

Consumption Expenditure Trends

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Introduction

We have been tracking various industries on a regular basis; and in this report cover how consumption patterns in some select categories have behaved from FY2012 to FY2019. The idea is to capture changing preferences of households as this will have a bearing on future consumption patterns too. It is known that over time the change in structure of demography, income, tastes, new products and services, urbanization, family structures etc. have a bearing on consumption preferences.

The following table gives a brief overview of the percentage share of select categories in total private final consumption expenditure for FY2012 and FY2019 and indicates the CAGR growth. Aggregate consumption at current prices grew at CAGR of 12.5% per annum between FY12 and FY19. In absolute terms it moved from Rs 49.36 lakh crore to Rs 112.73 lakh crore during this period. (Segment not covered here are housing, electricity, transport services, furnishing, miscellaneous).

Table 1: Percentage share in consumption expenditure & CAGR

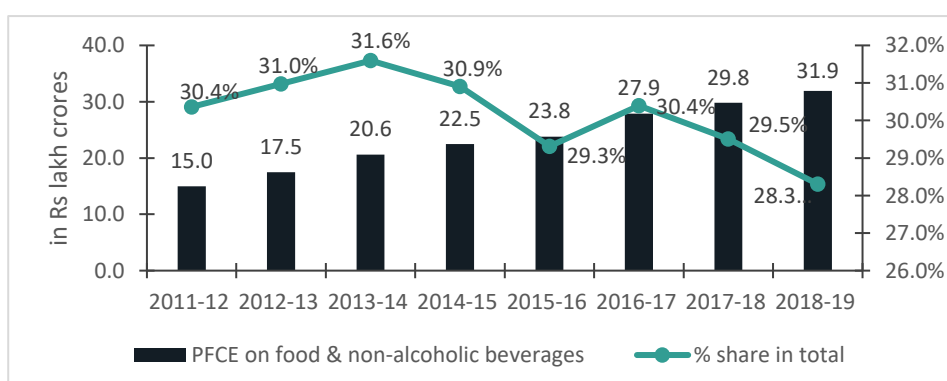
Select categories from private final consumption expenditure	% share in total expenditure in FY12	% share in total expenditure in FY19	CAGR
Food & non-alcoholic beverages	30.4%	28.3%	11.4%
Milk & milk products	6.5%	6.1%	11.6%
Oils & fats	2.0%	1.3%	6.0%
Clothing & footwear	6.3%	6.4%	12.7%
Household appliances	0.2%	0.1%	0.0%
Purchase of vehicles	1.6%	1.5%	11.4%
Health	3.6%	4.6%	16.4%
Education	3.6%	4.5%	16.0%
Restaurants & hotels	2.4%	2.0%	9.7%

Source: CMIE, CARE Ratings

Food & non-alcoholic beverages

This category accounts for the highest share in the total private final consumption expenditure by consumers. Consumers' spending rose from Rs 15 lakh crores in FY2012 to Rs 31.9 lakh crores in FY19, a CAGR growth of 11.4% as shown in chart 1. Food and non-alcoholic beverages include bread, cereals, pulses, milk, fruits & vegetables, coffee, tea, soft drinks among other subcategories. Over time with rising income levels, there has been a tendency for households to spend proportionately a lower proportion of income on these necessities. Also, interestingly almost all categories within this group have witnessed a decline in share except fish and meat products. As income increases, households tend to spend on non-vegetarian products which is affordable.

Chart 1: Private Final Consumption Expenditure (PFCE) on food & non-alcoholic beverages

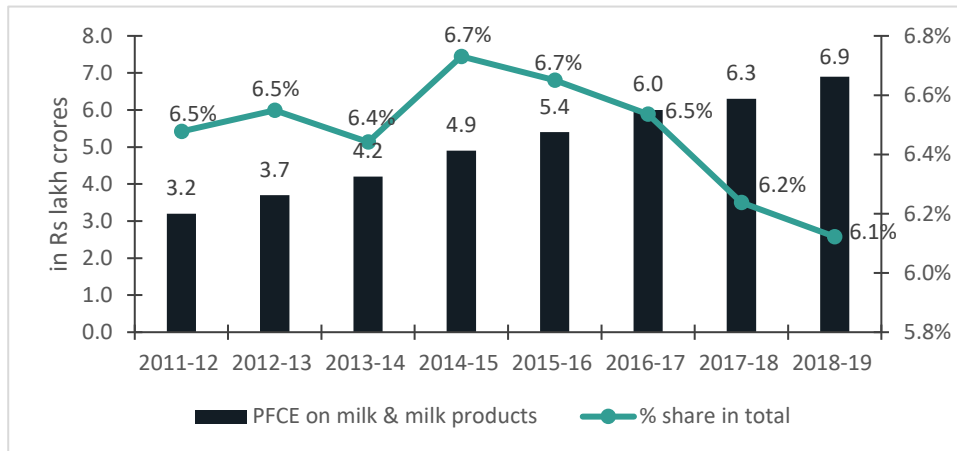


Source: CMIE

Milk & milk products

As depicted in chart 2, the expenditure on milk and milk increased on a yearly basis, from Rs 3.2 lakh crores in FY2012 to Rs 6.9 lakh crores in FY2019, a CAGR of 11.6%. Its percentage share in the total expenditure was in the range of 6.1% to 6.7%. Favourable demographics, urbanisation, rising income levels, increasing health awareness & vegetarianism among other factors contributed to the increased consumer demand for this category. However, in the last three years there has been a tendency for the share to come down.

Chart 2: PFCE on milk and milk products



Source: CMIE

Oils & fats

The consumption expenditure on oils and fats category registered a CAGR growth of 6% between FY2012 and FY2019. Consumers' spending on this category increased from Rs 1 lakh crores in FY12 to Rs 1.5 lakh cores in FY19. Quite clearly the growth has been lower than that of other consumption products as demand is linked to consumption of food that is cooked with oil. Also, the growing consciousness of health in some segments has lowered demand while dining out more frequently has affected at the margin home demand for these products.

Clothing & footwear

Clothing and footwear as a category recorded a CAGR growth of 12.7% in the period FY12 to FY19. The consumption expenditure increased from Rs 3.1 lakh crores in FY12 to Rs 7.2 lakh crores in FY19. Rise in income levels, favourable demographics, rising middle class population among other reasons led to the growth in consumption expenditure for this category. The share has been maintained virtually during this period of review.

Household appliances

Consumers' expenditure for the category of household appliances that includes refrigerators, cooking and washing appliances remained constant at Rs 0.1 lakh crores between the period FY2012 to FY2019. This seems to contradict expectations that the demand for consumer durables has been increasing backed by rise in income levels, easier access to credit facilities among other factors. T

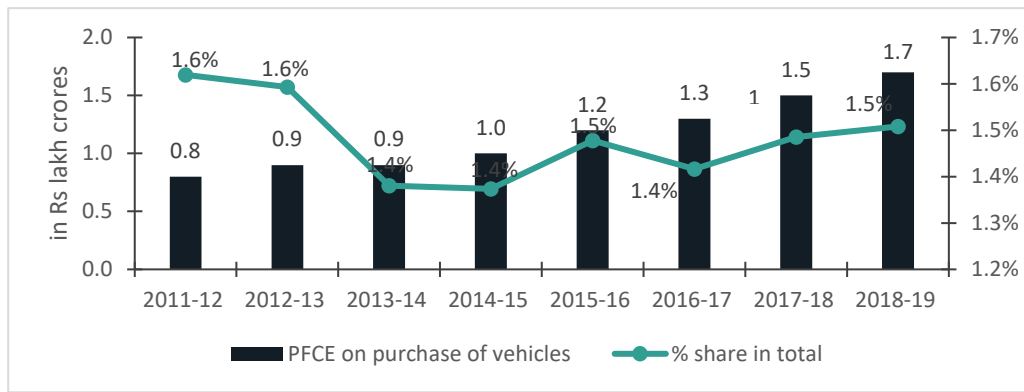
his is a concern for the related industries as it is dependent on higher levels of spending which come from growing income at the household level. These industries are dependent on family income increasing as well as households opting for more replacements of existing products.

An interesting observation here is that households are sensitive to price when it comes to replacement and unlike electronics which include laptops and mobile phones where there is desire to own the latest gadgets, the same does not hold for appliances which are treated as necessities and not changed until they stop working. To keep demand ticking it is essential for more nuclear families to be created and incomes rise.

Purchase of vehicles

Consumers have spent around 1.4% to 1.6% share on purchase of vehicles out of their total expenditure. This category recorded a CAGR growth of 11.4% between FY2012 to FY2019. Rising disposable incomes, access to varied credit facilities and financing options among other factors contributed to the rise in consumer demand for vehicles.

Chart 3: PFCE on purchase of vehicles

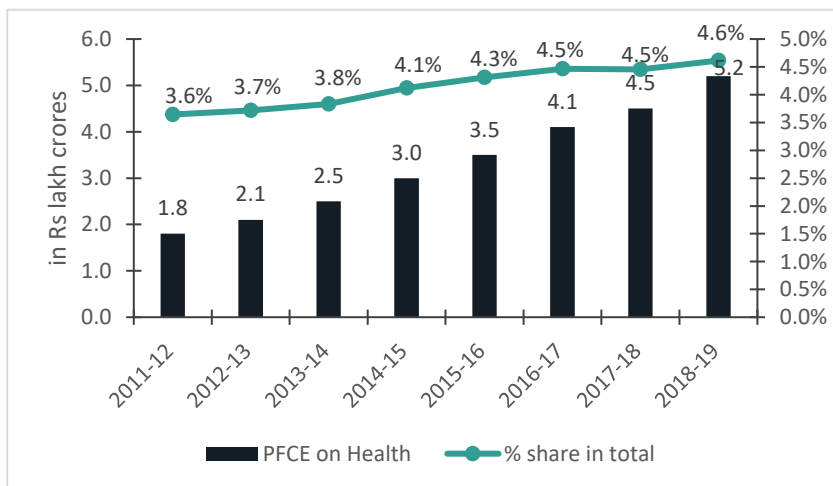


Source: CMIE

Health

Consumers have expended Rs 5.2 lakh crores on health in 2018-19, a CAGR growth of 16.4% for the period FY2012 to FY2019. Increased awareness about personal hygiene, sanitation and health, rise in disposable income, investments in healthcare infrastructure by both public and private players among other factors led the increase in consumer expenditure for this category. Higher proportion of income being spent on health is also indicative of people making greater use of private health facilities due to various reservations on public health care centres. Also with the population being regularly affected by various diseases which have become seasonal, the recourse to medicine and other medical facilities has increased.

Chart 4: PFCE on Health



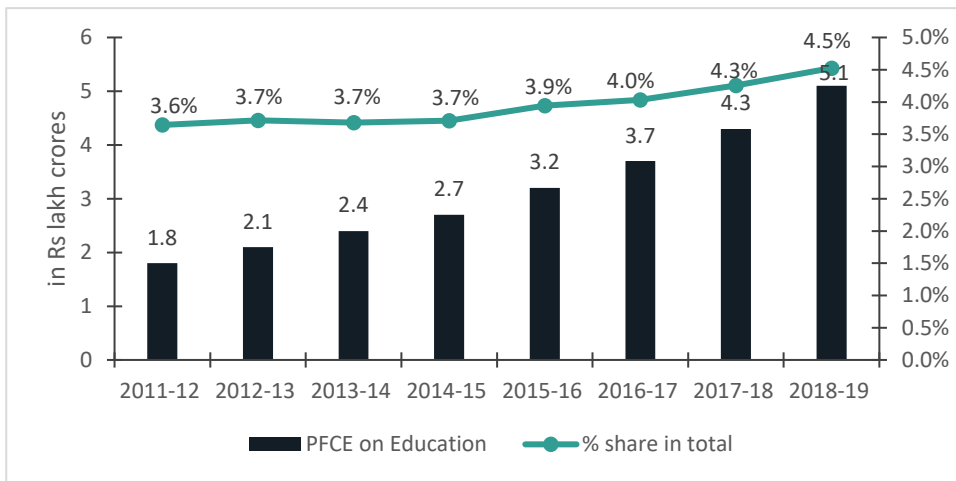
Source: CMIE

As shown in chart 4 the share of expenditure on health grew from 3.6% in 2011-12 to 4.6% in 2018-19

Education

Consumers' expenditure on education rose from Rs 1.8 lakh crores in 2011-12 to Rs 5.1 lakh crores, a CAGR growth of 16%. In addition to this, the share of education expenditure grew from 3.6% in 2011-12 to 4.5% in 2018-19 as shown in chart 5 below. Increase in income levels, willingness and awareness of people to spend on quality education contributed to the growth in expenditure. Also, around 500 million people in India fall in the age bracket of 5-24 years which indicates that education as an industry offers a lot of potential. Further, the National Education Policy announced in 2020 is expected to bring major structural reforms in this industry.

Chart 5: PFCE on education

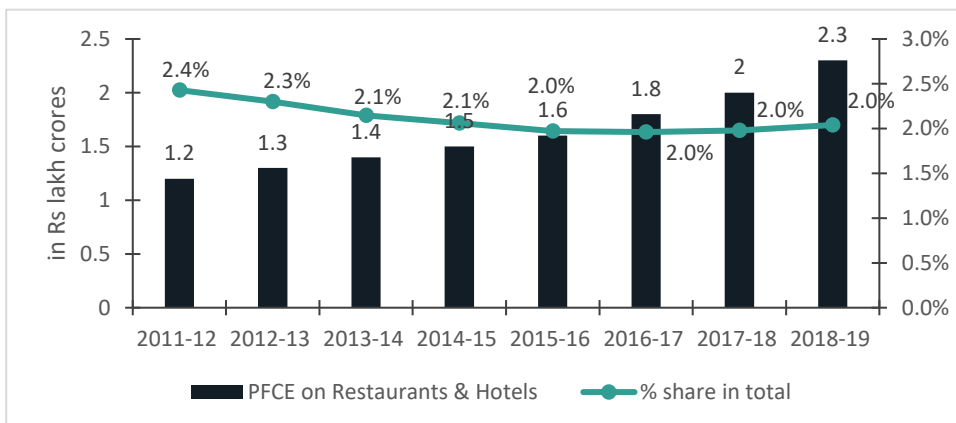


Source: CMIE

Restaurants & Hotels

Consumers’ expenditure on restaurants and hotels registered a CAGR growth of 9.7% for the period FY2012 to FY2019. As can be seen from chart 6 below, the consumption expenditure spent on hotels and restaurants has been increasing on a yearly basis and accounts for around 2% share in the total expenditure. Hotels industry is closely associated with tourism sector. Robust influx of foreign tourist arrivals coupled with rise in demand from leisure and business user segments within the country is driving the demand for hotels.

Chart 6: PFCE on restaurants & hotels



Source: CMIE

Conclusion:

Overall consumption has increased at an average growth rate of around 12% per annum in the last few years which can be expected to be sustained in the coming years. Consumption patterns have shown some shifts in the last 7 years with a tilt towards services like education and health. Also, there is progressively more being spent on transport services which includes commuting. In this scenario consumer-oriented industries would have to seek to grow by at least this top line rate to stay ahead in their business. Besides organic growth that comes from job creation and increase in incomes, product innovation and customization will be important.

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