



HARVARD
UNIVERSITY

Misery Amidst Splendor:

Why Are Americans So Negative about
the Economy and What It Means

Jason Furman

Homer Jones Memorial Lecture • Federal Reserve Bank of St. Louis • St. Louis

July 15, 2026

OUTLINE

1. Splendor
2. Misery
3. Economic Explanations
4. What People Say
5. Political Explanations
6. Does It Matter?

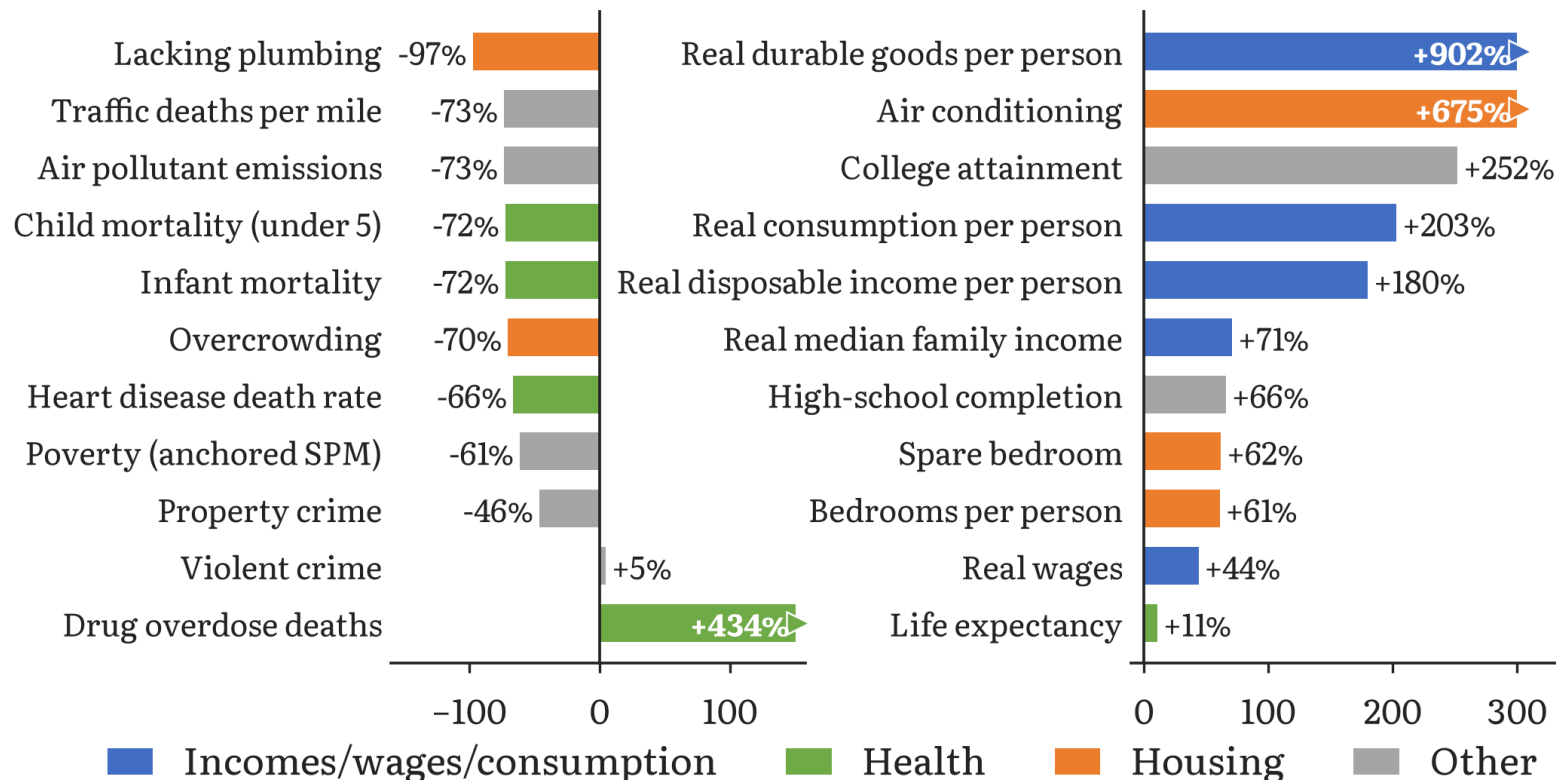
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Americans have never been better off

Changes Since 1970

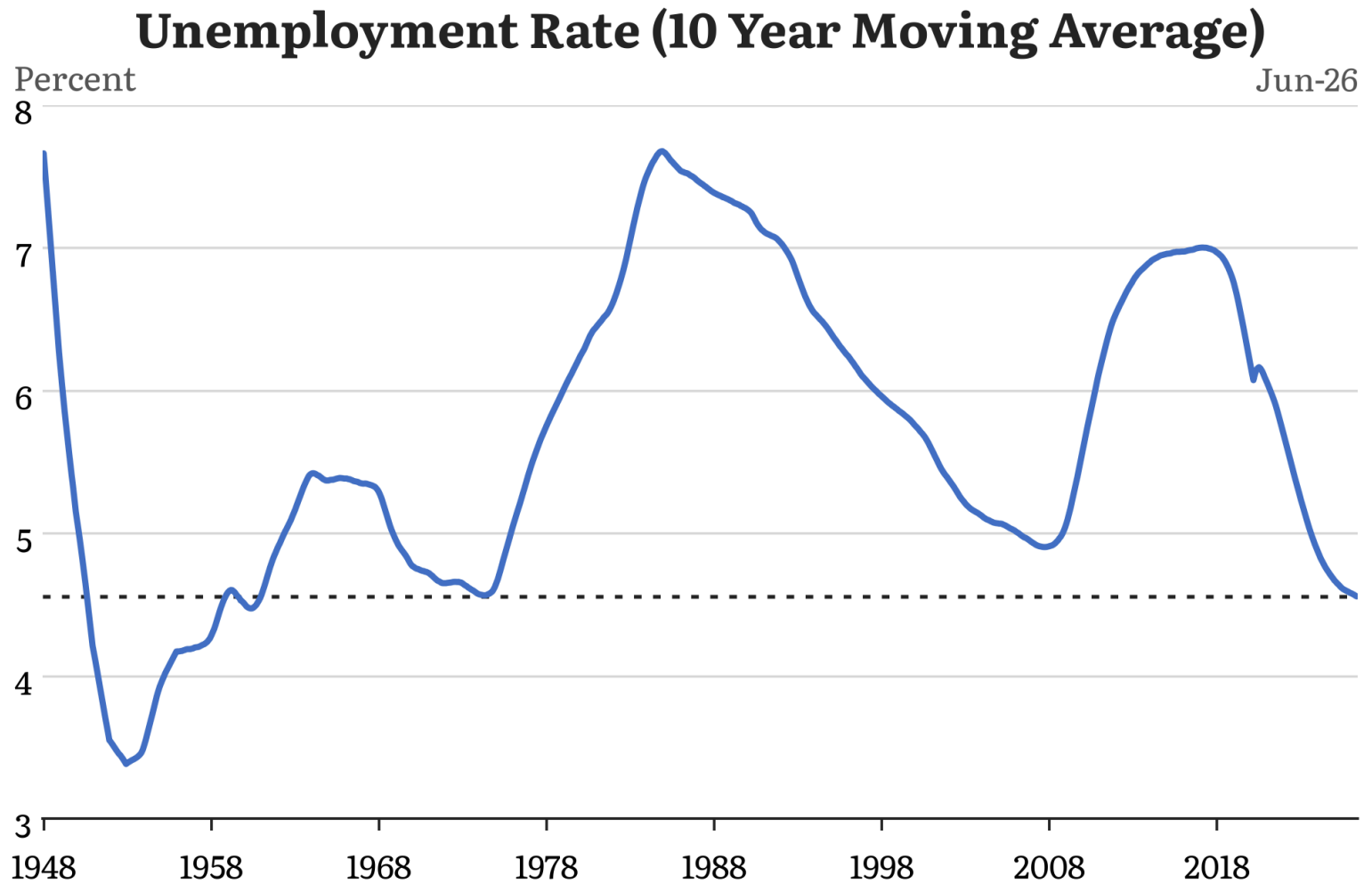
Things we want less of Things we want more of



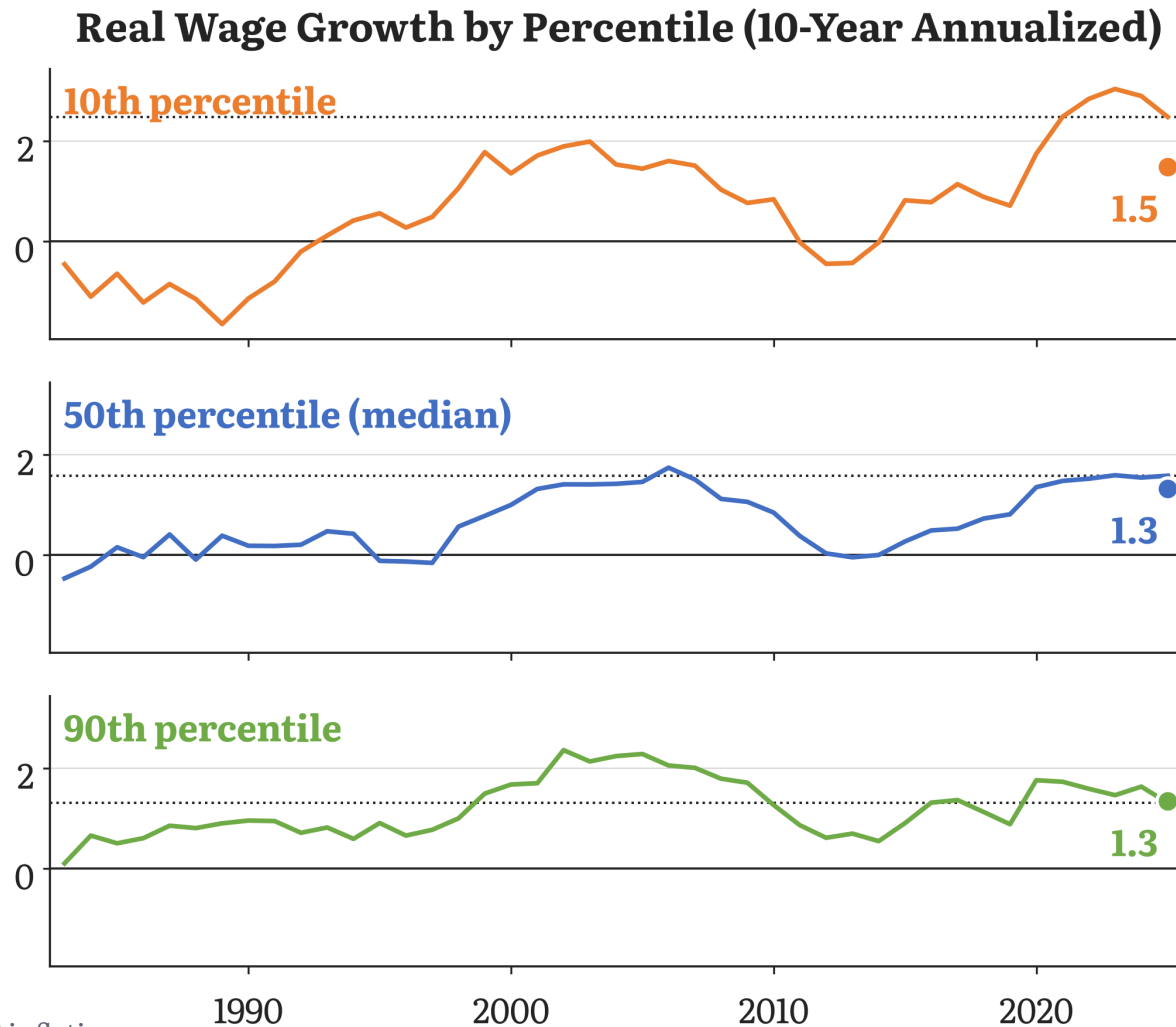
Note: Drug overdose deaths is the increase since 1999; real wages are for production and nonsupervisory workers, adjusted for PCE inflation.

Source: BEA, BLS, Census, CDC/NCHS, FBI, NHTSA, EPA, World Bank, FRED; author's calculations.

Lowest unemployment rate since the 1960s



Real wage growth has been strong



Note: Deflated by PCE inflation.

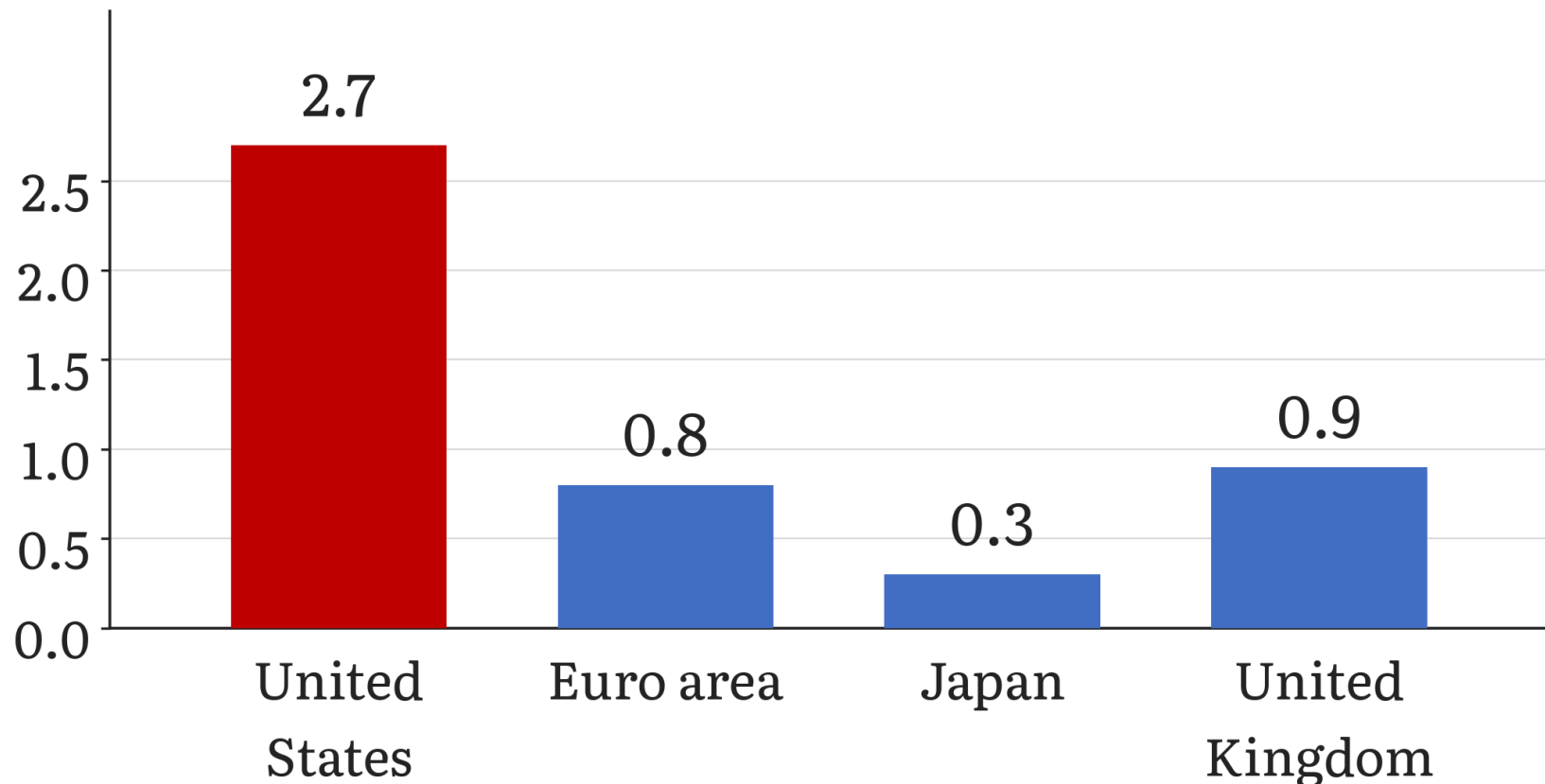
Source: Current Population Survey (author's tabulations); Bureau of Economic Analysis; FRED; author's calculations.

U.S. outperforming peers

Real GDP Growth

Percent change from four quarters earlier

2026 Q1



Some elaborations and nuances

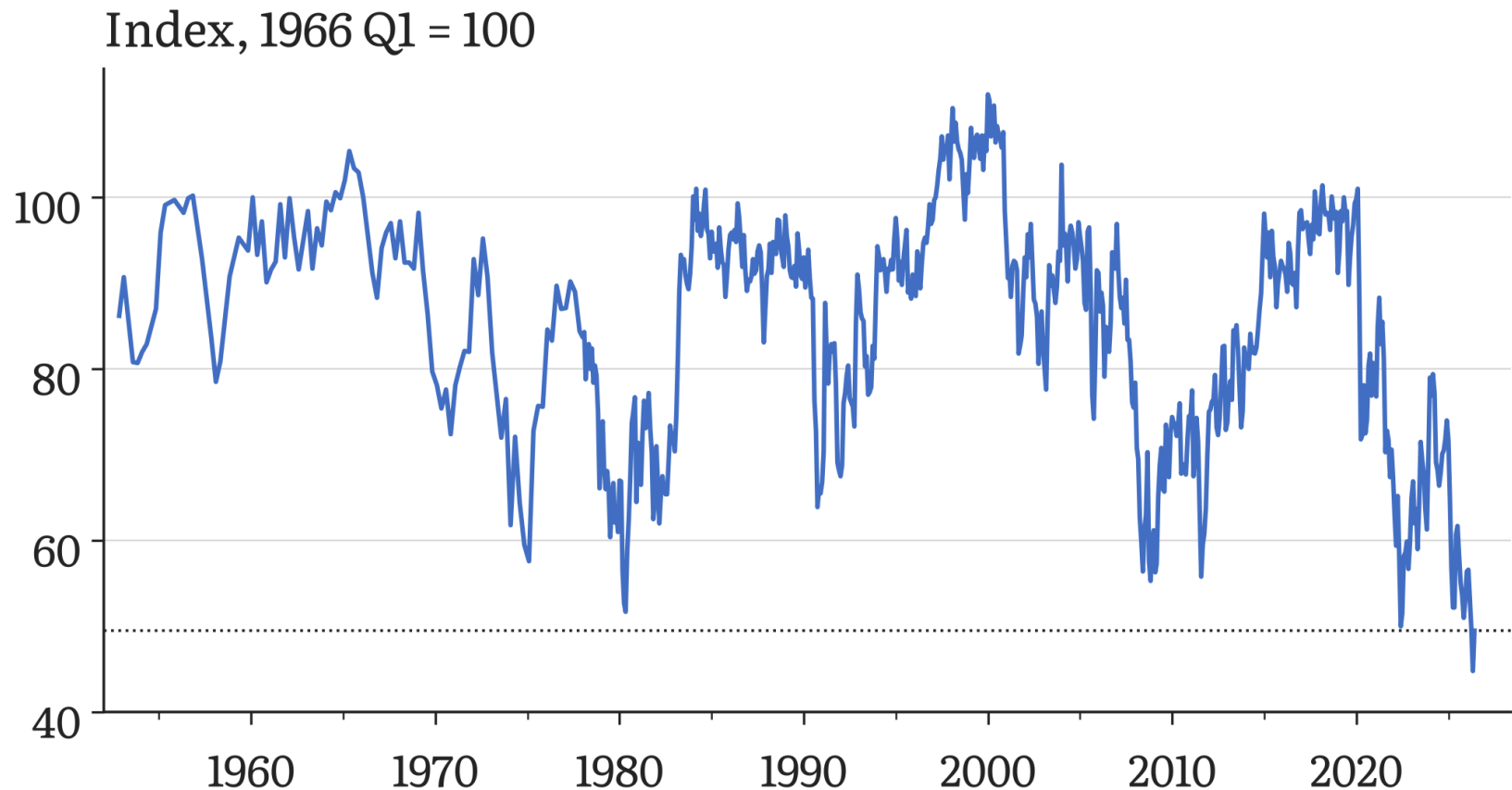
- Although people perceive everything as increasingly unaffordable, they are generally purchasing more and better of most things
- GDP and economic measures are not everything—but things not measured by GDP are generally improving rapidly too, in some cases more rapidly
- Most of the improvements are generally monotonic, so they have improved in more recent periods too
- Inequality has risen since 1970, so gains have been even larger for some groups
- Inflation is too high

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Recent consumer sentiment was the lowest ever

University of Michigan Consumer Sentiment, Since 1952

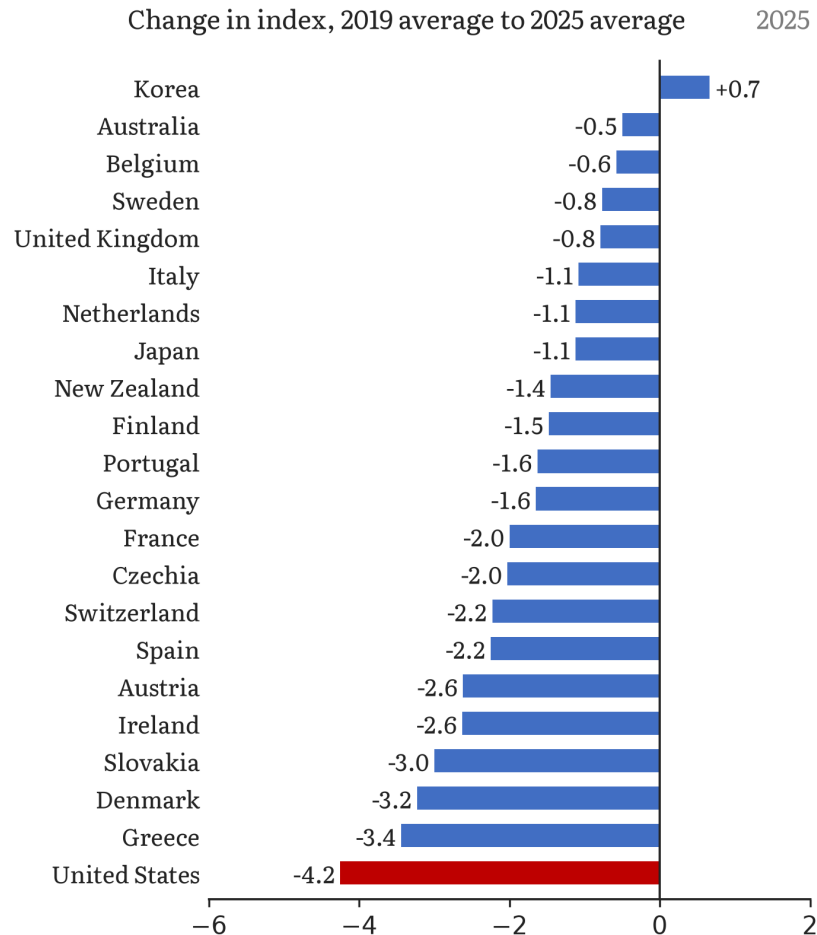


Broad-based declines by age, education and income groups

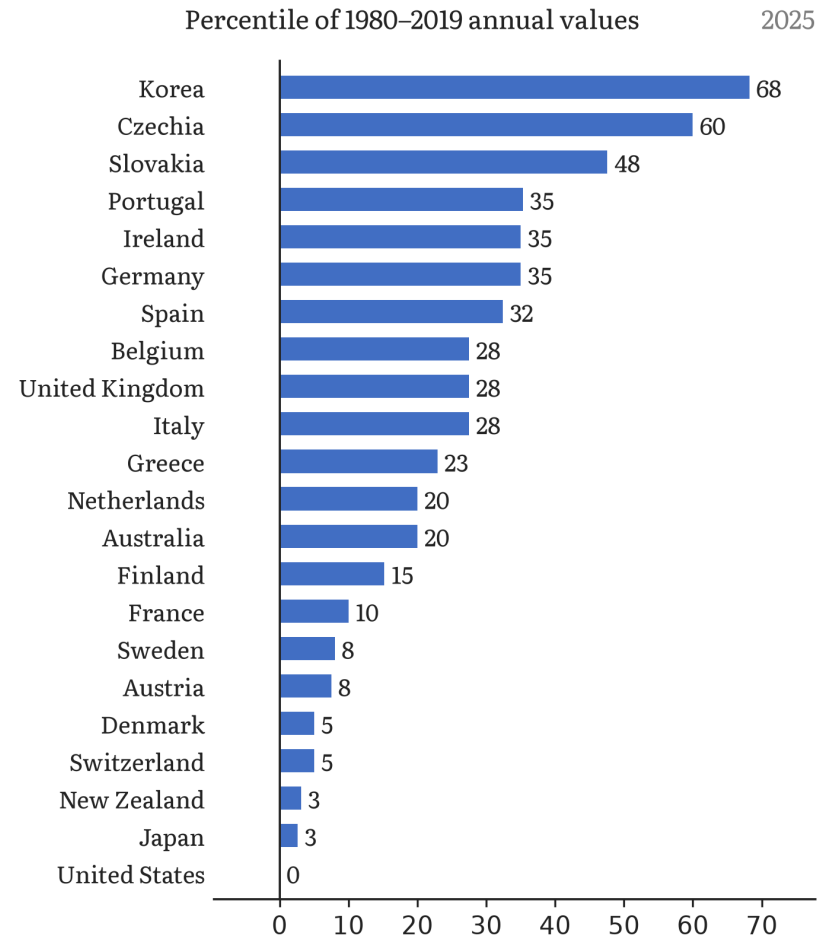


Americans much more dour than peer countries

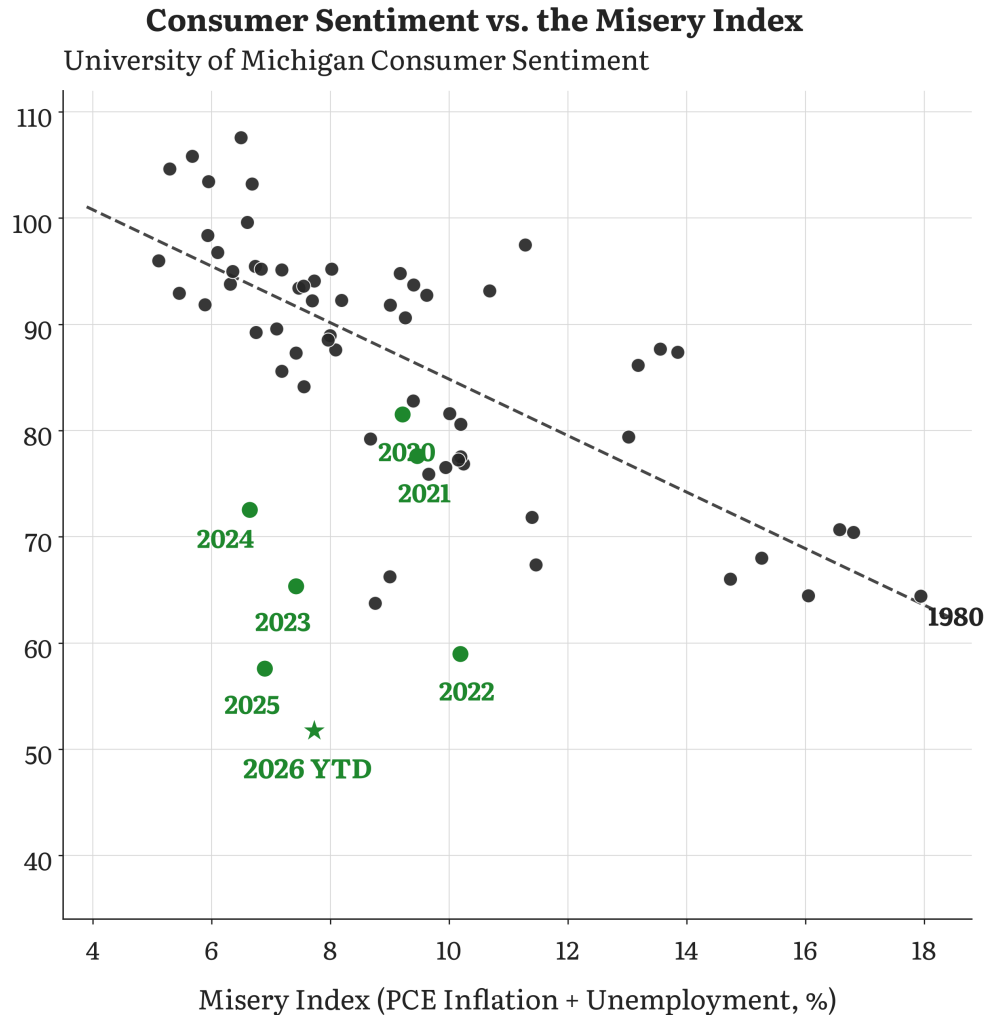
Change in Consumer Confidence, 2019–2025



2025 Consumer Confidence vs. Its History

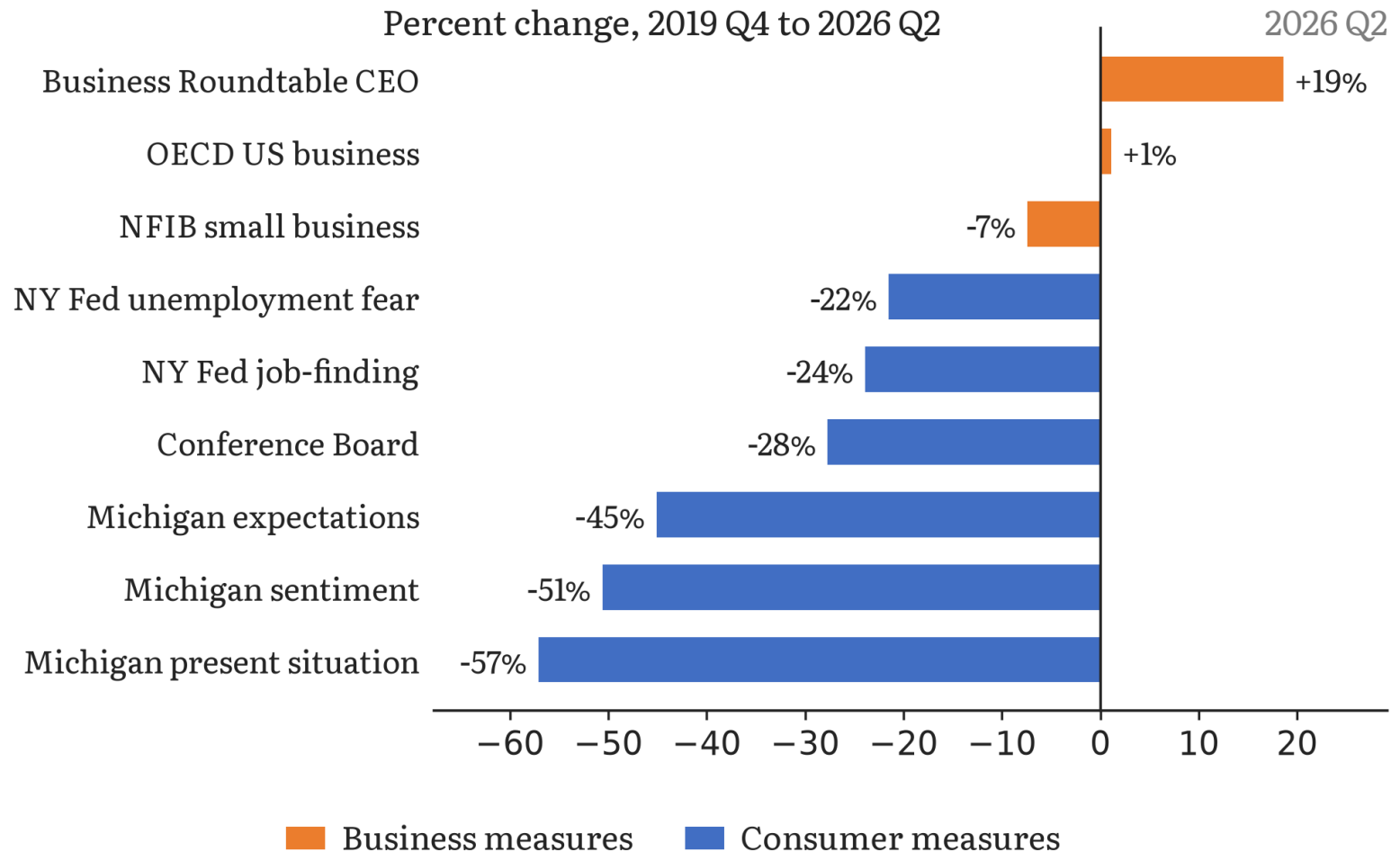


Confidence much more negative than the “Misery Index” would suggest



Other consumer measures negative too, businesses more positive

Change in Confidence Measures Since 2019



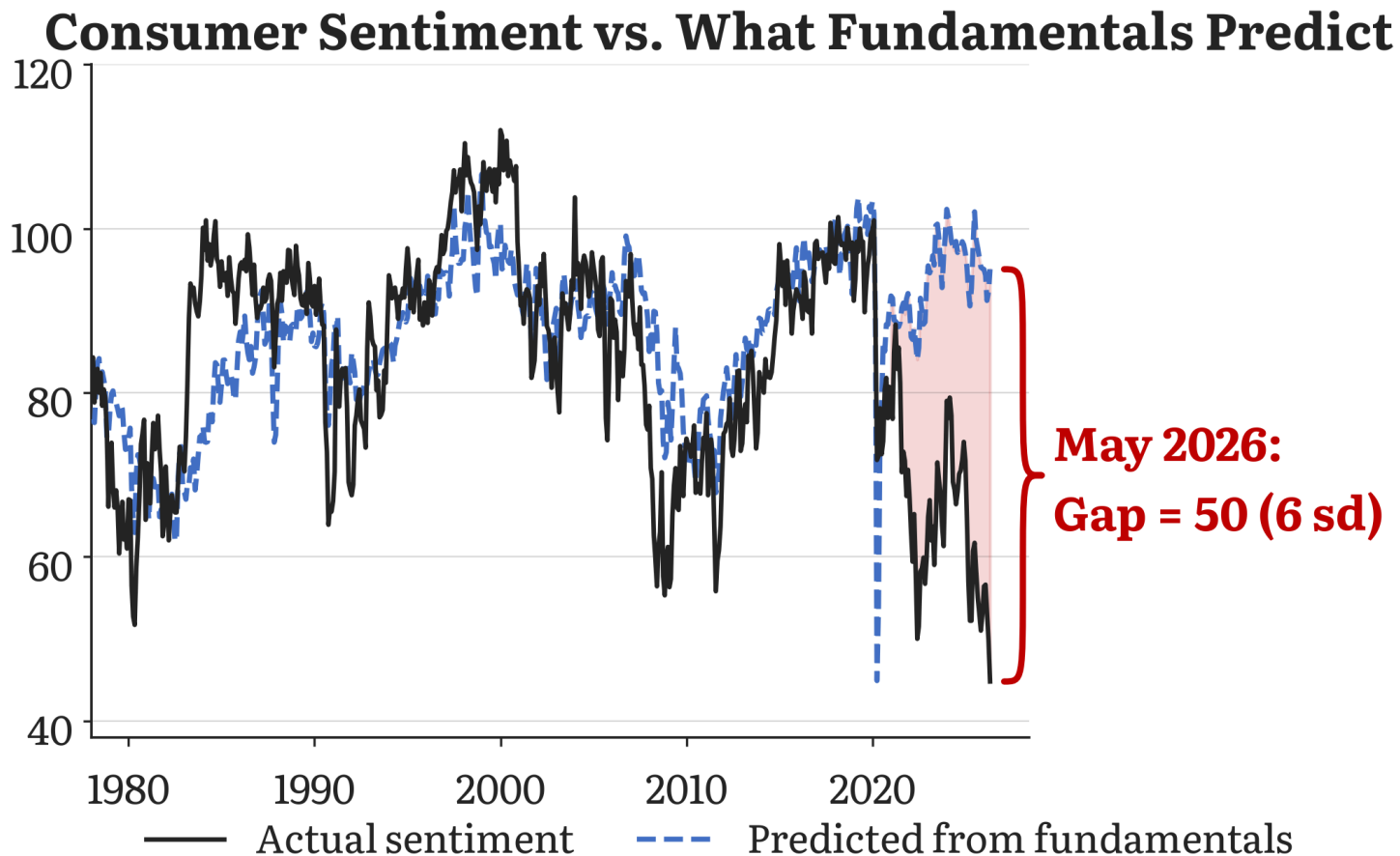
Methodological asides

- Methodological changes have made the University of Michigan's sentiment measure overly negative since 2024—including a shift from telephone to online surveys (Cumplings and Tedeschi 2024) and an over-representation of Democrats (Silver 2026).
- But sentiment was already extremely negative in 2023, when these were not a factor (and in fact could have artificially inflated sentiment).
- Other measures of consumer feelings are also quite negative, though not nearly as negative—note the Conference Board's Consumer Confidence survey emphasizes employment while Michigan's Consumer Sentiment survey emphasizes prices.

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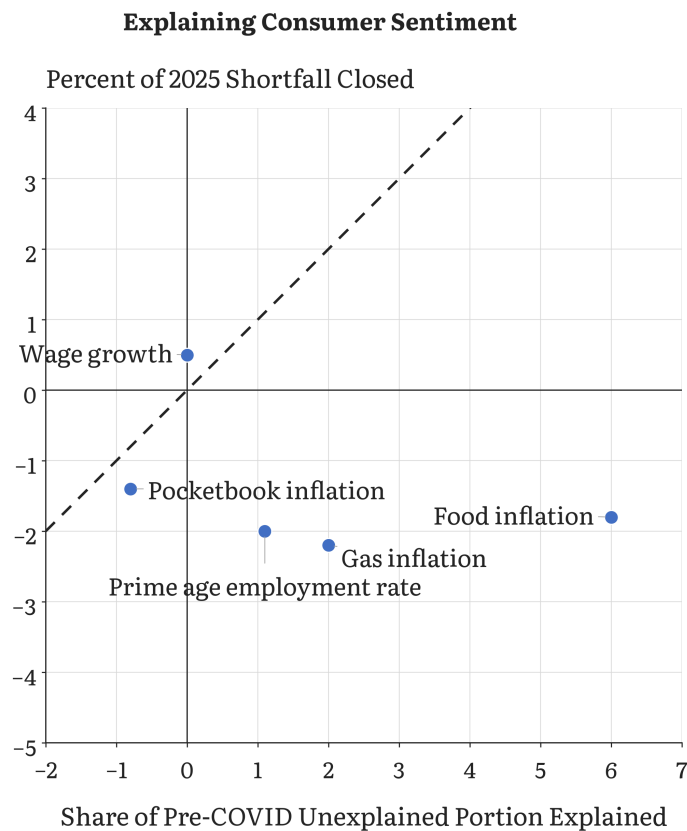
Sentiment is way below what is predicted by historical relationships



Note: Sentiment regressed on the unemployment rate, year-over-year PCE inflation, and the 3-month S&P 500 return, OLS over 1978–2019. Coefficients: unemployment -4.4 , inflation -1.8 , stock return $+0.5$ (per point); adjusted $R^2 = 0.54$. Shaded area is the shortfall of actual sentiment below the prediction.

Source: University of Michigan Surveys of Consumers; FRED; author's calculations.

Other price and wage measures don't help explain the gap



Where Did Each Variable Sit in Its Own History

Percentile relative to
1978-2025

Q4-2025 value

	Q4-2025 value	Percentile relative to 1978-2025
Food inflation	3.0	55
Gas inflation	-1.4	27
Wage growth	4.0	45
Pocketbook inflation	2.8	50
Prime age employment rate	80.7	8

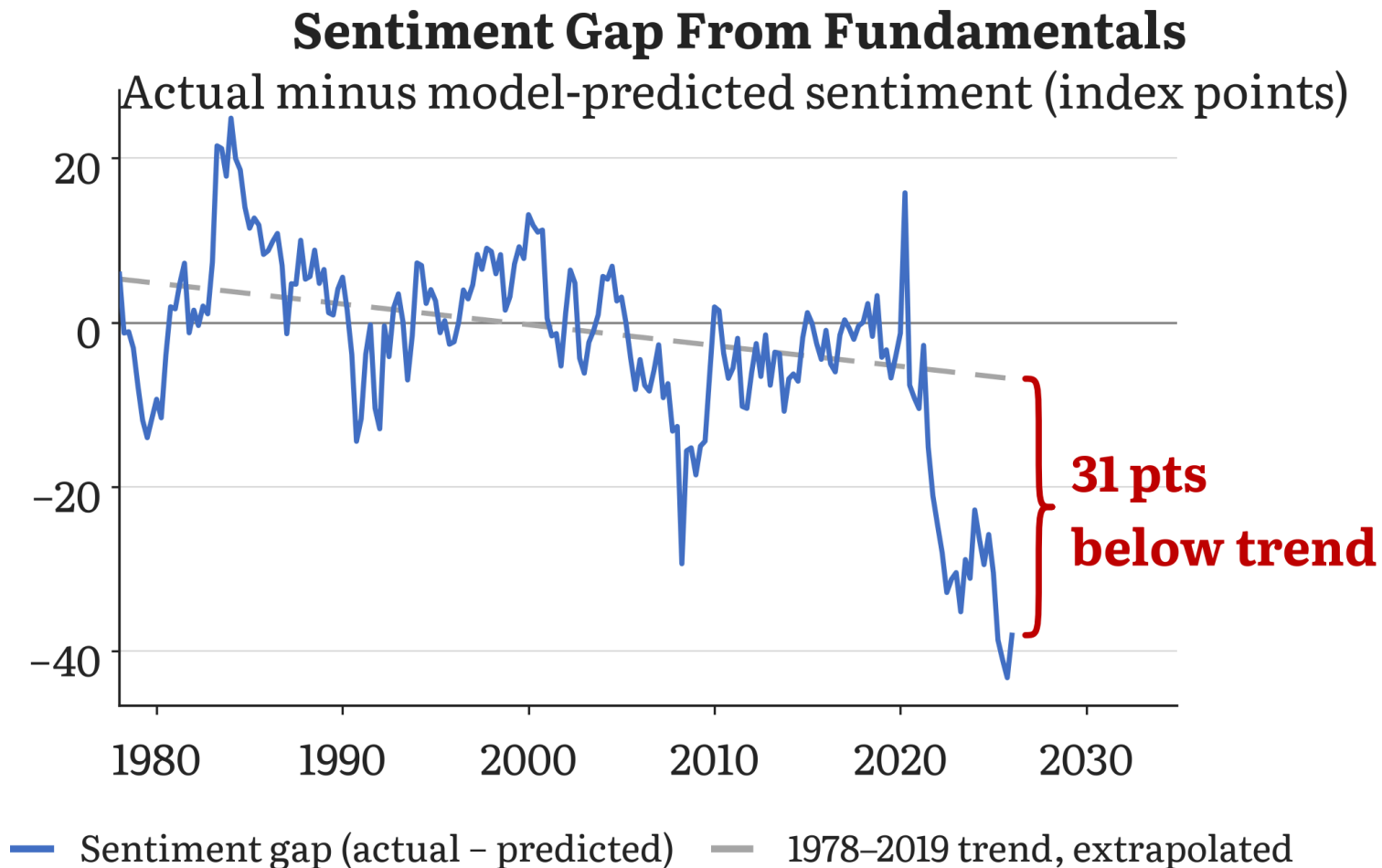
Tempting explanations but...

	Baseline model		Detrended model	
	% of History	% of Shortfall	% of History	% of Shortfall
Gas Price Level	27%	20%	0%	-2%
Inequality (Gini)	24%	20%	0%	2%
Atmospheric Carbon	24%	33%	5%	-7%
Number of James Bond films	29%	26%	0%	-3%
Population of Iceland	28%	41%	-1%	4%
News Sentiment (SF Fed)	29%	13%	26%	7%

Note: The role of news sentiment has been emphasized by Cummings, Harris, and Mahoney (2024).

Source: NOAA; World Bank; San Francisco Fed Daily News Sentiment Index (Shapiro, Sudhof, and Wilson); FRED; author's calculations.

People have gotten more negative over time but recent worsening much bigger than trend



Note: The gap is the residual from a 1978–2019 regression of Michigan sentiment on the unemployment rate, year-over-year PCE inflation, and the 3-month S&P 500 return; the dashed line is that residual's 1978–2019 trend, extrapolated.

Source: University of Michigan, Bureau of Labor Statistics, Bureau of Economic Analysis, S&P, FRED; author's calculations.

The extent and limits of our knowledge

- A simple model with just the unemployment rate, inflation rate and stock prices does a good job of explaining sentiment prior to COVID—explaining about half of the movement
- Other variables, combinations of variables or functional forms do little to improve on it in sample, and often make it worse out of sample
- Some of the trending variables may explain the negative trend in sentiment, but it is impossible to disentangle them or tell which matters
- The level of gas prices and inequality are intuitively appealing explanations, but they break down or reverse at a high frequency
 - Gas inflation does not explain confidence
 - Stock price increases (an increase in wealth inequality) are positive for sentiment

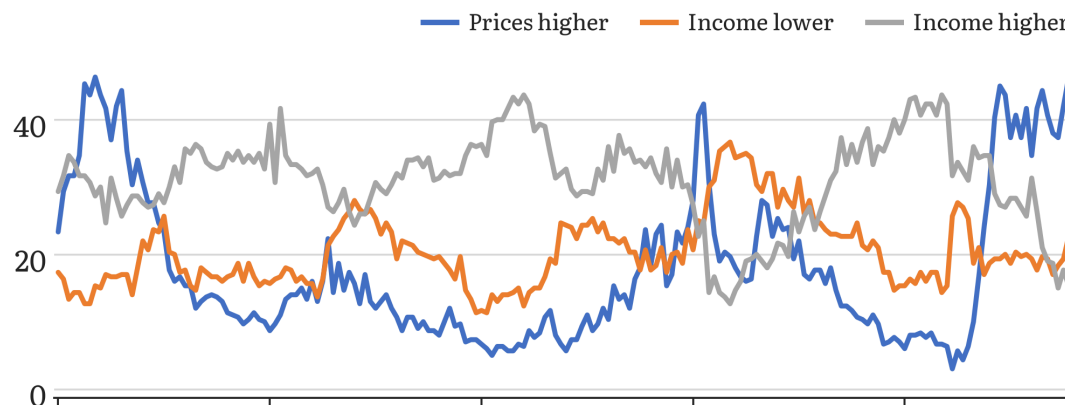
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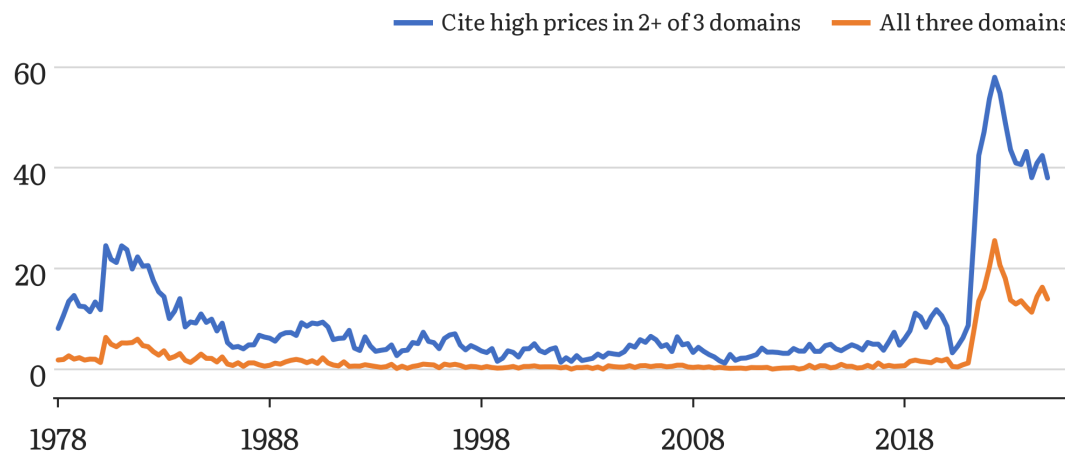
People say they are concerned about prices, not incomes

% of respondents

Personal finances: prices vs. income as the cited reason



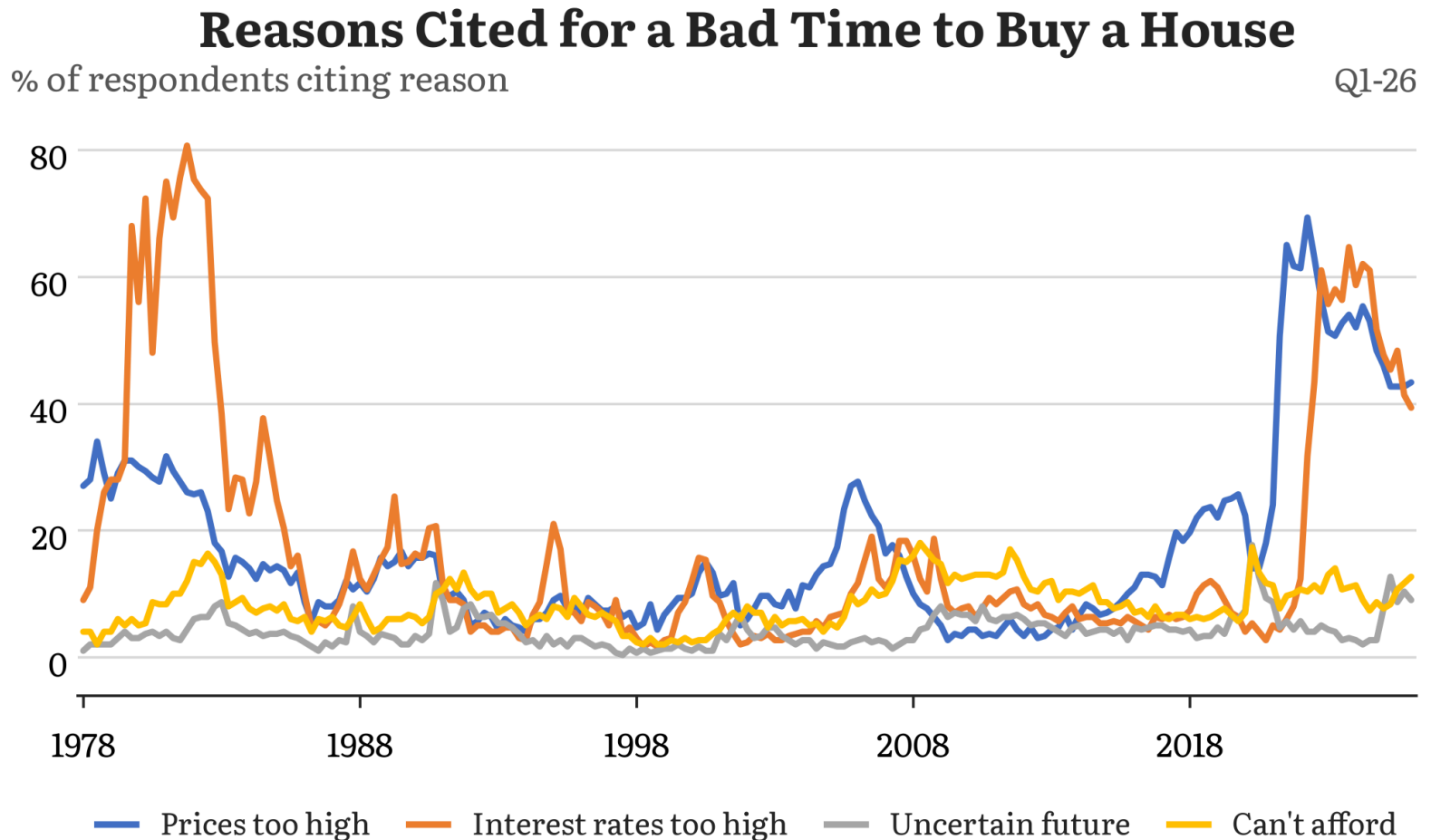
Breadth of the price complaint across the three big-ticket domains



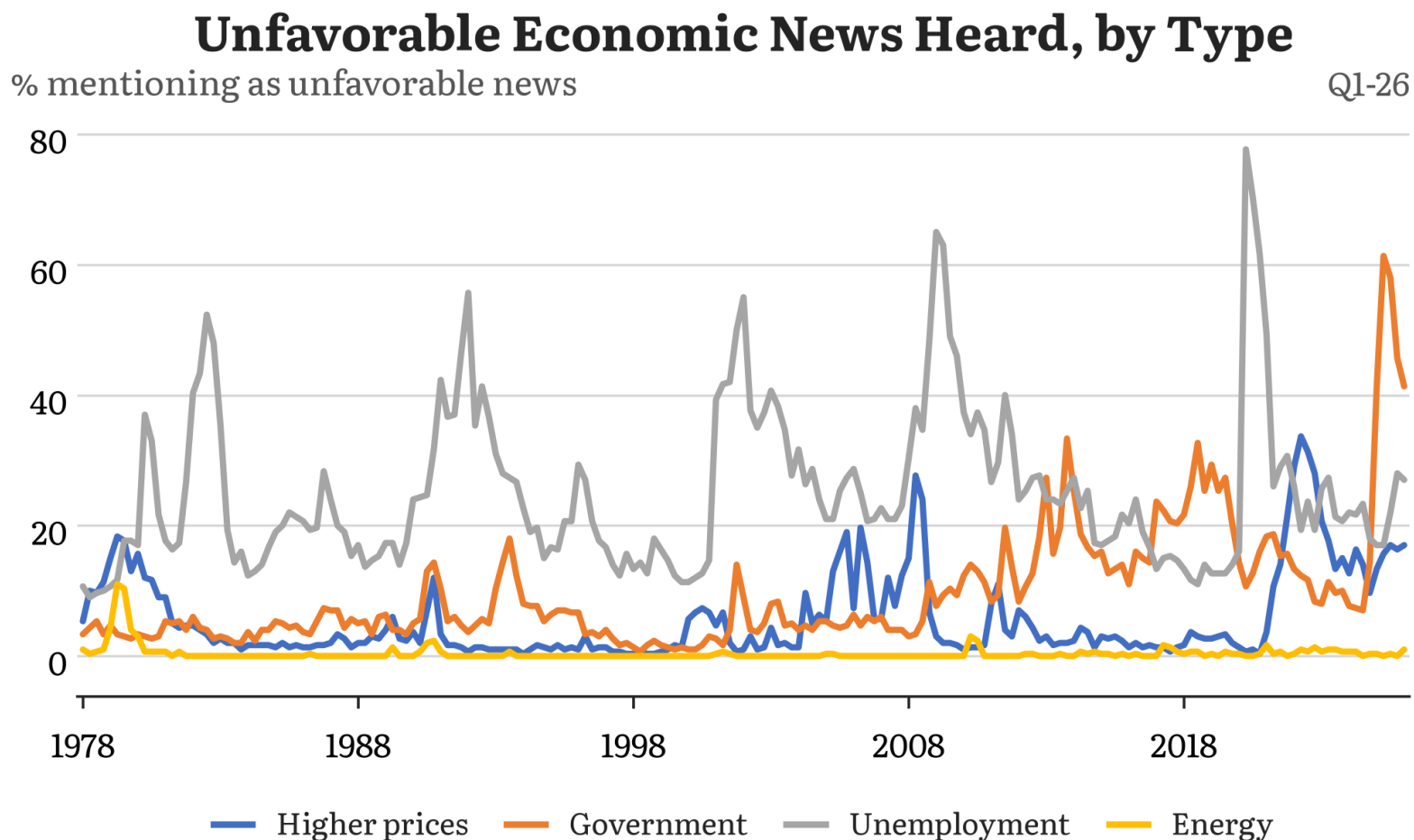
Note: The “big three” are houses, vehicles, and durable goods.

Source: University of Michigan Surveys of Consumers.

They also don't like high interest rates



Also hearing record amounts of bad news about government



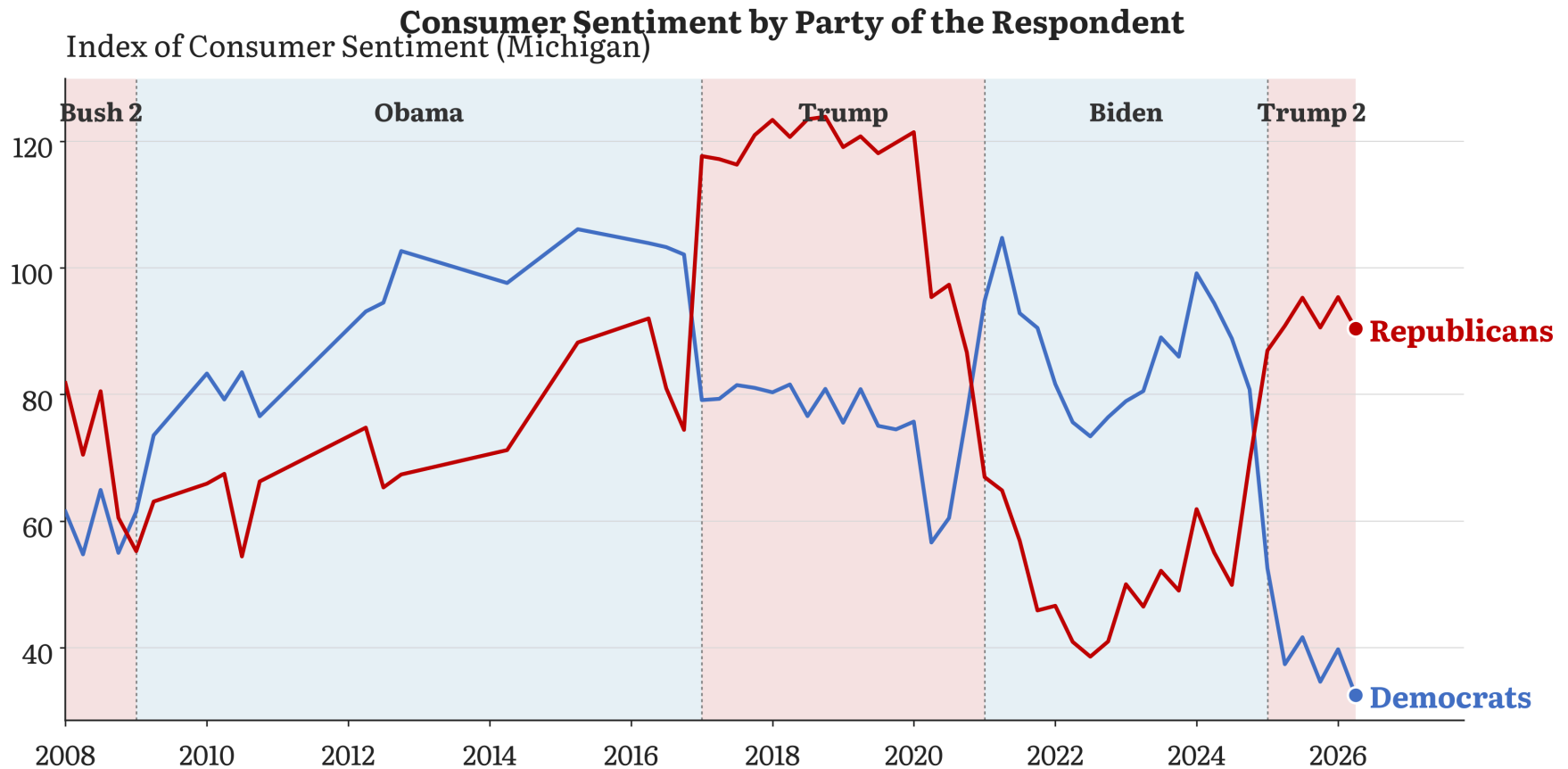
Research has found that people think about wages and prices asymmetrically

- Shiller (1997) found people see inflation as an external force that erodes their living standard—they credit their own wage gains to merit and hard work, but blame rising prices on the economy, so raises feel “stolen”
- Stantcheva (2024) confirms it in new surveys: about 80 percent think prices rise faster than wages, most do not believe raises offset inflation, and they see it as widening inequality and lowering their standard of living
- The asymmetry—wages felt as earned, prices as unfair—means that even when real wages rise, faster inflation still registers as a personal loss.

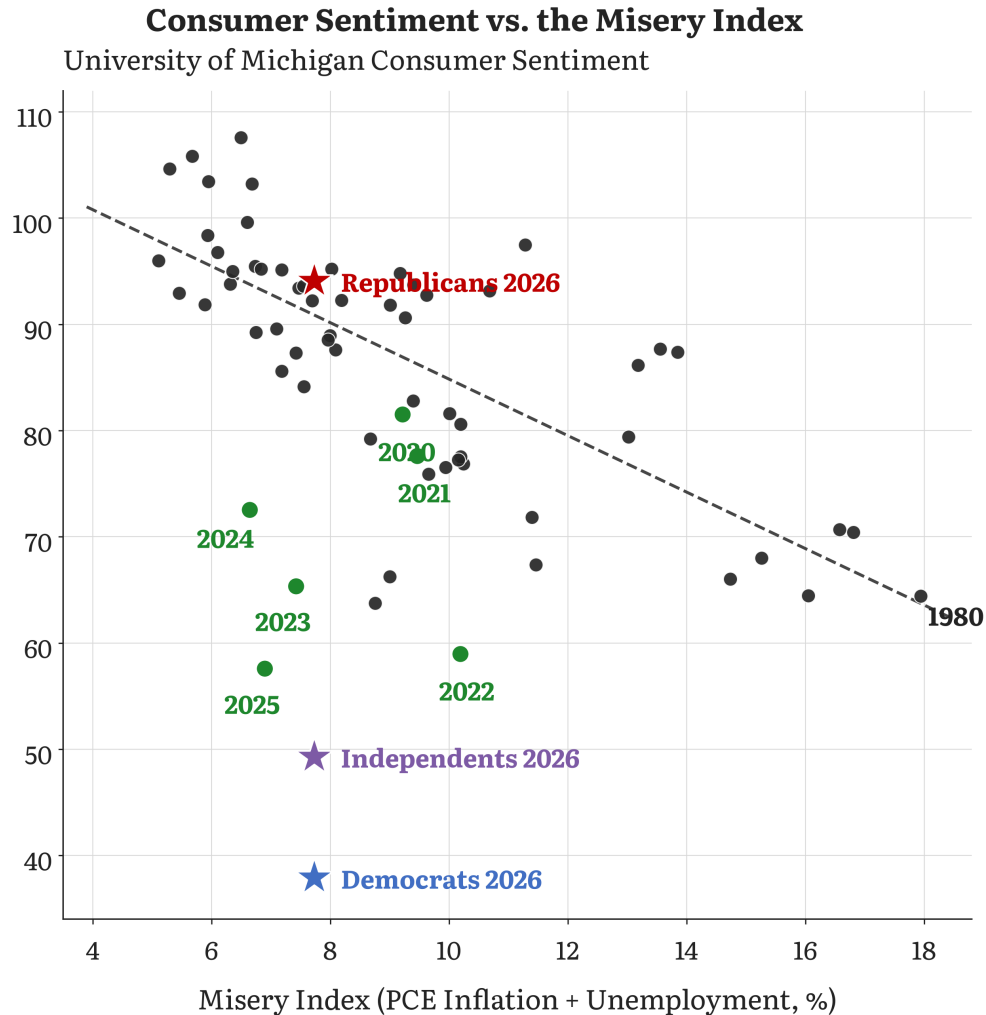
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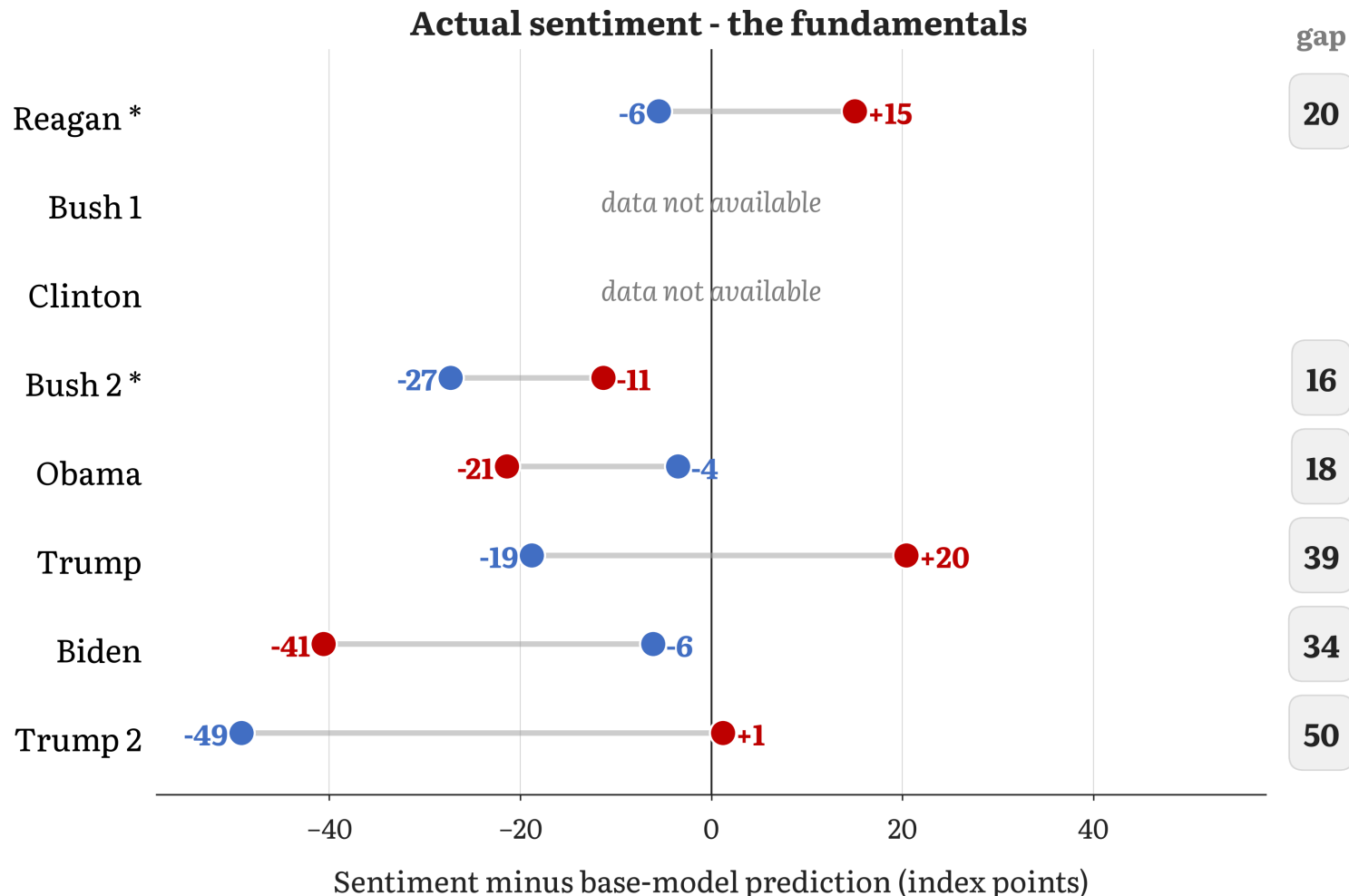
The partisan reversal



The relationship between the misery index and sentiment



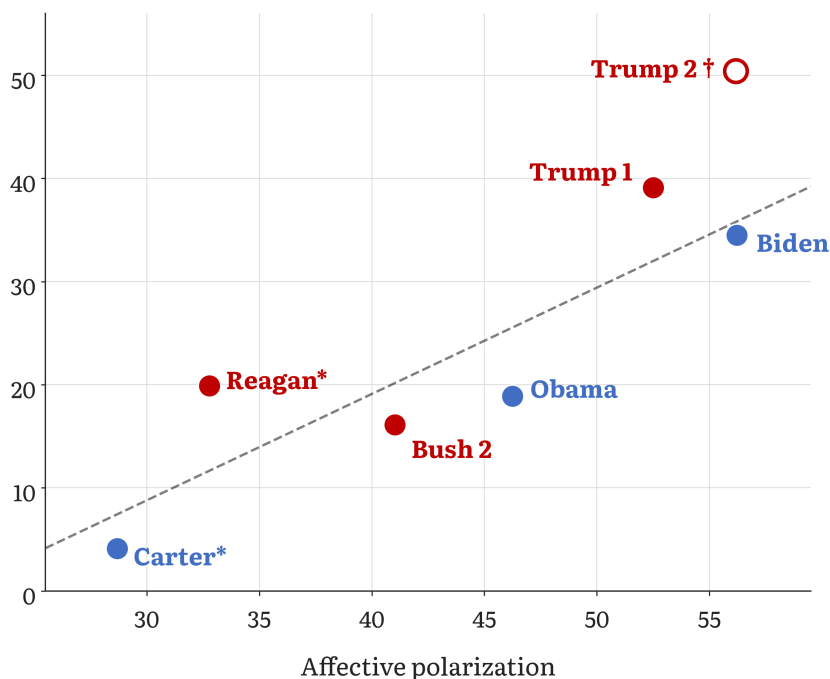
Partisan perspectives by administration



Unexplained negative sentiment associated with affective polarization

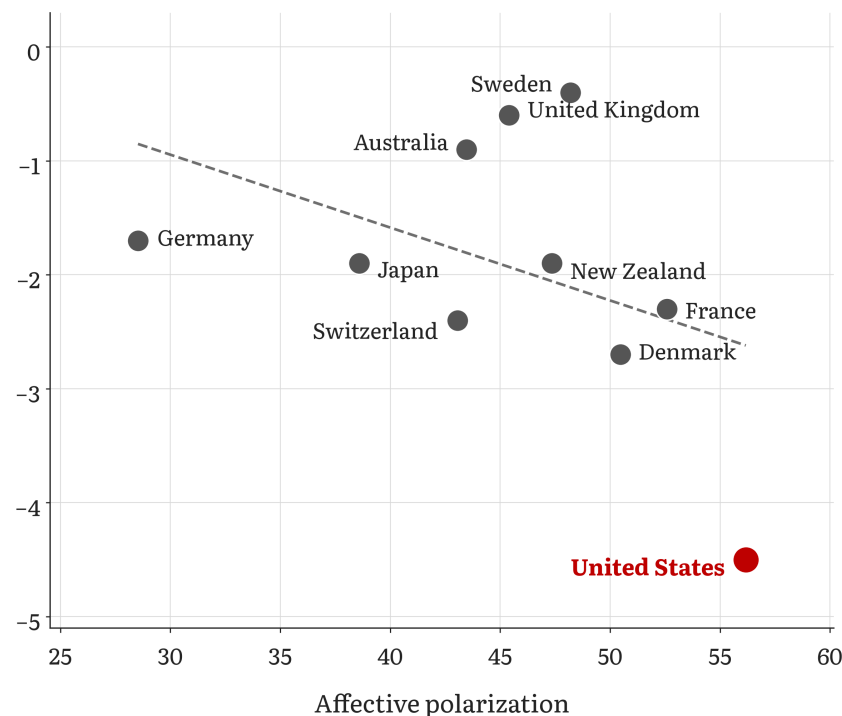
U.S. Polarization and Partisan Sentiment Gap

Republican – Democrat sentiment gap,
net of economic fundamentals (index points)



Global Polarization and the Sentiment Gap

Consumer confidence net of fundamentals (index points)

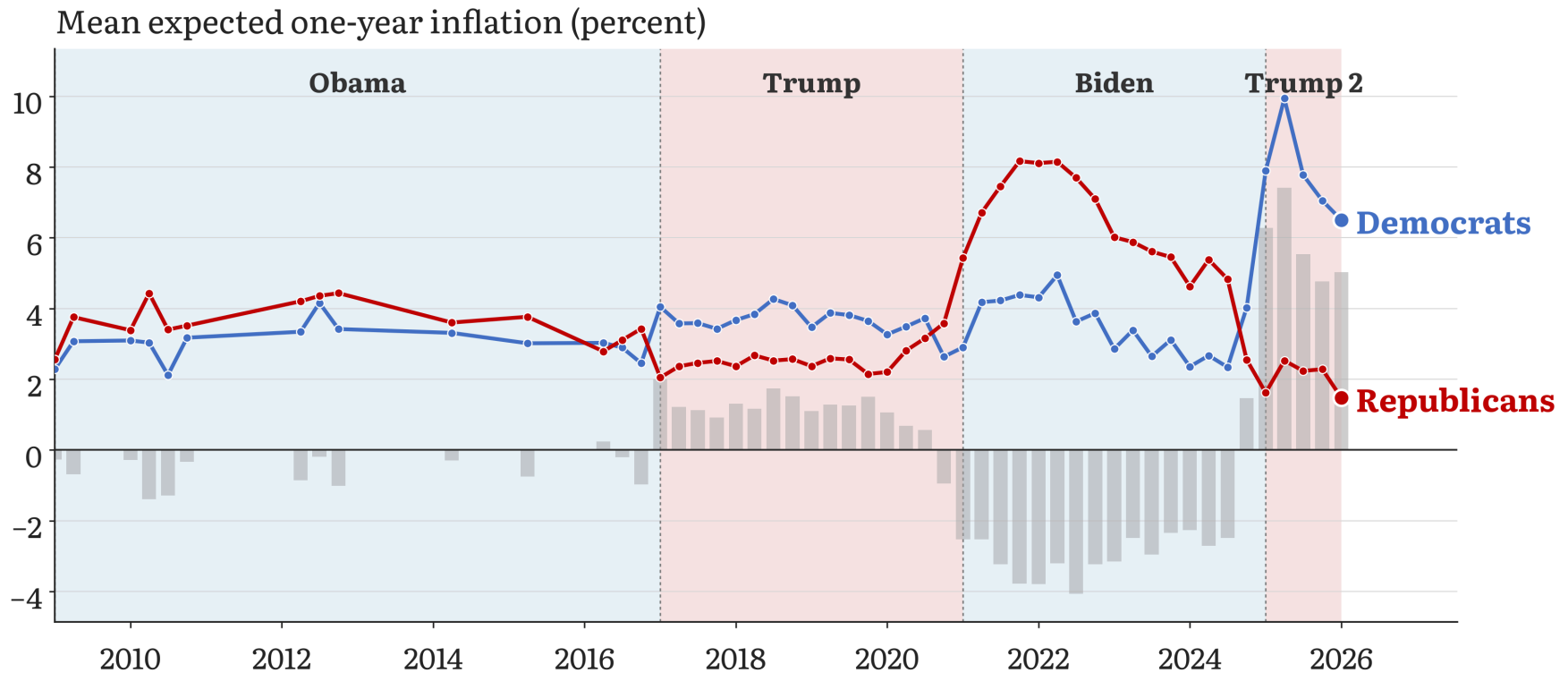


Note: Cross-country affective-polarization trends are from Boxell, Gentzkow, and Shapiro (2024), which we extend to the Biden years using ANES 2024.

Source: University of Michigan; OECD; Boxell, Gentzkow, and Shapiro (2024) and ANES 2024; national statistical offices; Bureau of Labor Statistics; Bureau of Economic Analysis; FRED; author's calculations.

Inflation expectations also highly partisan

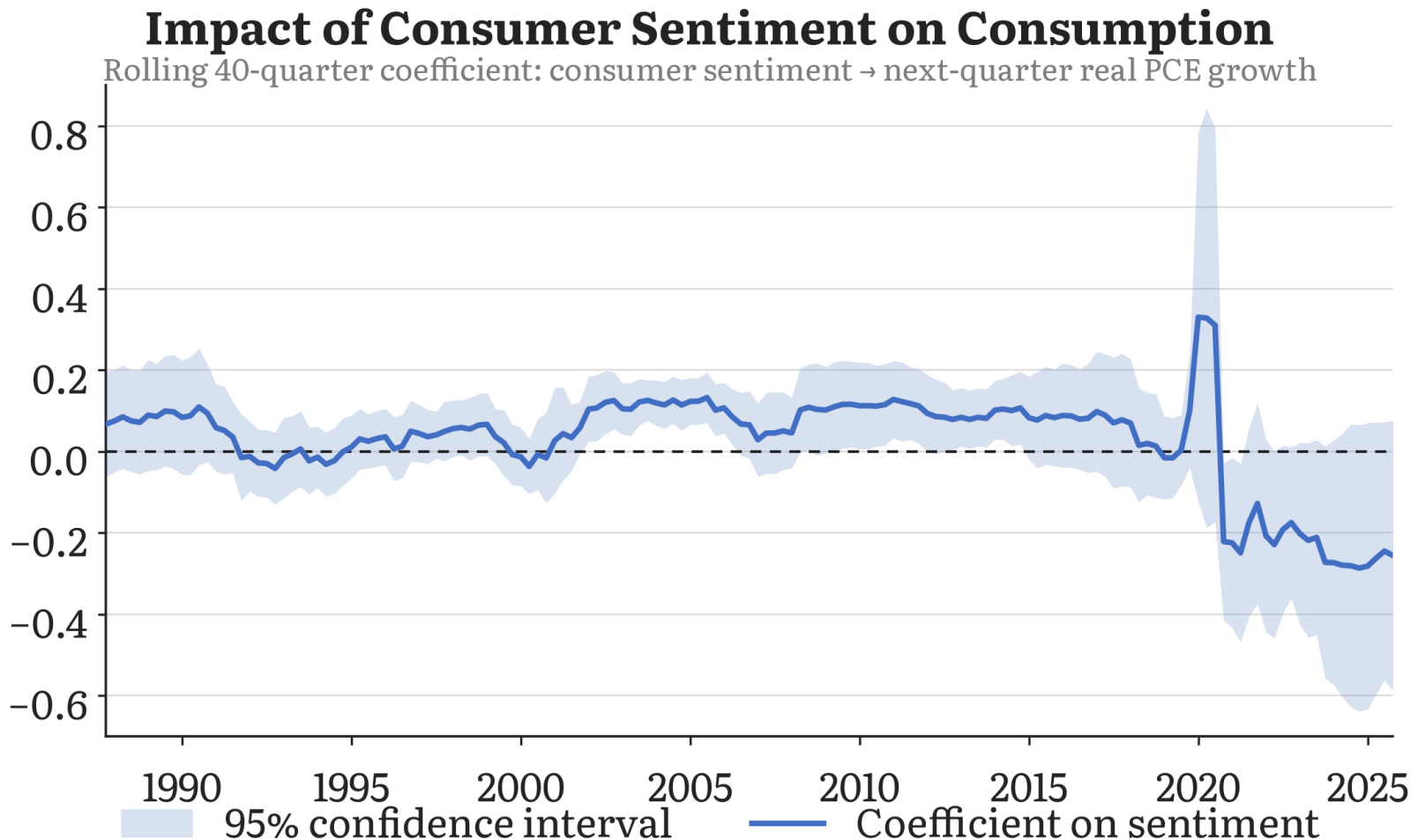
Partisan Inflation Expectations



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Negative sentiment does not appear to have weighed on consumer spending

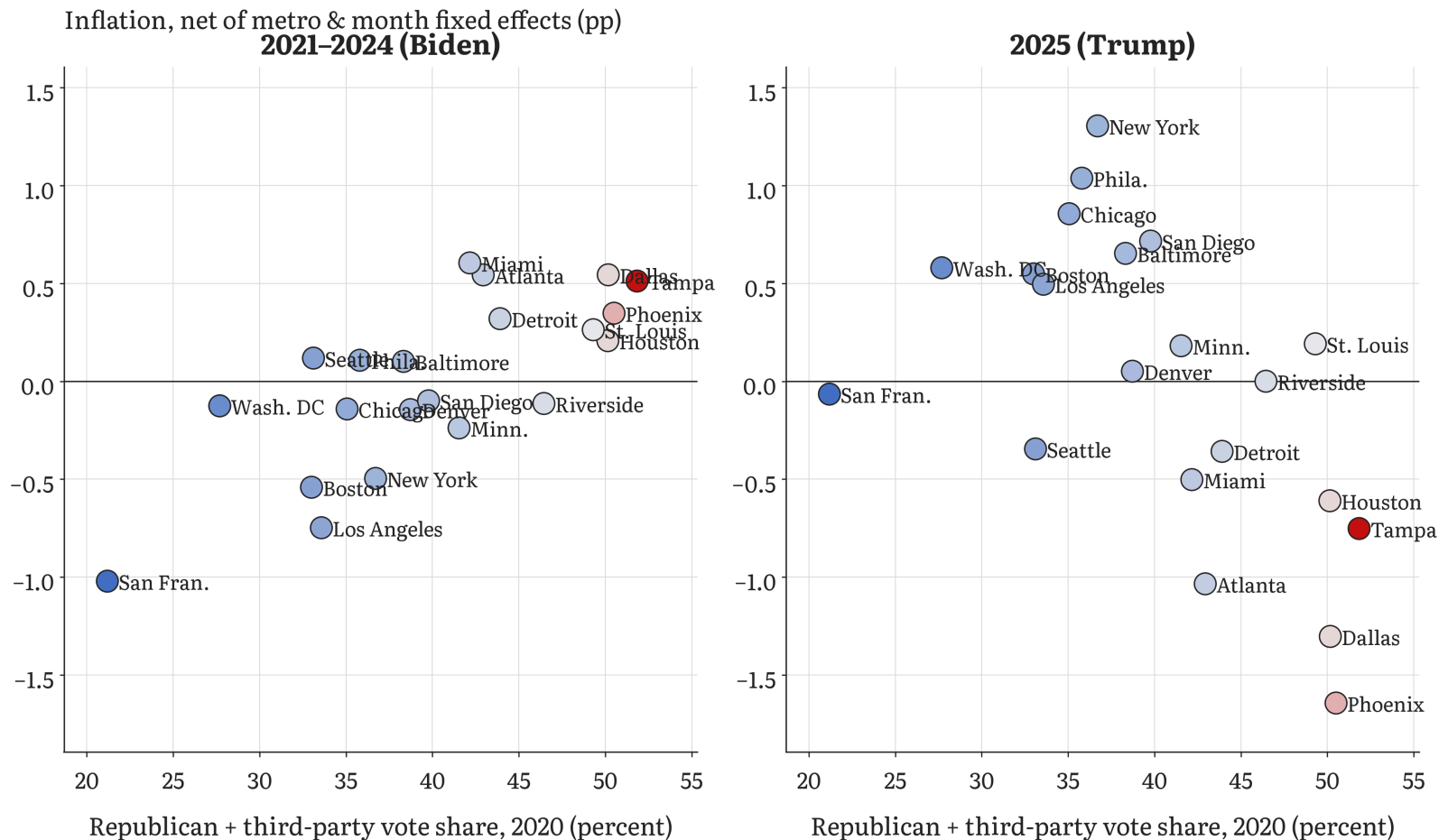


Note: Mian, Sufi, and Khoshkhrou (2023) similarly find that partisan shifts in economic expectations do not translate into differences in actual spending.

Source: University of Michigan, Bureau of Economic Analysis, Federal Reserve, S&P, FRED; author's calculations.

Some evidence partisan expectations of higher inflation has been self-fulfilling

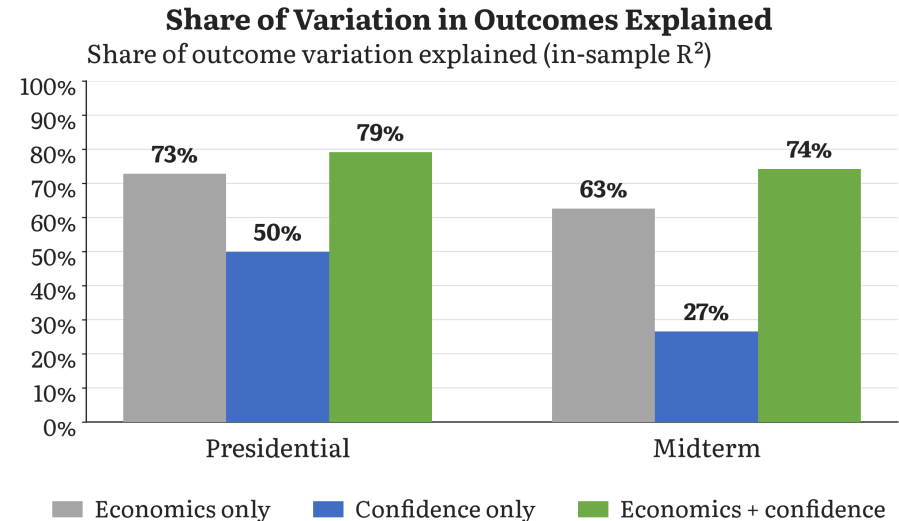
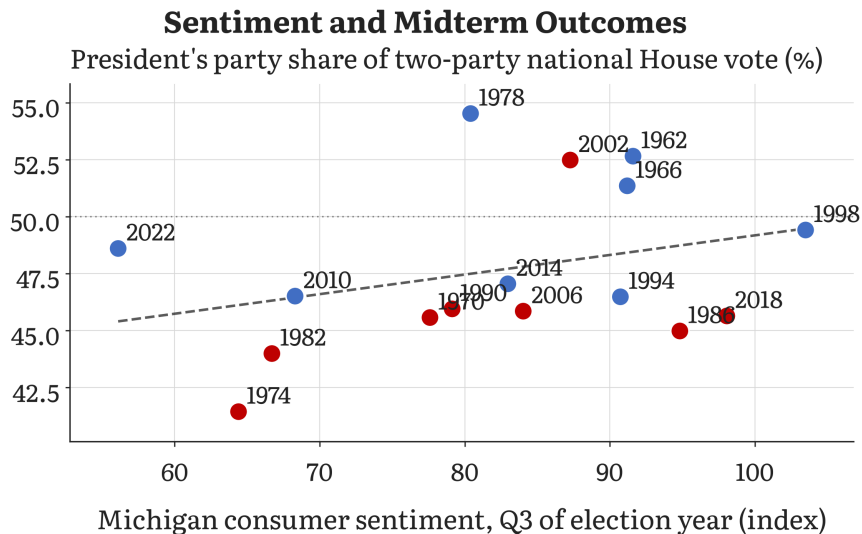
Metro Inflation and the Partisan Tilt



Note: Based on Binder, Kamdar, and Ryngaert (2024), extending their method to recent data.

Source: BLS metro CPI; county presidential returns; FRED; author's calculations.

Sentiment does matter for elections— although doesn't add much to fundamentals



Note: Bars are in-sample R^2 from OLS regressions of the incumbent party's vote share on each set of predictors—"economics" is a Fair-like model (GDP growth, inflation, and incumbency), "confidence" is the level and year-over-year change in Q3 sentiment.

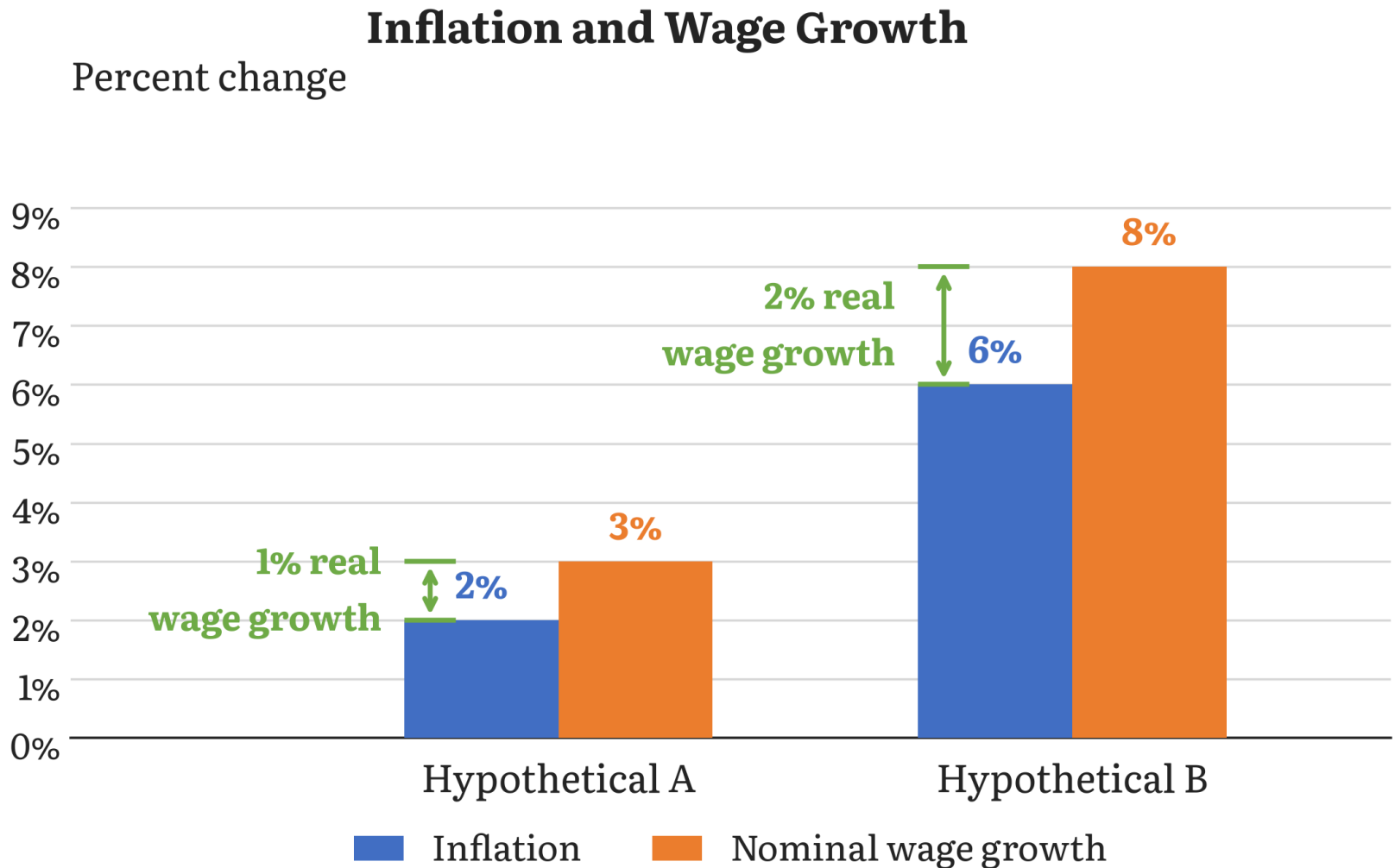
Source: University of Michigan Surveys of Consumers; electionlib; FRED. Q3 sentiment reading; author's calculations.

The enormous gap between economists and humans on the price level

Share who agree the government should reverse a one-time 20% price rise



Which economy should policymakers prefer?



What should policymakers do when people have contradictory views?

- People don't like inflation, but also don't like the Fed's cure for it (higher interest rates)
- People want higher wage growth but not higher price growth (some policies can help this, but arguably the Fed's tools cannot)
- Should policymakers maximize subjectively perceived measures like sentiment, or objective variables like real wages and employment?
- At a minimum, this reinforces the importance of preventing inflation surges

Takeaways

- We are getting more for our money than ever before—but to people it feels like they are paying a lot of money
- Sentiment is at shockingly low levels relative to its historical relationship to unemployment and inflation
- The price level explains part of that—but the price level is also higher in other rich countries, and they are not nearly as negative as Americans
- The rise of affective polarization is associated with increased polarization of sentiment and inflation expectations
- So far no evidence this is affecting consumption—but this could change; there is some evidence it is affecting inflation
- It presents real quandaries for policymakers—possibly the biggest takeaway is the importance of avoiding large increases in inflation

Thank you!

Questions?