

Impact of Covid-19 on the spending patterns, saving and investment behavior of lower middle classes in an urban city

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Abstract- The COVID-19 health crisis has had a significant impact on all walks of life and caused severe damage by pushing poverty and increasing inequalities. This unpredictable and unprecedented black swan event had pushed economies to struggle and strive and had a long-lasting impact on the spending, savings and investing behavior of individuals. This study focuses to understand how the Covid-19 pandemic has influenced the behavior of low to medium income earning habitants (up to INR 1,50,000 per household) and earning population of aged up to 55 years in urban city of Gurugram Haryana (India) towards saving, investments and spending patterns. To achieve this a survey was conducted during June/July 2022 via a structured questionnaire and a random sampling technique had been adopted for data collection. The study's findings show that people's lifestyles and spending habits, saving, and investing behavior have changed significantly and indicates a permanent shift in the preferences of people towards usage of money they earn.

Kristine M. Smith et al. (2019) have studied the sectorial impact of infectious diseases on an economy and advised for more collaborations and partnership amongst the countries as most of the time because of global trade pathogen crosses boundaries. Imlak Sheikh (2020) have studied the effects of Covid-19 on global equity market, and Gurbaxani and Gupte (2021) done a study on impact of Covid-19 on Investors behavior of individuals in a small town in the state of Madhya Pradesh, India and couple of more similar studies have been done using data from different cities. Michel Smith (2021) has analyzed relationship between Maslow's hierarchy of Needs and Consumer Spending Patterns. Maslow (1908-1947) considered the lowest order-order needs to be physiological in nature towards humankind to survive and for sustenance the life. These have been denominated as hygiene factors and once met, one motivated towards achieving higher end sociological and safety needs. Covid-19 has influenced the stability aspects of physiological needs itself and therefore motivation to move to higher order of needs have also influenced and is part to this research.

I. REVIEW OF LITERATURE

According to World Bank's study, Covid-19 has induced poverty and inequalities amongst the social groups specially in developing countries. In countries like India, rural population could get support from free distribution of food grains through Public Distribution System (PDS), the urban population belonging to low to medium income groups have been affected the most in middle of job-cuts and reducing household income levels. Because of psychological pain the affected population underwent, Covid-19 has brought behavioral changes specially to financial aspects of decision making.

In his research Kristine M. Smith et al. (2019) found that The conventional scope of estimating economic impact of disease events in humans has often been limited to basic direct costs (health care) and limited indirect losses (e.g., wages not earned and informal health costs such as patient transport). In fact such events have significant multi -sectorial impact as per table-1 below. All such impact taken together cumulatively have bearing on financial decision making by affected population.

Chart-1

Examples of financial impacts due to zoonotic infectious disease events beyond the public health sector.

Sectors impacted	Time period	Geographic scope	Disease	Metrics	Economic estimate
Tourism	2009	Mexico	H1N1	tourism	2.8 billion
Agriculture	1998–2002	Somalia	RVF	livestock export losses	435 million
Government	1998–1999	Malaysia	Nipah	lost tax revenue	105 million
Financial	2013–2015	Ghana, Liberia, Sierra Leone	Ebola	loss of investor confidence	600 million
Travel	2003	Global	SARS	airline losses	7 billion+

Source Research Paper : Kristine M. Smith et al. (2019)

Imlak Sheikh (2020) examined the market volatility leading to uncertainty impacting investor sentiments. The plausible reason for such market disruption is the deterioration of public health, temporal and diffusional long-lived effects, global economy and interconnectedness, social distancing, travel ban and lack of put protection. The fear and anxiety amongst the participants demanded portfolio protection and hence increased in risk premium. This fear and anxiety had lasting impact which later had influenced the investment preferences in future.

Farheen Siddiqui et al. (2022) in study on Impact of Covid-19 on spending pattern and investment behavior of Retail Investor, found that post Covid-19 event, the investor became more risk-averse because of negative effect on job and income source, and this further had influenced preferences towards using the money whether as spend, or investment. People looked for safer avenues. For example, people shifted their spending towards to essential items than non-essential or discretionary items. Arguably it can be maintained that meaning that meaning of essential and non-essential items keep varying depending upon income levels and impacted by propensity to save more. Increased level of fear and anxiety during Covid-19 explains the later and that's why keeping other things constant, people have increased preferences towards saving for future.

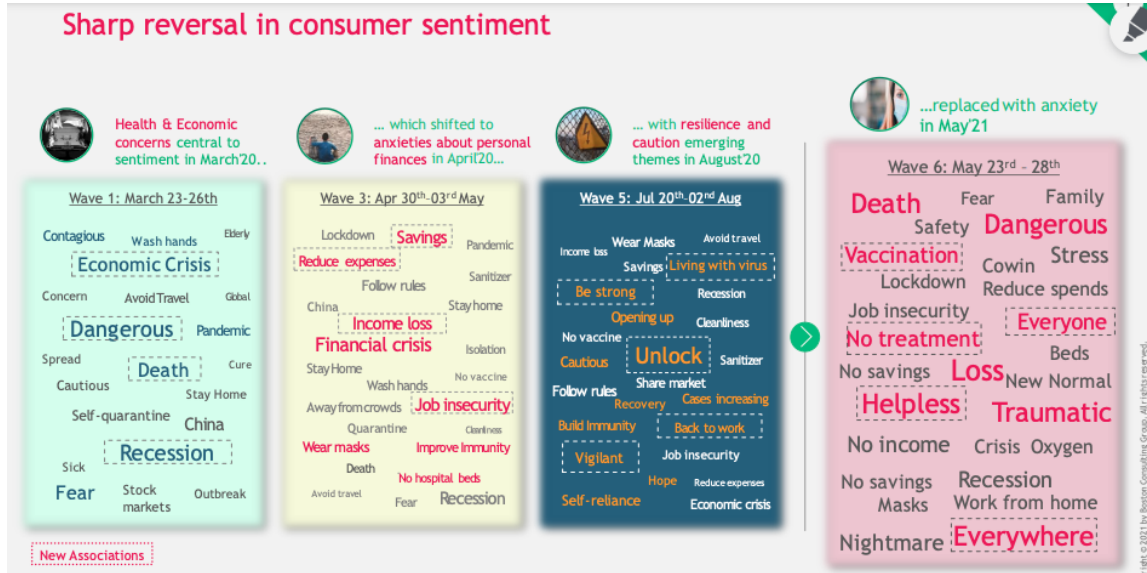
Shehbazbano Khan et al. (2020) researched the impact of Covid-19 on the investment pattern of investors regarding traditional investment and market based financial products in Mumbai with an objective to analyze degree of investor preference towards certain assets class such as gold, equity, real estate etc. the findings suggested that Covid-19 has a considerable impact on investors' preference for real estate but has had no meaningful impact on investors' preference for gold or stock. The study concluded that investor preference is dynamic and therefore change in preference may not be sustainable for long run.

Gurbaxani and Gupte (2021) research on impact of Covid-19 on Investors' behavior of Individuals in a small town in the state of Madhya Pradesh, India showed that the Covid-19 epidemic has influenced people's investment and financial decisions in rural part of the country. India is country with second largest population with significant portion in rural part, lockdowns have been proven to be unsettling for long time. Due to measures taken by the government to control the spread of COVID-19 such as lockdown and the stock market crash, individual investor's willingness to invest in mutual funds and the stock market has been impacted negatively. In present times, investors seem to have become more risk averse, and prefer relatively secure investment options offering moderate return with low risk. Researcher pointed out that investors also need to be educated about various investment opportunities for example Gold ETFs, mutual funds etc and timing their investments It also throws some light on the fact that mutual fund associations and policymakers should conduct campaigns in smaller towns to enhance financial literacy of people.

Boston consulting group (BCG) Center for Customer Insight in India (CCI) has conducted six surveys on variety of population in tier 1/2/3/4 cities in India during march-2020 to June-2021 and shared insights related impact of COVID-19

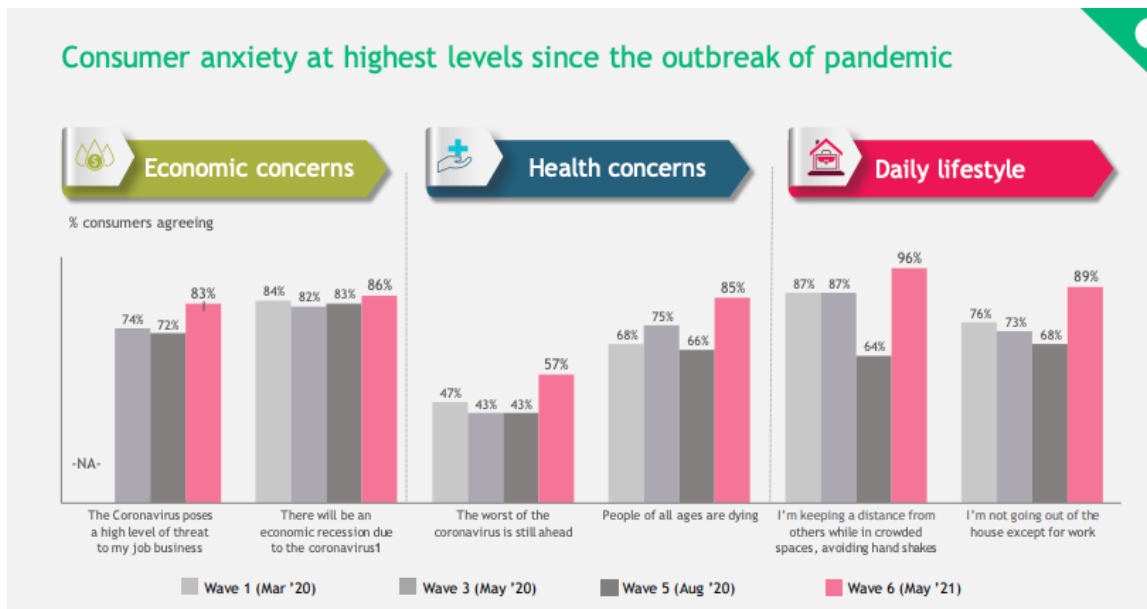
consumer sentiment, consumer anxiety levels and perception about economic outlook and change in income levels. It is significantly evident that the consumer perceptions have changed over a period of time and therefore indicating a dynamic behaviour. Taking analogy, there are possibilities that all findings from studies/researches on Covid-19 impact in past 2 years may not be true over period of time.

Chart-2 Response to question: What comes to your mind when you think about the Covid-19 virus



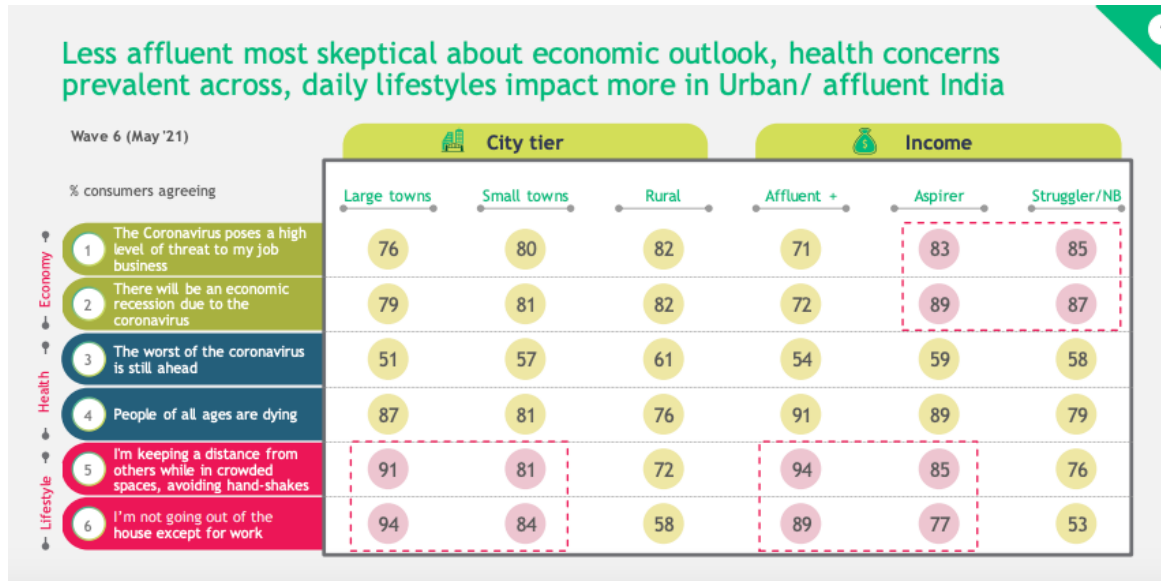
Source-BCG survey

Chart-3 Response to Question: "How much do you agree with each of the following statements about the coronavirus?"



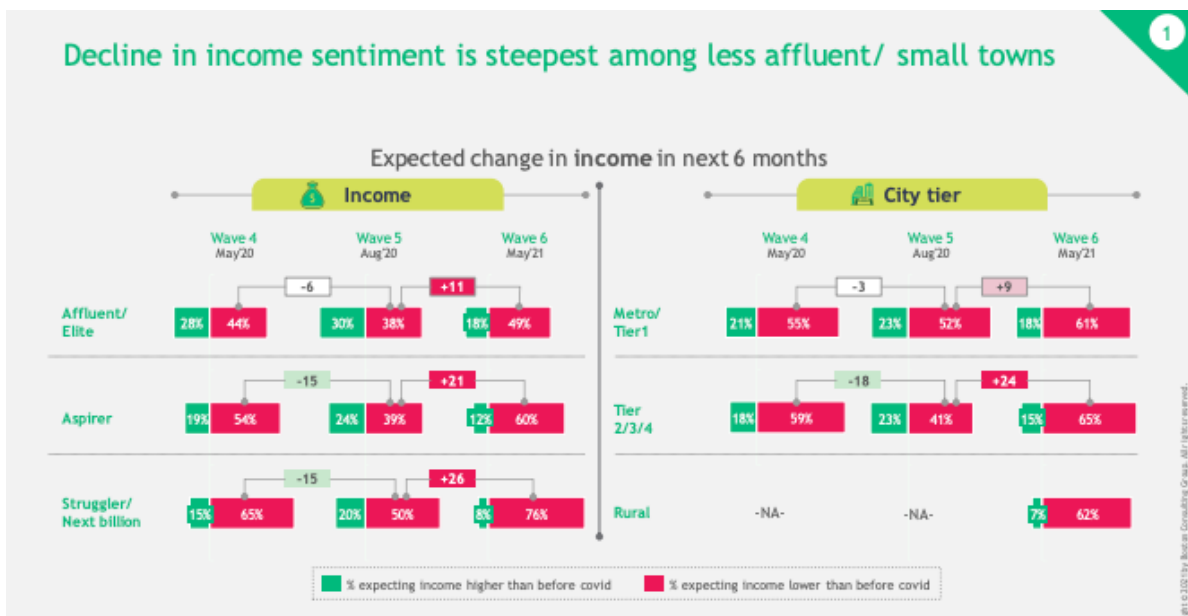
Source-BCG survey

Chart-4 Response to Question: "How much do you agree with each of the following statements about the coronavirus?"



Source-BCG survey

Chart-5 Response to Question: "How do you expect your overall available household income to change in the Next 6 months as compared to before covid?"



Source-BCG survey

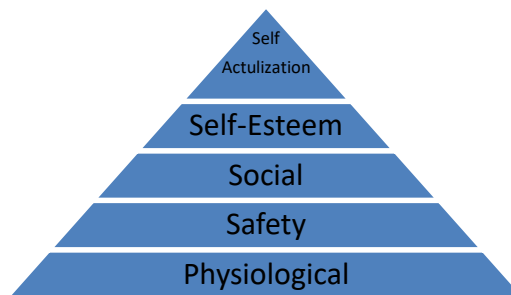
Analytical analysis of Investment pattern and Investment Preferences of Retail Investors Post Covid-19 according to a paper by Kumbhakar and Nerlekar (2020), this study aims to examine the influence of Covid-19 on retail investors' investing patterns and changes in their investment preferences following the epidemic. According to the study's findings, most people adjusted their portfolios after the outbreak of Covid-19. Changes in incomes are mostly to blame for this shift in the portfolio. However, following the pandemic of Covid-19, respondents have become more risk conservative and are transferring their investments to Fixed Income Securities.

Maslow's five categories of needs can be further analysed from a strictly financial perspective. Research has been conducted that relates an individual's spending and savings patterns to a hierarchical pattern, similar to Maslow's hierarchy. In

fact, just as Maslow's needs are hierarchical, a hierarchical order has been established in personal financial decision making and saving motives. In addition to this further studies relating to money attitude finds that gender and family size impact saving motives

Xiao and Noring (1999) also suggest that a hierarchical association exists among financial needs. Their research indicate that financial needs differ based on household characteristics such as home ownership, marital status, number of children, income, education, and several other variables. The implication from this study is that financial needs vary due to the perception of the consumer. There is no one concrete fixed process to savings goals and motives. Multiple characteristics influence these goals. Factors such as age, family size, and length of planning are important predictors for advancing from lower levels to higher levels.

Along with household characteristics, gender has also been investigated as a factor in savings goals. Oleson finds that gender is a component to savings along Maslow's hierarchy of needs, with males being more strongly correlated with the desire to meet safety needs (27.5 percent) and female motivations being more strongly correlated with esteem needs (26.7 percent). Money Attitude and level of need satisfaction are individualized which confirms that individuals have different thresholds of need satisfaction.



II. RESEARCH OBJECTIVES

- To study the impact of Covid-19 the change in spending patterns
- To study the impact of Covid-19 on savings and investment pattern

III. RESEARCH METHODOLOGY

Research Design: Exploratory research design has been used for the study.

Research Approach: Survey approach has been adopted for the study.

Research Instrument: Open-end and close-end questionnaires have been used as study instruments.

Sampling: About 400 respondents have contacted the survey questionnaire and only 203 respondents able to submit full questionnaires who meets criteria of maximum household income of INR 1,50,000 per month or less. Only One earning member taken from a single household.

Data Collection: The primary data for the present study were collected through a questionnaire.

Nature of the Data: The following tables show the nature of the data:

Need based parameters included in the survey: Table-1

Table-1

Physiological	Safety	Social	Self Esteem
Food at home	Insurance	Restaurant	Branded wardrobe
Shelter	Healthcare	Alcohol	Car
Utilities	Savings	Smoking	Vacations outside country
Basic apparel	Investments	Mobile	Own House
Public transport		Pets	
		Vacations In country	
		Child education	

Lower end needs: Physiological and Safety
Higher end needs: Social and Self-esteem

Table-2A Occupation and gender

Gender	#Daily wager	Full time Job	^Street vendor	Total	%
Female	6	54	44	104	51%
Male	32	37	30	99	49%
Total	38	91	74	203	

Daily wager includes Mechanic of all kind , IT professional, freelancers
^Street Vendors includes shop keepers

Table-2B: Household Income

Gender	up to 50000	50001-75000	75001-100000	>100000	Total
Female	3	4	44	53	104
Male	57	26	7	9	99
Total	60	30	51	62	203
%	30%	15%	25%	30%	

Table-2C : Marital Status

Gender	Married	Unmarried	Window	Total
Female	32	59	13	104
Male	39	40	20	99
Grand Total	71	99	33	203

Table-2D : Household Members

Household members	1	3	4	2	>4	Total

Respondents	50	61	20	65	7	203
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Table-2E: Earning Members including the respondent

Earning members	1	>2	2
Respondents	162	14	27

Table 3. Categorical Data Analysis of Spending behavior towards Lower and Higher End Needs

Age-Range (Years)	25 or less	26-35	36-45	46-55	All
Pre-Covid Spend towards Lower end needs	61.5%	61.8%	61.2%	62.0%	61.5%
Pre-Covid Spend towards Higher end needs	38.5%	38.2%	38.8%	38.0%	38.5%
Post-Covid Spend towards Lower end needs	60.9%	62.1%	61.4%	60.5%	61.5%
Post-Covid Spend towards Higher end needs	39.1%	37.9%	38.6%	39.5%	38.5%
No of Respondents	11	77	93	22	203
Spend towards lower end needs					
Increased	6	43	44	2	95
Reduced	3	14	21	14	52
Remains Same	2	20	28	6	56
No of Respondents	11	77	93	22	203

Source: Author’s own compilation

Out of 203 respondents, 95 have increased spend towards lower end needs, 52 have reduced while 56 have no change to explain. Respondents in age group of up-to 25 years, reduction in lower ends needs was more on an average, while increase is quantum was at low. Respondents underage range of 26-35 years and 36-45 years have shown increase in spend towards lower end needs. Respondents underage range of 45-55 years have reduced spend towards lower end needs. 73 Respondents who increased their lower end needs spend or remained at same level and having one or more child, 33 of them increased their spend preference towards child education.

IV. ANALYSIS AND INTERPRETATION

Statistical Tools: The data in the study were analyzed using chi-square test.

Spending pattern Post Covid-19

Covid-19 has also affected the spending pattern of people. Most of the people have drastically changed their spending habits. Survey used specific leaning towards items mentioned in table-1 and responses were grouped according to Maslow Needy Theory as per table-3.

Statements of Hypotheses (Objective 1)

Ha1: There is a change in spending pattern post Covid 19 towards Lower end needs

Ha2: Age factor has an impact on change in spending patterns

Ha3: Size of Family has an impact on change in spending patterns

Ha4: No of Children have an impact on change in spending patterns

Hypotheses	P-value	Significance level	p-value < Significance level
Ha1	0.00072	0.05	Yes
Ha2	0.82923	0.05	No
Ha3	0.26139	0.05	No
Ha4	0.37461	0.05	No

Source: Author's own compilation

From the above table, we can conclude that:

- There has been a change in Spending Patterns post Covid 19 and those were towards lower end needs as the p-value are less than significance value.
- Size of family, number of children and age factor did not have any impact as the p-value are greater than significance value.

Impact of Covid -19 Pandemic on Saving and investment Behavior

Covid-19 has affected the investment pattern of investors. Due to this, the investors have also made changes in their preferences. They have shifted their investment into less risky avenues. The study covers the differences in investment preferences pre and posts Covid-19.

Statements of Hypotheses (Objective 2):

Ha1: Gender has influenced saving behavior in pre and post Covid-19 scenarios.

Ha2: Household income has impact on saving behaviour in pre and post Covid-19 scenarios.

Ha3: Age factor has contributed to change in investment behavior towards safe heaven like fixed deposits and gold

Hypotheses	P-value	Significance level	p-value < Significance level
Ha1	0.00000	0.05	Yes
Ha2	0.07334	0.05	No
Ha3	0.00263	0.05	Yes

Source: Author's own compilation

From the above tables, we can conclude that:

- The accompanying table shows a high degree of correlation between gender and saving preferences before Covid – 19 and after Covid – 19. The p-value is 0.0000, indicating that the correlation is significant.
- The accompanying table shows a moderate degree of correlation between investor preferences for safe heaven investments before Covid – 19 and after Covid – 19. The p-value is less than 0.05 at a 5% significance level.

V. DISCUSSION

As per the study of data points there has been major change in spending patterns and there is leaning towards spending more on lower end needs, including healthcare and savings for future even with same level of income source. During Covid-19, individuals underwent unexplained uncertainty surrounded them for almost one and half year and lead to change in their lifestyle and belief system. People have definite leaning towards safe heaven investments which are easy to monetize during crises.

In his original research, Maslow suggested that human beings only progress from a lower-order need to a higher-order need once the lower-order need has been met. While logical, this original assertion has suffered much criticism due to numerous findings that suggest that people do not simply ladder up the hierarchy of Needs and preferences are influenced by other aspirations. Mahmoud A. Wahba (1976). Many respondents have shown increased preferences for children education at good schools /universities by committing high spend even they have reduced spend towards level of higher end needs. Similarly, 83% respondent have shown higher preference towards savings in form of fixed deposits and gold to secure future security, even they may have to compromise current returns on investments.

VI. CONCLUSION

Covid-19 has impacted investors' preferences toward safe heaven investments like Gold and Fixed deposit so that they can monetize them at the time of crises. During pandemic , people face job losses , migration , income cut and sort of other uncertainties , which seems to have permanent impact on their preferences and leading to change in life style. People are now spending more towards health care both towards well-being and insurance. People have new and personalised definition of essential and non-essential things and directed their spends. However such behaviour would continue to be dynamic and may shape over in due course of time.

VII. LIMITATIONS

- 1- Random sampling method was used
- 2- Respondent belongs to lower middle-class households in urban city of Gurgaon with income levels up to INR 1,55,000 and age group of up to 55 years.

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