Discussion of *"Inflation after the Iran war"* by Ricardo Reis

Sarah M. Lein

University of Basel & CEPR & SFI

BIS 25th Annual Conference

June 26, 2026

Main motivation

Important monetary-policy question right now:

Should monetary policy look through the 2026 energy shock, or react to it?

Main motivation

Important monetary-policy question right now:

Should monetary policy look through the 2026 energy shock,
or react to it?

At its core, an empirical question:

Does the energy-price shock transmit to broader inflation
— the "second-round effects"?

Reis discusses the channels through which the energy-price shock can transmit into broader inflation.

Focus of this discussion

Reis discusses four transmission channels:

1. Direct effects on other prices (sticky-price pass-through)
2. **Expectations of consumers and firms**
3. Fiscal policy and aggregate demand
4. Credibility of the long-run inflation target

I focus on channel (2) — the expectations channel.

Reis: **Energy prices** $\longrightarrow$ **Inflation expectations**

Focus of this discussion

Reis discusses four transmission channels:

1. Direct effects on other prices (sticky-price pass-through)
2. **Expectations of consumers and firms**
3. Fiscal policy and aggregate demand
4. Credibility of the long-run inflation target

I focus on channel (2) — the expectations channel.

Reis: **Energy prices** $\longrightarrow$ **Inflation expectations**

This discussion: **Inflation expectations** $\longrightarrow$ **prices & wages** $\longrightarrow$ **actual inflation**

This builds largely on Abberger et al. (2024).

Which horizon of inflation expectations should we focus on?

The conventional look-through view (Powell, Jackson Hole, 2021):

> *"... as long as **longer-term inflation expectations remain anchored**, policy can and should look through temporary swings in inflation. ... Longer-term inflation expectations have moved much less than actual inflation or **near-term expectations**, suggesting that ... current high inflation readings are likely to prove transitory."*

Four years later (Powell, Jackson Hole, 2025):

> *"Another possibility is that inflation expectations could move up, **dragging actual inflation with them**. ... Measures of **longer-term inflation expectations**, however, ... appear to **remain well anchored** and consistent with our longer-run inflation objective of 2 percent."*

$\Rightarrow$ The policy focus seems the *long-term expectation*. But is the long end really the relevant horizon for firms' price/wage-setting decisions?

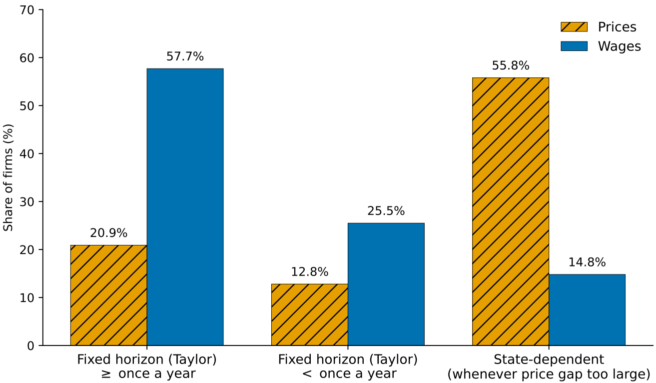
Main intuition (Werning, 2022; Abberger et al., 2024)

Which horizon of inflation expectations is relevant for a firm's price/wage setting decision?

Answer: the horizon over which the price it sets today will be *in force*.

- If a firm knows it can next change prices (wages) in 1 year $\Rightarrow$ what matters is expected inflation **over the next 1 year**.
- Expectations beyond that horizon are (almost) irrelevant for today's price and wage.

Price- & wage-setting regimes



Source: Abberger, Funk, Lamla, Lein, Siegrist (2024), Swiss firm survey.

Wages: predominantly time-dependent.

- 58% adjust at least yearly
- 25% at lower frequency
- only 15% state-dependent

Prices: mostly state-dependent (56%).

- Among time-dependent firms, almost two-thirds adjust at least yearly.

⇒ Relevant horizon of expectations is **short**, not the long-run expectation.

IEPT estimates (Abberger et al., 2024)

Pass-through coefficients (information-provision IV, baseline):

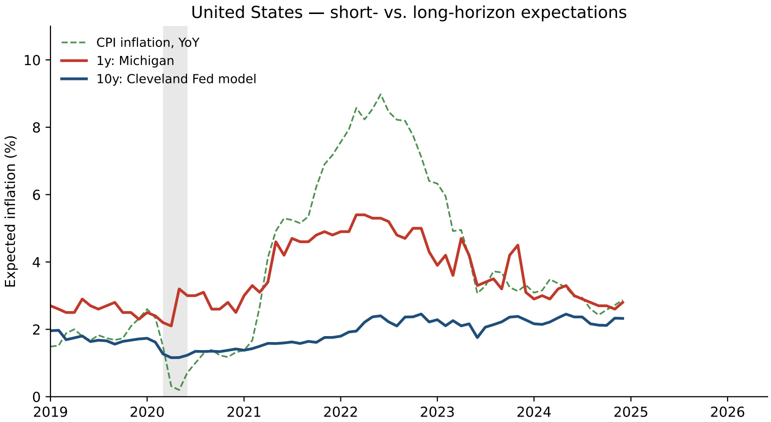
	Prices	Wages
Short-horizon (1y) expectations	0.25^{**}	0.25^{***}
Long-horizon (5y) expectations	0.04 (n.s.)	0.13^{***}

$^{***}\ p < 0.01$, $^{**}\ p < 0.05$, $^{*}\ p < 0.10$, n.s. = not significant.

Horizon matters. Short-horizon expectations pass through significantly into prices and wages; long-horizon expectations do not (prices: insignificant; wages: much smaller).

$\Rightarrow$ Long-run anchoring alone is not sufficient: firms' price and wage decisions primarily respond to short-horizon inflation expectations.

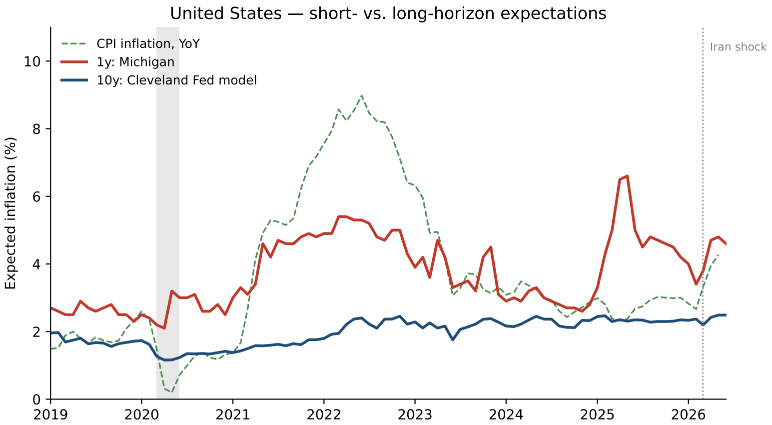
United States — post-pandemic episode (2019–2024)



- **1y expectations moved early** and closely comoved with the subsequent rise in inflation.

Source: FRED. MICH; EXPINF10YR; CPIAUCSL.

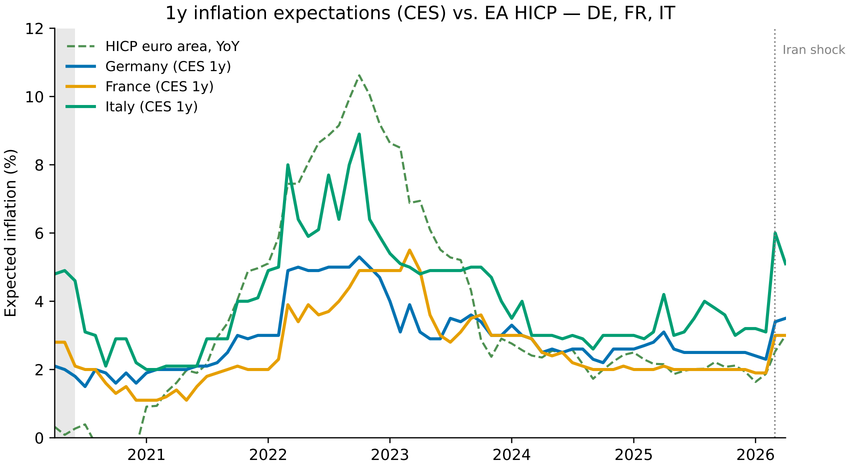
United States — 2019 to current



- **1y expectations moved early** and closely comoved with the subsequent rise in inflation.
- **Recent uptick in short-run expectations after Iran war.** How much will feed into actual inflation?

Source: FRED. MICH (May/Jun 2026 from sca.isr.umich.edu); EXPINF10YR; CPIAUCSL.

Euro area — 1y expectations by country (since April 2020)



Source: ECB Consumer Expectations Survey (CES), weighted median 1y ahead, DE / FR / IT. Monthly.

Back-of-envelope: pass-through to prices and wages

Using our short-horizon IEPT coefficient $\beta \approx 0.25$ (prices and wages).

	Δ 1y exp. (pp)	**Direct Δ p** *(lower bound)* ($\beta = 0.25$)	**Indirect Δ p** (via wages, $\omega^{labor} \cdot \beta$)	**Total Δ p** *(upper bound)* (direct + indirect)
2026 Iran shock (Feb 2026 $\rightarrow$ latest):				
US (Michigan)	+1.2	+0.30	+0.12	+0.42
Euro area (CES, EA-6)	+1.2	+0.30	+0.12	+0.42
2020–22 episode (trough 2020 $\rightarrow$ peak 2022), for comparison:				
US (Michigan)	+3.3	+0.83	+0.33	+1.16
Euro area (CES, EA-6)	+4.0	+1.00	+0.40	+1.40

Indirect channel: higher expected wages feed into prices via labor share in marg. cost. Direct effect treats the wage response as already embedded in $\beta \Rightarrow$ lower bound. Total effect treats the wage response as fully additional $\Rightarrow$ upper bound.

$\Rightarrow$ Complements Reis's expectations channel: even with long-run expectations anchored, the Iran-shock shift in 1y expectations is pushing roughly +0.4 pp on planned prices through firms' price and wage setting — so far moderate, but depends on the persistence and further dynamics of inflation expectations.

References

- Abberger, K., A.-K. Funk, M. J. Lamla, S. M. Lein, and S. Siegrist (2024). “The Pass-Through of Inflation Expectations into Prices and Wages: Evidence from an RCT Survey.” CEPR Discussion Paper No. 19595.
- Werning, I. (2022). “Expectations and the Rate of Inflation.” NBER Working Paper 30260.