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The Role of Economic and Political Factors in Shaping Consumers' Confidence in Pakistan

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Abstract: *Consumer confidence is an important determinant of economic growth. However, consumer confidence itself is determined by the economic and political situation of the country. This paper contributes to the literature by examining the role of economic and political factors in developing consumer confidence in Pakistan over the period from February 2012 to December 2020. Economic factors include GDP growth, inflation, interest rate, stock returns and exchange rate while elections, terror attacks and news are taken as political factors affecting Consumer confidence. Regression analysis is performed and models are estimated using the OLS. The results show that economic variables such as inflation and economic growth are statistically significant determinants of consumer confidence in Pakistan. However, when political variables are added to the model, the explanatory power of the model significantly increases. Political variables such as elections and terror attacks have a statistically significant impact on the confidence of Pakistani consumers. The findings of this paper imply that consumer confidence is an important determinant of economic well-being and business cycle fluctuations of a country itself determined by economic and political factors where political factors play a dominant role in Pakistan.*

Introduction

Background of study

Consumer sentiments about the future of the economy help to decide whether to save or spend, which in turn impacts the growth of the economy. The direction of economic activities of a country rests with the confidence consumers have in their ability to be able to spend or save, it's a clue towards an increase or decrease in economic activities. The level of consumer confidence is an indication of consumer spending and thus the future path of the economy (De Boef & Kellstedt, 2004). The question, here, is how these consumers absorb the objective economy and transform it into a subjective economy. Are economic conditions only determinants of consumer confidence or are political factors like election outcomes, presidential approval, public policy mood, macro partisanship, and trust in government playing a role too? (Chanley, Rudolph, & Rahn, 2000; Erikson, Mackuen, & Stimson, 2002).

The subjective view that politics affects consumer sentiments and shapes consumer confidence, (Erikson et al., 2002) once doubted to have a very small role, is getting obvious in today's global era. When hopes are high, views are optimistic whereas low beliefs, leave the

citizens pessimistic (De Boef & Kellstedt, 2004). Consumer confidence is the degree of feeling, consumers have about current and future economic conditions (Shayaa et al., 2018). Higher the level of consumer confidence, the higher the level of consumption resulting in increased aggregate demand and hence high economic growth and vice versa (Mazurek & Mielcová, 2017).

Contrary to the animal spirits view, supporters of the news or information view claim that confidence measures have a set of news and information for current and future endeavors of an economy which helps the consumer in deciding to spend or save thus impacting the economy, which cannot be detected in econometricians information (Cochrane, 1994), implying the importance of subjective stance.

According to psychological economics spending decision of a consumer is not only dependent upon his/her ability to buy but also rests upon the willingness of the consumer.

The spending and saving attitude of the consumer is defined by changes in economic factors as well as on the attitude of the consumer, state of mind the consumer in with his/her perception of the coming days.

George Katona in 1940, gives the first measurement tool to gauge consumer confidence by incorporating future expectations in spending and saving models, based on the terms "ability and willingness" Ability refers to current income whereas willingness to the future expectations of e-economy by the consumer.

Researchers are of the view that current consumption depends upon expected future wealth and earning conditions, consumers have the psychology that if they expect future earnings to be less than current earnings then they save for future rainy days, especially if the consumption of durable goods is constrained (Garner, 1991).

Fiscal policies and bills are passed to shape the economy, but decisions in the private sector are influenced by uncertainty and change in agents' expectations. The causal arrow of change in consumer sentiment to changes in the economy is discussed, but the role of politics and politicians is yet to be explored. The performance of the consumer confidence indicator is uneven across countries and economic measures. (Curtin, 2007).

Pakistan being a developing country launched its consumer confidence index in 2012. The State Bank of Pakistan and the Institute of Business Administration IBA launched CCI to help in the development of better economic policy by incorporating subjective views. The consumer confidence index of Pakistan follows the Michigan Consumer Sentiments Index methodology. Economic variables' impact on the growth of any country varies from one country to another depending upon the status of the country being a developed economy or developing (Mirza, 2010).

The study aims to analyze the impact of economic and political variables on consumer confidence in Pakistan, an emerging economy. It is important to consider the state of consumer confidence for the upturn and stability of the economy at the national and global levels. (Celik, Aslanoglu, & Uzun, 2010) study under discussion of an emerging economy "Pakistan" aims to analyze the impact of different determinants of consumer confidence.

Significance/Justification of the Study

This study will contribute to the literature by exploring economic and political determinants of the consumer confidence index from Pakistan's perspective and will help the policymakers to understand the subjective stance of the Pakistani population and identification of the economic and political determinants of consumer confidence.

Dr. Ishrat Hussain (former governor State Bank of Pakistan), termed consumer confidence as;

"The microcosm of Pakistan which helps the policymaking on solid evidence covering the grey areas as well" (State Bank, 2014).

Consumer confidence indices help to predict and measure future changes in economic activities. Central Banks, government departments, policymakers, financial institutions, marketing firms, and other commercial enterprises use these indices for future economic planning, it helps them decide to invest in interest rates or sales (Sergeant, 2011). This study will determine the role and the relative importance of economic and political factors which influence consumer sentiments.

Objectives of the Study/Research Questions:

The objective of this study is to investigate the impact economic factors have on the consumer confidence index of Pakistan and what role political variables like elections, media effects, and terrorism play in the consumer confidence of Pakistan. The following are the research objectives of the study:

R_1: To examine the impact of economic variables on consumer confidence in Pakistan

R_{1a}: To examine the impact of Inflation on consumer confidence in Pakistan.

R_{1b}: To examine the impact of GDP growth on consumer confidence in Pakistan.

R_{1c}: To examine the impact of interest rates on consumer confidence in Pakistan

R_{1d}: To examine the impact of stock returns on consumer confidence in Pakistan.

R_{1e}: To examine the impact of the exchange rate on consumer confidence in Pakistan.

R2: To examine how political factors other than economic factors impact consumer confidence in Pakistan.

R_{2a}: To examine the impact of elections on consumer confidence in Pakistan.

R_{2b}: To examine the impact of economic news coverage on consumer confidence in Pakistan.

R_{2c}: To examine the impact of terror attacks on consumer confidence in Pakistan.

Literature Review

Considerable attention has been given to consumer confidence as it's said to be a major factor in economic performance. Consumer sentiment indicators not only help in predicting economic activities, and household spending on durable goods in a state of economic uncertainty and fluctuations but also results in the evolution of macroeconomic factors (Caggiano, Castelnuovo, & Groshenny, 2014; Cotsomitis & Kwan, 2006; Ludvigson, 2004), supporters claim, consumer confidence reduces forecast error in consumption models (Bruno, 2012; Ludvigson, 2004) whereas some find a weak relationship (Al-Eyd, Barrell, & Davis, 2009).

There are three schools of thought on the role of consumer confidence in shaping the future economy. According to Haller (1997), proponents of the first school believe that consumer confidence is negligible in developed and smooth-running economies. Proponents of the second school believe that consumer confidence is partially affecting future economic spending, but it helps in future consumption prediction once the income level increases. Researchers following the third approach assume that the consumer as a human is influenced by its psychological aspects, which can sense upcoming events and adjust their consumption or saving accordingly, impacting the economy on the whole. (Schneider et al., 2012).

Psychological data named consumer confidence is an important phenomenon for conducting economic activities effectively. Past literature abundantly studies, the degree of relationship between economic confidence and economic activities. However, a two-way causal relationship is yet to be explored in many developing economies. As affirmed by many scholars, consumer confidence is said to play a key role in explaining fluctuations in the economy (van Aarle & Kappler, 2012).

Consumer confidence is affected by uncertain futures and shocks, such as the stock market crash. Peer or group confidence is also important,

as people regularly meet each other and their sentiments are infected and modified. An optimistic view of the economy leads to increased consumption expenditures, while a pessimistic view leads to a recession. (Westerhoff, 2005).

Uncertainty is caused by expected and unexpected changes in government, which can lead to changes in economic variables. Research needs to address this gap of similar unexpected shocks giving dissimilar results in different time scenarios. Researchers claim that GDP declines after high confidence periods, proving the rules of precautionary savings. Current consumption should increase compared to future consumption and growth. (Ateeb Akhter Shah, Kaneez, & Riffat, 2022; Lemmon & Portniaguina, 2006).

Identifying factors that affect the psychological part of consumer confidence is said to be a challenging and difficult task because a vast list of factors and events are there that may drive confidence levels and these factors and events may be country or global-specific (Gelissen, 2010).

Economic Variables

The impact of economic variables on the growth of any country varies from one country to another depending upon the status of the country being a developed economy or developing. Pakistan being a developing country is faced with issues such as the burden of foreign debt energy & water shortages, lack of policy implementations, increase in inflation, security threats, political instability, and trade deficits, etc. which have hampered its economic growth (Chughtai et al., 2015). The impact of equity prices on consumer confidence differs from country to country as countries for e.g. the U.S.A, the awareness level in people is high and they save by buying stocks and bonds etc. whereas on the other hand developing countries like Pakistan where financial literacy is low and people save in form of gold and prize bonds etc. (Lopez & Durr, 2003).

Based on the literature review, it is concluded that many countries have researched the role economic variables play in shaping consumer confidence whereas such a study is missing in Pakistan hence we hypothesize that:

H_1: *Economic variables significantly affect consumer confidence in Pakistan.*

H_{1a}: *The level of inflation significantly impacts consumer confidence in Pakistan.*

H_{1b}: *GDP significantly impacts consumer confidence in Pakistan.*

H_{1c}: *The rate of interest prevailing in the country significantly impacts consumer confidence in Pakistan.*

H_{1d}: *Stock returns significantly impact consumer confidence in Pakistan.*

H_{1e}: *The exchange rate significantly impacts consumer confidence in Pakistan.*

Political Factors

Consumers' spending and saving behaviour changes due to economic activities, politics, war, and word-of-mouth spread. Thoughts and emotions shape the CCI, which is influenced by economic indicators and psychological, sociological, and political decisions. Confidence indicators are important in periods of strong fluctuations in the economy, recessions, and shocks. Large swings in confidence could be useful indicators of consumption or savings. (Dees & Soares Brinca, 2013).

Elections

Literature examining the role of politics as a determinant of consumer confidence is scarce. Research suggests that predicting changes in the economy influences the social and political behaviour of consumers, leading to changes in the economy. Vuchelen (1995) investigated the impact of politics on consumer confidence, distinguishing between planned and unexpected election impacts on sentiments and confidence. He suggested that unplanned elections do impact consumer confidence.

The expected political changes bring about uncertainty and the changing expectations of agents, resulting in a change in the consumption and investment level of the private sector (Osterloh, 2018b). The economic outcome is affected by the firm and household sentiments, being predictors of industry and consumer consumption, predicting the economy's future. The economic conditions prevailing shape consumer sentiments but are not able to completely take the credit, a complete explanation rests on the part which politics plays in shaping consumer sentiments (De Boef & Kellstedt, 2004).

In a developing country like Pakistan, the government elected by parliamentary elections comes with its policies, and uncertainty changes into certainty as the party reflects upon which policy and mandate it will work (Muller & Osterloh, 2018b). Whereas Vuchelen (1995), was of the view that uncertainty comes to an end after an election only when two parties are fighting for the government and in a multi-party country coalition formation maintains the conspiracy of uncertainty.

Studies analyzing consumer confidence and looking for factors that form consumer confidence of citizens indicated that the relationship between consumer confidence and major economic indicators is for the short run and that electoral cycle and events are one of the major determinants impacting consumer confidence. The uncertainty associated with upcoming elections results in news impacting the confidence of consumers to spend or save, the flow of information and the level of interest should be expected to be higher in such years than in non-election years (De Boef & Kellstedt, 2004; Ramalho, Caleiro, & Dionfsio, 2011).

Elections of Pakistan

In the time series under consideration, Pakistan held two general elections one in 2013 and one in 2018. In the elections of 2013 Prime Minister Nawaz Sharif was elected by the Pakistan Muslim League party, this election spiked the indices with the expectations of improvement in the overall economy of the country following a dissatisfied government of Asif Zardari of the Pakistan People's Party. A coalition government was formed and a spike in CCI was experienced which stabilized to 35.5 after the end of the honeymoon period. In September 2018, the consumers of Pakistan crossed with high hopes from newly elected Prime Minister Imran Khan from the Pakistan Tehreek-e-insaf Party. The slogan of "tabdeeli" and " Naya Pakistan" with the charisma of the former cricketer and to be elected prime minister resulted in increased optimism confirmed by the claims of Deboef and Kellstedt (2004) that consumers' confidence and expectations are influenced by elections, slogans of parties, etc. In Pakistan uncertainty regarding unexpected elections is high, and very few governments have been able to complete their time period.

H_2: Political factors significantly affect Consumer confidence in Pakistan.

H_{2a}: Elections significantly impact consumer confidence in Pakistan. (Increases before elections and decreases after elections).

Media

The search for the impact of economic news content on the real economy began in the mid-1970s when it was thought to be difficult to evaluate the extent of opinion formation by the public formed by the media. However, due to advancements in research, the impact of media on perception formation is widely studied and ideas developed about how it works. Economic news in shaping electoral results was observed after the US presidential elections in 1992, which became a catalyst for future research on economic news content. Goidel and Langley (1994) were the pioneers in covering the economic conditions in economic news content and were of the view that more emphasis on real economic conditions is given by responding and focusing more on bad economic news. BBC News website provided coverage of both positive and

negative news, and consumers are said to be more responsive towards positive economic news.

Media affects the knowledge of people positively unless and until they have not been confronted by bad economic experiences and do not have other sources of economic information other than media (Kalogeropoulos, Albæk, Svensson, Dalen, & Vresse, 2015). Empirical results of many studies have concluded that media has a great impact on shaping the perceptions of consumers and in turn impacting the economy (Blood & Phillips, 1995; Boukes & Damstra, 2019; Damstra & Boukes, 2018a; De Boef & Kellstedt, 2004; Jonkman, Boukes, & Vliegenthart, 2020; Soroka & Adams, 2015; Uhl, 2011).

Studies while testing the association between media impacts on consumer confidence claim that journalists in dramatic malady are in the practice of overemphasizing dramatic stories and events portraying a gloomier picture of the economy than it is in real (Damstra & Boukes, 2018a; Hopkins, Kim, & Kim, 2017; Ju, 2008; Soroka & Adams, 2015) This results in a perception formation of the consumers differing from the actual economic figures, resulting in decreased or increased consumer confidence. This over-pessimism or optimism impacts the economy from the individual level to the national economy and it also influences electoral results (Blood & Phillips, 1995; Damstra, Boukes, Vliegenthart, & Boukes, 2019; De Boef & Kellstedt, 2004; Denis Wu, Stevenson, Chen, & Nuray Güner, 2002; Hollanders & Vliegenthart, 2011; Vuchelen, 1995) and can even influence the governmental economic evaluations leading towards different policy makings(Cohen, Tsfati, & Sheafer, 2008).

The first level of effect on the opinion of consumers regarding the economic situation prevailing in the country is brought about by the media, leading the public towards not only what to think but also "how to think" McCombs and Shaw (1993), relate this mediating effect to agenda-setting theory according to the "what to think" is the first level of agenda-setting and "how to think" is the second level of agenda-setting.

Lishan (2008) concluded that mass media coverage does not have a strong effect on consumer sentiment, but the impact is second-level. In times of economic slowdown, the impact of media coverage is at a more significant level. Newspaper agencies in competition with each other try to be part of the game by adding more to the famous headlines, exaggerating the real news and giving a false picture of the economy to the consumers, thus affecting consumer confidence.(Karel-Jan, Rakman, Hoogduin, & Kuper, 2008). Whereas Goidel, Procopio, Terrell, & Denis Wu (2010) claim that literature on media impact on consumer expectations is mainly based on content analysis of elite newspaper coverage, it was observed that economic evaluations are dependent on media exposure and their valances and differences in sources of information from different mediums cover the economy differently.

Review of the literature shows that consumers do not have an awareness of all aspects of economics, so media plays its role by communicating, interpreting, and widely sharing expert assessments (De Boef & Kellstedt, 2004).

Present literature on media analysis in Pakistan covers journalism, political communication, framing of political series, and major projects. However, the impact of media on the consumer confidence of Pakistani consumers is not explored, so a study is under discussion.

H_{2b}: Economic news in the newspapers significantly impacts consumer confidence in Pakistan

Terror attacks

Terror attacks create an atmosphere of uncertainty and reduce consumer confidence, thus investments stop and unemployment prevails which in turn impacts the economy of the particular country (Brodeur, 2018). Studies claim that human sentiment is influenced by

uncertainty, risk, or shocks, which impacts the decision-making of future spending and saving (De Boef & Kellstedt, 2004; Vuchelen, 1995) news media and economists agree the point that the same severe case is due to impact of terrorism and so consumer confidence because of its forecasting nature act as an intermediating variable between terror attacks and its impact on economic variables (Drakos & Kallandranis, 2015).

The forecasting power of consumer confidence is more evident and significant on non-normal days where its impact is more obvious than that of economic variables (Wilcox, 2007). Kennedy-Pipe, Clubb, Mabon, and Waxman (2019) believe that terrorist attacks should be treated as non-economic or political events impacting consumer confidence and lowering consumer spending because of the perception that more such events may occur in the future, supportive results have been found in a study that examined the impact and the extent of the impact on the economic sentiment of terrorist attacks in France and Germany (Kollias & Papadamou, 2014). The impact of fear and terror causing anxiety due to uncertain conditions affect the choice and spending behavior of consumer agents (Osterloh, 2018b) and it's far more than the economic effects resulting in negative perception (Drakos & Kallandranis, 2015; Nikkinen, 2010). The impact of terror attacks and uncertainty on the tourism industry provides evidence that terror attacks cause fear and in turn, tourists modify their tour programs by changing the tourism country, making shorter trips, and are more conscious of their safety that is because of lower consumer confidence thus impacting the country whose economy rests on tourism (Mckercher & Hui, 2008).

Literature on the impact of terrorism on the economic growth of Pakistan has shown that the relationship between economic growth and terrorism is true. The consequences of terrorism and its prevention create an atmosphere of uncertainty with increased expenditures on defence and security. Literature investigating the role of terrorism on stock markets has assessed the difference between the impact of terrorist attacks on the stock market returns of 'highly affected' countries and that of 'less affected' countries, suggesting that the countries which are badly affected should improve their intelligence and performance of law enforcement forces to stop terror activities. (Butt, Masood, & Javaria, 2020; Chaudhry, Roubaud, Akhter, & Shahbaz, 2018; Gul, Hussain, Bangash, Khattak, & Gul, 2012; Khalil & Akhtar, 2017).

Terrorist attacks on people and business facilities, harm consumer and investor confidence, and thereby on the economic outlook and financial markets (Barry Johnston & Nedelescu, 2006; Frey, Luechinger, & Stutzer, 2007). Hence, based on the above-reviewed literature, the following hypothesis is developed.

H2c: *The increase in terrorism activities significantly decreases consumer confidence in Pakistan.*

Research Methodology

Research Design

The study adopts a quantitative approach, deductive in nature following positivist research philosophy. The Positivist study adopts a deductive approach with time series data. As secondary data analysis is a common approach used to analyze consumer expenditure, consumer confidence, attitudes, and opinions in economic psychology (Earl & Kemp, 1999). This study is also dependent on secondary data following the methodology of De Boef & Kellstedt (2004), where determinants of Consumer confidence are determined by regressing consumer confidence on some economic and political variables (De Boef & Kellstedt, 2004; Ramalho et al., 2011).

Data Collection & Variables of the Study

Monthly data on consumer confidence and several economic and political variables are collected for the sample period from Feb 2012 to Dec 2020. The sample starts from 2012 because

the data on consumers' confidence is available since 2012.

Consumer Confidence Index: The Consumer confidence index of Pakistan is a new tool to capture the consumer confidence survey data from the past 9 years. The data for the study under CCI discussion is comprised of 105 waves (data points).

Economic Factors: The variables considered for the study are well-known to consumers and these variables directly impact the financial situation of the consumers. These variables are inflation, stock prices, GDP growth, exchange rate and interest rates.

GDP Growth is proxied by large-scale manufacturing (LSM), and the Weighted Average Lending Rate (WALR) is used as a proxy for interest rates. The monthly data on stock returns are computed using the KSE-100 index for the sample period under consideration. The exchange rate is used as PKR/USD. Inflation is computed using Consumer Price Index. All variables except interest rate are in log form. The data on these variables are obtained from the State Bank of Pakistan and the Pakistan Bureau of Statistics.

Political Factors

Elections: The general elections of Pakistan are held every five years to elect members for national and provincial assemblies. This study will focus on the national assembly and provincial assembly general elections held in 2013 and 2018. The literature review emphasizes the importance of stretching the time covering elections to several months before and after the election, it is called the honeymoon period. For this study, the period of 1-10 months leading up to the election and 1-10 months following the election will be taken (De Boef & Kellstedt, 2004, Ramalho et al., 2011).

Terror Attacks: The sources for data collection included the State Bank of Pakistan (SBP), economic surveys of Pakistan, the South Asia Terrorism Portal (SATP), and the Federal Bureau of Statistics Islamabad. Literature refers to The Global Terrorism Database (GTD), and the South Asia Terrorism Portal (SATP) for data on terrorist acts in many countries (Hussain, 2010; Sami & Khattuk, 2017). The data for fatalities and injured people due to terror attacks in the period 2012 to 2020 is collected from the resources mentioned.

Media: Based on extensive research the following strategy is adopted for the study under discussion:
"The News International" is the largest circulated, English-language newspaper in Pakistan and is ABC-certified with a circulation of 140,000. "The Nation" is one of the most credible English daily newspapers. "Dawn" is said to be Pakistan's oldest and most widely read English-language newspaper. According to the research including more newspapers may result in, homogeneity issues of the information, and in turn, it may affect the results (Qianqian & Yijun, 2020).

Newspaper as a predictor of consumers' confidence is in more depth because of a separate section for economic news and reliance should be more on the national level newspapers than local (Goidel et al., 2010).

The newspaper selection to capture economic reporting is based on a literature review, thus the most ancient, most circulated, and popular newspaper is selected.

This study focused on headlines of prominent and widely circulated newspapers like "The News" and "Dawn". Headlines were taken from the front and business pages, with political news being the front page. Jang newspaper is also the most-read newspaper in Pakistan, but the frames and phrases adopted to collect data are in English. Literature on media analysis from Pakistan had selected from The News and Dawn for data collection. (Sadaf, 2011).

Literature suggests that headlines can be used for news coverage and represent original content.

Weber (1990) noted that reliability in content analysis is more achievable in headlines than in whole text or paragraphs. This study uses headlines of every first Sunday of the month as units of analysis, as Sunday newspaper editions have bigger news holes.

According to Lishan (2008), a sample of 500 headlines from 120 months, is a good sample size for the study. This study sampled 107 months with 1112 headlines for each newspaper.

Content Analyzing Frames

The Deductive approach was adopted to measure how concepts of interest in the content are useful in developing narratives, explanations, or interpretations of the content. Five frames were chosen: Conflict, Human interest, Economic consequences, Morality, and Responsibility. This study adopted economic and human frames as thematic units to measure how concepts of interest in the content are useful in developing narratives, explanations, or interpretations.

Framing Measures: To measure the extent to which certain frames appear in stories that mention politics, we adopted a series of 20 questions to which the coder had to answer yes (1) or no (0). 10 questions each question was meant to measure one of two news frames: human interest, and economic consequences. A multi-variable method was followed where the category becomes a variable with 1 as a number for having the characteristic of the variable and 0 for not having the characteristic, it's said to be useful where variables are classified into nominal subcategories (Hart & Daughton, 2021). An advantage of such a binary coding strategy is that intercoder reliabilities are relatively high (Semetko & Valkenburg, 2000).

A team of 6 BSBA final semesters students were trained as coders for frame analysis and gathering data, the coder's content analyzed the data of 107 first Sundays of every month, 1112 headlines of each newspaper answering the frame questions with the word dictionary as a guide.

Reliability Tests: The inter-coder reliability was checked by Krippendorff's alpha

$$n = \frac{(N-1)(SE)^2 + PQN}{(N-1)(SE)^2 + PQ} \qquad (1)$$

Where N=the population size (number of content units in the study) P=the population level of agreement Q= (1-P) n=the sample size for the reliability check

For the study under discussion

N= 107, P=90%, Q= 1-P=10%, SE= 0.03 (0.05= 1.66(SE) = .03)

$n = 52$

For 52 subsamples 107/52=2.05 which means every second observation is to be selected so every odd observation is selected.

According to Krippendorff (2004), an Alpha of .8 indicates adequate reliability, however, variables with Alphas as low as .667 are said to be acceptable for drawing tentative conclusions. For research that is breaking new ground with concepts, lower coefficients would be appropriate that are rich in analytical value. The figures of .8 and .667 also are said to be appropriate for nominal data and a large sample (Hart & Daughton, 2021; Vliegenthart, Boomgaarden, Van Aelst, & De Vreese, 2010). For the study the author performed Krippendorff's alpha B, yielding sufficient reliability scores of 0.8313.

Econometric Models

The following models are estimated to find out the determinants of CCI.

$$CC_t = \beta_\circ + \beta_1 CC_{t-1} + \beta_2 CC_{t-2} + \beta_3 Y_t - \beta_4 \pi_t + \beta_4 R_t + \beta_5 I_t + \beta_6 X_t + e_t \qquad (1)$$

$$CC_t = \beta_\circ + \beta_1 CC_{t-1} + \beta_2 CC_{t-2} + \beta_3 Y_t - \beta_4 \pi_t + \beta_4 R_t + \beta_5 I_t + \beta_6 X_t + \beta_7 E(May\ 2013)_t + \beta_8 E(July\ 2018)_t + e_t \qquad (2)$$

$$CC_t = \beta_\circ + \beta_1 CC_{t-1} + \beta_2 CC_{t-2} + \beta_3 E(May\ 2013)_t + \beta_4 E(July\ 2018)_t + \beta_5 N_t + \beta_6 TA(f)_t + \beta_7 TA(Inj)_t + e_t \qquad (3)$$

$$CC_t = \beta_\circ + \beta_1 CC_{t-1} + \beta_2 CC_{t-2} + \beta_3 Y_t + \beta_4 \pi_t + \beta_4 R_t + \beta_5 I_t + \beta_6 X_t + \sum_{j=-3}^{3} \gamma_j delect(2013)_{t+j} + \sum_{j=-3}^{3} \delta_j delect(2018)_{t+j} + e_t \quad (4)$$

$$CC_t = \beta_\circ + \beta_1 CC_{t-1} + \beta_2 CC_{t-2} + \beta_3 N_t + \beta_4 TA(f)_t + \beta_4 TA(Inj)_t + \beta_5 \sum_{j=-3}^{3} \gamma_j delect(2013)_{t+j} + \beta_6 \sum_{j=-3}^{3} \delta_j delect(2018)_{t+j} + e_t \quad (5)$$

$$CC_t = \beta_\circ + \beta_1 CC_{t-1} + \beta_2 CC_{t-2} + \beta_3 Y_t + \beta_4 \pi_t + \beta_4 R_t + \beta_5 I_t + \beta_6 X_t + \beta_7 N_t + \beta_8 TA(f)_t + \beta_9 TA(Inj)_t + \beta_{10} \sum_{j=-3}^{3} \gamma_j delect(2013)_{t+j} + \beta_{11} \sum_{j=-3}^{3} \delta_j delect(2018)_{t+j} + e_t \quad (6)$$

Where CCI = Consumer confidence index (Dependent variable)

And the independent variables are as follows:

Y= GDP Growth:

Π = Inflation:

I=Interest rate (WALR)

R=Stock Returns

X= Exchange rate

E= Elections (2013 and 2018)

N=News

TA= Terror Attacks (f = fatalities+ Inj = injured)

e = error term

γ and δ = are coefficients on a set of dummy variables (delect) to identify the months around the elections of 2013 and 2018. 'delect' takes the value of 1 if the current date is an election month and zero otherwise. The dummy is included as lags and leads to capture a window of three months before and after the election date.

Results

Before formal econometric analysis, a descriptive analysis is performed, which includes summary statistics and time-series properties of the variables.

Table 1

Descriptive statistics

CCI	GDP Growth	Inflation	Returns	Interest rate	Exchange Rate (% change)	News	Terror attacks	
							Fatalities	Injured
-0.29	0.52	-0.12	1.12	0.09	119	14.35	210.67	167
0.16	-0.51	0.48	0.75	0.088	105.32	7.50	-1.83	0.00
7.97	8.71	6.88	11.15	0.002	23.38	82.25	1933	1125.62
106	106	106	106	106	106	106	106	106
-6.54***	-8.82***	-10.24***	-7.75***	-3.35***	-9.03***	-13.84***	-10.37***	-10.61***

nented Dickey-Fuller (ADF) test is applied to check the unit root. Coefficients marked statistically significant at the p < 0.10 level, those marked with a **are statistically he p < .05 level, and those marked with a ***are statistically significant at the p < .15

The descriptive results of Table 1 show that the average GDP growth is 0.5 and the standard deviation is 7.97 during the sample period Feb 2012 to Dec 2020 which represents high volatility implying a high level of uncertainty. Inflation on average is -0.12 and its deviation is 6.88. Similar is the case with an interest rate (WALR) with a mean of 0.09 and Std. deviation of 0.002 high risks associated with it and exchange rates mean of 119, Std. deviation of 23.38 showing an increase in dollar rates compared to Pakistani Rs.

To test if the series is stationary, Augmented Dickey-Fuller (ADF) test is applied, which shows that all variables are stationary at level. Thus, according to Shrestha and Bhatta (2018), OLS (Ordinary Least Squares) is an appropriate estimation technique. Several econometric models, such as models 2, 3,4,5,6 and 7 have been constructed and the results are shown in

Table 2.

Table 2

Regression Results

	Model 1 (Economic variables only)	**Model 2** (Economic variables with election months of May 2013 and July 2018)	**Model 3** (Political variables with election months of May 2013 and July 2018)	**Model 4** (Economic variables with 3 months lead and lags of election months of May 2013 and July 2018)	**Model 5** (Political variables with 3 months lead and lags of election months of May 2013 and July 2018	**Model 6** (All variables with 3 months lead and lags of election months of May 2013 and July 2018
C	0.16	0.12	0.13	0.25	0.19	0.29
	(0.57)	(0.42)	(0.43)	(0.68)	(0.58)	(0.83)
CC(-1)	0.32**	0.33**	0.30***	0.34***	0.36***	0.38***
	(4.11)	(4.23)	(3.44)	(3.99)	(4.51)	(4.21)
CC(-2)	-0.09	-0.09	-0.08	-0.08	-0.05	-0.07
	(-0.94)	(-0.93)	(-0.80)	(-0.93)	(-0.62)	(-0.85)
Growth	0.06	0.06		0.07**		0.09**
	(1.93)	(1.92)		(2.10)		(2.32)
Inflation	-0.20**	-0.21**		-0.70*		-0.56
	(-15.72)	(-11.62)		(-1.78)		(-1.53)
Returns	0.001	0.001		0.001		0.01
	(0.05)	(0.06)		(0.02)		(0.36)
WALR	-0.07	-0.061		-0.05		-0.06
	(0.39)	(-0.69)		(-0.59)		(-0.62)
Exchange Rate	-0.11	-0.09		0.05		0.08
	(-0.53)	(-0.47)		(0.31)		(0.45)
Election 2013(May)		1.35**	1.33**			
		(2.12)	(2.30)			
Election 2018(July)		-1.06	1.08			
		(-1.12)	(0.54)			

News			0.002 (0.46)		0.004 (0.99)	0.004 (1.29)
Fatalities			0.001*** (2.63)		-0.002 (-0.56)	-0.002 (-0.95)
Injured			-0.001*** (-4.91)		-0.002*** (-5.52)	-0.001*** (-4.30)
FEB13DUM				0.65 (1.23)	0.97* (1.88)	0.14 (0.23)
MARCH13DUM				1.06*** (3.66)	0.89** (2.00)	1.08*** (2.56)
APRIL13DUM				5.51*** (8.39)		5.16*** (7.53)
MAY13DUM				3.28*** (6.34)	2.88*** (4.56)	3.34*** (5.33)
JUNE13DUM				-0.83 (-1.52)	-1.88*** (-2.70)	-1.60** (-2.15)
JULY13DUM				1.33 (0.96)	-0.26 (-0.37)	0.88 (0.59)
AUG13DUM				1.74** (2.89)	1.11*** (2.57)	1.39** (1.97)
APRIL18DUM				0.55 (0.54)	-1.69*** (-3.87)	0.36 (0.34)
MAY18DUM				0.74 (1.12)	-0.25 (-0.64)	1.10* (1.71)
JUN18DUM				- 1.99** (-2.02)	-3.39*** (-5.88)	- 2.68** (-2.54)
JULY18DUM				- 2.13*** (-4.16)	53.71 (0.83)	74.93 (1.24)
AUG18DUM				-36.08 (-1.29)	12.78*** (19.00)	-26.50 (-1.02)
SEP18DUM				6.34*** (5.63)	5.84*** (5.28)	5.38*** (4.61)
OCT18DUM				-7.84*** (-3.08)	-9.77*** (-6.55)	-9.29*** (-3.34)
R-squared	0.26	0.27	0.16	0.37	0.36	0.41
Adjusted R-squared	0.21	0.20	0.10	0.21	0.21	0.23
F-statistic	4.94	3.98	2.65	2.34	2.51	2.33
Prob(F-statistic)	0.000083	0.000248		0.003	0.002	0.002

Note: Coefficients marked with an * are statistically significant at the p < 0.10 level, those marked with a **are statistically significant at the p < .05 level, and those marked with a ***are statistically significant at the p < .15 level

T-statistics are given in parenthesis below the coefficient estimates.

Election dummies included 3 months before and 3 months after elections.

To reaffirm the foundations of economic sentiment and identify two separate components of sentiment due to economic conditions and that

Table 2. In the first model, Consumer confidence is regressed on economic variables only i.e., growth, inflation, returns, WALR, and exchange rate with the lagged values of the dependent variable. The lagged value of the dependent variable is taken as regressor as consumer confidence in the current time period depends on the confidence of the previous month.

From model 1 it's observed that growth has a positive sign whereas inflation, returns, WALR, and changes in the exchange rate are negatively related to consumer confidence. The coefficient on inflation is negative and statistically significant at 5%. Results are in line with Garner, (1991a) and Berg and Bergstrom (2005). Hence, the level of prices is inversely related to the consumer Sentiment index. On the other hand, GDP growth which captures economic activity exerts a positive and insignificant effect inconsistent with Celik et al., (2010), etc.

Of the variables, only inflation proves to be significant at 5% but all the variables make sense

Table 2, we account for the influence of two elections i.e. 2013, and 2018 as political factors along with the economic variables.

The sign on the coefficient for election 2013 is positive and is significant at 5% whereas election 2018 is negatively related and is non-significant.

Table 2 examines the impact of political variables i.e. Election 2013, Election 2018, News, Fatalities, Injured on consumer confidence. All political variables are positively correlated with consumer confidence except the injured variable which is significant at 1% whereas the positive sign with the fatalities showing a positive relation is strange and the fatalities are significant at 1%. The parameter of terrorist activity (measured by injured and fatalities), due to politics we make different modeling choices given in

with correct signs showing a relationship. F-Statistics resulted in a probability of 0.000083 and a value of 4.94. Adjusted R^2 resulted in 21 % which means other factors are playing their role in building or shaking consumer confidence, other than these economic variables, that means that subjective economy does not rest upon the subjective economy only if it would have then the plotted residuals would be noise whereas the plotted residuals in show hyper optimism or hyper pessimism of the Pakistani economy, in the wordings of Alan Greenspan (Chairman of the Federal Reserve) this is called as "irrational exuberance". It means that there is optimism or "irrational pessimism of consumers other than warranted by economic conditions only.

Results in model 1 should be regarded as a baseline model, for we have theoretical reasons to believe that economic variables are not the only source of driving consumer confidence, political forces too, should drive consumer confidence. In model 2 of

In virtually all other respects, the estimates in Model 2 are the same as in Model 1. The fit of model 2 substantially improved over model 1; adding elections improves the R^2 from 0.26 to 0.27 a very minor change is observed with adding elections to the objective variables.

Model 3 of

appears to negatively affect consumer confidence, in line with Kollias and Papadamou (2014), Bozzoli and Muller, (2009), and Drakos and Muller (2010), who report that terrorist activity negatively affects agents' sentiment. Election 2018 and News are insignificant whereas the addition of only political variables has changed the negative sign of the election to positive. Election 2013 impacts consumer confidence proving to be significant at a 0.05 level. The role of the political variable

determining consumer confidence is 16% (R^2) and the adjusted R-square represents about 10% of the explained variance. Thus, the reported adjusted R^2 appears to be low, it does not suggest that the model's fit is poor (De Boef & Kellstedt, 2004).

Table 2 along with economic variables, whereas model 2 captured the election with only election month dummies only i.e. May 2013 and July 2018.

While reporting model 4 with election dummies of leads and lags other estimates of economic indicators remain the same whereas the growth indicator becomes significant at the 0.05 level. The fit of equation 4 substantially improved from other equations and equation 2 with election month dummies only. Adding election dummies with leads and lags resulted in improving R^2 from 0.27 to 0.37 and adjusted R^2 from 0.20 to 0.21 with an F- statistic of 2.34 at 0.0033 probability level. The dummy variables FEB13DUM, JUNE13DUM, JULY13DUM, APRIL18DUM, MAY18DUM, and AUG18DUM, were insignificant whereas the dummy for MARCH13DUM, APRIL13DUM, MAY13DUM, AUG13DUM, JUN18DUM, JULY18DUM, SEP18DUM, and OCT18DUM were significant.

The dummy variables for June 2013(a month after the elections) were insignificant with a negative sign whereas dummies of June 2018 (a month before), July 2018(a month after the election) and Oct2018 (2 months after the election) were significant with negative signs.

According to the reported surveys in Feb 2013, the people of Pakistan were expecting higher interest rates compared to the previous survey. Similarly, more people were dissatisfied and considered time not good for purchase/construction of a new house which means uncertainty prevailed and consumers were more prone towards saving than spending, this dissatisfaction prevailed among people of all income groups. Higher unemployment was expected and negative sentiments prevailed. This means the people of Pakistan were in an uncertain position and did not have many hopes for the upcoming elections in May 2013.

To capture any optimism associated with the upcoming election and honeymoon that might follow it, dummy variables for 3months lags and 3 months leads are added in model 4 of

Pakistani consumers were optimistic and expected economic conditions to improve in the next six months. However, the Economic Conditions (CEC) index did not observe such a significant change. With elections and the new government, confidence rose to purchase durable goods, but the percentage of respondents expecting inflation decreased. The share of consumers expecting higher interest rates and higher unemployment decreased as the electorate viewed election events as opportunities for change. Consumers were under high inflationary pressure after the May 2013 elections, with an increase in respondents expecting higher interest rates and higher unemployment.

Similarly, the lags of election 2018 particularly that of April and May 2018 did not show any significant results in predicting consumer confidence. We can say that it was the period when the consumers of Pakistan were in a state of pessimism struck by an increase in fuel prices with a lower confidence level than the previous reports. Any expectations remained flat from the current or expected governments with the ever-increasing inflationary periods.

Consumer confidence in June and July 2018 fell due to poor economic conditions and uncertainty caused by the change in governments. This was reinforced by reports of analysts, psephologists, and the media, leading to a coefficient value of -36. Our results are consistent with Marc and Reuter (2018) and Insee

(2017), contrary to Ramalho et al. (2011). Ramalho et al., (2011).

Model 5 regressed CC with political variables only along with dummy variables and 3 leads and lags of election reported surprising significant results of the election 2013 variables 3 months before and after the election periods, except the election month of July 2013, whereas the election month of 2018 was found insignificant.

Model 6 of

Table 2 has all the political and economic variables with lags and leads of the election, the model fit improves considerably with R^2 of 0.41and the adjusted R^2 is reported to improve to 0.237. The F- statistics of 2.335 with a probability level of 0.002628 is reported. The cycle is quantitatively strong and statistically significant. The model finds find that consumer confidence decrease by about 1 percent after a terror attack or injuries caused due to the terror attacks.

Returns tend to be insignificant in all equations aligned with the observation that the consumers of Pakistan mostly are not interested in stock returns very few invest at the stock exchange.

F-statistics indicated a significant role in adding political variables. The calculated F value is 4.91 and the tabular value is $F_{5\%}$ (5,95) =3.17 with p-value = 0.01 which is $p < 0.05$, indicating that consumer confidence is not determined by economic variables only but the political variables also significantly play their role.

Discussion and Conclusion

This study examines the role played by economic and political variables in shaping consumer confidence in Pakistan. From the economic variables, growth and inflation in different models were found to be significant whereas WALR, returns, and the exchange rate were found insignificant. As far as political variables are concerned the consumer of Pakistan seems to be under the influence of idiosyncratic shock, injuries, and some elections, months give a significant result. The study covers the period of 2012-2020 using monthly data. The variables were found to be stationary at levels so the right model to test the hypothesis was OLS regression.

Economic variables such as growth and inflation were found to increase consumer confidence, while WALR, returns and exchange were insignificant. The coefficient of the WALR rate had a negative sign, suggesting an increase in the lending rate would decrease consumer confidence. Stock returns had a positive relation, but the majority of consumers in Pakistan have a low literacy level, so investing in stocks is not their cup of tea. The exchange rate was positive and insignificant, referring to research by Hall (1997) and Farrow and Baker (2015).

The most important details in this text are that the increase in value of R2 in model 6 indicates that variation in consumer confidence to a great extent is owed to political variables. The impact of the election variable when assessed by the month of the election did not show any effect on consumer confidence, but when the complete cycle of elections with three months of lags and leads was incorporated into the model, the impact changed with months showing significant impact. The News variable was found insignificant in most of the models, explaining that news plays little role in shaping the consumers' confidence and further that the front page of the newspapers in Pakistan is mostly occupied by the political news (Jan 2002) coverage or large pics from ads supporting the newspaper. Cochrane (1994) suggests that consumer confidence may be aggregating information from many other sources and individuals other than newspapers as a source of information medium. The results indicate that newspapers tend to shape or impact the opinion of the elite class, especially in developing countries like Pakistan, and mass-level opinion can be targeted by survey research.

Terror attacks influence consumer confidence by causing an atmosphere of fear and uncertainty which results in decreasing consumer confidence. The coefficient for attacks appears to be very small because the impact effect is nearly on the month event occurs and so its collective effect may seem smaller in years. The perceived probability of future economic hardship tends to a reduction in consumer spending, but this depends on the level of perception formed from individual to individual. People with limited resources, being illiterate, or belonging to a minority group fear more for themselves. Regular occurrence of terror incidents may reduce the unease and fear associated with it, but attack after a long time and on a domestic level creates more uncertainty and influences consumer confidence. Hence, Pakistan is on target of prolonged and terrifying terror attacks both domestic and transitional attacks, so the confidence of consumers is negatively and significantly influenced by terror attacks.

Implications and Recommendations

This study helps policymakers in identifying important indicators to improve consumer confidence of Pakistan's consumers to project the economy towards growth. This study will help the policymakers of Pakistan, to devise policies improving the consumer confidence of Pakistani consumers addressing the political indicators as well, as determined by the study for increasing the growth of the economy. A new dimension of connecting news, terror attacks and elections with consumers' confidence in Pakistan is determined. The interplay between politics and the economy is to be addressed by the policymakers. For economic stability, political stability is required. However, economic policymakers can't control political instability. The way forward may be a charter of the economy in Pakistan, delinking politics from the economy.

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