

A Pivot Point in American Opinion: The Debt Ceiling Negotiation and its Consequences



PUBLIC OPINION STRATEGIES

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Bottom Line

- As August comes to a close, the debt ceiling negotiation and its aftermath can now be put into an emerging context.
- The debt ceiling negotiation is an extremely significant event that is profoundly and sharply reshaping views of the economy and the federal government. It has led to a scary erosion in confidence in both, at a time when this steep drop in confidence can be least afforded.

Key Points:

- 1.** It is important to recognize how fragile economic perceptions were headed into the final stretch of the debt ceiling negotiation. Along with Hart Research, we have been doing economic tracking roughly every quarter from 2007 through today for CNBC. Workers' perceptions of their likelihood to get a raise, Americans' confidence in the stock market, and homeowners' perceptions of their home value were as weak or weaker in June 2011 than they have been at any point during this four year period.

Key Points:

2. Americans' attitudes about the debt ceiling are not only based on the actual outcome, but are primarily derived from the *manner* in which this issue was debated and resolved. Their views about this process are clear, and are overwhelmingly negative.

Key Points:

- 3.** The perception of how Washington handled the debt ceiling negotiation led to an immediate collapse of confidence in government and all the major players, including President Obama and Republicans in Congress.

Key Points:

4. The collapse of confidence in government has substantially eroded already weak consumer confidence. Today's consumer confidence rating is the fourth lowest since 1952.

Make no mistake: This collapse of economic confidence is *not* an independent event driven only by economic reality. This sharp a drop in consumer confidence is a direct consequence of the lack of confidence in our political system and its leaders.

Key Points:

5. As our firm conducted focus groups over the last two weeks, the change in tone in the wake of the debt ceiling negotiation was striking.

We are entering a new phase of the American political dialogue that has been irrevocably shifted in a way that will prove difficult to predict.

Historically, though, this type of deep voter anger, unease, and economic pessimism leads to unstable and unpredictable political outcomes.



The Collapsing of the “Economic Stool”

Economists discuss the three legs of the economic stool: your income; your investments; and the value of your home.

The following numbers tell us Americans' perceptions of each of these three legs of the economic stool are as weak as they have ever been during these last four difficult years.

- Fewer than three out of ten working Americans expect a wage increase this year. There has been no change in this measure within the margin of error in the last two and a half years.
- A majority of Americans believe it is a "bad time" to invest in the stock market. This is the highest net negative level in four years of tracking for CNBC.
- Home values have dropped roughly 25% in the last five years. For most Americans, the equity in their home is their largest investment. But, alarmingly, a new high of three out of ten Americans who own a home are reporting they believe their homes will *decrease* in value over the next year.



Expect Your Wages to Increase/Decrease in Next Year

Increase

2007

53%

2008

43%

2009

28%

2010

28%

March 2011

27%

June 2011

29%

**Asked among respondents who were employed*



Good/Bad Time to Invest in Stock Market

	<u>Good Time</u>	<u>Bad Time</u>	<u>Net Difference</u>
2007	49%	27%	+22%
2008	38%	52%	-14%
2009	41%	48%	-7%
2010	36%	49%	-13%
March 2011	35%	46%	-11%
June 2011	31%	50%	-19%



Expect Value of Your Home to Increase/Decrease Over Next Year

	<u>Increase</u>	<u>Decrease</u>	<u>Net Difference</u>
2007	41%	12%	+29%
2008	23%	21%	+2%
2009	20%	20%	0%
2010	21%	18%	+3%
March 2011	18%	24%	-6%
June 2011	15%	30%	-15%

**Asked among homeowners*

A nighttime photograph of the United States Capitol building, illuminated by lights. The building's iconic dome and neoclassical architecture are visible against a dark sky. The image is used as a background for a title slide.

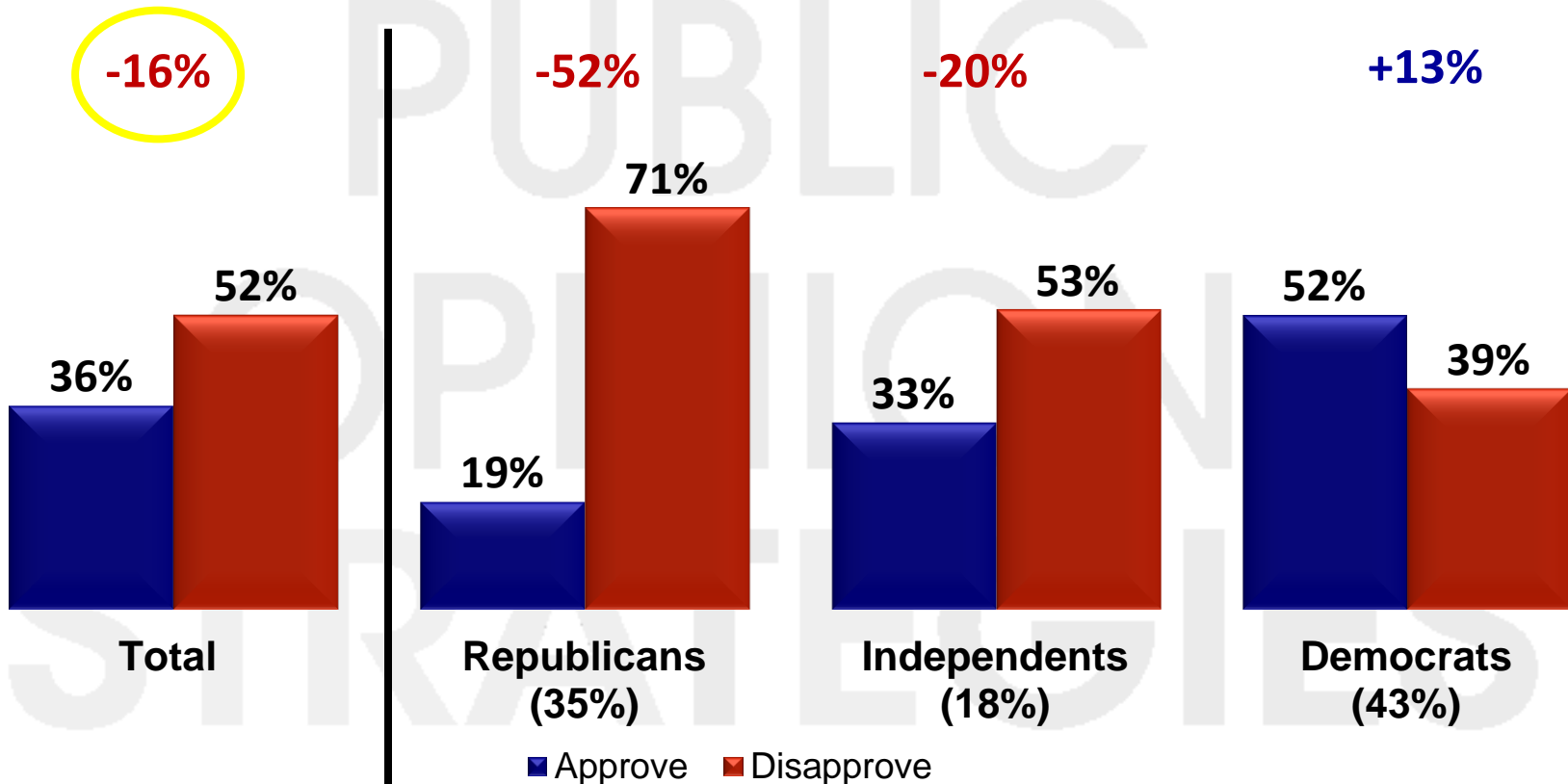
Attitudes About the Debt Ceiling

A majority of Americans disapprove of the debt ceiling agreement.



Total

By Party



*Data from a national Fox News survey conducted 08/07/2011-08/09/2011. N= 904 Registered Voters

Now I'd like to ask you some questions about the agreement passed by Congress and signed into law by the President to raise the nation's debt limit. Do you approve or disapprove of the agreement between the President and Congress to raise the nation's debt limit?

It may be difficult to get a “clean” read on attitudes about the actual debt ceiling compromise and the final details of the package because peoples’ views are inexorably intertwined with their impressions of the way in which the negotiation was handled.

Depending on question wording, there has been some range of data about attitudes regarding the debt ceiling agreement, although a plurality to majority of Americans tell us they oppose it in the different questions asked to date.

What is overwhelmingly clear is Americans have an extremely negative view of the process.

The following word cloud is the most vivid example of this research technique we have seen—and the message it sends to Washington is unmistakably loud and clear.



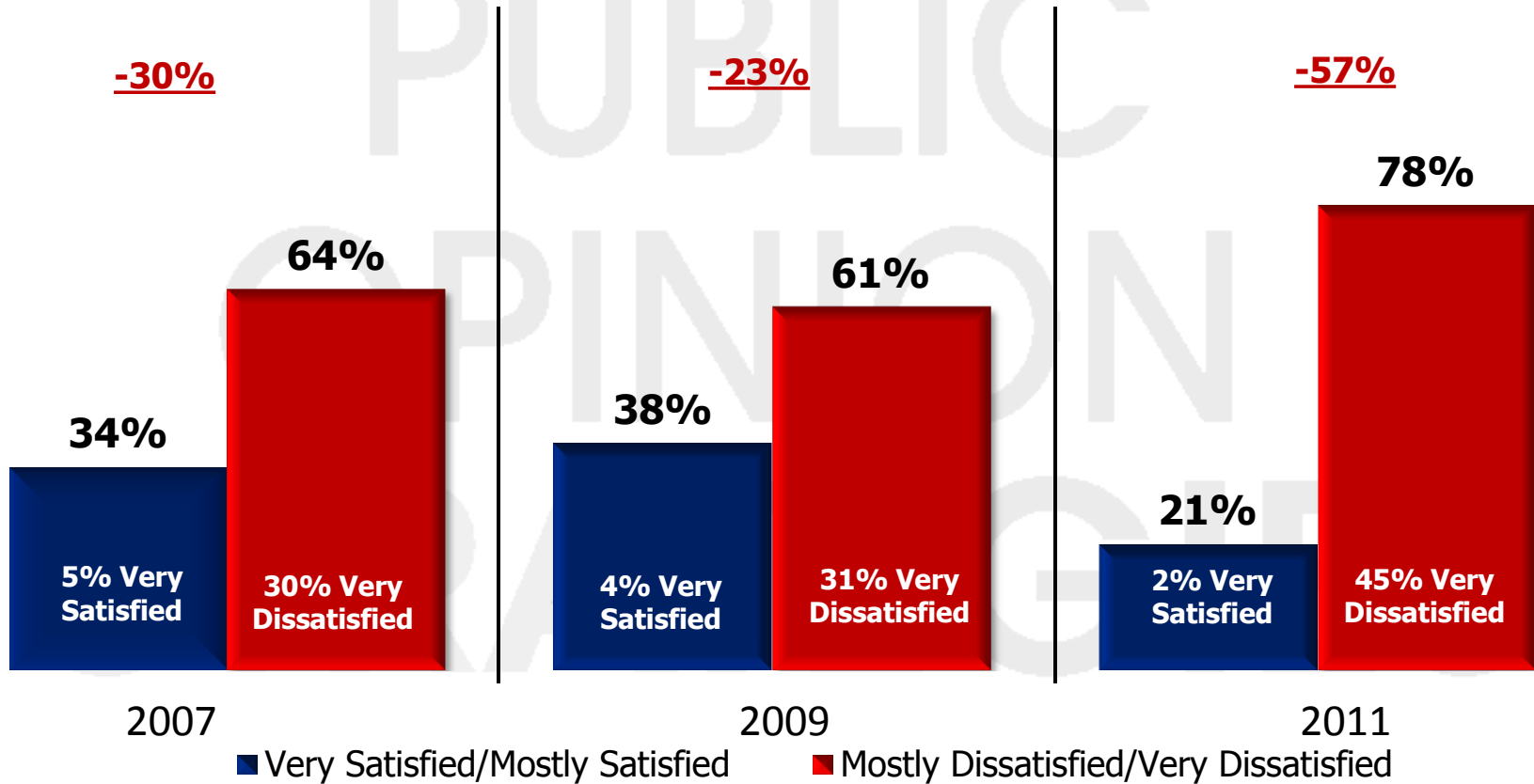
Collapse of Confidence in Washington

The following *Washington Post* numbers illustrate the consequences of the debt ceiling debate. It shattered confidence in our political system and everyone involved. The data about confidence in Washington to fix the economy is appalling.

We see *lots* of data. This is the rare “wow” data. It represents a *profound* change in a handful of months and shows the terrible consequence of the debt ceiling negotiation.

Satisfied with how the Country's Political System is Working

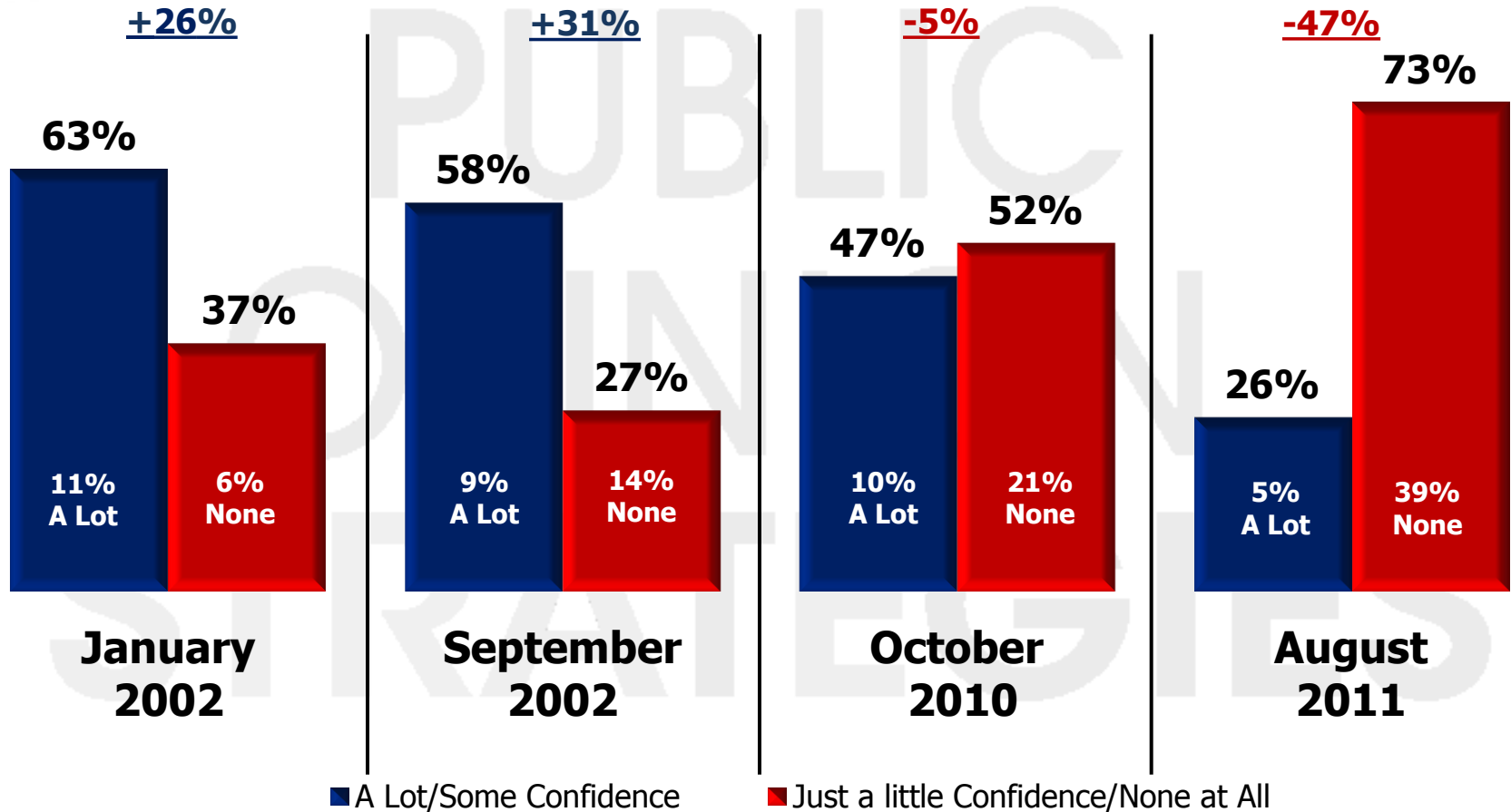
The Washington Post



How satisfied are you with the way this country's political system is working- would you say very satisfied, mostly satisfied, mostly dissatisfied, or very dissatisfied?

Confidence in Government in Washington to Solve Economic Problems

The Washington Post



In general, when the government in Washington decides to solve economic problems, how much confidence do you have that the problem actually will be solved: A lot, some, just a little, or none at all?

Confidence in President Obama or Republicans in Congress to Make the Right Decisions About the Economy

The Washington Post

President Obama



Republicans in Congress

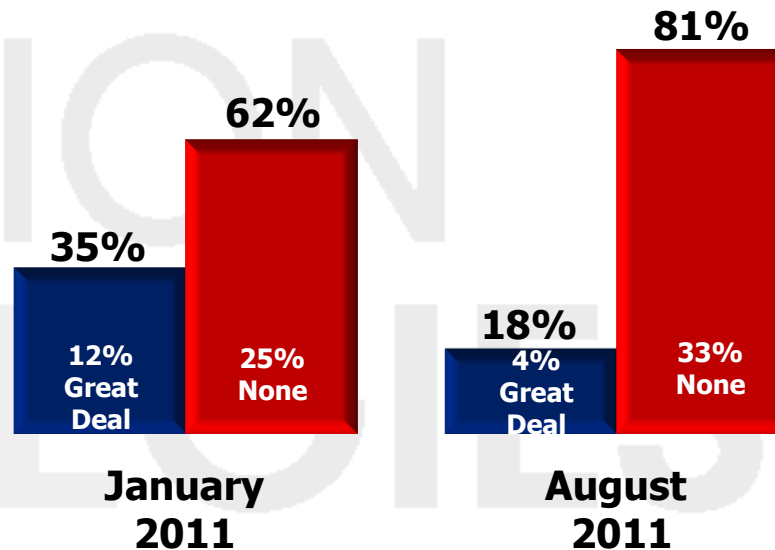
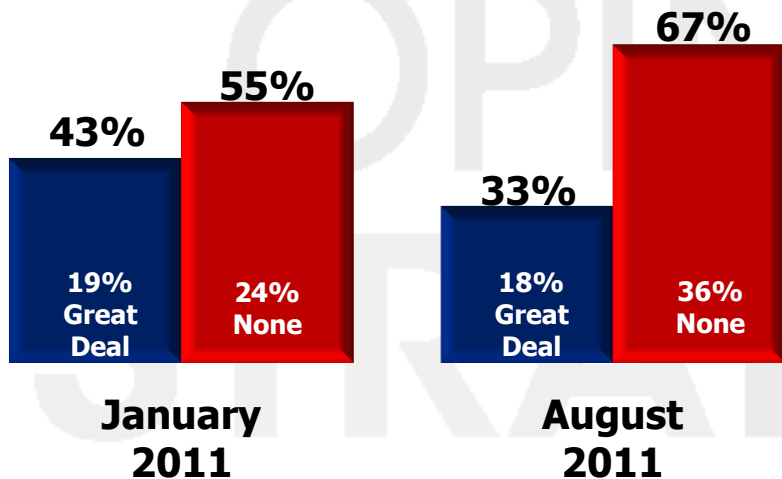


-12%

-34%

-27%

-63%



■ A Great Deal/ A Good Amount of Confidence

■ Just Some Confidence/ None at All

How much confidence do you have in in (Obama/Republicans in Congress) when it comes to making the right decisions about the country's economic future- a great deal, a good amount, just some or none at all?



Consumer Confidence Collapses

Putting the Michigan Consumer Sentiment Index in Historical Context

We have spent a lot of time looking at the Michigan Consumer Sentiment Index (MCSI) compared to presidential approval and election results from 1956 through today.

The slide that follows is especially important as it highlights how uniquely difficult the current situation is for our country.

Since 1952 when it first started, the MCSI had, before this July, only dropped below 65 on four previous occasions, including April of 2008.

When it happened in 2008, we went back and looked at how long it took for economic confidence to recover, which we defined as a number in the mid-80s.

The longest previous period was 45 months, which, unfortunately we are going to beat by a mile. We are at the 40+ month mark, and the measure is now sliding back to lows not seen since the darkest days of 1980.

Michigan Consumer Sentiment Index Trend

August 2011:
55.7

Dropped Below 65

Months Before Rose Above 85

1974



30 months

1979



45 months

1990



25 months

2008



41 months...
and counting

It is the change, though, in the Michigan Consumer Sentiment Index from June to July to August of this year that is a stunning rebuke to Washington for what happened around the debt ceiling debate.

Overall, from June until August, on a scale that frequently moves only one to three points a month, the bottom dropped out. Consumer confidence dropped from an already weak 71.5 in June to 55.7 in August—a *whopping 15.8 point drop*.

What causes this type of significant drop in only a month or two?

Such a drop generally requires a “signal event”—Hurricane Katrina, the Lehman Brothers collapse, 9/11, Iraq invading Kuwait, or the Iranian hostage crisis.

What Causes a Collapse in Consumer Confidence in a Two-Month Period?

<u>Event</u>	<u>Amount Dropped</u>
Hurricane Katrina	19.6
Debt Ceiling Debate	15.8
Iraq Invades Kuwait	15.4
Lehman Brothers Collapse	15.0
Iranian Hostage Crisis	14.2
9/11	8.8

Source: Michigan Consumer Sentiment Index

The Michigan Consumer Sentiment Index makes clear this drop can be explained and accounted for by the recent events in Washington.

"Consumers have shifted from being optimistic about the potential impact of monetary and fiscal policies to a sense of despair and pessimism about the role of the government. Never before in the history of the surveys have so many consumers spontaneously mentioned negative aspects of the government's role in the economy, and never before have consumers rated economic policy so unfavorably."

*-Thomson Reuters/University of Michigan Surveys of Consumers
Press Release 08/26/2011*

surveys of consumers
THOMSON REUTERS UNIVERSITY OF MICHIGAN

Monitoring trends for over 60 years



Make no mistake about the impact these low numbers could have on President Obama's re-election:

- There is no precedent for an incumbent president being re-elected when this scale is at 75 or below.
- While President Reagan also came off of tough losses in his first mid-term election while dealing with high unemployment and a difficult economy, the differences in the third year of his presidency compared to President Obama's presidency could not be more stark.
- The Michigan Consumer Sentiment Index slipping below 65 again in July (63.7), and down to the second-lowest level since 1980 in August (55.7) is chilling—not only for what it may portend for the economy, but also for President Obama's re-election prospects.

President Obama's fortunes will be closely tied to perceptions of the economy and consumer confidence.

Michigan Consumer Sentiment Index

Average Among Incumbent Winners[^]

95.9

Average Among Incumbent Losers[^]

78.4

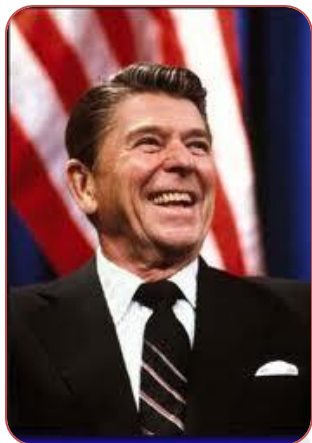
Today

55.7

[^]Includes elections from 1956 to 2008.

For all of the talk of Reagan/Obama comparisons, President Reagan's re-election was fueled by substantial economic growth and the resulting surge in consumer confidence.

Michigan Consumer Sentiment Index



October 1982

73.4

August 1983

90.9

October 1984

96.3



October 2010

67.7

August 2011

55.7

October 2012

???

With the Michigan Consumer Sentiment Index now at its second-lowest point since May 1980, it would be more pertinent to compare the current economic reality to that of President Carter's administration.

Michigan Consumer Sentiment Index



October 1978

79.3

August 1979

64.5

October 1980

75.0



October 2010

67.7

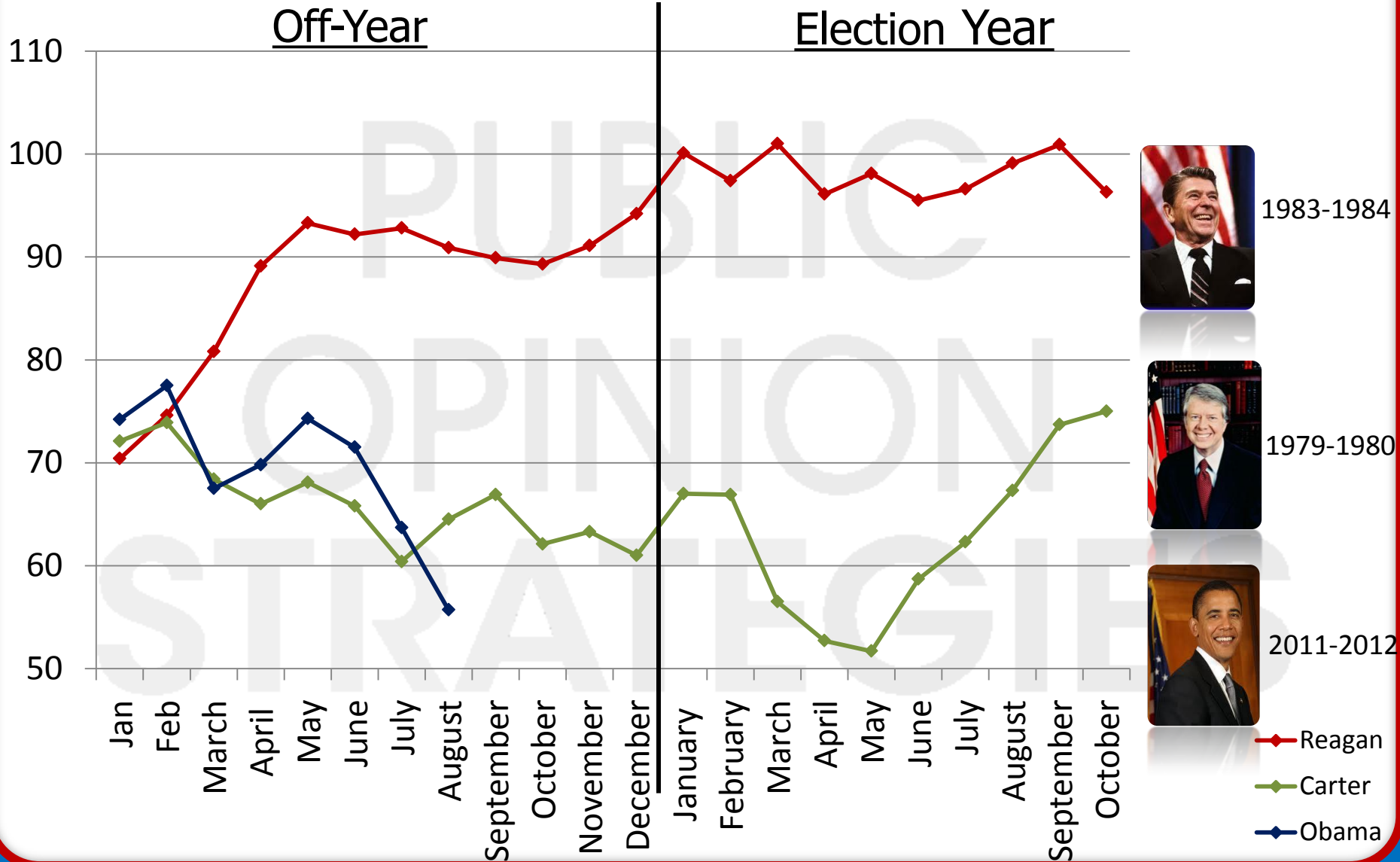
August 2011


55.7

October 2012

???

Michigan Consumer Sentiment Index





Hearing the Emerging Political Dialogue From Recent Focus Groups

Public Opinion Strategies partners and staff have conducted more than 4,500 focus groups over the past twenty years.

While customarily you might believe this means “we’ve heard it all,” this is certainly not true for what we have been hearing over the past two weeks in our focus groups.

The anger is sharper, combined with a sense the economy is not going to be fixed soon.

People report a deep sense of gloom about the economy. The absence of hope the economy might get better drives the sense of despair they are feeling about what is ahead.

One of our partners who conducted focus groups last week reports:

"The Debt Debate had an impact. People are upset that elected officials are putting their interests ahead of the country's in a way I personally have never seen before. Just the mention of an unnamed Senator was a negative to people. Lord, they hate Washington right now."

How Bad Is It?

A focus group participant captured the mood of many of in the group when she said:

"I won't even put my flag up anymore, it's just the way I feel."

-Office Manager for a dental practice; Independent; Moderate; Working class; Some college/ Technical school; More than \$40K, less than \$60K Household income; 45 to 54 years old; White; Florida.

TURNING
QUESTIONS
INTO
ANSWERS

 PUBLIC OPINION STRATEGIES

PUBLIC OPINION STRATEGIES

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