Short Proposal: "Media Coverage and Macroeconomic Announcement Effects"

The paper examines how the news media impacts information processing of macro economic announcements in the german bund-futures market.

Recent research suggests, that german bund-futures returns significantly respond to the release of macroeconomic news (see for example Ahn, Cai and Cheung (2002)). We argue that the strength of the price reaction should depend on the attention the market pays to the release of the announcement. A central idea of this paper is that this attention could be measured by media coverage. If the media coverage on the actual economic situation or the indicator itself is high, attention should be high. There are two different ways of how media coverage can influence announcement effects.

First, the news media can influence the market price reaction to the release of macro announcements by changing market participants´ prior information set. Second, the media can have an additional impact for those indicators which are derived based on a survey (e.g. sentiment indicators), since the media can influence survey participiants responses. In this case, the announcement effect of survey based indicators should be stronger than that of other indicators, because there are two channels that are influenced by the news media, the survey participants and the market who reacts to the announcement.

We derive the following main hypotheses:

1. A high media coverage leads to a greater awareness of market participants regarding the release of macroeconomic announcements.
2. Survey based announcements should have a stronger market impact in times of high media coverage, because the announcement itself as well as market participants are influenced by the media.

Data and methodology

As a proxy for media coverage concerning the economic situation, we have already collected monthly series of the number of newspaper articles, that headline "recession", "unemployment" or "inflation". These words can be interpreted unambiguously and should have a clear impact on market participants. The headline counts are extracted from the most popular newspapers in Germany, i.e. the FAZ and Handelsblatt. Figure 1 depicts a

surprisingly strong correlation between the attention paid on the economic situation measured by headlines containing the word "recession" by FAZ and Handelsblatt.
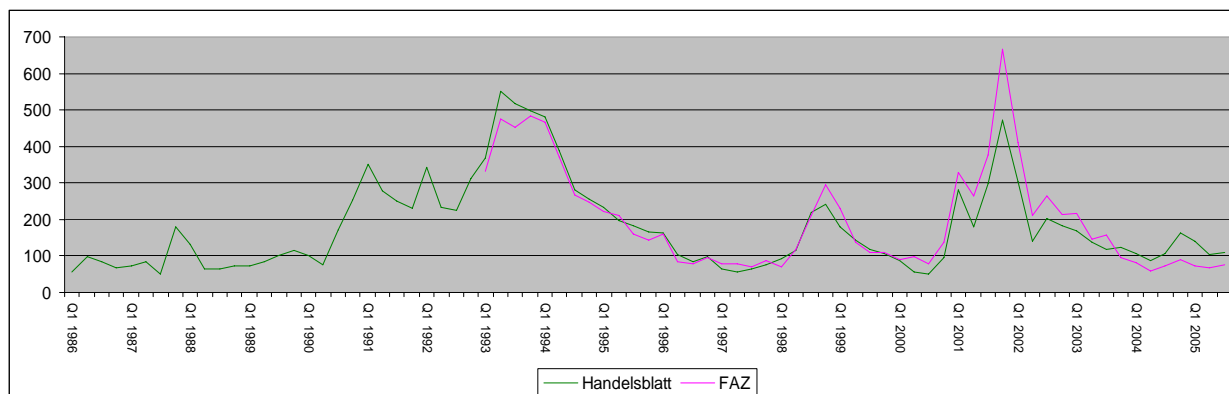

Figure 1: Media Coverage

Furthermore, we will collect headlines containing the name of our indicators, for example "IFO", "ZEW", to determine the media coverage concerning the release of a macroeconomic announcement.

To separate the two channels of impact, we plan to use several time series. As survey based measures we extract the IFO Business Climate, the ZEW Economic Indicator and the GFK consumer confidence index. As non survey-based measures we want to employ CPI, PPI and Unemployment.

Granger Causality tests will be implemented to measure the direct impact of headline counts on survey based indicators. Announcement effects on market prices will be estimated based on one-minute Bund-Future tickdata.

Data to be used:
As explained above, part of the data are already available. In addition, we need for our analysis data provided by EcoWin, since the economic data coverage in EcoWin includes areas such as labor market, industrial production, inflation/ prices, business surveys, consumer surveys and leading indicators.

Time frame
During a two-week stay at the SFB649 in Berlin this summer, we would like to extract the time series we need from the database EcoWin, match them with our data and start with the statistical analysis.