



## Bush's message on economytakes beating

Weak job growth, high oil prices, slumping stocks seen aiding Kerry

By Martin Wolk

Chief economics correspondent

MSNBC

Updated: 4:05 p.m. ET Aug. 6, 2004

President Bush's election-year message that the economy is strong and "getting stronger" is being shaken by a three-pronged assault of weak employment growth, higher oil prices and a slumping stock market.

With less than three months until Election Day, the economic data have taken a sharp turn in favor of Democratic challenger John Kerry that hardly could have been anticipated even a few weeks ago.

Friday's report that the economy added only 32,000 jobs in July was the latest evidence of a summer slowdown in growth, shocking forecasters who thought employers added 200,000 to 300,000 jobs. It was the second straight month of weak job growth, and it added credibility to Kerry's refrain that Bush has failed in his handling of the economy, analysts said.

"It allows Kerry to say with some justification that the recovery may be sputtering and that the job market is very soft," said Greg Valliere, chief strategist of Schwab Washington Research Group. "A lot of people thought when he was saying that earlier in the summer that he was a Cassandra, that he was exaggerating things. But now he can make both those claims."

A sharp increase in oil prices appears to have had a far bigger impact than expected on consumer spending and business confidence. Consumer spending fell 0.7 percent in June, its worst performance in three years, contributing to a slowdown in overall economic growth for the quarter.

The rising price of oil is the "primary concern" of business executives, who otherwise have "every reason to hire," said Sung Won Sohn, chief economist at Wells Fargo. A tight supply and rising demand have pushed crude oil prices up 30 percent this year to a record of near \$45 a barrel. Resulting higher gasoline prices act as an added tax on motorists, and higher fuel prices pressuring profit margins in many industries.

Only three months ago, the economic data seemed to be swinging clearly in Bush's favor, as employers added nearly 900,000 jobs over three months, ending the long "jobless recovery." The nation's gross domestic product surged in the second half of last year, pushing corporate profits sharply higher. As recently as six weeks ago the stock market, if not dazzling, was cruising along steadily with most indexes at least slightly above last year's closing levels.

But since late June, the Dow Jones industrial average has fallen 6 percent and the Nasdaq composite index has lost 12 percent. The Dow has lost 3 percent in just the past two sessions, its worst two-day performance since March.

Financial markets have always been seen as an indicator of U.S. economic prospects. But with half of all households invested in the stock market, the benchmark indicators have become important political symbols as well.

Charlie Cook, editor and publisher of the influential Cook Political Report, said the economy and the war on terror are far and away the two most important issues in the campaign, and it is impossible to say which will be more important on Election Day. Early in the year it appeared a string of solid numbers would put the economy onto Bush's side of the ledger or take it off the table entirely. But that view turned out to be erroneous.

"It's clear that the economy is still going to be an issue, and it's still going to be a problem for the president," Cook said. He said weak job growth is particularly troubling for Bush in battleground states like Ohio, Michigan and Pennsylvania.

"You cannot tell those people that the economy is turning around and that those jobs are coming back," he said. "It's not coming back as aggressively as it was, and it's not coming around as aggressively as it needs to for President Bush."

Bush, he said, made a mistake by pinning his entire economic platform on his record of cutting taxes rather than taking a more direct approach to creating jobs. In polls, most voters do not believe their overall tax burden has declined despite three years of federal tax cuts, Cook said.

Meanwhile Kerry missed a golden opportunity to exploit President Bush's vulnerability on the economy at the recent Democratic convention, said Valliere. Instead, Kerry and his running mate John Edwards chose to burnish their credentials to fight the war on terror -- probably the "one issue where Bush beats Kerry," Valliere said.

Of course there is still plenty of time for Democrats to reshape their message, and they pounced on the employment numbers Friday. On Saturday, the party will launch a new television advertising campaign, accusing Bush of protecting tax breaks that encourage corporations to send jobs overseas.

Under new campaign-finance rules, the campaign is being funded by the Democratic National Committee, acting independently of the Kerry campaign. But the message dovetails perfectly with Kerry's plan to create 10 million jobs, in part by ending tax incentives for companies that outsource jobs.

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