

Quickonomics

April 11, 2024

Consumption signals from state-level GST data

State-level Goods and Services Tax (GST)¹ data can be a useful gauge of consumption demand across states.

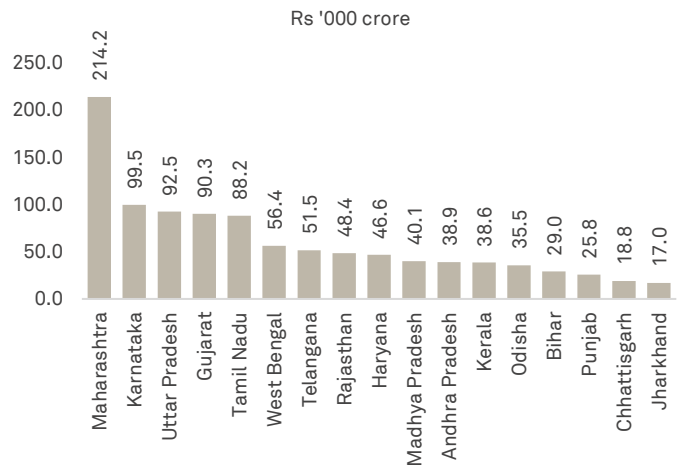
This is because GST, being a destination- or consumption-based tax, is received by a state in which the goods are consumed as opposed to a state in which these are produced. Thus, higher the consumption in a state, the bigger its GST collection.

Such an analysis is useful because:

- Private consumption is the biggest demand driver for the Indian economy and understanding how it stacks up across states is helpful for the corporate sector as well as for policymakers. Demand-side gross domestic product (GDP) data for states is not published, hence state-wise GST data can throw light (and at a much higher frequency) on consumption patterns across states. A caveat — increase in state GST could also partly be due to wider or enhanced coverage and difficulty in tax evasion
- Even though most food items are exempt from GST and items such as alcoholic beverages and petroleum products are outside its purview (together having around 33% share in all-India private final consumption expenditure, or PFCE), GST still represents a healthy share in terms of coverage of goods and services, at ~67%², which makes it a reasonable proxy for consumption scenario across states.

1. The leaders and the laggards

Chart 1: State-wise GST collections



Note: Data is for FY24 (April-February)
Source: www.gst.gov.in, CRISIL

- We have analysed GST data for 17 states that account for ~95% of the total GST collection³
- Maharashtra accounts for the highest GST collection (Chart 1), with a 19.6% share in all-India GST collection in fiscal 2024 (April-February), way ahead of the second-ranked state, Karnataka. Indeed, not only is Maharashtra the biggest in terms of GDP size but also, in its case, a large population (third-most populous state) does seem to buttress consumption expenditure in the state⁴
- If we normalise GST data with the population size (Chart 2), we get a sense of the intensity of consumption spend across states, i.e. the average consumption spend per individual

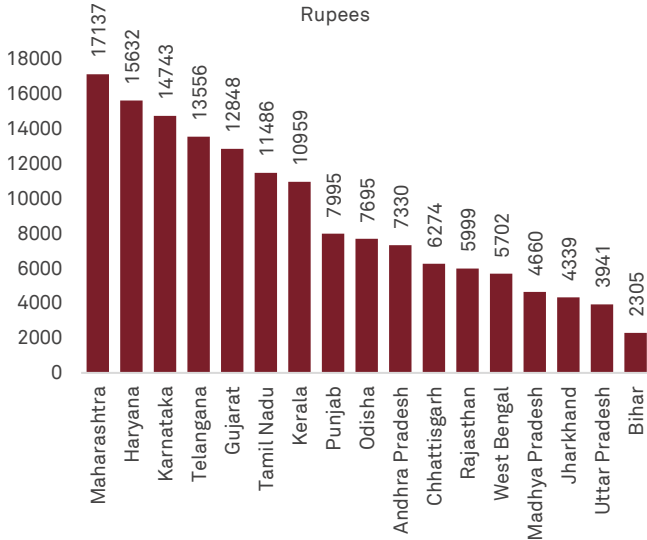
¹In this analysis, GST corresponding to a state is the sum of state GST (SGST), central GST (CGST) and integrated GST (IGST). For every intra-state sale, SGST and CGST are collected. In case of inter-state sale, IGST is collected and split between the Centre and the consuming states in roughly equal proportions. IGST on imports is excluded in this analysis

²Actual coverage could be somewhat lower owing to the presence of unorganised market for many of the products and also because this calculation does not exclude services which are GST exempt

³Sum of CGST, SGST and settlement of IGST

⁴In fiscal 2023, Maharashtra's population was 125 million, whereas its GDP (current prices) was Rs 35.3 trillion; in Karnataka, it was 67.5 million and Rs 22.7 trillion, respectively.

Chart 2: Per capita GST collections



Note: Data is for FY24 (April-February)
Source: www.gst.gov.in, NSO, CRISIL

- Looked at through the per capita lens, Uttar Pradesh, West Bengal and Rajasthan get pushed down the order, while Haryana, Telangana, Kerala and Punjab move up. Interestingly, Maharashtra tops the ranking in both absolute and per capita terms
- In sum, Maharashtra, Karnataka and Haryana are the top three states with the highest per capita consumption spend, while Bihar, Uttar Pradesh and Jharkhand have the lowest
- Such information can possibly suggest the kind of goods (premium vs mass) that can be sold in a state, which would be a useful input for corporates

2. Higher income states provide greater consumption thrust

- Per capita GST (proxy for per capita consumption expenditure) increases with rise in per capita income, as shown by the clearly positive or upward sloping trend line (Chart 3). This is to be expected and suggests that people in richer states have higher propensity to consume
- Interestingly, when it comes to growth in GST collections, the trend line is almost flat (Chart 4), which suggests growth in GST collection is not really dependent on whether it is a high/low per capita income state, i.e., there is not much variation in GST

growth across states. For instance, average GST growth during the five-year period (between fiscals 2020 and fiscal 2024) in Telangana (highest per capita income in our sample at Rs 3,44,219) stood at 14.7%, not much different from 15.6% growth in Bihar (lowest per capita income at Rs 59,639). One way to think about such a trend is that it likely indicates a similar pace of adoption of GST across states, irrespective of their income levels.

Chart 3: Richer states = greater consumption

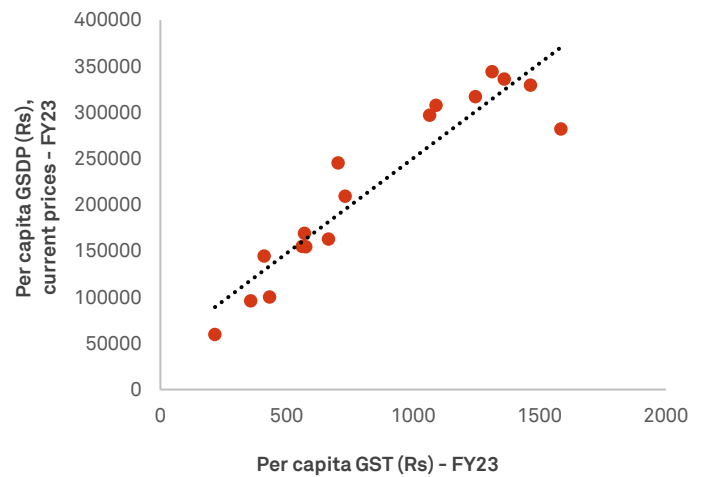
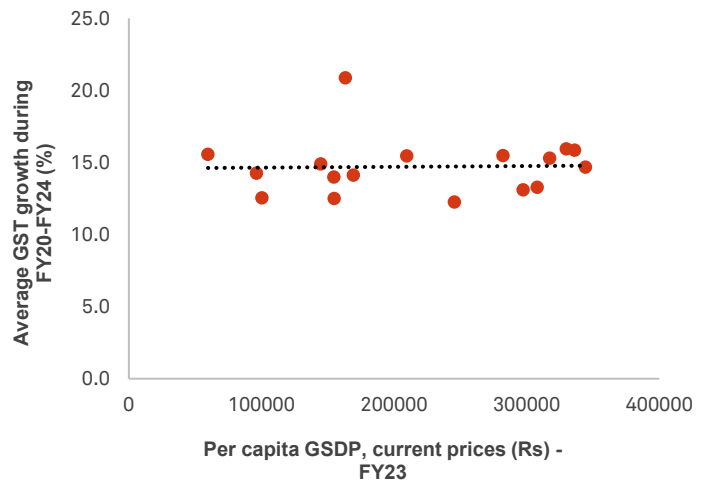


Chart 4: Homogenous growth in GST collections

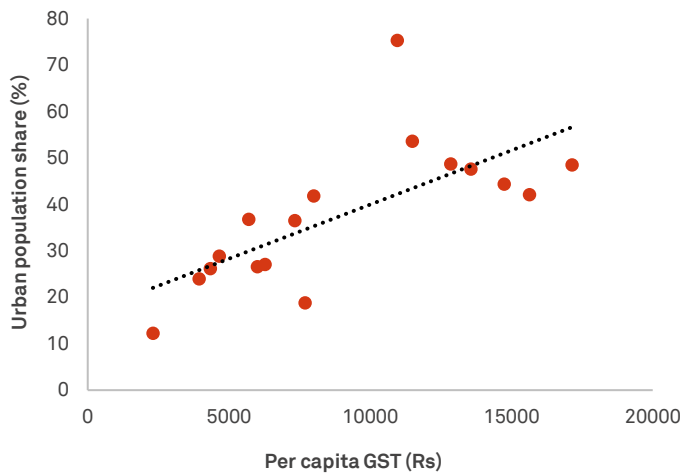


Source: www.gst.gov.in, NSO, CRISIL

3. Urbanisation propels consumption

- On mapping the per capita GST collections with the share of urban population in a state, we get an upward/positively sloping trend line (Chart 5). That is also to be expected and suggests urbanisation gives a push to consumption
- That said, it is also possible that urban areas have better compliance than rural areas and, hence, states with higher urban share show higher per capita GST collections

Chart 5: People in urbanised states spend more



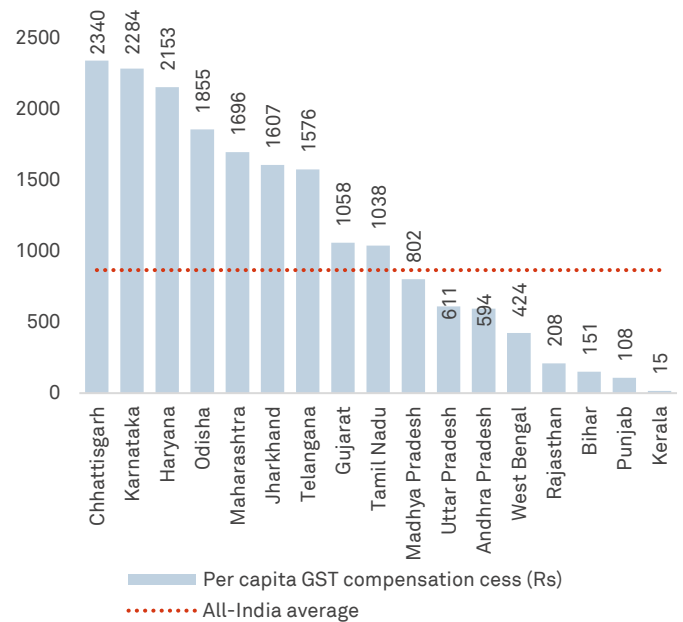
Note: Data is for FY23
Source: www.gst.gov.in, NSO, MoHFW, CRISIL

4. Consumption of luxury and demerit goods across states

- Compensation cess is applied mostly to luxury and demerit goods, including those with adverse environmental or health impact, such as tobacco products, aerated beverages and coal
- While the primary objective of GST compensation cess is to collect money to offer financial assistance to states experiencing a decline in revenue due to GST implementation, it could also influence consumer behaviour and discourage consumption of such demerit goods
- Looked at this way, state-wise comparison of per capita GST cess collection data led to some interesting observations. In fiscal 2024 (April-February), as many

as 9 of 17 states paid GST consumption cess, which was higher than the all-India average (Chart 6). At one end of the spectrum is Kerala (having the lowest compensation cess per capita among all major states), at the other end is Chhattisgarh (a low per capita income state) which has the highest per capita consumption of such demerit goods

Chart 6: Ranking of states based on compensation cess



Note: Data is for FY24 (April-February)
Source: www.gst.gov.in, NSO, CRISIL

5. States behind lower consumption growth this fiscal

Even as India's real GDP growth surprised on the upside at 7.6% in fiscal 2024 (up from 7.0% in fiscal 2023), consumption growth lagged. PFCE growth was much lower, at 3.0%, vs 6.8% in fiscal 2023

- In nominal terms, too, PFCE growth of 7.9% in fiscal 2024 (vs 14.2% in fiscal 2023) lagged overall GDP growth of 9.1%
- Since GST is directly linked to consumption in a state, Chart 7 gives us a sense of which states have been behind slower consumption growth in fiscal 2024.

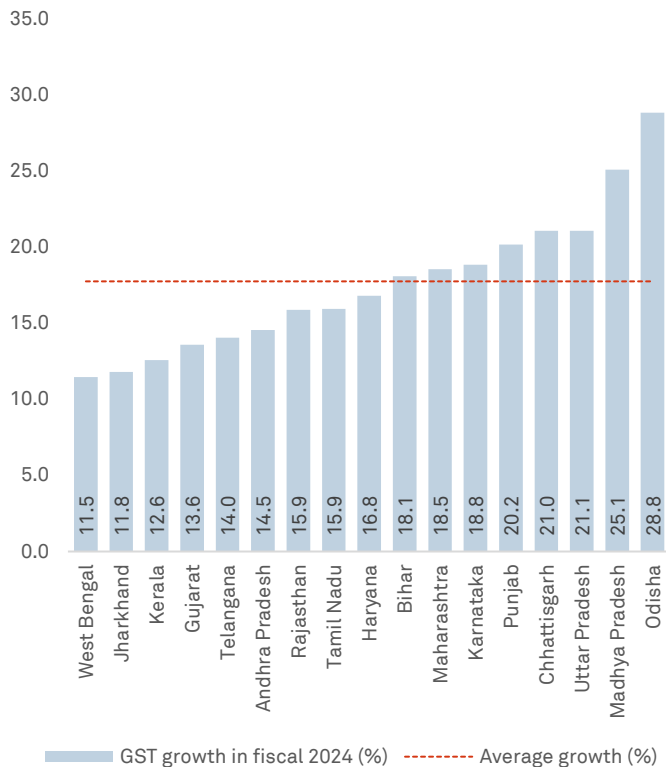
A wide variation in GST growth suggests that slower consumption demand this fiscal is not a pan-India phenomenon. For instance, while West Bengal saw only 11.5% growth in GST collections, it was 28.8% for Odisha on the other end of the spectrum

- Average all-India GST growth in fiscal 2024 (April-February) was 17.3% on-year. But as many as nine states saw lower growth during this period
- The three weakest GST growth states were West Bengal, Jharkhand and Kerala, and the strongest were Odisha, Madhya Pradesh and Uttar Pradesh

Conclusion

Our analysis shows that state-wise GST data can be a useful gauge of consumption expenditure and trends in the economy and relative performance of various states. More so because it is timely and more regular than the National Sample Survey Office's consumption survey.

Chart 7: GST growth varies across states



Note: The above data shows on-year GST growth during FY24 (April-February)
Source: www.gst.gov.in, CRISIL

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