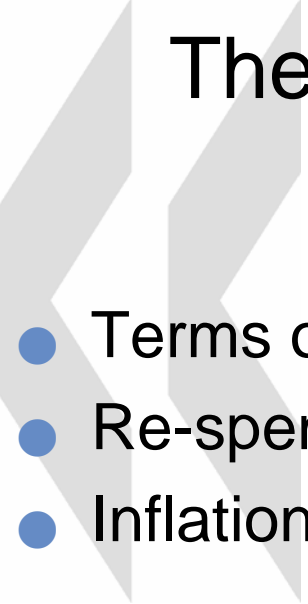




The Impact of High Oil Prices on OECD the economy

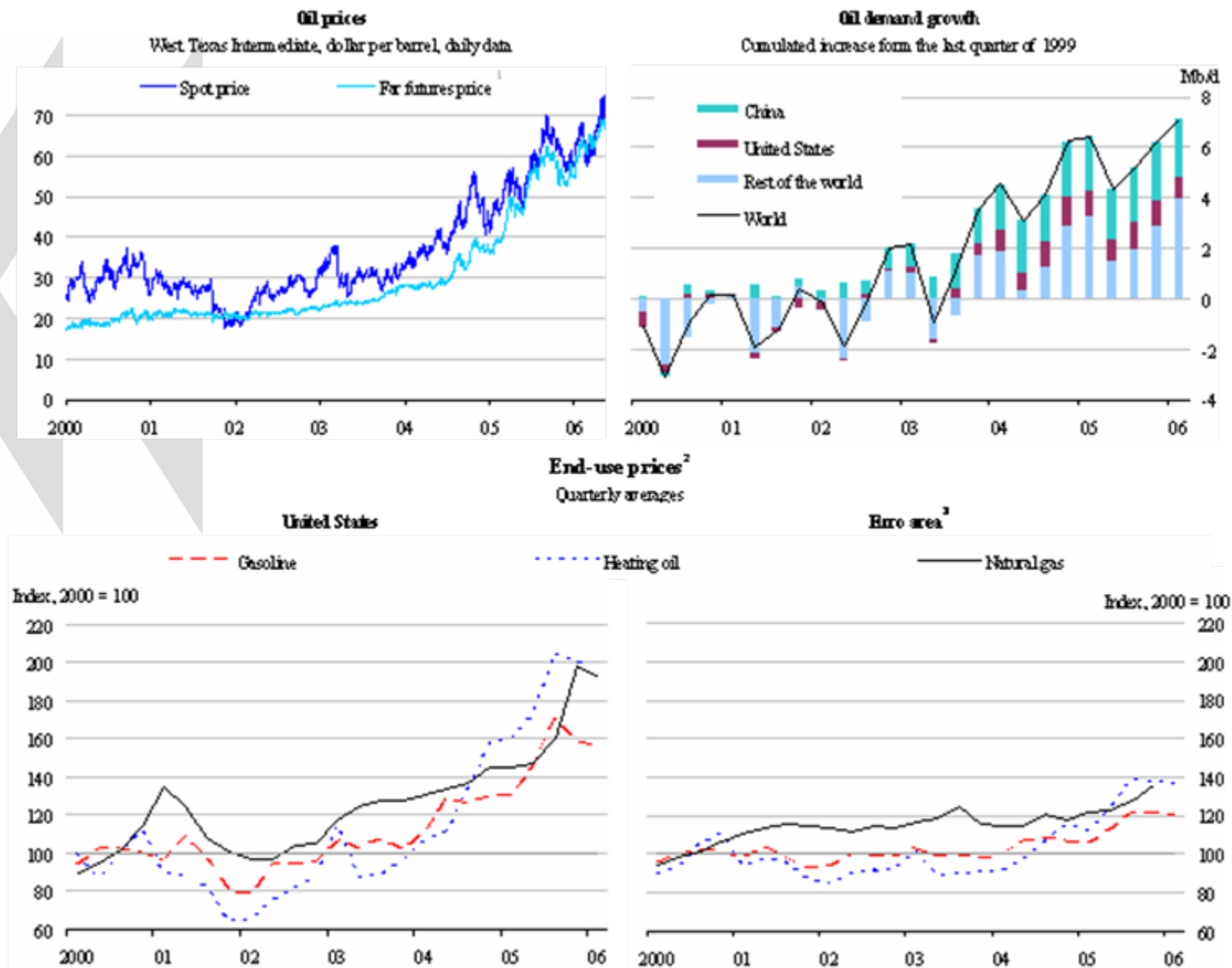
Paul van den Noord
General Economic Assessment
Division



The impact of high oil prices: main transmission channels

- Terms of trade
- Re-spending and recycling of petrodollars
- Inflation and monetary policy

Figure L.2. Energy markets are hot



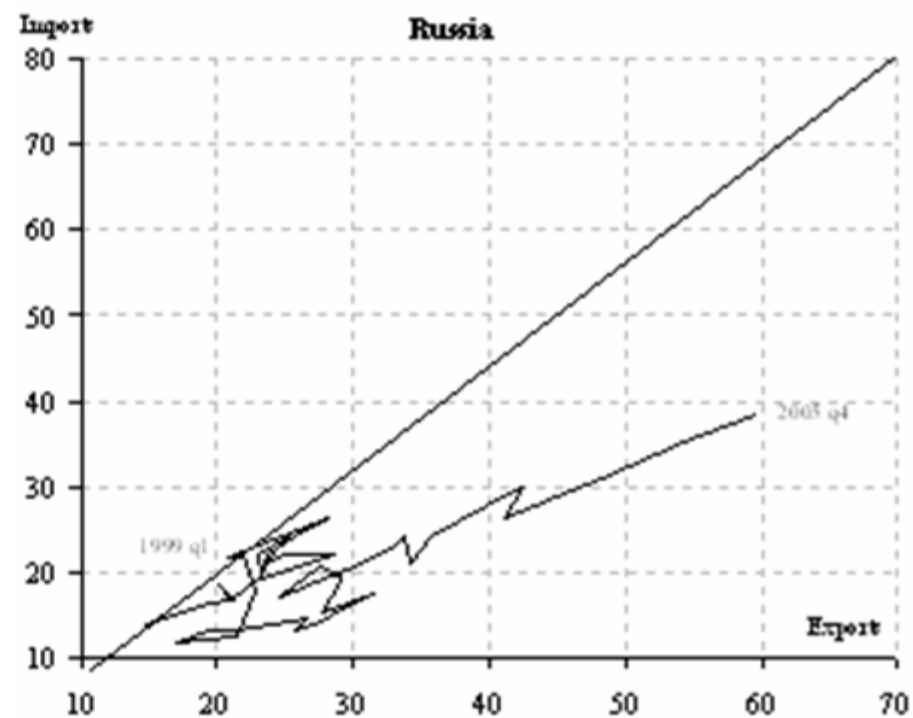
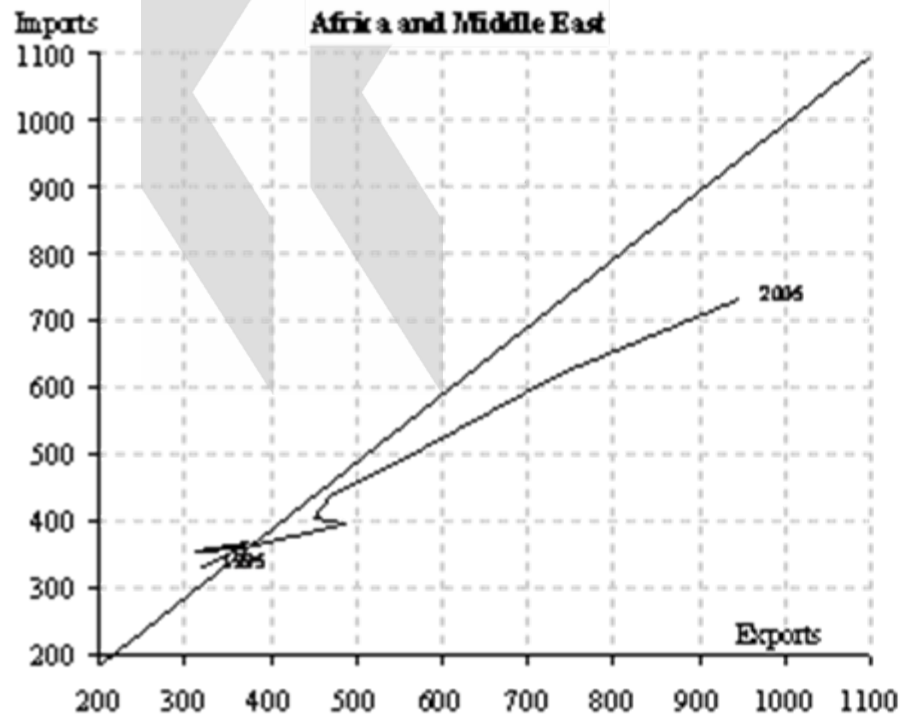
1. Far futures prices refer to the New York Merchandise Exchange contract on light crude with the farthest maturity (6 to 7 years).

2. For the United States, the heating oil price refers to New York harbor no. 2 heating oil spot price FOB.

3. Euro area series are estimates based on the countries for which data are available.

Source: International Energy Agency, US Energy Information Agency, Datastream and OECD Economic Outlook 79 database.

Figure L3. Imports of oil producers lag their exports
\$billion

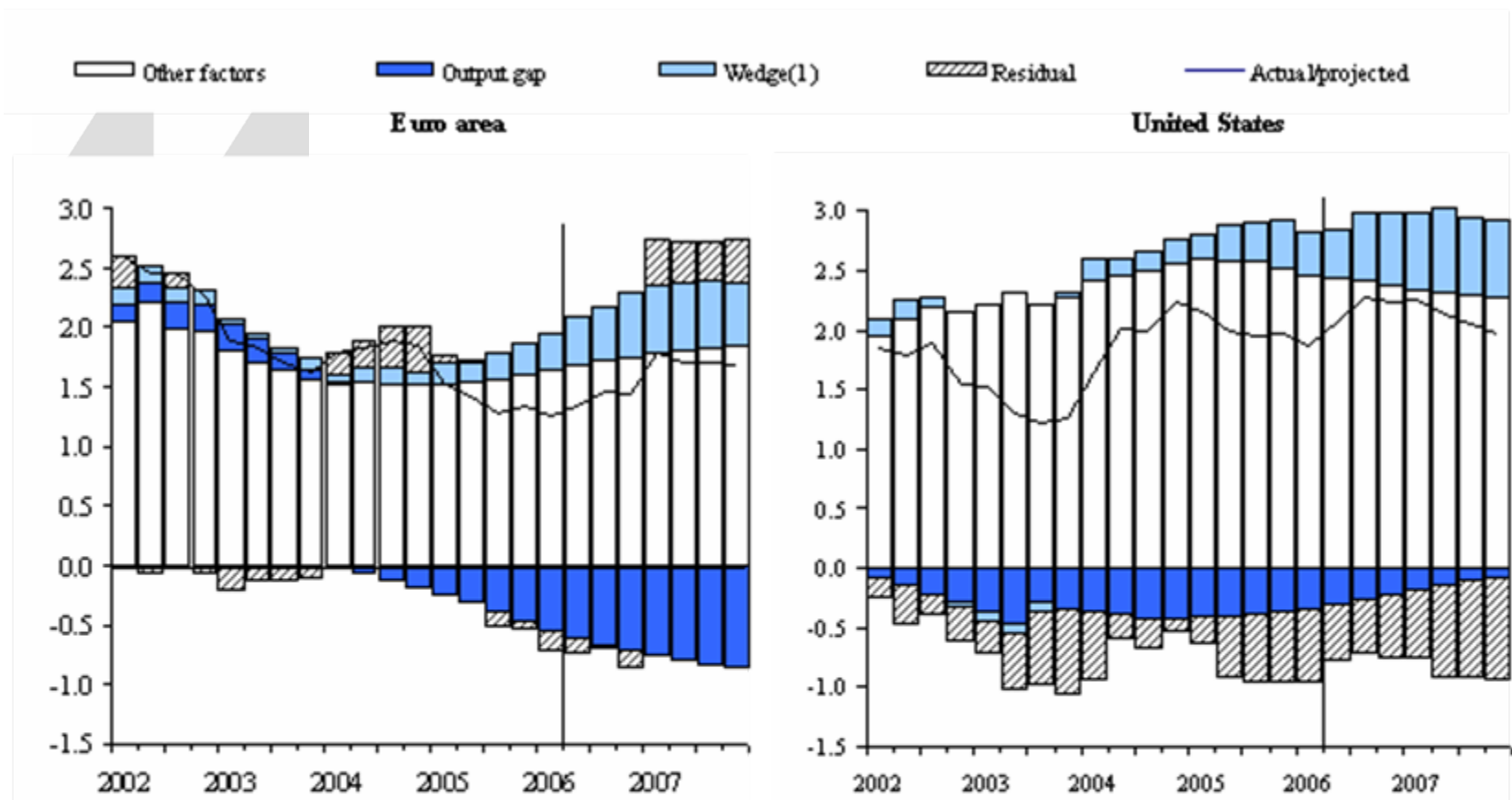


Note: Data for Russia are quarterly but annual for Africa and Middle East.

Source: Central Bank of Russia and OECD Economic Outlook 79 database.



Figure I.9. Factors shaping core inflation

Contributions to year-on-year percentage changes in core inflation



Note: The simulation results shown are based on regression equations of the following type:

$$PCORE_t = \delta_0 + \sum_i \delta_{1i} PCORE_{t-i} + \delta_2 GAP_{t-1} + \sum_j \delta_{3j} (PHEAD - PCORE)_{t-j} - \sum_k \delta_{4k} REER_{t-k} + \varepsilon_t$$

in which: *PCORE* is the core inflation rate (*PCE* excluding food and energy in the United States and the *HICP* excluding unprocessed food and energy for the euro area); *PHEAD* is the headline inflation rate (*PCE* in the United States and *HICP* in the euro area); *GAP* is the output gap; and *REER* is the rate of change of the real effective exchange rate. *PHEAD*-*PCORE*, or the "wedge", captures the impact of food and energy prices on headline inflation. The decomposition into the contributions of the respective explanatory variables, including that of the residual term ε , incorporates their impact via the lagged dependent variable. The impact of the constant term (which could be interpreted as a proxy of long-term inflation expectations) and the real effective exchange rate are combined in the item labelled "other factors". See for further details, Box I.4 in *OECD Economic Outlook*, No. 18.  5  OCDE