

# The Term Structure of Inflation Expectations and Consumer Spending: Micro-data Evidence\*

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## Abstract

Unconventional monetary policy is designed to engineer inflation expectations for increasing today's spending, and there is a theoretical basis about relationship between inflation expectations and current spending. Using large panel data in Japan, which connects a survey data on households' inflation expectations in Japan with the data on their actual spending, we test standard economic models which predicts that households increase current consumption in response to rise in inflation expectations. We show that the term structure of inflation expectations matters in the sense that consumer's spending reacts to longer-term inflation expectations rather than shorter-term inflation expectations.

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*Keywords:* consumption; Euler equation; forecast data; inflation expectations; monetary policy; term structure of inflation expectations

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