

# Propagation of extreme heat in agriculture across sectors and space

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## Abstract

Agriculture is widely recognized as one of the most vulnerable sectors to global warming, yet its relatively small share of global GDP suggests limited macroeconomic impacts. Since agriculture is a critical upstream sector in global supply chains, supply-side shocks in this sector induced by extreme heat might propagate through the economy by reducing input availability and increasing prices. While quantitative approaches have increasingly integrated sectoral and spatial linkages to quantify climate damages through the structure of a model, reduced form empirical designs have focused on local effects. In this paper, I develop a reduced form approach that quantifies global climate damages induced by extreme heat in agriculture accounting for input linkages across sectors and space. In a static production network model, I characterize the model-consistent sectoral exposure to upstream heat shocks. By combining quasi-experimental variation in differential crop sensitivity to hot temperatures with value added and input linkages between 1975 and 2020 around the world, I find that extreme heat in agriculture induces substantial losses to downstream sectors, across national borders and beyond first-order linkages. Counterfactual scenarios reveal a threefold underestimation of global aggregate economic costs when input linkages are omitted. The analysis highlights a positive gradient between a country's centrality in the production network and heat-induced global losses.

**JEL Classification:** E23, E32, L14, O11, Q54, R15

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# 1 Introduction

Agriculture has long been considered the most vulnerable sector to global warming. Given its exposure and sensitivity to weather fluctuations, early studies have focused on this sector to quantify the economic impact of climate change (Mendelsohn et al., 1994; Deschênes and Greenstone, 2007; Schlenker and Roberts, 2009), establishing it as the main channel for macroeconomic climate impacts (Dell et al., 2012). Agriculture, however, only accounts for 10% of global GDP, with substantial heterogeneity across income groups. For instance, it accounts for more than 25% of GDP in low-income countries (World Bank, 2024), which are projected to bear larger climate losses due to the agriculture-intensive nature of domestic economic production and their higher exposure to high temperatures (Nath, 2020). Consequently, global macroeconomic impacts of agricultural losses are often considered modest.<sup>1</sup> Nevertheless, agriculture is the most upstream sector in the global economy, supplying goods that are directly or indirectly used in downstream sectors (Antràs et al., 2012). In an increasingly interconnected world, productivity shocks in agriculture can propagate through the economy via trade in intermediate inputs (Farrokhi and Pellegrina, 2023).

Two main approaches govern the quantification of global climate damages. One approach empirically estimates the effect of local quasi-random variations in weather on GDP, which embeds domestic sectoral linkages, but typically ignores spatial linkages (Burke et al., 2015; Kalkuhl and Wenz, 2020). A second approach structurally calibrates a spatial quantitative model that traces sectoral-disaggregated linkages relying on a set of assumptions on the structure of the economy and how climate affects it (Cruz and Rossi-Hansberg, 2021). How climate damages are affected when accounting for sectoral and spatial linkages is ex ante ambiguous. Openness to trade and production fragmentation could help increase diversification in the supply chain and lower volatility (Caselli et al., 2020). On the other hand, however, interlinkages can increase exposure to shocks with effects rippling through the supply chain (di Giovanni and Levchenko, 2009).

This paper quantifies global climate damages induced by extreme heat accounting for linkages across sectors and space. I propose a reduced-form representation of a class of spatial models that incorporates general equilibrium links in the form of intermediate input linkages between sectors and countries, and use it to estimate the differential and aggregate

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<sup>1</sup>For example, Costinot et al. (2016) find that climate impacts on agriculture amount to a 0.26% reduction in global GDP when trade and crop production spatial patterns are allowed to adjust.

impacts of extreme heat shocks in agriculture, combining value added data with high-resolution daily temperatures and input-output sectoral linkages between 1975 and 2020.

My analysis starts by showing four empirical patterns that inform my theoretical model and empirical approach. First, in a global cross-country sample of value added for six sectors, extreme heat conditions negatively affect only agriculture.<sup>2</sup> This pattern echoes previous findings that agriculture is the most vulnerable sector, and motivates my focus on this sector to study shock transmission through the economy. Second, the negative productivity effect of extreme heat on agriculture induces a short-lasting increase in agricultural good prices, which informs the transmission mechanism in my theoretical model. Third, extreme heat in agriculture is increasingly spatially correlated across the world, underlining the importance to account for linkages across space in empirical analyses of temperature impacts. Fourth, downstream linkages with agriculture do not respond to extreme heat, suggesting limited adaptation in the form of spatial and sectoral adjustments to temperature fluctuations in the production network.

Armed with these empirical patterns, I build on a static production network model where sectoral output is a function of intermediate inputs (Acemoglu et al., 2012), and introduce productivity shocks in the form of extreme heat that propagate downstream across sectors and countries. The objective of the model is two-fold. First, it highlights how traditional quasi-experimental research designs estimate the effect of local weather on aggregate output in a framework that ignores spatial linkages and only implicitly embeds sectoral linkages, deriving estimates by holding weather in other locations fixed. This is equivalent to saying that the estimated (and projected) damages in a location due to *global* warming are in fact computed under *local* warming, i.e., without accounting for simultaneous temperature increases elsewhere. Second, the model illustrates how sector-location specific shocks can affect downstream production through intermediate input linkages. Extreme heat, by inducing a reduction in suppliers' output and increasing its price, leads downstream sectors to reduce intermediate input demand, thus reducing their output.

Based on the empirical patterns and on the theoretical model, I develop a reduced-form specification that integrates spatial and sectoral input linkages. A key empirical challenge lies in disentangling the direct effects of heat on a sector from the indirect effect of heat

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<sup>2</sup>The other five sectors whose response to extreme heat is small and statistically indistinguishable from zero include: Mining, manufacturing and utilities; Construction; Wholesale, retail trade, restaurants, and hotels; Transport, storage, and communication; Other activities (including government and financial sector).

propagating from agriculture. To address this challenge, I construct sector-specific extreme heat measures, by combining geo-satellite data on the geographic distribution of crop areas for 175 distinct crops, population distribution, sub-national sectoral economic activity, with agro-physical expert-elicited estimates on the maximum growing temperature for individual plant species, and rely on plausibly exogenous variation in extreme heat over time. My approach builds on the popular “shift-share” empirical specification (Borusyak et al., 2022). The methodology examines how agriculture-location specific “shifters” can affect downstream sectors’ value added via domestic and international input linkages. These shifters are driven by differential crop-specific heat sensitivities and crop acreage, with model-consistent linkages constructed from the production network, which is allowed to adjust endogenously.

My main findings show that domestic and foreign extreme heat conditions in agriculture have a strong negative effect on the growth rate in downstream sectors’ value added per capita. On average across the five downstream sectors, an additional degree day in domestic (respectively, foreign) agriculture heat reduces growth rate in value added per capita by approximately 0.54% (0.40%). Downstream sectors are heterogeneously affected, with damages concentrated in sectors like manufacturing, wholesale, retail trade, hotels, and restaurants, directly relying on agriculture products. Results are larger in magnitude when accounting for the full shock propagation through the economy using the Leontief inverse matrix (Leontief, 1970). This approach embeds both direct and indirect linkages and thus accounts also all sectoral interdependencies with agriculture. The effect spreads through the economy to more downstream sectors, including transport, storage and communication, construction, and other activities, which are affected negatively. The average effect across downstream sectors for a one-degree day increase in domestic (foreign) agriculture heat is 1.37% (2.45%). As predicted by the theoretical model, I document that the direction of the propagation travels downstream from supplier to buyer sectors. Extreme heat is a (negative) productivity shock on agriculture production, which can thus be interpreted as a supply-side shock propagating downstream and that does not affect prices in sectors upstream to agriculture. I empirically validate this hypothesis by showing that agriculture extreme heat has a negligible and insignificant effect on upstream sectors.

Finally, I use the estimated parameters from the reduced-form specification as the basis for two counterfactual exercises. First, I quantify the contribution of linkages across space and sectors to the average annual value added losses due to recent warming from 2000

onwards.<sup>3</sup> I consider a counterfactual world with no linkages and with linearly trended daily temperatures from their baseline climate in 1970-2000. Accounting for network heat shocks, recent warming is responsible for an average annual output loss of 0.33%, compared to a 0.1% average loss when omitting linkages. Second, I obtain the average annual global cost for an additional hot day in a specific country. Average annual global costs are larger when extreme heat occurs in countries with stronger supply chain interlinkages in the production networks, such as China, Brazil, France, India, and the United States, which are the major global agricultural producers (Costinot et al., 2016).

Altogether, these findings provide evidence of the importance to account for sectoral and spatial linkages as an important mechanism for the propagation and amplification of extreme heat in agriculture. They also highlight a substantial underestimation when omitting linkages and underline the importance of this channel as a component of the total economic impact of climate change.<sup>4</sup>

This paper contributes to the literature on the macroeconomic impacts of climate change by bridging two complementary approaches that trade off the use of plausibly exogenous variation and accounting for indirect effects across space and sectors. First, the reduced form econometric literature relies on quasi-experimental variation in temperature in a given location in a panel structure to estimate its effects on national or sub-national GDP per capita (Akyapi et al., 2024; Burke et al., 2015; Burke and Tanutama, 2019; Dell et al., 2012; Kahn et al., 2021; Kalkuhl and Wenz, 2020; Kotz et al., 2021, 2024; Nath et al., 2024; Newell et al., 2021). Panel fixed effects methods implicitly account for domestic sectoral linkages by studying the response of an aggregate measure of economic output. They can also account for spatial linkages either through the use of spatial lags (e.g., Kotz et al., 2024), or non-parametrically by exploiting variation in weather that is spatially uncorrelated, purging such a correlation out through the use of time-varying fixed effects at broader spatial levels.<sup>5</sup> Nevertheless, reduced-form estimates from panel fixed effect models do not capture general equilibrium effects if the outcome responds to prices. For this reason,

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<sup>3</sup>Since these counterfactuals are constructed from reduced-form short-run elasticities to weather, I do not project counterfactuals for future changes in climate, where other long run adaptive margins (e.g., adjustments in crop specialization patterns) might affect differences between short-run elasticities to weather and long-run elasticities to climate.

<sup>4</sup>For example, Kahn et al. (2021) show that an average increase in temperature by 0.01°C is associated with a 0.02% decrease in the annual growth rate of global economic output (see Tol (2022) for a complete meta-analysis of the economic impact of climate change).

<sup>5</sup>This approach, however, comes at the cost of drastically increasing the signal-to-noise ratio in the remaining variation in weather (Fisher et al., 2012).

another approach is to run a time-series analysis of global spatially-averaged temperature on a global economic outcome (Berg et al., 2024; Bilal and Känzig, 2024), as suggested by Deschênes and Meng (2018). This approach embeds by construction all global spatial and sectoral linkages, but cannot disentangle the local direct effect from the spatial correlation structure of temperature and the trade interconnections across sectors and space, and it may not identify causal effects if other drivers of the global economy are changing over time and are correlated with temperature changes.

Second, studies develop spatial quantitative approaches that quantify global climate damages accounting for other general equilibrium forces, including trade, spatial reallocation of sectoral activities and sectoral reallocation, through calibrated models.<sup>6</sup> Agriculture has only been considered a consumption good in models accounting for trade and crop specialization pattern adjustments (Costinot et al., 2016; Gouel and Laborde, 2021), and its importance has also been documented through the lenses of food preferences characterised by non-homotheticity and low substitutability, although in a model without intermediate inputs (Nath, 2020). Rudik et al. (2024) show with a macro quantitative model that input linkages transmit climate shocks through the economy, but focus on within-state sectoral linkages in the US. My paper develops a reduced form approach to climate impacts integrating sectoral and spatial input linkages, bringing the quasi-experimental approach closer to structural spatial models of the distribution of economic activity under climate change.

Besides spatial correlation in climate-induced productivity losses and absolute advantage as a channel for the global nature of climate change (Dingel et al., 2023), shocks can also propagate across sectors through production networks and geographically distant countries via input linkages. Micro firm level studies quantify the role of input linkages as a mechanism for the propagation and amplification of natural disasters within the manufacturing sector in the US (Barrot and Sauvagnat, 2016) or after the 2011 Japan earthquake (Boehm et al., 2019; Carvalho et al., 2021). Recent studies document manufacturing firms' adaptation in production network by shifting the composition of their suppliers and diversifying sourcing locations in India (Castro-Vincenzi et al., 2024) and Pakistan (Balboni et al., 2024). My paper studies how extreme heat in agriculture propagates across sectors and countries,

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<sup>6</sup>Earlier contributions to this approach develop a computable general equilibrium (CGE) model, which simulates interactions between firms in multiple sectors using the Global Trade Analysis Project (GTAP) global economic model (Hertel, 1997). These models account for the indirect effects of climate damages beyond the sector and region where they occur, but quantify damages through calibrated simulations (Moore et al., 2017; Baldos et al., 2019).

showing that cross-sectoral input linkages do not respond to extreme heat conditions, and amplifying the downstream effects.

## 2 Data

This section provides a summary of the main data sources used to empirically test the hypothesis that heat shocks affect sectoral production and propagate through input-output interlinkages. To do so, I combine data on sector-level value added (Section 2.1), weather (Section 2.2), and global country-sector interlinkages (Section 2.3). Complementary secondary data are described in Appendix Section C.

### 2.1 Sectoral value added

The Economic Statistics Branch of the United Nations Statistical Division (UNSD, 2022) provides Gross Value Added (GVA) in constant 2015 USD for all countries in the world from 1975 through 2020.<sup>7</sup> The data set categorizes sectors into six broad groups (ISIC rev. 3.1 code in parentheses), which provides the most comprehensive source of global economic production disaggregated by sector: agriculture, hunting, forestry, and fishing (A-B); mining, manufacturing and utilities (C-E); construction (F); wholesale, retail trade, restaurants, and hotels (G–H); transport, storage, and communication (I); other activities (J–P).<sup>8</sup> The latter encompasses, among others, the financial sector, real estate, public administration, education and health.<sup>9</sup>

These data present two main advantages. First, in contrast to previous work estimating macroeconomic damages to climate change globally (Dell et al., 2012; Burke et al., 2015; Nath et al., 2024), these data provide a more disaggregated sectoral breakdown articulating the country’s production in six sectors (compared to the traditional tripartition into agriculture, manufacturing, and services). Structurally calibrated models also articulate the economy often into agriculture and non-agriculture sectors (Costinot et al., 2016; Conte et al., 2021). In few exceptions, studies explicitly model the service sector (Nath, 2020;

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<sup>7</sup>The final sample of countries and their frequency is reported in Appendix Table B2.

<sup>8</sup>The original data are available a seventh sector, GVA in manufacturing (ISIC D). Unlike previous studies (Hsiang, 2010; Kunze, 2021), I consider mining, manufacturing and utilities (ISIC C-E) as one single sector, since value added across sectors is not additive.

<sup>9</sup>Appendix Table B1 presents summary statistics for sectoral production. Although unbalanced, the sector-country panel dataset covers all countries in the world for most of the 46 years in the analysis. On average, information for each sector-country tuple is available for 44 years. Most of the sectors are covered for the entire time period except for recent geopolitical changes.

Rudik et al., 2024), or the construction and mining sectors (Casey et al., 2024).<sup>10</sup> Sectoral disaggregation is of paramount importance when tracing input linkages across sectors and countries, since intermediate input use from agriculture can substantially differ along the supply-chain. For instance, industries in the manufacturing sector include “manufacture of food products and beverages”, or “manufacture of wood and of products of wood and cork”, which directly rely on intermediate inputs from agriculture. Conversely, the “retail sale of food, beverages and tobacco in specialized stores” industry uses inputs from the agriculture sector to a smaller extent through first-degree sectoral linkages and more so at higher-order linkages through the food processing industry.

Second, sectoral production is measured in value added, which is equal to a sector’s gross output (which consists of sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (including both domestic and foreign sources). Using sectoral value added instead of gross output allows me to disentangle the channel of the shock between local and through intermediate inputs. Although output could be affected by local weather through a variety of channels, including labor supply and productivity (Graff Zivin and Neidell, 2014; Rode et al., 2022), capital depreciation (Bakkensen and Barrage, 2018), and total factor productivity (Letta and Tol, 2019), the data do not allow me to disentangle the role of these different local channels. In contrast, firm level studies of the impact of temperature disentangle the effect of shocks through total factor productivity and factor inputs, including capital and labor, although without allowing for the possibility for shocks to hit intermediate input availability, mostly due to data limitations (Zhang et al., 2018; Somanathan et al., 2021).

## 2.2 Weather realizations

I construct average daily temperature and total precipitation from the global reanalysis ERA-5 dataset compiled by the European Centre for Medium-Range Weather Forecasts (Muñoz Sabater, 2019). ERA-5 is available on a  $0.25^\circ \times 0.25^\circ$  resolution grid ( $\approx 28\text{km}$  at the Equator) at the hourly frequency from 1940 to the present. Reanalysis data combine model data with observations from across the world into a globally complete and consistent dataset using the laws of physics and rely on information from weather stations, satellites and sondes, removing biases in measurement and creating a coherent, long-term record of

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<sup>10</sup>For a complete review of sectoral heterogeneity in macro quantitative models quantifying climate damages, see Carleton et al. (2024).

past weather.<sup>11</sup>

A key empirical challenge in the parametric estimation of spillovers lies in separating the local direct effect from the indirect effect through sectoral and spatial linkages. In what follows, I detail how I construct sector-country specific shocks, by relying on temporal variation in temperatures, combined with spatial variation in land use, population distribution, and sub-national sectoral economic activity, and of agro-physical information on the maximum growing temperature for individual plant species.

**Heat shocks in agriculture.** Crucial to the analysis is the construction of shocks specific to agriculture. Building on extensive prior literature, I focus on extreme heat exposure, which is quantitatively the most important weather determinant of agricultural yields (Schlenker and Roberts, 2009; Hultgren et al., 2022).

To construct a measure of extreme heat exposure, I exploit the fact that locations grow different crops and each crop is differentially sensitive to extreme heat. I use the global geography of agricultural production from the Earthstat database (Monfreda et al., 2008). These land use data combine national, state, and county-level census statistics with a global data set of croplands to construct the area harvested for 175 crops at a 5 min ( $\approx 10$  km) spatial resolution. The data are time-invariant and obtained as an average from multiple years between 1990 and 2003 to get a single representative value for circa the year 2000. By using a time-invariant measure for the spatial geography of crop acreage, this approach does not account for crop migration as an adaptive margin to changes in heat exposure. Three main reasons allay concerns on omitting this margin. First, crop migration is a spatial adjustment that occurs locally (Sloat et al., 2020). Aggregating the original spatial resolution of agricultural land to match the spatial resolution in weather (nine times larger) accounts for crop migration within the weather grid cell. Second, around half of the crops (84) are perennial, which suggests that spatial adjustments in crop specialization might be more limited in my sample than documented in previous work focusing on this adaptive margin for annual crops (Costinot et al., 2016; Gouel and Laborde, 2021). Third, in Appendix Section D, I empirically document negligible consequences on extreme heat exposure when omitting crop spatial reallocation for a subset of crops whose geography is

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<sup>11</sup>The process undertaken by reanalyses data is called “data assimilation”, which merges observational data with the physics-based global climate model. Despite partly relying on climate models, reanalysis data have been widely validated, particularly in those regions where observations are sparse or of poor quality (Hogan and Schlenker, 2024).

available over time.

To capture crop-specific exposure to harmful temperatures, I use crop-specific temperature sensitivity from the UN FAO EcoCrop database to construct a measure of killing degree days which combines the intensity and the length of exposure to extreme heat for each specific plant. The EcoCrop data are compiled from expert surveys and textbooks and provide information on plants characteristics and crop environmental requirements for more than 2,000 plant species, including tolerance ranges for temperature and precipitation, soil pH, light intensity, and other soil characteristics. I use the crop-specific upper temperature threshold for optimal growing to compute the cumulative degree days in a year that temperatures exceed a threshold that is damaging to the plant growth. Appendix Figure A1 plots the distribution of optimal maximum growing temperatures for the 118 plants in my final sample.<sup>12</sup> For example, the harmful degree days for maize occur above 31°C. The use of crop-specific thresholds allays concerns on the balance of the variation in extreme heat exposure across space used in the analysis. Appendix Figure A2 illustrates this concept graphically with an example. A spatially uniform threshold to compute extreme heat across locations and crops, e.g., 30°C, would completely mask Bolivia's and Ecuador's exposure to above-optimal growing temperature conditions for quinoa (20°C), of which these countries are the leading world producer, and whose daily average temperature on agricultural land growing quinoa is above 25°C only in 2% of the days in the sample.

I compute heat exposure for a wide range of crops that not only include cereals, grains, fruits, vegetables, spices, oils and fats that are essential for the food and beverage industry, but also fiber crops (like cotton, flax, hemp, and jute) that are used in the textile and apparel industry. Other examples of downstream use of agricultural crop products include pharmaceutical and medicinal products, cosmetic and personal care products, rubber and latex products, which can also serve as inputs for the biofuel and bioplastic industry, the paper and packaging industry.

Using the geographic and temperature sensitivity information for 118 crops, I expand on previous US-specific (Moscona and Sastry, 2023) and crop-specific (Hsiao et al., 2024) efforts and construct a country-specific agriculture extreme heat exposure measure aggregating across crops  $k$  and grid cells  $g$  in country  $n$ , such that:

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<sup>12</sup>Sample limitations are driven by data availability of the geography of crop acreage.

$$ExtremeHeat_{nt} = \sum_k \sum_{g \in n} \frac{Area_{gk}}{\sum_k \sum_{g' \in n} Area_{g'k}} DegreeDays_{gt}(T_k^{max}) \quad (1)$$

where  $DegreeDays_{gt}(T_k^{max})$  is the total number of degree days in excess of the crop-specific maximum optimal growing temperature  $T_k^{max}$  in grid cell  $g$  in year  $t$ , and  $Area_{gk}$  is the fraction of grid cell  $g$  in country  $n$  growing crop  $k$ . To have a crop-weighted measure of extreme heat exposure at the country-level, I weigh crop-specific cumulative extreme heat exposure in a country by the total area of each crop  $k$  in country  $n$ . Appendix Figure A3 displays the empirical residual variation in extreme heat exposure for the 183 countries over the sample period considered, after purging out country- and year- fixed effects.

**Heat shocks in other sectors.** Unlike agriculture, production in other sectors is not linked to temperatures through specific geo-physical or agronomic relationships. Output can be affected by temperature through a variety of channels, including labor productivity, capital damages, and health outcomes. For this reason, I construct a grid-specific measure of abnormal heat exposure using deviations of temperatures from their historical norms.

This measure has two major benefits over previously adopted measures. First, it allows for non-linearity while preserving unidimensionality. Since the beginning of the reduced-form approaches to the GDP-temperature relationship, temperature has been used in levels (Dell et al., 2012). The non-stationarity of temperature levels, however, introduces concerns on the identification strategy that first-differenced temperature would allay only if introduced linearly (for a detailed discussion and mathematical proofs, see Appendix Section F). Previous work, however, has documented substantial non-linearities in the relationship between temperature and output (e.g., Burke et al., 2015). To preserve non-linearities while avoid econometric pitfalls, I construct deviations of temperature counting the cumulative number of degree days above the 95<sup>th</sup>-percentile of each grid-specific 30-year long temperature distribution. This is in two ways: I construct a distribution for the whole year and for each single month, so that the latter counts for deviations e.g., in January 2000, relative to the 95<sup>th</sup>-percentile of temperatures in January between 1970 and 1999 in a given location.

Second, using deviations of temperature and precipitation from their respective historical norms allows for an implicit model for adaptation. Using a baseline climate of thirty years is equivalent to assuming that individuals form climate beliefs over this time length and any deviations from it would constitute unexpected idiosyncratic shocks. To allay concerns on the arbitrariness of the cut-off, I test for the robustness of the results using the 90<sup>th</sup> and

99<sup>th</sup> percentile as alternative cut-offs. Furthermore, although thirty years is the traditional length over which climate is generally computed in climate science (Arguez et al., 2012), I construct alternative measures of abnormal heat exposure with respect to a 20-year and a 40-year long historical norm. This approach also allows me to test for the speed of adaptation (the shorter the interval, the faster individuals treat higher temperatures as the new norm).

Using this methodology, the measure is evenly distributed, and any abnormal realization is compared to the grid-specific climatic norm, in contrast to using absolute thresholds (e.g., number of days above 35°C), which only occur in certain areas of the world and might drive the variation without geo-physical justifications. To construct a measure of weather exposure for the average individual in a country, after taking any non-linear transformation at the grid cell level, I average grid cell values across space using time-invariant population weights from the 2000 Landscan dataset (Bright and Coleman, 2001) and accounting for fractional grid cells that partially fall within a country (Hsiang, 2016). To obtain sectoral variation in weather conditions within a country, I rely on the sub-national geographic distribution of sectoral activities (Appendix Section C provides additional details on the data sources).<sup>13</sup> Appendix Figure A4 displays the empirical residual variation in extreme heat exposure in manufacturing for the 183 countries over the sample period considered, after purging out country- and year- fixed effects. Most importantly, I also compare the residual variation in extreme heat exposure in agriculture with heat in any of the other five sectors and find no statistically significant relationship between these (Appendix Figure A5). This result allays potential concerns on the collinearity of the sector-specific measures of heat exposure.

In additional robustness checks, I construct an alternative measure of heat shocks. The approach relies on projecting the temperature in each country on its own lags and interact them with country mean temperature to allow the dynamics to vary across climates (Nath et al., 2024). I expand this approach at the sectoral level accounting for all possible two-way fixed effects, country-year, sector-year, and country-sector, and use the innovation in this

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<sup>13</sup>Like in the case of the spatial geography of land use, a time-invariant measure for population distribution and sectoral activity implies that this approach does not account for human migration (Cai et al., 2016) or sectoral reallocation (Rudik et al., 2024), which could be important adaptation margins. Nevertheless, these adaptive margins entail ex ante decisions. In this paper, I focus on short run elasticities that do not capture any long run adaptation decision.

non-linear regression as the temperature shock.<sup>14</sup>

### 2.3 Production network

The definition of sectoral and spatial linkages is crucial to my analysis. For this purpose, I use input-output (IO) data from EORA26 (Kanemoto et al., 2011; Lenzen et al., 2012) to define the production network and analyze how idiosyncratic weather shocks propagate. This data set contains a sequence of “global bilateral input-output tables” that record final and intermediate goods shipments at basic prices across countries for 26 sectors from 1970.<sup>15</sup>

**Construction of sectoral linkages across space.** To measure shocks in agriculture that propagate through input-output interlinkages, I account for the geographic location and position in the supply chain of the origin of the shock. First, I distinguish between shocks originating in the same country, *domestic*, and those originating in others, *foreign*. Second, I classify network shocks into downstream and upstream using entries from the inter-country IO tables with different weights depending on the relative importance of agricultural intermediate inputs, respectively, as a supplier or customer of the sector of interest. From the perspective of the sector of interest, downstream shocks originate in agriculture as a supplier sector and travel in the same direction as intermediate inputs. In contrast, upstream shocks hit agriculture as a customer sector and travel upstream to the sector of interest. I construct a slowly adjusting production network, where input-output interlinkages are averaged over a five-year lag for each five-year period to smooth annual variation and to account for the intensification of inter-sectoral production linkages over time with more fragmented global supply chains and intensive use of intermediate inputs.

From the perspective of sector  $j$  in country  $n$ , I construct downstream linkages with the

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<sup>14</sup>In other words, I estimate the temperature shock  $\tau_{jnt}$  as the innovation to temperature in the equation

$$T_{jnt} = \sum_{p=1}^5 \gamma_{jp} T_{jn,t-p} + \sum_{p=1}^5 \delta_{jp} T_{jn,t-p} \times \bar{T}_{jn} + \alpha_j n + \mu_{nt} + \epsilon_{jt} + \widehat{\tau}_{jnt} \quad (2)$$

where  $T_{jnt}$  is temperature in sector  $j$  in country  $n$  in year  $t$ ,  $\bar{T}_{jn}$ , is the country mean temperature in the sample, and I include up to 5 lags in temperature. The second summation term allows the coefficients on lagged temperature to vary with country mean temperature. The residuals from this regression  $\widehat{\tau}_{jnt}$  are the temperature shocks that I use in additional robustness checks.

<sup>15</sup>The dataset contains the richest information in terms of geographic, temporal and sectoral disaggregation for input-output interlinkages, which makes it preferable over alternative datasets, including WIOD, EXIOBASE. This framework respects national account definitions of final and intermediate goods and is consistent with standard macro aggregates. Appendix Table B3 maps the 26 EORA sectors to the six sectors described in Section 2.1.

agricultural sector such that

$$\omega_{n,m,\tau}^{j,Ag} = \frac{\overline{input}_{Ag,m\tau \rightarrow jn\tau}}{\sum_{kf \in \Theta_{jn}} \overline{input}_{jn\tau \rightarrow kf\tau}} \quad (3)$$

i.e., the ratio of the inputs of  $j$  in country  $n$  produced by the agriculture sector ( $Ag$ ) in country  $m$  over total inputs supplied to its set of customer sector-countries  $\Theta_{jn}$  averaged over the previous five years  $\tau$  for each five-year period. These weights reflect the intermediate inputs that sector-country  $jn$  sources from the agriculture sector in country  $m$  to produce one output unit (where this output can in turn be used as an input for other sectors or consumed as a final good). Conversely, upstream linkages between agricultural and sector  $j$  are constructed as

$$\widehat{\omega}_{n,m,\tau}^{j,Ag} = \frac{\overline{input}_{jn\tau \rightarrow Ag,m\tau}}{\sum_{lf \in \Theta_{jn}} \overline{input}_{jn\tau \rightarrow lf\tau}} \quad (4)$$

i.e., the ratio of the inputs of sector-country  $jn$  to the agriculture sector ( $Ag$ ) in country  $m$  over the total inputs supplied to its set of customers  $\Theta_{jn}$ . These upstream weights reflect the importance of each the agriculture sector in country  $m$  for the sector-country of interest  $jn$ . Appendix Figure A6 shows the average downstream sectoral linkages across time and countries (pooling together domestic and international linkages). Agriculture is the most upstream sector and, on average, downstream interlinkages are greatest from agriculture than from any other sector. This result resonates with the “upstreamness” measure in Antràs et al. (2012) and Fally (2012), constructed as the average position of an industry’s output in the value chain in terms of distance from final use.<sup>16</sup>

There is, however, substantial heterogeneity for which the manufacturing sector has stronger linkages (0.48) than the transport, storage, and communication (0.08, which does not include agricultural storage), reflecting different use of agricultural output as an intermediate in the production process in each of these sectors.

**Construction of network shocks.** Based on combinations of geographic location ( $Dom$ ;  $Fgn$ ) and supply chain position ( $Dn$ ,  $Up$ ), there are four different network shocks: downstream domestic ( $Dn, Dom$ ), upstream domestic ( $Up, Dom$ ), downstream foreign ( $Dn, Fgn$ ),

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<sup>16</sup>Antràs et al. (2012) focus on industries in the manufacturing sector in the United States, but complementary analysis of their data show using global trade flows from 2002 shows that the mean value of upstreamness for the agriculture sector is 2.84, while it is 2.10 for manufacturing industries.

and upstream foreign ( $Up, Fgn$ ). Downstream shocks are constructed as follows (upstream shocks are symmetric but differ by using upstream weights  $\widehat{\omega}_{n,m,\tau}^{j,Ag}$  from Equation (4)):

$$NetworkShock_{j,n,t}^{Dn,Dom} = \omega_{n,n,\tau}^{j,Ag} ExtremeHeat_{nt} \quad (5)$$

$$NetworkShock_{j,n,t}^{Dn,Fgn} = \sum_{m \neq n} \omega_{n,m,\tau}^{j,Ag} ExtremeHeat_{mt} \quad (6)$$

where  $ExtremeHeat_{mt}$  measures the crop-weighted extreme heat conditions on agricultural land in country  $m$  in year  $t$  defined in Equation (1).

This measure captures the exposure to extreme heat shocks in agriculture of immediate downstream industries that use agricultural products as intermediate inputs, including food manufacturing, oilseed processing, fats and oils refining and blending, plant wholesale and retail, tobacco product manufacturing. Nevertheless, what matters for the network effects are not directly the entries of the input-output matrix, but the effect can ripple down through higher-order linkages. Section 4 theoretically formalizes what I briefly summarize here to provide an intuition. A negative productivity shock in agriculture will reduce its production and increase its price. This will adversely impact all of the sectors that purchase inputs from agriculture, but this direct impact will be further augmented in competitive equilibrium because these first-round-affected sectors will change their production and prices, creating indirect negative effects on other customer industries that might not rely directly on agriculture inputs. Examples of these industries include cosmetics and personal care products, automotive components, packaging industries, construction material, home decor and landscaping industries, clothing and apparel industries, therapeutic and wellness industries. To account for these higher-order linkages, I compute the Leontief inverse matrix, which summarizes the sector-specific technical coefficients of the shock propagation through a power series representation of the Leontief inverse (Leontief, 1970). By taking the inner product of extreme heat in agriculture and the Leontief inverse matrix, I obtain a sector-specific shock that takes full inter-sectoral relations with agriculture into account.

### 3 Empirical facts

I begin the analysis by bringing together the data presented in Section 2 to document four key empirical facts about the relationship between local extreme heat and i) sectoral production and ii) agriculture prices; iii) global patterns of extreme heat conditions, iv) the

production network potential endogenous adjustments of the production network in response to weather variation. Together, these facts allow me to characterize the main elements in the theoretical model and build the subsequent empirical approach that introduces sectoral and spatial linkages as a transmission channel of agricultural heat exposure to sectoral economic production.

**Fact 1: Local extreme heat reduces agriculture value added.** To validate my measure of extreme heat exposure, I estimate the response to local extreme heat conditions in growth rate in sectoral value added per capita. Differently than previous cross-country evidence on the channels of the impact of weather shocks on sectoral outcomes (Acevedo et al., 2020; Dell et al., 2012), I estimate sector-specific response functions in a pooled, multi-country multi-sector sample. This model allows me to jointly estimate sector-specific responses to extreme heat and compare the different response functions in an econometric specification of the form:

$$\Delta \log(GVA)_{jnt} = \beta_j ExtremeHeat_{jnt} + \mathbf{W}'_{jnt} \delta_j + \alpha_{jn} + \lambda_{jt} + \mu_{nt} + \varepsilon_{jnt} \quad (7)$$

where I regress the growth rate of gross value added per capita in sector  $j$  in country  $n$  in year  $t$  (approximated by the first difference in logarithms) on a sector-specific  $j$  extreme heat in country  $n$  in year  $t$ , and account for a second order polynomial of total precipitation  $\mathbf{W}_{jnt}$ . Country-sector  $\alpha_{jn}$  fixed effects account for unobserved heterogeneity that influences countries' average sectoral growth rates, such as history, culture, or topography and time-invariant sectoral compositions of national output. Sector-year  $\lambda_{jt}$  fixed effects capture shocks to specific sectors (e.g. agricultural commodity price shocks), while country-year  $\mu_{nt}$  fixed effects account for time-varying differences across countries and differential impacts of worldwide shocks, such as El Niño events or global or regional recessions. The full set of two-way fixed effects mean that my estimates only exploit variation across sectors within country-years. They are not driven by any country-specific or sector-specific trends, or differences in sector specialization across countries. Therefore, this empirical strategy exploits the differential exposure of country-sector pairs to plausibly exogenous variation in extreme heat over time, drawing on differential differential geographic distribution of crops, population and sectoral economic activity.<sup>17</sup> Standard errors are clustered at the country

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<sup>17</sup>I do not include any other traditional time-varying determinants of sectoral production - such as investments or capital stocks - since they are endogenous to weather variations and may thus introduce bias in

level to account for spatial correlation of the error terms across sectors in the same country over time.

Figure 1 shows the sector-specific coefficients associated with local extreme heat conditions on growth rate in sectoral value added per capita. An additional degree day in the extreme heat measure constructed in Equation (1) ( $\approx 1\%$  at the sample mean) reduces the growth rate in agriculture by 4.6% at the mean. All other five sectors do not respond to extreme heat, with the effect very small in magnitude and statistically indistinguishable from zero. Together, these estimates indicate that extreme heat exposure has substantial negative effects on agricultural value added and does not significantly affect any other sector's production.<sup>18</sup> These average treatment effects may mask heterogeneous effects of local extreme heat by adaptation potential as measured by income and climate (Carleton et al., 2022), which I describe in Appendix Section G. Finally, to allay concerns that differences in shock construction drives heterogeneous sectoral responses, I also construct a similar measure of abnormal heat exposure in agriculture. This measure weighs grid-cell specific exposure to temperatures above the 95<sup>th</sup> percentile by agricultural land (Ramankutty et al., 2010). I find comparable and quantitatively similar results, with agriculture being the only affected sector (Appendix Figure A10). I also estimate the same specification using the alternative measure of temperature shocks from Equation (2) based on Nath et al. (2024). Also in this case, agriculture is the only sector affected by temperature shocks among the six in my sample (Appendix Figure A11).

This empirical pattern resonates with previous macro (Dell et al., 2012; Acevedo et al., 2020; Nath et al., 2024) and micro findings (Nath, 2020), with temperature-induced damages on agriculture substantially larger than on non-agricultural production.<sup>19</sup> The confidence intervals, however, cannot entirely rule out moderate impacts of extreme heat on other sectors (more visible in the heterogeneity analysis by climate and income). In particular, the construction sector might experience losses induced by extreme heat, which would be consistent with this sector's vulnerability because of investment good production rather

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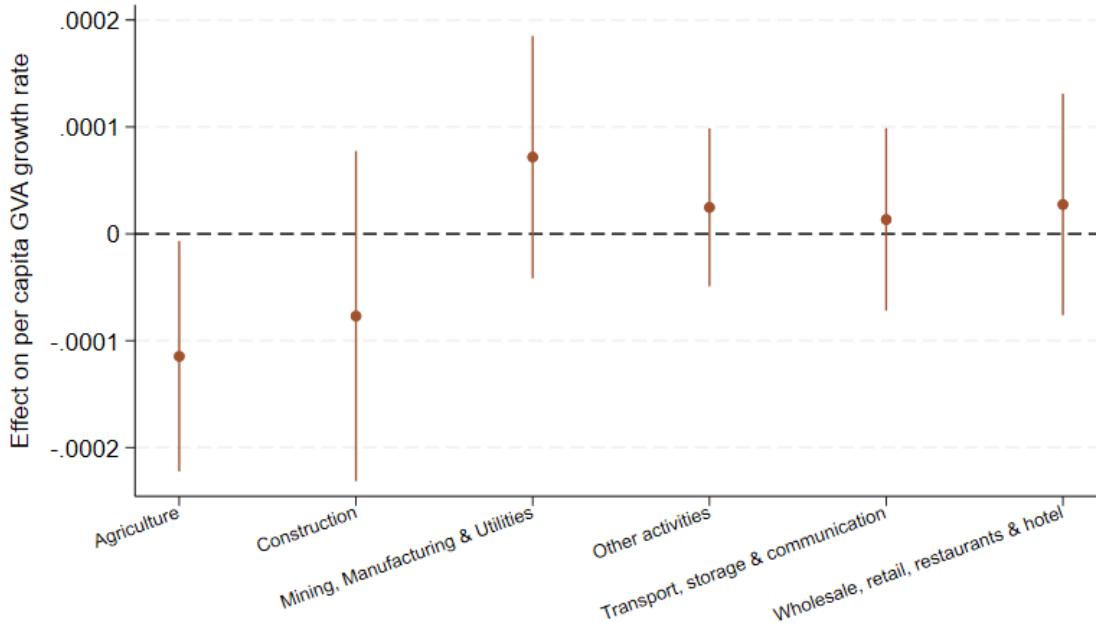
the estimates (Dell et al., 2014).

<sup>18</sup>Results are robust to estimating the baseline equation in a balanced panel, excluding large countries (i.e., Brazil, China, India, Russia, US), controlling for lagged growth, and to alternative specifications (linear and quadratic country-specific trends, sub-region-year fixed effects) (Appendix Figure A8). Results are also robust when altering the threshold to construct abnormal heat (90<sup>th</sup> or 99<sup>th</sup>) percentile, computing the distribution separately for each grid-month instead of for each grid-year, and altering the length of the climate distribution (20-year or 30-year) (Appendix Figure A9).

<sup>19</sup>Appendix Figure A12 plots the response of growth rate in agricultural value added per capita to changes in terciles or quintiles of the extreme heat distribution.

than consumption services, as provided by the retail sector (Casey et al., 2024).

Figure 1. Effect on local extreme heat on sectoral per capita value added growth rate

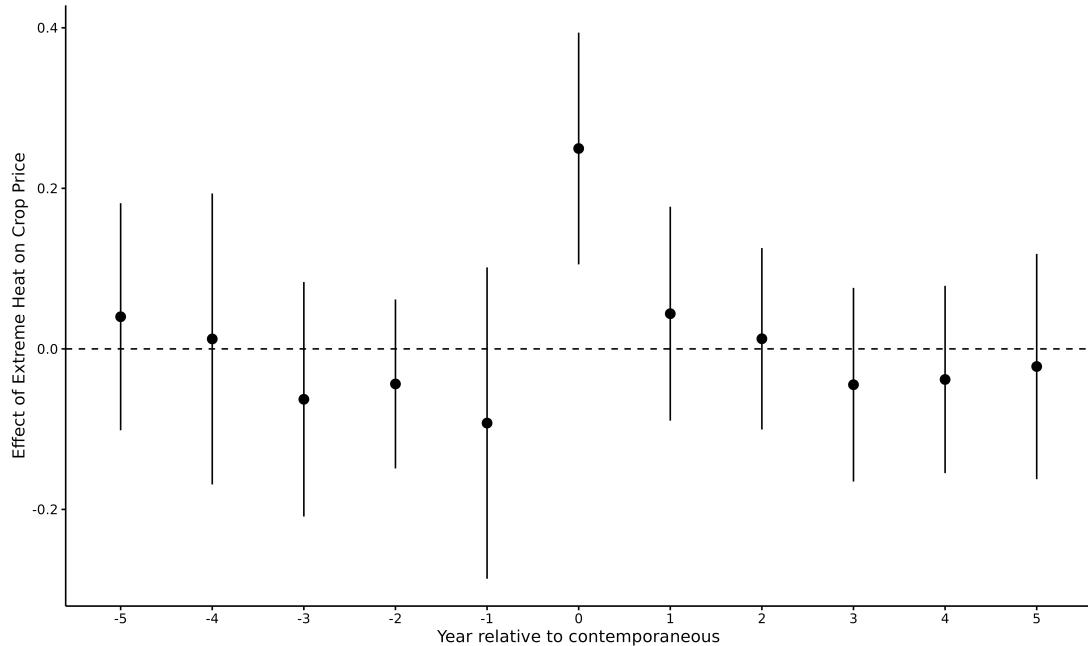


*Notes:* The figure shows the regression estimates for the country-average number of degree days in the extreme heat exposure for the agricultural sector (constructed as in Equation (1)) and country-sector average number of days above the 95<sup>th</sup> percentile of the daily distribution in temperature. All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year fixed effects and allowing for sector-specific response to a quadratic functional form in precipitation. Bins represent the 95% confidence intervals around point estimates. Standard errors are clustered at the country level.

**Fact 2: Extreme heat induces a short-lasting increase in crop prices.** Negative effects of extreme heat on agriculture value added combine a price and a quantity effect. To disentangle how much of the local response in supply is driven by changes in price and quantities, I use FAO crop price data measured in current US dollars per ton. In a crop-country-year event study specification, I estimate the response of crop prices to cumulative exposure to extreme heat conditions above the crop-specific maximum optimal growing temperature over land cultivating that crop in the country, and accounting for five lags and leads. Figure 2 shows a substantial price increase induced by heat conditions that, however, is not persistent over time. Only extreme heat at time  $t$  increases crop prices, with the

effect vanishing after one year. Appendix Table B4 reports the results in a country-crop panel regression. The empirical pattern documented here is the source of the propagation of extreme heat in agriculture throughout the economy that the theoretical model in Section 4 builds upon. Extreme heat in agriculture reduces crop supply and increases their prices, inducing downstream sectors to decrease their demand for the intermediary inputs and consequently leading to a reduction in the production of downstream goods.

Figure 2. Dynamic price effect of extreme heat



*Notes:* The figure reports the regression coefficients on crop-specific extreme heat from an event study specification where the outcome variable is the crop price (in \$/tonne) from UN FAOStat Crop Price (see Appendix Section C for additional details on the data source). The specification includes five leads and lags of extreme heat exposure, a second order polynomial in precipitation, country-crop, crop-year fixed effects and a linear country-specific trend. Bins represent the 95% confidence intervals with standard errors clustered at the country-level.

**Fact 3: Extreme heat shocks are increasingly spatially correlated.** The third empirical pattern relates to the geography of extreme heat exposure ( $EH$ ) for the agricultural sector around the world. I measure the global spatial correlation of extreme heat in each year  $t$  using Moran's I, a statistics for spatial autocorrelation that indicates how similar or dissimilar the values of a variable are across locations in a geographic space:

$$I_t \equiv \frac{N}{\sum_n \sum_{m \neq n} a_{nm}} \frac{\sum_n \sum_{m \neq n} a_{nm} (EH_{nt} - \bar{EH}_t) (EH_{mt} - \bar{EH}_t)}{\sum_\ell (EH_{\ell t} - \bar{EH}_t)^2} \quad (8)$$

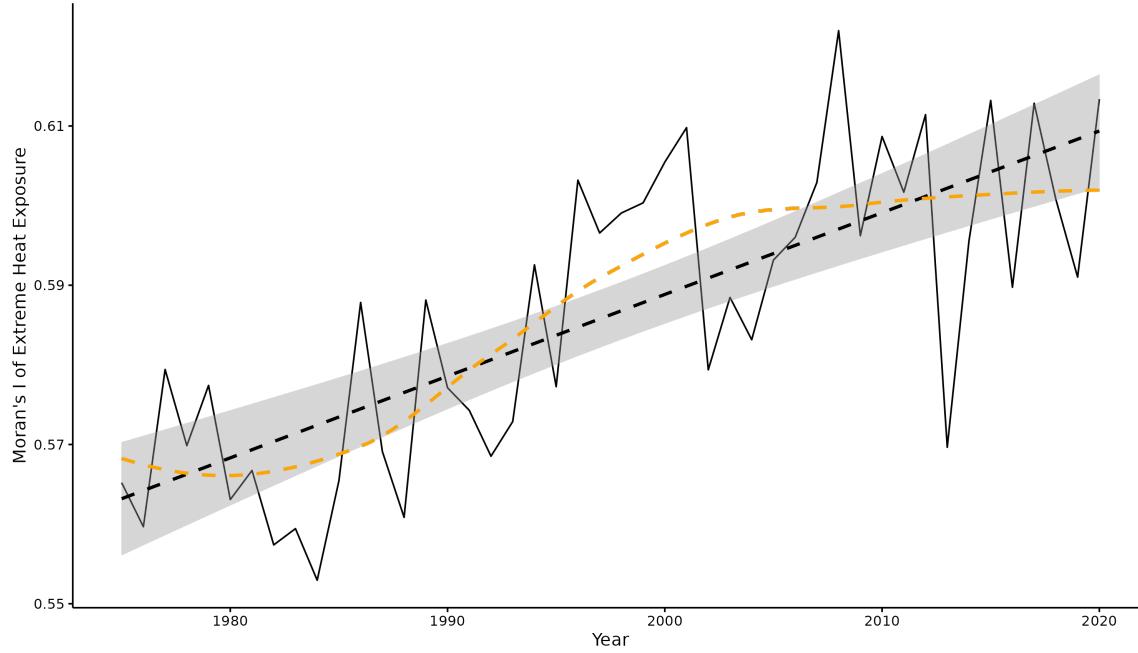
where  $N$  is the number of countries,  $a_{nm} = a_{mn}$  is a (symmetric) spatial weight that depends on the distance between countries  $n$  and  $m$ , and  $\bar{EH}_t$  is the world average extreme heat exposure in year  $t$  across countries. Moran's I values range from -1 to 1. A value equal to 1 indicates that similar values of extreme heat cluster together in space, high values are surrounded by high values and low values by low values, while a negative statistics would indicate that extreme heat values are surrounded by low values, and vice versa. Figure 3 plots the time series of the Moran's I statistics. In the 45 years in the sample, the Moran's I ranges from 0.55 to 0.62 with an average equal 0.59 and a strong positive trend over time. This fact suggests that, in spite of crop-specific temperature thresholds, extreme heat exposure is spatially correlated across countries and increasingly so over time, indicating that crop specialization patterns also follow a similar spatial structure (Dingel et al., 2023).

The spatial correlation structure of extreme heat exposure is an additional aggravating factor to previously documented agricultural losses induced by extreme temperatures. Trade costs lead to stronger trade relationships with neighboring countries rather than distant ones (Chaney, 2018). In spite of accounting for differential crop composition of agricultural production across countries, this empirical result suggests that a country experiencing reduced yields due to increases in temperatures is likely to be near other similarly affected countries. This spatial correlation pattern might diminish the potential adaptive role of international trade compared to scenarios where shocks are not spatially correlated.

Furthermore, local temperature fluctuations have been used in quasi-experimental studies that inform climate impact projections (e.g., Burke et al., 2015). In this literature, the effect of local temperatures on economic output is traditionally estimated using quasi-random variation implicitly holding temperatures in other locations fixed. Climate change's global impact is then computed as the sum of projected local impacts, which, however, hold fixed the spatial structure of temperature and thus correspond to considering many scenarios in which only one location experiences warming in each scenario. Two empirical approaches so far account for the global nature of climate change, in which all locations experience warming simultaneously: a number of studies accounts for spillovers from neighbouring regions using a spatial-lag model (e.g., Kotz et al., 2024), while Dingel et al. (2023) integrate the general-equilibrium effect of spatial correlated shocks induced by global cli-

matic phenomena on cereal productivity. In either cases, incorporating changes in the spatial correlation exacerbates global welfare inequality and losses induced by changes in climate conditions.

Figure 3. Spatial Correlation of Extreme Heat Exposure



*Notes:* The figure shows the time series evolution between 1975 and 2020 of the Moran's I Statistic computed as in Equation (3) for the Extreme Heat Exposure constructed in Equation (1). The dashed black line represents the linear fit with the 95% confidence intervals displayed in the gray shaded areas (the coefficient on the linear trend is equal to 0.001, with standard error equal to 0.0001), and the dashed orange line is a local polynomial.

**Fact 4: Downstream linkages with agriculture do not respond to extreme heat.**  
 Countries may respond to extreme heat conditions that hit the agricultural sector by altering sectoral interlinkages and thus the production network structure. In other words, the production network described in Section 2.3 might be endogenous to extreme heat.<sup>20</sup> A productivity shock to agriculture may result in a reallocation of resources across sectors in

<sup>20</sup>An additional channel that my approach does not account for is sectoral reallocation driven by temperatures. Nath (2020); Conte et al. (2021); Cruz and Rossi-Hansberg (2021) account for this mechanism. Nevertheless, agriculture consumption enters consumers' utility function accounting for low substitutability and non-homotheticity, a pattern that I also document at the production stage in my model.

the economy.<sup>21</sup>

Previous micro level empirical evidence documents that firms systematically respond to changes in weather conditions by altering their location choice, their supply partner composition and characteristics (Balboni et al., 2024; Castro-Vincenzi et al., 2024; Pankratz and Schiller, 2024). For example, firms may relocate to safer locations, shift purchases towards suppliers in less exposed regions and use less exposed routes. Such endogenous changes in the production network can, in turn, significantly alter the economy's response to exogenous disturbances. To examine whether the production network endogenously adjusts in response to heat in agriculture, I exploit the time-varying nature of the input-output matrix and estimate the following specification:

$$IO_{n,m,t}^j = \beta_{j,\ell} ExtremeHeat_{n(\ell),t} + \alpha_{jnm} + \mu_{jmt} + \varepsilon_{jnm} \quad (9)$$

where the outcome variable  $IO_{n,m,t}^j$  is the (log) intermediate inputs share that sector  $j$  in country  $m$  sources from the agricultural sector in country  $n$  in year  $t$ .<sup>22</sup> I exploit inter-annual variation in extreme heat conditions in the agricultural sector in country  $n$  to test for within country-pair-sector changes in intermediate inputs sourced from the agricultural sector. The specification accounts for country-pair-sector  $\alpha_{jnm}$  and customer country-sector by year  $\mu_{jmt}$  fixed effects (which effectively also accounts for weather conditions and any other time-varying shock in the downstream sector-country). To allow for heterogeneous elasticities of substitution, I estimate sector-specific response functions to extreme heat and allow elasticities to differ also by location  $\ell$  of the agricultural sector (either domestic or foreign).

Figure 4 reports the sector-location specific coefficients associated with extreme heat on the sectoral interlinkages with agriculture. The ten coefficients on domestic and foreign agricultural heat for five downstream sectors are small and not statistically significant at any conventional level. This pattern suggests that sectors do not endogenously respond to extreme heat in agriculture by altering their expenditure shares, providing suggestive

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<sup>21</sup>In a perfectly competitive efficient closed-economy with Cobb-Douglas preferences and technologies, a sector's Domar weight (i.e., the sales share of a sector with respect to the economy's output) is a sufficient statistic for how shocks to that sector impact aggregate output. This result is commonly known as Hulten's theorem (Hulten, 1978). In open-economy models, as the one assumed in Section 4, the sales shares are no longer universal sufficient statistics (Baaqee and Farhi, 2024).

<sup>22</sup>Sector-specific density distribution of the downstream sectoral linkages with agriculture are reported in Appendix Figure A13.

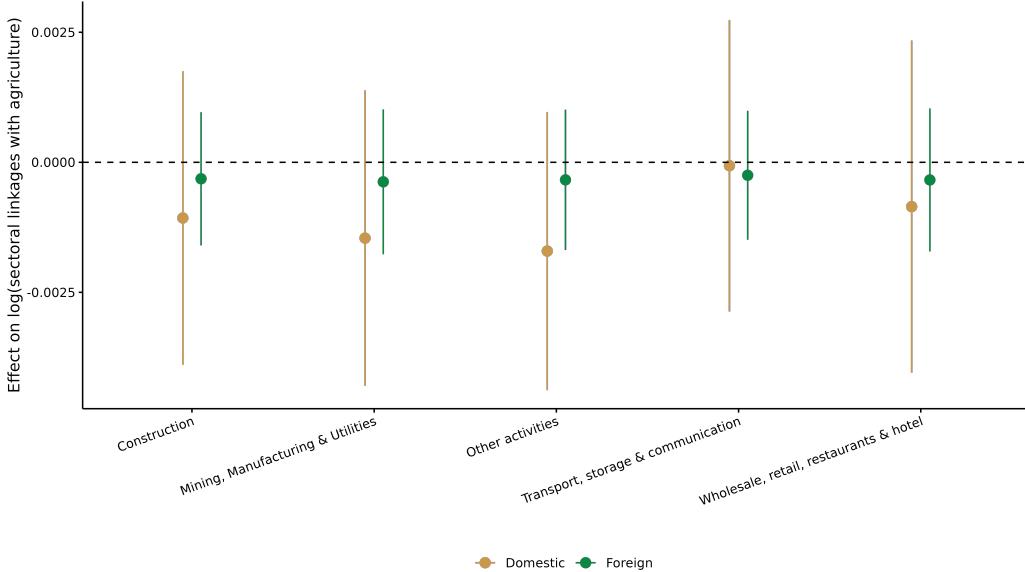
evidence of the stickiness of production processes.<sup>23</sup> This fact suggests that a model where expenditure shares are independent of the realization of productivity shocks as in a Cobb-Douglas model may serve as a good approximation at the sector level, in contrast with previous micro level evidence on firms' ability to substitute inputs and trading patterns in response to idiosyncratic shocks. I also explore whether country's ability to diversify extreme heat exposure from agriculture linkages differs by income groups. Income is one of the most important factors governing the economics of climate adaptation (Carleton et al., 2022). High-income countries have less binding budget constraints, which could in turn facilitate adaptive behavior and make them less affected by temperature. While this result holds for the economic output response to local weather fluctuations (Dell et al., 2012, and Appendix Section G), I document that downstream exposure to extreme heat in agriculture has been relatively constant over the past forty years across income groups. The ratio in downstream exposure to agriculture extreme heat between time-varying and time-invariant linkages has been relatively flat and statistically indistinguishable from one across income classes (Appendix Figure A14). This result suggests that, differently than in the case of local extreme heat responses, income does not explain differences in downstream exposure to extreme heat.

Together, these four facts inform the theoretical model and the empirical approach in multiple ways. These facts indicate that extreme heat reduces agricultural value added and increases crop prices. This pattern suggests that agricultural shocks propagate through the economy via price increases through input linkages between agricultural and downstream sectors, emphasizing the broad-reaching consequences of climate-induced disruptions in agriculture. Furthermore, I observe that extreme heat shocks are becoming increasingly spatially correlated, indicating the necessity of accounting for spatial dependencies in my empirical analysis to capture the broader economic impacts. Despite the significant effects of heat shocks on agriculture, downstream sectoral interlinkages seem unresponsive. This observation aligns with the characteristics of Cobb-Douglas production technologies, where expenditure shares are fixed, which inform my theoretical approach used to empirically derive model-consistent exposure of sectoral output to upstream supply-side shocks through a

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<sup>23</sup>Kunze (2021) also documents a small and negligible shift of sectoral interlinkages in response to cyclones. In contrast input linkages have been shown to have elastic responses after trade shocks including the NAFTA (Caliendo and Parro, 2015) and the 2018 trade war (Fajgelbaum et al., 2020; Handley et al., 2023).

Figure 4. Response of downstream sectoral interlinkages to extreme heat in agriculture



*Notes:* The figure shows the sector specific coefficients associated with extreme heat on domestic and foreign agriculture obtained from Equation (9). The outcome variable is the log of the ratio of inputs that a sector (in the x-axis) sources from the agricultural sector over the total inputs sourced by each sector-country. All coefficients are estimated jointly in a stacked regression model saturated with country-pair-sector and country-sector-year fixed effects and sector-location specific coefficients on linear and squared term of total precipitation. Bins represent the 95% confidence intervals around point estimates. Standard errors are clustered at the country level.

shift-share approach with quasi-randomly assigned shocks. In the next section, I present a theoretical model that rationalizes the importance of sectoral interlinkages and intermediate input price distortions in climate damage quantification and then bring this model to the empirical estimation.

## 4 Theoretical framework

I outline a static model of perfect competition with output and input distortions (Hsieh and Klenow, 2009), extending it to a production network where sectors use intermediate inputs (Acemoglu et al., 2012). This model is able to capture how weather shocks can propagate through the production network, affecting sectors not directly hit by the shock (Acemoglu et al., 2016; Carvalho and Tahbaz-Salehi, 2019). In Appendix Section E, I describe the traditional conceptual framework adopted to derive empirical estimates of the effect of local weather shocks on local economic output. The closed-economy literature on

the micro origins of aggregate fluctuations and on shock propagation via input linkages goes back to Long and Plosser (1983) and has been modernized recently following the seminal contribution by Acemoglu et al. (2012).

To match the theoretical framework with the empirical approach, I consider an economy consisting of  $N$  regions indexed by  $n \in \{1, \dots, N\}$  (or  $m$ ), each populated with  $J$  sectors indexed by  $j \in \{1, \dots, J\}$  (or  $k$ ). A representative firm in each sector produces good  $j$  in region  $n$  with production possibilities described by a constant returns-to-scale Cobb-Douglas technology whose inputs are capital, labor, and intermediate inputs:

$$Y_n^j = \mathcal{Z}_n^j [(\mathcal{K}_n^j)^\lambda (L_n^j)^{1-\lambda}]^{\omega_n^j} \prod_{k,m}^{J,N} (x_{nm}^{jk})^{\omega_{nm}^{jk}} \quad (10)$$

where total factor productivity  $\mathcal{Z}_n^j$  is a product of three components: (i) a region-sector specific component  $\bar{z}_n^j$ , (ii) a sector-year specific component  $\tilde{z}_t^j$  (capturing for instance differential time trends in technology across sectors), (iii) an exponential vector of Hicks-neutral temperature shocks  $T_n^j$  with sector-specific elasticities  $\beta_j$ . Most importantly, intermediate inputs  $x_{nm}^{jk}$  enter the production function with constant returns to scale ( $\omega_n^j + \sum_{k,m}^{J,N} \omega_{nm}^{jk} = 1$ ), so that the exponent  $\omega_{nm}^{jk} \in [0, 1]$  represents the share of good  $k$  from region  $m$  in the total intermediate input use by sector  $j$  in region  $n$ , which can be equal to zero if it is not used. The larger  $\omega_{nm}^{jk}$ , the more important the good from the sector-region tuple  $(j, m)$ . To keep the model simple, all production technologies have the same capital intensity  $\lambda$  and the only difference arises from the the intensity with which each sector's good is used as an intermediate input by other sector-regions.

The empirical analysis further differentiates between imported and domestically produced intermediate inputs, keeping the Cobb-Douglas formulation of the production function. This means that I assume that the elasticity of substitution between foreign and domestic intermediate inputs is equal to one.

Expanding Hsieh and Klenow (2009), I introduce heat-induced output distortions  $\tau_{Y_n^k}$  and input distortions not only for local factors,  $\tau_{KL_n^k}$ , but also for intermediate inputs  $\tau_{X_n^k}$ . In this manner, I introduce heat-induced idiosyncratic distortions accounting for multiple ways in which temperature fluctuations can impact sectoral production.<sup>24</sup> The representa-

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<sup>24</sup>Firms in regions experiencing extreme heat are more likely to incur additional costs, such as increased energy expenses for cooling, losses due to heat-induced equipment. An example of heat-induced output distortions are border taxes, quantity restrictions, and output subsidies for example documented in Hsiao et al. (2024). I do not distinguish between capital and labor as local factors' distortions, both documented

tive firm in sector  $j$  in region  $n$  maximizes profits taking prices as exogenously given and equal to  $w$  for labor,  $r$  for capital, and  $q$  for intermediate inputs, according to the following equation

$$\max_{\mathcal{K}_n^j, L_n^j, x_{nm}^{jk}} \pi_n^j = (1 - \tau_{Y_n^j}) P_n^j Y_n^j - (1 + \tau_{L_n^j})(w L_n^j + r K_n^j) - (1 + \tau_{x_n^j}) \sum_{k,m}^{J,N} q_{k,m} x_{nm}^{jk} \quad (11)$$

Profit maximization under perfect competition gives the usual condition that the firm's output price is equal to its marginal cost. The price is given by

$$P_n^j = \left[ \left( \frac{r}{\lambda \omega_n^j} \right)^\lambda \left( \frac{w}{(1-\lambda)\omega_n^j} \right)^{1-\lambda} \right]^{\omega_n^j} \left[ \prod_{k,m}^{J,N} \left( \frac{q_{j,m}}{\omega_{nm}^{jk}(1-\omega_n^j)} \right)^{\omega_{nm}^{jk}} \right]^{1-\omega_n^j} \frac{(1 + \tau_{KL_n^j})^{\omega_n^j} (1 + \tau_{X_n^j})^{1-\omega_n^j}}{z_n^j (1 - \tau_{Y_n^j})} \quad (12)$$

in particular, the last term indicates the temperature-induced distortions borne in sector-country  $j, n$  which increases optimal price  $P_n^j$ , which, in turn, induces customer sectors to decrease their demand for the good  $Y_n^k$  and thus leading to a reduction in the production of good  $Y_n^j$ . Rewriting input levels as a function of sectoral price  $P_n^j$  and deriving the demand of inputs given sector-level production and prices, obtain the output value in sector  $j$  in country  $n$  is

$$P_n^j Y_n^j = \left[ \left( \frac{1}{\lambda \omega_n^j} \right)^\lambda \left( \frac{1}{(1-\lambda)\omega_n^j} \right)^{1-\lambda} \right]^{\omega_n^j} \left[ \prod_{k,m}^{J,N} \left( \frac{1}{\omega_{jk}^{nm}(1-\omega_n^j)} \right)^{\omega_{jk}^{nm}} \right]^{1-\omega_n^j} \frac{(1 + \tau_{KL_n^j})^{\omega_n^j} (1 + \tau_{X_n^j})^{1-\omega_n^j}}{1 - \tau_{Y_n^j}} (r K)^{\lambda \omega_n^j} (w L)^{(1-\lambda)\omega_n^j} \left( \prod_{km}^{J,N} q_{k,m} x_{jk}^{nm} \right)^{\omega_{nm}^{jk}} \quad (13)$$

which indicates that a supply-side negative shock on intermediate inputs reduces the output value in sector  $i$  in country  $n$

To understand the role of production network in propagating local sector-specific weather shocks, consider the example of two sectors  $j$  and  $k$  in two different regions  $n$  and  $m$  and assume for simplicity that the latter's output is the only intermediate input that sector  $j$  uses. Therefore, sector  $j$ 's output (with lowercase letters indicating logs) is written as:

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in the literature, respectively, for labor supply and productivity (Graff Zivin and Neidell, 2014; Rode et al., 2022), and capital equipment (Zhang et al., 2018), since they cannot be further disentangled in the data.

$$\begin{aligned}
y_{nt}^j &= \underbrace{\log \bar{z}_n^j + \log \bar{z}_t^j + f(T_{nt}^j, \beta_j) + \omega_n^j \lambda k_n^j + \omega_n^j (1 - \lambda) l_{nt}^j}_{\Xi_{nt}^j} + \omega_{nm}^{jk} \log (x_{nm}^{jk}) \\
&= \Xi_{nt}^j + \omega_{nm}^{jk} (\dots + f(T_{mt}^j, \beta_j) + \dots)
\end{aligned} \tag{14}$$

Using Equation (E.2) to move from the first to the second line, this example showcases that a temperature shock would reduce input production  $k$  in region  $m$  and thus affect sector  $j$ 's output in region  $n$  with elasticity  $\omega_{nm}^{jk}$  due to the effect of temperatures on its suppliers. In particular, the increase in sector  $k$ 's output price due to temperature changes induces sector  $j$ , which uses sector  $k$ 's output in their input bundle, will reduce its demand for sector  $k$ 's output, therefore reducing its own output.

The relative weight of shocks in the production network is given by the share of good  $j$  within the total intermediate inputs used by sector  $j$ , which corresponds to the entries of the  $(J \cdot N \times J \cdot N)$  input-output matrix  $\Omega = [\omega_{nm}^{jk}]$ .<sup>25</sup> The matrix (whose rows sum up to one because of constant return-to-scale technologies, and whose columns are the shares of sector  $j$ 's output within the total inputs used by the other sectors) accounts for first-order effects of propagation through first-degree sectoral interlinkages. To account for higher-order interlinkages, one can compute the Leontief inverse matrix as  $L = (I - \Omega)^{-1}$ , whose  $(j, k)$  elements denote the importance of sector  $k$  as a direct and indirect supplier to sector  $j$ . The inner product of elements  $\omega$  in the input-output matrix  $\Omega$  (or  $\ell$  in the Leontief matrix) and the temperature vector gives the aggregate economic cost of warming. Hereinafter, I explain how I bring this model to the data and quantify the cost of local and network weather shocks on the economy.

## 5 Empirical approach

In this section, I use the data described in Section 2 and the theoretical notions in Section 4 to derive an empirical specification that considers input linkages from agriculture to other sectors across space. The baseline empirical approach builds on the conventional

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<sup>25</sup>The assumption on the Cobb-Douglas production technology has two main implications. First, downstream effects emerge only in the case of supply-side shocks. Vice versa, upstream effects would be detected only in the case of demand shocks. Second, it ensures that a sector's expenditure on various inputs as a fraction of its output is invariant to the shocks and is thus exogenous in the model. Carvalho et al. (2021) study a more complex case with production functions with a nested constant elasticity of substitution structure and show the propagation of shocks through two distinct channels using a first-order approximation in the elasticities of substitution between various intermediate inputs or between the intermediates and primary factors of production.

methodology adopted in quasi-experimental research designs that typically only estimate local direct effects, ignoring spatial linkages (e.g., Dell et al., 2012; Burke et al., 2015). This approach implicitly assumes that residual variation in weather is orthogonal to variations in weather elsewhere. The potential outcomes of one observation, however, may vary with the treatment of other units through input linkages. Therefore, spatial considerations are of first-order relevance because the economy and climate are linked across space, which may result in violations of common identifying assumptions, including the stable unit treatment value assumption with first-order effects.

To account for this channel, I design an econometric specification that builds on Equation (7), but I introduce a parametric measure of *network* shocks to evaluate the differential effect of extreme heat conditions in agriculture across sectors on value added domestically and abroad. The estimating equation is written as follows

$$\Delta \log(GVA)_{jnt} = \beta_j ExtremeHeat_{jnt} + \sum_{\ell \in \{D; F\}} \gamma_j^\ell NetworkShock_{jnt}^{Dn, \ell} + \mathbf{W}'_{jnt} \delta_j + \alpha_{jn} + \lambda_{jt} + \mu_{nt} + \eta_{jnt} \quad (15)$$

where I regress the growth rate of GVA per capita in sector  $j$  in country  $n$  in year  $t$  for all five sectors in the economy on sector-specific extreme heat shocks.<sup>26</sup> Most importantly, the specification includes  $NetworkShock_{jnt}^{Dn, \ell}$ , defined as extreme heat conditions in agriculture weighted by downstream interdependence of sector  $j$  with the agricultural sector in geographic location  $\ell$  (where  $\ell \in \{\text{Domestic}; \text{Foreign}\}$ ). The specification also accounts for a second order polynomial of total precipitation in  $\mathbf{W}_{jnt}$ , and for a full set of two-way fixed effects at the country-sector  $\alpha_{jn}$ , sector-year  $\lambda_{jt}$ , and country-year  $\mu_{jt}$  level. The two-way fixed effects mean that my estimates only exploit variation across sectors within country-years. As a result, they absorb country-specific or sector-specific trends, or any differences in baseline sector specialization across countries.

This approach relies on the differential exposure of country-sector pairs to plausibly exogenous variation in extreme heat over time both locally and in domestic and foreign agriculture to identify  $\gamma_j^{Dom}$  and  $\gamma_j^{Fgn}$ . This research design is in nature similar to a shift-share (or “Bartik”) approach. They are constructed as a weighted sum of a set of shocks, extreme heat in agriculture, with input-output interlinkages as exposure share weights.

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<sup>26</sup>The estimation sample does not account for agriculture since local and domestic network shocks would be collinear up to a constant.

Although the empirical patterns in Section 3 suggest that downstream interlinkages do not endogenously adjust in response to extreme heat in agriculture, this assumption is not necessary for the identification of the effect of network shocks, which only relies on the quasi-random assignment of extreme heat, while exposure shares can be endogenous (Borusyak et al., 2022). Identification and consistency of  $\gamma$ 's can therefore be satisfied in a setting where shocks are as-good-as-randomly assigned, mutually uncorrelated, large in number, and sufficiently dispersed in terms of their average exposure. These conditions are empirically tested for in Appendix Figure A3. As a result, my approach does not rely on conventional assumptions of independent or clustered data which would be inconsistent with the shift-share data structure when the shocks are considered random variables. Instead, domestic and foreign heat shocks are as-good-as-randomly assigned conditional on exposure weights.

Although exposure shares do not respond to extreme heat, the research design does not require them to be exogenous. Another challenge is that the sum of exposure shares is not constant, i.e.,  $\Omega_{jn\tau}^{Dom} = \omega_{n,\tau}^{j,Ag}$  and  $\Omega_{jn\tau}^{Fgn} = \sum_{m \neq n} \omega_{n,m,\tau}^{j,Ag}$  vary across sector-country  $jn$ . In this case, even if shocks are uncorrelated and quasi-randomly assigned, the estimator will also leverage non-experimental variation in  $\Omega_{jn\tau}^{Dom}$  and  $\Omega_{jn\tau}^{Fgn}$  in addition to quasi-experimental variation in heat shocks. Even when heat shocks are random, sector-countries with higher agricultural shares  $\Omega_{jn\tau}^{Dom}$  and  $\Omega_{jn\tau}^{Fgn}$  will have systematically different values of shocks, leading to bias if they also have different unobservables. To address this challenge, the vector of controls  $\mathbf{W}_{jnt}$  includes the sum of exposure shares (Borusyak et al., 2022). This approach ensures that quasi-experimental variation in heat shocks in agriculture is isolated conditional on a sector-country's exposure shares.

This approach aims at quantifying the impact on sectoral production of trade-induced exposure to harmful extreme heat conditions in agriculture. As formulated in the theoretical framework and supported by the empirical evidence, extreme heat reduces agricultural productivity. By only considering the *direct* impact of local weather conditions on a given sector, one is omitting the amplification and transmission of these shocks due to the inter-sectoral reliance. A negligible or null effect of local weather conditions on a given sector may be amplified by extreme heat conditions hitting agricultural sectors around the world with strong commercial interlinkages with that sector. The effect would ripple down to downstream customer sectors that then use agricultural inputs less intensively in response to increases in agricultural prices and thus reduce their own production.

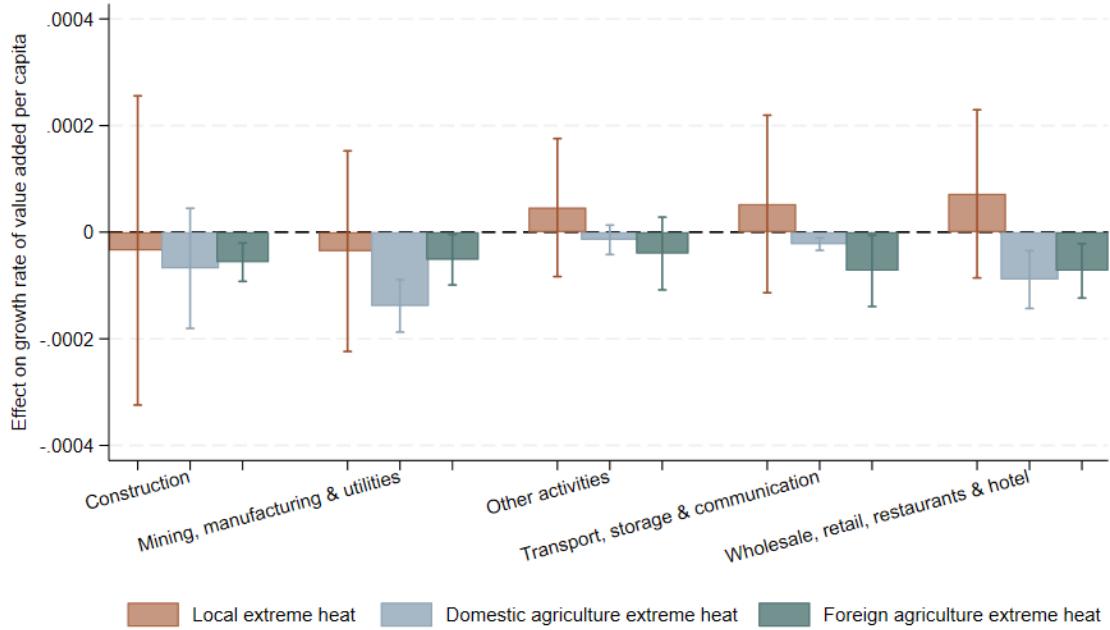
## 6 Heat shocks in a production network

In this section, I report the results from the estimation of Equation (15) that quantifies the propagation of extreme heat on agriculture across the economy through the production network. Figure 5 displays the coefficients associated with local extreme heat conditions and downstream agricultural *network* heat decomposed into domestic and foreign.

Starting from the coefficients on local extreme heat, the estimated effect on all sectors is not statistically distinguishable from zero. As previously concluded from a traditional regression estimating the effect of local direct extreme heat on sectoral value added, for all sectoral outcomes, the coefficients are not statistically different from zero. I then turn to the coefficients associated with domestic and foreign extreme heat conditions in agriculture. The coefficients measure the differential impact of exposure to extreme heat in agriculture on the growth rate of downstream sectoral value added per capita. The figure shows that the negative impact of local extreme heat in agriculture propagates to downstream sectors more exposed in terms of use of intermediate input goods from agriculture. For downstream sectors that heavily rely on agricultural goods as intermediate input, such as manufacturing, wholesale, retail, restaurants and hotels, the effect is more pronounced and statistically significant both for domestic and international agricultural shocks, suggesting that extreme heat propagates both across sectors and space. At the mean, the effect of one degree day exposure in domestic (foreign) agriculture reduces growth rate in manufacturing value added per capita by 1.38% (0.52%). Similarly, domestic (foreign) agriculture reduces growth rate in manufacturing value added per capita by 0.62% (0.51%).

Altogether, these findings have two consequences in the interpretation of previous temperature-output relationships. First, from a methodological perspective, sector-specific estimates that only account for local weather shocks may be biased since the treatment status of other units in the sample alters the potential expected outcome through shocks propagating from the agriculture sector. The statistical and economic significance of foreign network shocks suggests that also geographically distant weather fluctuations matter through input interlinkages. Second, from an economic perspective, agriculture-specific extreme heat conditions are amplified through input interlinkages, affecting other sectors beyond agriculture and also travelling beyond national borders. As a result, recent estimates on the economic

Figure 5. Local and downstream agriculture extreme heat on sectoral value added



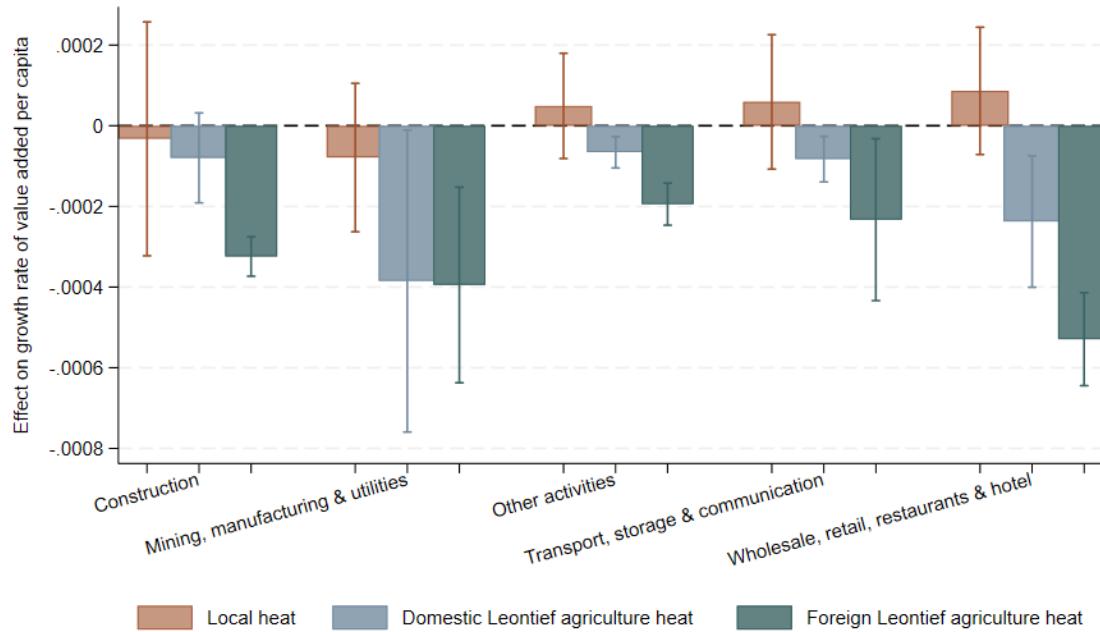
*Notes:* Bars represent the sector-specific coefficients associated with local shocks and domestic and foreign downstream shocks, using the extreme heat exposure measure constructed as in Equation (1). Domestic and foreign downstream shocks are constructed respectively as in Equations (5) and (6). The specification jointly estimates all sector-specific coefficients in a stacked regression model that accounts for country-sector, sector-year, country-year fixed effects and sector-specific second-order polynomial of total precipitation and sum of exposure shares. Bins represent the 95% confidence intervals with standard errors clustered at the country level.

damage of temperature increases may have been largely underestimated due to the omission of this propagation channel. On average, across the five downstream sectors, a one-degree day increase in exposure to domestic (foreign) agriculture extreme heat reduces the sectoral growth rate by 0.54% (0.40%). This result indicates a substantial underestimation of the total economic cost imposed by extreme heat exposure in agriculture via intermediate input linkages. When only considering the semi-elasticities of the growth rate in sectoral value added per capita, the average effect across sector is 0.06%.

**Beyond first-degree sectoral interlinkages.** The analysis has so far relied on first-degree sectoral interlinkages in the production network. To account for the full transmission of shocks over the network, I construct the Leontief inverse matrix, which summarizes the sector-specific technical coefficients of the shock propagation through a power series representation of the Leontief inverse (Leontief, 1970). By taking the inner product of agricultural heat shocks and the Leontief inverse matrix, I obtain a sector-specific shock

that takes full inter-sectoral relations into account. I estimate a specification with agricultural heat shocks weighted by the Leontief-derived downstream coefficients and report the coefficients in Figure 6. Both domestic and foreign agricultural heat shocks are strongly negative and statistically significant, with domestic shocks larger in magnitude and both shocks larger in magnitude than when only accounting for first-degree sectoral interlinkages. The results suggest that downstream propagation of heat-induced productivity shocks in the agricultural sector has quantitatively sizable effects on the rest of the economy both from direct and indirect suppliers.

Figure 6. Sector-specific response to agriculture extreme heat in a Leontief matrix



*Notes:* Bars represent the sector-specific coefficients associated with local extreme heat shocks and domestic and foreign downstream shocks constructed using , using the extreme heat exposure measure constructed as in Equation (1). Domestic and foreign downstream shocks are constructed respectively as in Equations (5) and (6), with sectoral interlinkages obtained from the Leontief inverse matrix obtained from the downstream sectoral interlinkages obtained as in Section 2.3. The specification jointly estimates all sector-specific coefficients in a stacked regression model that accounts for country-sector, sector-year, country-year fixed effects and sector-specific second-order polynomial of total precipitation and sum of exposure shares. Bins represent the 95% confidence intervals with standard errors clustered at the country level.

**Robustness and placebo.** To address potential concerns on spatially correlated patterns in extreme heat, I exploit local variation in extreme heat uncorrelated with contemporaneous

weather elsewhere within the same region, by accounting for year-specific fixed effects at the regional level (Deschênes and Meng, 2018) (Appendix Figure A15). Results are also robust to estimating the equation with country-specific linear trends, using a balanced panel, and excluding large countries.

Table 1. Contribution of sectoral and spatial linkages with agriculture to sector-specific impacts of extreme heat

Sector	Average impact of extreme heat (%)		
	Local	Sectoral linkages	Sectoral and spatial linkages
Construction	-0.26 [-3.02; 2.50]	-0.90 [-3.81; 2.01]	-3.50 [-6.40; -0.61]
Mining, Manufacturing, Utilities	-0.79 [-2.97; 1.40]	-4.64 [-9.59; 0.30]	-8.60 [-13.93; -3.27]
Other Activities	0.28 [-0.59; 1.14]	-0.09 [-0.98; 0.80]	-1.18 [-2.13; -0.23]
Transport, storage and communication	0.23 [-0.54; 0.99]	-0.09 [-0.88; 0.70]	-0.99 [-2.13; 0.15]
Wholesale, retail trade, restaurants and hotels	0.61 [-0.71; 1.93]	-1.06 [-2.89; 0.77]	-4.78 [-6.82; -2.75]

*Notes:* Each row shows the impact of extreme heat on average growth rate of sectoral value added per capita (in %), accounting only for local sector-specific heat (“Local”), for local heat and domestic agriculture heat (“Sectoral linkages”), for local heat, and domestic and foreign agriculture heat (“Sectoral and spatial linkages”). The estimates are obtained using the semi-elasticities reported in Figure 6. Brackets indicate the 95% confidence intervals.

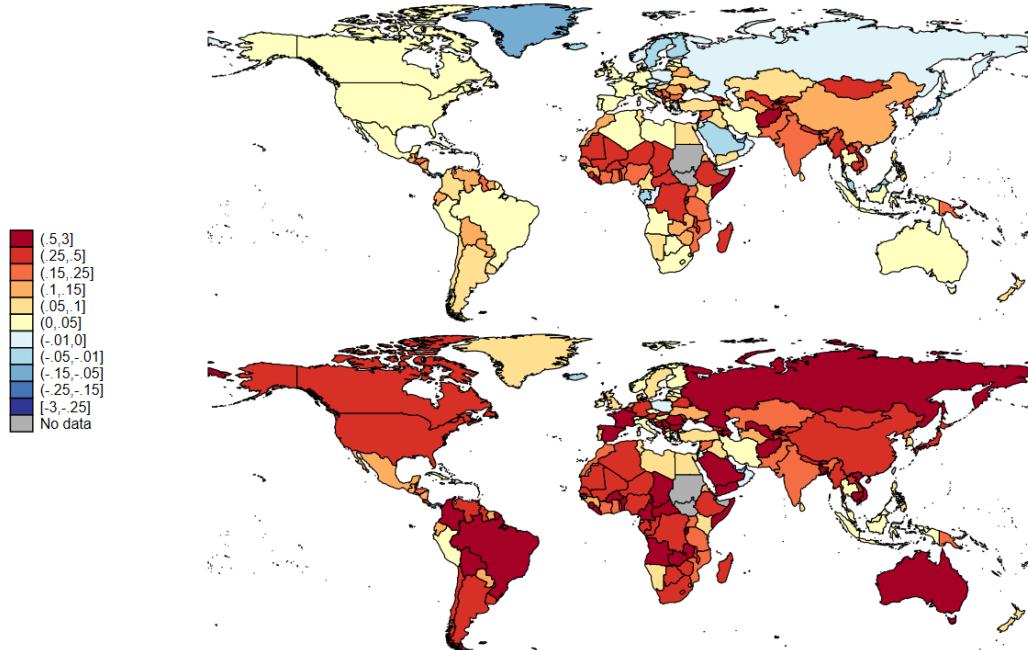
## 7 Counterfactuals: Cost of recent warming in a production network

To assess the economic importance of the propagation of extreme heat in agriculture through production networks, I perform two counterfactual analyses. First, I compare the differential sectoral output losses/benefits as a result of recent historical warming omitting and accounting for extreme heat conditions in the agriculture sector in the production network. Prior research quantifies and projects the impact of temperature increases assuming a counterfactual with no further warming (Burke et al., 2015; Burke and Tanutama, 2019; Kalkuhl and Wenz, 2020). To account for adaptive adjustments to changes in climate, I simulate how much slower or faster each sector would have grown over the 2001-2020 period, compared to a counterfactual in which daily temperature linearly evolves from its 1970-2000 long-run average (see Appendix Section H for additional details).

Omitting shocks in the agricultural sector partners substantially underestimates the losses due to recent warming. The pooled average loss in annual GVA per capita across sectors using only local shocks is 0.02% (-0.08% median, IQR [-0.29, 0.09]), whereas it is

0.32% (0.15% median, IQR [-0.13, 0.73]), accounting for network shocks. Damages are particularly larger in those sectors that appear sheltered from local shocks (other activities; transport, storage and communications), while there is larger heterogeneity in relative losses in construction and wholesale, retail, hotel and restaurants: larger damages in Sub-Saharan Africa, Latin America and South-East Asia are offset by modest benefits in Northern Europe and the Middle East. Using the country's baseline sectoral breakdown of total GVA between 1996 and 2000, I aggregate sector-specific damages to obtain the total national average relative losses, displayed in Figure 7. Accounting for network extreme heat in agriculture, country-level damages are substantial (0.33% mean, 0.26% median, IQR [0.06, 0.53]) and around three times larger than when omitting shock propagation (0.10% mean, 0.05% median, IQR [0.00, 0.17]).

Figure 7. Average annual per capita GVA losses (%) due to recent warming



*Notes:* The figure shows the average annual losses (in red) and gains (in blue) in per capita GVA (%) compared to a counterfactual daily temperature evolved linearly from the trend estimated over the period 1970-2000. Sector-specific damages are weighted by the average sectoral share of total GVA between 1996 and 2000. The world map above only accounts for sector-specific local extreme heat conditions. The world map below accounts for indirect extreme heat in agriculture using sector-specific semi-elasticities from bootstrapping 1000 times the underlying panel estimates of Equation (15). Table B5 reports the sector-specific losses significant at 95% level estimated with 1000 bootstrap replications with replacement.

In a second exercise, I quantify the macroeconomic impact of an increase in one degree day in extreme heat conditions in a region or country from 2000 onwards. Figure 8 reports the average annual global losses. The highest average loss ( $\approx$  322 million 2015US\$) is recorded if all agricultural sectors in the world experience an additional degree day. Large losses are also recorded if Sub-Saharan Africa, Eastern Europe, Eastern Asia or Latin America and the Caribbean suffer an additional degree day in extreme heat. These regions, if shocked, induce larger losses on average due to larger relative damages on local economic production. An alternative mechanism could be explained by a scale effect since these regions have the largest number of countries contemporaneously shocked.

I also compute average annual global losses if one single country experiences an additional degree day in extreme heat (right-hand side of Figure 8). The importance of the country in the production networks substantially matters for the magnitude of heat-induced losses. On average, global losses are at the highest for an additional degree day in China ( $\approx$  80 million 2015US\$) and in other countries such as Brazil ( $\approx$  20 million 2015US\$), France ( $\approx$  24 million 2015US\$), India ( $\approx$  16 million 2015US\$), and the United States ( $\approx$  32 million 2015US\$).<sup>27</sup> These losses are sizable since they are obtained for an increase by one in the extreme heat measure of degree days. Extreme heat has substantially increased over the time period considered. For example, the decadal average extreme heat in China in the 1970s was 16.4 degree days/year and reached 23.3 degree days/year in the 2010s. Similarly, extreme heat conditions in Brazil increased from 21.22 degree days/year to 40.6 degree days/year and from 41.1 degree days/year to 55.7 days/year in the US.

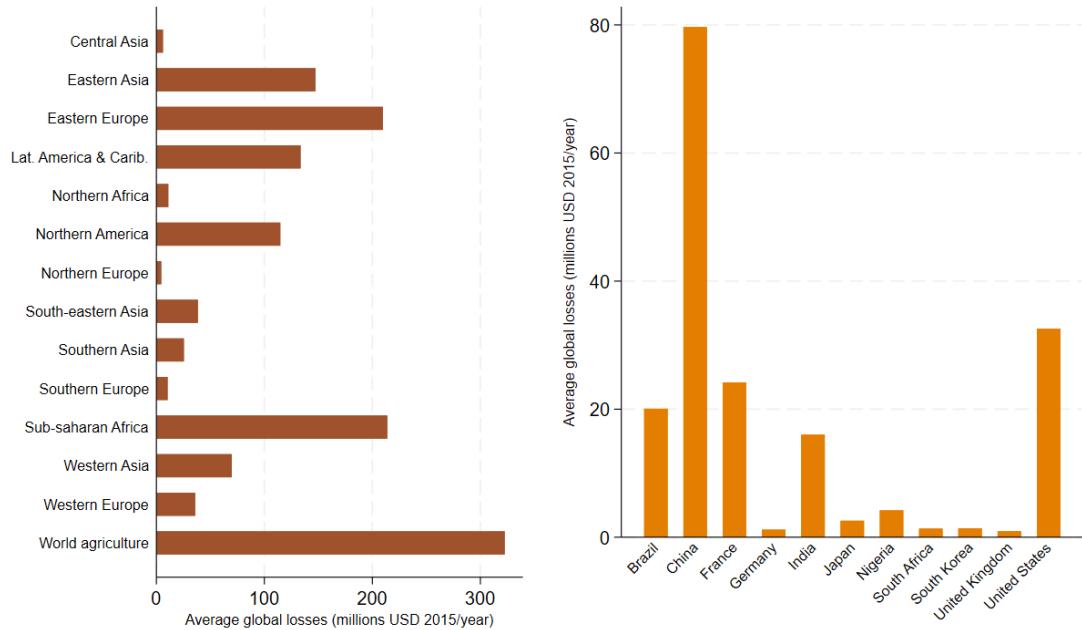
## 8 Conclusion

Recent studies have pushed forward the frontier for an accurate estimation of climate damages across sectors for an adequate quantification of the total economic impact of climate change. This paper contributes to this effort by shedding light on a new potential component of climate damages, arising from the propagation of weather shocks through production networks across sectors and countries, and over time. Complementing firm-level evidence on the spillover effects of natural disaster shocks, I build on prior research on production networks (Acemoglu et al., 2012) to quantify the economic cost of global warming. The methodology is applied to global production networks constructed from input-output

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<sup>27</sup>Together, these five countries make up more than 45% of world crop output (Costinot et al., 2016).

Figure 8. Average annual global losses due to an additional degree day in extreme heat in agriculture in a specific sub-region (left) or country (right)



*Notes:* The figure shows the average annual global losses in 2015\$ million by perturbing the production network with an additional degree day in agricultural extreme heat conditions in the sub-region (resp. country) reported in the y-axis (x-axis), using sector-specific semi-elasticities from Equation (15), where indirect shocks are constructed with a time-varying production network that uses the lagged five-year average linkages for each five-year period. Global averages only consider country-specific losses significant at the 95% level using 1000 bootstrap replications with replacement.

sectoral interlinkages for the past 50 years and sectoral value added data combined with high-resolution daily temperature and precipitation data.

The analysis reveals that the amplification mechanism of weather shocks persists at the sector level across the world and generates substantial fluctuations in sectoral production. Downstream sectors unresponsive to local weather suffer economic losses due to the interdependence of their production process with the domestic and foreign agricultural sectors that are hit by extreme heat conditions. In particular, sectors at later stages of the supply chain are negatively impacted by supply-side agricultural heat shocks that propagate downstream. In light of the negative impact of indirect extreme heat conditions in agriculture on other sectors, these findings suggest that climate damages may be larger than indicated by standard empirical approaches and integrated assessment models that do not account for trade interlinkages.

The findings point to the structure of sectoral production network linkages as a key driver of aggregate fluctuations induced by extreme heat. In particular, they indicate that even if most sectors with the exception of agriculture are sheltered from local weather fluctuations, the potential propagation of shocks over the economy’s production network can impact them, thus resulting in movements in macroeconomic aggregates. Using the reduced-form estimates of my analysis to inform counterfactual simulations, I show that the omission of input-output linkages as a mechanism for the propagation and amplification of extreme heat conditions in agriculture may lead to approximately a threefold underestimation of the effect of recent warming around the world (0.1% vis-à-vis 0.33% of per capita GVA accounting for sectoral interlinkages) and global losses are sizable even for just a single country being shocked in isolation, suggesting that countries that are more central in the production network can induce larger global losses when experience more extreme heat conditions.

Because this exercise serves only to highlight the implications of incorporating this particular mechanism, I emphasize that it omits other potential general-equilibrium effects of climate change. I fix the spatial pattern of comparative advantage within plant species at recent historical values. Thus, I do not take into account important trends such as technological change. Moreover, I do not consider other potential adjustments such as factor reallocation across sectors and across crops within the agricultural sector. This implies that I omit other possible adaptations in anticipation of future climate change (Carleton et al., 2024). The objective is merely to demonstrate how the economic consequences of spatial and sectoral input linkages, estimated using quasi-experimental variation, can be incorporated into short-run elasticities to weather. As such, this exercise helps bridge the gap between quasi-experimental approaches and structural models of climate impacts (Cruz and Ross-Hansberg, 2021; Costinot et al., 2016).

For this reason, several important issues remain open to future research. First, the analysis provides modest but suggestive evidence on the role of adaptation of countries, in particular, that the effect of local extreme heat condition depends on climate and income. There is, however, little evidence of countries’ ability to reduce their exposure to upstream extreme heat in agriculture. The analysis does not explicitly model adaptive investments, technological change, or other agriculture-specific adaptive responses (e.g. irrigation) that may heterogeneously affect the response functions and reduce climate damage. Moreover, crop-specific extreme heat conditions are computed over a time-invariant measure of agri-

cultural land that does not allow for crop specialization adjustments, a crucial adaptive margin that can help mitigate climate damages (Costinot et al., 2016). Accounting for this and other adaptive margins may alter the propagation of extreme heat conditions in agriculture in countries that are more sheltered.

Second, the transmission of weather shocks is studied through the relative importance of trade partners in input-output interlinkages in a Cobb-Douglas economy. Productivity shocks in agriculture may impact the output of other sectors via two distinct channels. First, the resulting increase in the impacted sector's good price adversely affects sectors that rely on that good as intermediate input for production. Second, extreme heat conditions may also lead to reallocation of resources across sectors depending on the elasticities of substitution across inputs. The input specificity and different elasticities of substitution would lead to the impact of agricultural productivity shock to not remain confined to downstream sectors (Barrot and Sauvagnat, 2016). This channel has only been documented at the firm level, and although I find evidence consistent with the Cobb-Douglas model being a good approximation at the sector level, additional layers of production heterogeneity could shed light on the exact channel of transmission of agriculture extreme heat conditions through the economy.

Third, the analysis is mostly silent about agents' climate beliefs and expectation formation processes. Despite the use of implicit and explicit models of adaptation accounting for long-run climate, income and adjustments in sectoral interlinkages, adaptive behavior reflects agents' perceptions more than actual meteorological conditions, with inaccurate beliefs explaining substantial economic losses due to inadequate adaptation (Zappalà, 2024). Similarly, expectations also matter in accounting for adaptation costs and benefits (Shrader, 2021). Future research should focus on accounting for heterogeneous beliefs and expectations in production networks and supply-chain relationships, modelling the learning process about underlying weather risk from weather shock realizations and adaptive responses.

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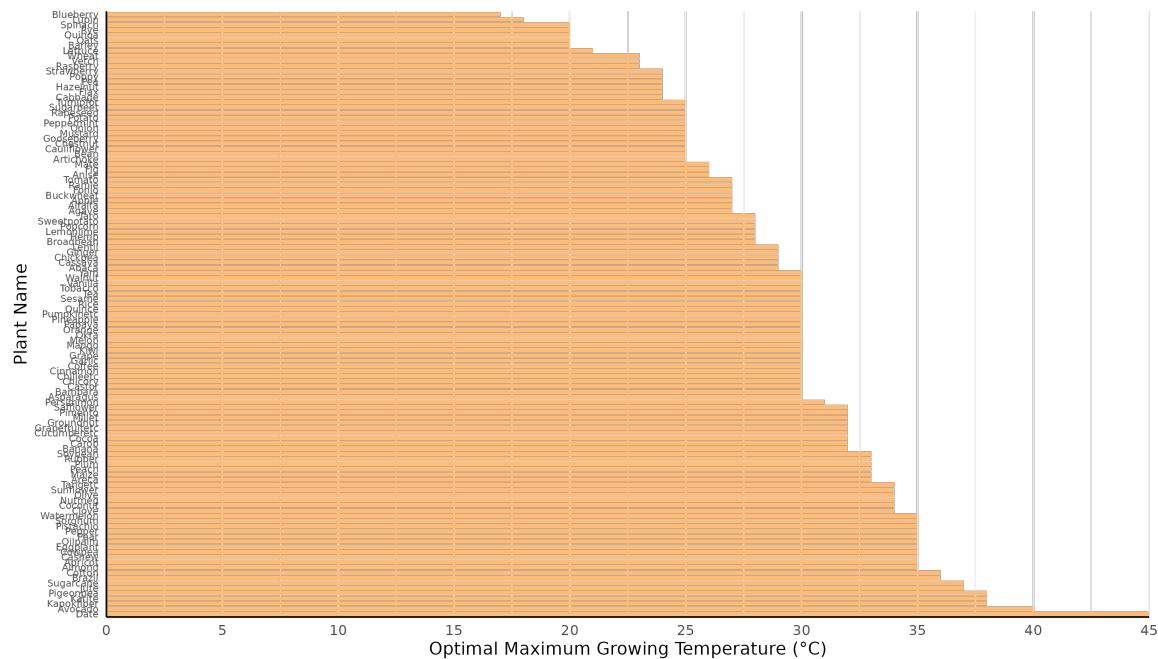
# Appendix

## Table of Contents

A Additional figures	47
B Additional tables	66
C Additional data sources	71
D Extreme heat in agriculture accounting for spatial adjustments in crop production	73
E Local economic response to local weather shocks	74
F Reduced-form GDP-temperature regressions with temperature in first-difference	75
G Heterogeneous effects of local extreme heat across adaptation potential	77
H Quantifying the cost of the propagation of recent warming	79

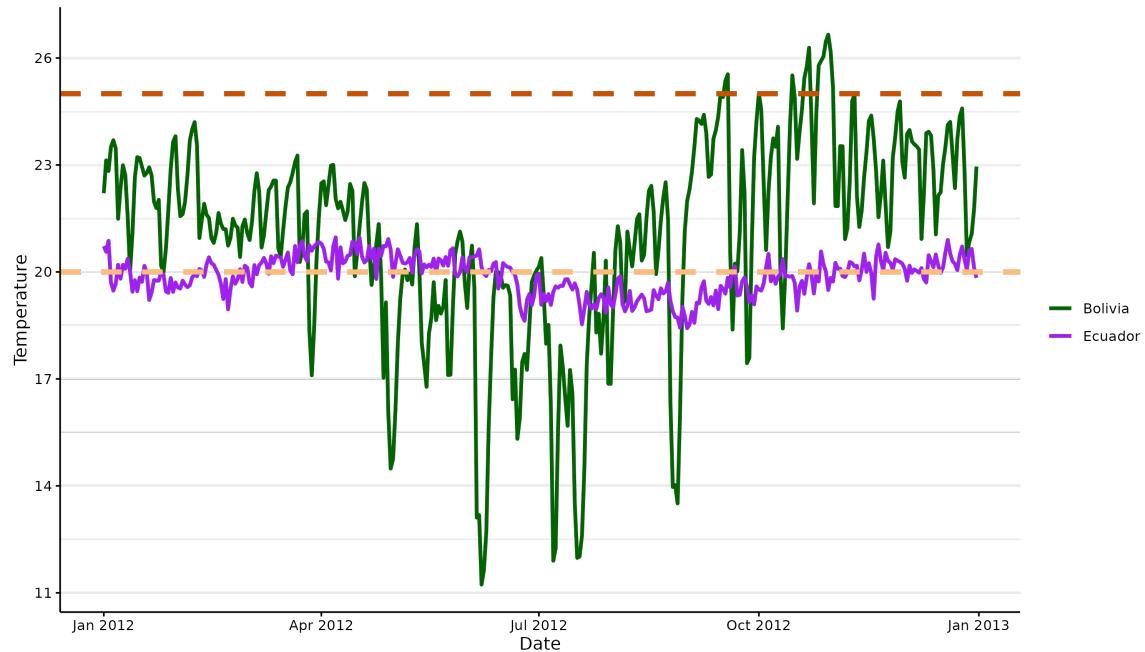
## A Additional figures

Figure A1. Crops and optimal maximum growing temperature



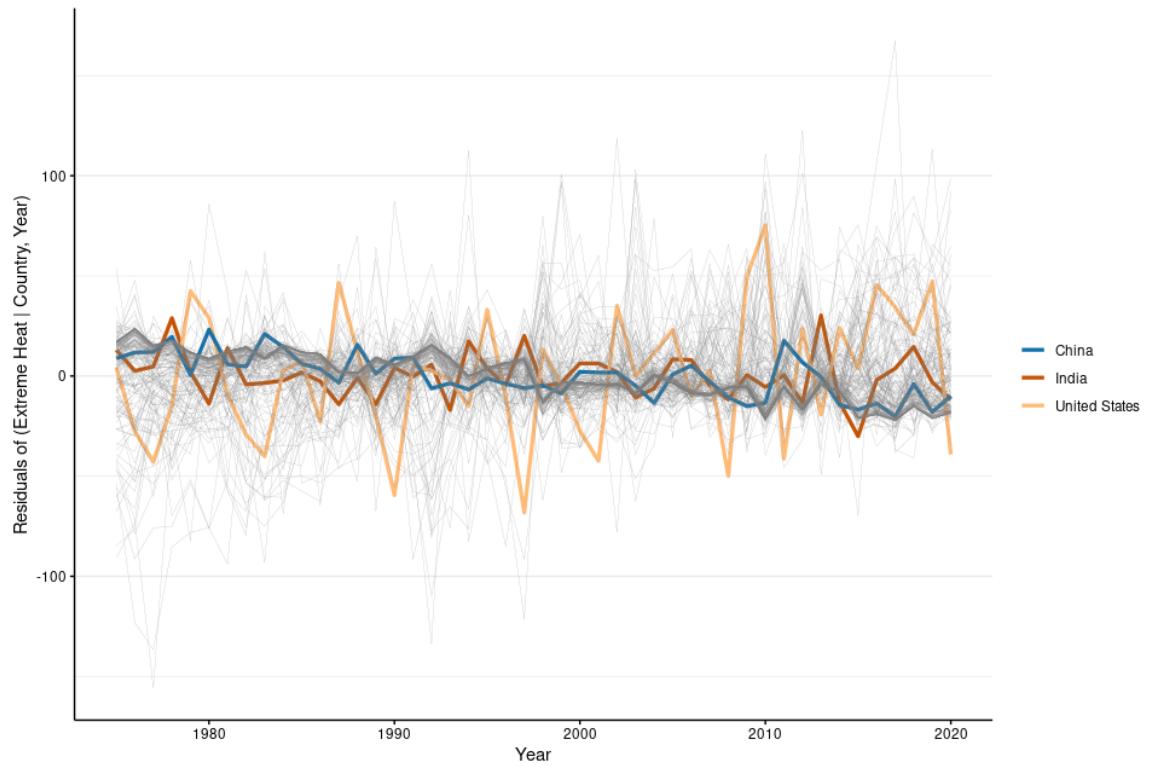
Notes: The figure shows the optimal maximum growing temperature for the 118 plant species in my final sample, as reported in the FAO EcoCrop (UN FAO, 2024).

Figure A2. Daily temperature in agricultural land growing quinoa in Ecuador and Bolivia



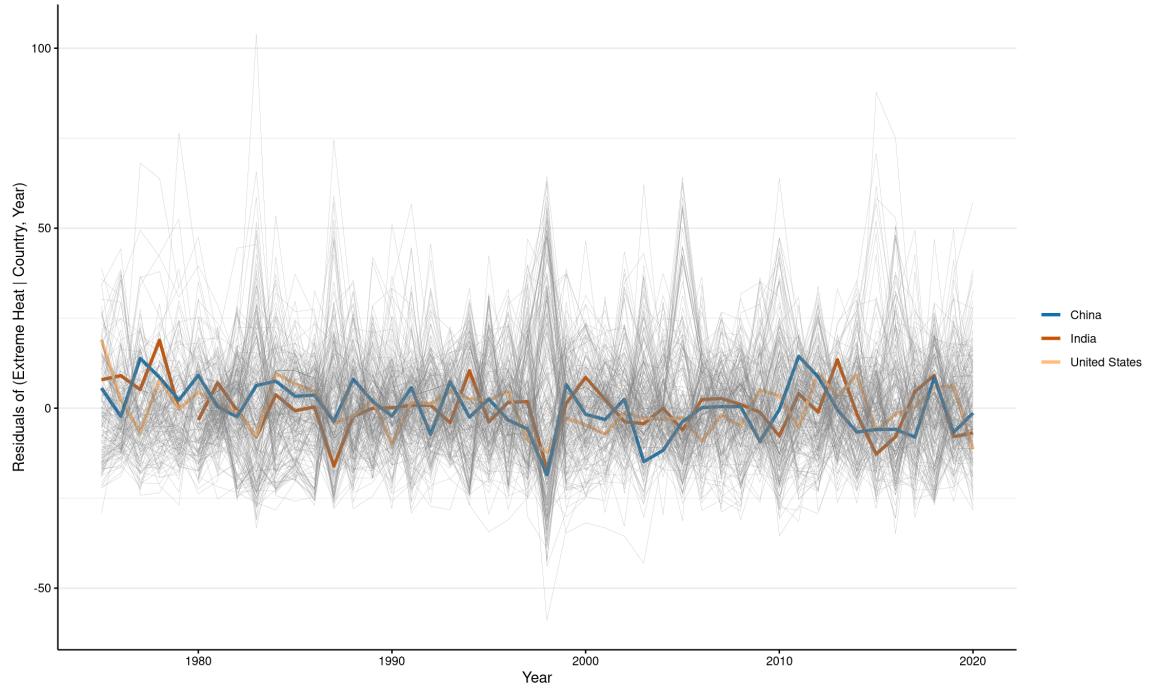
*Notes:* The figure shows the daily average temperature in 2012 for agricultural land growing quinoa in Bolivia and Ecuador. These countries are the leading world producer of quinoa, whose maximum optimal growing temperature is 20° (dashed line in orange). Using a uniform cut-off across crops and locations, e.g., 25° (dashed line in red), would entirely mask Ecuador's exposure to above-optimal temperature growing conditions and substantially underestimate Bolivia's exposure..

Figure A3. Residuals in extreme heat exposure in agriculture



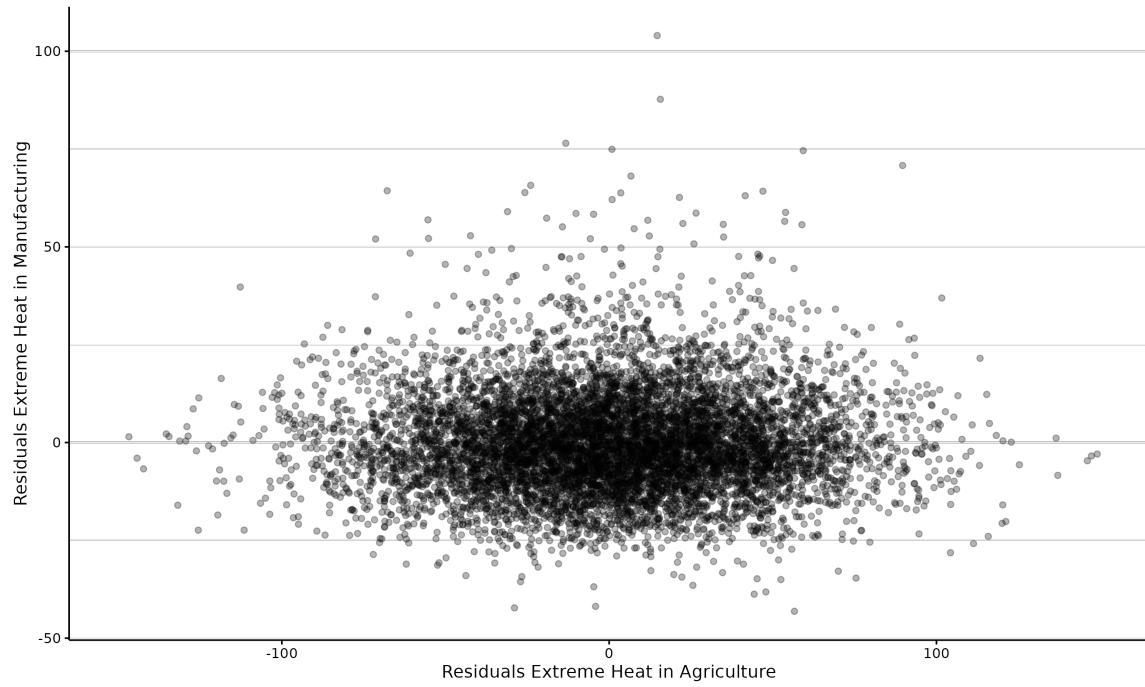
*Notes:* The figure shows the residuals in extreme heat exposure in agriculture obtained from a regression projecting extreme heat on country and year fixed effects.

Figure A4. Residuals in heat shocks in manufacturing



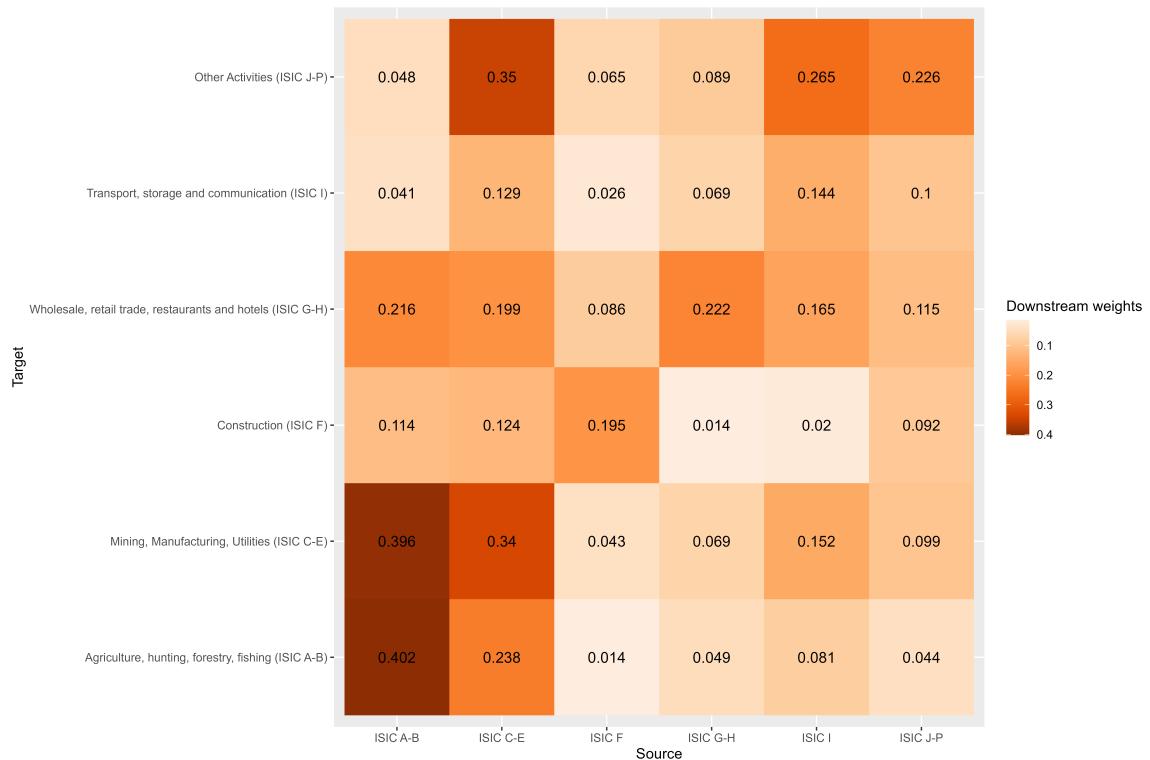
*Notes:* The figure shows the residuals in extreme heat exposure in manufacturing obtained from a regression projecting extreme heat on country and year fixed effects.

Figure A5. Scatter plot of residuals in agricultural and manufacturing sectors



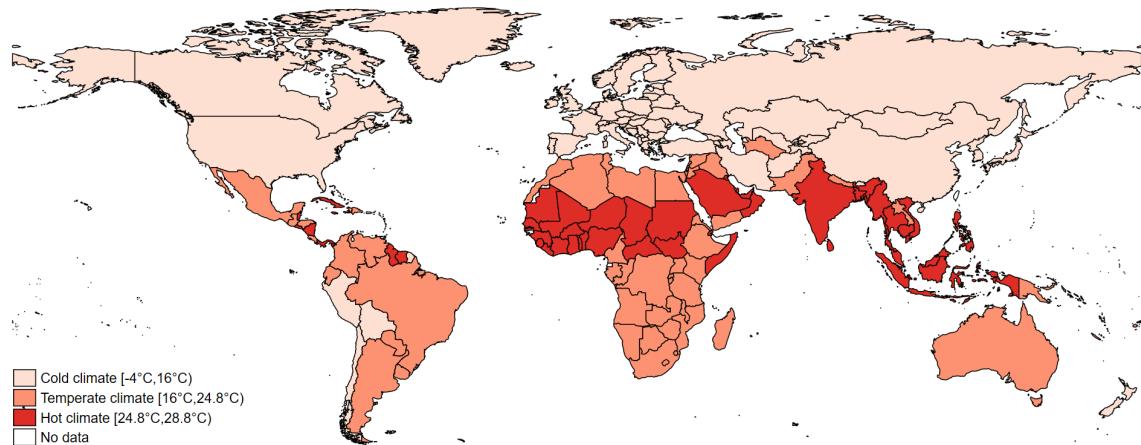
*Notes:* The figure shows the scatter plot of the residuals in extreme heat in agriculture and in manufacturing obtained after conditioning on country- and year- fixed effects. The relationship between the residuals in the final sample is not statistically different from zero ( $p$ -value equal to 0.61).

Figure A6. Average downstream linkages across countries



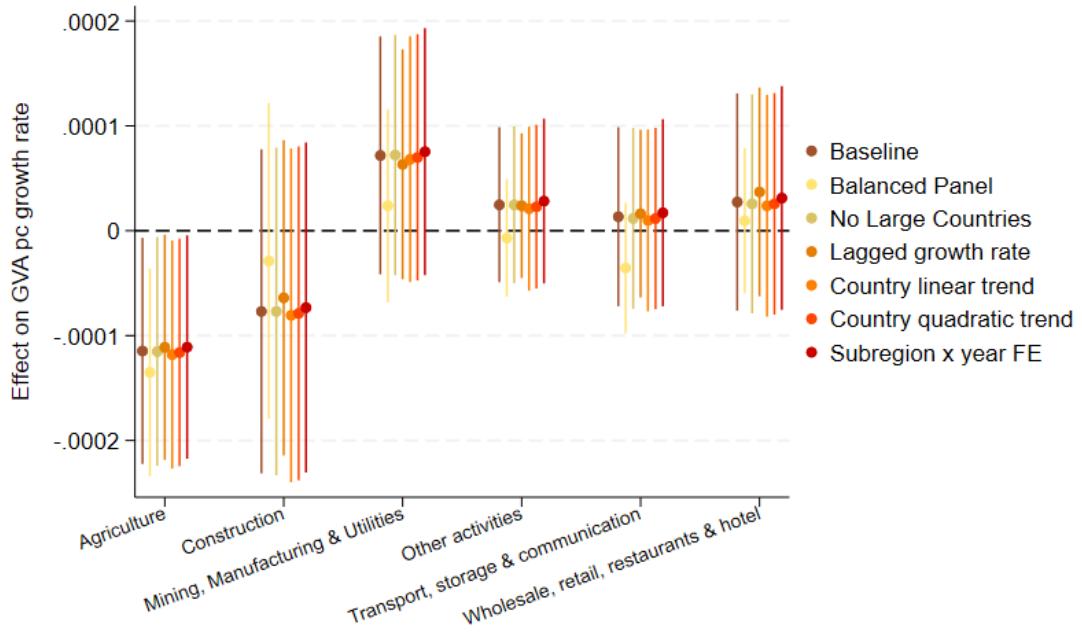
*Notes:* The figure shows the average downstream linkages across countries by sector, constructed from the perspective of Source sectors on the x-axis.

Figure A7. Countries in the sample by climatic zone



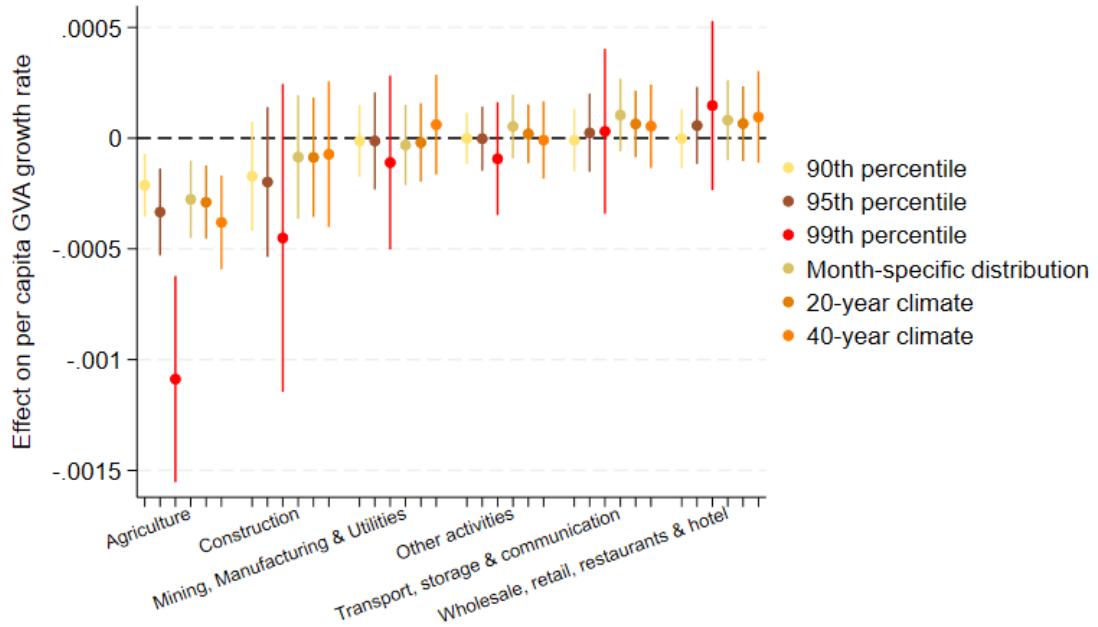
*Notes:* The map represents the countries in the sample divided by climatic zones, defined as terciles of the average annual temperature from 1975 through 2020. The classification is implemented in order to compute heterogeneous treatment effects as reported in Figure G1.

Figure A8. Robustness 1: Response to local extreme heat



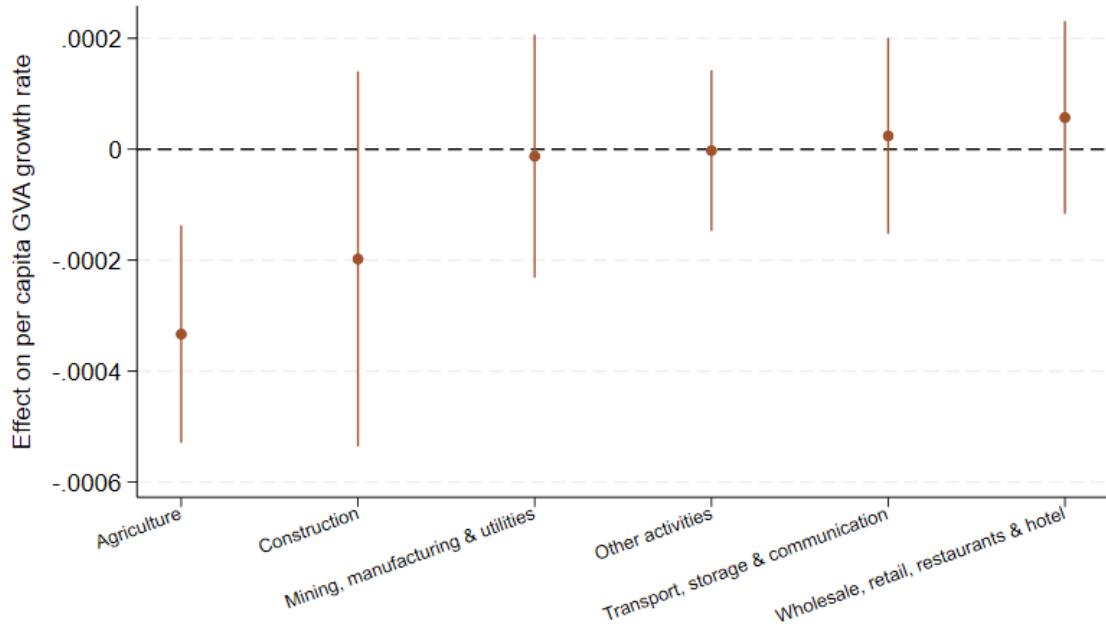
*Notes:* The figure shows the regression estimates for the country-average number of degree days of extreme heat using a sector-country balanced panel; excluding large countries (Brazil, China, India, Russia, US); including lagged growth rate; including country-specific linear trends; including linear and quadratic country-specific trends; including subregion-by-year fixed effects. All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year fixed effects. Bins represent the 95% confidence intervals around point estimates. Subregions divide the world into 17 zones: Australia and New Zealand, Central Asia, Eastern Asia, Eastern Europe, Latin America and the Caribbean, Melanesia, Northern Africa, Northern America, Northern Europe, Polynesia, South-eastern Asia, Southern Asia, Southern Europe, Sub-Saharan Africa, Western Asia, Western Europe.

Figure A9. Robustness 2: Response to local extreme heat



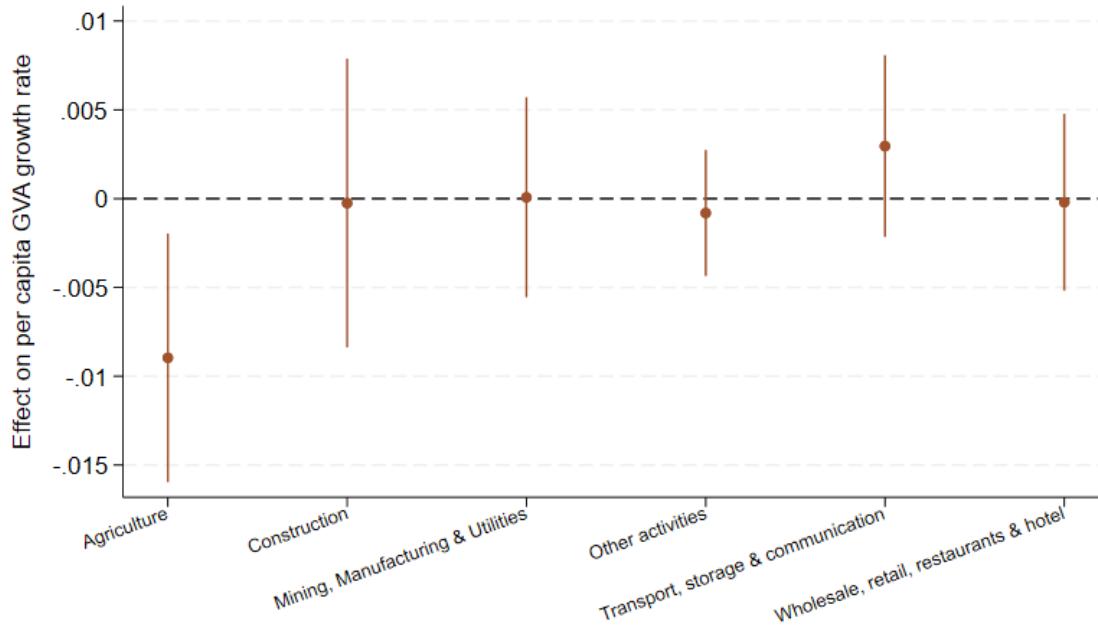
*Notes:* The figure shows the regression estimates constructing the extreme heat exposure differently: I use different percentiles of the grid-specific distribution (90, 95 - the baseline - and 99); I construct heat exposure relative to the 95th percentile of each grid-month specific distribution of temperature in the previous 30 years and relative to the 95th percentile of each grid-year specific distribution of temperature in the previous 20 or 40 years.

Figure A10. Effect on local abnormal hot days on growth rate in sectoral value added per capita



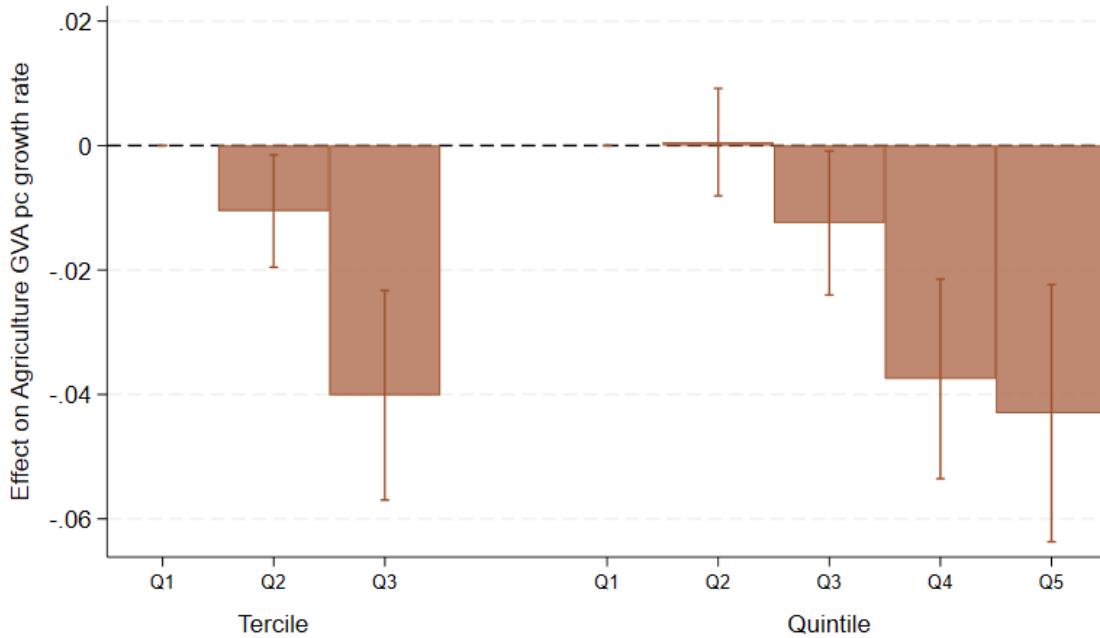
*Notes:* The figure shows the regression estimates for the country-average number of days above the 95<sup>th</sup> percentile of the daily distribution in temperature. All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year fixed effects and controlling for a sector-specific second order polynomial in total precipitation. Bins represent the 95% confidence intervals around point estimates. Standard errors are clustered at the country level.

Figure A11. Effect on temperature shocks on growth rate in sectoral value added per capita



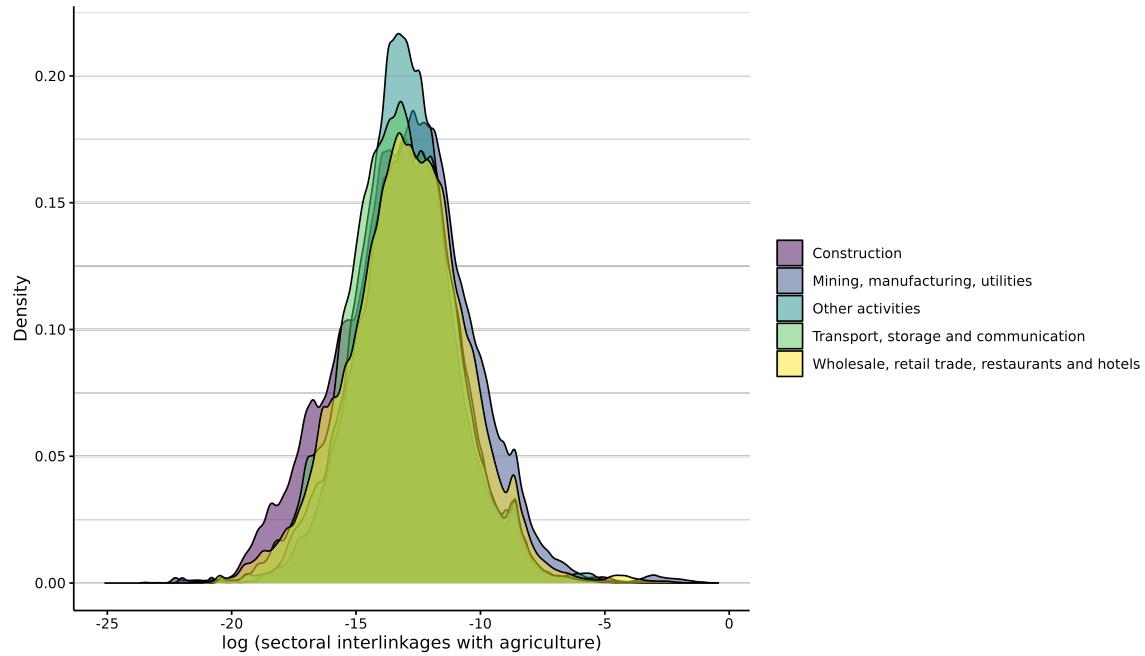
*Notes:* The figure shows the regression estimates of the temperature shocks constructed as in Equation (2). All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year fixed effects and controlling for a sector-specific second order polynomial in total precipitation. Bins represent the 95% confidence intervals around point estimates. Standard errors are clustered at the country level.

Figure A12. Quantiles of Extreme Heat on Agriculture Value Added



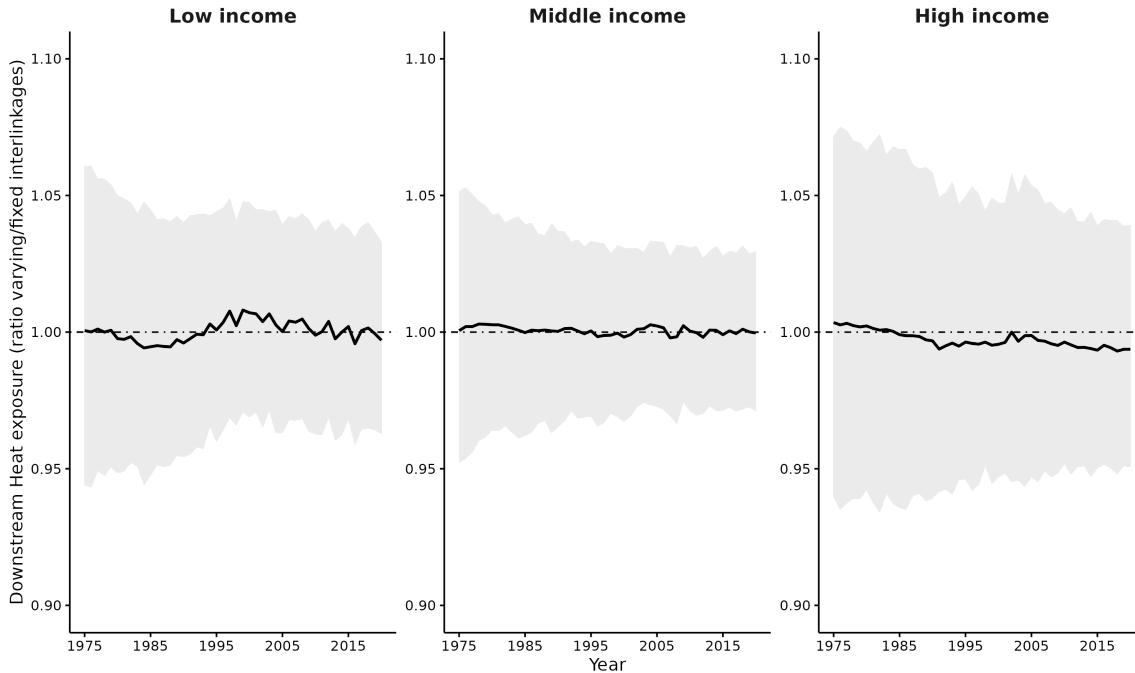
*Notes:* The figure shows the regression estimates for the measure of extreme heat (degree days) constructed as in Equation (1) on the agricultural GVA per capita growth rate and categorized by terciles or quintiles. Each set of bars corresponds to the estimates from a single regression which accounts for linear and quadratic terms of precipitation, and country and year fixed effects. Bins represent the 95% confidence intervals around point estimates. Standard errors are clustered at the country level.

Figure A13. Density function of intermediate input interlinkages with agriculture by sector



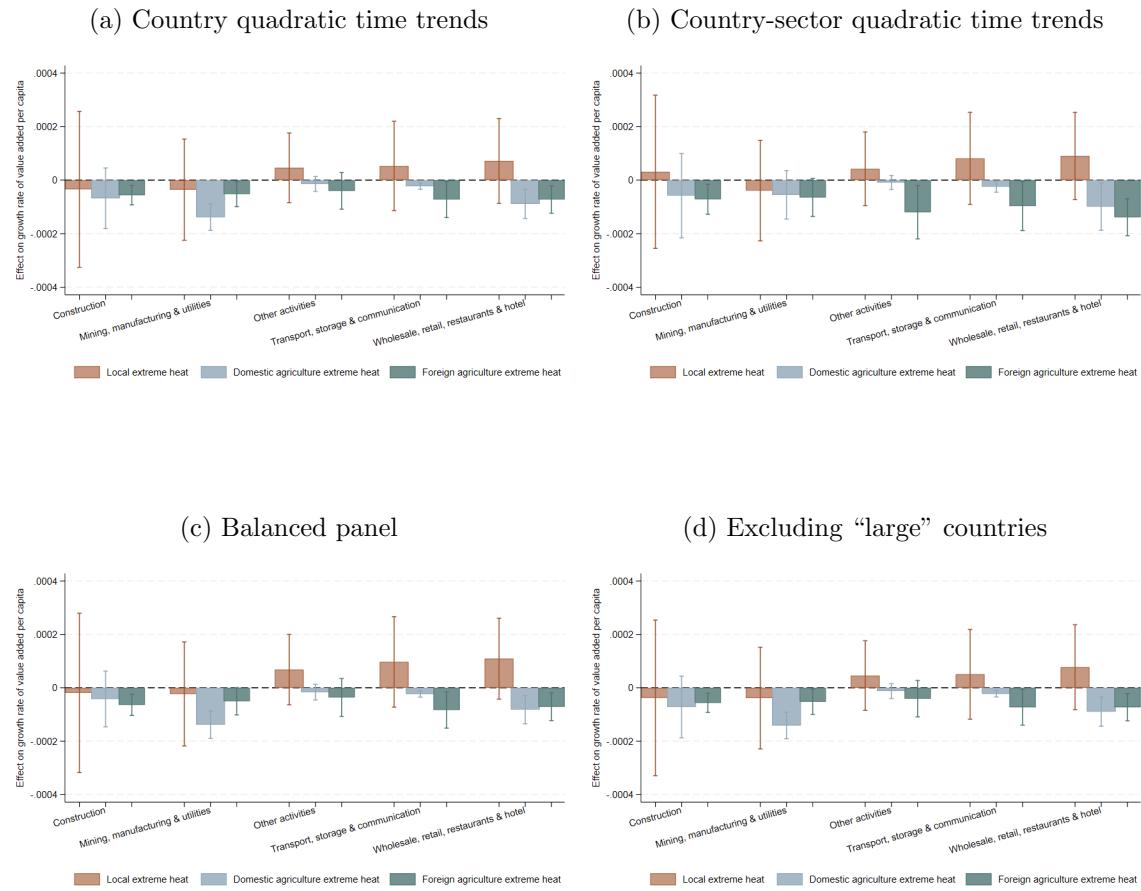
*Notes:* The figure plots the sector-specific density distribution of the (log) of interlinkages with agriculture used as outcome variable in Equation (9).

Figure A14. Downstream exposure to extreme heat in agriculture by income terciles



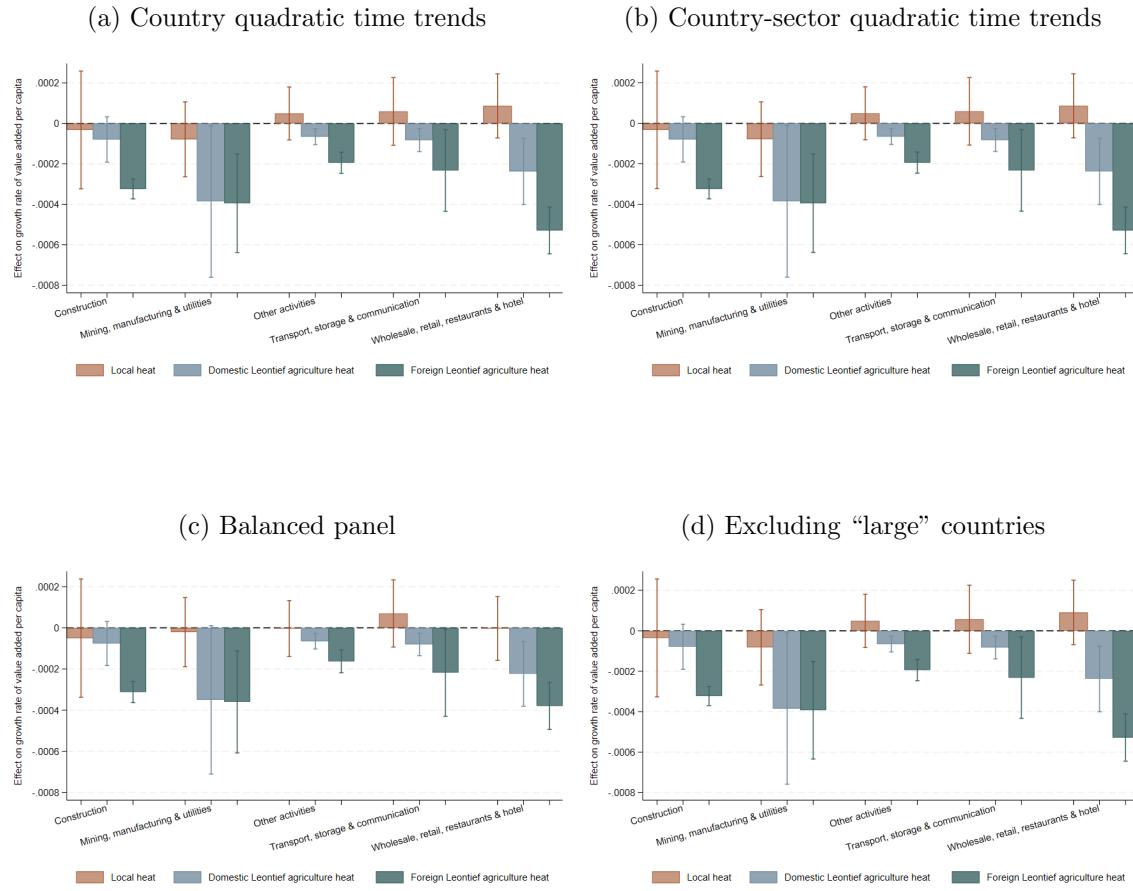
*Notes:* Each panel in the figure displays the income tercile-specific average (black solid line) ratio of downstream heat exposure computed between a production network where sectoral interlinkages are varying annually and one where sectoral interlinkages are fixed in time averaged between 1970 and 1974. As Fact 4 establishes that sectors do not substantially differ in response to extreme heat in agriculture, I pool downstream exposure to extreme heat conditions across sectors in a country and divide the global sample by terciles of income. Income terciles are defined averaging for the whole 45-year time period the log of per capita GDP using data from the World Bank's World Development Indicators. I construct downstream heat exposure in two ways. First, I measure a country's exposure to extreme heat allowing the production network to evolve over time and constructing sectoral interlinkages which vary annually. Second, I construct downstream extreme heat exposure using a time-invariant production network where sectoral interlinkages are constructed from the earliest available five-year period of input-output linkages (1970 to 1974). A ratio between these two measures of downstream heat exposure below one would indicate that countries have been able to reduce their exposure to downstream non-local extreme heat conditions. The gray shaded areas represent the 95% confidence intervals.

Figure A15. Robustness: Alternative specifications for first-degree linkages



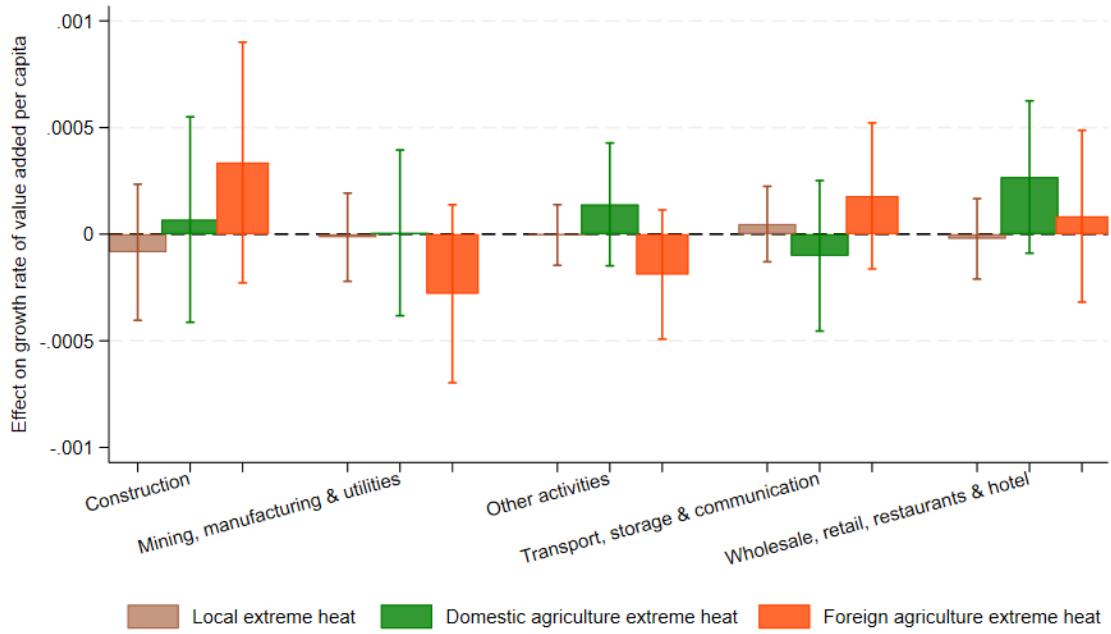
*Notes:* The figure shows the sector-specific coefficients associated with local extreme heat and domestic and foreign downstream agricultural heat shocks. Panel (a) shows the estimates accounting for country-specific quadratic time trends; Panel (b) accounts for country-sector specific quadratic time trends; Panel (c) uses sector-country balanced panel; Panel (d) excludes large countries (China, India, Russia, US). Bins represent the 95% confidence intervals around point estimates with standard errors clustered at the country level.

Figure A16. Robustness: Alternative specifications for Leontief matrix



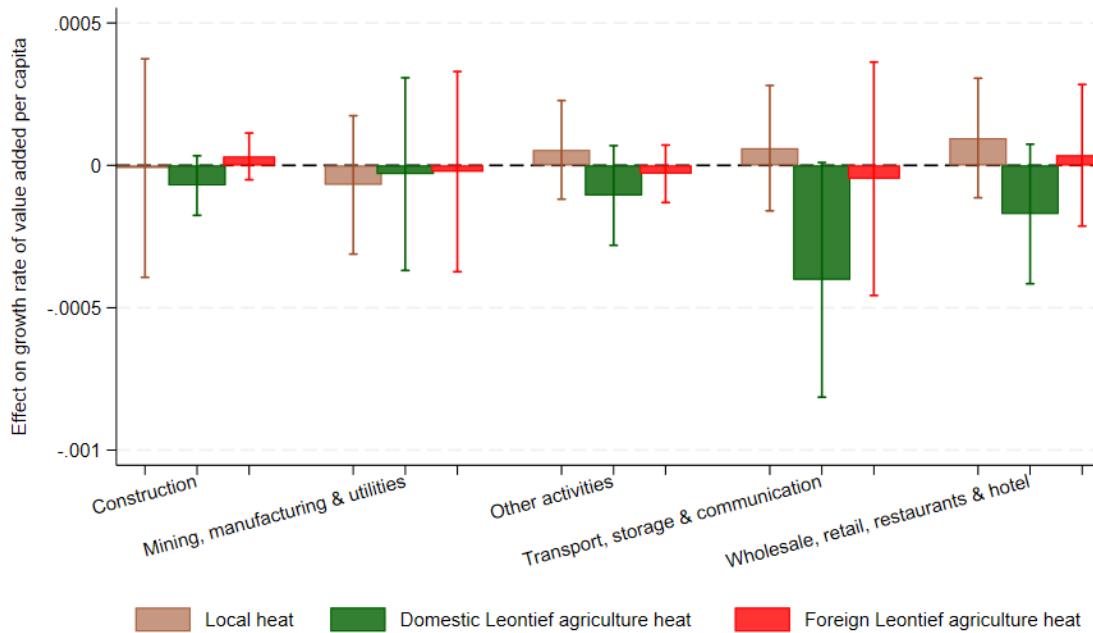
*Notes:* The figure shows the sector-specific coefficients associated with local extreme heat and domestic and foreign downstream agricultural heat shocks using the Leontief inverse matrix. Panel (a) shows the estimates accounting for country-specific quadratic time trends; Panel (b) accounts for country-sector specific quadratic time trends; Panel (c) uses sector-country balanced panel; Panel (d) excludes large countries (China, India, Russia, US). Bins represent the 95% confidence intervals around point estimates with standard errors clustered at the country level.

Figure A17. Local and upstream agricultural extreme heat on sectoral production



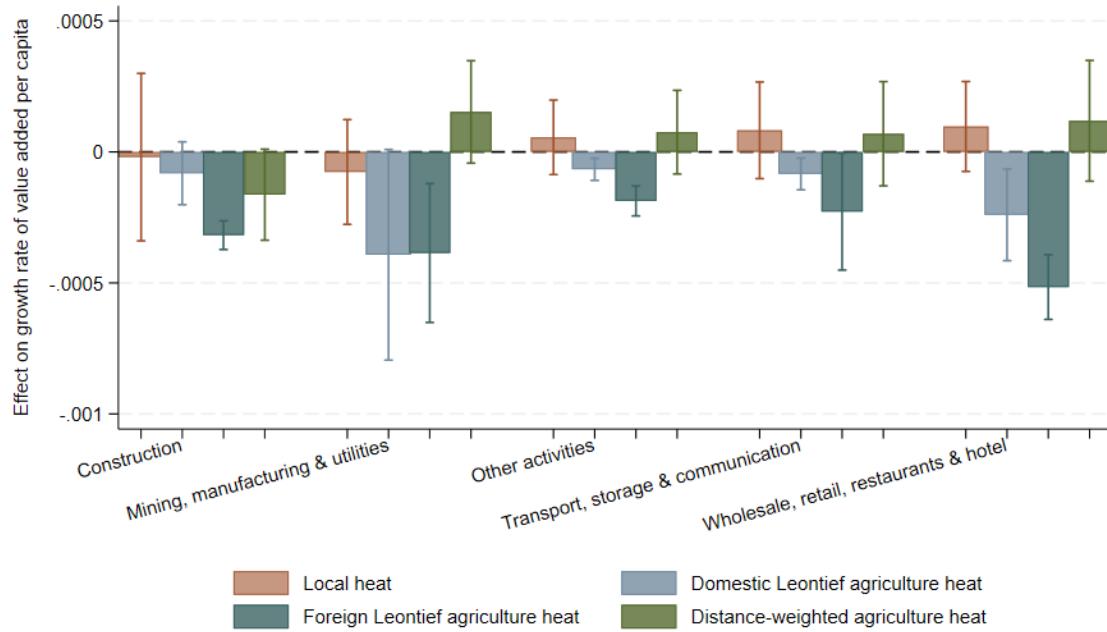
*Notes:* Bars represent the sector-specific coefficients associated with local shocks and domestic and foreign upstream shocks, using the extreme heat exposure measure constructed as in Equation (1). The specification jointly estimates all sector-specific coefficients in a stacked regression model that accounts for country-sector, sector-year, country-year fixed effects and sector-specific second-order polynomial of total precipitation and sum of exposure shares. Bins represent the 95% confidence intervals with standard errors clustered at the country level.

Figure A18. Local and upstream agricultural extreme heat on sectoral production in a Leontief matrix



*Notes:* Bars represent the sector-specific coefficients associated with direct shocks and domestic and foreign upstream shocks, using the average number of days above the 95<sup>th</sup> percentile of the daily temperature distribution. Domestic upstream shocks are constructed as the average weather shock in agriculture in the same country as the sector of interest weighted by the upstream interdependence with each sector. Symmetrically, foreign upstream shocks are constructed as the average weather shock in the agriculture sector abroad weighted by the upstream interdependence with each sector. The specification jointly estimates all sector-specific coefficients in a stacked regression model that accounts for country-sector, sector-year, country-year fixed effects and sector-specific second-order polynomial of total precipitation and sum of exposure shares. Bins represent the 95% confidence intervals with standard errors clustered at the country level.

Figure A19. Controlling for distance-weighted measure of extreme heat in agriculture



*Notes:* Bars represent the sector-specific coefficients associated with local shocks and domestic and foreign agriculture shocks, and a gravity-based measure of indirect exposure to extreme heat where I use the typical estimates of the trade elasticity  $\delta = 5$  to obtain the weighted average of extreme heat by distance across countries. I construct the extreme heat exposure as in Equation (1). The specification jointly estimates all sector-specific coefficients in a stacked regression model that accounts for country-sector, sector-year fixed effects and sector-specific second-order polynomial of total precipitation and sum of exposure shares. Bins represent the 95% confidence intervals with standard errors clustered at the country level.

## B Additional tables

Table B1. Summary statistics on sectoral GVA growth rate

	N	mean	SD	min	max
Log GVA per capita	47,289	6.166	1.789	-2.880	11.534
GVA per capita growth rate	47,289	0.014	0.121	-3.299	2.572
Sector					
Agriculture, hunting, forestry, fishing (ISIC A-B)	7,860	0.002	0.104	-1.691	0.745
Mining, Manufacturing, Utilities (ISIC C-E)	7,900	0.013	0.170	-3.299	2.572
Construction (ISIC F)	7,906	0.010	0.128	-3.169	2.430
Wholesale, retail trade, restaurants and hotels (ISIC G-H)	7,906	0.018	0.087	-1.513	1.261
Transport, storage and communication (ISIC I)	7,857	0.026	0.112	-2.514	2.030
Other Activities (ISIC J-P)	7,860	0.015	0.110	-1.639	1.502
Number of countries	183				
Number of sectors	6				
Number of years per country-sector		44.220	5.235	12	46

Table B2. Countries and year-sectors in final sample

Country	Number of years-sectors	Country	Number of years-sectors	Country	Number of years-sectors
Afghanistan	276	French Polynesia	276	Nigeria	276
Albania	276	Gabon	276	North Korea	184
Algeria	276	Gambia	276	North Macedonia	180
Andorra	276	Georgia	180	Norway	276
Angola	276	Germany	276	Oman	276
Antigua and Barbuda	276	Ghana	276	Pakistan	276
Argentina	276	Greece	276	Palestine	180
Armenia	180	Greenland	276	Panama	276
Aruba	276	Grenada	276	Papua New Guinea	276
Australia	276	Guatemala	276	Paraguay	276
Austria	276	Guinea	276	Peru	276
Azerbaijan	180	Guyana	276	Philippines	276
Bahamas	296	Haiti	276	Poland	276
Bahrain	276	Honduras	276	Portugal	276
Bangladesh	276	Hungary	276	Qatar	276
Barbados	276	Iceland	276	Republic of the Congo	276
Belarus	180	India	276	Romania	276
Belgium	276	Indonesia	276	Russia	180
Belize	276	Iran	276	Rwanda	276
Benin	276	Iraq	276	Samoa	276
Bermuda	276	Ireland	276	San Marino	276
Bhutan	276	Israel	276	Saudi Arabia	276
Bolivia	276	Italy	276	Senegal	276
Bosnia and Herzegovina	180	Jamaica	276	Serbia	180
Botswana	276	Japan	276	Seychelles	276
Brazil	276	Jordan	276	Sierra Leone	276
British Virgin Islands	276	Kazakhstan	180	Singapore	276
Brunei	276	Kenya	276	Slovakia	180
Bulgaria	276	Kuwait	276	Slovenia	180
Burkina Faso	276	Kyrgyzstan	180	Somalia	276
Burundi	276	Laos	276	South Africa	276
Cabo Verde	276	Latvia	180	South Korea	276
Cambodia	276	Lebanon	276	South Sudan	72
Cameroon	276	Lesotho	276	Spain	276
Canada	276	Liberia	276	Sri Lanka	276
Cayman Islands	276	Libya	276	Sudan	72
Central African Republic	276	Liechtenstein	276	Suriname	276
Chad	276	Lithuania	180	Swaziland	276
Chile	276	Luxembourg	276	Sweden	276
China	276	Madagascar	276	Switzerland	276
Colombia	276	Malawi	276	Syria	276
Comoros	276	Malaysia	276	São Tomé and Príncipe	276
Costa Rica	276	Maldives	297	Tajikistan	178
Croatia	180	Mali	276	Tanzania	276
Cuba	276	Malta	276	Thailand	276
Cyprus	276	Mauritania	276	Togo	276
Czechia	180	Mauritius	276	Trinidad and Tobago	276
Côte d'Ivoire	276	Moldova	180	Tunisia	276
Democratic Republic of the Congo	276	Monaco	230	Turkey	276
Denmark	276	Mongolia	276	Turkmenistan	180
Djibouti	276	Montenegro	180	Uganda	276
Dominican Republic	276	Morocco	276	Ukraine	180
Ecuador	276	Mozambique	276	United Arab Emirates	276
Egypt	276	Myanmar	276	United Kingdom	276
El Salvador	276	México	276	United States	276
Equatorial Guinea	276	Namibia	276	Uruguay	276
Eritrea	126	Nepal	276	Uzbekistan	180
Estonia	180	Netherlands	276	Vanuatu	276
Ethiopia	180	New Caledonia	276	Venezuela	276
Fiji	276	New Zealand	276	Vietnam	276
Finland	276	Nicaragua	276	Yemen	186
France	276	Niger	276	Zambia	276
				Zimbabwe	276
Total	47,289				

Table B3. Mapping between EORA26 sectors and UNSD industries

EORA26 Sector	UNSD industry
Agriculture	Agriculture, hunting, forestry, fishing (ISIC A-B)
Fishing	Agriculture, hunting, forestry, fishing (ISIC A-B)
Mining and Quarrying	Mining, Manufacturing, Utilities (ISIC C-E)
Electricity, Gas and Water	Mining, Manufacturing, Utilities (ISIC C-E)
Food & Beverages	Mining, Manufacturing, Utilities (ISIC C-E)
Textiles and Wearing Apparel	Mining, Manufacturing, Utilities (ISIC C-E)
Wood and Paper	Mining, Manufacturing, Utilities (ISIC C-E)
Petroleum, Chemical and Non-Metallic Mineral Products	Mining, Manufacturing, Utilities (ISIC C-E)
Metal Products	Mining, Manufacturing, Utilities (ISIC C-E)
Electrical and Machinery	Mining, Manufacturing, Utilities (ISIC C-E)
Transport Equipment	Mining, Manufacturing, Utilities (ISIC C-E)
Other Manufacturing	Mining, Manufacturing, Utilities (ISIC C-E)
Recycling	Mining, Manufacturing, Utilities (ISIC C-E)
Construction	Construction (ISIC F)
Maintenance and Repair	Construction (ISIC F)
Wholesale Trade	Wholesale, retail trade, restaurants and hotels (ISIC G-H)
Retail Trade	Wholesale, retail trade, restaurants and hotels (ISIC G-H)
Hotels and Restaurants	Wholesale, retail trade, restaurants and hotels (ISIC G-H)
Transport	Transport, storage and communication (ISIC I)
Post and Telecommunications	Transport, storage and communication (ISIC I)
Financial Intermediation and Business Activities	Other Activities (ISIC J-P)
Public Administration	Other Activities (ISIC J-P)
Education, Health and Other Services	Other Activities (ISIC J-P)
Private Households	Other Activities (ISIC J-P)
Others	Other Activities (ISIC J-P)
Re-export & Re-import	Other Activities (ISIC J-P)

Notes: Author's classification based on Kunze (2021) and adapted to six UNSD sectors.

Table B4. Effect of extreme heat on crop prices

	Crop Price (USD/Tonne)		(log) Crop Price (USD/Tonne)	
	(1)	(2)	(3)	(4)
Degree Days	0.4114** (0.2078)	0.2875*** (0.0825)	0.0007*** (0.0002)	0.0002* (0.0001)
Total Precipitation	1,196.6 (992.6)	435.0 (838.0)	0.4562 (1.207)	-0.7051 (0.5697)
Total Precipitation <sup>2</sup>	-412,342.2 (328,287.8)	-156,285.3 (248,919.6)	-853.8 (1,026.4)	233.7 (269.8)
Observations	96,266	96,266	96,265	96,265
Outcome mean	834.15	834.15	6.1182	6.1182
Crop-Country fixed effects	✓	✓	✓	✓
Crop-Year fixed effects	✓	✓	✓	✓
Country-specific linear trends		✓		✓

*Notes:* Degree Days is a crop-specific extreme heat exposure in  $^{\circ}\text{C} \times \text{days/year}$  for each country-crop combination around the world computed as the average exposure to extreme temperatures in degree-days (using maximum optimal growing temperature thresholds from FAO EcoCrop) on land cultivating a given crop (from Monfreda et al. (2008)). Total Precipitation is measured in metres.

Table B5. Sector-country damages (% loss GVA per capita) significant at 95% level

Country	Sector	Average loss	95% CI	Country	Sector	Average loss	95% CI	Country	Sector	Average loss	95% CI
Afghanistan	Agriculture	1.25	[0.74 ; 1.78]	Japan	Agriculture	0.82	[0.40 ; 1.26]	Ukraine	Agriculture	1.21	[0.58 ; 1.86]
Albania	Agriculture	1.39	[0.81 ; 1.97]	Jordan	Agriculture	1.12	[0.53 ; 1.73]	Uruguay	Agriculture	1.39	[0.77 ; 2.02]
Algeria	Agriculture	1.37	[0.81 ; 1.96]	Kenya	Agriculture	0.99	[0.41 ; 1.58]	Uzbekistan	Agriculture	1.81	[0.71 ; 2.84]
Andorra	Agriculture	1.35	[0.80 ; 1.94]	Kuwait	Agriculture	1.11	[0.53 ; 1.71]	Vanuatu	Agriculture	1.35	[0.81 ; 1.93]
Angola	Agriculture	1.74	[0.99 ; 2.50]	Kyrgyzstan	Agriculture	0.91	[0.43 ; 1.41]	Venezuela	Agriculture	1.85	[0.94 ; 2.75]
Antigua	Agriculture	1.62	[0.93 ; 2.32]	Laos	Agriculture	1.12	[0.54 ; 1.72]	Viet Nam	Agriculture	2.03	[0.93 ; 3.12]
Argentina	Agriculture	1.30	[0.76 ; 1.88]	Latvia	Agriculture	1.03	[0.49 ; 1.59]	Yemen	Agriculture	1.53	[0.81 ; 2.24]
Armenia	Agriculture	1.19	[0.67 ; 1.72]	Lebanon	Agriculture	1.13	[0.54 ; 1.73]	Zambia	Agriculture	1.34	[0.79 ; 1.91]
Aruba	Agriculture	1.31	[0.68 ; 1.95]	Lesotho	Agriculture	1.09	[0.52 ; 1.68]	Zimbabwe	Agriculture	1.17	[0.68 ; 1.68]
Australia	Agriculture	1.27	[0.75 ; 1.82]	Liberia	Agriculture	1.03	[0.49 ; 1.59]	Afghanistan	Construction	1.65	[0.26 ; 2.97]
Austria	Agriculture	1.33	[0.79 ; 1.92]	Lithuania	Agriculture	1.07	[0.51 ; 1.63]	Albania	Construction	1.59	[0.07 ; 3.04]
Azerbaijan	Agriculture	1.11	[0.61 ; 1.61]	Liechtenstein	Agriculture	1.08	[0.52 ; 1.66]	Angola	Construction	2.30	[0.61 ; 3.77]
Bahamas	Agriculture	1.70	[1.00 ; 2.45]	Lithuania	Agriculture	1.06	[0.50 ; 1.64]	Antigua	Construction	1.49	[0.13 ; 2.74]
Bahrain	Agriculture	1.45	[0.85 ; 2.09]	Luxembourg	Agriculture	1.00	[0.47 ; 1.55]	Armenia	Construction	2.05	[0.53 ; 3.52]
Bangladesh	Agriculture	1.28	[0.74 ; 1.84]	Madagascar	Agriculture	1.26	[0.56 ; 1.94]	Aruba	Construction	3.69	[1.44 ; 5.73]
Barbados	Agriculture	1.71	[0.96 ; 2.46]	Malawi	Agriculture	1.06	[0.52 ; 1.62]	Austria	Construction	1.70	[0.26 ; 3.07]
Belarus	Agriculture	1.20	[0.64 ; 1.78]	Malaysia	Agriculture	1.16	[0.47 ; 1.86]	Azerbaijan	Construction	1.32	[0.08 ; 2.51]
Belgium	Agriculture	1.20	[0.71 ; 1.71]	Maldives	Agriculture	1.01	[0.43 ; 1.60]	Bahrain	Construction	1.98	[0.46 ; 3.39]
Belize	Agriculture	1.69	[1.00 ; 2.41]	Mali	Agriculture	1.09	[0.52 ; 1.68]	Bangladesh	Construction	1.49	[0.09 ; 2.83]
Benin	Agriculture	1.34	[0.78 ; 1.91]	Malta	Agriculture	-0.11	[-0.18 ; -0.04]	Barbados	Construction	1.92	[0.38 ; 3.25]
Bermuda	Agriculture	1.58	[0.91 ; 2.28]	Mauritania	Agriculture	1.03	[0.50 ; 1.58]	Belgium	Construction	1.25	[0.02 ; 2.41]
Blutan	Agriculture	1.63	[0.94 ; 2.34]	Mauritius	Agriculture	0.96	[0.36 ; 1.55]	Benin	Construction	1.77	[0.43 ; 2.94]
Bolivia	Agriculture	1.78	[1.01 ; 2.56]	Mexico	Agriculture	1.17	[0.56 ; 1.80]	Blutan	Construction	2.67	[0.79 ; 4.41]
Bosnia and Herzegovina	Agriculture	1.43	[0.85 ; 2.05]	Moldova	Agriculture	1.23	[0.59 ; 1.88]	Bosnia and Herzegovina	Construction	1.38	[0.04 ; 2.67]
Botswana	Agriculture	1.30	[0.77 ; 1.87]	Mongolia	Agriculture	1.21	[0.57 ; 1.86]	Brazil	Construction	1.39	[0.07 ; 2.63]
Brazil	Agriculture	1.66	[0.95 ; 2.39]	Montenegro	Agriculture	1.22	[0.58 ; 1.86]	Brounei	Construction	2.16	[0.62 ; 3.50]
British Virgin Islands	Agriculture	1.62	[0.93 ; 2.31]	Morocco	Agriculture	1.01	[0.48 ; 1.55]	Bulgaria	Construction	1.43	[0.02 ; 2.77]
Brunei	Agriculture	1.57	[0.90 ; 2.26]	Mozambique	Agriculture	1.04	[0.50 ; 1.61]	Burundi	Construction	1.47	[0.22 ; 2.58]
Bulgaria	Agriculture	1.27	[0.69 ; 1.88]	Myanmar	Agriculture	0.62	[0.29 ; 0.96]	Cambodia	Construction	1.61	[0.33 ; 2.74]
Burkina Faso	Agriculture	1.25	[0.70 ; 1.80]	Namibia	Agriculture	1.16	[0.55 ; 1.79]	Cameroun	Construction	2.02	[0.51 ; 3.32]
Burundi	Agriculture	1.39	[0.80 ; 2.00]	Nepal	Agriculture	0.98	[0.46 ; 1.52]	Cape Verde	Construction	1.44	[0.07 ; 2.73]
Cambodia	Agriculture	1.21	[0.71 ; 1.72]	Netherlands	Agriculture	1.00	[0.48 ; 1.53]	Cayman Islands	Construction	1.76	[0.19 ; 3.25]
Cameroon	Agriculture	1.39	[0.79 ; 2.00]	New Caledonia	Agriculture	1.03	[0.50 ; 1.58]	Central African Republic	Construction	1.54	[0.24 ; 2.66]
Canada	Agriculture	1.00	[0.58 ; 1.45]	New Zealand	Agriculture	0.89	[0.41 ; 1.38]	Chad	Construction	1.45	[0.03 ; 2.81]
Cape Verde	Agriculture	1.65	[0.94 ; 2.37]	Nicaragua	Agriculture	0.91	[0.40 ; 1.41]	Colombia	Construction	1.60	[0.16 ; 2.88]
Cayman Islands	Agriculture	1.75	[1.01 ; 2.51]	Niger	Agriculture	1.12	[0.54 ; 1.72]	Congo	Construction	2.14	[0.56 ; 3.52]
Central African Republic	Agriculture	1.45	[0.86 ; 2.06]	Nigeria	Agriculture	1.18	[0.56 ; 1.81]	Costa Rica	Construction	1.31	[0.17 ; 2.38]
Chad	Agriculture	1.52	[0.87 ; 2.20]	North Korea	Agriculture	0.53	[0.19 ; 0.87]	France	Construction	1.28	[0.01 ; 2.50]
Chile	Agriculture	1.30	[0.76 ; 1.86]	Norway	Agriculture	0.91	[0.43 ; 1.39]	French Polynesia	Construction	1.61	[0.29 ; 2.81]
China	Agriculture	0.84	[0.44 ; 1.26]	Oman	Agriculture	1.23	[0.56 ; 1.90]	Gabon	Construction	2.17	[0.64 ; 3.55]
Colombia	Agriculture	1.60	[0.87 ; 2.34]	Pakistan	Agriculture	0.86	[0.40 ; 1.32]	Gambia	Construction	1.37	[0.10 ; 2.60]
Congo	Agriculture	1.50	[0.85 ; 2.17]	Panama	Agriculture	1.00	[0.43 ; 1.59]	Russia	Construction	1.40	[0.07 ; 2.67]
Costa Rica	Agriculture	0.89	[0.45 ; 1.32]	Papua New Guinea	Agriculture	1.35	[0.57 ; 2.12]	Rwanda	Construction	2.20	[0.60 ; 3.58]
Côte d'Ivoire	Agriculture	1.01	[0.43 ; 1.58]	Paraguay	Agriculture	1.07	[0.50 ; 1.64]	Saudi Arabia	Construction	2.15	[0.44 ; 3.65]
Croatia	Agriculture	1.15	[0.55 ; 1.76]	Peru	Agriculture	0.92	[0.39 ; 1.45]	Senegal	Construction	1.17	[0.03 ; 2.27]
Cuba	Agriculture	1.24	[0.60 ; 1.90]	Philippines	Agriculture	1.14	[0.48 ; 1.81]	Serbia	Construction	1.42	[0.06 ; 2.72]
Cyprus	Agriculture	1.09	[0.52 ; 1.68]	Poland	Agriculture	1.13	[0.54 ; 1.73]	Slovakia	Construction	1.45	[0.07 ; 2.77]
Czech Republic	Agriculture	1.09	[0.52 ; 1.67]	Portugal	Agriculture	1.00	[0.47 ; 1.55]	Slovenia	Construction	2.01	[0.43 ; 3.48]
DR Congo	Agriculture	1.18	[0.50 ; 1.88]	Qatar	Agriculture	1.19	[0.56 ; 1.84]	Somalia	Construction	1.57	[0.17 ; 2.92]
Denmark	Agriculture	1.01	[0.48 ; 1.54]	Romania	Agriculture	1.44	[0.86 ; 2.07]	Spain	Construction	2.00	[0.14 ; 3.72]
Djibouti	Agriculture	1.14	[0.54 ; 1.74]	Russia	Agriculture	1.38	[0.82 ; 1.99]	Venezuela	Construction	2.02	[0.46 ; 3.37]
Dominican Republic	Agriculture	1.22	[0.54 ; 1.88]	Rwanda	Agriculture	1.75	[0.95 ; 2.53]	Aruba	Mining, manufacturing, utilities	1.62	[0.55 ; 3.38]
Ecuador	Agriculture	1.29	[0.56 ; 2.01]	San Marino	Agriculture	1.41	[0.83 ; 2.03]	Colombia	Mining, manufacturing, utilities	2.30	[0.89 ; 4.62]
Egypt	Agriculture	1.21	[0.55 ; 1.86]	Sao Tome and Principe	Agriculture	1.10	[0.66 ; 1.58]	Spain	Mining, manufacturing, utilities	1.09	[0.09 ; 2.34]
El Salvador	Agriculture	1.17	[0.56 ; 1.80]	Saudi Arabia	Agriculture	1.82	[1.04 ; 2.63]	Aruba	Other activities	1.32	[0.27 ; 2.48]
Eritrea	Agriculture	1.15	[0.55 ; 1.76]	Senegal	Agriculture	1.16	[0.69 ; 1.67]	Australia	Other activities	0.57	[0.05 ; 1.09]
Estonia	Agriculture	0.99	[0.47 ; 1.52]	Serbia	Agriculture	1.25	[0.71 ; 1.80]	Bermuda	Other activities	0.72	[0.10 ; 1.37]
Ethiopia	Agriculture	1.09	[0.46 ; 1.72]	Seychelles	Agriculture	1.43	[0.82 ; 2.06]	Cayman Islands	Other activities	0.73	[0.07 ; 1.42]
Fiji	Agriculture	1.16	[0.56 ; 1.78]	Sierra Leone	Agriculture	1.17	[0.69 ; 1.68]	Colombia	Other activities	1.36	[0.22 ; 2.60]
Finland	Agriculture	0.94	[0.44 ; 1.45]	Singapore	Agriculture	1.23	[0.55 ; 1.90]	France	Other activities	0.56	[0.04 ; 1.06]
France	Agriculture	1.31	[0.77 ; 1.87]	Slovakia	Agriculture	1.33	[0.77 ; 1.89]	Germany	Other activities	0.57	[0.08 ; 1.14]
French Polynesia	Agriculture	1.38	[0.81 ; 1.97]	Slovenia	Agriculture	1.40	[0.83 ; 2.01]	Spain	Other activities	1.48	[0.77 ; 2.65]
Gabon	Agriculture	1.28	[0.60 ; 1.95]	Somalia	Agriculture	1.47	[0.82 ; 2.13]	Aruba	Transport, storage, communications	2.02	[0.58 ; 3.42]
Gambia	Agriculture	1.41	[0.80 ; 2.04]	South Africa	Agriculture	1.39	[0.83 ; 2.00]	Australia	Transport, storage, communications	0.69	[0.00 ; 1.35]
Gaza Strip	Agriculture	1.22	[0.56 ; 1.88]	South Korea	Agriculture	0.80	[0.37 ; 1.24]	Bolivia	Transport, storage, communications	0.96	[0.03 ; 1.86]
Georgia	Agriculture	1.14	[0.56 ; 1.74]	Spain	Agriculture	1.21	[0.41 ; 1.94]	Russia	Transport, storage, communications	0.77	[0.01 ; 1.49]
Germany	Agriculture	1.05	[0.51 ; 1.61]	Sri Lanka	Agriculture	0.90	[0.43 ; 1.38]	Singapore	Transport, storage, communications	1.71	[0.48 ; 2.94]
Ghana	Agriculture	1.05	[0.45 ; 1.65]	Suriname	Agriculture	1.05	[0.44 ; 1.66]	Uzbekistan	Transport, storage, communications	1.06	[0.22 ; 1.86]
Greece	Agriculture	1.22	[0.59 ; 1.87]	Swaziland	Agriculture	0.91	[0.43 ; 1.40]	Viet Nam	Transport, storage, communications	0.91	[0.07 ; 1.73]
Greenland	Agriculture	1.09	[0.47 ; 1.70]	Sweden	Agriculture	0.96	[0.46 ; 1.47]	Yemen	Transport, storage, communications	0.98	[0.03 ; 1.90]
Guatemala	Agriculture	1.19	[0.55 ; 1.83]	Switzerland	Agriculture	1.10	[0.52 ; 1.68]	Aruba	Wholesale, retail, hotel, restaurant	4.51	[2.23 ; 6.90]
Guinea	Agriculture	0.92	[0.43 ; 1.42]	Syria	Agriculture	1.16	[0.55 ; 1.79]	Australia	Wholesale, retail, hotel, restaurant	1.37	[0.57 ; 2.17]
Guyana	Agriculture	1.10	[0.47 ; 1.75]	TFYR Macedonia	Agriculture	1.15	[0.55 ; 1.76]	Bahamas	Wholesale, retail, hotel, restaurant	1.19	[0.30 ; 2.07]
Haiti	Agriculture	1.13	[0.51 ; 1.74]	Tajikistan	Agriculture	0.98	[0.47 ; 1.52]	Bahrain	Wholesale, retail, hotel, restaurant	0.79	[0.09 ; 1.47]
Honduras	Agriculture	1.09	[0.52 ; 1.66]	Tanzania	Agriculture	1.29	[0.56 ; 2.01]	Belgium	Wholesale, retail, hotel, restaurant	0.83	[0.16 ; 1.49]
Hungary	Agriculture	1.08	[0.51 ; 1.66]	Thailand	Agriculture	0.90	[0.43 ; 1.38]	Bermuda	Wholesale, retail, hotel, restaurant	0.85	[0.10 ; 1.58]
Iceland	Agriculture	1.08	[0.47 ; 1.69]	Togo	Agriculture	0.99	[0.43 ; 1.55]	Brazil	Wholesale, retail, hotel, restaurant	0.81	[0.09 ; 1.51]
India	Agriculture	0.93	[0.45 ; 1.42]	Trinidad and Tobago	Agriculture	1.24	[0.50 ; 1.98]	Burkina Faso	Wholesale, retail, hotel, restaurant	0.76	[0.07 ; 1.42]
Indonesia	Agriculture	1.22	[0.44 ; 2.00]	Tunisia	Agriculture	1.12	[0.54 ; 1.72]	Russia	Wholesale, retail, hotel, restaurant	1.08	[0.33 ; 1.84]
Iran	Agriculture	1.01	[0.46 ; 1.55]	Turkey	Agriculture	1.19	[0.57 ; 1.83]	Saudi Arabia	Wholesale, retail, hotel, restaurant	0.84	[0.01 ; 1.61]
Iraq	Agriculture	0.91	[0.44 ; 1.40]	Turkmenistan	Agriculture	0.91	[0.43 ; 1.40]	Sierra Leone	Wholesale, retail, hotel, restaurant	1.92	[0.93 ; 2.92]
Ireland	Agriculture	0.87	[0.40 ; 1.34]	UAE	Agriculture	1.24	[0.62 ; 1.88]	Singapore	Wholesale, retail, hotel, restaurant	1.33	[0.51 ; 2.14]
Israel	Agriculture	1.22	[0.56 ; 1.88]	UK	Agriculture	1.01	[0.51 ; 1.52]	Spain	Wholesale, retail, hotel, restaurant	1.21	[0.29 ; 2.80]
Italy	Agriculture	1.21	[0.58 ; 1.85]	USA	Agriculture	1.04	[0.50 ; 1.58]	Viet Nam	Wholesale, retail, hotel, restaurant	0.93	[0.17 ; 1.66]
Jamaica	Agriculture	1.23	[0.53 ; 1.94]	Uganda	Agriculture	1.04	[0.44 ; 1.64]				

*Notes:* The table reports the average loss for each sector as a % loss in GVA per capita relative to the observed production between 2001 and 2020, accounting for own, domestic and foreign heat and cold shocks. 95% confidence intervals are obtained from 1000 estimates from bootstrapping Equation (15), where indirect shocks are constructed with a time-varying production network that uses the lagged five-year average input-output interlinkages for each five-year period.

## C Additional data sources

The empirical analysis and additional empirical patterns rely on a set of complementary secondary data, which I describe below.

**Sub-national sectoral activity.** To obtain geographic variation in sectoral exposure to weather conditions within a country, I rely on the geographic distribution of sectoral activities. This information is available for 41 countries around the world, including Europe, Brazil, Canada, China, and United States. For each country, I consider the first available five years of sectoral production to construct a measure of sub-national geographic distribution of sectoral activities. I use these measure as a weight to aggregate nationally sub-national measures of weather exposure. Below, I describe each data source in detail.

I rely on Eurostat data on GVA by industry (NACE Rev. 2) at the sub-national level for 34 European countries. I use NUTS-3 level information from 31 countries (Albania, Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Malta, Netherland, Norway, Poland, Portugal, Republic of North Macedonia, Romania, Serbia, Slovakia, Slovenia, Sweden, Türkiye, Serbia, Spain) and NUTS-2 level for three other countries (Cyprus, Luxembourg, Montenegro).

State-level sectoral data for Brazil are taken from the Brazilian Institute of Geography and Statistics, which displays information since 2003 for 15 economic services: agriculture, industry (extraction industries; transformation industries; and electricity and gas), construction, trade and transportation (trade; transport, storage and communications; hotels and restaurants; and information and communication), finance (financial activities; real estate; and professional activities) and government and other services (public administration and defense; education and health; and other services). Sectoral value added data across provinces for Canada is obtained from the Statistics of Canada, which provides information since 2001 according to the NAICS standard in chained 2012 U.S. dollar. Value added data across states for China are taken from the Macro Economy Statistics Yearbook. As for value added, the dataset comprises nine sectors, including agriculture, wholesale and retail, hotels and catering and transport, storage and post. For the United States, data at the state level come from the Bureau of Economic Analysis. Information is reported since 1997 according to the NAICS standard.

**Crop prices.** Data on domestic crop prices come from the UN FAOSTAT domain on Agricultural Producer Prices and Producer Price Index (expressed in USD/Tonne), which reports official national level data received from FAO Members on annual prices their farmers obtain from 1991 to 2020 for 160 countries and for about 262 products. Agriculture Producer Prices are prices received by farmers for primary crops, live animals and livestock primary products as collected at the point of initial sale (prices paid at the farm-gate). I match crop names to *DegreeDays* measures at the crop level computed using the UN FAO EcoCrop database and the agricultural land where each crop is grown in each country as explained in Section 2.

**Crop acreage over time.** To study crop adjustments in space I use the Spatial Production Allocation Model (SPAM) (International Food Policy Research Institute, 2019, 2024). In particular, I use the first and last available year, respectively 2000 and 2020 that contain information on the physical area for 12 crops at a 5min spatial resolution. Physical area is measured in a hectare and represents the actual area where a crop is grown, not counting how often production was harvested from it. Physical area is calculated for each production system and crop, and the sum of all physical areas of the four production systems constitute the total physical area for that crop. Appendix Section D explains how I use the data.

## D Extreme heat in agriculture accounting for spatial adjustments in crop production

In this section, I empirically show the negligible consequences of accounting for spatial reallocation patterns of crop acreage. To do so, I rely on the availability of the spatial distribution of cropland in 2000 and 2020 (International Food Policy Research Institute, 2019, 2024) for 12 crops and construct extreme heat exposure at the country-level for the year 2010 as explained in Section 2.2, using the crop-specific maximum optimal growing temperature to compute extreme heat exposure and weighting by cropland coverage in the two different years.

Table D1 shows the balance test results testing for difference in means in extreme heat exposure in 2010 for each of the 12 crops in the sample ( $N$  indicates the number of countries where exposure is non-zero). I cannot reject the null hypothesis that on average the extreme heat exposure measures are statistically equivalent using different years to measure crop acreage.

Table D1. T-test for extreme heat exposure difference between

Extreme Heat by Crop (degree days in 2010)				
Crop	Crop acreage in 2000	Crop acreage in 2020	p-value	N
Barley	955.46	989.34	0.324	124
Bean	524.63	507.04	0.342	130
Cassava	86.49	89.12	0.685	85
Cotton	11.38	8.06	0.239	44
Groundnut	55.37	50.54	0.360	85
Maize	46.56	45.19	0.675	82
Rice	97.72	103.80	0.164	113
Sorghum	24.38	26.95	0.543	55
Soybean	47.47	40.14	0.198	54
Sugarbeet	236.66	232.34	0.882	65
Sugarcane	10.49	13.64	0.475	19
Wheat	680.95	694.27	0.506	137

## E Local economic response to local weather shocks

The majority of the reduced-form climate impact studies motivates econometric specifications with a partial equilibrium model of production where the economy consists of  $N$  regions (Burke et al., 2015; Dell et al., 2012). To match the theoretical framework with the empirical approach, I describe here an economy consisting of  $N$  regions indexed by  $n \in \{1, \dots, N\}$  (or  $m$ ), each populated with  $J$  sectors indexed by  $j \in \{1, \dots, J\}$  (or  $k$ ). Production possibilities for sector  $j$  in region  $n$  are described by a constant returns-to-scale Cobb-Douglas technology whose inputs are capital and labor:

$$Y_{nt}^j = \mathcal{Z}_{nt}^j (K_n^j)^\lambda (L_{nt}^j)^{1-\lambda} \quad (\text{E.1})$$

where total factor productivity  $\mathcal{Z}_{nt}^j$  is a product of three components: (i) a region-sector specific component  $\bar{z}_n^j$ , (ii) a sector-year specific component  $\tilde{z}_t^j$  (capturing for instance sector-specific global technological innovations), (iii) an exponential vector of temperature effects  $T_{nt}^j$  with sector-specific elasticities  $\beta_j$ . Taking the log and rearranging in terms of output per worker, one obtains:

$$\log \frac{Y_{nt}^j}{L_{nt}^j} = \frac{1}{1-\lambda} [\log \bar{z}_n^j + \log \tilde{z}_t^j + f(T_{nt}^j, \beta_j)] + \frac{\lambda}{1-\lambda} \log \left( \frac{K_n^j}{Y_{nt}^j} \right) \quad (\text{E.2})$$

Traditionally, the reduced-form effect of temperature  $\hat{\beta}$  on output per capita is estimated under the assumption that the residual variation in temperature is not correlated with the error term once absorbed unit- and time-specific unobserved heterogeneity.<sup>28</sup>

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<sup>28</sup>Identifying  $\hat{\beta}$  also requires that the unit-specific capital-to-output ratio is constant.

## F Reduced-form GDP-temperature regressions with temperature in first-difference

Kahn et al. (2021) review the three main approaches that study the climate-output relationship in reduced form in the literature (Dell et al., 2012; Burke et al., 2015; Kalkuhl and Wenz, 2020), highlighting the restrictive assumptions that each of these models requires to study the effect of temperature. In an attempt to deal with the non-stationarity issue of trended temperatures, a recently often implemented alternative is to use changes in temperature levels (Akyapi et al., 2024; Newell et al., 2021; Letta and Tol, 2019). Nevertheless, this measure does not inform how atypical the weather realization is with respect to individual expectations since it neglects any information provided by the levels and assumes that individuals rationally update their beliefs annually, under an implicit instantaneous model of adaptation. This is because the first difference in temperature effectively removes any information on the temperature levels. Therefore, a change in 2°C temperature will have the same effect regardless of the temperature level. A workaround to this shortcoming proposed by Kalkuhl and Wenz (2020) is to interact the change in temperature  $\Delta T_{nt}$  with temperature levels  $T_{nt}$ , which, however, re-introduces trends in the regression, therefore biasing the coefficient on the interaction term.

Here, I discuss another approach implemented in the literature which is to include higher-order polynomials of first-differenced temperature as main regressors (as in Ortiz-Bobea et al. (2021)). This approach allows for non-linear effect of temperature changes while dealing with the non-stationarity issue of trended temperatures. Without loss of generality, the estimating equation considering only a second-order polynomial of differenced temperature is written as

$$\Delta y_{nt} = \alpha_n + \delta_t + \lambda \Delta T_{nt} + \psi \Delta [T_{nt}^2] + \varepsilon_{nt} \quad (\text{F.1})$$

which uses the growth rate of log-differences of real GDP per capita of country  $n$  in year  $t$  as the dependent variable, the main regressors are the linear and quadratic differenced temperature, where the latter term is the change in temperature-squared (different from the squared change in temperature),  $\alpha_n$  is the country-specific fixed effect and  $\delta_t$  is the time-specific fixed effect. Motivated by empirical evidence on the temperatures being trended, I assume that

$$T_{nt} = a_{T_n} + b_{T_n}t + \nu_{T_{nt}} \quad (\text{F.2})$$

where, in line with historical evidence,  $b_{T_n} > 0$ , and  $\mathbb{E}(\nu_{T_{n;t}}) = 0$  and  $\mathbb{E}(\nu_{T_{n;t}}^2) = \sigma_{T_n}^2$ . Substituting Equation (F.2) in Equation (F.1) and taking expectations yields

$$\mathbb{E}(\Delta y_{nt}) = \mathbb{E}(\delta_t) + \alpha_n + b_{T_n}[\lambda + 2\psi a_{T_n}] + 2\psi b_{T_n}^2 t \quad (\text{F.3})$$

To ensure that  $\mathbb{E}(\Delta y_{nt})$  is not trended, there are some restrictions to impose. First, since  $\delta_t$  is unobserved, one can set  $\mathbb{E}(\delta_t) = 0$  (Kahn et al., 2021), and then require that  $2\psi b_{T_n}^2 t = 0$  for all  $n$ . Therefore, this approach does not resolve the trend problem around the output growth-climate specifications, introducing a trend in the mean output growth, which is not supported empirically. An alternative approach would be to include region-year  $rt$  fixed effects in Equation (F.1), such that it becomes

$$\Delta y_{nrt} = \alpha_{nr} + \delta_{rt} + \lambda \Delta T_{nrt} + \psi \Delta [T_{nrt}^2] + \varepsilon_{nrt} \quad (\text{F.4})$$

with  $T_{nrt} = a_{T_{n,r}} + b_{T_{n,r}}t + \nu_{T_{n;rt}}$ , where the shock  $\nu_{T_{n;rt}}$  for country  $n$  in region  $r$  in year  $t$  has zero mean and finite variance. Taking expectations as above, to have that  $\mathbb{E}(\Delta y_{nrt})$  is stationary, one would require no trend in temperature  $b_{T_{n,r}} = 0$ , or exact cancellation of quadratic trends in temperature at the regional level with the region-year fixed effects, i.e.  $\delta_{rt} + \psi \bar{b}_{Tr}^2 t = 0$ , for all  $r$ , where  $\bar{b}_{Tr}^2 = \frac{1}{n} \sum_{n=1}^{n_r} b_{T_{n,r}}^2$ . The use of this fixed effects, besides not necessarily tackling this issue, comes at the cost of drastically increasing the signal-to-noise ratio in the remaining variation in weather (Fisher et al., 2012).

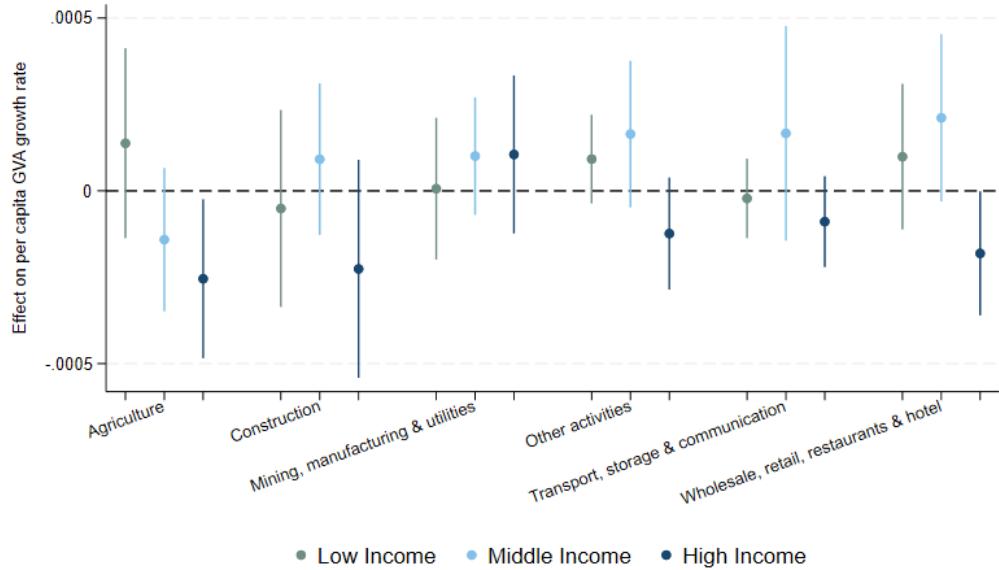
## G Heterogeneous effects of local extreme heat across adaptation potential

The impact of extreme heat may differ as a function of factors that influence the adaptation potential of countries, including income and climate. First, richer countries have less binding budget constraints and wider adaptation capacity to cope with weather fluctuations. Second, a hotter climate may differentially incentivize adaptive investments as returns to adaptation would be relatively higher for more frequent temperature changes. I estimate heterogeneous temperature-value added relationships by interacting the vector of temperature and precipitation coefficients with income and climate terciles from long-run average income and temperature (Appendix Figure A7 shows the sample composition) (Carleton et al., 2022).

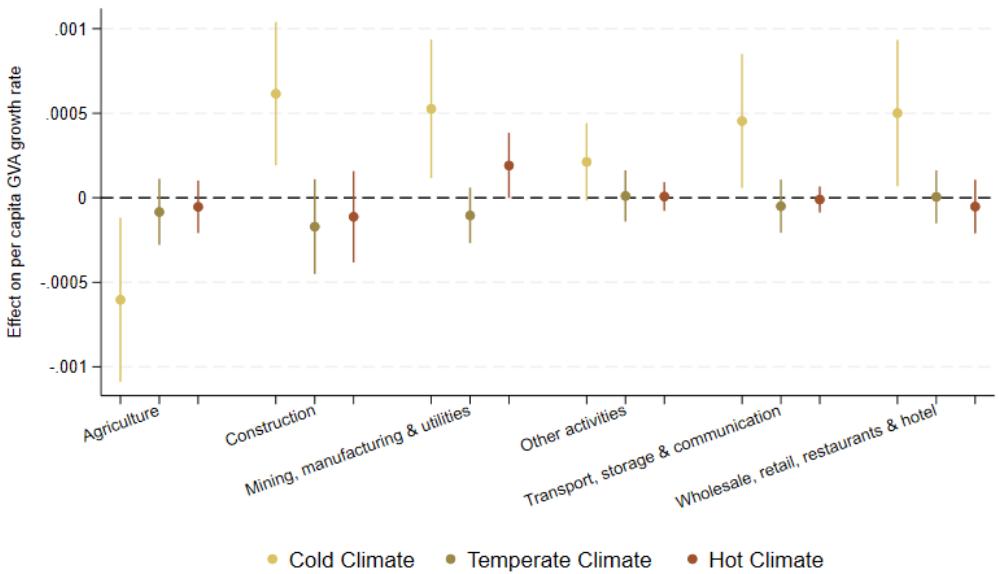
Appendix Figure G1 graphically presents the coefficient associated with heat shocks interacted with income and climate terciles. Starting from heterogeneity by income, agricultural value added becomes more sensitive to extreme heat as income rises. This result, perhaps surprising at first, could be explained by differences in improved technologies, infrastructure, or insurance that influence producer strategies (Hultgren et al., 2022). There is not substantial heterogeneity in the response of other sectors to extreme heat conditions by income, with the estimate coefficients that are never statistically distinguishable from zero. Similarly, I document that countries adapt to higher temperatures across crops such that agricultural value added is sheltered from the impact of extreme heat in temperate and hot countries and negatively affected in cold countries. Conversely, there is considerable heterogeneity in the sectoral response to extreme heat by climate. In particular, the manufacturing and service sectors benefit from hotter conditions in cold countries, whereas these sectors do not respond in hot and temperate countries.

Figure G1. Income and climate heterogeneity in GVA response to extreme heat

(a) Income terciles



(b) Climate terciles



*Notes:* The figure shows the coefficients associated with the response of sectoral GVA per capita growth rate to extreme heat by income using long-run average per capita GDP and average temperature. All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year fixed effects and controlling for a second order polynomial in precipitation. Bins represent the 95% confidence intervals with standard errors clustered at the country-level.

## H Quantifying the cost of the propagation of recent warming

To understand the differential cost of propagation of recent warming, I use the estimates of the effect of local abnormal days and domestic and foreign agriculture extreme heat to simulate how much slower or faster each sector would have grown annually over the 2001-2020 period, compared to a scenario under which daily temperature evolves linearly based on its historical trend of 1970-2000. To do so, I estimate country-specific regressions of the type  $T_{dmnt} = \alpha_n + \lambda_{dm} + \beta_n t + \varepsilon_{dnct}$  on the 1970-2000 sample, where  $T_{dmct}$  is the average temperature in day  $d$  in month  $m$  in year  $t$  in country  $n$ . I obtain country-specific historical trends in daily temperature exploiting within day-month variation between 1970 and 2000 and use  $\hat{\beta}_n$  to construct a counterfactual daily temperature  $\tilde{T}_{dmnt}$  between 2001 and 2020 that is then used to compute the counterfactual extreme heat measure. I assume that the trend is linear and that such a trend does not affect the volatility of temperature shocks, which most likely results in an underestimation of the adverse effects of abnormal temperatures.

I average these effects over the 2001-2020 period to obtain a sector-specific relative measure of estimated losses in value added. I finally compare the estimated losses in value added omitting and accounting for the transmission of shocks across countries through trade interlinkages. This computation does not necessarily represent the differential impact of recent anthropogenic warming accounting for network shocks and is instead agnostic to the cause of recent warming.

First, I compute the annual cost/benefit of annual warming in 2001-2020 compared to a counterfactual temperature which evolves linearly from the estimated trend over the period 1970-2000, and distinguish between omitting and accounting for extreme heat in agriculture both domestic and abroad:

$$g_{jnt}^{local} = \hat{\beta}_j (ExtremeHeat_{nt} - \widetilde{ExtremeHeat}_{nt}) \quad (G.1)$$

$$\begin{aligned} g_{jnt}^{global} = & (\hat{\beta}_j ExtremeHeat_{nt} + \sum_{\ell \in \{D;F\}} \hat{\gamma}_{j,\ell} NetworkShock_{jnt}^{Dn,\ell}) \\ & - (\hat{\beta}_j \widetilde{ExtremeHeat}_{nt} + \sum_{\ell \in \{D;F\}} \hat{\gamma}_{j,\ell} \widetilde{NetworkShock}_{jnt}^{Dn,\ell}) \end{aligned} \quad (G.2)$$

where  $ExtremeHeat_{nt}$  is the observed extreme heat measure constructed in Equation (1),  $\widetilde{ExtremeHeat}_{nt}$  is the counterfactual predicted extreme heat measure had the 1970-

2000 temperature mean evolved linearly, and similarly for *NetworkShock*, which is constructed as detailed in Equations (5) and (6), and the counterfactual predicted  $\widetilde{NetworkShock}$  is constructed using the extreme heat measures using counterfactual temperatures that evolved linearly from the 1970-2000 trend.  $\widehat{\beta}_j$ 's are the sector-specific estimates for the effect of local extreme heat, and  $\widehat{\gamma}_{j,\ell}$  are the sector-specific domestic and foreign semi-elasticities to downstream agricultural extreme heat exposure on the sectoral growth rate obtained from bootstrapping 1000 times the underlying panel estimates from Equation (15). I compute sector  $j$ 's counterfactual value added levels in year  $t$  omitting and accounting for indirect shocks

$$\hat{Y}_{jnt}^p = Y_{ict-1} + y_{jnt} + g_{jnt}^p \quad (\text{G.3})$$

where hatted term indicates a counterfactual,  $Y$  is the (log) GVA per capita,  $y$  is the observed growth rate and  $p \in \{\text{local}, \text{global}\}$ . I can then compute the average relative loss in GVA for sector  $j$  in country  $n$  over the 2001-2020 period as

$$\% \overline{\text{LOSS}}_{jn}^p = \frac{1}{T} \sum_{t=2001}^{2020} \frac{e^{\hat{Y}_{jnt}^p} - e^{Y_{jnt}}}{e^{Y_{jnt}}} \quad (\text{G.4})$$

to obtain a measure of the average cost of recent warming at the sector level omitting and accounting for the propagation of heat shocks (reported in Figure ??).

The aggregated average loss in GVA across sectors for country  $n$  is

$$\% \overline{\text{LOSS}}_n^p = \sum_j^J \% \lambda_{jn} \overline{\text{LOSS}}_{jn}^p \quad (\text{G.5})$$

where  $\lambda_{jn}$  is the baseline five-year average share of total GVA of sector  $j$  in country  $n$  between 1996 and 2000. The country-level losses omitting and accounting for indirect heat shocks are reported in Figure 7.