

HIGHLIGHTS

- As of this year, half of the world's population live in urban areas. While this figure is currently much lower for India, on conservative estimates 45% of India's population will be urban by 2050. This means that 379mn people will be added to urban spaces over the next 40 years—more than the entire population of the US today. India could account for a fifth of the increase in the world's urban population through 2050—more than any other country.
- Thankfully, the country is in a pivotal position to prepare for oncoming demographic change. However, we need more information about how the process of urbanization is evolving on the ground. By tracking and understanding more fully the diversity among already established cities, we can better address the urbanization process ahead.
- As a first step, in this analysis we identify twenty key cities and group them into three broad buckets: **megacities**, which are the largest cities in terms of population and overall consumer markets; **boomtowns**, which stand out as the next set of big-population cities with high expenditure per household; and **niche cities**, which are smaller in terms of overall population but still hit well above their weight in spending per household.
- These twenty cities together account for 10% of India's population, but generate 31% of disposable income. We estimate household income growth for these cities at 11.2%yoy between 2005-8, decelerating gradually to average 10.1% through 2016.

Income/Income Distribution

- Household income levels for Mumbai and Delhi (as well as Chandigarh and Surat) in 2007-8 have crossed the Rs 4lakh mark. This makes income per capita in Mumbai and Delhi well over double estimates for all-India GDP per capita, and roughly equivalent to China's 2007 per capita income levels.
- Income distribution has changed dramatically in certain cities. Surat's middle class has more than doubled between 2004-5 and 2007-8, while the low-income category has shrunk by over a third. The high income category has expanded the fastest in Lucknow, Jaipur and Nagpur. By 2016, more than half of households in these twenty cities will be middle class, while the high-income segment could more than triple. Meanwhile, the share of low-income households could halve, to 7% from 16% today.
- Across the twenty cities, 70% of car owners are middle class. The middle class makes up more than 60% of ownership in the following: computers, ACs, washing machines and microwave ovens. The aspirant group (with incomes between \$3,000 and \$6,000) edges out the middle class in ownership share of TVs; DVD players; refrigerators; mobiles; and motorcycles.
- The same income group may have different ownership profiles across cities. In general, the low-income and aspirant categories weigh more heavily in overall asset ownership within boomtowns. For example, aspirants make up over a third of total car owners in boomtowns, against 14% and 10% in megacities and niche cities respectively.

Consumer Markets and Financial Services

- Our twenty cities fueled just under \$100bn of consumption expenditure in 2007-8, with food spending accounting for over a third of total spending. However, there is significant diversity in spending patterns across cities. Coimbatore households devote a sharply lower share of their consumer basket to foodspend (and a higher share to healthcare), while Mumbai allocates the least of all our cities to education and recreation.
- Surat is a standout. Surat has nearly the population of a megacity; it is the youngest city in the entire group (with over 64% of the population below the age of 30); and the city's household income growth tops our urban universe by a comfortable margin. After adjusting for cost of living differences, Surat emerges as the leader in household income levels. The city is already a larger consumer market than Ahmedabad and Pune.
- These twenty cities will become increasingly important for financial services: surplus income¹ rates here are nearly double the all-India figure. Surplus income rates are highest in megacities, with Delhi and Mumbai together accounting for a fifth of all-India surplus income. As much as 29% of niche households prefer to keep surplus income at home.
- Boomtowns—not megacities—have the highest penetration of life insurance and loans outstanding. Although niche cities have the highest penetration rates across most durable assets, they are significantly under-penetrated when it comes to financial services such as loans, life insurance and credit cards.

Conclusion

- These cities will be key to track as centers of economic development over the coming decades. Our analysis shows that while urban growth patterns are more diverse than we conventionally acknowledge, the transformation in income and ownership patterns across all our cities is occurring even more rapidly than expected—or more importantly planned for.
- Preparing for changes in urban demand will be a key challenge for both policymaking and corporate strategy. Given where it's headed with respect to urbanization, India simply cannot afford urban development to languish. On the policy front, we need to place urban development—particularly infrastructure—squarely alongside rural priorities, recognizing in part that both are interdependent.
- On the corporate front, we need to challenge the approach to a uniform 'urban' India. Boomtowns and niche cities today may be much smaller in terms of their income and spending weights, but they are growing rapidly. Many of the cities that have registered the fastest economic growth—along with the highest asset and financial penetration—over the past five years have been within the boomtowns and niche cities, not the typical megacities.
- Sectors heavily geared towards demographics—consumer durables, financial services, FMCG and apparel—may follow typical patterns where the boomtowns will be the next big pockets. At the same time, more specialized consumer markets such as luxury goods, big-ticket durables, entertainment services and housing may find further inroads in niche cities. Although niche cities may not appear as large on the surface, consumption patterns may evolve more quickly, creating deeper addressable markets.

¹ Surplus income = Total household income – expenditure (routine + unusual). Surplus income rates = Share of surplus income in total household income.