

What has Happened to Inflation Persistence? A New Expectations-Based Measure

Nathan Goldstein
Bar-Ilan University

Yuiry Gorodnichenko
UC Berkley and NBER

Abstract: We propose a new simple measure for inflation persistence based on the cross-sectional variation in multi-horizon inflation forecasts provided by surveys. Our approach enables to track inflation persistence quarter-by-quarter, based on recent responses of survey participants. The approach is also consistent with an unobserved-component modelling of inflation and can arguably provide a better approximation to the inflation persistence, compared to previous estimates available in the literature. Applying our measure to the Survey of Professional Forecasters, we find a remarkable decline over the last decades in inflation persistence, trend-inflation, and the amount of variation in individual expectations which can be explained by measured inflation persistence. However, the findings are not consistent with prominent models of expectations formation. We suggest a new model of expectations, which highlights the role of *forward* signals in forming heterogenous beliefs, and show how model's predictions could account for the empirical results obtained with survey forecasts of inflation, as well as other macroeconomic variables. Thus, our findings shed light on both the expectations formation and its applicability for identifying significant transitions in the inflation process.