



Banc Ceannais na hÉireann  
Central Bank of Ireland

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Box F:

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## Inflation and earnings expectations: Survey evidence from Ireland

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The headline rate of inflation in Ireland moderated to 6.3 per cent for April 2023, while core or underlying inflation that is exclusive of volatile energy and food components stood at 4.3 per cent. It is important to monitor the dynamics of underlying inflation as it provides signals about the persistence of inflation over the medium term. Inflation expectations play an important role in potential feedback loops between rising wages, prices and firm profits that may lead to the persistence of higher inflation over the medium-term.<sup>3</sup> This *Box* summarises the inflation and earnings expectations of Irish consumers using data from the Central Bank of Ireland Expectations Survey (CBIES), collected over two waves in February and May 2023.<sup>4</sup> This survey is also an update to [survey analysis](#) conducted in 2022.

The CBIES gauges expectations of labour market conditions, earnings, inflation, and respondents' financial situation for a representative sample of the population. The total number of survey respondents was 1,629 in February and 1,508 in May. Figure 1 shows the distribution of responses when asked the expected rate of inflation over the next 12 months. The average response in May was 6.1 per cent, down slightly from 7.2 per cent in February. In general, research in other countries has found that although households' quantitative inflation expectations (and perceptions) are shown to be biased upwards, over time the expectations co-move closely with actual inflation ([Chen, Gornicka, and](#)

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<sup>3</sup> Lane (2022) "[Inflation Diagnostics](#)" ECB Blog Post 25 November 2022

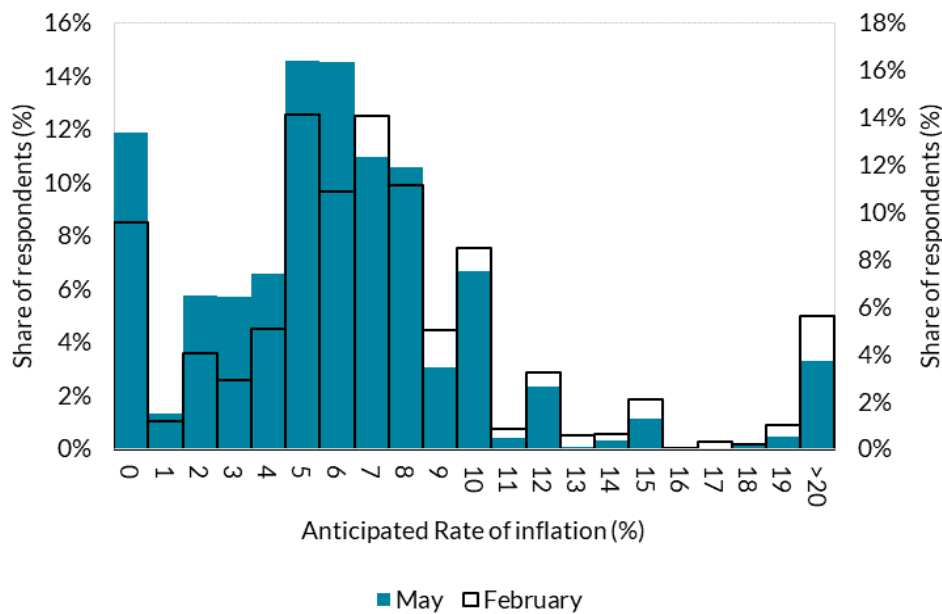
<sup>4</sup> The survey is undertaken on behalf of the Central Bank by Ireland Thinks.



[Zdarek, 2022](#); [Weber et al, 2022](#)).<sup>5</sup> This bias tends to vary in magnitude. For example, based on [ECB CES data](#), households' expected inflation exceeded actual inflation until late 2021 and since then has been mostly below it. Comparing expectations with actual outcome one year later, households over predicted inflation as it was accelerating but more recently have under predicted it slightly. Higher anticipated average rates of inflation were recorded amongst females, persons aged 25-34 years and respondents earnings less than €30,000 per year. [CSO analysis](#) of estimated inflation by household characteristic find higher rates for those at the lower end of the income distribution. The moderating expectations profile is also in line with central forecast projections for this year, albeit at a higher level.

### Inflation expectations in May have eased relative to February

Figure 1: Inflation expectations (1-year ahead)



Source: CBIEES

Note: To limit the effects of outliers, data are winsorized at the 2nd and 98th percentile. Weights are used to ensure the representativeness of the sample.

To gain some insight into expected household purchasing power, it is important to assess inflation expectations in relation to expected earnings developments. When asked about future earnings expectations over the next year, 45 per cent stated they expected earnings to 'increase a little', with a further 43 per cent anticipating 'no change' (Figure 2).<sup>6</sup> To assess the change in qualitative answers,

<sup>5</sup> For potential factors behind this bias, see Meyler and Reiche (2021) "[Making sense of consumer's inflation perceptions and expectations - the role of \(un\)certainty](#)" Economic Bulletin Issue 2, 2021 and references therein.

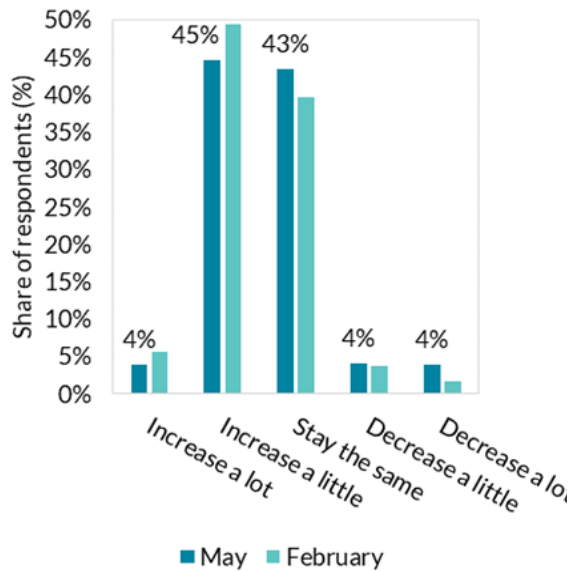
<sup>6</sup> Note that only working respondents received questions about earnings.



we find that the net percentage between positive and negative earnings expectations has decreased between the February and May surveys from +50 to +40. On a quantitative basis, the average expected rate of nominal earnings change has also moderated from 2.2 per cent to 1.6 per cent. As in the case of inflation expectations, quantitative earnings expectations are likely to be biased but it is not very clear in which direction.<sup>7</sup>

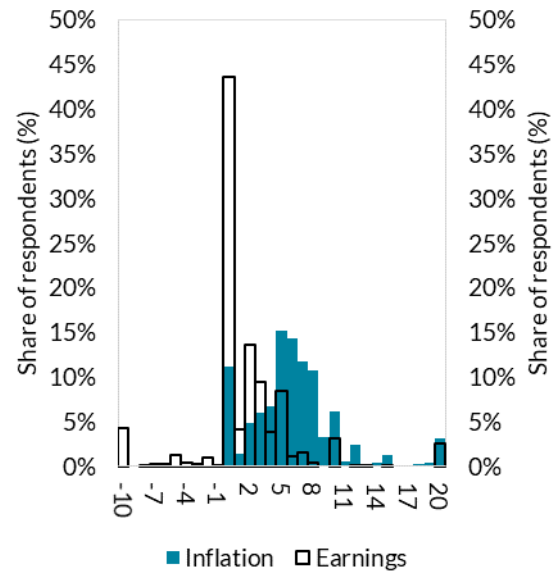
### Expected real earnings are anticipated to lag inflation

Figure 2: Expected change in earnings (1-year ahead)



Source: CBIEES  
Note: Weights are used to ensure the representativeness of the sample.

Figure 3: Real expected quantitative change in earnings – May survey (1-year ahead)



Source: CBIEES  
Note: To limit the effects of outliers, data are winsorized at the 2<sup>nd</sup> and 98<sup>th</sup> percentile. Weights are used to ensure the representativeness of the sample.

We combine these forward-looking inflation and earnings expectations to generate expected real-earnings growth for respondents who answered both questions. Figure 3 shows that inflation expectations appear greater than those for nominal earnings growth, suggesting respondents expect a real earnings decline over the next 12 months. The average expected change in real earnings across all respondents was a 4.6 per cent decrease, which marks a slight improvement on the 4.9 per cent decline recorded in February. Conditional on respondents anticipating only positive wage growth, this

<sup>7</sup> The existing literature on earnings expectations bias is limited. [Jain, Kostyshyna and Zhang \(2022\)](#) analyse Canadian households earnings expectations and show that at least before the pandemic, they were broadly in line with actual data even if more stable. The Federal Reserve Bank of New York collects data [on consumer earnings expectations](#) since 2013 with the median expected growth rate broadly in line with actual earnings growth prior to the pandemic (see FRED data [here](#)).

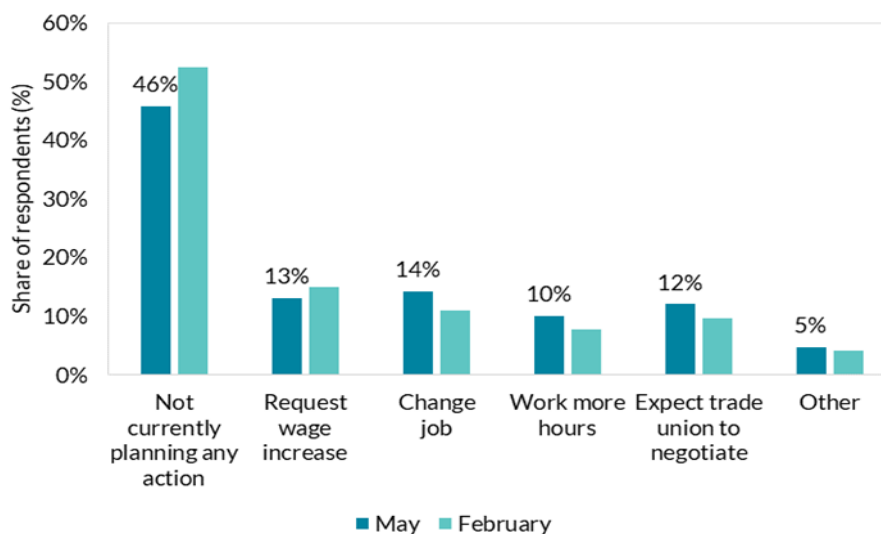


figure moderates to a 1.2 per cent real decline in expected earnings in May, up from a 2.3 per cent expected decline in February. We see greater declines in real earnings expectations amongst lower earners, people living in more rural counties and those with lower levels of educational attainment. The smallest negative real earnings expectations were recorded for males and persons earning in excess of €80,000 per year. Respondents in higher income brackets are more likely to be in high-skill jobs, which may have better pay prospects, leading to higher expectations.

As wages are fixed in the short-term, with changes typically occurring once per year or over an extended period of time, we ask respondents whether they expect earnings in three years' time to be sufficient enough to afford their current living standards. The most common response was "just about sufficient" at 38 per cent with a further 21 per cent stating they expect future earnings to be "more than sufficient" suggesting that the majority of Irish people expect earnings to catch up with the increased cost of living over the medium-term. Finally, respondents are asked whether they plan to take any actions to seek increased wages in the coming months in response to elevated inflation levels. 46 per cent stated that they are "not currently planning any action" which marks a slight reduction from February (Figure 4). A combined 27 per cent responded that they would seek higher wages either through a request from their employer or change jobs, a relatively unchanged figure from February, with another 12 per cent expecting trade union to negotiate on their behalf.

### Over a quarter of workers expect to take active steps to increase earnings

Figure 4: Expected actions to be taken to seek higher wages over the next 3 months



Source: CBIEES

Note: Weights are used to ensure the representativeness of the sample.



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While survey data should be interpreted with caution, it provides valuable complementary information to policymakers. Timely data on people's inflation and earnings expectations is especially relevant in the current high-inflation environment. These survey results will need to be monitored alongside official statistics on earnings which show considerable heterogeneity in real earnings trends amongst various economic sectors and demographic cohorts. Overall, survey evidence shows that inflation expectations among Irish people have declined recently but remain very high. As there can be upward bias in consumer expectations relative to the outturn, the direction of change is important to note with workers expecting real earnings to catch up with inflation over the medium-term. Central forecasts point to a 0.7 per cent increase in real compensation per employee this year rising then by 2.4 per cent in 2024. As earnings expectations are low, many workers plan to take some action to compensate for changes in cost of living. If underlying inflationary pressures do not subside, it is possible that wage demands may strengthen further, increasing risks of a feedback loop between wage and prices.