

Macro Roundup Article

Headline: [Supply Chain Disruptions, Trade Costs, and Labor Markets](#)

Article Link: <https://www.frbsf.org/economic-research/publications/economic-letter/2023/january/supply-chain-disruptions-trade-costs-and-labor-markets/>

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Tweet: Researchers at @sffed argue that higher transportation costs related to supply chain issues have had a negative impact on American labor force participation with the impact peaking this year.

Summary: Our model suggests that overall U.S. labor supply declines during the years when trade costs are elevated and then begins to recover. The biggest cumulative drop of 0.7% occurs in 2022 and the recovery is slow. By 2027, labor supply is projected to still be 0.2% lower than its pre-shock level. The fall in labor supply occurs because, while trade costs are higher, focusing on home production activities that are not reliant on the labor market temporarily becomes more attractive for some people than working in industries that are affected by the trade disruption. The blue line in Figure 2 for the cumulative change in employment since 2019 combines the separate effects from labor force participation and unemployment (green and red lines). Even though the low point for labor supply occurs in 2022, our model does not project that the low point for employment will happen until 2023, due to the additional unemployment that is generated when the trade-cost shock dissipates.

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Primary Topic: Trade (not deficits)

Topics: Academic paper, Business Cycle, GDP, Trade (not deficits), Unemployment/Participation, Workforce

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