# Inflation Expectations and Consumer Spending: Micro-data Evidence*

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**Abstract**

This study examines the relationship between inflation expectations and current spending with a unique dataset on household expenditure and an inflation survey in Japan. While unconventional monetary policy aims to generate higher inflation expectations to increase current spending, there is mixed evidence regarding whether higher inflation expectations does stimulate current expenditure. By connecting survey data on households' inflation expectations with the data on their actual spending, we test whether inflation expectations actually influence intertemporal consumption choices. There are three findings. First, higher inflation expectations induce households to increase current spending. This is consistent with the theoretical prediction of the standard consumption model. Second, households with "reasonable" forecasts increase current spending only if the underlying inflation expectations rise. The evidence suggests that inflation expectations in the longer term matter in households' consumption choices. Third, the "hand-to-mouth" households fail to increase current spending in response to a rise in their inflation expectations. This result implies that when inflation rates are expected to rise, households under the liquidity constraints are likely to spend less and save more.

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