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Macro Roundup Article

Headline: Instantaneous Inflation

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Tweet: .@jan_eeckhout suggests that, when the underlying inflation data is not especially noisy, it might be appropriate to use "instantaneous" measures of inflation, which consider only very recent data. “Instantaneous inflation” hit 2% in Dec ‘22.

Summary: Current practice to measure inflation for monetary policy uses the average annual inflation rate. When inflation changes fast, whether increasing or decreasing, the annual average rate is biased towards data from too far in the past and conveys the true price level with six months delay. I propose to use instantaneous inflation as a more adequate measure of the price change. The measure trades off noise in the data with the precision of the instantaneous price change. Using the latest inflation numbers, it shows that instantaneous inflation in the US and the Eurozone is back to the target of 2% and that the high inflation period is over. Instantaneous core inflation, which excludes food and energy, is falling, but at 4%, it remains higher than the inflation target of 2%. The conventional measure of core inflation is at 5.7%.

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Primary Topic: Inflation

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