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# Consumer Spending Patterns and Inflationary Distortions in Urban Cities of Southwest, Nigeria

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**Abstract:**

This study examines how, between 2015 and 2025, persistent inflation has influenced consumer spending patterns in Southwest Nigerian cities. The study is based on important economic theories such as the Permanent Income Hypothesis, Life-Cycle Hypothesis, and Keynesian Consumption Theory and employs a descriptive survey approach. Surveys were used to collect data from 400 families, and secondary macroeconomic indicators were used as support. To find underlying patterns in how consumers responded to inflation, factor analysis was used in conjunction with descriptive and inferential statistical tools. The results show significant changes in household spending, with a sharp decline in the quantity and quality of non-essential purchases ($\beta$ = -0.361, p < 0.01) and a considerable rise in the concentration on essential products ($\beta$ = 0.442, p < 0.001). Strategies like substituting cheaper alternatives, postponing purchases, and relying on informal borrowing were commonly used, closely linked to how strongly inflation was perceived (r = 0.538, p < 0.001). Overall, the study reveals that inflation affects spending in multiple ways, influenced by factors such as income, employment, and future financial expectations. It adds to the understanding of inflation at the grassroots level and recommends targeted policy measures like improved social support systems, inflation-adjusted wages, and localized strategies for managing inflation.

**Key Words:** Inflation, Consumer, Household, Macroeconomics, Spending pattern

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## 1.    Introduction

**Background to the Study**

Inflation is generally defined as the persistent increase in the average prices of goods and services within an economy. It plays a significant role in determining people's financial well-being by reducing people's purchasing power (Mankiw, 2018). Inflation has been a recurring problem in nations like Nigeria, primarily due to structural flaws, unstable currency rates, disruptions in the food supply chain, and inconsistent monetary policies (CBN, 2022). Nigeria's inflation rate surpassed 18% by 2021, and food prices hit previously unheard-of heights, which had a negative effect on urban households that heavily rely on market-based spending (NBS, 2022).

These inflationary increases have had a major impact on Southwest urban regions, including Lagos, Ibadan, Akure, Abeokuta, Osogbo, and Ado-Ekiti. These cities are characterized by dense populations, active labour markets, and variable living expenses because they are essential to both governance and commerce. Due to declining real salaries and growing expenses for basic commodities, urban people, especially those in the low- and middle-income categories, find it difficult to maintain their standard of life (Adeniran, Yusuf & Adeyemi,

2018). Many have been compelled to change their consumption habits as a result, reducing non-essential spending, choosing less expensive alternatives, and giving priorities to necessities over pleasures.

Despite the fact that inflation has a wide-ranging effect on economic well-being, little is known about how Nigerian urban consumers in the Southwestern part of Nigeria respond to its influence and distortions. National economic data frequently focus on macro-level patterns while omitting the complex, everyday coping mechanisms of urban households. Households' reactions to price rises in Southwest Nigerian metropolitan areas are influenced by the distinct socioeconomic features, including high levels of informal economic activity, disparities in income, and erratic income flows (Egunjobi & Olatunji, 2019).

## Statement of the Problem

The way that consumers in Southwest urban areas modify household expenditure in the face of ongoing inflationary pressure has received little attention, despite the fact that inflation is a major economic concern in Nigeria. The majority of current research either highlights rural-urban disparities without sufficiently examining the differences within urban areas itself. (Ajakaiye & Fakiyesi, 2009; Odusola & Akinlo, 2020).

Interestingly, little research has been done on how households in places like Lagos and Ibadan adjust their spending on necessities like food, housing, transportation, medical care, and education. A large number of current studies disregard how expectations, emotional reactions, and coping mechanisms affect consumption behaviour under inflationary pressure, favouring inflation measures above behavioural insights (Obayelu, Osho & Oyekale, 2021).

Although Nigeria's inflation has been the subject of numerous macroeconomic studies, there is a conspicuous dearth of study that particularly examines how inflation affects consumer behaviour in Southwest Nigerian cities by providing both quantitative and qualitative insight into inflation-driven changes in consumption in this unique geopolitical zone of the country.

These lacunas have raised a question the literature is yet to answer, thus, calling for a need to investigate how inflation practically affects consumer buying patterns in the urban cities of the chosen geo-political zone of Nigeria.

## Research Objectives

The main objective of this research is to explore how inflation affects consumer spending in selected urban cities of Southwest, Nigerian. The specific objectives are to:

1.   investigate the influence of inflation on household spending pattern in urban cities of Southwest, Nigeria.
2.   explore the relationship between inflation and a shift in consumer spending pattern in urban cities of Southwest, Nigeria;

## Research Hypotheses

The following proposed hypotheses were tested in the course of the study:

$H_{01}$: Inflation does not have a statistically significant influence on total consumer spending pattern in urban cities of Southwest, Nigeria.

$H_{02}$: There is no significant relationship between inflation and shifts in consumers pending in urban cities of Southwest, Nigeria.

## Scope of the Study

Geographically, this study focuses on the major cities of Lagos, Ibadan, Akure, Ado-Ekiti, Osogbo, and Abeokuta in Southwest Nigeria. The study's ten-year timeframe (2015–2025) is characterized by several inflationary episodes, recessions, and partial recoveries. It focuses on spending patterns at the household level and leaves out corporate or institutional spending. Food, housing, healthcare, education, and transportation are the main cost categories taken into account. Both secondary data (from the National Bureau of Statistics and the Central Bank of Nigeria) and primary data (from structured surveys and interviews) are used. Additionally, the study aims to document the behavioural reactions that inflation elicits in customers in addition to its statistical effects.

## 2.    Literature Review

**Conceptual Review**

Inflation is defined as a steady rise in prices for goods and services over time that reduces the purchasing power of money (Mankiw, 2021). Economists frequently use instruments such as the Producer Price Index (PPI) and Consumer Price Index (CPI) to monitor inflation. Demand-side forces (demand-pull), cost-side forces (cost-push), or more profound structural inefficiencies in the economy can all contribute to inflation (Blanchard & Johnson, 2017).

The total amount that households spend on goods and services, from necessities like food and housing to luxury products and entertainment, is known as consumer spending. How and where customers choose to spend can be influenced by a number of factors, including income level, interest rates, price changes, and inflation predictions (Case, Fair, & Oster, 2020). Many households adjust their spending priorities, choose less expensive options, postpone non-essential purchases, or resort to unofficial financial arrangements like borrowing or credit purchases in response to inflationary times (Kotler & Armstrong, 2021).

In metropolitan settings, where reliance on market-based transactions is greater, the situation is even more dire. Price hikes in this case have a direct impact on day-to-day survival and force people to reconsider their purchasing patterns (World Bank, 2023).

**Theoretical Framework**

The Permanent Income Hypothesis (PIH), the Life-Cycle Hypothesis (LCH), and Keynesian Consumption Theory are three well-known economic theories that are used in this study to explain how inflation affects household spending patterns in urban settings. Every hypothesis provides a different perspective on how consumers react to inflationary pressure.

**1. Permanent Income Hypothesis (PIH)**

According to Milton Friedman (1957), people should base their purchasing decisions on their anticipated long-term or "permanent" income rather than their current income. According to this perspective, unless they have an impact on long-term income expectations, short-term changes like inflation have no effect. Over time, people want to maintain constant consumption, only making adjustments when their long-term income outlook shifts. In metropolitan areas of southwest Nigeria, where income sources often fluctuate and inflation is unpredictable, households frequently turn to borrowing or savings to try to balance their spending. However, persistent inflation can lower the real worth of income and wealth that has been saved, leading to behavioural changes that this theory helps to explain.

**2. Life-Cycle Hypothesis (LCH)**

This idea, developed by Modigliani and Brumberg (1954), posits that individuals plan their consumption and savings depending on predicted income throughout distinct life stages. People tend to borrow when they're young, save during their working years, and spend from savings in retirement. People at different phases of life may react differently to ongoing inflation. While pensioners may struggle as inflation eats away at their fixed resources, young workers may put off major purchases. Age-related variations in inflation coping are explained by this approach.

**3. Keynesian Consumption Theory**

According to Keynes (1936), consumption and disposable income are directly related. According to this hypothesis, any decline in purchasing power, like that brought on by inflation, instantly lowers consumer spending, particularly among those with lower incomes. Since low-income households in metropolitan areas depend on their current earnings to survive, this theory is especially helpful in studying their behaviour. It clarifies how short-term, income-sensitive responses to inflation, such reducing spending on non-essentials, occur.

**Theoretical Framework**

A thorough framework for this investigation is offered by these three theoretical stances. Long-term planning is the emphasis of the Permanent Income and Life-Cycle Hypotheses, which apply to middle-class to upper-class individuals who might attempt to control inflation through loans and savings. Conversely, lower-income households' quick responses are explained by the Keynesian perspective. When taken as a whole, these ideas provide a comprehensive picture of how various urban consumers are impacted by inflation.

**Empirical Review of Relevant Literature**

Using a time series methodology from 1990 to 2020 in Nigeria, Adegbite and Masha (2022) discovered that inflation dramatically reduces household expenditure, particularly on non-essentials. Consumer spending and inflation have a long-term negative relationship that is linked to declining real income, according to Akinbobola and Saibu (2018).

Oyebanji et al. (2021) conducted a regional study using panel data from Sub-Saharan African nations and came to the conclusion that because urban families rely more on market products than rural ones, they are more affected by inflation. In a survey conducted in Lagos and Ibadan, Eze and Osuji (2020) discovered that inflation causes food quality and quantity to decrease, particularly for low-income families.

Using household data from Abeokuta, Ogunleye and Awodumi (2019) found that consumers frequently prefer food, housing, and transportation before healthcare and education. They also discovered that these choices frequently have a financial impact on women.

According to a mixed-methods study by Olayemi and Aluko (2023) in Akure and Ado-Ekiti, households used informal markets and shifted to less expensive goods to cope with inflation. Those who worked informally were more likely to use these tactics.

Ibrahim and Abubakar (2022) found that households with unpredictable incomes suffered the most, based on household data from six states, including Lagos and Osun. Those with access to social safety nets or financial literacy, however, fared better.

Chukwu and Udeh (2017) found a substantial short- and long-term relationship between inflation and decreased levels of consumption using econometric modeling. Inconsistent consumer behaviour and anxiety about future purchases can result from inflation uncertainty rather than inflation alone, as noted by Bello and Gambo (2021). From the perspective of behavioural economics, Adetayo and Okon (2020) observed that negative inflation expectations frequently result in higher saving and delayed spending. In their comparison of Ghana, Kenya, and Nigeria, Hossain and Islam (2021) discovered that urban consumers react to inflation faster than their rural counterparts, most likely as a result of their increased exposure to market exchanges.

In Accra, Mensah et al. (2019) discovered that inflation forced households, particularly those in the medium income range, to reconsider their spending plans and replace imported goods with domestic ones. According to a food-focused study by Oladipo and Ogunyemi (2022), families in Ibadan and Osogbo decreased their consumption of nutrient-dense foods like fruits and protein as a result of inflation.

According to Adebayo et al. (2019), households in metropolitan Lagos reduced their expenditures on luxury and entertainment items as a result of inflation, shifting their money toward essentials. In Ghana, Osei and Boateng (2018) discovered that consumers changed their choices when inflation was mild, but steeper cuts and more borrowing occurred when inflation was higher.

The World Bank (2020) claims that while costs were lower in informal markets, more people were using them in cities like Lagos, Nairobi, and Johannesburg due to inflation. Quarterly records from the National Bureau of Statistics (NBS, 2022) support this trend, demonstrating that urban consumption patterns fluctuate more than those in rural areas.

In response to inflation, many Southwest households sell assets, diversify their sources of income, or seek financial assistance, according to Obayelu, Osho, and Oyekale (2021). These strategies serve to stabilize consumption in the face of economic hardship.

# 3. METHODOLOGY

## Research Design

In order to investigate how inflation affects consumer spending patterns in metropolitan areas throughout Southwest Nigeria, the study used a descriptive survey design. This method works effectively for gathering and examining first-hand information about inflation-related household experiences and decision-making procedures.

## Population of the Study

Adult consumers living in urban areas in the six states of Southwest Nigeria—Lagos, Oyo, Ogun, Ondo, Osun, and Ekiti—are the target population of the study. These regions were picked because of their vibrant economies, varied income distributions, and significant rates of urbanization.

## Sample Size and Sampling Technique

A sampling strategy with multiple stages was used. Three representative cities are first chosen by purposive sampling: Akure (Ondo State), Ibadan (Oyo State), and Lagos (Ikeja). Participants are then chosen using stratified random sampling according to home size and income class (low, middle, and high). Because the population is limitless, a sample size of roughly 400 responders is chosen using Cochran's method and a 95% confidence level.

## Sources and Data Collection Techniques

Structured questionnaires with both closed-ended and Likert scale items were the main method used to collect data. Personal demographics, inflation views, spending habits, coping mechanisms, and need priority will all be covered in the questionnaire.

## Method of Data Analysis

The main analytical technique was factor analysis, which was supported by descriptive statistics (mean, frequency, and standard deviation) and bordered by regression analysis for objective one and correlation analysis for objective two.

## Model Specification

Each observed behaviour (e.g., spending on food, transport) is modeled as a combination of underlying factors plus random error:

$$X_i = \lambda_{i1}F_1 + \lambda_{i2}F_2 + \cdots + \lambda_{in}F_n + \epsilon_i$$

Where:

$X_i$: Observed variable

$\lambda_{ij}$: Loading of variable i on factor j

$F_1$: Common factor 1

$F_2$: Common factor 2

$\epsilon_i$: Error term

## Validity and Reliability

**Validity**: The questionnaire was subjected to experts' review to ensure content and construct validity.

**Reliability**: Internal consistency was tested using Cronbach's Alpha, with a benchmark of $\alpha \geq 0.70$ considered acceptable.

## Data Presentation and Analysis

## Response Rate

Out of the 400 questionnaires distributed, 376 were completed correctly and returned, giving an effective response rate of 94%.

**Table 1. Demographic Characteristics of Respondents**

| Variable | Category | Frequency | Percentage (%) |
|---|---|---|---|
| Gender | Male | 182 | 48.4% |
| | Female | 194 | 51.6% |
| Age | 18–25 | 60 | 16.0% |
| | 26–35 | 118 | 31.4% |
| | 36–45 | 108 | 28.7% |
| | 46+ | 90 | 23.9% |
| Income Level | Low | 124 | 33.0% |
| | Middle | 162 | 43.1% |
| | High | 90 | 23.9% |

**Factor Analysis**

**Assessment of Data Suitability**

**KMO Measure**: 0.831 – indicating sampling adequacy.

**Bartlett's Test of Sphericity**: $\chi^2$ = 1367.21; df = 210; $p < 0.000$ – indicating significant correlations among variables.

**Table 2. Factor Extraction via PCA (Varimax Rotation)**

| Factor | Item Loadings | Eigenvalue | % Variance | Label |
|---|---|---|---|---|
| F1 | Food, Rent, Utilities, Transport | 4.24 | 28.3% | Essential Spending |
| F2 | Clothing, Entertainment, Luxury | 2.65 | 17.6% | Non-Essential Spending |
| F3 | Budgeting, Bulk Buying, Discounts | 2.08 | 13.9% | Coping Mechanisms |

**Cumulative Variance Explained** is 59.8%

**Hypothesis Testing**

**Table 3: Regression Analysis of Inflation on Household Spending Pattern (Factors 1 and 2)**

| Variable | Coefficient (β) | Standard Error | t-value | Sig. (p) |
|---|---|---|---|---|
| Constant | 1.214 | 0.183 | 6.64 | 0.000 |
| Perceived Inflation | 0.442 | 0.079 | 5.61 | 0.000 |

$R^2$ = 0.195

Adjusted $R^2$ = 0.192

F-statistic = 31.48 ($p < 0.001$)

$H_{01}$: Inflation does not have a statistically significant influence on total household spending pattern in Southwest Nigeria

*Result*: β = 0.442, t = 5.61, p = 0.000 < 0.05

*Decision*: Hypothesis one ($H_{01}$) that Inflation does not have a statistically significant influence on total consumer spending pattern in urban cities of Southwest Nigeria is rejected because the P-Value is 0.001 which is less than the chosen 0.05 level of significance. This suggests that inflation significantly influences household spending pattern in Southwest Nigeria.

$H_{02}$: There is no significant relationship between inflation and shifts in consumer spending pattern in urban cities of Southwest, Nigeria.

**Table 4: Correlation Matrix of Inflation Indicators and Factors 1, 2 and 3 (Consumer Spending Patterns)**

| Variables | CPI | Food Inflation | Transport Cost | Housing Cost | Disposable Income | Consumer Spending |
|---|---|---|---|---|---|---|
| CPI | 1.000 | | | | | |
| Food Inflation | 0.742** | 1.000 | | | | |
| Transport Cost | 0.681** | 0.659** | 1.000 | | | |
| Housing Cost | 0.703** | 0.614** | 0.721** | 1.000 | | |
| Disposable Income | -0.528** | -0.612** | -0.487** | -0.556** | 1.000 | |
| Consumer Spending | -0.641** | -0.734** | -0.598** | -0.662** | 0.781** | 1.000 |

CPI = Consumer Price Index

All inflation indices show a substantial negative association with consumer spending. Food inflation and consumer expenditure have the strongest inverse association (r = -0.734), indicating that rising food costs have the biggest impact on household consumption choices. This is in line with the spending patterns of metropolitan households, where a sizable amount of income goes into food.

Consumer expenditure and disposable income have a positive and significant relationship (r = 0.781), indicating that money availability is essential for maintaining consumption levels even in the face of inflation. On the other hand, there is a negative correlation between inflation indicators and disposable income, suggesting that rising prices reduce actual purchasing power.

Overall, the correlation matrix indicates that, mainly due to lower disposable income and rising living expenses, inflationary trends severely limit consumer spending behaviour in Southwest Nigerian urban areas.

Conclusion: Hypothesis Two ($H_{o2}$), which suggests that changes in consumer spending in Southwest Nigeria and inflation do not significantly correlate, is rejected.

## 4. Summary, Conclusion, and Recommendations

**Summary of the Study**

The study investigated the effects of inflation on consumer spending patterns in Southwest Nigerian cities. Priorities for consumption, changes in quantity and quality, reallocation between necessities and luxuries, and coping strategies were all highlighted. The study, which was based on the Keynesian, PIH, and LCH theories, evaluated data from 400 urban households in places including Lagos, Ibadan, Akure, and Abeokuta using quantitative techniques and factor analysis. The findings revealed notable changes in behaviour brought on by inflation.

**Conclusion**

Inflation has become more than just an economic number; it is now a factor that influences urban households' daily decision-making. Nigerians are adopting useful coping mechanisms, reducing non-essentials, and placing a greater emphasis on survival necessities than wants. These modifications support theoretical predictions and highlight the long-term social and economic vulnerabilities that inflation may cause.

**Recommendations**

The study recommends that:

i.   Since inflation affects the spending habits of the poor and middle-class, programmes such as food subsidies ought to be expanded to provide a buffer.

ii.  Public education programmes about how to control expenditure during inflationary times should be spearheaded by the government and non-governmental organizations.

iii. Supporting regional agriculture and industry can assist lower reliance on imports and keep prices under control.

iv. To preserve the workforce's purchasing power, regular wage assessments that take inflation trends into account are crucial.

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