

Rich vs poor consumption story: A study of contrasts

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There exist considerable differences between the rich and the poor with respect to expenditure on healthcare, education and communications.

Domestic consumption has been the key driver of India's economic growth in the past couple of decades. While this has put the spotlight on the middle class and their consumption patterns, there is a tiny segment of households whose purchasing power has been growing significantly. According to the Credit Suisse Global Wealth Report, about 0.3% of the population (or 2.4 million people) accounts for net worth of over \$1,00,000. The report further estimates that there are 2,54,000 Indians who are placed at the top 1% of global wealth holders, which equates to a 0.5% share: 2,080 persons have wealth over \$50 million and 940 people own more than \$100 million.

Apart from this small niche of super-rich consumers, there exists a bigger segment of people who constitute the top 10% rich Indian segment in the country. The ICE 360 Survey 2014 estimates that there are roughly 128 million people who account for 30% of India's income, 23% of household expenditure and

64% of India's surplus income.

Indian consumption basket: Rich vs poor

Expenditure items	Per capita expenditure (₹/annum, 2013-14)		Expenditure index (all-India = 100)*	
	Bottom 10% Indians	Rich 10% Indians	Bottom 10% Indians	Rich 10% Indians
Cereal & substitutes	3,012	8,256	63	173
Pulses & pulses products	645	2,016	57	177
Milk & milk products	720	4,242	31	184
Meat, eggs, etc	1,066	2,886	66	179
Fruits & vegetables	1,595	4,538	58	165
Edible oil	676	1,859	58	159
Beverages	207	1,241	38	227
Packaged food	193	1,765	30	279
Sugar	366	1,377	49	183
Other food items	273	1,806	41	274
Food	8,752	29,986	49	200
Housing	18	1,129	6	350
Education	469	5,471	25	289
Health	418	2,299	38	206
Conveyance	497	8,614	19	325
Fuel, electricity, water, entertainment and other services	1,462	10,727	23	363
Other non-food exp.	1,298	8,025	37	261
Non-food	4,161	36,264	24	299
Total (food+non-food)	12,913	66,250	37	250

Source: ICE 360[®] Survey (October 2014) from People Research on India's Consumer Economy (PRICE)

* The annual per capita expenditure at all-India level ₹26,500 which is equal to 100

The income/expenditure pattern of this segment is in sharp contrast to that of the bottom 10% who need to borrow money to meet their basic needs. The differences become more apparent when one looks at the ownership patterns of household goods. Nearly one-third of rich Indians own cars, 60% own life insurance, 55% own motorcycles, compared to negligible penetration of such items among bottom 10% households.

The sheer size of the country, coupled with its staggering heterogeneity, makes identifying the area of residence of this target segment an extremely

difficult exercise. Results reveal that almost 63% of the top 10% rich Indians reside in urban India, whereas 85% of the bottom-segment households reside in rural India. Of the urban rich (85 million), roughly two-thirds reside in the metros, boom towns and niche cities, and the remaining one-third live in smaller towns.

That is not to say that the rich are not to be found in rural areas. Most of the rural rich (52%) are concentrated in developed rural districts (such as Jamnagar, Surat, Thiruvananthapuram, Indore, Pune, Ludhiana, Amritsar, Coimbatore, Dehradun, Meerut, Nagpur, etc) and 26% in emerging rural (such as Kamrup, Chittoor, Ahmedabad, Vadodara, Belgaum, Mysore, Nashik, Madurai, Lucknow, Varanasi, Bhopal, Medak, etc). Nearly 21% of the rich are also to be found in the underdeveloped rural regions such as Purba Champaran, Bhagalpur, Raigarh, Raipur, Bastar, Bokaro, Bellary, Gwalior, Satna, Jaisalmer, Udaipur, Bahraich, Maldah, Nadia, Purulia, South 24 Parganas, Mahbubnagar, etc.

It's not surprising that most of the rich Indians are to be found in locations with the highest level of urbanisation and thus development. Metros take the lead (34%) followed by boom towns (25%), niche cities (24%) and rest of urban (16%).

Comparing the top-most and bottom-most quintiles also reveals just how stark the picture is in terms of income and occupational profiles of these two segments. The average per capita income of the rich Indians (R1,27,000) is almost 11 times that of the bottom 10% Indians (R11,200). With respect to their occupational profile, 46% of rich Indians are salaried and 31% are self-employed professionals and/or non-professionals (businessmen). On the other hand, those at the bottom of income pyramid are predominantly (78%) engaged in casual labour (agriculture and non-agriculture) including small and marginal farming.

On the spending front, rich Indians' share is one-fourth of the total household consumption expenditure, making it a critical part of the India growth story. While rich Indians spend 52% (R66,250 per capita per annum) of their total personal disposable income on routine consumption, and have surplus earnings of 48%, the poorest Indians have negative savings and borrow about 16% (R1,800 per capita per annum) to meet their routine consumption expenses.

Analysis of the spending patterns of the top decile and juxtaposing it with that of the bottom 10% sheds light on not only the purchasing power of the richest consumers but also on the disparity in spending power (see table). For each particular item, the all-India average expenditure has been equated to 100, against which the average spends of the top and bottom deciles are calculated. This then shows the distance between the end points of the distribution and their purchasing power with respect to the average Indian.

In the case of food items, a significant difference is observed for packaged food, beverages and milk and milk products: rich Indians spend six to ten times more than poor Indians. However, this margin drops to less than half in the case of cereals, pulses and other food items. It is therefore only logical that the impact of inflationary prices of these products affects both the wealthy and the poor. On the other hand, discretionary spending (non-food items), which has risen quite significantly over the past decade, makes up a large proportion of the total household budget of the rich. With respect to expenditure on healthcare, education and communications, there exist considerable differences between the rich and the poor.

The changing patterns of consumption in India are similar to those observed in other developing economies. Growth leads to a decrease in the share allocated to basic necessities and an increase in discretionary spending. As economic growth percolates to those at the bottom of the pyramid, a similar

shift in their consumption basket will be observed, although the magnitude of such a shift will vary. As India continues its upward trajectory, rise in aggregate purchasing power will lead to the creation of a better and more dynamic consumer economy.

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