Household inattention across the Euro Area

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Introduction

- Inattention is an *endogenous* outcome: agents choose to be more informed when the cost of being wrong is higher – **Rational Inattention** [Sims, 2003, Mackowiak and Wiederholt, 2009].

- Recent empirical evidence shows that the economic environment — specifically the level of inflation — affects how agents respond to new information:
  - Households become more attentive to current prices [Bracha and Tang, 2025, Pfäuti, 2025, Korenok et al., 2023].
  - Firms allocate more resources to process inflation-related information when it becomes more relevant for their economic decisions [Coibion et al., 2018].

- **Why this is important:**
  - Steepening of the Phillips Curve [Bracha and Tang, 2025].
  - Stronger transmission of monetary policy [Pfäuti, 2023].
  - Implications for central bank communication [Weber et al., 2025].
  - Mapping of inflation expectations to inflation outcomes [Kourtellos et al., 2025, Briand et al., 2025].

Research Question

- We study a multi-country monetary union characterized by heterogeneous inflation dynamics and markedly different historical inflation experiences.
- We consider two direct measures of inattention based ons households responses.
- We consider the role of individuals' lifetime Inflation experience.
- We ask how major adverse events and skin-in-the-game affect Inattention.
- We study how our measures of inattention relate to Forecast Errors and Forecast Inaccuracy, used to indirectly measure inattention in the literature.

Data and Measures

[Bracha and Tang, 2025] propose two direct measures of inattention on US data:

European Commission Business and Consumer Survey (BCS)

- Monthly household-level survey, 12 euro-area economies, **2004M1–2025M2**.
- Asks **directly** about current inflation ⇒ we use the **entire cross-section of responses**.

Measure 1 — Perception errors (quantitative).

"How many percent do you think prices in general have increased/decreased on average over the past 12 months?"

$$\text{Inattention}_{i,t} = \pi_{i,t}^{\text{perceived}} - \pi_t^{\text{realized}}$$

- Larger perception errors ⇒ lower attention.

Measure 2 — "Don't Know" (qualitative).

"How do you think prices in general have developed over the past 12 months?"

Increased strongly · moderately · slightly · Stayed about the same · Fallen · **Don't Know**.

Controlling for Aggregate Noise

- Higher inflation has **two opposing effects** on perception errors:
  - ↑ Inflation → ↑ Salience → ↓ **perception errors** (attention channel)
  - ↑ Inflation → ↑ Aggregate noise → ↑ **perception errors** (noise channel)
- We proxy aggregate noise with the **cross-sectional standard deviation of inflation expectations** (disagreement) and control for it in all regressions.

Panel A: Inattention Based on Perception Errors

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
$Inflation_{t-1}$	-0.366***	-0.667***	-0.47***	-0.506***	-0.533***	-0.491***	-0.019	-0.771***	-0.269**	-0.86***	-0.109*	-0.349***
	(0.06)	(0.056)	(0.059)	(0.118)	(0.104)	(0.051)	(0.088)	(0.108)	(0.123)	(0.038)	(0.056)	(0.113)
$Disagreement_{t-1}$	0.998***	1.028***	1.192***	1.478***	1.604***	1.279***	0.844***	1.932***	0.524***	1.182***	0.593***	1.503***
	(0.089)	(0.073)	(0.047)	(0.093)	(0.085)	(0.081)	(0.093)	(0.125)	(0.161)	(0.075)	(0.037)	(0.074)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: Inattention based on "Don't Know" Responses (Logit)

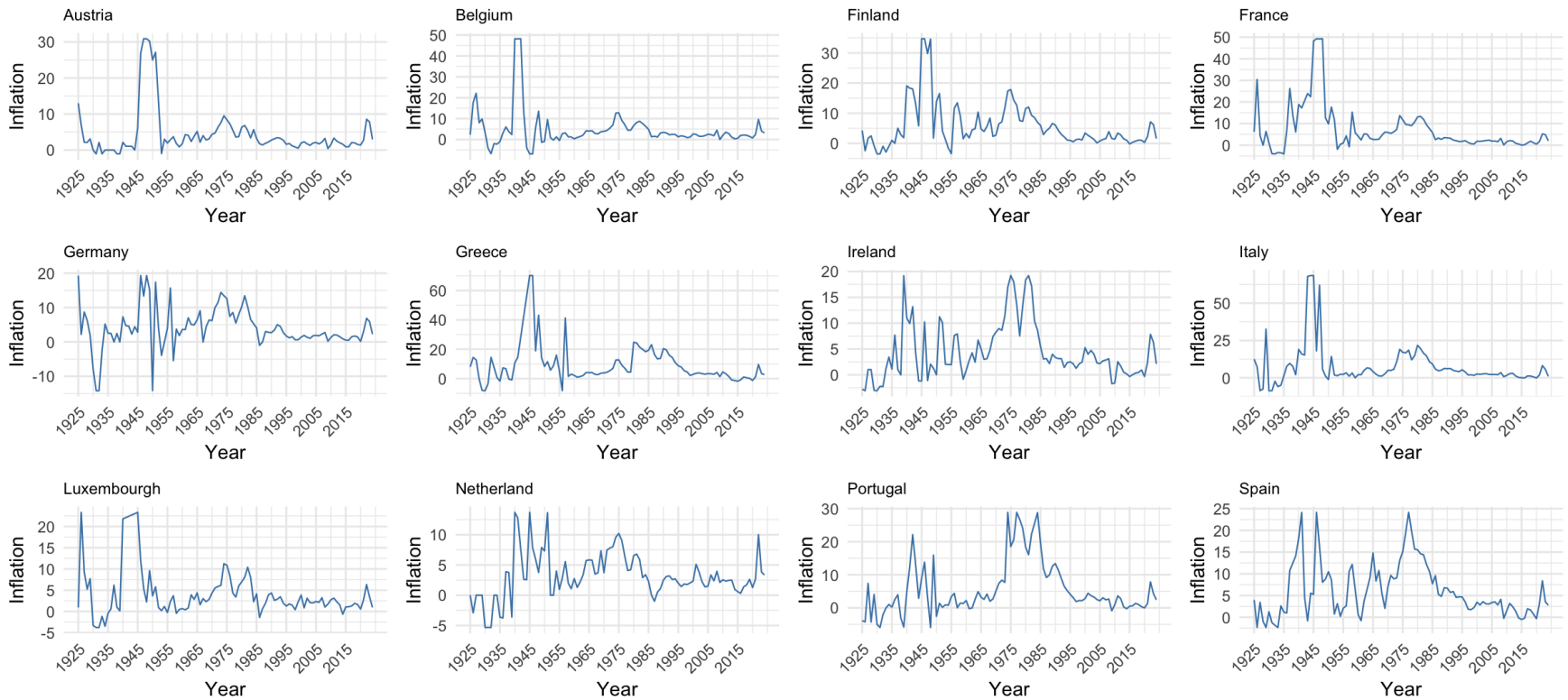
	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
$Inflation_{t-1}$	-0.218***	-0.077***	-0.056***	-0.083***	-0.183***	-0.149***	-0.375***	0.136***	-0.084**	-0.072***	-0.061***	-0.006
	(0.048)	(0.023)	(0.014)	(0.028)	(0.022)	(0.032)	(0.03)	(0.042)	(0.038)	(0.018)	(0.019)	(0.029)
$Disagreement_{t-1}$	0.165***	-0.137***	-0.072***	-0.104***	-0.061***	-0.183***	0.041	-0.107***	-0.091***	-0.14***	-0.016*	-0.089***
	(0.049)	(0.029)	(0.013)	(0.021)	(0.014)	(0.041)	(0.028)	(0.035)	(0.032)	(0.024)	(0.009)	(0.02)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

- Controls: YoY HICP inflation, unemployment rate, rolling 12-month inflation volatility, plus education, age, income, and gender.

Experienced Inflation and Households Inattention

- **Role of Personal Experiences:** People adapt their beliefs to new data based on inflation realized over their life–times [Malmendier and Nagel, 2016].
- **Euro Area:** Macroeconomic Laboratory – a lot of heterogeneity on Historical Inflation rates – common Monetary policy.
- Annual Inflation Rate Data [Reinhart and Rogoff, 2009].



Lifetime Inflation Experience

- **Recent Life Experience:** More recent experiences receive higher weight relative to those early in life (Recency Bias).

$$\pi^{\text{recent}}_{i,j,t} = \frac{\sum_{k=1}^{age_{i,t}-1} w_{i,t}(k)\,\pi_{j,t-k}}{\sum_{k=1}^{age_{i,t}-1} w_{i,t}(k)}, \qquad w_{i,t}(k) = \frac{age_{i,t} - k}{age_{i,t}}$$

- For **Early Life Experience**, we apply linearly increasing weights $w_{i,t}(k) = k$, placing greater emphasis on inflation experienced during formative years.
- In the BCS, age is given in discrete brackets (16–29,30–49,50–64,65+).
- We calculate experienced inflation for each integer age (16–83) applying the corresponding weighting function.
- We then assign to each respondent the average of these values across all integer ages within their reported bracket.

Regression Results – Impact of Experiences on Inattention

Inattention measured by Perception Errors

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
RecentLifeExperience	5.033***	5.731***	0.216***	-0.226	2.7***	1.887***	3.69***	5.953***	4.852***	9.081***	2.172***	-0.328
	(0.428)	(0.766)	(0.052)	(0.396)	(0.737)	(0.203)	(0.366)	(0.851)	(0.917)	(1.35)	(0.618)	(1.022)
EarlyLifeExperience	-0.42	-0.732***	-0.054**	-1.348***	-2.674***	-1.396***	-2.806***	-0.73**	-3.043***	-2.853***	-1.828***	-2.04***
	(0.349)	(0.197)	(0.024)	(0.218)	(0.351)	(0.149)	(0.318)	(0.307)	(0.642)	(0.399)	(0.422)	(0.53)
$Inflation_{t-1}$	-0.265***	-0.706***	-0.464***	-0.467***	-0.528***	-0.49***	-0.089	-0.722***	-0.2*	-0.789***	-0.067	-0.342***
	(0.059)	(0.054)	(0.059)	(0.112)	(0.099)	(0.049)	(0.08)	(0.101)	(1.121)	(0.036)	(0.056)	(0.114)
$Disagreement_{t-1}$	0.924***	1.175***	1.183***	1.471***	1.58***	1.276***	0.995***	1.747***	0.495***	0.892***	0.454***	1.466***
	(0.073)	(0.071)	(0.046)	(0.089)	(0.081)	(0.078)	(0.093)	(0.12)	(0.157)	(0.089)	(0.064)	(0.084)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

- **Early life experience:** High Inflation during formative years, **decreases** perception errors.
  - Higher incentive to monitor prices later in life.
  - Lower cost on extracting signal from noise.
- **Recent life experience:** Higher experience inflation, **raises** percepton errors.
  - Overestimate Inflation persistence. Their perceptions remain attached to the inflation more recently experienced over their life.
  - Selective recall of salient historical episodes distorts rather than improves belief formation[Link et al., 2023].

Impact of extreme adverse events on inattenton

- Period under study, encompasses several large and distinct disruptions across the euro area economies.
- We detect periods of extreme market stress applying a simple threshold-based approach to the VSTOXX index, following [Geiger et al., 2025].
- **Extreme Adverse Event:** 2.33 standard deviations above the index mean (Events at the 99th percentile of the distribution)

Table: Episodes and Dates

Episode/Event	**Dating**
Global Financial Crisis	2008-10 to 2009-03
Greek Debt Crisis	2010-05
Sovereign Debt Crisis	2011-08 to 2011-10
Covid–19	2020-03 to 2020-04
Ukraine War	2022-03

Impact of Extreme Adverse Events on Inattention

Inattention measured by Perception Errors

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
Global Financial crisis	1.485	4.997***	1.58**	-18.704***	-8.465***	-7.004***	0.796	0.766	-0.077			
	(1.128)	(1.013)	(0.798)	(3.001)	(2.318)	(0.609)	(1.112)	(2.26)	(3.26)			
Greek Debt crisis	-1.896***	-1.25***	-1.046***	-5.791***	1.831**	-0.058	-0.425	-3.279***	-3.159***		-2.785***	
	(0.258)	(0.38)	(0.234)	(0.584)	(0.889)	(0.186)	(0.321)	(0.688)	(0.757)		(0.333)	
Sovereign Debt Crisis	-2.761***	0.188	0.661	-1.17	-4.497***	-0.23	-1.345**	-3.862***	-2.627***	-5.002***	4.743***	
	(0.587)	(0.557)	(0.458)	(1.038)	(1.053)	(0.384)	(0.533)	(1.275)	(0.783)	(0.446)	(0.774)	
Covid–19	-7.367***	-5.632***	-4.474***	-4.93***	-7.06***	-3.933***	-4.646***	-4.993***	-2.106**	-6.907***	-3.35***	-0.553
	(0.486)	(0.661)	(0.568)	(0.85)	(1.355)	(0.459)	(0.742)	(0.833)	(0.99)	(0.447)	(0.6)	(0.708)
Ukraine War	-3.037***	-5.271***	-2.197***	-5.427***	-3.918***	-2.534***	-2.717***	-6.233***	-2.431***	-3.547***	-0.598	-3.266***
	(0.363)	(0.518)	(0.328)	(0.835)	(1.042)	(0.285)	(0.493)	(1.042)	(0.791)	(0.409)	(0.426)	(0.608)
$Inflation_{t-1}$	-0.399***	-0.675***	-0.482***	-0.582***	-0.569***	-0.503***	-0.044	-0.763***	-0.286**	-0.85***	-0.129**	-0.346***
	(0.061)	(0.054)	(0.059)	(0.118)	(0.104)	(0.049)	(0.09)	(0.108)	(0.116)	(0.033)	(0.055)	(0.109)
$Disagreement_{t-1}$	1.069***	1.078***	1.22***	1.542***	1.641***	1.308***	0.871***	1.94***	0.552***	1.215***	0.587***	1.505***
	(0.083)	(0.071)	(0.044)	(0.092)	(0.089)	(0.078)	(0.094)	(0.126)	(0.178)	(0.065)	(0.037)	(0.073)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Inattention measured by Do Not Knows

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
Global Financial Crisis	1.992***	4.459***	-3.766***	0.341	1.047**	2.107***	-0.416	1.167*	-3.013***			
	(0.587)	(0.358)	(0.215)	(0.739)	(0.427)	(0.422)	(0.383)	(0.647)	(0.64)			
Greek Debt crisis	0.57***	0.273***	0.095	-0.175	-0.153	-0.582***	0.504***	0.58***	0.7***		0.022	
	(0.136)	(0.104)	(0.089)	(0.11)	(0.131)	(0.128)	(0.097)	(0.16)	(0.161)		(0.106)	
Sovereign Debt Crisis	1.385***	1.67***	-1.01***	-0.111	0.924***	-1.209***	1.192***	2.308***	4.369***	0.755***	-1.258***	
	(0.391)	(0.271)	(0.141)	(0.221)	(0.233)	(0.256)	(0.197)	(0.364)	(0.308)	(0.166)	(0.334)	
Covid–19	0.923***	1.567***	0.907***	0.718***	1.819***	0.011	0.201	0.736***	0.267	1.144***	-1.129***	0.582***
	(0.333)	(0.304)	(0.163)	(0.146)	(0.175)	(0.297)	(0.272)	(0.19)	(0.278)	(0.225)	(0.192)	(0.214)
Ukraine War	-0.899***	1.067***	-0.215***	-26.494***	-0.215	-0.183	-0.399**	-16.854***	0.365	0.378**	-1.36***	-0.535***
	(0.263)	(0.264)	(0.083)	(1.017)	(0.163)	(0.18)	(0.156)	(1.025)	(0.237)	(0.185)	(0.16)	(0.15)
$Inflation_{t-1}$	-0.2***	-0.089***	-0.053***	-0.077***	-0.169***	-0.145***	-0.388***	0.123***	-0.108***	-0.067***	-0.06***	-0.001
	(0.051)	(0.026)	(0.014)	(0.03)	(0.022)	(0.034)	(0.034)	(0.042)	(0.034)	(0.017)	(0.019)	(0.029)
$Disagreement_{t-1}$	0.151***	-0.133***	-0.08***	-0.106***	-0.067***	-0.188***	0.059**	-0.089**	-0.098***	-0.152***	-0.018**	-0.087***
	(0.051)	(0.029)	(0.014)	(0.023)	(0.015)	(0.043)	(0.03)	(0.036)	(0.035)	(0.022)	(0.009)	(0.02)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Households with "Skin-in-the-Game"

Following [Hajdini et al., 2026], households that plan to make major purchases in the near future have **"skin-in-the-game"**.

> *"Compared to the past 12 months, do you expect to spend more or less money on major purchases (furniture, electrical/electronic devices, etc.) over the next 12 months?"*

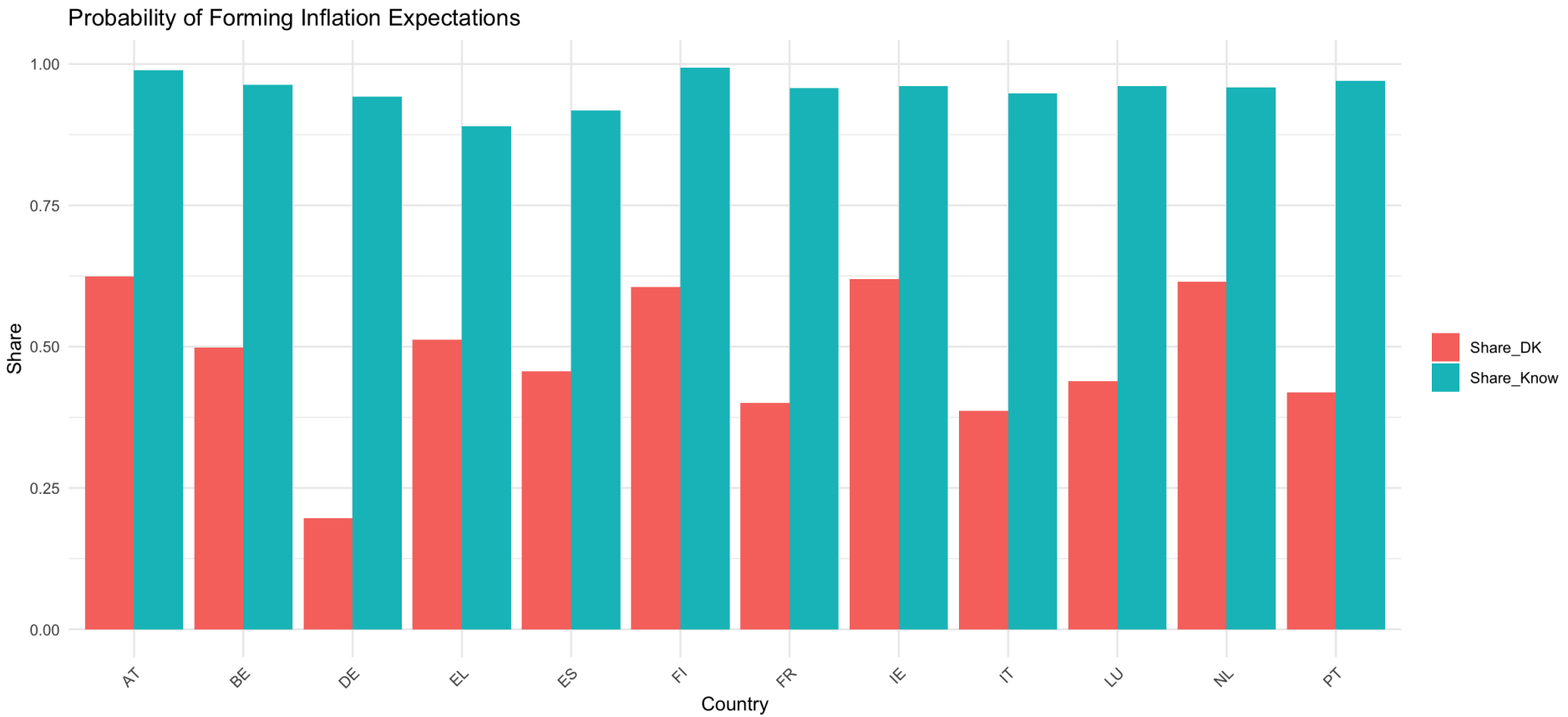
Much more · A little more · About the same · A little less · Much less

Inattention measured by Perception Errors

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
Skin in the game	-0.747***	-0.448***	-0.552***	-0.614***	-1.09***	-0.338***	-0.207***	-0.559***	-0.431***	-0.649***	-0.27***	-0.805***
	(0.025)	(0.029)	(0.041)	(0.053)	(0.048)	(0.023)	(0.027)	(0.067)	(0.04)	(0.029)	(0.044)	(0.061)
$Inflation_{t-1}$	-0.372***	-0.673***	-0.478***	-0.521***	-0.559***	-0.493***	-0.023	-0.764***	-0.27**	-0.866***	-0.107*	-0.346***
	(0.06)	(0.056)	(0.06)	(0.117)	(0.102)	(0.051)	(0.088)	(0.107)	(0.122)	(0.037)	(0.056)	(0.112)
$Disagreement_{t-1}$	0.963***	1.032***	1.183***	1.46***	1.595***	1.263***	0.85***	1.89***	0.532***	1.168***	0.555***	1.486***
	(0.087)	(0.074)	(0.048)	(0.093)	(0.083)	(0.08)	(0.092)	(0.129)	(0.157)	(0.073)	(0.037)	(0.073)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

- Planned expenditures raise the value of paying attention to inflation.

Forecast Inaccuracy and Forecast Errors



- A sizable fraction of inattentive — those that "Do Not Know" the current inflation rate — nonetheless form and report inflation expectations.

Forecast Inaccuracy

Panel A: Inattention measure based on Forecast Errors

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
Perception Errors	0.494***	0.459***	0.578***	0.504***	0.46***	0.5***	0.52***	0.315***	0.463***	0.49***	0.491***	0.526***
	(0.008)	(0.007)	(0.011)	(0.013)	(0.008)	(0.012)	(0.01)	(0.008)	(0.012)	(0.019)	(0.017)	(0.018)
$Inflation_{t-1}$	0.387***	0.429***	0.472***	0.898***	0.547***	0.418***	0.416***	0.397***	0.48***	0.446***	0.145***	0.633***
	(0.053)	(0.041)	(0.066)	(0.07)	(0.061)	(0.046)	(0.054)	(0.083)	(0.061)	(0.049)	(0.029)	(0.11)
$Disagreement_{t-1}$	0.08	0.028	-0.009	-0.035	-0.076*	-0.205***	-0.007	0.148**	-0.032	-0.242***	0.168***	-0.172***
	(0.066)	(0.05)	(0.039)	(0.05)	(0.046)	(0.057)	(0.062)	(0.064)	(0.054)	(0.048)	(0.024)	(0.064)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: Inattention based on those who "do not know" current inflation.

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
Do Not Know	-0.457	-1.11***	-1.216***	-3.033***	-2.112***	-0.034	-1.188***	-2.125***	-1.097***	-1.058***	-0.55*	-2.234***
	(0.28)	(0.129)	(0.162)	(0.211)	(0.199)	(0.219)	(0.114)	(0.23)	(0.2)	(0.113)	(0.296)	(0.352)
$Inflation_{t-1}$	0.206***	0.081***	0.199***	0.662***	0.268***	0.158***	0.365***	0.144**	0.341***	0.017	0.101***	0.363***
	(0.05)	(0.031)	(0.053)	(0.077)	(0.053)	(0.034)	(0.04)	(0.072)	(0.061)	(0.043)	(0.03)	(0.055)
$Disagreement_{t-1}$	0.577***	0.59***	0.67***	0.68***	0.661***	0.45***	0.466***	0.696***	0.192***	0.336***	0.434***	0.607***
	(0.052)	(0.04)	(0.033)	(0.065)	(0.033)	(0.054)	(0.041)	(0.047)	(0.054)	(0.042)	(0.028)	(0.046)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

- **Perception Errors:** Individuals with higher perception errors (i.e., more inattentive) make more inaccurate forecasts.
- A fall in **"Do Not Know"** responses induces a composition effect: the newly reporting households are, on average, less informed about current price developments, making their forecasts systematically less accurate.

Forecast Errors

- Forecast errors are defined as the difference between realized inflation twelve months ahead and the household's current expectation over the same horizon:

$$\text{FE}_t = \pi_{t+12} - \mathbb{E}_t[\pi_{t+12}]$$

Panel A: Inattention measure based on Perception Errors

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
Perception Errors	-0.314***	-0.401***	-0.492***	-0.11	-0.372***	-0.528***	-0.492***	-0.264***	-0.432***	-0.311***	-0.466***	-0.445***
	(0.014)	(0.008)	(0.009)	(0.079)	(0.006)	(0.009)	(0.007)	(0.009)	(0.011)	(0.02)	(0.015)	(0.012)
$Inflation_{t-1}$	-0.695***	-0.8***	-0.794***	-1.163***	-1.03***	-0.692***	-0.658***	-0.736***	-0.794***	-0.941***	-0.768***	-1.045***
	(0.155)	(0.132)	(0.142)	(0.103)	(0.125)	(0.122)	(0.161)	(0.155)	(0.118)	(0.112)	(0.094)	(0.277)
$Disagreement_{t-1}$	0.006	0.237*	0.147***	0.017***	0.23***	0.24*	0.265*	0.188*	-0.085	0.175***	0.12***	0.404***
	(0.029)	(0.124)	(0.056)	(0.005)	(0.053)	(0.128)	(0.156)	(0.1)	(0.095)	(0.067)	(0.031)	(0.142)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Panel B: Inattention based on those who "do not know" current inflation.

	AT	BE	DE	EL	ES	FI	FR	IT	LU	NL	IE	PT
Do Not Know	1.313***	2.048***	2.789***	3.908***	3.273***	1.444***	1.954***	2.417***	1.804***	2.147***	1.211***	3.438***
	(0.259)	(0.166)	(0.161)	(0.261)	(0.221)	(0.218)	(0.134)	(0.224)	(0.202)	(0.114)	(0.288)	(0.447)
$Inflation_{t-1}$	-0.677***	-0.531***	-0.583***	-1.126***	-0.812***	-0.435***	-0.643***	-0.541***	-0.738***	-0.706***	-0.46***	-0.868***
	(0.132)	(0.107)	(0.116)	(0.098)	(0.104)	(0.103)	(0.13)	(0.128)	(0.103)	(0.088)	(0.082)	(0.203)
$Disagreement_{t-1}$	-0.026	-0.23**	-0.312***	0.015***	-0.195***	-0.302***	-0.119	-0.231***	-0.184***	0.049	-0.118***	-0.127
	(0.025)	(0.107)	(0.05)	(0.005)	(0.046)	(0.113)	(0.123)	(0.08)	(0.067)	(0.034)	(0.033)	(0.111)
Other Macro Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Demographic Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Robust standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

- **Perception Errors:** The higher forecast inaccuracy observed for individuals with higher perception errors is driven by **over-prediction** of future inflation.
- **Do Not Know:** Higher prevalence of households unaware of current inflation leads to systematic **under-prediction** of the inflation rate across all economies.

Conclusion: Measuring Household Inattention to Inflation

- Two direct measures of inattention:
  - *Perception-error based measure*
  - *"Don't Know" response measure*
- Both decline when inflation is increases, confirming that attention to prices is endogenous.
- The perception-error measure behaves consistently with economic theory:
  - Early-life inflation experience reduces inattention later in life.
  - Overweighting recent inflation experience raises perception errors.
  - Extreme adverse shocks systematically reduce inattention across countries.
  - Skin-in-the-game lowers perception errors in every country.
- The "Don't Know" measure lacks systematic patterns across countries.
- Perception errors are strongly and positively associated with inflation forecast inaccuracy.
- Inflation forecast errors can therefore serve as a proxy for household inattention.

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