

Inflation in Industrial Economies

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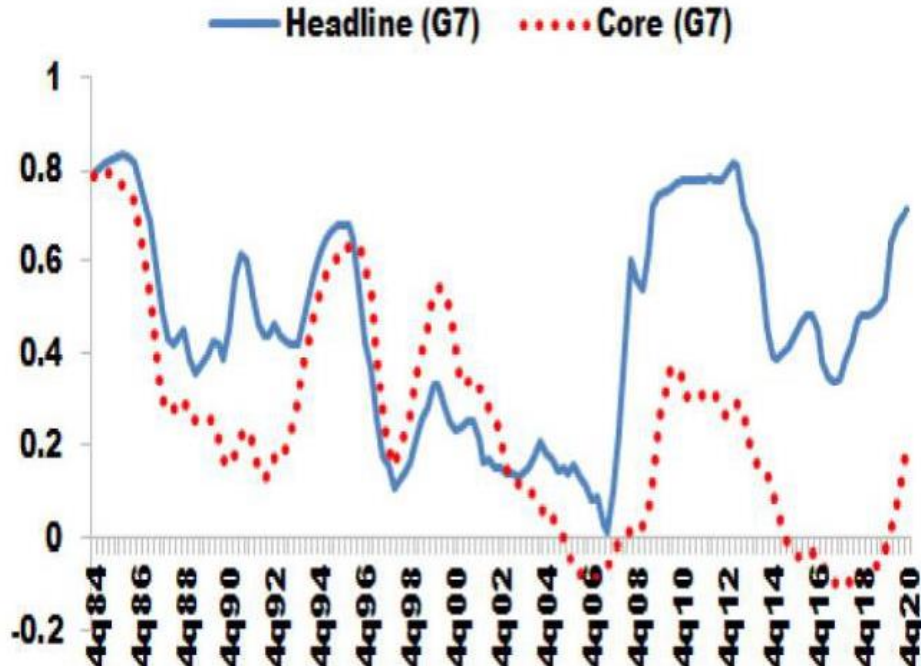
29th April 2021

**The views expressed herein are mine and do not reflect the views of SKBI or SMU*

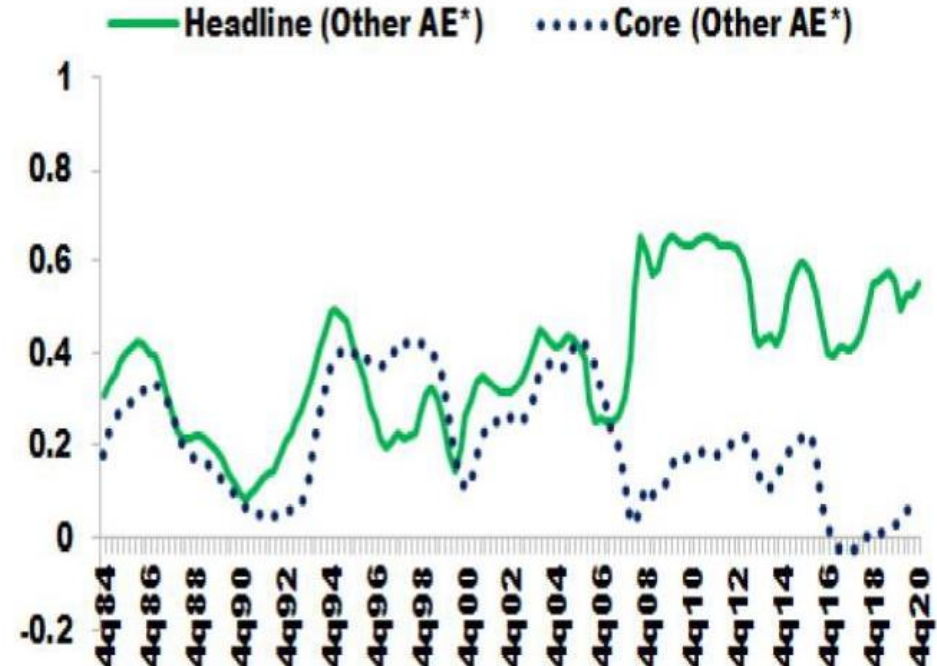


Alike or Less Alike?

Average Cross-Correlation of Inflation



Average Cross-Correlation of Inflation



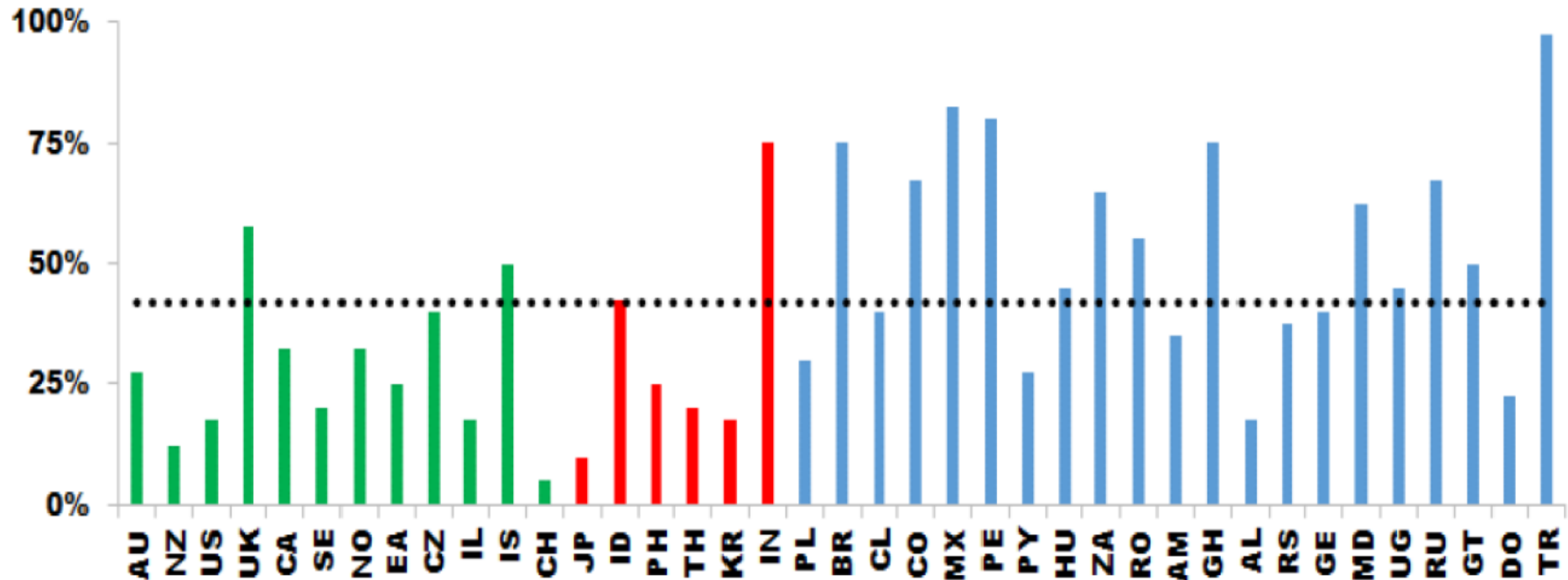
Source: FRED, Haver Analytics and Author's calculations
*17 Advanced Economies

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Undershooting or Overshooting?

Average Frequency Above the Mid-Point (2010-2019)



Source: Websites of central banks, FRED, IMF and Author's calculations

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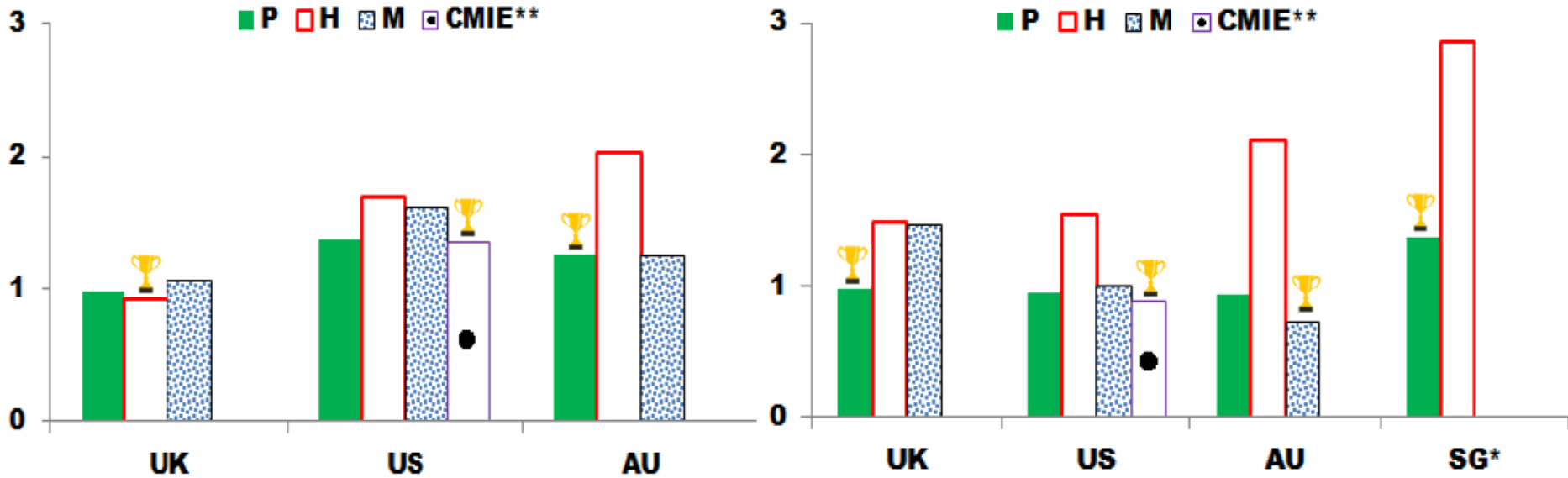
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Whose Inflation Expectations?

P=Professional Forecaster Survey
 H=Household Survey
 M=Market-based Proxy

Root-Mean-Squared-Error (1999-2009)

Root-Mean-Squared-Error (2010-2019)



Source: Bloomberg, SPF, FRED, BoE, SKBI, Fed, MAS, RBA, UniMelb and Author's calculations

*2011-2019 and combination of full-year average/four-quarter ahead for P

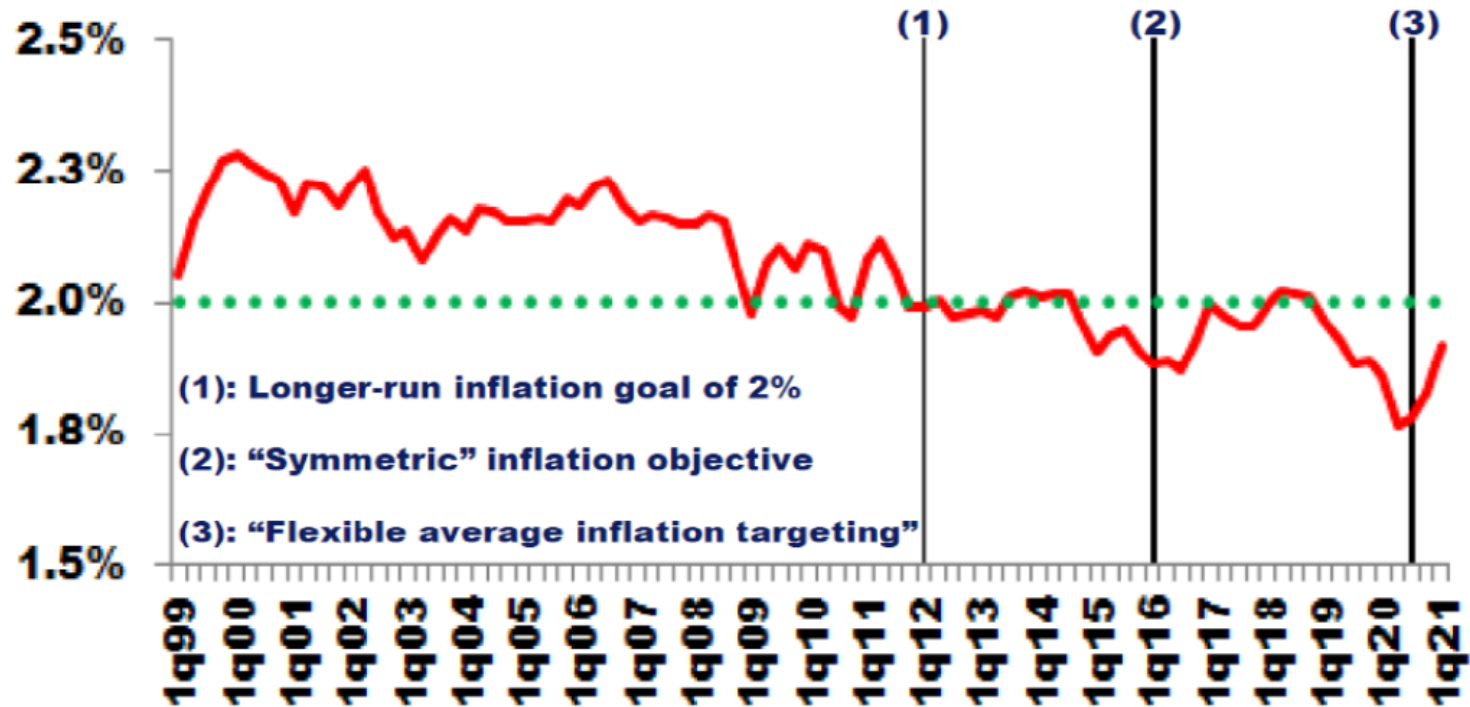
**Composite Measure of Inflation Expectations (CMIE)

Note: The charts depict the RMSEs of four-quarter ahead inflation forecasts in %-points

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Composite Measure of Inflation Expectations (CMIE)



Source: Fed and Author's estimation

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1. Crucial to distinguish between headline and core inflation, even among advanced economies, as recent fluctuations appear less synchronous.
2. The natural tendency for inflation to overshoot seems weaker, at least in most advanced economies with explicit goals or targets, in recent years.
3. Measures of inflation expectations, while not fungible, tend to exhibit different degrees of forecasting accuracy; hence, a composite measure is a promising alternative.
 - *Hybrid and atypical inflation forecasting frameworks?*
 - *Tradeoff between price and financial stability?*
 - *Emerging inflation bias and psychology?*