

Chapter 4

Sentiment indicators

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4 Sentiment Indicators

Chapter structure:

4.1 Introduction

4.2 Economic Sentiment indicators

- Business and consumer surveys

4.3 Socio-Economic Sentiment indicators

- Quality of Life index, Well being index etc.

4.4 Recommendation for dissemination

4.5 International comparability

4.1. Introduction

Chapter 4 focuses on basic simple indicators characterized by qualitative assessment containing an element of sentiments or subjectivity.

“Sentiment Indicators” is a **generic term** chosen by this task force. The individual types of indicator are often referred to by other names.

Purpose of the chapter is to give an overview of the various indicators, what they are good for and how they are produced. And with emphasis on the role of the National Statistical Offices (NSO) in producing those indicators.

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4.2 Economic Sentiment Indicators

4.2.1 Definition and background

4.2.2 Compiling Business Tendency Survey

4.2.3 Compiling Consumer Survey

4.2.4 Reference series analysis

The principles of a business tendency or consumer survey is:

- create a representative survey sample
- design a qualitative questionnaire with questions of the type:

“Do you expect production to:

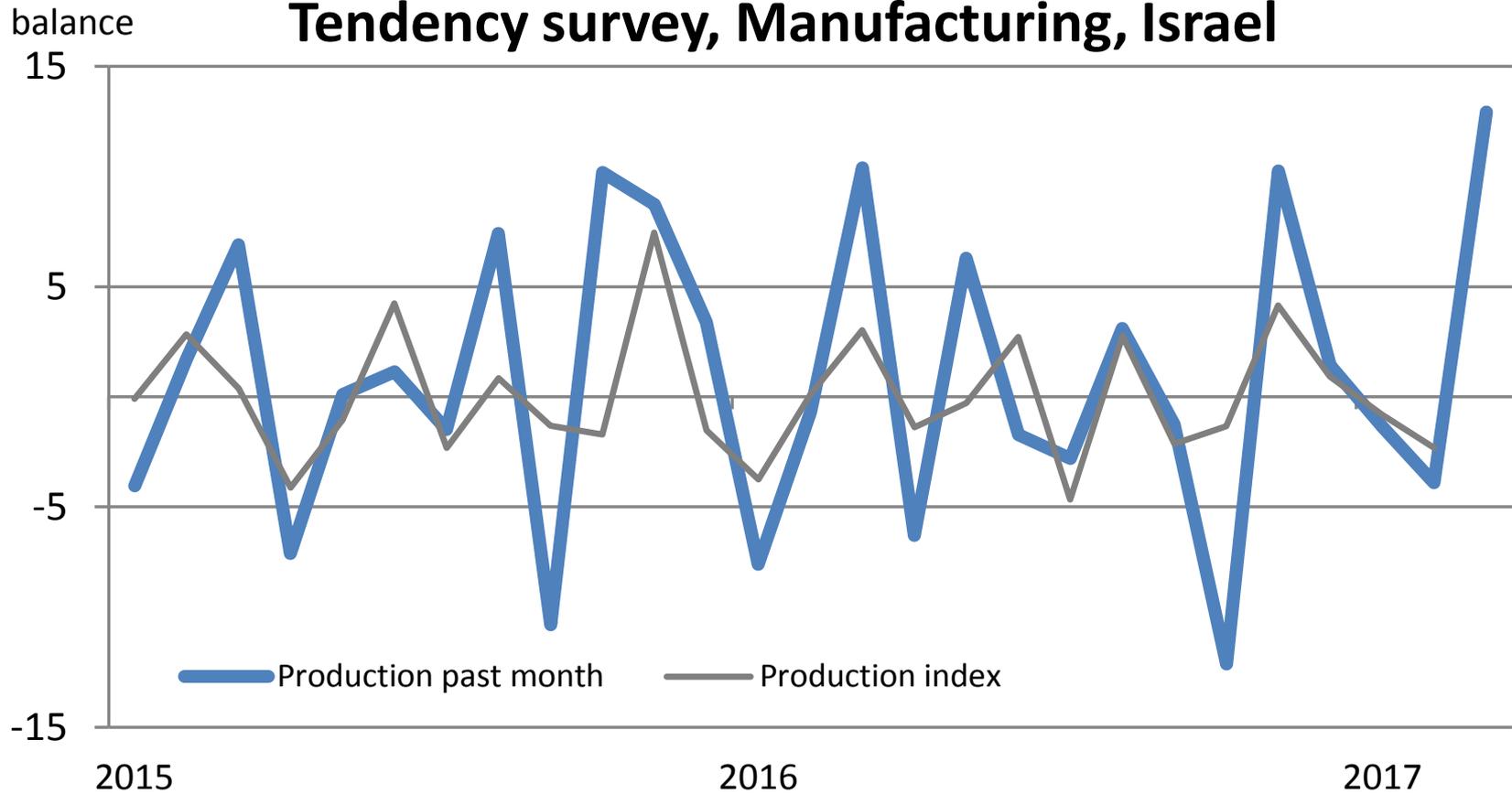
increase, remain unchanged or decrease ?”

- In the enumeration process calculate the percentage shares
eg. 26%; 57% and 17% (equaling 100%)

- **Balance:** Positive answers minus negative

$26\% - 17\% = 9\%$ - the key indicator figure

Tendency survey, Manufacturing, Israel



Basic and averaged indicators

- **Basic single indicators** (communic. as “balances” in EU):
 - e.g. Expected production next 3 month
 - e.g. Financial situat. Expect. of household next 12 mth.
- **Confidence indicators** within same survey
 - e.g. Industry Confidence Indicator averaging basic indic.:
 - Production expectation,
 - Stock of products &
 - Order books

Is the key indicator figure for survey

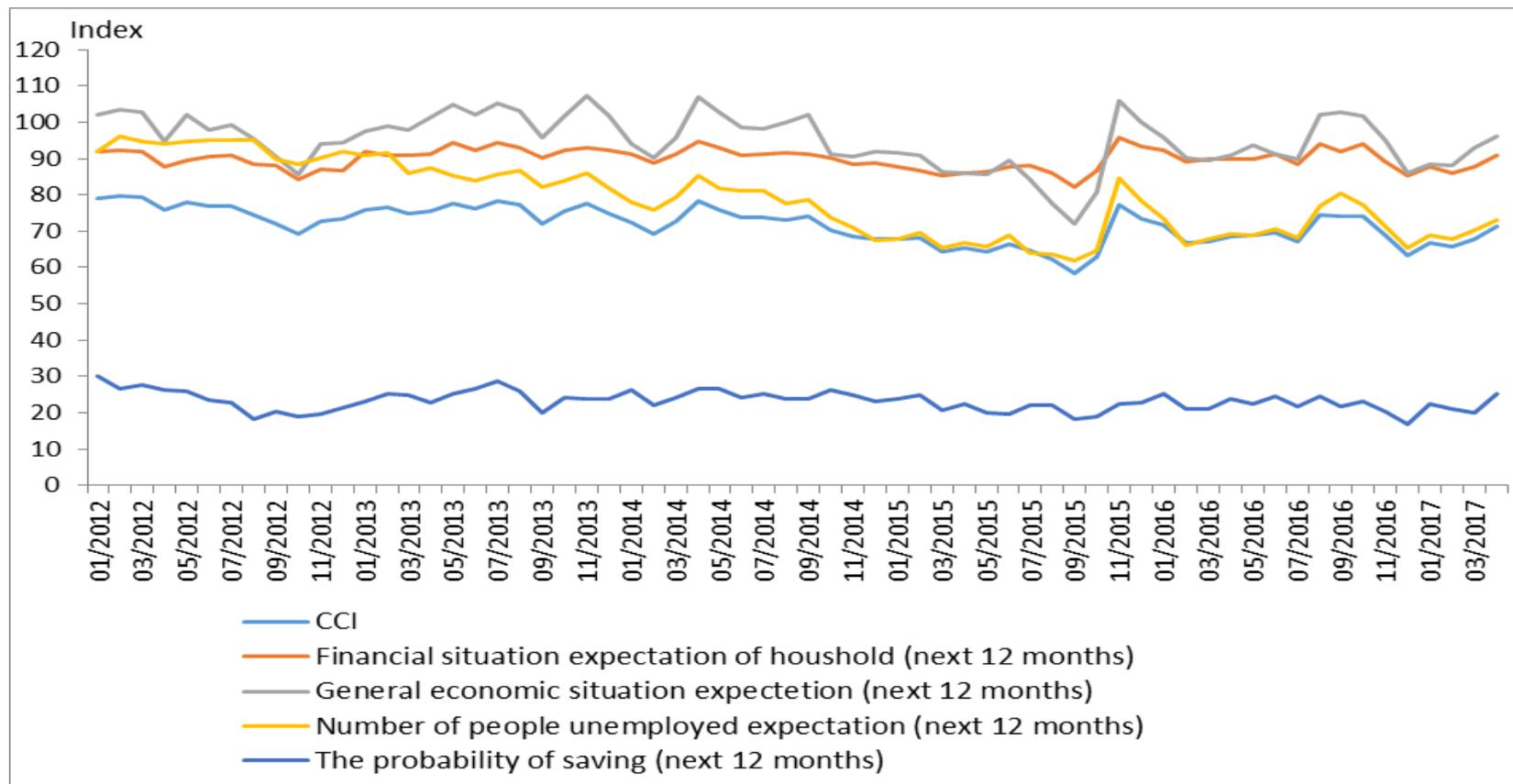
(Actually a composite indicator, but simple and same unit)

Consumer Surveys: In principle similar methodology as the BTS.

Questions are often 5 answer options (like BTS in some countries):

How do you expect the financial position of your househ. to change over next 12 months?

It will get... A lot better – a little better – the same – a little worse – a lot worse



Example: Consumer Confidence Indicator (index100), Turkey

4.2 Economic Sentiment Indicators

4.2.1 Definition, background and examples

- Referring to (and balancing) handbooks and guidelines from DG ECFIN, Eurostat, OECD and UNSD
- Outlook to other practices than the EU-harmonized methodology
- Pros and cons

4.2.2 Compiling Business Tendency Survey

4.2.3 Compiling Consumer Survey

4.2.4 Reference series analysis

4.2 Economic Sentiment Indicators

Pros...

Economic sentiment indicators are primarily designed to signal changes in economic activity and widely used in macroeconomic assessments and forecasts.

Used by central banks and policymakers in setting fiscal policies and monetary monitoring (slowdown and expansion).

National Statistical Offices can take the advantage of their recognition, reliability, experience, infrastructure and human resource in conducting tendency surveys – including international communications and collaborations between NSOs

...and cons

Cons related to their subjective feature. The performance the indicators appointed to be leading are not always perfect, and inconsistency between sentiment indicator and reference indicator might disqualify the sentiment indicators at a first glance. Being easy target for hasty media critics.

4.2 Economic Sentiment Indicators

Advantages of Business and Consumer Survey indicators:

Timeliness: Publication within one month in contrary to much later quantitative data like GDP

Usefulness: The indicators proves their validity by comparison to reference series later published, like GDP

Important task for NSO's are to show this to financial analytics and politicians.

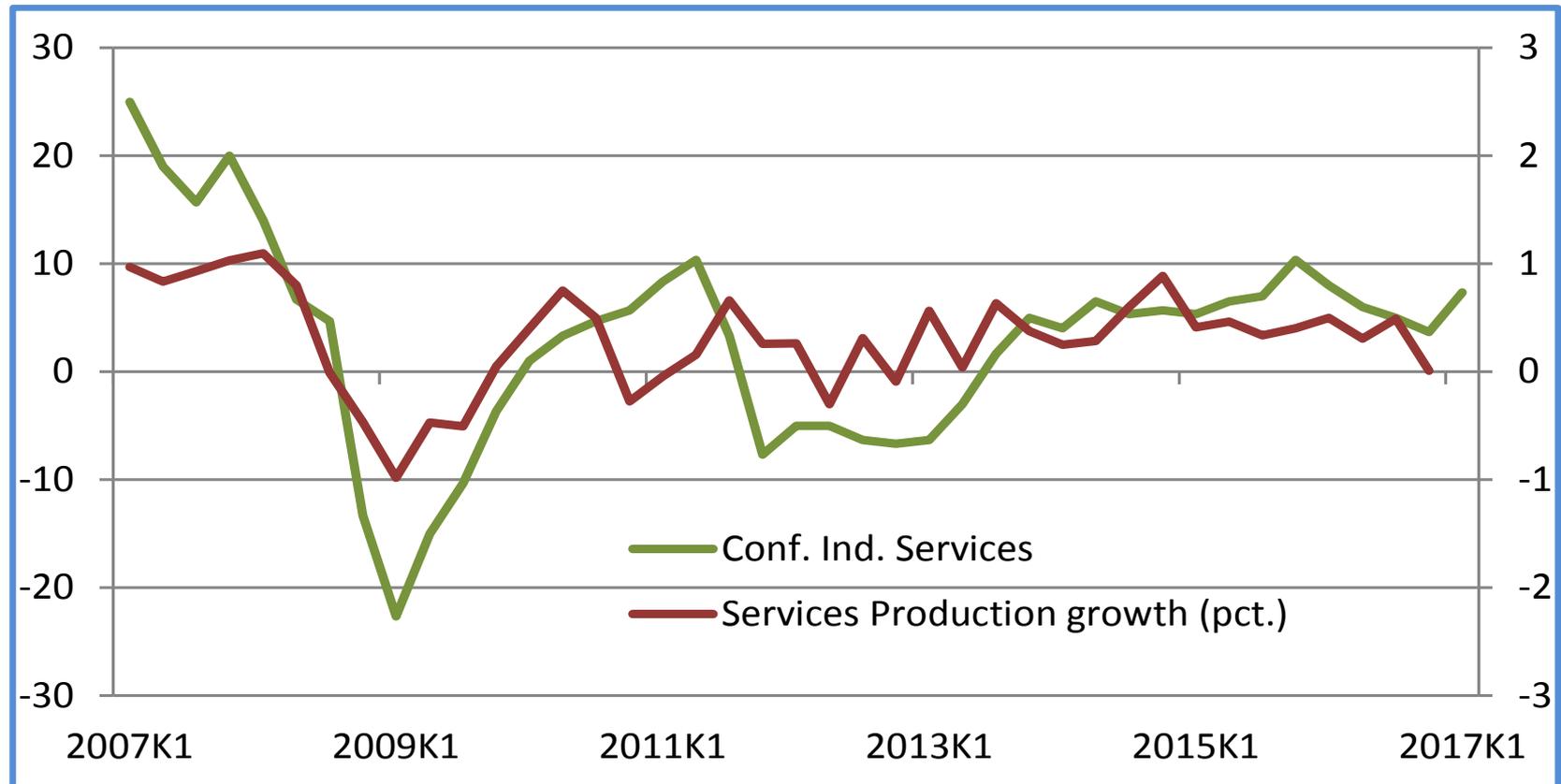
Reference series analysis: Correlation and Leading or Coincident qualities?

Method A. Compare balance of a single indicator, or a Confidence indicator to growth rate of quantitative economic reference series, eg. GDP (value added) or production index

Method B. Compare balance or confidence indicator to the cyclic component of the economic (E) reference series:

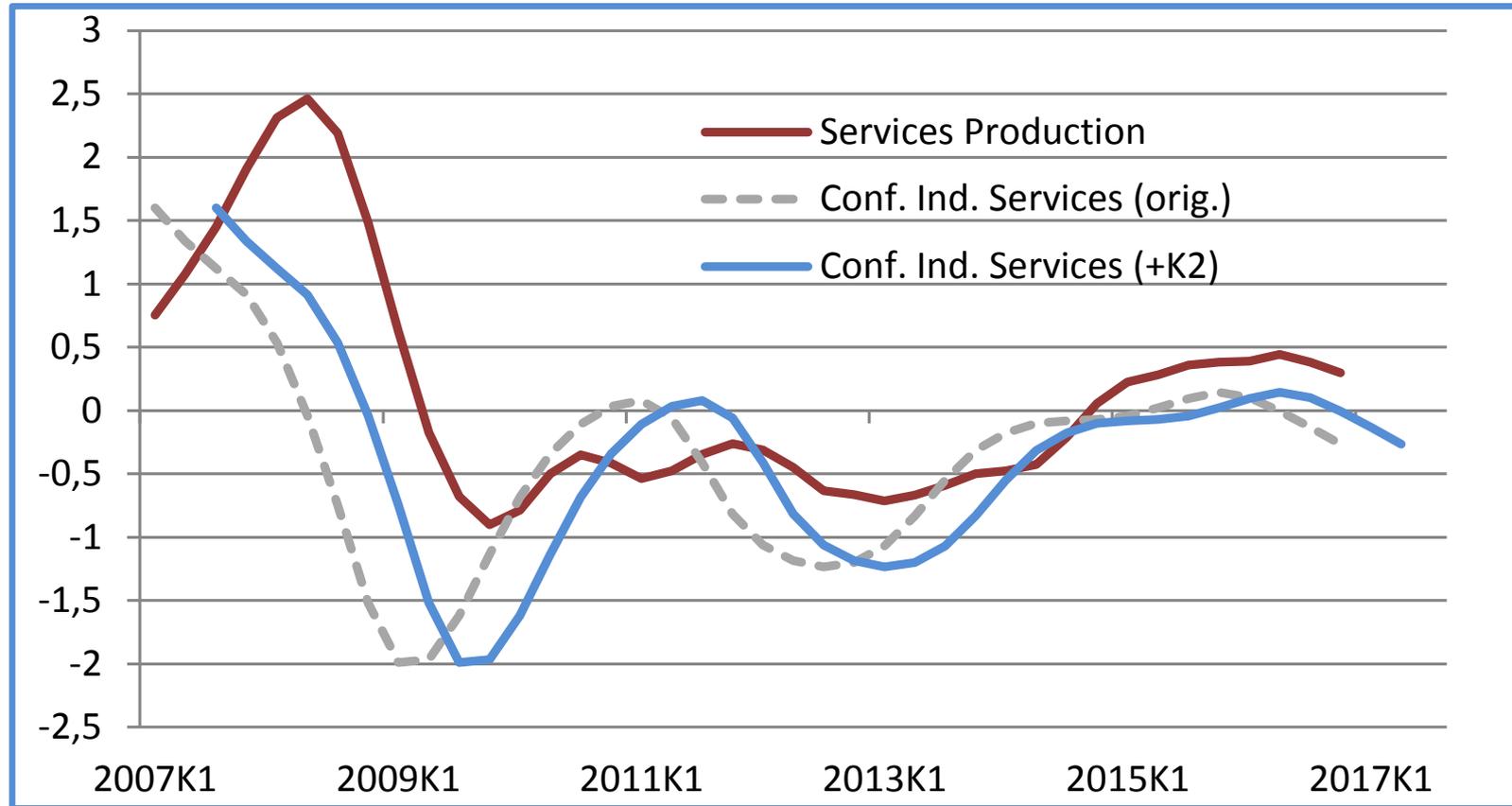
$$E = \text{Trend} + \text{Cyclic} + \text{Season} + \text{Irregular}$$

Services: Confidence vs. Production growth; DK



Correlation Coefficient: 0,80

Services Confidence vs. Production Cycle; DK



Correlation Coefficient: 0,76 (shifted 2 quarters) else 0,36

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4.3 Socio-Economic Sentiment Indicators

4.3.1 Definition, background

Background (incl. reference to OECD Guidelines on
Measuring Subjective Well-being)

Pros and cons

4.3.2 Compiling socio-economic surveys

Socio-Economic Sentiment Indicators

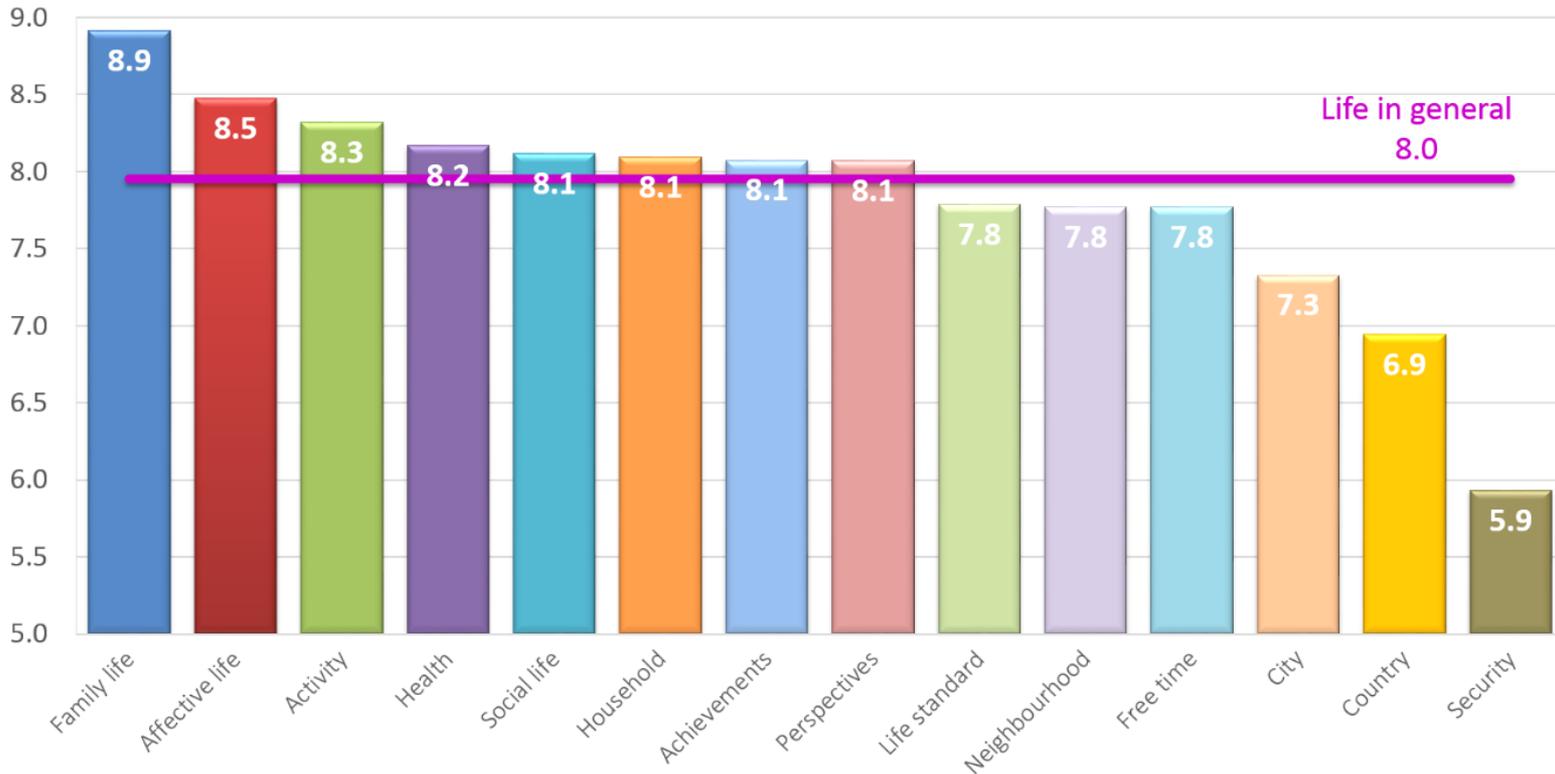
The pros...

- Policy relevance - improve the well-being of people - should be the main incentive point for NSOs to produce socio-economic sentiment indicators.
- Especially disaggregation by gender, region, socio-economic group etc. can be of relevance
- NSOs have strong advantages in producing socio-economic sentiment indicators due to their capacity, professionalism and institutionalism.

...and cons

- collecting data on individuals' feelings and perceptions about government bodies and satisfaction with public services might lead to biased results - and with no reference series.
- Costs difficult to get financed

Well-being index in Mexico



The indicators are among others: life satisfaction, self-reported health, social connections, civic engagement, satisfaction with time available for leisure, neighborhood etc. The graph shows the national outcome. In a scale from 0 to 10 the general well-being is at 8.0, divided on 14 satisfaction domains of the type the OECD recommends.

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Further work:

- Work through the text
- Having brief overview on practices in other countries in North America, Canada, Asia, Africa...
- Replacing some of the Denmark-examples with other countries

Comments, ideas and suggestions are **very welcome** to the authors.

Thank you