

Inflation Expectations in Japan: Forecast revision and forecast trends

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Abstract

Inflation expectation is one of the most essential components of monetary policy decisions. Upon examining Japanese inflation expectations between 1991:Q4 and 2025:Q1, we propose a modified empirical model that includes a forecast trend term in addition to the forecast revision term. We found that the forecast trend term affects the forecast errors. The full sample results indicate that people in Japan form non-rational expectations with information rigidity. However, this holds only in the recent episode of inflation following the post- COVID period. During the zero-inflation periods, people formed full-information rational expectations. In addition, we find evidence that consumption tax hikes affect the forecast errors, partly due to the uncertainty about future implementation. In both periods, the possibility of deviating from rational expectations cannot be ruled out.