Economic Review

Has the Anchoring of Inflation Expectations Changed in the United States during the Past Decade?

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Inflation expectations have become better anchored over the past decade—and improvements have coincided with the Federal Reserve's policy actions.

The financial crisis and Great Recession led to dramatic shifts in U.S. monetary policy over the past decade, with potential implications for inflation expectations. Prior to the crisis, inflation expectations were well-anchored. But during the crisis and recovery, the Federal Reserve turned to new policies such as large-scale asset purchases (LSAPs). In addition, the Federal Open Market Committee adopted a formal inflation target in 2012, with the stated goal of keeping longer-term inflation expectations stable. Did inflation expectations remain anchored during this period of unconventional policy?

Taeyoung Doh and Amy Oksol use three metrics of inflation expectations to assess whether inflation expectations became unanchored after the financial crisis. They find that the degree of anchoring deteriorated somewhat in late 2010, but returned to its pre-crisis level more recently. They also find that shifts in the three metrics coincide with consecutive rounds of LSAPs and the adoption of a formal inflation target. Overall, their results suggest the Federal Reserve's actions helped anchor inflation expectations after the crisis.

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