

**ASSET PRICES AND INFLATION  
IS THERE A PREDICTIVE LINK?**

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The relationship between asset prices and consumer price inflation has been in the limelight again in the last decade. The reason has been the observed linkages in the early 1990s between housing as well as stock market prices and consumer prices in Japan and the U.K. Rapid asset price appreciation in these countries was followed, with a lag, by consumer price inflation. Such developments have even sparked off debates about the need to replace conventional consumer price measures with a broader definition which includes asset prices. It seems important, therefore, to ascertain whether asset prices influence consumer prices in general, for a broader spectrum of countries. We choose a sample including major industrial countries as well as emerging markets, and test for the significance of housing prices and share prices in predicting inflation. Longer, higher frequency, time series data as well as cross-section information are used to establish asset price – consumer price links for the sample as a whole, and for particular individual countries.

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