The Anchoring of Inflation Expectations

Dieter Nautz and Lars Winkelmann

Inflation expectations, taken from surveys or calculated from inflation-indexed bonds, have become a major source of information about the credibility of a central bank and the appropriateness of its monetary policy stance. Since the outbreak of the financial crisis, central banks have increasingly explained their policy decisions based on the need to maintain inflation expectations *well-anchored.* It is not obvious, however, how to empirically measure the anchoring of inflation expectations. On the one hand, the various anchoring criteria applied to low-frequent expectations data are only loosely connected to macroeconomic theory and do not account for the dynamics and structural determinants of inflation expectations. On the other hand, the information content of high-frequency expectations data derived from financial markets seems to be under-researched.

In this project, we develop and apply new tools for analyzing the anchoring of inflation expectations in two complementary working packages. First, we explore the behavior of inflation expectations in a structural VAR framework. This analysis allows to analyze how various structural shocks, including monetary policy shocks, may have contributed to a (de-) anchoring of inflation expectations. Second, we investigate whether the analysis of high frequency data sheds additional light on the anchoring of inflation expectations. We explore to what extent intraday data can serve as a real-time indicator for the current degree of inflation expectations anchoring. In our empirical applications, we provide new evidence on the anchoring of inflation expectations in the Euro area and the United States.

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