Workshop on "New Directions for Inflation Forecasting"
Paris, December 16-17, 2021

Organizers: Frédérique Bec (Cergy Paris University), Dick van Dijk (Erasmus University Rotterdam) and Laurent Ferrara (Skema Business School, Paris)

After many years of inflation below central bank targets in most advanced economies, recent months have seen a resurgence in upward price pressure in the wake of the Covid crisis, generating some concerns among decision-makers and public opinion. The analysis of inflation dynamics and their possible changes overtime is a key input in the design of economic policies. Traditionally, the Phillips curve, that relates inflation and economic activity, was a cornerstone of many inflation forecasting methods. However, since a decade or even more, inflation seems to have become somewhat disconnected from the business cycle. It turns out that during highly uncertain times coupled with low potential growth and unprecedented low interest rates, forecasting inflation has become an increasing challenge. There is a need to take on board all the lessons we have learned from economic theory in order to improve empirical inflation forecasting.

This hybrid workshop gathered economists and researchers from both the academic side (University College in London, UQAM, Universita Politecnico di Milano, …) and the policy side (ECB, Federal Reserve Board, Federal Reserve Bank of Atlanta, Bank of England, Banque de France, IMF, U.S. Treasury …) in order to exchange views on recent research on inflation. 11 papers were presented and two keynote addresses were delivered by Franck Portier (UCL) and Isabel Vansteenkiste (General Director for International Affairs at the ECB).

Among the various topics covered during the workshop, the flattening of the Phillips curve was underlying many presentations and discussions. When considering various possible explanations of this evolution, the polarization of the job market was put forward, as well as some non-linear relationships between long-term unemployment and inflation. An empirical comparison between business cycles and inflation cycles suggested that both cycles are not really synchronous, even along a long sample period. Many papers also highlighted that inflation expectations, stemming from households, companies or financial markets, have to be correctly accounted for into models in order to improve inflation forecast accuracy. Another well-known driver of inflation, the labor cost, was also widely discussed. It was shown that labor costs matter for inflation developments but also the strength of the link between labor cost and price inflation. From the methodological side, Machine Learning methods have proved useful for measuring the Phillips curve and some papers pointed out that allowing for heterogeneity into macroeconomic models leads to a better reproduction of empirical stylized facts. Last, econometric models have been used in order to forecast not only the conditional mean, but also the entire conditional distribution, providing useful measures of inflation risks.

The complete program of the workshop can be found here:
program-iif-skema-cergy-inflationworkshop.pdf

This workshop took place in a hybrid mode at SKEMA Business School, 5 Boulevard Marcel Dassault, 92150 Suresnes, France. It was supported by the International Institute of Forecasters, SKEMA Business School and CY Cergy Paris University (Labex MME-DII).