

Reactions of household inflation expectations to a symmetric inflation target and high inflation

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Outline

- ▶ Summary
- ▶ The counterintuitive impact of the change in the target
- ▶ No treatment effect
- ▶ Alternative methodology
- ▶ How can the data be explored further

Summary: Questions

What is the reaction of the households' inflation expectations in the euro area to:

1. The ECB's monetary policy strategy change to a symmetric inflation target
2. Rise in euro area inflation above target

Summary: Questions

What is the reaction of the households' inflation expectations in the euro area to:

1. The ECB's monetary policy strategy change to a symmetric inflation target: **None**
2. Rise in euro area inflation above target: **Strong**

Summary: Setup

2 events

1. Change of the inflation target
2. Rise in inflation

Survey expectations on:

1. Short-run inflation (1 year ahead)
2. Long-run inflation (10 years ahead)
3. Probability of high inflation

Identification: 2 groups with different information sets

1. Treatment group: received info about both events (new inflation target and realized inflation number)
2. Control group: no info

Change of monetary policy strategy

- ▶ A change in monetary policy strategy led to a **reduction** in SR and LR inflation expectations

Why?

- ▶ Other macroeconomic developments can explain the decline:
 - ▶ GDP growth
 - ▶ Wages
 - ▶ Profits
- ▶ Is the change in monetary strategy too complicated? (Coibion et al. 2022)

Response to the rise in inflation

- ▶ Higher actual inflation led to higher SR and **LR** inflation expectations => inflation expectations are deanchored

2 different exercises:

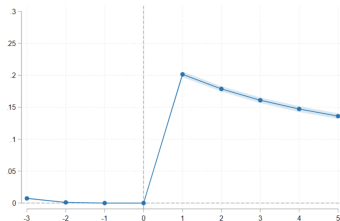
- ▶ Monetary strategy dummy = 1 in the month of the change
- ▶ High inflation dummy = 1 in the months when $\pi > 3\%$
- ▶ There can be delays in processing information

Treatment effect

- ▶ No significant difference between the control and treatment groups but...
- ▶ Control group has higher inflation expectations than does the treatment group
- ▶ Are both groups similar enough (education)?

Methodology: Why not DiD?

- ▶ Why Pesaran and Smith (1995)?
- ▶ To ensure that the groups are very similar use Propensity Score Matching
- ▶ How persistent is the effect of the information?



- ▶ Time dummies to control for macro events

Heterogeneous responses to treatment

- ▶ No average response might hide large differences across various groups
 - ▶ Education
 - ▶ Age
 - ▶ Profession

Uncertainty of inflation expectations

- ▶ Focus on the mean effect of the change in the inflation target
- ▶ What is the impact of the change in the target policy and inflation on the **dispersion** of expectations?
- ▶ How is the dispersion affected by the provision of information?

Clarify methodology

- ▶ Estimated specifications
- ▶ What type of robust regressions are used?
- ▶ Characteristics of the respondents

Conclusion

- ▶ Exciting and important question
- ▶ Some clarifications needed
- ▶ Looking forward to see a revised version