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Research Paper

Trends In Financial Environment and Financial Behaviour of Middle Class Families of India in Covid 19 Era

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ABSTRACT: *World over the engine for economic growth is middle class. This is the class that contributes maximum to productive activities of an economy as well contribute maximum to government coffers by paying direct and indirect taxes. Sudden onset of pandemic and lack of preparedness on part of maximum governments has exposed this large part of Indian population to face the maximum brunt and financial damage. This pandemic has exposed the innate weakness that has been there in the financial structure of maximum economies of the world, especially for those that were growing on the large spending rather leveraged expenses (expenses supported by debt) from this middle class. There is going to be an onset of change in financial behaviour of this class that would result into change in how global economies and financial markets and institutions functions and two of the major changes easily identifiable are a long-term change in demand structure for lending products (loans) for higher education as well as for the life style products. Another dimension could be the increased propensity to save so as to manage liquidity issues and contingencies. This piece talks about imminent changes that are visible in financial markets, financial environment leading to changes that will come in the financial behaviour of middle class in India and how this class may now face the blunt of shrink in purchasing capacity along with adoption of more conservative approach towards investments and consumption.*
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I. INTRODUCTION

Middle Class is the backbone of any country and could be considered a responsibility bearer for development of the country along with contributing progressively towards growth both by fiscal and physical contributions. In today's catastrophic world middle class everywhere is under tremendous pressure as they are facing job loss along with compromise on liquidity. This middle class prior to pandemic were key applicants for loans and buying cars and other life style products. India's household consumer demand, is susceptible besides being flappable because of miserable employment scenario accompanied by gross uncertainty, key reason is that most Indian middleclass households have slight or sparse economic resources or means to generate additional income rather additional earning opportunities.

Money left behind after paying routinized expenses especially meeting education, health care and EMI payments, leave alone their non-routine requirements and emergencies is not sufficient to meet their contingencies leave aside generating sufficient funds to sustain a family for a year or so without having any source of income. Under COVID, middle class households are most expected to tolerate the maximum burden of a cost-cutting exercise done by corporates so as to maintain their bottom line. Important point of contention is to keep under consideration that wage bill growth (in real percentage terms) in almost all industrial segments has been decelerating for last 6 years, what is surprising is that even in pre-COVID times employee wage bill and other expenses as a percentage of sales revenue have been raising due to severe dip in sales revenue as economy was contracting and industrial production and consumer expenditure both were having negative trends.

Natural course of action for the corporates was to regress this ratio and attain a more logical proportion and COVID gave them a chance to reverse the trend and reduce the wage bill and employee expenses by retrenching workforce or asking employees to work for reduced payments. As observed, it could be expected that wages and over all remuneration would remain under constant pressure for a very long time to come and reversal in this trend could not be expected anytime soon.

II. PRE-PANDEMIC SCENARIO

Looking back in the past rather in last 10-12 years or so the consumption patter of this middle class changed drastically and there was a big shift from propensity to save to propensity to consume and to consume by taking loans and making consistent EMI Payments. Close look at the recent economic data suggests that savings rate or the proportion of gross domestic savings in GDP were as high as 36.8% of GDP in the year 2008-09, since then it has continuously moved down, reaching almost 30% in the year 2017-18. It is not that India's savings rate has not fluctuated in the past they have fluctuated but the enormousness in addition to the excessive time frame of decline is unparalleled.

India has blooming young population almost about 67.78% of the working population in India is in the bracket of 20-40 years, supported by the young earners majority of middle income households became consumption-centric thereby pushing demand for consumer and lifestyle goods along with primary staples. Increased propensity to consume holds inverse relationship with propensity to save. Decreased capacity and reduced orientation to save lead to marginal decline in physical savings, which was primarily in real estate has declined from 16.2% in the year 2012 to almost 10% in the year 2018. Financial savings in the form of money in savings accounts, fixed deposits, bonds and recurring deposits and other debt instruments also declined too, from 7.6% to 6.2% in the same period.

III. CHANGES INITIATED IN PANDEMIC ERA

The current coronavirus pandemic has initiated several changes and one more prominent in the domain of finance and economics is the change in people’s or in middle classes priority on saving money. Carrying on with traditional Indian pattern of saving for children’s education, marriage and certain other unforeseen circumstances, the Indian middle-class has now started saving money to meet uncertain healthcare expenses and unexpected loss of income.

Another fact brought to the fore with the covid-19 pandemic was the acknowledgement of the universe of migrant, daily wage earners, individual service suppliers, breadwinners who quest for their livelihood, comprising little over 31% of Indian households that roughly contribute 25% to India’s household consumption and allied expenditure. All this was accompanied by mass migration or relocation brought along with their story of struggle as well quest for survival, brought the reckoning and realization that they too up to an extent constitute Indian Middle Class, to put categorically the are called lower middle class.

By contrast to the above fact, the so-called middle class defined by neo-classical definition adopted universally, is actually India’s richest 21% of households, accounting for 35% of country’s consumption.

Current economic and social turbulence has changed the monetary preferences, Covid-19 treatment, unplanned medical emergencies, unexpected loss of income or jobs, and untimely death of the earning member, are now amongst the new primary concerns or primary considerations for the middle-class Indians in comparison to their kids’ education and matrimony. In a recent research, it was establish that the people living in the Indian metro cities are feeling the pinch of pandemic and have started to feel financially least secured almost 48% of respondents expressed deep concerns about their financial conditions and future uncertainties, while those middle class families living in Tier 1 and Tier 2 cities have also expressed similar sentiments but comparatively they sounded more on sound turf and seems to be financially more secured almost 55% quoted that they do not foresee any financial uncertainties in near future nor do they feel financially constrained. Key reason for this finding has been quoted as still low monthly living and consumption expenditure due to lower cost of living index of these cities.

Focusing on expenditure composition there has been a vast differential that has emerged in Indian Metro cities. The ‘I’ value, that is been calculated to represent the security index of the population of India as the numerical value, in concept represents theoretically the degree to which the percentage of population of Indians feel protected from future uncertainties, at preset stands at 46.286 (calculated over median value financial investments and consumption index representation in May-June 2020). The value hence derived significantly shows the sentiments that large urban population of Indians are currently feeling, more and more urban households are feeling attitudinally less secure amidst the COVID-19 crisis especially looking at the extending time-period of pandemic.

IV. IMPACT OF COVID -19 ON CONSUMPTION

Consumption sector can be broadly bifurcated based upon broad definition – the two parts being Fast Moving Consumer Goods and discretionary. FMCG and consumer staples were expected to perform better and showcase strong growth moreover have sustained momentum due to the indispensable (inelastic demand) nature of consumer demand plus upsurge in-home consumption, the non-consumer discretionary companies are likely to have the sharpest in addition being utmost challenging road to retrieval.

The delinquent situation as it is currently is further made more complicated by the severe tightening of lending norm across cross section of retail loans due to contractionary monetary policy stance being in prevalence from last 4 years or so thus, the demand (mostly consumption led or demand pulled), especially for optional or discretionary consumption, is expected to persist under continuous pressure. The shrink in demand volume and value along with lack of spending capacity complemented with reduced disposable income along with high evaluations create the risk-reward scenario for consumption package pretty unappealing even in long run.

V. THE PROLOGUE

Under the changed circumstances the financial environment has gone for major alteration and as major global economies are trying to emerge back from COVID syndrome backed by availability of vaccine as panacea to reinstate pre-COVID normal, the financial behaviour and new financial patterns have started emerging suggesting that in terms of realistic expectations and functioning of financial factors few elements have really changed, new models are to be evolved and middle class investors' financial preferences and investment patterns have changed.

The changes observed could be understood by looking at what just happened in Indian economy and that sets the tone of change and could be accepted as precursor to what to expect next. We recently saw companies with greater export orientation performing comparatively recovered than domestic players, though second and third wave of COVID infection has gripped several countries but brief festive season in India and small opening o period for global markets did gave vent of these export oriented companies to fulfill their outstanding commitments. Major thrust on global markets is also due to strong performance indicators and large moreover bigger stimulus packages being introduced as compared to one offered in domestic market (as seen in a much stronger broad money supply growth internationally, Indian economy's dreamt 'V' curve is still a far-fetched idea).

Next visible element, generates from midcap segment as several pharmaceuticals, chemicals and electronics players recently had high valuations based upon expected fundamental growth backed by vaccine and robust growth supported by COVID as this crises helped these segments to play a critical role and extraordinary returns made by the key players made this segment currently cash rich and optimistically looking for boosting future expansion plans.

Agreed the midcap currently visible and providing growth impetus is still in a nascent stage and macro uncertainties still persist. In the given scenario, balance sheet health comes to be enormously precariously for risk-reward relationship to be pretty attractive. Traditionally, it has been witnessed that after a crisis it is characteristically the cash-rich/healthy balance sheet companies that outperform and lead the stock markets plus economy from the front. This time, it is expected to be not different!

Weakening Dollars is giving a worthy incentive to risk sentimentalities. The global safety trade is undoing – with sector frontrunner, underperforming respective sector slowcoaches. COVID 19 has certainly led to tailwinds for certain industrial sectors that too, over the medium to longer-term like Insurance, Diagnostics, Pharmaceuticals, Information Technology (IT and ITeS), Automobiles and Chemicals. Middleclass and investors seeking cash rich companies with potential to expand in near future would surely like these sectors from medium term investing perspective for next 2-3 years.

Going by innumerable arguments emphasized, it is strongly believed that global liquidity and dollar weakness will ensure that the perceived trend of midcaps outperforming large-caps had better end in the coming months. Despite the fact that Financial Year 2021 is likely to see deterioration in GDP growth over Financial Year2200, it could be expected that there might be a sharp recovery in GDP growth rates in Financial Year 2022. The current rally could be viewed as the market is pricing in future recovery.

VI. EXPECTED CHANGES IN THE FINANCIAL BEHAVIOUR OF MIDDLE CLASS FAMILIES

Backed by the above analysis and changed performance scenario the stock market has also changed, thereby putting pressure on Indian Middle class to look for additional income that is no longer available from interest income due to falling interest rates (not organically but due to government pressure) and poor returns originating from large caps. Dwindling savings, lesser avenues for additional income, staggering fall in GDP, high inflationary trends, high fuel prices, marked by poor visibility to increase in disposable income (in real-terms) are factors that have pushed Indian Middle class to change. Middle class in India has been forced to adopt long-term measures so as to recover from the setback they have faced due to old consumerism, debt based expenditure and experiences of jolts given by Pandemic both at personal and financial levels.

Several consumption habits have changed in middle class consumption patterns in last few months after the onset of pandemic, so did the style of expenditure. Proportionate share in investment pie is also visible for middle class investors. Major change is clearly visible in investments and expenditures in old age security instruments such as NPS and public provident funds etc., buying a house or car, and travelling especially international travel have also taken a beating during perplexing era. Regardless of the government's exertions to create cheaper credit or lower rate of interest carrying loans from public sector banks, extending the moratorium period, individuals are still keeping away from taking new loans as they are not sure about future revenues and cash flows as income levels are uncertain so is the environment engulfing the businesses. Prevailing uncertainty in the business environment coupled with lack of earning opportunities; missing demand tractions, lost jobs or visible chances of losing jobs thus give rise to the fears amongst middle class households that any new obligation for future repayments of EMI may land them into trouble as several households are struggling with their current repayments.

Data released by Reserve Bank of India in its July 2020 bulletin, the credit demand and disbursement landscape of the country has changed significantly especially in last quarter or so. Numbers for personal loans have constricted by 2.9% so far, demand for personal loans, consumer durables has also been shortened by 6.4%, housing credit shriveled by 0.8%, credit card dues clear-fell by 14.2 %, whereas demand for new education and vehicles loans have also been contracted by almost 1% and 2.8% in the same quarter.

Picture hence created gives us a better prologue to what the Indian middle class is set for and how their investment references have started shifting so did the proportion of money that was flowing into different investment instruments. Next are the suggested tentative predictive prognostic changes as they are expected to modify and re-build the financial behaviour of the Indian Middle Class.

Financial Environment is all set to brace the coming challenges and adaptations. Indications to perceived changes are already visible and symptom of continuous rally in Sensex and growing demand for cars are indicators that proposed changes are soon going to be the reality.

The suggested changes are as follows:

1. **Rise in demand for Liquidity and debt products (search for fixed-income streams) –** Uncertainty that marks stock or equity investments makes them really a bad choice for the middle class in the times of the pandemic. The choice of investments with risk are not the call for hour and the same would affect the mutual funds as well thereby affecting the demand for equity led schemes and indexed funds. Middle class investor would like to trade off long-term uncertain expected large gains for the certain small gains available in short duration.

2. **Short-term investment horizon –** Emotional states have been shaken terribly by this pandemic so is the perspective on life and everything else around it so investment preferences and time horizons of investments too have been altered. Most of the individuals are now most concerned about their recent or present state and are incapacitated to think and plan clearly for the long-term though it might seem that this pandemic situation is for short run but the far reaching impact of this event could not be ignored on social and monetary aspects of life. Investments giving returns in short-run are going to become new preference else the recent consumption would be preferred rather than investing in long-term so as to attain objectives of human life stages such as education of children or wedding of children or retirement planning. Focus would be on security and safety along with maintenance of adequate short term liquidity.

3. Contingency planning – Contingency Planning has become the need of the hour as middle class has severely paid the price on the onset of pandemic for not being effectively prepared to meet the contingencies emerging from this pandemic such as increased cost of medical treatments or protection, unexpected loss of income, unexpected increase in expenses and meeting out daily expenses along with extra cost of protection and sanitization. Many families lost their beloved family members or even their sole bread winner. Millions lost source of income or have started working for much less income. It was a double whammy for the middle class as they were struggling and trying to maintain their living standards along with managing loss of lives and income along with facing the brunt of uncertain future.

4. Avoidance of penny stocks, small stocks or mid-cap stocks – Middle class portfolios would first shrink and may show the selling track in small camp and mid-cap stocks which were already under pressure from last 2 years. These stocks would re-emerge winners after sometime as affordability to the large cap would become difficult for the middle class as they might not have enough resources to buy large cap stocks. There are chances of strong triggering of strong selling of stocks to generate additional liquidity to manage living expenses. Priority would be to maintain debt instruments due to security to income whereas dwindling returns and rising uncertainty over returns would prompt the middle class investors to sell their small or mid-caps.

5. **Demand for growth stocks or good large cap stocks along with cash rich midcap will increase –** Increased financial insecurity along with diminished risk taking ability, limited liquidity and higher propensity to consume in real-time would affect propensity to save negatively. The feeling of insecurity and perceived uncertainty would push for investment in cash rich companies.

6. Diminished risk-bearing ability – Availability of limited means to meet needs, shrinkage in real disposable income along with technical recession r stagflation would certainly make middle class cautious of taking risk or investing their savings into stock markets. Forced to fall interest rates have not left much of choice to this class than to put their hard-earned money in dynamic or extra volatile market. Current trends emerging from the Sensex movement suggest large volume trading and it certainly puts lot of implications for a retail investor to ride on top of the wave but we need to understand that it is better to miss the ship rather than venturing on TITANIC.

7. Demand for life-insurance and health insurance will surge – Growth is visible and it is natural also as recent experience and pains has taught us the importance of buying adequate and complete coverage along with the uncertainties that the modern lifestyle and changed natural contextual factors have applied to us in the form of several catastrophic diseases being induced globally one after another.

8. Leveraging or tendency to take loans might increase in long term – After facing great uncertainty usually the value of life along with the fickleness of life becomes evident. People start consuming expensive products, branded products, luxury products as they understand the uncertainties around their lives. These tendencies to consume expensive products do come after lapse of sometime after the finish of the pandemic and becomes a major trend and also helps to get money back into the economy. Though this trend of consumption is mostly backed by borrowing (leveraged consumption) as in Mid-term the available disposable income might not be sufficient to back up this consumption habit. For bringing the point home currently Demand for independent owned vehicles especially cars would increase, rather increasing as preference for use of public transport is on decline keeping in mind the high risk and sensitivity of catching infection.

9. Propensity to save might diminish in long term – Tendency to consume and consume in real time would increase and will hurt propensity to save negatively. Propensity to save would also be hurt by low disposable income, high inflation, lack of secondary income or opportunities to generate additional income. This trend would hurt traditional strength of savings that have been constant saving face and strength of Indian economy amid all economic and financial crises.

10. Demand for self-housing might increase (reasonable housing) – In a traditional economy like India owning an independent house that too with complete ownership right is a long cherished dream. The latest pandemic would certainly have taught the middle class that they might soon need to pay for their mortgages or home loan obligations or if they do not have one then they should soon start the process to buy a house property so as to make their families more secured and comfortable. The demand for housing sector that too reasonable and value for money would soon see a pick up. In India there was an era of inflationary pricing and super normal profits that went down to steep correction in 2015-2016 and still continuing. The COVID - 19 period did created difficult situation for the already sluggish market and the sector might take up time to recover but the era of COVID did presented a new opportunity to develop large value for money community housing projects that would be a great option for Indian Middle class to invest into and fulfill their dreams of self -housing rather than being in rented properties.

VII. CONCLUSION

COVID 19 era has been the testing phase for the Indian middle class as it was elsewhere on the globe. The period tested economies especially the economies which were already moving slowly before the initiation of COVID and India being one of the large economies fall prey to aftermaths of lockdown and global demand shrinkages. As per the research conducted by (YONO-SBI ECOWRAP) the research predicted shrinkage of over 40% (estimated de-growth of -16.5%) in the Gross Domestic Product in Quarter 1 of Financial Year 2021. The official figures released by the government puts country's GDP estimates for Quarter 4 of Financial Year 2020 at 3.1% while the total Gross Domestic Product for Financial Year 2020 was projected at conservative estimates of 4.2% though actual performance was much below the .projected conservative estimates.

India's economy that was by this time suffering from slowdown was sent into frenzy due to COVID and lockdown. Moody's lowered India's projected growth to 5.3% in 2020 due to shortcomings and associated risks of COVID-19. As expected by several experts, the supply side septicity called 'Contagion Effect' impacted all segments of the economy ranging from manufacturing, agriculture to the IT and services industry. Coronavirus Pandemic brought different segments (almost entire economy) to the halt thereby hitting deep into the life of common men especially those with limited means.

The changed economic trajectory severely altered the economic environment of the country and middle class of the country gave a hearty resistance and showed never say die spirit to survive and thrive even amidst the several odds being imposed. Changed circumstances necessitated the changes in consumption habits and spending patterns of the common man so as to survive the pandemic and this changes so adopted would surely deliver far reaching impact in the time to come. Some of the effects of the aftermath of pandemic are already visible rest would surely be unfolded soon.

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