EUROPEAN CENTRAL BANK

EUROSYSTEM

Discussion of “The ECB's tracker: nowcasting the press conferences of the ECB” by Armando Marozzi

BoE conference on
“Advanced analytics”

Michael Ehrmann (European Central Bank)

The views expressed here are my own and do not necessarily reflect those of the ECB or the Eurosystem.

03/11/2021

The research question

- “Exploit the flow of information that becomes available between press conferences to continuously and systematically update the nowcasts of the monetary policy stance and decisions of a central bank”
- Data analysed
  - Tone of ECB press conference as indicator of monetary policy stance; monetary policy decisions
  - Dynamic factor model with large array of data, including tone of newspaper articles about ECB

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Overall remarks

- Very rich paper (70 pages!) on an interesting topic
- My main points:
  - Impressive data work – scope for clarification
  - The perspective of a central bank watcher - what is the interpretation of the results?

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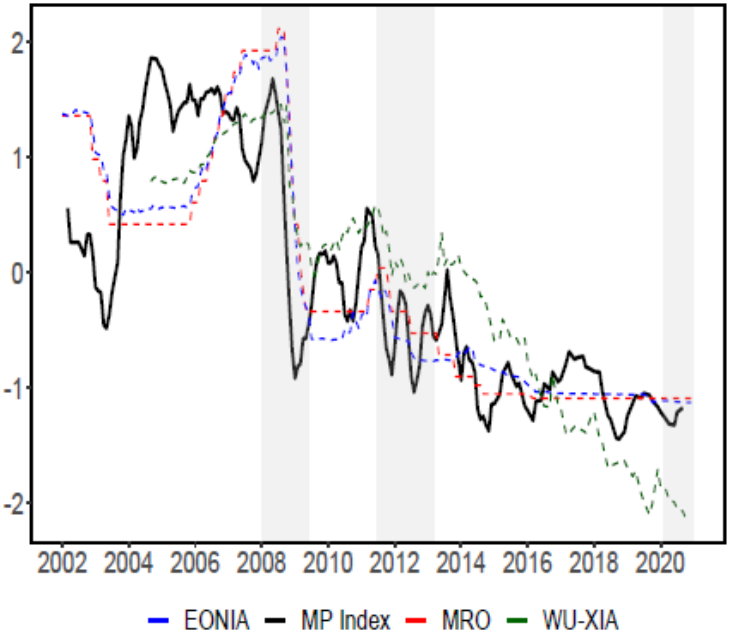
The data - tone of the ECB press conference

- Indices re. economy, inflation and monetary policy
- MP index remains flat at ELB, does not cover unconventional monetary policy
  - Adjust words? Give different weights to UMP than to CMP?
  - Or treat MP index as index of CMP?



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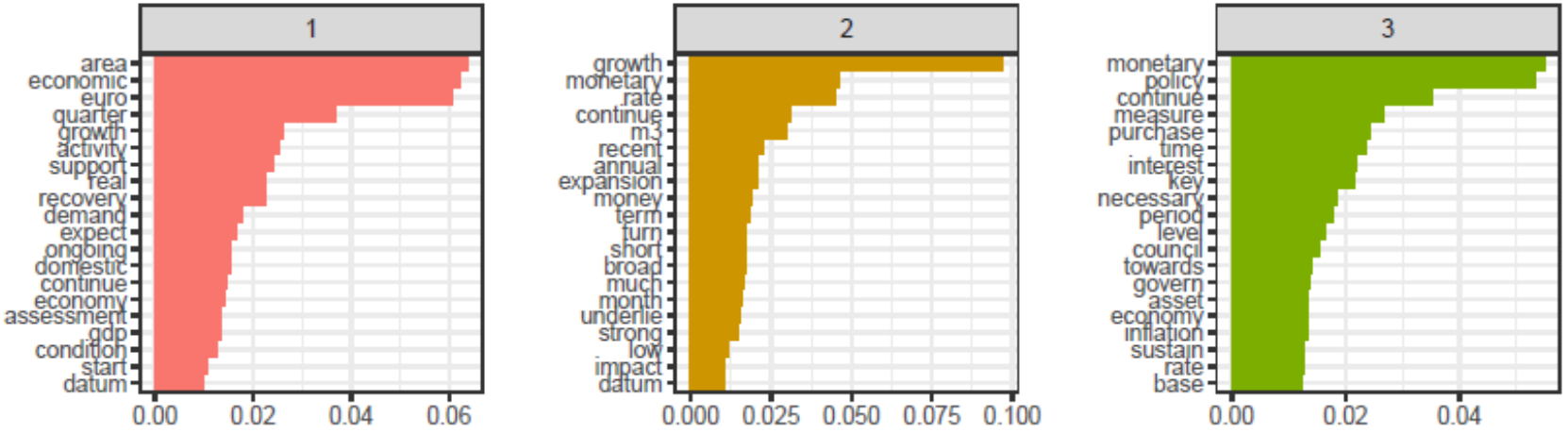
The data - tone of ECB press conference

- Allow for n-grams already at the topic stage?
  - Euro area, Governing Council, monetary policy, asset purchases, key ECB interest rates,…
  - Double-check pre-processing, e.g. “datum”

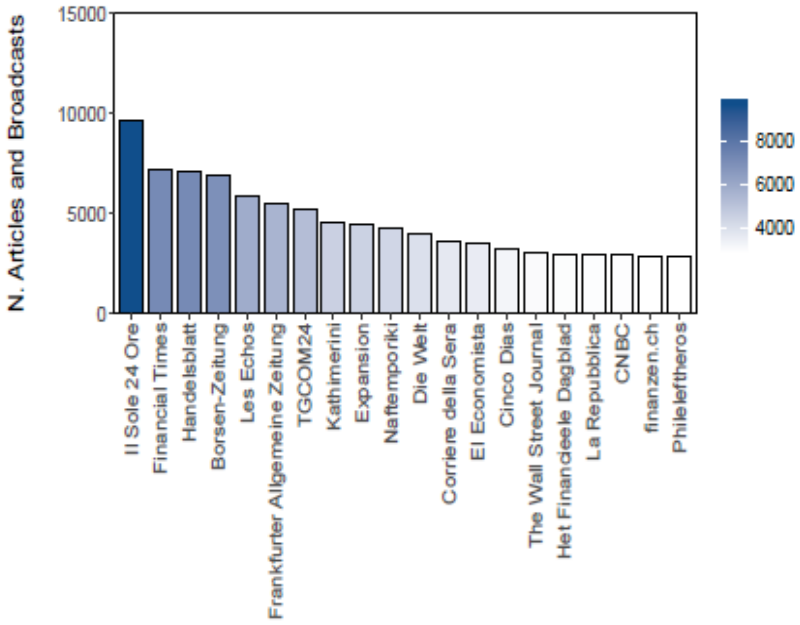
Figure A.2: Words per Topic



The data – texts about the ECB

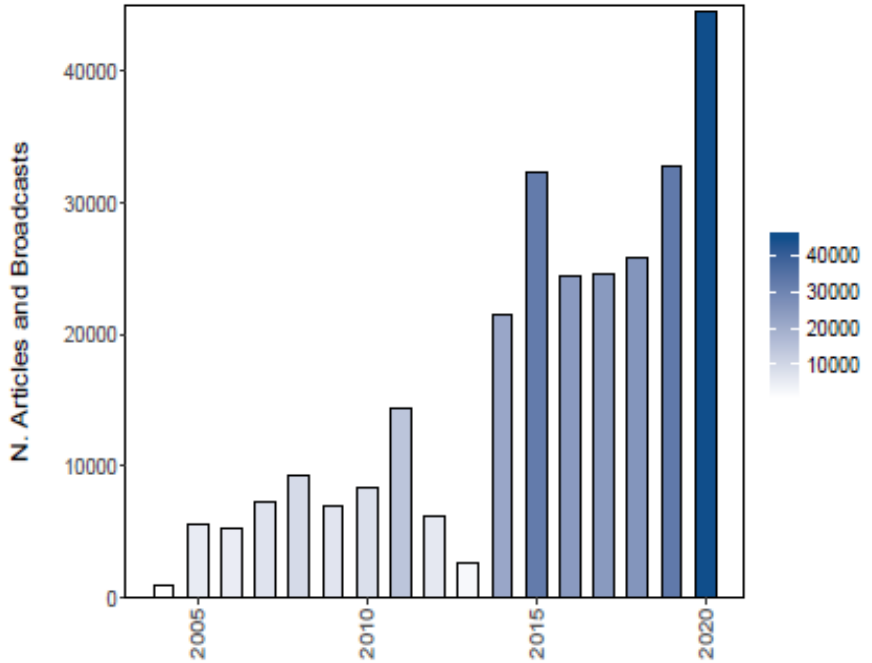
$$\underbrace{\mathbb{E}(y_t^{ECB}|\Omega_t)}_{\text{new forecast}} = \underbrace{\mathbb{E}(y_t^{ECB}|\Omega_{t-1})}_{\text{old forecast}} + \mathbb{E}(y_t^{ECB}|\underbrace{I_{new}}_{\text{news}})$$

- Newspapers
  - Discuss yesterday's news
  - Are endogenous to the nowcast of the ECB's stance by ECB watchers



The data – texts about the ECB

- 2012: Where is “Whatever it takes”?
- 2014: Structural break
  - Establishment of SSM? European Parliament decision 09/2013, EU Council approval 10/2013, regulation in force 11/2014
  - Negative policy rate and TLTRO in June 2014, APP in 2015,…



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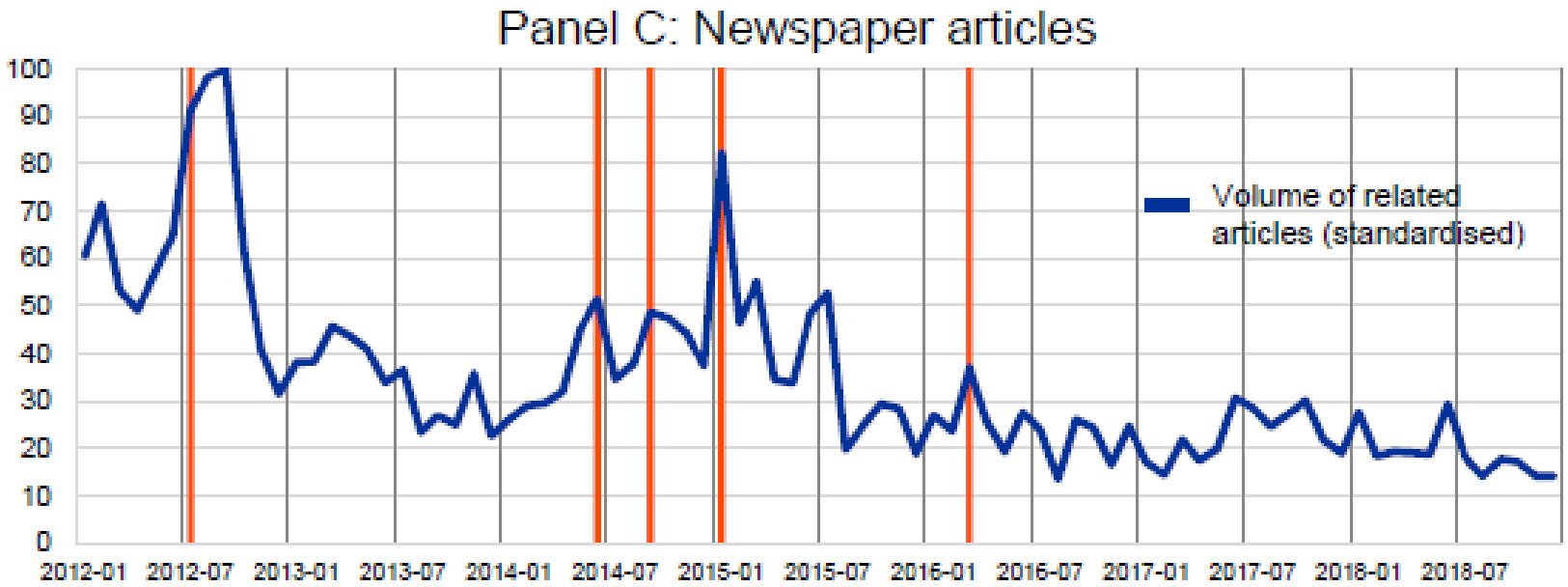
The data – texts about the ECB

- Time series based on Factiva looks very different!



Source: Ehrmann and Wabitsch (2021)

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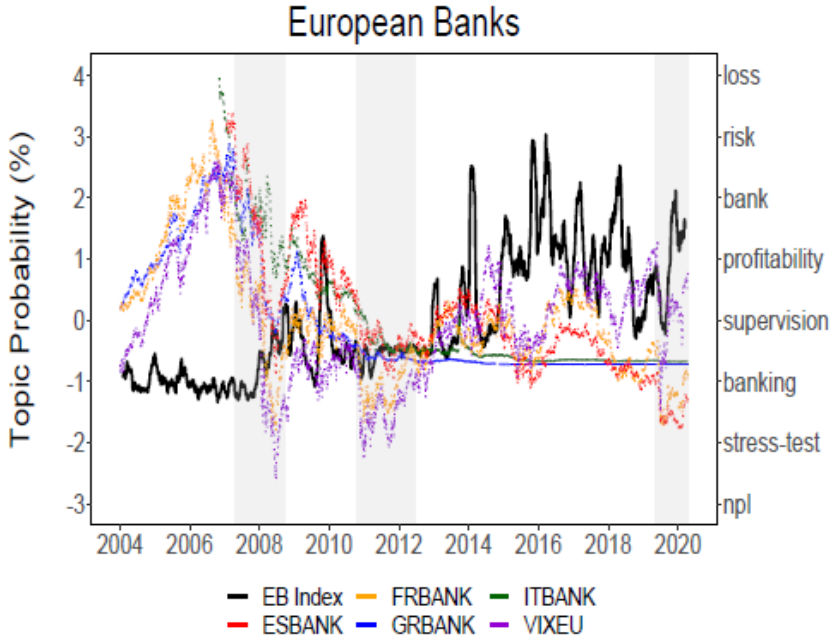
The data – texts about the ECB

- Maybe it is the SSM?
- Filter these out, to get at monetary policy?



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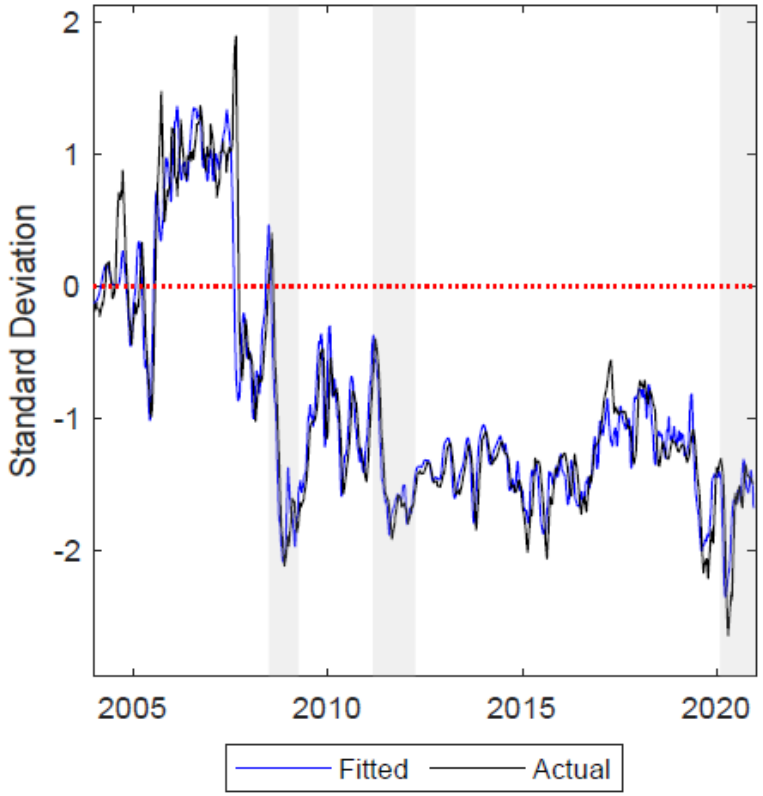
The data – other data feeding into the DFM

- 41 series on rates and spreads – aren't they reflecting the monetary policy stance?



The DFM

- Contains a multinomial logit to model ECB decisions
  - -1, 0, 1
  - Why not an ordered probit?

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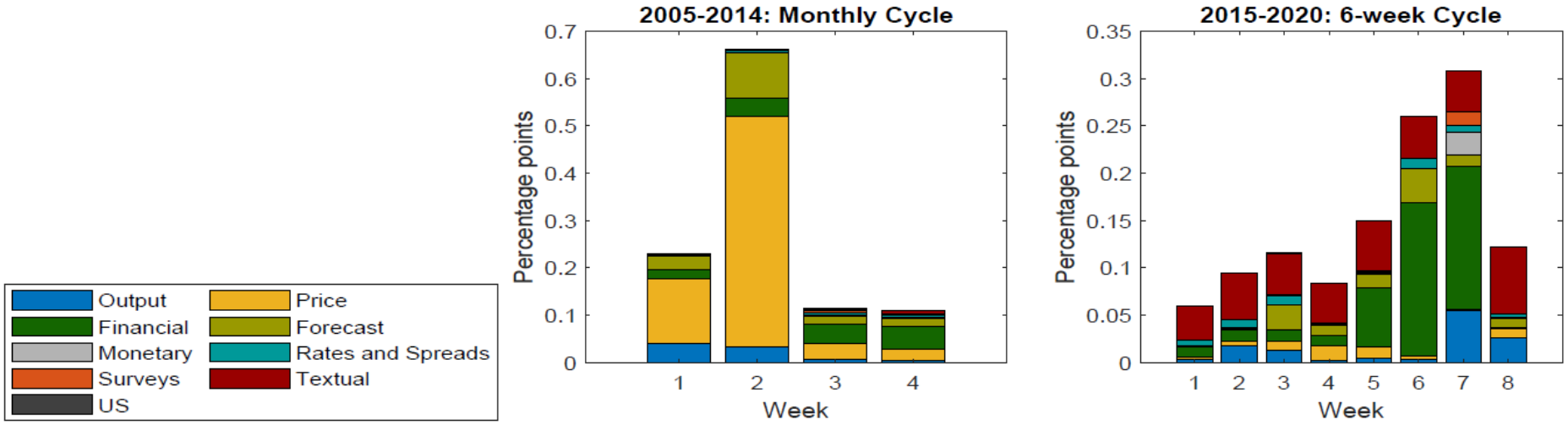
The usefulness of textual information

- Little in 2005-2014, enhanced since 2015
  - UMP vs structural break in data vs SSM?
  - Text soaks up some of the residual?

Figure 7: Average Absolute Contribution



Conclusions

- Very interesting and promising paper
- Double-check the text dataset
  - Cross-check with other data
  - Use information that is exogenous to central bank watchers
  - Use original sources (e.g. speeches) or newswires rather than newspapers, to avoid lag in reporting

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Thank you!

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