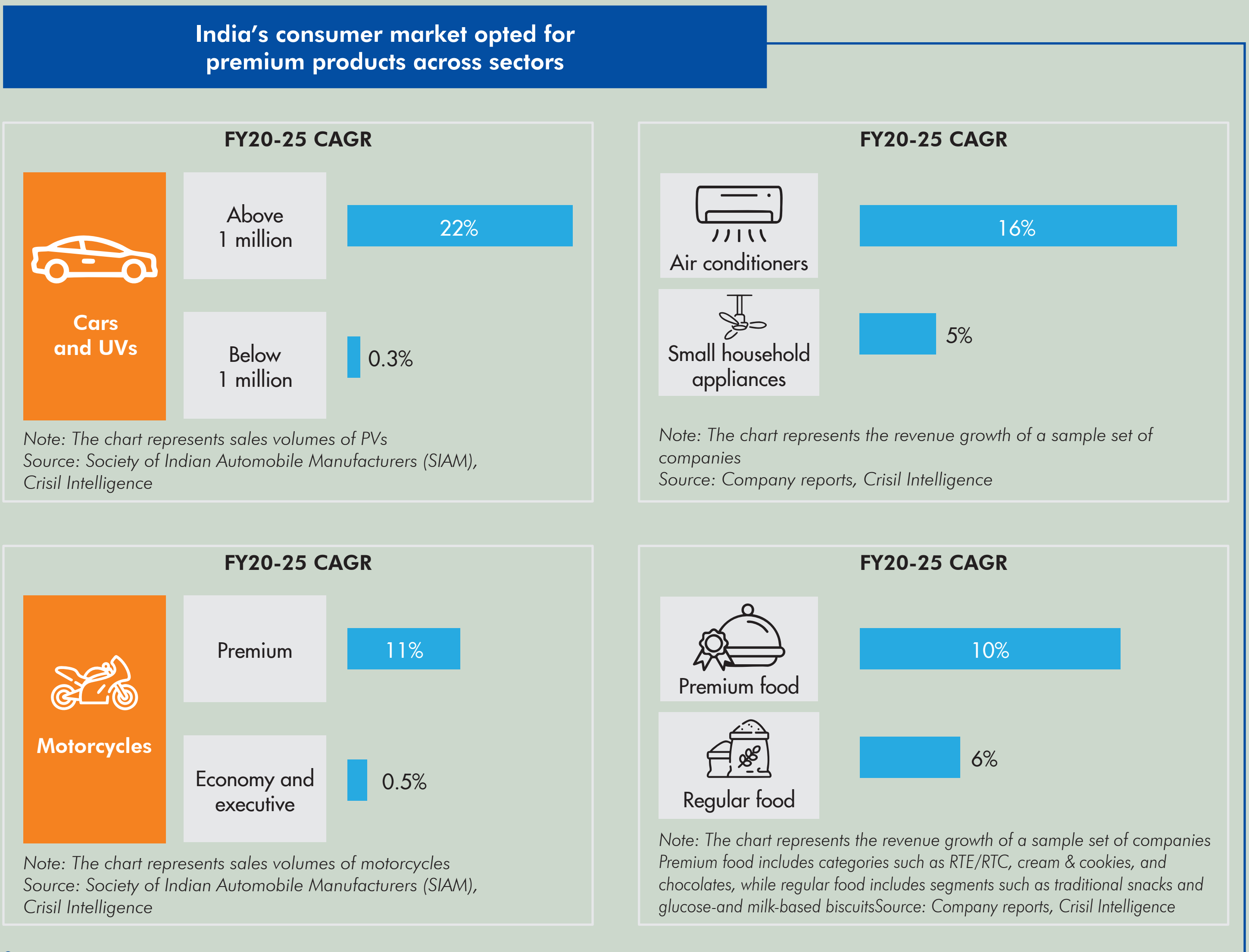
Inflation has been a major contributor to the slowdown in recent years, with its impact varying significantly across income groups due to disparate consumption patterns.

Lower-income households have been disproportionately affected, as essential items such as food and fuel account for a larger share of their overall expenditure. The high food inflation rates of 7% and 6.7% in fiscals 2024 and 2025, respectively, have taken a substantial toll on the purchasing power of low-income households in urban and rural areas.

Food being a necessity, the increased expenditure on it has further reduced the ability of these households to allocate funds to discretionary spending, exacerbating the decline in overall consumption.

Shift towards premium products continues

In the aftermath of Covid-19, India's consumption narrative spanning sectors, reveals a split trend: A rise in demand for upscale, premium products, particularly in urban regions, contrasts with a decline in sales for entry-level and mass-market goods. Consumers seeking more value and convenience are opting for premium products—a trend that is expected to continue.

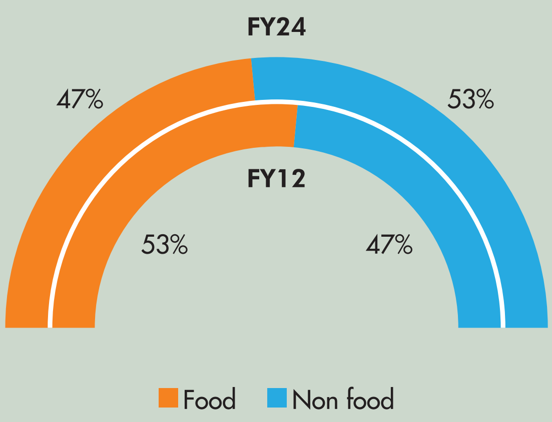


Non-food items a bigger draw

A notable shift in consumer spending habits is underway, with the monthly per capita expenditure (MPCE) survey revealing a growing preference for non-food items.

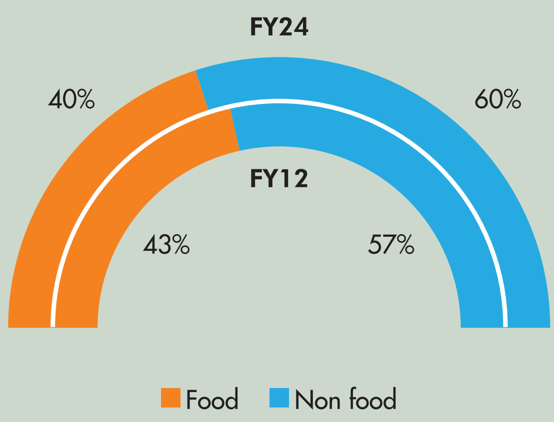
Among non-food categories, there is a visible shift towards conveyance and durable goods. In urban areas, the proportion of conveyance and durable goods increased to 8.5% and 6.9% in fiscal 2024 from 6.5% and 5.6% in fiscal 2012, respectively. In rural areas, the proportion increased to 7.6% and 6.5% from 4.2% and 4.9%, respectively.

(% share in total MPCE, rural)



Source: MoSPI

(% share in total MPCE, urban)



Source: MoSPI

Consumption poised to pick up pace

After being impacted over the past two years, consumption is expected to improve in the near term in urban and rural areas, driven by a host of factors:

GST rate cuts

The reduction in GST rates is expected to have a positive impact on consumption. This is evident in the 20% y-o-y surge in passenger vehicle sales in October 2025, driven by lower prices and improved consumer sentiment

New income tax slabs

The increase in the tax rebate limit to ₹12 lakh ($14,000) this fiscal has provided an income boost to salaried individuals. Furthermore, the revision of tax slabs has resulted in a reduction in tax liability across income levels. Under the new tax regime, individuals can expect an increase in their net take-home pay of up to ₹1.14 lakh ($1,300) per annum, with the maximum benefit accruing to those with annual incomes exceeding ₹24.75 lakh ($28,000)

The 8th Pay Commission (set to take effect from January 2026)

Historically, pay commission revisions have supported sales in consumption-driven sectors such as automobile, FMCG and electronics. For example, following the introduction of the 7th Pay Commission in fiscal 2017, passenger vehicle sales saw a significant boost, with average volume growth of 9% in fiscals 2017 and 2018. This trend was similar to that seen during the sixth pay revision, where consumption also saw a notable increase

Healthy monsoon

The southwest monsoon was above normal (108% of the long-period average) this fiscal. A good monsoon will ensure adequate soil moisture, which bodes well for the rabi or winter crop. Two consecutive years of good monsoon are likely to boost rural incomes and aid rural recovery, which has been lagging since the pandemic abated, providing a fillip to consumption

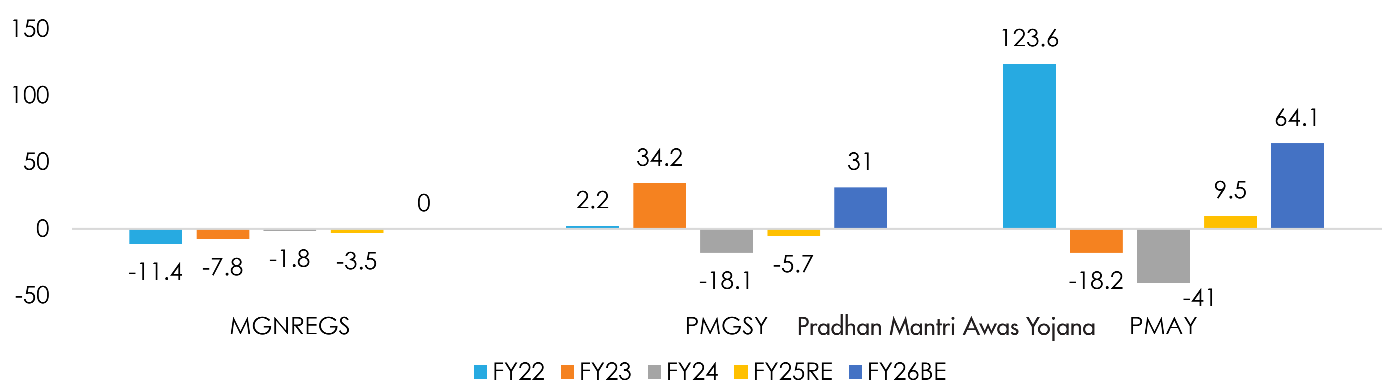
Government support

Higher allocations for key central infrastructure and employment-generation schemes such as the Pradhan Mantri Awas Yojana (PMAY) and the Pradhan Mantri Gram Sadak Yojana (PMGSY) should support incomes and consumption, with a 23.7% total allocation boost. This will mainly benefit lower-income households that will use the increased cash for consumption.

Easing food inflation

India's headline inflation declined to 1.5% in September 2025 from 3.2% in April 2025. The downward trend is largely attributed to a substantial easing in food inflation, which has remained negative since June 2025, except for a marginal 0.04% increase in August 2025

Allocation for key welfare schemes higher y-o-y in fiscal 2026



MGNREGS: Mahatma Gandhi National Rural Employment Guarantee Scheme, PMGSY: Pradhan Mantri Gram Sadak Yojana, PMAY: Pradhan Mantri Awas Yojana, RE: Revised estimate, BE: Budget estimate
Source: Budget documents, Crisil Intelligence

The road to recovery

Together, the measures mentioned above are set to lift consumption across India, though the impacts may vary regionally.

Urban demand is likely to benefit more from the GST rate cuts, revised income tax slabs and the upcoming 8th Pay Commission, all of which enhance disposable incomes and support discretionary spending.

Rural India, meanwhile, stands to gain from a strong monsoon, targeted government programmes and the sharp easing in food inflation.

Early signs are visible already. Rural markets have recorded improving FMCG volumes and stronger tractor sales, while urban consumption, especially in smaller towns and cities, has begun to firm up. The robust passenger vehicle sales in October 2025 underscore a broader shift in sentiment, suggesting that urban demand may have hit its lowest point and is now poised for a rebound.

Looking beyond the near term, India's structural foundations remain deeply supportive. A large and youthful workforce, rapid urbanisation and rising household affluence continue to underpin the country's long-term consumption potential. As cyclical pressures fade and incomes stabilise, these structural tailwinds position India to re-accelerate its consumption engine, renewing momentum not just for households, but for the broader economy in the years ahead.

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