Measuring Business-Level Expectations and Uncertainty: Survey Evidence and the COVID-19 Pandemic*

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Abstract

Utilizing a unique firm-level survey in Japan that contains five-bin forecasts for sales, we document three findings. First, firm-level subjective uncertainty, measured by the coefficient of variation of forecasts, is highly and positively related to volatility of past firm growth. Second, there are substantial variations in subjective uncertainty across firms, with a long right tail with extremely high subjective uncertainty. In addition, firms that have exposure to international businesses either through international trade or foreign direct investment have both higher average expected sales and subjective uncertainty. Finally, the sudden escalation of the COVID-19 pandemic in January-February 2020 led to a substantial increase in firms' subjective uncertainty. Our triple-difference estimation results show that this effect is especially large for firms that have direct exposure to China through international trade and foreign direct investment.

Keywords: Subjective uncertainty, Firm expectations, COVID-19

JEL Classification: L2, M2, F1, D84.

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