

Economic Policy Uncertainty and Household Consumer Confidence: Evidence from Indian Household Data

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Abstract

This article aims to analyse how economic policy uncertainty (EPU) affects consumer confidence in India. The study uses unit-level observations on consumer confidence from the Reserve Bank of India's Consumer Confidence Survey from June 2016 to May 2021. Exploring the variations in consumer confidence across several cities in India, the regression exercise shows how India-specific EPU and global EPU impact consumer confidence. Findings from the study show that EPU has a negative and significant impact on consumers' perceptions and outlook about the economy. The results also show that the effect of global EPU is stronger, compared to India-specific EPU. A disaggregated analysis is also conducted to analyse the impact of EPU on several consumer confidence indicators, such as the perception and the outlook on household income, spending, employment and general price levels. Contrary to the current literature, this study uses individual-level responses on consumer confidence from survey data and examines the role of EPU on consumer sentiments. Overall, the findings suggest that news-based economic policy-related uncertainty shocks negatively affect households' sentiments. Moreover, a disaggregated analysis is also conducted for several consumer confidence indicators such as perception and outlook on household income, spending, employment and general price levels.

JEL Codes: E66, E71, H31

Keywords

Economic policy uncertainty, consumer confidence, households, RBI, India

I. Introduction

Economic agents do not like the uncertainty that alters their behaviour (Bernanke, 1983; Bloom, 2009; Dixit & Pindyck, 1994). Uncertainty leads to lower expected utility (Ellsberg, 1961) and impacts consumer confidence (CC). Baker et al. (2016) argue that the relationship between confidence and uncertainty is murky and closely linked at a deep level. They find a high negative correlation between

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