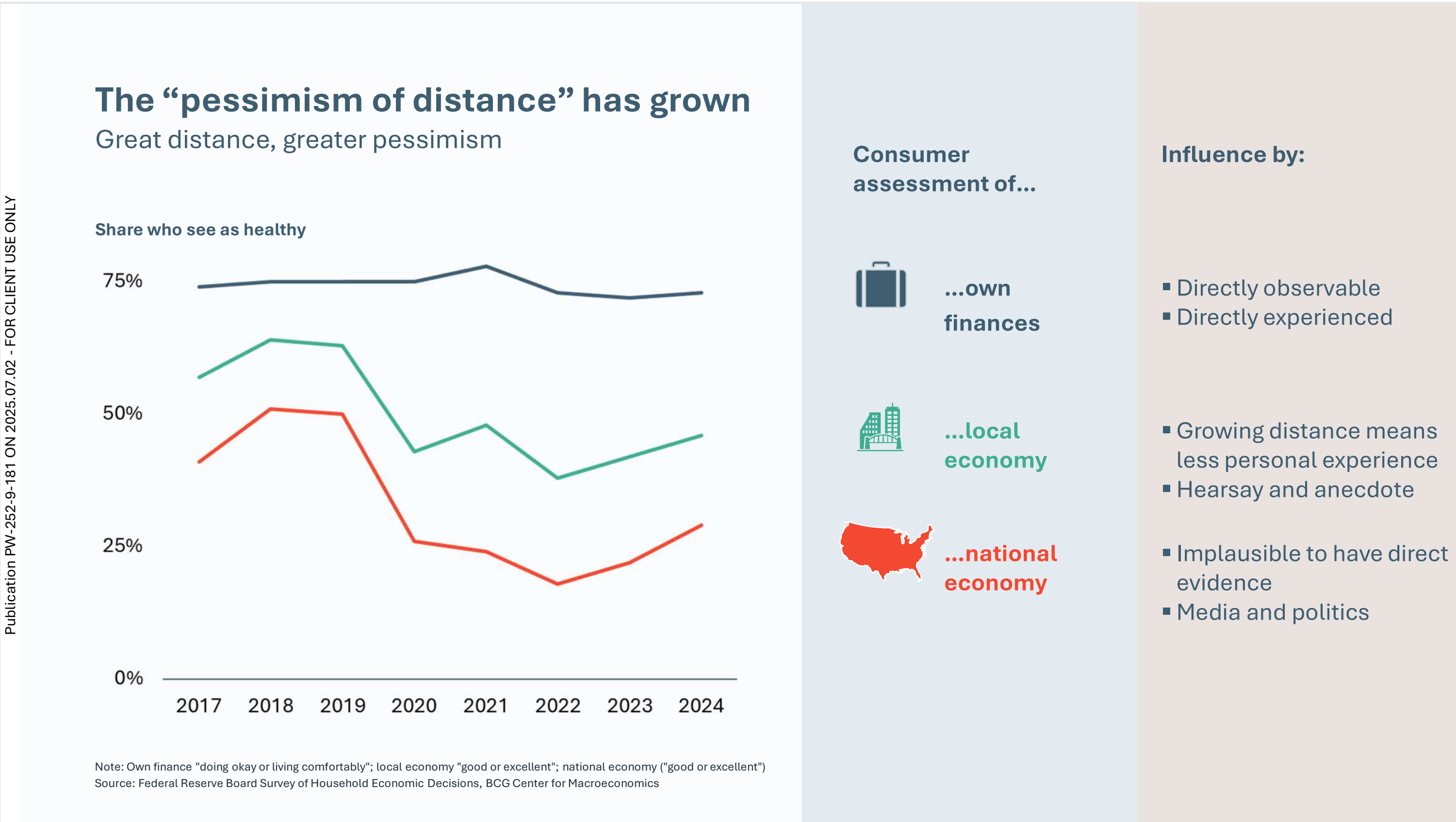
When it comes to assessing the economy, consumers get far more attention than they deserve. Widely covered as a major macroeconomic indicator—including last Friday—"consumer sentiment" has simply turned up too many false alarms. The "Inevitable Recession" that lasted from 2022 to early 2025 in headlines (but not in reality) was frequently pinned on dismal consumers; more recently, many economists spun the tariff chaos into a "recession by summer" including by pointing to souring consumer attitudes.

We first outlined the problems with consumer sentiment in a December 2021 op-ed for Fortune and return to it here with a broader view: What drives consumer sentiment biases? How far off are consumer surveys? Are they unique to consumers—or shared by CFOs and economists? And is consumer sentiment self-fulfilling?



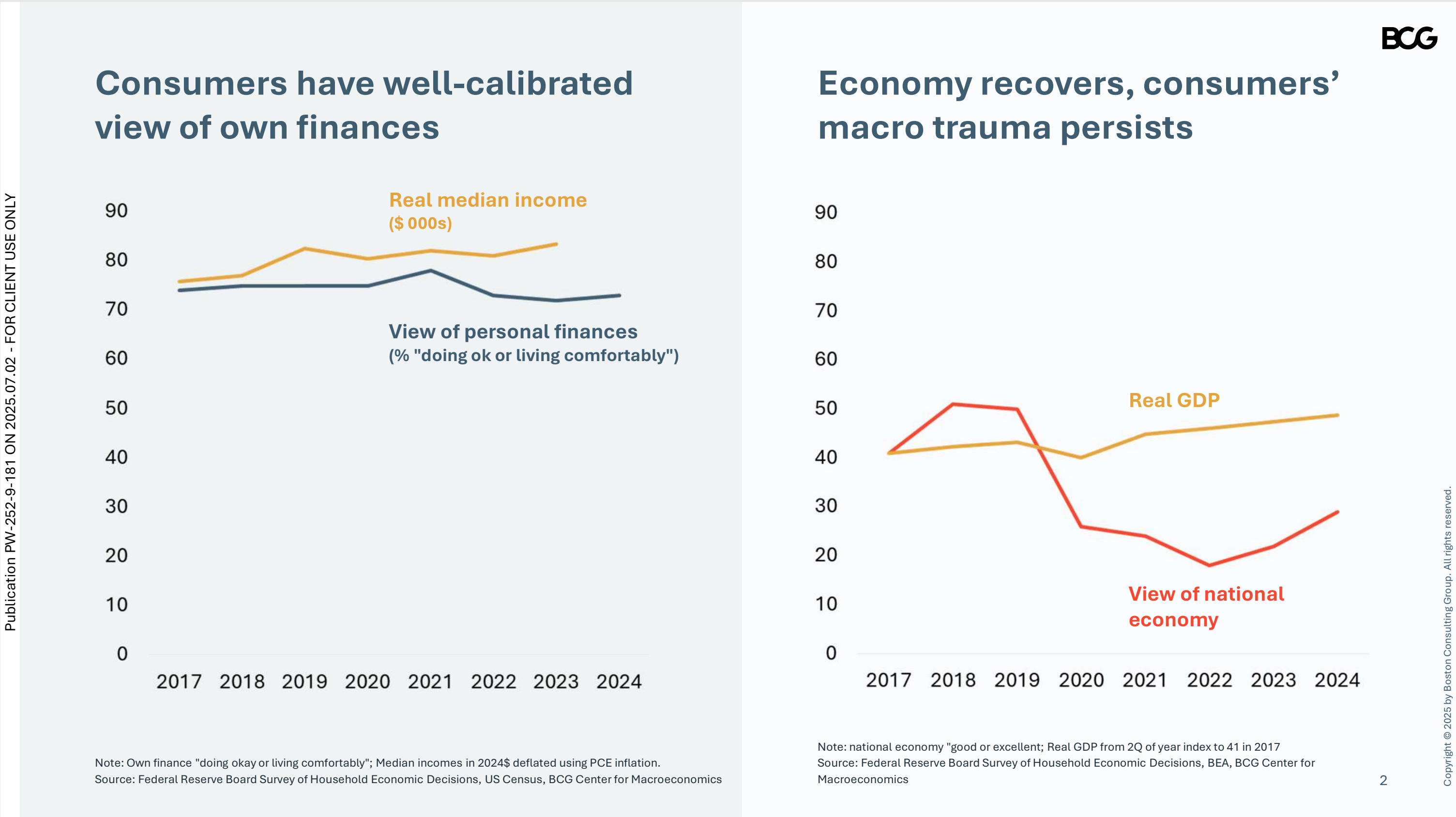
The pessimism of distance

Facts shape consumers' perceptions but when they become less observable, consumers substitute them with pessimism. Asked to assess their own finances, consumers are consistently positive: Around 75% think they are "doing OK or living comfortably," as seen on our chart above. But asked to assess their local economy, pessimism takes hold—only half think it's going well. And asked about the national economy, pessimism rules supreme: only about 25% think it's in good shape.

There are (at least) two problems with this. First, we can't all be comfortable individually but miserable collectively—that literally doesn't add up. Second, weaker observability of facts can reasonably be expected to drive divergences—but why is this bias consistently to the downside? Couldn't it just as easily be better?

Enter the role of public discourse. In the news, blogposts, TikTok, and everywhere else, the economy is consistently portrayed as forever teetering on the precipice of existential collapse. Factoring in such doomsday discourse, consumers might be forgiven for concluding (and responding) "I know I'm comfortable, but I believe the economy is falling apart."

Is it too convenient to blame public discourse? We don't think so. We make a broader case about doomsaying and public discourse in Shocks, Crises, and False Alarms. And we note that the pessimism of distance has widened substantially the recent years — a window of particular gloomy macro narratives.

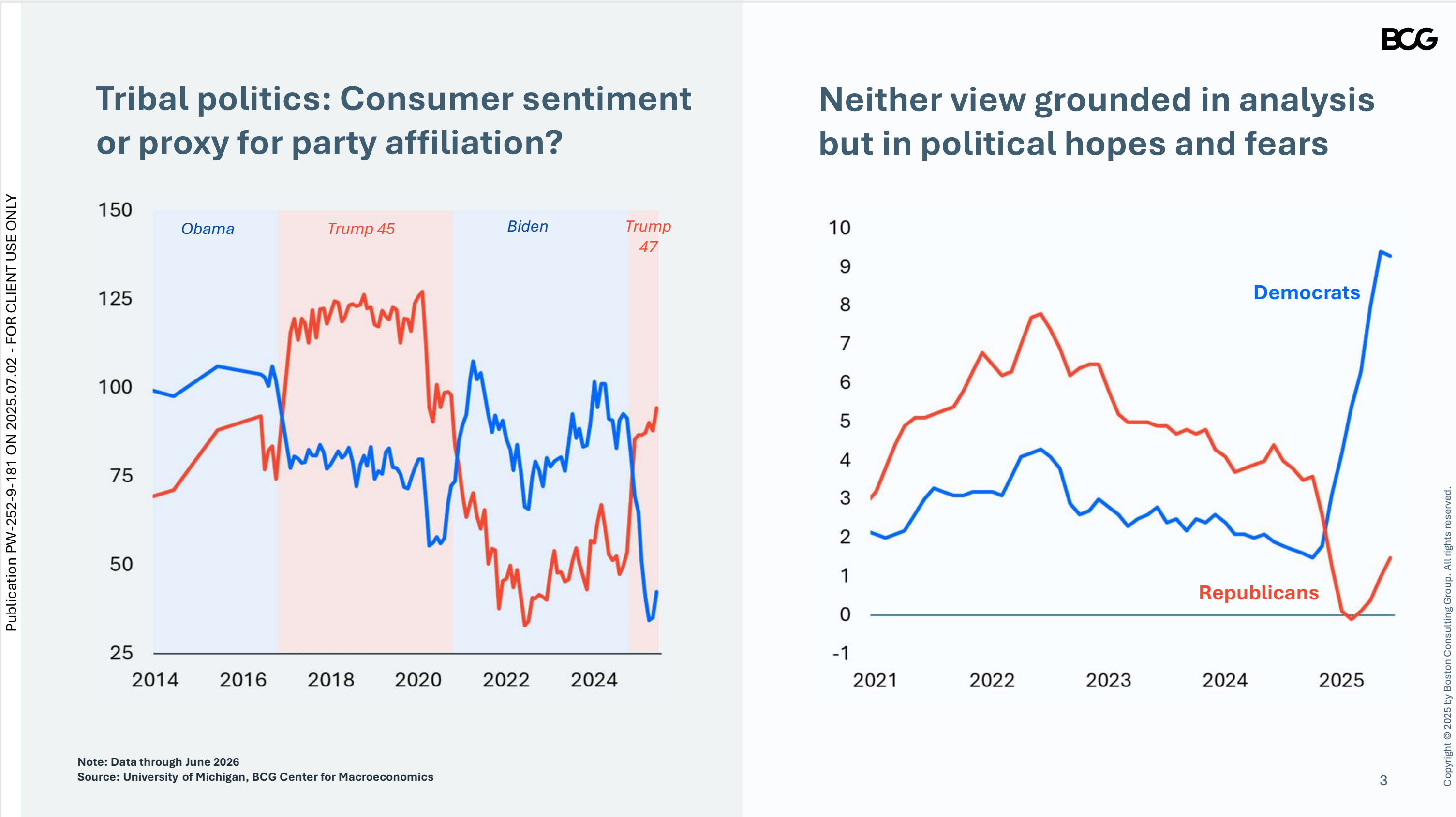


My perception, my reality

How far from reality are consumer sentiment indicators really?

Above we compare consumers' assessment of their own finances with real median income, i.e. what the typical household is taking home, after inflation. Interestingly, that measure has risen while the assessment of their own finances is basically flat at a high level. Perception and reality don't align perfectly.

A far bigger gap, however, opens up when comparing economy's actual performance and consumer perception of it. They rightly picked up on the Covid recession, but then ignored the subsequent recovery—which was strong and fast. It's as if the body has healed but the mind still struggles with a macroeconomic trauma.



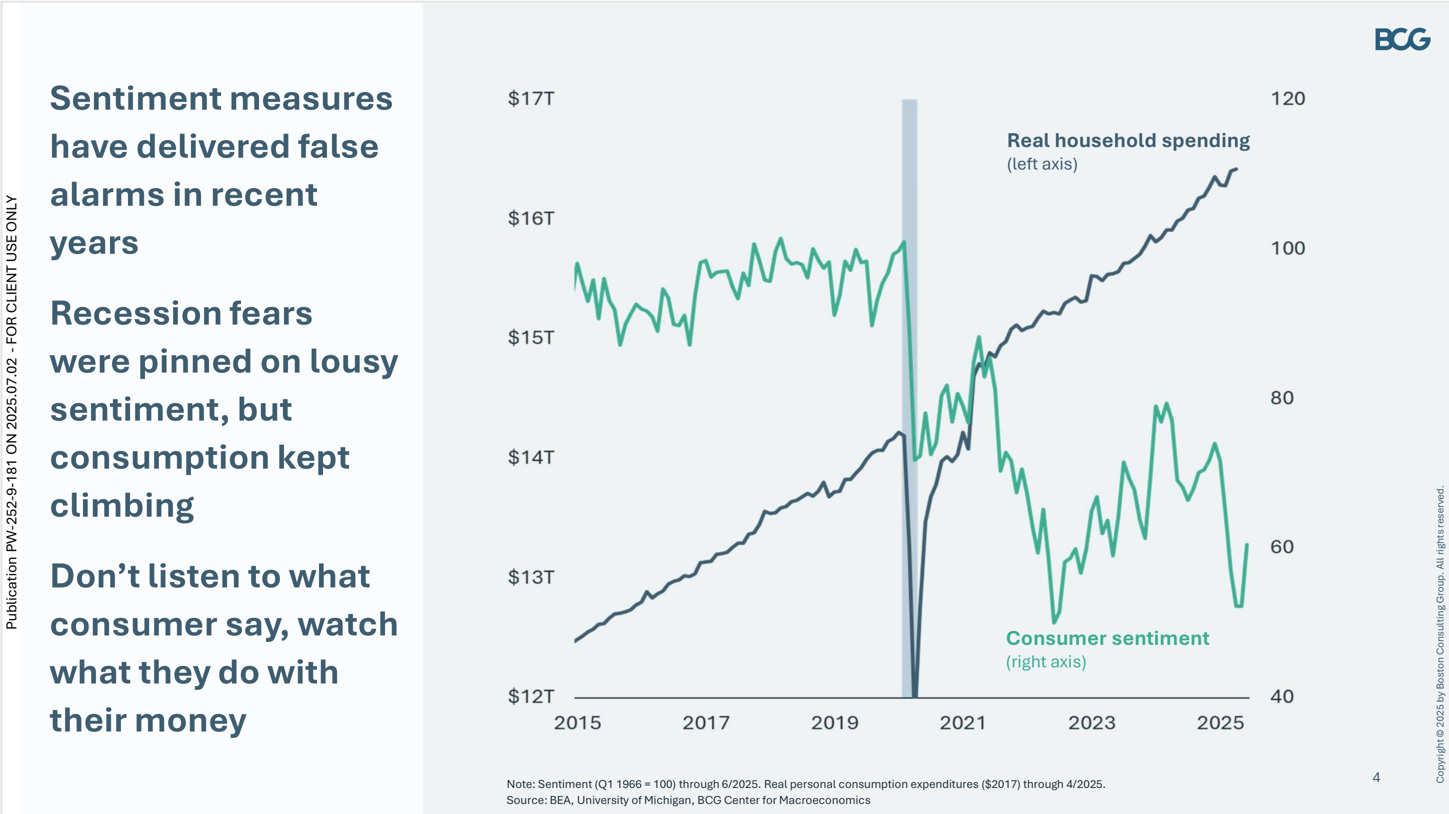
Tribal bias

The observability of facts and doomsday discourse are reasonable explanations for why consumers don't have a good grasp on the economy. Partisan tribal instincts are another.

It's hardly controversial that the United States is a duopolistic "tribal" polity. Consumers are positive about the economy when their team is in the White House, as seen in the chart above (left side). When out of power, sentiment flips. Surveys don't capture sober perspectives of the person in the street as much as hopes about their own team and fears of the other. Put another way: consumer sentiment data looks more like a proxy for party affiliation than a well calibrated macroeconomic indictor.

To illustrate the size of the problem, consider the right side of the same chart which shows consumer inflation expectations over the next year by party affiliation. Currently, Republicans think (or hope) inflation will be a low 1.5%—a rate that is very unlikely even before we factor in the impact of tariffs. (Implausibly, in February, Republicans even believed price would fall over the year). But Democrats think (or fear) that inflation will be over 9%—an equally indefensible figure: tariffs are likely to accelerate inflation, but nowhere near such levels.

Sadly, it's not as simple as netting out the two views to arrive at a "bipartisan" estimate that resembles reality. Taking the average of the two views, we get a bipartisan inflation expectation of 5.4% (9.3+1.5 divided by 2). Though possible, it's far outside the range of current estimates (median = 2.9% PCE inflation ending 2Q2026, high = 3.9%, low = 1.2%).



Isn't consumer sentiment self-fulfilling?

With consumption representing near 70% of GDP, it's a fair idea that consumers sentiment could be self-fulfilling. But that assumes that what consumers say and what they do align.

It does not. As we show above (and have shown before), consumer sentiment collapsed during the Covid recession and never recovered (green time series) but real (i.e., inflation-adjusted) spending recovered quickly and kept climbing undeterred. Put another way, don't listen to what consumers say; instead, watch what they do with their money. They are not the same.

So, what to do?

How to work around unreliable consumers? In the past few years, we've replaced consumer sentiment with a different north star in our work. The north star says that consumers are more myopic than widely thought, look into the future less than widely assumed, and essentially just spend what's coming in. That shifts the focus away from sentiment surveys and on to two factors: job growth and real wage growth. Together they drive spending power quite reliably.

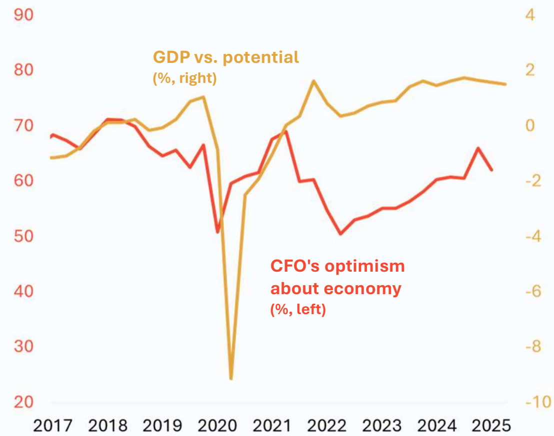
Note that these two engines of consumer spending add up—strength in one can cover up weakness in the other. So it happened in 2022/3 when real wage growth collapsed (with inflation spiking) but robust job growth offset that drag on spending power. Then, in 2024 the situation shifted: job growth slowed, but real wage growth returned as inflation came down rapidly. Consumption kept climbing.

Gauging consumers' role in the cycle really comes down to having a view on those two variables—will job growth persist and will the value of wages grow? Over the past few years, at least, that has been a better guide to consumer spending than consumers' own voices.

Executives also see their own firms more clearly (and positively)...

Note: CFO Optimism about Comp Fin Prospects: Mean (0-100, 100=Most Optimistic; Operating margin of S&P 500.
Source: Duke/Federal Reserve of Richmond/Federal Reserve of Atlanta, Bloomberg, BCG Center for Macroeconomics

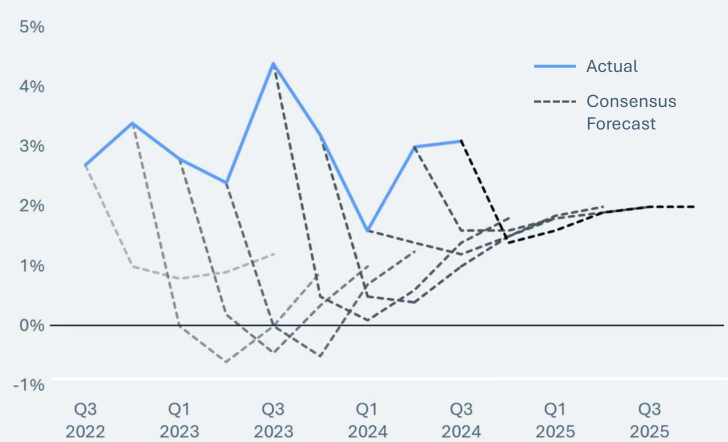
... than they see the economy, particularly in recent years



Note: CFO Survey: Optimism about Economy: Mean (0-100, 100=Most Optimistic)
Source: Duke/Federal Reserve of Richmond/Federal Reserve of Atlanta, B, CBO, Center for Macroeconomics

Economists have fallen to the siren call of models that told them a soft-landing was implausible and recession inevitable

Evolution of Economists' Consensus
U.S. Real GDP Growth



Note: For U.S. Real GDP Growth Forecasts, Q/Q SAAR. Bloomberg economists' consensus. Shown through 3Q2024.
Source: Bloomberg, BCG Center for Macroeconomics

BCG

Connect with the BCG Center for Macroeconomics

Philipp Carlsson-Szlezak, PhD
Global Chief Economist | Managing Director & Partner
carlsson-szlezak.Philipp@bcg.com

Paul Swartz, CFA
Senior Economist | Executive Director
swartz.paul@bcg.com

BCG

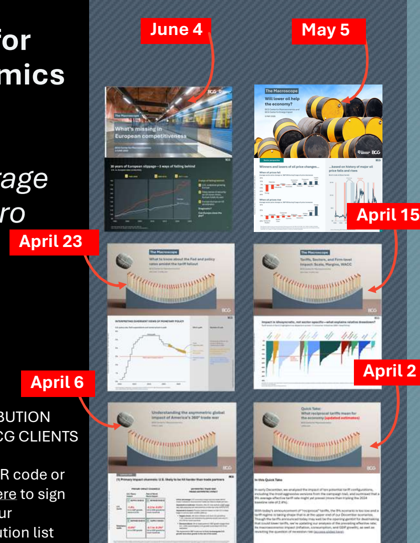
BCG Center for Macroeconomics at a glance

Regular coverage of global macro space

DISTRIBUTION FOR BCG CLIENTS

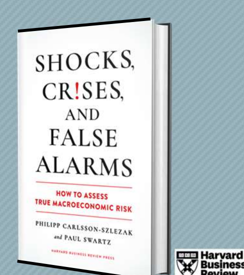
Scan QR code or click here to sign up to our distribution list

Analysis



Articles & Op-eds

Foundation



FINANCIAL TIMES
Economics books
Best books of 2024: Economics
Martin Wolf selects his must-read titles

Learn more about the book

Disclaimer

The services and materials provided by Boston Consulting Group (BCG) are subject to BCG's Standard Terms (a copy of which is available upon request) or such other agreement as may have been previously executed by BCG. BCG does not provide legal, accounting, or tax advice. The Client is responsible for obtaining independent advice concerning these matters. This advice may affect the guidance given by BCG. Further, BCG has made no undertaking to update these materials after the date hereof, notwithstanding that such information may become outdated or inaccurate.

The materials contained in this presentation are designed for the sole use by the board of directors or senior management of the Client and solely for the limited purposes described in the presentation. The materials shall not be copied or given to any person or entity other than the Client ("Third Party") without the prior written consent of BCG. These materials serve only as the focus for discussion; they are incomplete without the accompanying oral commentary and may not be relied on as a stand-alone document. Further, Third Parties may not, and it is unreasonable for any Third Party to, rely on these materials for any purpose whatsoever. To the fullest extent permitted by law (and except to the extent otherwise agreed in a signed writing by BCG), BCG shall have no liability whatsoever to any Third Party, and any Third Party hereby waives any rights and claims it may have at any time against BCG with regard to the services, this presentation, or other materials, including the accuracy or completeness thereof. Receipt and review of this document shall be deemed agreement with and consideration for the foregoing.

BCG does not provide fairness opinions or valuations of market transactions, and these materials should not be relied on or construed as such. Further, the financial evaluations, projected market and financial information, and conclusions contained in these materials are based upon standard valuation methodologies, are not definitive forecasts, and are not guaranteed by BCG. BCG has used public and/or confidential data and assumptions provided to BCG by the Client. BCG has not independently verified the data and assumptions used in these analyses. Changes in the underlying data or operating assumptions will clearly impact the analyses and conclusions.