Biases in Survey Inflation Expectations Evidence from the Euro Area

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This paper documents five facts about inflation expectations in the euro area. First, individual inflation forecasts overreact to individual news. Second, the cross-section average of individual forecasts of inflation underreact to shocks initially, but overreacts in the medium term. Third, disagreement about future inflation increases in response to news when the current inflation is high, and declines when inflation is low, consistent with a zero lower bound of expectations. Fourth, overreaction of individual inflation forecasts to news increased after the global financial crisis (GFC). Fifth, the reaction of average expectations (and of actual inflation) to shocks became more muted post-GFC in the euro area, but not in the U.S.

**Url:**<https://www.imf.org/en/Publications/WP/Issues/2022/09/30/Biases-in-Survey-Inflation-Expectations-Evidence-from-the-Euro-Area-513697>