When News isn't Just News: Political Affiliation and Inflation Expectations

Jaemin Jeong Soojin Jo Myungkyu Shim

Duke University *Yonsei University*

2026 ASSA Conference

January 4, 2026

Motivation

- Inflation expectation has been one of the most crucial policy tools for central banks.
  - perception of real interest rates
  - wage setting
  - efficacy and credibility of monetary policy
- However, consumers often hold sharply different expectations. And these differences are not random! (Gilitzer et al. (2021), Mian et al. (2023))

	Partisanship			Relation to Presidential Party	
	(1)	(2)	(3)	(4)	(5)
Year-ahead Inflation Expectations	**Republicans**	**Democrats**	**Independents**	**Opponents**	**Supporters**
mean (%)	4.31	3.03	4.12	4.80	2.57
standard deviation	4.77	4.52	4.66	4.77	4.49

- However, the mechanisms behind such gaps in inflation expectations remain unclear.

What We Do in This Paper

- We understand a possible mechanism to explain partisan gaps in inflation expectations using the micro-level data from the Michigan Survey of Consumers (MSC).
- We focus on how consumers perceive the **favorability of the news** they heard recently and whether these perceptions contribute to partisan differences in inflation expectations.
- We explain our findings using a model where politically-biased agents Bayesian-update their belief upon hearing news.

Preview of Findings

1. About **half** of the partisan gaps in inflation expectations can be explained by **the perceived favorability of news**.

Preview of Findings

1. About **half** of the partisan gaps in inflation expectations can be explained by **the perceived favorability of news**.
2. Having heard of **unfavorable** news further **amplifies** the partisan gap in inflation expectation.

Preview of Findings

1. About **half** of the partisan gaps in inflation expectations can be explained by **the perceived favorability of news**.
2. Having heard of **unfavorable** news further **amplifies** the partisan gap in inflation expectation.
3. This (#2) occurs primarily **between presidential elections**; during around-election periods, political affiliation mainly drives inflation expectations.

Data: Michigan Survey of Consumers Def

✔ Main variables of interest

1. 1-yr ahead inflation expectations (PX1)
   - Expectations about headline inflation rate
2. Political affiliation
   - Self-identification on one's own partisanship (Republican/ Democrat/ Independent)
3. News heard and its favorability
   - "During the last few months, have you heard of any favorable or unfavorable changes in business conditions?"
   - MSC classifies these responses into "haven't heard", "favorable", and "unfavorable" groups.

✔ Other features of MSC

1. Rotating panel: $\frac{2}{3}$ respondents surveyed again in 6 months
2. Sample periods: 2006M09 – 2024M06
   - Four presidential elections: 2008 (R $\rightarrow$ D), 2012 (D $\rightarrow$ D), 2016 (D $\rightarrow$ R), 2020 (R $\rightarrow$ D)

Partisan Influence through News Perception

We estimate the model *separately* for between- and around-presidential election periods:

$$\begin{aligned}\pi^{e}_{i,t+18|t+6} &= \beta_1 \pi^{e}_{i,t+12|t} + \beta_2 I_i^S + \beta_3 D^{f}_{i,t+6} + \beta_4 D^{u}_{i,t+6} \\ &\quad + \beta_5 I_i^S \times D^{f}_{i,t+6} + \beta_6 I_i^S \times D^{u}_{i,t+6} + \Gamma' \mathrm{X}_{i,t} + Z_t + \epsilon_{i,t}, \qquad (1)\end{aligned}$$

– $\pi^{e}_{i,t_a+12|t_a}$: 12-months-ahead inflation expectations formed in month t_a

– I_i^S: $= 1$ if a supporter, $= -1$ if an opponent, and $= 0$ if an Independent.

– $D^{f}_{i,t+6}$ and $D^{u}_{i,t+6}$: dummies for perceived news favorability

– Z_t: year-month fixed effects

Partisan Influence through News Perception

We estimate the model *separately* for between- and around-presidential election periods:

$$\begin{aligned}\pi^{e}_{i,t+18|t+6} &= \beta_1 \pi^{e}_{i,t+12|t} + \beta_2 I^{S}_{i} + \beta_3 D^{f}_{i,t+6} + \beta_4 D^{u}_{i,t+6} \\ &\quad + \beta_5 I^{S}_{i} \times D^{f}_{i,t+6} + \beta_6 I^{S}_{i} \times D^{u}_{i,t+6} + \Gamma' X_{i,t} + Z_t + \epsilon_{i,t}, \qquad (2)\end{aligned}$$

– $\hat{\beta}_2$: Estimated partisan gap among *Haven't Heard* group.

– $\hat{\beta}_5$ and $\hat{\beta}_6$: Estimated difference in the partisan gap compared to *Haven't Heard*.

Estimation Results

	Between-Election			Around Election		
	(1)	(2)	(3)	(4)	(5)	(6)
$\pi^{e}_{i,t+12\|t}$	0.301***	0.291***	0.291***	0.200***	0.197***	0.197***
	(25.63)	(24.85)	(24.85)	(6.94)	(6.82)	(6.81)
I^{S}_{i} $(\hat{\beta}_2)$	-0.578***	-0.475***	-0.316***	-0.850***	-0.797***	-0.683***
	(-13.27)	(-10.63)	(-3.65)	(-8.23)	(-7.55)	(-2.77)
$D^{f}_{i,t+6}$		-0.497***	-0.496***		-0.310	-0.312
		(-5.50)	(-5.34)		(-1.34)	(-1.32)
$D^{u}_{i,t+6}$		0.453***	0.450***		0.300	0.294
		(4.96)	(4.91)		(1.16)	(1.13)
$I^{S}_{i} \times D^{f}_{i,t+6}$ $(\hat{\beta}_5)$			-0.129			-0.104
			(-1.15)			(-0.35)
$I^{S}_{i} \times D^{u}_{i,t+6}$ $(\hat{\beta}_6)$			-0.257**			-0.162
			(-2.35)			(-0.55)
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Demographic controls	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.1746	0.1822	0.1825	0.1167	0.1194	0.1187
No. of observations	14,699	14,699	14,699	2,203	2,203	2,203

Estimation Results

	Between-Election			Around Election		
	(1)	(2)	(3)	(4)	(5)	(6)
$\pi^{e}_{i,t+12\|t}$	0.301***	0.291***	0.291***	0.200***	0.197***	0.197***
	(25.63)	(24.85)	(24.85)	(6.94)	(6.82)	(6.81)
I_i^S ($\hat{\beta}_2$)	0.578***	-0.475***	-0.316***	-0.850***	-0.797***	-0.683***
	(-13.27)	(-10.63)	(-3.65)	(-8.23)	(-7.55)	(-2.77)
$D^{f}_{i,t+6}$		-0.497***	-0.496***		-0.310	-0.312
		(-5.50)	(-5.34)		(-1.34)	(-1.32)
$D^{u}_{i,t+6}$		0.453***	0.450***		0.300	0.294
		(4.96)	(4.91)		(1.16)	(1.13)
$I_i^S \times D^{f}_{i,t+6}$ ($\hat{\beta}_5$)			-0.129			-0.104
			(-1.15)			(-0.35)
$I_i^S \times D^{u}_{i,t+6}$ ($\hat{\beta}_6$)			-0.257**			-0.162
			(-2.35)			(-0.55)
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Demographic controls	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.1746	0.1822	0.1825	0.1167	0.1194	0.1187
No. of observations	14,699	14,699	14,699	2,203	2,203	2,203

Estimation Results

	Between-Election			Around Election		
	(1)	(2)	(3)	(4)	(5)	(6)
$\pi^{e}_{i,t+12\|t}$	0.301***	0.291***	0.291***	0.200***	0.197***	0.197***
	(25.63)	(24.85)	(24.85)	(6.94)	(6.82)	(6.81)
I^{S}_{i} $(\hat{\beta}_2)$	-0.578***	-0.475***	-0.316***	-0.850***	-0.797***	-0.683***
	(-13.27)	(-10.63)	(-3.65)	(-8.23)	(-7.55)	(-2.77)
$D^{f}_{i,t+6}$		-0.497***	-0.496***		-0.310	-0.312
		(-5.50)	(-5.34)		(-1.34)	(-1.32)
$D^{u}_{i,t+6}$		0.453***	0.450***		0.300	0.294
		(4.96)	(4.91)		(1.16)	(1.13)
$I^{S}_{i} \times D^{f}_{i,t+6}$ $(\hat{\beta}_5)$			-0.129			-0.104
			(-1.15)			(-0.35)
$I^{S}_{i} \times D^{u}_{i,t+6}$ $(\hat{\beta}_6)$			-0.257**			-0.162
			(-2.35)			(-0.55)
Time fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Demographic controls	Yes	Yes	Yes	Yes	Yes	Yes
Adj. R^2	0.1746	0.1822	0.1825	0.1167	0.1194	0.1187
No. of observations	14,699	14,699	14,699	2,203	2,203	2,203

Conclusion

- We provide new evidence on how political partisanship influences inflation expectations, by affecting how individuals perceive and process economic news.
  - Unfavorable news significantly widens the partisan gaps in inflation expectations.
- Our findings point to the potential limits of information-based policy communication in a politically divided environment.

Appendix A: Detailed Definitions of Variables

Definitions of Variables

Back

1. 1-yr ahead inflation expectations (PX1)
   - "During the next 12 months, do you think that prices in general will go up, or go down, or stay where they are now?"
   - Exclude values $\leq -20\%$ or $\geq 20\%$.
2. Political affiliation
   - "Generally speaking, do you usually think of yourself as a Republican, a Democrat, and Independent, or what?"
   - Asked in Sep - Nov 2006, May - Jun 2008, Sep 2008 - Jun 2009, Mar - May 2010, Sep - Nov 2010, Apr - May 2012, Sep - Nov 2012, Jun 2014, Jun 2015, Jun - Oct 2016, and Feb 2017 and onward.

Definitions of Variables (Cond't)

3. News heard and its favorability
   - "During the last few months, have you heard of any favorable or unfavorable changes in business conditions?"
   - If the answer is no (*"haven't heard"*); if yes, ask further what he/she has heard.
     - Interviewers are instructed in the questionnaire as follows: *"If not clear whether a change is favorable or unfavorable, probe: "Would (mention change) be favorable or unfavorable" and note "favorable" or "unfavorable." "*
   - If yes, as further what he/she heard.
   - Respondents report that they have heard about inflation, taxation, unemployment, real income, and government economic policy, and so on.
   - MSC classifies these response into "favorable" and "unfavorable" groups.

Appendix B: Partisan Gaps in Perceived News Favorability

Partisan Gaps in Perceived News Favorability

Between Election Periods. We now examine whether political affiliation shapes perceived news favorability in between-election periods.

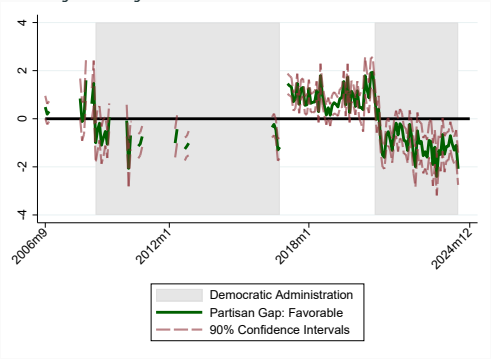
$$\ln \frac{\mathrm{P}(\mathrm{News}_{i,t} = j)}{\mathrm{P}(\mathrm{News}_{i,t} = \text{“}\textit{Haven't heard}\text{”})} = \alpha_{j,t} + \beta_{R,j,t}\mathrm{Rep}_{i,t} + \beta_{D,j,t}\mathrm{Dem}_{i,t} + \Gamma_j' X_{i,t} + \epsilon_{i,t}, \quad (3)$$

– $P(\mathit{News}_{i,t} = j)$: the probability that individual i's response is $j \in \{\text{“}\mathit{Favorable}\text{”}, \text{“}\mathit{Unfavorable}\text{”}\}$ in month t.

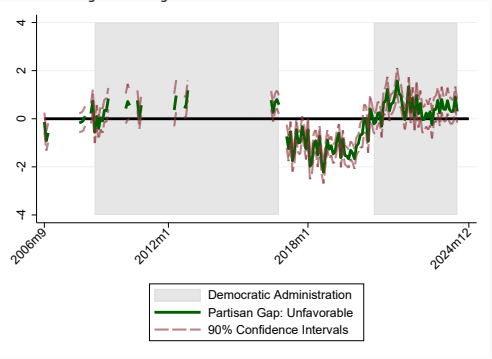
– $X_{i,t}$: respondents' demographics (age, age squared, log income, income quartile dummy, gender, education level, marital status, home/stock ownership and region)

Between-Election Periods

(a) $\hat{\beta}_j^R - \hat{\beta}_j^D$ where $j =$ "Favorable"



(b) $\hat{\beta}_j^R - \hat{\beta}_j^D$ where $j =$ "Unfavorable"



Notes: Sample period spans from September 2006 to June 2024. Periods with missing values correspond to months when the MSC did not survey political affiliation. Shaded areas are Democratic administration periods, starting in November 2008 and November 2020 which align with presidential election months, rather than presidential inauguration months. Robust standard errors are used for the inference.

Around Election Periods. We create a categorical variable capturing changes in the types of news heard by an individual:

1. *unchanged* (heard news of the same favorability in 6 months)
2. *positively changed* (e.g., unfavorable → no change, no change → favorable)
3. *negatively changed* (e.g., favorable → no change, no change → unfavorable)

We estimate the following multinomial logit model for each election in the sample:

$$\ln \frac{\mathrm{P}(\mathrm{Change}_{i,t} = j)}{\mathrm{P}(\mathrm{Change}_{i,t} = k)} = \beta_j^R \mathrm{Rep}_i + \beta_j^D \mathrm{Dem}_i + \Gamma_j' X_{i,t} + \gamma_j Z_t + \epsilon_{i,t} \tag{4}$$

– $X_{i,t}$: respondents' demographics (age, age squared, log income, income quartile dummy, gender, education level, marital status, home/stock ownership and region)

– Z_t: month fixed effects

Around-Election Periods

Election year	(1) 2008 (R → D)	(2) 2012 (D → D)	(3) 2016 (D → R)	(4) 2020 (R → D)
A. Positively changed				
Republican ($\beta^R_{positive}$)	0.471*	1.155	1.375	0.910
	(-1.65)	(0.43)	(1.44)	(-0.44)
Democrat ($\beta^D_{positive}$)	1.724	1.041	0.573**	1.548**
	(1.41)	(0.12)	(-2.33)	(2.48)
$\beta^R_{positive} = \beta^D_{positive}$	0.0029***	0.9231	0.0003***	0.0096***
B. Negatively changed				
Republican ($\beta^R_{negative}$)	0.765	1.162	0.576	1.947***
	(-0.70)	(0.42)	(-1.64)	(2.80)
Democrat ($\beta^D_{negative}$)	0.985	1.558	1.730**	0.635*
	(-0.04)	(1.35)	(2.03)	(-1.66)
$\beta^R_{negative} = \beta^D_{negative}$	0.4813	0.3945	0.0005***	0.0000***
No. of observations	398	389	709	1,072

Appendix C: Additional Analyses

Additional Analysis (1) Endogenous Information Acquisition

- Incentives to obtain relevant information may vary depending on which party holds the presidency $\Rightarrow$ potential endogeneity between inflation expectations and key independent variables.
  - e.g., Opponents of the president may have limited motivation to attend to favorable news about inflation, thereby affecting both their reported news perceptions & inflation expectations.
- We hence examine:
  1. correlations in the share of *"Haven't heard"* across partisan groups; and
  2. whether the gap in 1 between Rep and Dem varies systematically with the state of the economy.
- The share of "Haven't heard" in all three partisan groups comove very closely over time (with $\rho > 0.7$).
- The partisan gap in the shares does not vary meaningfully by election period or presidential party

Additional Analysis (2) Types of News

- Partisanship may also influence what news you hear.
- Each response of favorable or unfavorable news heard in MSC is classified into one of four content categories: lower/higher inflation, lower/higher interest rates, lower/higher unemployment, and others.
- Hence we estimate:

$$\begin{aligned}\pi^{e}_{i,t+18|t+6} &= \beta_1 \pi^{e}_{i,t+12|t} + \beta_2 I^{S}_{i} + \sum_{k=1}^{4} \beta_{3k} f^{k}_{i,t+6} + \sum_{k=1}^{4} \beta_{4k} u^{k}_{i,t+6} \\ &+ \sum_{k=1}^{4} \beta_{5k} I^{S}_{i} \times f^{k}_{i,t+6} + \sum_{k=1}^{4} \beta_{6k} I^{S}_{i} \times u^{k}_{i,t+6} + \Gamma' X_{i,t} + Z_t + \epsilon_{i,t} \quad (5)\end{aligned}$$

- Accounting for news contents does not alter our findings.

Additional Analysis (3) Region-Specific Factors

- Region-specific factors, such as gasoline price and EV adoption, may influence individuals inflation expectations and introduce bias.
- We include region-time fixed effects or individual-level, one-year-ahead gasoline price expectations as an additional control.
- Including the additional controls change our result little.

Appendix D: How and When News Influences Expectations: A Model

Review of Key Empirical Findings

- So far we have found:
  - **Finding 1 (Political bias)**: Unfavorable news about business conditions exacerbate the partisan gap in expected inflation.
  - **Finding 2 (Political bias)**: Favorable news about business conditions does not affect the partisan gap in expected inflation.
  - **Finding 3 (State-dependence)**: Above findings are notable between election periods, not around election periods.

Review of Key Empirical Findings

- So far we have found:
  - **Finding 1 (Political bias)**: Unfavorable news about business conditions exacerbate the partisan gap in expected inflation.
  - **Finding 2 (Political bias)**: Favorable news about business conditions does not affect the partisan gap in expected inflation.
  - **Finding 3 (State-dependence)**: Above findings are notable between election periods, not around election periods.
- We build a simple model based on Baron (2006) to explain above findings

Model Setup

- Unobservable two states: $\omega \in \{High\ (H), Low\ (L)\}$
  - High: high-inflation
  - Low: low-inflation
- Prior of agents: $Pr(H) = p_0 \in (0, 1)$
- News agency
  - receives signal on states: $s \in \{\gamma,\ \beta\}$
    with $Pr(s = \gamma | \omega = H) = q \in (0, 1)$ and $Pr(s = \beta | \omega = L) = 1$
    where q: (perceived) quality of the news
  - $s = \beta$ perfectly reveals the underlying state, if the economy is indeed in the Low state.

Model Setup: News Report

- News agency is assumed to follow a mixed strategy:
  - $\sigma(s) = \Pr(R = \gamma \mid s)$
    – $s \in \{\gamma, \beta\}$: signal received by the journalist
    – R: news report issued to consumers.
    e.g., $\sigma(\beta) = \Pr(R = \gamma \mid s = \beta)$: news agency distorts the information; or
    $\sigma(\gamma) = \Pr(R = \gamma \mid s = \gamma)$: news agency reports what it heard.
  - Define $\sigma(\beta) = \Pr(R = \gamma \mid \beta) = \sigma \in (0, 1)$ – with probability σ the journalist misrepresents the signal, so that with probability $1 - \sigma$, the report is truthful.
    – σ: likelihood that an favorable signal (β) is concealed and replaced with an unfavorable report (γ)

- $\hat{\sigma} \equiv f(\sigma) \in [0, 1]$ with $f(\cdot)$ any arbitrary mapping from σ to $[0, 1]$
  – $\hat{\sigma}$: measure of consumers' political bias on the media

Information Update

- Upon receiving the news, agents update their belief on the inflation rate as follows:

$$p_\gamma = Pr(\omega = H|R = \gamma) = \frac{p_0(q + (1-q)\hat{\sigma})}{p_0 q + (1 - p_0 q)\hat{\sigma}} \in [p_0, 1] \quad (6)$$

$$p_\beta = Pr(\omega = H|R = \beta) = \frac{p_0(1-q)}{1 - p_0 q} < p_0 \quad (7)$$

- p_γ *decreases* in $\hat{\sigma}$
  – Higher the political bias, less information updates when news signals negatively.
- p_β *is independent from* $\hat{\sigma}$
  – Information update when receiving good signal is independent from political bias.

Prediction (Information Update with Political Bias)

Suppose the agent behaves as described above.

i. *When the agent receives favorable news β (indicating a low-inflation state), they update their inflation expectations regardless of the level of bias $\hat{\sigma}$.*

ii. *When the agent receives unfavorable news γ (indicating a high-inflation state), they update their inflation expectations if $\hat{\sigma}$ is sufficiently low. If $\hat{\sigma}$ is high, they do not revise their expectations.*

Interpreting Empirical Finding through Model

- Finding 1: Favorable news does not exacerbate political bias in the inflation expectation
  – Prediction i: $\hat{\sigma}$ does not affect the update process
- Finding 2: Political bias widens when news is unfavorable
  – Prediction ii: Inflation expectation updates more for agents who support the current government when the news is unfavorable $\Rightarrow$ Gap widens
- Finding 3: No role of the political bias around-election periods
  – News quality (q) itself might be low around-election periods
  - Angelucci et al. (2024): voters are more likely to believe news that favors their preferred candidates during the election periods, even if it is false, compared to non-election periods.
  - Grinberg et al. (2019): fake news on Twitter surged before the 2016 U.S. presidential election but declined immediately afterward