

Macro Roundup Article

Headline: [The Speed of Firm Response to Inflation](#)

Article Link: <https://www.nber.org/papers/w32731>

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Tweet: UK survey data shows that the day after the release of a 1 ppt increase in CPI, firms updated their expected own-price growth by 0.6 ppt and also expected higher cost growth and lower sales volume growth. @iyotzov @I_Am_NickBloom

Summary: After documenting that firms are attentive to CPI inflation changes, we analyse whether these changes have meaningful effects on their own-price expectations. We begin by estimating the event study specification [using daily data] with own-price expectations as the dependent variable. The results are presented in Figure 7. We find no significant effect of CPI inflation changes on own-price expectations prior to the release. However, following the release, the coefficients become positive and statistically significant. At $t + 1$, the result suggests that a 1 ppt increase in CPI inflation is associated with a 0.6 percentage point increase in year-ahead own-price expectations. On the second day after the release, the coefficient remains around 0.6, and is significant at the 5% level. The significant effects on $t + 1$ coincide with the day when firms receive a reminder email, which leads to more responses and hence more precisely estimated coefficients.

Related Articles: How Do Firms Adjust Prices in a High Inflation Environment? and "Greedflation" and the Profits Equation and Big Profits and High Prices: There Is a Connection

Primary Topic: Inflation

Topics: Academic paper, Business Cycle, GDP, Inflation

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