
Financial inner world of India's households

Neha Chowdhry / New Delhi August 25, 2010, 0:09 IST

In 2007, a McKinsey report predicted that Indian consumption will quadruple by 2025 due to rising household income spurred by strong economic growth, India's youthful demographic profile and a decline in the savings rate. This would make India the world's fifth-largest consumer market, profoundly impacting both the manner in which businesses and policy-makers address the new "middle class" as well as the nature of savings in the subcontinent. Given the contraction in demand from traditional export markets abroad, domestic consumption trends in countries like India and China have become more relevant than ever before.

In that sense, *How India Earns, Spends and Saves – Unmasking the Real India* is well timed. Based on the results of the National Survey of Household Income and Expenditure (NSHIE) of 2004-05, conducted every five years, the book looks to unravel the complicated landscape of the Indian consumer.

Divided into seven chapters, the book analyses the earning, spending and saving patterns of Indian households, and discusses income distributions and disparities, specifically dissecting the well-being of urban and rural consumers. Based on a survey that spans 440,000 households spread over 24 states, it is an exhaustive look into the financial inner world of Indian households.

Although the book offers little new material in the manner of analysis, the value-add is in the detail of the data it provides. Given the rising importance of the domestic market, it is crucial for businesses and policy-makers to understand emerging trends in earning, spending and saving.

According to the NSHIE, the 205.6 million households in India are 70 per cent rural and 30 per cent urban. Earners compose of a quarter of the population. The average household in India had an annual income of Rs 65,401 and expenditure of Rs 46,558 in 2004-05. This means that Rs 16,483 was available for savings and investment. Income levels in urban areas were 85 per cent higher than that in rural areas, and the average urban household saved double that of its rural counterpart.

At 28 per cent, India has one of the highest savings rates in the world. Yet, with increases in disposable incomes, the rates of consumption are also growing. Today, India saves 81.4 per cent of its earnings on average. Urban India saves 88 per cent, and rural India 78.5 per cent. It is worth noting that households categorised as illiterate prefer to keep more than half of their earnings at home — presumably because they do not have access to financial institutions.

The text identifies households in the agricultural sector as having the lowest income at an average of Rs 48,097 — with those in urban areas earning 1.5 times more than in the rural areas.

This rural-urban earning divide can be seen across the sectors the households engage in, the professions they hold and the states they reside in. The main reason for this may be the levels of education of the chief earners in urban areas are higher than that of the chief earners in rural areas, calling into sharp focus the importance of education for increasing income levels in the country.

The manner in which households spend these incomes varies across the rural-urban divide, as well as across the states with varying incomes. Rural households spend a third of their incomes on food (Rs 18,266), while urban households spend slightly more than a quarter (Rs 26,524). While urban households predictably outspend their rural counterparts on housing and education, it is interesting to note that they are spending similarly on transport, health, clothing and consumer durables, pointing to a rising aspirational trend. Another interesting trend is the large amount of “unusual expenditure” that both rural and urban households are putting towards ceremonies — 55 per cent and 45 per cent, respectively.

The income of the state of residence also impacts the manner in which households spend. Expenditure in high-income states is 1.27 times higher than that in low-income ones, while earnings in the former are 1.71 times higher than that in the latter.

For businesses, the findings of the text in terms of the patterns of product ownership in rural India reveal interesting trends. As pointed out by the author, rural India contributes 33 per cent to surplus income, 57 per cent to total expenditure and 56 per cent to total national income and houses 36 per cent of households where that chief earners are graduates. The trend in the ownership of products in rural households is shifting, with high-end consumer products increasingly finding rural buyers.

Although the text is more of a statistical handbook than a narrative analysis of existing consumer trends in the country, it serves two important functions. First, the data provide a road map with which to unravel the complicated terrain of Indian consumption for businesses, marketers and policy-makers. It allows for a wider and more informed discussion on the nature of financial distribution as well as inclusive growth. More importantly, it provides the much-needed information on the “bottom of the pyramid” consumers — by analysing them within a number of parameters such as education, state of residence and sectors of engagement.

HOW INDIA EARNS, SPENDS AND SAVES

Unmasking the Real India

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