

March 2, 2017

## Gauging Firm Optimism in a Time of Transition

Recent consumer sentiment index measures have hit postrecession highs, but there is evidence of significant differences in respondents' views on the new administration's economic policies. As Richard Curtin, chief economist for the Michigan Survey of Consumers, [states](#):

When asked to describe any recent news that they had heard about the economy, 30% spontaneously mentioned some favorable aspect of Trump's policies, and 29% unfavorably referred to Trump's economic policies. Thus a total of nearly six-in-ten consumers made a positive or negative mention of government policies...never before have these spontaneous references to economic policies had such a large impact on the Sentiment Index: a difference of 37 Index points between those that referred to favorable and unfavorable policies.

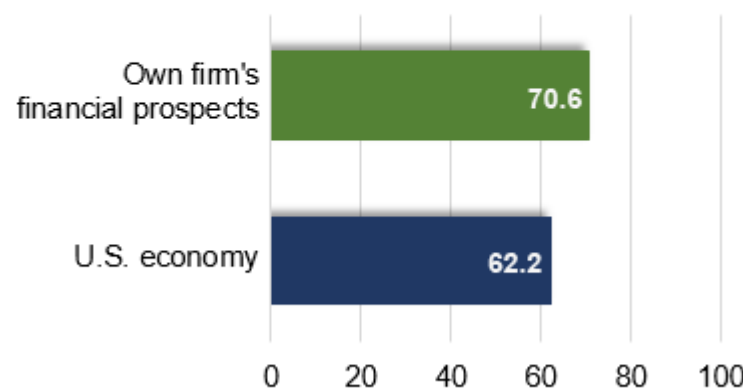
It seems clear that government policies are holding sway over consumers' economic outlook. But what about firms? Are they being affected similarly? Are there any firm characteristics that might predict their view? And how might this view change over time?

To begin exploring these questions, we've adopted a series of "optimism" questions to be asked periodically as part of the Atlanta Fed's Business Inflation Expectations Survey's [special question series](#). The optimism questions are based on those that have appeared in the [Duke CFO Global Business Outlook survey](#) since 2002, available quarterly. (The next set of results from the CFO survey will appear in March.)

We first put these questions to our business inflation expectations (BIE) panel in [November 2016](#). The survey period coincided with the week of the U.S. presidential election, allowing us to observe any pre- and post-election changes. We found that firms were more optimistic about their own firm's financial prospects than about the economy as a whole. This finding held for all sectors and firm size categories (chart 1).

### Chart 1: Optimism for U.S. Economy and Firms' Financial Prospects

on a scale from 0–100, average

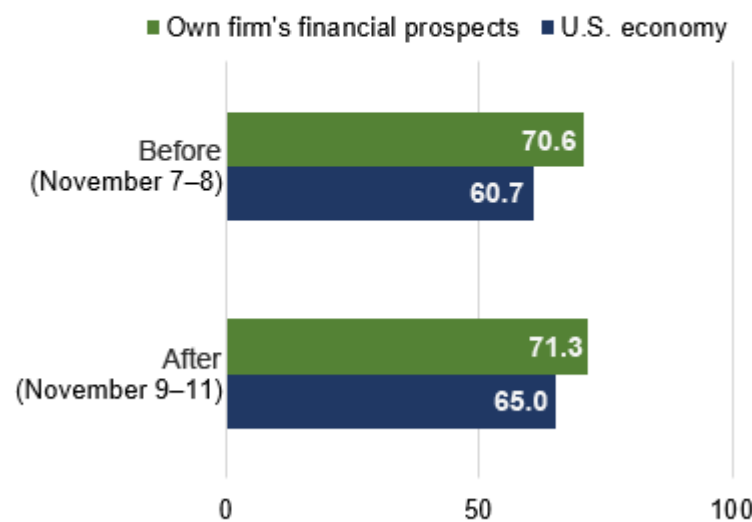


Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

In addition, we found no statistical difference in the pre- and post-election measures, as chart 2 shows. (For the stat aficionados among you, we mean that we found no statistical difference at the 95 percent level of confidence.)

### Chart 2: Optimism for U.S. Economy and Firms' Financial Prospects

Before and After Election Day  
on a scale from 0–100, average



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

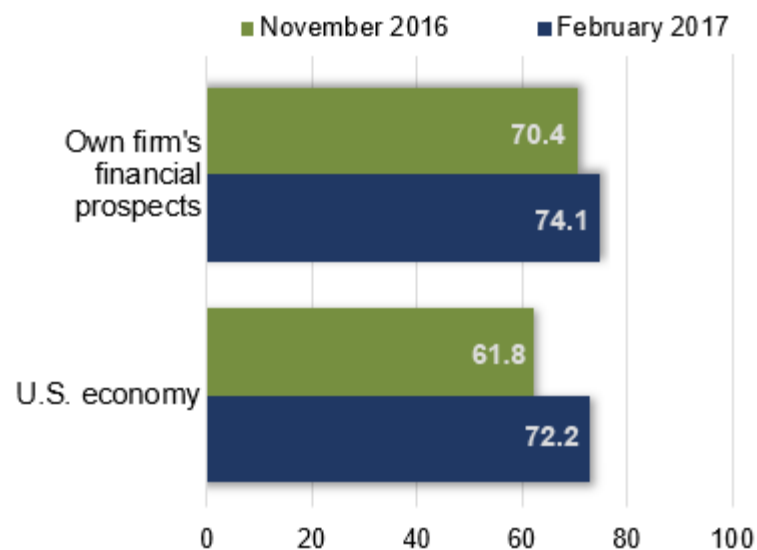
We were curious how our firms' optimism might have evolved since the election, so we repeated the questions [last month](#) (February 6–10).

Among firms responding in both November and February (approximately 82 percent of respondents), the overall level of optimism increased, on average (chart 3). This increase in optimism is statistically significant and was seen across firms of all sizes and sector types (goods producers and service providers).

### Chart 3: Optimism for U.S. Economy and Firms' Financial Prospects

November 2016 vs February 2017

on a scale from 0–100, average



Source: Atlanta Fed Business Inflation Expectations (BIE) Survey

The question remains: what is the upshot of this increased optimism? Are firms adjusting their capital investment and employment plans to accommodate this more optimistic outlook? The data should answer these questions in the coming months, but in the meantime, we will continue to monitor the evolution of business optimism.



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