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EDITORIAL ANALYSIS

Why Premiumisation Alone Cannot Carry Consumption

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THE LIFT LINE

India's consumption story is increasingly a tale of two markets. At the top, a thin layer of affluent consumers is trading up to premium cars, high-end phones and branded goods, a shift companies celebrate as **premiumisation**. Beneath it, **mass consumption**, the everyday buying of the broad middle and bottom, has been sluggish, with **volume growth** lagging even as **value growth** looks healthy. Because **premiumisation** lifts revenue without lifting volumes, it can flatter the headline while the base stays weak. A consumption economy carried by a narrow segment is not a durable one. Sustained, broad-based demand needs rising incomes, jobs and rural buying power across the whole distribution, not just premium spending at the top.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Consumption is central to the economy paper because **private final consumption expenditure (PFCE)** is the largest component of **GDP** by expenditure, so the health of demand shapes the entire growth story. You are expected to explain what drives consumption, why demand can look strong in value terms yet weak in volume terms, and what a durable consumption-led path requires. The examiner rewards candidates who distinguish the composition of demand from its headline size.

The analytical edge is the difference between **value growth** and **volume growth**. When a thin affluent layer trades up, companies report rising sales value even if units sold across the mass market are flat or falling. The value figure suggests robust demand; volumes reveal a narrower, more fragile picture. Getting this right lets you connect consumption to inequality, employment and the sustainability of growth, rather than treating a strong sales number as proof of broad prosperity.

GS Paper 3: Indian economy; growth, development and employment; issues relating to demand, consumption and inclusive growth.

For **Prelims**, hold the specifics: **premiumisation** is a shift toward higher-value goods bought largely by affluent consumers, distinct from broad-based **mass consumption**; the **K-shaped recovery** describes a pattern in which the top of the income distribution pulls ahead while the bottom lags; **private final**

consumption expenditure (PFCE) is the largest component of **GDP** by expenditure; and **value growth** (driven by higher premium prices) differs from **volume growth** (driven by broad, unit-level demand).

For **Mains**, the argument is that durable, consumption-led growth requires broad purchasing power, employment and rural demand across the whole distribution, and cannot rest on **premiumisation** by a narrow affluent segment.

BACKGROUND AND CONTEXT

Consumption is the workhorse of India's growth. **Private final consumption expenditure** is the single largest component of **GDP** by expenditure, so the pace and breadth of household spending largely determine how fast the economy grows and how many jobs demand can support. When consumption is broad, spread across income groups and geographies, it pulls in production, employment and investment across the board.

In recent years, the pattern of demand has skewed. A prosperous top layer has been trading up, driving a visible wave of **premiumisation** in categories from automobiles to consumer electronics to leisure. At the same time, entry-level and mass-market segments bought by the broad middle and lower-income households have grown slowly. This is the essence of a **K-shaped recovery**: the upper arm rising, the lower arm flat.

Premiumisation distorts the read on demand because it lifts **value growth** without necessarily lifting **volume growth**. A company can post higher revenue simply because affluent buyers pay more per unit, even as units sold across the mass market stagnate. The headline looks buoyant; the base tells a more cautious story. A consumption engine running on a narrow, high-value segment is more exposed and less job-rich than one powered by broad volumes.

THE CORE ARGUMENT / ISSUE

The core argument is that the structure of demand matters as much as its size. Consumption growth concentrated in a premium segment overstates the strength of the consumption economy, because the broad base that generates volumes, jobs and durable demand is not participating.

Value Growth Is Not Volume Growth

When affluent consumers trade up, revenue rises even if unit sales are flat. **Value growth** driven by higher prices can coexist with weak **volume growth**, which means the number of households actually consuming more is not increasing. Because volumes, not just values, drive factory output and employment, a value-led headline can mask a stalling base.

Premiumisation Reflects a K-Shaped Divide

The shift toward premium goods is a symptom of the **K-shaped recovery**. The top pulls ahead, buying more and better, while the bottom lags, constrained by weak income growth. Consumption that depends on the top arm of the K is narrow by construction and vulnerable to any wobble in that thin segment.

Durable Demand Needs Broad Purchasing Power

A resilient consumption economy rests on rising incomes, employment and **rural demand** across the whole distribution. Broad purchasing power converts into volume growth, which is more job-intensive and less fragile than premium value growth. The policy task is to widen the base of buyers, not merely to serve the top of it better.

FEATURE	PREMIUMISATION-LED CONSUMPTION	BROAD-BASED MASS CONSUMPTION
Driver	A thin affluent layer trading up	Rising incomes across income groups
Growth type	Value growth from higher prices	Volume growth from more units
Distribution	Narrow, top of the K	Wide, across the distribution
Employment effect	Limited, less job-intensive	Larger, volume and jobs
Durability	Fragile, segment-dependent	Resilient, broad-based

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Frame consumption through three questions. First, **value or volume?** A rising sales figure means little until you ask whether more units are being sold across the mass market or whether a thin premium layer is simply paying more, so separate **value growth** from **volume growth**. Second, **which arm of the K is spending?** Ask whether demand is concentrated at the top of a **K-shaped recovery** or spread across income groups, because breadth determines resilience and job intensity. Third, **what widens the base?** Judge durability by whether incomes, employment and **rural demand** are rising, since only broad purchasing power converts into sustained volumes. Applied together, these questions prevent the error of reading strong premium sales as proof of a healthy consumption economy, and keep the focus on the broad demand conditions that make consumption-led growth durable.

THE DIAGRAM IN WORDS

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A thin affluent layer trades up -> premiumisation lifts value growth -> company revenues and headline demand look strong -> but volume growth across the mass market stays weak -> reflecting a K-shaped recovery, top rising and bottom lagging -> PFCE breadth narrows -> consumption engine depends on a narrow segment -> durable growth needs rising incomes, jobs and rural demand -> broad purchasing power lifts volumes -> only broad-based mass consumption makes consumption-led growth resilient
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WAY FORWARD

1. **Read volumes, not just values.** Separate **value growth** driven by premium pricing from **volume growth** driven by broad demand before judging the strength of consumption, so the headline does not mislead.
2. **Widen purchasing power.** Support employment and income growth across the distribution so that the base of consumers expands, converting into the volumes that make demand durable and job-rich.
3. **Revive rural and mass demand.** Strengthen **rural demand** and entry-level segments through incomes and jobs so consumption rests on the whole **K**, not just its upper arm.
4. **Target inclusive growth, not just premium markets.** Design policy to lift the bottom and middle of the income distribution, ensuring the consumption engine is broad-based rather than dependent on a narrow affluent segment.

PYQ LINKAGE AND PRACTICE

UPSC regularly examines consumption, inclusive growth and the growth-employment link (2019: “Do you agree that the Indian economy has recently experienced V-shaped recovery? Give reasons in support of your answer”; recurring questions on inclusive growth, demand revival and the distribution of the gains from growth). This editorial equips you to argue why broad-based consumption, not premiumisation alone, sustains growth.

Practice question: “Premiumisation by a thin affluent segment can flatter consumption data while masking weak mass demand.” Critically examine the difference between value growth and volume growth for durable, consumption-led growth. (15 marks, 250 words)

Sources: Business Standard, Ministry of Statistics and Programme Implementation

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