

Macro Roundup Article

Headline: [Extraordinary Labor Market Developments and the 2022-23 Disinflation](#)

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Summary: I advance a different and complementary explanation for the recent disinflation that centers on two extraordinary labor market developments associated with the pandemic and its aftermath. The first is the sizable labor force withdrawal in 2020 and 2021, driven by infection worries and social distancing, followed by recovery in participation rates as [these] receded. The second development is the big and lasting shift to work from home. This development lowered wage-growth pressures along the transition path to a new equilibrium with pay packages that recognized higher remote work levels and their benefits to workers. Surveys of business executives imply that the shift to WFH lowered average wage growth by two percentage points from spring 2021 to spring 2023. A direct inspection [see Chart 5] finds that average real wage growth from 2021 Q1 to 2024 Q1 in the U.S. economy was at least 3.5 to 4.4 pts below the path suggested by pre-pandemic experience. This large shortfall in real wage growth aligns well with the interpretation of the 2022-23 disinflation offered here.

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Primary Topic: Wages/Income

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