Perceptions of the US Economy Have Become Deeply Politicized: Does that Explain the Prevalence of Downbeat Views?

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Synopsis

As the U.S. economy capped off a surprisingly strong year relative to low expectations, the business media, economists, and market commentators continue to puzzle over why so many Americans tell pollsters they have unfavourable views on the current state of the economy and give President Biden low marks for his handling of the economy even as it continues to outperform on many metrics. One possible explanation is political bias. Americans' perceptions of the economy have become increasingly influenced by their political party affiliation in recent years. This trend began under President Obama but has become more extreme under the Trump and Biden administrations. Simply put, more Americans view the economy as doing poorly when 'their guy' isn't in the White House irrespective of the macro-level data. This article will analyse nearly a decade of monthly polling data from the University of Michigan's Survey of Consumers and YouGov to quantify the impact of this political divide among respondents, compare it to mean differences in responses for other demographic subgroups (e.g., income, education, age) and evaluate whether demonstrated political bias sufficiently explains the prevalence of downbeat views on the economy. Spoiler alert: It doesn't.

Political bias shapes our views of the economy. Does it matter?

On the very day that the U.S. Labor Department reported the domestic economy created 353,000 new private sector jobs in January (and also upwardly revised new jobs for the two previous months), CNN reported[2] that its latest consumer poll showed just 26% of respondents said the U.S. economy is starting to recover from the problems it faced in the past few years, while 48% said the economy is still in a downturn and conditions continue to worsen. One week earlier, on the same day that the U.S. Department of Commerce reported its advance estimate of 3.3% real GDP growth in 4Q23, 4.9% in 3Q23 and 2.5% in 2023, all handily exceeding economists' previous estimates, a Pew Research Center report[3] indicated that just 28% of respondents said economic conditions in this country today were excellent (3%) or good (25%) while 72% called it poor (31%) or fair (41%) – a slight improvement from its two previous economic surveys in early 2023. The business media has been puzzling over the disconnect between surprisingly strong and improving domestic macroeconomic conditions indicated by a steady stream of positive economic data readings in contrast to many Americans' downbeat views of current economic conditions. The divide between macroeconomic data and popular perceptions about how the economy is doing is not new or unusual – it can be traced back to the Obama presidency – but the divergence between mostly solid economic statistics during the recent post-COVID recovery and popular perceptions has widened over the past year. This disconnection between recent upbeat data on the economy – no matter how encouraging it appears to policy wonks – and downbeat common perceptions threatens President Biden's reelection hopes even as a streak of mostly positive economic news has dominated business headlines for months, including a continuing strong labour market and another solid holiday season for consumer spending. What gives? Perhaps an explanation is hiding in plain sight. We thought it was worth a look.

According to major opinion polls, most Americans continue to say they are not seeing evidence of economic improvement despite stronger data readings. For years, a plausible explanation offered has been that economic prosperity in the aggregate has bypassed too

Notes

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2 'CNN Poll: Public Views of the Economy Are on the Rise, But Remain Dim', 2 February 2024 <https://www.cnn.com/2024/02/02/politics/cnn-poll-economy/index.html>.

3 'Americans More Upbeat on the Economy: Biden's Job Rating Remains Very Low', Pew Research Center, 25 January 2024. <https://www.pewresearch.org/politics/2024/01/25/americans-more-upbeat-on-the-economy-bidens-job-rating-remains-very-low/>.

many Americans, with most of these gains accruing to too few. It was believed to be primarily a distribution problem. Indeed, a contributing factor to the election of Donald Trump in 2016 were many millions of 'left behind' Americans who grew tired of politicians and pundits telling them that the economy was doing okay while they were struggling.

However, as the U.S. economy continues to outperform expectations, with ongoing strong labour market gains in both new jobs and wages and near record-low unemployment across demographic groups while inflation subsides, the notion that economic gains still aren't reaching most average Americans isn't as convincing as it once was, though it's undoubtedly true to some degree.

In recent years it has become increasingly evident that Americans' views on the condition of the economy are strongly influenced by their political affiliation – and arguably can be detached from economic facts on the ground and/or deviate from consensus opinion. The aforementioned CNN poll indicated that 49% of responses among Democrats said the economy is recovering, with 24% of self-identified Independents agreeing, while just 6% of Republican respondents said a recovery was underway. Similarly, the Pew Research report referenced above had 44% of Democratic or Democratic leaning (D/DL) respondents saying that U.S. economic conditions were good or excellent compared to 13% of Republicans or Republican leaning (R/RL) respondents who felt likewise.

Such stark differences in economic perceptions cannot be explained by regional variations in economic performance, and often are inconsistent with sentiment differences for other demographic breakdowns (such as by income or education level), which historically exhibit notable *mean differences* (i.e., the difference in an average score or value for two distinct groups) between subgroups but are strongly positively correlated, meaning that they tend to move together despite these mean differences. That is not the case with responses by political party affiliation, which show a small mean difference over a long timeframe but tend not to move together. Instead, they exhibit large mean differences during each distinct presidential term, and therefore are significantly less positively correlated in their movement than relationships within other demographic subgroups.

And so, it seems that political party affiliation is a unique demographic variable in explaining consumers' views on the economy, cutting across other demographic distinctions among survey respondents and exposing a sizeable rift among Americans on basic economic matters – not opinions on where the economy is headed in a year or how the president's policies are impacting the economy, but simply how the economy is doing right now.

Deep divisions among Americans on issues involving culture, religion, politics or national security are widely recognized and understood to be influenced by political partisanship, but that bias appears to have infiltrated the relatively uncontroversial realm of economics, where one might have expected that common ground would be more, well, common. The finding of political partisanship explaining differences of opinion on current economic conditions is not an anomaly or a recent development. It has been consistently true to varying degree across several widely recognized consumer opinion polls and surveys for a while, as this article will demonstrate. However, the divergence in economic perceptions along political lines widened out considerably during the Trump presidency and has remained nearly as wide throughout the Biden presidency.

Our analysis indicates that political party bias on perceptions of economic conditions is evident from both Democratic and Republican respondents, though it varies considerably over time. We measure such bias by the degree to which party-affiliated responses on the economy deviate from 'middle group' responses and overall responses. It is indisputable that political bias on perceived economic conditions afflicts both Democrats and Republicans. Admittedly, this is a somewhat fraught topic. Nobody wants to hear that their opinions of the economy are biased or 'wrong'. Indeed, there is no absolute right or wrong when it comes to matters of perception. Nor do we have any intention to wade into political waters. However, when the aggregate responses of a large cohort exhibit a response pattern that runs counter to the broader consensus of opinion, it is appropriate to call out the contrast.

The topic was addressed in 2018 when Dr. Richard Curtin, former director of the University of Michigan's Survey of Consumers, wrote that, 'An unprecedented partisan divide in economic expectations occurred following President Trump's election, and those differences have persisted unchanged for more than a year after his election.'[4] He further commented, 'Such sharp and sustained partisan differences are not consistent with theories of rational expectations, since all parties have access to the same economic information.' (Such a comment almost sounds naïve in these times of 'alternative facts' and partisan news sources.) However, Dr. Curtin's focus was the partisan impact on the Consumer Expectations Index component of the Index of Consumer Sentiment (the other component being the Current Conditions Index),[5] which gives respondents

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4 Richard Curtin, *Consumer Economic Expectations: Persistent Partisan Differences*, University of Michigan, September 2018, <https://data.sca.isr.umich.edu/fetchdoc.php?docid=61141>.

5 The University of Michigan's Index of Consumer Sentiment (ICS) is a monthly consumer survey of no fewer than 600 respondents covering a variety of economic topics. The ICS consists of two component indexes, the Index of Current Conditions (herein referred to as CCI) and the

more leeway to inject cognitive biases into their responses. He pondered whether such partisan differences represented conscious political posturing (i.e., giving 'socially desirable responses') that didn't reflect respondents' true feelings, potentially undermining the usefulness of the index in predicting consumer behaviour.

Dr. Curtin stated that such partisanship had not produced any initial significant partisan difference in the Current Conditions Index, that is, how consumers perceive current economic conditions. (Keep in mind that this paper was published in September 2018.) That possibility concerned Dr. Curtin, who commented that if partisanship were to impact perceptions of current economic conditions, then '… analysis would heavily depend on psychological explanation of the existence of outright misperceptions.' He encouraged more attention be paid to this topic in the months and years ahead. Nearly six years later, it has become evident that views on the current state of the economy are notably influenced by political partisanship, though not to the same degree that economic expectations are.

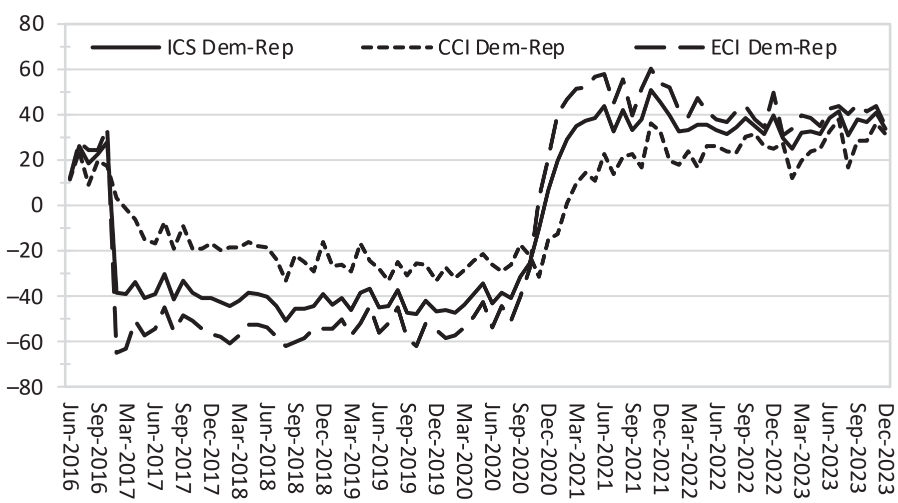
And the surveys say…

Our analysis utilized two data sources that regularly poll consumers on the state of the economy (among other topics) and for which historical results broken down by demographic groups were available, including political party affiliation. Those were the **University of Michigan's Survey of Consumers** ('UoM') (http://www.sca.isr.umich.edu/), and **YouGov** (https://today.yougov.com/). UoM is the most recognized source of consumer sentiment data, with monthly time series of its Index of Consumer Sentiment and component indices, survey questions, and responses by demographic groups dating back to 1978. Unfortunately, its survey response by political party affiliation was not a regular question in its survey until 2016, so that particular breakdown prior to 2016 was sporadic. YouGov is not as longstanding as the UoM survey but has consistent monthly responses by political party affiliation dating back further in time.

University of Michigan's (UoM) Survey of Consumers: Current Conditions Index (CCI)

Republicans and Democrats consistently view the condition of the economy differently according to both of our primary data sources, though the degree of divergence varies, with UoM producing a smaller difference in views on current economic conditions by political party than YouGov. As Dr. Curtin referenced, sentiment differences by political party were much wider for the Consumer Expectations Index (ECI) than the Current Conditions Index (CCI) (**Exhibit 1**), as respondents can more easily impose their biases onto the future (e.g., 'This president is going to ruin the economy') without the discomfort of cognitive dissonance. Sentiment differences in the Current Conditions Index (CCI) by political party were far smaller than differences in the Expected Conditions Index (ECI) but were nonetheless material and concerning, especially the tendency to quickly flip upon an occupancy change in the White House.

Exhibit 1. UoM Index of Consumer Sentiment & its Components – Democratic minus Republican Index Values



Source: University of Michigan Surveys of Consumers

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Index of Consumer Expectations (herein referred to as ECI).

Monthly values for the **Current Conditions Index (CCI)** from June 2016 through December 2023 were evaluated by demographic groups, those being Income, Education, Age Group, and Political Party. There are three subgroups within each demographic group. In each instance, we compared index values of the two 'bookend' subgroups and omitted the middle subgroup, meaning Top Income Tercile vs. Bottom Income Tercile, College Graduate vs. High School or less, Age 18–34 vs. Age 55+, and Democrat vs. Republican. Average CCI values and R-squared[6] values between subgroups are shown below:

Exhibit 2. University of Michigan Survey of Consumers: Current Conditions Index

Demographic Subgroup	Average Current Conditions Index (CCI) June 2016 – December 2023	Mean Difference	R-Squared
Top Income Tercile vs. Bottom Income Tercile	100.2 vs. 85.9	14.3	.883
College Graduate vs. High School or Less	97.0 vs. 88.0	9.0	.890
Age 18–34 vs. Age 55+	101.8 vs. 89.7	12.0	.867
Democrat vs. Republican	93.4 vs. 94.8	–1.5	.512
All Respondents	92.9	N/A	N/A

What is clear for the first three demographic groups (income, education, age) is that even though there are notable mean differences between subgroups (e.g., The Top Income Tercile consistently perceives the economy to be better than the Bottom Income Tercile), their R-squared values are very high (**Exhibit 2**), meaning they strongly tend to move together over time despite the persistence of these mean differences. Contrarily, there is a small mean difference between Democratic and Republican responses over the entirety of this eight-year period, but their respective movements tend to be highly asynchronous. Democrats tend to be more upbeat on the economy when Republicans are downbeat, and vice versa. This is reflected in the much lower R-squared value by political party compared to the other demographic subgroups. Despite notable mean differences in responses by subgroup, the time series of the first three demographic groups strongly tend to move together directionally in reaction to economic developments and trends. That is much less the case with responses by political party, where respondents tend to be dug into politically influenced positions even as economic conditions change.

In order to quantify the political impact on respondents' answers, the difference in index values between Republicans and Democrats was measured monthly and compared to corresponding index value differences in responses of other demographic subgroups (e.g., Top Income Tercile vs. Bottom Income Tercile, College Graduate vs. High School or less, Age 18–34 vs. Age 55+). The result is startling: political party affiliation produces a far more extreme differential between its subgroups than the other three demographic groups, which tend to be much more range bound over time (**Exhibit 3**). Moreover, the political party index differential (Democratic minus Republican) has twice 'flipped' dramatically since 2016, going deeply negative soon after President Trump's election and flipping back to positive upon President Biden's election. Index differences by demographic subgroups during the respective Trump and Biden administrations are shown in **Exhibit 4** and quantify the degree to which views on the economy are influenced by political partisanship. It is indisputable that political bias has more influence on respondents' views of the current economy than income, education or age. But whose bias is it?

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6 R-squared, also known as the coefficient of determination, indicates what percentage of the variance in one variable is associated with the variance in another variable, with a possible value range of 0 to 1. An R-squared value of 1 indicates perfect correlation, that is, all of the variability in one variable is attributable to variability in the other variable, while a value of 0 indicates that the variability of two variables are entirely independent of each other. In plain terms, it is a statistical measure of the tendency of two variables to move together.

Exhibit 3. UoM Index of Current Conditions: Index Differences within Demographic Subgroups

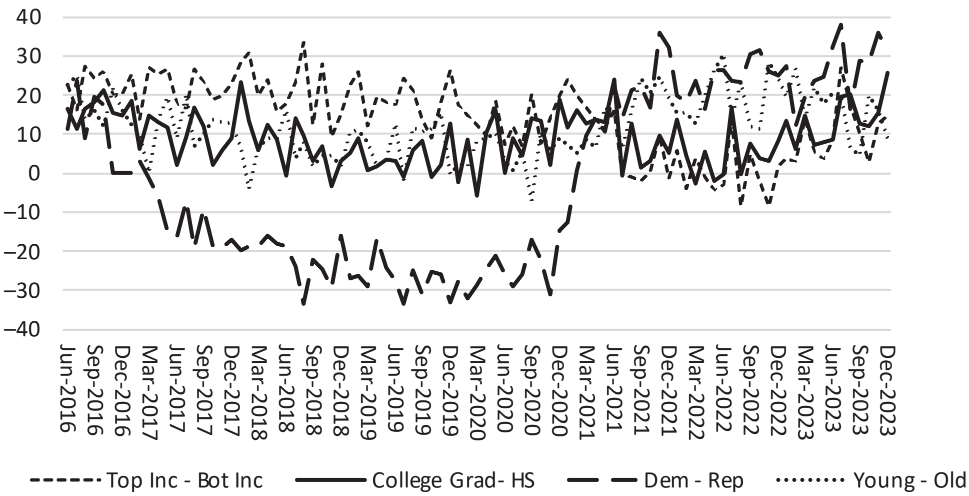


Exhibit 4. University of Michigan Survey of Consumers: Current Conditions Index

Demographic Subgroup: CCI Index Differences	Trump Years	Biden Years	Difference	Trump & Biden Years Combined
Top Income Tercile minus Bottom Income Tercile	19.1	6.4	12.7	13.6
College Graduate minus High School or Less	7.3	9.6	–2.3	8.4
Age 18–34 minus Age 55+	7.6	16.8	–9.2	11.5
Democrat minus Republican	–21.4	22.2	–43.6	–2.6

Whose bias is it?

Though we've demonstrated that the gap in CCI measurements between Democrats and Republicans is wide – far wider than the gap among other demographic subgroups (**Exhibit 3**) – that observation doesn't resolve who is most or mostly biased. For instance, a negative difference between Democratic and Republican responses could mean that Democrats are very pessimistic or Republicans are exceptionally optimistic, or both. How can that be discerned?

We can compare each demographic subgroup's monthly responses to the overall index value of all respondents or to the middle subgroup response, which has shown to be highly correlated with its overall index. This can be done with UoM data, which has a middle subgroup for each demographic group (e.g., Independent voters, Middle Income Tercile, Some College Education, Age Group 35–54).

We chose to measure monthly responses of Democratic and Republican subgroups against the overall CCI index value and evaluate each subgroup's response differences over time relative to the CCI index. What this analysis reveals is an unmistakable display of political partisanship by party affiliation since 2016 (**Exhibit 5**), with Democrats and Republicans each changing their respective opinions of the current economy nearly as soon as 'their guy' was in the White House and then flipflopping back as soon as 'the other guy' was in the White House. These dramatic changes in economic sentiment came far too soon for 'either guy' in the White House to have enacted any changes or policies that would have impacted current economic performance so quickly. The change in economic sentiment seems to be primarily politically motivated.

As to which party's respondents are more biased, the answer is nuanced. Republicans were more positively biased when President Trump was in office than Democratics were negatively biased, with an average monthly index difference of +12.9 points for Republicans compared to –8.6 points for Democrats (**Exhibit 6**). However, the bias since President Biden took office has been balanced, with Democrats deviating from the CCI by an average of +10.5 points and Republicans by –10.7 points over the last three years. This would seemingly undercut the suggestion that Republican respondents' refusal to acknowledge an improving economy of late is distorting sentiment readings and causing the CCI to be understated. Lately, Republicans are no more excessively downbeat than Democrats are excessively upbeat.

Overall, it appears that the political divide between Democrats and Republicans with respect to perceptions of current economic conditions is mostly a self-cancelling phenomenon. Such a conclusion is a good news/bad news outcome. On the positive side, it would indicate that the **Current Conditions Index** is still a reliable measure of how Americans view the current economy despite the presence of notable political biases by both Democratic and Republican respondents that are mostly offsetting. In these deeply polarized times, it might be the best one could hope for. However, it also suggests that the overall CCI Index (and its Independent subgroup) – which hovered around 74 in early January – nearly 20 points below its long-term average – reflects an economy whose gains in the post-COVID period still are not readily apparent to most Americans despite its surprising outperformance in 2023, and not the result of politically tainted survey responses, which are real but not materially distorting overall.

Exhibit 5. UoM Current Conditions Index: Political Party Subgroup vs. Overall CCI Index

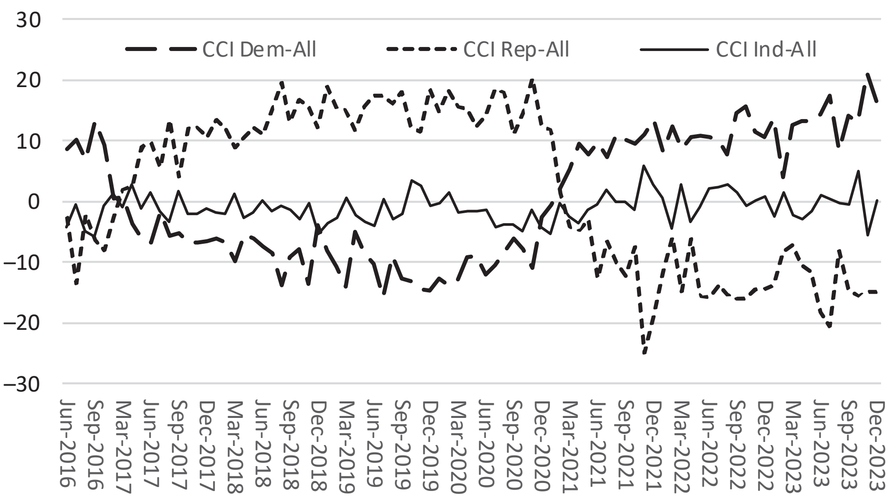


Exhibit 6. University of Michigan Survey of Consumers: Current Conditions Index

CCI Index Differences by Political Party	Trump Years	Biden Years	Difference	Trump & Biden Years Combined
Democrats minus overall CCI	–8.6	10.5	19.1	–0.1
Republicans minus overall CCI	12.9	–10.7	–23.6	2.4
Independents minus overall CCI	–1.3	–0.3	1.0	–0.9

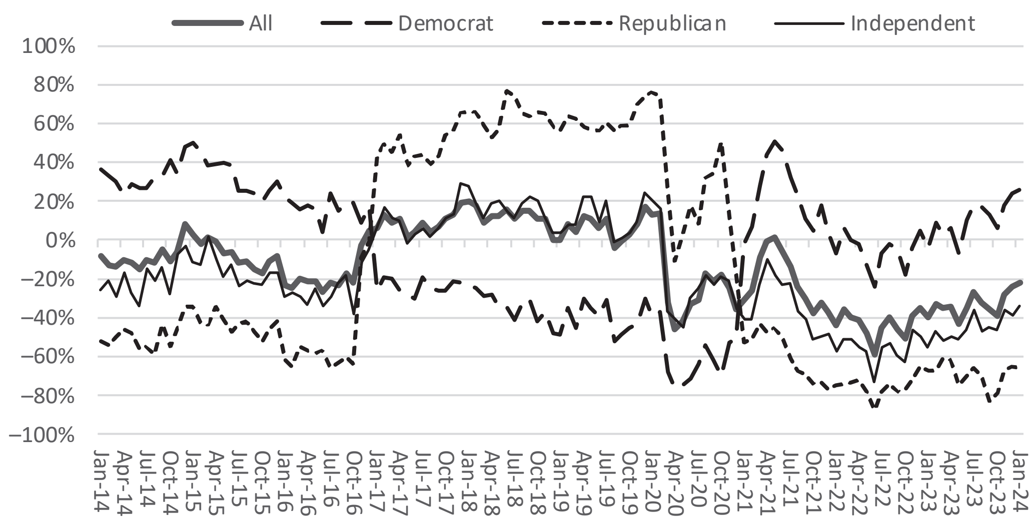
YouGov: Do you think the economy is getting better or worse?

YouGov conducts weekly surveys on a wide variety of topics, explaining that 'For each survey, a representative sample of 1,500 respondents is selected from YouGov's U.S. research panel.' Regarding the state of the economy, YouGov's relevant question is, *'Overall, do you think the economy is getting betting or worse?'* YouGov responses are not reduced to an index value, as with the UoM Index of Consumer Sentiment and its component indexes. YouGov's response percentages are presented on their own. We measured the arithmetic difference between 'Getting Better' and 'Getting Worse' on a monthly basis since January 2014 and compared these differences by demographic groups and subgroups, similar to what we did for UoM's CCI.

Similar to our findings for CCI, entrenched response differences by political party were prevalent during each distinct presidential administration (**Exhibit 7**) – and were wider than differences by education level (not shown). Again, we measured political bias by each subgroup to identify the primary source of the bias. Monthly responses from Democrats and Republicans were each compared to the overall response. The resulting difference for both Democrats and Republicans (**Exhibit 8**) was even wider than it was for CCI, though the response pattern was generally similar to the same analysis of CCI (**Exhibit 5**).

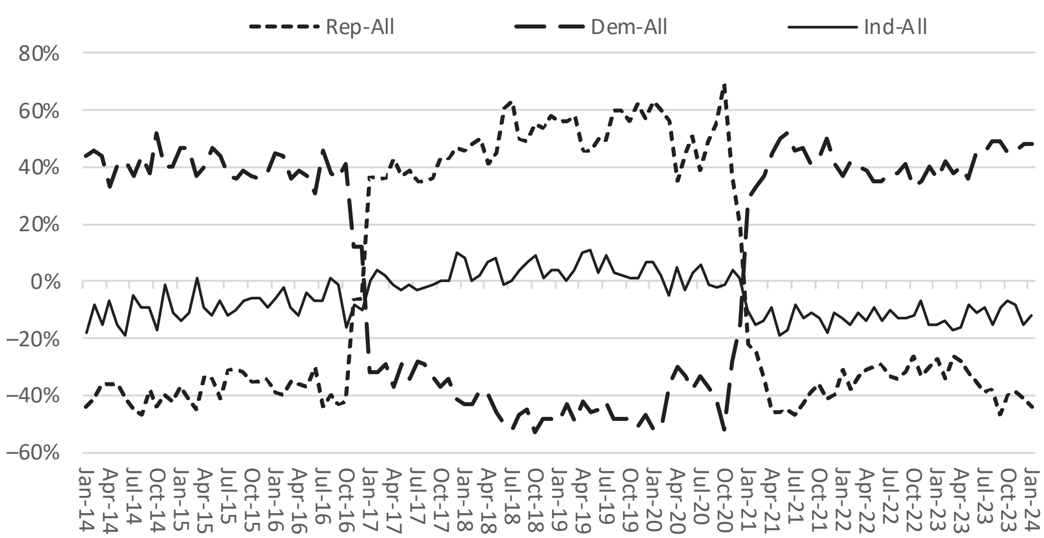
Respondents by political party again were deeply biased depending on whether 'their guy' was in the White House. Bias by party during the second Obama term was wide but proportionate. Republicans were more biased than Democrats during the Trump years while Democrats have been slightly more biased than Republicans during the Biden years, as seen in **Exhibit 9**. Again, these differences were *mostly* offsetting during each of these presidential administrations.

Exhibit 7. Do You Think the Economy is Getting Better or Worse? – % Getting Better minus % Getting Worse



Source: YouGov and FTI analysis

Exhibit 8. Do You Think the Economy is Getting Better or Worse? – % Getting Better minus % Getting Worse



Source: YouGov and FTI analysis

Exhibit 9. Do You Think the Economy is Getting Better or Worse? – % Getting Better minus % Getting Worse

	Democrats minus All	Republicans minus All	Independents minus All
Obama Years (Jan. 2014 – Oct. 2016)	40.6%	–38.4%	–8.8%
Trump Years (Jan. 2017 – Oct. 2020)	–41.5%	49.2%	2.6%
Biden Years (Jan. 2021 – Dec. 2023)	41.5%	–35.5%	–12.4%
2014–2023	8.1%	–2.6%	–5.4%

Source: YouGov and FTI analysis

Conclusion

Political partisanship has deeply infiltrated public opinion about many social, cultural, religious and business issues in recent years, and that includes views on the economy. The political lens through which we see and interpret economic events can taint our vision to the point where many Americans can't seem to agree on the interpretation of economic data that is objectively measurable or estimable. Sometimes this debate veers from the interpretation of macroeconomic data to the integrity of the data itself, such as the occasional debate on Fox News about whether near record-low unemployment is 'real' or not. Much like all other news, we get our business and economic news from different sources depending largely on our political leanings. These days, Fox News continues to drone on about 'record high inflation' while MSNBC makes inflation sound like yesterday's news and invokes 'Biden-omics' more than other news channels. Media bias shapes our personal views and biases in ways we may not be aware of – even in the relatively mundane realm of economics.

Our evaluation of UoM and YouGov monthly data over a period of 8–10 years supports the conclusion that self-described Democrats and Republicans reveal their political biases in these data, with neither subgroup representing the consensus of opinion nor being consistently closer to the middle ground than the other side. Currently, a fair share of highly educated, high income earning Republicans are apt to tell pollsters that the economy is lousy while less educated, lower income earning Democrats are apt to say the economy is improving. Five years ago, these very same cohorts would have had starkly different views of a pre-COVID economy that was performing similarly.

The responses of self-identifying Independents, who by some accounts are either the largest political bloc or at least as large as either Democrats or Republicans, are likely the most objective indicator of how Americans are really feeling on economic matters.

Fortunately, the seemingly coordinated asymmetry of Democratic and Republican biases is a blessing of sorts, as it effectively cancels out the drift of their respective responses and leaves the underlying index value or overall poll response relatively unscathed and likely indicative of overall popular sentiment. That being said, most Americans continue to tell pollsters they remain dissatisfied with the current state of the domestic economy despite respectably strong macroeconomic data trends for reasons that are vexing to many economists, and which cannot be explained away by the politically influenced biases of survey respondents. Those hoping for a facile answer are likely to be disappointed by this conclusion. There's more work to be done in understanding why current economic performance is leaving so many Americans dissatisfied.