Electoral periods have a positive albeit short-lived effect on household confidence

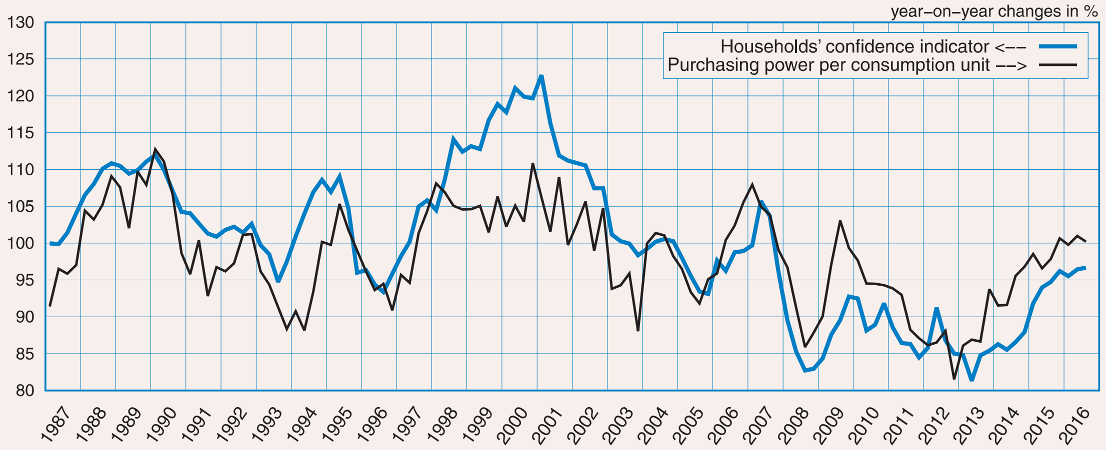
The monthly outlook survey among households provides an insight each month into their confidence in the economic situation. They are asked about their personal economic situation (financial situation, timeliness of making major purchases, etc.) and their economic environment (standard of living in France, unemployment, prices, etc.). A composite confidence indicator summarises the concomitant changes in the main opinion variables drawn from the survey. All this information is used for the short-term diagnosis of consumption.

Over the long term, the household confidence indicator is closely linked to their purchasing power. In addition to this, certain events that affect households as a whole seem to influence the short-term fluctuations in their confidence, and notably national elections, such as the presidential and legislative elections. Econometric analyses show that the perception households have of the future standard of living in France and their fears of unemployment show a marked improvement during electoral periods, although this bubble of optimism soon deflates once the election is over. Responses to the other questions seem to show little or no sensitivity to these events. All in all, the composite confidence indicator shows a slight peak in optimism on the occasion of this type of election, reaching an average of 4 points in the month following the election.

Household confidence follows the trend in their purchasing power

The composite household confidence indicator published by INSEE each month is calculated as a weighted average of eight balances of opinion[1] on questions of an economic nature: (future and past) standard of living in France, (future and past) personal financial situation, timeliness of making major purchases, (future and past) saving capacity, and future unemployment. It summarises the concomitant changes in these main opinion variables by a factor analysis technique. It is one of the series of tools that are used to forecast changes in household consumption over the short term. Over the longer term, the fluctuations in this indicator appear to be very close to those in purchasing power gains per consumption unit (*Graph 1*). Since 2013, for instance, the two variables have shown a simultaneous upturn. An econometric analysis confirms that household confidence in the economic situation is determined above all by fluctuations in their purchasing power.

1 - Household confidence indicator (converted to a quarterly basis) and purchasing power



Source: INSEE

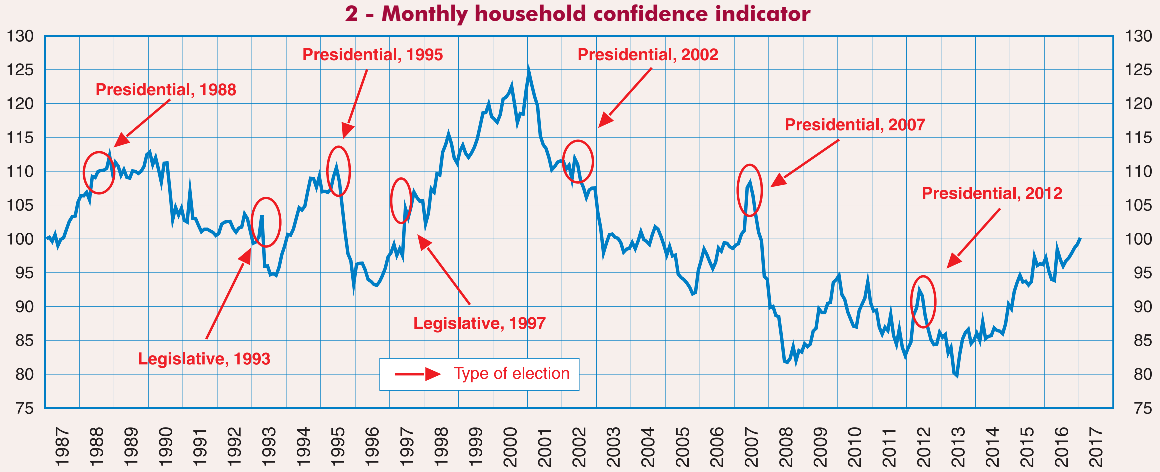
This relationship allows the household confidence indicator to be used as a leading indicator of their purchasing power and then of their consumption. Braun-Lemaire and Gautier (2001), for example, demonstrated that macroeconomic consumption equations could be enhanced by integrating a "confidence" factor. In addition to this, some of the balances of opinion, such as the timeliness of making major purchases, are used to forecast specific items, such as household consumer spending on durable goods.

Bubbles of optimism have formed on the occasion of past national elections, in particular on prospects for the economy as a whole

In the short term, other events can also influence fluctuations in household confidence. A graphic analysis suggests that this is the case of national elections (presidential and legislative elections) which often coincide with relative peaks in optimism (*Graph 2*). To confirm that the effect is significant, the link between the outlook surveys and these electoral periods was formalised by an econometric analysis.

1. A balance of opinion is calculated as the difference between the positive and negative opinions. For example, to the question "How has the financial situation of your household changed over the past twelve months?", the balance corresponds to the difference between the households that responded "got a lot better" or "got a little better" and the proportion who replied "got a little worse" or "got a lot worse".

2 - Monthly household confidence indicator



Source: INSEE

The monthly outlook survey among households for month "m" is published at the end of month "m" on the basis of data collected over a period running from the end of month "m–1" to the middle of month "m". The reference month for the various elections is defined here as being the month after the election, in which all households are aware of the result of the election. For example, the result of the 2012 presidential election was known on 6 May, and the reference month is defined here as being the month of June. When the result is known on the 1st of the month, it is that month that is taken as the reference month.

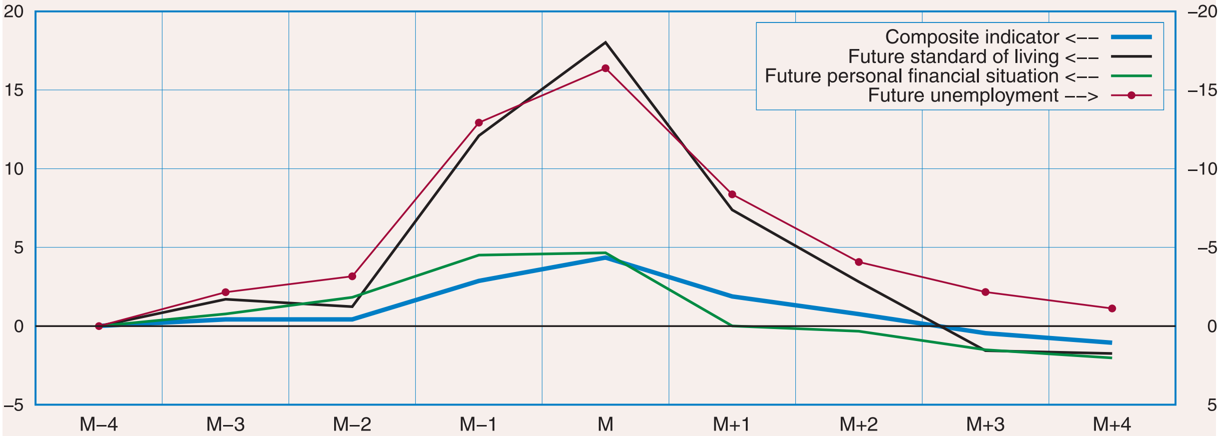
The presidential elections of 1988,[2] 1995, 2002, 2007 and 2012 were taken into consideration, along with the 1993 and 1997 legislative elections. The latter were also general elections by nature, as they did not immediately follow a presidential election. *Table 1* summarises the electoral calendar and the reference months, which is to say the survey for the month from which the election result was known.

Table 1 - Election calendar and determination of the reference month

Year	Type	Second turn	Reference month
1988	Presidential	May, 8th	June
1993	Legislative	March, 28th	April
1995	Presidential	May, 7th	June
1997	Legislative	June, 1st	June
2002	Presidential	May, 5th	June
2007	Presidential	May, 6th	June
2012	Presidential	May, 6th	June

The reference month determined in this way is referred to as month "M", and is the month after the election in most cases. By superimposing the intra-annual profiles of each of the balances of opinion around month "M" in the years mentioned above, we can quite clearly see a temporary peak for three of those balances of opinion: "future standard of living in France", "future unemployment" and "future personal financial situation" (*Graph 3*). The other balances, however, and notably the timeliness of making major purchases, savings capacity and balances referring to the past, do not seem to be affected by these electoral periods.

3 - Impact of electoral periods on the different balances of opinion



How to read the graph: the balances are presented here in such a way that their average in month "m–4" is equal to 0. The "future unemployment" balance of opinion is represented on the scale on the right: the balance falls when fewer households consider that unemployment is going to increase.
Source: INSEE

2. Collection and publication of the survey became monthly from January 1987, enabling more precise monitoring of household opinion and any changes in it.

All in all, the reference month peak can also be seen in the composite indicator which climbs by about 4 points on average before falling back again. The balances of opinion referred to above seem to improve in the two months prior to the reference month, reaching a peak in that month and then falling in month "M+1" and then again in "M+2". These five months can be taken as the "electoral period" event which was tested in the econometric analysis.

To test the hypothesis of bubbles of optimism caused by the electoral period as defined here, the following model was estimated:

$$\Delta solde_t = \beta\Delta GA(PA)_t + \delta_1 ElectionsMM2_t + \delta_2 ElectionsMM1_t + \delta_3 ElectionsM_t$$
$$+\delta_4 ElectionsMP1_t + \delta_5 ElectionsMP2_t + u_t$$

with:
- $GA(PA)_t$ the year-on-year change in purchasing power per consumption unit;
- $ElectionsMM2_t$ (respectively MM1, M, MP1, MP2) an indicator that takes a value of 1 in month M–2 (M–1, M, M+1, M+2) of election years, and 0 otherwise.

The composite household confidence indicator appears to be significantly affected by the electoral period (*Table 2*). The composite indicator gains 2.4 points in the preceding month and then a further 1.5 points in the reference month (+3.9 points cumulated), before falling almost to the prior level in the following two months. The "future standard of living in France" balance of opinion follows the same profile, with a cumulative effect of 16.7 points in the reference month, before falling back again systematically in the following two months. The same goes for the balance of opinion on future unemployment. However, the personal financial situation balance of opinion is not affected by the electoral period, with a much smaller cumulative sum of the coefficients until the reference month.

Table 2 - Results of the regressions of the different balances of opinion

	Composite household confidence indicator	Future standard of living in France	Future personal financial situation	(reverse of) Future unemployment
Year-on-year change in purchasing power	0.34 (3.15)	0.48 (1.49)	0.36 (2.46)	1.42 (2.63)
Elections M–2	0.00 (0.01)	–0.45 (–0.24)	1.07 (1.27)	1.06 (0.34)
Elections M–1	2.45 (3.89)	10.87 (5.76)	2.69 (3.19)	9.82 (3.13)
Elections M	1.47 (2.33)	5.90 (3.12)	0.12 (0.14)	3.38 (1.10)
Elections M+1	–2.44 (–3.88)	–10.60 (–5.61)	–4.62 (–5.47)	–7.90 (–2.52)
Elections M+2	–1.09 (–1.73)	–4.54 (–2.40)	–0.31 (–0.36)	–4.18 (–1.33)
R^2 (in %)	10.80	17.80	10.64	5.42
RMSE	1.669	4.99	2.232	8.29

How to read the table: the Student's statistics are in brackets. A coefficient for which the Student's statistic is greater than 1.64 is considered significant at the10% threshold.

Source: INSEE

The econometric analysis therefore confirms that the "electoral period" effect on household confidence is significant and quite strong, but short-lived. The effect is driven only by the forward-looking balances of opinion, and above all the future standard of living in France and prospects of unemployment. ■

Bibliography

Braun-Lemaire I. and **Gautier A.** (2001), "Opinion des ménages et analyse conjoncturelle", *Conjoncture in France*, INSEE, March, p. 30-39. ■