

## Rural India's distress conundrum



IT'S DIFFICULT to make sense of what's happening in the rural economy.

On the one hand, leading economic indicators suggest a recovery is underway. As

Chart 1 shows, unemployment is down and real wage growth is up. Two-wheeler sales are also up – suggesting a recovery in household demand. Yet, rural sentiment has weakened of late as shown in Chart 2.

What explains this dichotomy?

One possible explanation rests on the diverging fortunes of the landed and the landless, says a report by HSBC Global Research. The report classifies landless households as those owning less than one hectare of land, while the remaining form the landed class. The latter account for less than a third of the rural households, as shown in Chart 3.

Landless households typically receive the bulk of their overall income from wages and are much less dependent on the income from cultivation. But, as Chart 4 shows, the opposite is the case for the landed class, who tend to rely majorly on the income from cultivation.

This distinction matters as higher wage growth positively impacts the fortunes of the landless, while a crash in food prices negatively impacts the landed class.

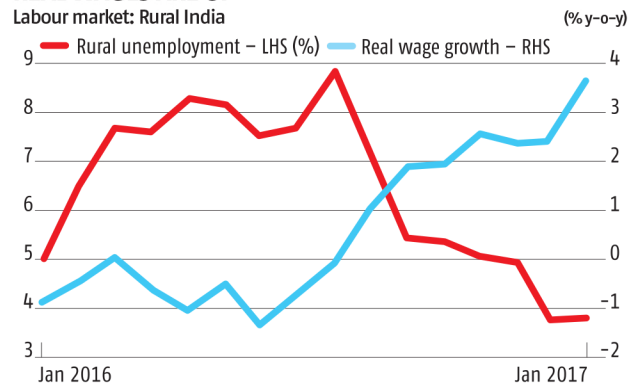
Now, the consumption expenditure of the landless often tends to be higher than their earnings, as shown in Chart 5. As such, this class tends to borrow to finance consumption.

Yet it is the landed class that is more indebted, as shown in Chart 6. While this debt could be to finance both consumption and capital expenditure, the high level of debt relative to income puts them in a financially precarious position at a time of falling food prices. But as this class tends to borrow mostly from formal sources of finance, they are the ones who benefit disproportionately from a farm loan waiver.

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### 1: RURAL UNEMPLOYMENT IS DOWN, REAL WAGES ARE UP

Labour market: Rural India

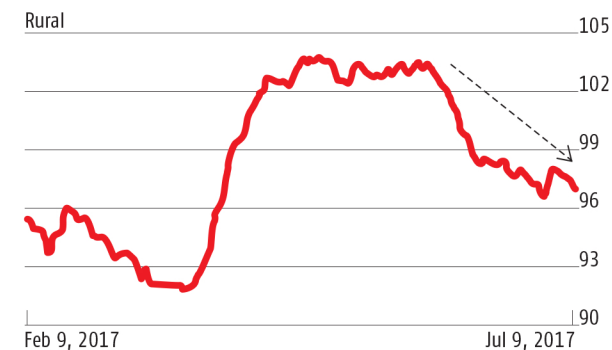


Note: Real wage growth is nominal wage growth deflated by rural CPI inflation Sources: CEIC, BSE-CMIE, HSBC

### 2: BUT CONSUMER SENTIMENT HAS BEEN WEAKENING

Consumer sentiment

(Index November 7=100)

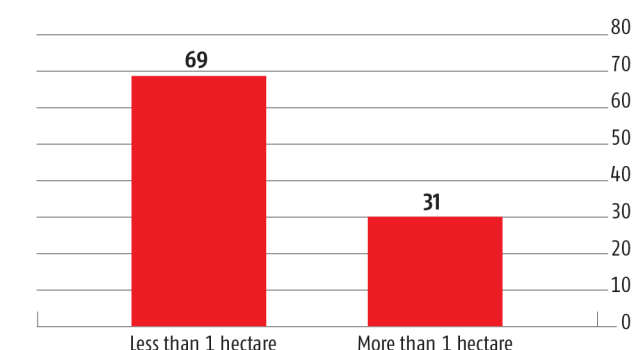


Sources: BSE-CMIE, HSBC

### 3: ONLY 30% OF RURAL INDIA IS LANDED

Households by size of landholding

(% of total)

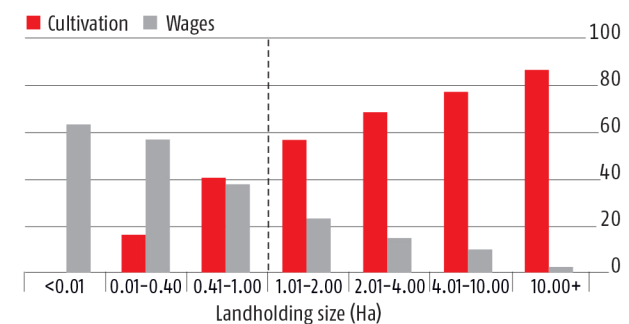


Sources: NSSO, HSBC

### 4: LANDLESS EARN MORE INCOME FROM WAGES AND LANDED FROM CULTIVATION

Sources of rural income (cultivation and wages)

(% of total income)



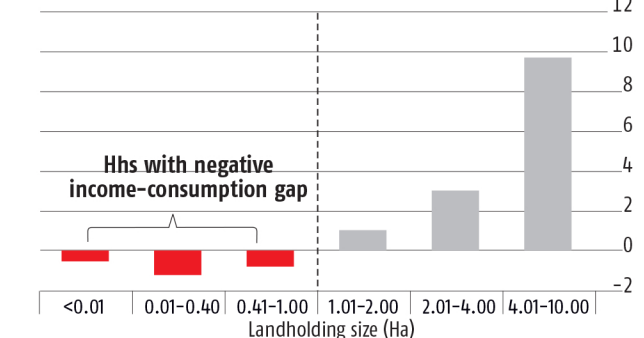
Sources: NSSO, HSBC



### 5: LANDLESS TEND TO BORROW TO FINANCE CONSUMPTION

Income-consumption gap (by landholding size)

(INR '000s)

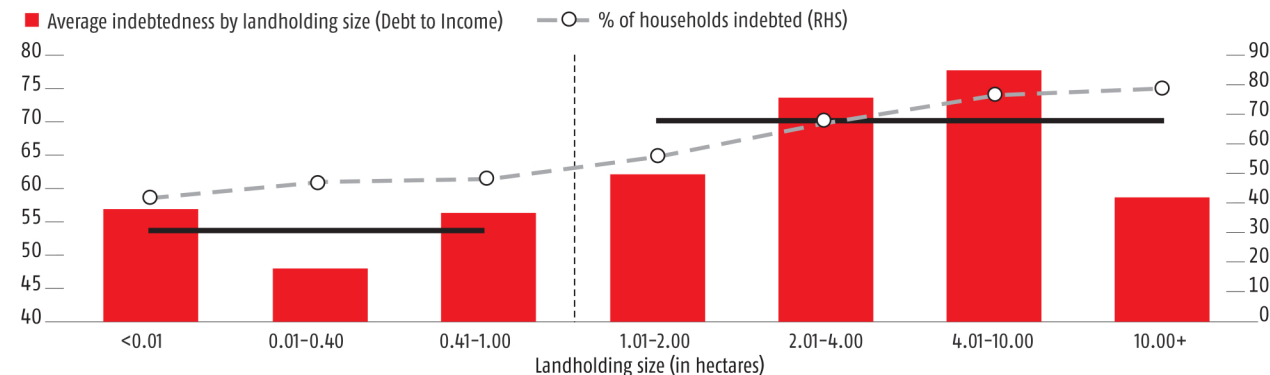


Sources: NSSO, HSBC

### 6: YET, LANDED ARE MORE INDEBTED THAN LANDLESS

Average indebtedness by landholding size (Average debt per household to expected yearly income)

(%)



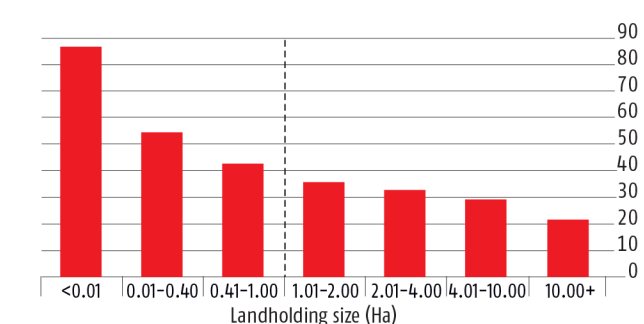
Note: Yearly income has been extrapolated from the monthly income from all sources for respective landholding size class

Sources: NSSO, HSBC

### 7: LANDED TEND TO BORROW FROM FORMAL SOURCES, LANDLESS FROM INFORMAL

Proportion of households obtaining debt from informal sources

(In %)



Source: India's rural distress puzzle – HSBC Global Research