Changing Consumption Behaviour in India: A Few Key Insights

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### Why Understanding Consumption is Critical

Consumption is considered to be the fundamental determinant of welfare for any economy. It reflects several important characteristics of an economy including affordability, inequality and the similar ones. Consumption behaviour is one of the true measures of a society's economic, political and social condition at a given point of time or over time. This is one of the exclusive indicators that captures various interconnected issues of a society. Though worldwide research related to consumption has gained momentum for last three to four decades, in India it is still at a nascent stage. Most of the consumption related research in India is still geared towards understanding inequality and poverty instead of looking its implications on economy and business decision making.

One of the shortcomings for restricted research on consumption is certainly data paucity. However, it would be essential to define *consumption* before we enter into data related issues of the same. Consumption is the largest component of demand generated within an economy. Consumption can happen through various agents within an economy. Two broad components are private consumption and government consumption. In this article, we limit our discussion to private consumption only. Private consumption is a true reflection of economic condition and demand generation in an economy compared to Government consumption.

Analysis of consumption has become even more relevant since the household income distribution in India has changed significantly over time. Income distribution in India is presented in Figure 1 below. The chart clearly suggests that India has been experiencing a significant shift in household income distribution. While the shares of households in the higher income groups have shown continuous increase, the share of the lowest income group (less than Rs. 75,000 per annum) has been declining significantly. This must have an impact on consumption pattern as affordability of the households' changes.

With this background, this article focusses on understanding the changing household consumption pattern in India during from 2004-05 to 2014-15.

Figure 1: Distribution of Housheolds across Income Groups
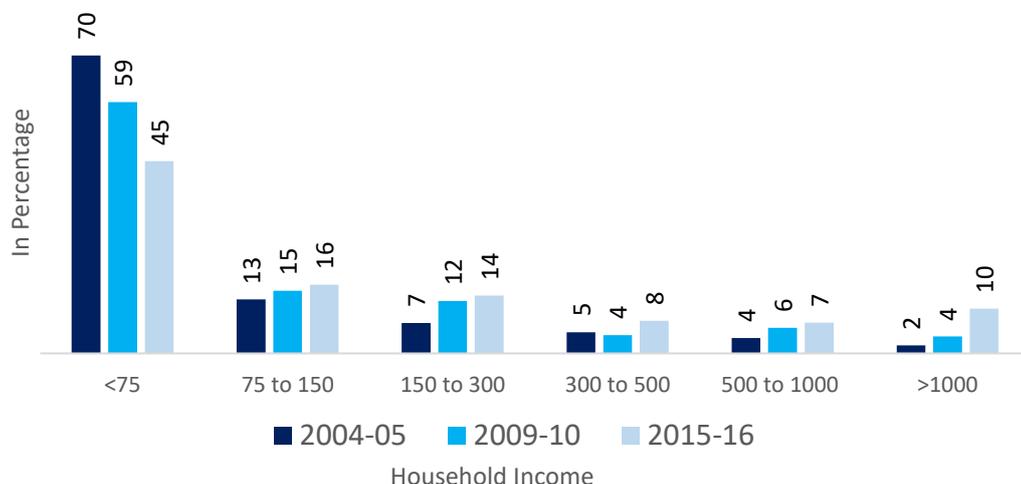
Source: Computed using Indicus Analytics Data.

The concept of Private Final Consumption Expenditure

While understanding private consumption in a country, the term *"Private Final Consumption Expenditure (PFCE)"* is the most important concept to understand. As defined by Government of India, "PFCE is defined as the expenditure incurred on final consumption of goods and services by the resident households and non-profit institutions serving households (NPISH)"[1]. It is clear from the given definition that three key criteria need to be fulfilled to be accounted for PFCE:

- Final consumption – The consumption for end use purpose. No intermediate consumption is included in PFCE to avoid double counting.
- Resident households – The consumption only by resident Indians is considered under PFCE. No consumption by NRI or foreign individuals is considered as PFCE.
- Goods and services – Any and every goods and services a human being consumed by households is considered under PFCE.

Keeping in mind the above criteria, PFCE is calculated as the following:

PFCE= Total consumption by the households and for the households in domestic market + Final Consumption Expenditure of Resident Households in the Rest of the World + Final Consumption Expenditure of Non-resident Households in the Economic Territory.

Data on Consumption

When we think consumption data in India, two most critical and authentic data sources are National Accounts Statistics (NAS) and National Sample Survey (NSS). Both are Government data as published by Central Statistical Organisation (CSO). While PFCE data from NAS is an aggregated data on several items, NSS data is captured through primary survey of households. There are a few other data sources available in private domain. However, in any research PFCE is extremely crucial since whichever data and methodology one uses to arrive at consumption numbers, the last word at aggregate level is PFCE as captured by NAS.

PFCE captures all sorts of consumption on goods and services in the country. However, to those are categorised into a few broad categories to make it comprehensive as well as manageable from analysis point of view. The broad categories of PFCE data[2] are as follows:

1. Food, Beverages & Tobacco
2. Clothing & Footwear
3. Gross Rent, Fuel & Power
4. Furniture, Furnishing, Appliances & Services
5. Medical Care & Health Services
6. Education
7. Transport
8. Communication
9. Restaurants and Hotels
10. Recreation & Cultural Services
11. Miscellaneous Goods & Services

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[1] https://data.gov.in/keywords/private-final-consumption-expenditure
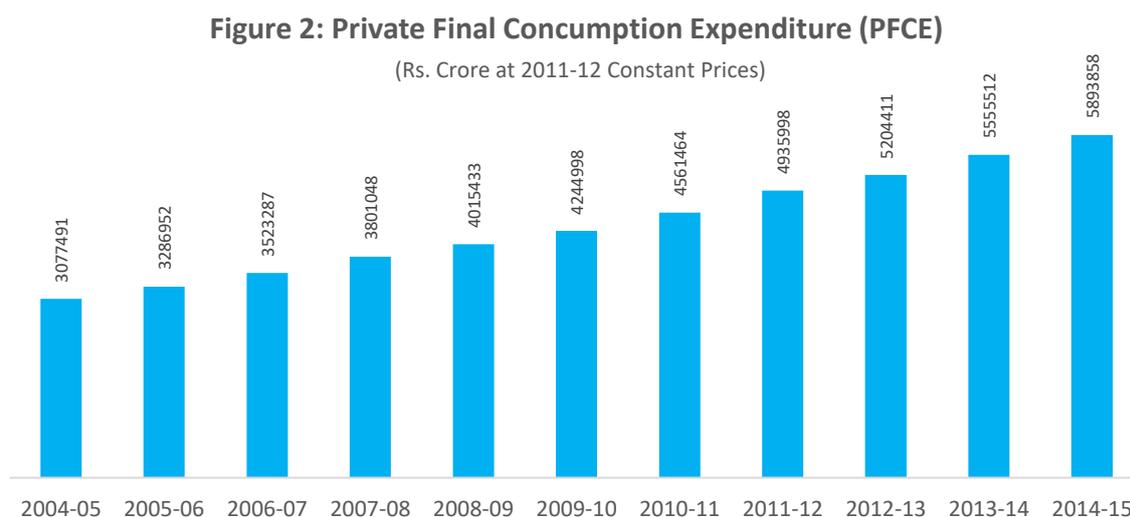[2] https://data.gov.in/catalog/private-final-consumption-expenditure-domestic-market-constant-prices

Apart from the above categories, one can also analysis PFCE in terms of durability, viz., Durable Goods, Semi-Durable Goods, Non-Durable Goods and Services.

With limited scope of this article and the visuals presented herein, this analysis has considered the former broad classification as mentioned above. Since presenting eleven categories in one visual is always a challenging task, I have tried to break the categories based on their nature of essentiality. Apart from food related items, Clothing and Footwear, Rent, Fuels & Power categories, health and education all other items were put as All Others. Wherever, certain key trends emerged regarding categories included in All Others, they are analysed and presented separately. To make a note here, though health and education are not strictly considered as essential items, we have considered those as crucial for the society and therefore, did not include it in All Others.

A time series PFCE data from a period of 2004-05 to 2014-15 is used for analysis. To adjust the data for inflation, entire data series has been converted into a constant price of 2011-12 to make it comparable over time.

Trends and Insights

Overall PFCE has shown a significant increase during last 10 years. Overall PFCE and the absolute change in PFCE from 2004-05 is presented in Figure 2 and Figure 3. As can be seen from the charts that private consumption in India has increased substantially in last 10 years. However the pace of change varied in each year. This reflects the variations we observed in country's economic growth and as a result household income generation. Absolute change in PFCE as observed in Figure 3 suggests that perhaps we can divide the entire period of 10 years into two distinct periods, 2004-05 to 2009-10 and 2009-10 to 2014-15. Apparently, during the period after 2009-10 consumption in India has increased at a higher pace than pre- 2009-10 period. The impact of global economic recession can be noticed through substantial dips in consumption in the year 2008-09 and 2009-10.

Figure 2: Private Final Concumption Expenditure (PFCE)

(Rs. Crore at 2011-12 Constant Prices)

2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
3077491	3286952	3523287	3801048	4015433	4244998	4561464	4935998	5204411	5555512	5893858

Source: Computed by Author using National Accounts Statistics of India

Figure 3: Absolute Change in PFCE

(Rs. Crore at 2011-12 Constant Prices)
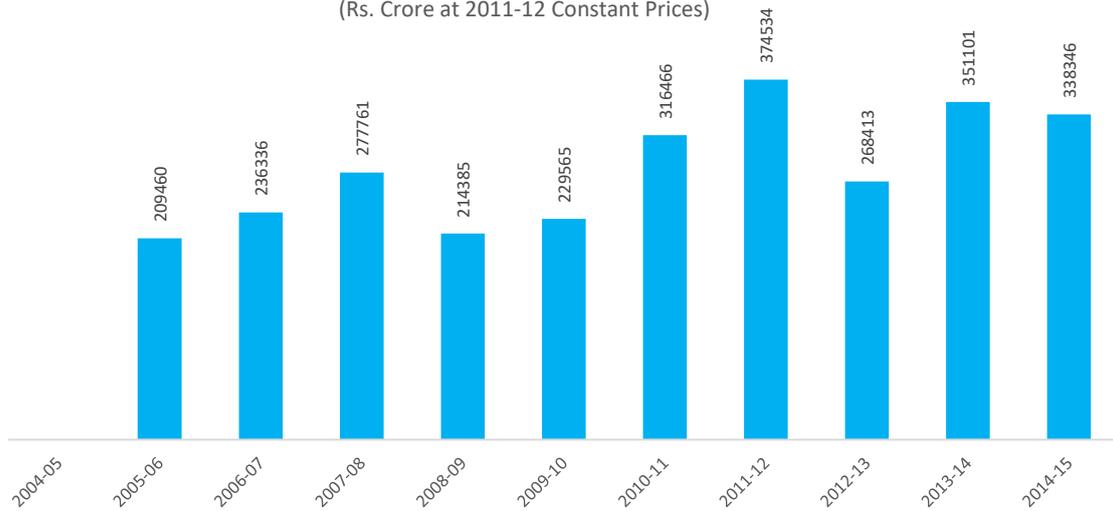
Source: Computed by Author using National Accounts Statistics of India

The following analysis considers these two distinct time points that as identified from PFCE trends. To make it comprehensive and reader friendly, I have avoided full names of each category. The names as given under data section should be considered while going through the analysis. The Consumption by the broad categories during three time points are presented in Figure 4 and 5. Food constitutes a significant proportion of total consumption basket of Indian residents. However, the chart shows a drastic change in composition of consumption basket. The primary trend says that consumption has increased for each of the broad categories. However, the key point as shown in the chart, consumption expenditure in items under All Others or non-essential category has increased much more compared to the essential goods and services.

To make it further clear, the proportions of all these items in Indian households' consumption basket is presented in Figure 4. It indicates a distinct direction on how the consumption pattern is changing in Indian context. Consumption of foods, beverages and tobacco related product has declined 8 percentage points during last 10 years from a proportion of 39% in 2004-05. Expenditure on house rent etc. has declined by about 3 percentage points, whereas clothing and footwear expenditure has gone up by 3 percentage points. Significant surge in consumption has occurred in case of other goods and services. From 37% in 2004-05, which was lower than that of foods etc., it has reached to 46% in last 10 years. This shows that Indian households are increasingly spending on non-essentials creating a demand for goods and services that were not as important earlier. This depicts a transition of the society from one stage to another. It is a reflection that Indian households do have higher disposable income in hand at present at an aggregate level compared to the earlier years. Therefore, they can spend on non-essential goods and services after fulfilling the requirements for essential commodities and services.

Figure 4: Year-wise PFCE by Categories

(at 2011-12 Constant Prices)
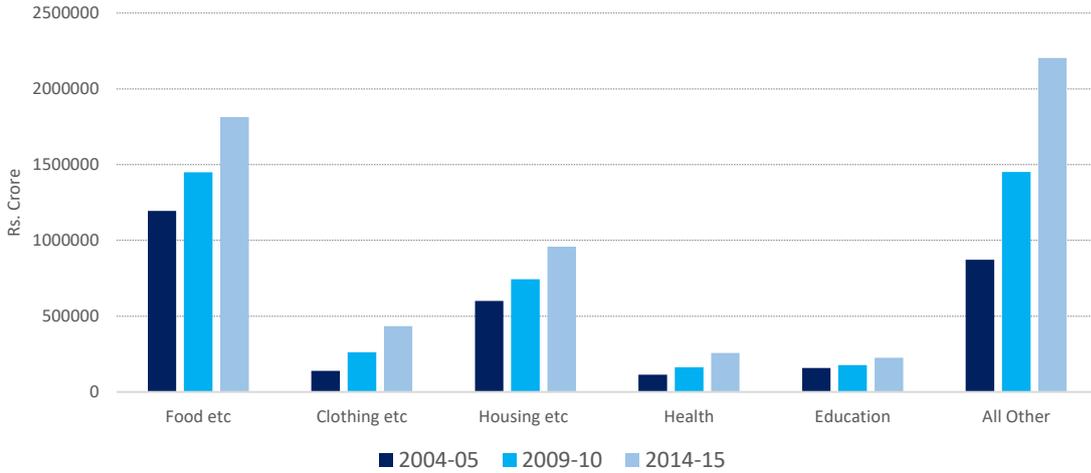
Source: Computed by Author using National Accounts Statistics of India

## Figure 5: Changes in Proportion by Basic Categories
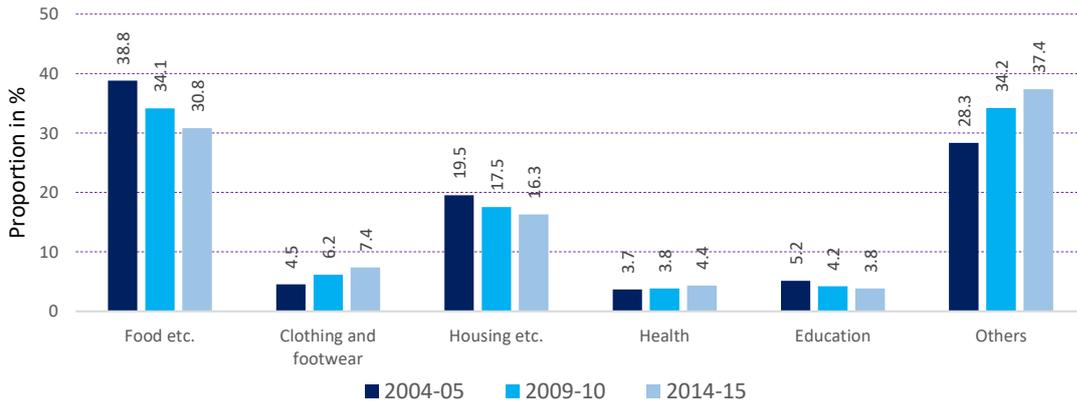
Source: Computed by Author using National Accounts Statistics of India

To look into at a greater depth for All Other categories, a category-wise share in consumption basket is presented in Figure 6. Critical points that can be highlighted are:

- Most significant increase is observed in the category of Miscellaneous Goods and Services. This constitutes of expenditure on personal care goods and effects, personal goods and various other personal services.
- Enormous increase has been observed for Communication which is primarily relating to telecom and IT. Considering the requirements of households for communication, the increase in expenditure and its current share in households' consumption basket is extremely noteworthy.
- In real term, share of expenditure on education in total consumption basket has seen a decrease. The same is true for Recreation and Culture category too.
- Expenditure on travel and eating out has also increased in real term.

**Figure 6: Share of "Other Categories" in Consumption Basket**
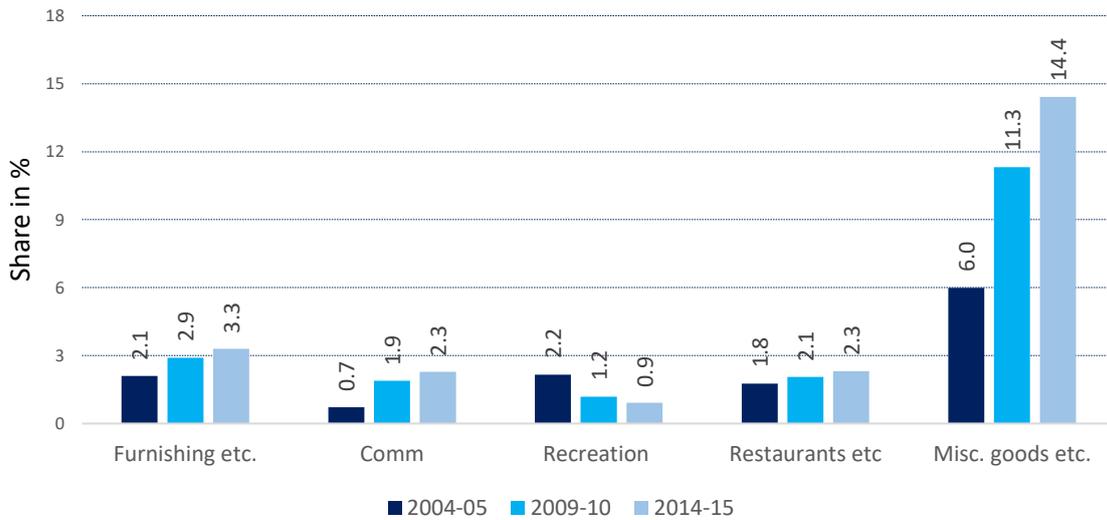
Source: Computed by Author using National Accounts Statistics of India

When the trends at the aggregate level are analysed, it is also important to consider the population. Population is a critical factor of consumption demand. Since population changes every year, one needs to consider per capita consumption to understand the dynamics better. Per capita consumption is presented in Figure 7 and Figure 8. To make the analysis more comprehensive, the following charts present the trend in form of an index. This allows us to compare the consumption trends on a similar scale. The index values for each of the category has been computed considering the consumption expenditure of 2004-05 on that item as 100. Following points can be highlighted from the charts:

- Per capita consumption on clothing and footwear has accelerated the most. It has increased by about 2.6 times, but with significant ups and downs, in last 10 years.
- It is followed by All Others category. However, the per capita consumption change in this category is relatively steady. This reflects that this category has been impacted to a lesser extent through externalities.
- Food etc. and house rent and related categories experienced a steady increase in terms of per capita consumption, but at a significantly lower level compared to other two as mentioned above.
- Another important fact is that per capita expenditure on healthcare services has increased by about 2 times.

## Figure 7 : Trend in Per Capita Consumption by Major Categories
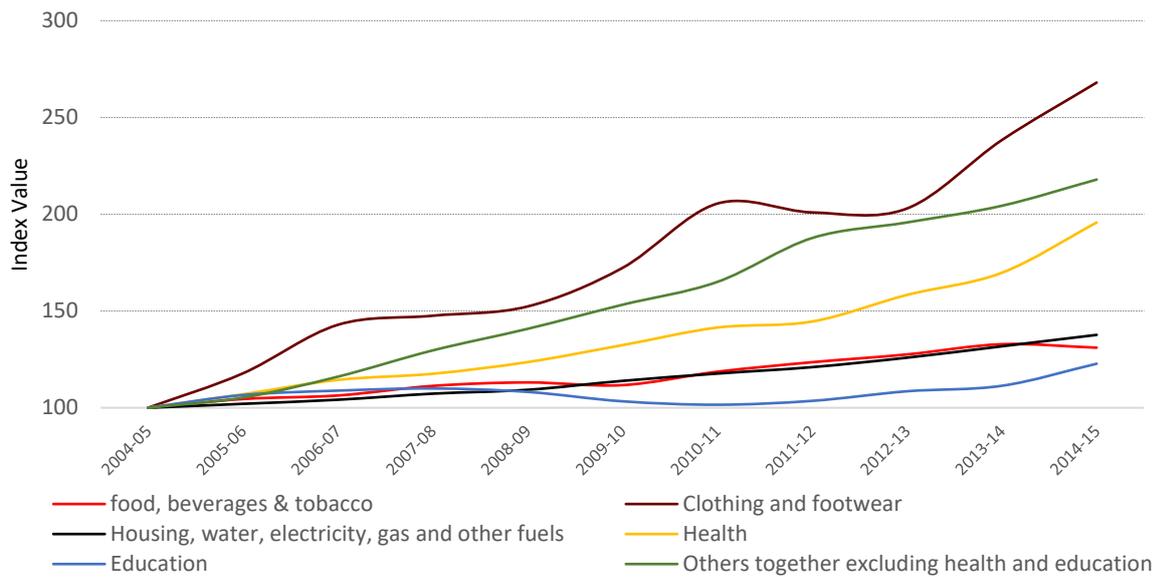
Source: Computed by Author using National Accounts Statistics of India

It is also important to understand how the categories under All Others have changed in terms of per capita consumption expenditure. It is presented in Figure 7. We find some revealing findings in terms of per capita consumption of Indian households. Those are as follows:

- Per capita expenditure on communication has shown a hoofing increase of more than 5 times in last 10 years. The steep increase was seen till 2011-12. It has been flattened marginally showing a steady increase since then.
- Per capita consumption of miscellaneous goods and services has increased by 4 times.
- Per capita consumption on Furnishing etc., travelling and eating out has been increased by more than 2 times.

Figure 8 : Concumption Trend for Categories included in "Others Categories"
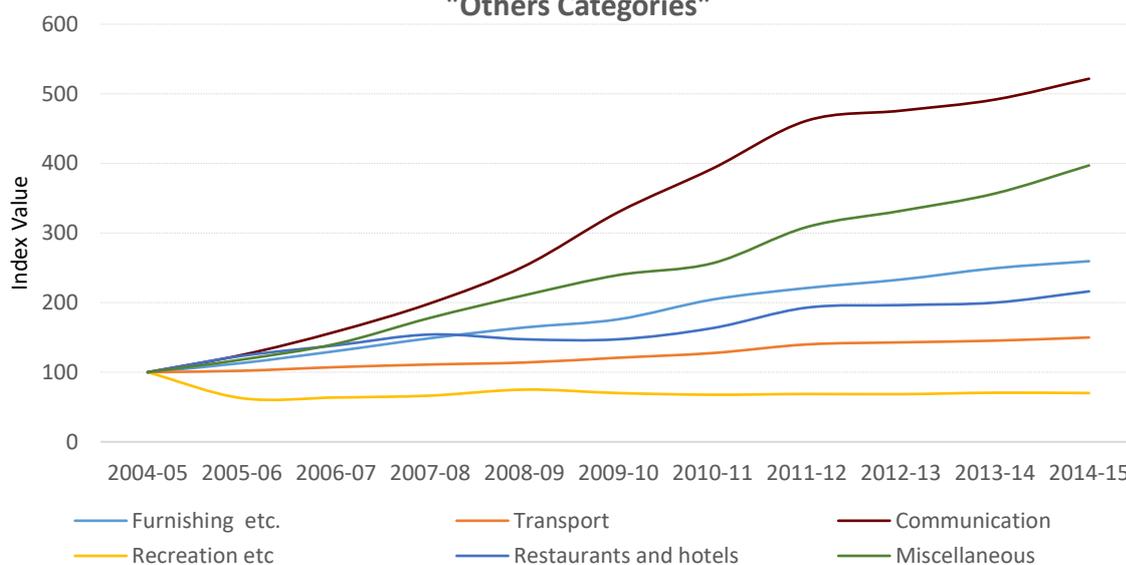
Source: Computed by Author using National Accounts Statistics of India

Endnote

Above analysis certainly suggests that India is experiencing a significant transition in terms of consumption behaviour of goods and services as reflected from PFCE data. It is moving towards a more mature consumption phase (Banerjee and Esther, 2011) where the proportion of basic goods and services do not constitute the majority of the consumption basket any further. However, it is important to remember that this analysis does not reflect a few key issues of consumption in the country. They are:

- The variations from state to state as well as rural and urban sectors, which may have drastic differences when the spatial dimensions in consumption dynamics are included; and,
- The distinct differences across social and economic strata of the society in consumption behaviour across income groups as well as social groups.

It is important to analyse these aspects not only to help the policy makers, but also businesses immensely in formulating their strategies across location and across target segments.

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