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**United States Political Leadership &
its Effects on the Economy**

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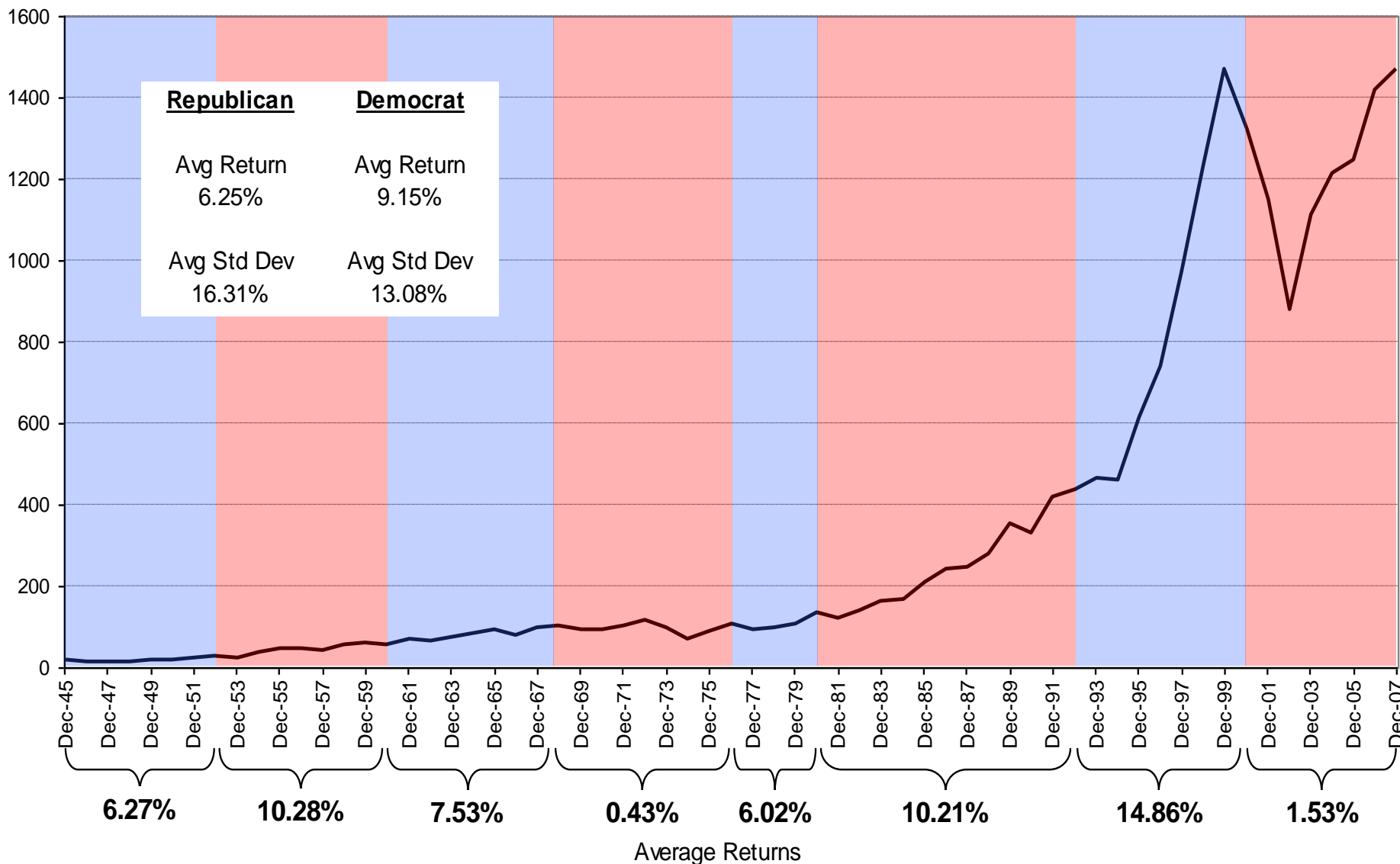
A few notes...

- MB Financial Bank does not endorse any political candidate or party
- The data used in this presentation is taken from the post World War II period (1946 – 2007)
- This study was approached from a completely objective, non-partisan standpoint
- The scope of this study is to analyze key economic indicators and their behavior under three different leadership scenarios:
 - Executive (Presidential) Leadership Only
 - Legislative (Senate & House) Leadership Only
 - The combination of Executive & Legislative Leadership

Executive Leadership

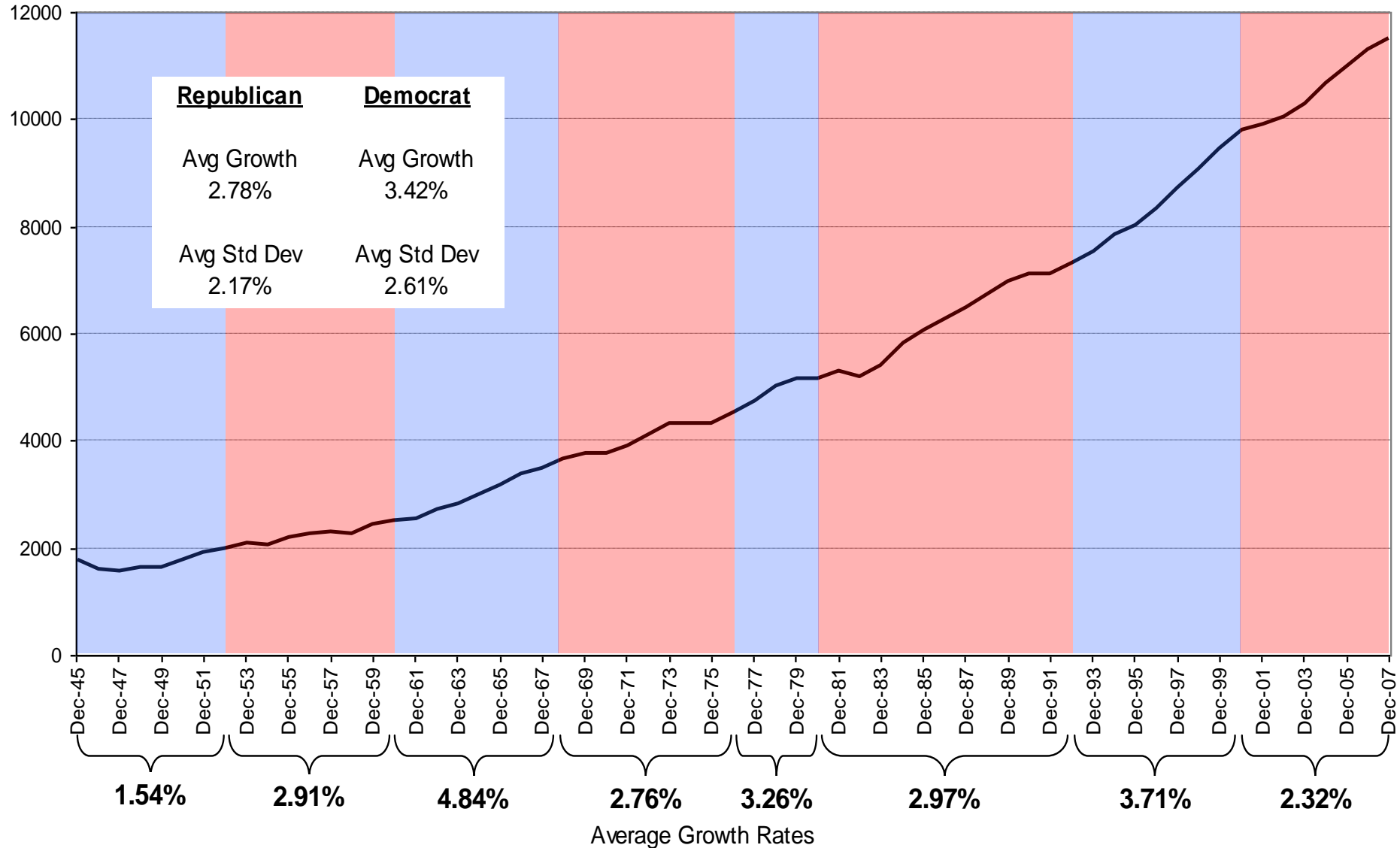
The U.S. stock market performs better historically under Democratic leadership, but the argument can be made that the numbers are even when you exclude the last two administrations...

S&P 500 Index - Executive Control



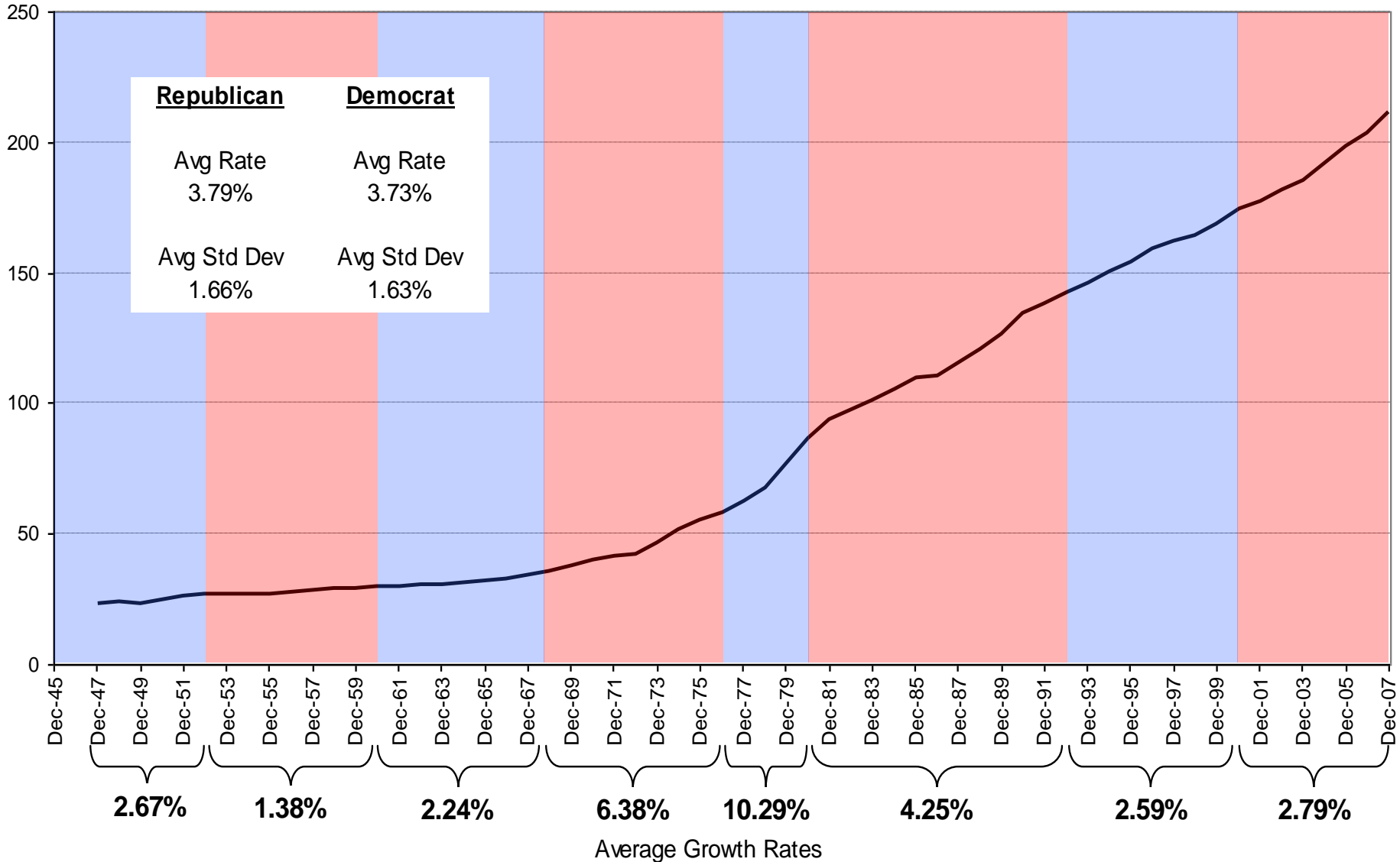
The economy grows no matter which party holds the presidency. Dems have a higher growth rate, but that growth is more volatile...

Gross Domestic Product - Executive Control



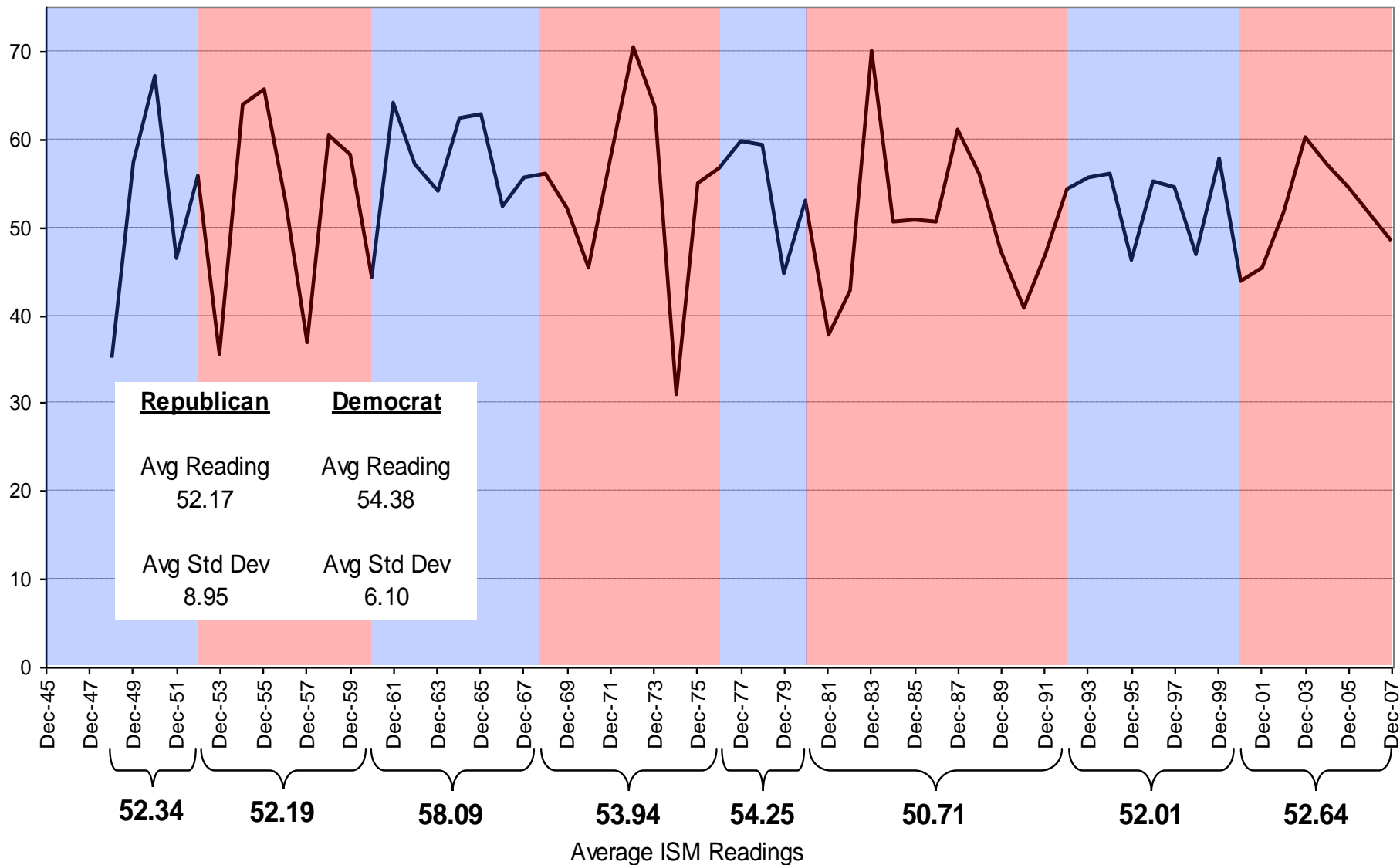
Neither presidential party holds an advantage on the inflation front...

Headline Inflation - Executive Control



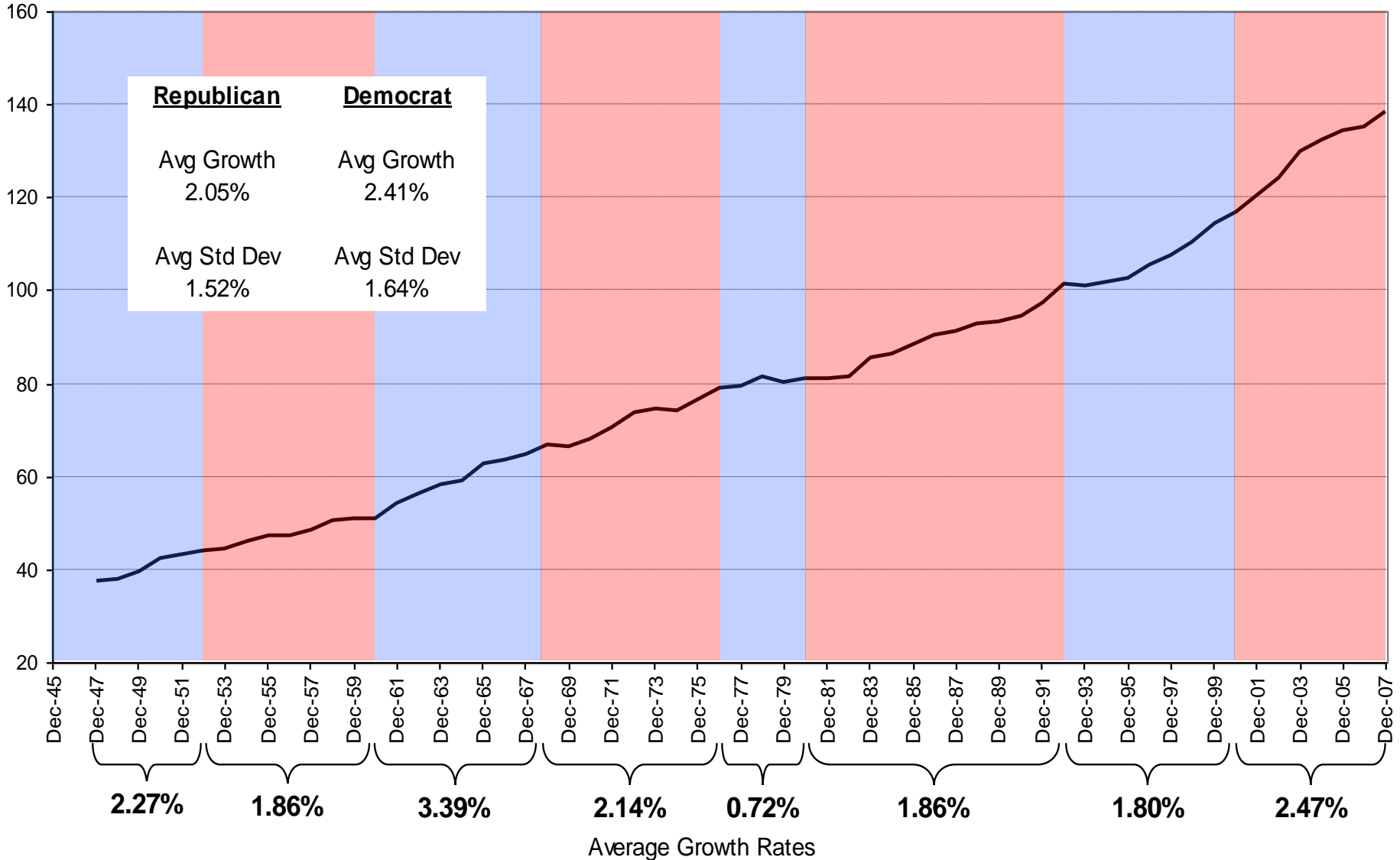
Overall, the majority of manufacturing firms reported expansion during both Democratic and Republican administrations. Worth noting is that this index is highly susceptible to survivor bias...

ISM Manufacturing - Executive Control



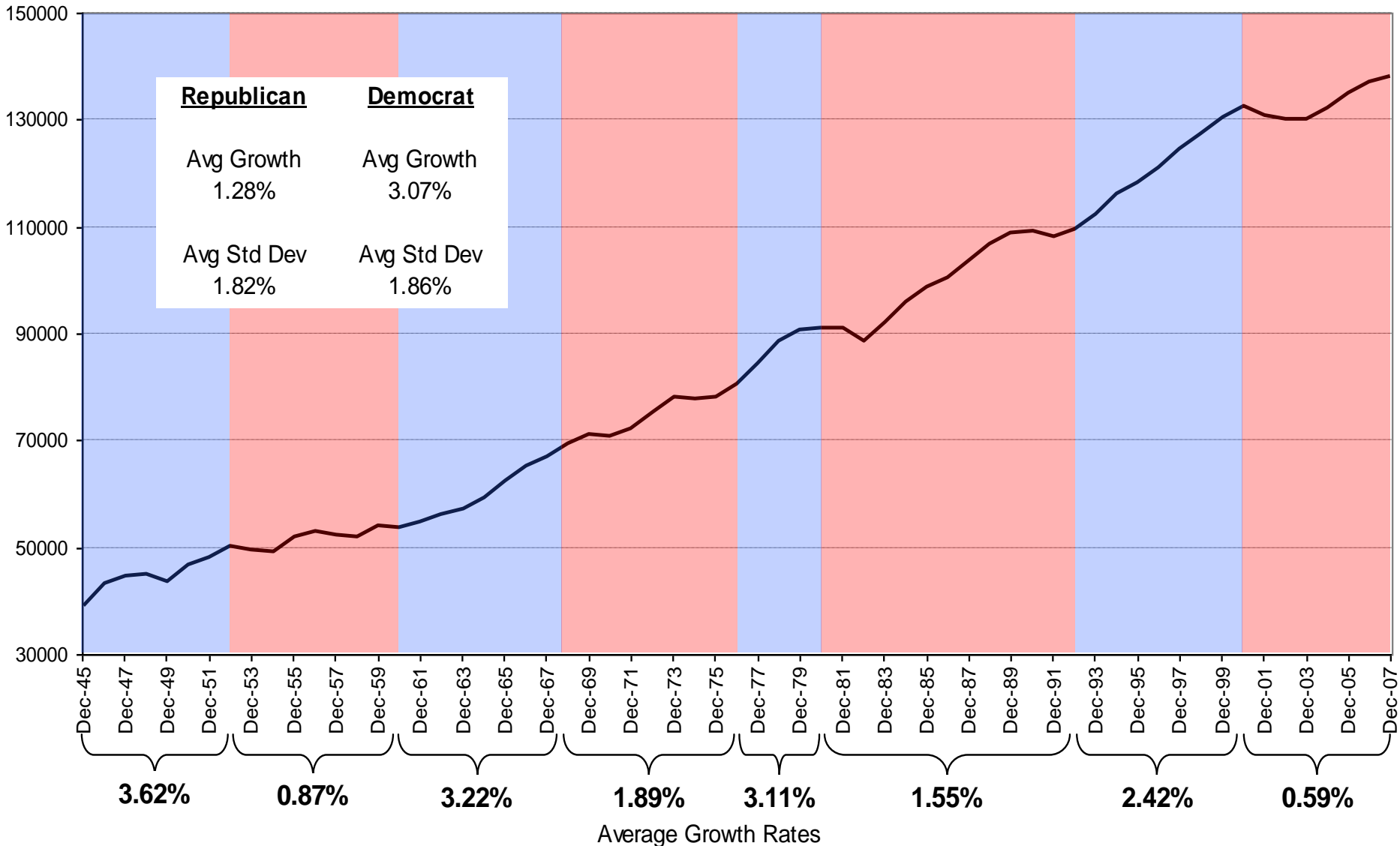
Surprisingly, the strongest productivity gains were seen during the Kennedy/Johnson administrations, not the technology boom during the Clinton administration...

Productivity - Executive Control



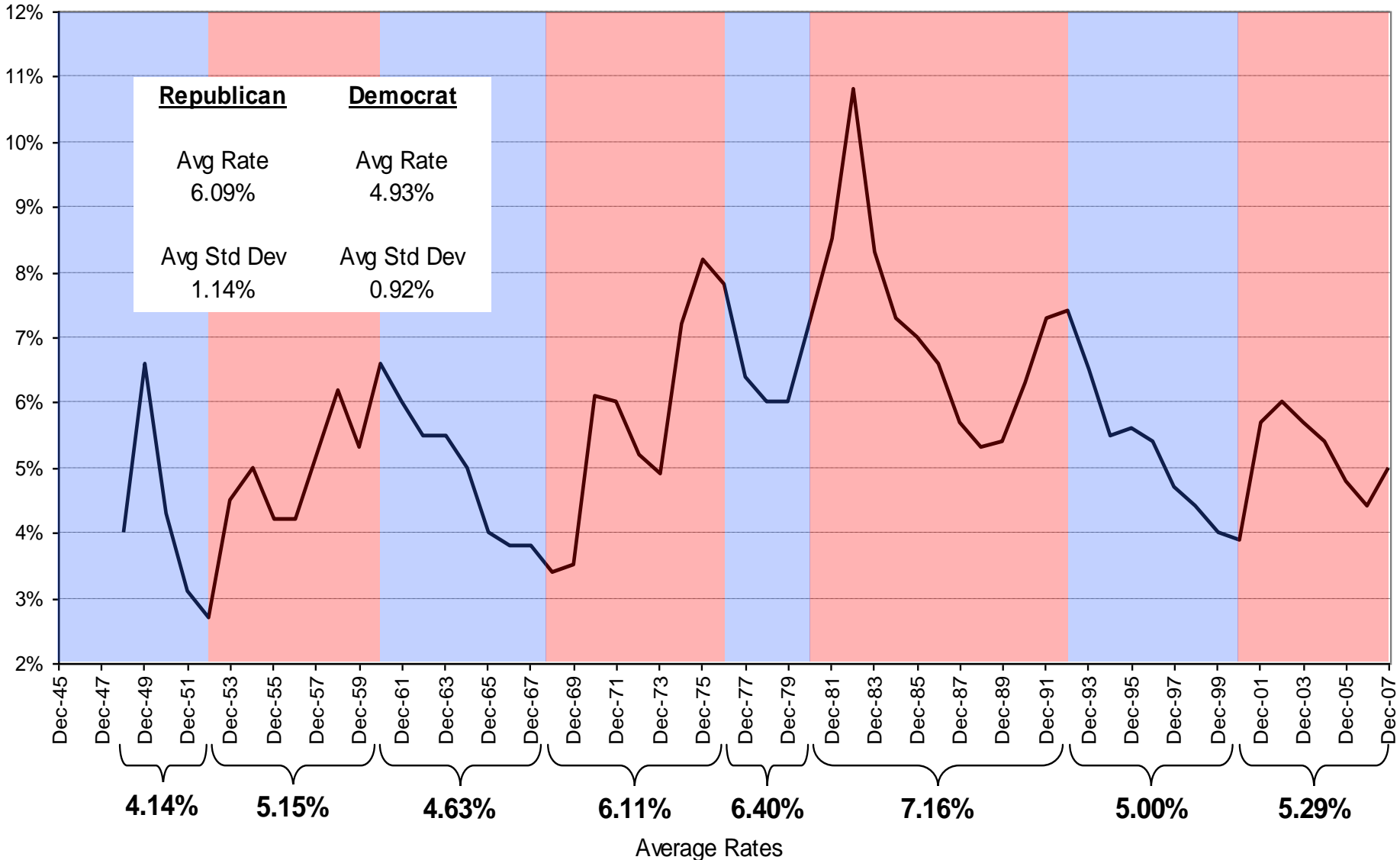
There appears to be a clear advantage to Democrats on job creation, without any additional volatility...

Nonfarm Payrolls - Executive Control



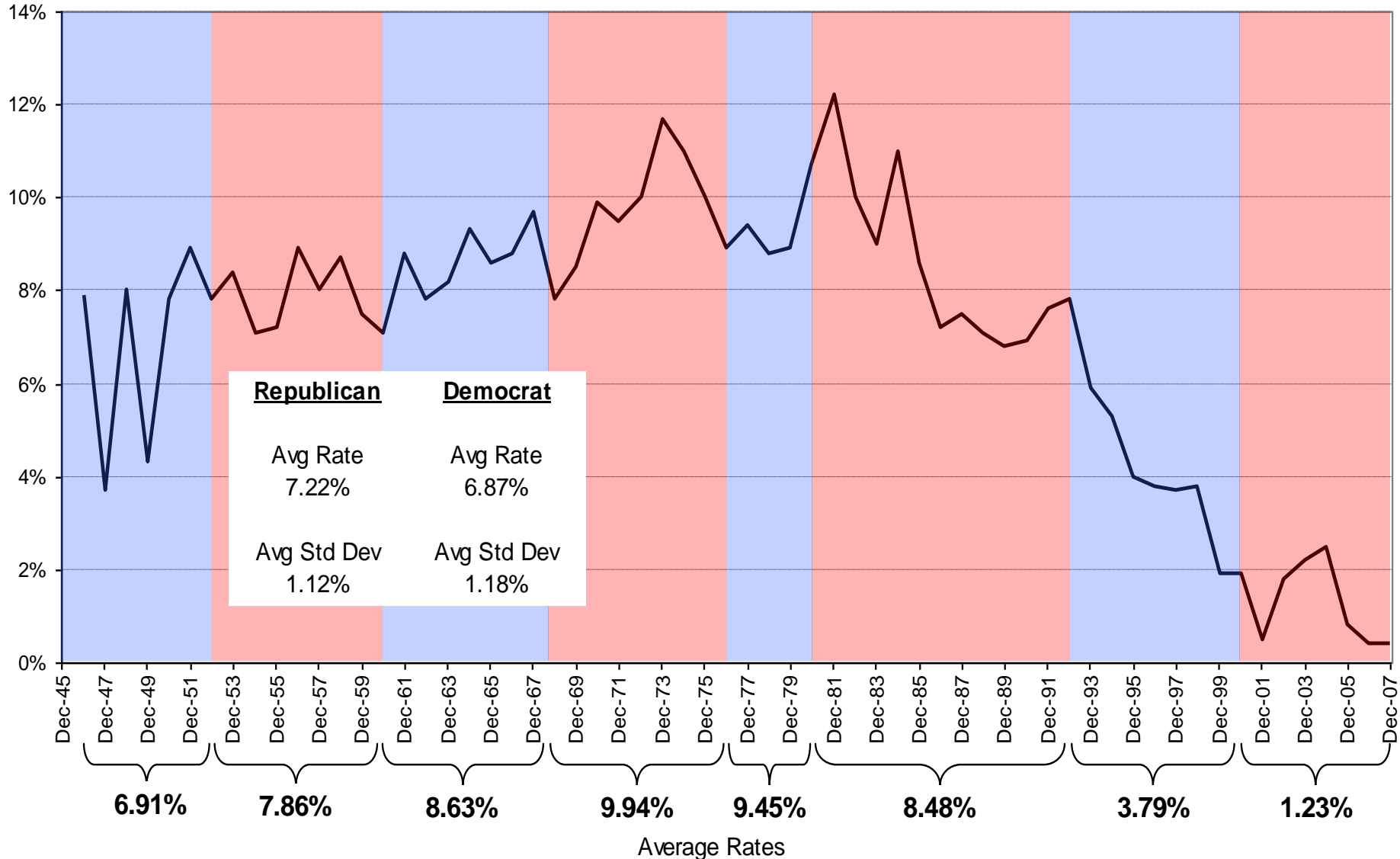
Save for the Reagan administration, it appears that the unemployment rate improves consistently under the Dems...

Unemployment Rate - Executive Control



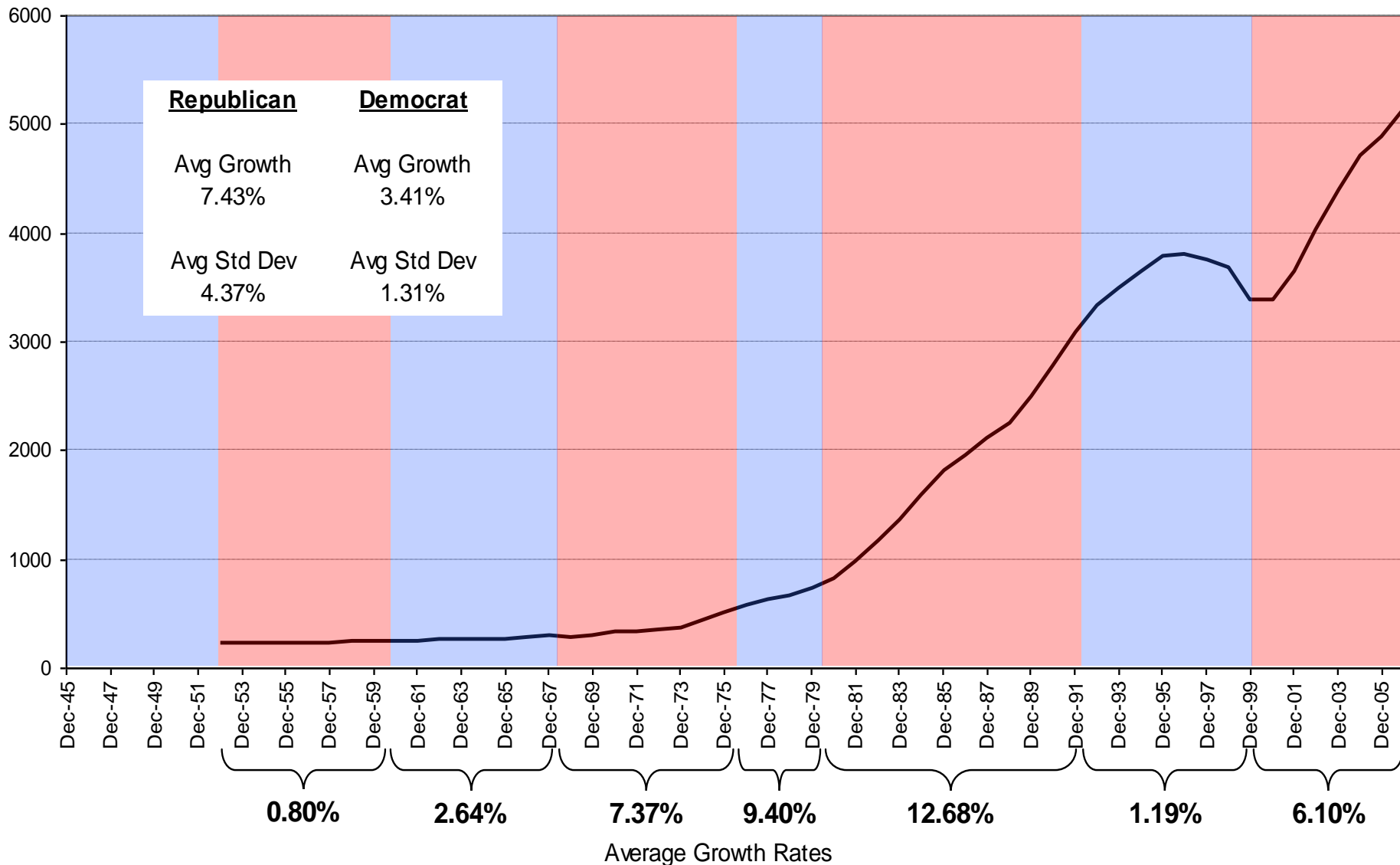
The savings rate has been consistently declining since 1980, due in part to the rise of the investing culture and greater access to credit...

Savings Rate - Executive Control



The largest increases in Federal Debt come in times of war (Late-Stage Vietnam, Late-Stage Cold War, Iraq). Notice how this chart mirrors the personal savings rate...

Federal Debt Outstanding - Executive Control



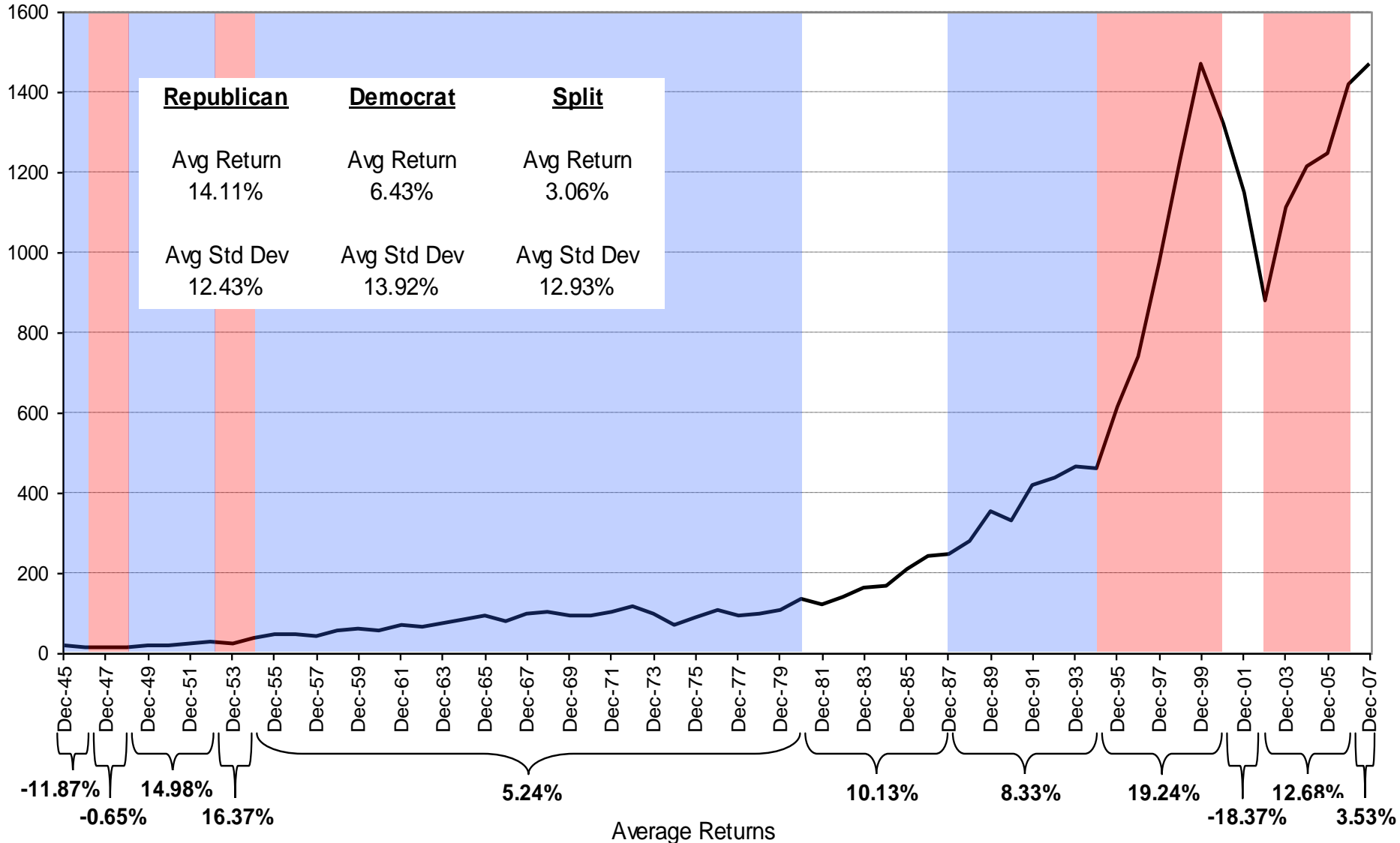
Executive Leadership Summary

	Republican		Democrat
Stock Market			<input checked="" type="checkbox"/>
GDP			<input checked="" type="checkbox"/>
Inflation			
Manufacturing			<input checked="" type="checkbox"/>
Productivity			<input checked="" type="checkbox"/>
Payrolls			<input checked="" type="checkbox"/>
Unemployment Rate			<input checked="" type="checkbox"/>
Federal Debt			<input checked="" type="checkbox"/>

Legislative Leadership

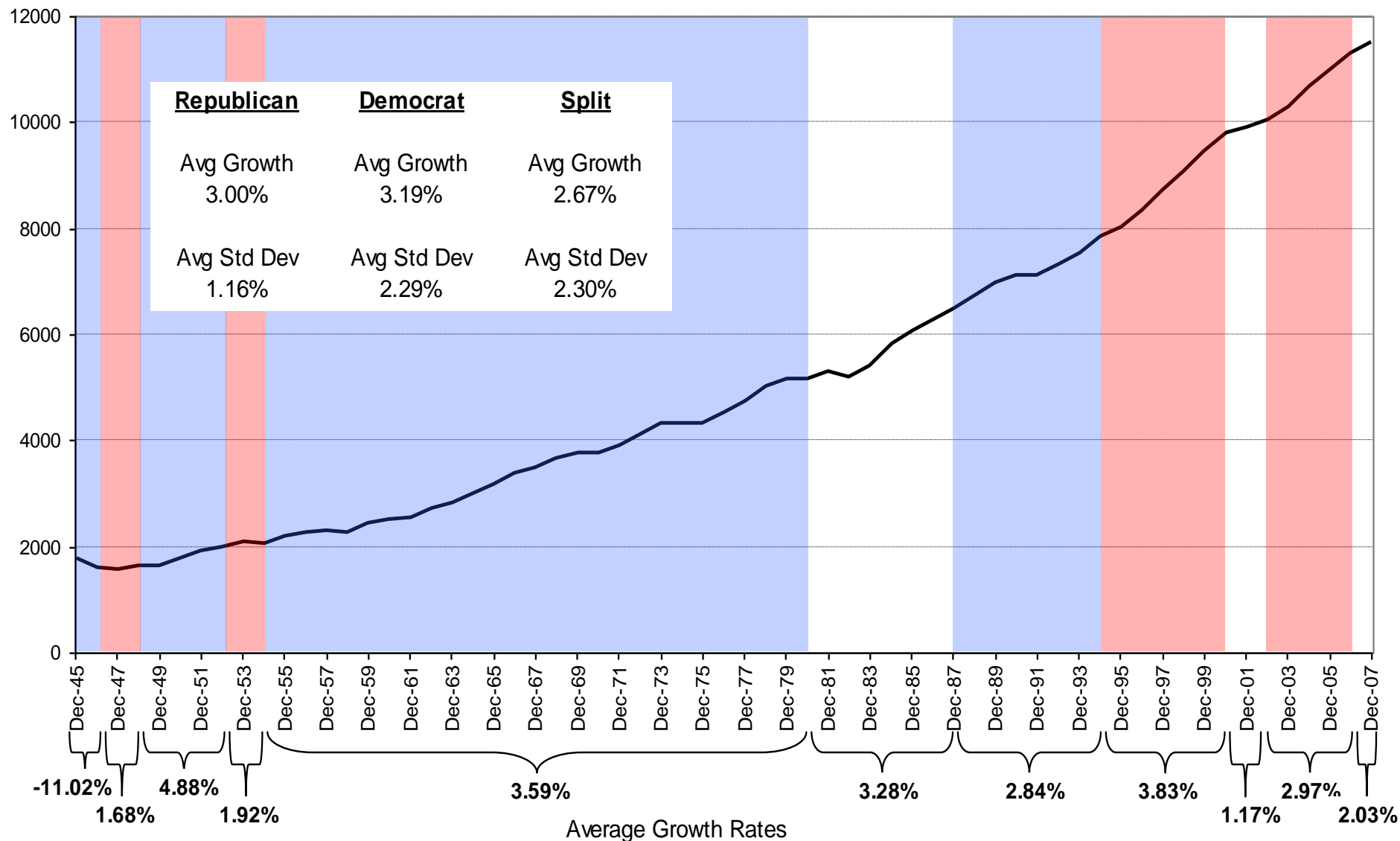
There is a clear indication that the stock market performs better under Republican legislative leadership...

S&P 500 Index - Legislative Control



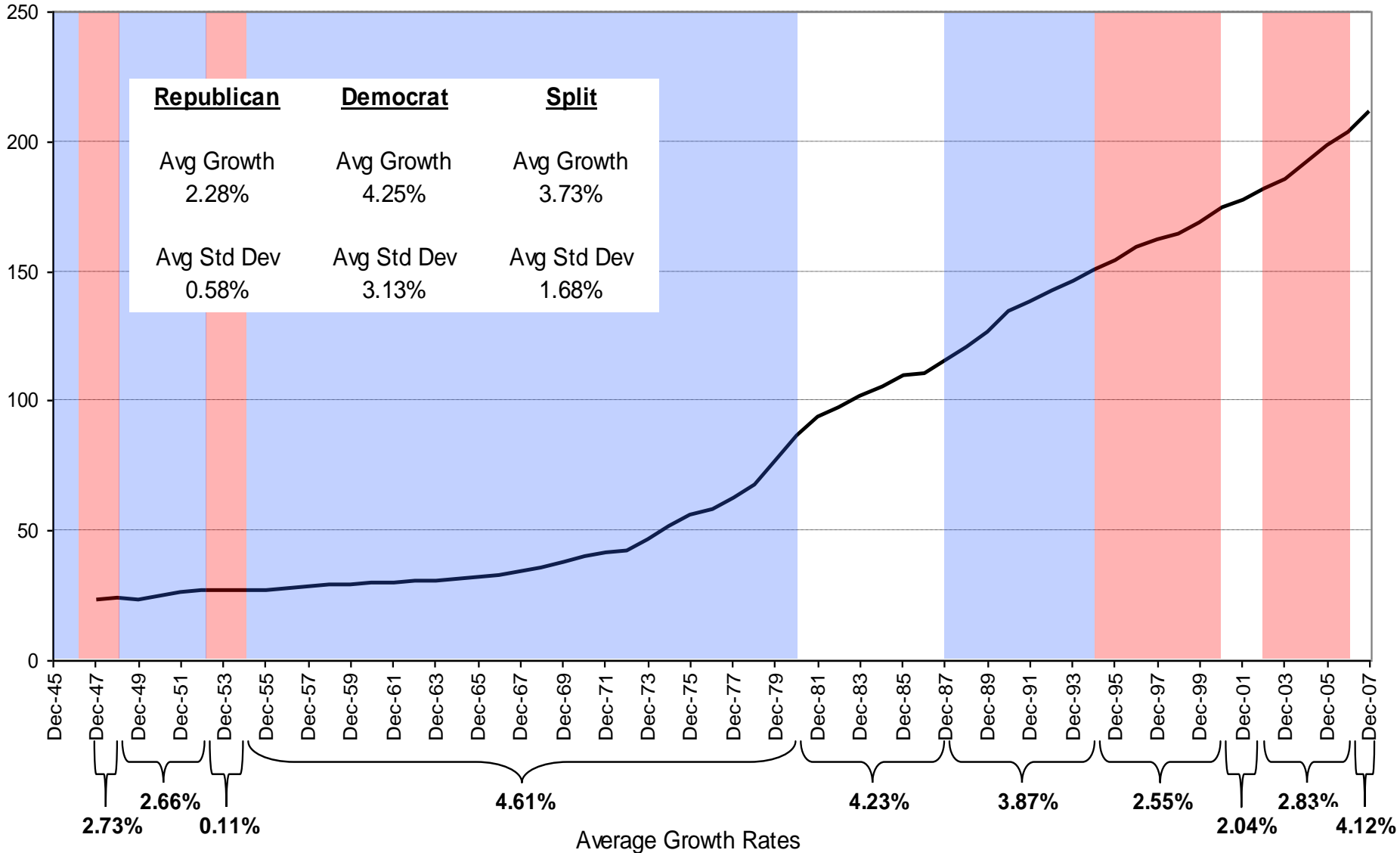
Nearly a push here, but growth has been steadier under Republican leadership...

Gross Domestic Product - Legislative Control



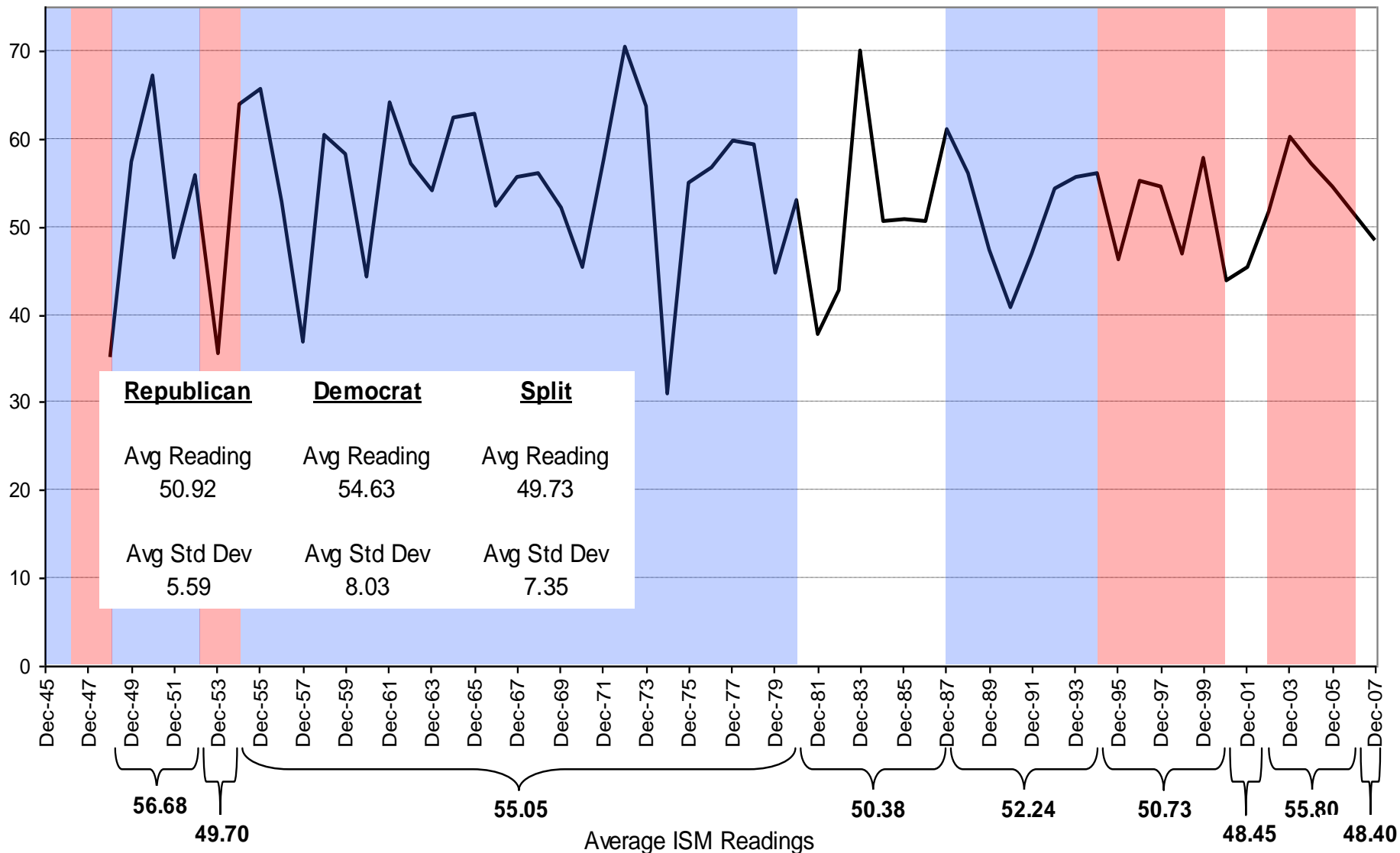
However, Inflation clearly rises faster under the Dems...

Headline Inflation - Legislative Control



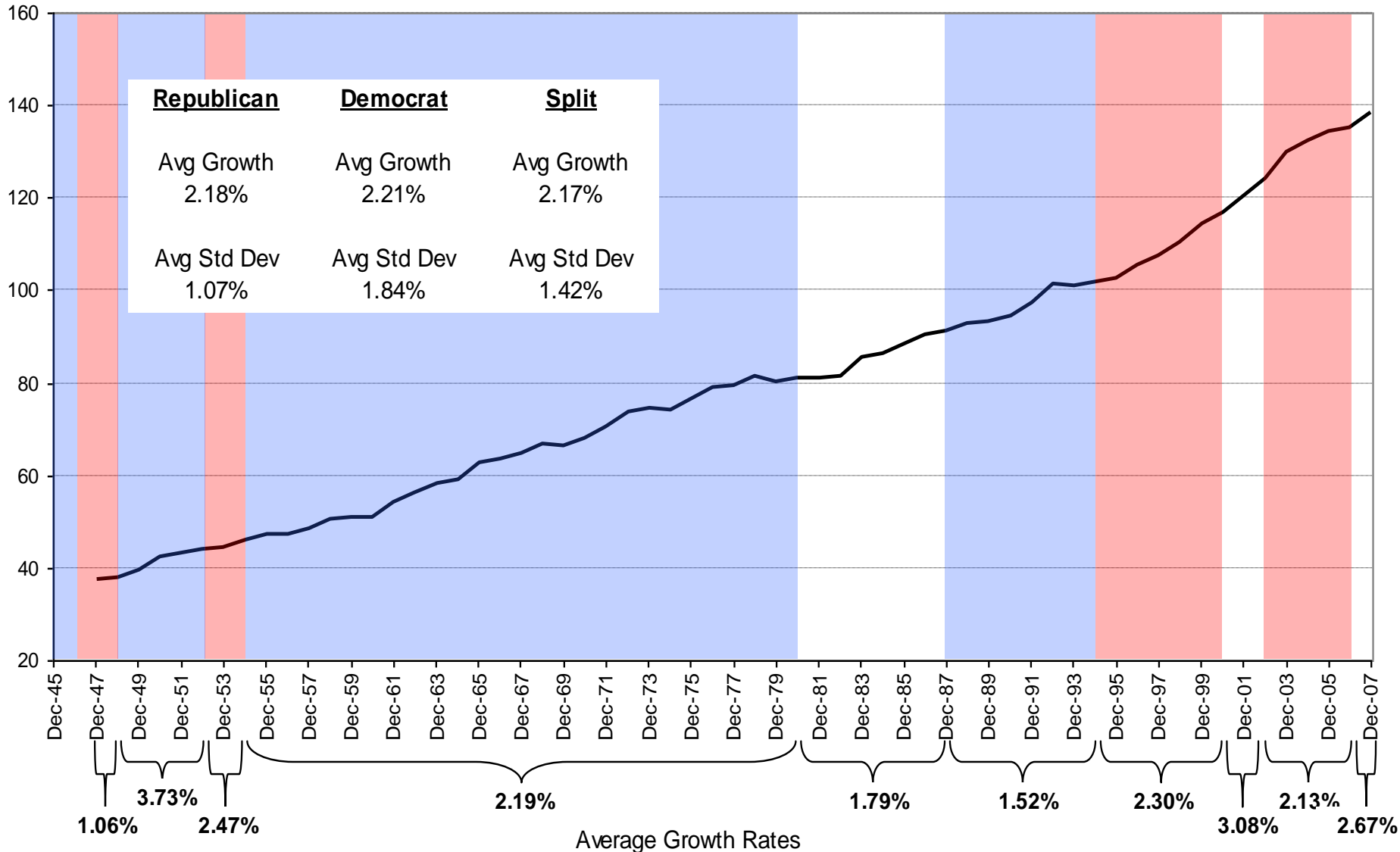
Manufacturing reports a higher rate of expansion under Democratic legislative control...

ISM Manufacturing - Legislative Control



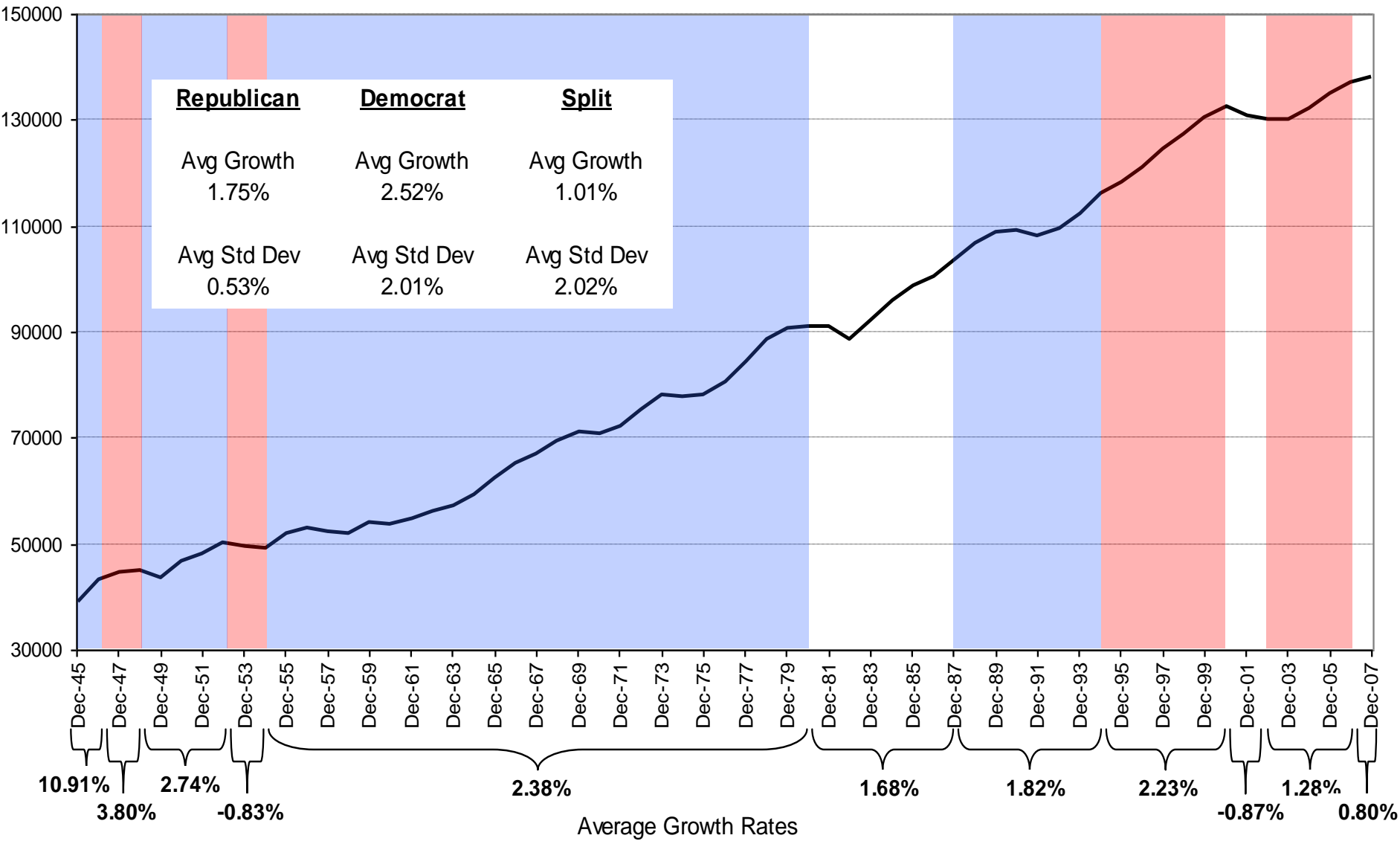
Same as the Presidential study, the economy steadily increases its productivity regardless of who is in charge...

Productivity - Legislative Control



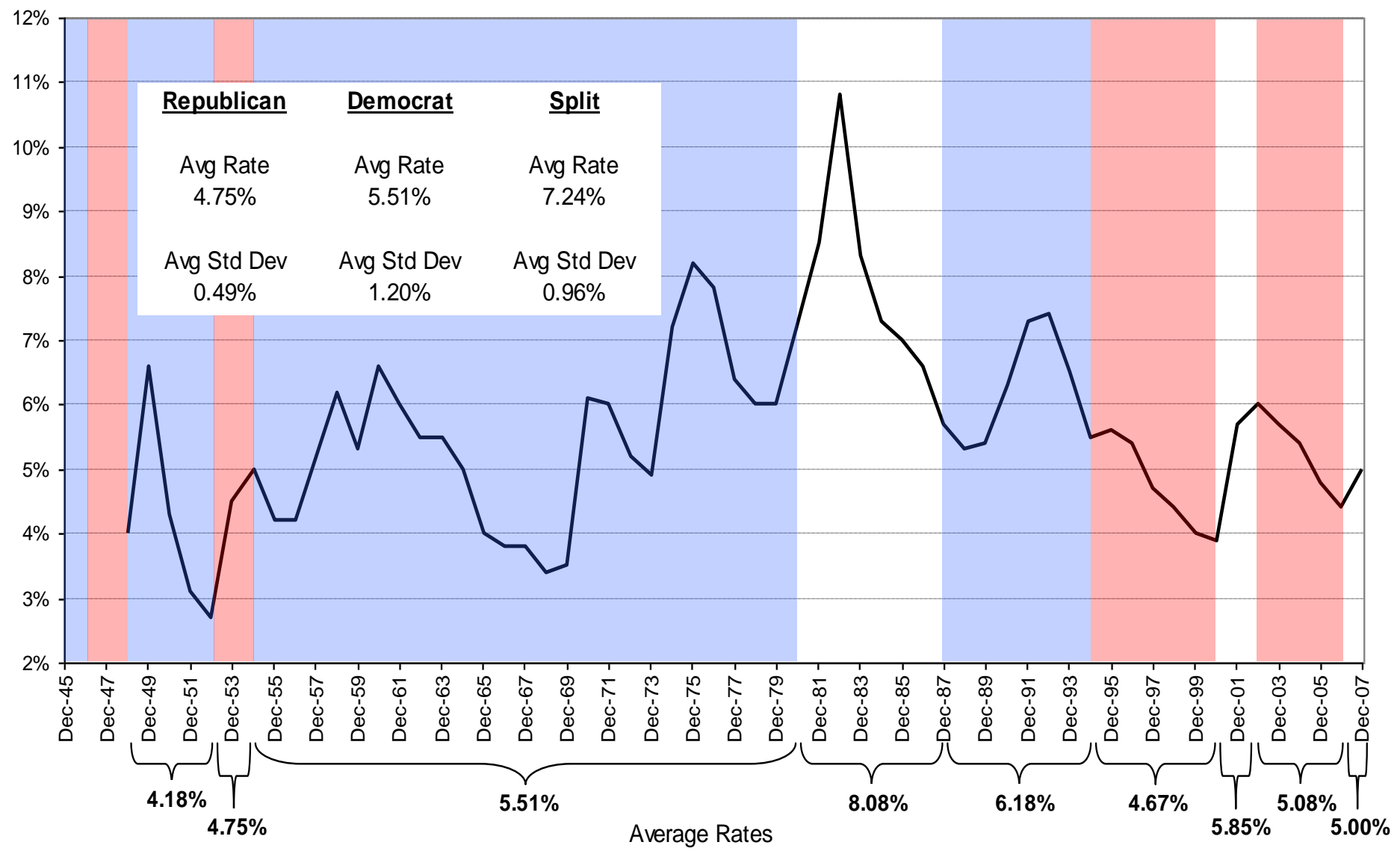
As under executive leadership, an edge to the Dems here. While posting a lower rate, the volatility under Republicans is much lower. Notice a trend when the congressional houses are split?

Nonfarm Payrolls - Legislative Control



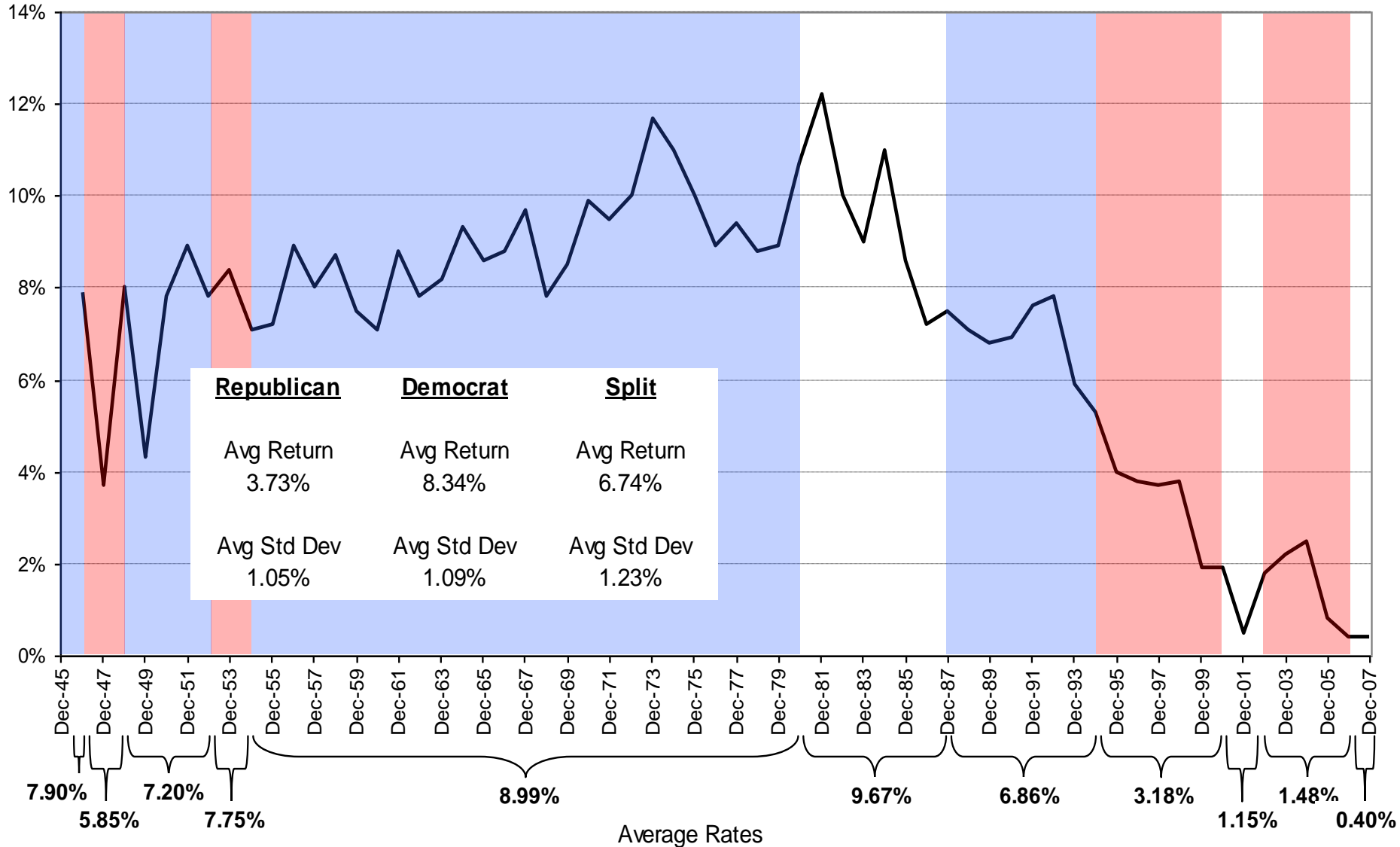
While the number of jobs grows faster under Dems, the Unemployment rate is higher, though it is highest when the houses are split...

Unemployment Rate - Legislative Control



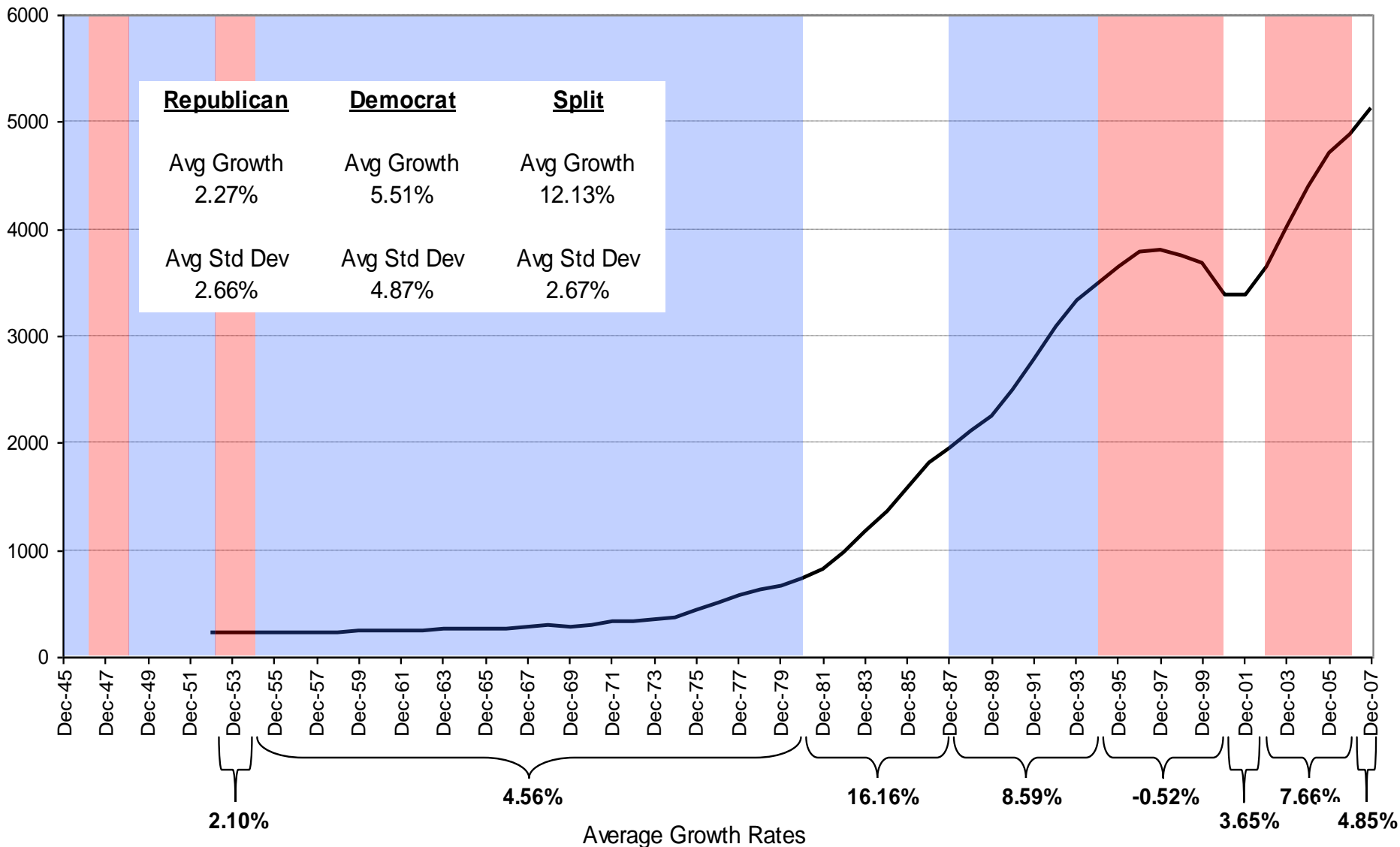
The high savings rates between 1954-1980 skews the data in favor of the Democrats...

Savings Rate - Legislative Control



Clearly, the National Debt rises faster under Democratic control, but the fastest increase was when the houses were split, particularly near the end of the Cold War...

Federal Debt Outstanding - Legislative Control



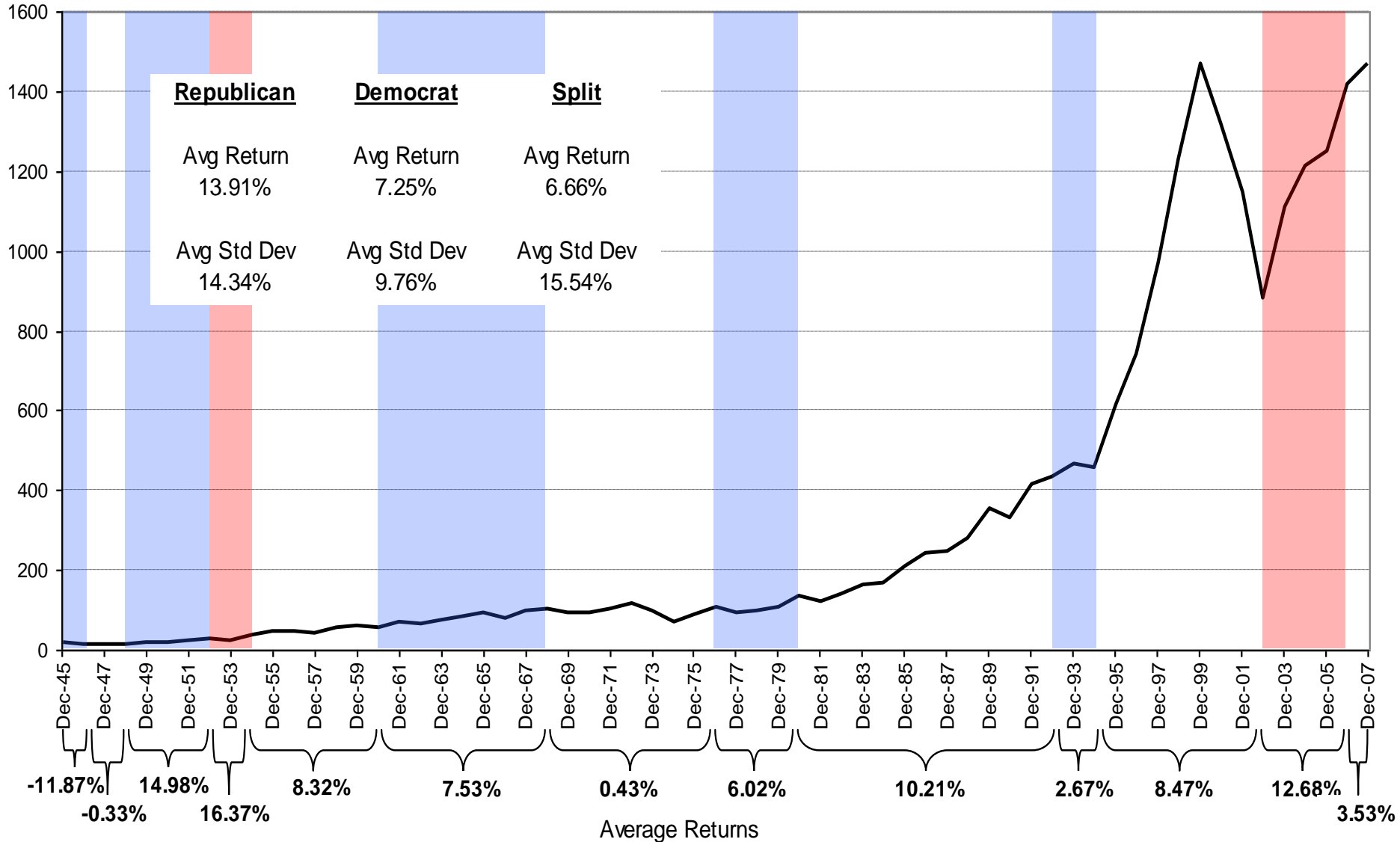
Legislative Leadership Summary

	Republican		Democrat		Split
Stock Market	<input checked="" type="checkbox"/>				
GDP			<input checked="" type="checkbox"/>		
Inflation	<input checked="" type="checkbox"/>				
Manufacturing			<input checked="" type="checkbox"/>		
Productivity					
Payrolls			<input checked="" type="checkbox"/>		
Unemployment Rate	<input checked="" type="checkbox"/>				
Federal Debt	<input checked="" type="checkbox"/>				

Combined Leadership

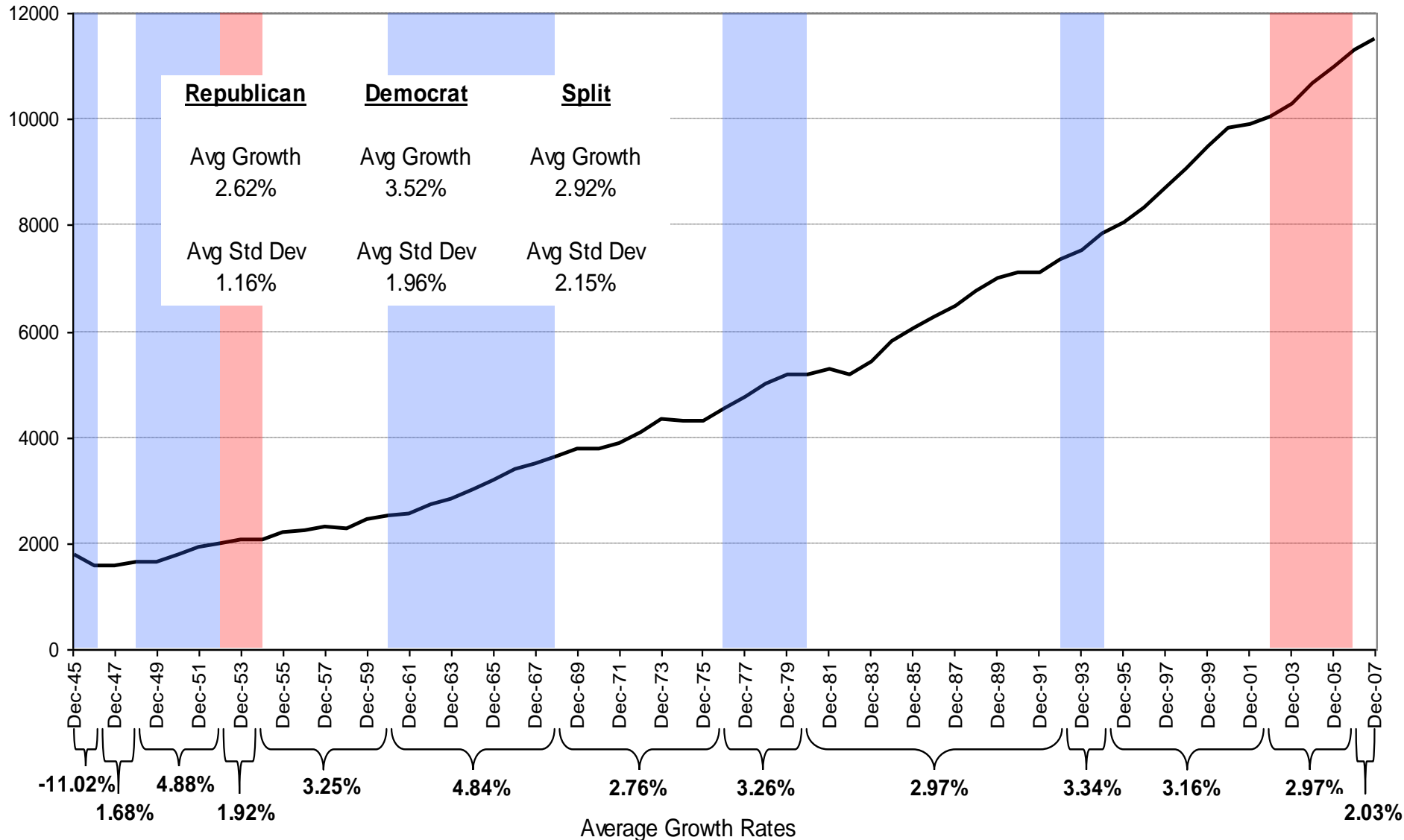
As with the legislative study, there is a clear market advantage when Republicans control both branches. The worst risk/return trade-off comes when opposing parties control each branch...

S&P500 Index - Executive & Legislative Control



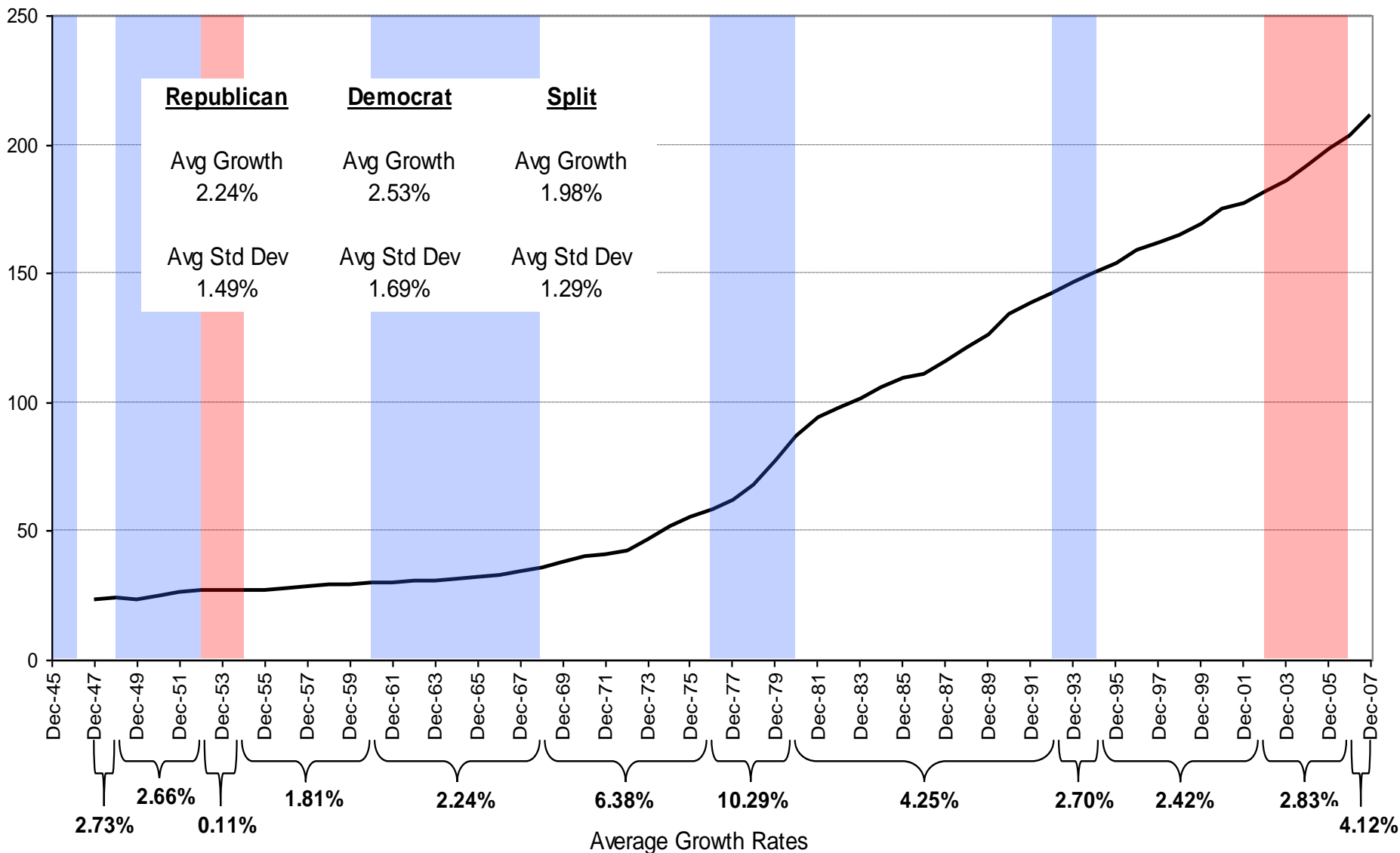
Democrats hold the advantage on economic output. The best periods were during the Truman and the Kennedy/Johnson administrations...

Gross Domestic Product - Executive & Legislative Control



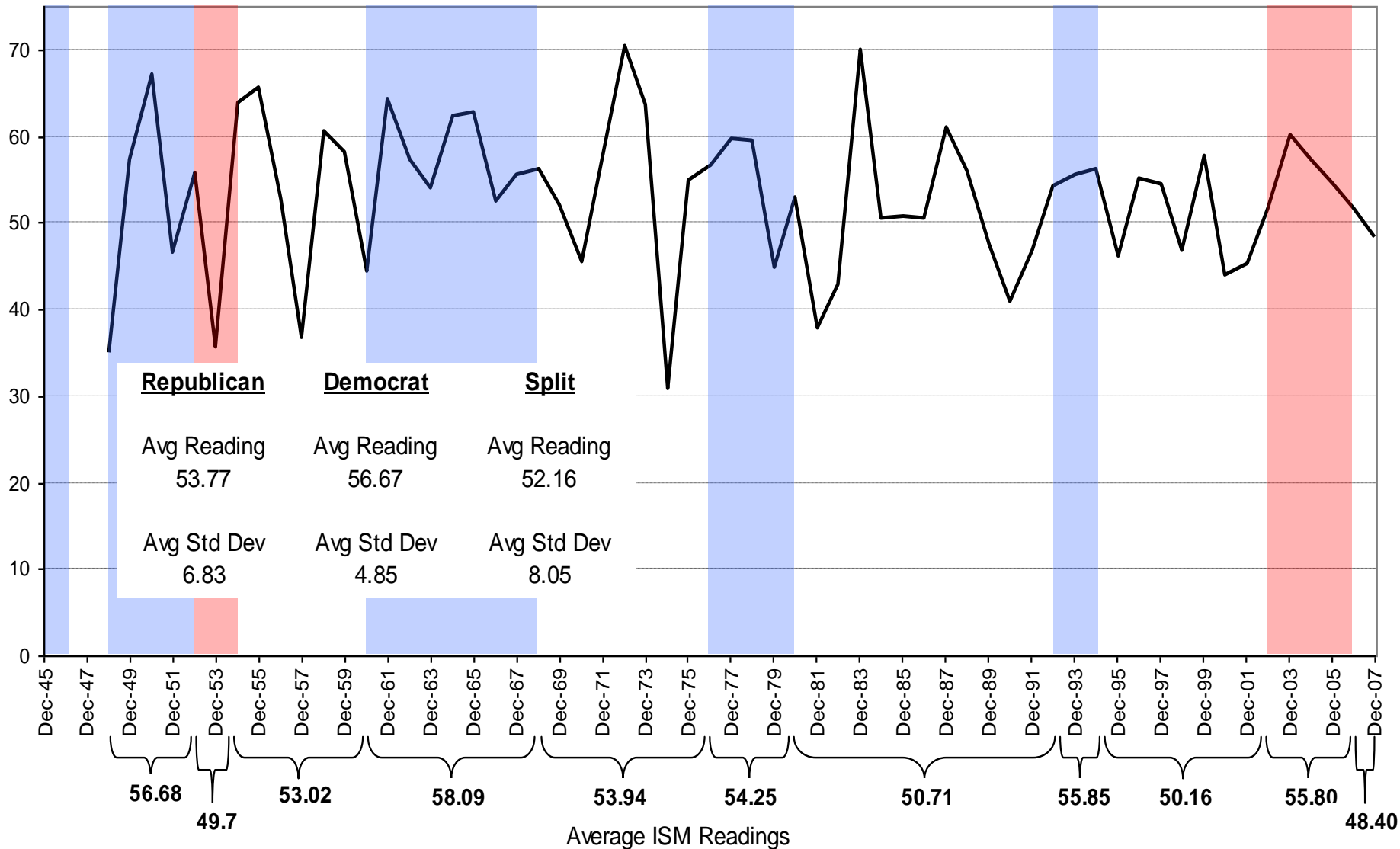
This is the first indicator we've seen that shows "Gridlock is good". Inflation rose the slowest during split control periods...

Headline Inflation - Executive & Legislative Control



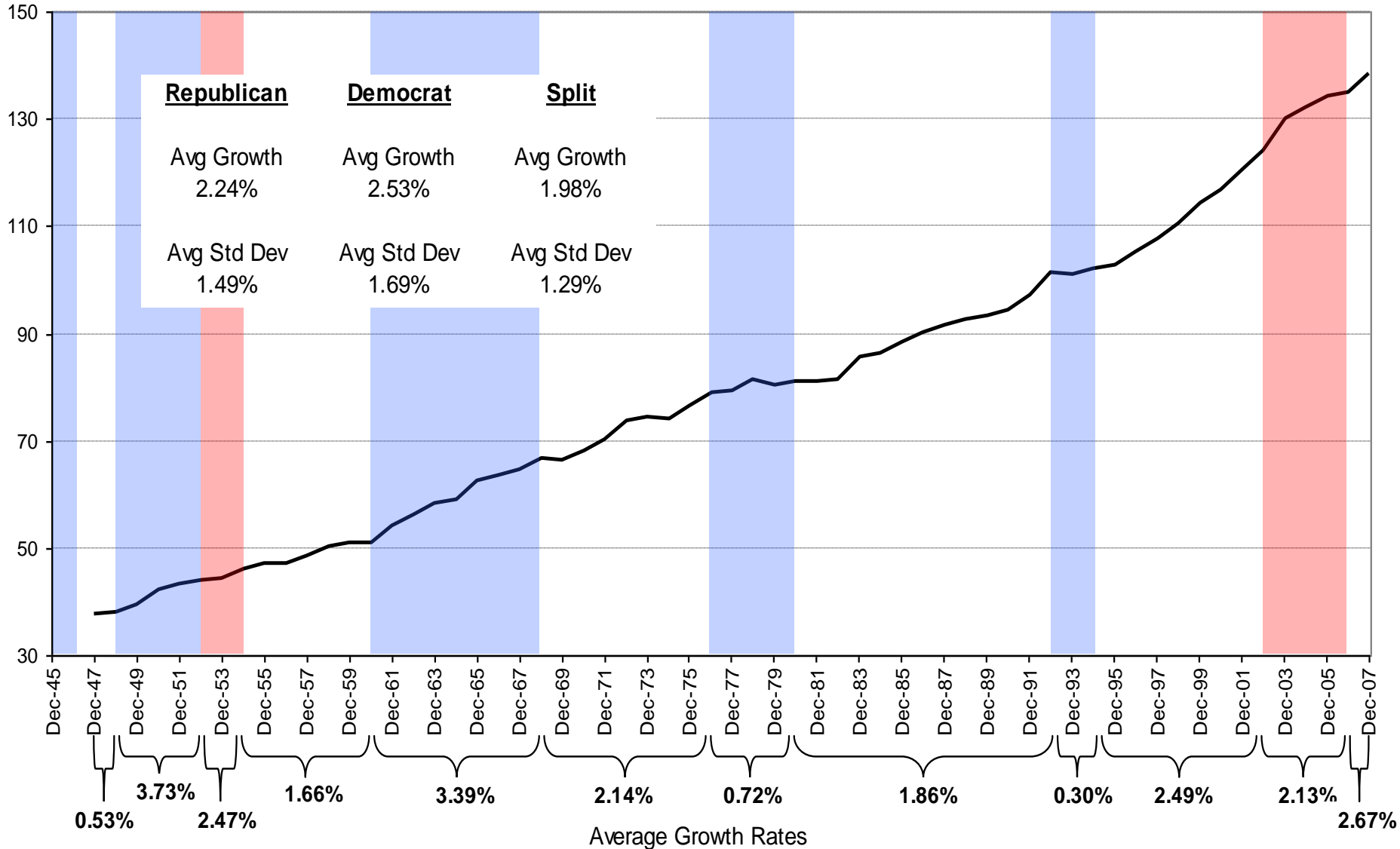
Manufacturing firms report greater expansion under Democratic leadership...

ISM Manufacturing - Executive & Legislative Control



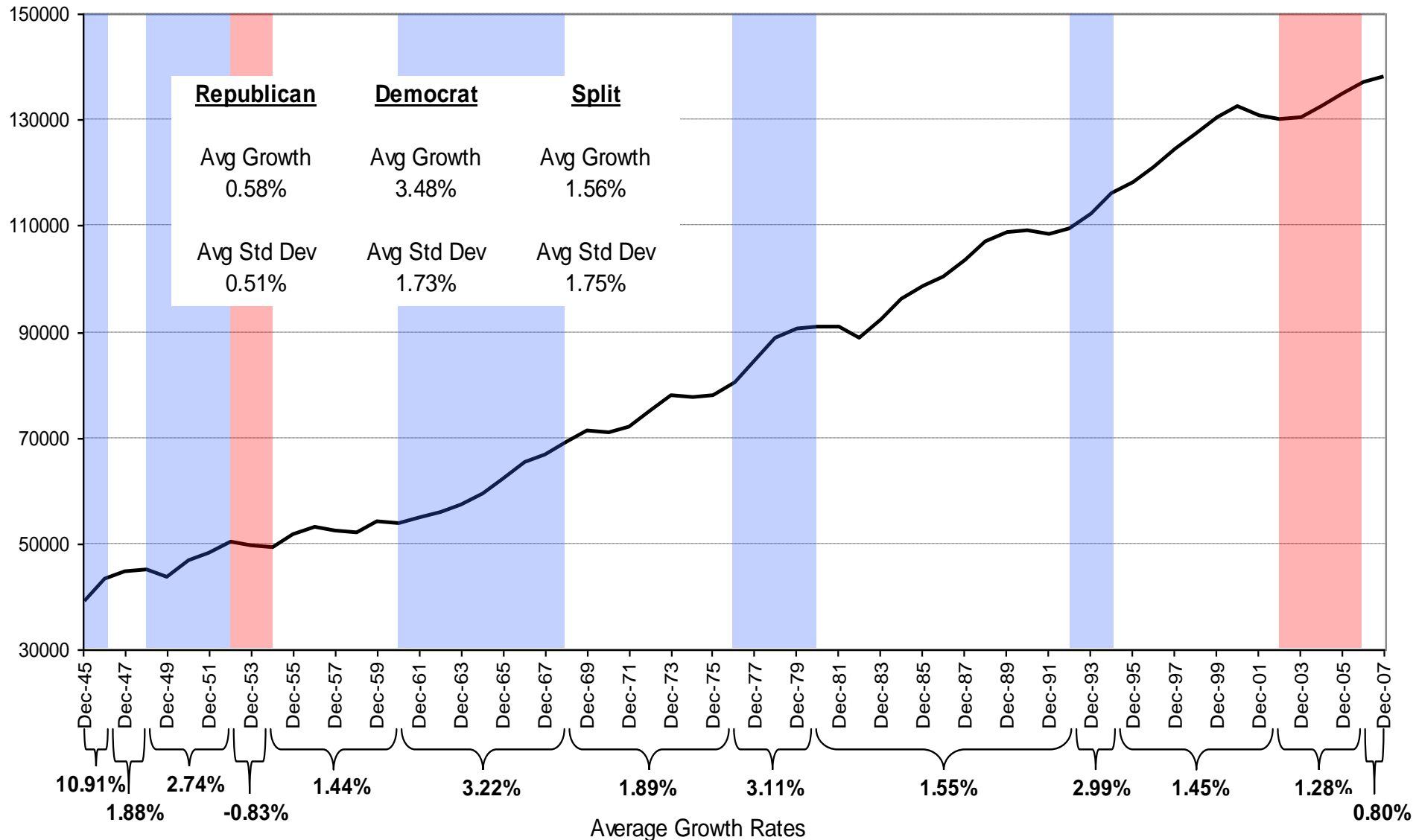
Businesses have also posted slightly better productivity under Dems...

Productivity - Executive & Legislative Control



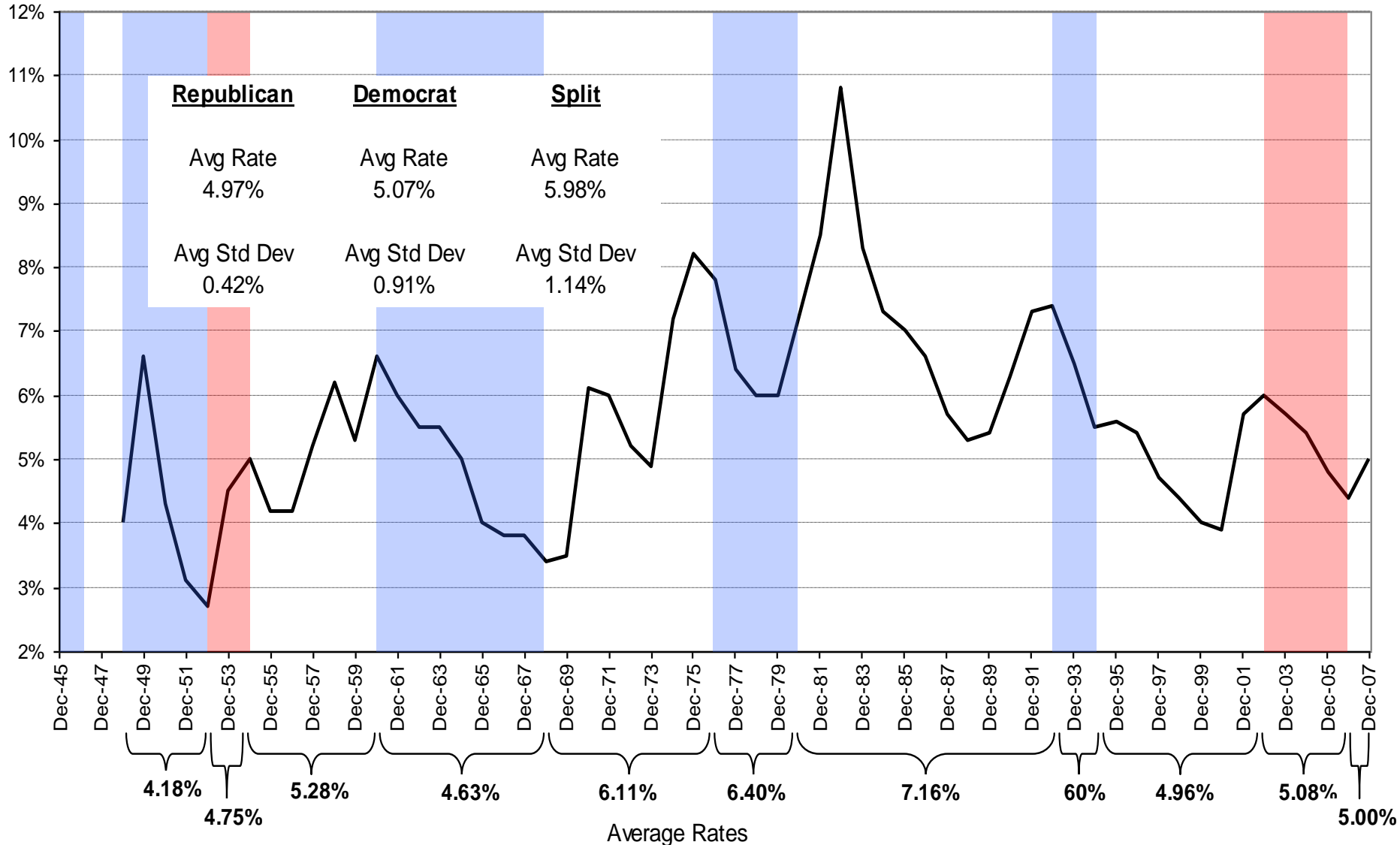
The largest gains in jobs come under Democratic leadership. Increased government spending may be a factor...

NonFarm Payrolls - Executive & Legislative Control



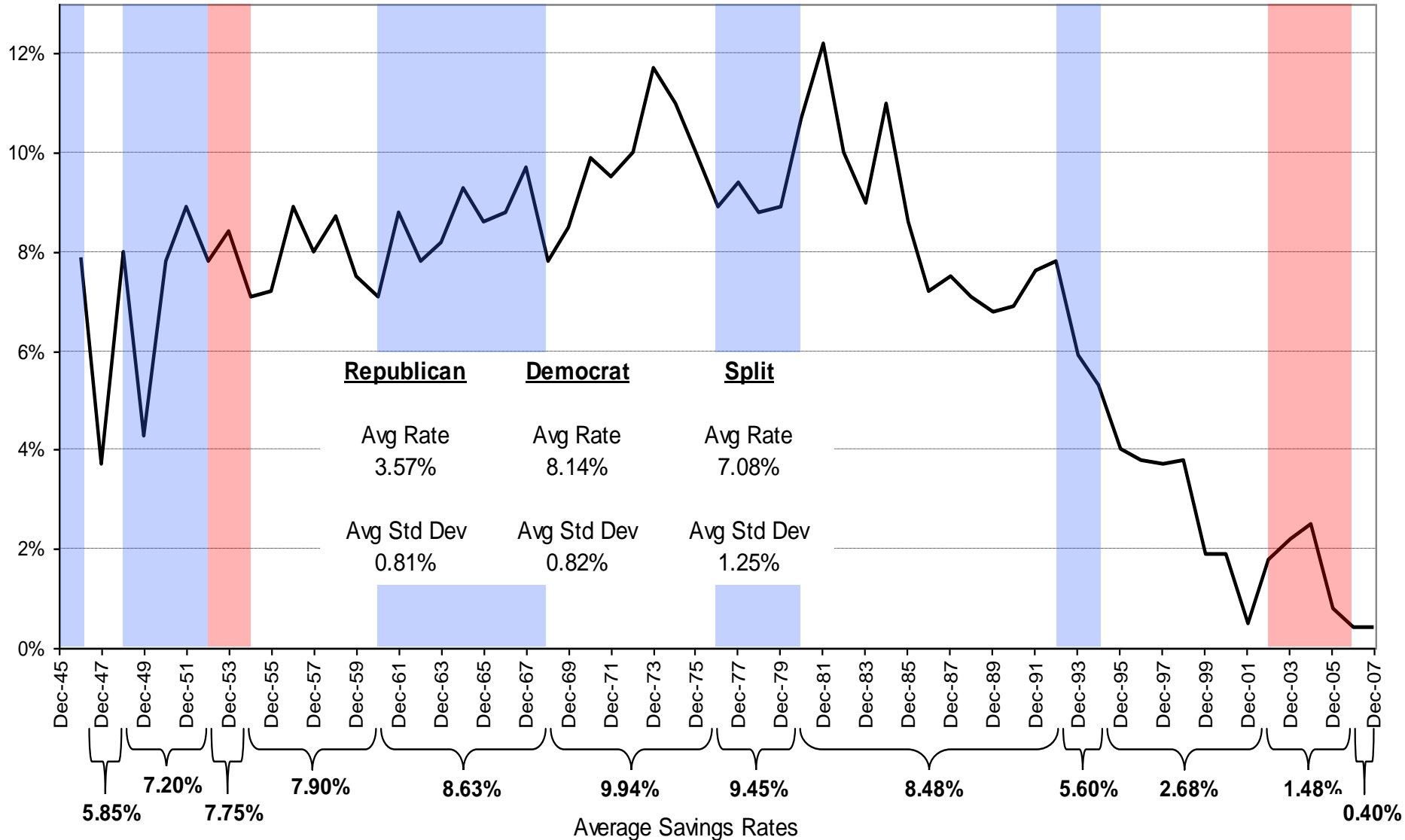
Democrats and Republicans perform identically, but what's surprising is to see that in every split control period the Unemployment Rate rose...

Unemployment Rate - Executive & Legislative Control



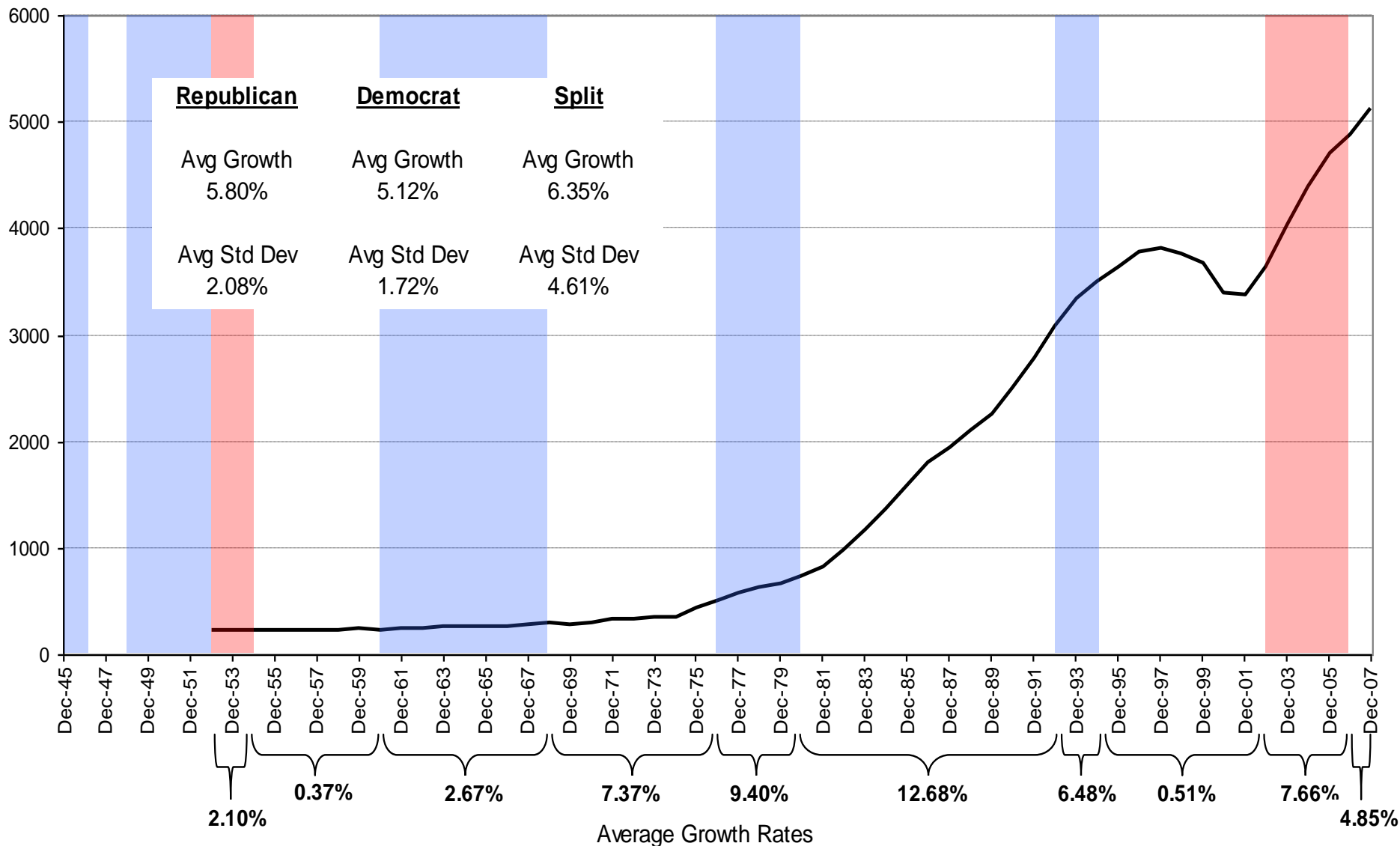
As mentioned before, the high savings rates between 1954-1980 skews the data in favor of the Democrats...

Savings Rate - Executive & Legislative Control



It's surprising to see that the Federal Debt expands the least under Democratic leadership. The largest rise was during the 80's and the arms race with the Soviet Union...

Federal Debt Outstanding - Executive & Legislative Control



Combined Leadership Summary

	Republican		Democrat		Split
Stock Market	<input checked="" type="checkbox"/>				
GDP			<input checked="" type="checkbox"/>		
Inflation					<input checked="" type="checkbox"/>
Manufacturing			<input checked="" type="checkbox"/>		
Productivity			<input checked="" type="checkbox"/>		
Payrolls			<input checked="" type="checkbox"/>		
Unemployment Rate	<input checked="" type="checkbox"/>				
Federal Debt			<input checked="" type="checkbox"/>		

Conclusions

- **Gridlock is not good.** There is only one indicator, under all of the leadership scenarios, where split control between Republicans and Democrats produced the best result. Split control periods consistently produced the worst results.
- The U. S. stock market tends to favor Republican leadership
- Democratic leadership produces the highest rates of production, manufacturing expansion, and job growth
- Republican leadership produces the lowest rates of inflation and unemployment