Survey-derived proxies for uncertainty: the case of Cyprus*

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Abstract

This paper uses business survey data to construct proxies for economic uncertainty for Cyprus at the sectoral and aggregate levels. The proxies considered are in the form of ex ante disagreement and ex post forecast errors. Proxies based on ex ante disagreement are estimated using the dispersion of optimistic and pessimistic responses provided by firms to expectation questions. Ex post forecast errors are derived by comparing expectations and realisations stated by individual respondents; the proxies are computed using the dispersion of ex post forecast errors. The proxies in the latter group are further decomposed into negative and positive uncertainty measures, depending on the direction of the errors. Uncertainty shocks measured by either ex ante disagreement or ex post negative forecast errors result in significant negative effects on sectoral confidence, employment and output; the negative effects are more pronounced and protracted in the sectors of construction and industry. At the aggregate level, proxies are constructed using the most informative sectoral proxies and are compared to alternative measures from survey and non-survey data. Shocks to aggregate uncertainty proxies generate negative and significant effects on total employment and aggregate output, which are rather protracted.

Keywords: Uncertainty; Business and Consumer Surveys; Cyprus

* *The Economics Research Centre of the University of Cyprus (CypERC) and RAI Consultants Ltd participate in the Joint Harmonised European Union Programme of Business and Consumer Surveys. CypERC acknowledges funding from the European Union, the Ministry of Finance and the University of Cyprus for conducting the project "Business and Consumer Surveys" in Cyprus.*

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