



Determinants of Household Consumption Expenditure: A Case Study of India

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Abstract

Household spending constitutes a central driver of India's economic activity, making it important to understand the factors that shape consumption choices across diverse population groups. This study investigates the major economic and socio-demographic influences on household consumption behavior in India, examining elements such as income, family composition, saving habits, education, employment conditions, inflationary pressures, and access to financial services. Using a combination of primary information and secondary data, the analysis compares patterns in rural and urban settings to identify how these determinants operate in different contexts. The results indicate that income levels and household size consistently exert strong effects on expenditure decisions, while education, job stability, and price changes also play significant roles. Insights from the study can assist policymakers in designing measures that strengthen household welfare and support sustainable, consumption-based economic growth.

Keywords: Rural, household, family, economic, income, policies, etc.

Introduction

Household consumption expenditure represents a major component of aggregate demand and plays a crucial role in maintaining economic stability in India. Given that a large portion of the population falls within middle- and lower-income brackets, understanding how households allocate their spending is essential for developing effective economic and social policies.

Indian households base their consumption decisions on a wide range of economic, demographic, and social factors. While income is the most influential element, other aspects—such as household size, educational attainment, employment conditions, saving habits, access to credit, cultural preferences, and prevailing price levels—also shape spending behavior. Differences between urban and rural areas further highlight the impact of resource availability, livelihood patterns, and lifestyle variations.

Recent trends such as rising disposable income, expanded financial inclusion, digital payment systems, and targeted government welfare programs have contributed to shifts in consumption behavior. At the same time, challenges like unemployment, inequality, and persistent inflation continue to limit the purchasing power of many households.

This study seeks to examine these determinants in detail and understand how they influence consumption outcomes across different segments of the Indian population. The insights derived



aim to support policymakers in formulating strategies that strengthen consumer welfare and promote balanced, sustainable economic growth.

Literature Review

1. Maasoumi, E., & Wan, G. (2019). An Analysis of the Determinants of Household Consumption Expenditure and Poverty in India. *Economies*, 7(4), 96.

- Uses four rounds of NSSO consumer expenditure surveys: 50th (1993–94), 55th (1999–2000), 61st (2004–05), and 66th (2009–10).
- Analyses how factors like age, education of household head, caste/social status, household size, and occupation affect monthly per capita consumption expenditure.
- Employs both OLS and quantile regression to look beyond just the mean.

2. Tilak, J. B. G. (1994). Determinants of Household Expenditure on Education in Rural India. (NCAER working paper)

- Using data from the NCAER survey on human development, the study finds that household income, social group (caste), and household size strongly determine how much rural Indian households spend on education.
- Shows that even in economically weaker groups (SC/ST, low income), education expenditure is non-trivial.

3. Howlader, A. (2019). Consumption Expenditure Inequality in India. *International Journal of Scientific & Technology Research*, 8(11).

- Citing Meenakshi & Ray (1999), shows that household size/composition, prices, and aggregate expenditure are significant determinants of expenditure patterns.
- Also argues that non-food expenditure (education, durables, health) is growing and contributes more to consumption inequality.

4. India Government / NSS Data:

- Household Consumption Expenditure Survey: 2022-23 by NSSO / MOSPI provides microdata and is useful for empirical work.
- The factsheet for this survey provides important consumption patterns and structural insights.

5. Godbharle, S., Jeyakumar, A., & Kesa, H. (2024). Socio-demographic and economic determinants of household expenditure on eating out in India. *Nutrition and Health*, 30(4), 763–770.

- Based on the India Human Development Survey II (IHDS II) data (42,152 households).



- Studies how caste, education, household income, number of household members, and poverty status influence how often and how much households spend on “eating out.”
- Finds that higher income, better education, and urban residence are positively associated with eating-out expenditure.

Objectives

- To analyze the socio-economic determinants influencing household consumption expenditure and poverty in India using OLS and quantile regression techniques.
- To examine how income, caste, and household demographic factors affect household educational expenditure in rural India based on NCAER survey data.
- To explore variations in household education spending across income groups using quantile regression, with emphasis on income sensitivity, gender differences, and caste disparities.
- To investigate the socio-demographic and economic factors influencing household expenditure on eating-out in India using IHDS-III data, highlighting new and emerging consumption trends.
- To study the key factors contributing to consumption expenditure inequality in India, focusing on household composition, price variations, and the increasing share of non-food spending.
- To provide updated unit-level national data on household consumption patterns in India for analysing living standards and supporting evidence-based research.

Hypothesis

Hypothesis 1 (H1)

There is a significant positive relationship between household income and household consumption expenditure in India.

Hypothesis 2 (H2)

Education level, family size, occupation, and urban–rural location significantly influences household consumption expenditure.

Null Hypotheses (For testing)

H01: Household income has no significant effect on household consumption expenditure.

H02: Education level, family size, occupation, and location do not significantly influence household consumption expenditure.

Statement of the Problem



Household consumption patterns in India differ widely across social and economic groups. Variations in income, region, education, and overall living conditions contribute to these differences. Even with steady economic progress, many families still face difficulties in covering basic expenses because of rising living costs, unstable earnings, unemployment, and limited financial support systems. As a result, gaps in living standards persist both between rural and urban areas and among various social categories.

While income remains the most influential factor affecting how households spend, several other elements also shape consumption decisions. These include the size of the family, level of education, type of occupation, saving preferences, and general price conditions. National surveys such as the NSSO suggest that consumption trends are changing, but the relative importance of each of these determinants is not yet fully understood.

This leads to the central research concern: Which factors have the strongest influence on household consumption expenditure in India, and how does their impact vary across different sections of society? Addressing this question is essential for designing policies that reduce disparities, strengthen household well-being, and support balanced, consumption-led economic development.

Methodology

This study adopts a descriptive and analytical research design, relying entirely on secondary data sources to examine the determinants of household consumption expenditure in India. No primary data, surveys, or field investigations have been conducted for this research.

Research Approach

The analysis is based on reviewing established literature, national datasets, and official economic indicators. The study integrates theoretical insights with empirical findings from published research and government reports to understand how socio-economic factors influence consumption behavior.

Sources of Secondary Data

Information has been collected from credible and authoritative sources, including:

- National Sample Survey Office (NSSO) Household Consumption Expenditure Surveys
- Ministry of Statistics and Programmed Implementation (MOSPI) reports
- India Human Development Survey (IHDS) databases
- Reserve Bank of India (RBI) Annual Reports
- Economic Survey of India
- Peer-reviewed journal articles and working papers
- Research studies by Maasoumi & Wan, Tilak, Howlader, Godbharle et al., and others

These sources provide comprehensive evidence on income levels, household composition, education, occupation, and consumption patterns across India.

Variables Considered

Based on the literature and national datasets, the following variables were examined:



- Household income
- Household size and demographic composition
- Education level of the household head
- Occupation and employment stability
- Urban–rural location

- Price levels and inflation trends
- Share of food and non-food expenditure
- Access to financial and digital services

These variables were selected because they frequently appear as key determinants in existing empirical studies.

Method of Data Analysis

The data was analyzed through:

- Review and synthesis of findings from NSSO, IHDS, and government economic indicators
- Comparison of consumption patterns across different socio-economic groups
- Identifying causal relationships suggested by econometric studies such as OLS, quantile regression, and inequality decomposition
- Relating empirical findings to economic theories, including the Permanent Income Hypothesis and Life-Cycle Hypothesis

This method enables a comprehensive understanding of the structural and behavioral determinants of household consumption expenditure in India.

Analysis & Discussion

Key Consumption Trends (2023–24)

- The average monthly per capita consumption expenditure (MPCE) in 2023–24 reached ₹4,122 in rural areas and ₹6,996 in urban areas.
- Consumption spending is rising in both segments: rural MPCE increased by 9.3% from the previous year; urban MPCE rose by 8.3%.
- Regional disparities persist: Sikkim shows the highest MPCE (rural ₹9,377; urban ₹13,927), while Chhattisgarh records the lowest (rural ₹2,739; urban ₹4,927). States like Maharashtra, Punjab, Tamil Nadu, and Kerala have higher-than-average per capita spending, while West Bengal, Bihar, and Uttar Pradesh lag behind.

Composition and Determinants

- Non-food items dominate spending, accounting for 53% of rural and 60% of urban MPCE. Major categories include conveyance, clothing, entertainment, and durable goods; rent comprises about 7% in urban areas.
- Food expenditure, after declining for several years, increased in 2023–24: food’s share is now 47.04% in rural and 39.68% in urban India.

- The gap between urban and rural MPCE narrowed from nearly 84% in 2011–12 to 70% in 2023–24, suggesting faster rural growth.

Inequality and Socioeconomic Patterns

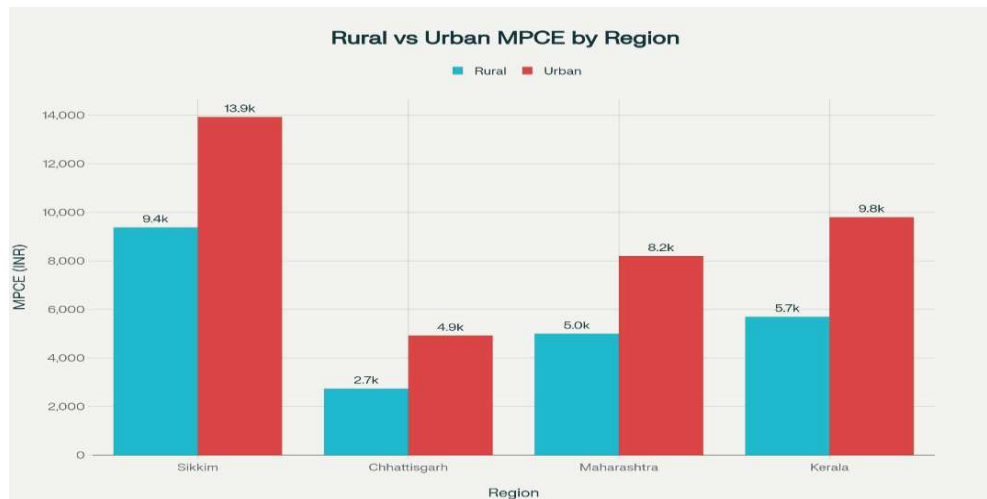
- The Gini coefficient, measuring consumption inequality, declined to 0.237 (rural) and 0.284 (urban), indicating a slight reduction in expenditure inequality over the year.
- Lower-income households saw the highest growth in spending—bottom 5% in rural India experienced a 22% jump in MPCE, compared to 19% for their urban counterparts.
- Urban households spend more on education and durable goods, as indicated by newer survey rounds and IHDS findings.

Interpretation

- Income, household size, education, urban/rural location, and inflation continue to be the principal determinants of expenditure, as recurrently found in NSSO and IHDS-supported studies.
- Fast growth in rural spending, narrowing gaps, and more spending on non-food and durable goods reflect improving living standards but growing regional diversity.

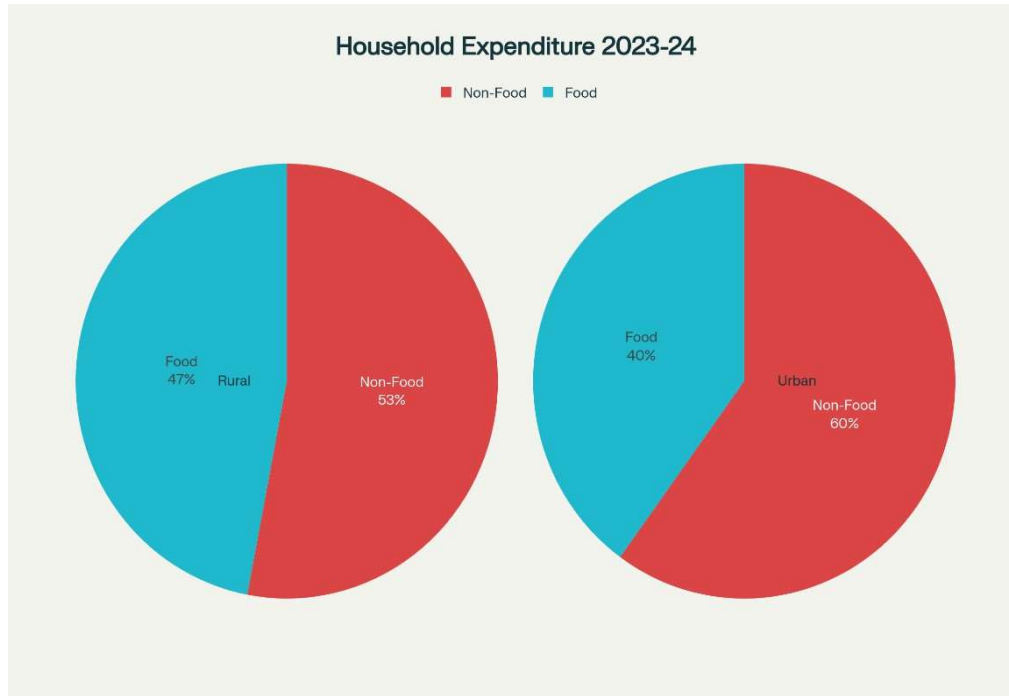
Regional MPCE in Rural and Urban India (2023–24)

This bar chart compares monthly per capita consumption expenditure (MPCE) across selected regions for rural and urban households:



Share of Expenditure by Major Category (2023–24)

These pie charts show how rural and urban households allocate spending between food and non-food item



The charts visually illustrate regional disparities and shifting patterns in consumption according to authoritative, recent government data.

Solutions

- Strengthen rural development policies: Continue supporting schemes like PM-KISAN and MGNREGA, which have helped boost rural incomes and narrow the rural–urban gap. Expand these interventions alongside focused skill development, rural entrepreneurship support, and rural infrastructure upgrades.
- Invest in urban planning: Increase access to affordable housing and public transport to reduce high urban spending on rent and conveyance. Policies should target stagnating urban incomes—especially for middle-class families—with job creation programs and incentives for new industries.
- Focus on regional disparities: Direct resources and targeted programs toward states with lower consumption (e.g., Bihar, Chhattisgarh, Jharkhand, West Bengal), emphasizing education, healthcare, and localized job creation.
- Promote inclusive education and digital literacy: Urban households spend more on education; policy expansion and digital infrastructure in rural areas should ensure educational access and skill preparation for all communities.
- Enhance consumer protection: As non-food and processed food expenditure grows, strengthen regulations on food quality, transparency, and safety to protect household interests.
- Reduce inequality: Ongoing measurement and targeting of consumption inequality (using indicators like the Gini coefficient) enables more responsive cash transfer programs, financial inclusion policies, and social safety nets.



- Monitor and support resilience to inflation: Encourage household savings and financial planning education, as inflation directly shapes expenditure patterns and savings rates. These solutions connect policy actions to the key finding areas in the latest NSSO, MoSPI, and IHDS data and relate directly to your analysis framework.

Conclusion

This study examines the key drivers of household consumption expenditure in India by drawing on the latest secondary datasets from NSSO, MoSPI, and the IHDS. The results indicate that spending behavior across the country is still strongly influenced by factors such as income, family size, education, type of occupation, and whether a household is located in an urban or rural area. Recent figures also show an overall rise in consumption in both regions, along with a gradual shift toward non-food items and a narrowing gap between rural and urban spending patterns.

Significant differences, however, persist across states. Higher levels of consumption are recorded in states such as Kerala and Sikkim, whereas states like Bihar and Chhattisgarh continue to report comparatively lower spending. Although improvements in rural consumption and a decline in measured inequality point to better living conditions, these trends also highlight the continuing need for focused policy measures.

The evidence highlights the importance of strengthening rural infrastructure, enhancing access to education, ensuring consumer protection, and maintaining effective social support systems to improve household well-being and reduce consumption disparities. Future studies could explore how households cope with inflation and how technological changes, social initiatives, and demographic shifts influence consumption patterns over time.

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