

Partisan Bias in Professional Macroeconomic Forecasts*

Benjamin S. Kay

Jane Ryngaert

Aeimit Lakdawala

Michael Futch

Fed Board

Notre Dame

Wake Forest

Civitech

July 13

NBER Summer Institute 2023

* The views expressed in this paper are solely those of authors and not necessarily those of the Federal Reserve System

Motivation

- Increasing evidence of violation of “full-information rational expectations” (FIRE) benchmark commonly used in macroeconomic models
- One intriguing dimension: political polarization
 - e.g. strong evidence that household economic expectations depend strongly on affiliation with political party in control

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This paper's focus: Professional forecasters

- closest real-world equivalents to the FIRE agents in economists' models

⇒ But are their expectations also biased by political affiliation?

What do we do in this paper?

Use the Wall Street Journal Economic Forecasting Survey

- Monthly panel survey of 25-50 economists on major macro variables
- **Name of forecasters publicly available**
- Data going back to mid-1980s

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Find the political affiliation of forecasters from publicly available data

- party affiliation from voter registration files
- party to which political donations are made (FEC)
- partisan employment

⇒ Investigate role of partisan bias in professional forecasting

What do we find in this paper?

Strong evidence of partisan bias in GDP forecasts

- Democratic-affiliated forecasters have a forecast that is ≈ 0.4 percentage points higher than Republican-affiliated forecasters when the president is a Democrat (relative to when the president is a Republican)

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Not much evidence of partisan bias in other macro forecasts

- Inflation, interest rate and unemployment forecasts not materially affected by partisanship

WSJ survey and finding political affiliation of forecasters

A snapshot of the WSJ survey data

WSJ survey from November 2019

- mix of bank, financial, academic, consulting and advisory firm economists

WSJ Economic Survey November 2019		GDP		
Name:	Organization:	Third Quarter 2019	Fourth Quarter 2019	First Qu
Brian Bethune*	Tufts University			
Steven Blitz	TS Lombard	1.90	1.50	
Beth Ann Bovino	Standard and Poor's	2.10	1.80	
Jay Bryson	Wells Fargo & Co.	1.90	1.20	
Michael Carey	Credit Agricole CIB	1.90	1.70	
Mike Cosgrove	Econoclast	1.90	2.00	
Thomas Costerg*	Pictet Wealth Management			
Lou Crandall	Wrightson ICAP	2.10	1.00	
Amy Crews Cutts	Independent Consultant	1.70	0.90	
Greg Daco	Oxford Economics	1.90	1.40	
Rajeev Dhawan	Georgia State University		1.50	
Douglas Duncan	Fannie Mae	1.90	1.90	
Robert Dye	Comerica Bank	1.90	1.60	
Augustine Faucher	PNC Financial Services Group	1.90	1.80	
Jan Hatzius	Goldman, Sachs & Co.	1.90	2.10	
Matthew Fienup/Dan Hamilton	California Lutheran University	1.90	1.80	
Maria Fiorini Ramirez/Joshua Shapiro	MFR, Inc.	1.90	1.40	
J.D. Foster	Chamber of Commerce	1.90	1.70	
Mike Fratantoni	Mortgage Bankers Association	1.90	1.70	
Robert Fry	Robert Fry Economics LLC	1.90	1.50	
Stephen Gallagher	Societe Generale	1.90	1.40	

A snapshot of the WSJ survey data

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- mix of bank, financial, academic, consulting and advisory firm economists
- forecasts available for GDP, inflation, unemployment, interest rates and other rotating macro variables

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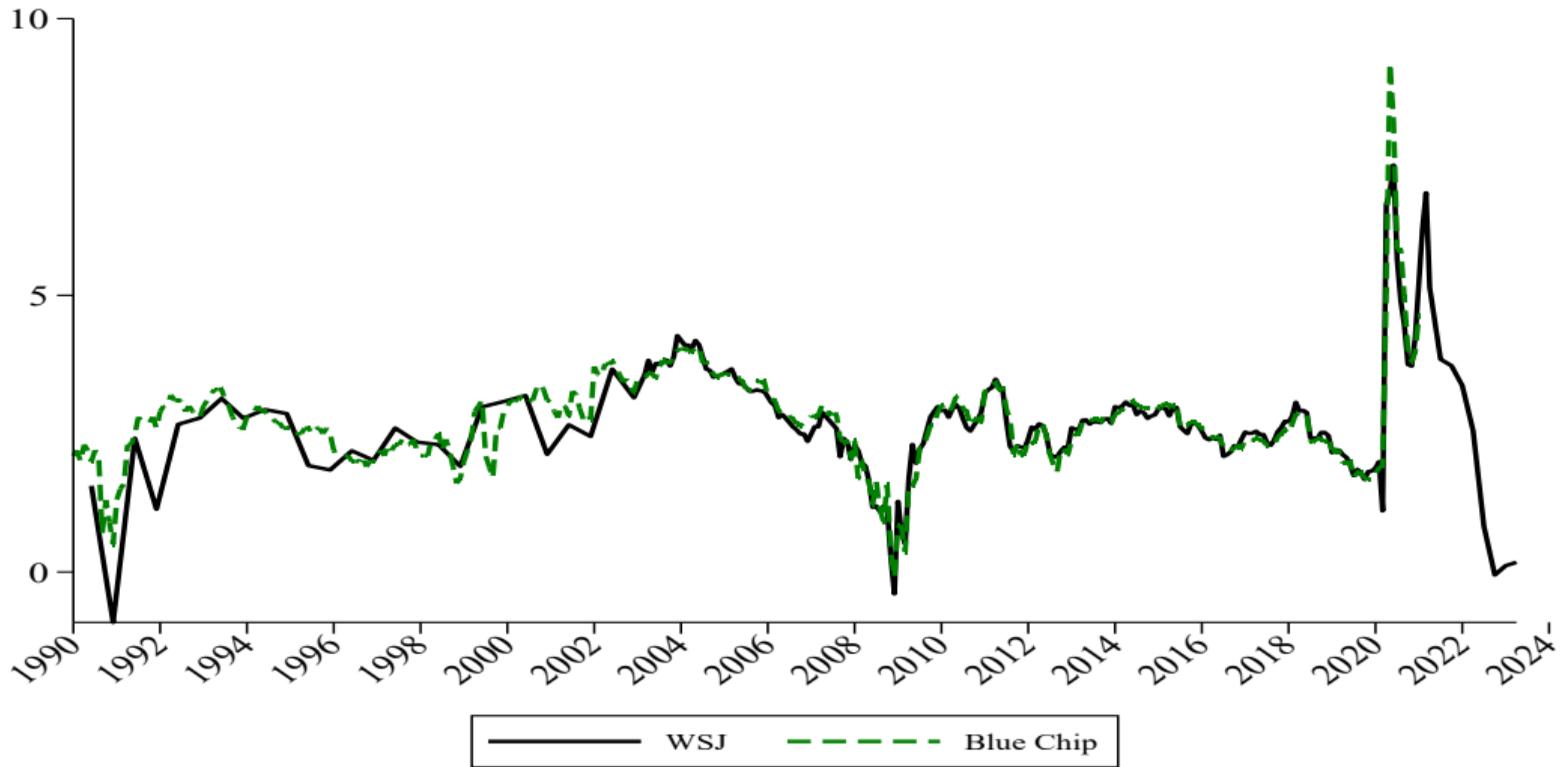
WSJ survey from November 2019

- mix of bank, financial, academic, consulting and advisory firm economists
- forecasts available for GDP, inflation, unemployment, interest rates and other rotating macro variables
- forecasts available for short to medium term (up to ≈ 1 year ahead)

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Consensus of WSJ forecasts very similar to other widely used survey data

Consensus (mean) 2-quarter ahead GDP forecasts: WSJ vs. Blue Chip



Details of WSJ survey data

1. Jan-1986 to Feb-2003: twice a year
2. Mar-2003 to Mar-2021: every month
3. Apr-2021 to Apr-2023: every quarter

Forecast horizon changes:

- with position of month within the quarter and with surveys in early vs. later part of sample
- with different macroeconomic variables

We construct both fixed-horizon & fixed target-date forecasts:

- results are almost identical

Finding political affiliation of forecasters using publicly available data

First source: FEC political contributions

- all donations of $>$ \$200 to single candidate for political office in a year (includes PACs).
- includes information on location and employer
- use Wikipedia and web searches to identify the partisan affiliation of each contribution recipient.
 - Contributions to employee PACs are excluded
- categorize forecaster as Rep/Dem if $>$ 80% of donations go to one party

Finding political affiliation of forecasters using publicly available data

First source: FEC political contributions

Second source: Voter registration records

- provided by US states
- use Lexis Nexis and Civitech database
 - location, gender (sometimes), birthdate (sometimes) available

Finding political affiliation of forecasters using publicly available data

First source: FEC political contributions

Second source: Voter registration records

Third source: Partisan employment

- Appointment in president's administration or prominent technocratic positions

Finding political affiliation of forecasters using publicly available data

First source: FEC political contributions

Second source: Voter registration records

Third source: Partisan employment

Matching to WSJ forecasters

- use web searches with any available characteristics (name, employment, location etc..) for matching

Finding political affiliation of forecasters using publicly available data

233 unique forecasters in the WSJ survey

We are able to find affiliation of 126 but exclude some forecasters because they

- are registered as independent (only a handful in our sample)
- donate to both Republican and Democrats or switch voter registration
- appear only as part of team and not individually in WSJ survey
- have conflicting affiliation from FEC and voter registration records

Finding political affiliation of forecasters using publicly available data

233 unique forecasters in the WSJ survey

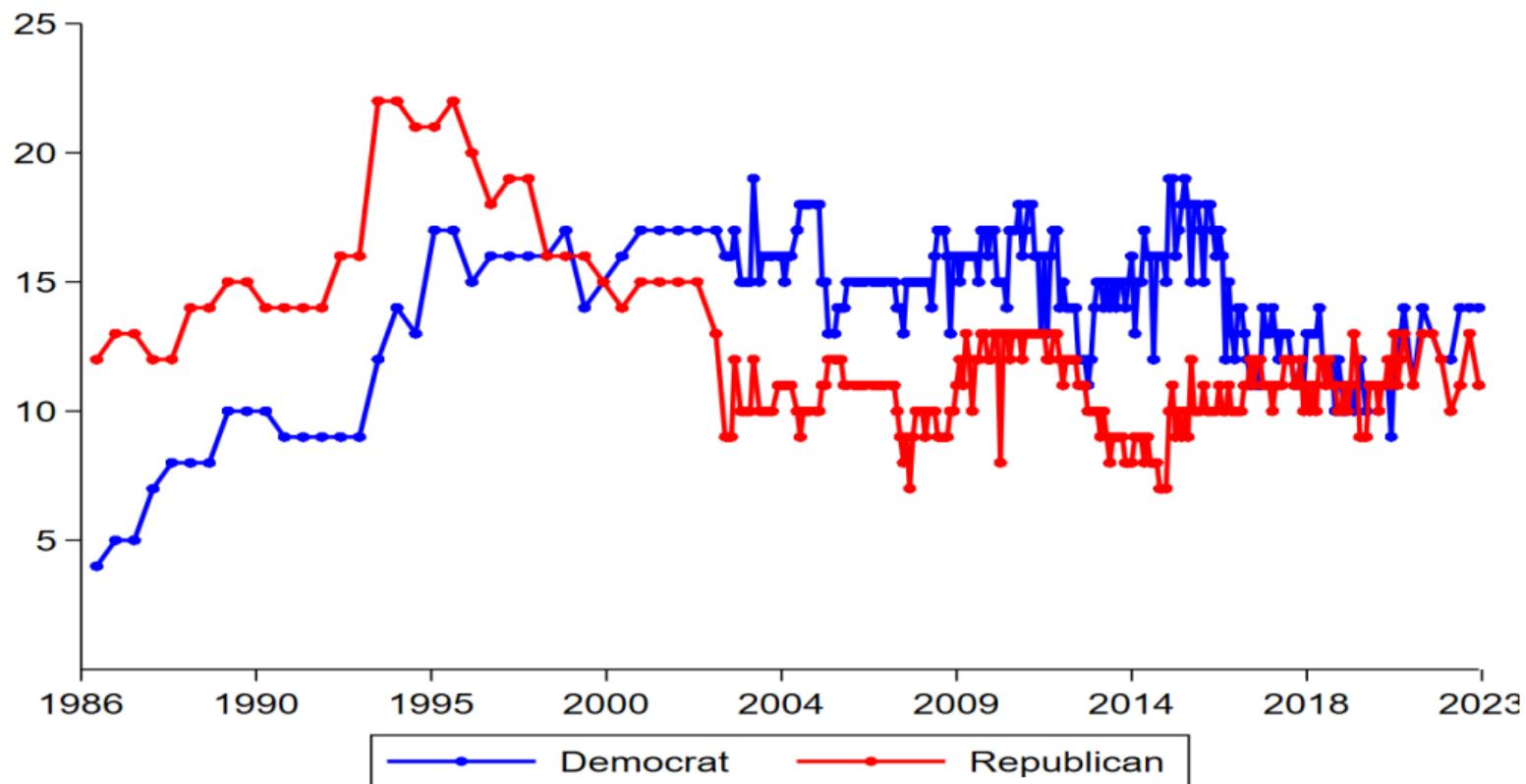
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Our final data has 111 matched forecasters

- 55 affiliated with Democratic party
- 56 affiliated with Republican party

WSJ Survey: Number of matched forecasters by political affiliation



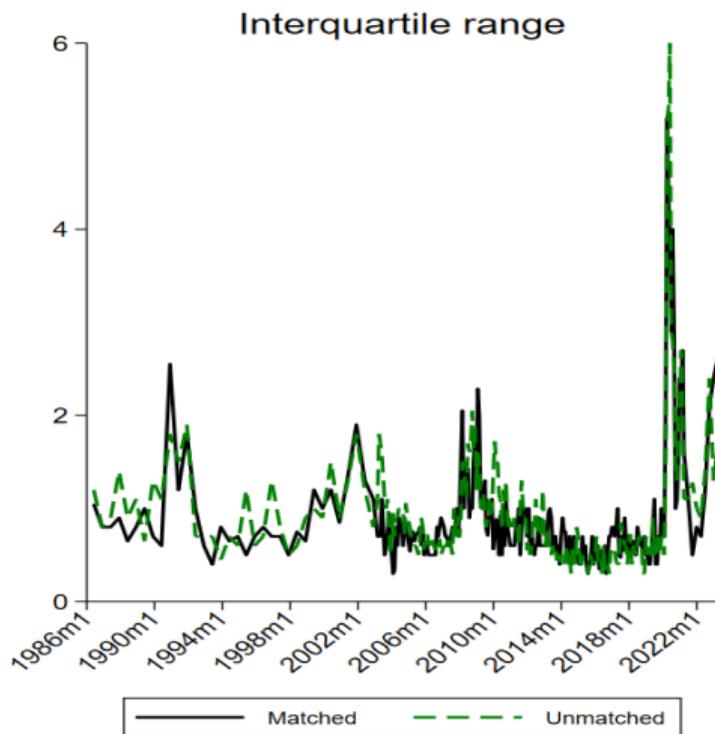
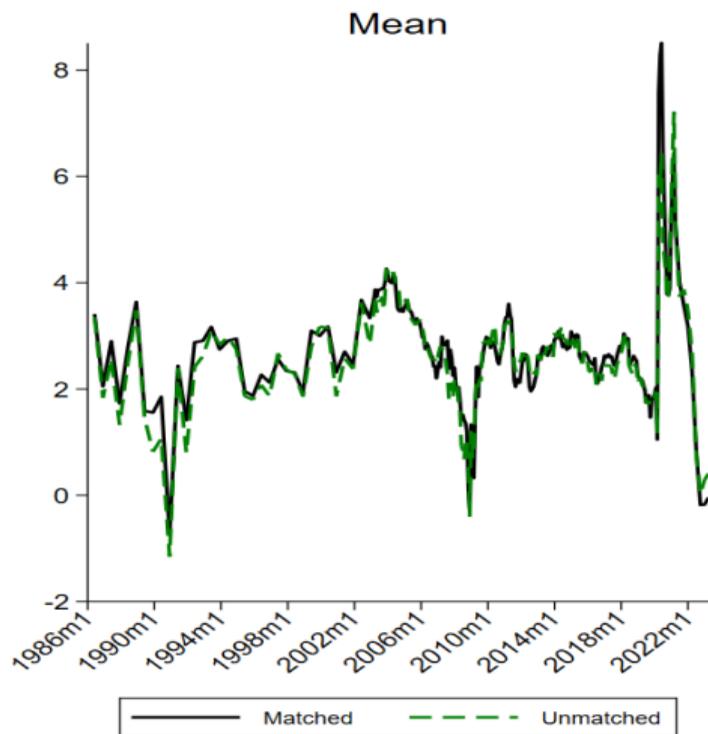
▶▶ Matched affiliation by source

▶▶ Months in sample

▶▶ Demographic characteristics of matched and unmatched

Matched forecasters as a group look broadly similar to unmatched

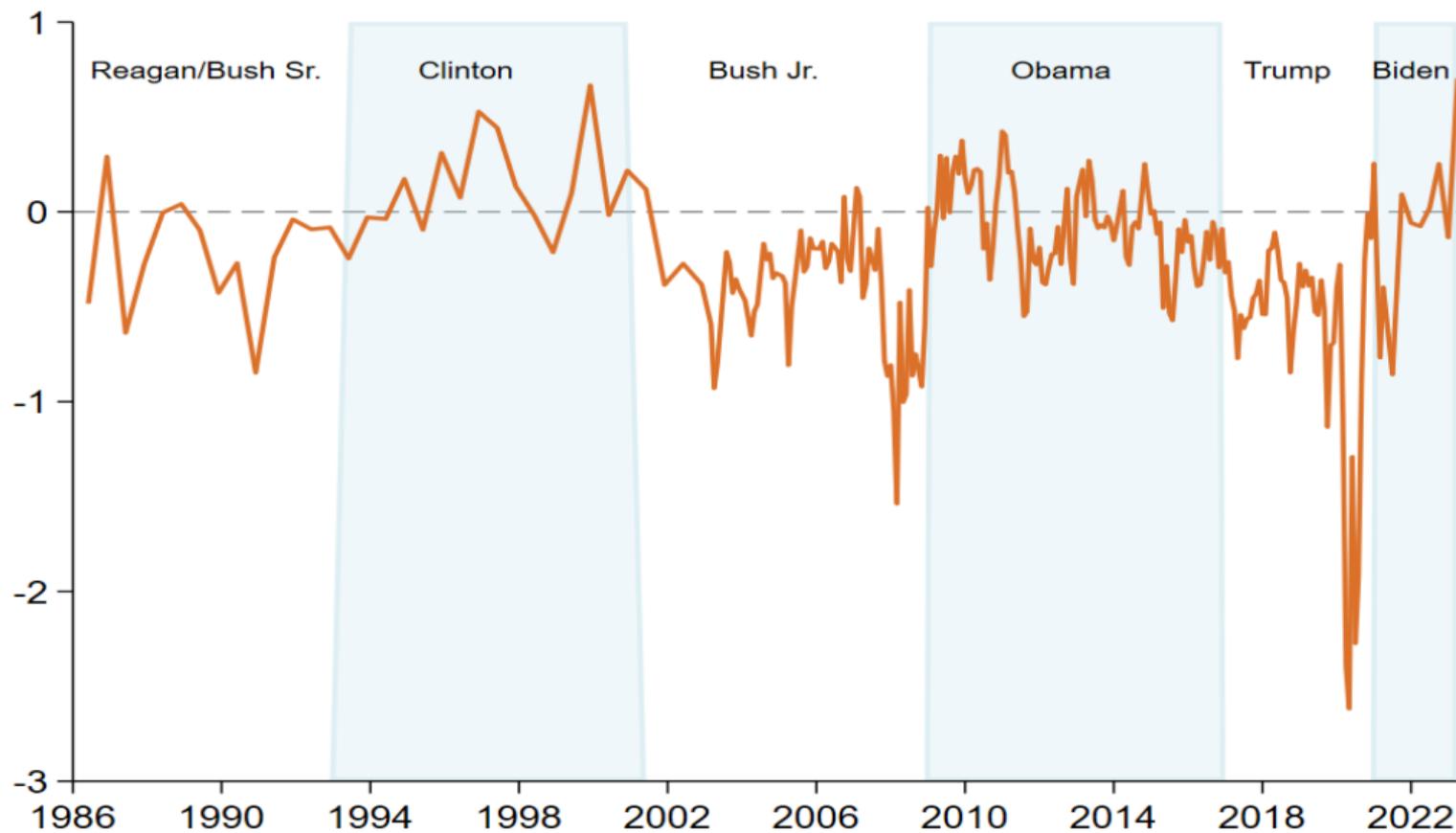
2-quarter ahead GDP forecasts



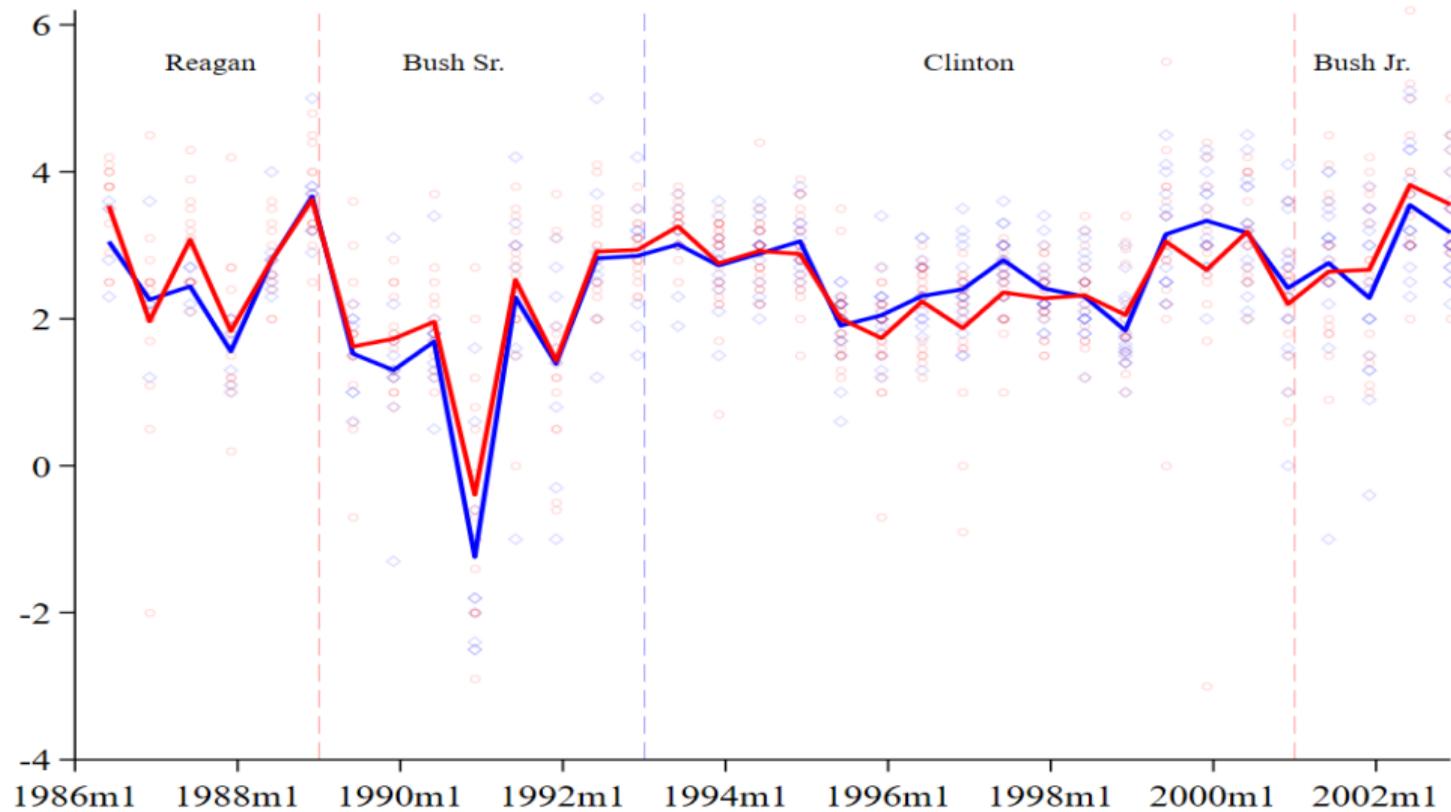
GDP forecasts and party of the president

Difference between average Democrat and average Republican 2-quarter ahead GDP forecast

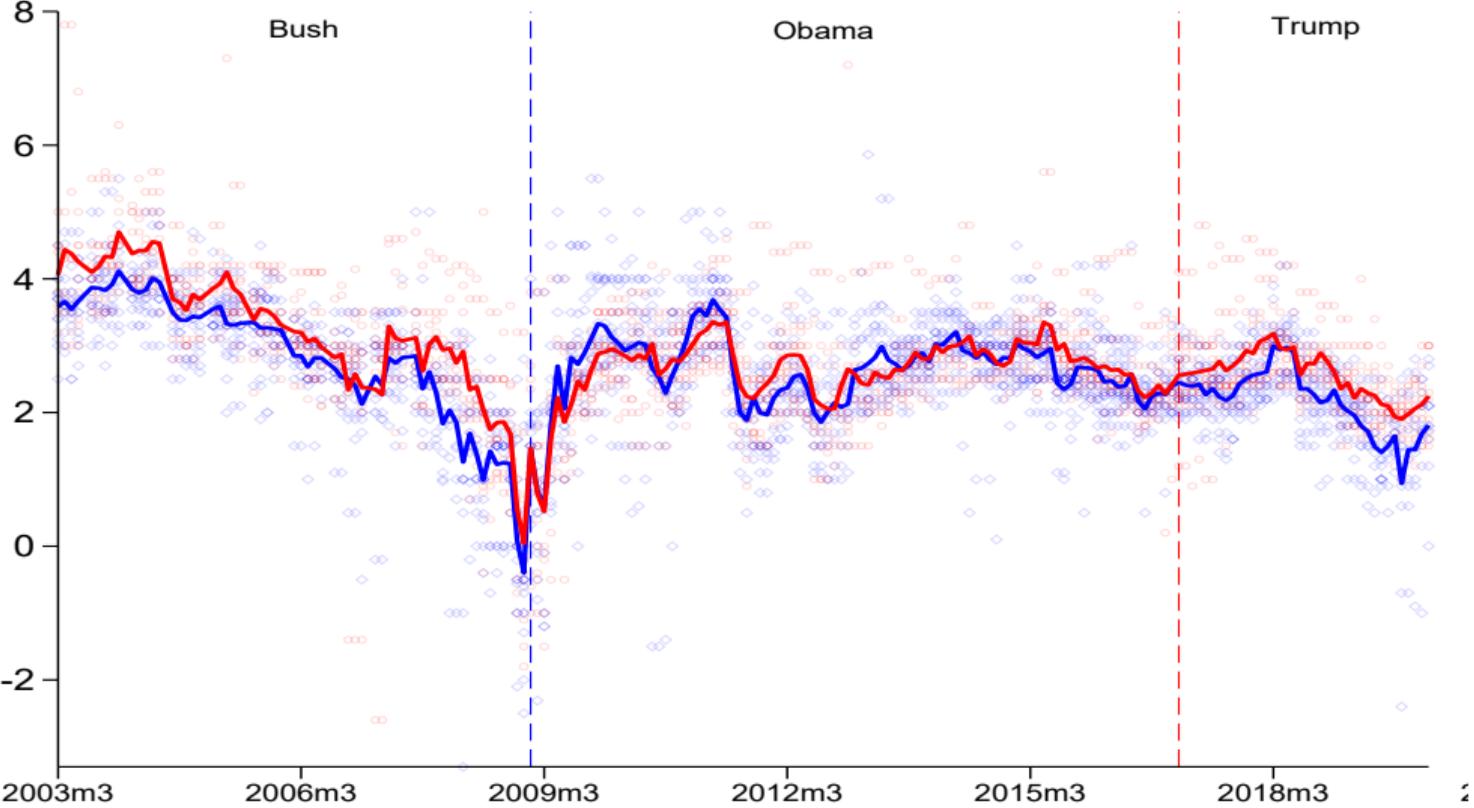
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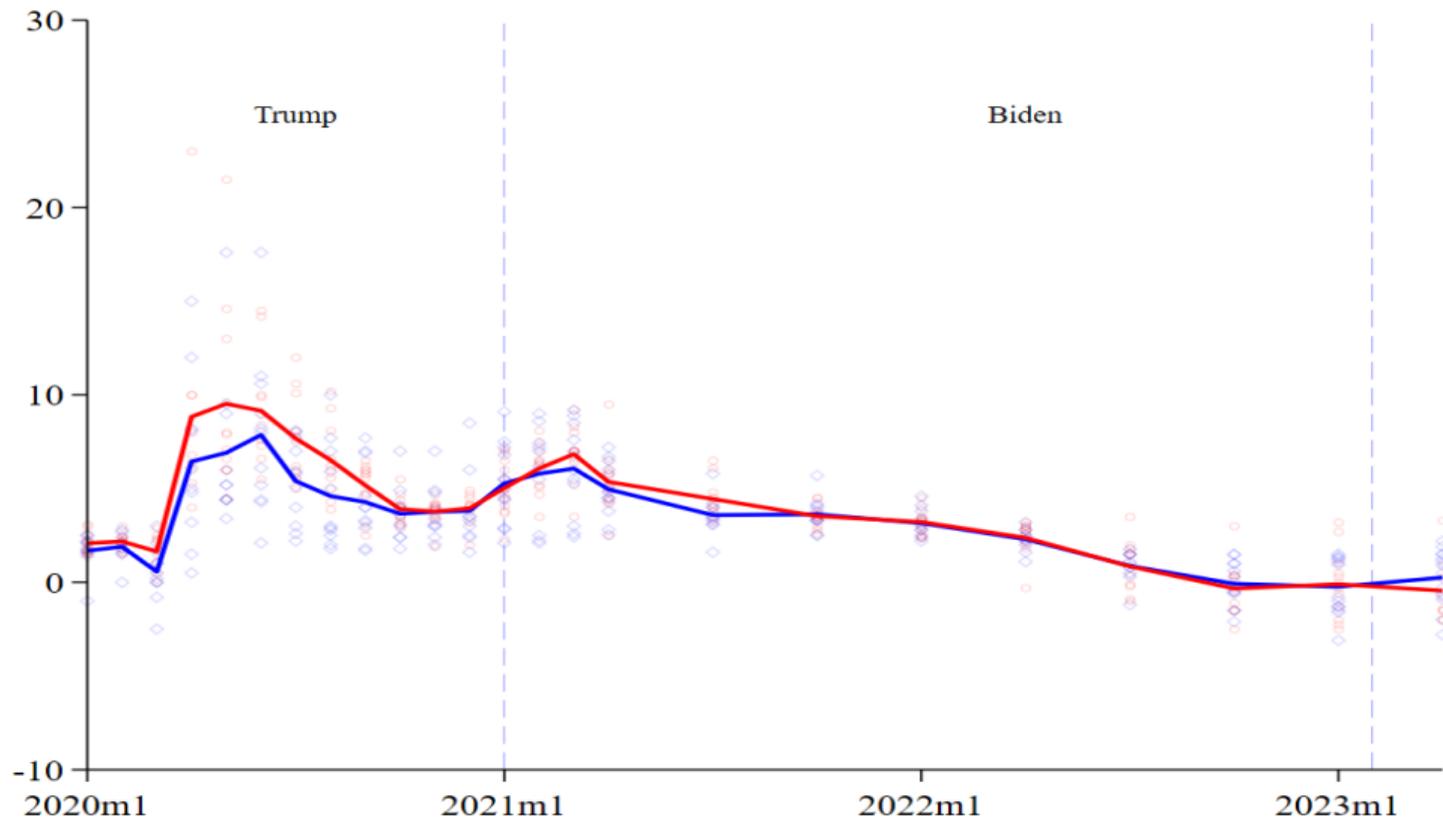
2-quarter ahead GDP forecasts by political affiliation



2-quarter ahead GDP forecasts by political affiliation



2-quarter ahead GDP forecasts by political affiliation



Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Simple Difference-in-differences

$$y_{j,t} = \beta_0 + \beta_1 Dem_j + \beta_2 Pres_t + \beta_3 Dem_j * Pres_t + \varepsilon_{j,t}$$

- $y_{j,t}$: forecast for forecaster j in month t
- $Dem_j = 1$ if forecaster j has Democratic affiliation
- $Pres_t = 1$ if the president is Democratic

Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Simple Difference-in-differences

		<u>Forecaster Affiliation</u>		
		Democrat	Republican	Difference
<u>Pres. party</u>	Democrat			
	Republican			

Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Simple Difference-in-differences

		<u>Forecaster Affiliation</u>		
		Democrat	Republican	Difference
<u>Pres. party</u>	Democrat	2.60	2.64	-0.04
	Republican			

Under Democrat presidents, forecasts are roughly similar

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Simple Difference-in-differences

		<u>Forecaster Affiliation</u>		
		Democrat	Republican	Difference
<u>Pres. party</u>	Democrat	2.60	2.64	-0.04
	Republican	2.68	3.11	-0.44***

Under Republican presidents, forecast is higher for Republican affiliated forecasters

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Simple Difference-in-differences

		<u>Forecaster Affiliation</u>		
		Democrat	Republican	Difference
<u>President's party</u>	Democrat	2.60	2.64	-0.04
	Republican	2.68	3.11	-0.44***
	Difference	-0.07	-0.47***	Diff-in-diff 0.40*** (0.11)

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Pres_t + \varepsilon_{j,t}$$

- $y_{j,t}$: forecast for forecaster j in month t
- $Dem_j = 1$ if forecaster j has Democratic affiliation
- $Pres_t = 1$ if the president is Democratic
- γ_j : forecaster fixed-effect
- γ_t : time-fixed effect

Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Pres_t + \varepsilon_{j,t}$$

$Dem_j \times Pres_t$	0.45*** (0.102)
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Observations	6,375
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R-squared	0.640
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Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

Results are not driven by recessions

2-quarter ahead GDP forecasts: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Pres_t + \delta Dem_j * Recession_t + \varepsilon_{j,t}$$

$Dem_j \times Pres_t$	0.41*** (0.111)
$Dem_j \times Recession_t$	-0.32 (0.218)
Observations	6,375
R-squared	0.641

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

Results are not driven by any one president

2-quarter ahead GDP forecasts: Two-way fixed effects

Table: Drop one president at a time

	Reagan/Bush Sr.	Clinton	Bush Jr.	Obama	Trump	Biden
$Dem_j \times Prest_t$	0.46*** (0.108)	0.45*** (0.124)	0.44** (0.192)	0.50*** (0.132)	0.37*** (0.092)	0.43*** (0.107)
Observations	6,072	5,842	4,680	3,889	5,293	6,095
R-squared	0.636	0.649	0.640	0.669	0.650	0.618

Standard errors clustered at the forecaster level

Results are similar with different forecast horizons

Differences across Democrat & Republican affiliated forecasters: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Prest_t + \varepsilon_{j,t}$$

	1Q	2Q	3Q	2Q	next year	2Q
<i>Dem_j × Prest_t</i>	0.33** (0.128)	0.46*** (0.119)	0.42*** (0.110)	0.47*** (0.131)	0.46*** (0.128)	0.51*** (0.178)
Observations	5,663	5,663	4,824	4,824	3,465	3,465
R-squared	0.588	0.639	0.568	0.645	0.652	0.649

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level 

Other robustness checks

- Baseline results use inauguration date as cutoff
 - Results are similar if we use election date instead 
- Results are not driven by outliers 
- Results are similar if we use just political donations or just voter registration 

GDP forecasts and party of the president: Forecast accuracy

Forecast accuracy and political affiliation of forecasters

Consensus democrat forecast is more accurate than consensus republican forecast

Mean absolute error

Democrat consensus

2.168

Republican consensus

2.298

pval (difference) = 0.0045

- holds for MSE and different samples

Forecast accuracy and political affiliation of forecasters

Consensus democrat forecast is more accurate than consensus republican forecast

Mean absolute error

	Democrat consensus	Republican consensus
Under Dem. presidents	1.33	1.39
	pval (difference) = 0.020	
Under Rep. presidents	2.96	3.16
	pval (difference) = 0.001	

- holds under Republican or Democratic presidential regimes

Forecast accuracy and political affiliation of forecasters

2-quarter ahead GDP forecasts: Simple Difference-in-differences with absolute forecast errors

Calculate absolute forecast error using real-time GDP data

$$|\tilde{y}_{j,t} - y_{j,t}| = \beta_0 + \beta_1 Dem_j + \beta_2 Pres_t + \beta_3 Dem_j * Pres_t + \varepsilon_{j,t}$$

- $\tilde{y}_{j,t}$ is realized GDP
- $y_{j,t}$: forecast for forecaster j in month t
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- $Pres_t = 1$ if the president is Democratic

Forecast accuracy and political affiliation of forecasters

2-quarter ahead GDP forecasts: Simple Difference-in-differences with absolute forecast errors

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		Forecaster Affiliation		Difference
		Democrat	Republican	
President's party	Democrat	1.42	1.50	-0.08
	Republican	2.80	3.155	-0.35
	Difference	-1.39	-1.65	Diff-in-diff 0.27 (0.394)

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

Forecast accuracy and political affiliation of forecasters

2-quarter ahead GDP forecasts: Two-way fixed effects with absolute forecast errors

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2-quarter ahead GDP forecasts: Two-way fixed effects with absolute forecast errors

$$|\tilde{y}_{j,t} - y_{j,t}| = \gamma_j + \gamma_t + \beta Dem_j * Prest_t + \varepsilon_{j,t}$$

<i>Dem_j × Prest_t</i>	0.165**
	(0.0734)

Observations	6,284
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R-squared	0.974
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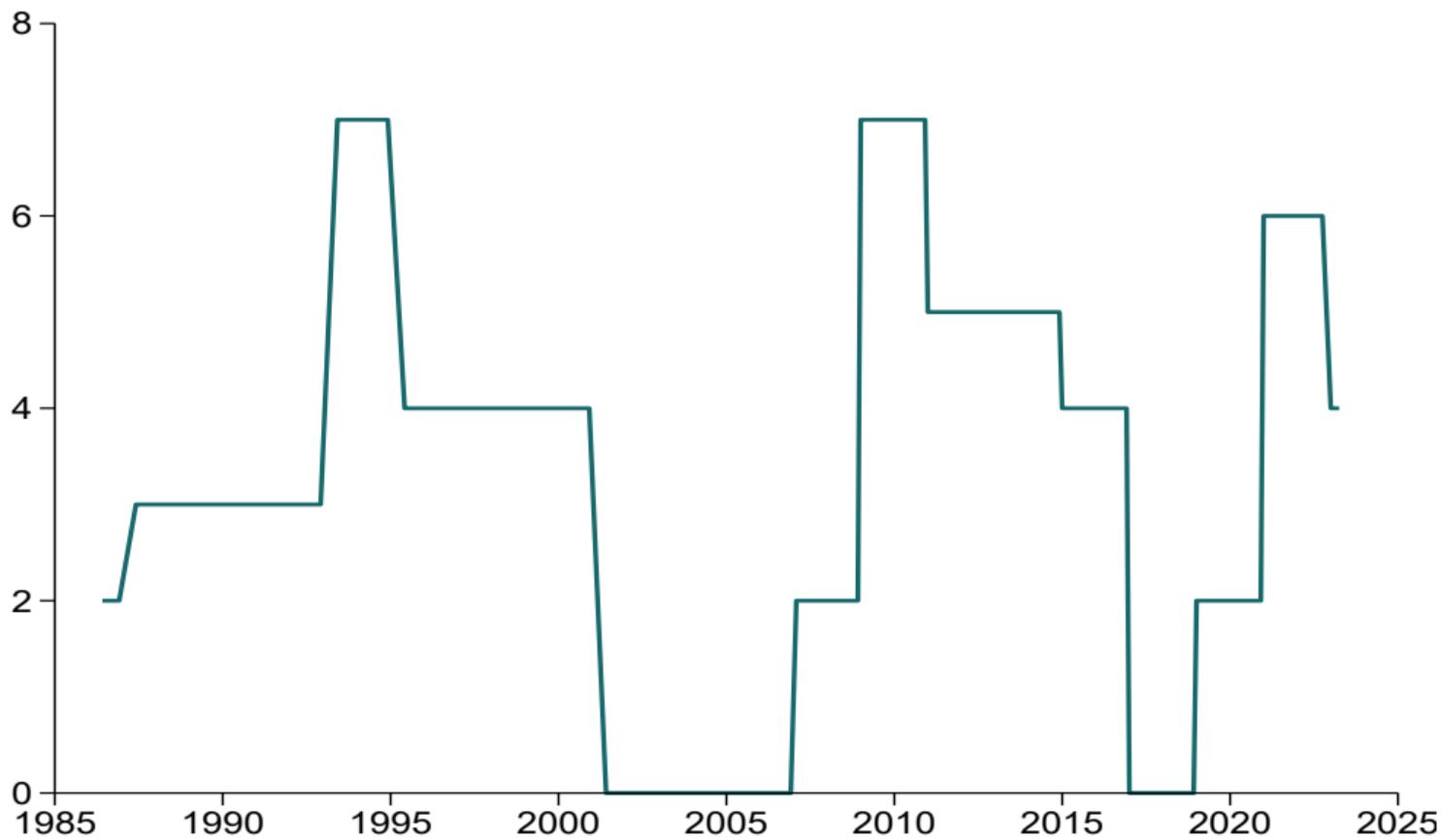
GDP forecasts and more granular measure of political control

More granular measure of political control

Roper (2002) measure:

Democratic Control	Democratic Party Control Index	Republican Control
Nothing	0	President, House, and Senate
Senate	1	President and House
House	2	President and Senate
House and Senate	3	President
President	4	House and Senate
President and Senate	5	House
President and House	6	Senate
President, House, and Senate	7	Nothing

Roper measure of political control



Differences across Democrat & Republican affiliated forecasters using Roper measure

2-quarter ahead GDP forecasts: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Roper_t + \varepsilon_{j,t}$$

<i>Dem_j × Roper_t</i>	0.08*** (0.020)
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Observations	6,375
--------------	-------

R-squared	0.638
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Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

▶▶ Allowing for non-linear effects

Differences across Democrat & Republican affiliated forecasters using Roper measure

2-quarter ahead GDP forecasts: Two-way fixed effects

One year window around mid-term elections ($t - 4$ to $t + 8$)

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Roper_t + \varepsilon_{j,t}$$

$Dem_j \times Roper_t$	0.09** (0.034)
Observations	1,646
R-squared	0.636

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level

Results with inflation, unemployment and interest rate forecasts

Inflation, unemployment & interest rate forecasts unaffected by partisan bias

6 month ahead forecasts: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Pres_t + \varepsilon_{j,t}$$

	CPI	Unemp	FFR	10y
<i>Dem_j × Pres_t</i>	-0.10 (0.118)	-0.01 (0.048)	-0.05 (0.060)	-0.01 (0.087)
Observations	5,677	5,114	5,498	5,575
R-squared	0.750	0.987	0.984	0.963

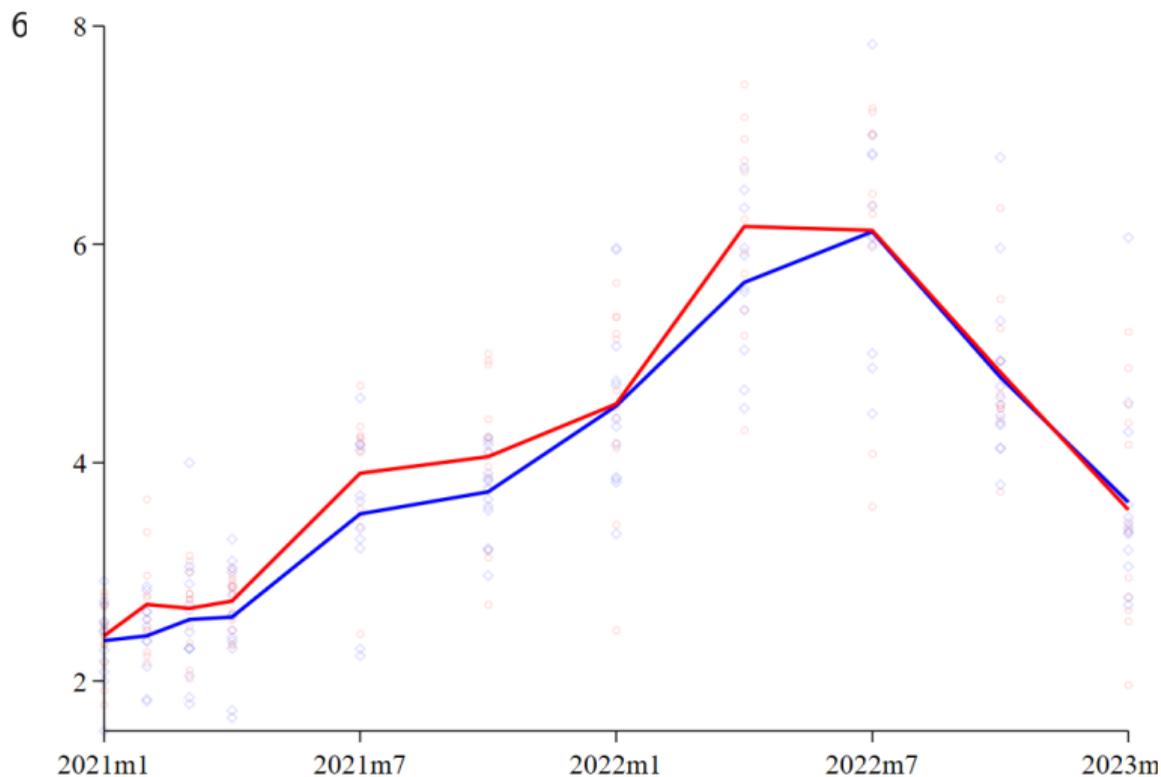
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Why are inflation, unemployment and interest rate forecasts unaffected by partisan bias?

Potential reasons:

1. These variables show less dispersion across forecasters than GDP forecasts 
 - Inflation has been stable around 2% for most of our sample
 - Forward guidance by Fed \Rightarrow low uncertainty about interest rates

Inflation forecasts in the pandemic recovery



As inflation increased under Biden, Republican affiliated forecasters had higher inflation forecasts

Why are inflation, unemployment and interest rate forecasts unaffected by partisan bias?

Potential reasons:

1. These variables show less dispersion across forecasters than GDP forecasts 
 - Inflation has been stable around 2% for most of our sample
 - Forward guidance by Fed \Rightarrow low uncertainty about interest rates
2. Forecasters think that GDP is more affected by political decisions

How to interpret the effect of partisanship on forecasts?

Potential candidates for differences across Democrats and Republicans:

Heterogeneity in:

- Prior beliefs
- Information sets
- Models

Related Literature

Evidence of political affiliation affecting households

- Households: Gerber & Huber (2006, 2009), McGrath (2016), Mian, Sufi & Khoshkou (2023), Kamdar & Ray (2022)

Evidence of political affiliation affecting decisions of finance professionals

- Credit rating analysts: Kempf & Tsoutsoura (2021)
- Institutional investors: Kempf, Tsoutsoura, Schäfer & Luo (2023)
- Syndicated loan officers: Dagostino, Gao & Ma (2022)

Deviations of expectations from full information rational expectations (FIRE)

- Coibion & Gorodnichenko (2012,2015), Bordalo et al (2020)

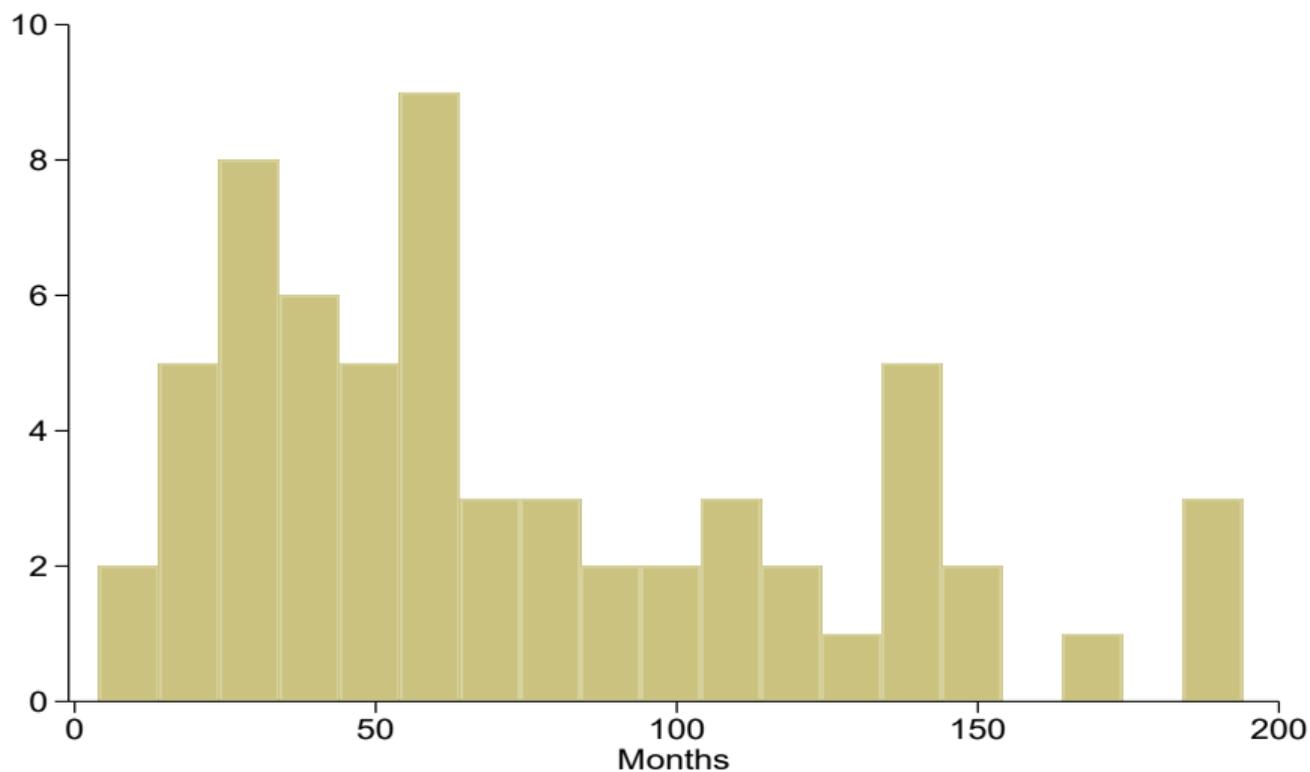
Conclusion

Partisan bias even affects the macroeconomic forecasts of professional forecasters

- GDP forecasts are relatively higher for Democrat-affiliated forecasters when a Democrat is president (relative to a Republican president)
 - forecasts similar under Democratic presidents but diverge under Republican presidents
- Accuracy of forecasts also appears to be affected by political affiliation
- Other macro variables appear to be unaffected by partisan bias

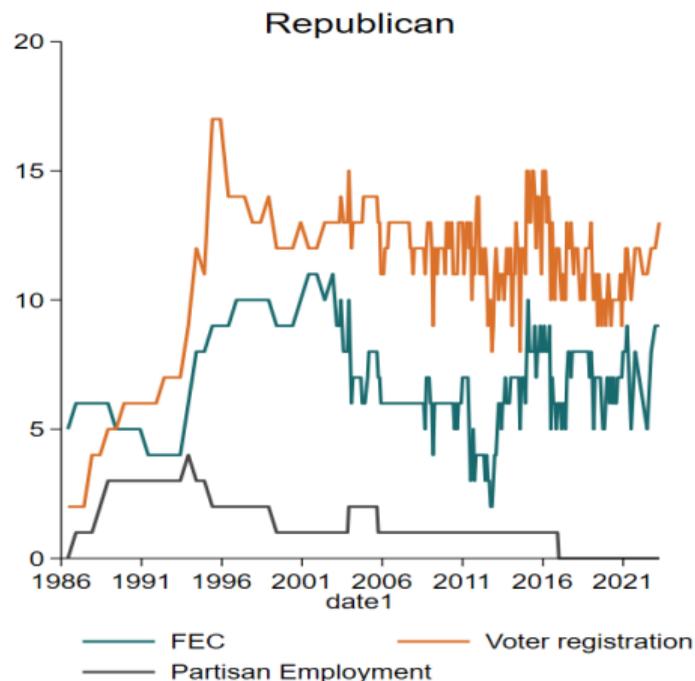
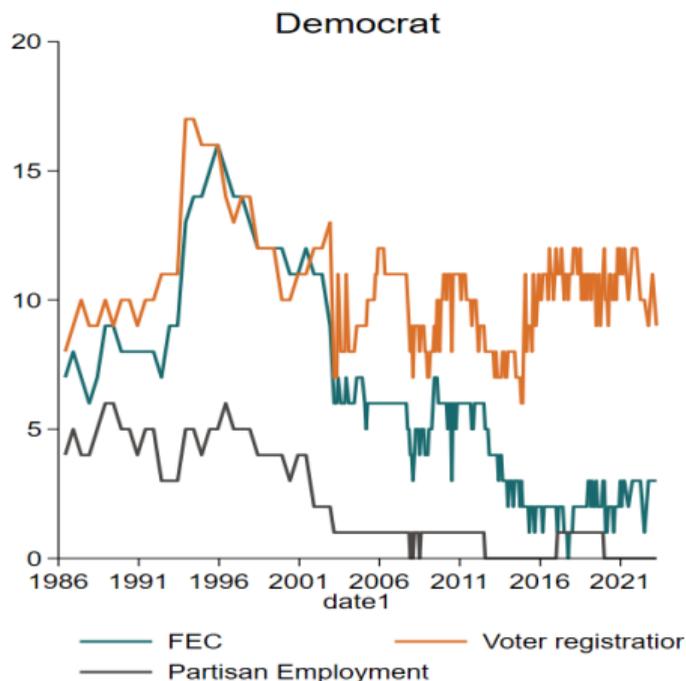
Forecasters spend an average of 6 years in the sample

Histogram: Months in sample



Most matches come from FEC and voter registration

Matched forecaster affiliation by source



◀ Note: Individual

lines don't sum to total forecasters because for some forecasters we have their affiliation from more than one source

Demographic characteristics of WSJ Survey forecasters

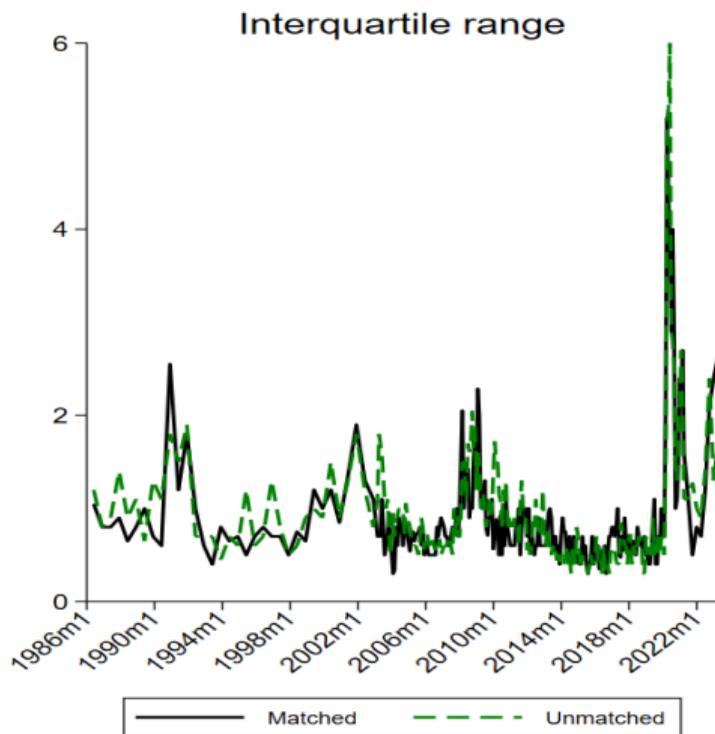
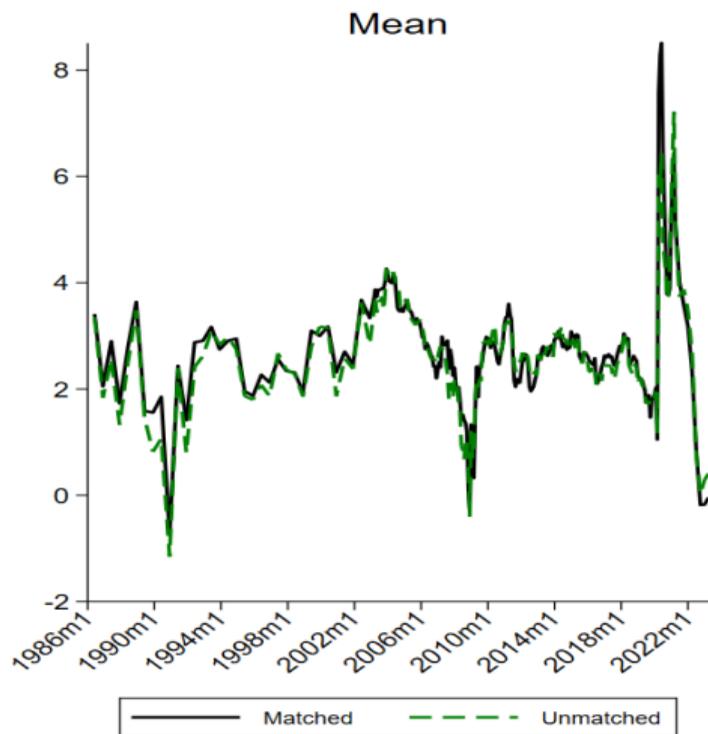
	Matched	Unmatched
# male	99	107
# female	12	13
mean age	58.2	56.2

	Democrat	Republican
# male	48	51
# female	7	5
mean age	58.0	58.4



Matched forecasters as a group look broadly similar to unmatched

2-quarter ahead GDP forecasts



Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Two-way fixed effects

Using election date as cutoff

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Prest_t + \varepsilon_{j,t}$$

<i>Dem_j × Prest_t</i>	0.45*** (0.102)
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Observations	6,387
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R-squared	0.640
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Results are not driven by outliers

2-quarter ahead GDP forecasts: Two-way fixed effects

	Drop min-max	10% trimmed	10% winsorized
$Dem_j \times Prest_t$	0.37*** (0.082)	0.30*** (0.061)	0.39*** (0.077)
Observations	5,845	5,437	6,375
R-squared	0.714	0.773	0.731

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level 

GDP forecasts: Other horizons

Differences across Democrat & Republican affiliated forecasters: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Prest_t + \varepsilon_{j,t}$$

	1Q	2Q	3Q	2Q	next year	2Q
<i>Dem_j × Prest_t</i>	0.33** (0.128)	0.46*** (0.119)	0.42*** (0.110)	0.47*** (0.131)	0.46*** (0.128)	0.51*** (0.178)
Observations	5,663	5,663	4,824	4,824	3,465	3,465
R-squared	0.588	0.639	0.568	0.645	0.652	0.649

Sample: Jan-1986 to Apr-2023, standard errors clustered at the forecaster level 

Differences across Democrat & Republican affiliated forecasters

2-quarter ahead GDP forecasts: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \beta Dem_j * Pres_t + \varepsilon_{j,t}$$

Using only political donation matches

<i>Dem_j × Pres_t</i>	0.44*** (0.16)
Observations	2858
R-squared	0.664

Using only voter registration matches

<i>Dem_j × Pres_t</i>	0.47*** (0.12)
Observations	5304
R-squared	0.595

Differences across Democrat & Republican affiliated forecasters using Roper measure

2-quarter ahead GDP forecasts: Two-way fixed effects

$$y_{j,t} = \gamma_j + \gamma_t + \sum_{i \in \{2,4,5,7\}} \beta^i Dem_j * \mathbb{1}Roper_t^i + \varepsilon_{j,t}$$

$$Dem_j \times Roper_t^i = 2 \quad -0.30^*$$

(0.176)

$$Dem_j \times Roper_t^i = 3 \quad 0.03$$

(0.222)

$$Dem_j \times Roper_t^i = 4 \quad 0.32^{***}$$

(0.091)

$$Dem_j \times Roper_t^i = 5 \quad 0.30^{**}$$

(0.146)

$$Dem_j \times Roper_t^i = 6 \quad 0.31$$

(0.296)

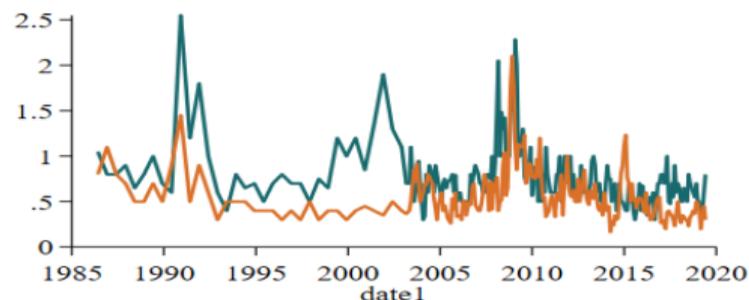
$$Dem_j \times Roper_t^i = 7 \quad 0.41^{**}$$

(0.172)

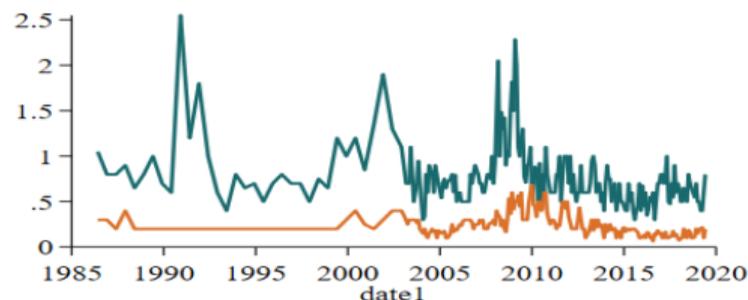
Observations 6,375

R-squared 0.641

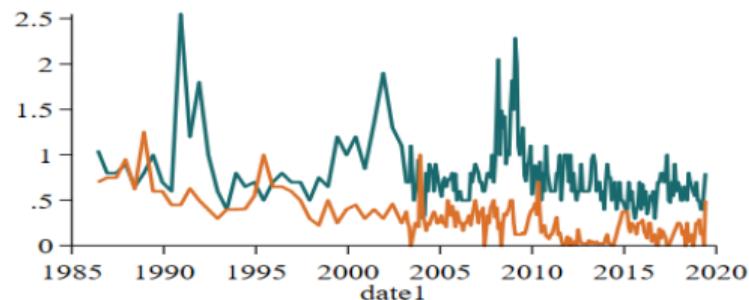
Dispersion of GDP forecasts is substantially higher than other variables



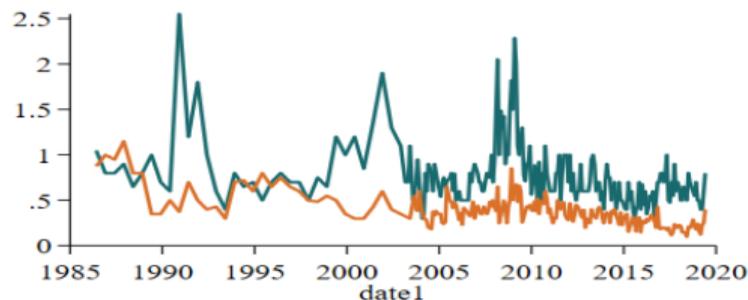
— GDP — CPI



— GDP — Unemployment



— GDP — Fed funds rate

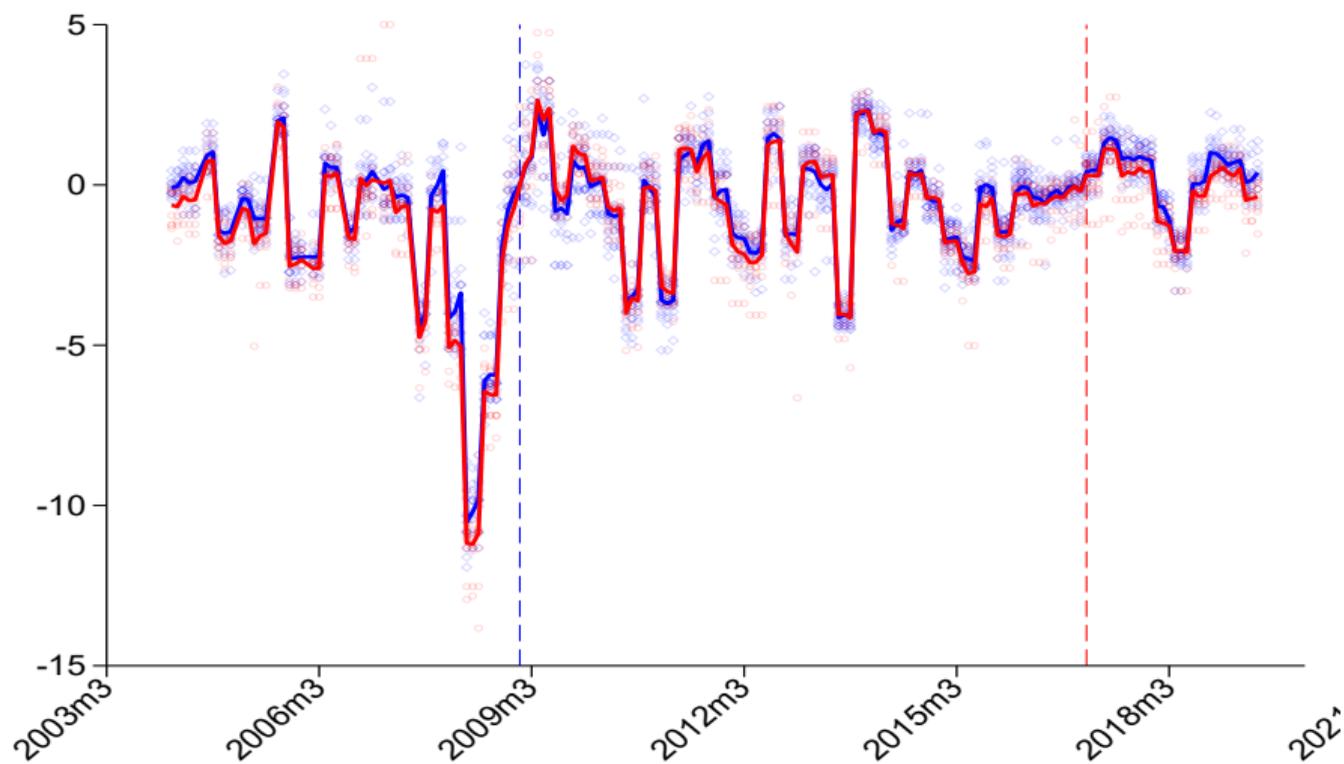


— GDP — 10 year Treasury



Forecast errors by political affiliation

2-quarter ahead GDP forecast errors



Details on Lexis Nexis

LexisNexis Public Records data cover 23 states: Alabama, Alaska, Arkansas, Colorado, Connecticut, Delaware, District of Columbia, Florida, Louisiana, Massachusetts, Michigan, Mississippi, Nevada, New Jersey, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, Texas, Utah, Wisconsin