

Discussion of “Anchors aweigh? The effect of communicating forecast uncertainty”

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The views expressed here are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.

My Summary

- Thought-provoking and timely (post-Bernanke Review) paper
- On a relatively-neglected topic in macroeconomics
- Contrasting the more developed literature, especially in meteorology, on the communication of uncertain information to the public

Visschers et al. (2009) review how communication format effects depend on context

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- Contrasting the more developed literature, especially in meteorology, on the communication of uncertain information to the public
Visschers et al. (2009) review how communication format effects depend on context
- Contribution is the dynamic information experiment: fan charts are an “insurance policy”
 - ▶ $\sim 5\text{bps}$ anchoring premium buys a $5\times$ payout after “unlucky” errors
- Should we ditch the fan chart? *No*: they help align subjective and objective uncertainty
Echoes results in Galvão & Mitchell (2024 JMCB) for GDP
- Should we ditch the dot plot? *Yes*: public misreads them as conveying low uncertainty

My Comments and a Caveat

- Much of what follows is a wish-list for the *next* paper — the survey is already fielded and can't be retrofitted
- But I'll flag, where I can, what's feasible with the *current* data and connect to the wider literature

... and question *what* uncertainty information is communicated and *why*

What is the Measure of Successful Communication?

Authors Focus on “Anchoring”

- Measured as $|\pi_{i,t} - \pi_{cb,t}|$ — deviation from the CB's *own* (possibly wrong) short-run inflation point forecast
 - ▶ What about anchoring relative to the long-run *target*: do the public's long-horizon expectations stay near π^* , regardless of short-run shocks?
 - ▶ Asymmetries – why the absolute value?
 - ▶ Do treatment effects vary by respondent characteristics? E.g., financial literacy

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 - ▶ Do treatment effects vary by respondent characteristics? E.g., financial literacy
- Sections 3.3 (anchoring: 1st moment) and 3.4 (uncertainty perceptions: 2nd moment) reported as parallel, separate findings
 - ▶ Are they related? Do Stage A over-confident respondents (narrow stated ranges) show *larger* de-anchoring after errors in Stage C?
 - ▶ Design of a joint test – of probabilistic anchoring – impeded by range forecasts not being elicited at a specific confidence level
 - ▶ Does the CB really need to align the public's subjective PDFs with their own objective PDF?

A Missing Channel: Reaction-Function Credibility

- Anchoring can come from two distinct sources:
 - (i) Belief that the *forecast* is probably right
 - (ii) Trust that the central bank will *correct* things if it's wrong
- The paper varies only channel (i)
- Policymakers also communicate other macro variables — notably the policy rate path and/or the inflation target (or target range)
- Suggested treatment arm: expected policy path (à la Riksbank, Norges Bank) — or just a hypothetical ‘tweet’
 - ▶ Knotek et al. (2025) find that communicating interest rate hikes lowers inflation expectations

A Taxonomy of Uncertainty: Where Does the Fan Chart Sit?

Full nine-point scale of uncertainty communication in van der Bles et al. (2019)

Decreasing precision
↓

- **Full PDF:** known probabilities, known scenarios
- **Known unknowns:** unknown probabilities, known scenarios
 - ▶ As favored by Bernanke
- **Unknown unknowns:** unknown probabilities, unknown scenarios
 - ▶ BoE's 90% "censored" density forecasts: Mitchell & Weale (2023 JAE)
 - ▶ In Covid-19, fan charts dropped
 - ▶ Is qualitative communication preferable?

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- **Full PDF:** known probabilities, known scenarios
 - ▶ Authors assume CB produces well-calibrated density forecasts
 - ▶ Real-world errors are not IID — do insurance value, and potential loss of trust in the CB from communicating uncertainty, hinge on this? (Raftery, 2016)
 - ▶ Ever-wider bands aren't costless — past some point, “wide” signals ignorance, not calibration. Hard to communicate multimodalities and risk asymmetries
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How Far Does the Lab Travel?

- A clean lab environment — synthetic worlds, exogenous treatments — lets the authors isolate the dynamic causal effects of uncertainty communication
- This is an important step forward
- But stakes, salience, and repetition differ from how households actually live through inflation; and the toolkit is purely quantitative/visual, missing the narrative and qualitative communication that shapes real-world uncertainty
- Complementary next step: take the lab to the field
 - ▶ + reaction-function credibility

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