

## **Survey of Consumer Expectations and Policy Responses in Taiwan**

In recent years, the rate of price level increases in Taiwan has been higher than it was before the pandemic. The average annual growth rate of the Consumer Price Index (CPI) rose from 0.99% from 2010 to 2019 to 2.44% from 2021 to June 2024. Inflation expectations are an important factor affecting the current price level. Since October 2023, the Macroeconomic Forecasting Team of the Institute of Economics, Academia Sinica, has conducted a semi-annual survey to understand Taiwanese consumers' inflation expectations. While CPI changes are generally used to measure inflation, they may not align well with consumers' perceptions of price changes. Therefore, this survey also directly investigates expected changes in the cost of living. Additionally, the survey examines consumers' reactions to macroeconomic policies. Rigorous research is necessary for fully understanding policy effects. The purpose of this survey is to provide a preliminary and timely assessment for policymakers' reference and to stimulate academic interest in researching domestic policy issues.

The survey methodology is detailed in the March 2024 issue of Taiwan Economic Forecast and Policy. We use dual-frame sampling of landline and mobile phones and apply weighting for residential areas, gender, and age to ensure the sample represents the Taiwanese consumer population along these dimensions. The April 2024 survey, with a 95% confidence level, has a sampling error of  $\pm 2.08$  percentage points.

The survey results from April this year indicate that 64% of Taiwanese consumers expect the cost of living to rise in a year, an increase of 10 percentage points compared to 54% from the survey conducted in October last year. Among the anticipated increases, "transportation and energy expenses" are expected to rise the most, possibly due to the comprehensive increase in electricity prices this April. When surveyed about CPI changes, 85% of consumers expect the CPI to increase in a year, with more than 70% expecting an increase of over 2%. The overall average increase is expected to be 3.2%, higher than the 2.8% expected in the October 2023 survey. Thus, both the one-year-ahead expectations for the cost of living and CPI changes in April 2024 are higher than those in October 2023. This indicates that Taiwanese consumers' inflation expectations have risen in the first half of this year compared to the second half of last year.

Regarding policy responses, the October 2023 survey focuses on the usage of the NT\$6,000 universal cash distribution to all residents. The results show that 86% of consumers had spent the NT\$6,000 by October 2023. However, only 18.4% planned to use or had used the government-distributed cash to buy items they had not originally planned to purchase. The preliminary estimate of the policy's marginal propensity to

consume is 0.16, indicating that the cash distribution is mostly substituted for existing expenditures.

The policy response survey conducted in April 2024 focuses on employers' willingness to adjust wages due to the basic wage increase over the past three years and the public-sector pay raise in 2024. The basic wage increased from NT\$109 per hour in 2013 to NT\$183 per hour in 2024. The results show that about 70% of employers adjusted the wages of employees earning more than NT\$30,000 per month due to the basic wage increase over the past three years. However, 15% of employers reduced their hiring during the same period due to the basic wage increase. Additionally, about 30% of employers have already or plan to adjust wages in response to this year's public-sector pay raise. Overall, the concurrent implementation of basic wage increases and the public-sector pay raise in 2024 is likely to positively affect nominal wage growth over the medium to long term in Taiwan.