

Revisiting the *Phillips* and *Beveridge* Curves: Insights from the 2020s Inflation Surge

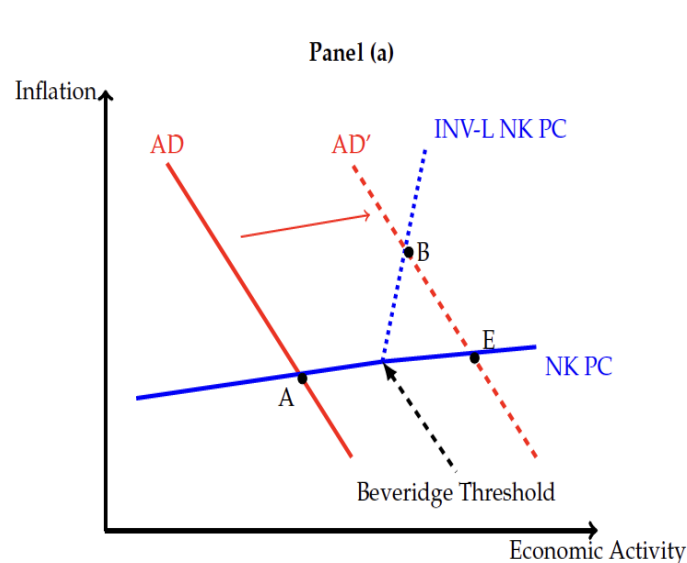
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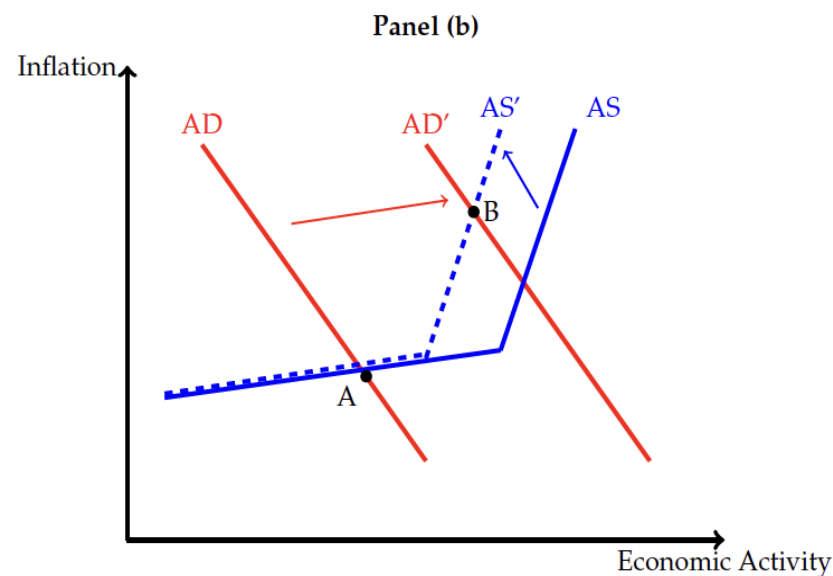
Three surprises:

1. Inflation increased very rapidly due “supercharged” supply or demand shocks
2. Inflation dropped down without a major recession (yet!)
3. Labor market stabilized by drop in vacancies instead of increase in unemployment

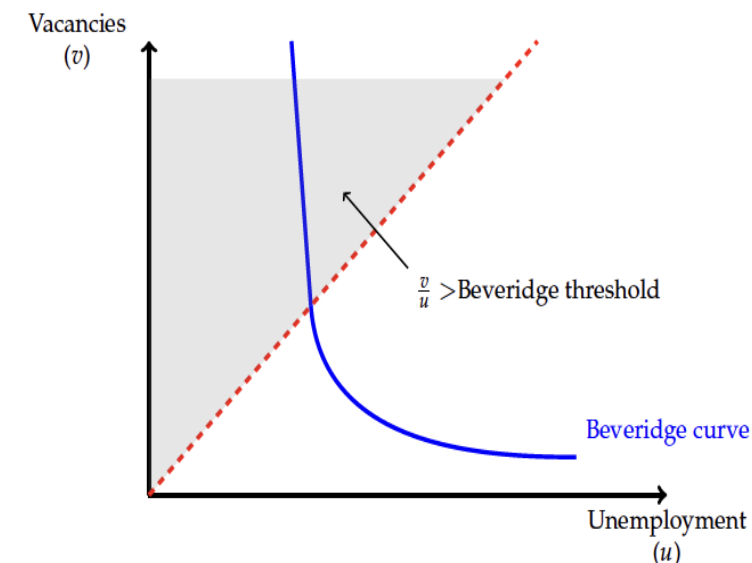
It is all about breaching the Beveridge Threshold (BT) ($v/u > \theta_t^*$)



1. Unexpected surge for those placing faith in flat Phillips curve. Demand supercharged past Beveridge threshold explaining 66% of inflation

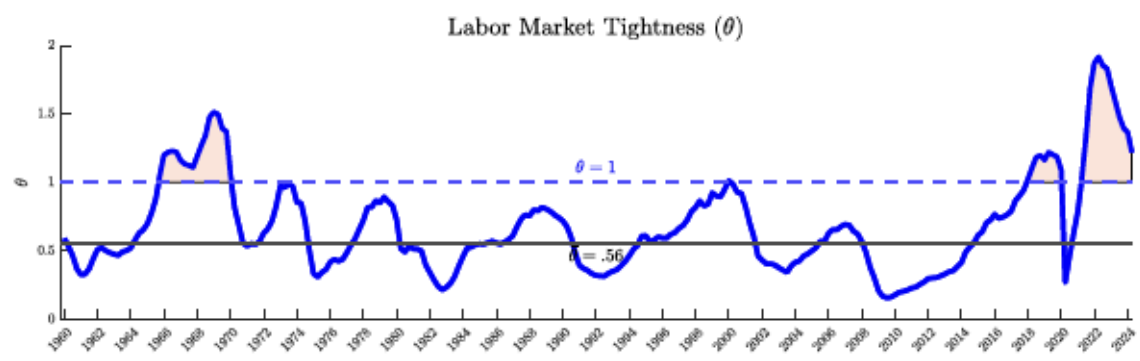


2. Super charged supply shocks explains 33% of inflation. But **conditional** on passing Beveridge threshold



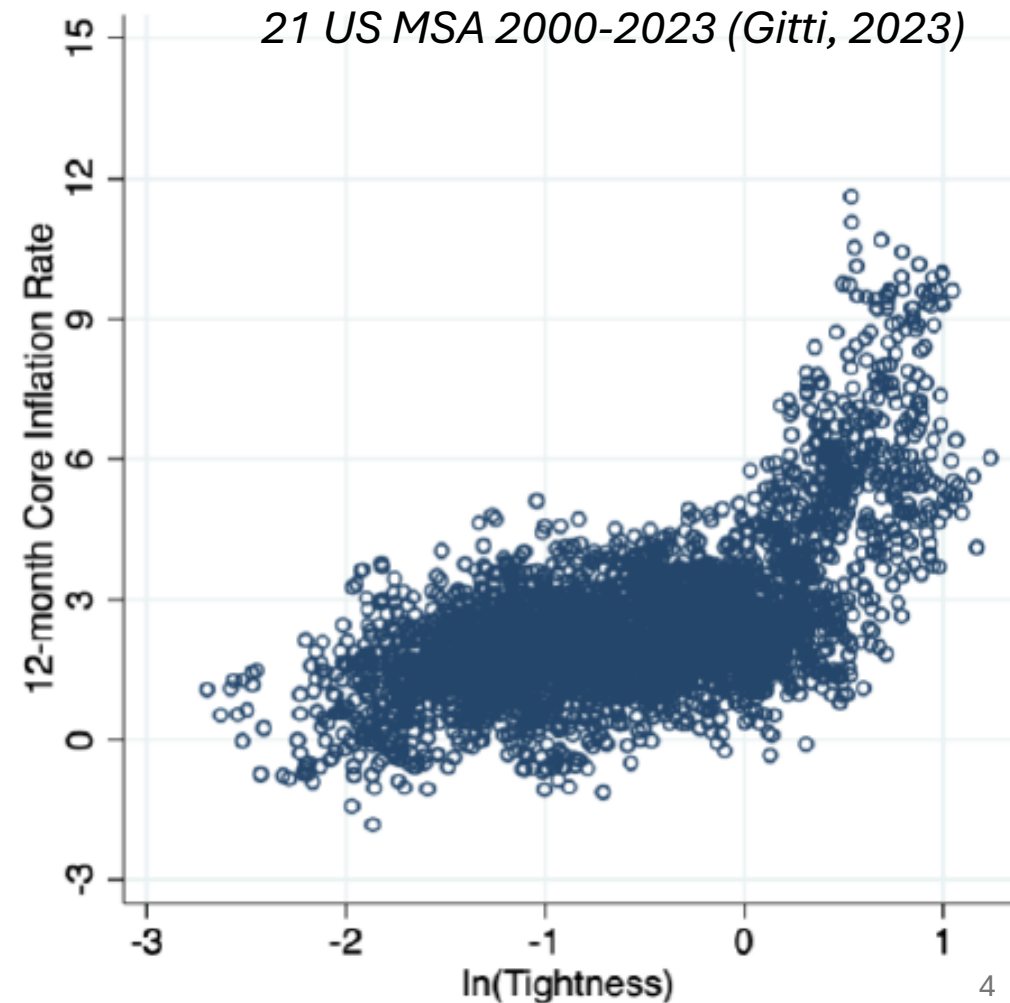
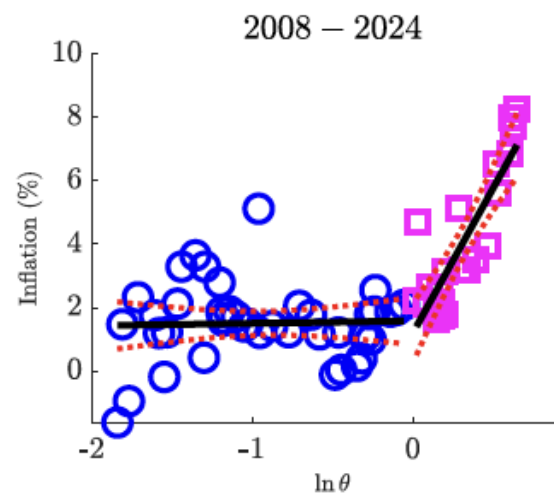
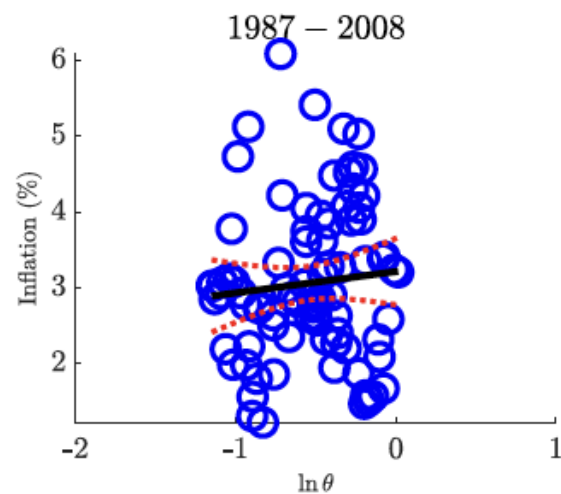
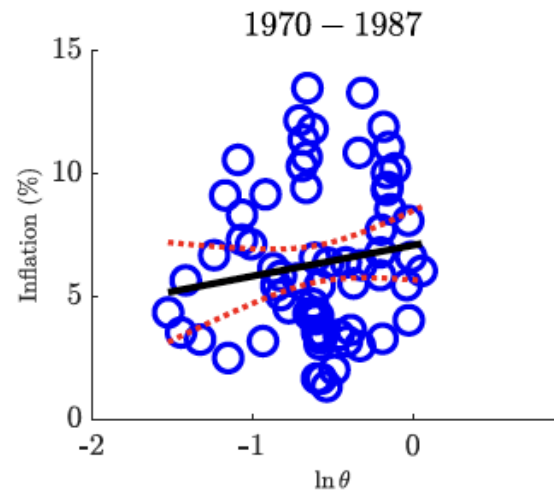
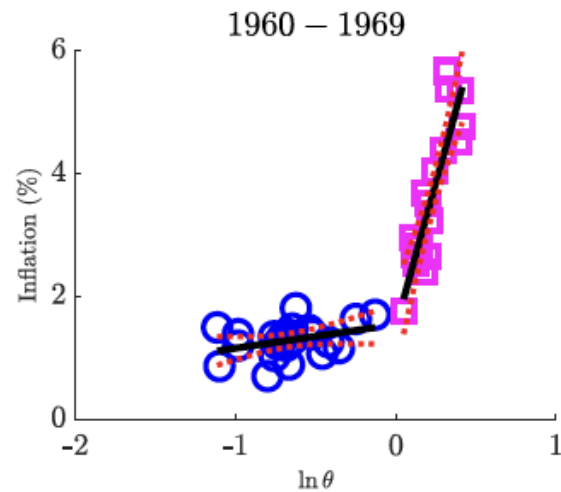
3. Adjustment past the Beveridge threshold takes place almost exclusively through **vacancies**

5 of 6 inflation surges in past 111 years $v/u > BT \approx 1$



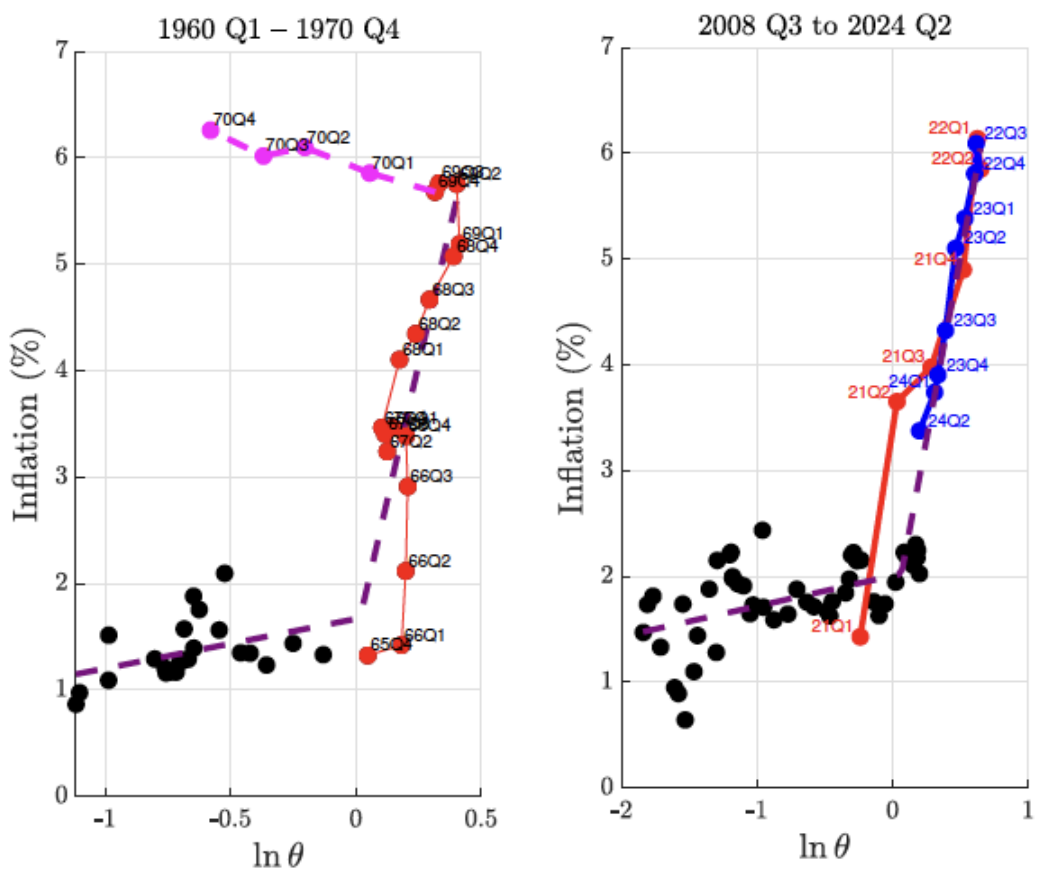
1970s Great Inflation odd man out: Main suspect, unanchored inflation expectations

Inflation and labor market tightness (v/u), $\theta^* = \frac{v^*}{u^*} \approx 1$

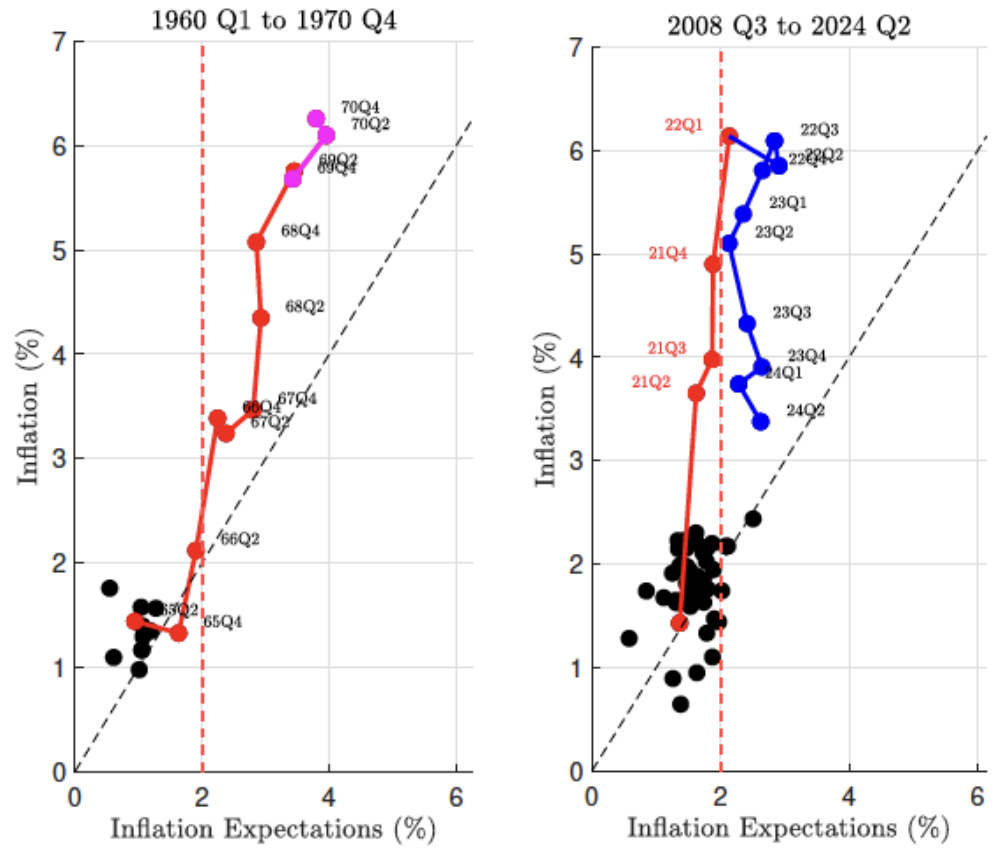


This time is different: 2020s vs 1960s

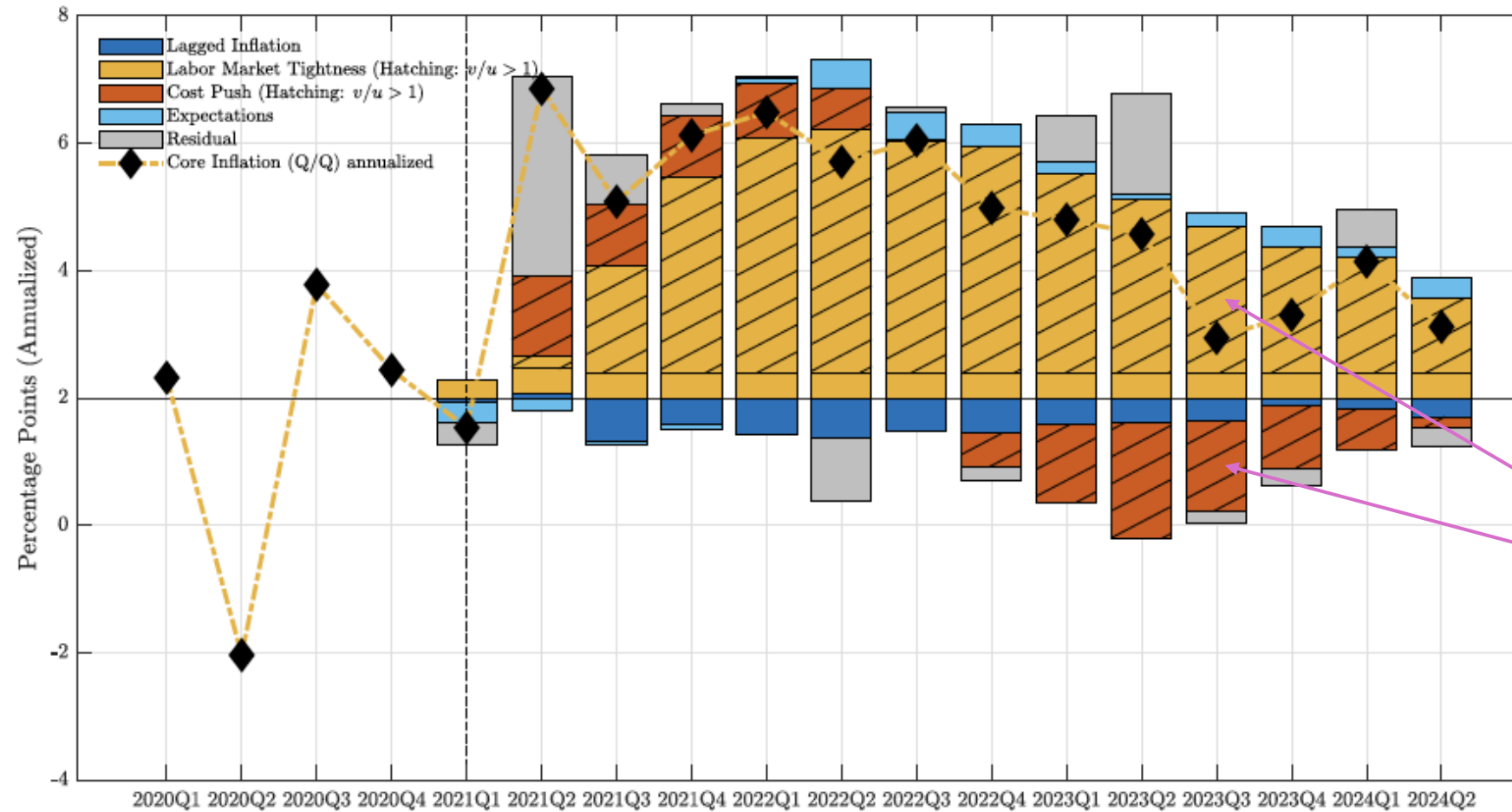
Inflation: up sidewise vs up-down



Expectations: unanchored vs anchored



Supercharged Demand/Supply Shocks $v/u > 1$



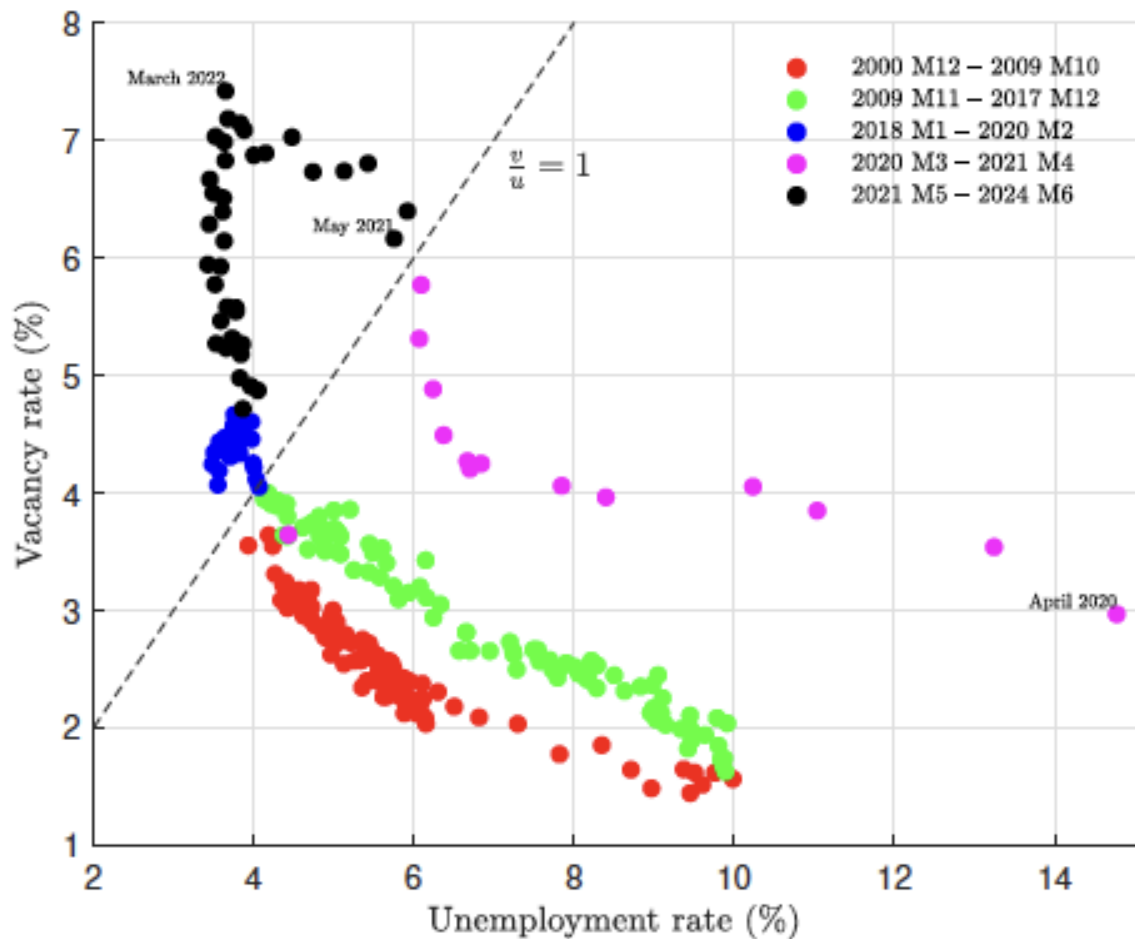
Demand/supply shocks **supercharged** when the Beveridge threshold crossed (*labor shortage*)

Baseline Regression in Paper

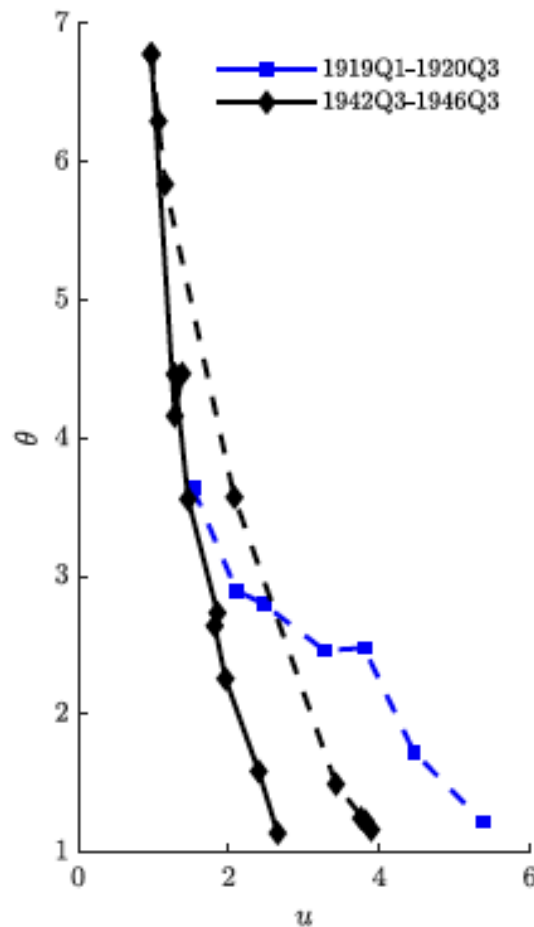
The Beveridge curve above Beveridge threshold:

it is mostly $v \downarrow$ not $u \uparrow$

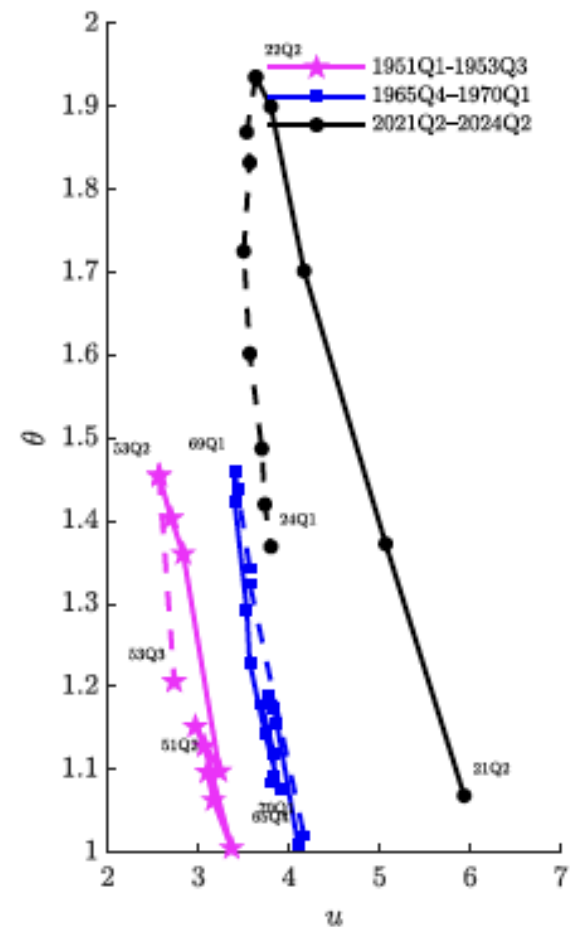
2000 onwards



WWI, WWII



Korea W, Vietnam W, Covid



The soft/hard landing debate

Blanchard, Domash, Summers (2022, BDS)
Figura and Waller (2022, FW)

Benigno Eggertsson (2024)

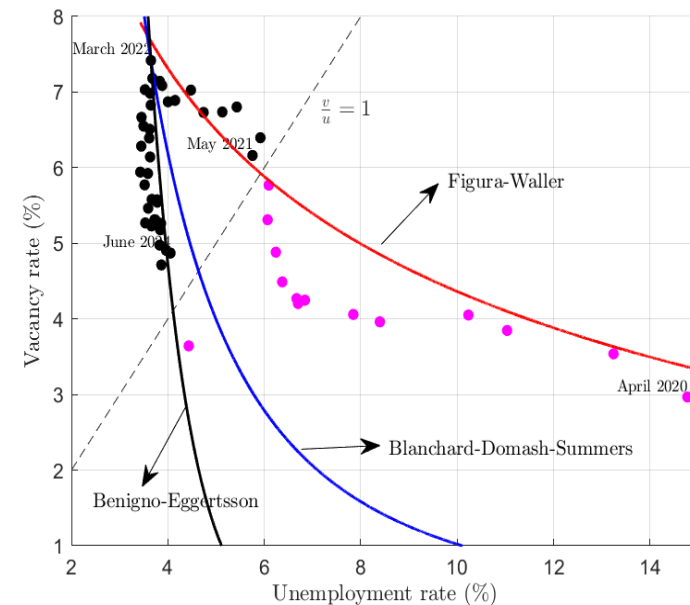
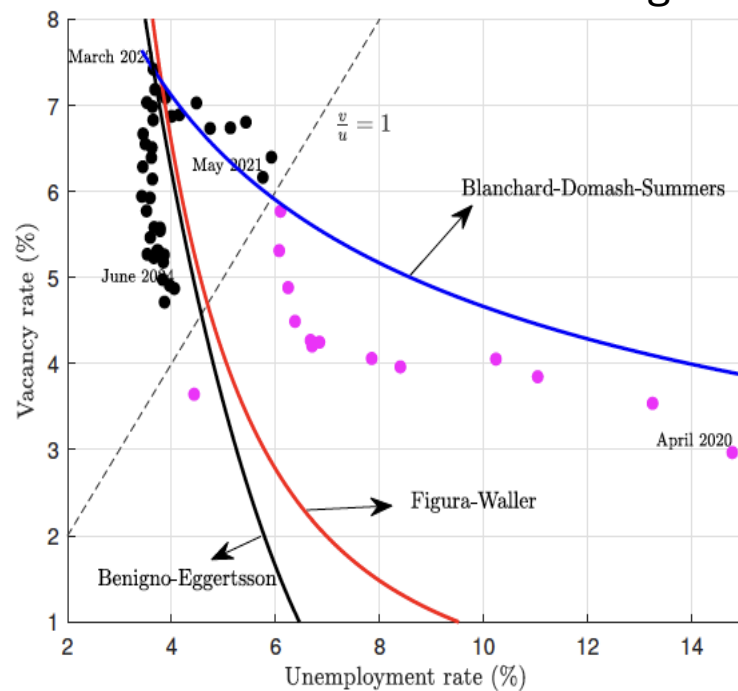
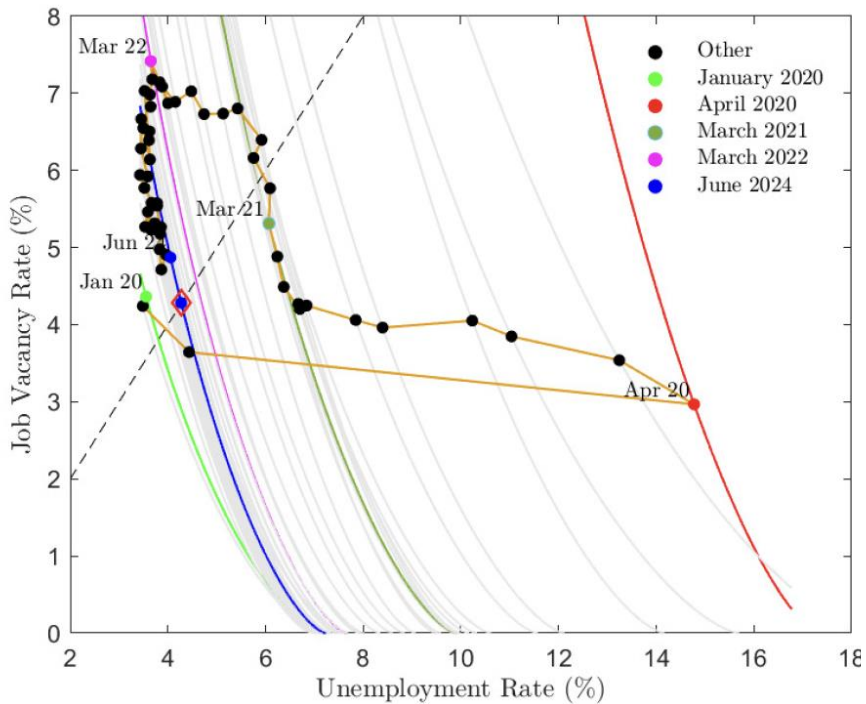


Soft landing

Soft/hard landing depends on matching elasticity

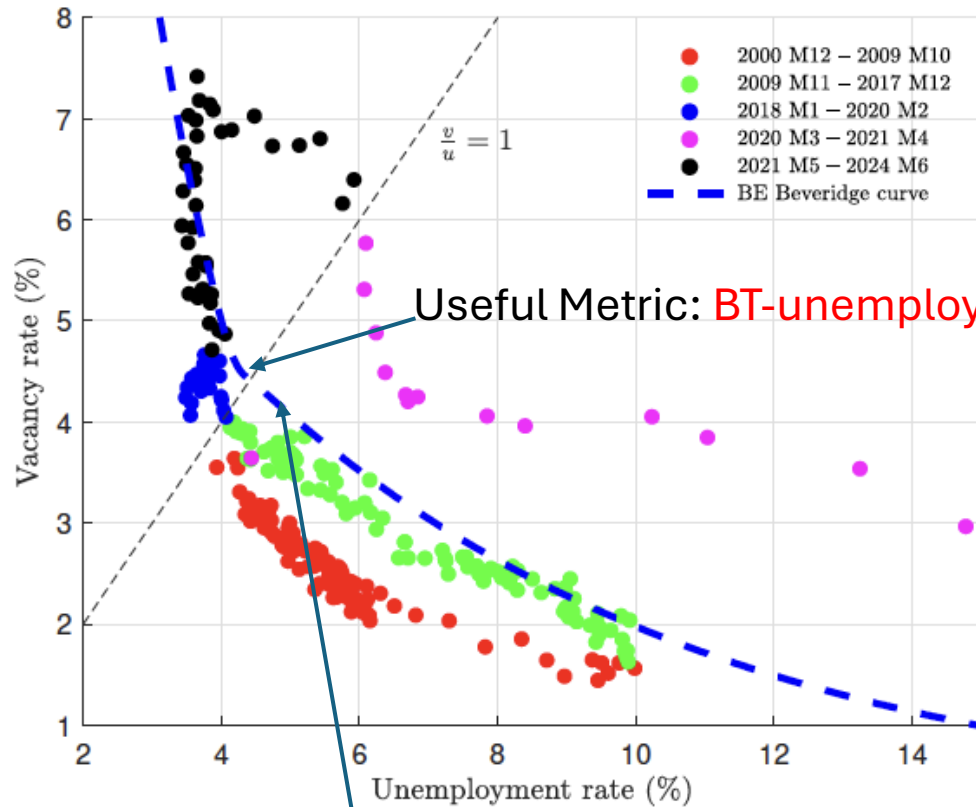
BDS → Hard landing
 FW → Soft landing

BDS → Soft landing
 FW → Hard landing



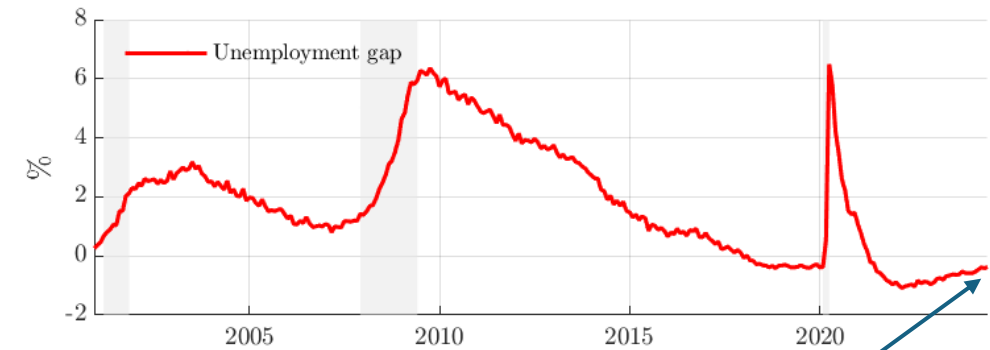
Swapping Elasticities

What's beyond the Beveridge Threshold?



Useful Metric: **BT-unemployment**

Beveridge curve is **less** step



Unemployment gap is closing....not necessarily a call for a recession....but...

Conclusion

- When economy above Beveridge Threshold both demand and supply shocks supercharged due to non-linear Phillips Curve.
- Above BT possibility of soft landing with mostly adjustment in v not u , WWI, WWII, Korea War, Vietnam War, Covid (so far)
- Today BT-U 4.42 %
- Potentially useful statistic for policy makers when weighting dual mandate.
 - Cost of being above BT-U high in terms of excess inflation
 - Cost of overtightening BG-U high in terms of increasing u