Discussion of **Gert Peersman:** "International Food Commodity Prices and Missing (Dis)Inflation in the Euro Area"

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What the paper does

- Examines causal effects of shifts in international food commodity prices on euro area inflation dynamics using a structural VAR - identified with an external instrument (i.e. a series of global harvest shocks).

- Exogenous food commodity price shocks have a strong impact on consumer prices, explaining on average 25%-30% of inflation volatility.

- Contributed to the twin puzzle of missing (dis)inflation. Without disruptions in global food markets
  - Inflation in the euro area would have been 0.2%-0.8% lower in 2009-2012
  - Inflation in the euro area would have been 0.5%-1.0% higher in 2014-2015.

- Transmission: Direct effect on food retail prices through food production chain, plus indirect effects via rising inflation expectations and depreciation of euro.

My take on this

- **VERY NICE PAPER - Relevant, interesting and competently executed. Policy relevance!**

- Substantial price swings - Very <u>little is known</u> on how food commodity prices affect inflation – what we know is mostly reduced form evidence

- Critical input factor in the production function of the food-processing sector AND Household weight food prices much higher than its share in expenditure when forming inflation expectations = <u>Policy relevance</u>

- The use of the <u>external instrument VAR</u> method is interesting, topical and appropriate in this setting – yet crucial that instrument is relevant!

Comments/questions I - Causality

- Causal effect macro – food commodity prices requires a model framework like SVAR-IV (agree)

- But how important is the causality (motivation)? Food commodities are traded in highly competitive and flexible markets.

  - All food?

  - Corn, wheat, rice and soyabeans - 75% of caloric content *worldwide* – but what about the Euro area?

  - Pass through - Food production chain – importance?

 - Issue for monthly data? Why quarterly data?

Comments/questions II – Data and external instrument

- Choice of data:
  - USD food commodity prices
  - USD crude oil prices
  - Euro/USD bilateral exchange rate
  - plus euro real variables…
- Importance of global business cycle? (captured by the export? oil price?)
- Robust to additional variables – but robust to exclude, say oil?
- Cholesky versus IV-SVAR (robustness) – Independent of ordering? (Food – Oil price – Exchange rate…)
- Relevance of Instrument for food – but irrelevant for shocks to the other variables? F-test does not say anything about irrelevance for other shocks

# Questions/comments III - The role of oil prices

- Common component in commodity prices - Food commodity prices often considered in tandem with other commodities or crude oil prices, as price of commodities are jointly determined by global business cycle (see Figure).
  - How resolve?
- Use an index that exclude harvest of European countries (European harvest caused by weather shocks that affect not only harvest, but also agricultural prod. and activity.) So more 'global' index – but then also relevant outside food commodities in Europe?
- For robustness – use an alternative external instrument the includes European countries. Low F-test, Distorted results. Why?
- Is there weather shocks in your measure that affect global agricultural production and global activity – i.e., then also oil prices? Hurricanes, crisis etc. Can you control for this?

International food commodity prices

- - - counterfactual without food commodity price shocks
- - baseline evolution
—— actual evolution
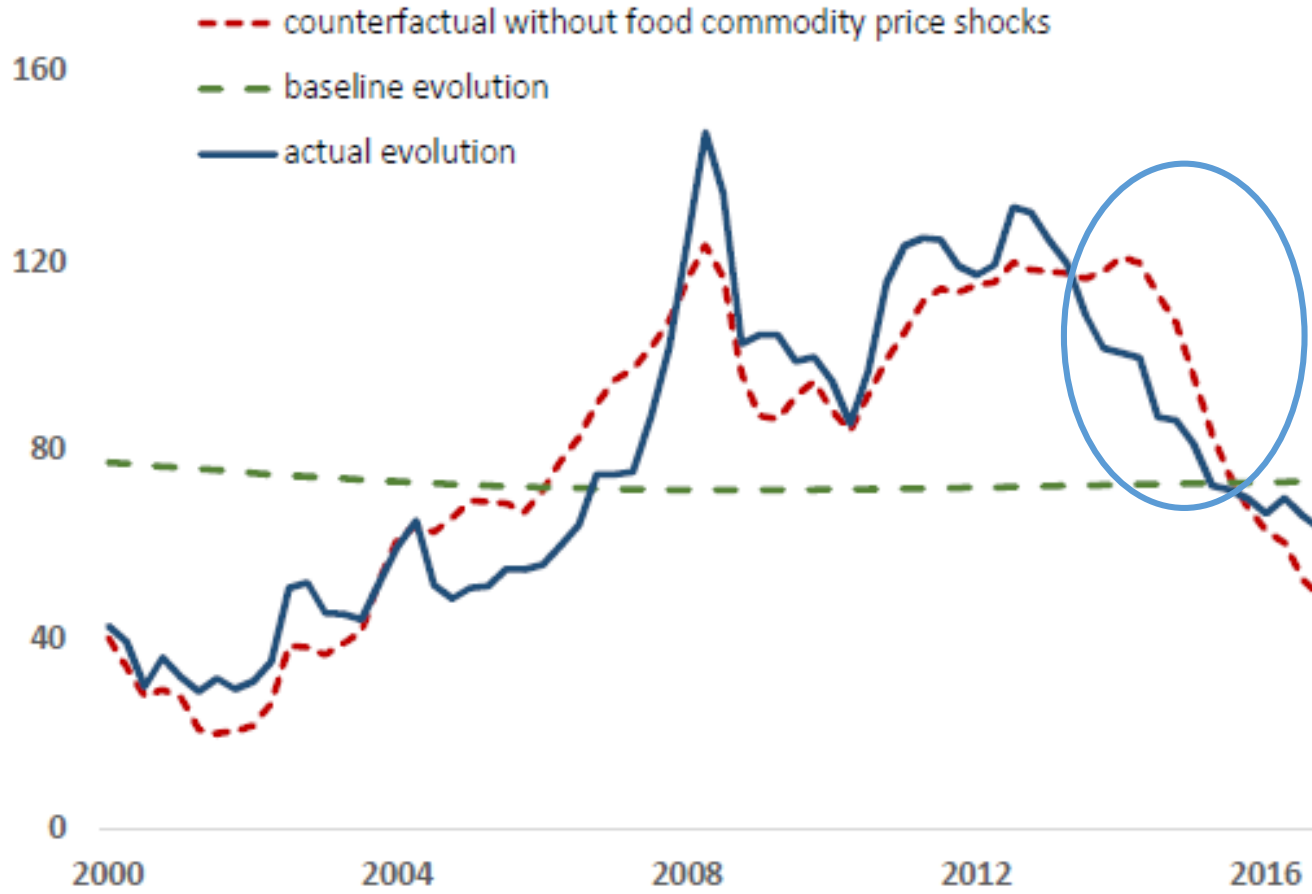
Energy in food

Figure 9 - Effects of a 1% increase in international food commodity prices on HICP components
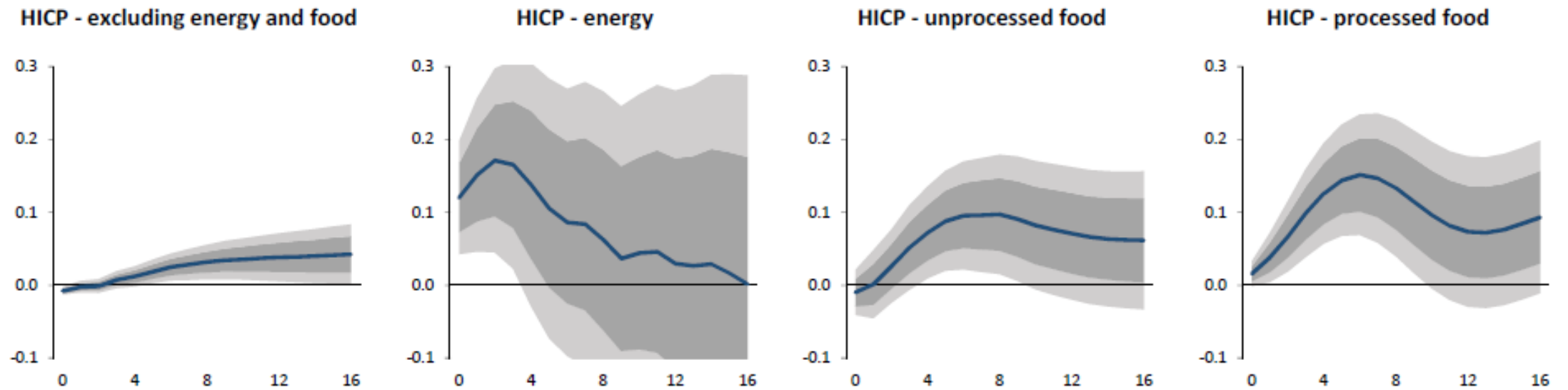
Note: 68% and 90% confidence intervals constructed using a recursive-design wild bootstrap; horizon is quarterly.

In sum

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- Need to understand commodity food prices relative to all commodity prices (including oil).

Thank you!