



“GST Reforms and Changing Consumer Behavior: Evidence from Household Purchasing Power and Consumption in Coimbatore District”

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Abstract

The welfare of households in developing economies is very much impacted by tax reforms and inflation. With a focus on rural consumption, this study looks at how household purchasing power and consumption patterns in the Coimbatore district are affected by both inflation and the Goods and Services Tax (GST) reforms. The study examines how critical commodity pricing, real income, and spending patterns across various income levels in both urban and rural families have been impacted by price increases and indirect tax restructuring under the GST establishment. Structured questionnaires were used to gather primary data, which was backed up by secondary data from GST revenue reports and the CPI (Consumer Price Index). The results show that GST-induced price increases and inflation have decreased purchasing power, especially for rural households with low and intermediate incomes. This has resulted in lower discretionary expenditure and different consumption preferences. In order to safeguard household welfare, the report proposes income-support programs, tax validation, and targeted rural relief measures in light of growing socioeconomic gaps.

Keywords: *Inflation, GST Purchasing Power, Household Consumption, Socioeconomic Inequality, Urban Economy,*

Introduction

A considerable structural change to the indirect taxation system was made in India with the preface of the Goods and Services Tax. GST was introduced in 2017 with the goal of combining several indirect taxes into a single national market. Although GST increased tax fulfillment and transparency, it also changed how products and services were priced, which had an impact on household spending trends.

GST reforms have had a direct and indirect impact on household purchasing power in addition to inflationary pressures.

An importunate macroeconomic phenomena known as inflation is defined by a steady rise in the average price of goods and services, which lowers the purchasing power of money. Because inflation directly affects household wellbeing, savings behavior, and consumption patterns, it has remained a major worry in developing economies like India. Households face a decline in real income when prices increase more



quickly than income levels, which force them to reevaluate their spending priorities and, frequently, lower their standard of life.

Rural households are especially vulnerable to price increases brought on by tax modifications since they devote a larger percentage of their income to requirements. Assessing the combined effects inflation and GST becomes essential in areas like Coimbatore, where rural areas and urban industrial zones coexist.

Need for the Study

The cost of living and the financial permanence of households are directly impacted by inflation. Increasing costs for necessities like food, rent, fuel, healthcare, and education have a big impact on household purchasing choices in fast-growing cities like Coimbatore.

A significant amount of urban households' income is spent on necessities, particularly those with low and intermediate incomes. Households are forced to cut back on voluntary spending, deplete savings, or go on debt when inflation persists because it lowers real income and purchasing power.

The indirect tax burden on both necessary and non-essential commodities has altered as a result of the GST revisions. Because of their reliance on necessities and less income elasticity, rural households are particularly susceptible. Empirical data at the district level evaluating the effect of GST on rural buying power is scarce. Designing comprehensive fiscal strategies is aided by an understanding of the grassroots effects of tax policy.

Statement of the Problem

Implementation of the Goods and Services Tax (GST), India's indirect tax system experienced a dramatic change. The GST created a single tax structure across the country and replaced many earlier taxes. Although the objectives of this reform were to simplify taxes and improve economic efficiency, it changed the prices of many goods and services.

Since GST is an indirect tax, it directly affects the absolute price that consumers pay. Any change or rise in GST rates may result in higher prices for basics including food, home goods, transportation, and services. As prices rise, households' purchasing power decreases, especially for those with low and moderate earnings.

In rural areas, where income levels are often lower and a greater percentage of income is spent on basic necessities, the issue is more severe. Rural expenditure patterns can be greatly impacted by even little price changes. Simultaneously, real income and savings have been further diminished by rising inflation.

The combined effects of inflation and the GST reforms may have had varying effects on household consumption across income categories in the Coimbatore district, which encompasses both urban and rural areas. However, there is limited local-level research that clearly explains how GST reforms have influenced household purchasing power, especially in rural areas.

Scope of the Study

Examining how the Goods and Services Tax (GST) reforms have affected household purchasing power and consumption trends in the Coimbatore area is the main goal of this study.

The study's scope encompasses:

- Impact of changes in the GST rate on the costs of provisions and non-essential items.
- Purchasing power of households after the introduction of the GST.
- GST and inflation affect household budgets together.
- Examination of low, middle, and high income groups.
- Economic aspects like spending, income, savings, and consumption patterns are its primary focus.



Objectives of the Study

- To understand the impact of GST reforms on prices of essential goods and services.
- To examine the changes in household consumption patterns due to GST.
- To assess the relationship between GST price changes and household expenditure.

Research Methodology

Research Design

In order to assess the connection between Impact of GST on household consumption, buying power, and inflation, the study uses a descriptive and analytical research design.

Data Collection

Primary Information

A structured questionnaire was given to households with varying income levels.

The method of stratified random sampling.

Secondary Information

Data from the Consumer Price Index (CPI)

Economic reports from the government

Sample Size : 350 households across various residential zones in Coimbatore.

Study Area: Coimbatore

Hypotheses Testing

H₀₁: The purchasing power of households is not significantly impacted by GST reforms.

H₀₂: Household consumption patterns are not significantly affected by GST adjustments.

Literature Review

Reviews on GST

1. Arun Kumar (2018) analysed how the introduction of the GST affected Indian consumer prices. The study discovered that although the goal of the Goods and Services Tax (GST) was to streamline the tax system, it resulted in a temporary rise in the cost of necessities, which had an immediate impact on household spending patterns. Price-conscious customers cut back on spending on necessities, particularly during the early stages of GST implementation, according to the study's findings.
2. Sijbren Cnossen (2019) pointed out that indirect taxes, such as GST, are often regressive in character and disproportionately harm low- and middle-class populations. According to the report, these households are more susceptible to price fluctuations since they spend a bigger portion of their income on necessities.

Reviews on Consumer Behavior

1. Janani(2025) examined about the consumer behaviour in structured retail environments. Price, quality, and convenience were found to be the main determinants of consumer preference for hypermarkets in the survey, which had 140 respondents. Additionally, it emphasised the difficulties that consumers encounter and the influence that awareness has on decisions about what to buy.
2. Anbukarasi et.al (2021) investigated consumer awareness of green FMCG products. The study found that although most customers are aware of environmental factors, there is a knowledge gap on product certifications, suggesting that consumers' informed purchase behaviour varies.



Analysis

Dimension	Response	No. of Respondents	Percentage (%)	Interpretation
Area	Rural	150	42.9	Rural representation
	Urban	200	57.1	Urban majority
Income Level	Below ₹20,000	110	31.4	Vulnerable group
	₹20,000–₹40,000	150	42.9	Majority middle income
	Above ₹40,000	90	25.7	Higher income group
GST Price Impact	High Increase	210	60	Majority feel GST increased prices
	Moderate Increase	95	27	Noticeable impact
	No Major Change	45	13	Limited impact
Purchasing Power	Reduced	220	63	Significant decline
	No Change	85	24	Moderate stability
	Improved	45	13	Small positive group
Consumption Pattern	Reduced	240	69	Households cutting discretionary expenses
	Reduced	70	20	Low-income rural affected
Rural Behaviour	Yes (Rural only)	95	63*	GST influencing rural buying behaviour
Savings	Decreased	210	60	Savings negatively affected
Overall Effect	Increased	230	66	Higher financial pressure

Correlation Analysis

Variables GST Price Impact Purchasing Power

GST Price Impact 1 -0.68

Purchasing Power -0.68 1

- The correlation coefficient ($r = -0.68$) shows a **strong negative relationship** between GST price impact and purchasing power.
- This means that as the perceived impact of GST on prices increases, household purchasing power decreases.



Chi – Square Test

GST and Essential Goods Spending

- χ^2 value = 28.75 p-value = 0.001 (< 0.05) Then: Since p-value < 0.05 , reject H_0 .

There is a significant association between GST price impact and spending on essential goods.

Findings

- The majority households stated that the GST amendments have exaggerated the cost of necessities including groceries, household goods, and critical services.
- Spending on necessities decreased, according to about 60% of respondents who thought there had been a significant increase in GST prices.
- Compared to urban households, rural households had a greater tendency to modify or cut back on basic consumption.
- Because they spend a greater percentage of their income on needs, low- and middle-income groups were more affected.
- In order to control rising costs, some households switched to less expensive or unbranded options.
- The findings of the Chi-square test showed a statistically significant correlation ($p < 0.05$) between the impact of GST prices and spending on necessities.
- All things considered, the GST reforms have had a discernible effect on household spending trends, especially in areas of essential consumption.

Conclusion

According to the study's findings, household spending patterns have been significantly impacted by the Goods and Services Tax (GST), especially when it comes to necessities. GST is an indirect tax that directly affects the final cost of products and services, which in turn affects the spending power of households.

The results show that after the introduction of the GST, a significant number of households saw a rise in the cost of necessities. Many families have changed their consumption habits as a result, particularly those from low-income and rural communities. To handle their restricted money, some households cut back on their expenditures, while others switched to less expensive or unbranded alternatives.

Overall, the analysis shows that although the GST has made the tax system simpler at the federal level, careful policy attention is needed to address its effects on households, especially with regard to basic consumption and purchasing power. The financial strain on households can be lessened by taking steps like lowering the GST rates on necessities and giving vulnerable populations tailored assistance.

Suggestions / Policy Recommendations

The following recommendations are offered in light of the study's results regarding how the Goods and Services Tax (GST) affects household purchasing power and expenditure on necessities: Rationalization of GST Rates: To lessen the burden on low- and middle-income households, necessities such as essential food items, medical supplies, and everyday commodities should be classified under lower GST slabs.

- Particular Assistance for Rural Families: Rural households are especially vulnerable to price hikes.
- Their purchasing power may be preserved via targeted subsidies or tax breaks on necessities.
- Frequent Review of GST Slabs: To keep necessities cheap, the government should review GST rates on a regular basis.



- Enhancing Direct Benefit Transfers (DBT): In order to help needy households that are experiencing higher expenses as a result of GST and inflation, financial assistance programs can be strengthened.

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