EUROPEAN CENTRAL BANK

Conference:

Inflation Persistence in the Euro Area

10 - 11 December 2004

The "Inflation Persistence Network" project

- **Governing Council mandate: to analyse inflation persistence in the euro area**

  (measurement, reasons, implications)

- **How IPN works:**
  - ✓ National teams mainly focus on country-specific micro evidence
  - ✓ Multinational and ECB teams mainly look at area-wide evidence and cross-country comparisons
  - ✓ ECB organises, with the support of academic consultants

Why study euro area inflation persistence?

- **The transmission of monetary policy to prices tends to be relatively slow/weak – e.g. relative to the US**

- **Qualitative evidence (e.g. by OECD) suggests there are frictions and inefficiencies in euro area product and labour markets**

- **These frictions have important implications for policy (monetary and non-monetary)**

IPN is an ongoing project

- **The IPN started in 2003; will finish in 2005**

- **Work already done:**
  - ✓ **Collect data bases**
  - ✓ **Most basic empirical analyses completed**
  - ✓ **A "preliminary summary of findings"**

- **Work still to be done:**
  - ✓ **Complete the empirical work**
  - ✓ **Summarise the findings and draw conclusions**
  - ✓ **Analyse macro-modelling and policy implications (monetary and non-monetary)**

Scope of this conference

- **Inform the research community**

- **Discuss our findings so far**

- **Get feedback that can help us in completing our work**

IPN asks four main questions

- **Is there inflation persistence? If so:**

- **How much? How does it distribute across countries, sectors? Are there asymmetries (e.g. up, down)?**

- **Why is inflation persistent?**
  1) Product and labour market structures
  2) Inertia in the shocks
  3) Inertia in expectations formation

- **What are the implications for policy?**

Sources of data

The IPN data base is unprecedented:

- **Macro time series (euro area, country, sectoral)**

- **Micro consumer prices (individual price records underlying CPIs)**

- **Micro producer prices (individual information underlying PPIs – *partial*)**

- **Firm-level surveys (launched by IPN)**

Structure of the project
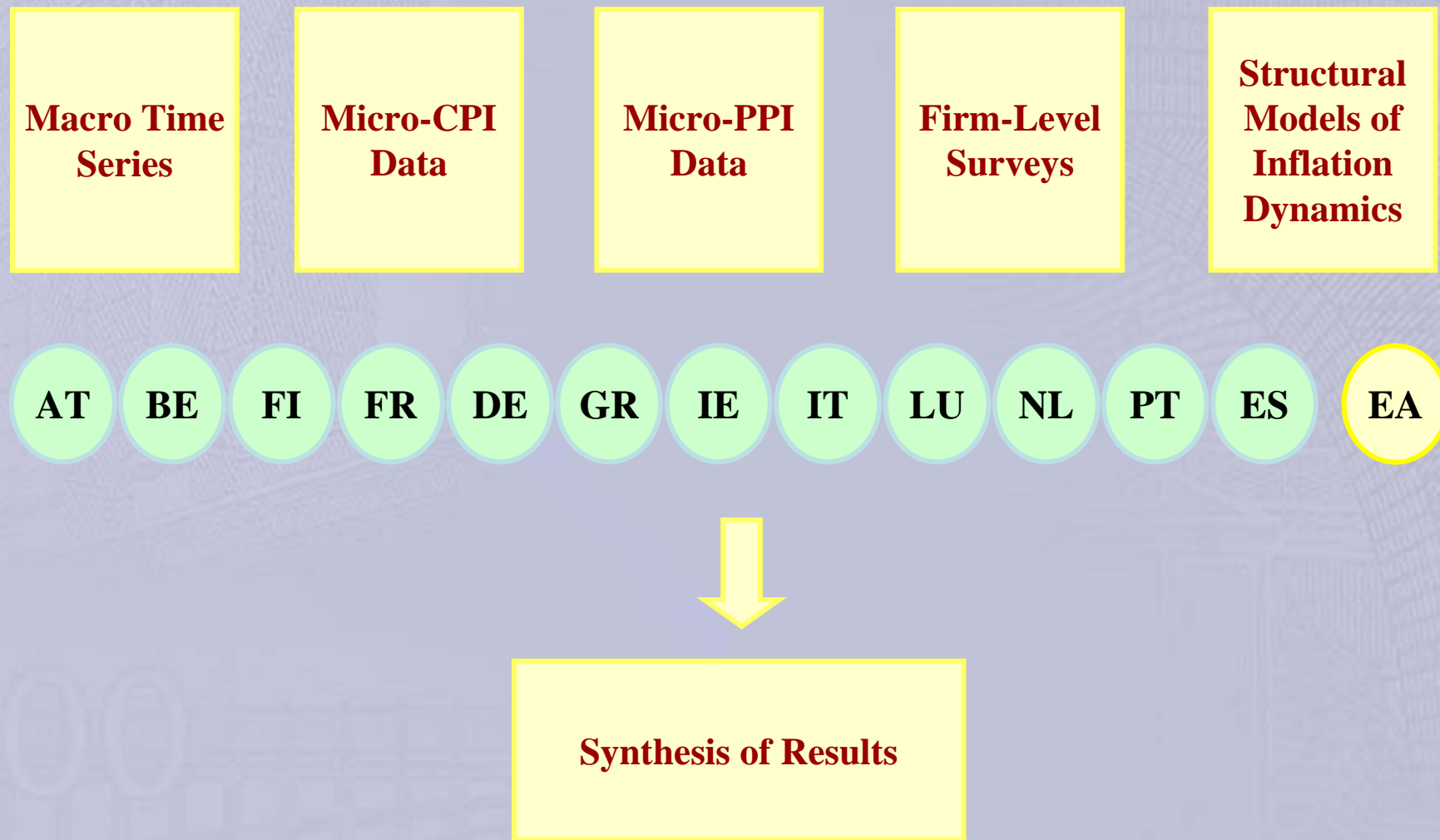
Macro Time Series	Micro-CPI Data	Micro-PPI Data	Firm-Level Surveys	Structural Models of Inflation Dynamics

AT **BE** **FI** **FR** **DE** **GR** **IE** **IT** **LU** **NL** **PT** **ES** **EA**

Synthesis of Results

Session 1

Macro Time Series | Micro-CPI Data | Micro-PPI Data | Firm-Level Surveys | Structural Models of Inflation Dynamics

AT BE FI FR DE GR IE IT LU NL PT ES EA

- **Estimate inflation persistence in simple time series models**
- **Role of aggregation and of administered prices**

Papers presented and discussed by **M. Ciccarelli; J. Stock**

Session 2

| Macro Time Series | **Micro-CPI Data** | Micro-PPI Data | Firm-Level Surveys | Structural Models of Inflation Dynamics |

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- **Stylised facts of retail price setting**
- **Which pricing models fit the micro data best?**

Summary paper. Discussion by **S. Rebelo; R. Reis**

Session 3

| Macro Time Series | Micro-CPI Data | **Micro-PPI Data** | Firm-Level Surveys | Structural Models of Inflation Dynamics |

AT BE FI **FR DE** GR IE **IT** LU NL **PT ES** EA

- **Stylised facts of producer price setting**
- **Data are limited. Mix of qualitative/quantitative data**

Summary presentation. Discussion by **J. Konieczny; H. Pesaran**

Session 4

Macro Time Series   Micro-CPI Data   Micro-PPI Data   **Firm-Level Surveys**   Structural Models of Inflation Dynamics

AT   BE   FI   FR   DE   GR   IE   IT   LU   NL   PT   ES   EA

- **Stylised facts on determinants of price setting**
- **Reasons for price rigidities; asymmetries in price setting**

Summary paper. Discussion by **D. Levy; J. Rotemberg**

Session 5

Macro Time Series	Micro-CPI Data	Micro-PPI Data	Firm-Level Surveys	**Structural Models of Inflation Dynamics**

AT BE FI FR DE GR IE IT LU NL PT ES EA

- **Relating the micro evidence to structural models**

- **Role of expectations**

Papers presented and discussed by **L. Christiano; M. Gertler**

Session 6

Concluding session:

- **Paper containing a summary of findings**

- **Panel discussion: A. Kashyap; R. King; L. Papademos; A. Weber**