

Economy

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What do we really know about Biden's tax plan?

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The presidential elections of 3 November have multiple dimensions, but as far as the economy is concerned, the fiscal issue dominates. The promises of the two candidates are not worlds apart. They provide for large budget deficits, durably, leading to an increase in the federal debt of 18 points of GDP by 2030 under Biden and 16 points under Trump. The Democratic candidate, widely tipped to win, is the more aggressive on government spending increases but also plans to raise taxes on profits and high incomes. For the capital markets, this could skew the reflation message he advocates.

The week's focus

Pre-election promises should always be treated with caution. Even when they are not pure patronage, post-election circumstances can alter their course. It is no secret that a divided Congress can compromise a president's intentions. With these reservations in mind, let's see how the think-tanks specialised in tax issues quantify the cost of the measures contained in the plan of the front-runner, i.e. the Democratic candidate¹

- **Income** – The main measure would be to increase taxation on high income groups (0.5pt of GDP per year) through an increase in the maximum rate from 37% to 39.6%, elimination of the 20% rate on capital income, limits on deductions, etc. The goal is redistributive (financing of other deductions, for example on childcare). Another flagship measure is the proposed increase in the corporate tax rate from 21% to 28%. It was 35% before the 2017 tax reform. The effective rate is much lower, it could rise again (chart lhs). Minimum rates would be introduced to limit the possibilities of tax evasion. This measure would cost 0.7 pts of GDP p.a. Including other adjustments, the Biden tax plan foresees an increase in receipts of between 0.9 and 1.3 points of GDP per year.

- **Expenditure** - The two most costly sustainable measures are an extension of public health insurance and direct financing of higher education (for about 1pt of GDP). The plan also envisages increasing spending on primary and secondary education, some pensions, among other things, for a total of 0.8pt of GDP. In addition, the Democratic candidate proposes to devote \$ 3tn to his Green Deal over a decade, with the target of reaching zero net emissions by 2050.

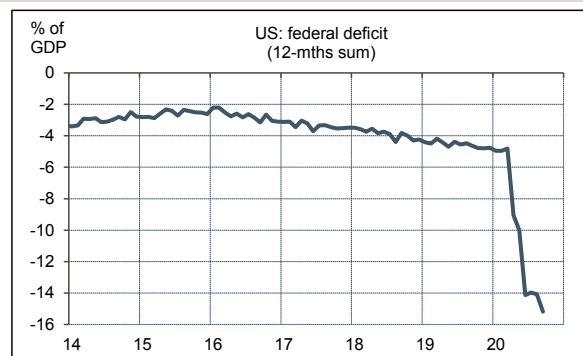
All told, including the expenses of the energy transition plan, the deficit could deepen by more than 2pts of GDP per year. At first glance, this represents a strong stimulus, even though it seems modest in view of the COVID shock (chart rhs).

¹ CRFB (2020), The Cost of the Trump and Biden Campaign Plans - [Tax Policy Center](#) (2020), An Updated Analysis of Former Vice President Biden's Tax Proposals; [Tax Foundation](#) (2020), Details and Analysis of Democratic Presidential Nominee Biden's Tax Proposals

US: effective tax rates on corporate profits



US: federal deficit



Sources: Thomson Reuters, ODDO BHF Securities

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Economy

- In **October**, PMI confidence indexes remained on a positive trend, with a gain of 1.4 points to 56.0 in services and 0.1 points to 53.3 in the manufacturing sector. The Dallas and Richmond Fed indexes were also at high levels (>57 points). For households, the Conference Board confidence index showed little change (-0.4 points to 100.9). Labour market components recovered. At this stage, despite the absence of a new fiscal stimulus and mounting coronavirus infections, households remain fairly confident.
- In **September**, durable goods orders grew again (+1.9% m-o-m), confirming the catch-up in industrial activity. Excluding transport and defence equipment, orders even exceeded pre-pandemic levels. The civil aerospace sector is still taking a heavy toll on the overall numbers: shipments are down 48% year-on-year and even 68% over two years, under the twofold impact of the virus and the problems with the 737 MAX.
- The fall in new home sales in **September** (-3.5% m-o-m) is not relevant. It merely pushes y-o-y growth down to +32% from +40%. What is more, the data series is highly volatile. The residential sector continues to be buoyed by low interest rates and strong demand. House prices are tending to accelerate (+5.7% y-o-y according to the Case-Shiller index, at a two-year high). According to Zillow, it now takes an average of 16 days to sell a typical home.
- According to the initial BEA estimate, real GDP grew an annualised 33.1% q-o-q in **Q3** (-31.4% in Q2), in line with forecasts. This is almost a mirror image of the Q2 national accounts as regards consumer spending (+41% after -33%), business fixed investment (+20% after -27%) and residential investment (+59% after -36%). The level of real GDP is now 3.5% below the level at end-2019.

Monetary and fiscal policy

- The most recent polls point to a modest erosion in Joe Biden's lead nationally and in a few swing states (table). According to *FiveThirtyEight*, the democrats are also favourites to hold the House (96% chance) and capture the Senate (76% chance).

Swing states	College votes	Results 2016 *	Polls 2020 *				
			Sept.30	Oct.7	Oct.14	Oct. 21	Oct. 28
Arizona	11	Trump 3.6	Biden 4.6	4.5	3.6	3.5	2.8
Florida	29	Trump 1.2	Biden 2.0	4.7	4.1	3.8	1.3
Georgia	16	Trump 5.1	Biden 0.8	1.2	1.2	0.9	1.1
Iowa	6	Trump 9.4	Biden 1.2	1.0	0.6	1.0	1.6
Michigan	16	Trump 0.2	Biden 6.0	7.8	7.9	8.0	8.0
Minnesota	10	Clinton 1.5	Biden 9.4	8.9	9.1	7.9	9.3
New Hampshire	4	Clinton 0.4	Biden 7.7	9.9	11.5	11.5	11.3
N. Carolina	15	Trump 3.7	Biden 1.1	2.6	3.2	2.9	1.9
Ohio	18	Trump 8.1	Trump 1.8	0.8	0.3	1.0	1.9
Pennsyl. (tipping point)	20	Trump 0.7	Biden 4.1	7.0	7.1	6.1	5.1
Wisconsin	10	Trump 0.8	Biden 6.9	7.0	7.8	6.6	9.1
National / college vote	538	Trump 13.8	-	-	-	-	-
National / popular vote	-	Clinton 2.1	Biden 7.3	9.8	10.3	9.9	8.5

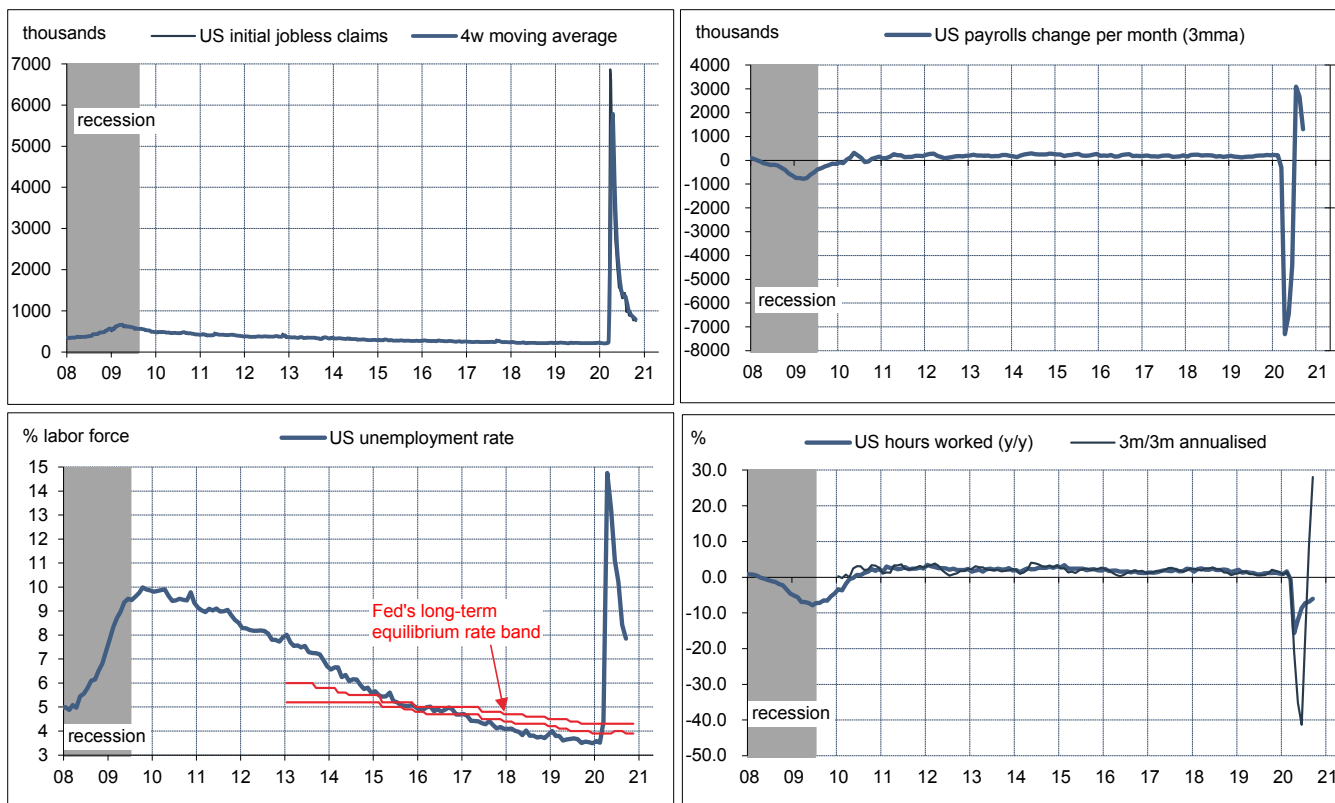
* difference between the candidates in %

The week ahead

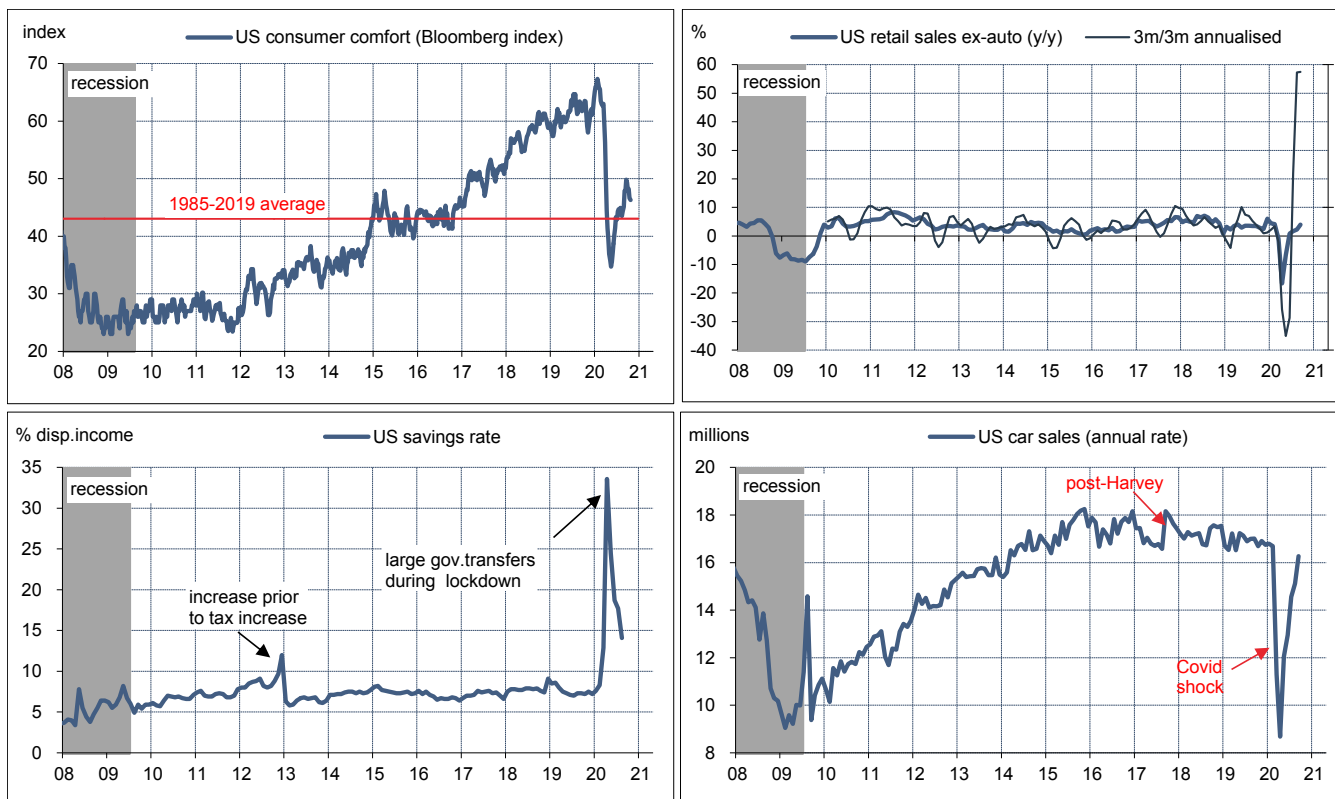
- This is the biggest week one could imagine in terms of major events at the political, economic and monetary policy level. The elections on **3 November** are the main focus of attention, not just because they may cause volatility in the event of a surprise or a disputed outcome but also because they will influence the direction of the fiscal debate (see p.1).
- In the economic sphere, the "big" figures for October will be released with the ISM manufacturing index on **2 November**, the ISM services index on **4 November**, and the jobs market report on **6 November**. Expectations are low as regards the FOMC meeting, on **5 November**. Recently, Fed officials have underlined the downside risks to activity but without signalling any intention to relax policy. In the run-up to the election the Fed has an incentive to keep a low profile to avoid being dragged into partisan wrangling. On several occasions, however, Jerome Powell has urged Congress to agree on a new fiscal support plan.



Appendix 1 - Labour market



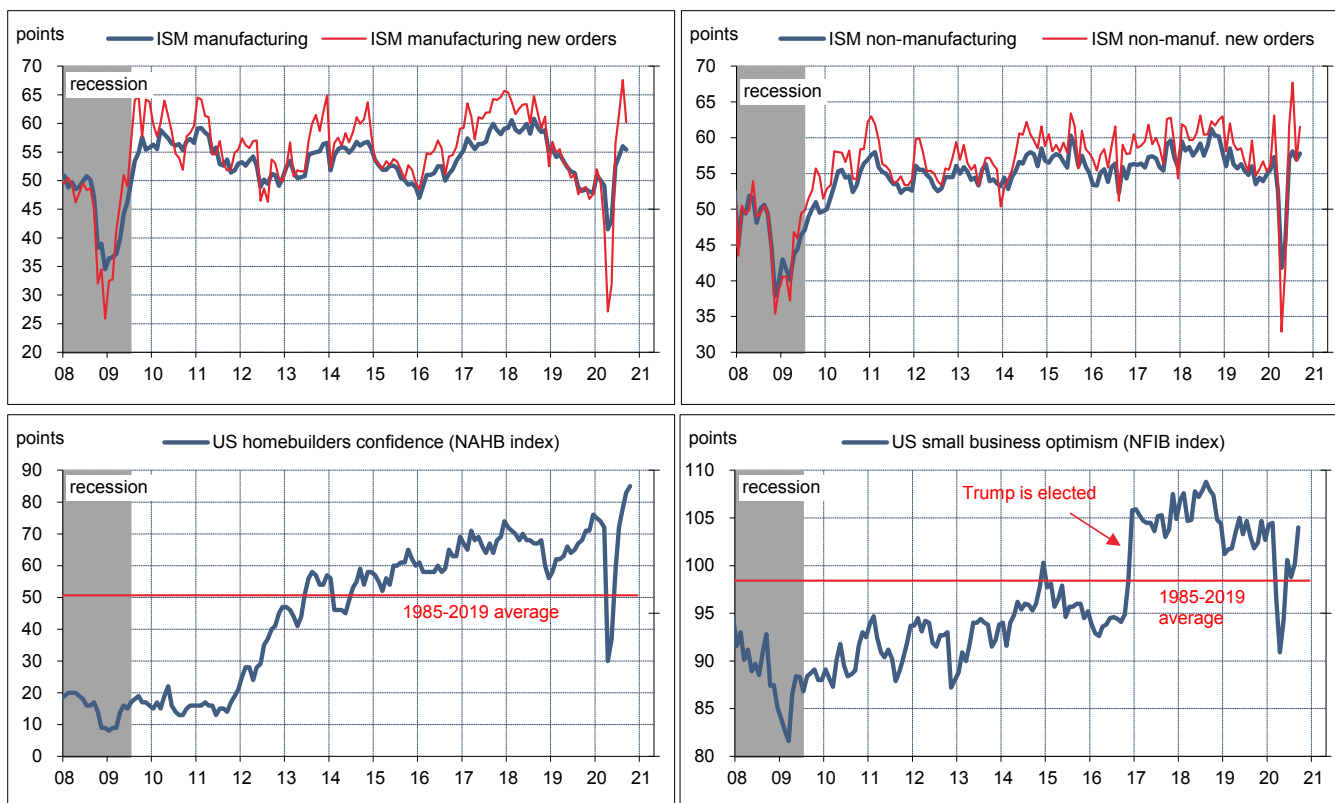
Appendix 2 - Consumer



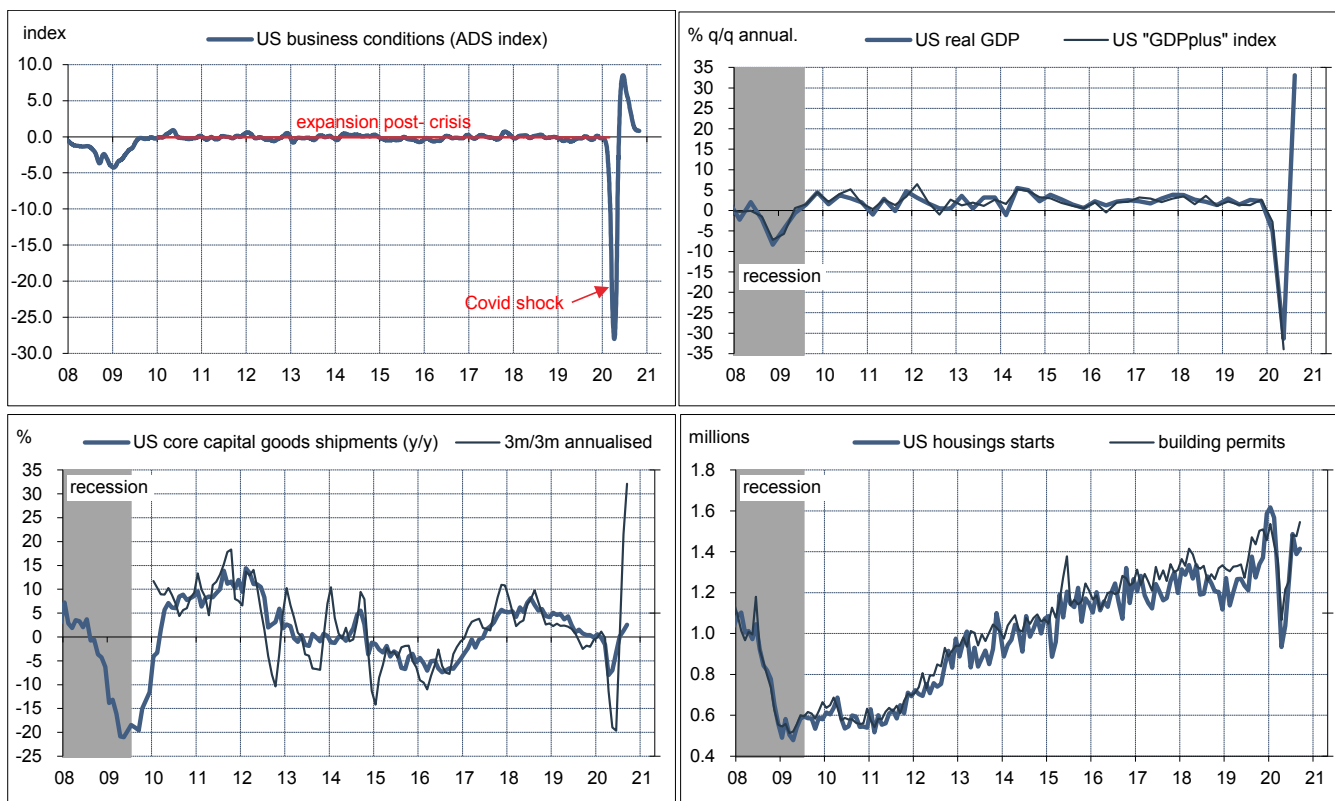
Sources: Thomson Reuters, Bloomberg, ODDO BHF Securities



Appendix 3 - Business climate



Appendix 4 - Conditions of economic activity



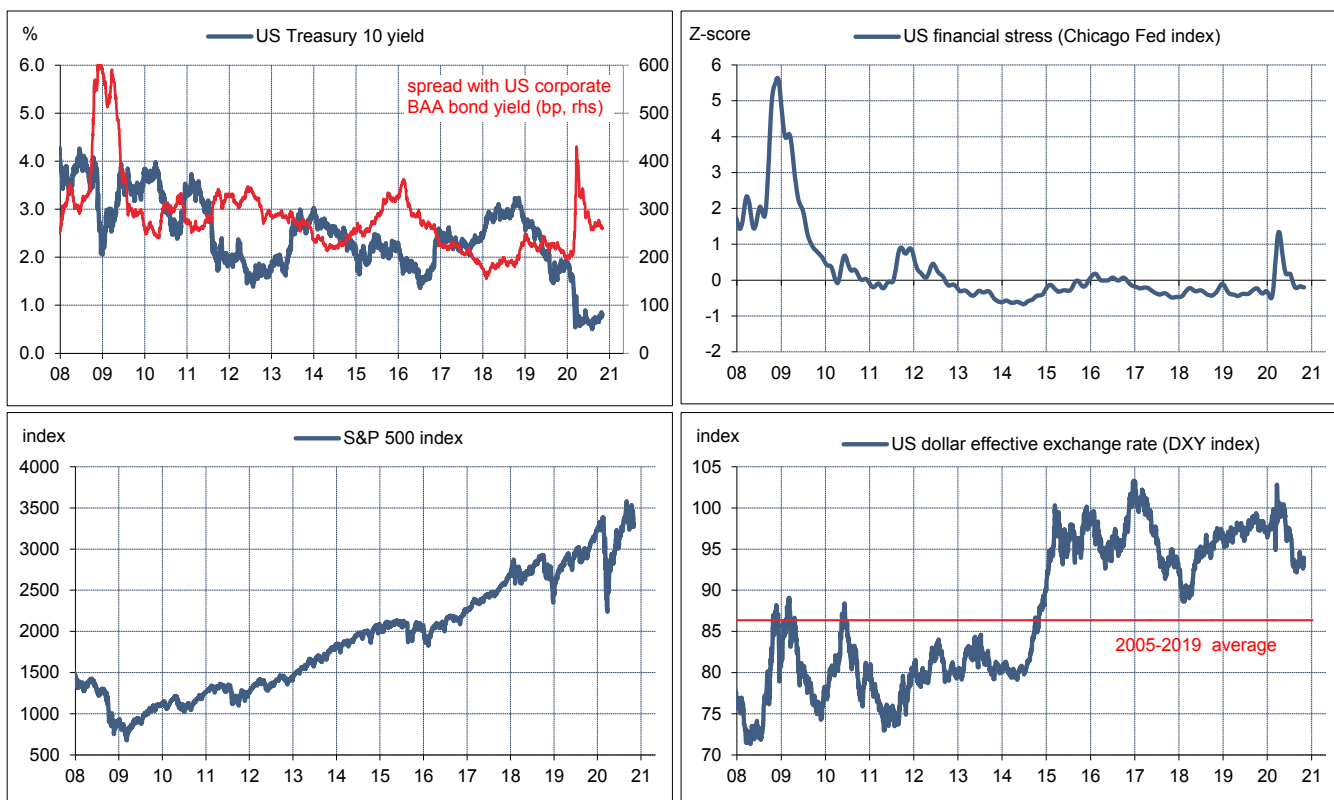
Sources: Thomson Reuters, Bloomberg, ODDO BHF Securities



Appendix 5 - Inflation and monetary policy



Appendix 6 - Financial markets



Sources: Thomson Reuters, Bloomberg, ODDO BHF Securities



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