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Macro Roundup Article

Headline: The Inflationary Effects of Sectoral Reallocation

Article Link: https://www.federalreserve.gov/econres/ifdp/files/ifdp1369.pdf

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Summary: Our main finding is that the shift in consumption demand from services towards goods can explain a large proportion of the rise in U.S. inflation between 2019:Q4 and 2021:Q4. This demand reallocation shock is inflationary due to the costs of increasing production in goods-producing sectors and because such sectors tend to have more flexible prices than those producing services. The aggregate labor supply shock provides a smaller inflationary impulse, despite the fact that it explains the majority of the decline in employment. The sectoral productivity shocks actually lower inflation slightly, as average productivity grew strongly over this period. Our confidence in the model and its predictions is boosted by the fact that it provides an excellent description of cross-sectional developments in prices and quantities.

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Primary Topic: Business Cycle

Topics: Business Cycle, Database, Factoid, GDP, Government/NGO, Inflation, Theory

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