Spending Today or Tomorrow? The Role of Inflation Expectations on Consumer Behaviour

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The views expressed do not necessarily reflect the views of the Bank of Finland or the Eurosystem.

Survey questions on inflation expectations

- High inflation regime: *"Below you find some intervals for inflation. We would like to know your opinion about inflation in Italy one year ahead. Distribute 100 points among the following alternatives:*

(> 25%) (20% - 25%) (15% - 20%) (13% - 15%) (10% - 13%) (8% - 10%) (7% - 8%) (6% - 7%) (5% - 6%) (3% -5%) (0% - 3%) (< 0%)"

- Low inflation regime: *"We would now know your opinion about future inflation. Distribute 100 points among the following alternatives. In the average of 2016, consumer inflation, measured by the year-on-year rate of change of the Harmonized Index of Consumer Prices, was equal to -0.1 per cent in Italy. What do you expect to be the average inflation in Italy over next 12 months (distribute 100 points)?*

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Survey questions on consumption

- High inflation regime: The impact of lagged expectations on *actual consumption*?

$$C_{it} = \beta_0 + \beta_1 \pi^e_{i,t-1} + \beta_2 \sigma^e_{i,t-1} + \beta_3 X_{it} + \theta_t + \epsilon_t$$

- Low inflation regime: The impact of expectations on *spending plans*?
  - *"How likely is it (from 0 to 100) that your household will buy a new car to replace the present one (the car used most often)?*
    - *before the end of 2017/ in 2018/ in 2019"*

$$C^e_{it} = \beta_0 + \beta_1 \pi^e_{i,2016} + \beta_2 \sigma^e_{i,2016} + \beta_3 X_{i,2016} + \epsilon_t$$

Main comment

- Very interesting paper

  - Complements the literature that evaluates the impact of inflation expectations on consumption

- Main concern: Are high and low inflation regime results comparable?

- Do differences in the survey design matter?
  - Anchoring/Framing of inflation expectations
  - Actual/Expected consumption

Other comments

- How to explain insignificant impact of inflation uncertainty?

- The strongest evidence for readingess to buy a car in 2019 (which is beyond the forecast horizon of inflation), while very limited evidence for buying a car in 2017?

- Are SHIW inflation expectations in line with corresponding inflation expectations in the EC Consumer Survey?
  - Stanislawska, Paloviita and Lyziak (2019)
- You could repeat your analysis using EC CS data
  - "By how many percent do you expect consumer prices to go up/down over the next 12 months?"
  - "How likely are you to buy a car over the next 12 months?"
    - "If very/fairly likely, is your household planning to buy a new or a used car?"