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Impact of Demographic Transition on Household Consumption Expenditure and Commercial Growth in India

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Abstract: *India is undergoing a profound demographic transformation characterized by declining fertility rates, increasing life expectancy, rapid urbanization, and evolving household structures. This paper examines the impact of these demographic changes on household consumption expenditure and commercial growth in India. Drawing on recent empirical research, government reports, and industry analyses, the study finds that demographic factors—including household size, age composition, place of residence, and family structure—significantly influence expenditure patterns across food, health, and non-food items. The demographic dividend, with nearly two-thirds of India's population under 35 years of age, has fueled a consumption boom that has almost doubled private consumption to USD 2.1 trillion in 2024. However, the benefits of demographic transition are unevenly distributed, with rural-urban consumption differentials persisting and the presence of working-age members providing resilience only when supported by stable employment and financial access. The paper further identifies challenges including impending population ageing, with India having only 33 years remaining to fully leverage its demographic dividend before transitioning to an aged economy. The findings underscore the necessity of regionally focused policies that address income inequality, enhance employment opportunities, and build shock-responsive welfare systems to ensure inclusive and sustainable growth.*

Keywords: Demographic transition, household consumption expenditure, commercial growth, demographic dividend, India, urbanization, ageing population

I. INTRODUCTION

India stands at a decisive inflection point in its demographic trajectory. With over 1.4 billion people and a median age of 28 years, its working-age population is at a historical peak and is projected to remain high throughout the coming decade. This demographic window offers a unique opportunity to boost economic growth, increase household consumption, and fuel commercial expansion. However, India's demographic profile is rapidly evolving, with fertility rates declining to near-replacement levels (2.0 as per NFHS-5), rising life expectancy, and an impending shift towards population ageing.

The implications of these demographic changes are far-reaching, affecting income distribution, labour force participation, household expenditure behaviour, and commercial market dynamics. Understanding the relationship between demographic transition and consumption patterns is essential for policymakers, businesses, and development practitioners seeking to navigate India's evolving economic landscape.

This paper examines the impact of demographic transition on household consumption expenditure and commercial growth in India. Specifically, it analyzes how demographic factors such as household size, age composition, urbanization, and family structure influence expenditure patterns; evaluates the role of demographic dividend in driving consumption growth; and identifies challenges and policy implications arising from India's demographic transition.

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II. DEMOGRAPHIC TRANSITION IN INDIA: AN OVERVIEW

2.1 Stages of Demographic Transition

Demographic transition is a model describing changes in birth and death rates, along with shifts in population age structure, as societies develop economically and technologically. India is currently in Stage 3 of the four-stage model, moving from high to low mortality and fertility rates. This stage is characterized by declining birth rates, slowing population growth, urbanization, and societal shifts favouring smaller families.

India's Total Fertility Rate (TFR) stands at 2.0, below the replacement rate of 2.1. The World Population Prospects 2024 projects India's population to peak at 1.7 billion in the early 2060s and decline by 12% thereafter, while remaining the world's most populous country.

2.2 Regional Variations in Demographic Transition

National-level indicators conceal large inter-State divergences in demographic parameters. The timing and pace of demographic transition vary significantly across States. For instance, the median age varies from around 23 years in Bihar to around 37 years in Kerala. Similarly, the old-age dependency ratio varies from 14.0 in Bihar to 30.1 in Kerala.

Based on current age structure and projected demographic trajectory, Indian States can be grouped into three broad categories: Youthful (e.g., Bihar, Uttar Pradesh), Intermediate, and Ageing (e.g., Kerala, Tamil Nadu). This regional diversity necessitates differential fiscal policy approaches suitable for respective age structures and fiscal challenges.

2.3 Declining Support Ratio and Impending Ageing

India has 33 years until it reaches the same aging status as advanced economies by the 2050s. The support ratio (working-age individuals per senior aged 65 or older) has declined from 14:1 in 1997 to 10:1 in 2023 and is projected to drop further to 4.6:1 by 2050 and 1.9:1 by 2100. By 2050, seniors will account for 15% of total consumption, up from 8% today, straining pensions, public healthcare, and family resources.

III. HOUSEHOLD CONSUMPTION EXPENDITURE PATTERNS

3.1 Determinants of Household Consumption

Although income is the greatest factor determining household consumption, demographic factors including household size, age composition, and place of residence are critical in determining expenditure patterns among food, health, and non-food items. The fall in fertility and reduction in household size are linked to per capita consumption shifts, while growing life expectancy has contributed to increasing health-related expenditure.

3.2 Urban-Rural Consumption Differentials

Continuing and, in some instances, increasing rural-urban consumption differentials characterize India's consumption landscape. Consumption levels and the diversity of expenditure baskets are typically high in urban households and low in rural households, though a significant portion of rural expenditure remains devoted to food. Approximately 36% of India's population resides in urban areas, but this figure is expected to grow significantly in the coming decades.

3.3 Impact of Household Structure on Consumption

The shift from joint to nuclear family structures due to demographic shifts, urban growth, increased education, and job mobility significantly affects household spending and saving habits. Research shows that smaller family units generally experience improved individual spending, more efficient savings, and quicker accumulation of assets than larger families, regardless of income level. The "nuclearization" of families is driving household expansion in urban areas by around 4% per year, an important driver of incremental demand for goods and services.

3.4 Age Composition and Expenditure Patterns

As individuals move through the lifecycle, their consumption needs change. The elderly population has increased from 7.13% to 8.06% over time, with the increase in elderly female population due to rising life expectancy among women. Monthly per capita health spending of elderly households is significantly higher than that of non-elderly households, with medical care and health expenses increasing for the elderly. Gender disparity in food and healthcare expenditure persists, with male expenditure higher than female counterparts, though the gap is narrowing.

IV. COMMERCIAL GROWTH AND THE CONSUMPTION BOOM

4.1 Magnitude of Consumption Growth

India's private consumption has almost doubled to USD 2.1 trillion in 2024 from USD 1 trillion in 2013, growing at a 7.2% compound annual growth rate (CAGR)—faster than the US, China, and Germany. India is on course to become the world's third-largest consumer market by 2026.

4.2 Drivers of Consumption Growth

Several key forces are driving the consumption boom:

Demographic Dividend: Nearly two-thirds of India's population is under the age of 35, making it one of the youngest countries in the world. Millennials and Gen Z, who account for 52% of the population, are driving demand for premium brands, sustainable products, and personalized experiences. Younger consumers are aspirational, tech-savvy, and open to experimenting with new products and services, prioritizing convenience, quality, and personalization.

Rising Middle Class: The burgeoning middle class, projected to reach 800 million by 2030, is becoming the backbone of this consumption wave. Rising disposable incomes have led to increased spending on discretionary items like electronics, fashion, travel, and entertainment. By 2030, the number of Indians earning over USD 10,000 annually is expected to nearly triple, increasing from 60 million in 2024 to 165 million.

Urbanization: Government initiatives aimed at developing smart cities and improving infrastructure are accelerating urban migration, transforming smaller towns into vibrant economic hubs. Tier-II and Tier-III cities are emerging as key drivers of consumer growth.

Digital and Financial Inclusion: Digital payments and credit access are reshaping consumer engagement. Credit card penetration is set to triple from 102 million in 2024 to 296 million by 2030. UPI and fintech solutions are boosting e-commerce adoption and fuelling a new wave of digital-first consumption.

Organized Retail Expansion: Organized retail is expanding at a 10% CAGR and is expected to reach USD 230 billion by 2030. Consumers are increasingly drawn to experience-led retail spaces, omnichannel shopping, and hyper-personalized services.

4.3 Sectoral Impact

India's consumption-driven boom spans multiple industries, including consumer durables, telecom, services, automotive, healthcare, power, and real estate. Specific trends include:

- **E-commerce:** Online shopping has become synonymous with convenience and choice, with quick commerce now used by more than 20% of the population.
- **Health and wellness:** Growing emphasis on fitness, mental well-being, and preventive healthcare is driving demand for yoga studios, fitness apps, organic food brands, and wellness retreats.
- **Travel and leisure:** Domestic tourism is booming, with international travel also gaining traction, reflecting a desire for global exposure.

- **Technology adoption:** From smart homes to electric vehicles, Indians are embracing technologies that enhance quality of life, with the smartphone revolution being particularly transformative.

V. CHALLENGES AND CONSTRAINTS

5.1 Uneven Distribution of Demographic Dividend

The benefits of demographic advantage are evident only when supported by stable employment and access to financial tools. In households engaged in precarious or informal work, economic vulnerability persists regardless of age structure. The presence of working-age members did not guarantee resilience during the COVID-19 pandemic, where the capacity to maintain food expenditure was achieved through depletion of financial buffers and increased borrowing—especially among informal and low-income households.

5.2 Employment and Productivity Challenges

India faces significant challenges in creating enough jobs for its burgeoning workforce. In 2024, youth accounted for 83% of the country's unemployed. Skill gaps further exacerbate the problem, with the ILO's 2023 report indicating that 47% of Indian workers are underqualified for their jobs. Labour force participation, particularly among women, remains low and is a major area for improvement. Worker productivity in India is USD 9 per hour, significantly lower than the USD 60 per hour average in high-income countries.

5.3 Impending Population Ageing

India has only until approximately 2055-56 to leverage its demographic dividend before transitioning into an "aged" economy. An increasing elderly population will strain pensions, public healthcare, and family resources, potentially softening GDP growth in the medium term. The demographic shift will have wide-ranging impacts on GDP growth, labour markets, pension systems, and consumer behaviour.

5.4 Gender Disparities

Gender disparity in health and food expenditure persists, with male expenditure higher than female counterparts. Female workforce participation remains low, limiting the full realization of demographic dividend potential. Women continue to face inequities related to healthcare, often invisible within the discourse of ageing policy.

5.5 Regional Imbalances

Indian States are at different stages of demographic transition, necessitating differential policy approaches. While some States have already started seeing an ageing population, others are at considerably earlier phases with young and fast-growing populations. Uniform fiscal policies may not be suitable across States with diverse demographic trajectories.

VI. POLICY IMPLICATIONS AND RECOMMENDATIONS

6.1 Strengthening Human Capital Development

To fully capitalize on the demographic dividend, India must prioritize investments in education, healthcare, and skill development. Technological adoption, innovation, and strategic investments in infrastructure, education, and skill development are essential for boosting worker productivity. Skill development programs must equip the workforce with digital literacy, creativity, and technological proficiency.

6.2 Enhancing Labour Force Participation

Increasing labour force participation, particularly for women, is crucial for maximizing the demographic dividend. This requires addressing social issues such as gender disparities, improving health and nutrition outcomes, and implementing labour market reforms. Creating an enabling environment for entrepreneurship and business-friendly policies is also essential for job creation.

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6.3 Strengthening Social Protection Systems

The COVID-19 pandemic exposed the limitations of demographic and institutional resilience. Building shock-responsive welfare systems that can protect households during crises is essential for making India's demographic potential truly inclusive and sustainable. Social protection must address the needs of vulnerable populations, including informal workers and low-income households.

6.4 Preparing for Population Ageing

India must prepare for the demographic shift by strengthening public finances and social support systems to address the needs of a growing elderly population. This includes ensuring financial security through accessible pension schemes, social security programs, and financial literacy initiatives. Healthcare infrastructure must be strengthened to provide quality and affordable healthcare for the elderly.

6.5 Regionally Focused Policies

Given that Indian States are at different stages of demographic transition, regionally focused policies are necessary. Youthful States must capitalize on their demographic advantage through higher spending on education, skilling, and job creation. Intermediate States should augment growth potential through investment in innovation, infrastructure creation, and urban reforms. Ageing States must make adequate provisions for additional expenditure on healthcare, pensions, and social welfare.

6.6 Shifting Procurement and Investment Paradigms

Moving beyond lowest-bid procurement toward value-driven, lifecycle-focused approaches is essential for creating an environment conducive to sustainable development. Quality-linked evaluation and lifecycle costing in procurement can ensure long-term asset performance and value creation.

VII. CONCLUSION

India's demographic transition is reshaping the nation's economic landscape, with profound implications for household consumption expenditure and commercial growth. The demographic dividend, characterized by a young and expanding workforce, has fueled a remarkable consumption boom, with private consumption nearly doubling to USD 2.1 trillion in 2024. Demographic factors—including household size, age composition, place of residence, and family structure—significantly influence expenditure patterns across food, health, and non-food items.

However, the benefits of demographic transition are unevenly distributed. Rural-urban consumption differentials persist, and the presence of working-age members provides resilience only when supported by stable employment and financial access. Youth unemployment, skill gaps, low female workforce participation, and impending population ageing pose significant challenges. With only 33 years remaining to fully leverage its demographic dividend before transitioning to an aged economy, India faces a critical window of opportunity.

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