

How Firms Form Beliefs and the Implications for Inflation

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discussed by Michael Weber

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Inflation Expectations Matter

“It’s the Fed’s job to make sure that inflation expectations do not get unanchored.”

Kevin Warsh (2026)
Jackson Hole

From Firm Pricing to the Phillips Curve

Optimal reset price (equation (4)):

$$p_{i,t}^* = (1 - \beta\theta_p) \sum_{\tau=0}^{\infty} (\beta\theta_p)^\tau \mathbb{E}_{i,t}[mc_{i,t+\tau}]$$

Under FIRE:

Aggregate NKPC (equation (5)):

$$\pi_t = \kappa^{\text{FIRE}} mc_t^{\text{real}} + \beta \mathbb{E}_t[\pi_{t+1}]$$

Which Expectations Matter for Pricing?

- Without FIRE, equation (5) need not follow from (4)
- Own-cost forecasts primitive pricing object
- CPI forecasts need not summarize those cost forecasts
- Weak CPI pass-through does not imply irrelevant beliefs
- Paper measures cost beliefs and their forecast errors
- **Competitor-price beliefs also matter beyond the baseline**

This Paper: Five Facts

Atlanta Fed BIE: monthly panel, 2011–2024; May 2025 information treatment

- 1. CPI revisions pass through weakly to cost forecasts
- 2. Firms overextrapolate from their own past costs
- 3. Overextrapolation is widespread across firms and time
- 4. Own-cost forecasts retain substantial memory
- 5. Oil news moves beliefs mainly when own costs move

Model: steeper NKPC, weaker “distant” forward guidance.

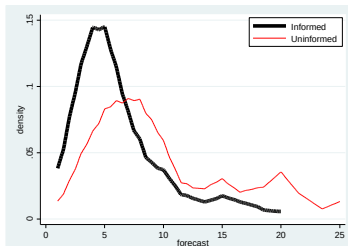
Implications for Monetary Policy

- Less anticipation, stronger response once costs move
- Supply shocks become more inflationary in the model
- Demand shocks become less inflationary with sticky wages
- Forward guidance: stronger nearby, weaker far ahead
- Commitment offers smaller gains than under FIRE
- Policy conclusions depend on whose beliefs adjust

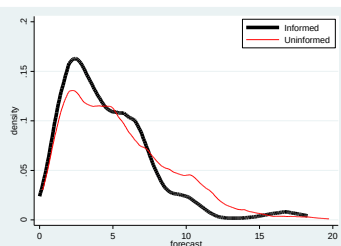
What Do We Know? New Zealand

Figure 3: Distribution of Inflation Expectations across Firms.

Panel A: Wave #1 $\Rightarrow$ Wave #1



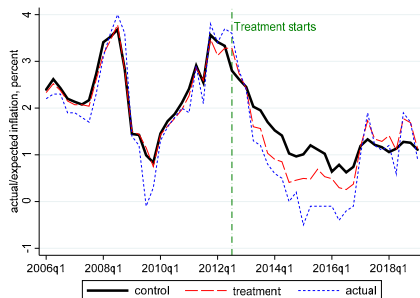
Panel B: Wave #1 $\Rightarrow$ Wave #4



Coibion, Gorodnichenko & Kumar, *AER* (2018). How Do Firms Form Their Expectations?

- Large disagreement despite longstanding inflation targeting
- Information moves beliefs toward the inflation signal
- Key distinction here: cost forecasts versus CPI forecasts

What Do We Know? Italy

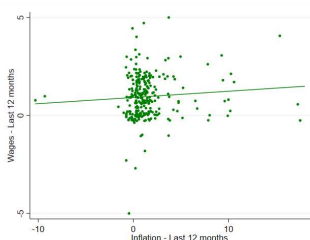


Coibion, Gorodnichenko, and Ropele, *QJE* (2020). Inflation Expectations and Firm Decisions.

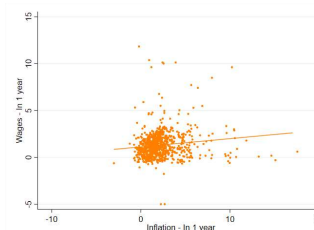
- Randomized inflation information shifts firms' beliefs
- Higher beliefs raise prices; hiring falls outside the ELB
- Effects vary at the ELB: the perceived shock matters

What Do We Know? France

Panel A: Correlation of Price and Wage Perceptions



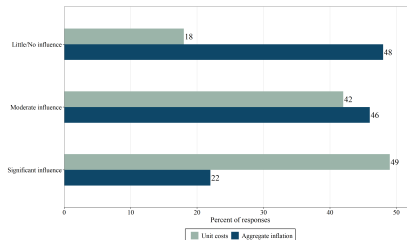
Panel B: Correlation and Price and Wage Expectations



Savignac, Gautier, Gorodnichenko, and Coibion, *JEEA* (2024). Firms' Inflation Expectations.

- Price and wage inflation beliefs are weakly correlated
- CPI information does not move aggregate wage beliefs
- Wage analogue to missing CPI-to-cost

What Do We Know? The Atlanta Fed BIE



(a) Influence of Inflation on Firms' Pricing Decisions

Meyer and Sheng, *EER* (2025). Unit Cost Expectations: Firms' Perspectives on Inflation.

- Own costs matter more for pricing than aggregate inflation
- Inflation information barely changes unit-cost forecasts
- **New here:** systematic errors and the timing of cost news

Inflation Expectations and the Supply Chain...

Albagli, Grigoli, and Luttini (IMF ER, 2025):

- Linked Chilean firm data
- Input-price changes shape aggregate inflation forecasts
- Even input-price variation unrelated to CPI matters
- This paper: studies forecasts of own costs

Suggestion: Compare beliefs by upstream exposure and network position

... and Networks Transmit Information

Hajdini et al. (2026):

- Randomized news within supplier–buyer pairs
- Untreated connected firms revise beliefs and actions
- Direct communication drives the belief spillovers
- News can travel before realized input costs change
- Can supplier communication explain early cost revisions?

International Monetary Policy and Firm Beliefs

Frache et al. (2023):

- Uruguayan expectations and firm exposures
- US tightening lowers expected inflation and own costs
- The response conflicts with realized local transmission
- Suggests confusion about the monetary policy regime

Suggestion: Test cost-news responses by import and financing exposure

Global versus Local Information

- Global signals: official statistics and broad economic news
- Local signals: shopping, workplace, suppliers, and peers
- More attention need not mean more representative signals
- Households sort into different information sources

D'Acunto and Weber, *Annual Review of Economics* (2024)

Local Conditions Shape Aggregate Beliefs

- France: sector prices shape aggregate price beliefs
- Germany: micro news gets more weight than macro news
- Euro area: local inflation shapes euro-area forecasts
- Germany: local conditions shape aggregate growth beliefs
- Own-cost forecasts provide the next link to firm decisions

Andrade, Coibion, Gautier, and Gorodnichenko (2022), *JME*.

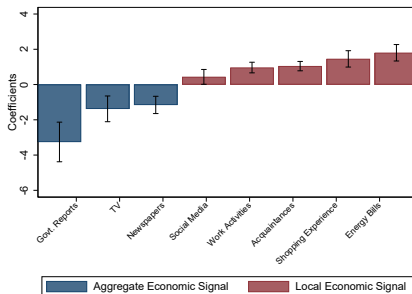
Born, Enders, Menkhoff, Müller, and Niemann (2022), Firm Expectations and News.

Baumann, Ferrando, Georgarakos, Gorodnichenko et al (2024), SAFE to Update $E\pi$, *JEEA*

Dovern, Müller, and Wohlrabe (2023), *JME*.

Suggestion: For firms: separate source choice from signal processing

Information Sources and Global Beliefs

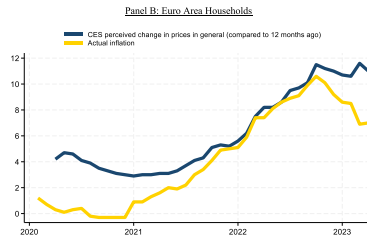
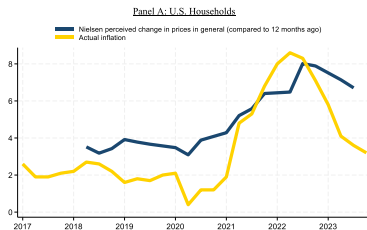


D'Acunto and Weber, Information and Macroeconomic Expectations: Global Evidence (2026)

- Local-source use predicts higher inflation expectations
- Aggregate-source use predicts lower expectations

Future work: jointly elicit information sources and cost beliefs

Attention Changes with the Inflation Environment



Weber et al., *Econometrica* (2025), Tell Me Something I Don't Already Know.

- Perception gaps narrow during inflation surge
- Gap widens again as realized inflation declines
- RCT evidence: responses to new information also change

Stable Coefficients or State-Dependent Attention?

- Bracha and Tang: direct measures show greater attention
- Pfäuti: attention depends on the inflation environment
- Paper: subsamples and yearly estimates, but no state test

Suggestion:

Interact own-cost signals with inflation and its volatility

Allow public-news weights and private-cost weights to vary

Partial-Equilibrium Thinking?

- Firms observe macro news but may miss indirect effects
- Own costs dominate reasoning about future costs
- Consistent with limited general-equilibrium reasoning
- Andre et al (2024) document subjective-model gaps

Suggestion: Elicit expected wages, input prices, demand, and margins

Fact 1: What Does the Information Exercise Identify?

$$\Delta \mathbb{E}_i[\Delta mc_i] = a + b \Delta \mathbb{E}_i[\pi^{CPI}] + u_i, \quad \hat{b} = 0.15 (0.08)$$

- All firms receive the same Blue Chip forecast
- Belief revisions are endogenous to priors and attention
- No control arm isolates retesting or survey effects
- Randomize signals and include an untreated control

Suggestion:

CPI news may also shift demand beliefs

Experimenter demand effects?

Fact 1: Confidence, Relevance, or Processing?

- Are own-cost priors tighter than aggregate-inflation priors?
- Is the CPI forecast informative about firm's inputs?
- Is CPI signal less trustworthy following recent surge in inflation?

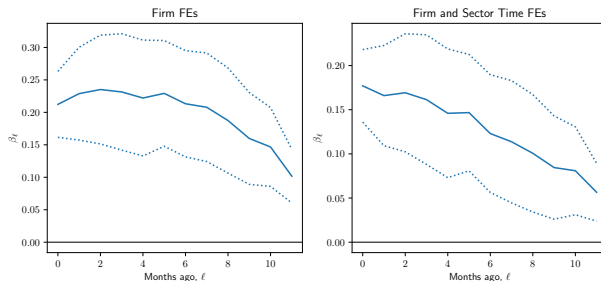
Suggestion:

Use prior cost uncertainty and perceived CPI exposure

Elicit CPI and own-cost beliefs in the same format

Cross-randomize aggregate news and input-specific news

Fact 4: Inertia or Lumpy Updating?



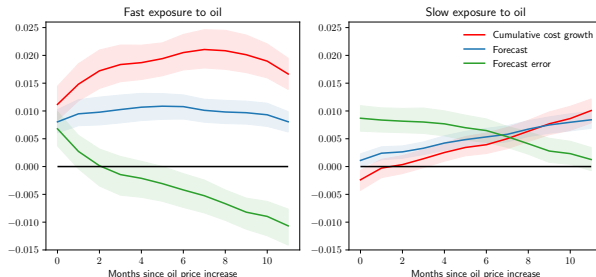
- Persistent cost dependence may reflect infrequent belief updating
- Separate update frequency from conditional revision size

Suggestion:

Compare changes in forecast means and full distributions

Distinguish belief inertia from rounding and survey coarseness

Fact 5: Learning on Lucas Islands?



- Beliefs follow local costs more closely than public oil news
- Local signals resemble learning on Lucas islands
- Do firms miss oil news or misunderstand its cost implications?

Suggestion: delayed info vs. misunderstood cost exposure

Persistent Errors: Why So Little Learning?

- Stable overreaction need not mean an absence of learning
- Paper rationalizes persistence with very slow gain learning
- Distinguish learning the state from learning its persistence
- Does repeated forecast-error feedback improve accuracy?

Suggestion:

Compare cost persistence, forecast uncertainty, and tenure

Use within-firm changes and respondent turnover

Slow-gain exercise uses historical aggregate data

What is a firm

- Firms do not form beliefs; people within firms do
- An old firm need not have an experienced decision maker
- Who responds: CEO, CFO, owner, or pricing manager?

Suggestion:

Test CEO tenure and personal inflation experience

Distinguish firm age, respondent tenure, and survey tenure

Does CEO turnover reset the apparent learning process?

Conclusion

- An important paper on the beliefs that matter for pricing
- Strong contribution to literature
- Connect local signals to attention and subjective models
- Sharpen the evidence on causality and heterogeneity