Subject: Election's Impact on Economic Expectations September 25, 2020
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The outcomes of presidential elections and the performance of the national economy are closely related. Long before "it's the economy, stupid" became the mantra of the Clinton campaign, or Kennedy's rallying cry to "get the economy going again," the performance of the economy and the economy's future prospects have played critical roles in determining the outcomes of presidential elections. Unlike most presidential polls, the University of Michigan's surveys have emphasized understanding how consumers' economic expectations might change under the administration of the winning candidate. For most elections, the majority of consumers correctly anticipated which candidate would win, implying that most consumers had already incorporated any expected changes in the economic policies of the expected winner. The clear exception occurred in the last presidential election when two-thirds of all consumers anticipated a victory by Clinton over Trump. When that didn't occur, there was an immediate and drastic change in economic expectations among consumers, with Democrats switching from optimism to extreme pessimism and Republicans switching from pessimism to extreme optimism. Even more surprising is that those partisan evaluations have persisted largely unchanged in the past four years. In sharp contrast, the 2020 election has generated as many consumers who think Biden as Trump will win—the one percentage point advantage for Biden has only been recorded in one other election, when in 1980 Reagan held a one point advantage over Carter. The clear implication is that half the population will have reason to change their economic expectations when the winner is determined. If the outcome is challenged, as is likely, economic uncertainty would rise along with the length of the delay.

Shown in the table below are the results for all consumers as well as among socioeconomic subgroups and regions. A common issue in re-election campaigns has been personal financial progress over the past four years. Personal financial progress was reported by nearly two-thirds of all consumers, and was reported more frequently than declines among all groups; by narrower margins among the elderly and those with the lowest incomes and educations, and by more substantial margins among the highest incomes. When asked about financial prospects over the next five years, the differences across socioeconomic groups were more muted. These generally favorable views of past and expected financial progress were made despite the horrendous losses due to the pandemic. Interestingly, these favorable views of past financial gains did not provide Trump with a significant edge over Biden. Rather, it underscores the view that the central issues in this election are non-economic.

The subgroup details on whether Biden or Trump was expected to win the election mirrored other election data. Income and education provided the sharpest differences: incomes in the bottom 40% expected Trump to win and those with income in

Expected Presidential Election Results and Best Candidate for Economy and Personal Finances
(July - September(p) data, 1693 cases; "Same" and "Don't know" percentages are not shown in the table.)

	Past Personal Finances (5-Year)			Expected Personal Finances (5-Year)			Expected Winner of Election			Best Candidate for Economy				Best Candidate for Personal Finances			
	Better	Worse	Better - Worse	Better	Worse	Better - Worse	Biden	Trump	Biden - Trump	Biden	Trump	No Diff	Biden - Trump	Biden	Trump	No Diff	Biden - Trump
All	64%	26%	+38	56%	11%	+45	48%	47%	+1	33%	38%	28%	-5	26%	33%	40%	-7
Age																	
18 - 24	71	22	+49	78	6	+72	50	46	+4	35	27	36	+8	30	19	50	+11
25 - 34	81	16	+65	84	4	+80	46	51	-5	38	28	33	+10	31	23	45	+8
35 - 44	72	19	+53	73	6	+67	46	48	-2	26	32	40	-6	17	32	50	-15
45 - 54	64	27	+37	60	11	+49	45	48	-3	36	41	21	-5	27	37	35	-10
55 - 64	63	30	+33	45	16	+29	48	49	-1	29	45	25	-16	23	38	38	-15
65 or older	46	32	+14	27	16	+11	53	43	+10	35	43	20	-8	29	36	34	-7
Income																	
Bottom 20%	49	40	+9	44	12	+32	44	49	-5	30	33	35	-3	25	21	53	+4
Second 20%	61	28	+33	61	8	+53	43	52	-9	33	38	28	-5	27	32	40	-5
Middle 20%	64	26	+38	56	11	+45	49	48	+1	33	39	27	-6	26	34	39	-8
Fourth 20%	73	17	+56	61	11	+50	50	47	+3	34	39	26	-5	26	36	37	-10
Top 20%	79	14	+65	60	12	+48	58	38	+20	39	38	23	+1	27	39	33	-12
Top 10%	84	10	+74	62	11	+51	61	34	+27	47	32	21	+15	31	37	32	-6
Education																	
High sch or less	54	35	+19	46	9	+37	38	57	-19	22	42	36	-20	18	33	48	-15
Some college	66	25	+41	57	9	+48	38	59	-21	26	46	28	-20	21	37	41	-16
College degree	67	22	+45	62	10	+52	54	41	+13	38	38	23	0	31	34	35	-3
Advanced degree	66	23	+43	54	15	+39	59	33	+26	43	28	27	+15	31	28	40	+3
Region																	
West	64	25	+39	55	10	+45	52	44	+8	33	33	32	0	25	30	44	-5
Midwest	66	25	+41	55	9	+46	45	50	-5	32	41	26	-9	27	36	35	-9
Northeast	61	26	+35	53	15	+38	54	43	+11	38	33	28	+5	26	27	46	-1
South	64	26	+38	57	10	+47	45	49	-4	31	42	26	-11	25	35	39	-10

the top 20% largely anticipated a Biden victory; those with the least formal education expected Trump to win, and those with a college degree expected a Biden victory. Also note the regional differences: the Northeast and West expected Biden to win, and the Midwest and South anticipated a Trump victory. Once the election outcome is known, these differences will act to shape the post-election partisan shifts in expectations.

To understand the potential impact of the candidates' economic policies, consumers were also asked which candidate would be better to ensure growth in the overall economy and which candidate would be better for growth in their own personal finances. On both types of policies, Trump held a slight advantage over Biden, although large numbers of consumers thought it would not make any difference—indeed, for personal finances, no difference was the most common response. Differences across age subgroups provide a clear divide between those under 35 who thought Biden would be the better choice for the economy and their own finances, with those 35 or older choosing Trump. The same type of split was present on education, with those having less than a college degree favoring Trump, although Biden was favored significantly more than Trump only by those with advanced degrees.

The chart below shows the relationship of the presidential election outcomes with the Index of Consumer Sentiment. The percentages indicate the share of the popular vote, which has twice been inconsistent with the vote of the electoral college: when Bush won over Gore in 2000, and when Trump won over Clinton in 2016. The pattern set from the 1950's to 2008 indicated that when the Sentiment Index was near a cyclical peak, the incumbent won re-election, or the candidate from the same party as the current president won. Conversely, when the Sentiment Index was near its cyclical trough, the incumbent presidents lost—Reagan defeated Carter in 1980, and Clinton won over Bush in 1992. That pattern ended with the 2012 election. Obama won re-election midway in the recovery in Sentiment, perhaps in recognition of the end of the worst recession since the 1930's. Trump's victory in 2016 was also inconsistent with the pattern that a candidate from the same party as the current president won when Sentiment was near its cyclical peak—although Clinton did win the popular vote. Note that the overall level of Consumer Sentiment was comparable to when Obama won re-election, although Sentiment was rising when Obama won his second term, and Sentiment has posted declines prior to the vote on Trump's re-election. Needless to say, the recent loss in Sentiment was not due to economic causes, but due to the severe pandemic restrictions on economic activities.

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The University of Michigan survey data was restricted to how the performance of the economy influences presidential voting and how the expected winner's economic policies influence subsequent changes in consumers' economic expectations. More so than in any prior presidential election, the economic causes and consequences play a secondary role to non-economic factors. No matter which candidate wins, partisanship will be heightened and polarized assessments of economic developments will increase. Unless there is a large electoral advantage for one candidate, it is likely that the outcome will be litigated in state and federal courts. Litigation will not only immediately increase economic uncertainty and the partisan division in consumer expectations, but even after the issues are settled by the courts, economic uncertainty will remain high, and be more lasting if control of the branches of Congress are split between the two parties. Given that the already high levels of uncertainty due to the pandemic will continue well into 2021, an added source of uncertainty could cause a more lasting downturn in economic activity.

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