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Uncertainty and Employment Dynamics in the Euro Area and the US

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Highlights

In the current setup there are only 2 candidates to be labeled as uncertainty shocks shocks 3 and 4. We believe that one of those has to be US shock and the other EA shock. A shock may be labeled as a US uncertainty shock if all draws of the impact effects on US EPU are either positive or negative (we normalize impact effects to analyze positive shocks). If we have draws of positive and negative effects on the US EPU we are unable to label the shock as a "US uncertainty" shock. Shock 3 cant be a EA shock as quite some part of the tail is on the left from 0. Shock 4 can't be a US shock as the distribution of impact effects is centered around zero. Thus the only labeling goes: shock 3 US uncertainty shock, shock 4 EA uncertainty shock. As to FEVD, we see that as an additional tool to verify our conjecture that is based on the analysis of Figure 2.

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