



TRANSFORMATION OF CONSUMER SPENDING AFTER COVID 19- THE FIRST WAVE

DR.J.CHITHRALEGA

**ASSISTANT PROFESSOR, DEPARTMENT OF ACCOUNTING AND FINANCE
DGVAISHNAV COLLEGE, ARUMBAKKAM, CHENNAI, INDIA**

Abstract: The sudden outburst of coronavirus in early January 2020 in China, had a negative impact on the economies and industries worldwide, triggering significant economic downturns, failures of companies and industries which increased unemployment. This in turn had an extraordinary variation in the demand and supply that forced the consumers to transform their behaviour towards spending. Based on consumer's decision the market competitiveness, growth and economic unification of policies between states are determined. Due to economic instability, consumers are also undergoing a transformation in their spending. This paper attempts to examine the consumer spending during COVID 19 crisis and after the lock down period. And also attempts to find out whether consumers have been forced to shop differently as well as to discover the products that were purchased by consumers during COVID 19. So, an attempt is made to review the current literature on the effect of COVID -19 on consumer spending in India.

IndexTerms Consumer spending, coronavirus, Covid 19, Lock down spends, expenses

I. INTRODUCTION

The infectious disease Corona virus have become more challenging and more complex to control those effects the whole world economy. On 9th June 2020, there was a report given by WHO which states that the world-wide infections touched 14,348,858 revealing a fatality rate of approximately 4.21%. China was the country where the fatal coronavirus originated that led to increase in the number of corona patients global wide. The pandemic raised uncertainties in India and other countries across the globe that led to a complete lockdown and people had to stay at home to stay safe. Because of lockdown, consumers income decreased and they were left with less money to spend. Many people will be left unemployed and will have less to spend. The fear of infection increased across the world, due to which the regular consumer movement and purchases reduced. Consumers started to shop in new store and in a new way.

Jonas (2013), Stated that the effect ranges from: i) social distancing measures led to forgo of consumption and purchases of certain goods and services ii) Raise of small direct costs such as hospitalisation and medical costs iii) increase in indirect costs like loss of labour production and iv) interruption of services, travel and others. Gourinchas (2020) specified that "modern economy encompasses an interconnected parties such as employees, firms, suppliers, consumers and financial intermediaries which is a complex web. One and all are some one's employee, customer, lender, etc." The Covid 19 has not only created a fear within the consumer but also resulted in uncertainty in spending choices.

Baldwin (2020) stated that Covid 19 impacts the flow of income into the economy. First, people will have less income and thereafter, reduce their consumption and savings. This in turn will reduce investment and lastly lessen the capital stock. Secondly, imports will deteriorate and reduce income globally and bring down the exports. Thirdly, shocks in demand and supply curve will interrupt the national and international supply chains. Fourthly, these shocks will create a reduction in production and demand for factors of production will also reduce. Thus, labour is more affected than capital through reduced working hours or layoffs by lowering their earnings. Hence, this will have an impact on the consumer spending. The major reasons for reduction in consumer spending are, the strict public health measures by the Government and increase in the new infection.

Overall spending habits of consumers in the past months have taken a back seat by a significant margin in comparison to 2019. People have reduced their overall spending nearly by 40% as compared to that of last year. The restart of economic activities has not brought some of the people to their position and they are still at the risk of losing their jobs or losing their salary. In such situation, people are much vigilant about their spending habits. People are only spending on essential items.

II Review of Literature

Prior literature suggests that epidemics such as the Spanish Flu (Almond, 2006; Garret, 2008; Karlsson et al., 2014; Guimbeau et al, 2020), avian influenza (Bruns et al, 2006), SARS (Chou et al, 2004; Hiu et al, 2004; Lee & McKibbin, 2005; Liu et al, 2005; Brahmhatt & Dutta, 2008; Keogh-Brown et al, 2008), swine flu (Rassy & Smith, 2013) and Ebola (Kostova et al, 2004) impose substantial costs on the real economy.

Roser et al., 2020 Timely and reliable data inform the World of how the disease is spreading, what impact the pandemic has on the lives of people round the world and whether the countermeasures taken are successful or not.

Chetty et al (2020) examines weekly consumer spending disaggregated by geographic area, industry and income group. The authors find that following the spread of Covid-19, high-income individuals reduced spending.

III OBJECTIVE

1. To analyse the Impact of COVID 19 on consumer spending
2. To understand how people have adjusted their spending habits during the lockdown period.

IV METHODOLOGY

Secondary research was conducted to review the present status of consumer spending after COVID 19 in India. The data was collected from secondary sources such as published articles, newspaper and research papers.

V OVERALL SPENDING HABITS

The overall spending of consumers during the month of March, April, May and June reduced by 40% as compared to that of last year. Some people are at risk of losing their jobs in spite of restart of some of the economic activities. Such situations are making people to be more alert about their spending habits. Consumer are only spending on essential items. To find out how people have

altered their spending habits in this lockdown, that is in what they are spending more and what they are not spending. Based on this we have categorised their spending in the following three expenses.

1. Groceries/Household Expenses
2. Discretionary Expenses
3. Fixed Expenses

5.1 Groceries/Household Expenses

Consumers have started curtailing their spending due to the fear that the lock down will continue for at least 4- 5months. During the month of April 2019, the spending level of consumer decreased due to strict lock down. Consumers was able to have stock of only essential items because of cut off in the supply chain. Consumers were trying to stock up groceries during the month of April 2019 due to which their spending level increased.

5.2 Discretionary Expenses

Consumers reduced their discretionary expenses such as entertainment, travel, shopping and dining out, since they assumed that their financial future to be unwelcoming. Due to which people clearly identified what is the need of hour expenses. All entertainment avenues were shut down which would have impact on the social distancing norms. Discretionary expenses were the most effected due to the lockdown which came down to 14%. We could find that in the month of May and June a slight increase in the numbers due to a somewhat relaxation of rules of the lock down.

5.2.1 Dining Out

The most hit industry due to Covid-19 is the Food and Beverage industry. All food business and family related dinners were closed owing to the lockdown. Because of which online mode of ordering food through swiggy, Zomato etc became the trend of the situation. Fear among people, made most of the household members to learn and cook at home. This reduced the consumer spending on dining out to 20% as compared to the four months (March, April, May and June) in 2019.

5.2.2 Entertainment

Entertainment expenses also had a serious dip due to Covid-19. People stopped outdoor entertainment and gave an entry into indoor entertainment. There was 70% cut down in their towards entertainment. There was an increase of 10% in entertainment spends from April to June due to adoption of OTT platforms and online games.

5.2.3 Shopping

The spending level on shopping was also severely hit and came down of what shoppers used to spend usually. Online shopping started to resume after relaxation of lockdown rules and the reason behind the fast recovery in the shopping spends was because of heavy discounts.

5.2.4 Travel

Almost all the business activities and offices were closed and all means of leisure travel ceased for the time being. Spending on travel drastically decreased due to the lock down. In some reports, it was stated that travel was the first sector to be impacted and the last to recover. Travel to overseas was almost nil. Later, we can see that there was slight rise in travel expenses because of restart of domestic flights and train services for the people to reach their home towns and villages. People had fear in going outside their house due to the spread of infection.

5.2.5 Fixed Expenses

Rents

There was heavy dip in house rents in the month of April, May and June due to the reason that bachelors vacated their houses and went back to their hometowns to save rental expenses.

rent. Expenses on rent decreased by 15% in the month of April 2019 as compared to March 2020.

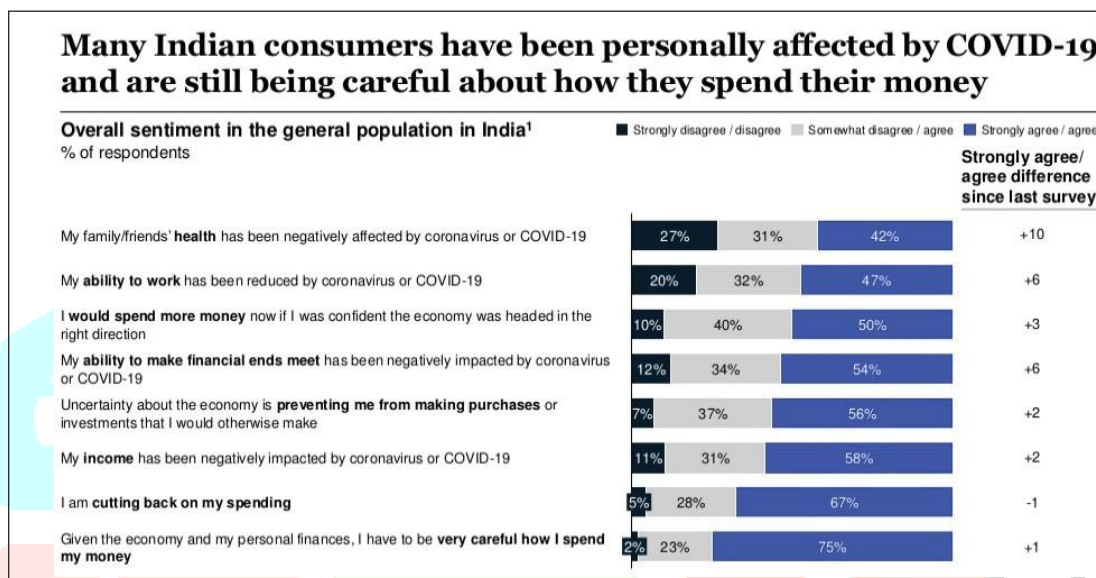
5.2.6 EMIs

EMI payments also diminished in the month of April due to the moratorium facility provided by RBI which was a relief to some borrowers without any interest or penalty being charged.

5.2.7 Insurance Premium:

Insurance played a major role in easing out the difficulties in meeting the hospital expenses during the pandemic. Payment of premium also declined because most of the hospital expenses were paid through medical insurance policies. There was rise in insurance premium due to increase in the hospital costs and insurance companies have to shell out a lot.

Figure: 1, Concern of Indian Population Related to COVID-19

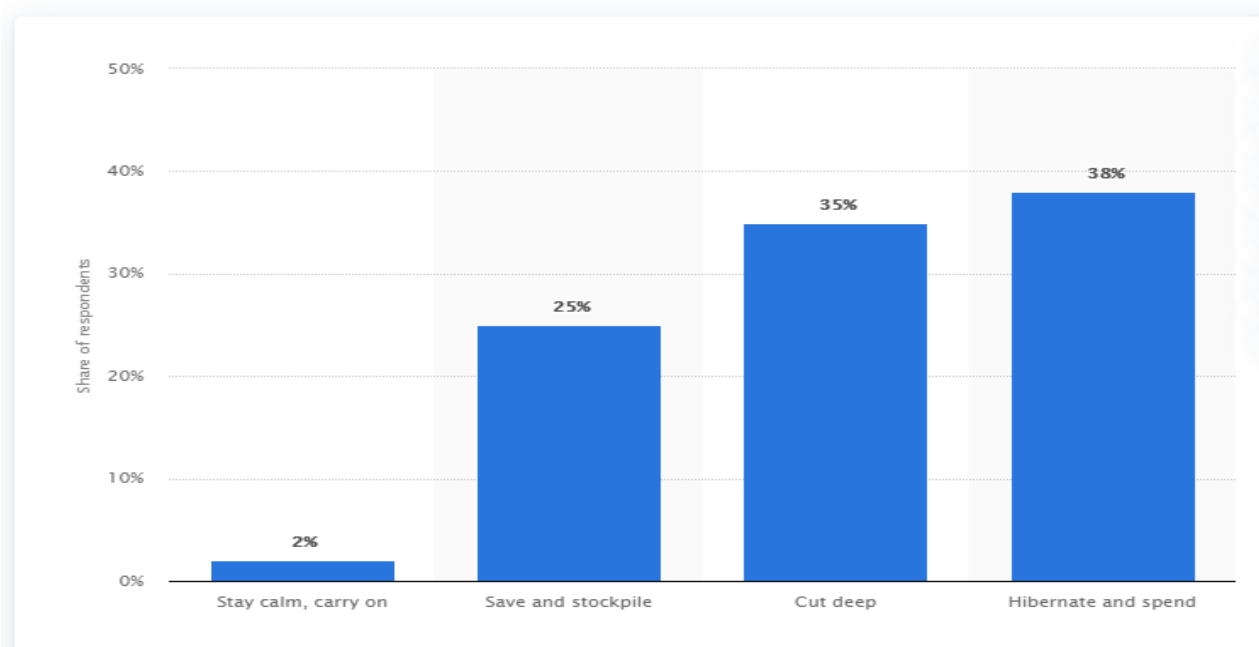


Source: McKinsey (2020).

The above figure confers that there are changes in the consumer spending. 75% of the consumers agreed that they are to be very careful about spending their money and 67% of the respondents reduced their spending. 56% of the consumers, agreed that the uncertainty in the economy is preventing them from making purchases or investment. We can also observe from the above table that consumers and their family, friends' health is negatively impacted by coronavirus and their working ability has reduced and which in turn reduced their earnings.

Impact of coronavirus (COVID-19) on consumer spending behaviour in India in May 2020

Figure: 2



Source: Statista

The above graph represents the impact of coronavirus on consumer spending in the month of May 2020. We find that 38% of the people were worried about the situation prevailing due to covid 19 and have chosen to be dormant and spend. Nearly 35% of the people suffered a lot due to the pandemic and took a decision to cut down their spending.

Conclusion:

The virus effected the health and well-being of individuals that in turn impacted their spending pattern too. Consumer spending contracted by 12.6% in 2020. Consumer spending differed with varied product categories, especially for groceries, there was large increase in spending. Consumers were ready to spend on less discretionary items like groceries and household items. Also spent much on medicines, internet, mobile phone and entertainment spending is less as compared to other items.

The increase in spending was due to panic buying and stock piling behaviour before the commencement of the lockdown period. This study shows the impact of Covid-19 on consumer spending. The impact on consumer spending will tend to continue due to the dip in the economy also. Bringing back of economy to its originality will take much time, which in turn will pose a challenge to the businesses for bringing strategic changes for sustainability.

Reference

Baldwin, R. (2020, March 13). Keeping the lights on: Economic medicine for a medical shock. VoxEU.Org. <https://voxeu.org/article/how-should-we-think-about-containing-covid-19-economic-crisis>.

Chetty, R., Friedman, J.N., Hendren, N., Stepner, M. (2020). How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-Time Economic Tracker Based on Private Sector Data, *Opportunity Insights Working Paper*, May.

Gourinchas, P.-O. (2020). Flattening the pandemic and recession curves. Mitigating the COVID Economic Crisis: Act Fast and Do Whatever. <http://viet-studies.net/kinhte/COVID>

Jonas, O. B. (2013). Pandemic Risk (p. 40) [World Development Report 2014 on Risk and Opportunity: Managing Risks for Development]. https://openknowledge.worldbank.org/bitstream/handle/10986/16343/WDR14_bp_Pandemic_Risk_Jonas.pdf?sequence=1&isAllowed

Roser, M., Ritchie, H., Ortiz-Ospina, E., & Hasell, J. (2020). Coronavirus Pandemic (COVID-19). Our World in Data. <https://ourworldindata.org/coronavirus> https://economictimes.indiatimes.com/news/economy/indicators/five-charts-that-show-how-bad-things-are-for-indian-consumers/articleshow/76416468.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cpps
<https://www.statista.com/aboutus/our-research-commitment>
<https://www2.deloitte.com>