Discussion of "Uncertainty and Economic Activity: Does it Matter for Thailand?"

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Summary of the paper (1)

- Explore the dynamic effects of domestic/foreign macroeconomic, financial and economic policy uncertainty on real activity consumption, investment and trade flows.
- Does 'Uncertainty' matter for Thailand? YES
- Five uncertainty proxies were constructed:

	Policy	Macro	Financial	Aggregate
Baker,Bloom and Davis (2016)	✓			
Rossi and Sekhposyan (2015)	✓			
Jurardo, Ludvigson and Ng (2015)		✓	✓	
Principal Component Analysis				✓

Summary of the paper (2)

- 3 key contributions
  - Propose 5 uncertainty indices for Thailand
  - Examine the dynamic impacts of 5 indices on macro variables:
    Short-run vs Long-run, Asymmetric effect, Short-lived vs Persistent
  - Study the spillover of external uncertainty to Thailand

Summary of the paper (3)

- Empirical findings
  - All uncertainty indices exhibit countercyclical nature to real economy.
  - Macro uncertainty leads to sharp and sudden impacts on real economy while financial uncertainty generates more persistent and gradually affects the economy.
  - The peak decline in RGDP is driven by the strong contraction in exports and investment.
  - The real economy asymmetrically responds to upside and downside uncertainty shocks.
  - U.S. and Global uncertainty shocks lead to a reduction in investment and export and there are large spillovers of financial uncertainty.

General comment (1)

- A comprehensive paper on the effects of the uncertainty indices and the first paper that addresses the issue for Thailand.
- Various sources of uncertainty are discussed. [likely to be the main objective?]

Suggestion 1

- Policy maker: Which measure of uncertainty should I really employ?
- Academics: How do I disentangle the uncertainty shock from other shocks? (Ludvigson et al.,2016)
- Orlik and Veldkamp (2014): **Black swan**

General comment (2)

Suggestion 2

- Given the research question, should we focus only on a single uncertainty index for Thailand?
- Political aspects (Geopolitical uncertainty)
- Firm-level data (Baker et al.,2016)

Comment (1): Methodology

- BBD vs TEPU

Comment 1: I am worried about quantifying the uncertainty index from English language instead of Thai language. The theme of the paper is uncertainty for Thailand. However, the uncertainty index from English language may allow researchers to compare empirical findings with other pertinent literatures.

Further reference: Pyicu

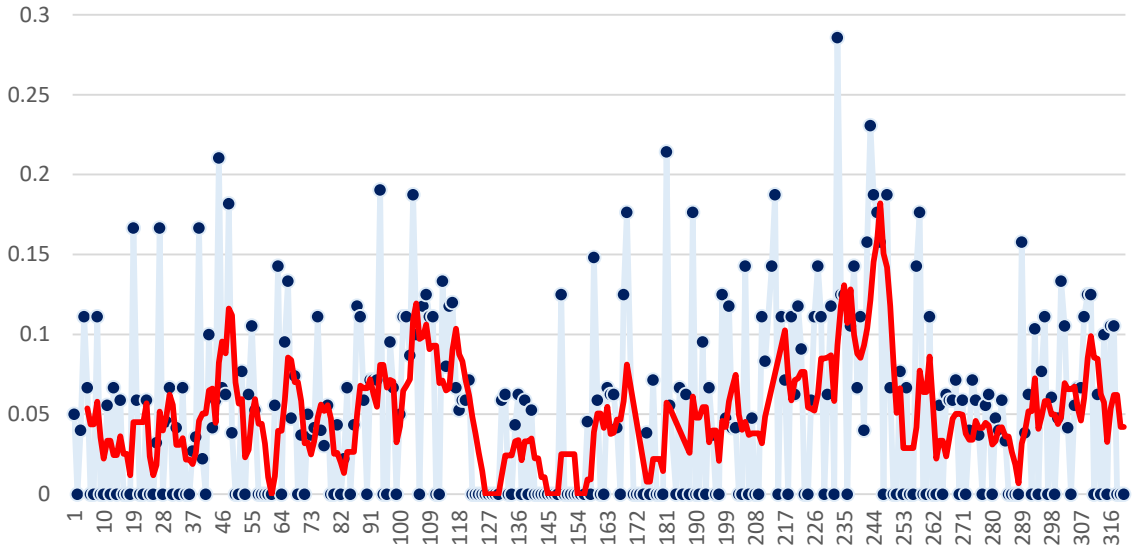
Comment 2: Only 2 sources of news, Bloomberg and the Bangkok post, are exploited in the paper. I would also recommend incorporating Thomson Reuters EIKON.

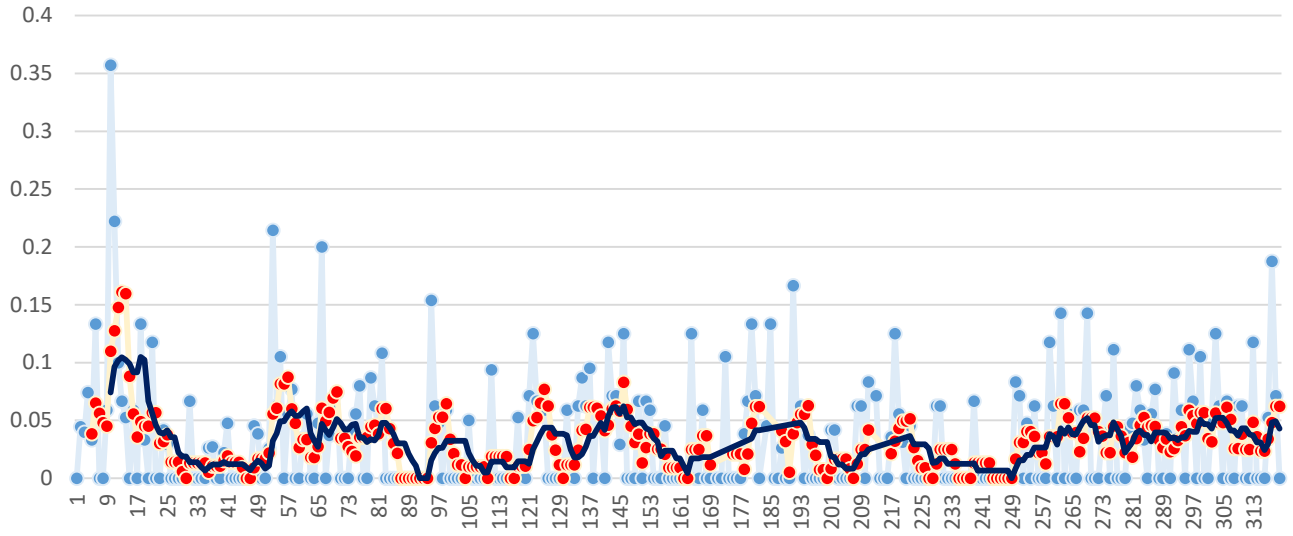
Comment 3: Delegated information choices (Nimark and Pitschner ,2019):

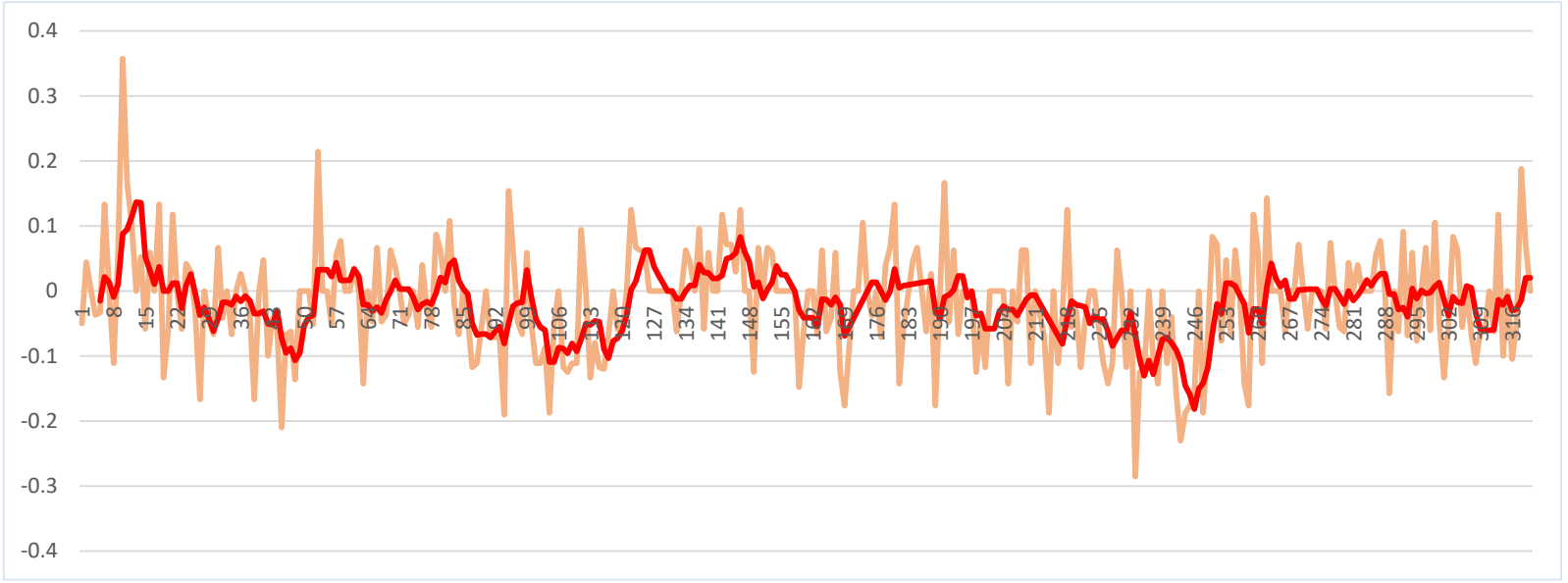
“Different outlets typically emphasize different topics, major events shift the general news focus and make coverage more homogeneous.”

….My concern over using newspapers.

News-based sentiment of the Stock Exchange of Thailand







Source: Chatchawan (2019)

Comment (2): Methodology

- JLN uncertainty index

Comment 4: In my view, financial market variables are fast moving. The method gives low frequency series of Financial uncertainty and Macroeconomic uncertainty because of the use of macroeconomic variables as inputs. It may be useful for nowcasting. We cannot trace the financial uncertainty in real time. (Chulia et al.,2017).

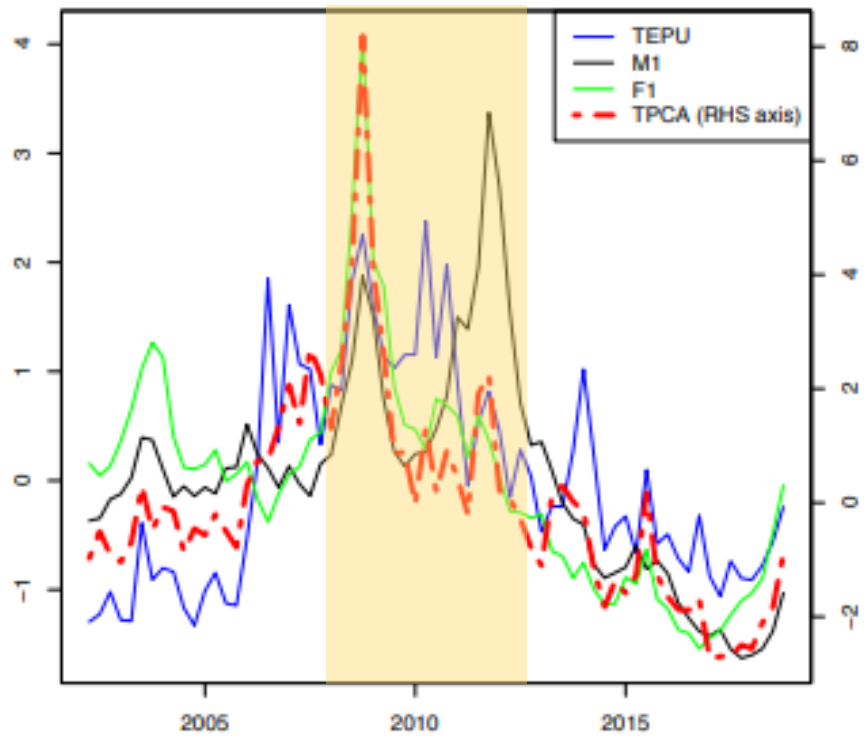
- BOT uncertainty index

Comment 5: The index is very useful and can be constructed from the fan chart. However, we have the series in a short time span.

- PCA

Comment 6: I am worried about its robustness. We pull some information out of a mountain of data. How can we be sure that it is an uncertainty index?

Figure 5: Principal Component of Uncertainty Measures for Thailand



Note: Plotted is the first principal component (TPCA) of seven uncertainty proxies: news-based economic policy uncertainty (TEPU), one-quarter-ahead macroeconomic uncertainty (M1), one-quarter-ahead financial uncertainty (F1), 60 days moving-average historical volatility of the SET50 index (SETVOL), 3-month moving average option implied volatility of the USDTHB exchange rate (USDTHBVOL), the consumer confidence index (CCI) and the business sentiment index (BSI).

Comment (3): Methodology

- Classic endogeneity
- Domestic VAR

$$[U_t \quad \log(SET) \quad Policy\ Rate \quad \log(CPI) \quad \log(Real\ Activity)]^T$$

$$U_t \in \{TEPU, M1, M4, M, \dots, BOT^*4, BOT^*8, TPCA\}$$

Comment 7: The ordering of variables is standard according to the pertinent literatures. Can we impose any restrictions into the VAR system and the augmented VAR system? (A seminal paper by Christiano et al.(1999))

Structural Factor Augmented VAR?

Comment (4): Findings

Comment 8: Except for the case of economic policy uncertainty, I tend to agree with empirical findings (See the diagram in the next slide).

"The response of real activity to Thai economic policy uncertainty shocks are muted"

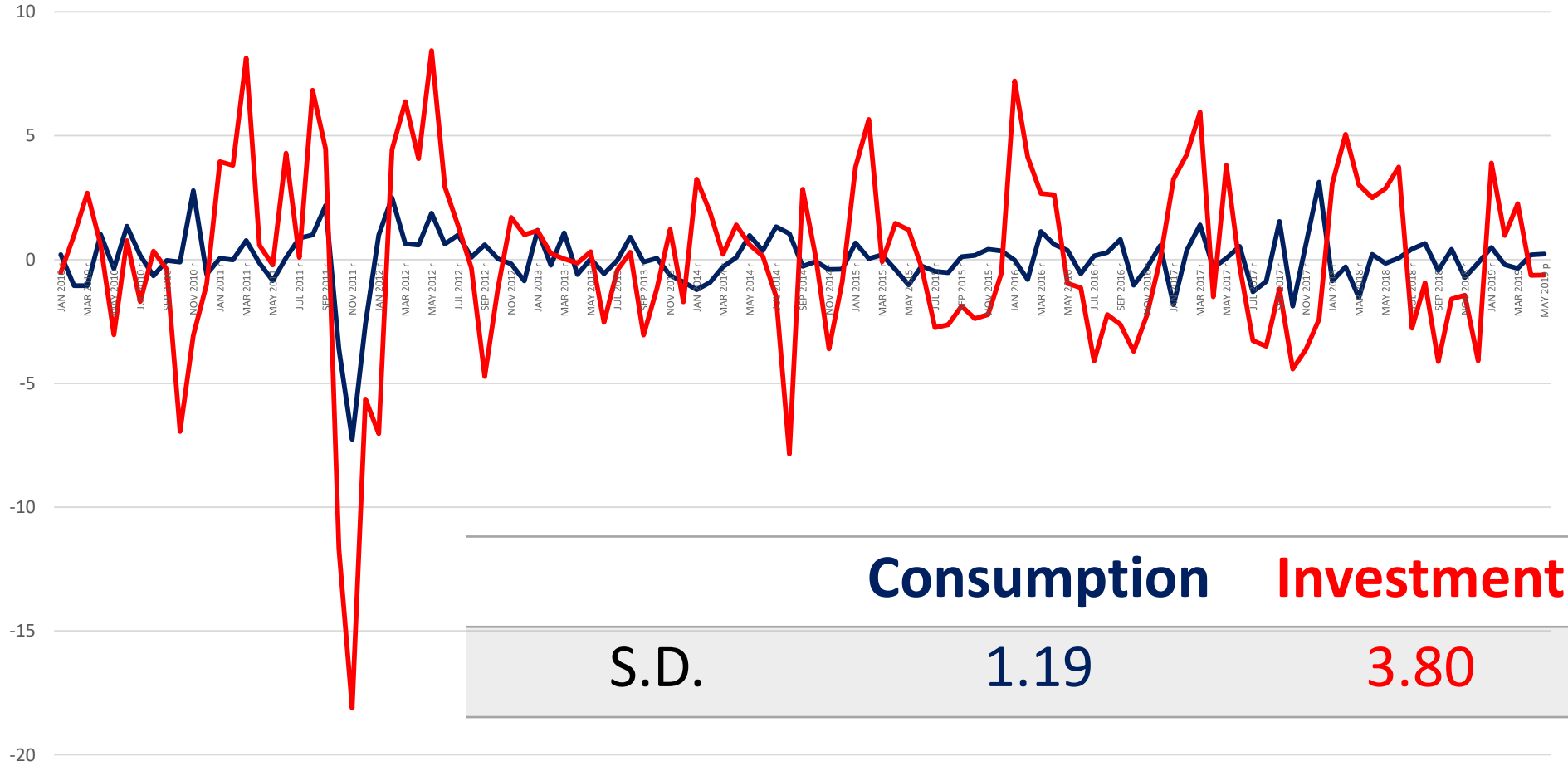
"Economic policy uncertainty only marginally impacts real activity."

Sub comment: From the literature (i.e. Junttila and Vataja (2018)), it seems to me that the policy uncertainty index helps forecast future real activity.

Sub comment: TEPU is mixed between the fiscal and the monetary policy. Thus, we cannot disentangle effects of specific policy to the real economy.

(see Dahlhaus and Sekhposyan (2018) for MPU)

Cyclical components for Thailand: Consumption and Investment (King,1999)



	Consumption	Investment
S.D.	1.19	3.80

Source: Author calculation, HP filter: $\lambda = 100$

Reference

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