

Ring out the old, tired consumption debates

The discussion around India's household consumption has been stuck on the same issues for the last 20 years, even though the answers to them are now well-known. It's time to "man up" and say: "This is not the narrative or number we like, but let's just accept it." For example, household income, formal salaried employment. It is also time to embrace the quintessentially Indian idea of "many truths, all true" — for example, mass and class markets both being attractively large and growing; gen-next includes both startup founders and government job seekers; and the ageing and youth are both significant demographics. Only then can we move forward.

Whether household consumption is in good health or not is a popular media debate, especially when favourite listed companies post results that fall short of analysts' forecasts. Private Final Consumption Expenditure (PFCE) growth has slowed down in periods, but it has been steadily, sustainably growing over time, a trend that we can safely bet on in the future. As this column has often pointed out, here is the world's largest mass of people who are very keen to consume and whose incomes are slowly and steadily rising. Even at modest gross domestic product (GDP) growth rates, the PFCE expenditure offers enough headroom for companies to grow. Where and how to get this growth is a business strategy question, not a macro consumption health question. We know that all our defining numbers are large on aggregate, small on per capita; absolute numbers of consumption of most things are very large, especially relative to the rest of the world, while penetration levels are still low. We know that a small percentage of a large number is large, and all interpretations are correct.

There is also no need to debate, as is often done, who the "demand stars" or the next wave of consumption drivers are — rural or urban, Tier I or II & III, Uttar Pra-

desh or Karnataka, the young or old. It is proven that demand is everywhere and even rich households are spread wide and deep. Instead of continuing to seek normative answers, the model to work with is that of many mini Indias, each with its own mini economies affected by different factors (for example, America, monsoon, politics, natural disasters, infrastructure spurts, acts of God and acts of governments). So the focus should shift to building excellent, dynamic tracking, and forecasting models of where the good news and bad news on income, hence consumption is going to be.

Forecasting models such as Crisil's DRIP (Deficient Rainfall Impact Parameter, created by the late economist Subir Gokarn) can be used to monitor and forecast agricultural incomes in real time, as the monsoon advances. Another model, used by a rural lender, continuously monitors agriculture, construction/mining/infrastructure building, and political activity/government actions across districts to forecast consumption health at any point in time in Consumer India's labyrinth.

Shifting the focus to proactive tracking of fundamental drivers of household cash

flows and accepting the ebbs and spates of our consumption river as it flows across many mini Indias, steadily increasing its depth over time, will avoid the un-insightful post mortems and conjecture that happens every quarter. The long-standing debate of "mass or class — where does India's "true" consumption potential lie" is past its expiry date. The facts are known — the richest 20 per cent of households have over half of India's household income and never went below the mid-40 per cent even in high-growth, pre-Covid periods. The rest are also growing their incomes steadily and harbour considerable aggregate demand, though at lower income levels. We know that Indian consumption exists at a range of price and performance points. It

is for companies to decide where on this spectrum they want to play and with what intensity, depending on whether they can innovate or achieve cost positions that enable them to make money. Companies that choose not to serve or play in "mass" markets give up large swathes of aggregate demand where scale can be built and where long-term value, volume, and price-point growth tends to happen on autopilot over time. To portray such company specific choices based on desired pain-gain-valuation as macro-consumption truths of vanishing middle classes, or disappeared demand is incorrect.

What we do need to better understand consumption is more insights on occupation, leading to a risk assessment model for income — how exactly Indians earn the money to consume (and pay back what they borrow to consume). We know from existing data that the bulk of consumers are own-account workers or micro business owners. We know anecdotally that doing multiple gig jobs is becoming the norm, especially for the young. What we need is a deep dive well beyond National Sample Survey categorisations of Consumer India's exact work, the share and predictability of each component of a person's total income, and the resilience to bounce back from bad times. This will also help establish the size of the genuine middle class and avoid specious debates on its true size.

We need to understand at an equally granular and nuanced level, the priorities (life attitudes, goals, anxieties) of different income/occupation/education segments that shape their thinking around spending portfolios and drive their spending. Maybe productivity-enhancement remains the most important value space that drives consumption. Maybe the new aspiration is to experiment and experience life's goodies rather than invest in capex for life's future.

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