Making Sense of Consumption Expenditure*

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It is generally perceived that India's growth trajectory has been consumption-led. Many of the enthusiastic international assessments of future economic growth prospects in India are based on the anticipation of the massive domestic market likely to be created by India's large and dominantly young population. This perception has been enhanced by the fact that consumption has been a significantly high share of GDP (at 55-58 for several decades), while net exports have not really emerged as a major growth impetus other than for some services. Meanwhile, investment rates, which increased in the decade of the 2000s, have declined and stagnated thereafter.

Such a reliance on domestic consumption naturally requires attention to the size and growth of the domestic market. Clearly, in order to take advantage of the economies of scale that should result from such a large population of potential consumers, it is necessary for income gains to be reasonably widely distributed. (This was, indeed, a major reason for China's remarkable industrialization success—the ability to take advantage of a huge base of mass consumer demand that immediately generated large scale economies in production.)

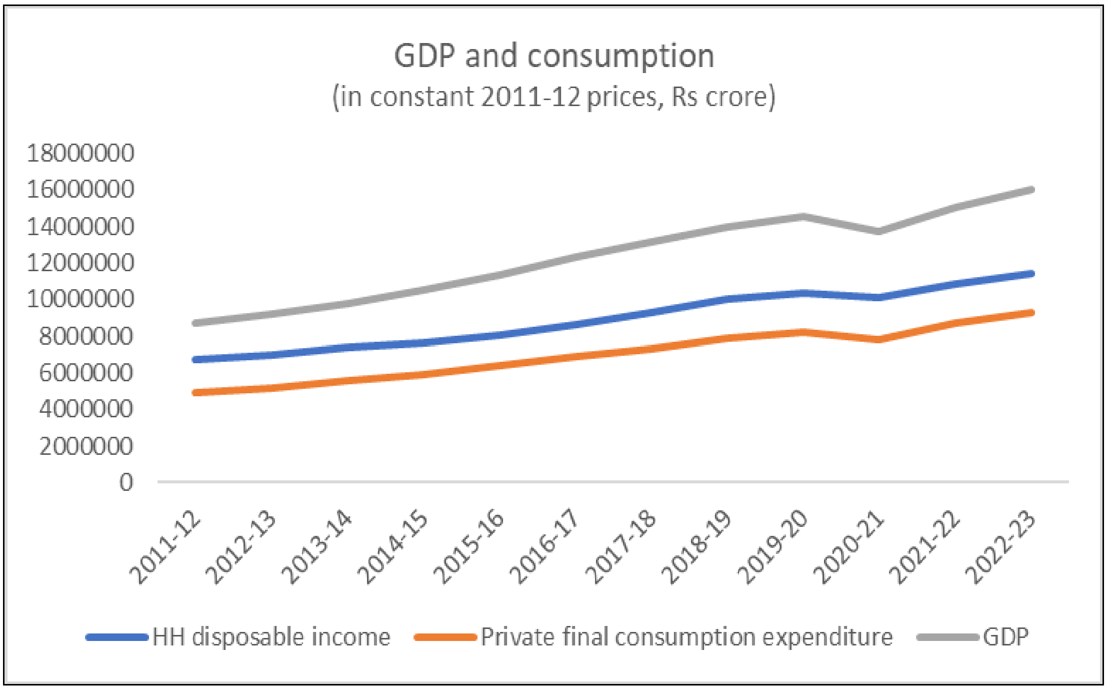
This is where concerns about inequality and the distribution of growth become important, because one major failure of the Indian growth trajectory, especially over the past decade, has been the sharp increase in inequality that has meant that the benefits of increased aggregate income accrue to a very small section of the population, say around 10-20 per cent at most. The stagnation of real wages (and even declining real wages for some workers) in an economy growing at 5-7 per cent per year, even as assets and income of the top decile of the population have skyrocketed, is one potent indicator of this disparity.

A necessary corollary of this is that consumption expenditure is not growing as rapidly as it would have if the incomes had been more equally distributed, and the demand for mass consumption items remains limited despite the apparent expansion of the economy as a whole. This in turn has implications for economies of scale (which are thereby less evident) as well as for investment, as will become clear below.

Unfortunately, we do not have recent evidence on household consumption because the NSSO consumer expenditure survey of 2017-18 was not allowed to be published by the Modi government, and the recent "Factsheet" purporting to provide results of the NSSO survey conducted in 2022-23 is both non-comparable with earlier surveys and inadequate to draw any meaningful conclusions. In its absence, we are forced to rely only on the consumption data as revealed in the national accounts.

Figure 1 shows the trends in real GDP, household disposable income and private final consumption expenditure from 2011-12, according to the just released national accounts data. The trends are broadly similar, but the absolute gap has grown over time.

Figure 1.



There has been an argument that recent growth has been more determined by public spending, in terms of both consumption and investment, but this does not appear to be supported by the data provided in Figures 2 and 3. Government consumption did indeed rise faster than private consumption between 2015-16 and 2020-21, but only slightly more. And in the most recent two-year period, private consumption has outpaced government consumption. This is actually quite striking—that government consumption remained stagnant in the period of the Covid-19 pandemic. It reinforces the point that is not made strongly enough, that the government did very little to counter the adverse effects of the disease and the lockdowns, in terms of countercyclical measures or social protection.

The associated stagnation in mass demand is probably one reason why private investment has remained so muted, despite the massive fiscal sops and other incentives thrown to big business. Figure 3 shows that both private corporate investment and household investment (which is often an indication of investment by micro-enterprises) have remained mostly flat as shares of GDP, and still not returned to levels achieved in 2015-16. The rise in public investment is the only thing that has kept aggregate investment rates broadly stable, but even so, the aggregate investment rate of 33.4 per cent in 2022-23 was still below the rate of 34.3 per cent achieved in 2011-12.

Figure 2.

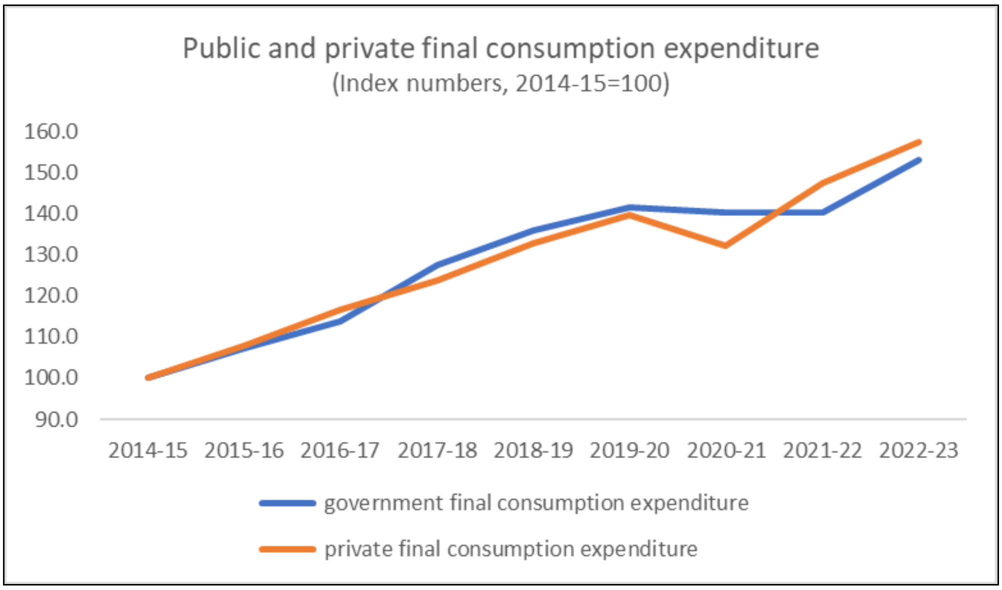
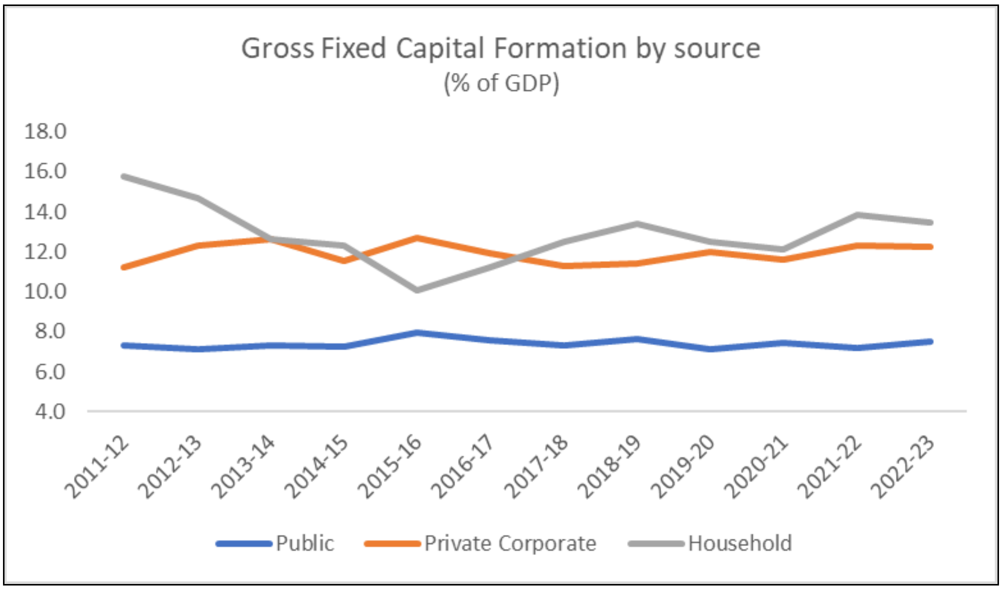
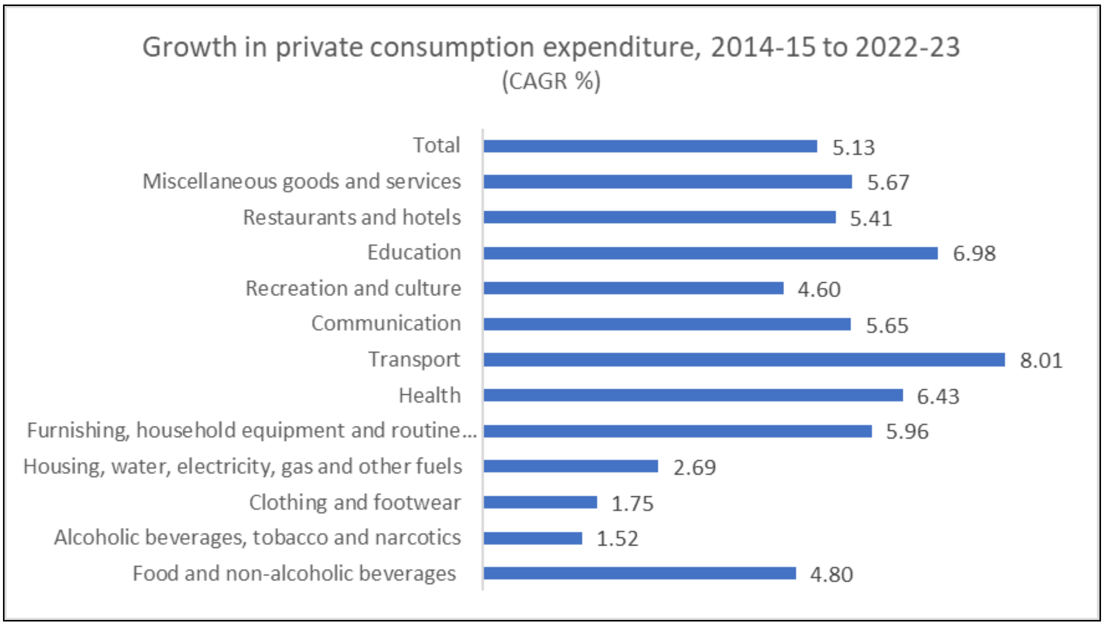


Figure 3.



Disaggregating household consumption is one way of tracking the changes in the domestic market, and assessing how much of it is oriented to the provision of mass consumption goods. Figure 4 provides estimates of the compound annual growth rate (CAGR) of consumption expenditure by category in the nine years between 2014-15 and 2011-23 (the period of the Modi government). Aggregate consumption spending increased by 5.13 per cent per annum over the period, but consumption on food and beverages increased more slowly, by only 4.8 per cent per year, while that on clothing and footwear went up by only 1.75 per cent per year. Spending on housing, water, fuel, etc. also increased by only 2.69 per cent per year. (In other words, the basic items that are more likely to be consumed by the poor increased more slowly than aggregate consumption.) By contrast, expenditure on transport—and particularly on transport vehicles including luxury cars—went up sharply, especially in the last two years.

Figure 4.



This is confirmed by the disaggregation according to type of consumption goods: the increase over this period was most rapid for durable consumer goods more likely to be purchased by the rich and upper middle classes (at a CAGR of 8.2 per cent per year) and much slower for non-durable goods (4.9 per cent) and semi-durable goods (2.7 per cent).

This confirms other evidence in terms of the stagnation of demand for Fast Moving Consumer Goods, especially in rural India, and for items like two-wheelers, even as demand for luxury consumption goods with high import content has increased dramatically. There has been some excitement among those desperately searching for green shoots, about demand revival for two-wheeler vehicles in recent months. But such excitement needs to be tempered with the knowledge that such vehicles, along with a range of other spending, have always been associated with campaign spending before major elections. A genuine revival in mass consumer demand will require a very different economic strategy.

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