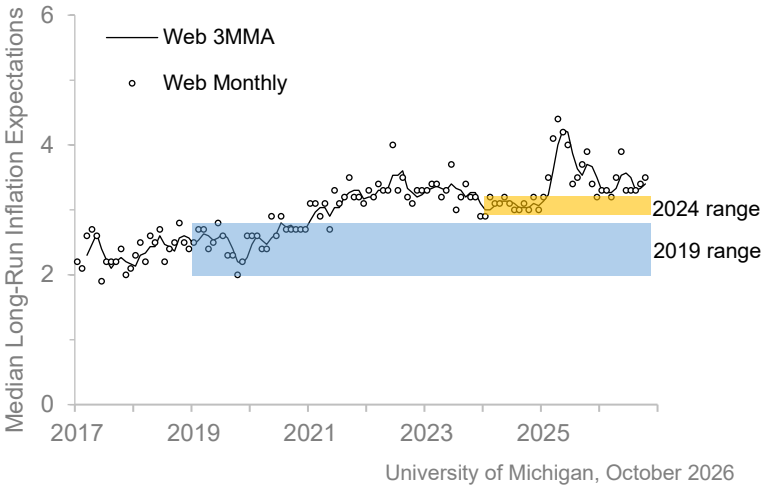
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Risks of Entrenchment: Long-Run Inflation Expectations in Recent and Longer Historical Context

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Figure 1: Median long-run expectations ticking up; remain well above 2024 and 2019 ranges



After five years of above-target inflation, both short- and long-term inflation expectations have ticked up in recent months, exposing risks that elevated inflation expectations could become entrenched. This report presents recent trends in long run expectations in comparison to historical readings from the 2017-2024 parallel web data collection to fully contextualize expectations over the last ten years in a methodologically consistent manner.[1] Post-pandemic inflation expectations echo patterns seen in the initial inflationary episodes of the 1960s and 70s as consumers internalized higher inflation expectations over the course of a series of supply shocks. The adoption of inflationary psychology would lead consumers to shift purchases to the present to avoid higher prices in the future. En masse, robust "precautionary" spending would generate further upward pressure on inflation, with elevated inflation expectations becoming self-fulfilling. The entrenchment of elevated inflation expectations and proliferation of inflationary psychology may not be inevitable, but interviews with consumers and the historical record both suggest that risks are present.

Figure 1 displays median long-run inflation expectations drawn from web interviews (dots represent monthly data; the solid line displays the three-month moving average; the blue and orange boxes represent the range of monthly values seen in 2019 and 2024, respectively).[2] Expectations were stable in the years leading into the pandemic, consistent with the long, extended period of stable inflation after the spike seen during the Global Financial Crisis. Expectations worsened modestly mid-2022 around the time that realized inflation peaked. Expectations softened thereafter through October 2024. **Notably, the 2024 softening failed to return inflation expectations to its pre-pandemic, pre-inflationary range; current readings are even higher still.**

Expectations in the past two years were shaped by two supply shocks in short succession. Inflation expectations climbed sharply amid the early 2025 escalation of tariff policy that resulted in the highest tariffs in over a century. As tariff developments subsided from its peak, and consumers' fears of worst case scenarios did not come to fruition, expectations then declined through the rest of the year. **This easing did not last; inflation expectations reversed course again in 2026 as the Iran conflict lengthened and energy prices continued to soar.**

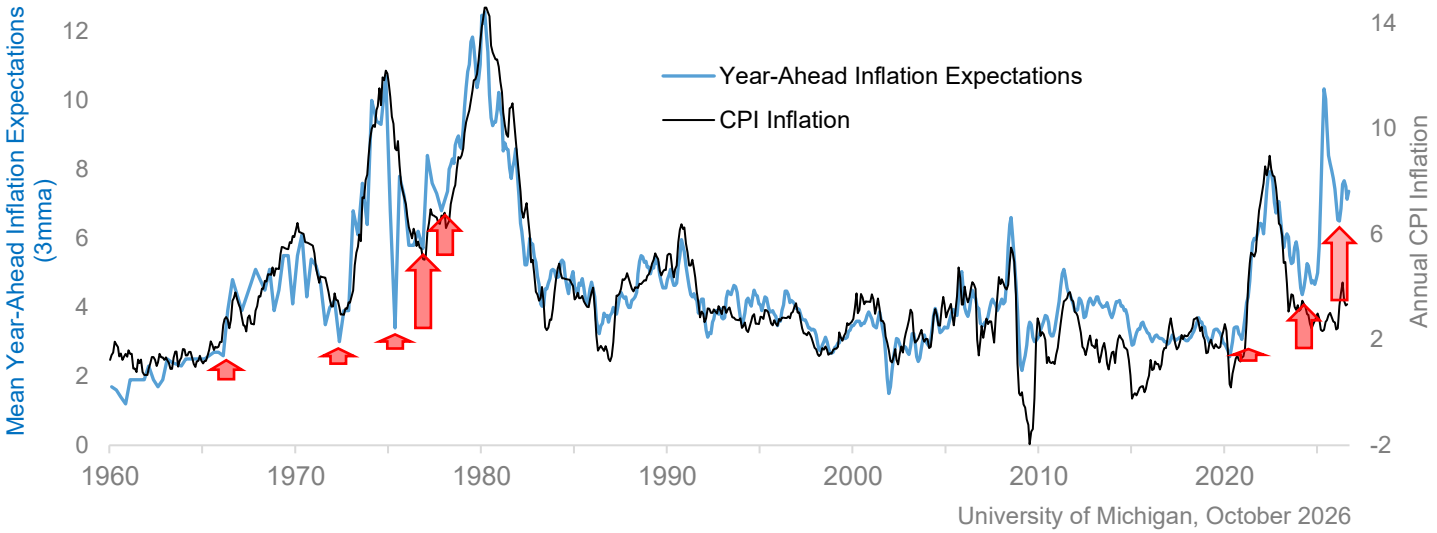
Median expectations rose in May, moderated somewhat over the summer concurrently with a de-escalation in fuel prices, but reversed course and ticked up in September and October 2026. **Current readings well exceed the range seen in 2024, when realized inflation was trending down but remained above the Fed's target, as well as readings from 2019, when realized inflation was at or below the Fed's target.** The fact that inflation expectations are currently picking up suggests that consumers do not expect meaningful disinflation for the foreseeable future.

[1] Inflation expectations estimates from the parallel web interviewing data collection were first published in "Current versus Pre-Pandemic Long-Run Inflation Expectations," October 25, 2024.

[2] Note that average monthly sample sizes were a much smaller 209 in 2019, 877 in 2024, and well over 1,000 in 2026. All results in this report are strengthened if comparing recent results to the narrower range of 3-month-moving average values in either year. All results also hold if comparing recent results to the historical official data collection (via cell phone interviewing through mid 2024, monthly sample size of about 600).

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Figure 2: Like the 1960s-80s, post-pandemic inflation expectations have ratcheted up to successively higher troughs



The historical record from the Great Inflation period of the 1960s-1980s illustrates some of the risks present today, reflected by the fact that inflation expectations remain less favorable than they were during the 2024 disinflation that failed to reach target. Figure 2 presents year-ahead inflation expectations (thick blue line), which enables a longer time series comparison going back to the 1960s, along with year-over-year CPI inflation (thin black line).[3]

Multiple inflationary episodes in the 1960s to 1980s occurred amid a series of supply shocks: the closure of the Suez Canal in 1967, the 1973 oil embargo, and the 1978-1979 Iranian Revolution.[4] During each of these inflationary episodes, inflation expectations surged then eventually ebbed with disinflation. Critically, each decline in expectations bottomed out before reaching the level seen prior to that episode (red arrows). **With each successive inflationary episode, the trough in expectations was higher than the one prior; each successive escalation in inflation expectations began from a higher base than the episode prior and surged to a higher peak.** These patterns likely set the stage for an entrenchment of elevated expectations and the proliferation of inflationary psychology that began gradually in the initial years of the Great Inflation, ratcheting up with each additional inflation shock. By the peak of the 1980s episode, consumers had already adjusted to about 15 years of repeated bouts of inflation, and extraodinary measures were required in the 1980s to bring down inflation in a lasting manner.

While some contemporaneous commentaries in 2022 drew comparisons to the final episode of the Great Inflation era, the more appropriate analogue would have been the initial bout in the late 1960s. The post-pandemic inflationary episode followed an extended period of remarkably low and stable inflation; previous bouts of inflation were a distant memory, even for older consumers. Under those circumstances, consumers were likely less vulnerable to adopting inflationary psychology. Lower reactivity of inflation expectations following extended periods of low inflation, as seen both in the GFC-to- pandemic period as well as most of the 1960s, with higher reactivity after inflationary periods, are consistent with a model of experienced-based learning.[5]

[3] Long run inflation expectations were not consistently elicited until 1981, precluding a comparison to the Great Inflation period.
[4] This list is nonexhaustive and omits demand shocks. For a discussion, for example, Alan S. Blinder and Jeremy B. Rudd, "The Supply-Shock Explanation of the Great Stagflation Revisited," Chapter 2 in *The Great Inflation: The Rebirth of Modern Central Banking*, ed. Michael D. Bordo and Athanasios Orphanides (University of Chicago Press, 2013).
[5] See Ulrike Malmendier and Stefan Nagel, "Seemingly anchored inflation expectations," *Journal of Monetary Economics* 2026

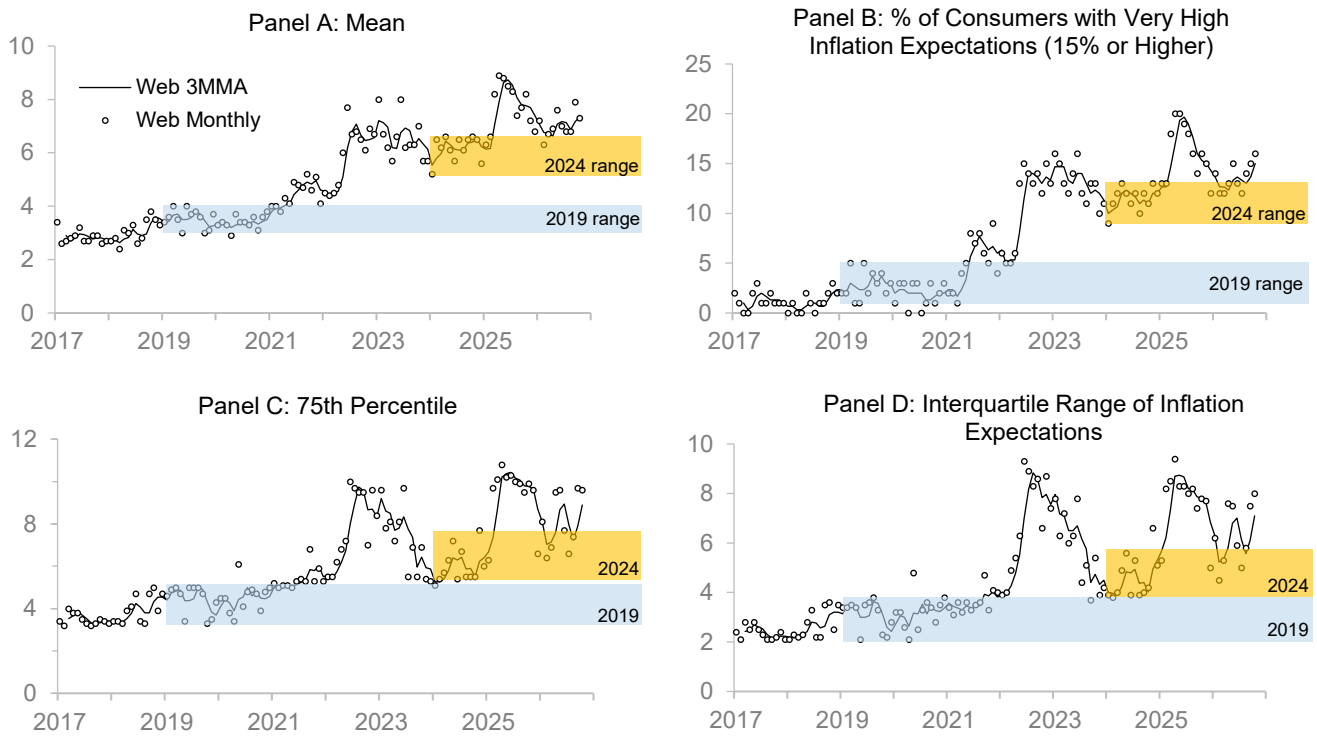
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The present situation in 2026 is very different; the 2022 episode has been followed by two major, successive policy shocks that consumers broadly perceive as inflationary. Moreover, many believe the shocks and their consequences will persist. There is little evidence from interviews that consumers conceptualize tariffs and oil price shocks as yielding one-time step-ups in price levels, rather than ongoing inflation.[6] Indeed, consumers broadly expect inflation to accelerate, and this year's increases in inflation expectations are not limited to one part of the political spectrum. The fact that aggregate consumer spending has been relatively resilient despite negative views of the economy provides another reason for caution. If part of consumption currently reflects precautionary spending to avoid future price hikes, disinflation may be even more difficult to achieve.

Appendix

The general pattern of recent inflation expectations being higher than 2024 and 2019 ranges are visible in other features of long-run inflation expectations. Mean expectations (Figure 3 Panel A) have broadly decreased from April 2025 peaks but have remained well above the 2024 range throughout 2026. Note that the bottom of the 2024 range of means was more than 1.5 percentage points above the top of the 2019 range. The most recent few readings of 75th percentile and the percent of consumers with very high expectations are both higher than 2024 and 2019 ranges, indicating that expectations of upper tail inflation are elevated as well (Panels B and C). A high level of uncertainty underpins these elevated inflation expectations. The interquartile range, a measure of inflation uncertainty (Figure 3 Panel D) also sits well above 2024 and 2019 ranges.

Figure 3: Other features of recent long-run inflation expectations exceed 2024 and 2019 readings



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[6] That said, more-educated consumers tend to hold lower inflation expectations than less-educated consumers, though there isn't direct evidence that this reflects beliefs about one-time step-ups in price levels versus higher inflation.

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