A STUDY ON THE IMPACT OF INFLATION ON THE MONTHLY BUDGETING AND SAVINGS OF MIDDLE-CLASS HOUSEHOLDS IN COIMBATORE DISTRICT

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ABSTRACT

This study examines the impact of inflation on the monthly budgeting and savings behaviour of middle-class households in Coimbatore city. Inflation has a direct influence on household expenditure patterns, purchasing power, and the ability to save for future needs. The study adopts a descriptive research design and is based on primary data collected from middle-class households in Coimbatore. Data were analysed using percentage analysis, Chi-square test, and correlation analysis to understand the relationship between inflation, budgeting decisions, and savings patterns. The findings reveal that rising prices of essential goods and services significantly disrupt household budgets and reduce savings capacity. The study emphasizes the need for effective financial planning, income adjustment mechanisms, and policy interventions to mitigate the adverse effects of inflation on middle-class families.

KEYWORDS: Inflation, Monthly Budgeting, Savings, Middle-class Households.

INTRODUCTION

Inflation is a persistent economic phenomenon that affects the cost of living and financial stability of households. An increase in prices of essential commodities such as food, fuel, housing, healthcare, and education places considerable pressure on household finances. Middle-class households are particularly affected because their income growth is often slower compared to the rise in living costs. As inflation rises, households are forced to revise their monthly budgets and compromise on savings, which affects long-term financial

security.

Coimbatore, a major industrial and commercial city in Tamil Nadu, has witnessed a steady increase in living expenses due to urbanization, population growth, and economic development. Middle-class households in the city face growing challenges in managing monthly expenses while maintaining adequate savings. Understanding how inflation influences budgeting and savings behavior is essential for ensuring sustainable household financial management.

OBJECTIVES OF THE STUDY

1. To examine the impact of inflation on the monthly budgeting of middle-class households in Coimbatore.

2. To analyse the effect of inflation on household savings patterns.

3. To study the relationship between income levels, expenditure, and savings under inflationary conditions.

STATEMENT OF THE PROBLEM

Rising inflation has significantly increased the cost of living in urban areas like Coimbatore. Middle-class households, which rely mainly on fixed or moderately increasing incomes, find it increasingly difficult to balance their monthly budgets. Essential expenses consume a larger portion of income, leaving limited scope for savings. Despite this growing concern, there is limited empirical evidence on how inflation specifically affects budgeting and savings decisions of middle-class households in Coimbatore. This study attempts to address this gap by analysing household financial behaviour under inflationary pressure.

SCOPE OF THE STUDY

The study focuses on middle-class households residing in Coimbatore city. It examines changes in income allocation, expenditure patterns, and savings behaviour due to inflation. The study also analyses the relationship between demographic factors and financial decision-making. The findings are expected to provide insights useful for households, financial planners, and policymakers.

LIMITATIONS OF THE STUDY

● The study is restricted to middle-class households in Coimbatore city only.

● The analysis is based on self-reported data, which may be subject to personal bias.

● Due to time constraints, the sample size is limited.

● Inflation perception may vary across households based on income and lifestyle.

RESEARCH METHODOLOGY

The study adopts a descriptive research design to analyse the impact of inflation on the monthly budgeting and savings of middle-class households in Coimbatore city.

● **Period of Study:** The study was conducted for a period of three months.

● **Population:** The population of the study consists of middle-class households residing in Coimbatore city. Middle-class households are defined as those with a monthly household income ranging from ₹25,000 to above ₹1,00,000.

● **Sample Size & Technique:** A sample of **122 respondents** was selected using the **convenient sampling method**.

The sample size of 122 was considered adequate for a B.Com level descriptive study, as it provides sufficient representation of different income groups, occupations, and age categories within the middle-class segment. Primary data were collected using a structured questionnaire covering demographic details, budgeting practices, expenditure changes, savings behaviour, and financial stress due to inflation. Secondary data were collected from journals, reports, books, and official publications.

STATISTICAL TOOLS USED

● Percentage Analysis

● Chi-Square Test

● Correlation Analysis

PERCENTAGE ANALYSIS

The percentage analysis is based on responses collected from 122 middle-class households in Coimbatore using a structured questionnaire. The data is classified into four categories: Demographic Profile, Budgeting & Expenditure, Savings & Investments, and Financial Stress & Coping Strategies.

Table 1: Percentage Analysis of Respondents.

S.No	Particulars	Category	Percentage
1	**Gender**	Male	55.7
		Female	44.3
		Other	0.0
2	**Age Group**	20–30	15.6
		31–40	39.3

		41–50	29.5
		Above 50	15.6
3	Occupation	Government	18.0
		Private	47.5
		Self-employed	24.6
		Professional	9.9
4	Monthly Household Income	₹25k–50k	28.7
		₹50k–75k	36.1
		₹75k–1L	23.0
		Above ₹1L	12.2
5	Number of Dependents	1-2	21.3
		3-4	63.9
		5 or more	14.8
6	Maintain formal monthly budget?	Yes	36.1
		No	24.6
		Occasionally	39.3
7	Category with highest price increase	Groceries	42.6
		Fuel	23.0
		Electricity	14.8
		Education	11.5
		Health	8.1
8	% Grocery bill increase vs last year	<10%	8.2
		10–20%	29.5
		20–30%	39.3
		>30%	23.0
9	Income increased in proportion to inflation?	Yes	14.8
		No	59.0
		Somewhat	26.2
10	How often expenses exceed planned budget?	Always	18.0
		Frequently	37.7
		Rarely	31.1
		Never	13.2
11	Reduced spending on non-essential items?	Significantly	44.3
		Moderately	34.4
		Slightly	14.8
		Not at all	6.5
12	Changed transport mode due to fuel costs?	Yes (EV/Public)	23.0
		Reduced travel	42.6
		No change	34.4
13	Compromise on brand quality to stay in budget?	Yes	36.9
		No	26.2
		Sometimes	36.9
14	Impact on children's education spending?	Reduced	6.6
		Maintained by cutting else	72.1
		No impact	21.3
15	Prioritize 'needs' over 'wants' strictly?	Strongly Agree	50.8
		Agree	32.8

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		Neutral	9.8
		Disagree	4.9
		Strongly Disagree	1.7
16	**% of monthly income currently saved**	<5%	37.7
		5-15%	39.3
		15-25%	14.8
		>25%	8.2
17	**Monthly saving capacity change vs last year**	Increased	9.8
		Decreased	67.2
		Remained same	23.0
18	**Dipped into long-term/emergency funds?**	Yes	55.7
		No	44.3
19	**Investment reduced due to inflation?**	FD-RD	31.1
		Mutual Funds	19.7
		Gold	18.0
		Insurance	8.2
		None	23.0
20	**Ability to maintain 3-6 month emergency fund?**	Yes	23.0
		No	42.6
		Depleting	34.4
21	**Impact on long-term goals (Home/Vehicle)?**	Postponed	47.5
		Scaled down	29.5
		No change	23.0
22	**Stress level regarding financial future**	Extreme	26.2
		Moderate	47.5
		Slight	18.0
		Not at all	8.3
23	**Primary strategy to cope with inflation**	Extra Income	14.8
		Cut Expense	52.5
		Credit/Loans	21.3
		Cut Saving	11.4
24	**Confidence in current plan for future inflation**	Very Confident	6.6
		Moderate	26.2
		Low	45.9
		Not Confident	21.3
25	**Awareness of Govt/Literacy support programs**	Yes	27.9
		No	45.9
		Unaware	26.2

CHI-SQUARE TEST

To examine the relationship between income levels and the impact of inflation on savings, a Chi-Square analysis was conducted.

Objective: To test if there is a significant association between **Monthly Household Income** and **Changes in Saving Capacity**.

● **H0 (Null Hypothesis):** There is **no significant association** between monthly household income and the change in saving capacity during inflation.

- **H1 (Alternative Hypothesis):** There is a **significant association** between monthly household income and the change in saving capacity during inflation.

Table 2: Observed Frequency of Respondents. (Income vs. Savings Change)

Monthly Income	Saving Capacity Increased	Saving Capacity Decreased	Saving Capacity Remained Same	Total
₹25k–50k	0	30	5	**35**
₹50k–75k	4	35	5	**44**
₹75k–1L	3	15	10	**28**
Above ₹1L	5	2	8	**15**
Total	**12**	**82**	**28**	**122**

Chi-Square Calculation Result

Particulars	Value
Degrees of Freedom (df)	6
Significance Level	5% (0.05)
Table Value	12.592
Calculated Chi-Square Value	41.85

Inference: The calculated Chi-Square value (**41.85**) is greater than the table value (**12.592**) at a 5% level of significance.

Result: Hence, the **Null Hypothesis (H0) is rejected**. This concludes that there is a **significant association between the income level of households and the decline in their saving capacity.** Lower-income groups have disproportionately faced a decrease in savings compared to higher-income groups.

CORRELATION ANALYSIS

Correlation analysis is used to measure the strength and direction of the linear relationship between two variables. In this study, we examine the relationship between **Percentage Increase in Monthly Expenditure (X)** and **Percentage of Income Saved (Y)**.

Variables:

- **X:** Increase in Monthly Expenditure (Proxy for Inflation Impact)
- **Y:** Current Monthly Savings (Percentage of Income)

The data below represents the average values from 5 sample groups of respondents categorized by the severity of inflation impact.

Table 3: Computation of Correlation Coefficient. (r)

Observation (Sample Groups)	Expenditure Increase % (X)	Savings % (Y)	X2	Y2	XY
Group A (Severe Impact)	32	4	1024	16	128
Group B (High Impact)	28	8	784	64	224
Group C (Mod. Impact)	22	10	484	100	220
Group D (Low Impact)	18	16	324	256	288
Group E (Minimal Impact)	12	22	144	484	264
Total (Σ)	$\Sigma X = 112$	$\Sigma Y = 60$	$\Sigma X^2 = 2760$	$\Sigma Y^2 = 920$	$\Sigma XY = 1124$

Inference

The calculated Correlation Coefficient (r) is **-0.98**. This indicates a **strong negative correlation** between the increase in household expenditure and the percentage of savings. As the cost of living (inflation) rises, the savings capacity of middle-class households significantly decreases.

FINDINGS

Based on the percentage analysis of 122 respondents, the following specific findings were observed:

➢ Majority of respondents (55.7%) were male, while 44.3% were female, indicating relatively balanced participation in household financial decision-making.

➢ Most respondents (39.3%) were aged 31–40 years, followed by 29.5% in the 41–50 years age group, representing the active working population.

➢ Majority of respondents (47.5%) were private-sector employees, followed by 24.6% self-employed and 18.0% government employees.

➢ Most respondents (36.1%) reported a monthly household income between ₹50,000–₹75,000, indicating a predominantly middle-income group.

➢ Majority of households (63.9%) had 3–4 dependents, increasing financial pressure during

inflationary periods.

➢ Most respondents (39.3%) maintained a budget only occasionally, while 36.1% followed a strict monthly budget, showing inconsistent budgeting behaviour.

➢ Majority of respondents (42.6%) identified groceries as the category with the highest price increase, followed by fuel (23.0%) and electricity (14.8%).

➢ Most households (39.3%) experienced a 20–30% increase in grocery expenditure compared to the previous year.

➢ Majority of respondents (59.0%) reported that their income has not increased in line with inflation, leading to reduced purchasing power.

➢ Most respondents (37.7%) frequently experienced budget deviations, where actual expenses exceeded planned spending.

➢ Majority of households (44.3%) reduced spending on non-essential items as a key strategy to manage rising costs.

➢ Most respondents (42.6%) reduced travel to save fuel expenses, while 23.0% shifted to public transport or electric vehicles.

➢ Majority of respondents (36.9%) switched to cheaper brands, compromising on quality to stay within budget.

➢ Most households (72.1%) continued education spending by cutting costs elsewhere, while 6.6% reduced education expenses due to financial strain.

➢ Majority of respondents (50.8%) strongly agreed that they prioritize 'needs' over 'wants' in the current economic environment.

➢ Most respondents (37.7%) were able to save less than 5% of their monthly income, reflecting weak financial security.

➢ Majority of respondents (67.2%) reported a decline in their saving capacity compared to the previous year.

➢ Most households (55.7%) admitted using emergency or long-term savings to meet daily expenses.

➢ Majority of respondents (31.1%) reduced investments in Fixed Deposits and Recurring Deposits, indicating reduced surplus income.

➢ Most respondents (42.6%) were unable to maintain a 3–6 month emergency fund, highlighting inadequate financial preparedness.

➢ Majority of households (47.5%) postponed major long-term goals, such as buying a house or vehicle, due to inflation.

➢ Most respondents reported moderate (47.5%) to extreme (26.2%) financial stress,

indicating high psychological and economic pressure.

➢ Majority of households (52.5%) adopted expense-cutting as their primary coping strategy, while only 14.8% sought additional income sources.

➢ Most respondents (45.9%) expressed low confidence in their financial plan's ability to withstand future inflation.

➢ Majority of respondents (45.9%) were not aware of government support schemes or financial literacy programs that could assist them.

SUGGESTIONS

Based on the detailed analysis, the following suggestions are recommended to help middle-class households, policymakers, and financial institutions mitigate the impact of inflation:

Suggestions for Households

1. **Adoption of the 50-30-20 Rule:** Households should rigorously adopt the "50-30-20" rule of budgeting—allocating 50% of income to Needs (essentials like rent, food), 30% to Wants (discretionary), and ensuring 20% goes to Savings. In high-inflation periods, the 'Wants' category must be temporarily sacrificed to maintain the 'Needs' and 'Savings' ratio.

2. **Creation of a Robust Emergency Fund:** Given that 55.7% of respondents dipped into long-term funds, households must prioritize building a liquid emergency fund equivalent to at least 6 months of expenses. This fund should be kept in high-liquidity instruments like flexi-fixed deposits rather than volatile market funds.

3. **Shift to Inflation-Beating Investments:** Traditional savings methods like plain savings accounts or low-interest FDs often yield negative real returns when inflation is high. Middle-class investors should diversify into inflation-indexed bonds, Gold SGBs (Sovereign Gold Bonds), or diversified Mutual Funds via SIPs to beat inflation over the long term.

4. **Smart Consumption Patterns:** Households should adopt bulk buying for non-perishable groceries to lock in prices and utilize public transport or carpooling to reduce fuel expenses, which was identified as a major cost driver.

Suggestions for Policymakers

1. **Inflation-Adjusted Tax Slabs:** The government should consider revising income tax slabs or standard deductions periodically to account for inflation (indexation), ensuring that the real purchasing power of the middle class is not eroded by "bracket creep."

2. **Targeted Subsidies for the "Missing Middle":** While lower-income groups receive substantial subsidies, the lower-middle class often bears the full brunt of price hikes.

Targeted relief for fuel or essential educational supplies could be introduced for this demographic.

3. **Price Control on Education and Healthcare:** Since education and health costs are significant burdens, stricter regulatory caps on private school fees and medical procedures would provide immense relief to middle-class families.

Suggestions for Financial Institutions

1. **Financial Literacy Campaigns:** With 45.9% of respondents unaware of support programs, banks and NGOs must conduct aggressive financial literacy workshops focusing on "Inflation-Proofing Your Portfolio."

2. **Flexible Loan Restructuring:** Banks could offer temporary EMI holidays or restructuring options for housing and education loans during periods of peak inflation to prevent middle-class families from falling into a debt trap.

CONCLUSION

The study comprehensively analyzed the impact of inflation on the monthly budgeting and savings of middle-class households in Coimbatore. The findings paint a concerning picture of the financial resilience of the middle class. The statistical analysis confirms a **strong negative** between rising expenditure and savings, proving that inflation is not merely an inconvenience but a direct threat to future financial security. Furthermore, the **Chi-Square test** established a significant association between income levels and savings capacity, highlighting that the lower-middle class is disproportionately affected, often having to sacrifice long-term goals and emergency security to meet daily needs.

The data reveals a behavioural shift where families are forced to prioritize short-term survival over long-term growth, evidenced by the reduction in education spending and the depletion of emergency funds. This trend, if left unchecked, could lead to a cycle of financial vulnerability. Therefore, combating the effects of inflation requires a two-pronged approach: **Proactive Financial Discipline** at the household level through stricter budgeting and smart investing, and **Reactive Supportive Policies** from the government to control prices and protect real incomes. Only through this collaborative effort can the middle class in Coimbatore sustain their standard of living and secure their financial future against economic volatility.

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