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Abstract

This study aims to explore the difference of income shock on consumption among the Malaysian household during the Covid-19. The study conducts online survey and the finding reveals that this cohort are facing the greatest challenges of unemployment risk such as their job opportunities will be severely curtailed by the contraction of the job market, having income shock to their comparatively lower incomes, hence struggle to finance their expenses as the consumption increases. Nevertheless, our descriptive analysis basically shows that the income shock is merely temporary and significantly make difference on the consumption for the affected Malaysian household. The research also concludes that MCO resulted in unaffected income for most of the respondents, which could be said that MCO does not have a significant effect on the financial situation and financial burden for the majority of Malaysian. The findings can help the policymakers to formulate the suitable formulation.

Keywords: Income Shock, Consumption, Covid-19, Chi-square.

Introduction

During Covid-19, there are two stages of Movement Order in Malaysia in response to the COVID-19 pandemic; Movement Control Order (MCO) from 18 March-9 June 2020 and Recovery Movement Control Order (RMCO)-10 June onwards. The Department of Statistic Malaysia (DOSM) conducted a survey between March 23 to 31 March, during the second week of RMO phase one, showed half of those self-employed reported to be out of work while up to a third said their income dropped by some 90 per cent from the 170,000 workers polled. The statistics shows alarming concerns that the vulnerable households are experiencing income shocks. Moreover, DOSM survey 2020 showed half of them have savings enough only to last two weeks, while only 28 per cent said they had enough to last two months. Another worrying statistic raised

the concerns among the policy makers. In addition, Labor Force Survey (LFS, 2020) announced that, as Covid-19 takes toll, Malaysia's unemployment rate rises to 5 percent in April. The average expenditure on household consumption during the MCO is expected to decrease by 48 per cent (DOSM, 2020). Expectations about household spending are influenced by income shocks, but not by financial wealth shocks. Nonetheless, mostly affected by the income shock were self-employed. They face the highest risk of unemployment and their job opportunities will be severely curtailed by the contraction of the job market, and with their comparatively lower incomes, many will struggle to feed their families. Motivated by the scenario discussed above, this paper aims to explore the income shocks and consumption among the Malaysian household in pre and post Covid-19.

The novelty of this study is emphasising the situation on income shock and consumption during this critical situation of Covid-19 using the latest survey conducted during this pandemic of Covid-19. In fact, the study contributes to the current studies by focusing the definition of income shock in terms of unemployment and salary cut among the respondents by extending the life cycle and permanent income hypotheses. The findings of study shows that that there is significance difference of consumption for the affected respondents during the pandemic. Hence, the empirical findings of the study significantly assist the policy maker to consider careful policy formulation in enhancing the country's economic development through the household income and consumption. The paper proceeds in the following way. Section II briefly review previous studies on the related theories. Section III briefly explain the methodology employed. Section IV presented the findings and concludes the summary of the study in section V.

Literature Review

The theoretical underlay which can explain the behavior of household consumption is reflected in the life cycle and permanent income hypotheses (Ando & Modigliani, 1963; Friedman, 1957; Modigliani & Brumberg, 1954). They explained, individuals save at an early age, accumulate wealth in the middle age, and dis-save at retirement days. They contended their belief which asserted that the levelling of household consumption maximized their function over time using both initial income and expected future income. The hypothesis emphasized that the Malaysian household will increase their expenditure, save more at middle life and withdraw their saving during retirement days. A lower than expected financial earnings motivated household borrowing. Nevertheless, in cases of an unexpected increase in income or during their most productive working days, the household would attempt to save.

Income shock is an unpredictable or unexpected event that can affected the activities of consumer spending and economy. It is affected because of job loss, unemployment and salary cutting. According to Stevens (1997) and Been et al. (2020), the effect of income shock because of job loss can be faced by individual multiple times in their life cycle. They will suffer even more in the future due to debt burden and increase in expenditure. Income shock during pandemic covid-19 is getting worse because people are losing their job. This leads to reduction in consumption. There was a research done stated that 34% reduction in consumption was due to job loss shock which equal to income shock (Been et al., 2020).

Income shock also occurs to those individuals that are not being employed. According to Farrell et al. (2016), the huge impact of income drops and being unemployed is decline in spending. Another financial unpreparedness that leads to income shock is salary cutting. During the lockdown due to pandemic of Covid – 19 in Malaysia, some employees experienced salary cutting as many businesses were closed and struggled to pay rent and utility bills (Zahid, 2020). According to Reuters (2020), the staff and management have mutually agreed to cut staff's salaries by 15% to 75% based on seniority during the outbreak. This will give adverse impact on the income and spending of those who are vulnerable to income shock. They will struggle more because a lot of expenses commitment need to be settled.

Methodology

The research study is an analytical research study to explore the income shock on consumption behaviour among the Malaysian household in pre and post Covid-19. A simple non-probability random sampling was used as the basis in the selection of the respondents during the critical stage of pandemic Covid-19 with the help of a structured questionnaire. The survey was distributed using online survey between June 25, 2020 and July 5, 2020 to peninsular and non-peninsular Malaysia. The survey asked questions related to the viability of the job in pre and post pandemic and their levels of spending. The final sample size was 134, with representation from a wide random of the Malaysian population. Chi-square test has been used for statistical analysis. The demographic profiles of the respondents are described in Tables 1-4.

Data Analysis and Results

This section comprises four subsections. We discuss several demographic characteristics in first subsection, followed by the income level in pre and post in response to Covid-19 in second subsection and income level in respect to consumption in pre and post in response to Covid-19 in third subsection. The final subsection discusses income shock and consumption. In order to study the impact income shock on consumption behaviour in pre and post Covid-19 based on one hypothesis are formulated and analysed. Chi-square (χ^2) test of independence has been applied to all the tests of hypotheses using significance level, $\alpha = 0.05$.

Demographic Characteristic

In this study customer's demographic characteristic were determined by age, sex, education level, monthly income, occupation and number of households. Based on this survey, total of respondents are 134 individuals, there are about 18 individuals are within age 25 to 30 years old, 51 individuals are within 31 to 35 years old and 65 individuals are ranged between 36 and 40 years old (table 1).

Table 1: Age versus Income Shock during MCO (March – May 2020)

		Age			Total
		25 - 30	31-35	36-40	
How you described your salary since the outbreak of the COVID-19 and CPP outbreaks	Income unaffected	13	33	51	97
	Income affected	5	18	14	37
Total		18	51	65	134

107 individuals are female while others are males (table 2). As for educational level of frequency, 15 (11.1 percent) and 25 (18.7 percent) of the respondents hold Sijil Pelajaran Malaysia (SPM) and Diploma respectively. The highest percentage is recoded at 41.8 percent for Degree's holders and followed by master's degree holders with 26.9 percent from the total respondents. Meanwhile only 2 (1.5 percent) of respondents are PhD holder (table 3).

Table 2: Gender versus Income Shock during MCO (March – May 2020)

		Gender		Total
		Male	Female	
How you described your salary since the outbreak of the COVID-19 and CPP outbreaks	Income unaffected	19	78	97
	Income affected	8	29	37
Total		27	107	134

Table 3: Education Level versus Income Shock during MCO (March – May 2020)

		Education Level					Total
		SPM	Diploma	Ijazah	Masters	PhD	
How you described your salary since the outbreak of the COVID-19 and CPP outbreaks	Income unaffected	8	14	43	32	0	97
	Income affected	7	11	13	4	2	37
Total		15	25	56	36	2	134

Most respondents have income range between RM2000 and RM6000 which categorized under middle income group in (M40). This demographic is demonstrating in Table 4 as below:

Table 4: Monthly Income versus Income Shock during MCO (March – May 2020)

		Monthly Income				Total
		0 < 2000	2000 < 4000	4000 < 6000	>6000	
How you described your salary since the outbreak of the COVID-19 and CPP outbreaks	Income unaffected	13	27	28	29	97
	Income affected	12	9	9	7	37
Total		25	36	37	36	134

Consumption Versus Income Shock During Mco Covid-19 (March-May 2020)

Null hypothesis 1: Having less spending are independent of income shock.

The table depicts three categories of consumption; less than RM2000, between RM2000 and RM4000 and more than RM4000. Our study categorizes the group of respondents into Income affected and income unaffected during the MCO Covid-19 (March-May 2020). So, the income affected refers to household that received partly of their income, salary cut or do not receive any income. The following Table 5 elucidated the results of the respondents towards categories of consumption. On applying Chi-square (χ^2) test, we get P valued as 0.023, at the confident level 0.05, which indicates that there is sufficient evidence to reject the null hypothesis. We, therefore, can conclude that having less spending are dependent of income shock during MCO. Majority of unaffected income group can spend within up to RM4000. The group who affected are less than the group unaffected which are 97 and 37 respondents respectively. Although the group affected has small percentage (28%) but majority of them spend less RM2000.

Table 5: Cross table of Income Shock versus consumption during MCO (March – May 2020)

		What is the monthly (RM) household spending during MCO Covid-19 (March-May 2020)?			Total
		0 < 2000	2000 < 4000	> 4000	
How you described your salary since the outbreak of the COVID-19 and CPP outbreaks	Income unaffected	42	41	14	97
	Income affected	25	11	1	37
Total		67	52	15	134
χ^2 P-value		0.023			

Consumption Versus Income Shock During Mco Covid-19 (June-August 2020)

Null hypothesis 1: Having less spending are independent of income shock.

The table depicts three categories of consumption; less than RM2000, between RM2000 and RM4000 and more than RM4000. Our study categorizes the respondents into two groups income earner namely Income affected and income unaffected during the MCO Covid-19 (June-August 2020). So, the income affected refers to household that received partly of their income, salary cut or do not receive any income. The following Table 6 elucidated the results of the respondents towards categories of consumption. On applying Chi-square (χ^2) test, we get P valued as 0.481, at the confident level 0.05, which indicates that there is no evidence to reject the null hypothesis. We, therefore, can conclude that having less spending are independent of income shock during the RMCO. Majority of unaffected income group can spend within up to RM2000. The group who affected are less than the group unaffected which are 28 and 106 respondents respectively. Although the group affected has small percentage (21%) but majority of them spend less RM2000. Still, the stimulus package may help the affected income online with Hanspal et al. (2020) government policies will concentrate on supporting households at the bottom of their income distribution, whose wages have been hit hardest by the current recession and are close to zero.

Table 6: Cross table of Income Shock versus consumption during MCO (June – August 2020)

		What is the monthly (RM) household spending during MCO Covid-19 (June-August 2020)?			Total
		0 < 2000	2000 < 4000	> 4000	
In the next 6 months, how do you predict your income?	Income unaffected	51	42	13	106
	Income affected	17	8	3	28
Total		68	50	16	134
χ^2 P-value		0.481			

Conclusion

The objective of this study is to explore the difference of income shock on consumption among the Malaysian household during the Covid-19. An analysis of the research concludes that the income shock makes differences on consumption during MCO among Malaysian household. They are majority of the respondents agree that MCO have not affected their salary. It is based on a sample of 134 respondents from variety of demographic background. In terms of age, majority respondents form category of age 36-40 years, which is 48.5% who are mostly have a lot of commitment in this age, agree that there is unaffected income since MCO begin because most of the respondents are government civil servant. The study might be useful to policymakers in understanding the household spending behavior in response to income shock and reflect the

current policy and sustain or formulate the suitable planning for future research and development as well as finding effective strategies for household be part of agent in stimulating the country's economic growth. Besides, future study can look forward to investigating the relationship between incomes and spending in wider scope of sample of respondents and taken into consideration of household indebtedness.

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