

COVID-19 impact on Consumer Behaviour, Demand and Consumption

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Abstract: COVID-19 forced us to think beyond our conventional means and develop a new world incorporating the present threats and its repercussions in the future. The possibility of living with COVID-19 for a long time or evolving other similar threat in future is too real. The epidemic wants to change the way we are comfortable with. It wants us to adopt more healthy habits and safety measures in our life. The present changes are rather forceful but will be part of the new normal in the near future. A fresh approach is required for business establishments to survive and retain their customer base. The first step towards the change is studying the change in demand and consumption function in relation to change in consumer behaviour. The paper probe the impact of COVID-19 on consumer behaviour and how it affects economic growth functions.

Key Words: COVID-19, Consumer Behaviour, Demand, Consumption, Production, Public Debt, Economic Growth, Social Changes.

1. INTRODUCTION:

COVID-19 forced us to think beyond our conventional means and develop a new world incorporating the present threats and its repercussions in the future. The possibility of living with COVID-19 for a long time or evolving other similar threat in future is too real. The epidemic wants to change the way we are comfortable with. It wants us to adopt more healthy habits and safety measures in our life. The present changes are rather forceful but will be part of the new normal in the near future. The changes will define new consumer behaviour and create demand for goods and services that require adopting new means to derive customer satisfaction. A fresh approach is required for business establishments to survive and retain their customer base. The first step towards the change is studying the change in demand and consumption function in relation to change in consumer behaviour.

2. LITERATURE REVIEW:

Amory Martin et al., in the article, proposes a microeconomic model to estimate the impact of social distancing and lockdown on household income, consumption, savings and poverty. She considers the crises and recovery period for her study. During crises, savings are utilised for consumption purpose, but more or less, it remains constant. She includes state and federal assistance and savings to compensate for income loss in order to buy essentials. In the absence of state assistance savings is the only option. Research by (Chronopoulos, 2020) studies the impact of lockdown in Great Britain, and the research divides the study period into four parts, incubation, outbreak, fever and lockdown phase. Its dataset comprises of 98,796 consumers and 19.8 million transactions. The transactions provide evidence of panic buying and how public behaviour access the epidemic. The paper elaborated on consumer spendings during the analysis period while briefly touching impact of COVID-19 on business and the stock market. Jagdish Sheth analysed the impact of COVID-19 on consumer behaviour. He studies the effect of the pandemic on old consumer habits where physical examination is must before buying. He argues how the epidemic will change the buying habits, and a consumer will adopt social distancing and safety measures. His analysis that the new technology-based habits will develop and more companies will invest in technology up-gradation and develop innovative means to attract consumers.

Similarly, Diane Crispell, in her report-Impact of COVID-19 on consumer behaviour, supports technology-based changes in consumer habits, and state that their dependencies will increase on online platforms. Mariya et al. in the article, focus on well-being loss in the households suffering from the disaster, she studies the socioeconomic aspects of a disaster. She states that every disaster damages a region in three-way social damages, economic damages and environmental damages. She studies asset losses and change in income and their effect on household well-being. Gene Ambrocio, in his article, focuses on household sentiments during the COVID-19 crises. He argues that in countries where strict measures are taken to contain the epidemic, there is a large drop in sentiments and additional government costs. He studies three aspect sentiments where he studies average view of the households on the economy, disagreement between the different views in the cross-section of households and uncertainty reflecting the population facing uncertainties due to epidemic over their future earnings and present financial conditions.

Shari Spiegel et al., in his policy brief, provide insight into the countries debt situation. They argue that a global response must manage demand for new credit and increase public debt in the countries suffering heavily due to COVID-19. They show their concern for the rising cost of financing and capital outflow from the developing countries. Present debt-moratorium provides only short term relief but fail to address long term solvency issue in the developing countries.

3. RESEARCH METHODOLOGY:

The research utilises available literature on demand, consumption, debt and changes in them due to COVID-19. The study combines economic demand, consumption and debt function to analyse consumer behaviour during the COVID-19 epidemic. The research relies on data from renowned institutes (IMF, WB and UN) for the analysis purpose. Content analysis provides the relevant information necessary to create the structure of the research. The research focus is on the observed changes between the two periods before COVID-19 and after it. It studies the change in consumer demand, especially how essential commodities and health protection goods and services requirements increase many folds, and it considers panic buying and hoarding as one of the demand components. Also, it studies the impact of lower demand and consumer decision to postpone non-essential expenditure that is affecting the production industries, where massive scale layoffs are seen.

Simultaneously, the paper studies changes in consumption pattern and observes that middle and higher income consumption expenditure remains the same, but consumption ingredient change based on availability. The pattern change includes changing social behaviour and consumer habits, where consumer adopts health and safety features in their daily life and switch to online purchase for their regular requirements. The general view on debt structuring and government expenditure on the economic recovery during COVID-19 epidemic is taken. The purpose is to investigate the impact of debt structuring on industrial growth and economic recovery over consumer demand. The change in consumer behaviour and industrial response is also studied. The online platform's availability, the need for innovative means to approach consumers, and the development of new purchasing habits developed in consumers due to government-imposed restriction are probed.

4. THE DEMAND AND COVID-19:

The well-being loss is the inclusive impact of the crises over the household standard of living. Mariya et al. in her research, point out that the poorer households suffer less in terms of asset losses and than well-being loss, while well-off households suffer more in terms of asset loss than well-being loss during any calamity. The well-off section only needs to rearrange their consumption items according to the availability, and inflammatory prices make a little dent in their standard of living. In contrast, poorer section suffers immensely and need to compromise on food, health and education. It is understood that there is a general tendency to postpone any expenditure on goods and services that they think are discretionary. The household consumption during the crises remains constant with the only rearrangement of consumable items. It is the saving function that undergoes a change during the crises (Sumner Andy, 2020). The epidemic forces many of the lower middle class and poor category wage-earning population to withdraw savings and use it on consumption and health purpose. The depletion of saving during the crises will have macroeconomic consequences and will contribute to debt formation. Any calamity brings direct economic losses and hurts other dimensions like lost wages and income opportunity, educational loss, health (physical & mental), disruption of services, relocation (temporary or permanent), and less expenditure on consumption forcing the economy in recession mode.

5. COVID-19 IMPACT ON PRODUCTION:

The productive resources come to a halt during the lockdown phase. The disruption of the supply chain is difficult to mend as industrial inter-dependence is proving costly due to uncertainty over demand and supply constraints. The epidemic proves too costly for travel and tourism, entertainment and eateries as it needs to shut down completely (Amory Martin, 2020). Other trades have also been affected and face intermittent demand due to lack of consumer interest and lack of supplies from the lockdown industries. Forced shutdown of industrial establishment resulted in mass-scale layoffs, especially in the unorganised sector. The uncertainty over the epidemic, force the industrial establishment to curtail their resources to a minimum as a cost-cutting measure. It is difficult for a large workforce to re-enter, as industries are looking to trim down in size and adopt new modules to reach out to the customers under recessionary conditions.

6. COVID-19 AND INCREASING DEBT BURDEN:

The epidemic has a long term impact over the industrial resources, in the absence of normal demand and broken supply chain, it is difficult to survive for a weak establishment who lacks long term capital backup. Government revenue is expected to be low as indirect tax collection from the goods will be hampered by the

government restrictions. The restrictions force consumers to adjust their consumption on the available essential items. Secondly, they postpone non-essential expenditure and expenditure on leisure activities for a better time. In Ireland, indirect tax collection is estimated to reduce by 19 to 32 per cent (Cathal Coffey, 2020) from the drop of one-third of household expenditure on items restricted by the government. The figure for other countries will be inline depending on their tax collection from the restricted items. An innovative scheme is applied in Great Britain in which a person needs to pay only half of the bill, and the government pays the other half. The scheme is a success as people are approaching restaurants and it saves their restaurant industries (Eat out to help out: Coronavirus scheme offering UK diners 50% off begins, 2020) where over 18 lakhs workers face hardship. The economy is also showing the sign of recovery as demand for products associated with the industry is revived. Countries suffering heavily due to the epidemic need monetary packages for their economic recovery (COVID-19 and sovereign debt, 2020). Industries require bailout packages and government need to arrange money for it. The epidemic will force governments to provide debt relief to suffering industries while resorting to debt financing, and fiscal measures to control dooming recession. The IMF estimates that in one year the global public debt stock is expected to jump from 83 to 96 per cent also the fiscal balance to be negative in developing countries to -9.1 % and -5.7% of the Gross Domestic Product in low and middle-income countries (Shari Spiegel, 2020). Present debt-moratorium provides only short term relief but fail to address long term solvency issue in the developing countries. A global response is required on debt management (M. Ayhan Kose, 2020), especially for developing countries who face pressure from bilateral, commercial and multilateral agreements. Any default by developing countries will have a catastrophic effect on world economies as it will put additional pressure on other economies to safeguard themselves and promote policies against free trade practices.

7. CHANGE IN CONSUMPTION PATTERN:

The impact of the epidemic is evident in the consumption factors. Future economic recovery depends on governments' controlled steps in balancing the measures to control the COVID-19 and supporting economic activities with caution. The most visible change come from the household adjustment to their disposable income, and it includes government subsidies, unemployment allowances and supporting measures to generate income in MSME and other tiny establishments. The imposition of restriction by the government is limiting consumer choices. The governments are directing the distribution of essential goods and services. The operations in the market are no longer depend on market forces but government discretion. The consumer on his part is changing his behaviour to adjust with the COVID-19 reality. The altered behaviour includes spending on essential items, hoarding of necessary goods and restrictive spending on goods purely for entertainment purposes while avoiding travel and leisure activities. Another change observed in consumer behaviour is the growth of the online market. Customers who enjoy physical interaction during their purchase are now shifting to the online platform. Various studies conducted during the lockdown period on OTT platforms point out around 60%-80% growth in subscribers base, Netflix added 10.1 million new subscribers during the period (Zeitchik, 2020), while 16 million new accounts are created under it (Thomas, 2020). It is expected that the online platform's adaptation with satisfactory delivery level by the business establishments will have a permanent effect on consumer habit, and these platforms will gain support in the future.

8. OBSERVED SOCIAL CHANGES:

The cultural and religious events are adopting the necessary changes, and people modify their behaviour to adjust to the changes (Sheth, 2020). The traditional marriage parties with massive pump and show or festival celebration and religious events with huge gathering are now limited to a few people and observing social distance. The social change may continue in the future, and people will adopt it as the new health safety measure. Although the COVID-19 requires people to maintain social distance, the lockdown has some positive effect on families; they are spending more time together. The demand for internet speed and download limit is high as the entertainment industry suffers from lack of new content and ban on multiplexes services. The people turn to popular youtube and other net-based services for entertainment, gaining new knowledge and sharing knowledge. The breed of young entrepreneurs and artists are developing their online channels and earning decent money. Group calls now replace the late-night parties and group calling apps are much in demand, people are getting in touch with their friends and relatives through it. Similarly, the concept of work-from-home previously observed in the software sector and few others are now pushed by leading companies. The epidemic has changed the work culture, and companies are devising new means to engage workers and remain profitable during stressful conditions. The work-from-home-culture may see some permanent adaptations as companies who successfully adopt the new means may continue and save money on office maintenance cost. The lockdown has a negative impact on social behaviour as well. A recent study published by the BBC (Liu, 2020) states that there is an increase in divorce petition and more demand for family counsellors due to work pressure and children's presence due to school closures and isolation from normal activities generating abusive behaviour in families. The financial constraints, not enough space to balance work and home activity and different

priorities of each member, also affect mental health. Despite the togetherness of a family lack of means to keep everyone occupied is creating a stressful situation.

9. THE IMPACT OF SENTIMENTS OVER ECONOMIC DEMAND:

There is a more significant drop in sentiments (Ambrocio, 2020) over the COVID-19 and uncertainty attached to it. The household belief that the epidemic will bring more pain in income loss and create health issues is shrinking market demand. The low expectation is creating demand shock with industries downsizing themselves and is the reason for higher unemployment. It is the pessimism and severe conditions and destruction of the market chain, which is pulling the economic conditions in the downward direction.

10. CONCLUSION:

The epidemic has changed the world and demanding new work culture. The uncertainty attached with the epidemic and persisting threat in future require a fresh long term approach. The modified social behaviour requires a business to change strategy to suit the conditions. The current physical display of products and accessories may continue, but the online market has gained much during the crises. The online giant Amazon and others will expand their share at the cost of local store owners. The satisfaction derived from the online transaction will derive future demand; a satisfied customer will adopt present compulsion into a future habit. The business needs to approach the customer from his home and offer them their product and services. The online education will gain ground along with the work-from-home culture. The companies need to do a cost-benefit analysis to decide the up-gradation cost of office to maintain social distance and future health norms or adopt the work-from-home culture. The personal services like beauty parlours and salons, fitness centres and entertainment centres also need to adopt means to keep customers safe and modify their establishment accordingly. The online platforms will expand their presence in different fields, besides existing services like counselling, business meeting, education and entertainment. The government will automate more function to reduce crowding at institutions and companies will try to automate production system to reduce their workforce dependence. Overall old consumer habits that are bound by location and time in which consumers go to the same place, consume the same product and spend specific time will change. The new habits depend on cultural, religious and social acceptance of new norms and the choices available under government safety rules and regulation and supported by technological breakthrough. The world will see more health-related screenings at public places, travel and tourism will suffer most as people will enjoy safely in the vicinity of the home city instead of going abroad with too many health restrictions and a higher risk of the infection. Overall, business establishments will adopt the necessary change in their infrastructure, improved systems, and adoptive safety norms to remain progressive and resilient.

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