

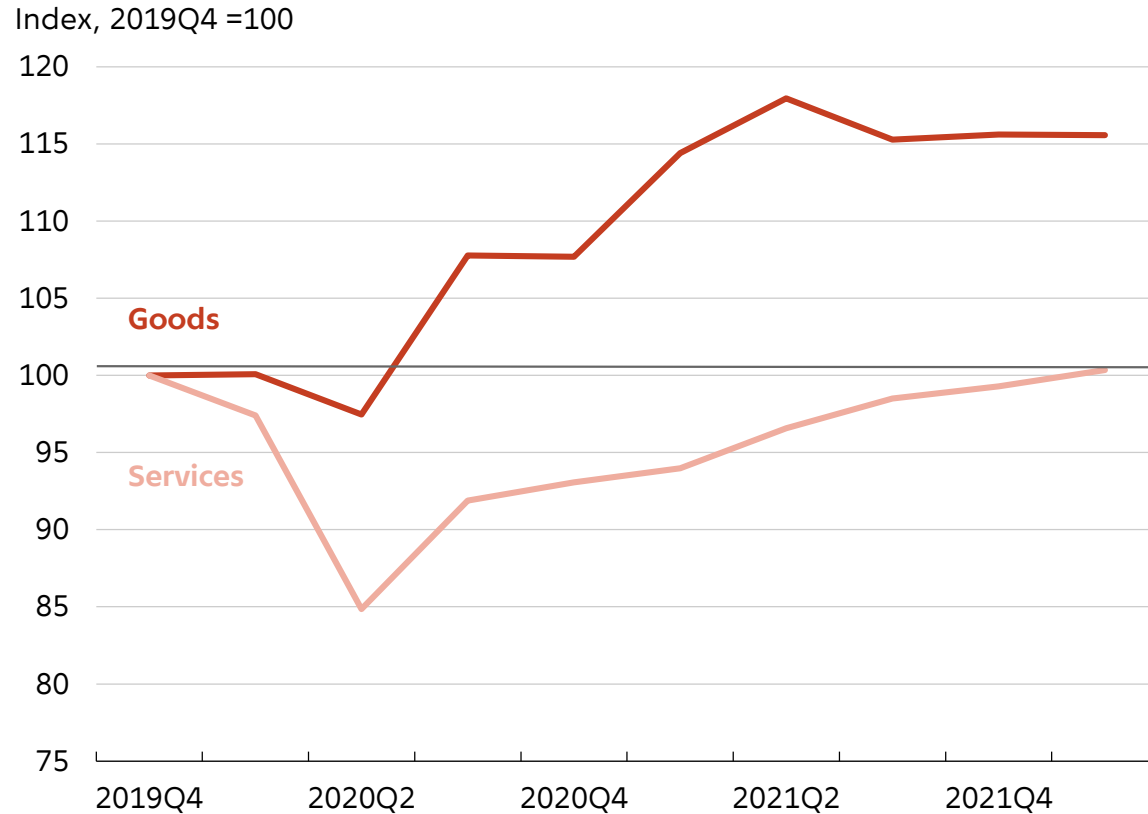
DANMARKS
NATIONALBANK

The burst of high inflation in 2021-22: How and why did we get here? by Ricardo Reis

Discussion by Signe Krogstrup, Member of the Board of Governors, Danmarks Nationalbank
At the BIS Annual Conference
24 June 2022

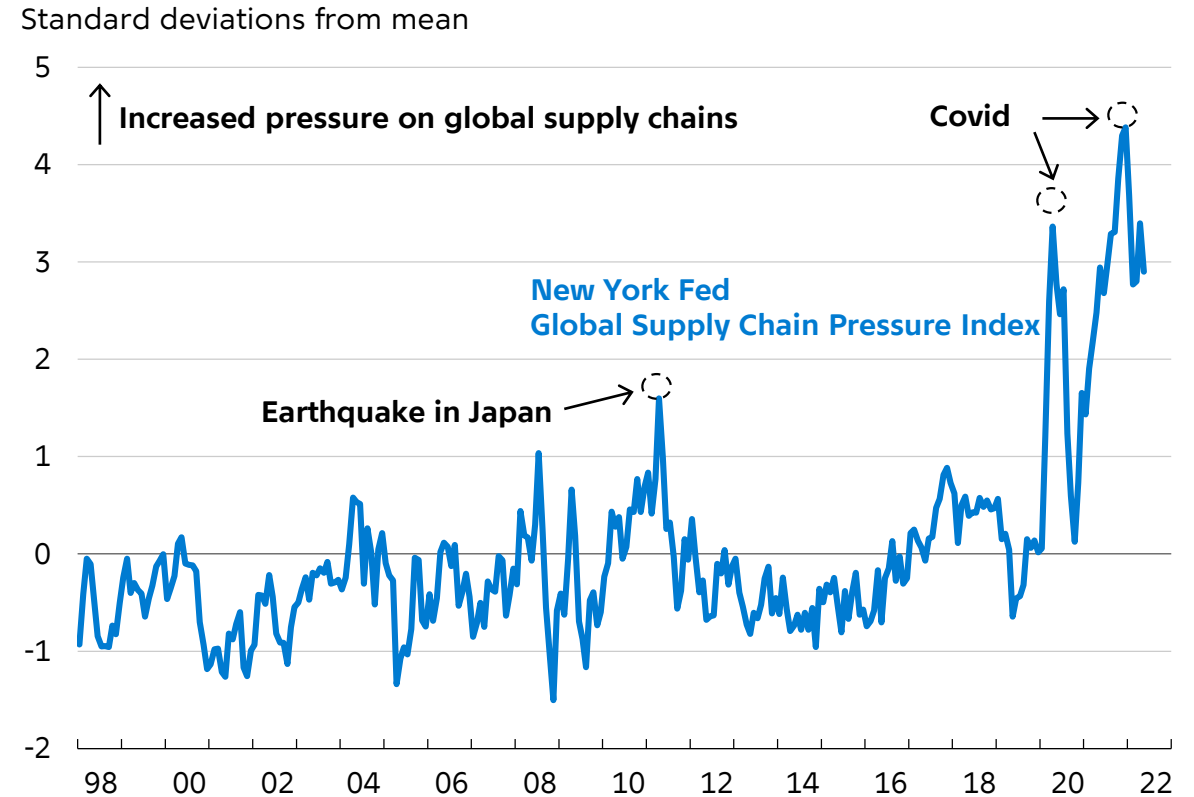
On (mis)diagnosis and hindsight

Strong demand for goods in the US, but less so in the EU...



Note: The chart shows the U.S. private service- and goods consumption in real terms.
Source: Macrobond.

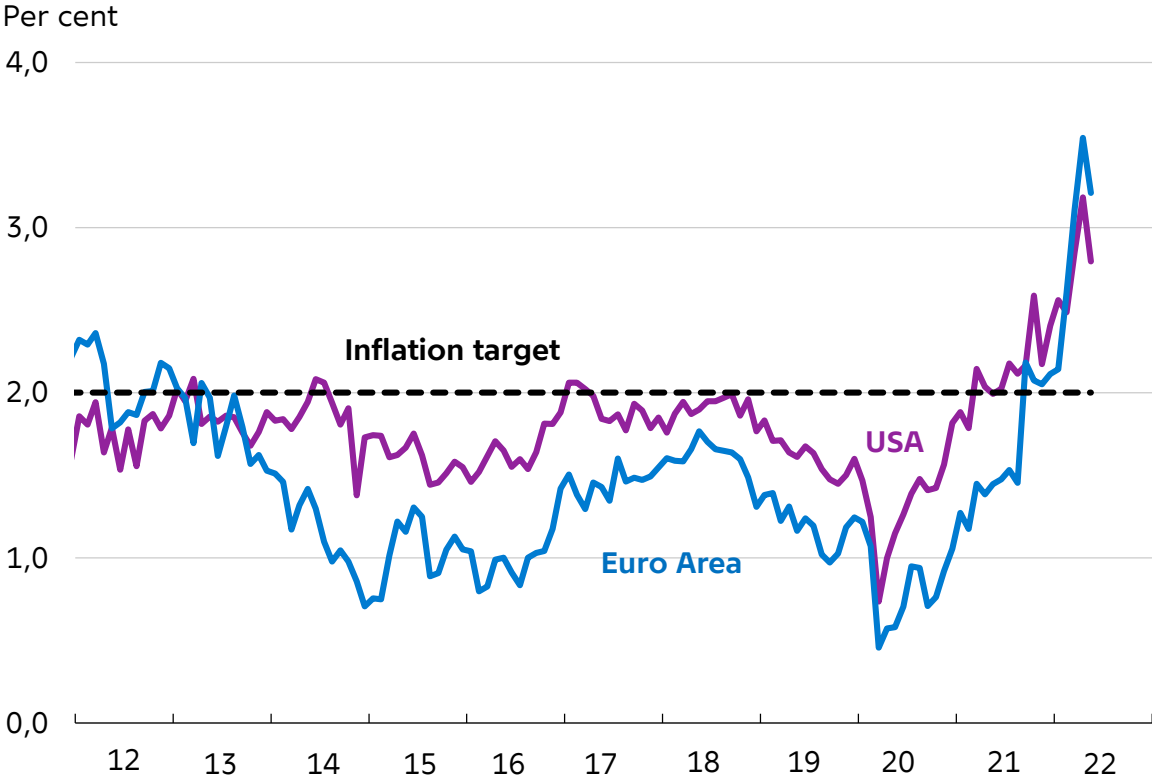
... while the persistence of global value chain pressures was unexpected



Note: The index is based on a number of indicators including freight costs, delivery times, production backlogs and inventory accumulation, see Benigno m.fl.
Source: Federal Reserve Bank of New York.

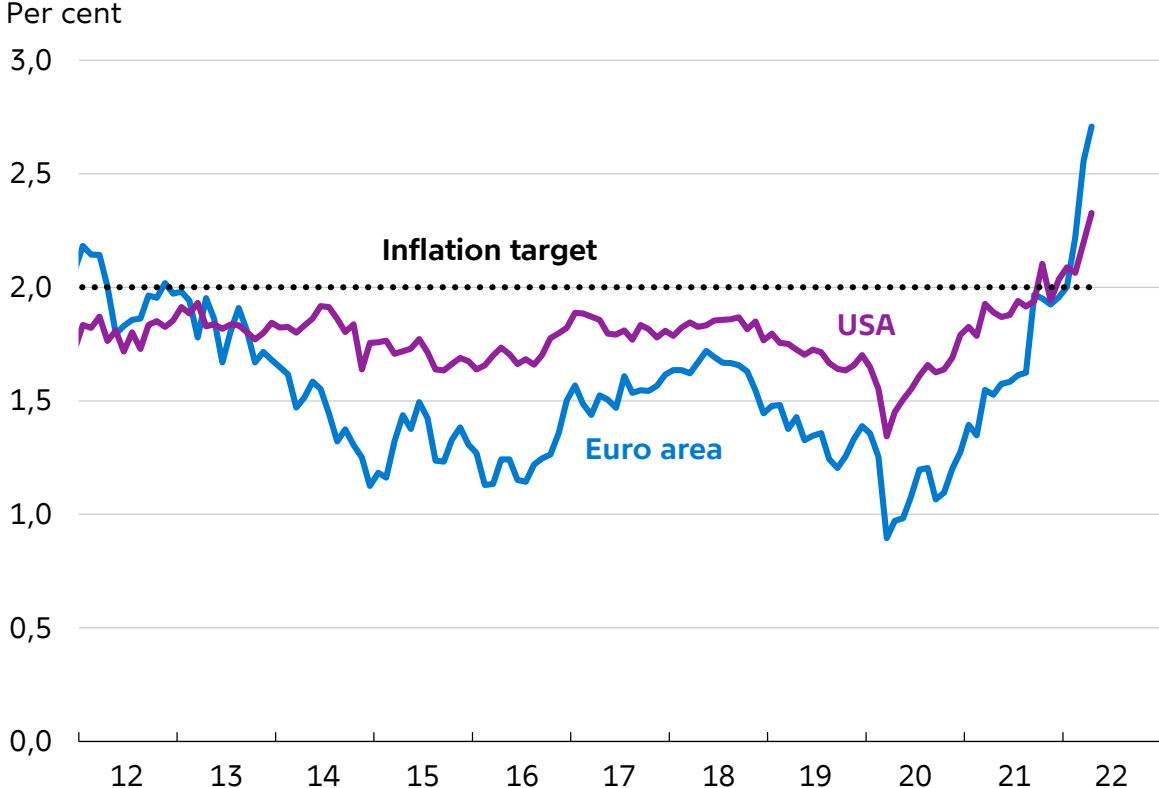
Inflation expectations deanchoring? Relevant horizon

Inflation expectations at the one-year horizon have indeed picked up ...



Note: : The chart shows 1-year inflation expectations based on inflation swaps cleaned for risk premiums. Source: Refinitiv Eikon

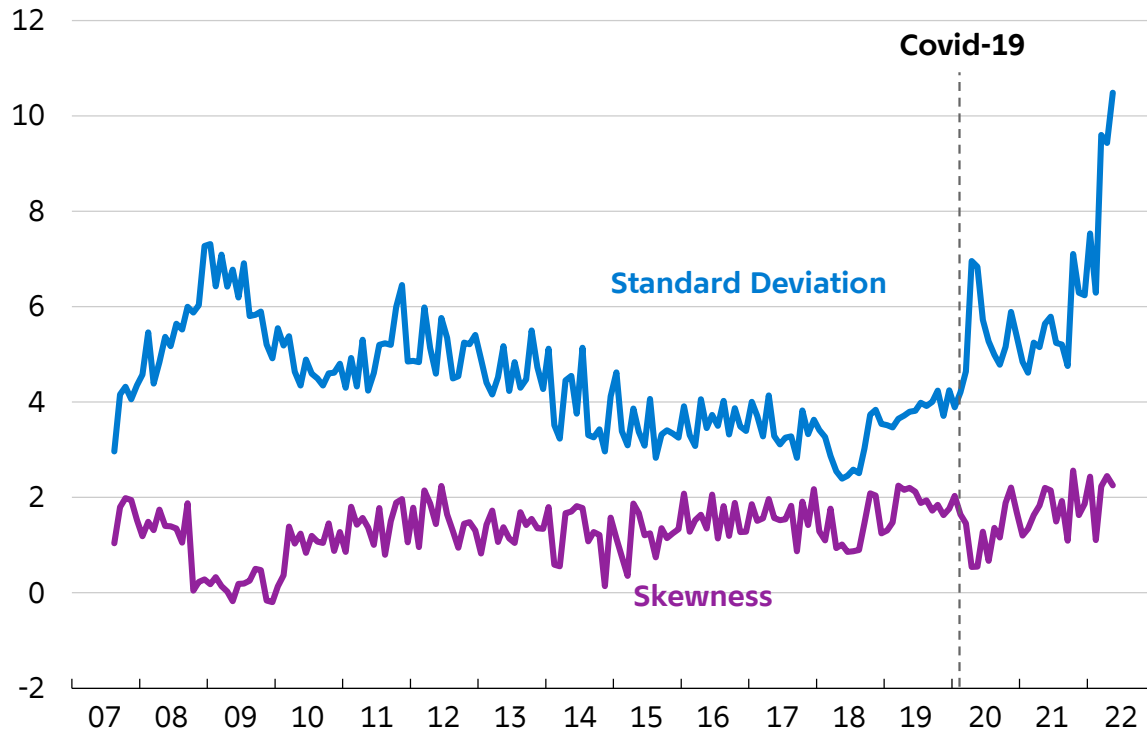
... but the increase is less dramatic for 3-year inflation expectations



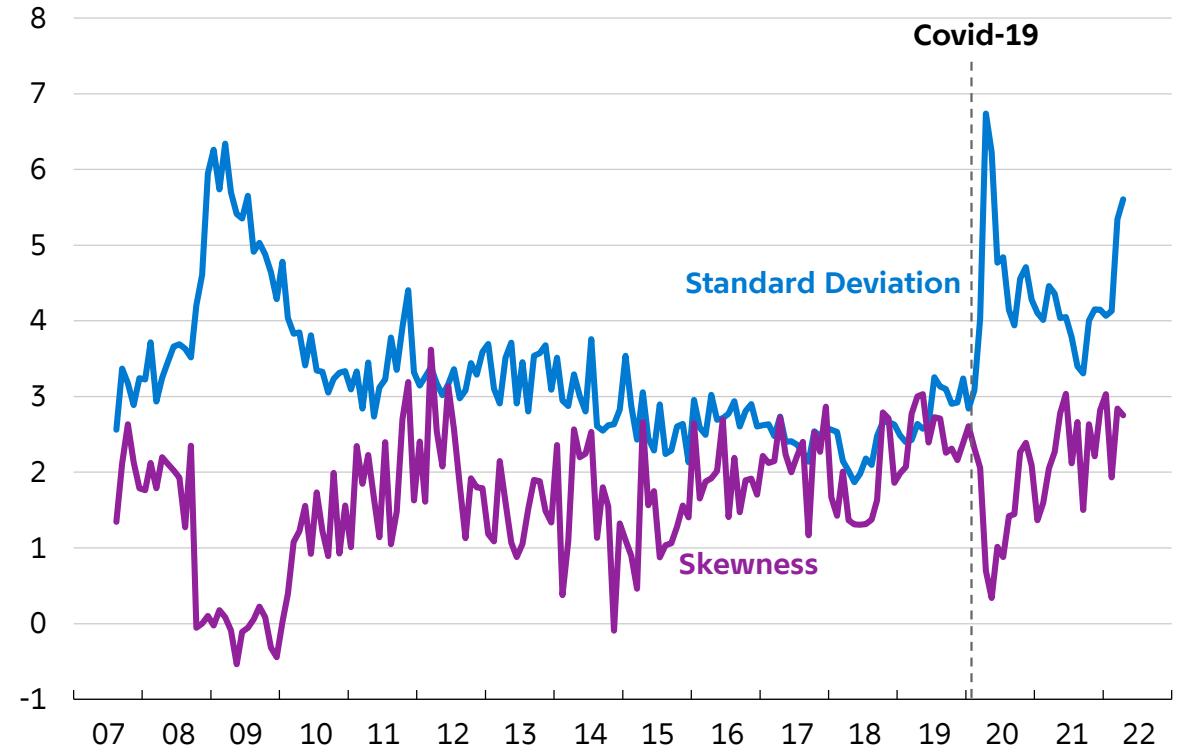
Note: The chart shows 3-year inflation expectations based on inflation swaps cleaned for risk premiums. Source: Thomson Reuters and own calculations.

Inflation expectations deanchoring? What is in the tail?

Danish households disagree about future inflation...



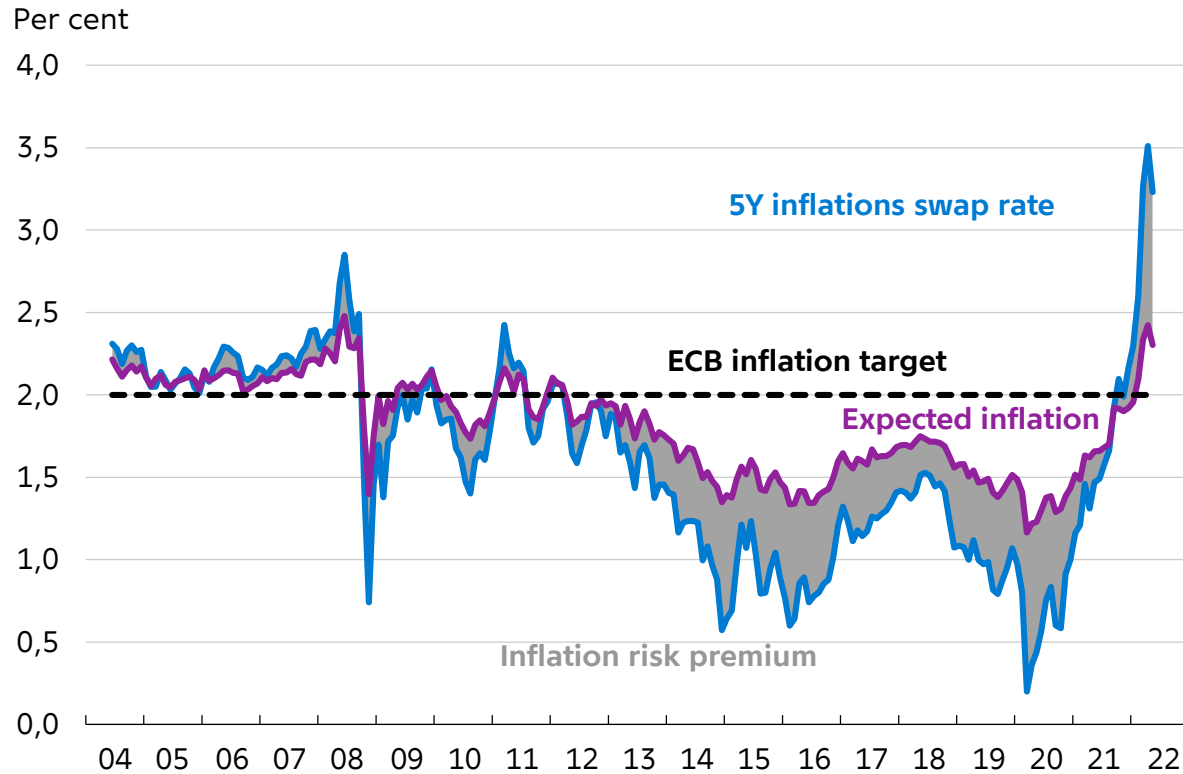
... but if we put less weight on households with poor track record in assessing current inflation, the picture changes



Note: Standard deviations reflect how much households disagree about future inflation. Skewness is a measure for the location of most of the households' expectations relative to the mean.. The chart to the right puts more weight on households who were historically better at assessing current inflation. Source: Statistics Denmark and own calculations.

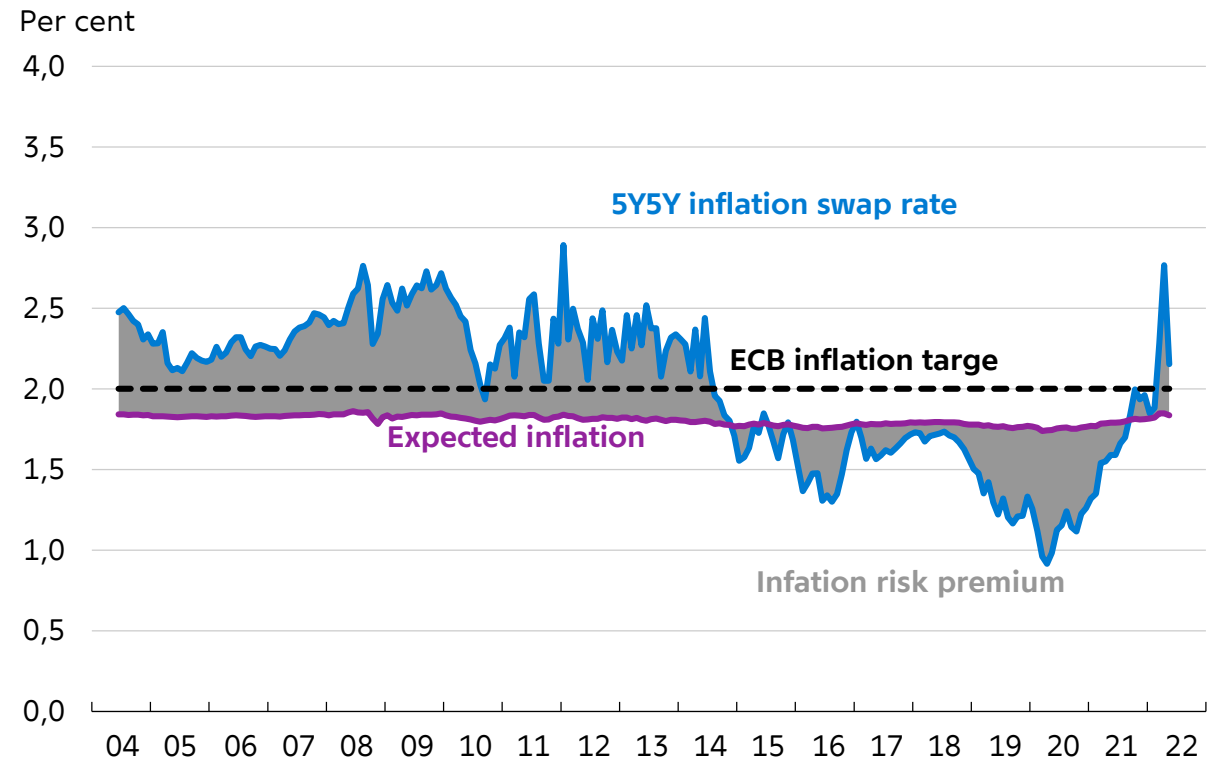
Inflation expectations are (re-)anchored. But the salience of inflation may change expectations

Expectations of financial market participants based on inflation swaps have priced a deflationary risk until recently...



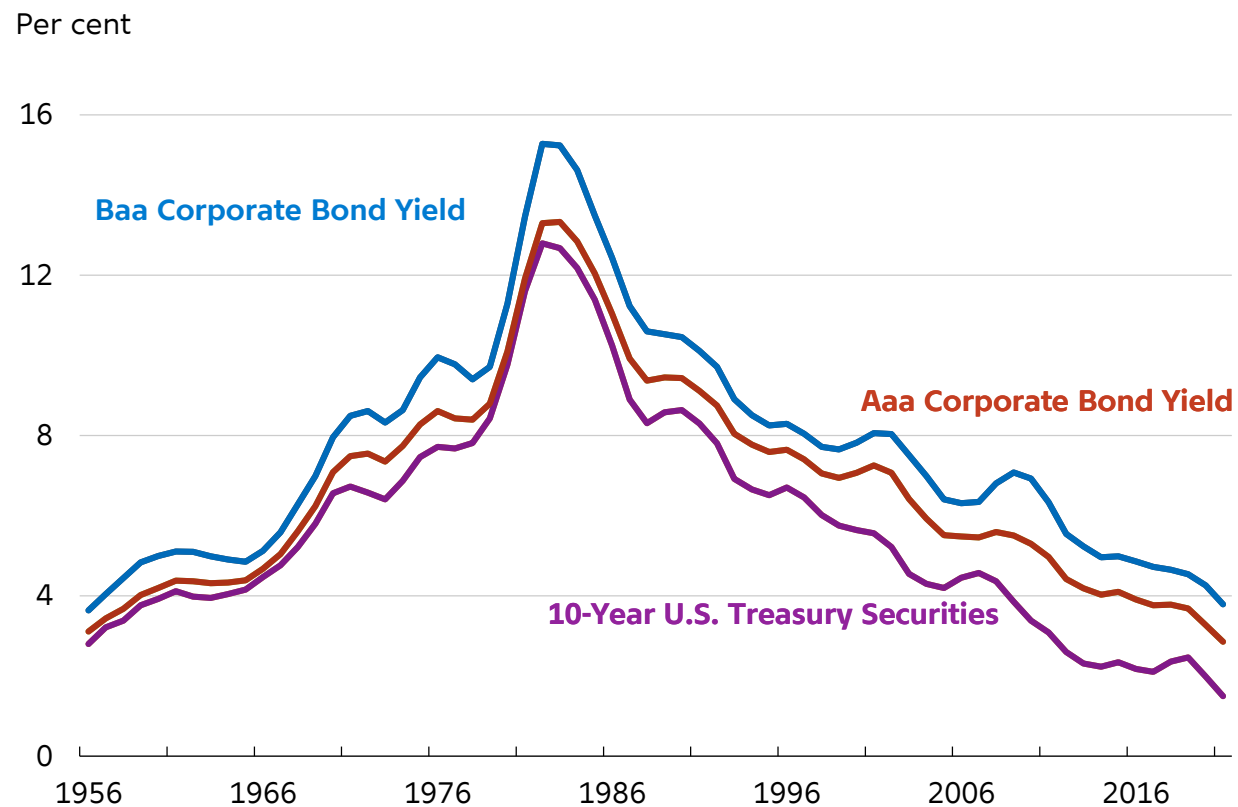
Source: Macrobond and own calculations

... including for longer horizons.



Source: Macrobond and own calculations

R* level and relevant measure



Note: Series are computed based on 3-year moving averages of yields. The Aaa and Baa corporate bond yields are based on the Moody's seasoned Aaa and Baa corporate bond yields. The 10-year treasury yield is the market yield on U.S. treasury securities at 10-Year constant maturity reported by the Board of Governors of the Federal Reserve System.

Source: FRED, Federal Reserve Bank of St. Louis.