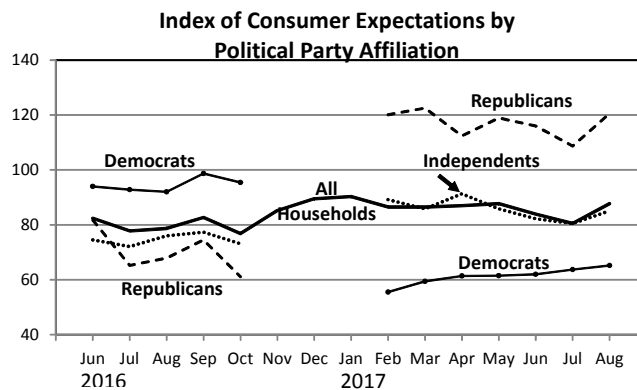




Subject: Partisan Impact on Economic Expectations
From: Richard Curtin, Director

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Two common questions about recent trends in economic expectations are whether Republicans lessened their extreme optimism, and whether Democrats lessened their extreme pessimism. Based on recent economic and political developments, it would have been reasonable to anticipate that the extreme gap in economic expectations would significantly narrow over time. Unfortunately, that has not been the case, at least not to a significant extent. As shown in the right side of the chart, the gap in the Index of Consumer Expectations between Democrats and Republicans has varied by a trivial amount during the past seven months. Moreover, the levels of the Expectations Index of both Republicans and Democrats remained at extreme levels in each of the past seven months. Among Republicans, the level exceeded its all-time peak across all households, while among Democrats, its level was consistent with the start of recessions during the past half century. The gap equaled 65 points in February 2017 (the first full month of Trump’s presidency) and 55 points in August.



There were slightly larger month-to-month variations in Republican optimism. Nonetheless, the downward trend among Republicans, as well as the upward trend among Democrats, were very slight, implying that the gap would persist throughout Trump’s first term. The partisan nature of the gap is highlighted by consumers who self-identified as independents: the Index values among these respondents closely matched the all household figures for the Expectations Index.

A partisan gap in expectations was also observed in the closing months of the Obama administration, from June to October 2016 (the last full month prior to the election). The key difference was that during this earlier time period Democrats were much more optimistic than Republicans (see the left side of the chart). This gap, however, was much smaller: at its widest, the gap equaled 34 Index points in October and averaged 22 points over the five months. The election results were accompanied by a swing in partisan views on economic prospects, with Democrats and Republicans immediately shifting in opposite directions. The missing observations in the chart reflect the omission of the question on partisan identification during the period between administrations. In both the 2016 and 2017 surveys, 41% were self identified Independents, 32% were Democrats, and 27% were Republicans.

The prevalence of the partisan gap was found across all age, income, and education subgroups—see the table on the next page. For the demographic analysis, the monthly surveys were pooled for each period. For the data collected between February and August 2017, the difference between Democrats and Republicans hardly varies from the overall mean of -55.9 across ages, incomes, and education levels—shown in the center section of the table. While a few of the 2017 partisan gaps were statistically significant, none are meaningfully different. Note that the gap in 2017 between the overall figure and Independents is quite small, and often insignificantly different from zero. While this confirms the finding illustrated in the chart, it also indicates that the partisan gaps were not due to extreme opinions among a subset of the age, income, or educational classifications. These data indicate that partisanship has dominated across all demographic subgroups.

The partisan gaps observed in 2016 were similar to 2017, but the differences were in the opposite direction and the overall size of the gap was about half the 2017 levels. While Democrats were more optimistic than Republicans across every demographic group in 2016, the size of the gaps varied significantly, with larger partisan gaps associated with rising incomes and education. Unlike the 2017 data, these differences were highly significant and meaningful. The Democratic edge rose from just +4.1 for those with incomes in the bottom fifth to +39.0 among those with incomes in the top fifth of the distribution. The same was true for education, as the gap rose from just +2.6 for the least educated to +41.7 among the highest educated. No significant difference across 2016 age groups was found. The difference between Independents and the overall Index value for all households was somewhat larger than in 2017 and less consistent across the demographic subgroups.

Finally, the overall demographic distributions across all party affiliations have shown a marked change in 2017 from 2016. Differences across demographic groups were consistent with prior years in 2016: values on the Expectations index rose along with increasing income and education, and declined as people aged. How the distributions changed in 2017 is best shown in the right most columns in the table: older compared with younger consumers had more optimistic opinions as did the least educated compared with the most educated. Overall, the demographic distributions in 2017 were quite distinct in that they exhibited different patterns than has been repeatedly observed in the past decades.

The same summary that I offered in a special report on March 10, 2017 entitled “Optimism, Uncertainty, and Volatility” still applies: How will the political polarization in economic prospects be resolved? It is doubtful that the political divide will ever be fully bridged. Nonetheless, consumers have long demonstrated their ability to form economic expectations based on actual economic developments, putting aside their political ideology. The most straightforward prediction is that both Democrats and Republicans will moderate their extreme economic expectations. In the ideal case, both sides would gradually change their economic expectations until they converge. This would be ideal since the convergence would occur without heightened volatility. It is more likely that change will occur unevenly over time and across parties (including Independents). Importantly, the more persistent the volatility, the more it will be reflected in uneven spending trends, as occurred in the first half of 2017. It should be noted that no significant convergence across the partisan divide has yet been recorded, and a prolonged delay would simply extend and deepen uncertainty, without much impact on volatility. The demographic analysis indicated that the two groups most likely to exhibit changed expectations in the future are older and less educated consumers.

The most volatile path toward convergence would entail overreactions to legislation as it is introduced and debated in Congress, or overreaction to administration responses to other domestic or world events. The least likely outcome is for one side or the other to admit that their expectations were incorrect. It is far more likely that rather than blaming a faulty political ideology, consumers will conclude that some special economic factors or natural events were responsible for their failed expectations.

Index of Consumer Expectations																
(Cases: June-October 2016=2,753; February-August 2017=4,228)																
	June to October 2016						February to August 2017						Change in Levels: 2017 - 2016			
	Levels				Differences		Levels				Differences		All	Dem	Ind	Rep
	All	Dem	Ind	Rep	Dem-Rep	All-Ind	All	Dem	Ind	Rep	Dem-Rep	All-Ind	All	Dem	Ind	Rep
All	79.7	94.6	74.6	70.0	+24.6	+5.1	85.8	61.3	85.5	117.2	-55.9	+0.3	+6.1	-33.3	+10.9	+47.2
Age																
18-34	88.1	103.6	81.6	81.9	+21.7	+6.5	86.0	70.5	83.4	119.1	-48.6	+2.6	-2.1	-33.1	+1.8	+37.2
35-44	85.7	104.1	77.5	80.1	+24.0	+8.2	86.8	65.6	87.6	115.4	-49.8	-0.8	+1.1	-38.5	+10.1	+35.3
45-54	83.0	98.3	80.2	74.4	+23.9	+2.8	89.8	59.2	92.0	120.8	-61.6	-2.2	+6.8	-39.1	+11.8	+46.4
55-64	75.2	92.3	64.3	66.3	+26.0	+10.9	84.6	53.8	86.8	117.5	-63.7	-2.2	+9.4	-38.5	+22.5	+51.2
65+	68.6	82.4	64.8	56.8	+25.6	+3.8	83.3	58.2	80.3	114.3	-56.1	+3.0	+14.7	-24.2	+15.5	+57.5
Income																
Bottom Fifth	69.9	77.6	62.7	73.5	+4.1	+7.2	72.6	56.3	79.9	104.4	-48.1	+1.7	+2.7	-21.3	+8.2	+30.9
Second	77.8	88.6	75.1	69.8	+18.8	+2.7	82.7	61.3	80.0	115.2	-53.9	+2.7	+4.9	-27.3	+4.9	+45.4
Middle Fifth	80.3	99.9	73.2	68.7	+31.2	+7.1	89.5	65.0	90.4	118.4	-53.4	-0.9	+9.2	-34.9	+17.2	+49.7
Fourth	88.1	103.3	87.9	72.1	+31.2	+0.2	90.9	59.6	93.9	117.9	-58.3	-3.0	+2.8	-43.7	+6.0	+45.8
Top Fifth	83.6	106.9	77.3	67.9	+39.0	+6.3	92.2	64.5	95.0	124.7	-60.2	-2.8	+8.6	-42.4	+17.7	+56.8
Education																
Less HS Degree	69.7	77.5	62.2	74.9	+2.6	+7.5	82.1	65.7	77.9	130.9	-65.2	+4.2	+12.4	-11.8	+15.7	+56.0
HS Degree	75.4	84.4	72.4	72.3	+12.1	+3.0	89.9	65.9	89.1	111.0	-45.1	+0.8	+14.5	-18.5	+16.7	+38.7
Some College	74.8	88.5	69.5	70.1	+18.4	+5.3	86.3	60.1	84.2	118.0	-57.9	+2.1	+11.5	-28.4	+14.7	+47.9
College Degree	84.3	97.1	82.9	71.6	+25.5	+1.4	87.6	64.0	85.5	119.1	-55.1	+2.1	+3.3	-33.1	+2.6	+47.5
Graduate Studies	86.9	104.9	78.7	63.2	+41.7	+8.2	80.3	56.7	86.2	117.8	-61.1	-5.9	-6.6	-48.2	+7.5	+54.6