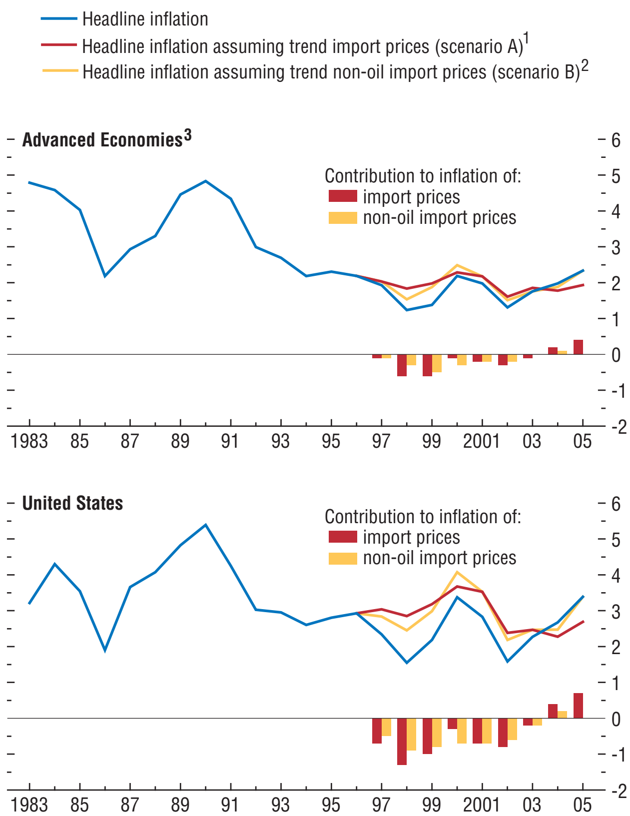
Figure 3.8. The Impact of Import Prices on CPI Inflation

(Annual percent change)

Had import prices evolved during 1997–2005 in line with historical trends, inflation in the advanced economies would—until recently—have been higher. Import prices contributed to disinflation, especially in the late 1990s after the Asian currency crisis (½ percentage point on average in advanced economies and more than 1 percentage point in the United States). Import prices also helped temporarily reduce inflation during the global slowdown in 2001–02.



Sources: Eurostat; Haver Analytics; national authorities; and IMF staff calculations.

[1]Scenario A assumes that during 1997–2005, real import prices fell at the historical average rate of about 1 percent a year.

[2]To capture the impact of globalization on inflation more precisely, scenario B removes the impact of oil prices from scenario A. Real import price changes are first decomposed into the contribution of oil prices and non-oil commodities. The scenario then assumes that the contribution of oil prices to import price changes was the same as the actual values during 1997–2005 but the contribution of non-oil commodities was at the historical average rate of about 1.6 percent a year.

[3]The group of advanced economies includes Australia, Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.