

Macro Roundup Article

Headline: [Pass-Through in Levels and the Unequal Incidence of Commodity Shocks](#)

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Tweet: As prices rise, lower-income households are disproportionately impacted as they generally buy products with lower prices and margins which are more sensitive to inflationary episodes. @ksangani8

Summary: Empirical studies of commodity cost pass-through typically find that pass-through is incomplete: even at long horizons, a 10% increase in costs causes retail prices to rise less than 10%. Using microdata from gasoline and food products, Incomplete pass-through in percentages often disguises complete pass-through in levels: a \$1/unit increase in commodity costs leads to \$1/unit higher retail prices. Pass-through appears incomplete in percentages due to an additive margin between marginal costs and prices. An implication of complete pass-through in levels is that rising commodity costs lead to higher inflation rates for low-margin products in a category, though absolute price changes are similar across products. This generates cyclical inflation inequality. I find that food-at-home inflation for the lowest income quintile is 10% more sensitive to upstream commodity costs. From 2020–2023, unequal commodity cost pass-through is responsible for two-thirds of the gap in food-at-home inflation rates experienced by low- and high-income households.

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Primary Topic: Business Cycle

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