



## **Discussion of “Consumer Inflation Expectations: Daily Dynamics” by Carola Binder, Jeffrey Campbell and Jane Ryngaert**

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## Summary

- Use the Federal Reserve Bank of New York's Survey of Consumer Expectations (FRBNY SCE), a monthly rotating panel survey introduced in June 2013
  - Respondents are surveyed throughout the month, and date when survey is taken is recorded
  - Use this information to treat the survey as a daily survey
- identify 238 event dates from 2013-2021, including 66 FOMC announcements, 96 consumer price index (CPI) releases, 87 nonfarm payroll (NFP) releases, and 13 other major political or pandemic-related news dates.
- Estimate separate effect of each event: regress measures of individual consumers' inflation expectations on these 238 event-window dummy variables
- Use different inflation expectations measures derived from the point and density forecasts, making additional assumptions to derive them

## Main results

- The majority of FOMC meetings have no significant effect on consumer inflation expectations (although some announcements have short-lived effects)
- Good news about the pandemic tends to reduce inflation expectations
- Several of the largest reductions in inflation expectations followed better-than-expected US non-farm payroll releases covered in the news.
- Consistent with consumers tending to associate lower expected output growth with higher inflation (Binder, 2020; Candia et al, 2020)

## Comments

- Interesting paper on a topical and policy-relevant issue in the current environment of high and rising inflation
- Useful to go to higher daily frequency for consumer survey and use methods as employed in event studies with high-frequency financial market data of inflation expectations
- There is little analysis on whether professional and household survey respondents pay attention to economic data releases, due to low frequency of these surveys
  - Clements (2012) finds that professional forecasters (Philadelphia Fed Survey of Professional Forecasters, SPF) taken as a group do not always update their estimates of the current state of the economy to reflect the latest releases of revised estimates of key data
- By contrast, large literature exists on whether financial market expectations pay attention to economic data releases, due to availability of financial market data at high frequency (daily and intra-day)

## Comments

- Apokoritis, Galati, Moessner & Teppa (2019, BIS Working Paper No 809) conducted high-frequency (weekly) survey in order to apply methods as employed in event studies with high-frequency financial market data:
  - Using micro panel data of individual responses, found that short-term inflation expectations react significantly to surprises in the flash estimate of euro area inflation data; surprises measured as inflation data release minus Bloomberg median survey expectation
- Cleveland Fed also started a weekly survey of inflation expectations (indirect consumer inflation expectations, ICIE) in February 2021
- Interesting approach to exploit survey responses on different days in order to study reactions to news at high (daily) frequency for this monthly SCE survey
  - Identification as in Lamla and Vinogradov (2019), who also find that inflation expectations are not significantly affected by FOMC announcements

## Comments

- Paper uses derived inflation expectations measures from the SCE survey:
  - Interpolated means from density survey
  - Ryngaert measure (uses point forecast to infer mode of the distribution underlying the density forecast, and then mean of the fitted distribution)
  - Winsorised or trimmed point forecasts
- These derived measures require assumptions to be made
- Results can differ for different assumptions/measures
  - eg correlation of estimated coefficients  $\beta_s$  is only 0.35 when using winsorised point forecasts instead of Ryngaert measure

## Suggestions

- Use quantitative measure of surprises in economic data releases in the regressions
  - quantify surprises as data release minus Bloomberg median survey expectation and use these surprises in the micro panel data regressions, as in Apokoritis et al (2019, BIS Working Paper No 809)
- Use quantitative measure of surprises in FOMC announcements in the regressions
  - quantify surprise in policy rate decision by change in market interest rates (eg fed funds futures, bond yields) on day of announcement, as in financial market event studies
- When using dummy variables: rather than using separate dummy variables for each of the 238 events, group similar news events together as one dummy variable, and present coefficient for this combined dummy
  - eg stronger-than-expected inflation data releases; or policy rate cuts

## Suggestions

- Use individual survey responses of discrete density forecasts directly, as in Galati, Moessner & van Rooij (Oxford Economic Papers, 2022), which don't require additional assumptions to be made, eg:
  - probability of high inflation (>4%)
  - probability of inflation close to target (between 1% and 3%)and study effects of news on these direct measures



Thank you