Updated Misery Index: Good News for the White House?

Gary Clyde Hufbauer discusses how the Peterson Institute's augmented misery index of economic indicators shows an improvement in the national outlook.

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Steve Weisman: This is Steve Weisman at the Peterson Institute with Gary Hufbauer, senior fellow at the Institute, to talk about something called the "Misery Index." It was popularized in the 1970s, a combination of economic indicators, and it presaged the doom of President Gerald Ford and then of President Jimmy Carter himself. Gary has been tracking the Misery Index and previously found that it presented bad news for President Obama's reelection hopes. That's changed a little bit. How so, Gary?

Gary Hufbauer: Let me go back just a little bit into the construction of the Index and then answer your question. Arthur Okun, a very distinguished economist at the Brookings Institution, conceived this index back, as you said, in the '70s. And he just simply added up the unemployment rate and the inflation rate. The higher the unemployment, higher inflation, the more miserable the population. And he was right.

Steve Weisman: They were miserable in the '70s when we had both. Usually you don't have both.

Gary Hufbauer: Yes. You're right. When we started looking at this again a couple of years ago, we added in one more term: the change in housing prices. And I think that's obvious in light of the bust and everything in the housing, all the subprime. That enters with a reverse sign. In other words, if housing prices go up, that reduces misery. When housing prices go down, that increases misery. Starting in 2009 and going into 2010, things were terrible because housing prices were really falling dramatically, as everyone knows, and that fed into, obviously the financial system, a lot of misery. In addition, of course, unemployment was very high and it remains high to this day. It got up to ten percent. Ten percent at the worst and is now down to just a little under nine percent [as of the end of January], but that's still very high by US standards.

So those two components are creating a lot of misery in the US. Inflation, as you said, is actually very well-behaved. Well, of course, you could say a lot of unemployment, not going to have too much inflation, and we haven't had much inflation in the last couple of years. But what's the kind of good news or rosy news on all of this: in the second half of 2011, housing prices actually went up a small amount. Not very much, one percent. That's not big, but it's much better than what happened in the first half, which is that housing prices went down four percent. Also in the second half, unemployment dropped just a little bit. It dropped from about 9 or 8.9 percent. That's not very big a drop, but the change in housing prices gave a better tone to the Misery Index in the second half of 2011.

Steve Weisman: But unemployment has dropped in the last month or two down to the mid-eights.

Gary Hufbauer: Yes. And that would further be good news. What we find is that for whatever reasons, the Consumer Price Index tends to jump up a bit more in the first half of the year than in the second half. So maybe in the first half of 2012, we'll get a little bit higher inflation, though it doesn't look like it'll be a lot higher.

Steve Weisman: Why is that?

Gary Hufbauer: Good question. We puzzled over that and we don't have a good answer. It may be the seasonal deflators are not very accurate. Who knows? But in any event, it seems to be a fairly regular feature of recent years.

Steve Weisman: Why has inflation gone down?

Gary Hufbauer: We have abundant capacity right across a lot of industries in this country. The one place where we have had some inflation is in the price of fuel. But again, that was much worse in the first half of 2011 than in the second half. Otherwise, oil prices are pretty moderate.

Steve Weisman: Oil prices could revert to a pattern in the first-half of the year, though, and go back up if there's a crisis in the Persian Gulf.

Gary Hufbauer: Oh, for sure. For sure, and that will be a bad news for this Misery Index. Just to give you the numbers, in the first half of 2011, oil prices or the Consumer Price Index which is driven by oil, went up six percent. That's the headline Consumer Price Index. That's what people pay. That's what they notice. In the second half, it was only up by two-tenths of one percent. But you're right. If oil prices go up to $200, which could happen in a crisis in the Middle East, that's going to shoot consumer prices right back up to certainly to the high single digits.

Steve Weisman: But for now, this index portends moderately good news for President Obama.

Gary Hufbauer: It does, and we have found over these last forty or thirty years that the Misery Index is pretty closely correlated with the Consumer Confidence Index, which is an opinion index, and with Presidential Approval Ratings, another opinion index. So right now, things actually look better, and that's better by comparison with a very gloomy 2010 and first half of 2011.

Steve Weisman: Right. Low bar.

Gary Hufbauer: Low bar. Yes.

Steve Weisman: Thanks, Gary.

Gary Hufbauer: Thank you.