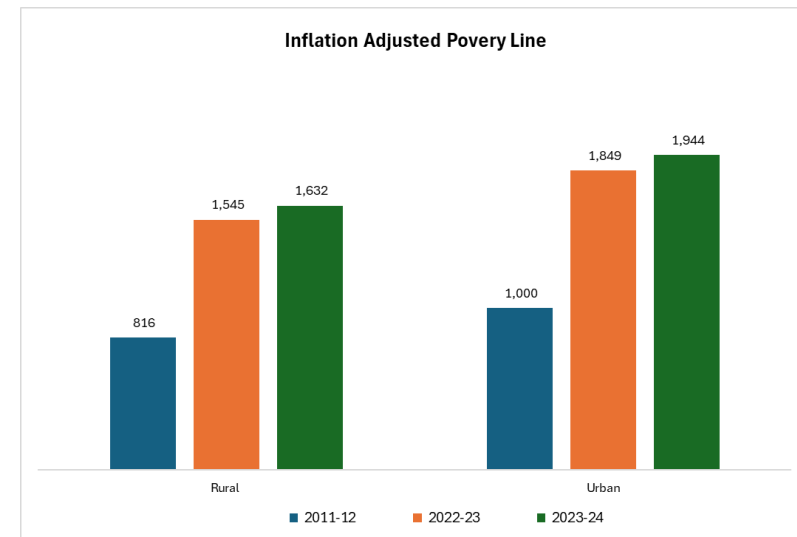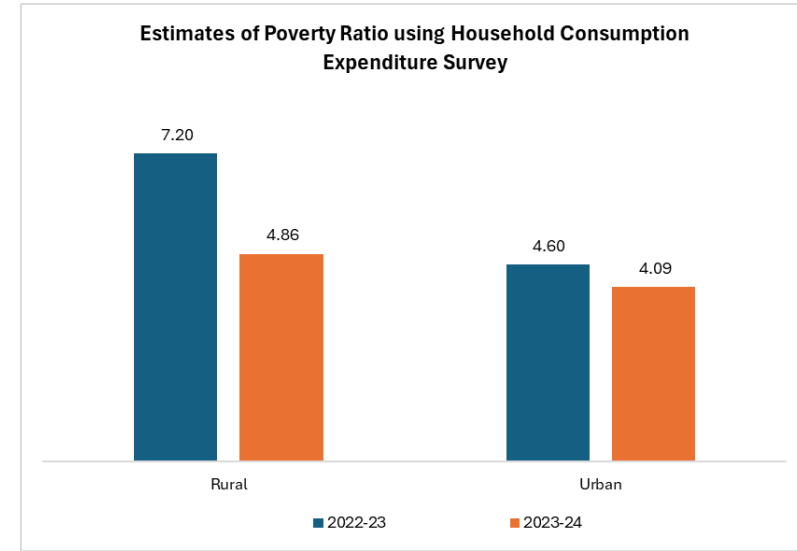Consumption Expenditure Survey reveals a remarkable decline in Rural Poverty estimated at 4.86% in FY24 (7.2% in FY23 and 25.7% in FY12)… Urban Poverty estimated at 4.09% (4.6% in FY23 & 13.7% in 2011-12)....overall poverty levels now in 4-4.5%.... The sharp decline in rural poverty ratio is on account of higher consumption growth in lowest 0-5% decile with significant Government support and such support is important as we also find that change in food prices has significant impact on not just food expenditures, but overall expenditure in general….the new weights drives down headline inflation by as much as 50 basis points in Nov'2024...
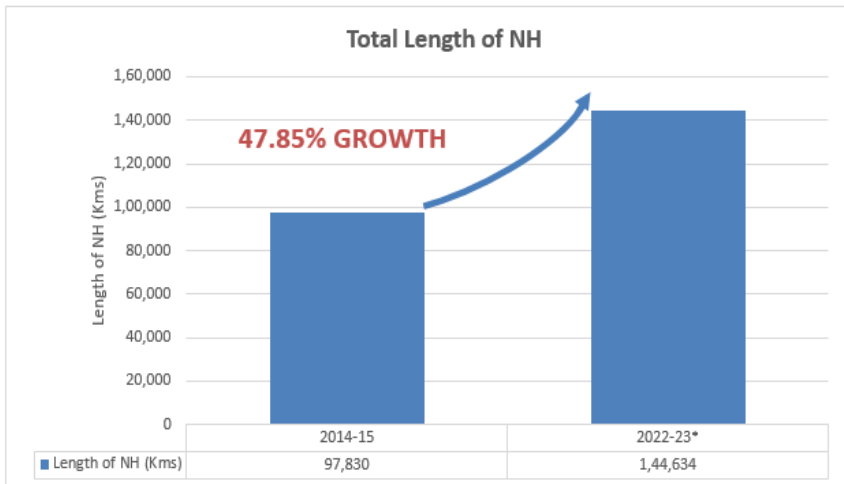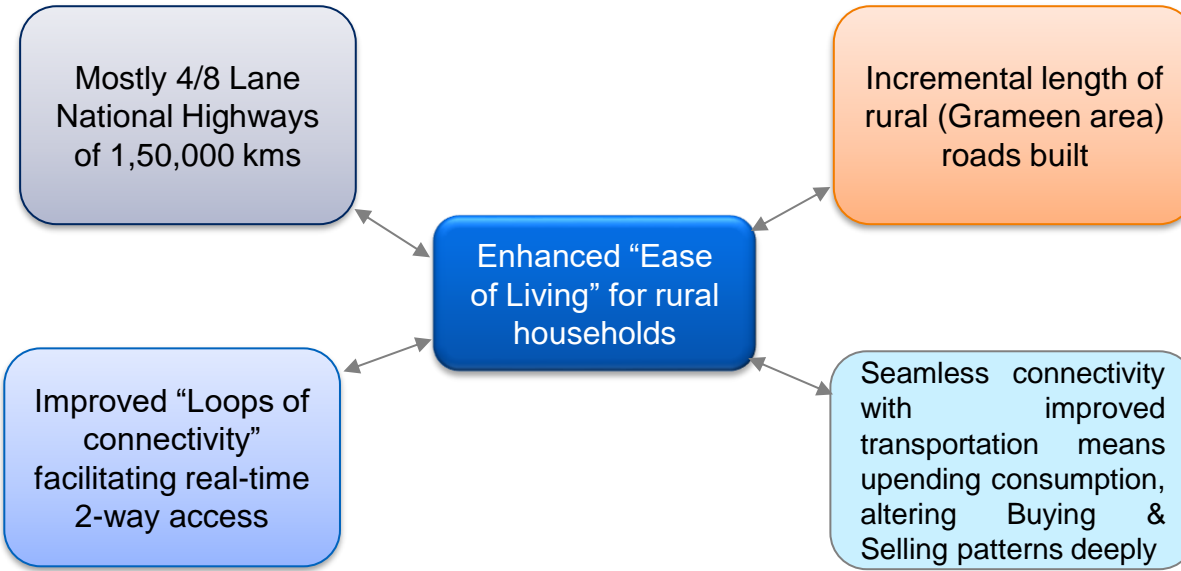
- Based on 2023-24 fractile distribution, the sample proportion for poverty in rural areas is 4.86% and 4.09% in urban areas in FY24…This is significantly lower than FY23 estimates of rural poverty at 7.2% and urban poverty at 4.6%...

- It is possible that these numbers could undergo minor revisions once the 2021 census 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%-4.5% with almost minimal existence of extreme poverty

- 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

- The difference between rural and urban monthly per capita consumption expenditure/MPCE to rural MPCE is now at 69.7%, a rapid decline from 88.2% in 2009-10…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

- We estimate that food inflation dampens consumption demand more in lower income states as compared to higher-income states, reflecting that rural people are comparatively more risk-averse in low-income states, than in high-income states

- We estimate that Nov'24 inflation because of the new weights would be 5.0% against 5.5%...

- Most of the high-income states delineate a savings rate greater than National Average (31%). Uttar Pradesh and Bihar show low savings rate possibly due to higher outward migration

Impact on Poverty & Inequality

Poverty ratio estimates for the year 2023-24

❏ 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 1632 in rural area and Rs 1944 in urban areas in 2023-24

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

❏ Based on 2023-24 fractile distribution, the sample proportion for poverty in rural areas is 4.86% and 4.09% in urban areas ignoring imputation factor

❏ The decline in rural poverty ratio is on account of higher consumption growth in 0-5% decile leading to shift in poverty line from 5-10% decile in 2022-23 to 0-5% decile in 2023-24

Estimates of Poverty Ratio using Household Consumption Expenditure Survey

	Rural	Urban
2022-23	7.20	4.60
2023-24	4.86	4.09

Inflation Adjusted Povery Line

	Rural	Urban
2011-12	816	1,000
2022-23	1,545	1,849
2023-24	1,632	1,944

SBI
The banker to every Indian

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*
Length of NH (Kms)	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)

Legend: Target — Completion — Completion in %

~1,50,000 kms NH length as on date
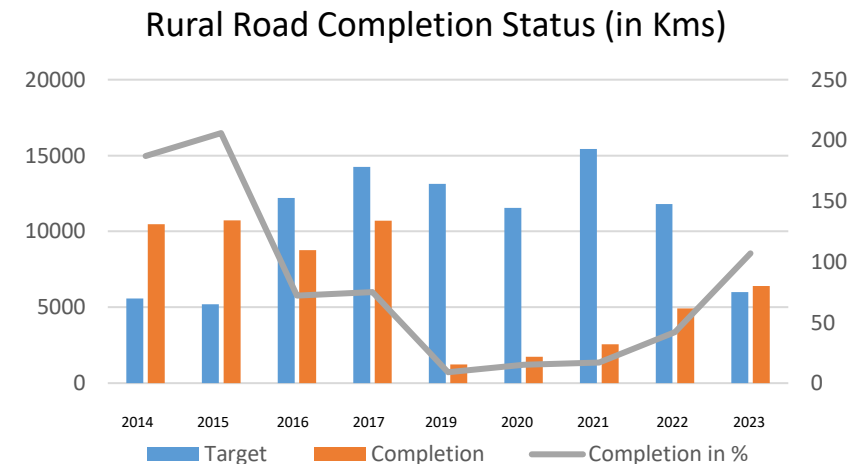
Rural consumption fast catching up with the urban consumption

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

❑ It has declined from 88.2% in 2004-05 to 69.7% in 2023-24

Trend in level of consumption since 1999-00: All India						
Sector	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	2023-24
Rural	486	559	1054	1430	3773	4122
Urban	855	1052	1984	2630	6459	6996
Difference	369	493	930	1200	2686	2874
Difference as % of Rural	75.9	88.2	88.2	83.9	71.2	69.7
Source:MOSPI, HCES , SBI Reasearch						

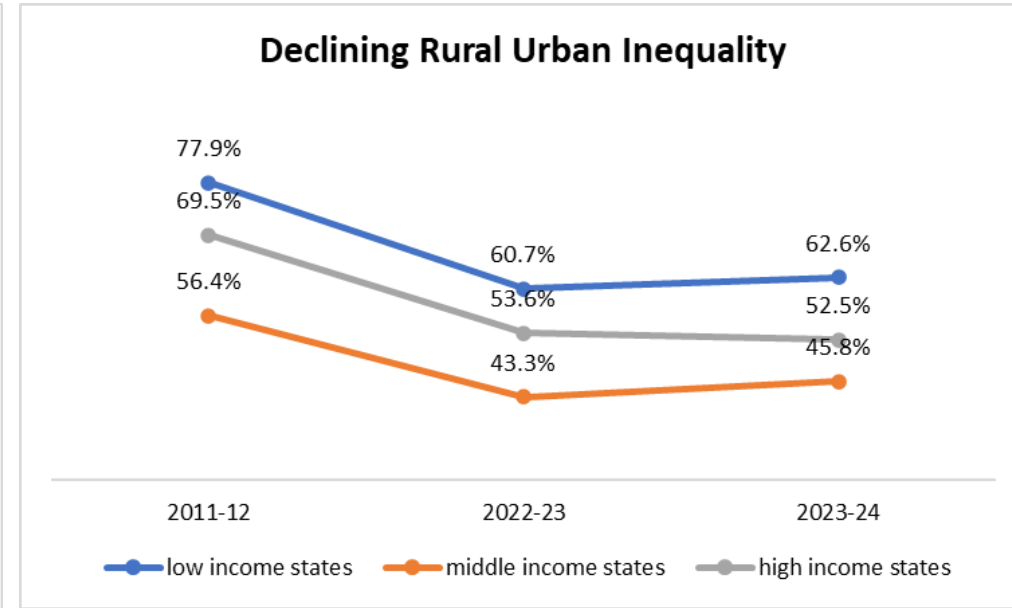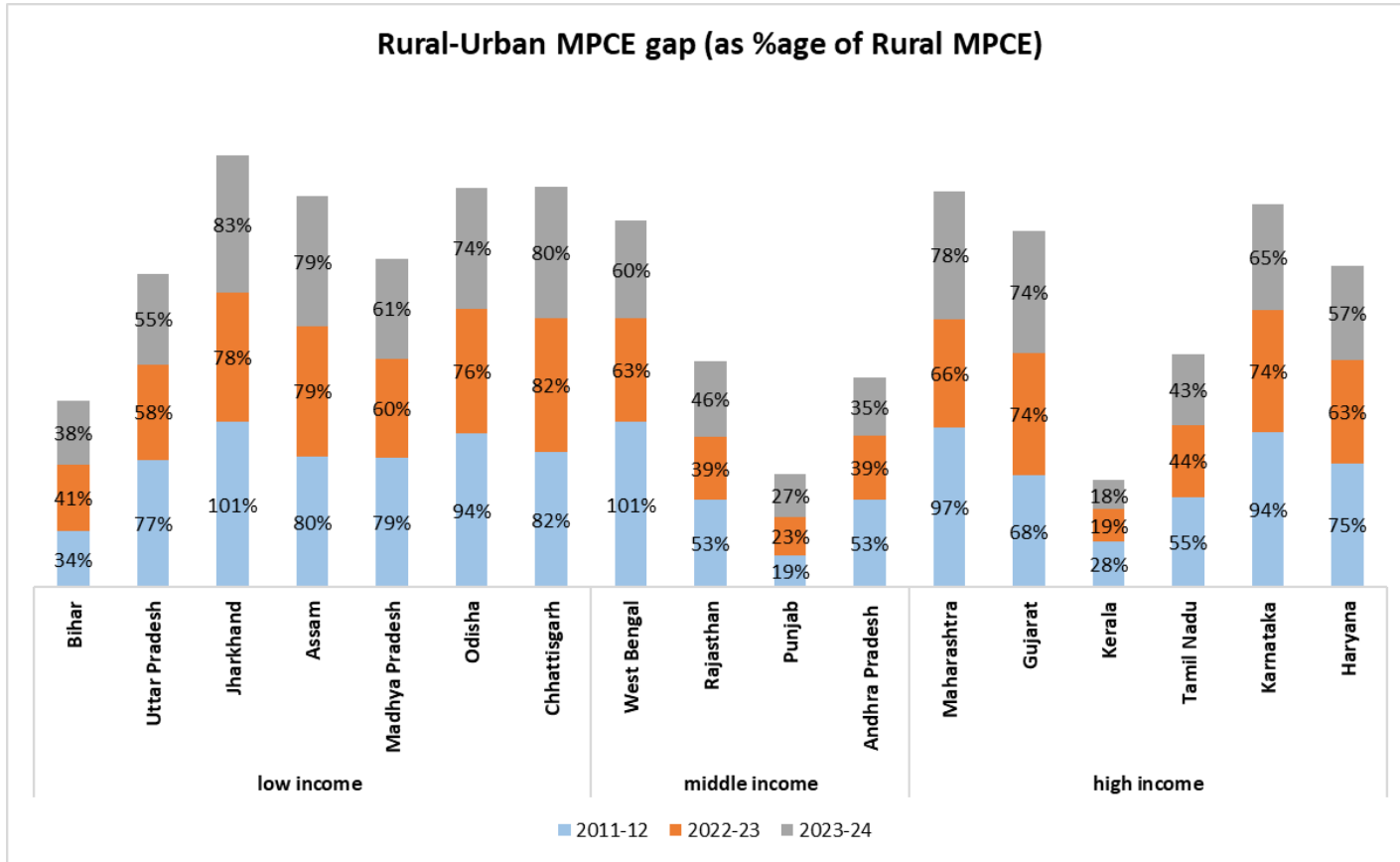# …..Rural Average MPCE (Rs.) has increased due to Government Initiatives & Support at bottom of the pyramid

❑ The difference between rural and urban monthly per capita consumption expenditure/MPCE to rural MPCE is now at 69.7%, 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, Rajasthan, etc. are showing increasingly the impact of factors that are endogenous to the Rural Ecosystem….

Trend in Level of Consumption (Rs)
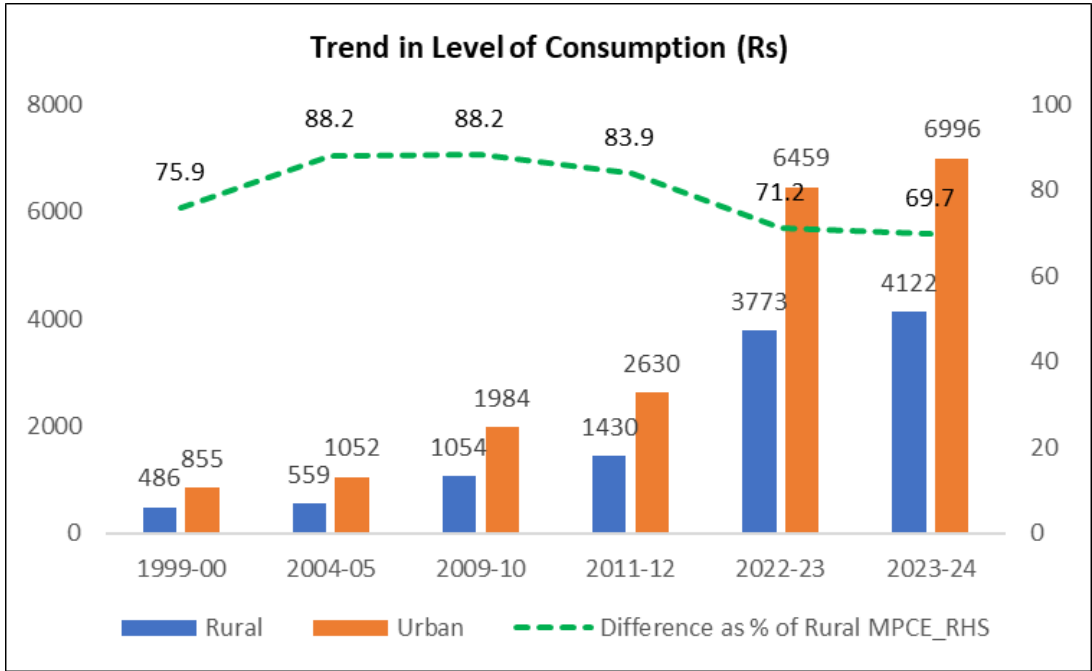
State-Wise Average MPCE (Rs) in 2023-24			
States	Rural	Urban	Difference as % of Rural MPCE
Andhra Pradesh	5327	7182	34.8
Assam	3793	6794	79.1
Bihar	3670	5080	38.4
Chhattisgarh	2739	4927	79.9
Delhi	7400	8534	15.3
Goa	8048	9726	20.8
Gujarat	4116	7175	74.3
Haryana	5377	8428	56.7
Himachal Pradesh	5825	9223	58.3
Jharkhand	2946	5393	83.1
Karnataka	4903	8076	64.7
Kerala	6611	7783	17.7
Madhya Pradesh	3441	5538	60.9
Maharashtra	4145	7363	77.6
Odisha	3357	5825	73.5
Punjab	5817	7359	26.5
Rajasthan	4510	6574	45.8
Tamil Nadu	5701	8165	43.2
Telangana	5435	8978	65.2
Uttarakhand	5003	7486	49.6
Uttar Pradesh	3481	5395	55.0
West Bengal	3620	5775	59.5
All-India	4122	6996	69.7

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Rural-Urban MPCE gap is declining….

- The difference between rural and urban monthly per capita consumption expenditure/MPCE to rural MPCE is declining for all states across income categories
- Our analysis reveals that the gap has been comparatively lower for middle income states and is further declining steeply

Rural-Urban MPCE gap (as %age of Rural MPCE)

State	2011-12	2022-23	2023-24
Bihar	34%	41%	38%
Uttar Pradesh	77%	58%	55%
Jharkhand	101%	78%	83%
Assam	80%	79%	79%
Madhya Pradesh	79%	60%	61%
Odisha	94%	76%	74%
Chhattisgarh	82%	82%	80%
West Bengal	101%	63%	60%
Rajasthan	53%	39%	46%
Punjab	19%	23%	27%
Andhra Pradesh	53%	39%	35%
Maharashtra	97%	66%	78%
Gujarat	68%	74%	74%
Kerala	28%	19%	18%
Tamil Nadu	55%	44%	43%
Karnataka	94%	74%	65%
Haryana	75%	63%	57%

low income | middle income | high income

■ 2011-12 ■ 2022-23 ■ 2023-24

Declining Rural Urban Inequality

	2011-12	2022-23	2023-24
low income states	77.9%	60.7%	62.6%
middle income states	56.4%	43.3%	52.5%
high income states	69.5%	53.6%	45.8%

Numbers represent - Gap between rural urban MPCE as a percentage of rural MPCE

8

Average MPCE in Rural India is thriving

- In the last one fiscal (FY24 over FY23), average Rural MPCE increased by Rs 349 and urban MPCE by Rs 537. This indicate that incremental rural MPCE is almost 65% of incremental urban MPCE

- However, the state-wise situation is varied

- While in most of the states the incremental rural MPCE is less than the incremental urban MPCE, the situation is contrarian in a few states (like Karnataka, AP and Haryana) and quite favourable is most of the states (like Kerala, Bihar, UP, etc.)

- However, the situation is alarming in states like Maharashtra, Rajasthan, etc.

State-Wise Change (FY24 over FY23) in Average MPCE (Rs)				
	States	Rural	Urban	Rural/ Urban
States where Rural/Urban change is greater than national average	Karnataka	506	410	123%
	Andhra Pradesh	457	400	114%
	Haryana	518	517	100%
	Kerala	687	705	97%
	Bihar	286	312	92%
	Uttar Pradesh	290	355	82%
	Telangana	633	820	77%
	Uttarakhand	362	482	75%
	West Bengal	381	508	75%
	Tamil Nadu	391	535	73%
	Goa	681	992	69%
All-India		**349**	**537**	**65%**
States where Rural/Urban change is lower than national average	Odisha	407	638	64%
	Punjab	502	815	62%
	Chhattisgarh	273	444	61%
	Madhya Pradesh	328	551	60%
	Gujarat	318	554	57%
	Assam	361	658	55%
	Jharkhand	183	462	40%
	Rajasthan	247	661	37%
	Himachal Pradesh	264	1,148	23%
	Maharashtra	135	706	19%

Source: SBI Research

Consumption Behavior has Shifted from Food to Non-Food Items

- It is interesting to see the change in consumer preference both in rural and urban areas during the last 12 years

- A significant drop (more than 5%) in 'Cereal & Pulses' consumption both in rural and urban areas

- Toiletries consumption has increased in the basket, reflecting the impact of Swachh Bharat and awareness

- Surprisingly, taxes and cess has declined, which may be due to rationalization of GST….

- Clothing, footwear expenditure share declined, which may be due to decline in GST rates from the earlier regime

Trend in percentage composition of MPCE since 2011-12						
Item	Rural			Urban		
	2011-12	2023-24	Change	2011-12	2023-24	Change
Cereal	10.69	4.97	-5.72	6.61	3.74	-2.87
Pulses And Pulse Products	2.76	1.78	-0.98	1.93	1.22	-0.71
Sugar & Salt	1.83	0.89	-0.94	1.15	0.57	-0.58
Milk And Milk Products	8.04	8.44	0.40	7.01	7.19	0.18
Vegetables	6.62	6.03	-0.59	4.63	4.12	-0.51
Fruits (Fresh)	2.25	2.66	0.41	2.64	2.61	-0.03
Fruits (Dry)	0.58	1.19	0.61	0.78	1.26	0.48
Egg, Fish & Meat	4.79	4.92	0.13	3.65	3.56	-0.09
Edible Oil	3.74	2.77	-0.97	2.66	1.82	-0.84
Spices	3.5	3.27	-0.23	2.42	2.3	-0.12
Beverages, Processed Food# Etc	7.9	9.84	1.94	8.98	11.09	2.11
Food: Total	**52.9**	**47.04**	**-5.86**	**42.62**	**39.68**	**-2.94**
Pan, Tobacco & Intoxicants	3.21	3.84	0.63	1.61	2.37	0.76
Fuel And Light	7.98	6.11	-1.87	6.69	5.59	-1.1
Toilet Articles & Other Household Consumables	4.01	5.2	1.19	3.88	5.15	1.27
Education	3.49	3.24	-0.25	6.9	5.97	-0.93
Medical (Non- Hospitalization)	4.5	4.58	0.08	3.58	3.89	0.31
Conveyance	4.2	7.59	3.39	6.52	8.46	1.94
Consumer Services	3.99	5.25	1.26	5.6	5.72	0.12
Entertainment	0.99	1.02	0.03	1.61	1.77	0.16
Rent	0.45	0.56	0.11	6.24	6.58	0.34
Other Taxes & Cesses	0.25	0.21	-0.04	0.82	0.33	-0.49
Clothing & Bedding	5.99	5.67	-0.32	5.37	4.8	-0.57
Footwear	1.02	0.96	-0.06	1	0.86	-0.14
Durable Goods	4.85	6.48	1.63	5.6	6.87	1.27
Non-Food: Total	**47.1**	**52.96**	**5.86**	**57.38**	**60.32**	**2.94**

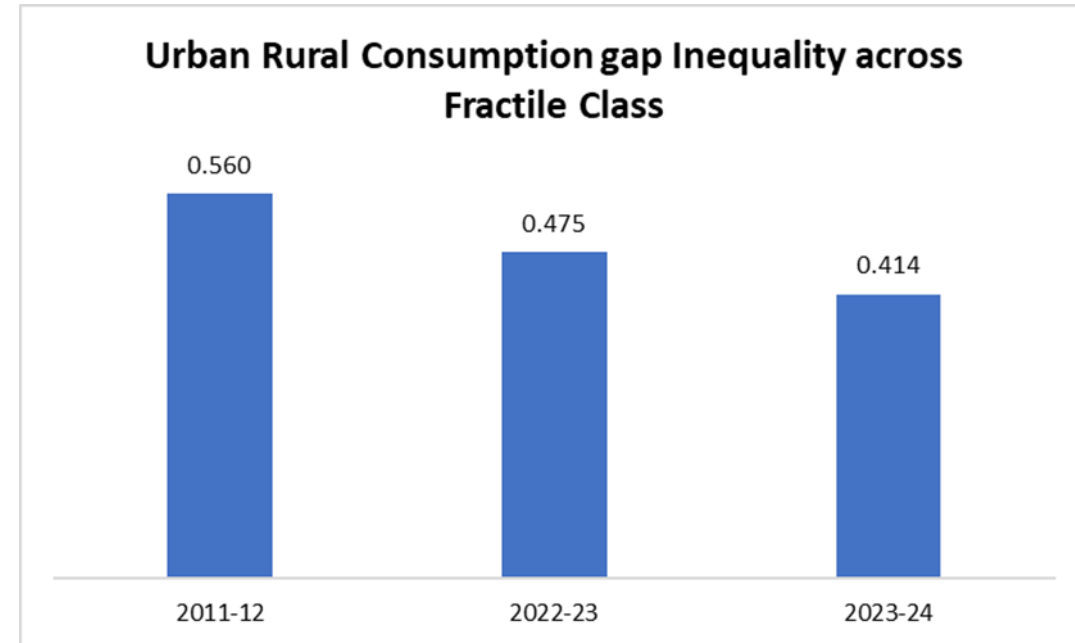Source: MOSPI, SBI Research

Inequality in distribution of MPCE

❑ The consumption inequality has declined from 0.266 and 0.314 in 2022-23 to 0.237 and 0.284, respectively in Rural and Urban India

Gini coefficient of total consumption expenditure during 2011-12 to 2023-24			
Sector	**2011-12**	**2022-23**	**2023-24**
Rural	0.283	0.266	0.237
Urban	0.363	0.314	0.284
Source: HCES			

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 0.306 for Rural (rural Income is trending towards more equitable distribution) while for urban India, it has declined from 0.457 to 0.365

❑ **Urban and Rural consumption inequality across Fractile classes on decline**

❑ using an equivalent of Gini Coefficient, Horizontal Consumption Inequality between Rural and Urban across fractiles has declined from 0.560 to 0.414

Consumption Inequality across Fractile Class			
Region	**2011-12**	**2022-23**	**2023-24**
Rural	0.365	0.343	0.306
Urban	0.457	0.399	0.365
Source: SBI research			

Urban Rural Consumption gap Inequality across Fractile Class

	2011-12	2022-23	2023-24
	0.560	0.475	0.414

❑ 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

❑ **In lowest decile, urban consumption is only 42% more dissimilar than rural counterpart. Across fractile classes, urban consumption is only 65% 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 consumption analysis based on all India average			
Fractile class	Fractile rural consumption to average rural consumption ratio	Fractile urban consumption to average urban consumption ratio	Fractile urban consumption to rural consumption ratio
0-5%	0.41	0.34	1.42
6-10%	0.52	0.44	1.45
11-20%	0.60	0.53	1.49
20--30%	0.69	0.62	1.54
30-40%	0.77	0.71	1.57
40-50%	0.85	0.80	1.61
50-60%	0.94	0.91	1.64
60-70%	1.04	1.03	1.67
70-80%	1.19	1.19	1.71
80-90%	1.40	1.45	1.76
90-95%	1.68	1.83	1.85
95-100%	2.46	2.90	2.00
All Classes	1.00	1.00	1.70
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 (2023-24) 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 43.4% in 2023-24 at all India level

- The share of food has declined more in rural areas as compared to urban areas 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…

- As per reports, MoSPI is updating the base year of the CPI from 2012 to 2023 to improve economic data accuracy. This will help measure changes in economic variables and compare indicators over time

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
2023-24	47.0	39.7	43.4
Source: NSO; SBI Research; *Average of Rural and Urban			

Consumption demand is elastic….

SBI
The banker to every Indian

- ❑ Our research estimates the impact of change in food inflation on the consumption demand of rural and urban economy – for states with different income levels i.e high-income states, middle-income states and low-income states

- ❑ We used MPCE data from current (HCES) and previous report (HCES-2022-23), and food inflation data of similar periods to estimate the impact, where impact is calculated with following <u>cross-price elasticity</u> formula –

$$Elasticity = \frac{(MPCEt - MPCEt_{-1})/MPCE_t}{(\pi_t - \pi_{t-1})}$$

Where, t is FY24

- ❑ We found that consumption demand is elastic (|e| > 1), both at rural and urban level. **This means that change in food prices has significant impact on not just food expenditures, but overall expenditure in general….**

	Rural Elasticity	Urban Elasticity
Low income states	-12.52	-12.45
Middle income states	6.11	27
High income states	-8.19	-1.7

All India Average	-4.87	4.28

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- Further, we found that elasticity is negative for low- and high-income states indicating that increase in inflation has led to fall in monthly per-capita consumption expenditure (MPCE), which is in sync with universal law of demand

- The fall in food inflation in middle income states has led to increase in MPCE in analysis period, as reflected by positive elasticity

- Observing magnitudes, we inferred that the impact of rise in food prices is severe on rural consumption demand, particularly for low-income states.

$$|E_R| > |E_U|$$

- Further, the impact is asymmetric. The rural-urban differential impact for lower income states is negligible while it is stark for high income states reflecting that rural people are comparatively more risk-averse in low-income states, than in high-income states

- Conclusively, the middle-income states are mainly responsible for sustaining the consumption demand in Economy. Urban segment of middle-income states has registered significant rise in MPCE with fall in food inflation
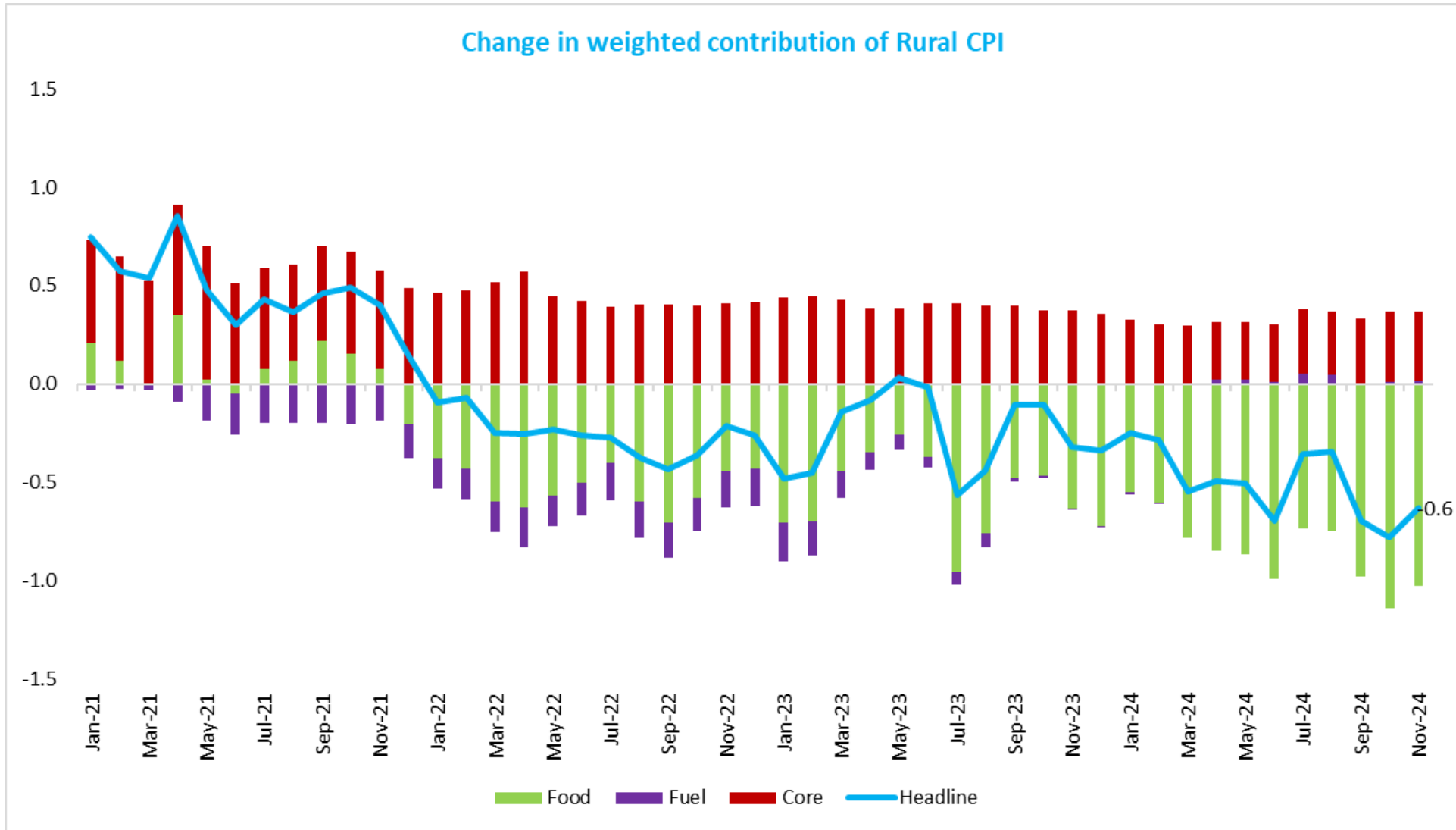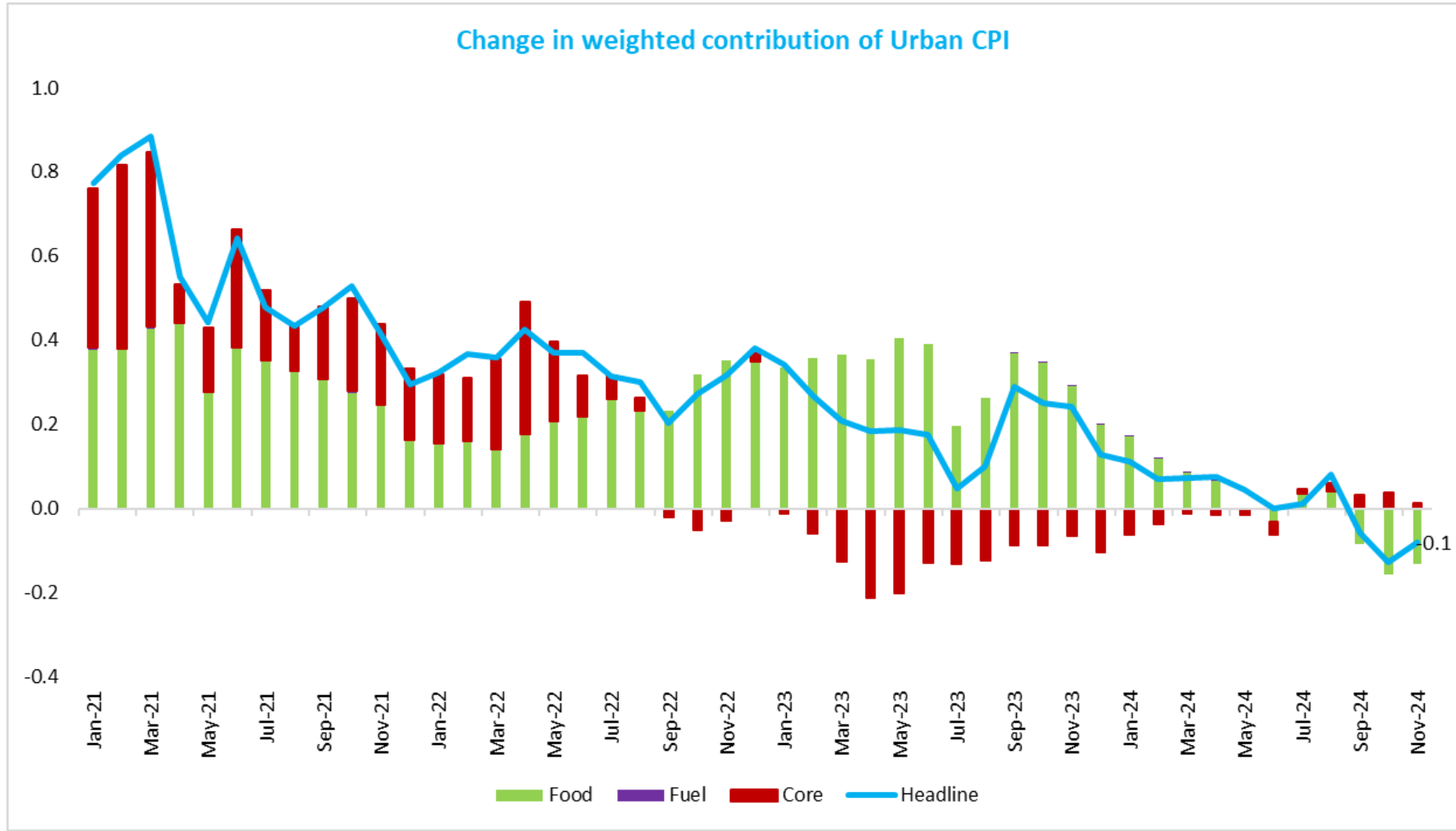
- **By substituting existing weights with new weights, the new headline CPI is lower than the old headline CPI in the recent period**

- 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 Nov'24 inflation would be 5.0% against 5.5%...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
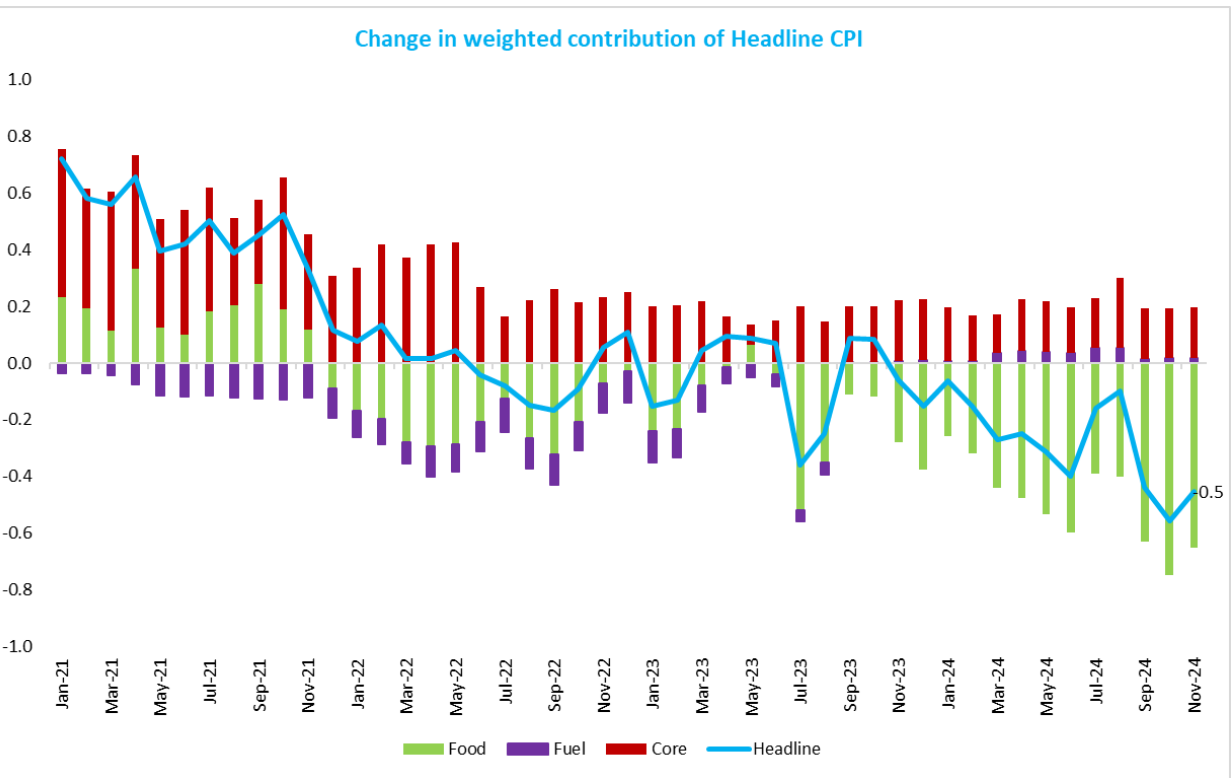
CPI with old and new weights (%)						
	Apr'22	Mar-24	FY24	Nov'24	FY 25 YTD	Change in bps(Nov 24-Apr 22)
CPI with old weight (2011-12)	**7.8**	**4.9**	**5.4**	**5.5**	**4.9**	**-232**
, Food weighted contribution	3.7	3.5	3.2	3.9	3.6	17
Fuel weighted contribution	0.7	-0.2	0.1	-0.1	-0.2	-84
Core weighted contribution	3.4	1.6	2.0	1.7	1.6	-165
CPI with new weight (2023-24)	**8.0**	**4.6**	**5.3**	**5.0**	**4.6**	**-293**
, Food weighted contribution	3.6	3.1	3.0	3.2	3.0	-32
Fuel weighted contribution	0.7	-0.2	0.1	-0.1	-0.2	-79
Core weighted contribution	3.7	1.7	2.2	1.9	1.8	-183
Repo Rate	**4.0**	**6.5**	**6.5**	**6.5**	**6.5**	**250**

Change in weighted contribution of Rural CPI

Legend: Food, Fuel, Core, Headline

In Urban areas, the new headline CPI with new weights is not so profound...down by 10 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, and Pulses are 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

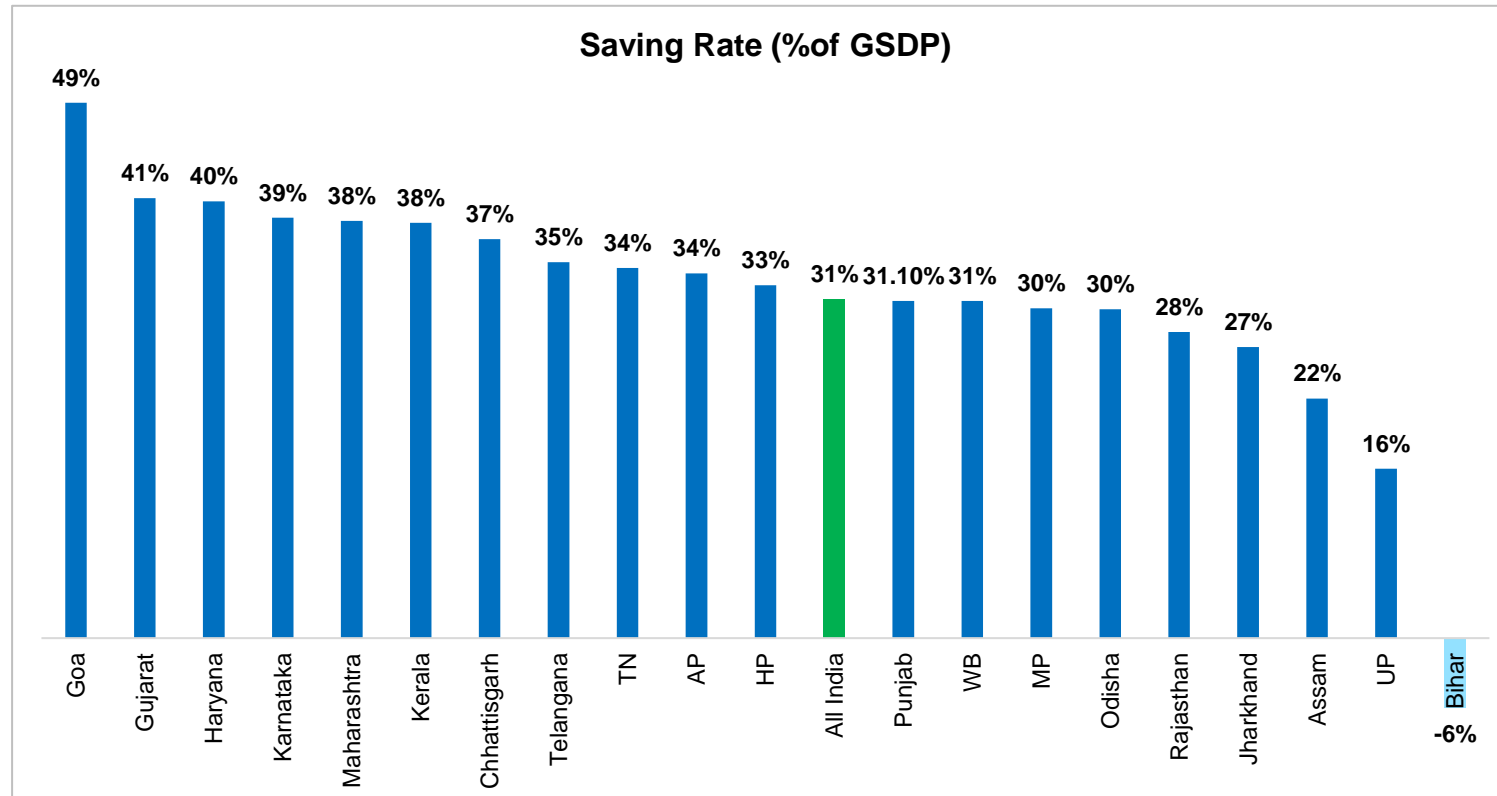| Volatility in components of food inflation (since Jan'16)							
Components	Old weightage	New weightage	Coefficient of variation (CV)	CV during increasing CPI period	CV during declining CPI period	Average contribution during increasing CPI period	Average contribution during declining CPI period
Food and beverages	**45.9**	**43.4**	**62%**	**70%**	**62%**	**2.35**	**2.11**
Cereals and products	9.7	4.4	84%	75%	71%	0.44	0.57
egg, fish & meat	4.0	4.2	82%	73%	78%	0.12	0.10
Milk and products	6.6	7.8	53%	54%	49%	0.25	0.31
Oils and fats	3.6	2.3	233%	520%	373%	0.07	0.05
Fruits	2.9	3.9	93%	123%	75%	0.09	0.13
Vegetables	6.0	5.1	245%	143%	703%	0.78	0.08
Pulses and products	2.4	1.7	256%	583%	309%	0.01	0.12
Sugar and confectionery	1.4	0.7	183%	105%	196%	0.04	0.05
Spices	2.5	2.8	98%	159%	84%	0.13	0.23
Beverages, refreshments, processed food	6.8	10.5	53%	52%	28%	0.15	0.19
Source: SBI Research, CES, volatility calculated by excluding pandemic period							

☐ We estimated state-wise savings rate leveraging MPCE and Per Capita Income. We have elicited the weighted average annual expenditure of the states by incorporating the proportional distribution of rural and urban demographics

Weighted average expenditure = MPCE $_{Rural}$ * w1 + MPCE $_{Urban}$ *w2

Where w1= Share of Rural population in Total population

w2= Share of Urban Population in Total population

☐ Most of the high-income states delineate a savings rate greater than National Average (31%). Uttar Pradesh and Bihar show low savings rate possibly due to higher outward migration

Saving Rate (%of GSDP)

State	Saving Rate
Goa	49%
Gujarat	41%
Haryana	40%
Karnataka	39%
Maharashtra	38%
Kerala	38%
Chhattisgarh	37%
Telangana	35%
TN	34%
AP	34%
HP	33%
All India	31%
Punjab	31.10%
WB	31%
MP	30%
Odisha	30%
Rajasthan	28%
Jharkhand	27%
Assam	22%
UP	16%
Bihar	-6%

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