Uncertainty effects amid the COVID-19 pandemic

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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%?

Percent decline: in GDP from investment spending from consumption expenditures from services expenditures

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

Seasonally adjusted at annual rates

Source: U.S. Bureau of Economic Analysis
Durables were not drivers of the spending decline.

- 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.