

Higher disposable income leads to a protein-rich diet

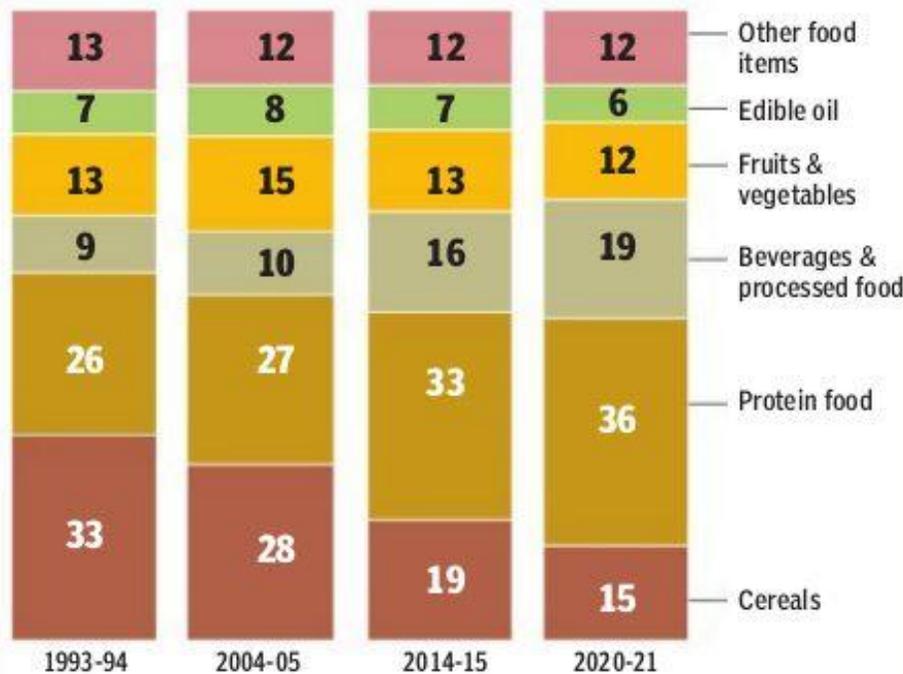
Rajesh Shukla and Mridusmita Bordoloi | The Financial Express | November 27, 2015, 02:04 am

Policy-makers must address the issues of food security not only from the perspective of adequate quantity of food but also quality, composition and food habits.

India ranks as the sixth largest food market in the world, pegged at an estimated R12.2 lakh crore in FY2015. It is expected to grow to R16.6 lakh crore over the years and further expand to R21.8 lakh crore by FY26 at 2014-15 prices. We are also the largest global consumers of dairy products, pulses, sugar and spices. Indians spend more on food than any other consumption category and this is expected to continue. Overall, the food market grew at 4.2% per annum in real terms during the last decade, which was slightly higher than the pace of growth observed during the decade earlier (3% per annum). Urban India has registered a relatively higher growth (5.6%) as compared to rural (3.4%). In fact, between FY15 and FY21, the country's food market is expected to register an average annual growth rate of 5.3% per annum, and will grow a tad faster at 5.7% per annum between FY21 and FY26.

Changing composition of Indian THALI

(% share in total household spending)



Source: Rajesh Shukla & Mridusmita Bordoloi (2015) 'Indian Consumer Market 2020: Structure, Size, Growth and Intensity', PRICE

As India has globalised rapidly over the last couple of decades, the impact has also been felt in food preferences of Indian households. While we are slowly but surely catching up with global trends, traditional tastes continue to dominate. Beverages and processed foods have registered the fastest growth (9% per annum in real terms) between FY05 and FY15. Growth of spending in this category has, in fact, doubled during the last decade as compared to the decade earlier. The next fastest growing category is protein food, comprising of pulses, milk & milk products, eggs, fish

and meat, which grew at 7% annually over the last decade. Among protein foods, milk products have registered similar growth as beverages and processed food (9%), which is a huge jump from its growth rate in the previous decade (2.8%). In contrast, the market for cereals remained almost stagnant, registering a growth of 0.3% per annum. As for edible oil, fruits and vegetables, real growth in household spending was in the range of 2% to 3%, which is slightly lower than that in the previous decade.

India is the only country where food continues to dominate household expenditure. In FY15, nearly 43% of Indian households' expenditure was spent on food. The significant part though is the fact that there has been a steep decline in the share of food in total expenditures over the last two decades—from 62% in FY94 to 50% in FY05.

Apart from the sharp decline in Indian households' spending on food, there are significant changes in the composition of the food basket. Indian food spending is currently dominated by protein foods (33%). Spending on cereals is almost 19% of total food expenditure, whereas for edible oil it is merely 7%. Indians are steadily moving away from staple grains like rice and wheat towards dairy-based products and processed foods. For instance, while the share of protein food in the entire consumption basket has increased from 27% in FY05 to 33% in FY15, that of beverages and processed foods went up from 16% to 19% in the same period. Simultaneously, the share of spending on cereals declined from 28% to 19%.

What has given rise to such enormous structural changes in India's food habits? Using ICE 360 Survey 2014 data, we have estimated the income elasticity of food to be 0.47, which is relatively lower than other consumption items such as education (0.79 rural and 0.67 urban) and conveyance (1.08 rural and 0.97 urban). This implies if household income increases by 1%, then expenditure is likely to increase by 0.47%. Keeping this in mind, we looked at how economic status of households has contributed to changing trends. Household deciles (10 equal groups of 10% each), on the basis of monthly per capita expenditure, were created separately for rural and urban areas since expenditure levels in rural are different from that in urban. Thus, lower deciles, if created by considering all households together, will be skewed towards rural, and higher deciles will be biased towards urban areas. It was observed that the share of total household spending on food gradually declines with the improvement in the economic status of households, more so in urban. In rural areas, the bottom 10% households spend a little higher than half (58%) of their total out-of-pocket expenditure on food items, whereas the top 10% rural households spend around one-third (35%). Similarly, in urban India, bottom 10% households spend almost half of their total expenditure on food, unlike top 10% which spend only 23%.

Spending intensity (average expenditure per household) indicates the capacity of an average household to spend on a particular category of consumption. An average household from top decile spends almost double the amount on food as compared to one from the bottom decile, and this is true for both rural and urban India. However, the scenario is not the same across all food components. Let's consider various categories within protein food. A household from the top decile in rural areas spends almost five times (R12,916 per annum) higher on liquid milk as compared to the one from the bottom decile (R2,483 per annum). The rise in spending intensity is not as sharp in urban India. Again, consumption of milk products such as cheese, butter, ice-cream, flavoured milk, etc, is highly correlated with the level of earning and this is true in the case of rural as well as urban India. It is interesting to note that the gap between rural and urban in average spending on such items increases exponentially as we move from poor to rich households.

Similarly, there is great variation in intensity to spend on eggs, fish and meat across economic status. A top decile household in rural India spends three times more on eggs, fish and meat (R4,700 per annum) compared to a household from the bottom 10% (R1,503 per annum). Even the poorest households tend to spend a considerable amount on pulses, although there is a gradual increase in average spending as we move up the income ladder. For instance, an average household from the top decile in rural India spends 33% more on pulses (R3,040 per annum) than that spent by one from the bottom decile (R2,280 per

annum). In urban areas, the difference is not so stark. This again indicates that the poor would be hit the most by the recent hike in prices of pulses as it will be difficult for them to spend even a little more on this essential food item as they have barely any surplus income left after they have met all their essential expenses.

If we consider the fastest growing category (beverages and processed foods), there is much greater inequality in spending among urban and rural. As households move up the economic ladder, there is an increase in per-household spending on this category in rural India. An average household from the top decile in rural India spends 2.4 times (R9,157 per annum) more compared to the bottom decile (R3,378 per annum). In contrast, a household from the top urban decile spends eight times (R32,727 per annum) more on beverages and processed foods compared to its counterpart in the bottom urban decile (R4,100 per annum).

Clearly, we are witnessing a divergence in rural and urban food habits as Indian households go up the income ladder. However, for poor households, the double whammy of rising prices and low incomes will make them even more vulnerable in terms of food security. There is a need for policy-makers to address the issues of food security not only from the perspective of adequate quantity of food but also quality, composition and food habits.

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The article has been extracted from PRICE's recent publication Indian Consumer Market 2020: Structure, Size, Growth and Intensity, based on trend analysis of integrated unit-level data sets of ICE 360° survey 2014, CES NSS rounds