

How Does Political Affiliation Affect Economic Expectations?



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Disclaimer

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Introduction

- Households' economic expectations differ by demographics
- Another important source of heterogeneity is political affiliation (Mian-Sufi, Khoshkhou 2021, Coibion-Gorodnichenko-Weber 2020, Kamdar-Ray 2022, Binder-Kamdar-Ryngaert 2024, ...)
- In this paper we use an experimental approach to measure the sensitivity of expectations to election shocks
- We also compare the response of expectations to political vs. economic shocks.



Survey of Consumer Expectations (SCE)

- Produced by the NY Fed since June 2013
- Key features:
 - Monthly
 - Internet-based
 - ~1,400 household heads
 - Nationally representative
 - Rotating panel (12 months)
 - Focuses on expectations about a broad range of topics
 - Elicit point forecasts and density forecasts
 - Questions wording has been rigorously tested
 - Core monthly survey + special surveys
- The SCE has been used extensively for policy and research



Often mentioned in the press

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Paul Krugman

OPINION

Wonking Out: What to Expect When You're Expecting Inflation

Feb. 18, 2022



By **Paul Krugman**
Opinion Columnist

For the past two decades or so, this hasn't really been a concern, because expectations of inflation have become "anchored": the public has come to expect low inflation as normal, and doesn't react much to temporary ups and downs due to things like oil price fluctuations. The big concern about the inflation spike between 2021 and 2022 has been that inflation expectations might lose their anchor, making it much harder to get inflation back down once supply chains and all that are back to normal.

So is that happening? Not according to the New York Fed. Its survey of consumer expectations asks respondents what inflation rate they expect over both the short term — one year — and the medium term — three years. Here's what that looks like:



...and even part of popular culture !!



Experimental design I

- Special survey fielded on June 5-20, 2024; 2,203 respondents.
- Respondents are asked to revise expectations after being presented with different hypothetical shocks.
- To start, they report point forecasts for five economic outcomes:
 - Inflation between November 2024 and November 2025
 - Inflation between June 2026 and June 2027
 - Probability of recession at any point btw Nov 2024 & Nov 2025
 - Probability of recession at any point btw Jun 2026 & Jun 2027
 - HH nominal spending growth btw Nov 2024 & Nov 2025



Experimental design II

- Then, each respondent receives **three treatments**: an election scenario, an economic scenario, and a violent crime one.
- **Election treatment:**
 - Half of respondents see “*What if the Democratic candidate is elected President in November?*”
 - The other half are told “*What if the Republican candidate is elected President in November?*”



Experimental design III

- **Economic treatment:**
- Half of respondents see “According to the latest official statistics, the annual rate of **inflation** was 3.4% in April. What if at the end of October 2024 the official annual rate of inflation jumps to 5%?”
- The other half are told “According to the latest official statistics, the **unemployment** rate was 3.9% in April. What if at the end of October 2024 the official unemployment rate jumps to 6%?”



Experimental design IV

- **Crime treatment:**
- Every respondent is presented with the scenario *“According to the latest official FBI report ‘Crime in the Nation Statistics,’ the annual rate of violent crimes in U.S. cities in 2023 was 350 per 100,000 individuals. What if at the end of October 2024 the rate of violent crime in U.S. cities doubles to 700 per 100,000 individuals?”*
- **Placebo:** 200 respondents are told *“What if during the coming month of October the average temperature in Auckland, New Zealand turns out to be 59F?”* (The actual temp there in October)
- These 200 respondents only see placebo + crime treatments



Experimental design V

- Each respondents is randomly assigned to one of the election scenarios and one of the economic scenarios. The order also is randomized.
- The crime scenario is always shown last.
- After each scenario respondents are asked if they want to revise their expectations for each of the five economic outcomes, and if so by how much.



Experimental design VI

- Finally, we elicit respondents' prediction and preference for the 2024 U.S. Presidential election.
- **Prediction:** *“Which candidate do you think will win the November 2024 presidential election?”* We use a 7-point Likert scale ranging from *“the Republican candidate for sure”* to *“the Democratic candidate for sure.”*
- **Preference:** *“And which candidate would you prefer to win in the November 2024 presidential election?”* We use a 7-point Likert scale ranging from *“Strongly prefer the Republican candidate”* to *“Strongly prefer the Democratic candidate.”*



Descriptive statistics and baseline beliefs

- 42.4% of our respondents report preferring the Democratic candidate to win the election; 39.8% prefer the Republican candidate; 17.8% are indifferent (similar to polling results).
- Predictions and preferences are highly correlated (0.73).

Table 1: Baseline Economic Expectations

	All respondents	Democrats	Independents	Republicans
One-Year Ahead Inflation Expectations	3.0%	2.9%	3.4%***	3.0%
Three-Year Ahead Inflation Expectations	3.0%	2.4%	3.1%***	2.6%
One-Year Ahead Recession Probability	24.3%	20.8%	24.8%**	29.1%***
Three-Year Ahead Recession Probability	30.1%	29.3%	30.6%**	30.7%***
Household Spending Growth	4.6%	4.5%	4.6%*	4.6%

Median expectations before/after election treatment

- Median 1-year-ahead IE and spending growth expectations may increase modestly as a result of election.
- Median 3-year-ahead IE unchanged if Republican wins, *may* rise if Democrat wins.

Table 3: Median Expectations Before and After Each Treatment

Scenario	All Respondents	Scenario: Democrat Wins Presidency		Scenario: Republican Wins Presidency	
	1 Baseline	2 Baseline	2 Posterior	3 Baseline	3 Posterior
One-Year Ahead Inflation Expectations	3.0% [5.1pp]	3.0% [5.7pp]	3.5% [5.0pp]	3.0% [3.7bp]	3.2% [4.3pp]
Three-Year Ahead Inflation Expectations	3.0% [6.2pp]	2.1% [6.6bp]	3.0% [5.6pp]	3.0% [5.7bp]	3.0% [5.0pp]
Household Spending Growth	4.6% [8.0pp]	4.7% [8.1bp]	5.0% [8.1pp]	4.7% [7.6bp]	4.8% [8.1pp]
Observations	2,201	996		992	

Large revisions in negative election shocks

- Relatively small movements in overall medians pre/post election mask large revisions if candidate from opposite party wins.

Table 4: Average Revisions in Each Treatment by Election Preference

Scenario	Election Shock and Placebo Treatments								
	Democrat Wins Presidency			Republican Wins Presidency			Placebo: Temperature in New Zealand		
	1 Dem.	2 Ind.	3 Rep.	4 Dem.	5 Ind.	6 Rep.	7 Dem.	8 Ind.	9 Rep.
One-Year Ahead Inflation Expectations	-0.18** (0.08)	0.29*** (0.08)	3.54*** (0.51)	1.11*** (0.12)	0.29 (0.41)	-1.50*** (0.26)	0.39* (0.22)	0.20 (0.14)	0.03 (0.07)
Three-Year Ahead Inflation Expectations	0.01 (0.06)	0.30*** (0.07)	3.31*** (0.46)	1.11*** (0.14)	-0.43 (0.39)	-0.82*** (0.30)	0.00 (0.14)	0.15* (0.08)	-0.02 (0.09)
One-Year Ahead Recession Probability	-1.70*** (0.42)	2.07*** (0.54)	8.17*** (1.05)	6.48*** (0.65)	0.26 (0.62)	-9.00*** (1.12)	-0.49 (1.52)	-0.48 (0.93)	0.19 (1.09)
Three-Year Ahead Recession Probability	-2.57*** (0.64)	1.69*** (0.62)	5.87*** (0.92)	5.24*** (0.55)	-0.05 (0.80)	-13.41*** (1.45)	-0.40 (1.07)	-1.99 (1.28)	-1.29 (0.95)
Household Spending Growth	-0.25 (0.16)	0.26* (0.14)	1.95*** (0.41)	0.26** (0.11)	0.17 (0.19)	-1.40*** (0.38)	0.42** (0.16)	0.28* (0.15)	-0.08 (0.16)
Observations	469	150	348	477	154	316	91	26	78

Smaller revisions in adverse econ & crime shocks

- Average revisions are smaller in adverse economic and crime shock treatments than in negative election shock treatments.

Scenario	Economic and Crime Shock Treatments								
	Unemployment Jumps to 6%			Inflation Jumps to 5%			Violent Crime Doubles in U.S. Cities		
	10 Dem.	11 Ind.	12 Rep.	13 Dem.	14 Ind.	15 Rep.	16 Dem.	17 Ind.	18 Rep.
One-Year Ahead Inflation Expectations	0.21** (0.10)	0.54* (0.31)	0.33*** (0.06)	0.60*** (0.07)	0.41*** (0.10)	0.70*** (0.24)	0.61*** (0.08)	0.73*** (0.15)	1.51*** (0.26)
Three-Year Ahead Inflation Expectations	0.25*** (0.08)	0.20 (0.17)	0.35*** (0.11)	0.46*** (0.07)	0.58*** (0.18)	0.84*** (0.24)	0.62*** (0.12)	0.81*** (0.19)	1.46*** (0.22)
One-Year Ahead Recession Probability	3.31*** (0.63)	5.70*** (1.69)	2.28*** (0.63)	1.41*** (0.52)	2.56*** (0.66)	1.73** (0.78)	2.45*** (0.29)	2.57*** (0.61)	3.36*** (0.50)
Three-Year Ahead Recession Probability	3.13*** (0.46)	2.81*** (0.60)	0.92 (0.62)	0.49 (0.53)	0.49 (0.66)	-0.10 (0.80)	2.30*** (0.30)	2.34*** (0.51)	2.32*** (0.49)
Household Spending Growth	-0.06 (0.06)	0.36 (0.29)	-0.10 (0.20)	0.27*** (0.10)	0.27* (0.15)	0.07 (0.21)	0.21*** (0.05)	0.32*** (0.07)	0.56*** (0.12)
Observations	459	156	320	489	147	344	947	303	663

Comparing revisions at individual level

- Revisions are significantly larger in negative election shock than in adverse economic shock—especially for those who prefer the Republican candidate.

Table 5: Average Difference in Treatment Effects by Election Preference

Scenario	Negative Election Shock – Unemployment Shock			Negative Election Shock – Inflation Shock			Negative Election shock – Violent Crime Shock		
	1 Dem.	2 Rep.	3 Dem.–Rep.	4 Dem.	5 Rep.	6 Dem.–Rep.	7 Dem.	8 Rep.	9 Dem.–Rep.
One-Year Ahead Inflation Expectations	1.01*** (0.27)	2.31*** (0.47)	-1.30*** (0.37)	0.31* (0.18)	2.82*** (0.64)	-2.51*** (0.41)	0.42*** (0.15)	1.36*** (0.27)	-0.94*** (0.24)
Three-Year Ahead Inflation Expectations	0.80*** (0.17)	2.26*** (0.48)	-1.46*** (0.36)	0.81*** (0.23)	2.46*** (0.61)	-1.64*** (0.40)	0.44** (0.21)	1.53*** (0.40)	-1.10*** (0.28)
One-Year Ahead Recession Probability	1.91** (0.86)	5.52*** (1.79)	-3.61*** (1.33)	5.05*** (1.04)	5.11*** (0.98)	-0.06 (1.12)	3.18*** (0.67)	3.90*** (0.88)	-0.72 (0.82)
Three-Year Ahead Recession Probability	2.40** (0.93)	4.03** (1.61)	-1.63 (1.30)	2.63*** (0.81)	4.62*** (1.01)	-1.98* (1.03)	2.31*** (0.69)	2.56*** (0.93)	-0.24 (0.82)
Household Spending Growth	0.26 (0.16)	0.95 (0.66)	-0.69* (0.42)	-0.13 (0.16)	2.51*** (0.54)	-2.63*** (0.41)	-0.01 (0.11)	1.31*** (0.38)	-1.33*** (0.27)
Observations	227	166	393	250	182	432	477	348	825



Pol. Affiliation matters over & above demographics

- No significant difference btw Dem & Rep across all outcomes.

Table 6: Average Revisions in Each Treatment by Election Preference Conditional on Other Observables

Scenario	Election Shock Treatments					
	Democrat Wins Presidency			Republican Wins Presidency		
	1 Dem.	2 Ind.	3 Rep.	4 Dem.	5 Ind.	6 Rep.
One-Year Ahead Inflation Expectations	-0.57 (1.16)	0.49 (1.10)	2.84** (1.13)	2.37** (0.99)	1.57 (1.02)	-0.39 (0.97)
Three-Year Ahead Inflation Expectations	-0.52 (1.15)	0.12 (1.11)	2.56** (1.17)	3.26*** (1.60)	2.24 (1.55)	1.57 (1.60)
One-Year Ahead Recession Probability	-0.86 (3.91)	2.51 (3.74)	8.73*** (3.92)	16.98** (6.23)	10.72* (6.28)	1.39 (6.18)
Three-Year Ahead Recession Probability	-1.58 (4.80)	2.10 (4.54)	7.24 (5.00)	19.01*** (5.30)	13.99*** (5.39)	0.73 (5.38)
Household Spending Growth	-2.66 (2.23)	-2.66 (2.23)	-0.51 (2.16)	0.87 (1.26)	0.86 (1.24)	-0.81 (1.22)

Takeaways

- Political affiliation can affect economic expectations.
- This effect remains significant above and beyond the role of demographics and other individual attributes.
- After controlling for observables, magnitude of revisions is similar across Republicans and Democrats.
- Spending growth *expectations* also are affected: future research is needed to assess whether spending *behavior* also changes.



Thank you!

