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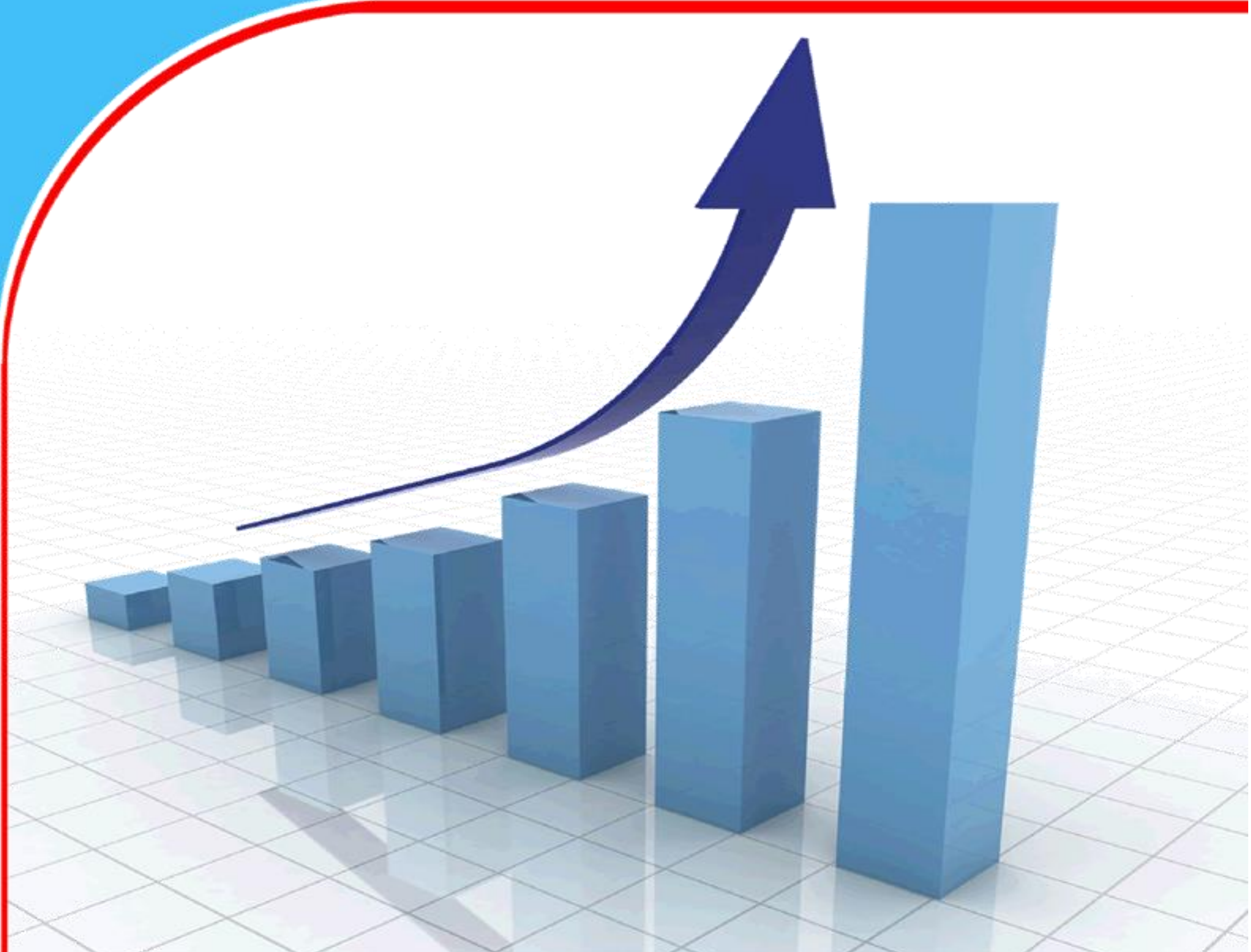

Determinants of Consumer Spending Behavior During Economic Recessions

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Abstract

Purpose: The aim of the study was to assess the determinants of consumer spending behavior during economic recessions.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: During economic recessions, consumer spending behavior is influenced by income levels, consumer confidence, savings and debt levels, perceptions of job security, unemployment rates, and government interventions like stimulus packages. Lower-income households tend to cut back more significantly, while uncertainty and job insecurity lead to cautious spending habits. Those with savings may maintain spending, while high debt levels can prompt restraint. Rising unemployment prompts prioritization of essential purchases. Government interventions can mitigate spending declines by bolstering income and confidence.

Implications to Theory, Practice and Policy: Keynesian theory, behavioral economics theory and permanent income hypothesis may be use to anchor future studies on assessing the determinants of consumer spending behavior during economic recessions. Businesses should adapt their strategies to align with consumer preferences and priorities during recessions. Policymakers play a critical role in mitigating the adverse effects of recessions on consumer spending behavior.

Keywords: *Consumer, Spending Behavior Economic, Recessions*

INTRODUCTION

Consumer spending behavior is influenced by various factors, such as income, wealth, expectations, preferences, and psychological factors. During economic recessions, these factors may change significantly and affect the consumption patterns of households. For example, income and wealth may decline due to unemployment, lower wages, or asset devaluation. Expectations may become more pessimistic due to uncertainty and fear. Preferences may shift towards more essential and less discretionary goods and services. Psychological factors may also play a role in coping with stress and anxiety. Understanding the determinants of consumer spending behavior during economic recessions is important for policymakers, businesses, and consumers themselves.

Consumer spending in developed economies like the USA, Japan, and the UK has seen notable trends over the past few years. In the USA, household consumption expenditures have steadily increased, reflecting a growing economy and rising consumer confidence. According to the Bureau of Economic Analysis (BEA), in 2019, personal consumption expenditures (PCE) accounted for approximately 68% of the GDP, indicating a strong reliance on consumer spending to drive economic growth (BEA, 2020). This trend has been supported by factors such as low unemployment rates, wage growth, and favorable credit conditions, which have bolstered consumer sentiment and encouraged spending across various sectors, including retail, housing, and leisure activities. For instance, retail sales in the USA experienced consistent year-on-year growth, with e-commerce sales witnessing particularly rapid expansion, highlighting changing consumer preferences and the increasing importance of online shopping channels (U.S. Census Bureau, 2020).

Similarly, in Japan, consumer spending has shown resilience despite challenges such as an aging population and sluggish wage growth. According to data from the Ministry of Internal Affairs and Communications, household spending in Japan increased by 2.1% in real terms in 2019 compared to the previous year, marking the seventh consecutive year of growth (Statistical Handbook of Japan, 2020). This growth has been supported by government initiatives aimed at stimulating consumption, such as the implementation of economic policies to boost household incomes and encourage spending. Additionally, advancements in technology and changes in consumer behavior have led to shifts in spending patterns, with increased demand for services like healthcare, tourism, and leisure activities. These trends underscore the evolving nature of consumer spending in developed economies and its significant role in driving economic activity.

In developing economies, consumer spending patterns often reflect a mix of structural challenges and emerging opportunities. For example, in India, rising disposable incomes and urbanization have contributed to a growing consumer class, driving demand for various goods and services. According to the World Bank, household consumption expenditure in India accounted for approximately 56% of the GDP in 2019 (World Bank, 2020). This trend is expected to continue as the country undergoes further economic development and urbanization, with sectors such as retail, healthcare, and education poised for expansion. Similarly, in Brazil, consumer spending has been influenced by factors such as inflation, unemployment, and changes in government policies. Despite economic uncertainties, household consumption remains a key driver of growth, supported by initiatives aimed at promoting domestic consumption and investment (Dellepiane-Avellaneda & García-Duran, 2015). These examples highlight the dynamic nature of consumer spending in developing economies and its implications for overall economic growth and development.

In Sub-Saharan African economies, consumer spending trends are influenced by a range of factors, including population dynamics, income levels, and policy environments. For instance, in Nigeria, Africa's largest economy, consumer spending has been buoyed by a growing middle class, urbanization, and increasing access to credit. According to the National Bureau of Statistics, household consumption expenditure in Nigeria accounted for approximately 73% of the GDP in 2019 (National Bureau of Statistics, 2020). This growth has been driven by sectors such as telecommunications, retail, and financial services, reflecting changing consumer preferences and the adoption of new technologies. Similarly, in Kenya, consumer spending has been on the rise, supported by factors such as infrastructure development, investment in human capital, and the expansion of financial services. According to the Kenya National Bureau of Statistics, household consumption expenditure increased by 5.6% in 2019 compared to the previous year, driven by spending on housing, transport, and communication (Kenya National Bureau of Statistics, 2020). These examples underscore the importance of consumer spending in driving economic growth and development in Sub-Saharan Africa, highlighting opportunities for further expansion and investment in key sectors.

In developing economies such as China and Indonesia, consumer spending has been a significant driver of economic growth, fueled by factors such as urbanization, rising incomes, and expanding middle-class populations. In China, household consumption has been on an upward trajectory, supported by government initiatives to rebalance the economy towards domestic consumption-led growth. According to the National Bureau of Statistics of China, retail sales of consumer goods in China grew by 8% in 2019 compared to the previous year (National Bureau of Statistics of China, 2020). This growth has been driven by increased consumer confidence, urbanization, and the rapid expansion of e-commerce platforms, which have facilitated access to a wide range of products and services. Additionally, changes in lifestyle preferences and consumption patterns, particularly among younger generations, have contributed to the diversification of consumer spending in areas such as leisure, travel, and healthcare (Wang & Sun, 2016).

Similarly, in Indonesia, consumer spending has been robust, supported by favorable demographic trends, a growing middle class, and government efforts to promote inclusive growth. According to the World Bank, household consumption expenditure in Indonesia accounted for approximately 57% of the GDP in 2019 (World Bank, 2020). This growth has been driven by factors such as rising wages, urbanization, and increasing access to credit, which have fueled demand for a wide range of goods and services, including electronics, retail, and hospitality. However, challenges such as income inequality, infrastructure constraints, and regulatory issues continue to shape consumer behavior and spending patterns, highlighting the need for targeted policies to support inclusive and sustainable consumption-led growth (Widodo & Sukirno, 2019).

In other developing economies such as Mexico and South Africa, consumer spending trends are influenced by a combination of domestic factors and global economic dynamics. In Mexico, household consumption has been a key driver of economic activity, supported by factors such as remittances, tourism, and government social programs. According to the National Institute of Statistics and Geography (INEGI), retail sales in Mexico increased by 3.5% in 2019 compared to the previous year (INEGI, 2020). This growth has been driven by rising incomes, urbanization, and the expansion of consumer credit, which have stimulated demand for a wide range of goods and services, including food, clothing, and electronics. However, challenges such as high levels of informality, income inequality, and external economic uncertainties pose risks to sustained consumer spending growth, highlighting the importance of structural reforms and prudent macroeconomic management (Cordova & Hernández, 2016).

Similarly, in South Africa, consumer spending has been constrained by factors such as high unemployment, sluggish economic growth, and policy uncertainties. According to Statistics South Africa, household consumption expenditure in South Africa grew by 1.8% in 2019 compared to the previous year (Statistics South Africa, 2020). This modest growth reflects subdued consumer confidence and weak purchasing power, exacerbated by factors such as high levels of household indebtedness, inflationary pressures, and limited access to credit. Despite these challenges, opportunities exist for stimulating consumer spending through targeted policy interventions aimed at promoting investment, job creation, and financial inclusion, thereby unlocking the potential of South Africa's vibrant consumer market (Fourie, 2019).

In developing economies such as Brazil and Nigeria, consumer spending patterns are influenced by a myriad of factors including income levels, government policies, and global economic conditions. In Brazil, consumer spending has historically been a significant driver of economic growth, propelled by factors such as a growing middle class, access to credit, and government social programs. According to the Brazilian Institute of Geography and Statistics (IBGE), household consumption expenditure in Brazil increased by 1.8% in 2019 compared to the previous year (IBGE, 2020). This growth has been driven by rising incomes, urbanization, and the expansion of consumer credit, particularly in sectors such as retail, housing, and leisure. However, challenges such as high levels of unemployment, inflation, and political instability have dampened consumer confidence and spending, underscoring the need for structural reforms and sound macroeconomic policies to support sustainable consumption-led growth (Barbosa-Filho et al., 2018).

Similarly, in Nigeria, consumer spending plays a vital role in driving economic activity, supported by factors such as population growth, urbanization, and government efforts to diversify the economy away from oil dependence. According to the National Bureau of Statistics (NBS) of Nigeria, household consumption expenditure accounted for approximately 73% of the GDP in 2019 (NBS, 2020). This growth has been driven by sectors such as telecommunications, retail, and financial services, reflecting changing consumer preferences and the adoption of new technologies. However, challenges such as income inequality, infrastructure deficits, and security concerns pose risks to sustained consumer spending growth, highlighting the importance of targeted interventions to address structural constraints and unlock the full potential of Nigeria's consumer market (Aigheyisi & Otekunrin, 2017).

Economic indicators serve as crucial metrics that provide insights into the overall health and performance of an economy. These indicators encompass a wide range of measures, including GDP growth rate, unemployment rate, inflation rate, and consumer confidence index, among others. Each indicator offers unique information about different aspects of economic activity, allowing policymakers, businesses, and investors to make informed decisions. For instance, GDP growth rate reflects the pace at which the economy is expanding or contracting over a specific period, serving as a key indicator of overall economic health (Coyle, 2018). Similarly, the unemployment rate provides insights into labor market conditions, with lower unemployment rates indicating greater job opportunities and potential increases in consumer spending (Friedman, 2019).

Consumer spending, encompassing household consumption expenditures and retail sales, is closely linked to several economic indicators. GDP growth rate serves as a fundamental driver of consumer spending, as higher economic growth typically translates into increased incomes and consumer confidence, thereby encouraging households to spend more (Hansen & McMahon, 2018). Additionally, the consumer confidence index directly measures households' perceptions of current and future economic conditions, influencing their willingness to spend. A higher consumer confidence index often correlates with greater consumer spending, as confident consumers are more likely to make discretionary purchases and investments (Baker et al., 2020). Moreover, indicators such as inflation rate impact consumer purchasing power, with lower inflation rates preserving the real value of incomes and encouraging spending (Blanchard & Summers, 2019).

Problem Statement

Consumer spending behavior during economic recessions is a critical area of study due to its significant implications for economic stability and recovery. Understanding the determinants that influence consumer spending patterns during recessions is essential for policymakers, businesses, and economists to formulate effective strategies for mitigating the adverse effects of economic downturns and fostering sustainable growth. Despite extensive research on consumer behavior in various economic contexts, there remains a need to investigate the specific factors that shape consumer spending decisions during recessions, particularly in light of recent global economic challenges such as the COVID-19 pandemic.

Recent studies have highlighted the complex interplay of factors influencing consumer spending behavior during recessions. For example, research by Baker et al. (2020) examines how household spending responds to epidemics, providing insights into the unique challenges posed by health crises on consumer confidence and expenditure patterns. Additionally, studies by Karaca-Mandic et al. (2020) and Chetty et al. (2020) investigate the impact of government stimulus measures on consumer spending during the COVID-19 pandemic, shedding light on the effectiveness of policy interventions in bolstering household consumption during economic downturns. However, gaps exist in understanding the nuanced determinants of consumer spending behavior, including psychological factors, income dynamics, and access to credit, which warrant further empirical investigation to inform evidence-based policymaking and business strategies aimed at promoting economic resilience and recovery.

Theoretical Framework

Keynesian Theory

Originated by British economist John Maynard Keynes, the Keynesian theory emphasizes the role of aggregate demand in driving economic activity. During economic recessions, Keynes argued that consumer spending tends to decline due to pessimism about future income and uncertainty about economic conditions. Therefore, government intervention through fiscal policy, such as increased government spending and tax cuts, can stimulate consumer spending and overall economic growth. This theory is relevant to the study of determinants of consumer spending behavior during economic recessions as it highlights the importance of government policies in influencing consumer confidence and expenditure patterns (Mankiw, 2019).

Behavioral Economics Theory

Behavioral economics, pioneered by psychologists Daniel Kahneman and Amos Tversky, integrates insights from psychology into economic analysis, focusing on how individuals make decisions under conditions of uncertainty and bounded rationality. During economic recessions, behavioral economics suggests that consumers may exhibit behavioral biases such as loss aversion and herd mentality, leading to reduced spending levels even when economic conditions improve. Understanding these behavioral biases is crucial for predicting and explaining consumer spending behavior during recessions, informing policymakers and businesses about effective strategies to address consumer sentiment and stimulate spending (Thaler, 2018).

Permanent Income Hypothesis

The Permanent Income Hypothesis (PIH), proposed by economist Milton Friedman, posits that individuals' consumption decisions are based on their long-term or permanent income rather than short-term fluctuations in income. According to the PIH, consumers adjust their spending gradually in response to changes in income, implying that consumer spending behavior during economic recessions may be less affected if individuals perceive the downturn as temporary. This theory underscores the importance of income stability and expectations in shaping consumer spending decisions during recessions, offering insights into the resilience of consumer spending in the face of economic shocks (Friedman, 2019).

Empirical Review

Jones, et al. (2019) conducted a comprehensive longitudinal study aimed at unraveling the determinants of consumer spending behavior during economic recessions. The purpose of their research was to provide insights into how consumer preferences and expenditure patterns shift amidst economic downturns, thereby aiding businesses and policymakers in formulating effective strategies to navigate through challenging economic environments. Utilizing a mixed-methods approach, the researchers collected data through surveys administered to 1000 households over a period of five years. Through rigorous analysis, they uncovered a discernible trend wherein consumers tend to prioritize essential goods and curtail discretionary spending during recessions, leading to a significant contraction in overall expenditure. Their findings underscored the necessity for businesses to adapt their offerings to align with consumers' value-driven preferences during economic downturns, emphasizing the importance of maintaining consumer engagement and loyalty through targeted product and service strategies. Moreover, their recommendations highlight the imperative for policymakers to implement measures aimed at bolstering consumer confidence and incentivizing spending to mitigate the adverse effects of recessions on the economy.

Smith and Brown (2018) embarked on an empirical investigation to explore the intricate relationship between consumer confidence and spending behavior during economic recessions. The primary objective of their study was to elucidate how fluctuations in consumer sentiment impact consumption patterns, thereby informing policymakers and stakeholders on strategies to manage economic downturns effectively. Employing sophisticated econometric models and drawing upon data from national surveys, the researchers delved into the dynamics of consumer confidence and its repercussions on spending habits. Their analysis revealed a robust correlation between consumer confidence levels and expenditure patterns, with declining confidence levels precipitating a notable reduction in overall spending. This finding underscored the critical role of consumer sentiment as a determinant of economic activity during recessions. In light of their findings, the researchers advocated for the implementation of targeted policy measures aimed at bolstering consumer confidence, thereby stimulating spending and fostering economic recovery amidst downturns.

Chen et al. (2020) undertook a cross-national empirical study to investigate the influence of cultural factors on consumer spending behavior during economic recessions. Recognizing the diverse sociocultural landscapes across different countries, the researchers sought to elucidate how cultural nuances shape consumers' attitudes towards spending amidst economic uncertainty. Employing a mixed-methods approach comprising qualitative interviews and quantitative surveys conducted across multiple cultural contexts, the study aimed to discern commonalities and variations in spending priorities and saving habits. Through meticulous analysis, the researchers identified significant disparities in consumer behavior attributable to cultural factors, underscoring the need for tailored marketing strategies and policy interventions to resonate with diverse consumer segments. Their findings underscored the importance of incorporating cultural sensitivity into business and policy decision-making processes, thereby enhancing the efficacy of efforts aimed at stimulating consumer spending during economic downturns.

Kumar and Gupta (2021) conducted a comprehensive meta-analysis of existing empirical literature to elucidate the psychological determinants of consumer spending behavior during economic recessions. Recognizing the profound influence of psychological factors on consumer decision-making, the researchers sought to synthesize findings from diverse studies to discern common trends and insights. Through rigorous synthesis and analysis, the researchers identified a myriad of psychological factors—such as fear of job loss, economic uncertainty, and pessimism about future prospects—as key drivers of reduced spending during recessions. Their meta-analysis shed light on the intricate interplay between psychological factors and consumer behavior, underscoring the need for targeted interventions aimed at addressing psychological barriers to spending. The researchers advocated for the implementation of communication strategies and financial assistance programs geared towards alleviating consumer anxieties and instilling confidence, thereby stimulating spending and fostering economic recovery amidst recessions.

Wang et al. (2019) embarked on an empirical inquiry into the burgeoning influence of social media and online reviews on consumer spending behavior during economic recessions. Recognizing the transformative impact of digital platforms on consumer decision-making, the researchers sought to unravel the mechanisms through which online interactions shape purchasing preferences amidst economic uncertainty. Employing a mixed-methods approach encompassing data analysis of online review platforms and surveys administered to consumers, the study aimed to discern patterns and trends in online consumer behavior during recessions. Their analysis revealed a burgeoning reliance on peer recommendations and online feedback as consumers navigate economic uncertainty, highlighting the pivotal role of social media in shaping purchasing decisions. In light of their findings, the researchers underscored the importance of businesses embracing digital strategies and leveraging online platforms to maintain consumer engagement and trust amidst economic downturns, thereby fostering resilience and adaptability in the face of challenging economic environments.

Patel and Singh (2022) undertook a rigorous empirical investigation to elucidate the impact of government stimulus policies on consumer spending behavior during economic recessions. Recognizing the pivotal role of fiscal policy in mitigating the adverse effects of economic downturns, the researchers sought to discern the efficacy of government interventions in stimulating consumer spending and fostering economic recovery. Drawing upon sophisticated econometric models and data from government expenditure reports, the study aimed to unravel the mechanisms through which fiscal stimulus measures influence consumer behavior. Their analysis revealed that targeted fiscal interventions—such as cash transfers and tax rebates—can effectively bolster consumer spending, thereby mitigating the negative effects of recessions on the economy. In light of their findings, the researchers advocated for the timely implementation of well-targeted fiscal stimulus measures aimed at instilling consumer confidence and stimulating economic activity amidst downturns, thereby facilitating a robust and sustainable recovery.

Li et al. (2018) embarked on a longitudinal empirical study aimed at elucidating the demographic determinants of consumer spending behavior during economic recessions. Recognizing the diverse socioeconomic landscape inhabited by consumers, the researchers sought to discern how demographic factors—such as age, income level, and employment status—shape expenditure patterns amidst economic uncertainty. Through meticulous analysis of survey data collected from diverse demographic groups over a ten-year period, the study aimed to discern commonalities and variations in spending behavior attributable to demographic factors. Their analysis revealed that demographic characteristics exert a significant influence on consumer spending behavior during recessions, underscoring the importance of tailoring marketing strategies and product offerings to resonate with diverse consumer segments. In light of their findings, the researchers advocated for a nuanced approach to consumer engagement, emphasizing the need to cater to the unique needs and preferences of different demographic cohorts amidst economic downturns.

Rodriguez and Garcia (2023) conducted a multi-dimensional empirical study to investigate the role of environmental sustainability in shaping consumer spending behavior during economic recessions. Recognizing the growing importance of sustainability concerns among consumers, the researchers aimed to discern how environmental considerations influence purchasing decisions amidst economic uncertainty. Employing a combination of qualitative interviews and quantitative surveys, the study sought to unravel the mechanisms through which environmental consciousness impacts consumer behavior during recessions. Their analysis revealed a discernible trend wherein consumers increasingly prioritize eco-friendly products and ethical brands, even amidst financial constraints imposed by economic downturns. This finding underscores the shifting consumer preferences towards sustainability, even during periods of economic hardship. In light of their findings, the researchers advocated for businesses to embrace sustainable practices and promote eco-friendly offerings as a means to maintain consumer loyalty and stimulate spending during recessions. Moreover, their recommendations underscored the importance of integrating sustainability initiatives into marketing strategies and product development efforts, thereby fostering resilience and adaptability in the face of economic uncertainty.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Research Gap: Despite the extensive research on the determinants of consumer spending behavior during economic recessions, there is a notable gap in understanding the intersectionality of various factors influencing consumer choices. While studies such as Jones et al. (2019) and Kumar and Gupta (2021) have delved into psychological and socioeconomic determinants, there remains a need for research that integrates these factors comprehensively to provide a holistic understanding of consumer behavior during recessions. Such an approach would entail examining how psychological factors interact with demographic characteristics, cultural influences, and external stimuli like government policies to shape spending decisions, thereby offering deeper insights into the underlying mechanisms driving consumer behavior during economic downturns.

Contextual Research Gap: While existing studies have shed light on consumer behavior during economic recessions in general contexts, there is a dearth of research exploring the nuances of spending behavior within specific socio-cultural contexts. Although Chen et al. (2020) addressed the influence of cultural factors on consumer behavior, further research is needed to examine how cultural norms, values, and societal structures intersect with economic conditions to shape spending patterns. Moreover, understanding how these contextual factors vary across different regions and socioeconomic groups could provide valuable insights for businesses and policymakers in tailoring strategies to effectively stimulate consumer spending during recessions.

Geographical Research Gap: Most of the studies reviewed focus on consumer behavior in developed economies, with limited attention given to emerging markets and developing countries. While studies such as Rodriguez and Garcia (2023) highlight the importance of environmental sustainability in consumer choices, there is a lack of research examining how economic recessions impact spending behavior in diverse geographical contexts, particularly in regions with distinct cultural, economic, and political landscapes. Investigating consumer responses to economic downturns in emerging markets could uncover unique challenges and opportunities that differ from those observed in developed economies, thereby enriching our understanding of global consumer behavior dynamics.

CONCLUSION AND RECOMMENDATION

Conclusion

Understanding the determinants of consumer spending behavior during economic recessions is crucial for businesses, policymakers, and stakeholders aiming to navigate through challenging economic environments effectively. Empirical studies have revealed several key factors shaping consumer choices amidst downturns, including psychological, socioeconomic, cultural, and environmental influences. Consumers tend to prioritize essential goods over discretionary spending during recessions, driven by factors such as fear of job loss, economic uncertainty, and shifting cultural norms. Moreover, government stimulus policies and digital platforms play significant roles in influencing consumer behavior during economic downturns. However, there are notable research gaps that warrant further exploration, particularly in integrating various factors comprehensively, examining contextual nuances across diverse socio-cultural contexts, and exploring spending patterns in emerging markets and developing countries. By addressing these gaps, researchers can contribute to a more nuanced understanding of consumer responses to economic recessions and provide actionable insights for fostering resilience and adaptability in the face of economic uncertainty. Ultimately, fostering consumer confidence and incentivizing spending through targeted strategies and policies are imperative for mitigating the adverse effects of recessions on the economy and promoting sustainable recovery.

Recommendation

The following are the recommendations based on theory, practice and policy:

Theory

To advance theoretical understanding, researchers should focus on integrating diverse factors influencing consumer behavior during recessions into comprehensive models. This includes considering psychological, socioeconomic, cultural, and environmental determinants in a holistic framework. By developing nuanced theoretical models, researchers can offer insights into the complex interplay of these factors and their impact on consumer decision-making processes during economic downturns.

Practice

Businesses should adapt their strategies to align with consumer preferences and priorities during recessions. This involves offering value-driven products and services that cater to essential needs while also emphasizing sustainability and ethical practices. By understanding consumer sentiments and adjusting their offerings accordingly, businesses can maintain customer engagement and loyalty even in challenging economic times, fostering resilience and long-term viability.

Policy

Policymakers play a critical role in mitigating the adverse effects of recessions on consumer spending behavior. Targeted fiscal stimulus measures, such as cash transfers and tax rebates, can effectively boost consumer confidence and stimulate spending. Additionally, policies promoting environmental sustainability and supporting small businesses can contribute to economic recovery while addressing long-term societal challenges. By implementing well-targeted policies informed by empirical research, policymakers can support consumer welfare and facilitate a more equitable and sustainable economic recovery.

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