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Critics Question Key Survey on Consumer Sentiment

BY JUSTIN LAHART

A key survey of American consumers is scraping bottom, showing they have never felt this lousy about the economy, even at the height of recessions or when the Covid pandemic raged. Is the survey itself the problem?

That is what a growing number of critics, including several economists, say. They have pointed to methodology changes in the University of Michigan's consumer sentiment index as bugs in the machine, saying they are skewing results.

On Friday, Michigan's Surveys of Consumers, which has been polling U.S. households since the 1940s, pushed back, saying the survey is sound. Instead, low sentiment likely reflects a profound shift in mood since Covid struck, according to survey director Joanne Hsu.

"It shouldn't be too sur-prising that people felt differ ently about the world, including the economy after the pandemic," she said.

The sentiment index hit 44.8 in May, marking its lowest level on record, and in June it ticked up only marginally higher, to 49.5. That is still under the prior record low, hit in mid-2022 when inflation soared above 9%.

The low readings seem at odds with an economy that appears decent, if not stellar. The country is adding jobs and consumers continue to spend despite worries about inflation and affordability.

Critics think there is more to the story than Americans feeling particularly morose. Instead, they say shifts in how the survey is conducted are clouding the picture.

In 2024 Michigan moved to conducting its surveys via the web, rather than via cell-phone—a response to the on --going problem surveyors face in reaching people by phone. Some critics think this made the sentiment index more downbeat, in part because research has shown that when people are surveyed online, they tend to be more negative.

In a 2024 analysis, for example, economists Ryan Cummings and Ernie Tedeschi estimated that this survey methodology shift shaved about nine points off the Michigan sentiment index. A recent analysis from the Chicago Fed also took issue with the survey switch.

Michigan on Friday noted that survey shift followed seven years of experimental online survey collection. It said that in comparison with those experimental readings, sentiment in May would have still reached an all-time low.

A more recent criticism is that the sentiment survey is getting muddled by politics. In a recent analysis, Joel Wertheimer, an attorney who worked in the Obama White House, argued the survey has become heavily weighted toward Democrats versus Republicans. That matters, because Michigan's own data show that sentiment among Democrats is far worse than it is among Republicans— just as Democrats were less sour on the economy during the Biden years.

The Michigan data also show that sentiment among independents has fallen sharply, but Wertheimer argues that independents are leaning Democratic, and also had an outsize reaction to the shift to a web-based survey.

Michigan on Friday said that while the survey has become more heavily weighted toward Democrats, this followed President Trump's inauguration, and not the survey shifting to the web. That could point to a leftward shift in political preferences, which is something that is consistent with Gallup findings, as well as Democrats' performance in recent elections.

Michigan's arguments didn't assuage its critics, however.

Cummings, a former Biden White House economist, contends that the sentiment index needs a methodological fix to adjust for the shift online, which he thinks would push the index higher. Cummings, currently chief of staff at the Stanford Institute for Economic Policy Research, also thinks that increasingly partisan politics are tainting index readings. While Republican sentiment used to fluctuate more than Democrat sentiment, depending on who was in the White House, Democrats now appear to boo just as loudly when they aren't in charge. *Note*

Wertheimer doesn't believe changing political preferences are enough to explain the survey's lean to the left. "The survey has way too many Democrats," he said.

Even with adjustments, however, sentiment would still likely be soft. The Michigan index is weaker than other sentiment trackers, but those measures are also quite downbeat.

The Conference Board's consumer confidence index is one of the most optimistic gauges versus its past history, yet it shows that people are nearly as negative as they were when Covid was surging. Consumer surveys by the New York Fed and Gallup also show people are in a foul mood.

"No matter what kind of methodological tweaks you do, you're not going to reverse the result that sentiment's down," said Cummings.

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