

Icbfot 01 - Income Based Spending Patterns– A Necessity Rather Than Option Among The Middle Class Families In Chennai City During Covid -19 Caused Economic Slowdown

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Abstract

Economic problems have accelerated after the government announced Covid- lockdown as early as in march 2020. Unemployment among urban middle class families is on rise; more than 1.8 crore salaried jobs in the country were lost during the ongoing pandemic. Economic disruption has resulted in a sharp decrease in job numbers this year; stolen a minimum of three to six months salaries almost across all industries. Salaried jobs have been preferred due to better job security and regular income. The middle class and lower middle class represent nearly 60 % of the total number of households in India and contribute around 70% share in consumer spending. In the present deeply troubled situation, Chennai's middle-income families are devastated and find themselves in a limbo. Nothing works for this group which can otherwise hike demand or push spending. Trim the Foot to fit the Shoe. Out-of – home activities declined and the consumption pattern changed. Any failure of expense -control efforts will weaken the relations in the middle class families and affect the very family system in long run. After all, conviction is always not a matter of convenience. The present study attempts to study conditions of Chennai's middle class households and gauge the efforts to bridge the gap between income and expenditure of the family during covid pandemic.

Introduction:

Retrenchment, Pay-cut, Tailoring the allowances are not familiar terms in majority of corporate houses earlier. The recent Covid lockdown has made these words much more familiar among all the employees in private sector irrespective of their industry. Losing of jobs can be seen among employees across industries. Experience, expertise and efficiency which were counted for recruitment and retention

earlier, now given way only for CTC in a majority of organizations. Added to the turmoil, and then came a natural disaster in the name Nivar cyclone. The middle class families all over the state of Tamil Nadu are affected worse in financial terms. In a thickly agriculture based state, when farmers hesitate to invest in agriculture and even fertile lands are converted into plots for construction, naturally the laborers employed in it, must move out to nearby towns and cities for livelihood; to those places are highly affected with the effects of Covid lockdown. People- educated or illiterate, rich or middle class or poor, all communities march to state capital- Chennai. Already being a ballooned city, Chennai now finds no space for ever-increasing incoming population; not only from within the state but also from neighboring Andhra Pradesh, Telangana, Kerala and Karnataka. Facilities like underground water, public transport, housing have not increased in proportion to increase in living population (nearing 1 crore). Cost of living for a decent lifestyle increased enormously; generating the sources of income towards this end, is pretty much tough. The jobs which guaranteed stable, secured and reasonable income once, now characterized with pay-cut or sudden job loss. And as per latest reports, the Central Government is contemplating increasing employee contribution to PF, ESI etc., which will reduce take home earnings. The breadwinners of the family (either of the spouse or both of them) is stressed with pressure of keeping the jobs intact first and then tailoring the family expenses within income generated. Given the fact that Covid- lockdown stolen a minimum of three to six months salaries almost across all industries already, the present study attempts to study conditions of Chennai's middle class households and gauge the efforts to bridge the gap between income and expenditure of the family during covid pandemic.

Review of literature:

AmulyaPandit (2020) stressed "While spending on food and beverages as well as health goods and medical services is seen going up this year, compared with 2019, spending on transport, clothing and footwear and other miscellaneous goods and services is going to come down, as many people are working from home. With fewer opportunities to step out, is it for work or family functions and parties this year, apparel sales are expected to decline around 25 per cent, while footwear sales are seen down nearly 30 per cent. "These are difficult times for consumers and therefore we have seen a lot of themes as part of value consciousness from the consumers..... there is mindful consumption,"

Mahesh Vyas (2020) "The long-term trend seems to be of falling labour participation rates, falling employment rates and rising unemployment rates. The lockdown has made the situation worse. I

do not see any correction to this worsening labour market conditions. India is not generating sufficient jobs to arrest this deterioration,”

Joint statement by ILO, FAO, IFAD and WHO (2020), “The pandemic has decimated jobs and placed millions of livelihoods at risk. As breadwinners lose jobs, fall ill and die, the food security and nutrition of millions of women and men are under threat, with those in low-income countries, particularly the most marginalized populations, which include small-scale farmers and indigenous peoples, being hardest hit.”

McKinsey & Company’s Consumer Survey (2020) concluded “While the uncertainty from COVID-19 persists throughout the globe, its impact is felt differently across countries. As a result, there is significant variance in how consumers respond to the crisis and adapt to the next normal. Consumers intend to continue shifting their spending to essentials, while cutting back on most discretionary categories.....However, In India, consumers report a higher intent to spend across categories as they prepare for upcoming festivals (Diwali, for example) and the wedding season, which runs from October to December.

Rishi Dhariwal (2020), “In the last 10 years, we became used to life where wants overshadowed needs. Brand ambassadors, advertisements, films nurtured our demand. We were consuming something we didn’t require, and it gave us superficial pleasure. But that is about to change. Our purchases will show preference towards our needs- groceries, Health & Hygiene, clothing, etc. While our desires- leisure and luxury purchases –are bound to take the backseat for a later time. Hence Gross Domestic Product will take a hit, but India’s Gross Happiness Index will be at an all-time high”.

Effect of Lockdown on Income level of Middleclass:

No doubt Covid19 and cyclone induced economic slowdown impacted Chennai’s middle class employment and household incomes badly. Centre for Monitoring Indian Economy, showed that the incomes of India’s middle class have been worst hit by the pandemic and it could worsen if the situation does not improve.

“The hit on incomes during the lockdown is felt across the household income spectrum. The worst hit are the middle classes and the upper middle classes.....Middle income households, particularly at the higher income levels, have suffered much more, because they had a lot more to lose. Their loss is in excess of 30 percentage points,” said a report from the centre.¹

Generally salaried jobs have been preferred among Chennai's middle class due to better job security and regular income. Salaried jobs stagnated all over in India from 2017-18; the recent economic disruption has resulted in a sharp decrease in job numbers this year. Economic problems have accelerated after the government announced a lockdown as early as in march 2020. Unemployment among urban middle class families is on rise; more than 1.8 crore salaried jobs in the country were lost during the ongoing pandemic. 'A professor of an engineering college is making murukku in the kerosene stove on the roadside' near Neyveli, Another teaching family (husband a post graduate in engineering and wife undergraduate in engineering) shifted to roadside biriyani point in Chengalpattu and opines that they don't want to return to teaching', 'an employee of IT company is selling vegetable in a moving vehicle' , 'a supervisor of a leading textile shop in Chennai is selling breakfast and dinner food items , an executive of big financial firm started small provisions stores', are some of the examples for how lockdown played with the lives of people and changed their jobs.

The crushing blow of pandemic- lockdown can be seen in all industries; from agriculture to construction, textile to hospitality, tourism to IT, service to medical and from aviation to automobile and so on. No doubt agriculture is a gambling in the hands of monsoon in India. But present condition for farming in Tamil Nadu is killing gambling in the state. Investment in agriculture and its allied activities is not secured and always return is at high risk. Nobody prefers it; as much as possible to be away from it. Salaried employments in many sectors have taken the hardest hit; not just in terms of loss of jobs but also huge Pay cuts (50% to 75%). Many companies recovering from lockdown follow a cautious approach; prefer to hire on temporary basis or on contract rather than permanent appointment. In the education field, the recommendation of UGC to private colleges, shift II and constituent colleges to pay a minimum of 28000, 18000 and 15000 to qualified teaching staff is yet to be followed by many private arts and science colleges in Tamil Nadu including Chennai. There is a major decline in middle class households' savings in the last eight months. Indebtedness is a common and severe problem among the middle class households in Chennai. For survival, mortgages of assets and pledges of jewels are the common scenes among the middle and lower middle class families in the city.

The average traders and small industrialists, who were facing multiple challenges out of GST and demonetization, got severely affected by the pandemic .They disclose that presently they do only 20% to 30% of their pre-covid business and honestly feel that their financial position worsened and took them back ten years. They opine, given the length and continuity of covid pandemic, it will take a minimum of three to five years to recover from opportunities lost and business losses. The farmers

already hit by covid lockdown; is once again gone down in their life curves due to Nivar and Puravi Cyclones. Normally, irrespective of rain, this is busy period for farmers in the state with ready for peak activities and keep the crops for harvest nearing Pongal festival in January.

Expenditures controllable /uncontrollable:

In tailoring the expenses to limit within the income levels, It is imperative to classify the middle class family expenses into Controllable and Uncontrollable from angle the of necessity and elasticity.

Controllable expenses:

Controllable expenses include the items of expenses which can be controlled and tailored according to the wish and to suit income levels.

Shopping (Apparels, ornaments etc.), home appliances, furniture, holiday spending, get together(birth day ,wedding day etc.) expenses, Purchase of Online food expenses, weekend non-vegetarian food expenses, refreshment expenses, travel, newspaper expenses, Cinema theatre -going expenses, Beauty Parlour expenses, alcohol consumption,

Uncontrollable expenses:

Uncontrollable expenses neither be controlled and not tailored according to the wish and to suit income levels

Rent or housing EMI, Medical expenses, Food expenses, electricity expenses, attending close relative's functions and ceremonies, LPG cylinder, Fuel for two wheeler and car, children education fees, servant maid wages, grocery, cell phone/ internet charges, Mask and sanitisers expenses,

Income effect on erstwhile spending pattern:

The initial covid-19 caused stay-at-home buying behavior of middle-class consumers was confined to essential grocery items, vegetables, medicines and disinfectant and antiviral items. Then there was a phenomenon called Panic buying- a rush for buying essential items. Both of these trends were characterized by 'fear of unavailability of goods' rather than the real financial condition. Given the fact that per capita income is likely to reduce by 5.4% in the financial year 2020-2021 which is higher than the nominal GDP decline of 3.8%. ² The shrinking income effect on spending behavior started to emerge only from June. Expenditures are inevitable to maintain a decent standard of living-But controlling them is essential given the uncertainties in income levels and difficulties encountered. Trim the Foot to fit the Shoe. The economic downturn has forced the middle class families to reprioritize the

necessary items and to plan discretionary purchases in next few months. Besides, the new labour wage code, which will become effective from April 2021, proposes restructuring of employee's salaries allocating 50% of gross pay to basic component. This will rise the contribution to PF, gratuity and other retirement benefits, reduce (by 5% to 10%) net take-home pay. With hardly any help from the government besides the loan moratorium and extended time for resurgence of economy, out-of – home activities declined and the consumption pattern changed. Undoubtedly, the middle-income families which are devastated now and find themselves in a limbo.

Conclusion:

Covid-19 pandemic affected the lives of people all around the globe. In December 4th week of 2020, there were around 8 crore virus confirmed cases; and over 17 lakhs people died due to the virus. Adding to the troubling situation, recently a new variant of corona virus has been identified in England. Even the employees working in Government (Transport, Electricity, Metropolitan corporation, Metro water) and in relatively secured private jobs (Hospitals, Courier, labs) are feeling that they risk their lives on the compulsion from employers or want of income. The middle class and lower middle class represent nearly 60 % of the total number of households in India and contribute around 70% share in consumer spending. The middle class families in Chennai is the major source employment to sizeable economically weaker sections by creating demand for few commodities (flowers, vegetables, water cans etc.) and some services (Plumbers, electricians, housemaids' bike technicians, tailors etc.). Undeniably, in the present deeply troubled situation, nothing works for the middle income group which can otherwise hike demand or push spending. The moratorium facility offered by banks on housing and other loans is only a postponement of expense with accumulating interest. Any failure of expense - control efforts will weaken the relations in the middle class families and affect the very family system in long run. Blessing in the disguise, there is huge decline in the demand for products from China. It will increase consumption, demand and production of domestic goods and services. Job creation is picking up in few sectors. Some ousted employees of erstwhile companies, started their own small scale units with borrowings and own savings. Many traders have reshaped their business activities to suit the changing consumer behavior; and also the market trends. It is wise for the struggling group, to look at the prevailing situation in totality and make a holistic approach to lead a stress-free and happier life.

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