



## Introduction

- ❖ The ECB Consumer Expectations Survey (CES) allows for a timely measure of the perceptions and expectations about inflation for the euro area.
- ❖ Since April 2022 the survey has expanded its country coverage including 11 Euro area countries (EA-11), i.e., BE, DE, FR, ES, IT, NL, AT, FI, GR, IE and PT.
- ❖ This study investigates how and to what extent consumers' pessimism affects their inflation expectations.
- ❖ Pessimistic consumers are those who expect their household income to decrease and b) their economy to shrink

## Methodology

- ❖  $E(\text{Inflation}_{i,t+12}) = \beta_0 + \beta_1 \text{Perceived Inflation}_{i,t} + \beta_2 X_{i,t} + Y_t + I_i + \epsilon_{i,t}$  (1)
- ❖  $X_{i,t}$ : perceived inflation, gender, age groups, partner, education, low financial literacy, household size (hsize), mortgage, income quintiles, unemployed, home ownership, liquidity constraints (liq\_cons), hard financial situation (hfsit) and hard credit access (hcracc).
- ❖  $Y_t$  denotes the wave dummies to account for time effects
- ❖  $I_i$  denotes country dummies to account for country effects for the pooled EA-11 dataset

## Results

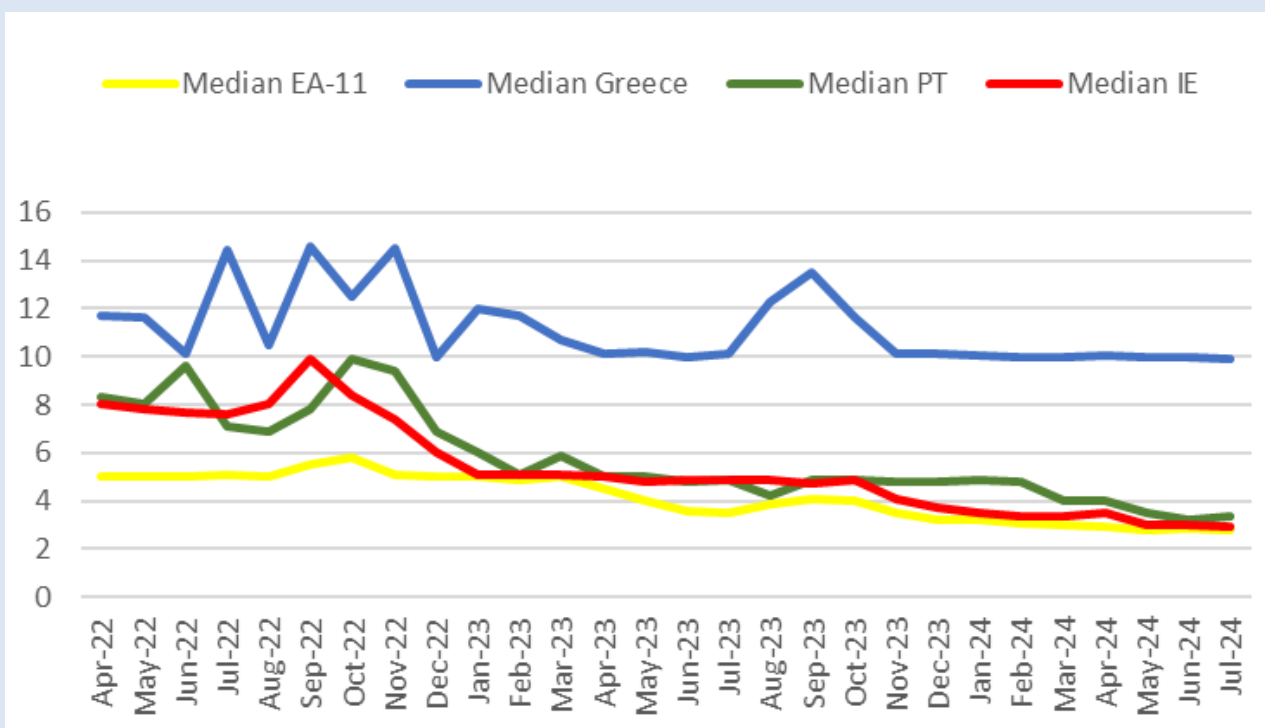


Figure 1. Inflation Expectations over the next 12 months: EA11, GR, PT, IE- CES

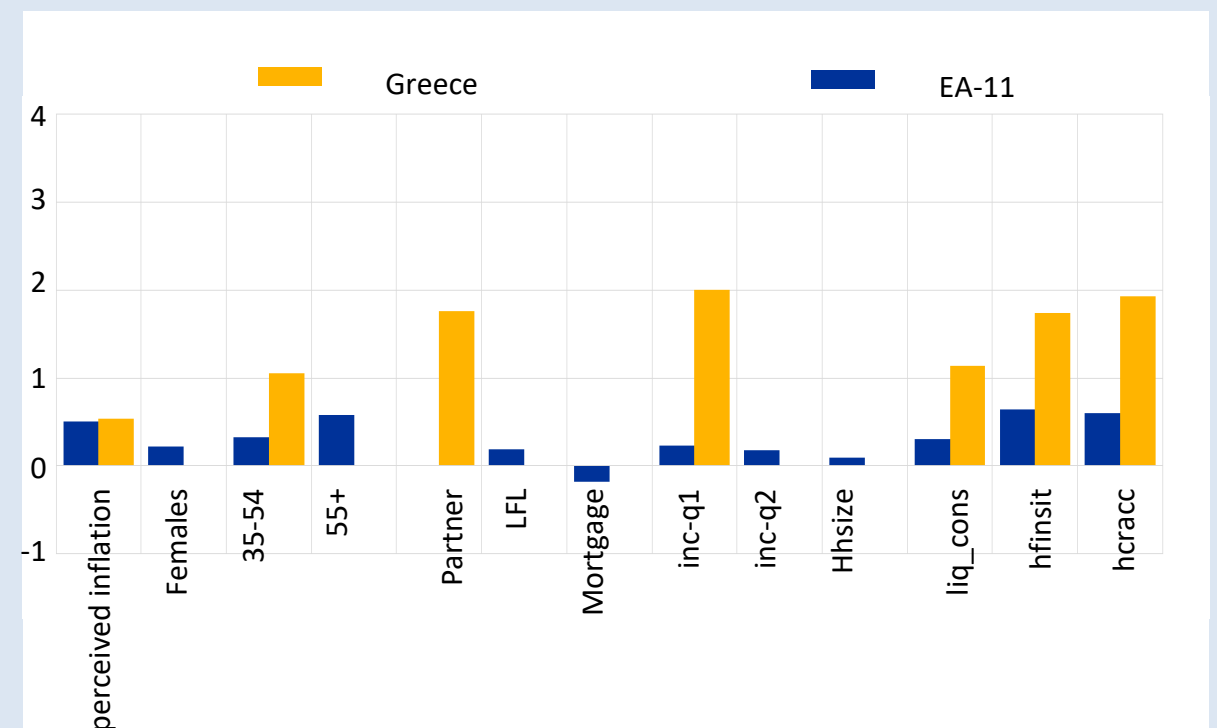


Figure 3. Estimated regression coefficients from a linear regression model of inflation expectations

- ❖ The CES reveals that median inflation expectations are higher in Greece, Portugal and Ireland than in EA-11.
- ❖ Median inflation expectations in EA-11 and Portugal escalated to its highest level, 5.8% and 9.9%, respectively in October 2022. Median inflation expectations in Greece and Ireland reached its highest level of 14.6% and 9.9%, respectively in September 2022.
- ❖ Median inflation expectations in EA-11, Greece Portugal and Ireland significantly declined since the second half of 2023 pointing to the effect of the ECB's monetary policy tightening. For example, from Sep23 to Jul24 median inflation expectations dropped in EA-11 from 4.1% to 2.8%, and in Greece from 13.5% to 9.9%.

- ❖ The pass-through of inflation perceptions to short-term inflation expectations is similar for EA-11 and Greece.
- ❖ Consumers' inflation expectations in Greece are positively associated with low levels of income, liquidity constraints, worse financial situation and hard credit access. Consumers aged 35-54 have high expectations about inflation.
- ❖ Inflation expectations in the EA-11 increase with age, low level of income, financial literacy, household size, liquidity constraints, hard financial situation and hard credit access. Mortgage is negatively related to inflation expectations.

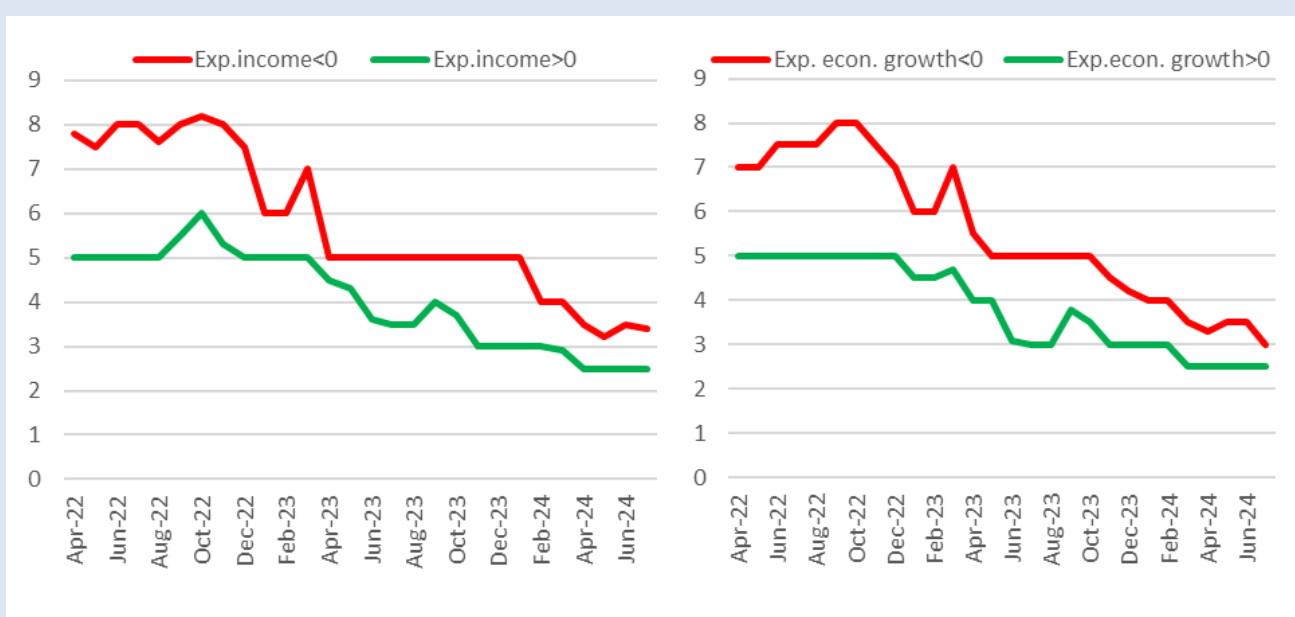


Figure 2. Inflation expectations over the next 12 months-EA11: Pessimistic vs Optimistic consumers

- ❖ We show that consumers that are pessimistic about their income expectations have higher median inflation expectations than those who are optimistic.
- ❖ Consumers who expect the economy to shrink exhibit have higher median inflation expectations than those who expect the economy to grow.

	Inflation Expectations next 12 months			
	Exp. income <0	Exp. income >0	Economy shrink	Economy grow
Perceived Inflation	0.5867*** (0.0126)	0.4605*** (0.0065)	0.5489*** (0.0064)	0.4386*** (0.0093)
Observations	166,650	353,468	323,316	246,800
R-squared	0.5510	0.3899	0.5156	0.3593
Controls	YES	YES	YES	YES
Wave	YES	YES	YES	YES
Dummies				
Country	YES	YES	YES	YES
Dummies				

Table 1. Estimated regression coefficients from a linear regression model of inflation expectations: Pessimistic vs Optimistic consumers

- ❖ The pass-through of inflation perceptions is larger for consumers that expect their household income to decrease .
- ❖ The pass-through of inflation perceptions is larger for consumers that expect the economy to shrink

## Concluding Remarks

- ❖ The degree of the pass-through from inflation perceptions to inflation expectations is the same for Greece and EA-11 accounting for sociodemographics.
- ❖ Higher inflation expectations in Greece vs euro area are associated with a more pessimistic view about their income, own financial situation, adequacy of liquidity, access to credit.
- ❖ Greek consumers aged 35-54 have high inflation expectations are the ones that suffered most from the Greek sovereign debt crisis with respect to their lifetime income.
- ❖ We show that consumers' pessimism matters when shaping their inflation expectations. The pass-through of inflation perceptions to inflation expectations is stronger for pessimistic consumers, i.e., those who expect their income to decrease and the economy to shrink in the next twelve months.
- ❖ In line with Coibion et al. (2023) evidence suggests a "supply-side narrative", whereby higher inflation expectations are associated with bad news for the economy.