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### **Granular Sentiments \***

Abstract:

We propose an empirically-consistent theory of business cycles, driven by fluctuations in sentiment towards a small number of firms. We measure firm-level sentiment with standard methods from computational linguistics. We find that 50 firms account for over 70% of the unconditional variation in U.S. sentiment and output over the period 2006-2021. The “granular sentiment residual”, measuring sentiment towards the 50 firms, is dominated by firms that are closer to the final consumer, i.e. are downstream. To rationalize our findings, we embed endogenous information choice into a general equilibrium model with heterogeneous upstream and downstream firms. We show that attention centers on downstream firms, as they act as natural “information agglomerators”. When calibrated to match select moments of U.S. data, the model shows that orthogonal shocks to the sentiment of the 20% most downstream firms explain more than 80% of sentiment-driven and 25% of total business fluctuations.

\* joint with Rustam Jamilov, Sasha Talavera, and Mao Zhao