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GLOBAL ECONOMIC RISK FROM NEWS COVERAGE: EVIDENCE FROM THAILAND

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Abstract: *This paper examines the relationship between economic news coverage and public perception for economic conditions by using the subprime crisis in 2008 as a center of the study. The relationship of media coverage and economic events was found as a result of irrational decision makings. Public attention to economic news does not always lead to more media coverage, but more coverage of bad economic predictions can impact public confidence in the economy. The economic news in Thailand during the subprime crisis period from 2008 to 2009 was negatively biased and negatively impacted businesses' confidence in the economy measured by the business sentiment index Real GDP growth were also negatively correlated with economic news coverage. Even if the media did not create the public pessimism, more coverage on bad economic news may have reinforced the public worries. The aggregations of such psychological consequences are exceptionally real and could be much more significant than the impact of true economic factors*

Keywords: *Economic News, Media Coverage, Economic Condition*

1. INTRODUCTION

The relationship between economic news coverage and economic events is a complex issue. On the one hand, news coverage tends to be lagged behind economic events and does not really reflect public interest. In that case, economic news coverage could be meaningless for public perception of economic conditions. From January 2007 to June 2008, public attention is on the state of economy, but the media in the US were more interested in the presidential campaign by coverage ratio of nearly 5 to 1[1]. News coverage on a possible recession was peaked in the first quarter of 2008 while the economy was actually somewhat strengthening. News coverage then shifted away from a possible economic downturn when the economy began to weaken again in the second quarter of 2008.

On the other hand; although there are other factors, apart from economic news coverage, that can influence public perception for economic conditions, there are evident correlations between increased coverage and growing public worries. Behr and Iyengar (1985) compared the CBS weekday national news from 1974 to 1980 with economic statistics and found that the level of public concern about energy

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and inflation issues was associated with television news coverage, especially lead stories, while public concern about unemployment was affected more by real economic conditions. Goidel and Langley (1995) and Hester and Gibson (2003) found that economic news are negatively biased and such negative coverage is a significant predictor for public perception towards economic conditions, even after controlling for real economic conditions. MacKuen, Erikson, and Stimson (1992); Sanders, Marsh, and Ward (1993); Nadeau *et al.* (1999); and Erikson, MacKuen, and Stimson (2002) found that economic news coverage has an effect on public perceptions of the economy, which impacts voting behavior. However, Wu et al., (2004) studied similar relationship in Japan and found little media effect on the public confidence in the economy because Japanese are very pessimism about economic recovery after a long period of recession.

The extent to which the news coverage tends to be more negative than positive is widely studied. Smith (1984), Davie and Lee (1995), and Altheide (1997) found that mass media overemphasize the prevalence of violent crime, while Bagdikian (1987), Herman and Chomsky (1988), Paraschos (1988), Shoemaker, Danielian, and Brendlinger (1991), and Patterson (1997) found that events involving conflict or crisis receive a greater degree of media attention. Harrington (1989) found that TV news stories in the US regularly give more coverage to bad economic trends than to good economic trends. In addition, Goidel and Langley (1995) found a strong positive correlation between the number of negative news on the New York Times front page and percentage change of CPI and unemployment rate, but no significant correlation between positive coverage and percentage change of most of the indices. Fogarty (2005) also found that the economic news coverage in New York Times tended to overemphasize the bad economy, but not overemphasize the good economy.

There is a growing body of work on asymmetric responses to positive versus negative information. Based on loss aversion under prospect theory, Kahneman and Tversky (1979) suggested that negative economic information will have greater impact on individual decision making than positive economic information would. People with loss aversion care more strongly about a loss in utility than they do about a gain of equal magnitude. This is similar to what Bowman, Minehart, and Rabin (1999) found that consumption tends to drop more when the economy contracts than rise when the economy expands. Soroka (2006) used aggregate time series data for the United Kingdom from 1986 to 2000 to investigate asymmetries in media and public responsiveness ad found a strong evidence of asymmetric responses to positive and negative information. That is, public responses to negative economic information are much greater than are public responses to positive economic information.

The economic news of the US subprime crisis and its impacts from 2008 to 2009 are used as a center of this study. The economic news stories on the front page of top two national daily newspapers based on circulation: Thairath and

Dailynews are examined to study the tone of economic news coverage and its relationship with public perception for the economy measured by business sentiment index. The paper is structured as follow: section 2 summarizes causes and impacts of subprime crisis in the US. Section 3and 4 describe media coverage of subprime crisis in the US and in Thailand, respectively. Section 5 discusses the relationship and impacts of economic news coverage on public perceptions of Thai Economy. Section 6 explains how Thai government reacted to economic downturn due to subprime crisis Finally, section 7 discusses the conclusions.

2. SUBPRIME CRISIS

The subprime crisis originated in the US has taken such a speedy contagious effect in lifting the level of risk in financial markets beyond the investors' acceptable level. The subprime crisis is a result of financial derivatives time bomb that was set to explode right after the mortgage crisis. The size differential of derivatives traded in OTC and exchange markets is highly significant. According to the Bank for International Settlements (BIS), the total outstanding notional amounts derivatives traded in OTC and exchange-traded markets are USD684 trillion and USD83 trillion (as of June 2008), respectively. In addition, the BIS reported the combined turnover in the global derivatives exchanges of USD543 trillion during the third quarter of 2008, a huge decline from the first quarter turnover figure of USD692 trillion, which reflects the impact of the turmoil in derivatives markets. The main problem lies in the OTC derivatives markets where transaction costs are low but the level of transparency and regulatory are close to zero.

The subprime crisis is indeed a result of an ineffective risk management both at micro- and macro-levels. First, irresponsible and over-lending allow for risk taking activities by both individual and corporations. This irresponsible lending came from the fact that the lenders can transfer their credit risk to investors by securitization. Second, the derivatives contracts that were designed to be a risk-hedging device became risk-taking instruments. Speculators are always the major players in derivatives market, compared to hedgers and arbitrageurs. Third, corporate executives and investment bankers incline to take on higher risk because the compensation structure provides them with an incentive to do so. Fourth, the regulators seem to not actually understand the complexity of derivatives transactions and avoid enforcing stricter regulation on these risk-taking transactions. If there is no change in these root-cause problems, we will all have to pay a high price for learning through another cycle of the crisis all over again.

The big question is why this huge and fast growing OTC derivatives markets have not been appropriately regulated. This is not the first time that derivatives transactions led to the bankruptcy of an organization taking too high risk in them. On December 6, 1994, Orange County, a prosperous district in California, declared bankruptcy after suffering losses of around USD1.6 billion from a wrong-way bet on interest-sensitive derivatives contracts, after which there was a call for intense regulation on derivatives market, but Christopher Cox, who was representing Southern California at a time did not support this proposal. Christopher Cox later became a chairman of the SEC in 2005.

Both Ben Bernanke (Fed chairman) and Henry Paulson (Secretary of Treasury Department) also disagreed with the proposal to impose stricter derivatives regulation. During the confirmation hearings for their positions in November 2005 and June 2006, both Bernanke and Paulson expressed their optimism over the derivatives markets and the investors who use them, and thus, they did not think the stricter regulation is needed.

After the subprime crisis and the bankruptcy of Lehman Brothers on September 15, 2008, these three chiefs of the federal regulatory changed their minds. On September 23 2008, Henry Paulson, Christopher Cox, and Ben Bernanke—each called for better regulation of derivatives, the financial instruments at the center of the subprime crisis. Cox also admitted that the market for credit default swaps is "regulated by absolutely no one" making it "ripe for fraud and manipulation."

The intense derivatives regulation is not a sole solution preventing this potential financial crisis as long as corporate executives and investment bankers could still enjoy taking high risk on others' money. The compensation scheme has been in favor of such activities by tying corporate executives' big bonuses to big returns, but leaving large losses to shareholders or customers when risk taking activities fail. Although regulators can find a way to regulate existing derivatives transactions, financial engineers will continuously invent new and more complex financial instruments that can be used for taking higher risk.

An interesting observation is the speedy effect of this subprime crisis on the global economy. It is unquestionable that this financial mess must affect other countries, but the speed of this impact that arrive each country is phenomenal in the current digital world. The information flow nowadays is incomparable to that period of the last global recession during the 1930s. Whether or not the prediction of a possible global recession in 2009 was accurate, the media coverage played a large role on how public would perceive the state of economy in every part of the world. This paper aims to study the nature of economic news coverage related to the subprime crisis in Thailand and its relationship with public perception of economy. The two main research questions are: 1) whether the economic news coverage in Thailand is negatively biased and 2) how economic news coverage in Thailand impact public perception of economic condition.

3. MEDIA COVERAGE OF SUBPRIME CRISIS IN THE US

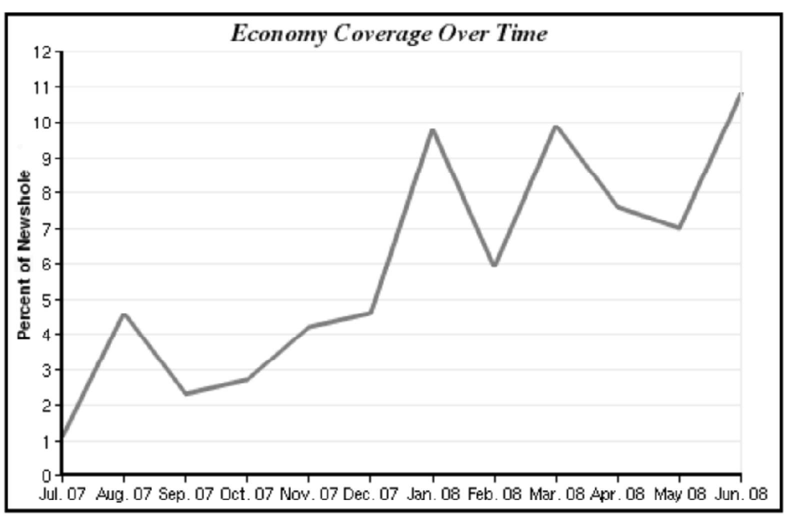
Since the subprime crisis began during mid-2007, we all have learned about its impacts of the crisis through all sources of media. The news reporters had been repeatedly reporting extremely bad news all over the world. Moreover, people in academia have also been doing similar provoking activities without suggesting how to prevent or adjust ourselves to the upcoming declining economy. As a result, the whole world quickly arrived at the panic stage.

The reactions of stock markets all over the world during the subprime crisis period were the product of emotional decision makings. A rational thing to do when the price of a good stock dropped under 50% in value is to buy, but the overwhelming extreme bad information influx has led many investors to instead sell their stocks at a loss. Most investors acted as if the stock market could end any time soon by overlooking the fact that the world has withstood several historical cycles of recession.

We tend to overreact and give too much credit to people who predict financial disasters The media tend to follow negative economic conditions more closely than positive economic conditions because bad news tend to draw more public attention. Goidel and Langley (1995) found that news coverage appears to be strongly related to aggregate public evaluations of the economy, even after controlling for real economic conditions. John R. Lott, Jr. reported on Fox News online that a Nexis search on news stories during the three-month period from July 2000 through September 2000 using the keywords "economy recession US" produces 1,388 while the same search over the first quarter of 2008 finds 3,166. This is consistent with the report by the Pew Research Center's Project for Excellence in Journalism (PEJ), showing an increase in media's coverage on the economy starting in late January 2008.

The following figure shows that the economic news filled 9% of the newhole from January through June 2008, far above the coverage on war or other issues.

Figure 1: Economic News Coverage (Percent of Newshole) in the US



The Pew Research Center's Project for Excellence in Journalism (PEJ), August 18, 2008.[2]

In addition, the following table shows how the media's coverage has shifted from mortgage crisis in 2007 to a possible recession and gas price increase during the first and the second quarter of 2008.

Table 1
All Media: Specific Topics within Economic Coverage (Percent of Newshole)

	Quarter					
Topic	*Ist QTR 2007*	*2nd QTR 2007*	*3rd QTR 2007*	*4th QTR 2007*	*Ist QTR 2008*	*2nd QTR 2008*
Housing	29.5%	32.7%	47.4%	41.8%	18.4%	19.3%
Unemployment/Jobs	1.3%	5.7%	3.7%	3.7%	3.5%	4.8%
Interest Rates	3.9%	2.3%	15.0%	6.3%	4.8%	3.1%
Retail Sales	0.3%	2.2%	1.3%	2.8%	2.1%	2.1%
Possibility of a Recession (added 1/13/08)					44.5%	9.6%
Stocks Drop Around the World (1/21/08)					5.7%	0.1%
Tax Rebate Checks (added 4/27/08)						1.7%
Food Prices (added 6/16/08)						0.4%
Gas/Oil/Prices	7.8%	41.1%	8.9%	17.1%	6.9%	46.8%
U.S. Economy Other	57.1%	15.9%	23.7%	28.3%	14.1%	12.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The Pew Research Center's Project for Excellence in Journalism (PEJ), August 18, 2008.

It appears to be a correlation between the level of media coverage on bad economy and people pessimistic bias about the future economy. Public attention to economic news does not always translate into more coverage. However, more coverage of bad economic prediction can be correlated to declining public confidence in their economic fortunes. In other words, even if the media did not create the public pessimism, more coverage on bad economic news may have reinforced the public worries.

These psychological consequences could easily be observed all over the subprime crisis, from the overly optimistic lending practices back in 2001 to 2005 that led to the subprime crisis followed by fluctuations of energy and stock prices. Normally, the investors tend to make decisions based on the most recent information but not necessarily the most important one. People gather this recent information of the economy mostly from watching and reading news. Historical evidence have shown that investors are likely to overreact to both positive and negatives news. In conclusion, the decisions are not randomly made and aren't necessarily rational. There have been ample evidence of irrational behavior and repeated errors in judgment included in academic studies and have been cited in behavioral economic field that psychological factors contribute to repeated bad decisions when people face with uncertainty.

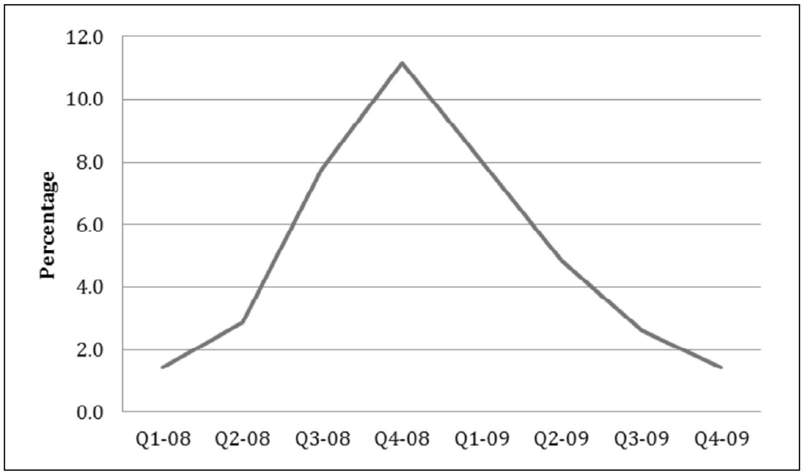
A more recent example is the relationship between a public concern over rising oil and gas prices which coincided with an increased coverage on the issue. From the first quarter of 2007 through the second quarter of 2008, gas and oil coverage in the media increased more than five folds according to the PEJ study in the previous table. This drastic jump in the media's coverage on oil and gas prices are correlated with an increase in oil price to the highest level of almost $150 per barrel in July 2008, which could be due to the overreaction of investors and people to the narrative on oil price that was on the upward prediction. After July, the media's coverage trends toward a potential global recession in 2009, causing once again an overreaction to the prediction that the demand for oil will decline and led to a huge drop in oil and gas prices during the last quarter of 2008. The chart below shows that the oil price tumbled to under $40 per barrel in December 2008, which does not make much economic sense, but clearly reflects the fact that a fluctuation in oil price has something to do with the shift in the media's coverage. The oil and gas prices are predicted to be on the declining trends as long as the media continue reporting an increase of unemployment rate and the ongoing possible global economic recession.

4. MEDIA COVERAGE OF SUBPRIME CRISIS IN THAILAND

The economic news coverage in Thailand is not much different from the US partly because the crisis story is easy to be told. All six free TV channels, 3 cable news networks, and all newspaper simply translate what covered in the main media from the US on a daily basis. The economic news stories on the front page of the top two Thai national dailies; Thairath and Dailynews, were examined. Among the top 5 national dailies, Thairath and Dailynews have the largest and the second largest circulation. (i.e. about 1 million and 900,000 on average in 2009, respectively). [3] Together, Thailand and Dailynews sales are counted as 72% of total market shares in 2009 (i.e., 48% and 24%, respectively).[4]

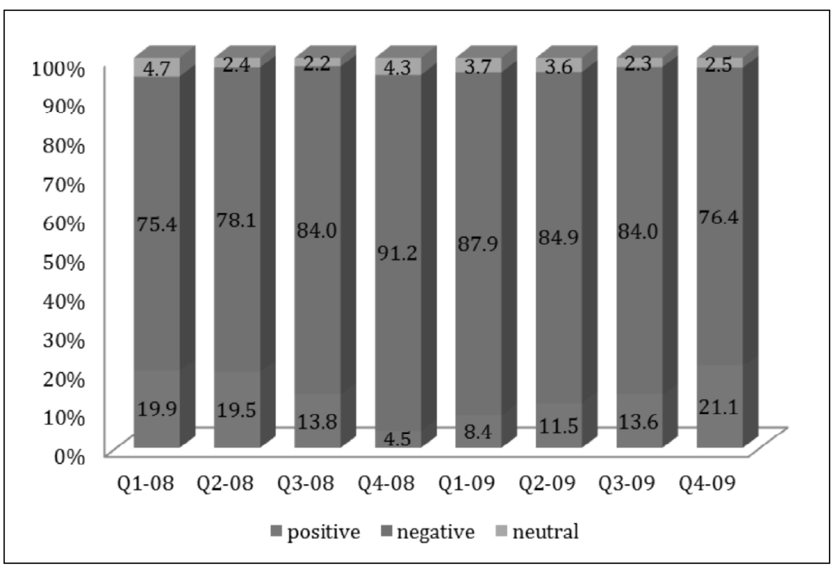
The percentage of economic news stories covered on the front page were collected from January 2008 to December 2009 and shown in Figure 2. During normal period the economic news coverage on the front page is less than 2% on average, but started to soar after the subprime crisis news covered in the US media and became global economic crisis all over the world. It appeared that such economic news coverage reached its peak right after the bankruptcy of Lehman Brothers.

Figure 2: Economic News Coverage in Thailand



Each economic news story on the front page of the top two Thai national dailies was identified as positive, negative, or neutral. Positive news were any news story that contain positive forecast on economic condition, while negative news was any news story that include negative aspects on economy. The economic news is defined as neutral if it included both positive and negative information in about the same proportion. The percentage of positive, negative, and neutral economic news is shown in figure3. It is evidenced that economic news coverage in Thailand was negatively biased. The media tend to pay more attention to bad than good economic news.

Figure 3: Percentage of Positive, Negative and Neutral Economic News

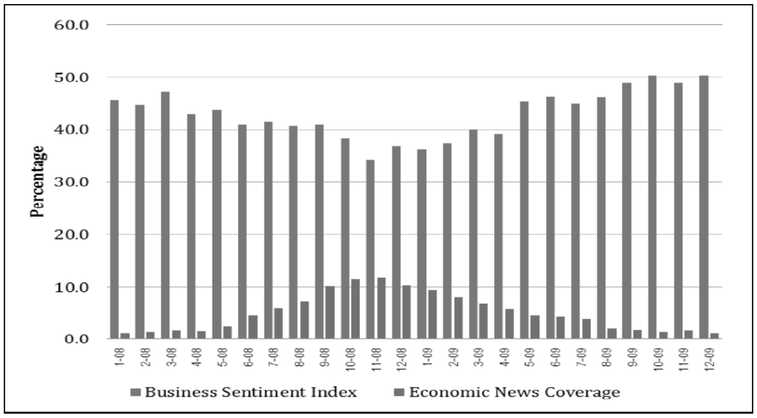


5. IMPACTS OF ECONOMIC NEWS COVERAGE ON PUBLIC PERCEPTIONS OF THAI ECONOMY

The business sentiment index (BSI) is used as a measure for public perceptions of Thai economy. The relationship of economic news coverage with the BSI is studied. The BSI, a component of the Bank of Thailand's business sentiment survey, is published monthly. It covers hundreds of Thai companies to assess business conditions in the country. The representative firms (samples) are acquired from the Stock Exchange of Thailand's and the Ministry of Industry's database and are large and medium firms with registered capital of at least 200 Million baht. The samples cover over 800 businesses in production, trade, and service sectors. The proportions of the selected firms in Bangkok Metropolitan area and the provincial areas are 58:42. The response rates between Bangkok Metropolitan area and provincial areas are 60.40. And, the overall response rate is about 60%. Figure 4 shows a strong relationship between economic news coverage and the BSI. The BSI of 50 indicates that business sentiment remains stable while the BSI larger than 50 indicates that business sentiment has improved and the BSI less than 50 indicates that business sentiment has worsened.

The BSI had dropped under 50 during the study period except only in October and December 2009. In November 2008, the BSI continued to drop to 34.4, the lowest level since the introduction of the BSI in 2000, following declines in almost all BSI components. The Bank of Thailand reported in November 2008 that businesses were increasingly concerned about the effects of the global economic recession and domestic political instability on the real sector, reflecting significant reductions in book order, production, and performance components. It is interesting to note that the bottom level of the BSI in November 2008 was associated with the peak of the economic news coverage in Thailand, which was negatively biased as much as 91.25% in that month. The BSI then improved continuously from November 2008 to October 2009 where the BSI was above the confident level of 50 for the first time since the 2008 subprime crisis. The increase was led by almost all BSI components, especially total order books, suggesting a gradual economic recovery supported by both domestic and foreign demand. In November 2009, the BSI slightly dropped from the previous month, but improved in December 2009 to stand above 50 again due to business performance and total order books, following increased household spending during New Year festival. However, businesses expressed more concerns regarding increased pressure from production cost, following the rising trend of oil, commodity, and energy crop prices.

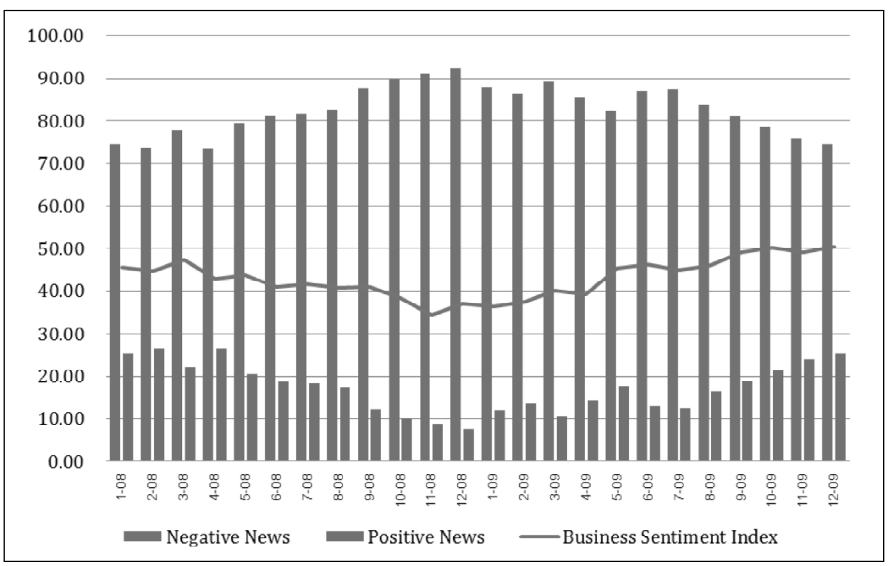
Figure 4: Business Sentiment Index (monthly) and Economic News Coverage



Business Sentiment Index reported by Bank of Thailand; *www.bot.or.th*

To understand more about the impacts of economic news coverage on public perceptions on economy, figure 5 shows the relationship between the BSI and positive/negative news. The negative news was peaked in the last quarter of 2008 during which time the BSI dropped to the lowest level within the study period. When the proportion of positive news coverage increased (the proportion of negative news declined) during the second half of 2009, the BSI improved accordingly.

Figure 5: Business Sentiment Index (monthly), Positive News, and Negative News



Business Sentiment Index reported by Bank of Thailand; *www.bot.or.th*

The relationship between economic news coverage and public perception of the economy were further examined using a regression analysis. The monthly percentages of economic news coverage and positive/negative news coverage were entered in a regression model. The economic news coverage and negative news were treated as the independent variables. Public perception of the economy was the dependent variable measured by the BSI.

The results of two regression models are shown in table 2. Total economic news coverage, both positive and negative, can explain public perception of the economy measured by the BSI by as much as 75%. The coefficient estimate of economic news coverage is negative; implying that the larger percentage of economic news covered on the front page of national dailies would be associated with lower BSI. Negatives news also has negative impact on the BSI, with about the same power of explanation (74%% vs. 75%). However, negative news coverage showed a closer association with the BSI (coefficient estimate of -1.2164) than the total economic news coverage did (coefficient estimate of -1.12225). Positive news coverage and neutral economic news coverage are not statistically significant in explaining the BSI. This means that public perceptions of the economy are influenced more by negative news than overall economic news coverage, positive news coverage, or neutral news coverage. In other words, businesses pay more attention to negative news coverage and become pessimistic from negatively biased economic news coverage.

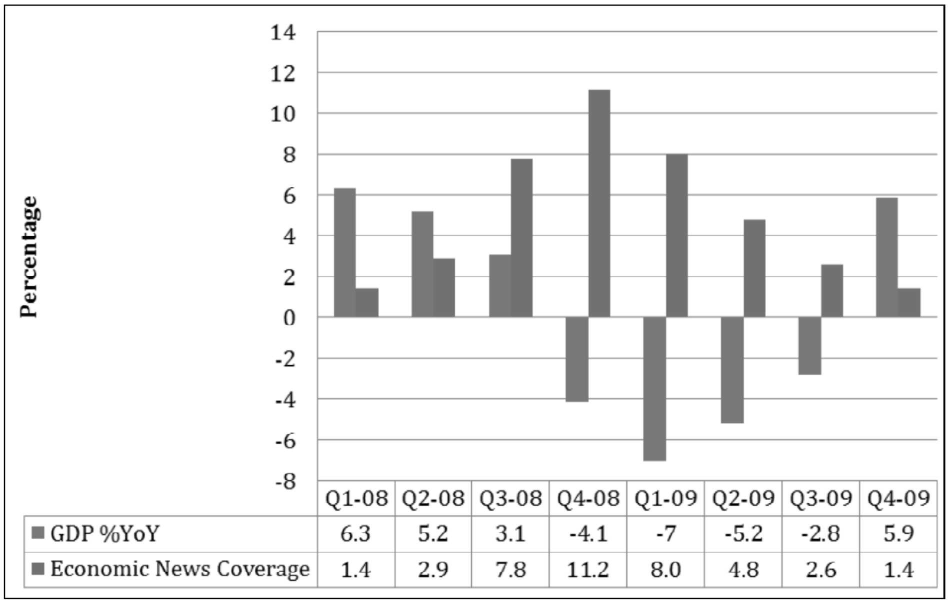
Table 2
Regression Model: Impact of Economic Coverage on Business Sentiment Index (BSI)

Variables	*BSI*		*BSI*	
	Coefficient	*p-value*	*Coefficient*	*p-value*
Constant	48.67127	9.34E-26	89.14124	9.25E-09
Economic News Coverage	-1.12225	2.77E-08		
Negative News			-1.2164	4.07E-08
Adjusted R Square	0.750119		0.741354	

The economic news coverage impacted the Thai economy during the study period as shown in figure 6. The subprime crisis seriously impacted consumption, investment, and employment due to negative wealth effect that weakened consumer demand around the world, especially in the U.S. Since the U.S. is the important trading partner of many countries including Thailand, the GDP growth continuously declined during the first three quarters of 2008 and became negative in the fourth quarter of 2008. It continued to be negative for the next three quarters in the following year and turned positive in the last quarter of 2009. The economic news coverage was on the increasing trend in 2008 and spiked in the last quarter of 2008, which followed by the most negative GDP growth in the following quarter.

When the economic news coverage started to decline in 2009, the GDP growth improved accordingly.

Figure 6: GDP %YoY (Quarterly) and Economic News Coverage



GDP data from The Bank of Thailand: *www.bot.or.th*

6. GOVERNMENT REACTION

Most Asian governments introduced stimulus packages to expand domestic demand in respond to economic slowdown. In August 2008, Japan introduced the first stimulus package and continued to announce three other stimulus packages until April 2009, which made Japan became the Asian countries that issued the largest stimulus package, both in total size and as a percentage of the GDP (US$774 billion, 16.4%), followed by China (US$586 billion, 14%) in November 2008 and the Republic of Korea (US$86 billion, 12.8%) in December 2008. Thailand, Malaysia, Singapore, and Viet Nam also had sizeable stimulus packages.

The Thai economy was affected by the global financial crisis through contraction in global demand, which led to declines in export, manufacturing production and capital utilization accordingly. As a result, the country's consumption and investment declined.To avoid more severe slowdown, the Thai government announced the first stimulus package in January 2009 and the second in March 2009. The first US$3.35 billion package included a mix of cash handouts for low earners, tax cuts, expanded free education and subsidies for transport and utilities.

The decision to launch the second stimulus package came after anxieties over the US economic meltdown and the declines in foreign investment and exports. About 80% of the second US$42 billion stimulus package was spent on infrastructure and 16% on farm irrigation and water supplies. According to Sangsubhan and Wangcharoenrung (2011), the second stimulus package, which is a multi-year investment program, was estimated that disbursements of the program could bring about 1.5% additional growth in 2010, 1.2% in 2011 and 1.1% in 2012. They also found that a sharp appreciation of the Thai baht by 12% against US decreased profit of the real sector by about 6.4%.

7. CONCLUSION

In conclusion, economic news coverage in Thailand is found to be negatively biased and more coverage of bad economic prediction is correlated with declining public confidence in their economic fortunes. In other words, even if the media did not create the public pessimism, more coverage on bad economic news may have reinforced the public worries. Even though the negatives multiplying by these economic experts and media's coverage are hardly blamed for shaking the psychological level of the investors and the public confidence, but their potential impacts remain real and should not be ignored. When the corporations as well as the people lack the confidence in the future economy, they tend to change their behavior in such a way that could adversely impact the economy either directly or indirectly. People tend to cut their spending and investment, corporations tend to cut their expenses, and banks tend to be stricter in their lending practices. The aggregations of such psychological consequences are exceptionally real and could be much more significant than the impact of true economic factors

This article is not trying to argue that the economy is getting worse simply because of the media's coverage on bad economy, but to point out that overreaction of investors and people in the country toward information they consumed everyday will have a larger and longer impacts on the global economy. This is the true risk to global economy that has been overlooked. Thus, the media and any economic expert must be aware of this fact. We have been talking about corporate social responsibility for quite some time. Perhaps, this is a good time we start a campaign on media and academia economic responsibility.

Notes

1. The Pew Research Center's Project for Excellence in Journalism (PEJ), August 18, 2008
2. The PEJ study is based on an analysis of more than 5,000 economic stories from January 1, 2007, through June 30, 2008, drawn from approximately 1,955 hours of programming on the three major cable news channels, 1369 on network morning and evening TV, 978 on radio, and 469 days.

3. The Nationwide Press Distributors Association, Thailand.
4. Form 56-1, Matichon Public Company Limited, 2009, retrieved from *http://www.capital.sec.or.th*

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