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SURVEY RESEARCH CENTER
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Raymond J. Saulnier

Credit Demand, Money Policy, and
the Outlook for the Economy

F. Thomas Juster

Personal Saving and the Deficit

Richard T. Curtin

Consumer Confidence Withstands
Interest Rate Gremlins

Richard E. Barfield

Business Economists Predict Good Times
to Continue for a While but Expect
Recession Next Year

Michael W. Traugott

Tracking the 1984 Presidential Race

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EDITOR'S NOTE:

ECONOMIC OUTLOOK USA is designed to aid private and public decision makers in achieving a better understanding of the economic and social environment in which they will be operating. The analysis of this publication incorporates direct measurements of the expectations, attitudes and plans of both consumers and business firms with the economic and financial variables traditionally used in forecast models. The philosophy of this publication is that a blend of anticipatory and traditional measures provides richer insights into prospective developments, insights which will produce more consistently reliable forecasts of both economic and social change.

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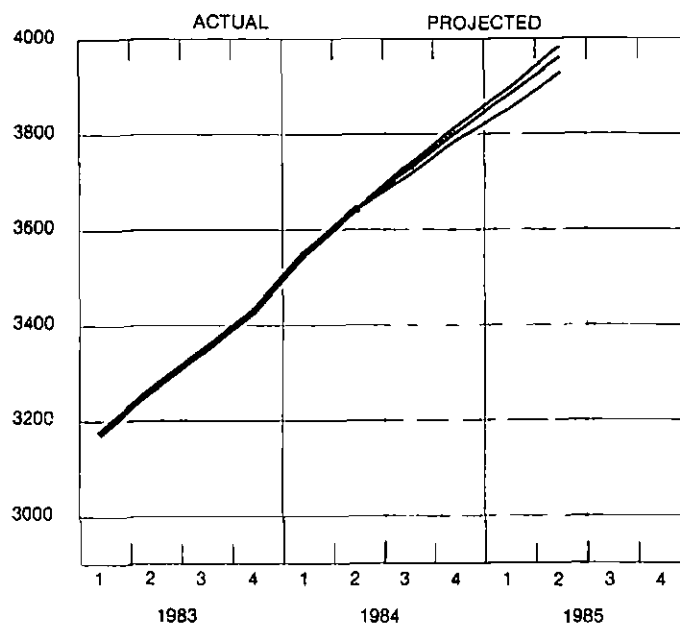
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ECONOMIC PROSPECTS: Actual and projected seasonally adjusted quarterly data at annual rates.

GROSS NATIONAL PRODUCT

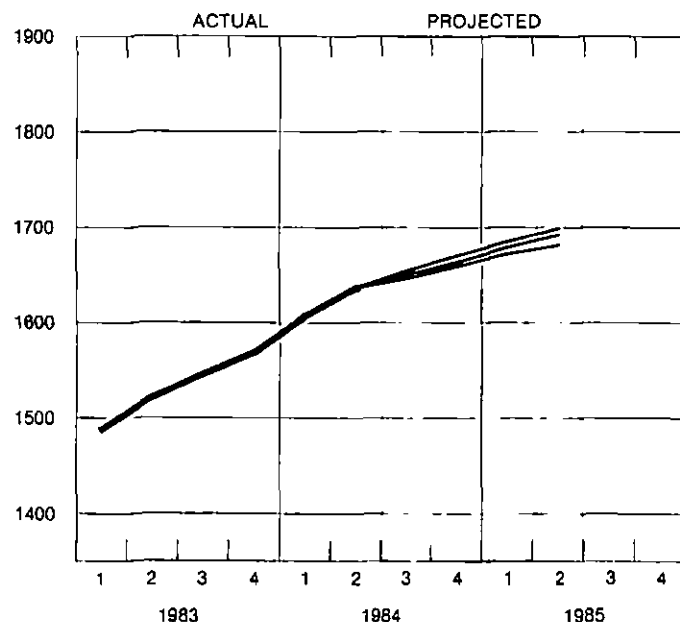
IN CURRENT DOLLARS
 Billions of Dollars



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

GROSS NATIONAL PRODUCT

IN CONSTANT 1972 DOLLARS
 Billions of Dollars



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

Credit Demand, Money Policy, and the Outlook for the Economy

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For reasons having to do with the increase of money supply, it looked in May of this year as if the economy might turn down a good bit sooner than expected by all but a few forecasters, possibly even before 1984 was over. No other outcome seemed possible if the M1 money stock continued to increase for another few months as slowly (just over 2 percent a year) as in March and April. By July, however, that possibility had been eliminated by a resumption of money stock growth at a rate which made up quickly for the earlier lag and, in the circumstances, was more suitable (see Table 1).

The 1984 Outcome

As things stand, accordingly, the economy can be expected to move up through the rest of this year and into 1985, though not by any means at the fast pace reflected through June in the composite of coincident indicators (see Chart 1). A distinct slowdown is underway, and negative figures will appear with increasing frequency between now and the end of the year, but overall activity will almost certainly continue to move up. Nominal GNP in 1984 should be up nearly 11 percent. With the inflation rate a shade below 4 percent, this implies an increase in real GNP close to 7 percent.

The record is a good one, obviously, but not unusual. Actually, this recovery has moved on a path remarkably close to that plotted by the average of previous post-World War II recoveries.* The surprise was not that it was a good recovery but that it was average when most forecasts (without warrant, it seemed to me) expected it to be less than average.

Prospects for 1985: The Critical Role of Credit Demand and Money Policy

Turning to 1985, prospects depend mainly on what happens in credit markets and in money policy—specifically, on whether credit demand will require an expansion of bank credit and thus of money supply more rapid than can be reconciled with the need (as the Federal Reserve sees it) to prevent, through money policy, a significant speedup of inflation.

Credit demand has already increased substantially, as shown in Table 2. Federal Reserve estimates of the flow of funds in credit markets put total borrowing in the first quarter of 1984 fifty percent higher than in 1982:3, which was the recession trough for credit demand (see Table 3). And that portion of total borrowing that *Business Conditions Digest* calls "private borrowing" increased 60 percent over the same period.

These are large increases, but they are not unprecedented for a recovery period. For example, in the six quarters following 1970:3, also a recession trough for credit demand,

TABLE 1. Recent Money Supply Behavior
(Percent Change)

Time Period	M1	Total Checkable Deposits	Total Time Deposits
Change Over the Year Ending July 9, 1984	6.3	5.3	8.2
Change Within Three Subperiods of That Year			
7/11/83-3/12/84	6.2	5.0	5.0
3/12/84-5/7/84	2.1	-0.5	9.9
5/7/84-7/9/84	10.8	12.0	20.2

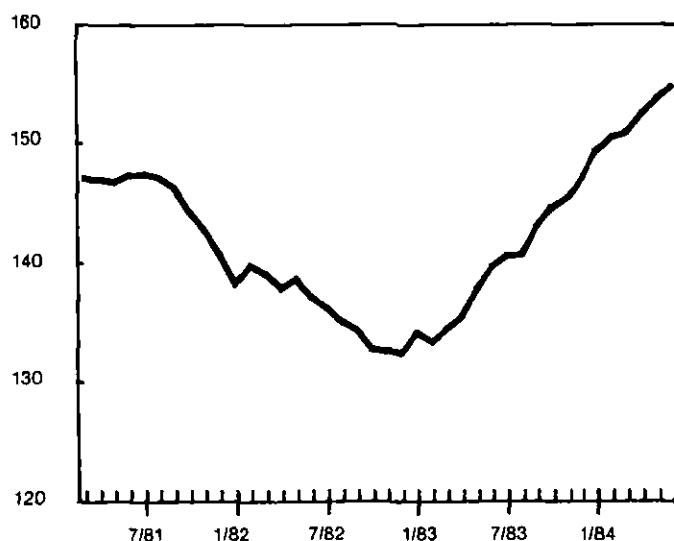
Source: U.S. Financial Data, July 19, 1984 (Federal Reserve Bank of St. Louis).

private borrowing increased 77 percent; and for a period of comparable length following the credit demand trough in 1975:2, the increase was 133 percent!

What is new today is that we must add to private borrowing a volume of federal borrowing which, if it came from a cyclical budget deficit, would have already dropped sharply but which, because today's budget deficit is mainly structural, remains large. So, we are faced with the question: How will credit demand increase over the next few quarters, given a still large budget deficit? And, can it be met without

CHART 1. Composite Index of Four Coincident Indicators, March 1981-June 1984

Index, 1967 = 100



Source: U.S. Department of Commerce.

*See the article by Victor Zarnowitz in the Spring 1984 issue.

TABLE 2. Funds Raised in U.S. Credit Markets, Year 1979-First Quarter 1984
(Billions of Dollars)

Time Period	Total Net Borrowing	Borrowing by:			
		U.S. Government	Private Domestic Nonfinancial Sector	Financial Sectors	Foreigners
1979	488.7	37.4	348.6	82.5	20.2
1980	433.7	79.2	264.0	63.3	27.2
1981	489.8	87.4	289.8	85.4	27.2
1982	480.3	161.3	234.1	69.3	15.7
1983:1	518.3	192.9	228.8	81.0	15.6
1983:2	678.2	269.7	318.0	69.3	21.2
1983:3	596.5	167.8	334.2	86.5	8.0
1983:4	730.2	115.8	466.1	122.4	25.9
1984:1	761.1	167.4	479.8	135.7	-21.8

Source: *Flow of Funds Accounts, Seasonally Adjusted and Unadjusted*, First Quarter 1984, p. 51 (Federal Reserve Board).

interest rates' rising to where the economy's advance will be stalled, perhaps even reversed?

How Much Credit Demand in 1985?

Private borrowing moves fairly closely with nominal GNP, and with that quantity rising 10 to 11 percent a year, this portion of credit demand could by the fourth quarter of 1984 be 1 1/4 times higher than it was at the 1982:3 recession trough. A projection of this amount is indicated in Table 3.

Expanding this estimate of private borrowing to include federal credit demand produces a much larger total, of course, but the addition needed is fortunately not as much as had earlier been expected. One of the best kept secrets recently (but not because the figures haven't been published regularly) is that budget outlays have been increasing at a much reduced rate, thus shrinking the deficit. In the first nine months of the current fiscal year, for example, amounts spent exceeded outlays in the comparable fiscal 1983 months by only 5.3 percent. As a result, the fiscal 1984 deficit could be \$5 billion lower than was expected in April. Still, on an annual rate basis it will add between \$170 and \$175 billion to total private borrowing, and produce an aggregate of credit demand which, by the end of this year and going into 1985, could be roughly twice what it was at the 1982:3 recession trough. Again, the estimate is shown in Table 3.

The Burden on Money Policy

Whether this credit demand can be satisfied within the context of a money policy designed to prevent significant acceleration of inflation depends on the answer to an exceedingly difficult question: How much of this credit demand must be met with funds supplied by the commercial banking system?

Margins of error in projecting funds raised and funds supplied in credit markets are extremely wide, and one can only conjecture at the answer to this critical question. Making the requisite estimates as best one can, and using the commercial banking sector as the residual in the analysis of funds supplied, it looks as if the amount of credit that will be need-

ed from the commercial banking system will involve money supply increases at least at the top of the Federal Reserve's present target range of money supply growth and, if anything, a bit above the top. It follows that if one believes, as I do, that the monetary authorities will be reluctant to see their targets exceeded (they have already said they intend to reduce them in 1985), credit restraint will be the order of the day for some time to come.

This does not rule out the possibility of achieving a "soft landing" in 1985—a growth rate of 3 to 3 1/2 percent with inflation between 4 and 5 percent—but it suggests strongly that it will not be easy to do so. It would be ruled out altogether by a recurrence for a period as long as four months of money stock growth as slow as in March and April of this year. But, considering the relatively favorable outlook for prices, a tightening of money policy to anything like that degree seems to me most unlikely. It is reasonable, accordingly, to rule out recession in 1985.

In this context, and having in mind the slowing already underway in the economy, it is unlikely that interest rates

TABLE 3. Credit Demand in Recovery, with Projections for Fourth Quarter 1984
(Billions of Dollars)

Year:Quarter	Total Net Borrowing in Credit Markets	Total Private Borrowing
1982:3	493.4	247.4
1982:4	510.8	265.7
1983:1	518.3	279.5
1983:2	678.2	391.9
1983:3	596.5	362.2
1983:4	730.2	512.9
1984:1	761.1	396.6
1984:4	985.0	550.0

Sources: (1) Total net borrowing: 1982:3 by telephone from New York Federal Reserve Bank; 1982:4-1984:1 from *Flow of Funds Accounts, Seasonally Adjusted and Unadjusted* (Federal Reserve Board); 1984:4, estimate by author. (2) Total private borrowing: 1982:3-1984:1, *Business Conditions Digest*, June 1984, Series 110, p. 72; 1984:4, estimate by author.

will rise appreciably above the levels reached in June and July of this year (see Chart 2). More likely, they will move down a bit from their June/July levels. Short of recession, however, there is no basis for expecting more than a relatively small decline.

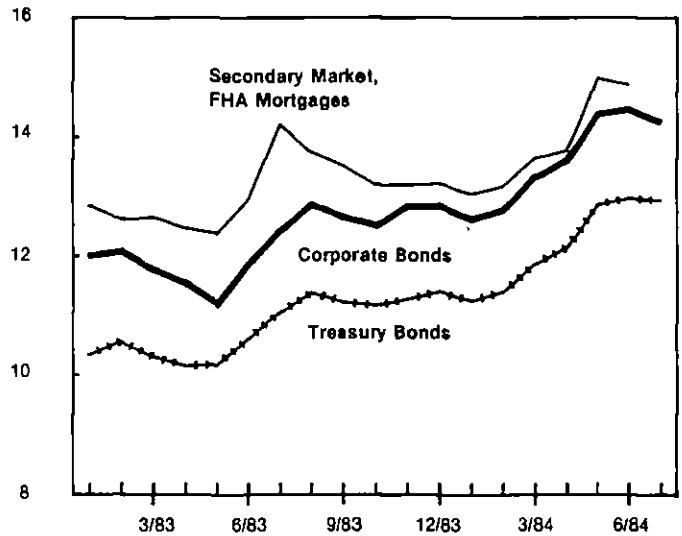
Still a Need for Action on the Federal Budget Deficit

There is no need to dwell on the hazards, present and prospective, that inhere in the condition of the economy, nor any need to emphasize the importance of easing the credit demand problem by legislative action that would reduce the federal deficit. It has been my view all along that to make a significant dent in the deficit would require action on both sides of the budget—on revenues as well as on spending—but President Reagan has said recently, and in my view understandably, that he will oppose tax increases until satisfied that nothing further can be done constructively on spending. This justifies further critical study of expenditure programs, but all parties to the debate will do well to remember that the patient could expire while the doctors are disputing over the treatment.

August 1984

CHART 2. Yields on Three Instruments, January 1983-July 1984

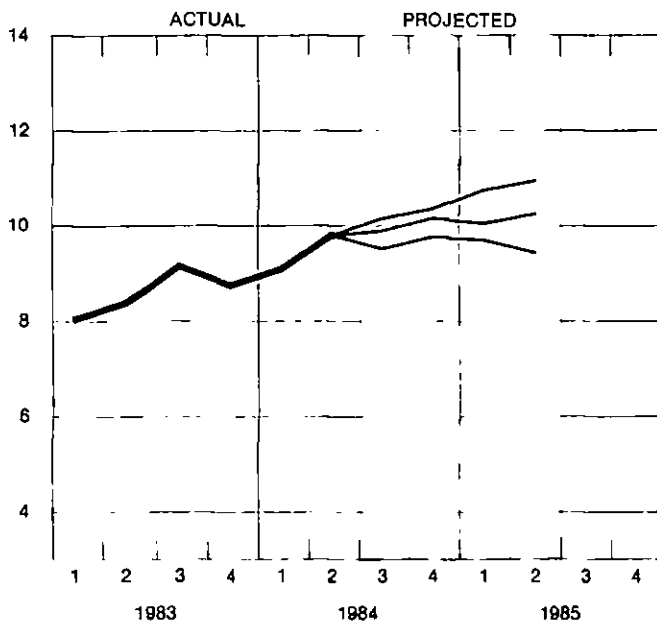
Percent



Source: U.S. Department of Commerce.

3-MONTH TREASURY BILL RATE

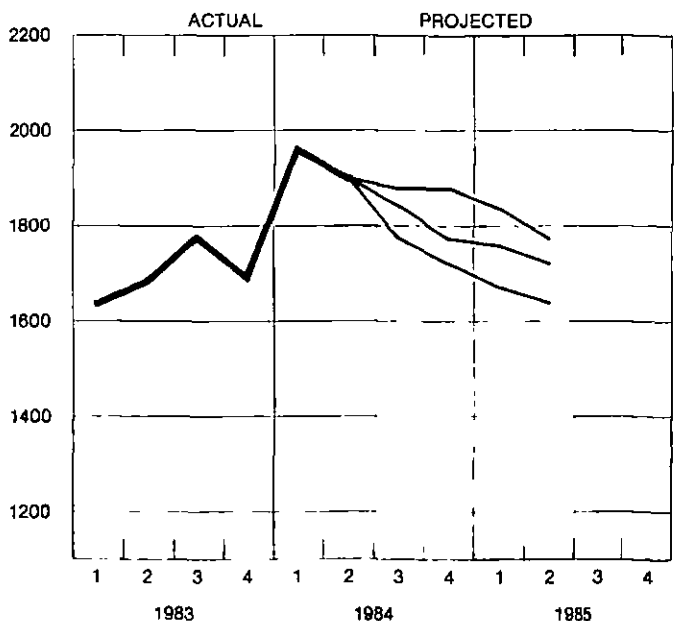
Percent



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

NEW PRIVATE HOUSING UNITS STARTED

Thousands of Units



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

Personal Saving and the Deficit

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One of the hopes of those who minimize the policy problems associated with massive and continuing federal deficits is that there will be an expansion of the supply of saving forthcoming from the private sector, thereby reducing or even eliminating the prospective credit crunch when rising public and private credit demands collide with inadequate (noninflationary) supplies of available funds. If either business or household saving were to expand greatly, much of the spectre of rising short- and long-term interest rates, with its inevitable impact on business and consumer investment spending, would be blunted.

The tax legislation enacted over the last few years was clearly designed with the idea that it would have a significant impact on private saving, both in the business and household sectors. One can see some modest effect of these tax changes on corporate cash flow, although corporate investment demands are generally projected to rise even more rapidly than corporate cash flow. In the household sector, the three-step income tax cut over the last few years, the liberalized treatment of individual retirement accounts, etc., were thought of as having a potentially major impact on the flow of personal saving from the household sector.

The Two Sources of Savings Data

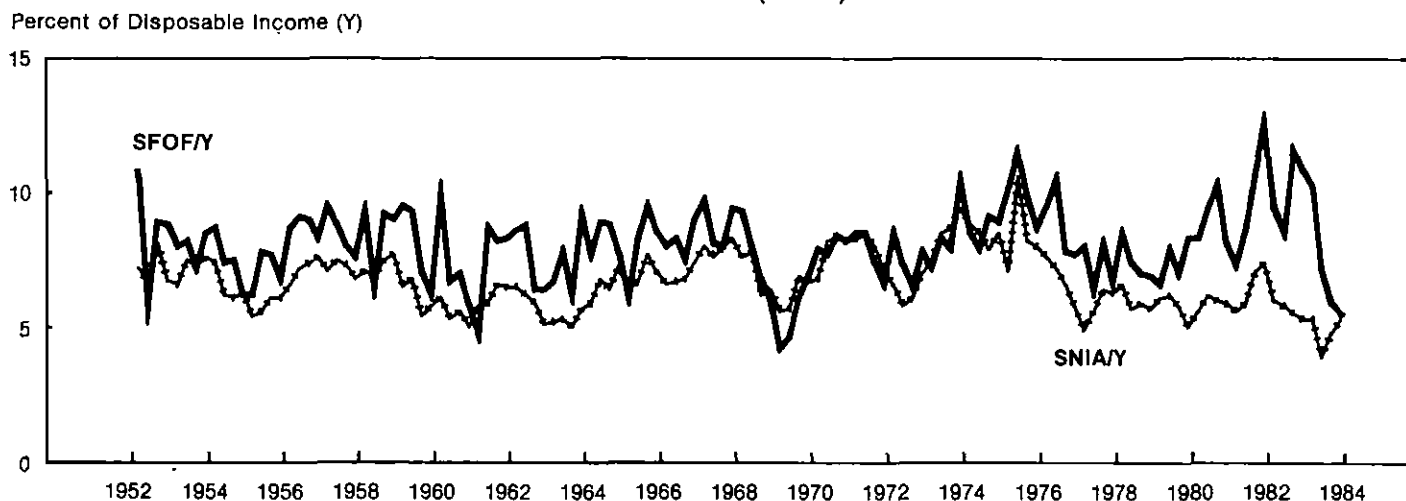
It might be useful to look carefully at recent developments in household saving, to see whether there is any basis for the prognosis that rising household saving will help solve the financial market problem created by actual and prospective deficits. For this purpose, the most useful data on household savings come from the Flow of Funds (FOF) accounts. These differ from the better known and more widely used data on household saving from the National Income and Product Accounts (NIPA).

The differences between the two are both conceptual and statistical. On the conceptual side, FOF treats increases in reserves of public pension fund as a part of both income and saving, while NIPA excludes them from both; in addition, FOF treats net investment in consumer tangible assets (cars and durables) as part of saving, while NIPA treats such expenditures as consumption.* On the measurement side, the two estimates come from totally different sources. FOF data on household saving are estimated as a residual—changes in financial assets and liabilities allocated to non-financial corporate business, states and local governments, the financial sector, and the foreign sector are subtracted from total changes of such assets and liabilities to obtain household sector changes. In the NIPA, personal saving is estimated as the difference between personal disposable income and consumer outlays; again personal saving is estimated as a residual.

The conceptual differences in the two series have no effect on analysis of the potential contribution of nonfederal government saving to the solution of the deficit problem, but the statistical differences may provide very different insights into the behavior of personal saving. The two series, adjusted so as to be conceptually comparable with the NIPA definition of saving, are shown in Chart 1. The difference between the two is entirely due to measurement error in one or both series. For the most part, the FOF estimate tends to be higher than the NIPA estimate, and the difference has been especially large during the last three or four years. In fact, FOF estimates personal saving to have been almost twice as large as NIPA saving during a number of recent quarters, although the gap had just about disappeared by the last data point displayed (1983:4).

*The other conceptual differences between the two tend to be minor in quantitative terms.

CHART 1. Saving Rate as Defined by National Income Accounts (SNIA) and Flow of Funds (SFOF) Data



Advantages of and Lessons from the Flow-of-Funds Series

A principal advantage of the FOF series over the NIPA series is that it enables us to examine saving in terms of a set of major components that can be more easily understood in behavioral terms than the total. Chart 2 divides FOF saving into net increases in financial assets (NAFA), net increases in financial liabilities (NIL) and net investment in tangible assets (NTI). The first component represents additions to checking and savings accounts, holdings of bonds and stocks, etc., and is often what people think of when they talk about saving behavior. The second component represents increases in consumer debt of various sorts, primarily installment and mortgage debt, and enters with a negative sign into the calculation of personal saving. The third component is dominantly net investment in owner-occupied housing.

The distribution of FOF data into its principal components is not only relevant for analysis of changes in saving rates over time, but also helps us to decide whether it is more plausible to believe the FOF total or the NIPA total—i.e., to decide where the measurement errors probably are. The test is to ask whether a given FOF saving component seems to be more plausible behaviorally if one assumes that the statistical discrepancy between the FOF and NIPA series reflects a measurement error in that particular FOF component, or whether the series is more plausible behaviorally if one assumes the opposite—that the component is accurately measured, and that the measurement error is either in one of the other FOF components or in the NIPA total. Applying that test to the FOF components summarized in Chart 2 suggests that the measurement error is dominantly lodged in the NAFA component of the FOF series, not in the other components, or by implication, in the NIPA series. The test is not so rigorous that one can have complete confidence in the conclusions, but the results seem plausible and are consistent with what we know a priori about likely measurement errors in the various FOF components and in the NIPA data.

If we adopt the assumption that the statistical discrepancy between FOF and NIPA data basically represents an error in the measurement of household net financial asset acquisitions in the FOF series, then the saving components

would be as shown in Chart 3. Those data also assume that the FOF treatment of public pension fund reserves is behaviorally more appropriate than the NIPA treatment, and that the FOF treatment of household tangible asset investment is also behaviorally more appropriate than the NIPA treatment. Thus the series will add up to the NIPA data plus a couple of major components of saving that are normally excluded from the NIPA definition.

What can we learn about saving behavior from the data in Chart 3? First, it seems clear that the major components of household saving have very different trends over the postwar period in the U.S.: saving in the form of additions to financial assets has grown consistently relative to income; (negative) saving in the form of net increases in financial liabilities has also grown consistently relative to income; and saving in the form of net investments in tangible assets has shown a tendency to decline relative to income. Overall, total saving as represented by asset change minus liability change plus net tangible investment shows no trend at all over the postwar period—a finding consistent with studies of the long-term trend of saving in the U.S. going back into the nineteenth century.

A second feature that stands out from Chart 3 is that variations in saving behavior are dominantly a result of variations in consumer debt acquisition, rather than of variations in consumer acquisition of assets. Cyclical variations in consumer spending on housing, cars and durables result in large cyclical variation in consumer acquisition of debt, and these movements dominate the short-term movement of the saving ratio; changes in financial holdings show something of the same cyclical configuration as liability increases, but the movements are smaller and not as important a source of change in saving rates.

Third, there is virtually no evidence to support the hope that an increased flow of personal saving resulting from, e.g., higher after-tax rates of return on assets, will help solve the deficit problem. During the last several years, the overall rate of personal saving has declined slightly. Chart 3 makes it clear that the overall decline is largely a consequence of increases in consumer liabilities running at a faster pace than increases in consumer holdings of financial assets. During economic expansions, that appears to be what usually happens, and the current expansion is no exception.

CHART 2. Net Acquisition of Financial Assets (NAFA), Net Increase in Liabilities (NIL), and Net Tangible Investment (NTI), All Related to Disposable Income

Percent of Disposable Income (Y)

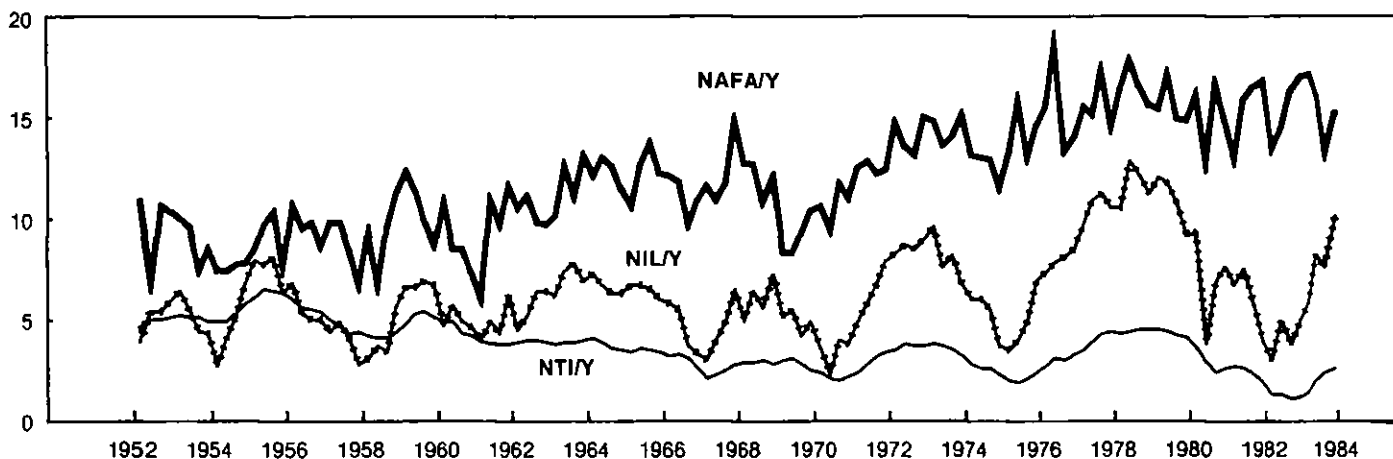
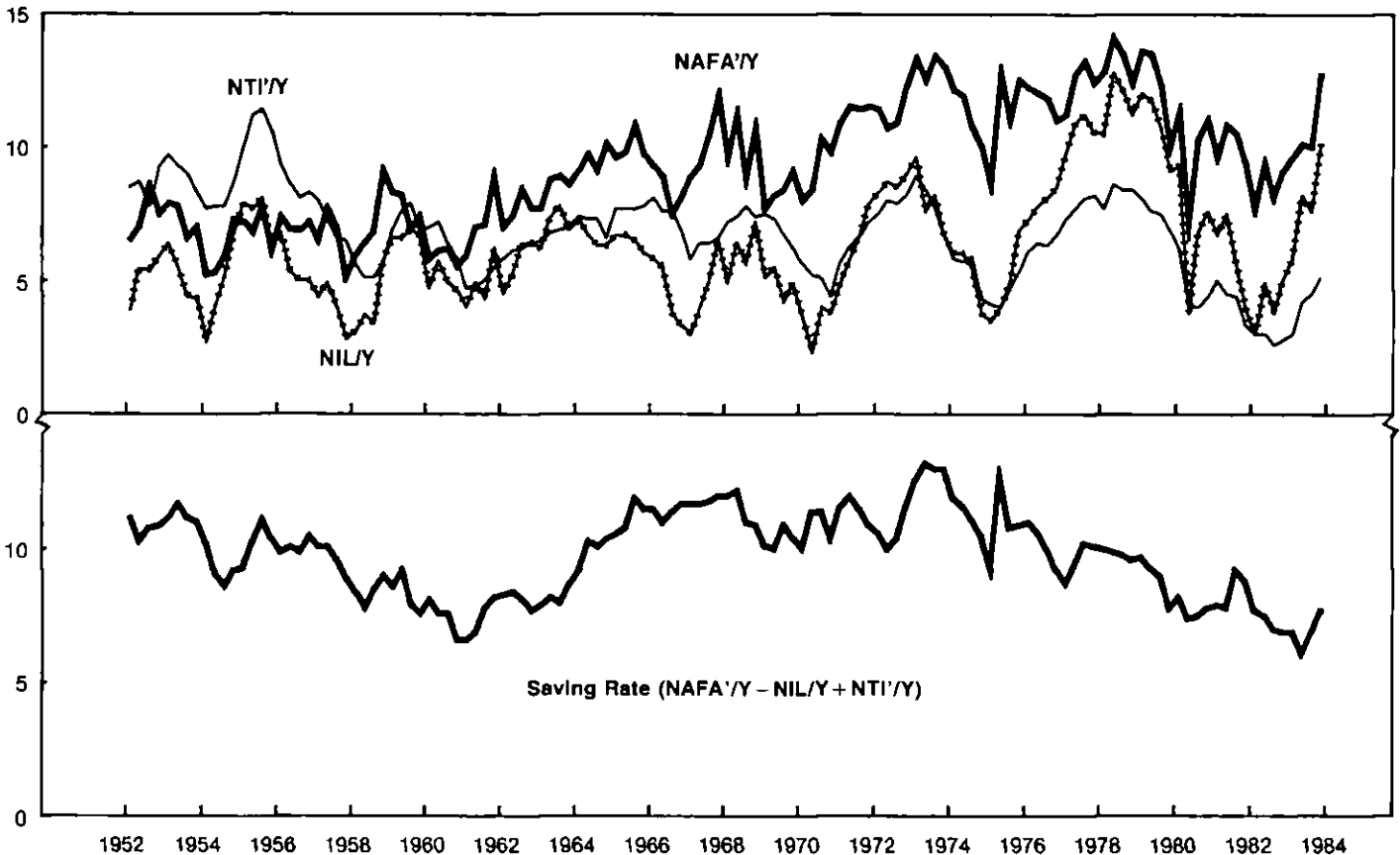


CHART 3. Components of Personal Saving (NAFA', NIL, & NTI')* and Redefined Personal Saving Rate

Percent of Disposable Income (Y)



*NAFA' and NTI' adjusted as discussed in text.

Will Savings Respond to Increased Yields on Assets?

Is there any reason to suppose that the attractiveness of higher rates of return will eventually expand the pool of personal saving? The question is of course complicated, and one cannot get definitive conclusions by observing a couple of time series. But examination of the time-series data offers little support to those who hold the view that consumer saving will respond substantially and positively to rates of return. Not only is there no evidence that consumer assets have risen at a faster pace than usual during the last several years when there has been a substantial enhancement of after-tax returns on assets, but evidence from earlier periods seems to me even more negative. The reader will doubtless recall the behavior of rates of return on assets during the late 1970s, when money-market funds first came into existence. During the period from around 1977 to roughly 1981, holdings of money-market funds by consumers rose from zero to approximately \$200 billion. During the same time span, nominal yields on fixed-price assets more than doubled, as did nominal costs of borrowing. Real returns and costs rose much less than that, since inflation rates were rising substantially.

But for many consumers, 1977-81 was a period when effective real after-tax returns on assets actually rose in tandem with nominal after-tax returns, since the invention of money-market funds meant that a great many people could take advantage of rising market yields instead of having to settle for the stable nominal returns offered on conventional savings accounts. Obviously, some consumers have always had access to market yields on assets, but prior to 1977 this option was effectively precluded for a very large proportion of U.S. consumers.

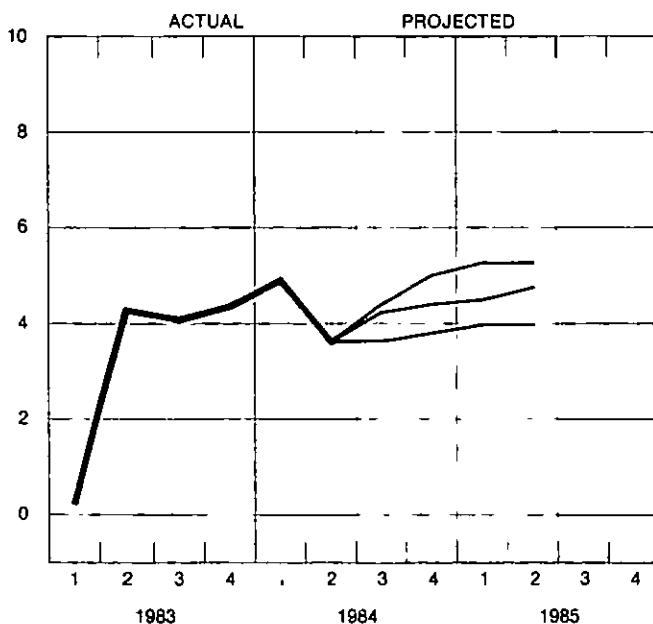
What was the impact of this approximate doubling, for a large fraction of the U.S. population, of real rates of return on assets? Saving in the form of financial asset holdings increased relative to income from about 1977 through 1979, declined sharply in early 1980, rose during the brief recovery from the 1980 recession, then declined again during the 1981 recession. Aside from changes attributable to cyclical forces, what appears to have happened is simply that the enormous expansion in consumer holdings of money-market funds was offset by equally large contractions in consumer holdings of other forms of assets with lower yields. It is hard to see any evidence that the rate of consumer financial saving was affected at all by the substantial change in effective rates of return.

The data thus seem to me consistent with the proposition that increases in rates of return are unlikely to have any noticeable effect on consumer saving in the form of increased holdings of financial assets. But interest rate effects can clearly have a powerful influence on total consumer saving, since they can and have exerted a strong influence on the rate of consumer borrowing. While the evidence on the long-term stability of the ratio of consumer saving to income argues against any long-sustained effect of policy on consumer saving behavior, the data also suggest that the best prospect for impacting the flow of consumer saving is by way of policies designed to impact the liability side of con-

sumer balance sheets, rather than policies designed to impact the asset side. While the administration is clearly supportive of actions to make asset accumulation more attractive (e.g., the tax cuts, actions to expand IRAs), they seem uninterested in actions that might affect liabilities (e.g., the president's statement earlier this year that eliminating or limiting interest deductibility on mortgage loans would not be part of any fiscal action supported by the administration). Unfortunately, the evidence thus suggests that the preferred actions won't do any good, while the ones that might have some effect are unlikely to be adopted.

CONSUMER PRICE INDEX

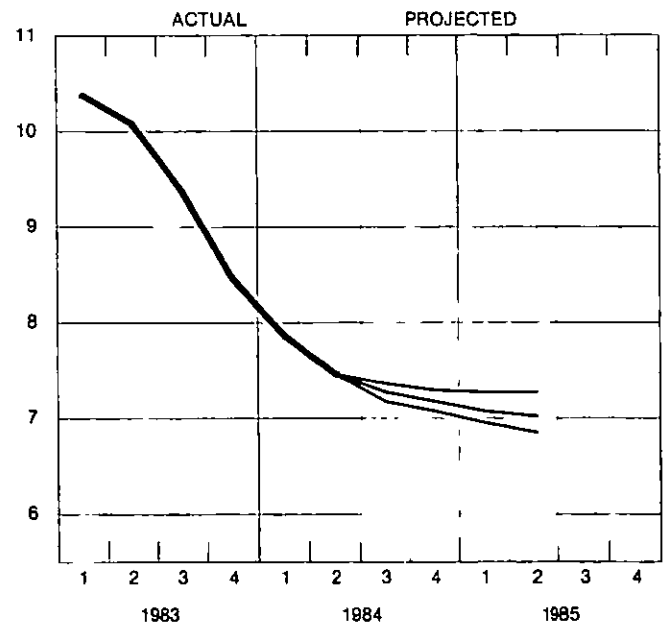
Percent Change
at Annual Rate



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

UNEMPLOYMENT RATE

Percent



Sources: Actual data are from U.S. Department of Commerce; projected data are from ASA-NBER Panel of Forecasters, revised when necessary to be consistent with latest actual data. The 3 lines display 3rd, 2nd (median), and 1st quartile values from the array of forecasts.

Consumer Confidence Withstands Interest Rate Gremlins

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Confidence Maintained

In the second quarter 1984 survey, the Index of Consumer Sentiment was 96.6, just below the record 99.5 recorded at the start of 1984, and above the 91.5 recorded one year earlier (see the chart below). Despite the small decline since the first quarter, consumer sentiment during the first half of 1984 has been more favorable than in any prior year during the last decade. Consumers' evaluations of current economic conditions—both for the economy as a whole and for their own families—have remained at very favorable levels. The small overall decline in sentiment has been caused by weakening prospects for further improvement due to concerns with rising interest rates.

Personal Finances: Best in Decade

The proportion of families which reported that their financial situation had improved during the past year was 45 percent in the second quarter 1984 survey, unchanged from the first quarter reading, and the highest level recorded since 1972. Financial reversals were reported by 23 percent of all families in the second quarter survey, just below the 25 percent recorded one quarter earlier, and the lowest proportion recorded in a decade. When asked to explain how their financial situation had improved, 35 percent of all families reported income increases in both the first and second quarter 1984 surveys, the highest frequency since the mid 1970s. Income declines were reported by just 14 percent of all families in the second quarter of 1984, down from a high of 24 percent at the start of 1983.

Editor's Note: Perhaps influenced by the title of Richard Curtin's article in the Spring 1984 issue, the editorial staff entered an incorrectly high value for the 1984:1 data point in the Index of Consumer Sentiment chart. The correct value (99.5) has been entered in this quarter's chart, below.

Although income and employment gains were primarily responsible for the recent improvement, declines in inflation during the past several years have had a substantial cumulative impact. In the first half of 1984, the fewest number of consumers since the early 1970s registered complaints about declines in living standards due to inflation—mentioned by 15 percent of all families in the second quarter of 1984, down from 35 percent three years earlier, and a peak of 46 percent in late 1979.

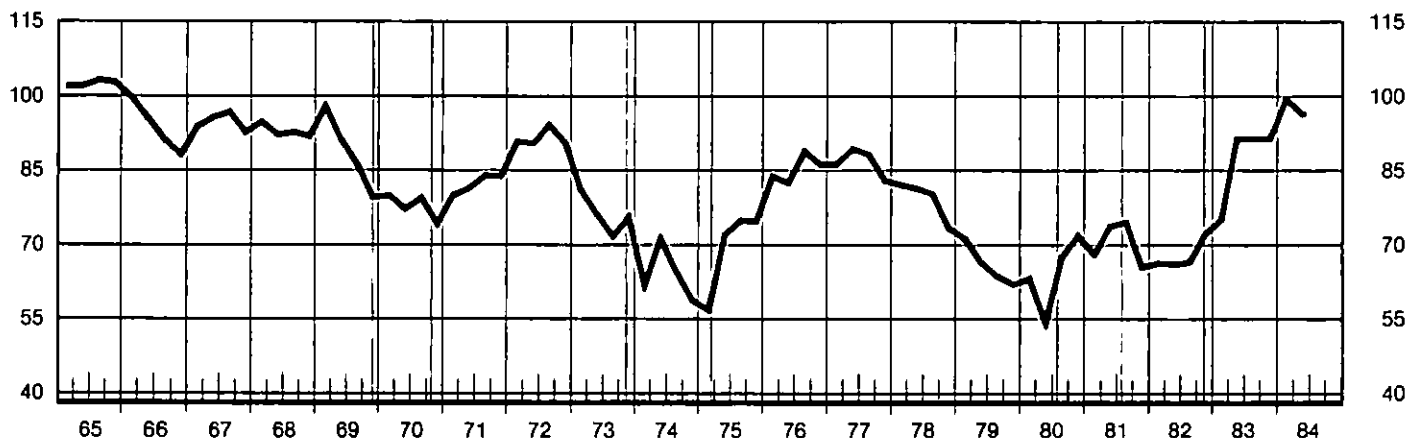
The financial gains reported by families during the first half of 1984 were widely expected in advance, as measured in the prior year's surveys. The number of American families that expected their financial situation to improve reached decade peak levels one year ago, and since then has remained near those favorable levels. In the second quarter 1984 survey, 37 percent of all families expected their financial situation to improve, just below the 40 percent recorded in the second quarter of 1983. Only 12 percent of all families in the 1984:2 survey expected their financial situation to worsen during the year ahead, slightly above the low of 8 percent recorded one year earlier.

Income increases during the upcoming year were expected by 62 percent of all families in the second quarter 1984 survey, just above the 61 percent recorded one year earlier. Across all families, the median income increase expected was approximately 4%. When combined with low rates of inflation, two-thirds of all families thought their incomes would keep pace with or exceed the rate of inflation during the year ahead. This stands in sharp contrast to five years earlier, when the same proportion of families expected nominal income increases (61 percent); but, nonetheless, the majority expected real income declines due to escalating inflation.

The substantial recent improvement in personal finances coupled with very favorable expectations for continued improvement has not only added to income latitude but also

INDEX OF CONSUMER SENTIMENT

February 1966 = 100



Note: Shaded areas indicate recession periods as designated by the National Bureau of Economic Research, Inc.

provided the confidence necessary for the commitment of savings and future income to make large purchases. Record numbers of consumers reported their willingness to draw on accumulated savings to make large purchases in the second quarter survey. Among all families, 42 percent reported that they were willing to use accumulated savings to finance major purchases, just above the 40 percent recorded in the first quarter, and the highest level recorded in ten years. Willingness to incur new debt was not as widespread, being reported by 29 percent in the first and second quarter 1984 surveys; but this was also the highest level recorded in nearly ten years.

Slower Economic Growth Expected

Improvements in business conditions in the country as a whole were reported by 68 percent of all families in the second quarter 1984 survey, just below the 71 percent recorded in the first quarter of 1984. Even after this small decline, assessments of current business conditions during the first half of 1984 were more favorable than at any other time during the past 30 years.

Although evaluations of current business conditions are now at record favorable levels, expectations for future improvement in the economy reached cyclical peak levels one year ago, and have since then declined significantly. In the second quarter 1984 survey, 31 percent of all families expected business conditions to improve during the year ahead, down from the peak of 52 percent one year earlier. The expectation that the economy would worsen during the year ahead was not very common, rising to 14 percent in the second quarter survey from 7 percent one year earlier. Rather than renewed declines, the majority of consumers expected the economy to remain at its current improved level during the year ahead (53 percent). Despite the expected slowdown in the pace of economic growth, 61 percent of all families in mid-1984—the same proportion as in mid-1983—reported that they expected the continuation of good times financially in the economy as a whole during the upcoming year.

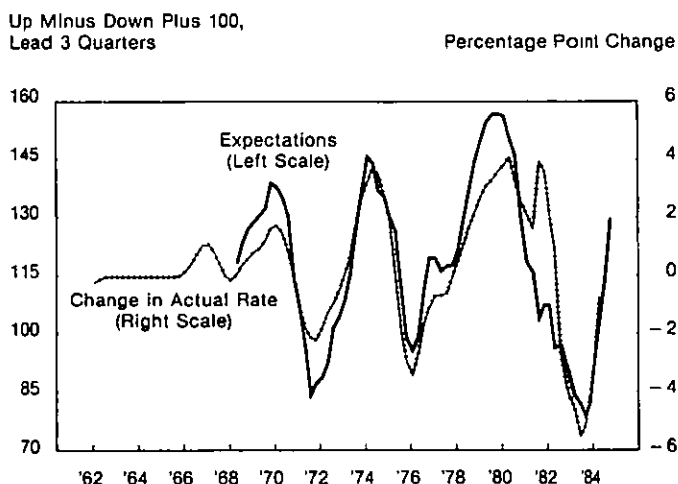
Rising Interest Rates Dominate Concerns

When asked about the most recent changes in business conditions—those which occurred during the past several months—the mix of economic news heard and recalled by consumers became less favorable by mid-1984, but on balance still remained positive. During the past year, the dominant shift in consumers' awareness of ongoing developments involved fewer favorable references to credit conditions (3 percent, down from 16 percent), as well as more frequent references to rising interest rates and tight credit conditions (10 percent, up from 1 percent).

Expected trends in inflation, unemployment, and interest rates reached their most favorable cyclical levels one year ago. Since then only small reversals in inflation and unemployment expectations have been recorded. Interest rate expectations, in contrast, have become very unfavorable, and represent the major factor behind the expected decline in the pace of economic growth. Among all families in the second quarter 1984 survey, 66 percent expected interest rates to increase during the year ahead, up from 40 percent in the first quarter of 1984, and 23 percent one year earlier. Declines in interest rates during the year ahead were expected by just 9 percent of all families in the second quarter, down from 31 percent one year earlier. Interest rate expectations

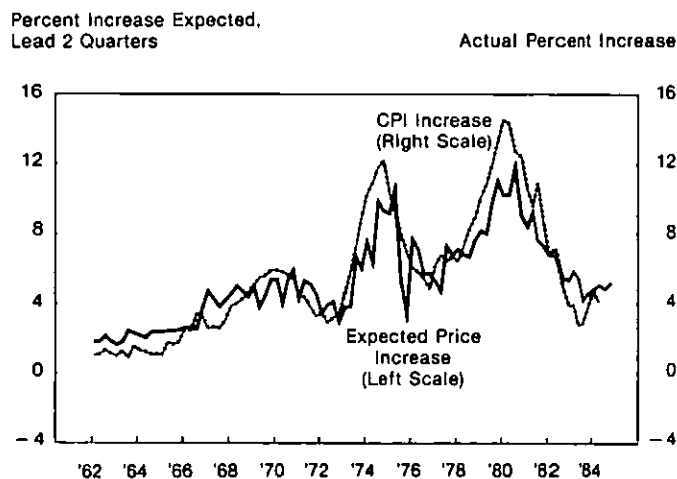
held by consumers have shown a close correspondence with actual subsequent changes. Using four-quarter moving averages, the time series correspondence between interest rate expectations lead two quarters and the annual percentage point change in the prime rate is shown in Chart 1. The time series correlation was $r = 0.85$.

CHART 1. Interest Rate Expectations and the Percentage Point Change in the Prime Rate



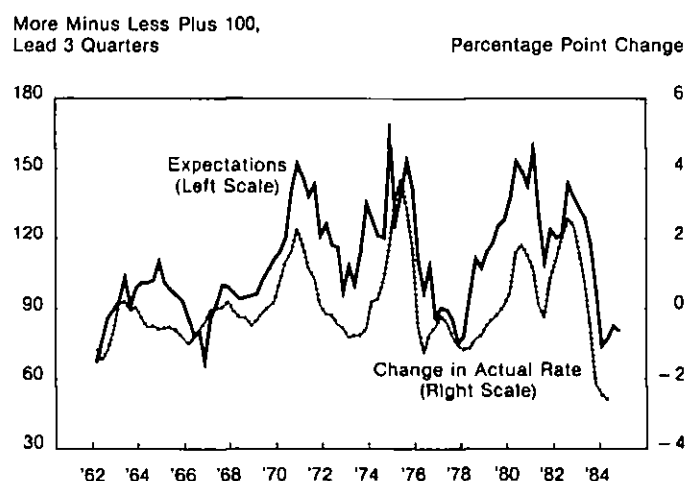
Consumers expected prices to increase at an annual rate of 5.3% in the second quarter 1984 survey, up from 4.9% one quarter earlier, and 4.6% one year earlier. Nearly half of all families (48 percent) expected price increases in the range of 1-5% during the year ahead—which represents an unusually high degree of consensus. The time series correspondence of price expectations held by consumers and subsequent changes in the CPI is shown in Chart 2. With a lead time of two quarters, the time series correlation was $r = 0.92$.

CHART 2. Mean Expected Price Increase over the Next 12 Months and Actual Increase in the CPI (All Urban Consumers, All Items, SAAR)



The majority of consumers in the 1984 second quarter survey expected the rate of unemployment to remain largely unchanged at its current reduced level during the year ahead (52 percent). The proportion of families that expected further declines in the unemployment rate fell to 27 percent in the 1984:2 survey, down from 40 percent one year earlier. Increases in unemployment during the year ahead were expected by 20 percent of all families, up from 15 percent one year earlier. The time series correlation between unemployment expectations lead three quarters and the annual percentage point change in the aggregate unemployment rate was $r = 0.76$ (see Chart 3).

CHART 3. Unemployment Expectations and the Percentage Point Change in the Unemployment Rate



Buying Conditions Remain Favorable

More families held favorable opinions of buying conditions for large household durables in the second quarter 1984 survey than at other any time during the past thirty years. Among all families, 72 percent favorably rated buying conditions for household durables, just above the 71 percent recorded in the first quarter. Much of the improvement in buying attitudes towards durables was recorded one year ago—from mid-1982 to mid-1983—when the proportion holding favorable attitudes rose from 43 to 64 percent. The primary reason for the rapid initial rise as well as the more modest gains during the past year has been favorable perceptions of market prices. In the second quarter of 1984, 31 percent of all families referred to the availability of discounted prices for household durables, compared with only 11 percent that complained about high prices.

Favorable attitudes toward buying conditions for vehicles were held by 61 percent of all families in the second quarter 1984 survey, just below the 64 percent recorded one quarter earlier, and the cyclical peak of 65 percent recorded one year earlier. References to the availability of price discounts on vehicles were made by 19 percent of all families in the second quarter of 1984, down from 26 percent one year earlier,

and the cyclical peak of 35 percent recorded two years earlier. At the same time, complaints about high car prices were made by 20 percent of all families in the second quarter of 1984, just above the cyclical low of 17 percent recorded at the start of 1984. The appeal of buying-in-advance of rising vehicle prices increased somewhat during the past year, having been mentioned by 17 percent of all families in the second quarter survey, up from 10 percent one year earlier, and the cyclical low of 7 percent two years earlier. References to the availability of lower interest rates on vehicle loans declined sharply during the past year, falling to 14 percent in the second quarter of 1982 from 38 percent one year earlier.

Favorable attitudes toward buying conditions for houses were held by 59 percent of all families in the second quarter 1984 survey, just below the 61 percent recorded one quarter earlier, and the cyclical peak of 64 percent recorded one year earlier. When asked to explain their views on buying conditions for houses, the proportion of families that mentioned the availability of lower prices fell to 13 percent in the second quarter of 1984 from the 20-year high of 23 percent recorded one year earlier. Despite this decline in favorable perceptions, the proportion of families that registered complaints about high home prices fell to 12 percent in the second quarter 1984 survey from 13 percent one year earlier, and was the lowest proportion recorded in 20 years. In addition, references to buying-in-advance of rising home prices have not significantly increased during the past year, rising to just 9 percent in the second quarter of 1984 from 7 percent one year earlier. Consequently, although fewer consumers reported the availability of price discounts, current housing prices are not viewed as too high and therefore cause for postponement, nor do consumers expect future price increases to warrant advance buying.

In reaction to the expected increases in interest rates, however, more families have been citing the advantage of buying-in-advance of rising interest rates. Among all families in the second quarter 1984 survey, 20 percent cited the advantage of borrowing in advance of mortgage rate increases, up from 9 percent one year earlier, and the highest level ever recorded in these surveys. At the same time, references to the current availability of lower mortgage rates fell to 25 percent in 1984:2, about half the 48 percent recorded one year earlier. As a result, consumers' initial reactions to recent mortgage rate increases have acted to forestall declines in favorable home buying attitudes, and have accelerated purchase timing. But these shifts in views of buying conditions have also made home buying attitudes more vulnerable to sharp reversals.

Summary Outlook

The small second quarter decline from record levels does not detract from the otherwise very favorable level of consumer sentiment. Recent shifts in consumer attitudes and expectations have reflected a typical cyclical pattern: expectations reached peak levels first, followed by peak levels in evaluations of current economic conditions. One year ago, a wide range of expectations measures reached their most favorable cyclical levels, including inflation, unemployment, and interest rate expectations. Since then, unemployment and inflation expectations have remained at very favorable levels. Only interest rate expectations have become very unfavorable, and they represent the primary factor underlying the expected slowdown in economic growth.

Nonetheless, the renewed strength in personal finances, coupled with favorable attitudes toward buying conditions, points toward continued high sales levels through 1984 and into early 1985. Moreover, the widespread expectation of increases in interest rates since the start of 1984 has prompted some consumers to favor buying-in-advance of rising interest rates. To be sure, consumer buying decisions have been and will continue to be very responsive to interest rate trends.

Sales of houses, cars, and large household durables are likely to weaken along with interest rate increases, while non-interest-sensitive purchases continue to post gains. Unlike the period of growth in consumer sales in the mid 1970s, when low real interest rates tilted spending in favor of credit purchases, the current high real rates will favor non-credit purchases.

August 1984

Business Economists Predict Good Times to Continue for a While But Expect Recession Next Year

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The ninth in the series of quarterly surveys of National Association of Business Economists (NABE) members was conducted in early May. Respondents were asked to forecast various economic series and to give their opinions about current economic policy matters. For analytical purposes, the business economists were classified according to their primary affiliation in six groups: manufacturing, nonbank finance, trade associations and others not elsewhere classifiable, government and academic, commercial banking, and consulting.

Conditions in Company/Industry

Throughout the survey program, economists affiliated with a business firm (that is, those in manufacturing, commercial banking, or nonbank finance) have been asked about quarterly trends in various economic aspects of their own company or industry. Results from the May survey are displayed in Table 1 and generally reflect the continuing economic expansion experienced during the three months preceding the survey:

- Demand had been increasing in three-quarters of the companies, and employment had been rising or stable in more than 90 percent. But only about 40 percent of

economists in nonbank finance reported demand increases, and only about 20 percent of those in commercial banking mentioned rising employment.

- Inventories had been increasing in about half the firms and decreasing in 13 percent.
- Real capital outlays had been rising in over 40 percent of the companies and falling in less than 10 percent, with no substantial differences among the affiliation groups.
- Profit margins had been going up in somewhat over 40 percent of the firms and stable in somewhat over a third, though fully 70 percent of manufacturing firms reported rising profits.
- Prices had increased in half the firms and declined in only 5 percent, but these aggregate figures mask considerable differences among the three groups. Fully 85 percent of the NABE members affiliated with commercial banks reported that prices had risen during the three previous months, while only 6 percent of those in nonbank finance so reported.
- Wages and salaries had been rising in about two-fifths of the firms and stable in nearly three-fifths, with virtually none reporting falling compensation. There were no substantial differences among the affiliation groups here.

These aggregate trends were broadly similar to those reported in the previous (February 1984) survey, with two exceptions: both inventory volume and prices charged were more likely to have been rising in the three months prior to May than in the three months prior to February.

TABLE 1. Trend in Various Economic Aspects of Respondent's Company or Industry During Three Months Prior to May 1984 Interview (Percentage Distribution)

Economic Aspect	Rising	Same	Falling
Unit Volume of Demand	75	20	5
Employment	36	55	9
Unit Volume of Inventories	51	36	13
Real Capital Outlays	43	51	6
Profit Margins	43	37	20
Prices Charged	50	45	5
Wage Rates & Salaries	41	57	2

Economic Forecasts

Table 2 displays the median values of forecasts made in May for selected economic series; analogous results from the previous survey are also displayed. Real GNP was expected to increase by nearly 5 percent from 1983:4 to 1984:4 and by close to 6 percent for the full year 1984 compared with 1983; both values were substantially higher than the ones given in the February survey. The business economists expected GNP growth to taper off in 1985, to about 3½

**TABLE 2. Forecasts of Selected Economic Series,
February 1984-May 1984**

Series	Median Value	
	Feb. 84	May 84
<i>Annualized Percent Change:</i>		
Real GNP		
1983:4-1984:4	4.20	4.92
Year 1983-Year 1984	4.80	5.73
Year 1984-Year 1985	—	3.41
Consumer Price Index		
1983:4-1984:4	5.02	5.19
Year 1983-Year 1984	4.84	4.97
Year 1984-Year 1985	—	5.99
Real Fixed Investment		
1983:4-1984:4	9.61	10.13
Year 1983-Year 1984	11.02	12.85
Year 1984-Year 1985	—	7.93
<i>Percent:</i>		
Unemployment Rate		
1984:3	7.97	7.80
1984:4	7.90	7.43
Year 1984	8.01	7.93
Prime Rate		
6/30/84	11.10	12.71
9/30/84	—	12.88
12/31/84	11.63	13.04
<i>Millions of Units:</i>		
New Private Housing Starts		
1984:4	1.70	1.70
Year 1984	1.70	1.80
Year 1985	—	1.60
Automobile Sales		
1984:4	10.26	10.11
Year 1984	10.01	10.14

Note: Dash indicates forecast not asked for in February.

percent compared with 1984. Consumer prices were forecast to increase by somewhat over 5 percent fourth quarter to fourth quarter and just about 5 percent year over year, both estimates being slightly higher than the ones given in February. Price change was expected to accelerate to the 6 percent range in 1985 as compared with 1984. Real fixed investment was foreseen to increase by a bit more than 10 percent from 1983:4 to 1984:4 and by nearly 13 percent year over year — both estimates half a percent to a percent higher than the ones given in February. But the increase in real investment was expected to moderate to the 8 percent range from 1984 to 1985.

The business economists predicted that the unemployment rate would decline from 7.8 to about 7.4 percent from the third to the fourth quarters of this year and to average slightly less than 8 percent for the year as a whole; these estimates were all somewhat lower than the February ones. The prime rate was expected to climb from about 12¾ percent to 13 percent during the second half of 1984, substantially higher than the figures given in February but — in the light of subsequent developments — probably still too low.

New private housing starts were expected to average 1.7 million units during the fourth quarter and 1.8 million units during the year as a whole, the latter estimate a bit higher

than the one given in February. But housing starts were expected to decline to the 1.6 million level for the year 1985. Automobile sales were forecast to average about 10.1 million units in 1984:4 and for the year as a whole, respectively slightly lower and higher than the February estimates.

There were few notable differences in the forecasts among the several affiliation groups. For the CPI forecasts, economists in financial institutions were slightly higher than the others; for the prime rate forecasts, consultants were slightly higher; for housing starts and car sales, government/academic economists were somewhat lower. And economists in manufacturing were more optimistic about auto sales than the other NABE members.

The two regional forecast questions asked in some previous surveys were repeated in the May survey, with the business economists being asked whether the overall economic growth rate and the unemployment rate in their part of the country would be higher than, lower than, or about the same as the national rate during 1984. Concerning real GNP growth, more than half the respondents in the South and about two-thirds in the West expected faster-than-average change, followed by about a third in both the North Central and the Northeast regions. But 41 percent of the North Central economists expected slower-than-average growth, compared with 22 percent of those in the Northeast. Concerning unemployment, the expectations were more polarized: about three-quarters of Southern business economists expected lower-than-average local unemployment rates, followed by about one-half of those in the West and Northeast; but only 11 percent of economists in the North Central region projected their unemployment rate to average lower than the national rate, while 81 percent saw it as likely to be higher.

Fiscal and Monetary Policy

As in all previous surveys, the business economists were asked about recent fiscal and monetary policy. Trends over the past four surveys in their assessment of the appropriateness of fiscal and monetary policy are displayed in Table 3. The distribution of opinion about fiscal policy was virtually unchanged between February and May, with the overwhelming majority holding that then-current fiscal policy was too stimulative. The proportion of business economists

**TABLE 3. Trends in Opinions about Fiscal and
Monetary Policy, August 1983-May 1984
(Percentage Distribution)**

Opinion	August	November	February	May
<i>Fiscal Policy:</i>				
Too Stimulative	76	73	82	83
About Right	20	22	14	14
Too Restrictive	4	5	4	3
<i>Monetary Policy:</i>				
Too Stimulative	23	3	3	12
About Right	69	82	78	74
Too Restrictive	8	15	19	14

The questions were "What is your view about current fiscal policy — is it too stimulative, too restrictive, or about right?" and "What is your view about recent monetary policy actions — have they been too stimulative, too restrictive, or about right?"

subscribing to that view ranged from about three-quarters in manufacturing and trade associations to about 95 percent in commercial banking and nonbank finance.

Three other questions relating to fiscal policy were posed in the May survey. Respondents were asked to give an estimate of federal budget deficits for fiscal years 1984 and 1985. The aggregate prediction for FY 1984 was \$179 billion, ranging from a low of \$170.3 billion from the commercial banking group to a high of \$186 billion from the consulting group. For FY 1985 the overall forecast was \$181.5 billion, with a low of \$177.5 billion given by the consultants and a high of \$189.8 billion given by the economists in trade associations. Respondents were asked to predict the effect of a Congressional deficit-reduction package of \$50 billion in tax increases and \$100 billion in spending cuts on financial markets. Nearly three-quarters expected that enactment of the package would reduce long-term interest rates at least slightly, with most of the rest anticipating essentially no effect. Economists in nonbank financial institutions were least likely to expect downward pressure on long-term rates from the package; those in consulting were most likely to expect a decline. Regardless of their opinion as to the effect of any tax-increase-and-spending-cut package passed by Congress this year, the economists were asked whether they expected a larger such package to be enacted next year, after the presidential election. Fifty-seven percent of all respondents expected an enactment in 1985, though only 28 percent of government and academic economists agreed.

Concerning recent monetary policy, the May survey indicated some change in opinion from the February survey, basically involving a small shift toward viewing it as too stimulative. Even so, the substantial majority continued to see monetary policy as about right, just as they have for the balance of the survey period. Among the affiliation groups, only the consultants were substantially divergent from the overall consensus, with 25 percent seeing monetary policy as too stimulative, 54 percent as about right, and 21 percent as too restrictive. Somewhat related to monetary policy was the question asking about the change expected in the international value of the dollar (calculated on a trade-

weighted basis) between the survey date and the end of the year. About two-thirds of the economists expected at least some decrease, with a substantial fraction (39 percent) only of government/academic economists expecting a continued increase in the dollar's value.

Duration of the Current Expansion

As in the prior two surveys, the business economists were asked about the duration of the current expansion. Specifically, they were asked "in what year and quarter do you expect the current expansion to peak?" Results are displayed in Table 4. Overall, the modal quarter was 1985:3; and more than two-thirds expected the peak to occur by the end of 1985. Government and academic economists were somewhat more likely to expect a quick end to the expansion (over a quarter forecast it to occur this year), and those in commercial banking were somewhat more likely to see it continuing into 1986 or 1987. But the consensus was certainly that the expansion is likely to be shorter than the postwar average of 46 months.

Those economists who were part of this consensus (that is, those who expected a peak before 1986:3) were asked to give up to three reasons for expecting the current expansion to be shorter than the postwar average. The first reason given was overwhelmingly "high interest rates," with more than 75 percent of respondents in each affiliation group agreeing. Second responses were almost as concentrated, with over two-thirds specifying "large federal budget deficits," and no less than 60 percent in each affiliation group agreeing. (Of course, Martin Feldstein, among others, might argue that these first and second responses are merely the two sides of the same coin.) As would probably be expected, the third reason given for a shorter-than-average expansion was more scattered among the several possibilities, though even here almost half of all those giving a third reason specified "a continuing loss of competitiveness by U.S. industries in world markets." Other third reasons mentioned were "international default by one or more major debtor countries" and "a major labor strike."

**TABLE 4. Expected Year for Peak of Current Business Cycle
by Primary Affiliation of Business Economists, May 1984
(Percentage Distribution)**

Year:Quarter	Primary Affiliation Group						All Groups
	Manu- facturing	Nonbank Finance	Trade Associations & "Other"	Government & Academic	Commercial Banking	Consulting	
1984:3 or Earlier	12.5	5.6	4.1	16.7	5.1	8.7	8.2
1984:4	2.1	5.6	4.1	11.1	2.6	4.3	4.1
1985:1	4.2	22.2	2.0	5.6	7.7	21.7	8.2
1985:2	18.8	11.1	14.3	11.1	7.7	8.7	12.8
1985:3	22.9	16.7	16.3	16.7	23.1	17.4	19.5
1985:4	18.8	11.1	24.5	11.1	12.8	8.7	16.4
1986:1	2.1	16.7	10.2	11.1	10.3	0.0	7.7
1986:2	6.3	5.6	4.1	5.6	15.4	13.0	8.2
1986:3	2.1	0.0	10.2	0.0	10.3	4.3	5.6
1986:4	6.3	0.0	6.1	11.1	0.0	4.3	4.6
1987:1 or Later	4.2	5.6	4.1	0.0	5.1	8.7	4.6

The question was "In what year and quarter do you expect the current business cycle expansion to peak?"

Tracking the 1984 Presidential Race

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The 1984 presidential campaign is breaking new ground along a number of fronts as the Democratic team of Walter Mondale and Geraldine Ferraro seeks to unseat Republican incumbents Ronald Reagan and George Bush.

Most significantly, a woman has been selected for the first time to run on a major-party ticket. And active campaigning is starting earlier, portending a very bitter finale as the wear and tear of the extended struggle catches up with the candidates near November 6.

Given the increased volatility in the American electorate which has been observed across the last several elections, it is unwise to prognosticate about events which will occur three months from this writing. But it is possible to discuss the basic elements of strategy which the Democrats and Republicans are likely to pursue and to provide a perspective on the flow of the campaign as it seems likely to unfold.

The Basic Strategy of Presidential Campaigns

The most important element underlying an understanding of political campaigns is the significance of party identification as an anchor for voters' interpretations of political events and actors. It also serves as a screening device for political information. The reality of the distribution of partisans determines strategy for each side.

By party identification, political scientists mean the tendency or willingness of individuals to indicate their preference or psychological attachment to a political party. This concept is developed early, beginning with socialization in the family, and is usually quite enduring. In any constituency, there is an underlying distribution of party identification which can be measured with surveys and which represents the collected sentiments of the voters who reside there.

There are two important adjustments which are typically made to this distribution of partisanship among adults in order to translate it into an indicator of a likely electoral outcome. The first is compensation for the fact that Democrats as a whole are less likely to vote than people who call themselves Republicans. And the second is a correction because Democrats are also more likely to defect and vote for candidates of the other party than Republicans are.

When these two factors are taken into account, a large Democratic advantage in identification nationwide gets translated into a slight Democratic advantage in the "normal" or expected vote. Treating the entire United States as the constituency for a presidential election, then, a substantial Democratic plurality in identification results in an advantage of about 54 percent to 46 percent in the normal vote.

This fundamental numerical advantage suggests that, first, we would expect the Democratic candidate to win—all other things being equal. And secondly, Democrats and Republicans run characteristically different campaigns in trying to forge an electoral majority. It is true that all other things are not equal when a Republican incumbent is running for

reelection under as favorable domestic economic circumstances as Ronald Reagan, and more will be said about that below.

The inherent advantage of the majority party is that it can run a campaign of *mobilization* whereby it focuses its attention on its natural constituency, tailoring appeals designed to stimulate turnout on election day. For the minority party, on the other hand, there has to be a campaign involving *conversion*. In addition to maintaining its core support, it must provide partisans in the other camp with a good reason for defecting, usually based upon a substantive issue or a personal quality of its candidates such as leadership ability or integrity.

In other words, the Democrats can win in principle if they can get their own troops to the polls. In national campaigns, the Republicans have to appeal to independents and Democrats more directly because a winning coalition has to include voters other than their own partisans in order to reach majority proportions. This fact explains the tendency of Democratic campaigns to emphasize "traditional Democratic values" including the highlighting of past leadership going back to Franklin D. Roosevelt. It also explains the Republicans' reliance on the personal characteristics of their candidates, a selective issue emphasis, and a general downplaying of party in their appeals.

The 1980 election involved a classic campaign in these terms. The anemic condition of the U.S. economy provided the background for Ronald Reagan's appeal for voters' consideration of how well off they were four years before in comparison to their economic condition in November 1980. His central thrust against the Carter campaign was an attack on leadership ability cast in terms of competence. Survey data collected before and after the election show that these arguments were quite telling, and they made a difference in the last two weeks of the campaign in conjunction with the debate in Cleveland and the breakdown in hostage negotiations in the weekend before the election. In the end, Jimmy Carter suffered from an unusually high defection rate among Democrats, more than twice as great as it had been in his successful 1976 campaign against Gerald Ford.

In the 1984 campaign, we can expect the Reagan team to return to the economic theme, and it should be quite common to hear the 1980 question on personal economic circumstances repeated. Inflation is down, unemployment has declined to the level at which it stood when Reagan took office, and a broad recovery is clearly underway. Reagan and Bush will ask for the second term they need to complete the work which they have only just begun.

Ronald Reagan has been one of the most popular incumbents to serve in the White House since World War II. The significance of that date is its correspondence to the general advent of the application of the survey method to popular political issues. One of the longest time series of data we have is the Gallup Poll question on presidential approval dating back to Harry Truman.

Most incumbent presidents have experienced a fairly consistent decline in popular support during their term of of-

fice, observed by superimposing each one's approval rating on the others' ratings according to their length of service. For any president, there are short-term upswings due to favorable economic changes or positive international events; at the same time, there have been unusual and precipitous drops that can be linked particularly to unfavorable international events. But generally there has been a "honeymoon period" of popular support which has lasted for a few months upon taking office and then a more or less gradual decline in support which sets in for the rest of the term.

With the exception of negative reaction to the sending of troops to Lebanon, there has been no significant decline in Ronald Reagan's popular support since his inauguration. A slight majority of those surveyed in the latest national polls approve of the way he is handling his job as president, just as was the case almost four years ago. He has been significantly effective in receiving credit for work well done and disassociating himself from many of the problems which have plagued his administration.

As a result of this, it is not likely that the Democrats will make much headway by attacking the president personally. Rather, they can be expected to make appeals to their traditional constituency by raising the question of at whose expense the recovery has been achieved. One element of this is the so-called "fairness" issue—who has borne the brunt of unemployment, has benefited differentially from the tax cut, and will suffer most from the additional budget cuts and/or tax increases needed to reduce the deficit?

Another emphasis in the Democratic campaign is likely to be on the future of the country, because they have little to gain by challenging directly the Reagan achievements of the past four years, especially as they relate to domestic economic conditions and individuals' personal economic circumstances. Measures of consumer sentiment now show high levels of satisfaction with current economic conditions but increasing concern about economic prospects down the road, particularly for the national economy.

The Contribution of Geraldine Ferraro to the Democratic Ticket

Presidential candidates have long selected their running mates with an eye toward regional or ideological balance of the ticket. This represents a form of strategic decision-making designed to appeal to significant groups in the electorate who are either part of their regular constituency or who have to be attracted to form a coalition of winning size. The selection of a woman for the Democratic ticket represents a bold but nevertheless similar strategic decision by the Mondale forces. And it is peculiarly suited to the campaign which they face in 1984 as the majority party candidates trying to defeat a Republican incumbent.

The decision is a long overdue but simple strategic calculation because it acknowledges the role of women in the contemporary American electorate. Not only do they represent a majority of the voting age population, but they are now voting at a rate which exceeds that for men. As a result, they represent a majority of the electorate in greater proportion than of the voting age population.

It is also the case that women have consistently been more critical of Ronald Reagan and his policies since 1980 than men have. While this has usually been discussed in terms of the "gender gap," it is also important because women have demonstrated an increasing tendency to identify themselves

with the Democratic party as a result of this dissatisfaction. Women do not represent a monolithic voting group tied to one party, of course, but the net increase in Democratic partisans across the last four years has come primarily from women in the electorate.

Ronald Reagan's 1980 victory was achieved with sizable Democratic defections, especially among men. Considering the basic elements of a mobilization strategy, therefore, and the need to bring their own partisans back into the fold, the Democrats' selection of a woman could be expected to boost their chances on a number of grounds. Women now represent the single largest constituency within the Democratic party—more numerous than any regional group or such traditional supporters as union members or blacks. The selection of a woman has the real potential to solidify basic support among Democrats and stem the tide of defections, and this is a strategy which is obviously best suited to the majority rather than the minority party.

Secondly, the selection of a female vice-presidential candidate should stimulate registration and turnout among women which, in the aggregate, should also benefit the Democratic party. A fundamental element of the Democratic strategy in the fall will be to register more members of their natural constituencies and get them to the polls, and this will include large numbers of women. Finally, the mobilization of women should result in an increase in campaign contributions and a new cohort of campaign volunteers as many get involved in politics for the first time or see a reason to increase their activity. This should help the Democrats as well.

There are suggestions in preliminary surveys taken around the Democratic convention that this strategy has some merit. Asking about the effects of selecting a woman for the ticket is not the same as asking specifically about the selection of Geraldine Ferraro. The former question evokes general elements of stereotypes while the latter has a more real anchor in a specific individual. Data on the choice of a woman from a survey conducted in Michigan in June are available and quite similar to those collected in other state and national surveys, and they indicate that the potential is clearly there for a strong Democratic benefit from the selection of Ferraro. They also indicate the danger of analyzing political information without taking party identification into account.

Data are presented in Table 1 which give the answers of all respondents and men and women by their party affiliation to a pre-convention question about their support of the Democratic ticket in the fall if Walter Mondale were to choose a woman for vice-president. For the vast majority (about three out of four respondents) it would make no difference. And about as many of the remainder said it would make them more likely as less likely to support the Democrats. These are the data which have been commonly reported as showing that Ferraro's selection would be a "wash" for the ticket.

But there are substantial differences by party masked in these data for all respondents. Republican men and women would be much less likely (by a two-to-one margin) to support the ticket, although their initial inclinations to do so were obviously very weak to begin with. Independent men seemed to be reserving judgement about who the candidate would be, although independent women were somewhat more likely to indicate support than not. Democratic men were also evenly divided in their potential strength of support for Mondale with a woman on the ticket. But one-fifth

TABLE 1. Effects of Choosing a Woman for Vice-President on Support of the Democratic Ticket* (Percentage Distribution)

Group	More Likely	Less Likely	Depends Who It Is	Makes No Difference
All Respondents	12	10	5	73
Men Who Are...				
Republicans	7	14	6	73
Independents	3	2	20	75
Democrats	10	10	4	76
Women Who Are...				
Republicans	9	17	1	73
Independents	14	11	5	70
Democrats	19	6	4	71

*"If Walter Mondale chooses a woman for Vice-president, would it make a difference in whether or not you vote for the Democrats in November? (IF YES) Would you be more likely or less likely to vote for the Democrats?"

of the Democratic women (19%) indicated they would be more likely to support such a ticket, about three times as many as said they would be less likely to. One way to increase the vote of Democratic women for the ticket would be to add a woman to the slate.

So the potential contribution of Geraldine Ferraro seems clearly to be there, and it remains to be seen whether it will be realized by her actual performance during the campaign. Additional data will be collected during the campaign to gauge her effect more directly, but attention will have to be devoted to analyzing them by party. One immediate consequence of Ferraro's selection has been to give pause to Republican strategists trying to devise a way to deal with her personally and with her role in the campaign. One attempt to blunt the effect of her selection was raised in discussions of the financing of her 1978 Congressional campaign and the personal finances of her and John Zaccaro, her husband. The press's preoccupation with this story in the slow news period leading up to the Republican convention blunted the full effect of her first solo campaign swing to the West. Most of the problem was brought on by confusion and/or lack of communication between Ferraro and Zaccaro.

But the incident also highlights the difficulties the press has had in dealing with the more novel elements of her candidacy and some of the tensions between following the letter and the spirit of the campaign finance laws. Heretofore, most political spouses had little in the way of independent income, and it was usually reported in a jointly-filed income tax return. The practice of providing copies of these returns, not an actual requirement, presented little problem. Because Zaccaro and Ferraro filed separately, however, two disclosure decisions had to be made, and his had to be negotiated semi-publicly.

After discussing her financial affairs for almost two hours with reporters, Ms. Ferraro and her staff hope this episode is behind them and they can get on with regular campaigning. Because of the length of the disruption, it is fortunate for the Democrats that the campaign started so early. The entire incident seems to have come up and gone before Labor Day, but it may well give temporary pause to future female candidates and their spouses, as the controversy has inevitably established new standards for disclosure of personal and financial activities.

Tracking the Campaign Through Election Day

With the widespread availability of public opinion surveys these days on television and in the newspapers, there is a greater opportunity than ever to assess the candidates' performance and track their relative standing between now and election day. There are some general patterns to these data which can be observed in any election, as well as some key indicators which should provide a prospective guide to the eventual outcome of this one on November 6.

It is customary in American politics for the party out of power to hold its presidential nominating convention first. The strategic importance of this is to give them more time to organize for the campaign and to develop an identity for their team of candidates. With the advent of televised journalism and coverage of the conventions, this scheduling gives them a tremendous recognition boost from one week of constant exposure.

The incumbent's party, on the other hand, generally holds its convention relatively close to the traditional Labor Day start of campaigning. Their candidate begins with an experienced staff, has less need for the media exposure, and has the opportunity to preserve a "presidential" image on the job without undue attention to direct campaigning.

There are consequences of this scheduling in the "trial heat" data on candidate preference collected across the summer in the presidential years, and they are shown in Table 2 for the last six elections. Whatever the relative standing of the candidates before the first convention, the ticket for the party out of power usually rises in the public polls just after its convention. The only exception has been the 1972 Democratic convention which nominated George McGovern. In the Gallup data currently available, Mondale has moved from about 6 percentage points behind Reagan to about 2 points ahead.

But the Republican convention is yet to come, and there should be a corresponding boost in Reagan's fortunes, as measured by this question, at the end of August. As the data in Table 2 show, this has been the case each time except in 1964. Lyndon Johnson's lead was so great going into the convention, there was little possibility of increasing it. Given these data, the "true" initial standing of the two tickets will not be known until late August. Reagan should be in the lead then. If his percentage-point margin lead is in the teens, then the Democrats may be in serious trouble. If it is 10 percentage points or less, then Mondale and Ferraro have a reasonable chance of catching up.

The best way to track the relative performance of the two tickets during the campaign is by gauging the defection rate of the weakly identifying Democrats. In June, Reagan was attracting about one-quarter of them, an amount sufficient to secure his victory. Mondale will have to reduce that number to something closer to a historical level of about one in eight or ten in order to have a chance. The preferences of self-described independents will be of equal significance to each side and will also provide a guide to the candidates' respective fortunes.

A surrogate measure for the distribution of candidate preference by party identification in the published polls is union membership. This group has historically voted Dem-

TABLE 2. The Effect of Timing of the Convention on the Margin for Presidential Candidates*

Election Year	Party Out of Power	FIRST CONVENTION			Party In Power	SECOND CONVENTION		
		Percentage Point Difference for Party's Candidate		Change		Percentage Point Difference for Party's Candidate		Change
		Pre- Convention	Post- Convention			Pre- Convention	Post- Convention	
1964	Republicans	- 36	- 28	+ 8	Democrats	+ 36	+ 36	0
1968	Republicans	+ 2	+ 16	+ 14	Democrats	- 16	- 12	+ 4
1972	Democrats	- 19	- 26	- 7	Republicans	+ 26	+ 34	+ 8
1976	Democrats	+ 17	+ 33	+ 16	Republicans	- 22	- 15	+ 7
1980	Republicans	+ 3	+ 16	+ 13	Democrats	- 16	+ 1	+ 17
1984	Democrats	- 6	+ 2	+ 8	Republicans	?	?	?

*The source of these data is the Gallup Organization, Inc. as reported in *The National Journal* (August 4, 1984), p. 1496. The margins represent percentage-point differences to the standard Gallup question: "Suppose the presidential election were held today. If 'A' were the Democratic candidate and 'B' were the Republican candidate, which would you like to see win?" The differences are calculated on the basis of expressed candidate preference without any allocation of undecideds or preferences for other candidates. Sometimes there was more than one survey conducted in the period between the two conventions, so the post-convention margin after the first convention does not always correspond to the pre-convention margin before the second convention.

ocratic by about three to one. In 1980, a majority supported Ronald Reagan. Across the summer, Reagan has maintained the support of close to half of these respondents, again a sufficient number to ensure his victory. If this proportion

decreases substantially, it could signal rising Democratic fortunes. If the proportion persists at this level, it strongly suggests the reelection of Ronald Reagan.

August 1984

Actual and Projected Economic Indicators

seasonally adjusted

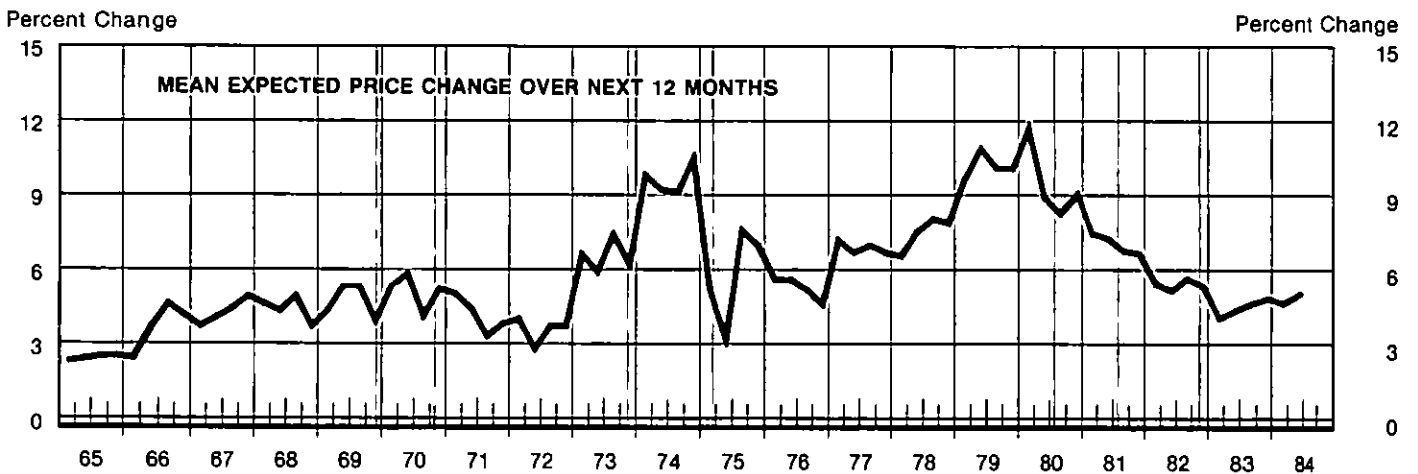
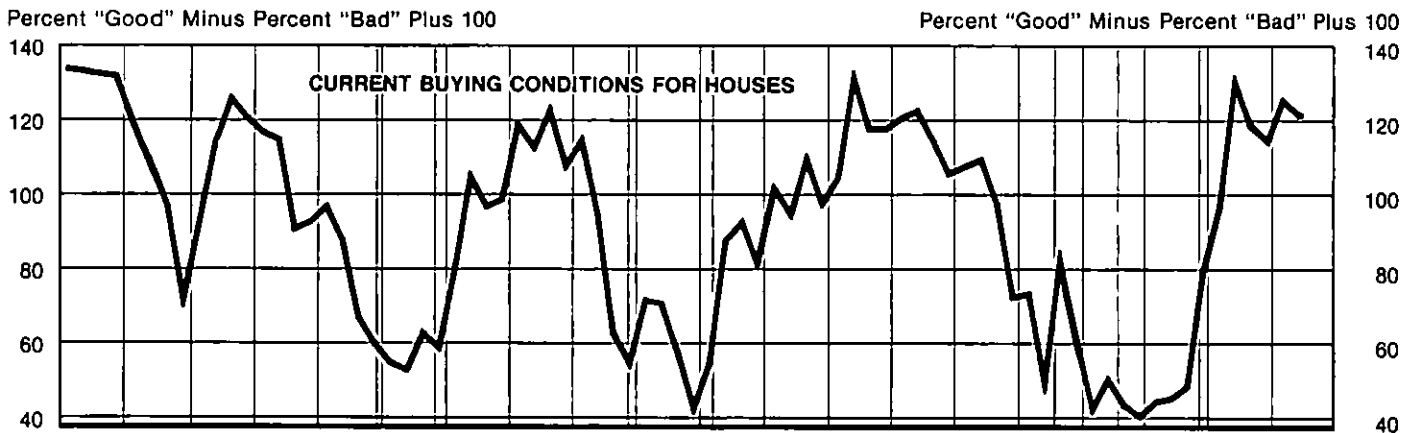
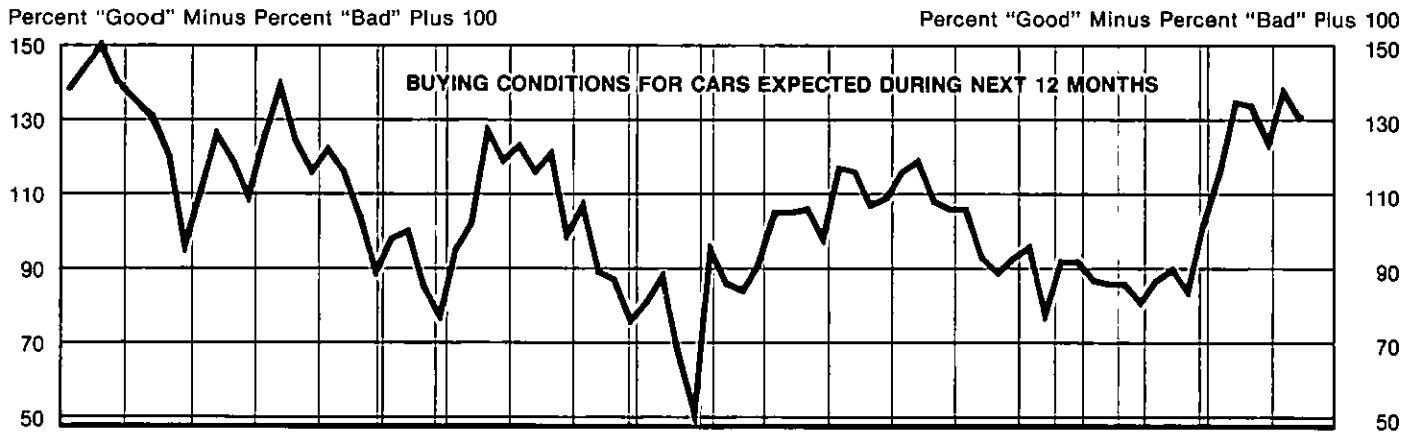
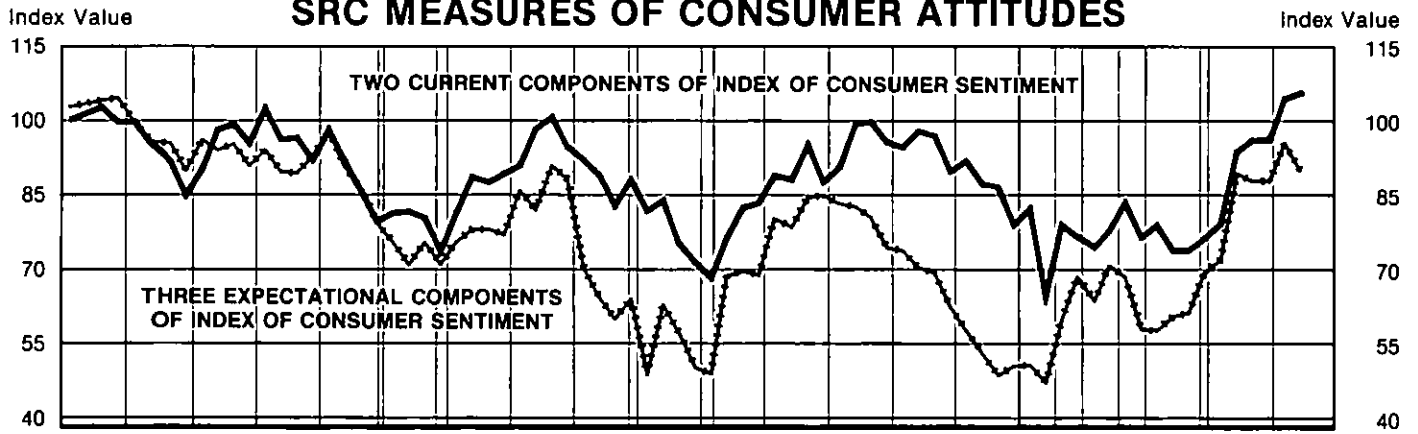
SERIES FORECAST BY THE ASA-NBER PANEL															
ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	Actual							Projected					Act'l.	Projected	
	1982:4	1983:1	1983:2	1983:3	1983:4	1984:1	1984:2	1984:2	1984:3	1984:4	1985:1	1985:2		1983	1984
GROSS NATIONAL PRODUCT*	3,110	3,174	3,267	3,347	3,432	3,553	3,646	3,610	3,689	3,771	3,850	3,927	3,305	3,650	3,970
GNP IMPLICIT PRICE DEFLATOR* (index, 1972 = 100)	210.3	212.9	214.3	215.9	218.2	220.6	222.3	223.0	226.0	228.9	231.8	235.0	215.3	224.7	236.8
CORPORATE PROFITS AFTER TAXES*	100.8	102.6	123.4	142.6	141.4	150.6	NA	151.5	157.0	161.0	164.0	166.8	127.4	155.0	168.3
UNEMPLOYMENT RATE (percent)	10.60	10.37	10.10	9.40	8.47	7.87	7.47	7.70	7.50	7.40	7.30	7.25	9.58	7.60	7.15
INDUSTRIAL PRODUCTION (index, 1967 = 100)	135.3	138.5	144.5	151.8	155.5	159.8	162.9	163.0	165.0	167.0	168.0	169.0	147.6	164.0	170.0
NEW PRIVATE HOUSING UNITS STARTED (millions)	1.269	1.643	1.690	1.782	1.699	1.968	1.907	1.820	1.765	1.700	1.685	1.650	1.704	1.800	1.630
CONSUMER PRICE INDEX (% change from prior quarter or year)	1.6	0.3	4.3	4.2	4.4	5.0	3.7	4.3	5.0	5.2	5.3	5.6	3.2	4.6	5.5
3-MONTH TREASURY BILL RATE (%)	7.94	8.08	8.42	9.19	8.79	9.13	9.84	9.80	9.89	10.20	10.10	10.28	8.62	9.75	10.40
NEW HIGH-GRADE CORPORATE BOND YIELD (percent)	12.22	11.99	11.57	12.68	12.76	12.94	NA	13.45	13.40	13.55	13.70	13.70	12.25	13.30	13.70
GNP IN 1972 DOLLARS*	1,479	1,491	1,525	1,550	1,573	1,611	1,640	1,619	1,633	1,646	1,661	1,674	1,535	1,626	1,674
PERSONAL CONSUMPTION EXPENDITURES (1972 \$)*	976	982	1,006	1,016	1,032	1,044	1,062	1,057	1,066	1,074	1,082	1,091	1,009	1,061	1,093
NONRESIDENTIAL FIXED INVESTMENT (1972 \$)*	161.5	161.6	165.3	172.6	184.5	193.3	202.6	190.0	193.8	197.0	199.0	202.0	171.0	192.0	203.7
RESIDENTIAL FIXED INVESTMENT (1972 \$)*	40.8	46.2	53.4	57.2	57.8	60.6	62.0	60.6	60.9	59.0	59.3	58.0	53.7	60.0	58.2
CHANGE IN BUSINESS INVENTORIES (1972 \$)*	-24.6	-16.5	-6.1	0.9	7.2	31.6	21.5	17.7	17.0	16.0	16.0	15.0	-3.6	19.6	15.0
NET EXPORTS (1972 \$)*	24.1	22.9	13.6	11.9	2.0	-8.3	-10.0	-8.0	-8.0	-7.5	-6.0	-5.0	12.6	-8.0	-6.0
FEDERAL GOVERNMENT PURCHASES (1972 \$)*	124.8	119.0	117.2	115.6	113.0	112.2	123.7	121.5	125.0	127.0	128.0	130.0	116.2	122.0	130.0
STATE AND LOCAL GOVERNMENT PURCHASES (1972 \$)*	175.8	175.3	175.2	176.4	175.8	177.3	178.7	178.0	180.0	181.0	181.8	182.2	175.7	179.0	183.0
SERIES FROM THE CURRENT-DOLLAR GNP ACCOUNTS															
ECONOMIC INDICATOR	Quarterly Data												Annual Data		
	1981:3	1981:4	1982:1	1982:2	1982:3	1982:4	1983:1	1983:2	1983:3	1983:4	1984:1	1984:2	1981	1982	1983
GROSS NATIONAL PRODUCT*	3,009	3,028	3,026	3,061	3,080	3,110	3,174	3,267	3,347	3,432	3,553	3,646	2,958	3,069	3,305
PERSONAL CONSUMPTION EXPENDITURES*	1,877	1,892	1,931	1,961	2,001	2,046	2,070	2,142	2,181	2,230	2,277	2,327	1,849	1,985	2,156
GROSS PRIVATE DOMESTIC INVESTMENT*	505.8	481.7	436.2	431.2	415.9	376.2	405.0	449.6	491.9	540.0	623.8	631.5	484.2	414.9	471.6
NET EXPORTS*	24.8	31.7	27.7	35.5	6.6	6.3	19.6	-6.5	-16.4	-29.8	-51.5	-58.0	28.0	19.0	-8.3
GOVERNMENT PURCHASES*	601.3	622.7	630.9	633.7	656.3	681.0	678.8	682.2	689.8	691.4	704.4	746.1	596.5	650.5	685.5
DISPOSABLE PERSONAL INCOME*	2,079	2,110	2,132	2,157	2,196	2,238	2,261	2,303	2,367	2,429	2,502	2,558	2,042	2,181	2,340
PERSONAL SAVING RATE* (% of disposable income)	7.0	7.6	6.7	6.3	6.1	5.8	5.7	4.2	5.0	5.3	6.1	6.0	6.7	6.2	5.0

Note: (1) All data are at annual rates and in billions of current dollars unless otherwise indicated. (2) To facilitate comparison and evaluation of forecasts, both actual data, released in late July, and projected data, released by ASA-NBER in June, are displayed for second quarter 1984.

Sources: Projections: American Statistical Association—National Bureau of Economic Research panel of forecasters.
Actual Data: U.S. Departments of Commerce and Labor, Board of Governors of the Federal Reserve System.

*Substantial revision of the data for variables marked with an asterisk has occurred since the last printing.

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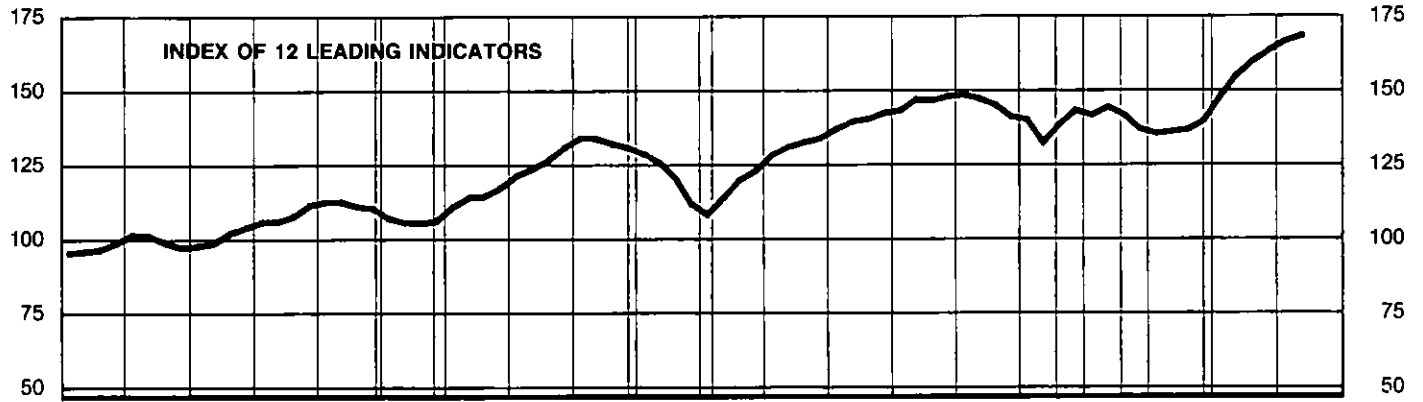


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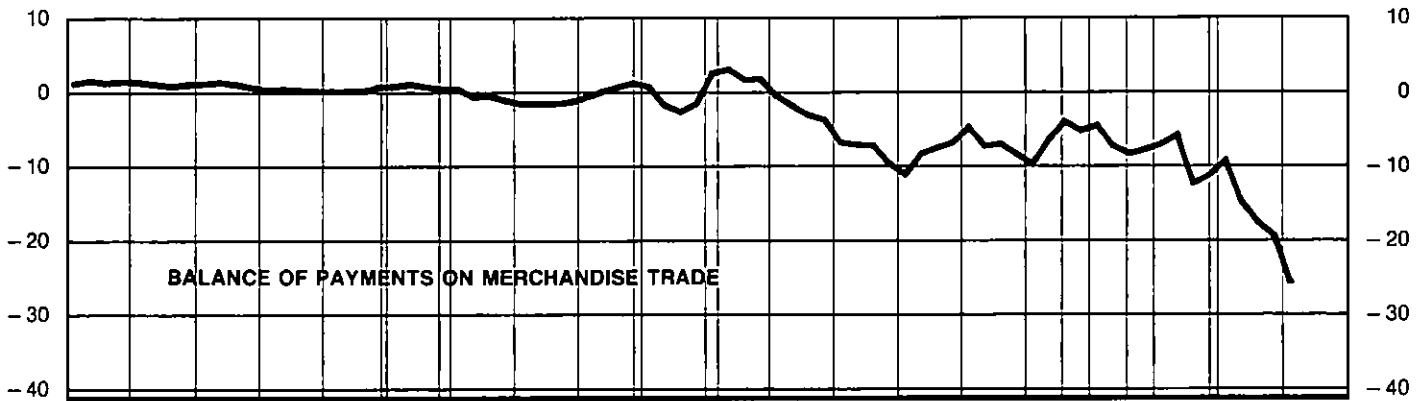
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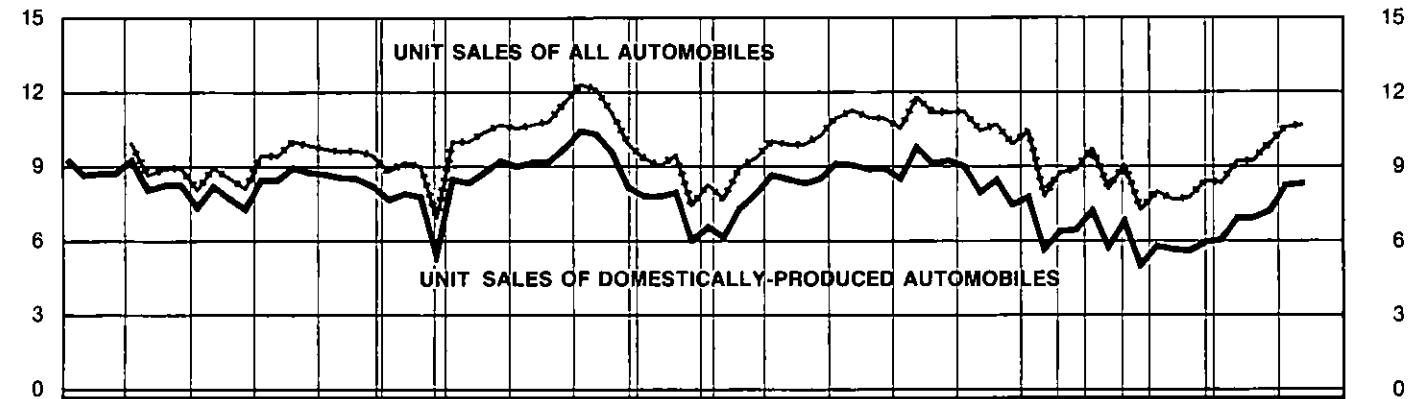
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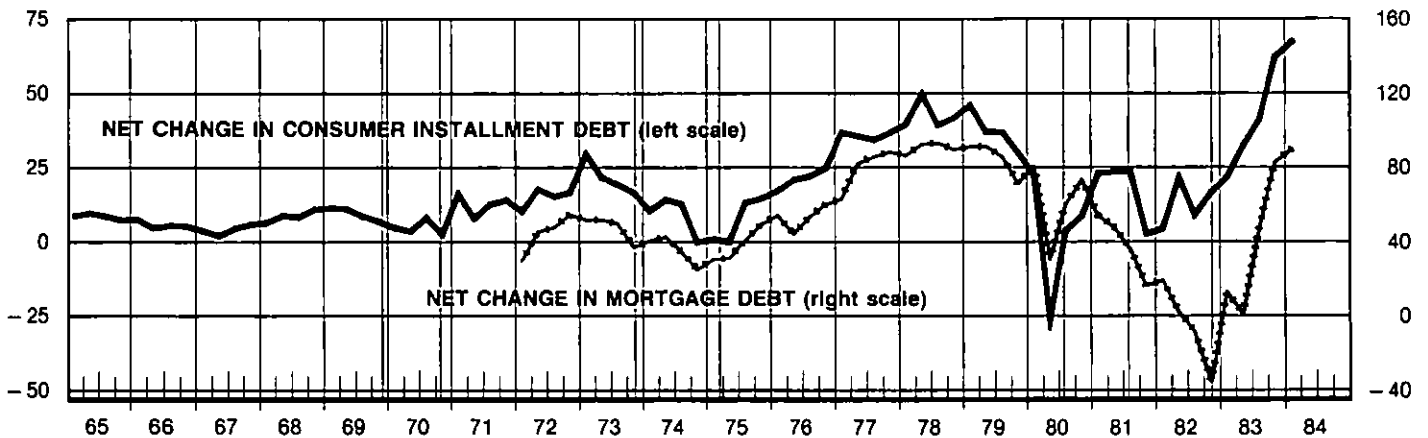
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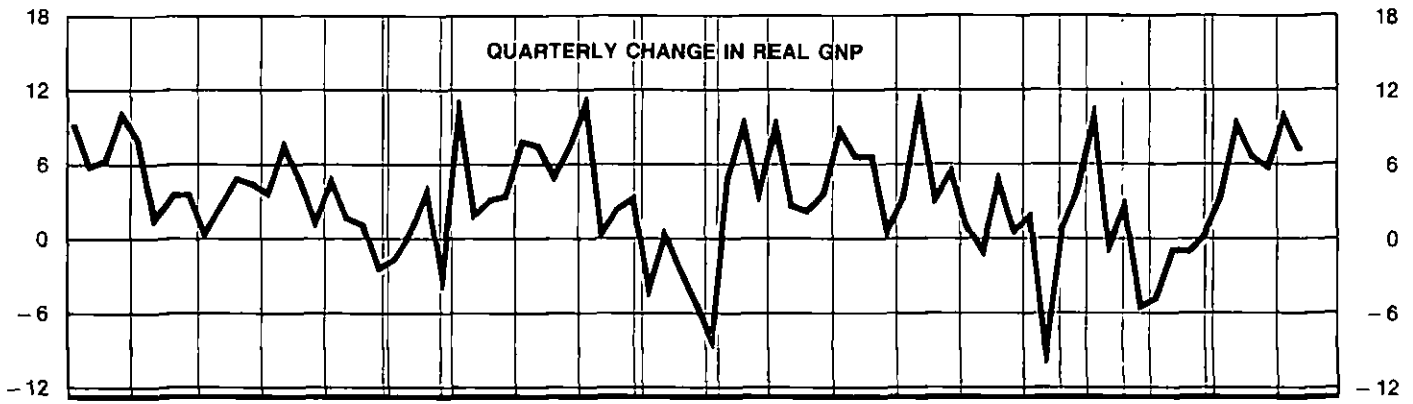


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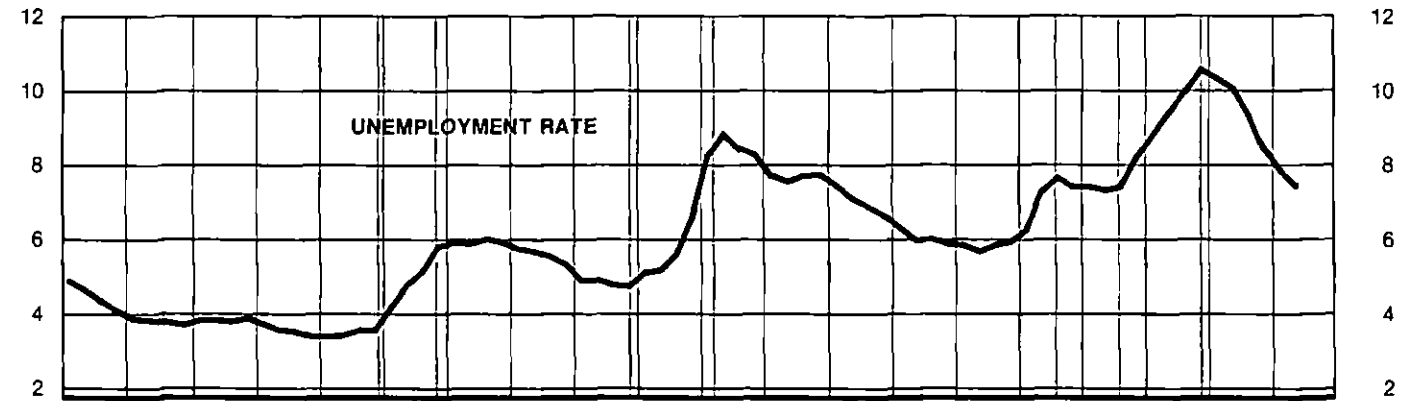
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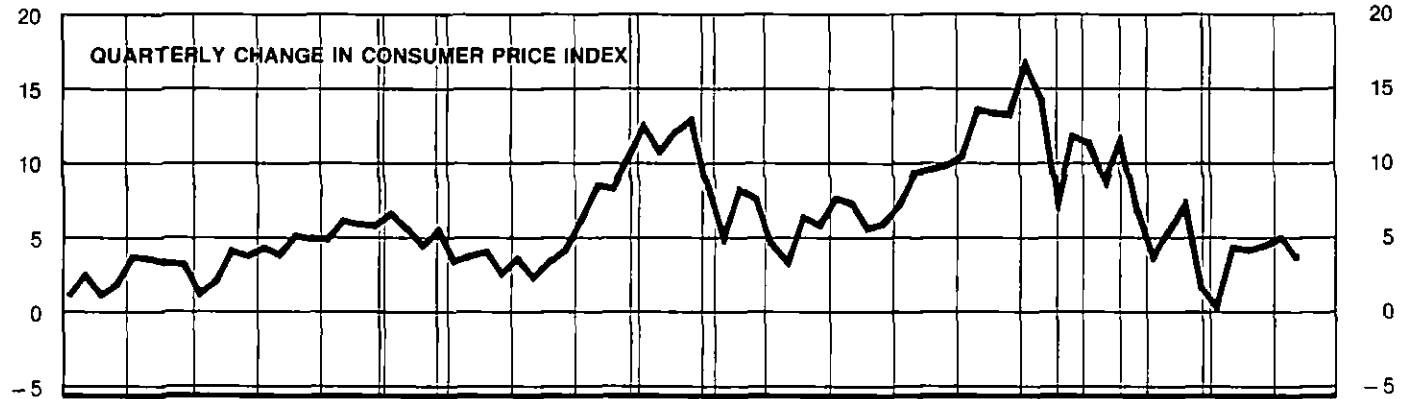
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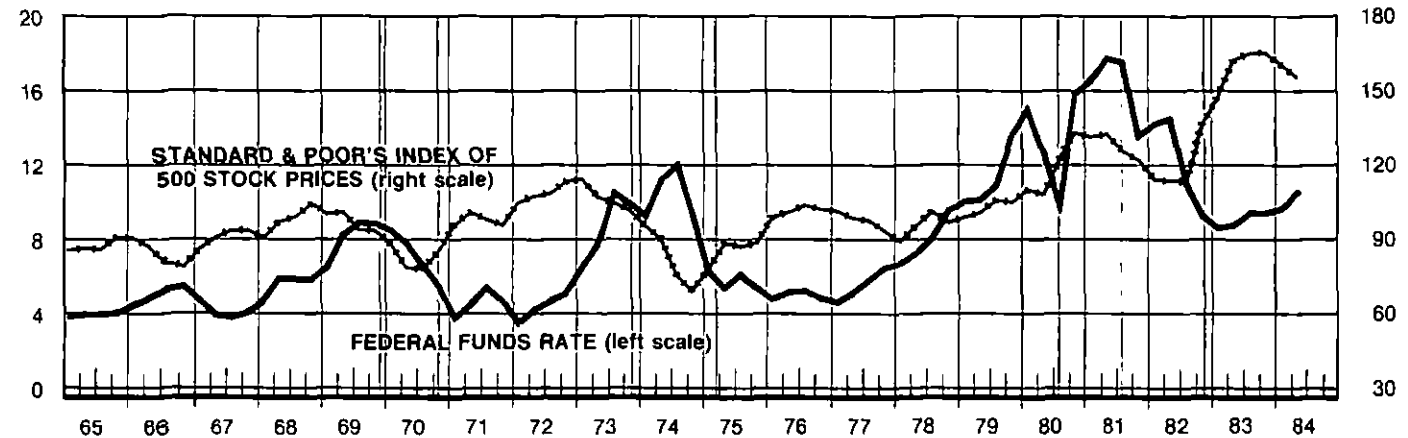
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