Research [in] Brief

Consumer (In)Attention to Inflation Influences Expectations

Primary issue

An ongoing survey by the Cleveland Fed shows that when it comes to expectations for future inflation, consumers who show greater awareness of inflation see a more moderate impact on the overall economy than those who pay less attention. But both groups can influence inflation by their expectations and subsequent behavior.

Key findings

Cleveland Fed researchers measure consumer attention to inflation using responses to two survey questions about inflation expectations, one that asks respondents for a single-value forecast and another that asks for an uncertainty forecast. They find that consumers who are consistent in their answers to both questions—termed "attentive" respondents, those whose answers were in line with each other—exhibited the most awareness of inflation trends.

- Consumers update their expectations less often when the economy is stable and inflation is low. Likewise, many consumers tend to update their inflation expectations more often when inflation is high or when it's discussed in the news.

- Consumer awareness of inflation has risen overall since the start of the pandemic, and this awareness closely follows gasoline prices, one of the most visible economic markers for consumers.

The bottom line

Survey responses show that how consumers view inflation is greatly influenced by their attention or inattention. Attentive consumers expect lower inflation than do less-attentive consumers, the latter of whom tend instead to emphasize unfavorable inflation scenarios. Efforts to reach inattentive consumers, whose expectations may still influence future inflation, would benefit from more-targeted communication strategies by policymakers.

Want to find out more? Read "A New Measure of Consumers' (In)Attention to Inflation" at **clefed.org/ec202214**.

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