

EFFECT OF CONSUMER PERCEPTION ON MICRO & SOCIAL ECONOMIC VARIABLES

An Empirical Analysis of Consumer Characteristics on Consumer Perception

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1. ABSTRACT

Consumer's expectations depend on their perception, consumer perception on employment condition, price level, and spending are the key indicators for consumer buying decision. Based on current prospective they make their future decisions which directly affect the inflation levels and economy as a whole. The objective of this study is to find out how consumer prospective and consumer characteristics affects the consumer confidence in buying decision and how it affects their willingness for spending. This study discovers how consumer characteristics like Occupation, Qualification, Income level, Age and Demography effect their choice considering Social and Micro economic variables like economic condition, employment, Inflation, Income and Spending.

KEYWORDS: Consumer Characteristic; Consumer Confidence Survey; Inflation expectations; Income; Spending; Socio Economic variables; Micro Economic Variables

2. INTRODUCTION

In this study we attempt to find out wither or not consumer perception changes, if they are classified in different groups based on their characteristics like Occupation, Qualification, Income level, Age and Demography. (Raynard, 2008; Del Giovanne et al, 2009) Studies disclose that these household's characteristics make significant effect households Perception about inflation. Ehrmann et al (2017) also discover significant influence of consumer attitudes on inflation expectations.

RBI conducting Consumer Confidence Surveys in major cities in India, to monitor the consumer expectation on micro and social economy variables. It is the important indicator for policy makers, corporate entities and Investors to take their policy making decisions, so it becomes significantly important to study the respondents in each category distinctly using CCS dataset.

Consumer Confidence Survey dataset helps us to find out the indicators which affect the inflation and other expectations of Indian consumers. We discover that inflation expectations of consumers depend largely on perceptions for their income expectation and current spending; the dataset also helps us to study the outlook of households on the economy condition, employment scenario and price levels.

3. LITERATURE REVIEW

Bryan and Venkatu (2001) Study the formation of households expectation about inflation in US. They found that household perceives the current inflation scenario to make their spending decisions wither their spending on essential item or non essential household items.

Blanchflower and MacCoille (2009) Study different datasets to estimate the degree of dissimilarities across different demographic factors. They found out that there are discrimination in the inflation expectation formation according to the characteristic like Occupation, Qualification, Income level, demography, and employment of hoshholds.

Li, (2011) study the perception ability of consumer confidence indicators for macro-economic Variations. Consumer expectations individually or combination with other macro-economic variables causes the change in the growth rates of industrial output.

Utaka, (2003) Consumer perception about inflation and economic condition has vital impact on the economic growth of Japan.

Ma et al. 2011 individual purchases are likely dependent on a customer personal income up to the extent to which the economy influence the consumers' perception.

More recently, researchers have begun to study the effects of changes in the economic climate on individual expectation such as price change (e.g., Gordon et al. 2013), desire for essential and nonessential items (e.g., Kamakura and Du 2012).

4. SAMPLING AND DATA COLLECTION

Secondary data from RBI's CCS which publishes frequently is used for this study. The survey data is used by the RBI to form CCI every quarter which reveal the consumer sentiments about economic condition, employment, inflation, income and households spending. For the purpose of this study all data collected by RBI in 2018 is merged to get the complete picture of consumer prospective for the year 2018 covering surveys conduct in March, May, June, September, November and December. Out of the total 35400 respondents 14942 respondents is selected for this study. The criteria of selection of data consist of groups identified based on their Occupation, Education Qualification, Annual Income and Age.

Secondary data were retrieved from <https://dbie.rbi.org.in/> to analyze a dataset from 13 major cities in India to showcase the complete picture of consumer prospective. The sole Purpose of such classification of consumers based on their characteristic is to find out how consumer perception changes based on their sentiments about economic condition, employment scenario and inflation.

After sorting and filtering the dataset, following consumer groups is selected for further study.

- 4.1 Illiterate Daily Workers** - This consumer group covers in total 714 respondents, who are not literate and only occupied in daily wage job. This group covers 4.78% of the total sample size.
- 4.2 Literate Daily Workers** - Total 2575 respondents amount to 17.23% of the total sample size covers qualification up to graduation and those engaged in daily wage job only.
- 4.3 Salaried Person** - This group consists of 3483 respondents, who get a fix monthly salary up to 3 lakh per annum. This group covers 23.31% of the total sample size.
- 4.4 Self Employed/Business class** - This group covers total 5852 respondents which includes only literate self employed who is earning income up to 3 lakh from all type of business activities. This group covers 39.16% of the total sample size.
- 4.5 Unemployed Graduates** - This group covers 2318 respondents who are qualified up to the level of post graduation but currently unemployed or seeking a job. This group covers 17.23% of the total sample size.

The secondary data is further classified in two parts - the current situation (Compared to one year ago) and expectations for next year. The responses are collected on a three-point scale – either Improved/Remain same/Worsened or Positive/No change/Negative. The survey also contains wide demographic characteristics of households, covering 13 major cities in India including their Occupation, Qualification, Income level, Gender, Age, Annual income and employment status, which makes the dataset suitable for this study.

RBI's consumer confidence survey dataset is based on the respondent's opinion about the (1) Economic conditions (2) Employment conditions (3) Family Income. Survey participants are asked to answer each question as "Positive", "Negative", or "Neutral". These indicators determine the actions of the consumer about the present and future consumer perception for micro and social economic factors.

5. DATA ANALYSIS

Table 1 - Showing Respondents Group’s prospective on Social and Micro Economic Variables

| Micro-Economic Variables | Consumer Prospective (Compared to One Year Ago) | | | | | | | Consumer Prospective (in Upcoming in Year) | | | | | | |
|----------------------------|--|------------|---------------|---------------|----------|---------|--------------|--|---------------|------------------|-------------------|-------------|------------|--------------|
| | Improved | Improved % | Remained Same | Remain Same % | Worsened | Worse % | Net Response | Will Improve | Will Improve% | Will Remain Same | Will Remain Same% | Will Worsen | Will Worse | Net Response |
| Economic Condition | | | | | | | | | | | | | | |
| Illiterate Daily Worker | 210 | 29.41 | 220 | 30.81 | 284 | 39.78 | 714 | 350 | 49.02 | 165 | 23.11 | 199 | 27.87 | 714 |
| Literate Daily Worker | 865 | 33.59 | 559 | 21.71 | 1151 | 44.70 | 2575 | 1317 | 51.15 | 511 | 19.84 | 747 | 29.01 | 2575 |
| Salaried Class | 1348 | 38.70 | 824 | 23.66 | 1311 | 37.64 | 3483 | 1963 | 56.36 | 733 | 21.05 | 787 | 22.60 | 3483 |
| Self Employed | 1999 | 34.16 | 1135 | 19.40 | 2718 | 46.45 | 5852 | 2901 | 49.57 | 1222 | 20.88 | 1729 | 29.55 | 5852 |
| Unemployed | 1062 | 45.82 | 500 | 21.57 | 756 | 32.61 | 2318 | 1455 | 62.77 | 439 | 18.94 | 424 | 18.29 | 2318 |
| Employment Scenario | | | | | | | | | | | | | | |
| Illiterate Daily Worker | 224 | 31.37 | 165 | 23.11 | 325 | 45.52 | 714 | 359 | 50.28 | 160 | 22.41 | 195 | 27.31 | 714 |
| Literate Daily Worker | 858 | 33.32 | 523 | 20.31 | 1194 | 46.37 | 2575 | 1356 | 52.66 | 513 | 19.92 | 706 | 27.42 | 2575 |
| Salaried Class | 1299 | 37.26 | 898 | 25.76 | 1289 | 36.98 | 3486 | 1922 | 55.18 | 804 | 23.08 | 757 | 21.73 | 3483 |
| Self Employed | 1682 | 28.74 | 1294 | 22.11 | 2876 | 49.15 | 5852 | 2817 | 48.14 | 1370 | 23.41 | 1665 | 28.45 | 5852 |
| Unemployed | 873 | 37.66 | 581 | 25.06 | 864 | 37.27 | 2318 | 1339 | 57.77 | 504 | 21.74 | 475 | 20.49 | 2318 |
| Inflation | | | | | | | | | | | | | | |
| Illiterate Daily Worker | 538 | 75.35 | 152 | 21.29 | 24 | 3.36 | 714 | 503 | 70.45 | 181 | 25.35 | 30 | 4.20 | 714 |
| Literate Daily Worker | 1899 | 73.75 | 514 | 19.96 | 162 | 6.29 | 2575 | 1722 | 66.87 | 721 | 28.00 | 132 | 5.13 | 2575 |
| Salaried Class | 2511 | 72.09 | 802 | 23.03 | 170 | 4.88 | 3483 | 2298 | 65.98 | 1054 | 30.26 | 131 | 3.76 | 3483 |
| Self Employed | 3919 | 66.97 | 1618 | 27.65 | 315 | 5.38 | 5852 | 3499 | 59.79 | 2071 | 35.39 | 282 | 4.82 | 5852 |
| Unemployed | 1710 | 73.77 | 487 | 21.01 | 121 | 5.22 | 2318 | 1528 | 65.92 | 697 | 30.07 | 93 | 4.01 | 2318 |
| Income | | | | | | | | | | | | | | |
| Illiterate Daily Worker | 143 | 23.29 | 259 | 42.18 | 212 | 34.53 | 614 | 363 | 50.84 | 260 | 36.41 | 91 | 12.75 | 714 |
| Literate Daily Worker | 549 | 21.32 | 1207 | 46.87 | 819 | 31.81 | 2575 | 1287 | 49.98 | 960 | 37.28 | 328 | 12.74 | 2575 |
| Salaried Class | 1264 | 36.29 | 1784 | 51.22 | 435 | 12.49 | 3483 | 2137 | 61.36 | 1138 | 32.67 | 208 | 5.97 | 3483 |
| Self Employed | 1234 | 21.09 | 2605 | 44.51 | 2013 | 34.40 | 5852 | 2840 | 48.53 | 2210 | 37.76 | 802 | 13.70 | 5852 |
| Unemployed | 713 | 30.76 | 1182 | 50.99 | 423 | 18.25 | 2318 | 1397 | 60.27 | 764 | 32.96 | 157 | 6.77 | 2318 |
| Spending | | | | | | | | | | | | | | |
| Illiterate Daily Worker | 591 | 82.77 | 108 | 15.13 | 15 | 2.10 | 714 | 617 | 86.41 | 68 | 9.52 | 29 | 4.06 | 714 |
| Literate Daily Worker | 2025 | 78.64 | 457 | 17.75 | 93 | 3.61 | 2575 | 2116 | 82.17 | 344 | 13.36 | 115 | 4.47 | 2575 |
| Salaried Class | 2834 | 81.37 | 581 | 16.68 | 68 | 1.95 | 3483 | 2924 | 83.95 | 495 | 14.21 | 64 | 1.84 | 3483 |
| Self Employed | 4505 | 76.98 | 1138 | 19.45 | 209 | 3.57 | 5852 | 4653 | 79.51 | 1003 | 17.14 | 196 | 3.35 | 5852 |
| Unemployed | 1906 | 82.23 | 365 | 15.75 | 47 | 2.03 | 2318 | 1971 | 85.03 | 298 | 12.86 | 49 | 2.11 | 2318 |

Table 1 represents the respondent’s response in volume and percentage for 5 consumer groups covering Economic condition, Employment scenario, Inflation, Income and Spending. It is presumed that Consumer with the positive outlook on their employment expectation has lower inflation expectation and on the other hand household with a positive outlook on the spending have a higher inflation expectation. All 5 Micro and Social Economic variables are studied separately to conclude the results.

5.1 Consumer Perception on Economic Condition

Figure 1 gives a summary of all 5 respondents groups in consolidated manners. In context of Daily workers higher percentage in “Red” column implies that the group opinion on improvement of economic condition is unfavorable. For instance, almost 46 percent of the respondents believe that the economic condition has been worsening since 2017. Across gender this bifurcation is 48 percent for males and 44 percent for females. A greater Percentage of respondents belonging to daily worker category has similar opinion. economic perceptions are more or less similar across the salaried class group.

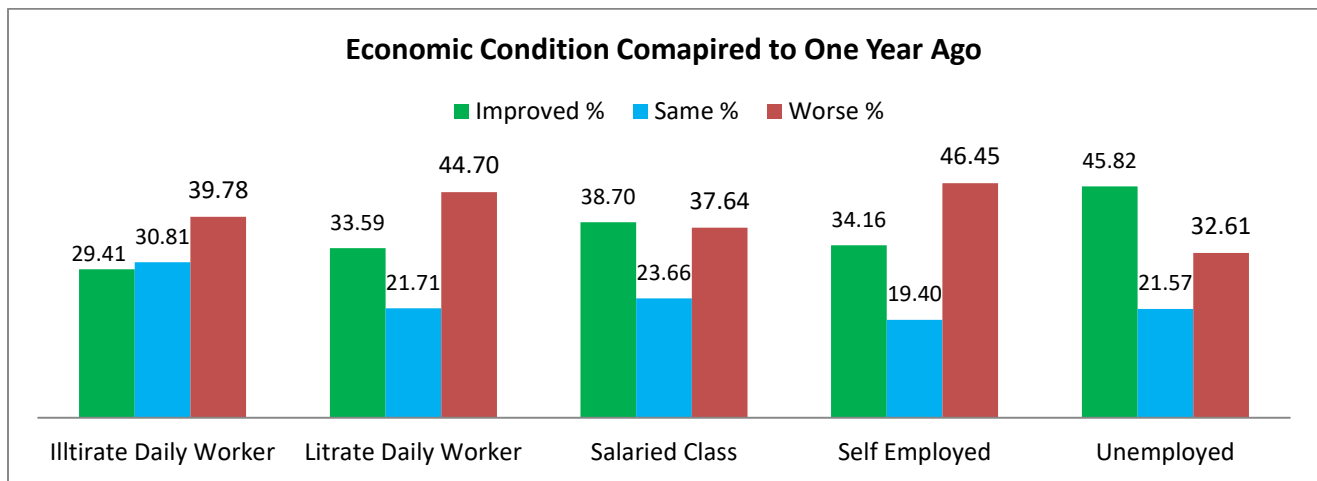


Figure 1 - Consumer Prospective on Economic Condition (Compared to One Year Ago)

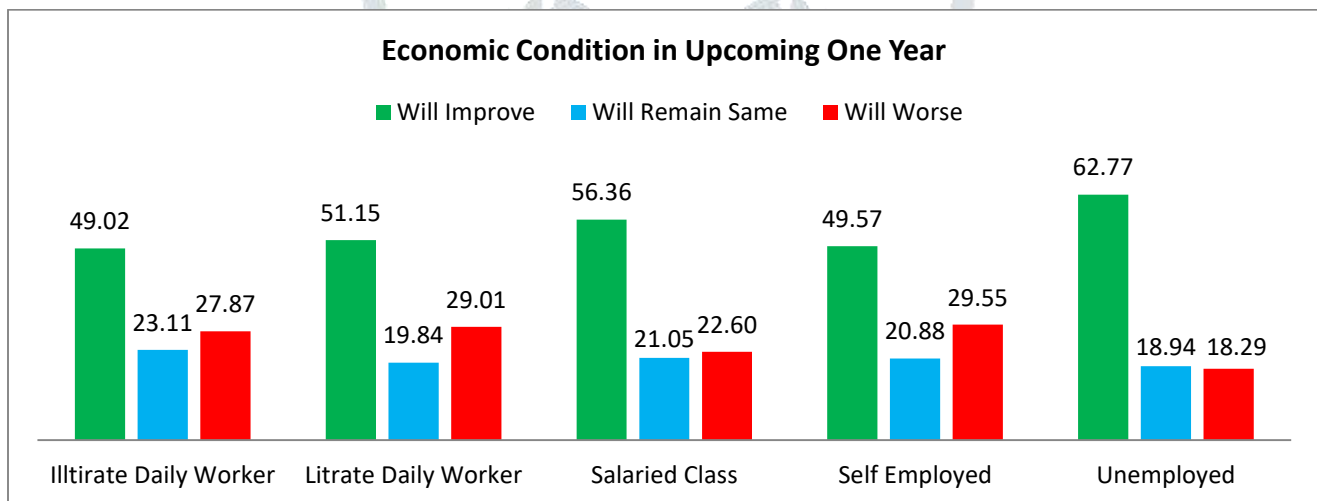


Figure 2 - Consumer Prospective on Economic Condition (in Upcoming One Year)

On the other hand, figure 2 gives a summary of consumer prospective of upcoming year, as a greater percentage of daily workers; salaried class, self employed and unemployed expect favorable economic condition in 2019.

5.2 Consumer Perception on Employment Condition

Moving to the employment scenario; daily workers and self employed group believes that the employment condition have worsen since 2017, on the other hand almost group of salaried class and unemployed respondents believes that the employment condition nether worsened nor improved.

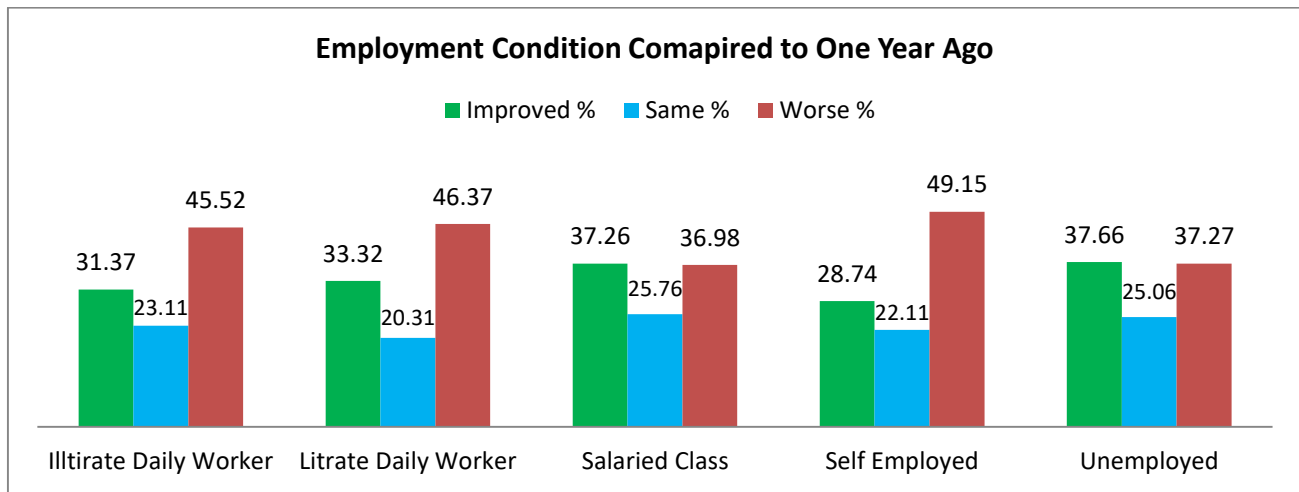


Figure 3 - Consumer Prospective on Employment Condition (Compared to One Year Ago)

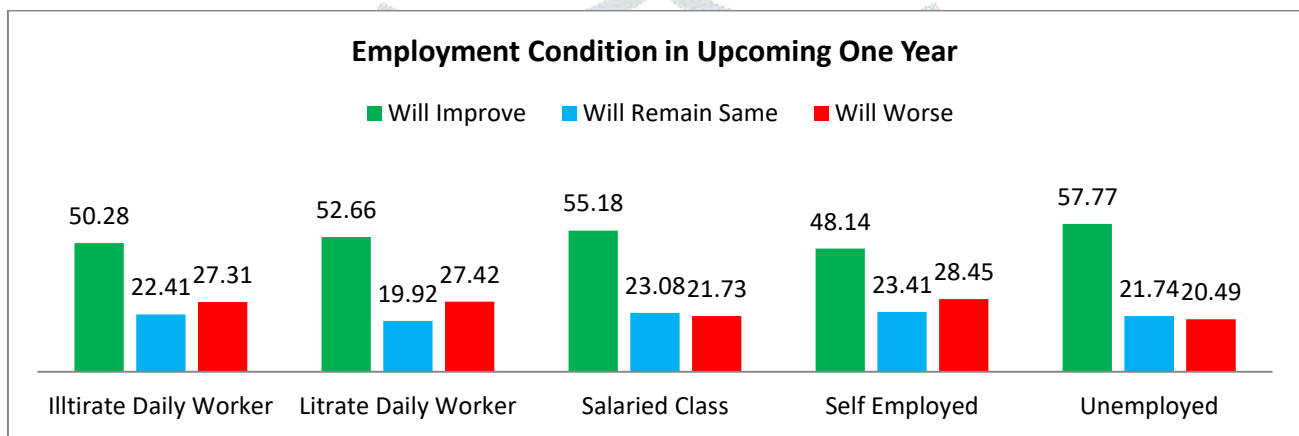


Figure 4 - Consumer Perception on Employment Condition (in Upcoming One Year)

Whereas when it comes to future expectations, as seen in figure 4 more than 50 percent of respondents in all 5 groups believe that the situation will improve in the upcoming year. Similar situation is observed in the case of perceptions and outlook for income as more than 50 percent respondents expect the conditions to improve.

5.3 Consumer Perception on Inflation – Price Level

As seen in figure 5 with regards to the household spending, almost 80 percent of the group respondents perceive that the spending has increased since 2017. Classifying spending based on essentials and non-essentials gives a better picture where almost 83 percent of respondents perceive an increase in the essential spending whereas this number is only 50 percent for non-essential commodities. All respondent groups seem to have an understanding of difference between prices and inflation. On an average 69 percent of the respondents in all groups have observed the prices level has increased compared to 2017.

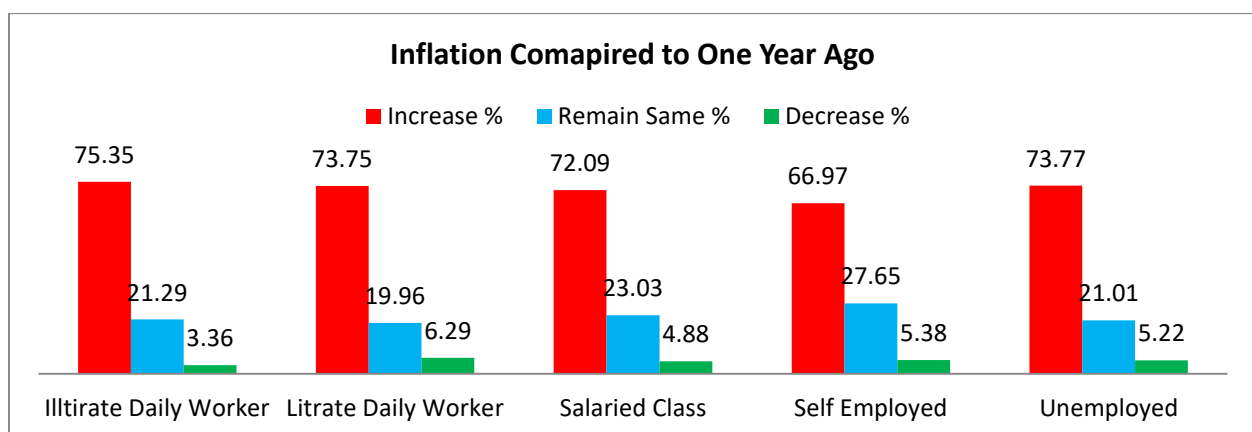


Figure 5 Consumer Perception on Price Inflation (Compared to One Year Ago)

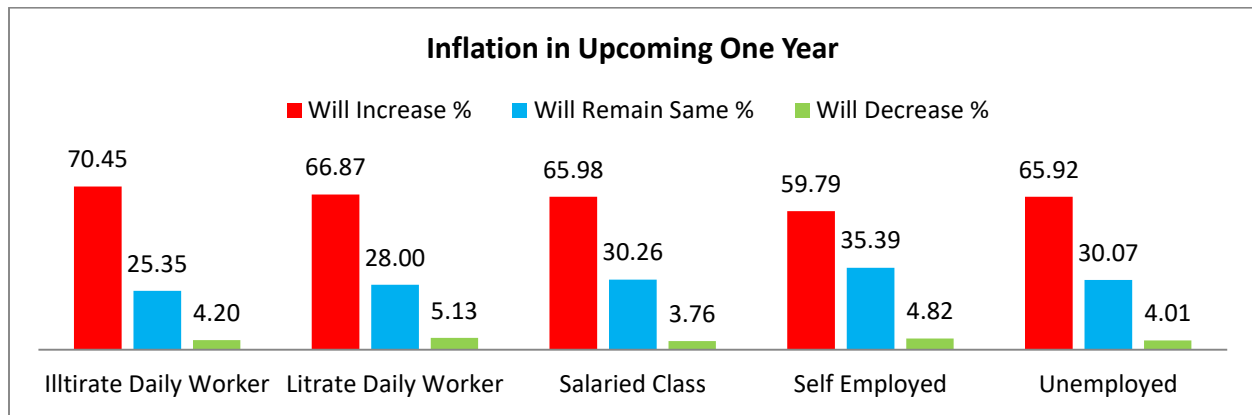


Figure 6 Consumer Perception on Inflation (in Upcoming One Year)

As seen in Figure 6; respondents prospective about 2019 also indicates that all respondent groups look pessimistic about future price levels even after they have positive views about their employment and income in 2019. The views of respondents about inflation haven't seemed to change in upcoming year.

5.4 Consumer Perception on Income Level

Figure 7 is the proof that the incomes of households have not increased since 2017, as observed the data in the figure that average 48% of the households in all 5 groups are earning somewhat similar income as earlier year.

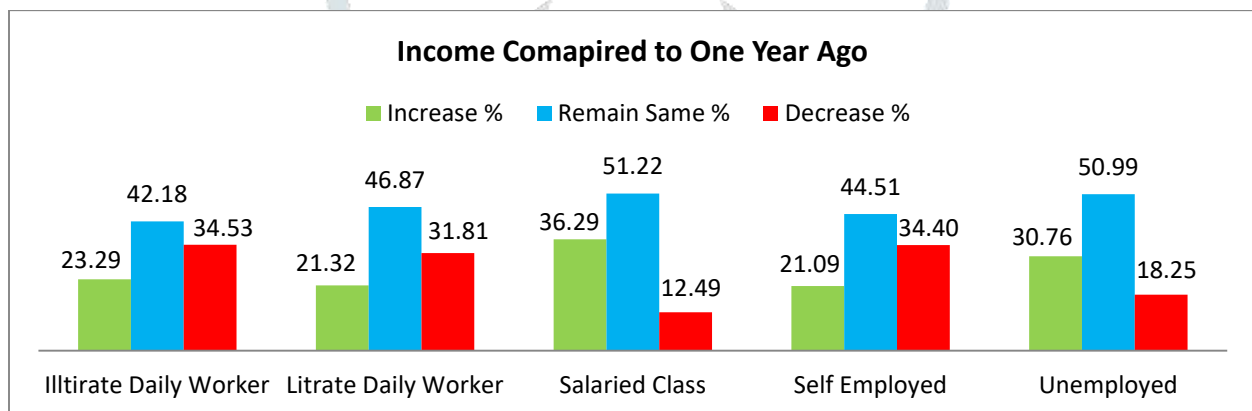


Figure 7 Consumer Perception on their Income (Compared to One Year Ago)

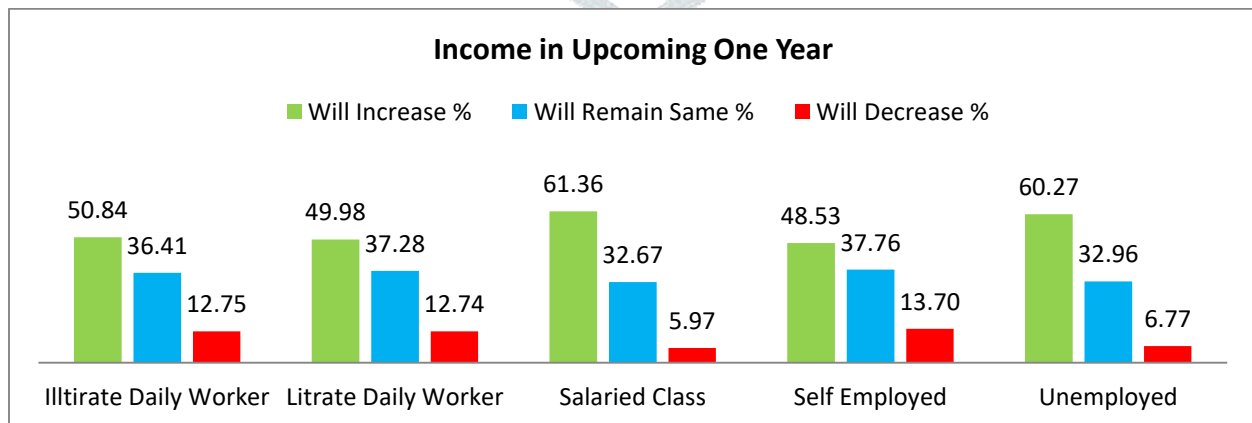


Figure 8 Consumer Perception on their Income (in Upcoming One Year)

On the other hand, figure 8 represents the prospective of household about their income in upcoming year shows that all groups' especially salaried class and unemployed sees 2019 as a favorable year for generating income. Consumer opinion about employment, also confirms the positive outlook of consumers in 2019.

5.5 Consumer Perception on Spending

As seen in the figure 9 household spending for last one year has been increased for all groups as average 80% respondents confirms the increase including the spending on essential and non essential items.

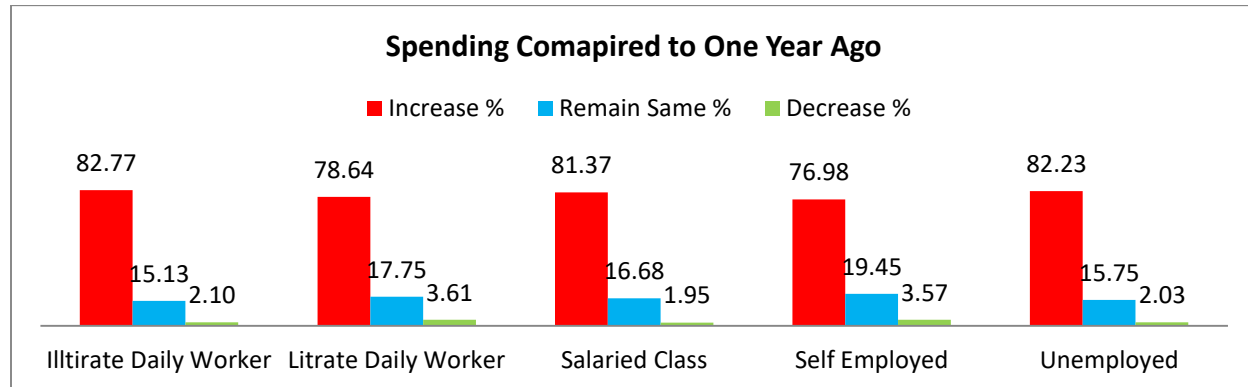


Figure 9 Consumer Perceptions on Their Spending (Compared to One Year Ago)

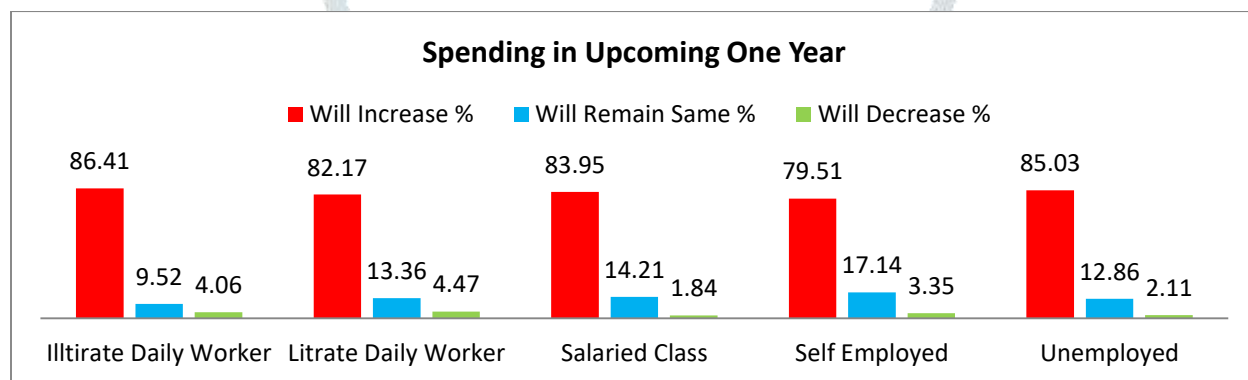


Figure 10 - Consumer Perception on Their Spending (in Upcoming One Year)

Future prospective of consumer seems not to be changing in upcoming one year as figure 10 demonstrates that most of the respondents believe that their spending will continue to rise even in upcoming year.

5.6 Conclusion

The characteristic of household play an important role when we collect data about consumer perception about micro and social economic indicators like economic condition, employment status, inflation etc. Consumer confidence indices help in determining government policies, corporate policy making decisions. Discriminating household based on their characteristics like occupation, qualification, age, income and demography plays a vital role in confirming the trend of consumer confidence in economy. Past researches studies the effect of consumer prospective of different household group on countries economy and inflation to prove the effect of consumer characteristics on consumer prospective. From the study it is observed that consumer belongs to salaried class are more optimistic about their income growth in future and on the other hand daily workers and self employed are least optimistic about employment condition and income growth in the upcoming year. This study also establishes that in most of cases household prospective do not changes based on their characteristics.

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