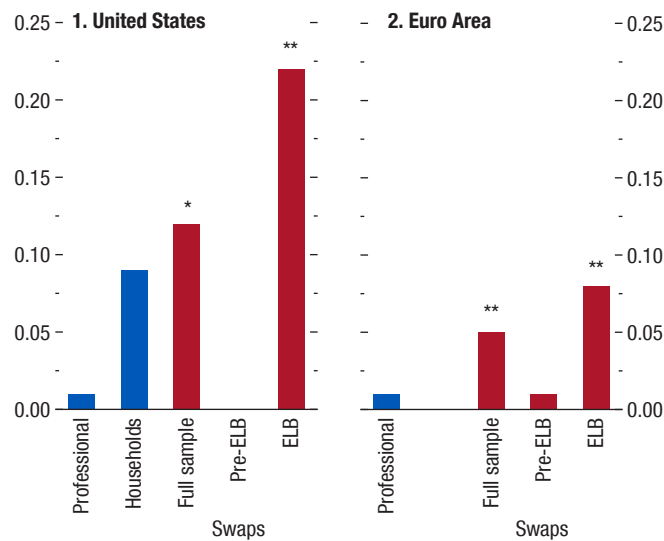


**Figure 3.22. Sensitivity of Longer-Term Inflation Expectations to Changes in Oil Prices**

The sensitivity of market-based inflation expectations to inflation surprises in the United States and the euro area increased after policy rates reached their effective lower bounds.



Sources: Bloomberg L.P.; Consensus Economics; University of Michigan Consumer Survey; and IMF staff calculations.  
 Note: \*\*, \* denote significance at the 5 and 10 percent confidence level, respectively. The figure shows coefficient estimates of inflation expectations on changes in oil price futures (simple average of 1-year-ahead Brent and West Texas Intermediate) controlling for changes in the Chicago Board Options Exchange Volatility Index and scaled by a 50 percent drop in oil price futures. Blue bars denote estimation results using survey-based inflation expectations: “Professional” denotes the results using 5-year-ahead inflation forecasts from Consensus Economics; while “Households” denotes results using inflation expectations (5–10 years) from the Michigan survey. Red bars denote results using market-based inflation expectations based on five year/five year inflation swaps. The effective lower bound (ELB) is defined as starting in 2009. The full sample refers to the period 2004–16.