

ELECTION-YEAR ECONOMICS

RESEARCH ARTICLE

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The election season is officially underway and while the outcome may seem unpredictable for both parties, history gives us some insight into how the economy and real estate markets are likely to perform in a presidential election year.

Interest Rates: Historically, presidential election years have not prohibited policy tightening by the Federal Reserve (Fed). Of the last five cycles in which the Fed raised interest rates, four either began in or continued into an election year. If history is any indication, the presidential election will not stop the Fed from pursuing a tighter monetary policy, but a slowing economic outlook could deter additional rate hikes.

Job Market: Presidential election cycles have generally been favorable for the labor market. The average annual unemployment rate has declined or remained flat in 13 of the last 16 presidential election years. This trend should continue as 2015 ended with a 5.0% unemployment rate, which has already fallen to 4.9% as of January 2016 – the lowest level since 2007. We expect another year of improving labor conditions, particularly as the economy approaches full employment.

Economic Growth: Annual gross domestic product, or GDP, has only been negative twice in the last 16 presidential election years. Given the current economic conditions, GDP will likely remain positive in 2016, marking the seventh consecutive year of growth. It is notable; however, that six of the last eight recessions began during or within 12 months of a presidential election year.

Given these historical inputs, one could draw the conclusion that in 2016 the U.S. economy will sustain moderate growth, Fed officials will continue to raise interest rates, labor market fundamentals will improve, and then a recession could occur as early as 2017. While past performance is not indicative of future results, this outlook is actually consistent with other economic forecasts. However, similar to the current presidential election cycle, the 2016 economic outlook has become both unpredictable and at times unbelievable.

CREDITS & DISCLOSURES



Dr. Will McIntosh
Global Head of Research
Phone: 210-641-8416
Email: Will.Mcintosh@usrealco.com



John Kirk, CCIM
Research Analyst
Phone: 210-690-6715
Email: John.Kirk@usrealco.com



Mark Fitzgerald, CFA, CAIA
Research Analyst
Phone: 210-690-6706
Email: Mark.Fitzgerald@usrealco.com

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