

The Effects of Inflation on Consumer Purchasing Power and Sales Volume of Small and Medium Enterprises in Area 25 Nsungwi Market

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Abstract: *Inflation remains a persistent macroeconomic challenge affecting household consumption and small business sustainability in developing economies. This study investigates the effects of inflation on consumer purchasing power and sales performance of small and medium enterprises (SMEs) in Area 25 Nsungwi Market. A mixed-methods approach was employed using survey data from 36 respondents and regression analysis. Results reveal a significant negative relationship between inflation and consumer purchasing power ($\beta = -0.62, p < 0.05$) and SME sales volume ($\beta = -0.58, p < 0.05$). The findings provide empirical evidence from a local informal market context, demonstrating how inflation simultaneously reduces demand and business revenue. The study contributes to SME and inflation literature by presenting micro-level evidence from an under-researched market environment and highlights adaptive strategies for SME resilience under inflationary conditions.*

Keywords: Inflation, Purchasing Power, SMEs, Sales Volume, Consumer Behavior, Malawi

I. INTRODUCTION

Inflation represents a sustained increase in the general price level, resulting in reduced real income and declining purchasing power. In developing economies, inflation exerts strong pressure on both consumers and small business operations. Small and medium enterprises (SMEs) are particularly vulnerable due to limited capital reserves and dependence on local demand.

Area 25 Nsungwi Market represents a typical urban informal market where SMEs form the backbone of local economic activity. Persistent inflation in Malawi has raised concerns regarding declining consumer purchasing power and weakening SME performance. Despite extensive macroeconomic research on inflation, limited empirical studies examine its combined effects on purchasing power and SME sales at the micro-market level.

This study therefore investigates the relationship between inflation, consumer purchasing power, and SME sales volume in Area 25 Nsungwi Market. By providing localized empirical evidence, the research contributes to understanding inflation impacts on informal market economies.

II. LITERATURE REVIEW

A. Inflation and Consumer Purchasing Power

Inflation reduces real income and limits household consumption capacity (Mishkin, 2019; Nell, 2020). Rising prices force consumers to prioritize essential goods and reduce discretionary expenditure (Adu & Asamoah, 2019). In developing economies where wage growth lags inflation, purchasing power declines more sharply. In Malawi, monetary expansion and supply shocks contribute significantly to inflationary pressures (Simwaka, 2012).



B. Inflation and SME Performance

SMEs operate with limited financial buffers and are highly sensitive to cost increases. Inflation raises input prices and operational expenses, reducing profitability and revenue stability (Blanchard, 2020; Khan & Ahmed, 2021). Empirical evidence shows inflation negatively affects SME growth and financial resilience (Beck, 2018; Bhattarai, 2021).

C. Purchasing Power and Sales Volume

Sales volume reflects market demand and business performance. Reduced purchasing power lowers consumer demand, thereby decreasing SME sales. Inflation therefore affects SMEs both directly through rising costs and indirectly through weakened demand (Demirgüç-Kunt, 2018; Findling, 2024).

III. METHODOLOGY

A mixed-methods research design was adopted combining quantitative regression analysis with descriptive survey data. The study targeted SME operators and consumers in Area 25 Nsungwi Market.

Using Slovin's formula with a population of 40 and 5% margin of error, the sample size was 36 respondents. Structured questionnaires were used to collect primary data.

Inflation was specified as the independent variable, while consumer purchasing power and SME sales volume were dependent variables. Linear regression analysis was applied to determine relationships between variables.

IV. RESULTS

Regression analysis indicates a statistically significant negative relationship between inflation and consumer purchasing power ($\beta = -0.62$, $p < 0.05$). Inflation also significantly reduces SME sales volume ($\beta = -0.58$, $p < 0.05$). The model explains 41% of the variation in SME sales performance ($R^2 = 0.41$), demonstrating that inflation is a major determinant of declining SME revenue in the study area.

V. DISCUSSION

The findings confirm that inflation erodes consumer purchasing power and reduces SME sales performance in local market environments. As prices rise, consumers reduce non-essential spending, leading to decreased demand for SME products. SMEs simultaneously face higher operating costs and reduced revenue, creating a dual inflationary burden.

This study provides micro-level empirical evidence supporting macroeconomic theory on inflation effects while extending existing literature to informal market contexts. The results demonstrate that inflation impacts SMEs not only through cost increases but also through demand contraction driven by declining purchasing power.

VI. CONCLUSION

This study establishes that inflation significantly reduces consumer purchasing power and SME sales volume in Area 25 Nsungwi Market. The research provides localized empirical evidence of inflation's dual impact on demand and small business performance in informal economies.

The findings highlight the need for price stabilization policies and SME support mechanisms in inflation-prone economies. SMEs should adopt adaptive strategies such as flexible pricing, cost control, and product diversification to maintain resilience under inflationary conditions.

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