Consumers' Beliefs About the Federal Reserve's Inflation Target

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Abstract

We study consumers' beliefs about the Federal Reserve's inflation target in a large-scale consumer survey based on observations starting in 2020 and running through 2025. While the modal response aligns with the FOMC's actual long-run inflation objective of 2%, most consumers believe the target is higher. There is substantial variation in consumers' beliefs about the inflation target when looking across time, geography, and demographic characteristics. Consumers who believe the Federal Reserve is more credible in terms of its ability to achieve its dual mandate objectives do not uniformly believe in a lower inflation target; however, consumers who perceive a low level of credibility believe that inflation will run farther above the target than high-credibility consumers.

Keywords: Inflation; Communications; Monetary policy; Surveys

JEL Codes: E31, E52, E58

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1. Introduction

Over fifty countries have adopted some form of inflation targeting since New Zealand first implemented such a target in 1990.[1] In the United States, the Federal Open Market Committee (FOMC) first adopted a 2 percent longer-term inflation objective in January 2012.[2] In August 2020, the FOMC reaffirmed this 2 percent longer-term inflation goal. At the same time, and in part to ensure that long-term inflation expectations remained anchored at 2 percent amid the potential for extended periods at the zero lower bound, the FOMC also adopted a flexible form of average inflation targeting where persistent downside misses from the target would subsequently be followed by moderate inflation overshoots.[3]

This paper assesses the general public's knowledge and understanding of the FOMC's inflation target using a large-scale, multi-year survey of consumers across the United States. Rather than inferring their beliefs about the inflation target from their long-run inflation expectations, we asked consumers directly for the rate of inflation they believe the FOMC tries to achieve in the longer run. The modal response aligns with the FOMC's 2 percent target. But this response was given by only about one in five consumers. The vast majority believed the Fed's inflation target was higher. Unlike consumers' short-run inflation expectations over our sample period that stretched from 2020 through 2025, the perceived inflation target was generally stable on average, hovering between 4 and 5 percent in 2020 before rising to between 5 and 6 percent between 2021 and the end of 2023. It had declined to roughly 5 percent in late 2024 and into 2025.

In addition to this time variation, we document a considerable degree of heterogeneity in consumers' beliefs about the inflation target across various respondent characteristics. Male, high earning, and older consumers on average perceived a *lower* inflation target. Primary household grocery shoppers, consumers who identified as non-white, and the most highly educated consumers in our survey perceived a *higher* target. Some of these beliefs vary over time with the macroeconomic environment, consistent with earlier work studying attention to inflation and monetary policy (Bracha and Tang (2024); Hajdini et al. (2025)). Notably, we also find significant geographic heterogeneity in the perceived inflation target at the state level that is stable neither across time nor within a given state. This finding poses a challenge to approaches that exploit

[1] https://www.centralbanknews.info/p/inflation-targets.html
[2] See https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals_201201.pdf.
[3] See https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm

cross-sectional variation across geographic regions while assuming that beliefs about the inflation target are homogeneous throughout the United States or constant across regions to estimate key relationships, such as the Phillips curve as in Hazell et al. (2022).

We then combine our question on the perceived inflation target with one-year and five-year inflation expectations to obtain individual consumers' one-year and five-year expected inflation gaps, respectively. Importantly, these measures are not distorted by an individual's lack of information about the inflation target, whether from inattention or general lack of knowledge; they provide a measure of how much the individual believes inflation will differ from the Fed's target over different horizons. While the one-year expected inflation gap rose considerably on average alongside inflation in 2022-2023, the five-year gap rose by far less on average. Thus, the typical consumer viewed inflation misses during this period as likely to be relatively short-lived.

Both the short-run and longer-run expected inflation gaps are closely linked to how credibly consumers view the Federal Reserve's ability to achieve its dual mandate objectives. Respondents who reported a low level of Fed credibility also reported large inflation gaps, at both a one-year and a five-year horizon; respondents who reported high credibility saw a small or negative gap over one year, and negligible gaps over five years. This finding holds even after conditioning on a consumer's general concern about inflation. Together, these results suggest that although consumers may not be well-informed about the inflation target itself, they nonetheless appear to understand the essence of inflation targeting at a conceptual level: a highly credible central bank will work to bring inflation to target, especially over a longer horizon.

Our findings contribute to the broader literature on central bank communications and opportunities to further inform the general public about key policy objectives. *To be continued…*

1.1 Related Literature

This paper contributes to a vast literature that has shown that households are generally inattentive to monetary policy and are largely uninformed about it; see Blinder et al. (2024) for a review. Hajdini et al. (2025) find that most consumers are inattentive to monetary policy, and Coibion et al. (2020, 2022) show only a quarter of households could correctly identify the FOMC's 2 percent inflation target, with many believing the target was much higher. Similar inattention and un-informedness is evident in household survey data from the Euro area (see, e.g., van der

Cruijsen, Jansen, and de Haan (2015); Christelis et al. (2020)) and even in surveys of firms (Kumar et al. (2015); Coibion, Gorodnichenko, and Kumar (2018)).

These findings stand in contrast with the predictions of earlier work (e.g., Orphanides and Williams (2007)) predicting that the credible announcement of a numerical inflation target would bring longer-run inflation expectations in line with the explicit target. Instead, although the FOMC's announcement of an explicit 2 percent inflation target in 2012 helped anchor the long-run inflation forecasts of professional forecasters, it had little to no effect on the long-run expectations of households (Binder (2017)). The subsequent adoption of average inflation targeting in August 2020 also went largely unnoticed; even among the few who had heard about it, even fewer understood what it meant (Coibion et al. (2023)).

It is not, however, that consumers simply cannot understand the inflation target itself. For example, Binder and Rodrigue (2018) find that consumers do indeed revise their long-run inflation expectations toward the inflation target when provided with a brief description of it. Given that this information is already freely-available, the response of consumers' long-run inflation expectations to information about the target yet again suggests that consumers form expectations with imperfect information about monetary policy. Rational inattention offers one explanation for why consumers remain largely unaware of the inflation target. For one reason or another, many households do not consider it important to pay attention to monetary policy (see, for example, van der Cruijsen, Jansen, and de Haan (2015); Hajdini et al. (2025)). Moreover, even those who wish to be informed about monetary policy may nonetheless struggle to understand the contents or voice of central bank communications; Hernandez-Murillo and Shell (2014), for example, estimate that central bank communications often require a college degree to read.

A related issue is the role of the central bank's credibility in the formation of households' inflation expectations, as simply being informed about the inflation target does not necessarily anchor expectations unless the target is credible. For example, although the distribution of long-run inflation expectations of Japanese households who were aware of the Bank of Japan's 2 percent inflation target was much more concentrated around 2 percent, a non-trivial share of these informed households nonetheless expected deflation or inflation well in excess of its target (Nakajima, Nishiguchi and Imakubo (2014)). Christelis et al. (2020) show that consumers with greater trust in the central bank tend to have relatively lower inflation expectations, even when inflation is above its target; they also form more accurate and less uncertain forecasts, even when

controlling for knowledge about monetary policy. Other work, however, has stressed that the relationship between credibility, inflation expectations, and inflation itself is a dynamic one. Coleman and Nautz (2023, 2025) find that credibility rises most when inflation is brought from an elevated level back down to its target; restoring inflation back up to its target from below has little impact on credibility.

Finally, other work has studied the perceived inflation target in connection to bond prices, suggesting an important role for the perceived target in determining longer-term bond rates (see, for example, Kozicki and Tinsley (2001a, 2002); Doshi, Jacobs, and Liu (2018). Related work has produced estimates of the perceived and implicit[4] inflation targets over time, finding considerable variation in both the perceived and implicit targets, even since the adaptation of inflation targeting by the Federal Open Market Committee in 2012 (e.g., Kozicki and Tinsley (2005); Ireland (2007); Diegel (2022)). In contrast to these papers, we directly observe consumers' perceived inflation target, and do so separately from their long-term inflation expectations, allowing us to contribute a directly-observed time series of the inflation target as perceived by consumers to this literature.

2. Data

2.1 Survey Background

Our sample contains over 75,000 responses collected via a daily online survey of consumer expectations administered by Qualtrics Research Services on behalf of the Federal Reserve Bank of Cleveland (see Knotek et al. (2020, 2024); Coibion et al. (2023)). Respondents are representatively drawn from several actively managed, double-opt-in market research panels, complemented using social media (Qualtrics 2019). The survey has been conducted daily since the onset of the COVID-19 pandemic in March 2020. In the survey, consumers are asked a variety of questions about their demographic characteristics, economic expectations, and their exposure to news about monetary policy and the economy.[5]

In this paper, our primary focus is on three key questions: their beliefs about the Federal Reserve's inflation target and their one-year and five-year inflation expectations. While the survey

[4] That is, the inflation target implied by the behavior of the monetary authority, which may be distinct from an announced (explicit) target.

[5] The survey has included several different questions at different points in time, but a representative survey questionnaire is provided in Appendix A.

has always elicited respondents' one-year inflation expectations, the questions that obtain their five-year expectations and their beliefs about the inflation target have not consistently been included in the survey. Our sample, therefore, comprises four sample periods: August 2020 through November 2020; August 2021 through January 2022; March 2022 through February 2024; and August 2024 through July 2025.[6] Together, these four subsamples comprise 92,325 responses. The number of responses per day varied over the course of our sample, but averaged about 131 responses per day with a median of 100.

2.2 Weighting and Response Quality

Our survey sample is a large, representative, and reasonably high-quality sample of the US adult population, but, like many other surveys (e.g., the Federal Reserve Bank of New York's Survey of Consumer Expectations), is somewhat more highly-educated and younger than the over-18 US population. We construct survey weights via raking to bring our sample in line with target population proportions sourced from the 2019 American Community Survey across gender, income, age, education, race, ethnicity, and region. These weights are constructed over the full sample, so that our full-sample results are estimated on a representative sample. Omitting these weights from our analysis has little impact on our results, however.

We drop or otherwise alter as few responses from our sample as possible.[7] We drop 2,581 respondents whose total survey response time was less than 6 minutes (approximately the 1st percentile) in addition to 1,090 respondents who took more than 45 minutes to complete the survey (approximately the 99th percentile), as the response quality of such respondents is typically poor, owing to rushing through the survey or simply forgetting about it. We also drop a relatively small fraction of respondents who chose not to report their race and/or gender (N=1,516), given the importance of observing these demographic characteristics for our analysis. Dropping these respondents leaves 87,727 responses in our main sample. Before removing these respondents, the

[6] The precise start and end dates for each subsample period, as well as their sample sizes, are given in Appendix Table B1.

[7] Both the question asking for the respondent's beliefs about the inflation target and the question eliciting their long-run inflation expectation appeared after various information treatments in certain periods of our sample. Since their responses to these questions have been contaminated by the information provided in the treatment, we exclude all respondents who were assigned to a treatment group from our analysis.

average respondent completed the survey in 15.7 minutes, with a median response time of 12.5 minutes; 95 percent of respondents took less than 31 minutes to respond to the survey.

2.2 Main Survey Questions

We measure respondents' inflation expectations at both the one-year and five-year horizons in a two-part question. Using the one-year question as an example, we first ask "Over the next 12 months, do you think that there will be inflation or deflation? Please give your best guess." Depending on the answer, the respondent proceeds to a follow-up question asking for a numerical estimate: "What do you expect the rate of inflation (deflation) to be over the next 12 months?" We then adjust responses to this question to be negative for those who selected deflation in the first part of the question, and positive for those who selected inflation. Respondents are asked for their one-year expectations near the start of the survey, while their five-year expectations are elicited closer toward the end.

Approximately midway through the survey, between these questions about their inflation expectations, respondents are asked: "What rate of inflation do you think the Federal Reserve tries to achieve in the longer run?" This question serves as our measure of respondents' beliefs about the Federal Reserve's inflation target.

Later, shortly after eliciting five-year inflation expectations, consumers are asked to "rate the credibility of the Federal Reserve in terms of its ability to achieve maximum employment and stable prices" using a slider between 0 and 100, with 0 indicating "very low credibility" and 100 indicating "very high credibility." Finally, we also ask consumers about their news consumption and awareness of the macroeconomic environment. To this end, we ask how often they get news about the economy, whether they heard any news about the Federal Reserve or monetary policy in the last week, and how they believe interest rates have changed over the last 12 months.

To deal with outliers, we winsorize inflation expectations at both horizons and the perceived inflation target at the 1st and 99th percentiles within each month, and use these data in Huber-robust regressions. The median expected inflation rates were 5 percent at both the one-year and five-year horizons, with the 25th percentile at 2 percent for both horizons and the 75th percentile at 15 for the one-year horizon and 12 percent for the five-year horizon. Approximately 19 percent of respondents expected deflation at each horizon; among these, 61% and 69% expected deflation between zero and 10 percent at the one- and five-year horizons, respectively. The median

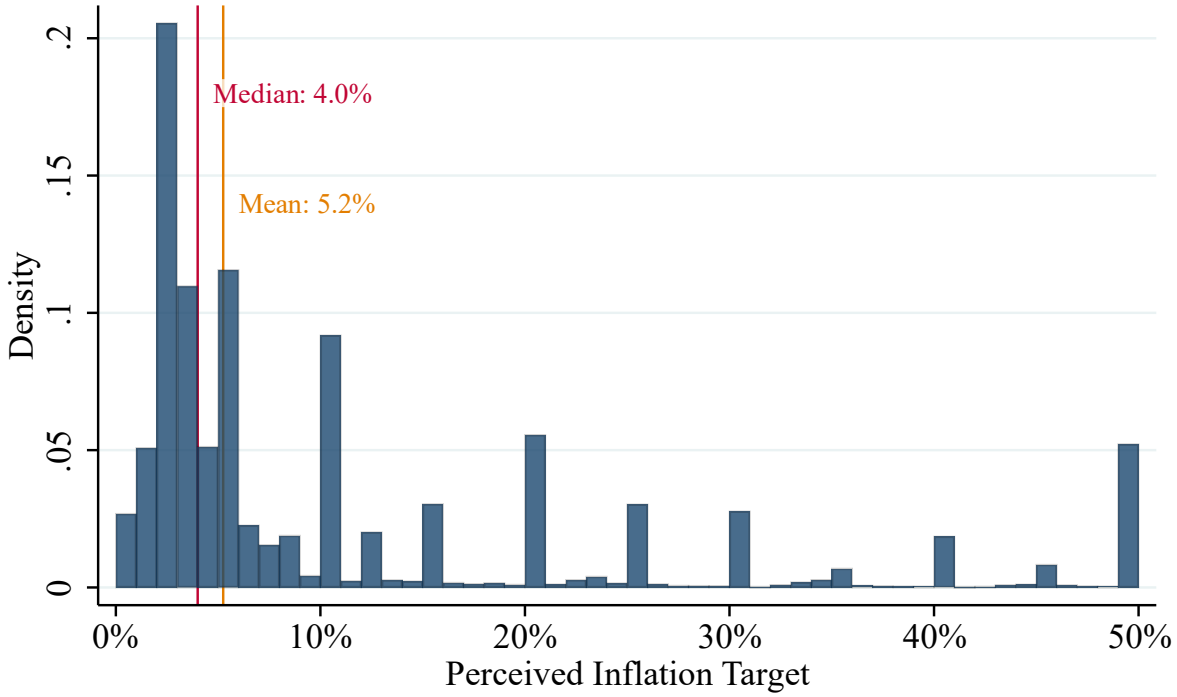
respondent perceived a 5 percent inflation target, with the 25th percentile at 2 percent and the 75th at 20 percent.[8]

3. Consumers' Beliefs About the Inflation Target

3.1 Characteristics of Consumers' Beliefs

Figure 1 shows the distribution of responses to the perceived inflation target. Although there is a clear mode at two percent, the median and mean consumers believe the target to be 4 and 5.2 percent, respectively, and there is considerable disagreement among consumers.

Figure 1: Distribution of the Perceived Inflation Target



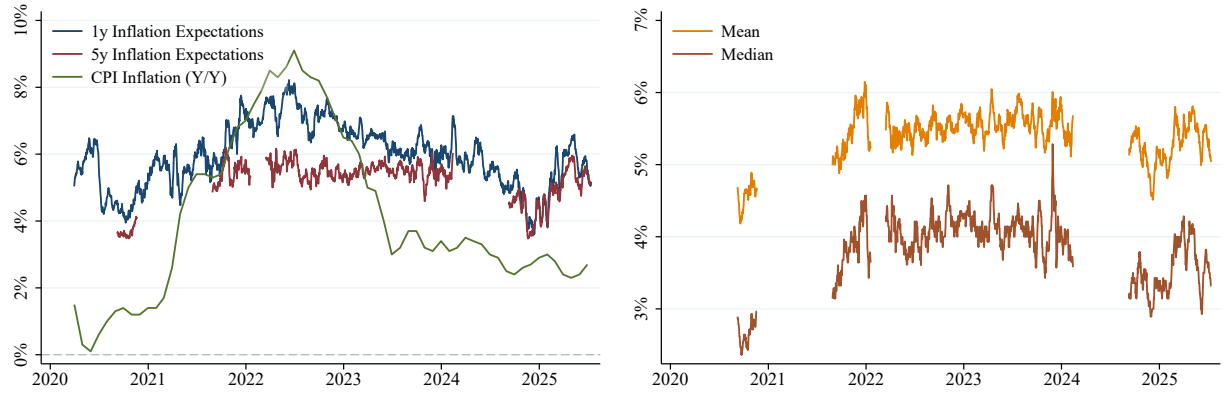
Notes: Includes 80,901 observations of the perceived inflation target. 12 responses less than zero and 6,814 responses greater than 50 are not shown. Response density is relative to the responses included in this figure, and not to the overall sample. Both the mean and median are calculated using Huber weights and include all observations, even those not shown here.

Importantly, this distribution has not remained constant over time, as Figure 2 shows. The mean perceived inflation target rose from about 4.5 percent in late 2020 to approximately 6 percent

[8] A summary table showing the (Huber-weighted) mean expected inflation rates, perceived inflation targets, and expected inflation gaps is provided in Appendix Table B2.

in early 2022, with the median similarly rising from just below 3 percent to about 4.5 percent. Both the mean and median remained somewhat stable over the next two years, at least relative to inflation expectations (shown on the left-hand side of Figure 2), although not necessarily constant. The perceived inflation target briefly declined by roughly a percentage point in late 2024, before rising back up to the lower half of its 2022-2024 range.

Figure 2: Expected Inflation, CPI Inflation, and the Perceived Inflation Target



Notes: All series (except CPI) are two-week moving averages of Huber-weighted daily means (for both inflation expectations series and the mean perceived inflation target) and medians (for the median perceived inflation target), using Huber weights obtained by regressing on a constant using the full sample after winsoring the underlying responses at the 1st and 99th percentiles of the distribution within each month. Includes 144,886 observations of one-year-ahead inflation expectations between March 2020 and July 2025 and 87,727 observations of the perceived inflation target and five-year-ahead inflation expectations over the main sample periods described in the text.

Figures 1 and 2 both demonstrate that consumers are largely uninformed about the 2 percent inflation target. Only 18 percent of our sample reported an inflation target equal to two percent. Even among those consumers who reported recently hearing news about monetary policy or who indicated that they often get news about the economy, only one-third reported a target between one and three percent. Earlier work has documented similar evidence of households' limited attention to and knowledge about monetary policy. Hajdini et al. (2025) find that although attention to monetary policy rose during the inflation surge (consistent with Bracha and Tang's (2024) suggestion that attention to inflation should rise with inflation), even around inflation's peak no more than half of consumers were hearing news about monetary policy. Knowledge about monetary policy is relatively limited among households, even among those who seem otherwise attentive: in a survey of Dutch households, van der Cruijsen, Jansen, and de Haan (2015) find that only half correctly identified the ECB's inflation target and, separately, that 40 percent

misunderstood the ECB's objective to be to keep prices constant.[9] Unsurprisingly, only 20 percent of these households said that they felt it was "very" or "extremely" important to be informed about the ECB.

We emphasize, however, that while inflation expectations (especially for the year ahead) co-moved with observed inflation, the average perceived inflation target moved far less, if at all, with either inflation or short-run inflation expectations. Furthermore, longer-run inflation expectations (for the next five years) were about as stable as the perceived inflation target, and often coincided with the perceived target on average. Consumers appear to have expected the 2021-2022 inflation surge to be temporary, as their longer-run inflation expectations and perceptions of the inflation target hardly moved during this period—in fact, consumers' longer-run inflation expectations for most of our sample were nearly (but not perfectly) identical to their perceptions of the inflation target. This suggests that although consumers are poorly informed about the inflation target itself, they seem to be aware that there *is* an inflation target that the Federal Reserve seeks to achieve in the long-run.

3.2 Heterogeneity Across Demographics

In addition to variation across time, consumers' beliefs about the inflation target also vary across demographic groups. We regress the inflation target on a set of demographic dummy variables, including gender, whether the respondent is the primary shopper in the household, race, age, education, income, political affiliation, and numeracy. To account for unobserved macroeconomic and regional factors, we run two versions of this regression: one with monthly fixed effects, to capture the broad macroeconomic environment, and another with quarter-cross-state fixed effects.[10]

As seen in Table 1, there is considerable heterogeneity across different demographic groups. Respondents who are the primary grocery shopper in their household, for example, see a higher target and expect inflation to be relatively higher than its target than non-primary shoppers

[9] In our sample, on the other hand, only approximately 2 percent of respondents reported an inflation target of 0 percent, suggesting that most consumers at least do not believe that the Federal Reserve's objective is to keep prices constant. Unlike van der Cruijsen, Jansen, and de Haan's sample, however, our responses were collected during a period of relatively high and above-target inflation.

[10] Despite our large sample sizes, we combine the following states due to low observation counts within a given quarter: IA, NE, ND, and SD; ID, MT, and WY; VT, NH, and ME; CT and RI; DC, MD, and DE; AZ, NM, and UT.

do; high-income respondents also expect inflation to be relatively more over-target, but yet perceive a lower target than lower-income respondents. Our results are generally similar to what Coibion et al. (2022) report for the inflation target, but are not exactly identical. Perhaps the most notable difference is in the estimated effects for education: while Coibion et al. find that the perceived target *falls* with higher levels of educational attainment, Table 1 finds that the most highly-educated respondents in our sample report the *highest* inflation target.

Table 1: Demographic Heterogeneity in the Perceived Inflation Target

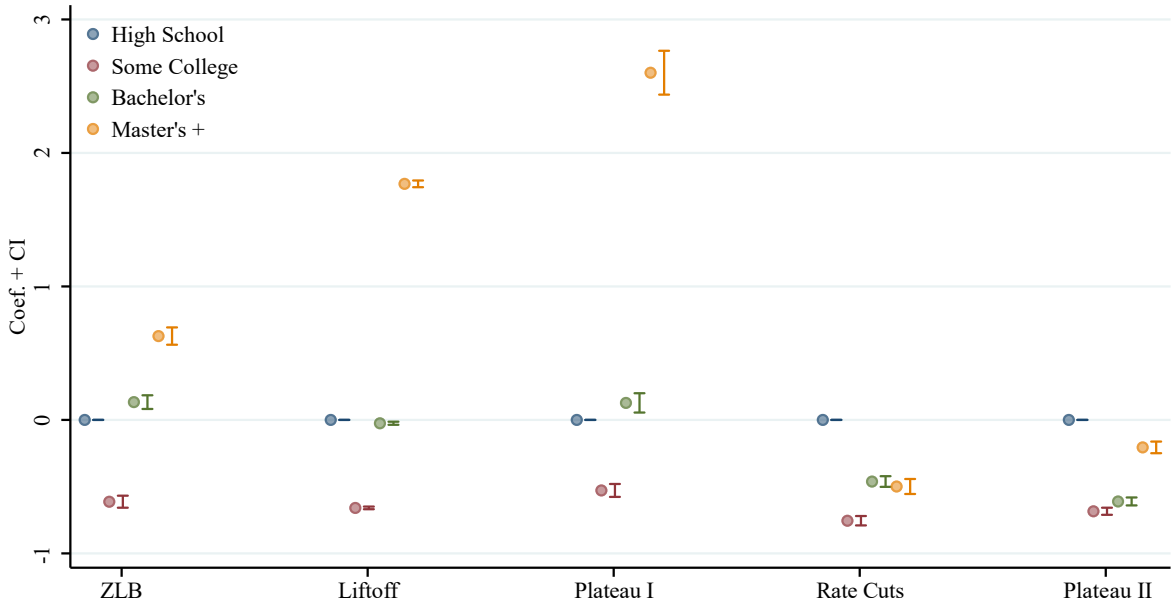
	Coef.	S.E.	Coef.	S.E.
Male	-1.03***	(0.04)	-1.05***	(0.04)
Primary Shopper	0.32***	(0.06)	0.29***	(0.06)
Non-white	0.63***	(0.06)	0.46***	(0.06)
Age:				
30-44	0.93***	(0.08)	0.93***	(0.08)
45-64	-2.53***	(0.07)	-2.38***	(0.07)
65+	-3.82***	(0.07)	-3.62***	(0.07)
Education:				
Some college	-0.69***	(0.05)	-0.68***	(0.05)
Bachelor's	-0.28***	(0.05)	-0.26***	(0.05)
Master's or higher	0.81***	(0.07)	0.72***	(0.07)
Income:				
$35k-$100k	-1.10***	(0.05)	-1.09***	(0.05)
Over $100k	-1.72***	(0.06)	-1.75***	(0.06)
Political Affiliation:				
Democrat	0.57***	(0.05)	0.56***	(0.05)
Republican	0.46***	(0.05)	0.38***	(0.05)
Fixed Effects	Monthly		Quarter-x-State	
Observations	68245		68143	
Adjusted R^2	0.16		0.18	

Notes: Robust standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All columns show Huber-robust regression results. The perceived target is winsorized at the 1st and 99th percentiles within each month. The right panel includes quarter-cross-state fixed effects, in which some states have been grouped together due to low observation counts: IA, NE, ND, and SD; ID, MT, and WY; VT, NH, and ME; CT and RI; DC, MD, and DE; AZ, NM, and UT.

One explanation for our opposite finding is that the survey data used by Coibion et al. was collected in the second half of 2018, a period in which inflation was lower, closer to its target, and more stable, and monetary policy somewhat less active, than in much of our sample period. To test this, we re-estimate Table 1 over several subsets of our main sample period. These include the zero lower bound (ZLB) era (comprising responses collected between August and November 2020 and between August 2021 and January 2022); the period of rate hikes during the inflation surge (March

2022-July 2023); the subsequent period where interest rates were held constant ("Plateau I", August 2023-August 2024); the period of interest rate cuts (September through December 2024); and, finally, the latest period where interest rates were left unchanged ("Plateau II", January through June 2025).

Figure 3: Coefficients on Education Over Time



Notes: Estimated coefficients and their confidence intervals come from estimating the same regression in the left-hand panel of Table 1 (with monthly fixed effects) over each of the five subsamples defined in the text above. "High school or less" is the omitted category, hence all values being at zero.

As seen in Figure 3, we find that more highly-educated respondents had relatively higher perceptions of the inflation target only in the earlier half of our sample, when both inflation and attention to monetary policy were relatively high. Starting when the FOMC began lowering interest rates in September 2024, highly educated respondents have reported relatively lower perceived inflation targets. This suggests that beliefs about the inflation target may be a function of the current inflation rate and one's attention to it. Bracha and Tang (2024) demonstrate that attention to inflation rises with inflation; if more highly-educated respondents are more likely to have been paying attention in the first place, as shown by Hajdini et al. (2025), then perhaps it is unsurprising that their perception of the inflation target rose by more than it did for other groups during the post-pandemic inflation surge.

3.3 Geographic Heterogeneity

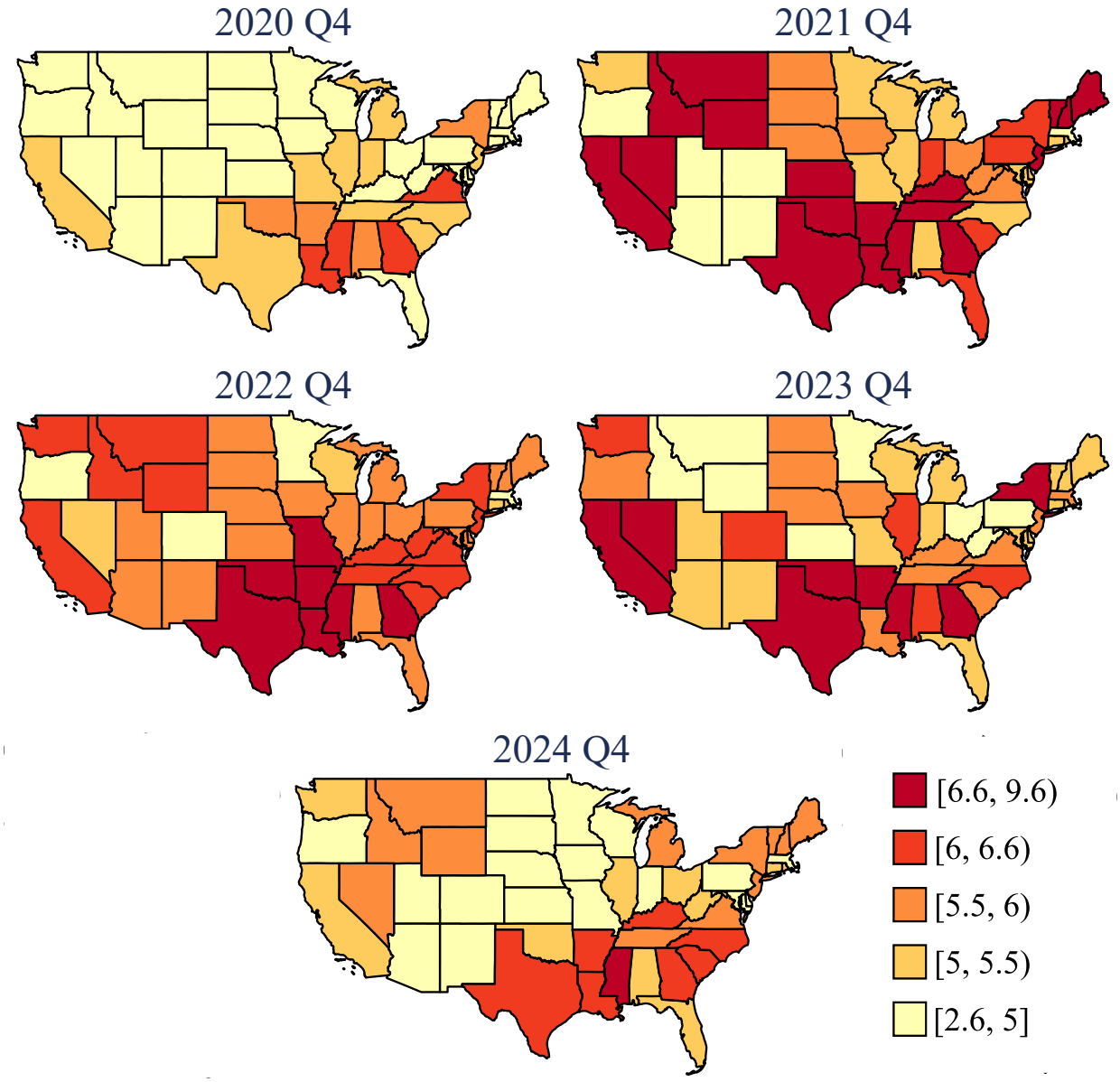
As our sample includes respondents from across the entirety of the United States, we can also explore geographic heterogeneity in the perceived inflation target across states. We regroup our data by quarter, winsorize at 1st and 99th percentiles within each quarter, and, using Huber weights obtained using the full sample, we calculate the mean perceived inflation target by state (or group of states).[11]

Figure 4 shows that the perceived inflation target varies over both time (as seen earlier in Figure 2) *and* space by observing state-level perceived inflation targets in the fourth quarter of each year between 2020 and 2024. Even in the fourth quarter of 2020, when the average reported inflation target was relatively low at approximately 5 percent, the perceived target was actually *lower* in most states, between 2.6 and 5 percent. However, as seen in the top-left subfigure of Figure 4, some states had much higher perceived inflation targets, which averaged upwards of about 6 percent in Mississippi, Louisiana, Georgia, and Virginia. However, regardless of whether the average perceived target within a state was relatively high or low at the end of 2020, the perceived target in all states rose considerably by the end of 2022 to at least 5.5 percent in all but 8 states, with 7 states averaging in the highest bin (between 6.6 and 9.6 percent). The average reported target declined in many states between 2022 and 2024, but still remained higher for most than in 2020—especially so for Texas, Kentucky, the Carolinas, Nevada, and in the Northeast.

If beliefs about the inflation target vary across time and geography, as our large-scale survey results indicate, then using time *and* state fixed effects to control for (changes in) long-run expectations at the state level is not sufficient. Instead, one would need time-cross-state fixed effects. To the extent that beliefs about the inflation target are responsive to actual inflation—a point we [will eventually…] return to below—then this further complicates inference. *More on this in the discussion….*

[11] As discussed in footnote 10, although our large sample size allows us to look at most states individually, some states in these figures have been grouped together due to relatively low sample sizes. In all figures, we combine Idaho, Montana, and Wyoming ("Northwest"); North Dakota, South Dakota, Nebraska, and Iowa ("Great Plains"); Vermont, New Hampshire, and Maine ("Northern New England"); Connecticut and Rhode Island ("Southern New England"); Washington, D.C., Maryland, and Delaware ("Mid-Atlantic"); and Arizona, New Mexico, and Utah ("Southwest"). All remaining 33 states are aggregated on their own.

Figure 4: Geographic Heterogeneity in the Perceived Inflation Target



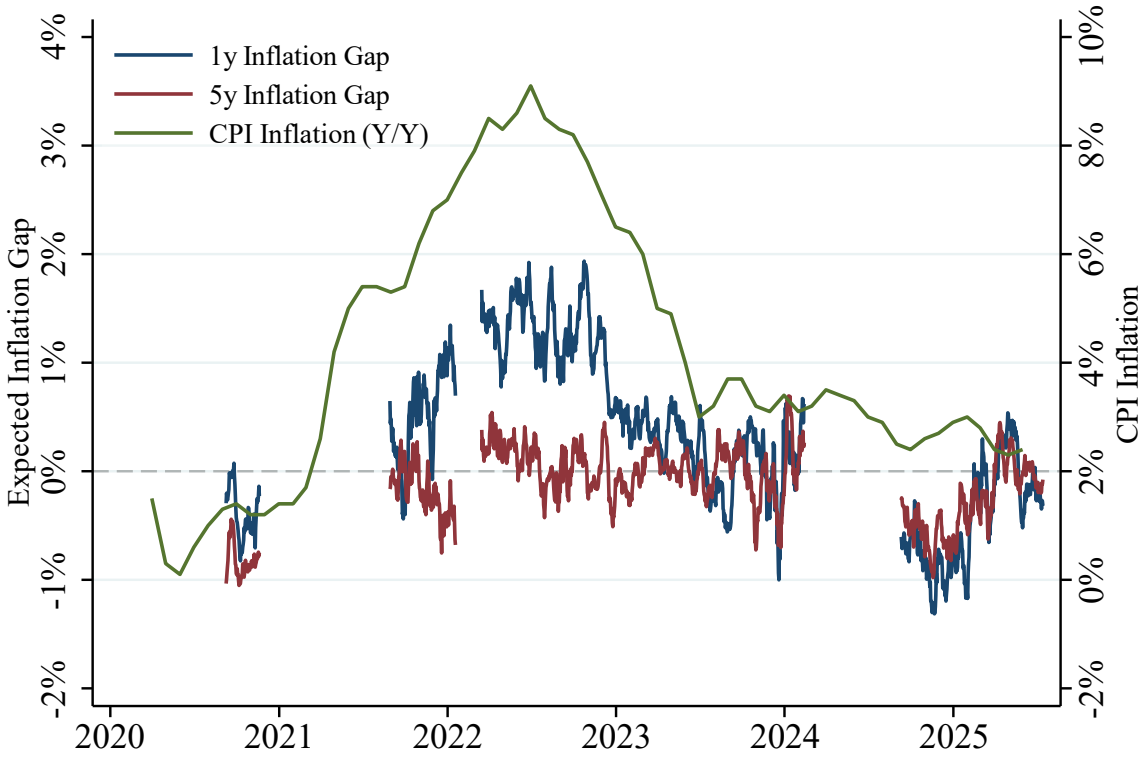
Notes: Figure shows the Huber-weighted mean of the perceived inflation target within each state and quarter, winsorized at the 1st and 99th percentile within each quarter. Huber weights are obtained over the full sample, with quarter and state (or state-group) fixed effects. The five bins roughly approximate the quintiles of the perceived target across all five quarters. Some states have been combined into regions due to low observation counts, including Idaho, Montana, and Wyoming ("Northwest"); North Dakota, South Dakota, Nebraska, and Iowa ("Great Plains"); Vermont, New Hampshire, and Maine ("Northern New England"); Connecticut and Rhode Island ("Southern New England"); Washington, D.C., Maryland, and Delaware ("Mid-Atlantic"); and Arizona, New Mexico, and Utah ("Southwest"). All remaining 33 states are aggregated on their own.

4. Expected Inflation Gaps

4.1 Characteristics of Consumers' Expected Inflation Gaps

Given that consumers are largely uninformed about the Federal Reserve's inflation target, it may be unfair to assess whether consumers expect inflation to come in above or below target against the actual inflation target, as relatively few know what it is. Instead, we construct consumers' expected inflation gaps as their inflation expectations less their perceptions of the inflation target. We take advantage of the fact that we elicit respondents' expectations for inflation at both the one- and five-year horizons to construct short- and long-run expected inflation gaps, with the former reflecting expected short-term deviations from the (perceived) inflation target and the latter reflecting longer-term deviations (and thereby credibility).

Figure 5: Consumers' Expected Inflation Gaps



Notes: The expected inflation gaps, on the left y-axis, are two-week Huber-weighted moving averages. CPI inflation, on the right y-axis, is the trailing year-over-year percent change in the Consumer Price Index. Expected inflation gaps are expected inflation minus the perceived inflation target, with both expected inflation rates and the perceived inflation target winsorized at the 1st and 99th percentiles within each month. The horizonal dashed line indicates where expected inflation is equal to the perceived target (i.e., when the inflation gap is zero), and where CPI inflation is equal to the FOMC's 2 percent inflation target.

Figure 5 shows the time series of both the short- and long-run inflation gaps over the course of our sample. Before inflation began to rise in 2021, on average consumers expected inflation to *undershoot* the FOMC's inflation target, by less than half a percentage point in the short-run and by about one percentage point in the long run. Only the short-run expected inflation gap rose alongside inflation, however; while the short-run expected inflation gap rose to as high as two percentage points, the long-run expected inflation gap rose only slightly to hover around zero for most of the 2022-2024 period. Both the short- and long-run gaps declined and turned negative toward the end of 2024, before rising again in 2025.

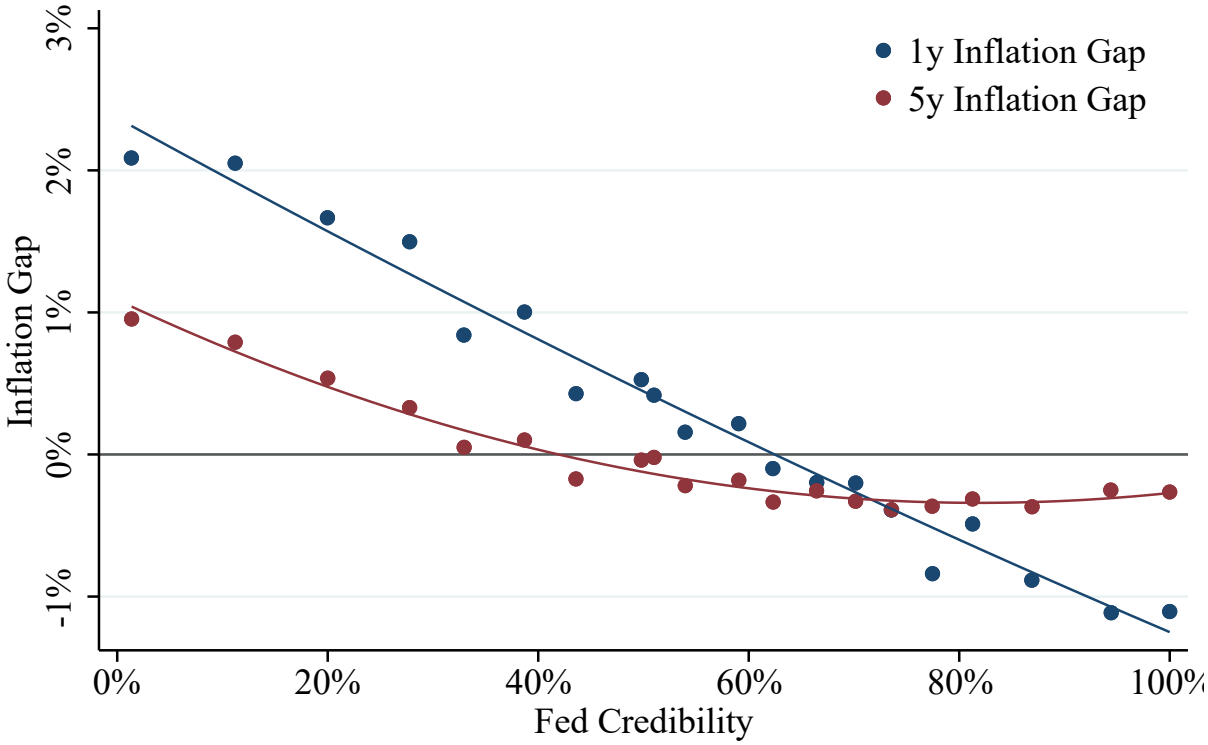
The narrative from Figure 5 contrasts with the suggestion in earlier work that, as summarized by Weber et al. (2022), "shocks to the economy that lead individuals to expect higher inflation over the next year also lead those individuals to expect significantly higher inflation over the next five to ten years, indicating that people do not think that inflation shocks are short-lived *or that central banks will take actions that offset these shocks*" (emphasis added). If the latter were the case, one would expect the five-year expected inflation gap to have a similar scale and volatility as its one-year ahead equivalent: if the public did not expect the FOMC to respond to inflation shocks, their longer-run inflation expectations should exceed the perceived target by considerably more than what we observe.[12]

4.2 Relationship with Credibility

The expected inflation gap serves as a direct measure of Fed credibility in the eyes of consumers, as is indeed negatively correlated with consumers' self-reported confidence in the Federal Reserve's ability to achieve its objectives, as shown in Figure 6. Among those with full confidence in the FOMC, the expected inflation gap is roughly zero, and perhaps even negative in the short-term. This suggests that although households may not have full information about the inflation target, they nonetheless understand that policymakers intend to keep inflation around a certain rate, and—conditional on trusting them—expect policymakers to successfully do so.

[12] Of course, the expected longer-run inflation gap still might not look *identical* to its short run equivalent even if consumers did not expect central banks to offset inflation shocks, as consumers (reasonably) may not expect such shocks to persist into the longer-term horizon. Our survey, however, asks respondents for what they expect the *average* inflation rate to be over the next five years—not the inflation rate they expect in five years, and not the inflation rate expected between 5 and 10 years from now—and so any contemporaneous shock affecting consumers' one-year-ahead expectations should also affect their five-year-ahead expectations.

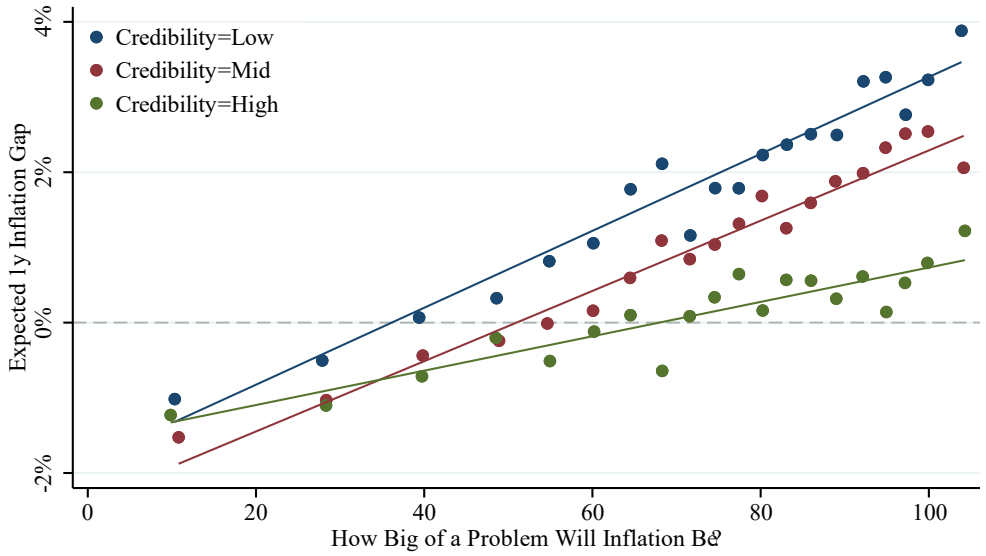
Figure 6: Fed Credibility and the Expected Inflation Gap



Notes: Binned scatter plot of short- and long-run expected inflation gaps against consumers' view of the credibility of the FOMC's ability to achieve maximum employment and stable prices. Expected inflation gaps are Huber weighted. Lines are quadratic lines of best fit.

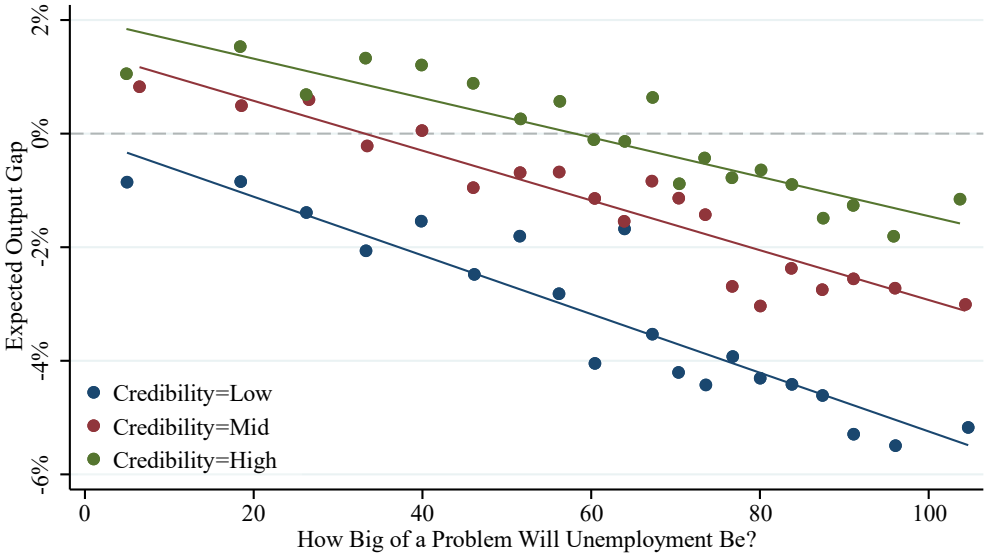
Importantly, this negative relationship between the expected inflation gap and credibility holds even among consumers who are concerned about inflation over the next year. Between March 2022 and November 2023, we asked consumers, "Looking over the next 12 months, how big of a problem do you think that inflation will be" for both themselves personally and the US as a whole, using a slider ranging from 0 (not a problem) to 100 (a big problem). In Figure 7, we plot the expected one-year-ahead inflation gap against consumers' concern about inflation in the next year and separate consumers into low, mid, and high-credibility consumers by thirds. Although the expected inflation gap unsurprising always increases with concern about inflation, high-credibility consumers who are nonetheless concerned about inflation still expect a relatively smaller inflation gap compared to low-credibility consumers. We find a similar pattern for the output gap in Figure 8, using expected GDP growth over the next year minus the expected average growth rate over the next five years as a proxy for the expected output gap.

Figure 7: Credibility, the Expected Inflation Gap, and Concern about Inflation



Low, mid, and high credibility include credibility responses in [0, 34), [34, 67), and [67, 100], respectively.
Sample includes 46,920 responses collected between March 3, 2022, and November 20, 2023.
Bin means are residualized on monthly fixed effects and demographic controls.
The x-axis ranges from 0 (not a problem) to 100 (a big problem).

Figure 8: Credibility, the Expected Output Gap, and Concern about Unemployment



Low, mid, and high credibility include credibility responses in [0, 34), [34, 67), and [67, 100], respectively.
Sample includes 46,920 responses collected between March 3, 2022, and November 20, 2023.
Bin means are residualized on monthly fixed effects and demographic controls.
The x-axis ranges from 0 (not a problem) to 100 (a big problem).

This finding is particularly striking given the evidence that households do not appear to understand the connection between monetary policy and inflation from Andre et al. (2022), in which households were provided with basic information about the federal funds rate and asked to imagine what might happen to inflation if the FOMC were to unexpectedly raise interest rates.[13] While two-thirds of the professional forecasters in their sample reported that they would expect inflation to fall in such a scenario, only 30 percent of households agreed; nearly 60 percent expected inflation to *rise* after an unexpected increase in the federal funds rate. Our results suggest that even if households do not understand how monetary policy works—and we do not know how our respondents think it works—they do at least understand its objectives. Other work has similarly found that households are at least aware of basic information about monetary policy objectives, even if they do not understand (or do not *correctly* understand) how it achieves these objectives. In their survey of Dutch households, for example, van der Cruijsen, Jansen, and de Haan (2015) find that although only half were aware of the ECB's explicit inflation target, two-thirds were at least aware that the ECB's top priority was achieving price stability.

To explore the role of attention and monetary policy informedness further, in Table 2 we regress the inflation target and expected inflation gaps on their self-reported Fed credibility, dummy variables capturing their attention to the economy, and interactions between these "attention" variables and their self-reported credibility. The credibility variable asked respondents to rate the credibility of the Federal Reserve's commitment to achieving its dual mandate, using a slider that we have rescaled to go from zero (not at all credible) to one (fully credible). "Heard Fed News" is one if the respondent heard news about the Federal Reserve or monetary policy in the last week and zero otherwise, while "High Freq. News" is one if the respondent gets news about the economy at least weekly and zero otherwise. Finally, "Rates Up in Last Year" is one for respondents who reported that interest rates had risen over the last year and zero otherwise.

Table 2 finds that the relationship between credibility, attention, and being informed about the inflation target is not necessarily straightforward. While having heard monetary policy news in the last week on its own lowers the perceived target by roughly 0.9 percentage points, there is a strong positive relationship between beliefs about the inflation target and Fed credibility. The effects in columns (2) and (3) are easier to reconcile. As seen earlier in Figure 5, there is a strong

[13] Importantly, respondents were told that the FOMC also announced that it had done so "with no changes in their assessment of the economic conditions."

negative relationship between the expected inflation gap and credibility. Although those who were aware that interest rates had risen recently also tended to report relatively higher expected inflation gaps, we find that even among these respondents, consumers who view the Federal Reserve's objectives more credibly expect a relatively lower one-year inflation gap than low-credibility consumers. Indeed, at the five-year horizon, high-credibility consumers who were aware of recent increases in interest rates expected an inflation gap that was absolutely lower than those who were unaware of such increases. Finally, we also note that having heard news about monetary policy has a smaller effect on the five-year expected inflation gap for high-credibility respondents (a net increase of 0.28 percentage points) is smaller than for low-credibility respondents—perhaps as hearing news about monetary policy should affect the expectations of high-credibility respondents less, given their greater confidence in the Federal Reserve's ability to achieve its objectives.

Table 2: Economic Beliefs and Attention

	(1) Inflation Target	(2) 1y Inflation Gap	(3) 5y Inflation Gap
Fed Credibility	0.86***	-1.64***	-0.79***
	(0.23)	(0.24)	(0.19)
Heard Fed News	-0.88***	-0.24*	-0.41***
	(0.10)	(0.13)	(0.10)
… x Credibility	1.67***	0.08	0.69***
	(0.17)	(0.20)	(0.16)
High Freq. News	-0.28**	0.83***	0.29**
	(0.14)	(0.16)	(0.12)
… x Credibility	-0.21	-0.37	0.05
	(0.24)	(0.27)	(0.20)
Rates Up in Last Year	-0.15	2.41***	1.68***
	(0.11)	(0.13)	(0.10)
… x Credibility	0.36*	-2.17***	-1.78***
	(0.18)	(0.21)	(0.17)
Demographic Controls	Yes	Yes	Yes
Monthly Fixed Effects	Yes	Yes	Yes
Observations	52959	53263	53460
Adjusted R^2	0.16	0.08	0.03

Robust standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$. All columns show Huber-robust regressions with monthly fixed effects. The perceived inflation target is winsorized between 0 and the 95th percentile within each month. Expected inflation rates are winsorized at the top and bottom 2.5% within each month. The inflation gap is the expected inflation rate less the perceived inflation target. Credibility is rescaled to range from 0 (not at all credible) to 1 (fully credible). Sample includes observations from between March 2022 through February 2024 and August 2024 through June 2025. Demographic controls include gender, whether the respondent is the primary grocery shopper in their household, race, age, education, income, and political affiliation. Results are little changed by excluding them.

5. Discussion

1) Consumers are largely unaware of the 2 percent long run inflation target
    a. This is consistent with lots of existing evidence about inattention to MP, scarce knowledge about MP; e.g., RCT studies
    b. Can connect to literature on central bank communications and their reach, comprehensibility, and effects
2) Consumers' long-run inflation expectations may appear relatively high, but are "internally" anchored to their perception of the inflation target
    a. Connect with related work on the anchoring of inflation expectations (Liberty Street Economics posts in particular). Different perspective from Binder: you might not find anything when you're looking for anchoring at 2%, but expectations are anchored around whatever they think the target is. That the perceived target is high is a different problem from inflation expectations being high.
    b. Importantly, the perceived target is pretty stable.
    c. Also, connect to Andre et al. (2022): yes, consumers are poorly informed about MP, may not understand it, etc., but they do appear to understand how inflation targeting works, at least implicitly.
3) Like inflation expectations, there's a lot of heterogeneity in the perceived target
    a. Evidence that communication is reaching (and being understood by) different groups to different extents.
    b. Geographic heterogeneity of perceived inflation targets likely to matter for spatial macro models (e.g., Phillips Curve papers).

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Appendix A: Main Survey Questions

Q1 Please enter your age: ____

Q3 Please indicate your gender.

- Male
- Female
- Other

Q48 What is the highest level of school you have completed, or the highest degree you have achieved?

- Less than high school
- High school diploma or equivalent
- Some college, no degree
- Bachelor's degree
- Master's degree
- Doctorate or professional degree

Q49 Please indicate the range of your yearly net disposable income.

- Less than $10,000
- $10,000 - $19,999
- $20,000 - $34,999
- $35,000 - $49,999
- $50,000 - $99,999
- $100,000 - $199,999
- More than $200,000

Q51 How would you identify your ethnicity? Please select all that apply.

- Asian/Asian American
- Black/African American
- White/Caucasian
- Other
- Prefer not to say

Q52 Do you consider yourself of Hispanic, Latino, or Spanish origin?

- Yes
- No

Q134.1 The next few questions are about economic output. Over the next 12 months, do you think that there will be an increase or decrease in GDP?

- Increase
- Decrease

Q134.2I *[If Q134.1 = Increase]* What do you expect the rate of increase in GDP to be over the next 12 months? Please give your best guess.

I expect the rate of increase to be ___ percent over the next 12 months.

Q134.2D *[If Q134.1 = Decrease]* What do you expect the rate of decrease to be over the next 12 months? Please give your best guess.

I expect the rate of decrease to be ___ percent over the next 12 months.

QA1.1 In your view, will the total income of all members of your household (including you), after taxes and deductions, increase or decrease over the next 12 months?

- Increase
- Decrease

QA1.2I *[If QA1.1 = Increase]* By how much do you expect total income for all members of your household to increase over the next 12 months? Please give your best guess.

Over the next 12 months, I expect total income of all members of my household to increase by ___ percent.

QA1.2D *[If QA1.1 = Decrease]* By how much do you expect total income for all members of your household to decrease over the next 12 months? Please give your best guess.

Over the next 12 months, I expect total income of all members of my household to decrease by ___ percent.

Q11.1 The next few questions are about inflation. Over the next 12 months, do you think that there will be inflation or deflation?

- Inflation
- Deflation (opposite of inflation)

Q11.2I *[If Q11.1 = Inflation]* What do you expect the rate of inflation to be over the next 12 months? Please give your best guess.

I expect the rate of inflation to be ___ percent over the next 12 months.

Q11.2D *[If Q11.1 = Deflation (opposite of inflation)]* What do you expect the rate of deflation to be over the next 12 months? Please give your best guess.

I expect the rate of deflation to be ___ percent over the next 12 months.

Q13 Now we would like you to think about what may happen to inflation over the next 12 months. We realize that this question may take a little more effort. In your view, what would you say is the percent change that, over the next 12 months…

the rate of inflation will be 12% or higher: __

the rate of inflation will be between 8% and 12% : __

the rate of inflation will be between 4% and 8% : __

the rate of inflation will be between 2% and 4% : __

the rate of inflation will be between 0% and 2% : __

the rate of deflation (opposite of inflation) will be between 0% and 2% : __

the rate of deflation (opposite of inflation) will be between 2% and 4% : __

the rate of deflation (opposite of inflation) will be between 4% and 8% __

the rate of deflation (opposite of inflation) will be between 8% and 12% : __

the rate of deflation (opposite of inflation) will be 12% or higher : __

Total : ___

[Respondent cannot continue until the displayed total = 100]

QI5 Are you the primary grocery shopper in your household?

- Yes
- No

QLO1a Thinking about the interest rates that people pay to borrow money, such as mortgage rates, would you say that those interest rates in general have changed recently?

- Yes
- No
- Not sure

QLO1b *[If QLO1a = Yes]* Thinking about the interest rates that people pay to borrow money, such as mortgage rates, how much would you say that interest rates in general have changed recently?

- Increased by more than 2 percentage points
- Increased between 1 and 2 percentage points
- Increased between 0 and 1 percentage points
- They are about the same
- Decreased between 0 and 1 percentage points
- Decreased between 1 and 2 percentage points
- Decreased by more than 2 percentage points

QJH3 Have you heard any news about monetary policy or the Federal Reserve in the last week?

- Yes
- No

QJH11 What rate of inflation do you think the Federal Reserve tries to achieve in the longer run?

____ % per year

QJH13 Over the next 5 years, do you think that there will be inflation or deflation on average?

- Inflation
- Deflation (opposite of inflation)

QJH13a *[If QJH13 = Inflation]* What do you expect the average annual rate of inflation to be over the next 5 years? Please give your best guess.

I expect the average annual rate of inflation to be __ percent per year over the next 5 years.

QJH13b *[If QJH13 = Deflation (opposite of inflation)]* What do you expect the average annual rate of deflation to be over the next 5 years? Please give your best guess.

I expect the average annual rate of deflation to be __ percent per year over the next 5 years.

QJH14 Over the next 5 years, do you think that there will be an increase or decrease in GDP on average?

- Increase
- Decrease

QJH14a *[If QJH14 = Increase]* What do you expect the average annual rate of increase in GDP will be over the next 5 years? Please give your best guess.

I expect the average annual rate of increase to be __ percent per year over the next 5 years.

QJH14b *[If QJH14 = Decrease]* What do you expect the average annual rate of decrease in GDP will be over the next 5 years? Please give your best guess.

I expect the average annual rate of decrease to be __ percent per year over the next 5 years.

QJH15 In your view, will the total income of all members of your household (including you), after taxes and deductions, increase or decrease over the next 5 years on average?

- Increase
- Decrease

QJH15a *[If QJH15 = Increase]* What do you expect the average annual rate of increase in the total income of all members of your household will be over the next 5 years? Please give your best guess.

I expect the average annual rate of increase in the total income of all members of my household to be __ percent per year over the next 5 years.

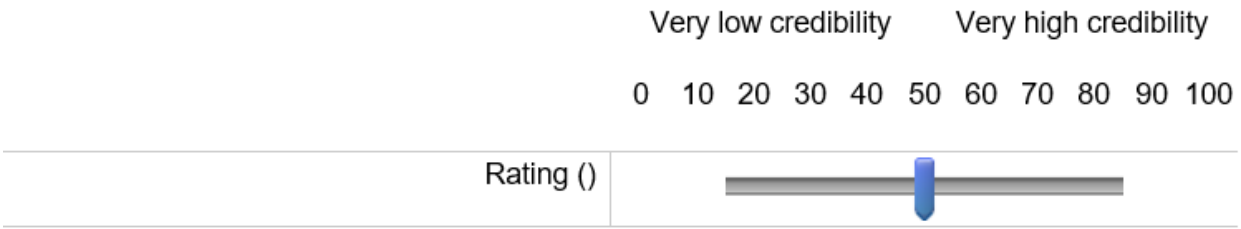
QJH15b *[If QJH15 = Decrease]* What do you expect the average annual rate of decrease in GDP will be over the next 5 years? Please give your best guess.

I expect the average annual rate of decrease in the total income of all members of my household to be __ percent per year over the next 5 years.

QJH16.1 Twelve months from now, how do you think that mortgage rates will compare with their current levels?

- ○ They will be much higher (1)
- ○ They will be somewhat higher (2)
- ○ They will be about the same (3)
- ○ They will be somewhat lower (4)
- ○ They will be much lower (5)
- ○ Not sure (6)

QJH17 How would you rate the credibility of the Federal Reserve in terms of its ability to achieve maximum employment and stable prices?



Q53. What is your civil status?

- ○ Single
- ○ Partner (not co-habiting)
- ○ Partner (co-habiting)
- ○ Married
- ○ Divorced
- ○ Widowed

Q121 What would you say is your political affiliation?

- Democrat
- Independent
- Republican
- Other

Q54 How many children do you have? ___

QX2 Imagine there are white and black balls in a ballot box. You draw a ball 70 times. 56 times, you have drawn a white ball, 14 times a black ball. Given this record, what would you say is the probability of drawing a black ball the next time?

The probability is ___ percent.

Appendix B: Sample Statistics

This appendix contains additional information and statistics about our sample.

Table B1: Sample Period Dates and Sample Sizes

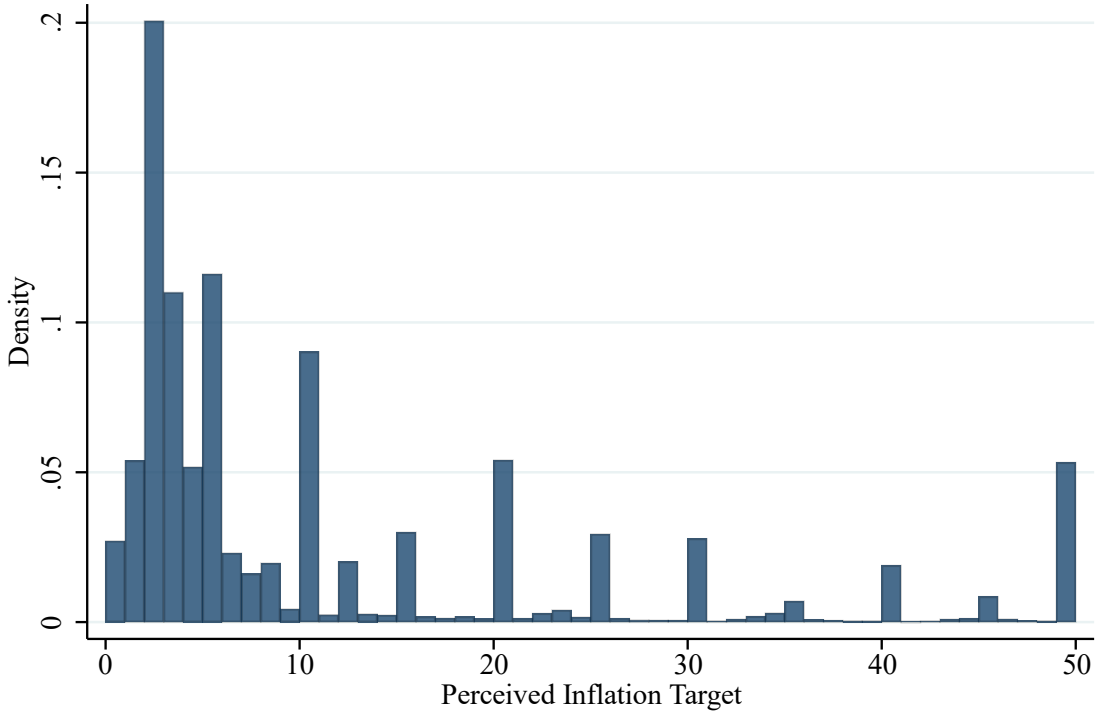
Subsample	Start Date	End Date	Observations
August 2020 – November 2020	8/26/2020	11/19/2020	12,463
August 2021 – January 2022	8/16/2021	1/18/2022	4,780
March 2022 – February 2024	3/3/2022	2/13/2024	49,240
August 2024 – June 2025	8/28/2024	6/26/2025	19,533

Table B2: Mean Expected Inflation, Perceived Inflation Targets, and Expected Inflation Gaps

	1y Expected Inflation	5y Expected Inflation	Perceived Inflation Target	1y Expected Inflation Gap	5y Expected Inflation Gap
All Respondents	6.00	4.72	5.30	0.63	0.06
Age:					
18-29	6.01	4.98	6.67	-0.32	-0.39
30-44	7.03	5.78	7.39	-0.12	-0.18
45-64	5.93	4.59	4.79	0.95	0.18
65+	5.22	3.91	3.68	1.42	0.37
Income:					
Below $35k	6.33	5.04	6.19	0.30	-0.10
$35k-$100k	6.04	4.66	5.08	0.81	0.04
Over $100k	5.61	4.49	4.79	0.66	0.24
Education:					
High School	5.97	4.77	5.78	0.25	-0.06
Some College	5.85	4.55	4.87	0.83	0.08
Bachelor's	6.16	4.68	5.07	0.99	0.12
Master's +	6.18	5.10	5.68	0.45	0.21
Gender					
Female	6.41	4.92	5.77	0.73	-0.04
Male	5.63	4.52	4.86	0.54	0.15
Race/Ethnicity					
White	6.04	4.73	5.07	0.85	0.19
Non-white	5.81	4.64	6.30	-0.32	-0.51
Hispanic	6.19	5.03	6.20	0.12	-0.18
Non-Hispanic	5.97	4.68	5.20	0.69	0.09
Primary Shopper					
Yes	6.39	5.06	5.50	0.74	0.19
No	5.23	3.90	4.75	0.57	-0.03
Numeracy					
Low	6.47	5.12	5.66	0.70	0.18
High	6.31	4.83	4.70	1.44	0.47
Heard MP News					
Yes	6.22	4.98	5.14	0.81	0.29
No	5.87	4.57	5.38	0.52	-0.07

Each column shows Huber-weighted means for each subset of the sample across the full sample. Expected inflation rates are winsorized at the top and bottom 2.5% within each month. The perceived inflation target is winsorized between 0 and the 95th percentile within each month. The inflation gap is the expected inflation rate less the perceived inflation target. All rows except for those for “primary shopper” and “numeracy” include 76,634 observations across the full sample period: August 2020 through November 2020, August 2021 through January 2022, March 2022 through February 2024, and August 2024 through January 2025. “Primary shopper” includes 68,612 observations from between October 2020 through November 2020, and thereafter throughout the rest of the main sample. ”Numeracy” includes 63,901 observations across all but the first sample period.

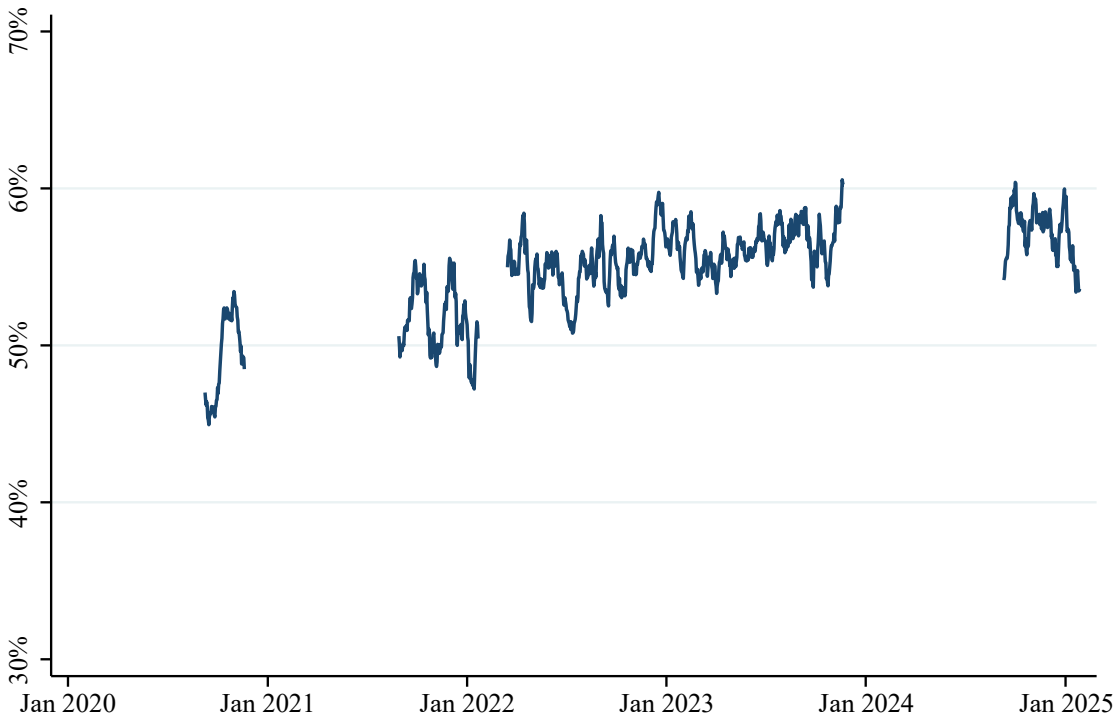
Figure B1: Distribution of the Perceived Inflation Target



Notes: Figure includes 71,172 responses. 6,225 responses greater than 50 are excluded, as are 10 responses less than zero.

Appendix C: Additional Figures

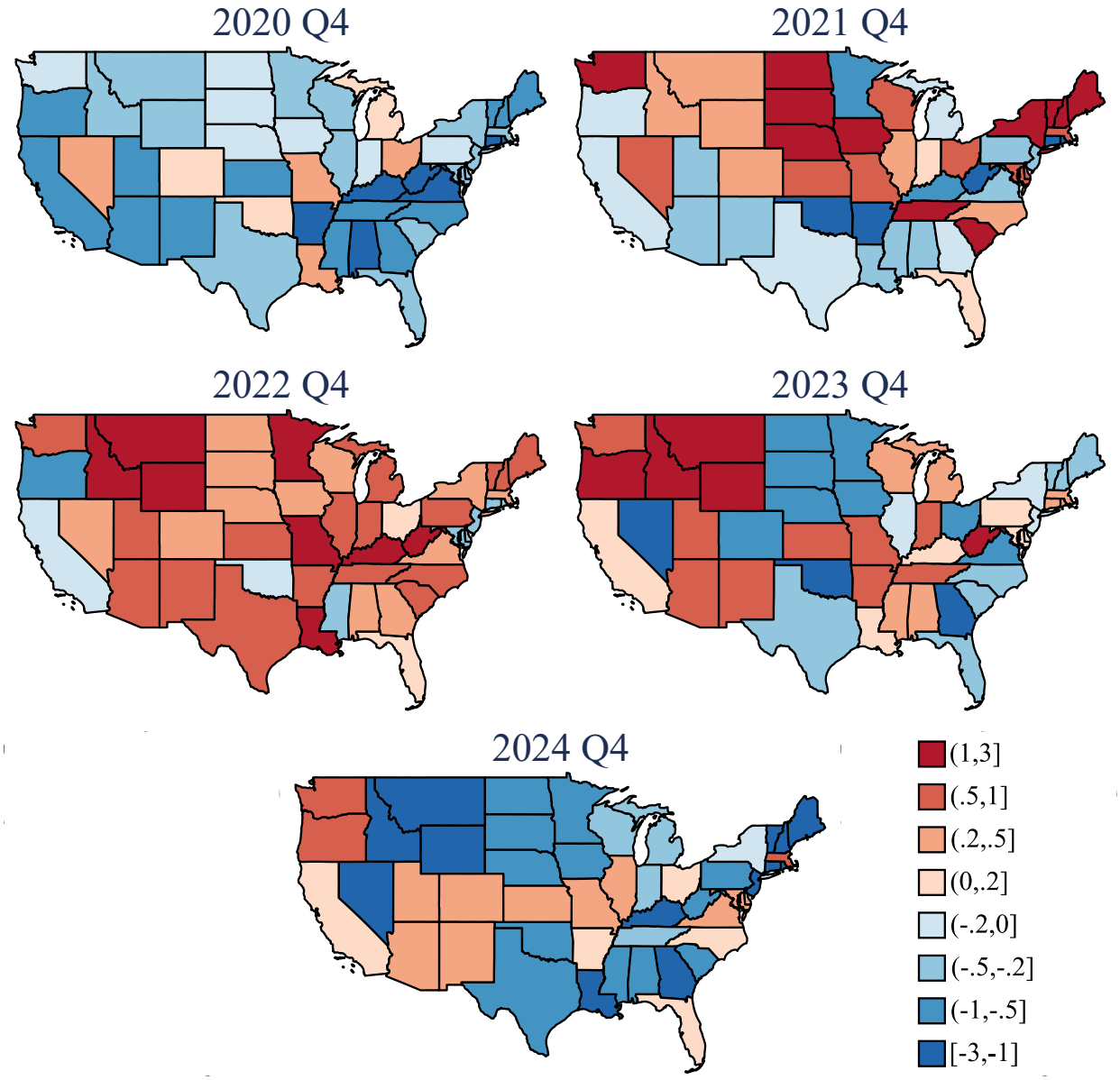
Figure C1: Federal Reserve Credibility



Notes: Figure shows a two-week moving average of respondents' credibility in the Federal Reserve, ranging from zero (not at all credible) to one hundred (perfect credibility); see question QJH17 in Appendix A. Includes 75,315 observations from between August 2020 and November 2020; August and January 2021; March 2022 and November 2023; and August 2024 and January 2025.

Appendix D: Additional Maps

Figure D1: Geographic Heterogeneity in the Expected Long Run Inflation Gap



Notes: Figure shows the Huber-weighted mean of the expected five-year inflation gap within each state and quarter. Expected inflation is winsorized at the top and bottom 2.5% of the distribution within each month. The perceived inflation target is winsorized at zero and the 95th percentile within each month. "Red" states are states where inflation is expected to be *above* the perceived target, while "blue" states are where inflation is expected to fall *below* the perceived target. The four bins on each size of zero approximate the quartiles of the distribution of positive or negative expected inflation gaps. Some states have been combined into regions due to low observation counts, including Idaho, Montana, and Wyoming ("Northwest"); North Dakota, South Dakota, Nebraska, and Iowa ("Great Plains"); Vermont, New Hampshire, and Maine ("Northern New England"); Connecticut and Rhode Island ("Southern New England"); Washington, D.C., Maryland, and Delaware ("Mid-Atlantic"); and Arizona, New Mexico, and Utah ("Southwest"). All remaining 33 states are aggregated on their own.