Understanding India's Middle Class to Drive Growth and Business Opportunity

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FEBRUARY 07, 2023

People Research India's Consumer Economy

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Abstract

This report explores the critical role of India's middle class in driving economic growth and business opportunities. With a substantial portion of the population falling into the Middle-Class category, their income, expenditure, and savings significantly impact the national economy. However, this segment faces challenges that need addressing to unlock its full potential. The report provides insights into the financial dynamics of the middle class, the challenges they face, government measures to support them, and the potential business opportunities arising from their growth.

Keywords: *Middle Class, Economic Growth, Household Income, Expenditure, Business Opportunities.*

Introduction

India's middle class is a pivotal driver of economic growth and presents vast business opportunities. This report examines the financial status, challenges, and future prospects of the middle class, highlighting their importance in shaping India's economic future.

Financial Dynamics of the Middle Class

In the financial year 2020-21, India's Middle-Class category included 432 million people with annual household incomes between Rs 5 lakh and Rs 30 lakh. This group:

- **Generated** a total household income of Rs 84,120 billion.
- **Spent** Rs 62,223 billion.
- **Saved** Rs 11,774 billion.

The middle class's income is more than double that of the Rich category (56 million people earning more than Rs 30 lakh annually), which stands at Rs 38,239 billion. Additionally, the middle class spends nearly three times as much as the Rich category.

Economic Contributions

- **Income:** Contributes 50% of the country's total household income.
    - *Implication:* The middle class is the primary engine of economic activity, making its financial health crucial for overall economic stability.
- **Expenditure:** Accounts for 48% of total household expenditure.
    - *Implication:* High spending by the middle class drives demand for goods and services, stimulating various sectors such as retail, manufacturing, and services.

- **Savings:** Responsible for 52% of total household savings.
    - *Implication:* Middle-class savings provide essential capital for investments and economic growth, influencing financial markets and investment opportunities.
- **Comparative Expenditure:** Spends eight times more than Destitute households, while Rich households spend nearly 25 times more.
    - *Implication:* The middle class's spending power significantly impacts market dynamics, influencing product and service offerings across multiple price points.

Challenges Faced by the Middle Class

The middle class has been heavily impacted by the COVID-19 pandemic, rising living costs, and mass layoffs, leading to decreased household consumption and savings. These issues pose risks to economic growth if not addressed.

Survey Insights (PRICE's ICE 360 Survey)

- **Income Reduction:** Nearly one-fourth of middle-class households reported lower or no income compared to pre-COVID levels.
    - *Implication:* A significant portion of the middle class is experiencing financial strain, reducing their ability to spend and save, which can dampen economic growth.
- **Primary Causes:** Job loss (34%) and salary cuts (28%).
    - *Implication:* Employment instability is a major concern, highlighting the need for job creation and wage support measures.
- **Extent of Income Decline:** 38% reported income drops to half of pre-COVID levels, and 12% experienced declines between 50-75%.
    - *Implication:* Severe income reductions are leading to decreased consumer confidence and spending, which can slow down economic recovery.
- **Concerns:** Major worries include job security (61%), continuous income (51%), health, inflation, and children's education.
    - *Implication:* Addressing these concerns through policy measures can improve the economic well-being of the middle class and boost overall economic performance.

Government Response and Support Measures

Finance Minister Nirmala Sitharaman has recognized the pressures on the middle class, introducing several supportive measures in Budget 2023:

- **Tax Relief:** Zero tax for incomes up to Rs 7 lakhs, flexible tax slabs, and reduced surcharge rates.
    - *Implication:* These measures increase disposable income for middle-class households, encouraging higher consumption and savings.
- **Deductions:** Higher deductions on housing loans and healthcare expenses.
    - *Implication:* Enhanced deductions provide financial relief and incentivize investments in housing and healthcare, stimulating these sectors.
- **Leave Encashment:** Increased tax exemption limits on leave encashment at retirement for non-government salaried employees.
    - *Implication:* This measure supports financial stability for retirees, encouraging savings and financial planning.

Business Opportunities Arising from the Middle Class

The middle class's expansion presents numerous business opportunities:

1. **Consumer Goods and Services:** Increased demand for a wide range of products and services.
    - *Opportunity:* Businesses can expand product lines and innovate to cater to diverse middle-class preferences, boosting sales and market share.
2. **Housing and Real Estate:** Higher demand for residential properties and real estate development.
    - *Opportunity:* Real estate developers and construction companies can capitalize on the growing need for affordable and premium housing.
3. **Healthcare:** Growth in the healthcare sector driven by the need for better medical services.
    - *Opportunity:* Investments in healthcare infrastructure, services, and technology can meet the rising demand for quality healthcare.
4. **Education:** Increased spending on quality education and related services.
    - *Opportunity:* Educational institutions and edtech companies can offer advanced learning solutions and cater to the growing demand for quality education.
5. **Retail and E-commerce:** Expansion of retail and e-commerce sectors catering to middle-class consumers.
    - *Opportunity:* Retailers and e-commerce platforms can enhance their offerings and leverage digital channels to reach a broader customer base.
6. **Tourism:** Boost in domestic tourism as middle-class families can afford vacations.

- *Opportunity:* Travel and hospitality businesses can develop tailored packages and services to attract middle-class tourists.

7. **Financial Services:** Growth in banking, insurance, and investment services tailored to middle-class needs.
    - *Opportunity:* Financial institutions can introduce products and services that cater specifically to the middle class, driving growth in this sector.

Future Outlook

India's middle class is projected to expand to 715 million people by 2030, further driving the consumer economy. This growth will create significant demand for goods, services, housing, health, education, and infrastructure, fostering robust economic development.

Conclusion

Understanding and supporting India's middle class is crucial for driving economic growth and unlocking business opportunities. Addressing their challenges and leveraging their potential can lead to a thriving and prosperous economy.

Recommendations

1. **Strengthen Job Security:** Implement policies to create and safeguard jobs.
    - *Action:* Governments and businesses should focus on job creation programs, vocational training, and stable employment opportunities.
    - *Impact:* Increased job security will enhance consumer confidence and spending, driving economic growth.
2. **Control Inflation:** Develop strategies to manage and reduce inflation.
    - *Action:* Implement monetary policies, subsidies, and price control measures to keep inflation in check.
    - *Impact:* Lower inflation will maintain the purchasing power of the middle class, fostering stable economic growth.
3. **Support Education and Healthcare:** Increase funding and accessibility to quality education and healthcare.
    - *Action:* Government and private sector investments in education and healthcare infrastructure and services.
    - *Impact:* Improved education and healthcare will enhance the quality of life, productivity, and economic contributions of the middle class.
4. **Enhance Financial Inclusion:** Provide better access to financial services and credit facilities.
    - *Action:* Expand banking services, microfinance, and financial literacy programs to reach more middle-class households.
    - *Impact:* Greater financial inclusion will empower the middle class to save, invest, and contribute to economic growth.

5. **Promote Sustainable Consumption:** Encourage sustainable consumption patterns to ensure long-term economic and environmental stability.
    - *Action:* Promote eco-friendly products, sustainable practices, and responsible consumption through incentives and awareness campaigns.
    - *Impact:* Sustainable consumption will ensure long-term resource availability and environmental health, supporting sustainable economic growth.

By understanding and tapping into the potential of India's middle class, businesses can capitalize on the emerging opportunities and contribute to the nation's economic growth.

About PRICE
(www.price360.in)

- People Research on India's Consumer Economy (*PRICE branded as ICE 360⁰*) established in 2012 as an independent, *not-for-profit, 'fact tank' and 'think tank'* registered U/S 8 Companies Act. The vision of PRICE is to be the premier research institute offering unparalleled insights into India's household economy. Its mission includes conducting high-quality research, providing data-driven insights, and fostering a deeper understanding of India's economic landscape. The institute conducts large-scale surveys to gather data on household well-being, which it then analyzes to identify trends and develop policy recommendations. As an independent organization, PRICE is committed to producing unbiased and objective analysis, contributing to the socio-economic development of India.
- Largely supported by grants and contract research, PRICE's strengths lie in its access to comprehensive data sets, experienced team of researchers, and strong collaborations with academic institutions, government bodies, and industry players.

About PRICE's ICE 360⁰

PRICE's ICE 360⁰ surveys called as ***"Household Survey of India's Consumer Economy and Consumer Environment"*** aimed to generate integrated longitudinal data (Interconnected, consistent and up to date) to provide a 360° view of "household's & people's" progress on financial conditions (income, expenditure, saving and borrowings), living conditions, access to public goods, amenities, state welfare, health, education, occupational conditions, social and occupational mobility and inclusion in the household economy.

In recent times, it has been the only regular source of data on income, expenditure and saving in India. And among household surveys of its kind across the world, ICE 360⁰ surveys hold a unique position on account of scientific and robust measurement of income, its massive sample size, range, and the depth of information it uncovers. Over the years, the survey has become the most credible source of information on Indian consumer market structures for decision makers in top marketing concerns, in public enterprises and Indian household economy in government.

These surveys (2014, 2016, 2021 and 2023) are mammoth and complex exercise, for instance, the Wave 2.0 covered about 300,000+ households through a household listing exercise, followed by a more detailed survey of 61,000 households - 25,000 in rural India and 36,000 in urban India deploying probability sample design. Geographically, the sample has been drawn from across 216 districts, 1217 villages and 487 towns spread across 25 major states.

PRICE's ICE 360⁰ survey - Features

Feature	ICE 360⁰ survey (2014)	ICE 360⁰ survey (2016)	ICE 360⁰ survey (2021)	ICE 360⁰ survey (2023)
Survey type	Best mix of Baseline-Panel-Longitudinal -Cross-sectional			
Sample design	**Probability Sample:** Three stage stratified random sample design			
Coverage	21 states & UTs (Rural &Urban)	25 states & UTs (Rural &Urban	23 states & UTs (Rural &Urban);	25 states & UTs (Rural &Urban)
Sampling frame	100,000 households	300,000 households	200,000 households	200,000 households
Sample size	20,000 households	61,000 households	40,000 households	43,000 households
Data collection	Face-to-face interview		Face-to-face interview - CAPI	
Respondents	Chief Wage Earner (CWE)/Head, Housewife and other earning members of households			
Reference period	Financial Year - 2014	Financial Year - 2016	Financial year - 2021	Financial year - 2023

The findings in the form of actionable insights, presentations, and reports including the household level data are shared with various stakeholders ranging from policymakers in government, policy advisors, business strategists, media, academic & research institutions including national and international individual researchers.

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