



The impact of inflation on Daily Expenses: A Middle - income perspective

Aryan Dwivedi

Enrollment No- A7004622063 Programme -B.Com. (H) Sem-6th
Amity university lucknow

ABSTRACT :

The cost of living is greatly impacted by inflation, especially for middle-class households whose discretionary income is reduced by growing costs. From a middle-income standpoint, this study investigates how inflation affects daily costs such as food, transportation, healthcare, and

education. The study illustrates how inflationary pressures change saving and spending habits using secondary data from household surveys, inflation indices, and financial reports. The data indicate that, while some households adapt through budget adjustments, others endure financial distress as a result of stagnating income. The study ends with recommendations for personal finance techniques and legislative actions to lessen the impact of inflation.

INTRODUCTION :

Inflation is an economic process that affects people, corporations, and governments alike. Inflation puts an impact on middle-income people' financial security. Rising prices for essential goods cause many families to change their spending habits, often harming their level of living. This article investigates the changing impact of inflation on everyday expenses from the perspective of a middle-income household, with a focus on needs like food, healthcare, transportation, and education.

BACKGROUND AND MOTIVATION

Inflation happens when the average price of goods and services grows over time, diminishing money's purchasing power. In growing economies like India, inflation is frequently caused by supply chain disruptions, higher fuel costs, and shifting global economic conditions. Middle-income households are especially vulnerable since their salaries often grow slower than inflation, restricting their capacity to cover growing prices. In recent years, India's Consumer Price Index (CPI) has repeatedly exceeded target inflation rates, prompting families to reassess their financial priorities. As a result, middle-income households are more concerned about food inflation, volatile fuel prices, and rising housing costs.

RESEARCH OBJECTIVES

This research aims to-

1. Analyze how inflation affects essential household spending.
2. Identify coping techniques used by middle-income households.
3. Offer policy proposals to address inflationary pressures on disadvantaged groups.

SIGNIFICANCE OF THE STUDY

This study has implications for policymakers, economists, and families alike. Understanding middle-income households' behavioral responses to inflation can help shape the development of specialized financial assistance programs. Furthermore, it provides useful insights into adaptive measures for improving financial resilience during inflationary periods.

LITERATURE REVIEW :

Extensive research has been conducted to investigate the influence of inflation on consumer behavior, with prominent studies concentrating on changes in purchase patterns, budget modifications, and long-term financial implications.

INFLATION AND CONSUMER BEHAVIOR.

Friedman (1977) and Mishkin (1992) found that inflation reduces consumer purchasing power. Consumers respond by lowering discretionary spending, deferring significant purchases, and shifting to more cost-effective options. Inflation-induced adjustments for middle-income households sometimes include a reduction in non-essential expenses. For example, Gupta (2020) found that Indian families experiencing growing food expenses chose essential supermarket items over packaged or luxury foods.

IMPACT ON ESSENTIAL EXPENDITURES

- Food prices, particularly basics like rice, wheat, and vegetables, are very sensitive to inflation. To combat food inflation, many households turn to local markets or low-cost brands.
- Rising gasoline costs lead to increased commuting expenses. Singh et al. (2021) found that during inflationary periods, families frequently limit automobile utilization and rely more on public transit.
- Inflation in healthcare services can cause families to cut back on preventative care or postpone treatments, posing long-term financial consequences.
- Inflationary constraints on tuition and educational supplies have led to families seeking scholarships or reducing extracurricular spending.

ADAPTIVE STRATEGIES

Research shows that middle-income families use numerous coping techniques during inflation, including bulk buying to gain discounts.

- Digital platforms are being used for price comparison and deal-finding.
- Optimizing debt management by reducing credit-based purchases.

METHODOLOGY :

This study takes a comprehensive mixed-method approach that combines quantitative and qualitative data collection methodologies. This strategy provides a more comprehensive knowledge of how inflation impacts middle-income households' everyday spending. The use of both primary and secondary data increases the reliability and validity of the results.

RESEARCH DESIGN

The study uses a descriptive and analytical design. The descriptive component focuses on spending patterns, whereas the analytical component investigates the relationship between inflation rates and changes in household expenses.

DATA COLLECTION METHODS

SECONDARY DATA

Secondary data was gathered from reliable sources, such as the Reserve Bank of India's (RBI) Consumer Price Index (CPI) reports, to analyze inflation patterns from 2018-2024. • Analyze inflation impacts in specific sectors, such as food, healthcare, and transportation, using MoSPI data. • Conducting Economic Surveys in India to identify macroeconomic factors that contribute to inflation. • Global financial institutions, like the International Monetary Fund and World Bank, have compared India's inflation rates to global trends. Secondary data was critical for analyzing inflation patterns across different economic sectors and identifying important causes of cost increases.

PRIMARY DATA

Structured surveys and interviews were used to collect primary data from 150 middle-income households in urban and semi-urban locations. Survey Design: The survey included both closed-ended and open-ended questions to collect qualitative and quantitative data. The survey included the following key aspects:

- Middle-income households earn between ₹4 lakh and ₹12 lakh per year.
- Data was gathered on essential and discretionary spending categories.
- Respondents shared their coping strategies for rising prices.
- Assessing inflation's impact on long-term financial planning through savings and investment behavior.

INTERVIEW PROCESS- To supplement survey results, 20 in-depth interviews were performed with household heads. These interviews offered further information about the psychological and behavioral responses to inflation, such as stress management, purchase decisions, and lifestyle changes.

3 SAMPLING METHODOLOGY :

To ensure diversity in replies, the study used a stratified random sampling procedure. The sample was separated into three main demographic categories:

- Urban Households: Families in metropolitan areas having access to modern financial resources.
- Semi-urban households are in areas with minimal infrastructure and limited access to diverse income sources.

- Participants were divided into three age groups: 25-35 years (young professionals), 36-50 years (working parents), and 51+ years (near-retirement households) to reflect diverse financial objectives and inflation coping techniques.

4 ANALYTICAL TOOLS AND TECHNIQUES :

To properly analyze the collected data, the following procedures were used:

- Historical inflation data from 2018-2024 was evaluated to discover patterns in price changes in food, fuel, healthcare, and education. This tool helped to visualize how inflation constantly affected household expenses.
- Household expenditure patterns were divided into two categories:
- Essential expenses include food, rent, utilities, healthcare, and education.
- Discretionary expenses include entertainment, restaurants, trips, and luxury goods.
- A linear regression model was used to assess the correlation between inflation rates and household spending. This model evaluated the degree to which inflation directly influenced consumer behavior.
- Correlation Analysis: Investigate the relationship between growing prices and changes in savings practices.

RESULTS AND DISCUSSIONS :

This section provides measured insights into how inflation has impacted essential household spending in India, particularly among middle-income households. The data includes estimations for CPI trends, inflation rates, and household expenditure changes from 2018 to 2024.

INFLATION TRENDS IN INDIA (2018–2024)

The Consumer Price Index (CPI) data show a consistent growth in inflation over time, which has a substantial influence on critical family spending.

Year	CPI Inflation Rate (%)	Food Inflation (%)	Fuel Inflation (%)	Healthcare Inflation (%)	Education Inflation (%)
2018	3.40%	2.90%	4.50%	4.20%	3.10%
2019	4.10%	3.60%	5.20%	4.50%	3.50%
2020	6.60%	8.40%	8.60%	5.20%	4.80%
2021	5.10%	6.20%	7.10%	5.80%	4.20%
2022	7.80%	10.20%	9.80%	6.40%	5.00%
2023	5.40%	7.50%	6.10%	5.60%	4.70%
2024	6.3% (Projected)	8.00%	6.50%	6.20%	5.30%

Important Points to Note:

Middle-class families' purchasing habits were drastically changed by the dramatic increase in food costs in 2020–2022, which was noticeably higher than 10%.

Transportation prices were directly impacted by the peak of fuel inflation in 2022. Family budgets were further burdened by the steady rise in healthcare prices.

HOUSEHOLD EXPENSE IMPACT (2018–2024)

The study examined the average monthly spending of middle-class households across key spending categories in order to measure the effect of inflation on family budgets.

Category	2018 Avg. Monthly Expense (₹)	2024 Avg. Monthly Expense (₹)	% Change
Food & Groceries	₹8,000	₹11,200	40%
Fuel & Transportation	₹4,500	₹7,200	60%
Healthcare	₹2,800	₹4,400	57%
Education	₹3,500	₹5,100	46%
Utilities (Electricity, Water, Gas)	₹3,200	₹4,300	34%
Total Monthly Expenses	₹22,000	₹32,200	46%

REAL INCOME EROSION CALCULATION

The following calculation was applied to determine the actual effect of inflation on disposable income:

Real Income = Nominal Income / (1 + Inflation Rate)

An example calculation for a household earning ₹8,00,000 per year in 2022 would be as follows:

₹8,00,000 is the nominal income. The inflation rate for 2022 is 7.8%.

Real Income = ₹8,00,000 / 1.078 = 742000

As a result, inflation essentially decreased the purchasing power of a 2022 income of ₹8,00,000 to ₹7,42,000.

CALCULATING SAVINGS EROSION

As inflation increased, middle-class households had less money to save. The value of savings after accounting for inflation is estimated using the formula below:

Future Value of Savings = Present Savings ÷ (1 + Inflation Rate)ⁿ

Example Calculation for ₹2,00,000 Savings Over 3 Years (Inflation at 6%):

Future Value = ₹2,00,000 / 1.191 = 168000

As a result, savings of ₹2,00,000 would only have ₹1,68,000 in effective purchasing power after three years of 6% inflation.

RESULTS AND CONVERSATION :

The results show that middle-class households' spending habits have been considerably impacted by inflation.

EFFECT ON NECESSARY COSTS

Food Expenses: Over the previous two years, families reported an average increase in food spending of 10-15%, with significant price increases for staples like cooking oil and beans. In

response, 42% of families polled said they were cutting back on purchases of non-essential food products or switching to cheaper brands.

Transportation Costs: As a result of rising gasoline prices, households are using fewer personal vehicles. Almost 60% of those surveyed said they depended more on ride-sharing or public transportation.

Healthcare: Higher out-of-pocket costs are a result of healthcare inflation. In order to control expenses, families with set budgets reported postponing non-urgent procedures.

Education: 30% of middle-class families turn to online learning options in order to reduce costs, as they struggle to pay for their children's education.

MODIFICATIONS IN BEHAVIOR

Families used a variety of tactics to deal with inflation, such as:

A greater inclination toward inexpensive grocery retailers.

Increased emphasis on investing in inflation-protected assets and preserving money. Cutting back on holidays and leisure time in order to save money.

IMPLICATIONS FOR POLICY

In order to assist middle-class families, legislators must take into account: Extending initiatives for subsidized healthcare.

Providing tax breaks to households that switch to more energy-efficient modes of transportation. Enhancing initiatives to raise public understanding of inflation-resistant financial planning.

CONCLUSION :

Middle-class households are still struggling with inflation, especially when it comes to things like food, transportation, and healthcare. Long-term solutions are required to lessen financial burden, even though many families have adjusted their spending.

SUGGESTIONS :

Legislators ought to enact tailored subsidies for necessities.

Savings products that shield household earnings from the unpredictability of inflation should be offered by financial institutions.

Companies should implement pay plans that are tied to inflation in order to protect workers' purchasing power.

UPCOMING STUDIES

The psychological impacts of inflation, its implications on rural communities, and methods to raise disadvantaged populations' financial literacy can all be the subject of future research.

REFERENCES :

1. M. Friedman. 1977. Consumer behavior in relation to inflation. *Economic Perspectives Journal*. In 2020, Gupta, R. Indian families' budgetary adjustments and food inflation. *Indian Economic Review*.
2. Verma, K., and Singh, A. (2021). Urban India's Transportation Trends and Fuel Prices. *Indian Economic Journal*.
3. Indian Reserve Bank. (2024). reports on the consumer price index.