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Are Inflation Expectations Currently Well Anchored?

Taerin Kim and Mauricio Ulate

The response of market-based long-run inflation expectations to monetary policy is one measure of the perceived credibility of the central bank's inflation target—its "nominal anchor". The strength of the nominal anchor in the United States has varied over time between 1999 and 2026, with the post-2022 trajectory suggesting an increasingly strong anchor. This channel may support monetary policy in returning inflation to its 2% target.

The elevated inflation in the United States since 2021 has been attributed in large part to supply shocks such as logistic bottlenecks, tariffs, and rising energy prices (Shapiro 2022). Supply shocks generate a trade-off for monetary policymakers as economic activity and inflation move in opposite directions. Central banks then have to choose between tightening policy, raising interest rates to keep inflation close to target at the cost of slowing economic activity, or tolerating greater inflation to insulate economic activity. The viability of the latter, more muted response of monetary policy to supply shocks relies on inflation expectations being *well anchored* at the central bank's target (Nakamura, Riblier, and Steinsson 2025). The question of whether U.S. long-term inflation expectations are well anchored is therefore crucial to the current monetary policy debate.

The response of market participants' long-run inflation expectations to monetary policy surprises—which we refer to as the *sensitivity measure*—is a gauge that summarizes the strength of the inflation-expectations anchor (Bocola et al. 2025). A value of this sensitivity measure close to zero indicates a strong credible anchor, since even unexpected monetary policy changes do not affect financial market participants' long-run inflation expectations. By contrast, a significantly negative value for the sensitivity measure signals a weaker anchor, as unexpected monetary policy actions lead financial market participants to update their expectations about the central bank's commitment to its long-run inflation goal.

In this *Economic Letter*, we estimate the sensitivity measure over time to assess changes in the perceived strength of the nominal anchor. The sensitivity measure reached a low point, or trough, around 2019, showing that inflation expectations risked becoming unanchored right before the pandemic. In the past three years, however, the sensitivity measure has shown a strong upward trend, suggesting that U.S. inflation expectations are becoming increasingly well anchored.

A summary gauge for perceived central bank credibility

Recent work by Bocola et al. (2025) considers how market participants learn about the central bank's inflation-fighting commitment, inferring from its interest-rate decisions whether it is more or less tolerant

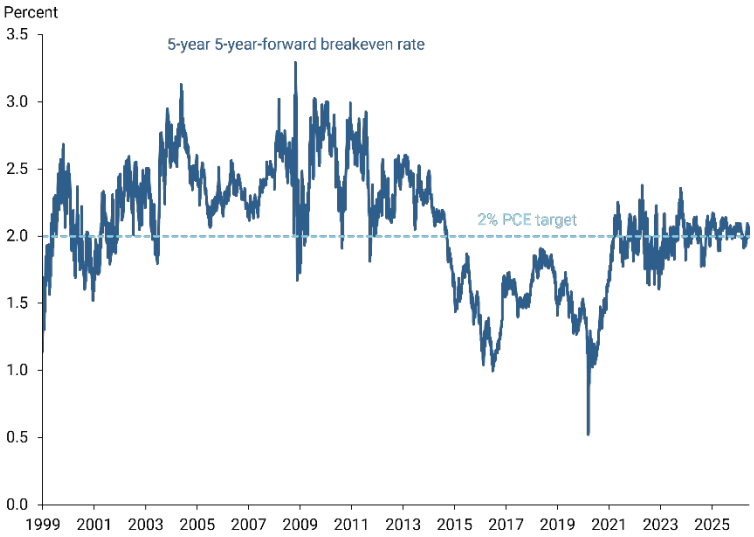
of inflation deviating from its target. In this way, each monetary policy decision allows financial-market participants to update their beliefs about the central bank's commitment to its inflation target accordingly.

Within this framework, the response of long-run inflation expectations to monetary policy surprises—our sensitivity measure—is a summary gauge for the perceived strength of the central bank's credibility. The sensitivity measure moves closer to zero when there is more certainty about the policymaker's intolerance for inflation deviating from target. In other words, when the sensitivity measure is close to zero, markets are certain of the central bank's inflation-fighting commitment, and each new policy decision is consistent with this belief. On the other hand, a significantly negative value for the sensitivity measure indicates a weak anchor and uncertainty about the central bank's credibility; policy surprises cause updated beliefs about the central bank's inflation-fighting commitment, and long-run inflation expectations are revised accordingly.

Estimating perceptions of central bank credibility

To estimate our sensitivity measure we use one-day changes in long-run breakeven inflation around Federal Open Market Committee (FOMC) announcements. *Breakeven inflation* reflects financial markets' expected average inflation rate over a future period, derived from the difference in interest rates between regular Treasury bonds and Treasury Inflation-Protected Securities (TIPS). In our case, "long-run" refers to a five-year span beginning five years from the current period, capturing expectations about future inflation rather than short-term inflation developments. The blue line in Figure 1 depicts these long-run inflation expectations, along with the Federal Reserve's 2% target for personal consumption expenditures (PCE) price inflation (dashed light blue line).

Figure 1
5-year 5-year-forward measure of inflation expectations



Note: Inflation expectations in the five-year span beginning five years from the current period, denoted as 5-year 5-year-forward breakeven rate. This measure is originally in terms of consumer price index (CPI) inflation but has been converted to personal consumption expenditures (PCE) inflation terms by subtracting 0.3 percentage point per year, the average difference between CPI and PCE inflation.
Source: Gürkaynak, Sack, and Wright (2010) data and authors' calculations.

We compute the monetary policy surprise as a summary measure of the changes in multiple short-term federal funds contracts that span from one month to one year. These contracts capture financial market expectations about the future path of short-term interest rates. We compute the change in this interest rate summary measure over a high-frequency 30-minute window around the release of the FOMC post-meeting statement, following the approach in Acosta et al. (2026). We also use a 100-minute window around FOMC announcements that includes both the FOMC statement release and the subsequent press conference, providing more time for market participants to process and respond to the relevant information.

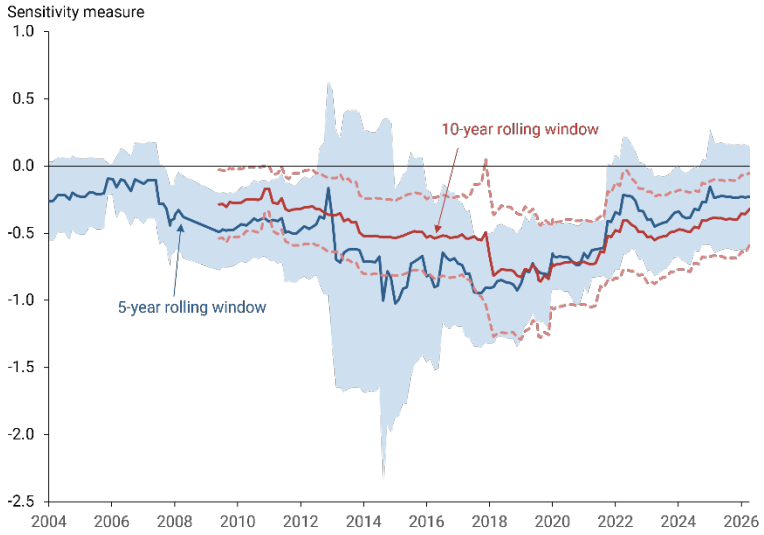
We estimate the sensitivity measure as the response of the one-day change in long-run breakeven inflation to high-frequency monetary policy surprises over the entire sample. Our full sample consists of FOMC events from 1999 through June 2026, excluding July 2008 through June 2009 to remove the months of dysfunction in the market for inflation-protected securities during the Global Financial Crisis consistent with Bocola et al. (2025) and Acosta et al. (2026).

Rolling window estimates of the sensitivity measure

In Figure 2, we repeat the procedure that we applied to the entire sample but restrict it to a subset of the data to obtain the sensitivity measure for 5-year and 10-year *rolling windows* that end on a given date. For example, the five-year rolling window ending in June 2026 contains observations between June 2021 and June 2026. The two windows reflect a tradeoff between responsiveness and precision: The five-year window detects regime shifts more quickly, while the 10-year window includes more events, yielding more statistical power and reducing the volatility or noise in our results.

Estimates for the entire 1999–2026 sample yield a sensitivity measure of –0.34. This value can be statistically distinguished from zero, which suggests a nominal anchor that might not have always been fully credible. In particular, the result indicates that a 1 percentage point unexpected monetary policy tightening that led to higher interest rates resulted in long-run inflation expectations falling roughly 0.34 percentage point, as financial markets increased the probability they assigned to the monetary authority having a high inflation-fighting commitment.

Figure 2
Breakeven inflation rolling response: 30-minute window



Note: Shading and dashed lines represent 95% confidence bands around respective estimate.
Source: Authors' calculations.

Furthermore, Figure 2 reveals significant variation over time in the sensitivity measure. The blue line starting in 2004 reports the estimates using a five-year rolling window, and the red line starting in 2009, reports the estimates using a 10-year rolling window. The shading and dashed lines provide a measure of statistical uncertainty around our estimates of the sensitivity measure; they contain the true sensitivity measure with 95% probability. The most consistently negative and statistically significant values for the sensitivity measure in both rolling windows occurred between 2018 and 2020. The five-year window measure reached a trough of –0.89 in 2018, and the 10-year window measure reached a trough of –0.81 in 2019. These persistently negative values for the sensitivity measure are likely to have occurred because realized inflation was persistently below target during this period; this may have led financial market participants to lower their long-run inflation expectations, as seen in Figure 1.

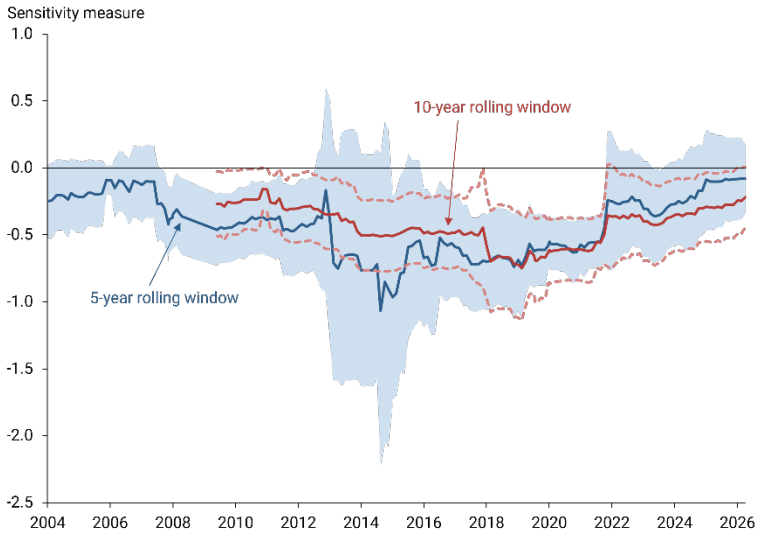
The estimates for both rolling windows started increasing towards zero in 2020. The shift likely reflects two major monetary policy developments. First, the Federal Reserve adopted average inflation targeting in August 2020. This signaled greater tolerance for temporary increases in inflation, which may have helped anchor long-run inflation expectations around the 2% target. Second, the Federal Reserve began its post-pandemic tightening cycle in March 2022, increasing the federal funds rate to combat elevated inflation. This may have reinforced the market's perception of the Fed's commitment to its inflation target and reduced the sensitivity of long-run inflation expectations to monetary policy surprises.

For the June 2026 FOMC meeting, the five-year rolling estimate yielded a sensitivity measure of –0.23, and the 10-year rolling estimate yielded a sensitivity of –0.32. Both values are less statistically significant than their full sample counterpart. In particular, the five-year rolling-window estimate is not statistically distinguishable from zero, which is indicative of well-anchored inflation expectations. The 10-year rolling window estimate is still statistically distinguishable from zero but has nevertheless trended strongly upward from its 2019 trough.

As an alternative to the 30-minute window around the release of the FOMC statement, we also consider a 100-minute window that encompasses both the FOMC statement release and the subsequent press conference. The press conference is given by the Chair of the Federal Reserve to communicate the monetary policy decision with the public. In the full sample, the addition of the press conference moves the sensitivity measure closer to zero, from –0.34 in the 30-minute window to –0.29 in the 100-minute window.

Figure 3 shows the rolling response of long-run breakeven inflation to monetary policy surprises within a 100-minute window. With the wider event window, the June 2026 five-year rolling-window estimate moves from –0.23 to –0.08 and remains statistically indistinguishable from zero. The 10-year rolling-window estimate moves from –0.32 to –0.22 and becomes statistically insignificant. That is, including press conferences in our sensitivity measure points to inflation expectations in recent years being even more firmly anchored. This indicates that verbal communication by the Chair in recent years reinforced the credibility of the Fed's nominal anchor.

Figure 3
Breakeven inflation rolling response: 100-minute window



Note: Shading represent 95% confidence bands around respective estimate.
Source: Authors' calculations.

Across both specifications, the post-2022 trajectory of our sensitivity measure is broadly consistent with an inflation expectations anchor that is strengthening, reflecting that financial market participants increasingly perceive the Fed as being committed to its long-run inflation goal. This indicates that there may be some room for the FOMC to take a more measured approach to lowering inflation in the face of supply shocks such as the recent increase in oil prices.

Conclusion

This *Economic Letter* provides evidence that recent U.S. market-based inflation expectations are likely to be well anchored. We estimate the response of long-run inflation expectations to monetary policy surprises as a summary measure for perceived central bank credibility. Over the full 1999–2026 sample, we find a negative and significant estimate, suggesting the Fed's nominal anchor might have been only partially credible. However, the strength of the anchor has increased in recent periods. With a monetary policy surprise constructed using a 30-minute window around monetary policy announcements, the five-year rolling window estimate of our summary gauge has moved closer to zero and was statistically indistinguishable from zero in June 2026. Extending the monetary-surprise window to 100 minutes to include both the FOMC statement release and the subsequent press conference strengthens the conclusion of a firm inflation-expectations anchor in recent years. Thus, in response to recent supply shocks, it may be feasible for the Fed to tolerate temporary above-target inflation while expectations remain well anchored.

Taerin Kim
Research Associate, Economic Research Department, Federal Reserve Bank of San Francisco

Mauricio Ulate
Research Advisor, Economic Research Department, Federal Reserve Bank of San Francisco

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Data

Download data for figures (Excel, 472 kb)

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