Macro Roundup Artcile

Headline: Revisiting the Phillips and Beveridge Curves: Insights from the 2020s Inflation Surge

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Tweet: .@PierpaBenigno and @GautiEggertsson argue that inflation rose sharply in 2022 due to labor market tightening well beyond the “Beveridge Threshold,” where job vacancies exceed unemployed workers.

Summary: The Phillips curve [PC] relates inflation to economic activity. The Beveridge curve [BC] [relates] job vacancies v and the unemployed u. A metric of labor market tightness is the ratio v/u. The Beveridge threshold [BT] marks a critical point, measured by the ratio v/u, that triggers fundamental changes in both the PC and the BC. Once the BT is crossed, the PC becomes steeper and more prone to generating inflation, while the BC becomes nearly vertical, with most labor market adjustments occurring through changes in vacancies. The BT marks an unemployment rate that triggers stronger inflationary pressures, which we call the Beveridge threshold (BT) unemployment rate, the point below which the Phillips curve steepens significantly. Figure 30 plots the unemployment rate in comparison with the BT counterpart, The post-pandemic episode started in May 2021, with the gap suddenly widening to a maximum of -1.08% exactly in March 2022 at the peak of the inflationary surge. At that time, the unemployment rate was at 3.65%, while the Beveridge-threshold rate lagged behind at 4.73%. This gap is another way to read the pressure coming from the labor market to inflation, combined with the steep part of the Phillips curve.

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