TrendMacro

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TRENDMACRO LIVE!

On Q3 GDP

Friday, October 26, 2012
Donald Luskin

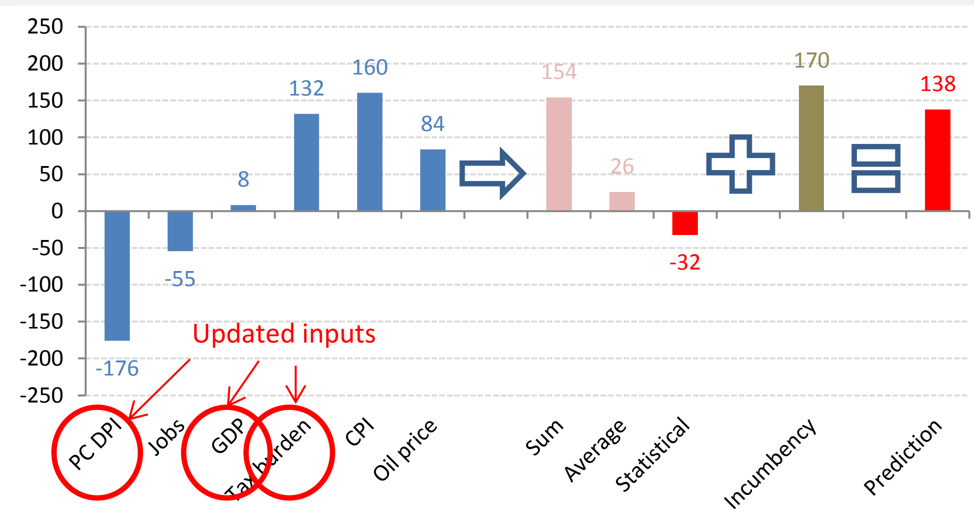
More of the same: not good enough for Obama, not bad enough for Romney.

Though this morning's advance estimate of Q3-12 gross domestic product report slightly beat expectations, it's hard to see how real growth of 2% is the kind of endorsement that could help re-elect President Obama. On the other hand, once again, it is evidence that the economy is probably not quite bad enough to elect Mitt Romney. This morning's data touches three of the six economic inputs to our election model (see the chart below, and "TrendMacro's Election Model" September 28, 2012). One helped Obama (nominal GDP growth), one hurt (real per capita disposable personal income growth), and one was unchanged (average tax burden). The model is left essentially unchanged overall, calling for Obama to win by 138 Electoral College votes (please see the chart below).

Ray Fair's famous election model, which depends on fewer economic variables, all of which come from quarterly GDP reports, was also essentially unchanged. It continues to predict a very close election, with an insignificant edge for Romney in the popular vote.

Setting the election aside, the report reveals a deepening of the signature

TrendMacro's election model



Source: Various, TrendMacro calculations

Update to strategic view

ELECTION MODEL, US MACRO: This morning's Q3 GDP report was not good enough to help Obama or bad enough to help Romney. It leaves our election model unchanged, favoring Obama by 138 Electoral College votes. The quarter showed a deepening of trends already well established in the Not So Great Expansion -- a relatively strong consumption sector, and a horribly weak fixed investment sector. Investment in Q3 was the weakest in six quarters, confirming reports that companies are behaving cautiously ahead of the fiscal cliff.

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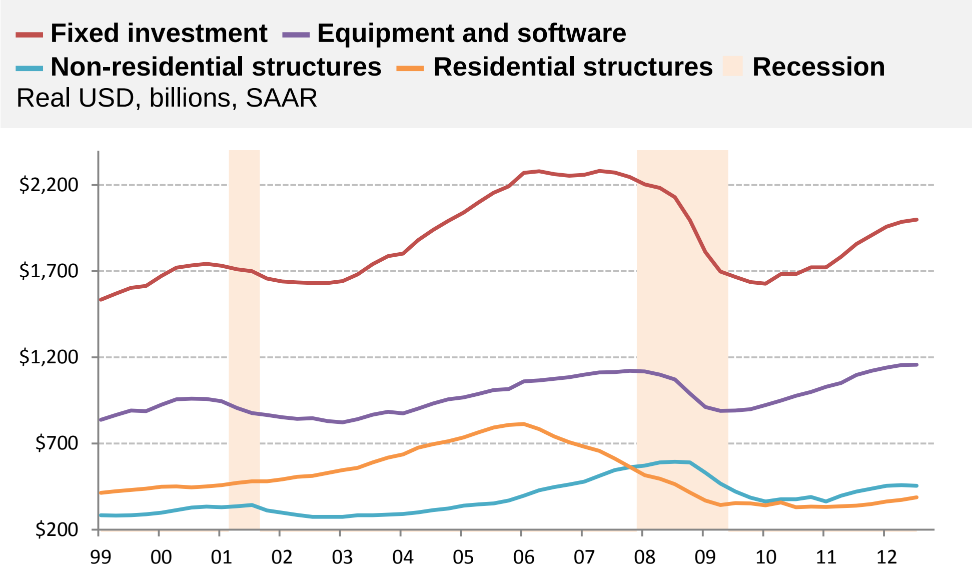
traits of the Not So Great Expansion following the Great Recession.

- In defiance of the typical "new normal" formulation of a weak and over-indebted consumer, personal consumption expenditures were relatively strong. Their 2% annual growth rate in Q3 ties for the second-best level of the last six quarters.
- At the same time, fixed investment continues to be terribly weak, reflecting what amounts to capital staying out on strike during this expansion (please see the chart below). Fixed investment's 0.5% annual growth rate in Q3 is the weakest in six quarters.



Source: BEA TrendMacro calculations

- This worsening of the capital strike is consistent with several reports during this disappointing earnings season that companies are being especially cautious with investment decisions ahead of the year-end fiscal cliff.

Bottom line

This morning's Q3 GDP report was not good enough to help Obama or bad enough to help Romney. It leaves our election model unchanged, favoring Obama by 138 Electoral College votes. The quarter showed a deepening of trends already well established in the Not So Great Expansion -- a relatively strong consumption sector, and a horribly weak fixed investment sector. Investment in Q3 was the weakest in six quarters, confirming reports that companies are behaving cautiously ahead of the fiscal cliff.

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