
Discussion of “Deflating Inflation Expectations”

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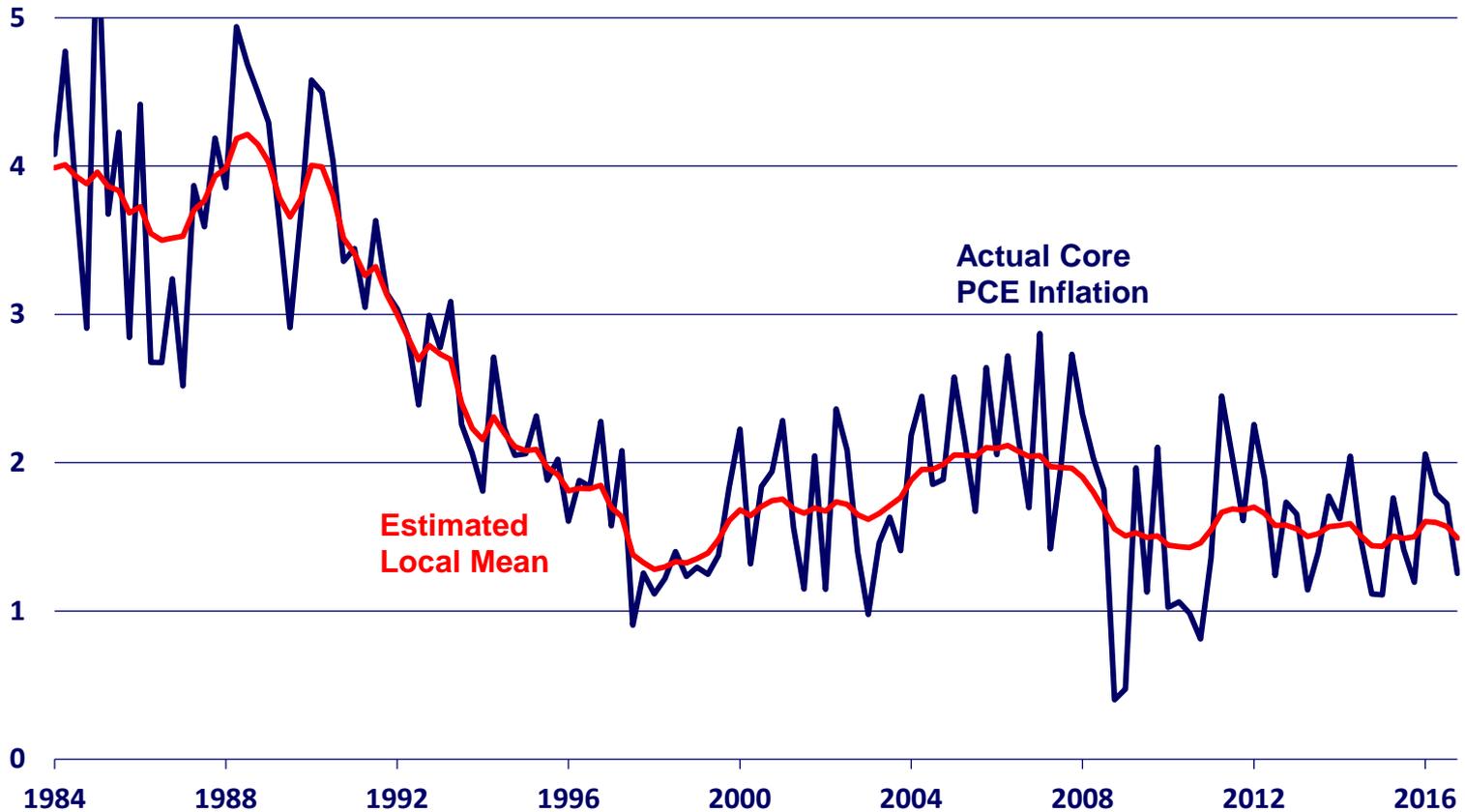
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The views I express here are my own and do not necessarily reflect the views of the Federal Reserve Bank of Chicago, my colleagues on the Federal Open Market Committee (FOMC) or within the Federal Reserve System.

Cecchetti et al Local Mean in Inflation

Core PCE Price Index

(quarterly annualized percentage change)



Source: Cecchetti et al (2017) and Bureau of Economic Analysis from Haver Analytics

FRBC DSGE Model

- Enhanced version of Christiano, Eichenbaum and Evans (2005), Smets and Wouters (2007)

- Policy rule:

$$R_t = R^* + \rho \times R_{t-1} + \alpha \times ygap_t + \beta \times \pi gap_t + \epsilon_t$$

+ earlier forward guidance for t

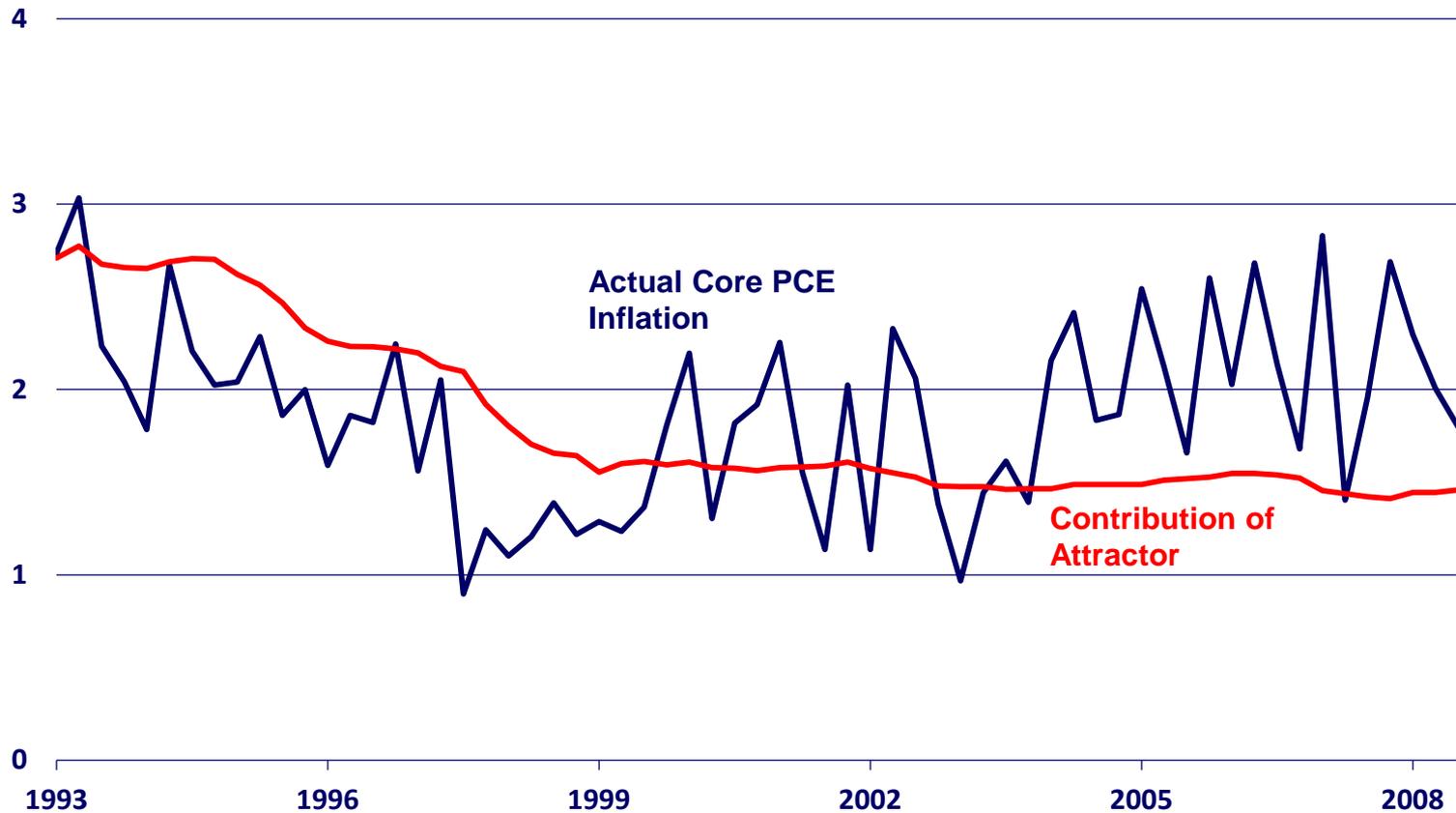
+ attractor at t

- Model estimated using data on real activity, wages, prices, fed funds, interest rate futures, SPF long run inflation expectations
- Attractor is an unobserved component
 - SPF inflation expectations have largest influence on its estimate

DSGE Views of Persistent Inflation: 1993-2008

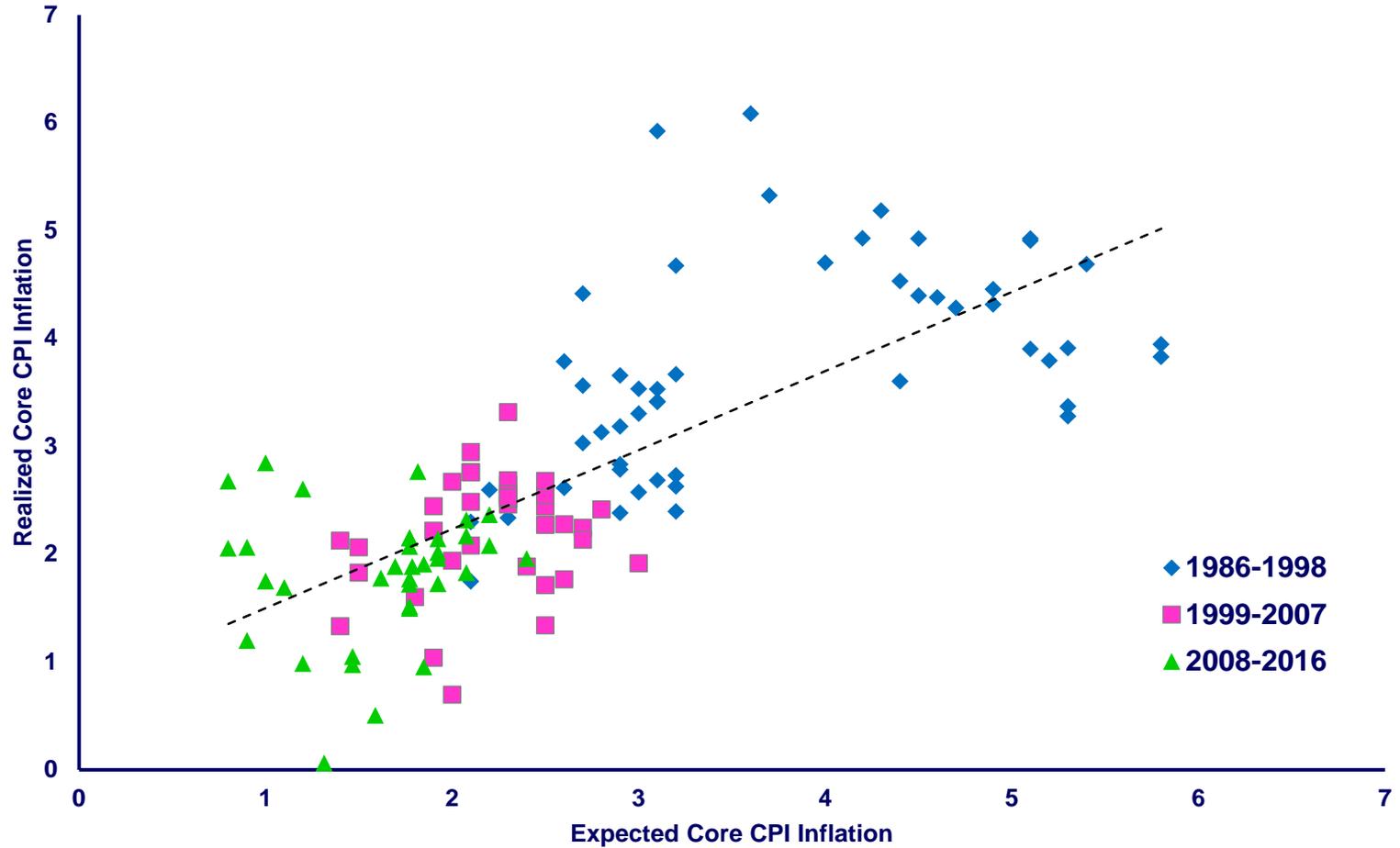
Core PCE Price Index

(quarterly annualized percentage change)



Source: FRBCHI Staff and Bureau of Economic Analysis from Haver Analytics. Attractor from Kalman smoother, 1993-2008

Figure 1.1: Color Coded

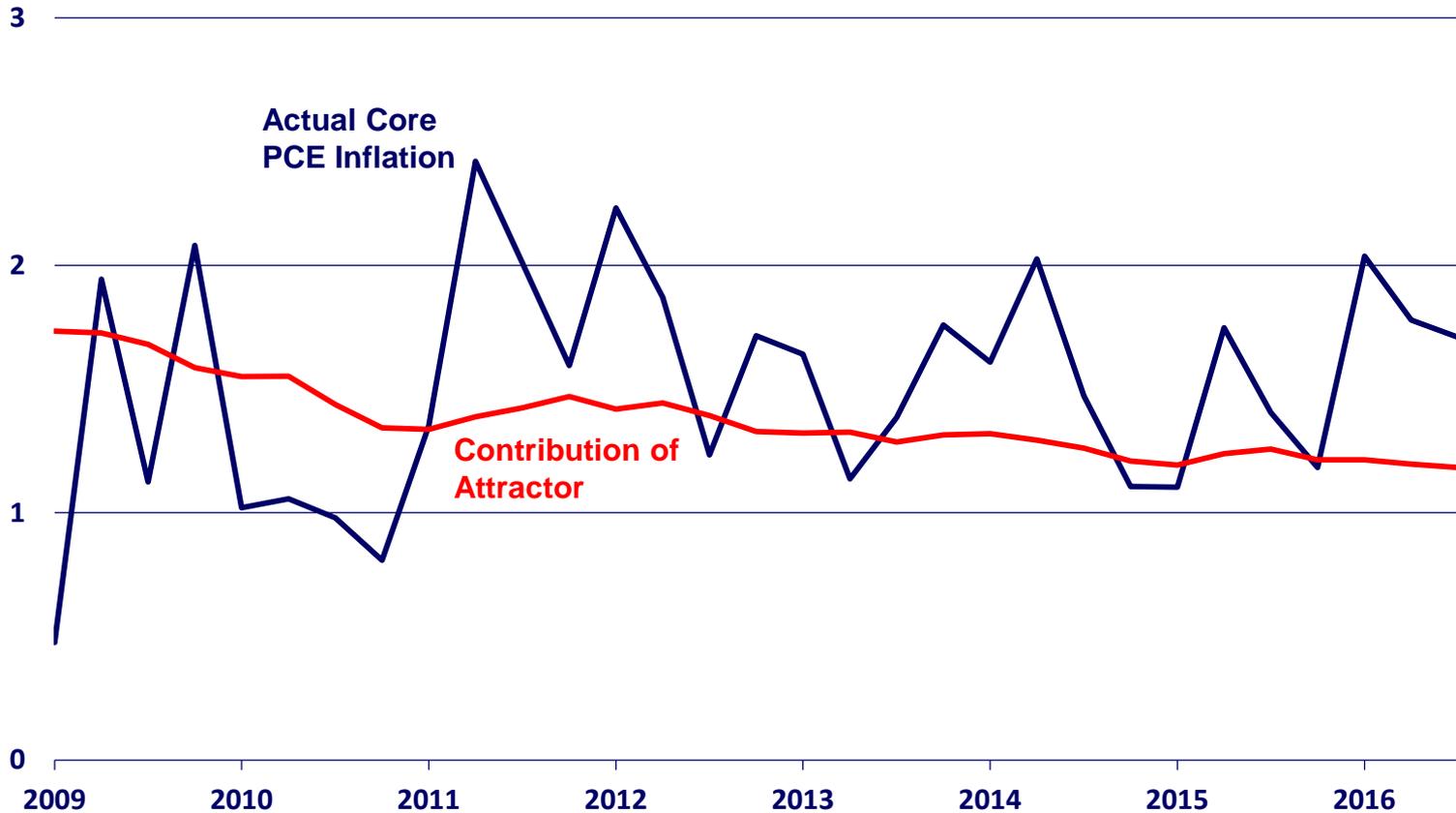


Source: Cecchetti et al (2017)

DSGE Views of Persistent Inflation: 2009-2016

Core PCE Price Index

(quarterly annualized percentage change)



Source: FRBCHI Staff and Bureau of Economic Analysis from Haver Analytics. Attractor from Kalman smoother, 2009 - 2016