**GLOBAL CONFIDENCE, UNCERTAINTY, AND BUSINESS CYCLES**

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### Motivation

- Most existing studies on the confidence are based on country-specific evidence.
  - The role and nature of global confidence cycles are little studied.
- Few studies compare the role of confidence and uncertainty shocks.
  - The two are not necessarily identical.

**Research questions:**
1. Is there a global confidence cycle?
2. What is the role of global confidence shock in global macroeconomic and financial cycles?
3. How do we compare the impact of confidence to that of economic uncertainty?

### Key Findings

- The global (consumer) confidence cycles have played a key role in global business cycle fluctuations (over a third of total variations).
- While global business confidence shocks are demand-driven, global consumer confidence seems to reflect both demand and supply shocks (“animal spirit” and “news” views).
- Confidence acts as an important channel in the transmission of uncertainty shocks.

### Global Confidence Cycle

- Global factors of business and consumer confidence identify well global recessions.
- The global factors explained 57% and 38% of total variations in business and consumer confidence indicators (“global confidence cycle”).
- Global consumer confidence leads global business confidence. The cross-country comovement of business confidence is stronger than consumer confidence.

### Confidence – A driving force of global business cycle

- **Uncertainty shock:** countrycyclical (production ↓, unemployment rates ↑; wait-and-see effect)
  - Confidence acts as a uncertainty transmission channel (VIX ↑ CCI, BCI ↓)
- **Confidence shock:** procyclical (production ↑, unemployment rates ↓)
  - Business confidence (BCI): short-lived response → demand-side shocks
  - Consumer confidence (CCI): short-lived & disinflationary response → demand & supply shocks

### Additional Checks

1. **Proxy VAR (with poor man’s approach)**
   - Separating confidence from uncertainty shocks
     (i) Filter out non-informative components (a) from the daily shifts of market-based sentiment measures (M^mkt, e.g. VIX, gold price).
     (ii) The series is disentangled into uncertainty (b) and confidence (c)-specific components, using news-based measures (M^news, e.g. EPU).
     (iii) The daily series are compiled into monthly.
2. **Alternative Cholesky ordering**
   - Ordering the confidence (and the uncertainty) indicators last vs. first?
3. **Different uncertainty measures**
   - e.g. EPU, Financial uncertainty
   - The results are all robust.

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### References


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