



RESEARCH ARTICLE

INFLATION'S TOLL ON HOUSEHOLD CONSUMPTION IN NIGERIA

PRECIOUS C. AKOBUNDU ¹, JUSTIN C. ALUGBUO ², LINDA K. OKONKWO ³

^{1&3} Department of Economics, Alvan Ikoku Federal University of Education, Owerri, Imo State,

² Department of Economics, College of Management Sciences (Colmas), Michael Okpara University of Agriculture, Umudike, Abia State, Nigeria.

ABSTRACT

This study utilized Auto-Regressive Distributed Lag (ARDL) model to analyze the effect of Inflation on Household Consumption in Nigeria during the period under study (1981 to 2024). The data used for the analysis were time series data on inflation, household consumption expenditure, money supply and government expenditure and interest rates. The ARDL model gave results showing that inflation had a negative impact on both the short and the long runs of household consumption. The effect of an increase in money supply on consumption was statistically significant and positive in both periods. The government spending had a negative effect on consumption in the short run and a positive effect in the long run at 5 percent level of significance. In the short run, interest rates played little role, but in the long-run they had a positive effect on consumption, possibly because of better returns on saving or investor confidence. The study recommended among others that the Nigerian government should regulate inflation by implementing tighter monetary policies and structural reforms to safeguard the purchasing power of the household and boost consumption while the Central Bank of Nigeria (CBN) should also implement policies aimed at increasing monetary expansion in times of economic slowdowns to boost consumption and maintain economic growth.

Keywords: Inflation, household consumption, ARDL model, money supply, government expenditure

Corresponding Author

Precious C. Akobundu

E-mail Address: precious.akobundu@alvanikoku.edu.ng

Telephone Number: +2348037425538

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1.0. INTRODUCTION

Over the past ten years, Nigeria's inflation problem has grown to be one of the most serious economic issues, significantly affecting both household welfare and the nation's overall economic stability. It can never be overemphasized how crucial it is for academics and policy makers to comprehend how inflation affects daily life in developing nations where a sizable portion of the population lives close to or below the poverty line. As prices rise, families have less money to purchase the same goods and services, making it more difficult for them to meet their basic expenses.

Despite adjustments to Nigeria's official price index, the country's inflation rate was 24.66% in 2023 and rose to 24.48% in early 2025 (National Bureau of Statistics, 2025). This ongoing price increase is caused by a number of fundamental economic issues, such as the government's borrowing from the central bank, an excessive reliance on imported goods and fuel, frequent devaluations of the naira, and Nigeria's extremely low rate of production, particularly in infrastructure and agriculture (Adeleke & Rasak, 2024).

Nigerian households' lives are realistically impacted by these economic factors. Families are forced to make tough choices due to the high costs of essentials like food, housing, and transportation. The family must decide what they can and cannot afford as costs rise faster than incomes. In actuality, it is necessary to comprehend how household spending patterns have changed during periods of high inflation. According to economic theory, there are two main perspectives on how inflation affects expenditure. One is that as household earnings decline due to inflation, people are forced to save more money because they have less to spend. However, when consumers believe that prices will continue to climb, they will end up consuming more now, which may end up costing them more later (Ekeadah & Ogu, 2025).

Some research, such as that of Osunaiye et al. (2024), supports this, demonstrating that inflation will reduce household spending because the household won't have any extra money to spend on extra consumption. However, other writers, such as Ekeadah and Ogu (2025), found that, in some circumstances, inflation might boost demand because it is anticipated that prices would keep rising. Furthermore, not every household is affected by inflation to the same extent. According to Katuka et al. (2025), low-income households are disproportionately impacted since they must devote a bigger amount of their income to food and other necessities, leaving them with less room for price increases.

Only a small number of prior research have taken into consideration other pertinent economic aspects when examining the effects of inflation on consumption. Both household expenditure and inflation can be impacted by variables including the money supply, interest rate, currency rate, government spending, etc. Families' ability to take out loans for significant purchases, for instance, is directly impacted by interest rates, and a declining naira increases the cost of imported products for families.

Spending by the government may either mitigate or exacerbate household inflation. Additionally, prior research is usually done at the national level, which means that variations in how incomes react to inflation are not captured. A low-income rural family will be impacted by inflation in a different way than a middle-class urban household. Furthermore, a large portion of the research is based on out-of-date data and ignores important recent developments in Nigeria's economy, such the 2025 recalibration of the consumer price index.



If policymakers do not completely understand how people respond to inflation, it will be more difficult for them to plan for inflation. For example, even if raising interest rates to curb inflation leads to decreased consumer spending and a slower pace of economic expansion? Should the government step in and subsidize prices or offer direct financial assistance to help households deal with growing costs? Therefore, by offering a current and thorough analysis of the impact of inflation on Nigerian household consumption, this study seeks to close these gaps. In order to help policy makers make decisions that will benefit Nigerian households and the economy as a whole, this study aims to provide them with evidence based on the consideration of some significant economic factors using updated data that reflects the current economic situation.

2.0. CONCEPTUAL AND THEORETICAL FRAMEWORKS

2.1. Conceptual Clarifications

It is common knowledge that prices for goods and services increase over time, and this is because inflation is a fundamental element influencing household consumption expenditures. Increased inflation theoretically lowers households' real purchasing power. A rise in inflation raises the general level of prices for goods and services; if nominal income does not grow by the same amount, households will be able to purchase fewer goods and services with the same amount of money. In general, fewer and lower-quality goods are consumed as a result of this loss in purchasing power.

Over time, research by Adeleke & Rasak (2024) and Osunaiye et al. (2024) has shown that inflation in Nigeria negatively impacts households' real spending, particularly those with low incomes. When prices rise, customers have to change how they behave. If they have to pick between spending on essentials (food, energy) and non-necessities (travel, entertainment, etc.), they typically invest in the first and save on the latter.

The Money Supply and Household Consumption

The relationship between household consumption expenditures and the money supply is also significant. A rise in the money supply causes interest rates to decrease, which makes credit more accessible. This might also result in higher household consumption, particularly of consumer durables like electronics, vehicles, and homes, which are usually bought on credit. It is particularly pertinent in economies like Nigeria, where credit availability is limited, inflation is high, and interest rates have a big influence on loan utilization.

The Exchange Rate and Household Consumption

Exchange rates have an appreciable influence on the level of household consumption, particularly in an import dependent economy such as Nigeria. This can be viewed as an increase in the cost of imports when the Naira loses value when compared with foreign currencies such as the United States Dollar which causes the imported inflation. This is especially true in the food and fuel industry, in which Nigeria is heavily reliant on imports. The depreciation of Naira causes an increase in the price of these products which are vital for consumption by households.

The Government and Household Spending

In Nigeria, government spending is the other significant factor influencing household consumption. Higher household earnings and consumption can result from increased government spending, particularly on public goods and services, transfers, and infrastructure. This is especially true for



government funding of social welfare, health care, and education, all of which have a direct bearing on household welfare. Government expenditure can increase household consumption by giving them more free income and encouraging economic activity, claim Ajayi (2023) and Okafor & Udo (2023).

Household Consumption and Interest Rates

Because interest rates are directly correlated with borrowing costs, they have a direct effect on household spending. Households are encouraged to borrow more money to buy big things like homes, vehicles, and appliances when interest rates drop because borrowing money becomes less expensive. However, as interest rates rise, borrowing becomes more expensive, making it more difficult to consume, particularly durable goods.

2.2. Theoretical Framework

The Permanent Income Hypothesis: According to Milton Friedman's Permanent Income Hypothesis (1957), people base their consumption choices on their anticipated long-term or "permanent" income rather than only their present income. According to this argument, households will not immediately increase spending in the same proportion when their income temporarily rises. Rather, they modify their consumption based on their anticipated future earnings. This offers a foundation for comprehending why short-term changes in income or inflation may not cause households to significantly alter their consumption.

The Keynesian Consumption Function: According to John Maynard Keynes' Consumption Function (1936), current income has a major role in determining consumption, with the marginal propensity to consume (MPC) decreasing as income increases. To put it another way, consumption increases along with household income, but the growth in consumption is less than the increase in income. According to the Keynesian model, changes in income, including those brought on by inflation, have a direct impact on consumer behavior.

The Keynesian Consumption Function describes how inflation might cause consumption to drop right away in Nigeria. Household income is strained as inflation raises the cost of products, especially for individuals with fixed salaries or those in lower income groups. Households' actual purchasing power declines and their overall consumption declines if wages or other sources of income do not keep up with inflation.

2.3. Empirical Literature Review

Gbenga et al. (2024): Using secondary data spanning 1990–2022, the authors investigated the connection between household consumption and inflation. The Autoregressive Distributed Lag (ARDL) model was used as the estimation method in the study. The dependent variable was household consumption, while the primary explanatory variables were interest rates and the inflation rate (INFL). The empirical results showed that household consumption in Nigeria was negatively and statistically significantly correlated with inflation. In particular, a 1-unit increase in inflation decreases household consumption growth by roughly 0.51 units, according to the coefficient of inflation (–0.511835; $p = 0.0158$). This suggests that consumption levels are considerably lowered by growing inflationary pressures.



Adeleke and Rasak (2024): Using yearly time-series data from the Central Bank of Nigeria Statistical Bulletin (2023) and the World Bank Group Development Indicators (2023), the study looked at how inflationary pressure affected household consumption expenditure. For the data study, the authors used correlation analysis and Autoregressive Distributed Lag (ARDL) regression. The study discovered that household final consumption expenditure (FCEH) was negatively and statistically significantly impacted by inflation as determined by the Consumer Price Index (CPI). In particular, FCEH decreased by 7.98 percent for every 1 percent increase in CPI. Additionally, FCEH was positively and statistically significantly impacted by variables like Operating Surplus (OPS) and Changes in Inventories (CIV). A 1% increase in CIV and OPS led to an approximate 2.09% and 0.55% increase in FCEH, respectively.

Balogun and Dhakir (2024): Using the money supply, inflation rate, interest rates, foreign direct investment (FDI), and currency rates as the main factors, the study looked at the relationship between household consumption expenditures and Nigeria's economic performance. For the empirical investigation, which covered the years 1990 to 2022, the authors used descriptive statistics, cointegration analysis, and the Autoregressive Distributed Lag (ARDL) Model/Error Correction Model (ECM). The study discovered a steady long-term correlation between Nigeria's economic growth and household consumption expenditures and their drivers. The results showed that important factors influencing Nigeria's short-term and long-term economic performance include household consumption expenditures, interest rates, the money supply, inflation, foreign direct investment, and exchange rates.

Ademola and Ubale (2025): The World Development Indicator (WDI), the National Bureau of Statistics (NBS), and the Central Bank of Nigeria (CBN) Statistical Bulletin provided time-series data from 1980 to 2023. The authors investigated the long-term correlations between inflation, interest rates, and standard of living using the Auto-Regressive Distribution Lag (ARDL) model and a cointegration bound test. The study discovered a statistically significant negative correlation between Nigeria's standard of life, interest rates, and inflation. In particular, the findings showed that the standard of living decreases by 0.06% and 0.19%, respectively, for every 1% increase in inflation and interest rates, both of which are significant at the 1% level.

3.0. METHODOLOGY

3.1. Theoretical Model

The model specification of this study is based on the Keynesian Consumption Function, which has been used to explain the relationship between inflation and household consumption in Nigeria. The Keynesian model was developed by John Maynard Keynes in the 1930s and states that the level of consumption of a nation's household sector is related to the levels of disposable income and current income, and that a change in income can lead to a corresponding change in consumption. Keynes argued that the more income that increases, the more that is spent on consumption, but that the increase in consumption is less than the increase in income (marginal propensity to consume or MPC).

The Keynesian Consumption Function can be modified to measure the impact of inflation (increasing price levels) on the real income of households and, therefore, on their capacity to consume. According

to the theory, households will decrease their spending on non-essential goods and services as their purchasing power falls, and total consumption will fall. The Keynesian theory implies that current level of consumption expenditure (C) depends mainly on the level of current income (Y) and disposable income (Yd): $C = \alpha + \beta Y_d$ Equation (i)

Yd = Disposable income, which, for inflation, is adjusted for prices; where C = Total consumption expenditure; α = Autonomous consumption (baseline consumption irrespective of income); β = The fraction of any increase in income spent on consumption, also called the Marginal propensity to consume (MPC).

3.2. Model Specification

This study draws its model framework from the work of Ademola and Ubale (2025), who investigated the effect of inflation on household living standards in Nigeria. Their study employed the Auto-Regressive Distributed Lag (ARDL) model, utilizing a cointegration bound test to examine the long-run relationships between inflation, interest rates, and the standard of living in Nigeria.

$$RGDP_{PC} = f(CPI + MSS + INT) \text{ Equation (ii)}$$

In econometric form with introduction of regression parameters, the model becomes; $RGDP_{PC} = \alpha + \beta_1 CPI + \beta_2 MSS + \beta_3 INT + \mu$ Equation (ii)

Where: $RGDP_{PC}$; = Real GDP Per Capita, a proxy for Household Standard of living, CPI = Consumer Price Index (CPI) Proxy for inflation rate, MSS = Money supply Proxied by M2 and INT= Interest rate.

Building on their approach, in order to address the research questions raised in the first chapter, the model specification in this study is now expressed in Equation (iii), using the ARDL model specification to illustrate the relationship between inflation and household consumption expenditure:

$$\begin{aligned} \Delta \ln_{HCEXP}_t = & \sum_{i=1}^p \alpha_1 \Delta \ln_{HCEXP}_{t-i} + \sum_{i=0}^q \alpha_2 \Delta \ln_{INFR}_{t-i} + \sum_{i=0}^q \alpha_3 \Delta \ln_{MS}_{t-i} \\ & + \sum_{i=0}^q \alpha_4 \Delta \ln_{TGEXP}_{t-i} + \sum_{i=0}^q \alpha_5 \Delta \ln_{INTR}_{t-i} \\ & + \sum_{i=0}^q \beta_2 \ln_{INFR}_{t-i} + \sum_{i=0}^q \beta_3 \ln_{MS}_{t-i} + \sum_{i=0}^q \alpha_3 \ln_{TGEXP}_{t-i} + \sum_{i=0}^q \beta_4 \ln_{INTR}_{t-i} \\ & + \varphi ECT + \dots \dots \dots (III) \end{aligned}$$

Where $ECT_t = Y_t - \alpha_0 - \sum_{i=1}^p \gamma_1 \Delta Y_{t-i} - \sum_{i=0}^p \beta_i \Delta X_{t-i}$ and $\varphi = 1 - \sum_{i=1}^p \gamma_1 \Delta Y_{t-i} \dots \dots \dots (iv)$

The Bound test procedure used equations would be is given as follows:

$$\Delta Y_t = - \sum_{i=1}^{p-1} \gamma_1 Y * \Delta Y_{t-i} + \sum_{i=0}^p \beta_i \Delta X_{t-i} - \rho Y_{t-1} - \alpha - \sum_{i=0}^p \delta X_{t-i} + \mu_{it} \dots \dots \dots (v)$$

Then we test the existence of level relationship as $\rho = 0$ and $\delta_1 = \delta_2 = \dots = \delta_k = 0$

where Δ = difference operator, α = the short-term coefficient, β = the long run coefficients μ = white noise error term.



Furthermore:

HCEXP = Household Consumption Expenditure at time t ; **INFR** = Inflation Rate at time t ; **MS** = Money supply at time t ; **TGEXP** = Total Government expenditure at time t ; **INTR** = Interest rate at time t ; **ECT** = Error correction term representing the short-term adjustment to long-term equilibrium.

4.0. PRESENTATION OF RESULTS AND DISCUSSION

4.1. Presentation of Results

Unit Root Test

The stationarity of the time series data was assessed using the Augmented Dickey-Fuller (ADF) test. The results are presented in Table 1.

Table 1: Summary of Unit Root Test

Variable	At Level (Trend and Intercept)			At First Difference (Trend and Intercept)			Result
	ADF Stat	ADF 5% CV	Prob.	ADF Stat	ADF 5% CV	Prob.	
ln_HCEXP	-3.636309*	-2.933158	0.0089	-	-	-	I(0)
INFR	-3.057212*	-2.936942	0.0376	-	-	-	I(0)
INTR	-1.895417	-2.935001	0.3312	-8.524056*	-2.935001	0.0000*	I(1)
ln_TGEXP	-0.783886	-2.933158	0.8133	-7.217729*	-2.935001	0.0000*	I(1)
ln_MS	-2.433445	-2.933158	0.1390	-5.537678*	-2.936942	0.0000*	I(1)

Source: Researcher's Extract from EViews 12 Output Package 2026

Key: * Significant at 1% level; ** Significant at 5% level

An essential prerequisite for the legitimate use of the Autoregressive Distributed Lag (ARDL) bounds testing method was to test the variables for unit roots in order to ascertain their order of integration. Only when the variables are integrated of order $I(0)$ or $I(1)$ may the test statistics given by Pesaran et al. (2001) be used. The cointegration test would not have been valid if there had been any $I(2)$ variables.

The following integration qualities were found in the Augmented Dickey-Fuller (ADF) test results, which are compiled in Table 4.1. Inflation Rate (INFR) and Household Consumption Expenditure (HCEXP) did not require differencing because they were integrated of order zero or stationary at level. Interest Rate (INTR), Money Supply (MS), and Total Government Expenditure (TGEXP), on the other hand, were integrated of order one $I(1)$ and were non-stationary at their level before becoming stationary following the first difference.

The Johansen (1991) process and other regression-based procedures, which normally require all variables to be integrated of the same order, could not be used since the mixture of $I(0)$ and $I(1)$ variables had a mixed order of integration. Because the models include some combination of $I(0)$ and $I(1)$ variables, the ARDL approach was used because it is thought to be appropriate for the study.

Cointegration Test

The results of the Auto Regressive Distributed Lag (ARDL) bounds test, which was used to determine if the variables in the model had a long-term equilibrium connection, are shown in Table 2. Pesaran et al. (2001) proposed a criterion for testing that involves comparing a computed F-statistic with two



asymptotic critical values. The absence of a long-term cointegrating link is the test's null hypothesis. The F-bounds statistic was 12.08037 this time. At the 10 percent, 5 percent, and 1 percent significance levels, this value was contrasted with the critical value ranges.

Table 2. Autoregressive Distributed Lag Bounds Test for Co-Integration

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	12.08037	10%	2.26	3.35
K	4	5%	2.62	3.79
		2.5%	2.96	4.18
		1%	3.41	4.68

Source: Researcher's Compilation, 2026

At all three levels of significance, the calculated F-statistic of 12.08037 was found to be more than the upper critical value limits. The decision rule states that the test statistic clearly rejects the I(1) null hypothesis because it is greater than its upper bound at the 1 percent level of significance. This provides strong empirical evidence for the notion of a stable, long-term link between the study's variables, which will enable the estimation of long-term coefficients and the use of an error correction model to examine the short-term dynamics.

DYNAMIC SHORTRUN ARDL ERROR CORRECTION MODEL

The short-term impact of various variables on Household Consumption Expenditure (ln_HCEXP) in Nigeria was revealed by the examination of the short-run coefficients from the ARDL model shown in Table 3. The base level of household spending that cannot be accounted for by the variables in the model is represented by the positive and statistically significant constant (0.925849).

The dynamism of household consumption expenditure (ln_HCEXP) is one of the key findings. With a negative value of -0.517212, the initial lag of the log of HCEXP shows that current consumption is negatively impacted by past consumption behavior. This point to the persistence of Nigeria's consumption pattern, in which historical consumption levels have a negative impact on present spending, possibly due to structural economic factors.

Money Supply's (ln_MS) first lag effect was substantial and positive at 0.372735, while its present period effect was significant and positive at 0.217297. This suggests that both short-term and long-term increases in the money supply are positively correlated with household sector consumption in Nigeria. However, the money supply's second and third delays were not found to be significant, indicating that monetary expansion has historically had declining returns.

The first and second lags of the Total Government Expenditure (ln_TGEXP) were significantly impacted negatively by Household Consumption Expenditure (ln_HCE) (-0.861853 and -0.773448, respectively). This implies that any increase in government spending in Nigeria may result in a decline in household consumption. This could be caused by inefficient government spending or by reallocating household resources to the government, which diverts funds and limits the amount available for consumption.

**Table 3: Result Estimates of Dynamic Short Run ARDL Error Correction Model for Effect of Inflation Rate on Household Consumption in Nigeria**

ARDL Error Correction Regression; Dependent Variable: D(ln_HCEXP) Model: ARDL(2, 4, 3, 2, 4)				
VARIABLE	COEFFICIENT	STD. ERROR	T-STATISTIC	PROB.
C	0.925849	0.117834	7.857228	*0.0000
D(ln_HCEXP(-1))	-0.517212	0.108566	-4.764012	*0.0001
D(ln_MS)	0.217297	0.060571	3.587461	*0.0018
D(ln_MS(-1))	0.372735	0.196992	1.892131	**0.0330
D(ln_MS(-2))	0.117557	0.177048	0.663982	0.5143
D(ln_MS(-3))	0.221583	0.168648	1.313879	0.2038
D(ln_TGEXP)	-0.100611	0.121836	-0.825793	0.4187
D(ln_TGEXP(-1))	-0.861853	0.124957	-6.897200	*0.0000
D(ln_TGEXP(-2))	-0.773448	0.131141	-5.897813	*0.0000
D(INFR)	-0.008327	0.001393	5.977532	*0.0000
D(INFR(-1))	-0.006347	0.001343	-4.725053	*0.0001
D(INTR)	-0.006959	0.008014	-0.868429	0.3955
D(INTR(-1))	-0.013601	0.007243	-1.877803	0.0751
D(INTR(-2))	-0.028778	0.007054	-4.079862	*0.0006
D(INTR(-3))	-0.012091	0.007370	-1.640567	0.1165
CointEq(-1)*	-0.484456	0.056903	-8.513649	*0.0000

Source: Researcher's Extract from Eviews 12 Output Package 2025

Key: * Significant at 1 percent level; ** Significant at 5 percent level

Household Consumption Expenditure was strongly impacted negatively by the Inflation Rate (INFR) in both the current period (-0.008327) and the first lag (-0.006347). The findings show that when Nigerian inflation rises, households' purchasing power declines, which causes consumption to decline both now and in the future. The Interest Rate (INTR) produced inconsistent findings. The Household Consumption Expenditure was not significantly impacted by the current interest rate, suggesting that short-term changes in interest rates had little impact on household consumption in Nigeria. However, the interest rate's second lag (INTR(-2)) was significant and negative (-0.028778), indicating that rising interest rates over time will have a negative impact on consumption, perhaps because they will make borrowing less appealing and credit more costly.

The final variable, the Error Correction Term (CointEq(-1)), was statistically significant and negative (-0.484456), indicating a high ability of the system to adjust to the long-term equilibrium. Approximately 48.4% of the level change in household consumption expenditure in Nigeria is adjusted at each period, according to the absolute values of its coefficients. This comparatively quick rate of adjustment implies that the economy recovers from short-term shocks quickly and achieves long-term equilibrium in a comparatively short amount of time.

Ardl Long Run Estimates**Table 4 Static Long Run Estimates for Effect of Inflation on Household Consumption in Nigeria**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ln_MS	0.601305	0.179677	3.346590	*0.0032
ln_TGEXP	0.310638	0.206289	1.505837	0.1477
INFR	-0.017082	0.008876	1.924598	0.0686
INTR	0.045528	0.019664	2.315322	**0.0313

Source: Researcher's Extract from Eviews 12 Output Package 2025

Key: * Significant at 1% level; ** Significant at 5% level



Money Supply (ln_MS): Money Supply (ln_MS) had a statistically significant value (p-value = 0.0032) and a positive long-run coefficient (0.601305). This suggests that there is a positive and significant correlation between an increase in the money supply and an increase in household consumption expenditure (ln_HCEXP), with a rise of 0.60% in ln_HCEXP for every 1% increase in the money supply. This implies that household consumption in Nigeria is positively correlated with an increase in the money supply, confirming that monetary expansion has a long-term positive and significant effect on consumption.

Coefficient for Total Government Expenditure (ln_TGEXP): Although not statistically significant (p-value = 0.1477), the coefficient for Total Government Expenditure (ln_TGEXP) is positive (0.310638). Although it is not statistically significant, there is a positive correlation between household consumption and government spending. Because of inefficiencies in the distribution or absorption of government investment, the long-term impact of government spending on household consumption in Nigeria may therefore be unclear or confusing.

The Inflation Rate (INFR) long run coefficient was slightly negative (-0.017082) (p-value = 0.0686). Because of the negative correlation, household consumption expenditure eventually declines as the inflation rate rises. This supports the idea that inflation lowers household purchasing power, making consumption more challenging for consumers. However, at a significance level slightly above 0.05, the data should be regarded cautiously.

The Interest Rate (INTR) coefficient was positive (0.045528) and statistically significant (p-value = 0.0313), suggesting that a rise in INTR leads to a positive coefficient change. This suggests that there is a long-term correlation between rising interest rates and rising household consumption expenditures in Nigeria. This result is a little unexpected because higher rates often result in lower borrowing and spending. However, it can also be due to other causes, such as increased savings returns or increased investor confidence, which would improve spending.

Post Estimation Tests/Diagnostic Test

Stability Test

Ramsey Reset Test

One kind of specification test created within the framework of the generic linear regression model is the Ramsey Regression Equation Specification Error Test (RESET). It looks into whether the response variable can be explained by the non-linear combinations of the fitted values.

Table 5: Result of Ramsey Reset Test for Effect of Inflation Rate on Household Consumption

Ramsey RESET Test

Specification: LN_HCEXP LN_HCEXP(-1) LN_HCEXP(-2) LN_MS LN_MS(-1) LN_MS(-2) LN_MS(-3) LN_MS(-4) LN_TGEXP LN_TGEXP(-1) LN_TGEXP(-2) LN_TGEXP(-3) INFR INFR(-1) INFR(-2) INTR INTR(-1) INTR(-2) INTR(-3) INTR(-4) C

	Value	df	Probability
t-statistic	1.240565	19	0.2299
F-statistic	1.539002	(1, 19)	0.2299
Likelihood ratio	3.115466	1	0.5776

Source: Researcher's Extract from Eviews 12 Output package, 2025

There was no statistical proof of model misspecification according to the Ramsey RESET test (F-statistic p-value = 0.2299). Thus, we may conclude that the delays of household consumption, money supply, government spending, inflation rate, and interest rate are well defined in our model.

Cumulative Squares with Cumulative. The stability of the model's parameters was examined using the cusum and cusum of squares for model stability. The stability test's outcome is displayed below:

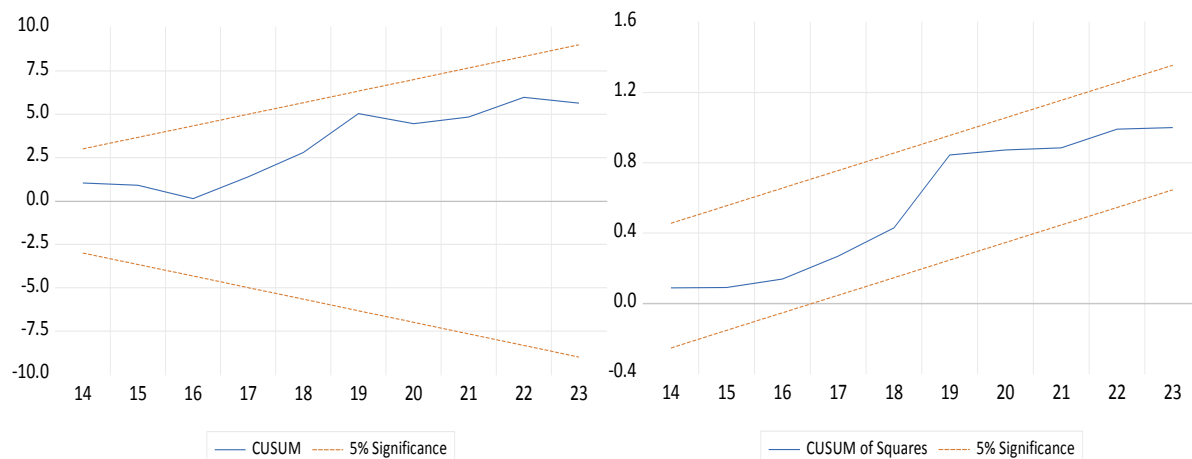


Figure 1. Cusum Test for Model Stability and Cusum of Squares

There is no substantial evidence of parameter instability or structural fractures because the test statistics are not in the rejection range. This confirms that the model's coefficients and error variance remain consistent during the sample period, making it dependable for statistical inference and forecasting.

4.2. Discussion of Findings

The short-run and long-run detrimental effects of inflation on household consumption were among the analysis's main findings. Inflation rate had a short-run negative impact on household consumption expenditure, with coefficients of -0.008327 and -0.006347 for the current period and the first lag, respectively. This was in line with earlier research, such as ademola and ubale (2025) and gbenga et al. (2024), which found that inflation decreased people's purchasing power, leading to a drop in their consumption. At the 10% level of significance, the long-term coefficient of inflation was negative (-0.017082), although it was not quite statistically significant. The negative influence of inflation in both periods highlighted the continued problems of inflation for households and its impact on their capacity to sustain or grow consumption over time.

In Nigeria, maintaining household spending depended on the money supply. the coefficient of 0.217297 in the current period and 0.372735 in the first lag indicate that household consumption was positively impacted by the short-term increase in the money supply. this suggested that both immediate and delayed increases in consumption were caused by the rise in money. the outcome is consistent with the findings of balogun and dhakir (2024), who found that nigerian consumption is significantly influenced by the money supply. However, the money supply's long-term impact on household spending remained robust and favorable, with a coefficient of 0.601305. in other words, an



increase in the money supply had a lasting effect on the level of household consumption, as it had previously done.

In both the first and second lags, the overall government spending was negative and considerable (first lag: -0.861853; second lag: -0.773448). This implied that the increase in government expenditure might have resulted in a decrease in household consumption, either due to inefficiencies in government spending or a failure to manage resources in the most productive way, leaving the household with less money to spend. Studies like katuka et al. (2025), which demonstrated how inflationary pressures and inadequate governmental spending may impact households' welfare, supported this.

although it was not statistically significant over the long term, government spending actually had a positive coefficient (0.310638), suggesting that while it may have had a beneficial effect, it was not powerful enough to clearly or consistently affect household spending over time.

Household consumption was not considerably impacted by the current interest rate in the short term, but the second lag of interest rates revealed a negative impact of -0.028778. According to economic theory, this showed that over time, higher interest rates reduced consumption, most likely due to the cost of credit and the disincentive to borrow. Over time, however, household spending was positively and significantly impacted by interest rates (coefficient = 0.045528).

The presented outcome is quite surprising because higher interest rates are typically linked to reduced consumption because they make borrowing more expensive. However, it also suggested that the increase in interest rates might have had a favorable indirect impact on consumption because of the higher returns on savings and the greater confidence of investors, among other things. This result was in line with that of Muhammad *et al.* (2023), who demonstrated that interest rates may occasionally contribute to an increase in household wellbeing.

5.0. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

Using the ARDL model, the study examined the short- and long-term implications of the dynamic link between inflation and household consumption spending in Nigeria. The findings demonstrated the complex interrelationships between macroeconomic factors that influence household consumption, such as inflation, money supply, government spending, and interest rates.

Inflation was the first significant factor shown to have an impact on consumption, and it consistently had a negative impact over the short and long terms. This increased impact of inflation's detrimental effects on household consumption emphasizes how difficult it is for households to maintain or raise consumption over time. The continued negative effect of the situation demands the need for effective inflation control measures in Nigeria which will ensure the welfare of the households.

Nonetheless, one of the elements that promotes household consumption in Nigeria was identified as the money supply. An increase in the money supply had a favorable effect on consumption both over the short and long terms. This emphasizes the importance of monetary policy, including how well it works to boost household spending and, consequently, economic activity through measures that



expand the money supply. The findings seem to suggest that monetary growth can be employed as a strategy to boost consumption, especially in uncertain economic times.

Government expenditure had a negative short-term impact on household spending, but it had a weak long-term beneficial impact. Government spending may be ineffective or misallocated in the short term, but if it is done properly, it can raise consumption levels over time. However, the long-term effect's low statistical significance should highlight the relevance of putting in place more targeted and efficient government spending plans meant to enhance household welfare.

Regarding interest rates, the situation was conflicting. Due to the disincentive to borrow and the increased cost of credit, an increase in interest rates short-term reduced consumption as anticipated. However, over time, higher interest rates encouraged spending through improved savings returns, increased investor confidence, etc. This unexpected finding suggests that interest rate effects on household consumption may be more complicated and impacted by broader economic trends.

In order to boost household consumption in Nigeria, the study concludes that macroeconomic policies should be carefully crafted to link with the dynamics of inflation, money supply, government spending, and interest rates. Although inflation is still a major issue, its detrimental effects can be lessened and a more favorable climate for household consumption and economic expansion can be created with careful monetary policy and sensible government spending allocation. The findings also suggest that policymakers should be wary of the conflicting effects of interest rates since policies affecting interest rates and household expenditure must consider the state of the economy as a whole.

5.2. Recommendations

1. Given the consistently negative impact of inflation on household consumption in both the short and long run, it is crucial for the Nigerian government to prioritize effective inflation control strategies. Policymakers should focus on reducing inflation through measures such as tightening monetary policy, improving supply-side conditions, and addressing structural issues in the economy.
2. The positive impact of money supply on household consumption in both the short and long run underscores the importance of a supportive monetary policy. The Central Bank of Nigeria (CBN) should consider adopting policies that promote monetary expansion during periods of economic slowdown, ensuring that the money supply adequately supports household spending.
3. While government expenditure showed a negative effect on consumption in the short run, its long-term potential to support household consumption was noted. Therefore, the Nigerian government should focus on improving the efficiency and targeting of its public spending.
4. The mixed impact of interest rates on household consumption calls for a more nuanced approach to interest rate policy. In the short run, high interest rates may discourage consumption by increasing borrowing costs, but in the long run, they could stimulate consumption through better savings returns and increased investor confidence.

Conflict of Interest

The authors declare that no conflict of interest exist in this manuscript.

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