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Hiring signage was displayed at a job fair in Hendersonville, N.C., in November, shortly after the election. ALLISON JOYCE/ BLOOMBERG NEWS



## As the Economy Hums, Gloom Persists

### CAPITAL ACCOUNT

By Greg Ip

A lot has changed since November's election, but not this: The economy is still pretty solid, and people are still really down on it.

The latest evidence of the disconnect is a Conference Board report Tuesday that consumer confidence plummeted 6.7% in February from January, the largest drop since 2021. The other major confidence survey, by the University of Michigan, also has recorded falling confidence, as have several business surveys.

The mood might be spilling over to perceptions of President Trump. More respondents to recent polls for both Gallup and Quinnipiac University disapproved than approved of his handling of the economy.

There's very little hard data on how the economy has performed since Jan. 20. But what's available suggests the economy remains pretty solid. Job growth was strong in January, the unemployment rate dropped a tad, and new claims for unemployment insurance have oscillated around the same low level in recent weeks, albeit with increases in Washington, D.C., which is being hit hard by Trump's cuts.

Stock prices dropped earlier this week but are still higher than on Election Day. Bond yields and oil prices have fallen, signaling some concern about growth but also relief on mortgage rates and gasoline prices.

It's way too early to assume that Trump, like his predecessor Joe Biden, will be tormented by a public mood at odds with objective reality. That said, the anxiety that has long permeated the public isn't going away just because the White

House changed hands.

Dig a little deeper, and some explanations for weak confidence emerge. First, confidence measures popped following the election, especially among businesses. Some of the recent drop might simply be a return to earth. (In retrospect, perhaps Trump shouldn't have promised to slash prices on Day 1.)

Second, partisanship is at work. Democrats have turned sharply pessimistic, Republicans optimistic, according to the University of Michigan. Independents are little changed.

Third, the anxiety is about the future, not the present. In both the Conference Board and Michigan surveys, consumers' assessments of their current situation are about where they were in October, whereas expectations of the future have slid sharply.

Much of the anxiety is about inflation. It has been stubborn: Consumer price inflation rose more than expected, to 3% in January, the last month on Biden's watch. Still, the measure most closely watched by the Federal Reserve is around 2.5% and likely moving lower.

While no one blames Trump for where inflation has been, some consumers clearly worry about where he will take it, given his plans to hit imports with tariffs. Even there, fear and reality seem at odds. Trump has thus far only raised tariffs on China. (He has scheduled them for aluminum and steel, threatened them on Canada and Mexico, and is studying them for everyone else.) Consumers expect inflation to rise more than do investors or economists. \*

Expectations can be self fulfilling. Consumers worried about a recession might spend less. Workers sensitized to inflation might demand higher wages, fueling a wage-price spiral.

But in practice, sentiment measures are lousy predictors. There is little evidence of any slump in consumption at present that could foreshadow recession. Retail sales fell in January, but economists blamed seasonal distortions. Walmart shares plummeted on a prediction of softer sales growth, not any weakness at the cash register thus far. Meanwhile, Republicans in Congress are planning to extend tax cuts and perhaps add new ones.

Inflation fears, too, might subside. There is a feedback mechanism at work: The more concern about tariffs hurts the stock market and the economy, the less likely Trump is to actually implement them.

The lesson here, though, is that political leaders are vulnerable to a public that is deeply unhappy, not just in the U.S., but around the world. They have punished incumbents at a staggering rate in recent years, and honeymoons of the newly elected have been brief.

If Trump is going to break this pattern, he really does have to make good on his promised "golden age." Silver or bronze won't cut it.

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