



Subject: Presidential Honeymoons  
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Over the past half century, presidential elections have repeatedly caused a post-election bounce in consumer confidence. This is not surprising since economic policy has been a prominent component of most presidential elections. Kennedy used the catch phrase that his administration would “get the economy going again” and for Bill Clinton, it was “it’s the economy, stupid.” Since presidential elections are in large part a referendum on the economy, presidents are accorded a so-called “honeymoon” which gives the new president an opportunity to demonstrate the effectiveness of new economic policies. While Trump’s election was a surprise, the initial surge in optimism following his election was not. The honeymoon grant of optimistic expectations does not usually last past the first 100 days before some initial reinforcement from positive economic results is required. This time the honeymoon period may be different since Trump’s opposition is less likely to be accommodative and more likely to actively resist his policies. Nonetheless, changes in the economy, whether favorable or unfavorable, cannot be denied or ignored for long. Given that the consensus points toward a modestly improved economic outlook for the year ahead, each side needs to adjust its economic assessments. The Michigan surveys are based on a rotating panel design, with one-third of any month’s respondents having been initially interviewed six months earlier. Thus, the December 2016 survey included 200 consumers who were also interviewed in June. The rotating panel has statistical as well as substantive advantages for measuring change in expectations. This report highlights how consumers have changed their expectations over the past six months by whether they self-identified as Democrats, Republicans or Independents.

Consumers who self-identified as Democrats were the most optimistic and Republicans the least optimistic in June 2016, with Independents in between on the Sentiment Index as well as its components covering current and expected conditions. Following the election of Trump, the reverse was true as Republicans were the most optimistic and Democrats the least optimistic. The six-month differences among Republicans were far larger than for Democrats or Independents. Perhaps the most significant difference was in the Expectations Index, which fell to just 67.8 among Democrats in December, a 24.1 index point decline from June, while the Expectations Index among Republican was 121.4, about twice the level of Democrats, and represented a 50.5 index-point gain from June. The excessive gain among Republicans clearly represents “irrational exuberance” just as the excessive decline among Democrats represents “irrational pessimism.” Note that among Democrats, year-ahead income expectations fell and year-ahead inflation expectations rose, and among Republicans, income expectations rose and inflation expectations fell. Perhaps the most drastic shifts were in unemployment expectations: rising unemployment was anticipated by 46% of Democrats in December, up from just 17% in June, but for Republicans, rising unemployment was anticipated by just 3% in December, down from 41% in June. The initial response of both Republicans and Democrats to Trump’s election is as clear as it is unsustainable: one side anticipates an economic downturn, and the other expects very robust economic growth. It is a losing strategy for either side to promote such unrealistic economic prospects. Indeed, in the months ahead, it is more likely that economic optimism will improve among Democrats and decline among Republicans.

### Change in Economic Assessments Among Identical Consumers From June to December 2016 By Political Party

	Political Party in June								
	Democrats			Independent			Republican		
	June 2016	Dec 2016	Diff	June 2016	Dec 2016	Diff	June 2016	Dec 2016	Diff
Index of Consumer Sentiment	101.2	88.4	-12.8	88.1	96.6	+8.5	82.6	122.8	+40.2
Index of Current Economic Conditions	115.7	120.3	+4.6	109.1	108.8	-0.3	100.9	124.8	+23.9
Index of Consumer Expectations	91.9	67.8	-24.1	74.6	88.7	+14.1	70.9	121.4	+50.5
Year-ahead Income Expectations (median %)	1.6%	0.3%	-1.3	1.2%	2.2%	+1.0	0.3%	2.6%	+2.3
Year-ahead Inflation Expectations (median %)	2.1%	2.4%	+0.3	3.0%	2.3%	-0.7	2.3%	1.6%	-0.7
Year-ahead unemployment									
More Unemployment (percentage)	17	46	+29	33	16	-17	41	3	-38
Less Unemployment (percentage)	28	10	-18	13	31	+18	4	57	+53

Note: Data differs from the official published data since these data were based on 200 cases that were interviewed in both June and December 2016.