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Subject: Winter of Discontent From: Richard Curtin, Director

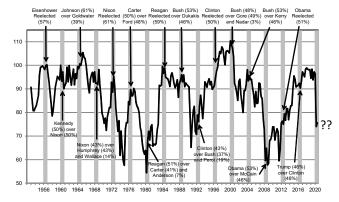
The University of Michigan surveys have always recognized two independent dimensions of consumer sentiment: the degree of optimism expressed by consumers and the degree of uncertainty surrounding their economic expectations. While the two dimensions are highly correlated, they are not always identical. In the current situation, the surveys have recorded rising optimism and a rising level of economic uncertainty. Rather than describing consumers as being partially or somewhat optimistic or pessimistic, the best description of the current mix is that consumers are discontent. There are several reasons to anticipate that same sense of discontent will prevail well into 2021. The reasons include the potential for a contested Presidential election as well as contested House and Senate elections, an ongoing resurgence in covid infections along with renewed regulations about social isolation, distancing, and masks, the absence of effective relief and stimulus funds amid widening economic inequality, and an ongoing realignment of expectations based on partisan rather than economic factors. What outcome can be expected from the 2020 election? Neither presidential candidate was seen as having a significant advantage in the July to September surveys, but the ongoing October survey has recorded a growing Biden advantage, with the gap widening to ten percentage points. It would not be a surprise to the majority of consumers if Biden wins, but Clinton's loss to Trump in 2016 was a surprise since two-thirds of all consumers anticipated a Clinton victory. This meant that immediately following the election, the majority of consumers had to adjust their economic expectations from being contingent on a Clinton victory to the economic policies of the incoming Trump administration. That adjustment occurred at a rapid pace, and was largely completed by the time of Trump's inauguration. In effect, Democrats and Republicans immediately exchanged "deck chairs," with Democrats becoming much more pessimistic and Republicans much more optimistic than they were under the Obama administration. That immediate and extreme shift is unlikely this time given the continuing negative impact of the pandemic on economic prospects. Nonetheless, those who anticipated a Biden win have already become much more optimistic than those who expected Trump to win: the Consumer Expectations Index in the October survey improved over the July to September average by 22% among those who anticipated a Biden win, and by just an 8% among those who expected a Trump victory. While the election results will not change prospects for a covid vaccine, Biden can be expected to improve the economic expectations of Democrats with new policies intended to speed the nation's recovery and ease the financial setbacks among households. According to Republicans, Biden's intent to raise taxes on the wealthy will have a significant negative impact on growth prospects for the overall economy. Potential negatives for members of all parties include the possible need for stricter enforcement measures aimed at reducing the spread of the covid virus.

Consumers were asked to identify their primary concerns about the coronavirus: their health, their finances, or the social isolation. Just over half of all consumers have consistently rated the threat to their health as their top concern from April to October. What has changed is finances dropping in importance and being overtaken by social isolation. Another round of enforced social isolation needs to be accompanied with programs that help counter the damaging impacts on mental health. It is not irrational for people to balance their desires for both physical and mental health by engaging in relatively low risk activities. Moreover, the level of risk can be reduced by changes in regulations for travel, hotels, restaurants, entertainment, and the like. This would be more effective than simply forcing the closure of all such facilities to customers.

The relationship of the presidential election outcomes with the Index of Consumer Sentiment is shown in the chart. 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 winning candidate was from the same party as the current president. 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

## **Presidential Elections and the Index of Consumer Sentiment**



Sentiment was comparable to when Obama won re-election, although Sentiment was rising when Obama won his second term, and has posted declines prior to the vote on Trump's re-election. Also note that Trump's reelection is taking place following the worst recession on record. Although the data now favors a Biden win, the outcome is expected to be close.