



## URBAN SLOWDOWN - ECONOMY

**NEWS:** Growth in urban income has been declining and this has hurt the sentiments, forcing people to hold back on their spending.

### WHAT'S IN THE NEWS?

#### Overview of FMCG Sector Challenges

- **Double Pressure:** The FMCG sector faces a dual challenge of rising input costs and a slowdown in urban demand, which is affecting sales and profit growth.
- **Q2 Earnings Impact:** Major FMCG companies reported subdued September-quarter earnings, with slower growth in both revenue and profit.

#### Decline in Urban Demand

- **Urban Slump:** Unlike the previous rural slowdown, urban consumers are now cautious with their spending due to inflation.
- **Earnings Analysis:** According to Mint, top-line growth for 21 listed FMCG companies in the BSE index rose by only 10% year-on-year in Q2, while net profit growth fell to 8%, compared to 11% in the previous quarter.

#### Rising Input Costs and Profit Margins

- **Surge in Raw Material Costs:** Raw material expenses for FMCG companies increased by 9% in Q2, the highest in seven quarters, pushing operating and net profit margins down.
- **Impact on Margins:** Operating margins fell by 140 basis points, and net profit margins dipped from 13.9% to 13%.

#### Mid-Sized Companies Most Affected

- **Profit Decline by Size:** Mid-sized FMCG companies experienced the biggest decline in profits (7% sequentially), while large companies saw a 5% drop. Small companies managed a profit increase of 11% despite higher raw material costs.

#### Shifts in Consumer Demand

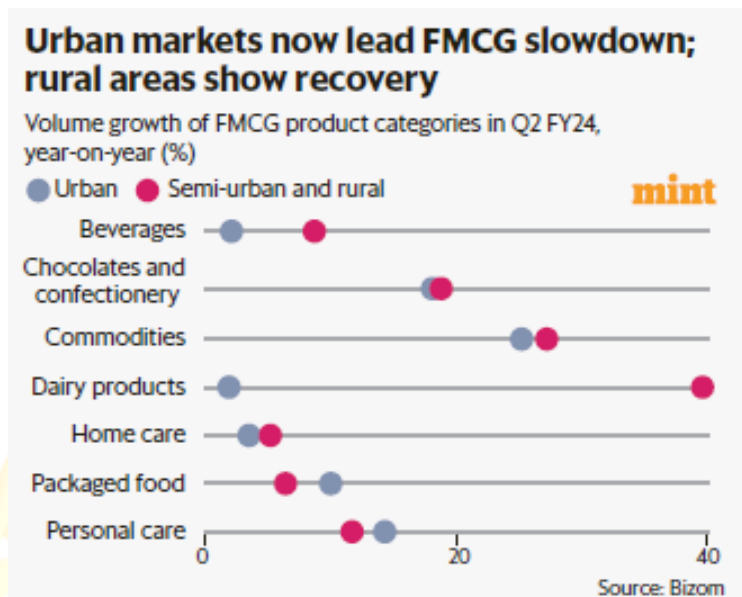
- **Premium Segment Growth:** Despite the urban slowdown, demand for premium FMCG products remains strong, driven by the trend of premiumization.
- **Dichotomy in Consumer Segments:** Middle-class consumption has shrunk, while premium categories like home care and processed foods continue to grow faster than the rate of inflation.

#### FMCG Demand Dynamics

- **Urban vs. Rural Demand:** Rural areas have outpaced urban areas in FMCG volume growth, reversing the traditional trend where urban demand dominated FMCG sales.



- **Bizom Data:** Rural demand for FMCG products across multiple categories saw more growth than in urban areas during Q2.



## Factors Influencing Urban Demand Decline

- **Reasons for Urban Dip:** According to the finance ministry, factors such as soft consumer sentiment, high rainfall, and seasonal buying patterns have contributed to the urban demand drop.
- **Economic Concerns:** With private consumption comprising nearly 60% of India's GDP, the dip in urban demand could have broader economic implications.

## Rural Demand Recovery

- **Positive Rural Indicators:** Above-normal monsoons, higher minimum support prices for crops, and government welfare schemes are supporting a revival in rural demand, which could partially offset urban challenges.
- **Sector Outlook:** Rural resilience and potential urban recovery are crucial for FMCG growth, though margin pressures from input cost inflation may persist.

**Source:** <https://www.livemint.com/economy/urban-consumption-middle-class-spending-economic-growth-mint-primer-11730734472353.html>