

AN UPDATE ON LIAISON MESSAGES – NOVEMBER 2022

- Most firms are considering increasing prices in coming months to maintain margins but at a slower pace than earlier this year.

The latest read from liaison

Prices and input costs

- Most firms are considering increasing prices in coming months, but planned price increases are generally lower than those earlier this year and will be undertaken to maintain margins. For most goods-related firms, changes in price will depend on input costs, and to a lesser extent on demand and their competitors' behaviour.

- Selling prices for new detached homes have increased by around 20 per cent on average over the past year. Home builders have fully passed on rising input costs for *new* sales, and expect to continue doing so over the coming year, with some also attempting to regain lost margin as a contingency for further cost increases.

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[TITLE]¹

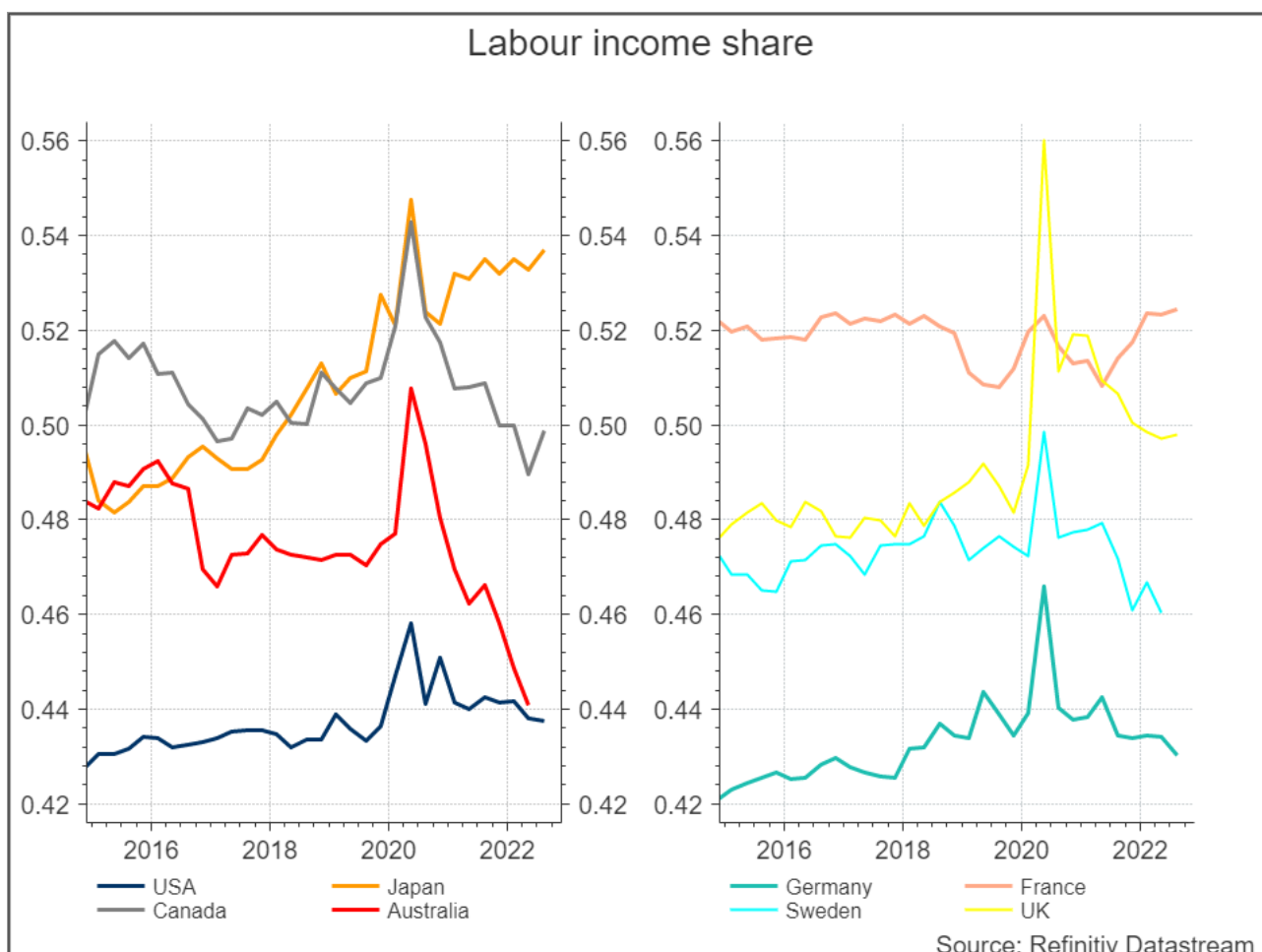
[Abstract]

[Heading 1]

- Motivation: has corporate greed contributed to inflation? Have firms been more willing to pass on costs than in the past? Both answered by thinking about markups
- Measuring markups – [Basu \(JEP; 2019\)](#) shows that profit-maximising for firms that take wages and required return on capital as given, results in mark-ups being linearly related to ratio of the elasticity of output wrt labour (LHS) and labour's share of income (RHS) – if the elasticity of output wrt labour is constant then the markup is increasing linearly with declines in labour's share

$$\frac{F_L L}{Y} = \mu \frac{W L}{P Y}$$

- What has labour share done – show graphs (note that no adjustment for self-employment, mining, financial sector – in part since short term focus)
 - Compared with pre-pandemic, pretty stable in most countries (USA, Germany, France), or increased (Japan, UK) – though Canada and Australia fell (commodity prices), as has Sweden



1 [I would like to thank ... for their help with ... on this note]

- Reason why: ULC grown as much as prices (column chart), + import prices stronger than pce (incl in column chart)
 - Real wages fallen – reconcile? (falling productivity, PCE v CPI inflation, timing)
- Mark-up models still under-predict (~4% v 6% for PCE), because coefficient on ULC low???
 - Maybe do ECMs since 2010q1:2022q4 – US gets 0.92 and 0.12 when unconstrained (but when do proper ECM don't get significant alpha... maybe DOLS?)

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AN UPDATE ON LIAISON MESSAGES - JANUARY 2023¹

goods-related firms implemented fewer and smaller price increases over recent months than in prior periods and expect future price growth to be more modest.

Firms expect to increase prices further in response to costs, albeit at a slower pace than in 2022

Price increases have remained widespread among liaison contacts, apart from some retailers, over recent months. Many manufacturing and construction firms expect to increase their prices further over coming months to incorporate ongoing cost increases and to maintain margins. The recent floods have affected growing and harvesting conditions for fresh produce and the availability of some foods, but have so far had only a relatively modest upward effect on retailers' prices.

Some non-food retailers reported that they had reduced the size of price increases in the past quarter or those planned for coming months. Further, a few firms reported increased discounting or that they are no longer passing through cost increases. While input costs are still the main driver for retailers' price setting, contacts said they are increasingly taking into account their competitors' behaviour and the risk of a softening in demand.

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