

“Mood swings become more important”

Jan-Egbert Sturm, Head of the Thurgau Institute of Economics, on terrorism and new research approaches

Media Tenor: Where do you see forward-looking fields in macroeconomic research?

Jan-Egbert Sturm: We should increasingly look at the feedback between what is academically important and politically relevant, such as the question how the moods of business and macroeconomic developments relate to one another. So far, this field of research has not been sufficiently looked at, neither theoretically nor empirically.

Media Tenor: What is the added value of using not only indicators from reality, but also from “media reality”?

Jan-Egbert Sturm: Macroeconomists increasingly use utility functions to explain real variables. Utility functions claim that people balance their decisions and consequences, i.e. whether to buy a house or a car for a given sum of money. However, we cannot measure a utility function directly. This is where data on media content can be helpful as an empirical approximation.

Media Tenor: How does international terrorism affect companies and managers?

Jan-Egbert Sturm: There are direct effects of terrorism on companies, particularly in the country in which the events take place. For example, trade may be inhibited by production failures. But it may also have an impact on the mood among trade partners, in which case their respective countries are also affected. At this stage we are dealing with the world of emotions. Germans now feel that the world has become more insecure, although their country was not directly hit by terrorists, and companies have grown to be more careful.

Media Tenor: How exactly does this work?

Jan-Egbert Sturm: The main assumption is the following: Because financial and trade markets are highly interconnected, an event anywhere in the world can have an effect on Germany. This is partly due to the fact that news influences moods. This field of research is still relatively new, but in the past few years it has become more and more important for investigating the increasing synchronization of trade cycles across countries.

Media Tenor: What are your observations?

Jan-Egbert Sturm: Above all, the American trade cycle appears to have an ever-increasing impact on the rest of the world. This may be equally due to merging news markets as to integrating financial markets.

Media Tenor: What data corroborates America’s growing influence as a trade locomotive?

Jan-Egbert Sturm: The main evidence is the comparison of trade cycles. We then analyzed potential causes for the increasing synchronization, for example whether or not overall trade with the US has grown accordingly. But we only found relatively moderate differences in numbers – trade with America has always been intensive. Another potential cause is fluctuating exchange rates. Ever since the Bretton Woods system broke down in 1973, there have been significant changes. Capital has become more mobile and speculation has spurred financial transactions. This is where expectations and moods play a prominent role. The moment when a large group develops similar expectations on certain events it can have a huge impact on financial markets. We also call these mood indicators.

Media Tenor: Our analyses have been showing for years that media coverage on so called key events (i.e. September 11th, Iraq War) continues to be on the rise. Does the type of coverage also have an impact on entrepreneurial expectations?

Jan-Egbert Sturm: Maybe. When public awareness shifts towards a particular issue because of increased media coverage, this can have real effects. I truthfully wonder why, today, some news programs essentially limit themselves to a single topic for each program.

Media Tenor: Has the stability of entrepreneurial expectations changed over the past few years? If it has, what does that mean for economic forecasting?

Jan-Egbert Sturm: That is difficult to say. We have been disappointed that many positive expectations over the past three years have not been fulfilled. At the beginning of 2002, many companies in Germany had euphoric expectations, but they did not amount to much in reality. Until recently, entrepreneurs could always count on the fact that their expectations of future economic developments would more or less come true. It is as yet unclear whether or not that has fundamentally changed.

The interview was conducted by
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