SBI Research

Consumer Expenditure Survey reveals a sharp decline in Rural Urban Divide… In 2022-23, Rural Poverty estimated at 7.2% (25.7% in 2011-12)… Urban Poverty estimated at 4.6% (13.7% in 2011-12)….GOI initiatives transforming grassroots...The revised MPCE weights in CPI computation could help India real GDP growth for FY24 to top 7.5%... Bottom half of the Rural pyramid are now having MPCE patterns mostly converging to Urban counterparts…truly Poor have no differences across caste, income or even religion….Impact on headline inflation would depend on whether the decline in food inflation outstrips the postulated increase in core inflation….
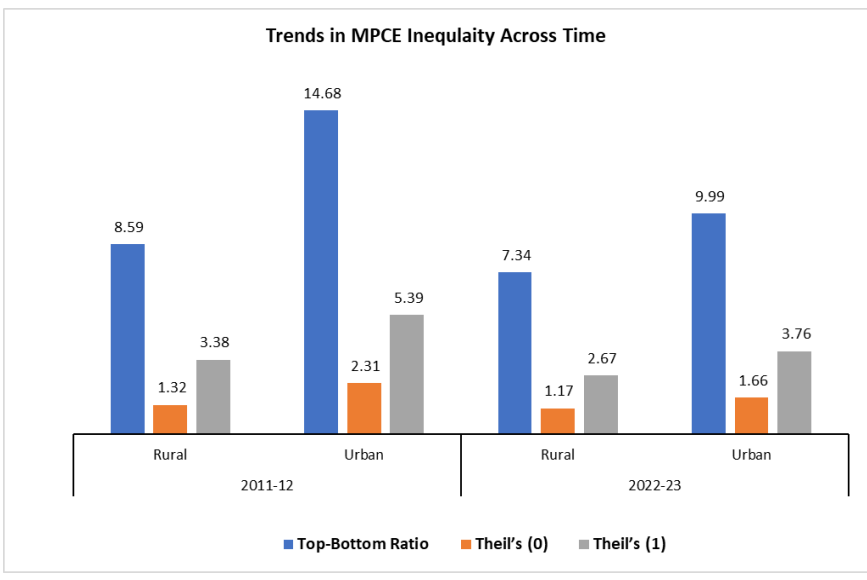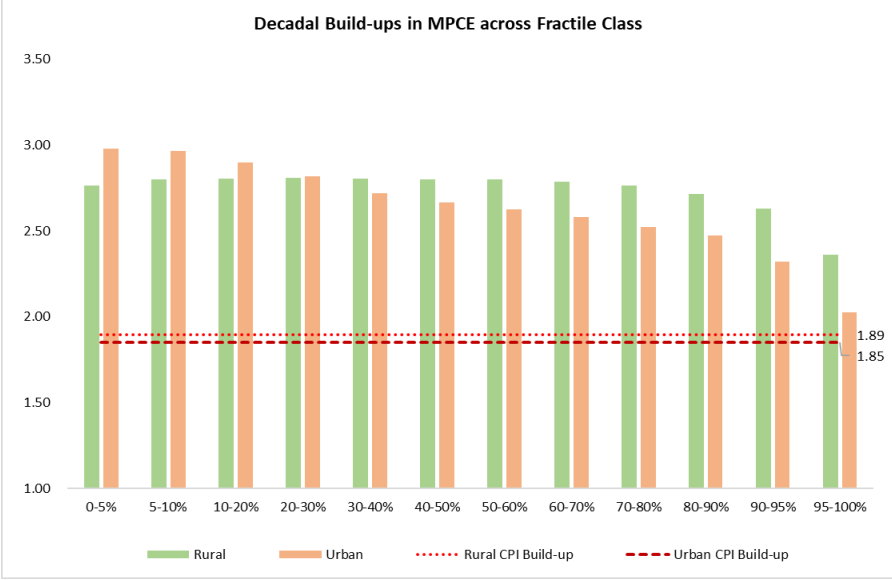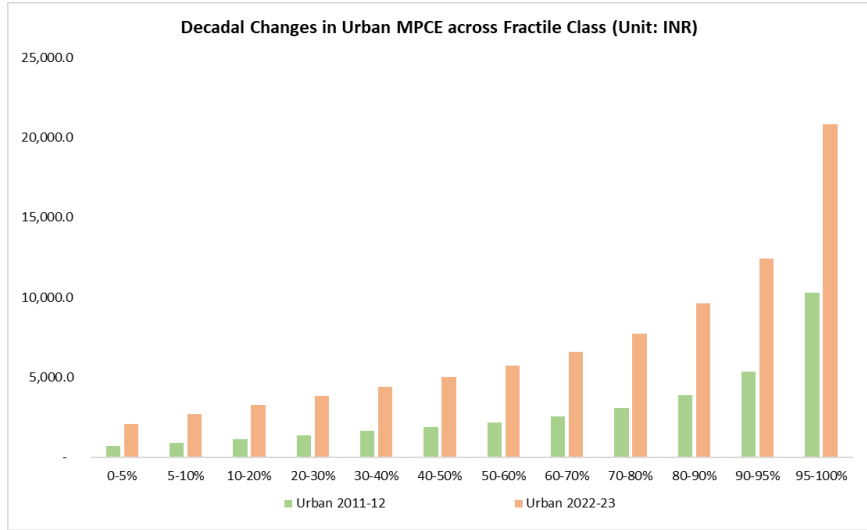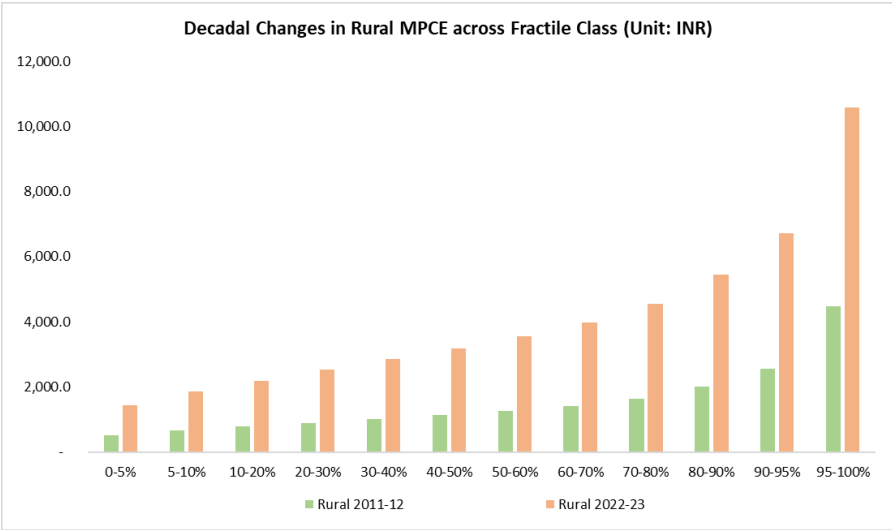
27-February-2024

- The key findings of recently released Household Consumption Expenditure Survey (HCES), coming after a decadal hiatus throws light on changing paradigms of household consumption across rural/urban households, that need to be analysed in sync with the slew of multi-dimensional action-oriented policy endeavors unleashed in the same time period

- Decadal build-ups in MPCE show a nearly equivalent increase in MPCE across fractile classes spanning across Rural & Urban areas. The gap between Top to Bottom Fractiles for both Rural & Urban has declined sharply

- **Rural Poverty has staged a significant 440-basis point decline since 2018-19 and Urban Poverty a 170-basis point decline post pandemic, vindicating how Government initiatives in vogue for those at the bottom of the pyramid are having a significant salutary impact on rural livelihood**.. **Rural Poverty is now at 7.2% (25.7% in 2011-12)… Urban Poverty at 4.6% (13.7% in 2011-12)**

- Enhanced loops of physical infrastructure are scripting a new story in two-way rural-urban mobility, one of the prime vectors for the incrementally shrinking horizontal income gap between Rural and Urban landscape and the vertical income gap within Rural Income classes…..

- Basis our analysis, the difference between rural and urban monthly per capita consumption expenditure/MPCE to rural MPCE is now at 71.2%, a rapid decline from 88.2% in 2009-10. **Alternatively, around 30% of the Rural MPCE is explained by factors that are endogenous to the Rural ecosystem**…Such endogenous factors are mostly due to the initiatives the Government has taken in terms of DBT transfers, investments in building of rural infrastructures, augmenting farmer's income, all together improving the rural livelihood significantly

- Remarkably, states once considered laggards are showing the maximum improvement in Rural and Urban Gap…States like Bihar, Uttar Pradesh, Madhya Pradesh are showing increasingly the impact of factors that are endogenous to the Rural Ecosystem….

❑ Inequality shows credible downgrade patterns from the HCES data…**Using Vertical Consumption Inequality across Fractile classes within Rural and within Urban reveals it has declined from 0.365 to 0.343 for Rural (rural Income is trending towards more equitable distribution) while for urban India, it has declined from 0.457 to 0.399**

❑ Rural and Urban consumption are growing, on an average, at nearly same growth rate (2.66% for rural, 2.59% for Urban) across Fractile classes….though, using an equivalent of Gini Coefficient, **Horizontal Consumption Inequality between Rural and Urban across fractiles has declined from 0.560 to 0.475**

❑ Urban Rural gap as a % of rural consumption is on a declining trend. It has declined from 90.8% in 2004-05 to 71.2% in 2022-23 and we believe, is projected to further decrease to 65.1% in 2029-30

❑ In lowest decile, urban consumption is only 46% more dissimilar than rural counterpart. Across fractile classes, urban consumption is only 68% more dissimilar than rural counterpart, a number much less than all India average.. **This indicates bottom half of the Rural pyramid are now having MPCE patterns mostly converging to Urban counterparts**…truly, poor have no differences across caste, income or even religion….

❑ By substituting existing weights with new weights, the new headline CPI is lower than the old headline CPI in the recent period. **The lower headline CPI is due to lower food inflation….However, core inflation on the other hand is larger in the new weight system. We estimate that April 2022 inflation could have been higher at 8% against existing 7.8%, while Jan'24 inflation would be 4.8% against 5.1%...thus the overall impact on headline inflation would be a combination of how food outstrips the core or the core outstrips the food… If core is declining…. This will have a sobering impact on headline inflation…**

❑ India is becoming more aspirational as indicated by the increasing share of discretionary consumption (like spending on beverages, intoxicants, entertainment, durable goods, etc.) in rural and urban areas….The speed of aspiration is swifter in rural areas as compared to urban areas

Impact on Poverty & Inequality

Decadal changes in MPCE show decline in consumption inequality: Decadal Build-ups in MPCE show a nearly equivalent increase across fractile classes spanning across Rural & Urban… The gap between Top to Bottom Fractiles for both Rural & Urban has declined sharply

Decadal Changes in Rural MPCE across Fractile Class (Unit: INR)

Legend: Rural 2011-12, Rural 2022-23

Decadal Changes in Urban MPCE across Fractile Class (Unit: INR)

Legend: Urban 2011-12, Urban 2022-23

Decadal Build-ups in MPCE across Fractile Class

Legend: Rural, Urban, Rural CPI Build-up (1.89), Urban CPI Build-up (1.85)

Trends in MPCE Inequalaity Across Time

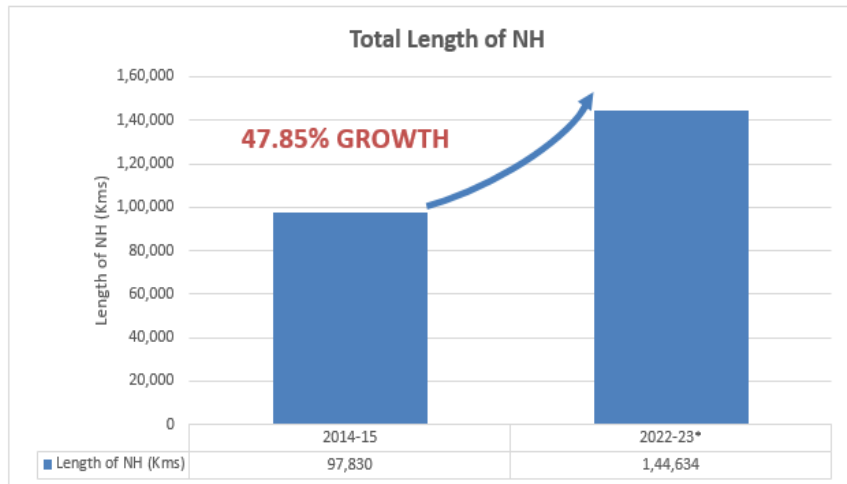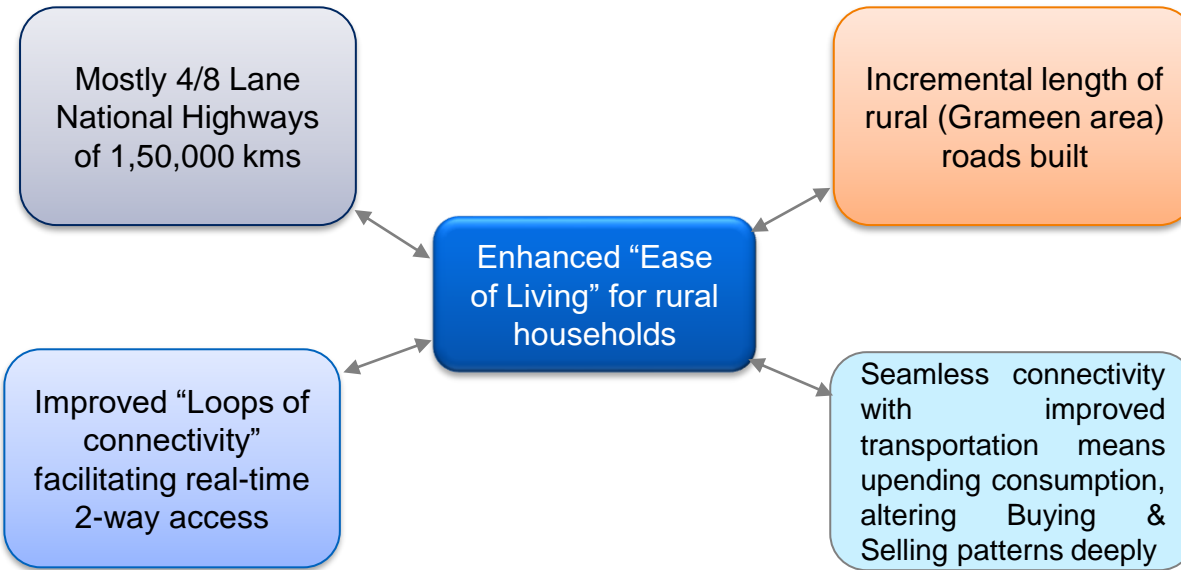|	2011-12		2022-23	
	Rural	Urban	Rural	Urban
Top-Bottom Ratio	8.59	14.68	7.34	9.99
Theil's (0)	1.32	2.31	1.17	1.66
Theil's (1)	3.38	5.39	2.67	3.76

* Theil's inequality measures are entropy class of inequality indexes. Both indices start from zero, point of full equality. Theil's (0) measures are most sensitive to inequality in the bottom range of the distribution and Theil's (1) to top of distribution. [0, 1] are parameters of generalized inequality index

Ballpark estimates of poverty as per new fractile distribution: Rural & Urban Poverty show significant declines post pandemic.. with Rural Poverty decline at a faster clip…Headline Poverty Number is likely at 4.5-5%

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- The new estimates of fractile distribution of MPCE allows for estimating possible level of poverty

- Starting with 2011-12 (Based on MRP Consumption) poverty line estimate of Rs 816 in rural area and Rs 1000 in urban area, the new poverty line was adjusted for decadal inflation and imputation factor derived from NSSO report

- New estimated poverty line is Rs 1622 in rural area and Rs 1929 in urban areas

- The poverty ratio new estimate was arrived by linear interpolation of the relevant fractile class in which it falls

- Based on recent fractile distribution, the sample proportion for poverty in rural areas is 7.15% and 4.62% in urban areas

- **Rural Poverty has thus staged a significant 440-basis point decline since 2018-19 and Urban Poverty a 170-basis point decline post pandemic….This indicates that many Government programmes currently for those at the bottom of the pyramid are having a significant salutary impact on Rural Livelihood**

Revised Poverty Line Estimate		
	Rural	**Urban**
2011-12	816	1000
Escalation Factors		
Inflation	1.89	1.85
Imputation Factor	1.05	1.04
2022-23	**1,622**	**1,929**

Tendulkar Committee		World Bank		SBI Estimates*	
2011-12		**2018-19**		**2022-23**	
Rural	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**
25.7	13.7	11.6	6.3	7.2	4.6

*As per the Rural Urban divide in the MPCE summary statistics. It is possible that these numbers could undergo minor revisions once the 2021 population is completed and new Rural Urban population share is published. We believe Urban poverty could decline even further . **At an aggregate level, we believe poverty rates in India could now be in the range of 4.5-5%**

Enhanced physical infrastructure is scripting a new story in Rural Mobility…one of the reasons for the increasingly shrinking horizontal income gap between Rural and Urban and the vertical income gap within Rural Income classes…..

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Mostly 4/8 Lane National Highways of 1,50,000 kms

Incremental length of rural (Grameen area) roads built

Enhanced "Ease of Living" for rural households

Improved "Loops of connectivity" facilitating real-time 2-way access

Seamless connectivity with improved transportation means upending consumption, altering Buying & Selling patterns deeply

Total Length of NH

47.85% GROWTH

Length of NH (Kms)	2014-15	2022-23*
	97,830	1,44,634

Pradhan Mantri Gram Sadak Yojana (PMGSY) boosting rural connectivity with 7,00,000 plus kms of roads built

Rural Road Completion Status (in Kms)

Target Completion Completion in %
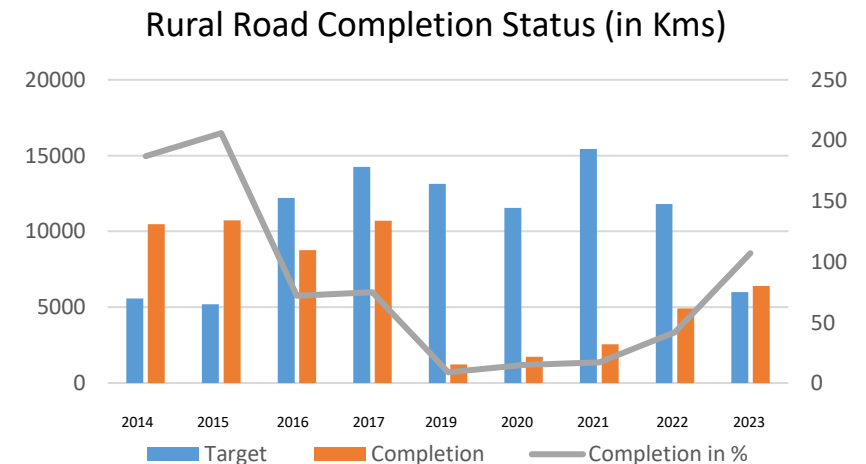
~1,50,000 kms NH length as on date

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❑ The difference between rural and urban monthly per capita consumption expenditure/MPCE to rural MPCE is now at 71.2%, a rapid decline from 88.2% in 2009-10. **Alternatively, around 30% of the Rural MPCE is explained by factors that are endogenous to the Rural ecosystem**

❑ **Such endogenous factors are mostly due to the initiatives the Government has taken in terms of DBT transfers, building Rural infrastructures, augmenting farmer's income, improving the rural livelihood significantly**

❑ Remarkably, states that were once considered laggards are showing the maximum improvement in Rural and Urban Gap…States like Bihar, Uttar Pradesh, Madhya Pradesh are showing increasingly the impact of factors that are endogenous to the Rural Ecosystem….
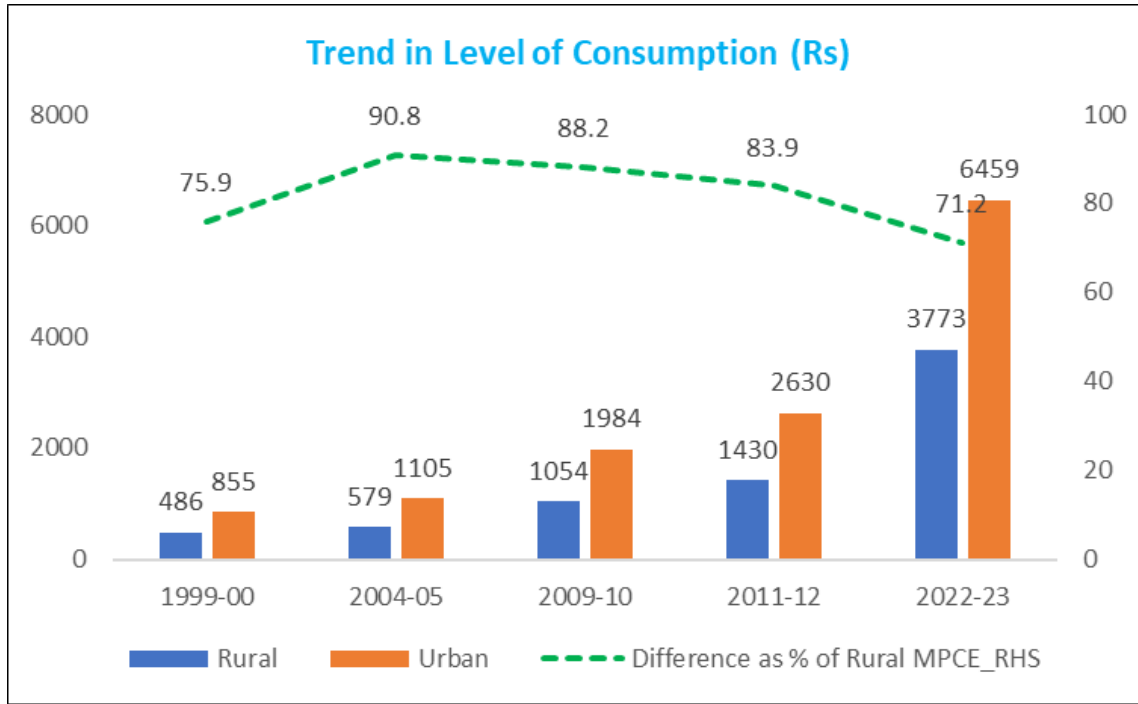
State-Wise Average MPCE (Rs) in 2022-23			
States	Rural	Urban	Difference as % of Rural MPCE
Andhra Pradesh	4870	6782	39.3
Assam	3432	6136	78.8
Bihar	3384	4768	40.9
Chhattisgarh	2466	4483	81.8
Delhi	6576	8217	25.0
Goa	7367	8734	18.6
Gujarat	3798	6621	74.3
Haryana	4859	7911	62.8
Himachal Pradesh	5561	8075	45.2
Jharkhand	2763	4931	78.5
Karnataka	4397	7666	74.3
Kerala	5924	7078	19.5
Madhya Pradesh	3113	4987	60.2
Maharashtra	4010	6657	66.0
Odisha	2950	5187	75.8
Punjab	5315	6544	23.1
Rajasthan	4263	5913	38.7
Tamil Nadu	5310	7630	43.7
Telangana	4802	8158	69.9
Uttarakhand	4641	7004	50.9
Uttar Pradesh	3191	5040	57.9
West Bengal	3239	5267	62.6
All-India	**3773**	**6459**	**71.2**

Trend in Level of Consumption (Rs)

Consumption Inequality in India has been declining across Rural and Urban India

❑ **Using Vertical Consumption Inequality across Fractile classes within Rural and within Urban reveals it has declined from 0.365 to 0.343 for Rural (rural Income is trending towards more equitable distribution) while for urban India, it has declined from 0.457 to 0.399**

Consumption Inequality across Fractile Classes		
Region	**2011-12**	**2022-23**
Rural	0.365	0.343
Urban	0.457	0.399
Source: SBI research		

Urban and Rural consumption inequality across Fractile classes on decline

❑ Rural and Urban consumption are growing, on an average, at nearly same growth rate (2.66% for rural, 2.59% for Urban) across Fractile classes….

❑ However, u**sing an equivalent of Gini Coefficient, Horizontal Consumption Inequality between Rural and Urban across fractiles has declined from 0.560 to 0.475**

Urban Rural Consumption gap Inequality across Fractile Classes	
2011-12	0.560
2022-23	0.475
Source: SBI research	

Rural consumption fast catching up with the urban consumption

❑ Urban rural gap as a % of rural consumption is on a declining trend

❑ It has declined from 90.8% in 2004-05 to 71.2% in 2022-23. It is projected to further decrease to 65.1% in 2029-30

Trend and Projections in level of Consumption since 1999-'00: All-India							
	Average MPCE (Rs.) over different period						
	1999-'00 NSS (55th round)	2004-05 NSS (61st round)	2009-10 NSS (66th round)	2011-12 NSS (68th round)	2022-23	2024-25 (P)	2029-30 (P)
rural	486	579	1054	1430	3773	4781	8606
urban	855	1105	1984	2630	6459	8357	14206
Difference	369	526	930	1200	2686	3576	5601
Difference as % of rural	75.9	90.8	88.2	83.9	71.2	74.8	65.1
Source: MOSPI, SBI Research, (P)- Projected							

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- Around 60% in the downside of both rural as well as urban consumption distribution are having consumption less than all India average rural/urban consumption

- There is a widespread similarity between rural and urban consumption in around 70% of the downside of the distribution

- **In lowest decile, urban consumption is only 46% more dissimilar than rural counterpart. Across fractile classes, urban consumption is only 68% more dissimilar than rural counterpart, a number much less than all India average.. This indicates bottom half of the Rural pyramid are now having MPCE patterns mostly converging to Urban counterparts…poor have no differences across caste, income and even religion….**

Fractile Classes based on all India average			
Fractile Class	**Fractile rural consumption as % of average rural consumption**	**Fractile Urban consumption as % of average Urban consumption**	**Fractile Urban consumption as a % of Fractile Rural consumption**
0-5%	0.36	0.31	1.46
5-10%	0.47	0.40	1.46
10-20%	0.56	0.49	1.49
20-30%	0.65	0.58	1.53
30-40%	0.73	0.67	1.57
40-50%	0.82	0.77	1.60
50-60%	0.92	0.88	1.64
60-70%	1.03	1.01	1.68
70-80%	1.18	1.19	1.72
80-90%	1.42	1.48	1.79
90-95%	1.76	1.92	1.87
95-100%	2.78	3.22	1.98
All Classes	1.00	1.00	1.71
Source: SBI Research			

Impact on Inflation

Food share in MPCE is declining gradually

❑ CSO had revised the base year of the CPI to 2012 (from 2010=100) in January 2015. The weighting pattern of the revised series is based on the 2011-12 Consumer Expenditure Survey (CES) of the National Sample Survey (NSS)

❑ The recent release of CES (2022-23) may have an impact on food CPI and subsequently on overall CPI as the weights of major food items has revised from 47.8% in 2011-12 to 42.8% in 2022-23 at all India level

❑ The share of food has declined more in rural areas as compared to urban areas in 2022-23 as compared to 2011-12..This will have impact on food inflation and overall inflation (for both rural and urban areas) in terms of new weights…

Food share in MPCE (%)			
	Rural	**Urban**	**All India***
1999-00	59.4	48.1	53.7
2004-05	53.1	40.5	46.8
2009-10	57.0	44.4	50.7
2011-12	52.9	42.6	47.8
2022-23	46.4	39.2	42.8

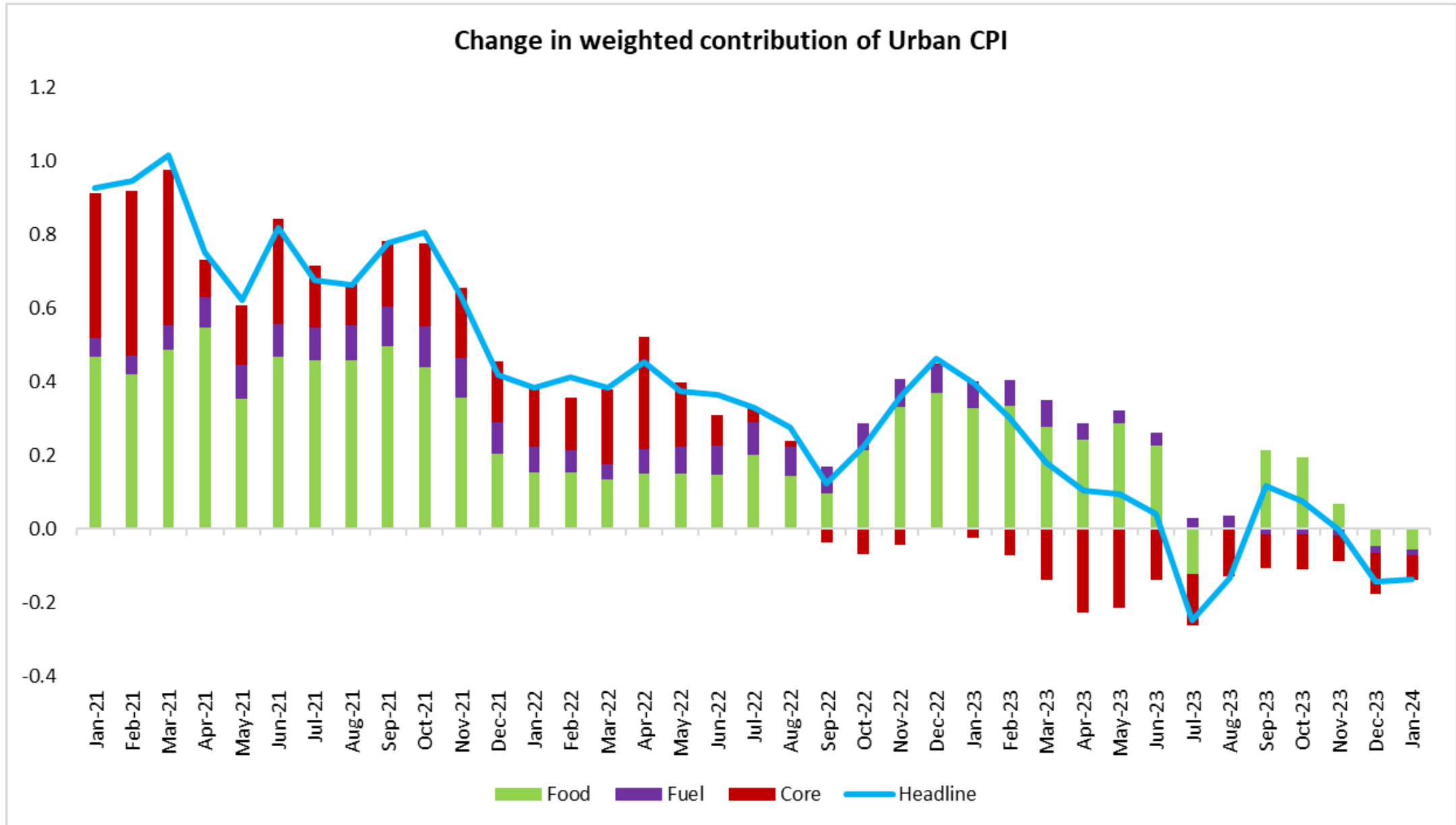Source: NSO; SBI Research; *Average of Rural and Urban

❑ **By substituting Existing weights with new weights, the new headline CPI is lower than the old headline CPI in the recent period**

❑ The lower headline CPI is due to lower food inflation

❑ However, core inflation on the other hand is larger in the new weight system

❑ **We estimate that April 2022 inflation could have been higher at 8% against existing 7.8%, while Jan'24 inflation would be 4.8% against 5.1%...thus the overall impact on headline inflation would be a combination of how food outstrips the core or the core outstrips the food… If core is declining…. This will have a sobering impact on headline inflation…**

Change in weighted contribution of Headline CPI

CPI with old and new weights (%)			
	Apr'22	**Jan'24**	**Change in bps**
CPI with old weight	**7.8**	**5.1**	**-270**
of which, Food weighted contribution	3.7	3.5	-24
Fuel weighted contribution	0.7	0.0	-76
Core weighted contribution	3.4	1.7	-170
CPI with new weight	**8.0**	**4.8**	**-316**
of which, Food weighted contribution	3.6	3.0	-52
Fuel weighted contribution	0.7	0.0	-72
Core weighted contribution	3.7	1.8	-192

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Change in weighted contribution of Rural CPI

Food   Fuel   Core   Headline

In Urban areas, the new headline CPI with new weights is not so profound…down by 14 bps… Headline at 30 bps…

Change in weighted contribution of Urban CPI

Legend: Food · Fuel · Core · Headline
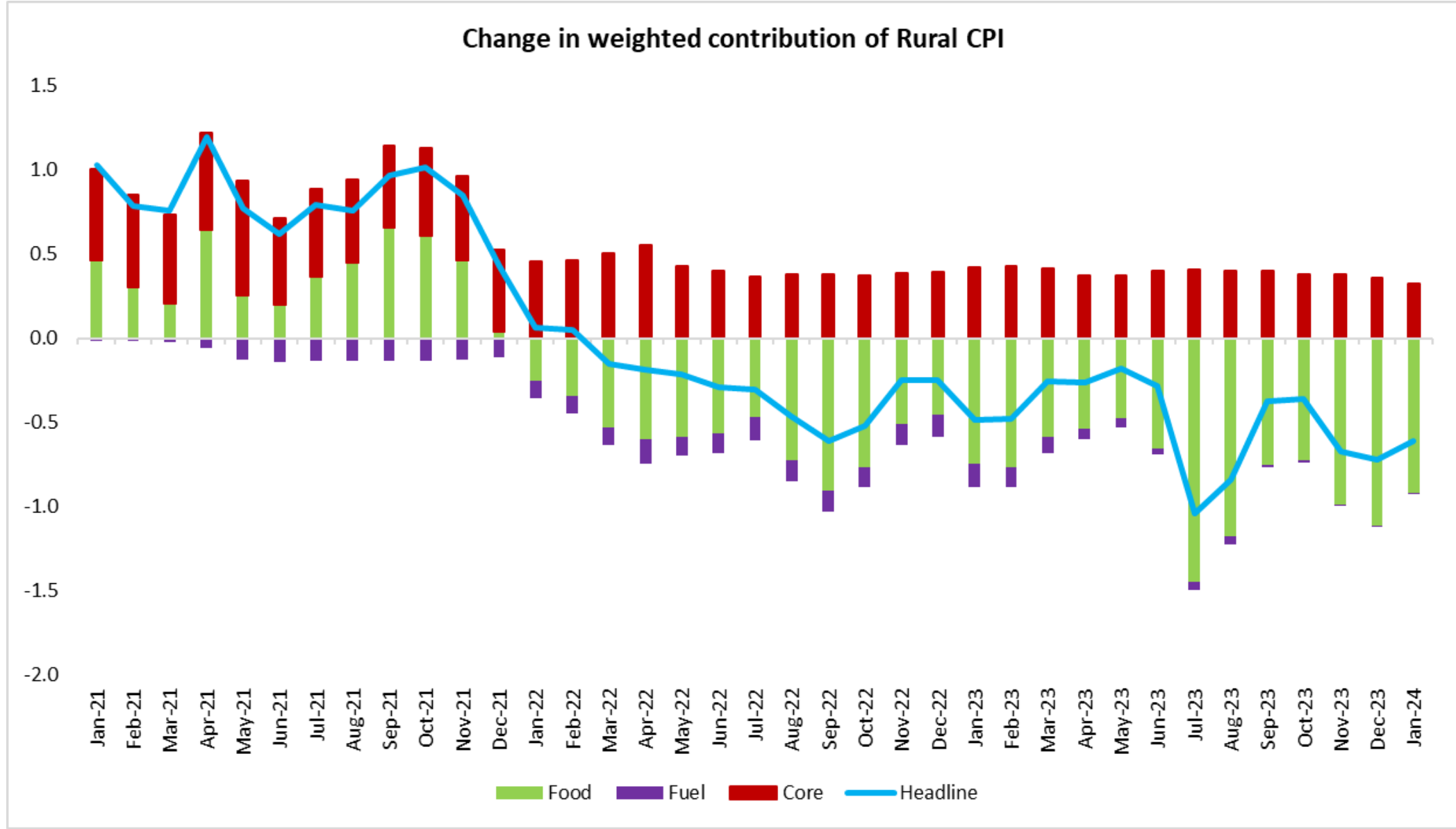
Volatile and Non-Volatile Components in Food CPI… with a lower weight of vegetables, it is likely that the volatility in food inflation could be favorably impacted during periods of high inflation…
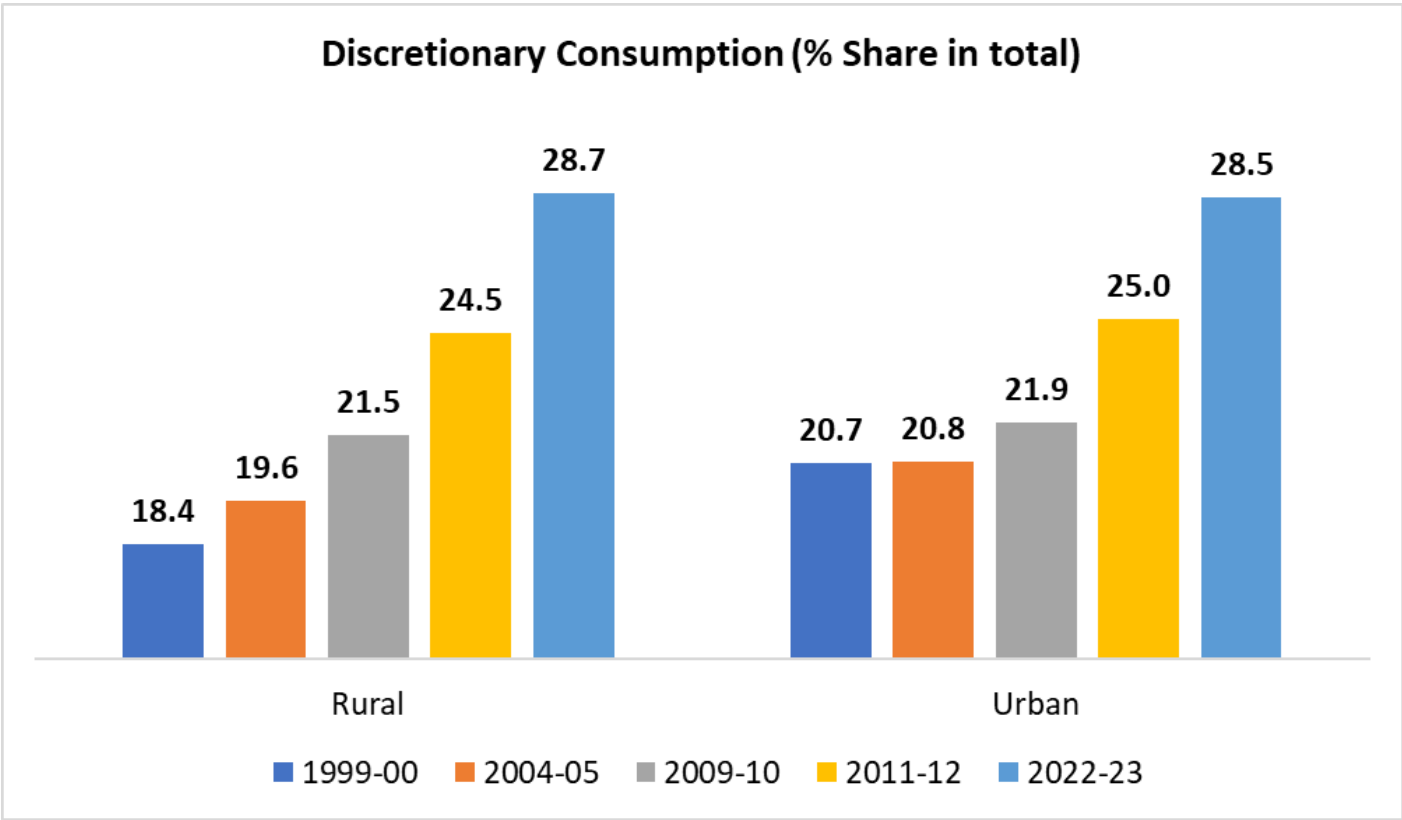
❑ Oils & fats, vegetables, pulses and sugar and confectionary are more volatile items contributing to food CPI

❑ **Reduction in weights of these items is positive for CPI inflation dynamics**

❑ Food and beverages inflation has lower volatility during periods of declining CPI inflation

❑ **Vegetables, the most volatile component of food inflation is more volatile during the phase of declining inflation…however its weighted contribution during that phase is lower compared to increasing CPI period**

Volatility in components of food inflation (since Jan'16)							
Components	Old weightage	New weightage	Coefficient of variation (CV)	CV during increasing CPI period	CV during declining CPI period	Average contribution during increasing CPI period	Average contribution during declining CPI period
Food and beverages	**45.9**	**42.8**	**65%**	**83%**	**63%**	**1.97**	**2.11**
Cereals and products	9.7	4.3	91%	89%	71%	0.40	0.56
egg, fish & meat	4.0	4.2	85%	80%	82%	0.24	0.18
Milk and products	6.6	7.8	54%	58%	47%	0.27	0.32
Oils and fats	3.6	3.0	204%	236%	949%	0.14	0.00
Fruits	2.9	3.8	100%	171%	76%	0.07	0.13
Vegetables	6.0	4.6	335%	217%	559%	0.45	0.14
Pulses and products	2.4	1.7	310%	-964%	294%	-0.08	0.09
Sugar and confectionery	1.4	0.8	197%	128%	192%	0.03	0.05
Spices	2.5	2.6	86%	150%	72%	0.13	0.26
Beverages, refreshments, processed food	6.8	10.1	52%	54%	26%	0.33	0.38
Source: SBI Research, CES, volatility calculated by excluding pandemic period							

Discretionary (Aspirational!) Consumption in Rural and Urban areas is increasing

❑ India is becoming more aspirational as indicated by the increasing share of discretionary consumption (like spending on beverages, intoxicants, entertainment, durable goods, etc.) in rural and urban areas

❑ **The speed of aspiration is swifter in rural areas as compared to urban areas**

Discretionary Consumption (% Share in total)

Rural: 18.4 (1999-00), 19.6 (2004-05), 21.5 (2009-10), 24.5 (2011-12), 28.7 (2022-23)

Urban: 20.7 (1999-00), 20.8 (2004-05), 21.9 (2009-10), 25.0 (2011-12), 28.5 (2022-23)

Legend: ■ 1999-00 ■ 2004-05 ■ 2009-10 ■ 2011-12 ■ 2022-23

- The HCES is designed to collect information on consumption of goods and services by the households, which are useful for understanding the consumption and expenditure pattern, standard of living and well-being of the households
- The survey has covered the whole of the Indian Union except a few inaccessible villages in the Andaman and Nicobar Islands
- All possible six sequencing of the three questionnaires, namely, [(Q1, Q2, Q3), (Q1, Q3, Q2), (Q2, Q1, Q3), (Q2, Q3, Q1), (Q3, Q1, Q2) and (Q3, Q2, Q1)], have been used in the survey to eliminate any bias due to adoption of any particular sequencing of the questionnaires.
- A multistage stratified sampling design to ensure representativeness across urban and rural areas. The households are selected through Random Sampling Without Replacement method
- However, capturing the seasonal variations in expenditure and regional disparities poses additional challenges

Household Consumption and Expenditures Surveys (HCES) 2022-23 Follows Better Practices & Methods Compared to Earlier Surveys		
Items	HCES:2011-12 (NSS 68th round)	HCES: 2022-23
Sample Size (Villages/Blocks Covered)	Rural: 7469 Urban: 5268	Rural: 8723 Urban: 6,115
No of Sample Households	Rural: 59683; Urban: 41968	Rural: 155014; Urban: 106732
Item Coverage	347	405
Questionnaire Type	Single Questionnaire	3-separate questionnaires covering (i) Food items (FDQ) – Q1 (ii) Consumables & Services items (CSQ) – Q2 (iii) Durable Goods (DGQ) – Q3
Multiple Visits for Data Collection	single visit	Three separate monthly visits in a quarter
Change in Mode of Data Collection	Pen-and-Paper Personal Interview (PAPI) method	Computer-Assisted Personal Interview (CAPI)
Source: SBI Research		

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