TRENDMACRO LIVE!

On the June Jobs Report, and Our 2020 Election Model

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Best jobs report ever. But Trump needs another 8 million payrolls by election day.

This morning's June Employment Situation report _was another astonishing number in its raw magnitude, 4.8 million net payrolls gained. It was another big beat, versus the consensus estimate for 3.2 million_. For all the seeming turbulence in labor market data, the prior two months were upwardly revised only by a relatively small 90,000 (the cataclysmically bad April was actual revised worse by 100,000, but the cataclysmically good May was revised better by 190,000). On net, this makes today's beat even bigger.

The unemployment rate fell to 11.1%, from 13.3%. The Bureau of Labor Statistics is still reporting misclassification errors in the "household survey" that produces these numbers. _But the Bureau says that 1% is "the upper bound of our estimate of misclassification and probably overstates the size of the misclassification error."_ V-shape recovery deniers just can't make too much hay from this issue.

- _This historic gain in payrolls adds 210 electoral college votes for President Donald J. Trump in our quantitative presidential election prediction model_ (please see the chart below, and "Inside Our 2020
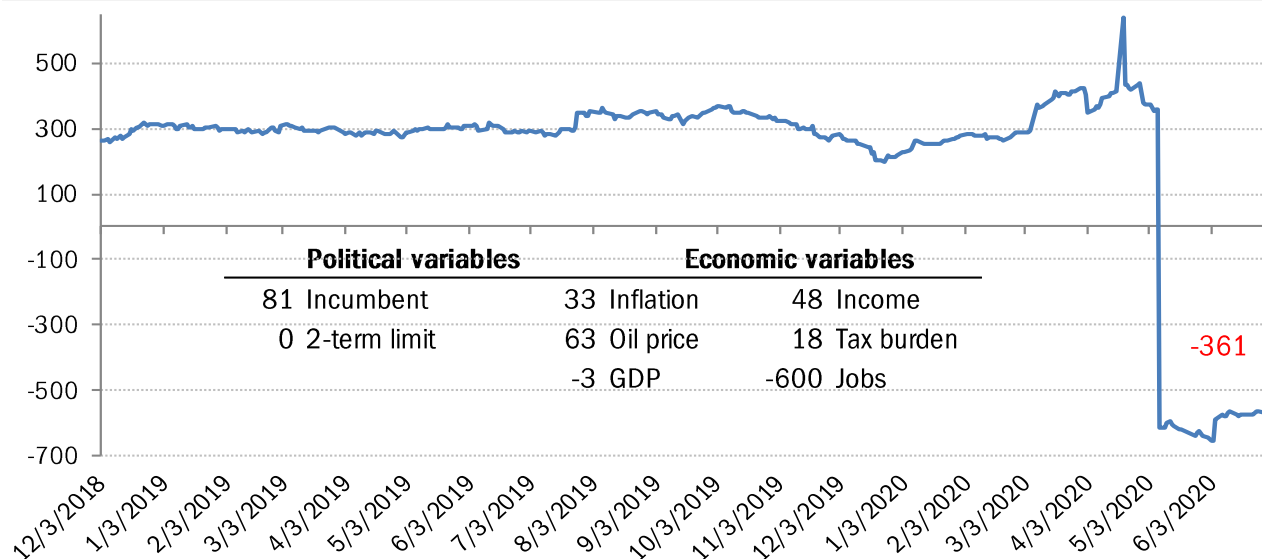
TrendMacro 2020 presidential election prediction model: margin in electoral college votes for incumbent party

Political variables		Economic variables	
81	Incumbent	33 Inflation	48 Income
0	2-term limit	63 Oil price	18 Tax burden
-3	GDP	-600 Jobs	

-361

Presidential Election Prediction Model" March 18, 2019).

- *But the model still shows Trump losing by a margin of 361 electoral college votes.*
- *All else equal, it would take the gain of another 8 million payrolls to move the model to the point where Trump has even the slimmest winning margin.*
- That's a big ask, but not an impossibly heavy lift. It's a 5.5% gain in payrolls – from 137.8 million to 145.8 million, with three more pre-election jobs reports in which to do it. That would still be far short of February's all-time peak of 152.5 million, and the unemployment rate would still be something like 6%. For that to excite the electorate about voting for an incumbent president, voters would have to be focusing on recovery from the April trough at 130.3 million payrolls, not the fall from the February peak at 152.5.
- *But as we've been saying for the last couple months, our election model* – which called Obama in 2012 within four electoral college votes, and called Trump in 2016 when every other quantitative model was calling Clinton – *has been fundamentally broken by the sheer magnitude and velocity of the economic data that it depends on* (see "On the April Jobs Report, and Our 2020 Election Model" May 8, 2020). *And there's more to come, with two wacky GDP reports between now and the election, an awful one for Q2 released later this month, and a probably terrific one released in October for Q3.*
- Setting aside any personal preferences and thinking only as an investor, we think *it's axiomatically true that Mr. Market would on net prefer the continuation of Trumponomics* – low corporate tax rates and deregulation, especially on energy, the biggest positives; risk of hard-decoupling with China the biggest negative; rather than Bidenomics – higher corporate taxes, more regulation, intervention in health care markets and so on. *It's not clear, if this is so, why risk asset markets seem to be oblivious to the clear-and-present risk that Joseph Biden will win – and flip the Senate at the same time – with Trump seemingly laid low by a wave of left-leaning sentiment in the aftermath of the killing of George Floyd.*
- There's no way to really know what Mr. Market is focusing on. Perhaps Mr. Market is myopically concentrating on the dynamics of economic recovery from the virus lockdowns. And after all, the election feels more like a million years in the future, not just four months and one day. *Or perhaps Mr. Market is focusing on the election, and thinks that Trump will win.*
- Why might that be so?
- First, this election is shaping up much like 2016, with unpopular Trump running against an unpopular opponent. Four years ago, both Trump and Hillary Clinton had approval ratings below 50%, with Trump's worse than Clinton's. *Today both Trump and Biden have approval ratings below 50%, but Trump's are better than Biden's (46% versus 44%). Trump's approval rating is identical to Barak Obama's on the equivalent day in Obama's first term – and Obama was re-elected.*
- Second, we think by election day the dynamics unleashed by the murder of George Floyd will end up working to Trump's advantage,

by forcing Biden too far to the Left. Biden is now effectively deprived of his optimal vice presidential pick, Amy Klobuchar, because of her failure to have prosecuted, when she was Hennepin County prosecutor, the Minneapolis police officer who murdered Floyd. Biden's strong primary performance among African American voters showed that he didn't *need* a person of color on the ticket, giving him the option to pick a pleasant and well-known Midwesterner like Klobuchar. But now she is ruled out, and *Biden may determine he is required by the Left's elevated emotions of the moment to pick an African American. And she (surely the pick will be a woman) – may be obligated by the same emotions to be aggressive on the issue of racism, possibly attacking Trump on it directly. That, in turn, will engage Trump's base which, we believe, very much does not like to see the race-card played, or anything else that casts them as* "deplorables," *as Clinton learned in 2016.* To be clear, we're not at all saying Trump voters are racist. We are saying they don't like to be *called* racists when they are not – no one does.

- To be sure, voters are accustomed to veep candidates taking the role of attack dog so that the top of the ticket can occupy the moral high ground. But it's different this time, because of Biden's age. *Voters will view his running mate as reasonably probable to become president during the first term, so attack dog mode may be especially jarring for this reason alone*.

- Third, the virus crisis has given Biden so far the luxury of being an effectively invisible candidate whose major positive attribute is that he is not Trump. *As our friend Scott Adams puts it, no one has ever met anyone who actually supports Biden for his own sake* – *and that's just not good for Democratic voter turnout. By contrast, Republicans who support Trump do so rabidly, as their* very high turnout *in uncontested GOP primaries amply testifies.* As the campaign gets underway in earnest – and especially in debates – Biden will have to allow himself to be defined and judged. It won't be hard for Trump to call attention to Biden's deficits – do we really have to name the big one? – and indeed to provoke Biden into displaying them in full.

- Fourth, there is plenty of scope for pre-election surprises. Sustaining a V-shaped economic recovery would be one (we expect it, but based on all our client conversations, no one else does). A Covid-2019 vaccine could be announced. Or – we hate to say it – Trump could spring drop-dead evidence of some form of corruption-in-office by Biden at just the worst possible time. Thinking of such things*, it's easy to come to the conclusion that Mr. Market isn't making a lot of election forecasts – yet. Someday in the next four months and one day, he will.*

Bottom line

Enormous payroll gains strongly surpassed an already bullish consensus, and a drop in the unemployment rate that can't be explained away by methodological errors. The V-shaped recovery is on. Our quantitative election model shows Trump gaining 210 electoral college votes from this

morning's number, but still losing in November. It would take another 8 million payrolls for the model to show a tie, all else equal, and this is not at all an impossible goal. There will be two GDP reports before the election – one horrible and one great – which will strongly move the model. Mr. Market is probably not focusing on election risks yet. Trump is not as down-and-out as it may seem. His approvals are higher than Biden's – and Trump hasn't even begun to focus voter's on Biden's deficits. Biden is being forced to select a running mate who may end up driving strong Trump turnout.