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An Analysis of the Transmission Mechanism of Inflationary Pressures Due to Supply Chain Restructuring in the Post-Pandemic Era in the United States

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Abstract

The post-pandemic era has seen significant disruptions in global supply chains, leading to inflationary pressures across various sectors of the U.S. economy. This paper examines the transmission mechanisms of these inflationary pressures, focusing on the role of supply chain restructuring in driving cost-push inflation, supply chain bottlenecks, and rising transport costs. It explores how the U.S. has responded with policy measures such as reshoring, nearshoring, and infrastructure investments, as well as the Federal Reserve's monetary policy actions. Furthermore, the paper delves into the behavioral shifts in consumer price expectations and spending patterns, emphasizing the disparate impact of inflation across different income groups and demographics. The analysis concludes with strategic recommendations for managing inflation in a post-pandemic economy and highlights the long-term implications for economic growth, global trade, and regional economic disparities.

Keywords: post-pandemic, supply chain restructuring, inflationary pressures, cost-push inflation, reshoring, nearshoring, transport costs

1. Post-Pandemic Supply Chain Restructuring in the U.S.

The post-pandemic era in the United States has been marked by significant disruptions and transformations in supply chains. These disruptions were driven by a combination of factors that emerged during and after the COVID-19 pandemic. One of the most immediate effects was the disruption of global trade, as factories closed, shipping routes were blocked, and international labor markets faced severe shortages. These factors led to major delays in the delivery of raw materials, finished goods, and intermediate products, significantly affecting industries dependent on just-in-time supply models.

In addition to these logistical challenges, the pandemic exposed vulnerabilities in the global supply chain, particularly regarding the reliance on specific countries and regions for manufacturing. As a result, businesses in the U.S. began rethinking their supply chain strategies. The concept of "reshoring," or bringing production back to the U.S., gained significant traction, alongside "nearshoring" (shifting production to nearby countries in North America). This shift was intended to reduce dependence on distant suppliers and mitigate risks associated with future global disruptions.

The pandemic also accelerated the adoption of digital technologies and automation within supply chains. Companies that had been slow to embrace these advancements found themselves at a competitive disadvantage during the crisis. As a result, there was a large-scale push to digitize supply chain operations, with an emphasis on real-time data, predictive analytics, and artificial intelligence. These technologies have proven essential in improving the efficiency of supply chains and helping businesses adapt to changing consumer demand patterns.

Moreover, the pandemic-induced shift in work patterns, particularly the increase in remote work, had a profound

impact on consumption habits. As many workers stayed home, consumer demand for certain goods, particularly electronics, home improvement products, and other household items, surged. This shift further strained supply chains, creating additional pressure on manufacturers to meet these new demands while dealing with ongoing disruptions.

The impacts of supply chain restructuring were particularly evident in key sectors such as manufacturing, retail, logistics, and healthcare. In manufacturing, the shortages of key raw materials and components led to production delays and increased costs. Retailers faced difficulties in restocking shelves, while consumers experienced longer wait times for goods. In logistics, the shortage of shipping containers, coupled with port congestion, created delays in the movement of goods. Meanwhile, the healthcare sector struggled with the procurement of essential medical supplies, vaccines, and equipment.

Overall, the restructuring of U.S. supply chains in the post-pandemic era has been a multifaceted process. It involved addressing immediate logistical challenges while simultaneously preparing for long-term resilience. The shift in supply chain strategies, the increased use of technology, and the adjustments in consumption patterns will likely have lasting effects on the U.S. economy, influencing everything from inflation to workforce dynamics.

2. Transmission Mechanisms of Inflationary Pressures

The transmission mechanisms of inflationary pressures resulting from supply chain disruptions in the post-pandemic era are complex and multifaceted. As the pandemic reshaped supply chains across industries, several mechanisms were triggered, leading to inflationary effects on the broader economy. These mechanisms, including cost-push inflation, supply chain bottlenecks, and rising transport and logistics costs, have been central to the inflationary dynamics that have unfolded in the U.S. over the past few years.

2.1 Cost Push Inflation

Cost-push inflation occurs when the costs of production increase, forcing businesses to raise their prices in order to maintain profit margins. In the context of the post-pandemic supply chain restructuring, several factors contributed to rising production costs. The shortage of essential raw materials, such as semiconductor chips, metals, and chemicals, combined with labor shortages, led to increased production costs for many industries. For example, global semiconductor shortages have led to a rise in the price of electronics and automotive products. According to a report from the U.S. Bureau of Economic Analysis (BEA), the price of semiconductor components rose by nearly 20% in 2021 due to production delays and higher demand, directly influencing inflation in sectors dependent on these goods.

Moreover, businesses that relied on just-in-time inventory systems found themselves vulnerable to these cost increases. The inability to quickly restock inventory, combined with rising material and labor costs, meant that many companies had to either absorb the costs or pass them on to consumers. This process amplified inflationary pressures across various sectors, including manufacturing, retail, and services, and contributed to the overall rise in consumer prices in the U.S. As of June 2021, the U.S. Consumer Price Index (CPI) recorded a 5.4% annual inflation rate, the highest in nearly 13 years, much of which was attributed to these cost increases.

2.2 Supply Chain Bottlenecks

Supply chain bottlenecks play a significant role in transmitting inflationary pressures to the broader economy. As key production facilities, ports, and transportation hubs were disrupted during the pandemic, bottlenecks emerged throughout global supply chains. The most notable examples were seen in the shipping and transportation industries, where backlogs at ports, shortages of shipping containers, and delays in freight movement created delays in product availability. These delays not only impacted the delivery of finished products but also interrupted the supply of essential components required for manufacturing. For instance, the Port of Los Angeles, one of the busiest ports in the U.S., experienced container delays that surged to over 100 ships waiting offshore at its peak in 2021, leading to a significant bottleneck in the supply of imported goods. This shortage in goods led to supply-demand imbalances, pushing up prices for a wide range of products.

The U.S. faced a similar situation with backlogs at other ports such as the Port of Long Beach and at inland transport hubs. According to the National Retail Federation (NRF), these bottlenecks increased shipping costs, with container shipping prices between China and the U.S. rising by 300-500% in 2021, directly contributing to inflation. As goods became scarce, demand outpaced supply, leading to higher prices.

2.3 Rising Transport and Logistics Costs

Rising transport and logistics costs have been another critical factor contributing to inflationary pressures in the post-pandemic U.S. economy. The transportation sector, which includes shipping, trucking, air freight, and rail services, experienced significant disruptions due to labor shortages, rising fuel prices, and supply chain imbalances. With fewer workers available to handle goods, coupled with increased demand for transportation

services, the cost of moving goods skyrocketed.

The shortage of shipping containers, a key component of global trade, compounded the problem. Many industries were forced to pay significantly higher prices for container shipping as global shipping lines raised their rates to manage demand. For example, in early 2021, the cost of shipping a 40-foot container from China to the U.S. West Coast jumped from $1,500 to more than $15,000, according to the Freightos Baltic Index. Additionally, disruptions in trucking, where a shortage of drivers led to slower deliveries, further inflated transport costs within the U.S. The increased cost of transporting goods from international suppliers to domestic retailers, as well as from warehouses to consumers, ultimately led to higher retail prices, contributing to overall inflation.

Fuel costs also played a major role in driving up transportation expenses. As global demand for energy rebounded post-pandemic, fuel prices surged, exacerbating the costs of transportation across all modes of delivery. According to the U.S. Energy Information Administration (EIA), the price of diesel fuel in the U.S. rose by 40% from 2020 to 2021. This increase in fuel costs, coupled with disruptions in the availability of drivers and shipping containers, made it more expensive to transport goods across the supply chain, and these additional costs were again passed on to consumers in the form of higher prices.

In conclusion, the transmission of inflationary pressures due to supply chain disruptions in the post-pandemic era has been facilitated by several mechanisms, including cost-push inflation, supply chain bottlenecks, and rising transport and logistics costs. Each of these factors has contributed to the upward pressure on prices, making inflation a critical economic concern. The continued impact of these mechanisms underscores the challenges faced by policymakers and businesses in managing inflation in a globalized and interconnected economy.

3. Domestic and Global Supply Chain Shifts

The disruptions caused by the COVID-19 pandemic forced many companies to reconsider their supply chain strategies. The result has been a fundamental shift in how the U.S. and other global economies approach the sourcing, manufacturing, and distribution of goods. In particular, the trends of reshoring and nearshoring, along with a reorganization of global trade networks, have had significant economic implications. These shifts are not just limited to the movement of goods but are deeply intertwined with regional supply chain dynamics, each having its own implications on the economy, production costs, and inflationary pressures.

3.1 Effects of Reshoring and Nearshoring

One of the most noticeable shifts in the post-pandemic global supply chain landscape has been the increased push for reshoring and nearshoring, especially by U.S. companies. Reshoring refers to the practice of bringing production back to the U.S. from overseas, while nearshoring involves shifting production to countries that are geographically closer to the U.S., such as Mexico and Canada. The primary motivation behind these shifts is the desire to mitigate risks associated with long and complex global supply chains, which were severely disrupted during the pandemic.

The need for greater supply chain resilience and control over production processes has prompted many businesses to rethink their global sourcing strategies. For example, the semiconductor shortage during the pandemic highlighted the vulnerabilities of relying heavily on Asian manufacturing, particularly China. In response, major companies, such as Intel and Foxconn, announced plans to build new semiconductor plants in the U.S. to reduce dependence on foreign suppliers. Similarly, businesses in sectors like automotive, electronics, and textiles have moved production closer to home to improve flexibility and speed.

Nearshoring, in particular, has been advantageous for reducing lead times and transportation costs while ensuring that companies maintain cost-effective production. A notable example is the shift of manufacturing from China to Mexico, where labor costs are lower than in the U.S. but proximity allows for easier logistics. According to a report from the U.S. Chamber of Commerce, nearly 40% of U.S. businesses surveyed indicated plans to nearshore production within the next few years, driven by supply chain security concerns. While reshoring and nearshoring offer advantages in terms of supply chain control, they come with increased labor costs and capital investment, factors that can contribute to inflationary pressures as companies adjust to new operating environments.

3.2 Global Trade Reorganization

In addition to reshoring and nearshoring, global trade networks have undergone significant reorganization as a response to the pandemic. Many countries, including the U.S., began reassessing their dependency on specific countries for key supplies, especially critical goods like medical equipment, pharmaceuticals, and technology components. This led to a shift in global trade relationships and a reconsideration of trade agreements, tariffs, and partnerships.

The trade war between the U.S. and China, which began before the pandemic, intensified in the wake of the

COVID-19 crisis, contributing to the reorganization of global trade patterns. U.S. manufacturers, in particular, faced high tariffs on Chinese goods, prompting many businesses to seek alternative sources of supply in countries like Vietnam, India, and other Southeast Asian nations. This shift had a cascading effect on the global trade system, changing the flow of goods and services and leading to longer lead times and higher costs.

Furthermore, the reorganization of global trade has been influenced by the growing importance of supply chain transparency and sustainability. Countries and companies are increasingly focusing on ethical sourcing and environmental concerns, which have led to the implementation of stricter regulations on trade practices and environmental standards. The transition toward more localized and sustainable supply chains is reshaping how global trade operates, contributing to rising costs in some sectors due to the need for new compliance measures, technologies, and certifications.

3.3 Regional Supply Chain Dynamics

In the U.S., regional supply chain dynamics have become more pronounced as companies adapt to the challenges of post-pandemic trade and production. The shift toward more localized supply chains has led to greater regional disparities in how different areas of the U.S. are affected by supply chain disruptions. For example, areas that were heavily reliant on international ports, such as those on the West Coast, faced significant disruptions when shipping delays and container shortages overwhelmed the supply infrastructure.

On the other hand, regions with strong manufacturing bases, such as the Midwest, have seen an increase in reshoring and nearshoring activity, particularly in the automotive and electronics sectors. These regional shifts have led to a rebalancing of economic activity, with some areas seeing a resurgence in manufacturing jobs and others facing increased costs and delays as they attempt to adjust to new supply chain models.

The growth of regional supply chains also highlights the role of infrastructure investment in addressing supply chain vulnerabilities. States and local governments are investing heavily in transportation infrastructure, including port expansion and road upgrades, to support these regional supply chain shifts. However, the uneven distribution of investment across regions has created challenges in some areas, further exacerbating regional disparities in inflationary pressures. The imbalance between regions that are able to quickly adapt to new supply chain models and those that are struggling to modernize their infrastructure is likely to continue to contribute to regional inflationary differences in the future.

In conclusion, the shifts in domestic and global supply chains—shaped by reshoring, nearshoring, global trade reorganization, and regional dynamics—are fundamental to understanding the transmission of inflationary pressures. As companies adjust to new manufacturing and sourcing strategies, the cost of goods and services continues to rise, impacting inflation in the U.S. and globally. These changes in the supply chain landscape will likely have lasting effects on both the cost of production and consumer prices in the years to come.

4. Technological Impact on Inflationary Pressures

The role of technology in reshaping the supply chain landscape and its subsequent impact on inflationary pressures has been profound in the post-pandemic era. Technological advancements, particularly in automation, digital supply chain innovations, and shifts in labor market requirements, have altered production processes, labor dynamics, and overall efficiency in industries across the U.S. These changes have a dual effect on inflation: while technology can reduce long-term production costs and improve supply chain resilience, it also requires significant upfront investments, which can contribute to inflationary pressures in the short term.

Automation has become one of the most significant drivers of change in manufacturing and logistics industries. By replacing labor-intensive processes with robots and artificial intelligence (AI), companies can improve efficiency, reduce human error, and increase output. However, while automation promises to lower production costs in the long run, the initial investment in technology, infrastructure, and worker retraining can be substantial. For example, companies such as Tesla and General Motors have increasingly relied on automated production lines to maintain output levels despite labor shortages. These investments in automation technology can lead to higher initial costs, which may be passed on to consumers in the form of higher prices, especially if the capital costs are not amortized quickly enough.

Moreover, the speed at which automation can be implemented varies by industry. In sectors like automotive manufacturing, automation has already been integrated into many processes, leading to efficiencies that help keep prices lower. In contrast, industries like food processing or construction, where automation has been slower to adopt, face higher costs as they struggle to keep up with labor shortages and increasing demand. These varying adoption rates across industries can exacerbate inflationary pressures, as sectors with slower technological integration face more acute cost increases.

In parallel, advancements in digital supply chain technologies, such as the use of blockchain, Internet of Things (IoT), and cloud-based analytics, have also had a significant impact on inflation. These technologies enable

greater transparency, real-time tracking of goods, predictive analytics for demand forecasting, and better inventory management, all of which can optimize supply chains and reduce waste. For instance, blockchain technology has been implemented in food and pharmaceutical industries to improve traceability and reduce fraud, while IoT devices allow for better management of inventory and shipping processes. The implementation of these technologies can improve supply chain efficiency and mitigate some of the cost pressures caused by disruptions. However, like automation, the implementation of digital solutions requires significant upfront investments, both in terms of capital and workforce training, which can contribute to higher costs in the short term.

Furthermore, the use of AI and data analytics allows businesses to make more informed decisions, predict supply and demand fluctuations, and avoid overproduction or stockouts. While these technological advances ultimately aim to lower inefficiencies and stabilize costs, the process of integrating these new technologies often requires businesses to incur additional costs that can be reflected in the prices of goods and services. These costs, combined with the growing complexity of global supply chains, can lead to inflationary pressures as firms adjust to the changing technological landscape.

Another key technological shift that influences inflation is the change in labor market requirements. The rise of automation and digital technologies has changed the types of skills needed in the workforce. As businesses implement new technologies, they require workers with specialized skills, such as those with expertise in AI, robotics, or data analytics. This shift has led to an increased demand for highly skilled labor, which in turn pushes up wages in certain sectors. As skilled workers become more scarce, companies may find themselves offering higher salaries to attract the talent they need. These higher labor costs, while necessary to maintain technological competitiveness, can add to overall production costs and contribute to inflation.

The labor market has also seen an increased demand for workers who can operate and manage automated systems, which further reduces the availability of labor for more traditional roles. This shortage of labor in non-automated sectors has led to wage inflation, particularly in industries such as logistics, warehousing, and retail, where labor shortages are most acute. With fewer workers available for lower-skilled jobs, employers are forced to offer higher wages to attract workers, further driving up costs and contributing to inflationary pressures.

In conclusion, the technological shifts in automation, digital supply chain advancements, and changing labor market requirements are reshaping production processes, cost structures, and workforce dynamics in the U.S. economy. While these technologies promise long-term efficiency gains, their initial costs—whether in terms of capital investment or higher wages—can contribute to short-term inflationary pressures. The balance between technological adoption, labor market shifts, and production cost management will play a key role in determining the overall impact on inflation in the years to come.

5. Monetary and Fiscal Policy Responses

The role of monetary and fiscal policy in managing the inflationary pressures resulting from post-pandemic supply chain disruptions has been central to the economic response in the United States. As supply chains were restructured and inflationary pressures mounted, both the Federal Reserve and the federal government had to adapt their strategies to address rising prices, economic growth, and the complex challenges of a disrupted global economy. The effectiveness of these policies, including the Federal Reserve's inflation management tools, government stimulus, and infrastructure spending, has been debated, with significant implications for the future of U.S. economic stability.

5.1 Federal Reserve's Inflation Management

The Federal Reserve plays a crucial role in managing inflation through its control over monetary policy. In the wake of the pandemic and the resulting supply chain disruptions, the Federal Reserve initially responded with aggressive monetary easing policies, including near-zero interest rates and large-scale asset purchases, commonly known as quantitative easing (QE). These measures were aimed at supporting economic activity by lowering borrowing costs for consumers and businesses, thus encouraging spending and investment during a time of widespread uncertainty.

However, as inflation began to rise sharply in 2021 and into 2022, largely due to supply chain bottlenecks and increased production costs, the Federal Reserve shifted its stance. Rising consumer prices, reaching a 40-year high by mid-2022, prompted the Fed to pivot toward tightening monetary policy. This involved gradually raising interest rates in an effort to curb demand-driven inflation and to cool down an overheated economy. The Federal Reserve also signaled that it would reduce its balance sheet, a process known as "quantitative tightening," in a bid to limit the excess liquidity that had contributed to inflationary pressures.

The challenge for the Federal Reserve has been balancing its dual mandate: to promote maximum employment and maintain price stability. While raising interest rates can help combat inflation, it can also slow down

economic growth and increase borrowing costs, potentially leading to a recession. As such, the Fed has had to carefully manage its policy adjustments to avoid triggering economic contraction while trying to bring inflation down. The question remains whether the Fed's tightening measures will be sufficient to address supply-driven inflation without causing undue harm to the broader economy.

5.2 Stimulus and Infrastructure Spending

In addition to monetary policy, the U.S. government has implemented significant fiscal measures to support the economy during the pandemic and its aftermath. Stimulus payments, unemployment benefits, and other direct assistance programs were designed to provide immediate relief to households and businesses struggling due to supply chain disruptions, lockdowns, and other pandemic-related challenges. While these measures were vital in keeping the economy afloat during the crisis, they also contributed to inflationary pressures.

The stimulus checks and extended unemployment benefits provided consumers with extra purchasing power, which in turn increased demand for goods and services. At a time when supply chains were already strained, this surge in demand exacerbated supply shortages, leading to higher prices. Some economists argue that the government's fiscal policies, while necessary for immediate relief, helped fuel demand-driven inflation by creating an imbalance between supply and demand.

In addition to direct stimulus payments, infrastructure spending has become a key part of the post-pandemic fiscal response. The $1.2 trillion Infrastructure Investment and Jobs Act, passed in late 2021, aims to modernize the nation's infrastructure, including transportation networks, broadband internet, and clean energy initiatives. While these investments are critical for long-term economic growth and improving supply chain efficiency, they also inject substantial government spending into the economy, which could add to inflationary pressures in the short term.

The impact of infrastructure spending on inflation is mixed. On the one hand, upgrading critical infrastructure can reduce bottlenecks and improve supply chain efficiency, which may help alleviate some of the cost pressures in the long run. On the other hand, the increased demand for materials, labor, and equipment in the short term can push up prices, contributing to higher construction costs and ultimately inflation.

5.3 Balancing Policy Objectives

One of the most significant challenges for U.S. policymakers in the post-pandemic era has been balancing inflation control with economic growth. While monetary policy aims to manage inflation, fiscal policy has focused on supporting economic recovery through direct aid and infrastructure investment. The difficulty lies in ensuring that these policies do not work at cross-purposes.

For instance, while higher interest rates can cool inflation, they can also slow down economic growth by making borrowing more expensive, which could hurt businesses and consumers. Similarly, while fiscal measures like infrastructure spending are intended to stimulate growth and improve long-term productivity, they can also drive up inflation in the short term due to the increased demand for labor, materials, and services.

The challenge for the Federal Reserve and the federal government is to carefully calibrate their responses to avoid either overheating the economy or stalling recovery. With the risk of stagflation—a situation where high inflation and high unemployment occur simultaneously—policymakers must strike a delicate balance. The key question remains whether the combination of tightening monetary policy and sustained fiscal spending can simultaneously manage inflation while supporting continued economic growth and job creation.

6. Consumer Behavior and Inflationary Impact

In the wake of post-pandemic supply chain disruptions, shifts in consumer behavior and the subsequent impact on inflation have been profound. As inflation surged to levels not seen in decades, consumers began to adjust their spending habits and price expectations. These adjustments, in turn, have contributed to inflationary pressures in several key ways. Consumer behavior is often considered a key driver of demand-driven inflation, where rising expectations of future prices push individuals to make purchases sooner rather than later, accelerating demand and exacerbating supply shortages.

One of the most significant factors influencing consumer behavior has been shifts in price expectations. As inflationary pressures increased, consumers began to expect that prices would continue to rise, leading them to accelerate their purchases. This phenomenon, known as the "inflation expectation effect," creates a self-reinforcing cycle. When consumers expect prices to rise, they may make large purchases or stock up on goods in anticipation of future price hikes. This rush to buy, often driven by fear of scarcity or further price increases, only adds to the demand pressures in the economy, further pushing up prices. This dynamic is particularly evident in sectors where supply chains were disrupted, such as electronics, automobiles, and housing, as consumers rushed to make purchases before prices increased further.

Changes in consumption patterns have also played a significant role in amplifying inflationary pressures. The

pandemic and its aftermath have reshaped how people spend their money. For example, there has been a marked shift in demand away from services, such as dining out, entertainment, and travel, towards goods, particularly durable goods like electronics, home improvement products, and personal protective equipment. This shift has placed increased pressure on the manufacturing and retail sectors, many of which were already struggling with supply chain disruptions. Retailers, unable to keep up with the rising demand, raised prices, contributing further to inflation. Additionally, consumer preferences for online shopping surged during the pandemic, further stressing logistics networks and creating higher transportation costs that were subsequently passed on to consumers in the form of higher prices.

The rise in e-commerce and changes in purchasing behavior have also had regional implications. Areas with greater access to digital infrastructure saw an increase in consumption, which led to higher local inflationary pressures. Meanwhile, the shift toward local and domestic products, as consumers became more cautious about global shipping delays and costs, has both supported domestic production but also led to higher prices for locally produced goods due to increased demand.

The disparate impact of inflation across different demographic groups has added another layer of complexity to the inflationary environment. Inflation has not been felt evenly across all income groups, and lower-income households have been disproportionately affected by rising prices. These households typically spend a larger portion of their income on essentials like food, housing, and transportation—areas that have seen some of the largest price increases in recent years. For instance, the cost of groceries and gasoline has risen sharply, putting additional strain on households with fewer resources. Conversely, higher-income households, who spend a smaller percentage of their income on essentials, have experienced less of a direct impact from price increases. This divergence in the inflationary impact has led to increased inequality, as wealthier individuals are more insulated from rising prices and are able to maintain their consumption patterns, while lower-income individuals face greater financial strain.

Furthermore, inflation's disparate impact on demographics can also be observed in the way different age groups respond to price increases. Younger consumers, particularly millennials and Gen Z, who tend to spend more on discretionary goods and services, may be more sensitive to price hikes in areas like entertainment, technology, and leisure. On the other hand, older generations, especially retirees, may be more affected by price increases in healthcare, housing, and fixed-income expenses. These differences in consumption patterns have contributed to a segmented inflationary experience across the population.

In summary, shifts in consumer price expectations, changes in consumption patterns, and the unequal impact of inflation on different demographic groups have all played crucial roles in shaping the inflationary landscape. As consumers adjusted their behavior in response to rising prices and ongoing supply chain disruptions, their actions contributed to the self-reinforcing cycle of demand-driven inflation. At the same time, the disproportionate impact of inflation on lower-income households and certain demographic groups highlights the broader economic challenges posed by inflation, making it a critical issue for policymakers to address.

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