



INDIA'S PROJECTED CONSUMPTION AND DEMOGRAPHIC TRENDS - ECONOMY

NEWS: India may have 16% of consumption at PPP by 2050.

WHAT'S IN THE NEWS?

1. India's Increasing Share in Global Consumption

- India's share in global consumption (at purchasing power parity, PPP) is projected to rise significantly, reaching 16% by 2050. This marks a substantial increase from 4% in 1997 and 9% in 2023.
- North America will remain slightly ahead, with a 17% share in global consumption by 2050, making it the largest contributor globally.
- PPP is a method used to compare the value of currencies by accounting for price differences across countries, enabling a standardized comparison of consumption levels.

Shift in Global Consumption Patterns

- Emerging markets, referred to as "later-wave" regions, such as India, Sub-Saharan Africa, Latin America, West Asia, and North Africa, will collectively account for over half of global consumption by 2050. This shift reflects the impact of young, fast-growing populations and rising income levels.
- Conversely, advanced economies, including North America, Western Europe, Greater China, and Advanced Asia, will see their combined share of global consumption shrink significantly from 60% in 1997 to just 30% in 2050.

Implications for Businesses

- As incomes and consumption levels grow in emerging markets like India, businesses—both local and multinational—will need to adjust their strategies to cater to the changing preferences and expectations of these evolving markets.
- Companies will have to innovate and localize their products and services to align with diverse consumer tastes and regional market dynamics.

Demographic Shifts and Population Balance

- By 2050, the proportion of the global population residing in "first-wave" regions, which experienced early declines in fertility rates, will drop to 26%, down from 42% in 1997.
- In contrast, the majority of the global population will live in "later-wave" regions and Sub-Saharan Africa, highlighting a significant demographic realignment.

Labour Market Shifts



- By 2050, approximately two-thirds of all hours worked globally will be concentrated in later-wave regions, reflecting their younger and growing labor force. This marks a shift in global economic activity towards emerging markets.

India's Demographic Insights

- **Support Ratio Decline:**
 - India's support ratio, which measures the number of working-age individuals available to support each person aged 65 or older, is currently 9.8. This figure is projected to decline sharply to 4.9 by 2050 and further to 1.9 by 2100, a level comparable to present-day Japan.
- **Population Trends:**
 - India's share of the global population is expected to decrease from 23% in 2023 to 17% in 2050, and further to 15% by 2100.
 - By 2100, India's population is projected to reach 1,505 million, reflecting only a modest 5% growth from 2023.
- **Fertility Rate:**
 - India's fertility rate dropped below the replacement rate in 2019, signaling a sustained decline in population growth in the coming decades.

What is Purchasing Power Parity?



A theoretical exchange rate that allows you to buy the same amount of goods and services in every country.



Example: If you want to live inexpensively, and you can move to any country in the world, compare prices of a McDonald's Big Mac.



Government agencies use it to compare the output of countries that use different exchange rates.

Economic Impact of Demographics

- **Demographic Dividend Contribution:**



- Between 1997 and 2023, the demographic dividend, characterized by a large working-age population, contributed an average of 0.7% annually to India's GDP per capita growth.
- **Labour Intensity Decline:**
 - During the same period, labor intensity, measured as the number of hours worked per worker, declined by 1.1%, offsetting some of the benefits of a growing workforce.
- **Future Contributions:**
 - By 2050, India's aging population is expected to limit the contribution of demographic factors to income growth, reducing it to just 0.2% annually.

Purchasing Power Parities

- It is the rate at which the currency of one country would have to be converted into that of another country to buy the same amount of goods and services in each country.
- The PPP exchange rates are constructed to ensure that the same quantity of goods and services are priced equivalently across countries.
- PPP exchange rates are used to convert the national **poverty** lines from some of the poorest countries in the world to determine the **Global Poverty Line**.
- For **poverty estimation in India**, the **Tendulkar committee** computed **poverty lines** for 2004-05 at a level that was equivalent, in PPP terms, to Rs 33 per day.
 - **Poverty Line:** The conventional approach to measuring poverty is to specify a minimum expenditure (or income) required to purchase a basket of goods and services necessary to satisfy basic human needs and this minimum expenditure is called the poverty line.

Price Level Indices

- It is the ratio of a PPP to its corresponding market exchange rate.
- It is used to compare the price levels of economies.

Gross Domestic Product

- It is the single standard indicator used across the globe to indicate the health of a nation's economy.
- It is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade (difference between exports and imports).



Significance of Purchasing Power Parity

- Buying Ability Governing parties are essential for standardizing economic growth indicators across countries. **This is calculated using the prices of a shared basket of products in each member economy and acts as a proxy for the purchasing power** of one economy's domestic currency in another economy.
- Commodity currency exchange adjustments consider both price movements and expenditure variations, rendering them inappropriate for volume assessments. PPP-based spending translations diminish the impact of price level variations across countries and solely reflect volume disparities.

International Comparison Programme

The **International Comparison Program (ICP)** stands as one of the largest statistics efforts globally. It involves a **density estimation endeavor**, collecting relative pricing data and estimating the purchasing power parities of countries worldwide. Administered by the World Bank on behalf of the United States Commission, the ICP engaged 176 countries in its 2017 cycle, with the next assessment slated for 2021.

The primary aims of the International Comparison Program are:

- To generate **purchasing power parities (PPPs) and Price Level Indices (PLIs) for member countries**. PLIs, normalized averages of price relationships for specific products or demand, facilitate comparisons of costs across timeframes or geographical areas. They find applications in various sectors, **aiding manufacturers in business planning and pricing strategies and guiding investments**.
- To convert **quantity and per capita measurements of Gross Domestic Product (GDP) and its spending components into a single currency using PPPs**. GDP, a crucial indicator of profitability, quantifies a country's productive capacity over time and the revenue generated by production or total spending on goods and services. It remains the foremost metric of economic activity.

Important Highlights

- India holds the position as the world's third-largest economy by PPP-based share of **global Average Personal Expenditure and Net Wealth Creation**.
- Gross fixed capital formation (GFCF), crucial for a country's official statistics, notably tracked by the UN System, shapes the economy. **Notably, real estate trade and acquisition stand as a significant exception in GFCF**.
- **Gross fixed capital formation encompasses total dividends and is derived from the sum of a producer's purchases, adjusted for fixed asset disposals and quasi assets.**

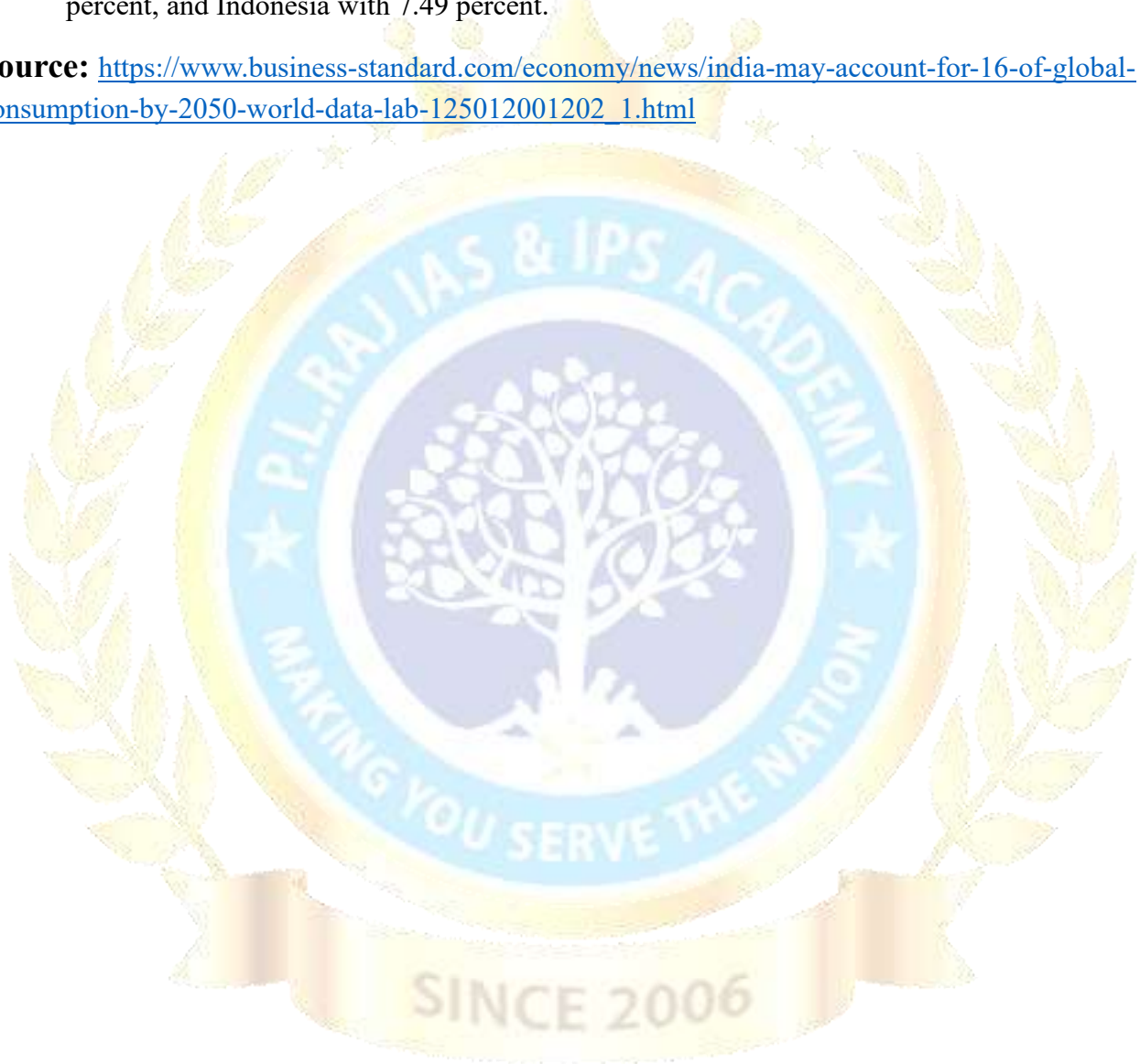


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- In 2017, India contributed 20.83 percent of the world's largest total GDP in PPP terms, amounting to USD 8,051 billion within a total GDP of USD 119,547 billion, compared to China's 16.4 percent and the US's 16.3 percent.
- Among emerging economies, India retained its second-largest economic growth.
- In terms of PPP-based proportion of region Actual Personal Expenditure and Gross Asset Creation, India ranks as the world's second-biggest economy, following China with 50.76 percent, and Indonesia with 7.49 percent.

Source: https://www.business-standard.com/economy/news/india-may-account-for-16-of-global-consumption-by-2050-world-data-lab-125012001202_1.html



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