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ECONOMY | U.S. ECONOMY

Long-Term Inflation Expectations Hit Record Low: N.Y. Fed

Three-year ahead inflation expectations fell to 2.4% in September



The New York Fed said longer-run inflation expectations hit the lowest level the bank has ever tracked in September. PHOTO: CARLO ALLEGRI/REUTERS

By *Michael S. Derby*

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The Federal Reserve Bank of New York said Tuesday that longer-run inflation expectations hit the lowest level the bank has ever tracked in its latest monthly Survey of Consumer Expectations.

The central bank said that in September, the public's expectation of inflation three years from now fell to 2.4% from 2.5% the prior month. That is the lowest reading since the start of the survey in 2013. Shorter-run inflation expectations fared a touch better, however, with the public's expectation of inflation a year from now moving up to 2.5%, from 2.4% in August.

The drop in expected inflation three years from now "was driven by the respondents with household incomes less than \$50,000 and those with a high-school diploma or less," the New York Fed said.

Declining inflation expectations are problematic for the Fed and its long-running and so far unsuccessful attempt to get inflation to sustainably hit its 2% target. Part of the case for the Fed's two rate cuts thus far this year has been to help push inflation pressures higher. Weak inflation expectations now could bolster the case for another rate cut when central bankers meet at the end of the month.

As of August, the central bank's preferred inflation gauge, the personal-consumption expenditures price index, was up by 1.4% from the same month a year ago, well short of the Fed's target. Fed officials care about inflation expectations because they believe where the public expects inflation to go in the future exerts a strong influence on where it is now.

The weak inflation reading in the New York Fed survey has been mirrored elsewhere. The most recent University of Michigan consumer sentiment survey, for October, showed that expected inflation next year fell from 2.8% in September to 2.5%, while expected inflation in five years ebbed to 2.2% in October, from 2.4% the prior month.

Fed officials have long expected inflation to return back to the targeted level only to see those hopes thwarted. Most Fed officials still expect a return to 2% inflation. Some policy makers like Kansas City Fed leader Esther George believe the U.S. has de facto price stability and that trying to precisely hit the target isn't critical when inflation readings are already close to desired levels.

But St. Louis Fed leader James Bullard, who has been a strong supporter of lowering short-term rates, said in London Tuesday that trimming rates "may help re-center inflation and inflation expectations at the 2% target sooner than otherwise."

In its report, the New York Fed also found that as of last month, expectations of home price increases hit their lowest level in the survey's history. Expected earnings increased ticked up a bit.

Write to Michael S. Derby at michael.derby@wsj.com

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