

UK job market steadies

REUTERS, London

The pace of British pay growth was little changed and there were others signs of stability in the jobs market, according to official data that contrasted with warnings of a hit to hiring from employers upset about an imminent tax increase.

Private sector pay, excluding bonuses, – a key gauge for the Bank of England – rose by 6.1 percent in the three months to January, compared with the same period a year earlier, marginally slower than a 6.2 percent increase at the end of 2024, Thursday’s data showed.

The BoE – which has said recent wage growth is too high – is widely expected to keep interest rates on hold at 1200 GMT.

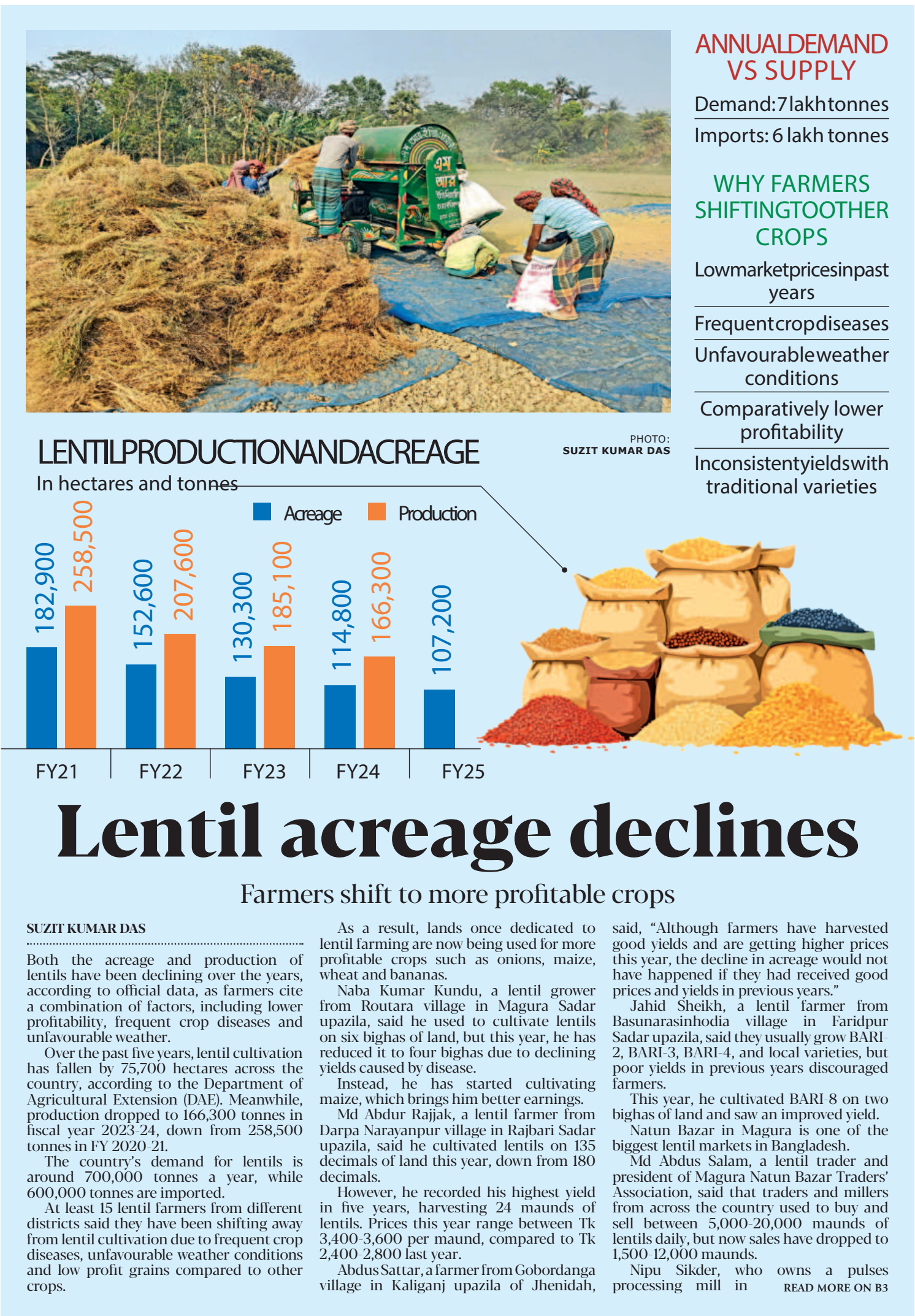
Private sector pay, excluding bonuses, rose by 6.1 percent year-on-year in the three months to January

Pay growth across the economy, excluding bonuses, stood at 5.9 percent, unchanged from the fourth quarter, the Office for National Statistics said. Including bonuses, pay growth slowed to 5.8 percent from 6.1 percent.

A Reuters poll of economists had pointed to both economy-wide measures of wage growth rising by 5.9 percent.

“There’s no shortage of surveys pointing to weaker hiring intentions in the face of next month’s employer tax hikes,” said James Smith, an economist with ING. “But for now, at least, the official data shows little sign of that translating into lower employment or higher redundancies.”

Data provided by employers to the tax authorities showed the number of employees climbed by 21,000 in February, stronger than a revised increase of 9,000 in January.



Paramount Ins announces 10% cash dividend

STAR BUSINESS REPORT

Paramount Insurance PLC has announced a 10 percent cash dividend for its shareholders for 2024, driven by higher profits. The company declared the same dividend amount in the previous year as well.

Yesterday, Paramount Insurance disclosed the information through an announcement on the Dhaka Stock Exchange (DSE) website.

Meanwhile, the company reported earnings per share of Tk 2.23 for 2024, up from Tk 1.73 in the previous year. Its net asset value per share also increased to Tk 27.26 last year, compared to Tk 26.56 in 2023.

Despite the announcement, shares of the general insurance company dropped 3.64 percent to Tk 39 as the closing price of the day yesterday.

Global debt exceeds \$100tn OECD says

REUTERS, London

Outstanding government and corporate bonds globally exceeded \$100 trillion last year, the OECD said on Thursday, with rising interest costs leaving borrowers facing tough choices and needing to prioritise productive investments.

While central banks are cutting interest rates now, borrowing costs remain much higher than before 2022’s rate hikes, so low-rate debt is continuing to be replaced and interest costs are likely to rise ahead.

That comes at a time when governments face big spending bills. Germany’s parliament approved a massive plan to boost infrastructure and support a broader European defence spending push this week. Long-standing costs from the green transition to ageing populations loom for major economies.

“This combination of higher costs and higher debt risks restricting capacity for future borrowing at a time when investment needs are greater than ever,” the Organisation for Economic Co-operation and Development said in its annual debt report.

Between 2021 and 2024, interest costs as a share of output rose from the lowest to the highest in the last 20 years.

Yet interest costs are still below prevailing market rates for over half of OECD countries’ and nearly a third of emerging market government debt, as well as for just under two thirds of high-grade corporate debt and for nearly three quarters of junk corporate debt, the report said.

Nearly half of the government debt of OECD countries and emerging markets and around a third of corporate debt will mature by 2027.

Low-income, high-risk countries face the greatest refinancing risks, with over half of their debt maturing in the next three years and more than 20 percent of it this year, the organisation said.

As debt becomes more costly, governments and companies need to ensure their borrowing supports long-term growth and productivity, OECD head of capital markets and financial institutions Serdar Celik said.

How animal spirits affect the economy

JOEL FLYNN and KARTHIK SASTRY

Storytelling is central to how we interpret economic events. We recall economic history through haunting images of anxious crowds waiting to take money out of banks during the Great Depression or dejected office workers carrying cardboard boxes out of Lehman Brothers in 2008. We gauge inflation by comparing shopping baskets with friends and family. We grapple with the consequences of artificial intelligence by channeling our hopes and fears into science fiction.

But do stories themselves influence the economy? This idea has a long precedent in economic thought. John Maynard Keynes wrote extensively about how “animal spirits”—instincts and emotions that influence behavior—prompt people’s economic actions, like spending or investing in businesses. He argued that these herd emotional urges lie at the heart of economic booms and busts.

Taking this idea one step further, Robert Shiller, an economist at Yale University, has pushed for a more detailed study of economic narratives—the contagious stories that shape how individuals view the economy and make decisions. Shiller hypothesizes that sufficiently popular narratives can go viral and have society-wide impact (Shiller 2020).

Viral narratives could be the missing link between emotions and economic fluctuations. But policymakers, researchers, and practitioners alike currently lack effective tools to identify these narratives, measure their contagiousness, and quantify their contribution toward economic events.

We made a first attempt to understand the macroeconomic consequences of narratives in a recent paper (Flynn and Sastry 2024). We introduced new tools for measuring and quantifying economic narratives and used these tools to assess their importance for the US business cycle. Our findings suggest that narratives play a central role. They also raise

fresh questions about how and why such stories emerge and what policymakers might do differently in such a world.

Natural language processing
To measure narratives, we use resources not available to Keynes: large textual databases of what economic decision-makers are saying and natural-language-processing tools that can translate these words into hard data.

The key datasets we study are the text of US public firms’ conference calls, typically held every quarter to review financial results, and Form 10-K filings, regulatory reports filed with the US Securities and Exchange Commission each year. Both are outlets for company management not just to report company results but to offer explanations: They fill in the how and why of business results

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and offer clues to how management and investors are thinking about broader trends.

To identify narratives, we apply a variety of natural language techniques. These range from simple dictionary-based methods that scan for keywords and phrases to more complex algorithmic methods that uncover less structured topics. The narratives we uncover pertain to varied topics, such as firms’ general optimism about the future, their excitement about artificial intelligence, or their adoption of new digital marketing techniques. Using this database, we can empirically model the extent to which narratives drive firms’ decisions and the process by which such stories spread in the US economy.

Shaping business decisions

We find that companies with more optimistic narratives tend to accelerate hiring and capital investment. In particular, the pace of hiring at a company that uses optimistic language increases by 2.6 percentage points more in a year than a comparable company that uses pessimistic language. This effect is above and beyond what would be predicted by firms’ productivity or recent financial success. These results challenge conventional economic theories, which suggest that these fundamentals, and the “rational” expectations about the future that they embody, should entirely explain firms’ economic decisions.



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Strikingly, firms with optimistic narratives do not see higher stock returns or profitability in the future and also make overoptimistic forecasts to investors. This suggests that narratives do not simply capture positive news about the future. In this way, firms’ optimistic and pessimistic narratives bear the hallmarks of Keynes’s animal spirits: forces that drive managers to expand and shrink their businesses but are based on emotions rather than fundamentals.

The data also support the idea that narratives spread contagiously, like a virus. That is, companies tend to adopt the narratives of their peers: When one company adopts an optimistic mood or starts talking up the transformative

power of AI, others seem to follow suit. This narrative contagion seems to start within groups of peer firms that directly compete in the same industry and then spread to the aggregate level. Moreover, there is an especially large effect for narratives that arise at large companies. This raises the possibility that large companies are thought leaders in the narrative economy, with more influence than traditional measures of market power might suggest.

Macroeconomic impact
To interpret these results, we developed a macroeconomic model in which contagious narratives spread between firms. Because narratives are contagious, they draw out economic

fluctuations: Even a one-time shock to the economy can have long-lasting effects, because a negative mood infects the population and holds back business activity. Sufficiently contagious narratives that cross a virality threshold can induce a phenomenon we call narrative hysteresis, in which one-time shocks can move the economy into stable self-fulfilling periods of optimism or pessimism. In these scenarios, there is a powerful feedback loop: Economic performance feeds a narrative that reinforces the economic performance. These findings underscore the importance of measurement to pin down exactly how much narratives affect the economy.

How strong are the narratives driving the US economy? Using our model and our empirical measurements, we estimate that narratives explain about 20 percent of fluctuations in the US business cycle since 1995. In particular, we estimate that narratives explain about 32 percent of the early 2000s recession and 18 percent of the Great Recession of 2008-09. This is consistent with the idea that contagious stories of technological optimism fueled the 1990s dot-com bubble and mid-2000s housing bubble. Contagious stories of collapse and despair led to the corresponding crashes.

While the overall mood of the US economy seems to fluctuate slowly around a long-term average, individual narratives—like those surrounding new technologies—tend to be more volatile. These granular narratives are much more likely to go viral and fully infect the population, our research shows. In other words, a constellation of fast-moving fears and fads contributes to the relatively stable behavior of aggregate economic sentiment.

Policy implications
Our analysis suggests that contagious narratives are an important driving force in the business cycle. But it also qualifies this conclusion in important ways. Not all narratives are equal in their potential to shape the economy, and the fate of a given narrative may rest heavily on its (intended or accidental) confluence with other narratives or economic events.

How should policymakers act in a narrative-driven economy? Our analysis has at least three major conclusions, which also suggest future directions for both academic and policy research.

First, what people say is highly informative about both individual attitudes and broader trends in the economy. Public regulatory filings and earnings calls contain lots of valuable information already. Both policymakers and researchers can use improved machine learning

algorithms and data processing tools to analyze this information. There are possible implications for how researchers and governments collect information, too. The same data science advances have increased the value of novel surveys that allow households or businesses to explain the “why” behind their attitudes and decisions (Andre and others 2024).

Second, some narratives are more influential and contagious than others. It is therefore important to combine descriptive studies measuring narratives with empirical analysis of their effects on decisions and their spread throughout populations.

Third, the narratives introduced by policymakers have the potential for significant impact. We know relatively little about what makes a policy narrative into a great story: Why, for example, did Mario Draghi’s unscripted remarks about doing “whatever it takes” make a much more compelling story than similar statements by other central banks?

The study of narrative economics is still in its infancy. But a detailed understanding of the origins, spread, and economic consequences of narratives could significantly change how we collect information about the economy and tell the story of the business cycle’s ups and downs.

While we like to think our financial decisions are based on logic, the truth is, they are largely driven by emotion. So when John Maynard Keynes looked for methods to measure economic fluctuations, animal spirits were a key ingredient. Karthik Sastry is a macroeconomist and assistant professor at Princeton University. In this podcast, he says personal instincts and primal urges are known to cause cycles of boom and bust, and one way to gauge those emotions is through economic narratives.

Joel Flynn is assistant professor of economics at Yale University, while Karthik Sastry is assistant professor of economics and public affairs at Princeton University. The article was first published on the IMF website.