

How do households respond to expected inflation? An investigation of transmission mechanisms

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Discussion:
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Motivation

- Empirical literature offers mixed evidence on the pass-through from consumer inflation expectations to spending decisions
- Heterogeneity in survey design partially explains mixed findings (Assenza et al., 2026)
- This paper leverages hypothetical scenarios to elicit effects across different horizons, shock magnitudes and good types
- The within-subject design allows an individual-level mapping between effects, mechanisms and observable characteristics
- Richer characterization of the effects and deeper understanding of underlying mechanisms beyond averages

Beyond average effects: mechanisms and heterogeneity

1. **Identify** change in planned spending to hypothetical change in inflation expectations
 - ▶ An increase in LT expectations reduces plans to spend on durable goods
 - ▶ Effects of ST expectations are negative or insignificant
2. **Map** direction of planned adjustment to subjective mechanisms
 - ▶ Do not change planned spending (73%) *Fixed budget, irrelevance*
 - ▶ Decrease planned spending (22%) *Nominal income rigidity, savers' wealth effects*
 - ▶ Increase planned spending (5%) *Intertemporal substitution, stockpiling*
3. **Characterize** heterogeneity in consumption responses and mechanisms
 - ▶ E.g. choice of "liquidity constraints" concentrated among indebted low-income households, "stockpiling" among high-income unconstrained households

How do we interpret unchanged spending?

- Most households do not change planned spending given an increase in inflation expectations, attribute it to:

"I have a fixed budget plan and stick with it."

"When I plan my spending over the next 3 months, price changes after the next 3 months do not matter."

- Interpretation: consistent with behavioral frictions (myopia, habit formation, rational inattention, narrow bracketing)
- Implication: frictions should be incorporated into models to capture non-adjustment

How do we interpret unchanged spending?

- However, inaction can be rationalized without behavioral frictions
- Fixed-cost models of durable adjustment (Caballero, 1993; McKay and Wieland, 2019)
 - ▶ $\approx 19\%$ of households adjust their durable stock annually (McKay and Wieland, 2019): most are far from their adjustment threshold.
 - ▶ A 3pp shift in expected inflation may leave this distribution unchanged
- Higher-order expectations and strategic complementarities in spending (Angeletos and Lian, 2018)
 - ▶ Equilibrium spending depends on what households think others will do
 - ▶ Hypothetical scenario shifts each respondent's *own* inflation expectations only
- Further analysis can be used to better discriminate across theories

Concluding remarks

- Novel and comprehensive contribution to a standing research question
- Careful alignment between survey design and theoretical motivation
- Identification household-level PE elasticities of spending with respect to inflation expectations
- Findings suggest muted role of intertemporal substitution
- Drawing further aggregate implications requires bridging PE identification to GE implications
 - ▶ How do PE elasticities interact with GE income, price, and employment feedbacks?
 - ▶ What is the covariance between *who* responds, *how much* they respond?

Other comments

Leverage richness of data collected

- **Non-linearities** Is the effect of shocks heterogeneous across the distribution of prior inflation expectations?
- **Salience across waves** Inflation rates during the field process varied between 6% (March 2023) and 2.7% (December 2024). Do the salience and credibility of scenarios vary across waves?
- **Scenario credibility** Across all treatments, non-updating is the modal response for all elicited expectations (income growth, FFR, financial uncertainty), except "*General Economic Outlook*". Does this suggest non-relevance of scenarios?
- **Average mechanism importance** Combine extensive and intensive margins into a comparable statistic (Selection rate $\times$ average conditional weight)

Other comments

Some caveats worthy of discussing

- **Other margins of adjustment** Do not control for other margins that can lead to unchanged spending (e.g. hours worked, job switching, home production)
- **Robustness checks** Big shock and oil treatments only to durable consumption, but evidence of oil shocks and uncertainty shocks affecting non-durable consumption too. Changes in samples impose limitation to main robustness checks
- **Between-subject comparisons** Within-person variation eliminates individual FE within each treatment, but comparative claims rely on between-subject comparisons across samples fielded at different times/platforms, where mean-independence of potential outcomes from treatment assignment is not guaranteed. Weights align samples on observables only.

Thank you!

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