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# The Dynamic Effects of Weather Shocks on Agricultural Production

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## Abstract

This paper investigates the dynamic effects of weather shocks on monthly agricultural production in Peru, using a Local Projection framework. An adverse weather shock, measured by an excess of heat or rain, always generates a delayed negative downturn in agricultural production. The magnitude and duration of this downturn depend on several factors, including the type of crop and the timing of the shock. On average, a weather shock—a temperature shock—can cause a monthly decline of 5% to 15% in agricultural production. The response exhibit important heterogeneity across time, crop, and season dimensions, with hysteresis suggesting farmers’ adaptation over time. At the macroeconomic level, weather shocks are recessionary and entail a decline in inflation, agricultural production, exports, exchange rate and GDP.

**JEL classification Numbers:** C23, E32, Q11, and Q54

**Keywords:** Weather shocks, Agriculture, Local projections, VAR

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# 1 Introduction

Of all economic sectors, agriculture stands out as the most vulnerable to weather fluctuations. In developing countries, the agricultural sector is a major contributor to aggregate production, in terms of output and employment. In these economies, abnormal weather realizations—or weather shocks—can have significant economic consequences (Mendelsohn, 2009). Because many small-scale farmers in developing countries have limited access to risk management tools such as insurance and irrigation infrastructure, these economies are also particularly vulnerable to exogenous shifts in weather conditions (Aragón et al., 2021). Consequently, weather shocks can have a disproportionate impact on livelihood and food security.

Given these vulnerabilities, the objective of this study is to quantitatively measure the dynamic effects of abnormal weather on the supply of agricultural products over time. Assessing the consequences of an unexpected weather event observed today on future crop production is essential for anticipating adverse outcomes. This is particularly crucial in the context of climate change, where certain countries, especially in the tropics, face significant increases in temperature and precipitation variability (Castellanos et al., 2022). At the farmer level, such a quantitative analysis can aid in making better-informed decisions to adapt to climate change. At the macroeconomic level, these assessments are important for policymakers to anticipate potential food shortages and income losses, enabling them to implement effective mitigation policies.

Our empirical approach examines the impact of weather fluctuations on agricultural production in Peru, using monthly regional and crop-specific data. The analysis employs a linear panel model with local projections to leverage exogenous within-regional variations in weather fluctuations to assess how random changes in the weather affect agricultural production across months, regions, and crops. Our measures of weather shocks are based on precipitation and temperature. We extract the unexpected component of the weather by taking the deviation of the weather variable from its historical average.<sup>1</sup>

The literature examining how the weather affects agricultural production typically bases its quantitative analysis on annual data (see, e.g., Deschênes and Greenstone, 2007; D'Agostino and Schlenker, 2016; Burke and Emerick, 2016; Jagnani et al., 2021). The gold standard in the field for measuring the effects of the weather on economic outcomes is to use panel data models with fixed effects. Studies typically utilize weather data frequencies ranging from annual to daily, with annual economic data being most common. This methodology has been extensively applied in the literature, including the analysis of weather impacts on agriculture

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<sup>1</sup>We compute the average monthly maximum regional extreme daytime temperature and total rainfall and express each as a weather anomaly by taking the deviation of the weather variable from its historical average. Intergovernmental Panel on Climate Change (IPCC) studies, such as Parry et al. (2007), have documented a large negative sensitivity of crop production to extreme daytime temperatures and precipitation. We build on this observation to construct the weather variables.

and broader economic indicators.

With respect to this gold standard, we propose a complementary methodological approach that comprises two core ingredients: high-frequency agricultural production data combined with local projections (LPs).<sup>2</sup> The current gold standard in agricultural economics typically maps current economic variables ( $y_t$ ) to current and past weather variables ( $w_t, w_{t-1}, \dots$ ) through a function  $f$ :  $y_t = f(w_t, w_{t-1}, \dots)$ . Local projections, on the other hand, reverse this approach by forecasting the response of an economic variable over multiple horizons ( $h$ ) conditional on a weather shock,  $y_{t+h} = f(w_t, w_{t-1}, \dots)$  with  $h = 0, 1, \dots$ , thereby providing a dynamic view of the impact over time. We exploit the plausibly exogenous variations in temperature and precipitation at the Peruvian regional level to study the delayed effects of weather shocks on agricultural production over multiple months after the realization of the shock. We control for regional fixed effects, dynamic macroeconomic characteristics, and temporal dependence. By leveraging the cross-sectional dimension at the regional level, we use impulse response analysis to identify the propagation of a regional weather shock on agricultural production. Why are local projections particularly well-suited for measuring the effects of weather shocks on intra-annual data? The biological growing process of crops introduces a natural time lag between the month of the realization of a weather shock and the month of its economic impact at harvest time. Impulse response functions directly coincide with the life-cycle of a weather shock from its realization up to its disappearance in economic terms.

Our methodology, based on LP in high frequency, provides four main additional advantages with respect to the current gold standard in agricultural economics. First, this methodology provides a straightforward mapping of economic costs with random weather variations, avoiding possible ambiguities present in aggregate annual data. These ambiguities may concern both agricultural,<sup>3</sup> and weather data.<sup>4</sup> They quantitatively matter: by pooling monthly data into an annual frequency, we find an estimated cost of weather shocks relatively smaller.

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<sup>2</sup>Local projections, pioneered by [Jordà \(2005\)](#), are an econometric framework that has become widely used for measuring impulse response functions in various fields of applied economics. LPs are not only relatively more robust to misspecification but are also easy to estimate (via linear regression) and accommodate in panel data.

<sup>3</sup>If the harvesting season spans two calendar years, it becomes challenging to map weather events to their true realization, further complicating the assessment of their impact when using annual data. For example, in Peru, the harvesting peak time for maize can occur in December. Consequently, the total production from one growing season is divided between two different years, making it more complex to map the economic impact to the corresponding weather realization.

<sup>4</sup>The annualization of weather data can also omit relevant information regarding the effects of weather on agriculture ([Cui et al., 2024](#)). Specifically, the mean-wise aggregation of extreme weather events throughout the year can average out the impact of both positive and negative events ([Colacito et al., 2019](#)), potentially underestimating the true damages caused by weather shocks on agriculture. A typical approach to address this aggregation masking effect is to consider metrics of the weather representing the growing season (see, e.g., [Ortiz-Bobea and Just, 2012](#); [D'Agostino and Schlenker, 2016](#); [Gammans et al., 2017](#)), natural seasons ([Tack et al., 2015](#); [Schmitt et al., 2022](#)), calendar months ([Miao et al., 2016](#); [Li, 2023](#)), or even weeks ([Powell and Reinhard, 2016](#)).

A second advantage of high-frequency local projections is their ability to assess the time-varying vulnerability of crops across different growth stages, as crops are generally more vulnerable during the early stages of growth than at the harvesting stage. While the literature typically captures the heterogeneous effects of weather shocks over time by distinguishing growing seasons (see, *e.g.*, [Taraz, 2018](#); [Jagnani et al., 2021](#)), employing regional data (see, *e.g.*, [Chen et al., 2016, 2023](#)), or even using higher frequency data (see, *e.g.*, [Ortiz-Bobea et al., 2019](#); [Welch et al., 2010](#); [LoPalo, 2023](#)), the variable of interest they are associated with often remains annual. This approach does not allow for the identification of the intra-year dynamics of shocks within the season. In contrast, local projections at a monthly frequency naturally capture the time-varying vulnerability of crops across different growth stages: impulse response functions (IRFs) at shorter horizons isolate the effects on crops that are already mature, while IRFs at longer horizons capture the delayed effects on crops that were affected in their early stages of growth. By comparing the size of the IRF at different horizons, one can directly measure the heterogeneous effects of weather shocks across the growing to harvesting stages and identify when crops are most vulnerable.

A third advantage of our methodology, related to the horizon of the IRF, is the ability to identify a possible learning mechanism among farmers following weather shocks. By leveraging the granularity of our monthly data, one can compute the average duration in months of a crop cycle from planting to harvesting. Any impulse response function that persists beyond the typical crop cycle duration is interpreted as evidence of an adaptation mechanism. This indicates that farmers adjust their practices within a year in response to past weather shocks, leading to longer-term modifications in crop management and resilience strategies. While conventional methods using annual data might interpret this loss as direct damage, it actually reflects an intra-year adaptation effect.

A last advantage of high-frequency LPs on agricultural production is their capacity to provide early warnings for policymakers to anticipate food security. By collecting and monitoring daily weather data, policymakers can predict regional food shortages several months in advance when an abnormally large weather shock occurs. This early warning enables timely interventions, such as adjusting water management practices, distributing resources to affected areas, or implementing price stabilization measures. For example, in the event of an unexpected heatwave, high-frequency LPs can quickly identify crop stress, predict local supply reductions. This forward-looking approach minimizes losses and stabilizes the food supply, demonstrating the practical utility of LPs in high-frequency data for early warning systems.

While our analytical framework offers distinct advantages, it also presents limitations compared to more widely used methods in the literature. The use of monthly production data, as opposed to annual data, emphasizes the short-term effects of weather fluctuations. This higher frequency of data complicates the identification of long-term effects. Although

our framework can highlight certain adaptation mechanisms, longer-term changes are better captured using the traditional methods in the literature that utilize annual data.

From our empirical analysis, we derive three main findings. First, while it is well-known that weather shocks are overall detrimental to agriculture, we corroborate this finding by distinguishing heterogeneous effects on agricultural production. This heterogeneity depends on the type of crop, the type of weather shock, and the season (growing season versus harvesting season). Specifically, a weather shock can cause a significant 5% to 15% monthly decline in agricultural production for any crop type in our sample, with temperature shocks being more detrimental than precipitation shocks. Weather shocks during the growing season have a more substantial impact than those occurring during the harvest season, indicating the critical timing of these events.

Our second key finding highlights the presence of hysteresis effects from weather shocks. The impact of the shock extends beyond the growing cycle for most crops. We interpret this as a learning mechanism among farmers, who adjust their crop mix in subsequent growing seasons. This decline could be a response by farmers who choose not to plant the same crop in consecutive seasons, leading to scarring effects from weather shocks.<sup>5</sup>

Finally, our third main takeaway addresses the aggregate implications of weather shocks. By netting the contributions of all current and past weather shocks on current agricultural production, we develop an aggregate index of weather loss. When fed into a Vector Autoregression (VAR) model alongside other core macro variables, we find that a representative weather shock leads to a 0.4% decline in agricultural production, a 1.5% decline in exports, an immediate decline in the real domestic currency, and a modest reduction in inflation. These results highlight that the implications are not only local but can also cause fluctuations at a broader level that can affect the conduct of stabilization policies. In particular, we find that monetary policy reacts by easing credit conditions in response to a weather shock to revive the economy.

Our study is connected to two complementary branches of literature. The first strand of the literature examines the nexus between economic growth and climate based on yearly data. [Dell et al. \(2012\)](#) demonstrate that higher temperatures reduce economic growth and agricultural production in a large panel of countries. Building on this study, the research question has been extended in several directions.<sup>6</sup> [Colacito et al. \(2019\)](#) conduct a similar exercise for the US economy and find that rising summer temperatures have a pervasive effect

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<sup>5</sup>Note that in this article, we do not aim to directly address the adaptation strategies implemented by farmers in response to weather fluctuations, as investigated by [Sesmero et al. \(2018\)](#); [Jagnani et al. \(2021\)](#); [Blakeslee et al. \(2020\)](#) or [Bareille and Chakir \(2024\)](#), among others. Nevertheless, our results indicate that production may be affected even after the harvest of crop areas directly affected by the shock, implicitly signaling some adaptation from farmers.

<sup>6</sup>While most of the literature examines the effects of weather variables on quantities, [Faccia et al. \(2021\)](#) explore the effects on prices and identify deflationary effects.

on the entire cross-section of industries. [Ortiz-Bobea et al. \(2021\)](#) employ a country-level panel regression and yearly data from 1961 to 2015 to investigate the impact of climate change on agricultural Total Factor Productivity (TFP). The authors conclude that, on average, in Latin America, climate change had a negative impact on agricultural TFP, reducing it by more than 25% over the sample period, attributable to variations in average temperature and total rainfall.

The second strand of literature focuses on estimating the effects of weather and climate change on agriculture, employing agronomic models and statistical models (see [D'Agostino and Schlenker 2016](#) for a review). The latter, which is predominant in the economic literature, has shifted from cross-sectional ([Mendelsohn et al., 1994](#)) to panel data analysis (see [Blanc and Schlenker 2017](#), or [Kolstad and Moore 2020](#)). These models, which assess variables, such as crop yield ([Schlenker and Roberts 2009](#)), production ([Lesk et al. 2016](#)), and profit ([Deschênes and Greenstone 2007](#)) over space and time, account for both group- and time-specific effects. The former captures constants such as soil quality, while the latter considers factors affecting all regions in a given year. Panel regressions, treating weather variations as exogenous, offer insights into short-term effects, although caution is needed in long-term studies, as rapid farmer adaptation can skew the results ([Kolstad and Moore, 2020](#)).<sup>7</sup> Our study relies on panel data such as this second strand of literature, and focuses on short-term effects. However, we adopt a distinct framework that not only links year-to-year variations in agricultural production with changing weather conditions but also facilitates the exploration of dynamic propagation effects.

This study makes three major contributions to the literature. First, the high frequency of our data enables the capture of infra-annual variations in production and their correlation with corresponding weather fluctuations. While most of the literature uses annual panel data and exploits year-to-year variations by aggregating the weather conditions over the growing season, our approach provides a finer mapping between the realization of the weather shock and its economic materialization.

Second, we employ the Local Projection method to examine the impact of weather fluctuations on production. Although this method has been used to estimate temperature shocks,<sup>8</sup> its application in analyzing the agriculture/weather nexus is relatively recent. LPs enable the tracing of the response of agricultural production to weather shocks over various time horizons. They are particularly well suited for this purpose to account for non-linear seasonal effects, which are not readily apparent using annual data.

Our final contribution concerns the role of local weather shocks in triggering aggregate

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<sup>7</sup>To study long-term effects, [Burke and Emerick \(2016\)](#) suggest a framework in which they model the change in average yields at two different points in time for a given location as a function of changes in average temperature.

<sup>8</sup>[Natoli \(2024\)](#) applied this method to analyze the impact of temperature surprises on the US economy using quarterly data.



fluctuations. Instead of focusing on the channel of impact directly on aggregate outcomes, as in the literature,<sup>9</sup> we aggregate in-sample responses of regional crop production to weather shocks from LPs to build a macroeconomic index of weather shock losses. We then include this new index into an otherwise standard vector autoregressive model to quantitatively assess how weather shocks drive macroeconomic fluctuations.

The remainder of this article is organized as follows. **Section 2** describes the data and the variables used in the empirical analysis. **Section 3** details the estimation strategy and discusses the panel estimation results. **Section 4** examines the differentiated effects of weather shocks across production stages, distinguishing between a growth regime and a harvest regime. **Section 5** shifts the focus from agricultural production and investigates the transmission of weather shocks to the rest of the nation's economy. **Section 6** provides a conclusion.

## 2 Data

This section summarizes the main data sources used in the empirical analysis as well as the data transformation process used to compute abnormal weather shocks and their mapping to deseasonalized agricultural production data.

### 2.1 Regional Agricultural Production Data

Our primary source of agricultural data is derived from monthly agricultural reports, *El Agro en Cifras*, produced by the Ministry of Agriculture and Irrigation of Peru (MINAGRI) spanning from 2001 to 2019.<sup>10</sup> These reports provide agro-economic indices and agricultural production figures at both regional and national levels. We extracted data on production (measured in tons) and on the planted and harvested areas (measured in hectares) for each of the primary crops cultivated in Peru across 25 administrative regions, covering the period from January 2001 to December 2015. It is important to note that observations after 2016 are no longer reported on a monthly basis but are presented quarterly; therefore, they are excluded from our analysis. Each monthly report presents data as a cumulative sum from January to the respective reporting month. To convert the production data into net flows, we apply a first-difference filter.

Four main crops are analyzed in this study: potato (*papa*), cassava (*yuca*), rice (*arroz cáscara*), and maize (*maíz amarillo duro*).<sup>11</sup> The selected crops in this study collectively represent a substantial share of agricultural production, comprising 53% of the cultivated surface

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<sup>9</sup>See, for example, [Acevedo et al. \(2020\)](#), who identify negative impacts of weather shocks on agricultural and aggregate output in developing countries.

<sup>10</sup>The data can be downloaded from: <https://www.midagri.gob.pe/portal/boletin-estadistico-mensual-el-agro-en-cifras>.

<sup>11</sup>Two types of maize are reported in the MINAGRI reports. In the rest of the article, we refer to *maíz amarillo duro*, or "Dent corn," as "Maize."

and 37% of the total production in Peru.<sup>12</sup> To ensure the validity of our data over the same years of observation, we cross-referenced them with the Food and Agriculture Organization data (FAOSTAT) and, observed similar quantities (see [Table C.1](#) in the appendix). According to the FAO data, the crops we focus on constitute 41% of the cultivated surface and 31% of the total quantity produced. The slight differences observed between the figures provided by the monthly reports produced by the Peruvian Ministry and those reported by the FAO are ascribed to the fact that the former focus solely on the main crops, while the latter are more exhaustive.

In agricultural economics, it is common to express agricultural production as yields by dividing it by the planted land surface. However, with monthly data, a significant number of observations exhibit zero values for the planted area or production, resulting in an inability to calculate yields for those months. In this article, we express agricultural production as its normalized value, where normalization consists of dividing the production value by the historical regional monthly average. Normalizing allows to correct for the size effect stemming from regional heterogeneity in production.

We first calculate the crop-specific average production over the entire period (January 2001 to December 2015) on a monthly basis for each region:

$$\bar{y}_{c,i,m} = \frac{1}{n} \sum_{t=1}^n y_{c,i,m,t}^{\text{raw}} \quad (1)$$

where  $y_{c,i,m,t}^{\text{raw}}$  represents the agricultural production reported for crop  $c$  in region  $i$  in month  $m$  at date  $t$ , and  $n$  is the number of periods with reported production values. Then, we express agricultural production relative to the average:

$$y_{c,i,m,t} = \begin{cases} \frac{y_{c,i,m,t}^{\text{raw}}}{\bar{y}_{c,i,m}}, & \bar{y}_{c,i,m} > 0 \\ 0, & \bar{y}_{c,i,m} = 0 \end{cases} \quad (2)$$

Values of  $y_{c,i,m,t} > 1$  means that the production for crop  $c$  in region  $i$  during month  $m$  of year  $t$  is higher than the average monthly production for that crop and region over the period 2001 to 2015. For example, a value of 1.5 means that the production is 50% higher than average. Conversely, values of  $y_{c,i,m,t} < 1$  correspond to production levels lower than the average monthly production for that crop and region over the period 2001 to 2015. For example, a value of 0.8 means that the production is 20% lower than average. Lastly, values of  $y_{c,i,m,t} = 1$  indicate that the average production for that crop in that region and month over the period is equal to the average.

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<sup>12</sup>While the Peruvian agricultural report includes data for other crop types, these exhibit numerous missing observations and do not encompass a sufficiently large time span for inclusion in the quantitative analysis.

## 2.2 Regional Weather Data

The selection of weather variables for inclusion in the analysis has received considerable attention in the literature. Given that the dependent variable is typically observed annually, the temporal aggregation of weather data is necessary.<sup>13</sup> [Ortiz-Bobea and Just \(2012\)](#) notes that most econometric models rely on weather variables aggregated over the growing season with the underlying assumption that growing season dates are fixed in time. In this vein, some studies have defined accumulated metrics over the growing season, such as growing degree days ([Schlenker and Roberts, 2009](#)). Other studies segment the growing season into several parts, based on the four seasons ([Schmitt et al., 2022](#)), or weeks of the year ([Powell and Reinhard, 2016](#)). The division of the periods can also be performed to match the different stages of the growth process, such as the vegetative phase, ripening, and maturation ([Ortiz-Bobea et al., 2019](#); [Welch et al., 2010](#)). The consideration of multiple points in time for aggregating weather variables stems from the idea that weather shocks can impact agriculture differently, depending on when they occur. However, even when weather data are aggregated across the different stages of production, the annual nature of the response variable prevents the study of intra-season dynamics of the effects of weather shocks. To address this issue, we use monthly data and local projections, which enable us to study these dynamic effects.

To construct the weather shock series, we consider daily grid temperature and precipitation data, aggregated at the monthly level for each region of Peru. We follow [Barrios et al. \(2010\)](#) and demean weather observations at the grid level. The means are the monthly historical values observed over the past 20 years. Next, we aggregate the values at the regional and monthly levels. The aggregation process is described in detail in this section. In summary, the obtained variables—temperature and precipitation anomalies—are deviations from the average.

**Gridded weather data.** We obtained temperature data from PISCOt V1.1, and precipitation data from PISCOp V2.0. These datasets provide gridded daily temperature data and precipitation, for Peru. The data were collected from January 1981 to December 2016. The grid has a 0.1° spatial resolution (10 km). The data sets are developed by the SENAMHI (the National Service of Meteorology and Hydrology of Peru). The methodology that led to the construction of this data set is explained by [Huerta et al. \(2018\)](#) for temperatures and by [Aybar et al. \(2020\)](#) for precipitation.<sup>14</sup>

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<sup>13</sup>The literature has also addressed the issue of spatial aggregation, which can lead to very different results, depending on the chosen method. For more details, please refer to [D'Agostino and Schlenker \(2016\)](#).

<sup>14</sup>Data can be obtained from <https://drive.google.com/drive/folders/1eGqhmJXBJfFSzUFz2RVqtbKlIOphpkcs> for temperatures and from <https://piscoprec.github.io/webPISCO/en/> for precipitation.

**From grid data to regional data.** Agricultural production is available at the regional level. Therefore, it is necessary to map grids and regions to aggregate the weather data at the regional level. In addition, shocks such as excessive temperatures or rainfall occurring in agricultural areas should not be accounted for in the same way as shocks occurring in urban geographic land. For example, the weather conditions of a grid cell where 90% of the surface is used for agricultural production should matter more than those of a cell with 10% of the agricultural surface. When aggregating the weather data, we must identify where agricultural regions are located in Peru to give these regions more weight in the aggregation procedure. To do so, we rely on data from Copernicus, a European program for monitoring the Earth using satellite and *in situ* data managed by the European Commission.<sup>15</sup> We use the 2015 Peru data with a 100m resolution.

**Regional weather anomalies.** What are the relevant weather shocks for predicting agricultural production? Parry et al. (2007) documented a large negative sensitivity of crop production to extreme daytime weather variables. Building on this observation, we construct our temperature variable by computing the average monthly maximum temperature, and our precipitation variable is defined as the sum of the monthly rainfall. Following D'Agostino and Schlenker (2016), transformations of the weather data are first performed at the scale of the grid cells and then aggregated at a monthly frequency for each region. Let  $\mathcal{T}_{c,y,m,d}$  and  $\mathcal{P}_{c,y,m,d}$  denote the temperature and precipitation observed in cell  $c$  on day  $d = \{D1, D2, \dots, D31\}$ , month  $m = \{M1, M2, \dots, M12\}$  and year  $y = \{2001, 2002, \dots, 2015\}$ . The temperature variable denoted  $\mathcal{T}_{c,y,m}$  is defined here as the average of the most extreme meteorological events observed over the sequence of days within the considered month  $m$  in cell  $c$ , whereas the precipitation variable denoted  $\mathcal{P}_{c,y,m}$  is defined as the sum of the observed daily values:

$$\mathcal{T}_{c,y,m} = \frac{1}{N_{dm}} \sum_{d=1}^{N_{dm}} \mathcal{T}_{c,y,m,d}, \quad \mathcal{P}_{c,y,m} = \sum_{d=1}^{N_{dm}} \mathcal{P}_{c,y,m,d},$$

where  $N_{dm}$  is the number of days within month  $m$ .

We measure the distance of the weather variable from its monthly average to assess the relative intensity of one weather shock with respect to the other realizations. Let  $\mathcal{W}_{c,y,m}$  denote one of the two weather measures, temperature or precipitation, observed in cell  $c$ , month  $m$  and year  $y$ . The abnormal realization of the weather is expressed as follows:

$$W_{c,y,m} = \mathcal{W}_{c,y,m} - \overline{\mathcal{W}}_{c,\bullet,m},$$

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<sup>15</sup>The data are freely available: <https://land.copernicus.eu/global/products/lc>. The share of agricultural land for each grid cell is shown on the map in Figure C.1 in the Online Appendix.

where  $\overline{W}_{c,\bullet,m} := (y_T - y_0 + 1)^{-1} \sum_{y=y_0}^{y_T} W_{c,y,m}$  denotes the average value of the weather data in cell  $c$  observed during a specific month  $m$  from year  $y_0$  to year  $y_T$ . We set  $y_0 = 1986$  and  $y_T = 2015$  so that the average is computed over a period of 30 years, which is a standard practice in the literature to define climate normals (see, e.g., [Deschênes and Greenstone, 2007](#); [Auffhammer et al., 2013](#)).

Cell-specific weather anomalies are then aggregated at a monthly regional level. To accomplish this, for each region, we simply calculate the average of the anomalies from each cell, weighting each term according to two measures. The first is the proportion  $\omega_c^{\text{area}}$  of the cell to the total surface area of the region. The second is the proportion  $\omega_c^{\text{cropland}}$  that the cell represents in the agricultural production of the region.

The weather anomaly variable is defined at each date  $t$  (year  $y$  and month  $m$ ) as follows:

$$W_{i,t} = \frac{\sum_{c \in \mathcal{R}_i} \omega_c^{\text{area}} \omega_c^{\text{cropland}} W_{c,t}}{\sum_{c \in \mathcal{R}_i} \omega_c^{\text{area}} \omega_c^{\text{cropland}}},$$

where  $\mathcal{R}_i$  denotes the set of cells that fall in region  $i$ .

We apply this procedure to both temperature and precipitation observations to derive the temperature anomaly  $T_{i,t}$  and the precipitation anomaly  $P_{i,t}$  in region  $i$  at time  $t$ . We interpret a large value of  $T_{i,t}$  as excess heat (measured in °C) with respect to its historical average. Similarly, we interpret a large value of  $P_{i,t}$  as an excess humidity (measured in millimeters of rain) with respect to its historical average. Alternative definitions of weather shocks are proposed in [Appendix D](#).

### 2.3 ENSO Oscillations

To explore the cause-and-effect relationship, local projections are typically built under the assumption that weather shocks (or any regressor of interest) are unexpected. However, our sample also includes El Niño and La Niña events. Notably, these climate phenomena are characterized by their predictable occurrence, diverging from the typical unexpected nature of weather shocks. Even though farmers are still surprised by the magnitude of the weather shocks during ENSO events, they can adapt by adjusting their crop mix before the weather shock materializes, introducing a potential bias in the quantitative analysis. To circumvent this issue, we use ENSO variations as a control variable to account for the expectational effect that ENSO may have on the projection. These ENSO fluctuations are classified using the Oceanic Niño Index, which computes a three-month average of the sea surface temperature anomalies in the central and eastern tropical Pacific Ocean. We collect this index from the

Golden Gate Weather Service.<sup>16</sup> An El Niño (or La Niña) event is defined by a period of five consecutive three-month periods with an index above 0.5 (or below  $-0.5$  for a La Niña event).

## 2.4 Macroeconomic Data

Because the data-generating process of our agricultural data is driven by alternative sources of randomness, such as economic shocks unrelated to the weather, we include macroeconomic data as control variables. The goal of these control variables is to isolate the effect of weather variables on agricultural production from any other sources of fluctuation. By holding constant values for the control variables, any changes in the outcome can be attributed solely to the variable of interest, rather than the combined effects of multiple variables. This makes it possible to draw more accurate conclusions regarding the causal relationship between weather shocks and agricultural output. To consider these potential effects, control variables based on macroeconomic data for the Peruvian economy taken from the data warehouse of *the Banco Central de Reserva del Peru* are included.<sup>17</sup> More specifically, the following series are included: the Peruvian Consumer Price Index (CPI), Food Price Index (FPI), Sol/US Exchange rate, national interest rate, GDP index and a sectoral index for industrial production. Note that all the control variables are national aggregates given on a monthly basis. Nominal variables (*e.g.*, exchange rate, FPI, and CPI) are detrended by calculating their growth rate. GDP and industrial production indices are expressed as percentage deviations from the Hodrick-Prescott filter to control our projections from the effects stemming from aggregate demand and supply shocks. A similar transformation is applied to the interest rate, as the latter exhibits a downward trend in the considered time span. In addition, we control for international variations that may affect the production of each culture by including their respective commodity prices using data from the International Monetary Fund.<sup>18</sup>

## 2.5 Summary Statistics of Agricultural Data

This section introduces the primary features of the dataset. **Table 1** presents descriptive statistics for the monthly production of the selected crops averaged over the regions. Significant variations in production are observed, and these variations are highly crop-specific.

Agricultural production variations are both spatial and temporal. The curves in **Figure 1**, representing the national monthly production of each crop over the analysis period, indicate strong seasonality in the data. Interestingly, some crops (potato and rice) exhibit a clear and

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<sup>16</sup>See <https://ggweather.com/enso/oni.htm>.

<sup>17</sup>Data are taken from the **Central Bank of Peru**, where the Real Exchange Rate token is *PN01259PM*, Exports is *PN01461BM*, Food CPI is *PN01336PM*, CPI is *PN01270PM*, industrial GDP is *PN02079AM*, GDP *PN01773AM*, and interest rate is *PN07819NM*. All seasonal components are removed from the time series, excluding the interest rates.

<sup>18</sup>International commodity prices have been taken from the **IMF Primary Commodity Price System website**.

Culture	Production (tons)					Growth Duration		No. regions	No. obs.
	Mean	Median	Std Dev.	Min.	Max.	Mean	Max.		
Cassava	4,526	1,807	7,123	0	57,135	9	14	20	3,600
Maize	4,290	991	7,242	0	74,623	5,17	12	23	4,140
Potato	16,393	5,008	29,555	0	360,070	5,79	8	19	3,420
Rice	13,457	1,650.854	28,307	0	318,706	4,44	6	16	2,880

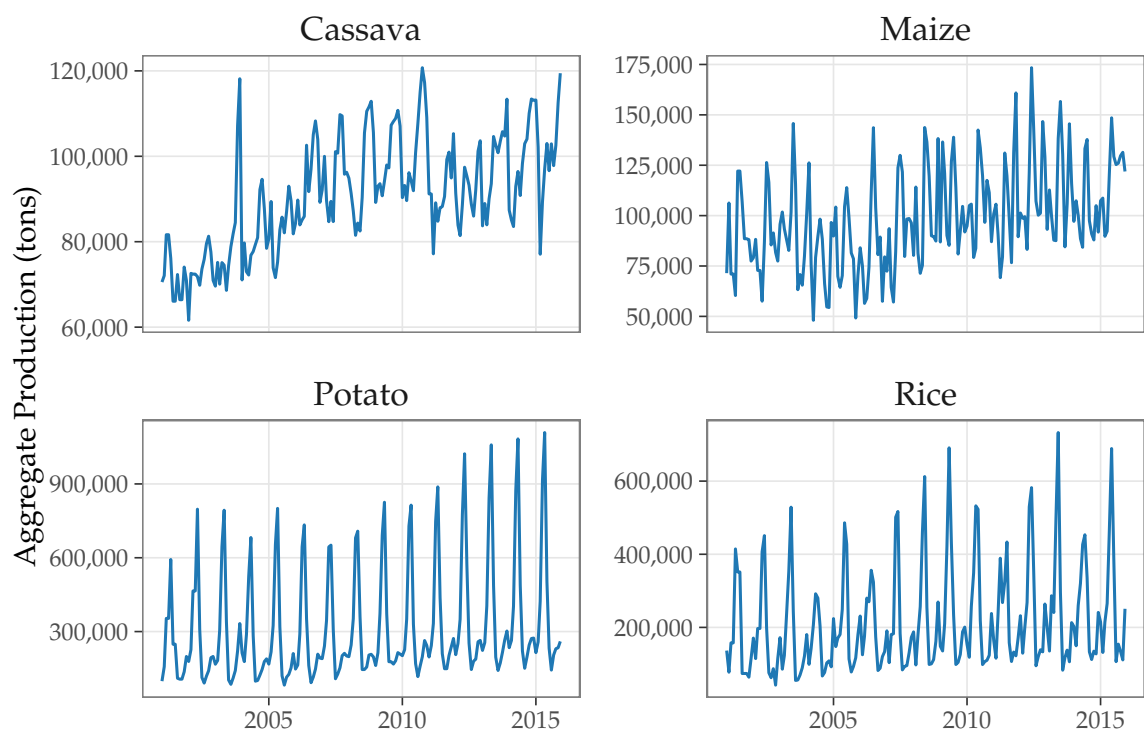
Notes: Each region contains 180 observation, from January 2001 to December 2016. Durations are expressed in months. 'Std Dev.' stands for standard deviation. Source: MINAGRI. Author's estimate

**Table 1.** Descriptive statistics for monthly production (in tons) per type of crop

regular pattern, whereas others (cassava and maize) are more volatile. A positive trend is also observed for cassava.<sup>19</sup>

To account for seasonality in the data, we deseasonalize the series. In addition, since agricultural production is not constant from month to month, we examine the differentiated effects of weather shocks occurring at different stages of crop development in [section 4](#).

<sup>19</sup>This positive trend is potentially due to the increase in agrarian land resulting from deforestation of the Amazon rainforest, where a large share of cassava is produced. See [Figure 2](#).



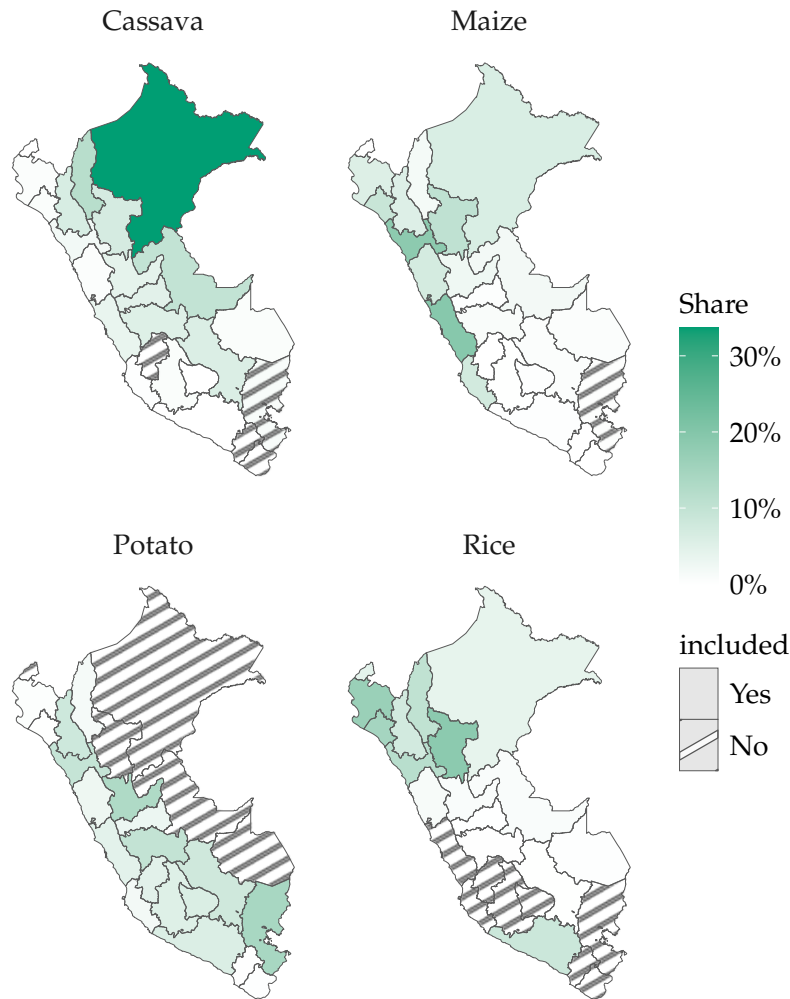
**Notes:** The graphs show the evolution of monthly crop production, summed over all administrative regions. For cassava, two observations (2007-06-01 and 2007-07-01) were identified as erroneous and replaced by a linear interpolation between May and July 2007. **Source:** MINA-GRI. Author's estimate.

**Figure 1.** National monthly crop production for selected crops (in tons)

Regarding the spatial variability of agricultural production, a first overview is given in **Figure 2**. The maps show that each region's share of total production during the period is heterogeneous and specific to each crop. Regions marked with gray hatching are excluded from the analysis. These regions either lack production for certain crops or have production concentrated in a very short period of four months or less, with zero production the rest of the time, making the analysis of weather shock propagation difficult. This is the case for example, of the Puno department in southeastern Peru, for which rice production is concentrated between April and June and is zero the rest of the year. This region is therefore excluded from the analysis.<sup>20</sup> Nevertheless, only a few regions are excluded, and they contribute little to overall production, leading to a final sample ranging from 16 regions for rice to 23 for maize (see **Table 1**).

<sup>20</sup>Regions with no reported agricultural production or with zero production for at least eight consecutive months are excluded from the analysis.



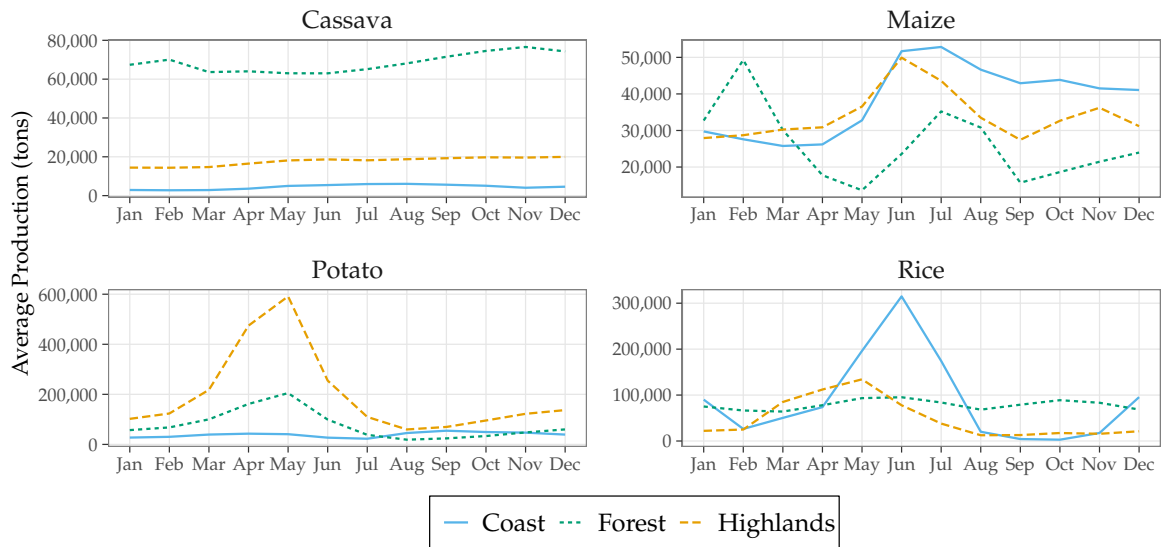


Notes: Distribution of production of each crop by administrative region. For each map, the sum of the distributions across regions equals 1. Source: MINAGRI. Author's estimate.

**Figure 2.** Regional distribution of crop production by administrative regions

Another way to represent the spatial heterogeneity of production is by topography. Peru is geographically diverse in terms of climate and geographical topology, typically divided into three climate areas: coastal, highlands, and Amazon rainforest. These areas exhibit very different climatic conditions due to their proximity to the sea and different altitudes. As explained by [Aragón et al. \(2021\)](#), the coastal area is a narrow strip extending from the seashore to 500 meters above sea level (masl) with a semi-arid climate, warm temperatures, and little precipitation. The highlands extend from 500 masl to almost 7,000 masl, although most agriculture ceases below 4,000 masl, with a much cooler and wetter climate and seasonal precipitation in spring and early summer. Finally, the Amazon rainforest area is characterized by tropical weather with significant rainfall. A map dividing the Peruvian territory into these three natural regions is provided in [Figure C.2](#) in the Appendix, based on data available on the

Geo GPS Peru website.<sup>21</sup> Because natural regions do not always correspond to administrative regions, three variables are created for each area to represent the share of each natural region type in the administrative region.



Notes: The graphs show the sum of each crop production, broken down by month and weighted by the share of the natural region. Source: MINAGRI. Author's estimate.

Figure 3. Crop production by months and natural regions (in tons)

In Figure 3, we document regional differences and seasonality by averaging monthly production over different types of natural regions. Seasonal patterns are observed more closely in these graphs. For example, potato production sharply increases between March and May before decreasing. In contrast, maize displays differentiated seasonal cycles depending on the natural region. In coastal regions, there is only one production peak, in June. In forested areas, there are two main peaks: a high peak in February and a smaller peak in July. The example of cassava shows that production can be highly concentrated in one area, specifically in the forest, where more than half of the production is located. In contrast, maize production is more evenly distributed.

### 3 The Dynamic Effects of Weather Shocks

How do weather shocks dynamically affect agricultural production? This section discusses the econometric approach and the main results obtained from the impulse response function analysis.

<sup>21</sup>See <https://www.geogpsperu.com/2019/11/mapa-de-regiones-naturales-costa-sierra.html>.

### 3.1 Empirical Approach

Our empirical framework follows a conceptual framework that is similar to that proposed by Dell et al. (2012). To fix ideas, consider the following simple economy characterized by a Cobb-Douglas technology in the agricultural sector in region  $i$  for crop  $c$ :

$$Y_{c,i,t} = A_{c,i} N_{c,i,t} H_{c,i,t}, \quad (3)$$

where the agricultural output for crop type  $c$  planted in region  $i$  at time  $t$  is denoted by  $Y$ , crop-regional total factor productivity is denoted by  $A$ , labor demand is denoted by  $N$  and harvested area is denoted by  $H$ . Note that in this expression,  $A_{c,i}$  captures how regional conditions, such as local labor productivity, shape the productivity of labor for crops planted in this region. By contrast,  $N_{c,i,t}$  encapsulates macroeconomic fluctuations stemming from the labor market (e.g., all aggregate shocks realized in  $t$  determine the country-wide real wage). Finally,  $H_{c,i,t}$  represents the surface harvested with  $N$  units of labor.

How does the weather interfere within the production process of agricultural goods? Consider that each period, farmers in region  $i$  plant crop  $c$  on land surface  $L$ . A typical crop growth cycle implies a lag between planting and harvesting, referred to as the *growing season*. During the growing season, crops are vulnerable to weather shocks such as droughts and floods, leading to reduced growth and yield. In addition to these direct effects, weather shocks lead to increased stress in plants, making them more vulnerable to diseases. In severe cases, droughts can cause complete crop failure.

To capture these delayed effects of the weather on agricultural yields, let  $T_c$  denote the monthly duration of the crop-specific growing season between planting ( $h = 0$ ) and harvesting ( $h = T_c$ ). Therefore, it is assumed that  $L_{c,i,t}$  units of planted land yield  $L_{c,i,t} \exp\left(\sum_{h=0}^{T_c} \alpha_{c,h} W_{i,t-h}\right)$  effective units of productive land, where a weather shock  $W_{i,t-h}$  realized in  $t - h$  affects crop production harvested in  $t$  with elasticity  $\alpha_{c,h}$ .<sup>22</sup> Weather shocks are considered from the farmer's perspective as exogenous variables that affect land productivity during the growing season. Weather variables, stacked in  $W$ , are formally connected to agricultural output as follows:

$$H_{c,i,t} \leq L_{c,i,t} \exp\left(\sum_{h=0}^{T_c} \alpha_{c,h} W_{i,t-h}\right). \quad (4)$$

In this expression, it is assumed that the land surface planted  $L_{i,c,t}$  exhibits both seasonal and trend components stemming from soil quality across time and space. Assuming that all

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<sup>22</sup>Note that we do not include a squared value for the weather variables. Squared terms are typically introduced to capture low-frequency effects of climate change. In this study, the time-frequency is monthly. The use of a squared term does not change the sign or significance of the results, as can be observed in the online replication materials.

planted surfaces are harvested, Equation 4 binds to equality. However, in the presence of severe weather shocks, if the marginal cost of harvesting exceeds the marginal profits of the land, it might be optimal for farmers to partially harvest the planted surface.

Combining Equation 3 and Equation 4, and applying logs yields the following expression:

$$\ln\left(\frac{Y_{c,i,t}}{L_{c,i,t}}\right) = \ln(A_{c,i}) + \sum_{h=0}^{T_c} \alpha_{c,h} W_{i,t-h} + \ln(N_{c,i,t}). \quad (5)$$

The left-hand side of this equation represents the percentage deviation of agricultural production from its potential value, measured by  $L_{c,i,t}$ . Note that one can express the logarithm into a percentage deviation of  $Y_{c,i,t}$  from  $L_{c,i,t}$  as follows:  $y_{c,i,t} = \ln(Y_{c,i,t}/L_{c,i,t})$  to be consistent with the local projection.

A natural question at this stage is to gauge the importance of the elasticity of agricultural production to changes in weather conditions, namely, to infer the value of  $\alpha_{c,h}$ . We use local projections based on Jordà (2005) to estimate the impact of weather shocks on agricultural output during the crop growing season. LPs are an econometric technique used to estimate the dynamic response of an outcome variable to an exogenous shock. Unlike traditional VARs, LPs do not require the estimation of the entire autoregressive structure of the data. Instead, LPs estimate the response of the dependent variable directly for each forecast horizon using linear estimation techniques. Impulse response functions are obtained without imposing a specific parametric form on the entire time series process and can accommodate various types of shock specifications and controlling variables. In this study, the two main exogenous variables are precipitation and temperature anomalies described in the data section.

LPs are easy to implement, requiring a series of regressions—one for each forecast horizon. For each horizon  $h$ , the dependent variable is regressed on the shock variable and other controls, capturing the direct impact at that specific horizon. Compared to VAR, LPs are robust to model misspecifications. Since each horizon is estimated separately, errors in one horizon do not propagate to others. Additionally, LPs do not require strong exogeneity assumptions, which are often needed in VAR models.

To estimate these effects, for each crop  $c$ , we run a local projection for  $h = \{0, 1, \dots, T_c\}$  of the form:

$$y_{c,i,t+h} = \alpha_{c,h}^T T_{i,t} + \alpha_{c,h}^P P_{i,t} + \beta_{c,i,h} X_t + \gamma_{c,i,h} \text{Trend}_t \times \text{Month}_t + \delta_{c,i,h} \text{Trend}_t^2 \times \text{Month}_t + \varepsilon_{c,i,h}, \quad (6)$$

where  $h$  is the time horizon. Agricultural production  $y_{c,i,t+h}$ , is normalized with respect to the long-term average (see Equation 2). To account for a possible trend in the potential production of crops measured by  $L_{c,i,t}$  in Equation 5, a month- and region-specific quadratic trend is

included in the equation, in the same spirit as [Gammans et al. \(2017\)](#).<sup>23</sup> The associated coefficients,  $\gamma_{c,i,h}$  and  $\delta_{c,i,h}$  need to be estimated. The terms  $T_{i,t}$  and  $P_{i,t}$  represent the two distinctive weather variables that are considered in the inference exercise, namely, the temperature and precipitation anomaly variables (as detailed in [Subsection 2.2](#)).<sup>24</sup> The two sequences of coefficients associated with the weather variables,  $\alpha_{c,h}^T$  and  $\alpha_{c,h}^P$ , are of first-order interest as they indicate how sensitive agricultural output is to exogenous changes in the weather variables.

In addition,  $X_t = [REER_t, r_t, \pi_t, y_t^{\text{ind}}, ENSO_t, \pi_{c,t}]$  is the set of control variables that captures the contributions from aggregate fluctuations, as stacked in the labor demand term in [Equation 5](#). The control variables include the Real Exchange Rate ( $REER_t$ ) and the nominal interest rate ( $r_t$ ), both expressed as the deviation from the trend calculated by the Hodrick-Prescott filter, the inflation rate ( $\pi_t$ ), the seasonally adjusted industrial production index ( $y_t^{\text{ind}}$ ) expressed as a percentage deviation from the trend calculated by the Hodrick-Prescott filter, the Oceanic Niño Index ( $ENSO_t$ ), and the monthly international price variation of each crop ( $\pi_{c,t}$ ). The set of coefficients  $\beta_{c,i,h}$  is unknown and must be estimated in the inference exercise. Finally,  $\varepsilon_{c,i,t+h}$  is an error term assumed to be normally distributed with zero mean.

### 3.2 Impulse Response Functions Results

The estimated coefficients  $\alpha_{c,h}^T$  and  $\alpha_{c,t}^P$  in [Equation 6](#) are multiplied by the standard deviation of the weather variable to obtain the impulse response of agricultural production to a standard weather shock. The responses are reported in [Figure 4](#) for a fourteen-months horizon, contrasting the four different crops considered. The horizon is chosen based on the longest estimated growth duration among the crops (which is 14 months maximum for cassava; see [Table 1](#)). To facilitate a clearer interpretation of the figures, we use the same horizon for all crops. However, since the growth duration is specific to each crop, we represent the average season duration on the graphs with an orange dashed vertical line. A response to a one standard deviation shock of temperature anomalies is reported at the top and for precipitation anomalies at the bottom.<sup>25</sup> In both cases, a positive shock is considered: a one standard deviation increase in temperature and a one standard deviation increase in precipitation, both with respect to their historical averages. Positive deviations in temperature or precipitation anomalies correspond to higher-than-usual values.<sup>26</sup>

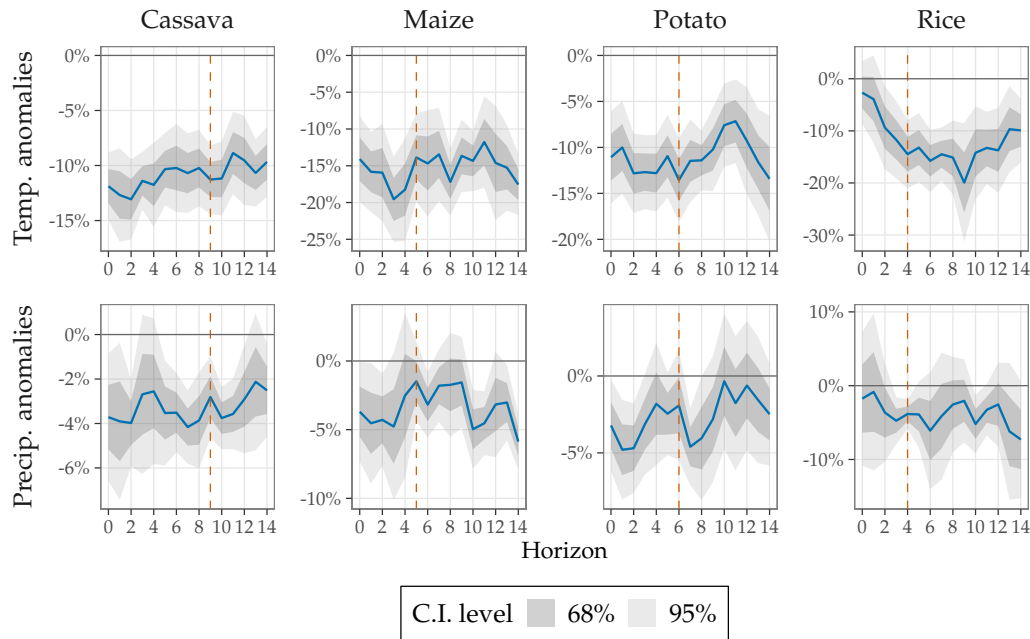
Overall, the shock leads to a sharp and net decrease in production for several months for every crop considered in our sample. However, the response is crop-specific due to the heterogeneous characteristics of the four types of crops considered. In terms of magnitude,

<sup>23</sup>The  $\text{Month}_t$  term is a matrix of monthly dummy variables.

<sup>24</sup>See [Appendix D](#) for alternative definitions of the weather shocks.

<sup>25</sup>Note that the number of regions is not the same across crops because some regions do not produce specific types of agricultural products. We refer to [Table 1](#) for a description of agricultural production per region and crop type.

<sup>26</sup>Differential effects based on the sign of the anomaly are discussed in [Appendix D](#).



**Notes:** The panels show the crop-specific impulse response function of monthly agricultural production to a one standard deviation (SD) increase in the weather variable, which is defined as a 1 SD increase with respect to the historical average. The weather variables are the temperature anomaly in the first row and the precipitation anomaly in the second row. Horizon 0 represents the month of the shock. The shaded areas represent the 95% and 68% confidence intervals with region-level clustered standard errors. The orange dashed bars represent the average growth duration.

**Figure 4.** Agricultural production response to a weather shock

maize production appears to be the most affected by a temperature shock, with a loss of 15% of the detrended production after a rise in the monthly maximal temperatures of one standard deviation with respect to the historical average. The effect of the shock lasts for several months, and production remains highly altered even months later. Rice exhibits a smaller response on impact, suggesting that this crop type is more temperature-tolerant one or two months before harvesting. However, this response is followed by a gradual drop in production that lasts longer than the crop’s growth period. Note that IRFs not necessarily returning to zero after harvesting underscores a learning mechanism: farmers may adjust their agricultural practices in response to realized weather shocks, making long-term modifications to their choice of crops or land usage. Farmers experiencing a temperature anomaly will not necessarily plant the same crop mix in the next season, as the effects of a temperature shock last longer than the growth duration of crops.

The second row of panels in **Figure 4** reports the response of agricultural production following the realization of a precipitation anomaly shock at  $h = 0$ . A positive realization of the shock is associated with wetter-than-usual weather, specifically, a one standard deviation increase in total precipitation relative to the historical average. A precipitation anomaly exhibits a similar pattern to temperature anomaly shocks but with a response of relatively smaller magnitude. Excess rainfall is detrimental to agricultural production, leading to an average agricultural loss between 2% and 8%, with stronger effects occurring a few months after

the shock. As explained by [Skees et al. \(2007\)](#), excess rainfalls—such as those driven by El Niño events in Peru—devastated several regions with massive flooding that washed crops away.<sup>27</sup> The presence of a tropical climate, characterized by abundant rainfall, induces a large decrease in agricultural production following the realization of the precipitation anomaly shock. Although the shocks display a similar pattern, each crop reacts differently to them through the timing and magnitude of their responses.

Variations in production following a precipitation shock are also highly crop-specific and more volatile than responses to temperature shocks. Cassava, maize, and potato are clearly affected during the first months following the shock, with the effect becoming more variable and less significant over time. In contrast, rice is sensitive to precipitation, but the impact is observed two months after the realization of the shock. Notably, for potato and rice, the effects of the precipitation tend to vanish as the horizon grows, while cassava and maize exhibit more persistent effects. This persistence highlights that farmers tend to lower production even after the crop growth duration, indicating an adaptation mechanism.

## 4 Time-varying Exposure to Weather Shocks

The baseline projections in [section 3](#) underline that the effects of weather shocks are heterogeneous over the horizon of the IRF. These abnormal weather shocks have immediate impacts, but also delayed effects, implying that not only the crops ready to be harvested but also those that are still in their early growing stages are affected. Thus, a natural question that arises from this observation is to investigate the time-dependence of weather shocks over the growing stages of crops.

A significant body of literature has already demonstrated that the impact of weather shocks on agriculture significantly depends on crop growth stages. For instance, [Welch et al. \(2010\)](#) show differential effects of increases in minimum and maximum temperatures on rice yields in tropical/subtropical Asia based on the growth phase. Additionally, [Letta et al. \(2022\)](#) find that weather shocks trigger a rise in food prices during the growing period. Moreover, [Masseti et al. \(2016\)](#) empirically examine how weather shocks during a growing season affect maize and soybean harvests using US county-level data. Crops necessitate different types of nutrients depending on the stage of plant development. Excessively high temperatures or water volumes can be highly detrimental to crop growth at some stages while having little or no effect at other stages.

This section aims to capture this effect. This section aims to capture this effect. We leverage the high frequency of the data to monitor the quantity of crops planted and harvested each month. Departing from the conventional approach in the literature, which often uses fixed pe-

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<sup>27</sup>[Crost et al. \(2018\)](#) find that an increase in wet-season rainfall is harmful to crops and produces more conflict in the Philippines.

riods to define growth and harvest seasons, our methodology involves a monthly continuous variable that weighs the flow of land planted versus harvested. This enables a more dynamic assessment of agricultural stages, distinguishing between the growing period (*i.e.*, when the planted surface is increasing) and the harvesting period (*i.e.*, when the harvested surface is increasing). The response of agricultural production to weather shocks can be contrasted between planted and harvested regimes. To achieve this using local projections, we adapt the framework developed by [Auerbach and Gorodnichenko \(2011\)](#) for fiscal policy, modifying it to accommodate state-dependent effects of the weather with a smooth transition between the growing and harvesting stages. This framework enables us to empirically track the variation in the start and duration of the growing and harvesting seasons, rather than fixing them arbitrarily as done in most literature. Instead, having flexible seasons allows to account partially for farmers adjustments, who could adapt their practices in the context of climate change ([Cui and Xie, 2022](#)).

#### 4.1 A State-dependent Framework

Based on the previous toy model of agricultural production from [Equation 4](#), we modify this model to formalize plant cycles and the underlying time-varying sensitivity of land productivity to weather shocks.

Let  $p_{c,i,t}$  denote the new surface planted and  $h_{c,i,t}$  denote its harvested counterpart at time  $t$  for crop type  $c$  in region  $i$ . Therefore, the net flow of the newly planted surface is given by  $p_{c,i,t} - h_{c,i,t}$ . The total fraction of land with growing crops is measured here as the cumulative sum of flows in the cultivated land surface over the lifetime of a crop  $T_c$  as follows:  $z_{c,i,t} = \sum_{h=0}^{T_c} (p_{c,i,t-h} - h_{c,i,t-h})$ . To compare regions on a regular basis, we remove the possible trend and divide by the standard error as follows,  $\hat{z}_{c,i,t} = (z_{c,i,t} - z_{c,i,t}^{HP}) / \sigma_{c,i,t}$ , where  $\hat{z}_{c,i,t}$  is the zero-mean standardized index variable of the utilized land surface. To express this index as a transition function with support  $[0,1]$ , since the planted surface index has been standardized,  $\hat{z}_{c,i,t} \sim \mathcal{N}(0, 1)$ , we use the cumulative distribution function of the standard normal distribution  $\Phi(\cdot)$ .<sup>28</sup>

$$\Phi(\hat{z}_{c,i,t}) = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{\hat{z}_{c,i,t}} \exp(-t^2/2) dt. \quad (7)$$

Letting  $\Phi(\hat{z}_{c,i,t})L_{c,i,t}$  denote the fraction of the potential land that is planted,  $\Phi(\hat{z}_{c,i,t})$  is interpreted as the mass of land planted or the degree of exposure of agricultural production to weather changes.

<sup>28</sup>Note that [Auerbach and Gorodnichenko \(2011\)](#) adopt a similar strategy to define recessions but assume a logistic transition function, which implies having to arbitrarily define a threshold when calibrating the parameters of the logistic function. To avoid this assumption, we use the cumulative distribution function of the standard normal distribution, which in turn is more agnostic with respect to the transition.



Consider now that weather effects depend on the growth stage of crops. The harvesting season is interpreted as the period when the mass of land planted  $\Phi(z_{c,i,t})$  is low (approaching zero). By contrast, the growing season corresponds to a situation in which  $\Phi(z_{c,i,t})$  is high (approaching one). Differentiating the effects of the weather on the growing and harvesting seasons, the surface of harvested land can be written as follows:

$$H_{c,i,t} \leq L_{c,i,t} \exp \left( \sum_{h=0}^{T_c} (\Phi(\hat{z}_{c,i,t-h})\alpha_{c,G}^h + (1 - \Phi(\hat{z}_{c,i,t-h}))\alpha_{c,H}^h) W_{i,t-h} \right), \quad (8)$$

where  $\alpha_{c,G}^h$  and  $\alpha_{c,H}^h$  are agricultural production responses during the growing and harvesting seasons, respectively.

Injecting this term into the production yields the following expression:

$$\ln \left( \frac{Y_{c,i,t}}{L_{c,i,t}} \right) = \ln(A_{c,i}) + \sum_{h=0}^{T_c} (\Phi(\hat{z}_{c,i,t})\alpha_{c,G}^h + (1 - \Phi(\hat{z}_{c,i,t}))\alpha_{c,H}^h) W_{i,t-h} + \ln(N_{i,c,t}). \quad (9)$$

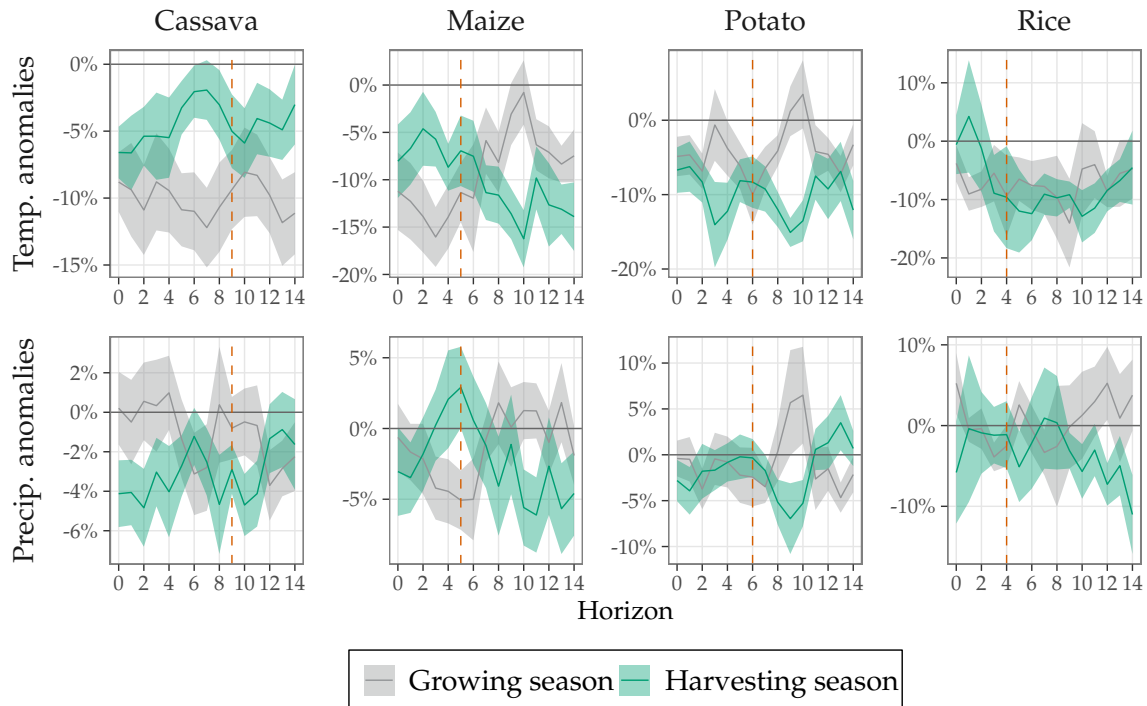
The local projections framework can be adapted again to analyze the role of the growing versus harvesting season in the propagation of shocks. We examine the non-linear influence of the season on the response of each crop production to weather shocks. The same local projection method is used, but augmented with a state-dependent variable to allow for non-linear responses as described in [Auerbach and Gorodnichenko \(2011\)](#). This framework considers the probability of being in the growing season or during the harvesting season:

$$\begin{aligned} y_{c,i,t+h} = & \Phi(\hat{z}_{c,i,t}) \left[ \alpha_{c,h}^{G,T} T_{i,t} + \alpha_{c,h}^{G,P} P_{i,t} + \beta_{c,i,h}^G X_t + \gamma_{c,i,h}^G \text{Trend}_t \times \text{Month}_t \right. \\ & \left. + \delta_{c,i,h}^G \text{Trend}_t^2 \times \text{Month}_t \right] \\ & + (1 - \Phi(\hat{z}_{c,i,t})) \left[ \alpha_{c,h}^{H,T} T_{i,t} + \alpha_{c,h}^{H,P} P_{i,t} + \beta_{c,i,h}^H X_t + \gamma_{c,i,h}^H \text{Trend}_t \times \text{Month}_t \right. \\ & \left. + \delta_{c,i,h}^H \text{Trend}_t^2 \times \text{Month}_t \right] + \varepsilon_{c,i,t+h}, \end{aligned} \quad (10)$$

where  $y_{c,i,t+h}$  is the deseasonalized production, and  $T_{i,t}$ ,  $P_{i,t}$ , and  $X_t$  are, respectively, the temperature anomalies, precipitation anomalies, and control variables, as previously defined in [Equation 6](#). Again, a monthly region-specific quadratic trend is included in the model. The difference from this latter equation is that we now estimate the associated coefficients conditionally on the state of the season. Note that  $\alpha_{c,h}^{H,T}$  and  $\alpha_{c,h}^{H,P}$  are, therefore, the parameters of interest for the harvesting season, whereas  $\alpha_{c,h}^{G,T}$  and  $\alpha_{c,h}^{G,P}$  are the parameters for the growing season. Following [Auerbach and Gorodnichenko \(2011\)](#), we also allow for seasonally dependent fixed effects and marginal effects for the control variables.

## 4.2 Season-dependent Impulse Response Functions

The response obtained from Equation 10 are reported in Figure 5. As before, the first row presents the crop-specific responses to a one standard deviation temperature anomaly shock, whereas the second row shows the responses to a precipitation anomaly shock. Responses are distinguished by regime: the gray line represents the responses during the growing season, while the green line refers to the harvesting season. Confidence intervals are reported at the 95% confidence level.



**Notes:** The panels show the crop and season-specific impulse responses of monthly agricultural production to a 1 SD increase in the weather variable. The weather variables are the temperature anomaly in the first row and the precipitation anomaly in the second row. Horizon 0 represents the month of the shock. The bands formed by the grey and green areas represent the 95% confidence intervals with standard errors clustered at the regional level for the growing season and harvesting season regimes, respectively. The orange dashed bars represent the average growth duration.

**Figure 5.** Agricultural production response to a weather shock contrasting for growing vs. harvesting season

The distinction between growing and harvesting seasons plays an important role. Overall, we observe a differentiated impact, with a stronger reduction in production when a shock occurs during the growing season. This result appears more clearly when examining temperature shocks, whereas precipitation shocks display a more volatile response.

Two results are important to notice with this specification. First, looking at the responses to temperature shocks, we observe that both the magnitude and duration of the shock differ depending on its timing. Using the example of cassava and rice, we discern two specific patterns. When a temperature shock happens during the growing season, while production decreases instantaneously, the strongest reduction occurs several months after the shock. This

result suggests that a shock affects both mature crops (immediate effect on production) and, with a delay, crops that are in their growth phase at the time of the shock. This result is in line with [Hatfield and Prueger \(2015\)](#) who find that when a temperature shock occurs during the growth stage of crop development, it may affect crop growth, which in turn leads to lower yields. However, if a shock occurs when the crop is about to be harvested, then only a high-magnitude shock (*e.g.*, severe drought, hail, landslide, etc.) is likely to significantly affect production. The response of cassava production shows that the detrimental effect is smaller in magnitude and duration compared to growing season shocks. In the case of rice, a positive—yet non-significant—response of production after a temperature shock is observed, which may be driven by better drying conditions for grains.

Strikingly, this effect of temperature shocks is common to all crops except potatoes, although its timing and duration remain highly crop-specific. Precipitation shocks lead to more volatile and less significant responses. This underscores the importance of considering the different effects of the season, which may not appear clearly when looking at aggregated variations over time. Because the seasons may vary slightly between regions (as shown in [Figure 3](#)), estimating the aggregated effect of weather shocks, as in [section 3](#), may undervalue the duration of the shock and thus provide a lower bound of the potential regional effects. Given that the responses differ with respect to season, policies designed to mitigate the aftermath of a shock should be adapted accordingly.

## 5 From Regional to Aggregate Fluctuations

Are regional weather shocks sufficiently important to spread to the rest of the economy? Weather shocks tend to be serially correlated across regions because these regions share common atmospheric, soil, or topographic patterns. Therefore, a weather shock may entail macroeconomic fluctuations if the number of regions affected by the same weather pattern is high enough. On policy grounds, a quantitative assessment of weather shocks to macroeconomic fluctuations is particularly important for the design of mitigation policies.

In what follows, we first extract an aggregate index of the weather shocks on agricultural output. We next propose to analyze the aggregate effects of weather shocks through the lens of local projections and a VAR framework. VAR are a widespread tool in macroeconometrics for forecasting purposes, and (unlike local projections) amenable for counterfactual policy analysis.

### 5.1 Extracting the Weather Component of Agricultural Loss (WCAL)

The literature typically provides a synthetic measure of weather based on average measures of county-level weather shocks and analyzes its interaction with macroeconomic time

series (see, e.g., Natoli, 2024; Gallic and Vermandel, 2020). This approach typically infers an immediate effect of a contemporaneous weather shock in  $t$  on macroeconomic variables, and its delayed reverberation through the propagation patterns over  $t + N$  with an  $N$  horizon. This methodology arbitrarily forces weather shocks to have immediate and homogeneous impacts on agricultural production, underestimating both (i) the delayed effects from the crop growth process and (ii) the heterogeneous responses of different crops.

By contrast, we propose measuring the macroeconomic effects of the weather through a “weather-implied losses” variable, as measured by our baseline local projections in Equation 6. We define the national weather-adjusted agricultural production  $y_t^\omega$  at time  $t$  by summing the significant crop-specific contributions of weather represented by the coefficients of the weather variables  $\beta_{c,h}^T$  and  $\beta_{c,h}^P$  over the horizons and regions:<sup>29</sup>

$$y_t^\omega = \frac{1}{\sum_c \omega_{c,t}} \sum_c \sum_h \sum_i \frac{\mathbb{1}_{\text{signif}_{c,i,t,h}} \times (\beta_{c,h}^T T_{i,t-h} + \beta_{c,h}^P P_{i,t-h}) \times \omega_{c,t}}{\text{card}(I_{c,t})}, \quad (11)$$

where  $\omega_{c,t} = \sum_i y_{c,t,i}^{\text{raw}} \times p_c$  is a quantity weight for crop  $c$  at time  $t$ . It represents the sum of monthly agricultural production over regions, expressed in monetary terms, where  $p_c$  is the average selling price of crop  $c$  in our sample.  $\text{card}(I_{c,t})$  is the number of regions that produce crop  $c$  at time  $t$ , and the characteristic function  $\mathbb{1}_{\text{signif}_{c,i,t,h}}$  equals 1 when the contribution is significantly different from 0 (based on the 95% confidence intervals of the coefficients  $\beta_{c,h}^T$  and  $\beta_{c,h}^P$ ), and 0 otherwise. The horizon  $h$  retained here to define the indicator is 9 months, corresponding to the longest average growth duration among the four crops studied (see Table 1). This choice focuses on the surprise element of the shock, and avoids encompassing adaptive responses that might occur over a longer horizon.

The national weather-adjusted agricultural production is then expressed as a measure denoted  $\text{WCAL}_t$ , termed the “weather component of agricultural losses.”

$$\text{WCAL}_t = -100 \times (y_t^\omega - \overline{y_t^\omega}). \quad (12)$$

This metric represents the deviation or loss from the expected trend. The trend itself is determined through the application of a Hodrick-Prescott filter. The inclusion of a negative sign ensures that positive values of  $\text{WCAL}_t$  correspond to losses, rather than gains. In simpler terms,  $\text{WCAL}_t$  provides an intuitive measure that expresses the percentage loss of agricultural value-added attributed to weather shocks.

<sup>29</sup>The steps to obtain the expression of this variable are detailed in Appendix B.

## 5.2 A Vector Autoregression (VAR) approach

To investigate the economic impact of weather-induced losses in the agricultural sector, we employ a structural vector autoregression model (SVAR). This model captures the dynamic interdependencies and transmitting effects between agricultural disturbances and various economic indicators across time series data. By examining these relationships, we can assess how shocks in agriculture spread to other areas of the economy, giving us a clearer picture of how sensitive the overall economy is to changes in weather.

Consider the following structural form with  $p$  lags:

$$BY_t = \Gamma_0 + \sum_{l=1}^p \Gamma_l Y_{t-l} + \varepsilon_t, \quad (13)$$

where  $Y_t$  is a vector of  $k$  endogenous variables at time  $t$ ,  $B$  is a  $k \times k$  matrix representing contemporaneous interactions,  $\Gamma_0$  contains the model intercepts,  $\Gamma_l$  are  $k \times k$  matrices for lagged interactions, and  $\varepsilon_t$  is a vector of white noise errors.

To transform this model into its reduced form, Equation 13 is premultiplied by  $B^{-1}$ :

$$Y_t = A_0 + \sum_{l=1}^p A_l Y_{t-l} + u_t, \quad (14)$$

where  $A_0 = B^{-1}\Gamma_0$ ,  $A_l = B^{-1}\Gamma_l$  for  $l \in \{1, 2, \dots, p\}$ , and  $u_t = B^{-1}\varepsilon_t$ , *i.e.*, a linear combination of the structural shocks  $\varepsilon_t$ .

The estimation of the reduced-form model allows to estimate the coefficients in  $A_0$  and in  $A_l$ , as well as the covariance matrix  $\Sigma_u$  of  $u_t$ .

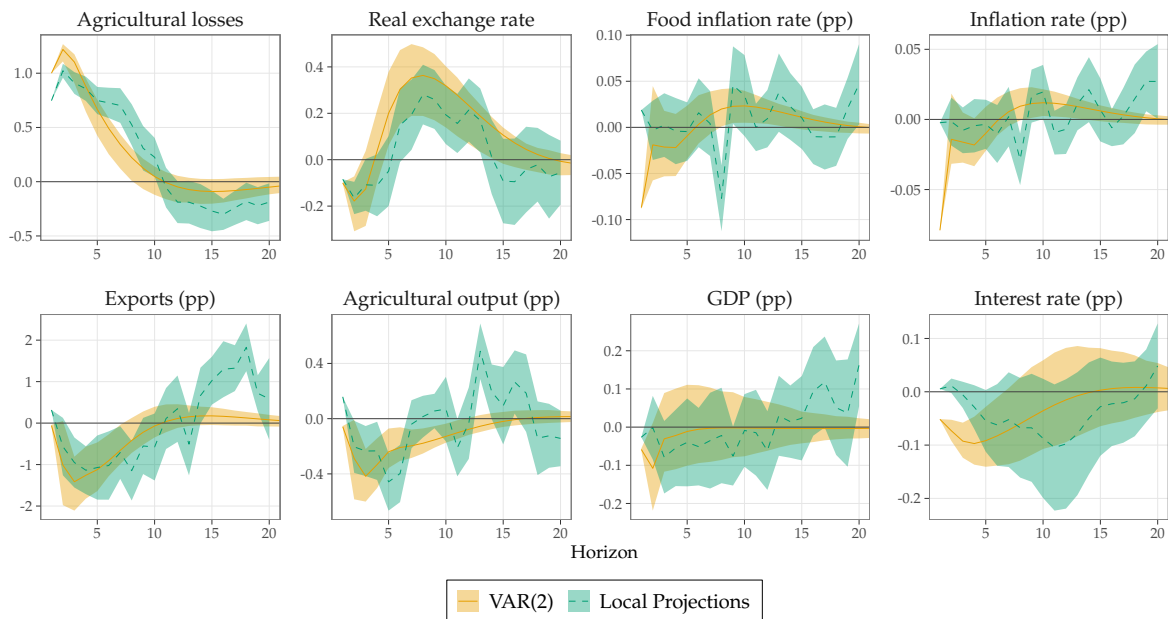
However, to uniquely identify this model, we need to impose certain restrictions. In a system with  $k$  variables,  $k \times (k - 1)/2$  restrictions are necessary to separate the shocks from each other clearly. To do this, we adopt the Cholesky decomposition with short-term constraints. More specifically, we set the upper triangular elements of  $B$  to zero and normalize its diagonal elements to 1. This normalization allows the shocks' scale to be comparable, while the lower triangular elements of  $B$  can be freely estimated. More details can be found in [Breitung et al. \(2004\)](#).

## 5.3 Quantitative analysis

The vector of endogenous variables,  $Y_t = \left[ \text{WCAL}_t, \text{RER}_t, \pi_t^A, \pi_t, X_t, y_t^A, y_t, r_t \right]$ , contains eight variables: the aggregate measure of weather-driven agricultural losses denoted  $\text{WCAL}_t$ , Real Exchange Rate (RER) denoted  $\text{RER}_t$ , the percentage change in the Food Consumer Price Index (CPIA) denoted  $\pi_t^A$ , the percentage change in the Consumer Price Index (CPI) denoted  $\pi_t$ ,

exports denoted  $X_t$ , agricultural production denoted  $y_t^A$ , GDP denoted  $y_t$  and nominal rate  $r_t$ . All macroeconomic data are presented in the data section, except for the agricultural output, which is calculated using the regional monthly production values for the crops of interest  $y_t^A = \sum_c \omega_{c,t}$ , where  $y_{c,t,i}^{\text{raw}} \times p_c$  is the quantity weight for crop  $c$  at time  $t$  from the local projection. Variables exhibiting a trend (agricultural output and GDP) are expressed as percentage deviations from the Hodrick-Prescott trend, while seasonal components are removed using the X13 method of the Census Bureau. Our sample covers the period 2003M1–2015M12.

With the Cholesky factorization of the reduced-form VAR covariance matrix, the order of the variable matters. To impose full exogeneity in the weather process, we follow Gallic and Vermandel (2020) by placing the weather-driven agricultural-losses equation in the first position in the VAR and muting cross-interactions with other variables. Following the ordering scheme of Stock and Watson (2001), we next order price variables, followed by quantities, and terminate with interest rates. The idea is that price variables are driven more by exogenous factors (e.g., oil price shocks), whereas the interest rate is the most endogenous variable that reacts to contemporaneous changes in prices and quantities.



**Notes:** The solid blue line represents the Impulse Response Function. The gray band represents 68% error bands obtained from 500 Monte Carlo simulations. The response horizon is in months.

**Figure 6.** System response to a unit orthogonal shock to the weather aggregate cost equation

The number of lags selected using the AIC criterion is 2. Figure 6 illustrates the system’s response to a unit increase in agricultural output resulting from weather shocks. This section primarily focuses on the results of the VAR, as these results are typically easier to interpret. LPs are included to provide robustness to the results by offering an alternative assumption

on the data-generating process, but IRF are typically much harder to interpret because these responses are not necessarily stationary and smooth.

An increase in losses in the agricultural sector due to weather shocks triggers an immediate 0.1% reduction in the real exchange rate, primarily because exports and output in the agricultural sector decrease. As exports return to their long-term mean, real exchange rates adjust by increasing in response to growing exports. This overall recessionary impact initially leads to decreases in both consumer and food price indices, reflecting weak demand. This disinflation can be rationalized within a forward-looking standard New Keynesian Phillips curve in open economies: on impact, domestic producers anticipate that the domestic currency will appreciate in the future, lowering future marginal costs and hence inflation today. This disinflationary effect of weather shocks aligns with the findings of [Natoli \(2024\)](#) and [Faccia et al. \(2021\)](#), both of whom observe lower-than-usual inflation following a temperature shock. However, it is important to note that our setup implies positive inflation 10 months after the realization of the weather loss, which can be attributed to the scarcity of agricultural products and the decrease in real exchange rates, making imports more expensive in the future.

In terms of quantities, a unit loss shock resulting from the weather implies a 0.41% reduction in agricultural output below its trend, while GDP is 0.1% lower. Finally, the central bank faces no trade-off on impact, as both prices and quantities are moving in the same direction. However, after one year, when inflation picks up, a typical supply-driven trade-off emerges between inflation and quantity stabilization, as both move in opposite directions in the medium term. The VAR model suggests that the Peruvian central bank prioritizes output stabilization when weather shocks occur, leading to an accommodative response in the nominal interest rate.

Much of the divergence between local projections concerns price dynamics, which consequently affect the response of monetary policy. According to local projections, food and overall inflation decline 7 months after the realization of the shock, leading to delayed effects on interest rates.

To connect our work with prior studies, our quantitative assessment of the macroeconomic cost of weather shocks aligns with existing literature. The responses of output and interest rates closely mirror the findings of [Natoli \(2024\)](#) for the US economy regarding temperature anomalies. Additionally, our results are consistent with the VAR model of [Gallic and Vermandel \(2020\)](#) for New Zealand, where they similarly observe a 0.1% decrease in GDP, a 1% decline in agricultural output, and a 0.4% drop in the real exchange rate following a drought shock.

## 6 Conclusion

This paper provides a quantitative exploration of the impact of weather shocks on agricultural production in Peru, using high-frequency, crop-region-specific data. By employing a linear panel model with local projections, we have quantified the immediate and lagged effects of temperature and precipitation anomalies on various crops. Our findings indicate that weather shocks lead to significant declines in agricultural output, with the magnitude and duration of these effects varying across different crops.

At the macroeconomic level, weather-induced losses in agricultural output translate into broader economic impacts, including reductions in GDP and potential increases in food prices. Policymakers can use our estimates to anticipate periods of agricultural scarcity and implement measures such as import adjustments to stabilize local markets. Additionally, our study highlights the necessity for adaptive agricultural practices and policies that enhance the resilience of crops to extreme weather conditions, particularly in the context of climate change.

This paper also highlights the importance of employing relatively more disaggregated data to capture the effects of weather shocks and climate impacts more broadly. With longer time-series data, our methodology could be extended to other important research questions, especially those related to the adaptation and mitigation strategies implemented by farmers from a macroeconomic perspective. This, in turn, could be put into perspective with the results from studies using microeconomic data relying on household surveys.

The methodology presented in this paper offers valuable tools for policymakers. By monitoring extreme precipitation and temperature events in specific regions, governments can anticipate their future delayed effects on agricultural production several months in advance. This anticipation can help the implementation of mitigation policies to avoid surges in local food prices.

Future research should aim to integrate our high-frequency analysis with models that account for intertemporal mitigation strategies by farmers. Such integration could provide a more comprehensive understanding of how farmers adjust their practices over multiple seasons in response to weather shocks. Additionally, combining high-frequency production data with household-level surveys could shed light on the impacts of weather shocks on income, consumption, and overall well-being, offering valuable insights into the socio-economic dimensions of climate resilience.

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# APPENDIX

## A Replication Codes

All the codes used to produce this article are available online. We provide an ebook (<http://51.75.142.12/weather-peru/>) that explains, step by step, how to reproduce the results, using R software. The index of the ebook links to archive files containing the data and the codes.

## B Definition of Weather-Adjusted Agricultural Losses

The weather component of agricultural losses,  $W_t$  (see Equation 12), is defined using a variable we denoted  $y_t^\omega$  and termed “weather-adjusted agricultural production” (see Equation 12) following a five steps procedure. To calculate the weather component of agricultural losses, we follow a 5-step procedure.

### Step 1: Estimating Weather Shock Contributions

In the first step, the contribution of weather shocks to a given crop ( $c$ ) and time horizon ( $h$ ) in each time period ( $t$ ) is estimated. The weather shock contribution ( $\Gamma_{c,i,t,h}$ ) is determined by considering the temperature ( $T_{i,t}$ ) and precipitation ( $P_{i,t}$ ), along with their respective coefficients ( $\beta_{c,h}^T$  and  $\beta_{c,h}^P$ ). This contribution is calculated as follows:

$$\Gamma_{c,i,t,h} = \beta_{c,h}^T T_{i,t-h} + \beta_{c,h}^P P_{i,t-h}. \quad (\text{B.1})$$

### Step 2: Calculating Quantity Weights

In the second step, we compute the quantity weights used in the third step. For each crop and date, these weights are defined by summing the monthly agricultural production over regions, expressed in monetary terms. The weights are calculated as follows:

$$\omega_{c,t} = \sum_i y_{c,t,i}^{\text{raw}} \times p_c, \quad (\text{B.2})$$

where  $y_{c,t,i}^{\text{raw}}$  represents the raw agricultural production in tons and  $p_c$  is the average selling price of crop  $c$  in our sample.

### Step 3: Weather-Adjusted Agricultural Production

Moving on to the third step, we calculate the weather-adjusted agricultural production ( $y_{c,t}^\omega$ ) for each crop ( $c$ ) at each date ( $t$ ) is computed. This is achieved by summing the significant crop-specific contributions of weather ( $\Gamma_{c,i,t,h}$ ) to agricultural production across regions as follows:

$$y_{c,t}^\omega = \sum_h \sum_i \frac{\mathbb{1}_{\text{signif}_{c,i,t,h}} \times \Gamma_{c,i,t,h} \times \omega_{c,t}}{\text{card}(I_{c,t})},$$

where  $\text{card}(I_{c,t})$  is the number of regions that produce crop  $c$  at time  $t$ , and the characteristic function  $\mathbb{1}_{\text{signif}_{c,i,t,h}}$  equals 1 when the contribution is significantly different from 0 (based on the 95% confidence intervals of the coefficients  $\beta_{c,h}^T$  and  $\beta_{c,h}^P$ ), and 0 otherwise.

#### Step 4: Aggregating Crop-Specific Production

In the fourth step, crop-specific weather-adjusted agricultural production is aggregated at the national level, considering the quantity weights ( $\omega_{c,t}$ ):

$$y_t^\omega = \frac{\sum_c y_{c,t}^\omega}{\sum_c \omega_{c,t}}, \quad (\text{B.3})$$

where  $\omega_{c,t}$  are the quantity weights computed in the second step.

#### Step 5: Expressing Weather-Adjusted Production as a Deviation

Finally, in the fifth step, the national weather-adjusted production is expressed as a loss or deviation from its trend. The trend is obtained using a Hodrick-Prescott filter:

$$\text{WCAL}_t = -100 \times (y_t^\omega - \overline{y_t^\omega}). \quad (\text{B.4})$$

A negative sign is applied to ensure that the positive values of  $\text{WCAL}_t$  correspond to losses rather than gains. Intuitively,  $W_t$  measures the percentage loss of agricultural value-added from weather shocks.

## C Data

**Table C.1** reports the total harvested area of Peru's main crops and their share of total annual production between 2001 and 2015. The surface area figures on which the article is based, *i.e.*, those from the files of the Ministry of Agriculture of Peru (MINAGRI), are very close to those reported by the FAO. Those pertaining to the relative share of each crop are higher in the Ministry data. The crops included in the analyses carried out in the article represent almost two-thirds of production.

**Table C.1.** Main agricultural cultures in Peru

Product	FAO data		MINAGRI data	
	Total surface	Share	Total surface	Share (%)
<b>Maize</b>	7,349,640	16,4	4,227,147	14.7
Starchy corn			2,948,963	10.3
<b>Rice, paddy</b>	5,359,251	12.0	5,320,330	18.5
Coffee, green	4,999,410	11.1	-	-
<b>Potatoes</b>	4,213,436	9.4	4,151,734	14.5
Barley	2,253,611	5.0	2,233,429	7.8
Plantains and others	2,227,709	5.0	-	-
Wheat	2,158,122	4.8	2,102,246	7.3
<b>Cassava</b>	1,425,493	3.2	1,418,054	4.9
Sugar cane	1,112,131	2.5	1,032,231	3.6
Beans, dry	1,104,473	2.5	686,788	2.4

*Notes:* The products in bold are those studied in this study. The total surfaces correspond to the sum of national harvested surfaces, from 2001 to 2015, in hectares. Maize corresponds to Dent corn in the MINAGRI data. No distinction is made between Dent corn and Starchy corn in FAO data. *Source:* FAO and MINAGRI. Author’s estimate.

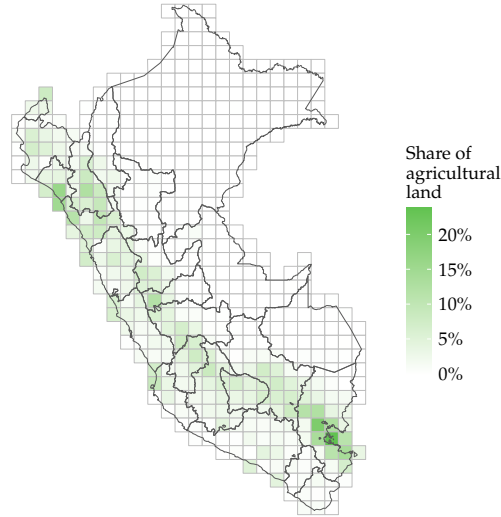
The map in [Figure 3](#) shows the percentage of agricultural land for each cell corresponding to the weather data grid. These percentages are calculated from the Land Cover map data ([Buchhorn et al., 2020](#)). It can be noted that agricultural land is mainly located in the coastal regions and highlands, as shown in [Figure C.1](#) and [Figure C.2](#).

## D Positive vs. Negative Surprise Weather Shocks

Positive and negative weather shocks may have differentiated impacts on production. The definition of weather shocks in the main part of the paper assumes symmetrical effects. To relax this assumption, we consider, following [Natoli \(2024\)](#), an alternative definition of weather shocks. The idea is to compare the realized temperatures (or precipitation) in a given month  $m$  of year  $y$  at location  $\ell$  with expected temperatures (precipitation) based on observations from the same month in previous years at the same location. The difference is defined as a surprise shock.

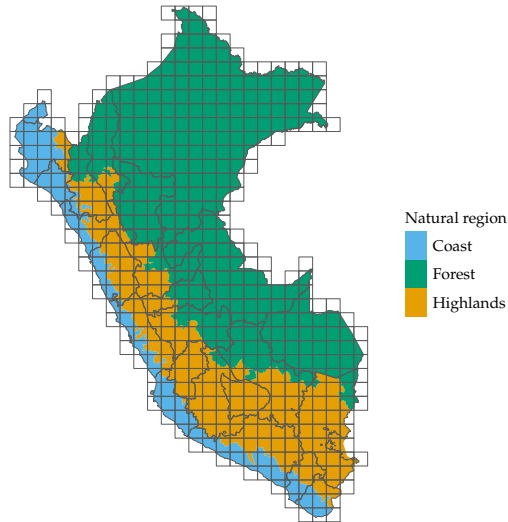
For days hotter (wetter) than expected, the shock in cell  $\ell$  is defined as:

$$\text{WSurprise}_{\ell,y,m,c}^{(+)} = \underbrace{\sum_{d=1}^{n_m} 1(\mathcal{W}_{\ell,y,m,d} > \text{ut}_{\ell,y,m,c})}_{\text{Climate realization}} - \frac{1}{5} \underbrace{\sum_{k=1}^5 \sum_{d=1}^{n_m} 1(\mathcal{W}_{\ell,y-k,m,d} > \text{ut}_{\ell,y,m,c})}_{\text{Expected realization}}, \quad (1)$$



Notes: 2015 data, 100m resolution. Source: Author's estimate using data from [Buchhorn et al. \(2020\)](#).

**Figure C.1.** Share of agricultural area in the cell, for each cell of the grid



Source: Geo GPS Peru.

**Figure C.2.** Natural regions in Peru

where  $\mathcal{W}_{\ell,y,m,d}$  is the daily average temperature (or total rainfall),  $n_m$  is the number of days in month  $m$ , and  $ut^{\ell,y,m,c}$  is the threshold for hot days for crop  $c$ .

Similarly, cold (dry) shocks are defined as:

$$WSurprise_{\ell,y,m,c}^{(-)} = \sum_{d=1}^{n_m} 1(\mathcal{W}_{\ell,y,m,d} < lt_{\ell,y,m,c}) - \frac{1}{5} \sum_{k=1}^5 \sum_{d=1}^{n_m} 1(\mathcal{W}_{\ell,y-k,m,d} < lt_{\ell,y,m,c}), \quad (2)$$

where  $lt_{\ell,y,m,c}$  is the crop-specific threshold for cold days. Thresholds  $ut_{\ell,y,m,c}$  and  $lt_{\ell,y,m,c}$



are based on the 90th and 10th percentiles of temperatures (precipitation) observed during month  $m$  over the past five years. The sample of past observation is denoted as  $\mathbf{W}_{\ell,y,d} = \{\{\mathcal{W}_{\ell,y-1,m,d}\}_{d=1}^{n_m}, \{\mathcal{W}_{\ell,y-2,m,d}\}_{d=1}^{n_m}, \dots, \{\mathcal{W}_{\ell,y-5,m,d}\}_{d=1}^{n_m}\}$ .

To set the thresholds, we rely on values traditionally used in the literature for calculating degree days. Most often, the lower threshold is set at  $8^\circ\text{C}$  and the upper threshold ranges between  $29^\circ\text{C}$  and  $32^\circ\text{C}$  (Lobell et al., 2011; Aragón et al., 2021; Jagnani et al., 2021). We set the lower threshold at  $8^\circ\text{C}$  for all crops, and the upper threshold at  $30^\circ\text{C}$  for potatoes and cassava. For maize and rice, we adopt the same value used in Rising and Devineni (2020) and set the upper threshold at  $29^\circ\text{C}$ .

For precipitation shocks, the thresholds are defined using the percentiles of past values only:

$$\text{ut}_{\ell,y,m,c} = P_{90}(\mathbf{P}_{\ell,y,d}) \quad (3)$$

$$\text{lt}_{\ell,y,m,c} = P_{10}(\mathbf{P}_{\ell,y,d}). \quad (4)$$

Positive values of  $\mathcal{W}_{\ell,y,m,c}^{(+)}$  represent days that are hotter (or wetter) than expected, while positive values of  $\mathcal{W}_{\ell,y,m,c}^{(-)}$  represent days that are colder (or drier) than expected.

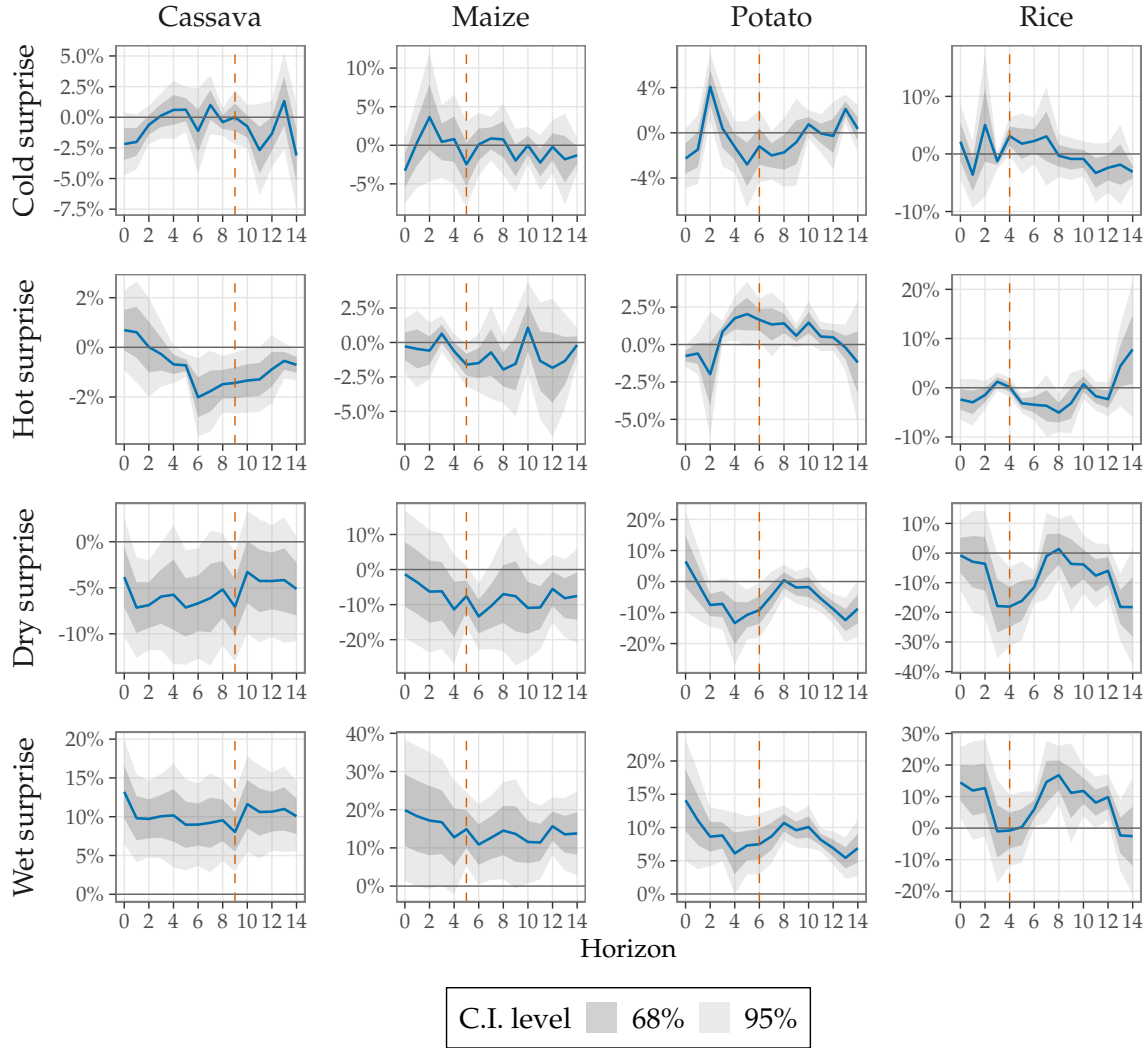
Figure D.1 presents the impulse response functions (IRFs) of agricultural production for rice, maize, potato, and cassava in response to different types of weather surprises: cold, hot, dry, and wet. Each panel shows the effects over several months, with percentage changes in production relative to baseline levels, and shaded areas indicating the 68% and 95% confidence intervals.

Cold surprises generally have mixed effects across different crops. Cold surprises imply a negative effect on impact, but this is statistically significant only at the 68% confidence level. Much of the variation in temperature effects is actually driven by hot surprises, which create substantial declines in cassava, maize, and rice. However, the magnitude of these responses is much smaller than in the previous quantitative assessment. The main reason is that these responses cannot be directly compared, as the surprise index changes the units of interpretation of the responses.

Regarding precipitation, the dry surprises reveal a stark vulnerability in certain crops. All types of crops are heavily impacted, showing a sharp reduction of up to -20%. In contrast, wet surprises generally result in positive outcomes for agricultural production. All crops benefit from wetter conditions, showing production increases of up to 20%.

Note again that these IRFs are qualitatively quite different from the outcomes obtained in the rest of the paper. These differences emerge from the way weather shocks are measured. Our measure of weather shocks gives similar weight to all observations without recursive treatment. In contrast, Natoli (2024) proposes a recursive formulation to disentangle the standard part of the weather from its surprise component. This separation filters out a fraction of the information in weather shocks, leading to differences in the measured effects of weather shocks.

To illustrate the mechanism, consider a farmer facing extreme and consecutive weather shocks. In our case, the farmer will be equally harmed by each realization over time. However, under the surprise treatment, the impact of the second shock will be relatively less significant as the farmer will have learned from the first shock. In practice, two consecutive weather



**Notes:** The panels show the crop-specific impulse response function of monthly agricultural production to a one standard deviation (SD) increase in the surprise weather variable, which is defined as a 1 SD increase with respect to the historical average. Horizon 0 represents the month of the shock. The shaded areas represent the 95% and 68% confidence intervals with region-level clustered standard errors. The orange dashed bars represent the average growth duration.

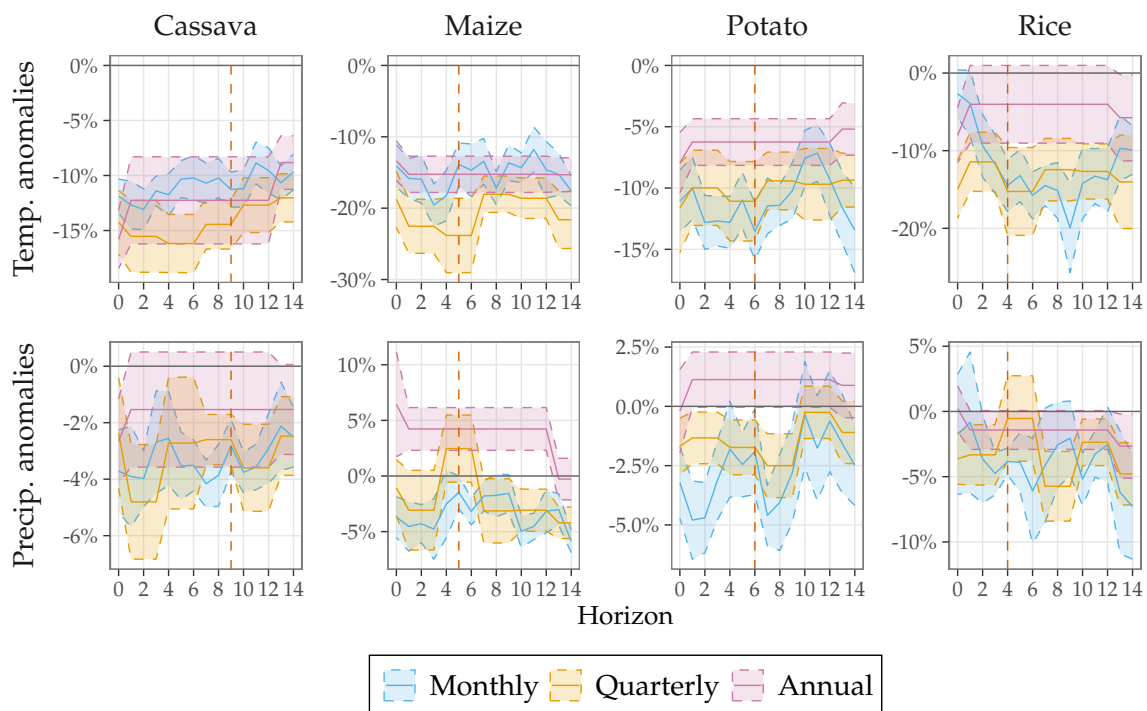
**Figure D.1.** Agricultural production response to positive and negative 1 SD weather shocks

shocks should be detrimental, as a farmer has no possibility to hedge against a second shock once crops are already planted.

## E Temporal Aggregation

Most studies on the effects of weather shocks on agricultural production rely on annual data. The Peruvian data allow us to conduct the analysis at a finer temporal scale, namely, monthly. In this section, we examine the measures of weather shocks according to data aggregation. Specifically, we aggregate monthly production data into quarters and years. These three levels of aggregation allow us to replicate the analysis from [section 3](#), showing the effects of precipitation or temperature shocks using a Local Projection framework. The Impulse Response Functions in [Figure E.1](#) show the agricultural production response to temperature shocks (top) or precipitation shocks (bottom), expressed monthly (blue), quarterly (yellow), or

annually (purple). Interestingly, we observe that the shapes of the response functions are very similar when production data are aggregated monthly or quarterly for most crops and both types of shocks. However, annual aggregation produces responses that underestimate the effects of shocks on production, and in the case of precipitation for maize and potatoes, even leads to opposite conclusions. The level of data aggregation significantly affects the measured impact of weather shocks on agricultural production. Monthly and quarterly data provide a more detailed and accurate picture of these impacts compared to annual data. When access to such finer scale data is possible, monthly or quarterly data should be preferred to annual data.



**Notes:** The panels show the crop-specific impulse response function of monthly/quarterly/annual agricultural production to a one standard deviation (SD) increase in the surprise weather variable, which is defined as a 1 SD increase with respect to the historical average. Horizon 0 represents the month of the shock. The shaded areas represent the 95% and 68% confidence intervals with region-level clustered standard errors. The orange dashed bars represent the average growth duration.

**Figure E.1.** Agricultural production response to a weather shock, using either monthly, quarterly, or annual data