

# Uncertainty effects amid the COVID- 19 pandemic

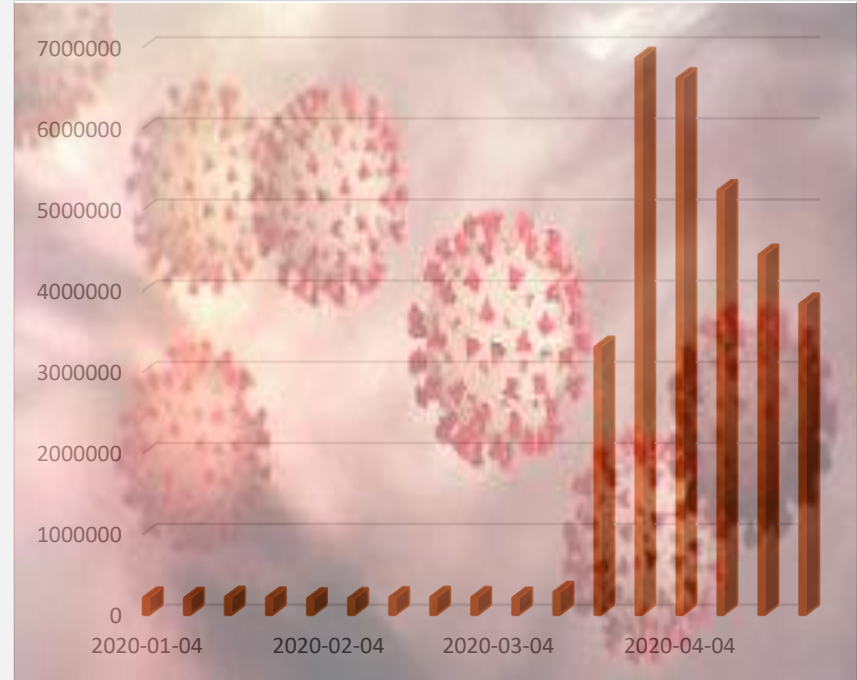
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Janice Eberly

Federal Reserve Bank of Kansas City Policy Conference

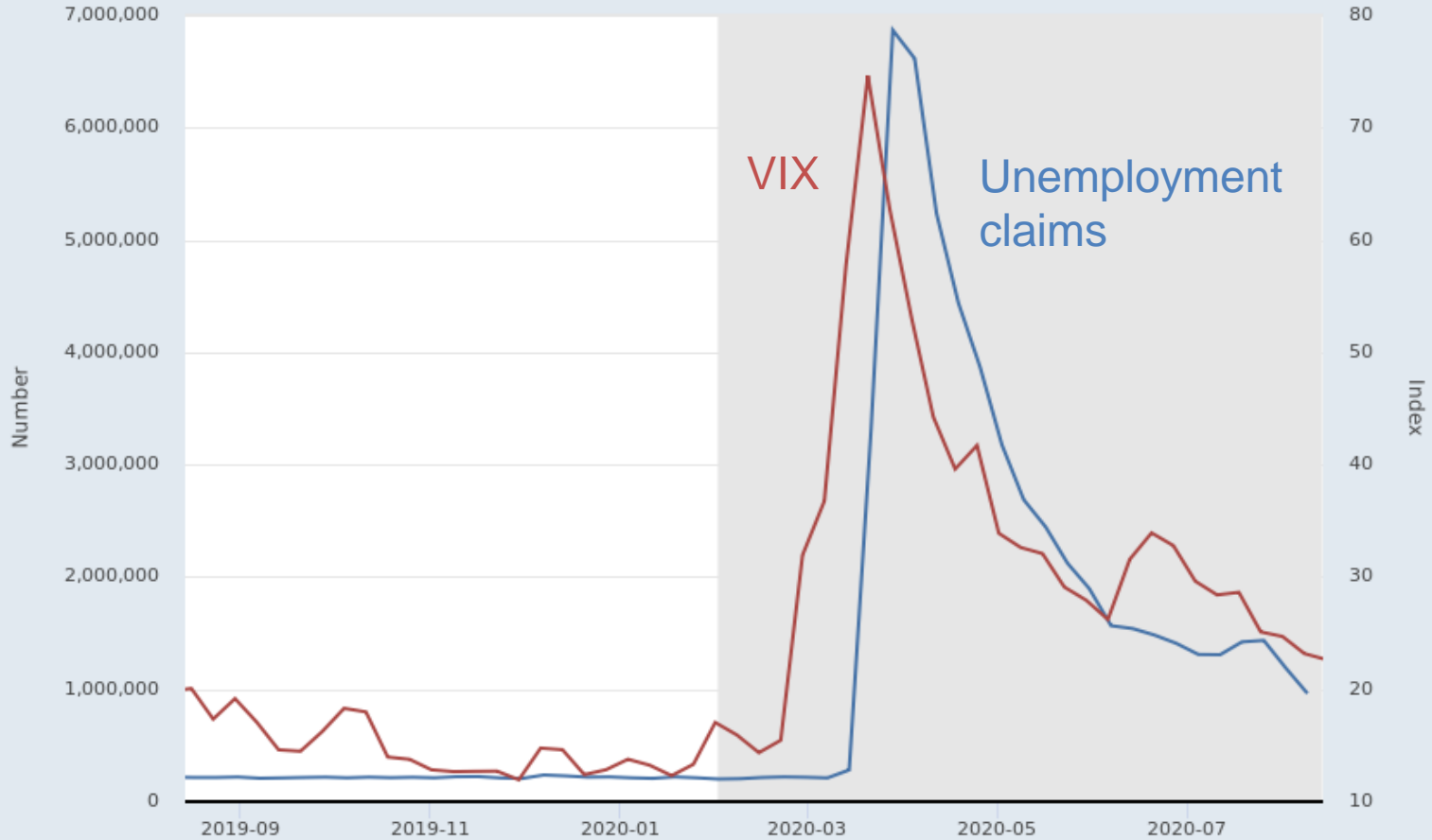
August 2020

Northwestern | Kellogg

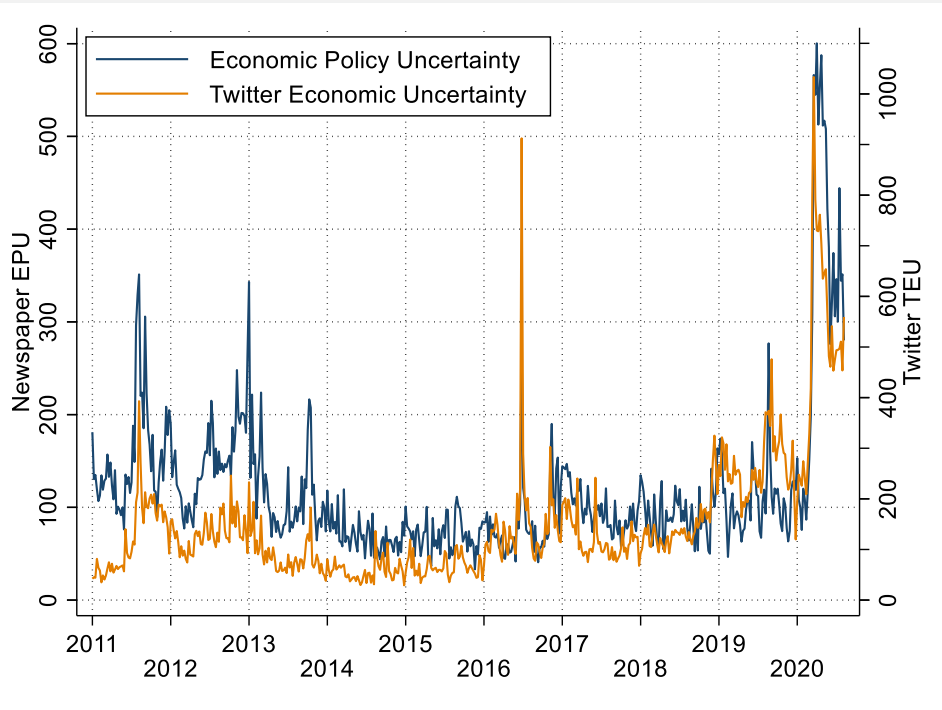


# Uncertainty effects amid the pandemic

- Measures of uncertainty have risen - what do they capture?
- Why does uncertainty matter for the economy?
  - Real options – incentive to delay
  - Risk and the cost of capital
  - Other reasons:
    - Other real options
    - Decision-making under uncertainty



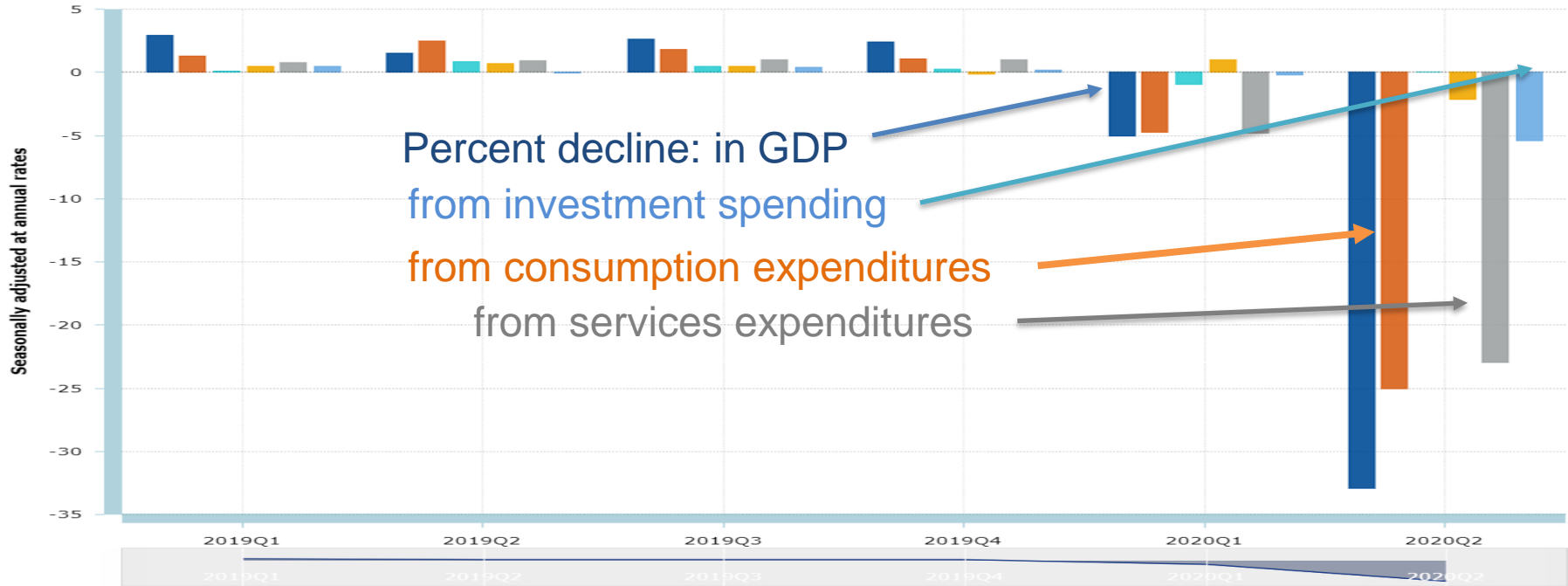
# Text-based measures



- Word counts of “uncertainty”, and one or more of the following terms: 'congress', 'legislation', 'white house', 'regulation', 'federal reserve', or 'deficit'.
- External events, those on which government may act

# What drove the decline in U.S. GDP to -33%?

Table 1.1.2. Contributions to Percent Change in Real Gross Domestic Product

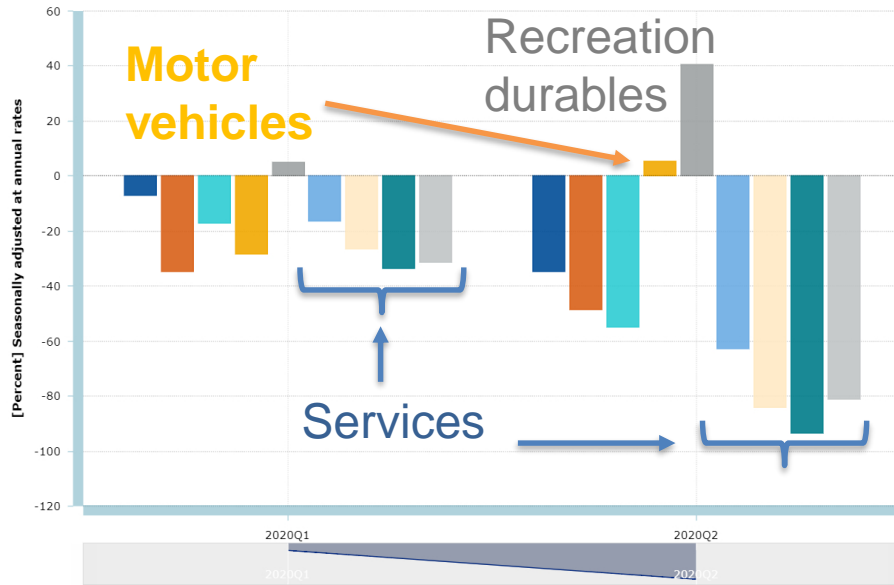


Source: U.S. Bureau of Economic Analysis

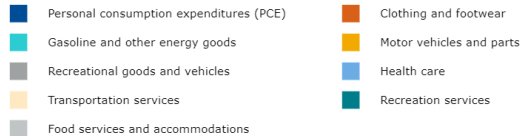
- Gross domestic product
- Durable goods
- Services
- Personal consumption expenditures
- Nondurable goods
- Fixed investment

# Durables were not drivers of the spending decline.

Table 2.3.1. Percent Change From Preceding Period in Real Personal Consumption Expenditures by Major Type of Proc



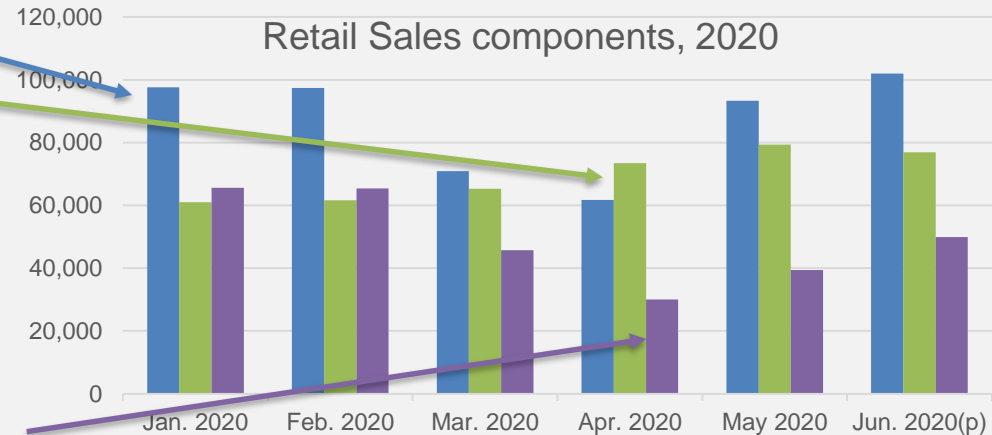
Source: U.S. Bureau of Economic Analysis



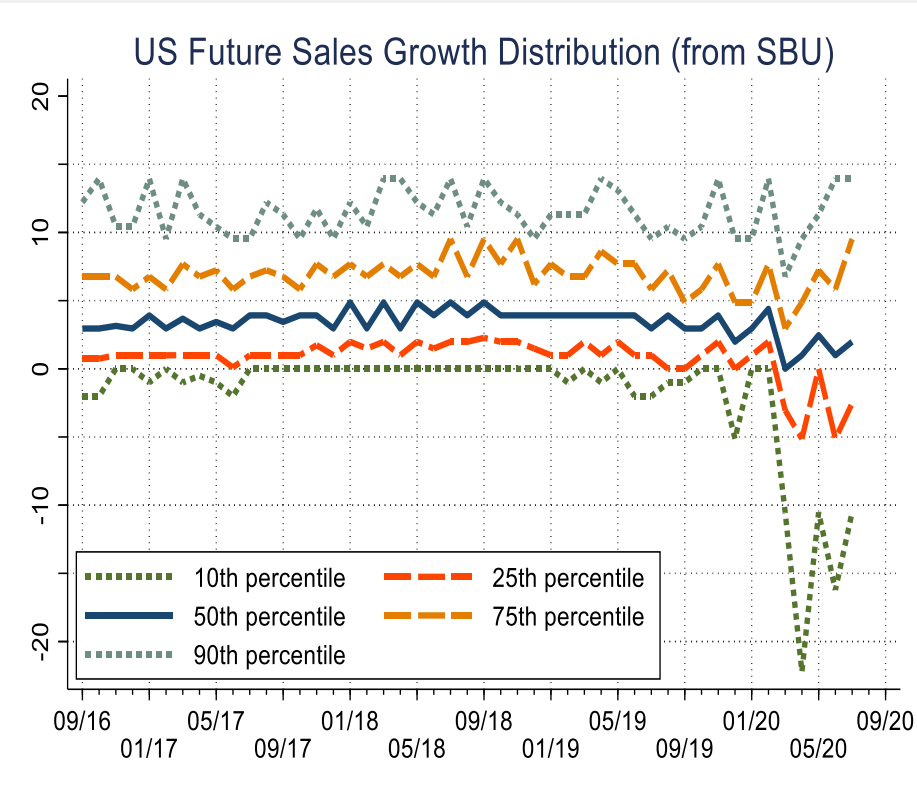
- Within consumption, auto spending rose in Q2, (especially recreation).
- While all the service categories continued their collapse.

# The cross-section of retail in 2020

- Auto dealers have largely recovered
- Electronics/mail order have accelerated growth (10 years of growth in 6 months online)
- Services are lagging (food service shown here, 25% below February) and *hence employment lags.*



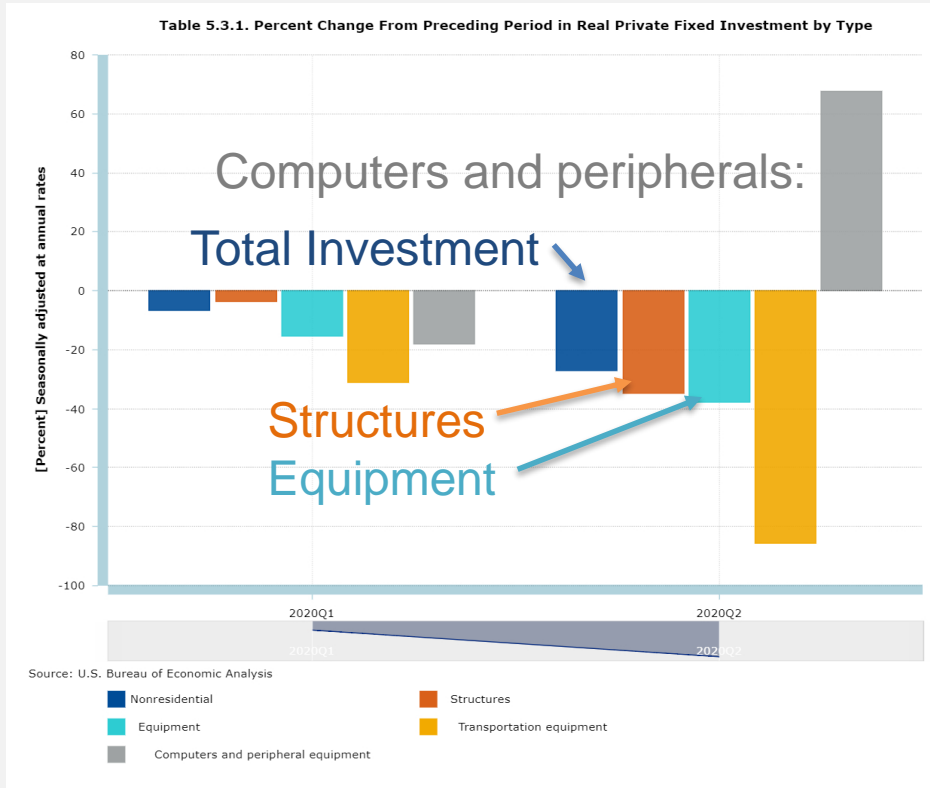
# Understanding investment ...



- If a company foresees a 10% chance of a 20% decline in sales, what should it do?



# Understanding investment ...



- Q2 saw substantial declines in structures, equipment (especially transportation equipment),
- *and a jump in computers and peripherals.*