

PAC ANNUAL CONFERENCE

PROFESSIONAL ACCOUNTING FUTURES

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Investors Use of Accounting Estimates during Macroeconomic Uncertainty

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Professional Accounting Centre

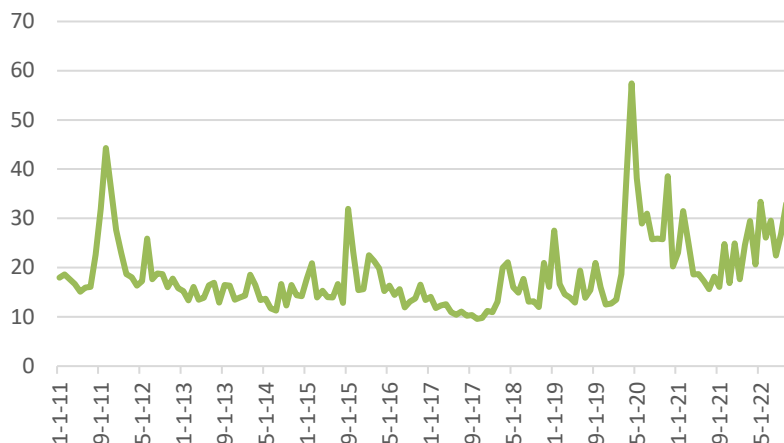
UNIVERSITY OF TORONTO

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Macroeconomic Uncertainty

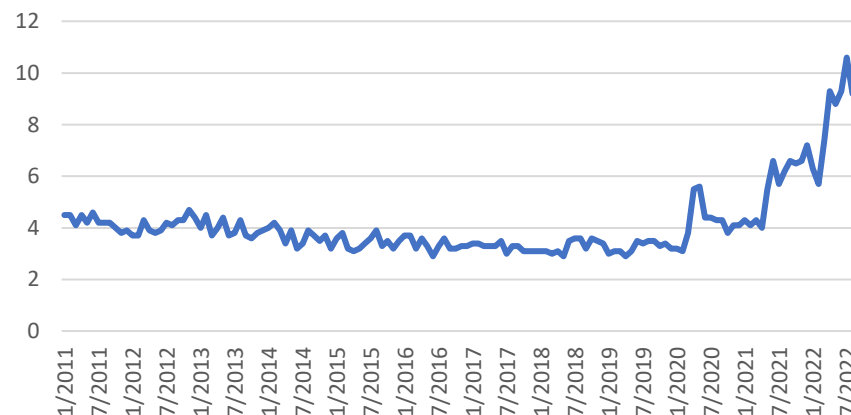
Aggregate Market Uncertainty (VIX)

Source: Chicago Board of Exchange.



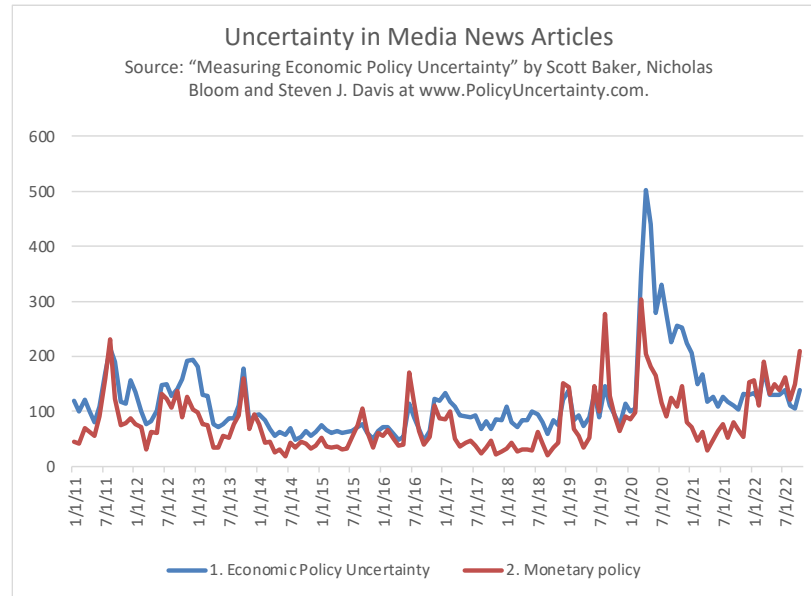
Michigan Consumer Survey Inflation Uncertainty

(Standard Deviation in Next-Year Inflation Expectations)



- **Macroeconomic uncertainty spurs the demand for financial information:**
 - A greater demand for timely financial information from the investors affects information production by the intermediaries (analysts, journalists)
- **Macro uncertainty today differs from prior periods of high uncertainty:**
 - Research on the effects of inflation on the acquisition and processing of financial information is very sparse

Uncertainty and Supply of Information Media



- **High economic uncertainty increases concentration of media coverage on earnings announcements (Bonsall, Green, Muller 2020)**
 - Crowding out the coverage of non-earnings news (including material events in 8-Ks)
 - Increased coverage of bellwether stocks or early-season announcers
- **The expanded media coverage reduces investors' information acquisition and processing costs**

Uncertainty and Supply of Information

Sell-Side Analysts

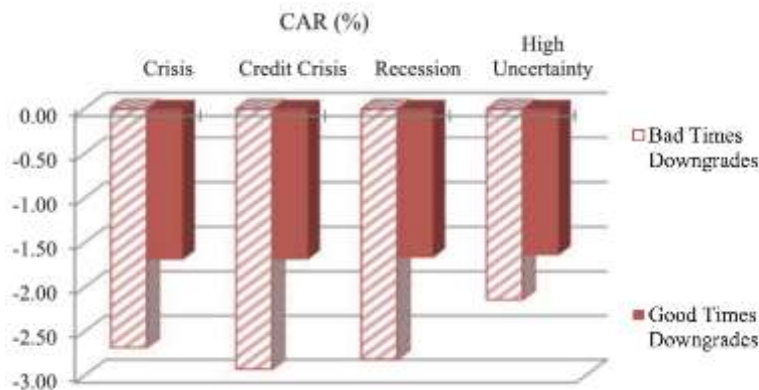
■ A more complicated task,

- Difficulty incorporating negative macroeconomic news in the forecasts (Hann, Ogneva, Sapriza 2012), mitigated by access to in-house economists (Hugon, Kumar, Lin 2016)

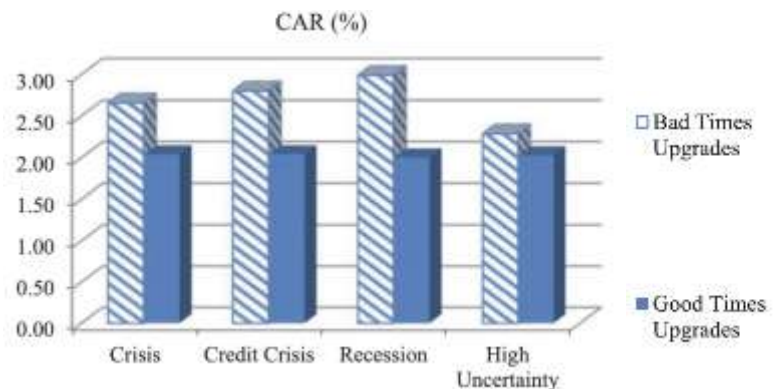
■ but a greater impact of research

- Recommendation changes generate a larger stock reaction when the uncertainty is high (Loh and Stulz 2018)
- Analysts better than managers at impounding macro info into forecasts (Hutton, Li, Shu 2012); more detailed reports in downturns (Loh and Stulz 2018)

Panel A: Downgrades



Panel B: Upgrades



Inflation Uncertainty

■ Research focus on the nominal accounting effects:

- No recognition for inflation-driven gains & losses (e.g., inventory asset)
- These gains & losses materialize in future cash flows (when inventory sells)

■ Adjusting financial statements for inflation is costly:

- inefficient or incomplete adjustments made by investors (Konchitchki 2011) and analysts (Basu, Markov, Shivakumar 2010)

■ Which results carry over to the high and volatile inflationary environments, where economic agents pay more attention to inflation effects (Candia, Coibion, Gorodnichenko 2022)?

