MarketWatch

Opinion: The economy won't save Trump (but it might challenge Clinton)

It's not super, may be improving, but it's as good as we have a right to expect

By Tim Mullaney   Oct 31, 2016

Friday's report that the economy grew at nearly a 3% annual rate in the third quarter should have pounded one of the last nails into the coffin of Donald Trump's long exercise in seeing how low he can go before reaching peak nihilism, otherwise known as his presidential campaign.

The U.S. economy isn't growing 1% a year, no matter how many times he says it. It's not sliding into a recession, either.

It's just not great. Not awful, mind you. Not even underperforming, really. But not great.

If we're adults, we look at this news — and the 195,000 new jobs in October that economists think the government will report on Friday — and understand the economy we have. Growth in gross domestic product averaged 2.5% in 2014 and 2015. This year, it's likely to be around 2% — basically the same domestic economy or a little better, tempered by export weakness, thanks to China's wobbles, and by lower investment in oil drilling because of lower prices.

Three years of the same basic picture means it's not likely to change much, and any change soon is likely to be a reversion toward the 2.5%-ish trend. Is that bad or good?

"The recent trend of sub-2% growth has come to an end — and we do not see it returning anytime soon," **said Bernard Baumohl, chief economist at the Economic Outlook Group.** "Sectors that have long been dormant — business spending, trade and government outlays — are showing early signs of life again.".

The good news, **Baumohl** argues, is that the very steadiness and lack of excitement embedded in this expansion means it can keep going for some time. Already, the economy has added jobs for a record 72 consecutive months, with a 73rd coming in Friday's report on October employment. And the most important fundamentals — the confidence and perceived security of middle-class consumers — are rock-solid in the short term, no matter what politicians say (and despite the third-quarter growth slowdown in consumer spending).

"Look, the financial health of Americans households and job security is the best we have seen in decades," **Baumohl** wrote on Friday. "Just check out their purchases in the third quarter. Spending on durable goods jumped 9.5%, after rising 9.8% in the [second quarter], the best back-to-back performance in two years. Consumer durable goods are typically costly items — autos, major appliances, electronics — that are often financed with credit and bought when consumers are fairly confident about the economic outlook."

Baumohl's argument is a litany of new-normal household economics: Wages are rising faster than inflation, boosting purchasing power, he writes. Household net worth is rising. Layoffs are at their lowest levels in nearly 50 years, with 5.5 million jobs open in a 145-million job economy. With durable-goods spending strong, this quarter's downward blip in consumer-services spending won't last.

If all that's true, then Trump doesn't have an argument to make to most people, who benefit from these trends.

The bull argument gets a little tougher to make from there, which complicates life for the next president, likely to be Clinton. **Baumohl** points to Friday's announcement that business investment ticked up a little — with the notable exception of spending on equipment — as evidence the decline in investment stunted 2016's growth is passing. He also makes the case that developed-world governments, realizing austerity policies haven't worked, will loosen fiscal reins next year.

To which the short answer is, meet the House Republicans. They never met a spending cut they didn't like, even if their presidential nominee has vowed to double Secretary Clinton's plan to raise spending on roads, bridges and other infrastructure by $275 billion over five years.

"Our take is that once the election is over and the economic outlook becomes less foggy, more funds will be allocated towards improving business productivity," **Baumohl** writes. "Certainly one very important support for greater business capital spending would be evidence that the international economy is gathering more steam."

Maybe, but that’s a weaker argument. Oil is getting expensive enough to cover production costs at U.S.-based fracking outposts, including some profit, according to Oslo-based Rystad Energy. But there’s little evidence hardliners in the House GOP are softening. They’re sending warning signals to Speaker Paul Ryan not to make deals with President Clinton.

Look at how the S&P 500 **SPX, -0.01%** tanked after the late-Friday disclosure that Clinton’s e-mail brouhaha is back, thanks to the sextatious stylings of Anthony Weiner, disgraced Congressman and soon to be ex-husband of Clinton aide Huma Abedin. If conventional wisdom is right, business investment has been shaky partly because CEOs are made wary by Washington’s follies. Give them a whiff of President Trump, and markets tell you plainly which side they think has been more responsible, and who will generate more or fewer follies next year.

One joke making the rounds is about the since-changed Washington Post headline that the Federal Bureau of Investigation is looking into “Weiner’s device.” (They meant his computer, apparently). If Trump somehow wins, CEOs may battle Abedin for first crack at hacking Weiner’s other device.

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