
EFFECT OF ECONOMIC UNCERTAINTY ON PEOPLE'S FINANCIAL BEHAVIORAL

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ABSTRACT

Every human being on the planet has been touched by the COVID 19 epidemic. The virus caught everyone off guard and has afflicted people from all walks of life. The economic crisis brought on by the outbreak of COVID 19 is wreaking havoc on economies of all sizes. While the entire world is fighting the epidemic, financial and economic uncertainty has caused many changes in people's behaviour. The purpose of this article is to determine the influence of the pandemic on people's responses as a result of changes in their income, spending, and saving patterns. Statistical tools were used to collect and analyse primary and secondary data. According to the findings, the COVID-19 pandemic has afflicted people from all walks of life and has resulted in the deaths of thousands of people.

Keywords: COVID 19, Economic Crisis, Financial, Economic uncertainty, People's Behaviour

I. INTRODUCTION

The COVID-19 pandemic has impacted people all across the world in some way, either directly or indirectly. Most of the people's lives have totally changed. People have been compelled to adjust and change their behaviour, spending habits and lifestyles that they had established before the onset of the COVID-19 epidemic. Due to the country's shutdown/lockdown, most people who used the buy-now-pay-later technique are now thinking about saving money for rainy days in the future. People have begun to distinguish between Need and Want and to comprehend their specific meanings. Many people have learned a valuable lesson from this pandemic: they should focus on what they need rather than what they want.

COVID-19 has had an impact on the economies of all countries, with all experiencing similar outcomes such as a drop in GDP, a reduction in industrial output, an increase in unemployment, job losses, and layoffs and so on. Professionals and members of the working class who have endured pay cuts, delayed salary payments and layoffs have learnt to avoid superfluous costs, save for a rainy day. "About 80% of the working class in India has experienced loss of income, and over 90% of them are bracing for greater hardship in the future," according to a research on consumer sentiment performed by Generali, an Italy-based global insurance and asset management organisation.

Schools and colleges are shut down, because of which people associated with them like - Auto and van drivers, Stationery shops, Photocopying centers, Hotels, Chats junction, Cafes etc are impacted and their regular income being affected. With restrictions on social gatherings and limitations on organizing weddings and meetings, those who were earning from these activities like event management firms, caterers, flower decorators, photographers,

videographers, priests etc... all have lost their sole source of income and are in a very bad financial situation. With a stop on construction and other infrastructure activities has led to migration of labors to their hometown in search of food and shelter. All these situations have created economic and financial uncertainty to crores of people in the country and it will take considerable time for things to restore back to normalcy. This effect of COVID-19 on the livelihood of people, their family and household income affect the economy of the country in one or the other way.

With most people across the globe, having lost their jobs, or no pay or deduction in their pay has resulted in a change in their spending habits significantly. People are mostly spending on Essentials than on Non-essentials. Sale of Non-essentials has drastically reduced since the outbreak. People started to shift their plans to expend more on Essentials items as they have understood the importance of need and want. People are just spending on

- i. Groceries
- ii. Utility bills

and are postponing their other expenditure which not necessary for the present situation. The danger to revenue means that families have practiced to-curb a lot of expenses and they have kept an eye on savings for future. Expenditure of the people has altered gradually. Not spending on food, entertainment, tours and travels, apparels, furniture, and home interior decoration, has become the new normal. Most households are postponing their expenses other than essentials.

Managing family finance is a major concern to all families. The four pillars of the household finance like

- Income
- Spending
- Savings and
- Investment have changed.

Most of the households are planning on Investment, savings for the future uncertainty, which is the lesson taught by COVID-19 to all household.

II. REVIEW OF LITERATURE

1. **Emily Wavering Corcoran and Sonya Ravindranath Waddell** (2020). Income, Consumption, and the COVID-19 Pandemic, Richmond Fed pp-1-4

This paper explores how the changes in personal expenditure, income and savings has impacted the life of many and also how balance sheet of household has changed during Covid-19 in the subgroups of America. The spread of virus resulted in increase in consumption in May and then throughout the year, but in March, April there was a slight decrease in consumption in America. There is a Question that will employment and Income bounce back or will see a lasting economic fall from the lockdown/shutdown and continued pandemic across the globe. In addition to this there is effect on industries and has caused unemployment and job loss to many. The study has revealed that this crisis is not hitting all Americans uniformly. What level of impact of COVID-19 has affected the income distribution or savings? These questions are the concerns for economists which they will try to answer in coming future.

2. **Scott R. Baker et al...** (2020). How Does House-hold Spending Respond to an Epidemic? Consumption During the 2020 COVID-19 Pandemic , BFI WORKING PAPER No. 2020-30

This paper explores that how household consumptions respond during the epidemics, using the transaction of household financial data of the people to examine the effect of the COVID- 19 outbreak. Since the number of positive cases increase, households started to change their regular expenditure in all major categories. During the beginning of the pandemic spending has increased mainly in credit card spending, retail and on food items later it started to decrease has the virus spread increase all around. The paper also explores the heterogeneity across partisan affiliation, demographics, income, savings and drop in spending particularly in retail and restaurants.

3. **Jagdish Sheth** (2020). *Impact of Covid-19 on consumer-behavior: Will the old habits return or die?* Journal of Business Research, 117, 280–283

The paper focus mainly on impact of Covid-19 basically on consumer-behavior, the social distancing, shutdown and lockdown to fight against the covid-19 pandemic has created disturbances on consumer-behavior. Since the consumer is unable to go to the store to buy the essentials, the store has to come to the consumer's place. Since, consumers are under house arrest for a lengthy period of time from lockdown, they are likely to adopt and adjust to the new normal to new technologies which will in turn help to work, study and consumption in an easiest and convenient manner. Work-life balance are now changed as people working from home, studying at home, and relax at home throughout. Digital technology is probable to amend to the existing habits. All the consumption are location and time bound. With location rigidity but time flexibility, majority of the consumers have learnt to improvise on creative and innovative ways. Finally, public policy will also impose new consumption habits especially in public places such as airports, concerts, and public parks.

4. **Russell J. Zwanka & Cheryl Buff** (2020): *COVID-19 Generation: A Conceptual Framework of the Consumer-Behavioral Shifts to Be Caused by the COVID-19 Pandemic*, Journal of International Consumer Marketing, DOI : 10. 1080/08961530.2020. 1771646

This paper emphasises upon key historical milestones (2008, world-wide economic- contraction, Terrorism, Vietnam-War, JFK Assassination, Iran Hostage Crisis) and how these milestones had huge impact upon future behavior than merely being innate during a certain sector of years to come and entire co-horts in that manner. The suggestions of this paper are to recommend to marketers the long-term behavioral shift that we could see from the COVID-19 pandemic-2020, and the ensuing that it will shift in consumer-behavior. This paper analyses the potential impact of the COVID-19 pandemic of 2020, on buying patterns, on global consumer and on global inter-connectedness and psycho-graphical behavior, and other marketing and selling activities.

Abjuring to the branding of generational co-horts by their segments (Millennials, Centennials, Baby Boomers etc.),

III. STATEMENT OF THE PROBLEM

COVID -19 pandemic has severely impacted all economies around the world. Nation-wide lockdown led to either people losing their jobs or reduction in salary. Economic uncertainty has led to changes in financial and consumption behaviour of people. Hence this study was conducted to understand the impact of this virus on people belonging to different sections of the society.

IV. OBJECTIVES OF THE STUDY

- To understand the impact of economic uncertainty on financial position of people.
- To study the behavioral changes in people due economic uncertainty.
- To analyse the spending habits of people caused due to changes in income.

V. METHODOLOGY

For the purpose of present study, sample size taken is 136. Stratified random sampling technique has been used. For better representation of sample, respondents belonging to different age groups, educational qualification, income groups and job status were considered. Data was collected from primary and secondary sources through structured questionnaire and through reviewing sources published by experts and several newspaper articles. Bar and Pie charts have been used for data analysis and interpretation through use of SPSS and Microsoft Excel.

V. ANALYSIS AND INTERPRETATION OF STUDY GRAPHS

Graph No 1: Graph showing deductions in salary of respondents



- It can be seen from the above graph, that of the respondents who said there are deductions in their salary, 29% said that there is up to 10% deductions in salary, 28% have said there is 30- 50% deduction in their salary, 25% have said there is 10-30% deductions in salary and 18% have said there is more than 50% deductions in salary.



Graph No 2: Graph showing extent of savings being made by respondents.

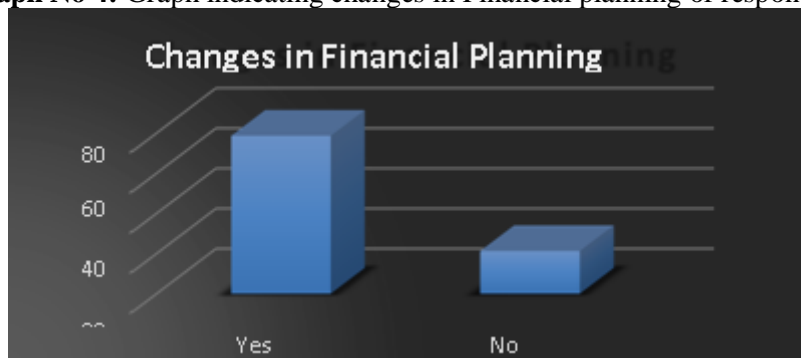
It can be observed from the above graph that, 69. 6 percent of the respondents are able to save less than earlier, 16. 5 percent of the respondents are able to save same as earlier and 13. 9 percent of respondents are able to save more than earlier.

Graph No 3: Graph showing reasons for using savings made by respondents



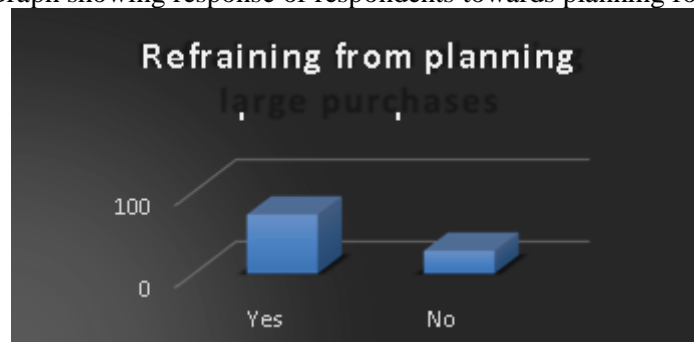
- From the above graph it can be observed that, 61.9% of respondents are using their savings for future financial emergencies, 30.2% of respondents are able to continue their investments as usual in spite of COVID-19 impact and 7.9% of respondents are able to start new investments with their savings.

Graph No 4: Graph indicating changes in Financial planning of respondents



- The above graph indicates that 78.7 % of respondents agree that there is change in their financial planning and 21.3% of respondents say there is no change in their financial planning of the pandemic.

Graph No 5: Graph showing response of respondents towards planning for large purchases



- From the above graph it can be observed that 72.1% of respondents have refrained from planning large purchases due to the outbreak and 27.9 % of respondents do have plans of large purchases.

TABLES

Table No 1. Crosstabulation between Gender and Job Profile

Particulars	Female	Male	Total
Business	7	0	7
Entrepreneur	4	0	4
Government Employee	4	0	4
Other	40	0	40
Private Firm employee	16	65	81
Total	71	65	136

From the above table, it can be seen that women experience more insecurity more than men. It can also be inferred that employees working in private firm experience more insecurity when compared to people working in other jobs.

Table No 2. Crosstabulation between Job Profile and Effect of pandemic on savings

Particulars	No	Yes	Total
Business	7	0	7
Entrepreneur	4	0	4
Government Employee	4	0	4
Other	19	21	40
Private Firm employee	00	81	81
Total	34	102	136

From the above table, it can be seen that majority of the respondents have the felt the impact of the pandemic and their savings are affected because of it. Among the various job profiles, it can be seen that savings of employees working in private firm is more affected than other job profiles.

Table No 3. Crosstabulation between Monthly Income and Changes in Financial Planning.

Particulars	No	Yes	Total
10,000 - 25,000	29	21	50
25,000 - 40,000	0	52	52
40,000 – 55,000	0	12	12
55,000 – 70,000	0	05	05
70,000 and above	00	17	17
Total	29	107	136

From the above table, it can be noticed that majority of the respondents have replied that their financial planning is affected because of COVID-19 pandemic. Respondents belonging to lower income group have felt more changes in their financial planning than higher income groups.

Table No 4. Crosstabulation between Age and Spending on Essentials

Particulars	No	Yes	Total
Below 25 yrs	28	19	47
25 – 35 yrs	10	18	28
35 – 45 yrs	0	12	12
45 – 55 yrs	0	02	02
55 and above	00	47	47
Total	38	98	136

From the above table, it can be seen that majority of the respondents are spending more only on essentials.

VI. FINDINGS FROM THE STUDY

COVID-19 pandemic and economic consequences of nation-wide lockdown has impacted the lives of every citizen. This study reveals the following findings regarding the impact of economic uncertainty on their financial behaviour.

- ☐ It can be seen from the following study that employees working in private organisations have more job insecurity than people working in other jobs. And Women have more insecurity when compared to men.
- ☐ Due to outbreak of pandemic, there are deductions in salaries of respondents, the extent varying though. Of the respondents whose salaries are deducted equal number of respondents have mentioned that deductions are upto 10% or in between 30-50%.
- ☐ Job insecurity, deductions in salary and uncertain future conditions have affected the savings of people. It can be observed from the study that most of the respondent's savings are affected due to pandemic. Comparatively savings of employee's in private sector is more affected than others.
- ☐ Majority of the respondents who have mentioned that their savings are affected have said that they are not able to save as earlier and savings are reduced.
- ☐ Few respondents have replied that their savings are not affected, and they would like to hold on to their savings for meeting future financial emergencies.

- The study reveals that personal savings of most of the respondents has not increased and financial planning of households is being affected due to corona virus attack. Respondents in lower income bracket have the need of altering their financial planning than those belonging to higher income groups.
- It can also be observed from the study that majority of the respondents have refrained from planning large purchases after the outbreak of virus.
- From the analysis it can be seen that, spending habits of almost all respondents have changed due to the pandemic. It can be observed that across different age groups, respondents are spending more on essentials than on non-essentials.
- Most of the respondents prefer both online and off -line mode of shopping.

VII. SUGGESTIONS AND CONCLUSION

COVID-19 virus spread has become a global pandemic, which has affected the life of many all around the world. It has affected the living of poor and rich, men and women, educated and uneducated, employed and unemployed. In the new normal, the financial and behavioural response of the people has changed drastically because of economic uncertainty caused from COVID-19.

In this study, we have found out that private organisation employees are facing more job insecurity and also salary deductions, reduced savings and a need to make changes in financial planning. Due to this, the spending habits of people has changed as a response to the situation. People in general have started understanding the difference between needs and wants. COVID-19 pandemic has affected individuals, households, firms, organisations, industries and every sector of the economy. Realigning financial strategies at the individual and organisational level has become the new normal. Economies are impacted due to shut down and has had differing effects on industries and employments. The pandemic may not have hit everyone in the same manner, but has definitely had a huge impact on income, expenses and savings of people. As the pandemic situation worsened, households began to change their overall spending. Lockdown and social distancing restrictions too have resulted in shifts in consumer behaviour with consumers adopting both offline and online shopping modes. Future studies can be undertaken to understand the effect of pandemic on various sectors of the economy and people working there.

VIII. REFERENCES

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