



The curious case of a consumption decline

A leaked NSO survey report says that expenditure by consumers across India fell over a six-year span till 2017-18. This is at odds with our GDP data. So what explains this finding?

Is Indian consumption in decline? Anecdotal evidence has been hinting at a decline for some time. But now, a leaked survey report of the National Statistical Office (NSO), published on Friday in *Business Standard*, seems to confirm those suspicions. According to the report, inflation-adjusted consumer spending in 2017-18 fell for the first time in four decades. Titled, *Key Indicators: Household Consumer Expenditure In India*, it crunched data from a vast sample of households across the country to find that between July 2017 and June 2018, when the survey was conducted, India's monthly per-capita consumption expenditure was ₹1,446, down 3.7% from ₹1,501 in 2011-12—the last time the NSO surveyed people. The average money spent every month by rural residents in 2017-18 was 8.8% lower than six years earlier, while urban consumption was up 2%. If the data is accurate, this would lend credence to the argument that people's purchases alone could not have sustained high levels of economic growth while investment was trailing off over the past seven-odd years. Today, the slowdown looks far broader. It also raises the worry that large numbers of low-income Indians might have slipped into poverty.

The government has rejected the survey as flawed—and it may well be. Since it is carried out twice a decade, it does not offer year-by-year data for analysis. And, given the fog that hovers around official data-sets, it's difficult to determine the reliability of any. Even samples that are random to the extent possible can fail to be representative. Also, flaws could creep in from the "deflator" being used to snip out inflation. What should make us pause before taking those bleak numbers at face value, however, is

the fact that they're hard to square with India's economic growth over the six-year span under study. Consumption constitutes about three-fifths of our gross domestic product (GDP). Investment expenditure, which makes up most of the rest, has clearly been sluggish. If individual spending was in decline across India, aggregate demand would have been hit harder, and our GDP would not have recorded much growth over those years. Even the performance of corporate India would have been worse than reported. Yes, allegations have been made that our GDP was inflated by a 2015 switch in the way it is calculated. Even so, the discrepancy looks much too stark. Might some other factor be at play?

One plausible explanation involves that great black box of the Indian economy, the informal sector. Commercial activity that is not on the official radar does not get captured properly by our GDP data, but this sector is undeniably vast and has always had millions of dependents. Notably, the NSO survey began about half a year after the demonetization move of November 2016. This exercise left large parts of the country starved of cash and millions of currency-dependent businesses reeling. Plus, July 2017 was the point when the goods and services tax was rolled out, which also had a major impact on the sector. There is little except plain observation to support this, but it's possible that consumption saw a sudden drop in 2017-18 as a result of those disruptions. The distress in the countryside, we know, was especially severe. There may well have been a recovery since, but various signals suggest that plenty of pain persists. Whether the survey's findings are valid or not, rural India deserves extra government help.