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Research

The midterm elections and implications for the US economic outlook

Brett Ryan, Matthew Luzzetti, Amy Yang,
Justin Weidner,
Senior Economist
(+1) 212 250 6294
brett.ryan@db.com

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 051/04/2021. UNTIL 19th MARCH 2021 INCOMPLETE DISCLOSURE INFORMATION MAY HAVE BEEN DISPLAYED, PLEASE SEE APPENDIX 1 FOR FURTHER DETAILS.

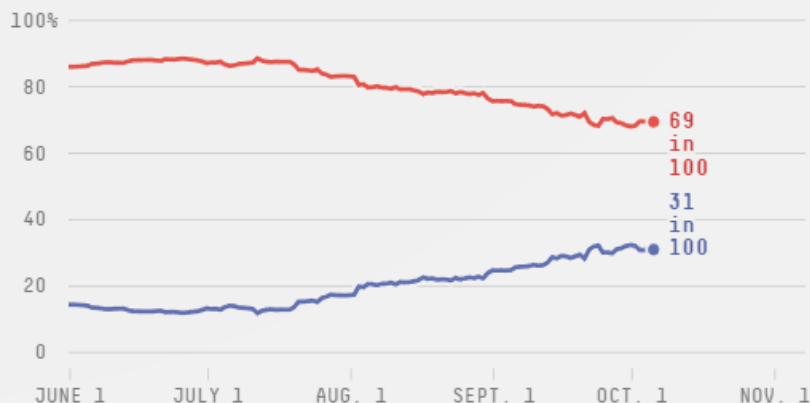


Since our last preview, the GOP advantage in the House has narrowed slightly. Democrats are now slightly favored to win the Senate.

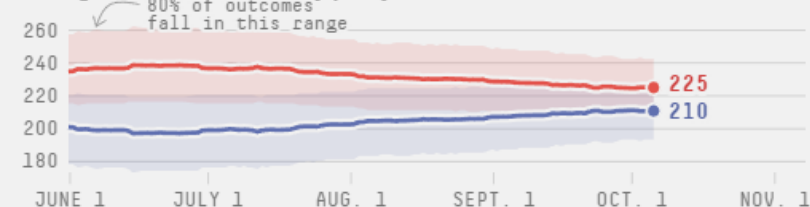
How the House forecast has changed

See how each party's forecasted seat total and chances of controlling the House have changed over time. The forecast updates at least once a day and whenever we get a new poll.

Chances of controlling the House



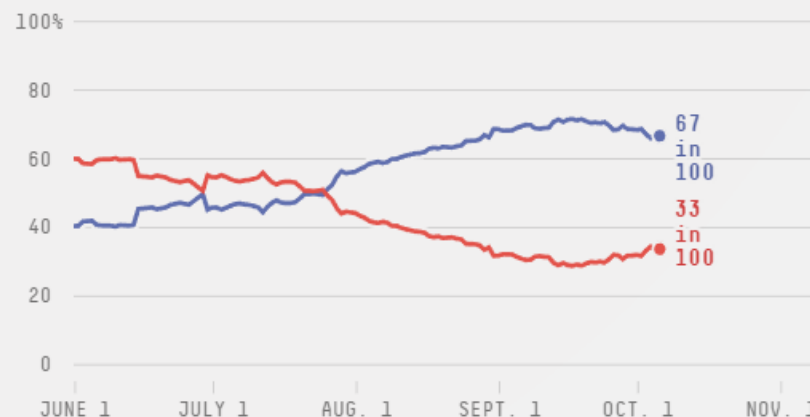
Average seats controlled by party



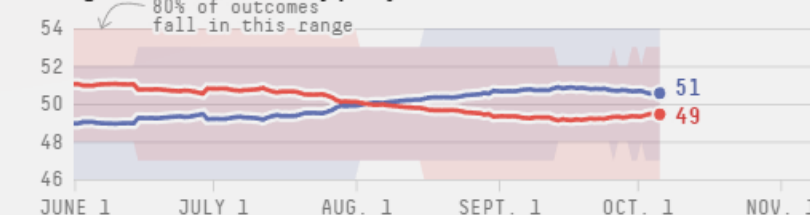
How the Senate forecast has changed

See how each party's forecasted seat total and chances of controlling the Senate have changed over time. The forecast updates at least once a day and whenever we get a new poll.

Chances of controlling the Senate



Average seats controlled by party



Source: FiveThirtyEight, Deutsche Bank



Potential outcomes: Fiscal and regulatory policies are unlikely to change near term under the two most likely scenarios.

Republican House / Democratic Senate < 60 seat majority

- Most likely scenario
- Total gridlock with no new legislation likely passing ahead of 2024 election
- Possible fiscal showdown if Republicans weaponize the debt ceiling – i.e. if Biden signs an executive order forgiving student debt

Republican House / Republican Senate < 60 seat majority

- Next most likely scenario
- Gridlock on most issues as Biden would block most extreme GOP efforts
- Possible for agreements to be reached on increases to defense spending

The expiration of Trump tax cuts will be a huge issue for the 2024 election cycle

Budgetary Effects of Selected Alternative Tax Assumptions About Future Revenue Policies Related to the 2017 Tax Act

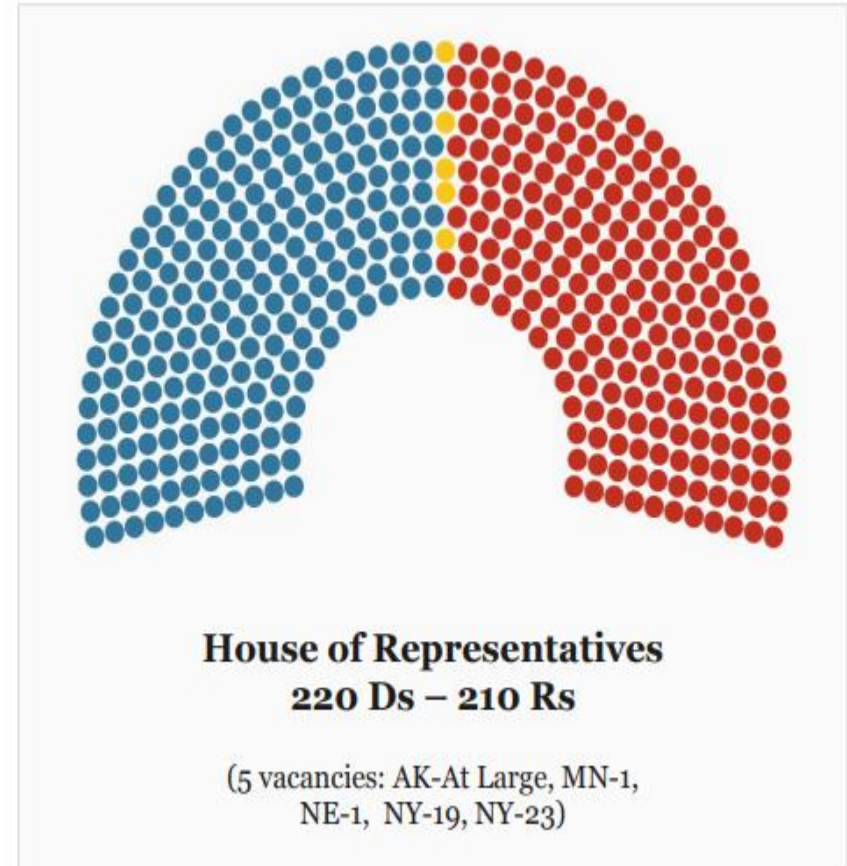
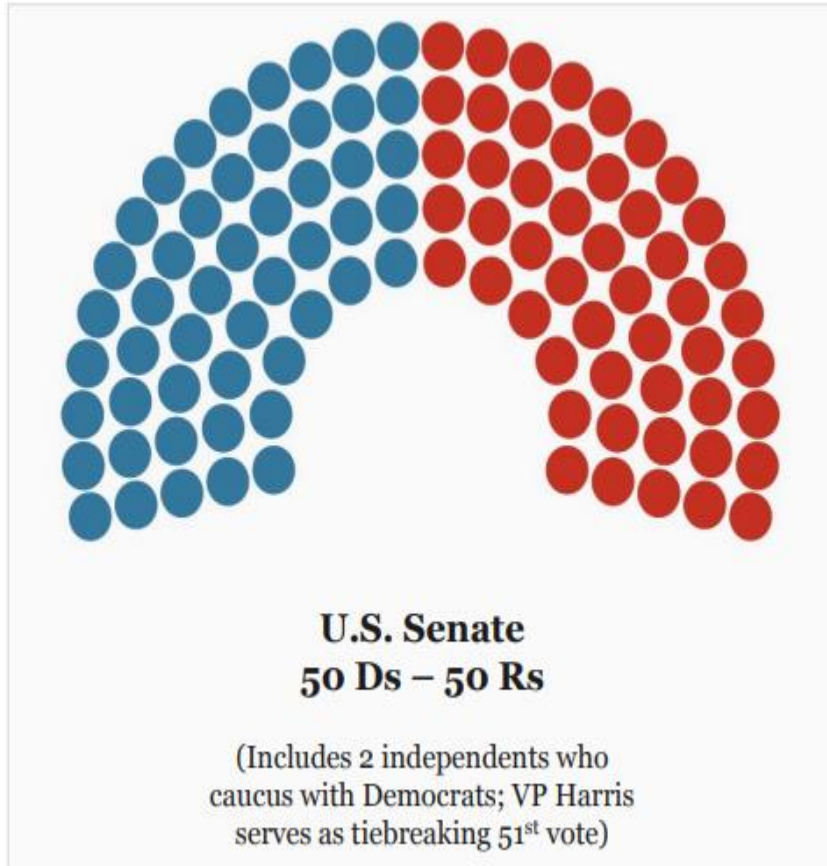
Billions of Dollars

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total	
												2023–2027	2023–2032
Extend the 2017 Tax Act's Changes to Individual Income Tax Provisions^a													
Increase (-) in the deficit, excluding debt service	0	*	*	-6	-167	-301	-295	-307	-317	-328	-342	-474	-2,064
Debt-service costs	0	*	*	*	-3	-9	-18	-27	-37	-48	-59	-12	-201
Extend Higher Estate and Gift Tax Exemptions^b													
Increase (-) in the deficit, excluding debt service	0	0	*	-1	-2	-13	-15	-16	-17	-18	-20	-16	-102
Debt-service costs	0	0	*	*	*	*	-1	-1	-2	-2	-3	*	-9
Extend the 2017 Tax Act's Changes to the Tax Treatment of Investment Costs^c													
Increase (-) in the deficit, excluding debt service	0	-61	-46	-48	-48	-49	-44	-34	-28	-24	-21	-253	-404
Debt-service costs	0	-1	-2	-3	-5	-6	-8	-9	-11	-12	-13	-18	-70
Maintain Certain Business Tax Provisions Altered by the 2017 Tax Act^d													
Increase (-) in the deficit, excluding debt service	0	0	0	0	-10	-18	-19	-19	-19	-20	-20	-28	-125
Debt-service costs	0	0	0	0	*	-1	-1	-2	-2	-3	-4	-1	-12

Source: CBO, Deutsche Bank



Democrats currently have slim majorities in the House and Senate.



Source: Wikipedia, Deutsche Bank



Historically, the party of the President suffers at the midterms

-Since 1942, midterm elections have resulted in an average loss of 27 seats in the House and 4 seats in the Senate by the party occupying the White House

-1998 and 2002 are outliers: In 1998, Democrats gained 5 seats in the House and lost 0 seats in the Senate despite occupying the White House. In 2002, Republicans gained 8 seats in the House and gained 1 seat in the Senate

Year	Party holding presidency	President's party gain/loss of seats in House	President's party gain/loss of seats in Senate
1942	D	-44	-9
1946	D	-55	-12
1950	D	-28	-5
1954	R	-18	-1
1958	R	-48	-12
1962	D	-4	2
1966	D	-48	-4
1970	R	-12	1
1974	R	-48	-4
1978	D	-15	-3
1982	R	-26	1
1986	R	-5	-8
1990	R	-8	-1
1994	D	-54	-8
1998	D	5	0
2002	R	8	1
2006	R	-30	-6
2010	D	-63	-6
2014	D	-13	-9
2018	R	-41	2

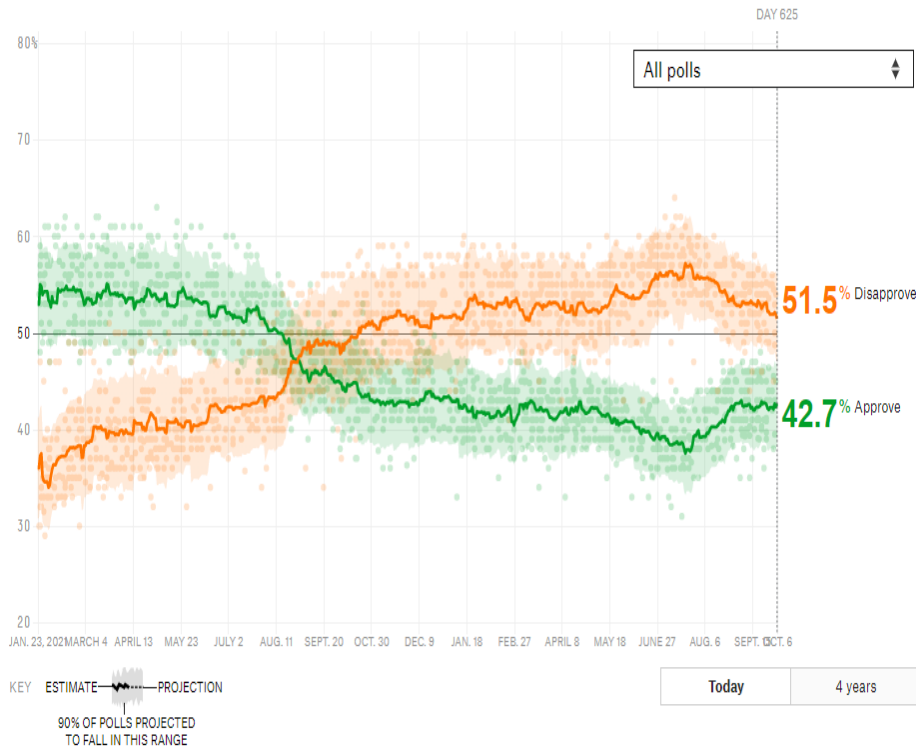
Source: Brookings Institute, Deutsche Bank



Biden's approval rating is on par with Trump, Carter and Reagan at this point in their Presidencies.

How unpopular is Joe Biden?

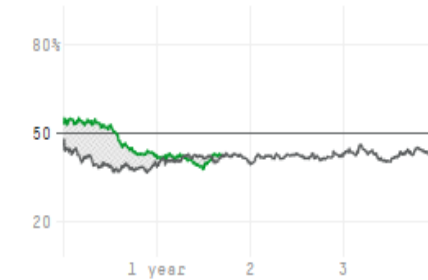
An updating calculation of the president's approval rating, accounting for each poll's quality, recency, sample size and partisan lean. [How this works »](#)



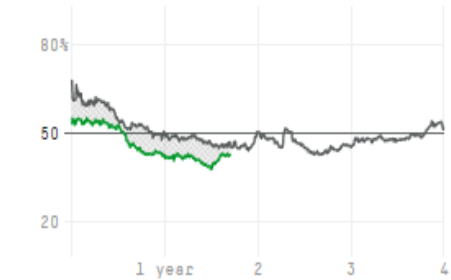
How Biden compares with past presidents

● Approval rating ○ Disapproval rating ○ Net approval

Donald Trump 2017-2021



Barack Obama 2009-17



Jimmy Carter 1977-81



Ronald Reagan 1981-89



Source: FiveThirtyEight, Deutsche Bank



Republicans only need to flip four seats to win the House. However, Republicans have more seats up for re-election in the Senate.

House

- Republicans must flip 4 seats currently held by Democrats to gain a majority *
- House members not seeking re-election: 38 Democrats, 27 Republicans

Senate

- 35 seats contested: 14 Democrat-controlled, 21 Republican-controlled **
- Senate members not seeking re-election: 1 Democrat, 6 Republican

* Assumes party advantages for vacant seats/special elections

** Includes special election to finish Sen. Inhofe's (R-OK) term

Source: Deutsche Bank



Follow the money: The two parties have raised a little nearly \$2.5bn combined. Dems have a slight advantage and slightly more on hand.

House

Financial activity for all House candidates, 2021 - 2022



Export to CSV

Party	No. of Cands	Total Raised	Total Spent	Total Cash on Hand	Total From PACs	Total From Individuals
All	3,110	\$1,414,257,658	\$1,034,596,146	\$783,721,792	\$255,302,692	\$976,441,097
Dems	1,304	\$702,972,117	\$485,853,892	\$466,157,050	\$133,705,473	\$514,607,311
Repubs	1,682	\$706,512,198	\$544,655,576	\$316,522,570	\$121,536,912	\$458,340,553

Democrats Republicans

Senate

Financial activity for all Senate candidates, 2021 - 2022



Export to CSV

Party	No. of Cands	Total Raised	Total Spent	Total Cash on Hand	Total From PACs	Total From Individuals
All	575	\$1,067,610,540	\$818,536,553	\$561,931,206	\$66,615,777	\$820,362,402
Dems	220	\$544,234,559	\$369,896,572	\$298,921,082	\$32,705,699	\$461,509,121
Repubs	298	\$504,406,121	\$433,895,106	\$251,303,036	\$33,843,786	\$341,374,707

Democrats Republicans

Source: OpenSecrets.Org, Deutsche Bank



Follow the money: Senate seats in battleground states tend to be where donors focus their efforts.

Senate races with the most money raised, all candidates

Cycle:

[Export to CSV](#)

Rank	Race	Total Raised
1	Pennsylvania Senate	\$87,373,548
2	Georgia Senate	\$86,963,032
3	Florida Senate	\$84,057,987
4	Arizona Senate	\$78,455,470
5	Ohio Senate	\$73,939,034
6	Wisconsin Senate	\$46,180,938
7	South Carolina Senate	\$44,460,533
8	New York Senate	\$38,984,927
9	New Hampshire Senate	\$36,632,221
10	Nevada Senate	\$36,528,098

Senate races with the most money spent, all candidates

Cycle:

[Export to CSV](#)

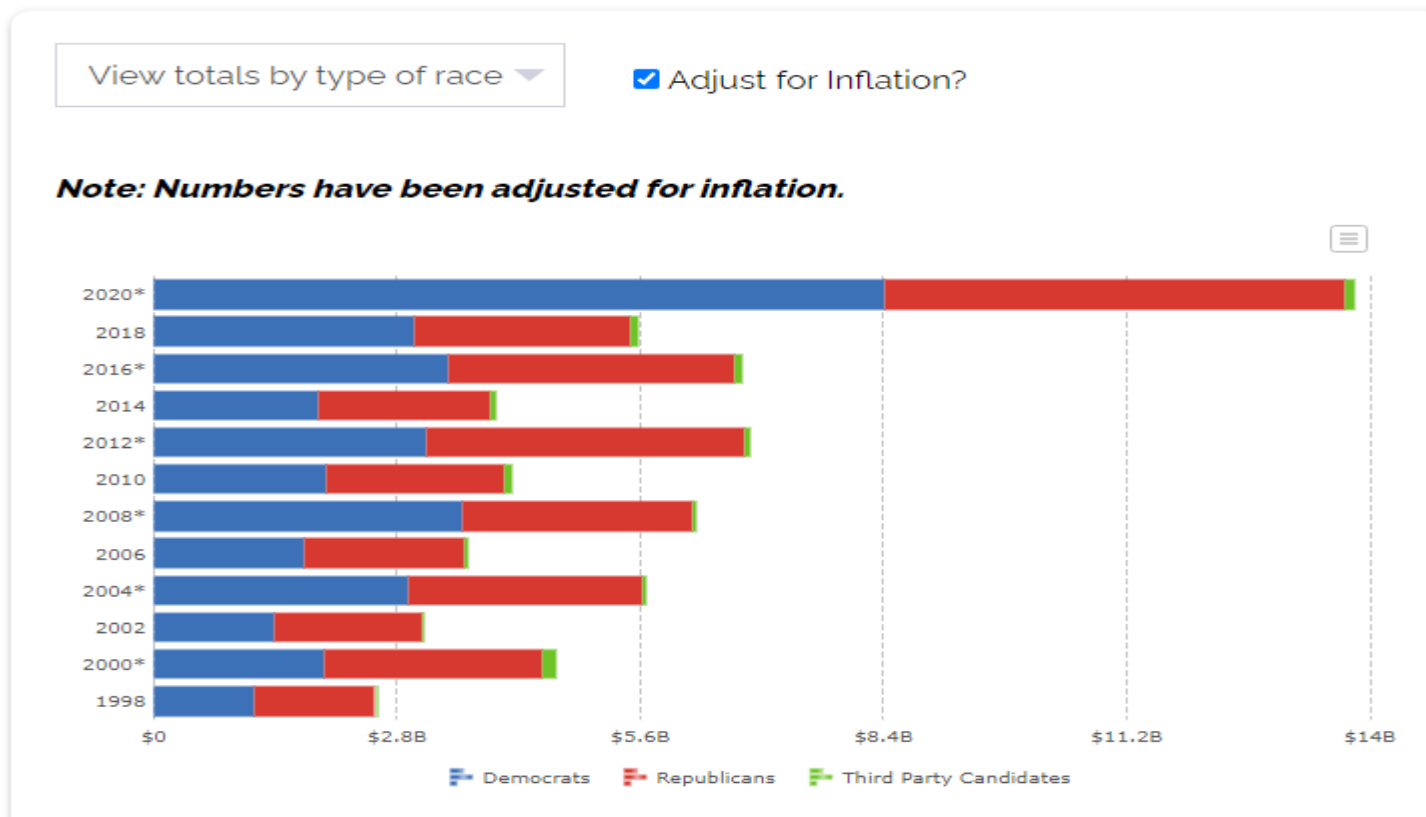
Rank	Race	Total Spent
1	Pennsylvania Senate	\$80,801,413
2	Ohio Senate	\$73,670,754
3	Florida Senate	\$61,091,408
4	Georgia Senate	\$60,959,684
5	Arizona Senate	\$52,105,160
6	Wisconsin Senate	\$41,102,119
7	New Hampshire Senate	\$27,816,994
8	North Carolina Senate	\$25,637,352
9	Nevada Senate	\$24,738,166
10	South Carolina Senate	\$23,536,603

Source: OpenSecrets.Org, Deutsche Bank



Follow the money: Political campaigns are getting more expensive - the 2020 election cost a staggering \$14.4bn.

Total Cost of Election (1990-2020)



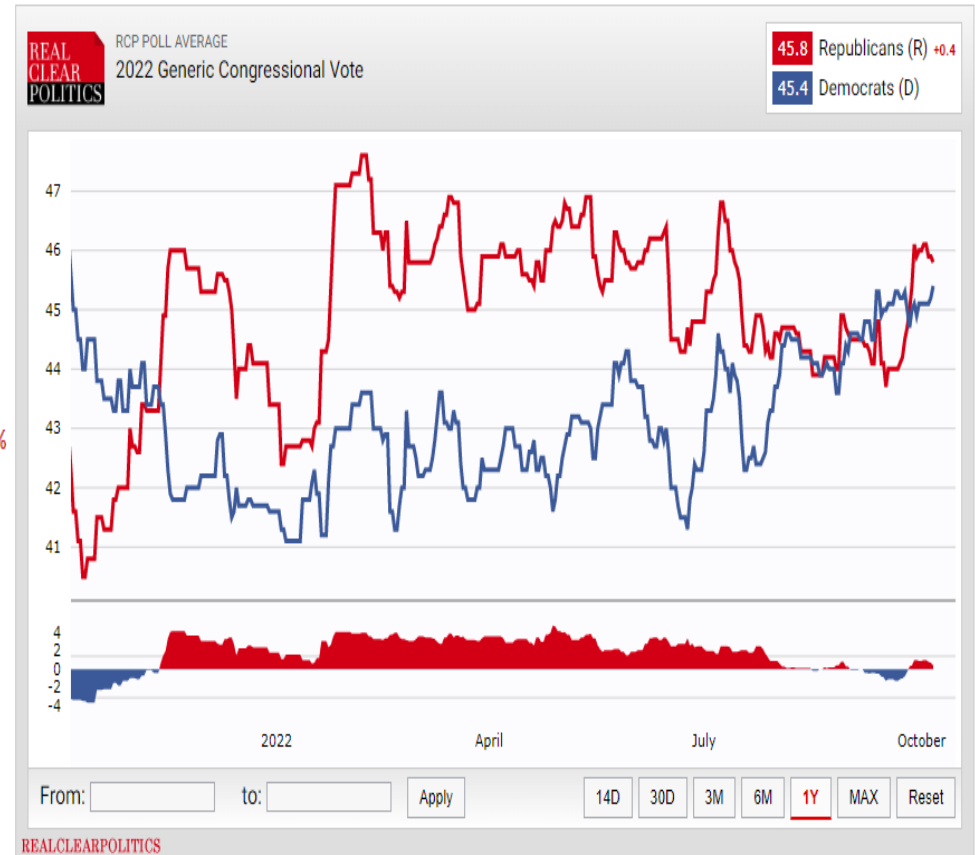
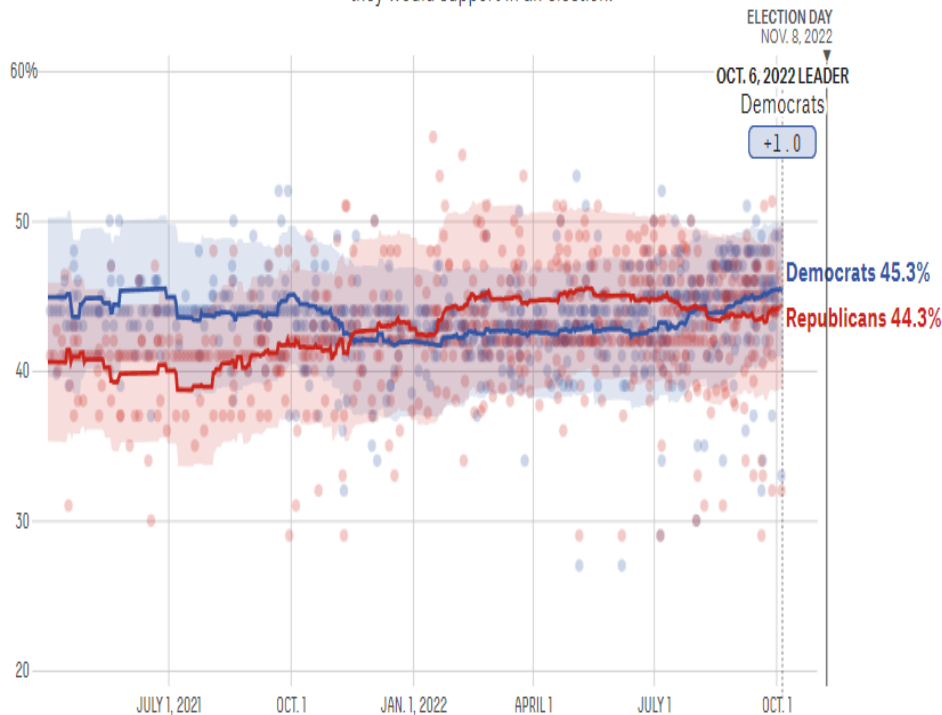
Source: OpenSecrets.Org, Deutsche Bank



Democrats have recovered recently in the generic ballot and the two parties are essentially even.

Do voters want Republicans or Democrats in Congress?

An updating estimate of the generic congressional ballot, based on polls that ask people which party they would support in an election.



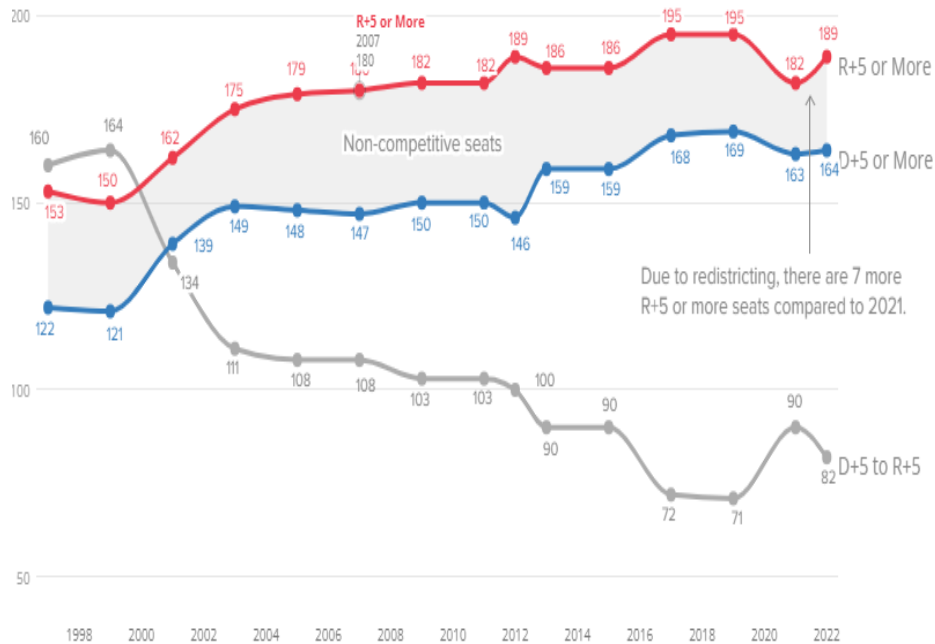
Source: FiveThirtyEight, Real Clear Politics, Deutsche Bank



Redistricting has given Republicans a greater advantage in the House. “Hyper-competitive” seats are at a record low.

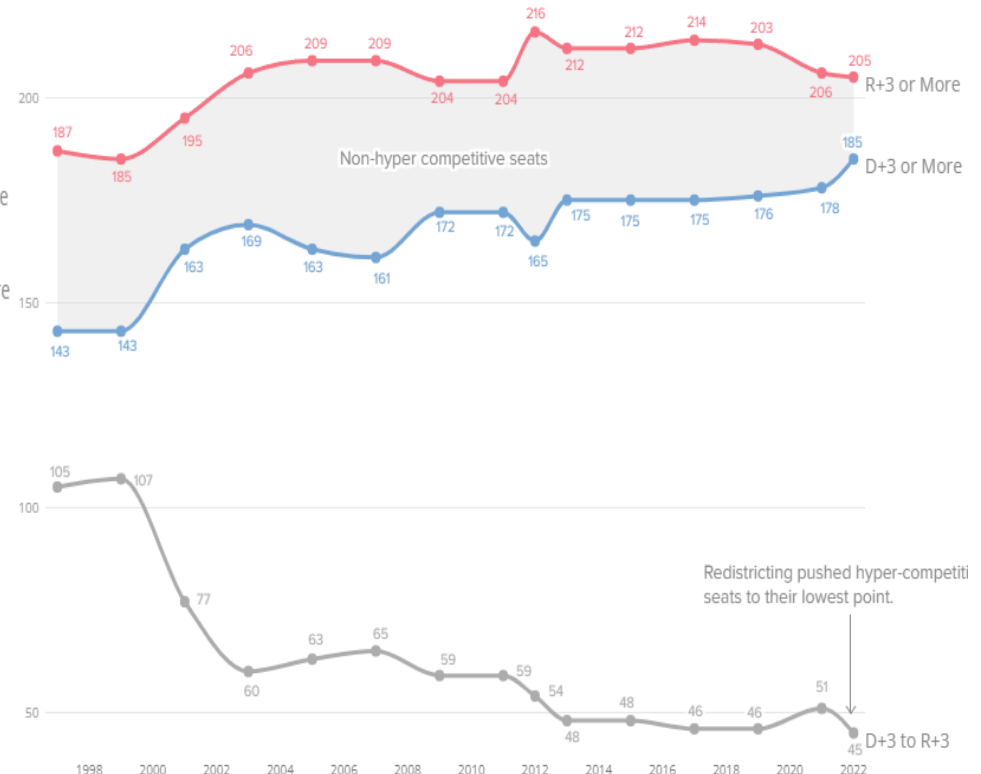
The Incredible Shrinking Swing Seat, 1997-2022

After a slight uptick following the 2020 election, the number of swing seats (PVI R+5 to D+5) has decreased following redistricting.



The Hyper-Competitive Swing Seat Decline, 1997-2022

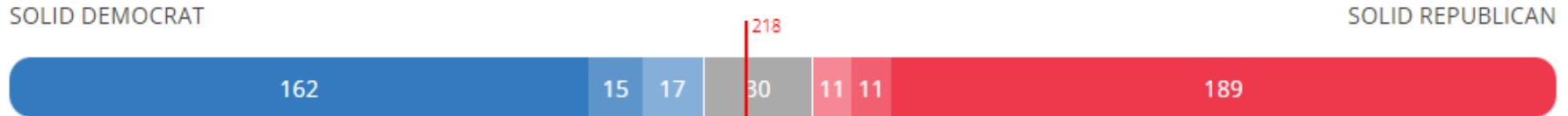
In 1997, there were 105 hyper-competitive seats. In 2022, there are only 45.



Source: Cook Political Report (<https://www.cookpolitical.com/cook-pvi/2022-partisan-voting-index/introducing-2022-cook-partisan-voting-index>), Deutsche Bank

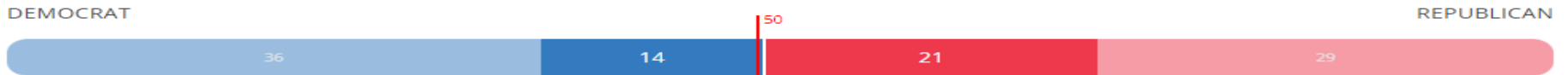


What are the forecasters saying? Cook Political Report expects Republicans to take the House but much closer in the Senate.



- Likely** : These seats are not considered competitive at this point, but have the potential to become engaged.
- Lean** : These are considered competitive races, but one party has an advantage.
- Toss Up** : These are the most competitive; either party has a good chance of winning.

SENATE SEATS Includes seats not up for re-election. Control of Senate marked at 50 seats.



Currently, Democrats control **48** seats. Republicans control **50** seats.

14 Democrat-controlled seats and **21** Republican-controlled seats are up for election.

There are **2** Independent seats, and none are up for election. These seats caucus with Democrats.

SENATE SEATS Only seats up for re-election (35).

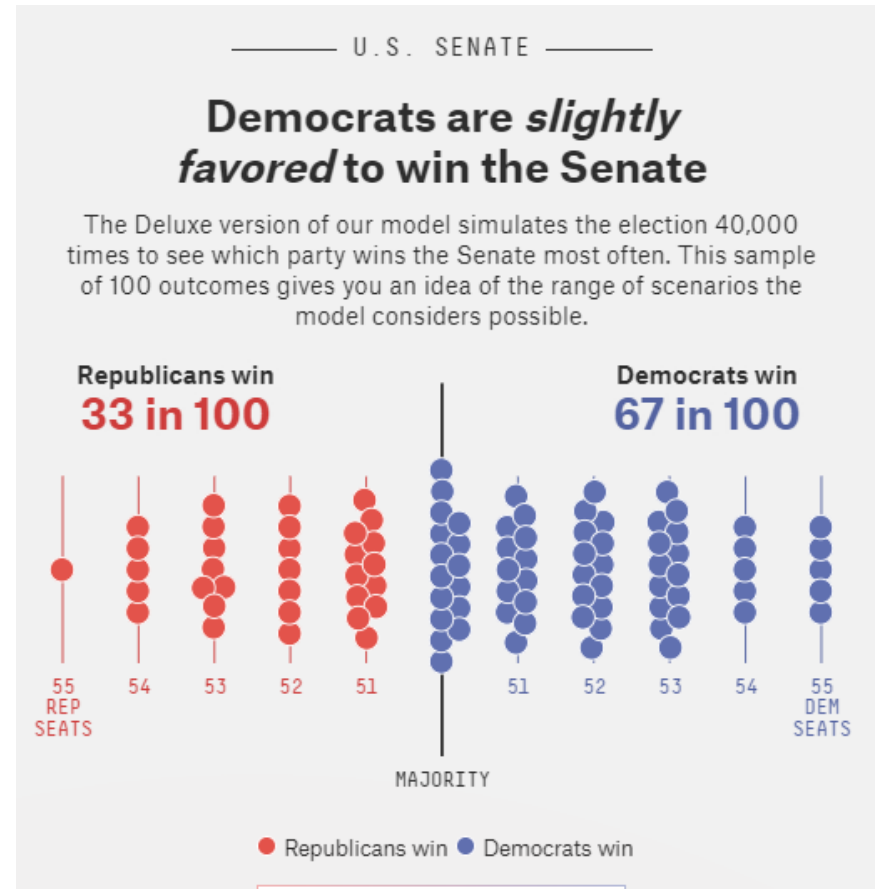
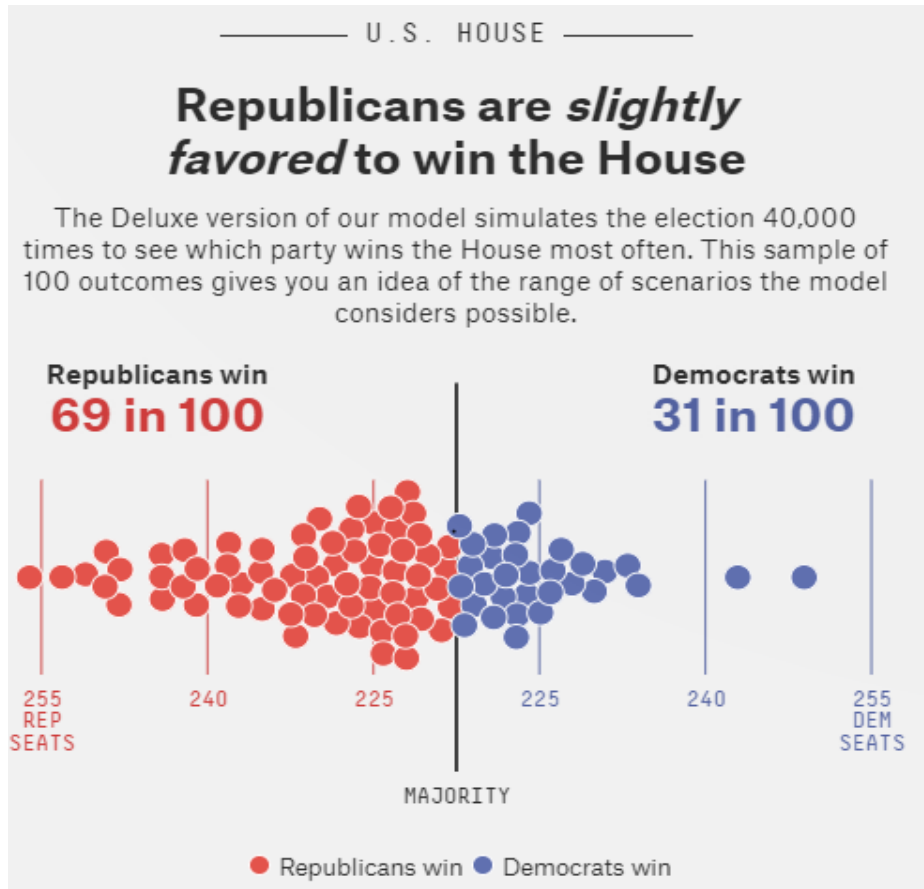


- Likely** : These seats are not considered competitive at this point, but have the potential to become engaged.
- Lean** : These are considered competitive races, but one party has an advantage.
- Toss Up** : These are the most competitive; either party has a good chance of winning.

Source: Cook Political Report (<https://www.cookpolitical.com/ratings/senate-race-ratings>), Deutsche Bank



What are the forecasters saying? FiveThirtyEight predicts a Republican House / Democratic Senate.



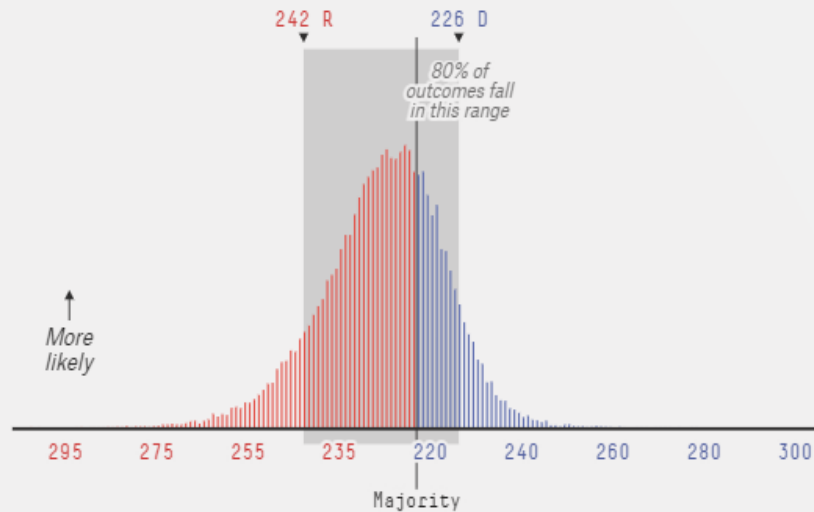
Source: FiveThirtyEight, Deutsche Bank



FiveThirtyEight model shows a significantly higher probability of Republicans taking the House compared to the Senate.

How many House seats we expect each party to win

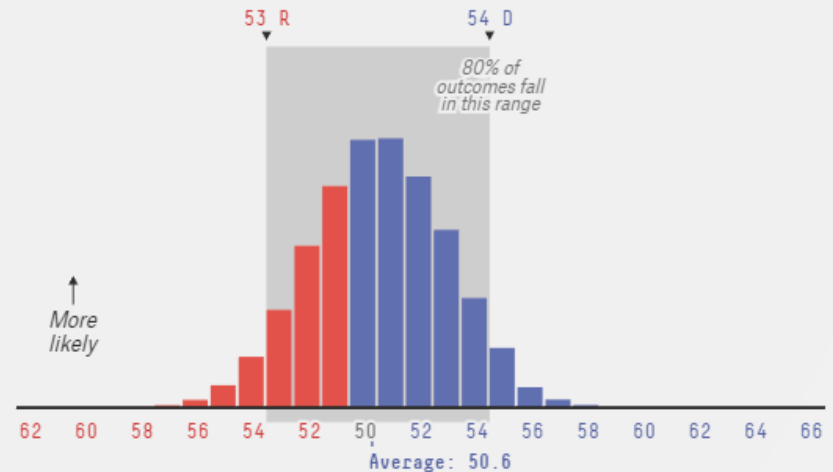
Each party's seat count in scenarios where it wins the House in our Deluxe model's 40,000 simulations. Higher bars represent more common outcomes.



Republicans have an 80% chance of holding between 209 and 242 seats.

How many Senate seats we expect each party to win

Each party's seat count in scenarios where it wins the Senate in our Deluxe model's 40,000 simulations. Higher bars represent more common outcomes.



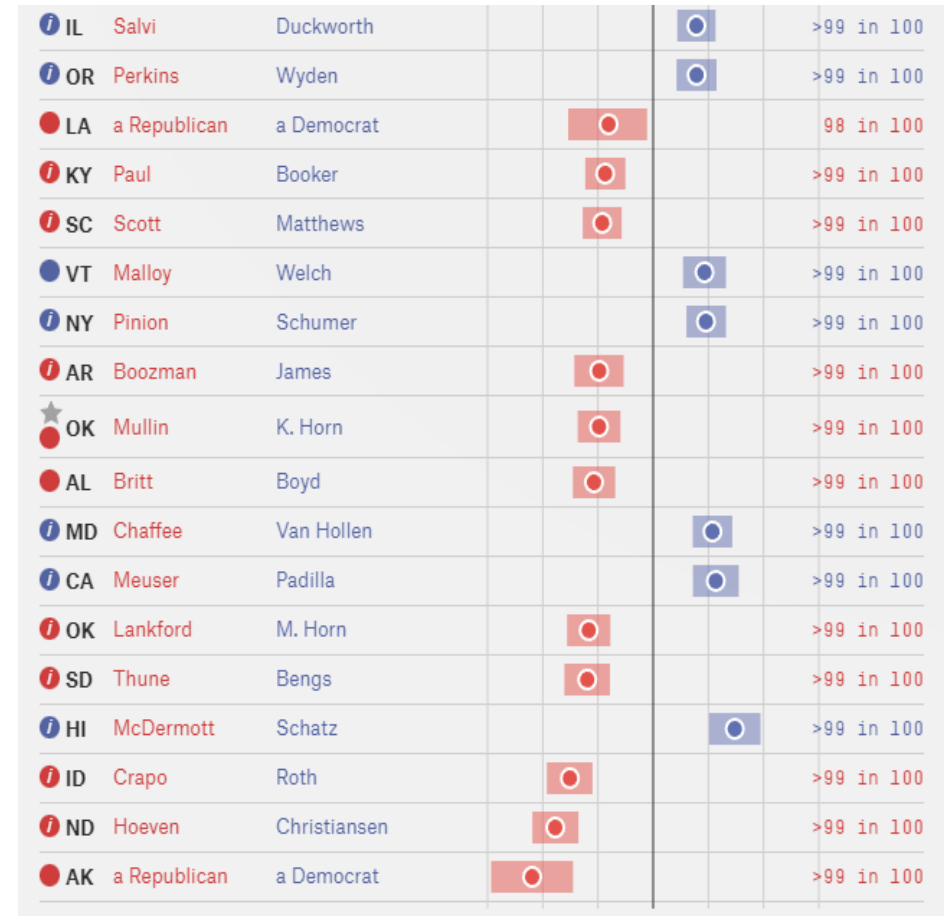
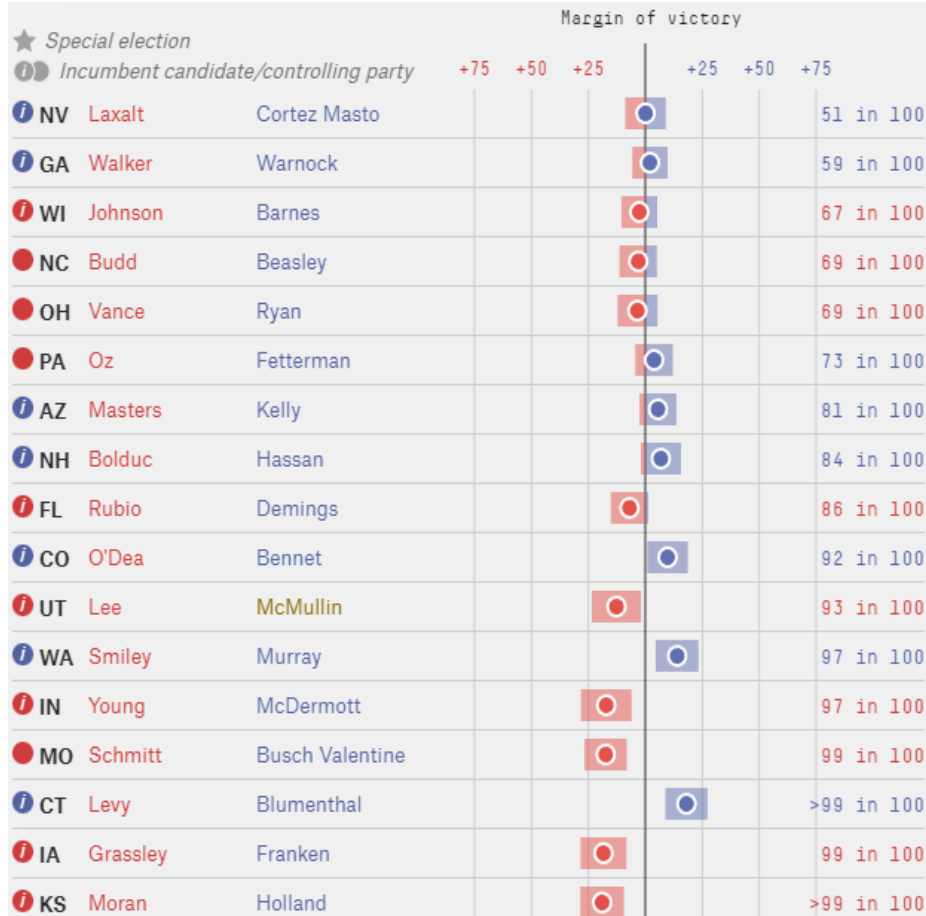
Democrats have an 80% chance of holding between 47 and 54 seats.

Counts of Democratic seats include two independent senators who caucus with the Democrats.

Source: FiveThirtyEight, Deutsche Bank



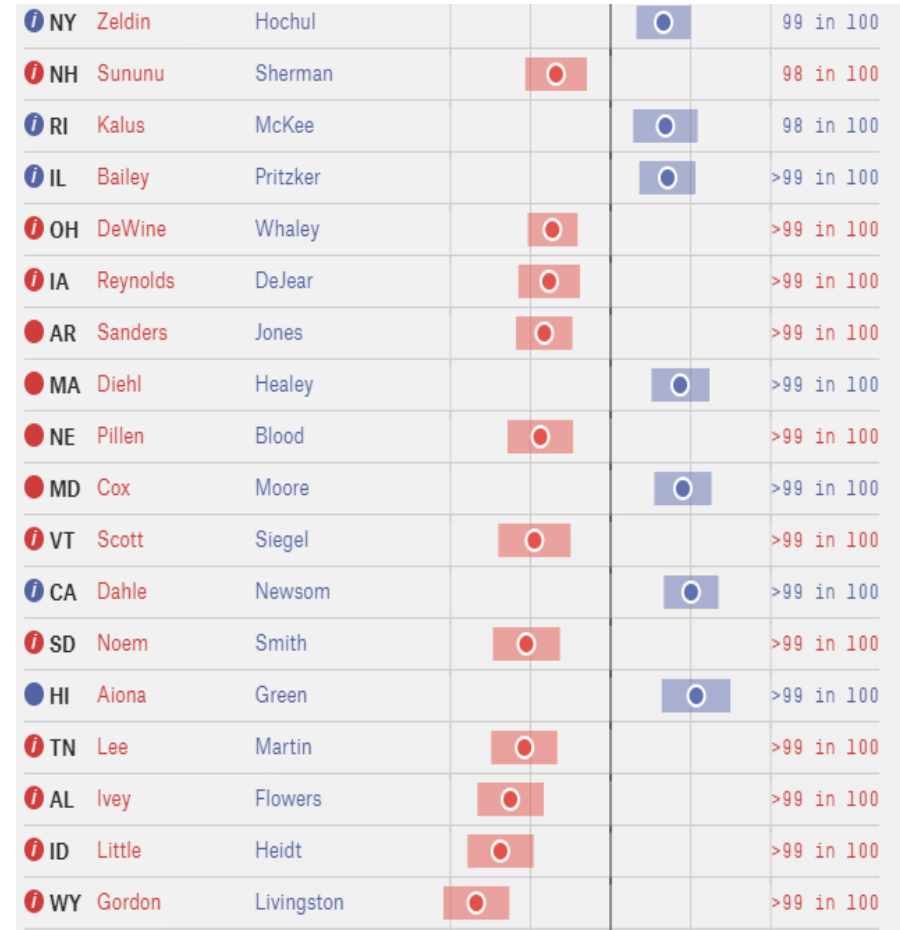
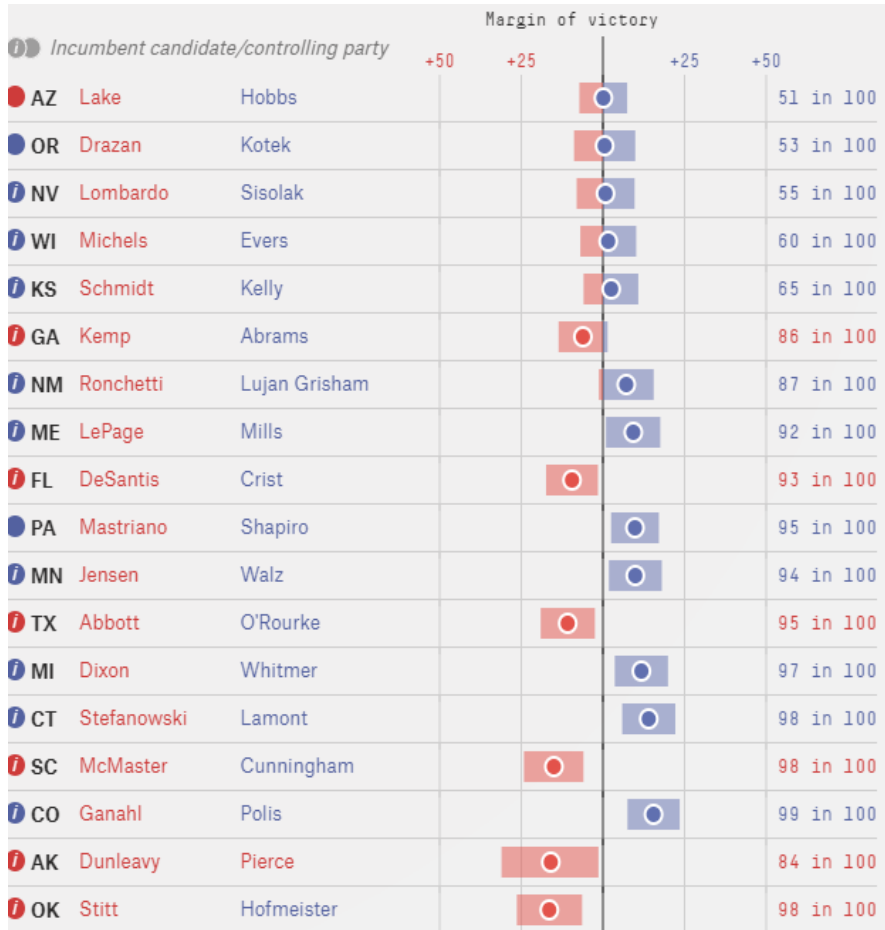
Key Senate races to focus on are Nevada, Georgia, Pennsylvania, Arizona and New Hampshire.



Source: FiveThirtyEight, Deutsche Bank



Races for Governor may be a bell weather for the 2024 Presidential election. Can DeSantis win Florida by a larger margin than Trump?



Source: FiveThirtyEight, Deutsche Bank



The majority of Americans do not want Trump or Biden to run again in 2024.

84. Trump Run in 2024

Do you want Donald Trump to run for president again in 2024?

	Total	Registered	2020 Vote		Party ID		
		Voters	Biden	Trump	Democrats	Independents	Republicans
Yes	24%	25%	5%	50%	10%	17%	51%
No	60%	61%	91%	29%	84%	62%	30%
Not sure	15%	14%	4%	21%	6%	21%	19%

83. Biden Run in 2024

Do you want President Biden to run for president again in 2024?

	Total	Registered	2020 Vote		Party ID		
		Voters	Biden	Trump	Democrats	Independents	Republicans
Yes	20%	21%	31%	13%	32%	15%	12%
No	57%	59%	36%	81%	34%	58%	84%
Not sure	23%	20%	33%	6%	33%	27%	4%

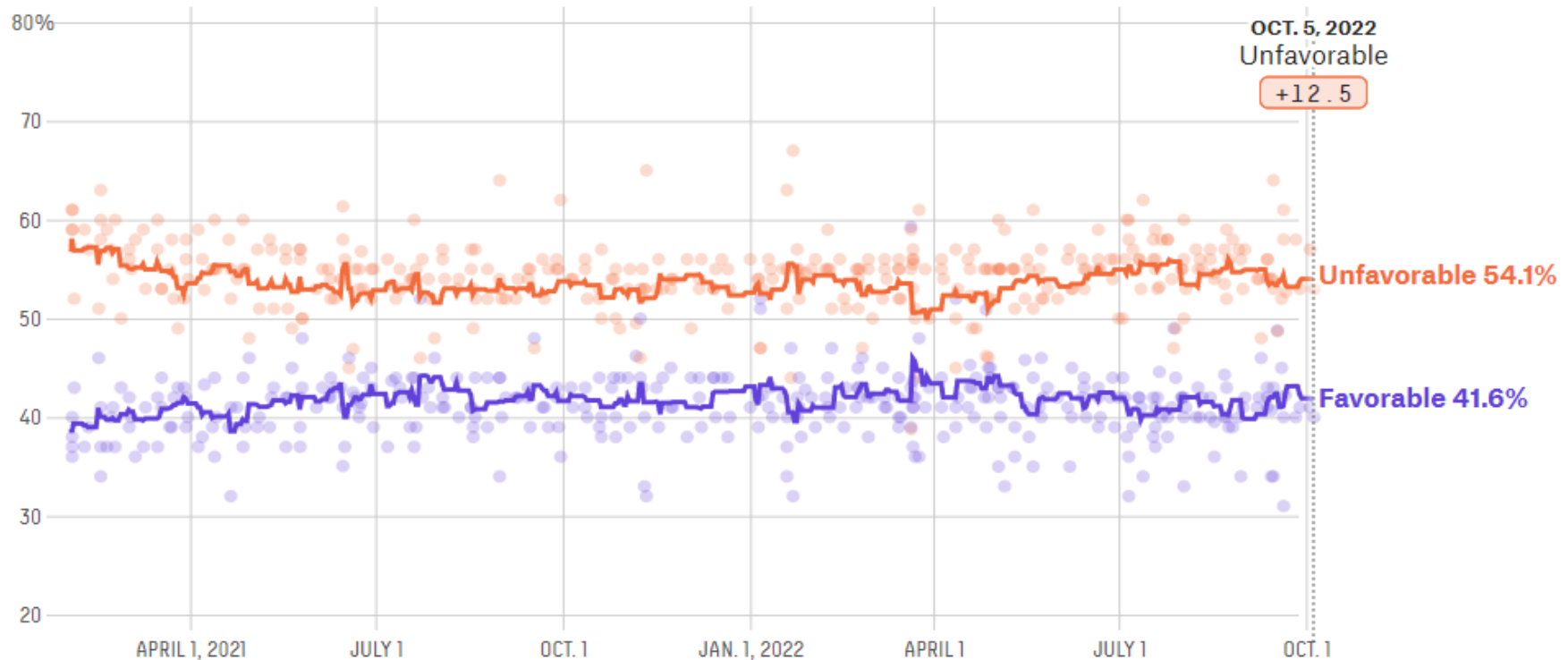
Source: Yahoo News Survey June 27, 2022, Deutsche Bank



Views on Trump have not changed all that much.

Do Americans have a favorable or unfavorable opinion of Donald Trump?

An updating average, accounting for each poll's quality, recency, sample size and partisan lean.

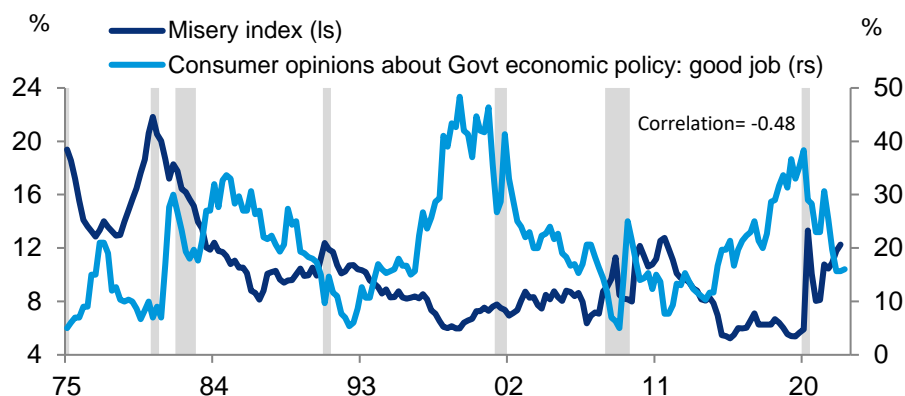


Source: FiveThirtyEight, Deutsche Bank

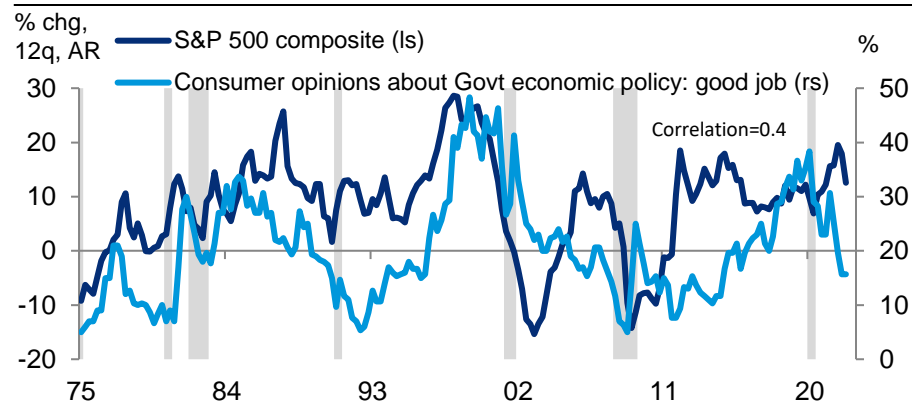


The issues: It's the economy, sort of?

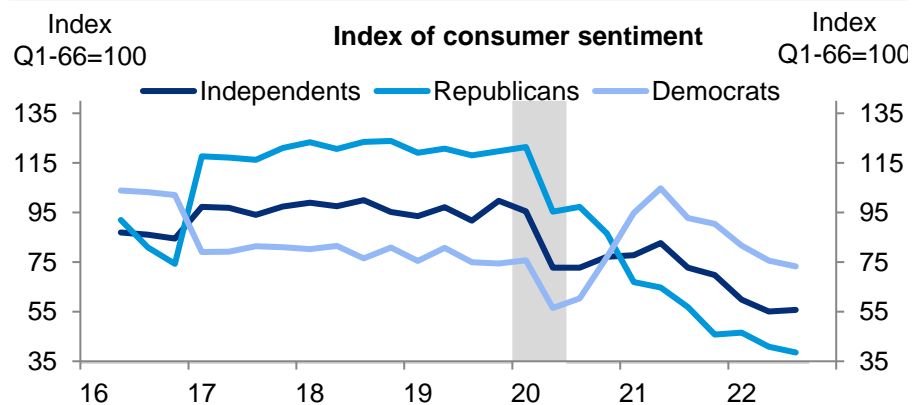
High inflation is currently driving the misery index higher



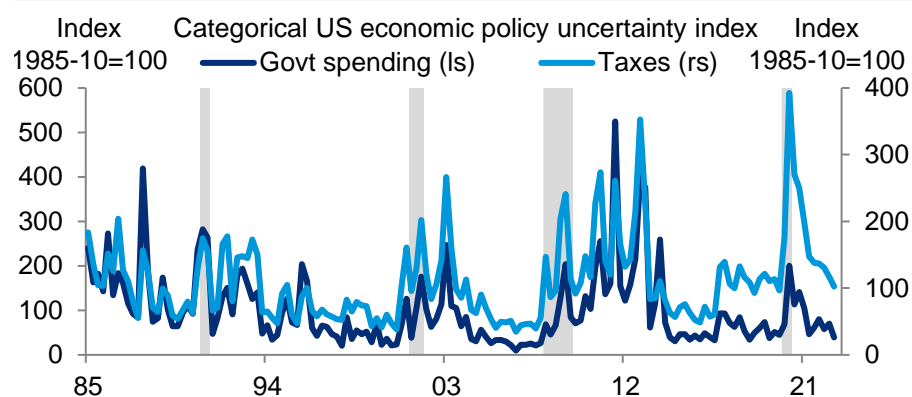
Views on gov't policy less correlated with S&P500 more recently



Dem sentiment surged post the 2020 election but now fading



Government spending and taxes are usually the biggest complaints



Source: BLS, University of Michigan, S&P, PolicyUncertainty.com, Haver Analytics, Deutsche Bank



The issues: The majority of voters disapprove of SCOTUS reversing Roe v. Wade and they also think Congress can address it.

3. Approve or Disapprove of Overturning Roe

Do you approve or disapprove of the Supreme Court's decision to overturn Roe v. Wade and end the constitutional right to abortion?

	Gender				Party ID			
	Total	Male	Female		Total	Dem	Ind	Rep
Strongly approve	25%	28%	22%	Strongly approve	25%	6%	24%	49%
Somewhat approve	9%	10%	9%	Somewhat approve	9%	5%	12%	12%
Neither approve nor disapprove	9%	10%	9%	Neither approve nor disapprove	9%	8%	10%	10%
Somewhat disapprove	8%	6%	9%	Somewhat disapprove	8%	8%	6%	9%
Strongly disapprove	43%	39%	47%	Strongly disapprove	43%	69%	40%	16%
Not sure	6%	6%	5%	Not sure	6%	4%	9%	3%

7. Can Congress Do Anything

Regardless of whether you'd agree with it, do you think that there's anything that Congress could do to ensure abortion access for all Americans?

	Gender				Party ID			
	Total	Male	Female		Total	Dem	Ind	Rep
Yes	49%	52%	45%	Yes	49%	66%	44%	33%
No	26%	29%	24%	No	26%	14%	27%	40%
Not sure	25%	19%	31%	Not sure	25%	20%	29%	27%

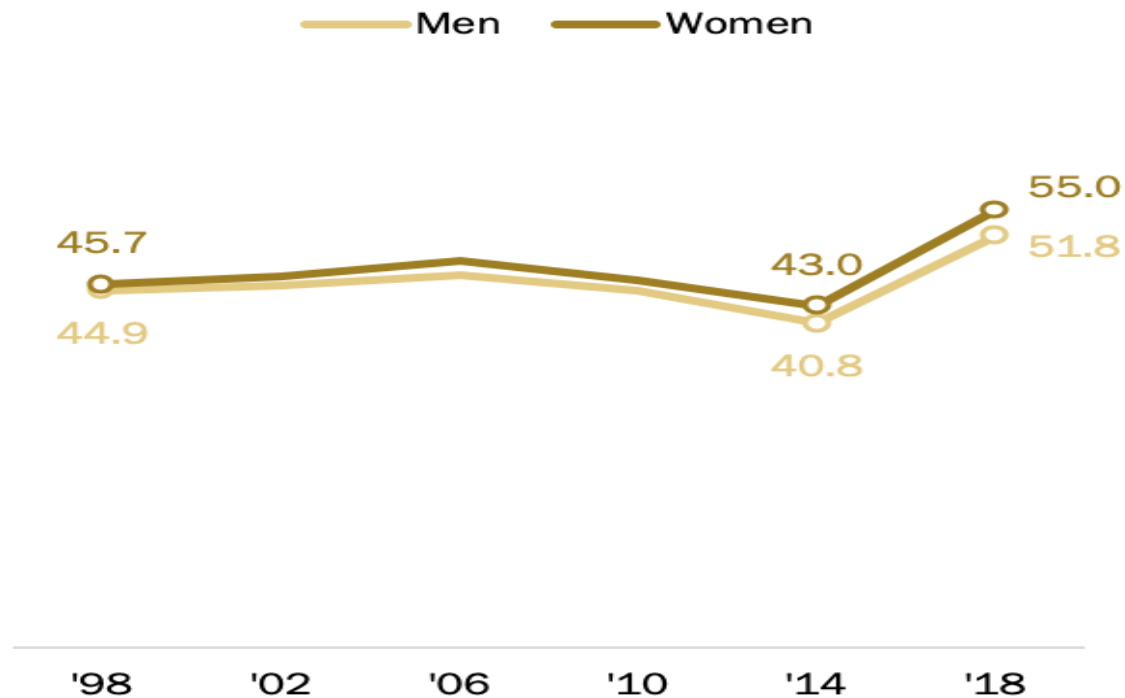
Source: YouGov, Deutsche Bank



The issues: In recent midterms, voter turnout among women has been higher than that of men.

As in past midterms, women turned out at slightly higher rates than men

% of eligible voters who say they voted, by midterm election year

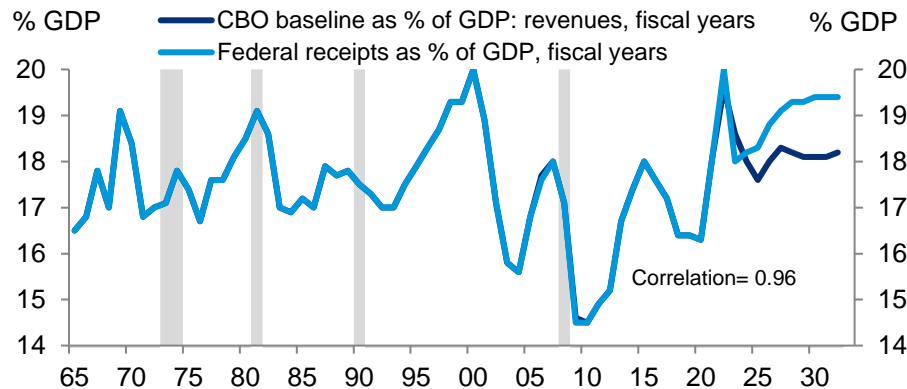


Source: Pew Research, Deutsche Bank

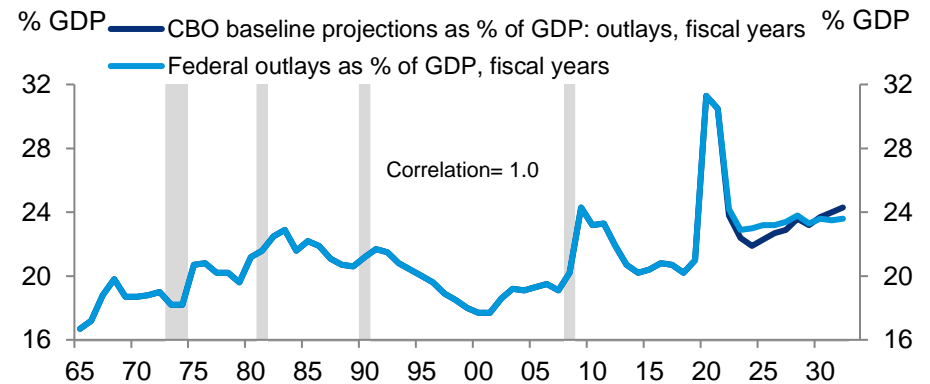


The issues: Mandatory spending will continue to rise as share of GDP due to aging population. OMB sees taxes about 1ppt higher.

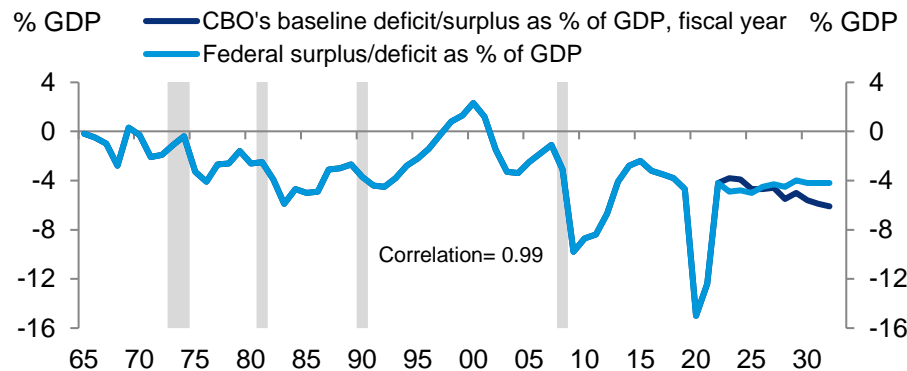
OMB projecting higher taxes relative to CBO baseline



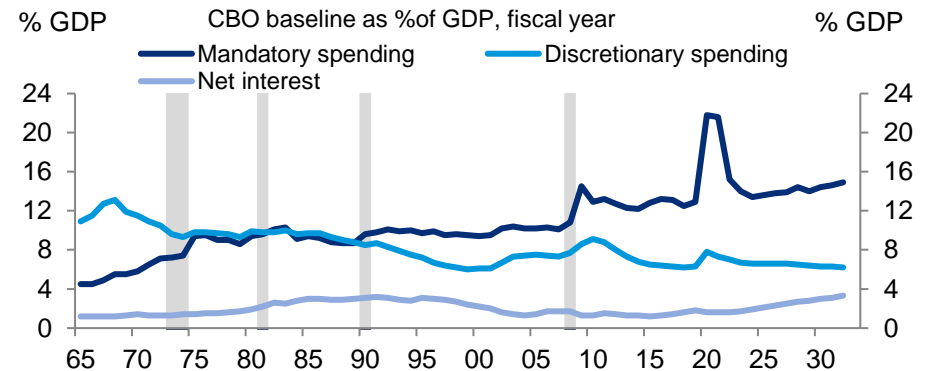
OMB and CBO projecting similar spending as share of GDP



OMB projects lower deficits compared to CBO



CBO projects discretionary spending to decline



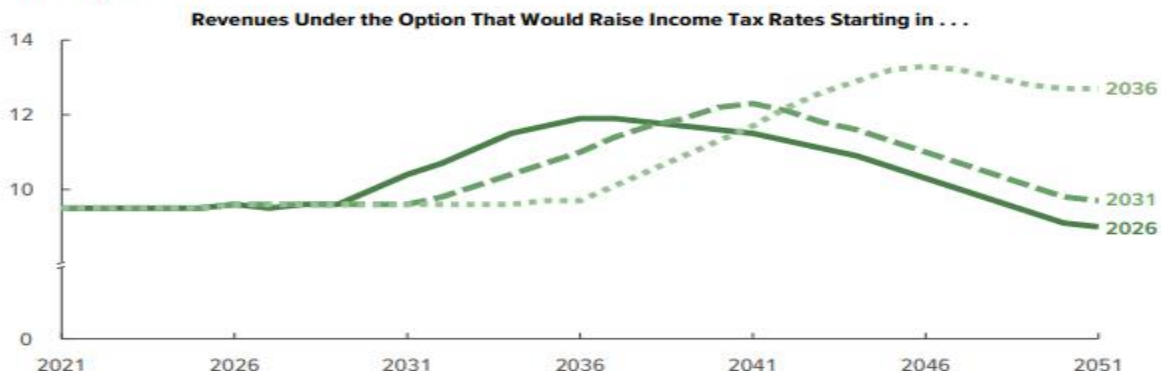
Source: CBO, OMB, Haver Analytics, Deutsche Bank



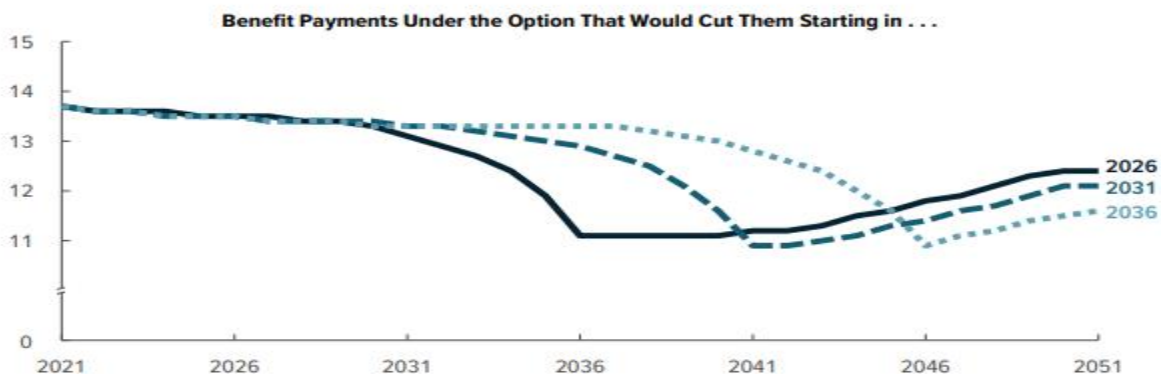
The issues: To put the “fiscal house in order”, taxes need to rise by 1.6ppts (as share of GDP) or benefit payments cut by 3.4ppts.

Tax Revenues and Benefit Payments Under Two Options for Stabilizing Federal Debt Starting in Three Different Years

Percentage of GDP



The longer stabilization was delayed, the higher income tax revenues—and thus income tax rates—would ultimately need to be to stabilize federal debt as a percentage of GDP.



Likewise, the cuts in benefit payments would, in the long run, need to be greater the longer stabilization was delayed.

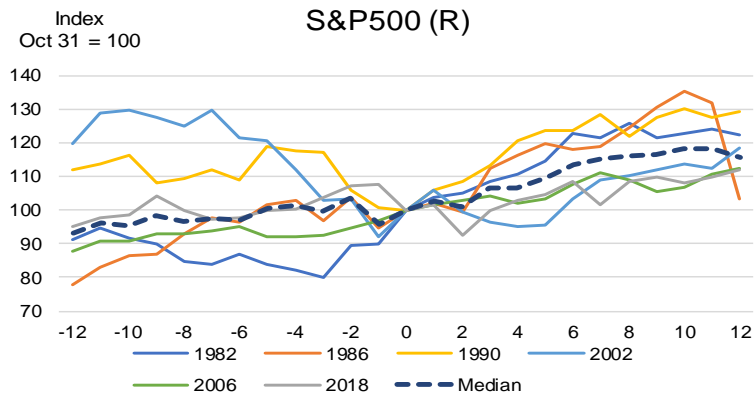
Data source: Congressional Budget Office. See www.cbo.gov/publication/57867#data.

Source: CBO, Deutsche Bank

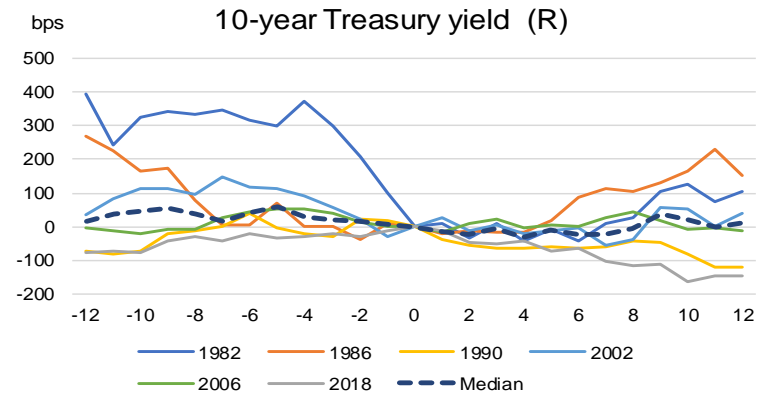


Event study of S&P 500 and 10-year yields in the 12 months before and after the last 10 midterm elections – no clear patterns.

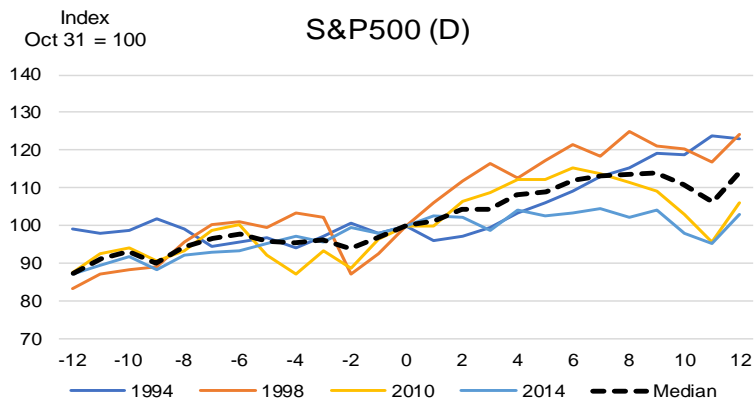
Republican Presidents: S&P500 performance pre- / post- midterms



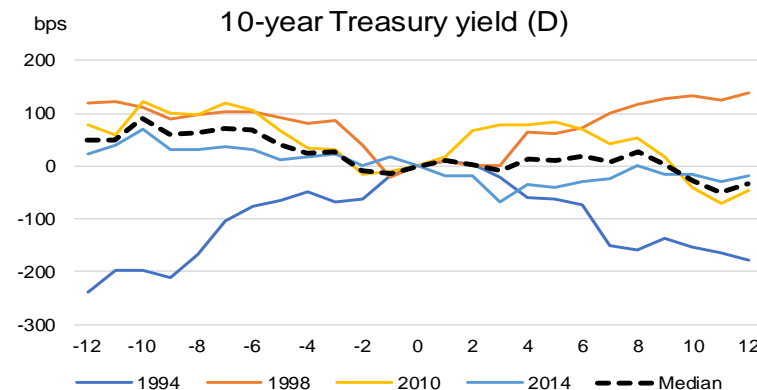
Republican Presidents: 10-yr yield performance pre- / post- midterms



Democratic Presidents: S&P500 performance pre- / post- midterms



Democratic Presidents: 10-yr yield performance pre- / post- midterms

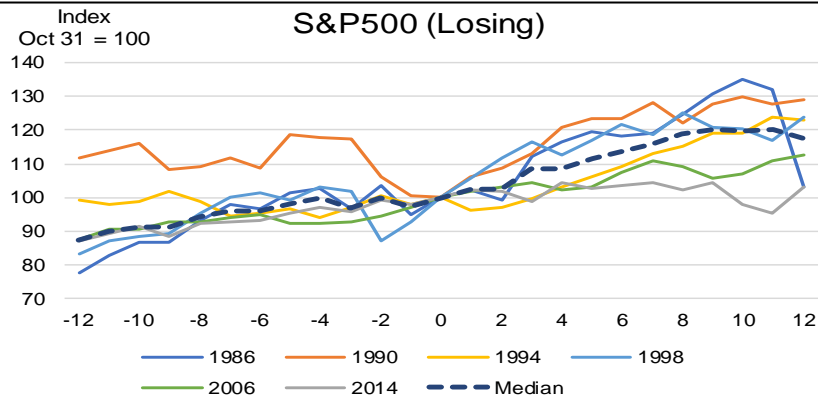


Note all S&P500 series indexed to October 31 and show month end close. 10-yr yield is basis-point change before / after October 31
Source: S&P, Treasury, Haver Analytics, Deutsche Bank

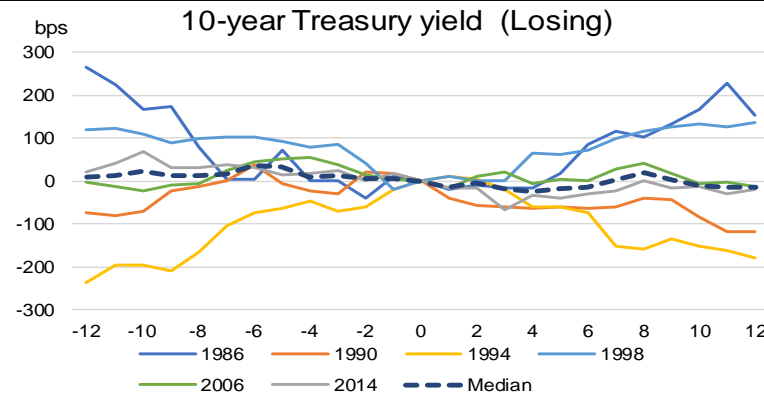


Event study of S&P 500 and 10-year yields in the 12 months before and after the last 10 midterm elections – no clear patterns.

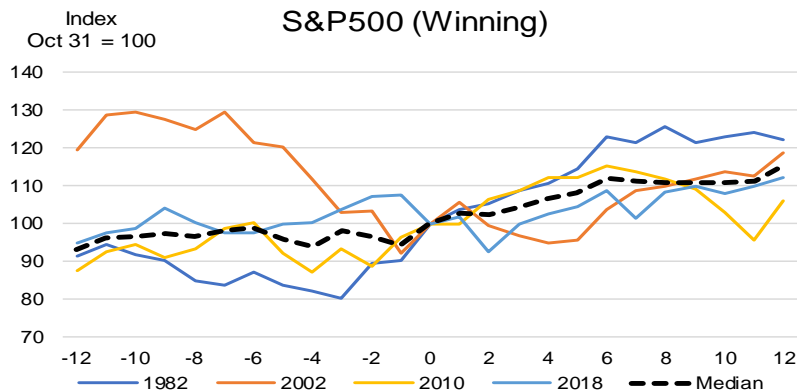
Presidents losing both: S&P500 performance pre- / post- midterms



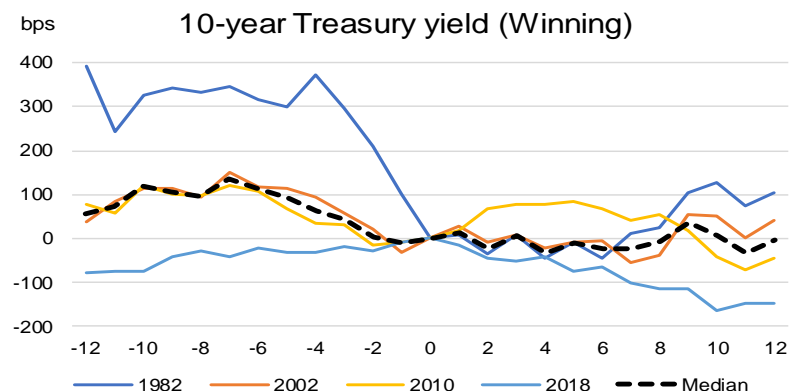
Presidents losing both: 10-yr yield performance pre- / post- midterms



Presidents retaining at least one house: S&P500 performance pre- / post- midterms



Presidents retaining at least one house: 10-yr yield performance pre- / post- midterms



Note all S&P500 series indexed to October 31 and show month end close. 10-yr yield is basis-point change before / after October 31
 Source: S&P, Treasury, Haver Analytics, Deutsche Bank



DB forecasts for US economy

Economic Activity (% qoq, saar)	2022				2023				2024				2022F	2023F	2024F
	Q1	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q1F	Q2F	Q3F	Q4F	Q4/Q4	Q4/Q4	Q4/Q4
GDP	-1.6	-0.6	3.0	1.9	1.1	0.2	-3.2	-0.5	2.5	3.1	2.7	2.3	0.6	-0.6	2.6
Private consumption	1.3	2.0	0.9	2.1	1.6	1.3	-1.1	-1.0	0.5	3.0	2.7	2.3	1.6	0.2	2.1
Investment	5.4	-14.1	-3.6	2.8	-2.1	-6.5	-15.5	-1.1	15.1	6.5	5.6	5.0	-2.7	-6.5	8.0
Nonresidential	7.9	0.1	3.4	4.1	1.1	-0.8	-4.2	-3.0	3.7	4.0	5.0	4.3	3.8	-1.7	4.3
Residential	-3.1	-17.8	-26.0	-7.5	-2.0	-1.0	-1.0	-1.0	2.5	2.4	2.6	2.7	-14.1	-1.3	2.5
Gov't consumption	-2.3	-1.6	-0.5	1.8	3.2	1.2	1.2	1.2	1.1	1.1	1.1	1.1	-0.7	1.7	1.1
Exports	-4.6	13.8	12.9	3.1	1.3	-2.0	-4.4	-3.0	2.4	3.5	3.5	3.5	6.0	-2.0	3.2
Imports	18.4	2.3	-9.0	5.0	2.1	-3.3	-5.0	-3.0	4.5	4.5	4.5	4.5	3.7	-2.3	4.5
Contribution (pp):															
Inventories	0.2	-1.9	-0.5	0.2	-0.4	-1.1	-2.3	0.3	1.9	0.5	0.2	0.2	0.7	-0.7	0.3
Net trade	-3.1	1.2	3.4	-0.6	-0.2	0.4	0.4	0.2	-0.5	-0.4	-0.4	-0.4	-0.6	0.2	-0.4
Unemployment rate, %	3.8	3.6	3.6	3.7	3.9	4.3	5.2	5.6	5.5	5.2	5.0	4.6	3.7	5.6	4.6
Prices (% yoy)															
CPI	8.0	8.6	8.3	7.2	6.0	4.2	3.9	3.9	3.5	3.3	3.1	2.9	7.2	3.9	2.9
Core CPI	6.3	6.0	6.3	6.2	5.6	4.9	4.4	3.8	3.5	3.2	2.8	2.6	6.2	3.8	2.6
PCE	6.4	6.6	6.1	5.3	4.6	3.5	3.5	3.4	3.1	2.9	2.6	2.5	5.3	3.4	2.5
Core PCE	5.3	5.0	4.8	4.9	4.5	4.3	4.0	3.4	3.0	2.7	2.3	2.2	4.9	3.4	2.2
Fed Funds	0.375	1.625	3.125	4.375	4.875	4.875	4.875	3.875	3.375	2.875	2.625	2.625	4.375	3.875	2.625

Source: Deutsche Bank



Brett Ryan - US Senior Economist



Brett Ryan is a Senior Economist at Deutsche Bank covering both the US and Canada. Brett is responsible for high-frequency data forecasting and frequently publishes research on US and Canadian macro-economic policy issues. Brett has a Bachelor of Arts degree from the University of Pennsylvania; majoring in politics, philosophy and economics.



Appendix 1

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