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In Optimism We Trust? Explaining the Disconnect between Post-Election Optimism and Own-Firm Expectations

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Brent Meyer, Federal Reserve Bank of Atlanta
Daniel Weitz, Federal Reserve Bank of Atlanta

Summary:

We randomly split the CFO survey panel into two separate surveys around the 2024 US elections to discern whether the results of the elections had any impact on financial decision makers' expectations. Respondents to the post-election survey reported sharply higher optimism about the US economy and an improved macroeconomic outlook relative to the pre-election responses. In contrast, own-firm optimism and revenue growth expectations were not meaningfully changed between the two surveys. Among many possible reasons for this disconnect, we highlight the expected impact of the new administration's policies and attendant uncertainty related to these policies.

Key findings:

1. Following the 2024 US elections, financial decision makers revised higher their optimism about the US economy and their expectations for near-term economic growth.

2. Respondents did not upgrade expectations for their own-firm performance commensurate with the change in their macroeconomic forecasts, suggesting that firms do not (yet) expect a meaningful impact from the election on their firm's performance.

Center Affiliation: Economic Survey Research Center

JEL Classification: C83, D22, D70

Key words: business survey, economic growth, optimism, policies

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About the Authors:

Brent Meyer is an assistant vice president and economist in the Research Department at the Federal Reserve Bank of Atlanta. He leads and sets the strategic direction for the Economic Survey Research Center (ESCR), provides leadership for the monetary policy advising process, and serves as a member of the Research Department's leadership team.

Daniel Weitz is a survey director in the Research Department at the Federal Reserve Bank of Atlanta.

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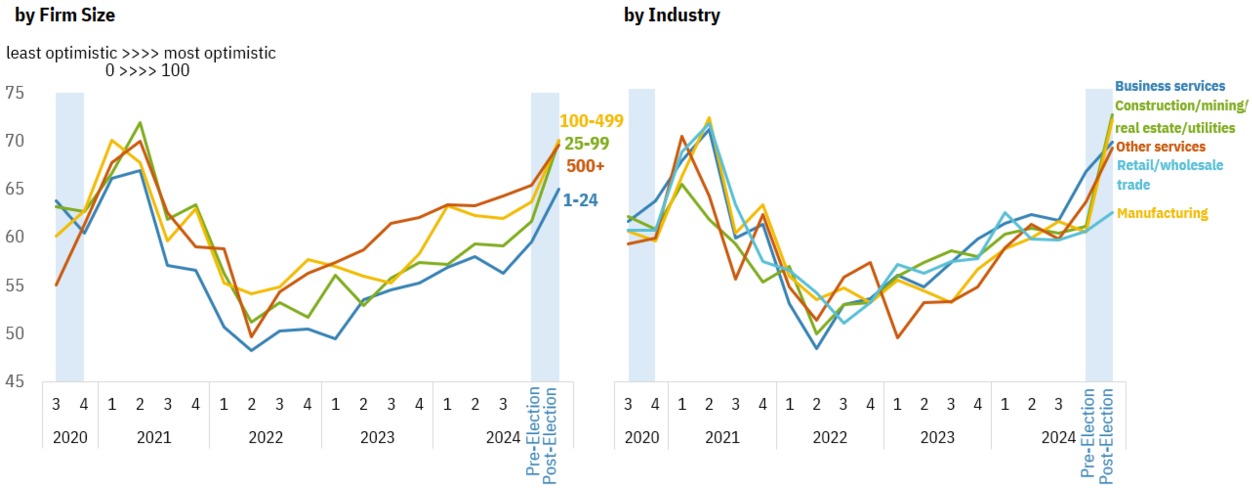
Comments to the authors are welcome at brent.meyer@atl.frb.org or daniel.weitz@atl.frb.org.

1 Introduction

Following the 2024 US presidential and congressional elections, business leaders reported a surge in optimism about the US economy, a development that was discussed widely in the financial and mainstream press. In the CFO Survey—a partnership among the Atlanta Fed, the Richmond Fed, and Duke University's Fuqua School of Business—financial decision makers also reported a jump in economy-wide optimism. In general, the improvement in optimism was apparent across most industries and firm sizes, with a notable exception in retail and wholesale trade, where firms are heavily exposed to international trade (see figure 1).

Figure 1: CFO Survey Average Optimism about U.S. Economy by Firm Size



Note: Shaded regions represent Q3 and Q4 surveys in 2020, and pre- and post-election surveys in 2024. Firm sized measured in terms of number of employees.

We might expect these sharp improvements in optimism to spill over into CFOs' views of own-firm performance—that is, sales revenue. Put differently, we might reasonably expect changes in optimism and expectations to be correlated. To uncover the relationship between optimism, expectations for the overall economy, and own-firm expectations, we conducted a novel experiment in the most recent CFO Survey. We randomly split the panel into two separate surveys, with about half the CFOs receiving a survey that closed on November 4 (252 respondents) and the other half receiving a survey that ran from November 6 to November 19 (266 respondents)—that is, before election day and after the election results became known. This *Policy Hub* paper exploits this unique design feature of the fourth quarter CFO Survey to answer the following questions:

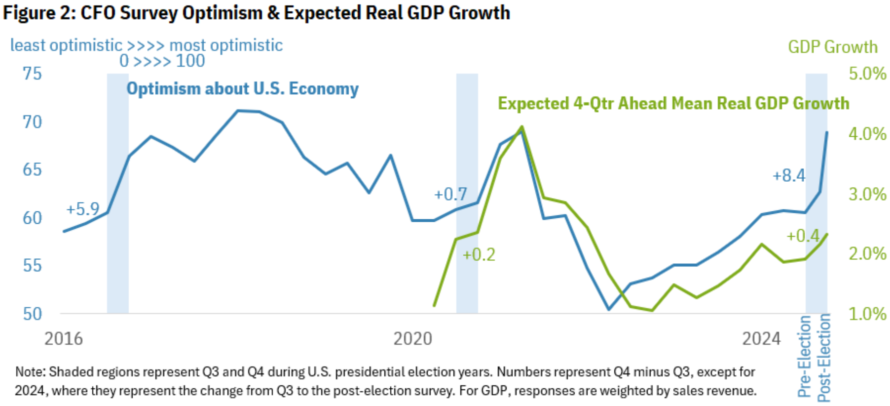
- Did the election prompt an increase in firms' economic optimism and their aggregate growth expectations? (It did.)
- Did this improved outlook translate into upgrades in optimism and expectations about *their own firms?* (It did not.)
- What might explain this disconnect? (Reasons include the expected impact of the new administration's policies and uncertainty related to these policies.)

2 Post-Election, Financial Executives Upgraded Their Optimism *and* Macroeconomic Outlook

In the CFO Survey, financial executives' optimism about the overall economy increased sharply immediately after the 2024 US election, and this increase coincided with modestly upgraded expectations for economic growth. As figure 2 shows, averaged across all respondents, on a scale of 0–100, optimism about the economy increased from 61 in the third quarter to 63 in the pre-election survey and to 69 in the post-election survey. This 8-point jump between the third quarter and the post-election survey is more than triple the average quarterly fluctuation of 2.4 points since 2012. At a level of 69, economy-wide optimism is well above the average level of 61 that prevailed from 2012 through 2024.

In addition to becoming more optimistic, financial executives upgraded their expectations for near-term US economic growth (see figure 2). Firms' probabilistic expectations for real GDP growth increased from 1.9 percent last quarter to 2.3 percent in the post-election survey.[1] During the same period, the probability assigned to negative real GDP growth declined from 12.8 percent to 8.4 percent, its lowest level since 2021. These results suggest a correlation between changes in financial executives' optimism and their probabilistic growth forecasts for the economy.

Figure 2: CFO Survey Optimism & Expected Real GDP Growth



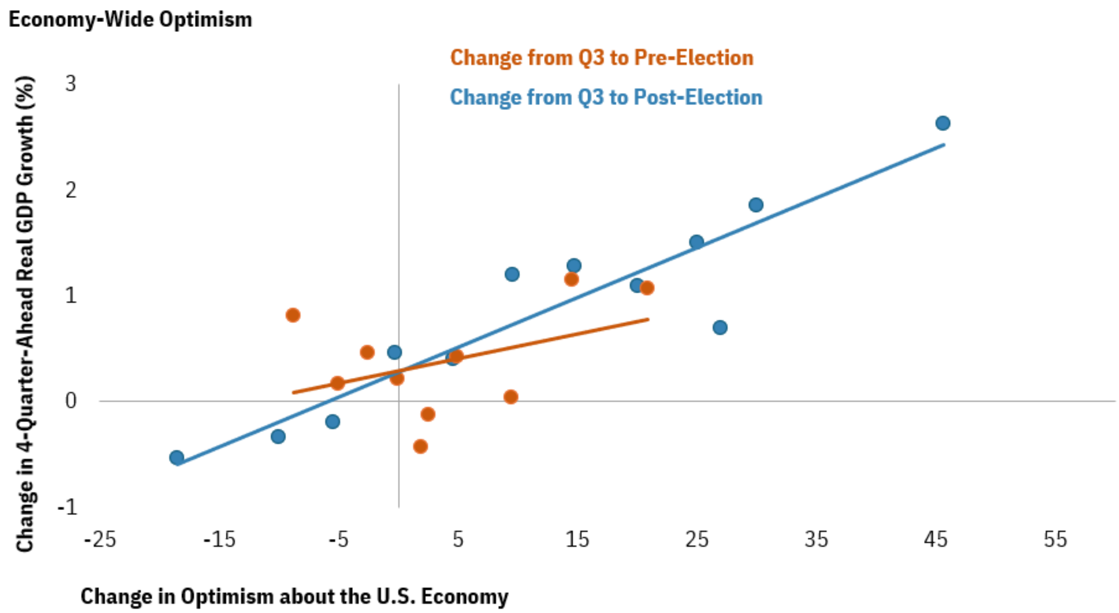
Note: Shaded regions represent Q3 and Q4 during U.S. presidential election years. Numbers represent Q4 minus Q3, except for 2024, where they represent the change from Q3 to the post-election survey. For GDP, responses are weighted by sales revenue.

We next examine whether the election prompted firms to upgrade both elements of their economic outlook—optimism and expected economic growth—in tandem. To discern this, we compare the extent to which *the same respondents* in the third quarter and the fourth quarter changed their views depending on whether they were surveyed before or after election day. As figure 3 highlights, there is a much tighter relationship between the change in economy-wide optimism and firms' updated views on expected real GDP growth for respondents surveyed

[1] The CFO Survey asks respondents to complete probabilistic real GDP growth expectations. The response option format of this question mirrors that of the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters and facilitates comparisons between the expectations of business leaders and those of professional forecasters. Please see the CFO Survey Methodology for additional information.

after election day. This relationship suggests that the outcomes of the November elections removed a source of uncertainty that was clouding the outlook of the aggregate economy for many financial executives.

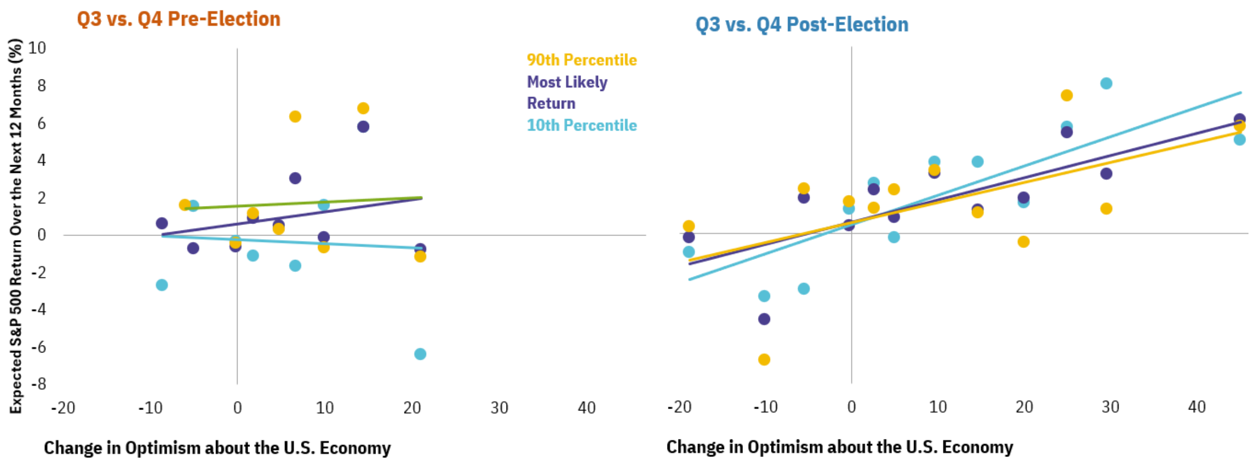
Figure 3: Pre vs. Post-Election Changes in Expected Real GDP



Note: Changes for pre- and post-election grouped into 8 and 12 bins, respectively.

We also find a link between revisions in optimism and financial market expectations following the election. The survey solicits respondents' best case (90th percentile of expectations), most likely case, and worst case (10th percentile of expectations) for S&P 500 returns over the next 12 months. For firms that responded to the third quarter survey and updated their views *after* election day, changes to economy-wide optimism and expectations for S&P 500 returns over the next year were significantly positively correlated, whereas there is no such relationship for those surveyed before election day (see figure 4). This result suggests that revisions to economy-wide optimism in the aftermath of the election coincided with changes in expectations for broad-based indicators of the real economy and financial markets.

Figure 4: Changes in Expected S&P 500 Returns, Economy-Wide Optimism (matched sample)



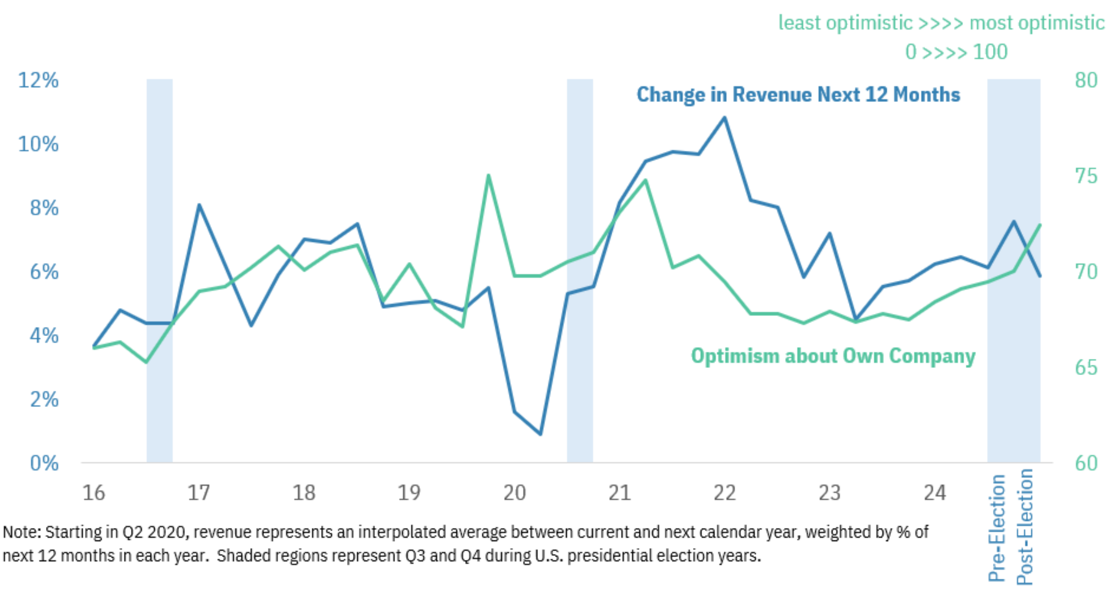
Note: 10th Percentile, Most Likely grouped into 9 bins; 90th Percentile grouped into 8 bins.

Note: Changes grouped into 12 bins.

3 The Election Prompted Few Changes to Own-Firm Optimism and Expectations

In contrast to the more upbeat aggregate economic outlook among most financial executives following the election, changes to own-firm expectations were modest at best. Compared to the 8-point increase in economy-wide optimism between the third quarter and the post-election survey, figure 5 shows that own-firm optimism increased by only 3 points over the same period, well within its historical range of variation. Importantly, despite the modest increase in own-firm optimism and the surge in optimism for the overall economy, expectations for revenue growth in 2025 were not meaningfully changed from the third quarter and, in fact, declined slightly.

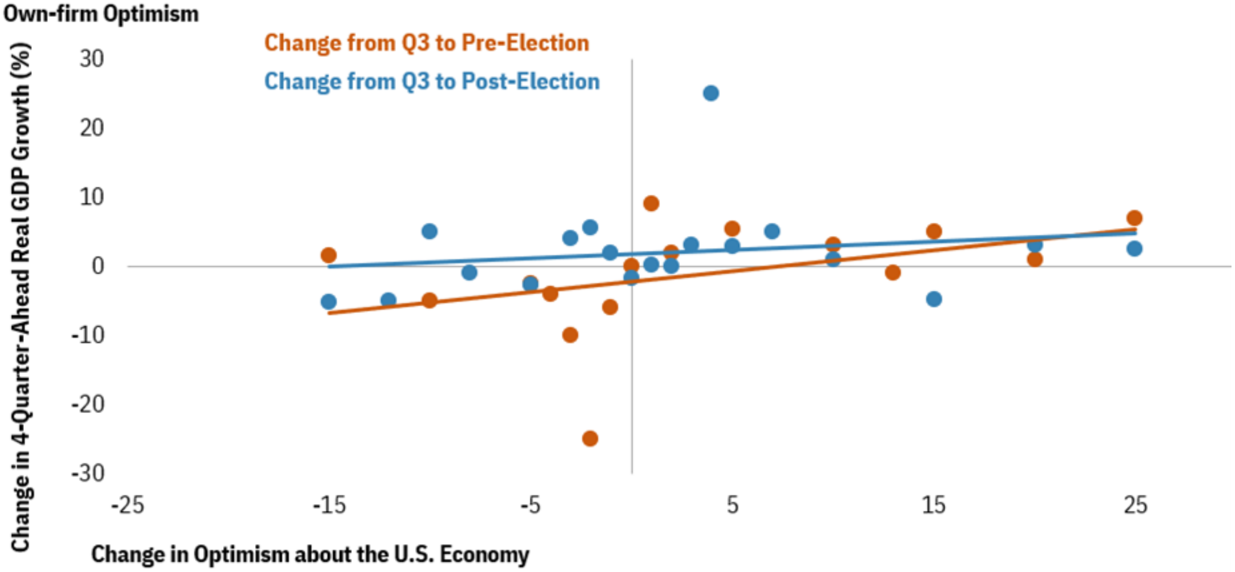
Figure 5: Own-Firm Optimism and Average Percent Change Expected for Revenue over Next 12 Mos.



Note: Starting in Q2 2020, revenue represents an interpolated average between current and next calendar year, weighted by % of next 12 months in each year. Shaded regions represent Q3 and Q4 during U.S. presidential election years.

Financial decisionmakers also did not link changes in their own-firm optimism with revisions to their expectations for revenue growth in 2025. Figure 6 analyzes the relationship of changes in own-firm optimism and expected revenue growth. Apparently, the election outcome had no meaningful impact either on firms' optimism about their own prospects or their expectation for revenue growth in 2025.

Figure 6: Matched Sample - Q3 vs. Q4 Changes in Expected Revenue over 2025, Own-firm Optimism



Note: Changes for pre- and post-election grouped into 16 and 19 bins, respectively.

This disconnect between growing optimism for the overall economy and little-to-no discernable improvement in own-firm outlooks is puzzling. Though uncertainty shocks have been linked to fluctuations in macroeconomic aggregates (Bloom 2009, Basu and Bundick 2016), the view that aggregate growth will be stronger this year but that own-firm revenue growth will remain unchanged is incongruent. In the next section, we provide a few possible explanations for the divergence in views about the aggregate economy and firms' own prospects.

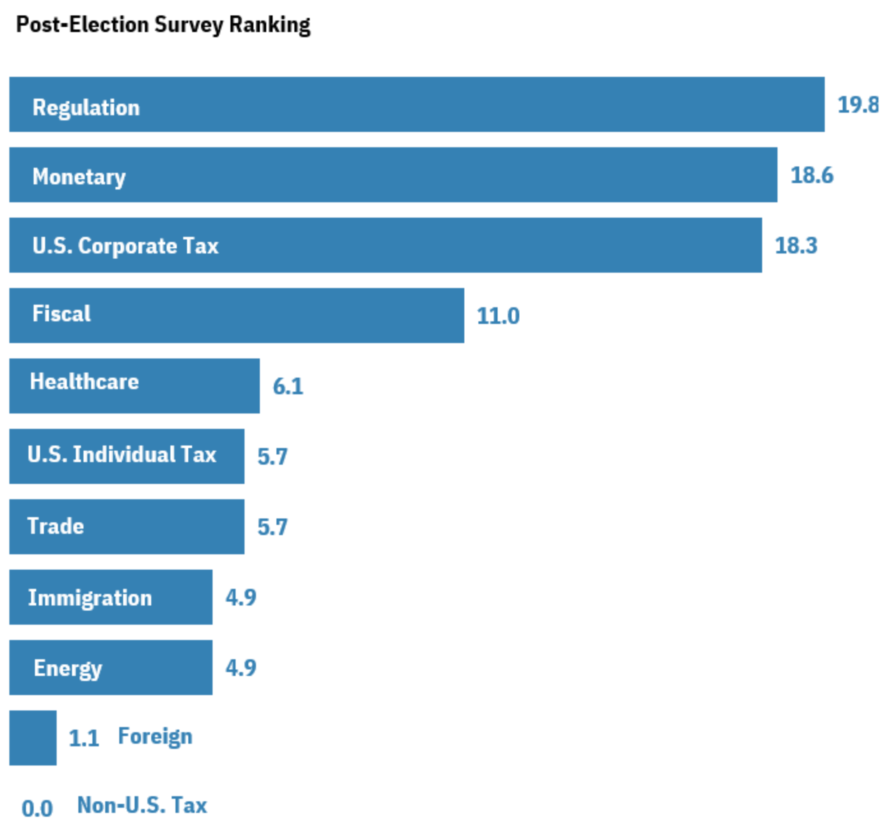
4 Why Did the Elections Affect the Economic Outlook but Not Firms' Own Prospects?

Why did CFOs, en masse, upgrade their aggregate economic outlooks but not their own-firm outlooks following the November elections? We draw upon the CFO Survey results to examine two possible explanations.

Policies Viewed as Most Important Might Affect Economy More than Own Firms

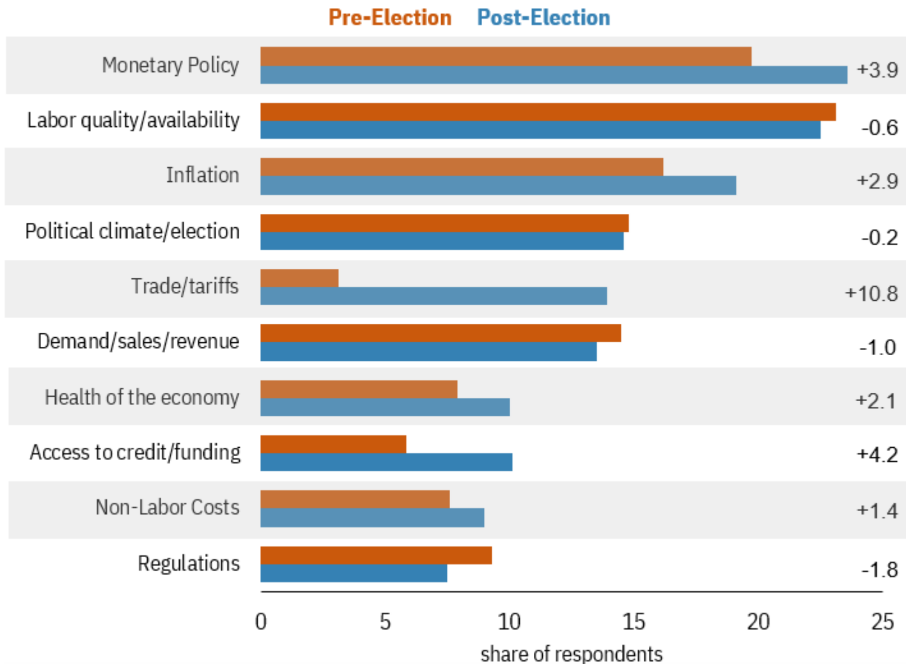
In both the pre- and post-election surveys, CFOs were asked to rank the three policy topics most important to their firms, in order of importance, from a fixed list of options. Focusing on the post-election responses, firms indicated regulatory policy, monetary policy, and US corporate tax policy as the most important policy topics (see figure 7). Moreover, in a separate, open-ended question posed to respondents earlier in the survey, and aimed at eliciting the most pressing concerns facing firms in the near-term, there are discernable shifts between the pre- and post- election cohorts. The sharpest change was in firms' concerns over tariffs. In the pre-election survey, only 3 percent of firms mentioned this topic as one of the most pressing concerns, compared to 14 percent of firms in the post-election survey (see figure 8). The emergence of tariffs as a concern suggests the possibility that financial executives might anticipate these policy changes having a relatively greater effect on their own-firm performance than that of the overall US economy.

Figure 7: Thinking about this year's elections, which of the following policy topics are most important to your firm?
(Rank top 3, with 1 being most important)



Note: Bars do not sum to 100 percent because categories "None of the above" and "Other" are omitted.

Figure 8: Firms' Most Pressing Concerns

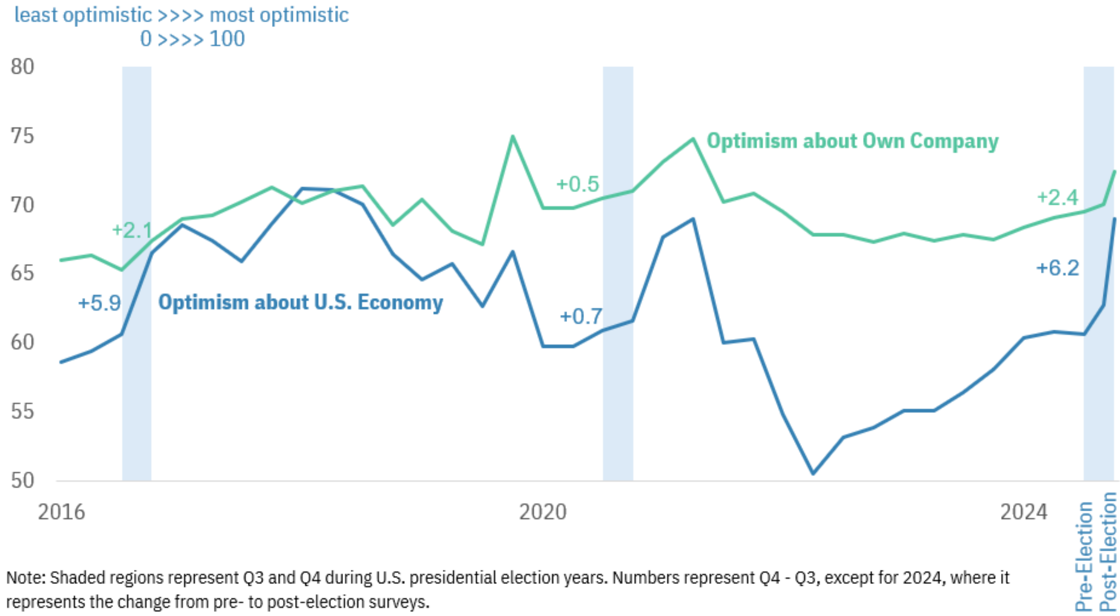


Considerable Uncertainty Remains over Policy Details

A second possibility is that financial executives viewed the most important policy priorities as generally favorable to the economy, but not sufficiently concrete or detailed to prompt them to immediately modify their own-firm forecasts. Prior survey results and discussions with survey respondents have revealed that many CFOs track their own firm's forecasts regularly, and these forecasts are based on specific assumptions and concrete changes in business trends. Own-firm forecasts may change more cautiously than expectations for macroeconomic or financial indicators, or may reflect idiosyncratic factors that firms are well-aware of and plan for (Meyer and Sheng 2025, Mackiawaik and Weiderholt 2009). As a result, financial decision makers might be waiting until they obtain more details regarding specific policy proposals—or until the enactment of such proposals—before revising their own-firm forecasts.

Alternative explanations abound, including respondents' political preferences. Setting aside the motivation for a moment, this is a pattern we have seen before. Figure 9 shows that the increases in both own-firm and economy-wide optimism were very similar in both 2016 and 2024, in which the same candidate prevailed, and the candidate's party won control of both Congress and the presidency. Following the 2016 elections, optimism about the US economy rose by 5.9 points, compared to the 6.2 point jump in optimism registered between the pre- and post-election surveys in 2024. And, during both events, own-firm optimism rose much more modestly.

Figure 9: CFO Survey: Optimism Indexes



Note: Shaded regions represent Q3 and Q4 during U.S. presidential election years. Numbers represent Q4 - Q3, except for 2024, where it represents the change from pre- to post-election surveys.

5 Conclusion

After the November elections, financial decision makers upgraded their aggregate economic and financial forecasts but not expectations for their own firms' revenue growth, which suggests that changes in economy-wide optimism and macroeconomic expectations move together but do not always translate (or at least not immediately) into similar changes in financial executives' expectations for their own firms' prospects. Looking ahead, in the CFO Survey we will track the evolution of CFOs' own-firm and economy-wide forecasts to discern whether forecasts change in response to the release and enactment of more detailed policy proposals, and whether these forecasts prove accurate.

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