



SCHOOL OF
BUSINESS ADMINISTRATION

The State of the US Economy and Its Potential to Affect the 2012 Elections



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Me. . .

- USD since 2004
- Professor of Economics
- Faculty Director of the Center for Peace and Commerce
 - Social Innovation Challenge (\$40K)
 - Idea Labs (7 in 2012-2013)
 - Conferences on Peace and Commerce

Quotes on the National Economy and the Presidency

- President Bill Clinton's Campaign:

It's the economy, stupid.

- Stephen Dubner (coauthor of Freakonomics):

*It's not the President, stupid.**

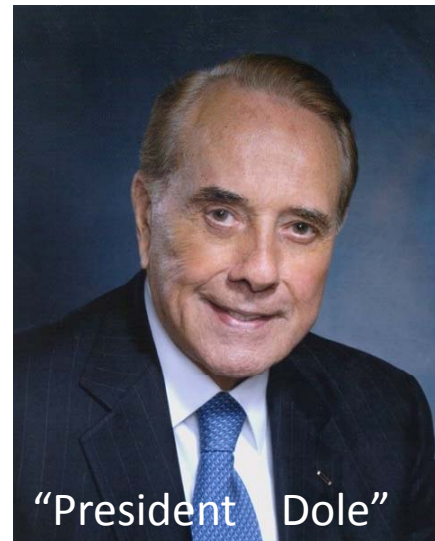
- Former Chair of the Council for Economic Advisers, **Austan Goolsbee**:

*I think the world vests too much power, certainly in the president, probably in Washington in general for its influence on the economy, because most all of the economy has nothing to do with the government.**

*(<http://www.freakonomics.com/2012/03/08/it%E2%80%99s-not-the-president-stupid-a-new-marketplace-podcast/>)

Clinton Reelection of 1996. . . .

- Alvarez and Nagler¹ (1998) (AJPS) investigate the 1996 election: Bill Clinton v. Bob Dole v. H. Ross Perot
 - Conclude that if the national economy had been the same in 1996 as in 1992, Bob Dole would have been the 43rd president!



“President Dole”

1. Cal Tech and UC Riverside

Clinton Reelection of 1996

- Alvarez and Nagler study (cont.):
 - Voters don't appear to “vote their (own) pocketbook”

Perception of their Personal Finance	Plan to Vote for Clinton
Worse off in terms of personal finance	50%
Better off in terms of personal finance	49%

Clinton Reelection of 1996

- Alvarez and Nagler study:
 - Voters do appear to vote based on the national economy.

Perception of the National Economy	Plan to Vote for Clinton
Believe National Economy is Worse	11%
Believe National Economy is Better	49%

Does the Economy Affect Presidential Elections?

- Implications from Alvarez and Nagler:
 - Good economic conditions in 1996 made it favorable for an incumbent president (Clinton), just as poor economic conditions in 1992 made it unfavorable for an incumbent president (George H.W. Bush)
 - Clinton would have lost in 1996 by about 10 percentage points if the economy was as bad in 1996 as it was in 1992. (p. 1360)
 - Dole's and Perot's vote share would have both increased considerably, though Dole would have won.

Does the Economy Affect Presidential Elections?

- Implications from Alvarez and Nagler (survey, n = 687):
 - “If the economy is bad, having all the correct positions on the issues may not be sufficient to retain office.”
 - Important policy implication: If voters vote based on the national economy, they may lose the ability to achieve the non-economic policy outcomes.

More Research . . . What Matters?

- Forecasting models on presidential elections . . . What matters?
 - Approval ratings (Brody and Sigelman, 1983)
 - Real per capita disposable income trends (Hibbs, 1982)
 - Both approval ratings and disposable income (Lewis-Beck and Rice, 1984)

Time-for-Change Forecasting Model

Alan Abramowitz (1988) “Time-for-Change Model”

What matters is:

- Presidential approval for incumbent president (positive)
- Economy (positive)
- How long incumbent president’s party has been in power (negative)

Time-for-Change Forecasting Model


Alan Abramowitz (1988) “Time-for-Change Model”:

$$V = 36.0 + 0.28*POPULAR + 1.2*%\Delta GNP - 4.0*LONGTERM \quad (\text{all significant})$$

(*V* is % of major party votes received by incumbent party; *POPULAR* is incumbent president’s approval rating; *%ΔGNP* is %change in GNP from 4th quarter of year prior to 4th quarter of election year; *LONGTERM* is dummy that is “1” if incumbent party has controlled White House for 8 years or more.)

- A 1% increase in GNP growth rate is equivalent to about 1.2% increase in incumbent presidential popularity.
- Published in fall 1988, this paper accurately predicted George H.W. Bush would defeat Michael Dukakis.

Abramowitz (2008)

- Fast forward to 2008:
 - Abramowitz (2008): Finds that the growth rate of the economy explains less than 40% of the variation in outcomes of U.S. presidential elections.
 - “Economic conditions are only one of the factors that influence voters’ evaluations of the incumbent president’s performance.” (2008, p. 692)
 - What also matters:
 - Conduct of foreign affairs
 - Personal style
 - Communication skills
 - Honesty and integrity
 - Domestic policy agenda
- 
- Approval Rating at mid-year

Abramowitz (2008)

- How accurate was Abramowitz' model in predicting the 2008 election?

Revised Abramowitz forecasting model (1948 – 2004 elections):

$$V = 51.417 + 0.109 * \text{June Approval} + 0.604 * \text{Q2GDP} - 4.265 * \text{LONGTERM}, \quad (\text{All significant})$$

where *JuneApproval* variable is the net incumbent presidential approval rating (approval minus disapproval rate) and *Q2GDP* is second quarter's GDP growth rate.

Abramowitz (2008)

$$V = 51.417 + 0.109 * \text{June Approval} + 0.604 * \text{Q2GDP} - 4.265 * \text{LONGTERM},$$

- 1% increase in net approval increases major-party vote by about 0.1%. Example: If net presidential approval is +20%, president's party can expect to get an additional 2.2% of the vote compared to a situation in which the net approval is 0.
- 1% increase in second-quarter GDP growth rate increases major-party vote by about 0.6%. Example: If GDP growth rate is 5%, candidate from president's party can expect to get an additional 3% of the vote, compared to a situation in which there is zero growth.
- A candidate running in president's party that has been in office 8+ years can expect about 4.3% fewer votes. (It's time for a change!)

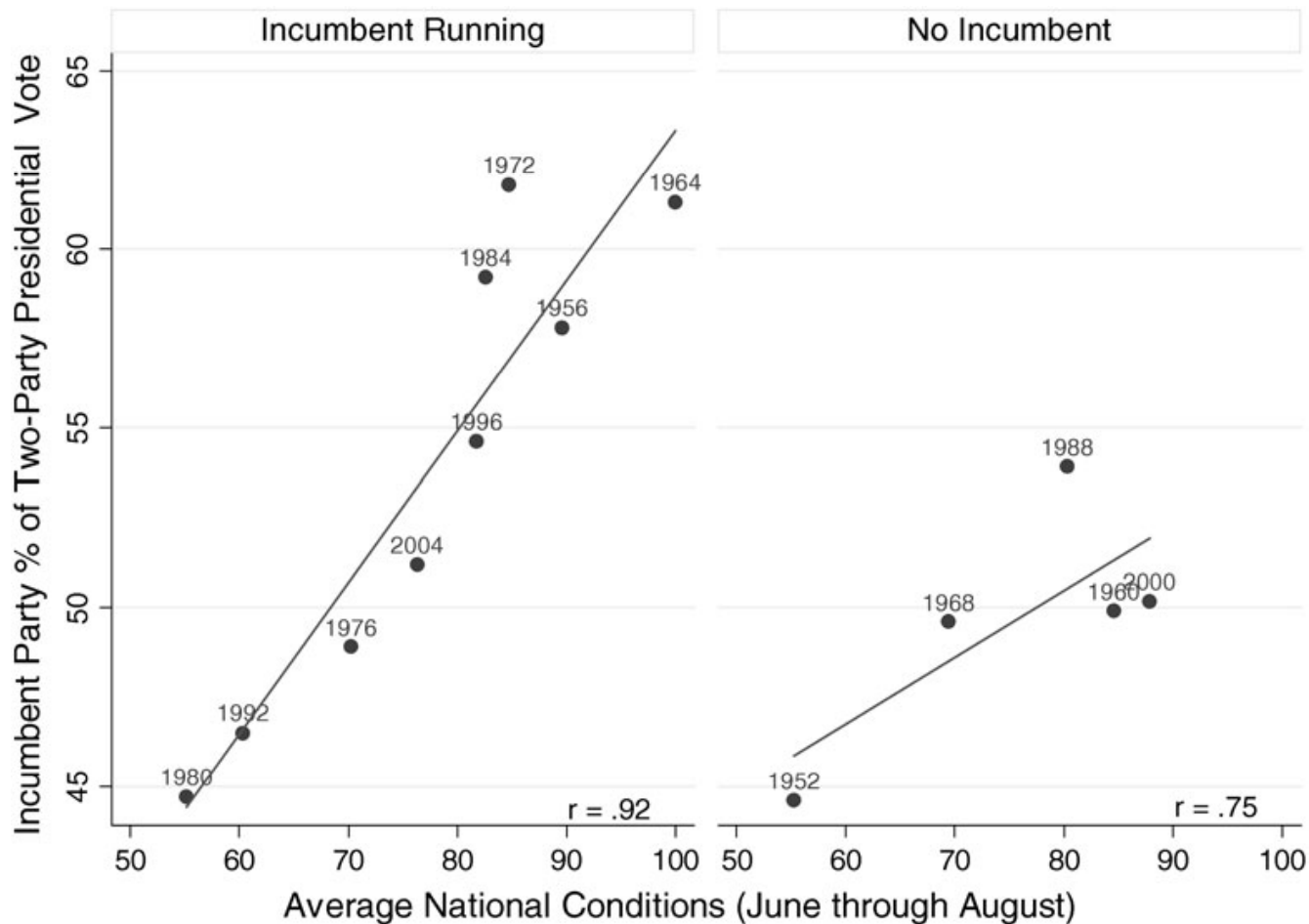
Abramowitz' 2008 Prediction. . . .

Abramowitz predicted that: “Barack Obama will receive 54.3% of the major-party vote in November vs. 45.7% for John McCain.”
(Abramowitz, October 2008)

Holbrook (2008)

- Thomas Holbrook (2008) finds that incumbent elections in which there is an open seat (e.g., Gore in 2000, McCain in 2008), incumbency matters less. In other words, voters assign less credit/blame on incumbent party candidates if there is an open seat.
- Holbrook does find positive correlation between personal finance/presidential approval with percent of vote for incumbent party. (see below)

Holbrook (2008)



“Average National Conditions” are an average of presidential approval and personal financial satisfaction.

Source: Figure 3. National Conditions and Presidential Elections, 1952–2004, from “Incumbency, National Conditions, and the 2008 Presidential Election,” Thomas M. Holbrook, 2008.

Holbrook (2008)

- Holbrook quote (October 2008):
“The upshot for the 2008 election is that although McCain’s non-incumbent status should soften the impact of the current political environment somewhat, he is still expected to bear enough responsibility that victory will be out of reach.”

Research Caveats. . . .

- Much of research based on post-WWII elections. Is this election, following the Great Recession, typical?
- “If such events (e.g., Great Depression or a world war) were to occur, forecasts from the model might be way off.” (Lewis-Beck and Rice, 1984)
- Small sample sizes

Now to the current state of the U.S. Economy

- What is the current state of the U.S. economy???

The Economist

MARCH 17TH-23RD 2012

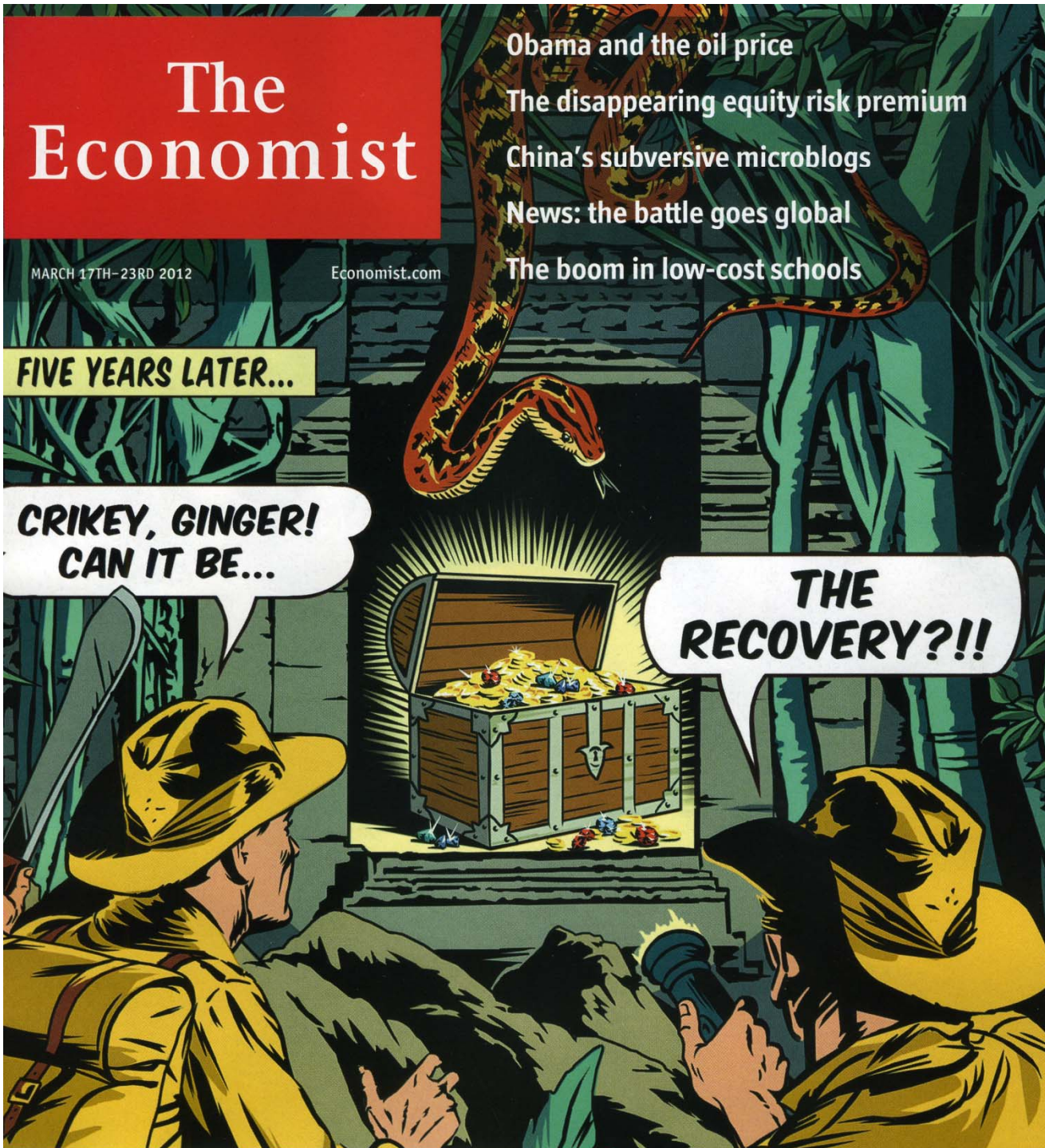
Economist.com

Obama and the oil price
The disappearing equity risk premium
China's subversive microblogs
News: the battle goes global
The boom in low-cost schools

FIVE YEARS LATER...

**CRIKEY, GINGER!
CAN IT BE...**

**THE
RECOVERY?!!**



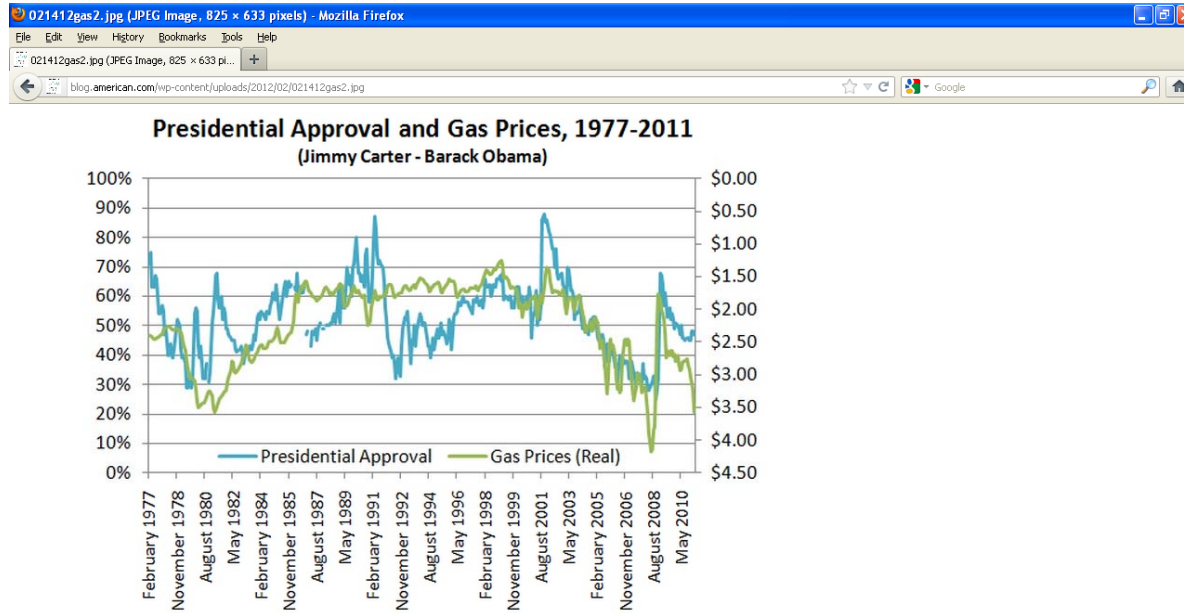
Risks for U.S. Economic Growth. . . .

1. Rising Oil and Gasoline Prices:
 - Iran; Increasing demand from BRICS and emerging markets
2. Slow growth in U.S. Exports:
 - European recession
 - Chinese “recession”
 - Strong dollar
 - European weakness means U.S. bonds more attractive
 - Chinese currency manipulation
 - Do we produce what the rest of the world wants???
3. Serious domestic risks:
 - Sluggish housing/construction markets
 - Weak labor markets (high unemployment rates)
 - High U.S. federal debt . . . Future sovereign debt crisis in U.S.?
 - Reduction in State and Local government spending

Do Gasoline Prices Matter?

- Go to this link for relationship between (inverse of) gasoline prices and presidential approval ratings: <http://blog.american.com/wp-content/uploads/2012/02/021412gas2.jpg>
- Relationship between President Obama's approval ratings and (inverse of) retail gasoline prices: <http://blog.american.com/wp-content/uploads/2012/02/021412GASCHART1.jpg>

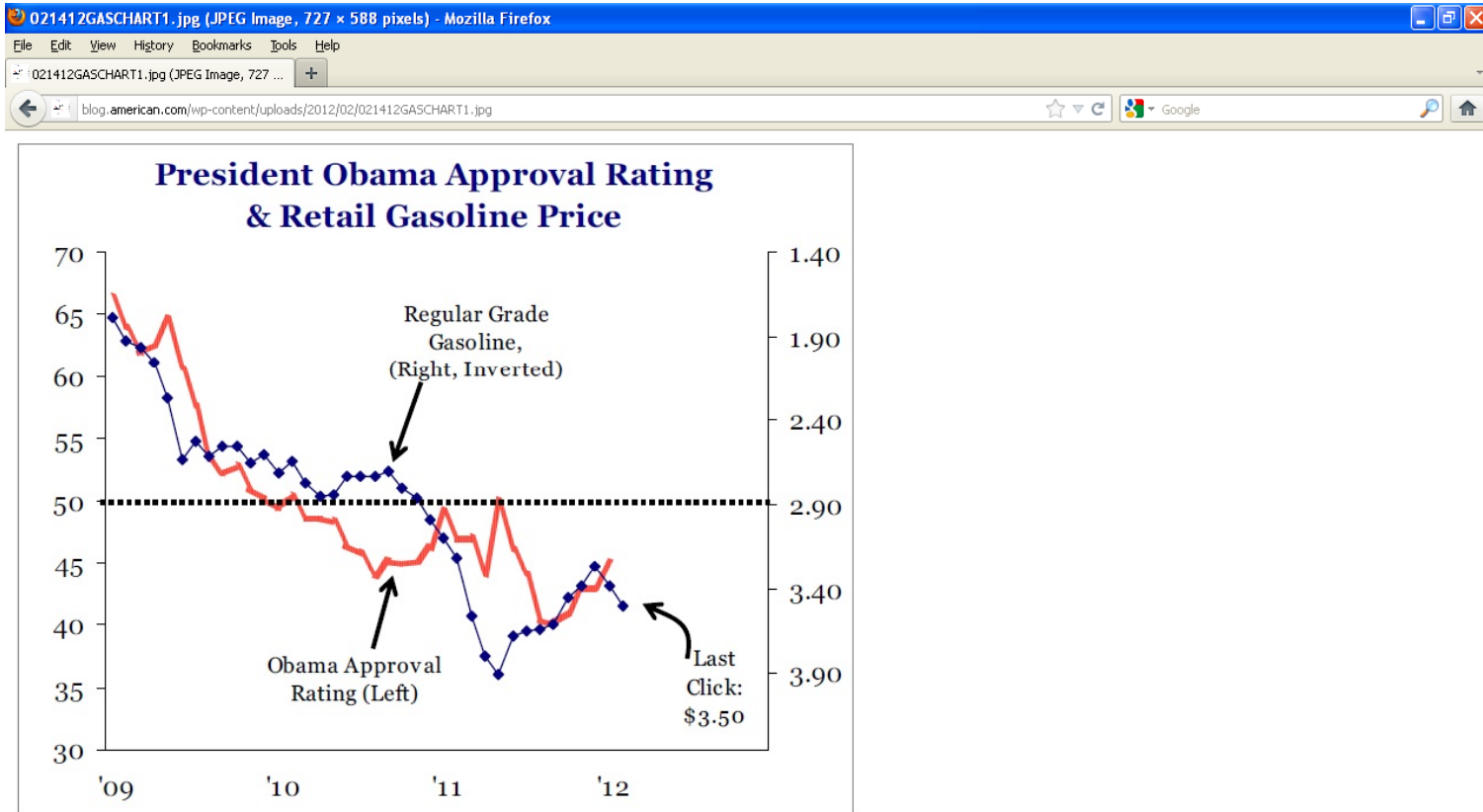
1977 - 2011



Source: Gallup and U.S. Energy Information Administration

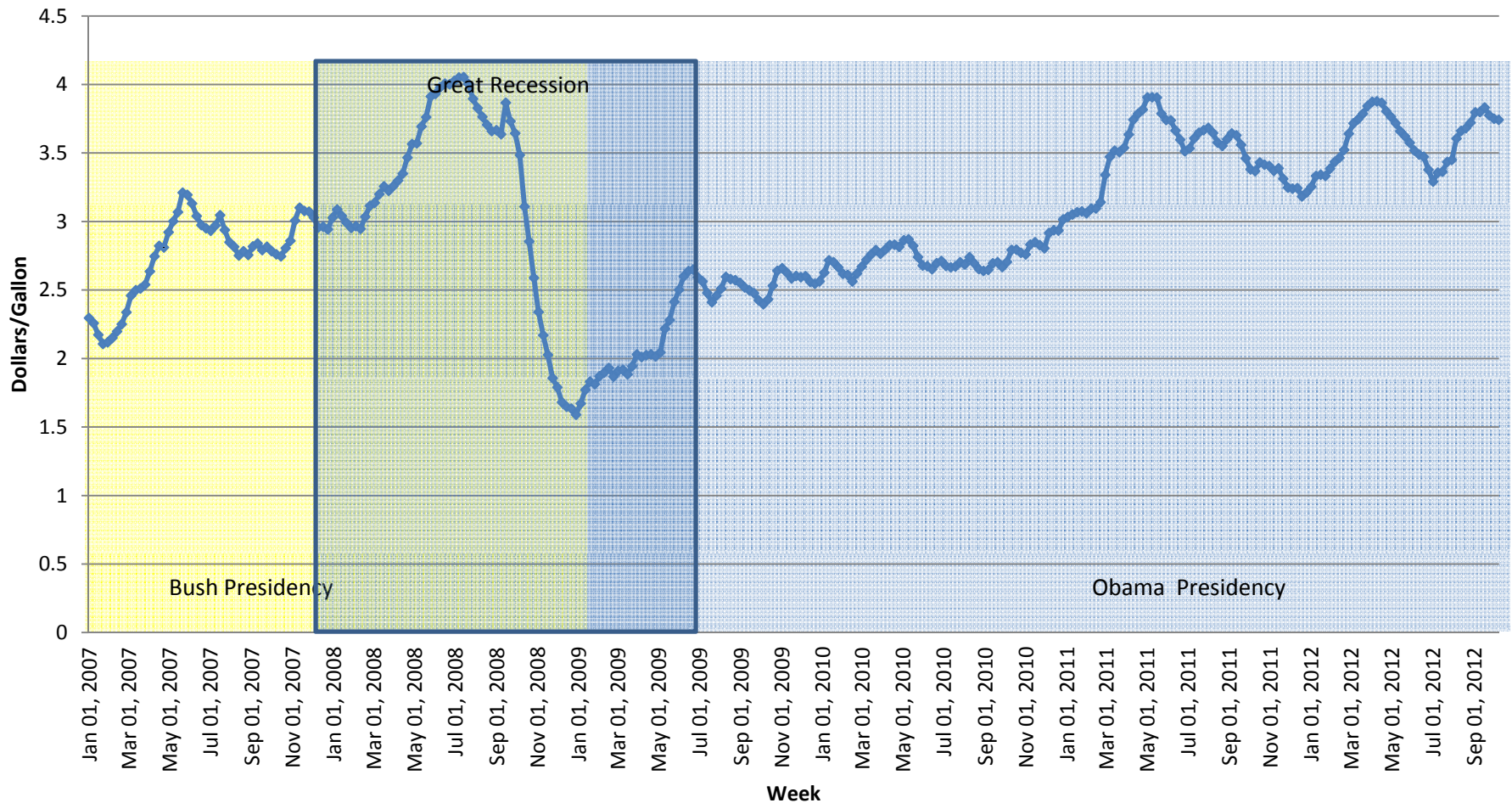


President Obama



Gasoline Prices

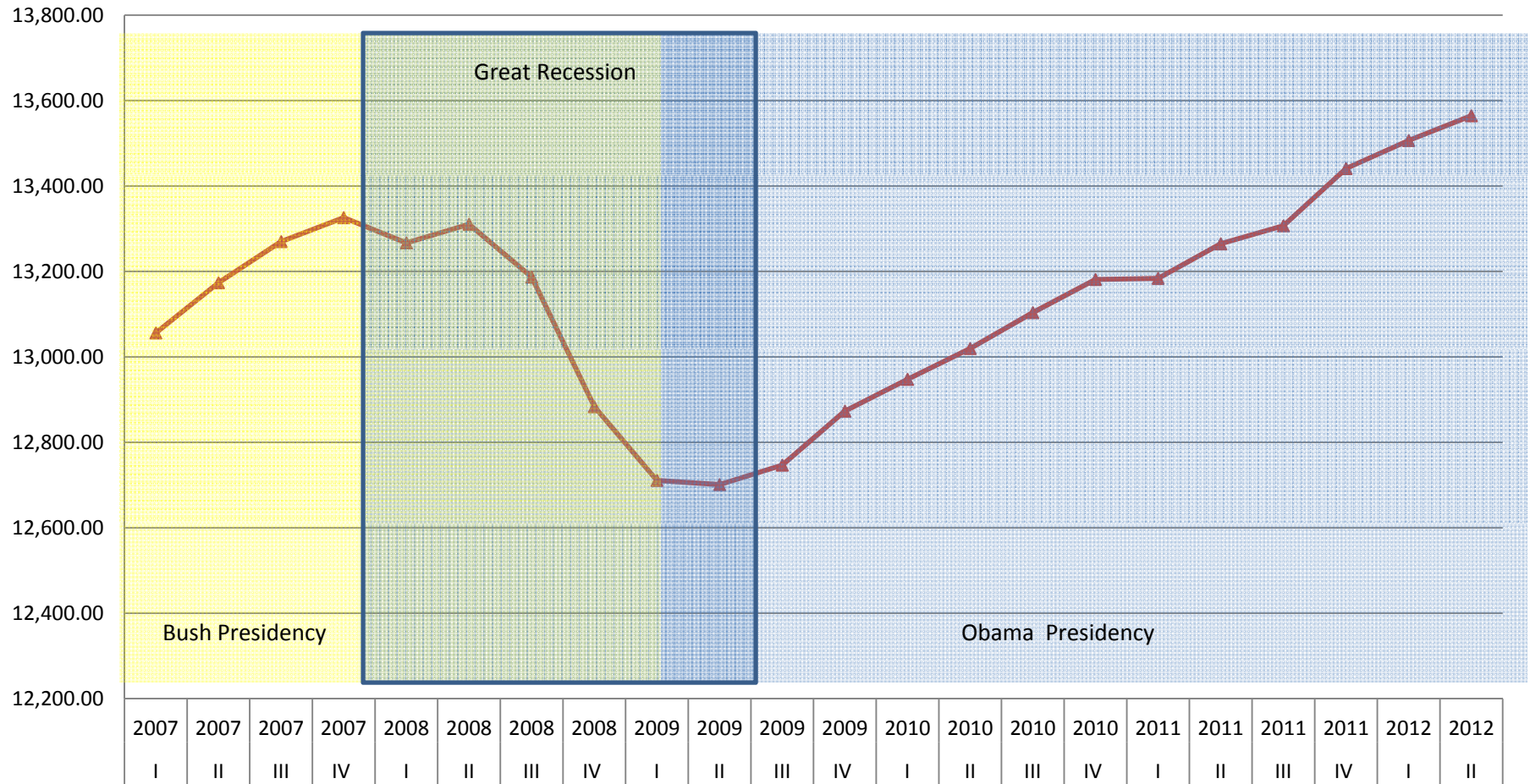
Weekly U.S. Regular Conventional Retail Gasoline Prices (Dollars per Gallon), January 2007 - Present



Source: <http://www.eia.gov/petroleum/gasdiesel/>

Real Output of U.S. Economy

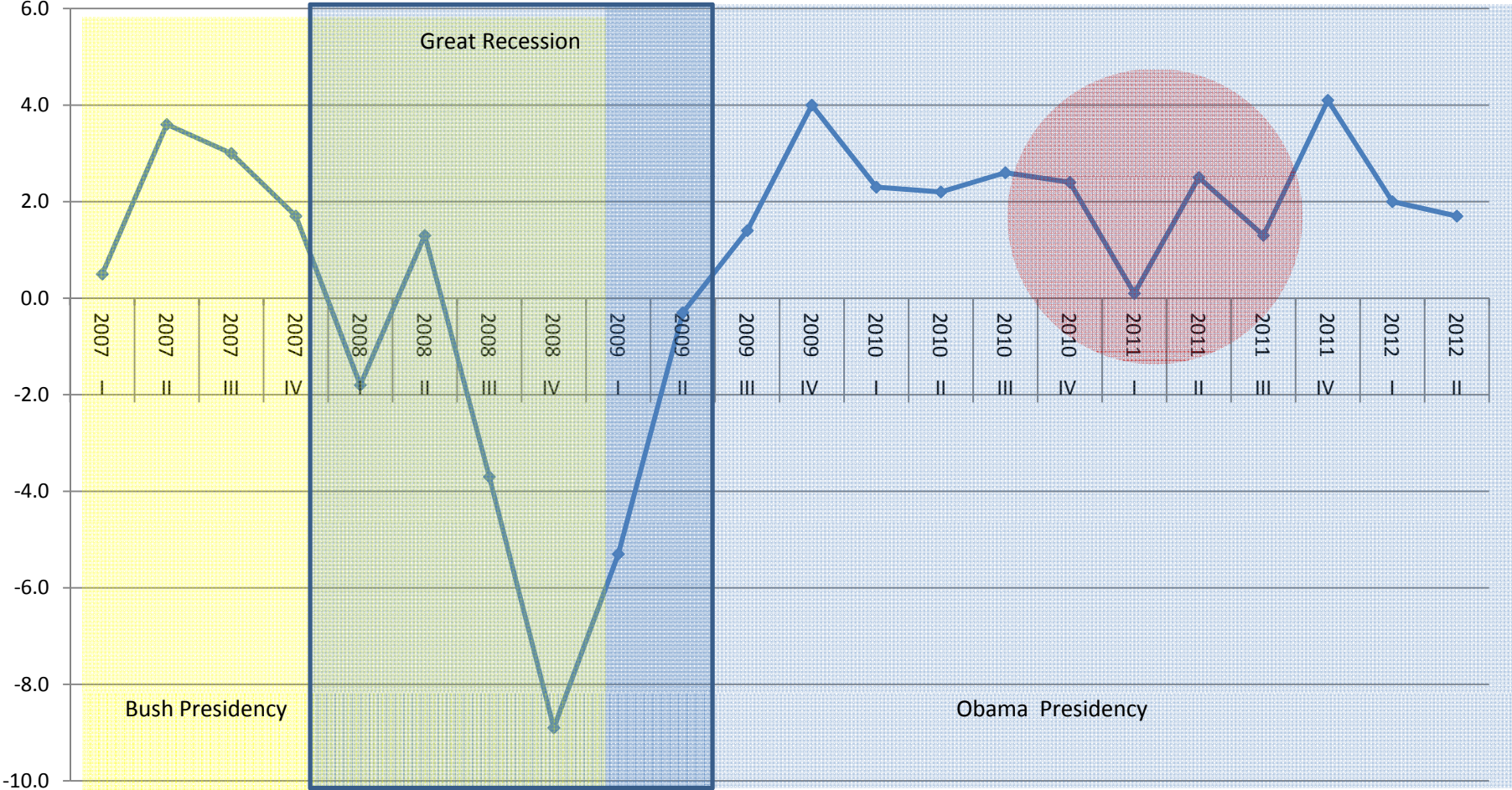
Real GDP in Billions of Chained \$2005
1Q 2007 - 1Q 2012



Source: BEA Tables: Table 1.1.6 Real Gross Domestic Product, Chained Dollars

Growth Rate of U.S. Economy

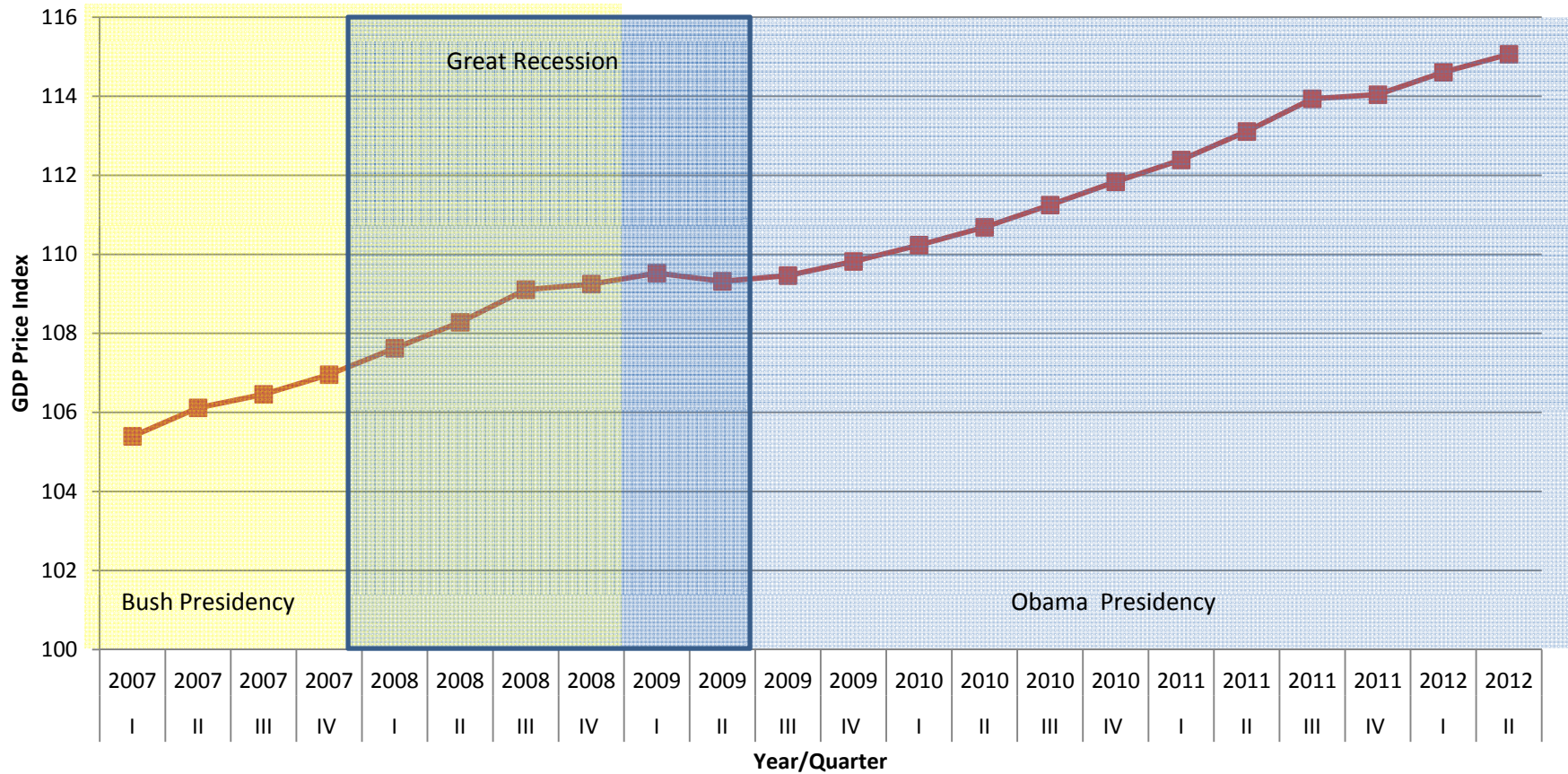
Percent Change in Real GDP 1Q 2007 - 2Q 2012



Source: BEA Tables: Table 1.1.1

Inflation

GDP Price Index (Base Year 2005)

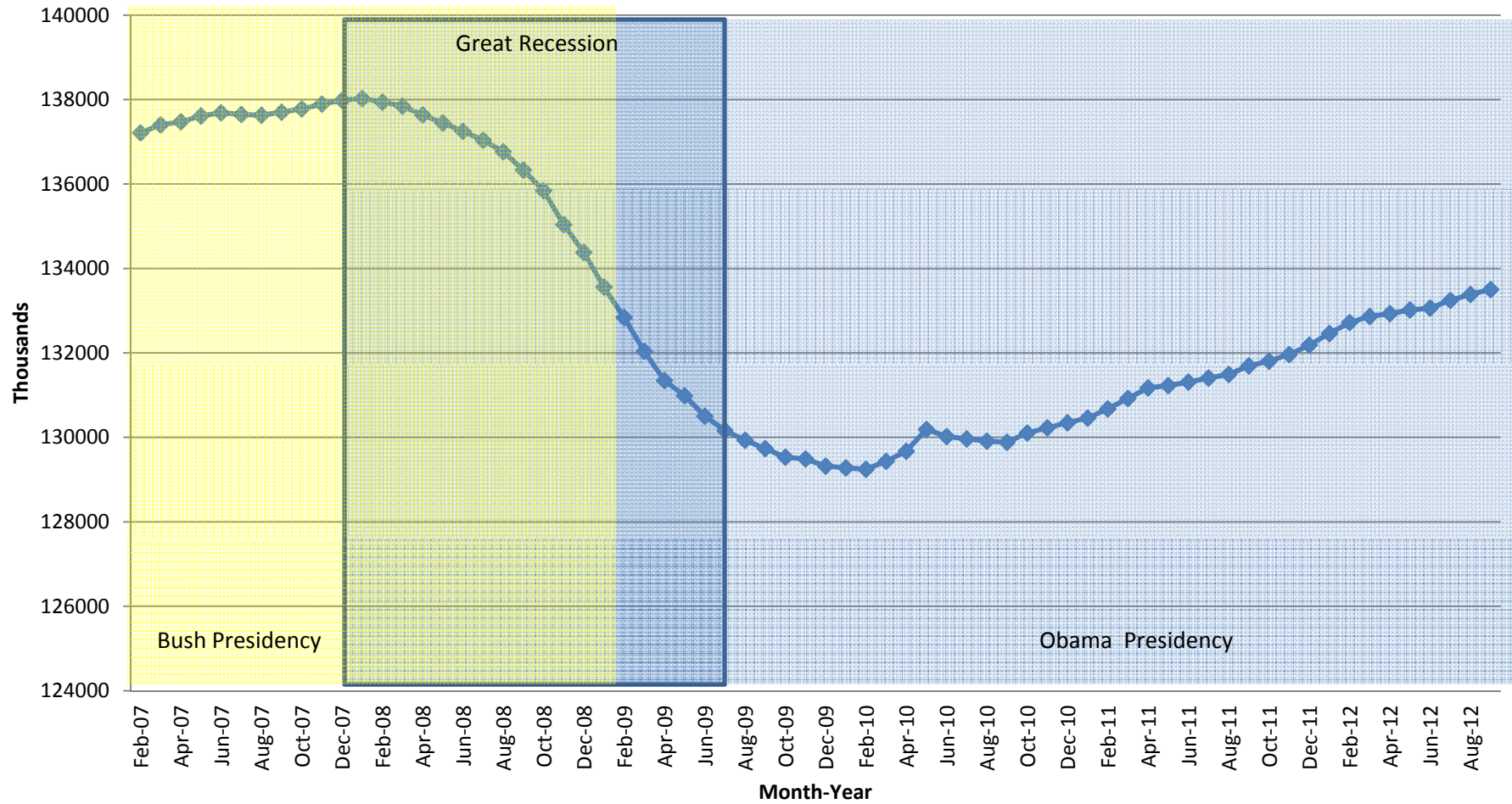


Source: BEA Tables 1.1.4

Ave. Annual Inflation for **2007 – 2011**: 1.6%; Ave. Annual Inflation for **1970 – 2011**: 3.7%

Jobs

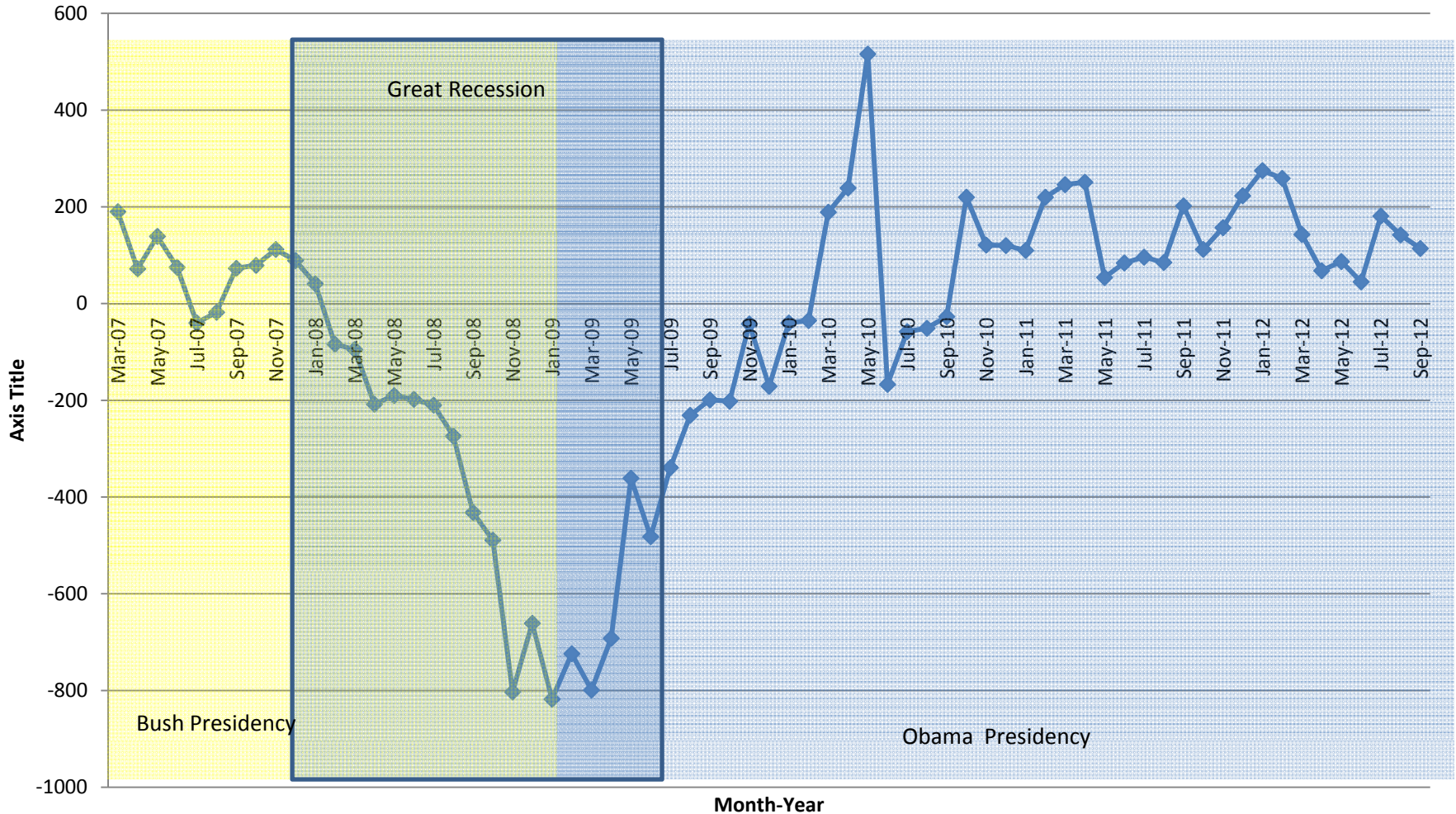
Total Nonfarm Employment (Jobs), Jan. 2007 - Sept. 2012



Source: BLS, Series I.D. CES0000000001

Monthly Change in Jobs

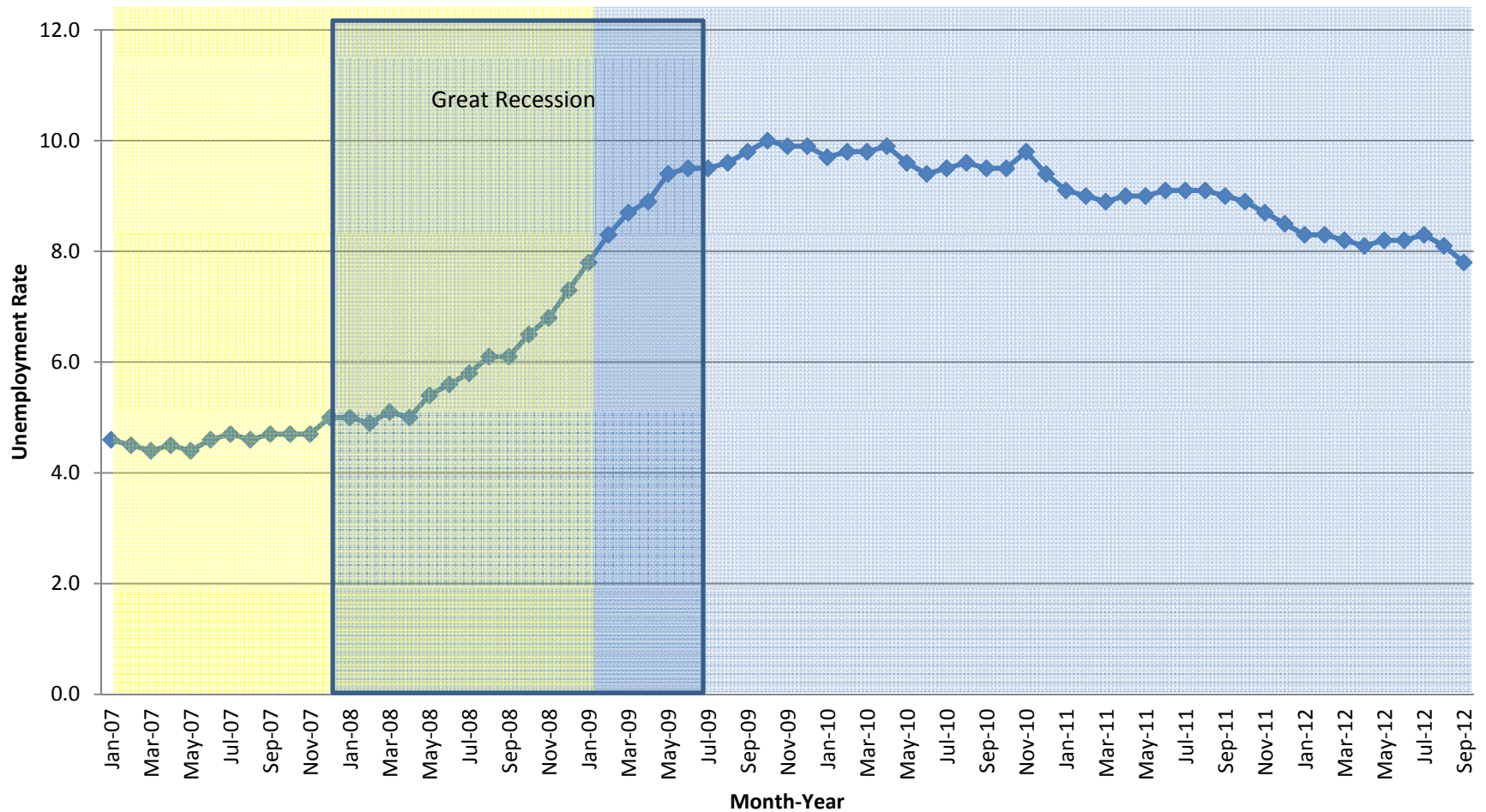
Monthly Change in Nonfarm Employment, Feb 2007 - Sept. 2012



Source: Based on Calculations from BLS, Series I.D. CES0000000001

Unemployment Rate

U.S. Unemployment Rate,
Jan. 2007 - Sept. 2012

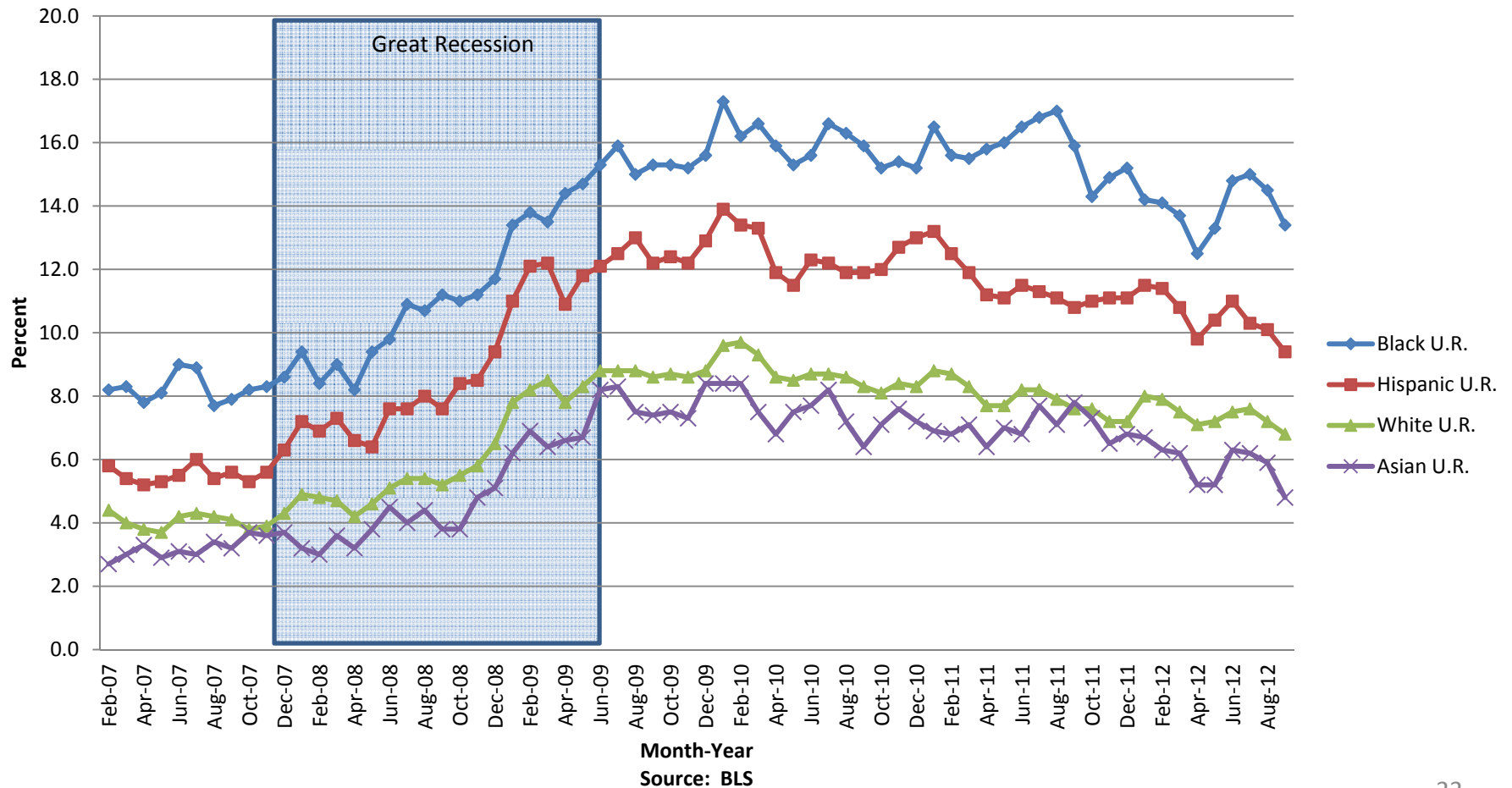


Source: BLS, LNS14000000

Mean Unemployment Rate for U.S. from 1950 – 2011: 6.0%

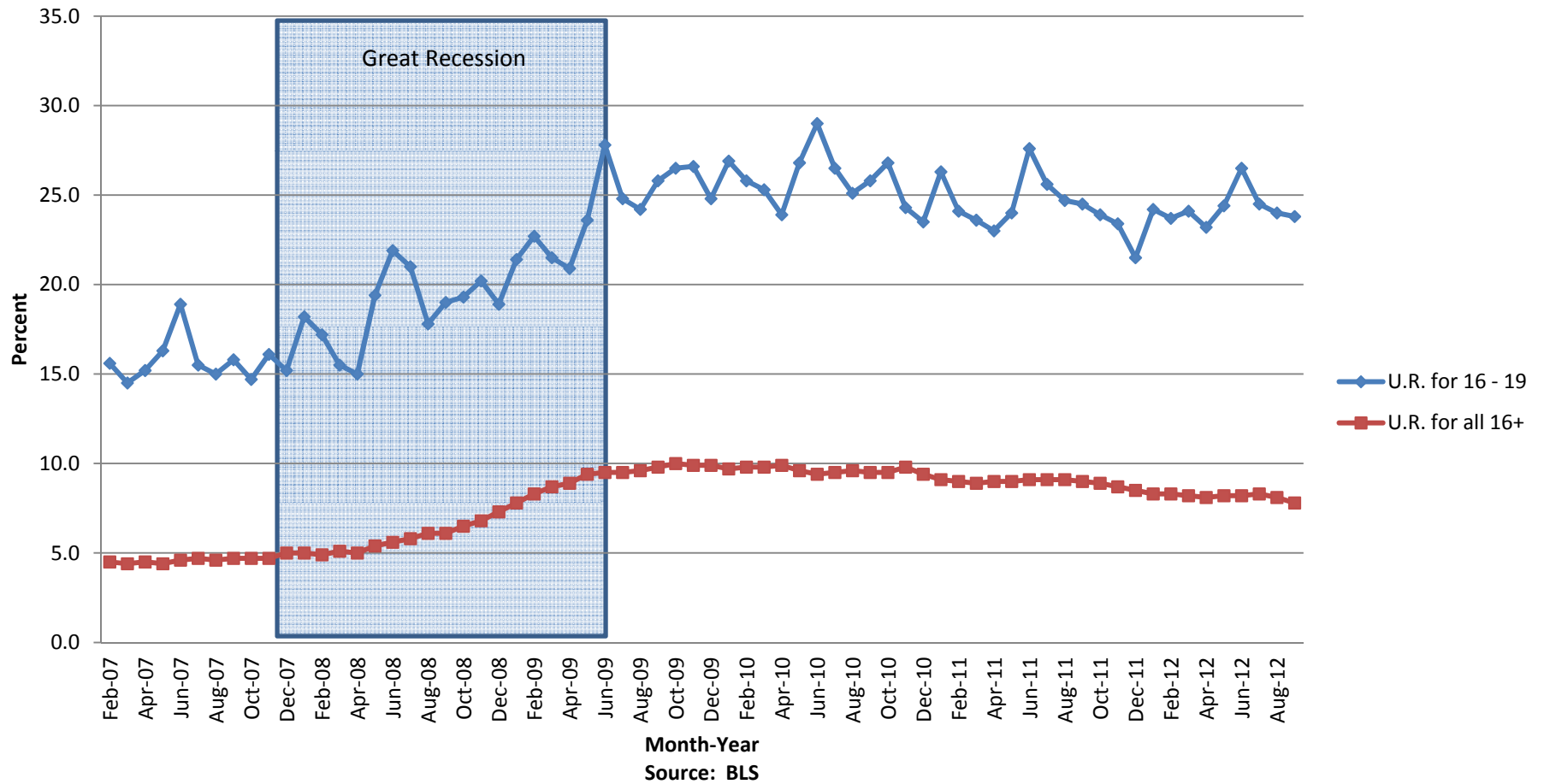
Unemployment Rates by Race/Ethnicity

Unemployment Rate for Persons 16+ by Race/Ethnicity, Jan '07 - Sept. '12



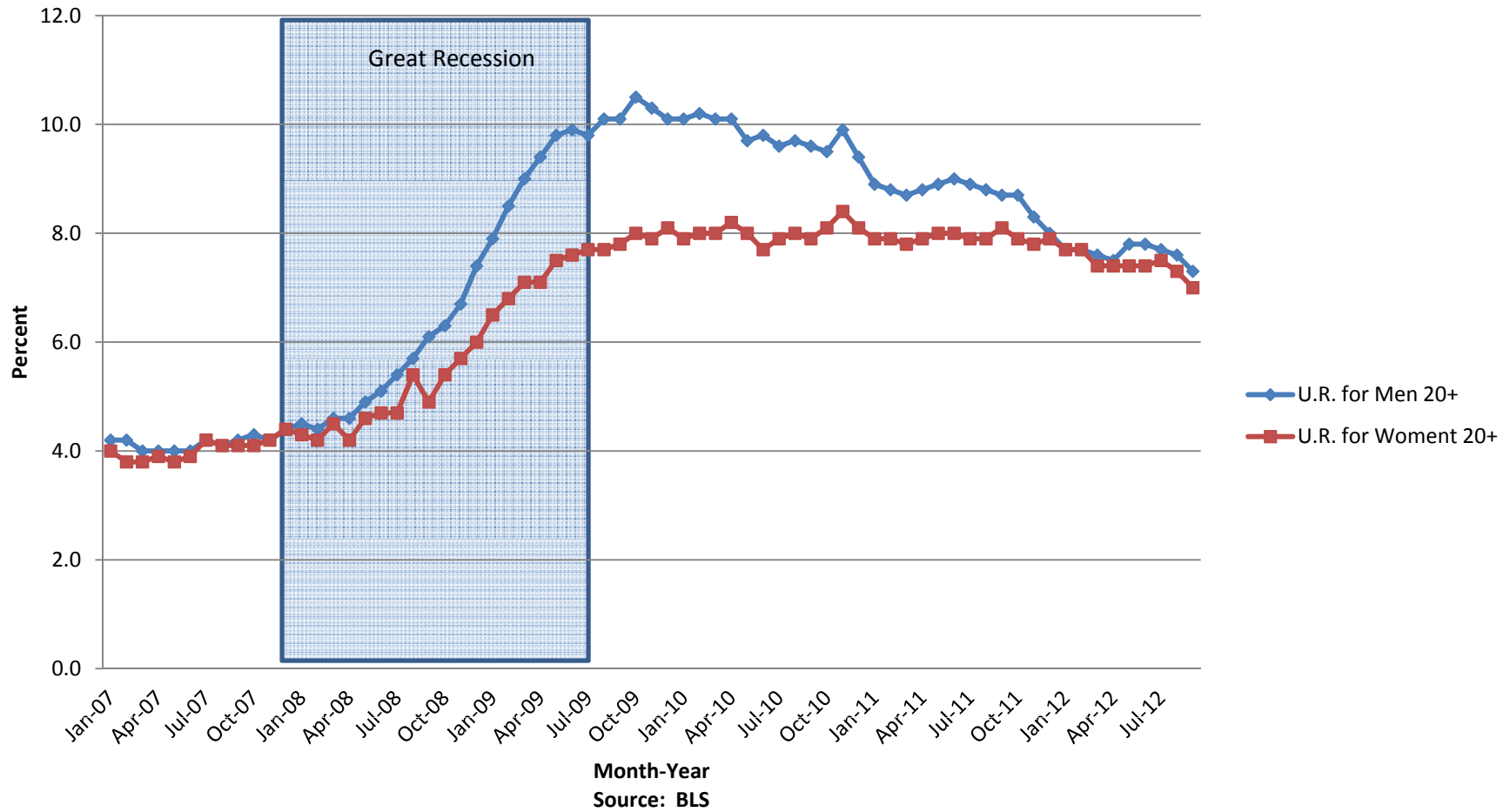
Unemployment Rates for Youth vs. Total U.S. Pop. 16+

Youth and Total Unemployment Rate (Unadjusted),
Jan. 2007 - Sept. 2012



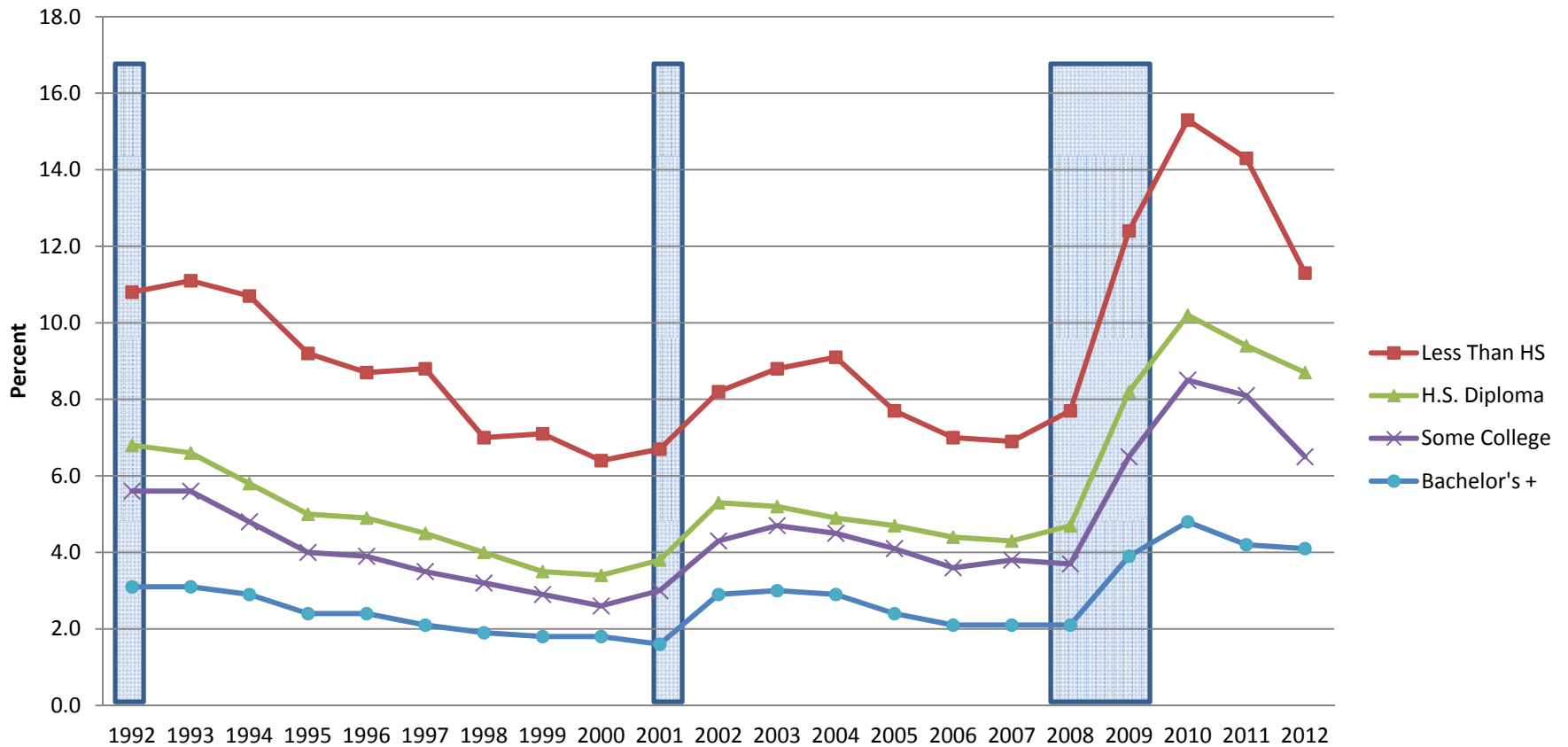
Unemployment Rates by Gender

Unemployment Rates by Gender,
Jan. 2007 - Sept. 2012



Unemployment Rates by Educational Attainment

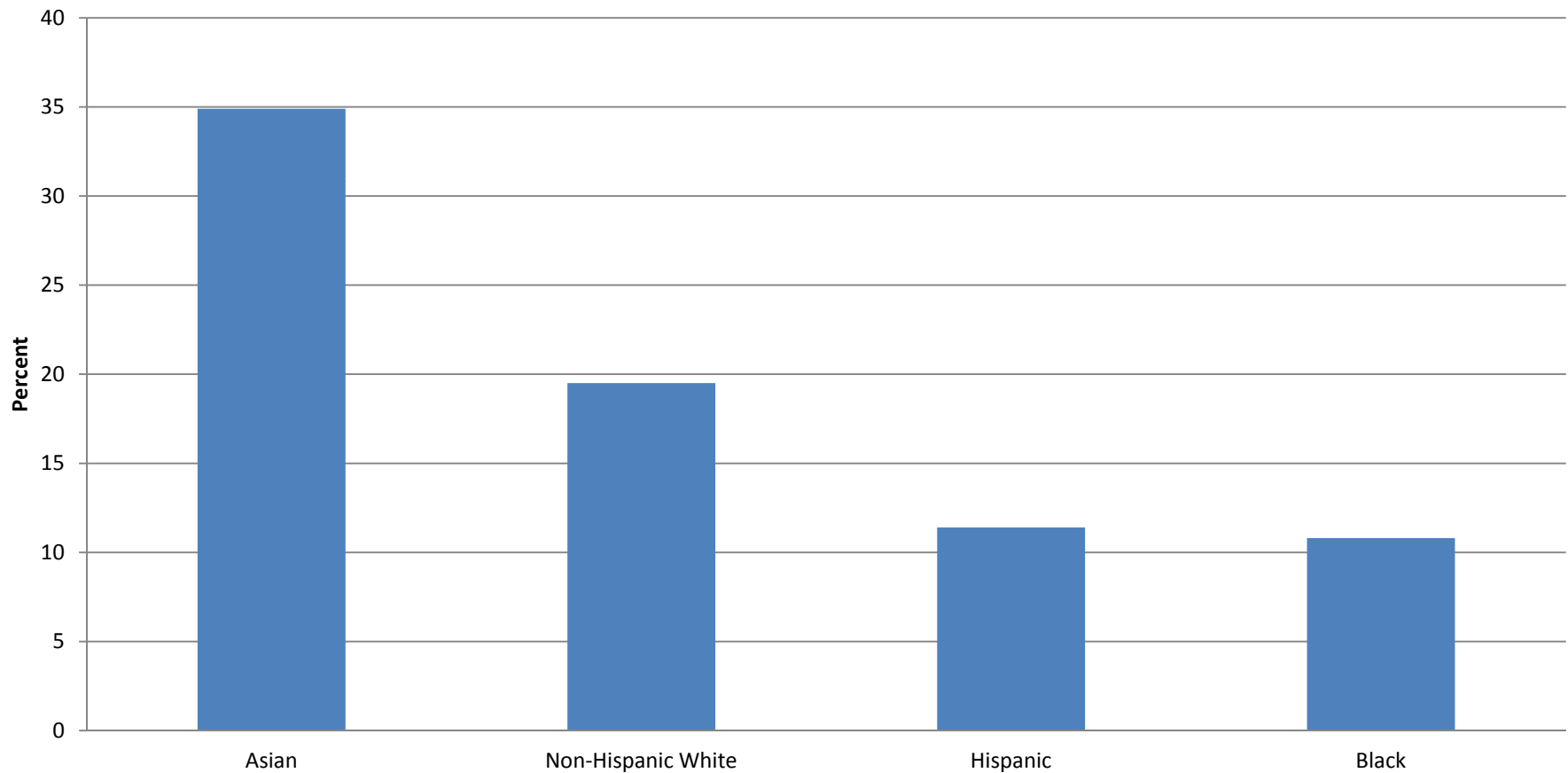
Unemployment Rate for 25 Years and Over, by Educational Attainment



Values are Seasonally Adj. for January of Each Year
 Source: BLS, from CPS, accessed 2/24/12 and 10/9/12

Educational Attainment by Race/Ethnicity—Bachelor's

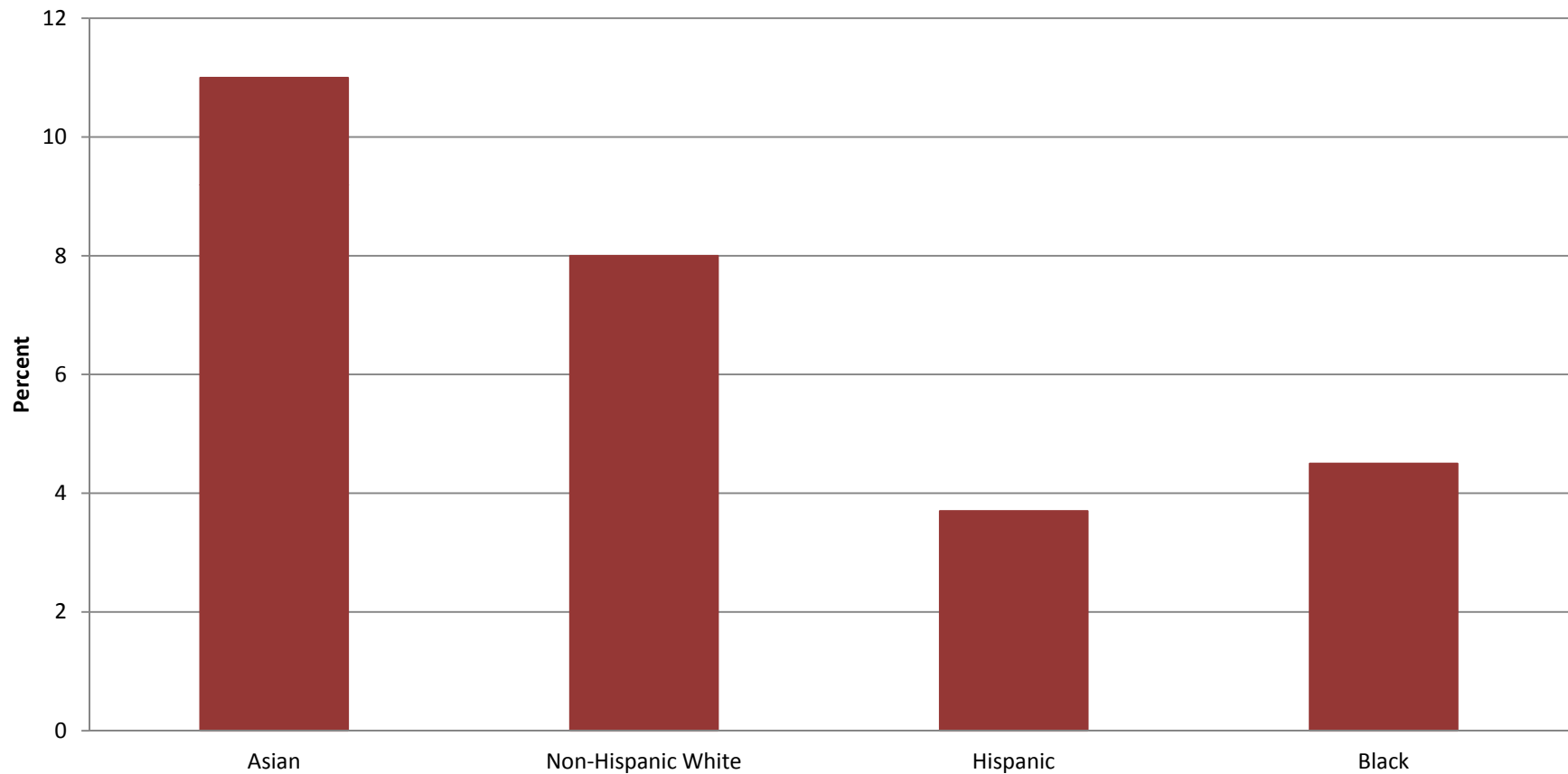
Percent of Population with Bachelor's Degree



Source: *Educational Attainment in the United States: 2009*, Table 1, U.S. Census Bureau
Note: Categories are for Asian alone, N-H White alone, Black alone, Hispanic of any race.

Educational Attainment by Race/Ethnicity—Master's

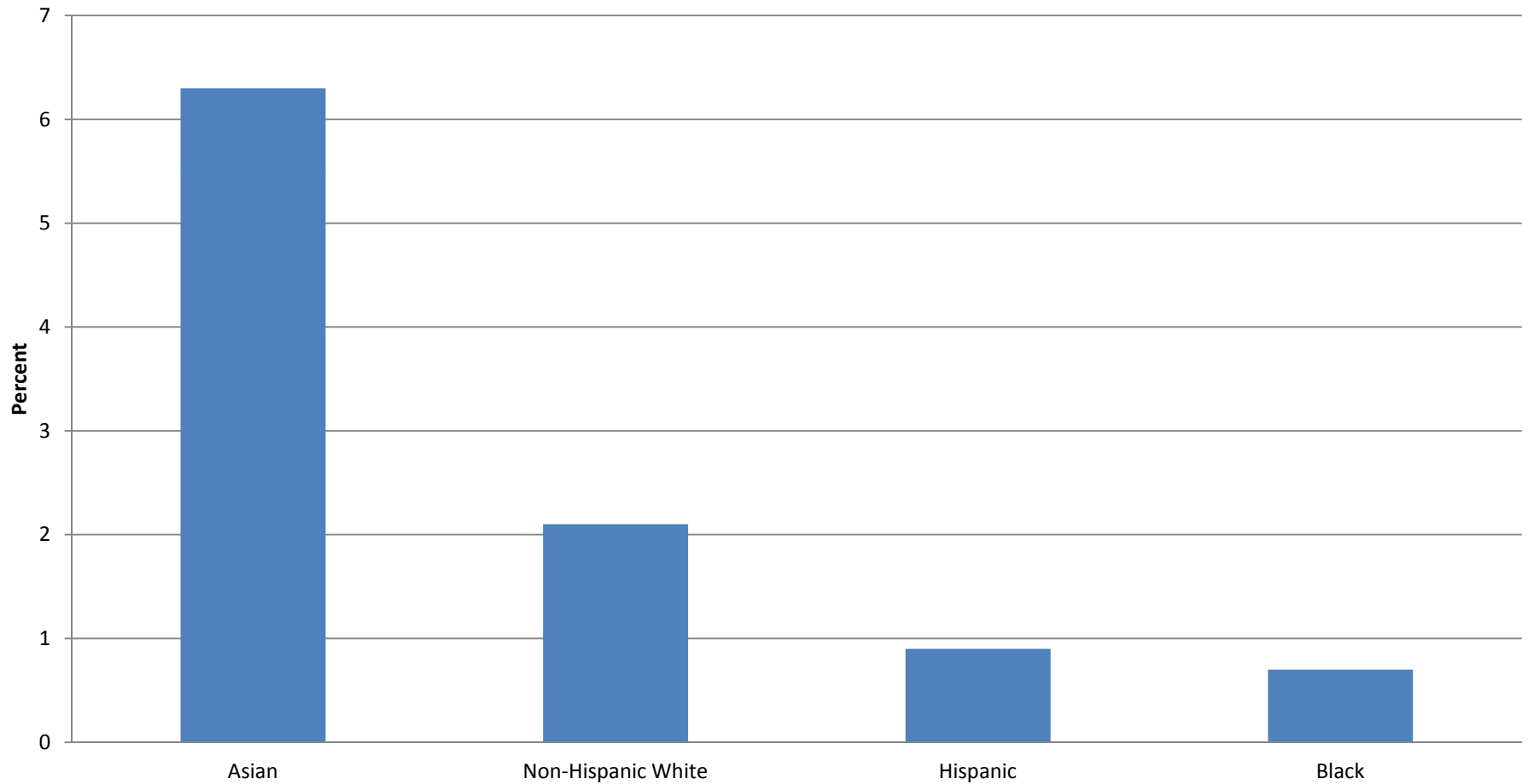
Percent of Population with Master's Degree



Source: *Educational Attainment in the United States: 2009*, Table 1, U.S. Census Bureau
Note: Categories are for Asian alone, N-H White alone, Black alone, Hispanic of any race.

Educational Attainment by Race/Ethnicity—Professional Degree

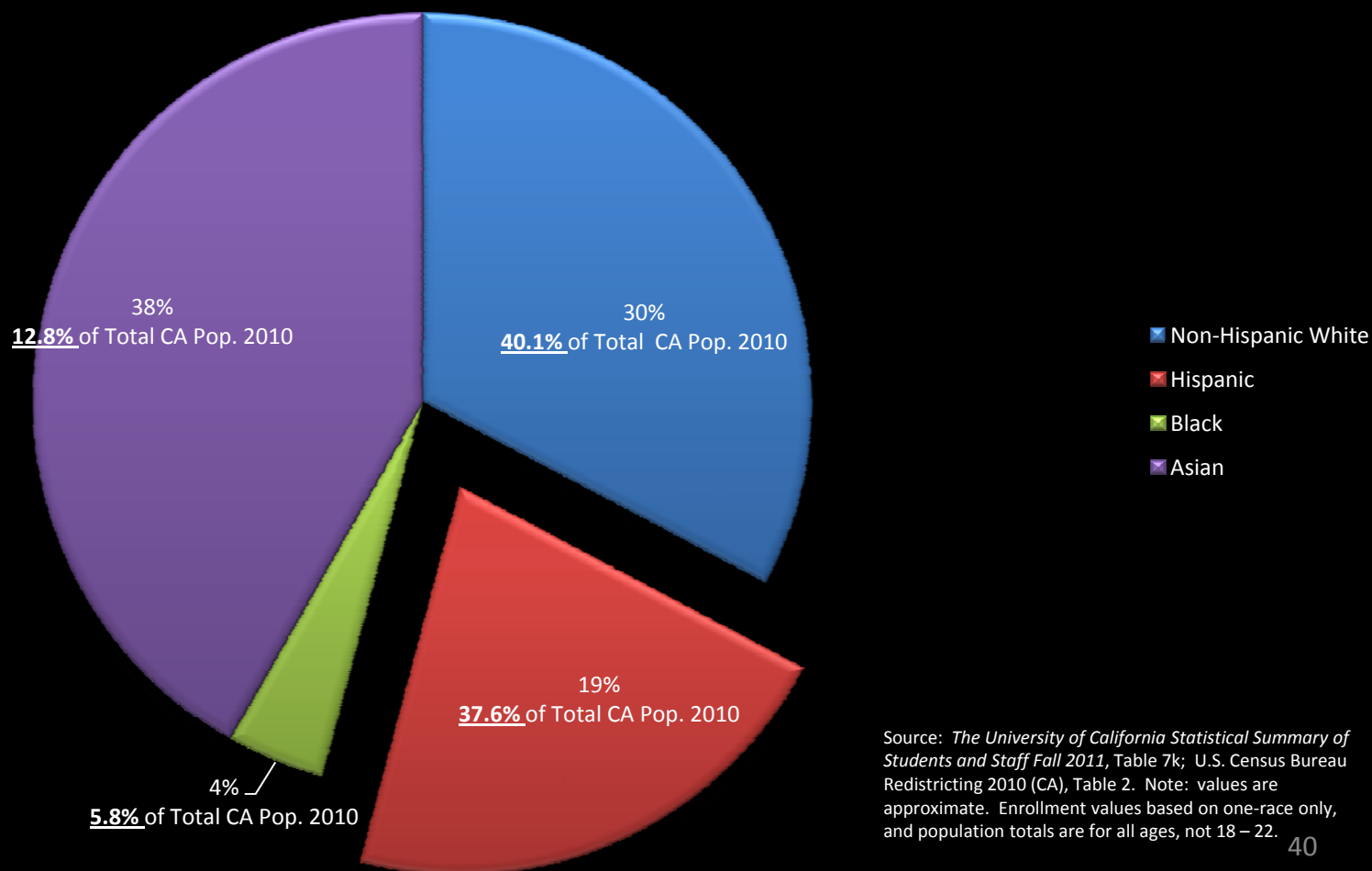
Percent of Population with Professional Degree



Source: *Educational Attainment in the United States: 2009*, Table 1, U.S. Census Bureau
Note: Categories are for Asian alone, N-H White alone, Black alone, Hispanic of any race.

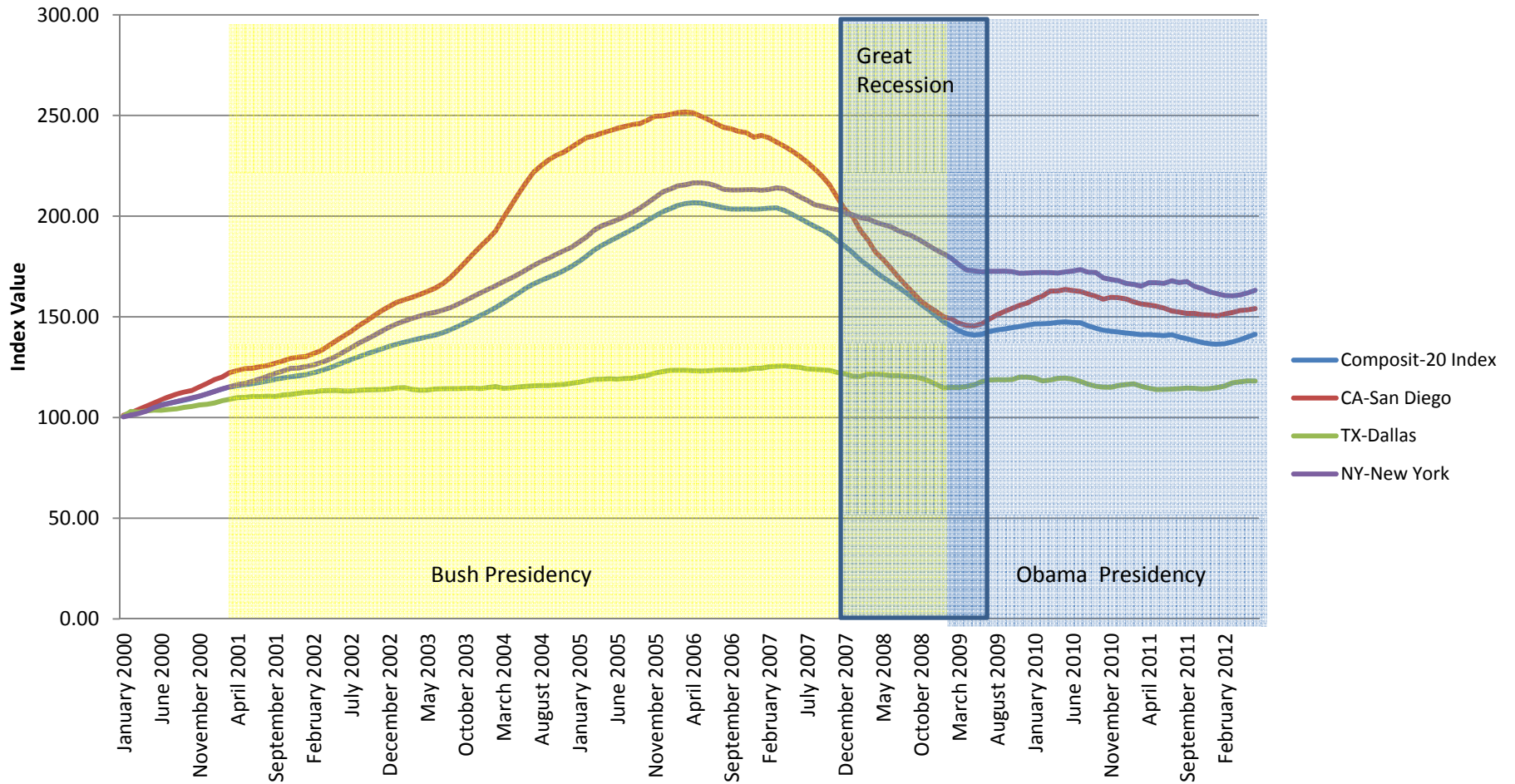
University of California System, 2011

Percent of U.C. Undergraduates by Race/Ethnicity, 2011



Home Prices

S&P Case-Shiller Home Price Index,
(Seas. Adj.) Jan. 2000 - June 2012



Month-Year Source: S&P/Case-Shiller Home Price Indices. Cities > 200 June 2006: Phoenix, LA, SD, SF, DC, Miami, Tampa, LV, NYC

Stock Prices

- Stock Prices

<http://www.google.com/finance?cid=626307>

<http://www.google.com/finance?cid=626307>

Finance

S&P 500 (INDEXSP:.INX)

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+5.78 (0.40%)

Range 1,460.07 - 1,474.51
52 week 1,074.77 - 1,474.51
Open 1,460.07
Vol. 732.03M

g +1 488

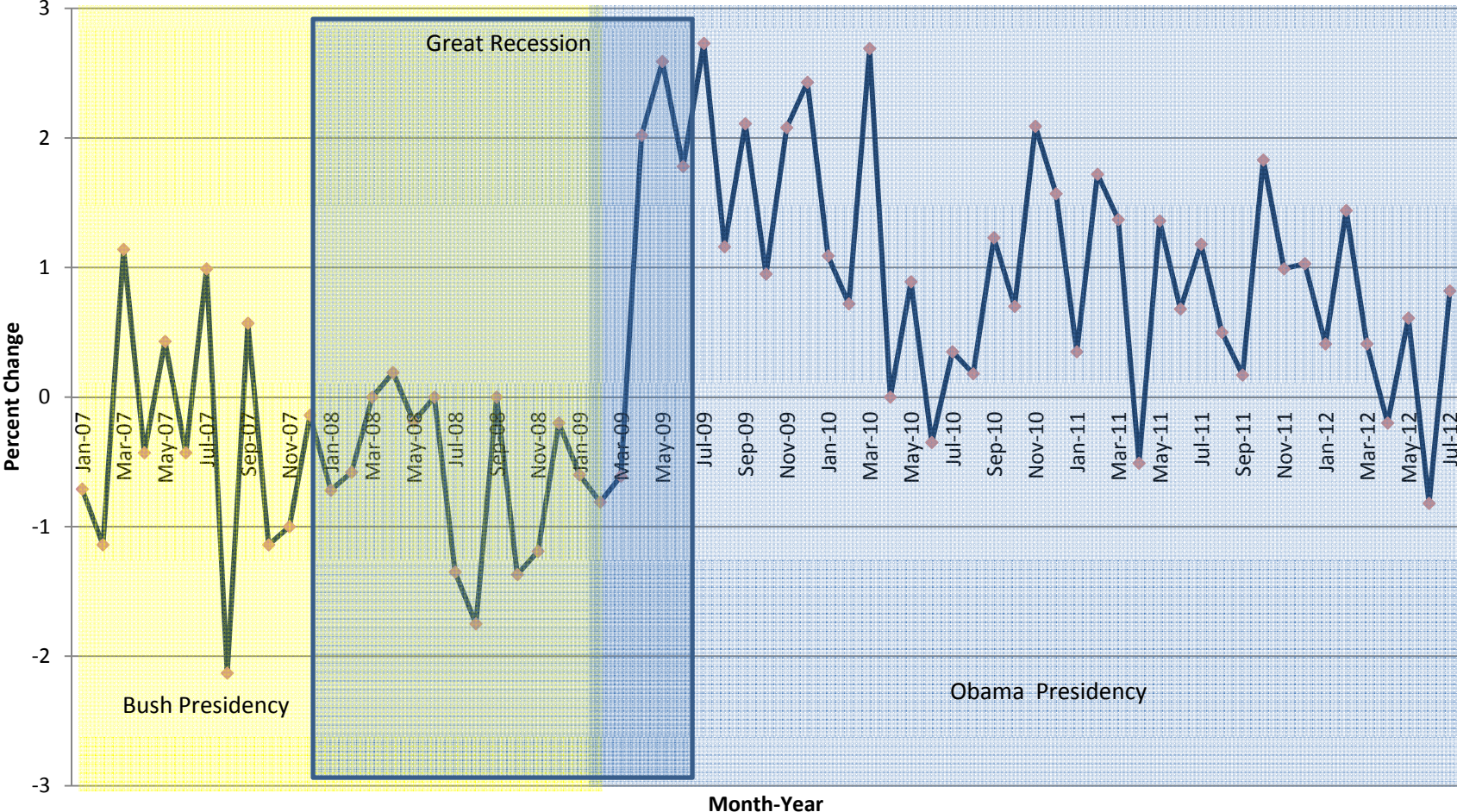
Sep 14 - Close
INDEXSP real-time data - Disclaimer

Compare: Add



National Leading Economic Indicators

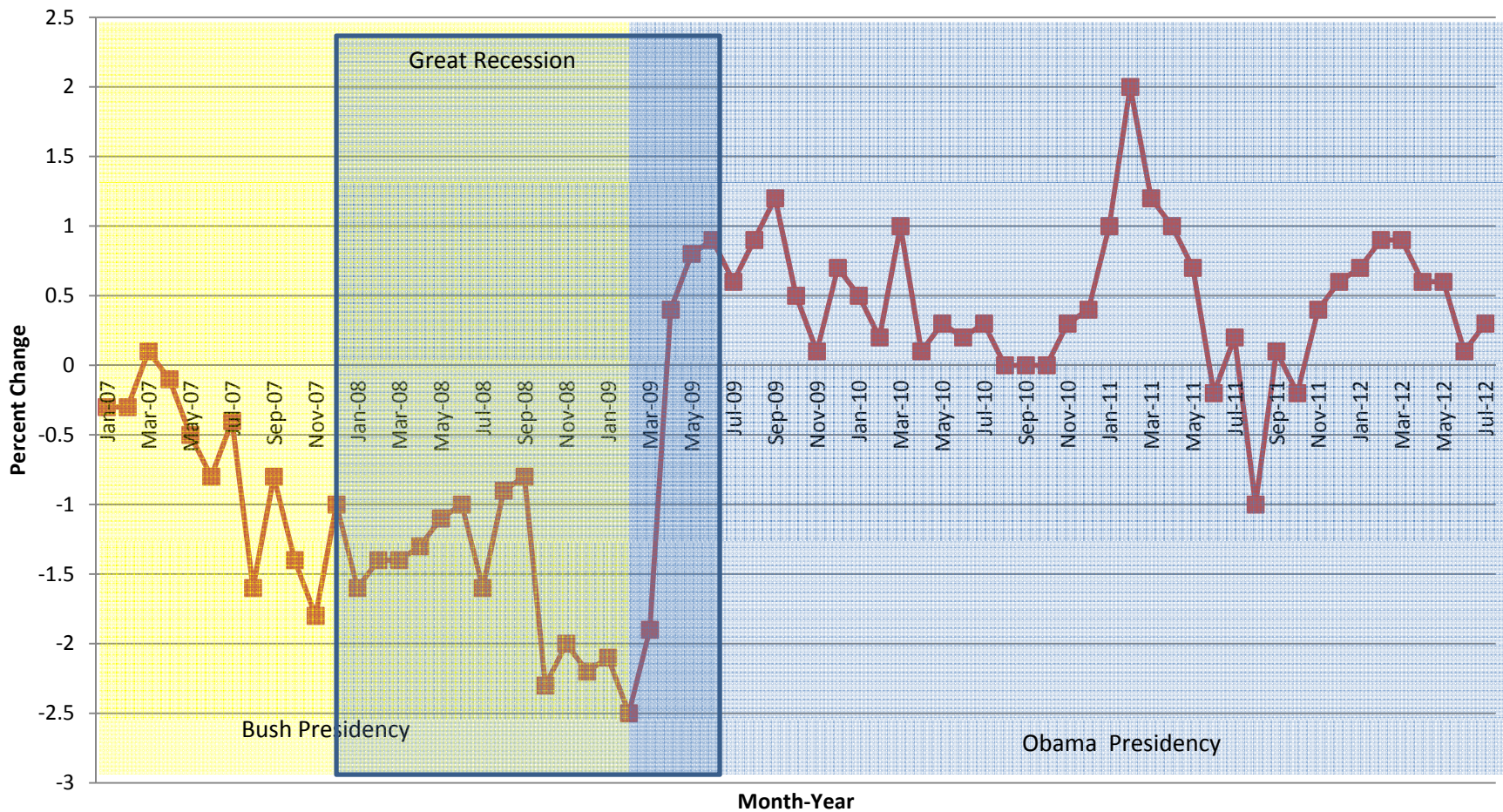
National Index of Leading Ec. Ind.'s (%Change), Jan. 2007 - Jul. 2012



Source: USD Leading Indicators--Conference Board

San Diego Leading Economic Indicators

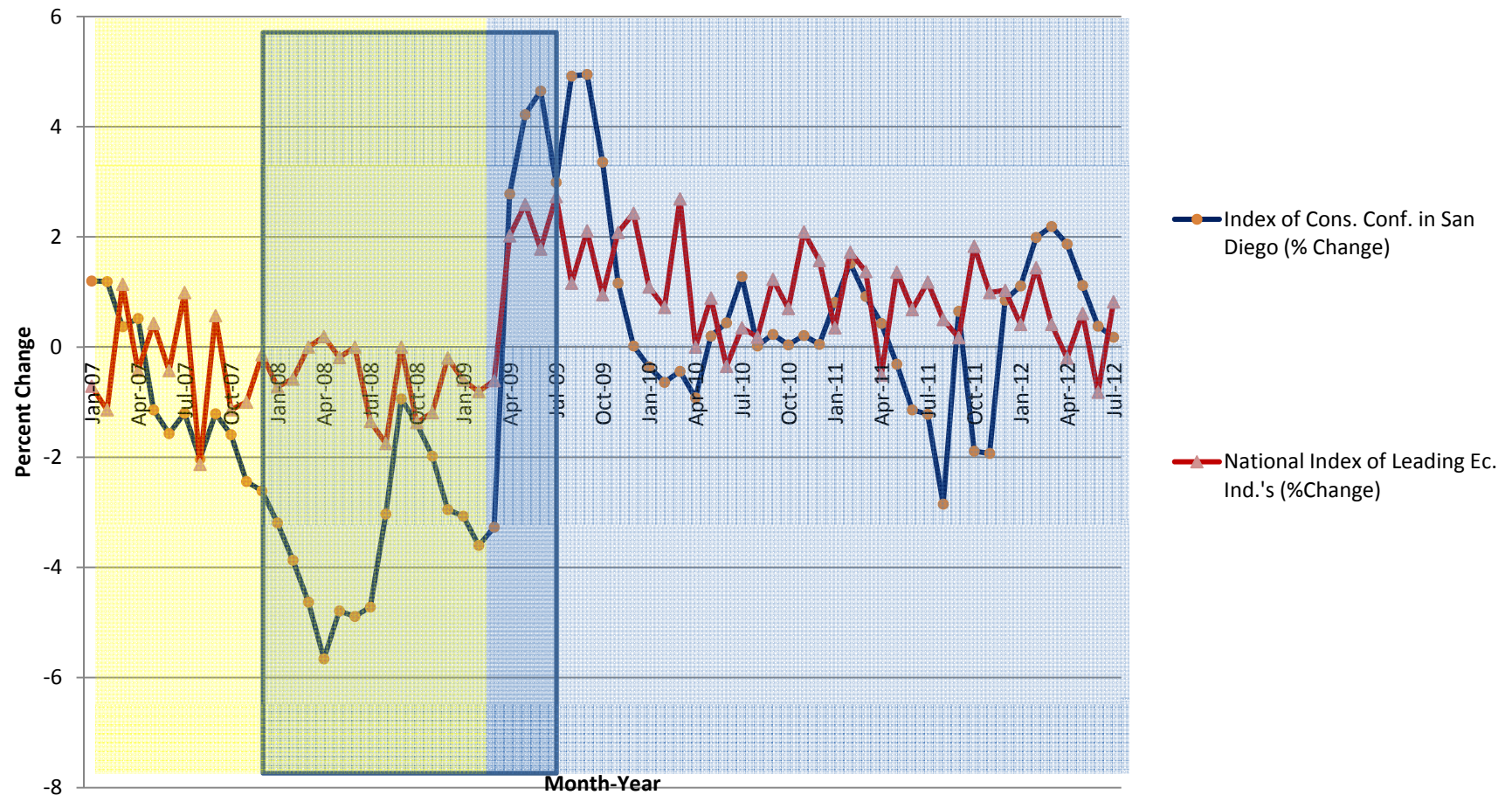
USD Leading Economic Indicators, San Diego,
Jan. 2007 - Jul. 2012



Source: USD Leading Economic Indicators, Alan Gin, <http://home.sandiego.edu/~agin/usdlel/>

San Diego vs. National Index

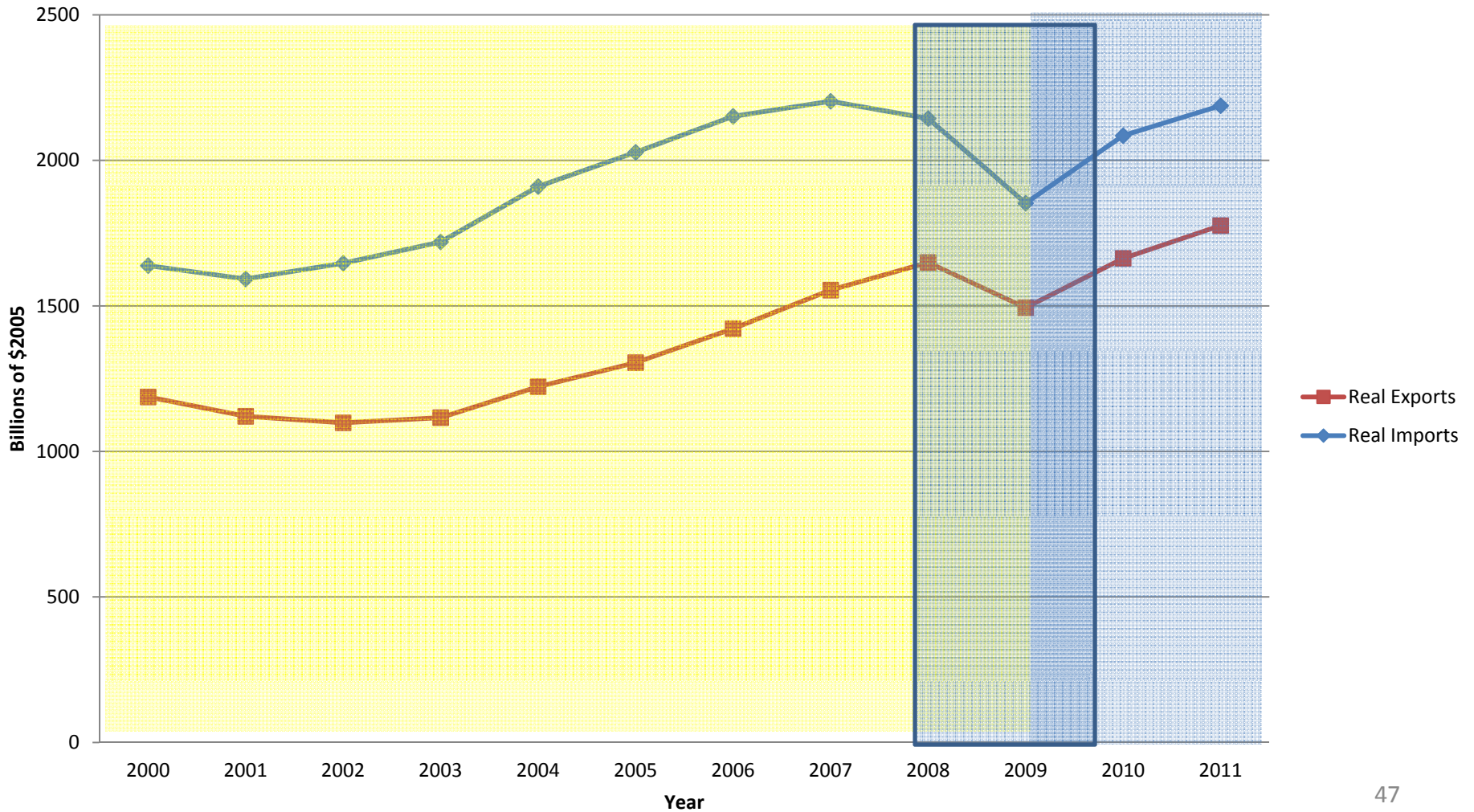
San Diego Index of Consumer Confidence vs. National Index of Leading Economic Indicators



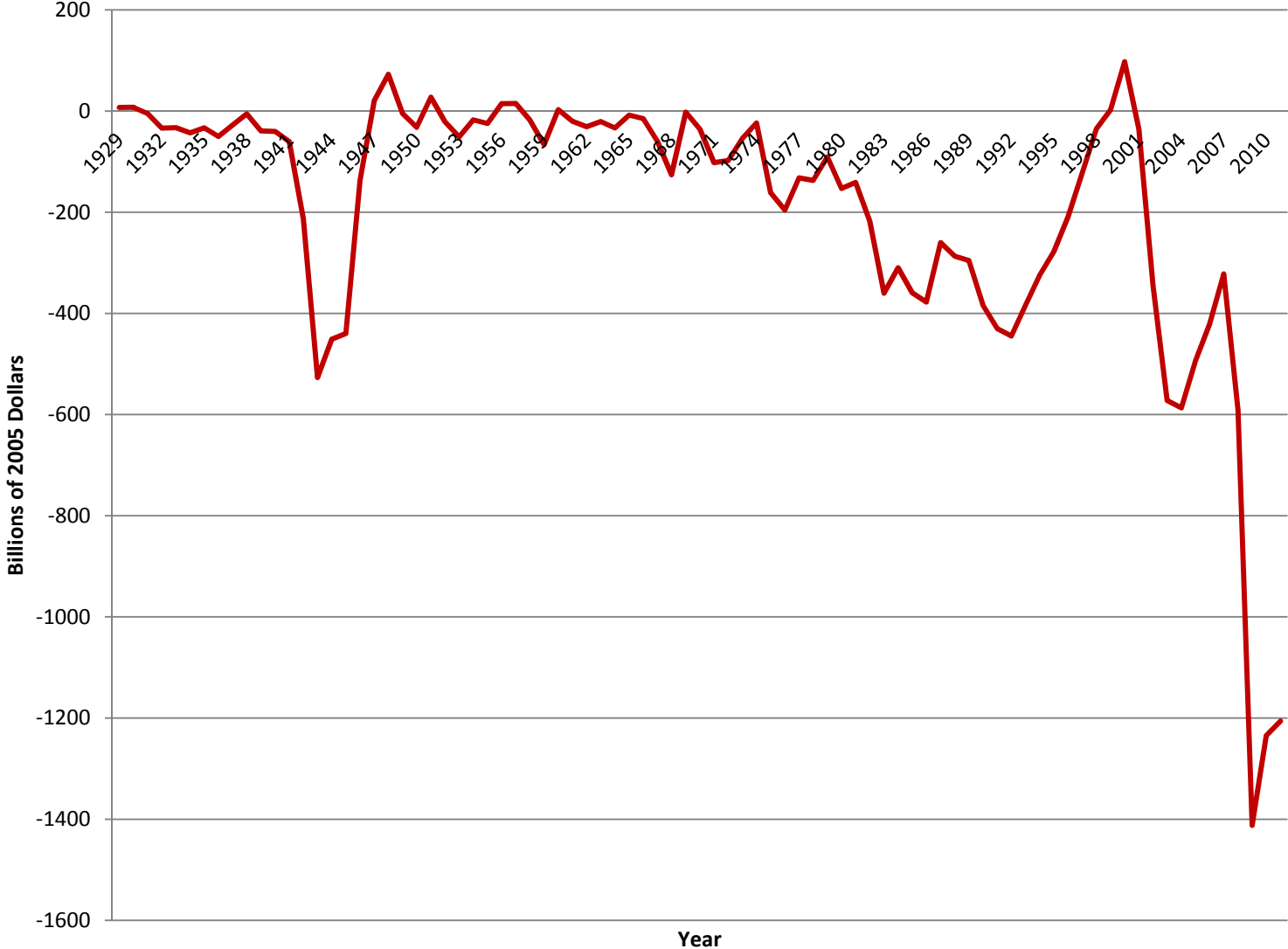
Source: USD Leading Economic Indicators, Alan Gin, <http://home.sandiego.edu/~agin/usdlel/>

Real U.S. Exports and Imports

Real U.S. Exports and Imports,
2000 - 2011



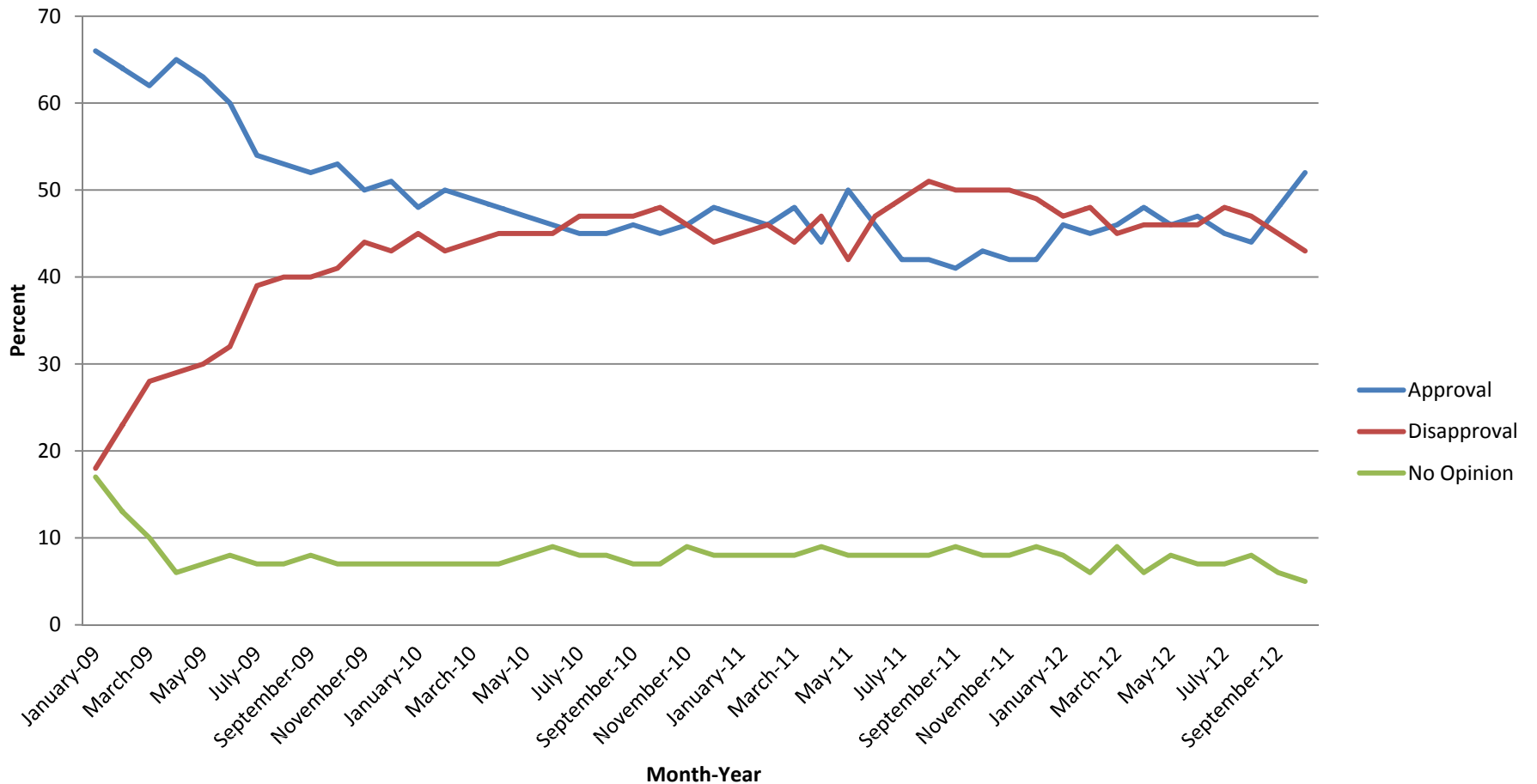
Real On-Budget Surplus or Deficits 1929 - 2011 (Billions of \$2005)



Source: Federal Budget, FY 2013, Historical Tables 1.1

Current Conditions: Approval

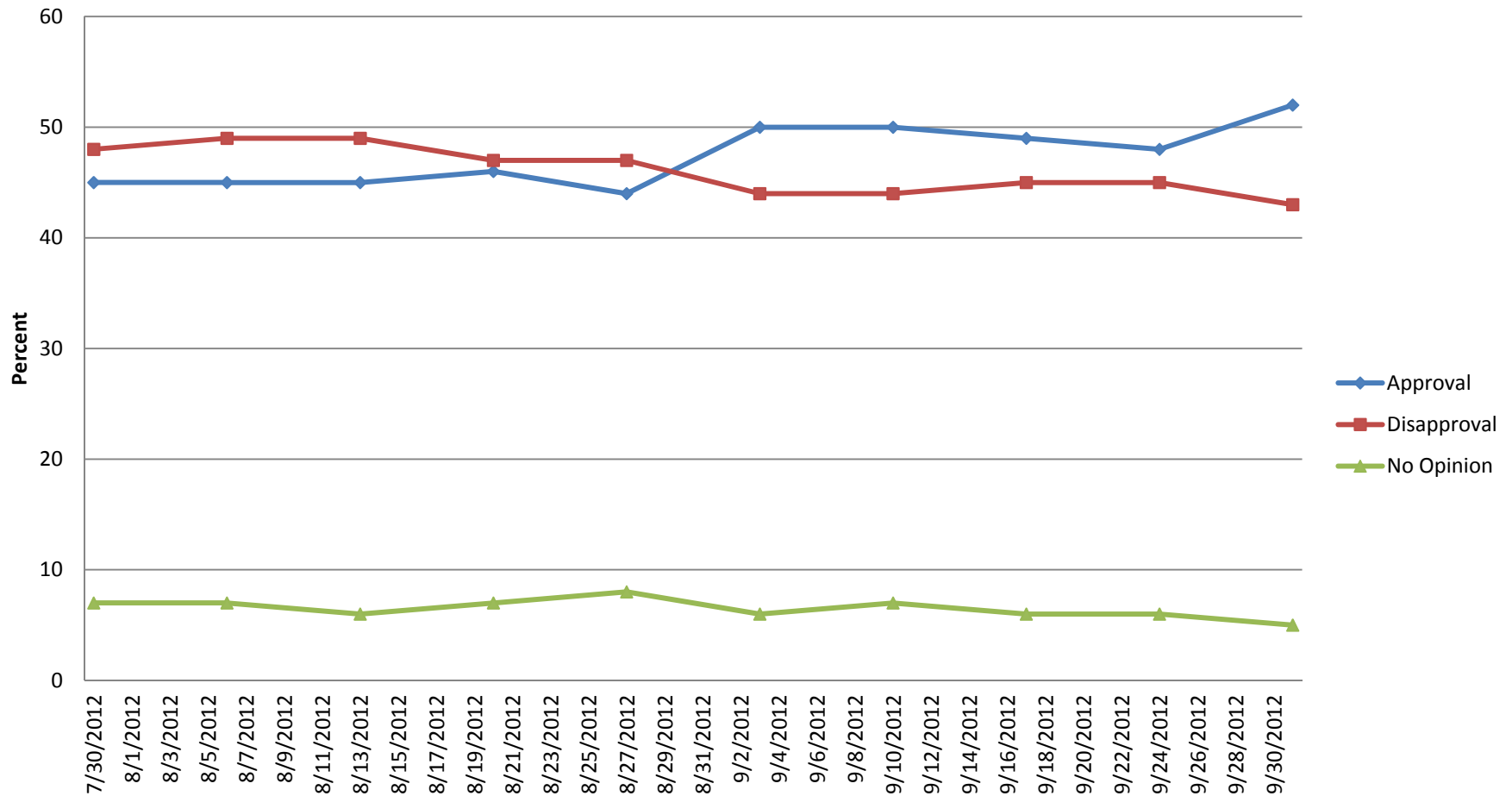
Approval Ratings for President Obama,
Jan. 2009 - Oct. 2012



Source: Gallup <http://www.gallup.com/poll/116479/barack-obama-presidential-job-approval.aspx?version=print> (Values are for last week of each month except 10/12)

Very Recent Approval Ratings

Approval Ratings for President Obama, July 30, 2012 - Oct. 1, 2012



Source: www.gallup.com

How is President Obama Doing???

- President Obama is not a second-term or higher candidate so coefficient for time-for-change is **0** in 2012.
- President Obama's 2nd Quarter GDP growth rate = **1.7%**
- President Obama's June net approval rating:
 $47 - 46 = +1\%$
(Sept. 2012: $50 - 44 = +6\%$)

Abramowitz' Time-for-change Prediction using 2008 Model

	President Obama %	Republican %
March 2012	53.12%	46.88%
Sept 2012	52.5528	47.4472
Sept 2012 (with Sept. Pres. Approv.)	53.0978	46.9022

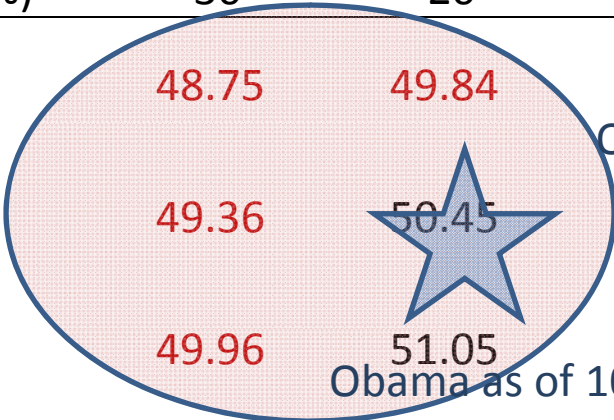
Time-for-Change Prediction for Obama 2012

Percent of Majority Vote Predicted for Obama

Net Approval % (Approval - Disapproval)

Growth Rate (%)	-30	-20	-10	0	10	20
1	48.75	49.84	50.93	52.02	53.11	54.20
2	49.36	50.45	51.54	52.63	53.72	54.81
3	49.96	51.05	52.14	53.23	54.32	55.41
4	50.56	51.65	52.74	53.83	54.92	56.01
5	51.17	52.26	53.35	54.44	55.53	56.62

Danger Zone



Obama as of 9/12

Obama as of 10/12

Obama as of 3/12

Symposium: Forecasting the 2012 American National Elections

Table 2
The 2012 Presidential Vote Forecasts

FORECASTER	NAME OF MODEL	PREDICTED 2-PARTY POPULAR VOTE FOR OBAMA	DAYS BEFORE ELECTION	CERTAINTY OF AN OBAMA PLURALITY
National Forecasts				
Abramowitz	Time for Change Model	50.6	69	67
Campbell	Trial-Heat Model and Convention Bump Model	(52.0) 51.3	57	67
Cúzan	Fiscal Model	46.9 (45.5)	97	11
Erikson & Wlezien	Leading Economic Indicators and the Polls	52.6	99	80
Hibbs	Bread and Peace Model	47.5	102	10
Holbrook	National Conditions and Incumbency	47.9	67	27
Lewis-Beck & Tien	Jobs Model and the Proxy Model	48.2 (52.7)	69	23
Lockerbie	Expectations Model	53.8	130	57
Norpoth & Bednarczuk	Primary Model	53.2	299	88
Montgomery, Hollenbach, & Ward	Ensemble Bayesian Model Averaging (EBMA)	50.3	57	60
State Forecasts				
Berry & Bickers	State Level Economic Model	47.1	111	23
Jerôme & Jérôme-Speziari	State Level Political Economy Model	51.6	142	64
Klarner	State Level Presidential Forecast Model	51.2	114	57

Note: A forecast without parentheses is the preferred forecast. A forecast in parentheses is a secondary or companion forecast.

Final Thoughts. . . .

- Caveats:
 - Abramowitz results are just one model. . . .
 - Fairly small sample size
 - Recent economic conditions are somewhat unprecedented, so underrepresented in the models
 - Obama may need significantly more than 50% in popular vote to win.
- In the end . . . Voters will decide!!!