Do Shocks in Economic Factors Affect US Industries: An Empirical Investigations

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Abstract

In this paper, we examine the causal relationship among several macroeconomic indicators and industries indices returns in the U.S. More specifically we examine the impact of economic shocks on US industries such as the banks, consumer stables, insurance, industrials, real estate, telecommunication, and the transportation. The macroeconomic indicators used are market return S&P 500, exchange rate, money supply that includes physical currency and coin (M1), industrial production, inflation, exports of goods, imports of goods, oil price, money supply that includes all elements of M1SL as well as financial assets held principally by households (M2). Using data from 2005:03 to 2020:05, results from a vector autoregressive model (VAR) indicate that the economic indicators used affect industries returns at varying significance and magnitudes. The market returns have a significant effect on all the industries. Findings from the generalized impulse response functions reiterate the role that industrial production plays on real estate and the transportation industries.

Keywords: industries indices return, economic shocks, Generalized impulse response functions