

The Inflation Rate Disconnect Puzzle: On the International Component of Trend Inflation and the Flattening of the Phillips Curve

Abstract

Since 2000 U.S. inflation has remained both below target and silent to domestic slack. A trend-cycle BVAR decomposition shows that, starting from the '90s, despite well-anchored expectations, slow-moving imported "cost-push" factors induced deflationary pressure keeping trend inflation below target. The cycle block provides evidence of a flattening of the Phillips curve, mainly attributable to a weaker wage pass-through. The business cycle behaviour of inflation is determined by a shock originating abroad, associated with the main bulk of volatility in the international prices of intermediate inputs and poorly connected to the domestic slack.