What Do Long Data Tell Us About the Inflation Hike Post COVID-19 Pandemic

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To what extent is the recent spike in inflation driven by a change in its permanent component? We estimate a semi-structural model of output, inflation, and the nominal interest rate in the United States over the period 1900-2021. The model predicts that between 2019 and 2021 the permanent component of inflation rose by 51 basis points. If instead we estimate the model using postwar data (1955--2021), the permanent component of inflation is predicted to have increased by 238 basis points. A possible interpretation of this finding is that the model estimated on the shorter sample assigns a larger increase in the permanent component of inflation because the period 1955-2021 does not contain sudden sparks in inflation like the one observed in the aftermath of the COVID-19 pandemic but only gradual ones---the great inflation of the 70s took more than 10 years to build up. By contrast, the period 1900-1954 is plagued with sudden inflation hikes---including one around the 1918 Spanish flu pandemic---which the estimated model endogenously recalls and uses to interpret inflation around the COVID-19 episode. This result suggests that prewar data might be of use to understand recent inflation dynamics.