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## High Expectations Could Bedevil Trump



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Some things in politics are hard to reconcile. Since Donald Trump's election last month, economic optimism has skyrocketed. The Conference Board reported earlier this week that its December Consumer Confidence Survey hit its highest levels since August 2001, and that while feelings about the current economy declined slightly, expectations for the economy over the next six months were higher than at any time since December 2003. These numbers are similar to the Reuters/University of Michigan's Index of Consumer Sentiment that earlier this month reached its highest level since January 2004. The mid-December NBC News/Wall Street Journal poll showed that 42 percent of Americans believe that the nation's economy will get better over the next 12 months, the highest level in four years, while 19 percent thought it would get worse and 38 percent thought it would remain about the same.

With all that in mind, consider that President Obama's job-approval ratings are way up. In Gallup Organization tracking polls, his approval hit 56 percent last week, the highest since the earliest months of his presidency. This was consistent with his 52 percent approval in the last NBC/WSJ poll and 53 percent in the last Fox News poll. In fact, Obama's job-approval numbers have been at or above 50 percent in all 12 Fox News national polls taken since early June.

So how can voters be happy with Obama's job in office and yet almost euphoric about the distinctly antithetical Trump who is about to take office? Good question.

Here's how a University of Michigan report explained the apparent contradiction: "An all-time record number of consumers (18%) spontaneously mentioned the expected favorable impact of Trump's policies on the economy. This was twice as high as the prior peak (9%) recorded in 1981 when Reagan took office. To be sure, nearly as many consumers referred unfavorably to anticipated changes in economic policies, but those references were less than half as frequent as the peak level recorded just three years ago (16% vs. 37%). Consumers anticipated that a stronger economy would create more jobs, although expected wage gains were quite meager. Smaller income gains were offset by record low inflation expectations. Needless to say, the overall gain in confidence was based on anticipated policy changes, with specific details as yet unknown. Such favorable expectations could help jump-start growth before the actual enactment of policy changes, and form higher performance standards that will be used to judge the Trump presidency."

This Michigan analysis echoes the Conference Board report finding that views of the current economy diminished slightly. As Director of Economic Indicators Lynn Franco put it, "Consumer Confidence improved further in December, due solely to increasing expectations which hit a 13-year high." Franco went on to report that "the post-election surge in optimism for the economy, jobs, and income prospects, as well as for stock prices which reached a 13-year high, was most pronounced among older consumers. Consumers' assessment of current conditions, which

declined, still suggests that economic growth continued through the final months of 2016. Looking ahead to 2017, consumers' continued optimism will depend on whether or not their expectations are realized.”

In short, at least a sizeable number of Americans are quite hopeful that things will get better over the next year, at least in part because of Trump's election. It also might be worth noting that the surveys showed that much of the optimism was among older Americans. With the stock market running pretty much at record highs since November, and older Americans generally more invested in the stock market than younger people, this optimism may be related to or caused by the market's performance. But it's not quite clear which is the cart and which is the horse. Are people feeling better because the stock market is doing well, or is the stock market doing well because people are feeling better, or maybe both?

Obviously how the economy performs over the next year is key. Just before Christmas, the Commerce Department's Bureau of Economic Analysis released its “third” estimate of real change in the gross domestic product (the first estimate is preliminary, the second based on more data, the third virtually complete, with final numbers out in July). The third quarter showed an upwardly revised rate of 3.5 percent, and preliminary numbers for the fourth quarter will be out on Jan. 27. The Blue Chip Economic Indicators survey of 53 top economists suggested that the economy was likely to slow to 2.2 percent real GDP growth rate; the 10 most optimistic estimates averaged 2.9 percent, while the 10 most pessimistic averaged 1.5 percent. For each quarter of 2017, the averages were in the 2.2-to-2.4 percent range, with the optimists averaging 2.7 to 3 percent and the pessimists averaging around 1.7 and 1.8 percent.

For the Trump team, the lesson in all of this is that things better improve a lot or they better have someone or something else to blame. Republicans will now hold the presidency and majorities in the House and Senate. They will control the presidency and the House, but control of the Senate depends on at least 60 votes to defeat a filibuster. With just 52 seats in the Senate, Republicans will only be able to control measures that go through the budget-reconciliation process, which is not subject to filibusters.

While this puts a lot of pressure on Republicans, it also puts some on Senate Democrats. To the extent that they are seen as obstructionists, they take on culpability for anything that goes wrong. Trump and Republicans can use them as a foil, blaming them for getting in the way of governing. That's why Senate Democrats need to pick their fights wisely. A strategy of giving their opponents enough rope to hang themselves is something they ought to seriously consider.

It's going to be very hard for President Trump to make good on the high expectations of his supporters. If he disappoints them, who will they blame? But if Trump does deliver, Democrats won't be relevant anyway. Happy New Year.