

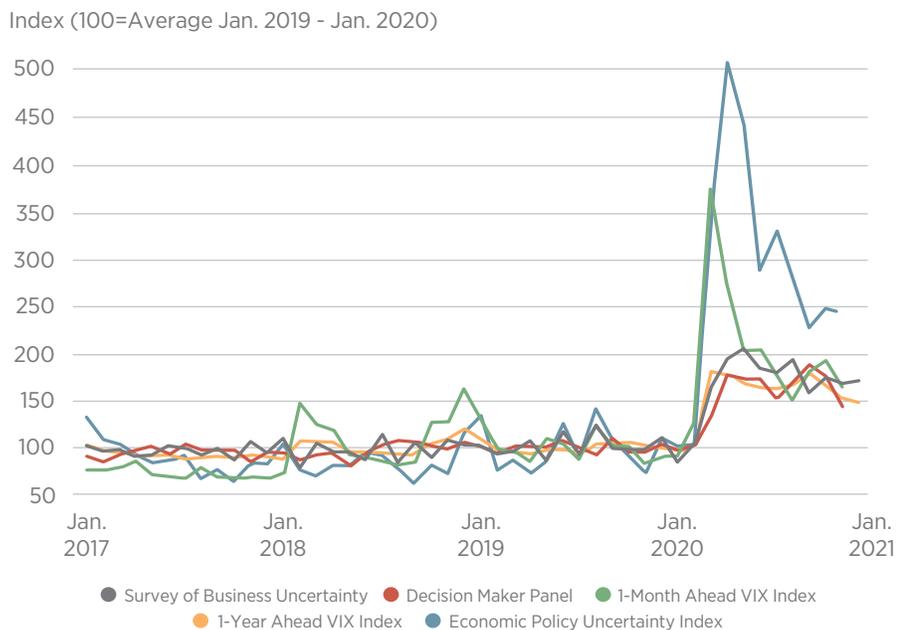
ECONOMIC FINDING

Pandemic-Era Uncertainty on Main Street and Wall Street

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COVID-related uncertainty remains a dominant feature of the decision-making environment for businesses, but the nature of the uncertainty perceived by businesses has shifted since the early phases of the pandemic: Downside tail risks have diminished considerably, and upside tail risks have grown.

Figure 1 • Wall Street vs. Main Street Uncertainty



Notes: Though all measures spiked in March 2020, the changes in the 3-month VIX and the EPU were extreme relative to the survey-based measures and the 1-year VIX. Also, all measures save the EPU have settled into levels that are roughly 50 to 75 percent higher than their pre-pandemic averages. Finally, while still elevated, the 3-month VIX and EPU signal a very substantial decline in overall uncertainty since the early stages of the pandemic. The other three indexes, in contrast, suggest a much more modest abatement of uncertainty relative to the spring.

Sources: Atlanta Fed/Chicago Booth/Stanford Survey of Business Uncertainty; Bank of England/University of Nottingham Decision Maker Panel; Baker, Bloom, and Davis Economic Policy Uncertainty; Bloomberg.

COVID-19 brought the most severe shock to hit the US economy since at least the Great Depression. Concerns over the direct impact of the virus and the associated public policy response ushered in an era of enormous uncertainty, and the outlook for growth remains relatively downbeat through 2021.

Somewhat paradoxically, 2020 was a banner year for equity markets. The early stages of the COVID-19 pandemic drove a spectacular rout in stock markets, but equity prices recovered sharply after March. By late December, the S&P 500 index stood about 10% higher than its peak pre-pandemic value in February 2020.

The authors employ the national firm-level Survey of Business Uncertainty (SBU)¹ to make three observations about this “Main Street/Wall Street” dichotomy:

- First, equity market traders and executives of nonfinancial firms share similar assessments about uncertainty at one-year look-ahead horizons. That is, the one-year VIX (a real-time indicator of market volatility) has moved similarly to the authors’ survey-based measure of (average) firm-level subjective uncertainty at one-year forecast horizons.
- Second, looking within the distribution of beliefs in the SBU reveals that firm-level expectations shifted toward upside risk in the latter part of 2020. In this sense, decision makers in nonfinancial businesses share some of the optimism that seems manifest in equity markets.
- Third, and despite the positive shift in tail risks, overall uncertainty continues to substantially dampen capital spending plans, pointing to a source of weak growth in potential GDP.

The trajectory of business investment spending is of great importance for the future path of productivity and GDP. The authors believe that firm-level surveys like the SBU can, and will, play a key role in monitoring these important developments and, importantly, assessing the policy post-COVID landscape.

¹The SBU is a monthly panel survey of U.S. business executives that collects data on own-firm past, current, and expected future sales and employment. The Atlanta Fed recruits high-level executives to join the panel and sends them the survey via email, obtaining about 450 responses per month. The survey yields data on realized firm-level employment and sales growth rates over the preceding twelve months and subjective forecast distributions over own-firm growth rates at a one-year look-ahead horizon.