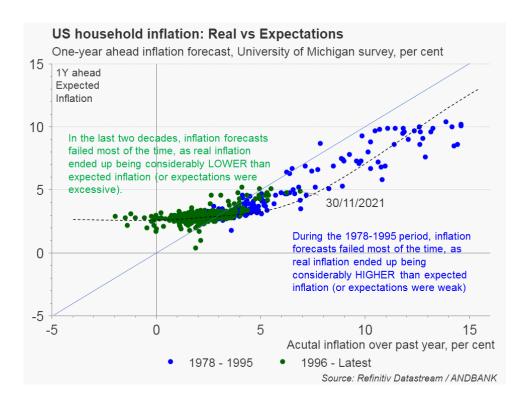


## Flash note 20/12/2021

Alex Fusté
@AlexfusteAlex
alex.fuste@andbank.com

## Why is it necessary to downplay the Inflation Expectation data?



Dealing with graphs like this, I can draw several conclusions:

- 1. The inflation expectation is rarely met. Therefore, we must downplay the expectation data.
- 2. **Estimation error in periods of high inflation:** In 1978-1995 the average inflation was 5%, and the error came because the expectation was weak (the real inflation ended up being considerably higher)
- 3. **Estimation error In periods of low inflation:** In 1996-2021 the average inflation was 2%, and the error came because the expectation was excessive (the real inflation ended up being considerably lower)
- 4. That is exactly what happened again in 2021. The year has turned into an inflationary year, and prices surprised us being well above expectations. **One more example that agents do**

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**not know how to predict inflation, not even in the short term** (since no one in June predicted an inflation level of 6.8% today)

5. The question is, what environment are we going to see in the next two years and what type of error are we going to make? If, as I believe, inflation moderates again (starting a gradual disinflationary process), then I believe that the inflation will surprise us on the downside (lower than forecasted).

**Best**