

Macro Roundup Article

Headline: [How Much Do Labor Costs Drive Inflation?](#)

Article Link: <https://www.frbsf.org/economic-research/publications/economic-letter/2023/may/how-much-do-labor-costs-drive-inflation/>

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Publication	Federal Reserve Bank of San Francisco
Publication Date	June 01, 2023

Tweet: The @sffed estimates that increased labor costs as measured by the employment cost index from 1988-2022 only contribute about .1pp to core inflation.

Summary: Labor cost growth does not appear to fuel inflation through higher demand. The light blue bars in Figure 3 show the cumulative impact of a 1pp increase in the employment cost index (ECI) on the contribution of goods, housing services, and nonhousing services (NHS) inflation to core PCE inflation over a four-year time horizon. The estimates confirm that labor costs have a stronger impact on NHS inflation than either goods or housing services inflation. The impact of the ECI on NHS inflation is statistically significant, but the magnitude is quite small. A 1pp increase in the ECI increases the contribution of NHS inflation to core PCE inflation by 0.15pp over four years—an effect of 0.04pp per year.

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Primary Topic: Inflation

Topics: GDP, Government/NGO, Inflation

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