

CONSUMPTION PATTERN OF EMPLOYEES AND IMPACT OF COVID 19 ON INCOME AND CONSUMPTION

¹ Reshma Suresh Pullatt ² Dr. Sheeba V.T,

¹ PhD Scholar in Economics; ² Research Supervisor, HoD & Asst. Prof. Dept of Economics

^{1&2} NSS Hindu College, Changanacherry

^{1&2} Mahatma Gandhi University, Kottayam, Kerala, India

ABSTRACT

In economics consumption denotes the use of goods and services by households. It is distinct from consumption expenditure which is the purchasing of goods and services for household use. Consumption is an important economic activity which has a major role in both micro and macroeconomics. It is the beginning of all economic activities. Consumption is positively related to income. Household consumption data helps economists to understand spending behavior, changes happened overtime and other economic variables. Adam Smith opined that consumption is the sole purpose of all production. Among Indian states Kerala stands out in consumption pattern in many ways. As per the data of NSSO Kerala holds the top position in consumption expenditure in India (NITI Aayog 2017). Kerala figures first in average monthly consumption expenditure in both urban and rural areas. Employees constitute a significant section in consumption process. This particular study focuses on public sector employees and private sector employees. Covid 19 pandemic has affected almost all categories of people. So, this particular study aims to find out the consumption pattern of employees and impact of covid 19 on them

Key Words: Consumption Function, Household Consumption, Employees, Permanent Income, Covid 19

CONSUMPTION PATTERN OF EMPLOYEES AND IMPACT OF COVID 19 ON INCOME AND CONSUMPTION

INTRODUCTION

Consumption is the use of goods and services. The study of consumption behavior plays a central role in both microeconomics and macroeconomics'. The term consumption should be reserved for the using up of services yielded by a good, while the act of purchasing it is consumer expenditure. (Rosalind Levacic and Alexander Rebmann,1979). The analysis of inter-relationship between consumption expenditure and level of income cannot be attributed to Keynes alone. Even in much earlier literature of Adam Smith the reference was made to consumption function. Ernest Engle, on the basis of family budget studies in 1857 formulated the law of consumption which specified the changes in consumption behavior of the people in response to changes in their income. Consumption is positively related with income. When income increases consumption also increases. It is an integral part of aggregate demand which makes it easy to understand economic conditions and formulate suitable economic policies.COVID-19 has tremendously impacted the lives of people the effect of which is still continuing.According to the Centre for Monitoring Indian Economy (CMIE), salaried jobs took a big hit during the COVID-19 lockdown, with the total loss estimated to be at 18.9 million during April 2020-July 2020.Kerala has the paradoxical situation of high social indicators along with poor economic growth. In Kerala service sector is the major contributor to state GDP. Employees both govt and private constitute a significant segment in consumption process.

IMPORTANCE OF THE STUDY

In consumption Kerala exhibits characteristics, which are alien to the rest of India and world. Most of the goods consumed are from outside the state. People of our state spend a significant portion of their income on consumption. In Kerala, employment in organised sector showed downward trend with a decline of 4 percent from 2000-2016 due to the surfacing of informal sector. As per the data of State Planning Board within the public sector 47 percent are in state govt,10 percent in central govt,22 percent in state quasi-institutions,5 percent in local self govt institutions and 16 percent in central quasi-institutions. In Kerala, employment in the organised sector has remained more or less stagnant, showing only a marginal increase from 11.15 lakh in 2010 to 11.73 lakh in 2017. The reason behind this

trend is due to the movement of labour force to the informal sectors like construction, real estate, textiles communication etc, which provides more employment.

The organised sector comprises private and public sectors and it is noteworthy that private sector employment is steadily increasing since 2011 onwards. In 2017, out of 11.73 lakh persons employed in the organised sector 5.60 lakh (48 per cent) are in the public sector and 6.13 lakh (52 per cent) are in the private sector.(https://spb.kerala.gov.in/economic-review/ER2017/web_e/ch412.php?id=41&...)

A high proportion of socially and economically weaker sections are engaged in unorganised sector. As per NSSO survey 37.7 percent were self-employed in Kerala. Employees of unorganised sectors have low job security and paid holidays. A study on consumption pattern will throw light on how people of different income level spend income for consumption and how they adjust it during different economic situations. Covid-19 pandemic has affected almost all sections of society. This study aims to find out the impact of covid-19 on employee's lives

OBJECTIVES

- 1.To study the consumption pattern of public sector employees and private sector employees
- 2.To analyse the impact of COVID-19 in consumption behaviour of employees.

METHODOLOGY

The study is mainly based on primary data which is collected using a well-crafted interview schedule among employees of Kottayam district. Among the districts, Kottayam (Rs.3162.56) had highest rural MPCEMMRP (Modified Mixed Reference Period) .50 employees were taken for the study in equal proportion from both government and private sectors using random sampling method. Supplementary materials were taken from government reports, online sources, thesis etc. All the data have been classified, stored and tabulated for giving more clarity to the study

THEORETICAL BACKGROUND AND RELATED STUDIES

Keynes demonstrated the theoretical significance of consumption income relationship. According to him consumption is determined by current disposable income

$C=a+bYD$ where c =real consumption YD =real disposable income with $a>0$ and $0<b<1$.

He presumed that marginal propensity to consume lies between 0 and 1 and is known as fundamental psychological law of consumption

Duesenberry (1949) refined the arguments of Brady and Friedman (1947) to form the relative income hypothesis. Persistence in consumption patterns is explained by the tendency of households to keep up with the Joneses, the demonstration effect and the irreversibility of consumption function, the ratchet effect.

Friedman (1957) recognised the presence of transitory and permanent elements in consumption and income. According to him, transitory shocks do not affect consumption fundamentally and consumption was proportional to permanent income.

$$C = aY_p$$

Where, Y_p is the permanent income and a , the proportionate factor.

Modigliani, Ando and Brumberg made a significant contribution by incorporating wealth in the model to explain the consumption smoothing behaviour of individuals over the life time in tune with the entire resources at their disposal.

“COVID-19 Implications on Kerala’s Consumption Pattern” by Sancy K Jose (Modern Diplomacy July 31 2020 Edition) notes that due to lockdown only essential goods were available in the market thus minimizing the consumption of non-food items. However, consumption of medical products increased during this time. Durables were less consumed due to closed shops. Education sector was in chaos because it is linked with transportation, health, food, stationary and many more sectors. When the transportation was at standstill consumption pattern had serious short-term impacts and will have further impacts on long run too. The reason is that when consumers fail to turn toward these sectors, they will have no demand for related products resulting in no production. Consumption of pulses had increased even though total food expenditure has declined. More than 50% of households have spent very low on consumption due to reduced income, they depended on ration shops. Consumption pattern curve shifted from consumer friendly to accepting what is available in the market i.e., from luxury to essential.) The Kerala State Planning Board has prepared a report that assesses the impact of Covid-19 and the consequent lockdown on the state’s economy. The report estimates a loss of about Rs 80,000 crore in Gross Value added to the economy for April-June(Q1) The report makes a sectoral assessment of the huge impact of the pandemic and the

lockdown. (https://spb.kerala.gov.in/sites/default/files/2020-09/cov19_qck_asmt...)

LOCKDOWN AND EFFECT ON KERALA ECONOMY

Lockdown resulted in unprecedented loss of employment in all sectors of the economy. As per the Assessment of the impact of COVID-19 Pandemic and Lockdown on Kerala Economy April to June 2020 conducted by State Planning Board, the loss of person days of employment for 98 days (March25-June 30). The impact of the lockdown was most severely felt by casual labourers and self-employed workers. Almost all activities came to halt except trade of essential items and agricultural activities. A good portion of workers engaged in some type of regular employment in private sector also lost their jobs. The only category who was not affected was government employees.

In the first 2 phases of lockdown almost 90 percent of migrant workers who worked in construction and other sectors lost their jobs and remained unemployed. The wage loss for the workers in the informal sector in the state was estimated to be 24,713.9 crore during first and 2nd phase of lockdown. The corresponding measure of loss of wages for the rest of lockdown period was estimated to be 19406.9 cr. The labourers in plantation sector had a loss of 3.3 million days of employment. (State Planning Board Report)

ANALYSIS OF DATA

A pilot study was conducted among employees of Kottayam district about their consumption pattern and impact of COVID-19 pandemic, the results of which are analyzed below. 50 samples, 25 each from government employees and private employees were taken for the survey

Consumption Function

Table 1 Consumption Function of Public Sector Employees

Model		Coefficients		Standardized Coefficients	T	Sig.
		Unstandardized Coefficients	Std. Error			
	B			Beta		
1	(Constant)	-8726.453	6206.425		-1.406	.173
	VAR00001	.609	.112	.751	5.450	.000

a. Dependent Variable: VAR00003

Consumption function of public sector employees is given by $C = -8726.453 + 0.609Y$ which is of the form $a+bY$ (here autonomous consumption = -8726, b which is $mpc = 0.609$).

Negative consumption would have to mean selling off, not buying, consumer goods. This could not go on for long either. Then consider the fact that the macroeconomic consumption function is an aggregate relationship. Particular households might have an income of zero from time to time, but could aggregate disposable income ever be zero? That would mean that the economy had completely imploded, in which case all bets would be off regarding consumer behavior. On the other hand, if the intercept of the consumption function is negative, and hence the APC rises with increasing income, the problem that Keynes perceived seems less worrisome.

Table 2 Consumption Function of Private Sector Employees

		Coefficients			
		Unstandardized Coefficients		Standardized Coefficients	
Model		B	Std. Error	Beta	T
1	(Constant)	-2003.793	2402.430		-.834
	VAR00001	.653	.125	.735	5.206
					Sig.
					.413
					.000

a. Dependent Variable: VAR00005

Since intercept is statistically significant, we fail to reject the null hypothesis that intercept is 0. So we can just assume the equation of the form $C = bY$ (Long term consumption function)
 $C = 0.609Y$

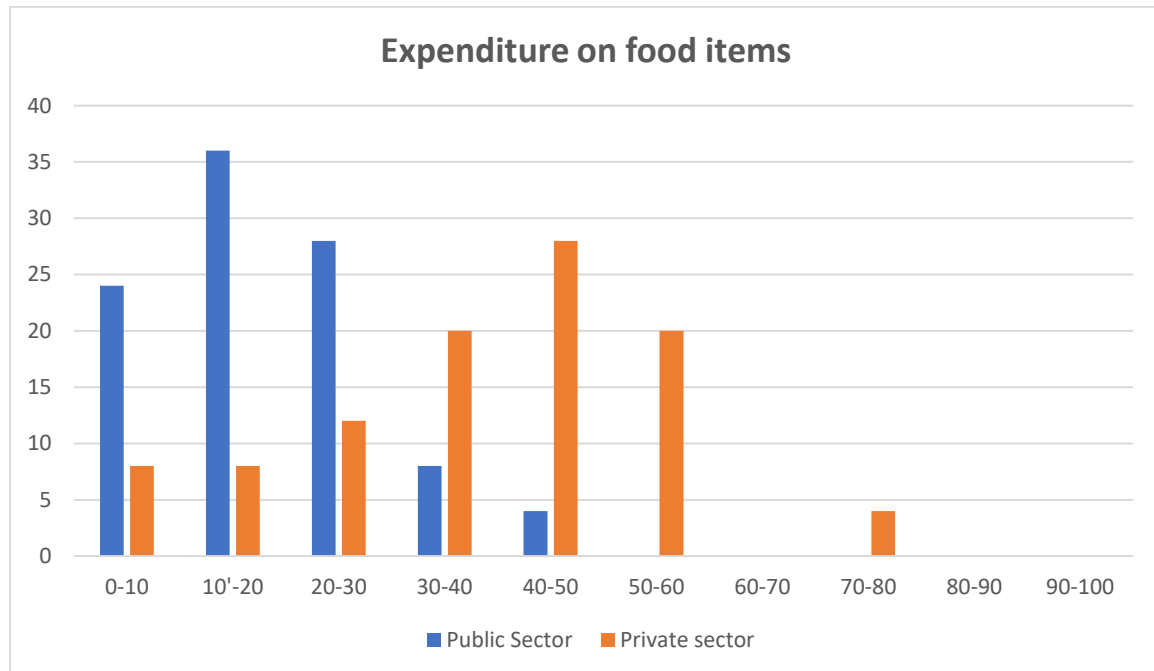
Table 3 Expenditure on food items (Percentage)

Expenditure range (in percentage)	Public Sector Employees	Percentage	Private Sector Employees	Percentage
0-10	6	24	2	8
10-20	9	36	2	8
20-30	7	28	3	12
30-40	2	8	5	20
40-50	1	4	7	28
50-60	0	0	5	20
60-70	0	0	0	0
70-80	0	0	1	4
80-90	0	0	0	0

90-100	0	0	0	0
Total	25	100	25	100

Source: primary data

Figure 1 Expenditure on food items (Percentage)



We can find that 36% of government employees spend 10-20% of their income for buying food items. It is evident that more than 75% of government employees spend only 30% of their income for consuming food items. On the other hand, private sector employees spend about 50% of their income for purchasing food items. A major chunk of employees in private sector employees spend a significant part of their income for buying food items.

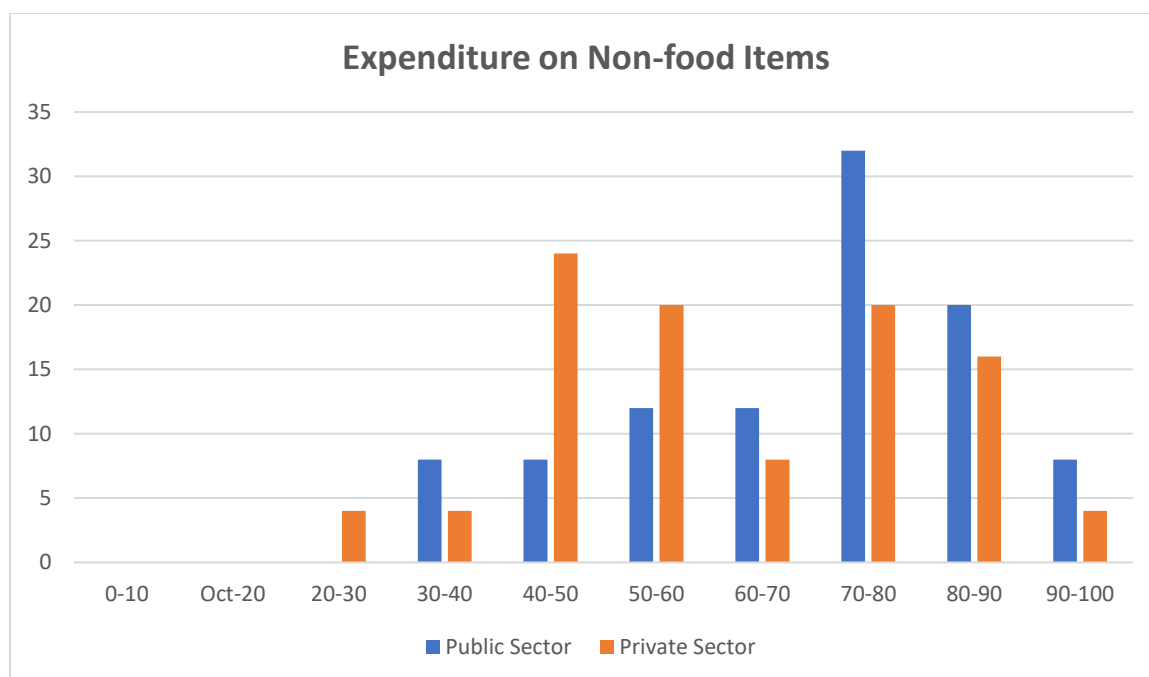
Table 4 Expenditure on non-food items

Expenditure range	Public Sector Employees	Percentage	Private Sector Employees	Percentage
0-10	0	0	0	0
10-20	0	0	0	0
20-30	0	0	1	4
30-40	2	8	1	4
40-50	2	8	6	24
50-60	3	12	5	20
60-70	3	12	2	8
70-80	8	32	5	20
80-90	5	20	4	16
90-100	2	8	1	4

Total	25	100	25	100
--------------	----	-----	----	-----

Source: primary data

Figure 2 Expenditure on non-food items



About 32% of employees working in public sector spend 80% of their income for purchasing non-food items. But in the case of private sector, they spend about 60% of their income for purchasing non-food items. It is also evident that both categories of employees spend major part of their income for purchasing non-food items.

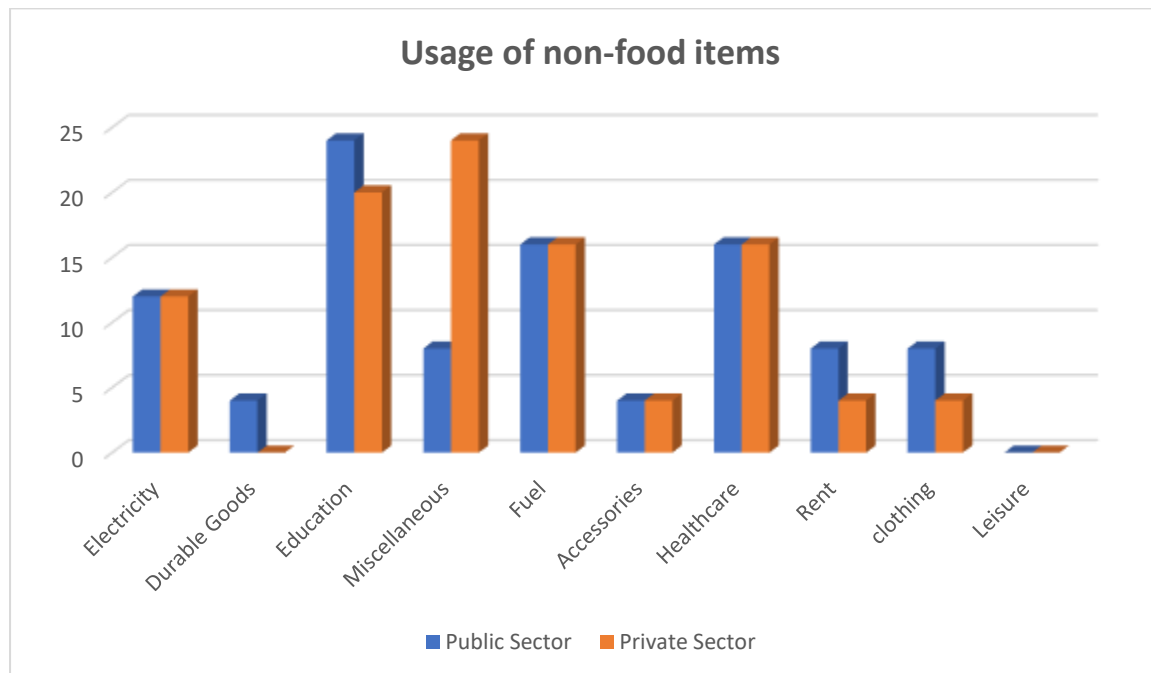
Table 5 Ranking of non-food items Usage

Non -food items usage	Public Sector Employees	Percentage	Private Sector Employees	Percentage
Electricity	3	12	3	12
Durable goods	1	4	0	0
Education	6	24	5	20
Miscellaneous	2	8	6	24
Fuel	4	16	4	16
Accessories	1	4	1	4
Healthcare	4	16	4	16
Rent	2	8	1	4
Clothing	2	8	1	4

Leisure	0	0	0	0
Total	25	100	25	100

Source primary data

Figure 3 Usage of non-food items



In the matter of non-food items education and healthcare commands highest share among both categories. Both have same usage in some particular items like fuel and electricity. It is interesting to note that both categories do not spend any money for leisure activities.

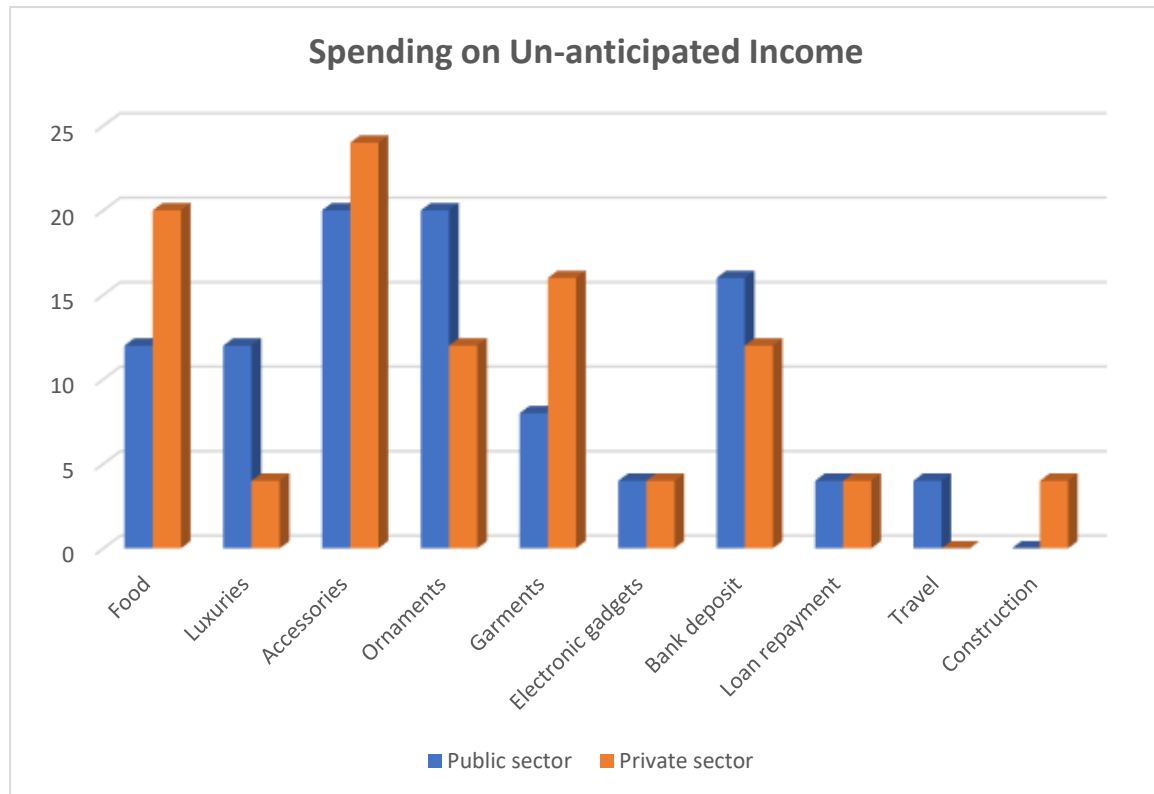
Table 6 Spending on unanticipated income

Item	Public Sector Employees	Percentage	Private Sector Employees	Percentage
Food	3	12	5	20
Luxuries	3	12	1	4
Accessories	5	20	6	24
Ornaments	5	20	3	12
Garments	2	8	4	16
Electronic gadgets	1	4	1	4
Bank deposit	4	16	3	12
Loan repayment	1	4	1	4
Travel	1	4	0	0

Construction	0	0	1	4
Total	25	100	25	100

Source primary data

Figure 4 Spending on Unanticipated Income



When government employees get unanticipated income, they use it for buying ornaments and accessories as seen from the figure.16% of them deposit it in banks. We can see a saving trend in the case of unanticipated income. But in the case of private employees, they use it for purchasing accessories, food and garments.12% of them deposit it in banks too

Table 7 Impact of COVID-19

Public Sector Employees				Private Sector Employees			
Affected	percentage	Not affected	Percentage	Affected	percentage	Not affected	Percentage
8	32	17	68	25	100	0	0

Source primary data

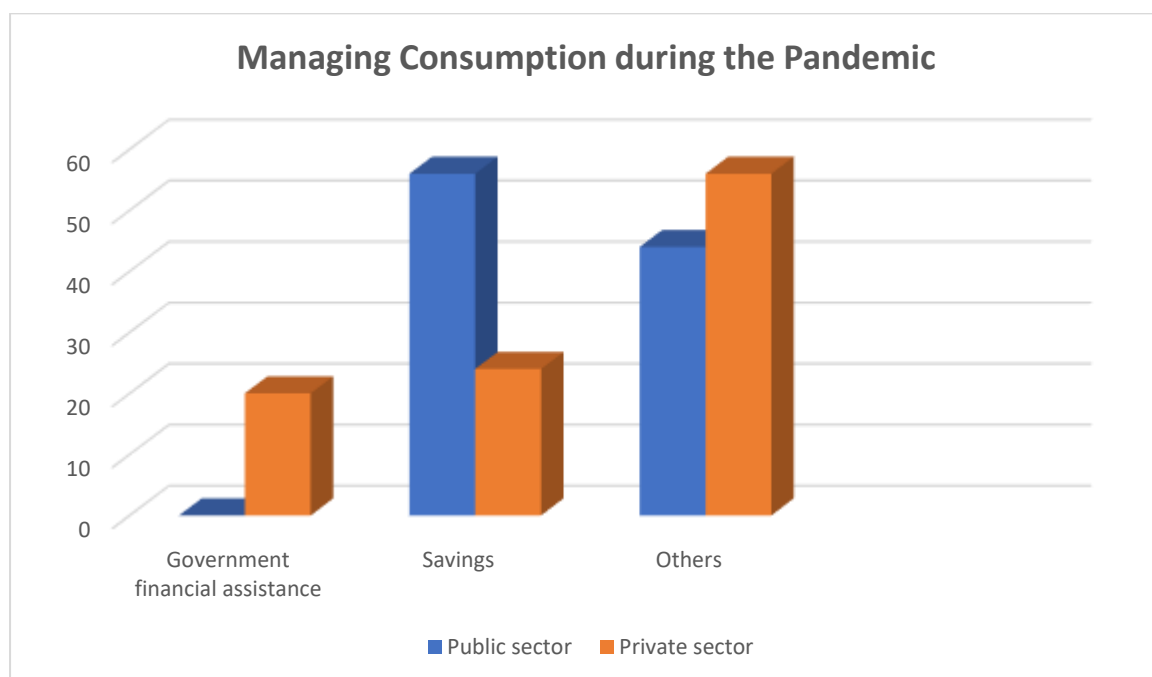
From the table we can find that 68% of government employees were unaffected by Covid 19 pandemic because of their safety of income.32% opined that they were affected by the pandemic due to the salary cut. Cent percent of private sector employees were affected by Covid 19

Table 8 Managing consumption during the pandemic

Means of consumption	Public sector employees	Percentage	Private sector employees	Percentage
Government financial assistance	0	0	5	20
Savings	14	56	6	24
Others	11	44	14	56

Source primary data

Figure 7 Managing Consumption during Pandemic



From the figure, we can find that public sector employees used savings to manage consumption. Private Sector employees who were affected by the pandemic resorted to other

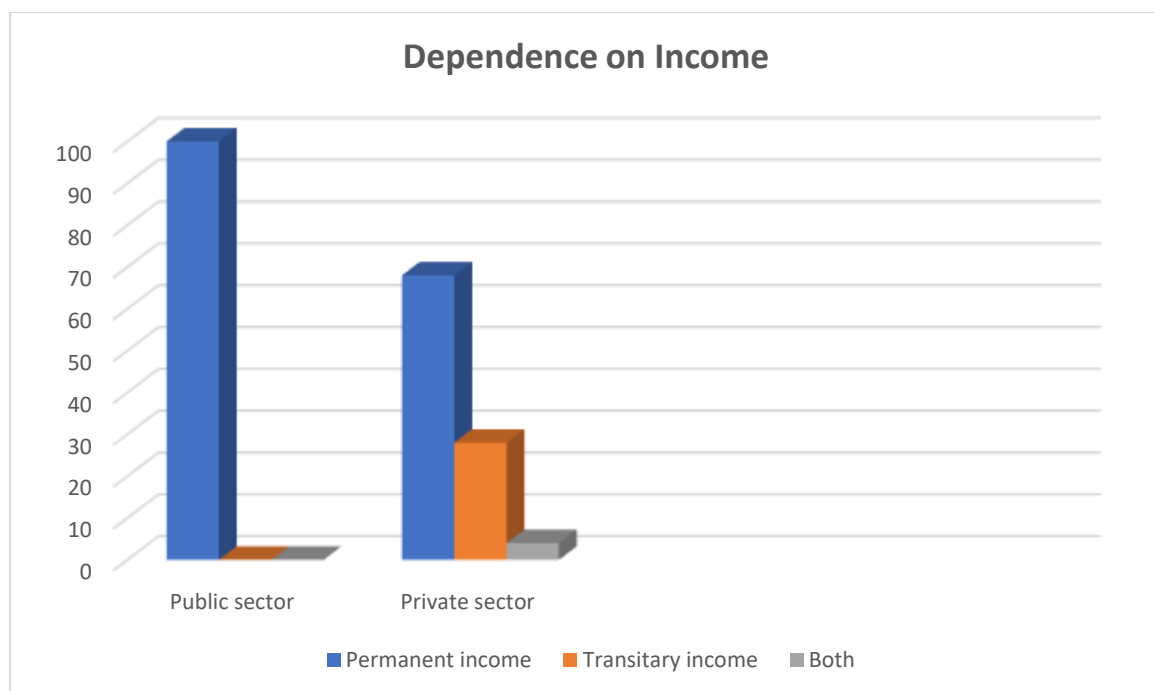
means like limiting expenditure, loans, pension etc. for managing consumption. 20% of private sector employees were benefitted by government aid during the pandemic.

Table 9 Dependence on Income

Income	Public sector employees	Percentage	Private sector Employees	Percentage
Permanent income	25	100	17	68
Transitory income	0	0	7	28
Both	0	0	1	4
Total	25	100	25	100

Source primary data

Figure 8



It is evident from the figure that public sector employees solely depend on permanent income. But private sector employees rely on both permanent and transitory income

FINDINGS

- 36% of government employees spend 10-20% of their income for buying food items. It is evident that more than 75% of government employees spend only 30% of their income for consuming food items. On the other hand, private sector employees spend about 50% of their income for purchasing food items. A major chunk of employees in private sector employees spend a significant part of their income for buying food items.
- From the consumption behavior of employees, we can find that MPC of low-income categories is high and that of high income is low. High income groups show saving trend in comparison to low-income groups.
- Consumption function of employees show long run proportionality ie, $C=by$. Keynes consumption function is found to be wrong in this case.
- Friedman's permanent income hypothesis is validated in this study as majority of respondents relied on permanent income for consumption. Only a small fraction of private sector employees relied on transitory income in addition to permanent income
- About 32% of employees working in public sector spend 80% of their income for purchasing non-food items. But in the case of private sector, they spend about 60% of their income for purchasing non-food items. It is also evident that both categories of employees spend major part of their income for purchasing non-food items.
- Among non-food items education and healthcare commands highest share in consumption basket. This shows the behavioral change of people over the years. From bare subsistence, attitude of people towards consumption has changed to luxuries items. Both have same usage in some particular items like fuel and electricity. Unlike in western countries people here spent very little on leisure.
- When government employees get unanticipated income, they use it for buying ornaments and accessories as seen from the figure. 16% of them deposit it in banks. We can see a saving trend in the case of unanticipated income. But in the case of

private employees, they use it for purchasing accessories, food and garments.12% of them deposit it in banks too. Habit of buying ornaments shows the tendency to keep it for difficult times

- 68% of government employees were unaffected by Covid 19 pandemic because of their safety of income.32% opined that they were affected by the pandemic due to the salary cut. Cent percent of private sector employees were affected by Covid 19. Employees of private sector had to face loss of pay and reduced salary.
- During the pandemic respondents managed consumption by way of limiting expenses, borrowings, government financial assistance etc. Significant segment of respondents relied on savings for meeting both ends.
- 84% of respondents depend on permanent income for consumption purposes while 14% depends on transitory income. Only one respondent relied on both to meet expenses.

SUGGESTIONS

- ✓ As behavioral changes of people towards non-food purchase are evident, production houses and business groups can concentrate more on quality products.
- ✓ High quality educational and healthcare facilities should be provided to the people
- ✓ As many people rely on government assistance during pandemic is suggested to make insurance schemes available to all kinds of employees.
- ✓ Social security measures should be enlarged to cover all sections of society
- ✓ Kit containing essential items was huge relief to people which must be continued. It will be more beneficial if pulses, grains and other essential items were disbursed through fair price shops
- ✓ Agricultural operations should be vigorously promoted to become self-reliant in food production and make healthier population

CONCLUSION

Consumption is the beginning and end of all economic activities. In the earlier times consumption denotes satisfying basic necessities of life. But there was remarkable shift in

consumption pattern of people over the years. This particular study about the consumption pattern of employees shows the trend towards non-food items from food items. Employees both Government employees and private sector employees are more concerned about quality of products and services that they were getting. Spending on education and health has increased which shows the importance given to these sectors by people. Brand consciousness and craving to spend more is visible now. Pandemics like COVID-19 has changed consumption basket very much from luxury to subsistence which can be said as a temporary phenomenon. Even in this pandemic times too people managed consumption by other means. Society's shift is visible in the consumption pattern of people too.

REFERENCES

- Levacic Rosalind Rebmann Alexander (1979), Macroeconomics-An Introduction to Keynes and neoclassical Controversies, Macmillan
- Verma Rana (2019), Macroeconomic Analysis, Vishal Publishing
- Jose, K., Sancy (2020), Covid-19 Implications on Kerala's Consumption Pattern, Modern Diplomacy July 31 2020 Edition
- Kerala State Planning Board Report on COVID-19 Pandemic and Lockdown, May 2020, https://spb.kerala.gov.in/sites/default/files/2020-09/cov19_qck_asmt...
- Economic Review 2019, Kerala State Planning Board, <https://spb.kerala.gov.in>
- Keynes, J. M (1936): The General Theory of Employment, Interest and Money, Harcourt, Brace & World: NY
- Duesenberry James S (1949): Income, saving, and the theory of consumer behavior, Cambridge : Harvard University Press
- Friedman, Milton (1957): A Theory of the Consumption Function, Princeton: Princeton University Press
- Modigliani, F, and Ando, A, (1960): The Permanent Income and the Life Cycle Hypothesis of Savings Behaviour, Comparisons and Test, in Friend, I and Jones, R, (eds), Consumption and Savings, Vol. II,
- NITI Aayog (2017): State Finances of Kerala: Performance, Challenges and the Way Ahead, Indian Institute of Management Kozhikode: Calicut.

AUTHORS

First Author –Reshma Suresh Pullatt, PhD Scholar, NSS Hindu College, Changanerry, Mahatma Gandhi University, resh617@gmail.com

Co- Author – Dr. Sheeba VT, HoD & Asst. Prof. Dept of Economics, NSS Hindu College, Changanerry, Mahatma Gandhi University, sheebkrishna@gmail.com

Correspondence Author – Reshma Suresh Pullatt, resh617@gmail.com,
+918547443490