



Frankfurt School

Discussion of Ascari, Bonomolo and Celani

Michael Ehrmann

Inflation: Drivers and Dynamics 2025 Conference
ECB, 29 September 2025

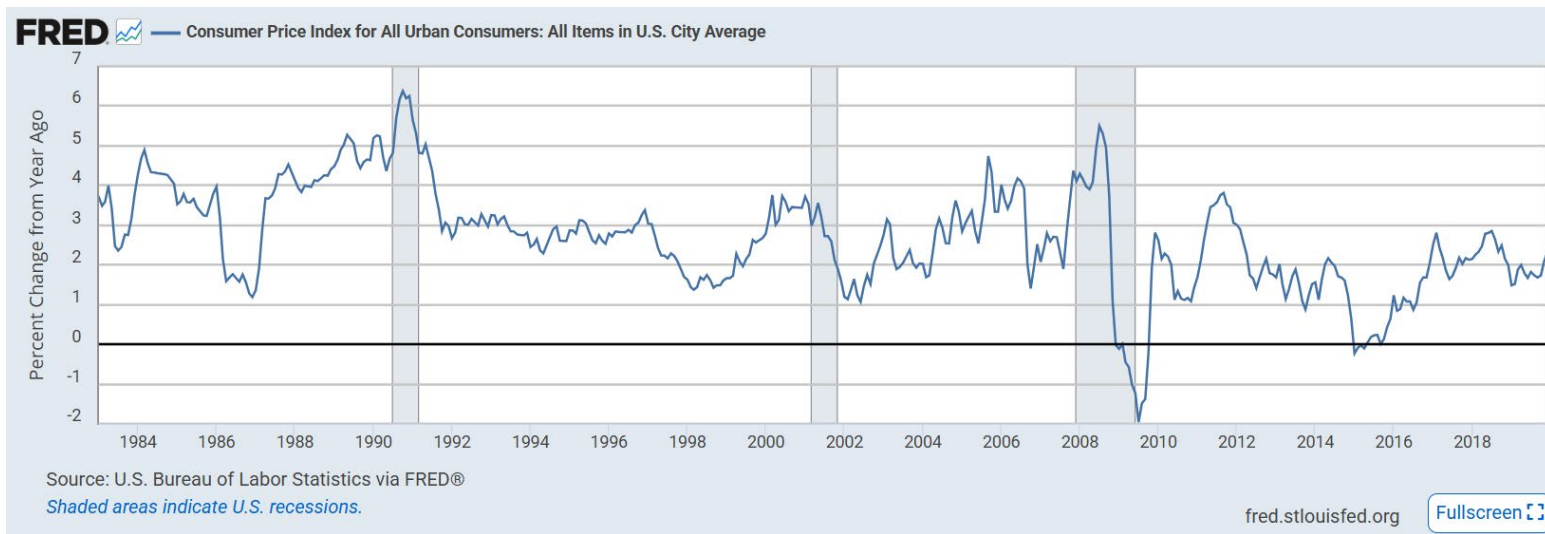
WHAT THE PAPER DOES

- Augments mon pol BVAR with heterogeneous inflation expectations (Michigan Survey)
 - Inflation expectations react little to macroeconomic developments
 - The macroeconomy reacts substantially to inflation expectations – entire distribution matters
 - Interesting asymmetry wrt tails: shocks to the left are more important
- Draws conclusions for CB communication
 - Focus on the tails – more effective than anchoring the mean
- My overall take
 - Very well written, interesting question, cleverly executed, thought-provoking results
 - A worthwhile and recommendable read for everyone interested in inflation and heterogeneity

THE CURIOUS ASYMMETRY OF TAILS

- Left tail matters more than right tail
 - fundamental asymmetry, period-specific or composition effect?
- 1983-2019

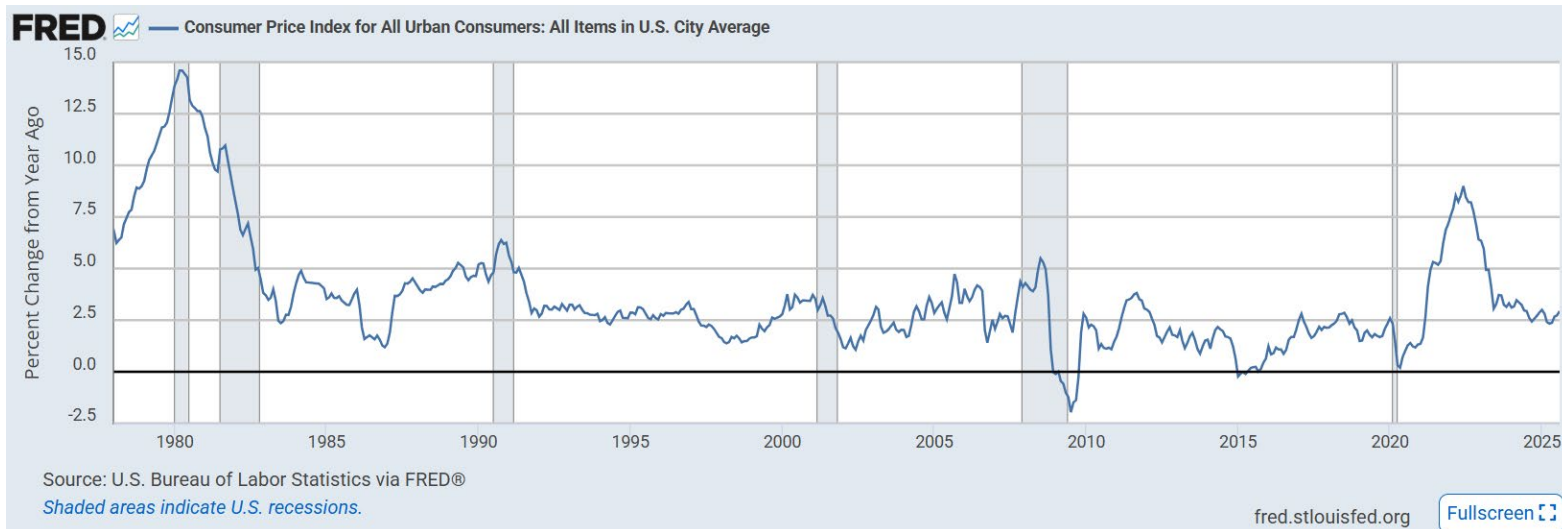
CPI inflation, 1983-2019



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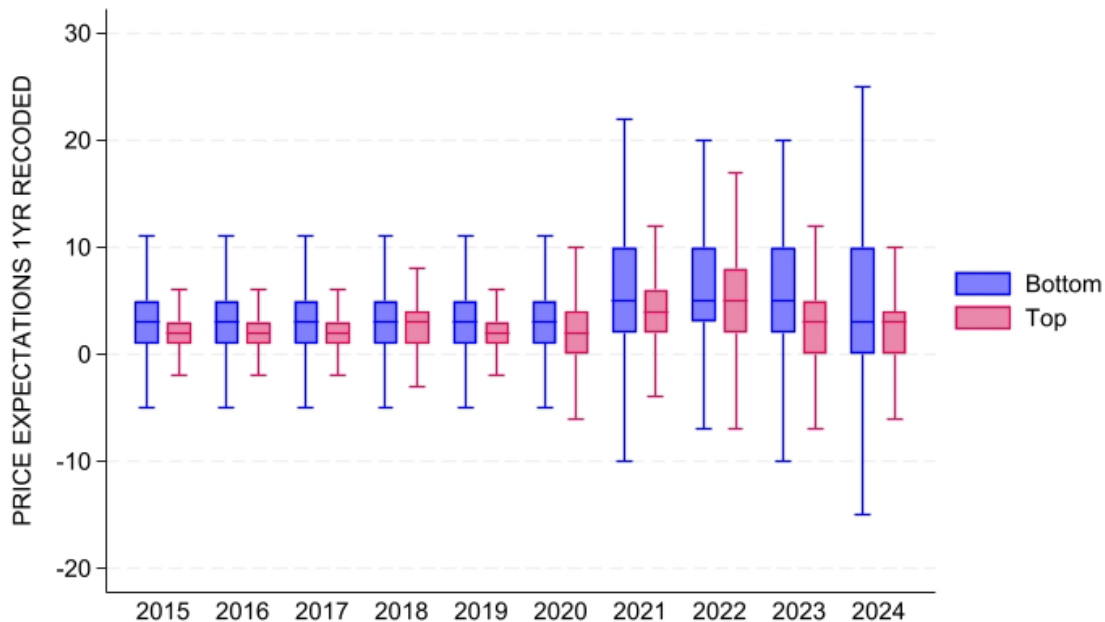
CPI inflation, 1978-2025



THE CURIOUS ASYMMETRY OF TAILS

- Left tail matters more than right tail
 - fundamental asymmetry, period-specific or composition effect?
- 1983-2019
- High income HHs
 - Lower mean
 - Much lower dispersion
 - Less likely to be in the upper tail
 - Higher signal, less noise?
 - Would their inflation expectations do, and overcome the asymmetry?

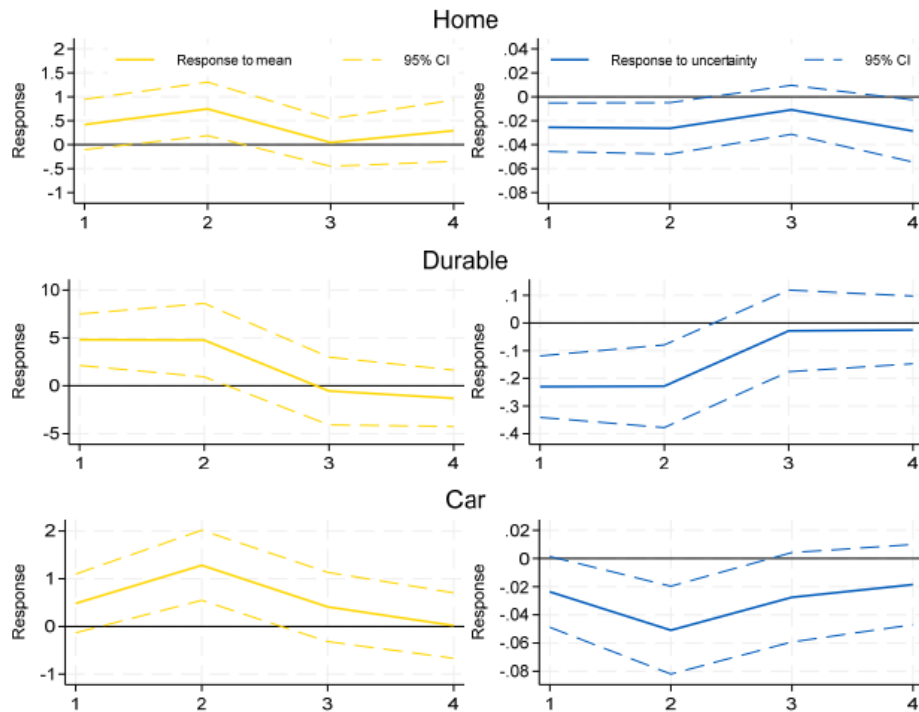
1-year ahead inflation expectations, Michigan survey, top and bottom income quintile



THE ROLE OF UNCERTAINTY

- Shocks that raise the mean and the variance are stagflationary
- Data do not allow disentangling effect of uncertainty
- Once disentangled
 - Higher inflation uncertainty: persistent and substantial reduction of durable goods purchases
 - Higher expected level of inflation: increasing durable goods purchases
- Use SPF?

Dynamic effect of inflation expectations and uncertainty on durable goods purchases



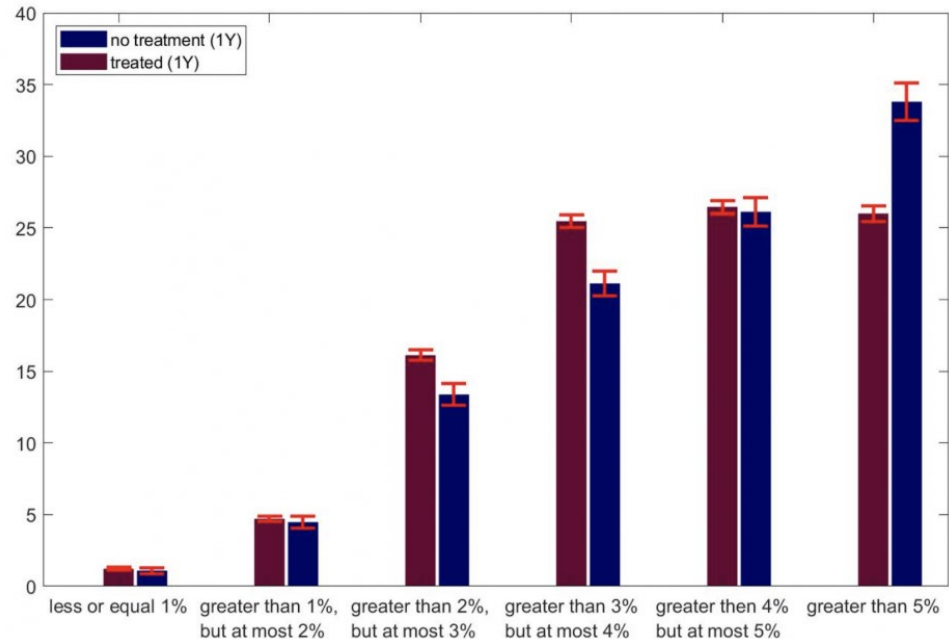
IMPLICATIONS FOR CB COMMUNICATION

- The paper asks whether it is more important to i) move the mean closer to target, ii) decrease disagreement or iii) target the tails
 - Elaborate scenarios to achieve this
 - Given the importance of shocks to the left tail, it concludes that “a central bank should focus its communication on convincing consumers that inflation will not be too low”
- Granted – CBs should make sure the left tail does not break away
 - CBs are cognisant of the left tail – see ELB
 - But they are equally concerned about the right tail – see post-pandemic inflation surge and focus on symmetry in ECB Strategy Review
 - Is this a cross-sectional or a time series problem?

IMPLICATIONS FOR CB COMMUNICATION

- Can communication achieve all at the same time: move mean, decrease disagreement and ensure well-behaved tails?
- RCT results encouraging:
German HHs
 - Plus: reduction of uncertainty!

One year ahead inflation expectations for respondents with and without communication treatment

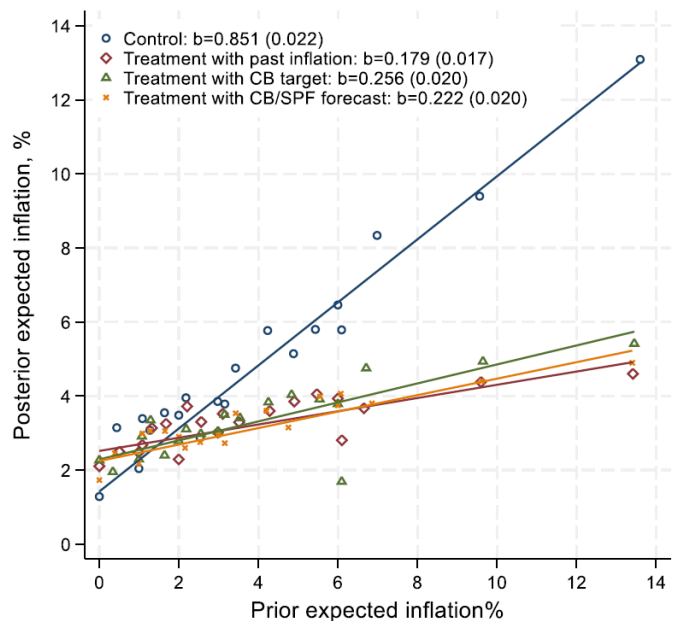


Source: Hoffmann, Mönch, Pavlova and Schulte Frankenfeld (2025)

IMPLICATIONS FOR CB COMMUNICATION

- Can communication achieve all at the same time, move mean, decrease disagreement and ensure well-behaved tails?
- RCT results encouraging:
US HHs
- Treatments typically move mean closer to target, reduce disagreement, **and** rein in both tails – and more so at the right

*Priors and posteriors of U.S. households,
control and treated groups*



Source: Coibion, Gorodnichenko and Weber, JPE (2022); taken from Weber et al., Econometrica (2025)

IMPLICATIONS FOR CB COMMUNICATION

- My earlier take remains – first order importance issues are hard enough
 - a. Provide information about target
 - b. Enhance financial literacy and trust
 - c. If a and b are insufficient: work on the tails (in a time-series sense), but in a symmetric fashion

OTHER COMMENTS

- Inflation expectations do not respond much to the macro block
 - Can you isolate the effect of inflation?
 - Prior research finds that inflation expectations (over-)react to inflation news (in response to media coverage (e.g. Binder, Frank and Ryngaert 2025) and in RCTs (see above)); in line with your identification assumption
- Identification assumption: consumers don't know the macro data
 - Not part of your sample, but less likely to hold in times of high attention (Weber et al., Econometrica, 2025)
- Is this about inflation expectations, or about heterogeneity?
 - What about other micro data, e.g. firm investment or hiring expectations?

A photograph of a modern, multi-story university building with a grid of windows, partially obscured by a semi-transparent blue overlay. In the foreground, there is a green lawn and a few trees. The text 'THANK YOU FOR YOUR ATTENTION' is written in large, white, bold, sans-serif capital letters across the lower half of the image. A short horizontal white line is positioned above the first few letters of the first line.

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**THANK YOU FOR YOUR
ATTENTION**

