READ ME FILE

Title: How Do Households Form Inflation and Wage Expectations?

Authors: Anthony Brassil, Yahdullah Haidari, Jonathan Hambur, Gulnara Nolan and Callum Ryan

Description

This 'read me' file contains information on the files used to generate the results presented in RDP 2024-07. The data used to plot the figures appearing in the paper can be found in the spreadsheet 'rdp-2024-07-graph-data.xlsx'.

All our analysis was done using Stata 18 and Matlab 2024a. To help users to more easily replicate our work we have included files in 'code'. Household-level data cannot be provided as they are confidential unit record data obtained from the Melbourne Institute.

Please note, our codes are distributed as is, without warranty, and are solely for replicating our results. Any alternative use of our codes is not supported.

Code

Set of codes to produce descriptive statistics, regression results as well as the model output. Requires access to the Melbourne Institute Consumer Survey data for results.

Stata do files

- *1_Setup.do:* this code cleans data and sets up variables for analysis microdata
- *2_Tables&Graphs.do:* this code produces the descriptive statistics and regression tables and figures in Sections 3 and 4
- *3_Regressions.do:* this code estimates the effects of demand and supply shocks on expectations and the tables and figures found in Section 5 and Appendix A
- *4_Subgroup_stats.*do: produces statistics by subgroups, presented in 'subgroups_data_new.xls'.

Matlab files

There are three main scripts that produce the results for Section 6 of the paper:

- *infl_exp_results.*m: produces the inflation expectations results in Section 6.2, i.e. Table 4 and the data for Figure 11
- *wage_exp_results.m:* produces the wage expectations results in Section 6.2, i.e. Table 5 and the data for Figure 12
- *salient_price_results.m:* produces the results in Section 6.3, i.e. Table 6 and the data for Figure 13.

To generate the results, run the relevant script. You can run each script in sections, but you first need to run the first section to load and prepare the data. This section calls *load_data.m*, which will load all the input data from the 'data' folder and clean it.

The 'functions' folder contains the functions that estimate the models and calculate and plot predicted values.

Data

Input files:

- AllQData.dta: cpi, gdp, unemployment rate, fuel and oil supply shock used in Figures 10 and A1
- col_data.xlsx: ABS cost of living indices for robustness check

- early_fc_data.xlsx: RBA inflation forecasts from pre-2004
- housing_lending_data.xlsx: housing lending rates data used for robustness check; standard owner-occupier variable bank rates from RBA statistical table F5 Indicator Lending Rates
- infl_data.xlsx: quarterly ABS CPI data and CPI sub-components; also includes cash rate (IR)
- infl_perceptions_data.xls: aggregated inflation perceptions data; 'infp_certain' series excludes rounded responses constructed using expectations microdata
- Macro data for local projections.dta: data used for local projections on monetary policy shocks, includes variables
  - beckers: Beckers (2020) shock measure, not accounting for cash rate expectations
  - beckers_aug: Beckers (2020) shock measure, accounting for cash rate expectations – preferred
  - cpi: consumer price index – ABS data
  - gdp: real gross domestic product level – ABS national accounts
  - ur: unemployment rate – ABS data
  - cr: cash rate changes – RBA statistical table F1.1 Interest Rates and Yields – Money Market – Monthly
- rba_forecasts_cpi.xlsx: RBA's headline inflation forecast; 'latest_fc' tab has forecasts from May 2024 SMP – this data is not published externally for confidentiality reasons, but the tab remains for the code to run
- rba_forecasts_wpi.xlsx: RBA's wage price index forecast
- rounds_only_data.xls: inflation expectations data with rounded (multiples of 5 and 10) responses only, constructed from microdata
- subgroups_data_new.xls: aggregated inflation expectations data; 'mean' tab is aggregate; 'age_group', 'income' and 'housing' tabs break down by subgroup; 'trimmean' tab gives 30% trimmed mean of aggregate; all constructed from microdata
- wage_exp_data.xls: aggregated wage expectations data; 'trimwexp' series is trimmed mean; 'wexp_no_zero' series excludes zero responses; all constructed from microdata
- wperc_data.xlsx: wage perceptions data without zero responses; all constructed from microdata
- wpi_data.xlsx: quarterly wage price index data, includes bonuses; all constructed from microdata.

References

Beckers B (2020), 'Credit Spreads, Monetary Policy and the Price Puzzle', RBA Research Discussion Paper No 2020-01.

16 October 2024