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**The “Trump” vs “Obama” Economy: What the Data Tell Us**

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**Aims of Study Group**

- Use the GDP, employment and other relevant economic data to compare the performance of the US economy under the Trump Administration with that under the Obama Administration in the equivalent prior period
- Become familiar with the kind of economic data that economists, policymakers and financial market participants focus on and with how to interpret these data
- Gain insight into some relevant basic economic concepts
  - Why do this?
    - ✧ Politicians and partisan supporters frequently make claims about the performance of the economy under their (favorable) or their opponents' (unfavorable) watch
    - ✧ It is important to see what the economic data actually say and to understand the nuances and pitfalls in interpreting them

**A few preliminaries and caveats**

- Disconnect between political rhetoric/public discourse and institutional setup
  - The Administration (or Government/Ruling Party in a parliamentary system) is usually held accountable by the electorate for the performance of the economy, and is quick to claim credit for successes, but:
    - ✧ The main responsibility for keeping the economy at full employment with price stability (macroeconomic stabilization) is assigned to an independent central bank using monetary policy (the Federal Reserve in the US)
      - The Fed is charged with the responsibility “to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates” (the so-called “dual mandate”)
      - In the US system of “separation of powers,” responsibility for economic management, other than the monetary policy component of stabilization policy, is shared in a complex way

between the Administration (executive branch) and the Congress (legislative branch), and how to assign responsibility (credit or blame) for economic performance becomes even more difficult when there is “divided government”

- Important distinction between the “supply side” of the economy and the “demand side”
  - The supply side relates to the economy’s “potential:” how much output it is able to produce when labor and capital resources are fully employed
    - ✧ It is most influenced by “structural” features, such as demographics, labor market flexibility, and the capacity for innovation, and policies that bear on these, and tends to move slowly
      - The FOMC (Federal Open Market Committee) assesses long-run potential (real GDP) growth in the US currently to be about 1.9%
  - The demand side relates to whether aggregate demand is keeping up with (or even running ahead of) supply
  - In the US, the Administration and the Congress share responsibility for the supply side of the economy and the Fed has the main responsibility for the demand side, but when there is a recession, particularly a severe one (such as in 2008-09), it shares responsibility with the Administration and the Congress
  - Politicians often make claims about “creating jobs.” This could mean stimulating aggregate demand, that is, increasing the demand for labor, when aggregate demand falls short of the economy’s potential (a so-called “negative output gap”) or it could mean implementing policies to increase potential growth, which are two different things
    - ✧ This begs a prior and quite contentious question: to what extent can governments and central banks, directly or indirectly, control or influence the economy in the short- and in the medium- to long-run?
- Actual or potential real GDP growth can be decomposed into the contribution of three elements (so-called “growth accounting”): labor, capital, and total factor productivity. When the economy produces more goods and services compared to the previous period, that is, grows (in real terms), it must be because it used more labor, it used more capital, or it became more productive
- A country’s GDP is a measure of its output of goods and services in a given time period measured at market prices (or proxies for them), and real GDP tracks this over time, adjusting for changes in the prices of those outputs

- GDP is a brave attempt to measure the output of an economy in a certain period in a single number: a lot (of work and assumptions) goes into it!
- GDP has several well-recognized limitations and deficiencies
  - ✧ It does not include production within the home (eg, cooking, cleaning, child- or elderly-care, repairs), unless it involves market services
  - ✧ It counts “bads” (eg, pollution or other “negative externalities”) as “goods” and may count dealing with their adverse consequences (eg, cleaning up a polluted river) a second time
  - ✧ Nominal GDP is relatively easy to compute, but real GDP, which is what matters most, is much trickier because it requires price “deflators” to be calculated for the various categories of outputs, and it is difficult to disentangle price changes from changes in the nature and quality of the good or service itself (so-called “hedonic pricing”)
  - ✧ GDP is slow to capture new products and captures improvements in quality imperfectly, particularly when technological innovation is rapid
  - ✧ Because it uses market prices (or proxies), GDP misses “consumer surplus,” a measure of how much consumers value a good or service above what they have to pay for it (other than for the marginal consumer, consumer surplus is always positive)
- Productivity is measured using GDP so any measurement errors in GDP carry over to measured productivity; eg, if real GDP is being underestimated because, quite plausibly, inflation is overestimated (due to failing to capture new products in time or adequately capture quality changes), then productivity growth will be underestimated too
- GDP can be broken down into its components of spending (the so-called “expenditure approach”): household consumption; residential investment; non-residential (business) investment; inventory investment; government expenditure (consumption and investment); and net exports
  - It is possible then to break down GDP growth into the contributions to growth made by its respective components (see Table 1)
  - Some output initially goes into inventories rather than to final sales: this is treated as inventory investment
    - ✧ One quirk is that it is not the change in the level of inventories that contributes to GDP growth but rather the “change in the change” (because GDP is a flow and inventories are a stock)
    - ✧ So, just knowing that inventories rose or fell tells you nothing about

whether inventory investment contributed to, or detracted from, growth. Most popular commentary misses this important nuance

## What the GDP data say about the performance of the “Trump” vs “Obama” economy

**Table 1: Comparison of real GDP growth and contribution to growth of its components, Trump vs Obama (9 quarters)**

	Trump	Obama	Difference	Reference: Obama administration (8 years)
Contribution to growth (pp)				
Consumption	1.68	2.07	-0.39	1.42
Residential investment	0.00	0.25	-0.25	0.11
Non-residential investment	0.81	0.09	0.72	0.41
Inventory investment	0.19	-0.12	0.31	0.13
Government expenditure	0.18	0.24	-0.06	-0.07
Net exports	-0.08	-0.59	0.51	-0.10
Real GDP growth (% q-o-q, saar)	2.8	1.9	0.9	1.9

Contributions do not necessarily sum to the total, due to rounding error.

pp: percentage points; saar: seasonally adjusted annualized rate.

Source: Federal Reserve Bank of St. Louis FRED data base.

- Real GDP growth has picked up significantly so far (after nine quarters) under the Trump Administration, by about 0.9 percentage points
  - Caveat: this is a simple comparison exercise; we are not doing a multivariate regression analysis, which controls for myriad effects
  - The main contributors are non-residential (business) investment and net exports (net exports being less of a drag on growth), and to a lesser extent inventory investment
  - This seems to be consistent with the view that the main economic effect of the Trump Administration, via a pro-business deregulatory stance and corporate tax cuts, has been to unleash business sector “animal spirits”
  - Interestingly, however, the contributions of the other components of GDP, notably household consumption and residential investment, have been lower under Trump than under Obama

## What other key economic data say about relative economic performance

<b>Table 2: Economic/market indicator (latest level or increase)</b>	<b>Trump</b>	<b>Obama (equivalent period)</b>	<b>Difference</b>
Non-farm payrolls (average monthly change, 000s)	200	217	-17
Manufacturing sector payrolls (average monthly change, 000s)	16.1	3.5	12.6
Services sector payrolls (average monthly growth, 000s)	157.9	179.5	-21.6
Total non-farm payrolls increase (million)	5.400	5.854	-0.454
Total manufacturing sector payrolls increase (000s)	435	95	340
Unemployment rate (U3) (%)	3.6	4.7	-1.1
Unemployment rate (U3) (pp change)	-1.1	-1.0	-0.1
Underemployment rate (U6) (%)	7.3	9.3	-2.0
Underemployment rate (U6) (pp change)	-2.0	-2.2	0.2
Labor force participation rate (%)	62.8	62.9	-0.1
Labor force participation rate (pp change)	-0.1	0.1	-0.2
Black/African American unemployment rate (%)	6.7	7.7	-1.0
Black/African American unemployment rate (pp change)	-1.0	-2.9	1.9
Hispanic/Latino unemployment rate (%)	4.2	5.8	-1.6
Hispanic/Latino unemployment rate (pp change)	-1.6	-1.0	-0.6
Average hourly earnings growth (y-o-y, sa, 3mma)	3.3	2.6	0.7
PCE (consumer) core inflation (y-o-y, 3mma)	1.9	1.8	0.1
Goods and services trade balance (\$bn; 3mma)	-53.472	-45.702	-7.77
Goods and services trade balance (% of GDP; annualized)	1.0	1.0	0.0
S&P500 (% increase)	36.4	13.9	22.5
Federal funds target rate (%; upper bound)	2.50	0.75	1.75
10-year Treasury yield (%)	2.52	1.88	0.64
2-year/10-year Treasury yield curve (bp)	21	101	-80

pp: percentage points; sa: seasonally adjusted; 3mma: 3-month moving average; bp: basis points

Table updated to include data from the Employment Report released on May 3 and the May 2 market close.

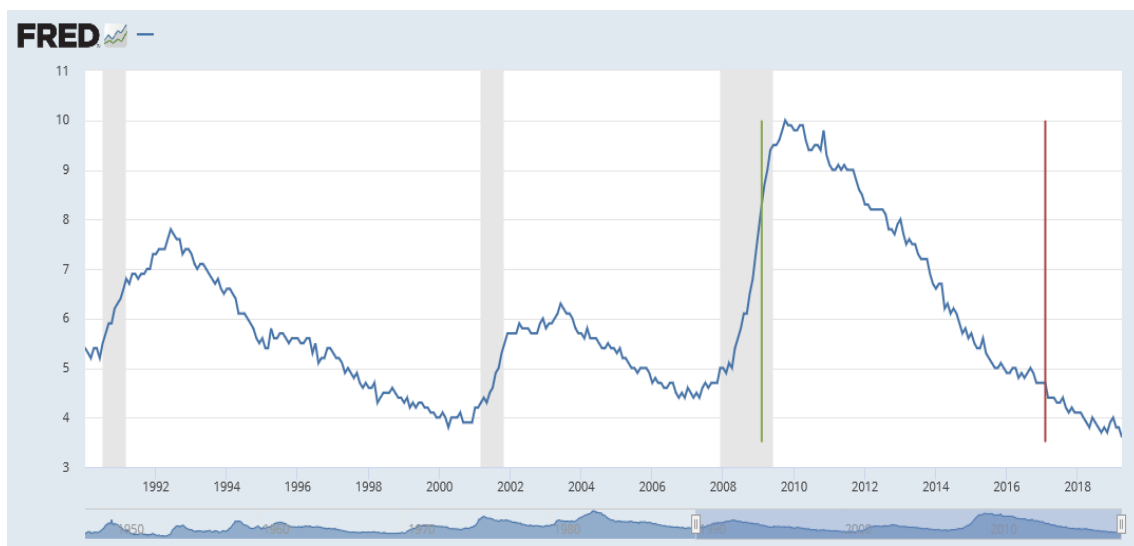
Source: Federal Reserve Bank of St. Louis FRED data base.

- The Trump Administration makes much of how much better its jobs performance is than the Obama Administration's
  - The data paint a much more nuanced picture (see Table 2)
  - The most closely watched and comprehensive employment indicators are contained in the monthly employment report, which comes from two surveys: a household survey and an establishment survey. The most closely watched number in the former is the civilian unemployment rate (U3) and in the latter is the non-farm payrolls (monthly change in the number of workers employed)
  - The unemployment rate has fallen by 1.1pp under Trump, from 4.7% to 3.6%. Under Obama, whose Administration began in the middle of the Great Recession, the unemployment rate rose from 7.8% (Jan 2009) to a peak of 10.0% (Oct 2009), then fell to 4.7% (Jan 2017) (see Figure 1)
  - Including the January 2017 figures in the Obama count (and rounding), monthly non-farm payrolls growth has averaged 200K under Trump versus 217K under Obama. In terms of total number of jobs “created,” that is 5.40mn under Trump vs 5.85mn under Obama (see Figure 2)
  - This is not to denigrate the jobs market performance of the Trump Administration; it is just to be accurate about the numbers
    - ✧ It should be easier to generate higher jobs growth numbers when there is “slack” in the labor market (higher than normal unemployment), as aggregate demand growth can eat into this slack as well as benefit from the normal rate of labor force growth
    - ✧ By the end of the Obama Administration, the unemployment rate, at 4.7%, was in line with what the Fed was estimating as the long-run full employment; the median of FOMC participants was 4.8%, with a “central tendency” range of 4.7-5.0% (the central tendency excludes the three highest and the three lowest projections)
    - ✧ There seems to have been a forecasting error, not just by the Fed but by the policy economics profession as a whole, as the unemployment rate has continued to fall. The FOMC median forecast is now 4.4%, with a central tendency range of 4.2-4.5%
    - ✧ The U6 measure of “underemployment” (which includes “all persons marginally attached to the labor force” and those “employed part-time for economic reasons”) is a better measure of labor market slack after a severe recession. This measure has fallen from 9.3% to 7.3% under

Trump, bringing it well below its pre-crisis trough (of 7.9% in Dec 2006) and approaching its all-time recorded low (of 6.8% in Oct 2000)

- ✧ Another way job creation can remain robust when the economy is operating at or close to full employment is for the labor force participation rate to rise, but this is yet to happen (see Figure 3)
- President Trump has a made of a lot of the fact that his Administration is “bringing back manufacturing jobs.” There seems to be some evidence of this, but it is also worth bearing in mind that job growth in the US is overwhelmingly driven by the services sector
  - ✧ Monthly manufacturing sector payrolls growth has averaged about 16K under Trump versus about 3.5K under Obama. In terms of total number of jobs “created,” that is about 435K under Trump vs about 95K under Obama
- Overall, the picture is one of robust growth producing an increasingly tight-looking labor market and eating into slack without causing inflation to pick up
- Slower jobs growth but faster GDP growth hints at higher productivity growth, which is also consistent with earnings growth picking up but inflation not
- If the consumer starts to drive the expansion, watch for either inflation to pick up, bringing the Fed back into play, or the labor force participation rate to rise

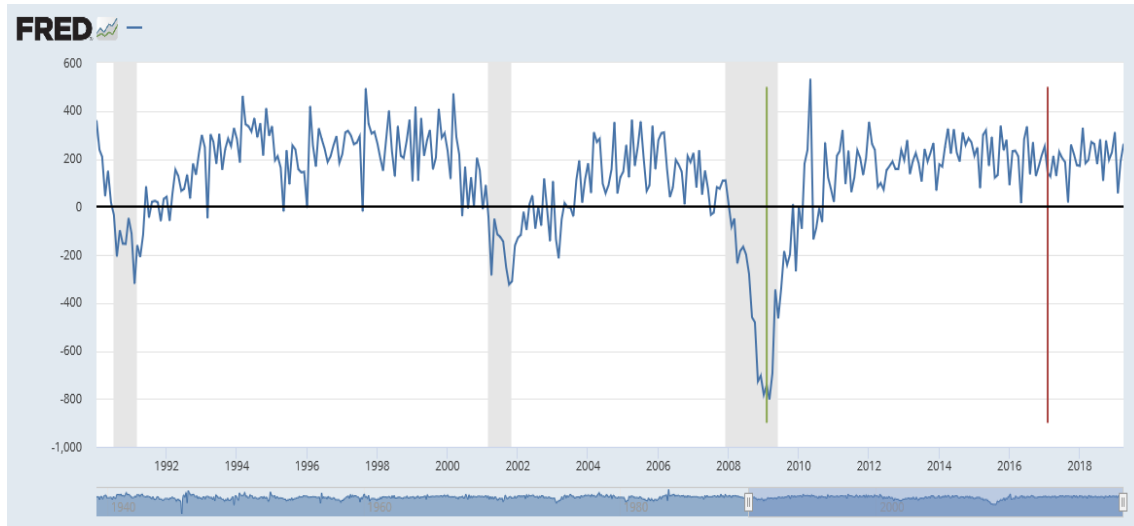
**Figure 1: US unemployment rate, 1990 to present (%)**



Shaded bars represent “official” recessions; first vertical line marks beginning of Obama Administration, the second the beginning of the Trump Administration

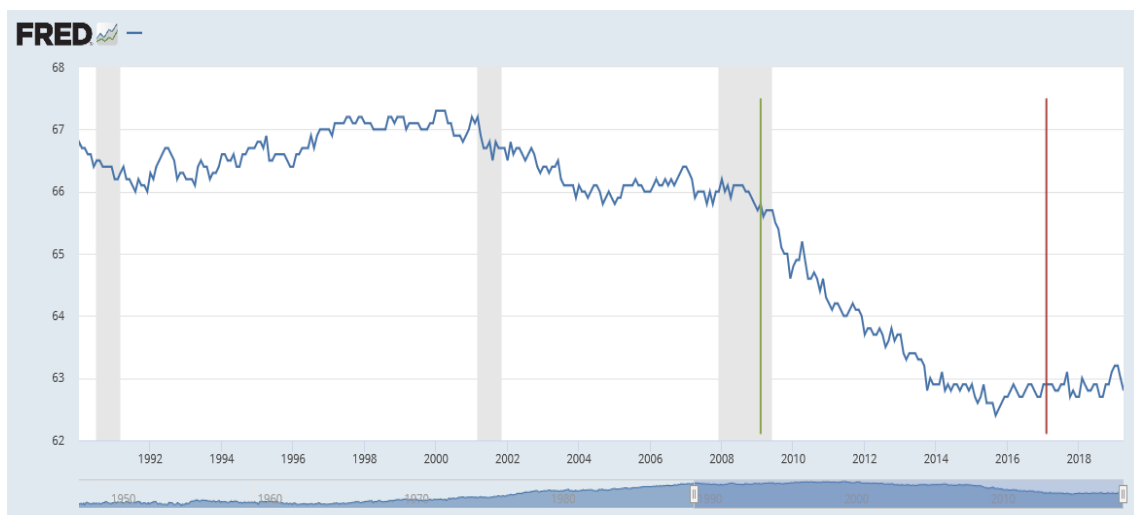
- The stock market and the bond market, as sometimes happens, are flashing different signals: under Trump the stock market has rallied, but the yield curve has flattened. A flat or inverted yield curve can be a signal of recession ahead

**Figure 2: Monthly change in US nonfarm payrolls, 1990 to present (000s)**



Shaded bars represent “official” recessions; first vertical line marks beginning of Obama Administration, the second the beginning of the Trump Administration

**Figure 3: US labor force participation rate, 1990 to present (%)**



Shaded bars represent “official” recessions; first vertical line marks beginning of Obama Administration, the second the beginning of the Trump Administration

### Further reading

Diane Coyle, 2014: *GDP: A Brief But Affectionate History*, Princeton Univ. Press.