RESEARCH BRIEF

Forward Guidance and Household Expectations • Gender Roles and the Gender Expectations Gap

Based on BFI Working Paper No. 2020-07, "Forward Guidance and Household Expectations," by Olivier Coibion, associate professor, University of Texas at Austin; Dimitris Georgarakos, senior economist, European Central Bank; Yuriy Gorodnichenko, professor, University of California at Berkeley; and Michael Weber, associate professor and Fama Faculty Scholar, UChicago's Booth School of Business; and BFI Working Paper No. 2020-11, "Gender Roles and the Gender Expectations Gap," by Francesco D'Acunto, assistant professor, Boston College; Ulrike Malmendier, professor, University of California at Berkeley; and Michael Weber, associate professor and Fama Faculty Scholar, UChicago's Booth School of Business

KEY TAKEAWAYS

- ✓ Monetary policymakers make assumptions about how consumers will react to changes in policy
- ✓ However, consumers' responses often do not align with policymakers' expectations
- ✓ For example, consumers do not effectively forecast future rates beyond 12 months, which can thwart policymakers' attempts to shape long-term rate expectations
- ✓ Also, a household's understanding of current inflation rates is shaped, in large part, by who does the grocery shopping

Policymakers make economic policies based, in part, on their assumptions about how households and businesses will react to a given change in policy. This is especially true of monetary policy, where central banks work to set interest rates that both encourage or discourage economic activity, while keeping inflation at bay.

Following the Great Recession of 2008-09, with interest rates already near zero in an effort to stimulate growth, central banks began to engage in what is known as unconventional monetary policy; that is, policy that goes beyond more typical rate-setting measures. One of those new forms of monetary policy is known as forward guidance, which is when central banks communicate directly about the likely future course of monetary policy. By encouraging businesses and households to make spending and investment decisions on the expected course of future policy, central bankers hope to have an impact on current economic conditions. Regarding the Great Recession, the Federal Reserve, for example, hoped to encourage current economic activity by signaling that it would keep interest rates low "for some time."[1]

[1] https://www.federalreserve.gov/faqs/what-is-forward-guidance-how-is-it-used-in-the-federal-reserve-monetary-policy.htm

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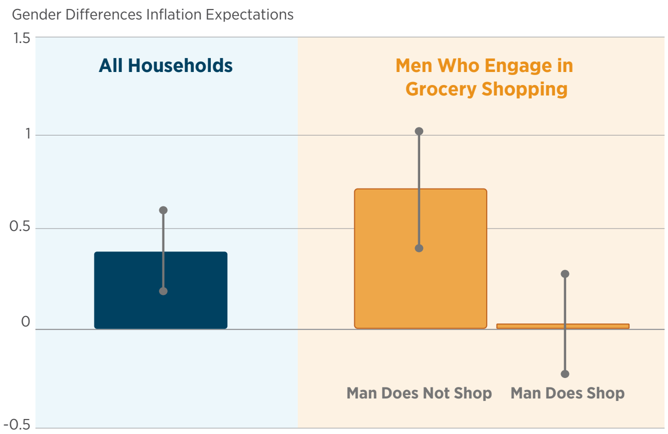
Figure 1 • Gender Expectations Gap Within Households



Note: The left bar of Figure 1 plots the average differences in the inflation expectations of women and men within all households headed by heterosexual couples in our sample based on the customized Chicago Booth Expectations and Attitudes Survey, which the authors fielded in June of 2015 and 2016. The mid and right bars propose a sample split based on whether men in the household take part in grocery shopping. Error bars indicate 95% confidence intervals obtained from standard errors clustered at the household level.

However, how well do people respond to these messages from central banks? Importantly, how do households change their actions based on forward guidance? Further, how do households react to news about changes in key economic indicators like interest rates, inflation, and unemployment rates? Beyond forward guidance, are there gendered differences to those presumptions about, say, rates of inflation? These are important questions for policymakers, as the buying and saving decisions of consumers are important drivers of the US economy.

Two new papers offer insight into these related questions about how households react to changes in monetary policy. In "Forward Guidance and Household Expectations" and "Gender Roles and the Gender Expectations Gap," Michael Weber of UChicago's Booth School of Business and his colleagues investigate these and other questions and find that households rarely look beyond one year when considering future interest rates, and that while gender differences about economic indicators do, indeed, exist within households, those differences are driven by household shopping habits and not underlying gender distinctions. These papers follow recent research by Weber et al. that also explore the relationship between policy and consumer expectations and reactions.[2]

[2]See, for example, a related Research Brief, as well as a listing of Weber's BFI Working Papers.

Forward guidance, but only for a year out

To address the question of how people weigh the future implications of changes in policy, the authors conducted a randomized control trial (RCT) of 25,000 consumers. Each participant was asked to provide their estimates of inflation, unemployment, and interest rates over the following 12 months or five years. Next, different subsets of the group were provided actual information about the three rates over time in a randomized fashion, and then asked to update their forecasts. This RCT approach, with its large number of participants, offered the authors an unprecedented look at how announcements that signal future policy changes can affect consumers' current views.

What they find is that consumers are mostly focused on the short run, that is, on the coming 12 months. Following is a summary of their key findings:

1. Consumers' knowledge about interest rates is limited.
2. Given new information about possible policy changes, consumers change their expectations over short horizons, but rarely consider changes beyond one year.
3. Specifically, when provided information over longer horizons (such as two to three years), consumers rarely shift their longer-term views.
4. When consumers receive information about interest rates, they revise their expectations about inflation rates in the same direction. In other words, if told that future interest rates will rise, consumers also expect inflation rates to rise when, indeed, that is the opposite outcome of the intended policy.
5. Relatedly, information about inflation rates—whether current or future—has larger effects for expectations of real interest rates rather than nominal rates.
6. Expectations about unemployment change very little when consumers consider future changes to inflation and interest rates.
7. Finally, changes in beliefs about future interest rates and inflation are influenced by

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whether consumers think that the present is a good time to purchase durable goods. In other words, people become more focused on future rates when they have a current purchase goal in mind.

For central bankers, these findings are important as monetary policymakers not only consider the effectiveness of forward guidance as a policy tool, but especially as those policymakers also hope to make forward guidance a standard tool in the policymaking toolbox.

"Inflation special in Aisle 9"

When it comes to inflation and inflation expectations, one vexing problem for researchers and policymakers is households' beliefs about the likely course of future inflation rates. As with forward guidance, policymakers care about household perception of inflation because central banks set monetary policy, in part, on their assumptions about how households will react to a change in policy. This household puzzle involves the differences between genders. To the point: why do women and men differ on their perception of current and future inflation rates?

To be fair, both genders err on the upside when considering future inflation, but women's expectations tend to aim significantly higher, about 0.5 percentage points. To solve this puzzle, the authors constructed a data set based on thousands of surveys that is the first to establish gender expectations within households. Surprisingly, their answer is that the gender expectations gap actually has nothing to do with gender and everything to do with who does the grocery shopping. Whoever is charged with grocery shopping in a household is exposed to price signals on a regular basis, and such exposure tends to give that person an upward bias when it comes to prices. Since women, on average, complete roughly 80 percent of grocery shopping in households with children (and 68 percent in households without children)[3], they regularly confront price signals that likely influence inflation expectations.

This keen and seemingly simple explanation to a long-time puzzle has important implications, as 0.5 percentage points is fully one-quarter of the Federal Reserve's target of 2 percent inflation. Beyond monetary policymaking, the disparity in inflation expectations among genders suggests that women, on average, could be influenced to spend more than they save. Over time, this prevalence for spending over saving could result in less retirement savings.

Conclusion

When central bankers conduct monetary policy, they expect—or at least hope—that households will react in a certain way, at least on average. Without these assumptions about consumer behavior, policymakers would, in effect, be aiming in the dark. This is true, for example, when the Federal Reserve makes traditional monetary policy moves, like raising or lowering interest rates, to meet its inflation target; and it is also true when the Federal Reserve tries to employ non-traditional policy techniques like forward guidance, where it hopes to influence expectations about future rates. The more policymakers understand about consumer behavior and expectations, in other words, the better.

This new research offers new insights into these questions, by revealing that consumers generally are not good at processing information about future interest rates and inflation for periods longer than 12 months into the future. We simply fail at making connections among various economic indicators and projecting too far into the future. Further, our understanding of inflation

[3]A Pew Research Center (2019) analysis of the 2014-2016 BLS American Time Use Survey available here: https://www.pewresearch.org/fact-tank/2019/09/24/among-u-s-couples-women-do-more-cooking-and-grocery-shopping-than-men/ft_19-08-28_genderchores_1/ .

CLOSING TAKEAWAY

The gender expectations gap actually has nothing to do with gender and everything to do with who does the grocery shopping, that is, traditional gender norms. Whoever is charged with grocery shopping in a household is exposed to price signals on a regular basis, and such exposure tends to give them a somewhat distorted view of prices. Since women, on average, complete roughly 80 percent of grocery shopping in households with children (and 68 percent in households without children), they regularly confront price signals that likely influence inflation expectations.

rates is shaped to a large degree by our regular encounters with price signals. The more prices we see—in particular, the more grocery shopping we do—the more likely we are to think that inflation is higher than it really is.

These findings not only have important implications for monetary policymakers, but also offer insights into other consumer behavior, including why women—who do the majority of household grocery shopping and therefore have an upward bias toward inflation—might spend more and save less over time.

READ THE WORKING PAPERS

NO. 2020-07 · FEBRUARY 2020

Forward Guidance and Household Expectations

bfi.uchicago.edu/working-paper/202007

NO. 2020-11 · FEBRUARY 2020

Gender Roles and the Gender Expectations Gap

bfi.uchicago.edu/working-paper/202011

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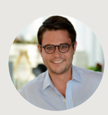

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