

Analysis of Economic Sentiment Resulting from Relative Gaps within the Economy

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It has been constantly pointed out that there has recently been a gap between business conditions, as indicated by GDP and other traditional macroeconomic variables, and the economic sentiment of households and firms. GDP growth, which is used as the main economic indicator, provides a good representation of changes in the average income level of the economy as a whole, but it fails to consider the specific situations of each economic agent. Meanwhile, economic sentiment as actually felt by individual agents is influenced not just by income level but by a number of factors such as income gaps and differences in business conditions among industries, and thus can differ somewhat from overall economic conditions. Against this backdrop, this paper estimates relative sentiment indexes using quantitative macroeconomic variables that reflect changes in relative gaps within the economy to better reflect economic sentiment. To identify the impacts of these macroeconomic variables on the subjective judgements of economic agents, this paper uses survey-based sentiment indicators, such as BSI and CSI, which contain subjective information about economic agents.

According to the results of the estimation, relative sentiment indexes were found to have generally shown movements similar to macroeconomic variables such as GDP growth up until the financial crisis period, but the gaps between those two types of indicators were found to have widened since 2014. GDP growth and other macroeconomic indicators have moved stably within relatively narrow ranges, while relative sentiment indexes have continued to fall. Such continued declines are analyzed to have been mainly due to the widening of

generational gaps in the unemployment rate, and of gaps in the capacity utilization ratio between large corporations and small- and medium-sized enterprises (SMEs). This implies that decreases in relative sentiment indexes are attributable not only to cyclical factors, but also to various structural factors accumulated in the economy.

Therefore, ensuring the recovery of economic sentiment will require not only short-term counter-cyclical efforts, but also various policy efforts to narrow the relative gaps among economic agents. In other words, we should seek to narrow the gaps among participants in the labor market, among industries, and among corporations, through for instance improving youth employment conditions, achieving balanced growth between large companies and SMEs, and easing the production gaps among industries through forward-looking industrial restructuring.

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