Election Watch

OCTOBER 20, 2008

Using our recent estimates as input, Macroeconomic Advisers' (MA) Presidential election model projects that Senator Obama will win the two-party popular vote by a margin of 8.6%. This is a decrease of 1.1 percentage points from our last update.[1]

The decrease in Senator Obama's margin is due to the sharp drop in oil prices since mid-July, which, in our model, aids the candidate of the incumbent party. The year-to-date percent change in the price of WTI through the third quarter was just under 30%, 16.9 percentage points lower than our June assumption. This change adds 2.5 percentage points to Senator McCain's margin.

The outlook for other areas of the economy, however, has weakened since June. The unemployment rate in the third quarter averaged 6.0%, up 0.4 percentage points from our June forecast. Also, we now expect disposable personal income to grow only 0.5% year-to-date through the third quarter, 0.4 percentage points less than our June forecast. These changes add 1.4 percentage points to Senator Obama's margin.

The recent intensification of the financial market turmoil likely has made voters focus more on the economic situation and has contributed to the polls converging toward the model's prediction. However, its prospective adverse effects on income and employment do not directly figure in the prediction of the election model as it is based on economic data through the third quarter only.

[1] www.macroadvisers.com/election

Model projects Obama by 8.6%

Economic Factors

	Oct.	July	Chg. to Margin*
YTD %chg in pers. income**	0.5%	0.9%	**-0.9%**
Unemployment rate (Q3)	6.0%	5.6%	**-0.5%**
YTD %chg in WTI price**	29.9%	46.8%	**2.5%**
		TOTAL CHANGE*	**1.1%**

* Indicates change for candidate of *incumbent* party
** Year-to-date percent change through third quarter of 2008

Contributions to 2008 Popular Vote Margin