Policy Uncertainty, Financial Conditions and Macroeconomic Outcomes

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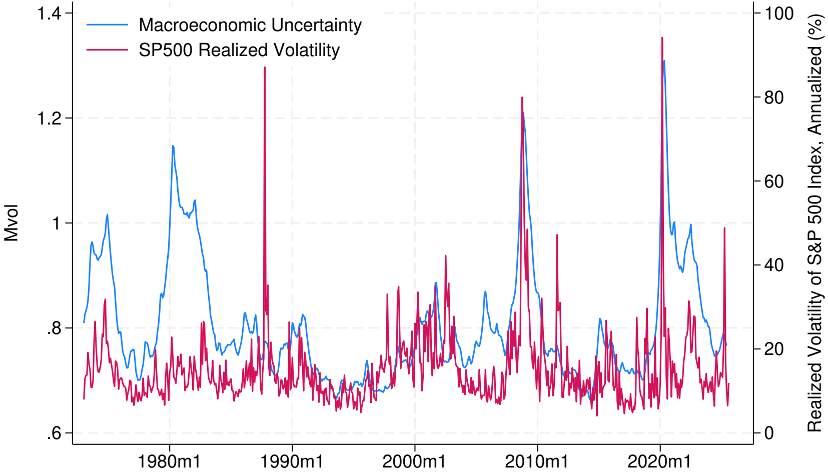
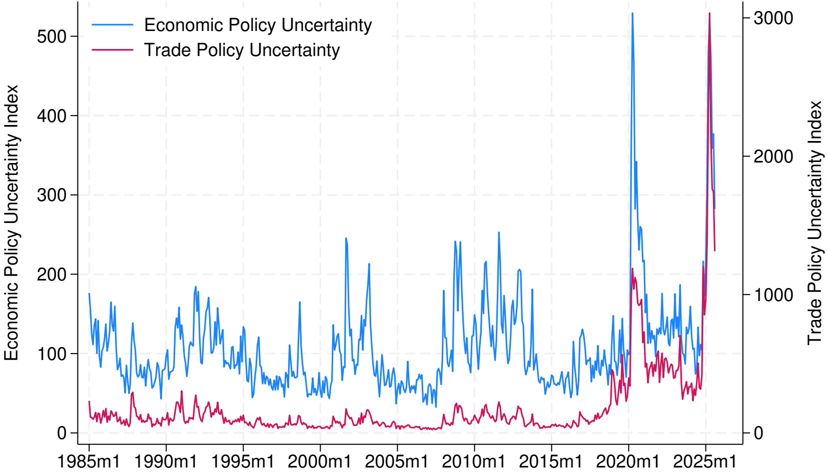
Why does uncertainty matter?

- Wait and see (real options) effects.
- Household and firm borrowing costs.
- Firm profits and precautionary pricing.
- Household spending and precautionary savings.
- Risk premia and risk-bearing capacity of financial intermediaries.

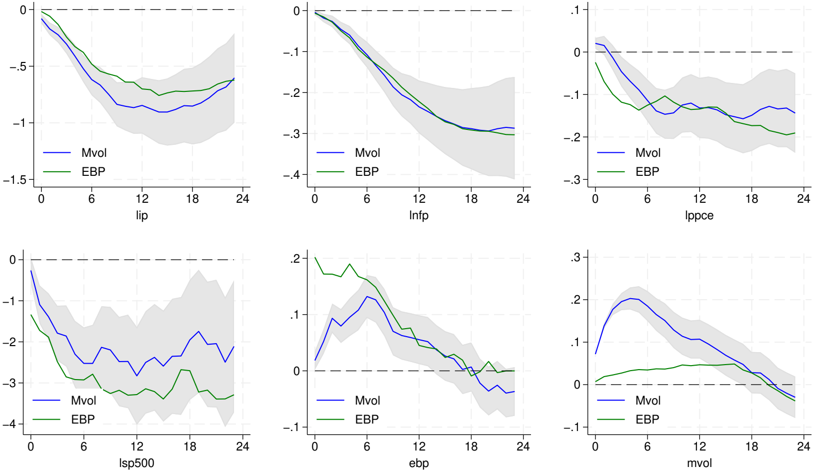
Macroeconomic Uncertainty



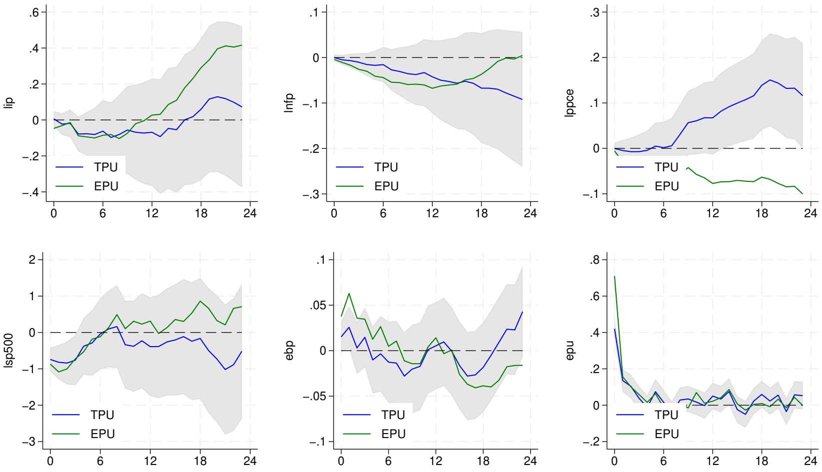
Economic Policy Uncertainty



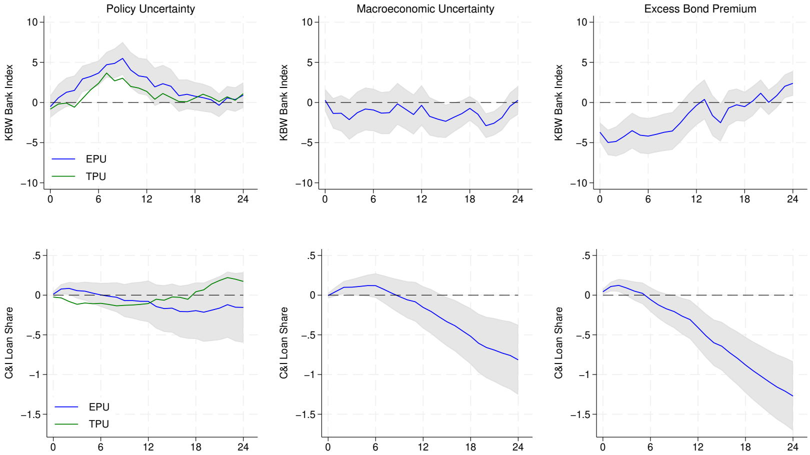
Macroeconomic Uncertainty vs EBP



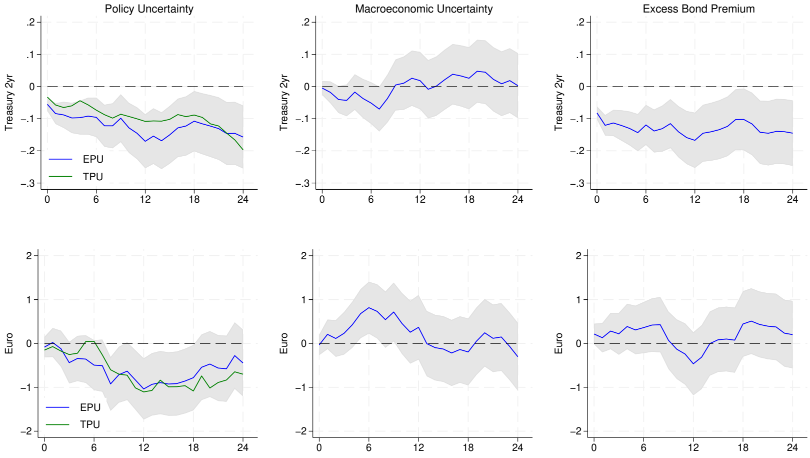
Economic Policy vs Trade Policy Uncertainty



Banking Sector Outcomes

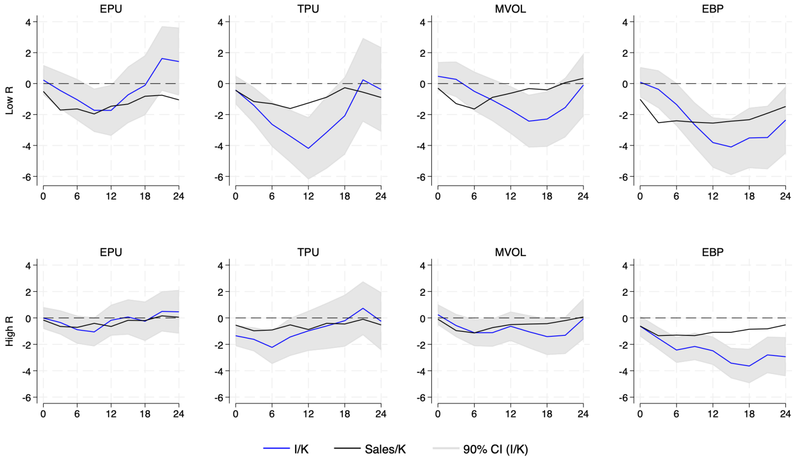


Interest Rates and Exchange Rates



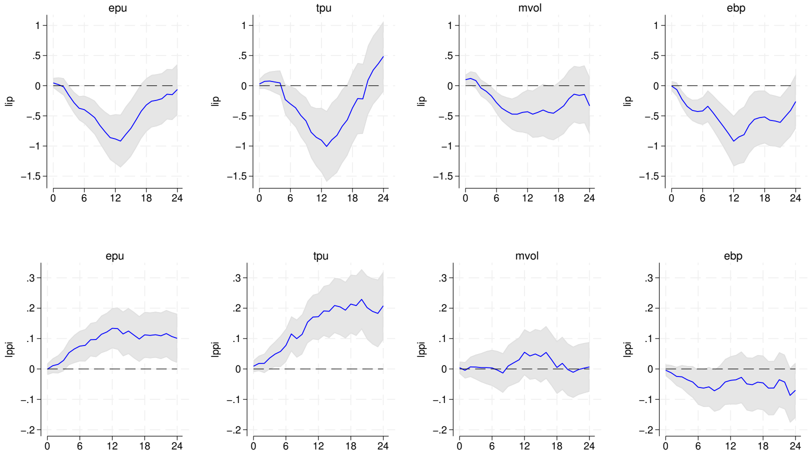
Heterogeneous Effects

The Asset Redeployability Channel

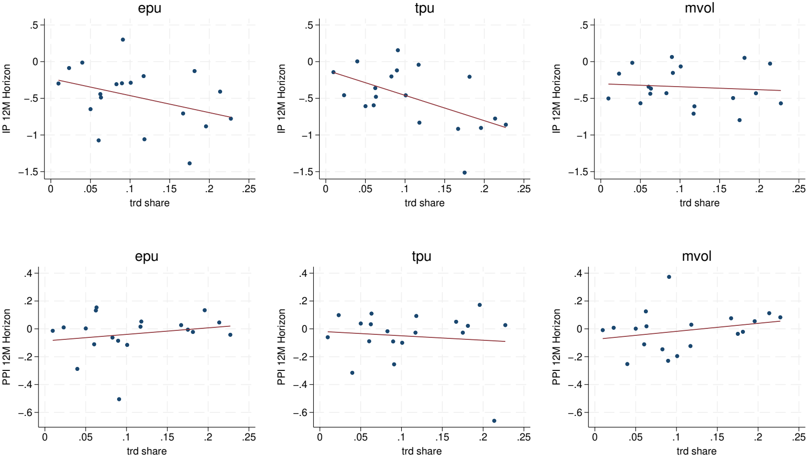


Heterogeneous Effects

Computers and Electronics



Heterogeneous Effects:
Industry Response by Trade Exposure



Summary

- An increase in macroeconomic uncertainty causes
  - a persistent deterioration in financial conditions, a drop in asset prices and a sizeable contraction in economic activity.
  - a flight to quality that leads to a reduction in risky lending and an appreciation of the U.S. dollar.
- An increase in policy uncertainty causes
  - a modest decline in aggregate economic activity.
  - a depreciation of the U.S. dollar.
  - an increase in inflation.
- Heightened policy uncertainty has disparate effects across firms and industries that results in
  - reduced investment for firms that cannot easily redeploy capital.
  - reduced production in sectors with high trade exposure.