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Inflation indicators amid high uncertainty: Online appendix

Graph 1, left-hand panel and right-hand panel: The DSGE model used in this exercise is based closely on Smets and Wouters (2007). The two material differences are: (i) the inclusion of a unit root in the technology process, rather than a deterministic trend and (ii) the inclusion of the long-term inflation expectations of professional forecasters to pin down time variation in the model's implicit central bank inflation target. The model's parameters are estimated over the sample Q1 1965–Q4 2019.

Graph 3, second panel: Based on quarterly CPI data for CA, JP, KR and MX; monthly PCE deflator data for US. High-inflation regime samples: CA, Q4 1971–Q4 1990; JP, Q4 1970–Q4 1979; KR, Q4 1985–Q4 1997; MX, Q1 1983–Q4 2002; US, Jan 1965–Dec 1985. Low-inflation regime sample start dates: CA, Q1 1991; JP, Q1 1980; KR, Q1 1998; MX, Q1 2003; US, Jan 1986.

Graph 3, third panel: A high-inflation regime is defined as the periods in which the eight-quarter moving median of past core inflation is above 5%. Estimates are based on a price equation in which inflation at time $t+4$ is regressed on nominal wage growth, its interaction with the high-inflation regime dummy, the unemployment gap and productivity growth at time t, as well as on country and time fixed effects.

Graph 3, right-hand panel: Estimates are based on a wage equation, in which nominal wage growth at time $t+4$ is regressed on inflation, its interaction with the high-inflation regime dummy, the unemployment gap and productivity growth at time t, as well as country and time fixed effects. High (low)-inflation regime is defined as periods before (after) Q1 2000.