

HOUSEHOLDS SPENDING BEHAVIOUR DURING INFLATION

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Abstract : It well recognised fact that high inflation erodes confidence in future purchasing power among the citizens in the country, as its impact savings, investment and even the economic growth. Primary aim of the study is to assess the household spending behaviour during inflation period. The study found that most of the Indian households prefer spending less on buying clothes and manage the household needs. Similarly, the households also try not to spend more on restaurant dining (take-away meals) and fuel or electricity during inflation period. The sample households' have stated that the pay off debts, credit cards and loans with the spare i.e., extra money they have after covering the essential family needs i.e., 69.60 per cent and 67.20 per cent of the sample households tend to save the extra money for future need and to meet future financial commitments.

IndexTerms - Households, Inflation, Income, Spending and Saving

I. INTRODUCTION

Financial and Economic disorder in turn affects the consumption, spending and saving pattern of common households across India. In short, the economic cycles of boom, recession, depression and recovery not only affect the level of GDP (Gross Domestic Product) but also the income of the households, on their saving ratio and investment behavior. For, instant, failure of South-West monsoon of 2009 in India, the outbreak of worldwide recession in 2008 and followed by hike in inflation have heavily severally affected saving and investment practices of family households in India. All though India escaped with relatively little damage to its banks since its capital account is relatively closed and its financial sector is predominantly majority government owned. However, since 2010 Indian inflation has hovered near or beyond double digits mainly on account of high food inflation. Indian inflation is currently the highest among most emerging economies, matched only by Vietnam which is a smaller and more open economy. As it well recognised fact that high inflation erodes confidence in future purchasing power among the citizens in the country, as its impact savings, investment and even the economic growth. Moreover, it reduced domestic and foreign investor confidence, which resulted in lower investments and inflows of foreign investment into the country.

II. ISSUES FOCUSED IN THE STUDY

Many financial experts claim that economic cycles of boom, recession, depression and recovery not only affect the level of GDP (Gross Domestic Product) of a nation, but, it also affects the income of the households, their saving ratio and investment behavior. The effect of inflation on savings depends on the way households react to increase in Inflation. The amount of individual expenditure and proportion of savings largely depends upon the income levels of people. It is said that people save for future contingencies and would like to see their savings grow. This economic insight blended with humanism which always remains a beacon for generations. The above drawn elaborate discussion have motivated researcher for conduct of this study.

III. RELEVANT REVIEWS

A brief discussion of reviews is presented in this section of the study:

Achar and Ananthapadmanabha's (2009) research study focuses on the consumption behavioral patterns of primary, high school, college and university teachers in Udipi District of Karnataka. The study found that household economic behaviors have a strong influence on work efficiency, and the degree of influence would vary from profession to profession and over the time. Farid et.al (2012) research paper dealt with the effects of inflation on standard of living in terms of expenses on food and non-food items, income, saving, loan and recreation in the Multan, Pakistan. The study commented that inflationary effects, at family level, can reduce, never eliminate, through keeping money circulation and abating saving during persistently intensifying inflation and renouncing to pay interest over money and goods, and income ought to be increased with the same ratio of rise in inflation. Fajardo José and Dantas Manuela (2013) research paper focused to examine to what extent extreme macroeconomic instability has a long-lasting effect in household investing behavior in Brazil. The study found evidence that individuals who were in their early adulthood during Brazil's hyperinflation period are less willing to have financial saving than those who experienced this macroeconomic shock in other periods of their lives. Also, individuals who had the memories of the hyperinflation event are 32 per cent less likely to participate in the stock market i.e., financial market transactions.

Samantaraya and Patra (2014) empirically study aimed to analyse the role of various determinants of household savings in India with the latest available data. The study found that GDP, dependency ratio, interest rate, and inflation have statistically significant influence on household savings in India, both in the long run and short run. The study suggests policy implications that ensure price stability to avoid any disruption in the growth process that will be useful for augmenting savings and sustaining the savings-growth spiral in India. Anad et al., (2016) in an IMF working paper had mentioned that long-term food inflation in India is rated to ranges below four per cent. And the increasing inflation significantly influences in food supply, agricultural produce market cost hike, reduction of agricultural profit or revenue. The rising inflation has significantly

influences the food consumption pattern of Indian families. Nyamekye and Poku (2017) study found that inflation influences on consumers spending is positively correlated with each other.

The reviews provided a brief overview on the rising inflation and its influences on consumers buying, spending and saving efficiencies not only in India, but across the world.

IV.OBJECTIVES OF THE STUDY

Primary aim of the study is to assess the household spending behaviour during inflation period.

V.RESEARCH METHODOLOGY

Qualitative and quantitative research techniques were adopted for effective working of this research article. Desk work form part of explorative research and filed survey form part of descriptive study, it is a fact finding investigation with adequate interpretation.Coimbatore district was selected as the area of the study. Households residing in district were considered as sample. The research work adopted convenience sampling technique for the data collection with the support of well-structured questioner. Survey was conducted among 470 household i.e., families living in Coimbatore district and required data were collected by Appling convenient sampling technique.

VI.EMPIRICAL DISCUSSION

In India outbreak of financial crisis and subsequent recession had a significant impact on households. By 2010, these influences started to unwind, offsetting the impact of rising employment. Most significantly, the effect of inflation in reducing real household disposable income more than doubled between 2009 and 2010. As a result, the real spending power of household incomes has been eroded this in turn effected the household spending and saving to a large extent.

Table: 1
Demographic Profile of the Respondents

Sl. No	Variables	No. of Respondents	Percentage
Gender			
1.	Male	234	49.79
2.	Female	236	50.21
Age			
1.	21 - 30 years	145	30.85
2.	31 - 40 years	188	40.00
3.	41 - 50 years	96	20.43
4.	Above 50 years	41	8.72
Marital Status			
1.	Married	352	74.89
2.	Unmarried	118	25.11
Qualification			
1.	SSLC / Metric	92	19.57
2.	HSLC	73	15.53
3.	Diploma / Technical Education	60	12.77
4.	Under graduate	113	24.04
5.	Professional qualification	36	7.66
6.	Postgraduate	87	18.51
7.	Others (Specify)	9	1.92
Occupation			
1.	Agriculturist	27	5.74
2.	Daily wager	94	20.00
3.	Salaried	165	35.11
4.	Business Entrepreneurs	67	14.26
5.	Households	34	7.23
6.	Professionals	56	11.91
7.	Retired	27	5.74
Income			
1.	Below `10000	149	31.70
2.	`10001 - `20000	145	30.85
3.	`20001 - `30000	124	26.38
4.	`30001 - `40000	43	9.15
5.	Above `40001	9	1.92
Earning Members			
1.	One	116	24.68
2.	Two	223	47.45
3.	Three	105	22.34
4.	Four	26	5.53

Source: Primary Data

The empirical results of the study reveals that among 150 respondents' surveyed, 50.21 per cent of the respondents' are female and 49.79 per cent of the households' are male. It has been inferred that, 40 per cent of the respondents' belong to the age group of 31-40 years. Majority i.e., 74.89 per cent of the households' surveyed are married and 24.04 per cent of the households' in Coimbatore district are found to be under graduates. It has been observed that, 35.11 per cent of the respondents' are salaried employees working in various organisations. Further the empirical results of the study revealed that 31.70 per cent of the respondents' have said that their monthly income falls below `10000. On the contrary 9.15 per cent of the respondents' earn between `30001 - `40000 per month. Out of 150 respondents' surveyed, 47.45 per cent of the respondents' have two dependent in their family and 47.45 per cent of the respondents' family constitutes of two earning members.

Table: 2
Households' Opinion on Planning their Expenses at Times of Inflation

Variables	Sum	Mean	Rank
Spend less on clothes	2350	5.00	1
Cut back on out-of-home entertainment	1845	3.93	5
Save on gas / electricity	2099	4.47	3
Cut down on take-away meals	2192	4.66	2
Switch to cheaper grocery brands	1841	3.92	6
Postponing Purchase	1897	4.04	4
Cut-down Discretionary spending	1780	3.79	7

Source: Primary Data

Most of the respondents' have stated that they spend less on buying clothes during inflation period and they manage the household needs with the available money. Subsequently the respondents' have said that they cut down on take-away meals, save on gas / electricity and postpone their purchases to procure items that are essential to the house. Further it has been inferred that the respondents' have opined that they cut down their out-of-home entertainment, switch to cheaper grocery brands and cut-down discretionary spending to manage the households expenses at the time of inflation of money.

Table: 3
Households' Opinion on Spending of Spare Money after Covering Essential Living Expenses

Variables	Sum	Mean	Rank
Putting into savings	3159	6.72	2
Holidays / Vacations	2673	5.69	6
New Clothes	3117	6.63	3
Out-of-home Entertainment	2818	6.00	4
Pay off Debts / Credit Cards / Loans	3273	6.96	1
New Technology Products	2742	5.83	5
Home Improvement / Decorating	2357	5.01	9
Investing in Stocks / Mutual Funds	2499	5.32	8
I have no spare cash	2315	4.93	10
Saving in Retirement Fund	2628	5.59	7

Source: Primary Data

The sample households' have stated that the pay off debts, credit cards and loans after covering the essential family needs. Similarly the respondents' have opined that they spend the spare amount to save for the future, to buy new clothes and for out-of-home entertainment activities. Subsequently the respondents' have said that they spend their spare money for buying new technology products, holidays / vacations and save through retirement fund. Followed by, the sample populations' have opined that they invest their money in stock market/ mutual funds and buy home improvement / decorating items after covering the household expenses. Whereas a group of respondents' have opined that they were not able to save any amount from their earnings due to the increasing inflation rate which in turn increases the cost of living.

VII.FINDINGS AND CONCLUSION OF THE STUDY

The study indicated that most of the households prefer spending less on buying clothes and manage the household needs. Similarly, the households also try not to spend more on restaurant dining (take-away meals) and fuel or electricity during inflation period. The sample households' have stated that the pay off debts, credit cards and loans with the spare i.e., extra money they have after covering the essential family needs i.e., 69.60 per cent and 67.20 per cent of the sample households tend to save the extra money for future need and to meet future financial commitments. It is true that during the inflation period people tend to save more and spend less on other than basic essentials. The positive effect of inflation results in higher uncertainty causes higher saving among households.

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