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Investment Specific Technology, News, Sentiment, and Fluctuations: Evidence from Nowcast Data

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Abstract

Investment specific technology is an important driver of the U.S. business cycles. In this paper, I employ nowcast data and the forecast error variance decomposition method to empirically assess the role of investment specific technology surprise shocks, news shocks and sentiment shocks separately. The surprise shock represents unanticipated innovations to the technology; the news shock captures the (correct) expectation of future technological changes; the sentiment shock is orthogonal to the identified surprise and news shocks, which maximizes the short run forecast error variance of nowcast of investment. The results suggest that the sentiment shock accounts for a substantial portion of fluctuations in output and investment in the short run. In the medium run, the news shock is increasingly important. The surprise innovation plays a very small role in the explanation of economic dynamics. These findings underline the empirical contribution of investment specific news and sentiment shocks to business cycle fluctuations.

Keywords: investment specific technology, news, sentiment, macroeconomic dynamics, nowcast

JEL codes: E22, E32, O47.

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