Economic Viewpoint

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The November 8 election and the U.S. economy

Part 1: The Obama administration's record on the economy

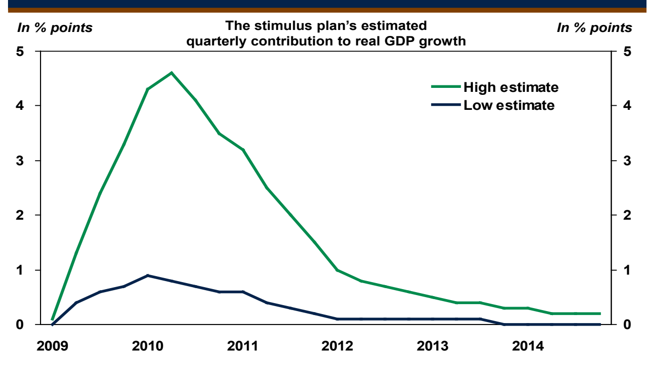
Barack Obama's first mandate began when the U.S. economy was in the throes of the economic and financial crisis. That crisis continues to mark the Obama years, nearly eight years later. On one hand, the magnitude of the recession, the atypical growth cycle that followed, and conflicts with his political opponents in Congress darken the picture we can draw of this period. On the other hand, the recovery situation and momentum of his second term improve the image of the 44th President of the United States.

THE ADVENT OF OBAMA, THE ECONOMIC CRISIS AND THE STIMULUS PLAN (2009–2010)

In 2008, the low popularity of George W. Bush's Republican administration, the desire for political change, fears associated with the financial crisis and Barack Obama's hope-filled speeches allowed him to win the election on November 2, 2008. At the time, we wrote that the record of the outgoing George W. Bush administration would be tarnished by the economic upheaval in 2008–2009, while the Obama administration would be judged on its ability to resolve this tough situation. Did the Democratic president manage to live up to expectations? There is no clear answer. The efforts to get out of the crisis, initiated by the Bush administration and the Federal Reserve (Fed) were substantial. There was mainly the February 2009 stimulus plan, which, according to the latest estimate from the Congressional Budget Office (CBO), will have cost US$836B over ten years (2009–2019). However, the benefits of the measures instituted by the U.S. federal government were offset by the negative impacts of budget cuts at the state and municipal levels. After that, other factors hurt the strength of the U.S. recovery.

Nonetheless, the U.S. economy emerged from recession in the summer of 2009. The National Bureau of Economic Research, an independent body that dates U.S. economic cycles, puts the cyclical low point in June 2009. To what degree are government efforts responsible for the economy's emergence from recession? It is hard to clearly determine the net marginal effect of this type of program. Moreover, 2010 was the year in which the expenditures in the stimulus plan (including tax cuts) were primarily established, and that is also when the CBO's estimated positive impact was the biggest (graph 1).

Graph 1 – The stimulus plan had its biggest effect in 2010



Sources: Congressional Budget Office and Desjardins, Economic Studies

Other measures were introduced by the Obama administration to deal with more industry-based difficulties threatening the U.S. macroeconomic situation. These include the auto industry bailout, the temporary 2009 and 2010 homebuying incentives, and the second incarnation of the bank bailout plan announced by Barack Obama's first Secretary of the Treasury, Timothy F. Geithner. The latter

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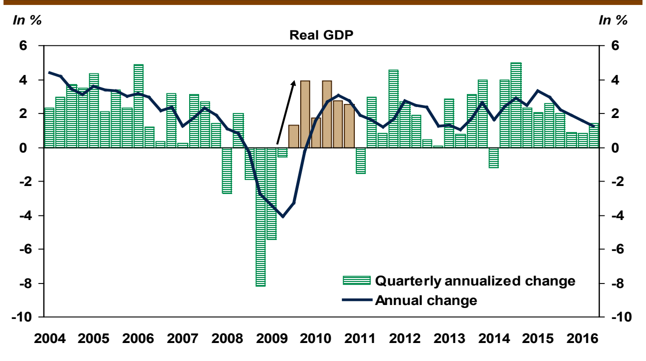
measure never really got off the ground, but instituting it still improved confidence in the financial institutions.

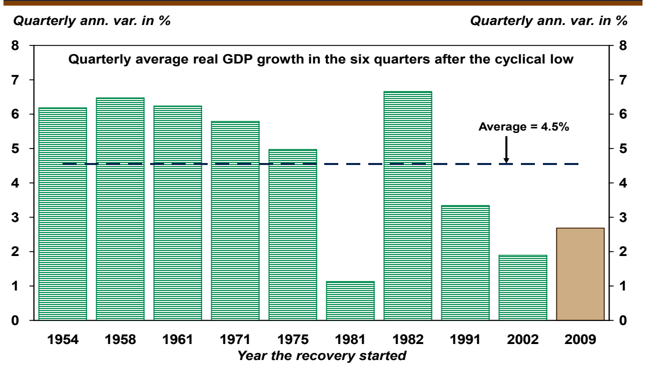
How did the economic indicators react to all these measures? Real GDP declined for five straight quarters from the start of 2008, contracting a total of 4.2%; the economy then started to grow again in the third quarter of 2009 (graph 2). From then until the end of 2010, real GDP grew an average of 2.7% (quarterly annualized), fairly disappointing compared with historic recoveries (graph 3).

Graph 2 – The recovery had started well



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Graph 3 – The recovery was slower than previous ones



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

It took longer still for private-sector employment to start growing again, although the monthly declines began to dwindle as of spring 2009. Employment posted its first monthly growth in January 2010, and the uptrend became entrenched in March 2010. Twelve months later, 1,598,000 jobs had been created. Since 1960, the total over 12 months following cyclical lows averaged 1,962,000 new jobs, with smaller populations. It is thus fairly clear that the job market's slow progress at the start of his mandate was a disappointment that soured public opinion of the Obama administration.

POLITICAL COHABITATION, THE BUDGET CRISES, AND THE 2012 ELECTION (2010–2013)

These performances, relatively disappointing for an electorate that was expecting better, worsened the Democratic Party's prospects for the mid-term election in 2010. The party had had a majority in the House of Representatives and Senate since 2006. Starting in 2008, Congress and the White House worked together to institute the economic and social measures that Barack Obama's campaign for the presidency had pledged. One of them, the health insurance program known officially as the *Affordable Care Act* and commonly referred to as *Obamacare*, became a target for the Republicans in their efforts to retake the House of Representatives in 2010.

The Republican majority immediately tripped up Barack Obama's policy agenda. It was the start of a string of budget crises. The first rancorous negotiations came in December 2010, and ensued in February 2011. The situation eroded further in the summer of 2011, with the debt ceiling crisis and the Standard & Poor's downgrade. The agreement to put an end to the dispute led to tighter budget policy, with automatic cuts to federal spending (sequester). After Barack Obama was reelected in 2012, winning over Republican Mitt Romney, the fiscal cliff emerged as a threat (expiry at the end of 2012 of the tax cuts ordered in 2001 and 2003 under George W. Bush) which was also resolved at the very last minute on the night of December 31, 2012. Finally, the federal government largely had to shut down from October 1 to 16, 2013. The shutdown was triggered by disagreement over the budget for fiscal 2014 and Republican demands regarding Obamacare. Several times during these episodes, the federal government came fairly close to not being able to legally meet its financial obligations, including debt payments. The political instability generated by these events affected consumer confidence.

END OF THE MANDATE (2014–2016)

Some political peace prevailed as of the end of the 2013 shutdown with a 2-year bipartisan budget agreement. The focus then shifted more to the 2016 election.

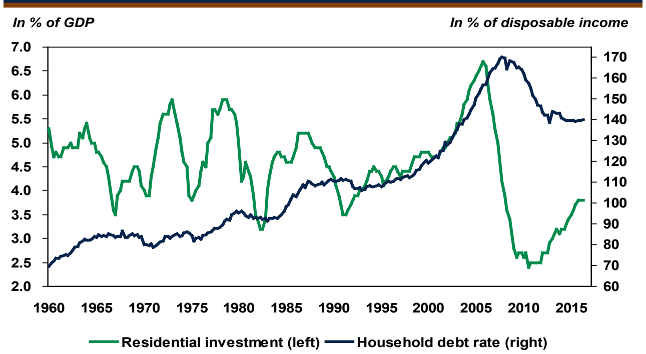
However, the period was marked by a slowing global economy, this time caused by some weakness in the leading emerging economies. Oil prices also fell, triggering a pullback in investment in that industry. The boom in shale oil extraction, particularly after the financial crisis, had been one important positive factor in the post-crisis economic situation.

Nonetheless, the U.S. economy's good relative performance and, in particular, the job market in the last few years, allowed the Fed to shelve its monetary policy stimulus measures. However, interest rates moved very little, with just one 25 basis point increase in December 2015.

A MANDATE AND ECONOMIC CYCLE CHARACTERIZED BY RELATIVELY WEAK GROWTH

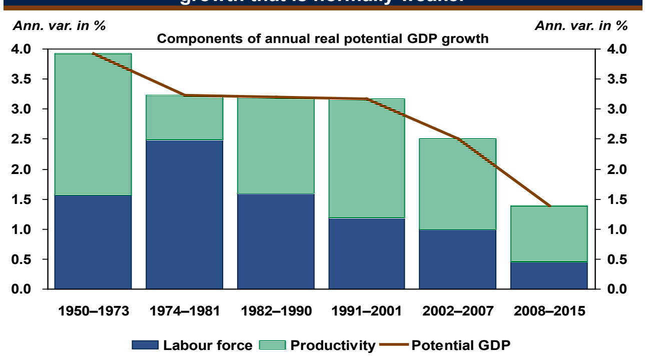
After the 2008–2009 recession, the economic recovery was slower than previous ones, due to several factors. A financial crisis generates a deeper economic adjustment, which can subsequently slow growth. The last recession had a lasting impact on residential investment and on consumers' personal finances, as consumers sought to cut down their debt loads (graph 4). Population ageing also had an impact on economic and job market growth. Baby boomers are gradually heading into retirement, with negative consequences for the U.S. economy's potential. According to the CBO, labour force growth has historically contributed 1.5 percentage points to the 3.2% growth by potential real GDP (average from 1950 to 2015). However, between 2008 and 2015, this contribution fell to just 0.5 percentage points, with potential at just under 1.5% (graph 5). On the other hand, low interest rates and the

Graph 4 – The financial crisis triggered a lengthy cleanup



Sources: Bureau of Economic Analysis, Federal Reserve Board and Desjardins, Economic Studies

Graph 5 – The labour force's weaker growth leads to economic growth that is normally weaker

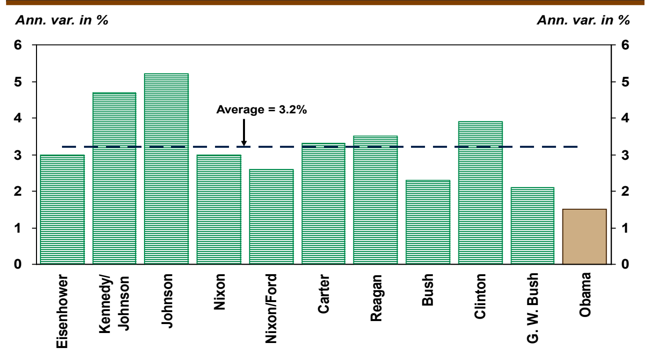


Sources: Congressional Budget Office and Desjardins, Economic Studies

Fed's monetary policy played a key role throughout the last cycle, providing the recovery with some support.

Considering all of these factors, including the severity of the recession at the start of his first term, it is not surprising to note that, under the Obama administration, real GDP growth was weaker than it was during other post-war presidential mandates. The average annual change in real GDP has been 1.5% since the start of 2009, well below the average of 3.2% recorded since 1953 (graph 6). It is also worse than the results seen during the administrations of both Bush presidents.

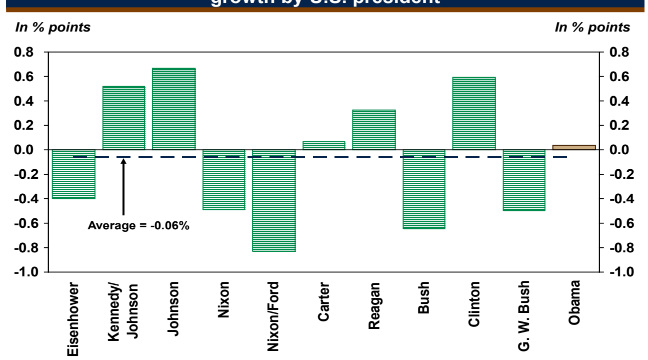
Graph 6 – Average annual real GDP growth by U.S. president since 1953



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

However, if we put these historical performances in perspective by factoring in the normal cruising speed for each of the periods, i.e. growth by real potential GDP, the picture is very different (graph 7).[1] In this case, the economy under Obama did marginally better than dictated

Graph 7 – Gaps between real GDP growth and potential GDP growth by U.S. president



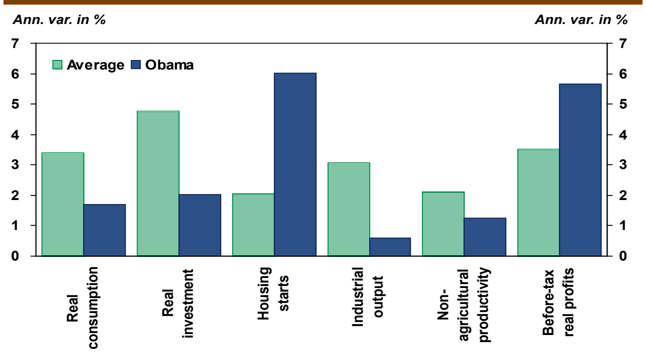
Sources: Bureau of Economic Analysis, Congressional Budget Office and Desjardins, Economic Studies

[1] This metric, which notes the difference between real GDP growth and growth by potential GDP is not what is often called the output gap. The output gap is calculated using the per cent difference between the level of real GDP and of potential GDP.

by potential GDP since 2009. Its performance also beats the presidential average. For the most recent presidential mandates, relatively speaking, the economy grew faster under Reagan and Clinton, and much slower under George H. W. Bush and George W. Bush.

Like real GDP, a number of other indicators did more poorly during the Obama administration's two mandates compared with the average for other presidential mandates (graph 8). The contrast is especially striking in consumption, business investment and industrial output. The recession at the start of the first mandate and its consequences for credit hit consumer spending especially hard. Consumer confidence also remained relatively low throughout the Obama years. Credit problems also hurt businesses' will to invest, despite low key rates and bond yields. Global competition, the vagaries of oil prices, and geopolitical risks also put the brakes on. Note that profits did better than the average for presidential mandates, even though economic growth was not that strong. In proportion to GDP, business profits even hit historic peaks in 2012, before slowing (primarily due to the drop in commodity prices and the strong U.S. dollar). The relative strength in housing starts is misleading and skewed by the very low levels at the start of the Obama mandate. Although they have gained a total of 119% from their winter 2009 low, current housing starts (1,047,000 in September 2016) remain well below the historic average (1,438,000 since 1960).

Graph 8 – Below average growth for several economic indicators under the Obama administration



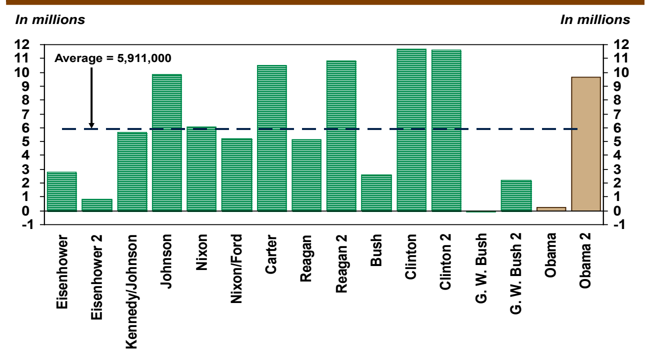
Sources: Bureau of Economic Analysis, U.S. Census Bureau, Federal Reserve Board, Bureau of Labor Statistics and Desjardins, Economic Studies

EMPLOYMENT GROWTH: TWO SPEEDS

Barack Obama's first term began with a catastrophic job market. In January 2009 alone, as Obama was moving into the White House, 814,000 private-sector workers lost their jobs. That is in addition to the 3,756,000 layoffs that occurred in the previous 11 months. From February 2008 to December 2009, 8,752,000 private jobs evaporated, including 4,992,000 in the first 12 months of the Obama administration. Clearly, this kind of situation makes historical comparisons much darker.

Employment started to come back on a lasting basis as of the winter of 2010. From the start of the recovery, 14,973,000 workers (private and public) had found jobs. The comeback started slowly and it took until May 2014 to reach the pre-crisis peak for employment. In the last three years of Obama's first term, monthly hiring averaged 147,000. Since January 2013, it has climbed to 214,000. Presidential mandate comparisons support these figures (graph 9). Although Obama's first mandate looks grim, the gains in the second are much more conclusive. They are still lower than the outstanding performances achieved during Jimmy Carter's single term, Ronald Reagan's second, and both of Bill Clinton's. These presidents surfed along on the wave of post-recession economic recoveries.

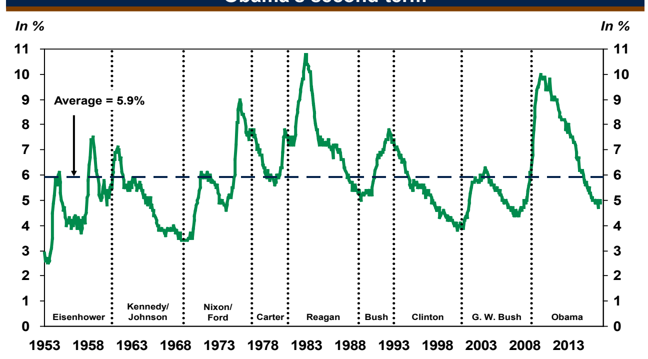
Graph 9 – Employment growth by presidential term



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

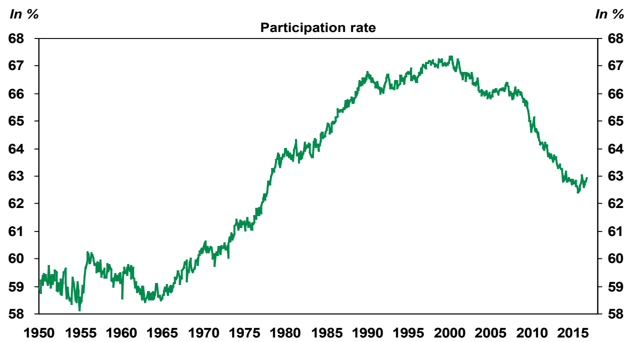
The jobless rate, which had continued to climb in Obama's first term, peaking at 10% in October 2009, also fell relatively quickly (graph 10), and is now below the historic average. This performance, however, was accelerated by labour force weakness, itself reined in by factors such as

Graph 10 – The jobless rate fell below average during Obama's second term



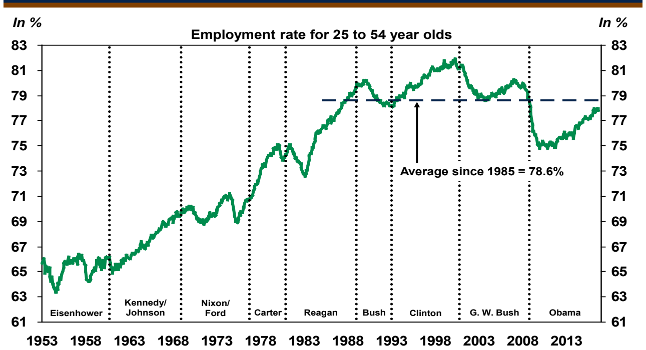
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies population ageing (graph 11). If, however, we instead use the employment ratio in the age bracket that is most likely to work (number of jobs in proportion to the total population 25 to 54 year olds) as a metric for the health of the job market, the improvement is not as marked. This employment rate is below the trend for the last three decades (graph 12).

Graph 11 – The participation rate remains low, but has been showing improvement lately



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

Graph 12 – The employment rate remains fairly low



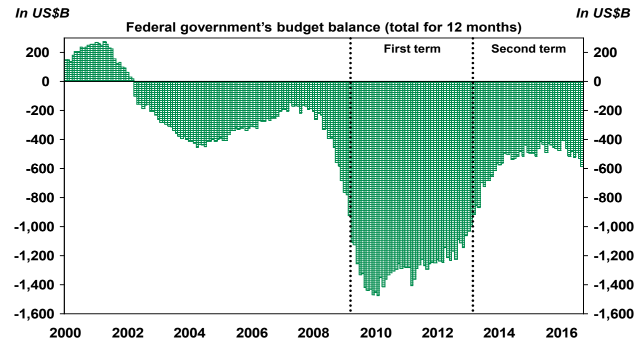
Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

A "FORCED" IMPROVEMENT TO PUBLIC FINANCES

The financial crisis and its aftermath created a lot of concern over public finances. Publicly-held U.S. federal debt went from 35% of GDP at the end of 2007 to 48% when Obama arrived at the White House. The ongoing tumble by fiscal revenues and expanded spending, in particular to support the economy, took annual deficits to more than US$1,000B in the Democratic president's first term.

However, the situation calmed down in Obama's second term (graph 13). Improved economic conditions and the positive impact on government revenues had a big hand in this, of course. The end of the main expenditures in the

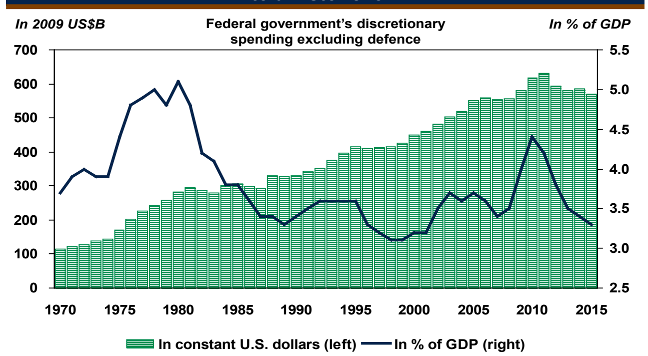
Graph 13 – The U.S. government's deficit improved during Obama's second term



Sources: U.S. Treasury and Desjardins, Economic Studies

February 2009 stimulus plan and the military withdrawal from the Middle East helped cut spending. The budget policy crises also played a role. The negotiations that followed the 2011 drama over the debt ceiling instituted a cap on discretionary military and non-military spending. This cap then declined year after year. As a proportion of GDP, discretionary non-military spending has even dropped close to its historic low (graph 14). In terms of revenue, some tax rates, particularly on the wealthy, were increased in the January 1, 2013 agreement.

Graph 14 – Discretionary federal spending has fallen to a historic low



Sources: Congressional Budget Office, Bureau of Economic Analysis and Desjardins, Economic Studies

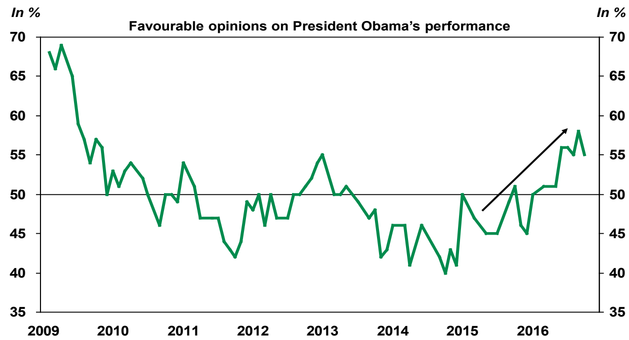
The federal deficit has therefore come down to a more comfortable level, close to US$400B at the start of 2016, making it possible for the debt to GDP ratio to stabilize at around 73%. We must add that the budget situation has eroded since the end of last winter as a result of smaller taxes on business. There is still work to be done to achieve a healthier situation that would make it possible to lower the debt to GDP ratio. That will be one of the many challenges facing the next president.

A MIXED RECORD, BUT COULD WE HOPE FOR MORE?

Big, even huge challenges faced President Barack Obama. And the public's expectations were also tremendous, as were the world's. The magnitude of the economic and financial crisis he inherited monopolized his administration's actions for quite some time. He had to put out the fires, and neglect other aspects of his political program. Was the firefighter's work successful? Yes, and no. On one hand, the stimulus efforts were ambitious, and "green shoots" started to emerge some time after the economic stimulus plan was implemented. On the other hand, the recovery was relatively slow and Americans quickly became discouraged at the little progress made in the job market at the start of Obama's mandate. Despite the publication of some encouraging news, the issue of more equitable allocation of income remains strong and is one of the issues in the current presidential campaign. The Republican Congress's systematic opposition, especially as of 2010, to most of the Obama administration's proposals has, of course, been a major constraint that kept it from being more effective. The 2009 stimulus plan, the auto sector bailout and Obamacare are Barack Obama's main feats of arms in domestic policy; all were enacted prior to the 2010 mid-term election.

Given the options available to them in the November 8 election, Americans already seem to be nostalgic for the Obama presidency. In fact, public opinion polls are giving him the best popularity rating since the early months of his administration and his 2012 reelection (graph 15). This upswing in popularity at the end of his term attests to some satisfaction with his performance or, at least, with the efforts deployed.

Graph 15 – Americans have a better opinion of President Obama's performance



Sources: Washington Post, ABC News and Desjardins, Economic Studies

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