

Discussion

## “Narratives about the Macroeconomy”

Peter Andre Ingar Haaland Christopher Roth Johannes Wohlfahrt

Benjamin Born

Frankfurt School of Finance & Management and CEPR

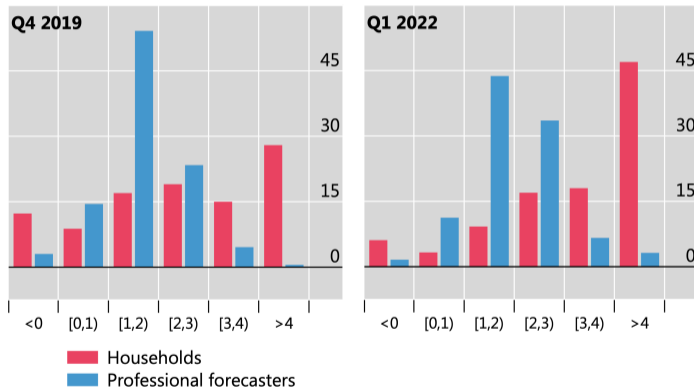
Joint Spring Conference on

“Monetary Policy and Expectations of Households and Firms”

Eltville (Germany), 23–24 June 2022

# Cross-sectional heterogeneity and dispersion in households' inflation expectations well established fact

... but the underlying drivers of this heterogeneity are still not fully understood.



Source: Fiore et al. (2022)

# Overview

## **This paper:**

Provides evidence on inflation narratives, shows how these narratives influence inflation expectations, and how the narratives can be shaped by news consumption.

## **First things first:**

- Very nice paper
  - meticulous survey work and convincing analysis
- Already nearing 100 pages, before even being touched by a referee

## **Plan for this discussion**

- Brief summary
- Comments + some thinking aloud

## What they do

- Measure economic narratives in open-ended survey responses
  - narratives represented as DAGs
  - Main survey in Nov 2021: >8000 US households and >100 experts
  - Additional household surveys in Dec 21, Jan 22, and Mar 22
- Experiments that shift the narratives on top of households' minds
- Experiment with endogenous news consumption

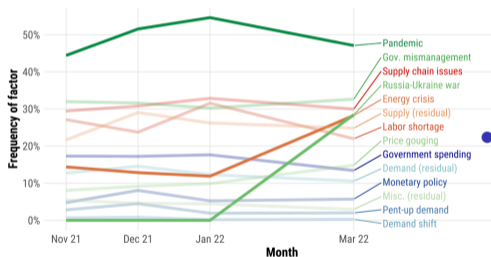
## What they find

1. Fundamental differences between the expert and household narratives
  - Expert narratives more complex and balance demand- and supply-side factors
  - Household narratives simpler, focus on supply side, and often politicized
  - HH narrat. highly heterogeneous, systematically related to indiv. characteristics
2. Narratives play an important role in households' expectation formation
  - expectations about future inflation systematically correlate with narratives
  - shifting narratives causally affects inflation expectations
3. Mass media is a key source for households' inflation narratives

## Comment # 1: Narratives over time

“We provide evidence on narratives [...] in the context of a *historic surge in inflation*.”

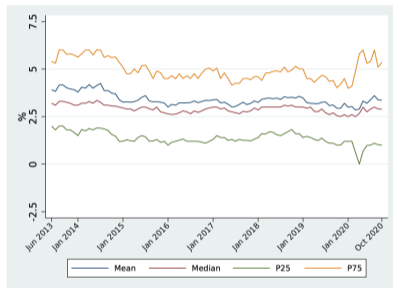
Figure 5: Development of narratives over time



- Two main descriptive facts
  - narratives highly heterogeneous
  - narratives respond quickly to circumstances
- To what extent might that be driven by these special times?
  - inflation surge unusually complex(?)
  - inflation is on everyone's mind

## Comment # 1: Narratives over time

### Households' 12-month inflation expectations



Source: D'Acunto et al. (2022, Handbook of Economic Expectations)

- Let's look at time-series behavior of inflation expectations
- In “stable” times
  - also considerable dispersion
  - comovement across distribution
- During the pandemic
  - increasing disagreement
  - in fact P25/P75 go in opposite directions
- Could be interesting to at least think about the role of narratives across different states of the economy

# Comment # 2: Narratives and the news media

News sources across political/quality spectrum provide similar (near-expert) narratives

Figure B.5: Top 20 outlets for news about inflation

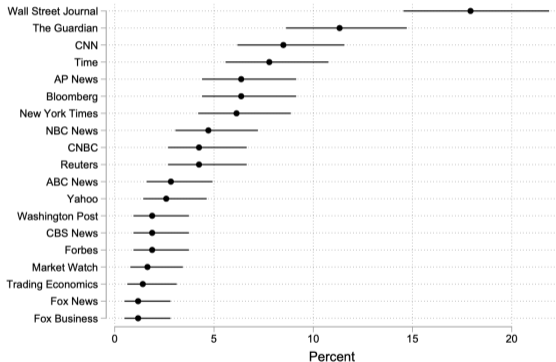
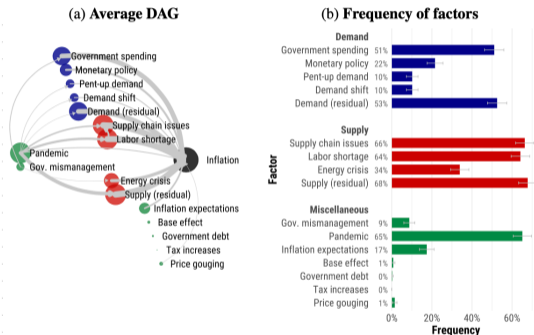


Figure 6: Narratives in the news

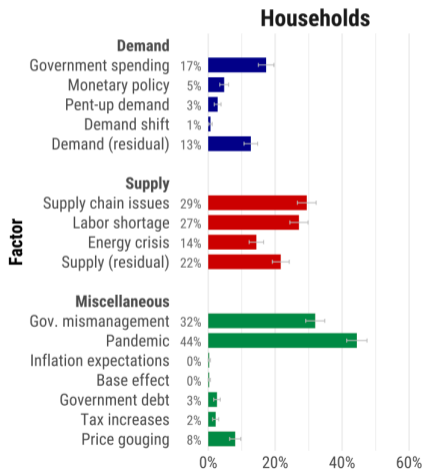


Note: This figure shows the top 20 outlets among treated respondents in wave 2 of the media experiment.



## Comment # 2: Narratives and the news media

*“... the mass media is an important source of households’ narratives about the macroeconomy.”*

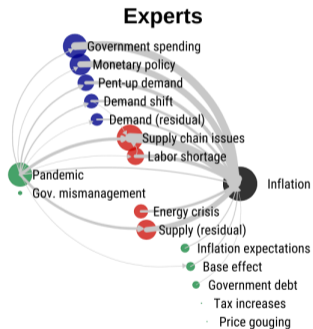


- Why are the household narratives then so “off”?  
→ mainly other (or no) news sources?
- Polarization not coming from “WSJ vs Guardian”?  
→ social media?
- Understanding this is important for designing communication policies.

## Comment # 3: “Neglected” experts

### Academic output:

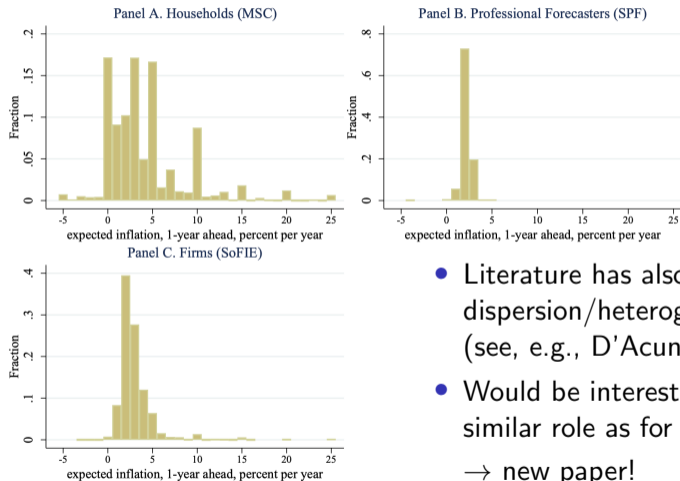
Number of top 5 publications	2.664
H-index	21.602
Citations	5534.757



- Incredibly accomplished expert group  
→ very helpful as contrast to household narratives
- Disappear after halftime of the paper  
→ understand that sample size ( $n=111$ ) restricts analysis
- Would have loved to see a bit more dissection of their narratives, e.g.  
→ splits along “schools of thought”  
→ or US vs RoW
- Of course, not central to the paper but given that you have this amazing sample . . .

# Comment # 4: Narratives in firms

Figure 2: Cross-sectional dispersion in expectations






- Literature has also documented large dispersion/heterogeneity in **firms'** inflation expectations (see, e.g., D'Acunto et al., 2022, JEP)
- Would be interesting to see whether narratives play a similar role as for households or if there are differences → new paper!

Source: D'Acunto et al. (2022, JEP)

To sum up

Great Paper! Must read!

# References I

-  D'Acunto, Frances, Yuriy Gorodnichenko, Olivier Coibion, and Michael Weber (2022). "The subjective inflation expectations of households and firms: measurement, determinants, and implications". *Journal of Economic Perspectives*.
-  D'Acunto, Francesco, Ulrike Malmendier, and Michael Weber (2022). "What do the data tell us about inflation expectations?" *Handbook of economic expectations*. Ed. by Rüdiger Bachmann, Giorgio Topa, and Wilbert van der Klaauw. Elsevier.
-  Fiore, Fiorella De, Tirupam Goel, Deniz Igan, and Richhild Moessner (2022). "Rising household inflation expectations: what are the communication challenges for central banks?" *BIS Bulletin* (55).