Abstract
Within a monetary union, regional inflation differentials lead to a competition between the real interest rate and wealth channels on the one hand and the real exchange rate channel on the other hand in the transmission of regional shocks. This may have implications for the length and vehemence of regional business cycles. This paper tries to quantify how these forces work against each other using regional data for the United States. Our estimates indicate that, following an increase in the regional inflation rate, in the short run the pro-cyclical effect through the real interest rate and wealth channels is strongest. After a period of about 3-4 years the cumulative worsening of the competitive position asserts its influence. Regional cycles in the housing market have a clear pro-cyclical effect and are, on their part, affected by regional real interest rates and real growth.