Discussion of
"How Do Households Respond to Expected Inflation? An Investigation of Transmission Mechanisms"

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Motivation

Expectations play a key role in all our economic decisions

- Inflation expectations matter for consumption choices, how?
- What are the mechanisms underlying such responses?
- Lots of heterogeneity!

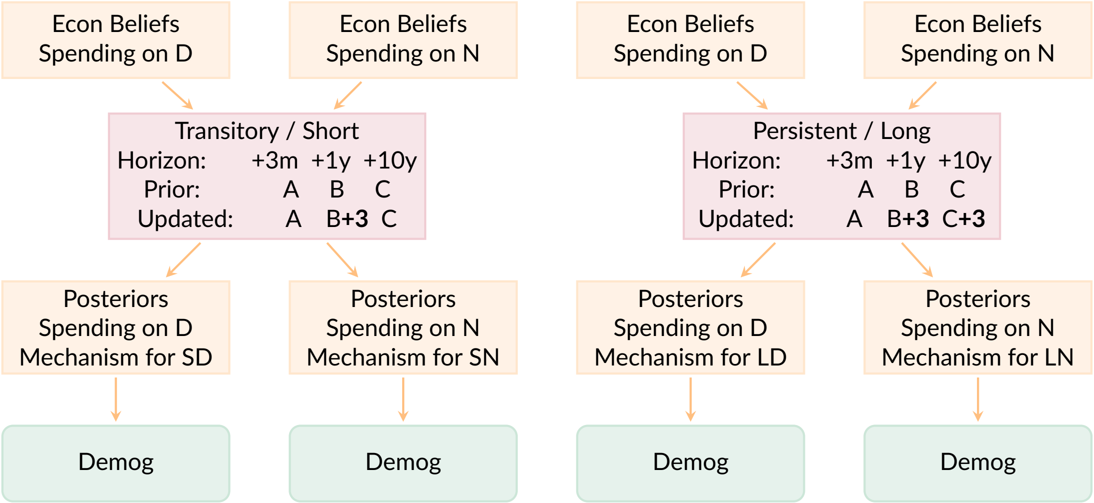
This paper: Why and how household spending decisions react to higher inflation expectations

- survey experiments with controlled changes in expectations + reasoning through mechanism-elicitation questions

The set up allows them to:

- Distinguish between effect of temporary and persistent changes in expected inflation
- Distinguish between effect on durables and non-durables
- Disentangle economic channels

Summary – The Experiment



For short (long) treatment, econ beliefs refer to +1y (+10y) horizon

Summary – Results I

How higher inflation expectations change spending plans

- Extensive margin:
  - 63% of households do not change their spending plan
  - 11% say maintain spending but change consumption bundle
  - ➢ why? a) fixed budget; b) irrelevance of expected inflation; c) liquidity constraints
  - 20% say decrease spending
  - ➢ why? a) wealth effects; b) inflation hedge; c) higher financial uncertainty
  - 6% say increase spending
  - ➢ why? a) intertemporal substitution; b) stockpiling
- Intensive margin:
  - Durables: only higher long term inflation expectations reduce durable goods spending
  - Non-durables: no effect

Higher inflation expectations either have no effect or a small negative one on consumption

Summary – Results II

How other beliefs react to higher inflation expectations

- Mostly unchanged, with fin. uncertainty$\uparrow$, worsen economy outlook, interest rates$\uparrow$

Heterogeneity in the direction of spending response

- More likely to select decrease if female, low liquid assets, stagflationary view of the economy, income expectations$\downarrow$, own fin. predictability$\downarrow$

Treatment Effects: durable vs non-durable, transitory vs persistent

- spending: long treatment leads to bigger dollar declines, although no stat. significant
- other beliefs: long treatment more likely to increase expected income, int.rate expectations
- mechanisms: some mechanisms more likely for some treatments

Robustness: instead of a 3% increase in expected inflation, a 10% increase

Key comments:

Further differentiate/compare to previous literature + exploit uniqueness of set-up

Comment I: Spending Responses

	(1) SD	(2) SN	(3) LD	(4) LN	(5) All
Extensive Margin (Percentage)					
No Change	70.3	57.4	57.2	66.5	63.2
Same Spending Different Bundle	7.2	11.9	14.7	9.8	10.8
Increase	5.7	5.6	6.7	5.8	6.0
Decrease	16.8	25.0	21.4	17.9	20.0
Intensive Margin (Dollar Spending)					
Prior Spending	533.10	888.46	538.75	831.72	687.39
Spending Change	11.59	-6.40	-44.27**	-16.35	-13.86
Percentage Change	2.17%	-0.72%	-8.22%	-1.97%	-2.02%
N	504	504	497	498	2,003

- Negative response of planned spending **only** for "persistent inflation + durables"
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<u>How can this be reconciled?</u>

- Mechanic responses? This paper makes an explicit effort to avoid this
- What is the result if you group durables? HHs might respond as if persistent if not told otherwise... this paper could speak to this

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	(1) Decrease	(2) Increase	(3) Dollar Change
Durable Treatment	-0.022	0.005	-5.774
	(0.028)	(0.018)	(24.935)
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- Long Treatment: reference category is short term, and it groups both durables and non-durables $\rightarrow$ why not have the 4 treatment groups separately?
- Durable Treatment: previous lit found sharp significant declines $\rightarrow$ why could this be?
  - (D or ND) vs (control group with no info treatment) while here is D vs ND directly
- Mostly "no change": why? Setup fixes very short (+3m) term expectations to avoid mechanic resp.

Comment III: Heterogeneity and Mechanisms

Everyone is exposed to an increase of 3 percentage points in their inflation expectations, but we see heterogeneity in spending responses. Why?

1. different treatments effects
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All of these might interact and lead to heterogeneous responses. My interpretation:

1. people have different socio-economic characteristics and economic models/channels in mind
2. they receive different information (transitory/persistent) and tasks (durable/non-durable)
3. they respond to 2 through their own lenses (i.e. through 1)

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Many papers look at the effect of expected inflation on spending (also dur. vs non-dur.) but they estimate the effect of *all channels*.

▲ Exploit more the uniqueness of the set-up: treatments with dur./non-dur. but also transitory/persistent + mechanisms elicitation + households characteristics.▼

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   - for ex, among those that would ↑ spending, the durable treatment ↑likelihood of "intertemporal substitution" as relevant reason. *Does it mean that they also increase their spending more?*

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2. Heterogeneous treatment effects: can we know something about treatment effects by ...?
   - by personal characteristics and/or by mechanisms
     - treatments do not seem to affect mechanisms much: ”fixed” ways to interpret the economy?
     - post-treatment bias: mediation analysis? proxies using households characteristics?

Comment III: Heterogeneity and Mechanisms

3. Heterogeneity in the Relative Size of the Info Treatment
   - All households are presented with a 3pp increase in their inflation expectations
   - but there is a lot of dispersion in priors
     - i.e. 3pp$\uparrow$ represent a much higher change for people with prior=1% than people with prior=10%

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   - Confidence on expectations: higher ex ante uncertainty about their long term forecasts
     - 1 year forecast: 69% of respondents felt "sure" or "very sure"
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    - Confidence on spending plans: high certainty on spending plans
        - more than 70% qualified their forecasts as “sure” or “very sure”

→ How do these impact results? Does prior certainty interact with the information provided?

Conclusion

Novel set up and interesting results

- Majority of households do not change spending plans after increases in expected inflation
  "Manipulating inflation expectations is an ineffective policy tool to boost spending"

This differs from existing literature: info treatments exogenously move inflation expectations and this significantly impacts spending (Coibion et al 2023, Coibion et al 2022)

- discuss more connection and differences

This paper further looks at transitory vs persistent increases in expected inflation + mechanisms

- Heterogeneity of responses depending on treatments, personal characteristics and other beliefs and/or mechanisms in mind
- potentially more to explore in terms of mechanisms + how they impact spending responses