



# 25-1 Why Did Inflation Rise and Fall So Rapidly? Lessons from the Korean War

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January 2025

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## ABSTRACT

The speed of both the rise and fall of US inflation in 2021–23 took many economists by surprise. This paper shows that the rise of COVID era inflation reflects three independent shocks: a plethora of pandemic-related shifts in demand patterns and supply disruptions; the largest commodity price surge in 40 years caused by the Ukraine war; and strong monetary and fiscal responses to the pandemic, which kept labor markets tight. This paper documents the transmission of these shocks through the main components of private consumption: durable goods, nondurable goods, and services. The rapid fall of inflation reflects the credibility of the Federal Reserve’s commitment to low inflation, something that was not apparent during the inflationary shocks of the 1970s but that was important during the Korean War inflation of 1950–51. Another similarity with the Korean War episode is the temporary surge in demand for durable goods.

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**JEL codes:** E30, E31

**Keywords:** durable goods, nondurable goods, services, pandemic inflation

**Note:** This Working Paper is part of a series titled Understanding COVID Era Inflation. PIIE gratefully acknowledges the financial support from a donor who wishes to remain anonymous for the research presented in this Working Paper. The research was conducted independently. Funders are never given the right to final review of a publication before its release. This paper has greatly benefited from the comments of Karen Dynan, John Roberts, and David Wilcox. All errors and opinions are the authors’ own.

## INTRODUCTION

US inflation surged to a 40-year high in 2021–22. Many observers argued that it would take years for inflation to return to its 2 percent target unless the economy endured a recession with a sharp rise in unemployment (Domash and Summers 2022; Verbrugge and Zaman 2023; Cecchetti et al. 2023). Others were more optimistic that inflation would fall rapidly even if the economy avoided a hard landing (Gagnon 2021; Reifschneider and Wilcox 2022; Krugman 2022).<sup>1</sup>

As of mid-2024, US inflation had fallen most of the way toward its 2 percent target without a sharp rise in unemployment. This paper shows that a rapid reversal of a sudden burst of inflation is the expected outcome in monetary regimes that actively target low inflation. Notable episodes of inflation under such a regime include the Korean War inflation of 1950–51 and the COVID era inflation. The more pessimistic predictions likely were unduly influenced by inflation behavior between the late 1960s and early 1990s, when the Federal Reserve did not actively target a constant low rate of inflation.

This paper estimates models of inflation on US data back to 1949 for the three main components of consumption: durable goods, nondurable goods, and services. The regressions find remarkably stable underlying effects of commodity prices, import prices, and labor market conditions on inflation after controlling for differences in monetary regime. The burst of inflation in 2021–22 was driven by the confluence of three developments: (1) a plethora of pandemic-related demand and supply disruptions that pushed up prices of durable goods, (2) the global commodity price shock caused by Russia’s invasion of Ukraine, which was especially important for nondurable goods, and (3) tight labor markets, which mainly operate through prices of services. Similar developments occurred in other advanced economies (Gagnon and Rose 2024).

The COVID era inflation bears striking similarities to the inflation surge during the Korean War in 1950–51, which was also associated with a temporary large increase in demand for durable goods and which receded quickly without any increase in unemployment. COVID era inflation, however, was amplified by a large commodity price shock and supply chain disruptions that did not occur during the Korean War.

## OVERVIEW OF US POSTWAR INFLATION

The United States has a rich trove of macroeconomic data dating back to the late 1940s, creating a unique opportunity to search for lessons from earlier surges in inflation. Figure 1 displays contributions to inflation going back to 1949. The 2021–22 inflation surge is one of four notable inflation episodes. The others are 1950–51, 1973–75, and 1979–81.

The solid black line displays the four-quarter rate of change of the price index for personal consumption expenditures (PCE) from 1949 through 2023. The colored bar segments display the contributions to inflation from the three major categories of consumption: durable goods (blue), nondurable goods (green), and services (pink). When all components contribute positively to inflation, the

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1 The size of the inflation surge seems to have caught nearly everyone, both optimist and pessimist, by surprise.

solid line is at the top of the stacked bars. When inflation is positive but some components are negative, the solid line is below the top of the bars.

Three broad patterns are apparent. First, services prices are typically the largest contributor to overall inflation, reflecting both the high share of services in total consumption and the fact that services prices tend to grow faster than goods prices. Second, large bursts of inflation tend to be associated with large increases in the contributions of both durable and nondurable goods prices, whereas the services contribution is much less volatile. Third, durable goods prices often make a negative contribution to inflation, especially during periods of low overall inflation.

## THE KOREAN WAR ANALOGY

There are strong parallels between the inflation surges of 1950–51 and 2021–22.

Both surges were immediately preceded and quickly followed by inflation rates of around 2 percent.<sup>2</sup> In contrast, in the 1970s, inflation surges began and ended with inflation rates of around 4 percent or more.

In 1950–51 and 2021–22, unemployment rates fell as inflation rose and unemployment remained low as inflation receded. In contrast, in 1973–75 and 1979–81, the rise in inflation was quickly followed by a recession and a sustained rise in unemployment that was widely viewed as necessary to bring down inflation.

In 1950–51 and 2021–22, consumers rushed to buy durable goods either because they feared a return of wartime rationing (1950–51) or because they feared getting ill from going to restaurants and traveling (2021–22). In contrast, changes in durable goods spending in the 1970s were less pronounced and appear to reflect a standard cyclical pattern in which durable goods spending declines more during recessions than other categories of consumer spending.

Figure 2 displays the growth rate of US real durables consumption since 1949. Note that the two largest spikes are in 1950 and 2021, coinciding with two of the four inflation spikes in figure 1. There is also a spike in 1971–73, but that was before the 1973–75 inflation surge and it was reversed during the 1974–75 recession. Durables consumption growth was especially low during the 1979–81 burst of inflation, unlike during inflation in the 1950s and 2020s.

Bert Hickman (1955, 2–3) discusses the importance of the shift in spending on consumer durables to the 1950–51 surge in inflation:

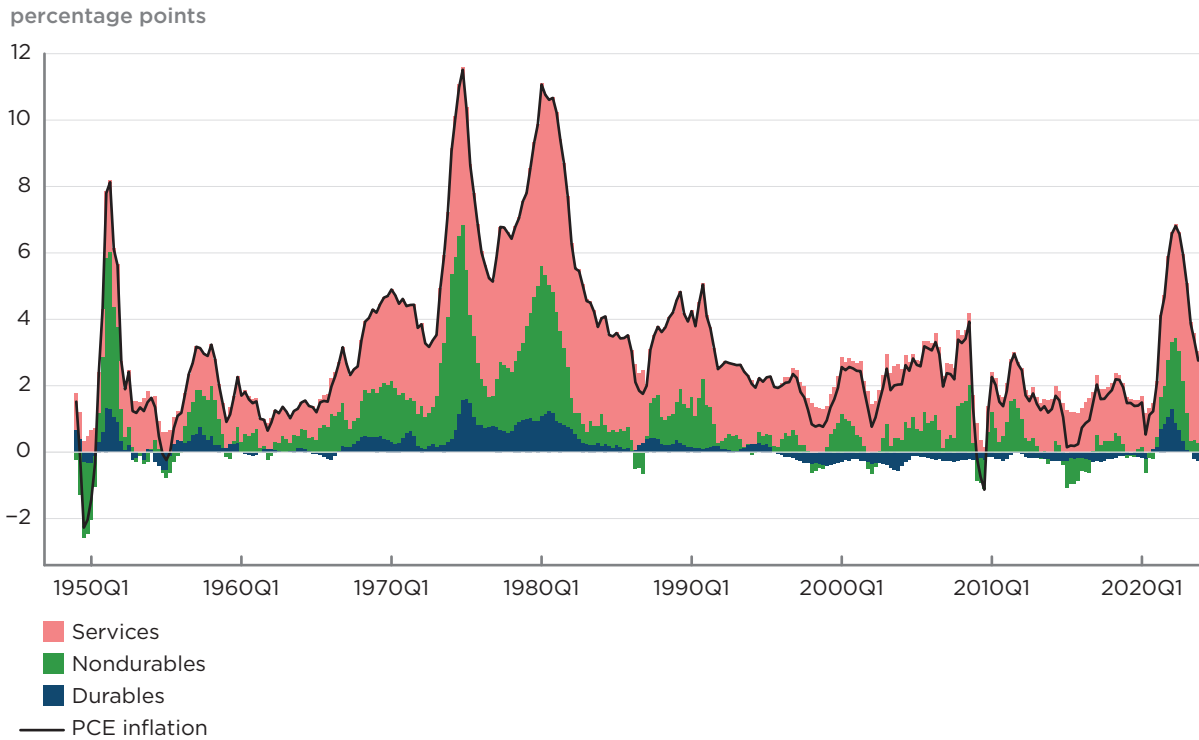
The outbreak of the Korean War in June 1950 was followed by eight months of strong inflationary pressure, due largely to abnormally heavy buying by consumers in anticipation of possible future shortages.... Memories of wartime shortages were still fresh in 1950, and the beginning of hostilities in Korea touched off a wave of forward buying in July and August.

Hickman notes that the bulk of the consumer boom of 1950 was in durable goods, reflecting fears that shortages would last for years rather than just weeks or months. Panic buying stopped almost as quickly as it started after the feared shortages did not materialize. By 1951Q2, real spending on consumer durables

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2 As of May 2024, the 12-month PCE inflation rate was 2.6 percent See <https://www.bea.gov/news/2024/personal-income-and-outlays-may-2024>.

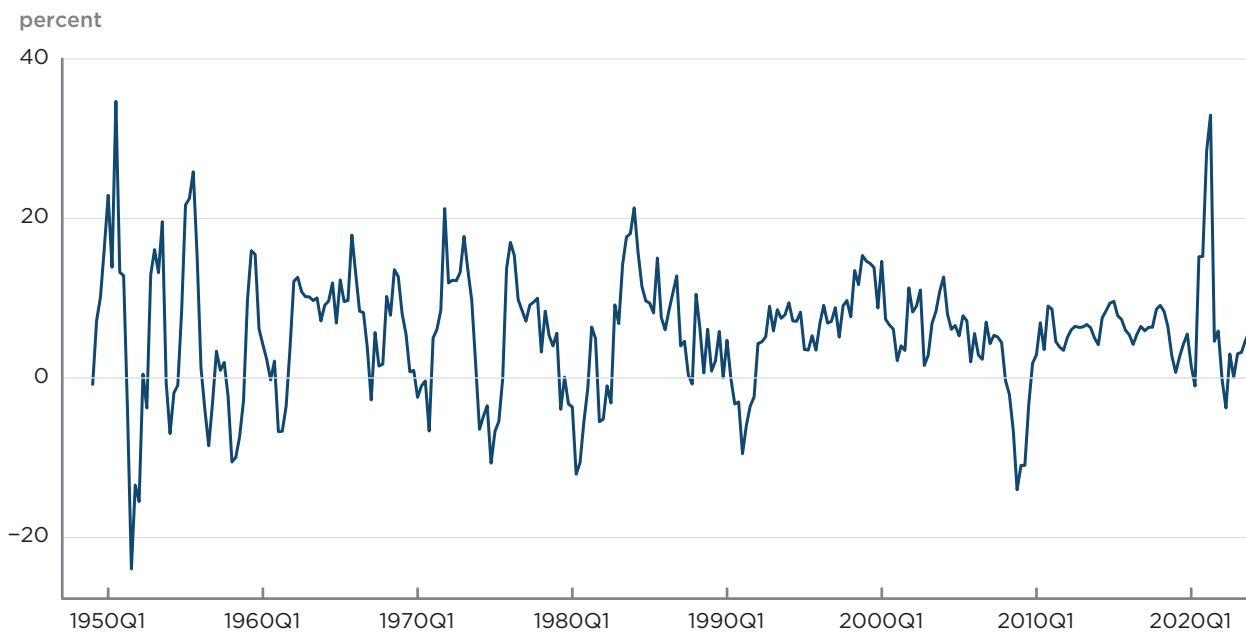
Figure 1  
**Contributions to PCE inflation in the United States, 1949Q1-2023Q4 (4-quarter changes)**



PCE = personal consumption expenditures

Source: Authors' calculations using data described in the appendix.

Figure 2  
**Real (inflation-adjusted) growth in US consumption of durable goods, 1949Q1-2023Q4 (4-quarter changes)**



Source: Authors' calculations using data described in the appendix.

had fallen below the level of 1950Q1 before the war started. By 1952Q1, the PCE inflation rate (four-quarter change) was only 2.7 percent and by 1952Q4 it was only 1.2 percent.

Two notable differences between the inflation episodes of 1950–51 and 2021–22 are that the durable goods boom of 1950 was much shorter-lived and there were few supply disruptions like those in 2021–22. The main reason for these differences appears to be tighter fiscal and monetary policies in the 1950s.

Taxes were raised immediately. In his first *Economic Report of the President* after the start of the war, President Harry Truman (1951, 17) stated

We should make it the first principle of economic and fiscal policy in these times to maintain a balanced budget, and to finance the cost of national defense on a “pay-as-we-go” basis. The Congress is to be commended upon the successful completion of two vitally important pieces of tax legislation since the middle of calendar year 1950.

Current federal expenditures rose from \$46 billion in 1949 to \$58 billion in 1951, while current federal tax receipts rose from \$33 billion to \$56 billion over the same period, resulting in a *narrowing* of the federal deficit from 5.0 percent of GDP to 0.7 percent of GDP.<sup>3</sup> Only part of this surge in revenues owes to recovery from the 1948–49 recession. Higher income taxes reduced disposable income available for consumption.

At the request of the Truman administration, the Federal Reserve tightened credit by raising down payments and shortening repayment terms on housing and consumer loans (Truman 1951, 18). Housing starts fell from 1.4 million units in 1950 to 1.1 million in 1951 (Truman 1952, 11). Moreover, the Treasury Department used moral suasion and more attractive terms on savings bonds to encourage a large increase in private saving (Truman 1952, 22).

In March 1951, the Federal Reserve and the Treasury reached an Accord that ratified the Federal Reserve’s switch from targeting interest rates at a low level to stabilizing the economy and prices.<sup>4</sup> Despite this renewed freedom, the Federal Reserve raised interest rates only a small amount during the war, reflecting the fact that other measures were effective in keeping household spending low enough to bring inflation down and avoid overheating the economy.

The Korean War was not associated with the workplace lockdowns, school closures, and mobility restrictions of the COVID-19 pandemic. There was no analog to the shortage of semiconductor chips for automobiles that characterized 2021–22. Although wage and price controls were revived during the Korean War, Hickman (1955) argues that they were generally not binding, pointing to the large runup in business inventories in 1951 as consumers became less concerned about possible future shortages and the spending binge subsided. When price controls were completely removed in 1953, inflation actually fell, providing further evidence that the controls were not binding.

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3 Data are from the Bureau of Economic Analysis at <https://www.bea.gov/data/economic-accounts/national>.

4 The Federal Reserve maintained low caps on short-term and long-term bond yields between 1941 and 1951 to help in wartime finance and to protect banks from sharp declines in bond prices (Eichengreen and Garber 1991).

## DIFFERENCES WITH THE 1970s INFLATION EPISODES<sup>5</sup>

Perhaps the most important contrast between the 1950–51 and 2021–22 episodes on the one hand and the 1973–75 and 1979–81 episodes on the other hand concerns the credibility of monetary policy in maintaining a low level of inflation. Prior to the 1960s, bouts of high inflation were always brief and associated with unusual circumstances, especially wars. Households and businesses generally expected prices to be relatively stable over long periods of time, as reflected in long-term bond yields of around 2 to 3 percent in the early 1950s.<sup>6</sup>

In the late 1960s and 1970s, the Federal Reserve did not have any stated inflation goal nor did it act resolutely to achieve any stable unstated inflation goal. When the Kennedy tax cuts, the Vietnam War, and President Johnson's Great Society programs fostered a prolonged period of growing fiscal deficits in the mid- and late 1960s, the unemployment rate fell to a record low and inflation began to rise. The Federal Reserve made only sporadic and half-hearted attempts to fight inflation, leading to a long period in which each bout of inflation reached a higher peak and was followed by a higher trough.<sup>7</sup>

Expectations of long-term inflation (and long-term bond yields) drifted up with each inflationary shock and became entrenched into workers' pay demands. A notable difference between the 1970s inflationary surges and the other surges is that the dollar fell sharply at the beginning of each 1970s surge as investors expected inflation to persist, and import prices contributed to inflationary pressure. The dollar and import prices were relatively stable during the 1950–51 and 2021–22 surges, reflecting investor confidence that inflation would not persist. During the 1970s period of unanchored inflationary expectations, it took large increases in the unemployment rate to reduce inflation even part way back to earlier levels.

The appointment in 1979 of an aggressively anti-inflationary Federal Reserve chairman, Paul Volcker, started the process of returning to a low and stable inflation rate. After two recessions in 1980 and 1982, inflation settled at around 4 percent. Volcker's successor, Alan Greenspan, took advantage of the 1990 recession to push inflation down further to 2 percent and it remained near that level until the post-pandemic inflation of 2021–22.

The 30-year US experience of low and stable inflation combined with the Federal Reserve's public adoption of a 2 percent inflation target in 2012 kept long-run expectations of inflation at low levels and enabled the 2021–22 inflation surge to recede without any substantial runup in unemployment, just as in the inflation surge of 1950–51.

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5 A similarity between the 1970s episodes and the COVID era inflation is the importance of higher commodity prices, which did not characterize the 1950–51 episode to a significant extent.

6 As discussed above, the Federal Reserve exited its wartime policy of capping bond yields at 2.5 percent in early 1951. Yields rose only modestly above the previous cap despite reductions in Federal Reserve bond purchases, suggesting that private buyers were not worried about future high inflation eroding the value of their bond holdings.

7 President Nixon imposed wage and price controls in 1971 but these had only modest and temporary effects (Gordon 1982).

## STATISTICAL MODELING OF US POSTWAR INFLATION

A key issue in modeling inflation from 1949 through 2023 is that the US monetary policy regime shifted substantially, as discussed above. These shifts have important effects on the lag coefficients of the inflation models. From 1949 to 1968, inflation was generally low (average value of 1.8 percent) and shocks to inflation died away quickly. From 1968 to 1992, inflation was generally high (average value of 5.4 percent) and shocks were highly persistent. In this regime, the Federal Reserve did not act systematically to return inflation to a low and stable level. From 1992 to 2023, inflation was generally low (average value of 1.8 percent) and shocks to inflation died away quickly, as in the 1950s and early 1960s. In this regime, the Federal Reserve did respond systematically to return inflation to a low and stable level.

We follow the analysis of Gagnon and Collins (2019) and model the components of inflation using separate intercepts and lag coefficients for each of the three monetary regimes (1949–68, 1968–92, 1992–2023).<sup>8</sup> As in Gagnon and Collins, the regressions allow eight quarters of lagged inflation but restrict the coefficients to be equal for the first four lags and also for the second four lags.<sup>9</sup>

For nondurable goods and services, we model inflation as a function of commodity and import prices as well as labor market conditions. Following recent studies (Ball, Leigh, and Mishra 2022; Blanchard and Bernanke 2023) labor market conditions are measured by the vacancy/unemployment ratio,  $V/U$ , which allows for a nonlinear effect of unemployment on inflation because it increases proportionally more for each percentage point decline in the unemployment rate when unemployment approaches zero.

$$\Delta PN_t = \alpha^R + \sum_{i=1}^8 \rho_i^R \Delta PN_{t-i} + \sum_{i=0}^1 (\beta_i \Delta PE_{t-i} + \gamma_i \Delta PF_{t-i} + \delta_i \Delta PIM_{t-i})$$

$$+ \mu_0(V/U)_t + \mu_1 \Delta(V/U)_t$$

$$\Delta PS_t = \alpha^R + \sum_{i=1}^8 \rho_i^R \Delta PS_{t-i} + \sum_{i=0}^1 (\beta_i \Delta PE_{t-i} + \gamma_i \Delta PF_{t-i} + \delta_i \Delta PIM_{t-i})$$

$$+ \mu_0(V/U)_t + \mu_1 \Delta(V/U)_t$$

$\Delta$  denotes annualized percent change. Note that these are one-quarter changes, unlike the four-quarter changes displayed in figure 1.  $PN$  is the price index for nondurable goods.  $PS$  is the price index for services.  $PE$  is the price index for energy.  $PF$  is the price index for food.  $PIM$  is the price index for imports of goods and services.  $PE$ ,  $PF$ , and  $PIM$  are expressed relative to the GDP deflator.

8 These dates differ slightly from those in Gagnon and Collins because that paper was focused on consumer price index (CPI) inflation and this paper focuses on PCE inflation. The transition to the third regime is estimated to occur roughly two years earlier with PCE inflation than with CPI inflation. Results would be only minimally affected using the original Gagnon and Collins regime dates.

9 Note that the coefficients on lagged inflation are allowed to shift immediately with the transition to a new regime, even if the lagged observations are in the preceding regime. Gagnon and Collins find that their results are not sensitive to moderate changes in the break dates.



Import price inflation is also scaled by the ratio of nominal imports to nominal GDP. The superscripts R refer to the three monetary regimes. Within each regime the following constraints are imposed:  $\rho_1 = \rho_2 = \rho_3 = \rho_4$  and  $\rho_5 = \rho_6 = \rho_7 = \rho_8$ .

For durable goods,  $V/U$  is not statistically significant. Instead we take the approach in Gagnon and Rose (2024) and include the growth rate of real durables spending and a measure of the COVID era semiconductor shortage based on Google searches for the term “chip shortage” from Google Trends.<sup>10</sup>

The semiconductor shortage was obviously not an important driver of inflation before 2020. We devoted considerable efforts to finding an alternate measure that might capture unusual supply restrictions in earlier years, but these efforts ultimately were not successful.<sup>11</sup> As discussed above, macroeconomic policies to restrain demand appear to have been successful in avoiding shortages and significant rationing of consumer goods in the Korean War. The Vietnam War was not associated with any significant government restrictions on US manufacturing production.

$$\Delta PD_t = \alpha^R + \sum_{i=1}^8 \rho_i^R \Delta PD_{t-i} + \sum_{i=0}^1 (\beta_i \Delta PE_{t-i} + \gamma_i \Delta PF_{t-i} + \delta_i \Delta PIM_{t-i})$$

$$+ \theta \text{CHIPSHORT}_t + \sum_{i=0}^3 \sigma_i \Delta CD_{t-i}$$

$PD$  is the price index for durable goods.  $CHIPSHORT$  is the frequency of Google searches for “chip shortage.”  $CD$  is real consumption of durable goods. Other variables are the same as above.

Table 1 presents results of regressions of nondurable goods, services, and durable goods inflation over the period 1949Q2 through 2023Q4 in the United States.<sup>12</sup> For simplicity, the table displays only the sums of the coefficients on variables with multiple lags.

The first column of table 1 displays a regression of nondurable goods inflation over all three monetary regimes. Column 2 displays a regression limited to the final regime. The coefficients in column 2 are notably similar to those for the United States in Gagnon and Rose (2024, table 3), despite a moderately different sample period and lag structure. Perhaps more interesting is the remarkable similarity of the coefficients in the first two columns, despite a sample in column

10 This measure is set equal to zero before 2004.

11 One approach involved keyword analysis through the archives of the *New York Times*, searching for terms relating to supply or manufacturing shortages. Results appeared to be inconsistent over time owing to changes in writing style and editorial focus. The coefficient on these search results had the wrong sign and was not statistically significant. Similar efforts using Google Books N-gram Viewer and the Federal Reserve Bank of St. Louis FRASER searchable archive of Federal Reserve documents did not yield useful results. Another approach was motivated by possible effects of controls under the Defense Production Act in the Korean War. We created a shortage measure based on the shortfall of automobile production from its peak in 1950 until the end of the Korean War, when it surpassed its previous peak. We set this variable to zero until the peak of automobile production in 2020Q1, after which it was set equal to the shortfall through 2023. The coefficient on this measure was not significant and had the wrong sign.

12 As in Gagnon and Collins (2019), the regressions include the Gordon (1982) dummy variable for wage and price controls that were imposed in 1971 and fully removed by 1975.



Table 1  
**US inflation components, 1949Q2–2023Q4**

	Nondurable goods		Services		Durable goods		
	1	2	3	4	5	6	7
	<i>Full sample</i>	<i>Post-1992</i>	<i>Full sample</i>	<i>Post-1992</i>	<i>Full sample</i>	<i>Excluding 1968–92</i>	<i>Post-1992</i>
1949Q2–68Q1 lags	-0.33 (0.20)		0.36 (0.19)		0.14 (0.27)	0.20 (0.28)	
1968Q2–92Q2 lags	0.51** (0.09)		0.94** (0.06)		0.77** (0.09)		
1992Q3–2023Q4 lags	0.15 (0.09)	0.23* (0.09)	0.52** (0.11)	0.64** (0.10)	0.28 (0.16)	0.27 (0.17)	0.39** (0.13)
$\Delta PIM$	1.28** (0.26)	1.58* (0.31)	0.45** (0.09)	0.44** (0.11)	1.08** (0.26)	0.48 (0.25)	0.60** (0.21)
$\Delta PE$	0.13** (0.02)	0.12** (0.02)	0.01 (0.01)	0.00 (0.01)	-0.03** (0.01)	-0.02 (0.01)	-0.02* (0.01)
$\Delta PF$	0.32** (0.04)	0.20* (0.09)	0.05* (0.02)	0.00 (0.03)	0.00 (0.05)	0.09 (0.09)	-0.02 (0.07)
$V/U$	1.79** (0.37)	1.54** (0.47)	1.05** (0.19)	0.64** (0.21)			
$\Delta V/U$	5.54** (1.53)	5.87* (2.32)	1.33 (0.77)	2.16** (0.71)			
<i>CHIPSHORT</i>					0.11** (0.03)	0.10** (0.03)	0.08** (0.02)
$\Delta CD$					0.04 (0.03)	0.08 (0.04)	0.09** (0.03)
Observations	299	126	299	126	299	202	126
R <sup>2</sup>	0.87	0.86	0.96	0.95	0.65	0.47	0.76

\*p < 0.05, \*\*p < 0.01. Robust standard errors in parentheses.

Source: Authors' calculations using data described in the appendix.

1 that is roughly 2.5 times greater than that in column 2. This suggests that our empirical results in the post-1992 period are not unduly influenced by the large movements of inflation in the years from 2020 through 2023.

Inflation of nondurable goods responds positively to commodity and import price inflation as well as to both the level and change of the vacancy/unemployment ratio,  $V/U$ . The coefficient on the level of  $V/U$  represents a

permanent effect of labor market tightness on inflation. The coefficient on the change of  $V/U$  represents a temporary effect sometimes referred to as a “speed limit” effect, reflecting the possibility that a rapidly growing economy may put upward pressure on inflation even when the level of activity or employment is not especially high.

The sums of the lag coefficients differ sharply across monetary regime, with small and statistically insignificant lags in the first and third regimes but moderate and statistically significant lags in the middle regime (1968–92). Lags close to zero imply that any shock to inflation dies out immediately, whereas a sum of lags around 0.5 (as in the middle regime) implies that shocks to inflation persist for about two or three quarters.<sup>13</sup>

The next two columns of table 1 display regressions of services inflation over the full sample and the final monetary regime. Again, the results for the final regime are close to those for the United States in Gagnon and Rose (2024, table 4). Moreover, the results for the full sample are broadly similar to those for the final regime, despite the far larger number of observations.

Services inflation responds significantly to import prices and labor market conditions, with coefficients that are moderately lower than those for nondurable goods inflation. However, the coefficients on lagged services inflation in columns 3 and 4 are notably higher than those on lagged nondurables inflation in columns 1 and 2. Thus, the long-run effects of import prices and labor market conditions on services inflation are rather similar to their long-run effects on nondurable goods inflation.<sup>14</sup>

Again, the lag coefficients differ sharply across regimes. A cumulative lag coefficient of 0.5 or 0.6 in the final regime reflects moderately rapid adjustment of inflation, with a large majority of the effects of shocks to inflation dissipating after two or three quarters. However, the cumulative lag coefficient of 0.94 in the middle regime implies much more persistent shocks to inflation, with half of the effects remaining after three years. Moreover, the coefficient is not statistically different from 1.0, which would imply that shocks to inflation last forever. It may be this property of the middle monetary regime that led some observers to predict that COVID era inflation would be highly persistent unless a recession introduced an opposing disinflationary shock. Table 1 shows that the pessimistic view of COVID era inflation ignores the regime shift that occurred in the early 1990s. Column 3 shows that services inflation was much less persistent in the first and third monetary regimes, enabling shocks to inflation to dissipate relatively quickly.

The final column of table 1 displays a regression of durable goods inflation over the final monetary regime. The coefficients are broadly similar to those for the United States in Gagnon and Rose (2024, table 2), except that the effect of the growth of real durables consumption ( $\Delta CD$ ) is notably higher (0.09 vs. 0.05) and the *CHIPSHORT* coefficient is a bit lower (0.08 vs. 0.11).

13 Almost all of the lagged effects occur in the first four quarters. The coefficients on lags 5 through 8 are close to zero.

14 For example, the long-run effect of import price inflation on services inflation is  $(\delta_0 + \delta_1)/(1 - \sum \rho_i)$ , which increases as the sum of lag coefficients approaches 1.

The regression in column 5 extends the sample to all three regimes. Many coefficients are similar to those in column 7, but the coefficient on real durables consumption is considerably smaller and not significant. Another notable difference in the full sample is the larger impact of import prices. The chip shortage coefficient is slightly higher but not significantly so.

A possible explanation for the small and insignificant effect of the growth of real durables spending on durables inflation in the full sample lies in the different sources of spikes in durables consumption. In both 1950 and 2021, consumer demand drove the shift. In 1950, the outbreak of the Korean War caused consumers to fear a return of wartime rationing, which had ended only a few years earlier. In 2021, consumers feared spending on services that might expose them to the virus that causes COVID-19 and switched to durable goods such as exercise bicycles and recreational vehicles. Shifts in consumer spending on durable goods in the 1970s and 1980s may have been driven more by endogenous responses to cyclical fluctuations in household income rather than from exogenous shocks to consumer preferences.

To test this hypothesis, column 6 displays a regression that drops the second monetary regime and includes only the first and third regimes. Most of the coefficients, and the coefficient on the growth of real spending on durables in particular, are similar to those in the regression on the third regime only (column 7). This coefficient is almost statistically significant, with a p-value of 0.06. A regression limited to the first regime (1949–68, not shown) yields a coefficient on durables spending only slightly smaller, but it is not statistically significant, probably because the sample is too short to obtain precise estimates. A regression limited to the second regime (1968–92, not shown) yields a coefficient on durables spending that is negative and not significant. These results suggest that the spikes in durable goods spending in the Korean War and the COVID-19 pandemic may have had similar effects on inflation, whereas shifts in durable goods spending in the 1970s had different causes and the opposite relationship to durable goods inflation.

As is the case for nondurable goods and services inflation, the sums of the lag coefficients on durable goods inflation differ strongly across monetary regimes, with much greater persistence of inflationary shocks in the middle regime. The sharp decline in the persistence of inflationary shocks after 1992 in all three components of inflation explains why COVID era inflation was able to decline relatively quickly without a recession.

## CONCLUSION

In 2021–22, an unusual confluence of shocks caused the largest surge of inflation experienced by the United States and many other economies in roughly 40 years. The shocks include (1) a plethora of pandemic-related demand and supply disruptions, (2) the global commodity price shock caused by Russia's invasion of Ukraine, and (3) tight labor markets. This paper traces out the working of these shocks through inflation rates in the major categories of consumption: durable goods, nondurable goods, and services.

There is a striking similarity between COVID era inflation and the Korean War inflation. Both inflation surges had a strong impetus from purchases of consumer durable goods, and both surges receded quickly without any noticeable increase

in the unemployment rate. Key differences are that unique pandemic-related supply disruptions and a global commodity price shock contributed to COVID era inflation but not Korean War inflation.

A number of observers expected COVID era inflation to persist for years unless the economy experienced a sharp rise in unemployment. Yet inflation has returned most of the way to its target without a recession. This paper shows that pessimism about disinflation may reflect an inappropriate focus on the experience of the 1970s, when the Federal Reserve did not try to achieve a constant low rate of inflation. Since the early 1990s, the Federal Reserve has aimed at a constant low rate of inflation, and the dynamics of inflation in the COVID era more nearly resemble those of the 1950s.

After allowing for shifts in the monetary regime, the inflation process is remarkably stable. In particular, the effects of commodity and import prices and labor market conditions are similar when estimated over the entire postwar period or the much shorter period since the early 1990s. This stability provides assurance that the coefficient estimates in the latter period are not unduly affected by the COVID era inflation surge.

The pandemic-related demand and supply disruptions have largely reversed and commodity prices are back in historical ranges, allowing a substantial decline of inflation in 2023. The labor market, however, is only gradually returning toward normal and kept inflation slightly above its pre-pandemic levels in 2024.

## APPENDIX: DATA SOURCES AND DEFINITIONS

### Sources

Data on nominal consumption, goods and services imports, GDP, and related price indexes are from the Bureau of Economic Analysis National Accounts database via <https://fred.stlouisfed.org/>. All data are seasonally adjusted.

Food and energy inflation data come from the World Bank Global Database of Inflation at <https://www.worldbank.org/en/research/brief/inflation-database>.

Unemployment rates are obtained from the Bureau of Labor Statistics (BLS) via <https://fred.stlouisfed.org/>.

The job vacancy rate was obtained from the BLS Job Openings and Labor Turnover Survey database via <https://fred.stlouisfed.org/>. The vacancy rate was extrapolated backwards using data from Petrosky-Nadeau and Zhang (2021) available at [https://drive.google.com/file/d/1NcuUMRR4\\_fOwJW6qHb-XxitVSXXONBHW/view](https://drive.google.com/file/d/1NcuUMRR4_fOwJW6qHb-XxitVSXXONBHW/view).

Our proxy for semiconductor supply shortages is constructed using data from Google Trends on frequency of search results in the United States for the term “chip shortage.” Results are available from 2004 to present at a monthly frequency, with the peak month indexed at 100. We converted the data to a quarterly frequency using averages within each quarter. We extrapolated data before 2004 at 0.

### Definitions

<i>PN</i>	price index for nondurable goods in personal consumption expenditures (PCE)
<i>PD</i>	price index for durable goods in PCE
<i>PS</i>	price index for services in PCE
<i>PE</i>	energy component of consumer price index, ratio to GDP price index
<i>PF</i>	food component of consumer price index, ratio to GDP price index
<i>PIM</i>	price index for imports of goods and services, ratio to GDP price index (the <i>PIM</i> inflation rate is scaled by the ratio of imports to GDP)
<i>V/U</i>	ratio of job vacancies to unemployment
<i>CD</i>	real consumption of durable goods
<i>CHIPSHORT</i>	Google Trends search frequency for the term “chip shortage”
<i>WPC</i>	dummy variable for wage and price controls equal to 0.8 in each quarter from 1971Q3 through 1972Q3, -0.4 in 1974Q2 and 1975Q1, -1.6 in 1974Q3 and 1974Q4, and 0 otherwise, based on Gordon (1982)

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