Business Outlook Uncertainty, Aggregate Earnings, and Investment

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Abstract

I construct a novel measure of the uncertainty faced uniquely by firms as directly disclosed by managers in the annual report. I validate this measure of business uncertainty and show that it is related to but distinct from prior measures of uncertainty. As many models predict, I find that business uncertainty is associated with lower investment in aggregate and at the firm-level. I also find that aggregate uncertainty is predictive of lower future aggregate earnings. The results are economically meaningful and hold after controlling for a variety of factors known to be predictive of investment and firm performance.

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