

Subject: Demographic versus Party Divergences
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It is easy to misinterpret the implications of the unparallel divergence in economic expectations between Democrats and Republicans and to exaggerate its importance. While Democrats anticipate an imminent recession, and Republicans anticipate a new era of robust economic growth, this does not translate into falling discretionary spending in Blue states and increases in Red states since that designation is based on votes, not parties. More importantly, this ignores self-identified Independents, who hold more rational expectations, and represent a larger share of the population (41%) than either Democrats (32%) or Republicans (27%). In addition, the differences across age, education, income, and gender are much less pronounced than across political parties. While demographics have been shown to be related to differences in economic activity, there have been no documented macro economic impacts due to differences across political parties. Of course, there is always a first time, although it is quite unlikely as it would also imply that consumers would act upon inaccurate economic expectations.

The table below shows two questionnaire methods to assess how consumers changed their views on government economic policies and prospective changes in unemployment. While all surveys ask respondents to choose among several preselected response categories that best represent their views, a unique feature of the University of Michigan survey is a set of questions that simply asks respondents to describe in their own words their economic situation. These free-responses are then coded into different economic categories for analysis. The data shown below represent the percentages of respondents who held positive views minus the percentages who held negative views on economic policies and unemployment in the quarter prior to and following the Presidential election. The last column in each set gives the net difference surrounding Trump's election. If both types of questions yielded comparable measures, the two change figures should be comparable for all households as well as among the demographic subgroups. The free-response and fixed-response questions on government economic policies yielded comparable results across age, education, income and gender subgroups. Note that all but one estimate (for the youngest age group) indicated a positive change in assessments of government policies; this stands in sharp contrast to the much larger negative change among Democrats. Moreover, no demographic subgroup was as extreme in their favorable judgement as Republicans. Presumably all households were exposed to the same political messages, but unlike Independents, only self-identified Democrats and Republicans shifted their views to opposite extremes after Trump's surprise election.

Unemployment expectations improved following Trump's election among all demographic subgroups despite the significant decline among Democrats. In general, the fixed-response question recorded larger changes in unemployment expectations than the free-response question, with several differences over ten percentage points—those over age 55, those with less than a college degree, and males, as well as among Democrats and Republicans. Overall, consistent with the government policy measures, unemployment expectations of Democrats and Republicans recorded by far the largest shifts following the election.

Impact of Presidential Election on Economic Expectations Based on Free Versus Fixed Response Categories												
	Government Economic Policy						Unemployment Rate					
	Free-Responses			Fixed-Responses			Free-Responses			Fixed-Responses		
	2016:3	2017:1	ΔQ1-Q3	2016:3	2017:1	ΔQ1-Q3	2016:3	2017:1	ΔQ1-Q3	2016:3	2017:1	ΔQ1-Q3
All Households	-13	0	+13	-17	-5	+12	-2	+10	+12	-9	+11	+20
Age												
18-34	-12	-11	+1	-10	-13	-3	+2	+8	+6	-7	-3	+4
35-54	-14	0	+14	-14	-2	+12	-2	+7	+9	-10	+8	+18
55+	-13	+10	+23	-24	-3	+21	-5	+12	+17	-8	+21	+29
Education												
H. S. or Less	-8	+10	+18	-29	-9	+20	-7	+12	+19	-13	+20	+33
Some College	-14	+6	+20	-34	-13	+21	-12	+4	+16	-18	+14	+32
College Degree	-15	-6	+9	0	+2	+2	+6	+12	+6	0	+4	+4
Income												
Bottom Third	-9	-2	+7	-23	-17	+6	-4	+5	+9	-12	+2	+14
Middle Third	-12	+3	+15	-18	-3	+15	-5	+8	+13	-8	+15	+23
Top Third	-17	-1	+16	-11	+5	+16	+1	+14	+13	-5	+13	+18
Gender												
Male	-14	+9	+23	-19	-1	+18	0	+11	+11	-7	+20	+27
Female	-11	-9	+2	-15	-10	+5	-6	+6	+12	-10	-1	+9
Political Party												
Democrat	-6	-36	-30	+23	-23	-46	+14	0	-14	+12	-25	-37
Independent	-13	+7	+20	-29	-11	+18	-7	+7	+14	-18	+6	+24
Republican	-20	+40	+60	-48	+25	+73	-14	+27	+41	-18	+61	+79