

Effect of Inflation on Consumer Purchasing Behaviour in Nigeria: 1990–2025

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ABSTRACT

This study examined the effect of inflation on consumer purchasing behaviour in Nigeria over the period 1990 to 2025, proxying purchasing behaviour with Real household consumption expenditure (RHCE). The study was motivated by the persistent erosion of household purchasing power occasioned by successive inflationary episodes, including the Structural Adjustment Programme-induced price shocks of the 1990s, the post-2016 recession inflation, and the sharp price surge that followed the 2023 removal of the petroleum subsidy and unification of the exchange rate, alongside conflicting empirical evidence on how inflation and the general price level jointly shape household spending patterns. Specifically, the study sought to examine the effect of the inflation rate on consumer purchasing behaviour, determine the effect of the consumer price index (CPI) on consumer purchasing behaviour, and ascertain the relationship between the inflation rate and the CPI in Nigeria. Annual time series data spanning 1990–2025 were sourced from the Central Bank of Nigeria Statistical Bulletin, the National Bureau of Statistics, and the World Bank World Development Indicators. The Augmented Dickey-Fuller test showed that the variables were integrated of mixed order, $I(0)$ and $I(1)$, justifying the use of the Autoregressive Distributed Lag (ARDL) Bounds testing approach to cointegration, which confirmed a long-run relationship among the variables. The long-run ARDL estimates showed that the inflation rate exerted a negative and significant effect on household consumption expenditure, the CPI exerted a positive and significant effect, and a Pearson correlation analysis revealed a strong, statistically significant positive relationship between the inflation rate and the CPI. The error correction term was negative, less than unity, and significant, indicating that about 58.9% of short-run disequilibrium is corrected annually. The explanatory variables jointly accounted for approximately 92.1% of the variation in household consumption expenditure. The study concludes that rising inflation has progressively weakened real household purchasing power in Nigeria and recommends inflation-targeting monetary policy, income-support measures, and price stabilization for staple consumer goods.

Keywords: Inflation Rate, Consumer Price Index, Household Consumption Expenditure, Purchasing Behaviour, Autoregressive Distributed Lag.

INTRODUCTION

Background to the Study

Inflation and its effect on household purchasing power have remained a persistent concern in Nigeria's macroeconomic history, with the naira's purchasing value eroding through repeated episodes of price instability since the liberalization reforms of the late 1980s (Adeyemi & Okoro, 2023). Between 1990 and the mid-1990s, headline inflation surged into double and triple digits following the Structural Adjustment Programme's exchange rate liberalization and widening fiscal deficits, before moderating through the early 2000s under tighter monetary management (Chukwu & Nnamdi, 2022). A second wave of sustained price pressure emerged after the 2016 economic recession, driven by foreign exchange scarcity and Nigeria's

import-dependent production structure, and intensified further following the COVID-19 pandemic's supply-chain disruptions (Okorie & Ajayi, 2023).

The most recent and arguably sharpest inflationary episode followed the May 2023 removal of the petroleum subsidy and the near-simultaneous unification of foreign exchange windows, which transmitted rapidly into transportation, food, and general commodity prices, pushing headline inflation above 30% by 2024 before a modest deceleration into 2025 as the Central Bank of Nigeria tightened its monetary policy rate (CBN, 2025; Uche & Attah, 2024). The Consumer Price Index (CPI), rebased by the National Bureau of Statistics in 2024 to reflect updated household consumption patterns, has correspondingly trended upward almost without interruption over the review period, reflecting the persistent rise in the general price level of goods and services consumed by Nigerian households (NBS, 2025).

Household consumption expenditure, the standard national-accounts proxy for consumer purchasing behaviour, has grown in nominal terms over the review period, yet a growing body of evidence suggests that this nominal growth masks a decline in real purchasing power, as households increasingly substitute toward cheaper goods, reduce purchase quantities, and draw down savings to sustain consumption (Nwachukwu & Ogundipe, 2024; Ibekwe & Chukwuemeka, 2023). Despite the centrality of this relationship to household welfare and social policy, empirical evidence on how the inflation rate and the CPI jointly shape household consumption expenditure in Nigeria, particularly incorporating data through the 2023 reforms and up to 2025, remains limited. This gap, combined with the theoretical ambiguity between the real balance effect, which predicts inflation-induced spending reductions, and the money-illusion argument, which suggests nominal spending may still rise with prices, motivates this study.

The broad objective of this study is to examine the effect of inflation on consumer purchasing behaviour in Nigeria between 1990 and 2025.

The specific objectives are to:

1. Examine the effect of the inflation rate on consumer purchasing behaviour in Nigeria;
2. Determine the effect of the consumer price index on consumer purchasing behaviour in Nigeria; and
3. Ascertain the relationship between the inflation rate and the consumer price index in Nigeria.

Research Hypotheses

The following null hypotheses guide this study:

H₀₁: Inflation rate has no significant effect on consumer purchasing behaviour in Nigeria.

H₀₂: Consumer price index has no significant effect on consumer purchasing behaviour in Nigeria.

H₀₃: There is no significant relationship between inflation rate and consumer price index in Nigeria.

LITERATURE REVIEW

Theoretical Framework

Real Balance (Pigou) Effect

The real balance effect, associated with Pigou (1943) and rooted in Fisher's (1911) purchasing power theory of money, posits that a rise in the general price level erodes the real value of households' money holdings and fixed-income assets, thereby reducing real wealth and inducing a corresponding contraction in consumption spending, independent of changes in nominal income. Applied to Nigeria's context of persistent inflation and a large informal, largely fixed-income-earning population, the theory predicts that

sustained increases in the CPI and the inflation rate should progressively erode real purchasing power and dampen household consumption expenditure.

Keynesian Absolute Income Hypothesis

In contrast, the Keynesian absolute income hypothesis (Keynes, 1936) suggests that current consumption is primarily a function of current nominal income, implying that nominal household consumption expenditure may continue to rise alongside rising nominal incomes and prices, a possibility reinforced by money illusion, whereby households respond to nominal rather than real price changes, at least in the short run. Friedman's (1957) permanent income hypothesis offers a further refinement, arguing that only anticipated, durable changes in income and prices meaningfully alter consumption behaviour, while transitory price shocks are largely absorbed through savings adjustments.

Conceptual Framework

Inflation rate refers to the year-on-year percentage change in the general price level of goods and services, serving as the primary indicator of the pace at which the naira's purchasing power is being eroded (Musa & Bello, 2022). The Consumer Price Index (CPI) is a weighted index that tracks the price level of a representative basket of goods and services consumed by an average Nigerian household relative to a base period, and constitutes the series from which the inflation rate is derived (NBS, 2024). Household consumption expenditure (HCE), measured as the total value of final goods and services purchased by households, is adopted in this study as the empirical proxy for consumer purchasing behaviour, consistent with national accounting convention and prior Nigerian studies (Salisu & Ogundele, 2022).

EMPIRICAL REVIEW

Musa and Bello (2022) employed an ARDL approach and found that the CPI exerted a significant positive effect on nominal household consumption expenditure in Nigeria, while the inflation rate exerted a significant negative effect, attributing the divergence to money illusion in the short run and real balance erosion in the long run. Okorie and Ajayi (2023) examined household welfare survey data and found that rising inflation between 2016 and 2022 was associated with a measurable decline in the volume, though not necessarily the naira value, of goods purchased by low- and middle-income households, consistent with quantity adjustment rather than outright expenditure withdrawal.

Ibekwe and Chukwuemeka (2023), focusing on the immediate aftermath of the 2023 subsidy removal, found that transportation and food price shocks produced an initial spike in nominal consumption expenditure followed by a sharp contraction in real terms within two quarters, as households exhausted precautionary buffers. Nwachukwu and Ogundipe (2024) reported that the 2023–2024 inflationary surge significantly altered household consumption patterns, with spending reallocated away from durable and semi-durable goods toward food and energy, and found a statistically significant long-run negative relationship between inflation and real consumption expenditure using cointegration analysis.

Adeoye, Lawal and Yusuf (2021), using pre-pandemic data, found a positive and significant relationship between the CPI and nominal consumption expenditure, but a comparatively weaker and less consistent effect of the inflation rate, suggesting that the sign and strength of the inflation-consumption relationship may be sensitive to the severity of the inflationary episode under review. Uche and Attah (2024) found that the 2023 exchange rate unification transmitted rapidly into the CPI and subsequently into household budgets, with the correlation between the inflation rate and CPI growth found to be strong and positive, corroborating the mechanical link between the two indicators while cautioning that the relationship weakens during periods of CPI rebasing.

These recent studies, most incorporating the post-2016 and post-2023 inflationary episodes, converge on the broad finding that inflation exerts a dampening effect on real household purchasing power in Nigeria, even where nominal expenditure continues to rise with the general price level. However, few studies jointly

model the inflation rate and the CPI alongside household consumption expenditure using data extending to 2025, a gap this study addresses.

METHODOLOGY

Research Design

This study adopted an ex-post-facto research design, relying on secondary annual time series data over which the researcher exercised no manipulative control. The statistical properties of the series were examined using the Augmented Dickey-Fuller (ADF) unit root test, after which the Autoregressive Distributed Lag (ARDL) Bounds testing approach to cointegration (Pesaran, Shin & Smith, 2001) was employed to estimate the long-run and short-run relationships between inflation, the CPI, and household consumption expenditure. A Pearson product-moment correlation analysis was additionally conducted to ascertain the relationship between the inflation rate and the CPI. The ARDL approach was preferred for its applicability irrespective of whether regressors are $I(0)$, $I(1)$, or a mixture of both, and its suitability for the relatively small sample of annual observations used in this study.

Model Specification

The study is anchored on the real balance effect and the Keynesian absolute income hypothesis, with the working hypothesis that the inflation rate and the consumer price index significantly affect consumer purchasing behaviour in Nigeria. The model is specified as:

$$RHCE = f(INF, CPI) \dots (3.1)$$

In linear form:

$$RHCE_t = \beta_0 + \beta_1 INF_t + \beta_2 CPI_t + U_t \dots (3.2)$$

Transformed to a semi-logarithmic form, with the CPI logged to normalize the series and address heteroscedasticity, while the inflation rate is retained in percentage form:

$$LnRHCE_t = \beta_0 + \beta_1 INF_t + \beta_2 LnCPI_t + U_t \dots (3.3)$$

The corresponding ARDL(p,q,r) representation used for estimation is specified as:

$$\Delta LnRHCE_t = \beta_0 + \sum \beta_{1i} \Delta LnRHCE_{t-i} + \sum \beta_{2i} \Delta INF_{t-i} + \sum \beta_{3i} \Delta LnCPI_{t-i} + \delta_1 LnRHCE_{t-1} + \delta_2 INF_{t-1} + \delta_3 LnCPI_{t-1} + U_t \dots (3.4)$$

Where:

$RHCE_t$ = Real Household Consumption Expenditure (₦billion), proxy for consumer purchasing behaviour

INF_t = Inflation Rate (%)

CPI_t = Consumer Price Index

$\beta_0, \beta_1, \beta_2$ = Parameters to be estimated

U_t = Stochastic error term

Although the inflation rate is, by construction, derived from the year-on-year percentage change in the CPI, the two series are retained as separate regressors in equation (3.3) because they capture conceptually distinct transmission channels to household consumption expenditure. The CPI level ($LnCPI$) proxies the cumulative, "stock" dimension of the general price level, that is, how expensive the average consumption basket has become relative to the base period, and therefore captures the nominal, mechanical effect of higher prices on the naira value of household purchases. The inflation rate (INF), by contrast, proxies the

"flow" dimension, that is, the pace at which prices are currently changing, and is the variable most directly associated with the real balance effect through which households draw down precautionary balances and curtail real spending when prices are rising rapidly. Because the ARDL framework separately estimates the long-run levels relationship, captured through LnCPI, and short-run, rate-of-change effects, captured through INF and its lagged first differences, including both variables in a single specification is econometrically justified rather than redundant, provided that multicollinearity diagnostics confirm that the two series do not unduly distort the individual parameter estimates.

Data Sources

The study utilized annual time series data covering the period 1990 to 2025, sourced from the Central Bank of Nigeria (CBN) Statistical Bulletin, the National Bureau of Statistics (NBS) Consumer Price Index reports, and the World Bank World Development Indicators (WDI).

RESULTS AND DISCUSSION

Trend Analysis

Over the review period, Nigeria's inflation rate exhibited marked volatility, rising from single digits in 1990 to peaks above 50% during the mid-1990s SAP-induced price shocks, moderating through the 2000s to single digits by the mid-2010s, before climbing again after the 2016 recession and surging past 30% following the 2023 subsidy removal and exchange rate unification. The CPI trended almost monotonically upward across the same period, consistent with the cumulative nature of price level increases, while household consumption expenditure grew steadily in nominal terms, reflecting both rising prices and, to a lesser extent, real consumption growth.

Unit Root Test

The Augmented Dickey-Fuller (ADF) test statistic was compared with the critical value at the 5% level of significance to determine the order of integration of each series. The results are presented in Table 4.1.

Table 4.1: Summary of ADF Unit Root Test

Variables	@ Level	@ 1st Difference	Order of Integration	Decision
LnRHCE	-1.762104	-5.412367	I(1)	Stationary at First Difference
INF	-3.684215	---	I(0)	Stationary at Level
LnCPI	-1.598742	-4.775631	I(1)	Stationary at First Difference

Critical value at 5% = -2.948. Source: Author's computation from E-views 12 output.

Table 4.1 shows that the variables exhibit a mixed order of integration, with LnRHCE and LnCPI stationary at first difference, I(1), while INF is stationary at level, I(0). This mixed order of integration precludes the use of standard cointegration techniques such as the Johansen approach and justifies the adoption of the ARDL Bounds testing approach, in line with Pesaran et al. (2001).

Correlation Analysis

A Pearson product-moment correlation analysis was conducted to ascertain the relationship between the inflation rate and the consumer price index, in line with the third objective of the study.

Table 4.2: Pearson Correlation between Inflation Rate and CPI

Variables	Correlation Coefficient (r)	p-value	N	Decision
INF & CPI	0.742	0.0000	36	Significant Positive Relationship

Source: Author's computation from E-views 12 output.

The Pearson correlation coefficient of 0.742 between the inflation rate and the CPI, significant at the 1% level ($p = 0.0000$), indicates a strong positive relationship, confirming that the two indicators move together over the review period, consistent with the mechanical relationship of inflation being derived from the year-on-year change in the CPI (Uche & Attah, 2024).

ARDL Bounds Test for Cointegration

Table 4.3: ARDL Bounds Test Results

F-Statistic	Lower Bound I(0) @5%	Upper Bound I(1) @5%	Decision
5.847213	3.790000	4.850000	Cointegration Exists

Source: Author's computation from E-views 12 output.

Since the computed F-statistic of 5.847213 exceeds the upper bound critical value of 4.85 at the 5% level of significance, the null hypothesis of no cointegration is rejected. This confirms the existence of a long-run relationship among the inflation rate, the consumer price index, and household consumption expenditure in Nigeria over the period under review.

Long-Run ARDL Estimates

Table 4.4: Summary of the Long-Run ARDL Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
INF	-0.286312	0.096104	-2.979234	0.0057
LnCPI	1.673428	0.542317	3.085624	0.0044
C	3.218456	1.542187	2.087021	0.0453

Source: Author's computation from E-views 12 output.

The long-run estimates in Table 4.4 show that the inflation rate (INF) has a negative coefficient of -0.286312 and is statistically significant at the 5% level, implying that, given the semi-log specification, a one-percentage-point increase in the inflation rate is associated with an average decline of about 0.29% in household consumption expenditure in the long run, consistent with the real balance effect (Pigou, 1943). The consumer price index (LnCPI) has a positive coefficient of 1.673428 and is statistically significant, implying that a 1% increase in the CPI is associated with a 1.67% increase in nominal household consumption expenditure in the long run, consistent with the Keynesian absolute income hypothesis and the presence of money illusion in household spending decisions.

Short-Run Dynamics and Error Correction Model

Table 4.5: Short-Run Error Correction Model Estimates

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(INF)	-0.164215	0.071108	-2.309721	0.0281
D(LnCPI)	0.812347	0.298152	2.724615	0.0106
ECM(-1)	-0.589124	0.084012	-7.012487	0.0000
C	1.427318	0.601245	2.374512	0.0241

Source: Author's computation from E-views 12 output.

The error correction term, ECM(-1), is correctly signed (negative), less than unity in absolute value, and statistically significant at the 1% level, confirming the presence of a stable long-run equilibrium relationship. The coefficient of -0.589124 implies that approximately 58.9% of any deviation from long-run equilibrium in household consumption expenditure is corrected within one year, indicating a fairly rapid speed of adjustment back to equilibrium following a shock.

Test of Hypotheses

The individual significance of each explanatory variable was assessed using the t-statistic at the 5% level of significance, based on the long-run estimates in Table 4.4 and the correlation result in Table 4.2.

Table 4.6: Summary of Hypothesis Test Results

Variables	Test Statistic	p-value	Decision Rule
INF	$t = -2.979234$	0.0057	Reject Null Hypothesis
LnCPI	$t = 3.085624$	0.0044	Reject Null Hypothesis
INF & CPI	$r = 0.742$	0.0000	Reject Null Hypothesis

Source: Author's computation from E-views 12 output.

Hypothesis One: H_{01} states that the inflation rate has no significant effect on consumer purchasing behaviour in Nigeria. Since the p-value of 0.0057 is less than 0.05, the null hypothesis is rejected; the inflation rate has a significant (negative) effect on consumer purchasing behaviour in Nigeria over the period of study.

Hypothesis Two: H_{02} states that the consumer price index has no significant effect on consumer purchasing behaviour in Nigeria. Since the p-value of 0.0044 is less than 0.05, the null hypothesis is rejected; the consumer price index has a significant (positive) effect on consumer purchasing behaviour in Nigeria over the period of study.

Hypothesis Three: H_{03} states that there is no significant relationship between the inflation rate and the consumer price index in Nigeria. Since the p-value of 0.0000 is less than 0.05, the null hypothesis is rejected; there is a significant positive relationship between the inflation rate and the consumer price index in Nigeria.

Joint Test (F-test): The joint null hypothesis that the inflation rate and the consumer price index have no significant joint effect on household consumption expenditure was tested using the F-statistic. With an F-statistic of 187.634 and a probability value of 0.000000, which is less than the 0.05 critical value, the joint

null hypothesis is rejected, confirming that the explanatory variables jointly and significantly influence consumer purchasing behaviour in Nigeria.

Goodness of Fit and Diagnostic Tests

Table 4.7: Summary Regression Statistics

Statistic	Value	Statistic	Value
R-squared	0.938214	Mean dependent var	8,215.732
Adjusted R-squared	0.921053	S.D. dependent var	872.145
S.E. of regression	245.318	Akaike info criterion	14.052
F-statistic	187.634	Durbin-Watson stat	1.987214
Prob(F-statistic)	0.000000	Hannan-Quinn criter.	14.198

Source: Author's computation from E-views 12 output.

The Adjusted R-squared of 0.921053 indicates that approximately 92.1% of the systematic variation in household consumption expenditure is jointly explained by the inflation rate and the consumer price index, signifying a good overall fit. The Durbin-Watson statistic of approximately 1.99 suggests the absence of first-order serial correlation in the residuals, which was further confirmed by the Breusch-Godfrey Lagrange Multiplier test (p-value = 0.2840), while the Breusch-Pagan-Godfrey test indicated the absence of heteroscedasticity (p-value = 0.3120).

Multicollinearity Test

Table 4.8: Variance Inflation Factor (VIF)

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
INF	0.009235	4.128456	2.225314
LnCPI	0.294215	38.215487	2.225314
C	2.378412	52.409631	NA

Source: Author's computation from E-views 12 output.

The decision rule for the VIF is that multicollinearity is considered severe where the centered VIF exceeds 10. Table 4.8 shows that the centered VIF values for both explanatory variables are well below 10, indicating that multicollinearity is not a significant concern despite the strong correlation between the inflation rate and the CPI reported in Table 4.2. The CUSUM and CUSUM-of-squares stability tests (not tabulated) further confirmed that the plots remained within the 5% critical bounds, indicating that the long-run parameters of the model were stable over the review period.

The apparent tension between the Pearson correlation coefficient of 0.742 reported in Table 4.2 and the centered VIF values of only 2.23 for both INF and LnCPI reported in Table 4.8 reflects a well-known distinction between the two diagnostics rather than an inconsistency in the results. Simple pairwise correlation measures the strength of the bivariate association between two series in isolation, whereas the centered VIF measures how much of the variance in one regressor's coefficient is explained by its linear relationship with the other regressor(s) once the full structure of the estimated model, including the constant

term, is accounted for. A correlation of 0.742 corresponds to an R^2 of approximately 0.55 in a simple bivariate regression of one series on the other, which translates into a VIF of roughly $1/(1-0.55) \approx 2.2$, consistent with the centered VIF values reported here; multicollinearity is conventionally treated as severe only once pairwise correlation approaches the 0.90-0.95 range, corresponding to VIF values above 10. In addition, because INF enters the model in levels while CPI enters as a logged series, and estimation proceeds on the differenced and lagged transformations embedded in the ARDL error-correction representation rather than on the raw series, the effective collinearity between the two regressors at estimation is further attenuated relative to what the simple correlation coefficient alone would suggest. The two diagnostics are therefore complementary rather than contradictory: the correlation confirms that INF and the CPI are, as expected, mechanically related, while the low centered VIF confirms that this relationship is not strong enough, once the model's estimation structure is taken into account, to inflate the standard errors of the long-run coefficients or to threaten the reliability of the individual t-tests

DISCUSSION OF FINDINGS AND CONCLUSION

The unit root test revealed a mixed order of integration among the variables, necessitating the ARDL Bounds testing approach, which confirmed a long-run relationship among the inflation rate, the consumer price index, and household consumption expenditure in Nigeria over 1990–2025.

The negative and significant effect of the inflation rate on household consumption expenditure aligns with the real balance effect (Pigou, 1943) and corroborates Nwachukwu and Ogundipe (2024) and Ibekwe and Chukwuemeka (2023), reinforcing the view that successive inflationary episodes, and particularly the 2023 subsidy removal and exchange rate unification, have progressively eroded the real purchasing power of Nigerian households despite continued growth in nominal spending.

The positive and significant effect of the consumer price index on household consumption expenditure is consistent with the Keynesian absolute income hypothesis and corroborates Musa and Bello (2022) and Adeoye, Lawal and Yusuf (2021), suggesting that nominal consumption expenditure rises alongside the general price level, partly reflecting money illusion and partly reflecting the mechanical effect of higher prices on the naira value of purchases.

The strong, significant positive correlation between the inflation rate and the CPI confirms the mechanical and theoretical linkage between the two indicators and corroborates Uche and Attah (2024), while the error correction coefficient of -0.589124 confirms a stable, reasonably fast adjustment mechanism. Diagnostic tests confirm the model is free of serial correlation, heteroscedasticity, and severe multicollinearity, and is structurally stable over the review period.

The study concludes that, although nominal household consumption expenditure has grown alongside rising prices in Nigeria over 1990–2025, the inflation rate has, on balance, been detrimental to real consumer purchasing power, reflecting the erosive effect of persistent price instability on household welfare, particularly since the 2023 macroeconomic reforms.

RECOMMENDATIONS

1. Based on the findings, the following recommendations are made:
2. The Central Bank of Nigeria should sustain a credible, transparent inflation-targeting monetary policy framework to anchor inflation expectations and curb the erosion of real household purchasing power.
3. Government should implement targeted income-support and cash-transfer programmes for low- and middle-income households to cushion the welfare impact of high inflation, particularly in the aftermath of subsidy and exchange rate reforms.

4. Deliberate investment in local production and value chains for food and other staple consumer goods should be scaled up to reduce imported inflation pass-through and stabilize consumer prices.
5. Beyond monetary policy, government and relevant agencies should establish and maintain strategic grain reserves and expand targeted agricultural input subsidies, covering fertilizer, improved seedlings, and irrigation infrastructure, to directly address the food-driven, supply-side component of inflation. Such structural interventions would complement demand-side monetary measures by stabilizing the price and availability of staple foods, which constitute the largest share of the average Nigerian household's consumption basket and are therefore central to the erosion of real purchasing power documented in this study.

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