The Fed - Climate Change and Adaptation in Global Supply-Chain Networks

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Climate Change and Adaptation in Global Supply-Chain Networks  
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Abstract: This paper examines how physical climate risks affect firms' financial performance and operational risk management in global supply-chains. We document that weather shocks at supplier locations reduce the operating performance of suppliers and their customers. Further, customers respond to perceived changes in suppliers' climate-risk exposure: When realized shocks exceed ex-ante expectations, customers are 6-11% more likely to terminate existing supplier-relationships. Consistent with models of experience-based learning, this effect increases with signal strength and repetition, is insensitive to long-term climate projections, and increases with industry competitiveness and decreases with supply-chain integration. Customers subsequently choose replacement suppliers with lower expected climate-risk exposure.  
Keywords: Adaptation, Climate Change, Firm Performance, Production Networks  
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