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May Jobs Report Could Present Challenge for Hillary Clinton

Friday's disappointing numbers remind Democrats that embracing Obama's economic record cuts both ways

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President Barack Obama delivered a rousing defense of his economic stewardship this week as he made a pitch for why a Democrat should replace him, declaring Americans better off “by almost every economic measure.”

Then Friday's jobs report landed with a thud.

Hiring slowed to its weakest pace for the first five months of a year since 2009, endangering a record-long jobs streak that Democrats see as one of their prime advantages leading up to the November election.

An economic downturn would scramble that case, putting the Democratic nominee on the defense and muting Mr. Obama's own ability to lend a significant hand in the campaign.

Economists are far from predicting an imminent recession, but the May jobs numbers followed a weak economic start to the year. Employers added just 38,000 jobs, the softest month for hiring since September 2010. Revisions to the two previous months showed 59,000 fewer jobs. And while the jobless

rate in May fell to 4.7%, nearly 500,000 Americans departed from the workforce.

Democratic front-runner Hillary Clinton has closely embraced Mr. Obama's economic record throughout a tough contest with rival Sen. Bernie Sanders. She is likely to keep that up in a general election so long as the economy keeps expanding.

Republicans were quick to hit on the lousy numbers. Likely GOP presidential nominee Donald Trump tweeted that the report was "terrible" and a "bombshell" a few minutes after its release.

The Republican National Committee called the jobs numbers "devastating," especially in a week when "President Obama was trying to convince Americans they've never had it so good."

Friday's disappointing report came a day after Mrs. Clinton delivered a blistering attack on Mr. Trump's foreign policy, an event seen by many analysts as a high point of her campaign. She is looking to sew up the Democratic nomination when voters head to polls in California and New Jersey next week.

The White House moved to put the best gloss on the numbers, with Obama economic adviser Jason Furman reminding reporters that the strike by workers at Verizon Communications Inc. shaved 35,000 workers from payrolls last month. He also pointed to wage growth that has perked up this year. Average hourly earnings are up 2.5% over the past year and up 3.2% at an annual rate so far this year.

But Friday's report also showed the potential fallout from tumbling profits at U.S. companies beginning last year amid pressure from a strong dollar, weak global demand and a downturn in the once-booming energy sector. For months, economists have warned that weak margins would sap business investment and trigger cost-cutting that would weigh on payrolls and, in turn, consumer spending, which has been the economy's bright spot of late.

The current expansion, now entering its eighth year, is the fourth longest in the postwar period. Economists at J.P. Morgan Chase & Co. said Friday that the probability the U.S. would enter a recession over the next 12 months had climbed to 36%, the highest for the current expansion cycle.

Other measures show better near-term growth prospects. Housing sales have risen steadily higher this year, as have autos. Manufacturing surveys have rebounded after last year's contraction, and the share of workers who said their employer was hiring in May reached the highest level tracked by Gallup since 2008.

Political scientists point to two gauges that rise above the rest in determining whether the incumbent party can hold the White House: the president's approval rating and the economic growth trend in the first half of the election year. Mr. Obama's approval rating in recent weeks has climbed above 50%, returning to levels last seen since his 2012 election, according to Gallup.

But the jobs report could trouble Democrats because economic growth has been unremarkable. Economists see growth rising above 2% in the second quarter after rising by just 0.8% in the first quarter.

History shows how elections often turn on the economy. In 2008, an election that began as a referendum on the war in Iraq ultimately broke for Mr. Obama against his Republican challenger, John McCain, when an economic slowdown gave way to a full-blown financial crisis. In 2012, Mr. Obama defeated Mitt Romney even though the unemployment rate stood above 8% for most of the campaign because job growth and consumer confidence were firming.

Democrats enter the election at something of a disadvantage because in the postwar period, only once, with George H.W. Bush in 1988, has a nominee succeeded a two-term president of his own party.

Another troubling sign for Democrats: Independent voters' views appear to line up more closely with Republicans on the economy. In last month's

WSJ/NBC poll, some 52% of Democrats said the 2007-09 recession still had a significant effect on people, compared with 68% of Republicans and 66% of independents.

Friday's report also hinted at the potential for the election and the related policy uncertainty to slow investment and hiring this year. With a future clouded by everything from Britain's referendum this month on whether to quit the European Union, to Federal Reserve rate increases to the shape of the next Congress and Supreme Court, "it is not a stretch to conclude that U.S. employers are turning hyper-cautious," said **Bernard Baumohl, chief global economist at Economic Outlook Group LLC** in Princeton, N.J. "Rarely has the outlook for tax, spending, trade and foreign policies been so unclear."

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