A Study on the Impact of Inflation on household Saving and Spending Behaviour of Millennials

Dr. Ajay Kumar Varshney, Professor, BBA Department, KLEF, Vaddeswaram.
Mr. Mallick Gourav, Research Scholar, BBA Department, KLEF, Vaddeswaram,
gouravmallicksklm@gmail.com,

Abstract

The trade-offs facing households between current consumption and future saving are influenced by price changes. This research aims to uncover how inflation affects millennial household saving and spending behaviour as well as to investigate whether financial uncertainty plays a mediating role and whether financial literacy plays a moderating role. Five-point Likert items were used to collect primary data from the young adults by a structured questionnaire and the instrument used for this purpose was reliable. The data were analysed using chi-square tests, one way ANOVA, simple and multiple linear regression, Baron–Kenny/Sobel mediation test and moderation test with an interaction term. Financial uncertainty, financial spending behaviour, and saving behaviour were significantly and strongly affected by the perceived inflation. Financial uncertainty partly explained the links between inflation and both saving and spending, and was also a significant determinant of spending. There was no significant moderation found for any paths by financial literacy. Income level, age group and employment status were important factors in explaining the variation in saving, spending and uncertainty, as the highest income group reported lowest inflation effects while gender and EMI/loan status reported no significant effects. The results indicate that inflationary pressure on younger households acts mainly via uncertainty regarding their future earnings. Policies and financial instruments should therefore respond to inflation pressure, as well as financial confidence.

Keywords: Inflation; Household saving; Spending behaviour; Millennials; Financial uncertainty; Financial literacy

1. Introduction

Inflation is an important economic phenomenon and has a significant impact on the purchasing power, consumption and saving power of the household. It is a general rise in the price of goods and services sustained over time that would cause money to have less value, and affect the way in which people spend their income on current consumption and future saving. The correlation between inflation and financial behaviour of households is significant for both businesses and policy makers because household spending is an important component of economic activity. Given that a large proportion of household income is used to buy food, housing, fuel, health care and transportation, inflation can have significant impact on household expenditure in India. When there is an increase in prices, households could have less purchasing power to spend and change their spending patterns by cutting back on non-essential items and buying the essentials instead. The literature suggests that consumers can switch to more affordable products, cut back on the amount of products they consume, or postpone buying luxury products and other unnecessary products. In addition, empirical evidence suggests that there is no uniform relationship between inflation and household consumption. However, Nazir and Mir (2025) using data from India over the period 1991-2020, had observed significant negative relationship between inflation and household consumption expenditure. They found that their study indicates that inflation affects the purchasing power of the household, and also may drive their consumption and savings decisions. Other studies, however, indicate that households might be stimulated to spend more on the current purchase when they anticipate further increases in prices, especially for those items that can be bought ahead of time. So, expectations of inflation have a possibility to affect the timing and the type of spending that households do, as well as the quantity they spend. Another significant area of household financial decision making is savings behaviour. Inflation may cause a decline in the real value of financial savings and may affect households' saving decisions on where and how they save their money. Singh, Mishra and Shaw (2022) reported that greater household inflation expectations, on the whole, were correlated with reduced debt-based savings like bank term deposits. Their results indicate that attitudes towards future inflation can affect financial choices and savings behaviour of households. Similarly, Agarwal et al. (2023) showed that the reaction of households to inflation expectations has varied with the liquidity position. In general, households with high liquid

savings cut back on consumption and increased bank deposits, while households with low liquid savings increased consumption and decreased bank savings in some scenarios of changes in inflation expectations. Millennials will be especially affected by inflation, as they are typically in a critical age group for in the labour market, earnings, homeownership and other personal consumption, financial planning. Income, financial obligations, forecast expectations about future prices, and availability of financial products can affect their saving and spending decisions. Further, the data presented here indicates that financial knowledge may be linked to variations in financial behaviour among households. Agarwal et al. (2023) noted that there are differences between financially literate and others in their investment sensibilities in response to changes in inflation expectations. Though existing studies have shed light on the inflation and household consumption, most of the evidence in India has been based on aggregate economic or secondary data. Nazir and Mir (2025), for instance, call for more studies focusing on the inflation–household consumption link. The literature further suggests that the way households react depends on their income, liquidity, expectations, and demographic factors. This opens the opportunity to explore inflation from the point of view of the individual household, especially the young consumer. Hence, the current study of 'A Study on the Impact of Inflation on Household Saving and Spending Behaviour of Millennials' is focused upon understanding the impact of inflation on the financial behaviour of millennials. The present study focuses on the changes in the household spending and saving behaviours, and discusses the influence of income, financial knowledge, and financial choices. The study aims to make use of primary data gathered from the individual respondents, thereby obtaining a more specific insight into the behaviour of millennials towards inflationary pressures and how the rise in prices affects their current consumption and future financial planning.

2. Research Gap

Much of the literature has focused on the interaction of inflation, household consumption, household saving, and investment, but there are a number of gaps. Current studies are mainly based on macro or secondary economic data and offer scarce information on the behaviour of individual households. Moreover, the literature has focused on the impact of inflation on saving and spending among older consumers, and has not specifically studied the impact of inflation on the saving and spending patterns of younger consumers, taking into consideration income, financial literacy, and financial services in the digital environment. There is also a lack of Indian-level evidence at the regional level. In view of this, the present study tries to fill up the above gaps by studying the effect of inflation on saving and expenditure behaviour of the households based on the primary data collected from the individual respondents.

3. Problem Statement

- Inflation has had a positive impact on household financial choices as it has risen the cost of goods and services that households need.
- The combination of rising prices could mean that households have to spend more on essentials and cut down on saving.
- However, there is not much research that focuses on the direct effects of inflation on the saving and spending pattern of individual households, especially the younger consumers.
- Income, financial literacy and digital financial services use may also impact on these financial decisions.
- There is also some limited regional-level evidence based on primary data from India.
- In view of this, this study focuses on the effect of inflation on saving and spending behaviour of individual households with data obtained from individual respondents.

4. Review of Literature

Yadiyal (2025) studied the connection between inflation and consumer spending behaviour in India. The study revealed that the overall spending is less when inflation is high and consumers may economize on their spending on non-essential items.

Nazir and Mir (2025) explored the effects of inflation, interest rates and economic growth on household consumption expenditure of India. The results indicated that the inflation rate and interest rates have a negative impact on consumption, while the economic growth rate has a positive effect.

Singh, Mishra and Shaw (2022) investigated the household inflation expectations and savings in India. The study revealed that food prices have a strong effect on inflation expectations and that the greater the inflation expectations, the less the saving in bank deposits.

Agarwal et al. (2023) studied the impact of inflation expectations on consumption, saving and risky investments of households. The study found that financial knowledge and asset level affect the way in which people make spending and investment choices.

Lieb and Schuffels (2022) studied the link between expected inflation, household wealth and consumer spending. The results revealed that the effect of changes in consumer's expected inflation is closely related to the consumers household wealth.

Burke and Ozdagli (2020) studied how household inflation expectations impact on durable and non-durable consumption. Results of the study indicated that durable goods spending of some households may be more responsive to increases in inflation expectations than spending on non-durable goods.

Jiang et al. (2024) investigated the reaction of households to expected inflation and the channels by which this affects their spending. The results indicated that households do not substantially alter their spending, or cut it back or boost it as their economic situation changes.

Samantaraya and Patra (2014) examined the factors influencing the saving of households in India using ARDL model. The study pointed out that factors such as income, inflation, interest rates, and the economy and dependency are important for household savings.

Narayanaswamy et al. (2022) investigated the difference between investment, saving and spending among various age groups, including the millennials in India. The research revealed that income was more significant in explaining saving behaviour than age and the spending behaviour was different among the generations.

Paul, Roushon and Laskar (2025) discussed the attitudes of the Gen Z and Millennials towards expenditure, saving and investment. The results of the study revealed that financial literacy has a high level of influence on financial behaviour, and FinTech has a moderate level of influence.

Singhvi, Patil and Parihar (2025) have made a comparison between financial behaviour of Gen Z and Millennials in India. The study found that overall, Millennials are more likely to exhibit positive saving and risk-management behaviours, while Gen Z is more likely to have access to financial information online.

Kumar G. K. and Shwetha H. S. (2025) The study focused on Digital Finance Applications and their effect on the Financial Behaviour of Urban Millennials in India. Higher adoption of digital finance apps was linked to an increase in savings and discretionary spending, the study concluded.

Vellekoop and Wiederholt (2019) investigated the relationship between household inflation expectations and saving and consumption decisions. The results indicated that households with greater anticipated inflation have lower savings and higher demand for durable goods.

D'Acunto, Malmendier and Weber (2022) summarized the available literature on household inflation expectations and how they affect economic outcomes. The study pointed out that personal experience, price of food and cognition played a significant role in influencing inflation expectations.

Batrancea (2021) analysed how economic growth and inflation affect economic sentiment and consumption expenditure of the residents in European countries. The study established that inflation has negative impact on economic sentiment and has significant impacts on household consumption.

Weber (2022) analysed the behavioural evidence on household inflation expectations and financial decision-making. The study suggested that there is a divergence in inflation expectations among people and that they can affect consumption and saving and investment decisions.

Gupta (2026) the study discusses the impact of inflation in Indian households and their responses towards it along with the concept of inflation illusion. The study revealed that there is a gap between perceived and official inflation and that inflation perceptions have the potential to affect the financial behaviour of the households.

Chaturvedi, Kumar and Dholakia (2008) examined the interplay between economic growth, saving and inflation in the Asian economies. The study revealed that there was a positive relationship between saving and economic growth and that the inflation rate had a significant impact on economic growth and saving.

Patra, Murthy and Biswal (2015) examined the relationship between saving, growth and inflation in Asian economy in a panel data framework. The results revealed that inflation, real interest rates, dependency ratio and literacy have a significant effect on the saving behaviour.

Sahoo (2021) studied the effect of inflation on the behaviour of middle income people in India. The study also revealed a strong correlation between inflation and the pattern of household expenditure indicating the impact of inflation on consumer expenditure.

Nosheen et al. (2021) examined the link between the increase in the prices of goods and services and saving. The research revealed that inflation and the state of the economy have a significant effect on GS, especially in the longer term.

Keshan and Gupta (2026) analysed the impact of inflation on the household expenses, consumer spending, saving and budgeting. The study revealed that as inflation rises, household costs also go up, household purchasing power decreases and households may reduce their discretionary spending and saving.

5. Conceptual Framework

The framework is in terms of inflation as independent variable. It is hypothesized that the effect of the two dependent variables such as spending behaviour and saving behaviour is mediated by financial uncertainty, change in financial priorities and financial stress, and that the impact is moderated by financial literacy, income level and debt burden (EMI/loan). In the empirical model, financial uncertainty is tested as the mediator, financial literacy is tested by interaction terms as a moderator and the income level and EMI/loan status are tested as grouping factors with chi-square test and ANOVA.

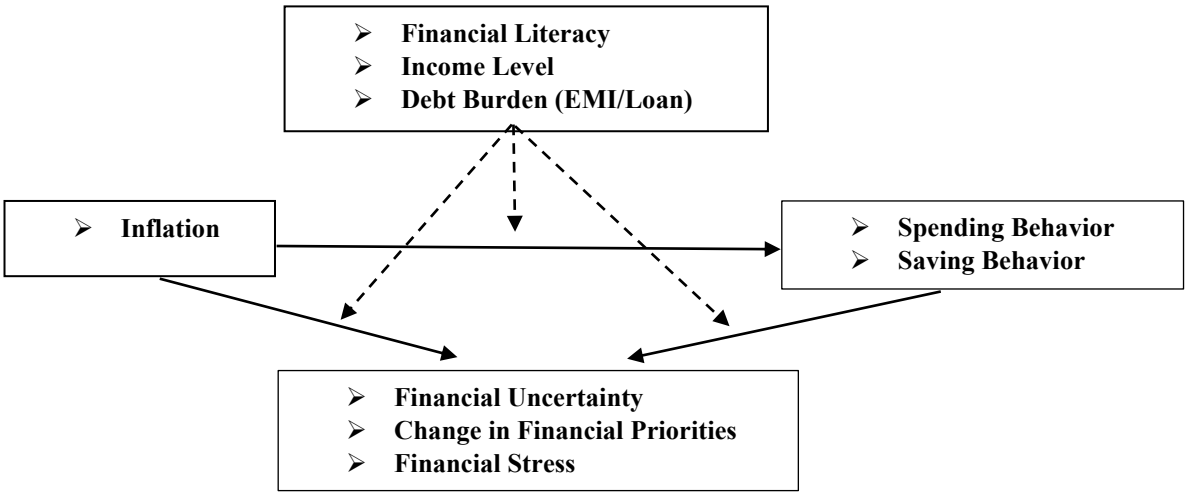


Figure 1. Conceptual framework of the study

6. Research Objectives

1. To explore how inflations affect saving and spending habits of millennials.

2. To appreciate the effect of inflation on financial uncertainty.

3. To analyse the mediating effect of financial uncertainty on inflation.

4. To explore how the consumption pattern affects financial insecurity.

5. To explore how financial literacy affects inflation and financial uncertainty and spending behaviour.

7. Research Hypotheses

Null Hypothesis (HO-1): There is no significant difference between the saving and spending behaviour of millennials and inflation rate.

Alternative Hypothesis (H1-1): The effect of inflation on saving behaviour of millennial is significant.

Null Hypothesis (HO-2): Financial uncertainty is not affected by inflation.

Alternative Hypothesis (H1-2): Financial uncertainty is significant affected by inflation.

Null Hypothesis (HO-3): The financial uncertainty does not exert significant mediating effect between inflation and saving and spending behaviour.

Alternative Hypothesis (H1-3): Financial uncertainty has significant mediation effect on the relationship between inflation and saving and spending behaviour.

Null Hypothesis (HO-4): Financial uncertainty do not significantly influence the spending behaviour.

Alternative Hypothesis (H1-4): Financial Uncertainty has a significant impact on Spending behaviour.

Null Hypothesis (HO-5): Financial literacy doesn't significantly moderate the relationship between inflation and financial uncertainty and spending behaviour.

Alternative Hypothesis (H1-5): Financial literacy significantly moderates the inflation, financial uncertainty and spending behaviour.

8. Research Methodology

8.1 Research design

The study follows a quantitative, cross-sectional and explanatory research design. Primary data were collected from individual respondents through a structured, self-administered questionnaire, and the relationships specified in the hypotheses were tested statistically. Secondary literature was used to develop the conceptual framework, the objectives and the hypotheses.

8.2 Population, sample and data collection

The target population is young adults (millennials) working or earning in different sectors in Vijayawada. A total of 110 questionnaires were distributed and 93 usable responses were retained for analysis, giving a response rate of 84.5%.

Respondents were selected through non-probability (convenience) sampling. All respondents were aged between 25 and 44 years.

8.3 Instrument development

The questionnaire has two sections. Section A records five profile variables: age, gender, employment status, monthly household income and whether the respondent has any EMI or loan obligation. Section B contains 15 statements measured on a five-point Likert scale (1 = Strongly disagree, 5 = Strongly agree). The statements measure five constructs with three items each, as shown in Table 1. The instrument was checked for clarity and content validity before final data collection, and internal consistency was assessed with Cronbach's alpha.

Table 1. Constructs, items and role in the model

Construct	Items	Sample statement	Role in model
Inflation perception (INF)	Q6–Q8	Rising food, fuel and transportation prices have affected my household budget.	Independent
Saving behaviour (SAV)	Q9–Q11	Inflation has reduced the amount of money my household is able to save.	Dependent
Spending behaviour (SPE)	Q12–Q14	Inflation has increased my household's overall expenditure.	Dependent
Financial uncertainty (UNC)	Q15–Q17	Rising prices make it difficult for me to plan my household finances.	Mediator
Financial literacy (FL)	Q18–Q20	I understand how inflation affects the real value of money.	Moderator

Each construct score is the mean of its three items. Higher scores on SAV and SPE indicate that inflation has more strongly constrained saving and raised or reshaped spending, so these scores capture perceived behavioural change rather than rupee amounts.

8.4 Statistical tools

Data were coded and analysed in Microsoft Excel (formula-based worksheets; the same procedures are available in SPSS as Crosstabs, One-Way ANOVA and Linear Regression). The following techniques were used, all at the 5% level of significance:

Descriptive statistics, Cronbach's alpha and Pearson correlation to describe the sample and check scale reliability.

Pearson chi-square tests of independence (with Cramér's V as effect size) between profile variables (income, EMI/loan, age group, gender) and High versus Low/Moderate levels of saving, spending and uncertainty (High = construct mean above 3.5). For the chi-square tests, ages 35–39 and 40–44 were merged into one group (35–44 years) to keep expected cell counts above 5.

One-way ANOVA (with eta-squared) to compare mean saving, spending and uncertainty scores across income, employment, age and EMI/loan groups.

Simple linear regression for H1, H2 and H4; multiple regression with the Baron and Kenny steps and the Sobel test for the mediation hypothesis (H3); and regression with mean-centred predictors and a product term for the moderation hypothesis (H5).

Table 2. Hypotheses and statistical tests

Hypothesis	Relationship tested	Test used
H1	Inflation → saving behaviour; inflation → spending behaviour	Simple linear regression
H2	Inflation → financial uncertainty	Simple linear regression
H3	Inflation → financial uncertainty → saving / spending	Multiple regression, Sobel test
H4	Financial uncertainty → spending behaviour	Simple linear regression
H5	Moderation by financial literacy (INF → SPE, UNC → SPE, INF → UNC)	Regression with interaction term
Supplementary	Differences by income, EMI/loan, age, gender and employment	Chi-square test, one-way ANOVA

9. Data Analysis and Results

9.1 Profile of respondents

Table 3. Profile of respondents (N = 93)

Variable	Category	Frequency	Percent
Age	25–29 years	57	61.3
	30–34 years	18	19.4
	35–39 years	6	6.5
	40–44 years	12	12.9
Gender	Male	54	58.1
	Female	39	41.9
Employment status	Salaried employee	18	19.4
	Business owner	18	19.4
	Self-employed	15	16.1
	Professional	9	9.7
	Government employee	3	3.2
	Other	30	32.3
Monthly household income	Below ₹25,000	33	35.5
	₹25,001–₹50,000	12	12.9
	₹50,001–₹75,000	21	22.6
	₹75,001–₹1,00,000	12	12.9
	Above ₹1,00,000	15	16.1
EMI / loan obligation	Yes	45	48.4

Variable	Category	Frequency	Percent
	No	48	51.6

Most respondents (61.3%) were aged 25–29 years, 58.1% were male and 41.9% female. The largest income group earned below ₹25,000 per month (35.5%), while 16.1% earned above ₹1,00,000. Almost half of the respondents (48.4%) had an EMI or loan obligation. Employment status was spread across salaried employees, business owners, self-employed persons, professionals and government employees, with 32.3% reporting 'Other'.

9.2 Descriptive statistics, reliability and correlation

Table 4. Descriptive statistics, reliability and correlations

Construct	Mean	SD	α	INF	SAV	SPE	UNC	FL
Inflation perception	3.56	0.79	0.87	—				
Saving behaviour	3.58	0.90	0.88	.812	—			
Spending behaviour	3.58	0.88	0.84	.807	.941	—		
Financial uncertainty	3.52	0.90	0.91	.748	.837	.855	—	
Financial literacy	3.65	0.85	0.83	.889	.816	.847	.788	—

Note. All correlations are significant at p < .001 (2-tailed). α = Cronbach's alpha.

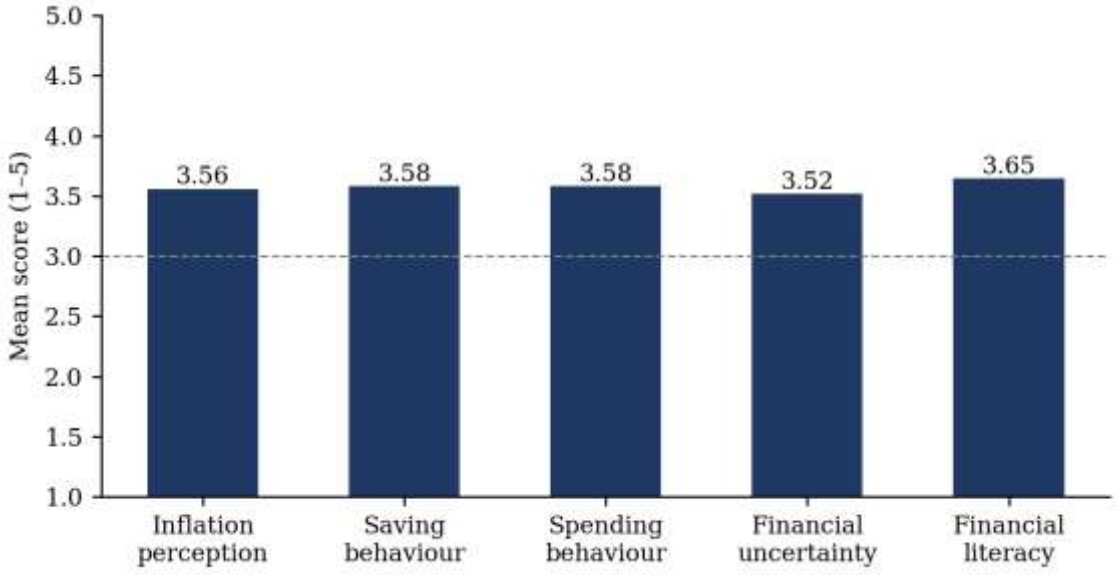


Figure 2. Mean construct scores

Mean scores for all constructs lie between 3.52 and 3.65 on the five-point scale, which is above the neutral midpoint of 3 and indicates general agreement that inflation has affected the respondents' finances. At item level, 71.0% agreed or strongly agreed that they had noticed a significant increase in household prices (Q6) and 61.3% said it is difficult to maintain planned savings when prices rise (Q10). The reliability coefficients (0.83 to 0.91) exceed the 0.70 threshold, so the scales are internally consistent. All constructs are strongly and positively correlated; the highest correlation is between saving and spending behaviour (r = .941).

9.3 Chi-square tests of independence

Table 5. Chi-square tests: profile variables and level of behaviour (High vs Low/Moderate)

Profile variable	Behaviour / outcome	χ^2	df	p	Cramér's V	Result
Income	Saving behaviour	24.61	4	< .001	0.51	Associated
Income	Spending behaviour	26.52	4	< .001	0.53	Associated
Income	Financial uncertainty	23.81	4	< .001	0.51	Associated
EMI / loan	Saving behaviour	0.94	1	.333	0.10	Independent
EMI / loan	Spending behaviour	0.13	1	.714	0.04	Independent
EMI / loan	Financial uncertainty	0.85	1	.355	0.10	Independent
Age group	Saving behaviour	5.12	2	.077	0.23	Independent
Age group	Spending behaviour	7.51	2	.023	0.28	Associated
Age group	Financial uncertainty	11.34	2	.003	0.35	Associated
Gender	Saving behaviour	0.03	1	.870	0.02	Independent
Gender	Spending behaviour	0.33	1	.564	0.06	Independent
Gender	Financial uncertainty	0.13	1	.714	0.04	Independent

Note. High = construct mean above 3.5. No cell had an expected count below 5.

Monthly household income is significantly associated with the level of saving ($\chi^2 = 24.61$, df = 4, $p < .001$), spending ($\chi^2 = 26.52$, $p < .001$) and financial uncertainty ($\chi^2 = 23.81$, $p < .001$), with large effect sizes (Cramér's V of about 0.51–0.53). The pattern is driven by the highest income group: none of the 15 respondents earning above ₹1,00,000 reported a high level on any of the three outcomes, whereas 73% of those earning below ₹25,000 reported high saving and spending effects.

Age group is significantly associated with spending ($\chi^2 = 7.51$, df = 2, $p = .023$) and financial uncertainty ($\chi^2 = 11.34$, $p = .003$) but not with saving ($\chi^2 = 5.12$, $p = .077$). Respondents aged 35–44 were less likely to report high spending effects and high uncertainty than younger respondents. EMI/loan status and gender were not significantly associated with any outcome (all $p > .05$).

9.4 One-way ANOVA

Table 6. One-way ANOVA of construct scores by profile groups

Factor	Dependent variable	df	F	p	η^2	Result
Monthly household income	Saving behaviour	(4, 88)	11.08	< .001	0.335	Significant
	Spending behaviour	(4, 88)	14.92	< .001	0.404	Significant
	Financial uncertainty	(4, 88)	14.67	< .001	0.400	Significant
Employment status	Saving behaviour	(5, 87)	12.20	< .001	0.412	Significant

Factor	Dependent variable	df	F	p	η^2	Result
	Spending behaviour	(5, 87)	14.60	< .001	0.456	Significant
	Financial uncertainty	(5, 87)	9.87	< .001	0.362	Significant
Age group	Saving behaviour	(3, 89)	4.65	.005	0.135	Significant
	Spending behaviour	(3, 89)	10.19	< .001	0.256	Significant
	Financial uncertainty	(3, 89)	7.80	< .001	0.208	Significant
EMI / loan obligation	Saving behaviour	(1, 91)	0.18	.670	0.002	Not significant
	Spending behaviour	(1, 91)	0.84	.362	0.009	Not significant
	Financial uncertainty	(1, 91)	0.08	.778	0.001	Not significant

Table 7. Mean scores by monthly household income

Income group	n	Saving	Spending	Uncertainty
Below ₹25,000	33	3.85	3.88	3.82
₹25,001–₹50,000	12	3.67	3.83	3.83
₹50,001–₹75,000	21	3.81	3.67	3.52
₹75,001–₹1,00,000	12	3.83	3.92	3.92
Above ₹1,00,000	15	2.40	2.33	2.27

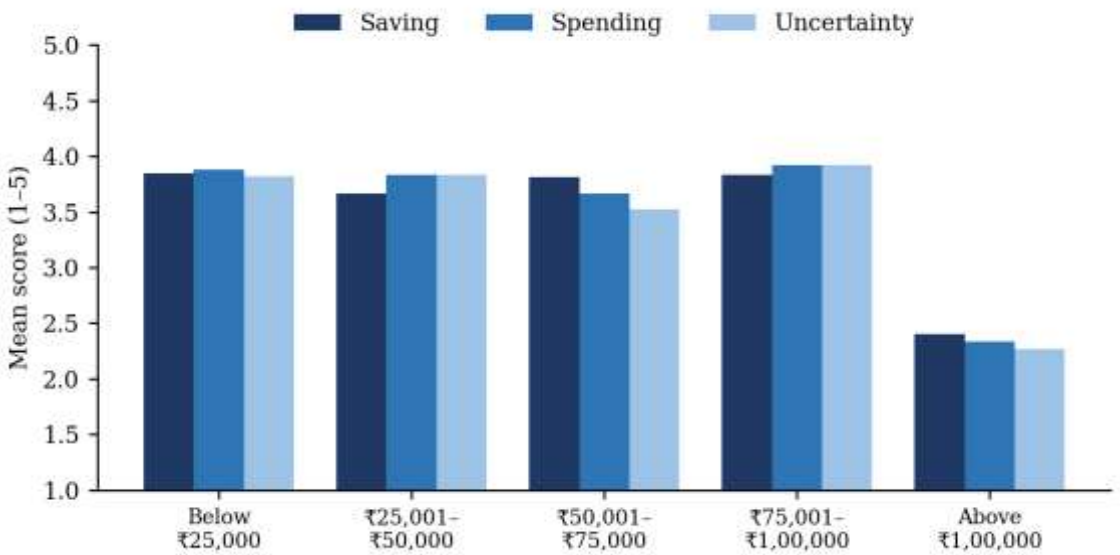


Figure 3. Mean saving, spending and uncertainty scores by income group

Income produced significant differences in saving ($F(4, 88) = 11.08$, $p < .001$, $\eta^2 = 0.34$), spending ($F = 14.92$, $p < .001$, $\eta^2 = 0.40$) and uncertainty ($F = 14.67$, $p < .001$, $\eta^2 = 0.40$). Table 7 shows that the first four income groups have similar means between 3.5 and 3.9, while the group earning above ₹1,00,000 has much lower means (2.40 for saving, 2.33 for spending and 2.27 for uncertainty).

Employment status (η^2 between 0.36 and 0.46) and age group (η^2 between 0.14 and 0.26) also differentiated all three outcomes (all $p < .01$). Salaried employees reported the highest spending effect (mean 4.17) and business owners the lowest among the larger groups (3.11); the government-employee group ($n = 3$) scored 1.00 on every outcome and should be interpreted cautiously because of its size. By age, respondents aged 30–34 reported the highest uncertainty (4.06) while those aged 35–39 and 40–44 reported the lowest scores. EMI/loan status did not produce significant differences in saving ($F = 0.18$, $p = .670$), spending ($F = 0.84$, $p = .362$) or uncertainty ($F = 0.08$, $p = .778$).

9.5 Regression analysis: impact of inflation (H1, H2 and H4)

Table 8. Simple linear regression results

Model	Relationship	B	SE	β	t	p	R^2	F
M1	Inflation → Saving behaviour	0.928	0.070	.812	13.27	< .001	.659	176.06
M2	Inflation → Spending behaviour	0.894	0.069	.807	13.03	< .001	.651	169.90
M3	Inflation → Financial uncertainty	0.848	0.079	.748	10.77	< .001	.560	115.93
M4	Financial uncertainty → Spending	0.836	0.053	.855	15.75	< .001	.732	247.96

Note. N = 93; df = (1, 91) for all models; every model F-test is significant at p < .001.

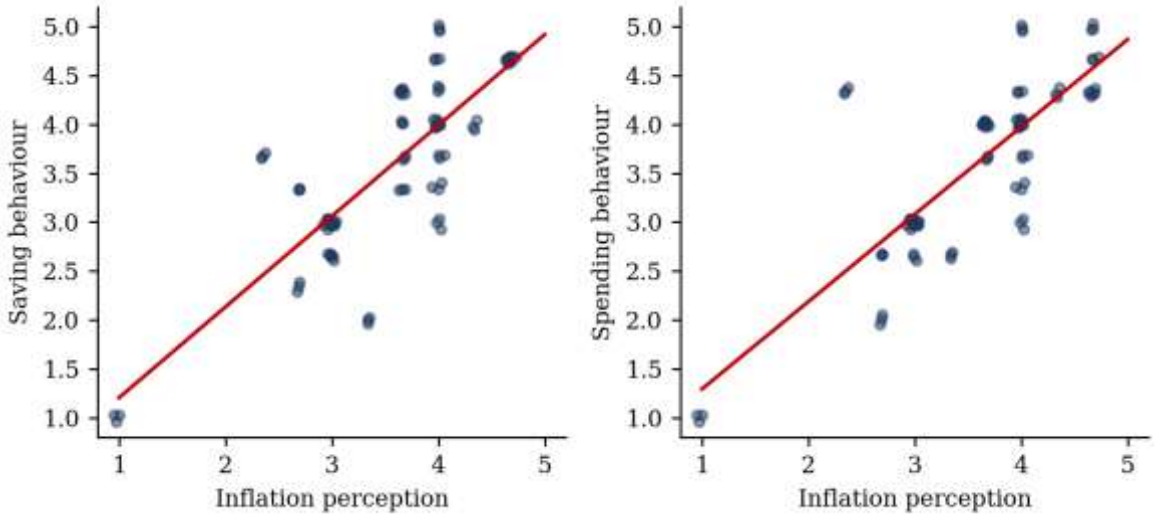


Figure 4. Scatter plots of inflation perception against saving and spending behaviour, with fitted regression lines

H1. Inflation perception significantly predicts saving behaviour ($B = 0.928$, $\beta = .812$, $t = 13.27$, $p < .001$) and explains 65.9% of its variance ($F(1, 91) = 176.06$). It also significantly predicts spending behaviour ($B = 0.894$, $\beta = .807$, $p < .001$, $R^2 = .651$). A one-point increase in perceived inflation is associated with a 0.93-point rise in the saving-constraint score and a 0.89-point rise in the spending-effect score. The null hypothesis H0-1 is rejected.

H2. Inflation perception significantly predicts financial uncertainty ($B = 0.848$, $\beta = .748$, $t = 10.77$, $p < .001$, $R^2 = .560$), so H0-2 is rejected.

H4. Financial uncertainty significantly influences spending behaviour (B = 0.836, β = .855, *t* = 15.75, p < .001) and explains 73.2% of its variance, so H0-4 is rejected. Because the model is a simple regression, the same strength of association holds if the direction suggested in Objective 4 (spending behaviour to financial uncertainty) is examined.

9.6 Mediation analysis (H3)

Table 9. Mediation of the inflation effect by financial uncertainty

Path	Outcome: Saving	Outcome: Spending
a: Inflation → Uncertainty	0.848	0.848
b: Uncertainty → Outcome (controlling inflation)	0.527	0.559
c: Total effect of inflation	0.928	0.894
c′: Direct effect of inflation	0.482	0.420
Indirect effect (a × b)	0.447	0.474
Sobel z	5.86	6.39
Sobel p-value	< .001	< .001
Proportion mediated	48.1%	53.0%
Conclusion	Partial mediation	Partial mediation

Note. Coefficients are unstandardised. Direct effects (c') remain significant at p < .001 in both models.

Following Baron and Kenny's steps, inflation significantly predicts financial uncertainty (path a = 0.848), and when inflation and uncertainty enter the model together (M5, R^2 = .779; M6, R^2 = .795) both remain significant predictors. The direct effect of inflation falls from 0.928 to 0.482 for saving and from 0.894 to 0.420 for spending, while the indirect effects (0.447 and 0.474) are significant on the Sobel test (z = 5.86 and 6.39, both p < .001). Financial uncertainty therefore partially mediates the relationship, carrying roughly 48% of the inflation effect on saving and 53% of the effect on spending. H0-3 is rejected.

9.7 Moderation analysis (H5)

Table 10. Moderating effect of financial literacy (interaction terms)

Model	Interaction term	B	SE	β	t	p	R^2
M7	INF × FL → Spending	-0.023	0.046	−.032	-0.50	.620	.732
M8	UNC × FL → Spending	-0.051	0.037	−.071	-1.39	.169	.815
M9	INF × FL → Uncertainty	-0.039	0.055	−.052	-0.70	.485	.634

Note. Predictors were mean-centred before the product term was formed.

None of the interaction terms is statistically significant: INF × FL on spending (B = −.023, p = .620), UNC × FL on spending (B = −.051, p = .169) and INF × FL on uncertainty (B = −.039, p = .485). The negative signs hint that stronger financial literacy may slightly weaken the paths, but the evidence is not sufficient, so H0-5 is not rejected. Financial literacy has a significant direct association with spending (β = .618 in M7) and uncertainty (β = .585 in M9). Because literacy is highly correlated with inflation perception (r = .889), part of this overlap may reduce the power to detect interactions.

9.8 Summary of hypothesis testing

Table 11. Summary of hypothesis testing

Hypothesis	Statement (null)	Key result	Decision on H0
H0-1	Inflation has no significant impact on saving and spending behaviour	β = .812 (SAV); β = .807 (SPE); p < .001	Rejected
H0-2	No significant impact of inflation on financial uncertainty	β = .748; p < .001	Rejected
H0-3	Financial uncertainty does not mediate inflation and saving/spending	Sobel z = 5.86 (SAV), 6.39 (SPE); p < .001	Rejected (partial mediation)
H0-4	Financial uncertainty does not significantly influence spending	β = .855; p < .001	Rejected
H0-5	No significant moderating effect of financial literacy	Interaction p = .620, .169, .485	Not rejected

10. Discussion of Findings

The findings indicate that there are close links between inflation and the savers and spenders perceptions of saving and spending among millennial households. Those who feel higher price rises more likely to find it harder to save and more likely to lead to an increase or change in expenditure. This is corroborated by the literature which emphasizes the negative impact of consumer confidence on household consumption in India as consumer prices rise (Nazir & Mir, 2025), the shift toward essentials and away from non-essentials by consumers with the rising price of essentials and non-essentials (Yadiyal, 2025), and the negative impact on saving by households (Keshan & Gupta, 2026). The result that inflation hampers savings is consistent with Singh, Mishra and Shaw (2022) and Vellekoop and Wiederholt (2019) finding that households with higher inflation expectations are less likely to save.

The mediation outcome brings this to the fore. About half of the inflation effect happens via financial uncertainty; that is, the rise in prices has an impact on behaviour not just because households face an immediate squeeze on their budgets, but because they find it harder to plan, and are less certain of being able to cover future expenditure. This is consistent with the behavioural approach put forward by D'Acunto, Malmendier and Weber (2022) and Weber (2022), which argues that perceptions and expectations influence financial decisions of households. Besides, uncertainty was the single most important predictor of spending behaviour (β = .855). The other direct effect is represented by what is left, in this case other channels (direct rise in the price of essentials).From the group comparisons, it is evident that not everyone is equally affected. Households earning above ₹1,00,000 per month reported much weaker inflation effects than every other income group, which is consistent with Narayanaswamy et al. (2022), who found income to be a stronger influence on saving than age, and with Lieb and Schuffels (2022) and Agarwal et al. (2023), who show that household wealth and liquidity change how consumers respond to inflation. The four lower income bands were virtually identical, indicating a similar experience for households in the lower bands. Older people (35-44 years) were also less uncertain and had less impact on spending than were younger people (25-34 years), but this study cannot evaluate the possible explanation of more stable earnings.

Interestingly, there was no significant difference between the EMI/loan status. Debt obligations may be thought to exert more pressure on inflation perception, but in this sample, debtors and non-debtors responded similarly, and so the inflation perception and income seem to be more important than the loan status. The inflation paths were found to be statistically insignificant with financial literacy, contrary to the hypothesis that financial literacy influences how the households behaved in adjusting to inflation as was suggested by Agarwal et. al. (2023) and Paul, Roushon and Laskar (2025). The outcomes, however, were found to be highly correlated with literacy, such that the test of interaction effects

did not have much power to separate out the different effects. A measure of understanding and confidence in literacy was employed in this study, rather than a test of knowledge, and may account for the weak moderation result.

11. Conclusion

This study used a primary data with 93 respondents to find out the impact of inflation on the saving and spending behaviour of millennials. Saving behaviour was strongly and significantly affected by inflation, as was spending behaviour and financial uncertainty, which in turn partially mediated these behavioural effects and significantly influenced spending behaviour. There was no significant moderation of the relationships by financial literacy. Households' income, age and employment status were found to be significant factors in how affected a household was, with the highest income group least affected, while EMI/loan status and gender had no significant effect. Overall, the findings suggest that inflation affects millennial households in two ways: directly through the budget squeeze, and indirectly by raising financial uncertainty.

12. Implications

Households can cut the uncertainty of inflation from spending and saving decisions by increasing their emergency buffer and creating a flexible monthly budget.

For policy makers: price stability, particularly for food, fuel and transport, is important for households in the lower income bands because these households also report a similar pressure to save.

For banks and financial advisers, products and advice targeted to the 25-34 age group, like goal-based savings and investment options that consider inflation, will help alleviate the uncertainty of this age group.

Financial education: Due to the strong association between behaviour and literacy, and the absence of moderation of the inflation effects, programmes should include practical planning skills as well as awareness of the inflation devaluation of money.

13. Limitations and Scope for Future Research

There are a number of limitations to the study. These data are cross-sectional and self-reported, and thus reflect association and perceived patterns of saving and spending rather than proof of causation and measured rupee changes in saving and spending. Small–the sample size is small and the groups are very small (e.g. government employees, n = 3) and they were selected by convenience from one city. Only three items are included for each construct and the constructs are highly inter-correlated, potentially due to common-method effects and thereby limiting the capacity to detect moderation. ANOVA results assume equal variances and post-hoc multiple comparisons were not performed. Changes in financial priorities and financial stress from the conceptual framework were not measured separately by scales.

Larger probability samples across multiple cities, panel and/or experimental designs, objective income, savings, and expenditure measures, and/or structural equation modelling or PLS-SEM to test mediation and moderation simultaneously could be useful in future studies. Based on the full conceptual framework, separate scales for financial stress, financial priorities, and debt burden and digital financial services would enable the entire framework to be tested.

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