



22th June 2023

Quarterly business survey of inflation expectations • 2nd quarter 2023

Business leaders' one-year inflation expectations fell to 4% and 3-5 year inflation expectations remained stable at 3%

Business perception and expectations of inflation in France (consumer prices)

Our quarterly survey of inflation expectations (here defined as the increase in the consumer prices index – CPI), which is a module of the Banque de France's Business Survey, was carried out from 26 May to 5 June. In the second quarter of 2023, the median of business leaders' perception of inflation reached 6.0%, slightly above the rise in the consumer price index (CPI), which stood at 5.1% in May, and at the same level as that of the harmonised index of consumer prices (HICP), which stood at 6.0% in May. The median of one-year expectations was 4.0%, and the median of medium term expectations (3 to 5 years) was 3.0%.

Table 1: Business perceptions and expectations of the annual inflation rate (median, %)

	2022-Q3	2022-Q4	2023-Q1	2023-Q2
Current Perceived Inflation	6.0	6.5	6.0	6.0
1-year forward inflation expectation	5.0	6.0	5.0	4.0
3-5 year forward inflation expectations	3.0	3.0	3.0	3.0

In the second quarter of 2023, the median of perceived inflation was unchanged, while that of one-year inflation expectations was one percentage point (pp) lower than in the previous quarter, returning to its level of the first quarter of 2022. The median of medium-term inflation expectations (3-5 years) remained stable at 3%, but the distribution of responses shifted slightly towards lower inflation. In the second quarter, "2%" inflation is once again the most frequently given response, accounting for 26% of responses, compared with 22% in the previous quarter.

Chart 1: Change in annual inflation rate perceptions and expectations (median, %)

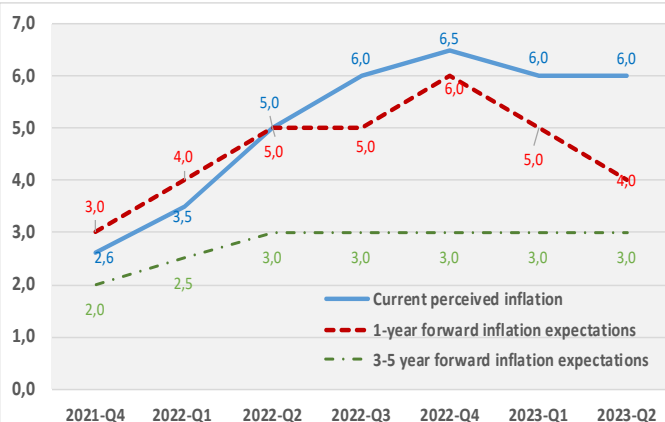
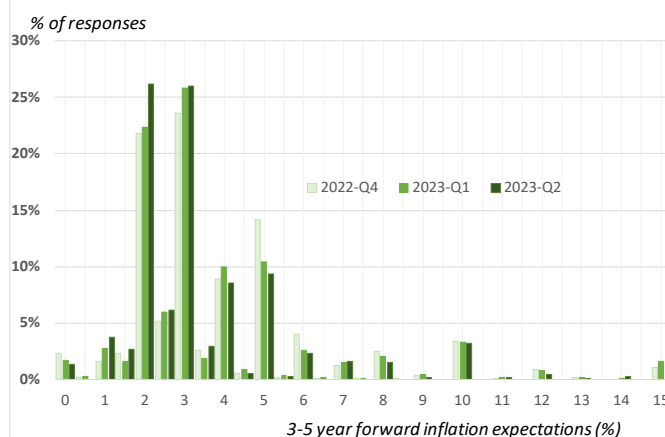


Chart 2: Distribution of three to five-year inflation expectations (%)





Base wage growth expected by business leaders

Business leaders expect base wages in their companies to grow by 4.0% over the next year (median). This expectation has remained stable for the past four quarters. The share of respondents expecting wage increases of 5% or more dropped in the second quarter (30%, compared with 38% in the previous quarter).

Chart 3: Change in one-year base wage expectation (median, %)

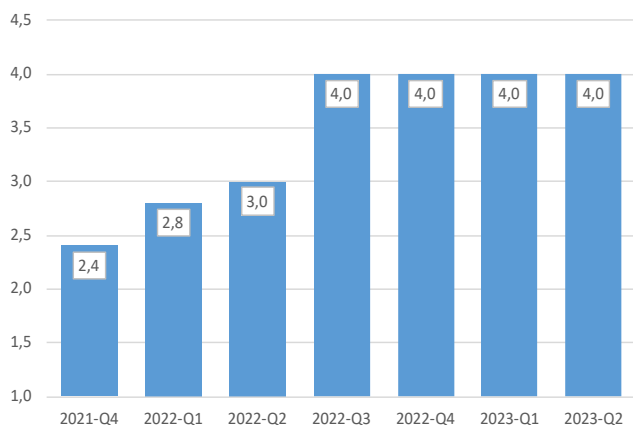
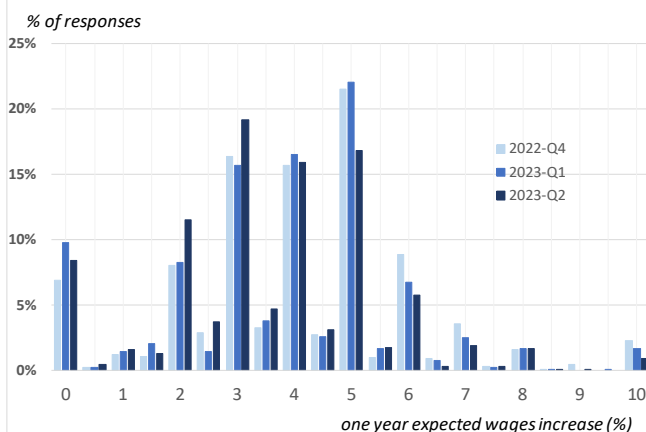


Chart 4 : Distribution of one-year expectations of base wage increases (%)



Methodology

This survey was carried out between 26 May to 5 June on a representative sample of 1,700 business leaders. The survey covers three major market sectors of the economy and firms of all sizes from every region of metropolitan France. The opinions of business leaders are obtained by telephone during the monthly interview conducted for the Monthly Business Survey and each business leader is questioned only once a year with regard to this module. Business leaders are asked four questions:

- 1 - As a percentage, what, in your opinion, is the actual rate of inflation in France?
- 2 - As a percentage, what, in your opinion, will the rate of inflation be in one year in France?
- 3 - As a percentage, what, in your opinion, will the rate of inflation be in three to five years in France?
- 4 - As a percentage, how, in your opinion, will the base wage (before tax, excluding bonuses) change in your firm over the coming 12 months?

Note that the base wage corresponds to gross salary before the deduction of social security contributions and payment of social security benefits. Bonuses and overtime are not included.

The data are trimmed at the 99th centile. To calculate the results, the replies are weighted based on the average number of employees and the relative importance of each firm within its sector, then by the respective weights of the professional branches in terms of value added at the aggregate level.

