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Does India have a Market for Middle-Class Goods?

Diego Maiorano

Summary

This brief looks at the market size of India's consumer goods. Data unequivocally shows that the part of the population that can afford consumer goods – the so-called middle class – is virtually non-existent.

In September 2021, Ford announced that it would "restructure" its operations in India, effectively quitting a market where it had accumulated losses worth US$2 billion (S$2.75 billion) over the previous decade. While there are several industry-specific reasons why Ford – like other foreign manufacturers such as General Motors and Harley Davidson which left the Indian market in 2017 and 2020 respectively – decided to shut down its Indian operations, a notable one is that the American giant read the market wrong. The demand was just too low to make the venture profitable. This is largely due to a common misconception regarding a key market segment: the middle class.

While research shows that most Indians identify as middle class, the actual size of this class has been widely debated. There are at least three ways to define the middle class. The first is by simply identifying those in the middle of the income distribution. A second definition, adopted by the World Bank and other international organisations, focuses on those who earn at least 10$ in Purchase Power Parity (PPP) a day. The third is by Economist Nancy Birdsall who also adopted a 10$ PPP threshold but excluded those in the top five per cent of the income distribution. While it is obviously possible to identify a middle class based on the first definition, the size of this class is very small according to the second and non-existent according to the third – whoever earns more than 10$ PPP a day in India belongs to the top five per cent of the population.

The implication is that the middle class in India is not only small but also relatively poor. This means that any hope by foreign investors to enter an untapped market for consumer goods is based on a misleading conception of the Indian middle class as a segment of the population that can afford a lifestyle comparable to that of the western middle classes. Data unequivocally show that this is not the case.

If we rely on the simplest definition of the middle class and divide Indian society into five classes of equal size according to income, those in the middle (between the 41st and 60th percentile) earn between ₹55,000 (S$958) and ₹88,000 (S$1,533) annually, or just above the urban poverty line.

Instead, if we focus on the second definition – those earning more than 10$ PPP per day – we identify a small segment of the population who is nevertheless quite poor. It should be remembered that 10$ PPP do not correspond to US$10 (S$14) in local currency. Rather, it corresponds to the amount of local currency needed to buy what you could locally but with

US$10 (S$14) in the United States (US). In other words, 10$ PPP per day ensures a standard of living equivalent to that of a person living with US$10 (S$14) per day in the US – from which one has to pay for rent, food, education and more. The Pew Research Centre calculates that those in the 10-20$ PPP income bracket in India equal 66 million people, or four per cent of the population. In comparison, China counts 493 million people in this bracket. Thus, this segment is not only small, but it is also still relatively poor in a comparative perspective, even though it is economically secure enough not to fear descending back into poverty.

Other data also backs up the fact that the Indian middle class is virtually non-existent and that the segment of the population that can afford consumer goods is small. For instance, according to the latest National Family Health Survey, conducted in 2019/20, only 9.5 per cent of the population owns a computer; 18.6 per cent a washing machine; and eight per cent a car. Journalist Rukmini S calculates that only three per cent of Indians own five basic consumer goods (a motor vehicle; a television; a refrigerator; cooler/air conditioner; and a computer).

This is reflected in the expenditure data. In the latest Consumption Expenditure Survey 2017/18 – which was never published by the government but leaked to the press – data shows that the richest five per cent of the population spends over ₹5,167 (S$89) per month in the rural areas and ₹13,167 (S$228) per month in the urban areas. Again, in a comparative perspective, even the top five per cent of the population includes a sizeable number of people who are economically secure but are still quite poor and can hardly afford consumer goods whose prices are relatively inflexible, like cars or big electronic appliances.

In conclusion, while there are numerous business opportunities in India for foreign investors, those based on unrealistic expectations regarding the internal market are likely to be deemed to failure. According to the World Bank data, the share of the population who live on the edge of poverty , that is, those with a daily income or consumption between 1.90$ PPP and 10$ PPP, constitutes 73 to 68 per cent of the population. Those with an income or consumption above 30$ PPP per day – roughly corresponding to the lower middle classes in the West – are just 0.42 per cent of the total, or about six million people. India has achieved great results in reducing extreme poverty but it still has a long way to go in terms of creating a consumer goods market.

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Dr Diego Maiorano is a Visiting Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at dmaiorano@nus.edu.sg. The author bears full responsibility for the facts cited and opinions expressed in this paper.