

EFFECT OF PANDEMIC ON CONSUMER INCOME AND CONSUMER CHOICES

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ABSTRACT

The Pandemic has brought immense changes in many areas which directly affect our lives, including our social environment. The major implication of the circumstances created by this virus is especially felt in the economies of different countries. With lockdown coming into effect in the initial (and major) part of the pandemic, humans were obliged to stay indoors. The bustling markets came to a sudden halt, and the producers and shopkeepers were left with no choice, but to shut down their units. Consequently, the working class began facing their dwindling income, as a result of the cessation of buying and selling activities on a large scale. There is a differentiated impact of this on separate classes of people, ranging from the poorest of poor to the richest. Such a condition of diminishing income as well as the outbreak of covid cases collectively brought about certain behavioural changes in consumer choices turning them into a more intuitively driven consumers. I chose this topic for my research paper to explore more on the consumer's change in income and decision making process at a microeconomic level during the pandemic and shed some light on its lasting impact on business models in a post-pandemic world.

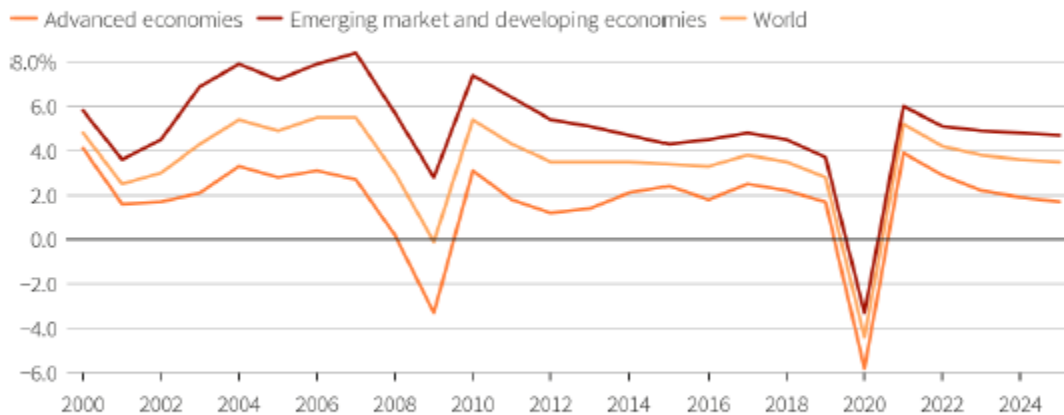
KeyWords: Consumer Income and Choices, Liquidity Crunch, Supply-Demand Shock, Consumption Expenditure, Consumption behaviour, COVID-19 Crisis, Pre-Pandemic Purchasing Habits.

An In-Depth Study On Income Change During The Pandemic

The Big Picture

The global coronavirus recession

COVID-19 brought the global economy to a halt in 2020, but the IMF sees a swift rebound



Note: Data for 2020 and beyond are estimates

Source: International Monetary Fund World Economic Outlook

The impact of the CoronaVirus outbreak is widespread and is evident from the way the economies of almost all the countries fell into a standstill. The year 2019-20 saw the global GDP of countries curb into a state of what can be called as one of the most intense recessions faced since the great depression. Such a situation has led countries to face crises in different areas including the rampant financial instability, health crisis as well as ever growing conditions of job losses, unemployment and perpetual poverty in the economy.

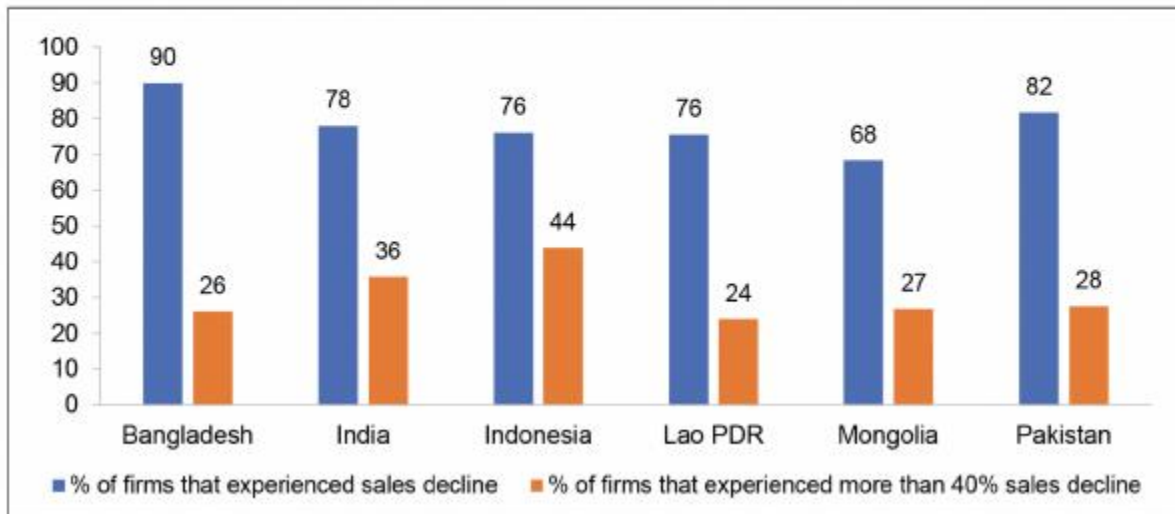
The year 2020 was accompanied by months of lockdown which was implemented as a protective measure to seize the growing cases of COVID-19. The complete shutting down of physical human interaction had grave effects on small business units which form the backbone of the economies of the world. Even the governments have stepped in to enable the revival of the economy by various fiscal policies like getting support to small and medium sized enterprises, extending the tax filing deadlines, deferring payment of the taxes, faster tax refund etc. and monetary policies like changes made to the Repo Rates, Reverse Repo Rates, setting up new limits on LRR and so on. However, such provisions have led to a situation where the governments are now left with a mountain of debt burdens which will take eons to overcome. All of these effects of the pandemic on the macroeconomy of the countries has sent ripples down to the microeconomic functioning as well, leaving behind long lasting impacts on the lives of the working class population of the society.

Effect of Recession on MSMEs

The significance of micro, small and marginal enterprises in an economy can not be denied. They form the foundation of the economy of any country as they are responsible for generating most employment and mobilising the labour force and they additionally strengthen the business scheme, by encouraging the emergence of innovators and entrepreneurs . These are the ones that create over seventieth of the world's employment and contribute approximately half of the GDP worldwide. The result of pandemic and internment has hit these economic units the toughest, inflicting the bulk of those enterprises to either close up operations, close their units briefly or permanently stop their production of goods and services.

Figure 4-1: Percentage of Firms that Reduced Sales in the First Half of 2020 in a Year-to-Year Comparison (Data Are Available Only for the Six Countries)

Sales change and expectation



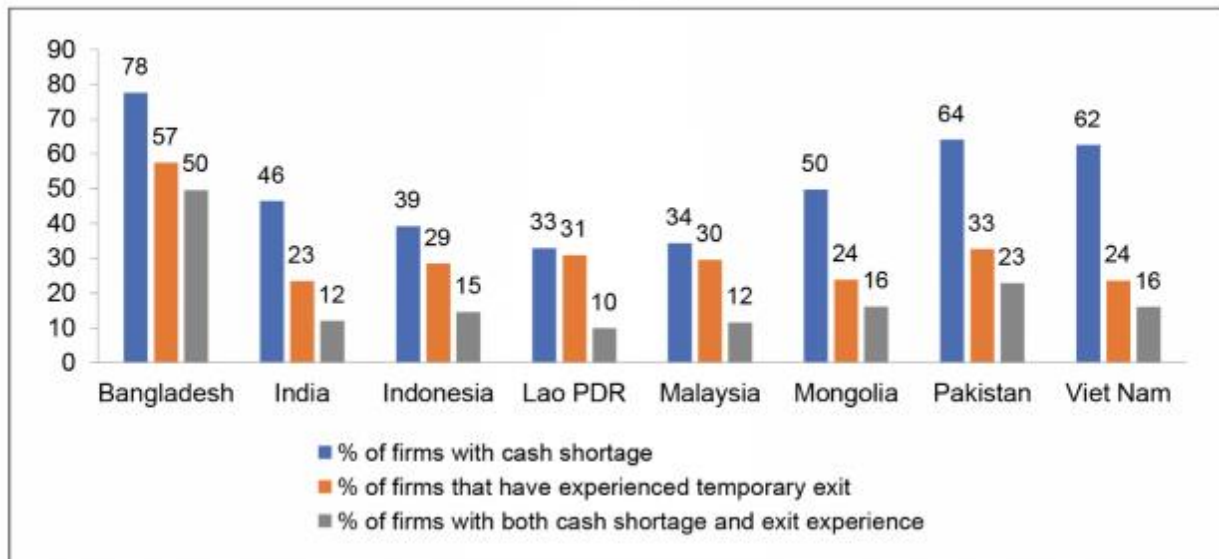
Source: mdpi.com

Impact is seen on numerous aspects of those units like on revenues, demand, cash flows, labour etc. The main hindrance was on the acquisition of raw materials, supply of finished goods, and the employer availability to facilitate the production processes. Consistent with a survey conducted by the International Labour Organization, over seventy fifth of MSMEs experienced a reduction in revenues through 2020. Several of the companies saw a tremendous decline in the incomes of their firms which further led to increase in structural incompetencies. This variation in revenue was chiefly the result of the drastic reduction in the demand for commodities and services with 75% of the companies plagued by reduced demand and with one-third facing a drop in more than half of their customer orders.

Along with these, the MSMEs are also facing a shortage of cash flow or liquidity crunch.

Enterprises operating in essential artefacts related firms were in a comparatively better condition when it involved money flows.

Figure 5: Percentage of Firms that Experienced a Cash Shortage and Temporary Exit



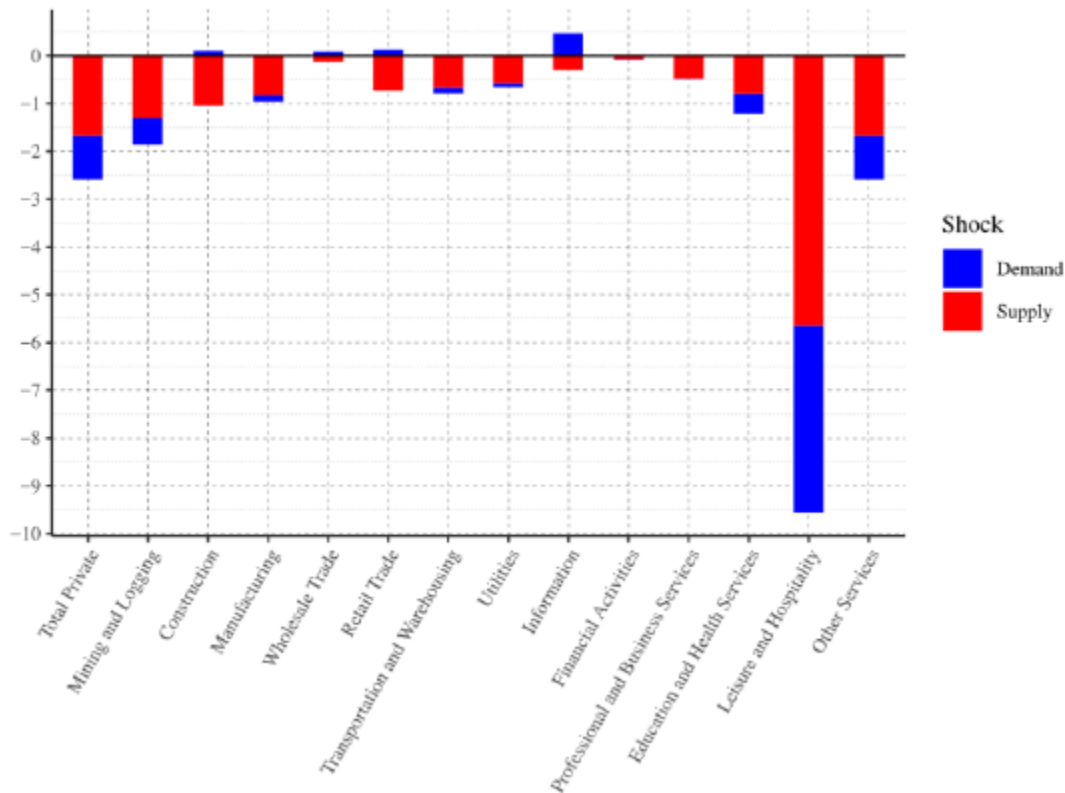
Source: mdpi.com

MSMEs situated in remote areas had to suffer more as they had to experience interrupted supply chain management and intrastate lockdown provisions. Impacts were additionally felt on the labour force. In lines with the data surveyed by the International Labour Organization, seven out of ten firms have reduced production capability because of a lower range of staff, who are either on leave, are working temporarily, or have a reduced operating hour. Nearly one-third (30%) of corporations report a shortage of employees ensuing from containment measures, family care responsibilities, or concern of infection.

How the Pandemic has Affected the Supply-Demand in Economy

The pandemic has resulted in a supply followed by a demand shock in the economy. A supply shock is something that decreases the ability of an economy to produce goods and services at the given prices. Supply shock can also be termed as labour supply shock as production processes in business units have been highly affected due to mortality and morbidity caused by the virus amongst the population. This supply shock has in turn led to a demand shock. A demand shock is a sudden unexpected event that dramatically increases or decreases demand for a product or service which is usually temporary in nature. This change in demand can vary depending upon

the type of commodity and service we are considering. The change of demand for one good can be both positive or negative for the derived demand of other goods. For example, closing of businesses such as movie theatres can shift the demand towards streaming services. However, when businesses like tourism stop functioning, demand for luggage and travel related goods will also reduce.



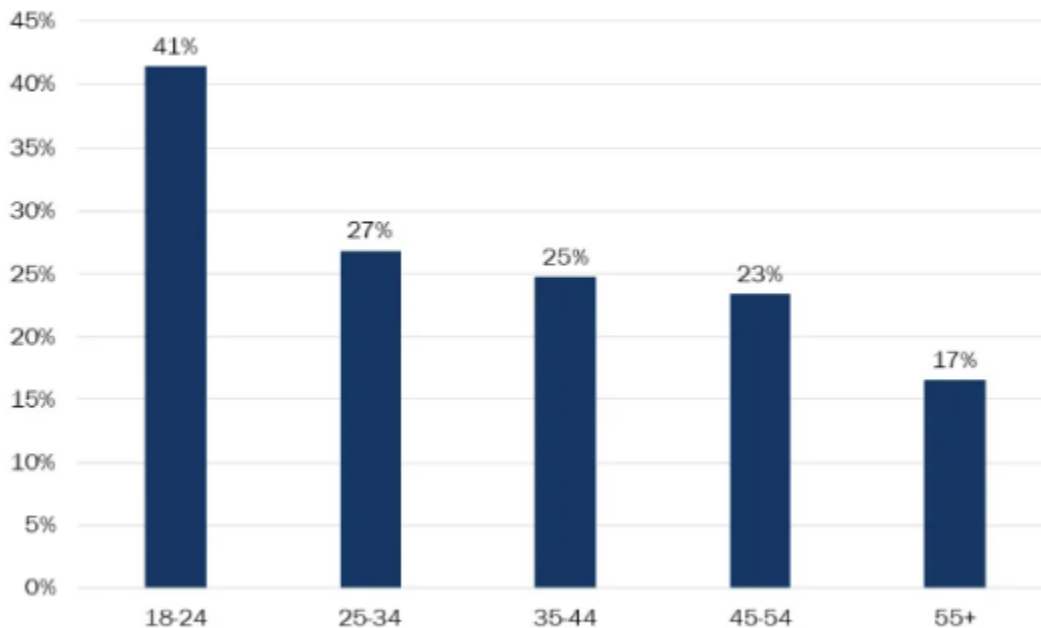
Source: vox.eu.org

At the trade level, sectors like transport have the possibility to be output-constrained by demand shocks, whereas sectors involved in production activities, mining, and services are more likely to be constrained by supply shocks. Recreation, restaurants, and tourism face enormous supply and demand shocks. At the occupation level, we tend to show that high-wage occupations are comparatively immune from adverse supply- and demand-side shocks, whereas low-wage occupations are far more vulnerable. A number of corporations were affected more than the others. Some enterprises came up with ways of shifting focus from non-essential commodities to essential commodities, just like the production of hand sanitizers, masks, PPE kits etc.

Impact of the above Conditions on Income of People

The inefficiency and closing down of many small and micro companies, reduction in revenues, lower productivity of employees, absence of cash flow, as well as the drastic reductions in supply and demand of commodities have all collectively resulted in the decreased wages offered to employees for their factor services in the economy. Since the transfer of factor income to households has reduced, household sectors do not have sufficient income to put into consumption expenditure. Workers in shuttered industries lose their spending power, because of which, the demand in all sectors also drops. During the pandemic, the wages of even unaffected workers were reduced, which caused the dampening of consuming activities.

Figure 3. Percentage of respondents reporting COVID-19-related job or income loss, by age



Source: COVID-19 Survey, Wave 1 (April 22–May 12, 2020), Social Policy Institute.

BROOKINGS

Due to the recession of 2020, many countries have experienced a contract of per capita income in the largest fraction globally since 1870. The shrink in the PCI of the advanced economies also led to the plunge in developing countries, who had to deal with the outbreak of the virus domestically. The Covid-19 recession has caused a 20% income drop in the households. According to data published by Statista, this income drop could lead half a billion people to be pushed into poverty worldwide.

Effect Of Pandemic On Consumer Behaviour

Changes in Consumer Sentiments

Along with the above discussed aspects, the pandemic has also had an impact on the behaviour and sentiments of the consumers, which widely varies from country to country. Most of the consumers across the world have shown a difference in behavioural trends that existed in the pre-pandemic era due to social distancing and lockdown. The change in sentiments is majorly influenced by variations in income, demand and supply of commodities, as well as change in priorities and values during the pandemic.

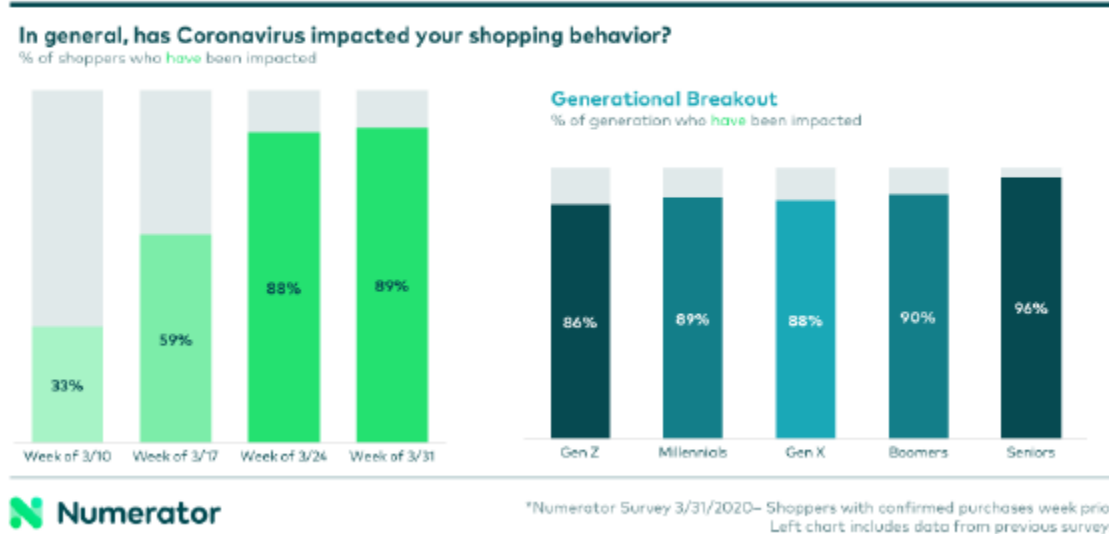
Consumption is a process which is habitual in nature, and gets developed over time. It is location and time bound and can be predicted easily. Any difference in consumption behaviour can rise due to change in context in which they are placed in. According to a research paper published by Mr. Jagdish Seth, these contexts are of four types:

The first one is change in the social context like shifting to a new place, having children, getting married etc. Facing changes in the life events including community, workplace, friends, neighbours and relatives can develop new consumer habits or cause modifications to the existing habits. The second one refers to the technological context. Due to constant innovations and breakthroughs in technology like the internet, smartphones, online shopping platforms etc. there has been tremendous changes in the purchasing trends of consumers and has immensely impacted traditional ways of shopping. The third context includes rules and regulations relating to environmental and social well being and health concerns. For example, prohibition of smoking, fireworks according to the location. The fourth and the last context is the natural calamity under which the Covid-19 outbreak is also included. Consumption habits are also affected by the recessions and depressions of the economy which disturb the demand-supply cycle and disrupt the production processes and supply chain management. The following paragraphs discuss the short term as well as the long term impact of the pandemic on consumer behaviour.

Due to impositions of lockdowns worldwide, physical visits by the consumers to stores have contracted dramatically. Because of this, consumers have shifted to alternatives that could enable them to have access to commodities and services right in their homes. Consumers now have flexibility over their schedules and can indulge in consumption activities according to their own comfort. Digital mode of consumption has become a necessity. E-commerce sites like Amazon, ebay etc. have seen a rise in engagement of their customers. Services like Zoom have also proven to be a convenient mode for transmission of services like schooling and consultancy. According to data published by Numerator, almost 87% of shoppers placed online orders for delivery

between March 2020 and December 2020.

COVID-19 Impact on Consumer Behavior

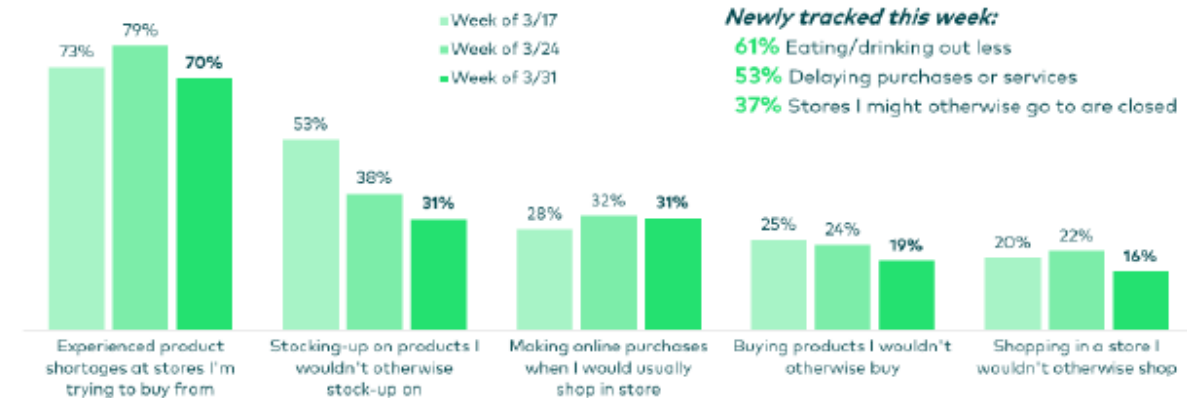


During the pandemic, consumers have opted for hoarding the commodities that are essential to their use. The economic and social impacts of the pandemic like unemployment, poverty, rise in price, declining purchase power, all of them influence the way a consumer behaves in the market. Due to the lockdown situation, going out of the house and buying these commodities was not possible, and the uncertainty of the situation led the consumers to keep stock of the basic goods required for the household and cut off the non-essential items. The crisis has caused the value of money to increase for consumers, hence, they have also changed their behaviour in a way that the purchase and consumption of certain goods and services are delayed by them. These can be commodities of luxury like automobiles, accessories, homes and estates. Services such as parks, theatres, salons also lose demand in the short run. The pandemic has also resulted in the consumers to become more creative and innovative with their budget constraints. Through this process, the already existing habits of the consumers are discarded and are replaced by new and innovative ways of fulfilling the needs and demands of the consumers. Due to activities conducted like schooling, and offices being shifted to the four walls of the house of the consumer, demand is being created for goods that can prove to be helpful for both the work and life balance, hence there has been a blur in the line between work and home. To summarise, consumer behaviour during the time of Covid-19 crisis has become much more analytical and economical in a sense that they are engaged in information processing tasks which would enable satisfaction of their domestic wants with their dwindling income by searching for better

alternatives to pre-pandemic purchasing habits.

Shopping Behaviors Affected by COVID-19

How has COVID-19 impacted your shopping behavior?
% of shoppers

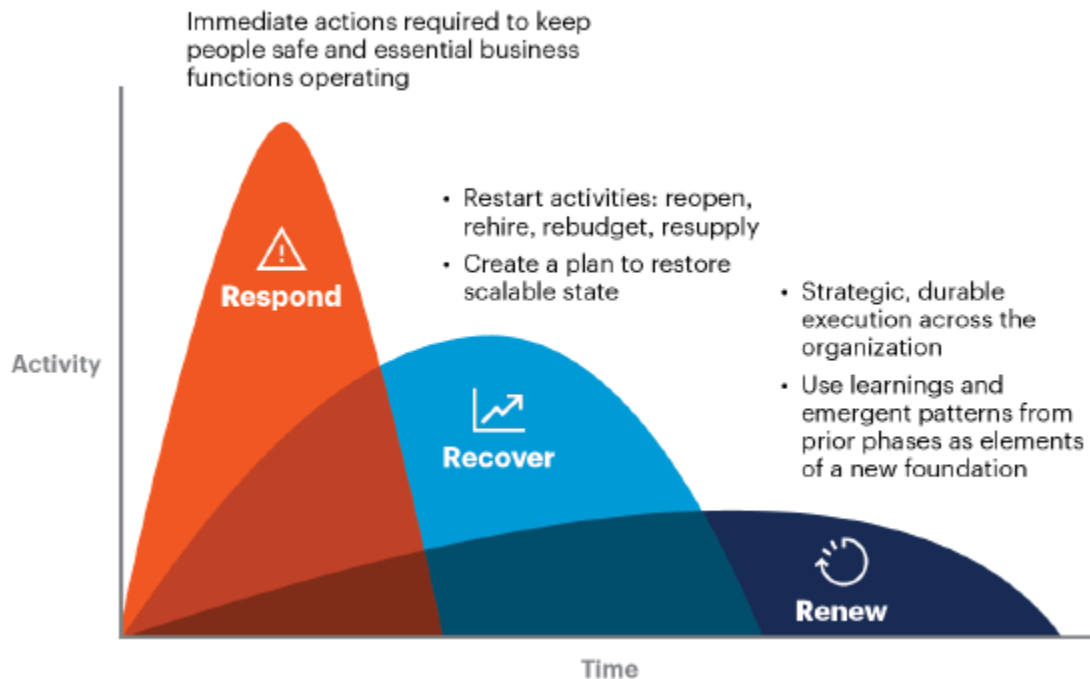


*Numerator Survey 3/31/2020– Shoppers with confirmed purchases week prior
Includes data from previous surveys

New Business Models to Facilitate the Change in Consumer Behaviour

As the behaviour of the consumer changes, so do the business objectives and methodologies of various companies in order to earn profits in line with these changes. Some companies have gained a stronger position than others by systematically understanding the change in habits of their customers. Companies have started improvising on their models by adapting multifarious modifications like transitioning to cloud-computing methods, to allow easy access of their commodities and services to the customers via a virtual mode. Firms have also started to identify specific products which will be likely to grow or contract in the near future, and opt for digitization to improve their scope of niche businesses and broaden their market base. Many companies see a crisis as an opportunity to take thought-out risks and create novel competitive positions by investing more than their peers and sensibly relocating their capital. The pandemic has also generated the need for new workforce skills required for the sustainability of businesses, especially social, emotional and cognitive abilities in the employees.

The following diagram showcases a typical business action plan through the course of the Covid-19 crisis:



Source: gartner.com

Will the current consumption behaviour patterns revert to their original forms?

The new adaptive behaviours of consumers during the crisis has proven to be beneficial for the current situation, however, once the borders open up, and everything returns back to the normal way, the following scenarios are likely to take place:

Some of the pre-pandemic habits will be re-established once the world is out of crisis. These majorly include the consumption of tourism, hospitality and other similar services which enable social interaction. People for long have been staying inside the four walls of their houses, and unlocking borders after the decrease of COVID cases will stimulate a rise in demand for leisure and entertainment related commodities and services.

During lockdown, consumers have found better alternatives to traditional consumption activities, which are more suitable for the current situation, are easier to have access to as well as mitigate

the complex procedures of shopping which existed before the pandemic. Hence, such habits are the ones which are more likely to die out once the situation normalises again, as people will give more preference to the alternatives that were generated during the pandemic. For example, consumption of streaming services are expected to generate high demand even after the pandemic, and going to movie theatres and halls might reduce.

Another possibility is the modification in the consumer behaviour habits. Customers will revert back to those behaviours but with additional cautious measures like wearing of masks in public places, constant use of sanitizers and maintaining basic social distancing norms. Such protective actions while indulging in consumption activities will turn into a habit of the consumers.

Public authority and the Government also play a significant role in determining the change in the behaviour of the people. New rules and regulations implemented by such authorities can influence the decision making power of the consumers. For example, constant checking of the temperature, tests conducted for detecting the presence of virus will become a common scenario and are especially practiced in service providing places like airports. It is also a possibility that some of the pre-pandemic habits will become redundant in nature, but will continue to be followed as a form of leisure activity or a hobby. For example, due to the increase in access to so many websites to shop from, physical shopping activity might just turn into a peripheral habit, recreation or an outdoor venture instead of being a conventional activity that it used to be some years before.

Conclusion

In a nutshell, the pandemic has had adverse effects on the lives of people, especially their economic lives resulting in conditions which aggravated situations of poverty, unemployment and reduced sources of income among people. Small economic units which form the pillar of our economic system were hit the hardest by the crisis and led the market cycle to come to a standstill. Household sectors began experiencing dwindling factor income which drastically reduced the purchasing power of employees. All of these factors have resulted in one of the strongest recession seen in recent years. In order to cope up with the changing environment, consumers brought about changes in their existing pre-pandemic behaviours, like switching to online mode of shopping, hoarding of essential commodities, allocating money in a more economical manner based on their budget constraints, cutting off of non-essential items etc. Demand and supply shock had a negative impact on small businesses, hence, new models were curated to combat these changes as well as function in lines of new consumer habits adopted by people. The current scenario is seen as a short-term deviation from the normal lifestyle, however, many aspects of these changes during the pandemic are likely to persist, the greatest example

being the ease and comfort of online mode of consumption activities. Many consumer habits and economic activities of the past are also likely to be re-established once we get out of the crisis, but this will be accompanied by modifications as well as addition of newly created practices by people.

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