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. . . .

  – Conclude that if the national economy had been the same in 1996 as in 1992, Bob Dole would have been the 43\(^{rd}\) president!

1. Cal Tech and UC Riverside
Clinton Reelection of 1996

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

<table>
<thead>
<tr>
<th>Perception of their Personal Finance</th>
<th>Plan to Vote for Clinton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worse off in terms of personal finance</td>
<td>50%</td>
</tr>
<tr>
<td>Better off in terms of personal finance</td>
<td>49%</td>
</tr>
</tbody>
</table>
Clinton Reelection of 1996

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

<table>
<thead>
<tr>
<th>Perception of the National Economy</th>
<th>Plan to Vote for Clinton</th>
</tr>
</thead>
<tbody>
<tr>
<td>Believe National Economy is Worse</td>
<td>11%</td>
</tr>
<tr>
<td>Believe National Economy is Better</td>
<td>49%</td>
</tr>
</tbody>
</table>
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

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


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

\( V \) is % of major party votes received by incumbent party; \( \text{POPULAR} \) is incumbent president’s approval rating; \( \% \Delta \text{GNP} \) is % change in GNP from 4\textsuperscript{th} quarter of year prior to 4\textsuperscript{th} quarter of election year; \( \text{LONGTERM} \) 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):

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

where *June Approval* variable is the net incumbent presidential approval rating (approval minus disapproval rate) and *Q2GDP* is second quarter’s GDP growth rate.
Abramowitz (2008)

\[ V = 51.417 + 0.109 \times \text{June Approval} + 0.604 \times \text{Q2GDP} - 4.265 \times \text{LONGTERM}, \]

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

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???
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
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 Approval Rating & Retail Gasoline Price

Regular Grade Gasoline, (Right, Inverted)

Obama Approval Rating (Left)

Last Click: $3.50

30, 35, 40, 45, 50, 55, 60, 65, 70

'09, '10, '11, '12, 1.40, 1.90, 2.40, 2.90, 3.40, 3.90
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)

Jobs

Total Nonfarm Employment (Jobs),

Source: BLS, Series I.D. CES0000000001

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

Great Recession

Month-Year
Source: BLS
Unemployment Rates for Youth vs. Total U.S. Pop. 16+

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

Great Recession

Source: BLS
Unemployment Rates by Gender

Unemployment Rates by Gender,

Great Recession

Source: BLS
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

- Asian: 11%
- Non-Hispanic White: 8%
- Hispanic: 4%
- Black: 4%

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

- Non-Hispanic White: 38% (40.1% of Total CA Pop. 2010)
- Hispanic: 12.8% (12.8% of Total CA Pop. 2010)
- Black: 5.8% (37.6% of Total CA Pop. 2010)
- Asian: 4% (19% of Total CA Pop. 2010)

Source: The University of California Statistical Summary of Students and Staff Fall 2011, Table 7k; U.S. Census Bureau Redistricting 2020 (CA), Table 2. Note: values are approximate. Enrollment values based on one-race only, and population totals are for all ages, not 18 – 22.
Home Prices


Index Value

0.00 50.00 100.00 150.00 200.00 250.00 300.00

Bush Presidency

Great Recession

Obama Presidency

Stock Prices

- Stock Prices
  http://www.google.com/finance?cid=626307

http://www.google.com/finance?cid=626307
Great Recession

Bh Pi d

Bush

Presidency

Obama

Presidency

43
National Leading Economic Indicators


Month-Year

Source: USD Leading Indicators--Conference Board
San Diego Leading Economic Indicators

USD Leading Economic Indicators, San Diego,

Great Recession

Bush Presidency

Obama Presidency

Source: USD Leading Economic Indicators, Alan Gin, http://home.sandiego.edu/~agin/usdlei/
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/usdlei/
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)

Year

Billions of 2005 Dollars

Source: Federal Budget, FY 2013, Historical Tables 1.1
Current Conditions: Approval

Approval Ratings for President Obama,

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 2\textsuperscript{nd} 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

<table>
<thead>
<tr>
<th></th>
<th>President Obama %</th>
<th>Republican %</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2012</td>
<td>53.12%</td>
<td>46.88%</td>
</tr>
<tr>
<td>Sept 2012</td>
<td>52.5528</td>
<td>47.4472</td>
</tr>
<tr>
<td>Sept 2012 (with Sept. Pres. Approv.)</td>
<td>53.0978</td>
<td>46.9022</td>
</tr>
</tbody>
</table>
# Time-for-Change Prediction for Obama 2012

## Percent of Majority Vote Predicted for Obama

<table>
<thead>
<tr>
<th>Growth Rate (%)</th>
<th>-30</th>
<th>-20</th>
<th>-10</th>
<th>0</th>
<th>10</th>
<th>20</th>
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<tr>
<td>1</td>
<td>48.75</td>
<td>49.84</td>
<td>50.93</td>
<td>52.02</td>
<td>53.11</td>
<td>54.20</td>
</tr>
<tr>
<td><strong>Danger Zone</strong></td>
<td>Obama as of 9/12</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2</td>
<td>49.36</td>
<td>50.45</td>
<td>51.54</td>
<td>52.63</td>
<td>53.72</td>
<td>54.81</td>
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<tr>
<td>3</td>
<td>49.96</td>
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<td>52.14</td>
<td>53.23</td>
<td>54.32</td>
<td>55.41</td>
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<tr>
<td>4</td>
<td>50.56</td>
<td>51.65</td>
<td>52.74</td>
<td>53.83</td>
<td>54.92</td>
<td>56.01</td>
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<tr>
<td>5</td>
<td>51.17</td>
<td>52.26</td>
<td>53.35</td>
<td>54.44</td>
<td>55.53</td>
<td>56.62</td>
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<tr>
<td>6</td>
<td>51.78</td>
<td>52.87</td>
<td>53.96</td>
<td>55.05</td>
<td>56.14</td>
<td>57.22</td>
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<td>7</td>
<td>52.39</td>
<td>53.48</td>
<td>54.57</td>
<td>55.66</td>
<td>56.75</td>
<td>57.84</td>
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<tr>
<td>8</td>
<td>53.00</td>
<td>54.09</td>
<td>55.18</td>
<td>56.27</td>
<td>57.36</td>
<td>58.45</td>
</tr>
<tr>
<td>9</td>
<td>53.61</td>
<td>54.70</td>
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<td>10</td>
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<td>56.40</td>
<td>57.49</td>
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<tr>
<td>11</td>
<td>54.83</td>
<td>55.92</td>
<td>57.01</td>
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<td>60.28</td>
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<td>12</td>
<td>55.44</td>
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<td>57.62</td>
<td>58.71</td>
<td>59.80</td>
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<td>13</td>
<td>56.05</td>
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<td>62.72</td>
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<td>17</td>
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<td>63.94</td>
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<td>19</td>
<td>59.71</td>
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<td>61.89</td>
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<tr>
<td>20</td>
<td>60.32</td>
<td>61.40</td>
<td>62.49</td>
<td>63.58</td>
<td>64.67</td>
<td>65.76</td>
</tr>
</tbody>
</table>

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According to the chart, the predicted net approval percentage for Obama as of 9/12, with a growth rate of 5%, is 52.02%. As of 10/12, the predicted net approval percentage is 53.23%, indicating a slight improvement. The prediction for 3/12 shows a continued rise, with a net approval percentage of 55.41%. This trend suggests that Obama's approval rating is increasing, possibly due to positive campaign strategies or external factors.


**Symposium: Forecasting the 2012 American National Elections**

**Table 2**

The 2012 Presidential Vote Forecasts

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

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!!!