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Construction of stock-market based daily index of fiscal news for Japan

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Abstract: This paper aims to construct daily data on fiscal policy surprises, based on a cross section of stock returns. It is essentially a weighted average of individual company's stock returns on the dates when there were important fiscal news, where the weights reflect importance of fiscal matters to each firm. Those weights are computed from the estimated importance of the fiscal policy shocks to each firm's stock returns. Based on this idea and utilizing the stock market data for construction companies, we construct a daily series on surprises about public investment policies in Japan. It is confirmed that, when aggregated up to the quarterly frequency, our indicator predicts future changes in public investment in the National Accounts. The effect on future private consumption is also positive.

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