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The Upshot
PREDICTIVE POWER

Forecasters Expect a Strong Economy for the 2016 Presidential Election

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When it comes to elections, fundamentals matter. A lot.

A wide range of political science research suggests that if you want to know who will win the presidency, the state of the economy — and especially how economic conditions are changing — matters a great deal, perhaps even more than how charismatic the candidates are or how much money they raise.

The election is 16 months away, but knowing what we know now, what should we expect the economic backdrop to be when Americans choose their next president?

To answer that question, The Times asked leading forecasters from economic consultancies, financial firms and universities for their predictions on where key economic variables will stand on Nov. 8, 2016 — Election Day. The 17 who participated replied with a relatively strong consensus.

They said they believed that unemployment would be the lowest it has been during an election since George W. Bush and Al Gore faced off in 2000, when it stood at 3.9 percent. The median forecast for the unemployment rate when voters go to the polls in November 2016 was 4.8 percent (which would be down from 5.3 percent last month). They saw only a 15 percent chance of a recession starting by next Election Day. Interest rates, inflation and gasoline prices should all be a bit higher than they are now, they said, while staying quite low by historical standards.

“All in all, I’d guess it should be as close to a feel-good time as any we’ve seen in the past several years,” said Michael Feroli, chief United States economist at JPMorgan Chase.

On its face, all of that points to an election with dynamics similar to 1988 or 2000, when the nominee of the incumbent party (George H. W. Bush in 1988 and Mr. Gore in 2000) could promise continued prosperity. That bodes well for the Democratic nominee, though as Mr. Gore’s loss despite winning the popular vote shows, even a favorable economy doesn’t assure victory, given the workings of the Electoral College.

“On Election Day November 2016, voters should be feeling quite a bit better about where they stand economically and looking at their economic future a bit more optimistically,” said Scott Anderson, chief economist of Bank of the West.

In the voluminous research on the connection between economic performance and election outcomes, one important finding is that what matters is less an absolute level of economic activity or the unemployment rate, and more the speed and direction of economic change. That might explain, for example, why President Obama was re-elected in 2012 despite a 7.8 percent unemployment rate on Election Day. That is a poor number historically, but it was down from 8.6 percent a year earlier.

Some research has found that the economy matters less when the race for

the presidency is wide open, as it will be in 2016, than when there is an incumbent on the ballot for whom the vote can be viewed as a referendum. In other words, if Hillary Rodham Clinton is the Democratic nominee, she probably won't own President Obama's economic successes and failures to the degree the president himself did in 2012.

The forecasters' projections also point to a soft underbelly in the economy that the Republican nominee could exploit.

Their consensus was 2.8 percent growth in average hourly wages in the 12 months before the election, slightly higher than the 2 percent rise in prices. That implies that the weak spot of the Obama economy, in compensation for ordinary workers, will remain that way heading into 2016.

The forecasters saw only a 25 percent chance of an economic boom — defined as G.D.P. growth greater than 3 percent maintained for a year — happening between now and Election Day. This slow-moving expansion generally hasn't resulted in the kind of explosive growth that was seen in the late Reagan or late Clinton administrations, and there's a slim chance of that changing soon.

It's against that backdrop that Jeb Bush and other Republican contenders have pledged to attain 4 percent annual economic growth; if they can pull it off, that would be a step up from the roughly 2.5 percent that has been typical of the Obama years.

Sustained growth of 4 percent or greater has been seen only rarely in American history, most recently from 1997-2000 and 1983-5. And those years had more favorable demographic trends driving that growth than the coming presidential administration is likely to encounter.

That helps explain why forecasters' consensus was 2.8 percent G.D.P. growth in the year before the election, and why they were skeptical that 4 percent growth would prove attainable.

"The 4 percent G.D.P. goal of some candidates is unrealistic with the baby boom generational wave retiring and spending less," said Christopher Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi UFJ.

The forecasters could be wrong, of course. Surveys of economic prognosticators in the past have shown plenty of mistakes, including failing to predict the severity of the 2008-9 recession and offering overly optimistic projections during the sluggish recovery.

On the side of pessimism, forecasters failed to predict the economic acceleration of the late 1990s.

In elections that have been dominated by shifts in the economic winds, there tended to be evidence of what was to come by this point in the cycle. The subprime mortgage crisis that would spiral into a recession that characterized the 2008 election was well underway by July 2007, with foreclosures mounting. Though a recession in July 1991 had technically ended by Election Day 1992, the rebound was not swift enough to secure re-election for the first President Bush.

The forecasters, who were surveyed in early July, identified a number of threats that might undermine their forecasts of sunny economic skies in late 2016.

The Greek debt crisis was mentioned often, though the potential ripple effects for the United States economy appear much weaker than they did a few years ago when Greece's position in the eurozone was first at risk. They mentioned the possibility of a Middle East crisis causing an oil shock, and a Chinese economic slowdown that seemed plausible given a recent sharp sell-off in its stock market. But the economic threat that the forecasters mentioned most often — the Federal Reserve raising interest rates — would be driven by domestic policy.

If the Fed moves too quickly to raise interest rates, it could have any

number of adverse effects: potentially stomping on the housing recovery, undermining exports by strengthening the dollar or causing dangerous volatility in financial markets.

The consensus of the forecasters was that the Fed's target interest rate would be 1.37 percent on Election Day 2016; the consensus of Fed officials themselves was that the rate would be 1.625 percent at the end of 2016. (Those views aren't mutually inconsistent, as there could be a rate increase in December after the election.) In effect, rates have been so low for so long that forecasters lacked confidence about exactly how robust an economic expansion would be in the face of tighter money.

Still, the forecasters said that they thought the Fed would move cautiously enough that incumbents could breathe easier than they have in years.

"Odds are good that by Election Day the economy will be at full employment, growing strongly," said Mark Zandi, chief economist of Moody's Analytics. "The economic winds will be at the back of incumbents."

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