

Changing Consumption Basket

With food still occupying a larger share of rural consumer's spends, she is 13-14 years behind her urban peer



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It is well known that consumer preferences have evolved considerably over the last two decades. However, the divide between the rural and urban consumers is striking. Similarly, linkages between the urban and the rural consumer and the former's impact on shaping preferences of the latter has been appreciated for. The preferences of those who migrate from village to town change.

This begs the question: how is urbanisation changing the household consumption pattern? Urbanisation may alter food consumption and, consequently, impact food demand. It may also lead to a change in the *lifestyle choice* made by households. However, there is little documentation and, thus, little is known about the various regional drivers present in the Indian subcontinent.

Consumption behaviour is typically determined by two sets of factors: one, of intrinsic factors comprising values, attitudes, culture, education, etc, which determine consumer preferences; and two, a set of ex-

trinsic factors such as disposable income, time availability and family composition, which determine the individual's capacity to fulfil his preferences.

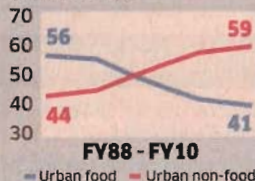
Despite our rich statistical history in survey and data collection, the Indian statistical system is struggling to adapt to the fast-evolving economic and social environment. Although, in the recent past, many committees and much debate have focused on improving the statistical system, not much progress has been made. However, despite their flaws, NSS surveys remain important, as they provide a wealth of information. There is huge scope for improvement, particularly on analytical and insightful extraction using unit-level data.

According to established research, as the level of income increases, the share of food items in total household expenditure declines for households in both urban and rural sectors. This finding is in complete conformity with Engel's law. Going through the tables that are in the public domain, some striking facts do come out. If one looks at the distribution of food and non-food in the consumption basket separately for rural and urban areas, what is revealed is quite interesting.

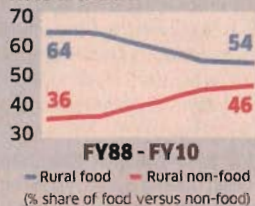
The portion of consumption expenditure allocated to non-food items in urban areas crossed that of food items sometime between 1993-94 and 1999-2000.

Changing Composition of Food Basket

URBAN INDIA



RURAL INDIA



In other words, urban households started spending a larger portion of their income on non-food items a little more than a decade ago.

On the other hand, households in rural areas are yet to achieve that milestone. Although expenditure on food has fallen over the decades, it is still a larger component of total expenditure than non-food expenditure. With the gap narrowing over the years, expenditure on non-food items might surpass that on food in the coming decade. It needs to be clarified that although absolute expenditure has gone up, what we are referring to is the distribution of expen-

diture among various categories expressed as a percentage of total expenditure.

Looking at the distribution of expenditure on various categories within the broad food and non-food categorisation, what is evident, and this holds true for both rural and urban areas, is that the proportion of expenditure on cereals has gone down sharply. In rural areas, the percentage expenditure on cereals has gone down by roughly 11 percentage points, from 26% in 1987-88 to about 16% in 2009-10.

Similarly, in urban areas, it has fallen from 15% in 1987-88 to 9% in 2009-10, a fall of 6 percentage points. Interestingly, the percentage of expenditure on beverages in rural areas has gone up from 4% in 1987-88 to about 6% in 2009-10.

The sharpest rise over the decades in the non-food category is observed in education, medical expenditure, consumer services, minor durable goods, conveyance and toilet articles. These items are characterised as miscellaneous goods and services category. This category, comprising primarily of expenditure incurred, accounts for a significant share of total consumption basket in both rural (24% in 2009-10) and urban households (38% in 2009-10). A closer look reveals that in rural areas, the fall in the share of cereals is made up almost exactly by the rise in the miscellaneous goods and services category.

The other categories in which the portion of expenditure has risen are durable goods and fuel and light. Expenditure on fuel and light, in rural areas, now accounts for roughly 10% of the total consumption basket, while the durable goods category now accounts for almost 5%. Interestingly, households in rural areas are spending a higher percentage of their consumption basket on fuel and light than households in urban areas, with the latter spending 8% in 2009-10, up from about 7% in 1987-88.

These changes make it imperative to understand how consumer perception is evolving, especially in regard to food habits and lifestyle choice. This information will assist businesses engaged in these areas to adapt themselves better to meet the ever-changing demands of the consumer. As for businesses, priorities and investments are based on demand forecasts, among other things, reliable estimates of income and expenditure elasticities of different commodities are a pre-requisite. Thus, to depict consumption patterns accurately, income-specific estimates are likely to provide a better understanding of the distinctive sub-groups within the broad rural-urban split. This will only help to know about the multi-headed Indian consumer better. (The author is director of NCAER-CMCR)