

Study of Changes in Consumption Patterns of Rural Households as reflected in changes in Rural Market Economy – by Dr Suresh C. Sharma

Abstract

The study is aimed at understanding the changes in consumption patterns of rural households and identifying the influencing factors. The important aspects that were kept in mind while conducting this study were whether the negative impacts of demonetization and GST are now over and whether the share of non-food items has increased in the consumption basket, particularly in relation to food items.

For the study, two block-level markets and four villages in Samalkha and Bapoli blocks in Panipat district of Haryana were identified. The people of the area are financially better off and have better infrastructural facilities than other parts of the state. Being close to the capital Delhi, just 75 km, the people have certain advantages, influencing income and consumption patterns. While the main thrust for data collection was on shops and households, the focused group discussion provided a useful picture of broader issues that individual respondents could probably miss.

During interactions, it was realised that the rural households find it difficult to compare current expenditures with those of ten years or even five years. They thought several reasons influenced not only their consumption pattern or ratio but also the prices of items. There was a visible reluctance to give numbers.

In consumption patterns of rural households suggest that ratio of food items is higher in low-income groups as the spending on non-food items increases with increase in surpluses, except in case of liabilities linked with social customs. Similarly, the spending of the households with regular or monthly income is more on non-food items, services & miscellaneous items than those having seasonal income. The latter prefer to spend more on buying one-time items and assets. There has been a consistent increase in non-food items over the period of last ten years, with the last five years seeing a sharper increase. In the miscellaneous section also, there is an increase in the ratio of consumption.

The inputs from markets suggest that there is a remarkable increase in the awareness of customer about products and brands. There is an increasing trend of cross-checking of prices on mobile sites and use of toll-free customer care numbers for service back up. Most shopkeepers blamed demonetization for breaking back of small farmers and GST for the decline in sales in most items. High and complex taxes have encouraged seller and buyer to cheat on taxes. The distress in the market has enhanced the system of credit sales, which was otherwise declining very fast. Apart from the last two years, there is a consistent increase in the sale of luxury items; like branded clothes, shoes, goggles, deodorants, belts, earphones, jeans, LED TV, dish TV, fancy lights, dry fruits, chocolates, cold drinks, wall paints, fancy furniture, etc.; among urban consumers. Rural households have not shown that growth, except LPG, dish TV and mobiles that has shown strong growth in all sections.

In last five to ten years, there is a massive increase in shops for repairs, spares, recharge of mobiles, laptops, televisions, fridges, fans, coolers, air conditioners, fans, etc. This has partially happened because of low investments in these shops and increasing unemployment among youth.

Focus group discussions provided a surprising relationship between migration of households to nearby towns and a sharp increase in their incomes. Access to market, closeness to workplaces and power supply are some of the factors influencing this migration. Then there is a decrease in availability of work under MGNREGA scheme run by the state government, which has put stress on workforce v/s work ratio and wages. Non-compliance of MSP (minimum support price) and purchase of crops by market committees have pressed farmers to sell their crops on unviable prices. This, together with the demonetization effect, has got the farmers into mortgage-trap after a long time.

There is a clear willingness among households to purchase more luxury items; like LED, cable connections, washing machines, refrigerators, geysers, coolers, even air conditioners; if there are surpluses after essential consumption and better power supply.

This study concludes that the composition and size of the consumption basket are changing fast. Electronic and luxury items, besides general non-food items, are getting more and more space, increasingly attracting rural households. However, this was probably not the best time to study

the changes in consumption patterns of rural households, as this is being seriously influenced by the bottlenecks of demonetization and early stages of GST. Also, to get the best outcome, the study of rural households migrating to neighbouring towns in the same period could make more accurate observations and findings.

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Purpose of the Study

According to NSSO report, ICE 360 survey and Livemint article, etc., the trends of change in consumption pattern of rural households, suggest that –

- i) Growth in consumptions in rural households (9.7%) is more than urban counterparts (8.6%). Last two years have seen this trend, also suggesting that the impact of demonetization and GST has been nullified,
- ii) The ratio of consumption of food items has declined substantially in favour of non-food items.

In light of the above findings, **this study aims at understanding these changes in consumption patterns of rural households and identifying the factors influencing these changes.**

Methodology: Households and Markets are the two most important platforms, where the decisions and transactions happen. Therefore, two block-level markets of Samalkha and Bapoli in Panipat district of Haryana and 48 households in four identified villages of these two blocks were surveyed. Individual and group interactions with shopkeepers were conducted to capture

market level information. In villages, focused group discussions were held, followed by a discussion with individuals. In some cases, several members of a household remained present during conversations.

The context of Locale: The four villages identified for the study are part of Samalkha and Bapoli blocks of district Panipat, Haryana. Panipat is one of the better-developed districts of Haryana state, with most of it situated around National Highway – 1. Yamuna river makes its eastern border, separating from Uttar Pradesh. Gurjar community constitutes the majority in the population of these blocks. Three of the four villages have Gurjars in the majority, while the fourth one, Hathwala, has Tyagis in the majority. Being close to Delhi's vegetable market (Sabzi Mandi) and having an active connection with Fruits & vegetable wing of Mother Dairy, the big and progressive farmers tend to grow vegetables as their priority. However, the smaller and marginal farmers still stick to paddy and wheat, a major part of which goes for the consumption of their households.

Household Reporting –

Response on changes in consumption over ten years – Villagers were finding it difficult to recall value of items they consumed over periods beyond 2-3 years due to change in prices and family compositions. However, the common expression was that the value of essential food and non-food items becomes double in about five years time. For other items, the recall was better.

There are some common consumption behaviours or patterns that have come out are –

- i) Lower is the income; higher is the proportion of food items, which is the essential consumption.
- ii) Across the sections, an essential expenditure is on non-food items, which is related to social customs and the reputation of the family. For example, they would spend on clothes and other customary items for a visiting married daughter or sister, even if they have to borrow money. For lower income groups, that is the major source of financial stress.
- iii) After meeting the above two requirements, households think of spending surpluses on non-food items for consumption.

- iv) Educated families or those with regular monthly income spend more on non-food items, services and miscellaneous items than those who have seasonal income. Farmers of all castes, potters (kumhars), barbers (nai), etc. with similar average annual income tend to spend less on the above items and more on one-time items, generally assets. This difference of behaviour seems to be linked with the uncertainty in the flow of funds on the seasonal or annual basis. This difference is more clearly visible in the case of items that are bought for leisure, e.g., beverages, packaged food items, fancy items, etc.

	Essential Food Items	%age of Income	Packaged Food	% of Income	Non Food Items	% of Income	Miscellaneous	% of Income
FY 18-19	3837600	31.32%	333600	2.72%	4021200	32.82%	2066400	16.86%
5-yrs ago	2063100	32.94%	154620	2.47%	1603500	25.60%	1044600	16.68%
10-yrs ago	1129140	32.61%	82620	2.39%	812460	23.46%	637800	18.42%

Section-wise consumption patterns are described below –

1. Food Items:

- i) **Cereals and potatoes** (vegetable) have been reported to be stagnant over time, without much influence of income,
- ii) **Pulses, milk & milk products and fruits & vegetables** (non-potato) have a direct relationship with the financial condition,
- iii) Consumption of **packaged food items & beverages** is influenced by education, social status, nature of the source of income and financial condition. For ex., a farmer with equal income would spend lesser than a factory worker, town barber or a carpenter. However, a steady increase in consumption is reported across sections over the last ten years.

2. Non-Food Items:

- i) Spending on **clothes** is hugely influenced by social status, particularly done for married daughters or sisters. Irrespective of financial condition, one has to match social status influenced by community and historical factors. Besides this, the spending varies as per surpluses after food items spending.
- ii) **Footwear, Toiletry & Cosmetics** are influenced by financial condition, education and the lifestyle. A farmer with similar income spends much less on these items than the one with a regular income.
- iii) **Medical expenses** are increasing sharply. Quality and promptness of treatment are influenced by financial condition directly.
- iv) **LPG** is used by 88% of households, while it was 69% five years back and 42% ten years back. However, to keep expenses low, the lower income groups still mix traditional fuel, like dung-cakes, using LPG only for urgent needs.
- v) Spending on **education** showed a direct relation with education, financial condition & social status. In some educated families, more than half of the total income was reported as spent on the education of children.
- vi) Use of **mobile** increased from 35% to 96% in 10 years, which was 69% five years back. About 48% use smartphones, while 52% have basic phones with monthly packages of Rs. 50-100.
- vii) Over 75% of households own **TV**, of which 56% use **cable**. 44% use dish with non-paid channels. Five years back, the use of cable was 30%, while it was 13% ten years back. Use of the **internet** is still Zero in these villages.
- viii) **Barber & beauty** - only expenses for barber reported. Surprisingly, lower income groups spend more in this head as most get shaved by family-barbers, paying substantial amounts in kind annually.

Miscellaneous Expenditure: For lower income groups, these expenses are mostly related to electricity, purchase of new utensils, social obligations, etc. However, for the upper middle class, these expenses do incur, but the households find it difficult to list down the items they spend the money on. The biggest part of it goes on fuel expenses, repair of the house, outings for movies and food in restaurants, social obligations, etc. The trend of spending upon miscellaneous (those not included in the questionnaire) looked to be a good indicator of household fast reaching the threshold to migrate to town.

Reports from Markets –

- i) **Awareness** – There is a massive difference in behaviour between urban and rural customers. Urban customers are far more aware of products and brands than their rural counterparts. For costly items, like TV, fridge, cooler, mobile, submersibles, computers, etc. many customers check rates online (on mobiles) before coming to the shops. Many of them use toll-free numbers of the customer care. However, overall awareness about products and brands has increased significantly across sections in the last ten years thanks to TV ads. Online cross-checking of prices and customer care support is still negligible in the case of rural consumer.

- ii) **Impact of Demonetization & GST** – Shopkeepers expressed massive distress, with varying degree in case of products, created by demonetization and GST. They believed demonetization seriously hurt the small and marginalised farmers, who constitute a big chunk of customers. This, in turn, reduced the sales of goods, particularly non-food items and assets. Even before the market could recover from this reduced sales, GST came in to break the backbone of the market. The Complexity and Visibility of taxes have affected sales drastically. Surprisingly, the tendency of both, shopkeeper and customer, to cheat the taxes, partly or fully, has grown significantly and they have found ways to do so.

- iii) **On Credit-Sale** – In the last ten years, till two years back, the trend was fast changing from credit-sale to cash-sale. However, after demonetization, the ratio of credit-sales has grown significantly, particularly for routine items, like grocery. It happened because the sales went down drastically and to lure customers, credits were readily offered.

- iv) **Non-food items** –
 - a) The sale of non-food items has increased in the middle and upper classes significantly.
 - b) Customers with regular incomes, all sections of employees and people in business, spend proportionately more on non-food items.

- c) Spending has increased across sections for clothes, shoes, furniture, dish TV, motorcycles, fancy lights, cigarettes, dry fruits, wall paints, etc.
- d) The consumption of refrigerators, computers/laptops, air-conditioners & coolers, LED TV, etc. has increased sharply in the last ten years. However, this has grown only in urban areas. This increase in rural households is negligible.
- v) In the case of urban customers in general and rural customers from sections of students, employees, etc. in specific, the spending has significantly increased on **fancy and leisure items**. These items include deodorants, goggles, belts, earphones, pens, cold drinks, chocolates, jeans, etc.
- vi) The biggest category of the shops in market belongs to **repairs, spares and recharges** – repair and recharge of mobile packs, repair of electronic goods (laptops, TVs), electric goods (fridge, fans, coolers, air-conditioners), etc. The demand is increasing, and the required investment is low. So, every unemployed youth tends to get quick training and set up a small work-station in the corner of or in front of a shop selling similar items.

Important factors blocking the reflection of consumption basket of rural households: As part of the interactions with groups of villagers, some critical points influencing their lifestyle and therefore consumption basket emerged. These have a direct bearing on the study –

1. Migration of Different Nature – No family reported a periodic (in months) migration from village to big cities/towns. Many people go to different towns for regular or casual work, but they return in the evening. However, as the financial resources increase, families tend to shift to the neighbouring town. This shift is to the extent, that the villagers believe, as they state that **‘only those with no options live in the village’**. There is a threshold point, at which the family decides to move to the town for all practical purposes. So, the critical aspect of consumption growth is not available in the village to factor in the study.

2. Electricity/Power Supply as the major deterrent – The power supply in rural areas is reported to be 10-12 hours per day, of which about 8-9 hours is during night aimed at irrigation and 2-3 hours during the day. Then the voltage fluctuation is a huge problem. In villages, even if they wish or could afford, people cannot have refrigerators, air conditioners, LED televisions, etc. that need a regular power supply. This, besides the education of children, is one of the major factors motivating growing families to move to towns.
3. MGNREGA Impact – Farm labour constitutes a large section of rural families. They reported a significant reduction in the availability of work under MGNREGA over the last five years or so, which used to work as a buffer to fill the gaps in their incomes. Because of this, the work offered to them now fetched lesser wages (per day), for a lesser number of days per month. This has seriously affected their income and thus ability to spend beyond food items. The scale of this impact has also got reflected in sales of village-shops and block markets. When cross-checked, the data from the government department shows that the entitled households were offered 30 days work on an average against 100 days assured. Between 2015-18, the number of job-card holders getting 100 days work ranged between 2500-4000.
4. Prices of Crops – Just like reduction in the wages in the absence of backing of MNREGA, the actual price realisation from crops has gone down substantially during the last couple of years. The market committees do not honour the minimum support price (MSP) announced by the government. Limited purchases, delayed payments and distress selling are some of the factors that have affected the income of the farmers significantly.
5. Mortgaged agriculture lands – One shocking thing reported both by villagers and shopkeepers in markets, that a large number of farmers have got their lands fully or partially mortgaged against the loans taken to fill the gaps created by the impact of demonetization, poor prices of crops and the drought in last two years. This mortgaging could be with the banks, *adhtis* (intermediaries of grain markets) or informal moneylenders. A considerable amount of the income of farmers would go for payment of

interest, leaving limited amounts to meet the household needs. This tightening of screws has reversed the trend of expansion of the size of consumption basket of farmers of all categories.

The scope of Consumption Basket –

Assuming the above three factors were not influencing the major lifestyle decisions, there would have been a refrigerator, LCD/LED television, cable connection, washing machine, cooler, etc. in almost every middle-class household. The upper-middle-class household would have owned air-conditioners, geysers, computer/laptop, internet connection, microwaves, etc. Then several better off families deciding to stay back in the village itself, the fashion related items would have found a place even with those, who do not want to be seen different in the village right now. These items are jeans, goggles, deodorants, etc. along with packaged foods in much larger quantities.

New Products Introduced in the Consumption Basket – Although the inhibiting factors and the negative sentiments regarding incomes of farmers and labourers discussed above undermine the actual expansion of the consumption basket of rural households. Despite that, the variety of items in the consumption basket of rural households is expanding fast. Some visible additions or expansions are as under –

1. **Mobiles**: There is a steep increase in the use of mobiles, both basic and smartphone, in the last ten years. Even lower-middle-class families own mobiles, in certain cases more than one per household, even though usage charges could be as low as Rs. 50 per month. With new economic packages getting offered, the use of smartphones is increasing fast.
2. **Televisions**: Almost every household owns a television now. Currently, the use of dish TV with free channels is in the majority, but cable-connected LCD/LED televisions are increasing fast.
3. **LPG**: The use of LPG is fast increasing. Even within a household, the ratio of LPG is increasing against traditional fuel, primarily dung-cakes or agriculture by-products.

4. Packaged Foods and Beverages: It has been seen that the consumption of these items has increased steadily regarding quantities. With the improvement in income and lifestyle, these are the fastest expanding items.
5. Clothes & Footwear: The reducing tendency to get the clothes & footwear repaired and the promptness to buy new ones has increased the ratio of expenditure on these items. Even the willingness to buy branded clothes and shoes is fast increasing, particularly in students and other youth.
6. Miscellaneous Items: A substantial part of the income in the case of middle and upper middle class is spent on entertainment.

Conclusion:

The composition and size of consumption basket of rural households is fast changing. The data captured in the study provides far less information than the actual increase in the basket. Electronic items not dependent on electricity are fast getting space, use of LPG is changing food habits, increasing exposure to and acceptance of practices so far restricted to urban areas are playing an important role in this growth of consumption basket.

The true picture would emerge after the impact of demonetization and GST had been fully gone. It will also be clearer if all the families moving out of villages over the same period are studied. Regarding scope also, regular supply of electricity could change the scenario of consumption of rural households. It could introduce internet, computers, air conditioners, geysers, microwaves, washing machines and refrigerators in a big way.

With better MNREGA performance, more assured purchase of farm produce, a good monsoon and some relief on loans could change the whole scenario of this otherwise flourishing population.