

Impact of COVID-19 On Economic Activities: A Review Paper

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Abstract

In this review paper efforts are made to present the Impact of COVID-19 on various economic activities like production, consumption and distribution. This is known to everyone that COVID-19 (Corona Virus Disease) spread-out in December 2019 from Wuhan in China and effected a lot of countries resulting in death of many. Therefore, to minimise the risk, many countries opted lockdown as a precaution to control its spread which effected the lives of ordinary people as well as the economy as a whole, GDP, Functions of Economy and a lot of activities were effected very badly. It had a huge impact on the consumption pattern of population as well as supply chains and production of various goods and services were also impacted as transportation was at halt and movement of people, products, services etc. was not possible from one place to another. There was a heavy down in employment, production, distribution and other activities as well. Hence, this paper will help the readers know the collective impact along with the sector wise effect of COVID-19 on various economic activities. For better understanding we have taken three major economic activities that is Production, Consumption and distribution. Along with these the basic introduction of COVID-19, lockdown and its impact on economy is stated.

Keywords: Consumption, COVID-19, Distribution, Economy, Economic Activities, GDP (Gross Domestic Product), Lockdown, MSME (Micro, Small, and Medium Enterprise), Pandemic, Production.

INTRODUCTION TO COVID-19

The cause behind the spread of the COVID-19 is the Severe Acute Respiratory Syndrome Coronavirus 2 also known as SARS-COV-2. This virus disease was first found in December 2019 in Wuhan, China and then has spread over almost all countries and resulted in the currently active Pandemic situation. This virus results in different ways in different people therefore, has been categorised as symptomatic and asymptomatic as only 81 % people develops noticeable symptoms of this disease. The symptoms that has been noticed often includes fever, cough, fatigue, breathing issues along with the loss of smell and taste. The spread is possible only when the healthy person comes in direct and close contact with the infected person as it spread through aerosols or some droplets of mucus or water from nose or mouth. The symptoms and the disease take 10-20 days to be cured and the person being again healthy. This can be detected using various test and technologies developed like Real Time Reverse

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Transcription Polymerase Chain Reaction (RT-PCR), Transcription-mediated Amplification (TMA) and Reverse Transcription Loop-Mediated Isothermal Amplification (RT-LAMP). All these tests detect the disease by tracing the nucleic acid of the virus using a nasopharyngeal swab. It is rightly said "Prevention is better than cure" same is the case with this disease only prevention is the best possible escape from getting infected. Prevention from this virus includes washing hands regularly, covering face and mouth, covering while sneezing and coughing, quarantine, isolation, and proper access to oxygen. Medicine for the same has been developed and various campaigns have been launched to motivate people for getting vaccinated in many countries still preventive measures are suggested even after vaccination so that the risk of infection can be reduced.

Introduction to Various Economic Activities

Economic Activities refers to all those activities by which a person or firm creates or adds value to a product to make it usable by the others. In this process he tries to earn a profit for himself by undergoing some processes. The main economic activity is production as it counts the process of manufacturing goods and services from scarce and limited resources for creating value to satisfy consumer needs. Economic activities can be majorly categorised into:

- **Production:** It refers to the process of mixing or combining two or more raw materials to produce something that can be useful and have the ability to satisfy someone's wants. In other words, transforming natural resources in its usable form to create utility is known as production.
- **Consumption:** It means utilizing some sort of good and services in order to satisfy your needs and wants for generating utility and satisfaction. It also counts the money spent for the acquisition of resources or goods and services to get the needs fulfilled.
- **Distribution:** The process by which the utility of place is created is known as distribution that is the transfer of goods from producers to consumers is done by the process of distribution. Therefore, distribution can also be said as the process of spreading the goods and services in the market so that maximum number of people can buy it.

COVID-19 and Lockdown

Lockdown refers to a restrictions imposed by the higher authorities on the movement of people and product from one place to another along with the denial or restricted trading and gathering. Due to which people can face a lot of problems and economy too suffers as there is no or restricted economic activities can take place. To save the population from the COVID- 19 and to control the spread of Corona Virus Disease a strict lockdown was imposed in India during the last days in March, 2020 and was extended with strict controls till 31 May, 2020.

That was imposed in 4 phases in which the first lockdown was of 21days followed by the extension of 18 days, 13 days and again 13 days respectively in 2nd 3rd and 4th phase of lockdown. On 1st June 2020, the phases of unlock were started in which some restrictions were uplifted and relaxations were given to the people on movement but with carrying all the preventive measures like distancing, covering mouth and not touching the things in mind. These unlock phase was also implemented in 6 levels, people were relieved from some restrictions each time. The lockdown was fully removed on 1 December 2020 when all the restrictions were removed from all kind of economic activities and travel. This lockdown was the first ever experience for the major class of people and hit everyone differently. Talking about the economy it resulted in the loss of jobs for many during the first month of strict lockdown in April, 2020. All those whose jobs went came out from major cities to go back home. More than 350

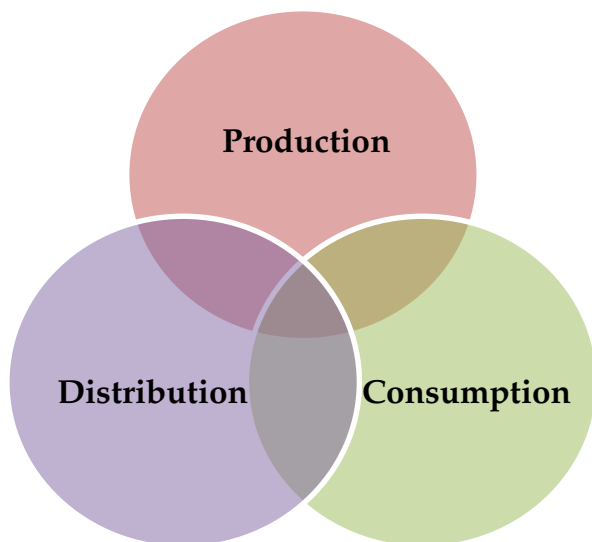


Figure 1: Research Framework

people died till 10 May 2020 by various reasons like, road accidents, hunger, suicides, delayed medical care, ignorance etc. and most of these deaths included the people with no jobs or the laborers who were going back home. Schools and colleges stayed shut for a long period of time resulting in online classes and cancellation or postponement of many important exam as well as new semesters and admissions. Along with employment and education the industries also got effected majorly as the operation were stopped for a long period of time resulted in huge losses.

Impact on Economy

Lockdown imposed in India was uplifted in phases in which the government removed some restrictions with every phase keeping in mind the risk of spread and the safety of people. But this effected the economy very badly as many businesses or trades were restricted even up- to last removal of restrictions. According to FICCI 53% of businesses in India got effected by this lockdown and raised the rate of unemployment from 13% to 25% resulting in the decreased income of around 45% of household in India. Not only production but consumption also has fallen in some sectors. 30% of electricity consumption was decreased as a result of lockdown impacting the economy collectively of \$160 billion to \$175 billion from all restrictions in business sector. According to Acute Ratings, India was supposed to lose over Rs. 32000 crores per day during the first national lockdown that was of 21 days. Various agencies have downgraded the GDP of India to the lowest point of 30 years after the implication of LPG policies during the start of lockdown and further got that even in negative as the lockdown was extended. Lockdown effected not only the internal trade of the country but import and exports also were lowered due to the lockdown. There was a fall of 36.65% in exports and imports fell by 47.36%. No sector remained untouched by the impact of lockdown, not be it agriculture, stocks, manufacturing etc. 10% of farmers were able to harvest the crops and 60% those who did yielded a loss. Tea exports of India fell by 33%. E-commerce industry shifted their focus to the distribution of essential good only on priority basis during lockdown. Mostly, manufacturing companies suspended their operations and therefore, occurred a huge loss in lockdown. Stock market first dropped on 23 March, 2020 but then after the announcement of 21-day lockdown the SENSEX showed the largest gains of 11 years adding 4.7 lakh crores of value to the investments. Lockdown even impacted the defense sector as all the acquisitions that were to be made by the defense sector were once kept on halt during lockdown. So it can clearly be stated with the

restriction on movement of products and services the growth and economy of India also got restricted and even suffered a huge loss.

Impact on Production

The production sector of any country is the one that transforms the resources into its usable form and adds value to them by performing some processes. All the industries producing either essential goods, consumer goods, capital goods or any other form of goods and services are included in production sector. The production sector in India contributes 20% to the GDP of which 50% is auto sector.

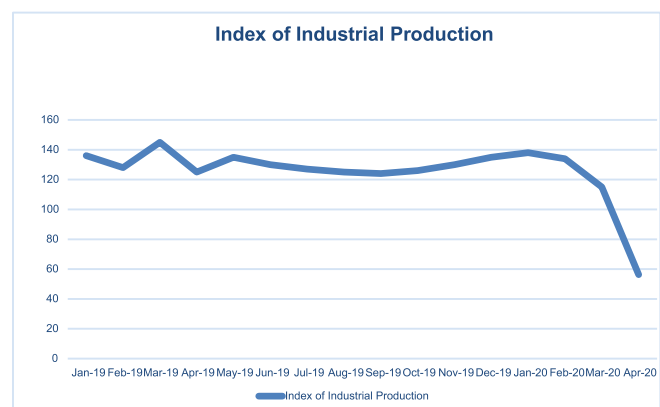


Figure 2:- Graph Showing Index of Industrial Production

In April 2020 after the announcement of a strict lockdown most of the industries showed a drop in the level of production as no production house was operating due to lockdown. The sector included manufacturing, electricity and mining went through a down of about 55.5% in comparison to April, 2019. According to the data provided by the ASI, If the lockdown would have not been imposed the manufacturing sector of India would have shown the growth of 4.7% in terms of NVA during 2020 when compared to 2014-2017. If taken sector wise, the basic metal industry would have shown a growth of 19% where the non-metallic mineral product industry growing at the rate of 13%, machinery and equipment sector would show the growth at 9% and textile would have been growing at 5.2%. So, we can say that the highest decline in terms of NVA has been faced by the basic metal and the machinery and equipment industry(around 21% in each sector) then comes the textile industry with 18% decline, coke and refined petroleum along with motor vehicles declined at the rate of 15% each and at last rubber plastic and other non-metal industries declined at the rate of 11% each just because on halted operations. Talking about the trade of

products and services, these also have been impacted by the COVID-19. Exports of India have shown a fall of around 19.05% in 2020 amounting to a loss of USD 150.07 billion when compared to 2019 and imports fell by 36.28% that is USD 182.29 billion. There are sectors which showed a fall in exports like petroleum products (53.30 per cent), cashew (21.57 per cent), gems and jewelry (21.27 per cent), leather (16.69 per cent), man-made yarn/fabrics/made-ups (12.82 per cent), electronic goods (9.40 per cent), coffee (9.25 per cent), marine products (8.09 per cent) and engineering goods (3.84%) but there exist some sectors which had experienced a growth in exports as well such as rice, oil meals, iron ore, oil seeds, carpet, pharmaceuticals, spices, cotton and chemicals. Coming to MSMEs (Micro, Small, Medium Enterprise) has shown a decline of 20%-50% during lockdown because of the shortage of liquidity in their hands. Therefore, to have a way out many MSME transferred their focus from non-essential goods to essential goods like producing sanitizers, masks, PP Kits etc. so that they can survive the tough times. To regain the position, the companies have to work a lot and work on their strategies to be back either they have to reduce the cost of the product or they have to add some line to their existing business if not, they need to increase their revenue so as to be back in the position.

Impact on Consumption

Consumption refers to the process of using goods and services by anyone in order to satisfy their wants and create a satisfaction utility. People need different things in order to lead their life easily and comfortable. All these goods and services are produced by production sector and then passed on to the market so as to make them reach the consumers. But due to COVID-19 and lockdown people have to change their consuming pattern due to unavailability of products and services conveniently. The situation of pandemic has affected our lives, mobility and mental health so badly. But it also gave us the opportunity to re-think about the ways we were living and our consuming patterns along with the changes that are to be made in both the things. If we take the four months starting from March to June when strict lockdown was present people have reduced their consumption spend by 40% as compared to the same months in 2019. People lost jobs during lockdown as well as faced salary cuts are the other reasons due to which they had to cut their spending having less money in hand to spend. Therefore, people started spending on essential good only.

To outline the difference between essential household expenses and discretionary expenses as well as to know

where people have cut their expenses and on what they are spending now we can categorize the good in three sector given below

- **Groceries or Household Expenses:** As people expected the lockdown to be extended seeing the situation. Therefore, people started buying groceries in bulk. Still it was at



Figure 3:- Change in Household Expenses

its lowest during April as people were spending only 31% of what they have spent in April, 2019 and got a rise in May and June as considering the saving option people find it beneficial to buy in bulk. People spent 70% of the expenditure made by them in 2019 during June.

- **Discretionary Expenses:** These are the expenses made by people after meeting all the essential expenses. It counts expenditure on Travel, Entertainment, Shopping etc. Being stuck in lockdown experiencing salary cuts or being jobless and uncertain future have made people think about their expenses. Adding to this all the centers for entertainment were shut during lockdown so willingly or unwillingly people have to cut their expenses on entertainment and it came down to 14%. Now let's talk about the sector-wise fall in discretionary expenses:
- **Dining out-** The food and beverage industry has been effected a lot due to COVID-19 and has got to as low as 20% of what it was in 2019 as people were afraid and losing interest in outside food. This industry was effected to such an extent that many restaurants are now on borders to be closed forever and online ordering companies had laid off a huge percentage of their employees due to lockdown.

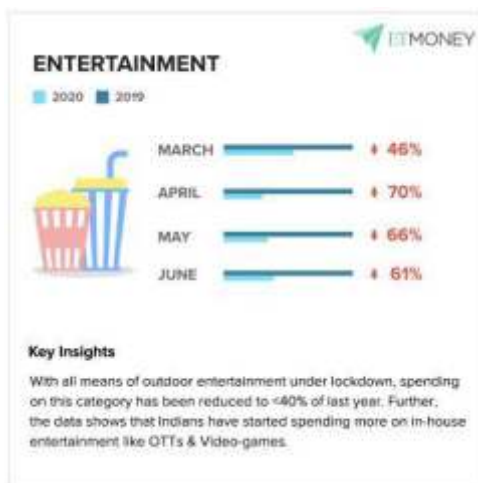


Figure 4:- Change in Entertainment Expenses

- **Entertainment-** People in starting of lockdown that is in April cut their expenses on entertainment by 70% but as they got habitual to lockdown and had an expectation of lockdown to be extended people started spending on online platforms of entertainment and games which gave this sector a rise of 10% during May and June when compared to April 2020



Figure 5:- Change in Dining out Expenses

- **Shopping-** Spent in this sector was majorly hit during April and lowered it to 13% of what it was in April 2019. Later on with the relaxations in the restrictions in lockdown and online platforms resumed all their services it again took a rise and made a jump to 63%. However, the spent was dominated by the convenience and value of the product as well as the heavy discounts offered by the offline and online sellers.



Figure 6:- Change in Shopping Expenses

- **Travel-** This sector was on complete halt during the two months of April and May where other sectors were somehow operating either online or offline. During the month of April, the spent on this sector was just 1% of what it was in April 2019 while the overall spent during four months starting from March to June was 5% of the spent on travel in 2019. Travelling abroad for now is not even in anyone's mind whereas the expenditure on domestic travel increased in June due to the removes restriction from the trains and airlines for the people who

want to reach home. After lockdown, people are still afraid to go and travel. Therefore, it will take time now to come-back to the same position for this sector. According to reports, this sector was the first which was effected by the lockdown and probably will be the last when it comes to recovery.



Figure 7:- Change in Travel Expenses

- **Fixed Expenses:** These are the expenses that the person has to pay irrespective of the fact whether their basic expenses has been met or not. It includes expenses like rent, EMIs, Insurance Premium Etc. there was a down even in this sector of expenses. Let's see how and by how much:



Figure 8:- Change in Fixed Expenses

- **Rents-** This sector has been compared on monthly basis as annual comparison won't be a good option reason being the increment in rental services every year.

So youngsters and singles staying on rented apartments left those so that they can save some rent during Work from home days. Due to this, there was a fall of 15% during April as compared to March 2020 and another fall of 16% during June making it a total fall of 31.75% when compared to rent paid in March 2020.

- **EMIs-** There was a down in this sector as well payments of EMI came down to 85% in April 2020 as compared to April 2019 due to the moratorium facility provided by RBI where people won't be charged any penalty or interest for a specific period of time if they pay their EMIs late. As the restrictions were relaxed the payment showed a rise of 14% that is 99% people were paying their EMIs in June 2020 when compared to June 2019.
- **Insurance Premium-** Due to such a medical emergency people having health insurance were paying most of their hospital expenses from this resulted in rise of premium by insurance companies which further led to 21% decline in the insurance premium payment during June 2020.

So we can say the consumption pattern of people has seen a massive shift due to COVID-19. Now everyone is spending consciously that leads to a strengthened saving habit as no one is more willing to waste a major part of their money in entertainment as this situation has made future really very uncertain. Every sector of consumption has experienced downfall whether high or low which means anyhow people have reduced their expenses in all the sectors.

Impact on Distribution

Distribution refers to all the process and elements in the framework that helps the producers to make the products and services easily available to the customers. COVID-19 has bought the importance of interconnectivity and interdependency in our day to day lives which the halt of all distribution services and supply chains. It is known to all that distribution channels work as a bridge between producer and consumer as well as efficiency and uncertainties. With many people working as its backbone distribution channels integrate many other components of the framework. During lockdown the demand of essential goods took up a high speed whereas the demand of other goods and services got flat because of the shut-down which made people realize the value of efficient supply chains. According to ICC, as the lockdown has been extended the loss is of about 50,000 crores majorly from aviation sector and then from roadways including the loss of toll taxes and the value of goods wasted on roads due to sudden lockdown in trucks. Even when the movement of essential and non-essential goods have been allowed by the government still it is not that easy in real world as the movement of trucks and cargos are either stopped or very slow. And 59% of total goods and commodities move by trucks but during lockdown out of 9 million trucks in Indian logistics only 4.5 million are working and moving. The stopped movement of ships and industry being capital intensive the standing cost of assets resulted in crores of rupees. Therefore, the correct system and process was the need of hour to save the profits and resources of the organization during lockdown and the need of more warehouses as well as more employees was necessary in some essential goods sector so a rational decision with efficient planning is very much needed to safeguard the company. For betterment of employees, NHAI has arranged the system for digital permits and food of drivers at every 50 KMS of distance along with the waiver of EMIs for 6 months until the normal earnings are again started. ICC (Indian Chamber of Commerce) has also requested for the government sponsored health insurance for all the employees in logistics. The consumption pattern of people has been transformed a lot because of the COVID-19

therefore business should also rethink about their existing supply chains so as to go hand in hand with the new trends. The most visible and major shift in consumption is people have shifted to online platforms so we can say that the trend will continue in near future as well and people will majorly rely on online platforms for their shopping and entertainment needs.

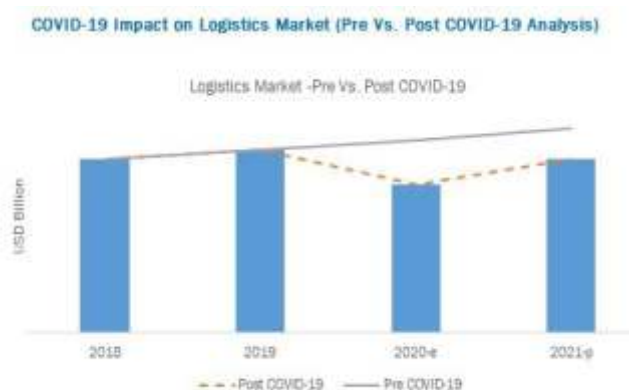


Figure 9:- Impact on Logistics Market due to COVID-19

Due to this pandemic situation pressure on traditional supply chains is rising and it is now needed to design these in such a way that collects and analyses data in real-time so that corrective actions can be taken quickly and efficiently.

Conclusion

India has never faced such an emergency as it is facing right now after independence even during the recession of 2008-2009 people were working and going to their workplaces, no enterprise was shut. The immediate priority for now is to restrict the spread of COVID-19 by distancing, using mask, testing and quarantine the patients. All the sectors of economy have experienced some level of downfall be it production, consumption or distribution of goods and services. After discussing the above data, we surely can say that no sector has remained untouched by the COVID impact. Now the second wave is here to show the impact and fear among people is really low as the economic activities in India. Even when the vaccination has been started still the cases are rising day by day therefore the precautionary steps become more important to safeguard. And talking about the economic activities, some steps could be taken to revive the economy such as making most use of anti-china wave spread in India that is to motivate people to refuse using Chinese products and start using Indian products and services. Second thing that can be done is to focus the rural development and the growth of core sectors such as IT (Information Technology), Agriculture, Education and healthcare. The other can be focus of government at reducing deficit from 5% of GDP to 3.5% of GDP in coming 2-3 years along with the expenditure done by government to raise consumer's demand. In all we can say that precautionary steps taken for economy as well as for personal health can safeguard both from COVID-19.

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