

FEDERAL RESERVE BANK *of* NEW YORK

Improving the Measurement of Inflation Expectations

Charts for Barclays 16th Global Inflation-Linked Conference

New York

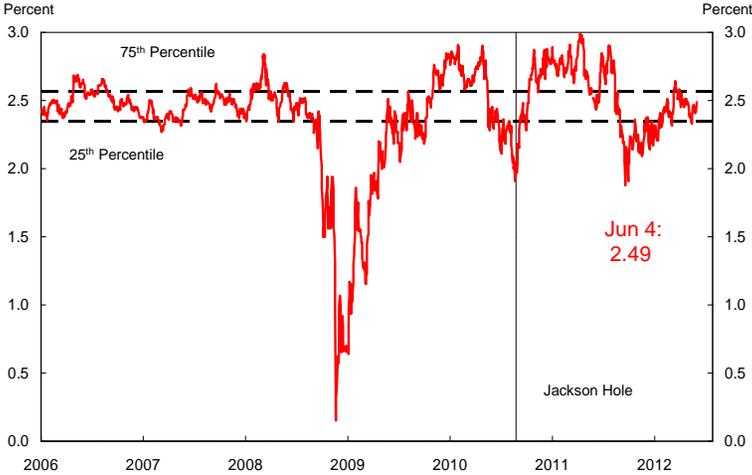
Simon Potter

Executive Vice President and Director of Economic Research
Federal Reserve Bank of New York

June 6, 2012

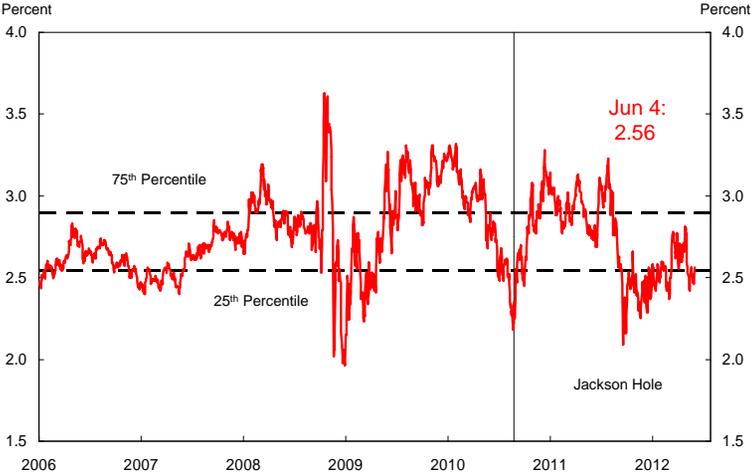
Chart 1: Measures of Forward Inflation Compensation

Barclays Capital: 5-year/5-year Breakeven Forward



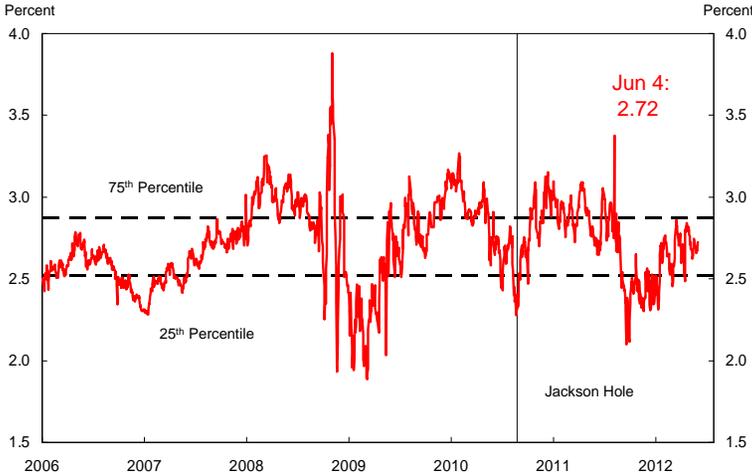
Source: Barclays

FRB: 5-year/5-year Breakeven Forward



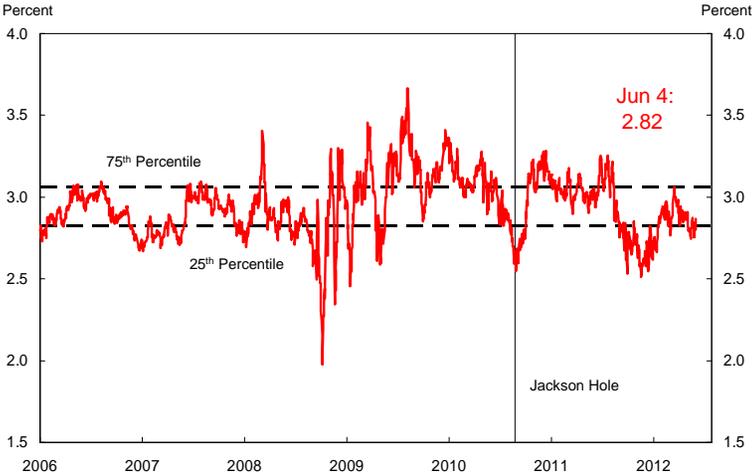
Source: Federal Reserve Board of Governors

FRBNY: 5-year/5-year Breakeven Forward



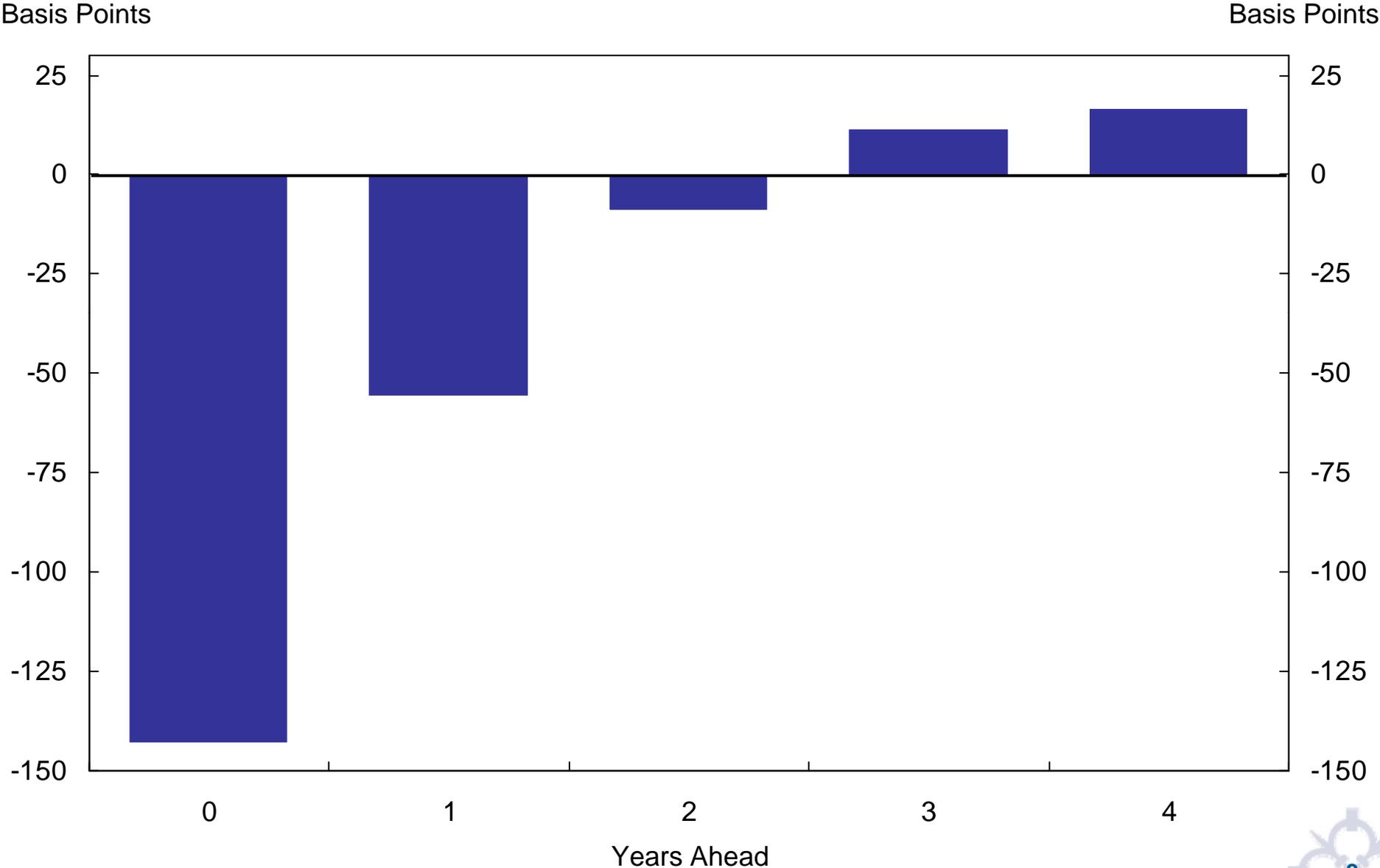
Source: Federal Reserve Bank of New York

5-year/5-year Zero Coupon Inflation Swap



Source: Bloomberg

Chart 2: Changes in 1-Year Forward Inflation Compensation



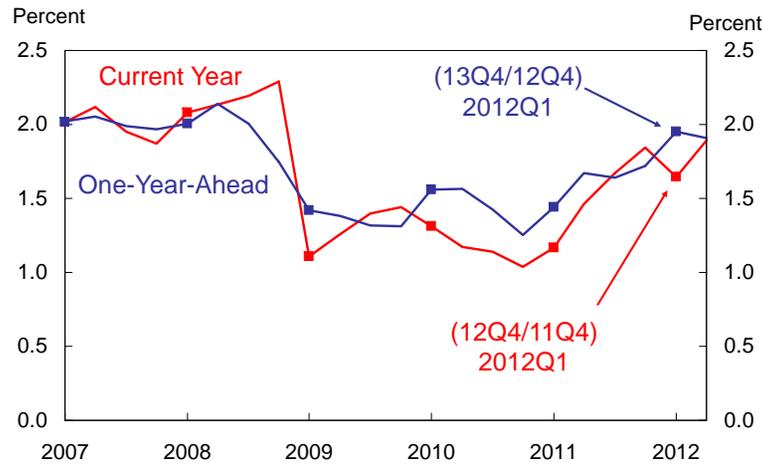
Source: Federal Reserve Board

Note: Changes since 4/16/2012.



Chart 3: SPF Inflation Forecasts

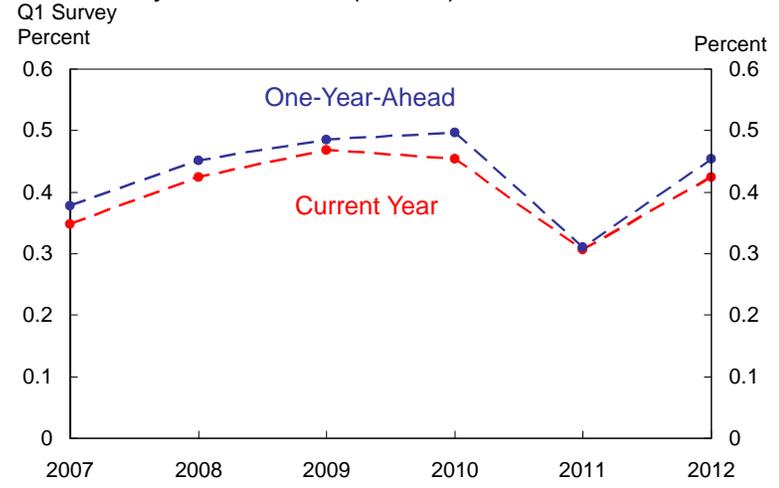
Mean of Core PCE (Q4/Q4) Inflation Forecasts



Source: Survey of Professional Forecasters

Note: The dates represent the survey release.

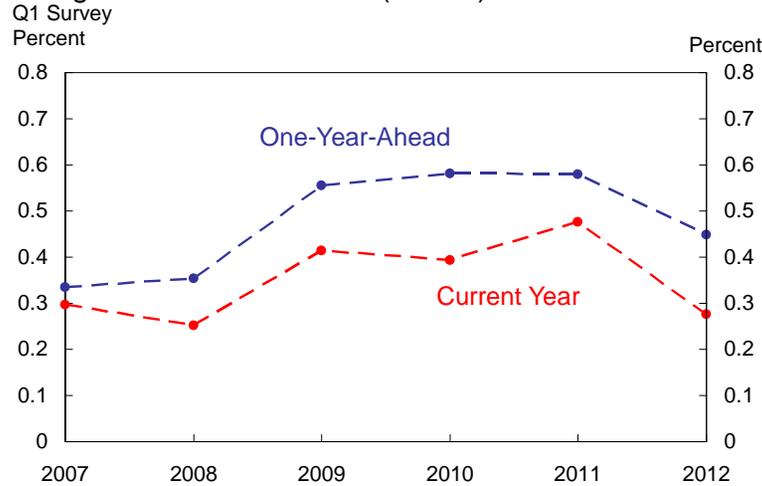
Uncertainty in Core PCE (Q4/Q4) Inflation Forecasts



Source: Survey of Professional Forecasters

Note: The dates represent the survey release.

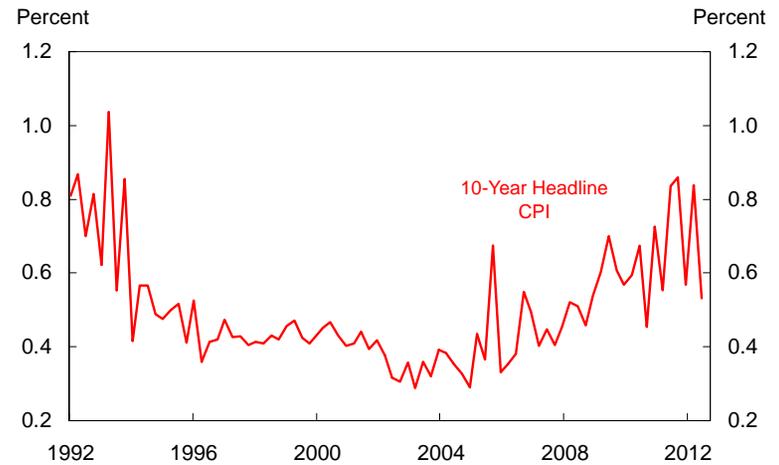
Disagreement in Core PCE (Q4/Q4) Inflation Forecasts



Source: Survey of Professional Forecasters

Note: The dates represent the survey release.

Disagreement in Long-run Inflation Expectations



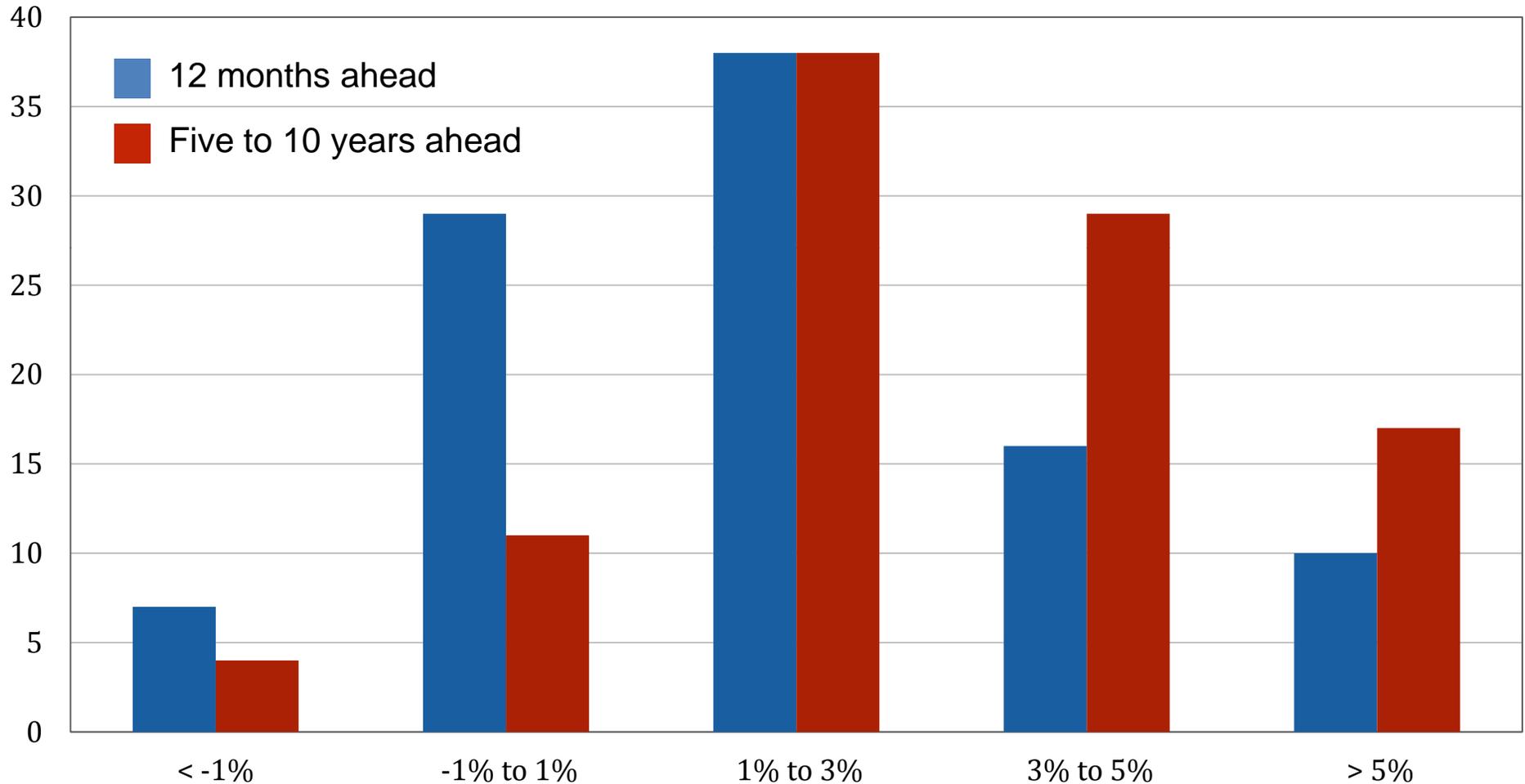
Source: Survey of Professional Forecasters

Note: The dates represent the survey release.



Chart 4: Business expectations for unit costs

Distribution of Respondent Expectations for Unit Costs
probability of cost change, percent

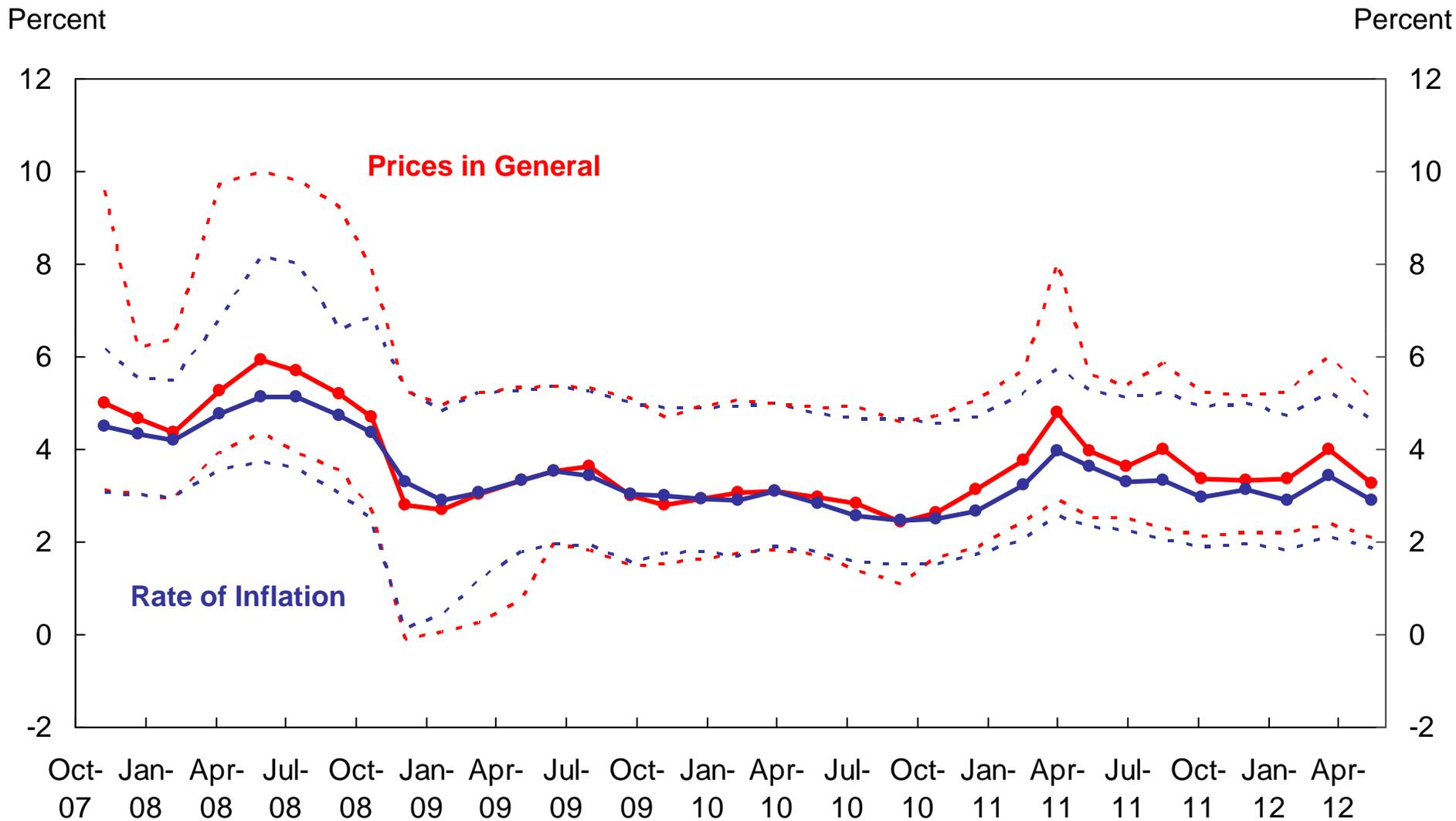


Note: The survey reflects responses of Sixth District firms to Survey of Business Inflation Expectations (BIE) between April 16-21, 2012.

Source: Atlanta Fed



Chart 5: Prices in General and Rate of Inflation Median Year-Ahead Forecasts

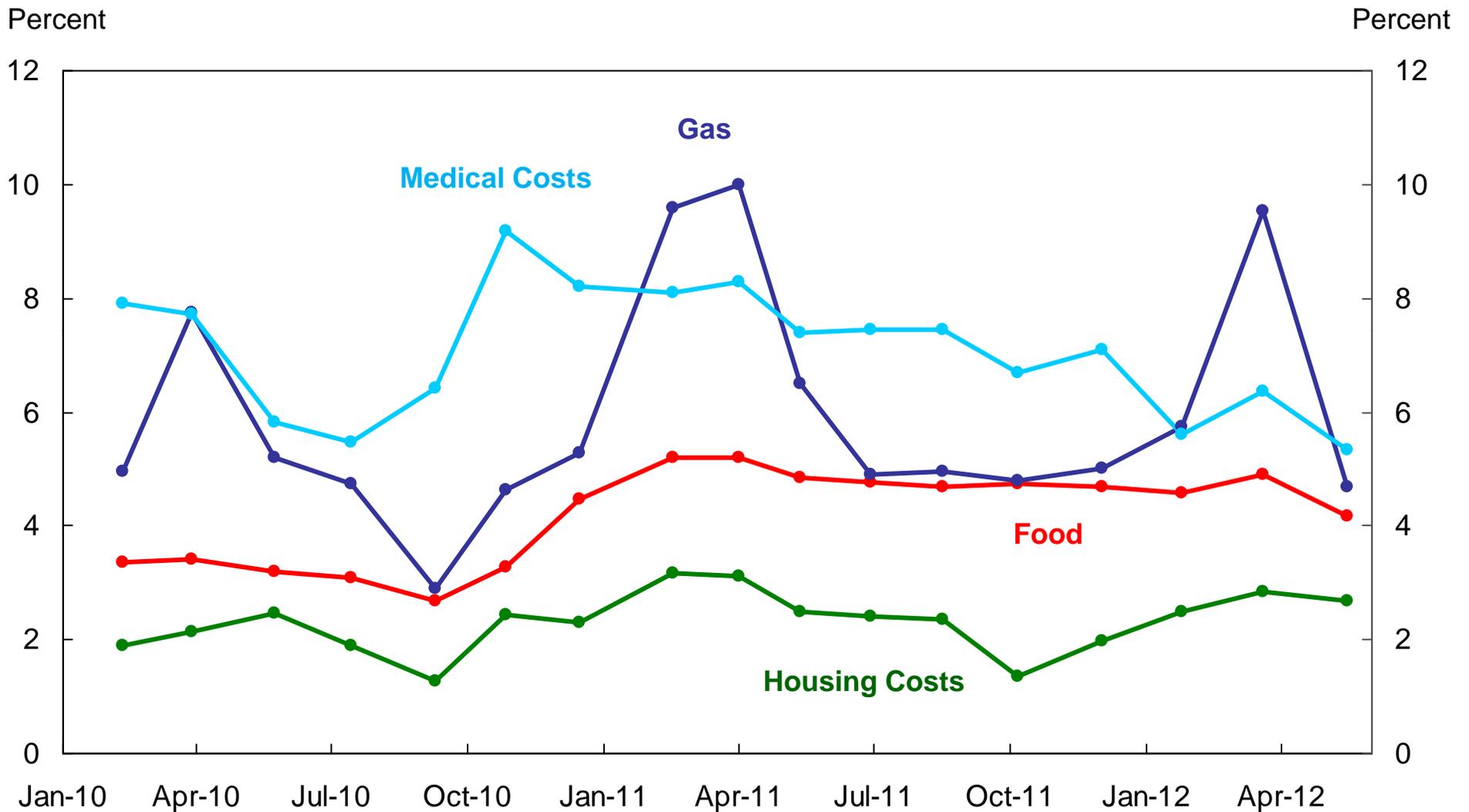


Note: 25th, 50th, and 75th percentiles of the point forecasts of year-ahead changes in 'prices in general' and the year-ahead 'rate of inflation'.

Source: NYFed-ALP Panel



Chart 6: Year-Ahead Commodity Price Inflation Expectations

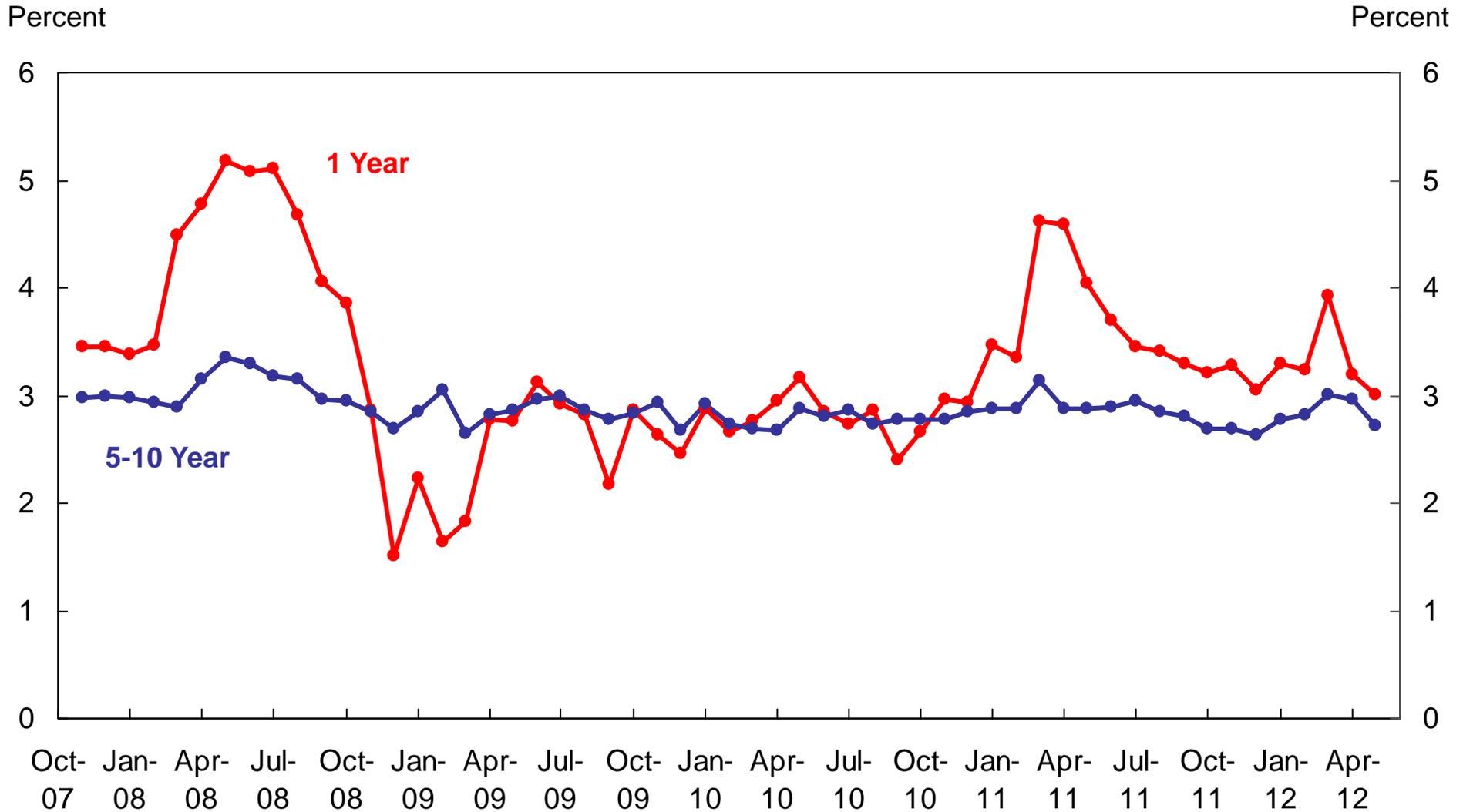


Note: Medians of point forecasts across all respondents.

Source: NYFed-ALP Panel



Chart 7: Michigan Survey Trends in 1-year and 5-10-year Expectations



Note: Michigan Survey micro data. Median of point forecasts from 'prices in general' question.

Source: Reuters/Michigan Survey of Consumers



Chart 8: Structure of Michigan's Long-Term Inflation Expectations Question

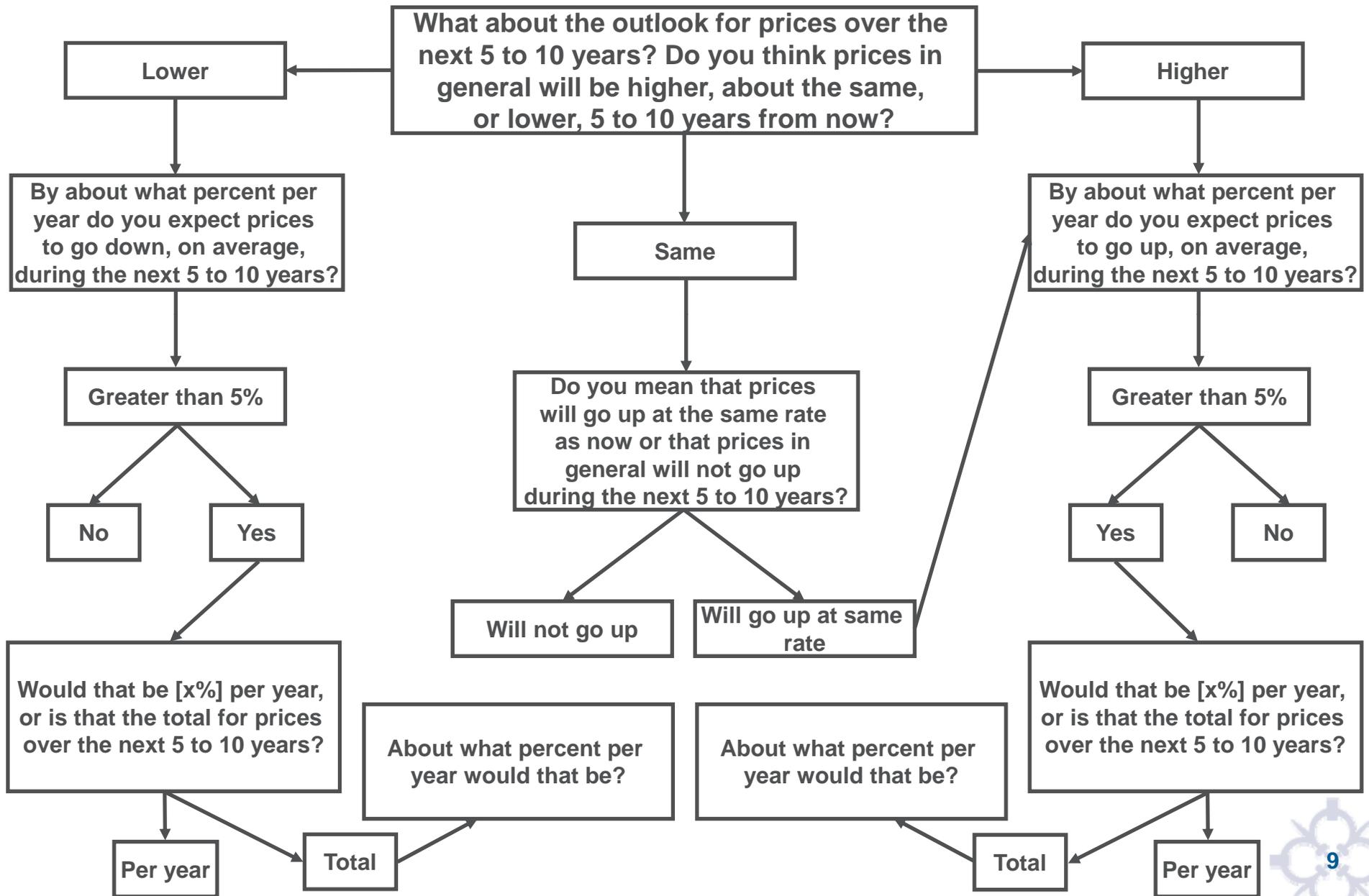


Chart 9: Medium-term Inflation: Probabilistic Question

[After Instructions]:

Now we would like you to think of inflation **3 years from now**.
In your view, what would you say is the percent chance that
the following things may happen over the one-year period
between **May 2014 and May 2015**?

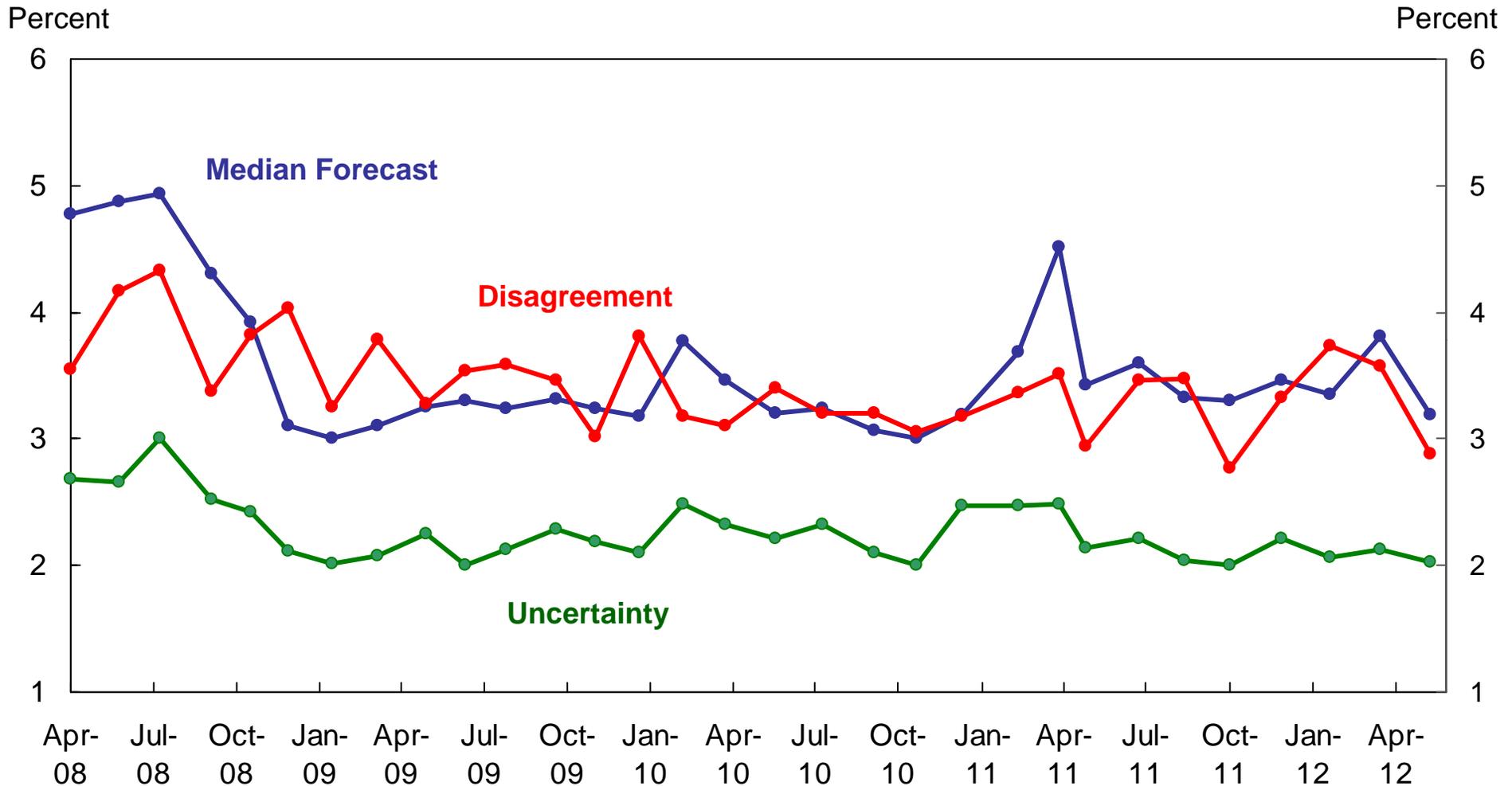
(Please note: Numbers need to add up to **100%**.)

The rate of:

inflation will be 12% or higher	_____ percent chance
inflation will be between 8% and 12%	_____ percent chance
Inflation will be between 4% and 8%	_____ percent chance
Inflation will be between 2% and 4%	_____ percent chance
Inflation will be between 0% and 2%	_____ percent chance
Deflation will be between 0% and 2%	_____ percent chance
Deflation will be between 2% and 4%	_____ percent chance
Deflation will be 4% or higher	_____ percent chance
	<u>100</u> % total



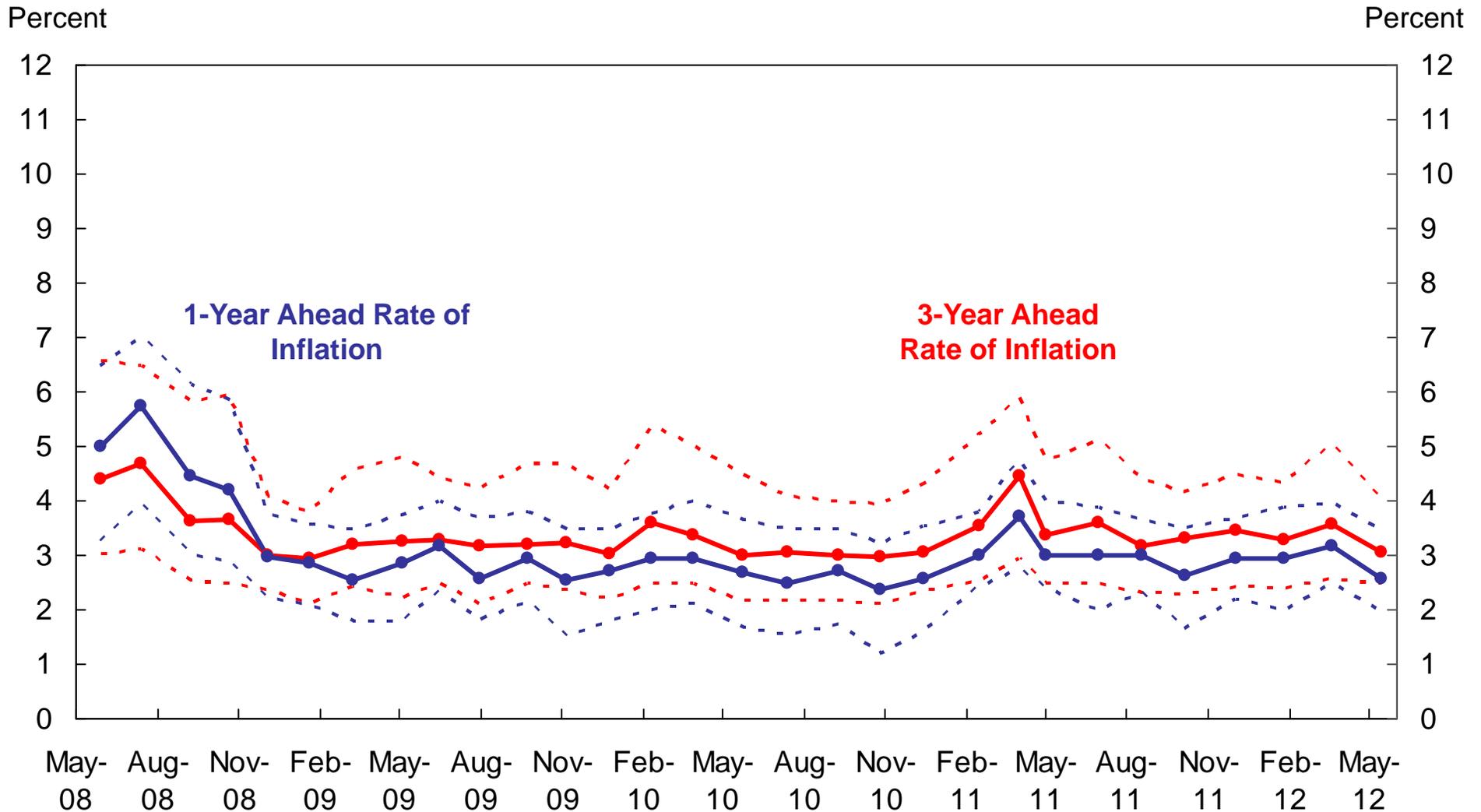
Chart 10: Three-Year Ahead Inflation Expectations



Note: Median and inter-quartile range (75th – 25th percentile) of interpolated individual density medians for three-year-ahead ‘rate of inflation’. Uncertainty measured as sample median of individual density IQRs for three-year-ahead ‘rate of inflation’.

Source: NYFed-ALP Panel

Chart 11: Trends in Medians of Individual Quartiles of 1Y and 3Y Ahead Forecasts of Rate of Inflation

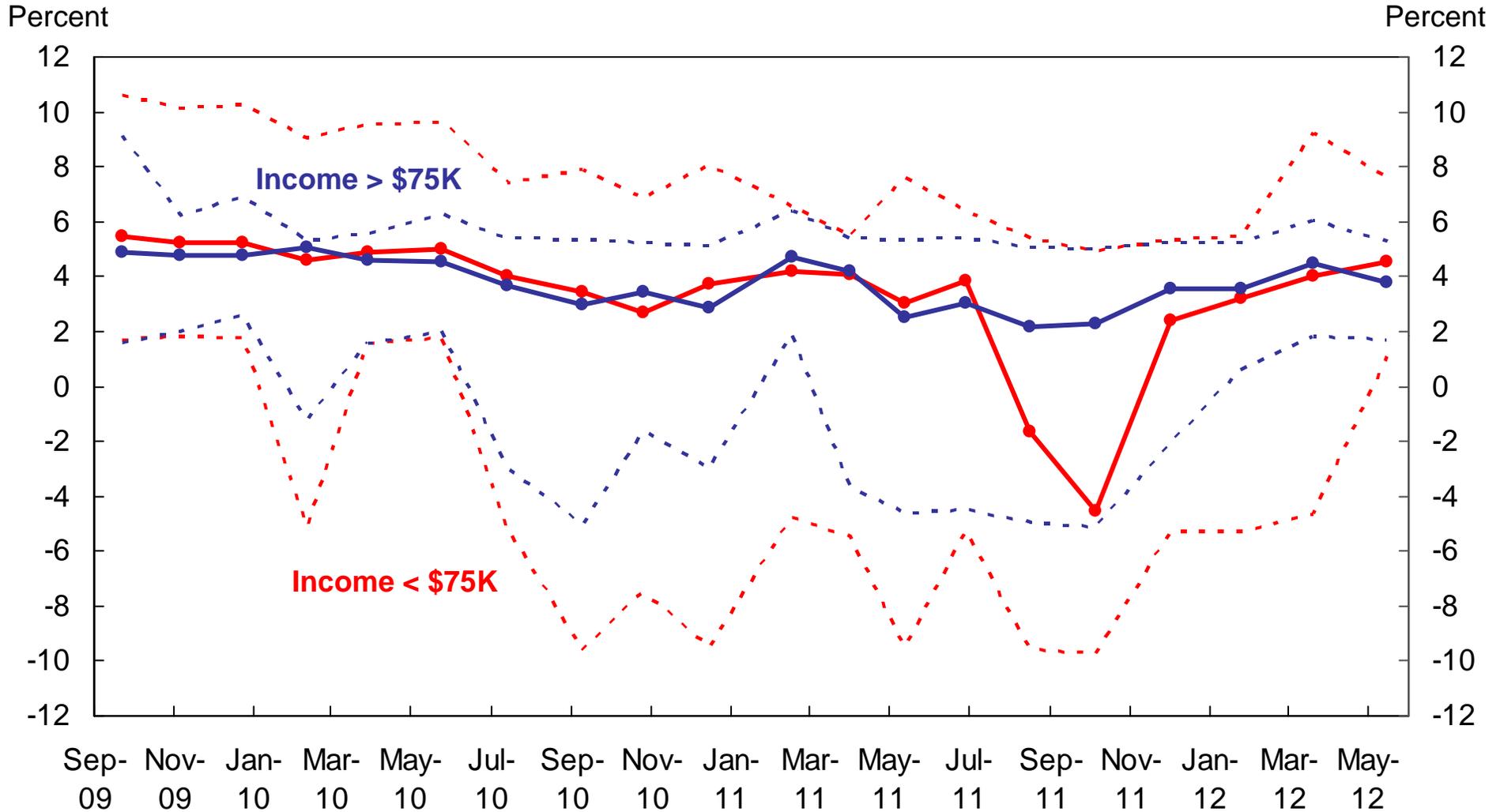


Note: Medians of quartiles from individual density forecasts for 'rate of inflation', one year and three years in the future. Subsample consists of respondents who answer both 1Y and 3Y ahead RI density questions.

Source: NYFed-ALP Panel

Chart 12: Year-Ahead House Price Expectations

Quartiles by Income Groups

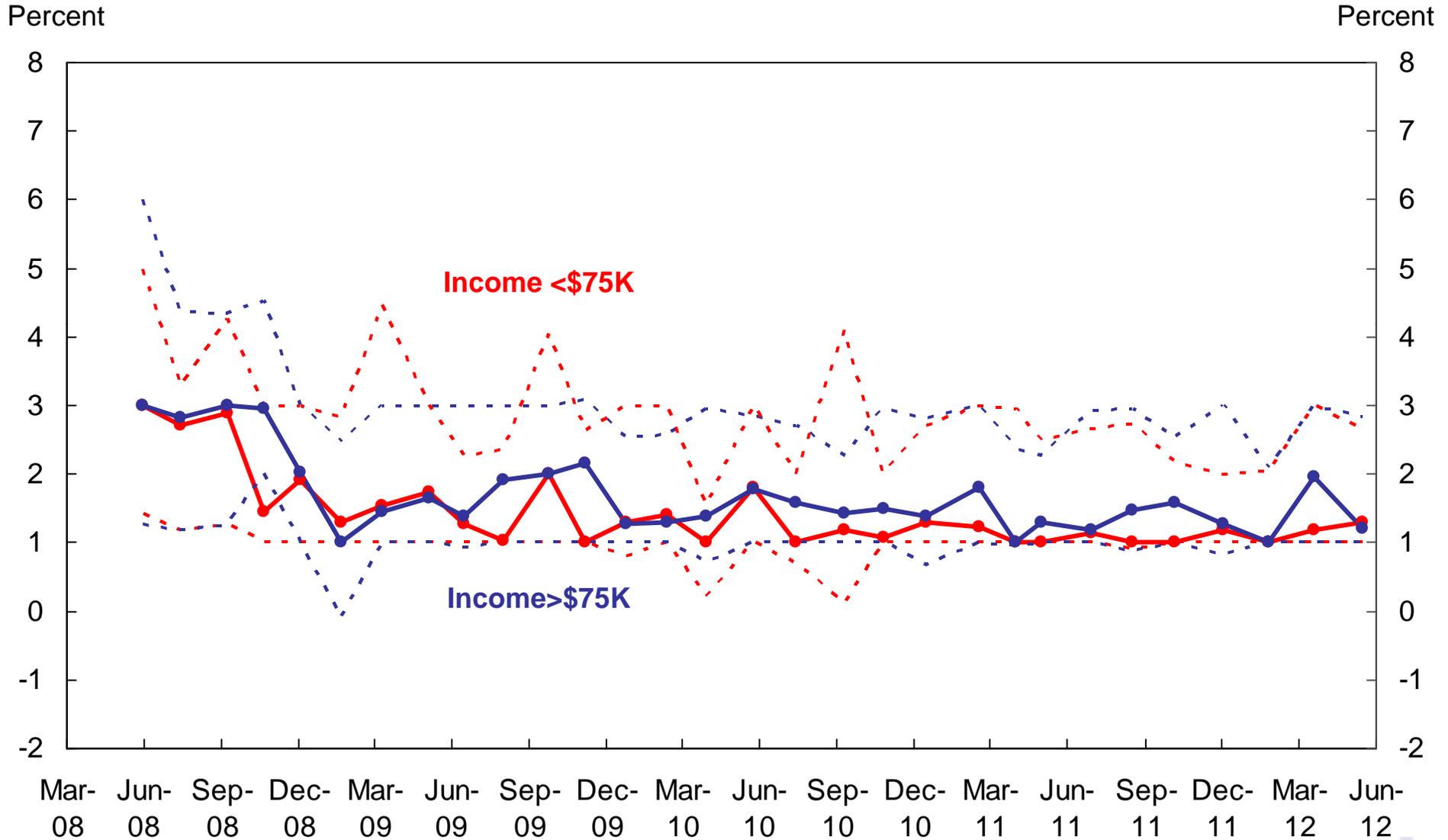


Note: 25th, 50th, and 75th percentiles of the distribution of point forecasts of change in year-ahead 'average home price', by income groups.

Source: NYFed-ALP Panel

Chart 13: Year-Ahead Wage Growth Expectations

Quartiles by Income

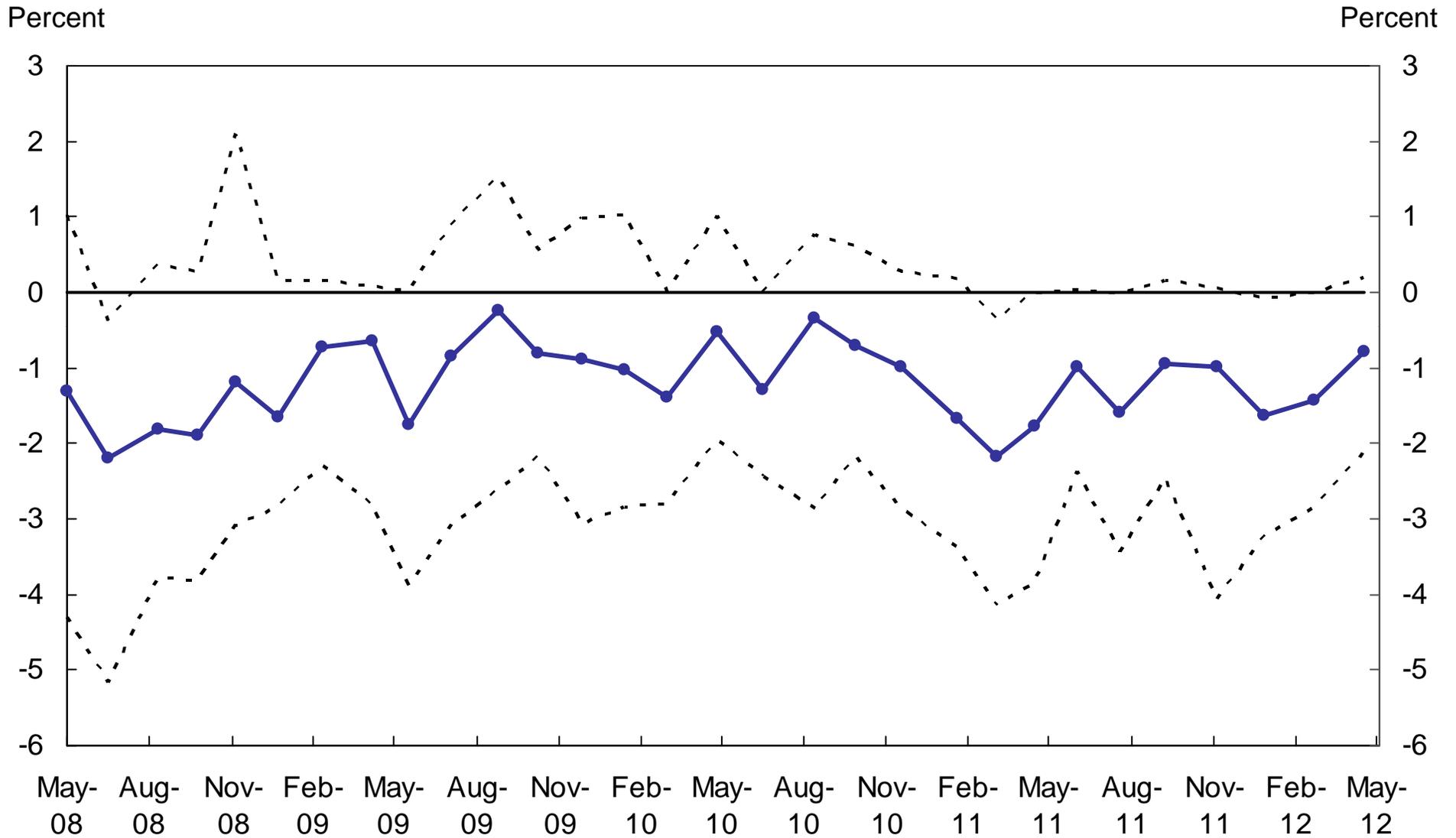


Note: 25th, 50th, and 75th percentiles of the density medians of change in year-ahead 'wages'.

Source: NYFed-ALP Panel

Chart 14: Year-Ahead Real Wage Expectations

Quartiles Across Respondents



Note: 25th, 50th, and 75th percentiles.

Source: NYFed-ALP Panel