

Monetary Policy Announcements and Expectations: Evidence from German Firms

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- ECB announcements
- German firms
- production and price expectation survey data (ifo Institute)

Research answers

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Authors interpret their results as a Delphic effect of the monetary policy measure itself (*not* the communication thereof) offsetting the conventional effect, pretty much exactly.

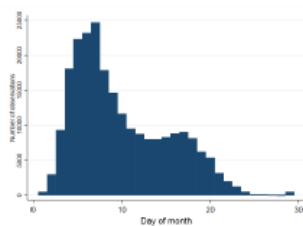
Smaller questions - selection issues?

Figure 1: Ifo business survey. Descriptive statistics.

(a) Share of firms responding online



(b) Distribution of responses within months



Smaller questions - selection issues?

- Are firms that adopt online responses earlier different?
- Are firms that respond earlier in a month different compared to those that respond later? How are monetary event dates distributed over a month? Randomly?
- You have no information on response dates for some months, but is it the case that, conditional on having some information on response dates in a month, you have them for all firms? And if not, are the firms with/without a response date different?

Smaller questions - monetary events?

Table 3: Effect of QE announcements on firm expectations, 2009 to 2018

	Dep. var.: change in the expectations for					
	prices			production		
	(1)	(2)	(3)	(4)	(5)	(6)
12-months LTROs	-0.1558*** (0.032)	-0.1010*** (0.031)	-0.0052 (0.038)	-0.1401*** (0.041)	-0.0661 (0.041)	-0.0561 (0.051)
6-months LTROs	-0.0361 (0.027)	-0.0336 (0.026)	-0.0431 (0.031)	-0.0462 (0.036)	-0.0150 (0.035)	-0.0249 (0.041)
12/13-months LTROs	-0.0292 (0.026)	-0.0639** (0.025)	-0.0409 (0.028)	-0.1362*** (0.038)	-0.1528*** (0.040)	-0.0798* (0.044)
36-months LTROs	0.0699** (0.035)	0.0859** (0.035)	0.0562 (0.046)	-0.0027 (0.042)	0.0268 (0.040)	0.0696 (0.056)
OMT details	-0.0537** (0.026)	-0.0379 (0.026)	-0.0344 (0.029)	-0.1921*** (0.039)	-0.1345*** (0.040)	-0.1226*** (0.044)
Forward Guidance	-0.0298** (0.013)	-0.0187 (0.012)		-0.0047 (0.019)	0.0011 (0.018)	
TLTROs	-0.0702 (0.052)	-0.0552 (0.052)	-0.0227 (0.056)	-0.0423 (0.067)	0.0098 (0.069)	0.0482 (0.074)
ABSPP+CBPP3	-0.0107 (0.013)	-0.0062 (0.013)		-0.0364* (0.021)	0.0075 (0.021)	
APP details	0.0058 (0.020)	-0.0031 (0.020)		0.0279 (0.026)	0.0303 (0.027)	
PSPP share limit	-0.0267 (0.017)	-0.0190 (0.017)		0.0641** (0.031)	0.1010*** (0.033)	
APP end	0.0337 (0.028)	0.0279 (0.033)	-0.0060 (0.048)	-0.0134 (0.043)	-0.0106 (0.045)	-0.0552 (0.067)

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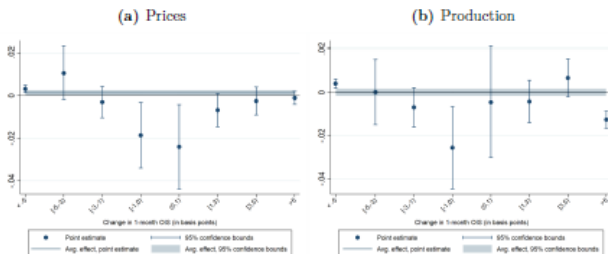
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Small issue: Draghi's "Whatever it takes"-speech was on July 26, 2012, yet you code the OMT program as August 2, 2012. Why?

Smaller questions - are results nonlinear or just erratic?

Figure 5: Effect of monetary policy surprises on firm expectations



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- Due diligence: run a few placebo regressions for dates without ECB events.
- I am not sure I like your ± 2 -days event window as the baseline (it's good that you do robustness checks in this regard). We know from Kumar et al. (2015) and Coibion et al. (2018) that firms pay little attention to central banks/monetary policy, so this seems like an overly exacting event window (I get that identification gets trickier with longer event windows, but still ...).

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For an expansionary monetary policy announcement, fewer firms should respond with a “yes.”

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- 1 question about business situation, which should jump upon a monetary policy announcement
- 2 question about business expectations

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- 1 if they react nonlinearly, then they better react in the same way as the proposed mechanism suggests
- 2 if they react without a sign change, then you might be able to use them to actually quantitatively disentangle the direct demand effect from the Delphic effect

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The problem with trichotomous level data: the range of changes is rather limited. If firms were already going to increase prices without the expansionary monetary policy shock, they have nowhere to go with their answer.

Caveat: business situation and business expectations are not quite what you want.

Proposals V

Persistence / fulfillment of expectations: why not test whether firms followed through with their changed expectations, and thus test whether monetary policy announcements have an effect not only on expectations but also on *outcomes through expectations*?

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But questions remain:

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- We know from Kumar et al. (2015) and Coibion et al. (2018) that there is so much inattention by firms to all things monetary policy. For the Delphic effect to work, they can't be inattentive.
- In the data, we have the Delphic effect also with professional forecasters. That would imply that professional forecasters have less information about the economy than central bank staff economists and receive themselves new information from central bank announcements. Plausible? Could be tested by comparing forecast qualities.

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In the end, the Jarocinski-Karadi does not deliver the desired explanation that it is central bank information shocks that create the Delphic flip in sign for large announcements.

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Not sure our knowledge is ready for prime time!

Summary

- Very interesting paper using great German data.
- Nonlinearity versus erraticness in the effects?
- Is the Delphic explanation a good one for the results?
- What, if any, are the policy implications?

What I saw when reading...

- Cite Wiederholt's paper: "Empirical Properties of Inflation Expectations and the Zero Lower Bound."
- Discuss more the relationship between your paper and Kumar et al. (2015) / Coibion et al. (2018).
- Figure 1, panel (d): why not show a dispersion measure (like std for fractions), but then for both price and production expectations; then it's more symmetric.
- Page 13: "only" 147 of 153 matches. What explains the difference?

What I saw when reading...

- Why not month FE in the regressions?
- I found the abstract and the beginning of the introduction opaque and only understandable ex post.
- Table A.2: I could not find the information on employment levels, even though in the paper you mention that in this regard the two samples are a bit different.