

General Discussion of 'Decomposing Supply and Demand Driven Inflation'

The discussion focused on challenges in disentangling the impact of supply- and demand-driven shocks on aggregate consumer price inflation, particularly when aggregating upward from sectoral data. The main issue was that many supply and demand shocks were likely to be identified as supply shocks in one sector and demand shocks in another; for example, an oil supply shock would have demand implications for other substitutable forms of energy. A related issue was that given a supply shock, it would be difficult to separate relative and general price movements. This was important as monetary policy was typically concerned with moderating the latter.

It was suggested that an alternative way to identify the varying impact of supply and demand shocks on general price inflation might be to focus on isolating their persistence properties; for example, the effects of typical supply shocks might be expected to be relatively temporary, while the effects of demand shocks would be more persistent. This appeared to be the case for the recent experience, where goods price inflation that had been impacted by supply chain issues had moderated, while services inflation driven by elevated demand had been stickier.