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The University of Michigan surveys have long documented the impact of economic expectations on consumer behavior. Indeed, describing how economic expectations shape macroeconomic trends is the survey's core mission. Changes in expectations typically evolve slowly over time until some threshold is reached, and following this tipping point, the change in economic expectations is much more rapid, quickly spreading across the entire population. Much less frequently, expectations have changed almost instantly, typically caused by a crisis or some dramatic exogenous event. Military setbacks, as occurred during the Korean and Vietnam wars, as well as the terrorist attacks on 9/11, have caused immediate reassessments of economic prospects. Prospective changes in economic policies, especially those associated with presidential elections, have also been responsible for sparking immediate changes in economic expectations. Presidents have long depended on the positive impact of improved expectations to jump-start the economy before their policies were actually enacted. To be sure, not all consumers viewed every president's policies favorably, but few thought the policies would cause an economic downturn. What has made President Trump's situation unique is that Democrats and Republicans hold diametrically opposite expectations for the national economy. Democrats anticipate rising unemployment and a recession, while Republicans expect a significant decline in unemployment and robust economic growth. As documented in prior reports issued before the election, Democrats held more positive economic expectations than Republicans, based on the widely-held belief that Clinton would win the election. With Trump's surprising win, the expectations immediately shifted. Among Republicans, the Index of Consumer Expectations doubled from October to February, while among Democrats, it was nearly cut in half. Importantly, those who self-identified as Independents changed their economic expectations more modestly, although they still rose from October to February. Moreover, trends in the economic expectations held by Independents are critical since they represent a larger group (41%) than either self-identified Democrats (32%) or Republicans (27%). While opinions about Donald Trump are unlikely to suddenly change, it would be unreasonable to anticipate that the polarization in people's outlooks for inflation, unemployment, or the pace of economic growth will persist for long. How long can consumers hold inaccurate economic expectations before their own self-interest overwhelms their political views of Trump? Importantly, it could be anticipated that changes in economic expectations will originate among Independents as they have fewer political and ideological obstacles to overcome in recognizing emerging trends in economic conditions.

Have these polarized expectations already influenced consumer behavior? No doubt. Consumers recognize that these expectations are based on their presumptions about future economic policies. Even the legislative details of most of Trump's new economic policies are as yet unknown. This underlying source of uncertainty affects both sides of the political divide as well as Independents. It is a rare occurrence for rising optimism to coexist with increasing uncertainty. While optimism promotes discretionary spending, uncertainty makes consumers more cautious spenders. The current level of optimism clearly indicates that no economy-wide spending retrenchment is underway, but the prevailing level of uncertainty will limit growth in discretionary spending. Presumably, economic policy uncertainty is a temporary phenomenon, although it is likely to last past the first 100 days of Trump's presidency, more due to congressional Republicans than the actions of Democrats.

How will the polarization be resolved? It is doubtful that the political divide will ever be 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 these volatile changes, the more they will be reflected in uneven spending trends. It should be noted that no convergence has yet been recorded, and a prolonged delay would simply extend and deepen uncertainty, without much impact on volatility. The most volatile path to convergence would entail overreactions to each specific piece of legislation as it is introduced and debated in Congress. If the healthcare, income taxes, and other economic proposals experience the same fate as immigration policies, the rollout could create a higher level of volatility in consumers' economic expectations. The least likely outcome is for one side or the other to admit that their expectations were incorrect. Failed expectations are far more serious since it would imply that the expectations were based on a flawed premise. It is far more likely that rather than blaming a faulty political ideology, consumers will conclude that some special economic factors or events were responsible for their failed expectations.

Finally, a recession is likely to occur in Trump's first term—if not, it would be the longest expansion on record. The usual political strategy would be for it to occur early in the president's first term, so that the economy is in recovery during his re-election campaign. The reverse is more commonly expected by Democrats and Republicans. This would only represent a rational political strategy if they expected either an unending recession or an unending expansion during Trump's first term.