

Executive Summary

Research Issue

Anais Nin (1903 - 1977), an American writer and diarist once wrote: “We don’t see things as they are, we see things as we are”. Various happenings in everyday life, not least the numerous misunderstandings between men and women, seem to endorse her statement. Often, individuals have different levels of information and therefore tend to perceive the same situation in various ways. Yet even if people have the same amount of information, their subjective interpretation may differ vastly, since they have differing visions of life, educational backgrounds or political attitudes.

However, is this true for the interpretation of economic situations too? Are individuals’ perceptions of economic conditions largely objective or shaped by personal factors?

In the same way that the world economy continued its expansion in 2005 - the world growth was estimated at 4.5% in 2005 - the European economy recovered and gathered pace at the beginning of 2006. The growth of the European Gross Domestic Product sped up from 1.5% in the first half to 1.9% in the second half of 2005 and the companies’ investments moved up by nearly 3%. Nonetheless, it has to be assumed that this overall prosperous state of the economy was not perceived by all European consumers in the same way.

Consumers living in a country of the European Union are asked monthly to comment on diverse topics. For example, they are asked to evaluate the situation of their national economies as well as how they expect it to change in the following months. On the basis of this survey, the consumers’ perceptions of economic situations will be analysed in this thesis.

Goal of Research

The aim of the research lies upon the analysis of European consumers’ perceptions concerning their evaluation of economic situations, thereby disclosing striking discrepancies among the EU-15 nations. In particular, the individuals’ evaluations of their own national economy, of the European economy as well as their short-term expectations concerning the state of the national economy in the near future will be examined and differentiated by the consumer’s citizenship. Additionally, in order to reveal potential reasons for heterogeneous evaluations, the countries will also be tested for demographic differences, such as the nation’s age structure or wealth distribution.

Furthermore, the model of economic perception of Duch, Palmer, and Anderson (2000) will be used. They assume that the individual’s evaluation of economic situation is influenced by both objective and subjective characteristics. Alongside effective, objective economic conditions, subjective factors like informational level, political attitudes and personal financial experience are believed to affect the consumer’s perception too. Hence,

the econometric model of Duch et al. (2000) will be applied to the Eurobarometer consumer survey in order to identify major sources of heterogeneity in perceptions of economic situations causing the variation among European nations.

Methodology

A short overview of the European economy in 2005/2006 is given at the beginning of the thesis, since it is important how the real economic conditions were when the survey was taken. The Eurobarometer survey 65.2, which has been purged and reduced to responses of EU-15 residents, will be then analysed for the respondents' evaluations of the (current and expected) national and European economy. It is important to note, that respondents were only allowed to rate the economy as "very bad", "fairly bad", "fairly good" or "very good". Hence, precise, quantitative responses such as the estimated GDP-growth were not requested. Next, several demographic characteristics will be examined. This will provide the reader with a primary idea of factors influencing the economic perception. However, this detailed analysis as well as the subsequent model are applied only for the evaluations of current national economies.

Furthermore, potential influencing parameters will be merged into an econometric model. Since the dependent variable, the perception level of the domestic economy, has a discrete number of possible values, one of the key assumptions of the ordinary least-squares method is not met. Hence, the usage of linear regression is inappropriate. Therefore, an ordered logit regression method was used to estimate the model. Parameters such as media exposure or age when stopping full-time education will be applied as independent variables. Finally, the power of influence of significant factors on consumers' perceptions will be estimated.

It is important to bear in mind that the research is based on one survey carried out at the beginning of 2006. Thus, instead of a breakdown of individuals' perceptions over time, the empirical analysis in this thesis has to be rather viewed as a snap-shot analysis.

Findings

As the world economy continued its strong expansion and stimulated world trade, the European economy experienced a substantial recovery in 2005. The upward path was expected to mostly be sustained. All in all, the Europeans' basic awareness of the economic situation goes along with the then real conditions. However, the overall healthy conditions of the national economies in Europe were perceived differently from country to country, even if these nations had similar macroeconomic conditions. In addition, the EU-15 residents' views of the European economy as a whole differed considerably too, although less strongly. Whilst 91% of the Irish commented positively on the state of the economy in Europe, only 39% of the French agreed with them. In addition, the consumers' expectations concerning the near future of their national economies varied materially, even among

countries, whose inhabitants perceived the situation of their domestic economies at that time very similarly.

According to the demographic analysis, several parameters seem to impact the consumer's evaluation of the national economy. Whilst the impact of age distribution seems to have only had a marginal impact, the educational level of the nation, measured by the averaged length of full-time education, considerably influences the consumers' notions of all economic situations covered. Furthermore, the political attitude of a respondent appears to affect only the perception of the current economy. On the contrary, one's current occupation and prosperity level tends to impact one's perceptions of economic situations substantially.

In the same way, the estimated ordered logit model endorsed that the consumers' perceptions of economic situations were systematically affected by subjective factors as well as showing a significant impact of the prevailing, objective economic conditions. Educational level, the amount of news consumption, the consumer's current financial situation and his expected financial situation seem to positively influence his economic evaluation. That is to say, the longer one continues full-time education, for example, the higher his probability of perceiving the national economy as "very good". Likewise, the individual's political attitude has a slight impact on the economic evaluation in such a way that right-wing consumers tended to consider the economic conditions to be rather better than left-wing interviewees. Interestingly, the individual's wealth is the only variable tested as not being significant.

In conclusion, the consumers' perceptions are shaped by objective and subjective influencing factors, which are therefore reasons for the observed heterogeneity in economic evaluations among the EU-15 nations. Our analysis supports the assumption of Duch et al. (2000), who identified similar sources of subjective heterogeneity. Further, the outcomes challenge the common assumption that the individuals perceptions only vary at random and thus express a clean, objective evaluation when aggregated. However, since the respondents' characteristics systematically influence the consumers' views, the deviations are no longer totally random. As a consequence, the aggregated opinion data is no longer unbiased. Hence, our analysis underpins the conclusion of Duch et al. (2000) to only use aggregated data of economic evaluations with caution.