FORECASTING PRESIDENTIAL ELECTIONS: A NEW USE FOR CONSUMER SURVEYS

By Michael P. Niemira

In the late 1950s and again after the 1987 stock market crash, consumer confidence surveys came under attack by economists. They questioned how useful these surveys are for predicting consumer spending. Some of the critics have suggested that consumer confidence tells us almost nothing about future spending. Most of the literature, however, especially the more recent studies, seems to conclude that consumer confidence has some predictive value when used with other economic indicators.

Perceptions vs. Reality

Interestingly enough, one of the most striking uses for consumer confidence data has been largely overlooked—namely, that they are one of the best predictors of presidential elections. In many respects, this should not be surprising. Although in forecasting presidential election outcomes, it may seem like a foregone conclusion that the economy impacts presidential popularity and hence election results, the research is not so conclusive.[1] Attempts at forecasting presidential election outcomes using economic variables have had limited success. This, I believe, is because it's the perception of how things are going, not the actual state of the economy, that shapes presidential outcomes.

One stark example of this dichotomy can be seen in a poll taken in May 1982, which found that while 27% of the respondents said, correctly, that inflation had fallen during the period in question, 34% thought it had gone up, even though it had indeed fallen sharply. It took another year before a majority of the respondents recognized that inflation was coming down. Such results suggest why consumer confidence, which is a measure of the public perceptions about the economy, could be a window on how the electorate will vote. As a blend of the people's evaluations of the present situation and their expectations about the future, consumer confidence can serve as a kind of referendum on the president's performance. Additionally, few economic indicators pick up the effect of non-economic influences on the economy as well as consumer confidence does.

The Model

I constructed a consumer confidence/election model based on the widely-used University of Michigan consumer sentiment measure. Two findings stand out. First, consumer confidence, as measured by the Michigan researchers, had a strong positive relationship with presidential approval. The correlation was highest with a two-month lead time over the presidential popularity measure.[2] But the correlation of presidential approval and consumer expectations—the latter being one component of consumer confidence—had an even stronger statistical relationship: a correlation of 0.594 with a two-month lead time. Secondly, although consumer expectations outperformed other aspects of consumer sentiment in explaining presidential approval, the latter fell short of the mark when it came to explaining the election vote. Between 1956 and 1988, my consumer sentiment model explained 70% of the variance in the popular vote. This simple model, which is shown in the table, had a better forecasting record than presidential approval.[3]

What The Model Said For The 1992 Vote

Based on this simple confidence/election model, President Bush had to inspire sharply increased consumer confidence in order to win the election. The University of Michigan index would have had to rise to over 89% by October in order for Bush to capture a plurality of the popular vote.[4] The last time that the sentiment index was above 89% was in May 1990. In fact the interim October 1992 confidence index slipped to 73.2% from 75.6% in September—far below the threshold the model suggested would be necessary for a Bush win. My model predicted that Bush would garner 38% of the popular vote.

Although the confidence/election model was based on October consumer confidence data (statistically superior in explaining the election outcome), the message would have been essentially the same if the January-June average level had been used. A model based on confidence from the first half of presidential election years would have suggested that Bush needed to see confidence exceed 82.3% in order to win the popular vote. The average level of the confidence index during the first half of 1992 was 74.9%. So whether one chose the model with the longer lead or the higher forecast accuracy, the implication was identical for Bush's re-election prospects.

Forecasting the electoral vote with this simple confidence-based model is naturally less reliable, since it is indirectly related to popular sentiment. From 1956-1988, consumer confidence explained 77% of the variance in electoral vote. For 1992, the model predicted a landslide for Clinton, with Bush garnering no electoral votes.

Comparisons with Other Models

Interestingly, my confidence/election model forecasts were quite different from those of the Fair, and the Lewis-Beck and Rice model projections, as described by

Nathaniel Beck in the September/October issue of The Public Perspective. Both the Fair, and the Lewis-Beck and Rice models are based on actual economic data for the first half of 1992—such as the inflation rate and real GNP/GDP growth. They implied that Bush would win 56% of the popular vote (Fair's projection) or get 58% of the electoral vote (Lewis-Beck and Rice).

Beck argued that these projections must be viewed in the context of their statistical confidence interval—which would imply that with a 95% confidence level Fair's forecast would lie between 48% and 63% and imply a win/lose situation for Bush; and that the Lewis-Beck and Rice electoral vote model suggested that "Bush will either win by a near landslide or lose by a substantial margin."[5] But the real question may be in the determinants used to project the election outcome and not the confidence band. Although Beck argued that the forecast message was in the election models' statistical confidence interval, my results suggest that the real message involves the importance of bringing in the public perceptions of the economy.

I do not intend to suggest that my simple confidence/election model is the best possible predictor of election outcomes. It could be improved with some additional elements that have been suggested in the literature and very ably reviewed by Michael Lewis-Beck and Tom Rice.[6] But my model supports the claim that the focus of the literature may have been misplaced. Consumer confidence and presidential approval are linked. Indeed, another statistical test that I applied to these data, the Granger-causality test, found that a strong causal lead existed from consumer expectations to presidential approval.

Consumer confidence surveys serve as a reflection of national mood about the present, and the degree of hope or concern about the future. Sometimes consumers worry more about inflation than unemployment, while at other times the reverse is true. Economic influences behind consumer sentiment can and often do change, as George Katona, a former director of the University of Michigan's Survey Research Center, once observed. Consumer confidence reflects whatever the paramount economic concern facing the nation is, without reference to the statistical rigidity of the CPI or the unemployment rate. Moreover, George Edwards' study suggests that "perceptions of presidential performance in economic policy" have a strong relationship with presidential popularity.[7] Presidential popularity fluctuates with consumer confidence—regardless of whether the latter has anything to do with actual economic conditions.

The 1992 Presidential Outcome

Although this simple election model[8] was blind to the Perot factor, the ultimate test of its forecasting ability is how well it predicted the 1992 election outcome. On November 2—the day before the election, the final CNN/USA Today presidential preference poll found George Bush had 37% support among voters, Bill Clinton 44%, and Ross Perot 14%. Those poll results were consistent with the confidence/election model prediction for Bush's popular support.

But would the popular vote have been markedly different if Perot were not in the race? The fluid nature of the voter support (the swing and Perot vote—which polls suggested cut about equally into the Bush and Clinton vote) cannot adequately be addressed by this model, other than to say that, based on the historical pattern and the perceptions of the economy, the solid support that Bush always had was around 37% of the popular vote.

With the final tally in hand, the confidence/election model can be seen to have performed admirably in predicting the popular vote for the incumbent party.

Endnotes

[1] There are numerous studies that confirm either the importance of an economic indicator or lack thereof. Three noteworthy surveys of

TABLE 1

PREDICTING THE POPULAR VOTE FOR PRESIDENT, USING THE MICHIGAN CONSUMER CONFIDENCE MEASURE, 1956-1992

Incumbent Popular Vote = -20 + 0.79 x Consumer Confidence (October)

Year	Incumbent Party Candidate (Party)	--Share of Vote-- Predicted (1)	Actual (2)	Prediction Error (2) - (1)	Incumbent Party Prediction (win/lose)	Was the Forecast Correct?
1956	Eisenhower (R)	61.1	57.4	-3.7	win	yes
1960	Nixon (R)	50.5	49.6	-0.9	win	no
1964	Johnson (D)	58.3	61.1	2.8	win	yes
1968	Humphrey (D)	50.4	42.7	-7.7	win	no
1972	Nixon (R)	54.1	60.7	6.6	win	yes
1976	Ford (R)	48.9	48.0	-0.9	lose	yes
1980	Carter (D)	39.2	41.0	1.8	lose	yes
1984	Reagan (R)	56.0	58.9	2.9	win	yes
1988	Bush(R)	54.2	53.4	-0.8	win	yes
1992	Bush(R)	37.8	38.0	0.2	lose	yes

the literature can be found in: Douglas A. Hibbs, Jr., *The American Political Economy*, (Cambridge, MA: Harvard University Press, 1987); George C. Edwards III with Alec M. Gallup, *Presidential Approval* (Baltimore: Johns Hopkins University Press. 1990); and Michael S. Lewis-Beck and Tom W. Rice, *Forecasting Elections* (Washington, D.C.: Congressional Quarterly, 1992).

[2] For a fuller description of the statistical results, see Michael P. Niemira, "Presidential Popularity, Consumer Confidence, and Real Economic Conditions—What it Means for the Election," *Monthly Business Conditions*, Mitsubishi Bank, September 1992. A copy is available upon request from Mitsubishi Bank at 225 Liberty Street, New York, New York 10281.

[3] An equation was estimated between 1956-1988 to determine how well presidential approval forecast the share of the vote garnered by the incumbent party's candidate; the result, which is an update of Hibbs' equation, is shown below:

$$P_VOTE = 26.9 + 0.479 \times APPROVE$$
$$(5.1) \quad (3.15)$$

where P_VOTE is the share of the popular vote in the general election that the incumbent party's candidate received, APPROVE is the presidential approval rating as of October and the numbers under the coefficients are the t-statistics. This equation explained 58 percent of the variability in the dependent variable. Based on this equation, Bush's approval rating had to rise to above 48.5% by October (it was 37% in June) to capture 50.1% of the popular vote. See: Hibbs, Jr., *The American Political Economy*.

[4] The statistical relationship between the popular vote and the electoral vote is:

$$E_VOTE = -151 + 4.1 \times P_VOTE$$

where P_VOTE is the share of the popular vote in the general election that the incumbent party's candidate received and E_VOTE is the share of the electoral vote. By this equation, the popular vote forecasted for Bush would translate into 3.9% of the electoral vote.

[5] Nathaniel Beck, "Forecasting the 1992 Presidential Election: The Message is in the Confidence Interval," *The Public Perspective*, September/October 1992, p.33.

[6] Lewis-Beck and Rice, *Forecasting Elections*.

[7] Edwards and Gallup, *Presidential Approval*, p.140.

[8] An expanded version of this model, with consumer confidence at its core, could be developed to address more comprehensive election issues. For example, a multiple equation model could account for the challengers to the incumbent party candidate, the voter turnout, a measure of foreign policy concern, party affiliation, etc.

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AND FROM IOWA, ANOTHER PREDICTOR OF THE 1992 VOTE

One of the more unusual predictors of the electoral outcome was the "Iowa Political Stock Market," conducted this year as it was in 1988. The market was open to anyone who could gain access to the University of Iowa computer and was willing to establish an account (minimum value $5 and maximum $500). Account holders could buy and sell "shares" in the three major candidates, receiving at the end payoffs: either on a "winner take all" basis (shares in the winner paying off $1, others nothing) or where the final value of shares was determined by each candidate's final vote proportion.

Traders could purchase shares in two ways. Bundles of one share for each candidate were available for a fixed price of $1. This increased the total number of shares outstanding, but ensured that there would always be equal numbers for the three candidates. In addition, traders could buy and sell from one another, using software that simulated the role of futures brokers in a commodity market. (Indeed, the IPSM legally fell under federal regulations applicable to such markets, and was so registered). As in any market, prices at any given point represented the collective wisdom on what shares would ultimately be worth (votes on election day), perceptions of whether a given candidate was "undervalued" or "overvalued" in the opinion of others, and a willingness to "speculate" for a potential big gain.

When the market closed at midnight on November 2, there was a total investment of $82,623.51 from 1002 traders. The final share prices stood at Clinton 43.2, Bush 37.5, and Perot 19.3. Over the final week, according to the market's organizers, both Bush and Clinton shares had been relatively stable, while Perot's had fluctuated sharply, trading as low as thirteen to fourteen cents on Sunday. If the final figures were taken as a prediction, in any event, the Iowa Political Stock Market would compare very favorably with most of the national polls. It's average absolute error was less than one quarter of a percentage point!

—G. Donald Ferree, Jr.—