ELSEVIER

International Review of Economics and Finance 16 (2007) 383 – 399

International Review of Economics & Finance

www.elsevier.com/locate/econbase

Analyst earnings forecast revisions and the persistence of antidumping relief ☆

Mohammad Basyah, James C. Hartigan *

Pt. Citra Van Titipan Kilat (TIKI), Jakarta, Indonesia
University of Oklahoma, United States

Received 26 October 2004; received in revised form 10 August 2005; accepted 4 September 2005
Available online 20 February 2006

Abstract

Panel corrected standard errors with instrumental variables and effects are invoked to assess the significance of earnings forecast revisions around critical dates in non-steel AD petitions filed in 1985–1987. These petitions were filed between two important US trade law revisions (1984 and 1988), and the period encompasses significant stock market advances and declines. Event studies have been invoked to assess the value of AD petitions. However, they do not estimate the temporal distribution of any abnormal returns. Because analysts make quarterly earnings forecast revisions over several horizons, we can assess the short and long run value of petitions. We find that AD petitions tend to depress earnings forecasts in the year of the petition. However, second year earnings forecasts tend to be revised upwards. There is no effect on five year (long term) earnings growth forecasts. Hence any benefits of protection do not persist. There is evidence that analysts anticipate the filing by revising forecasts in the three months in advance of the filing. We also find that AD petitions do not affect the accuracy of forecasts.

JEL classification: F13; M41; G14
Keywords: Earnings; Antidumping; Analysts; Investigations; Forecasts

1. Introduction

The use of financial data is well established in the international trade literature. However, this has been primarily in the use of event studies to assess the value of administered protection decisions (dumping, subsidies, and the Escape Clause). Examples are Dohlman (2001), Hartigan, Perry, and Kamma (1986, 1989, 1994), Hughes, Lenway, and Rayburn (1997), Lenway, Rehbein, and Starks (1990), Rehbein and Starks (1995), and Blonigen, Tomlin, and Wilson (2004). Other examples of the use of event studies in the analysis of

☆ The Institutional Brokers Estimate System is a service of Thomson Financial, and provides data as part of broad academic program to encourage earnings' expectations research.
* Corresponding author. Department of Economics; University of Oklahoma, Norman, Oklahoma 73019-2103, United States. Tel.: +1 405 325 5501; fax: +1 405 325 5842.
E-mail address: hartigan@ou.edu (J.C. Hartigan).

1059-0560/$ - see front matter © 2006 Elsevier Inc. All rights reserved.
doi:10.1016/j.iref.2005.09.002

trade policy are the Brander (1991) and the Thompson (1993, 1994) studies of the U.S./Canada free trade agreement. Begley, Hughes, Rayburn, and Runkle (1998) examined the effect of export taxes on Canadian softwood lumber on U.S. and Canadian firms. An alternative use of financial data in the analysis of trade policy is the Hartigan and Rogers (2003) demonstration that the filing of Antidumping (AD) petitions and insider buying in the two months preceding the complaint are significantly related. The Konings and Vandenbussche (2005) panel study of the price/cost markups of EU firms that were protected by AD duties constitutes another firm level application of financial data. The general consensus of these papers is that there is some benefit to AD protection. However, these papers do not distinguish between short and long run benefits. Because firms that successfully petition for AD protection are unlikely to be healthy, there is reason to question whether or not any benefit will be enduring.[1]

The present paper continues the invocation of firm level financial data to analyze trade policy. In particular, we specify a panel data set consisting of average earnings forecast revisions for firms with publicly traded common stock that were actively followed by analysts and were investigated by the U.S. International Trade Commission (USITC) in AD complaints filed from 1985 to 1987. The reasons for selecting this time period are given below. So as to assess the anticipated value of AD relief to the pertinent firms, we provide evidence of the statistical significance of the petition and the critical decisions in the AD investigations to average earnings forecast revisions by analysts. This provides an important supplement to and clarification of the aforementioned event studies. The market response at a decision date in an investigation is likely to reflect a mixture of short and long run influences. For example, an affirmative material injury verdict may be interpreted as bad news regarding near term earnings, as the confidential investigation by the USITC may be construed as disclosing (signaling) previously unknown negative information about a firm. However, it may be viewed as good news for longer term earnings if it raises the probability that protection will be awarded. An event study cannot separate these possibly countervailing influences upon security prices. However, analyst's earnings forecast revisions can disclose the anticipated impact of AD protection over several time horizons. Earnings forecast revisions are available for one, two, and five year horizons. Such a partition of forecast horizons will enable us to determine whether or not any benefit from an affirmative AD verdict is enduring. For example, if short terms earnings forecasts increase, but long term forecasts do not, we may infer that the benefits to protection are transitory, and that uncompetitive industries ultimately are expected to remain as such.

The response of analyst's earnings forecasts to announcements of consequence to firms has been investigated previously. Examples are the Chaney, Hogan, and Jeter (1999) study of the announcement of restructuring charges, and the Lys and Sohn (1990) inquiry into corporate accounting disclosures. To our knowledge, however, this is the first examination of analyst's earnings forecast revisions in the context of the implementation of a public policy or an industry level event.

For our estimation of the effect of AD petitions upon earnings forecast revisions for the firms in our panel by sell side financial analysts, we invoke a two stage least squares estimation with panel corrected standard errors (PCSE) and instrumental variables (IV). Our most important results are that there is a statistically significant revision in average two year forecasts in the three months preceding a petition, and that AD petitions do not have a significant effect upon five year (long term) earnings growth.[2] The latter is consistent with Hansen and Prusa's (1995) conclusion that AD protection has very little impact on employment, compensation, and capital spending in the two years subsequent to a verdict. This suggests that AD relief does not enable or induce firms to make structural changes that will permit them to become more competitive. We also explore the relationship between the AD petition and the accuracy of analysts' forecasts. This allows us to determine if AD petitions affect forecasting accuracy, and to ascertain if predicted changes in earnings actually transpire.

In the ensuing sections, we discuss the structure of US AD investigations, describe our panel data set, discuss our estimation techniques, and present our results. A conclusion follows.

[1] For example, if a protected firm invests in a cost reducing technology as a result of improved profitability, its long run earnings may be revised upwards. If short run earnings improve as a result of greater capacity utilization, this may not be perceived as a sustainable improvement, particularly if the firm is at a factor cost disadvantage.

[2] This is consistent with the Hartigan and Rogers (2003) result that there is a statistically significant relationship between equity purchases by corporate insiders in the two months preceding an AD petition and the filing of a petition.