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Measuring expected inflation with data from the Cleveland Fed

Posted on December 6, 2021

FRED ECONOMIC DATA | ST. LOUIS FED

CPI **+3.2** % Chg. from Yr. Ago on Feb 2024

Civ. Unemploy. Rate **3.9** % on Feb 2024

10-Yr. Treas. Rate **4.22** % on 2024-03-22

Real GDP **+3.2** %, Comp. Annual Rate of Chg. on Q4 2023

IP **+0.1** % Chg. on Feb 2024

Payroll Employment **+275** Chg., Thous. of Persons on Feb 2024

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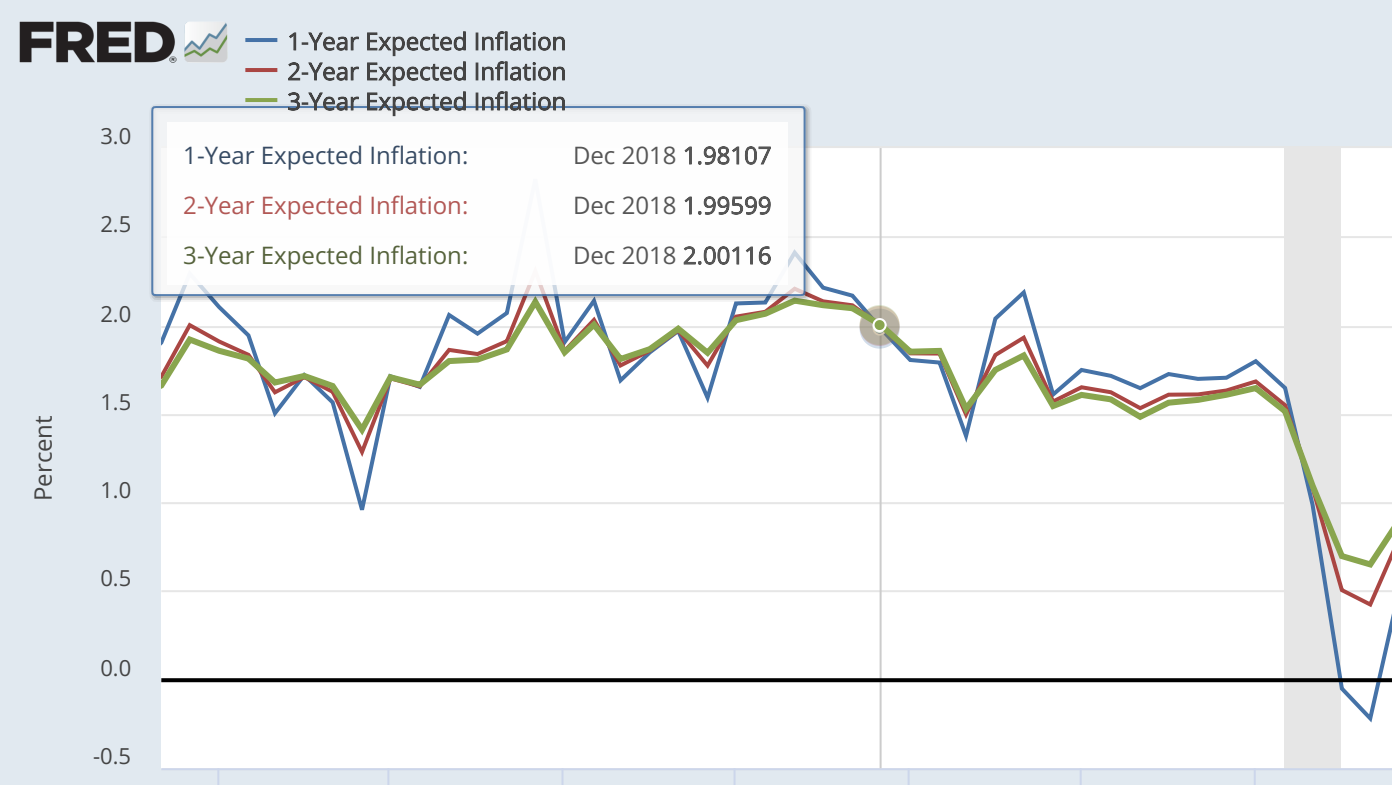

The FRED Blog has discussed inflation expectations by showing different types of data in FRED. For example, Thomson Reuters and the University of Michigan conduct the monthly Surveys of Consumers, asking people to select the inflation rate they expect to see a year from today. Also, the Federal Reserve Bank of St. Louis calculates the daily breakeven inflation rate, which is computed as the difference in returns of types of constant-maturity Treasury bills: one being the traditional bill and the other being the inflation-indexed bill.

The FRED graph above shows another measure of inflation expectations that combines data from constant-maturity Treasury bills, survey forecasts of inflation, and inflation swap rates. These expected annual inflation rates for the next 30 years are produced by the Federal Reserve Bank of Cleveland.

At the time of this writing, in December 2021, the expected inflation rate for the next year is 2.46% and the expected rates over the next two and three years are 1.96% and 1.80%, respectively. Note that when you hover over the graph the date next to each expected inflation rate is the month and

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year when the expectation is calculated. Between the months of January and November 2021, those expectations changed in value rather noticeably. However, as the time horizon extends farther and farther into the future, the expected inflation rates become markedly less volatile and very similar in value. That is, the green 3-year line shows less variation than the red 2-year line, which shows less variation than the blue 1-year line. This suggests that financial market indicators, survey responses, or both point to medium- and long-term price stability.

How this graph was created: Search for and select “1-Year Expected Inflation.” From the “Edit Graph” panel, use the “Add Line” tab to search for and select “2-Year Expected Inflation.” Repeat the last step to add “3-Year Expected Inflation” to the graph.

Suggested by Diego Mendez-Carbajo.
