

Income Trends in India: 2004 - 05 to 2006 - 07

Abstract: This brief estimates the trend in real incomes in different Regions of India between 2004 and 2007. The analysis identifies by Region the extent to which the benefits of strong economic growth have percolated down the income distribution and makes observations on the underlying regional economies concerned.

This analysis is based on the findings of two independent national-level surveys designed and executed by the same team.

1. The Indian Retirement, Earnings and Savings (IRES) Survey 2004-05: This survey was conducted under an ADB funded technical assistance grant for the Ministry of Finance titled 'Pension Reforms for the Unorganised Sector in India'. The survey covered a random sample of 40,862 earners located across all Indian states. Individual incomes across occupations and geography were recorded as part of the survey protocol.

2. The Invest India Incomes and Savings Survey 2007: This Survey was commissioned by IIMS Dataworks and released in August 2007. This survey covered a random sample of 96,088 working age Indians (18-59 years) with incomes located across all Indian States. In this survey as well, individual incomes across occupations and geography were recorded as part of the survey protocol. This survey profiles the incomes and savings of 321.4 million working age Indians with incomes.

elicited from the 96088 sample survey across all states, and removed the outliers.

Step 2: Four income bands were developed on the basis of: maximum recorded income minus minimum recorded income / 4

Step 3: The projected earning population of India in 2007 was redistributed across these income bands on the basis of their earnings per annum.

Step 4: These income bands were adjusted for inflation for the previous 3 years to achieve a comparable benchmark between 2004 and 2007 incomes and to derive a real (inflation indexed) view of income trends.

Step 5: We took the 2004 income data from the 40,862 sample survey across all States and once again, removed the outliers.

Step 6: The 2004 earning population of India was redistributed across these adjusted income bands (same bands as in 2007 but deflated for inflation).

The income bands considered for comparing the two points of time are as in table 1:

Table 1 : Income Groupings Across India

Year	Lowest income	Lower middle income	Higher middle income	Highest income
2007	< Rs.113,438	Rs.113,439– Rs.226,875	Rs.226,876 – Rs.340,313	> Rs.340,314
2004 ¹	< Rs.95,923	Rs.95,924 – Rs.191,846	Rs.191,847 – Rs.287,769	> Rs.287,770

1 Inflation at WPI has been considered for this analysis (6.4% in 2004-05; 4.4% in 2005-06 and 5.5% in 2006-07)

Taking the reported income data from both surveys, an attempt has been made to assess whether the relative proportion of earners within defined income brackets have increased or decreased across these two points of time. This analysis has been attempted across different regions of the country as well as separately for urban and rural India.

Step 1: We took the 2007 income data as

We examined the time-series data provided by the two surveys to assess any incidence of a positive shift in the proportion of earners from a lower income category to the next higher income category. If no significant change in the proportion of earners within each income band is observed, it would imply that incomes of earners within each income band have remained unchanged over three years in real terms (i.e. earning levels have

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only managed to beat inflation over the last three years and earners are not necessarily better off than they were 3 years ago). If however we observe a positive change in the proportion of earners across income bands over the last three years (i.e. the population of earners in a lower income band have moved to a higher income band), we can assume that the benefits of economic growth have indeed trickled down to the masses in the form of improved income levels in real terms.

In order to achieve a disaggregated view of income trends across different parts of India, the analysis reflects the following constituencies:

1. North Western States – J&K, Himachal Pradesh and

Uttaranchal, Punjab (including Chandigarh), Haryana and Delhi

2. North Eastern States – all seven States + Sikkim

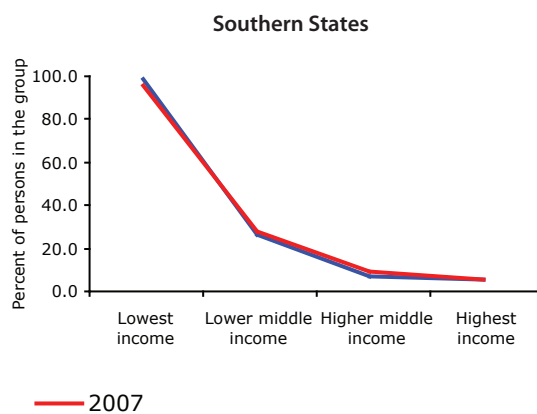
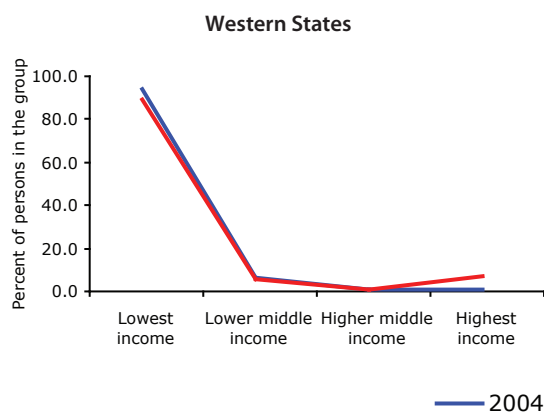
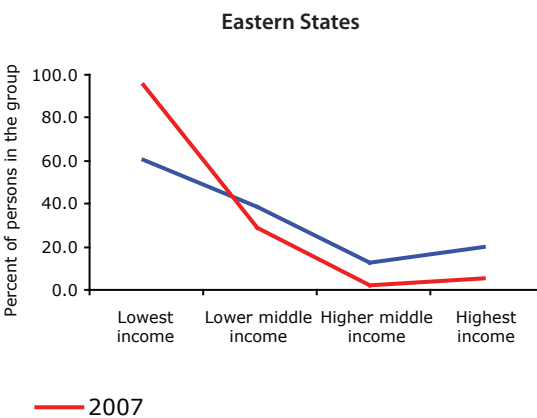
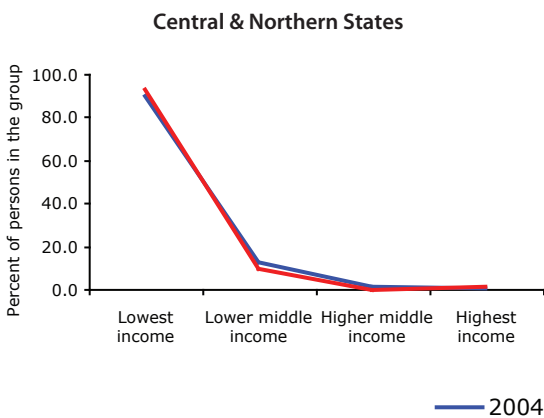
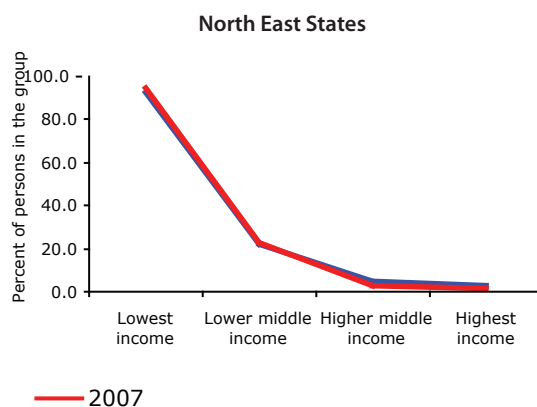
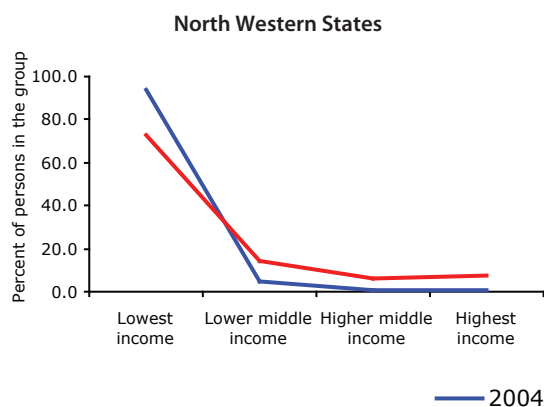
3. Central and Northern States – UP, Rajasthan, Madhya Pradesh and Chhattisgarh

4. Eastern States – West Bengal, Bihar, Jharkhand and Orissa

5. Western States – Maharashtra, Gujarat and Goa, and

6. Southern States – Andhra Pradesh, Tamil Nadu, Karnataka and Kerala

The result of the analysis is provided below.



1 In this paper the poverty line is determined as per the calculation made in "Redefining Poverty – A new poverty line for a New India"; Mohan Guruswamy & Ronald Joseph Abraham, Centre for Policy Alternative.

Regions	Brief analysis
North Western States	The data shows overall balanced income growth in these States. The lowest income segment has shrunk and a significant percentage (21.3%) of earners in this income category has moved up to the lower middle income segment. The largest movement is observed with the upper middle income segment moving to the highest income segment (0.5% to 7.2%).
North Eastern States	Possibly due to sustained civil unrest leading to lower incomes coupled with likely out-migration, the proportion of earners in the higher income levels has reduced in the last three years. The poorer segments have remained static with practically no upward movement. However, in proportion terms, the share of the poorest segment has not increased in 2007 indicating that earners in the North East have managed to beat inflation.
Central and Northern States	Incomes of earners in the higher income categories have improved. However, the proportion of earners with the lowest incomes has remained stagnant with practically no movement among the poorest segment in these very large States. On the other hand, the upper middle income segment has moved up to the higher income bands in significant numbers – this has doubled the proportion of the earning population in the higher income segments over the last 3 years. However, this segment accounts for only 2.8% of the earning population in these States.
Eastern States	The Eastern States go against the general income trends observed in many other regions with a significant negative movement across income bands. In numerical terms, the proportion of the lowest income workforce in this region has increased and now constitutes an even larger share of the overall workforce in these States than was the case in 2004-05. Consequently, other higher income categories have proportionately lower contributions to the workforce today than in 2004-05. It is likely that natural calamities coupled with large scale in-migration of very poor refugee populations from neighboring states and countries have contributed to this overall drop in real incomes in some of these States.
Western States	The poor have become better off than three years ago and there has been a positive movement from the lowest income category to the lower middle income segments (from 92.5% to 87.8%). The lower middle income segment has also moved upwards, albeit in smaller numbers. The real growth in incomes is observed in the upper income segments where earnings appear to have improved dramatically and this has moved a large proportion of these earners to the highest income segment (from a 0.5% contribution to 6.6% of the earning workforce in this region). However, this has also widened the gap between the highest income earners and the supporting populations.
Southern States	As in the case of the North Western States, income growth in the Southern States too has been equitable across income segments and earners in each income segment have progressed to higher income segments. However, this change has been at a lower rate. In terms of balanced development, even though the upper income earners might not amatically improved their numbers in the last 3 years, the masses have certainly benefited through improved earnings. A significant proportion of them has either moved up to a higher income grade or at least has managed to beat inflation.

Income Trends Across Rural and Urban India

A short analysis of the relative movements in income across urban and rural India between 2004 and 2007 and based on these two primary datasets is presented below. The following income bands have been used for the urban-rural income comparisons using the same principle of inflation indexation:

Table 2 : Income Groupings Across Urban India

Year	Lowest income	Lower middle income	Higher middle income	Highest income
2007	< Rs.163,125	Rs.163,126 – Rs.326,250	Rs.326,251 – Rs.489,375	> Rs.489,376
2004 ²	< Rs.137,939	Rs.137,940 – Rs. 275,877	Rs. 275,876 – Rs.413,816	> Rs.413,817

1 Inflation at WPI has been considered for this analysis (6.4% in 2004-05; 4.4% in 2005-06 and 5.5% in 2006-07)

Table 3 : Income Groupings Across Rural India

Rural	Lowest income	Lower middle income	Upper middle income	Highest income
2007	< Rs.46,250	Rs.46,251 – Rs.92,500	Rs.92,501 – Rs.138,750	> Rs.138,751
2004 ²	< Rs.39,109	Rs.39,110 – Rs.78,218	Rs.78,219 – Rs.117,327	> Rs.117,328

2 Inflation at WPI has been considered for this analysis (6.4% in 2004-05; 4.4% in 2005-06 and 5.5% in 2006-07)

The results of this analysis are presented below:

Table 4 : All India - Urban - Underlying Data

Across Urban India	Lowest income	Lower middle income	Upper middle income	Highest income
2004	93.5	5.3	0.7	0.5
2007	85.2	7	3.5	4.2
Difference	-8.3	1.8	2.8	3.7

Table 5 : All India - Rural - Underlying Data

Across Rural India	Lowest income	Lower middle income	Upper middle income	Highest income
2004	77.2	10.8	9.1	2.9
2007	75.9	12.9	7.4	3.8
Difference	-1.3	2.1	-1.7	0.9

Observations: A significant number of urban earners have achieved improved incomes between 2004 and 2007 in real terms. A large income improvement among earners in the highest income bracket is perhaps reflective of India's growth story while the corresponding change in the lowest income category is reflective of some positive trickle down effect to the benefit of the relatively disadvantaged population.

The rural time-series income view on the other hand is remarkably different. The data does not show any significant positive improvements in incomes across all income brackets and the underlying population appears to have struggled to maintain the 2004 income levels in real terms (inflation indexed). The population of rural poor has grown during this period. However, the overall differences in share of populations within each income grade in rural India have been marginal, indicating stagnation in rural incomes. Due to the large proportion of rural workforce in the total earning population of India, this in turn has a significant impact on an all-India view of incomes over the last 3 years.

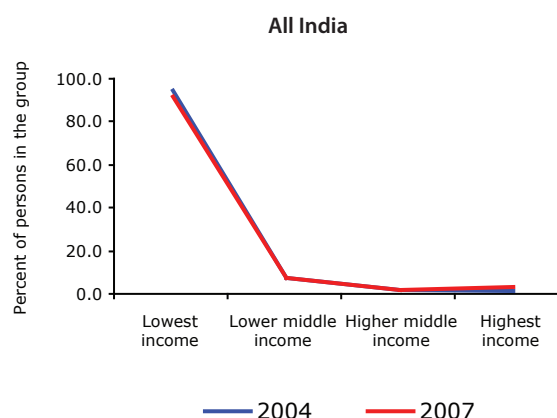


Table 6 : All India - Underlying Data

All India	Lowest income	Lower middle income	Upper middle income	Highest income
2004	91.3	6.7	1.3	0.7
2007	88.8	6.8	1.5	2.9
Difference	-2.5	0.1	0.2	2.2

At an all-India level, and in real terms, we observe only a modest positive movement in the proportion of earners from lower to upper income segments. The over 100%

increase in the proportion of earners in the highest income levels is almost entirely driven by earners in urban India.

Annexure 1

Region	2007				2004 with deflated 2007 groupings				Difference in proportions			
	G1	G2	G3	G4	G1	G2	G3	G4	G1	G2	G3	G4
North Western	72.6	14.2	6	7.2	93.9	4.9	0.7	0.5	-21.3	9.3	5.2	6.8
North East	77.2	17.8	3.4	1.7	50.4	26.8	12.9	10.1	26.8	-9	-9.5	-8.4
Central and North	85.3	10.4	1.6	2.8	82.5	12.9	2.7	1.9	2.8	-2.5	-1.1	0.9
East	66.9	22.1	4.6	6.4	43.5	28.6	11.6	16.2	23.4	-6.5	-7	-9.8
West	87.8	5.2	0.4	6.6	92.5	6	1	0.5	-4.7	-0.8	-0.5	6.1
South	69.6	20.2	6.5	3.7	72.1	19.3	4.9	3.7	-2.5	0.9	1.6	0
India	81.1	13.8	3.2	1.9	80.4	13.4	2.4	3.9	0.7	0.4	0.8	-2