



Why are Americans so gloomy about the economy?

Run each step in Stata, fill in what you find, and test the video's explanation for the gloom.

STEP 1 Same gloom, very different economy

```
use sentiment_verdict.dta, clear†
list date sentiment_published unemployment inflation if date == tm(1980m5)
summarize sentiment_published unemployment inflation if inrange(date, tm(2026m6), tm(2026m8))
```

	Sentiment	Unemployment (%)	Inflation (%)
May 1980			
Summer 2026			

STEP 2 An economy-only benchmark

```
regress sentiment inflation unemployment
predict benchmark
gen gap = sentiment - benchmark
summarize gap if inrange(date, tm(2026m6), tm(2026m8))
```

R²? _____ Gap in summer 2026? _____

STEP 3 Americans' verdict on economic policy

Verdict = % saying the government does a "poor job" minus % "good job":

```
list date verdict if inrange(date, tm(2024m10), tm(2024m12)) | verdict >= 50
```

Late 2024? _____ Record (month)? _____ Highest before 2025? _____

STEP 4 Add the verdict to the regression

```
regress sentiment inflation unemployment verdict
```

Coefficient on verdict? _____ R² now? _____

STEP 5 The real test: could we have seen it coming?

Fit both models on data through October 2024 only, then forecast:

```
regress sentiment inflation unemployment if date <= tm(2024m10)
predict fcast_econ
regress sentiment inflation unemployment verdict if date <= tm(2024m10)
predict fcast_verdict
gen window = 1 if inrange(date, tm(2024m8), tm(2024m10))
replace window = 2 if inrange(date, tm(2026m6), tm(2026m8))
tabstat sentiment fcast_econ fcast_verdict verdict, by(window) statistics(mean)
```

	Aug–Oct 2024	Jun–Aug 2026	Change
Actual sentiment			
Economy-only forecast			
Forecast with verdict			
Verdict			

What do you notice?

1. How much does a 10-point worse verdict lower sentiment, holding the economy fixed?
2. Which forecast came closer to what actually happened after the election?
3. Why might the verdict and sentiment move together without one causing the other?

† Download sentiment_verdict.dta from platypuseconomics.com into your Stata working directory. To see where that is, type:
pwd Data: University of Michigan Surveys of Consumers; BLS via FRED.