Climatic Disasters and Distracted Analysts

How do climatic disasters affect the accuracy and quantity of security analysts' earnings forecasts, and what mechanisms explain their ability—or inability—to maintain information production in disaster-affected areas?

Security analysts serve as key information intermediaries in financial markets, but their ability to produce accurate earnings forecasts may be disrupted by outside shocks such as climatic disasters. In this study, Mao and colleagues examine how analysts' forecast quality and quantity are affected when they experience a major climatic disaster firsthand.

Using data from 30,270 earnings forecasts by 2,280 analysts covering 22 U.S. disasters between 1996 and 2011, the authors apply a stacked difference-in-differences (DiD) framework to compare analysts in disaster-affected areas ("treated analysts") with unaffected peers ("control analysts"). Their findings reveal that affected analysts experience a 6% increase in forecast errors in the three months following a disaster. However, their forecast frequency remains stable, as many rely on self-herding—repeating past forecasts rather than integrating new information.

The study attributes these effects to distracted attention rather than resource constraints. Analysts affected by disasters prioritize high-profile firms in their coverage portfolios, suggesting that cognitive overload—not resource disruption—drives the decline in forecast quality. Interestingly, analysts with prior disaster experience show less forecast accuracy decline, representing adaptive learning.

These findings underscore the impact of cognitive bias on financial professionals and suggest that firms and regulators should consider behavioral factors when assessing the resilience of financial markets to climate-related disruptions.

MAJOR TAKEAWAYS:

- Climatic disasters increase analyst forecast errors by 6% in the three months following an event.
- Analysts maintain their forecast volume by repeating past predictions instead of incorporating new information.
- Analysts prioritize high-profile firms during disaster periods, showing that attention, rather than resource, is the key limiting factor.

WHO NEEDS TO KNOW:

- Policymakers
- Investment Firms
- Stock Market Participants

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