

**India, sunny side up**

Rajesh Shukla

Posted online: 2010-07-27 20:20:27+05:30

At the height of the global recession of 2008-09, which also swept large swathes of the Indian economy, help came from unexpected quarters. Rural India, an enigma locked in mysterious data, came to the rescue of Indian industry and services. The rural citizen-consumer, the same who had rebuffed the 'India Shining' hype four years earlier, asserted his 'arrival' as a market that is as dynamic and deep as the urban one. Observers realised that India now had a solid middle-income group living in rural areas with higher levels of disposable wealth for the same levels of income as their urban counterparts. It was noticed that while incomes and expenditure in rural India have increased, so too has spending on non-food items. How this 'miracle' occurred is my focus in this article.

Since 1991, there have been plenty of 'glass half full' theories about the rural consumer base. But it is only after the 2008 experience that the message has gone home to the Indian marketing expert that you cannot ignore 64% of India's consumer base, which is scattered all over India and whose complexion is quite variegated. In *The Great Indian Middle Class* (2005), while on the subject of the rural consumer, I had written that India's rural majority accounted for huge consumer spending, making them by far the biggest buyers in the country who contribute significantly to India's GDP. The number of middle- and high-income households in the villages was expected to grow from 77 million in 2001 to 151 million by 2015; while in the cities, the growth was expected to be from 46 million to 87 million. Thus, the absolute size of the rural Indian consumer base was foretold to be about double of that of urban India. I had, thereby, identified a new socio-economic category, the 'rural rich', which added an extra dimension to the old, rural-urban divide. The rural rich were seen as 1,000 times more likely than rural poor to own a motorbike, 100 times more favoured to own a CTV and 25 times more likely to own a pressure cooker.

Just to give an idea of the progression of events, we had noted sharp differences in ownership profiles of most consumer durables. For instance, in the lower category of durables like pressure cookers and fans, rural ownership levels were much lower than urban (38% vs 80.4%). In the area of geysers, vacuum cleaners and mixer-grinders, the all-India level was 35%, of which urbanites constituted 56% while rural folk only 19%.

Data on incomes is key to estimate the behaviour of any consumer base, more so when it comes to a diverse universe like rural India. In *How India Earns, Spends and Saves: Unmasking the Real India* (2010), NCAER-CMCR found that despite the macro successes of post-1991 liberalisation and a GDP growth rate that is the envy of the world, rural India is still discriminated against. An 'average rural household' is self-employed in agriculture and accounts for 41.3% of the national population, earning 42.1% of the income. In urban India, in contrast, this group accounts for just 3.1% of the population and 2.6% of the total urban income. Households headed by labourers form 34.6% of rural families but they earn only 20% of rural incomes. In urban India, where far more categories of occupation are visible, labour households make up 22.9% of the urban population but earn 9.7% of the income, which in relative terms is better than the rural experience.

Yet, how did the same lot 'save' the Indian economy in 2008-09? Some may attribute it to the National Rural Employment Guarantee Scheme, which despite problems with implementation has arguably landed more money in the hands of villagers and others than the waiver of agricultural loans. But NCAER had seen it coming. For some years preceding (even before NREG was known), our research had been identifying greater savings patterns in rural India. In 2007, we stated that owing to negligible tax liability and little or no burden of loan repayments, the Indian rural population displayed a higher propensity to save. At that time, rural areas accounted for 33% of India's total savings. Being more conservative than their urban counterparts, the rural populace had not burnt their fingers in real estate or the stock markets. Also the cost of living in Indian cities being considerably higher, expenditure is naturally higher, across all categories of occupation. Even though townspeople earn more than their rural brethren, what weighs them down is expenditure.

We expect rural demand for FMCG to grow at a higher rate (36-40% plus) compared to urban growth (22-26%). The telecom sector, too, is bullish about rural connectivity and projects rural connections to grow to over 290-310 million, while the life insurance market will be about \$18-20 billion within the next 2 years. The rural non-farm sector is also being fuelled by urban growth. With large scale investment in rural infrastructure and the private sector's involvement in integrating its supply channels with rural India, there is a reasonably large potential for rural incomes to grow manifold in the coming years.

*The author is director, NCAER-CMCR*