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

Synthesis of Results
Session 1

- **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

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

Summary paper. Discussion by S. Rebelo; R. Reis
Session 3

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

Summary presentation. Discussion by J. Konieczny; H. Pesaran
Session 4

• 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

- 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