

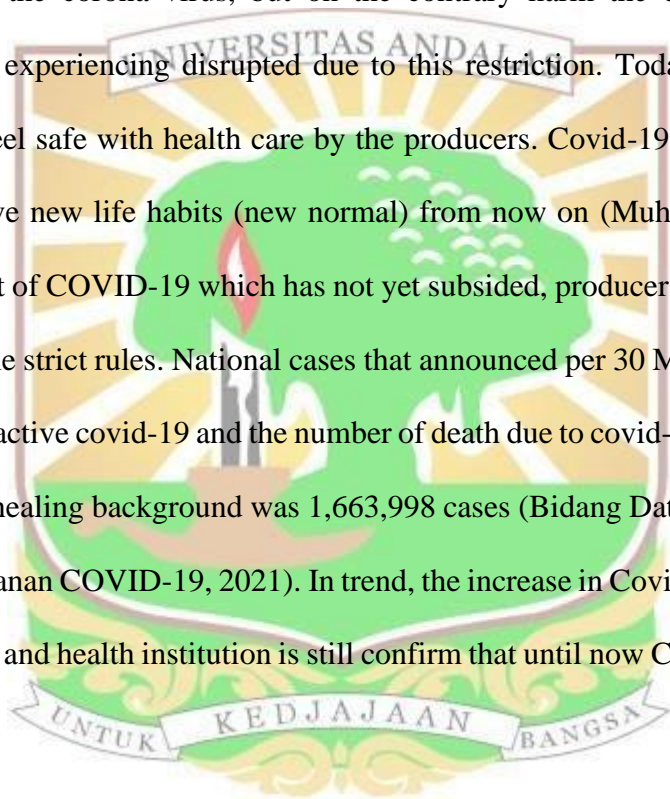
# CHAPTER 1

## INTRODUCTION

### 1.1 Background

The existence of Covid-19 pandemic has been shocked economic across country. The economic recession that caused by the pandemic has disrupted consumption and demand. The reduction in consumption has made Indonesia's economic condition became worse. Economic disruptions happen due to COVID-19 that makes disturbance in supply chain, export import disruption, labor layoffs, store closures, delivery restrictions, travel bans, financial crises, demand shocks, etc. Household consumption also experienced disruption due to limitation of production activities. Household consumption is impacted by income contraction and limited space for consumption (Krugman, 2020). The revenue contraction is due to the termination of employment rights, reduction in salary, decrease in operating profit/company, while on the other hand the limited space for consumption is due to community mobility which is controlled by several Covid-19 restrictions. As many as 1,548 household respondents from 32 provinces spread throughout Indonesia that the economic condition is in a slumping phase (Lembaga Ilmu Pengetahuan Indonesia , 2020). Many households finally decide to sell assets and make various loans. By the data household consumption expenditure GDP (Gross Domestic Product) has slowed from the annual 2020 data of around 56.42 to 55.94 in the first quarter of 2021 (Badan Pusat Statistik, 2021).

The current pandemic conditions makes government sharpen various policies to stabilize the economy by continuing to implement some health policies. Since the existence of covid-19 especially in Indonesia, policies such as lockdown, PSBB (large-scale social restrictions), and PPKM (community activities restriction enforcement) have been strictly enforced. The restrictive policies implemented starting from the lockdown, PSBB, PPKM aim to reduce the spread of the corona virus, but on the contrary harm the economy. The economy was experiencing disrupted due to this restriction. Today, consumers still want to feel safe with health care by the producers. Covid-19 is a threat for humans to have new life habits (new normal) from now on (Muhyiddin, 2020). With the threat of COVID-19 which has not yet subsided, producers have begun to open with some strict rules. National cases that announced per 30 May 2021 there were 101,639 active covid-19 and the number of death due to covid-19 was 50,404 cases and the healing background was 1,663,998 cases (Bidang Data & IT Satuan Tugas Penanganan COVID-19, 2021). In trend, the increase in Covid-19 cases has still fluctuated and health institutions still confirm that until now Covid-19 still exist.



Households and businesses hit by supply disruptions and a drop in demand could be targeted to receive cash transfers, wage subsidies, and tax relief, helping people to meet their needs and businesses to stay afloat. Household economy is the smallest economic actor from a larger economic system, such as companies and the state (Sina, 2020). However, even though it is the smallest, the household has the most important proportion in the economy because the origin of economic activity comes from the household. In this research consumer confidence will be a proxy

of consumption because we don't have monthly data consumption. Consumer confidence refers to performance whether consumers are optimism or pessimism in consume. When pessimism dominate, households tend to reduce consumption spending, and firms will reduce investment spending and the result is reduced aggregate demand, lower production, and higher unemployment (Mankiw, Principle of Economics 6th edition, 2011). Conversely, when optimism reigns, households an Consumer confidence will represent the consumption condition in Indonesia during this pandemic and we'll see the impact of COVID-19 on consumption in Indonesia.

## 1.2 Research Problem

All the lines of society have an important role to break the chain of the spreading of this coronavirus. Both of producers and consumers have been affected by the COVID-19 pandemic. The disrupted economic activity makes consumption weaken. We see unpaid households experiencing financial difficulties and thus slowing down their spending. Reductions in demand and/or immediate supply shocks can cause disruptions to international and domestic supply chains. When creditors and workers are not paid, they spend and invest less. Then there are layoffs of workers, sick leave, quarantine, or leave to care for sick children or relatives that are directly related to detention policies or other medical needs. Workers who lose their jobs spend less. Weakening consumption was due to restrictive policies as well as income.

People's income is affected by the work they do, when they work as employees, of course, they depend on the company's financial condition if the company experiences a decline, of course, there is a reduction in employees or salaries. Likewise, entrepreneurial workers who contribute directly as a leader to the business they are running, have to get used to face the situation caused by COVID-19 like from the supply chain and also other factors such as prices and the decreasing in the number of consumers. Therefore, COVID-19 has had a major impact on consumer confidence in increasing consumption, while circumstances pressure them to survive by implementing various policies to survive and maintain health.

### **1.3 Research Question**

1.3.1 How COVID-19 pandemic gives impact to the consumption in Indonesia?

### **1.4 Research Aim**

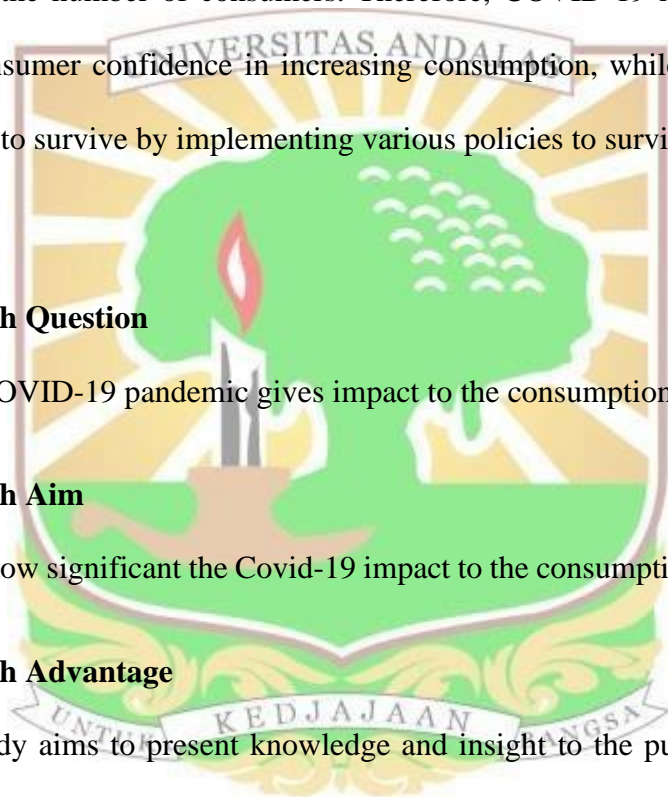
1.4.1 To see how significant the Covid-19 impact to the consumption in Indonesia.

### **1.5 Research Advantage**

This study aims to present knowledge and insight to the public about how COVID-19 pandemic affect their consumption that represent by consumer confidence during COVID-19 pandemic. This research will show to us the significant impact of Covid-19 pandemic on consumption in Indonesia.

### **1.6 Writing Systematic**

Systematics of writing is made to facilitate the preparation of this thesis, it is necessary to determine a good writing systematic. The writing systematics are as



follows:

**CHAPTER I INTRODUCTION**

This chapter contains the background, about general situation of consumption in Indonesia in this pandemic situation, research problem, research question, research aim, research advantage, and systematic thesis writing.

**CHAPTER II LITERATURE REVIEW**

This chapter contains theories of consumption, demand and income.

**CHAPTER III RESEARCH METHOD**

This chapter contains research method, data source, technique of data analysis, variable description.

**CHAPTER IV DATA ANALYSIS AND DISCUSSION**

This chapter contains variables description, result of data analysis, interpretation of data analysis.

**CHAPTER V CONCLUSION**

This chapter contains conclusions and recommendation needed.

