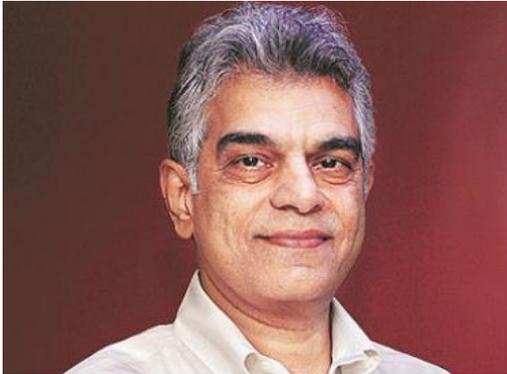


Middle-class rural India holds a promise

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Unless a disruption erupts again, rural India seemed poised to help a recovery in consumer demand.



By: Mahesh Vyas (MD & CEO, CMIE P Ltd)

The index of consumer sentiments generated by CMIE using its Consumer Pyramids Household Survey scaled up smartly by 5.3 per cent in the week ended September 12, 2021. It had increased by 3.9 per cent in the preceding week. As a result, the cumulative increase in September so far has been over 9 per cent. Given that India is now at the beginning of the 2021 festive season, this spurt in consumer sentiments is encouraging.

The Ganesh festival, which began on September 10, would continue through September 20. The first week of October would flag off the nine-day Navratri festivities. Diwali celebrations begin early in November and the month would continue to see festivities till Guru Nanak Jayanti on November 19. This period also sees the harvest of the kharif crop.

Buoyant consumer sentiments are important for the festive season to translate into enthusiastic consumer spending. This is why the 9 per cent increase seen in consumer sentiments so far in September is particularly important. It is important that consumer sentiments are cultivated to motivate households that have the spending power to spend during this festive season. In this respect, the truce between farmers and the government in Karnal was important.

It has also helped kharif sowing to finally catch up, in spite of a truant monsoon, and exceed the normal area sown. The crop could suffer a fall in yield because of the behaviour of the monsoon. But the progress of sowing improved towards the end of the season compared to its prospects seen in the first half of the monsoon months. And, the crop damages because of September rains could help strengthen prices that have dropped a bit compared to March-April.

Perhaps, it is the improving kharif crop and other related factors that are impacting rural India, which is driving the spurt in consumer sentiments. Data show that it is indeed rural India that is driving the increase in consumer sentiments in recent weeks. In the week ended September 12, while the overall index of consumer sentiments grew by 5.3 per cent, the index for rural India grew by 9 per cent. Similarly, in the preceding week that ended on September 5, while the overall index of consumer sentiments increased by 3.9 per cent, the index for rural India grew by 4.9 per cent.

This phenomenon of rural India driving the all-India consumer sentiment index in September is a continuation of the same in August when the index had increased by a modest 1.7 per cent. This August

increase was entirely concentrated in rural India. The rural index of consumer sentiments increased by 4 per cent in the month, while the index for urban India declined by 2 per cent in the same month.

Monthly estimates of the index of consumer sentiments permit greater dissection because of the larger sample involved. We dig into this to identify the prime source of the recent spurt in consumer sentiments of India's rural folks.

First, while the rural index of consumer sentiments grew by 4 per cent in August 2021, it was essentially one income group in rural India that drove this growth. This was the group that earned annually between Rs 200,000 and Rs 500,000.

This is also the largest income group in rural India. Consumer sentiments of this group of people shot up by 12.5 per cent in the month of August. This is a fairly large set of households. In fact, it accounts for almost half of rural India. There were an estimated 69 million households in this group out of an estimated 215 million in rural India. This is the fat middle-income group of rural India. If consumer sentiments of nearly one-third of rural India see a spurt on the eve of the festive season, then there are implications on the growth of consumer markets in rural India in the coming few months.

A dissection of the August sentiments by occupation of households also reveals a similar concentration of consumer sentiments in one specific group. This is the salaried classes in rural India. The consumer sentiments index of this group increased by 16.1 per cent in August. This again is higher than the 4 per cent growth in consumer sentiments seen in rural India as a whole. The salaried classes are not very big in rural India as they don't count much even at an all-India level. In rural India, these are estimated at about 23 million households. Nearly half of these, 11 million earn, between Rs 200,000 and Rs 500,000. These, we deduce, are the most gung-ho about their sentiments.

Evidently, there is a fairly large non-salaried segment in rural India — over 50 million households that earn between Rs 200,000 and Rs 500,000. These are quite optimistic at the moment. Among these, the businessmen and farmers reported an over 5 per cent increase in consumer sentiments in August. However, daily wage earners in rural India saw no increase in consumer sentiments.

Consumer sentiments in urban India have been subdued. Cumulatively, in the first two weeks of September, while the rural index of consumer sentiments rose by 14.3 per cent, the index for urban India rose by only one per cent. In the week ended September 12, it fell one per cent. In August, it had fallen by 2 per cent.

Unless a disruption erupts again, rural India seems poised to help a recovery in consumer demand.