

Impact of the Pandemic Covid 19 on Private Consumption – Early estimates for FY 2020-21

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Abstract

The pandemic COVID 19 has created a unique challenge, which is complex and unpredictable. This is a crisis like no other, and there is substantial uncertainty about its impact on people's lives and livelihoods. Unprecedented support to households, firms, and financial markets, are being provided by the government, which is crucial for a strong recovery, but there is considerable uncertainty about potential impact of the present crisis on the economy. The pandemic has triggered both supply and demand side shocks across economies around the world as labour stayed away from work and consumption of goods and services dependent on customer mobility fell. Further, the pandemic has brought about a change in spending patterns and behavioral changes (such as people avoiding shopping malls and public transportation). In this paper an attempt has been made to estimate Private Final Consumption expenditure for the first quarter (April-June) of 2020-21 and FY 2020-21 to provide information on the impact of COVID 19 pandemic on Private consumption.

JEL classification codes D12, E21

Key words: Households, consumption, consumer expenditure

Introduction

As on 15th July 2020, COVID-19 in India has infected 936181 people and claimed 24,309 lives. However, the graded, pre-emptive and pro-active steps taken by Government of India along with States/UTs for prevention, containment and management of COVID-19, have taken the recovery rate up to 63 per cent. India imposed a strict lock-down from 25th March 2020. April, 2020 was the month of economic standstill and restrictions on various activities eased in May, 2020 that in turn made the containment of the pandemic more challenging. As restrictions were further eased, the country entered the unlock phase in June, 2020. The pandemic has triggered both supply and demand side shocks across economies around the world as labour stayed away from work and consumption of goods and services dependent on customer mobility fell. Further, the pandemic, has brought about a change in spending patterns and behavioral changes (such as people avoiding shopping malls and public transportation) . In this paper an

attempt has been made to estimate Private Final consumption expenditure(PFCE) for the first quarter of 2020-21 and for FY 2020-21.

Methodology

The methodology used is same as that used for compiling advance /quarterly estimates of PFCE. For the commodity-wise estimates of PFCE, physical indicators are used for each commodity of expenditure. These indicators in respect of agricultural commodities are the trend growth in consumption of food items. For the services, indicator used is the output of services, as estimated for compiling Gross value added (GVA) of services using production approach. The annual current price estimates so obtained are apportioned to quarters on the basis of proportions derived from bench mark estimates in the case of food items. (Quarterised PFCE data for the year in which the consumer expenditure survey was conducted, forms the benchmark estimates). For other items, the distribution is on the basis of quarterly proportion of output of relevant groups. For compiling constant price estimates, a weighted average of CPI and WPI is used as a deflator.

For estimating, annual estimates of PFCE at current prices, supply side estimates are first compiled. The supply side estimates (GVA/output estimates) has been compiled based on methodology used for compiling advance /quarterly estimates of GDP. As the estimate is compiled specifically in the context of the COVID-19 pandemic, information such as existing statistical data; manufacturing PMI, publicly released facts, including media releases and general public statements by businesses and government have also been used. As the scope of this paper is to present economic impact of COVID on private consumption, GVA estimates have not been presented in this paper.

The data sources used for compiling supply side estimates are estimates of Crop production during the Rabi season of agriculture year 2019-20 and Kharif production targets for 2020-21, accounts of Central & State Governments, Indicators like Deposits & Credits, Passenger and Freight earnings of Railways, Passengers and Cargo handled by Civil Aviation, Cargo handled at major Sea Ports, Sales of Commercial Vehicles, etc., available for first 3 months of the financial year, manufacturing PMI and other information available in the public domain.

Results:

At current prices Private Final consumption expenditure is expected to grow by 3.2% and at constant prices the PFCE growth is expected to be (-)1.1 %. The PFCE price deflator growth therefore is estimated at 4.3%. For the first quarter of 2020-21 the PFCE is estimated to grow by 2.0% at current prices and by (-)3.03% at constant prices and PFCE price deflator growth is estimated at 5.4%.

PRIVATE FINAL CONSUMPTION EXPENDITURE (GROWTH IN CURRENT PRICES)

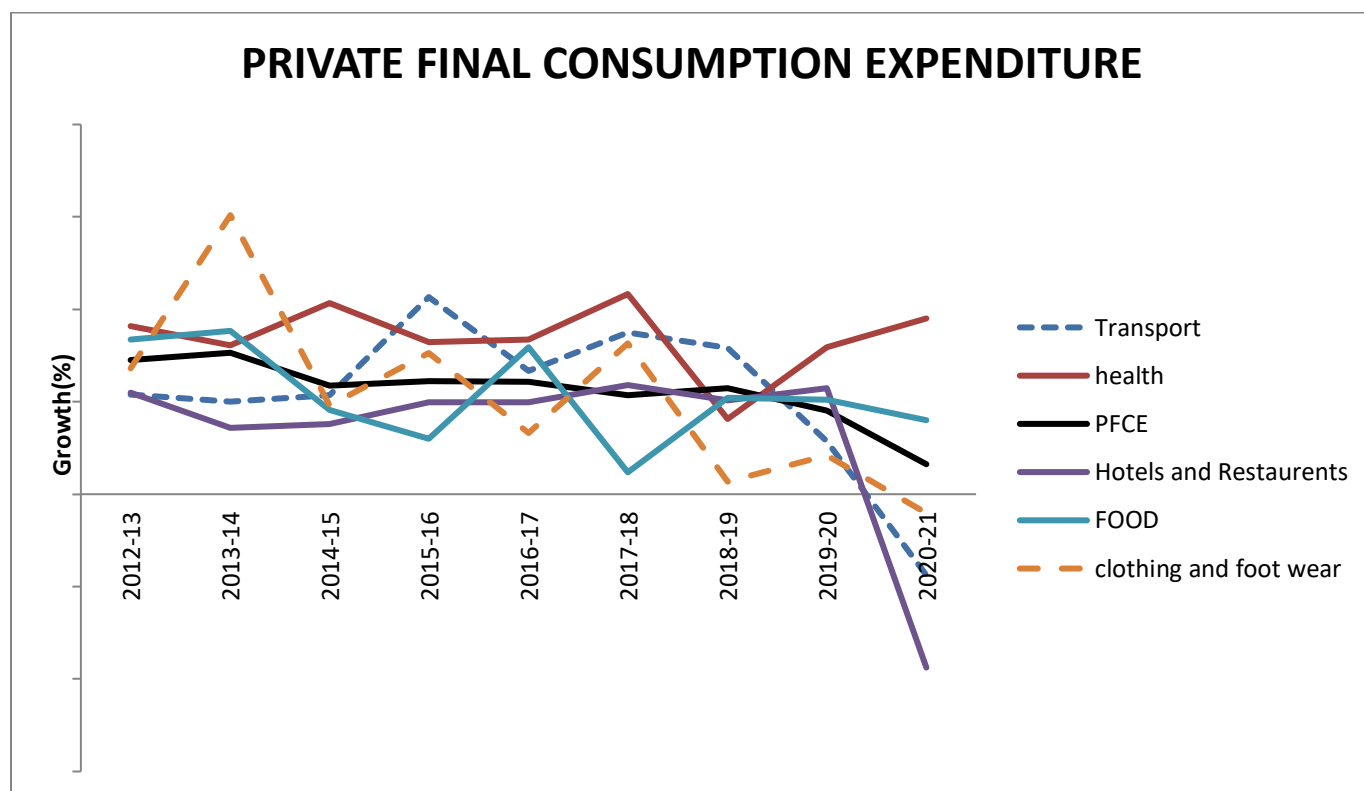
By purpose	2012-13 [@]	2013-14 [@]	2014-15 [@]	2015-16 [@]	2016-17 [@]	2017-18 [@]	2018-19 [@]	2019-20 [@]	2020-21
Food and non-alcoholic beverages	16.8	17.7	9.1	6.0	15.9	2.4	10.5	10.2	8.0
Alcoholic beverages, tobacco and narcotics	3.8	10.6	18.0	7.5	5.5	-0.2	17.3	7.0	-2.0
Clothing and footwear	13.6	30.2	9.6	15.3	6.6	16.3	1.3	4.2	-2.0
Housing, water, electricity, gas and other fuels	14.8	13.1	9.8	5.8	7.1	9.4	10.3	5.9	2.1
Furnishings, household equipment and routine household maintenance	13.7	15.2	11.2	7.8	11.6	15.9	1.7	-4.3	-44.0
Health	18.2	16.1	20.7	16.5	16.8	21.7	8.1	15.9	19.0
Transport	10.8	10.0	10.7	21.3	13.4	17.5	15.9	5.7	-8.8
Communication	11.0	12.2	26.6	4.9	3.3	-1.1	46.8	0.6	10.0
Recreation and culture	7.5	10.9	13.5	3.5	6.3	10.7	7.7	15.9	-19.0
Education	16.0	13.7	14.3	16.4	15.3	17.4	15.9	15.9	14.7
Restaurants and hotels	11.0	7.1	7.6	10.0	9.9	11.8	10.1	11.5	-18.8
Miscellaneous goods and services	16.4	14.7	16.5	24.9	12.3	16.2	11.4	14.7	12.5
PFCE	14.5	15.3	11.8	12.2	12.1	10.7	11.5	9.0	3.2

Source: @ NSO estimates.

There is an inevitable decline in expenditure on categories like clothing and foot wear, transport, Recreation and culture, restaurants and hotels and furnishings, household equipment and routine household maintenance. However, consumers continue to spend and in some cases, spend more

compared to pre-pandemic levels—on some categories like Food and non-alcoholic beverages, health, communication and education.

Graph No.1



Conclusions:

Early estimates of PFCE for FY 2020-21 and first quarter of 2020-21 have been compiled using as much contemporaneous information available as possible. The purpose of these early estimates is to understand the potential impact of the present health crisis on the economy on private consumption. This early estimates are based on qualitative and quantitative information such as existing statistical data, publicly released facts, including media releases and general public statements by businesses/institutions.

It is concluded that during lockdown, households consumption was greatly restricted and the pandemic has generated significant disruptions on consumer behavior. However, consumers may refrain from spending all of their surplus savings. Even though strict lockdown restrictions

have been lifted, preventive measures such as social distancing could continue to put a damper on household spending. Given the high level of uncertainty surrounding the epidemic, households may decide to postpone purchases and continue to moderate their consumption. The inevitable decline in expenditure on transport, restaurants and hotels, Recreation and culture is a reflection of social isolation levels and travel restrictions.

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Quarterly