



Research Working Papers

Rising Market Concentration and the Decline of Food Price Shock Pass-Through to Core Inflation

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Core inflation has become 75 percent less responsive to food price shocks since the 1970s, largely due to rising market concentration in food supply chains.

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Using a vector autoregression that allows for time-varying parameters and stochastic volatility, we show that U.S. core inflation became 75 percent less responsive to shocks in food prices since the late 1970s. The decline in the pass-through of food price shocks to inflation is a result of a decline in both volatility and the persistence of food price changes in inflation. This decline in pass-through coincides with a period of increasing concentration in the food supply chain, especially among U.S. grocery retailers and distributors. We find that 60 percent of the variation in pass-through over the last four decades can be explained by changes in food retailers' and distributors' market concentration. Controlling for the composition of the food basket and inflation expectations explains an additional 20 percent of the variation. Our results suggest that if the market concentration of food retailers and distributors continues to increase and inflation expectations remain well-anchored, the pass-through of food price shocks to inflation will likely remain subdued.

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