

**Discussant comments on presentation
by Andres Blanco**

Jeff Borland (University of Melbourne)
RBA Annual Conference, October 8

1] Afrouzi et al., 'Workers keeping up with inflation', QJE, 2026

- **The theory**

- COVID -> Increase in price inflation
- -> Decrease in real wages
- -> (i) Decrease in layoffs
- -> (ii) Increase in quits/Emp to Emp transitions (Better able to gain real wage increase by job switching)
- -> Increase in incentive for firms to post job vacancies

- **Empirics:**

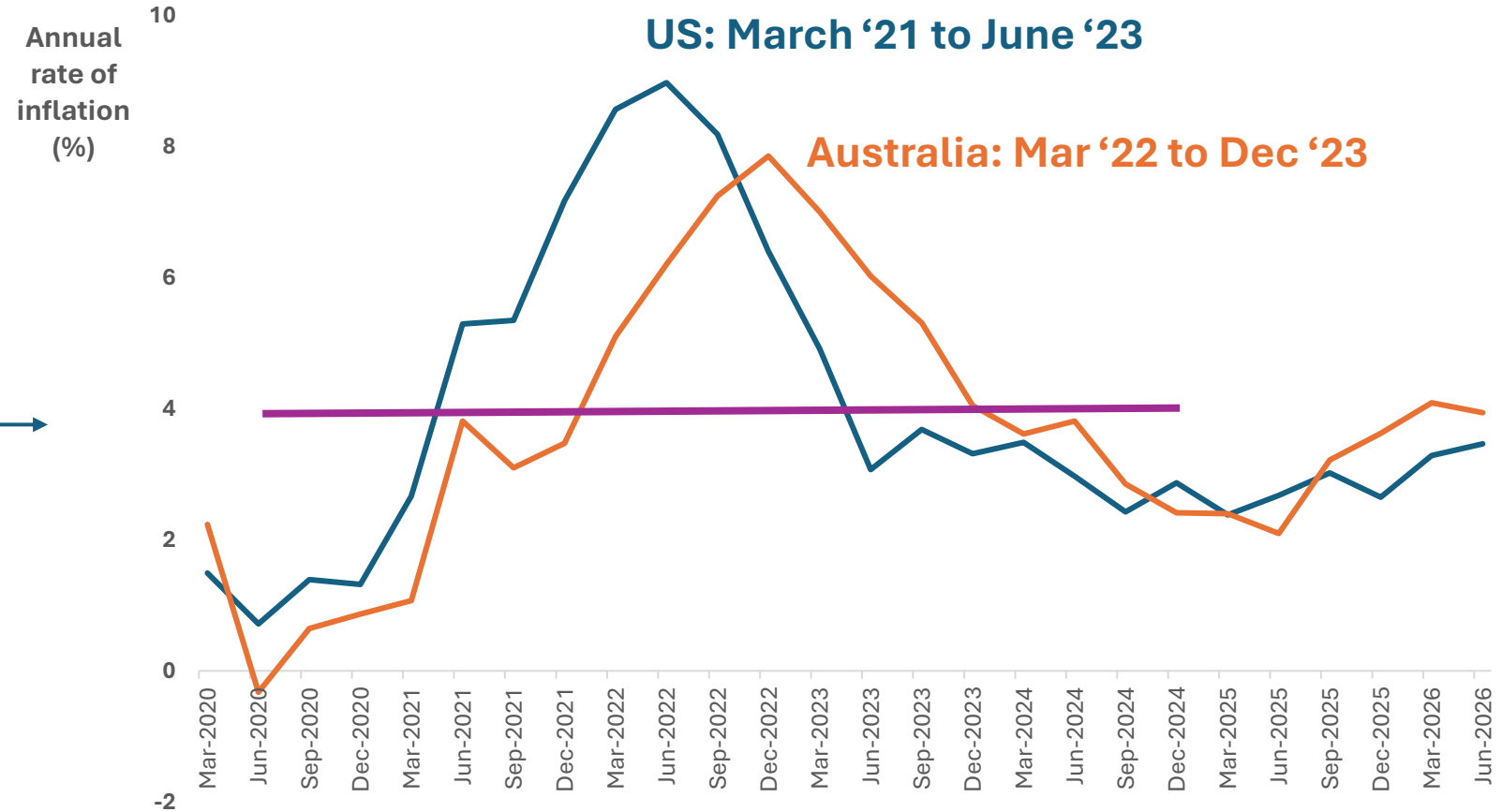
- (i) Descriptive information + Historical analysis
- (ii) Calibration of theory model

2] What I'll do

- Compare to Australian labour market in the COVID-19 era
- **(1)** Are other influences in addition to 'keeping up with inflation' necessary to explain Australian experience?
- I argue 'Yes' – With specific reference to the phase of high inflation, the role of labour demand is critical
- **(2)** Is labour demand enough to explain the Australian experience?
- Playing devil's advocate, I suggest 'Maybe'

3] The inflation shock

Method:
Compare
outcomes pre-
COVID (2016 to
2019) with
outcomes in 'high
inflation' phase
following onset of
COVID



Sources: US: Fred; Australia: ABS, CPI.

4] Summary of labour market outcomes

	US	Australia
Price inflation – High inflation period definition	Above 4% from April21 to May23	
	Compare high inflation period(s) with 2016-19	
Real wages - At end of high inflation period	Real hourly wage (CPS) 3.1ppts below pre-COVID trend	
Layoffs	Monthly rate decreases from 1.2% to 1%.	
Quits	Monthly rate increases from 2.2% to 2.7%	
Emp to Emp transitions	Monthly rate increases from 2.24% to 2.38%	
UE to Emp transitions	Monthly rate about 27% in both periods	
Rate of UE	Change in average rate from 4.2% to 4.1%	
Vacancy rate	Increases from average rate of 4.25% to 6.65%	
	Historical analysis	
Impact of inflation on vacancy rate	(Monthly, Jan 1951 to Dec 2019) Significant positive impact (about .15 coefficient)	

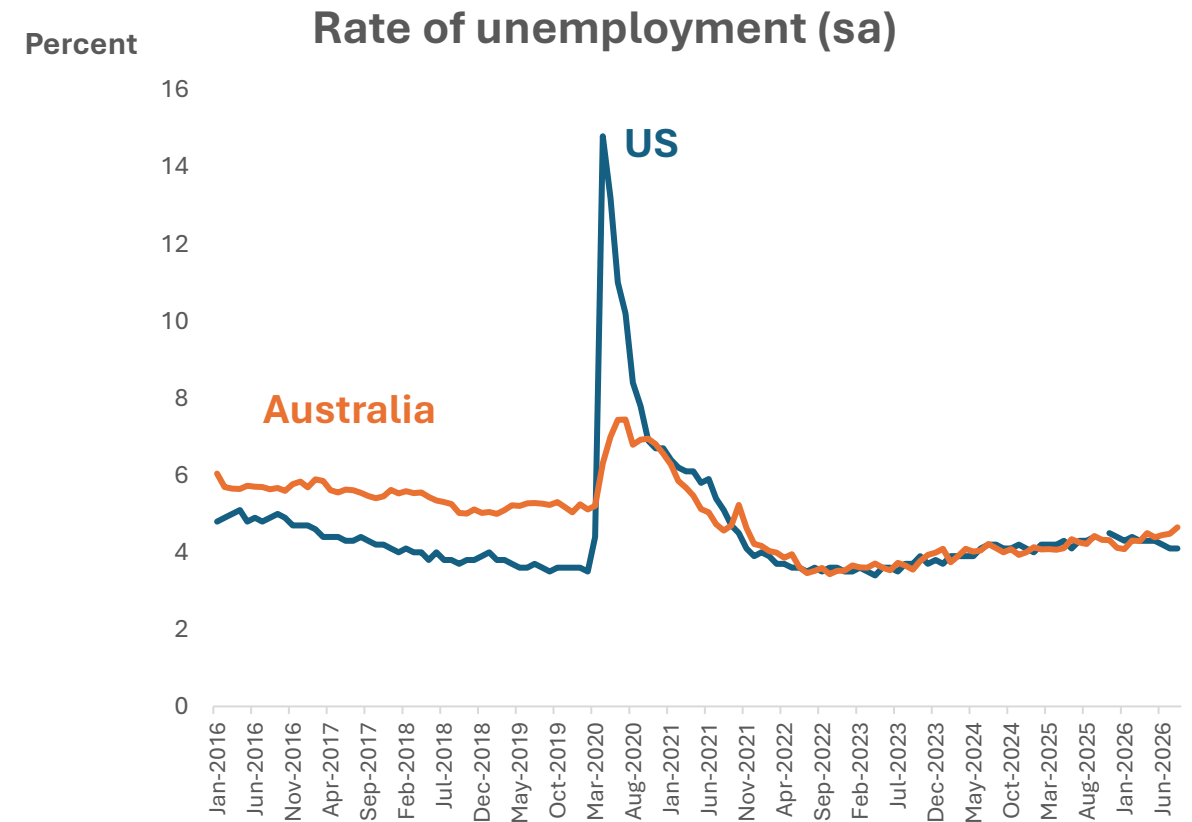
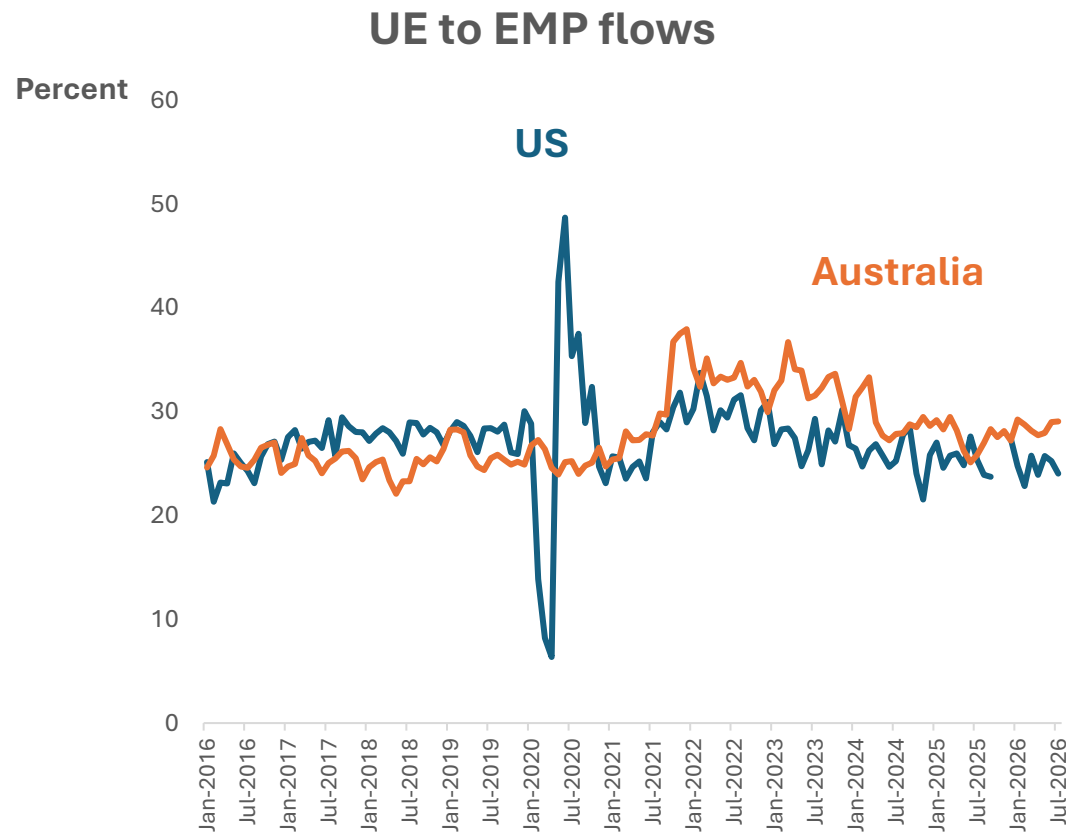
Sources: US: Afrouzi et al. (2026); Australia: ABS, Assorted publications.

4] Summary of labour market outcomes

	US	Australia
Price inflation – High inflation period definition	Above 4% from April21 to May23	Above 4% from Mar22 to Dec23 (Above 3% from Jun21 to Jun24)
	Compare high inflation period(s) with 2016-19	
Real wages - At end of high inflation period	Real hourly wage (CPS) 3.1ppts below pre-COVID trend	WPI 5.3ppts (5.8ppts) below pre-COVID trend Average hourly labour income (Labour Accounts) 0.1ppts (0.8ppts) below pre-COVID trend
Layoffs	Monthly rate decreases from 1.2% to 1%.	Quarterly rate decreases from 1.1% to 0.9% (0.8%)
Quits	Monthly rate increases from 2.2% to 2.7%	Annual rate increases from 5.1% to 6.2% (6.4%)
Emp to Emp transitions	Monthly rate increases from 2.24% to 2.38%	Annual rate increases from 8.1% to 8.8% (9%)
UE to Emp transitions	Monthly rate about 27% in both periods	Monthly rate increases from 25.4% to 32.8% (32.3%)
Rate of UE	Change in average rate from 4.2% to 4.1%	Decrease in average rate from 5.5% to 3.7% (3.9%)
Vacancy rate	Increases from average rate of 4.25% to 6.65%	Increases from average rate of 1.5% to 2.6% (2.8%)
	Historical analysis	
Impact of inflation on vacancy rate	(Monthly, Jan 1951 to Dec 2019) Significant positive impact (about .15 coefficient)	(Quarterly, May 1978 to Nov 2019) Insignificant effect.

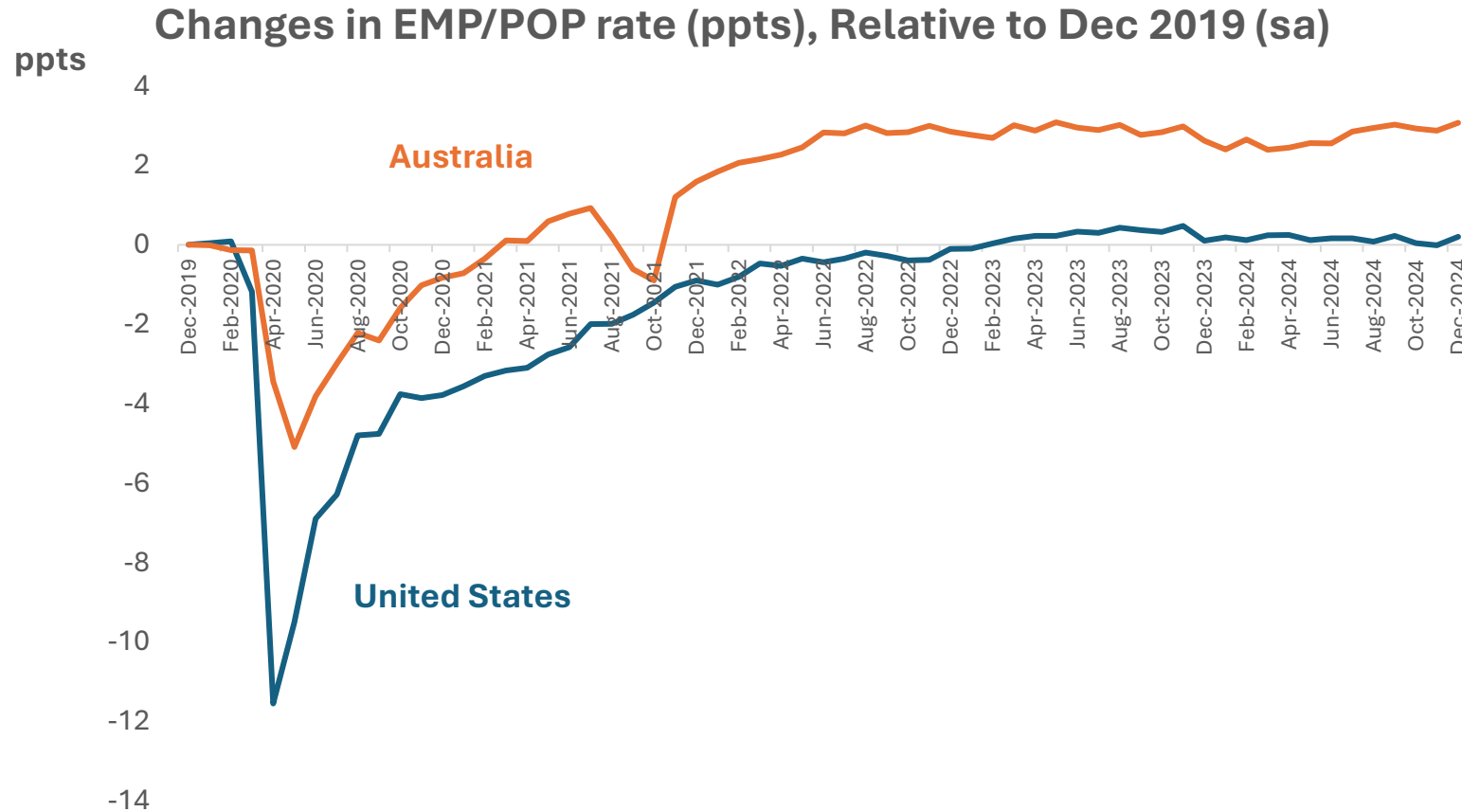
Sources: US: Afrouzi et al. (2026); Australia: ABS, Assorted publications.

- 5] Are other influences in addition to ‘keeping up with inflation’ necessary to explain Australian experience?
- Need to take into account **strength of labour demand** in Australia to explain change in unemployment



Sources: US: Fred; Australia: ABS, LFS.

- 5] Are other influences in addition to ‘keeping up with inflation’ necessary to explain Australian experience?

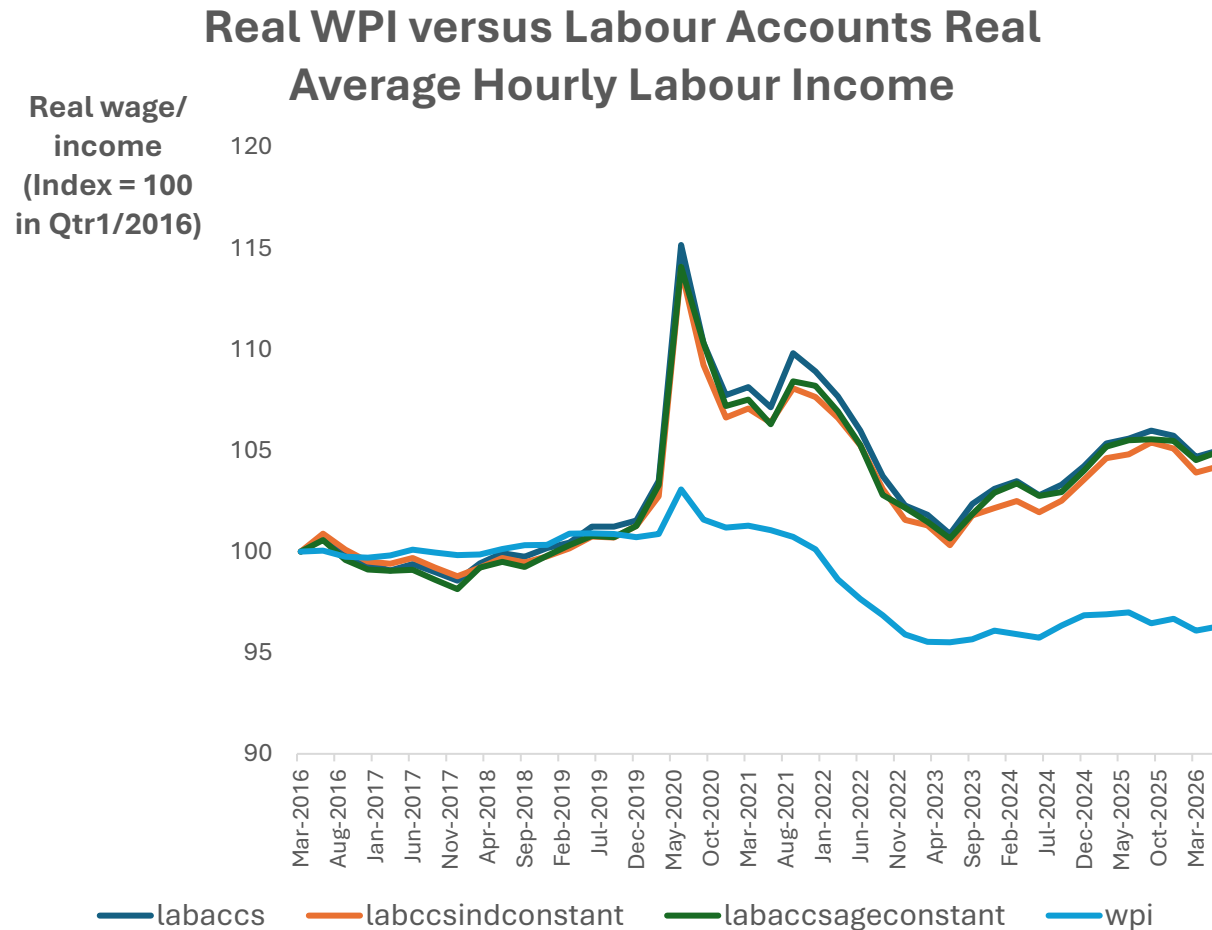


Sources: US: Fred; Australia: ABS, LFS.

• 6] Is labour demand enough to explain the Australian experience?

- (1) Outcomes for quits, layoffs, and EMP to EMP transitions can be explained by demand forces alone.
- (2) What about real wages?
 - (i) A question: What is the right ‘measure’ of real wages for understanding worker job search?
 - (ii) If deviation from trend is the right measure, perhaps for Australia the negative shock to real wages was not as large as in the US (albeit from a lower pre-COVID growth rate). But depends on ‘wage’ measure used.

• 6] Is labour demand enough to explain the Australian experience?



	Trend annual growth, 2016 to 2019 (%)	Deviation from trend by end of high inflation phase (ppts)
WPI	0.2	-5.3 (-5.8)
Average weekly earnings – Male adult FT ordinary time	0.4	-5.0 (-5.6)
Employee hourly earnings	1.3	-1.0 (-4.5)
Average hourly labour income	0.4	-0.1 (-0.6)

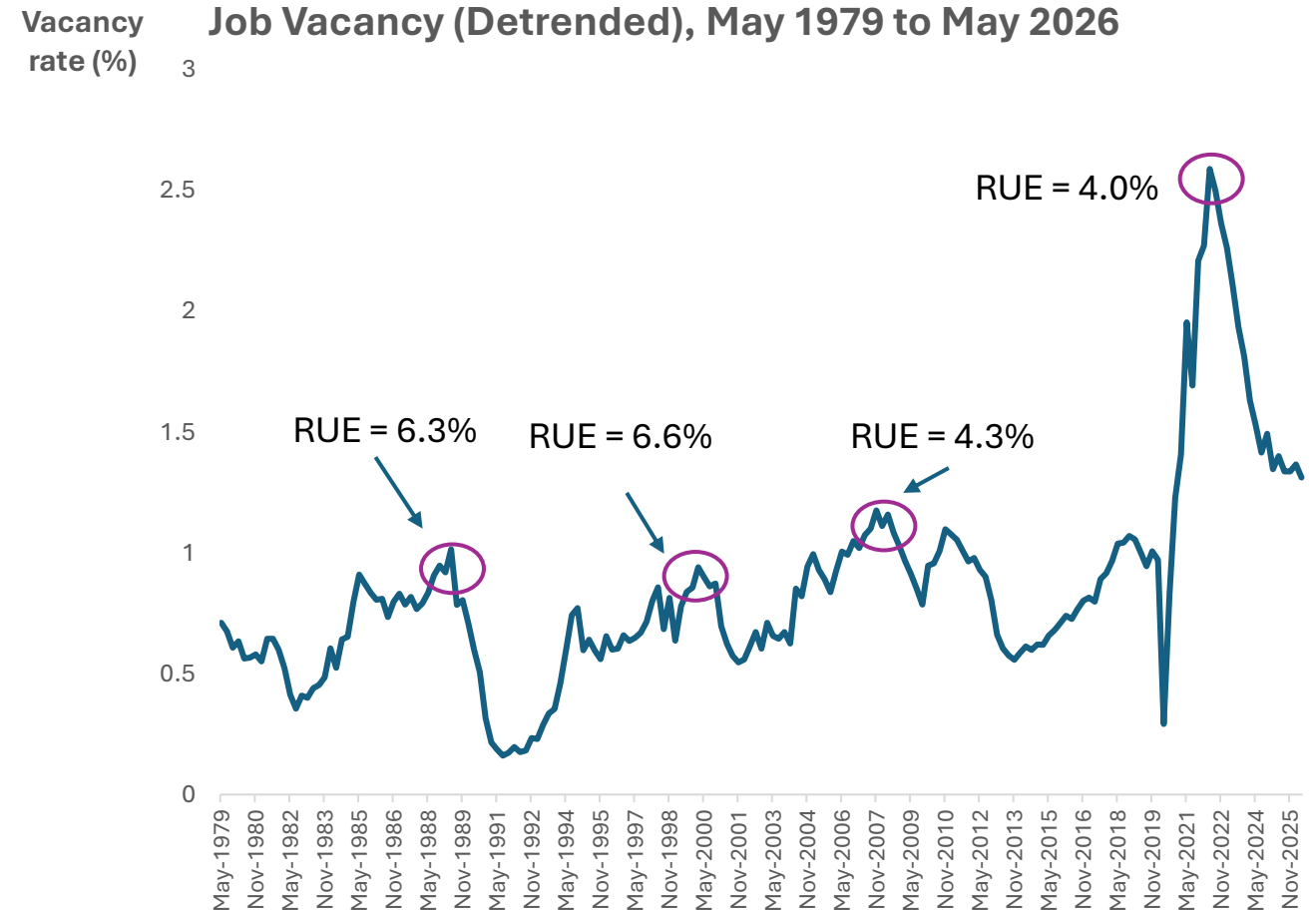
Sources: ABS, CPI, WPI, Labour Accounts, AWE, Employee earnings.

• 6] Is labour demand enough to explain the Australian experience?

- (iii) Perhaps other factors explain slow real wage growth in 2020s for Australia?
 - Manifestation of decreased worker bargaining power
 - Care industries 'lead' growth in labour demand
 - Slow productivity growth
 - Anchored inflation expectations
 - Labour supply response.
- **(3)** The story of **vacancies**
 - (i) The absence of a relation between vacancies and inflation
 - (ii) Australia's Beveridge curve 'gap' remains

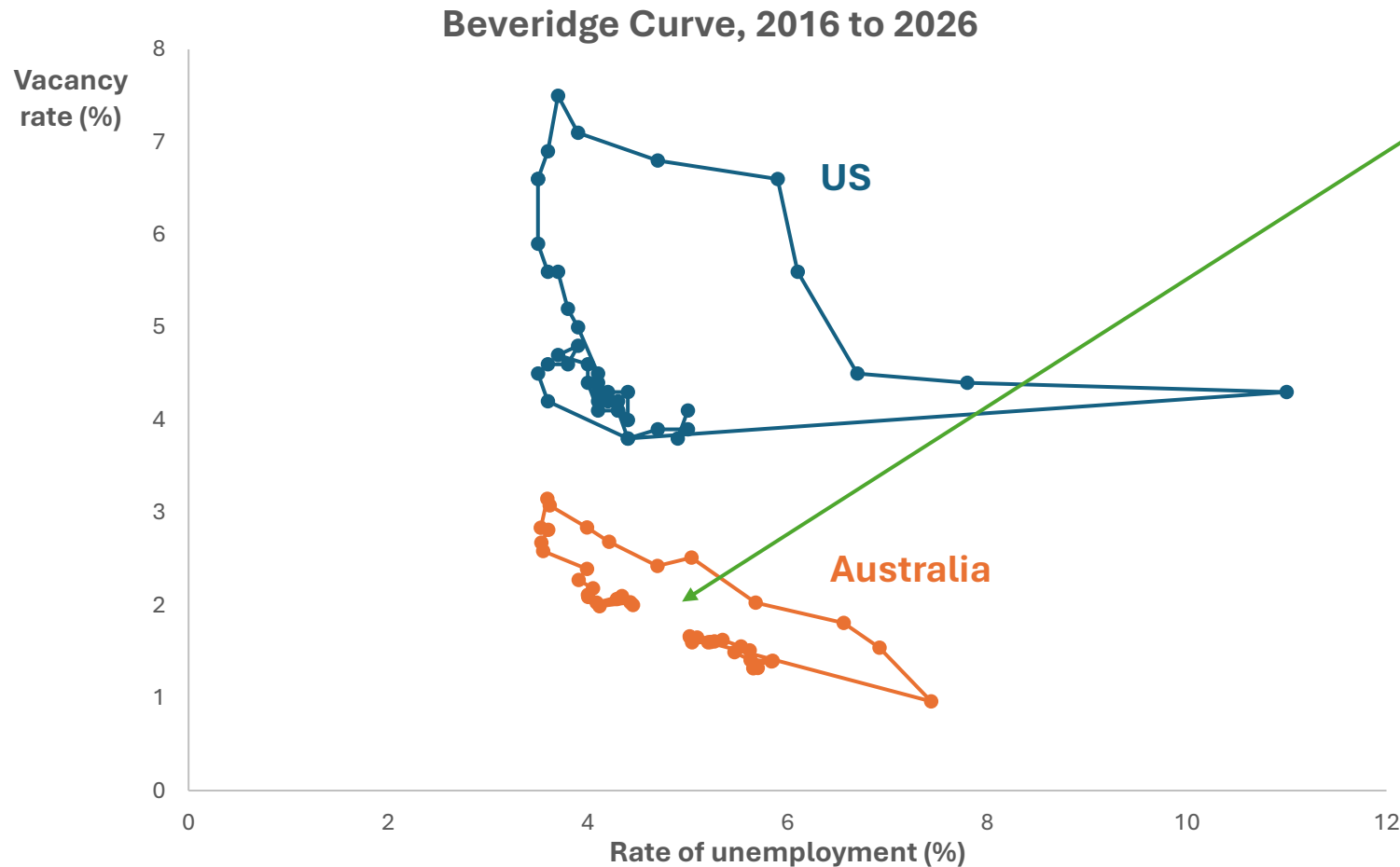
• 6] Is labour demand enough to explain the Australian experience?

Dependent variable: Vacancy rate		
Variables	(1)	(2)
Rate of unemployment	2.62 (0.25)	1.40 (0.26)
(Rate of unemployment)*2	-0.22 (0.07)	-0.095 (0.063)
Inflation rate	0.004 (0.005)	0.000 (0.004)
Time trend		0.005 (0.001)
Adjusted R-squared	0.771	0.834
NOBS	163	163



Sources: ABS, LFS, Job Vacancies.

• 6] Is labour demand enough to explain the Australian experience?



Sources: US: Fred; Australia: ABS, LFS, Labour Accounts.

- The BC gap
- How to explain?
- Speed of adjustment
- Trend increase in vacancy rate
- Mismatch (cf. At capacity of labour supply)