Comments on:
Easaw, Golinelli, Malgarini: Do households anchor their inflation expectations?

Jan Marc Berk
De Nederlandsche Bank
Objective paper

• Are inflation expectations of Italian consumers anchored? (Anchoring as defined by Bernanke, 2007)

• If yes, to what? Central bank’s target? Professional forecast?
Contributions the paper makes

- Policy relevance: central bank credibility
- Empirical application of sticky information expectations (rational inattentive behaviour)
- Novel data set.
Results

• In the long run households’ inflation expectations:
  – anchored to inflation expectations of professional forecasters
  – higher than actual inflation and CB inflation target

• Heterogeneity of inflation expectations between classes of households
What do I like about the paper?

• Policy relevance
• Careful execution
• Novel data set
I have some reservations

- Lack of details on data
- (Household) survey
- Economic interpretation
- Econometric issues
Data

• Data set is marketed as novel…
• … but details of it are lacking in the paper…
• What does the paper tell us on dataset:
  – point forecast of expected inflation 12 months ahead
  – point forecast of inflation perceived to have occurred over past 12 months
    – Monthly, Feb 2003-Dec 2009, Italian households
• Actual inflation: CPI or HICP?
On the use of (household) surveys:

• General criticism: Nonlinearities, sensitivity to wording of questions, other measurement biases etc

• Specific criticism: Information content (‘put your money where your mouth is’)

• Qualitative versus quantitative survey data: (dis)advantages?
Anchoring can be studied using alternative proxies for expectations: financial markets instruments (Galati et al., 2009)...

...or using model-based approaches (Orphanides and Williams, 2005, Demertzis et al., 2007, 2008, 2009, 2010)...

...or confronting the perceived inflation rate (survey) with actual inflation rate
Economic issues

Carroll’s model: gradual discovery and response to information by households:
• applicable to professional forecasts…
• …but less to lagged actual inflation and …
• …certainly not to households’ own perception of inflation
  ➔ Equation (3’)??
Economic issues (contd)

Expected inflation > actual inflation: interpretation?

• Credibility of ECB? But:
  ECB does not have an inflation target…
  … if it would have one, it would be in terms of HICP and not CPI…
  … and it would relate to the euro area as a whole.

Why should Italian inflation rate be a cause for concern for the ECB?
Economic issues (contd)

Households expectations anchored on consensus expectations

- How come?
- Implications for stability of economy?
- Is this really anchoring?
Econometric issues

• Reference groups in table 1 conditional on models that are not shown
• Stability? (effects of food price hikes, animal diseases, financial crisis)
• Robustness? Equations 6-7 crucial but alternatives are not considered; different dimension of systems?
• Consensus forecast: measurement issues: rationality assumed but should be tested
• Generated regressor problem: perceived inflation. PSS (2001) valid?
Suggestions

• More attention to the dataset used
• Explore relationship between perceived and expected inflation
• Robustness checks
• More attention to theory