



# An Analysis Of Consumption Expenditure In: Rural And Urban India

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## Abstract

One significant task carried out by the household is consumption. India's per capita expenditure has increased since globalization, which has had a major effect on the country's food consumption habit by altering the composition of food consumption baskets. This paper investigates the average Monthly Per Capita Expenditure, consumption expenditure on food and non-food items in all over India since 1999-2000 to 2022-23. It finds that consumption expenditure pattern has changed overtime. MPCE is used to determine the poverty ratio and is a significant measure of a family's economic level. Better living conditions and higher consumer spending are the cause of the MPCE growth.

Keywords: Consumption Expenditure, MPCE (Monthly Per Capita Expenditure), Marginal Propensity to Save (MPS), Marginal Propensity to Consume (MPC), Household Consumption Expenditure Survey, National Sample Survey, Priority Household (PHH).

## I. Introduction

One of the key indicators of economic activity is household consumption expenditure, which shows individual purchasing power. It shows how much money households spend on housing, public services and products, whether these are consumed temporally or over an extended period of time (Madudova, E. and Corejova, T. 2023). According to Adam Smith (1776), "Consumption is the sole end and purpose of all production and the welfare of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer". The amount of disposable income, the marginal propensity to save (MPS), the marginal propensity to consume (MPC), wealth, the rate of inflation, the interest rate, credit availability, expectation, household composition, the determinants of savings and other factor all influence the level of consumption expenditure.

According to Household Consumption Expenditure Survey (2022-23), in rural India, the average monthly per capita consumption expenditure (MPCE) for 2022-23 was Rs. 3773, while in Urban India, it was Rs. 6459. Since 2011-12, there has been a 164% increase in rural India and a 146% increase in Urban India. People in low and middle-income nations spend over 2.3 trillion dollars on food and drink, according to the global consumption database. Similar to other developing nations, “eating out” (EO) has become a major dietary behavior in India (Blick et.al. 2018; U.S. Department of Agriculture, 2022). Household income is the primary determinant of consumption patterns. It allows households to purchase a variety of nutrient dense food, pay for transportation, healthcare, education and various public utilities, etc.

No matter how much money an individual make personally, it is either saved or used for consumption. With reference to the NSS consumer expenditure survey, the consumption pattern in India is established. These surveys separate the populations or rural and urban areas into various spending categories. Another element that could affect private spending is inflation, which had an impact on real income. Both inflation and inflation expectations have the potential to influence private consumption in absolute terms as well as its commodity structure, potentially predetermining consumption decision. D’Acunto, Hoang, D. and Weber, M. (2015), stated that households that anticipate increasing inflation were more likely to purchase durable goods than those that anticipate constant or declining inflation.

Niti Aayog (2016) conducted an evaluation study that include the value of the subsidy for calculating changes in per capita food expenditure between PHH (Priority Household) and Non-PHH household between 2004-05 to 2011-12. This suggest that PDS (Public Distribution System) significantly reduces PHH/AAAY (Antyodaya Anna Yojana) household’s food expenditure and increase the likelihood that the money saved could be used for non-food items instead. India along with other United Nations members have committed to ending world hunger in three significant ways: the 1996 Rome Declaration on World Food Security, the 2001 Millennium Development Goal (MDG 1), and the 2015 Sustainable Development Goal (SDG 2).

According to ESCAP (2016), majority of Asian nations now shift their approaches to economic growth in order to diversify their sources of income. Since private consumption is anticipated to be “much more pronounced in driving economic growth than exports”, so they shift from outward-looking, export oriented development strategies to higher domestic demand, stimulation of national consumption and implementation of consumer potential. In July 1991, the Indian government implemented economic change in a number of economic areas. It was anticipated that the economic reforms would have an impact on both the national income and living standard. In general, particular efforts to eliminate economic imperfection in an economy are referred to as economic reforms. The global economy’s aggregate demand is at risk due to growing inequality since the wealthy spend a smaller percentage of their income.

According to economic theory, economic inequality is the unequal distribution of income or consumption among individual or families both within and between nations or regions. Around the world, there has been significant discussion about inequality, its level and its breakdown. This is especially true when inequality is expressed in terms of income or its constituent parts, like wages. But rather than using income, economists usually use consumption spending to examine living standard inequalities (Meyer and Sullivan, 2003; Goodman and Oldfield, 2004; Attanasio and Pistaferri, 2016).

## II. Literature Review

Review of some consumption expenditure related studies:

Jagannarayan, N. and Prasuna, A. (2024), finds that household size and wealth are the most important factors influencing purchasing patterns, particularly in times of pandemic. Across the study period, other demographic characteristics including gender, age and education is little bearing.

Madudova, E. and Corejova, T. (2023), the expenses of a home with three children and a household with two children vary greatly. The type of expenditure and the number of children was a major impact on the variation in spending. One-child household and those without children make up a distinct cluster.

John, A. T. and Makkar, S. at.al. 2021, study showed that household pulse intake and distance to the closest city were significantly and favorably correlated. There were smaller towns nearby that serve as a link between the villages and the metropolis. These tiny towns serve as hubs for the distribution of goods, such as food and services to rural population. Availability, affordability and accessibility were only a few of the numerous interrelated elements that influence household overall purchasing decisions. Policies aimed at increasing market accessibility, household production of pulses, particularly for rural households and affordability of pulses would be more beneficial.

Ayyash, M. and Kun, S.S. (2020), discovered that roughly 55.2% of the variation in the recorded monthly per capita expenditure of consumer. The main causes of consumption spending disparity in Malaysia were geographical differences, household size and the education of the household heads. The total amount of disparity described only marginally influenced by other household head variables such as citizenship, ethnicity and socio economic status. Nonetheless the age and sex of the heads of households had a detrimental effect on inequality and a negative effect on inequality reduction.

Deshmukh, M.S. and Vyavahare, S. S. (2018), in rural India, from 1972-73 to 2011-12, the monthly per capita consumption expenditure (MPCE) on food products decreased from 72.83% to 52.76 % while the MPCE on non-food items climbed from 27.15% to 47.24 %. In urban India spending on non-food products increased steadily from 35.55% to 57.54% from 1772-73 to 2011-12 and spending on food items decreased from 64.45% to 42.76% in same duration.

Arapova, E. (2018), the development of East Asian nations will be influenced by three primary trends: first, GDP per capita and household income are increasing steadily. Secondly, policies that encourage consumption are expected to increase the share of household income spend on consumption. Thirdly, the majority of the region's countries exhibit a tendency toward population growth, which raises the region's consumer potential.

According to the Tripathi, S. (2016), household size is the largest contributor to overall inequality in the average MPCE and anticipated MPCE in both rural and urban areas. For any significant reduction in inequality and more equal and prosperous India in the future, the paper recommends that the government guarantee higher levels of education, employment opportunities, housing for everyone and land distribution in order to prevent the negative effects of growing inequality in India.

Revallion (2014), emphasized three key points regarding the effects of inequality: first, poverty tends to decrease more slowly in nations with high levels of inequality; second, growth alone cannot lift everyone out of poverty when there is extreme initial inequality because poverty eventually become less responsive to economic growth; and third, when a large amount of rent goes to a small group of wealthy elites, they will attempt to erect obstacles to policies that encourage innovation and market.

Chaudhuri and Ravallion (2007), observe that agricultural growth had been sluggish and had been lagging behind that of industry and services. Furthermore, compared to urban incomes, rural incomes had expanded more slowly. Growth in agriculture and rural areas in general is a powerful driver of poverty reduction.

Dev and Ravi (2007), conclude that poverty had clearly decreased from 1983 to 2004 based on NSS round survey. Additionally, they discover that the average annual percentage point decrease in poverty rates from 1993 to 2004 was less than that from 1983 to 1993.

### III. Research Methodology

In order to examine the consumption patterns of India secondary data was used. The secondary data used in this paper was gathered from a number of sources, including the NSS, the Government of India and Fact Sheet on HCES: 2022-23, M/o S&PI, GoI. etc. Compound Annual Growth and Percentage Growth rate are used for analysis.

#### A) Compound Annual Growth Rate

$$CAGR = \left( \frac{EV}{BV} \right)^{1/n} - 1$$

Where: EV= Ending Value

BA= Beginning Value

n = Number of Years

#### B) Percentage Growth

$$\text{Percentage Growth} = \frac{\text{Final Value} - \text{Initial Value}}{\text{Initial Value}} \times 100$$

#### C) Objective

- To analysis the trends in monthly per capita consumption expenditure (MPCE) pattern in India.
- To study the consumption expenditure of food and non-food items.

#### IV. Result and Discussion

##### A) Trends in level of Consumption (Average MPCE): All-India

The following table compares the estimates of the All-India average MPCE from 1999 to 2023.

**Table 1: Trends in level of Consumption since 1999-2000: All India**

Sector	Average MPCE (Rs.) over different period						
	Percentage Growth	CAGR	HCES: 2022-23	NSS (68 <sup>th</sup> round) 2011-12	NSS (66 <sup>th</sup> round) 2009-10	NSS (61 <sup>st</sup> round) 2004-05)	NSS (55 <sup>th</sup> round) 1999-2000
<b>Rural</b>	676.33%	9.32%	3,773	1,430	1,054	579	486
<b>Urban</b>	655.43%	9.19%	6,459	2,630	1,984	1,105	855
<b>Differences as % of Rural MPCE</b>	-	-	71.2	83.9	88.2	90.8	75.9

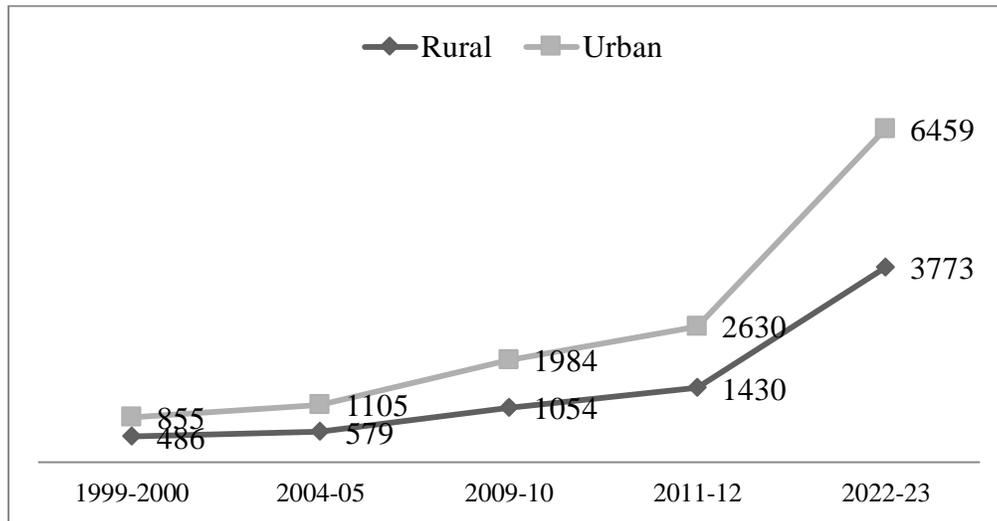
**Note:** For the years 1999-2000 and 2004-05, estimates are based on Mixed Preference Period (MRP) and for the years 2009-10, 2011-12 and 2022-23, these are based on Modified MRP (MMRP).

**MRP:** the estimate of MPCE is based on household consumption expenditure on – (1) clothing and bedding, footwear, education, institutional medical care and durable goods recorded for a reference period of “last 365 days”, and (2) expenditure on all other items recorded for a reference period of “last 30 days”.

**MMRP:** The estimate of MPCE is based on household consumer expenditure on edible oil, egg, fish and meat, vegetables, fruits, spices, beverages, refreshment, processed food, pan, tobacco and intoxicants recorded for a reference period of “last 7 days” and for all other items, recorded for the same reference period as in case of Mixed Reference Period.

**Source:** Fact Sheet on HCES: 2022-23, M/o S&PI, GoI

The monthly household expenses are divided by the household size to determine the MPCE. The Household Consumption Expenditure Survey (HCES) gathers information on durable goods, eatables, food items and services. Table 1 show that the MPCE in urban area was higher as compared to rural areas. The average Monthly Per Capita Consumption Expenditure (MPCE) increased from Rs. 486 to Rs. 3,773 during 1999-2000 to 2022-23 in rural India. In urban India, it increased from Rs. 855 to Rs. 6,459 during the same time frame. The CAGR in rural India was 9.32% and in urban India it was 9.19%, since 1999-2000 to 2022-23.

**Figure 1: Trends in Average MPCE (Rs.) over Different Period**

**Source:** Fact Sheet on HCES: 2022-23, M/o S&PI, GoI

### B) Trends in share of consumption of cereals and food items (all) in average MPCE: All –India:

The percentage share of “cereals” and “all food items together” in the average MPCE at the all-India level is shown in the following table.

**Table 2: Trends in share of consumption of cereals and food items since 1999-2000 to 2022-2023: All-India**

Duration	Rural		Urban	
	% share of cereals in average MPCE	% share of food in average MPCE	% share of cereals in average MPCE	% share of food in average MPCE
2022-23	6.92	47.47	4.51	39.70
2011-12	10.75	52.90	6.66	42.62
2009-10	13.77	56.98	8.16	44.39
2004-05	17.45	53.11	9.63	40.51
1999-2000	22.23	59.40	12.39	48.06

**Note:** For the years 1999-2000 and 2004-05, shares are based on MRP estimates and for the years 2009-10, 2011-12 and 2022-23 these are based on MMRP estimates.

**Source:** Fact Sheet on HCES: 2022-23, M/o S&PI, GoI

The percentage share of cereals in average MPCE in rural India was decrease from 22.23 % to 6.92 % from 1999-2000 to 2022-23. The percentage share of food in average MPCE in rural India was decrease from 59.40 % to 47.47% during the same time frame. The percentage share of cereals in average MPCE in urban India was decrease from 12.39 % to 4.51 % from 1999-2000 to 2022-23. The percentage share of food in average MPCE in urban India was decrease from 48.06 % to 39.70% from 1999-2000 to 2022-23. In terms of economic category, rural India had higher percentage share of food in average MPCE as compared to urban India.

## C) Trends in percentage composition of MPCE by item groups: Rural India

The following table shows the trends in percentage composition of MPCE by item groups in rural India.

**Table 3: Trend in percentage composition of MPCE since 1999-2000: Rural India**

Item Group	%share in total MPCE				
	HCES 2022-23	NSS (68 <sup>th</sup> round) 2011-12	NSS (66 <sup>th</sup> round) 2009-10	NSS (61 <sup>st</sup> round) 2004-05	NSS (55 <sup>th</sup> round) 1999-2000
Cereal	6.90	10.69	13.71	17.38	22.16
Cereal Substitutes	0.02	0.06	0.06	0.07	0.07
Gram	0.24	0.14	0.13	0.13	0.13
Pulses and pulse products*	1.73	2.76	3.19	2.97	3.81
Sugar & salt	0.92	1.83	2.34	2.48	2.60
Milk and milk product	8.14	8.04	7.64	8.17	8.75
Vegetables	5.26	6.62	8.29	5.88	6.17
Fruits (fresh)	2.48	2.25	1.93	1.46	1.42
Fruits (dry)	1.15	0.58	0.49	0.34	0.30
Egg, fish & meat	4.80	4.79	4.74	3.21	3.32
Edible oil	3.52	3.74	3.69	4.44	3.74
Spices	2.92	3.50	3.36	2.21	2.74
Beverages, processed food #, etc.	9.41	7.90	7.40	4.38	4.19
<b>Food: total</b>	<b>47.47</b>	<b>52.90</b>	<b>56.98</b>	<b>53.11</b>	<b>59.40</b>
Pan, tobacco & intoxicants	3.70	3.21	2.95	2.60	2.87
Fuel and light	6.51	7.98	8.03	9.81	7.52
Toilet articles & other household consumables	5.01	4.01	4.02	4.83	4.73
Education	3.23	3.49	3.59	3.12	1.93
Medical (hospitalization)	2.31	2.15	1.65	1.62	1.37
Medical (non- hospitalization)	4.66	4.50	3.75	4.65	4.72
Conveyance	7.38	4.20	3.45	3.63	2.94
Consumer services excluding conveyance	4.96	3.99	4.21	3.66	2.98
Entertainment	1.06	0.99	0.79	0.60	0.42
Rent	0.76	0.45	0.46	0.48	0.39
Other taxes & cesses	0.12	0.25	0.21	0.19	0.16
Clothing & bedding	5.18	5.99	5.30	6.74	6.85
Footwear	0.85	1.02	0.92	1.01	1.10
Durable goods	6.79	4.85	3.69	3.95	2.62

<b>Non-Food: Total</b>	<b>52.53</b>	<b>47.10</b>	<b>43.02</b>	<b>46.89</b>	<b>40.60</b>
<b>Total Expenditure</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

\*excludes gram # includes purchased cooked meals

Source: Fact Sheet on HCES: 2022-23, M/o S&PI, GoI

The consumption expenditure trends indicate that, in rural India, the proportion of total consumption expenditure for food items decreased from 59.40 % to 47.47 % from 1999-2000 to 2022-23. The proportion of total consumption expenditure for non-food items increased from 40.60 % to 52.53%.

#### D) Trends in percentage composition of MPCE by item groups: Urban India

The following table shows the trends in percentage composition of MPCE by item groups in urban India.

**Table 4: Trend in percentage composition of MPCE since 1999-2000: Urban India**

Item Group	Percentage share in total MPCE				
	HCES 2022-23	NSS (68 <sup>th</sup> round) 2011-12	NSS (66 <sup>th</sup> round) 2009-10	NSS (61 <sup>st</sup> round) 2004-05	NSS (55 <sup>th</sup> round) 1999-2000
Cereal	4.49	6.61	8.12	9.58	12.35
Cereal Substitutes	0.02	0.05	0.04	0.05	0.04
Gram	0.18	0.11	0.10	0.10	0.11
Pulses and pulse products*	1.20	1.93	2.37	2.04	2.84
Sugar & salt	0.60	1.15	1.49	1.57	1.80
Milk and milk product	7.15	7.01	6.90	7.54	8.68
Vegetables	3.76	4.63	5.67	4.24	5.13
Fruits (fresh)	2.48	2.64	2.54	1.68	1.95
Fruits (dry)	1.29	0.78	0.63	0.46	0.47
Egg, fish & meat	3.54	3.65	3.63	2.58	3.13
Edible oil	2.35	2.66	2.66	3.29	3.14
Spices	2.11	2.42	2.21	1.47	2.07
Beverages, processed food #, etc.	10.53	8.98	8.03	3.91	6.35
<b>Food: total</b>	<b>39.70</b>	<b>42.62</b>	<b>44.39</b>	<b>40.51</b>	<b>48.06</b>
Pan, tobacco & intoxicants	2.41	1.61	1.53	1.54	1.90
Fuel and light	6.20	6.69	6.94	9.47	7.75
Toilet articles & other household consumables	4.93	3.88	3.88	4.65	5.50
Education	5.73	6.90	8.09	6.67	4.33
Medical (hospitalization)	1.89	1.96	1.83	1.44	1.44
Medical (non- hospitalization)	3.96	3.58	3.16	3.76	3.62

Conveyance	8.51	6.52	5.63	6.21	5.52
Consumer services excluding conveyance	5.86	5.60	6.25	6.71	4.73
Entertainment	1.57	1.61	1.60	1.79	1.16
Rent	6.49	6.24	5.79	5.38	4.46
Other taxes & cesses	0.24	0.82	0.79	0.77	0.69
Clothing & bedding	4.62	5.37	4.85	5.60	6.05
Footwear	0.76	1.00	0.96	1.03	1.18
Durable goods	7.13	5.60	4.31	4.46	3.61
<b>Non-Food: Total</b>	<b>60.30</b>	<b>57.38</b>	<b>55.61</b>	<b>59.49</b>	<b>51.94</b>
<b>Total Expenditure</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>*excludes gram # includes purchased cooked meals</b>					

**Source:** Fact Sheet on HCES: 2022-23, M/o S&PI, GoI

The consumption expenditure trends indicate that, in urban India, the proportion of total consumption expenditure for food items decreased from 48.06 % to 39.70 % from 1999-2000 to 2022-23. In urban India, the proportion of total consumption expenditure for non-food items increased from 51.94 % to 60.30% from 1999-2000 to 2022-23. Urban India had higher consumption expenditure on non-food items as compared to rural India.

## V. CONCLUSION

Over time, India's monthly per capita consumption expenditure is grown in both rural and urban India. Compared to rural India, urban India is seen a larger increase in spending. This indicates that the monthly per capita expenditure in rural and urban India differ significantly. Both rural and urban areas have seen a decline in the proportion of overall spending on food items; in contrast, monthly per capita spending on non-food items has climbed. According to Household Consumption Expenditure Survey (2022-23), in rural India, the average monthly per capita consumption expenditure (MPCE) for 2022-23 was Rs. 3773, while in Urban India, it was Rs. 6459. Since 2011-12, there has been a 164% increase in rural India and a 146% increase in Urban India.

Urban India had higher consumption expenditure on non-food items as compared to rural India. It was found that rural areas had higher consumption expenditure on food items. The percentage of expenditure for food in rural India was 47.47 % and 52.53 % for non-food, whereas in urban India, it was 39.70 % for food and 60.30 % for non-food in 2022-23.

India spends less on cereals consumption both in rural and urban areas (6.92% and 4.51 % respectively in 2022-23). The percentage share of cereals in average MPCE in rural India was decrease from 22.23 % to 6.92 % from 1999-2000 to 2022-23. The percentage share of cereals in average MPCE in urban India was decrease from 12.39 % to 4.51 % from 1999-2000 to 2022-23. Study revealed that in both rural and urban India has a greater household consumption expenditure on non-food items.

In addition to overall economic expansion and additional improvements in the availability and cost of a variety of food items due to developments in supply chains and logistics. In order to encourage the

consumption of wholesome foods, the government should take action. The implementation of attractive savings plans is necessary to raise household savings levels.

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