Macro Roundup Artcile

Headline: Price Discounts and Cheapflation During the Post-Pandemic Inflation Surge

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Tweet: Between January 2020 and May 2024, the regular prices of cheaper US foods and beverages grew at 1.4 times the rate for more expensive ones, adding 8 ppts cumulative price growth relative to premium varieties. @albertocavallo

Summary: We use micro price data for food products sold by 91 large multi-channel retailers in ten countries between 2018 and 2024. Measuring unit prices within narrowly defined product categories, we analyze two key sources of variation in prices within a store: temporary price discounts and differences across similar products. Price changes associated with discounts grew at a much lower average rate than regular prices, helping to mitigate the inflation burden. By contrast, cheapflation—a faster rise in prices of cheaper goods relative to prices of more expensive varieties of the same good exacerbated it. We show that regular price changes were the primary driver of inflation, mainly because retailers increased the proportion of price increases from about half to over two-thirds of products. In contrast, sales had only a minor impact on inflation. Figure 5(a) visualizes the quartile price indexes for the United States. There is a significant disparity in inflation rates between the first and last quartiles over the period from January 2020 to May 2024. The difference starts to increase in early 2021 and stabilizes by early 2023, suggesting that cheapflation is most prominent during the inflation surge. Since January 2020, cheaper products have experienced an inflation rate of 30%, while premium product prices increased by 22%. In other words, inflation for cheaper products was 1.4 times higher, leading to an additional 8 percentage points cumulative price growth relative to premium varieties.

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