Exposure to Daily Price Changes and Inflation Expectations
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Discussion
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Exposure to Daily Price Changes and Inflation Expectations

Novel survey that matches household consumption bundles with inflation expectations

- Expenditure and frequency weighted household CPI
- Household expectations of aggregate CPI inflation
- Household asset holdings

Experienced price changes affect inflation expectations

- Frequency weighted bundle more correlated with expectations than expenditure weighted bundle
- For households that state news media as main source of information, experienced prices are uncorrelated with inflation expectations
- Inflation expectations affect decisions, i.e. portfolio choices

Why this paper is useful, Part I

Local market information has been hypothesized to be a relevant source of information about aggregate state

- Lucas (JET 1972, AER 1973, JPE 1975), Nimark (JME 2008), Lorenzoni (AER 2009), Graham and Wright (JME 2010), Nimark (AER 2014)

Provides a **lower bound** on how uninformed (rational and fully attentive) agents can be

- Until now, we had no good empirical estimates of variation in household specific CPIs

This paper provides empirical evidence that can be used to calibrate/evaluate this class of models

Why this paper is useful, Part II

(How) do **expectations respond to household CPI**?
Two parts:

1. Do expectations respond to experienced prices? **Yes.**
2. Do expectations respond optimally to experienced prices? **Not clear.**

Authors suggest that households relying on frequency weighted CPI display behavioral biases

- Theoretically, no reason why expenditure weighted household CPI should be a better indicator of future aggregate inflation
- Frequency weighted CPI has lower x-sectional dispersion and a mean closer to realized core aggregate inflation

Is it possible to use existing data to test which type of household CPI is on average a better predictor?

Why this paper is useful, Part III

Linking household expectations to actions

- High inflation expectations households hold smaller portion of wealth in nominal assets

At first blush, this makes sense since inflation reduces real return on nominal assets. But:

- Do households not believe/understand the Taylor principle?
- Since the 1980s, real returns on nominal assets are positively correlated with inflation

Broader question: Do households with unreasonable expectations take conditionally reasonable actions?

Summing up

Bottom line: We need more papers like this!

New matched data on household

- Expectations
- Actions
- Sources of information

Produce a set of stylized facts that can form a basis for evaluating macro models