Expected Inflation and Household Expenditure: 
Evidence from Pseudo-panel data in Japan†

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Abstract

This paper examines to what extent a rise in expected inflation rates can stimulate the household expenditure under the prolonged zero lower bound on nominal interest rate in Japan. To do so, we match three micro datasets and construct the quarterly pseudo-panel data. After conducting a suitable adjustment for durable expenditure, the fixed effect estimation reveals that quarterly total expenditure increases by 11,930–14,779 yen or 1.0–1.4% in response to a one percentage point rise in expected inflation rates during the next twelve months. We also find that durable expenditure is the most responsive to expected inflation rates whereas no evidence is found that non-storable non-durable expenditure is influenced by expected inflation rates. The estimation with lagged expected inflation rates also indicates that a stimulative effect of temporarily elevated expected inflation rates is largely offset by reactionary expenditure decline in a few quarters, implying the importance of intertemporal substitution channel in the transmission of unconventional policies.

Keywords: Inflation expectations, household expenditure, zero lower bound, unconventional policies

JEL Classification: D84, E21, E43, E52

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