Population and Economics 4(2): 84–87
DOI 10.3897/popecon.4.e53629

RESEARCH NOTE

How will the consumer behaviour of Russians change under the impact of the crisis caused by the pandemic?

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Received 4 April 2020 ♦ **Accepted** 24 April 2020 ♦ **Published** 30 April 2020

Citation: Berezin IS (2020) How will the consumer behaviour of Russians change under the impact of the crisis caused by the pandemic? Population and Economics 4(2): 84-87. https://doi.org/10.3897/popecon.4.e53629

Abstract

The scientific note assesses the expected changes in the consumption of Russians due to the crisis caused by the coronavirus. How will the consumption structure change in the short-run and long-run? What will this new consumption model look like? Which households will suffer the most? What will happen to the debt burden of households? Are we exaggerating the emerging speed of transition to online retail, education, medicine?

Keywords

coronavirus, consumption, households, Russia

JEL codes: D12, D14

I comment the changes in consumption due to the crisis caused by the coronavirus in accordance with the questions raised.

How will the consumption structure change in the short and long terms?

In the short-term (according to the results of March) we are to see a surge in daily consumption by 10-20% (*PE: data in mid-April confirmed the forecast)*. I think there will be an increase in sales of new cars in March, by 5-10% (*PE: data on April 10 showed an increase by 4%*). And then there will be a sharp decline in the car market to 10-20%, or maybe more. There will be a growth in selected items of household appliances: certainly laptops, smartphones, possibly coffee machines, food steamers, freezers, etc.

From the second quarter there will be a decline in consumption, the depth of which will depend on the depth of the decline in real incomes.

In some industries (for example, tourism, restaurants) the decline will be multiple – from two to four times.

In other industries, even a significant growth is possible, for example, in those areas that relate to the improvement of the home or dacha, because people will now be forced to spend significantly more time at home. And those 1.5 trillion rubles, which Russians will not spend this year abroad, will have to be spent within the country.

Which households will suffer the most? Does household composition affect the risk of falling living standards?

I do not think that household composition as such is an important factor that will affect the "suffering" from the crisis. Something else is more important. How many sources of income are there in the family? If one (even high, for example, 150 thousand rubles), what will happen to it, will it remain? If the family has two pensions and a salary in the public sector (40 thousand rubles), it will not suffer much. It will also be important whether there are members in the family with diseases that require expensive treatment. Is there a significant amount of savings in the family (for example, for 3-12 months of "usual" consumption)? Will families with serious debt on loans be able to restructure it?

How long will it take to restore the "usual" consumption pattern?

It is possible that we will never return to the "usual" consumption model (by the standards of 2015-2019), and a new model will be formed by the end of 2020.

What will this new consumption model look like?

Most likely it will be a model with a more pronounced "seasonality" of consumption, even in industries that were previously not particularly susceptible to seasonality. As soon as the administrative bans are lifted, we will see a surge in delayed demand for visits to theatres, cinemas, other entertainment events. Perhaps some Moscow theatres will have to give two or three performances a day, especially on weekends. But, if God forbid, in autumn there will be an aggravation of even regular acute viral respiratory infections, the demand in these industries will fall again. Most likely, it will be a consumption model with the formation of "excess" stocks of durable food and non-food daily demand items, as it was in the history of our country in the 1970s and 1980s of the past century. It will be a model designed to quickly switch to remote work mode (from home) and long stay in urban apartments and country houses.

What will happen to the debt burden of households?

It depends on the position of state banks and the mega-regulator of the financial sector – the Central Bank. If the population is provided with significant financial support from the authorities, the total debt burden of households will not increase critically. If such support is not provided, millions of households and individuals will be bankrupt by the end of this year.

The Central Bank now has such a choice: either a quantitative easing of 7-10 trillion rubles, or restrictive monetary policy, as in previous 5 years. In the first scenario, half of this money should simply be distributed to the population: 50 thousand rubles to all pensioners, 50 thousand for each child under 17 years, etc., and the second half should be directed towards business support: preferential loans, tax holidays, reduction of VAT, reduction of the social tax, etc.

The cost of these actions will be inflation of 12-15% in 2020 and 8-10% in 2021. And the exchange rate of the ruble will be 100 per 1 US dollar. But the decline in production in 2020 may not be large (from -2 to -4%), and next year recovery growth of the economy may begin at 3-4% per year.

In the second scenario, inflation will be less than 5%, the ruble exchange rate will be 65-70 rubles per 1 US dollar, but production will decline for 3-4 years by 2-8% per year.

And the longer the Central Bank and the Government fluctuate between these options, the higher are the chances that we will get inflation of 7-10% per year, and the economic decline of 1-4% per year during the next 3-4 years.

How will consumer behaviour change after the end of the pandemic? What will worsen or improve for families? For the economy? For example, how will self-protective behaviour change, in particular, consumption of tobacco, alcohol?

Consumption of tobacco and alcohol in 2020 will increase by 10-25%, including counterfeit.

Macroeconomics will depend on the oil price, on the effectiveness of anti-crisis measures of the Government and the Central Bank, on fiscal policy. This will have a greater impact on macroeconomics than a change in consumer behaviour.

What will new advertisement be like?

There will be no “new advertising”. The advertising market will decline by 15-20% in ruble value in 2020. Advertising will become even more primitive. And will even further “shift” to the Internet.

Are we exaggerating the emerging speed of transition to online retail, education, medicine?

This will depend on how the leading operators will prove themselves. If they adequately respond to the challenges and seize the opportunities, they will manage to make a breakthrough. For example, until March 2020, the market of online ordering and delivery of food to home was less than 1% of the food market. In April in Moscow, it may grow up to 10-20%. And if, for example, Ozon and similar firms work well, in the second half of the year they will be able to occupy 5-7% of the market, what will mean a fivefold (and for some firms 10-20 times) growth of business for them. But, if representatives of the online order market fail to quickly address this challenge, then after the acute phase passes online delivery will decrease to 2% of the market.

The same will happen with education and various online meetings, trainings, consultations, seminars, conferences.

If regulatory obstacles are removed, medical remote diagnosis will grow by several times. If regulatory obstacles are not lifted, nothing will happen soon.

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