Financial Impact of COVID – 19 on Middleclass Families in Kerala

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ABSTRACT

This paper explores the effect of Covid-19 on the finances of middle-class families located in Kerala, India. Covid-19 pandemic has made a harsh impact on every areas like physical and mental health, financial state etc. in both youth and adult individuals. It also affected the economy of the country negatively. The lockdown implemented in the state has resulted in an unprecedented loss of employment in all sectors of the economy. Non-essential services and production where directly affected by the lockdown; which led to other things such as reduction in the number of hours worked and job losses. Many people lost their job due to lockdown. This has affected the income of people especially the middle-class people and whose income is on daily basis. Here we discuss about the financial impact of Covid-19 on middle class families in Kerala.

Keywords: Covid – 19, Financial Impact, Middleclass, Savings, Income

INTRODUCTION

The world has been experiencing a rare disaster of Corona Virus (Covid-19) since December 2019. Most of the countries in the world have implemented quarantines and social distancing practices to contain pandemic and implemented lockdown. The Covid-19 has spread to 215 countries and territories in the world. The Covid-19 has created multiple crisis in several fronts, health, travel, economy, finance, production and output, employment and unemployment, prices, emigration and remittances, fiscal situation of government.

The outbreak of Covid-19 brought social and economic life to a standstill. The economic impact of the 2020 Corona Virus pandemic in India has been largely disruptive. India's growth in the fourth fiscal year 2020 went down to 3.1% according to the Ministry of Statistics. According to Nomura India Business Resumption Index economic activity fell from 82.9 on March to 44.7 on April. Unemployment rose from 6.7% on 15 March to 26% on 19 April. During the lockdown, an estimated Rs.14 crore (140 million) people lost employment while salaries were cut from many others. More than 45% of households across the nation have reported an income drop as compared to the previous year. The Indian economy was expected to lose over Rs.32000 crore (US$ 4.5 billion) every day during the first 21 days of complete lockdown, which was declared following the Corona Virus outbreak. Up to 53% of business in the country were projected to be significantly affected. Those in the informal sectors and daily wage groups have been at the most risk. A large number of farmers around the country who grow perishable goods also faced uncertainty. Major companies in India such as Larsen & Toubro, Bharat Forge, UltraTech Cement, Grasim Industries, Aditya

Birla group, BHEL and Tata Motors have temporarily suspended or significantly reduced operations. Fast-moving consumer goods companies in the country have significantly reduced operations and are focusing on essentials. Various business such as hotels and airlines cut salaries and laid off employees. Revenue of transport companies such as Ola Cabs went down nearly 95% in March – April resulting 140 layoffs. It was estimated that loss of tourism industry will be Rs. 15000 crores (US$ 2.1 billion) for March and April alone. The effect of Covid-19 was devastating on Indian economy. Many people lost their jobs and livelihood because India went into nationwide curfew for 2 months straight. In addition to this, even government was badly affected as well as there were no funds with the government as everything was closed. Government revenue has been severely affected with tax collection going down, and as a result the government has been trying to find ways of reducing its own cost. It became so bad that government were not able to pay income of government employees on time. The 68 days national lockdown in India has inflicted severe damage on all sectors of national and states economy and pushed the economy to an unprecedented recession. The IMF forecasts that Indian Gross Domestic Product (GDP) will register a negative growth of 4.5 in the fiscal year 2020-2021. The domestic economic activity has been impacted severely by the two-month lockdown and subsequent restrictions. The Centre for Monitoring Indian Economy (CMIE) estimated that Indian unemployment rate increased to 24% for the week ended 17 May 2020. The rural unemployment was 23% and urban unemployment rate was 27%.

In Kerala also there was lockdown of 69 days. The lockdown of 69 days may be classified into three phases based on the restrictions imposed and relaxation allowed. The first phase of 27 days, (March 24 - April 29) a lockdown similar to curfew was implemented in the state. All Central and State Government offices commercial and private establishment and transport services were closed. All modes of passenger transport namely road, rail, water and rail were stopped. All educational institutions, places of worship, functions and gatherings were stopped, except few essential services such as shops dealing with food, ration shops, bank and ATMs, Telecom services, delivery of foods and medicines, power supply etc. All other producing service and training activities came to a halt. In second phase of lockdown of 14 days (April 20- May 3) a few relaxations and in the third phase of 28 days (May 4- May 27) more relaxation was allowed. The lockdown implemented in the state has resulted in an unprecedented loss of employment in all sectors of the economy. Non-essential services and production where directly affected by the lockdown which led to other things such as reduction in the number of hours worked and job losses. Many people lost their job due to lockdown. This has affected the income of people especially the middle-class people and whose income is on daily basis. Here we discuss about the financial impact of Covid-19 on middle class families in Kerala.

OBJECTIVES

- To analyze how pandemic affected the lower and upper middle-class families financially.
- To decipher effect of Covid-19 on family budget planning
- To know how the financial behavior of middle-income group changed in the post- lockdown period.
- To find out the changes in the perception about financial independence of middle-income segment.

RESEARCH METHODOLOGY

The study employs descriptive and exploratory methodology, as the investigations still are in the early stages to analyse the financial performance of middle-class sector during the pandemic. This study is conducted by collecting data through Google forms, since we are still in a pandemic situation. The URL of Google form was circulated via various medium like email, social media etc., and both lower and upper middle-class families were included in the population. The classification was done using the annual income of the family. In each category there were 30 samples. The total population for the study was sixty. The study is limited to the geographical area of Kerala, India. Non-probability sampling technique was being used to undertake this study. Both close-ended and open-ended questions were used. The data analysis method used is descriptive statistical measures such as percentages and frequency distribution which will show the response rate. Data were collected within a month. Participants were given a brief about the study. Priorities were given as to whether a participant wants to take part or not. Data were also collected from secondary sources. Secondary data collection is done through sources like E- Journals, Newspapers, various magazines etc.

REVIEW OF LITERATURE

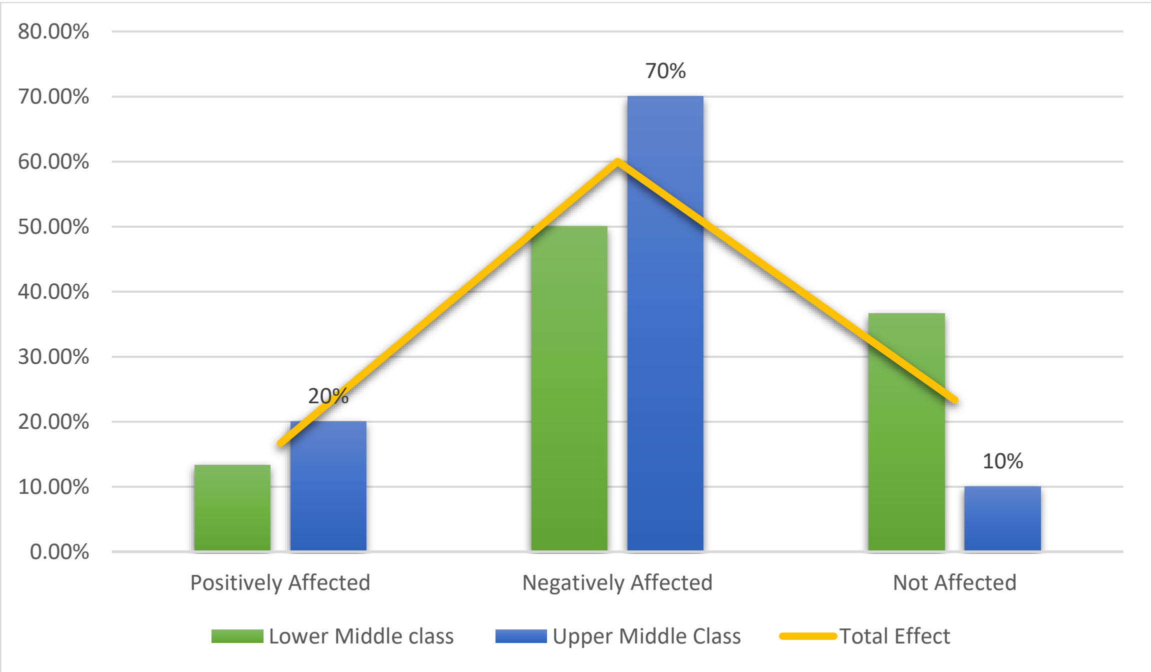
Monika Gupta & Shubhi Bansal (2020): Covid-19 has brought the life of every individual to a stand-still. The middle class is in majority in India the capable members in the family keep earning on monthly basis contributing to the monthly household income and keep and on managing the activities as per house hold budget. But the Covid-19 outbreak disrupted the way the middle class was managing household financial activities before outbreak. Owing to prolonged lockdown all over the world many of them have either lost their jobs or are on the verge of losing their jobs. It has really put a big question mark on the life of all the members in the house. Most of them are either paying EMIs of house or education loan, the basic necessities. It is completely dark everywhere. More over shopping list of essentials has been changed. Masks, gloves, sanitizers are occupying space above food and education. This is how Covid-19 has disrupted the monthly spending of the household. Government and corporate are coming up in front to support them in the house hold needs.

Mohamed Buheji (October 2020): The outbreak of Covid-19 pandemic led to unprecedented challenges to both the lower and middle-class that shacked their average income and created disruptions in the efforts of eliminating absolute poverty in almost all the countries of the world. An increasing proportion of the world population is under threat of not having a majority of stable or what could be called a middle class. This means many communities might not find a way out of the vulnerability condition or the risk of being poorer and could suffer the consequences of unstable socio-economic spill overs of the pandemic. In this paper we review the status of the lower middle-class and the requirements for a middle-class.

DATA ANALYSIS & FINDINGS

Effect of Covid-19 on Source of Income

	Positively Affected	Negatively Affected	Not Affected	Total
Lower Middle Class	4	15	11	30
Percentage	13.33 %	50 %	36.67 %	50 %
Upper Middle class	6	21	3	30
Percentage	20 %	70 %	10 %	50 %
% Of Total	**16.67 %**	**60 %**	**23.33 %**	**100%**



We can say that the Covid-19 had a negative effect on the middle class. It affected the source of their income badly, there were also families which remained unaffected by the pandemic and some who have made an

	No savings	Below 10%	10% -15%	15% - 25%	Above 25%	Total
Lower Middle Class	4	8	13	3	2	30
Percentage	13.33%	26.67%	43.33%	10%	6.67%	50 %
Upper Middle class	0	2	8	11	9	30
Percentage	0%	6.67%	26.67%	36.66%	30%	50 %
% Of Total	**6.67%**	**16.67%**	**35%**	**23.33%**	**18.33%**	**100%**

increase in their monthly income during Covid-19. The families which are negatively affected by the pandemic were those people who have relied on the small private sector jobs, self-employment and small-scale business etc. Many of them lost their job and many had a deduction in their salary and incentives, many of them had to shut down their business. The contract and temporary employees will also come under this category, they had zero income in terms of salary/wages during the lockdown period. The public sector employees had zero to minimum effect on their source of income as their salary remained intact, but those people who have invested their savings in areas like stock market had suffered a loss during the period and which in turn affected their income. That is one of the reasons why there are more families who are negatively affected in upper middle-class category. Lower middle-class people tend to invest in safe areas like fixed deposits, mutual funds, gold etc. The business people who were concentrated in certain field like cycle shops, pet's business, electronic & communication services, online tutors etc. had a positive effect on their source of income during covid since their demand increased immensely during the pandemic.

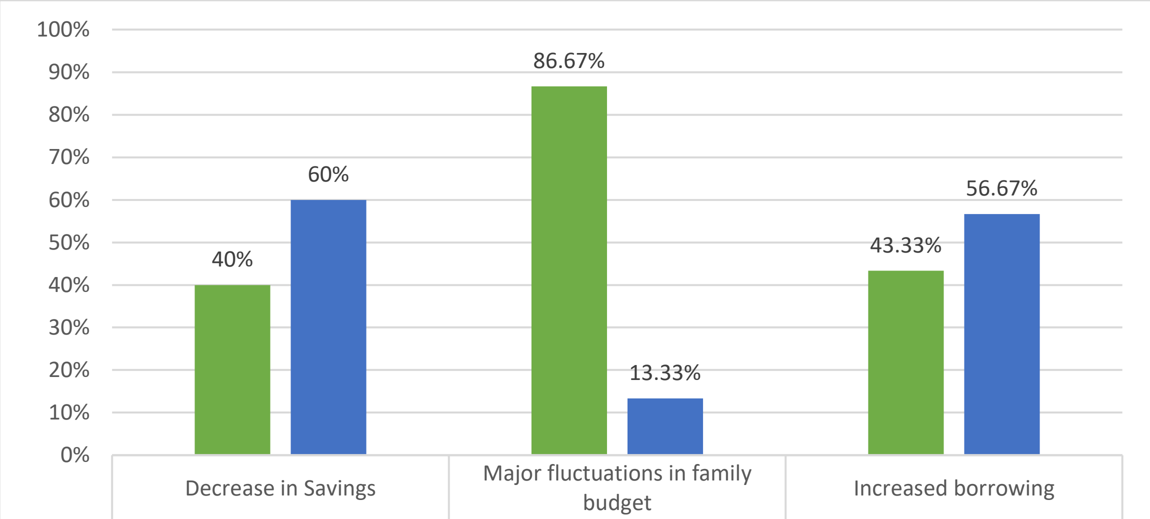
Rate of savings

The savings pattern of middle class is very much complicated. Here the middle-class sector is divided into two on the basis of World Bank's classification. Lower-middle – $1,026 to $3,995, that is Rs. 70,137 to Rs. 2,73,098. Upper-middle – $3,996 to $12,375, that is Rs. 2,73,167 to Rs. 8,45,955 for easiness of calculation we have rounded off the amounts 70,137 to 1,00,000 to2,73,098 to three lakhs and 8,45,955 to ten lakhs.

The pattern of savings depends upon the nature of job, level of financial education and the burden of liabilities. Due to these factors the savings pattern changes drastically from household to household and average age of the family is also a deciding factor. In the lower middle-income category, there were respondents with no savings, this is mainly because of the huge liabilities they have, like multiple loan repayment, rent, educational expenses etc. and at the end of the month their accounts will be in deficit. This lockdown and the pandemic affected this category severely, since most of them are employed in blue collar jobs and which is not in public sector, many had lost their job and many had pay cuts. These people are withstanding with the support of government and NGOs. Of the remaining, majority is able to save up to 15 % of their monthly income. Their savings are mostly in fixed deposits, gold, post office savings schemes, chit funds, insurance etc. This category of people also have some liabilities but not huge ones and majority of the people are in their forties. Their expense on food, clothing and children's education are on the higher side and they cannot afford to save more than 15 %.

The people who are able to save more than 15 and 25% are mainly in their late 20s and early 30s. They does not have any liabilities, have own house to live, living expenses are minimum since the family mostly consist of husband and wife or a child. So, these people can save most of their monthly income. When we move on to upper middle-class sector there is nobody who doesn't save. It is to be noted that majority of the upper middle class is able to save more than 15% of their monthly income, their area of investment different from lower middle class. Most of them like to invest in mutual funds, SIPs etc. and the upper crust is more interested in shares as they can afford the risk element in it. In total majority of the middle class is able to save between 15 to 25 % of their income.

Changes in Financial Behavior during the pandemic – Lower middle class



	Decrease in Savings	Major fluctuations in family budget	Increased borrowing
Yes	40%	86.67%	43.33%
No	60%	13.33%	56.67%

From the analysis we were able to find that the pandemic has affected the savings pattern of some people. The pandemic affected the rate of savings of the people who used to save up to 15 % of their income, negatively. It is basically because these people have more liabilities and their income is not of a permanent nature, some of them lost their job, some had pay cuts. It is to be noted that majority says that pandemic have affected their family budget. Some of the respondents had to suffer loss in share market, many of them got realization that nothing is permanent. All these factors have directly and indirectly affected the family budget. Some of them started to save more since the coming years are unpredictable, some families try hard to meet the ends. The people who had lost jobs or had pay cuts had to borrow money or they had to rely on other sources of income to move on.

Changes in financial behavior in the post lockdown period (Multiple choices were allowed*)

This is a time of realization for many. Since the second wave is throwing tantrums over the nation, everybody is of the opinion that many unpredictable things are yet to come in the future. On this belief they are trying their best to exist peacefully in this world. As a result, many had raised their rate of savings compared to the period before pandemic. Some respondents have identified secondary sources of income like farming, sale of organic products, pet business, YouTubing and a rise in number of social media influencers etc. Everybody is doing all possible things to live without financial dependency. Most of the people have at least started to think about financial independency, but we can say that most of them were unable to reduce their reliability of debts.

How Covid-19 changed the perception about financial independence

Freedom means different things to different people, whether it is free-falling from the plane, deciding to retire early and travel the world, or being able to support oneself without relying on others. But covid-19 has taken away many of the freedoms that was taken for granted. For many us, it has curbed the sense of financial freedom, whether it is because of a sudden job loss or salary cut, or the sick economic landscape. Financial freedom, itself, acquires different meaning for people at various life stages and age groups. We looked at different categories of people in the upper and lower middles class sector to understand how the pandemic has impacted their financial lives and the way they perceive financial freedom now. For those who are just starting their careers, the pandemic can be a barrier for putting any plans of moving out and living independently. Many young professionals who lived away from home for work had to return home to save

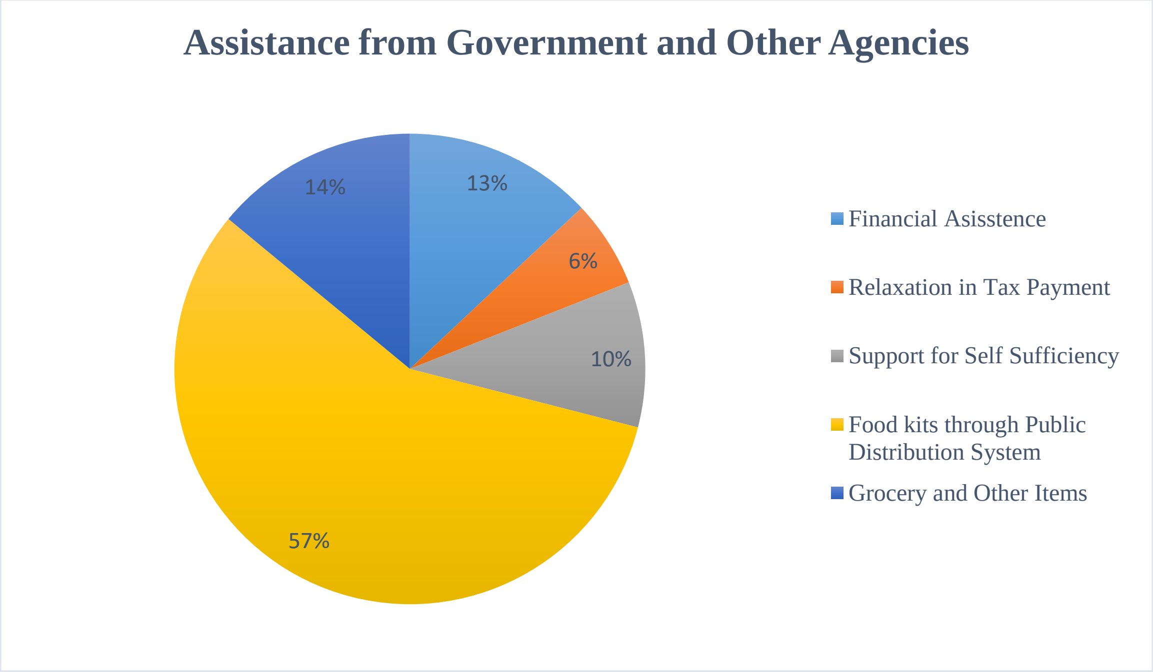
	Increased the rate of savings	**Identified secondary source of income**	**Reduced the dependency on debt funds**
Lower Middle Class	30	16	1
Percentage	100 %	53.33%	3.33%
Upper Middle class	13	19	0
Percentage	43.33%	63.34%	0

on costs and be close to family. Any plans of pursuing higher education or committing to large expenses such as buying a car might also have to be postponed. “This is not the time to plan anything big or ambitious. One has to come to terms with plans being put on hold and just wait it out till the situation improves," said Shilpi Johri, certified financial planner and founder of Arthashastra Consulting.
For those who are in the middle age, the economic consequences of the pandemic have been harsher. With many losing their jobs or taking a pay cut, servicing home loans, paying children’s school fees and funding the myriad household expenses can take a huge toll. In such a scenario, over-reliance on your employer can be dangerous. “To be free is to make sure you have enough of an emergency fund to see you through income loss and adequate insurance other than what your employer provides," said Johri. She added that it makes sense to keep your options open professionally, as well as to keep re-skilling. Financial planners warn against over-reliance on one’s employer for cash flows and insurance, especially in 30s and 40s. In case of a job loss, you might find yourself without adequate savings or necessary insurance, which has been the case with many salaried employees recently.

For retirees, if they had all their finances sorted out before the pandemic hit, it can tide them over this difficult period without having to worry about money. But according to Shweta Jain, CEO and founder, Investography, a financial planning firm, new retirees who started investing in equities recently could have taken a major hit. “I have a new client who booked losses of 30% in equities before consulting me. He had just retired and started investing in equities because he had the time and money for it. Now he is reconsidering his whole financial plan and trying to single out unnecessary spends, which he has never felt the need to do before," she said. Jain added that since cash flow from your job ceases after retirement, it’s very important to build a large enough corpus in reliable instruments that will keep your interest income steady. Creating an additional income source can also be helpful, but keep in mind that some options like rental income have become uncertain in covid-19 times. Also, given that the elderly people are more at risk of succumbing to covid, having adequate health insurance is more important than ever. For them a sense of financial freedom is very important. Finding more liquid investment is very important in that scenario

Assistance from Government and other Agencies

The figure below shows the proportion of the assistance received by the respondents from Government and other agencies



SUGGESTIONS AND CONCLUSION

- It is highly imperative that the government should boost emergency funds by reserving a pool of cash to afford our necessities during events like this. Last time we saw that the emergency funds of many states were not enough to tackle the situation. Even the largest order made by Indian government for vaccine is not enough to vaccinate 4% of the population. So, Government should identify new strategies to create more emergency funds.
- Government should provide more assistance in the form of financial policies favorable to the middle-income group of the country, like noticeable tax reductions and exemptions, subsidies, secure investment opportunities, affordable health insurance programmes etc.
- It is noted that lower middle-class families were more affected by the lockdown and this is mainly because of the lack of savings, so more financial awareness should be created among them about the need of savings, regardless to how small their income is.
- Since we live in an uncertain world it is always better to identify a secondary income. Because it is proved in the pandemic situation that we cannot rely on single source of income. Job loss and pay cuts may occur at any time so people need to find ways to generate income in every worse situation.

- Employers should consider creating special contingency funds to help its employees in unforeseen events; instead of implementing terminations and pay cuts they can use these reserve funds during these unforeseen times.
- Governments should focus on self-sufficiency on every essential commodities and other emergency goods. If the states are not self-sufficient, they would not be able to provide its people the essentials in these unpredictable situations. This will affect the middle class more, because they always rely on the government for essentials because they will not be able to store or pay inflated prices in scarce situations and in those times, they get it for an affordable price from the Government.

Our world is in a very critical situation due to Corona Virus (Covid-19) pandemic. The financial, mental and health situation of the people is severely affected by Covid-19 and lockdown. It has created multiple crisis in several fronts, health, travel, economy, finance, production and output, employment and unemployment, prices, emigration and remittances etc. With outsized representation in powerful segments of society like the media and the bureaucracy, it is rare for India's middle classes to be at the receiving end of government policy. However, India's covid-19 lockdown –seems to have temporarily put an end to that arrangement in one sector - income growth.

From the survey works done by the economic research firm Centre for Monitoring Indian Economy found that all Indians suffered a notable loss in income growth during the lockdown months of 2020. However, the worst hit were middle class and upper middle-class Indians. The data that CMIE is using in this analysis is the proportion of households who report an increase in incomes compared to previous year. The study takes into account the proportion of households who report a rise in income during the lockdown months of April-June 2020 to the data from a year ago (April-June 2019).

For respondents who earned less than Rs, 4,000 per month – or Rs 48,000 annually – not a single one said that their incomes had gone up during the lockdown months. For people earning less than 6,000 per month, only 1% reported an income increase. However, the same figure for April-June 2019 was 14% – implying a fall of 13 percentage points. This gap keeps on increasing as incomes increase. In April-June 2019, more than half the households earning more than Rs. 5 lakh per year had witnessed an increase in their incomes compared to the previous year. During the 2020 lockdown, that figure dropped to less than 15%. At the Rs. 10 lakh per annum mark, there is a sharp drop in households reporting income rise during lockdown. In the Rs. 18 lakh-Rs. 24 lakh per annum bracket, not a single household reported income growth during the lockdown. This fall is dramatic. The figure for 2019 was 65% for Rs. 18 lakh-Rs. 20 lakh households and 67.6% for Rs. 20 lakh-Rs. 24 lakh households. When most of the Indian states are now on another lockdown period the above discussed data is very important, another negative impact will make the situation worse than previous year. The middle-income group in India is one of the largest source employment and cash flow for economically weaker sections, making them an integral part of India's recovery.

In the present situation, nothing seems to be working in favour of the middle-income group, with hardly any help from the government besides the loan moratorium. Though, many argue that the middle class needs a lot more than just a moratorium if the country seeks faster revival of economy. A stronger middle class would boost demand or push spending. The economic package announced by the government focused on economically weaker sections of society. They needed urgent help. However, for a holistic recovery of Indian economy, the government needs to find ways to support the middle-income families, who now find themselves in a limbo.

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