

# **How to measure consumer inflation expectations and uncertainty? Comparison of different survey approaches in a cross-country study**

## **Non-technical summary<sup>1</sup>**

Macroeconomic performance is determined by a variety of factors. Developments in theoretical macroeconomics and empirical research show that expectations of lay people and the degree of their optimism play an important role in this respect. Interestingly, recent studies have confirmed that inflation expectations of consumers can be more relevant in determining actual price changes than those of experts. Therefore, consumer inflation expectations are monitored closely by central banks, which adjust their communication policies in order to influence consumer views on future price developments. At the same time central banks engage in efforts to improve measurement of inflation expectations of lay people and their uncertainty. It is reflected in new consumer surveys developed by central banks (e.g., NY Fed Survey of Consumer Expectations, ECB Consumer Expectations Survey). Their design is largely based on accumulated knowledge in the field of psychology and survey research methodology. A special focus of these studies was put on the impact of question wording on reported inflation opinions with the aim to select the questions yielding reliable information on consumers' inflation perceptions, expectations and associated uncertainty.

Our project focuses on the measurement of inflation expectations of consumers and their uncertainty regarding future price developments. The analysis will be based on specially designed surveys, which will be conducted in Poland and extended for other Central and Eastern European economies (Czech Republic, Hungary, Slovakia and Bulgaria). In each country, we plan to conduct the survey on a sample of 1,500 respondents, representative in terms of gender, age, education and the size of the place of residence. As compared with other EU economies, the post-transition economies considered in the project are characterized by larger inflation volatility and larger biases of inflation perceptions and expectations with respect to actual inflation. Our research project is going to fill a substantial information gap and provide evidence that will be useful in further studies.

The research encompasses four primary aims. First and foremost, we evaluate whether consumers comprehend the concept of inflation. To achieve this, we incorporate various question wordings in designing the questions about perceived and expected price developments for our innovative consumer survey. Secondly, with different types of survey questions we gauge how consumers articulate their uncertainty associated with their projections. Third, across a variety of survey questions we compare short-term and medium-term inflation expectations of consumers in terms of level and uncertainty. Fourth, we assess how individuals respond to and anticipate challenges in the energy sector amid geopolitical events and market dynamics, considering both cognitive and behavioral aspects.

In developing a new consumer survey, we propose some extensions with respect to current practice. For example, we try to measure both inflation perceptions and expectations not only in a direct way, but also indirectly, by asking about a change in income necessary to make consumers buy the same amount of goods as in the benchmark period, given price changes occurring or expected. Additionally, we adopt different types of questions to assess different scenarios that consumers consider when predicting future price developments and the probabilities attached to these scenarios. We also assess economic literacy of respondents and its role in determining their opinions on price developments. Cross-country comparisons across Central and Eastern European economies constitute another novel element of our research project.

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