

# **Unanchored Inflation Expectations in Business Tendency Surveys: How Real is Nominal ?**

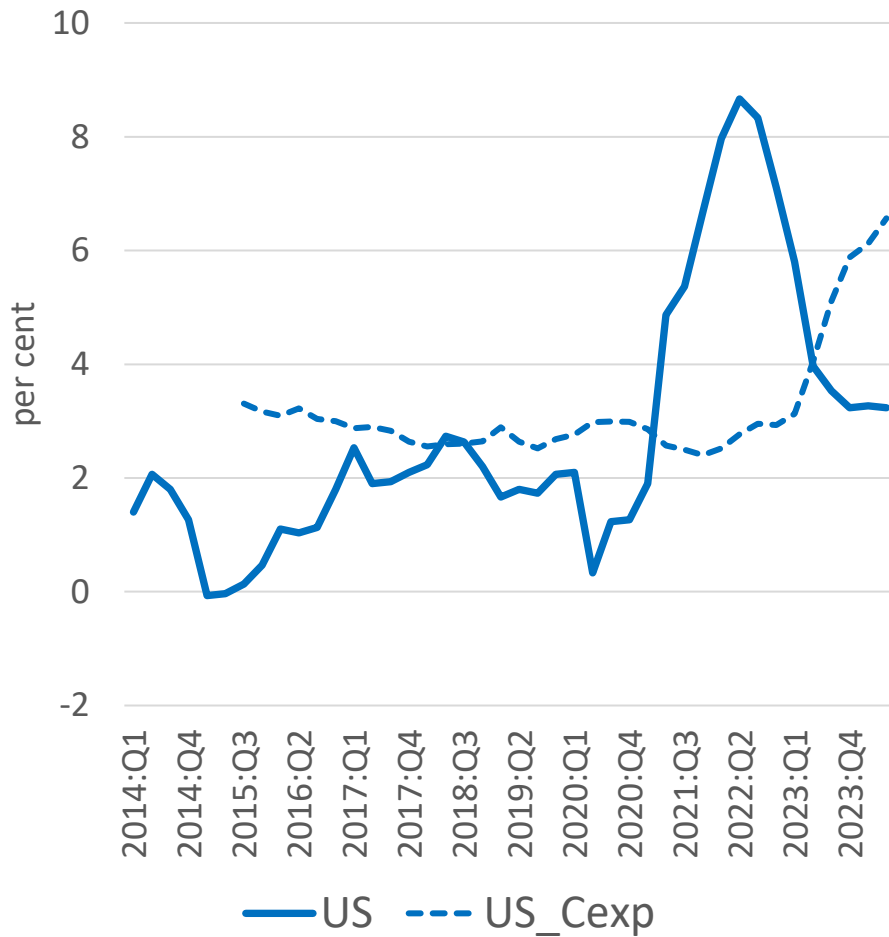
## **Pre-Conference Workshop on Impact of Inflation on Macroeconomic Measurement and Analysis**

[Session 2: The Impact of Inflation on Business and Consumer Sentiment and  
Economic Analysis and Forecasting]

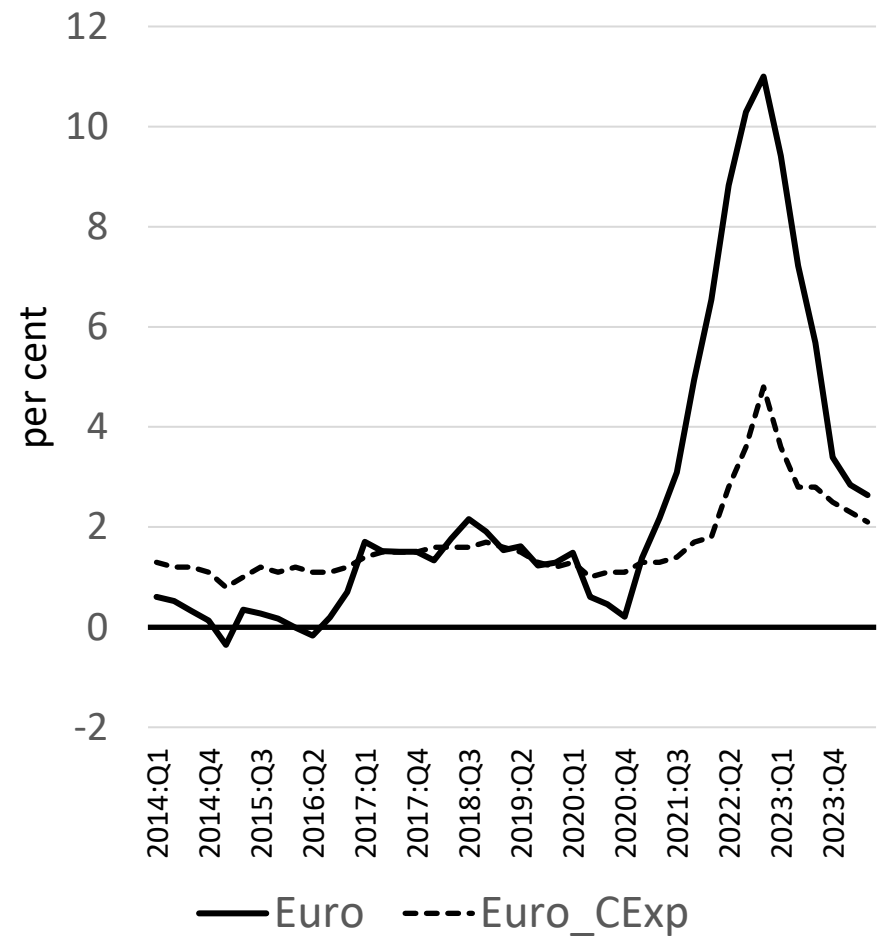
**CIRET Conference 2024, Vienna**  
September 10, 2024

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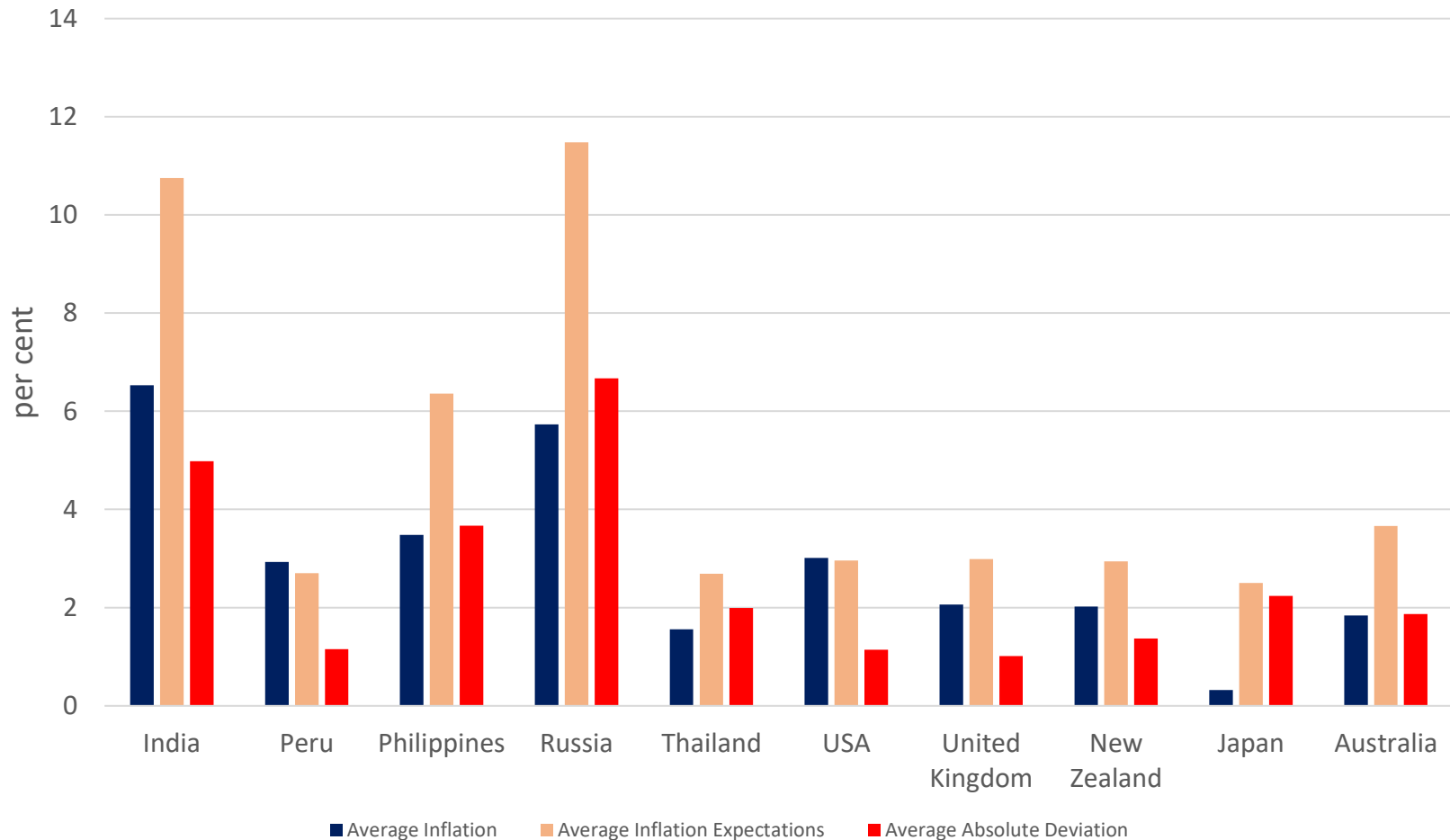
### US CPI Inflation and Inflation Expectations



### Euro Area HICP Inflation and Inflation Expectations



## Average CPI Inflation and Consumer Inflation Expectations: Select Economies (since 2009 or subsequent available period)



# Inflation, Inflation Expectations and Deviations: Country-wise

Country	Average Inflation	Average Inflation Expectations	Average Absolute Deviation	Deviation (per cent)
(1)	(2)	(3)	(4)	(5) = (4)/(2)
<b>India</b>	6.53	10.75	4.98	76.3
<b>Peru</b>	2.93	2.70	1.15	39.2
<b>Philippines</b>	3.48	6.36	3.67	105.5
<b>Russia</b>	5.73	11.48	6.67	116.4
<b>Thailand</b>	1.56	2.69	1.99	127.6
<b>USA</b>	3.01	2.96	1.14	37.9
<b>United Kingdom</b>	2.06	2.99	1.01	49.0
<b>New Zealand</b>	2.02	2.94	1.37	67.8
<b>Japan</b>	0.32	2.50	2.24	700.0
<b>Australia</b>	1.84	3.66	1.87	101.6
→ Consumers expect higher than actual economies for most economies → Noise-to-signal ratio is high				

# Precision of Inflation Forecasts in Surveys

Performance hierarchy:

1. Survey of Professional Forecasters

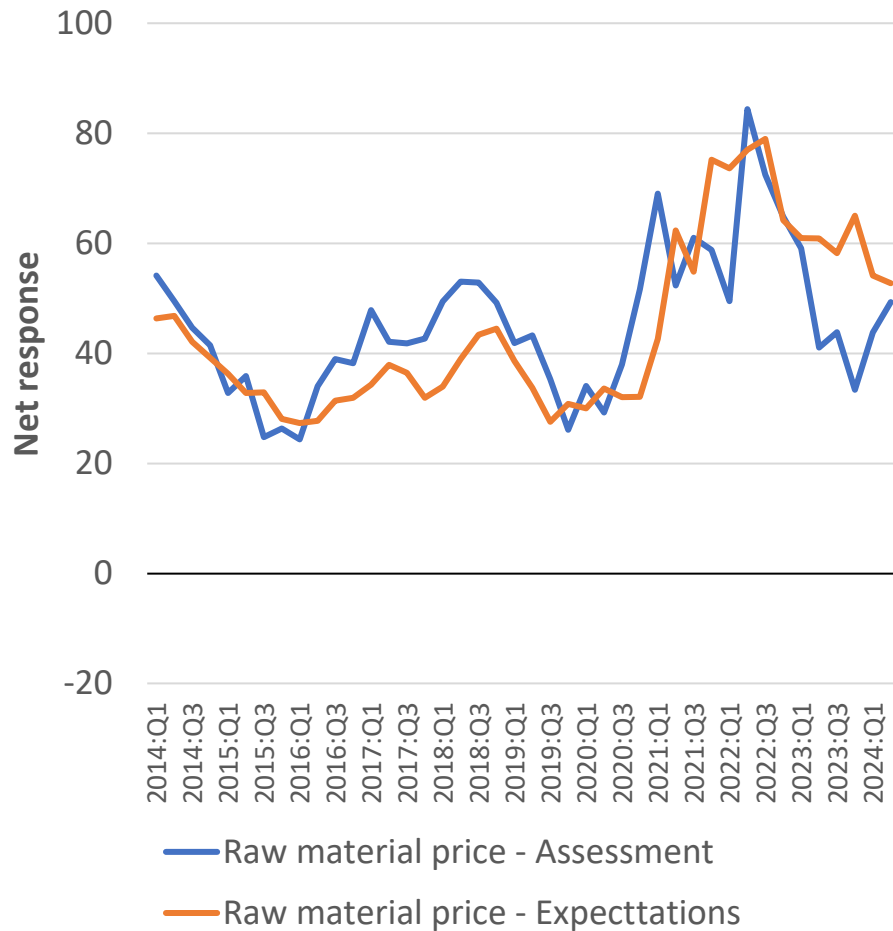
2. Businesses surveys

3. Consumers surveys

# Some Relevant Stylised Facts

- More production and marketing moved to organised sector:
  - Dispersion in inflation (Regional and Product) has come down
- Prolonged high inflation:
  - stickiness in consumers' elevated inflationary expectations
- Weaker business firms have lower growth expectations:
  - If they cease to operate, sample composition loses dynamic comparison, which is especially important in periods of turmoil
- New entrants in Business sector:
  - More optimistic

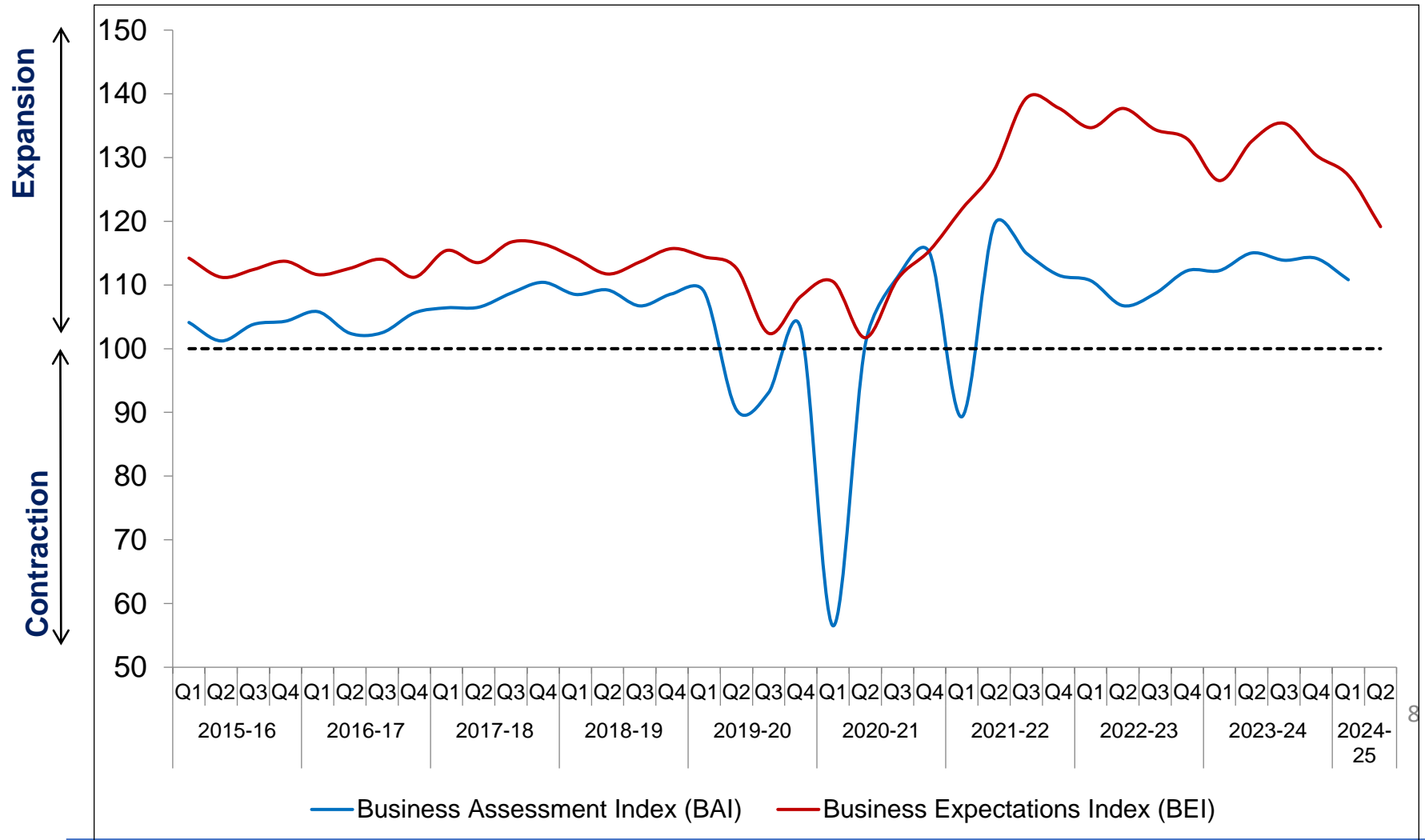
### Raw Material Prices - Business Assessment and Expectation



### Selling Prices - Business Assessment and Expectation

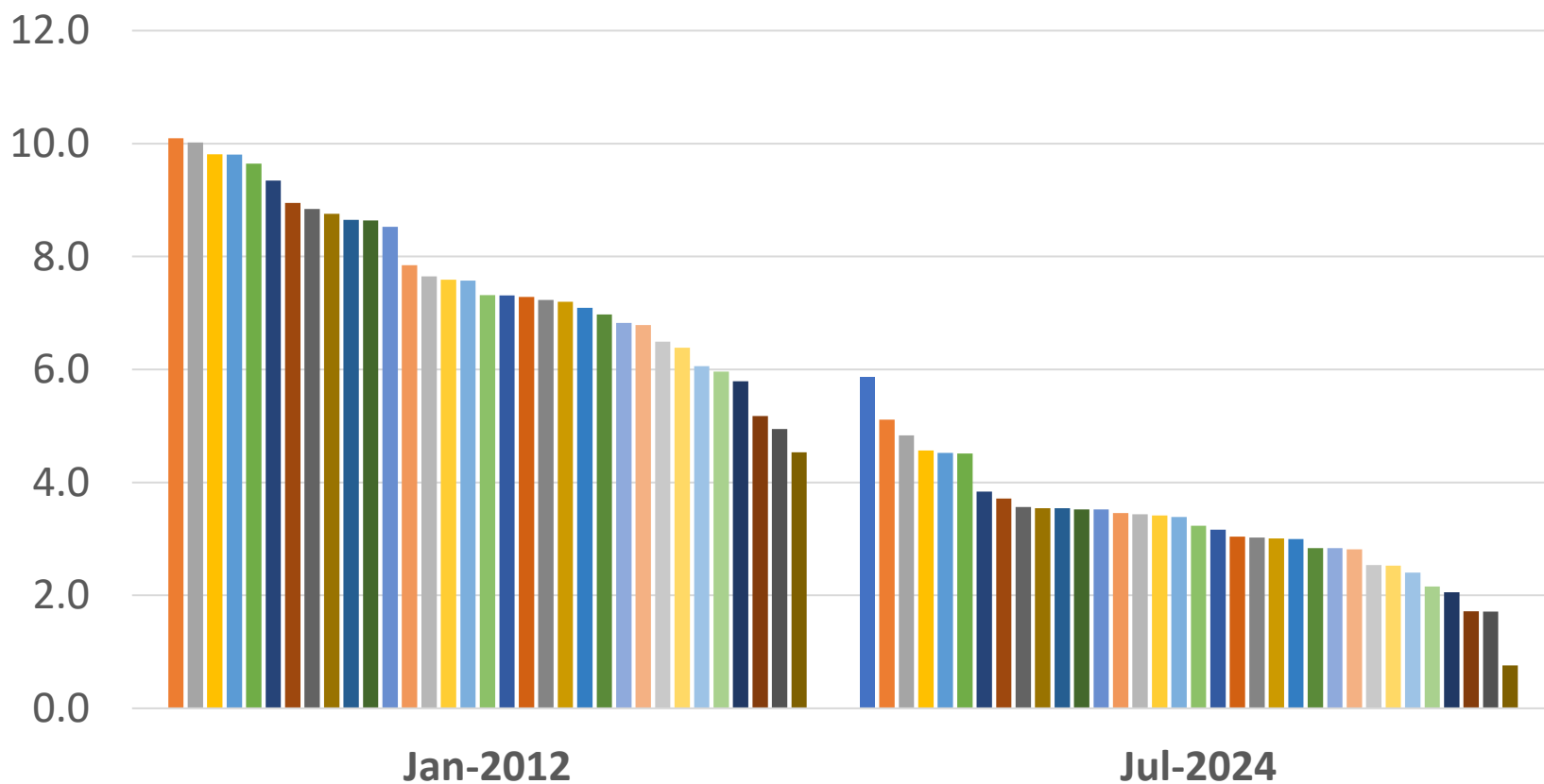


# Manufacturers' Sentiments on Demand Conditions

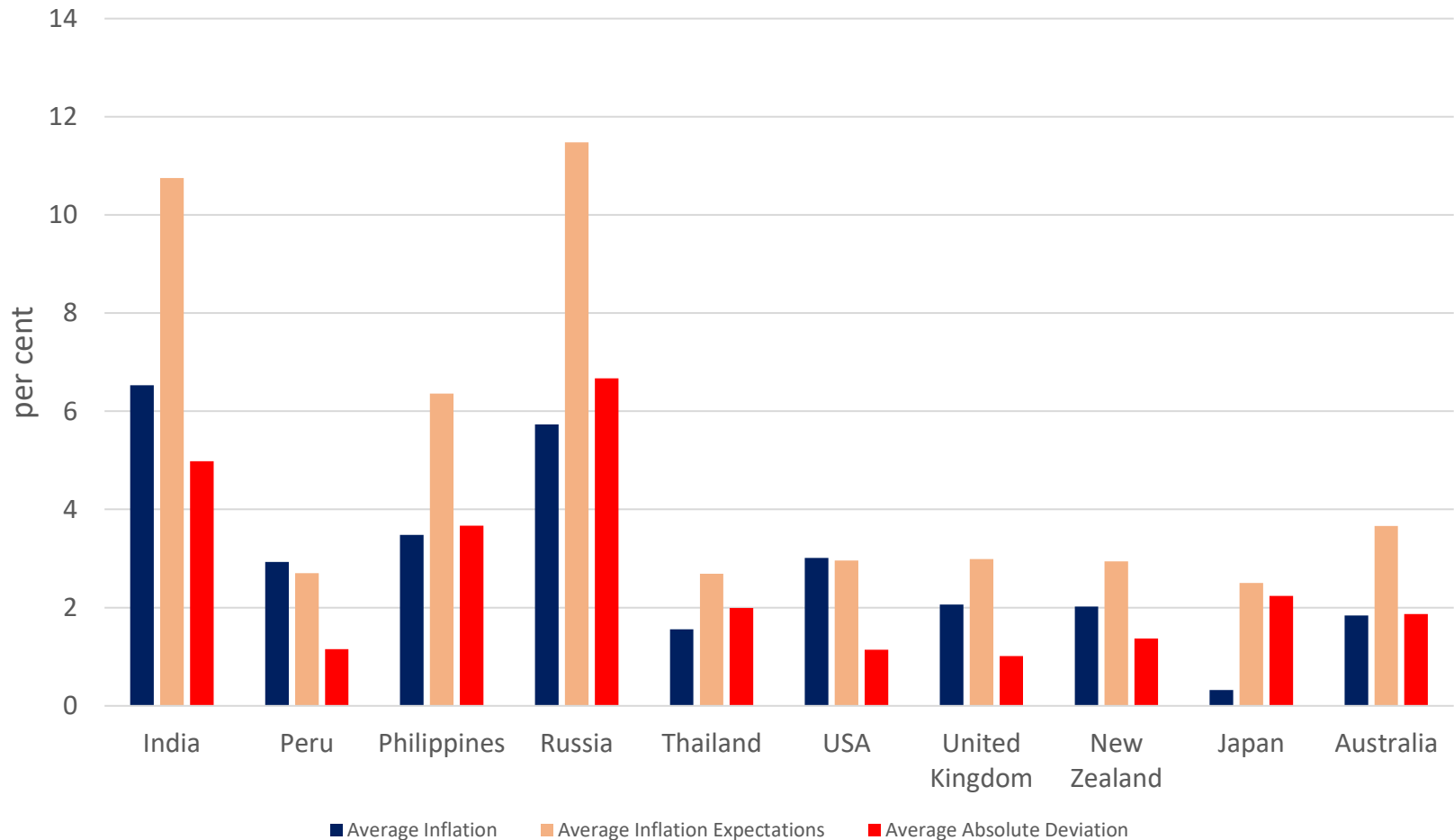




# CPI Inflation across States of India



## Average CPI Inflation and Consumer Inflation Expectations: Select Economies (since 2009 or subsequent available period)



# One-time Questions in regular survey round

(to understand the deviation from CPI inflation concept)

**Two additional questions were canvassed:**

- ✓ Nature of the consumption basket deriving inflation perception
  - Whether own consumption basket
  - Whether fixed basket
  - Confused with total budget
  
- ✓ Time horizon used for assessing current inflation
  - Whether one-year horizon as reference point
  - More than one-year, if difficult to recall
  - Time when the prices were the lowest during the last one year

## Assesment of Current Inflation: Basket of Items Vs. Time Frame

(Average of current inflation perception)

Answers		When you gave your above assessment of current inflation, which of the following price change did you consider?		
		Only for those items, which were consumed in both the current period and the past period	For the items being consumed now, even though some of them may not be consumed in the past	Total monthly expenditure now compared to total monthly expenditure in the past period
While assessing the current inflation, which past period was in your mind when you compared the current prices?	Nearly one year ago			
	At least one year ago but it could even be more than a year, if those prices are easy to recall			
	The time when prices were lowest during the last one year			

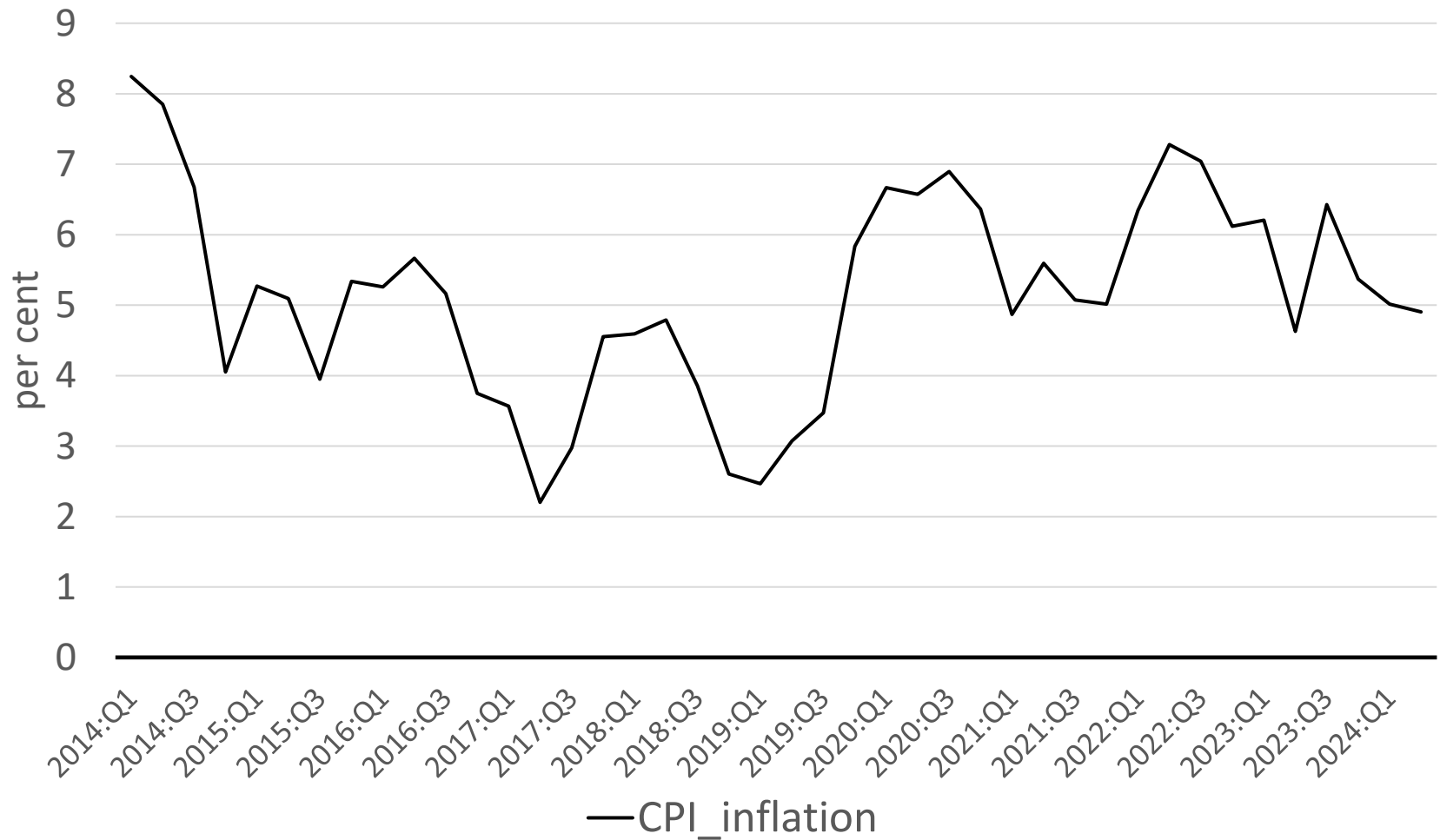
## Inflation



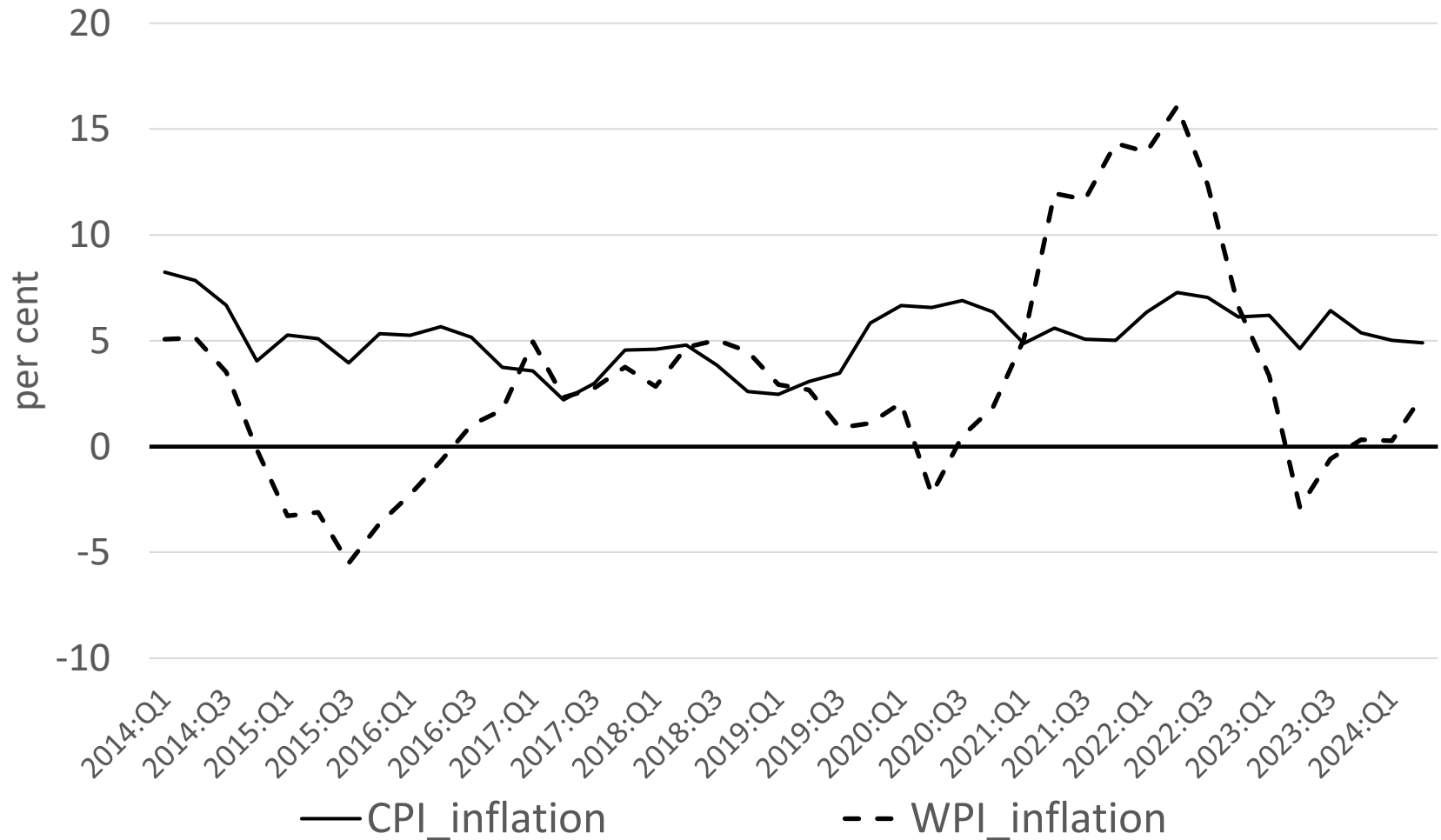
## Inflation Expectation



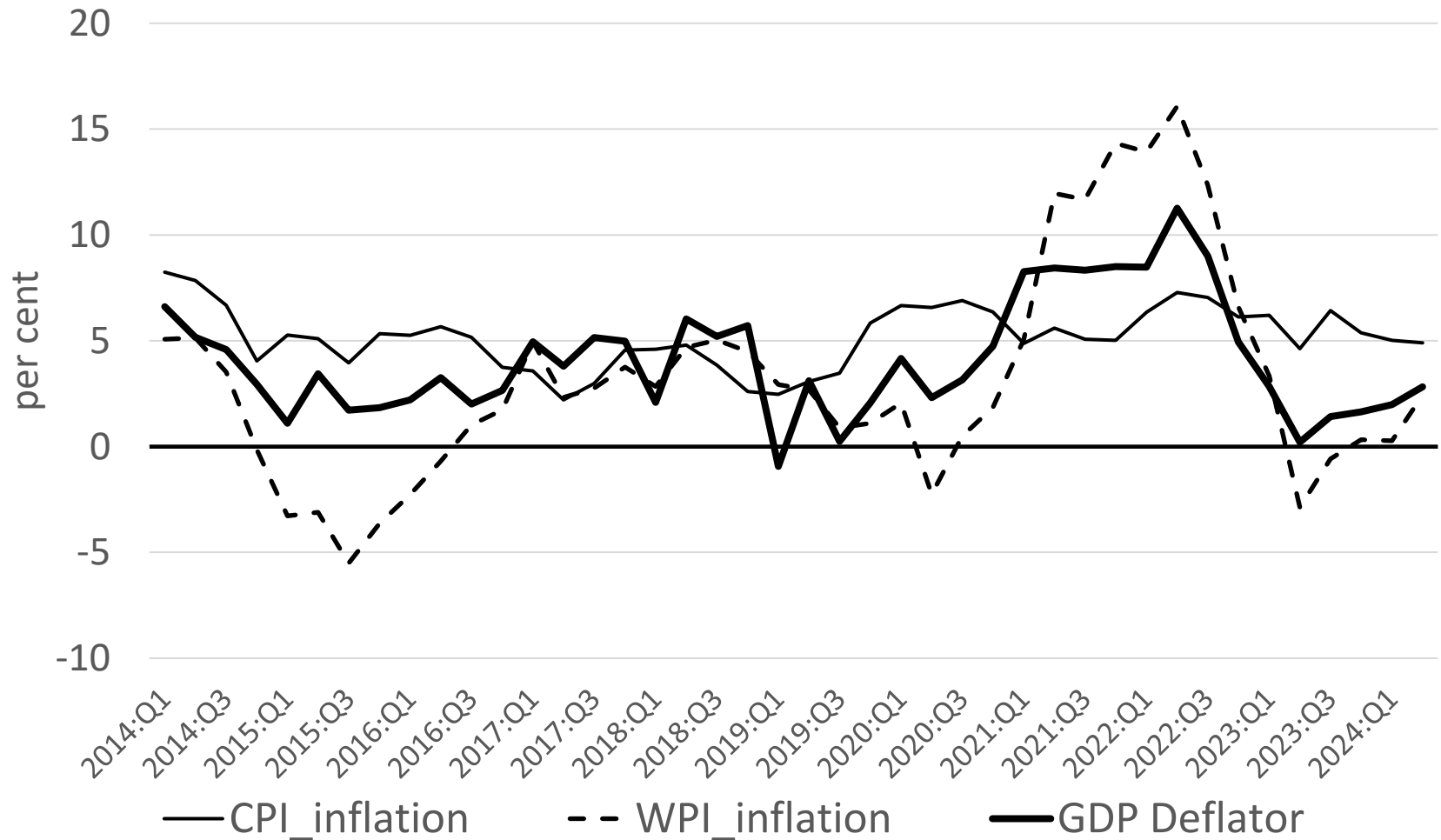
# Compilation of India's GDP: Inflation rates



# Compilation of India's GDP: Inflation rates



# Compilation of India's GDP: Inflation rates





## National Accounts Deflators - GDP and PFCE



# Looking Behind Numbers

- Sources of Bias in Data Aggregation
    - Sample
      - Shifts in distribution
      - Survival Bias
      - Responses: The firms/individuals who matter?
    - Construct
    - Use of growth in arriving at output / value added (procyclicality)
  - Slower convergence of relative prices in high inflation period
  - Relevance of aggregation so that small indicators are not taken as complete coverage
    - More exploitation of information explosion to extract useful signals on latest developments
    - New databases from emerging transaction systems / digital footprints
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# Thank You