

# Americans have more basic trust

## Coverage versus consumption climate in Germany/US

In an economy, where people have more income at their disposal than would be strictly necessary for meeting their basic needs, they have to decide between saving and spending. Americans, on average, have most recently had a negative savings rate, that is they consumed not only their own income but even borrowed money to consume more. On the other hand, the lack of spending in Germany is one of the main reasons for its economic malaise. Aside from obvious explanations (i.e. a higher savings rate for retirement), the media analysis of coverage on the economic situation in leading US and German media provides additional insight. While the US media reflect a relatively stable and optimistic image of the economic development, the equivalent in Germany is volatile and far more pessimistic. Studies, such as one by the IW Halle, show that this has its consequences.

In order to compare coverage on the economic situation and business location, the following media were analyzed: **Wall Street Journal, Time, Newsweek, ABC, NBC, CBS and Fox evening news, FAZ, Spiegel, Focus, ARD, ZDF, RTL, SAT.1 and ProSieben evening news** between January 2004 and February 2006. 4,813 news stories were evaluated for the US media, and

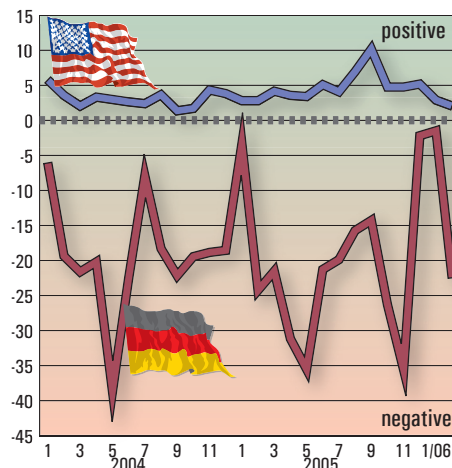
17,185 for the German. Graph 1 shows the extent to which descriptions on the economic situation diverged from one another, especially when referring to the future. The German media, on average, had an overhang of 19.6% negative assessments to positive ones, while the US media had a positive overhang of 3.8%. While the future scenarios in the German media went up and down like a roller coaster (standard deviation 9.7), the image in the US media remained relatively stable on the optimistic side (standard deviation 1.8).

### Media image influences consumer confidence

The Economic Research Institute (IW) in Halle has done a study on the relationship between media coverage and consumer confidence in Germany (Sophie Wörsdorfer, *Wie die Wirtschaftsberichterstattung der Medien das Verbrauchervertrauen lenkt – Empirische Evidenzen für Deutschland 1995–2005*, Halle 2005). The study shows that “the media variables, which are initially only a reflection of what is interpreted as ‘media mood’, can, with some qualification, function as potential (preceding) indicators of the consumers’ mood.” (ibid)

**Graph 2** shows the development of the Consumer Confidence Index (collected on behalf of the Conference Board) and the media image of the economic situation in selected US publications between January 2004 and February 2006. It is striking that the trends change strongly over time: While media coverage and the CCI were

**1 Assessment of the economic situation – prognoses (German vs. US media)**

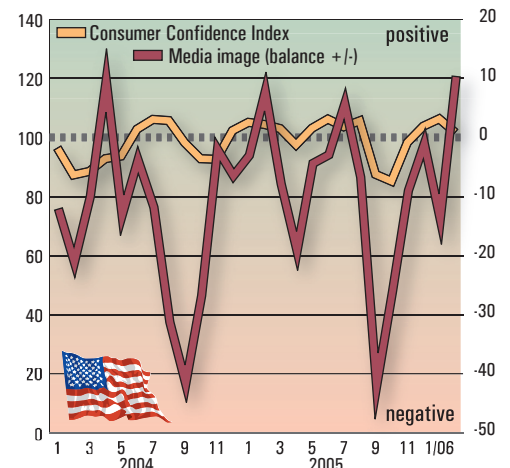


Balance of positive/negative assessments (percentage shares) of expectations on the economic situation

Source: Media Tenor  
01/01/2004 - 02/28/2006

Basis: 6,316 (Ger)/1,180 (US) reports  
in 10 (Ger) und 6 (US) Media

**2 Consumer Confidence Index versus media image of economic situation (US)**



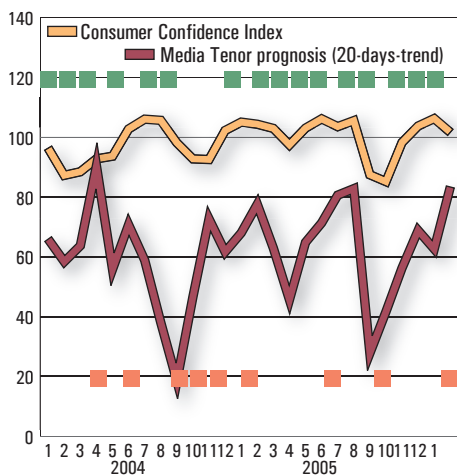
CCI-Index (Conference Board), balance of the +/- assessments of the economic situation in the US media

Source: Media Tenor  
01/01/2004 - 02/28/2006

Basis: 1,037 reports about the  
economic situation in 6 US media

Not even the devastation brought about by the hurricanes Andrew and Katrina let the US media become pessimistic on the economic outlook.

### 3 Forecasting the CCI through coverage in the US TV news

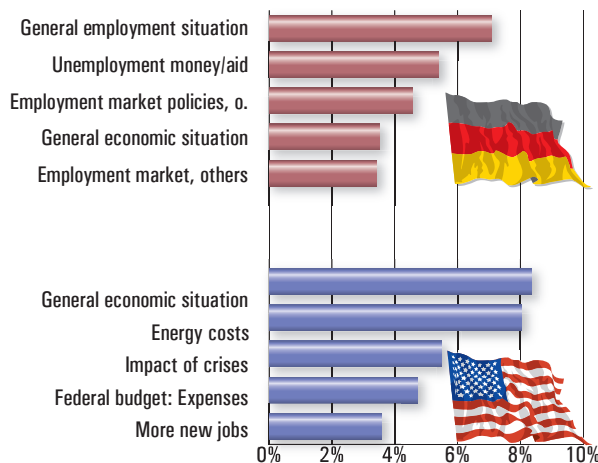


20-days-trend of coverage, green squares above: correct prognosis, red squares below: false prognosis

Source: Media Tenor  
01/01/2004 - 02/28/2006

Basis: 4,183 reports about the economic situation in 6 US media

### 4 Main topics of coverage on the economic situation Germany/US



Share of all reports in percentage (main topic)

Source: Media Tenor  
01/01/2004 - 02/28/2006

Basis: 17,185 Ger/4,183 US reports about the economic situation

In the past 25 months, the 20-day-trend of US television news correctly predicted the trend for the Consumer Confidence Index with a hit rate of 64%.

Entirely different topical concentrations in the television news: Employment market versus energy costs/ coping with crises.

The squares signal a correct (above) or false (below) trend forecast.

#### US television with a wider horizon

A look at the topical structure of the television news in the past 26 months shows big differences between Germany and the US (Graph 4). In Germany, four of the five most frequently mentioned topics around the economic situation and the country as a business location dealt with the employment market. The US news, on the other hand, focused on the general situation, the impact of crises (i.e. SARS, storms) and energy costs. The positive development on the employment market came in 5th. Although high energy costs are just as likely to stifle growth and consumption in Germany as they do in the US, this topic remained marginal in the German television news. Future research should look into the question, whether or not the emphasis on selected topics influences consumer confidence in different ways. vb

#### Open question:

What role do selected topics in media coverage (for example energy costs, employment market) play for the consumption climate?

#### Basis:

Media: Germany: 7 TV news shows, FAZ, Focus, Spiegel;  
U.S.: 4 TV news shows, WSJ, Time, Newsweek

Time: 01/01/2004 - 02/28/2006

Analysis: 17,185/4,183 stories about the economic situation

not significantly correlated in 2004, the correlation between January 2004 and February 2006 is high with 0.775. But the relationship between the two is not the only interesting aspect. The question is whether or not media coverage gives hints at the future development of the CCI. According to the Agenda Setting theory, the strongest effects of the media's shaping of a topic occur between one and six weeks. The CCI is collected monthly and is published at the end of each month for the preceding four weeks. Unfortunately, it is not entirely clear when most of the consumers are interviewed. Presumably most of the answers are collected by the 20th of the month. On the basis of this assumption, this analysis looked at negative and positive assessments in news stories on the economic situation that were published within the first 15 and 20 days of each month respectively. We determined, whether or not the positive or negative deviation from the balance of the previous month pointed to a rising or falling CCI. In the case of Germany, the study by the IW Halle concluded that the CCI of any given month correlated most meaningfully with the media coverage of the previous month. In the US, the relationship for the time period 2004-2006 (a longer timeline of coverage on the economic situation is not available) is a bit different.

A test of the extent to which media coverage was predicting the CCI, resulted in a hit rate of 64% for the 20-day-trend, and 62% for the 15-day-trend. Graph 3 demonstrates this relationship.