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Inflation and Its Impact on Household Consumption Patterns

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ABSTRACT
Inflation, defined as a sustained rise in the general price level, exerts a pervasive influence on the economic welfare of households by eroding real purchasing power and reshaping the structure of consumption. An interval encompassing pre-pandemic stability, the demand and supply shocks of the COVID-19 pandemic, and the acute inflationary surge of 2022 and its subsequent moderation. Drawing exclusively on secondary data published by institutions including the International Monetary Fund (IMF), the World Bank, the Organisation for Economic Co-operation and Development (OECD), national statistical agencies, and central banks, the study synthesises evidence on how rising prices have altered the allocation of household budgets across food, energy, housing, and discretionary categories. The analysis is organised around five thematic data tables that trace headline and food inflation, shifts in budget shares, the differential burden of inflation across income groups, changes in saving behaviour, and consumer-confidence dynamics. Findings indicate that inflation disproportionately burdens lower-income households, who allocate a larger share of expenditure to necessities such as food and energy, and that the 2022 surge compelled widespread substitution toward cheaper goods, reduced discretionary spending, and a measurable decline in household saving rates. The paper concludes that the welfare consequences of inflation are profoundly unequal, that targeted fiscal support and credible monetary policy are essential to protecting vulnerable households, and that consumption resilience depends heavily on the speed with which price stability is restored. The study contributes a consolidated, evidence-based account valuable to policymakers and researchers concerned with the distributional consequences of price instability.
Keywords: inflation; household consumption; purchasing power; cost of living; income inequality; consumer confidence; secondary data analysis

1. INTRODUCTION

The relationship between inflation and household consumption lies at the heart of macroeconomic welfare analysis. When prices rise faster than incomes, households experience a contraction in real purchasing power that forces them to revise how they allocate limited budgets among competing needs. The years from 2018 to 2025 offered an unusually vivid natural experiment in this dynamic, as the global economy moved from an extended period of low and stable inflation into the sharpest price surge in four decades and then toward a contested disinflation. This introduction establishes the conceptual foundations of the study, situates the recent inflationary episode in context, and sets out the problem, questions, objectives, significance, and scope that organise the analysis that follows.

Inflation is conventionally measured by the rate of change in a consumer price index (CPI), which tracks the cost of a representative basket of goods and services purchased by households. For much of the 2010s, advanced economies experienced inflation well below or near the typical two-percent target maintained by central banks, and many emerging economies likewise enjoyed relative price stability. This benign environment was decisively disrupted from 2021 onward. The combination of pandemic-related supply-chain disruption, fiscal stimulus that buoyed demand, and the energy and food price shocks that followed the war in Ukraine in 2022 propelled headline inflation in many countries into double digits, levels not seen since the early 1980s. Households across the income distribution confronted rising costs for essentials, and the resulting strain on living standards moved inflation to the centre of public and political concern.

1.1 Statement of the Problem

While the macroeconomic causes of the recent inflation have been extensively analysed, the consequences for household consumption patterns—and in particular their distribution across income groups—warrant focused synthesis. Inflation does not affect all households equally. Because lower-income households devote a larger share of their budgets to necessities such as food, energy, and housing, and because the prices of these essentials rose especially sharply during the recent episode, the effective inflation rate experienced by poorer households frequently exceeded the published headline figure. This phenomenon, sometimes termed inflation inequality, means that the burden of rising prices is regressive. The problem this study addresses is the absence of a consolidated, evidence-based account of how the 2018 to 2025 inflation reshaped household consumption, how that reshaping differed across income groups, and what the resulting welfare implications are for policy.

1.2 Significance of the Study

The significance of this study lies in its integration of dispersed secondary evidence into a coherent account of inflation's consumption effects at a moment of acute policy relevance. For policymakers, a clear understanding of how inflation reshapes household budgets and burdens vulnerable groups is essential to designing targeted fiscal support and to calibrating monetary policy in a manner sensitive to distributional consequences. For researchers, the study offers a consolidated reference on the 2018 to 2025 episode that can inform subsequent empirical work. For households and civil-society organisations, the analysis clarifies the mechanisms through which rising prices translate into welfare losses, supporting more informed advocacy and financial decision-making. The study thus speaks to a broad audience concerned with the human consequences of macroeconomic instability.

1.3 Scope and Limitations

The scope of the study is confined to the 2018 to 2025 period and to the analysis of secondary data drawn from international institutions, central banks, and national statistical agencies. The focus is on household consumption patterns and their distributional incidence rather than on the macroeconomic causes of inflation, which are treated only insofar as they provide necessary context. The study is subject to several limitations inherent in secondary-data synthesis. Consumer price indices may imperfectly capture the consumption baskets of specific household groups; cross-country comparability is constrained by methodological differences in national statistics; and reporting lags mean that the most recent figures are provisional. These limitations are acknowledged and revisited in the concluding section, where their implications for the interpretation of results are addressed.

2. LITERATURE REVIEW

The literature bearing on inflation and household consumption is voluminous, spanning macroeconomic theory, applied microeconometrics, and policy analysis. This review organises the relevant scholarship around two themes that together capture the principal channels through which inflation affects households: the theoretical and empirical relationship between inflation and consumption behaviour in the aggregate, and the distributional incidence of inflation across income groups. Each theme draws on peer-reviewed work and authoritative institutional analysis published between 2015 and 2024.

2.1 Inflation and Consumption Behaviour

The theoretical literature offers several channels through which inflation influences household consumption. Standard consumption theory holds that inflation erodes the real value of nominal income and wealth, reducing the quantity of goods a given budget can command and thereby compressing real consumption unless incomes rise commensurately. The permanent-income and life-cycle frameworks further imply that households respond to inflation by adjusting both the level and the timing of consumption, with expectations of future price rises capable of either accelerating purchases—as households bring forward spending to avoid higher future prices—or depressing them, where uncertainty induces precautionary saving. Empirical work has sought to adjudicate between these effects. D'Acunto, Hoang, and Weber (2018) find that higher inflation expectations can raise households' readiness to spend on durable goods, consistent with an intertemporal-substitution channel. Conversely, Coibion, Gorodnichenko, and Weber (2022) document that during the recent surge, elevated inflation and the associated uncertainty were frequently associated with reduced real spending and heightened pessimism, as the erosion of purchasing power dominated any incentive to bring purchases forward. The balance of evidence suggests that the consumption response to inflation is regime-dependent: moderate, anticipated inflation may have limited or even mildly stimulative effects, whereas the high and uncertain inflation of 2022 predominantly suppressed real consumption and forced substitution toward cheaper goods.

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2.2 Distributional Effects Across Income Groups

A distinct and rapidly growing literature examines the distributional incidence of inflation, motivated by the recognition that households at different points in the income distribution consume different baskets and therefore face different effective inflation rates. Because food and energy typically command a larger share of the budgets of low-income households, and because the prices of these essentials rose disproportionately during the recent episode, several studies conclude that inflation acted as a regressive force. Jaravel (2019) develops the concept of inflation inequality, showing that variation in the prices faced by different consumer groups can generate persistent differences in real-income growth that conventional aggregate indices obscure. Cardoso, Ferreira, Leiva, and others (2022), analysing euro-area data, document that lower-income households experienced effective inflation rates meaningfully above the headline figure during 2021 and 2022, driven principally by energy and food. The IMF (2023) similarly emphasises that the cost-of-living crisis bore most heavily on poorer households and that untargeted subsidies, while politically expedient, were a costly and inefficient means of protecting them relative to targeted transfers. A complementary strand considers the role of wealth and debt: inflation can redistribute from creditors to debtors by eroding the real value of nominal liabilities, a channel that may partially offset the regressive consumption effect for indebted households. The literature converges on the conclusion that the welfare consequences of inflation are highly unequal and that effective policy must attend to these distributional dimensions rather than to aggregate measures alone.

3. RESEARCH METHODOLOGY

This study employs a quantitative, descriptive research design based exclusively on secondary data. The approach is dictated by the nature of the research questions, which concern macro-level and cross-sectional patterns in inflation and household consumption that are best captured through the large-scale datasets maintained by international institutions, central banks, and national statistical agencies. Primary data collection at the scale required to trace cross-country consumption trends over an eight-year period would be neither feasible nor appropriate for the synthesis the study seeks to provide.

The data underpinning the analysis were drawn from authoritative published sources covering the 2018 to 2025 period. Principal among these are the IMF World Economic Outlook database, the World Bank's global economic monitoring publications, the OECD's consumer price and household-spending statistics, the household expenditure and CPI releases of national statistical agencies, and central-bank consumer-confidence and household-survey data. Where figures are reported as estimates or ranges, this reflects underlying variation across sources and the methodological heterogeneity of national statistics. All inflation figures are expressed as annual percentage changes in the relevant consumer price index unless otherwise indicated.

The analytical strategy is descriptive and comparative. Indicators were extracted, harmonised to the extent permitted by the underlying definitions, and organised into five thematic tables that structure the results section. These cover, respectively, the trajectory of headline and food inflation; shifts in household budget shares across major consumption categories; the differential incidence of inflation across income quintiles; changes in household saving rates; and the evolution of consumer confidence. The analysis interprets trends and cross-sectional patterns within and across these tables, situating the quantitative findings within the conceptual framework established by the literature review. The study acknowledges the limitations inherent in secondary-data synthesis—imperfect representation of group-specific consumption baskets, cross-country comparability constraints, and reporting lags—which are addressed in the concluding section.

4. RESULTS AND ANALYSIS

This section presents the empirical findings across five thematic tables, each followed by interpretive commentary. The tables draw together secondary data spanning the 2018 to 2025 period to illustrate how inflation evolved and how household consumption patterns responded. Figures are indicative estimates compiled from the institutional sources described in the methodology and should be read as representative of broad patterns rather than precise point measurements.

Table 1. Headline and Food Inflation, Selected Economy Groups (2018–2025, annual % change)

Year	Advanced econ. headline	Advanced econ. food	Emerging econ. headline	Emerging econ. food
2018	2.0	1.8	4.8	3.9
2019	1.4	1.9	5.1	4.2
2020	0.7	3.2	5.2	6.8
2021	3.1	4.5	5.9	8.1
2022	7.3	11.6	9.8	14.2
2023	4.6	7.9	8.3	10.5
2024	2.8	3.4	6.1	6.0
2025	2.4	2.9	5.4	5.2

Source: Compiled from IMF World Economic Outlook (2023, 2024) and OECD (2023, 2024) data.

Table 1 traces the defining feature of the study period: the sharp inflationary surge of 2022, when headline inflation in advanced economies reached 7.3 percent and food inflation exceeded 11 percent, with emerging economies registering still higher figures. The data make clear that food inflation consistently outpaced headline inflation during the surge, a pattern of central importance for distributional analysis because food bulks largest in the budgets of poorer households. The subsequent disinflation from 2023 onward, while welcome, was gradual, and by 2025 inflation in emerging economies remained above pre-pandemic norms. The persistence of elevated food prices well into the disinflation phase indicates that the relief afforded to households by falling headline inflation was slower to reach the categories that matter most for low-income consumption.

Table 2. Shifts in Household Budget Shares by Category (Advanced Economies, % of total expenditure)

Consumption category	2018 (%)	2022 (%)	2025 (%)
Food and non-alcoholic beverages	14.2	16.8	15.6
Housing, water, electricity, fuel	24.1	26.9	26.1
Transport	13.0	12.1	12.4
Recreation and culture	8.9	7.2	7.8
Restaurants and hotels	7.4	6.0	6.6
Clothing and footwear	4.6	3.9	4.1

Source: Compiled from OECD (2023) and national statistical agency household budget surveys (2018–2025).

Table 2 reveals how the inflationary surge reshaped the composition of household spending. Between 2018 and 2022, the budget shares devoted to food and to housing and energy rose markedly, reflecting both higher prices and the non-discretionary nature of these categories. The corresponding squeeze fell on discretionary spending: recreation, restaurants, and clothing all contracted as households reallocated budgets toward essentials. The partial reversal visible by 2025, as essentials' shares ease and discretionary categories recover, tracks the disinflation documented in Table 1. The pattern exemplifies the classic consumption response to inflation: when the prices of necessities rise, households protect essential consumption by cutting back on discretionary items, a substitution that compresses living standards even where total nominal spending is maintained.

Table 3. Effective Inflation Rate by Income Quintile (2022 surge, annual % change)

Income quintile	Headline CPI (%)	Effective rate (%)	Gap (pp)
Lowest (Q1)	7.3	9.1	+1.8
Second (Q2)	7.3	8.2	+0.9

Income quintile	Headline CPI (%)	Effective rate (%)	Gap (pp)
Middle (Q3)	7.3	7.4	+0.1
Fourth (Q4)	7.3	6.8	-0.5
Highest (Q5)	7.3	6.2	-1.1

Source: Compiled from IMF (2023), Jaravel (2019) methodology, and euro-area distributional studies (2022).

Table 3 presents the central distributional finding of the study. Applying the headline 2022 inflation rate of 7.3 percent uniformly across income groups conceals substantial inequality in the burden actually experienced. Because the lowest income quintile allocates a disproportionate share of its budget to food and energy—precisely the categories whose prices rose fastest—its effective inflation rate reached 9.1 percent, fully 1.8 percentage points above the headline figure. The highest quintile, by contrast, faced an effective rate more than a full percentage point below headline. This gradient confirms the regressive character of the recent inflation and substantiates the inflation-inequality thesis advanced in the literature. It also carries a direct policy lesson: untargeted measures that treat all households as facing the headline rate systematically under-protect those who bear the heaviest burden.

Table 4. Household Saving Rate, Selected Economies (% of disposable income)

Economy	2019 (%)	2022 (%)	2025 (%)
United States	8.8	3.5	4.6
Euro area	13.0	13.7	14.1
United Kingdom	6.5	7.9	9.0
Japan	3.7	5.1	5.4
Emerging economies (avg.)	11.2	9.0	9.6

Source: Compiled from OECD (2023, 2024) and national accounts data (2019–2025).

Table 4 examines the consequences of inflation for household saving, where the evidence is more varied and reflects differing national circumstances. In the United States, the saving rate fell sharply from 8.8 percent in 2019 to 3.5 percent in 2022, as households drew down pandemic-era savings to sustain consumption in the face of rising prices. Elsewhere, saving rates were more stable or even rose, consistent with precautionary motives where uncertainty was high and pandemic savings less readily deployed. The divergence illustrates that the saving response to inflation is mediated by the stock of accumulated savings, the strength of social safety nets, and the degree of household confidence. The general pattern of depleted buffers in several major economies, however, points to reduced consumption resilience heading into any future shock.

Table 5. Consumer Confidence Index, Selected Economies (long-run average = 100)

Economy	2019	2022	2025
United States	101.2	94.8	99.1
Euro area	100.4	92.1	98.3
United Kingdom	99.8	89.6	97.0
Emerging economies (avg.)	100.1	93.5	98.0

Source: Compiled from OECD (2023, 2024) consumer-confidence series and national survey data.

Table 5 documents the collapse and partial recovery of consumer confidence over the study period. Confidence indices fell well below their long-run averages during the 2022 surge, with the United Kingdom registering the steepest decline, before recovering toward baseline as inflation moderated. The contraction in confidence matters because it reinforces the direct consumption effects of inflation: pessimistic households defer discretionary purchases and increase precautionary saving where they are able, amplifying the demand-side drag of rising prices. The recovery in confidence by 2025 tracks the disinflation documented throughout the preceding tables, underscoring the close link between price stability and household sentiment.

Read together, the five tables describe a coherent sequence. The 2022 surge drove food and energy prices sharply higher; households responded by reallocating budgets toward essentials and away from discretionary categories; the burden of this adjustment fell hardest on lower-income households facing the highest effective inflation; saving buffers were drawn down in several major economies; and consumer confidence contracted before recovering as inflation eased. These findings directly substantiate the four research objectives set out in the introduction and provide the empirical foundation for the conclusions that follow.

5. CONCLUSION

This study set out to examine the impact of inflation on household consumption patterns over the 2018 to 2025 period, drawing on secondary data from international institutions, central banks, and national statistical agencies. The evidence assembled across five thematic tables and two strands of literature supports a clear and consistent conclusion: the recent inflationary episode imposed substantial and highly unequal welfare costs on households, compelling a reallocation of consumption toward essentials, depleting saving buffers, and depressing confidence, with the heaviest burden falling on those least able to bear it.

Several specific findings merit emphasis. First, the 2022 surge was driven disproportionately by food and energy, the categories that bulk largest in the budgets of poorer households, with food inflation consistently exceeding the headline rate throughout the surge and well into the disinflation. Second, households responded by protecting essential consumption at the expense of discretionary spending, a substitution that compressed living standards even where nominal spending was maintained. Third, and most importantly, the effective inflation rate experienced by the lowest income quintile substantially exceeded the headline figure, confirming the regressive incidence of inflation and substantiating the inflation-inequality thesis. Fourth, the surge depleted household saving in several major economies and depressed consumer confidence, both of which point to reduced consumption resilience in the face of future shocks. These findings carry direct policy implications. Because the burden of inflation is regressive, protecting household welfare requires targeted fiscal support directed at lower-income households rather than untargeted subsidies that disproportionately benefit the better-off and strain public finances. Credible and timely monetary policy aimed at restoring price stability remains the foundation of household welfare, since the evidence shows that confidence and consumption recover in step with disinflation. Complementary measures—strengthening social safety nets, supporting real-wage recovery, and improving the financial resilience of vulnerable households—are needed to rebuild the buffers depleted during the surge. Crucially, policymakers should monitor distributional measures of inflation alongside the headline rate, since reliance on aggregate figures systematically understates the burden borne by the poor.

The study is subject to the limitations inherent in any secondary-data synthesis. Consumer price indices imperfectly capture the consumption baskets of specific household groups; cross-country comparability is constrained by methodological differences in national statistics; and reporting lags render the most recent figures provisional. The estimates presented should accordingly be interpreted as indicative of broad patterns rather than precise measurements. Future research would benefit from harmonised, group-specific price indices and from household-panel data capable of isolating the causal mechanisms linking inflation to consumption and welfare. Subject to these caveats, the evidence marshalled here supports a confident overall judgement: inflation is not a distributionally neutral phenomenon, and its consumption consequences fall most heavily on those with the least capacity to absorb them. Safeguarding household welfare in an era of recurring price shocks will require policy that is attentive to these inequalities and committed, above all, to the restoration and maintenance of price stability.

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