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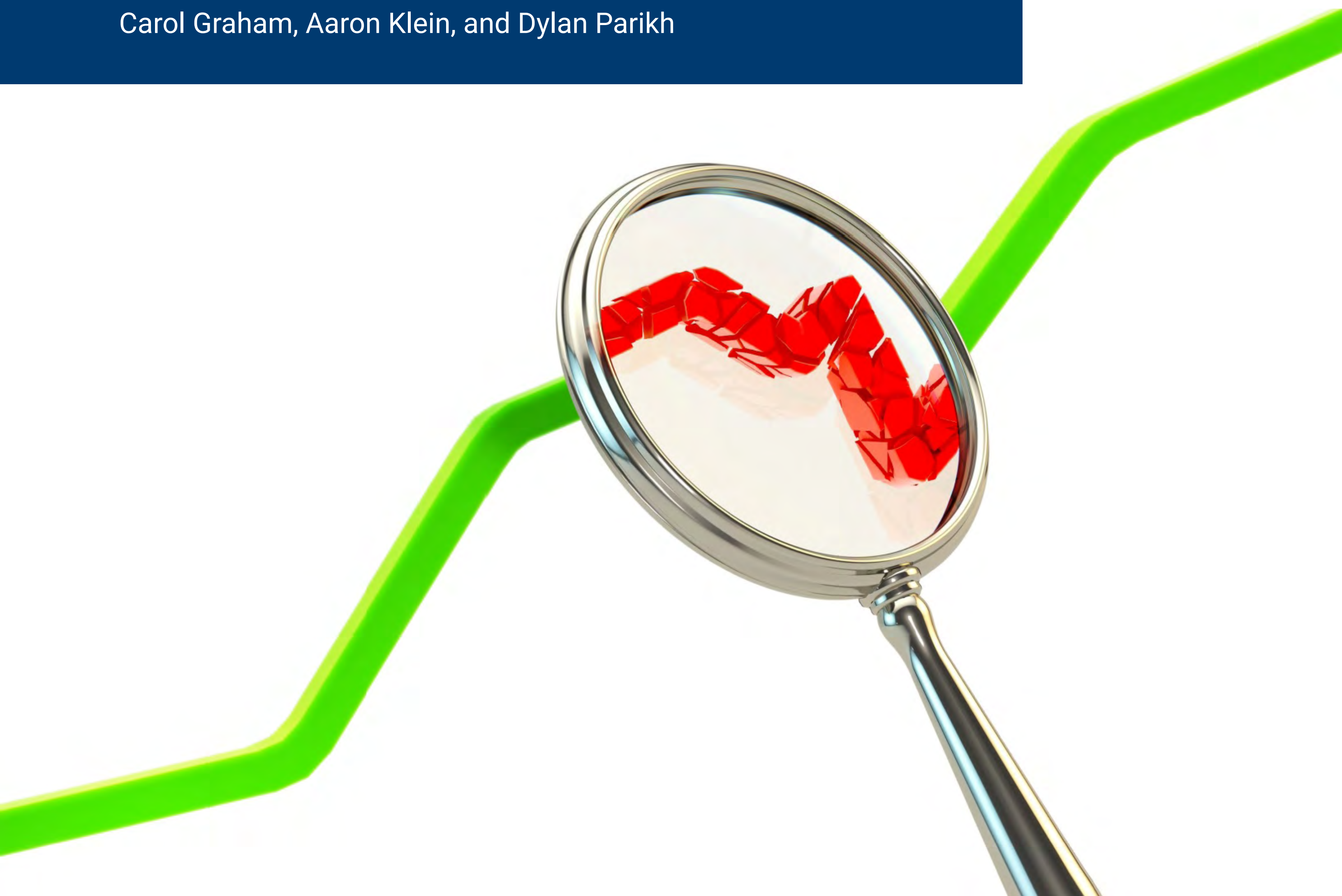
WHAT THE NUMBERS DON'T TELL

POST-COVID ECONOMIC RECOVERY AND CONSUMER PESSIMISM IN THE U.S.

Carol Graham, Aaron Klein, and Dylan Parikh



ABSTRACT

The global recession induced by the COVID-19 pandemic resulted in massive fiscal stimulus and monetary policy responses. It was followed by a period of sharp inflation, at levels not experienced by many advanced economies since the early 1980s.[1] Central banks pivoted from their pandemic-reactive accommodative monetary policy to a tightening cycle.[2] The real economy as well as perception of economic strength changed, although not in as correlated a fashion as one would expect. This paper's central finding is that despite having the strongest economic recovery of all peer nations, Americans are more unsatisfied with the economy than populations in other countries, and they are more unsatisfied than the underlying economic reality would predict. Causes of this dissatisfaction may include asymmetric impact of inflation versus unemployment, the rising cost of housing, political polarization, measurement error, and more general declines in Americans' psychological and emotional wellbeing. This dissatisfaction is likely to lead to more political polarization and unhappiness.

AUTHOR NOTES AND ACKNOWLEDGEMENTS

Carol Graham is a senior fellow in the Economic Studies program at Brookings. Aaron Klein is Miriam K. Carliner Chair and senior fellow in Economic Studies at the Brookings Institution. Dylan Parikh is a research intern at Brookings and an undergraduate student at Dartmouth College.

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DISCLOSURES

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I. Introduction

America's pandemic-era economic performance stands out. The U.S. had among the most aggressive fiscal and monetary responses to the pandemic, including providing the highest discretionary fiscal stimulus as a percentage of GDP of any country.[3] America's COVID-19 stimulus was targeted to lower income Americans and cut poverty rates by a record 67% in 2021.[4] The U.S. also had one of the strongest and fastest economic recoveries among developed countries.[5]

Despite this, the American public perceives the state of the U.S. economy as poor. Americans are particularly unhappy with the economy despite its performing better than the EU, the U.K., Japan, and, to varying degrees, China. Economic dissatisfaction is broad and correlated with inflation.[6] However, inflation was a global phenomenon.[7]

The paper explores multiple possibilities for the divergence between economic performance and happiness with the economy. One finding is that increasing political polarization played a significant role. Support for this thesis is that a disproportionate share of the economic dissatisfaction comes from members of the Republican party only after Biden's election, only to revert back to a positive view when Trump won the White House back. A second is that the composition of inflation differs in America, with the cost of housing rising substantially more than in other countries. A third is that America's existing economic unhappiness pre-pandemic, particularly among lower-income families and men, created an environment where dissatisfaction was more likely to occur despite stronger economic growth.

1.1 PANDEMIC TIMING

For purposes of this paper, it is helpful to define several time periods as they relate to the pandemic. This paper distinguishes between three time periods:

1) "Pre-pandemic" is up until the end of 2019 (Q4)
2) The "pandemic era" means between 2020 Q2 and 2022 Q2
3) "Post-pandemic" refers to after 2022 Q4

The authors consider the quarters left out between each time period to be transitionary periods. Changes to the dating of during- and post-pandemic periods do not meaningfully impact results, although they would change point estimates. The paper will use these time periods when possible. When data is only available on an annual basis, pre-pandemic will refer to the years through 2019, pandemic will refer to 2020-2022, and post-pandemic will refer to 2023 and after.

2. Pandemic Era Public Support

2.1 AMERICA'S FISCAL AND MONETARY POLICY WERE AGGRESSIVE AND EFFECTIVE

COVID-19 led to a sudden and sharp decrease in economic activity (and hence tax collections) and additional needs for public expenditures (stimulus) to address the crisis. Governments broadly responded with expansionary fiscal policy, although to varying degrees.[8] Figure 1 indicates the difference in budgeted COVID-19 spending as a percentage of GDP across select major economies, showing the U.S. at the top and China at the bottom. The rate at which each country's economy rebounded varied. The U.S. performance remains among the fastest, while China's Beige Book reported that, "The recovery from COVID—disappointing as it was—is over."[9]

We can also compare the additional spending and forgone revenue different countries experienced during the pandemic, normalized by national GDP. Figure 2 below does that based on IMF staff estimates over a broader set of countries. Again, the U.S. stands out for its aggressive response. Figure 2 illustrates that the more advanced a country's economy, the more aggressively they responded to the pandemic shock.[10] It is relevant to note, though, that the exceptionally strong U.S. pandemic response took place in the context of much lower social welfare support than in most other wealthy countries.

FIGURE 1

Pandemic Spending and Real GDP Growth

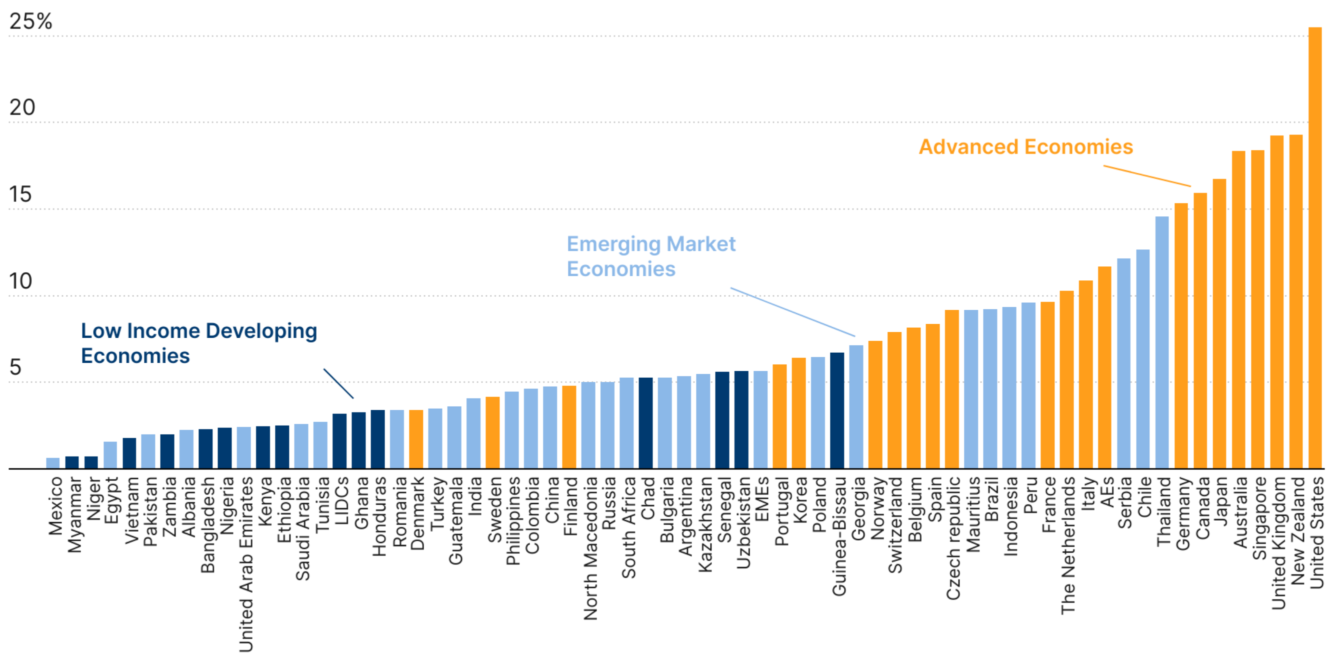
Country	Budgeted COVID-19 Spending (% of 2020 GDP)	GDP Growth over 2020	GDP Growth over 2021	GDP Growth over 2022	GDP Growth over 2023
G20	**9.8**	**-3**	**6.5**	**3.1**	**3.2**
U.S.	25.5	-2.2	6.1	2.5	2.9
U.K.	19.3	-10.3	8.6	4.8	0.3
Australia	18.4	-0.1	2.1	4.2	3.4
Japan	16.7	-4.1	2.6	1.0	1.7
Canada	15.9	-5.0	5.3	3.8	1.2
Germany	15.3	-4.1	3.7	1.4	-0.3
France	9.6	-7.4	6.9	2.6	0.9
China	4.8	2.2	8.4	3.0	5.2

SOURCE: Adapted from IMF Fiscal Affairs Department, "Database of Country Fiscal Measures in Response to the COVID-19 Pandemic," International Monetary Fund, October 2021, https://www.imf.org/en/Topics/imf-and-covid19/Fiscal-Policies-Database-in-Response-to-COVID-19; World Bank, "GDP Growth (annual %)," The World Bank Group, Accessed March, 2025, https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG.

FIGURE 2

Global Response to COVID-19

Additional Spending and Forgone Revenue as Percent of GDP



Source: Adapted from IMF, "Database of Country Fiscal Measures in Response to the COVID-19 Pandemic."

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3. Economic Performance vs. Perceptions of Economic Performance

This section explores the ways in which the U.S. economy grew during and after the pandemic. During this period, the U.S. economy grew faster than its developed peer nations. This growth featured an investment boom, portending a potential source of continued economic strength. However, despite this boom, American sentiment about the condition of the economy lagged that of peer nations.

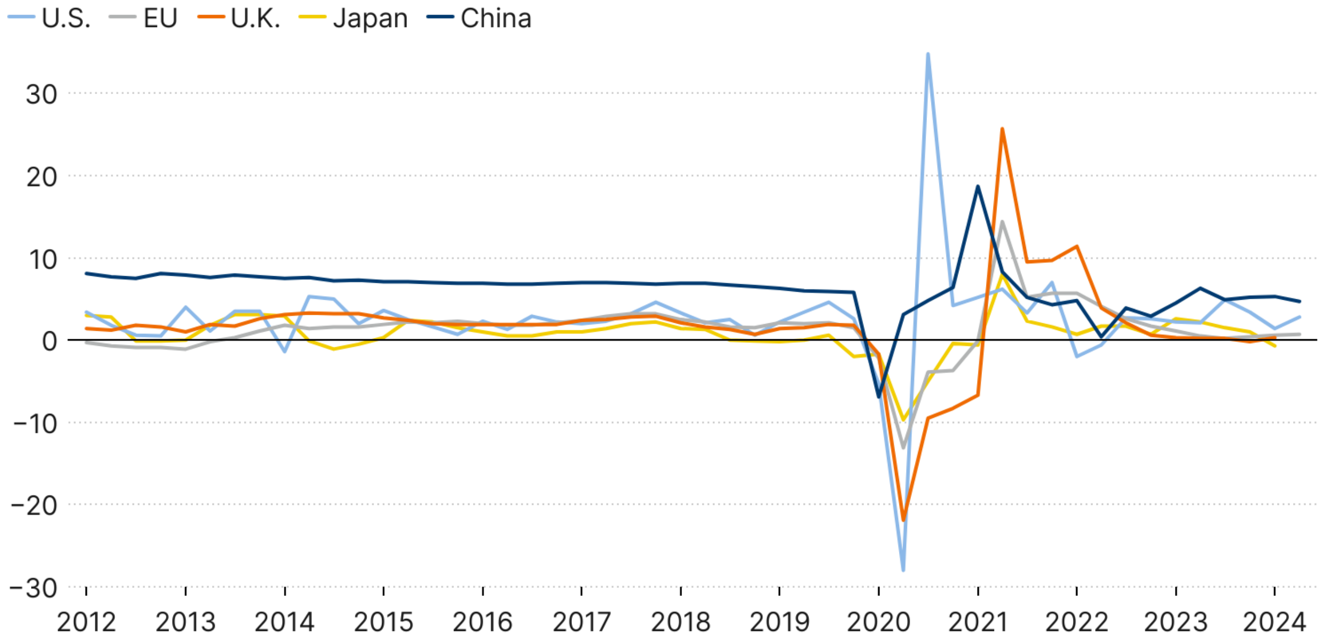
3.1 U.S. GDP RECOVERED FASTEST AFTER THE PANDEMIC

The U.S. economy's recovery was the strongest and quickest.[11] As Figure 3 shows, America's snap back happened in 2020. China was the next-fastest at the end of 2020, with Japan, the U.K., and the EU not having their main pandemic bounce-back quarters until 2021.

Gross investment and capital formation tell a complementary story. While the U.S. and the EU showed roughly similar trends before and through the 2008 global financial crisis, only the U.S. resumed growth in 2013, as seen in Figure 4. This gap in investment and capital formation—roughly stable between $250 billion and $350 billion—widened sharply following the pandemic reaching $520 billion by 2024 Q1.

FIGURE 3

Annual Real GDP Growth Rates



Source: Adapted from OECD, "Quarterly GDP," OECD, accessed October 20, 2024, https://doi.org/10.1787/b86d1fc8-en

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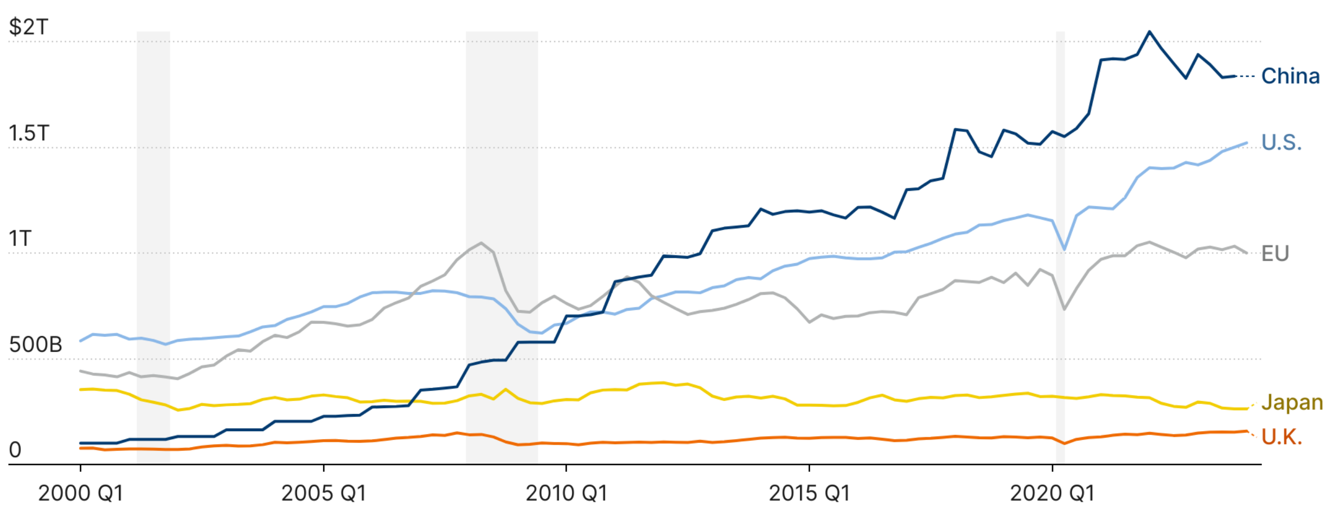
FIGURE 4

Quarterly Gross Investment and Capital Formation

Reported in U.S. dollars



Source: Adapted from Haver Analytics, "China: GDP: Investments (Bil. Yuan), UK: GDP: Changes in Inventories and Stocks (SA, Mil.Pounds), Japan: GDP: Gross Domestic Capital Formation (SAAR, Bil.Yen), Gross Domestic Investment (SAAR, Mil.$), EU27: Gross Capital Formation (SWDA, Mil.EUR)," accessed October 19, 2024, https://www.haver.com.

Note: Gray areas indicate periods of recession

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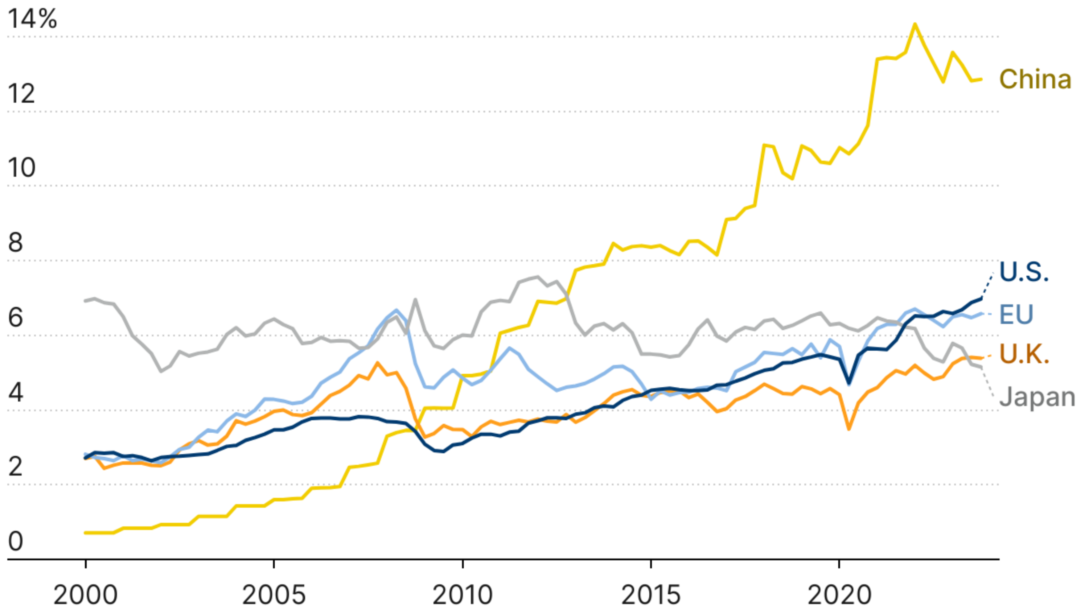
FIGURE 5

Quarterly Gross Investment and Capital Formation as Percent of 2019 GDP



Source: Adapted from Haver Analytics, "US Gross Investment, EU Gross Capital Formation, UK Gross Capital Formation, Japan Gross Capital Formation, China Gross Investment," accessed October 15, 2024, https://www.haver.com

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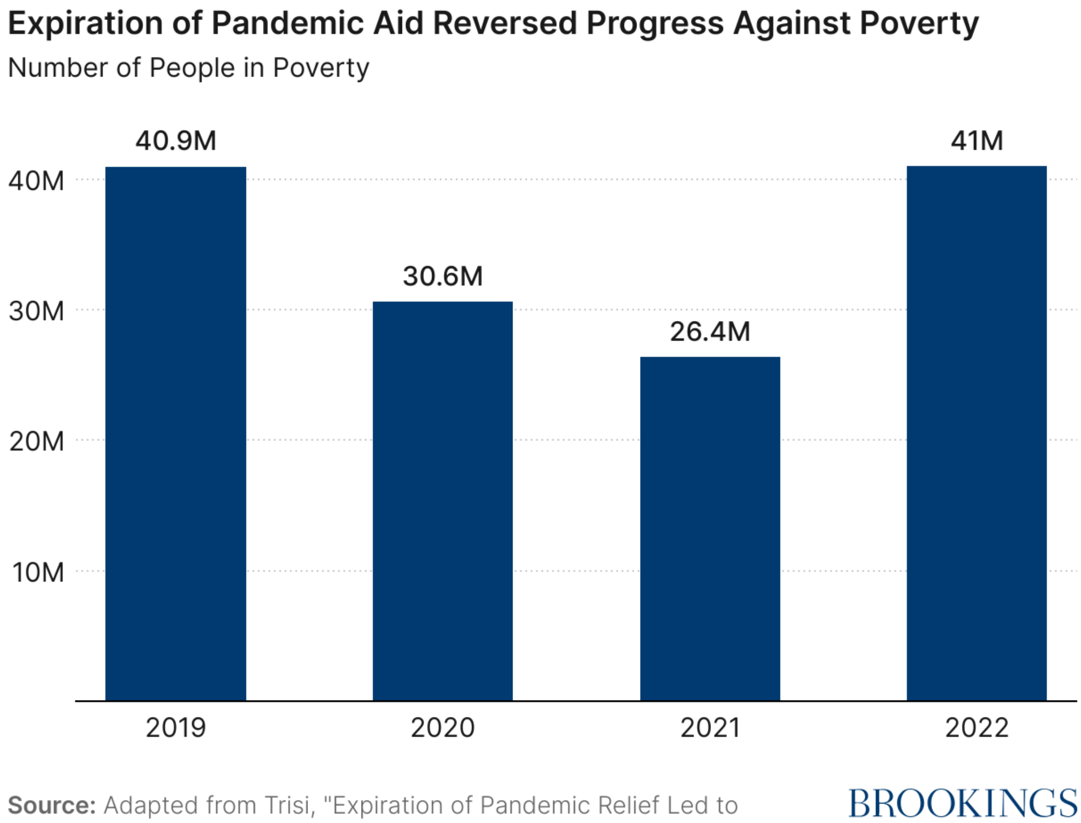
Economic performance during and after the pandemic appears to explain much of the investment and capital formation gap between the U.S. and the EU. As shown in Figure 5, when measuring gross investment against 2019 GDP, the differences between the U.S. and the EU largely disappear. For that reason, America's stronger growth makes it appear likely that the gap will continue to widen.

Indicators of America's strong investment can be found in its record new business creation levels. Total monthly business applications reached a record high 546,415 in July 2020 and have remained above 400,000 since, well up from the pre-pandemic high of 315,189 in December 2019.[12] Decker and Haltiwanger link the sustained increase in new business formation to the pandemic spike in quits.[13] Specifically, the pandemic shifted workers' lifestyle preferences towards increased flexibility and working from home, while also altering consumer behavior towards online services, creating new market opportunities. As a result, workers who had left jobs found it attractive to pursue entrepreneurship.[14] The 2021 American Rescue Plan Act played a major role by providing funding and financing opportunities for new entrepreneurs and reducing the financial risk from business failure.[15]

3.2 PANDEMIC RESPONSE PROGRAMS ACHIEVE TARGET OF REDUCING POVERTY

The benefits of the pandemic and post-pandemic economy were felt substantially at the bottom of America's economic distribution. The U.S. has long had higher rates of income inequality than Europe, the U.K., Japan, and many other advanced economies.[16] Pre-pandemic, the U.S. Gini Index

FIGURE 6



Source: Adapted from Trisi, "Expiration of Pandemic Relief Led to Record Increases in Poverty and Child Poverty in 2022."

hovered above 40 compared to below 35 in the EU, the U.K., and Japan.[17] While the pre-pandemic period featured the longest sustained economic expansion on record, reducing U.S. unemployment to historically low levels,[18] nearly 41 million Americans were in poverty in 2019. During the pandemic that figure dropped sharply to 26.4 million. This drop is largely attributed to government fiscal assistance, including substantial per capita payments from the CARES Act, the Consolidated Appropriations Act, and the American Rescue Plan Act. Once payments from these programs ended in 2022, poverty figures snapped back to pre-pandemic totals for Americans overall, as seen in Figure 6.

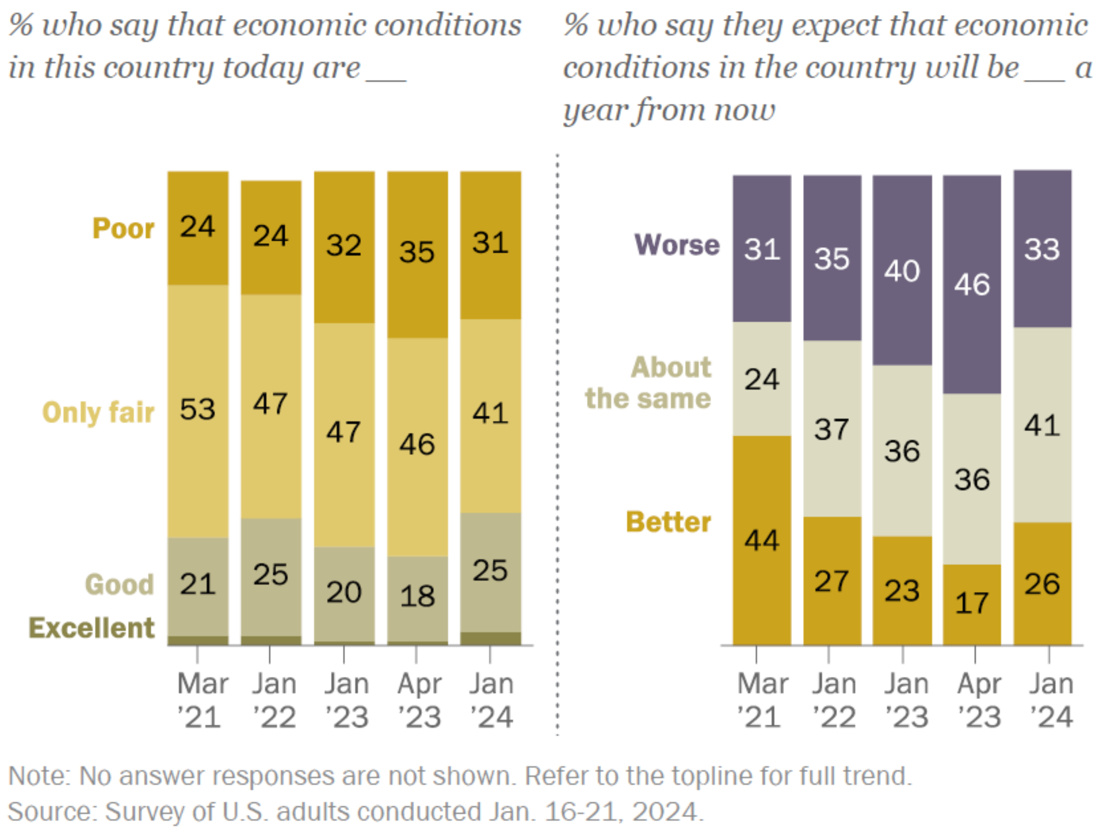
3.3 PERCEPTIONS OF ECONOMIC PERFORMANCE IN EUROPE COMPARED TO THE U.S. AND MACROECONOMIC INDICATORS ARE INVERTED

The U.S. economy outperformed other major economies at responding to the COVID-19-induced recession. The U.S. experienced strong economic growth, a robust labor market, large capital inflows and business creation, and substantial reductions in poverty. The economic rebound defied projections made during and after the pandemic, including in 2023 when an astounding 100% of economists surveyed predicted a recession, and instead the economy grew by 2.5%.[19]

Thus, one should expect Americans to feel relatively better about their nation's post-pandemic economy than others. However, Americans perceive the economic situation in the U.S. negatively. Perception was so negative that the term "vibecession" was coined to discuss the disconnect between actual economic performance and perception.[20]

FIGURE 7

Modest improvement in national economic outlook



SOURCE: Pew Research Center, Americans More Upbeat on the Economy; Biden's Job Rating Remains Very Low (Washington, DC: Pew Research Center, 2024), https://www.pewresearch.org/wp-content/uploads/sites/20/2024/01/PP_2024.1.25_biden-economy_REPORT.pdf , 10.

In contrast, as shown in figure 8, Europeans perceive the economic situation in their countries relatively positively even though unemployment is higher and real GDP growth is lower. Perceptions in the U.K. are closer to those in the U.S., which is interesting since both countries engaged in substantial economic stimulus and had stronger economic recoveries than the EU.

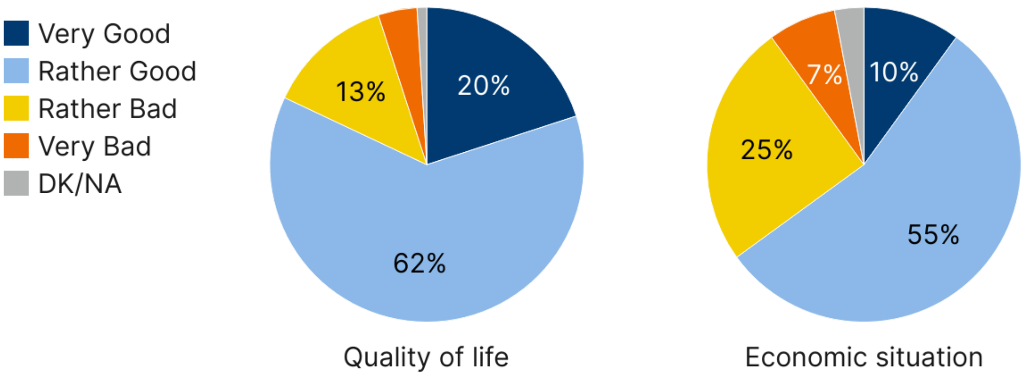
Americans' economic perceptions during and post-pandemic started pessimistic and got worse even as the economy rebounded. A report by the Pew Research Center found that 35% of Americans described the economy as "poor" in April 2023, an increase of about 45% from levels seen during the pandemic (March 2021 and January 2022).[21] It is worth noting that the decline in economic outlook was occurring at the same time as the snap back in poverty during 2022. It is possible that part of the sentiment decline was related to the return of poverty levels to their pre-pandemic rates.

However, the Pew polling also indicated that pessimism extended beyond the moment, infecting views about the future; 46% of Americans expected the economy to be worse a year from now (in April 2023), compared to projections during the pandemic (March 2021). Only 17% expected conditions to improve, a sharp decline from readings taken during the pandemic. As Figure 7 shows, those numbers rebounded slightly in January 2024 but remained below pandemic levels.

FIGURE 8

EU Quality of Life and Economic Situation

Based on Survey Responses from 2024



Source: Adapted from European Commission, Public Opinion in the EU Regions (Frankfurt, Germany: European Union, 2024), https://europa.eu/eurobarometer/surveys/detail/3218

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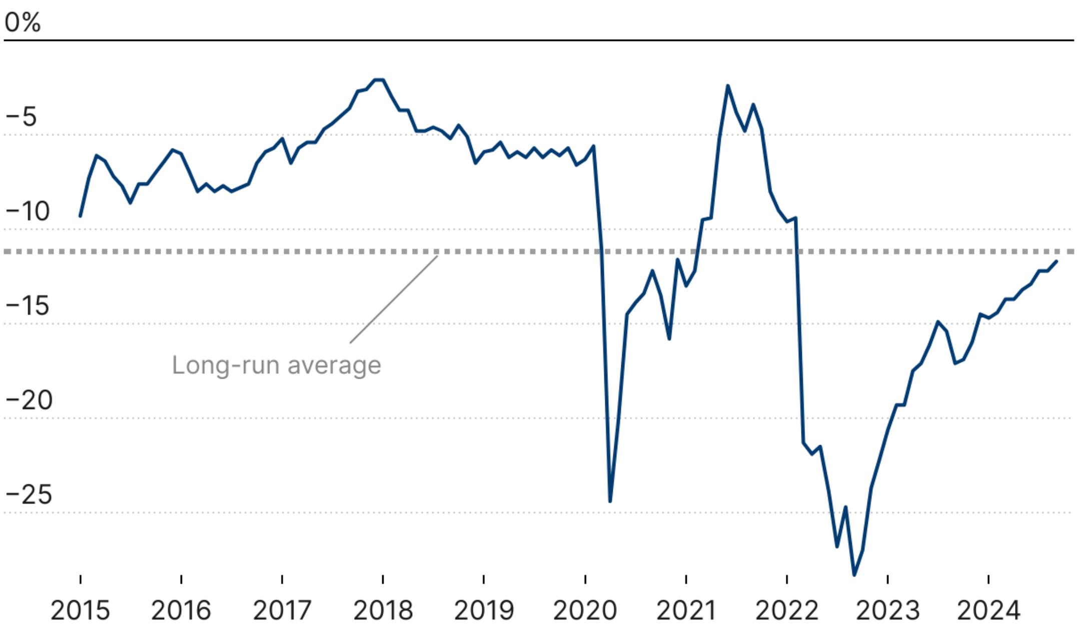
FIGURE 9

European Union Consumer Confidence

Monthly, Seasonally Adjusted



Source: Adapted from European Commission Business and Consumer Surveys Time Series Data (Seasonally Adjusted Data, accessed October 24, 2024), https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys/download-business-and-consumer-survey-data/time-series_en.

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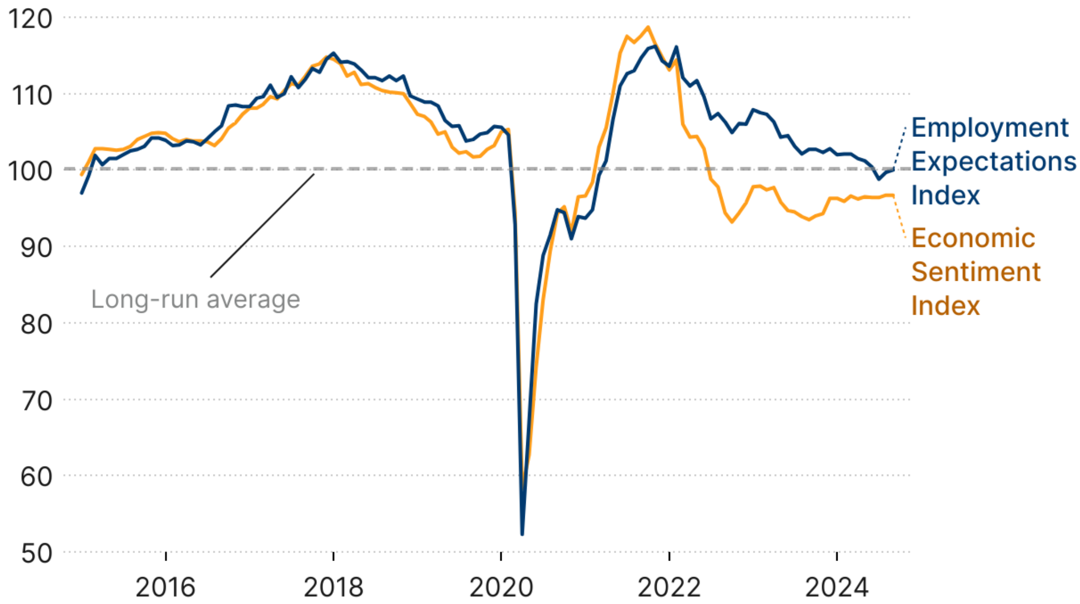
FIGURE 10

European Union Economic Sentiment Indicators

Monthly, Seasonally Adjusted



Source: Adapted from European Commission Business and Consumer Surveys Time Series Data (Seasonally Adjusted Data, accessed October 24, 2024), https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys/download-business-and-consumer-survey-data/time-series_en.

In contrast, Europeans have a positive view of their quality of life and economic outlook. As shown in Figure 8, when asked in January and February of 2024, 82% of Europeans report quality of life of "very good" or "rather good" and 65% report the same of their economic situation.

European Union consumer confidence shows a more pronounced and expected increase during the post-pandemic recovery. Figure 9 shows a two-pronged impact on confidence: a sharp decline when the pandemic hit, a subsequent rise as the pandemic receded, an even sharper decline through the end of the pandemic that bottomed out in October 2022, and then steady growth trend.

Europeans were increasingly optimistic during the pandemic, even surpassing pre-pandemic levels, only to see that confidence recede in the post pandemic world and stabilize at a lower rate than prior to the pandemic, as shown in Figure 10.

The U.K.'s consumer sentiment trend was more similar to the U.S. than the EU. In the U.K., the majority of people believed consistently during the pandemic—with one exceptional surge during 2021—that the economy was getting worse. The brief and failed tenure of Prime Minister Liz Truss corresponded with record levels of economic pessimism. U.K. optimism has risen since then with pessimism now returning to levels seen around the 2016 Brexit referendum.[22]

4. Drivers of Economic Pessimism in the U.S.

There are many theories for why the economy is perceived to be in poor condition in the U.S.[23] This paper considers four: the asymmetric impact of inflation or employment, the cost of housing, increased political polarization, and measurement error.

4.1 MISERY INDEX AND DISTRIBUTION

On the question of inflation, macroeconomists have tried to capture consumer sentiment on the economy using Arthur Okun's concept of "the Misery Index," a simple addition of the inflation and unemployment rates.[24] The Misery Index has been widely used as a measure to capture what consumer sentiment should be based on economic fundamentals.[25] The index fell from the time it was coined in the 1970s through the pre-pandemic periods, as trend inflation and the non-accelerating inflation rate of unemployment (NAIRU) both fell in the U.S.

During the pandemic the misery index rose, first as unemployment skyrocketed, then as inflation increased. However, the index fell as employment returned and inflation subsided. Yet as Paul Krugman wrote: "Misery seems to be taking a holiday."[26] The Misery Index is 7 as of January 2025, a level roughly equal to the 2016-2018 period when consumers were broadly much happier about the economy.[27]

Pre-pandemic research by Ravallion argues that the Misery Index's simple addition of inflation and unemployment fails to adequately appreciate the distinct impact of each across the economic distribution spectrum.[28] He argues that the Misery Index only captures sentiment for high-income people and doesn't capture the experience for lower-income people. Instead, Ravallion proposes that "[f]or the poorest, the effect of inflation is swamped by the unemployment rate."[29]

Ravallion's thesis would imply that poorer Americans should be happier with the current economy's low unemployment rate and not as bothered by the recent spike of inflation. However, Federal Reserve Bank of Chicago President Austan Goolsbee argued that the pandemic-era inflation particularly hurt lower-income households more than others.[30] Goolsbee's argument builds on a Hobijn and Lagakos paper on "inflation inequality" that found the "inflation experiences of U.S. households vary significantly … cost of living increases are generally higher for the elderly, in large part because of their health care expenditures, and that the cost of living for poor households is most sensitive to … fluctuations in gasoline prices."[31] The United States' uniquely large health care sector and lack of nationalized health care could explain some of the idiosyncratic experiences of inflation there. Goolsbee speculated that the distributional impacts were exacerbated by the pandemic's unique impact of promoting virtual vs. in-person commerce overlayed on America's digital divide, noting that "shopping online is far more common among high-income people" and that online prices rose far less than overall CPI during the pandemic.

The post-pandemic period is providing new data as to whether unemployment or inflation colors perception of economic unhappiness. The primary finding in the United States leans toward inflation. Inflation at these levels had not been experienced by Americans in 40 years, meaning that prior data and analysis on Americans' reaction to inflation relies on a different generational cohort in a different era. Despite widespread forecasts of a post-pandemic recession driven by the Federal Reserve's rate-tightening cycle, the U.S. economy both grew and continued to create jobs.[32] Inflation fell, and while the overall inflation rate is still above the Fed's target level of 2%, current inflation excluding housing meets the Fed's target rate.[33]

Further explanation around inflation has to do with time. Consumers could be more focused on price levels than annual rates of change. Even as inflation rates recede, consumers may remain negative about changes in overall price level, driving a prolonged state of negativity. For example, consider a good that changes in price from 100 to 110 in one year, then to 115 in year two, and then 118 in year three. The inflation rate for that good went from 10%, to just under 5% to under 3%. Using only the final year's inflation rate, inflation would not be a major concern. However, to a consumer remembering the price three years ago, the overall inflation rate would be 18%, a large number even over three years. This holds true when looking at the average price of common goods. For example, basic food staples saw their prices remain high: Milk in 2024 is about $4 per gallon, up from around $3.20 before the pandemic,[34] while bread in 2024 is about $2.00 per pound, up from around $1.30.[35]

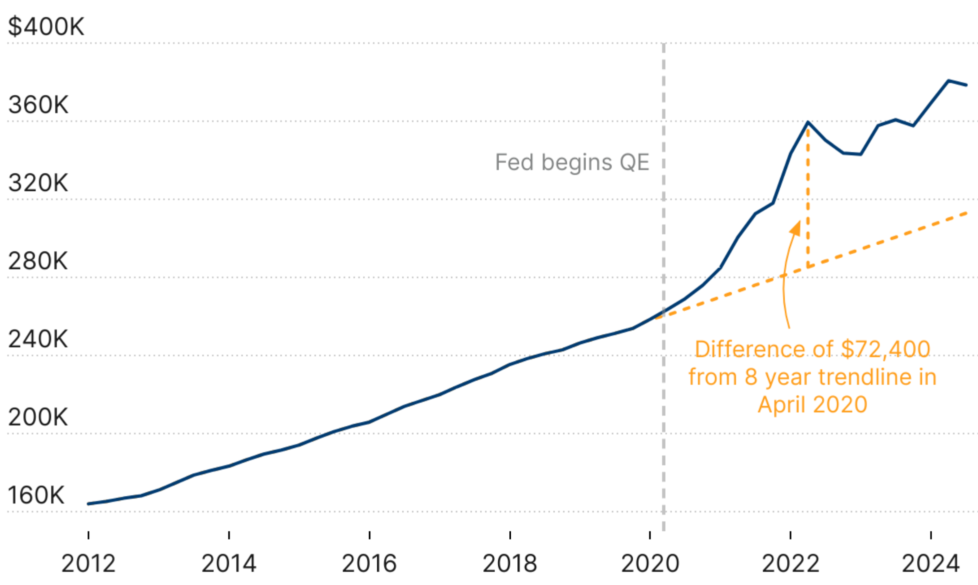
4.2 HOUSING'S ROLE IN INFLATION AND THE FED'S ROLE IN CREATING HOUSING INFLATION THROUGH QE

Housings major and unique role in America's inflation experience is not fully appreciated. For example, Furman's recent discussion of America's inflationary experience did not mention housing, nor did Fed Chair Powell in his Jackson Hole speech.[36] This is surprising, as through 2024, housing inflation remains elevated while other categories have cooled. During the beginning of the inflation spike in 2021, housing inflation remained low initially, falling below overall inflation for the first time in almost a decade. After overall inflation took off, housing inflation followed, reaching its highest level almost a full year after overall inflation peaked. Subsequently, while overall inflation has eased to 3% and non-housing inflation is down to the Federal Reserve's target rate of 2%, housing inflation remains elevated at 5% as of mid-2024.[37]

Housing inflation is reflected in soaring home prices. Average home value rose by nearly $100,000 between 2020 and 2022, marking a sudden shift from pre-pandemic trends which would have resulted in a gain of only $25,500. Figure 11 shows that this increase in home valuation has persisted.

FIGURE 11

Average Home Valuation in the United States



SOURCE: Authors calculations using Board of Governors of the Federal Reserve System, "All Sectors; Total Mortgages; Asset, Level [ASTMA]," FRED, accessed July 17, 2024, https://fred.stlouisfed.org/series/ASTMA; Board of Governors of the Federal Reserve System, "Households; Owners' Equity in Real Estate, Level [OEHRENWBSHNO]," FRED, accessed July 17, 2024, https://fred.stlouisfed.org/series/OEHRENWBSHNO; U.S. Census Bureau, "Housing Inventory Estimate: Total Housing Units in the United States [ETOTALUSQ176N]," FRED, accessed July 17, 2024, https://fred.stlouisfed.org/series/ETOTALUSQ176N.

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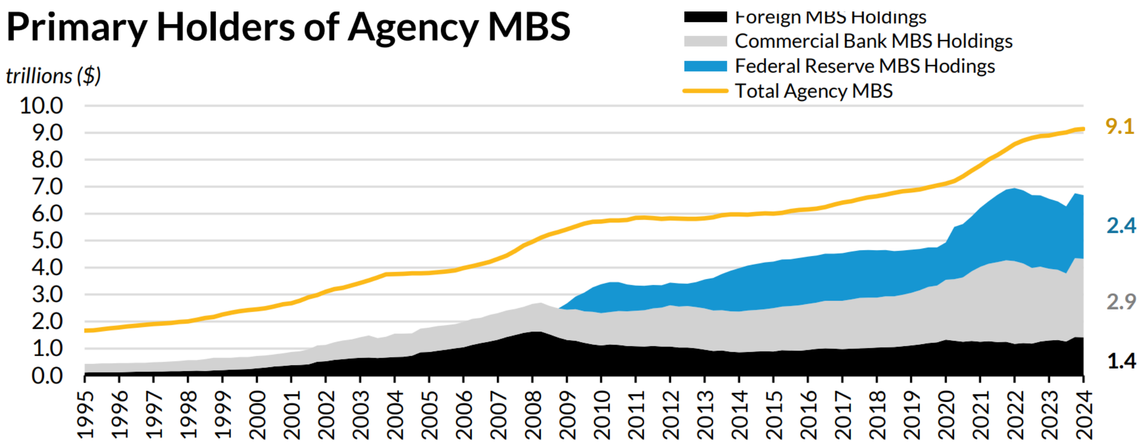
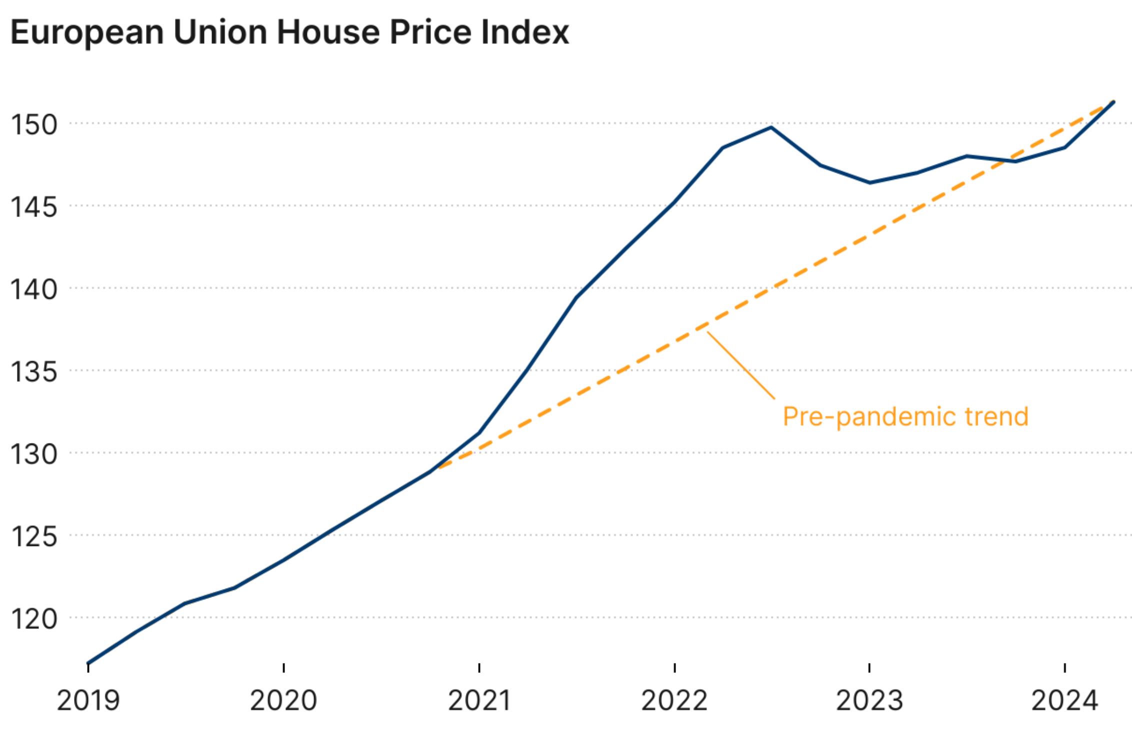
FIGURE 12



Sources: Financial Accounts of the United States (table L.211), Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Moody's Analytics and Urban Institute Calculations. Data as of Q1 2024.
Note: A small amount (roughly 5%) of foreign MBS holdings is agency debentures. Holders not shown: Households, nonfinancial business, federal, state and local governments, insurance companies, pension and retirement funds, money market and mutual funds, REITs, ABS issuers, brokers, and holding companies.

SOURCE: Urban Institute Housing Finance Policy Center, Housing Finance at A Glance: A Monthly Chartbook (Washington, DC: Urban Institute, June 2024), https://www.urban.org/sites/default/files/2024-06/Housing-Finance-At-A-Glance-Monthly-Chartbook-June-2024.pdf

FIGURE 13



Source: Adapted from Trading Economics, "European Union House Price Index," Sourced from Eurostat, accessed August 26, 2024, https://tradingeconomics.com/european-union/housing-index

The connection between American housing inflation and monetary policy has not been fully appreciated. The Federal Reserve's quantitative easing (QE) program purchased Treasuries and mortgage-backed securities (MBS). It did so because these are the two assets the Fed is allowed to buy under Section 14 of the Federal Reserve Act, which is the legal basis for how the Fed operates its QE program. As seen in Figure 12, the Fed purchase about $1.3 trillion of the total $1.5 trillion new agency MBS during the 2020-2022 QE period.[38] The Fed's MBS purchases were equal to around 87% of total MBS increase during the QE period. Basic economics argues that when new buyers enter a market of fixed supply, their purchases will push up price. With mortgages being purchased, the value of a mortgage was increased, which flows back into home prices.

While other countries experienced temporary increases in home valuations, the United States' continued above-trend home valuation is an outlier. Figure 13 shows that, after the pandemic, the EU house price index returned to levels equal to pre-pandemic trend.

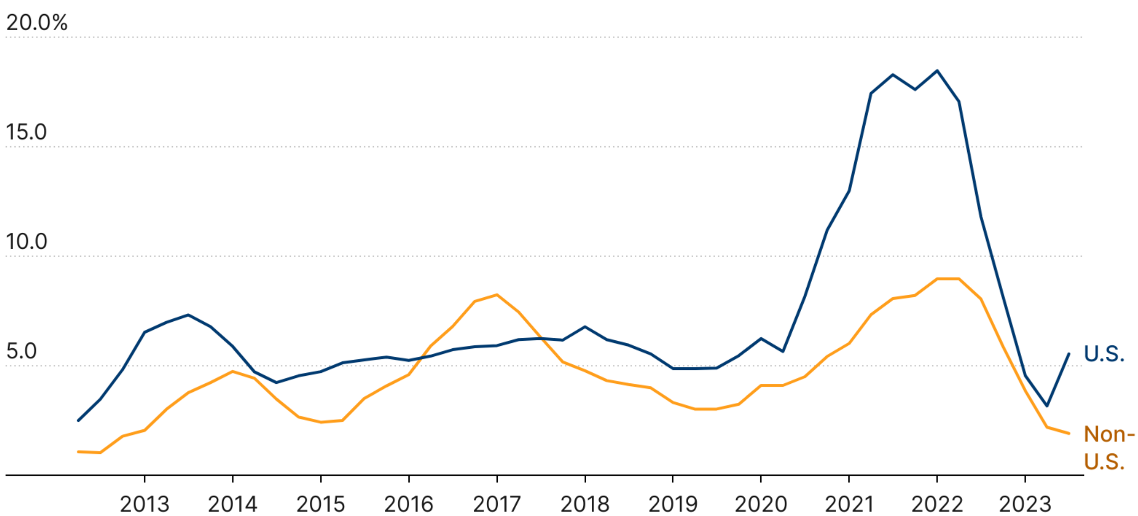
Figure 14 compares house price appreciation in the U.S. from a global weighted average. It is important note that other central banks either did not engage in QE or if they did, they did not focus their purchases on mortgage-backed securities.

The increase in housing costs fed into consumer sentiment regarding housing. The Fannie Mae Home Purchase Sentiment Index, which measures consumer optimism about the housing market, remains well below pre-pandemic levels; as of June 2024, 86% of Americans believe it is a bad

FIGURE 14

House Price Appreciation: United States vs. Non-United States

Year-over-year change in nominal house price index



Source: Adapted from OECD, "Housing prices," OECD, accessed October 20, 2024, https://doi.org/10.1787/63008438-en.

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Note: Non-U.S. refers to the average (weighted by 2019 GDP) nominal house price index of 46 countries: Australia, Austria, Belgium, Canada, Chile, Colombia, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkiye, United Kingdom, Brazil, Bulgaria, China, Croatia, India, Indonesia, Romania, Russia, Saudi Arabia, and South Africa.

time to buy a home—an all-time low.[39] An April 2024 Gallup poll found that "cost of owning/renting a home" was the second most common perceived significant financial problem for U.S. families, after "high cost of living/inflation."[40] Similarly, a PEW study conducted at the end of August 2024 found that 69% of respondents were "very concerned" with the cost of housing, while the figure is 74% for the price of food and consumer goods, 40% for unemployment, and 24% for stock market performance.[41]

Further research on the impact of housing on consumer sentiment may explain Americans' economic pessimism. One might expect house price appreciation to weigh positively on consumer sentiment for homeowners, as for the majority of Americans their home is their largest financial asset. However, non-homebuyers and those who own a home but wish to buy a more expensive one may see the rise of home values (as well as property taxes) as a net negative. Prospective homebuyers may react asymmetrically to home price appreciation, believing that future home ownership is not possible. This is evident in the increasing age of first-time homebuyers. National Associations of Realtors reports that the median first-time buyer age was 38 in 2024, up from 33 in 2019 and late 20s in the 1980s.[42]

Additionally, negative consumer sentiment due to increasing housing costs may be concentrated in renters. Renters were more likely to be behind on their bills in 2024 than 2022 and more likely than homeowners to report missing bill payments, leading some to conclude that renters should be less satisfied with the economy. As LPL Financial Chief Economist Jeffrey Roach put it: "Rents have increased by over 20% since the onset of the pandemic. Renters are paying roughly $370 on average more each month." As rents continue to increase, so does a feeling of economic insecurity.[43]

It is worth noting that homeownership is often cited as being central to "the American dream," illustrating the primacy of housing in consumer sentiment in America. As the next section will discuss, those that believe in the American dream but do not personally fulfill it often fall into despair, which in turn can adversely affect their consumer sentiment among other things.

4.3 POLITICAL POLARIZATION DRIVING SENTIMENT

Another possibility is that political factors are driving economic unhappiness. Americans have become increasingly politically polarized.[44] As data from Gallup shows in Figure 20 below, consumer sentiment during presidential election years appeared to track overall economic conditions reasonably well: In 1992 and 2008 Americans were quite unhappy, while during times of strong growth in 1996 and 2000 they were optimistic. The 2020 data is an exception, in that confidence was relatively strong despite the pandemic-era recession, but that was likely due to hope that recovery was around the corner, as discussed earlier. However, in 2024 Americans are highly negative despite positive economic performance, as seen in Figure 15.

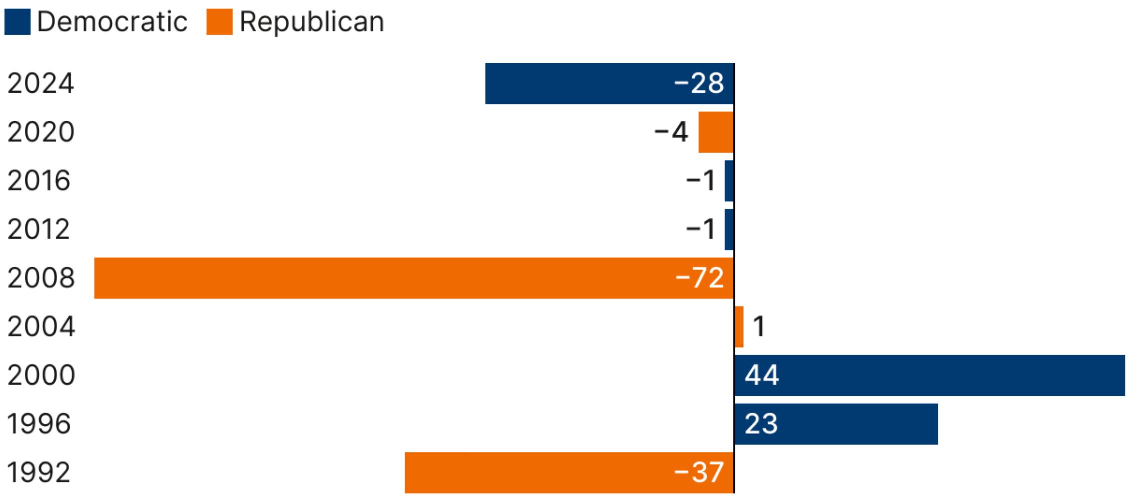
Research from the Federal Reserve Bank of Richmond shows that "the partisan sentiment gap has been widening over time."[45] That same research indicated an asymmetric response between politization and sentiment. Federal Reserve Bank of Richmond researchers tracking the Misery Index found that those who were of the same political party as the president are less likely to exhibit the partisan bounce of happiness when the Misery Index is high. Thus, while the opposition party is structurally less happy to begin with, the incumbent party is less prone to optimism, reducing overall sentiment. In addition, recent research published by the National Bureau of Economic Research shows that while political polarization has been increasing in both the U.S. and Europe over the past decade, it has increased the most in the U.S.[46]

It may also be that the political effect is not symmetric between the two parties. Research from 2023 shows that Republican political bias is 2.5 times stronger than Democrats.[47] Similarly, data from the Pew Research Center shows a much larger swing among Republicans than among Democrats over recent elections. Republicans swung from 18% reporting an excellent or good economy at the end of 2016 to 81% prior to the pandemic in 2020, while Democrats moved only slightly from 46% to 39%. While people from both parties were less positive about the economy in 2022 and 2023, Republicans have become even more nega-

FIGURE 15

Gallup U.S. Economic Confidence in Presidential Election Years

Index of Current Economic Conditions and Future Economic Prospects



Source: Adapted from Jeffrey M. Jones, "2024 Election Environment Favorable to GOP," Gallup News, September 24, 2024, https://news.gallup.com/poll/651092/2024-election-environment-favorable-gop.aspx.

Note: Sources above 0 indicate positive evaluations of the economy and scores below 0 indicate negative evaluations of the economy. Theoretical maximum and minimum are 100 and -100.

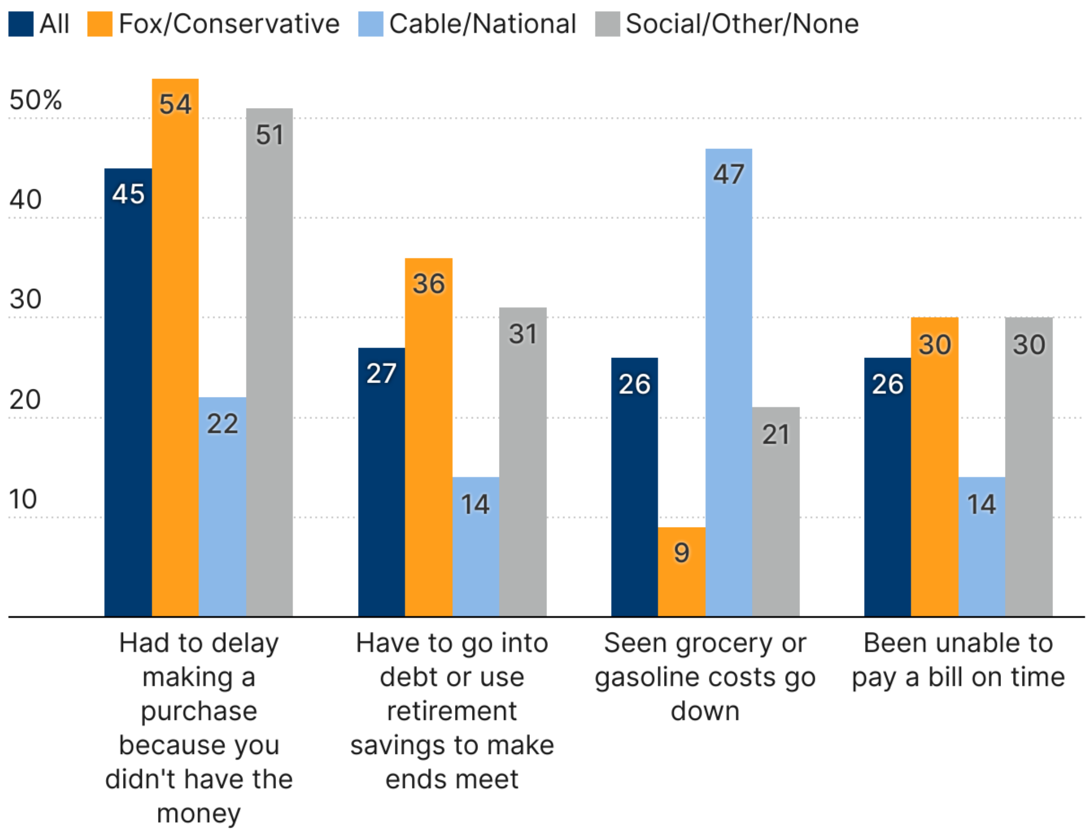
tive, with a reduction of 50% in the share who report the economy as excellent/good from 2022 to 2024, while Democrats rose slightly over that time period, despite starting at a substantially higher level.[48]

This amplified right-wing negativity may stem from overly pessimistic economic coverage in conservative media. Harris and Sojourner (2024) identify that the tone in national economic news has become increasingly negative, in large part due to major networks becoming more ideologically biased.[49] Particularly with conservative media, biased news combined with disinformation in social media pushes some into misinformed negativity.[50] A 2024 poll by Reuters and Ipsos reveals that people who primarily consume conservative media were more likely to answer questions about the economy incorrectly and negatively. The poll reports about 85% of conservative media consumers were incorrect about the direction of inflation in 2024, saying it got worse. By comparison, only about 35% of cable news and national newspaper consumers were incorrectly down on inflation.[51] Additionally, as seen in Figure 16, people who consume conservative media perceive their personal economic experiences—such as paying a gas or grocery bill—differently and more negatively than consumers of other types of media.

FIGURE 16

Reuters/Ipsos Poll on Reported Economic Experiences by Primary Media Source

Share of respondents reporting having experienced in the last 3 months



Source: Clifford Young, Sarah Feldman, and Bernard Mendez, "The Link Between Media Consumption and Public Opinion," IPSOS, October 18, 2024. https://www.ipsos.com/en-us/link-between-media-consumption-and-public-opinion.

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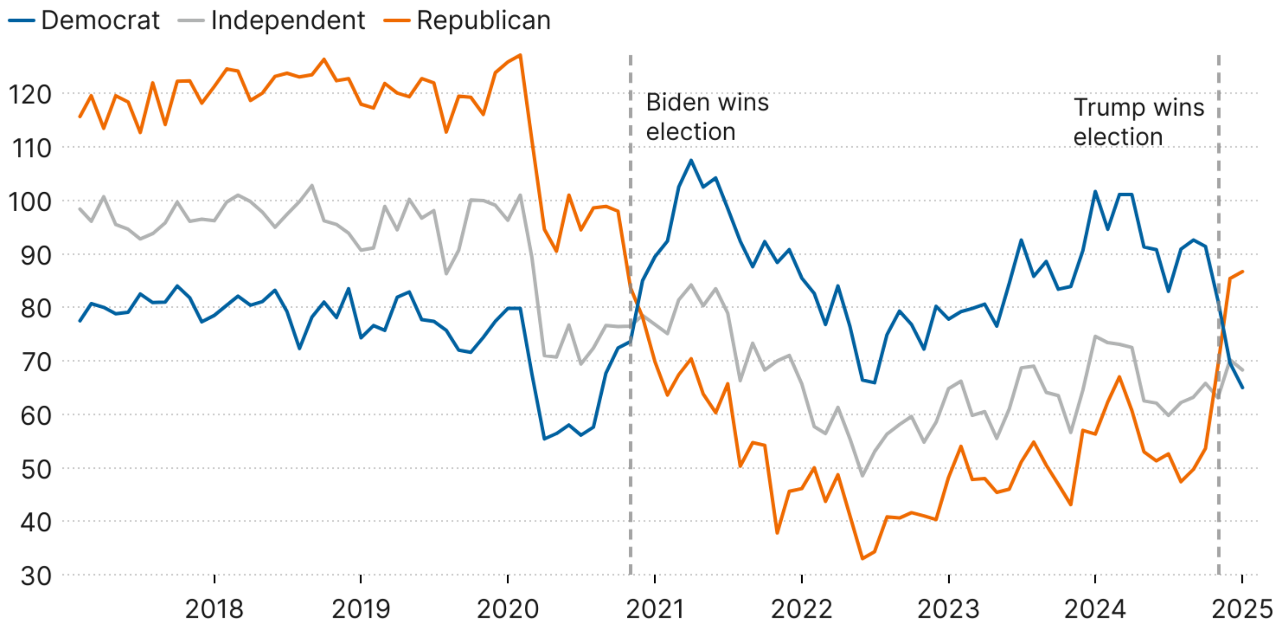
As seen in Figure 17, Consumer sentiment data following Trump's election in 2024 shows signs of an uptick in Republican optimism relative to Democrats, corroborating the partisanship of economic sentiment.[52] The University of Michigan Consumer Sentiment Index shows that the Republican Index of Consumer Expectations jumped from 61.4 in October 2024 to 89.2 in November 2024, while Democrats decreased from 93.1 to 75.4.[53] Contrasting optimism from current economic sentiment, Republican index of Current Economic Conditions fell from 41.4 to 37.9 over the same period, while Democrats increased from 88.8 to 90.5.[54] Evidently, the election brought out increased satisfaction with Biden's economy in Democrats while Trump's victory spiked Republican economic optimism.

That political polarization extends to perceptions about inflation should not be surprising, as inflation was the American consumer's top economic issue in the 2024 election.[55] In May of 2024, there was a substantial political gap among Americans on inflation, with 80% of Republican-lean-

FIGURE 17

Consumer Sentiment by Political Party

Based on Consumer Sentiment Index



Source: Adapted from University of Michigan, "Survey of Consumers: Index of Consumer Sentiment and Components by Political Party," University of Michigan, December 2024, https://data.sca.isr.umich.edu/fetchdoc.php?docid=77567.

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ing voters describing inflation as a "very big problem" compared with 46% of Democrats.[56] Inflation was considered a very big problem by more Republicans than any other issue, including immigration, while it ranks fourth among Democrats.[57]

Since Trump's inauguration, there have been changing patterns in these trends, with a broader range of consumers, regardless of political party or demographic group, concerned about inflation and the negative effects that Trump's tariffs are likely to have for all consumers. As with inflation, though, low-income groups have less of a buffer to absorb price increases. While low-income groups disproportionately benefited from the COVID-19-related stimulus measures, those gains were eroded by continued inflation after the stimulus measures ended. As such, low-income groups have more to lose in relative terms by continued and possibly increased inflation, and consumer sentiment reflects their concerns.[58] Increasing inequality in the U.S., meanwhile, exacerbates those relative differences.[59]

4.3.1 Rapidly Increasing Despair Explains Polarization-Driven Economic Pessimism

Post-pandemic American economic pessimism can also be explained by the rapidly increasing levels of "despair." Graham (2024) defines despair as ambivalence as to whether one lives or dies.[60] People in despair do not believe that they can act to improve their situation in any way. She argues that lack of purpose and narrative for the future makes people in despair "particularly vulnerable to conspiracy theories, fake news, and participation in extremist activities."[61] Corroborating this claim, neurological research on COVID-19 denial and conspiracy finds a strong relationship between despair and susceptibility to misinformation, especially in Republican communities.[62]

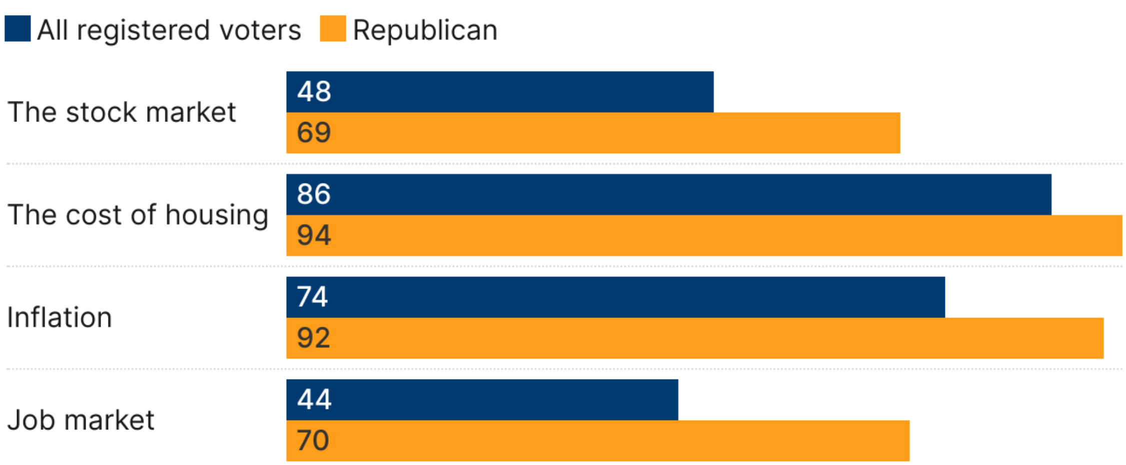
Despair's growth has been concentrated with white, working-class men, who have the highest levels of despair of any demographic group.[63] The reason is that white, middle- and low-income individuals have largely bought into the idea of the American dream, or the idea that "those individuals who work hard get ahead."[64] In turn, white, working-class families more easily believe false narratives about the economy that allow them place blame elsewhere for their distress. This vulnerability explains the post-pandemic rise in right-wing misinformation.[65]

This despair-induced, right-wing misinformation and radicalization may result in undue economic pessimism among Republicans. A survey conducted in August 2023 asked 600 respondents this question: "Over the past year, please tell me if you think the following measures have moved in the right or wrong direction."[66] Notably the survey did not ask about feelings, but the direction of metrics. As PCE inflation improved from 6.6% August 2022 to 3.4% August 2023,[67] 74% of all respondents and 92% of Republicans responded incorrectly on inflation, as seen in Figure 18. While inflation may be judged personally, where the basket of goods purchased can differ from the national index, answers regarding other objective factors were also biased. (Of course, it could be that individuals have a different conception of what inflation is that is quite distinct from how economists define and measure inflation). For example, while the stock market gained substantially during this period, 48% of all respondents and 69% of Republicans stated it had fallen. That Republicans were mostly incorrect about inflation and stock market gains suggests that Republican economic pessimism makes them more susceptible misinformation.[68]

FIGURE 18

Consumer Pessimism is Partisan and Factually Incorrect

Share of respondents believing these measures were headed in the wrong direction from August 2022 - August 2023



Source: Adapted from The Wall Street Journal, "National Multimodal Survey," The Wall Street Journal, August 2021, https://prod-i.a.dj.com/public/resources/documents/WSJ_Poll_LateJuly_2024.pdf.

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Despair-induced misinformation—in which despair increases vulnerability to misinformation and then more misinformation fuels despair—helps to explain why economic sentiment became so pessimistic, specifically in the U.S. and after the pandemic. While despair measured in self-reports can of course be biased, trends in a population's levels of despair also coincided consistently with those in "deaths of despair," which is the sum of deaths by suicide, alcoholic liver disease, and drug overdose.[69] Figure 19 shows the U.S. and E.U. despair trends. After the pandemic, the rate of increase in deaths of despair spiked and remained elevated in the U.S., while remaining flat in the EU.

4.4 SENTIMENT MIGHT BE MISMEASURED

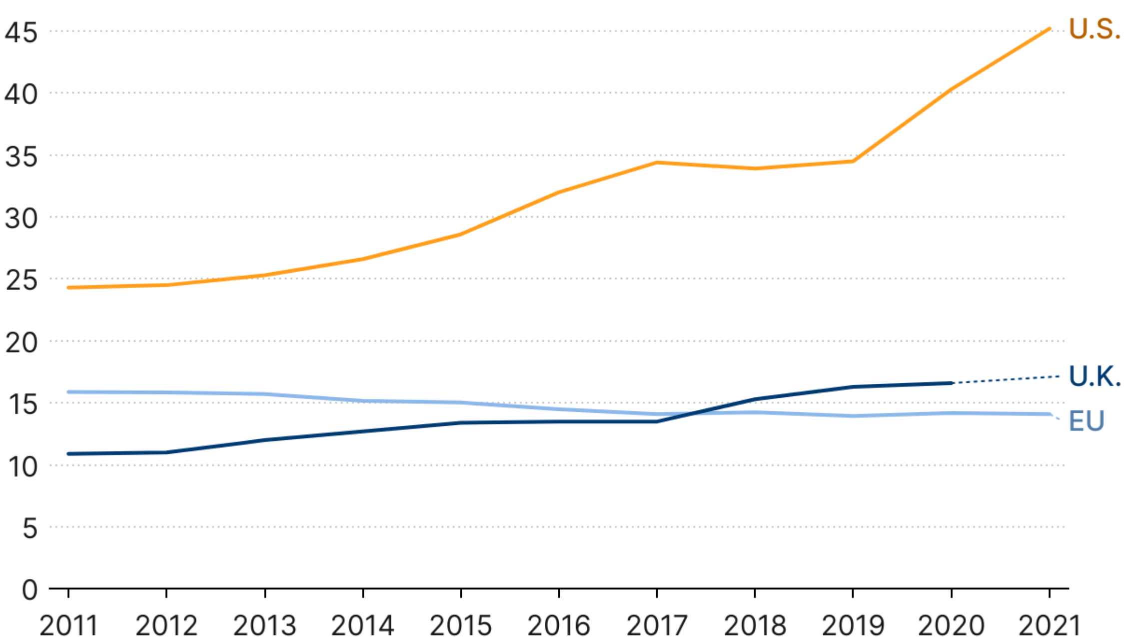
An alternative argument recently put forth by Cummings and Tedeschi is that sentiment is not as bad as measurements indicate.[70] They argue that survey methodology changes, particularly the change from telephone to online data collection for the University of Michigan's benchmark consumer survey, have driven a structural decline in readings of sentiment activity. As they argue:

> "In October 2024, despite a low 4.1% unemployment rate, strong retail spending, and inflation that has largely returned to target, the index stands at 68.9, in the 15th per-

FIGURE 19

Deaths of Despair

Suicide, Alcohol, and Drug-related Deaths per 100,000 People



Source: Adapted from Eurostat, "Causes of Death (t_hlth_cdeath)," Eurostat, accessed October 10, 2024, https://ec.europa.eu/eurostat/web/health/database; OECD. "Causes of Morality." OECD Data Explorer, accessed October 11, 2024

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centile of the historical distribution and well below where we would predict given pre-pandemic relationships with key economic data. For reference, the index level is now lower than it was 15 years ago in September 2009, when the economy was barely emerging out of the recession brought on by the global financial crisis and the unemployment rate was 9.8 percent, more than double its current value."

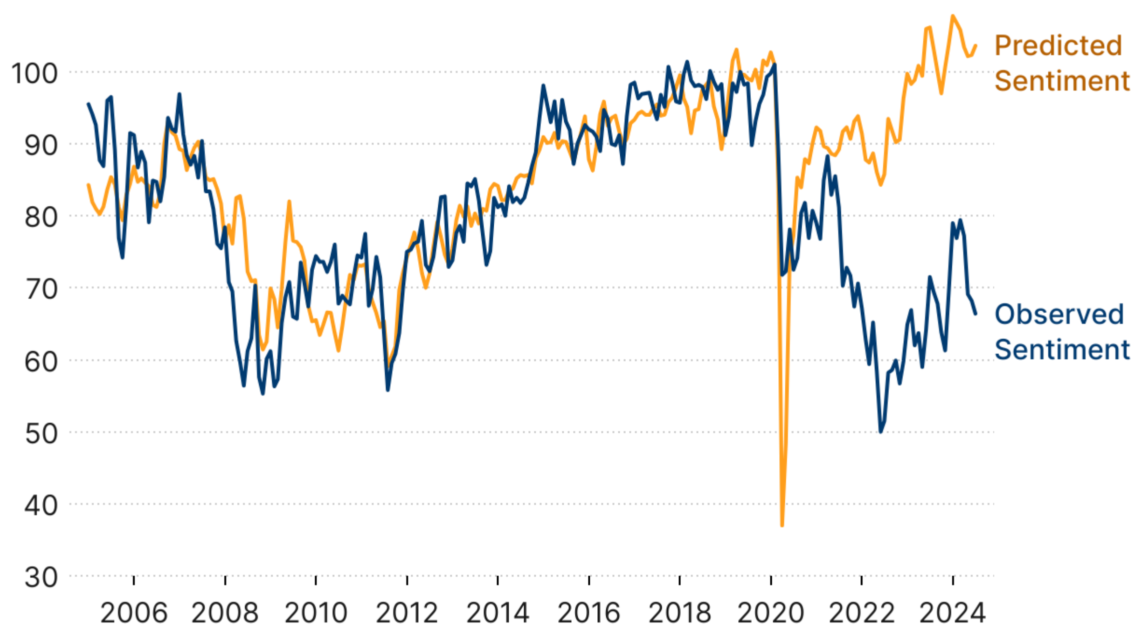
A related but different argument presented by Cummings, Harris, and Mahoney shows that the gap between predicted and actual consumer sentiment began in the pandemic but really widened post-pandemic, as shown in Figure 20.[71] They explore a series of causes including residual inflation and increased partisanship, finding that both contribute but "leaves us with a final, admittedly unexplained, third part" which they conjecture is a mix of other theories.

There is reason to be cautious about this interpretation more broadly than the University of Michigan survey data, which may be not comparable over time due to survey changes. Tedeschi and Cummings pin much of the change on age demographics of respondents, arguing that older Americans are less happy than younger ones, perhaps due to the impacts of inflation which may well not be the same over age cohorts, particularly as older Americans are more likely to live on fixed incomes.[72] However work by Blanchflower, Bryson, and Xu shows substantial increases in measures of unhappiness among youth in the pandemic periods and before.[73] Among many other reasons, the young, who have lower savings and accumulated assets, were likely more affected

FIGURE 20

Actual vs. Predicted Economic Sentiment

Predictions Based on Standard Macroeconomic Variables



Source: Adapted from Cummings, Harris and Mahoney, "The Paradox Between the Macroeconomy and Household Sentiment," https://www.brookings.edu/articles/the-paradox-between-the-macroeconomy-and-household-sentiment/

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by inflation in general and by the out of reach costs of new homes than were older cohorts. This indicated a compound effect with housing inflation described above.

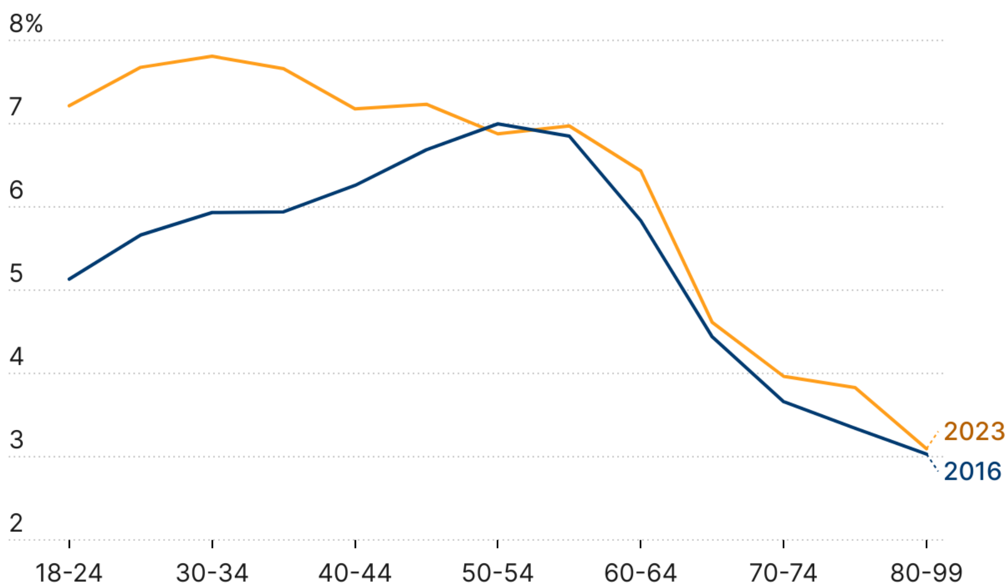
It is important to place the sentiment analysis in the broader context of decreasing psychological wellbeing and increasing unhappiness in the U.S. for the past fifteen years or so. In 2011, for example, the year through which data was collected for the first World Happiness Report, the U.S. ranked 11th in the world in average national happiness. But 2017 it had dropped to 18th and in 2023 it scored 23rd, falling out of the top 20 group—which includes many countries far less wealthy than the U.S. —for the first time since the report was launched.[74]

And, as Blanchflower et al. write in their recent paper, our young are, for the first time, the least happy age cohort in the country, departing from a strong and consistent U-shape relationship in age in most wealthy and middle-income countries, where the least happy age cohort is the middle aged (see for example Blanchflower and Graham (2021)).[75] Blanchflower's analysis measures despair in the U.S. using a question in the Center for Disease Control's Behavioral Risk Factor Surveillance System annual survey, which asks "now thinking about your mental health, which includes stress, depression, and problems with emotions, for how many days during the past 30 days was your mental health not good." A respondent is considered to be in despair if they say all 30 days. Using this definition, Figure 21 plots the percentage of respondents in despair by 5-year age category.

FIGURE 21

U.S. Despair by Age Groups in 2023 Compared to 2016

Share of respondents saying that their mental health was not good for 30 out of the last 30 days, by age bracket



Source: Adapted from Center for Disease Control, "Behavioral Risk Factor Surveillance System 2016 Annual Survey," Center for Disease Control, 2016, https://www.cdc.gov/brfss/annual_data/annual_2016.html; Center for Disease Control, "Behavioral Risk Factor Surveillance System 2023 Annual Survey," Center for Disease Control, 2023, https://www.cdc.gov/brfss/annual_data/annual_2023.html

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In the 2024 World Happiness Report cited above, U.S. youth ranked a surprising 62nd in the world, below countries such as Ecuador, Honduras, and Bulgaria. Youth in the U.K. also experienced declines in their wellbeing—although less steep than those in the U.S.—in recent years, and as noted above, the U.K. public is also negative about the post-pandemic recovery.

Importantly, the decline in youth happiness and increase in reported mental health problems did not begin with COVID-19 but almost a decade earlier in 2011. While the most oft-cited reason is the increased availability of smart phones—and there is little doubt that social media exacerbated underlying problems—the causes run deeper and include the high cost and student debt associated with higher education opportunities for many Americans; uncertainties about rapidly changing labor markets and job opportunities for the young; our increasingly polarized and divided politics; and overarching issues such as climate change and the state of global peace, all of which are more likely to have long-term effects for younger generations than for the middle-aged or the elderly.[76]

Declining happiness and increasing mental health problems may be starkest among the young, but they are part of a broader trend in the U.S., as noted above. Blanchflower and Oswald, using data from the CDC's Behavioural Risk Factor Surveillance Study (BRFSS), find that the number of Americans reporting that they had major emotional or mental health problems in all 30 of the previous 30 days, which they characterized as extreme distress, increased from 3.6% of the population in 1993 to 6.4% in 2019, and among low-education, mid-life white persons, the percentage more than doubled, from 4.8% to 11.5%.[77]

While there is a gap between reported and diagnosed health problems, there is increasing evidence that the reported data, which is easier and less expensive to collect, is a very good proxy.[78] The reported trends match those in deaths of despair, as Graham and Pinto demonstrate (2019, 2021). While these deaths were previously concentrated among low-income whites living in areas where manufacturing and other blue-collar jobs are in decline, they have spread to younger and more racially diverse cohorts. The highest rate of opioid overdose deaths since 2019 is now among Black men and Native Americans, for example, and suicides have increased notably among minority teens.[79] It should be noted that Trump's 2024 electoral victory included substantial increases in support among young men of color, primarily due to economic views.[80] This may support the relationship between despair and adoption of conservative misinformation-driven negative economic sentiment leading up to the 2024 election.

The reasons for the spread of deaths of despair are varied and complex, from the generalized declines in happiness and increases in mental health problems to the increased availability and affordability of synthetic opioids such as Fentanyl to uncertainty about the future among the young. The death trends are a very tangible objective measure which confirms the validity of the self-reports in the data. While it is, at this junction, difficult to accurately disentangle the puzzles in economic sentiment data from the more general declines in psychological wellbeing, it is also impossible to fully understand the former trends without taking the overarching context of steeply declining emotional and psychological wellbeing into account.

5. Conclusion

Global economies are discovering the post-pandemic “new normal.” The U.S. experience has been one of stronger-than-expected economic growth. This growth came, in part, due to strong policy responses during the pandemic, including larger fiscal stimulus than received by other major economies.

Despite stronger economic growth, Americans perceive the economy as poor. Potential reasons include the cumulative impact of inflation, asymmetric weighting toward inflation over employment, the rising cost of housing, and despair-induced political polarization. To the extent political polarization is the cause of negative sentiment, the data indicates that it is largely driven by Republicans. With Republicans set to control the White House for the next four years and Congress for at least two, initial results indicate Republican voters suddenly feeling much better about the economy. It remains to be seen if Democrats translate their election unhappiness into economic unhappiness.

Finally, while difficult to disentangle without further research, it is important to note that these seemingly puzzling trends are occurring in the broader context of steep declines in American’s emotional and psychological wellbeing, which do not have a partisan component. While the explanations for this trend are varied and complex, one issue that seems central to them is uncertainty about the future opportunities and quality of life for both younger and less advantaged sectors of the population. This uncertainty must influence the way most Americans, whose wages have been falling behind those at the top of the distribution for decades, evaluate the economy.

U.S. economic sentiment has declined despite strong growth. The potential drivers of this gap highlight problems that persist despite strong growth: elevated price levels, increasingly unaffordable housing, misinformation and polarization, and generally increasing levels of despair. Solutions must go beyond overall economic growth and address these underlying issues.

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