

# Consumption effects of job loss expectations: new evidence for the euro area

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Question: what is the impact on consumption *growth* of *unexpected* job-loss?

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- ▶ Type of shock:
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  - positive if it does not materialize when expected
- ▶ **Salience**: Individuals that perceive high risk are actually more likely to lose their job

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2. Less response when individuals are faced with a **positive** shock
3. Effect is stronger if higher unemployment rate (job finding probabilities are lower)
4. Effect is stronger if Hand To Mouth household (liquidity constraints)

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2. Validates Permanent Income Hypothesis with timely data representative of largest euro area countries

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3. More employed individuals within the household potentially imply more **risk-sharing**. Is the impact of unexpected job loss on household consumption depending on how many are employed among the household members?

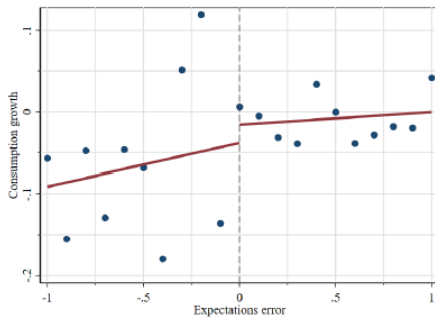
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## Additional referee #2 comment

Data cover the April 2020 to July 2022 - with covid crisis having peculiar effects on consumption

Figure 6: Average consumption growth by expectations error



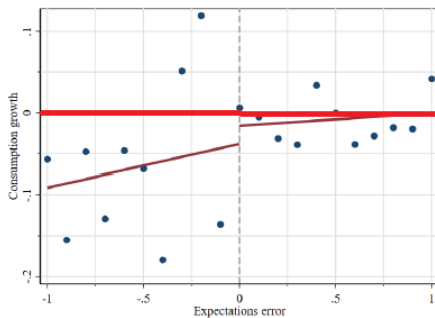
*Note:* The figure shows the weighted average of logarithmic consumption growth by 21 bins of expectation errors (from -1 to 1 in steps of .1). The regression lines exclude zero and allow for a discontinuity at zero. Source: CES data.



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Thanks!