



BANK OF CANADA
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Bank of Canada Monthly Research Update

October 2020

This monthly newsletter features the latest research publications by Bank of Canada economists. The report includes papers appearing in external publications and staff working papers published on the Bank of Canada's website.

PUBLISHED PAPERS

In-Press

Jain, Monica & Sutherland, Christopher, “How Do Central Bank Projections and Forward Guidance Influence Private-Sector Forecasts?”, *International Journal of Central Banking*, Vol 16(5): 179-218, October 2020

Forthcoming

Benedict, Craig & Landry, Anthony & Crucini, Mario, “On What States Do Prices Depend? Answers From Ecuador”, *Journal of Money, Credit and Banking*

STAFF WORKING PAPERS

Hipp, Ruben, “On Causal Networks of Financial Firms: Structural Identification via Non-parametric Heteroskedasticity”, *Bank of Canada Staff Working Paper 2020-42*

ABSTRACTS

How Do Central Bank Projections and Forward Guidance Influence Private-Sector Forecasts?

We construct a 23-country panel data set to consider the effect of central bank projections and forward guidance on private-sector forecasts. Despite the strong arguments in the literature in favor of releasing central bank policy rate projections, we find that the provision of these projections reduces neither private-sector forecast dispersion nor forecast error. Further, the policy rate assumption that central banks use in their macroeconomic projections has not appeared to matter much for private-sector forecasts. We also find that forward guidance tends to reduce the dispersion and error of interest rate forecasts but less so for macroeconomic forecasts. This is consistent with the idea in the literature that forward guidance can lower interest rate forecast disagreement without reducing macroeconomic forecast disagreement because forward guidance can be interpreted by forecasters as either Delphic or Odyssean.

On What States Do Prices Depend? Answers From Ecuador

The frequency of retail price adjustment differs across goods, both in low inflationary environments, such as the United States, and in high inflationary environments typical of less developed countries. We develop a multishock menu cost model in which retailers intermediate trade between producers and consumers. Since the cost share of intermediate inputs varies across goods, the model produces a cross-sectional distribution of frequency of price adjustment even though firms face a common menu cost. The model is evaluated using a rich micropanel of retail prices in Ecuador in a period spanning a financial crisis and subsequent dollarization.

On Causal Networks of Financial Firms: Structural Identification via Non-parametric Heteroskedasticity

We investigate the causal structure of financial systems by accounting for contemporaneous relationships. To identify structural parameters, we introduce a novel non-parametric approach that exploits the fact that most financial data empirically exhibit heteroskedasticity. The identification works locally and, thus, allows structural matrices to vary smoothly with time. With this causality in hand, we derive a new measure for systemic relevance. An application on volatility spillovers in the US financial market

demonstrates the importance of structural parameters in spillover analyses. Finally, we highlight that the COVID-19 period is mostly an aggregate crisis, with financial firms' spillovers edging slightly higher.

UPCOMING EVENTS

*** All onsite conferences and events are suspended until further notice. All events listed below will take place virtually.**

Robert Clark (Queen's University)
Organizer: FMD / FSD EFR Seminar Series
Date: 29 October 2020

2020 Bank of Canada's Annual Economic Conference - The Future of
Money and Payments: Implications for Central Banking
Organizers: Jonathan Chiu, Mohammad Davoodalhosseini and Kim
Huynh
Dates: 5 November 2020 – 7 November 2020

Leonardo Melosi (Chicago Fed)
Organizer: EFR CEA/INT Speaker Series
Date: 6 November 2020