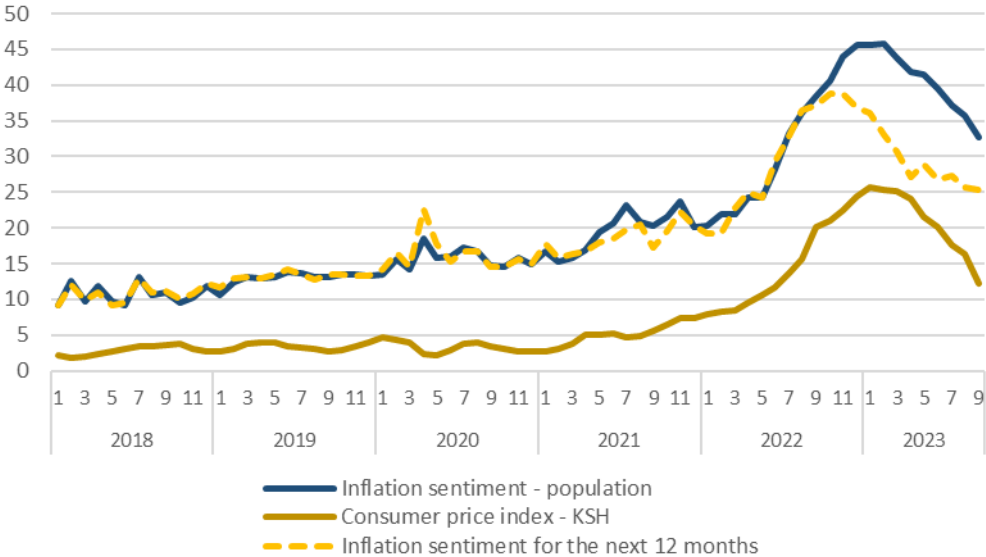


Households' perception of inflation is decreasing but remains very high

According to official inflation data, consumer prices rose by 12.2% in September compared to the same period last year. In comparison, according to a representative survey of 1,000 households by GKI, households perceived a 32.8% increase in prices. Admittedly, the latter data is not based on facts (e.g., price survey, questionnaire, etc.) but on perception (where personal experience can be heavily biased by information received through various formal and informal channels). While the trend in perceived and official inflation moved together, measurements over the past few years showed that the gap between perceived and official data was widening as the official consumer price index rose. In 2020, when the Maastricht convergence criterion for inflation was met, the average monthly inflation rate perceived by households was 12.3 percentage points higher than official inflation. In 2021, this gap increased to an average of 14.4 percentage points, 17.1 in 2022 and 19.5 in the first nine months of 2023.

Trends in inflation as reported in official statistics and perceived by households, 2018-2023 (percentage compared to the same month of the previous year)



Source: HCSO, GKI

Perceived inflation has a spillover effect on the economy. If people perceive a price increase much higher than the official one (which is high in itself), they will react: they want higher salaries/pensions/social benefits so that their purchasing power does not decrease, and they expect higher returns on their investments. In the former case, the increase in net earnings slightly above inflation (14% in the first eight months of 2023) was also felt to be insufficient (as their real earnings decreased even with this), and the former might affect the bank deposit and government securities markets (the investment volume decreased/stagnated with the given yields). Moreover, if the measured price index and the real price index are very different, then all real indicators look much better (real pensions, real consumption, real income, ultimately real GDP) than they are in reality.

In its representative survey for the European Commission, the GKI also assesses monthly the expected increase in consumer prices over the next 12 months. In September 2023, households expected 25.3% for the following year, which was lower than the rate of deterioration seen in the previous 12 months.