

The Expected, Perceived, and Realized Inflation of U.S. Households Before and During the Covid19 Pandemic

Based on BFI Working Paper 2022-09, “[The Expected, Perceived, and Realized Inflation of U.S. Households Before and During the Covid19 Pandemic](#),” by Olivier Coibion, University of Texas, Austin; Yuriy Gorodnichenko, University of California, Berkeley; and Michael Weber, University of Chicago’s Booth School

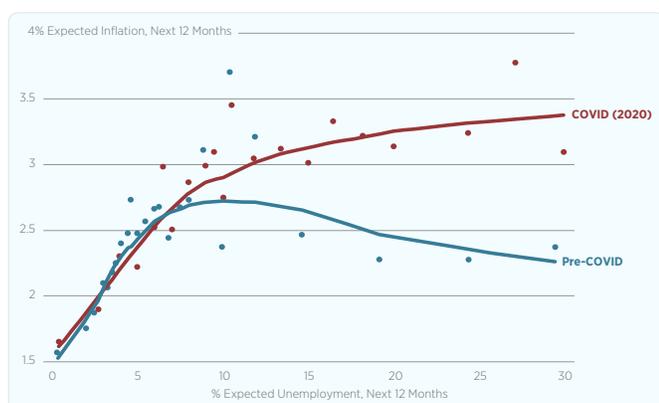
In normal times, realized inflation barely differs across observable dimensions; however, low income, low education, and Black households experienced a larger increase in realized inflation during the pandemic than other households did.

When the COVID19 pandemic spread across the United States and households were confronted with empty store shelves of common products like toilet paper and cleansers, they asked themselves questions that also confronted policymakers and researchers: Were those shortages a result of panicked buying, in which case they could wait for an increase in supply to quickly materialize, or from reduced production by manufacturers due to lockdowns or workers staying at home, in which case the shortage could be long-lived.

Strikingly, the average inflation expectations of households rose, consistent with a supply-side interpretation, but disagreement among households about the inflation outlook also increased sharply. What was behind this pervasive disagreement? Did households, like economists, disagree about whether the shock was a supply or a demand one? Or did they receive different signals about the severity of the shock due, for example, to the specific prices they faced in their regular shopping and heterogeneity in their shopping bundles? The answers to these questions can shed light not just on the pandemic period but more generally on the nature of household expectations, the degree of anchoring in inflation expectations, and the current inflation outlook as post-pandemic inflation rates spike.

To address these questions, the authors combine large-scale surveys of US households with detailed information on their spending patterns. Spending data allow the authors to observe in detail the price patterns faced by individual consumers and thereby characterize what inflation rate households experienced in their regular shopping. The researchers can then measure households’ perceptions about broader price movements and economic activity as well as their expectations for the future. Jointly, these data permit the authors to characterize the extent to which the specific price changes faced by consumers in their daily lives shaped their economic expectations during this unusual time.

Figure 1 • Unemployment and Inflation Expectations



Note: This Figure shows a binned scatter of households’ expected inflation (y-axis; implied mean) and expected unemployment (x-axis) in the survey, both prior to the pandemic as well as during the pandemic. Before 2020, a clear positive relationship between the two existed: households who anticipated higher inflation also tended to anticipate higher unemployment. Strikingly, the relationship is almost identical during the COVID19 pandemic: except for those with very high unemployment forecasts, the two lines are nearly indistinguishable. Thus, the supply-side view taken by households of inflation remained unchanged during the pandemic, despite the unique nature of the crisis and all the exceptional policy responses put in place during this period.

Using both the realized and perceived levels of inflation by households, the authors find the following:

- Pervasive disagreement about the inflation outlook stems primarily from the disparate consumer experiences with prices during this period. The early months of the pandemic were characterized by divergent price dynamics across sectors, leading to significant disparities in the inflation experiences of households.
- Perceptions of broader price movements diverged even more widely across households, leading to very different inferences about the severity of the shock. These differences in perceived inflation changes were passed through not just into households' inflation outlooks but also to their expectations of future unemployment.
- Finally, the widespread interpretation of the pandemic as a supply shock by households led those who perceived higher inflation during this period to anticipate both higher inflation and unemployment in subsequent periods.

The authors stress that these findings raise important implications for current and future policymaking. While the magnitude of the rise in disagreement was notable, the supply side interpretation of the shock by households was not. Instead, it was consistent with a more systematic view taken by households that high inflation is associated with worse economic outcomes. This view is likely not innocuous for macroeconomic outcomes. Since policies like forward guidance are meant to operate in part by raising inflation expectations, this type of supply-side interpretation by households is likely to lead to weaker

effects from these policies as households reduce, rather than increase, their purchases when anticipating future price increases.

Further, as inflation expectations rose through 2021 and into 2022, households became more pessimistic about the economic outlook even as wages and employment rose sharply. This pessimism about the outlook creates a downside risk for the recovery and suggests that policymakers should be wary of removing supportive measures too rapidly. Patience in waiting for supply constraints to loosen therefore seems warranted since pre-emptive contractionary policies would likely amplify the pessimism that risks throttling the recovery from the pandemic.

READ THE WORKING PAPER

NO. 2022-09 · JANUARY 2022

The Expected, Perceived, and Realized Inflation of U.S. Households Before and During the Covid19 Pandemic

bfi.uchicago.edu/working-paper/202209

ABOUT OUR SCHOLAR



Michael Weber

*Associate Professor and Fama Faculty Fellow,
Chicago Booth*

[chicagobooth.edu/faculty/directory/w/](https://chicagobooth.edu/faculty/directory/w/michael-weber)

[michael-weber](https://chicagobooth.edu/faculty/directory/w/michael-weber)

