

Discussion of *How Inflation Expectations De-Anchor: The Role of Selective Memory Cues*

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How does memory produce an inflation forecast?

Assume the survey asks: “What inflation do you expect over the next year?”

$$\text{Expected inflation} = \sum_{\text{respondent's life}} \text{recall weights} \times \text{past inflation}$$

- **Twenty years of 3% inflation since age 16; “quasi-steady state”.** Every memory is 3%. Whatever the recall weights, the forecast is 3%.
- **Inflation rises to 5% today.** The database still contains only past 3% episodes. The forecast remains 3%.
- **Inflation is still 5% next period.** The first 5% episode is now in memory. It matches current inflation and is recent. The forecast rises above 3%. e.g. 40% weight on this episode gives $0.6 \times 3\% + 0.4 \times 5\% = 3.8\%$.
- **Different histories → different expectations:** the information set is inflation from age 16 onwards.
- **Respondent considers:** similarity to current and lifetime-average inflation, timing (recency and early life).
- **Sticky expectations/delayed adjustment:** costly to update vs. memory.

Four questions for the memory interpretation

1. Whose inflation experience?

The empirical database assigns national CPI inflation from age 16. What about local price differences? Respondents that migrated later?

2. What is actually remembered?

Historical inflation enters at its actual value. Do respondents know these values? How do we reconcile memory with consumers often being unable to name even current inflation?

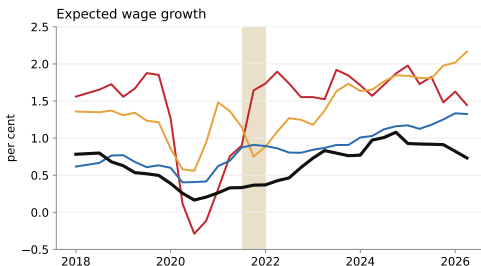
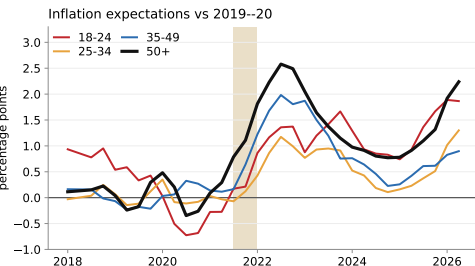
3. What about disagreement?

Respondents of the same age surveyed together receive the same database and recall variables. How do we reconcile this with evidence of large disagreement?

4. What about cognitive limitations?

Are we expecting too much of consumers? Even economists would struggle with attaching a density to inflation a year from now.

What do Australian consumer expectations show?



- Inflation expectations among respondents aged 50+ began rising in 2021Q3. Younger groups followed in 2022Q1–Q2.
- Expected wage growth among the 50+ group changed from 0.40% in 2019–20 to 0.46% in 2022Q3; among 18–24 year olds it rose from 0.99% to 1.74%.
- Older respondents also expect weaker wage growth than younger respondents. This raises another possible explanation: inflation expectations rise with weaker income growth (Tsiaplias, 2021).

What else enters households' inflation database?

The paper's database

Each respondent is assigned national CPI inflation since age 16. People of the same age therefore have the same inflation history in the empirical model.

Households live through different economic experiences

People see different movements in grocery prices, rents and energy costs. They also experience different income changes and expect different wage growth.

Australian evidence suggests these experiences matter

- The right tail of supermarket price changes raises Australian inflation expectations, esp. lower-income households (Chua and Tsiaplias, 2024).
- Households often form inflation expectations that move inversely with their own income change and financial conditions.

Question

How does selective memory interact with the prices and financial conditions households experience today?

Can communication unlink the present from past inflation?

1. Possible ways to unlink

Reduce perceived similarity to past episodes

- why past episodes may be poor predictors of future episodes (fundamentally, this is a flawed(?) prediction model).
- how monetary-policy today differs from the past.

Reduce the influence of early memories

- what the central bank is doing and how it should work.
- how policy will respond if inflation proves more persistent than expected.

2. Given the model, what could happen if unlinking succeeds?

- a lower weight on historical high inflation.
- certain groups (e.g. older households) less likely to overshoot.
- more generally - narrower cohort gaps.