

FIRMS' INFLATION EXPECTATIONS

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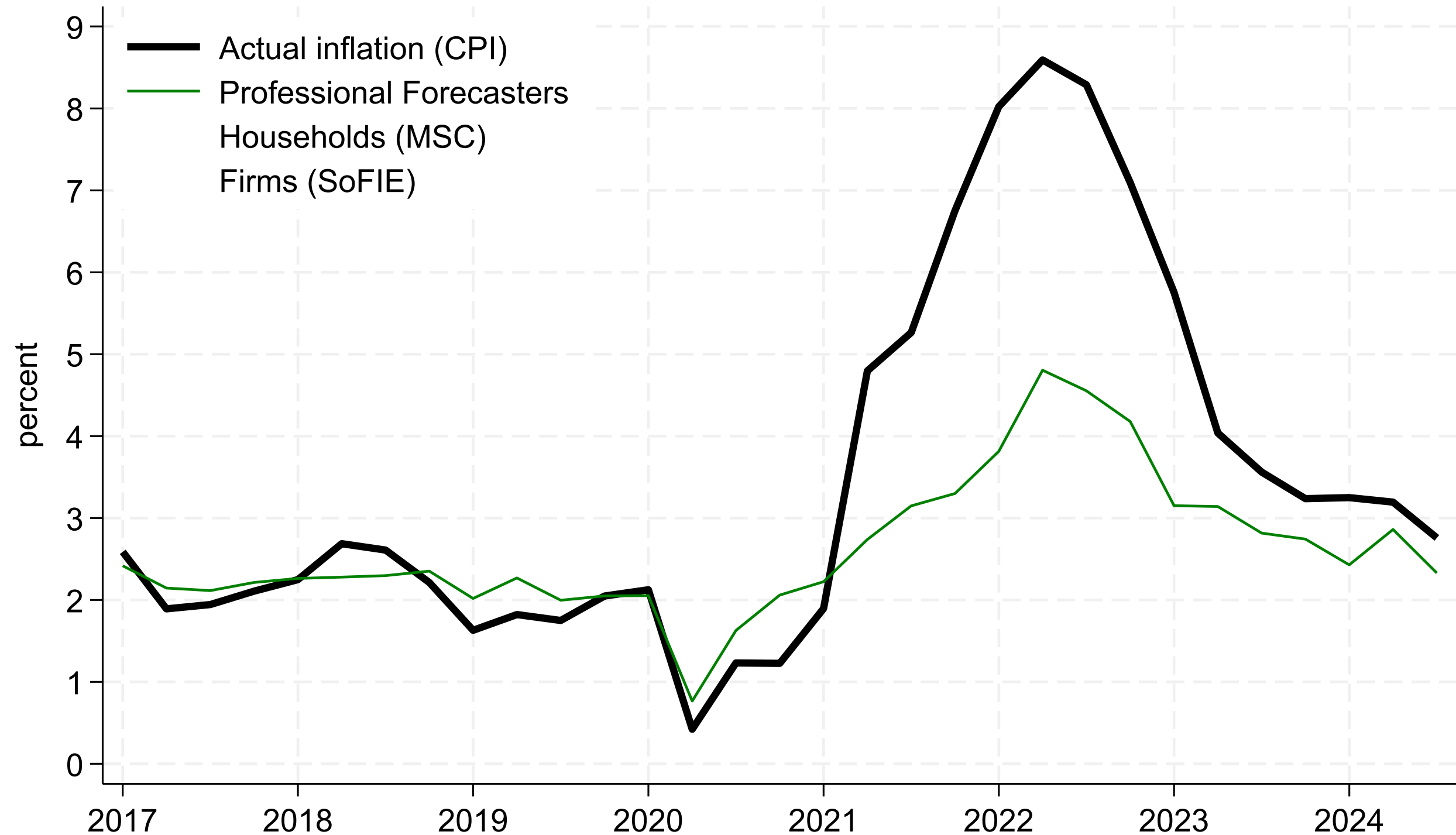
WHY FIRMS' INFLATION EXPECTATIONS

- Ben Bernanke (2007): “How should we measure inflation expectations, and how should we use that information for forecasting and controlling inflation? I certainly do not have complete answers to those questions, but I believe that they are of great practical importance. ... Information on the price expectations of businesses--who are, after all, the price setters in the first instance--... is particularly scarce.”

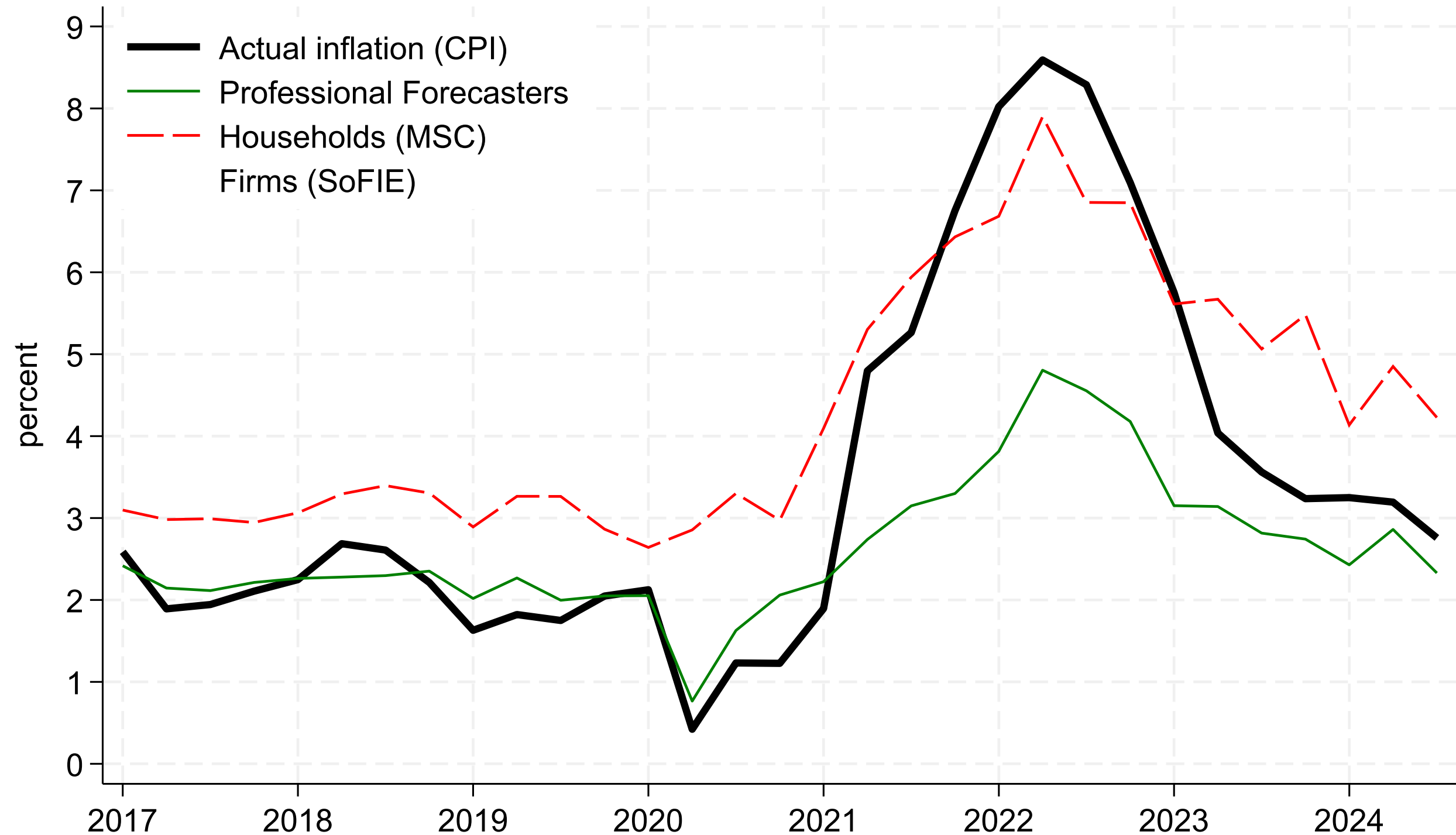
INFLATION AND INFLATION EXPECTATIONS



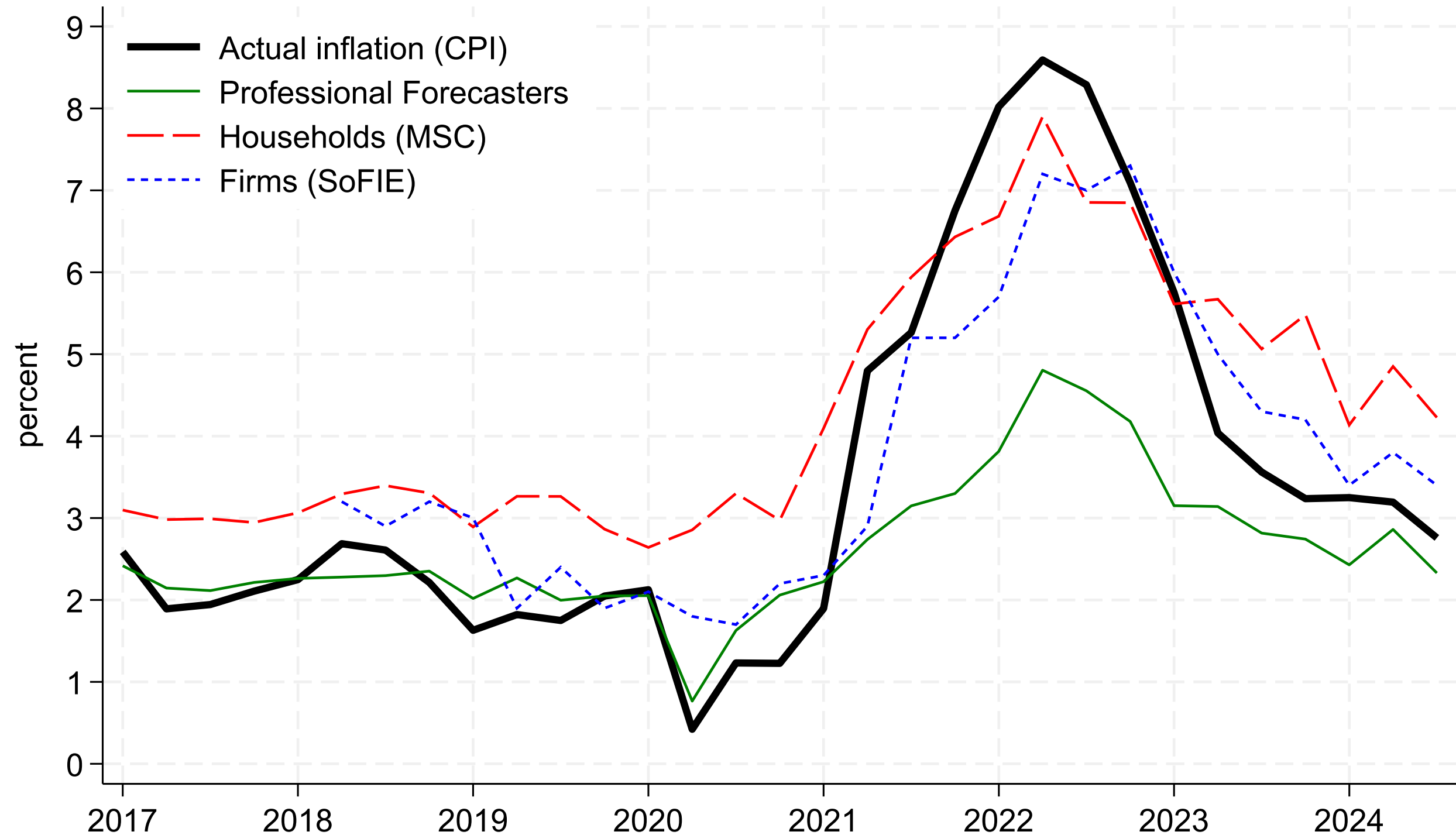
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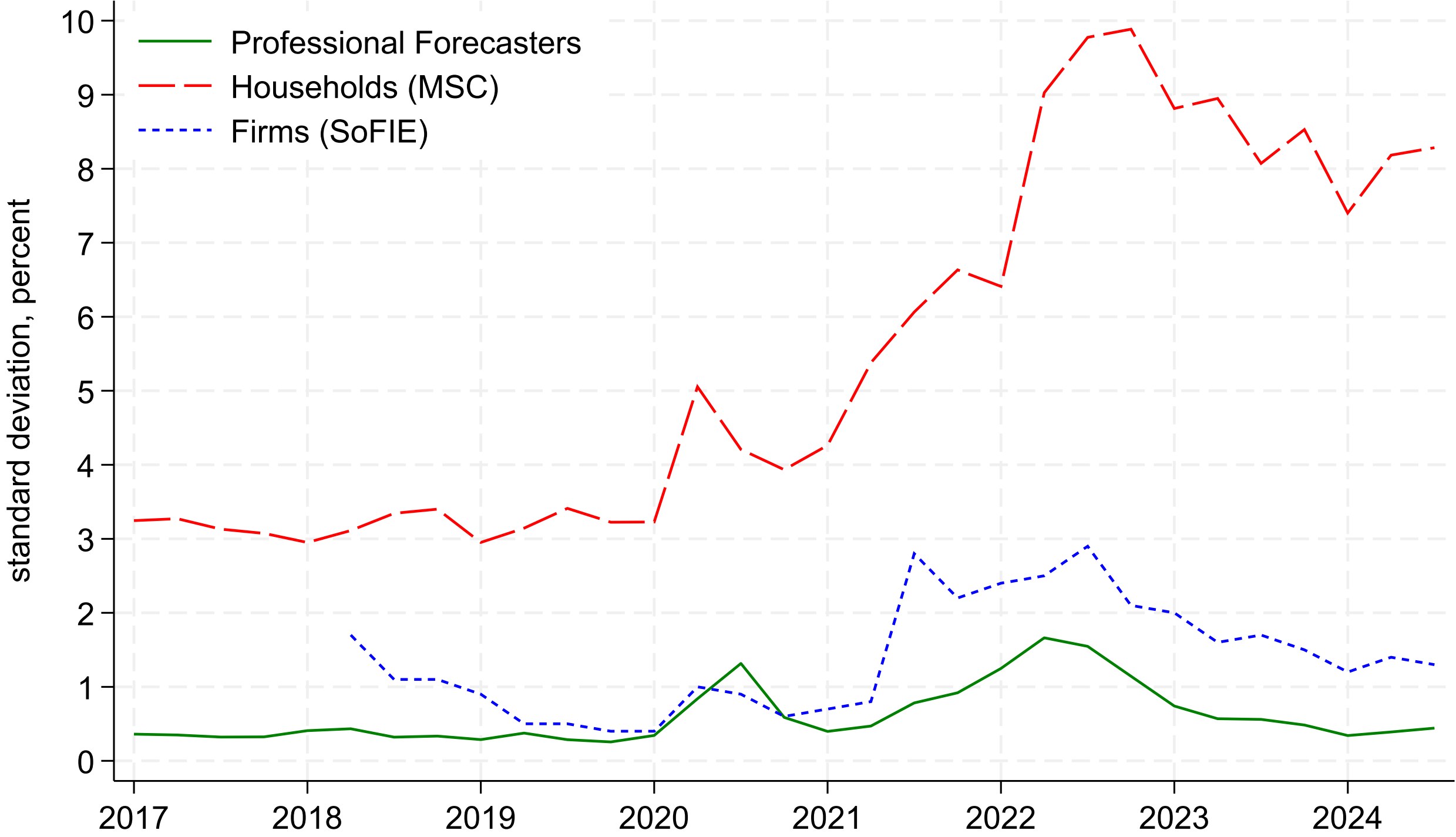
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DISAGREEMENT IN INFLATION EXPECTATIONS



ECB: SAFE INFLATION EXPECTATIONS

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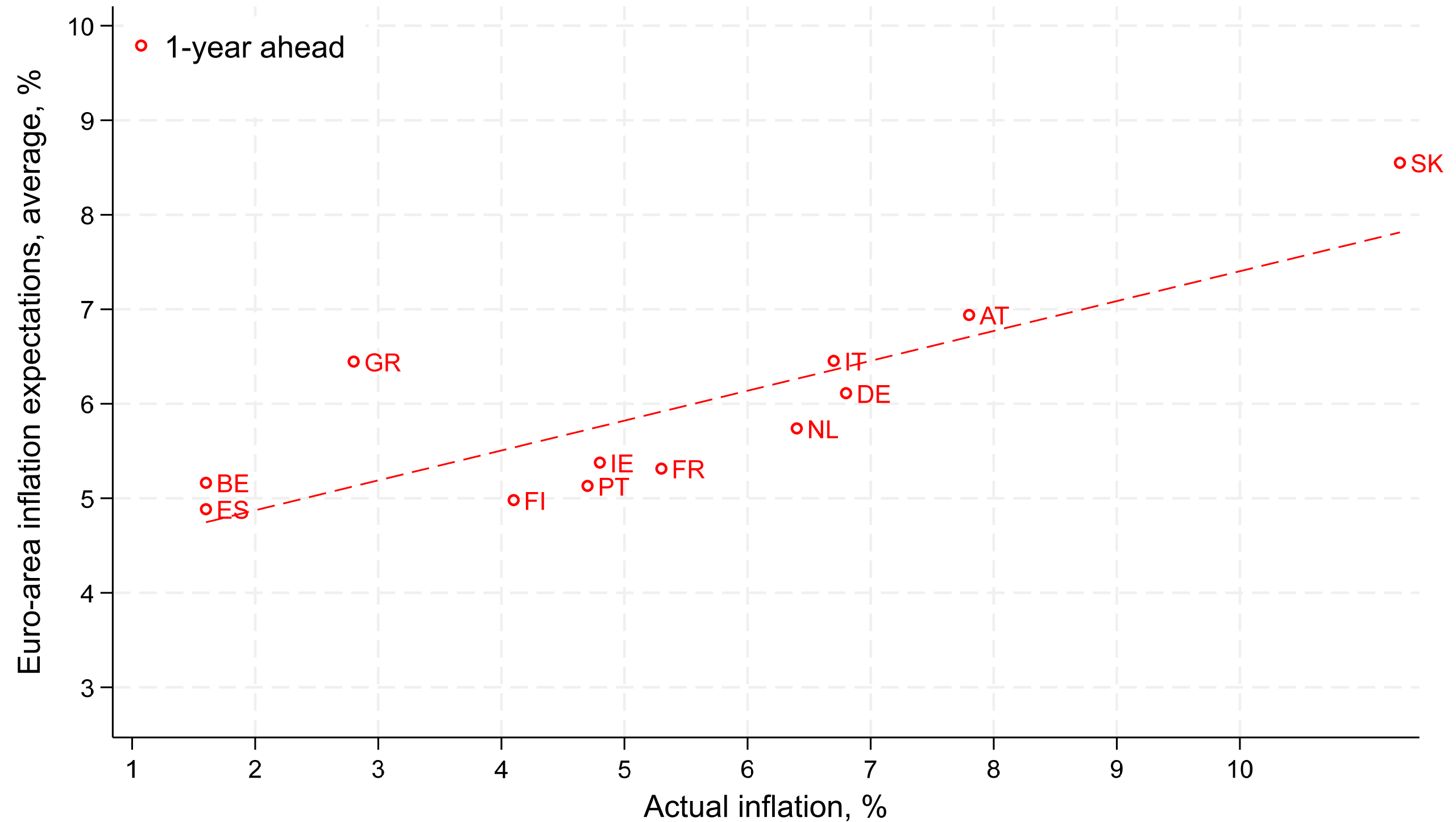
Q1: What do you think the euro area inflation rate will be at the following points in time? Please provide your answer as an annual percentage rate.

a) in 12 months

b) in three years, i.e., in 2026

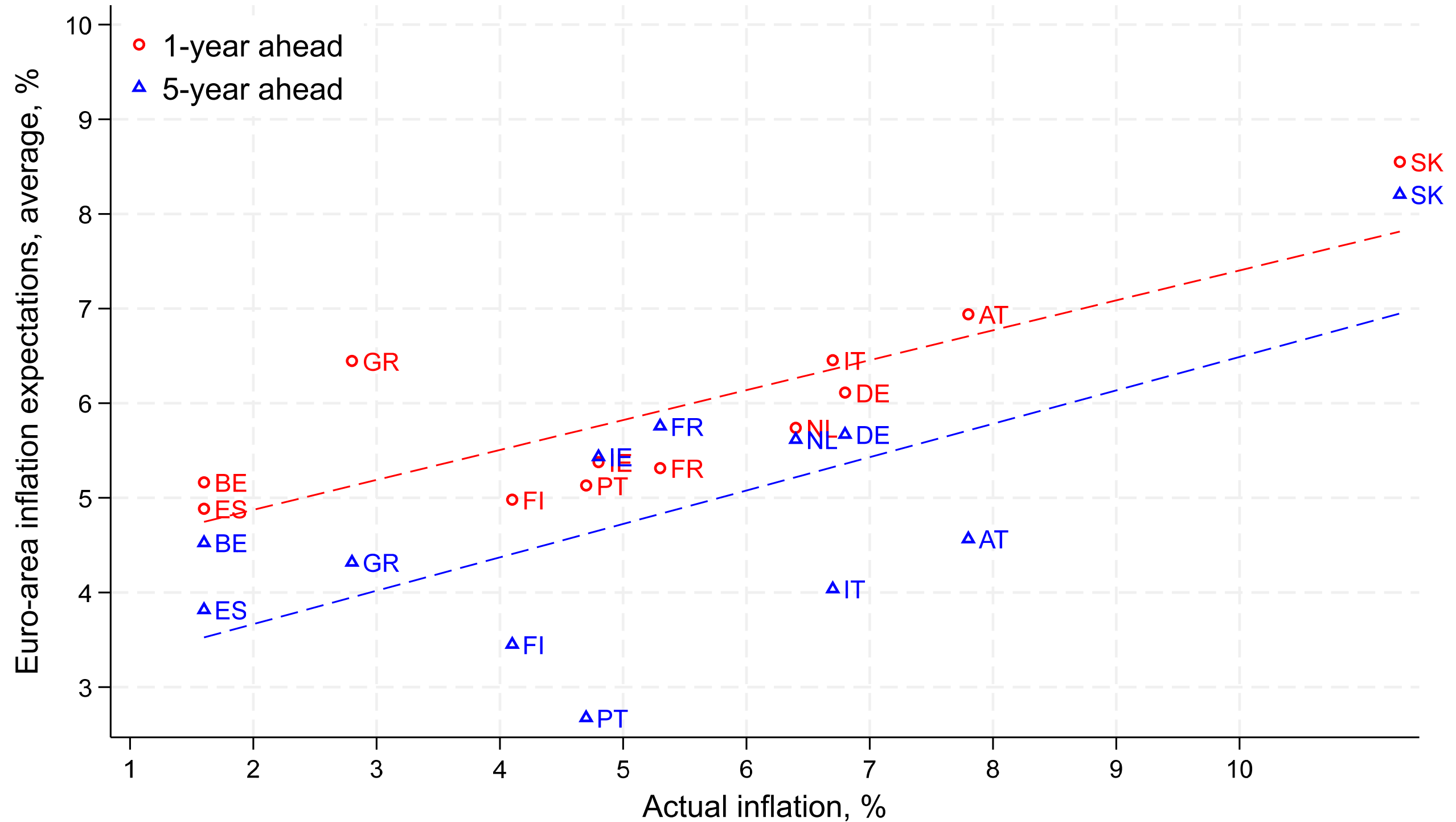
c) in five years, i.e., in 2028

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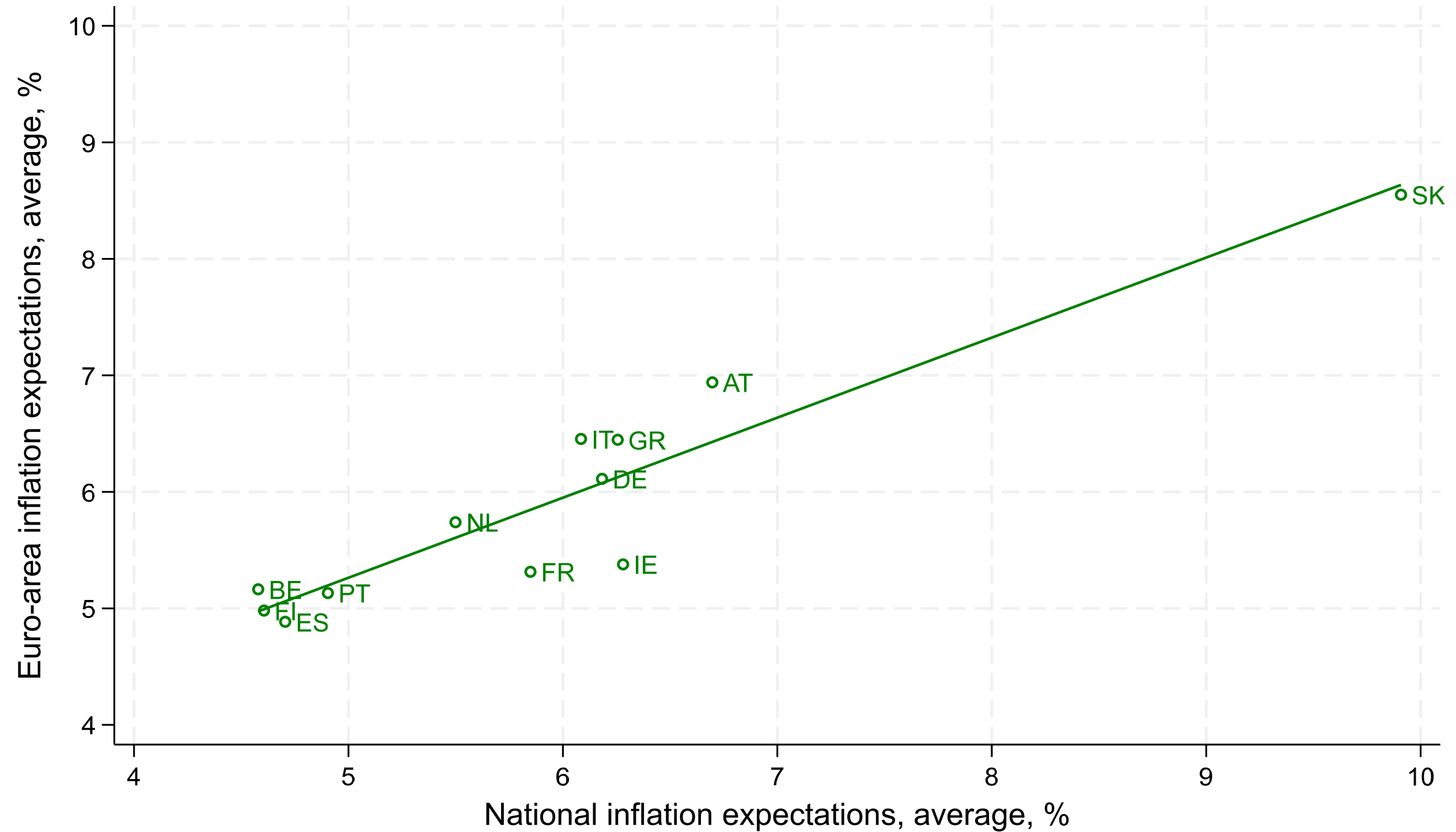
Past country-level inflation predicts **ST EA expectations**

ECB: SAFE INFLATION EXPECTATIONS



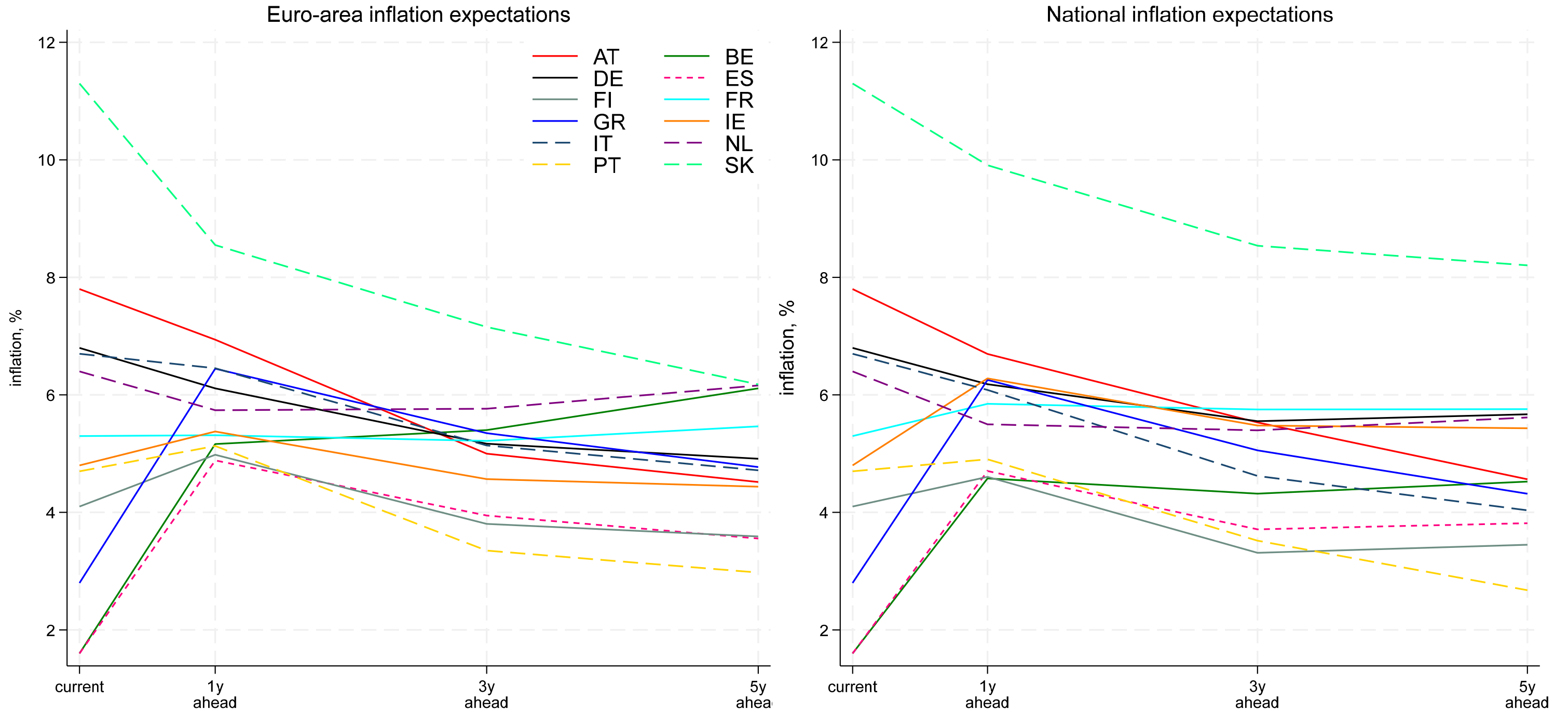
Past country-level inflation predicts **ST EA expectations** and **LT** too

ECB: SAFE INFLATION EXPECTATIONS



National and Euro area inflation expectations are highly correlated

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Convergence in expectations but more challenges for policy communication

RECAP

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- **Need a survey of firms!**