The Impact of Consumer Confidence News Shock during Good Times and Bad Times

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Abstract

This paper investigates the impact of a consumer confidence news shock on different types of consumer spending and GDP during recessionary as well as an expansionary phases of business cycle. We use the quarterly data of the U.S. from 1960Q1-2014Q4 and apply Jorda (2005)’s local projection method to compute the impulse responses of consumer spending and GDP to a consumer confidence news shock. Overall, our results indicate that a negative news about consumer sentiment is contractionary. However, the macroeconomic variables tend to be more sensitive to a consumer confidence news shock during an expansion than during a recession.

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