The Daily Dish

Expected Inflation Drifts Up

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Yesterday the Federal Reserve Bank of New York released its latest monthly Survey of Consumer Expectations, including inflation expectations — a crucial part of inflation and disinflation dynamics. For example, if people confuse a one-time increase in the cost of an item (e.g., a tariff) with ongoing price increases (i.e., inflation), they will behave as if facing inflation. They will ask for wage increases that compensate for future increases of the same size, even though they are not actually forthcoming. What happens? The upward pressure on wages turns into more upward pressure on prices. Voila! The consumer was right — prices continued to rise and are now expected to rise further. Expectations transform a one-time event into sustained inflation.