

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

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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?

(Household) survey-contd

- 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