surveys of consumers
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Monitoring trends for 50 years

Subject: Consumer Sentiment and Presidential Elections
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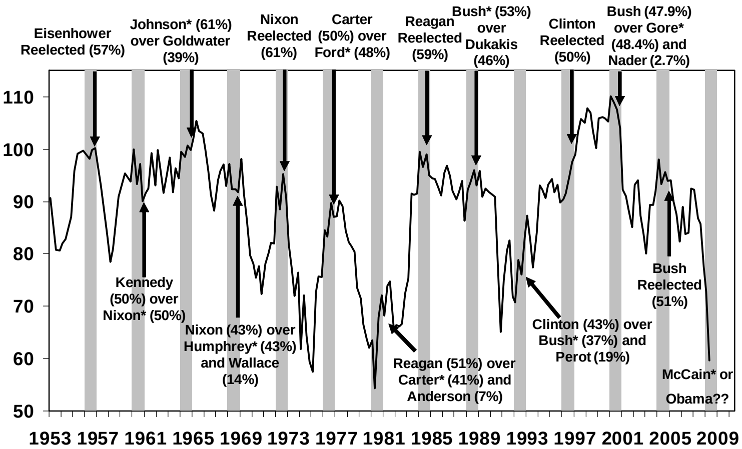
The outcome of presidential elections reflect economic conditions. Indeed, there has been a remarkable correspondence between the cycles in the Index of Consumer Sentiment and presidential elections. Over the past half century, nearly all presidential elections occurred in years in which Sentiment Index was near its cyclical peak (see the chart). There have been only a few exceptions: in 1980 and 1992, confidence was near cyclical lows and both incumbent Presidential candidates (Carter and Bush) lost their reelection bids. The current election will mark only the third time in more than fifty years that confidence is near its cyclical low point during an election year. While this would indicate the likely defeat of an incumbent, for candidates that represent the incumbent party but were not running for reelection, it is more difficult to evaluate. The two exceptions when confidence was high were special cases: the Bush electoral (but not popular vote) victory in 2000 and Carter's 1976 victory over the unelected Ford. Nonetheless, on balance, the sentiment data indicate that Obama should benefit from consumers' dissatisfaction with the weak national economy. This election, however, is far from normal, with identity politics, compared with issues, playing a larger than normal role.

Consumer Sentiment and Presidential Elections

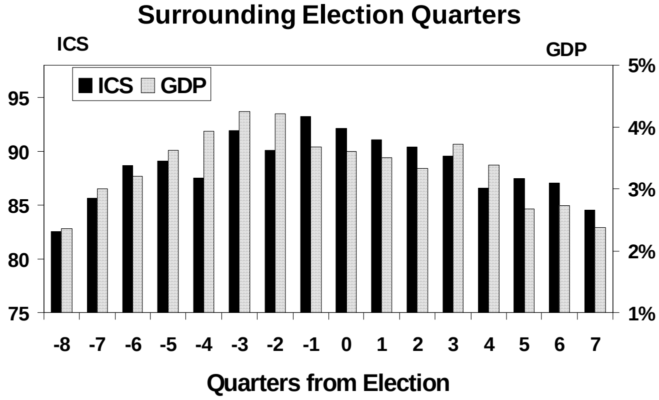


Note: Shaded areas are election years; Asterisks indicates incumbent party.

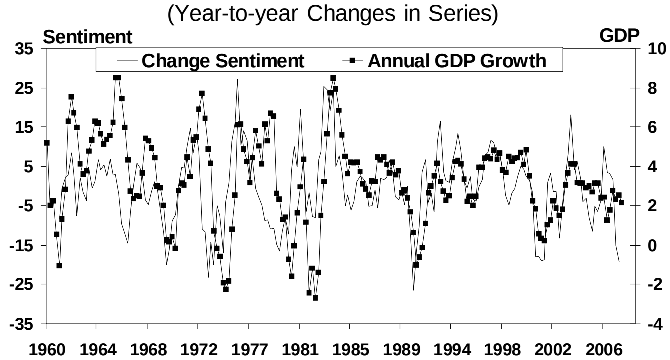
The strong correspondence between consumer sentiment and election outcomes hardly seem like happenstance. It would be incorrect, however, to conclude that consumer confidence simply reflects the political winds of presidential campaigns. Economic cycles have been highly correlated with presidential elections as well. The annual growth rate of real GDP over the past half century has been near its peak at the start of election years; it gradually increases in the two years prior to the election, and gradually declines in the following two years (see the chart below). It is sometimes argued that this was the result of well-timed and unusually effective economic policies. Nonetheless, the correspondence between consumer sentiment and election cycles is due to their common correspondence with economic cycles. Indeed, the well-known relationship between quarterly changes in the Sentiment Index and the annual growth rate in GDP has persisted throughout the past fifty years (see the chart below).

In some respects, the correspondence of political and economic cycles is more of a challenge to economic theory than to political science. It is common in political science to assume that the President would take actions to shape the economy to best serve his or his party's interests. While economic theory recognizes that same motivation, the policies of the President are just one of many influences on the determination of economic outcomes. Moreover, successful action would require the capacity to implement exactly the right policy at exactly the right time—the type of perfect foresight usually assumed by economic theory but rarely achieved in practice. Perhaps the clearest indication of the assumed independence is that few, if any, economists incorporate the election cycle in their long term economic forecasts. Forecasts are based on expected changes in economic policies of the incoming administration, but the data seem to indicate that whoever wins, the same result can be typically expected: GDP growth slows following the election. Let's hope our current situation proves to be the exception.

Consumer Sentiment and GDP Growth Surrounding Election Quarters



Change in Sentiment Index and GDP Growth
(Year-to-year Changes in Series)



Consumers in the August 2008 survey (the survey completed prior to the close of the Democrat's convention) were asked who they expected to win the election (NOT for whom they intended to vote) and which candidate would be better for the general economy and their own personal financial situation. The data was designed to determine what impact the eventual winner may have on consumers' economic expectations—both those who expected the candidate to win as well as those that expected the candidate to lose. Consumers expected an Obama victory by a margin of 57% to 37% (an Obama margin is shown as O+20 in the table). This perception was widespread across all age groups as well as income and wealth subgroups (as proxied by home and stock values), and the differences across subgroups were generally small (see the table below).

When asked which candidate would be associated with better conditions in the overall economy over the following two years, consumers thought that the economy would perform better if Obama rather than McCain were elected, although the margin of difference was small. Moreover, the majority of consumers reported that it would not make any difference to the performance of the economy whoever was elected. While lower income and lower wealth groups favored Obama more often than McCain, the most common response among all subgroups was that the President would not significantly affect the overall economy.

Although the candidates were judged even closer on their potential impact on personal finances, this was due to large offsetting differences across age, income, and wealth subgroups. Again, the dominate view among consumers was that neither candidate would have much impact on their financial situation. Across the entire sample, Obama had a slight and insignificant edge over McCain, 21% versus 19%. The differences were particularly large across income and wealth subgroups. Among households with incomes in the top third of the distribution, 33% viewed a McCain presidency as more favorable for their financial position compared with just 10% among those with incomes in the bottom third. That same sharp difference was also recorded with regard to home and stock values. Overall, the federal tax and spending programs of the two candidates appear to have had the expected impact. Nonetheless, most consumers view neither candidate as having a significant impact on their financial situation.

Prospects for future income growth, employment, inflation, returns on assets, and so forth, are seen as more important than changes in future tax rates, which is not an unreasonable view for the majority of consumers. These are the same economic factors that also are the determinants of consumer sentiment, and in turn, are highly correlated with election outcomes.

Candidate Expected to Win and Better Candidate for Overall Economy and Personal Finances

	Who Expect to Win . . .					Who Better for Economy . . .					Who Better for Personal Finances . . .				
	Obama	McCain	DK	Total	Margin	Obama	McCain	No Diff.	Total	Margin	Obama	McCain	No Diff	Total	Margin
All Households	57	37	6	100%	O+20	30	18	52	100%	O+12	21	19	60	100%	O+2
Age of Householder															
18 - 34	58	37	5	100%	O+21	24	15	61	100%	O+9	17	15	68	100%	O+2
35 - 54	54	43	3	100%	O+11	30	16	54	100%	O+14	22	20	58	100%	O+2
55 or older	60	31	9	100%	O+29	30	21	49	100%	O+9	21	19	60	100%	O+2
Household Income															
Bottom third	62	31	7	100%	O+31	30	12	58	100%	O+18	25	10	65	100%	O+15
Middle third	55	43	2	100%	O+12	29	18	53	100%	O+11	19	14	67	100%	O+5
Top third	58	39	3	100%	O+19	32	22	46	100%	O+10	20	33	47	100%	M+13
Home Value															
Does not own	72	25	3	100%	O+47	42	12	46	100%	O+30	33	11	56	100%	O+22
Less than $150,000	51	43	6	100%	O+8	26	10	64	100%	O+16	18	11	71	100%	O+7
$150,000 - $299,999	53	40	7	100%	O+13	24	23	53	100%	O+1	20	20	60	100%	Even
$300,000 or more	61	37	2	100%	O+24	31	26	43	100%	O+5	20	36	44	100%	M+16
Stock Holdings															
Does not own	52	40	8	100%	O+12	27	12	61	100%	O+15	20	10	70	100%	O+10
Less than $40,000	61	33	6	100%	O+28	38	15	47	100%	O+23	30	13	57	100%	O+17
$40,000 - $149,000	64	36	*	100%	O+28	30	12	58	100%	O+18	20	14	66	100%	O+6
$150,000 or more	63	35	2	100%	O+28	30	24	46	100%	O+6	19	34	47	100%	M+15