

Discussion of

The inflationary effects of sectoral reallocation

by F. Ferrante, S. Graves, M. Iacoviello

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Bank of England, CEPR, and CfM

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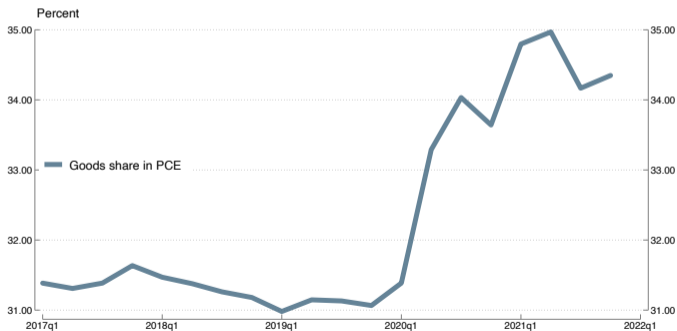
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Intro

- ▶ What are the effects of demand reallocation shocks?

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- ▶ What are the effects of **demand reallocation shocks?**
- ▶ Demand reallocation: striking feature of Covid-induced shock
- ▶ Can it help to make sense of macro / sectoral patterns in the data during Covid episode?
 - * Fall in consumption, output, and employment (driven by services)
 - * Inflation acceleration (driven by goods)

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- ▶ Three key ingredients:
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- ▶ Aggregate labor supply shocks and sectoral TFP shocks also needed to make sense of the data
 - Fall in employment
 - Cross-section of output and prices

My comments

[# 1] **Timing: The curious case of 2020-Q2**

[# 2] **Sectoral supply shocks**

[# 3] **Energy price shocks**

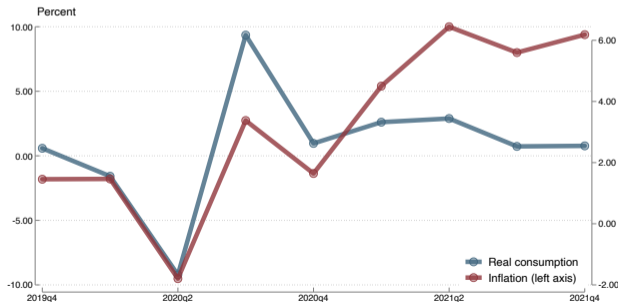
[# 4] **Reallocation shock: How unprecedented?**

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- ▶ Two potential explanations
 - [1] Convex hiring costs kick in when employment is above steady-state employment?

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 - [1] Convex hiring costs kick in when employment is above steady-state employment?
 - [2] Other shocks driving the comovement in 2020-Q2?

[# 2] Sectoral supply shocks

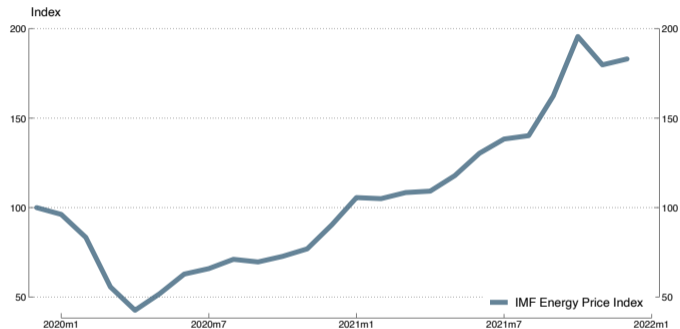
- ▶ Sectoral supply shocks can have aggregate demand consequences
[Guerrieri et al. (2021); Cesa-Bianchi and Ferrero (2021)]
- ▶ **Question** Is the approach to measure sectoral supply shock dimension too 'coarse'?
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 - * Paper measures sectoral supply shocks from the data between 2019-Q4 and 2021-Q4
- ▶ **A finer view** Short-lived synchronized supply shock to services in 2020-Q2
 - * Shock can explain some of the fall in inflation in 2020-Q2
 - * Its reversal can explain some of the rise in inflation in 2020-Q3

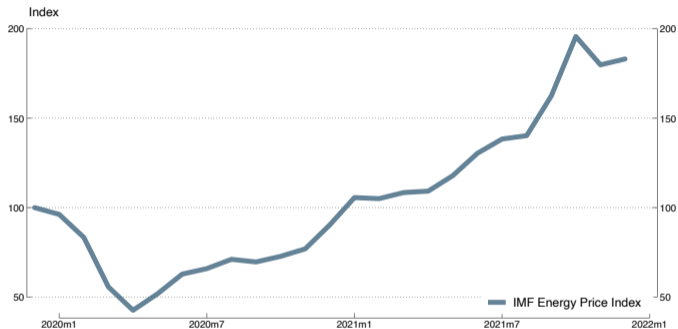
[# 3] Energy price shocks

- ▶ The 2020-2021 period has been characterized by large swings in oil and other energy prices



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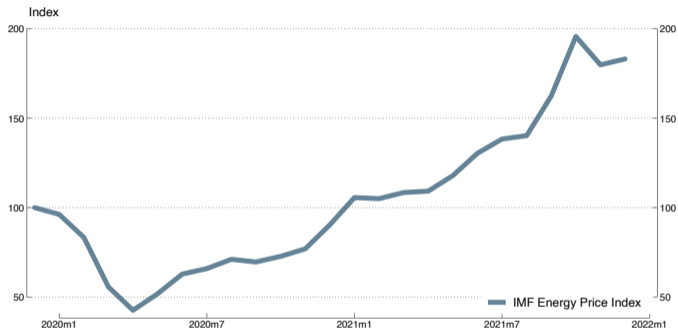
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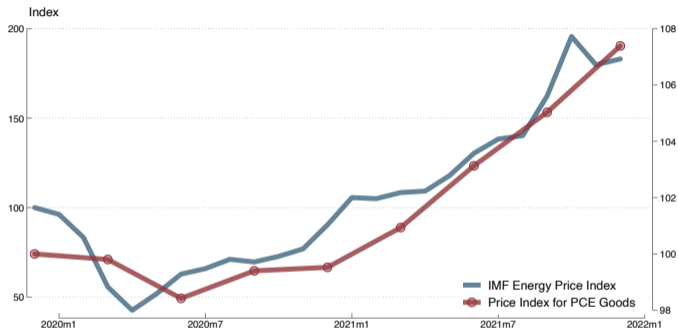
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 - * Some sectors may be more energy-intensive than others (e.g. goods?)
 - * If so, energy shock could explain both macro and cross-sectional patterns

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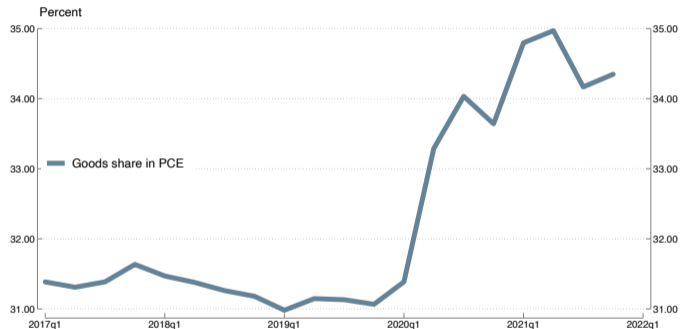
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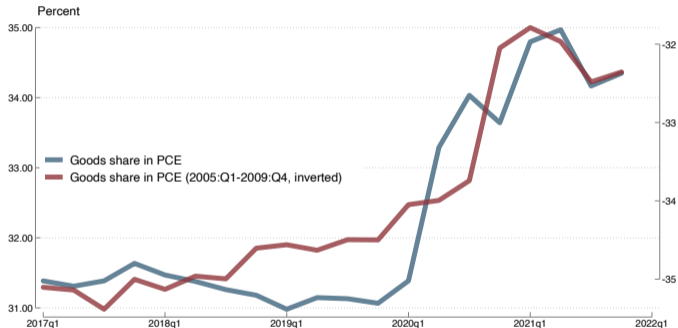
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- Though, a similar shock (towards services) happened during the global financial crisis

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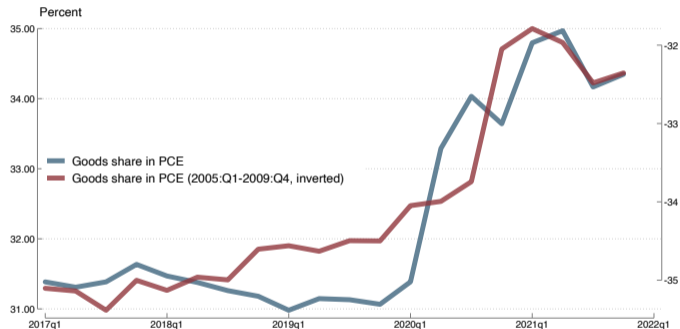
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[# 4] Reallocation shock: How unprecedented?

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- **Question** Use cross-sectional patterns during the GFC to generalize validity of mechanism?

In sum

- ▶ Great paper
 - * Model does a remarkable job at capturing macro and cross-sectional patterns
- ▶ **Main comment** → Alternative stories also consistent with those patterns
- ▶ **Implication**
 - * Hiring cost may be overestimated
 - * Reversal of the demand reallocation shock could be less inflationary than model predicts
- ▶ Many interesting angles yet to explore!

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