

Discussion

A KISS for central bank communication in times of high inflation

Saskia ter Ellen

SNB Research Conference; 30 September 2023

Authors' Research Question(s)

- Does central bank communication affect households' inflation expectations? How?
 - Which forms of communication are most effective in stabilizing households' inflation expectations?
 - How should a policy maker's message be designed to convey its content to the public in the most effective way?

First impression

- Very cool paper with many important findings and policy implications.
- Neat identification through randomized control trials.
- Data allows for even more analysis.
- But also: what are the real lessons for monetary policy communication?

Survey & Sample

- Paper utilizes the “Bundesbank Online Panel Households” (BOP-HH)
 - Two waves with treatments: March and October 2022
 - approximately 5000 German households are surveyed
- Randomized Control Trials (RCTs) to elicit impact of ECB communication on term structure of household inflation expectations.
 - Probabilistic assessments.
 - March 2022: numerical and verbal treatments
 - October 2022: numerical, verbal, and visual treatments AND questions about inflation awareness and information sources.

Treatments

- "The information provided to the participants is entirely genuine ECB/Eurosystem communication"
- Information is not new: joint hypothesis problem?
 - Insignificant treatment effect could mean the respondents are already informed.
- Describe the potential "messenger effect". (Nagel vs. Lane vs. Schnabel)
- Description of treatments could be improved.
 - Full disclosure of treatments in appendix and better structured description in text.
 - What exactly does the control group do/see?
- Graphs: how familiar is the average respondent with reading a graph?

Main finding

- "Words speak louder than numbers, but a picture is worth a thousand words."
- Positively framed communication more effective at bringing down inflation expectations than "speaking the truth about inflation prospects".
- This might be true in the short run..
- ..but what about households' trust in the ECB in the long run?
- e.g. your own paper (Hoffmann et al. 2022) shows that individuals with medium-high trust in ECB are most receptive for information.

Authors' Research Question(s)

- Does central bank communication affect households' inflation expectations?
 - No.
 - The information they see is old news.
 - If central bank communications works, your treatments would not have had any effect.
 - But maybe it would if central bank communication would actually reach households..

Policy implications

- The real policy implication (open question): how to reach households?
- Given the main channels that households use to learn about inflation/ECB (TV and newspapers)..
 - Should central banks focus on these channels (and messages that are easily "taken over" by the media)? Lagarde on tv more often?
 - ..or should central banks focus on reaching the public directly?
- And when households are reached, what kind of policy message is most effective (answered in this paper)?

Inflation (in)attention

- "Subjects seem to be more susceptible to information provision [in the October wave], given their increased attention to inflation developments [..]"
- When attention to inflation is higher, does one expect respondents to react stronger (i.e. be more susceptible) or less strong to information treatments?
 - This paper suggests "stronger".
 - Weber et al. (2023) "show that as inflation has recently risen in advanced economies, both households and firms have become more attentive and informed about inflation, leading them to respond less to exogenously provided information about inflation and monetary policy."

Inflation awareness and information sources

- Perhaps beyond the scope of this paper, but..
- How are inflation awareness, information sources, and inflation expectations linked?
- Are individuals who report to learn about inflation/ECB from the ECB directly more aware about inflation? How does this impact (the accuracy of) their inflation expectations? Their confidence in them?

Some other suggestions

- Do another survey this year and next, to pick up changes in environment and get an idea of long term effects.
- Use the information from media use to learn more about the effectiveness of the treatments. (e.g. are individuals who use central bank offers directly to learn about inflation/ECB less responsive to the treatments?)
- Discuss the potential differential effects one could observe in Germany versus other euro area economies. e.g. experience with high inflation.

Some minor comments

- 47% reports to hear about ECB decisions on the same day (!).
- 30% of respondents use only one bin. Interpretation? Overconfidence, lack of understanding, lack of interest, ..
- Different bins between March and October surveys. Potential effects? Group them for visual comparison.
- Show actual inflation at the time the surveys were taken.
- Can you show a baseline measurement? How high were inflation expectations in low inflation regime?
- What are the effects of socio-economics controls?

Keep it Simple, Stupid

Conclusion

- Very nice paper with many interesting results.
- Data set offers potential for even more interesting results.
- But rethink some of the interpretations and policy implications.