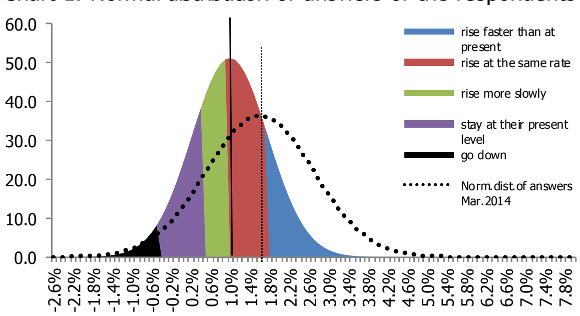
Survey on Inflation Expectations

In order to improve the survey measure of inflation expectations, in 2013 the National Bank of the Republic of Macedonia started an in-depth analysis of the experiences of other central banks associated with conducting surveys. On this basis, the existing survey was redesigned, due to its greater approximation to the European practice.

The new format of the questionnaire contains two questions, one qualitative and one quantitative in nature. The first question of inflation expectations is qualitative, i.e. the respondents do not provide a quantitative answer, but indicate the direction and extent of prices changes compared with the change in the previous 12 months. The procedure for measuring the qualitative answer is by using the probability approach of Carlson and Parkin (1975), which assumes that at a sufficiently large number of respondents, the expected change in prices is normally distributed among the population. The quantitative question requires from the respondent to determine accurately the expected average rate of change of prices in 2014 and 2015.

As before, the Inflation Expectations Survey includes three groups of respondents: economic analysts, companies and financial institutions. The qualitative questions of expectations read as follows: "Compared with the past 12 months, what change do you expect in consumer prices in the next 12 months? a) will have a faster growth; b) will grow at the current pace; c) will grow more slowly; d) will remain almost the same; d) will decrease; f) it is difficult to determine", while the quantitative question reads: "What are your expectations/forecasts for the average inflation rate in 2014 and 2015?".

Chart 1. Normal distribution of answers of the respondents



The Inflation Expectations Survey was conducted in June 2014[1]. The survey results show the highest concentration of responses in the segment of expectations for unchanged inflation dynamics, i.e. one third (33.3%) of respondents expect prices to rise at the current pace in the next 12 months. Furthermore, 25% of respondents expect slowdown in inflation growth, 18.1% expect prices to remain unchanged, while 16.7% expect faster growth in prices. Only 2.8% of respondents expect price decline in the next 12 months. Amid average inflation of 1.3% in the previous 12-month period, the respondents expect the inflation to slow down by an average of 0.3 percentage points in the next 12-month period, i.e. **they expected average inflation of 1.0%.** Analyzing individual surveyed groups, the surveyed ***financial institutions*** expect the highest slowdown (expected inflation of 0.8%), followed by ***companies*** (expected inflation of 0.9%), while ***economic analysts*** expect the inflation to slow to 1.2%. For 2014 and 2015, the respondents expect lower average rate of inflation compared to the previous survey (currently, the inflation rate is expected to equal 2.2% for 2014 and 2.6% for 2015, versus 2.7% for 2014 and 2.9% for 2015 according to the April survey). According to the respondents, the main factors for their expectations include low domestic inflation performance, low inflation in the euro area, a possible increase in food prices due to the weather disasters that hit the region, as well as uncertainty regarding the movement of energy prices amid military crisis in Ukraine and Iraq.

[1] The percentage of responsiveness of the survey, conducted in June equaled 38.3%. Analyzing by groups of respondents, the financial institutions' responsiveness is 55.6%, followed by economic analysts with 44.8% and 31.1% of companies.