Election-Year Economics

Osher Lifelong Learning Institute
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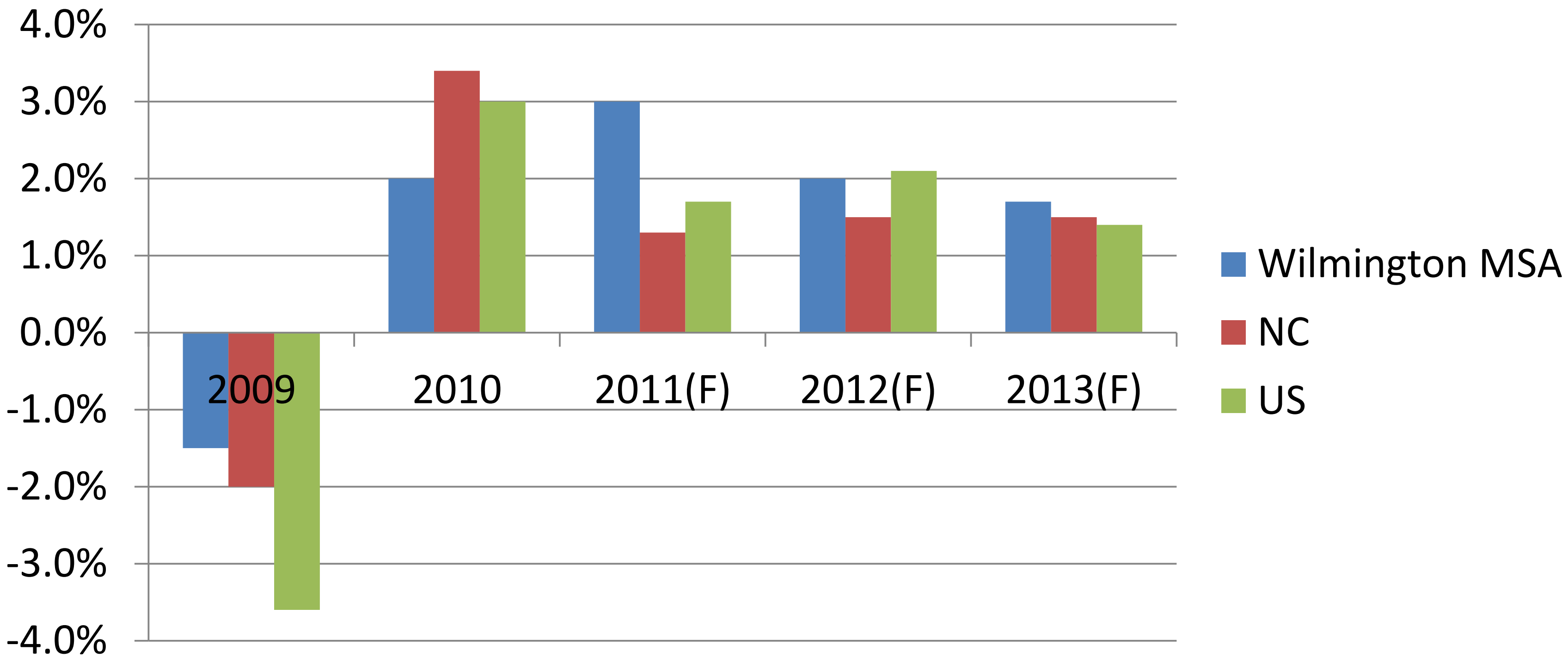
Web Slides

- http://www.csb.uncw.edu/cbes/events/index.htm

Real Gross Domestic Product Growth Rates



Source: Bureau of Economic Analysis, U. S. Department of Commerce; Economics Group, Wells Fargo Securities, Weekly Economic & Financial Commentary, October 5, 2012; Babson Capital/UNC Charlotte Economic Forecast, September 11, 2012; Ravija Badarinathi and William W. Hall, Jr., for the H. David and Diane Swain Center for Business and Economic Services, Cameron School Business, UNC Wilmington.

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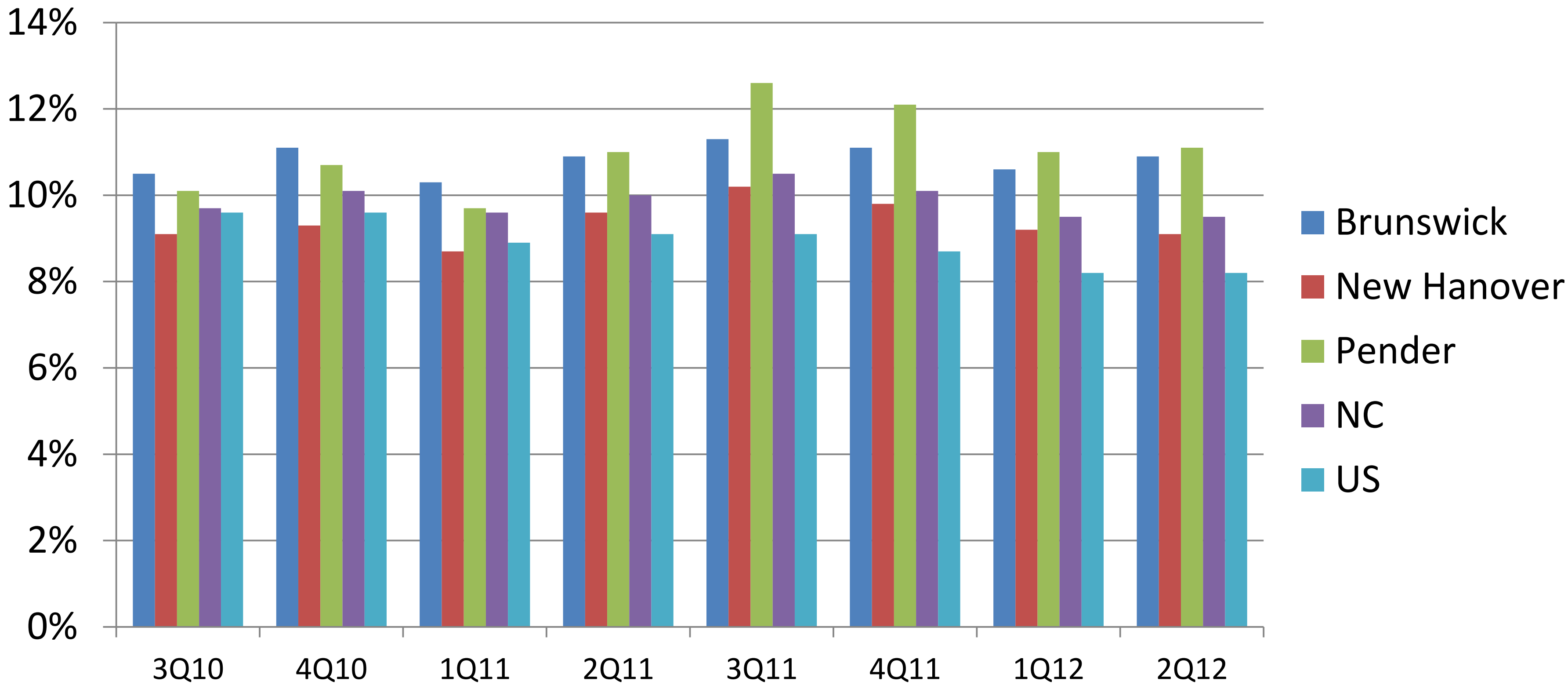
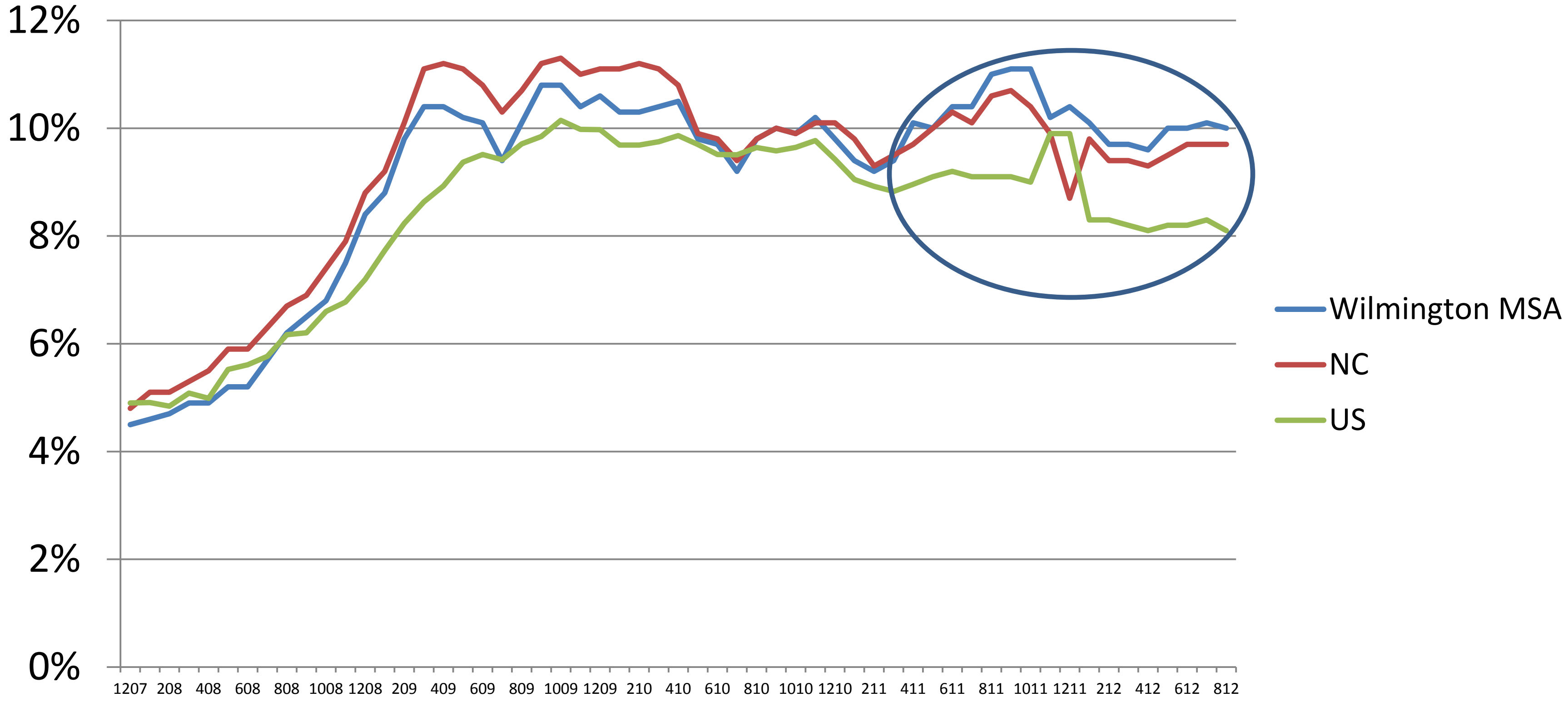
Unemployment Rates



Source: Division of Employment Security, NC Department of Commerce; Bureau of Labor Statistics, US Department of Labor.

Unemployment Rates (Seasonally Adjusted)



Source: Division of Employment Security, NC Department of Commerce; Bureau of Labor Statistics, US Department of Labor.

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The Consumer Confidence Index

- Since its inception in the late 1960s, the Consumer Confidence Index has been a perfect predictor of presidential elections.
  - Every time the index is below 95, incumbent presidents lose.

The Unemployment Rate

- No president has been re-elected with the unemployment rate above 7.4%.
- But "significant" decreases in the rate, like we've seen in the past year, tend to favor the incumbent.

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Halloween Masks

- Sales of Halloween masks have been shown to be a reasonably good predictor of the outcome of presidential elections.

Can Presidents *Really* Have Any Effect on Economic Activity?

- Political leaders should not take credit for job creation.
  - For example, the President does not set housing or stock prices.
  - Perhaps the only historical exception was during the Depression when, for a brief time, FDR reportedly set the price of gold every morning over breakfast.
- *The economy is not run by the President or Congress – it runs itself.*
  - Hiring and economic growth are determined by the business cycle.

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Who is the person in Washington who likely has the most influence on economic activity?

- Ben Bernanke, the chairman of the Federal Reserve System
- In theory, the Federal Reserve System is not under the control of either the executive or legislative branches of the federal government.
  - The Federal Reserve System receives no budget appropriation from Congress.

What can the President do?

- The President can set the “tone.”
- His/her actions can create certainty or uncertainty in the marketplace.
  - Certainty generally translates into greater job growth.
  - Uncertainty generally translates into lower job growth.

Perception vs. Reality

- The economy is the rare issue that affects voters of all ages, races, religions, and ideologies.
- Despite economic reality, presidential candidates from both parties talk endlessly about their plans to increase hiring and (private-sector) spending.
  - They often leave voters with the impression that job creation and economic growth are simple, predictable things that the President can control.
    - Mitt Romney at the 2012 RNC
      - "What America needs is jobs….Lots of jobs."
    - Barack Obama at the 2012 DNC
      - My platform will place the nation on "a path to grow this economy, create good jobs and strengthen the middle class."

Likely Candidate Reactions

- Since candidates know that voters assign responsibility for the economy to the President, they have little choice but to play the role of "economist-in-chief."

A Likely Major Determinant of the Outcome of the 2012 Presidential Election

- The Bureau of Labor Statistics' monthly employment report released on October 5, 2012, and scheduled for release on November 2, 2012
  - http://www.bls.gov/news.release/empsit.nr0.htm

The “Fiscal Cliff”

- Large predicted fall in the federal budget deficit and a corresponding projected slowdown in economic activity if specific laws are allowed to expire automatically and/or take effect at the beginning of 2013
  - These laws include tax increases due to the expiration of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 and the spending reductions (“sequestrations”) under the Budget Control Act of 2011.
    - Spending for federal agencies and cabinet departments, including defense, would be reduced through 2011.
    - Some major domestic programs to include Social Security, federal pensions, and veterans’ benefits, are exempted.

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A Possible Effect of the “Fiscal” Cliff

- A “double-dip” recession in the first half of 2013

Reaction to the Impending Crisis

- Calls from both inside and outside of Congress to extend some or all of the tax cuts and to replace across-the-board reductions with more targeted cutbacks
- Nearly all proposals involve extending certain parts of the 2010 Tax Relief Act or changing the 2011 Budget Control Act or both.
  - The deficit would rise.

Reaction not Unexpected

- Most elected representatives are mainly concerned with the short run.
- If the deficit problem were seriously addressed, the economy would bear substantial short-run costs in return for benefits over the longer run.
- The larger the costs, the lower the likelihood of being reelected.

The Environment Facing the Next President

- The next President will likely have 4-6 months to make major policy changes.
  - If this fails to happen, the economy will experience slow growth over his/her entire term.

Democrats vs. Republicans

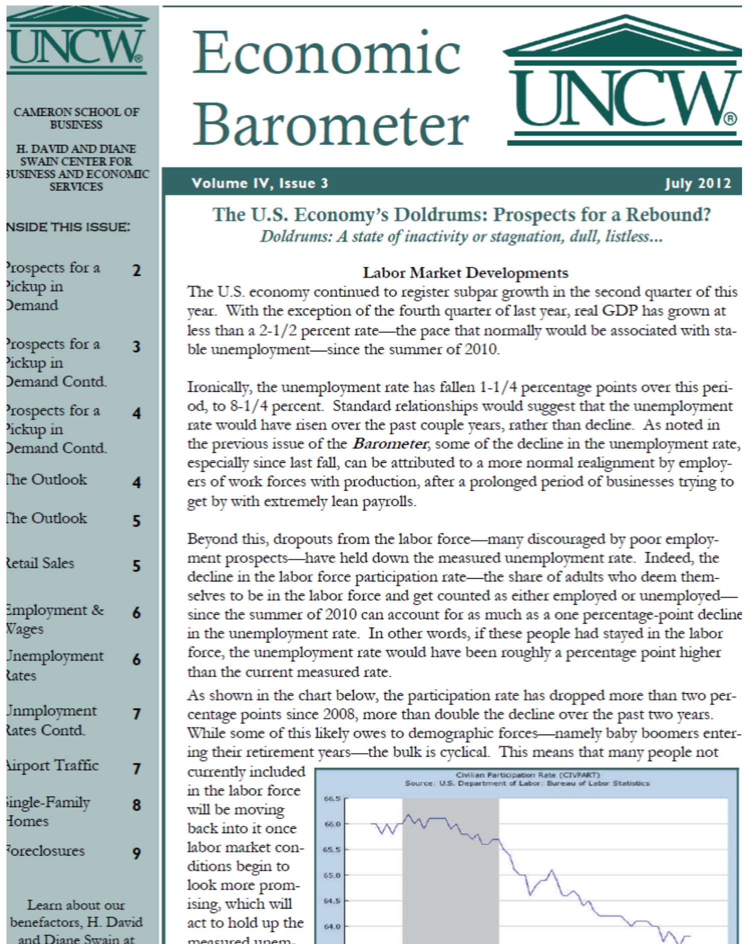
- Both candidates see a role for government and the private sector.
  - It’s a question of who leads.
- Either Obama or Romney
  - No better than 2% growth over the next year
  - Bush-era tax cuts extended temporarily
  - Little political will to change the tax code
- Hopefully, over the longer term compromise will no longer be a “four-letter” word.

Upcoming Events

- Economic Outlook Conference
  - Tuesday, October 9, 2012
  - Burney Center, UNC Wilmington campus
- Information
  - http://www.csb.uncw.edu/cbes/conf/eoc/index.htm
  - 910.963.2237

Quarterly Barometer

http://www.csb.uncw.edu/cbes/newsletter/index.htm



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Economic Barometer

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The U.S. Economy's Doldrums: Prospects for a Rebound?

Doldrums: A state of inactivity or stagnation, dull, listless...

Labor Market Developments

The U.S. economy continued to register subpar growth in the second quarter of this year. With the exception of the fourth quarter of last year, real GDP has grown at less than a 2-1/2 percent rate—the pace that normally would be associated with stable unemployment—since the summer of 2010.

Ironically, the unemployment rate has fallen 1-1/4 percentage points over this period, to 8-1/4 percent. Standard relationships would suggest that the unemployment rate would have risen over the past couple years, rather than decline. As noted in the previous issue of the ***Barometer***, some of the decline in the unemployment rate, especially since last fall, can be attributed to a more normal realignment by employers of work forces with production, after a prolonged period of businesses trying to get by with extremely lean payrolls.

Beyond this, dropouts from the labor force—many discouraged by poor employment prospects—have held down the measured unemployment rate. Indeed, the decline in the labor force participation rate—the share of adults who deem themselves to be in the labor force and get counted as either employed or unemployed—since the summer of 2010 can account for as much as a one percentage-point decline in the unemployment rate. In other words, if these people had stayed in the labor force, the unemployment rate would have been roughly a percentage point higher than the current measured rate.

As shown in the chart below, the participation rate has dropped more than two percentage points since 2008, more than double the decline over the past two years. While some of this likely owes to demographic forces—namely baby boomers entering their retirement years—the bulk is cyclical. This means that many people not currently included in the labor force will be moving back into it once labor market conditions begin to look more promising, which will act to hold up the measured unem-