The causal effects of inflation uncertainty on households' beliefs and actions
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The impact of uncertainty

- Macroeconomic uncertainty (uncertainty about output growth) on firms and consumers: Kumar et al. (Econometrica, 2023), Coibion et al. (AER, 2024)

- Uncertainty about inflation on consumers: Kostyshyna and Petersen (2023, 2024), Fischer et al. (2024)

What this paper does

Using a survey of European households, it conducts a RCT to study the impact of the level of inflation expectations and uncertainty about expected inflation on:

- consumers' spending
- labour market expectations and outcomes
- financial decisions

Household surveys with RCT to study the impact of inflation uncertainty

	This paper	Kostyshyna and Petersen (2023, 2024)	Fischer et al. (2024)
When	September 2023 October 2023 January 2024	April-May 2020 Nov-Dec 2020	March 2024
Economic context	High inflation	Pandemic (low inflation)	High inflation, declining uncertainty
Where	EU	Canada	UK
Sample size	19,000	5,000	6,000

The evolution of uncertainty about inflation in EU and Canada

EU

Canada

Three studies: how they study spending

This paper	Kostyshyna and Petersen (2024)	Fischer et al. (2024)
Self-reported spending on *durables* and *non-durables*	**Transaction** data Nielsen Household Panel on *durables* and *non-durables*	**Expected** nominal consumption over the next 12 months
Intentions for spending on durables		

Negative impact of uncertainty on consumer spending

Specification	This paper	Kostyshyna and Petersen (2024)	Fischer et al. (2024)
Inflation expectations only	− D	− All, D, ND	
Inflation uncertainty only		− All, D, ND	
Both variables			
Inflation expectations	+		+ Not signif
Inflation uncertainty	− D		−

Notes: D = durables, ND = non-durables

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Heightened uncertainty

During **high-uncertainty** periods, communication about inflation and inflation uncertainty **lowers** inflation uncertainty of households on average

$=>$ all studies find **stimulating** effects on consumer spending by lowering inflation uncertainty.

Comment: the response to information treatments about inflation uncertainty may differ in low-uncertainty environment.

- Response of households to information about inflation is lower during high-inflation periods (Weber et al. (2024)).

Uncertainty about inflation encourages job search

	This paper	Fischer et al. (2024)
	Probability of losing a job	
Inf expectations	No impact	No impact
Inf uncertainty	No impact	+
	Expected income growth	
Inf expectations	No impact	+
Inf uncertainty	No impact	−
	Job search intensity	
Inf expectations	−	
Inf uncertainty	+	
	Probability of finding a job	
Inf expectations	−	
Inf uncertainty	+	
	Employment	
Inf uncertainty	+ Full time , − part-time	
	− unemployment	

New results on portfolio allocation

Financial allocation:
Hypothetical scenario to allocate 10,000 Euros;
Self-reported portfolio allocation in annual Consumer Expectations Survey

Higher uncertainty about inflation leads to:

- Allocation to more liquid assets (currency, savings account), less to retirement accounts.

Higher inflation expectations lead to:

- Portfolio allocation towards assets protected from inflation (stock, bonds, retirement account) and away from currency and savings accounts.

Communication about uncertainty

T1: "The average prediction among professional forecasters is that inflation in the euro area will be at 2.5% over the next 12 months."

T2: "Professional forecasters are exceptionally uncertain right now about inflation compared to recent years. As a result, there is significant difference of 3.1 percentage points between the lowest and the highest predictions about inflation in the euro area over the next 12 months."

T3: **T1** + **T2**

Comment:

- Description of "exceptionally uncertain" forecasters.
- Communication of uncertainty as the difference
- "Anchoring" effect around number 3.1? (Tversky and Kahnemann (1974))

Federal Reserve Bank

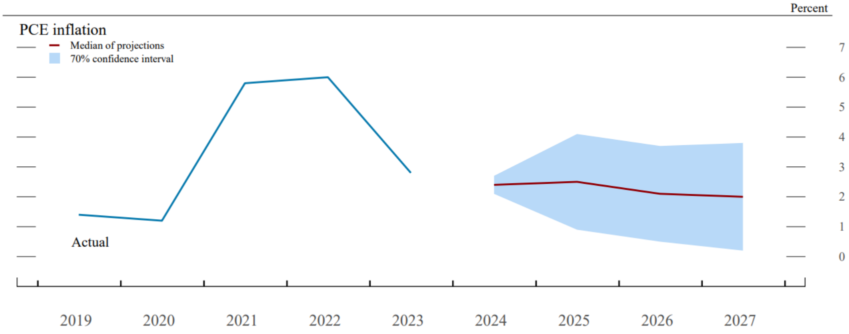

Figure 1: Summary of Economic Projections, December 2024

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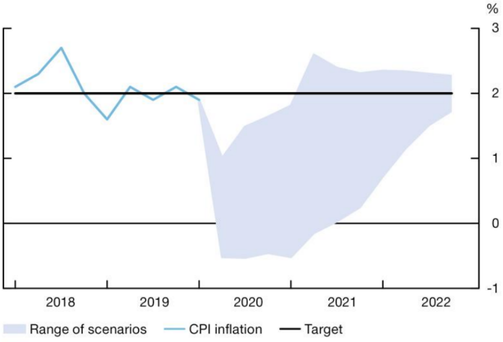


Figure 2: Monetary Policy Report, April 2020

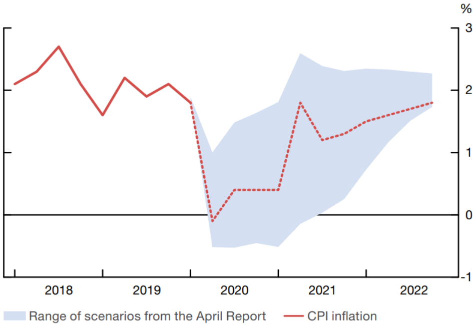


Figure 3: Monetary Policy Report, July 2020

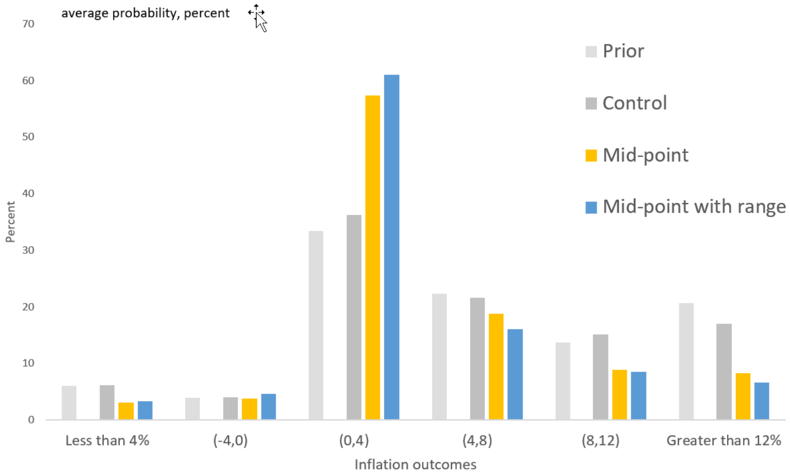
The role of communicating uncertainty

Do treatments with and without uncertainty have differing effects on the level of inflation expectations or inflation uncertainty?

- Compare: T1 vs T2, T1 vs T3, T2 vs T3

The role of communicating uncertainty

- Kostyshyna and Petersen (2023): communicating ranges around inflation anchors probabilistic expectations towards the range, away from the tails of the distribution



Implications

For monetary policy:
Impact of uncertainty about future inflation on consumer spending underscores the importance of **low and stable inflation**.

For communication about uncertainty:
During high-uncertainty periods, communication about inflation and inflation uncertainty has **reduced** people's uncertainty about inflation.

- People's prior uncertainty is **much** higher than communicated in RCT.
- Communication about uncertainty can be beneficial.