

Inflation expectations and Behaviour of Households and Firms

Karlla Muñoz

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Antecedents

During the last few years, the Central Bank of Chile has been developing a study agenda on the perception and expectations of firms and consumers.

This is motivated by the studied heterogeneity in the expectations of the agents, the effects of the behavior of consumers and companies in the economy and the recent situation of rising inflation.

In our studies we use mixed methodologies, combining surveys and qualitative studies.

The studies

Study	Price Determinants and expectations Survey PDES (EDEP)	Bussines Perceptions Survey BPS (EPN)	Bussines Perceptions Report BPR (IPN)	Inflation stories
Agent	Firms	Firms	Firms	Households
Methodology	Quantitative (Survey)	Quantitative (Survey)	Qualitative (Interviews)	Qualitative (Interviews)
Universe	Big private business (without some industries, 12.000 aprox)	Private business (470.000 aprox)	-	-
Regularity	Monthly. Since September 2021	Quarterly. Since May 2020	Quarterly. Since May 2020	Once. October 2021
Collection	Externalized	Own	Own	Externalized
Collection method	Phone and online	Online	Phone and video call	Face to face, phone and video call
Sampling	Quota sampling	Simple Random Sampling	-	-
Size	360 by mobile quarter (12 times a year)	600-800 (4 times a year)	50-70 (4 times a year)	36 household expense managers
Subjects	Structural and situacional dynamic of price setting	Employment, financial conditions, investment, activity, prices	Employment, financial conditions, investment, activity, prices	Purchases, prices, inflation.

Assessing inflation expectations

How to Assess Inflation Expectations...

... When the agents aren't FIRE?

... When the agents don't know the inflation target?

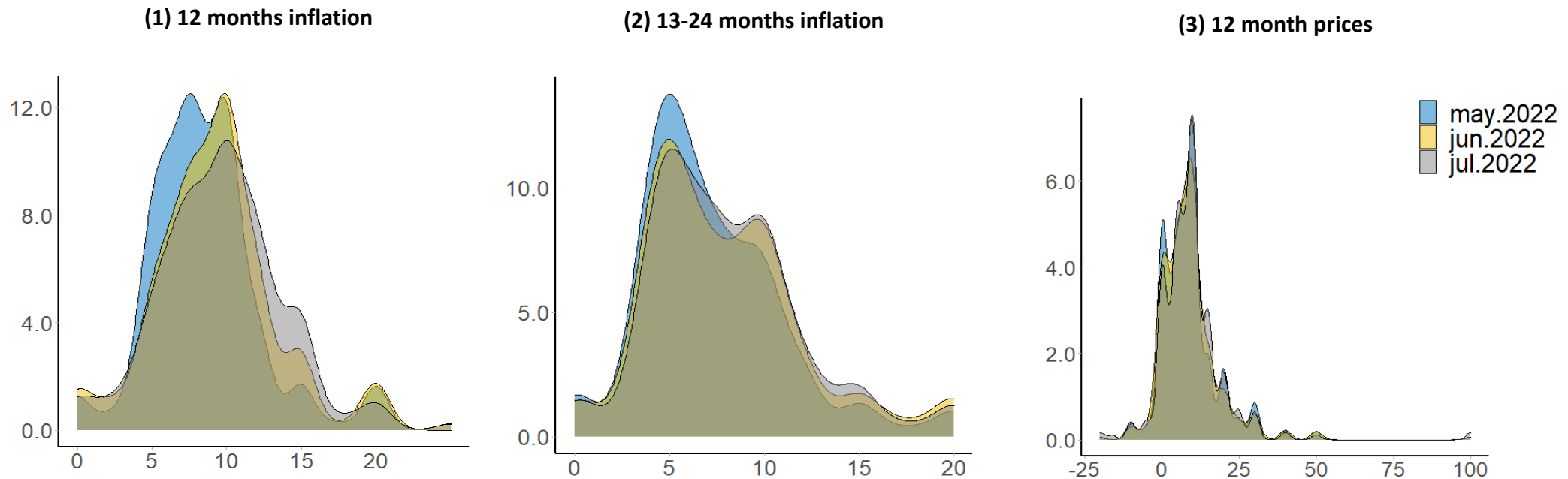
... When we don't have a time series to know the "regular" value of inflation for these agents?

In addition to the inflation expectations themselves, it is important for us to know the **behavior and decisions** that these agents have taken or would take, due to their expectations, and if these behaviors can be signs of deanchoring.

Compare results

PDES: Business's inflation expectations and expectations of own prices

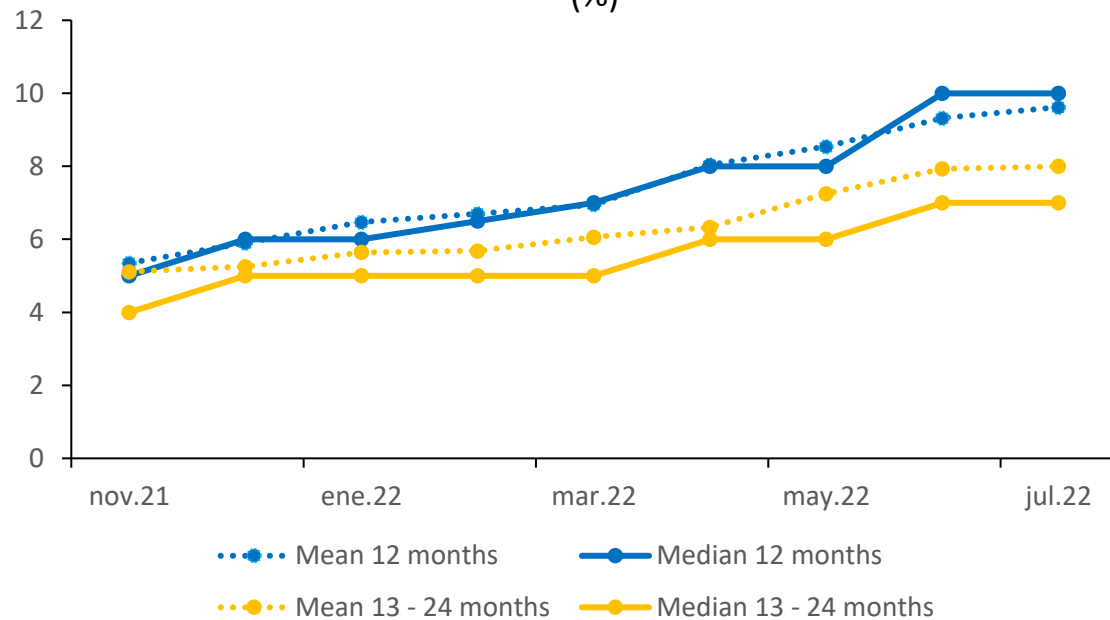
Distribution of inflation expectations and prices



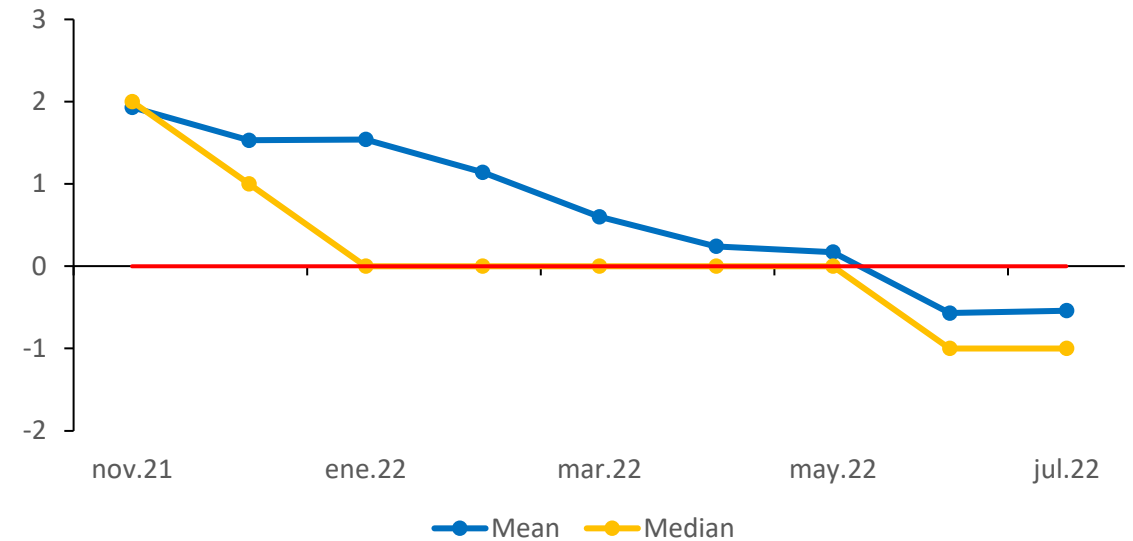
Compare results

PDES: Business's inflation expectations and expectations of own prices

Inflation expectations (%)



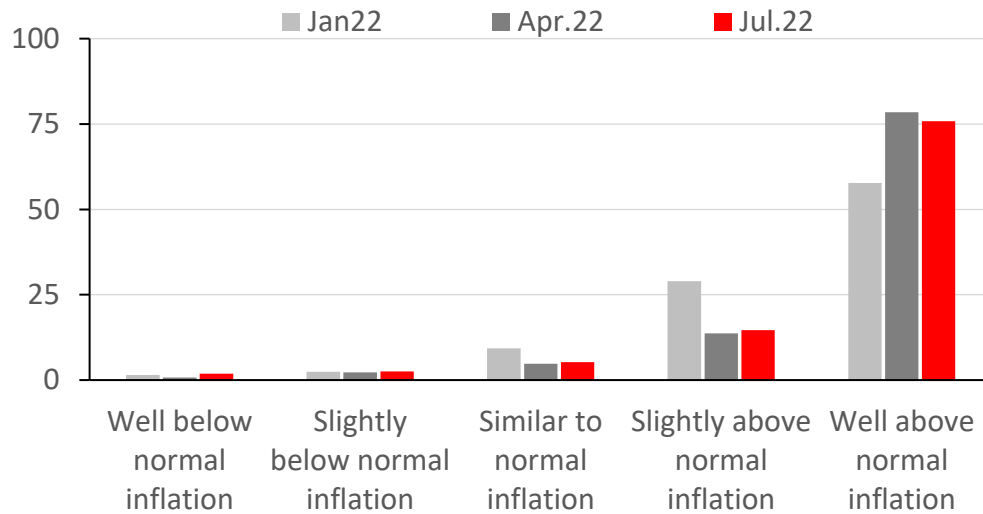
Difference between price variation and expected 12-month inflation ($p^e - \pi^e$) (pp)



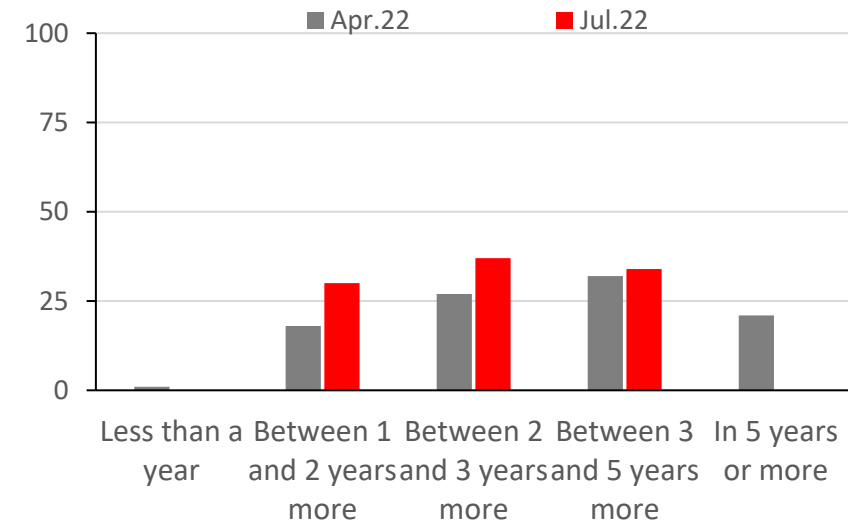
Make “direct” questions

BPS: Business expectations compared to “normal” inflation

12-month inflation expectations compared to “normal” inflation (% of firms)



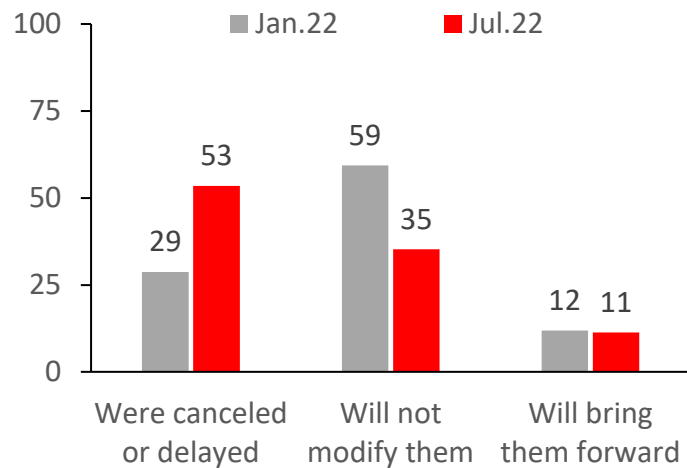
Time for inflation to return to normal levels (% of firms)



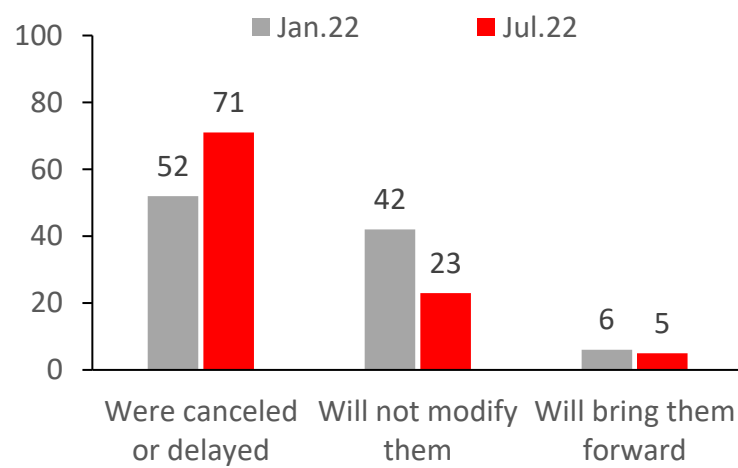
Make “direct” questions

BPS: Business decisions due to their inflation expectations

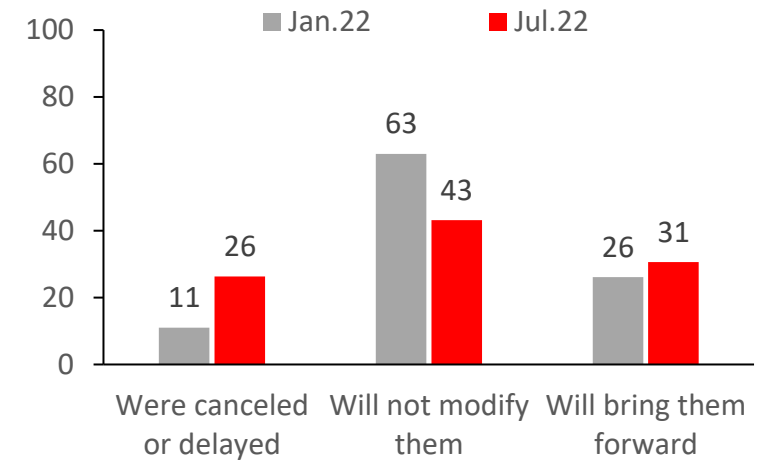
Purchase inventories or raw materials
(% of firms)



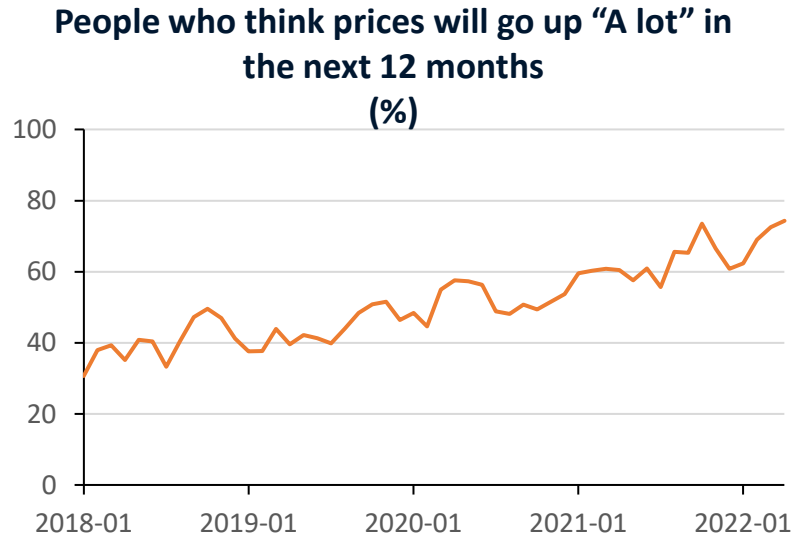
Increase wages
(% of firms)



Increase the prices of products or services
(% of firms)



Talk to people: In-Depth interviews



Source: Gfk/Adimark

- Households modified their purchasing decisions upon noticing a greater increase in prices.
- There was low prevalence of bringing forward purchases.
- The replacement of products and places of purchase was more used, followed by stopping consuming second-needy products until waiting for a better scenario.
- households noted that they didn't expect big changes in their behavior beyond those already made.

“Nowadays, they are already buying what is fair for the same reason, because prices are higher. And so in general many products, let's say, fruits too. Before, one used to buy a kilo of fruit and nowadays one is buying almost just enough to not lose”



(Man, 31 to 60 years old, secondary education)

“Before, I had a (supermarket 1) closer to my house. But sometimes we did bother to go by car to (supermarket 2). But it was not so necessary, but it was to save a little money. Now it's really necessary...if I go to (supermarket 1) I wouldn't have enough, I couldn't buy basic things”



(Woman, 31 to 60 years old, secondary education).

“Before, we still liked to order fast food a lot, and now, of course, it costs more. It's like the same thing happens with pants, just like, heck, it's better to buy pantry items”



(Woman, 18 to 30 years old, higher education).

Summary

In March 2021:

- The PDES results showed that the inflation business expect one year ahead was rising for some months. However, the same wasn't true for two-year expectations, and especially not for their own expected price changes.
- According to the BPS, most firms responded that higher inflation was not leading them to modify pricing, investment, or hiring decisions, among other factors.
- In the face of rising prices, households have incorporated various strategies to protect themselves from inflation, highlighting that bringing forward purchases is not as prevalent as might be expected.

Nowadays:

- During the last 5 months, firm's inflation expectations have continued to rise, but the expected increase in their prices has remained relatively stable.
- In terms of behavior, more firms are bringing forward their price increases, but another group is delaying or canceling the increases.

Challenges for the Central Bank

National and international evidence confirms the heterogeneity that exists between the different agents in the economy and within each groups.

This heterogeneity involves two challenges:

- Analyze and evaluate the expectations of these agents in their own terms.
- Improve and evaluate the effects of the central bank's communication with these agents.

Related documentation

Central Bank of Chile, 2022. Monetary Policy Report March 2022. Box V.2 Inflation expectations of households and firms. pp. 47-48. https://www.bcentral.cl/documents/33528/3456057/MPR_march_2022.pdf/a67be766-0f08-5d18-49c9-85a06656fd4d?t=1655149272047

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