

Non-technical summary for ‘Start Spreading the News: News Sentiment and Economic Activity in Australia’

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What is the paper about?

We have developed a ‘news sentiment index’ that measures the net balance of words expressing positive and negative sentiment used by journalists in news articles about the economy. This indicator can be used to track sentiment in the economy on a daily basis. Along with the news sentiment indicator, we also construct a related measure of news uncertainty, as well as a news sentiment index specifically for monetary policy. These new indicators allow us to explore the roles of both sentiment and uncertainty in tracking the economy along various dimensions.

What do we learn?

- The news sentiment index complements other timely survey-based sentiment indicators in its ability to ‘nowcast’ the economy. In fact, given its timeliness, changes in news-based sentiment precede movements in the survey-based sentiment indicators. Changes in the news sentiment index also precede, and thus can predict, changes in some other economic indicators, such as survey-based measures of business investment, over short horizons.
- Sentiment captured in news articles specifically about monetary policy is associated with changes in the cash rate. This sentiment contains some information in addition to that contained in other determinants of the cash rate, such as the RBA’s forecasts for the economy.
- Increases in the cash rate appear to cause news sentiment to fall in the days after an unexpected change in monetary policy (and vice versa). This is consistent with monetary policy having its intended effect(s).

What does it mean for policymakers?

- Because news sentiment can be measured on a daily basis, this indicator could allow policymakers to track economic conditions at a much higher frequency than before.
- The news sentiment indicator can also be constructed based on news articles about specific sectors of the economy, such as the housing market. This could be useful to policymakers looking to track conditions in certain parts of the economy.
- Sentiment expressed in the news media appears relevant for predicting changes in monetary policy, though the relationship is highly unlikely to be causal.