Abstract

This paper employs US state level data on manufacturing and non-manufacturing industries to present new evidence on the transmission of US interest rate shocks. Part one of our study analyzes the interest rate sensitivity of industry earnings over the period 1958-2000/01. The vector autoregressive evidence points to differences in the interest rate sensitivity of industries and, hence, to the existence of an industry channel of monetary transmission. Building on these results, the second part investigates whether the industry characteristics business size and capital intensity can explain the cross-industry heterogeneity of monetary policy effects. We find that the conclusions strongly depend on the treatment of the mining industry. Including a dummy variable for the mining industry significantly reduces the explanatory power of business size but brings to the fore the effect of capital intensity.