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THE EFFECT OF GLOBAL FINANCIAL CRISIS ON CONSUMPTION BEHAVIOUR OF HOUSEHOLDS IN KOGI STATE, NIGERIA

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ABSTRACT

The study was designed to find out the effect of global financial crisis on consumption behaviour of households in Kogi State. Three research hypotheses guided the study. Data for the study was generated by the use of structured questionnaire administered and retrieved from 600 households in the State. Likert scale method with mean point and cut-off point was used to justify if the hypothesis was to be rejected or accepted. From the analyses the mean point of hypotheses one and two were 3.2 and 2.74 as against 2.55 respectively. So we agreed that global financial crisis has great effect on income and consumption pattern of poor households in the State. Also, paired sample t-test was used to test hypothesis three and the result of t-statistics of 3.4 obtained against t-critical of 1.96 shows that financial crisis has great impact of both the poor and non-poor households in the State with greater impact on the poor than the non-poor. Based on these results, recommendations such as Governmental and Non-Governmental Organizations should collaborate among themselves to make sure that income generation is enhanced in the State , Also, Governmental and Non-Governmental Organizations in the country and Kogi State in particular should try to restore confidence of consumers by expanding marketing channels and providing Value added to the marketing of goods and services available and using reliable monitoring agencies to ensure transparency and fair trading transactions in the State among others were made.

Keywords: Global financial crisis, consumer behaviour, households, and poverty**.**

INTRODUCTION

Global financial crisis is defined as a situation where the supply of money outweighs the demand for it in all nations of the world. It is also referred to as a situation where for some reasons; some institutions lose a huge part of their financial value. Global financial crisis is a common occurrence in the world today especially in specific sectors such as banking. It has been noted that Global financial crisis which is unlike an economic crisis that affects the entire nations, can hit a single sector of an economy. It is also regarded as a situation in which some financial assets suddenly loose a large part of their nominal values. Many financial crises according to Shao (2013) are associated with bank panics which results from other panics such as, stock market crashes and boosting in other sectors like financial bubbles, currency crisis, and sovereign defaults. However, no matter the situation, financial crisis are damaging and contagious, and therefore requires prompt policy response any time it occurs. This is because financial crisis can result in deep and long- lasting recessions, and sometimes trigger sharp current account reversal (Nkoro and Uko, 2012).

Despite the fact that many economists have propounded different theories on how financial crisis can be developed and prevented, financial crisis continued to occur from time to time. Usually the major causes of financial crisis in any nation according to Frankel and Rose (1996), involves among others, bank crisis. This is the situation where banks suffer a sudden rush of withdrawals by depositors, known as bank run. Since banks lend out money out of their cash deposits, it may be difficult to quickly pay back all their deposits on the run thereby rendering the bank insolvent. This situation causes customers of the bank to lose their deposits to the extent that the deposits insurance may not cover their deposits. When the bank run is wide spread, it is referred to as a systematic bank crisis or bank panic. Another cause of financial crisis according to Hurd and Rohwedder (2010) is currency crisis. Currency crisis is defined as the process where the weighted average of the monthly percentage depreciation in exchange rate and monthly percentage in exchange reserve exceeds its mean by more than three standard deviations. Currency crisis according to Frankel and Rose (1996), is a depreciation of currency of at least 25 percent to 10 percent increase in the rate of depreciation. In general terms, currency crisis is seen as a situation where the participants in the exchange market recognizes that the pegged exchange rate is about to fall and thereby spark up speculation against the pegged that hastens the failure and forces devaluation or appreciation of the foreign exchange that results to speculation bubbles and crashes. A speculative bubble according to Allen (2010) exists in the events of large sustained over pricing of some classes of assets.

Also, coupled with the above financial crisis is international financial crisis. This is the most devastating type of crisis because itaffects any economy negatively. International financial crisis occurs when a country maintains a fixed exchange rate such that exchange rate is forced to suddenly fall or devalue due to accruing unsustainable current account deficit (Crawford, 2013). This is called balance of payment crisis. Main while, when a country fails to pay back its sovereign debt, it is called sovereign default. Usually, unsustainable macroeconomic policies, excessive credit booms, large capital inflow, and balance sheet fragilities are prominent and common patterns before the occurrence of financial crisis (Nande, 2008 and Alan, 2010). However, not all crises are preceded by such events; some crises can be contagious and can rapidly spread from one place to another with apparent vulnerability. Financial crisis is usually a difficult business environment to succeed since many potential consumers tend to reduce the purchases of goods and services until the economic situation improves (Arinze and Matthew, 2014).

According to Hurd and Rohwedder (2012) financial crisis can cause workers' earnings to fall, demand for goods and services provided by the informal sector to decline and sometimes reduces workers productivity resulting from hunger. Consumer behaviour resulting from financial crisis is influenced by both internal characteristics and external factors that represent the environment in which the individual behaviour takes place. The recent Global Financial Crisis has influenced and made an impact on the behaviour of consumers (Yakubu and Akerele, 2012). Most research work conducted on Global Financial Crisis revealed that crisis has a severe impact on spending patterns of consumers in most countries of the world. The Global Financial Crisis can also be seen as an external influence which in turn affects the psychological influence on consumers throughout the world. This means that global economic crisis is a major economic force that influences both the emotional and mental behaviour of consumers. Business expectoration on the other hand according to Arinze and Matthew (2014) can be used to identify and understand how consumers react to the difficult economic conditions within different cultures and economies. This is because the consumer behaviour is affected by two factors: the prices of goods and services, and disposable income. It means that if there is any change in these factors, the consumer changes his or her behaviour and tries to re-allocate its income and expenditure to reach a balance and maximize the benefits. However, due to the overall economic and business changes, personal income of any consumer and its growth are usually uncertain during the financial crisis. In this case, people would choose to reduce spending to maintain the total amount of nominal income and future expectations. In view of this, the study intends to find out the effect of financial crisis on consumption behavours of poor households in Kogi State, Nigeria.

Statement of the Problem

Since the great depression of the last century, the world economy has been facing financial crisis. The recent one according to Allen (2010) started in the United State of America in July 2007 where the global credit market came to a standstill due to the crisis in US mortgage industry. This manifested itself better in the year 2008 with an estimated GDP of $14 trillion. This contributed to about 25% of world output and has the largest industrial complex in the world (Hoover and Kelvin, 2013). The financial crises also have negative effect on trade for African countries. In particular, there has been a significant decline in the prices of key commodities exported by African countries since the second half of 2008. This shows that there has been a downward trend in prices of these commodity groups since the second half of 2008. The most affected commodity has been crude oil, which experienced price decline of more than 50 per cent between February 2008 and February 2009 (Nkoro and Uko (2012). It has been a challenge to predict the timing of crises. Financial markets with high leverage can easily be subject to crises of confidence, making fickleness the main reason why the exact timing of crises is very difficult to predict. Moreover, the nature of crises changes over time as economic and financial structures evolved. However, Africa’s growth rate and expected future growth pattern came down speedily after the crisis erupted in September 2008 (Fosu and Naude, 2009).

On the other hand, the global financial crisis according to Nkoro and Uko (2012) has great effect on Nigerian economy. The extent to which Nigerian economy is at risk from the effects of global financial crisis depends on, first, how vulnerable the country is to external trade and financial shocks and secondly, how resilient she is in terms of coping with the effect of the crisis. The vulnerability to trade and financial shock can be determined by Nigeria’s high dependency on exports, undiversified exports commodity, external financial inflows and rapid expansion in private sector credit (Nkoro and Uko (2012). In these cases, financial crisis typically involve large currency depreciation, which changes relative prices For example, the price of tradable rises relative to non tradable, causing earnings of those employed in the non traded goods sector to fall (Emmanuel, Mello and Inchauste, 2002). At the same time, increased export demand boosts employment and earnings in the sectors producing the exports. The opposite however exist in import demand economy. This also leads to currency devaluation or depreciation. Currency depreciation according to Crawford (2013) also affects consumer prices, and the higher cost of imported food which cause the poor individuals and households to spend much of their income on food.

Likewise, Government response to crises by tightening the monetary and fiscal policies, often result to reduction in income of households especially the poor, and wages and salaries of workers in the society (Nkoro and Uko 2012). Usually, the effect of global financial crises on banking sector, capital market, oil sector, foreign exchange rate, capital flows, goods and service market, unemployment and inflation and trade flows have negative effect on Nigeria economy (Nande, 2008 and Alan 2010). The most devastating effect of this crisis in Nigeria is on the issue of foreign exchange fluctuation and fall in global oil prices. In recent years, the global oil price which Nigeria depends upon for her major obligation in the country has been so low and that resulted into currency devaluation especially as is concerned with pound settling, U.S dollar, and Euros (Yakuk and Akerele, 2012). The result of this has led to increase in prices of imported goods and settlement of foreign debt. Financial crisis usually cause the prices of goods and services to fluctuate frequently. Likewise, with impaction of consumer expectations and rational consumption, the consumer is extremely sensitive to the price of goods and services. This is because consumers’ disposable income is recognized to be the greatest challenge for the consumers’ purchasing power and decision-making process that affect the price decision of the sellers. In view of this therefore, the question is, what is the effect of global financial crisis on consumption of households in Kogi State?

The research question

The following research questions guided the study.

1. What is the impact of financial crises on the households' income in Kogi State?
2. What is the consumption pattern of the poor households as a result of financial crisis in Kogi State?
3. What is the effect of financial crisis on living standard of the poor and non-poor households in the State

Objective of the study

The general objective of the study was to determine the effect of financial crisis on the consumption pattern of poor households in Kogi State. Specifically, the study intended:

1. To find out the impact of financial crisis on households income in Kogi State.
2. To determine the consumption pattern of poor households as a result of financial crisis in Kogi State.
3. To determine the effect of financial crisis on living standard of the poor and non-poor households in the State.

Research Hypothesis

The following research hypotheses guided the study:

1. Financial crisis has no significant effect on the households' income in kogi State.
2. Financial crisis has no effect on consumption pattern of the poor households in Kogi State.
3. Financial crisis has no effect on living standard of the poor and non-poor households in the State

Research Methodology

The study adopted descriptive survey design. The population of the study consisted of 600 households in which 120 households each that constituted respondents were randomly drawn from five Local Government Areas of Kogi State.The Local Government Areas selected for the study were Ankpa, Olamaboro, Omalla, Idah, and Igalamela-Odolu. This means that every Local Government in the State has equal right of being selected. These Local Government Areas were selected because of their poor economic setup especially in income generation and consumption behaviour in the society. A self design structured questionnaire comprising of two sections of personal data and issues on financial crisis on poor households with 4-point modified likert rating scale constituted the instrument for the study. The instrument was validated using 50 respondents each from the local governments to ascertain the reliability of the instrument. The test –retest analysis was conducted using Cronbach Alfa method. The result of the analysis of 0.75 indicated that the instrument was reliable. The analysis of the data collected was done using SSPS package.

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Analysis of Results and Discussions

The analysis of this research work was based on the research questions raised for the study. The analyses were done by the use of likert scale as shown below

Research question 1. What is the impact of financial crisis on the households' income in Kogi State?

Table 1. The effect of financial crisis on households' income in Kogi State

Responses	Frequency(F)	Scale (X)	FX
Strongly agreed	340	4	1360
Agreed	210	3	630
Disagreed	100	2	200
Strongly Disagreed	50	1	50
	∑F=700	∑X=10	∑FX=2240

Likert Scale=∑FX/∑F
Mean point of scale =∑X/N
F = Scale
N = No. of scale and Frequency
E = margin of error which is normally given at 5%=0.05
Therefore mean point of responses = ∑FX/∑F=2240/700= 3.2
Mean point of scale =∑X/N =10/4 =2.5
Cut-off point= mean point + e = 2.5+0.05=2.55.

In this case, decision rule exist where the calculated mean point is above the cut-off point. At that level, we reject the null hypothesis but where the calculated mean point is below the cut-off point, we accept the null hypothesis.

From the result of the analysis, the mean point response of 3.2 was greater than cut-off point of 2.55. So, we agreed that that financial crisis has negative effect on households' income in the State. This can be portrayed by the fact that many households especially the poor ones find it difficult in the present dispensation to generate enough money to feed themselves and their families. Likewise, the effect of devaluation and bad governance resulting from financial crisis always place many families at disadvantage and bring about decrease in income and sufferings especially among the poor.

Research question 2. What is the consumption pattern of the poor households as a result of financial crisis in Kogi State?

Table 2.The effect of financial crisis on consumption pattern of the poor households in Kogi State

Responses	Frequency(F)	Scale (X)	FX
Strongly agreed	300	4	1200
Agreed	160	3	480
Disagreed	100	2	200
Strongly Disagreed	40	1	40
	∑F=700	∑N=10	∑FX=1920

Likert Scale =∑FX/∑F
Mean point of scale =∑X/N
F= Scale
N = No. of scale and Frequency
E = margin of error which is normally given at 5%=0.05
Therefore mean point of responses = ∑FX/∑F=1920/700= 2.74
Mean point of scale=∑X/N=10/4=2.5
Cut-off point =mean point + e = 2.5 + 0.05 = 2.55

From the analysis above, the mean point of response was 2.74 and the cut-off point was 2.55. From the calculation above, the mean point of 2.74 is greater than the cut-off point of 2.55. So, we accept that financial crisis impact negatively on the poor household's consumption pattern in the State. This is because financial crisis results from increase in prices of consumable food items thereby making the poor spend much of their income on such items. This has negative effect on the consumption pattern of the poor households in the State.

Research question 3. What is the effect of financial crisis on the poor and non-poor households in the Kogi State?

Table 3. Effect of financial crisis on the poor and non-poor households in Kogi State

	Mean	No	Std Dev.	t	t-crit	df	Sig
Poor households	5.6	600	2.36	3.4	1.96	559	0.03
Non- poor households	4.5	600	2.12				

The analysis was done using paired sample t-test on the effect of financial crisis on the poor and non-poor households in Kogi State.

The result of the analysis shows that t-calculated of 3.4 is less than t-critical value of 1.96 at 0.05 level of significance. This makes us to reject the null hypothesis and accept the alternative that financial crisis has negative effect on the poor and non-poor households in the state. From the result, it can be ascertained that the poor and non-poor households feel the impact of financial crisis especially as regard to income distribution. Likewise, the impact is felt more by the poor than non-poor in the society.

SUMMARY OF THE FINDINGS

The findings from the study reveal that financial crisis has negative impact on households' income in Kogi State. This is justified by the fact that most households find it difficult to maintain and sustain their livelihood in this present financial and economic crunch in the society. It was also revealed that financial crisis impact negatively on households' consumption pattern. This means that consumers of valuable items especially the imported materials are somehow out of reach to many households. Likewise, the study discovered that financial crisis has negative effect on the poor and non-poor households in the State. The study also pointed out that the impact of financial crisis on the poor household is somehow heavier than non-poor household because of the way and manner income is distributed among the two categories of households in the State.

RECOMMENDATIONS

The global financial and economic crisis have over the years constituted a lot of problems in most developing countries like Nigeria, and had hit an alarm for the world economy. The more obvious is the fear and uncertainty of the future. The more the consumers sought to better their lots and manage their expenses, the more crises they face. The consumers are becoming more rational in terms of purchasing decisions and are more attentive to the product, to its intrinsic qualities, giving more importance to the emotional aspect of the brand. Also, they spend more time searching for specific information and focusing on buying cheaper products than the expensive ones in smaller quantities base on their income. This situation has dampened most economic activities over sometimes now. In view of this therefore, the following recommendations are proffered.

Firstly, Governmental and Non-Governmental Organizations should involve themselves in making sure that income generation is enhanced in the State. This can be done by creating and channeling employment to more unemployed able bodied in the State. This is because low disposable income is recognized to be the greatest challenge for the consumers' purchasing activities. Usually, low disposable income makes the consumer feel more careful when buying particular products in the market. The creation and generation of employment is essential to reduce the disparity in income distribution especially among the poor households in the State.

Secondly, Governmental and Non Governmental Organizations in the country and Kogi State in particular should collaborate with each other to restore confidence of consumers by expanding marketing channels and providing Value confidence to the marketing of goods and services in the State. This can be done using reliable monitoring agencies to ensure transparency and fair trading transactions. This if adhered to will enable the consumers increase their purchasing power and bring about improvement in their consumption pattern in the State.

Thirdly, provision of infrastructural facilities such as roads and market outlets can increase income generating activities among the poor and improve their living standard. As such, Governmental and Non-Governmental Organizations should be proactive in making sure that these essential items are made available to the poor especial in the rural areas to improve their living standard.

Fourthly, rural credit facilities should be instituted for the rural farmers and ensure that such credits are made available for such scheme and are not diverted by the bureaucrats in the society. Also, incentives in form of input factors such as fertilizer, improved seed and seedlings should be made available at appropriate time to real rural populace to improve their productivity. This is expected to increase their outputs and enhance their income and living standard.

Finally, tax policy should be used to bridge the inequality gap between the rich and the poor in the State. In this case, Government should make sure that such tax generated is invested on different ventures that would benefit the poor than the rich. Also, policies concerning the poor in the society should involve some cluster of the poor to adequately capture their ideas in policy making process. This if properly followed will encourage them to be proactive in all aspects of life.

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CONCLUSION

The global financial crisis has great effect on Nigeria economy. This is because Nigeria highly depends on foreign countries for its export earnings. The financial crises basically affect all the drivers of Nigeria economic growth such as prices and demand for primary commodities, capital flows, especially foreign direct investment to mention but a few. Global financial crisis makes majority of consumers to reconsider their consumption habits and reallocate their income among less competitive commodities in the economy. Usually during economic crisis, Consumers exhibit different emotional responses toward new economic conditions and modify their consumption behaviour among different goods and services in the market. This depends on their income and preference accorded to such commodities in the market. Consumer behaviour is often influenced by both internal and external factors that represent the environment in which the individual behaviour takes place. Such factors include, level of income, consumption behaviour and level of poverty.

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