Wages and Inflation

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Supply-Demand Imbalances ↑ on a Global Scale During 2020–2022

Covid-19

Supply Shock (-)
Workers contract disease/drop-out
Lockdowns

Demand Shock (+-)
Goods ↑, Services ↓
Fear/Uncertainty/Savings
Limited mobility
Supply-Demand Imbalances ↑ on a Global Scale During 2020–2022

- **Supply Shock (-)**
  - Workers contract disease/drop-out
  - Lockdowns
  - Supply-Chain Disruptions

- **Demand Shock (+-)**
  - (Goods ↑, Services ↓)
  - Fear/Uncertainty/Savings
  - Limited mobility
  - Aggregate Demand Stimulus
  - Demand Changes:
    - Goods ↑↑, Services ↓

Inflation Persistence ↑↑↑
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Aggregate Demand Stimulus

Supply-Chain Disruptions ↑ ↑ ↑

Services ↑ ⇒ Inflation Persistence

Inflation

Demand Changes:
Goods ↑ ↑, Services ↓
Global Production Network Connects Imbalances to Wages and Inflation

(a) Countries

(b) Industries

35 industries in 65 countries, giving us a matrix of 2275 x 2275 entries
Inflation $\approx$ Aggregate Demand $-$ Network weighted Labor Changes
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Inflation $\approx$ Aggregate Demand — Network weighted Labor Changes
Inflation \approx \text{Aggregate Demand} - \text{Network weighted Labor Changes}

Sectoral supply shocks explain 1/2 of EA, 1/3 of US observed inflation

(a) Euro Area: 45 Sectors
(b) U.S. 66 Sectors