### CHAPTER FIVE

# INSECURITY AND CONSUMER SPENDING IN NIGERIA: AN AUTO-REGRESSIVE DISTRIBUTED LAG APPROACH

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#### Abstract

The study investigates the link between consumer spending and insecurity in Nigeria, highlighting the negative impact of insecurity on personal safety and economic growth. It explores how violent crimes such as insurgency affect consumer spending behavior, proposing strategies to mitigate economic effects. Theoretical frameworks and the ARDL technique were employed to analyze short- and long-term relationships between the variables. The ARDL findings reveal significant coefficients for factors such as lagged consumer spending, the global peace index, government expenditure, the inflation rate, the interest rate, and unemployment, indicating their influence on consumer spending conduct. The positive relationship between global peace indices is an indication of the negative impact that insecurity has on consumption spending in Nigeria. The study recommended that the government monitor and consider the impact of these variables, especially insecurity, on consumer spending when making economic policies or business decisions. Capital expenditure on insecurity should be increased, and policies should be particularly targeted at addressing the economic effects of insecurity.

Keywords: Insecurity, Consumption spending, Global peace index, ARDL

### 1. Introduction

Security is a fundamental human right enshrined in the constitutions of most sovereign states, and its absence can have far-reaching consequences for development. Insecurity, manifested through various forms of violence, including armed robbery, kidnapping, religious and political killings, and insurgency, has plagued the nation, resulting in significant loss of life and property and a pervasive sense of fear and uncertainty (Okafor *et al.*, 2023; Udoh, 2015; Oparah & Ifekanandu, 2021). This insecurity not only poses a threat to individual safety but also hampers economic development and undermines the overall well-being of the populace (Imhonopi & Urim, 2012).

Furthermore, economic insecurity resulting from income uncertainty may affect consumption expenditure, leading to changes in consumer behavior, such as increased precautionary savings and reduced immediate consumption (Kimball, 1990; Lepinteur & Yin, 2022). Consumer spending, as the total expenditure on final goods and services by individuals and households, is a crucial economic indicator reflecting the health of a nation's economy (Parker *et al.*, 2013; Ganong & Noel, 2019). Understanding how insecurity influences consumer spending is vital for policymakers, businesses, and market analysts to formulate effective strategies and interventions to mitigate its adverse effects on the economy (Fornell *et al.*, 2010; Stewart & Budnikova, 2022).

Nigeria, in particular, has been plagued by insecurity, resulting in numerous deaths, violent crimes, and a pervasive sense of fear and anxiety among its citizens. The insecurity challenge has assumed formidable dimensions that force the country's political and economic managers and, indeed, the entire nation to rue the loss of their loved ones, investments and absence of safety in most parts of the country (Oparah & Ifekanandu, 2021). This insecurity has taken various forms, including armed robbery, kidnapping, and terrorist activities, with the Boko Haram insurgency being a significant contributor to the nation's security challenges.

The escalation of security challenges, ranging from insurgencies to communal conflicts, has created an atmosphere of

uncertainty, undermining consumer confidence and altering spending behaviors. Businesses grapple with production and distribution hurdles in conflict zones, exacerbating shortages and inflationary pressures (Okafor, Nnamani, and Ejike, 2023; Oparah, and Ifekanandu 2021; and Stewart, and Budnikova, 2022). Consequently, consumers face diminished purchasing power and prioritize essential needs over discretionary spending. According to Adegbami (2013), Okafor, Okonkwo and Michael (2023), and Ewetan and Urhie (2014), the impact of insecurity on consumer spending in Nigeria is significant, with perceived insecurity affecting consumer confidence and leading to changes in spending behaviors, prioritizing essential needs over nonessential purchases. Given the significance of security and consumer spending for a nation's development, this study aims to assess the impact of insecurity on consumer spending in Nigeria. By examining the relationship between these two variables, this research seeks to provide insights into the economic consequences of insecurity and inform policies that can mitigate its effects on consumer spending.

## 2. Review of Literature

## **Conceptual Clarification**

The term "insecurity" encompasses a multitude of meanings, representing danger, hazard, uncertainty, lack of protection, and absence of safety. Beland (2005) defines insecurity as a state of fear or anxiety arising from a perceived lack of protection, indicating a deficiency in freedom from danger. This definition emphasizes that insecurity signifies the absence of peace, order, and security. Achumba *et al.* (2013) offer two perspectives on insecurity. First, it is described as the state of being exposed to danger or threats, where danger implies susceptibility to harm. Second, insecurity is portrayed as being open to risk or anxiety, with anxiety being an unpleasant emotion anticipating misfortune. These definitions highlight that individuals affected by insecurity not only face uncertainty but are also vulnerable to potential threats and dangers when they materialize. Business activities, which are essential for satisfying human needs, have become integral to human existence globally.

In a broader context, insecurity denotes the absence of safety, danger, hazard, uncertainty, lack of protection, and lack of safety. It signifies a state of being exposed to fear, threat, danger, molestation, intimidation, and harassment across all spheres. For example, insecurity can be viewed as a threat to the state, leading to arms races and the pursuit of nuclear weapons for defense, as suggested by Ajodo *et al.* (2014). Saliu *et al.* (2007) reported that threats to human life stem not only from violent conflicts but also from nonconflict sources. Therefore, insecurity is characterized as a situation involving fear or anything capable of causing harm, injury, fear, or destruction to individuals, groups, or nations. In this study, insecurity is conceptualized as a scenario where the human and national security of a state is compromised by internal or external forces, exacerbated by weak economic, military, or human resource development conditions.

Consumer spending refers to the total expenditure on final goods and services by individuals and households (Parker, *et al.*, 2013). Berger *et al.* (2018) describe it as the proportion of an economy represented by consumer expenditure. It encompasses all purchases made by the public for personal or nonbusiness purposes, reflecting the value of goods and services utilized by end consumers within the economy, often referred to as gross private consumption. Consumer spending is a pivotal economic metric with the capacity to either bolster or undermine the economy, thus serving as a crucial indicator of a nation's economic well-being (Ganong & Noel, 2019). Consumer spending comprises two primary components: autonomous consumption and induced consumption (Lavoie, 2016).

Consumer spending comprises two primary components: autonomous consumption and induced consumption (Lavoie, 2016). Autonomous consumption involves essential expenditure such as shelter, food, clothing, healthcare, and utilities, which individuals must make regardless of their income level, whereas induced consumption is influenced by income fluctuations (Allain, 2021). In essence, consumer spending mirrors the total value of goods and services consumed by end users within the economy. High consumer spending suggests economic prosperity and adequate financial resources among the populace, whereas low spending indicates financial strain (Ganong & Noel, 2019). Consumer spending not only reflects individual financial circumstances but also influences broader economic indicators such as demand, employment rates, GDP, and inflation. Increased disposable income enables consumers to fulfill additional needs beyond essentials, driving up demand for goods and services and subsequently boosting production and sales (Bartels & Urminsky, 2015). However, excessive spending can lead to inflation, prompting government intervention to curb consumption (Effah Nyamekye & Adusei Poku, 2017). Modern policymakers closely monitor consumer spending trends to inform fiscal and monetary strategies (Nnadi, 2011).

As the largest component of gross domestic product (GDP), consumer spending is a focal point of Keynesian economic policies (Stewart & Budnikova, 2022). Conversely, supply-side economists prioritize private savings and production over aggregate consumption, adhering to Say's Law of Markets. Excessive consumer spending may hinder future economic growth by limiting savings and investment opportunities. Nevertheless, consumer spending remains integral to business performance, with higher consumer expenditure typically translating to better company performance (Berger *et al.*, 2018).

### Theoretical and Empirical Review

This study hinges on precautionary savings theory, the permanent income hypothesis and uncertainty avoidance theory. Precautionary savings theory suggests that when faced with uncertainty about future income, consumers tend to save more as a precaution, leading to a decrease in current consumption spending (Kimball, 1990). In the context of insecurity, if consumers perceive a greater risk of job loss or income reduction, their precautionary savings may increase, resulting in lower consumer spending. The permanent income hypothesis, on the other hand, argues that consumers base their spending decisions on their expected long-term or permanent income rather than their current income (Friedman, 1957). If insecurity leads to a perceived reduction in permanent income, consumers may decrease their spending, even if their current income remains stable. Similarly, uncertainty avoidance theory suggests that individuals prefer to avoid uncertainty and ambiguity (Hofstede, 1980). In the face of insecurity, consumers may exhibit greater uncertainty avoidance, leading them to reduce discretionary spending and prioritize essential purchases to minimize risk.

purchases to minimize risk. Okafor *et al.* (2023) investigated the effects of insecurity on the consumption patterns of households in Awka metropolis, Anambra State. The study employed a descriptive survey design focusing on all the households in the Awka metropolis, with a sample size of 271. Data analysis involved mean scores and regression analysis via the SPSS package 20.0. The study concluded that insecurity altered the feeding patterns of respondents in Awka metropolis, leading to changes in diet options due to price hikes. This resulted in households adopting coping strategies such as reducing meal frequency, skipping meals, and reallocating resources to essential purchases to minimize risk. Oparah & Ifekanandu (2021) conducted a study on the impact of insecurity on the distribution of consumer goods to residents of Awka in Anambra State, Nigeria. The research utilized a descriptive survey research design and targeted all customers of soft drinks in Awka. The sample size of 408 respondents was determined via Topman's nonparametric sample size determination formula. The study revealed that kidnapping, armed robbery, and cult wars significantly negatively influence the distribution of consumer products in Awka, leading to the conclusion that insecurity has a substantial adverse effect on the distribution of consumer goods in the area.

Benito (2004) explored the impact of job insecurity on household consumption in a study titled "Does job insecurity affect household consumption?" The research revealed that job insecurity depresses household consumption levels, with a one standard deviation increase in unemployment risk for the head of the household estimated to reduce household consumption by 2.7%. The study highlighted that job insecurity affects both nondurable and durable expenditure, indicating a significant delay in durable goods purchases in response to higher unemployment risk. Ijirshar, Gbaka and Tar (2024) carried out a study to examine the influence of insecurity on household welfare in Nigeria for the period from 1986--2022 via the autoregressive distributed lagged (ARDL) model. Empirical findings reveal a significant and negative influence of insecurity on household consumption and income in Nigeria in the long run. The study concludes that insecurity detrimentally affects household welfare and suggests comprehensive policies that are essential for addressing insecurity, emphasizing the imperative role of law enforcement and security forces. Yusuf and Mohd (2023) used annual time series data from 1980--2019 and the ARDL methodology to analyze the fiscal and socioeconomic consequences of insecurity for economic growth in Nigeria. The empirical findings demonstrated that a high unemployment rate, domestic capital formation, foreign direct investment, and government spending on education and security are negatively affected by the growing level of insecurity and consequently retard growth in the long and short run.

### 3. Methodology

### Model Specification

The three theories adopted in this study all argue that there is a relationship between insecurity and consumer spending. They argued that insecurity negatively influences consumer spending behavior when factors such as uncertainty, risk perception, loss aversion, and the prioritization of needs are considered. In line with the objectives of this study, the global peace index is used as a proxy to measure insecurity. According to Effah Nyamekye & Adusei Poku (2017), consumer spending is affected by the level of inflation in an economy. According to Ebi and Ibe (2019), government expenditure affects consumer spending. Ganong & Noel (2019) reported that the level of unemployment in an economy determines the spending of consumers in that economy. According to Manasseh *et al.* (2018), consumer spending is determined by the interest rate in a country. Consequently, the estimated model is written as follows:

where CS = Consumer Spending; GPI = Global Peace Index; GVEX = Government Expenditure; INFL = Inflation rate; UEMP = Unemployment; and INTR = Interest Rate. This model is stochastically written as:  $CS_{t} = \beta_{0} + \beta_{1}GPI_{t} + \beta_{2}GVEX_{t} + \beta_{3}INFL_{t} + \beta_{4}UEMP_{t} + \beta_{5}INTR_{t} + \varepsilon_{t} - \cdots - 2$ 

To make highly skewed distributions less skewed, the data were transformed. This helps make patterns in the data more reliable. Variables in percentages and rates were not logged since they were already transformed. The transform model is written as:

$$CS_t = \beta_0 + \beta_1 GPI_t + \beta_2 \ln GVEX_t + \beta_3 INFL_t + \beta_4 UEMP_t + \beta_5 INTR_t + \varepsilon_t - ---- 3$$

where  $\beta_0$  = intercept,  $\beta_1 - \beta_5$  = parameters to be estimated and  $\mathcal{E}_t$  = disturbance.

The ARDL model of the equation can be specified in its generic form as:

$$y_{t} = \alpha_{0} + \alpha_{1}t + \sum_{i=1}^{p} \psi_{i} y_{t-i} + \sum_{j=1}^{k} \sum_{l_{j}=0}^{q_{i}} \beta_{j,l_{j}} x_{j,t-l_{j}} + \varepsilon_{t} - \dots - 4$$

where  $\varepsilon_t$  represents innovations,  $\alpha_0$  is a constant, and  $\alpha_1$ ,  $\psi_i$  and  $\beta_{j,l_j}$  are coefficients of the respective linear trend with lags of  $y_t$ , whereas lags of k regressors  $x_{j,t}$  are such that j = 1, ..., k. Following the general specification of equation (4), it can be stated as follows:

$$CS_{t} = \alpha_{0} + \alpha_{1t} + \sum_{j=1}^{k} \beta_{1}CS_{t-1} + \beta_{2}GPI_{t} + \beta_{3}InGVEX + \beta_{4}INFL_{t} + \beta_{5}UEMP_{t} + \beta_{6}INTR_{t} + \sum_{j=i}^{k} \lambda_{1,j}\Delta GPI_{t-j} - -- 5$$
  
+ 
$$\sum_{j=i}^{k} \lambda_{2,j}\Delta \ln GVEX_{t-j} + \sum_{j=i}^{k} \lambda_{3,j}\Delta INFL_{t-j} + \sum_{j=i}^{k} \lambda_{4,j}\Delta UEMP_{t-j} + \sum_{j=i}^{k} \lambda_{5,j}\Delta INTR_{t-j} + \xi_{t}$$

#### Kinds and sources of data

This study is a time series study that relies essentially on secondary data generated from the Global Economy site, the World Bank Statistics Bulletin, the Central Bank of Nigeria (CBN) annual publications, and the Macrotrends Site. The data include consumer speding, the global peace index, government expenditure, inflation, unemployment, and interest rates.

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### Method of Data Analysis

The study utilized the autoregressive distributed lag (ARDL) technique to examine the long-run and short-run relationships between variables in a time series framework. It is particularly useful when dealing with nonstationary time series data and determining if a cointegrating relationship exists among the variables. The ARDL test allows researchers to analyze the impact of independent variables on the dependent variable in both the short run and the long run, providing insights into the dynamic interactions among the variables over time. Additionally, the ARDL approach is flexible and can accommodate mixed-order integration among the variables, making it a versatile tool for econometric analysis in various fields, such as economics, finance, and social sciences.

## 4. Results and Discussion

### Unit Root Test Results

Before the estimation of the model, all the variables of the study were subjected to unit root tests to determine the stationarity levels of the series. The augmented Dicker-Fuller (ADF) unit roots are considered in this study to validate the stationarity of the data. This is to show that the variables have a mean reverting level form. The augmented Dicker-Fuller test results for all the time series variables used in the estimation are presented in Table 1.

Variables	ADF			Order of
				integration
	t-statistics	Critical	Prob.	
		value @5%	Value	
D(CS)	-5.605115	-3.012363	0.0002	I(0)
D(GPI)	-3.162504	-3.144920	0.0486	I(1)
D(GVEX)	-3.060890	-3.020686	0.0462	I(1)
D(INFL)	-7.396949	-3.020686	0.0000	I(1)
D(INTR)	-3.381517	-3.029970	0.0251	I(0)
D(UEMP)	-4.959142	-3.658446	0.0040	I(1)

#### Table 1. Unit root test results

### Source: Extracts from E-views Output

The ADF unit root test results in Table 1 show that the variables CS and INTR are stationary at level, that is, order 0. This is because their probability values are less than the 0.05 critical value at level and t-statistics values are higher than their critical values at the 5% significance level. However, GVEX, INFL, UNEMP and GPI are stationary at the first difference. This is because their probability values are less than the 0.05 critical value at the first difference, and their respective t-statistics values are higher than their critical values at the 5% significance level.

### **Results of the Bound Test**

On the basis of the results of the unit root test, the bound test was estimated to ascertain whether a long-run relationship exists between education expenditure and economic growth in Nigeria, and the results are presented in Table 2.

Test Statistic	Value	Signif.	<b>I(0)</b>	I(1)
			Asymptotic: n=1000	
F-statistic	11.70494	10%	2.08	3.0
K	5	5%	2.39	3.38
		2.5%	2.7	3.73
		1%	3.06	4.15

### **Table 2: ARDL Bounds Test Results**

Source: Extracts from E-views Output

The results of the bounds cointegration test presented in Table 3 show that the F statistic value of 11.70 is greater than the upper bound critical value of 3.38 at the 5% level of significance. Therefore, the null hypothesis of no long-term relationship between insecurity and consumer spending in Nigeria was rejected, implying that there is a long-term relationship between insecurity and consumer spending in Nigeria at the 5% level of significance.

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
CS_(-1)	-0.408860	0.200256	-2.041691	0.0605
GPI	-46.95389	32.97078	-1.424106	0.1763
GVEX	-2.410245	1.779819	-1.354208	0.1971
INFL	0.326309	0.460152	0.709133	0.4899
INTR	1.962234	0.925361	2.120505	0.0523
UEMP	17.70620	6.435283	2.751426	0.0156
С	65.27126	75.68921	0.862359	0.4030
R-squared Adjusted R-	0.639282			
squared	0.484688			
S.E. of regression	12.41566			
Sum squared resid	2158.081			
Log likelihood	-78.43846			
F-statistic	4.135240			
Prob(F-statistic)	0.013444			

# ARDL Results

The results for the ARDL test results are presented in the tables below. **Table 3: ARDL Results.** 

### *Source:* Extracts from E-views Output

From Table 3, the coefficient of CS (-1) is -0.408860. This finding indicates that the lagged value of consumer spending has a negative effect on current consumer spending. In other words, a 1 percent decrease in lagged consumer spending (CS (-1)) is associated with a 0.408860 percent decrease in current consumer spending. The coefficient of GPI is -46.95389. This suggests that an increase in the global peace index is associated with a significant decrease in consumer spending. This implies that a 1 percent increase in the global peace index (GPI) is associated with a 46.95389 percent decrease in consumer spending. The coefficient of GVEX is -2.410245. This

indicates that a 1 percent increase in government expenditure (GVEX) is associated with a 2.410245 percent decrease in consumer spending. The coefficient of INFL is 0.326309. This suggests that an increase in the inflation rate is associated with a slight increase in consumer spending. This implies that a 1 percent increase in the inflation rate (INFL) is associated with a 0.326309 percent increase in consumer spending. The coefficient of INTR is 1.962234. This indicates that a 1 percent increase in the interest rate (INTR) is associated with a 1.962234 percent increase in consumer spending. The coefficient of UEMP is 17.70620. This suggests that an increase in unemployment is associated with a significant decrease in consumer spending. This implies that a 1 percent increase in unemployment (UEMP) is associated with a 17.70620 percent decrease in consumer spending. The constant term (C) is 65.27126. This represents the intercept of the model, indicating the expected value of consumer spending when all other variables are held constant at zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GPI	-33.32757	24.76289	-1.345867	0.1997
GVEX	-1.710777	1.218781	-1.403679	0.1822
INFL	0.231612	0.316166	0.732563	0.4759
INTR	1.392781	0.658213	2.116002	0.0527
UEMP	12.56775	4.746891	2.647575	0.0191
С	46.32912	55.27875	0.838100	0.4161

Table 4: ARDL long-term results.

Source: Extracts from E-views Output

The coefficient of GPI is -33.32757, indicating that there is a negative relationship between GPI and consumer spending. This means that a one-unit increase in the global peace index is associated with a decrease of 33.32757 units in the long-run equilibrium level of consumer spending. The coefficient of GVEX is -1.710777, indicating that there is a negative relationship between GVEX and consumer spending. This means that a one-unit increase in government

expenditure is associated with a decrease of 1.710777 units in the long-run equilibrium level of consumer spending.

The coefficient of INFL is 0.231612, indicating that there is a positive relationship between INFL and consumer spending. This means that a one-unit increase in the inflation rate is associated with an increase of 0.231612 units in the long-run equilibrium level of consumer spending. The coefficient of INTR is 1.392781, indicating that there is a positive relationship between INTR and consumer spending. This means that a one-unit increase in the interest rate is associated with an increase of 1.392781 units in the long-run equilibrium level of consumer spending. The coefficient of UEMP is 12.56775, indicating that there is a positive relationship between UEMP and consumer spending. This means that a one-unit increase in unemployment is associated with a decrease of 12.56775 units in the long-run equilibrium level of consumer spending.

#### Diagnostic tests

The diagnostic test results are presented in Table 5.

Test	Null Hypothesis	<b>F-Statistics</b>	Prob
Hteroskedasticity	No Hetroscedasticity	0.653615	0.7768
Serial Correlation	No Serial Autocorrelation	0.447420	0.6495
Ramsey Reset	No Misspacification	0.127285	0.7270
Normality(Jarque-	There is normal Dist.	0.401999	0.8179
Bera)			

### **Table 5: Diagnostic test results**

Source: Extracts from E-views Output

The diagnostic test results in Table 5 indicate that the model is statistically sound across several key assumptions. The test for heteroscedasticity, with an F statistic of 0.653615 and a p value of 0.7768, shows no evidence of heteroscedasticity, indicating that the variance of the error terms is constant. Similarly, the serial correlation test, which yielded a p value of 0.6495, indicates that there is no significant autocorrelation in the residuals, suggesting that the errors

are not correlated across observations. The Ramsey RESET test for model misspecification, with a p value of 0.7270, confirms that there is no evidence of model misspecification, indicating that the model is correctly specified. Finally, the Jarque–Bera normality test, which has a p value of 0.8179, suggests that the residuals follow a normal distribution.

### 5. Conclusion and policy recommendations

The study was carried out with the aim of examining the influence of insecurity on consumption spending in Nigeria. The ARDL estimation results provide insights into the relationships between variables. In the short run, lagged consumer spending negatively affects current consumer spending, whereas increases in the global peace index, government expenditure, and interest rates are associated with decreases in consumer spending. The positive relationship between the global peace index and consumption spending implies that insecurity has a negative effect on consumption spending. On the other hand, the inflation rate and unemployment have positive effects on consumer spending. In the long run, the global peace index, government expenditure, and interest rates continue to have negative impacts on consumer spending, whereas the inflation rate and unemployment rate have positive effects. These findings suggest that certain economic factors play significant roles in shaping consumer spending behavior both in the short and long term. On the basis of these results, monitoring and considering the impact of these variables, especially insecurity, on consumer spending when making economic policies or business decisions is recommended. Capital expenditure on insecurity should be increased, and policies should be particularly targeted at addressing the economic effects of insecurity.

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