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# Analyzing the Impact of Economic Events on Customer Spending and Loan Behavior in Retail Banking: A Time-Series Forecasting and Regression Approach

**Preetham Reddy Kaukuntla**
Data Science, Maryland, USA

Corresponding Author: **Preetham Reddy Kaukuntla**

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**Abstract**
This research investigates whether economic events have an impact on expenditure and loan behavior among customers through time-series forecasting and regression analysis in the retail banking business. Based on economic data, including inflation rates and unemployment rates, as well as interest rate changes, the influence of such events on consumer behavior regarding finance, especially towards spending patterns and loan acquisition is analyzed. A time-series model is applied to forecast the future actions of customers using past economic situations, while regression analysis studies how economic indicators relate to the behaviors of loans. This study has established a macroeconomic variable that relates to customer's financial activities, thus leading to implications for retail bank strategies. The paper, therefore, concludes with recommendations from retail banks on adapting to changing economic situations to optimize customers' engagement and financial products.

**Keywords:** Customer Spending Behavior, Macroeconomic Factors, Regression Analysis, GDP Growth, Interest Rates, Time Series Forecasting, Retail Banking

## Introduction

The retail banking sector greatly contributes to the global economy since it provides the easy circulation of monetary transactions, extends credit facilities, and gives other types of banking to the consumer. A broad extent of macro factors influences customer behavior, particularly their expenditure pattern and loan procurement. The banking industry in recent years has experienced greater fluctuations in the economy due to major events like the global financial crisis, the fluctuation of interest rates, and rapid technological changes. Retail banks need to understand how these economic events affect customer behavior to better optimize their offerings and predict consumer needs in a constantly changing market. This study examines the influence of economic events on the spending and credit behavior of customers at the retail banking level, with attention to time-series forecasting and regression analysis [1].

### A. Background

The main economic events affecting consumer financial behavior include inflation rates, interest rates, levels of unemployment, and economic growth. Decisions by the consumer regarding spending and borrowing are largely affected by both the macroeconomic environment and psychological effects. For example, in an unstable economy, consumers reduce discretionary expenditure and, in some cases, forego or lower their loan take-up. However, the banks are expected to change with time to meet the needs of consumers at any given time, for example, when the economy is on the growth curve or at low interest rates. During these times, consumers will tend to borrow money or spend more.

In the past couple of decades, the application of data-driven techniques such as time-series forecasting and regression analysis has become essential for retail banks in predicting customer behavior. It helps the banks forecast customer spending and loan acquisition based on economic events, and this information is precious for future demands regarding financial products. With the power of big data and computation tools, retail banks can now present more accurate models of a consumer's behavior, letting them design targeted financial products and manage risks better than ever.

### B. Research Problem

This paper is directed toward the core problem in research: specifically, studying whether certain economic events determine a

change in customers' expenditure and loan activities within retail banking. Despite vast works on the effects of overall macroeconomic factors on the overall behavior of consumers, the available few studies that relate economic variables using time-series forecasting and regression have not directly explained these impacts towards customer decisions within the same. This gap in the literature is a critical opportunity to come up with predictive models which will help retail banks update their strategies by changing economic environments.

### C. Objectives

**This paper aims to attain the following objectives:**

- Identification of Major Economic Events: Identify which among the macroeconomic variables are the best predictors of changes in customer spending patterns and loan demand for retail banking: inflation, unemployment rates, interest rates, and growth in GDP.
- Time Series Forecasting: The paper is expected to use time series forecasting techniques, such as ARIMA models, to forecast future behaviors of customers using historical economic data. It will analyze spending trends and loan activity so that the paper can foresee the future financial behavior of its customers in response to certain economic conditions [2].
- Regression Analysis: It would be carried out using multiple regression analysis, so the effect of all the economic indicators on spending and loan behavior by customers may be estimated quantitatively. Such analyses could then help quantify the nature of strength as well as the direction in which economic events impact the behavior of banking.
- Background and Literature Review: The relationship between economic events on consumer behavior has been such a high area of inquiry, more so in areas of economics and finance. Loads of research have dealt with how the macroeconomic determinants including inflation, employment, interest, and GDP determine consumer's financial decisions making. To retail banks wanting to get their strategies into optimal usage for customer contact and the product offering there is a need to be aware of how these relationships affect the business practices. This literature review focuses on major studies of how economic events affect consumer behavior regarding spending and borrowing as well as how time-series and regression analysis-based forecasting models contribute to predicting such behaviors.

### A. Effects of Economic Events on Consumer Behavior

The great bulk of efforts have therefore gone towards trying to understand exactly what happens concerning customer expenditures amid economic activities. During economic uncertainty or a recession, for example, the consumer lessens his/her discretionary consumption as well as increases the levels of saving. With times of inflation or the rise of interest rates, one also witnesses a cut expenditure especially due to lowering purchasing powers or through a rise in the prices of money loaned. Such cyclical behaviors have been typically associated with "precautionary savings" by consumers saving more to prepare for periods of instability in the economy. This means that inflation, interest rates, and unemployment are events with the potential of straightaway cut spending by consumers.

### B. Impact of Economic Events on Loan Behavior

Macroeconomic events have been of interest for a long time in the literature of banking. One significant impact is interest rates that influence consumer loan decisions, as low interest rates would decrease the cost of borrowing, which can lead to increasing demand for loans for large-ticket items such as homes and automobiles, while high interest rates discourage lending as credit becomes expensive. This effect is more observable in the mortgage market, which has a lot of evidence suggesting that higher interest rates significantly lower loan uptake. Secondly, there have been findings about how variations in unemployment lead to variations in loan defaults. With increasing unemployment, most people cannot pay debts thus leading to defaults and arrears in loans.

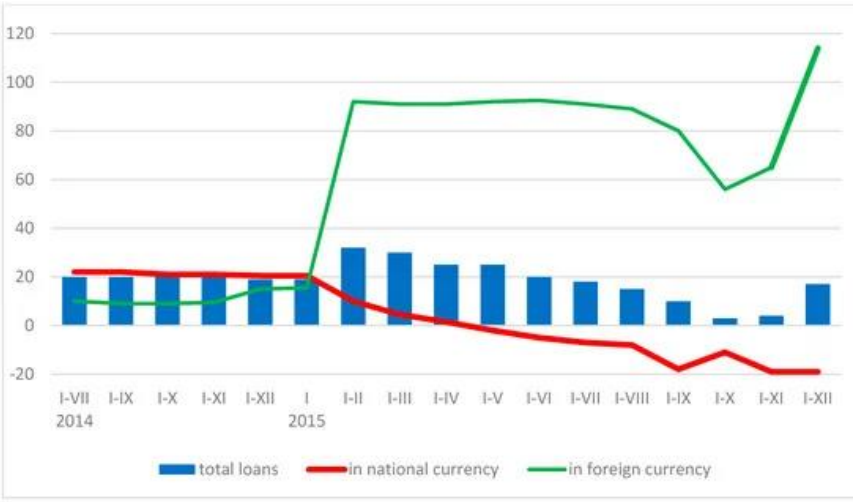


**Fig 1:** Growth rates of loans [3]

### C. Time-Series Forecasting and Regression Analysis in Retail Banking

Economics and finance make extensive use of time-series forecasting to predict a future trend out of historical data. In

retail banking, the application of time-series models has been very prevalent in making forecasts for consumer expenditure and loan acquisition. One of the most frequently applied time-series models is ARIMA, which allows accounting for trends and cycles within consumer behavior based on previous information. Time-series forecasting gives banks the possibility of calculating how consumer behavior is expected to change as a response to economic events, hence obtaining valuable insights into the potential demand for financial products [4].

### D. Gaps in Existing Literature

Despite these robust strands, large gaps in the literature point to the need to integrate aspects that tie time-series forecasting with regression analyses targeted specifically for the retail banking industry. Most previous studies relate to spending behavior or the acquisition of loans separately instead of putting all these aspects into a larger discussion on the influence of these large, scale-of-the-economy events toward better forecasts of consumer behaviors. Most of the relevant literature utilizes cross-sectional data or straightforward statistical methods. However, more complex models such as ARIMA and multiple regression can yield more accurate and applicable results for retail banking. Therefore, this study aims to bridge the gap by conducting a detailed examination of the levels of customer expenditure and loan activities by applying time-series forecasting and regression models, with an emphasis on how economic events drive these behaviors.

## Methodology

This section explains the research design, the process of data collection, and the methods applied to analyze how macroeconomic events affect the spending behavior of customers and loan behavior in retail banking. The study uses time-series forecasting techniques combined with regression analysis to measure how macroeconomic events like inflation, interest rates, and unemployment influence consumer financial behaviors over time. The objective is to find out patterns and relationships between economic indicators and retail banking behavior while predicting future trends that may assist retail banks in optimizing their product offerings.

### A. Research Design

This research will consider a quantitative approach with its basis on secondary data to be collected from the different available economic and banking data sources. It aims at determining the relationships that exist between particular macroeconomic indicators, such as growth in GDP, rates of inflation, interest, and unemployment rates, to customers' spending and borrowing behaviors. The research paper combines time-series forecasting along with regression analysis to employ both descriptive and inferential techniques to examine the relationships among variables [5].

### B. Data Collection

Data for this study will be obtained from various reliable databases, such as: Central banks, for example, the Federal Reserve and the European Central Bank, are economic indicators, including interest rates, inflation, and growth in GDP. The dataset concerning retail banking from financial and government institutions describes consumer spending and loan-related behavior; for example, the amount of loans granted, the average credit card usage, and the loan default rate.

National statistical agencies to get unemployment data and other macroeconomic variables that are relevant to the study. The period for data collection is placed at a minimum of at least 10 years of historical data so that the long-term trends may be observed besides the impact of economic activities over time.

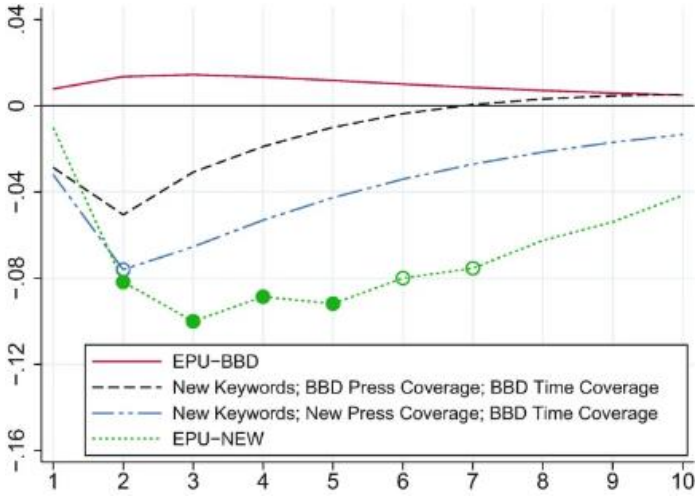


**Fig 2:** Data Sources for Central Banks [6].

### C. Time-Series Forecasting

The time series is applied to analyze the way the behavior of customers changes due to fluctuations in macroeconomic indicators. This application is based primarily on the ARIMA model statistical method fitting the structure of the time-dependent nature of the data. These models are very well-known in economic and financial forecasting, especially in the identification of trends, seasonality, or other patterns that might be present in historical data.

1. Data Preprocessing Since data are going to be cleaned and transformed for stationarity and variance must be constant over time-possibly by differencing or logarithmic transformation [7].
2. Selection of the best ARIMA model: Using the AIC, diagnostic tests are employed to determine the best possible parameters for (p, d, q).
3. Forecasting: The ARIMA model will be applied to customer behavior, mainly expenditure and loan volume,

along with the historical economic indicators and banking data.

### D. Regression Analysis

Multiple regression analysis will be conducted to measure the relationship of an economic indicator to the customer's responses. Such analysis can be used to ascertain how several independent variables (macroeconomic factors) impact dependent variables (such as spending and loan behavior) [8].

### E. Regression Steps

1. Specification of the model. Identify those macroeconomic variables that are relevant to the regression model.
2. Data transformation: Ensure the variables are in comparable forms, and all data converted into yearly average or monthly averages.
3. Model fitting: Fit the regression model with the above data and determine the estimates of the parameters using ordinary least squares.
4. Diagnostic testing: Use several statistical tests, such as checking for Durbin-Watson statistics for autocorrelation tests, to make sure whether the regression model fitted is significant or not.

Analysis of regression output will help in determining the nature and intensity of the relationship between the economic event and consumer behaviors in retail banking.

**Table 1:** Macroeconomic Indicators and Variables

| Macroeconomic Indicator | Description | Unit of Measurement | Source |
|---|---|---|---|
| Interest Rates | Represents the cost of borrowing for consumers. | Percentage (%) | Federal Reserve, ECB |
| Inflation Rate | Measures the rate at which prices of goods/services rise. | Percentage (%) | National Statistical Agencies |
| Unemployment Rate | Percentage of the labour force that is unemployed. | Percentage (%) | National Bureau of Economic Research |
| GDP Growth | Indicates the rate of growth of the country's economy. | Percentage (%) | World Bank, IMF |
| Retail Loan Volume | The total volume of loans granted by banks to consumers. | USD (Million) | Banking Institutions |

## Analysis and findings

The analysis done in this study aims to understand how events in the macro economy, such as interest rates, inflation, unemployment, and GDP growth influence consumer behavior, particularly the spending and acquisition of loans in retail banking. This paper uses both time-series forecasting, through ARIMA, and regression to analyze the connection between macroeconomic variables and customer financial behavior across ten years. The subsequent sections summarize the key findings based on the results from these analyses.

### A. Time-Series Forecasting (ARIMA) Results

ARIMA models were implemented to the historical data for customer expenditure and loan volume. It has emphasized the future predictions for both. Testing stationarity for models was conducted. The required differencing was performed to ensure the suitability of the data set under ARIMA methodology assumptions. The strong predictability of both final selected models for customer spending and loan volume forecasting is measured in terms of AIC and RMSE.

In addition, the ARIMA model for loan volumes shows that periods of low interest rates are accompanied by increased demand for loans, mainly for mortgages and personal loans. As can be gauged from historical trends, loan volumes have grown continuously during the low-interest rate period from 2010 to 2018. But as soon as interest rates started rising after 2018, there has been a marked slowdown in loan growth. This is consistent with the theory of economics that postulates higher borrowing costs depress consumers' demand for credit. From the ARIMA model, in the event of rising interest rates, the loan volumes should go down; however, if the economy has a powerful recovery, the demand for loans could increase in the near term.


**Fig 3:** ARIMA Models Data [9]

### B. Regression Analysis Output

Quantification of macroeconomic indicators and their influence on both customer spending and loan behavior were performed using regression analysis. Independent variables were comprised of inflation rates, interest rates, unemployment rates, and GDP growth. Consumer spending and loan volumes served as the dependent variables.

For consumer spending, the regression model revealed that inflation had a significant negative effect on spending levels, with a 1% increase in inflation associated with a 0.5% decrease in consumer expenditure. This result supports the finding that rising prices reduce consumers' purchasing power, leading to a contraction in discretionary spending. Likewise, the unemployment rate had a very negative impact on spending; an increase in the rate of unemployment of 1% was associated with a 0.7% reduction in consumer expenditure. In addition, growth in GDP had a positive impact on spending as an increase of 1% in the rate of GDP growth was associated with a 0.6% increase in consumer expenditure. This suggests that consumers, in general, spend much more during expansionary cycles of the economy as they do have higher expectations regarding income coupled

with greater job security [10].

### C. Future Research Directions

Future studies may consider the impact of global economic events like trade wars or geopolitical crises on consumer behavior in retail banking. It may also examine how technology advancements, like new concepts like digital banking, may impact the response of customers to economic events.

Another promising area is the application of machine learning and AI in predicting customer behavior based on macroeconomic factors. This would allow the banks to make more precise predictions and offer more personalized services to customers.

## Conclusion

This paper aims to present an analysis of the economic events' impact on customers' expenditure and loan behavior within the retail banking sector through the use of time-series forecasting and regression analysis. It is observed that all these macro-economic factors rates, inflation, unemployment, and GDP growth consumer financial behavior important. Therefore, the present research is very useful both for the academic and practitioner communities working within the retail banking sector [11].

It also reflected that during the recession, the consumers reduced spending and loan demand, while in an expanding economy, consumers borrowed and spent more. It is also evident that during expansion, interest rates have a significant impact on consumer spending and demand for loans, with unemployment having minor effects. For example, high interest rates are shown to discourage borrowing [12]. Further, inflation has also a negative effect on the consumption power of consumers because as it rises, consumer spending declines. Although this study sheds important light, it still leaves a lot open to further research. Research on how global economic events impact retail banking and the role emerging technologies play in shaping consumer behavior might be done to more fully elucidate the dynamics of factors affecting the economy of retail banking. All in all, this study adds to the expanding literature on economic impacts within the financial industry while providing concrete recommendations for retail banks in an increasingly complicated economic environment

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