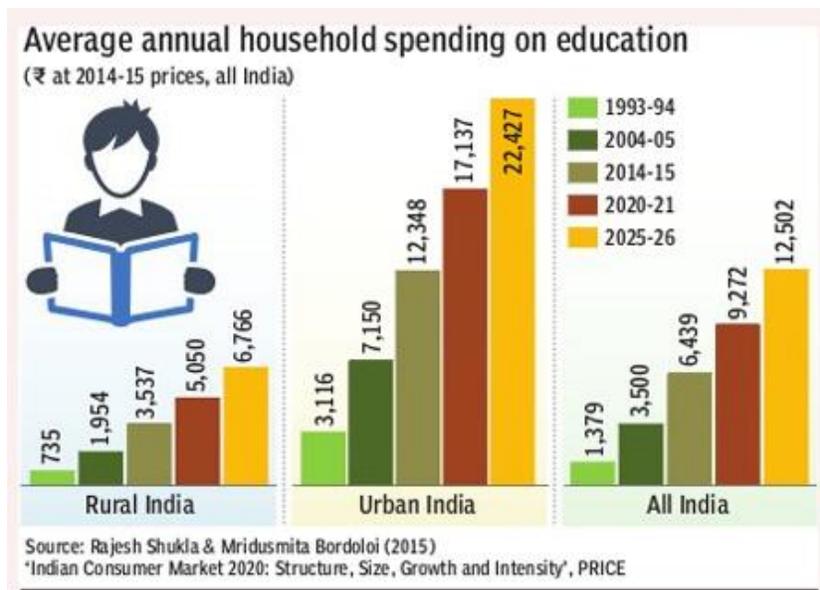


Growth in household spending fuels education market

Rajesh Shukla & Mridusmita Bordoloi | The Financial Express | December 25, 2015

During FY15, an average Indian household spent around Rs 6,400 annually on education, which is almost double the amount spent a decade ago.

Over the last two decades, policy-makers have put a lot of emphasis on growing literacy levels and promoting primary education through schemes such as the Sarva Shiksha Abhiyan. This has had a huge impact on household spending on education, which has increased significantly. India's education market is estimated to be R1,71,078 crore (at current prices) and education is one area that has witnessed one of the fastest growth rates among different expenditure heads of Indian households. While the overall consumer market grew at 6% per annum in real terms during the last decade, spending on education went up by 9% per annum. The sector had experienced an even higher growth of 11% per annum between FY94 and FY05. Both rural and urban areas registered similar growth in spending. The education market is expected to reach a size of R2,86,074 crore in FY21 (at 2014-15 prices) and further grow to R4,37,538 crore in a decade from now (FY26). Urban India is expected to contribute almost two-thirds to the total spend on education in FY21.



According to our analysis, the top three education markets in India are Maharashtra, Uttar Pradesh and Tamil Nadu. With a market size of R22,537 crore in 2014-15, Maharashtra's share of the education market stands at 13%, while Uttar Pradesh's share is 12%. Kerala, which was the first state to achieve 100% literacy, is ranked seventh in terms of education market size.

In the household consumption basket, education is one of the major non-food items whose share has gone up during the last

decade. The proportion of household budget spent on education increased from 2% to 5% between FY94 and FY05, and currently it has a 6% share of the consumption pie.

Rajasthan is the fastest growing state (13.6% per annum in real terms between FY05 to FY15) in spending on education, closely followed by Karnataka and Tamil Nadu, both growing at 12% per annum. Maharashtra registered a growth of 10.7% per annum.

During FY15, an average household in India spent around R6,400 annually on education, which is almost double the amount spent a decade ago. However, there are significant differences in spending intensity between rural and urban areas. An average household in urban India spends more than thrice the amount on education compared to its rural counterpart. Over the last two decades, the rural-urban divide in

education spending has marginally reduced. For instance, while an urban household spent 4.2 times more than rural in FY94, it spent 3.7 times more than rural in FY05. As per our forecast, average spending per household on education in FY21 and FY26 will be 40% and 90% higher than what it is today. The urban-to-rural ratio of average spending in FY21 is expected to remain almost similar to what it is at present.

If we look at ranking of states on the basis of spending intensity, Delhi is at the top—an average Delhi household spends three times more on education as compared to an average Indian household.

One of the major contributing factors of the increasing expenditure on education seems to be the growing preference for private educational institutions over government, at least at the school level. Even in rural areas many families choose to send their children to pricey private schools, in spite of the presence of adequate number of government schools. According to the District Information System for Education data, around 75% of all schools providing elementary education in India are government schools in 2014-15, making the government the major provider of education. However, more than one-third of students at the elementary level are privately educated. Statistics show that enrolment in private schools in absolute numbers has increased considerably over the years. Even the proportion of enrolment in private schools has increased significantly, although they are 4-5 times more expensive than government schools. As per the Ninth Annual Status of Education Report, around 29% of enrolments in the 6-14 year age-group are in private schools in 2013—a sharp increase from 18.2% in 2007.

Around one-third of total household spending on education in both rural and urban India is contributed by the top 10% households in the corresponding areas. As households become economically better off, their share of expenditure on education increases. However, in terms of annual growth in education expenditure, bottom of the pyramid is not very different from the top. In case of rural India, compared to all-India average growth of 8% per annum, expenditure by bottom decile grew by 8.9%, while that of top decile grew by 7.6%. This indicates the importance accorded to education across all socio-economic groups.

If we look at average spending per household, the inequality between the rich and the poor is evident. The rich spend much higher on education in absolute terms as compared to the poor. An average household from the top decile in rural India spends 14 times more than a household from the bottom decile (R11,946 per annum versus R865 per annum). The rich-poor divide is even stronger in urban India where a household from the top decile spends 17 times more on education than the one from the bottom (R38,942 per annum versus R2,297 per annum). The rural-urban gap in spending intensity is almost similar across all deciles—an urban household spends 3-4 times more than a rural household.

While it is evident that the education sector has huge potential for investment, there is a strong need to revamp the system to meet desired skill requirements for economic growth as well as aspirations of parents.

(This article has been extracted from PRICE's recent publication titled Indian Consumer Market 2020: Structure, Size, Growth and Intensity based on trend analysis of integrated unit level datasets of ICE 360° survey 2014, CES NSS rounds)

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