

Losing the inflation anchor

CFM-DP2021-23

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Inflation has an anchor in people's expectations of what its long-run value will be. If expectations persistently change, then the anchor is adrift; if they differ from the central bank's target, the anchor is lost. This paper uses data on expectations from market prices, from professional surveys, and from the cross-sectional distribution of household surveys to measure shifts in this anchor. Its main application is to the US Great Inflation. The data suggests that the anchor started drifting as early as 1967 and that this could have been spotted well before policymakers did. Using this approach on expectations data from Brazil, Turkey, South Africa, the US in the 1970s, and the US in 2021, confirms their usefulness to measure the inflation anchor in real time.