



The day the Trump boom died

Last spring, Trump thought he had a clear path to re-election: the booming economy. What a difference a few months make

By [Paul Krugman](#) | 30.10.2019



Impeachment and a sluggish economy — will they quash Trump's hopes for re-election?

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Last spring Donald Trump and the people around him probably thought they had a relatively clear path to re-election.

On one side, it looked as if Trump had weathered the threat of politically fatal scandal. The much-awaited Mueller report on Russian election intervention had landed with a dull thud; the details were damning, but it had basically no political impact.

At the same time, Trump was convinced that he could run on the basis of a booming economy. Never mind that his claims to have run up the best economic record in human history were easily refuted; the reality seemed good enough to sell as a big success story.

What a difference a few months make.

Everyone is following the impeachment story, and I don't have much to add, except a warning: At every stage of this process, Republicans have proved willing to engage in stunningly bad behaviour. Did anyone foresee the physical attempt to disrupt the House inquiry? The point is that as the net closes in, the GOP. response is likely to be uglier than you can possibly imagine.

What's getting less attention, understandably, is the way the Trump economic narrative is falling apart.

Sluggish growth

To be fair, the overall state of the economy is still pretty good. Unemployment is very low and job growth is continuing. And while there will eventually be a nationwide recession — the business cycle has not been abolished — it's not at all clear that we'll have one before next year's election.

However, important parts of the economy are lagging. [Manufacturing production](#) is down over the past year; combined with weakness in shipping and very hard times in agriculture, around a fifth of the economy *is* effectively in recession. In particular, manufacturing employment has been [falling](#) in Michigan, Wisconsin and Pennsylvania, states that chose Trump by tiny margins in 2016, giving him a win in the Electoral College despite losing the popular vote.

And overall growth, while still positive, is definitely slowing: 'nowcasts,' which use partial data to estimate what official economic data will say when it's eventually released, suggest an economy growing at an unimpressive annual rate of less than 2 per cent. Since elections turn more on the economy's growth rate than on things like the level of unemployment — unemployment was still more than 7 per cent when Ronald Reagan won his 1984 landslide — this is not good news for Republicans.

Business has no confidence

Probably even more significant, there has been a dramatic decline, almost a collapse, in business confidence.

You can see this collapse several ways. One is through surveys of business executives, who spent Trump's first two years being very bullish, but have now become [remarkably pessimistic](#).

But the truth is that even pessimists expected the tax cut to do more good, and the trade war less harm, than they did.



You can also see it in the bond market, a much better indicator of economic expectations than the stock market. Long-term interest rates tend to be high when investors expect a booming economy, in which the Fed will tighten money to head off inflation; they tend to be low when investors expect protracted economic weakness and easy money as far as the eye can see.

And 10-year bond rates have [plunged](#), from more than 3 per cent last year to [1.75 per cent](#) as I write this. The last time we saw this kind of plunge was 2010-11, when investors finally realized that recovery from the Great Recession was going to be slow and painful, not a repeat of 'morning in America.'

So what happened to the Trump boom?

The collapse in confidence began late last year, when it became clear that Trump was serious about waging [trade war](#) on China; it continued as evidence accumulated that the 2017 tax cut was a big fizzle, doing basically nothing to boost business investment and providing at most a brief sugar high to overall growth.

But the truth is that even pessimists expected the tax cut to do more good, and the trade war less harm, than they did. Why have things turned out so poorly? One answer, to which I've subscribed, is that in addition to its direct impacts on US exports and businesses that rely on Chinese suppliers, the trade war has created damaging uncertainty. Businesses that rely on global supply chains won't invest for fear that the trade war will get even worse; but businesses that might move in to replace imports also won't invest for fear that Trump will eventually back down.

I suspect, however, that there's even more to the story. Business interests spent a long time in denial, but now even they are facing up to the reality that Trump and his team are very strange people who have no idea what they're doing — and the uncertainty that reality implies.

I mean, considering that trade confrontation with China is the centrepiece of Trump's economic policy, it's not reassuring to learn that his trade war czar, Peter Navarro, has an [imaginary friend](#) — a source named 'Ron Vara' whom he has repeatedly cited in his books, but who doesn't exist, and whose name is in fact just an anagram of 'Navarro.'

Next year's election should be about Trump's betrayal of his oath of office. Realistically, however, it also matters that the economy probably won't be his friend.

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