



IMPACT OF COVID19 ON HOUSEHOLD INCOME IN INDIA

Debdutta Choudhury

Associate Professor

Woxsen University, Hyderabad, India

Abstract: Indian economy was under the grip of recession for last one year with the real GDP growth rate expected to fall to 3.5%. The Covid19 pandemic and the resulting economic shutdown has created an unprecedented human tragedy in terms of job loss and income shrinkage. This paper looks at the employment rates and income growth data of India from April to June 2020 and analyses the major trends in the data. The paper also explores the options of the policymakers both from Fiscal and Monetary policy standpoints and looks at the opportunities and constraints of these tools in the current scenario.

Keywords: Covid 19, Employment, Income, GDP, Fiscal, Monetary.

I. Introduction

Covid19, the global pandemic has created a tragedy of immense scale. Thousands have lost their lives; millions are suffering and all across governments have enforced lockdowns to keep the disease at bay. India has emerged as a major Covid19 hotspot and given the country's population density the Government of India had declared lockdown from March 24, 2020 onwards and though the economy has reopened, several sectors like education, entertainment etc. remain closed.

This enforced shutdown of the economy for close to a quarter has really affected livelihood of people in all strata of the economy. The Gross Domestic Product has nosedived, and this has hit the income level of the population. In this paper, I would take a macro view of the household income using statistical data available in public domain and try to analyse the income impact across various strata of the society.

II. Key Issues

We would explore the following key issues.

1. The quantum of job losses and the job market rebound.
2. Comparison of household income between April to June 2019 and 2020
3. Fiscal and Monetary options of the Government.

II. Employment Situation in Pandemic

I have considered CMIE data for week to week employment percentage data data during the pandemic. The data is shown in Table 1.

Table 1: Weekly Employment Rate

Week Ending	Employment Rate%
05-Jan	39.4
12-Jan	40.1
19-Jan	40.5
26-Jan	40
02-Feb	40
09-Feb	39.3
16-Feb	39.5
23-Feb	40
01-Mar	38.6
08-Mar	38.9
15-Mar	39.4
22-Mar	39.1
29-Mar	29.9
05-Apr	27.7
12-Apr	27
19-Apr	26.1
26-Apr	27.9
03-May	26.4
10-May	28.6
17-May	29.5
24-May	29.3
31-May	30.9
07-Jun	32.4
14-Jun	35.7
21-Jun	38.4
28-Jun	37.8
05-Jul	36.9
12-Jul	37.4

Source: Centre for Monitoring Economic Data (CMIE)

The data can be better understood if we look at the following graph (Figure 1)

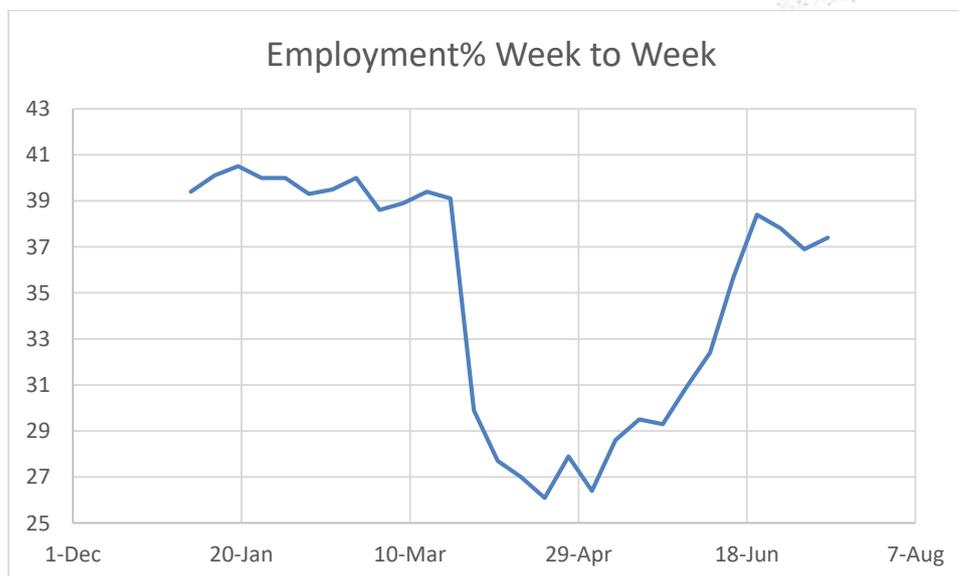


Figure 1: Employment Percentage Week to Week
Source: Centre for Monitoring Economic Data (CMIE)

When we look at the table and the graph we find that though employment scenario was depressed in the month of January and February, it took a big nosedive in the month of April during Lockdown 1.0. It continued to remain extremely down till the unlock started taking place in May middle and continued to recover in June and July coming back nearer to the range in January and February.

If we look more closely, there is a downturn of employment again from third week of June signaling a stall in the employment recovery though the data at the end of 12th July shows some recovery. This is primarily due to stagnation of urban employment as rural employment is being boosted by strong fiscal measure by the Government through the MNREGA scheme. Urban employment is expected to fall further due to intermittent lockdowns announced by the state governments.

III. Household Incomes

I have taken CMIE data to analyse the percentage of households that have reported income growth in the period April to June 2019 compared to April to June 2020 based on various income categories. The data is shown in Table 2.

Table 2: Comparison of Household income percentage in April to June 2019 and April to June 2020

Annual Income Grade	% household that reported increase in Income in April-June 2019	% household that reported increase in Income in April-June 2020
<=36K	12.2	0
36-48K	14.3	0
48-60K	14.7	2.1
60-72K	12.8	1.9
72-84K	18.8	4.8
84-100K	20.7	3.5
100-120K	21	3.8
120-150K	26.1	3.8
150-200K	33.1	5.1
200-250K	35.2	6.7
250-300K	38.2	8.9
300-400K	42.3	10.5
400-500K	46	15.4
500-600K	50.2	12.4
600-700K	51.8	13.3
700-800K	53.9	12.7
800-900K	56.6	16.7
900K-1M	60	15.1
1-1.2M	62.2	11.2
1.2-1.5M	64.3	8.3
1.5-1.8M	63.3	1.1
1.8-2M	65	0
2-2.4M	67.6	0
2.4-3.6M	68.1	33.3
>3.6M	70.9	50

Source: Centre for Monitoring Economic Data (CMIE)

This data is then plotted in a graphical form as shown in Figure 2

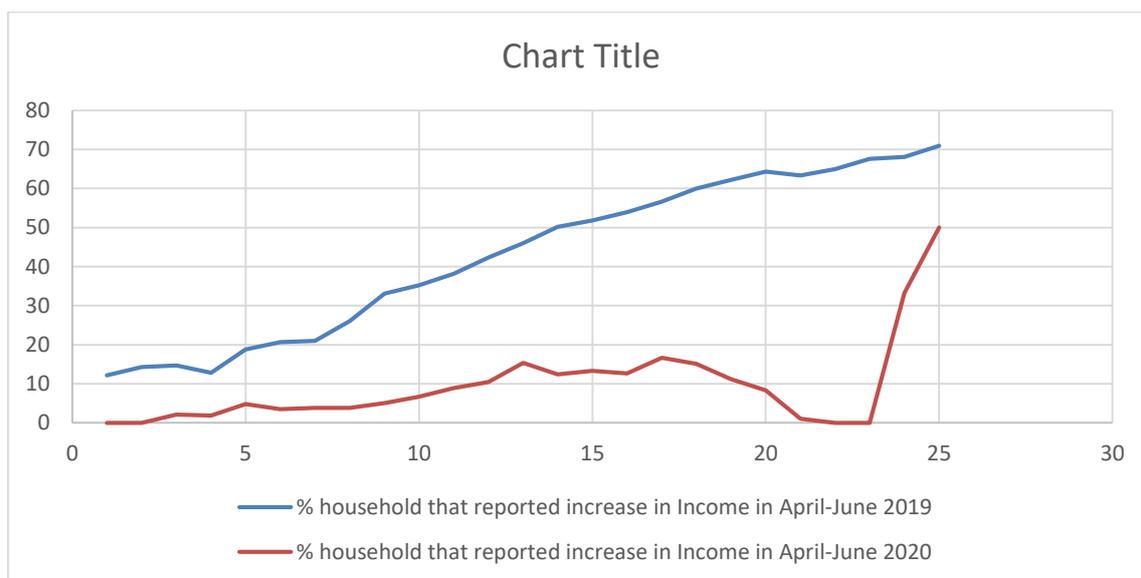


Figure 2: Comparison of Income growth between April-June 2019 and April to June 2020
Source: Centre for Monitoring Economic Data (CMIE)

The above chart shows a sharp fall in income growth across all income categories. This becomes more pronounced as we approach annual income of Rs 1 million till Rs 2.4 million. Above Rs 2.4 million, the CMIE data scientists describe them as outliers since the number of respondents are limited.

This data denotes that though all income categories are affected, the most severely affected are the upper middle class category of annual income of Rs 1 million to Rs 2.4 million. It becomes severe in the range between 1.5 million to 2.4 million where the salary growth is close to zero. Though the data only surveyed income growth, future research may show a severe income contraction ranging from 25% to 80% as reported in the media due to salary cuts and loss of jobs.

At the other end of the spectrum people whose annual income ranges from less than Rs 36000 to Rs 72000 also saw very little growth of income. This denotes another tragedy depicted extensively by media highlighting the plight of migrant and all other blue collar workers of the economy.

IV. Macroeconomic Impact

Indian economy is expected to contract by double digits during the April to June 2020. Though the data is not out yet, there has been sharp contraction of the economy due to the lockdown. Industrial production (IIP) shows a contraction of around 37% in May 2020 denoting an economic slowdown. Though the pace of contraction has slowed and ICRA estimates that June contraction would be around 11%, the economic recovery is still a long way off. This would also adversely impact the return of normalcy in the job market.

V. Options for Indian Government

Under a contractionary economy where there is suboptimal employment situation the options before the government are using both Fiscal and Monetary policy stimulus.

Fiscal stimulus involves government spending as well as tax cuts. The government of India in May 2020 announced a fiscal stimulus of 10% of GDP. However the fiscal deficit of the country has significantly widened with Rs 6624 billion expenditure and Rs 1538 billion non debt earning in the current year. This leaves little room for further maneuvers since a cash constrained Government would not be in a position to spend further. Hence the government's much vaunted fiscal package primarily consists of sovereign backed loans for small and medium enterprises that make the backbone of the Indian economy. With a already muted demand before the Covid19 crisis which resulted in further demand shrinkage, these fiscal measures may not lift the economy to a significant extent. However a tax cut may have a demand impact but the government is unlikely to do that given the state of indirect tax collection in the form of Goods and Services Tax (GST). However the government is actively backing the rural economy with the rural job guarantee schemes like MNREGA which has resulted in the June employment spike. However no such schemes exist for urban poor and they continue to languish.

On the monetary policy front, the central bank, the Reserve Bank of India (RBI) cut the benchmark repo rate from 4.4% to 4% and reverse repo from 3.75% to 3.35%. Repo means the rate of interest RBI charges to the banks for a loan and reverse repo is the interest RBI pays to the bank for the loan it takes. These two benchmark interest rate interventions are primarily designed to increase or decrease money supply in response to inflation and other macroeconomic variables. Lowering these rates signifies pushing up the money supply in the system to stimulate the economy. The only worrying side though is the inflation rate of around 6.58% which the RBI ascribes to supply side constraints due to

lockdown and hopes that this would cool off in the later part of the year. With the interest rate at historical low in a decade and the high inflation, RBI has little room to increase further money supply to boost the economy.

VI. Conclusion

A combination of demand shrinkage, lockdown and income stagnation has created an unprecedented situation in the economy. It is a great challenge to the policymakers to revive employment and improve economic outlook that will revive demand. The government has tried to tackle this situation with both fiscal and monetary stimulus, but it remains to be seen how these interventions play out in the coming months.

VII. References

- [1] Bertrand Marianne, Krishnan Kaushik and Schofield Heather May 2020, How are Indian households coping under the Covid-19 lockdown? 8 key findings. Chicago Booth Rustandy Center for Social Sector Innovation <https://www.chicagobooth.edu/research/rustandy/blog/2020/how-are-indian-households-coping-under-the-covid19-lockdown>
- [2] Knowledge@Wharton, June 2020, How the COVID-19 Lockdown Is Affecting India's Households. <https://knowledge.wharton.upenn.edu/article/covid-19-lockdown-affecting-indias-households/>
- [3] Vyas Mahesh, July 2020. Household incomes hit hard. Centre for Monitoring Economic Data (CMIE). <https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-07-16%2013:48:16&msec=253>
- [4] Vyas Mahesh, July 2020. The June recovery and beyond. Centre for Monitoring Economic Data (CMIE). <https://www.cmie.com/kommon/bin/sr.php?kall=warticle&dt=2020-07-14%2009:27:59&msec=296>
- [5] Franklin Templeton, May 2020. RBI Monetary Policy Review FY 21. <https://www.franklintempletonindia.com/downloadsServlet/pdf/rbi-monetary-policy-review-may-22-2020-k4t99ivm>

