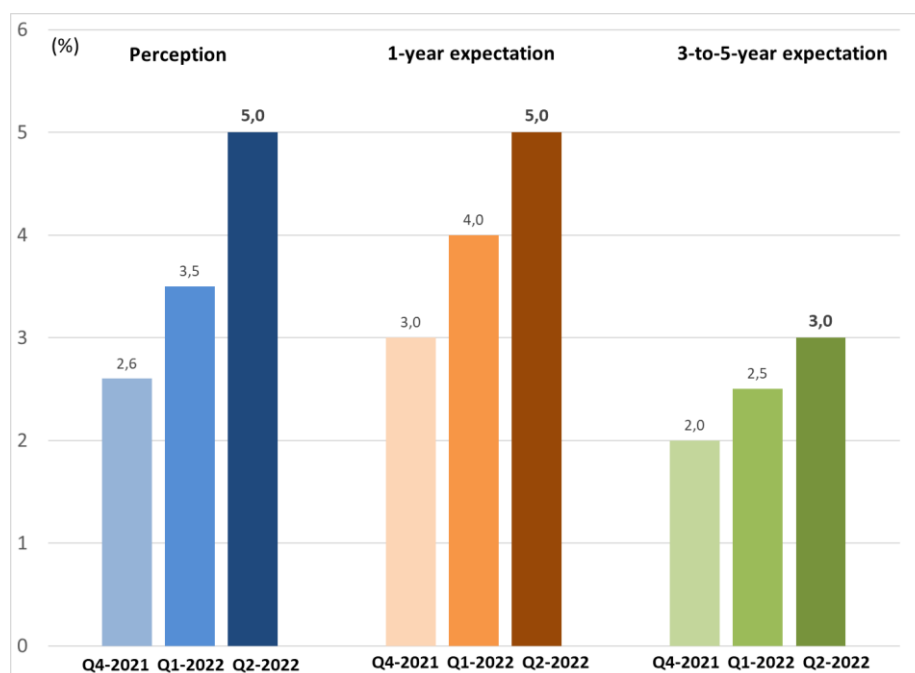


# What are business leaders' inflation expectations?

By Paul Bouche, Julien Demuynck, [Erwan Gautier](#), [Frédérique Savignac](#)

*For the first time, the Banque de France is publishing the results of a survey on business leaders' inflation expectations, collected since the end of 2021. One-year inflation expectations have increased since the beginning of the year and their median stands at 5% in the second quarter of 2022. Longer-term expectations (3-5 years) are also rising, but more slowly, with a median of 3%. This survey was conducted prior to the ECB's monetary policy normalisation announced on 9 June, which is expected to contribute to the gradual "re-anchoring" of inflation expectations.*

**Chart 1: Changes in inflation expectations since end-2021 in France  
(median in %)**



*Note: median weighted by the number of employees in the company and the value added in the company's sector, 1% of the highest responses are not taken into account in the calculations. Source: IE-Banque de France survey.*

In France, since the end of 2021, the rise in the consumer price index (CPI) has been growing more rapidly: it stood below 2% in the first half of 2021 on an annual basis, reached almost 3% at end-2021 and stood at 5.2% in May 2022 (and 5.8% according to the European harmonised index). In this context, the topic of inflation and its future trend is once again at the heart of households' and business leaders' concerns. Now, what companies and households expect in terms of inflation tomorrow influences their economic decisions today ([Weber et al., 2022](#)). For example, companies' price setting decisions or wage negotiations may depend on what business leaders or households expect about aggregate price

developments, which ultimately affects inflation dynamics. It is therefore important for central banks to have tools that enables them to monitor economic agents' inflation expectations in real time, to ensure that they remain compatible with the monetary policy's medium-term inflation target of 2%.

[A new Banque de France survey](#) measures business leaders' inflation perception and expectations. They perceive and expect inflation to be higher today than at end-2021 (Chart 1).

### **The two-pronged challenge of measuring firms' inflation expectations**

For a long time, the only indicators available to central banks were those derived from the financial markets or from surveys of professional forecasters. However, financial market participants or forecasters do not have the same level of attention or information as households or companies on inflation issues. Their expectations therefore differ quite widely ([Coibion et al. 2020](#)) and one cannot extrapolate the expectations of financial markets and professional forecasters to businesses and households.

Today the Banque de France is publishing for the first time the results of a regular nationwide survey of business leaders on their inflation expectations regarding general consumer price developments. Setting up a tool for monitoring business expectations is a two-pronged challenge. The first challenge concerns technical feasibility: conducting such a survey requires contacting a large sample of economic decision-makers who are available to respond. To this end, the survey on corporate inflation expectations is based on the usual contacts that the Banque de France branches establish with business leaders as part of the Monthly Business Survey (MBS). The survey is designed as a short module of questions within the MBS, and this module is conducted on a quarterly basis. The second challenge consists in obtaining relevant information for monetary policy assessment: in particular, asking companies about an aggregate variable rather than its immediate environment, gathering quantitative information for a medium to long term horizon. However, most business surveys provide information on the activity of the company and the dynamics of their own sales prices and consider relatively short time horizons (a few months). Adding a module on expectations regarding general consumer price developments thus makes it possible to enrich the MBS and its assessment of the anchoring of inflation expectations.

### **The new Banque de France survey**

Currently, in the euro area, only the Bank of Italy has conducted a national survey for over 20 years. In the world, this type of survey is being developed by central banks but is still rare ([Candia et al. 2022](#)).

After an experimental phase ([Bouche et al., 2021](#)), the inflation expectations (IE) module of the MBS has been conducted on a national scale since the end of November 2021. Each quarter, around 1,700 companies of all sizes and sectors (industry, construction, services) are surveyed. The survey is conducted by telephone during the business interviews carried out for the MBS. In the end, over 7,000 business leaders will be contacted each year to find out what they think about inflation.

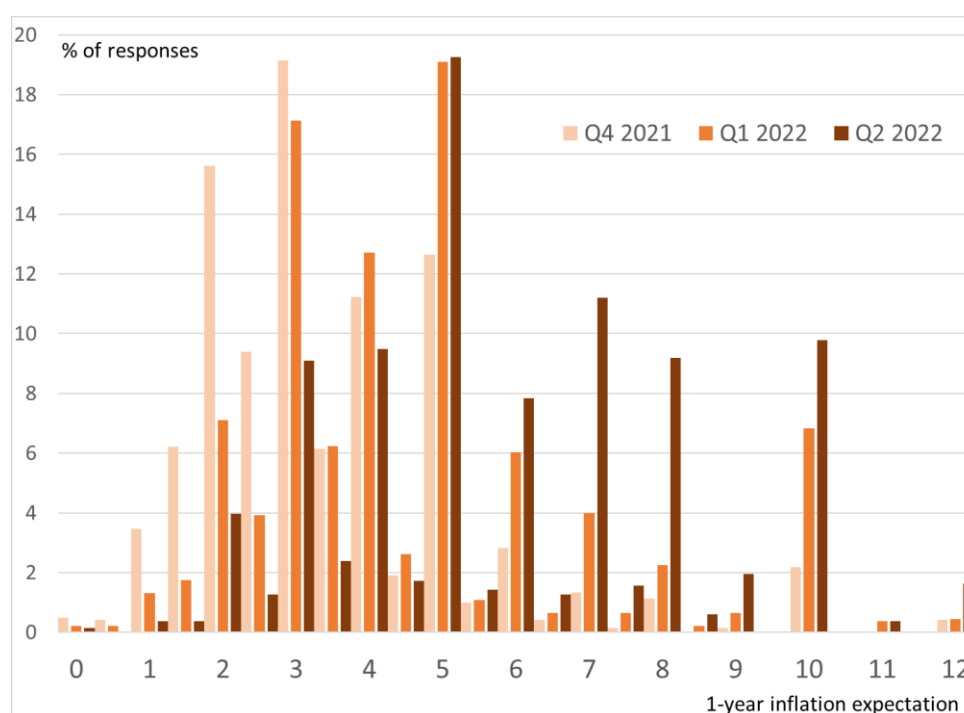
The information gathered concerns business leaders' current perception of inflation, and their inflation expectations for the next year and the medium term (3 to 5 years). Each respondent is also asked about its expectations regarding wage trends over the next 12 months within the firm ([Gautier, 2022](#)). Thanks to this survey, it is thus possible to determine, as close as possible to the reality of economic decisions, what firms think about future inflation.

### Since end-2021, firms' inflation expectations have risen with inflation

Since inflation picked-up in France three main conclusions about inflation expectations can be drawn from the analysis of the first three waves of the survey.

First, business leaders perceive this rise in inflation correctly; on average over the last three quarters, the average perception of inflation is close to the inflation measured by the consumer price index (CPI, INSEE). Business leaders have a relatively less upwardly biased perception of inflation than households ([Savignac et al. 2021](#)). Moreover, the dispersion of their responses has decreased significantly over the past few months and at the end of May - beginning of June 2022, almost 50% of business leaders put inflation at a level close to 5%.

**Chart 2: Distribution of one-year inflation expectations since end-2021**

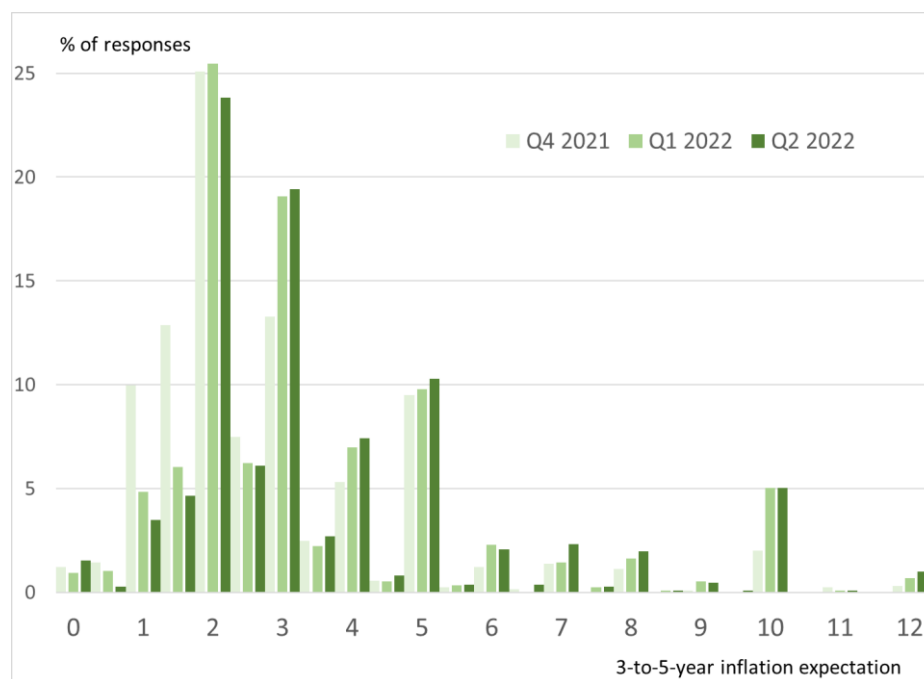


Source: IE-Banque de France survey, responses to the question "In percentage terms, what do you think the inflation rate will be in one year in France?"

The second conclusion is that for the past three quarters business leaders have been expecting inflation to remain close to its current level in the short term. In the second quarter of 2022, the median of their one-year expectations stands at 5% and the mean at 5.7%. About 1 in 5 business leaders expect inflation to be around 5% in a year's time, half expect it to be higher than 5%, but nearly 1 in 3 expect it to be lower than 5%. This "disagreement" reflects quite different scenarios from one company to another on the future inflation profile and may affect business leaders' decisions. Finally, this dispersion of

inflation expectations is greater than that of their perception and has also increased sharply in recent months (Chart 2).

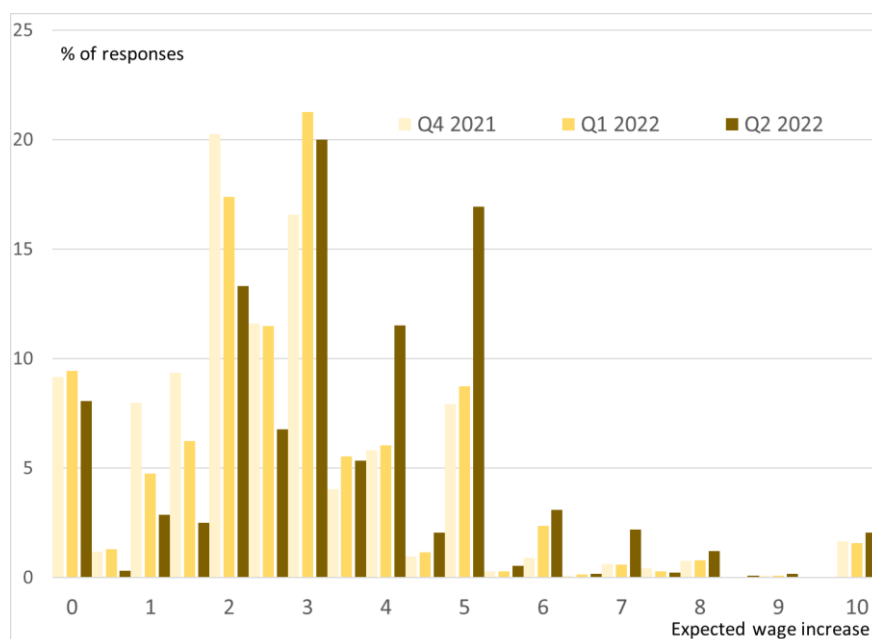
**Chart 3: Distribution of three to five year inflation expectations since end-2021**



Source: IE-Banque de France survey, responses to the question "In percentage terms, what do you think the inflation rate will be in three to five years in France?"

The third finding is that three to five year inflation expectations are much lower than one year expectations, driven in particular by rising energy prices. The median of these expectations is 3% in the second quarter of 2022 and a significant proportion of business leaders (about 35%) expect inflation to return to around 2% in the long term. Moreover, the dispersion of responses on the long-term expectation is much more limited than for the one-year horizon, which suggests that business leaders tend to agree more widely on a decline in inflation in the long term (Chart 3). However, medium term expectations increased slowly between the end of 2021 and June 2022. While 2% remains the most frequent response given by business leaders on their long-term expectations, the share of firms expecting an inflation rate above 2% has increased. The gradual normalisation of monetary policy recently decided by the ECB Governing Council on 9 June aims at anchoring medium-term inflation expectations around 2%.

**Chart 4: Distribution of one-year expectations of base wage increases in firms since end-2021**



Source: IE-Banque de France survey, responses to the question "In percentage terms, what do you think the evolution of basic wages (gross, excluding bonuses) in your company will be over the next 12 months?"

Finally, business leaders expect slightly higher increases in base wages (gross, excluding bonuses) in their company over the next year than at end-2021 (Chart 4): their median stands at 3% in the second quarter of 2022, compared with 2% at end-2021. In particular, the share of firms expecting wage increases of between 4% and 5% has risen in the second quarter of 2022. However, in terms of both mean and median, these wage expectations remain lower than those for inflation expectations over the same one-year horizon and do not seem to point to the triggering of a price-wage loop.