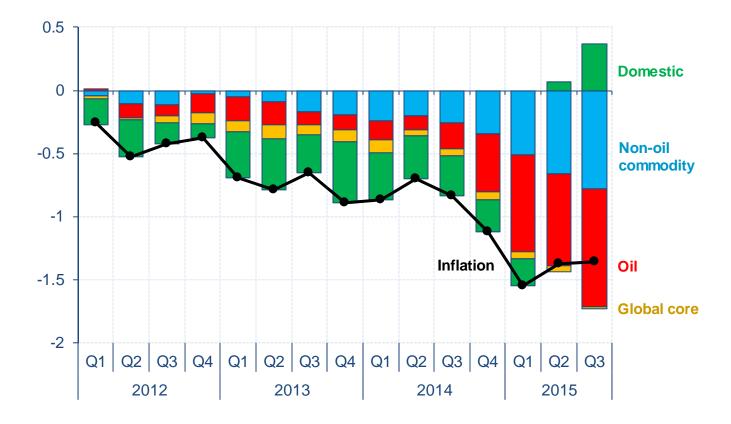**EUROPEAN CENTRAL BANK**

EUROSYSTEM

Mario Draghi
President
European Central Bank

Global and domestic inflation

Economic Club of New York
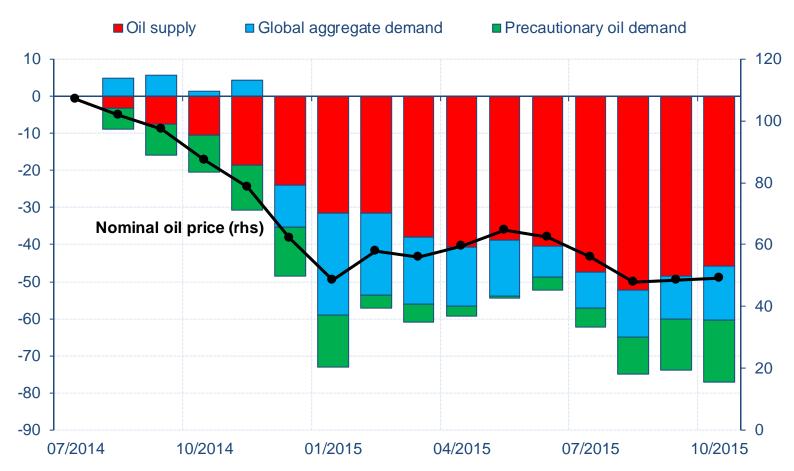
Decomposition of headline inflation

contribution of shock to deviation of inflation from baseline; average industrialized country

Source: OECD and ECB staff calculations. Note: the chart shows the percentage point contribution of different types of shocks to explaining the evolution of headline inflation in OECD countries: (1) shocks to oil prices, (2) shocks to non-oil commodities, (3) shocks to global core inflation, and (4) shocks to domestic inflation. A negative contribution implies that that the specific shock contributed to lowering inflation, whereas a positive contribution indicates that this shock put upward pressure on inflation. The contributions are estimated in a quarterly structural VAR model containing oil prices, non-oil commodity prices, OECD global core inflation and national headline inflation for each of 23 OECD countries. The chart reports the average results across those countries. The identification strategy uses a Choleski decomposition of the variance-covariance matrix with the variables ordered in the VAR as in the sequence listed above.

Historical decomposition of the price of oil

cumulated contributions of the different oil shocks in percentage points, 2007q1 = 0; nominal oil prices in USD per barrel
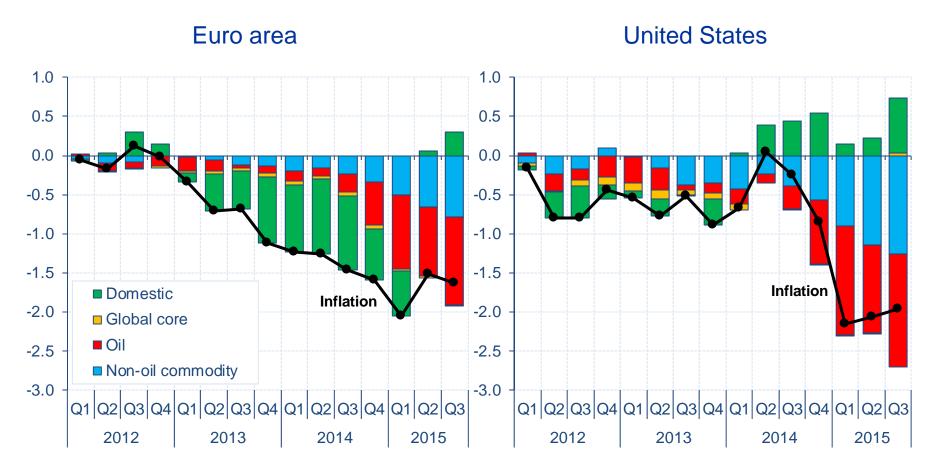

■ Oil supply   ■ Global aggregate demand   ■ Precautionary oil demand

Nominal oil price (rhs)

Source: ECB staff calculations.

Decomposition of headline inflation

contribution of shock to deviation of inflation from baseline
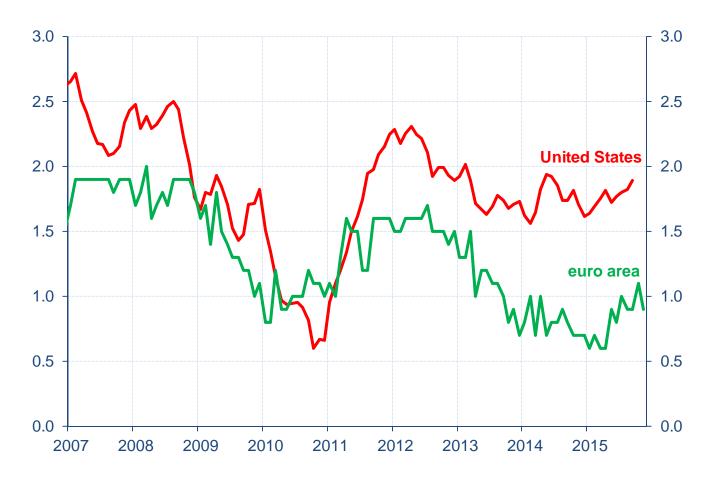
Euro area

United States

Source: OECD and ECB staff calculations. Note: the chart shows the percentage point contribution of different types of shocks to explaining the evolution of headline inflation in OECD countries: (1) shocks to oil prices, (2) shocks to non-oil commodities, (3) shocks to global core inflation, and (4) shocks to domestic inflation. A negative contribution implies that that the specific shock contributed to lowering inflation, whereas a positive contribution indicates that this shock put upward pressure on inflation. The contributions are estimated in a quarterly structural VAR model containing oil prices, non-oil commodity prices, OECD global core inflation and national headline inflation for each of 23 OECD countries. The chart reports the average results across those countries. The identification strategy uses a Choleski decomposition of the variance-covariance matrix with the variables ordered in the VAR as in the sequence listed above.

Core inflation

y-o-y percentage changes

Source: Eurostat and Federal Reserve.

GDP per capita

2007 = 100; 2010 prices and exchange rates (2010 euro)

Source: Statistical Office of the European Communities/Haver Analytics and Bureau of Economic Analysis/Haver Analytics.