Special Commentary — January 23, 2024

Do Elections Affect Economic Activity?

Summary

- We wrote reports in 2016 and again in 2019 to determine if election periods had a significant impact on U.S. economic activity. With the 2024 presidential election right around the corner, we revisit that analysis.
- Initial theories suggested that elections positively impact the economy through the actions of politicians, who may try to stimulate it as a part of their re-election campaigns. More recent theory, however, implies the opposite, suggesting that elections weigh on near-term economic growth, as individuals and businesses may delay large purchases or investments in the face of political uncertainty.
- Our analysis in 2016 and again in 2019 did not find evidence of weaker economic growth in the 18 presidential election years that occurred between 1948 and 2016. In fact, we found that growth rates of real GDP, real consumer spending and real business investment spending were stronger during presidential election years than non-election years.
- Did elected officials "juice" the economy via stimulative fiscal policy to improve their electoral prospects? Apparently not. Our 2016 analysis did not find a statistically significant difference between growth in real government spending in election years compared to non-election years.
- We forecast the U.S. economy will continue to expand in 2024, albeit at a sluggish pace due to the current restrictive stance of monetary policy. Given the findings of our previous analyses, we suspect that this year's election will not have a material effect on the U.S. economy in 2024.

Economist(s)

Jay H. Bryson, Ph.D.
Chief Economist | Wells Fargo Economics
Jay.Bryson@wellsfargo.com | 704-410-3274

Delaney Conner
Economic Analyst | Wells Fargo Economics
Delaney.Conner@wellsfargo.com | 704-374-2150

Nicole Cervi
Economist | Wells Fargo Economics
Nicole.Cervi@wellsfargo.com | 704-410-3059

Gearing Up for Another Election Year

Do pending elections create uncertainty that has economic effects?

It is an election year. The consensus of the political economy literature is that macroeconomic performance is a reliable predictor of election outcomes. That is, favorable macroeconomic performance ahead of an election boosts the chance of winning for the incumbent party.[1] There is less agreement, however, on whether elections affect the economy. Initial theories suggested that elections positively impact the economy through the actions of politicians, who may try to stimulate it as a part of their re-election campaigns. But more recent theory implies the opposite. Specifically, elections may weigh on near-term economic growth because individuals and businesses may delay large purchases or investments in the face of political uncertainty.

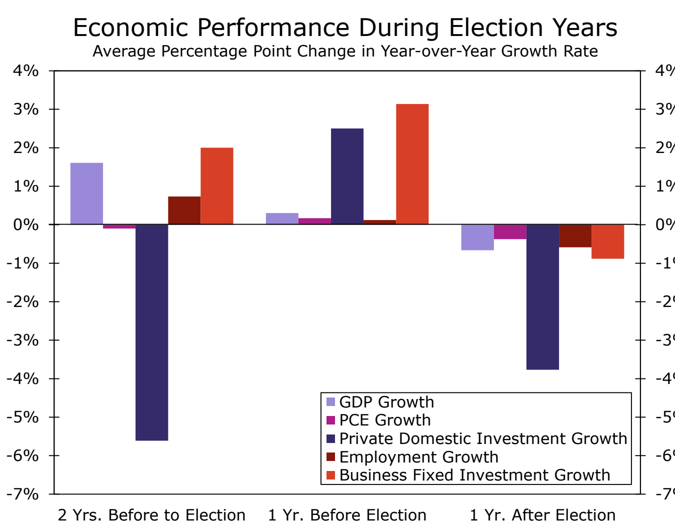
We analyzed the effect of presidential elections on the economy in a report we wrote in 2016 and again in a 2019 report. Because we often get questions about the effects that the upcoming election may have on the economy, we thought it would be valuable to highlight our previous findings for interested readers. Our 2016 report summarized the formal statistical analysis we performed on quarterly data for eight macroeconomic variables. The report we wrote ahead of the last presidential election used annual data on a slightly different set of economic variables. Because the 2019 report was a bit less formal than the 2016 report, we focus on the former in this report. That said, the conclusions of both reports are consistent.

To uncover any relationship between economic activity and political uncertainty in 2019, we closely examined the last 18 presidential elections (i.e. 1948-2016). Our analysis included five macroeconomic variables: gross domestic product (GDP), personal consumption expenditure (PCE), employment, private domestic investment and business fixed investment (BFI). Using annual data, we first calculated the difference between growth rates in presidential election years and growth rates in the year immediately before the election. We then calculated the average difference for each of the five variables across the 18 election cycles. We have not updated the analysis to include the 2020 election because of the disruptions that the pandemic imparted to the economy during that year.

We find little evidence that economic activity weakens during election years.

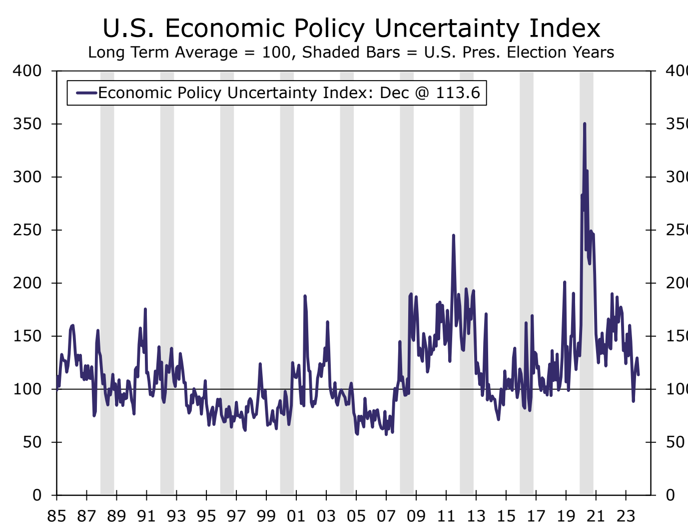
The results of the analysis are shown in Figure 1. The second group of bars shows the difference in average growth rates during presidential election years relative to the year preceding the election. For example, we found that GDP growth in election years between 1948 and 2016 was 0.3 percentage points *stronger*, on average, than in the year that preceded each of those 18 presidential elections. Additionally, growth in real consumer spending, real investment and employment were also stronger in presidential election years. In short, the results of our 2019 analysis offered little evidence that economic activity weakened during election years. As noted previously, the findings in our 2016 report were qualitatively similar.

Figure 1



Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Economics

Figure 2



Source: Baker, Bloom & Davis and Wells Fargo Economics

Could elected officials be "juicing" the economy via stimulative fiscal policy in an attempt to increase their electoral prospects? Our 2016 analysis found little evidence to support this hypothesis, as growth in real government spending during election years was not statistically different relative to non-election years. Growth in consumer spending and investment spending may indeed strengthen during election years, but it appears to be for reasons other than explicit policy support.

If economic activity weakens in the period immediately surrounding presidential elections, it appears to do so in the year following the election (third group of bars in Figure 1). Additionally, growth rates of the five macroeconomic variables under consideration are mixed during the election year when compared to two years before the election (first group of bars in Figure 1). In our view, the mixed patterns in growth rates that are exhibited across the three groups in Figure 1 simply reflects the inherent volatility in the macro-economy that elected officials have little ability to influence.

We go into detail in our 2019 report about why there is little support for the hypothesis that election uncertainty weighs on overall activity. In short, we concluded that economic policy uncertainty is not solely driven by elections, and uncertainty tends to be much more reactive and volatile relative to other macroeconomic variables. As shown in Figure 2, economic policy uncertainty does appear to pick up ahead of presidential elections, but it also spikes in non-election years. For example, the largest monthly jump in the uncertainty index since the 2020 election occurred in March 2022, which was likely in reaction to the Federal Reserve kicking off its latest tightening cycle.

Overall, a myriad of factors can affect macroeconomic variables, making it difficult to isolate one effect. While literature exists to support the notion that uncertainty can have negative effects on the economy, election uncertainty does not appear significant or persistent enough to create a pattern across the past 18 presidential elections.[2] As detailed in our most recent U.S. Economic Outlook, we forecast the U.S. economy will continue to expand in 2024, albeit at a sluggish pace due to the current restrictive stance of monetary policy. Given the findings of our 2016 and 2019 analyses, we suspect that this year's election will not have a material effect on the U.S. economy in 2024. That said, we concluded our 2016 report by stating “the 2016 presidential race has been anything but a standard election year, reinforcing the notion that past performance does not guarantee future results.” The same clearly could be said about the 2024 election.

Election uncertainty does not appear significant or persistent enough to create a pattern across the past 18 presidential elections.

Endnotes

1 — Fair, Ray, "Predicting Presidential Elections and Other Things" (2nd ed.), Stanford University Press, Stanford, CA, 2011. (Return)

2 — For the effects that economic uncertainty can have on economic growth, see Baker, S.B., Bloom, N. and Davis, S.J, “Measuring Economic Policy Uncertainty,” NBER Working Paper #21633, October 2015. (Return)

Subscription Information

To subscribe please visit: www.wellsfargo.com/economicsemail

Via The Bloomberg Professional Services at WFRE

Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

Required Disclosures