

# 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 weather fluctuations, 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 of 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 a critical 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 of 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 of 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 Käenzig, 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 D.

### 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 C2.

<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 C1 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 E, 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. The data set has information plants for agricultural products that can be broadly categorised into foods (fruits, cereal, vegetables), nuts, spices, fibers.

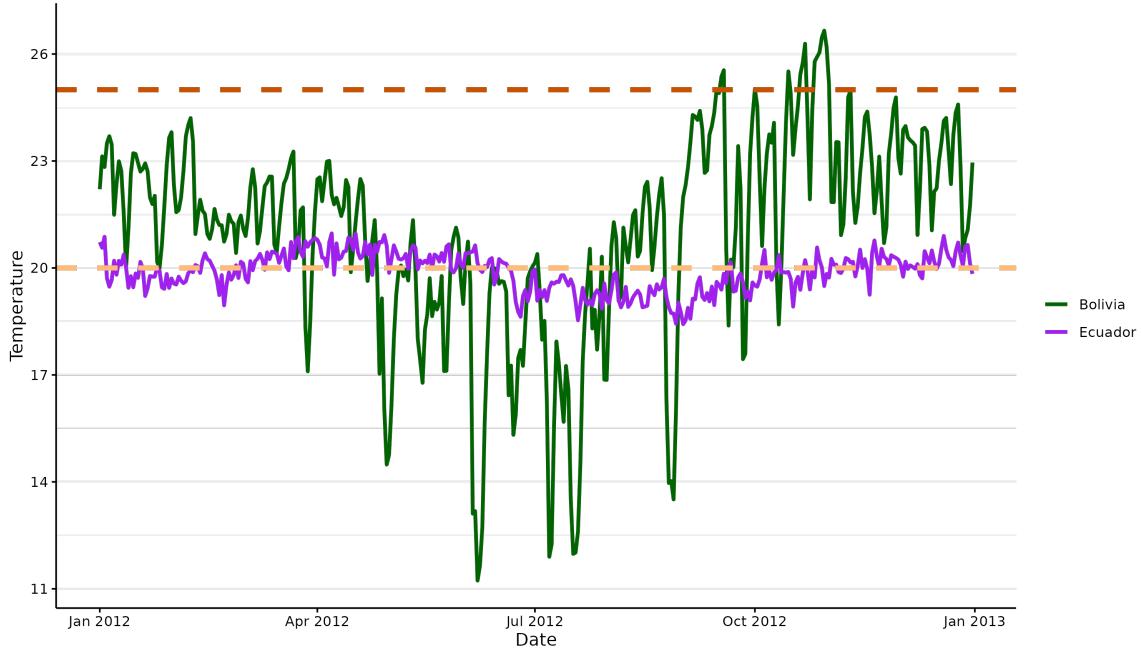
I use the crop-specific upper temperature threshold for optimal growing to compute the cumulative degree days in a year that temperatures exceed a threshold that is damaging to the plant growth. Appendix Figure A1 plots the distribution of optimal maximum growing temperatures for the 118 plants in my 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. Figure 1 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 (e.g., agave, 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, and the paper and packaging industry.

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

Figure 1. Daily temperature in agricultural land growing quinoa in Ecuador and Bolivia



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

Using the geographic and temperature sensitivity information for 118 crops, I expand on previous US-specific (Mosconci 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:

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

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 A2 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 G). 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 D provides additional details on the data sources).<sup>13</sup> Appendix Figure A3 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 A4). 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 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.

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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.

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

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

where  $T_{jnt}$  is temperature in sector  $j$  in country  $n$  in year  $t$ ,  $\bar{T}_{jnt}$  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.

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 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

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<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 C3 maps the 26 EORA sectors to the six sectors described in Section 2.1.

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

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 A5 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.

Appendix Figure A6 shows the empirical distribution of the first order outdegrees of agriculture across sectors by five-year period. The distributions are noticeably skewed, with heavy right tails. These skewed distributions are indicative of the presence of agricultural commodities that are general purpose inputs used by many other sectors and of the presence of major agricultural suppliers to sectors that produce the general purpose inputs. In particular, I return to the latter points when studying counterfactuals in the propagation of shocks in Section 7. The distributions, however, do not considerably vary over time, suggesting that linkages have been relatively stable over time, with the average varying between 0.38 in 2000 and 2005 and 0.52 in 2015.

**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 ( $Dn, Fgn$ ), 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)):

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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.

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

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

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 of 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 level to account for spatial correlation of the error terms across sectors in the same 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 the estimates (Dell et al., 2014).

over time.

Figure 2 shows the sector-specific coefficients associated with local extreme heat conditions on growth rate of 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 of agriculture value added by 0.76% 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 H. 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 B3). I also estimate the same specification using the alternative measure of temperature shocks from Equation (2). In this case, too, agriculture is the only sector affected by temperature shocks among the six in my sample (Appendix Figure B4). Finally, I explore whether extreme heat has any long-lasting impact on growth rate of value added by estimating a dynamic event study but only document contemporaneous impacts (Appendix Figure B5).

This empirical pattern resonates with previous micro (Nath, 2020) and macro (Dell et al., 2012; Acevedo et al., 2020; Nath et al., 2024) findings, 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

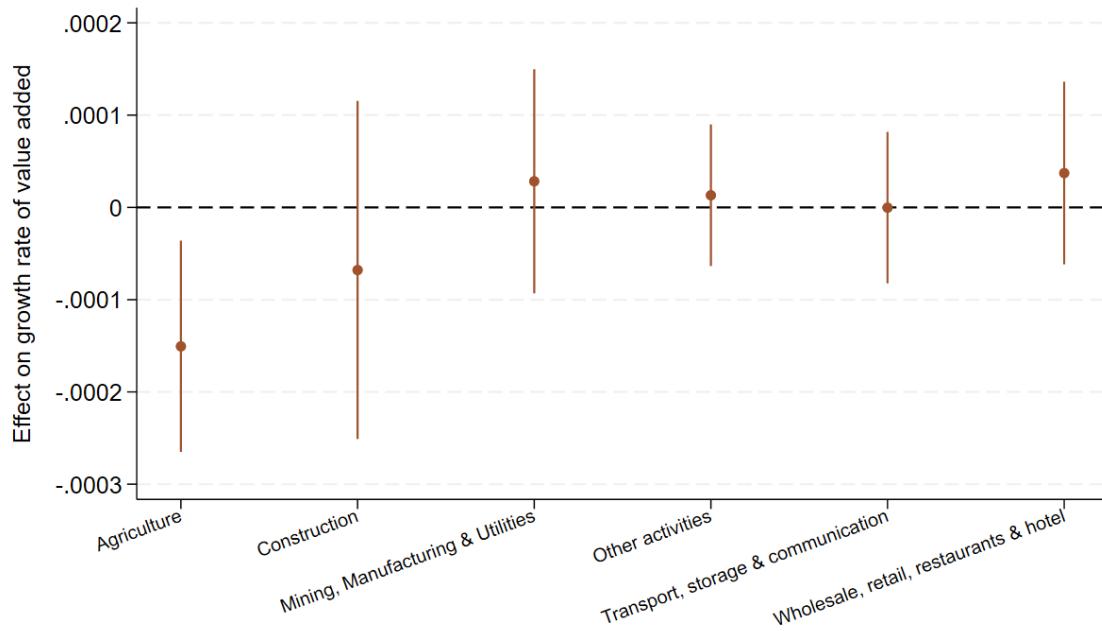
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<sup>18</sup>Results are robust to estimating the baseline equation in a balanced panel, excluding large countries (i.e., Brazil, China, India, Russia, US), controlling for lagged growth, and to alternative specifications (linear and quadratic country-specific trends, sub-region-year fixed effects) (Appendix Figure B1). 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 B2).

<sup>19</sup>Appendix Figure B6 plots the response of growth rate of agricultural value added per capita to changes in terciles or quintiles of the extreme heat distribution.

rather than consumption services, as provided by the retail sector (Casey et al., 2024). Overall, this fact indicates the importance to account for sectoral heterogeneity when estimating or calibrating damage functions in climate impact studies. Previous work has started documenting the heterogeneous effects of temperature on output across locations depending on their sectoral composition (Nath, 2020; Cruz, 2021), however, these often reduce to contrasting agriculture to the rest of the economy, masking further climate and income heterogeneity documented in Appendix Section H. Yet, most calibrated studies do not incorporate sectoral heterogeneity in their calibrated models (Cruz and Rossi-Hansberg, 2021; Bilal and Rossi-Hansberg, 2023).

Figure 2. Effect on local extreme heat on growth rate of sectoral value added per capita

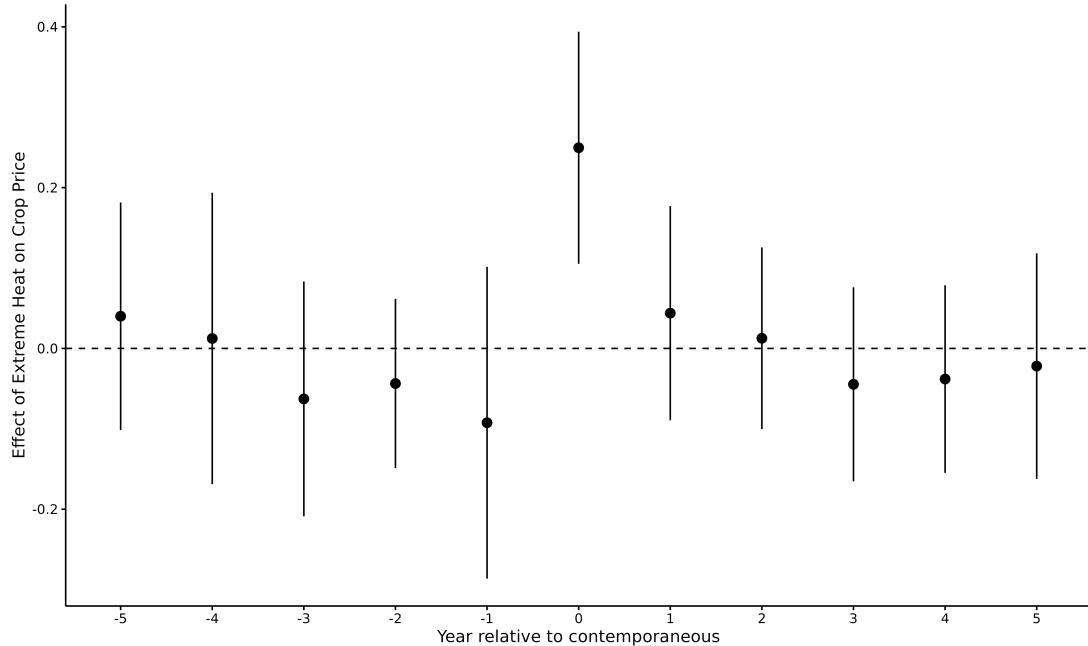


*Notes:* The figure shows the regression estimates for the country-average number of degree days in the extreme heat exposure for the agricultural sector (constructed as in Equation (1)) and country-sector average number of days above the 95<sup>th</sup> percentile of the daily distribution in temperature. 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 3 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 C4 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 3. 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 D 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:

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

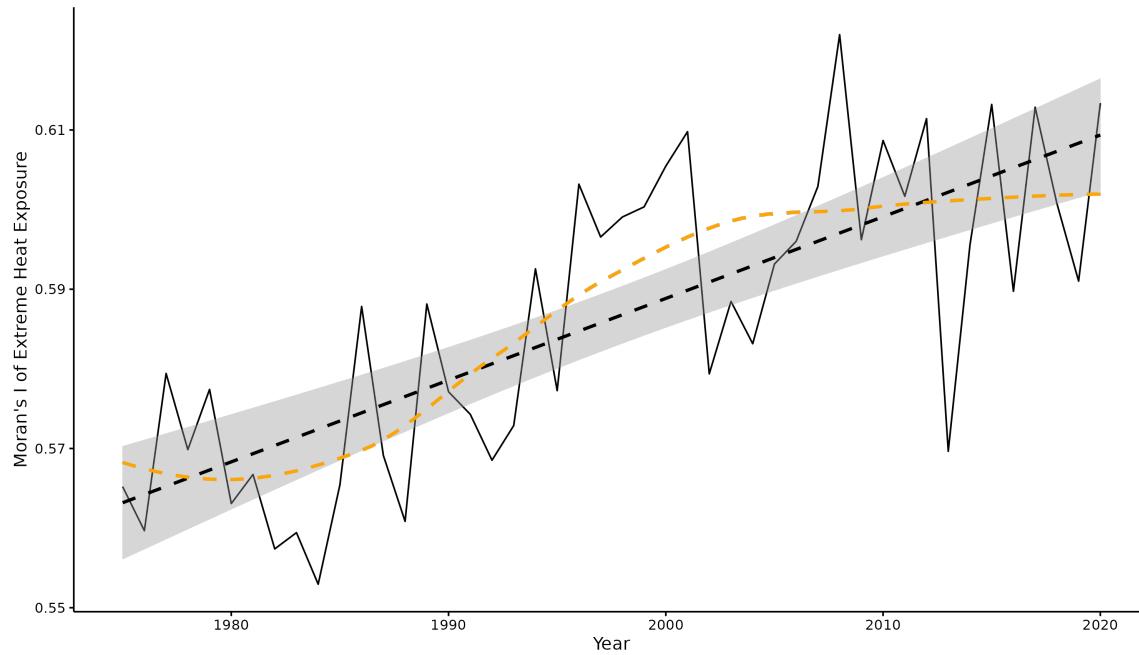
where  $N$  is the number of countries,  $a_{nm} = a_{mn}$  is a (symmetric) spatial weight that depends on the distance between countries  $n$  and  $m$ , and  $\bar{EH}_t$  is the world average extreme heat exposure in year  $t$  across countries. Moran's I values range from -1 to 1. A value equal 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 4 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 sce-

narios 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 climatic 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 4. 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 (4) 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 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 5 reports the sector-location specific coefficients associated with extreme heat

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<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.

<sup>21</sup>In a perfectly competitive efficient closed-economy with Cobb-Douglas preferences and technologies, a sector's Dornai 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 (Baqae and Farhi, 2024).

<sup>22</sup>Sector-specific density distribution of the downstream sectoral linkages with agriculture are reported in Appendix Figure B7.

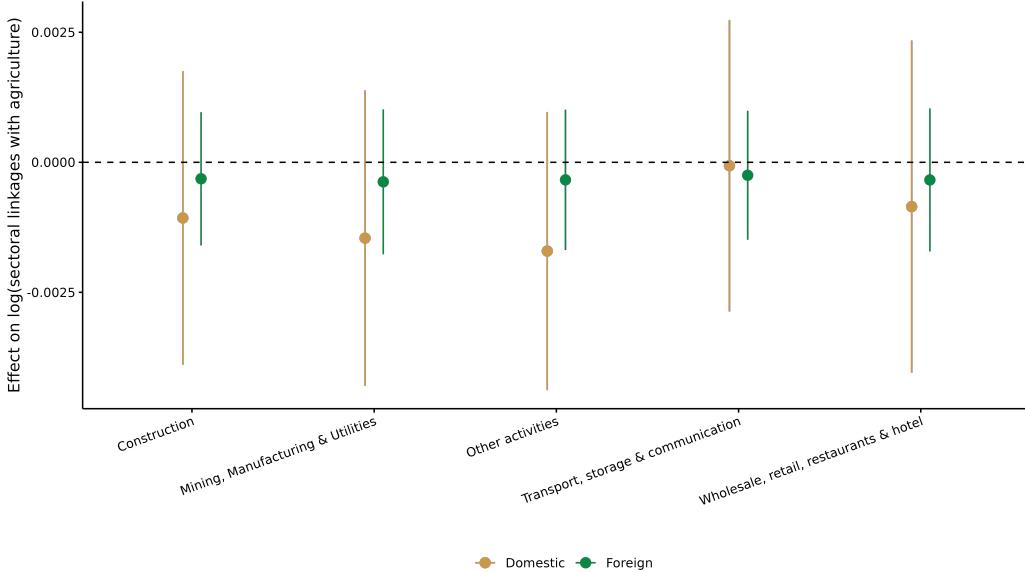
on the sectoral interlinkages with agriculture. The ten coefficients on domestic and foreign agricultural heat for five downstream sectors are small and not statistically significant at any conventional level. This pattern suggests that sectors do not endogenously respond to extreme heat in agriculture by altering their expenditure shares, providing suggestive 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 H), 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 B8). 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

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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 5. 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.

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 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 F, 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 ( $\omega_n^j + \sum_{j,m}^{J,N} \omega_{nm}^{jk} = 1$ ), 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 representative 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

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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 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.

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:

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

Using Equation (F.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  $\mathbf{L} = (\mathbf{I} - \Omega)^{-1}$ , 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.

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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.

## 5 Empirical approach

In this section, I use the data described in Section 2, the empirical facts in Section 3, 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 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 local 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.

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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.

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. 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 A2. 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.

There are a number of advantages of using Equation (15) for empirical analyses of the aggregate and differential effects of heat shocks. First, this specification links in a transparent way the shock’s impact in general equilibrium to exposure measures and reduced-form effects (direct and indirect). The model-consistent empirical content of my approach is a significant departure from the traditional approach of computing the shock’s general equilibrium impacts using calibrated spatial models in quantitative frameworks with calibrated spatial links (Redding and Rossi-Hansberg, 2017). Second, my approach remains valid under a flexible structure of spatial links and idiosyncratic shocks. This flexibility is in contrast with previous approaches, e.g., the “market access” (Donaldson and Hornbeck, 2016), which is an endogenous variable obtained from solving the general equilibrium model under restrictive assumptions on the spatial links in the economy and that requires observing all trade costs before and after the shock. Last, my empirical strategy is distinct from an indirect inference procedure that calibrates parameters to match arbitrarily chosen moments generated in the model with simulated shocks. This procedure may yield biased estimates of the reduced-form semi-elasticities if the chosen moments are not closely related to the model-implied relationship. In contrast, my approach is not subject to this concern because it is derived from the model’s predictions for the impact of the observed shock.

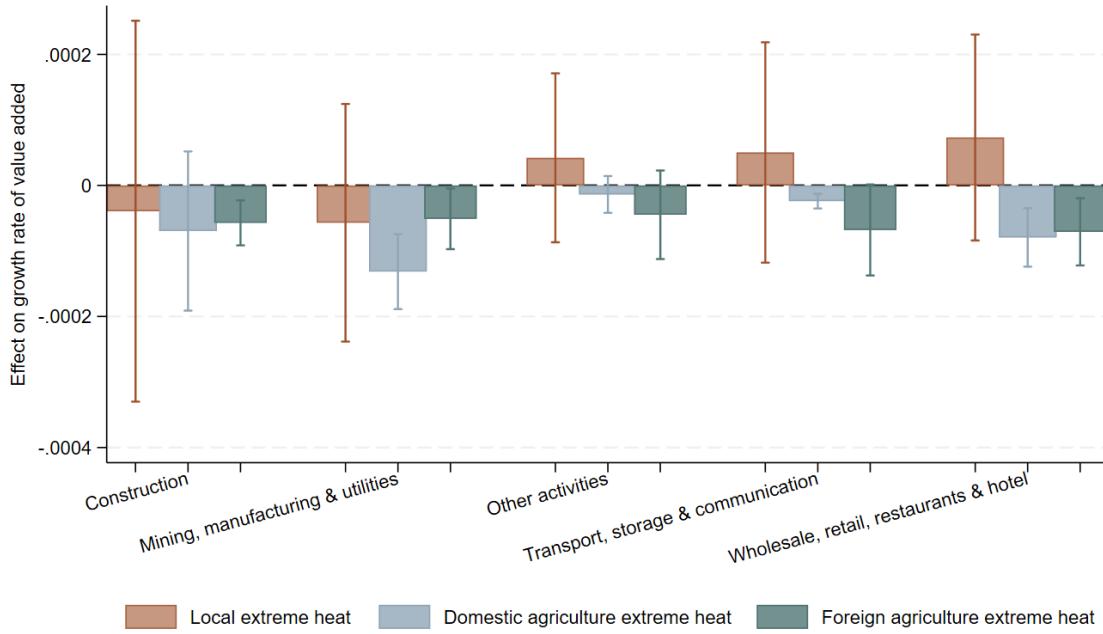
## 6 Extreme heat across sectors and space

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 6 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 of manufacturing value added per capita by 0.48% (0.19%). Similarly, domestic (foreign) agriculture reduces growth rate of wholesale, retail, restaurants and hotels value added per capita by 0.26% (0.23%).

Figure 6. Local and downstream agriculture extreme heat on sectoral value added



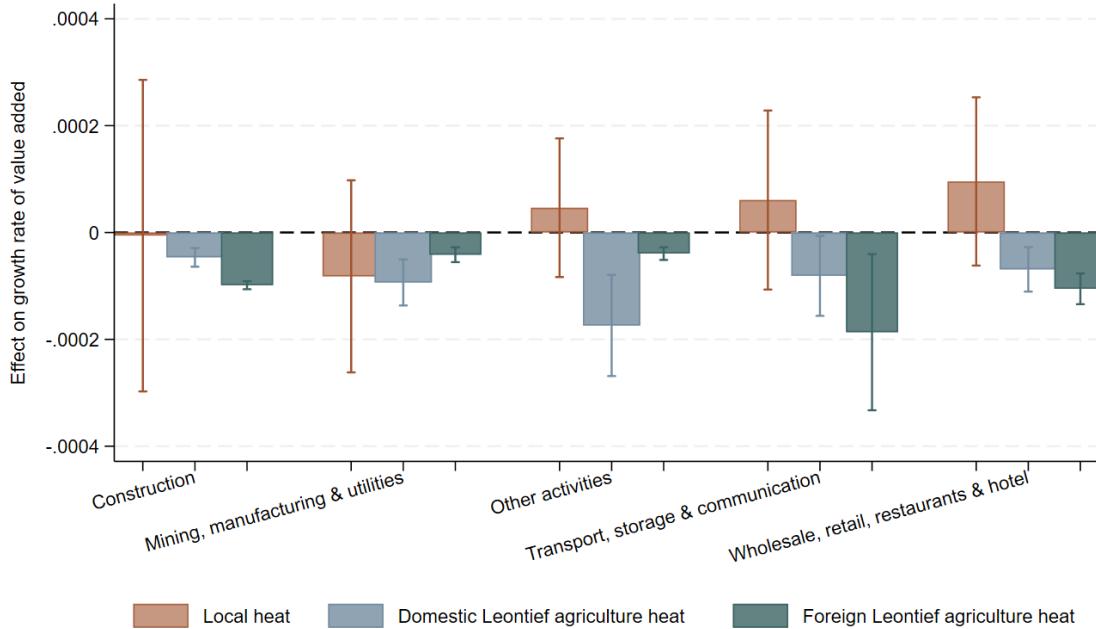
*Notes:* Bars represent the sector-specific coefficients associated with local shocks and domestic and foreign downstream shocks, using the extreme heat exposure measure constructed as in Equation (1). Domestic and foreign downstream shocks are constructed respectively as in Equations (5) and (6). The 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.

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 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 0.21% (0.18%). 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 of sectoral value added per capita, the average effect across sector is 0.03%.

**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 7. By taking into account the full direct and indirect linkages of downstream sectors with agriculture, all sectors are negatively affected by both domestic and foreign heat shocks. The effect of extreme heat in agriculture percolates downstream to final goods and service sectors such as other activities and transport, storage, and communication. The effects are also larger in magnitude than first-degree input linkages. At the mean, the effect of one degree day exposure in domestic (foreign) agriculture reduces growth rate of manufacturing value added per capita by 0.34% (0.15%). Similarly, domestic

(foreign) agriculture reduces growth rate of wholesale, retail, restaurants and hotels value added per capita by 0.22% (0.35%). 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 0.28% (0.27%).

Figure 7. 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 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.

**Propagation over time.** So far, the estimates indicate that extreme heat in agriculture propagates across sectors and countries with a contemporaneous short-run negative effect on downstream sectors. It might be, however, that the effects of extreme heat on agricultural production may take up one year to manifest in downstream sectors, particularly in those furthest away in the supply chain from direct agricultural inputs. This delayed impact is attributable to the time required for agricultural production to respond to ex-

treme heat, as well as the staggered nature of economic activities within supply chains. In further downstream sectors, the impact of extreme heat in a given year may only emerge in subsequent years due to the lag in the processing and distribution of agricultural goods. Additionally, the structure of the crop calendar complicates the alignment of agricultural impacts with the calendar year, as growing seasons can extend across two years. As a result, the full negative effect of extreme heat on agricultural output may only become evident at the conclusion of the growing season, which may not coincide with the timing of value added measurements in national accounts. An alternative hypothesis, however, is that if agricultural production rebounds the year following an extreme heat shock, there might be no negative effect on downstream sectors in the following year. This dynamic effect could be further reinforced by the availability of agricultural inventories, which allow agricultural producers to smooth shocks. To empirically test which of these two mechanisms dominate, I estimate the baseline regression including a one-year lagged measure of local, domestic, and foreign shocks. Appendix Figure B9 displays the six coefficients on contemporaneous and lagged direct and indirect heat impacts for each of the five downstream sectors. Local extreme heat is never statistically significant, however, an interesting pattern emerges for indirect extreme heat. Both domestic and foreign extreme heat in agriculture have a negative and statistically significant impact on for most sectors, with the effect larger in magnitude on lagged shocks, in particular for sectors further downstream.

**Robustness.** I consider a number of robustness and placebo tests to ascertain the stability and validity of my findings. I conduct these exercises for both first-degree linkages and for the Leontief linkages. First, I estimate the baseline specification including country-specific quadratic time trends and country-sector specific quadratic time trends, respectively. These two additional controls flexibly account for country-specific and country-sector time-trending covariates allowing these covariates to influence different countries (demographic trends) or country-sectors in different ways (e.g., country-specific trends in agricultural innovations, manufacturing input use, sectoral labor supply trends). Since the outcome variable is the derivative of value added, quadratic country-(sector) specific time trends permit growth rates to evolve nonlinearly over time, allowing to account for country-(sector) specific cubic polynomials in value added levels. Secondly, the exclusion of certain countries does not substantially affect my baseline estimate. A potential concern is that certain countries may overinfluence my estimates and thus drive my findings. But using a balanced sector-country sample, excluding certain large countries (China, India, Russia,

United States), the 10% coldest or hottest countries does not substantially alter my baseline findings (Appendix Figures B10 and B11).

**Upstream propagation.** As a test for the validity of the Cobb-Douglas production function assumed in Section 4, I construct a measure of upstream exposure to heat shocks. Since extreme heat is a supply-side shock that reduces agricultural productivity, its output and increases its prices and thus percolates to downstream sector as a input shock, the theory predicts that the effect should only manifest downstream. I empirically validate this hypothesis testing whether extreme heat propagates upstream. Appendix Figures B12 and B13 show that agriculture extreme heat does not propagate upstream, as demand-side shocks would, but only downstream, confirming that extreme heat in agriculture behaves as a supply-side productivity shock. The 12 coefficients on the effect of downstream agriculture propagating upstream are very close to zero in magnitude and not statistically significant.

## 7 Counterfactuals: Economic cost of warming

This section uses the estimated semi-elasticities to demonstrate how to incorporate spatial and sectoral linkages via intermediate inputs into quantification exercises of the impact of global warming. In particular, I quantify the role of input linkages across sectors and space in amplifying the welfare effects of global warming through two counterfactual exercises. Since the panel estimates obtained from the estimation refer to short-run elasticities in response to deviations from extreme heat, my counterfactual exercises focus on a retrospective quantification of the economic cost of recent warming, instead of a projection of future climate damages. For this reason, I abstain from applying estimates based on past exogenous short-run changes in extreme heat to future long-term output changes due to climate change which would require accounting for possible adaptations in anticipation of future climate change (Carleton et al., 2024). These exercises are therefore based on the empirical observation of input linkages across sectors and countries and on the panel estimates of my analysis. The final objective is to show how the economic consequences of spatial and sectoral input linkages, estimated using quasi-experimental variation, can be incorporated into short-run elasticities to weather to help bridge the gap between quasi-experimental approaches and structural models of climate impacts (Costinot et al., 2016; Cruz and Rossi-Hansberg, 2021).

Because these exercises have the sole purpose of capturing sectoral and spatial linkages

through intermediate inputs, I emphasize that it omits other potential general-equilibrium effects of climate change. First, I fix the spatial patterns of comparative advantage within plant species at recent historical values. This implies that I do not take into account other trends such as technological change (to the extent that this is not embedded in the unobserved heterogeneity captured by my set of fixed effects or quadratic country-sector specific time trends). Second, I do not consider other potential adjustments such across crops within the agricultural sector (although Appendix Section E shows that I cannot reject the null hypothesis that agricultural production has not been adapting significantly by altering agricultural production across space). My estimates, however, account for sectoral reallocation to the extent that sectoral value added losses are aggregated to compute domestic value added weighted by their respective shares.

## 7.1 Economic losses due to recent warming

In the first counterfactual, I use the estimated semi-elasticities and the data to estimate the impact of recent historical warming on the level and distribution of value added across countries. Using the panel estimates of the effect of local extreme heat in agriculture documented in Section 3 and the panel estimates of the effect that domestic and foreign agriculture extreme heat on downstream sectors in Section 6, I simulate how much slower or faster each sector in each country would have growing in each year over the 2001-2020 period, had the extreme heat exposure in agriculture stayed at its 1975-2000 average, and cumulate these effects over the period to compute the increase or decrease in value added (see Appendix Section I for additional details). This analysis provides estimates that are agnostic to the cause of recent warming and does not necessarily represent the impact of recent anthropogenic warming.

I begin by computing the effect of recent warming on agriculture value added. Compared to a counterfactual where local extreme heat had stayed constant to its average in the twentieth century, recent warming has a negative impact on agriculture value added around the world (the only countries that marginally benefit from changes in temperature with respect to 1974-2000 are Canada and Ireland). In particular, larger losses are concentrated in Northern Africa, Middle East and South-East Asia. Figure 8 shows the distribution of damages across countries (top map). On average, recent warming in agriculture is responsible for a 0.035% loss in total value added across countries.

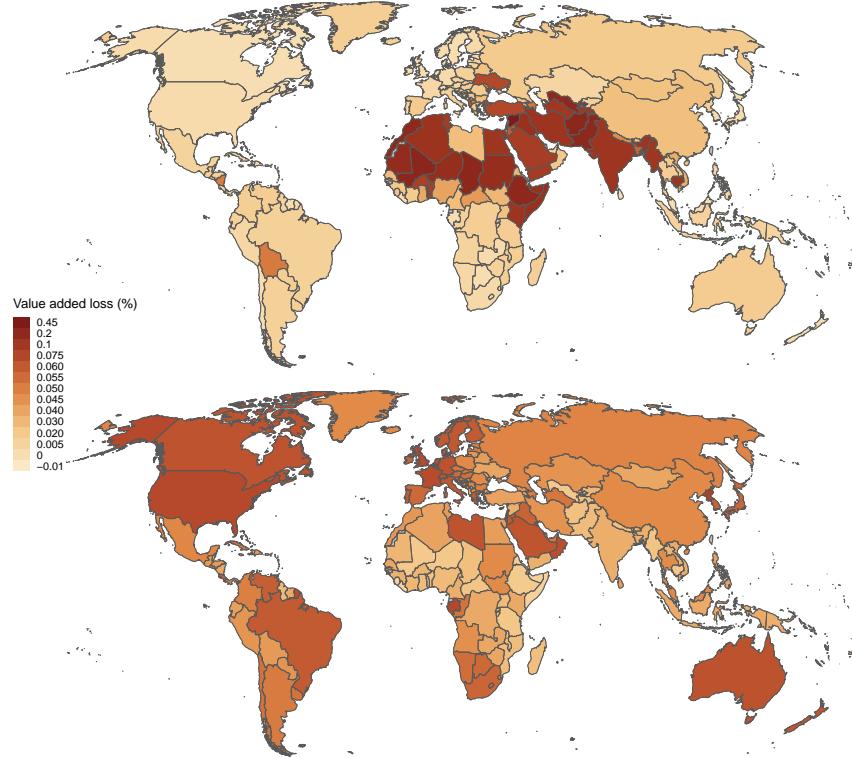
I then turn to the question of whether other sectors and countries that use intermediate inputs from agriculture have suffered from the increase in extreme heat exposure that agricultural commodities have experienced recently. To do so, I use the estimated semi-elasticities from Equation (15) that account for all the Leontief linkages between agriculture and downstream sectors and repeat the same exercise. I simulate how much slower or faster each sectors in each country would have grown in each year over the 2000-2020 period had domestic *and* foreign extreme heat exposure in agriculture stayed at its 1975-2000 average. Note that the semi-elasticities account for endogenous adjustments in trade patterns as observed in the data since the input linkages in Equations 3 are averaged over five years. To the extent that countries have been able to reduce their exposure to extreme heat from agriculture upstream sectors, this would be reflected in the data and in the counterfactuals that I run. Similarly, the estimates also account for observed sectoral reallocation. By weighing sector-specific value added losses by the country-specific share of each sector in total value added, if larger damages are experienced in sectors that only have a small or negligible share in total domestic production, this would be reflected in total national losses.

The bottom map in Figure 8 shows the global distribution of losses (in % of total value added) on downstream sectors accounting for domestic and foreign exposure to extreme heat in agriculture. On average across countries, recent warming in agriculture is responsible for a 0.046% loss in total value added. This result indicates that accounting for input linkages, the cost of recent warming is amplified by approximately 31%. Interestingly, the spatial distribution of damages across countries is much more homogeneous, and Europe, North America and Latin America incur larger losses.

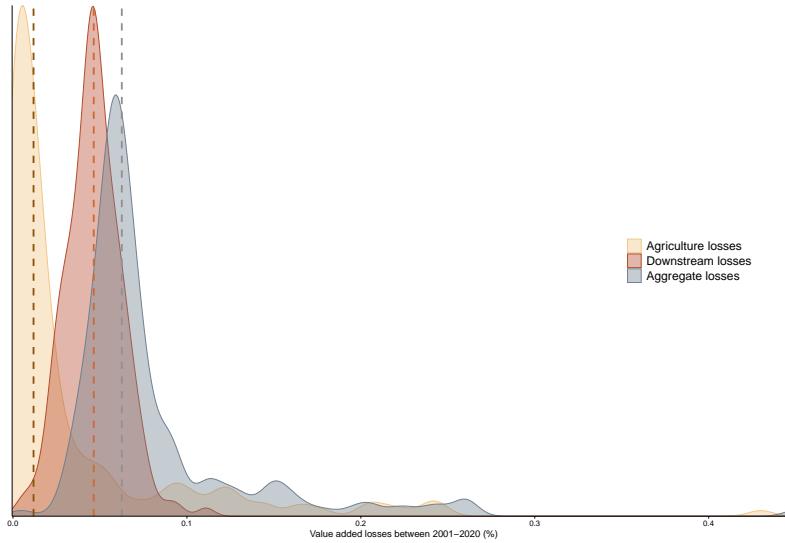
This result indicates that trade as an adaptation strategy to climate change can come at a cost. Without accounting for linkages across sectors and countries, the effects of extreme heat on agricultural production are concentrated locally in those countries whose share of agriculture in total value added is large. Vice versa, accounting for input linkages makes the world more interdependent and hence amplifies the effects of local agricultural productivity shocks across sectors and countries. Accounting for downstream sector use of agricultural inputs domestically and internationally dilutes the propagation of extreme heat.

Figure 8. Effect of recent warming on agriculture and aggregate value added losses (%)

(a) Global distribution in agriculture and on aggregate value added



(b) Density distribution of value added losses



*Notes:* The figure shows the total losses in value added (%) between 2001 and 2020, compared to a counterfactual where extreme heat in agriculture had remained at 1975–2000 baseline averages, instead of observed values. The world map above displays the total losses due to extreme heat in each country accounting only for losses in agriculture (weighted by the average share of agriculture in total value added). The world map below displays losses due to extreme heat in each country accounting for losses in all five downstream sectors induced by domestic and foreign extreme heat (and weighted by the average share of each sector's in total value added). The density plot displays the cross-country distribution of losses in agriculture, in downstream sectors, and the total aggregate losses accounting for both the effect of local extreme heat in agriculture and its downstream propagation across countries (dashed lines displays the mean). The sector-specific semi-elasticities are obtained from bootstrapping 1000 times the underlying panel estimates of Equation (15) with replacement.

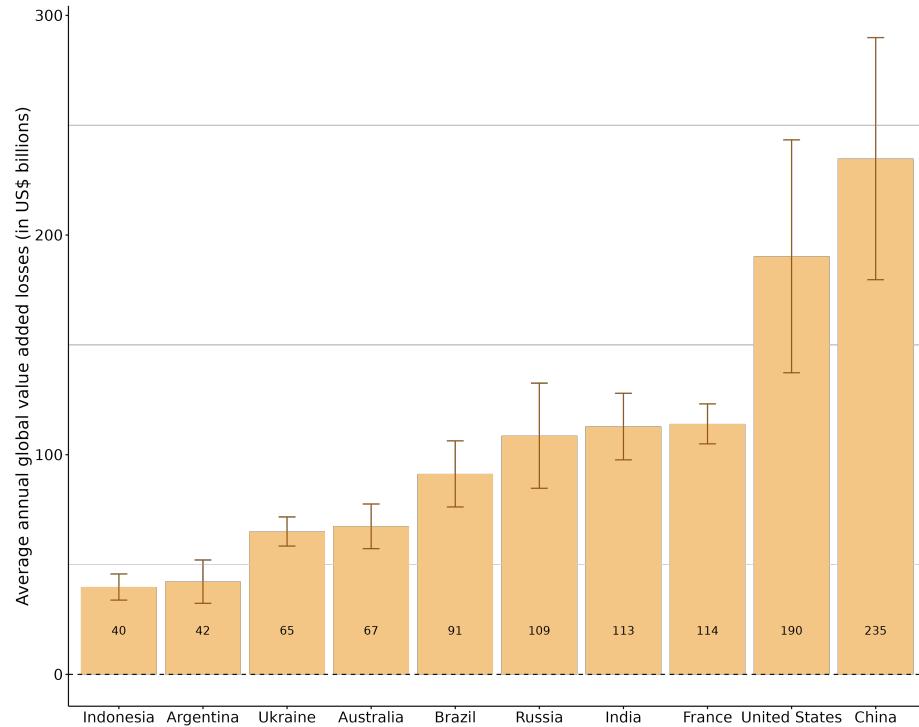
## 7.2 Propagation of extreme heat through the production network

In a second exercise, I quantify the macroeconomic impact of extreme heat conditions in each country. In essence, this counterfactual embeds 183 counterfactuals in which each country at a time experiences a shock in extreme heat conditions in agriculture of one standard deviation of the observed global extreme heat conditions in each year. This approach allows me to account for differential temporal variations in climatic conditions induced by global phenomena (e.g., El Niño) and for different country areas. I then use the estimated semi-elasticities in Equation 15 to obtain counterfactual growth rates and economic losses for each sector in each country, which I aggregate to obtain an annual counterfactual loss/benefit in value added under each of the 183 counterfactuals.

I start by computing average annual global losses adding up all 183 counterfactuals. On average, if all countries experienced a one standard deviation shock in extreme heat exposure in agriculture, annual global losses would be around 1.62 trillion 2015US\$ (95% CI: 1.57; 1.68). To give an idea of the estimated losses, global value added in my sample was on average 45 trillion 2015 US\$ (where the maximum was recorded in 2019 and was more than 79 trillion US\$). Therefore, on average, global value added losses due to a simultaneous increase by one standard deviation in extreme heat conditions in agriculture globally are around 3.5% of value added.

I then analyze the different 183 counterfactuals separately to infer where shocks in agriculture are more influential in the propagation across sectors and space. Figure 9 reports the ten largest annual global value added losses. Global losses are larger if China or the United States experience a shock, respectively, 235 and 190 billion US\$. Counterfactuals show that there are large losses also if France, India, and Brazil experience an increase in extreme heat in agriculture. In particular, these five countries together make up more than 45% of world crop output. China is the leading producer of rice, wheat, tobacco, cotton, and ramie. While Costinot et al. (2016) only account for the local impact of climate change on crop output, these results indicate that shocks in these countries can also propagate to other sectors and countries. Overall, these findings indicate a strong positive relationship between the integration of the country's agricultural sector in the supply chain and the value added losses induced across sectors and space.

Figure 9. Annual global value added losses accounting for input linkages for a standard deviation increase in extreme heat in agriculture



*Notes:* The figure shows the average annual global value added losses in 2015\$ billions for a one standard deviation increase in extreme heat in agriculture in a country in the x-axis, using sector-specific semi-elasticities from Equation (15) and aggregating across sectors and countries to obtain average global losses in a year. Brown bins indicate the 95% confidence intervals obtained from a 1000 bootstrap replications with replacement.

## 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 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 agriculture. In particular, they indicate that even if most sectors with the exception of agriculture are sheltered from local weather fluctuations, the potential propagation of the impacts on agriculture 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 input linkages amplify value added losses in downstream sectors by around 31%. Global losses are sizable even for just a single country experiencing extreme heat in agriculture if the country is strongly interconnected in the global production network. This is the case for China, the US, France, India, Russia, and Brazil. A one standard deviation increase in extreme heat in each of these countries would lead to a total average annual global loss in value added equal to 852 billion US\$.

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 agricultural 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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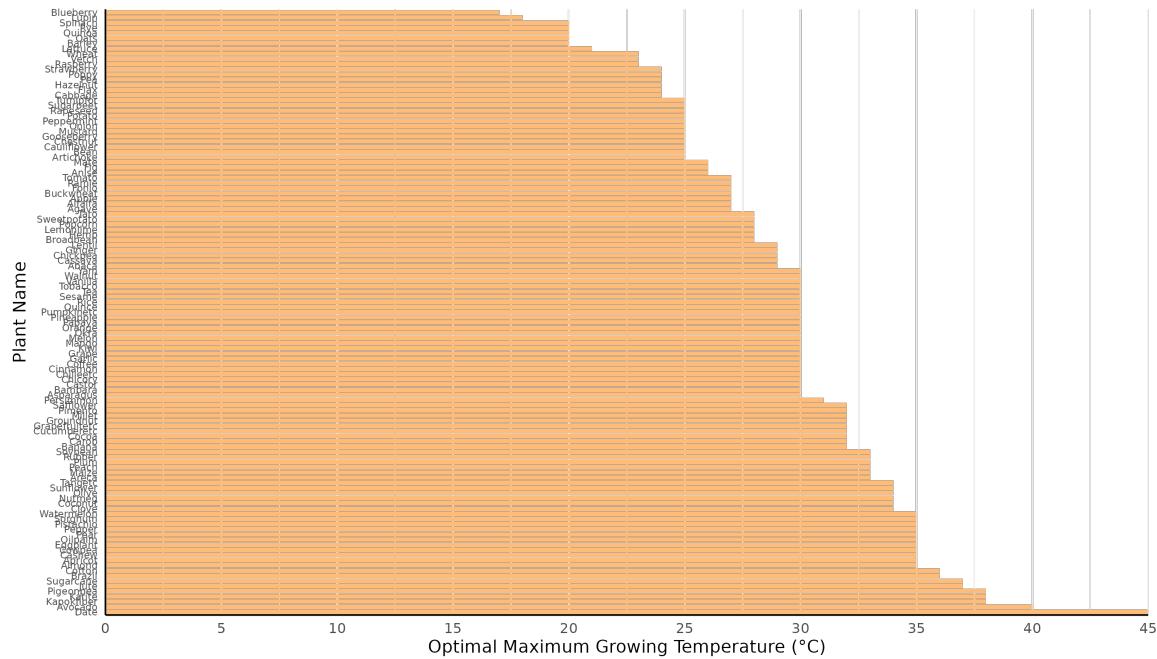
# Appendix

## Table of Contents

|   |    |
|---|----|
| A Figures - Descriptive Statistics  | 52 |
| B Figures - Robustness and additional results   | 59 |
| C Tables  | 74 |
| D Additional data sources   | 78 |
| E Extreme heat in agriculture accounting for crop spatial adjustments                 | 80 |
| F Local economic response to local weather shocks                                     | 81 |
| G Reduced-form GDP-temperature regressions with temperature in first-difference       | 82 |
| H Heterogeneous effects of local extreme heat across adaptation potential             | 84 |
| I Quantifying the cost of recent warming accounting for sectoral and spatial linkages | 86 |

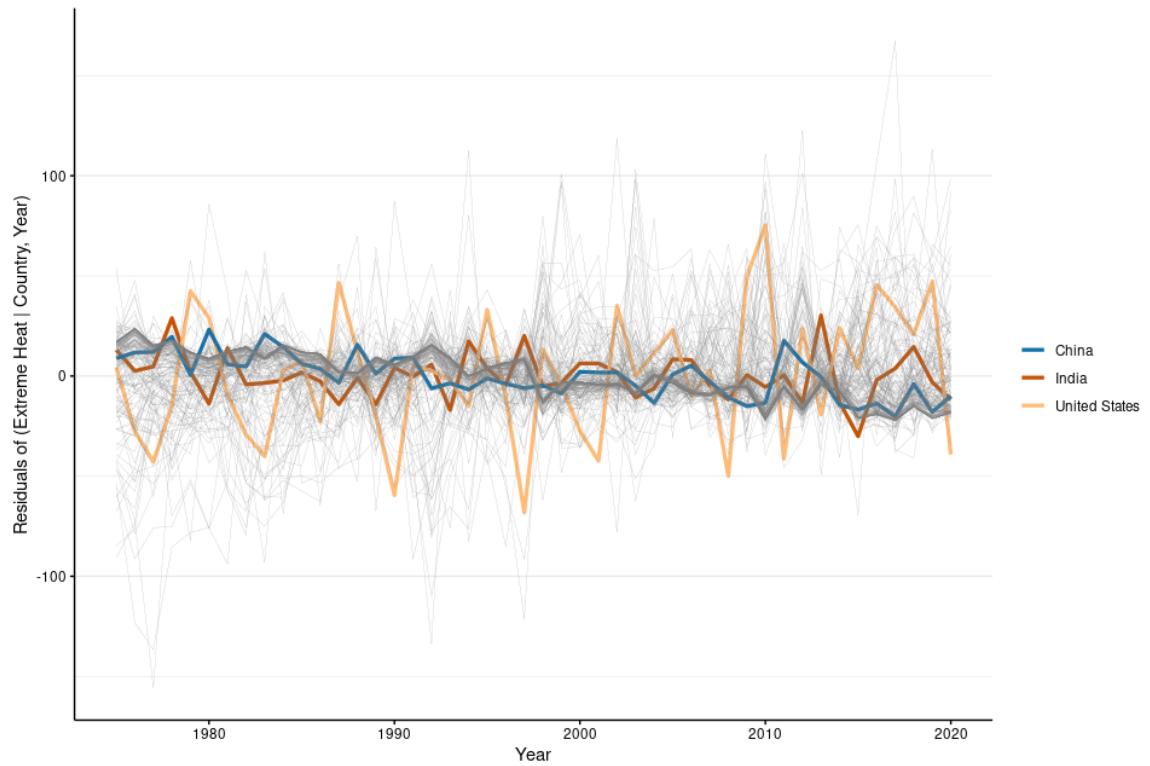
## A Figures - Descriptive Statistics

Figure A1. Crops and optimal maximum growing temperature



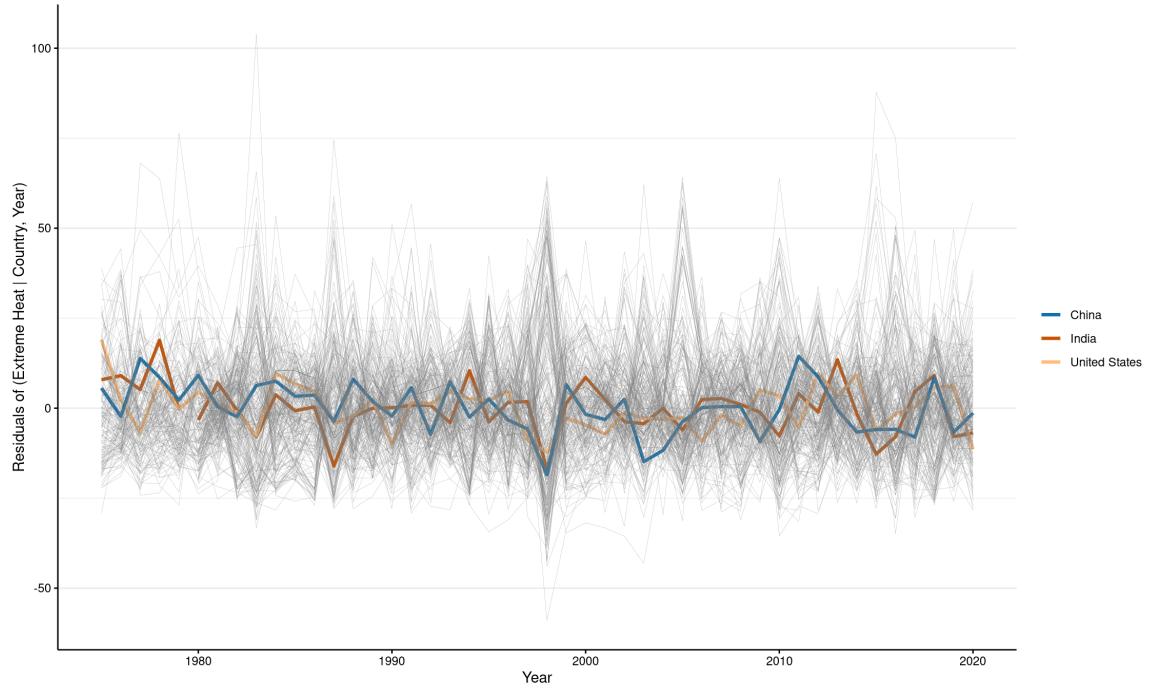
Notes: The figure shows the optimal maximum growing temperature for the 118 plant species in my final sample, as reported in the FAO EcoCrop (UN FAO, 2024).

Figure A2. Residuals in extreme heat exposure in agriculture



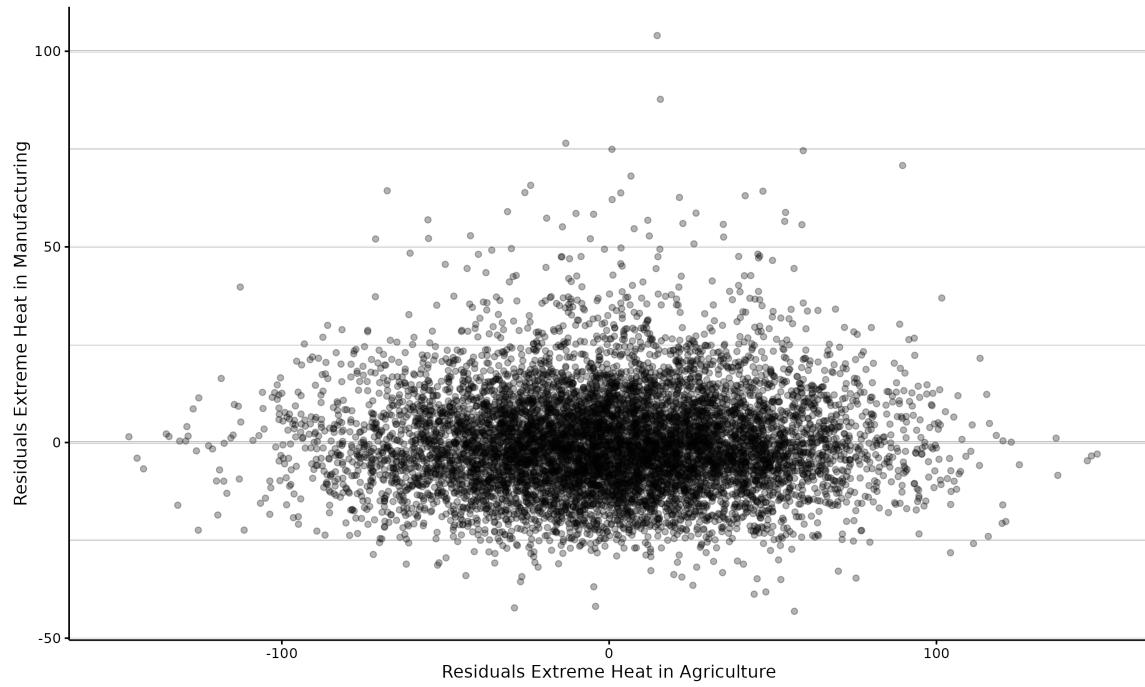
*Notes:* The figure shows the residuals in extreme heat exposure in agriculture obtained from a regression projecting extreme heat on country and year fixed effects.

Figure A3. Residuals in heat shocks in manufacturing



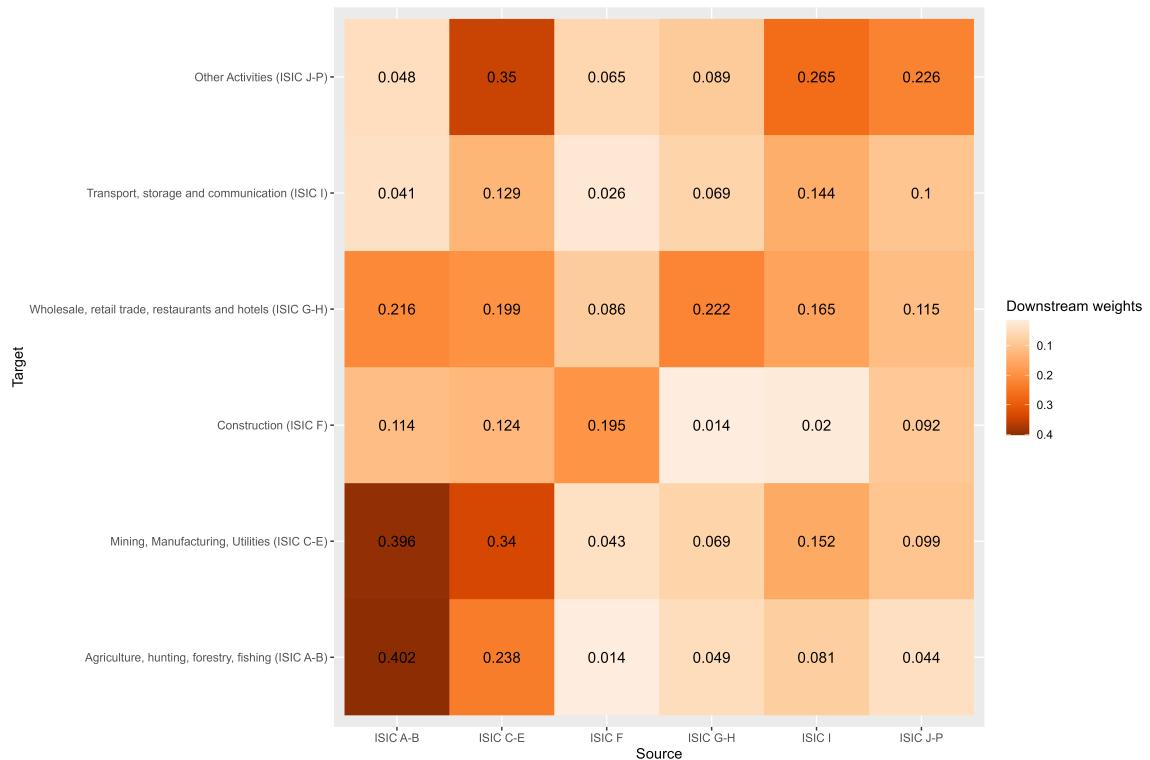
*Notes:* The figure shows the residuals in extreme heat exposure in manufacturing obtained from a regression projecting extreme heat on country and year fixed effects.

Figure A4. Scatter plot of residuals in agricultural and manufacturing sectors



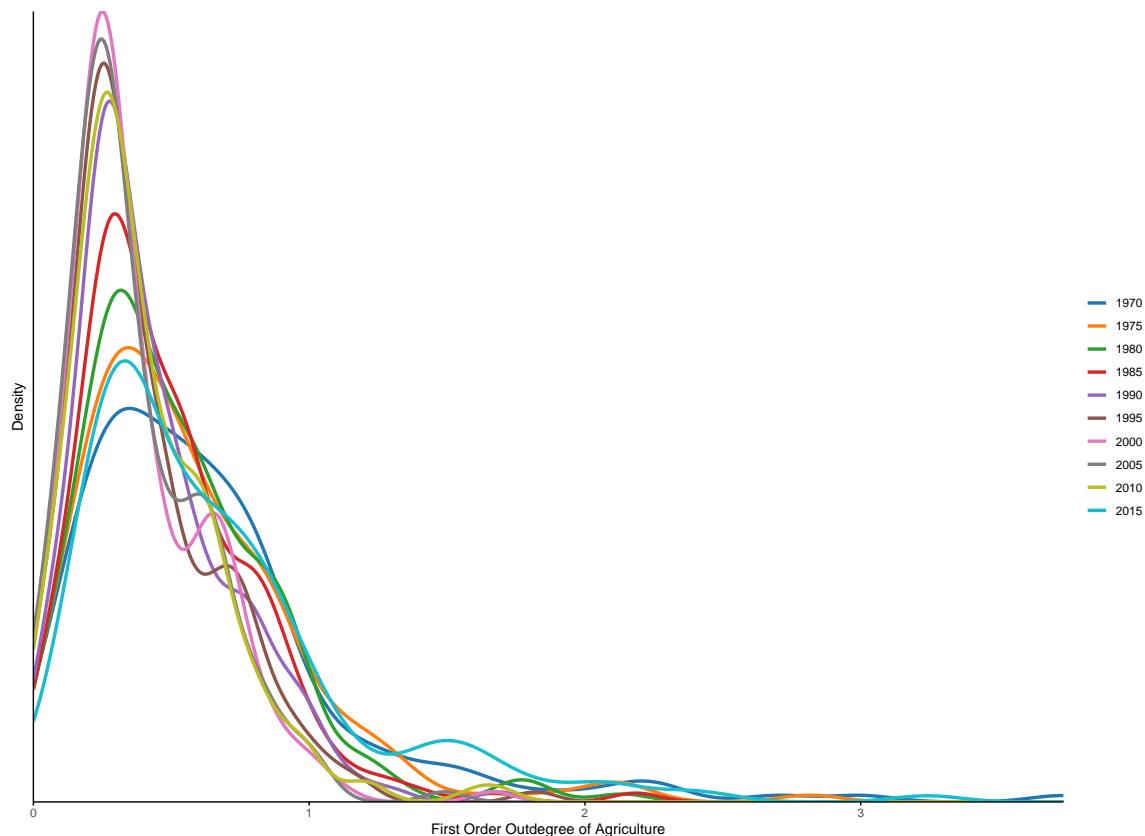
*Notes:* The figure shows the scatter plot of the residuals in extreme heat in agriculture and in manufacturing obtained after conditioning on country- and year- fixed effects. The relationship between the residuals in the final sample is not statistically different from zero ( $p$ -value equal to 0.61).

Figure A5. Average downstream linkages across countries



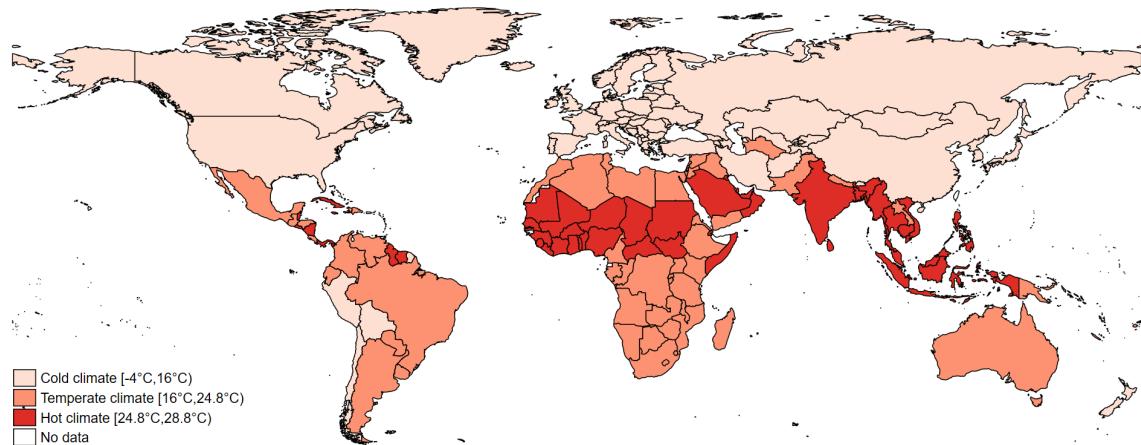
*Notes:* The figure shows the average downstream linkages across countries by sector, constructed from the perspective of Source sectors on the x-axis.

Figure A6. Density distribution of first order outdegree linkages of agriculture



*Notes:* The figure shows the empirical density distribution of the first order outdegree of each agriculture sector in the world across years (each year represents the average of the following five years, e.g., 1970 indicates the average linkages between 1970 and 1974).

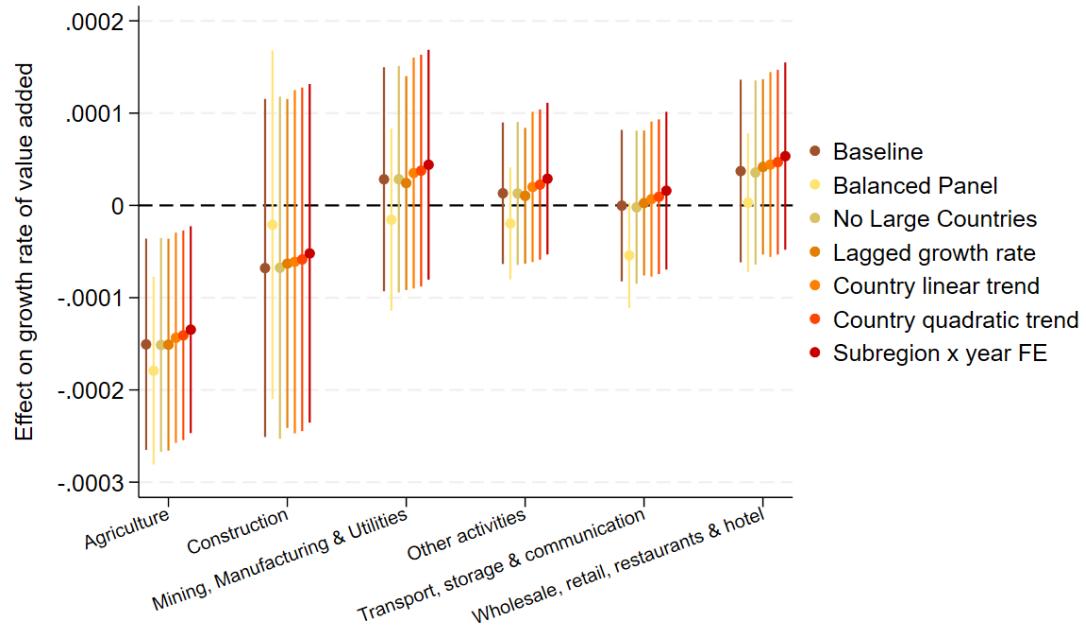
Figure A7. Countries in the sample by climatic zone



*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 H1.

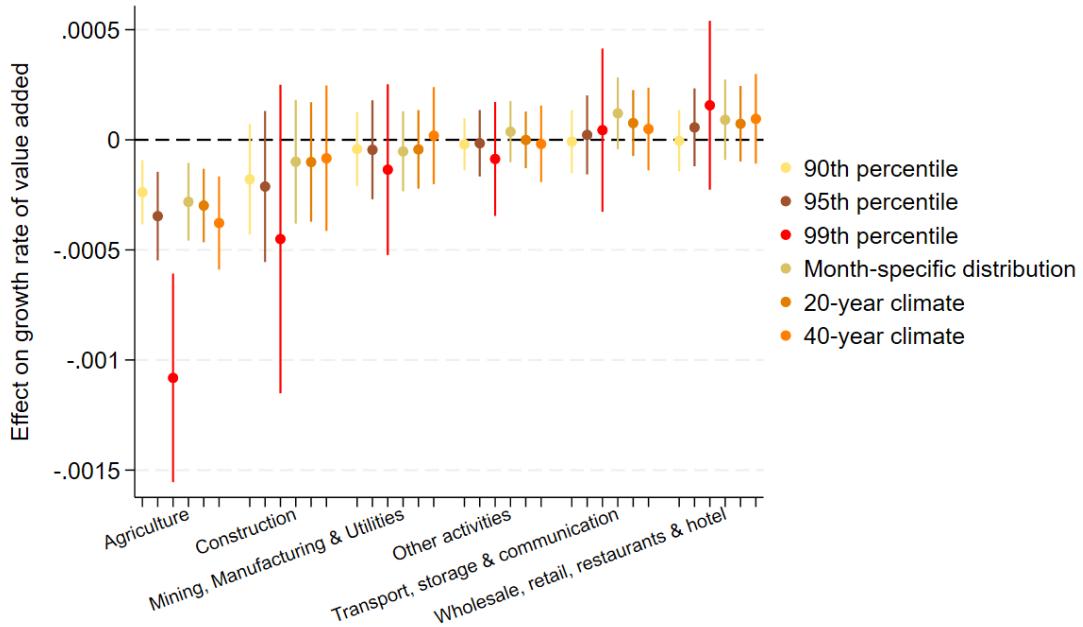
## B Figures - Robustness and additional results

Figure B1. Robustness 1: Response to local extreme heat



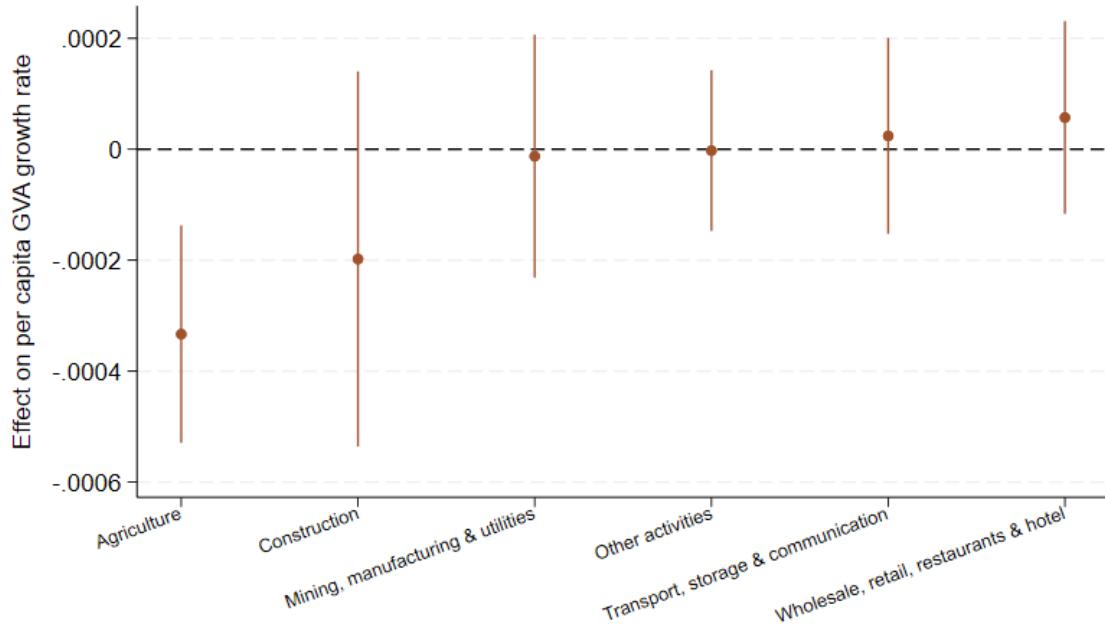
*Notes:* The figure shows the regression estimates for the country-average number of degree days of extreme heat using a sector-country balanced panel; excluding large countries (Brazil, China, India, Russia, US); including lagged growth rate; including country-specific linear trends; including linear 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 B2. Robustness 2: Response to local extreme heat



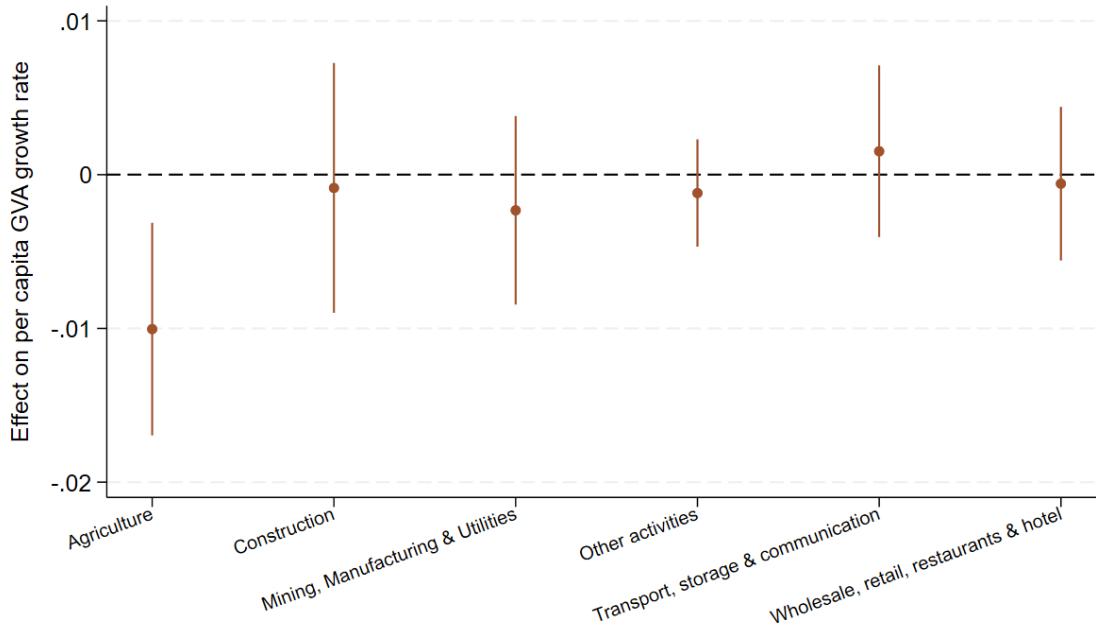
*Notes:* The figure shows the regression estimates constructing the extreme heat exposure differently: I use different percentiles of the grid-specific distribution (90, 95 - the baseline - and 99); I construct heat exposure relative to the 95th percentile of each grid-month specific distribution of 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 B3. Effect of local abnormal hot days on growth rate of sectoral value added per capita



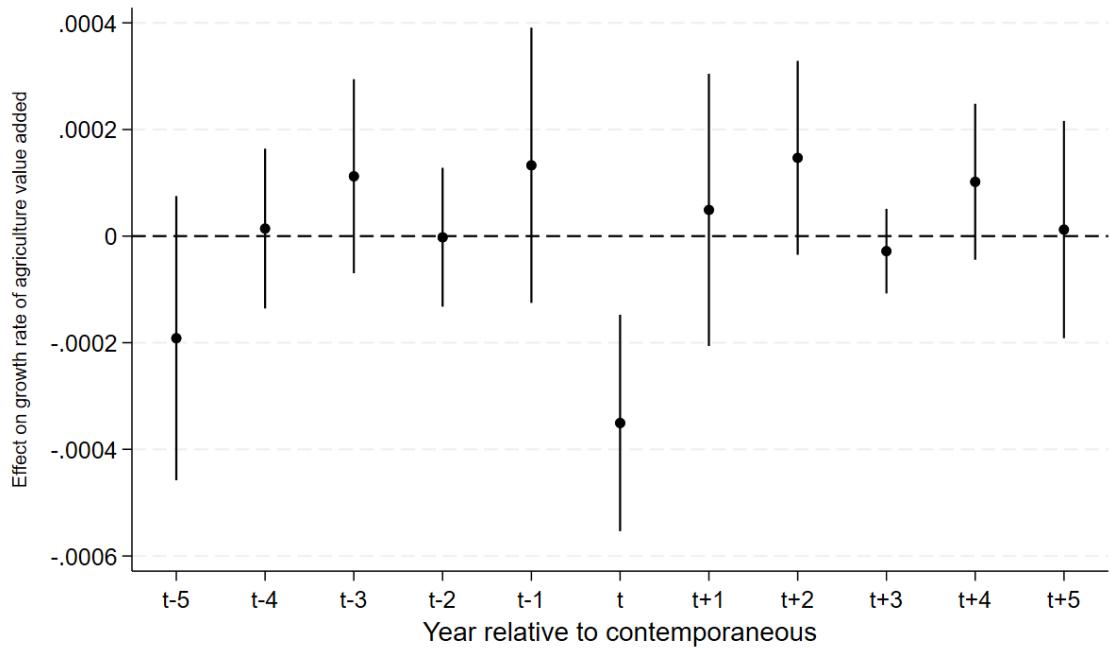
*Notes:* The figure shows the regression estimates for the country-average number of days above the 95<sup>th</sup> percentile of the daily distribution in temperature. All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year 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 B4. Effect of temperature shocks on growth rate of sectoral value added per capita



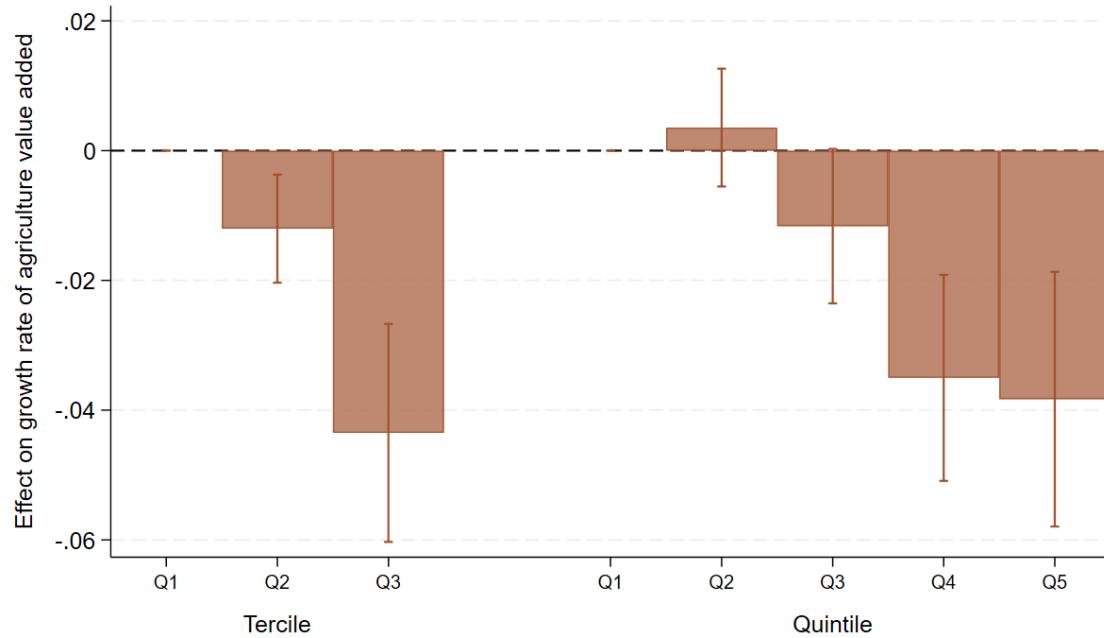
*Notes:* The figure shows the regression estimates of the temperature shocks constructed as in Equation (2). All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year fixed effects and controlling for a sector-specific second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

Figure B5. Dynamic effect on local extreme heat on growth rate of sectoral value added per capita



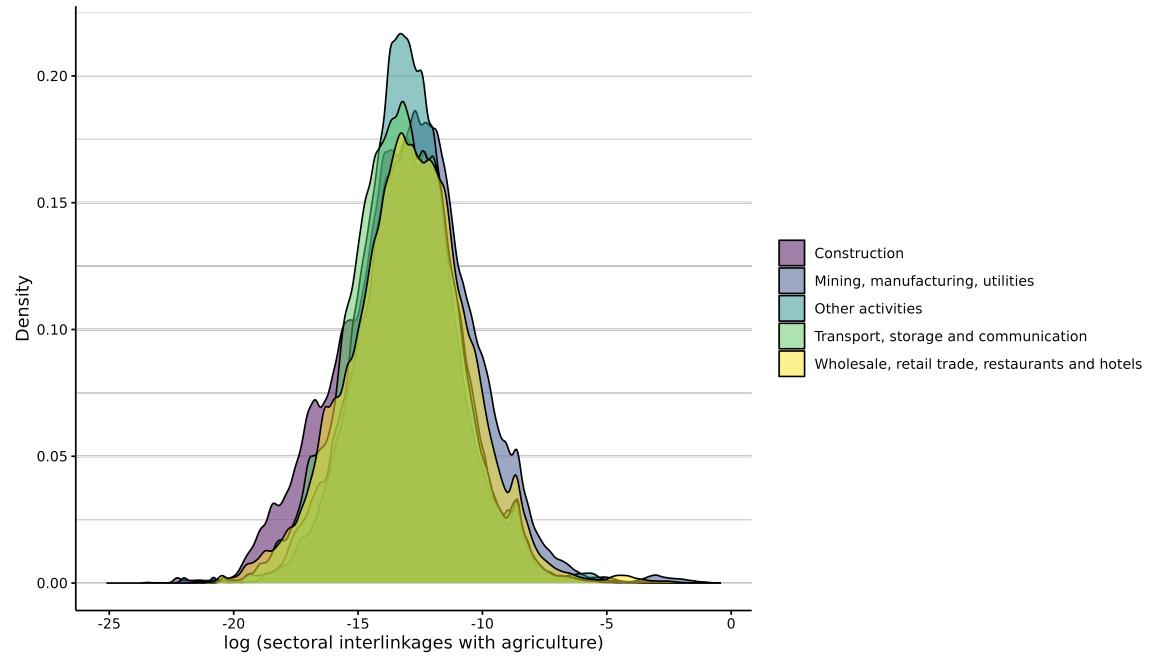
*Notes:* The figure shows the regression estimates of the temperature shocks constructed as in Equation (2). All sector-specific coefficients are estimated jointly in a stacked regression model fully saturated with country-sector and sector-year fixed effects and controlling for a sector-specific second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

Figure B6. Quantiles of Extreme Heat on Agriculture Value Added



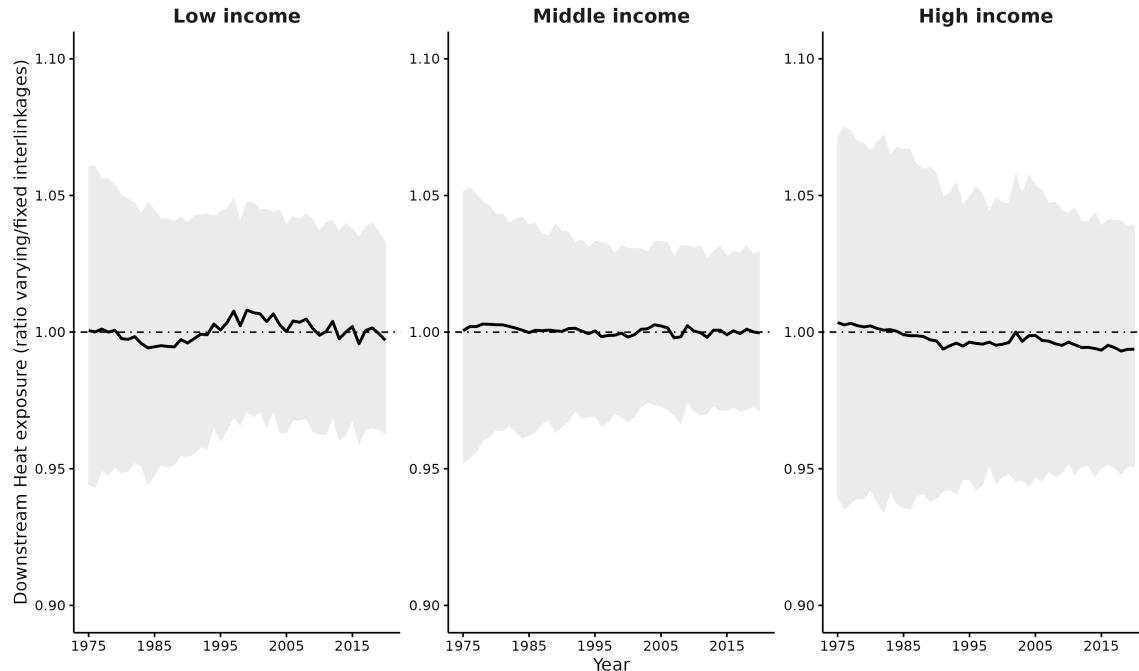
*Notes:* The figure shows the regression estimates for the measure of extreme heat (degree days) constructed as in Equation (1) on the agricultural GVA per capita growth rate and categorized by terciles or quintiles. Each set of bars corresponds to the estimates from a single regression which accounts 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 B7. Density function of intermediate input interlinkages with agriculture by sector



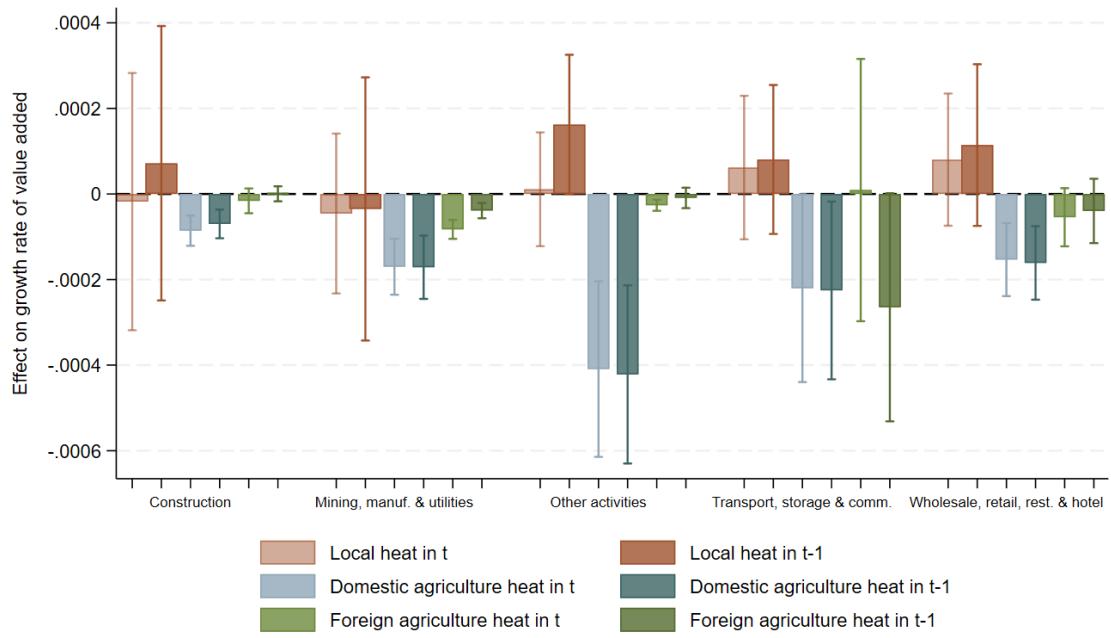
*Notes:* The figure plots the sector-specific density distribution of the (log) of interlinkages with agriculture used as outcome variable in Equation (9).

Figure B8. Downstream exposure to extreme heat in agriculture by income terciles



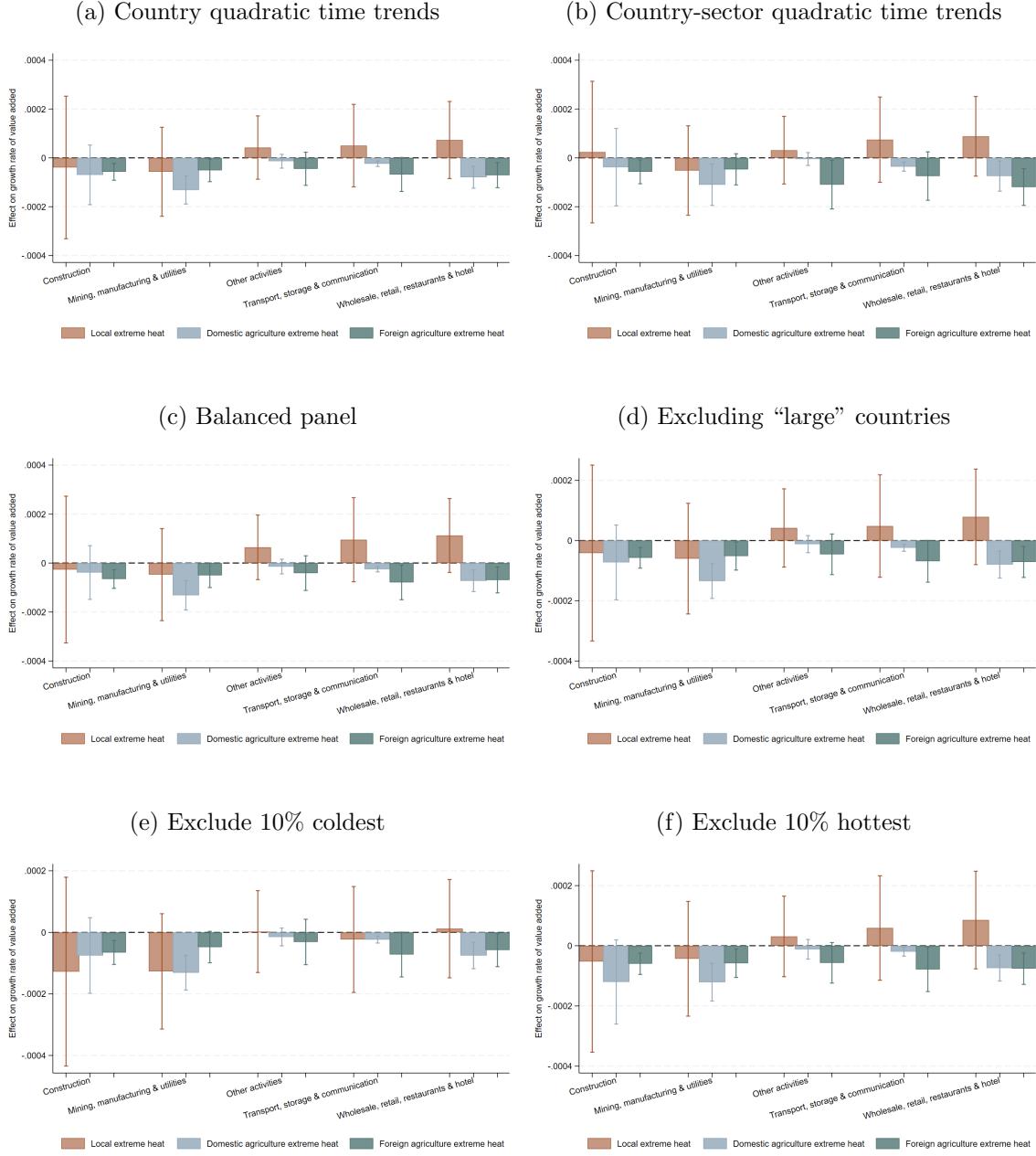
*Notes:* Each panel in the figure displays the income tercile-specific average (black solid line) ratio of downstream heat exposure computed between a production network where sectoral interlinkages are varying annually and one where sectoral interlinkages are fixed in time averaged between 1970 and 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 B9. Contemporaneous and lagged response to agriculture extreme heat in a Leontief matrix



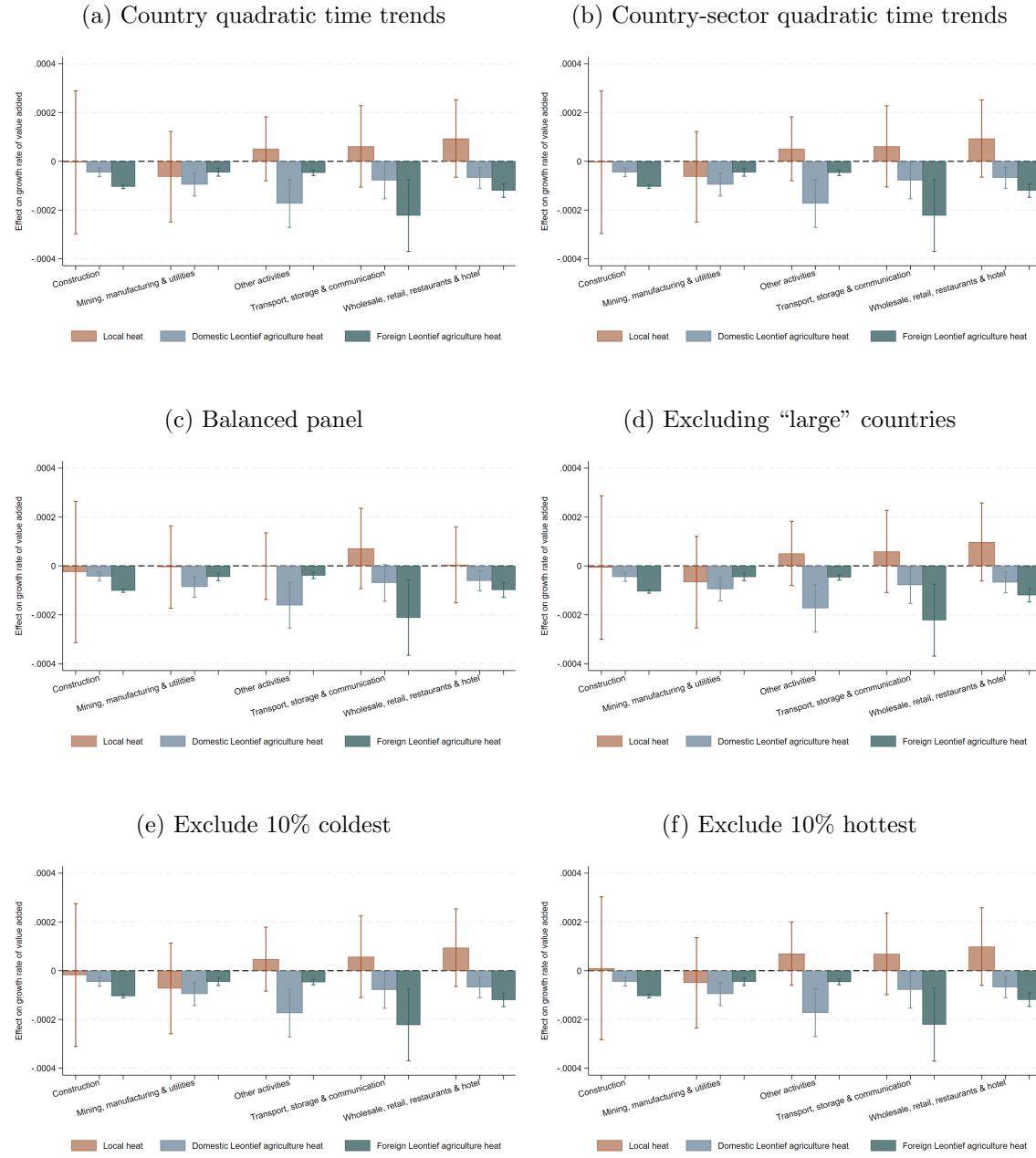
*Notes:* Bars represent the sector-specific coefficients associated with contemporaneous and one-year lagged local extreme heat shocks and domestic and foreign downstream shocks constructed using the extreme heat exposure measure constructed as in Equation (1). Domestic and foreign downstream shocks 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.

Figure B10. 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); Panel (e) excludes the 10% coldest countries based on mean temperature in the 45 years considered; Panel (f) excludes the 10% hottest countries based on mean temperature in the 45 years considered. Bins represent the 95% confidence intervals around point estimates with standard errors clustered at the country level.

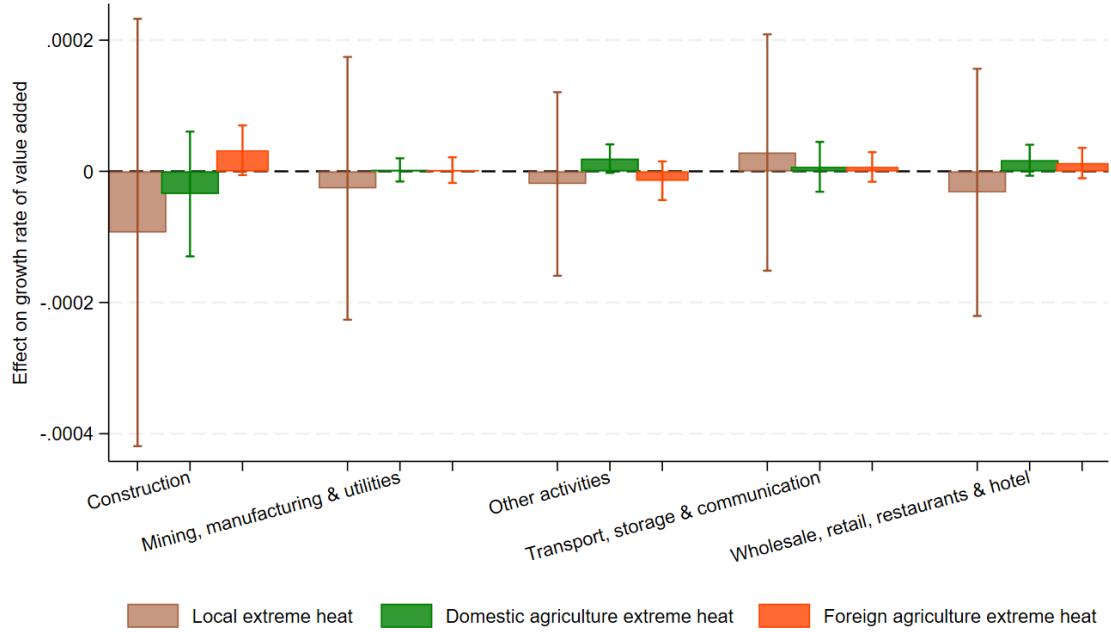
Figure B11. Robustness: Alternative specifications for Leontief matrix



*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); Panel (e) excludes the 10% coldest countries based on mean temperature in the 45 years considered; Panel (f) excludes the 10% hottest countries based on mean temperature in the 45 years considered. Bins represent the 95% confidence intervals around point estimates with standard errors clustered at the country level.

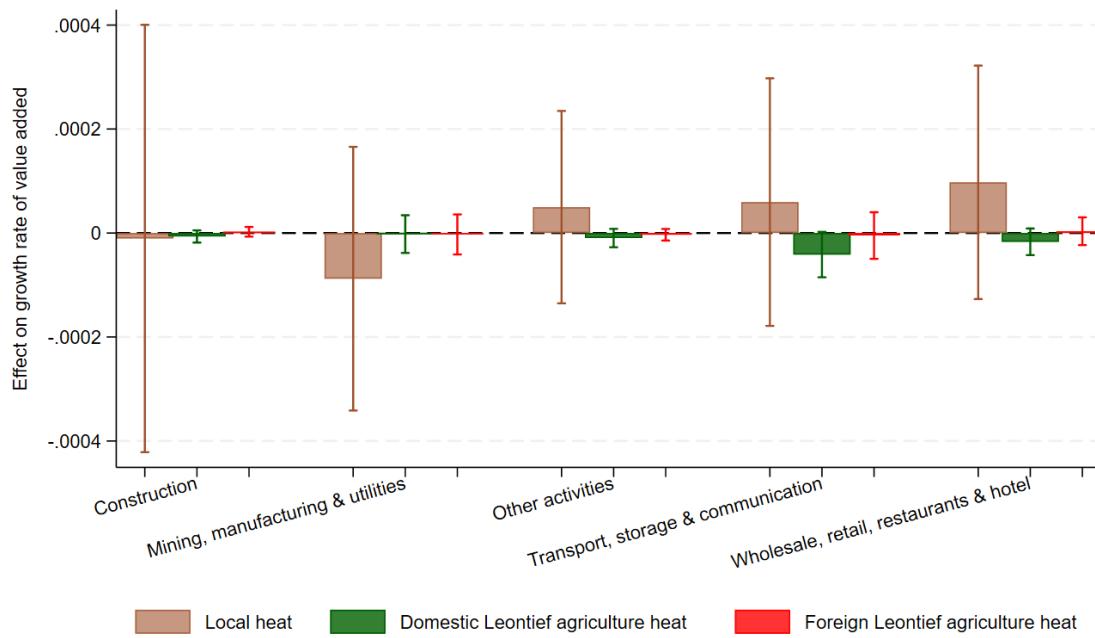


Figure B12. Local and upstream agricultural extreme heat on sectoral production



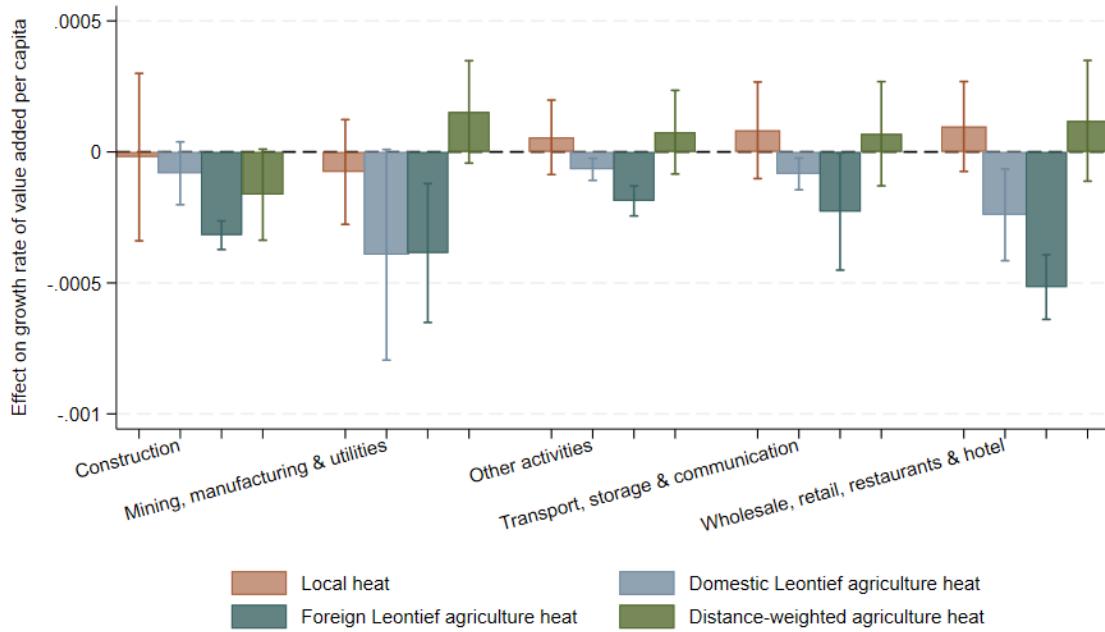
*Notes:* Bars represent the sector-specific coefficients associated with local shocks and domestic and foreign upstream shocks, using the extreme heat exposure measure constructed as in Equation (1). The specification jointly estimates all sector-specific coefficients in a stacked regression model that 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 B13. 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 B14. 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.

## C Tables

Table C1. 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 C2. 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 C3. 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 C4. Effect of extreme heat on crop prices

|                                  | Crop Price (USD/Tonne)    |                           | (log) Crop Price (USD/Tonne) |                     |
|----------------------------------|---------------------------|---------------------------|------------------------------|---------------------|
|                                  | (1)                       | (2)                       | (3)                          | (4)                 |
| Degree Days                      | 0.4114**<br>(0.2078)      | 0.2875***<br>(0.0825)     | 0.0007***<br>(0.0002)        | 0.0002*<br>(0.0001) |
| Total Precipitation              | 1,196.6<br>(992.6)        | 435.0<br>(838.0)          | 0.4562<br>(1.207)            | -0.7051<br>(0.5697) |
| Total Precipitation <sup>2</sup> | -412,342.2<br>(328,287.8) | -156,285.3<br>(248,919.6) | -853.8<br>(1,026.4)          | 233.7<br>(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.

## D 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 E explains how I use the data.

## E Extreme heat in agriculture accounting for crop spatial adjustments

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 E1 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 E1. 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 |

## F 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:

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

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:

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

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>27</sup>

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<sup>27</sup>Identifying  $\hat{\beta}$  also requires that the unit-specific capital-to-output ratio is constant.

## G 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

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

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

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

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 (G.2) in Equation (G.1) and taking expectations yields

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

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 (G.1), such that it becomes

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

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).

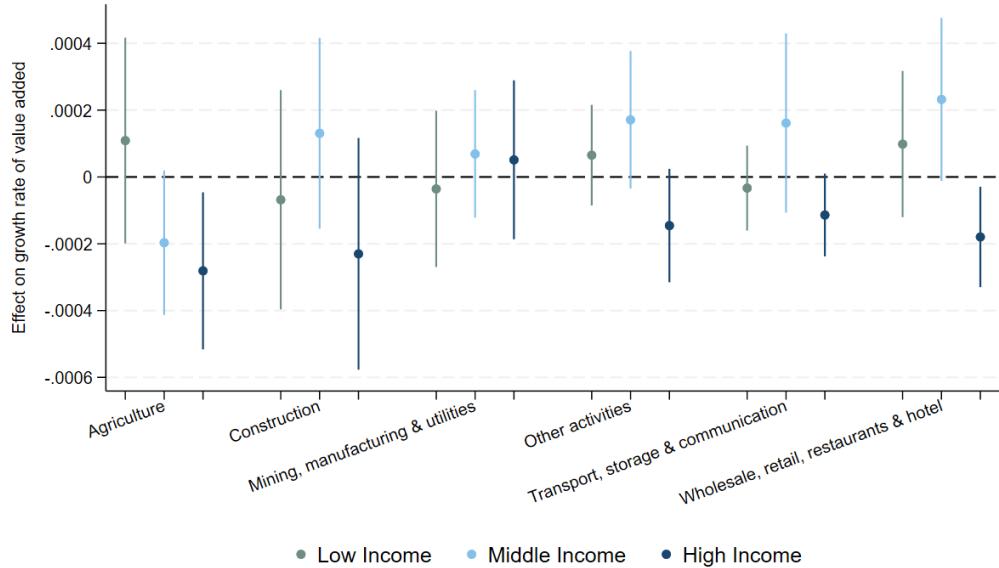
## H Heterogeneous effects of local extreme heat across adaptation potential

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).

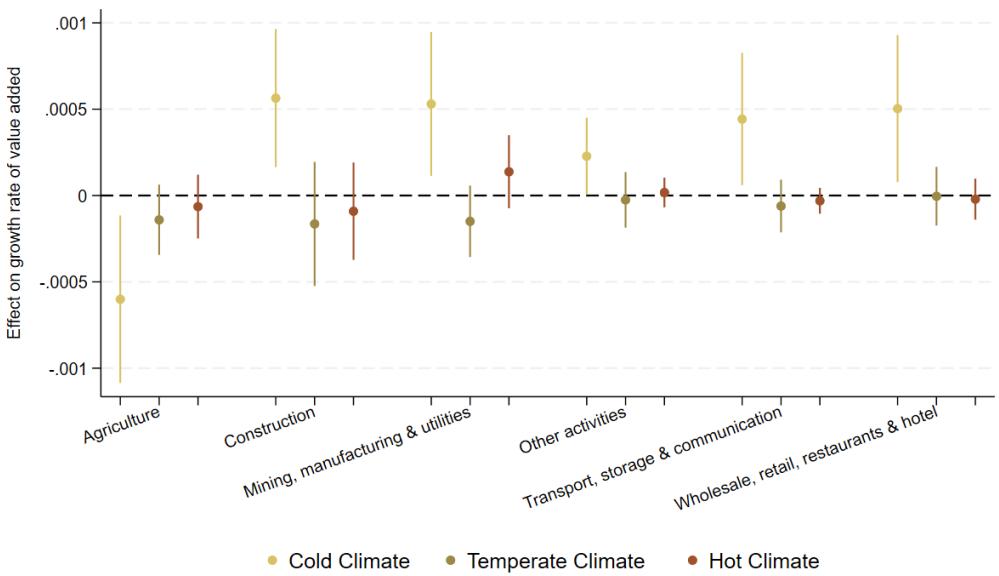
Appendix Figure H1 graphically presents the coefficient associated with heat shocks interacted with income and climate terciles. Starting from heterogeneity by income, agricultural value added becomes more sensitive to extreme heat as income rises. This result, perhaps surprising at first, could be explained 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 H1. 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.

## I Quantifying the cost of recent warming accounting for sectoral and spatial linkages

Here, I provide additional details on the construction of the counterfactuals in Section 7. To understand the differential and aggregate cost of recent warming, I use the estimates of the effect of local extreme heat and exposure to domestic and foreign agriculture extreme heat to simulate how much slower or faster each sector in each country would have grown annually over the 2001-2020 period, compared to a scenario under which extreme heat stayed at its 1974-2000 average, and cumulate these effects over the period to calculate the increase or decrease in total value added. 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 cost of annual warming in 2001-2020 compared to a counterfactual where extreme heat exposure stayed constant at the period 1970-2000. Importantly, I do so both only using the semi-elasticities from local extreme heat and including the semi-elasticities to extreme heat exposure in agriculture (both domestic and abroad). I bootstrap 1000 times the underlying panel estimates from Equation (15) and use the  $\hat{\beta}_j$ 's and  $\hat{\gamma}_{j,\ell}$ 's obtained from this exercise, as the sector-specific estimates for the effect of local extreme heat, domestic and foreign downstream exposure to agricultural extreme heat to compute the counterfactual growth rate  $g$ :

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

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

where  $ExtremeHeat_{nt}$  is the observed extreme heat measure constructed in Equation (1),  $\widetilde{ExtremeHeat}_{nt}$  is the counterfactual extreme heat measure in the 1970-2000 period, and symmetrically for  $NetworkShock$ , which is constructed as detailed in Equations (5) and (6). I compute sector  $j$ 's counterfactual value added levels in year  $t$  omitting and accounting for indirect shocks

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

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

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

to obtain a measure of the average cost of recent warming at the sector level omitting and accounting for input linkages with agriculture. The aggregate loss in value added across sectors for country  $n$  is

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

where  $\lambda_{jn}$  is the average share of total value added of sector  $j$  in country  $n$ . Figure 8 reports the country-level losses computed only in the case of damages to agriculture (top map) and summing over all other five sectors in the economy (bottom map).