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

FRB: 5-year/5-year Breakeven Forward

FRBNY: 5-year/5-year Breakeven Forward

5-year/5-year Zero Coupon Inflation Swap

Source: Barclays

Source: Federal Reserve Board of Governors

Source: Federal Reserve Bank of New York

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

Uncertainty in Core PCE (Q4/Q4) Inflation Forecasts

Disagreement in Core PCE (Q4/Q4) Inflation Forecasts

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

Prices in General

Rate of Inflation

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

What about the outlook for prices over the next 5 to 10 years? Do you think prices in general will be higher, about the same, or lower, 5 to 10 years from now?

By about what percent per year do you expect prices to go down, on average, during the next 5 to 10 years?

Greater than 5%

No

Yes

Would that be [x%] per year, or is that the total for prices over the next 5 to 10 years?

Per year

Total

About what percent per year would that be?

Higher

By about what percent per year do you expect prices to go up, on average, during the next 5 to 10 years?

Greater than 5%

Yes

No

Would that be [x%] per year, or is that the total for prices over the next 5 to 10 years?

Total

Per year

About what percent per year would that be?

Same

Do you mean that prices will go up at the same rate as now or that prices in general will not go up during the next 5 to 10 years?

Will not go up

Will go up at same rate

About what percent per year would that be?
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 100% % 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
Note: 25th, 50th, and 75th percentiles.

Source: NYFed-ALP Panel