

Inflation Expectations and the Supply Chain

Discussion

Nitya Pandalai-Nayar

University of Texas at Austin & NBER

July 2024

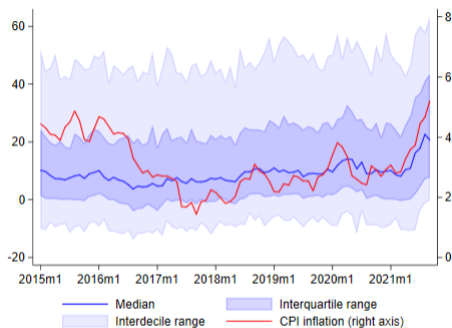
This paper: analyzes how supplier prices feed through to firms' inflation expectations

Multiple contributions:

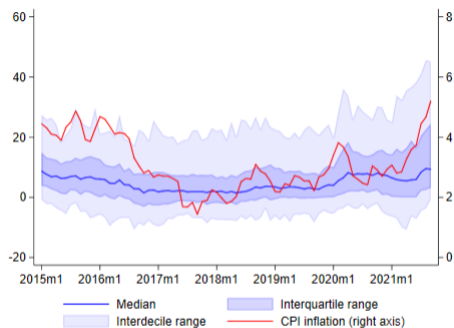
1. Detailed firm-to-firm network data, supplier and firm prices, linked to firm inflation expectations survey
2. Documents reason for wide dispersion in firm inflation expectations
 - Input prices matter for firm beliefs about aggregates, even orthogonal to CPI
 - Intuitive: trading partners firms frequently operate with more important than CPI
 - Analog on consumer side: grocery prices, consumer inflation expectations
3. Implications/other findings
 - Violation of FIRE, support for Lucas (1979) island model
 - Some evidence for downward rigidity in firm beliefs – inflation declines might be sluggish
 - Implications for policy – clear communication about CPI growth might not influence firm beliefs
 - **Other implications?**

Comment: from input price changes to sales price changes

Input price inflation



Sales price inflation



- ▶ Wide dispersion in input price changes: median as much as 22.6%, one s.d. 23.8%
- ▶ Very limited passthrough to firm sales prices: median as much as 9.5%, s.d. 17.5%
- ▶ Puzzle: supplier firms are also buying firms in the data

Comment: Who are the important suppliers?

- ▶ Why are some input price changes so volatile?
 - firms connected to other volatile firms?
 - other costs (wages, etc)?
- ▶ Why do we care?
 - input bundle price is a weighted average of all supplier prices
 - wide variation suggests “important” firms are raising their prices the most

Comment: Do the key network suppliers affect the aggregate?

- ▶ Granular origins of inflation?
- ▶ CPI control orthogonalizes input bundle price w.r.t CPI, but not individual suppliers'
- ▶ If largest suppliers/firms in the economy raising prices \rightarrow CPI affected \rightarrow rational for inflation expectations to change?

Comment: Do the key network suppliers affect the aggregate?

- ▶ Granular origins of inflation?
- ▶ CPI control orthogonalizes input bundle price w.r.t CPI, but not individual suppliers'
- ▶ If largest suppliers/firms in the economy raising prices \rightarrow CPI affected \rightarrow rational for inflation expectations to change?
- ▶ Placebo/robustness tests don't address this
 - construct input bundle price changes excluding firms whose own prices are correlated with CPI growth

Final thoughts

- ▶ Learning more about the firms generating the very high input price changes is important
- ▶ Possible policy implication: CBs should target the inflation expectations of those key firms directly
- ▶ Data available to understand these firms....

Conclusion

- ▶ Important to understand what drives agents' beliefs
 - Lot of evidence that full information rational expectations models not great
- ▶ Very plausible role for importance of trading relationships/supply chains
 - Makes clear we need to expand measurement of agent beliefs in international more broadly
- ▶ Very useful paper with many applications!