



Unveiling India's MPCE Trends and Implications

This editorial is based on “[What's driving rural spending?](#)” which was published in The Business Line on 02/07/2024. The article examines the NSSO's MPCE survey, highlighting reduced rural-urban consumption disparities, state-wise performance, the impact of government transfers on rural spending, as well as the survey's representativeness and implications for policy and market strategies.

For Prelims: [Monthly Per Capita Consumption Expenditure \(MPCE\)](#), [National Sample Survey Office \(NSSO\)](#), [PM-Kisan scheme](#), [National Rural Employment Guarantee Act \(NREGA\)](#), [Aadhaar Enabled Payment System \(AePS\)](#), [National Digital Literacy Mission](#)

For Mains: Factors Influencing Rural Consumption Pattern, [Rural-urban Divide](#)

Recently, the [Monthly Per Capita Consumption Expenditure \(MPCE\)](#) survey was released by the [National Sample Survey Office \(NSSO\)](#).

Consumption surveys have become increasingly essential in today's world for several reasons. Firstly, they help assess **whether individuals are better off now compared to the past, accounting for inflation**. Additionally, these surveys provide insights into the [rural-urban divide and consumption patterns](#) across different income groups.

They also highlight inter-state differences, which are valuable for policy formulation.

Moreover, **economists can use the data from these surveys to adjust national inflation indices** by incorporating updated weights. Finally, businesses find consumption surveys useful for tailoring their products to various markets, enhancing their ability to meet diverse consumer needs.

Note

- The National Sample Survey Office (NSSO) **headed by a Director General** is responsible for conducting large scale sample surveys in diverse fields on an All India basis. Primarily **data are collected through nation-wide household surveys on various socio-economic subjects**, [Annual Survey of Industries \(ASI\)](#), etc.

What are the Findings of the Monthly Per Capita Consumption Expenditure (MPCE) Survey?

- **Reduction in Rural-Urban Divide:** The gap between urban and rural MPCE has decreased from

84% to 75% over an 11-year period ending in 2022-23, indicating progress in the rural economy.

- This reduction **challenges the commonly held view that urban areas are significantly ahead of rural areas** in terms of economic well-being and consumption.
- **Comparison of Growth Rates:** In real terms, the compound annual growth rate of MPCE in rural areas was 4.7%, whereas in urban areas it was only 2.7% over the same period.
- **State-wise Performance Comparison:** The survey highlights the relative performance of different states in terms of rural MPCE over the years.
 - The average MPCE for rural India is ₹3,773.
- **States Above National Average:** 10 of the 18 major states listed have an MPCE higher than the national average.
 - Kerala tops the list with an MPCE of ₹5,924.
- **Regional Patterns:** All five southern states (Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana), along with Punjab and Haryana in the North, and the three western states of Maharashtra, Gujarat, and Rajasthan, have higher MPCEs than the national average.
 - These **states attract more investment, both domestic and foreign**, contributing to their higher growth rates.
- **States Below National Average:** Chhattisgarh, Jharkhand, and Odisha have MPCEs of less than ₹3,000, which is significantly lower than the national average.
 - Rajasthan, **which performs well in rural MPCE, falls below the urban national average.**
 - The average MPCE for urban India is ₹6,657.
- **Bottom Tier States:** Madhya Pradesh, Bihar, and Jharkhand have urban MPCEs of less than ₹5,000, placing them in the bottom tier for urban consumption.
- **Lack of Formalisation:** The lower urban MPCE in states indicates limited formalisation, which means they lack significant industrialisation and developed service industry. This combination **affects their urban income and consumption levels.**
- **Stark Disparity:** The significant differences in MPCE across states reflect uneven rural development, with some states performing much better than others.
 - The disparity in MPCE **indicates a need for targeted policy interventions** to address the lower consumption and potential underlying issues in the states that are lagging.

What are the Factors Influencing Rural Consumption Pattern?

- **Government Cash Transfers:** Large cash transfers by the government, such as those under the [PM-Kisan scheme](#) and the [National Rural Employment Guarantee Act \(NREGA\)](#), have increased the effective spending power of rural households.
 - Additional **government subsidies have further boosted the purchasing power of rural residents**, contributing to higher consumption.
- **Urban Migration and Remittances:** Urban [migration](#) has led to money being sent back to rural homes, increasing consumption in rural areas while **reducing it in urban areas.**
 - [Remittances](#) are money transfers that migrants send to their families and friends in their home countries.
- **Lower Savings Rates in Rural Areas:** Rural areas tend to have lower savings rates compared to urban areas, as evidenced by the concentration of bank deposits in urban regions. **This lower savings rate translates to higher consumption growth in rural areas.**

What are the Challenges that still persist related to Rural Consumption Pattern?

- **Agricultural Dependence & Seasonal Employment:** Rural incomes are largely dependent on agriculture, which is subject to the vagaries of weather, pests, and market fluctuations. This makes rural income volatile and unpredictable.
 - Much of the rural employment is seasonal, leading to periods of high income during harvest times and low income during off-seasons.
- **Environmental and Climatic Challenges:** Increasingly erratic weather patterns, droughts, and floods due to climate change disproportionately affect rural areas, impacting agricultural productivity and income.
- **Limited Access to Credit:** Though Microfinance institutions and [Self-Help Groups \(SHGs\)](#) provide

small loans to rural households, enabling them to invest in income-generating activities or purchase goods, thereby enhancing consumption.

- But many rural households still lack access to formal banking services due to insufficient collateral, lack of credit history, and inadequate banking infrastructure.
- This leads to reliance on informal moneylenders who charge high interest rates, further straining rural finances.
- **Higher Inflation:** Inflation affects purchasing power, especially for essential goods. **High inflation often erodes disposable income, whereas stable or low inflation can enhance consumption capacity.**
 - Rural retail inflation is still over 5% (May 2024), reducing the consumption expenditure of rural households.
- **Paradox of Thrift:** Higher inflation also leads to Higher savings as well. High savings mean households allocate more income towards savings rather than spending on goods and services immediately, which can dampen current consumption levels.
- **Inadequate Infrastructure:** Many rural areas still lack adequate road, transport, and communication infrastructure, limiting access to markets and services.
 - Irregular or non-existent electricity and water supply hinder productivity and the ability to use modern appliances and technologies.

What can be Done to Enhance Rural Consumption Expenditure?

- **Optimising Marketing Strategies:** For consumer goods companies, varying levels of rural-urban consumption differentials across different states or regions are crucial because they need to devise different strategies for states with varying levels of rural-urban consumption differentials. States with higher consumption differentials (where rural consumption is closer to urban levels) may present attractive markets for lifestyle products favored by higher income groups.
 - In contrast, states with lower rural consumption relative to urban areas require strategies that cater to lower consumer spending capacity.
 - **Understanding specific consumption patterns, economic conditions, and unique consumer preferences in each state is essential** for optimising market penetration, enhancing consumer engagement, and maximising sales potential.
- **Balanced Regional Development:** The reduction in the rural-urban consumption differential is primarily attributed to affirmative actions in rural India rather than balanced economic growth. This means that specific government policies and interventions aimed at rural areas, such as subsidies, welfare schemes, and employment guarantees like NREGA, **have effectively increased rural incomes and consumption levels.**
 - However, **this improvement is not necessarily reflective of overall balanced economic growth** across all regions of the country. There may still be disparities in economic development between rural and urban areas despite the narrowing consumption gap. **Addressing these disparities requires targeted policies** that promote equitable development across all regions.
- **Financial Inclusion and Digital Payments:** Promoting financial literacy and expanding digital payment infrastructure in rural areas (through UPI, [Aadhaar Enabled Payment System \(AePS\)](#), etc.) reduces cash dependence, enhances convenience, and stimulates transactions, thereby increasing overall consumption.
- **Infrastructure Development:** Improving rural infrastructure such as roads, electrification, and internet connectivity (via initiatives like [BharatNet](#)) facilitates easier access to markets, services, and employment opportunities, thereby boosting economic activity and consumption.
- **Financial Inclusion Innovations:** Introducing innovative financial products such as micro-insurance, crop insurance, and savings schemes tailored to rural needs can build resilience and encourage higher investment in consumption goods.

Initiatives Related to Rural Development

- [Pradhan Mantri Awas Yojana - Gramin](#)
- [Pradhan Mantri Gram Sadak Yojana](#)
- [Deen Dayal Upadhyay - Grameen Kaushal Yojana](#)
- [National Social Assistance Programme \(NASP\)](#)
- [Saansad Adarsh Gram Yojana](#)

Drishti Mains Question

Analyse the factors contributing to the reduction in the rural-urban consumption gap in India. How can targeted policy interventions further mitigate this divide? Discuss with examples

UPSC Civil Services Examination Previous Year Question (PYQ)

Prelims

Q1. Which of the following grants/grant direct credit assistance to rural households? (2013)

1. Regional Rural Banks
2. National Bank for Agriculture and Rural Development
3. Land Development Banks

Select the correct answer using the codes given below:

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (c)

Q2. How does the National Rural Livelihood Mission seek to improve livelihood options of rural poor? (2012)

1. By setting up a large number of new manufacturing industries and agribusiness centres in rural areas
2. By strengthening 'self-help groups' and providing skill development
3. By supplying seeds, fertilisers, diesel pump-sets and micro-irrigation equipment free of cost to farmers

Select the correct answer using the codes given below:

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: (b)

