The waiting game

October 3—The first Presidential debate between Hillary Clinton and Donald Trump set a viewership record. Somehow, the 2016 Presidential election has felt unusually consequential, with emotions running high across the political spectrum. The financial markets, therefore, seem to be marking time, waiting for the outcome to become clear.

But ironically, whoever wins the election may not have the flexibility to implement the changes his or her supporters so ardently desire. Our debt-to-GDP ratio has reached a level not seen since Harry Truman became President. Discretionary government spending has been crowded out by entitlement programs and interest on the national debt, which now account for about two-thirds of the federal budget. Under current trends, discretionary spending may be reduced to zero as soon as 2022, according to some analysts.

Presidents George W. Bush and Barack Obama were faced with a recession as they entered office. Should another recession begin in the next six months or so, it is unclear what steps might be available to the Federal Reserve to combat it. Interest rates remain stuck at historically low levels. Although it is possible that an interest rate hike may yet come this year, according to Fed Chairwoman Janet Yellen, it does not seem likely.

Consumer confidence

In September the Conference Board's consumer-confidence index reached its highest level in nine years. That would seem to suggest that households are shaking off the effects of the last recession, and we may be able to sustain economic growth into the near-term future.

However, this index last peaked in July 2007, just before the last recession was getting under way.

Consumer spending has not confirmed the confidence index. Personal spending was unchanged in August, the weakest reading since last March. Spending on durable goods, such as cars and other big-ticket items, was down 1.3%. Taking inflation into account, spending actually fell 0.1%. Through the first half of this year, consumer spending was the primary driver of economic growth, offsetting declines in business investment.

Home sales

Sales of existing homes fell 0.9% in August, to an annual rate of 5.33 million. Sales had reached the highest level since 2007 earlier in the summer. The slowdown was attributed to a shortage of inventory of homes for sale, as well as a slowing in the building of new homes. The result has been a surge in prices. The median price of an existing home (half are above, and half are below) was $240,200 in August. That's 5.1% higher than the year-earlier figure.

Current homeowners welcome the increase in home values, of course, but prospective buyers do not. Home ownership may be becoming unaffordable in some markets for the middle class and first-time buyers.

Employment

Initial jobless claims were steady at 254,000 for the week ended September 24, according to the Labor Department. Claims of less than 300,000 are generally seen as signs of a healthy labor market. That mark has not been breached in 82 weeks now, which is the longest such streak since 1970. Unemployment has held steady at about 5% for the past 11 months.

However, if one includes discouraged workers and those working part-time who want a full-time job, the unemployment rate is 9.7%. The labor force participation rate remains stuck at just under 63%, a rate not seen since the Carter administration. As recently as 2006, the rate was 66%. The absence of all those workers may help to explain why the gross domestic product is not expected to exceed 2% this year.

A contributing factor to the low participation rate is the retirement of the baby boomers. An estimated 10,000 Americans retire every day. Once out of the labor market, they are not likely to return.

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