URBAN INFLATION AND HOUSEHOLD FINANCIAL ADJUSTMENTS BY FAMILIES IN AKWA IBOM STATE

[1]AKPANOBONG, UYAI E., [2]NSINI, AKPAN & [3]SAMUEL, UDO
[1,2&3]Department of Business Education
Faculty of Vocational Education, Library and Information Science
University of Uyo, Uyo, Nigeria
email:
uyaiakpanobnong@gmail.com/drnsybiz370@gmail.com/udosamuel@gmail.com

Abstract
This study was conducted to determine the predictive influence of urban inflation on household financial adjustments by families in Akwa Ibom State. To guide the study, two objectives, two research questions and two null hypotheses were formulated. The null hypotheses were tested at 0.05 level of significance. The descriptive survey research design was used for the study. The population of the study comprise 1000 families in Uyo Metropolis, using accidental sampling technique. The research questionnaire designed and used for the study were subjected to the reliability test on 30 respondents and the data collected for the reliability test were subjected to Cronbach Alpha reliability test, which yielded a coefficient of 0.82. Findings of the study shows that the inflation significantly influences household lifestyle and savings. It is recommended that policy makers should take into consideration one of the findings of this study which is the review of wages of workers in order to cope expenditure and improved family savings.

Keywords: Urban Inflation, Financial Adjustments, Family savings, Household Lifestyle, Financial Planning

Introduction

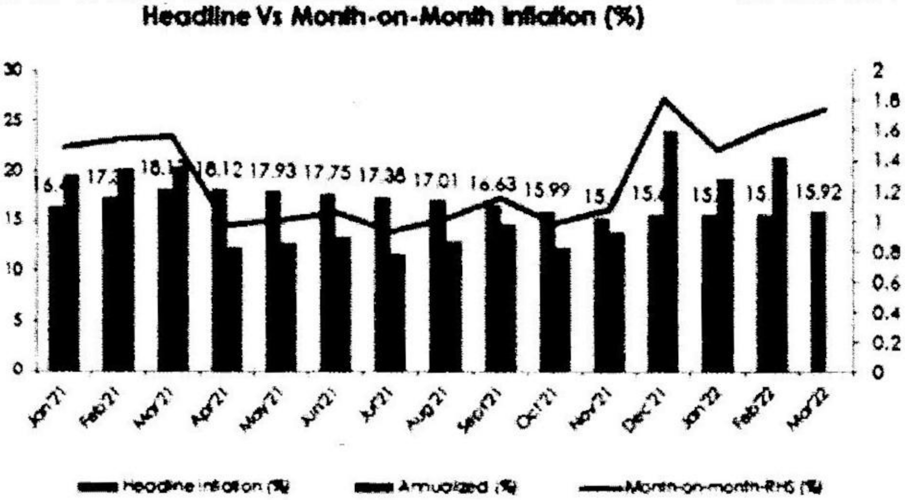
Inflation is typically expressed as the changes in prices for a basket of goods and services. Inflation in this instance is defined as a persistent rise in the general price level of goods and services in a country over a long period of time (Umaru & Zubairu, 2012). Inflation is measured by price indexes. One of which is the Consumer Price Index (C.P.I), which measures the cost of things urban consumers buy out of pocket. The National Bureau of Statistics (NBS) compiles consumer price index (CPI) to reflect price changes of consumption goods and services as well as retail sales in a certain period.

Monetary authorities and policy makers are becoming concerned about the high and persistent rates of inflation in Nigeria and the consequences have been dire. Even though managing inflation is an essential objective of central banks, the central bank of Nigeria (CBN) has made achieving price stability as its main monetary policy thrust over the past decade. According to Umaru and Zubairu (2012), the emphasis given to price stability in the conduct of monetary policy is with a view to promoting sustainable growth and development as well as strengthening the purchasing power of the domestic currency amongst others. The central bank employs the monetary targeting strategy in the conduct of its monetary policy. This is based on the assumption of a stable and predictable relationship between money supply and inflation (Osuji, 2020).

Inflation erodes the purchasing power of the naira over time. As the price of goods goes up, money (naira) purchases less and less. The consequence of inflation always certainly leads to consumers reviewing spending habits as people seek for ways to maintain equilibrium between income and expenditure. This could be reflected in eating out less, buying in bulk and switching brands from high end brands to affordable ones (Anderson, 2022). The micro effect of inflation is just as impactful as the macro effect on the national economy. Inflation needs to be studied based on its impact on households (micro) as well as on the nation (macro) generally. While many studies have examined the impact of inflation on economic growth in Nigeria, very few studies is being done to ascertain the impact of inflation on household consumption and lifestyle of families.

Data on headline inflation available at the Central Bank of Nigeria website shows that in March 2022, the consumer price index (CPI) which measures inflation increased to 15.92 percent on year-on-year basis. Increases were recorded in all Classification of Individual Consumption by Purpose (COICOP) divisions that yielded the Headline index. On month-on-month basis, the Headline Index increased to 1.74 percent in March 2022, this is 0.11 percent points higher than the rate recorded in February 2022 (1.63 percent). The percentage change in the average composite CPI for the twelve months period ending March 2022 over the average previous twelve months period is 16.54 percent, this shows 0.19 percent points decrease compare to 16.73 percent recorded in February 2022. The Urban Inflation rate increased to 16.44 percent year-on-year in March 2022. On a month-on-month basis, the Urban Index rose to 1.76 percent in March 2022, this was up by 0.11 percent points from the rate recorded in February 2022 (1.65 percent) (CBN, 2022). The corresponding twelve-month year-on-year average percentage change for the urban index was 17.10 percent in March 2022. This was lower than 17.29

percent reported in February 2022 (Proshare, 2022). In a layman's understanding, inflation rose for 2022 but not as high as the levels of 2021. In other words, prices are going up, but not in the same rate at which they were accelerating in 2021, but commodity prices for 2022 are way higher than they



Courtesy: NBS, FDC Think-Tank (2022)

The impact of inflation on households particularly middle and low income households seem more pronounced than high earning homes. With the highest levels in over two decades, there is no doubt continued increase in inflation is hitting household purchasing power and likely restraining spending. Price sensitivity is starting to show up according to Cohen (2022). The author stated that there is a threshold that consumers do not want to go over. At this point, consumers are weighing everything, from energy prices, food prices to educational costs (school fees). They are also making decisions based on their income. These decisions is not just impacting on lifestyles and living costs, but long-term including the educational future of children as well as investments. Lifestyle choices, such as what to wear and where to live are impacting on discretionary expenses. Savings is also hard hit, as families may find it difficult to save, given that prices of basic commodities are arising and they must meet those basic needs in the wake of stagnated wages. Others are forced to even save during these times, fearing the worst is yet to come. There are also cases where the interest on savings is not even meeting up with inflation, thereby reducing the value of investments. The impact of inflation on households is huge. Thus, this study reviews the adjustment strategies of families and how urban inflation is impacting on the financial adjustment strategies of families in Akwa Ibom State.

Statement of the Problem

The positive effect of the increase in the national minimum wage has been fast swallowed up by burgeoning inflation. Month by month CPI data in Nigeria shows a steady rise in inflation. Utilities (including energy costs) food and essentials are highly impacted by inflation. This is leaving most households with tough choices to make as regards education, feeding and lifestyle choices. Clearly, consumers will not all do the same thing and every category is going to be impacted differently and even in the same category of income, the impact will differ based on personal choices. Economists note that over most periods, the inflation level in prices is roughly similar to those across urban areas with similar income level and so they reason that, on average, over time, people's economic status is not greatly changed by inflation. If all prices, wages, and interest rates adjusted automatically and immediately with inflation, then, no one's purchasing power, profits, or real loan payments would change. However, if other economic variables do not move exactly in sync with inflation, or if they adjust for inflation only after a time lag, then inflation can cause three types of problems-blurred price signals, unintended redistributions of purchasing power and difficulties in long-term planning, all of which have serious implications for middle income countries like Nigeria. This would imply that people would slip back into poverty without even knowing, income and savings are eroded with higher spending on commodities and lowered interest on savings. Either way, households would most certainly be impacted negatively. This study thus, reviews the impact of urban inflation on household finances and adjustment in Akwa Ibom State.

Purpose of the Study

The objective of this study is to determine how inflation predict household adjustments by families in Akwa Ibom State. Specifically, the study will seek to determine:

1. the predictive influence of inflation on lifestyle adjustments by families in Akwa Ibom State.
2. the predictive influence of inflation on long-term financial planning by families in Akwa Ibom State.

Research Questions

The following research questions were stated for the study

1. What is the predictive influence of inflation on lifestyle adjustments by families in Akwa Ibom State?

2. What is the predictive influence of inflation on long-term financial planning by families in Akwa Ibom State?

Research Hypotheses

The following null hypotheses were formulated and tested at 0.05 level of significance.

Ho_1: Urban inflation does not have a significant predictive influence on lifestyle adjustments by families in Akwa Ibom State.

Ho_2: Urban inflation does not have a significant predictive influence on long-term financial planning by families in Akwa Ibom State.

Literature Review

Inflation is an economic term describing the sustained increase in prices of goods and services within a period. One impact of inflation is that it erodes the economic power of consumers, that is, the purchasing power of consumers decreases as money only buys less of what it used to buy. Inflation requires prices to rise across a "basket" of goods and services, such as the one that comprises the most common measure of price changes, the consumer price index (CPI) (Floyd, 2021).

An effect of inflation is blurred prices. Prices are the messengers in a *market economy,* conveying information about conditions of demand and supply. Inflation blurs those price messages. Inflation means that price signals are perceived more vaguely. If the static becomes severe, it is hard to tell what is happening. High and variable inflation means that the incentives in the economy to adjust in response to changes in prices are weaker. Markets will adjust toward their equilibrium prices and quantities more erratically and slowly, and many individual markets will experience a greater chance of surpluses and shortages. Another way of thinking about these blurred price signals is that inflation causes *price confusion* and *money illusion.* Typically, when prices of products rise, people can interpret the changing price with higher demand or greater scarcity, and adjust their purchasing behavior accordingly. When all prices are rising, people are less able to interpret signals from the changing price. Money illusion occurs when people mistake changes in nominal prices with changes in real (or relative) prices and might change their purchasing behavior even if there is no change in their purchasing power(Floyd, 2021).

According to Floyd (2021), inflation can make long-term planning difficult. This is particularly the case for middle income, poor homes and even for the rich. When household purchasing power decreases as a result of inflation, it does not with it reduce fixed expenditures. On the contrary, fixed expenditures only cost more and, in some cases, go up as it is in Nigeria, where companies are reducing quality, reducing quantity but increasing prices for goods due to inflation. This view is echoed by Smialek (2022) who averred that high or unpredictable inflation that is not outmatched by wage gains can be especially hard to shoulder for poor people, simply because they have less room to wiggle. Poor households spend a bigger chunk of their budgets on necessities (food, housing and utility which is often a contributor to bouts of high inflation) and less on discretionary expenditures. For lower income households, price increases eat up more of their income, this in effect, impacts on lifestyle, buying behaviour and long-term planning. Inflation will catalyse adjustments by all stakeholders in the economy. One way to gauge what lies ahead is to look at how the adjustments will play out through the intertwined savings and investments channels. Household response to hardening interest rates will hugely influence both savings and investment. Not only are households the most important source of domestic savings, they are now also critical to deployment of bank credit as personal loans are almost on a par with industrial lending.

Theoretical Framework

Structural theory of inflation has been put forward as an explanation of inflation in the developing countries like Nigeria. The well-known economists, Myrdal and Straiten who proposed this theory analysed inflation in these developing countries in terms of structural features of their economies. Myrdal and Straiten explained inflation with developing economies in focus. They argue that existence of structural imbalance in economic, political and social systems accounts for disproportionate response of output to increase in investment spending and money supply. They further contend that savings in these economies are often inadequate to finance planned level of investment, thereby prompting the use of deficit finance. The economists identify low agricultural output, resource, foreign exchange, and infrastructural constraints as major obstacles to output response to rising demand following an increase in money supply. They contend that low agricultural output, budget constraint, scarcity of foreign exchange, and infrastructural challenges are major obstacles to output growth in developing economies and that in the light of these challenges, an increase in money supply produces a less proportionate increase in output, thereby pushing up the price level. The proponents therefore posit that aggregate demand-supply inflation model cannot appropriately explain inflation in developing economies (Okoye, et al, 2019).

Empirical Studies

A growing body of theoretical and empirical studies exits which provides evidence that sustained and therefore likely predictable high rates of inflation can have adverse consequences either for an economy"s long – run rate of real growth or for its long – run level of real activity (See Barro (1995), B

A growing body of theoretical and empirical studies exits which provides evidence that sustained and therefore likely predictable high rates of inflation can have adverse consequences either for an economy"s long – run rate of real growth or for its long – run level of real activity (See Barro (1995), B

A growing body of theoretical and empirical studies exists which provides evidence that sustained and likely predictable high rates of inflation can have adverse consequences either for an economy's long – run rate of real growth as well as on individual households.

Numerator in 2021 reported on a sentiment survey of 600 consumers conducted in June/July shows the following key findings: 4 in 5 (83%) of those surveyed said they noticed price increases on their commonly purchased groceries or household essentials in June & July; Two-thirds of consumers (66%) expect prices of groceries and essentials to further increase in the next 6 months -- 50% expect a slight increase, and 16% expect a significant increase in price; Those expectations translate into concern. Over half (54%) of consumers are moderately or significantly concerned about future price increases, with low purchasing power consumers 1.7x more likely to say they were extremely concerned than consumers with high purchasing power (39% vs. 23%). On consumer response to inflation, they reported over half of consumers (55%) said they had changed their shopping behavior due to price increases in the past month. The top three strategies for managing an inflationary environment (in order) are: switching to lower priced brands; pursuing promotions and discounts; and cutting back on discretionary spend- 49% of consumers plan to switch to lower priced brands with slight inflation, 60% plan to switch with significant inflation; 45% will seek out additional discounts and promotions with slight inflation, 50% with significant inflation; and 36% plan to cut discretionary spend with slight inflation, 49% with significant inflation.

Effah and Adusei-Poku (2017) studied the effect of inflation on consumer spending behaviour in Ghana? The analysis of the results was done using Ordinary least square test (OLS), the Johansen test (JH), and Vector Error Correction (VECM) test. The findings of the studies based on the JH tests showed stable significant long run relationship between inflation and consumer spending behaviour. The findings of the study show significant short run relationship between inflation and consumer spending using the VECM.

The results of the OLS test show there is positive relationship between inflation and consumer spending behaviour.

Methodology

The researcher employed the descriptive survey research deign. The population of the study consists of families mainly parents in Uyo metropolis of Akwa Ibom State. The sample size of this study consist 1000 families in Uyo metropolis. Accidental sampling technique was employed in the sampling procedure. The researcher employed both qualitative and quantitative research design. Both primary and secondary data was used for the study. Data on inflation was obtained from the National Bureau of Statistics (NBS) publications. Household and family financial information was gotten from interviews and the use of questionnaire on residents on the city of Uyo, Akwa Ibom State. The questionnaire was validated by experts in Economics and sociology. The instruments were tested for reliability using the test retest method on 30 respondents. The collated scores were then subjected to a Cronbach alpha reliability test, which gave a value of 0.82. The instrument was administered on residents of the city at banks, malls, major markets and entertainment centres. Panel Regression data analysis was used to test the null hypotheses at .05 level of significance.

Model Specification

To test the hypotheses, a multiple regression analysis is applied to investigate the impact of inflation on household lifestyle adjustments; long-term financial planning. Thus, a general multiple regression model was developed in this study as follows:

$$UINFLi = \beta 0 + \beta 1 HLFA + \beta 2 LTFP + \alpha$$

Where:
UINFLi = Urban Inflation
$\beta 0$ = Constant (intercept)

HLFA = Household Lifestyle Adjustments
LTFP = Long-Term Financial Planning
α = the error

The decision was based on 5% (0.05) level of significance. The null hypothesis (Ho) will be accepted, if the Prob (F-statistic) value is greater (>) than the stated 5% level of significance, otherwise reject.

Presentation of Findings

Table 1: Analysis of percentage change in respondents' behaviour with respect to increase in prices of commodities

How has inflation made you engage in the following cost saving measures?	last year Inflation	current year Inflation	% change
Switch to lower priced brands	33%	67%	103.0%
Seek out additional discounts and promotions (bargaining more at the market for lower prices)	40%	70%	75.0%
Cut back on non-essential/discretional spending	36%	59%	63.9%
Purchase more store brand products	36%	56%	55.6%
Switch to lower priced retailers (buy from smaller shops)	32%	48%	50.0%
Purchase items in bulk	30%	33%	10.0%
Purchase fewer premium products	32%	48%	50.0%
have not changed behavior	30%	15%	-50.0%

Table 1 presents the cross tabulation of respondents' comparative behavioural change with respect inflation for last year (2021) and the current year (2022). The result shows over a 100% increase in switching to lower brands between last year and the current year (2022). The result also shows that people are bargaining more at the market than they were last year. This is in order to get a good deal for their money. The result further shows that 63.9% more families are cutting back on non-essential spending. However, the result shows that only 10% more persons are buying in bulk, but 50% more respondents have changed their behaviour as a result of inflation.

Table 2: Summary of Pearson Correlation Matrix

		UINFL	*HLFA*	*LTFP*
UINFL	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	970		

HLFA	Pearson Correlation	.852*	1	
	Sig. (2-tailed)	.012		
	N	970	970	
LTFP	Pearson Correlation	.175	.248	1
	Sig. (2-tailed)	.849	.793	
	N	970	970	970

Table 2 shows the correlation matrix for the study variables. The result shows that urban inflation (UINFL) has a very high positive relations with household lifestyle adjustments (HLFA) (.852) and Long-Term Financial Planning, LTFT (.849). Similarly, household lifestyle adjustments (HLFA) is also significantly related to Long-Term Financial Planning, LTFT (.793).

Research Hypotheses

Ho$_1$: Urban inflation does not have a significant predictive influence on lifestyle adjustments by families in Akwa Ibom State.

Table 3: Summary of Panel Regression Test for significant predictive influence on lifestyle adjustments by families

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	-7.065	2.970		-2.378	.041	-7.065
	HLFA 1.242	.187	.826	6.657	.000	1.242
R^2 =0.872; Adj. R^2 =0.843; *F*-Statistic 30.567, *P*-Value (*F*-Statistics) .000						

Table 3 gives the summary of the regression test for significance. The result shows that every unit rise in inflation increases household lifestyle adjustments (HLFA) of families by .1.242. The probability value(*F*-Statistics) is .000. Since P<.05 $_{(.000)}$, the result is statistically significant. Thus, urban inflation has a significant predictive influence on lifestyle adjustments by families in Akwa Ibom State.

Ho_2: Urban inflation does not have a significant predictive influence on long-term financial planning by families in Akwa Ibom State.

Table 4: Summary of Panel Regression Test for significant predictive

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.130	5.570		.023	.982
	LTFP	1.515	.350	.749	4.329	.002
R^2 =0.75; Adj. R^2 =0.695; *F*-Statistic 13.51, *P*-Value (*F*-Statistics) .002						

Table 4 gives the summary of the regression test for significance. The result shows that every unit rise in inflation increases long-term financial planning (LTFP) of families by .1.515. The probability value(*F*-Statistics) is .002. Since $P<.05_{(.002)}$, the result is statistically significant. Thus, urban inflation has a significant predictive influence on long-term financial planning by families in Akwa Ibom State.

Discussion of Findings

The findings of the study show that inflation significantly influences households' lifestyle choices and savings. Lifestyle choices include managing energy costs, like running generator less, changing children schools to less expensive schools, clothing decisions based on lowered expenditures, food purchase patterns and cutting down on recreational activities that cut into family finances. Long term investments impacted by inflation includes personal housing projects, other investments outside of salaries for salary earners, depleted savings due to rising expenditures and stagnated wages. These findings are in line with Numerica (2021) which reported over half of consumers (55%) said they had changed their shopping behavior due to price increases in the past month. The top three strategies for managing an inflationary environment (in order) are: switching to lower priced brands; pursuing promotions and discounts; and cutting back on discretionary spend-49% of consumers plan to switch to lower priced brands with slight inflation, 60% plan to switch with significant inflation; 45% will seek out additional discounts and promotions with slight inflation, 50% with significant inflation; and 36% plan to cut discretionary spend with slight inflation, 49% with significant inflation. this finding is further supported by Effah and Adusei-Poku (2017) who found a positive relationship between inflation and consumer spending behaviour.

Conclusion

The aim of the current paper is to examine the effect of urban inflation on household financial adjustments in Uyo, Akwa Ibom State. Based on the findings of the study, it is concluded that inflation has a significant effect on household adjustment strategies. It is concluded that urban inflation influences lifestyle choices and long-term savings of families in Akwa Ibom State.

Recommendations

Based on the findings of the study, the following recommendations are made

1. Policy makers should take the findings of the current study into consideration in managing the economy since inflation induces *consumer spending behaviour, which in turn, affects the economy.*
2. *The results also highlights the importance of non-standard monetary* policy measures in helping to stabilize inflation and thereby providing support for economic recovery.

References

Anderson, G. (2022). What inflation-era consumer behavior should we expect next? Available at https://retailwire.com/discussion/what-inflation-era-consumer-behavior-should-we- expect-next/

Central Bank of Nigeria, CBN (2022).Inflation rates (percent) (2022). Available at https://www.cbn.gov.ng/rates/inflrates.asp

Cohen, M. (2022). Shoppers Reach Their Limits on Some Price Increases. Wallstreet Journal. Available at https://www.wsj.com/articles/shoppers-reach-their-limits-on-some-price-increases-11647509580

Effah, N. G. and Adusei-Poku, E. (2017). What is the effect of inflation on consumer spending behaviour in Ghana? Munich Personal RePEc Archive. MPRA Paper No. 81081.

Financial Derivatives Company, FDC (2022). FDC economic monthly publication – April 11, 2022. https://fdcng.com/fdc-economic-monthly-publication-april-11-2022/

Floyd, D. (2021). 10 Common Effects of Inflation. https://www.investopedia.com/articles/insights/122016/9-common-effects-inflation.asp.

Numerator (July 20, 2021). Inflation Is Changing Purchasing Behavior For Majority Of Consumers, Numerator Reports. Available at https://www.prnewswire.com/news- releases/inflation-is-changing-purchasing-behavior-for-majority-of-consumers-numerator- reports-301337357.html. Accessed 10/10/2021.

Okoye, I. O., Olokoyo, F. O., Ezeji, F. N., Okoh, J. I. & Evbuomwan, G.O. (2019). Determinants of behavior of inflation rate in Nigeria. Investment Management and Financial Innovations, 16(2), 25-36. doi:10.21511/imfi.16(2).2019.03.

Osuji, O. (2020). Effect of Inflation on Household Final Consumption Expenditure in Nigeria. Journal of Economics and Development Studies. 8(1),104-111

Proshare (April 16, 2022). Headline Inflation Increases by 15.92% YoY in March 2022 as Food Inflation Rises by 17.20%. https://www.proshareng.com/news/Nigeria%20Economy/Headline-Inflation-Increases- by-15.92Percent-YoY-in-March-2022-as-Food-Inflation-Rises-by-17.20Percent/62504

Smialek, J. (2022). Inflation Has Arrived. Here's What You Need to Know. https://www.nytimes.com/article/inflation-definition.html.

Umaru, A. & Zubairu, A. A. (2012). Effect of Inflation on the Growth and Development the Nigerian Economy (An Empirical Analysis). International Journal of Business and Social Science. 3(10), 183-191.