

# Impact of Inflation of the Household Spending Power

A. Sulekha, R. Francina Pracila Mary, Tharmalingam

**Abstract:** Rise in inflation influences different category of people differently. From common man’s point of view inflation means increase in price of goods and services on day to day bases. People with fixed income employed in either public or private sector organisations or Self-employed, working in unorganised sector are considered as victims of rising inflation, as inflation influences the consumption, spending and investment practices of the households. This study aims to assess the relationship between inflation and individual household spending. The empirical findings of this study complement the economic theories and evidences that inflation also increases the cost of living, price of commodities and reduces the opportunities of getting goods jobs. This situation directly influences households’ income and their spending capacities.

**Keywords:** Household Income, Spending, Consumption Power and Inflation

## I. INTRODUCTION

Growth in Indian economy is widely evidence since the introduction of new economic policies in 1991. Positive growth in the economic condition of the nation has given positive sign of growth and prosperity in the life of common man living in this country (India), where people prefer to spend whatever money they earn to build-in their comfort level or to enhance its standards. In an economy, if common man become thrifty and they start spending ever single penny they earn, it leads to money velocity, that in turn increase inflation rates. Besides, the above mentioned factor there are various external growth in production level, increase in crude oil price at international level, increase in import cost, rise in dollar value etc growth in production level, increase in crude oil price at international level, increase in import cost, rise in dollar value etc factors like: economic development, The issues created by rising inflation is very critical and its need to solve then and there to prevent both economy and common man from its damages. From common man’s point of view inflation means increase in price of goods and services on day to day bases. People with fixed income employed in either public or private sector organisations or Self-employed, working in unorganised sector are considered as victims of rising inflation, as inflation influences the consumption, spending and investment practices of the households.

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\*Correspondence Author(s)

**Dr. A. Sulekha**, HOD & Asst. Professor, Department of Commerce, V.L.B. Janakiammal College of Arts and Science, Coimbatore, Tamilnadu (India)

**Dr. R. Francina Pracila Mary**, Asst. Professor, Department of Commerce (CS & IT), V.L.B. Janakiammal College of Arts and Science, Coimbatore, Tamilnadu (India)

**A. Tharmalingam**, Associate Professor, Department of Commerce (CA) Sri Ramakrishna College of Arts & Science Coimbatore, Tamil Nadu, (India)

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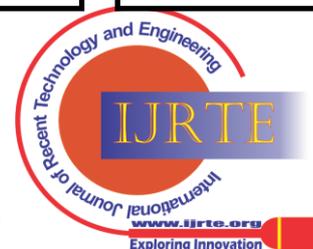
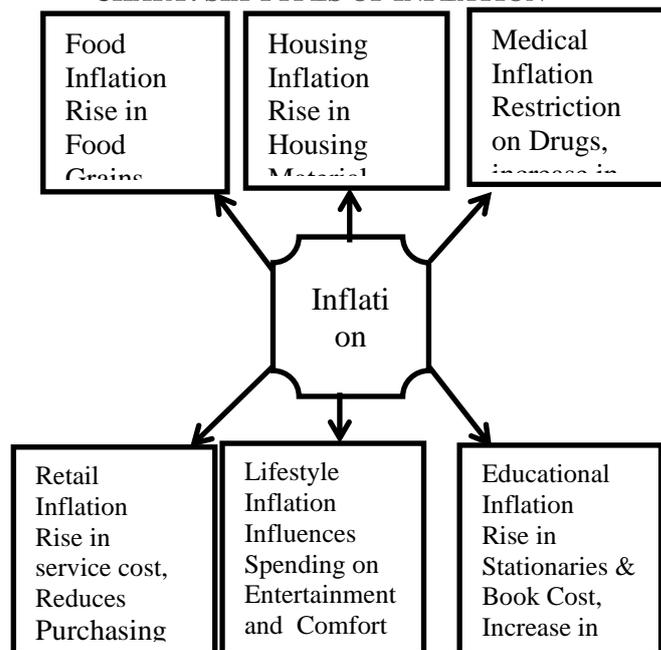
## A. Focus on Research Issue

Rise in inflation influences different category of people differently. Management of inflation by individuals and their family is generally depends on their financial ability to face the rise in product price, income level of individuals and their ability of consumption, spending and buying power. To manage the impact of inflation different segment of families apply different techniques and that rate of inflation varies from one Indian regional state to other based on the local Government policies. For example inflation rate is high in Maharashtra (13.20 per cent), Uttar Pradesh (12.4 per cent), Tamil Nadu (7.3 per cent), Jammu and Kashmir (0.94 per cent), Puducherry (0.17 per cent) and Sikkim (0.05 per cent).

## B. Classification of Inflation

Inflation always induces negative effects not only on the economic growth and performances, but it also influences the living standards of individuals as its reduced the real values of money, reduces the purchasing power of money, creates unemployment in the economy, shortage in good job opportunities, leads to shortage of manufactured goods, increase price of the commodities and many more. Reduction in common man’s spending and buying powers directly influences their consumption activities, which in turn influences business of all class of people i.e., right from manufactures, retailers and the various service providers.

CHART: SIX TYPES OF INFLATION



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Source: <http://www.rediff.com/business/report/infla-6-types-of-inflation-that-affect-our-daily-finances/20150601.htm>

Since, inflation create situation of readiness to spend, eminent economists predict that six type of inflation effect individuals i.e., individuals consumption of goods and service, purchasing power and spending activities. The average inflation rate of India was recorded at five per cent, which were 0.3 per cent less than the experts' prediction. The food and beverages inflation of the nation reduced to 3.18 per cent in the month of June compared to 3.37 per cent in May 2018. Similarly, it has been observed that inflation rate of other essential commodities, products and services also registered either increase of decrease like: Fruits inflation reduced from 12.33 percent to 10.13 percent, prepared meals, snacks, sweets etc., reduced from 8.04 percent to 7.8 percent, meat and fish (3.53 percent vs 2.41 percent), vegetables (4.83 percent against 4.98 percent); milk and products (3.04 percent against 3.2 percent) and prices of certain commodities reduced like: pulses and products (-10.87 percent against -11.57 percent) and sugar and confectionery (-7.11 percent against -8.12 percent). On the other hand, prices of the following commodities rose: eggs (5.85 percent against 5.78 percent), oils and fats (2.62 percent against 2.46 percent), non-alcoholic beverages (1.96 percent against 1.8 percent), spices (2.37 percent against 1.54 percent), housing (8.45 percent against 8.4 percent in May); fuel and light (7.14 percent against 5.8 percent); clothing and footwear (5.67 percent against 5.47 percent); pan, tobacco and intoxicants (8.05 percent against 8 percent) and miscellaneous (5.74 percent against 5.35 percent).

### III. AIMS OF THE ARTICLE

To assess the relationship between inflation and individual household spending.

#### A. Material and Methodology

Alike all social science research works, in this article too, qualitative and quantitative research techniques were adopted for effective working of this research article. The study applied descriptive research methodology to reveal its fact and information collected through filed survey. Coimbatore district was selected as the area of the study. Families residing in district were considered as sample. The research work adopted convenience sampling technique for the data collection with the support of well-structured close ended questioner. Survey was conducted among 470 household i.e., families living in Coimbatore district and required data were collected by Applying convenient sampling technique.

#### B. Empirical Results and Discussions

To assess the impact of inflation on families, a sample of 470 respondents approached, the sample populations were equally distributed men and women population living in Coimbatore city. The study observed that 66.23 per cent of the sample subjects were aged between 31-40 years, 74.89 per cent of the population were married, 34.04 per cent of the sample were found to be well educated i.e., graduates and employed in private sector organisation in a formal white collar jobs. It has been observed that 68.30 per cent of the families participated in the survey were nuclear in their formation. Around 41.06 per cent of the

respondents live in ownhouses and 60 per cent of the households do not have any additional sources of income, i.e., they have to manage with the limited income Rs.10000 or less (31.70 per cent), Rs.10001-Rs.20000 (30.85 per cent) and Rs.20001-Rs.30000 (26.38 per cent). All the families are found to be middle income households as per the NCAER (National Council for Applied Economic Research) i.e., those families income fall with Rs. 200000 (Two lakhs) to Rs.10,00,000 (Ten Lakhs) are categorised as middle income families.

**TABLE: 1**  
**HOUSEHOLDS' OPINION ON DIRECT**  
**IMPACTS OF INFLATION ON THEIR LIFE STYLE**

Variables	Sum	Mean	Rank
Cut-Down in Job	2889	6.15	1
No Increments in Salary / Earning	2587	5.50	4
Reduction in Disposable Income	2509	5.34	5
Increase of All Commodities Prices (Food & Non-Food Expenses)	2748	5.85	3
Increase in Fuel Cost	2752	5.86	2
Increase in Interest Rates On Borrowing from Financial Institutions (Banks)	2363	5.03	7
Crunch in Money Supply	2476	5.27	6
Reduction on Savings	2293	4.88	8
Other	2150	4.57	9

Source: Primary Data

Out of 470 respondents surveyed, 81.92 per cent of households strongly agree that rise of inflation rates results in increase of all commodity prices and it severely affects the common man living in India. As reaction to the mounting inflation 68.33 per cent of the households have realised the pinch of job cut-down in the industries and various service sectors. Subsequently the respondents have opined that there is rise in inflation resulting increase in fuel cost, increase in all commodities prices (food & non-food expenses) and they also faces sluggishness in salary / earning increments. These variables are ranked Further, it has been observed that the respondents are affected by reduction in savings and they also face various problems like: increase in house rent, traveling expenses etc., due to inflation. These factors are ranked in eighth and ninth position with an average score of 4.88 and 4.57, accordingly.



TABLE: 2

Factors	Factors				
	Sudden Increased	Steadily Increased	Marginal Increased	No change	Decreased
<b>Food &amp; Other Edible Products Prices</b>					
X <sub>1</sub> -Food Grains	-	-	-	.8	-
X <sub>2</sub> -Pulses & Dals	-	-	-	.7	-
X <sub>3</sub> -Other food items	-	-	-	.5	-
X <sub>4</sub> -Fruits	-	-	-	-	.54
X <sub>5</sub> -Vegetables	-	-	-	-	.75
X <sub>6</sub> -Oil, Ghee etc.	-	-	-	-	.76
X <sub>7</sub> -Milk & Milk Products	.6	-	-	-	-
X <sub>8</sub> -Egg, Meat, Fish, Chicken	.6	-	-	-	-
<b>Basic Domestic Amenities Price</b>					
X <sub>9</sub> -House Rent	.67	-	-	-	-
X <sub>10</sub> -Cooking Fuels / Gas etc.	.72	-	-	-	-
X <sub>11</sub> -Electricity Bills	-	-	.71	-	-
X <sub>12</sub> -Water Bills	-	-	-	-	-
<b>Cost of Other Expenses</b>					
X <sub>13</sub> -Drugs & Medicines	-	-	.50	-	-
X <sub>14</sub> -Transportation Cost	.51	-	-	-	-
X <sub>15</sub> -Vehicle Fuels	-	-	-	-	-
X <sub>16</sub> -Tax Rates	-	-	.65	-	-
X <sub>17</sub> -Cost of News Papers	-	.7	-	-	-
X <sub>18</sub> -Cost of Entertainment	-	.7	-	-	-
X <sub>19</sub> -Other cost	-	.7	-	-	-
<b>Eigen value</b>	<b>3.59</b>	<b>3.3</b>	<b>3.28</b>	<b>3.2</b>	<b>3.233</b>
<b>% of Variance</b>	<b>18.943</b>	<b>17.</b>	<b>17.297</b>	<b>17.0</b>	<b>17.016</b>
<b>Cumulative%</b>	<b>18.943</b>	<b>36.390</b>	<b>53.688</b>	<b>70.704</b>	<b>87.720</b>
<b>Reliability Analysis Result -Cronbach's Alpha</b>	.897	.80	.757	.71	.685
KMO's Measure of Sampling Adequacy	.869				
Bartlett's Test of Sphericity Approx. Chi-Square	3190.752				
DF	171				
Sig	.000				

Level of Significance: 5 per cent

In this study, the value of KMO for overall matrix was found to be excellent (0.869) and Bartlett's test of Sphericity was highly significant (p<0.05). Bartlett's Sphericity test was effective, as the chi-square value draws significance at five per cent level. The results thus indicated that the sample taken was appropriate to proceed with a factor analysis procedure. Factor Analysis was used to find out the households' level of perception towards the rise of inflation rates. The Cronbach's reliability values (.897, .807, .757, .718 and .685) indicate that there exists significant correlation among the variables tested.

Five factors extracted together account for 87.720 percent of the total variance (information contained in the original 19 variables). This is very good because the researcher is able to economize on the number of variables (from 19 the researcher has reduced it to five underlying factors), while the data lost was only about 12.280 percent of the information content (87.720 percent is retained by the five factors extracted out of the 19 original variables). Since the idea of factor analysis is to identify the factors that meaningfully summarize the sets of closely related variables, the rotation phase of the

factor analysis attempts to transfer initial matrix into one that is easier to interpret. Equamax Rotation Method is used to extract meaningful factors.

### III. FINDINGS AND CONCLUSION

The empirical findings of this study complement the economic theories and evidences that inflation also increases the cost of living, price of commodities and reduces the opportunities of getting goods jobs. This situation directly influences households' income and their spending capacities. As per the RBI (Reserve Bank of India) Report made on 1st August, 2018 inflation rates of both foods and fuel have significantly increased in the recent past. The Government of India is taking number of steps to curtail the rise in inflation like announcing MSP (Minimum Support Price) provided to the agriculturist of various food crops, revamping public welfare and financial supports offered to the public, increase in taxation policy of the Government, motivating industries to produce more, cutting down import bills of crude oil and gold and also by increasing the salary limits of public sector employees.



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But, the myth is that the both common man i.e., the consumers living in middle income family set-up, employed in unorganised sector, poor and the small retailers, MSMEs (Micro, Small and Medium Scale Entrepreneurs) are really feeling the pinch of inflation rise. These category of the population act as both the buyers and sellers and for them inflation is unmanageable even after many measures, policy changes and restriction levied by the Government in reducing the inflation rate and its impact on common man.

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### AUTHORS PROFILE

**Dr. A. Sulekha**, HOD& Asst. Professor, Department of Commerce, V.L.B. Janakiammal College of Arts and Science, Coimbatore, Tamilnadu (India)

**Dr.R. Francina Pracila Mary**,Asst. Professor, Department of Commerce(CS & IT), V.L.B. Janakiammal College of Arts and Science, Coimbatore, Tamilnadu (India)

**A. Tharmalingam**, Associate Professor, Department of Commerce(CA) Sri Ramakrishna College of Arts &Science Coimbatore,Tamil Nadu,(India)