Does Presidential Partisanship Affect Fed Inflation Forecasts?

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Forecast Errors

Our **dependent variable**:

$$E_q = \frac{F_q - I_q}{I_q}$$

- F_q = inflation forecast for quarter q. (We use forecasts made *two quarters* prior).

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Ideally, the mean forecast error is 0.
Consistent errors → "wrong" policies.

/git_repositories/GreenBook/Paper/figure/partisanError.pdf

Traditional understanding of Fed forecasting

- Forecasts produced for every FOMC meeting
- Over long run no bias (e.g., Romer and Romer 2000).
- Periods of over- and under-estimations (Capistrán 2008).
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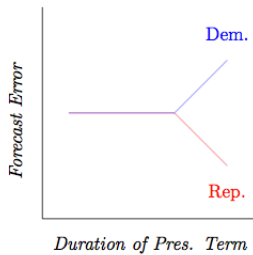- ▶ No research on partisan influence of forecast errors.

Explaining the Pattern

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- ▶ Partisan Heuristics
  - ▶ Staffers expect Democrats (Republicans) to be more (less) inflationary → higher (lower) inflationary expectations

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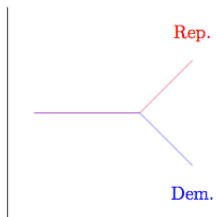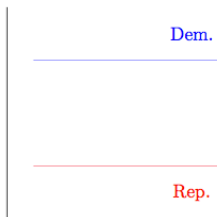
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Partisan Preferences **Monetary Expectations** **Partisan Heuristics**

Forecast Error

Duration of Pres. Term

Dem.

Rep.

Rep.

Dem.

Dem.

Rep.

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1. Created **matched** data sets. One where *presidential party ID* was the 'treatment' Another where *election period* was the 'treatment

2. Used the matched data sets in numerous **parametric models** with standardized inflation forecast errors as the continuous dependent variable.

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/git_repositories/GreenBook/Paper/figure/CoefComparePlots.

/git_repositories/GreenBook/Paper/figure/ExpectValueParty.

Does presidential partisanship affect Fed
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Probably.

How?

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