

Türkiye Household Inflation Expectations Survey (TEBA) Results¹

October'24

- Annual inflation expectations as of October 2024: **107%** (Previous: 109%)
- Year-end inflation expectations: **92%** (Previous 94%)
- 12-month forward inflation expectations: **96%** (Previous 96%)

Summary Statistics

	I Annual inflation expectations	II Year-end inflation expectations	III Year-ahead inflation expectations
	<i>How much do you think prices have increased on average from October 2023 to this October?</i>	<i>By the end of 2024, what percentage increase will prices have experienced from January to December?</i>	<i>What is your year-ahead inflation expectation from October 2024 to October 2025?</i>
1. Mean	107	92	96
2. Median	100	90	100
3. Inter Quartile Range (IQR)	30	40	40
4. Standard Deviation	58	52	60

* We exclude the outliers that are three standard deviations away from the mean.

In October, **TEBA inflation expectations** continued the downward trend in annual and year-end values observed in September. Meanwhile, 12-month forward-looking inflation expectations remained unchanged from the previous month

The average inflation expectations for both annual and year-end figures (columns 1 and 2) are higher than the median values, indicating a right-skewed distribution. In other words, there are more respondents expecting annual inflation below 107% than those expecting higher rates. Conversely, for the 12-month ahead inflation forecast (column 3), the average value is lower than the median, suggesting a left-skewed distribution. This means fewer respondents expect inflation below 96% over the next 12 months compared to those with higher expectations.

The interquartile range (IQR) value (3rd row), which measures the variability of responses among participants, shows the difference in expectations between the 25th and 75th percentiles. This value

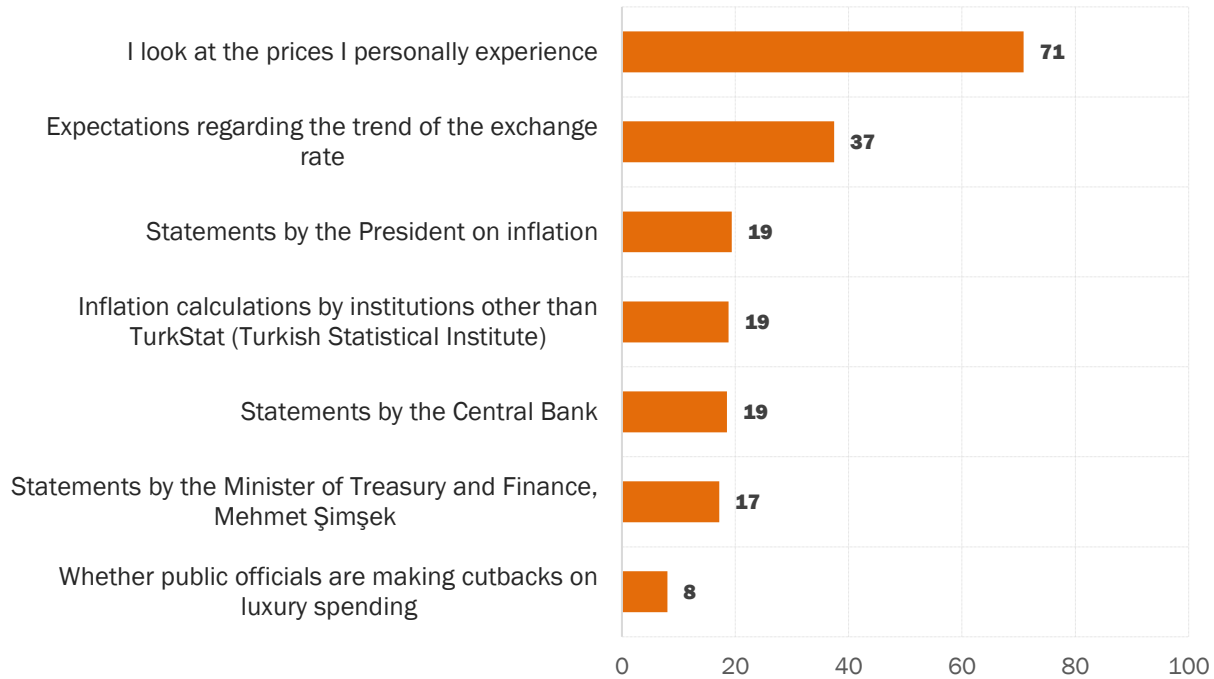
¹ The next release is scheduled for November 28, 2024.

has decreased for the year-ahead inflation expectations, indicating increased consensus on longer term inflation outlook.²

Factors Shaping Inflation Expectations

This month's survey included a question on the criteria participants use to form their inflation expectations. The findings indicate that the most influential factor is the prices participants personally experience, reaffirming the results from the September survey. Expectations regarding the exchange rate are also seen to play a significant role in shaping inflation expectations, while comments from economic decision makers have a more limited impact. Notably, the recent emphasis on public sector austerity have minimal influence, with only 8% of participants citing it as a relevant factor.

What do you consider these days to form your inflation expectations for the coming month or year?



How Inflation Expectations Influence Consumer Behavior

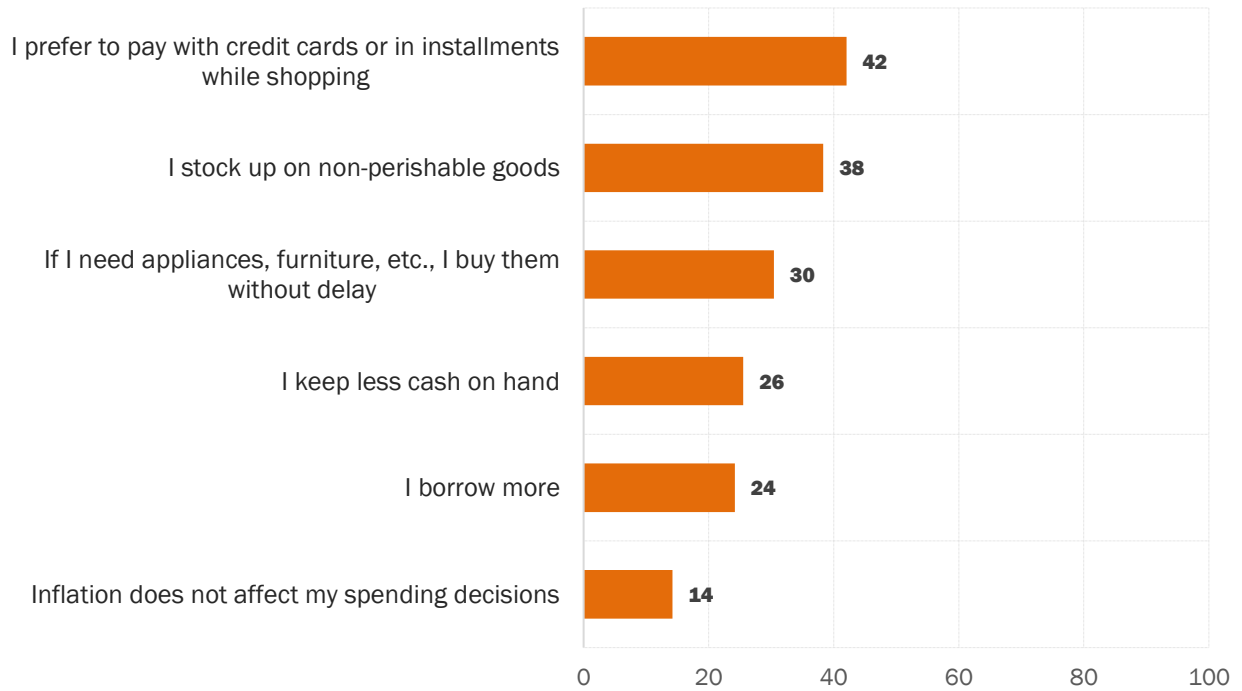
This month's survey included an additional question designed to explore how inflation expectations influence household behavior. The literature provides empirical evidence regarding the effects of inflation expectations on aggregate demand, revealing mixed findings. Specifically, a decline in inflation expectations can create an anticipation of higher real income, which tends to boost

² Cavallo, Cruces, and Perez-Truglia (2017) showed that volatility in backward-looking inflation perceptions is a key factor influencing the volatility of forward-looking inflation expectations. This relationship is supported by TEBA data, which reveals a correlation between the variance in inflation expectations for the past 12 months and those for the next 12 months. Cavallo, A., Cruces, G., Perez-Truglia, R. (2017), "Inflation Expectations, Learning, and Supermarket Prices: Evidence from Survey Experiments," *American Economic Journal: Macroeconomics*, 9(3), 1-35.

spending on durable goods (see Coibon et al., 2023).³ In contrast, results from the TEBA survey indicate a different effect: rising inflation expectations prompt households to pull forward their demand. A significant share of survey participants reported that when they expect inflation to rise, they are more likely to stock up on non-perishable goods, increase their purchases of durable goods, and take on more debt. This behavior is consistent with the expectation that real wages will decline in tandem with rising inflation. Additionally, advancing demand is aligned with economic theory to the extent that the anticipated increase in inflation lowers the expected real returns on savings.

Additionally, when inflation expectations rise, it has been observed that a significant proportion of participants (42%) attempt to safeguard their purchasing power against inflationary pressures by making purchases through credit cards or installment payments.

When your inflation expectations increase, does this affect your spending decisions, and if so, what actions do you take?



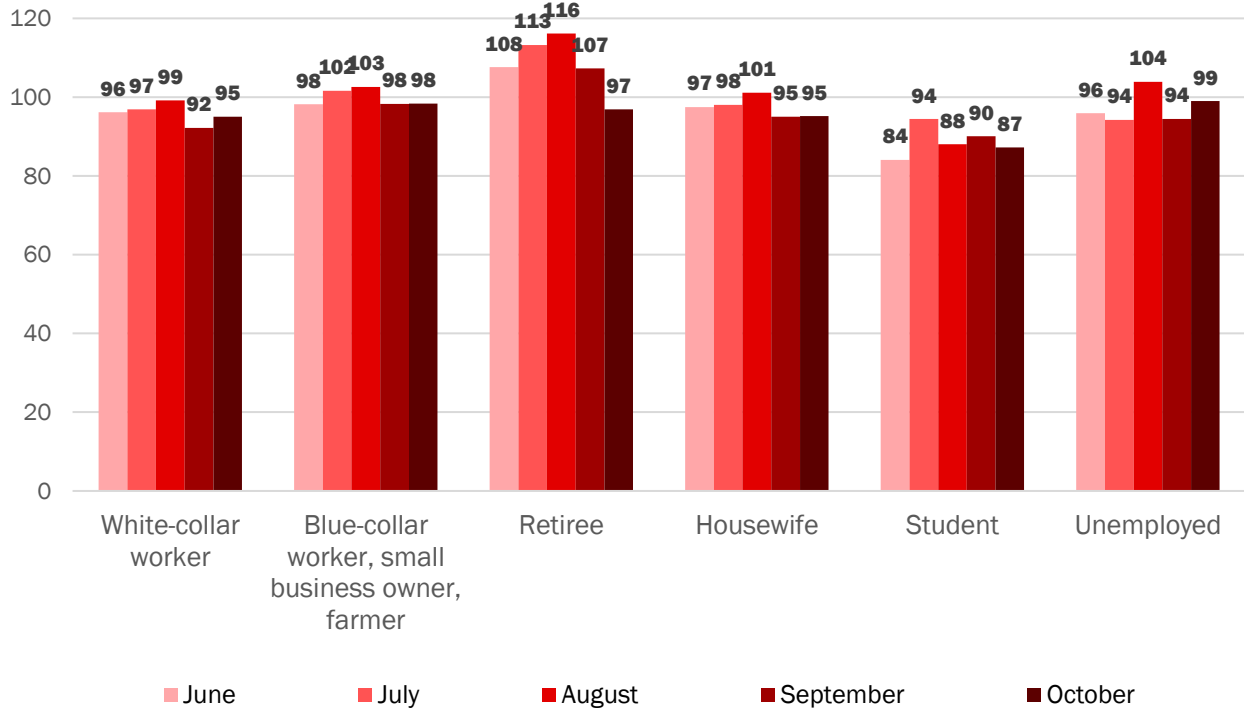
Demographic Analysis

In this section, 12-month forward household inflation expectations are examined according to demographic characteristics.

³ Coibon, O., Georgarakos, D., Gorodnichenko, Y., ve Van Rooij, M. (2023), Hoe Does Consumption Respond to News about Inflation? Field Evidence from a Randomized Control Trial, American Economic Journal: Macroeconomics, 15 (3) 2023, 109-152.

- 1) An analysis based on the employment status of respondents reveals that, compared to previous months' surveys, the 12-month forward-looking inflation expectations of the retired group—previously the highest—have now converged closer to those of other employment groups in this month's survey.

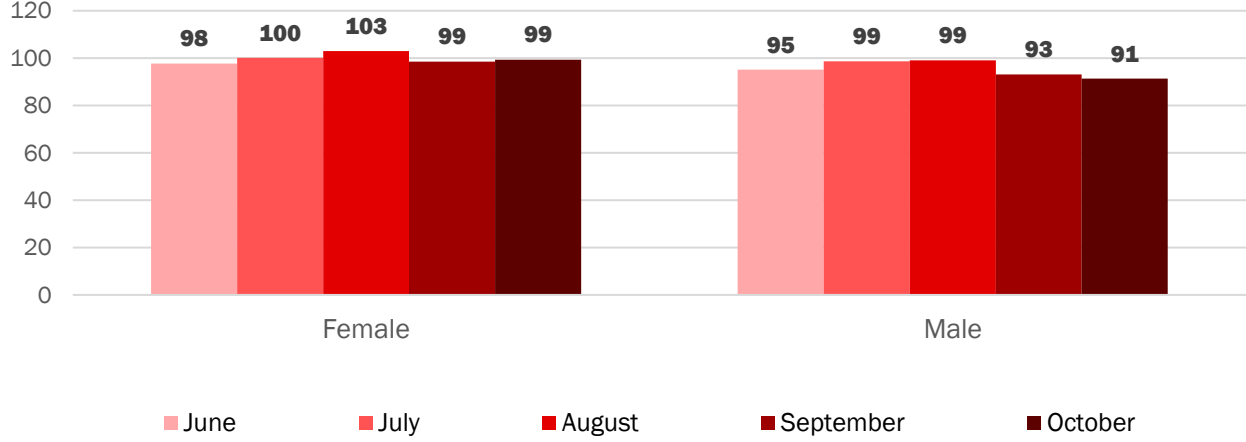
What is your year-ahead inflation expectation from October 2024 to October 2025?



- 2) Analysis of inflation expectations by gender reveals that women have higher expectations than men. This finding aligns with existing literature (see Reiche, 2024).⁴ Several alternative explanations for this behavior have been suggested, including women's more active involvement in grocery shopping and lower self-confidence in financial matters. Furthermore, a detailed examination of the TEBA September survey supports the financial confidence theory, indicating that as financial literacy increases, the emphasis placed on grocery shopping decreases.

⁴ Reiche, L., Beyond Groceries: Financial Confidence and the Gender Gap in Inflation Expectations, 2024, paper presented at the BoC-ECB-NY Fed Conference on Expectations Surveys, Central Banks and the Economy https://www.ecb.europa.eu/press/conferences/html/20241001_boc_ecb_nyfed.hr.html

What is your year-ahead inflation expectation from October 2024 to October 2025?



TEBA September Survey

Figure 1: How do you form your inflation expectations?

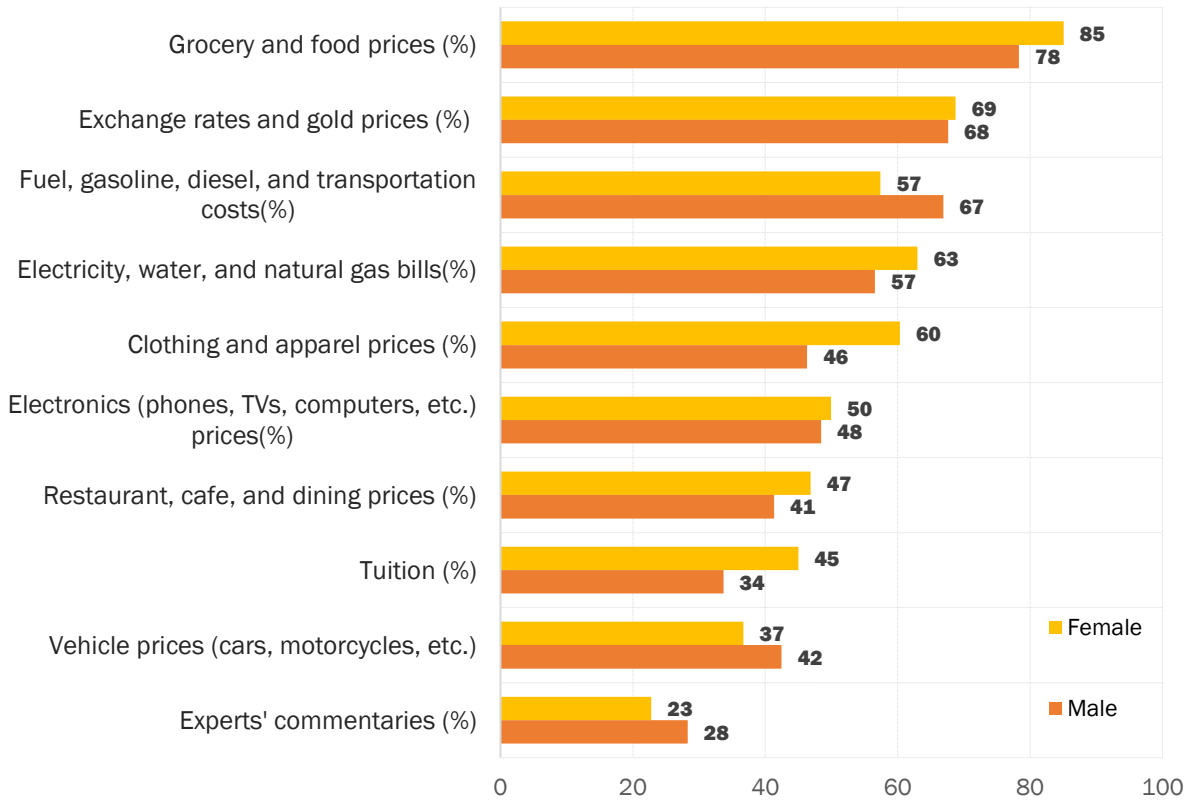
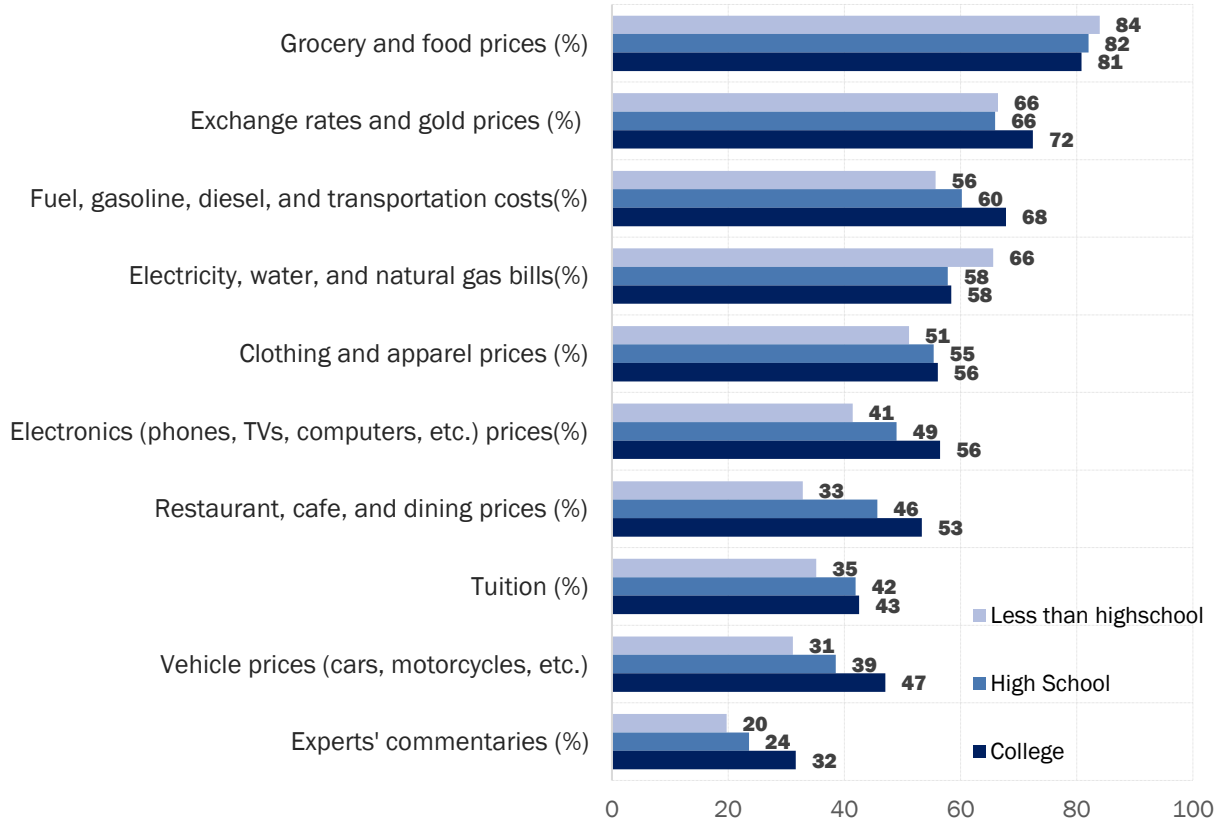


Figure 2: How do you form your inflation expectations?



KONDA Household Inflation Expectations Survey Credits

This report and the underlying research data were produced by KONDA Research and Consultancy Inc. for Koç University.

This research aims to measure the inflation expectations of the population aged 18 and over in Turkey.

The research was conducted through phone calls with individuals who agreed to participate in the KONDA Mediated Panel on October 18-22, 2024. Panelists voluntarily joined our panel system. Each panelist conducts the survey through a mediator affiliated with KONDA. 2860 individuals were interviewed in this study, living in 1432 different neighborhoods across 74 provinces.

The research was designed and implemented to determine and monitor trends and changes in the preferences of subjects representing the adult population aged 18 and over in Turkey. The margin of error for the research findings is +/- 1.83 at a 95% confidence level and +/- 2.41 at a 99% confidence level.

The sample was prepared by layering the population sizes and education levels of neighborhoods and villages based on ADNKS (Address-Based Population Registration System) data and the results of the May 14, 2023 General Elections. Settlements were initially categorized as rural/ urban/ metropolitan and the sample was determined based on 12 regions.