

# RRG Internet Consumer Activity Monitor: RRG ICAM

## **RRG ICAMs and News Flow - Testing the ICAMs Ability to Identify Media Bias**

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## RRG Asia ICAM Index and Negative Media Bias

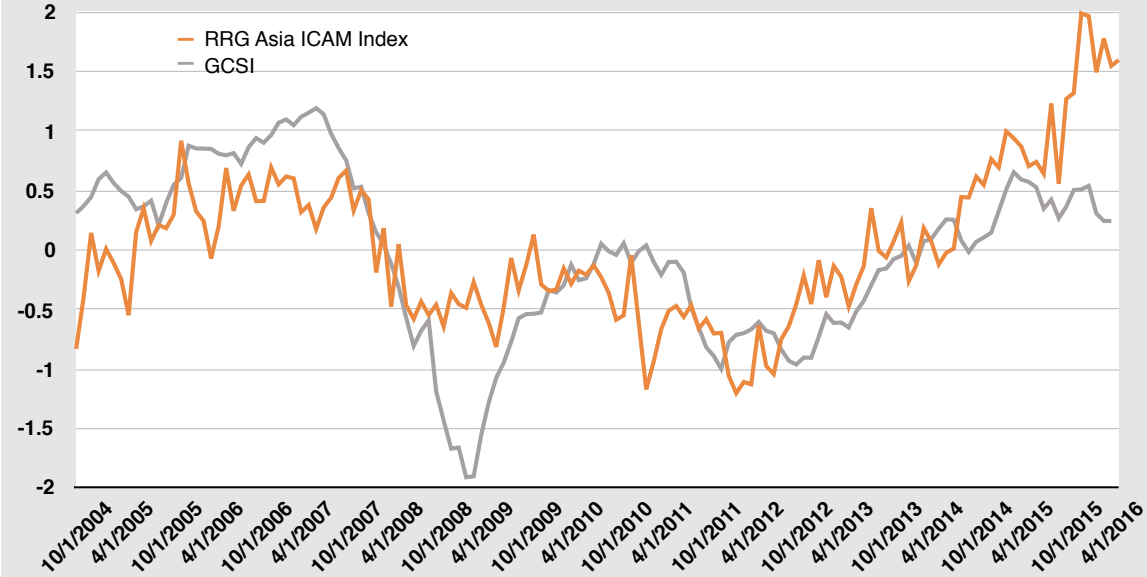
- We have long believed that large divergences between the RRG Asia (Internet Consumer Activity Monitor) ICAM Index and the RRG Global Consumer Sentiment Index (GCSI) are driven by media bias.
- Survey based Consumer Sentiment Indexes (which the GCSI is based on) are very sensitive to the media while online based Consumer Sentiment Indexes (which the ICAMs are based on) are much less sensitive to media.
- During periods of strong negative media bias the ICAMs tend to rise to levels significantly above the GCSI. During periods of strong positive media bias ICAMs tend to fall significantly below the GCSI.
- Currently the RRG Asia ICAM Index is at much higher levels than the GCSI, indicating that a large negative media bias is present.
- In this month's analysis we put this theory to the test. If there is in fact a 'negative media bias' we would expect to see it in the actual news flow.
- To do this we create a 'News Flow Monitor' which provides an indication into the sentiment of the news flow each month back to 2004.
- In constructing our News Flow Monitor we rate a sample of 30 news headlines related to the global economy each month as positive, neutral or negative.
- We find that media bias as indicated by our News Flow Monitor closely tracks media bias as indicated by the difference between the RRG Asia ICAMs and the GCSI. Currently both indicators point to the presence of a very large negative media bias.
- We continue to warn that this negative media bias is working to mask growing pockets of 'exuberance' in the global economy and has caused policy makers across the globe to overestimate the risk risks facing the global economy influencing them to overstimulate.
- Media bias is unsustainable, as it dissipates it will become clear that large pockets of exuberance are present, large financial imbalances have built up, the global economy is overheating and policy makers have fallen well behind the curve.
- As negative media bias dissipates over the next 6 months global equity markets can be expected to stage a short term rally. Due to growing pockets of exuberance in the global economy we are much less optimistic about the longer term outlook for global equity markets.
- Triggered by overly accommodative policies across advanced economies pockets of exuberance have been growing in the global economy since early 2015. Our models indicate this process is set to reach its late stages in late 2016/early 2017. In the late stages the global economy is saturated with exuberance, large financial and economic imbalances have built up and are ripe for a rebalancing.

# RRG ICAMs - Identifying Media Bias

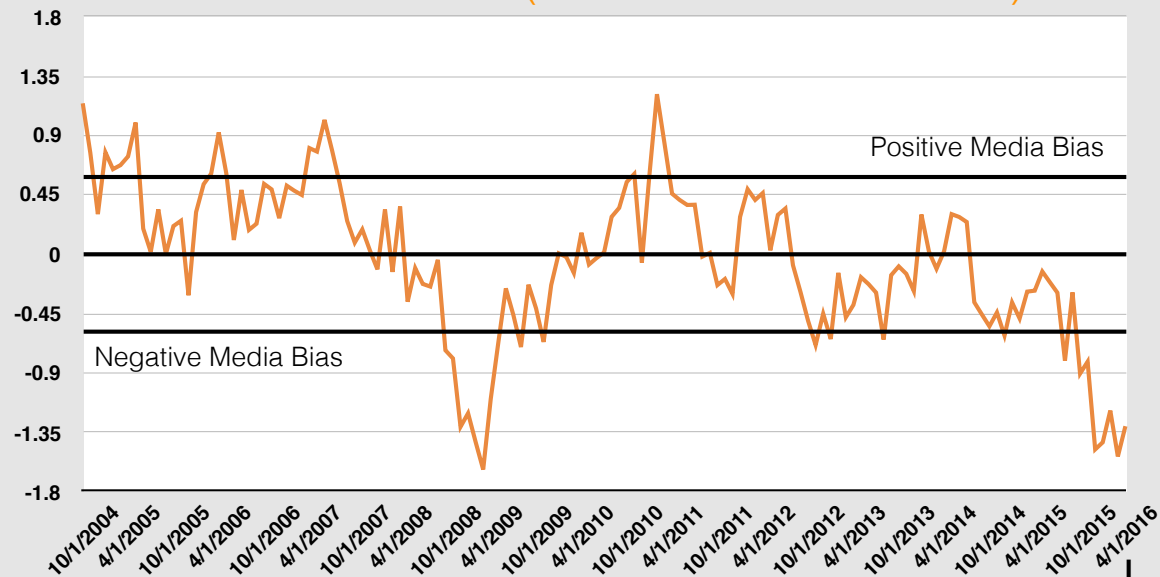
## Reviewing RRG Process of Identifying Media Bias

- Last month we noted that a strong negative media bias had set in during late 2015. Fueling this negative media bias is the high degree of uncertainty over the outlook for the global economy.
- A strong negative media bias is indicated by the large divergence seen between the RRG Asia ICAM Index and the RRG Global Consumer Sentiment Index (GCSI). We term this the Media Bias Indicator (MBI).
- In the top right chart it can be seen that starting in November 2015 the ICAM Index diverged significantly above the GCSI. Large divergences between the two indexes are driven by media bias.
- Survey based consumer sentiment indexes (which the GCSI is based on) are impacted much more by media bias than online/action based consumer sentiment indexes (which the ICAM is based on).
- Academic research including Alsem, Brakman, Hoogduin and Kuper (2004) has found that survey based Consumer Sentiment Indexes are impacted by the media. As competition is high for newspapers to capture attention, journalists often “spin” the facts to create a more memorable story. This often results in an exaggeration of the facts.
- Media bias has a much smaller impact on the actions of consumers as indicated by their online search behavior.
- During periods of strong negative media bias the ICAMs tend to rise to levels significantly above the GCSI. During periods of strong positive media bias ICAMs tend to fall significantly below the GCSI.

### RRG Asia ICAM Index and GCSI at Risk



### Media Bias Indicator (GCSI - RRG Asia ICAM)



## Creating A News Flow Monitor

- Currently the extremely depressed level in the MBI indicates that a strong negative media bias is present.
- To double check this finding we have created a 'News Flow Monitor' (NFM). If the MBI is correct we would expect to see this reflected in the news flow.
- Using Google News we rate a sample of 30 news headlines each month related to 'Global Economy' as being either positive, neutral or negative.
- The sample of news headlines is determined by Google News rankings, we simply select the first 30 headlines for our monthly sample.
- Google News uses an algorithm in deciding which news stories are most relevant. While Google does not detail its methodology for ranking news stories it notes that its aim is to promote original journalism and expose users to diverse perspectives. There are no human editors selecting stories or deciding the rank of stories.
- Below are a few examples of positive, neutral and negative news headlines we came across.

### Negative

- Stephen King's latest horror tale: The future of the global economy - Washington Post (8/5/13)
- SOCGEN PRESENTS: A Depressing Global Outlook For The Next 4 Years - Business Insider (9/4/2012)
- Roubini: My 'Perfect Storm' Scenario Is Unfolding Now - CNBC (7/9/12)
- Eurozone 'pigs' are leading us all to slaughter - Telegraph (2/5/10)
- Financial Parasites Have Killed the American Economy - Washingtonsblog (8/26/09)
- BILL GROSS: Global Economy Is Like A Marriage "Teetering On The Edge Of Divorce" - Business Insider (8/30/11)
- Debt-laden 'zombie' firms threaten China's economy - CNN (10/19/14)
- Global Economy Is World's Biggest Ponzi Scheme - Washingtonsblog (8/12/13)

### Neutral

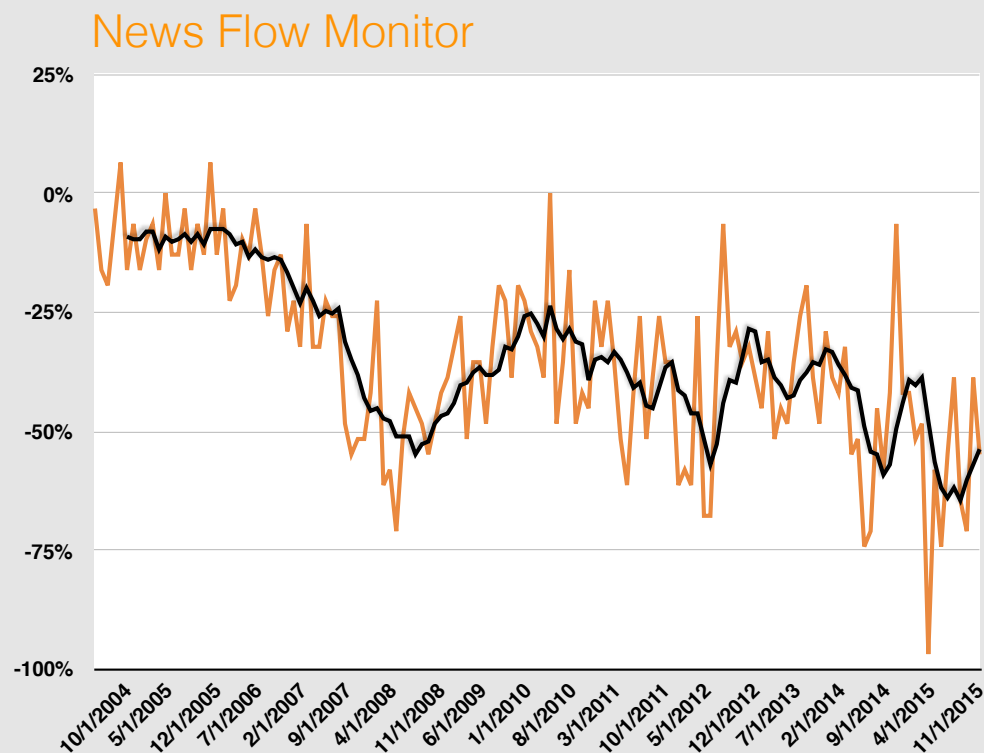
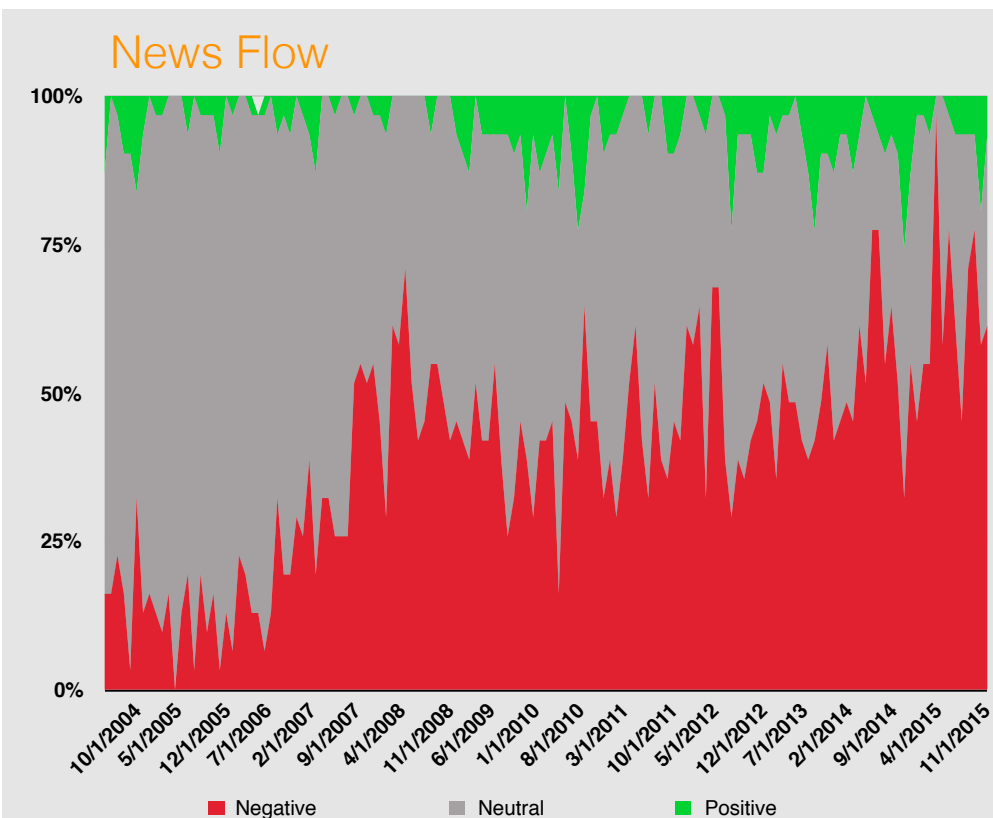
- Alternative views of the economic crisis - BBC (2/6/09)
- World Bank Updates Global Economic Forecasts - CNN (1/14/15)
- Global Manufacturing Competitiveness Index: Talent seen as key to success - prnewswire (6/23/10)
- Top 10 global retail trends - Sydney Morning Herald (8/5/09)
- SEC plans for global accounting standards - [SEC.gov](http://SEC.gov) (2/24/10)
- Monetary Policy in an Open Economy - EconoMonitor blog (2/1/16)
- Video Games Impact the Economy More Than You Think - CNBC (8/10/10)

### Positive

- China June FDI rises at fastest pace in more than two years - Reuters (7/17/2013)
- China Trade Rebounds in Further Sign Economy Stabilizing - Bloomberg (9/9/13)
- Maybe China's Economy Isn't Toast - Business Insider (8/5/13)
- 'Rapid growth to sustain 20 years' - China Daily (7/11/07)
- It's raining millionaires, global wealth rises - Rediff Business (6/11/10)
- George Soros Touts China as Leader of New World Order - thenewamerican (11/17/10)
- Investors in Developing Markets See Optimism - NY Times (6/3/09)
- The Best Economy Ever - Wall Street Journal (7/31/07)

## News Flow Monitor Indicates Negative Media Bias Has Remained Elevated Since Global Financial Crisis

- Results from our monthly rating of Google News flow is displayed in the below left chart.
- Since the global financial crisis negativity has largely dominated the news flow. Prior to the global financial crisis neutral news articles dominated.
- Positive news headlines are few and far between. Since the global financial crisis there has actually been a slight increase in instances of positive news headlines. Short spurts of positive news flow generally tend to follow large flare ups in negative news flow. We believe this is due to the attention contrarian news headlines can receive during periods of elevated negativity.
- The below right chart displays the difference between negative and positive news headlines. A reading below 0 indicates negative news headlines outnumber positive news headlines. What stands out to us most here is the extreme volatility seen recently, since late 2014 the indicator has rocketed back and forth between extremely low and high readings.

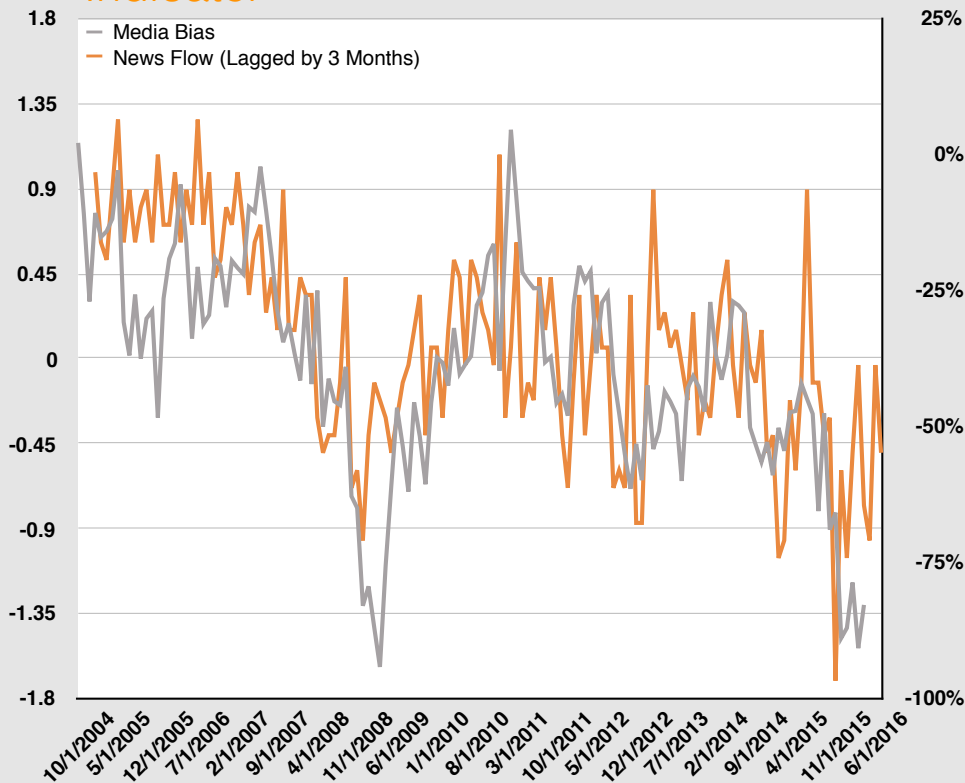


# ICAMs Correctly Reflect Media Bias

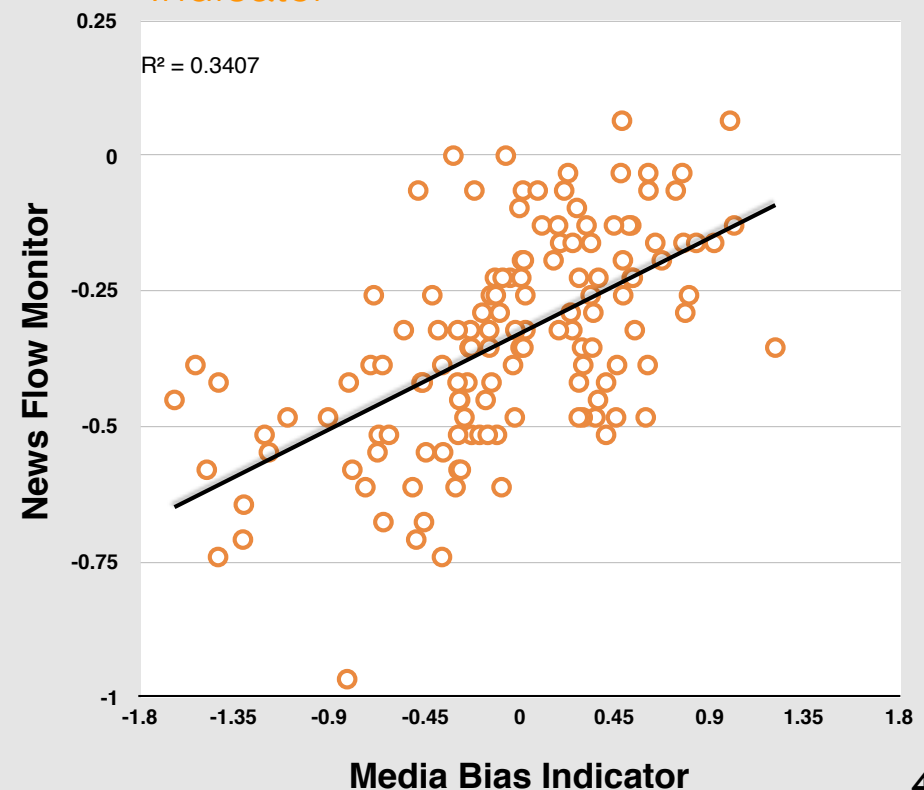
## Discrepancy Between Survey Based and Online Based Consumer Sentiment Indexes Coincides With Mood of News Flow

- In the below left chart our News Flow Monitor is overlaid on the Media Bias Indicator (recall this is calculated simply as the difference between GCSI and RRG Asia ICAM Index) .
- The News Flow Monitor tends to lead changes in the Media Bias Indicator by 3 months. We believe this may be due to the amount of time required for the general population to digest the continuous flow of news.
- The strong relationship between our News Flow Monitor and the Media Bias Indicator backs up our theory that media bias tends to have a stronger impact on survey based consumer sentiment indexes than online search based consumer sentiment indexes and that large differences between the GCSI and RRG Asia ICAMs are in fact driven by media bias.

### News Flow Monitor and Media Bias Indicator



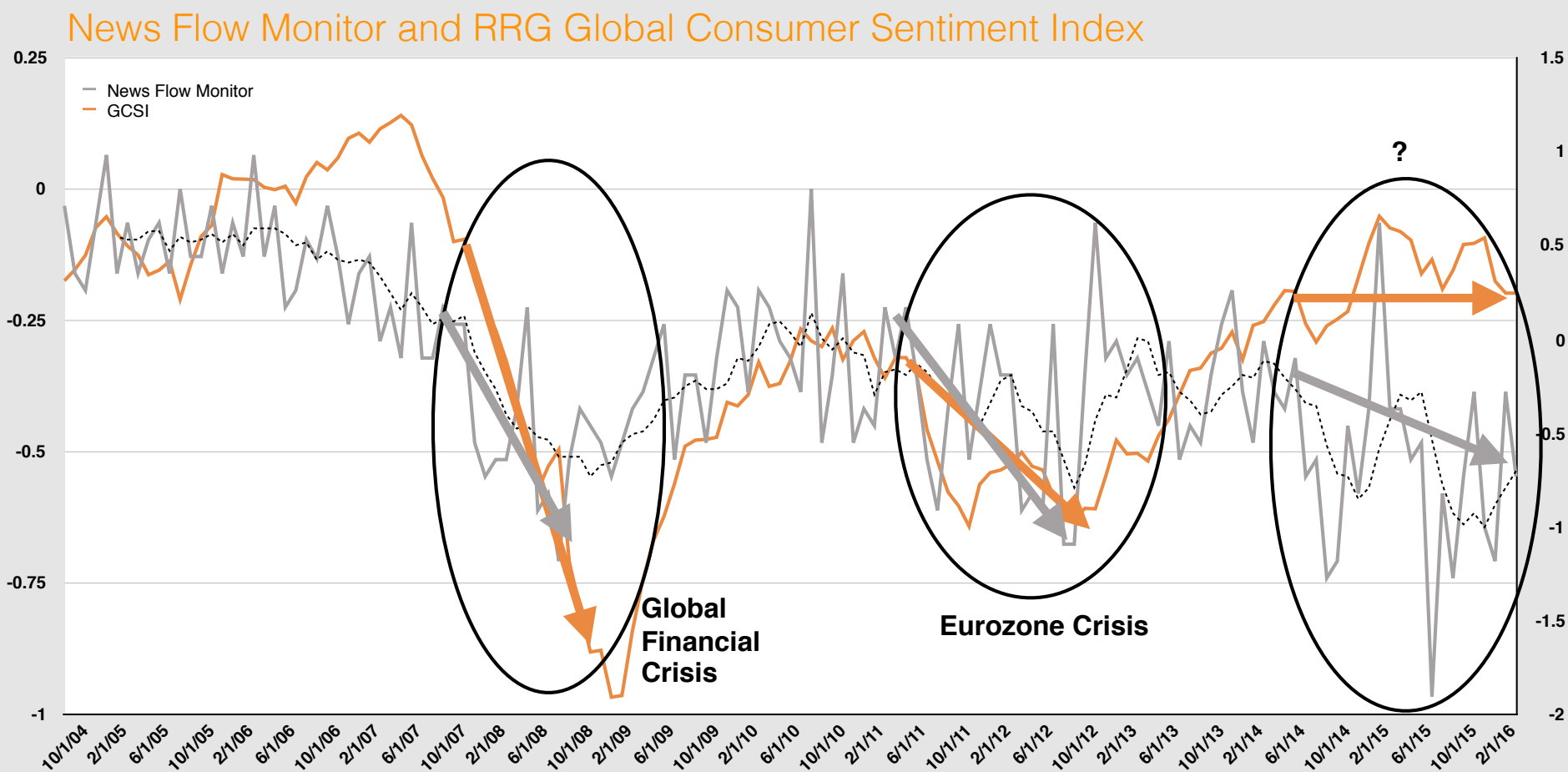
### News Flow Monitor and Media Bias Indicator



# Negative Media Bias With No Crisis?

## Negative News Flow At Crisis Levels Despite Absence of Crisis

- In the below chart it can be seen that during both the global financial crisis and eurozone crisis negative media bias corresponded with a significant deterioration in the health of the global economy as indicated by large plunges in our Global Consumer Sentiment Index.
- Since negative media bias picked up since late 2014 the GCSI has fluctuated at strong levels above 0 and we have not witnessed a crisis. We believe this anomaly stems from the highly uncertain outlook for the global economy.

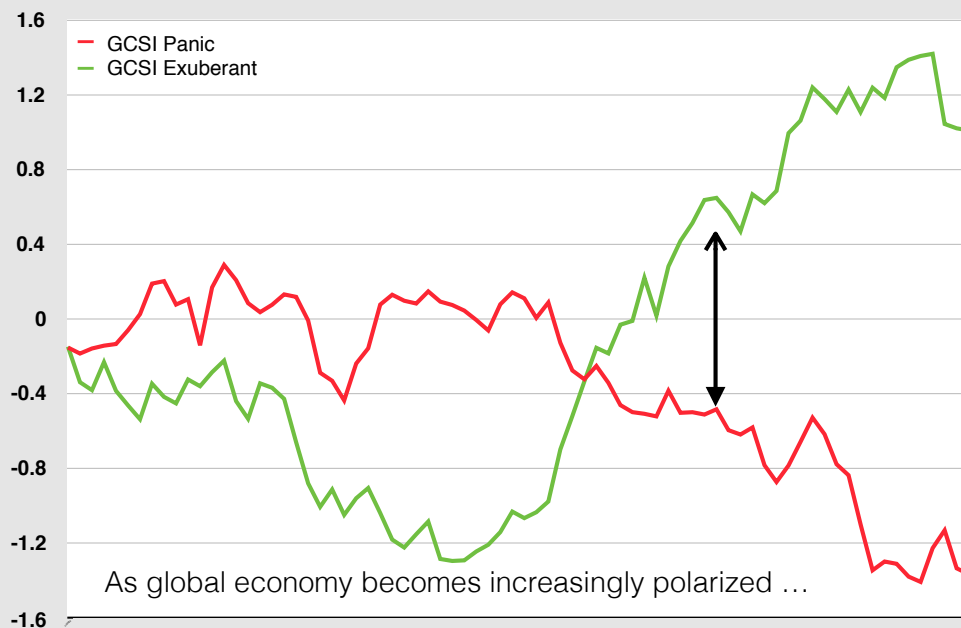


# Driver of Negative Media Bias

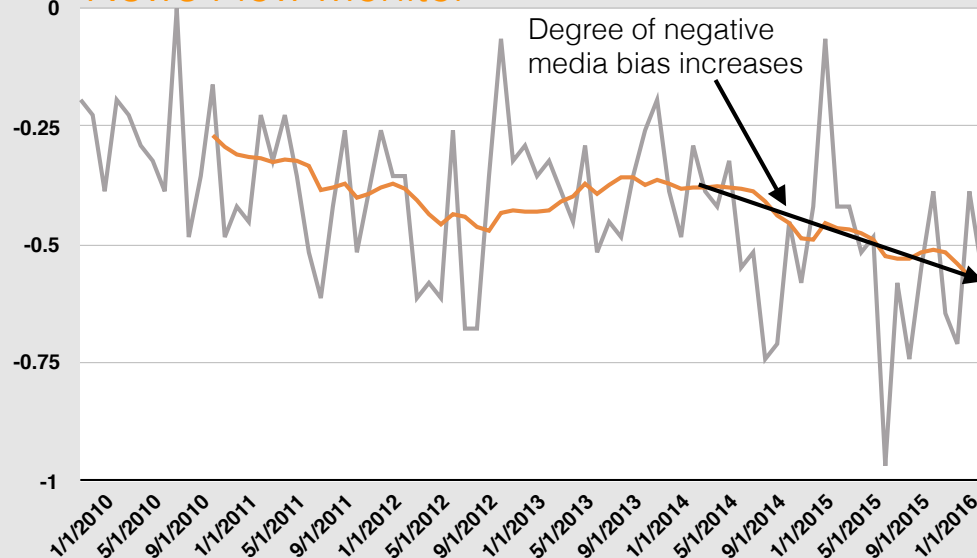
## Elevated Levels of Negative Media Bias Result From High Degree of Polarization Across the Health of the Global

- At current depressed levels the News Flow Monitor indicates that negativity in the media is similar to periods coinciding with the global financial crisis and the eurozone crisis. This is odd as we have not experienced a crisis. Why is the news flow so negative in the absence of a crisis?
- We believe uncertainty over the outlook for the global economy is behind both the elevated degree of negative media bias and the recent high volatility seen in our News Flow Monitor.
- As we noted in last months analysis of the RRG Asia ICAM Index (See [here](#)), uncertainty surrounding the global economic outlook stems from the extremely high degree of polarization in the global economy (currently the difference in the health between the worlds strongest economies and weakest economies is extremely high). One of two scenario's is set to play out with either a 'good de-polarization' or 'bad de-polarization' playing out, see [here](#).
- Uncertainty over which scenario will play out is responsible for the elevated degree of negative media bias and the high volatility seen in the News Flow Monitor since late 2014.
- The high degree of polarization in the global economy is displayed in the top right chart. GCSI Exuberant is equally weighted across countries that displayed exuberant levels of consumer sentiment last September (when the degree of polarization in the global economy peaked). GCSI Panic is equally weighted across countries with high exposure to China and/or are experiencing political turmoil including (Brazil, Thailand, Chile, Russia, Greece).
- As the global economy de-polarizes GCSI panic can be expected to rise to converge with GCSI Exuberant (a good de-polarization) or GCSI Exuberant can be expected to fall to converge with GCSI Panic (a bad de-polarization).

### GCSI Exuberant and GCSI Panic



### News Flow Monitor





# Negative Media Bias and Policy Mistakes

## Negative Media Bias Masking Ongoing Process of Runaway Exuberance

- As highlighted in our recent **'Surge in Global Political Uncertainty Distracts From Dominant Drivers of Global Economy'** we believe a 'bad de-polarization' is unlikely to play out and continue to observe developments coinciding with a 'good de-polarization'. In line with this China's economy continues to show signs of stabilizing, the US dollar remains in a downward trend as expectations for policy divergence continue to dissipate and commodity prices continue to stabilize.
- A negative media bias has caused policy makers across the globe to overestimate the risk of a 'bad de-polarization' and has influenced them to overstimulate.
- Due to overly accommodative policies across advanced economies the global process of runaway exuberance was triggered in early 2015. In line with this process, pockets of exuberance have developed in the global economy and can be expected to spread, see [here](#). The above chart displays our forecast trajectory in the GCSI due to this process of runaway exuberance.
- A negative media bias is working to depress survey based Consumer Sentiment Indexes and mask rapidly growing pockets of exuberance throughout the global economy.
- Due to the presence of a large negative media bias policy makers across the globe have overlooked the global process of runaway exuberance. We believe this is currently the largest risk to the global economy.
- As the global economy de-polarizes the outlook for the global economy will become much clearer and the negative media bias can be expected to dissipate.
- In the event of a 'good de-polarization' it will become clear that large pockets of exuberance are present, large financial imbalances have built up, the global economy is overheating and policy makers have fallen well behind the curve. (Perhaps 'good de-polarization' is not the right term.)
- The current process of runaway exuberance that was triggered in early 2015 is set to reach its late stages in late 2016/early 2017. In its late stages the global economy is fully saturated with 'exuberance' (GCSI has reached a level near 1 and consumers in 50% of the countries included in our GCSI are in a state of exuberance).

