

Macro Roundup Article

Headline: [What Drives Inflation? Lessons from Disaggregated Price Data](#)

Article Link: <https://www.nber.org/papers/w32194>

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Tweet: Elisa Rubbo finds that consumer price inflation in 2020 was due to industry-specific supply bottlenecks, while since 2021 excess aggregate demand has played an approximately equal role.

Summary: Industry specific shocks to inelastically supplied goods increase aggregate inflation through a cost-push shock [showing up as] a price wedge. I construct the counterfactual consumer price inflation rate which would have prevailed had monetary policy closed the output gap at all periods. The difference between actual and counterfactual inflation is a measure of the component of inflation due to non-zero output gaps, accounting for their effect through inflation expectations and the price wedges χ . Figure 4 shows a decomposition of consumer price inflation between January 2019 and July 2022. The dark rust line is the official CPI [and the lighter orange line is the core PCE]. The bright orange line plots the component of the CPI due to the aggregate output gap. The dark blue bars instead represent the component of CPI inflation driven by exogenous shocks to the relative price wedges. All inflation series are normalized to zero in January 2020. Related: What We've Learned About Inflation and Fiscal Arithmetic and the Global Inflation Outlook and Fiscal Influences on Inflation in OECD Countries, 2020-2022

Primary Topic: Business Cycle

Topics: Academic paper, Business Cycle, GDP, Inflation

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