Research Working Papers

Heterogeneity in Household Inflation Expectations and Monetary Policy

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A tightening in monetary policy can lower inflation expectations even among households whose expectations are especially high.

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We empirically characterize the heterogeneity in the conditional distribution of household inflation expectations across demographic groups using the Survey of Consumer Expectations and also investigate how monetary policy shocks affect the conditional distribution. We find that, across all the groups, the peak of the group-specific distribution of household inflation expectations aligns closely with the 2% target set by the Federal Reserve, but there is substantial heterogeneity both within and across groups, primarily on the right. However, in response to a contractionary monetary policy shock identified by high-frequency financial market responses, households overall adjust their inflation expectations significantly downwards. In addition, the magnitude of the reaction is more pronounced in the upper quantile of low income groups whose unconditional inflation expectations are less well anchored.

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