

2009-07-03

PRESS RELEASE

A global assessment of the degree of price stickiness - results from the NBB business survey

by Emmanuel Dhyne

NBB Working Paper No 171 - Research Series

This article is part of the research report on "Price Rigidity in the Euro Area: an assessment", produced with the support of the European Commission. The final report has been published in the European Economy Economic Papers and is available at

http://ec.europa.eu/economy_finance/publications/publication_summary15198_en.htm

This paper examines how frequently prices change in Belgium, by analysing the information available in the NBB business surveys covering the manufacturing, construction, trade and service sectors for the period January 1990-December 2007. In so doing, it provides a quantitative estimate of the unconditional degree of price stickiness for the Belgian economy.

It is found that, each month, almost one fifth (19.2%) of Belgian prices are changed. This frequency of price changes totalling 19.2% is composed of a 9.9% frequency of price increases and a 9.3% frequency of price decreases, so that there is no indication of stronger downward price stickiness.

The frequency of price changes at the aggregate level conceals wide sectoral variations in the frequency of price changes. In the manufacturing sector and the trade sectors, the frequency of price changes is close to 24.5%. In the construction sector the frequency of price changes is close to 20.5%. B2B service sectors have a frequency of price changes of almost 9%, and finally the hotel and restaurant sector has the lowest frequency of price changes (3.3%).

In addition to this evaluation of the global degree of price stickiness in the Belgian economy, this paper also analyses the determinants of the frequency of price changes at the sectoral level. The estimation results permit two main conclusions.

Firstly, the main determinant of the sectoral frequency of price changes seems to be the cost structure. This is an extremely important finding, highlighting the fact that the frequency of price changes is a very poor proxy of price rigidities. A 9% frequency of price changes is not per se symptomatic of considerable difficulties in adjusting prices in the service sector, as it mainly reflects the importance of labour inputs in the service cost structure.

Secondly, domestic competition measured either by the sectoral Lerner index or the sectoral mark-ups estimated in Christopoulou and Vermeulen (2008) does not seem to explain a shortage of price changes at the sectoral level.

Finally, the paper classifies NACE 2 sectors into three clusters according to their degree of price rigidity.

The main cluster is a group of 24 sectors where the frequency of price changes is in line with what is expected according to their cost structure.

The second cluster is a group of 7 sectors featuring "highly flexible prices", where the frequency of price changes exceeds what is expected according to their cost structure.

The third cluster is a group of 13 sectors featuring "rigid prices", where the frequency of price changes is below what is expected according to their cost structure: the assumption here is that excessive nominal price rigidities are at work. These sectors are NACE 13 Mining of metal ores, NACE 14 Other mining and quarrying, NACE 16 Manufacture of tobacco products, NACE 28 Manufacture of fabricated metal products, except machinery and equipment, NACE 33 Manufacture of medical, precision and optical instruments, watches and clocks, NACE 36 Manufacture of furniture; manufacturing n.e.c., NACE 55 Hotels and restaurants, NACE 60 Land transport; transport via pipelines, NACE 70 Real estate activities, NACE 71 Renting of machinery and equipment without operator and of personal and household goods, NACE 85 Health and social work, NACE 90 Sewage and refuse disposal, sanitation and similar activities and NACE 93 Other service activities.