Discussion of Alberto Cavallo and Oleksiy Kryvtsov’s What Can Stockouts Tell Us About Inflation?

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Outline

- Disclaimer: the views are mine and not necessarily the one of the BIS
- Praise
- Revelance for «monetary inflation»
Praise

1. Highly topical paper

2. Excellent execution

3. Very pleasant to read
Global Supply Chain Pressure (NYFed, Benigno et al.): This time is different

- The index scales different occurrences:
  - 2011: Fukushima + Thailand floods
  - The Covid lockdowns

- Is this relevant for «monetary inflation» or another large supply shock?
Cavallo and Kryvtsov (Figure 3 and 7): this «large» supply shock is sector specific and temporary.
Imported, domestic and PCE inflation
How does inflation respond to imported inflation shocks?

- First assessment, VAR of US inflation rates
- Comparing impulse responses across periods of high and low inflation
Import price shocks and inflation regimes

1960-2022

Response of INF_PCE to INF_PCE Innovation

Response of INF_PCE to INF_Y Innovation

Response of INF_PCE to INF_M Innovation

1960-1985

Response of INF_PCE to INF_PCE Innovation

Response of INF_PCE to INF_Y Innovation

Response of INF_PCE to INF_M Innovation

1986-2019

Response of INF_PCE to INF_PCE Innovation

Response of INF_PCE to INF_Y Innovation

Response of INF_PCE to INF_M Innovation
How does inflation respond to imported inflation shocks?

- First assessment, VAR of inflation rates
- Comparing impulse responses across periods of high and low inflation
- PCE does not respond to imported inflation (or deflation) in the 1986-2019 but it does in the 1960-1985 sample
- Also note that PCE inflation is much more persistent before 1986
Further BIS research on how inflation regimes matter

Bilateral price spillovers across US PCE categories

A. Sample period: January 1965–December 1985

B. Sample period: January 1986–December 2019
Further BIS research on how inflation regimes matter

Inflation regimes affect the persistence and transmission of sectoral price changes\(^1\)

Graph 4

A. Sectoral price spillovers are more muted in low-inflation regimes\(^2\)

B. Sectoral price changes are less persistent in low-inflation regimes\(^3\)
Conclusions

- Fantastic data and excellent paper

- What matters for monetary policy, in terms of global value chain stress,

  ... is to remain in a low inflation regime

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