

FIRM INFLATION EXPECTATIONS AND UNCERTAINTY

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October 16, 2020

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Measured unit cost expectations and uncertainty:

- ▶ Heterogeneous, sometimes even bimodal
- ▶ Predict ex-post unit cost growth, absolute forecast errors
- ▶ Consistent with professional forecasters
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Own-firm unit cost questions perform better than questions about “prices in general”

- ▶ Few firms say CPI enters their decision-making process (cf. Coibion & Gorodnichenko, 2018)

AND MORE FACTS

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Firms appear to modestly overstate unit cost growth

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And understate inflation uncertainty relative to ex-post volatility

- ▶ They are overprecise (overconfident) (cf. Barrero, 2020)

THE IMPLICATIONS ARE QUITE IMPORTANT

Businesses' beliefs about prices that matter to them are informative about the state of the macroeconomy

Heterogeneous agent macro models are now fairly mainstream

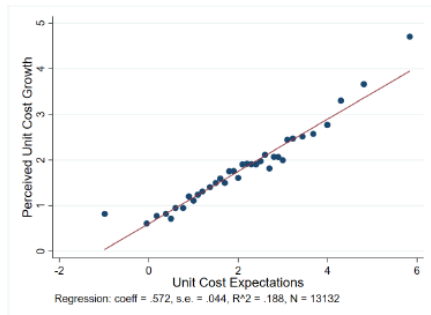
- ▶ Individual consumers/firms make decisions, then aggregate up

This paper makes the case for a similar logic when it comes to business-cycle relevant expectations

- ▶ Elicit beliefs carefully at the micro level
- ▶ Getting things right at the micro level matters when we aggregate

COMMENT 1: A MISSING LINK?

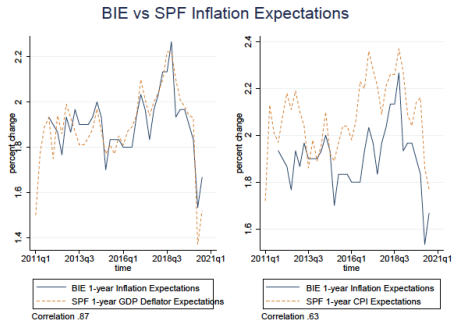
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Aggregate: BIE in line with professional forecasters

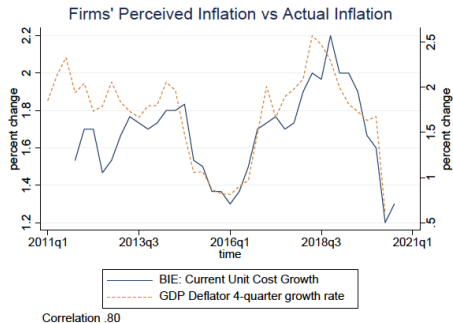


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Microdata: BIE predict realizations

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Aggregate: Unit costs in line with inflation



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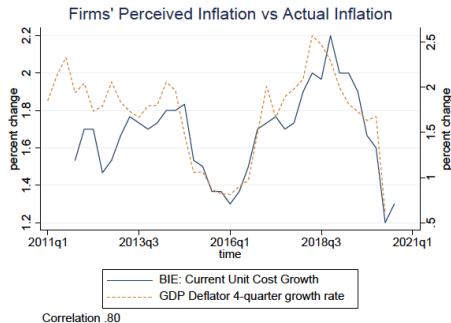
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Aggregate: Unit costs in line with inflation

How does the **aggregate BIE index** line up with actual inflation?

- ▶ I think there is enough time series to look at this



COMMENT 2: I'M NOT SURE ABOUT THE OVERPRECISION/OVERCONFIDENCE RESULT

Not sure it's central the paper anyway

- ▶ Same goes for bias in inflation expectations

Support of distribution is bounded

- ▶ First-order to subjective uncertainty
- ▶ Compare levels of uncertainty vs SBU

Projecting ahead, to the best of your ability, please assign a percent likelihood to the following changes to **UNIT COSTS** over the next twelve months. (Values should sum to 100%)

For example, if you think each of these is equally likely, you might answer 20% for each:

| | |
|---|------------|
| Unit costs down (less than -1%) | 20 |
| Unit costs about unchanged (-1% to 1%) | 20 |
| Unit costs up somewhat (1.1% to 3%) | 20 |
| Unit costs up significantly (3.1% to 5%) | 20 |
| Unit costs up very significantly (more than 5%) | 20 |
| Total | 100 |

COMMENT 3: EYE ON THE PRIZE

The paper goes through a big “kitchen sink” of facts

- ▶ 20 figures, 10 tables

Do you really need all those in the main body of the paper?

- ▶ Some results on response rates, number of responses, etc. to appendix?

Do more to frame analyses in context of main take-aways

- ▶ Lack of survey tenure effects \Rightarrow suitability of own-firm unit costs survey
- ▶ Contrast with Binder (2019) and Kim (2019): consumers “learn” about inflation in successive responses of SCE

CONCLUSION

Beliefs about own-firm unit costs are useful as inflation expectations

Link between micro unit costs forecasts and realized inflation?

Focus on the key measurements and take-aways

REFERENCES

- ▶ Barrero, Jose Maria (2020). “The Micro and Macro of Managerial Beliefs.” Working Paper.
- ▶ Binder, Carola. (2019). “Panel Conditioning in the Survey of Consumer Expectations.” Working Paper.
- ▶ Coibion, O., Gorodnichenko, Y., & Kumar, S. (2018). How do firms form their expectations? new survey evidence. *American Economic Review*, 108(9), 2671-2713.
- ▶ Kim, GwangMin (2019). “Learning-through-Survey in Inflation Expectations.” Working Paper.