

# **Attribution Error: Assuming Correlation between Wine Business Performance and Mainstream Media Reporting on the Macroeconomic Environment**

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**Abstract:**

Prior research shows that general consumers rely on secondary sources and develop flawed perceptions regarding the economy, especially during high volume media periods. Given recent economic developments and media coverage of recessionary pressures in the U.S., wine companies must be aware of this tendency when engaging in strategic planning and analyzing business results. During a media pronounced “recession”, owners and operators must strive to accurately assess and forecast the impact of macroeconomic factors on sales. They should not assume that rising sales are due to superior products or efforts, nor that decreasing sales are the result of reporting on macroeconomic forces. We find that economic reporting and mass media coverage are not acceptable forms of research for even the smallest of wineries to determine consumer demand disruptions, yet they are the most common sources of information used in strategic planning and business analysis.

**Keywords:** media reporting, economic performance, economic sentiment, wine business performance management

**I. Introduction**

During recent conversation between the principal of a winery consulting business and her prospective client, a general manager revealed his belief that his winery’s strong sales “during this recession” were due to his company’s superior marketing efforts. He also stated that “most others in the wine industry were struggling” and cited media reports as his primary source of information.

Prior research confirms that media coverage of economic events can confuse and mislead general consumers. A 2002 study conducted by the Federal Reserve found that “...there are periods when reporting on the economy has not been consistent with actual economic events, especially during the early 1990s. As a consequence, there are times during which consumer sentiment is driven away from what economic fundamentals would suggest.” The study further noted that primary source materials were unlikely to be used by general consumers in forming their thoughts on the economy. (Doms and Morin, 2004)

The authors theorized that similar confusion is occurring today in the wine industry, and developed a survey to better understand how wine business owners and operators use economic information and from where they receive it.

This paper is organized in the following manner: part II discusses the survey and results; part III summarizes our research findings; and part IV offers basic recommendations for wine business owners and operators regarding collection and use of superior data for the strategic planning and decision making processes.

## **II. Model and Data**

To determine the impact of media reporting on the wine industry, we surveyed 300 wine business owners and operators involved in wine production, distribution and importing both domestically and abroad. The online survey included ten questions organized into three sections: 1) source(s) and use of economic data in their organization; 2) beliefs regarding U.S. economic performance during the prior year (June 2007 to May 2008); 3) business performance and influential factors during that same period. The response rate was nearly 10% with a total of 29 surveys completed.

Key survey findings are summarized below, with the full survey and responses detailed in the Appendix:

1. Economic news is a factor in determining internal expectations for sales, revenue, etc.
2. News sources for economic information include financial and local newspapers, television and the Internet. *None of the respondents reported seeking or using primary source data confirming the assumption of Doms and Morin's study.*
3. Two-thirds of respondents believe the U.S. economy is in a recession, and the majority (78.3%), believes that consumer spending has decreased in the prior year.
4. The overwhelming majority (95.5%) reported increased sales with internal promotional factors cited as the primary reason for this growth.

### III. Discussion & Findings

In January of 2008, *CNBC* ran a report titled “Wall Street is Seeing More Signs of Recession” quoting a Wall Street analyst: “(t)he latest data suggest that recession has now arrived, or will very shortly.” (CNBC.com, 2008) By April, *Bloomberg* was reporting that: “UPS, FedEx Decline Points to Continuing Recession”. In the article, journalists noted that declining business at major shippers “show the economy is in a recession and unlikely to rebound this year.” (Credeur, 2008) Finally, in May, *Bloomberg* pointed out that “(t)he U.S. economy will probably exit from a recession by the end of the next quarter as credit markets improve after a year of turmoil, according to a survey by the National Association for Business Economics.” (Matthews, 2008)

In the span of five months, major media outlets had declared, endured and forecast the end of a recession in the United States that primary economic source research shows never officially happened. (BEA, 2008) Yet a June key word web search on *CNN Money* returned 948 matches for “2008 Recession”.

Consistent with the aforementioned Doms and Morin’s research, we found that wine business owners took much of the prior year’s media frenzy to heart. Our survey results show that 67% of wine business owners believe the U.S. was in a recession, 78% think consumer spending has decreased, and that over half of respondents (53%) took direct action within their organizations based on their beliefs regarding economic conditions. *These beliefs and actions persist despite the fact that an overwhelming 95.5% reported that sales had increased (68.2%) or increased a lot (27.3%).<sup>1</sup>*

The news sources cited for obtaining economic information included print, online and television reporting in both general and financial channels; primary sources were not once cited. We find the reliance on secondary sources to be an unsound practice for the following three reasons:

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<sup>1</sup> Interestingly, 18.2% of respondents cited “strengthening economy” as a reason for increased wine business sales. Yet when asked to describe the economy in a prior question, 95.8% stated “weakened” (87.5%) or “stayed the same” (8.3%); none reported that it had “strengthened”.

**1) *The media has incorrectly predicted recessions in several recent years of economic growth.*** Recession fears make periodic appearances during the news cycle. In 2006, the media watchdog group, *Business and Media Institute*, reported that *ABC, NBC* and *CBS* used the words, “recession” and “depression”, 49 times and cited them in a historical context 28 more times. (Seymour, 2008) *In all, an economic decline of varying degrees was reported on over once per week in a year where the U.S. economy grew 2.9%.* (BEA, 2008)

Nor is 2006 a rare instance. In 1998, media outlet headlines were proclaiming that a “US Recession Appears Inevitable”. This particular story in the *San Jose Mercury News* went on to state that: “A black, billowing cloud of recession is about to engulf the U.S. economy. The only questions are how long and how severe it will be.” (Navarro, 1998) *The economy grew by 4.2% in 1998.* (BEA, 2008)

Undaunted, journalists pushed recessionary fears into the following year with articles like “The Crash Of '99?(U.S. Economy Not Looking Good)” which stated that “(u)pon further analysis, the economy appears to be heading towards a recession in 1999, largely due to the economic woes around the world.” (Samuelson, 1998) *The US economy again grew in 1999, this time at a rate of 4.5%.* (BEA, 2008)

**2) *There is no convincing primary source evidence of recession within the time period measured by the survey.*** The National Bureau of Economic Research (NBER) a private, nonprofit firm, is the de facto arbiter of economic cycles for the U.S. Economy as its business cycle determinations are reprinted by the Bureau of Economic Analysis (BEA). While the organization views “real GDP” or Gross Domestic Product as the single best measure of aggregate economic activity, it does not recognize the often quoted definition of “two successive quarters of negative GDP” as the indicator of recession. Instead, to supplement the quarterly statistics of GDP, the NBER samples monthly data on personal income, employment, industrial production and sales. All of this data is

reviewed looking for “a significant decline in economic activity spread across the economy, lasting more than a few months.” (NBER, 2008)

Appendix Table 1 shows Gross Domestic Product (GDP) figures dating back to the last period of contraction in 2001. Based solely on GDP, there has been no recession in the one year period measured by our survey. In fact, the only decline in GDP since 2001 occurred in the Q4 2007 when the economic growth was revised from sixth-tenths of one percent to negative two-tenths of one percent after the release of census data in the summer of 2008.

By the NBER’s dating methodology, the eight month period between March and November of 2001 is considered a recessionary period despite only one quarter of negative GDP. Could something similar be happening at this point? Are there “significant” declines in income, employment, industrial production and sales? We find this to be unlikely given the lack of a clearly recessionary trend in many of the pertinent government data.

Appendix Table 2 summarizes the monthly data for each of these economic indicators. It demonstrates the varying nature of many data sources from month to month showing neither definitive declining nor increasing trends. These monthly figures lead to significant confusion among the general public. They are generally released as estimates and are subject to sizeable revisions and statistical standard errors. For example, many note the declining payroll figures beginning in the 1Q 2008 fearing a deterioration of the labor market. However, the statistically significant threshold for the payroll data from the Bureau of Labor Statistics Payroll Survey is 104,000 jobs. (BLS, 2008) None of the job loss statistics reported in 2008 meets this threshold. Also, recent reports of a 0.2% decline in April’s monthly retail sales were eventually revised to the gain of 0.4% shown in Table 2. (U.S Census Bureau, 2008) *Those relying on secondary sources may miss the significance of revised numbers and statistical margins of error.*

Based on examination of Table 2, the only solid declining trend appears in the payroll

data. All of the other data show positive or mixed results. Does this indicate a “significant decline” in economic activity? The NBER agrees that this is not an easy determination, which is why it can take between six and 18 months after the trough of a recession before one is actually pronounced. (NBER, 2008) This lag leads to the type of speculation and guess work by journalists, economists and business owners that we see in the news stories previously mentioned.

**3) *There is no evidence of decreasing personal income or spending over the period measured by the survey.*** A continued concern for economists and media commentators is the possibility of a decrease in consumer spending. As the largest contributing factor to Gross Domestic Product, a decline might tip the U.S into recession and alter the spending habits of wine consumers.

Appendix Table 3 summarizes the monthly percentage change in both personal incomes and expenditures over the previous 12 month period. *The data in this series are clear: at no time in the previous year did incomes decline on a month to month basis. Though Real Consumption fluctuated month to month, it grew consistently from 2007 levels.*

#### **IV. Conclusion & Recommendations**

Our survey findings reinforce those cited in the Doms and Morin study. Based on media reports, many in the wine community maintain and operate based on beliefs that are factually at odds with the primary source data.

Winery business owners are confused as to why their product sales have remained strong over the previous year, and most believe that their superior efforts are the most important factor in this growth. Media reporting of recessionary pressures and falling consumer spending are taken as fact by many business people, who report acting (or choosing not to act) within their companies based on erroneous information. This is an error in attributing the success and failure of company initiatives based on the macro economic climate. The most damaging assumption may be attributing decreased sales to economic

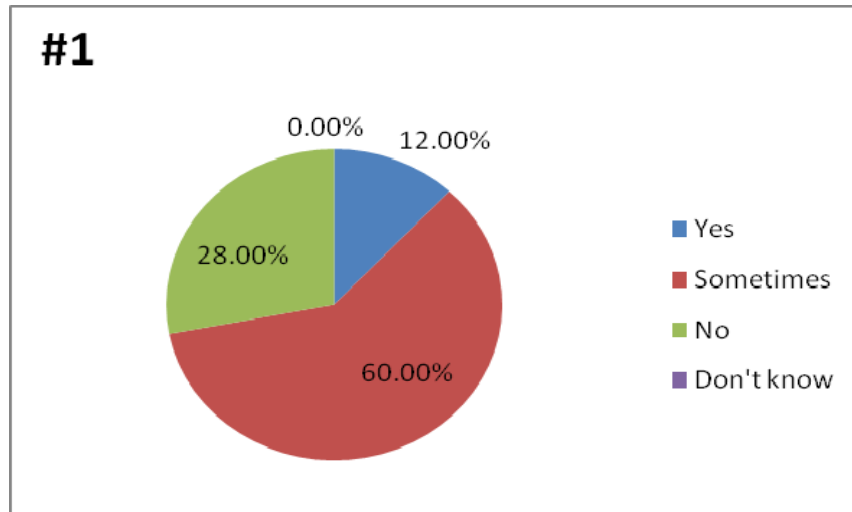
factors during a media pronounced recession, as doing so may mask underlying problems within the business management or product offering.

Wineries should utilize primary sources or expert advice to determine the cause of success and failure. Tables 2 and 3 and their associated data sources are good starting points for finding and tracking primary source information. Winery owners should utilize these resources, develop their own or find professional expertise to help guide their decision making.

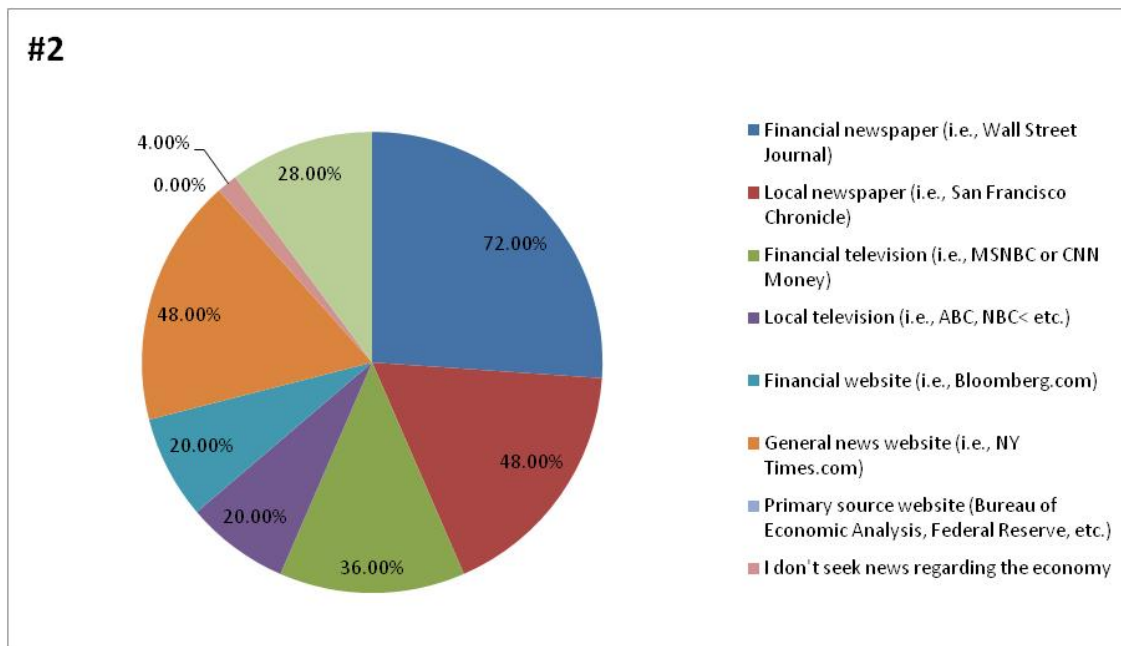
## Appendix

### I. Survey Questions and Responses

1. Within your company, does economic data or news regarding the economy determine internal expectations for sales, revenue, etc.?

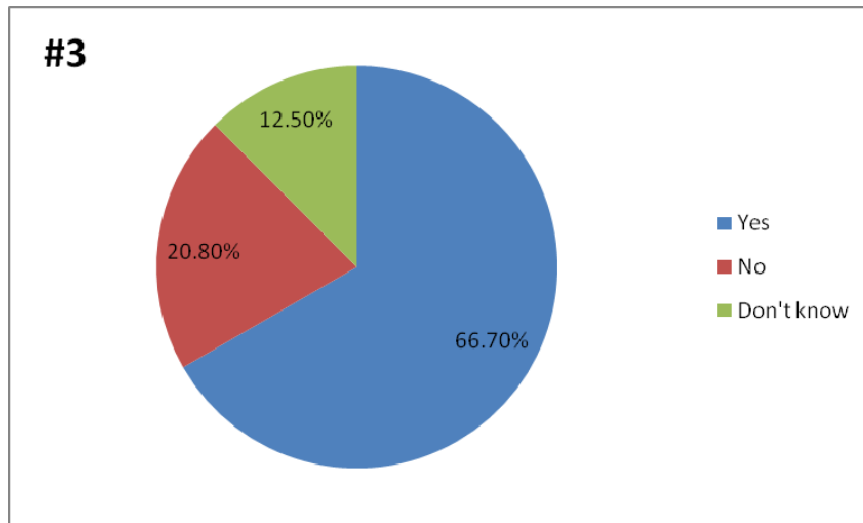


2. From where do you get your economic data or news regarding the economy? (Select all that apply)

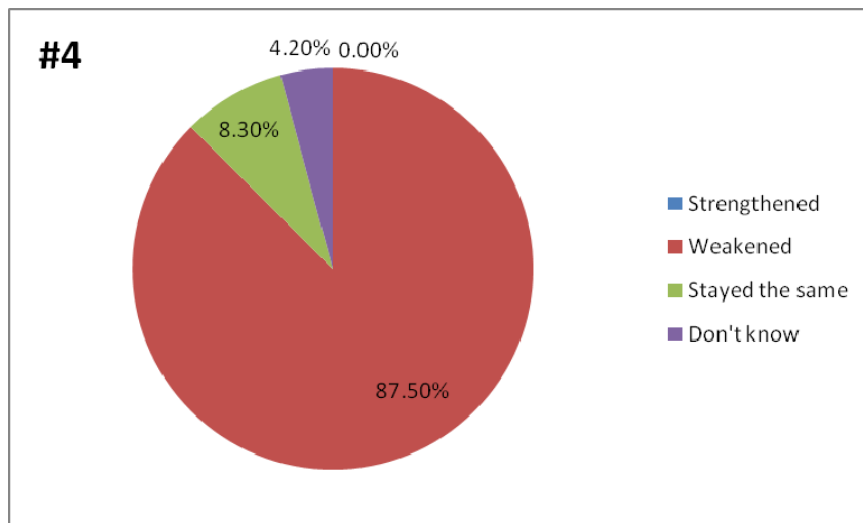


*Other sources cited include NPR, trade publications, investment house reports, and banks.*

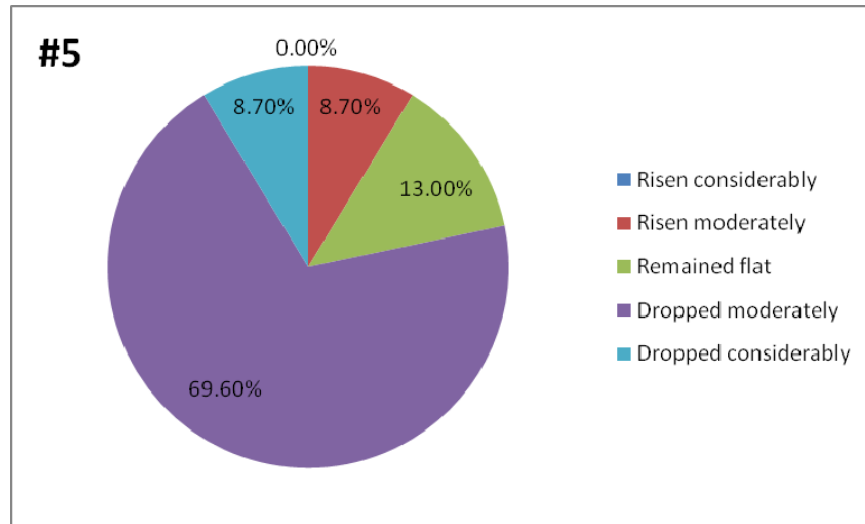
3. Is the U.S. economy currently in a recession?



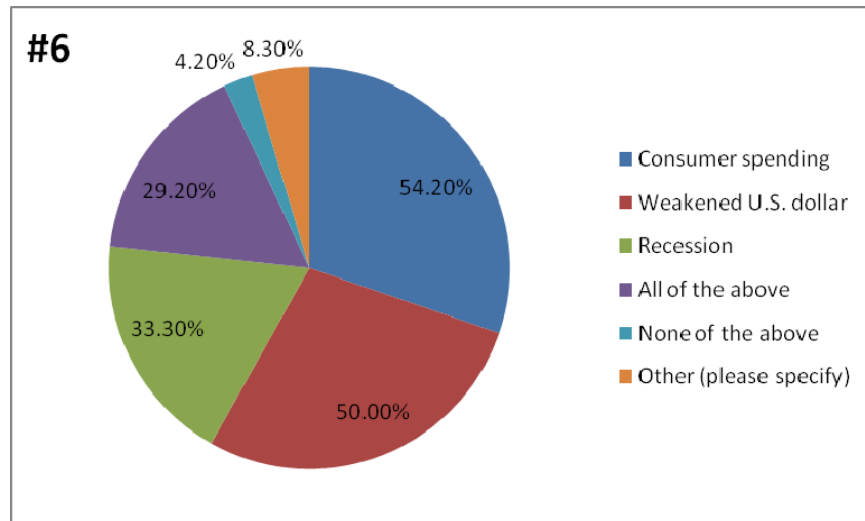
4. Over the last 12 months, which of the following best describes the U.S. economy?



5. Over the previous 12 months, consumer spending has done the following:

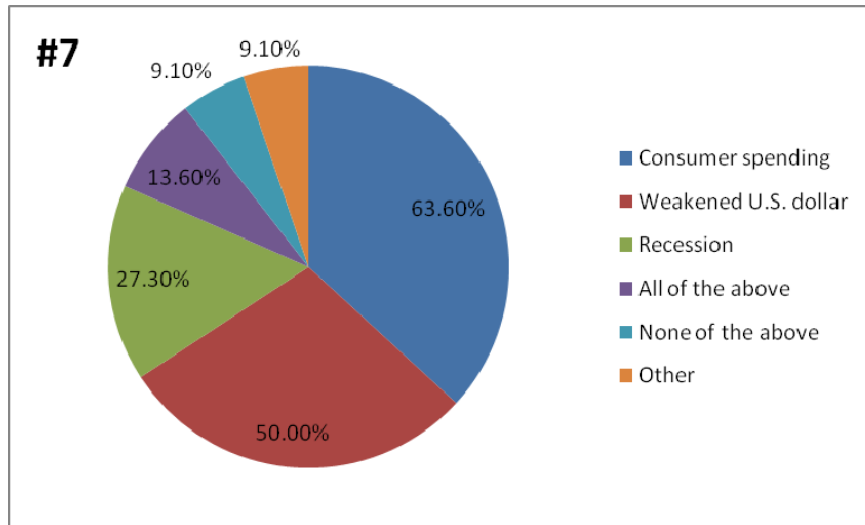


6. The following are current economic worries that affect my business (select all that apply):



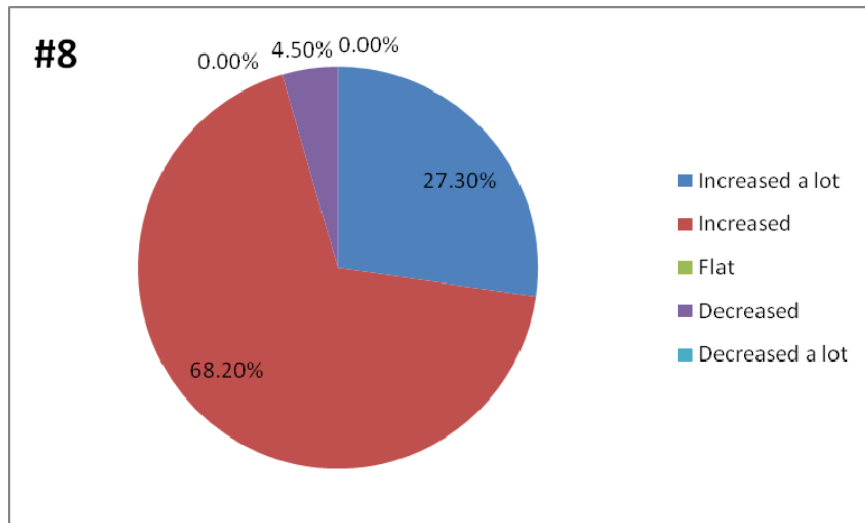
*Other worries cited include gas/oil prices, government regulation, capital availability and decreased spending by accounts.*

7. Current economic worries that *most* affect my business are as follows (select all that apply):

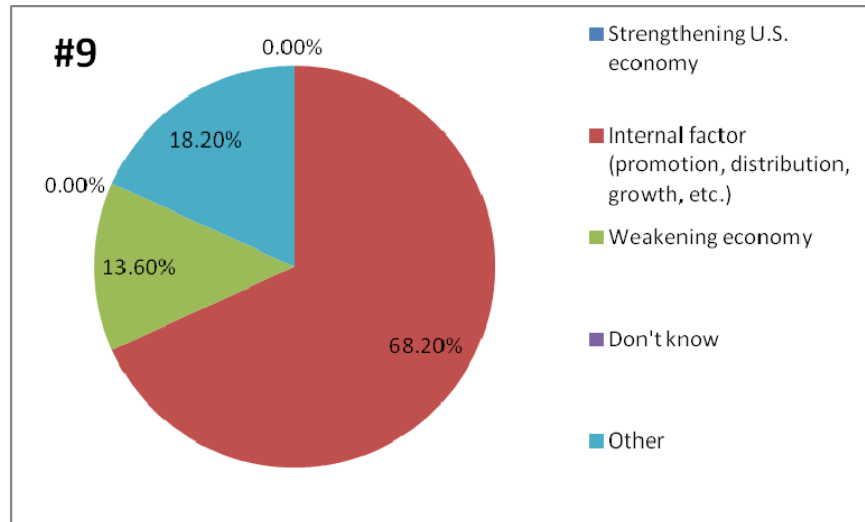


*Other worries cited include increasing oil and gas prices.*

8. As compared to last year, which of the following best describes your overall sales in 2008?

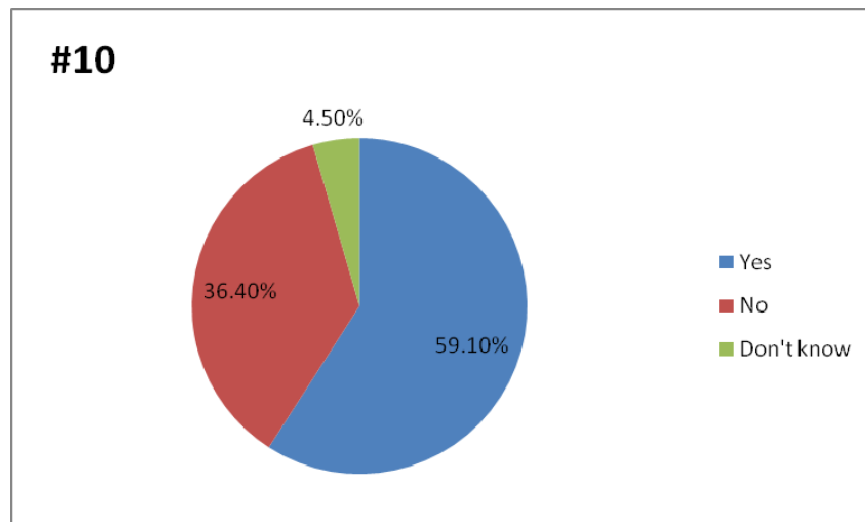


9. To what do you attribute this level of sales performance?



*Other factors cited include “exceptional business model”, press, broader outreach, price to quality ratio, price positioning, category growth.*

10. Have you taken any actions in your organization based on your belief regarding U.S. economy performance? (i.e., decreased sales forecasts, decreased investments, cut operating costs)



*Other actions included defensive tactics like decreasing marketing and sales spending, delaying hiring and capital expenditures, holding prices, and buying fewer expensive barrels. Proactive tactics cited were increasing marketing and public relations efforts, pursuing regional strategies, and “making investments while interest rates are low”.*

*II. Table 1 - Percent Change From Preceding Quarter in Real Gross Domestic Product*

	<u>QUARTER</u> <sup>2</sup>			
	I	II	III	IV
2000	1	6.4	-0.5	2.1
2001	-0.5	1.2	-1.4	1.6
2002	2.7	2.2	2.4	0.2
2003	1.2	3.5	7.5	2.7
2004	3	3.5	3.6	2.5
2005	3.0	2.6	3.8	1.3
2006	4.8	2.7	0.8	1.5
2007	0.1	4.8	4.8	-.2
2008	.9	1.9		

<sup>2</sup> Bureau of Economic Analysis (2008). Percent Change From Preceding Period in Real Gross Domestic Product. Online at: <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=1&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Qtr&FirstYear=2000&LastYear=2008&3Place=N&Update=Update&JavaBox=no>

**Table 2 Income, Employment, Industrial Production and Sales Data May 2007 to June 2008**

Month	2007	2007	2007	2007	2007	2007	2007	2007	2007	2008	2008	2008	2008	2008	2008
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	
<b>Income</b>															
Personal Income	11,575.70	11,626.50	11,683.70	11,735.90	11,789.20	11,821.00	11,871.30	11,935.60	11,948.20	11,975.70	12,019.70	12,047.20	12,266.50	12,273.3	
% Income Change Month to Month	0.40%	0.44%	0.49%	0.45%	0.45%	0.27%	0.43%	0.54%	0.11%	0.23%	0.37%	0.23%	1.82%	.06% (p)	
<b>Employment</b>															
Change in Non Farm Payrolls	162,000	107,000	57,000	74,000	81,000	140,000	60,000	41,000	-76,000	-83,000	-88,000	-28,000	-51,000	-51,000	
% Quarterly Productivity Change from Previous Quarter	-	3.80%	-	-	6.40%	-	-	0.90%	-	-	2.40%	-	-	2.20%	
% Quarterly Productivity Change from Previous Year	-	1.00%	-	-	3.10%	-	-	3.00%	-	-	3.40%	-	-	2.80%	
<b>Industrial Production</b>															
Change in Monthly Industrial Production	0.00%	0.30%	0.60%	0.00%	0.30%	-0.40%	0.40%	0.10%	0.20%	-0.40%	0.10%	-0.70%	-0.20%	0.50%	
YOY Change in Industrial Production	1.60%	1.40%	1.40%	1.70%	1.90%	1.80%	2.10%	1.50%	2.30%	1.00%	1.60%	0.20%	-0.10%	0.30%	
<b>Volume Sales</b>															
Monthly Change Retail Sales	1.40%	-0.90%	0.30%	0.30%	0.60%	0.20%	1.20%	-0.40%	0.30%	-0.60%	0.20%	-0.20%	0.80%	0.10%	
YOY Change Retail Sales	5.00%	3.80%	3.20%	3.70%	5.00%	5.20%	6.30%	4.10%	3.90%	2.60%	2.00%	2.00%	2.80%	3.00%	

*III. Table 3 - Personal Incomes and Outlays May 2007 to June 2008*

	<b>Personal Income % Monthly Change</b>	<b><u>Personal Consumption Expenditures % Monthly Change</u></b>	<b><u>Real Personal Consumption Expenditures Change from One Year Previous</u></b>
May-07	0.4	0.50%	3.00%
Jun-07	0.4	0.20%	2.90%
Jul-07	0.5	0.40%	2.60%
Aug-07	0.4	0.40%	3.10%
Sep-07	0.4	0.50%	2.90%
Oct-07	0.4	0.30%	2.20%
Nov-07	0.4	1.00%	2.50%
Dec-07	0.5	0.20%	1.90%
Jan-08	0.2	0.40%	1.70%
Feb-08	0.2	-0.20%	1.20%
Mar-08	0.4	0.30%	1.50%
Apr-08	0.2	0.10%	1.30%
May-08	1.8	0.30%	1.50%
Jun-08	0.1	-0.20%	1.2%(p)

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