



## Research Working Papers

# Does Communicating a Numerical Inflation Target Anchor Inflation Expectations? Evidence & Bond Market Implications

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Communicating a longer-run inflation objective helped anchor inflation expectations in the United States but not in Japan.

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High-frequency empirical evidence suggests that inflation expectations in the United States became better anchored after the Federal Reserve began communicating a numerical inflation target. Using an event-study approach, we find that forward measures of inflation compensation became unresponsive to news about current inflation after the adoption of an explicit inflation target. In contrast, we find that forward measures of nominal compensation in Japan continued to drift with news about current inflation, even after the Bank of Japan adopted a numerical inflation target. These empirical findings have implications for the term structure of interest rates in the United States. In a calibrated macro-finance model, we show that the apparent anchoring of inflation expectations implies lower term premiums in longer-term bond yields and decreases the slope of the yield curve.

JEL Classification: E31, E52, E58

## Article Citations

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## Related Research

- Gürkaynak, Refet S., Andrew Levin, and Eric Swanson. “Does Inflation Targeting Anchor Long-Run Inflation Expectations? Evidence from the U.S., UK, and Sweden.” *Journal of the European Economic Association*, vol. 8, no. 6, pp. 1208–1242. Available at <https://doi.org/10.1111/j.1542-4774.2010.tb00553.x>

*Does Communicating a Numerical Inflation Target Anchor Inflation Expectations? Evidence & Bond Market Implications*  
<https://www.kansascityfed.org/research/research-working-papers/does-communicating-numerical-inflation-target-anchor-inflation-expectations-2018/>

- De Michelis, Andrew, and Matteo Iacoviello. “Raising an Inflation Target: The Japanese Experience with Abenomics.” *European Economic Review*, vol. 88, September, pp. 67-87. Available at <https://doi.org/10.1016/j.euroecorev.2016.02.021>
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Brent Bundick is a Vice President and Economist in the Economic Research Department of the Federal Reserve Bank of Kansas City. In that role, he conducts research on the macroeconomy and serves as an advisor to the Bank's leadership on monetary policy and macroeconomic issues. He rejoined the Bank in 2014 after completing his Ph.D. in Economics from Boston College. Prior to graduate school, Brent worked in the Department as a Research Associate and Assistant Economist. He also holds a M.S. in Mathematics and Statistics from the University of Missouri – Kansas City and a B.A. in Economics and Mathematics from the College of William and Mary. Brent's research has examined the effects of uncertainty on the macroeconomy and how changes in central bank communication affect inflation, labor markets, and the broader economy.



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Andrew Lee Smith is a Senior Vice President and Economist at the Federal Reserve Bank of Kansas City. In this role, Lee has oversight of macroeconomic research and serves as an advisor on monetary policy matters. Lee's research has focused on the effects of expanding and unwinding the Federal Reserve's balance sheet, the impact of forward guidance on financial markets and the economy, and, more generally, how central bank communication can influence expectations and economic conditions. Prior to joining the Bank in 2014, Lee received a Ph.D. in economics from the University of Kansas. He also holds a B.A. in economics and mathematics from Drury University in Springfield, Missouri.