

Inflation: International Perspective

Felipe Saffie

University of Virginia (Darden)

April 29, 2022

Goods vs. Services

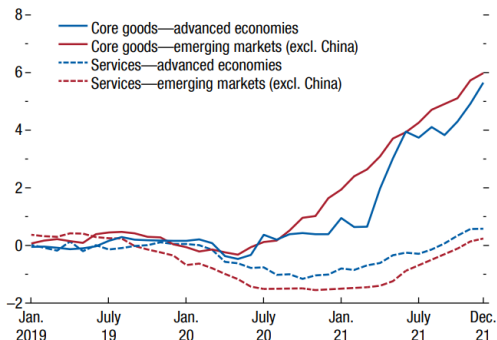
- ▶ Consumers switched from services to goods.

Goods vs. Services

- Consumers switched from services to goods.

Figure 1.13. Goods and Services Inflation

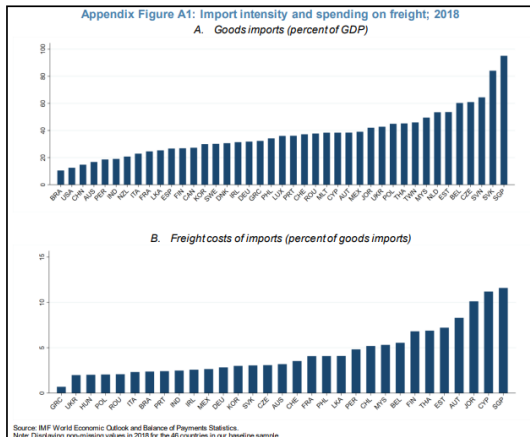
(Deviation from pre-COVID-19 averages, percent)



Sources: Haver Analytics; and IMF staff calculations.

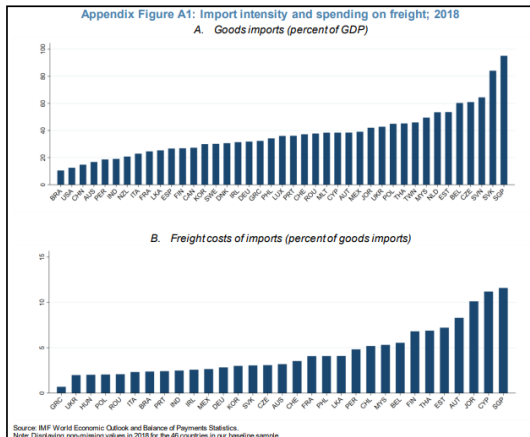
Note: Lines show the difference between the year-over-year percentage change in price indices each month and the average observed during 2018 and 2019 for each sector. Core goods exclude energy and food. Countries are aggregated using purchasing-power-parity weights. Advanced economies include United States, Euro Area, Japan, Korea, Canada, and Australia. Emerging markets include Indonesia, Malaysia, Brazil, Mexico, Colombia, Chile, Russia, and South Africa.

Tradable Goods and Freight Costs



Source: Carriere-Swallow et al. 2022

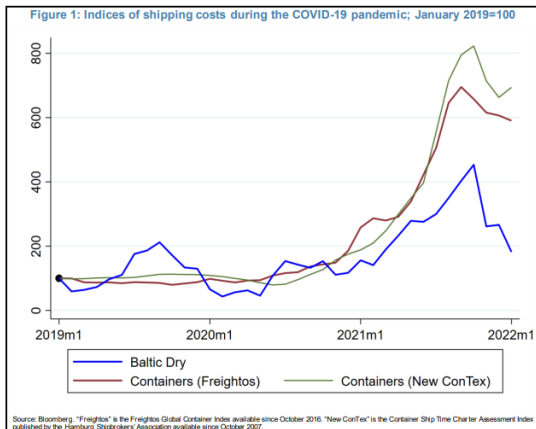
Tradable Goods and Freight Costs



Source: *Carriere-Swallow et al. 2022*

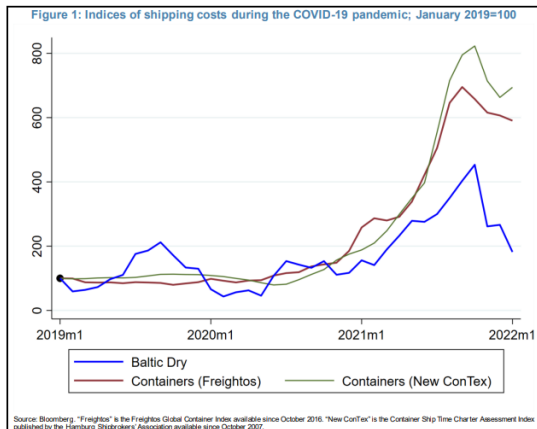
- ▶ Before the pandemic, the average country spent 38% of GDP in imports, 7.5% of that is just shipping.

Freight Costs during the Pandemic



Source: *Carriere-Swallow et al. 2022*

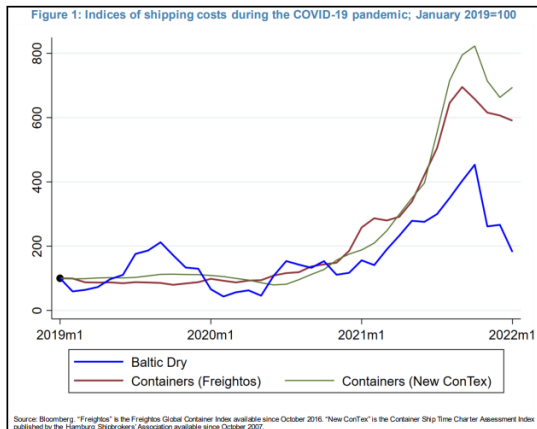
Freight Costs during the Pandemic



Source: *Carriere-Swallow et al. 2022*

- During the pandemic, freight costs multiplied by 7.

Freight Costs during the Pandemic



Source: *Carriere-Swallow et al. 2022*

- ▶ During the pandemic, freight costs multiplied by 7.
- ▶ 1.5% of global inflation can be explained just by shipping costs!

Commodity Prices, and the Virus

Commodity Prices, the Virus, and the War

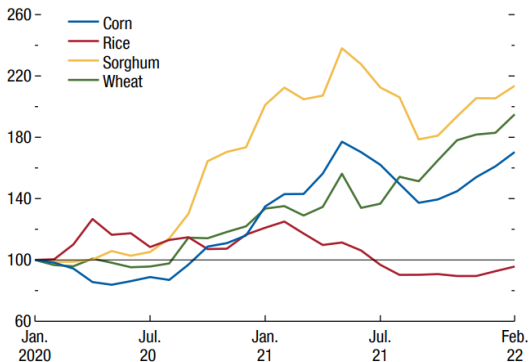
- ▶ Russia and Ukraine account for 30% of global wheat exports.

Commodity Prices, the Virus, and the War

- ▶ Russia and Ukraine account for 30% of global wheat exports.

Figure 1.6. International Cereal Prices

(US dollars, index, January 2020 = 100)



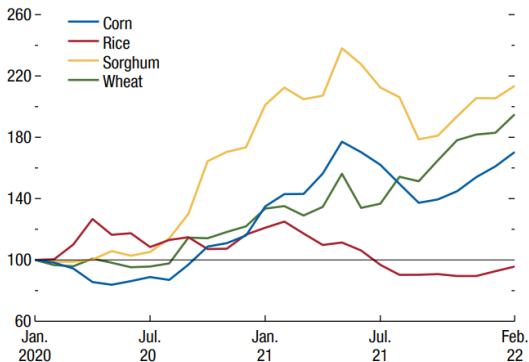
Sources: IMF, Primary Commodity Price System; and IMF staff calculations.

Commodity Prices, the Virus, and the War

- ▶ Russia and Ukraine account for 30% of global wheat exports.

Figure 1.6. International Cereal Prices

(US dollars, index, January 2020 = 100)

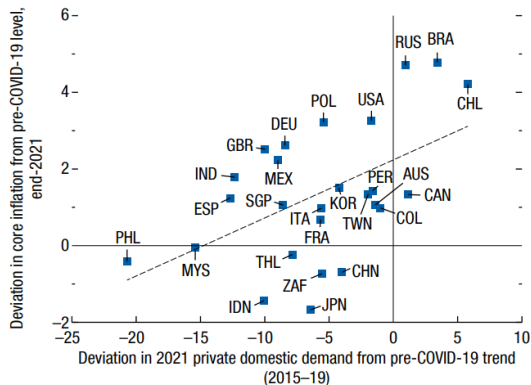


Sources: IMF, Primary Commodity Price System; and IMF staff calculations.

- ▶ Developing and emerging markets are importers of grains.

Don't forget Demand (Fiscal Policy)

Figure 1.12. Core Inflation versus Private Domestic Demand
(Percent)



Sources: Haver Analytics; and IMF staff calculations.

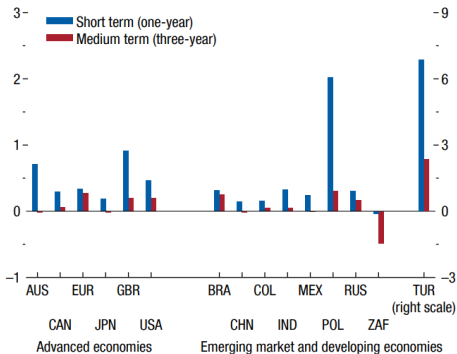
Note: Core inflation is headline consumer price inflation excluding food and energy. Private domestic demand is private consumption plus private gross fixed capital formation (GFCF) (or total GFCF if private unavailable). Average over 2021 data available. Data labels use International Organization for Standardization (ISO) country codes.

Is the Boat Anchored?

Is the Boat Anchored?

Figure 1.14. Changes in Inflation Expectations: January 21–January 22

(Percentage points)



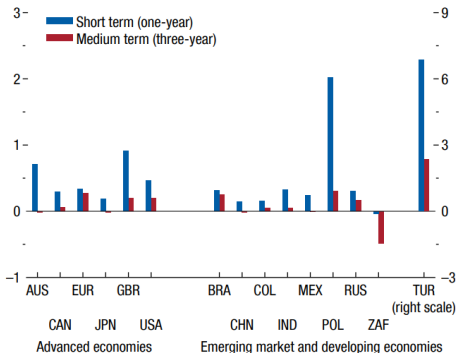
Sources: Consensus Economics; and IMF staff calculations.

Note: Data labels use International Organization for Standardization (ISO) country codes.

Is the Boat Anchored?

Figure 1.14. Changes in Inflation Expectations: January 21–January 22

(Percentage points)



Sources: Consensus Economics; and IMF staff calculations.

Note: Data labels use International Organization for Standardization (ISO) country codes.

- ▶ IMF forecast for 2022 is 5.7% AE and 8.7% EME... 2.5% and 6.5% in 2023.

What Could be Next?

- ▶ To maintain credibility and affect inflation **2 years from now**, the FED has to tighten and reduce its balance sheet.

What Could be Next?

- ▶ To maintain credibility and affect inflation **2 years from now**, the FED has to tighten and reduce its balance sheet.
- ▶ Higher interest rate will accelerate capital flow reversal from EME.

What Could be Next?

- ▶ To maintain credibility and affect inflation **2 years from now**, the FED has to tighten and reduce its balance sheet.
- ▶ Higher interest rate will accelerate capital flow reversal from EME.
- ▶ EME currency will depreciate (increasing imported inflation!).

What Could be Next?

- ▶ To maintain credibility and affect inflation **2 years from now**, the FED has to tighten and reduce its balance sheet.
- ▶ Higher interest rate will accelerate capital flow reversal from EME.
- ▶ EME currency will depreciate (increasing imported inflation!).
- ▶ Spreads will increase for EME markets, refinancing costs will be higher.

What Could be Next?

- ▶ To maintain credibility and affect inflation **2 years from now**, the FED has to tighten and reduce its balance sheet.
- ▶ Higher interest rate will accelerate capital flow reversal from EME.
- ▶ EME currency will depreciate (increasing imported inflation!).
- ▶ Spreads will increase for EME markets, refinancing costs will be higher.
- ▶ Last time that we saw coordinated inflation, it ended with coordinated defaults.