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CORPORATES & MARKETS

Economy

Focus US
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US election update (54 days to go)

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The coronavirus pandemic, the ensuing economic crisis and racial strife have upended the elections on 3 November. After the collective failure to predict Donald Trump's victory in 2016, political pundits are more cautious this time. With around 50 days to go to the election, it is all still to play for, but Joe Biden leads in the polls in most of the swing states and should benefit from an expansion of mail-in voting. The vote might be followed by a period of uncertainty. First if the results are slow to be officially announced. Second, if Congress remains divided, with the risk of an untimely fiscal tightening.

The week's focus

After Labor Day, the US election campaign enters the home straight in the run-up to the vote set for **3 November** this year. The presidential election dominates media attention as the winning side has a good chance of also triumphing in the other ballots, for the House of Representatives (all seats to be renewed), Senate (one-third of Senators up for re-election) and governorships (13). The three TV debates between Donald Trump and Joe Biden are scheduled for **29 September**, **15 and 22 October**, and that between Mike Pence and Kamala Haris for **7 October**. There is often talk of an October "surprise" that could transform the race. With the incumbent president, it is hard to imagine any revelation that might bring the vast majority of the media to portray him in an even more negative light than they already do.

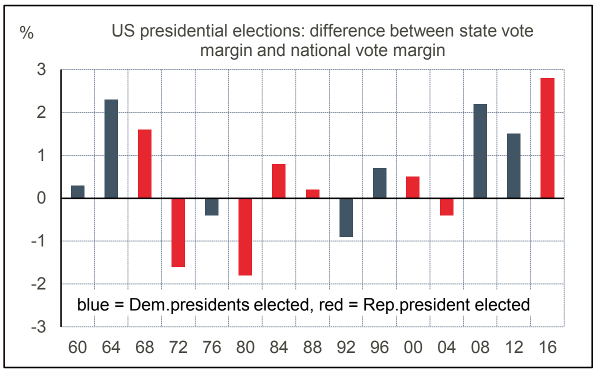
To be (re-)elected, a candidate must secure a majority in the Electoral College, which comprises 538 members, split between the states proportional to their population. Winning a state secures all the electors for the victor. For historical or sociological reasons, many states always lean the same way. The result therefore hinges on the dozen or so swing states where the gap between the two sides is narrow and results in alternating victories between the Republicans and Democrats. This particular feature of the electoral system means that in practice winning the popular vote does not always lead to victory in the election. In 2016, Donald Trump won most of the swing states (table lhs). This gave him a bonus equivalent to 3 points of the popular vote, an unprecedented level, enough to largely outstrip his rival in terms of Electoral College electors (306 vs 232, a gap of 14%). History shows that a candidate can win even when this bonus benefits the opposing side (chart rhs).

Situation in the swing states

Swing states	College votes	Results 2016 *		Polls 2020 *	
Arizona	11	Trump	3.6	Biden	5.8
Florida	29	Trump	1.2	Biden	2.1
Georgia	16	Trump	5.1	Trump	1.0
Iowa	6	Trump	9.4	Trump	1.8
Michigan	16	Trump	0.2	Biden	5.2
Minnesota (*tipping point*)	10	Clinton	1.5	Biden	5.0
New Hampshire	4	Clinton	0.4	Biden	9.6
N.Carolina	15	Trump	3.7	Biden	1.5
Ohio	18	Trump	8.1	Biden	0.4
Pennsylvania	20	Trump	0.7	Biden	3.9
Wisconsin	10	Trump	0.8	Biden	6.7
National / college vote	**538**	**Trump**	**13.8**	**-**	**-**
National / popular vote	**-**	**Clinton**	**2.1**	**Biden**	**8.0**

* difference in %

Presidential election: Electoral College vote bonus



Sources: FiveThirtyEight, Bloomberg, ODDO BHF Securities

Four years ago, the elections were marked by the total fiasco around predicting Donald Trump's victory. This would suggest that caution is in order this time around. As a reminder, in 2016, political experts gave probabilities for Hillary Clinton winning ranging from 71% (*FiveThirtyEight*) to over 99%; with online betting sites offering around 70-80%.

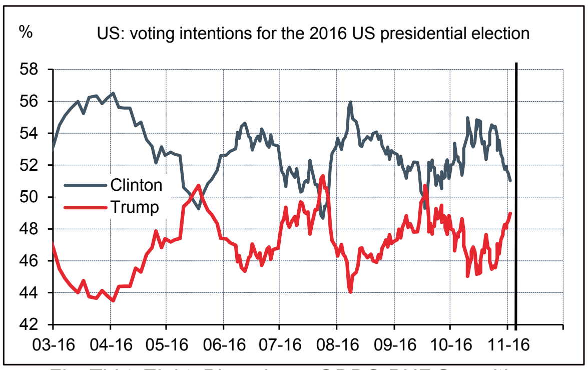
Between May and November, Mrs Clinton boasted an average lead of 5 points in the polls, with marked swings following the ups and downs of the campaign (chart lhs). In other words, there were several instances in the campaign - around 30% of the time to be exact - when the democratic candidate saw her lead fall below 3 pts, which is the bonus obtained by Donald Trump in the electoral college. Mrs Clinton's two-point lead in the popular vote was not therefore enough for her to win. What is the situation now? Since May, the polls have given Joe Biden a lead of 8 points in the polls (chart rhs). Moreover, this lead has held very steady; the standard deviation is no more than 1.6 points vs 3 points four years ago. At first glance, then, the margin of uncertainty around the final outcome looks much narrower than in 2016. The baseline scenario is a win for the democratic candidate[1].

We hardly need reminding of the extraordinary times in which these elections are taking place. The pandemic has upended the race for the democratic nomination, it has prevented the campaign from being run on the ground and it will influence the voting conditions. The economic crisis has torn up the solid economic track record that Trump was able to boast until last February. The racial tensions have given him the opportunity to present himself as a "law and order" candidate. The possibilities for postal ballots have been extended – a factor seen as fairly positive for the democrats and which president Trump as denounced as encouraging voter fraud. At the end of the day, it is the party that is most successful in mobilising its voters which will claim victory. In these unusual circumstances, it may be a while before we know the definitive results, both for the presidency and for Congress. Counting postal ballots takes time. Challenges and legal recourse are likely. The extreme case would be for a largely red electoral map (republicans) on the evening of 3 November to turn blue (democrats) in the days following election night[2]. In 2000, the litigation over the final result in Florida was not concluded for 36 days.

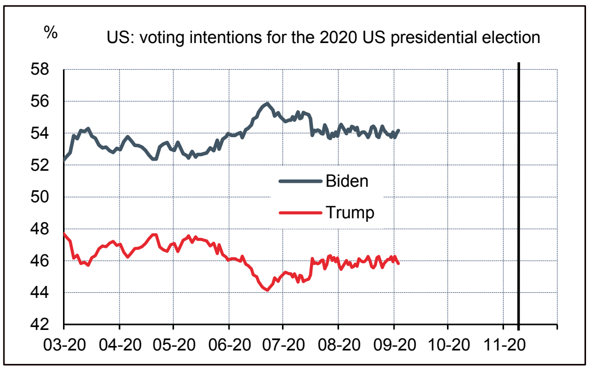
Objectively, Donald Trump's position looks worse than in 2016, but there is broad uncertainty as regards Congress. Since the start of the 1990s, the House has always been taken by the party that took the White House. The outcome is much less clear-cut regarding the Senate. In 2020, 23 republican seats out of 53 are up for grabs (particularly in states which are republican leaning), with 12 out of 47 on the democrat side. If Joe Biden's lead were to narrow even slightly, the Senate would continue with a republican majority. With a divided Congress, the legislative agenda of the future president, whoever he is, may be compromised. The most obvious risk is that partisan divisions could lead to a hasty tightening of fiscal policy. Moreover, we can see that in the last few weeks discussions on an extension to the CARES Act have made no progress.

Donald Trump did not deem it necessary to present a manifesto, since his priorities are well known. For Joe Biden, the major promises on economic policy are an increase in the corporate tax rate from 21% to 28%, the doubling of the minimum wage to $ 15 per hour[3], the extension of public health coverage, a $ 2tr infrastructure plan and an increase in the tax rate imposed on high earners (>$ 400k per annum). Moreover, within his teams he has included a number of Bernie Sanders' advisers, devotees of so-called Modern Monetary Theory, in other words partisans of an increase in federal deficits. With regards to trade, we could hope for a calmer approach to Europe, but not China since there is now a large consensus of public opinion and politicians for a policy of confrontation with the Chinese regime.

US: voting intentions for the 2016 US presidential election



US: voting intentions for the 2020 US presidential election



Sources: FiveThirtyEight, Bloomberg, ODDO BHF Securities

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[1] There is at least one counterexample: in 1988, the democratic candidate had a 7-point lead in August and finished 8 points behind in November.
[2] See the special section of *The Economist* of 5 September, "America's ugly election"
[3] According to the CBO, some 17 million employees will benefit from this wage hikes (The Effects on Employment and Family Income of Increasing the Federal Minimum Wage)

Economy

- In **August**, the labour market continued to pick up for the fourth consecutive month. This rebound can be seen as robust in absolute terms but slow relative to the level of upswing required to return to the pre-pandemic situation. Last month, employment was up by 1.4 million according to the BLS Establishment survey, by 3.8 million according to BLS Household survey (this is the statistic that is used to calculate the unemployment rate). All told, employment stood between 7.2% and 7.6% below the February level, representing the loss of 11.5 million jobs in both cases. Note, at its height in April, maximum job losses stood at between 22.2 and 25.4 million. The unemployment rate has continued to fall to 8.4% of the labor force (-1.8 points). The number of unemployed has fallen to 13.6 million vs a peak of 23.1 million and a level of 5.8 million before the crisis. Of these 13.6 million, 6.2 million expect to be called back in by their employer within the next six months. The number of jobs that are considered to have been destroyed on a permanent basis is on an uptrend. The "core" unemployment rate, which excludes the temporarily unemployed but includes those who have quit the labour market due to the pandemic reportedly stands at 7.2%, vs 7.7% in July and 8.4% in April (peak) and 3.5% in February. Details by sector confirm a marked slowdown in the growth of job creation in hotel and catering, the sector that has been the hardest hit, with a level of employment at 75% of the normal level.
- The JOLTS report (entries and exits) for **July** confirms that employment conditions have seen a rapid, although as yet incomplete, normalisation. Quits (a contrarian indicator of unemployment) have more than doubled vis-a-vis April and stand more than 14.2% below the level seen in February. New job openings stand at 5.5% below this level. Note that, we had to wait until 2017 to see the number of vacant positions exceed its peak of 2007.
- In the week of **5 September**, new jobless claims were stable at 884,000, the second consecutive week below the one million mark. The total number of claimants remains high and is likely to fall only very slowly.
- Amongst all of the business climate surveys, **August's** NFIB survey on individual entrepreneurs was missing. The index is rising, reducing the slight decline of the previous month. Its absolute level is in line with the average over a long period, but still below the pre-pandemic level. The difficulty in finding qualified personnel has become the biggest problem facing SMEs.

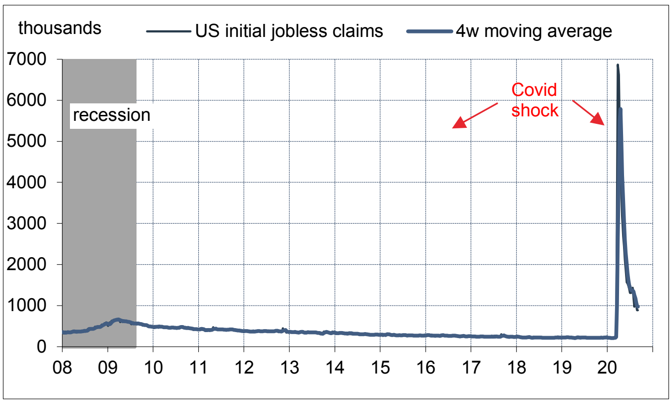
Monetary and fiscal policy

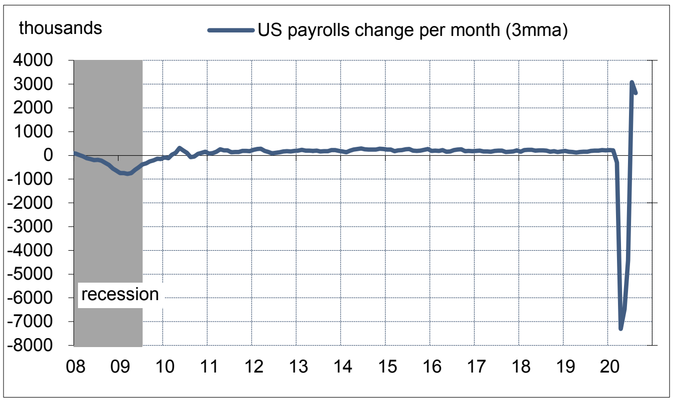
- Nothing new to report. The FOMC is in the purdah period in the run-up to its next meeting (see below). Budgetary discussions are still on hold.

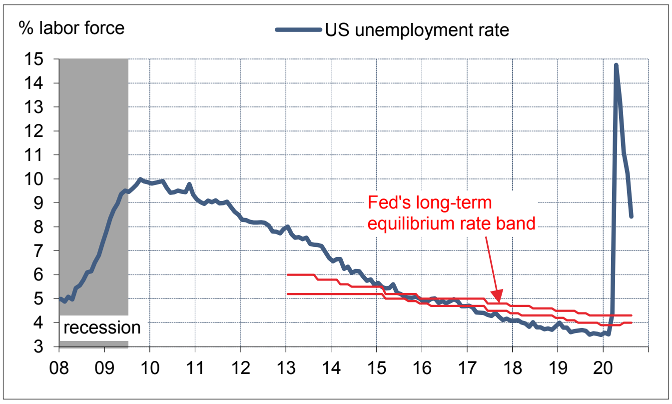
The week ahead

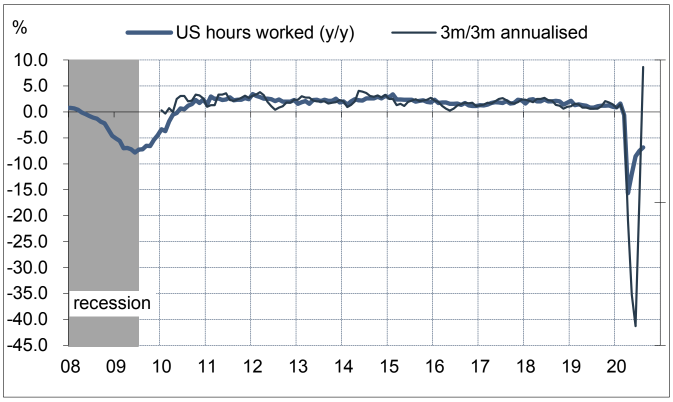
- The FOMC meeting will be held on **16 September** and followed by a press conference with the Chairman of the Fed. Following the new formulation of the monetary strategy at the Jackson Hole Symposium, no change to monetary policy is expected this time. Recent remarks by Jerome Powell and Richard Clarida suggest that the Fed will have to adjust its forward guidance and the presentation of quarterly forecasts, but that these possible changes are not urgent. It is particularly likely that there will be less emphasis on the long-term unemployment rate, often considered to be a characterisation of full employment. At the September meeting, FOMC members will update their economic projections. In June, the median projection put real GDP growth at -6.5% y-o-y in Q4 2020, the unemployment rate at 9.3% (it already stands at 8.4%) and core inflation at 1.0% y-o-y. These figures are likely to be revised upward, given that the technical rebound surprised on the upside. However, we are not expecting Jerome Powell to enthuse about great optimism. Like his colleagues, his position is that the US economy has not yet returned to a growth trend that can be considered sustainable.
- There is a long list of publications of statistics for August alone, namely for industrial production (**15 September**), retail sales (**16 September**) and residential construction (**17 September**). The recovery is likely to continue at a slower pace than in the last few months. The initial data for September will be the manufacturing confidence indices in New York (**15 September**) and Philadelphia (**17 September**), as well as the household confidence index from the University of Michigan (**18 September**).

Appendix 1 - Labour market

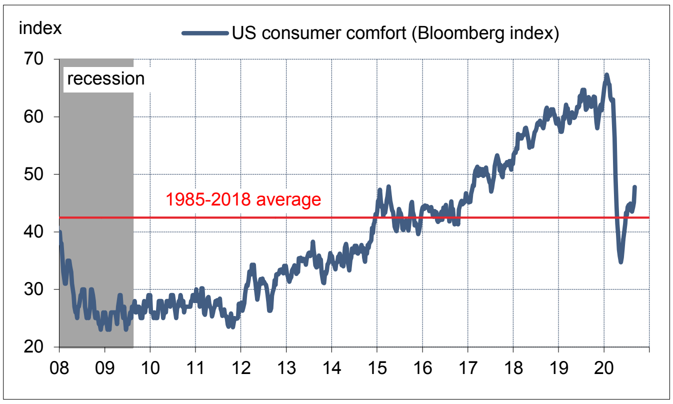


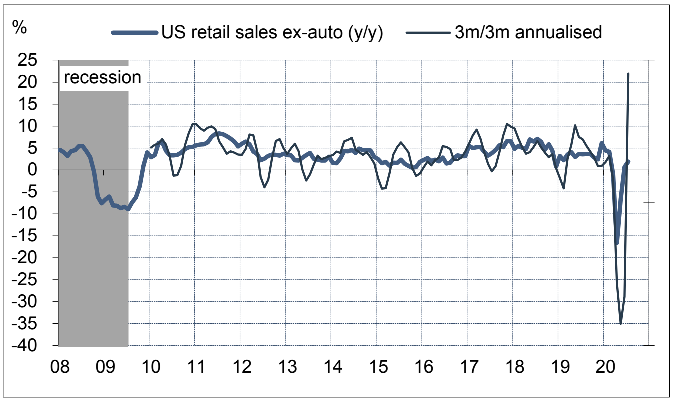


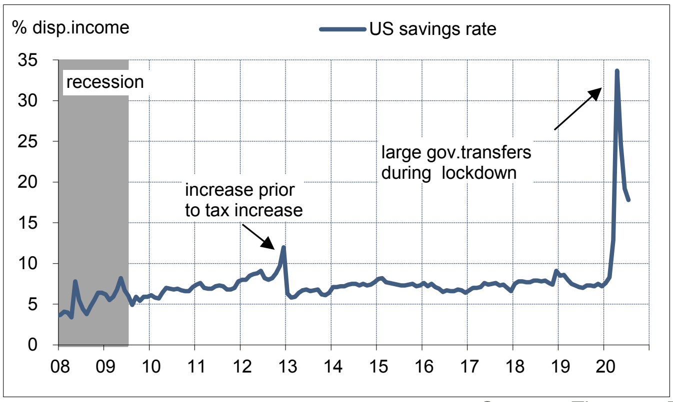


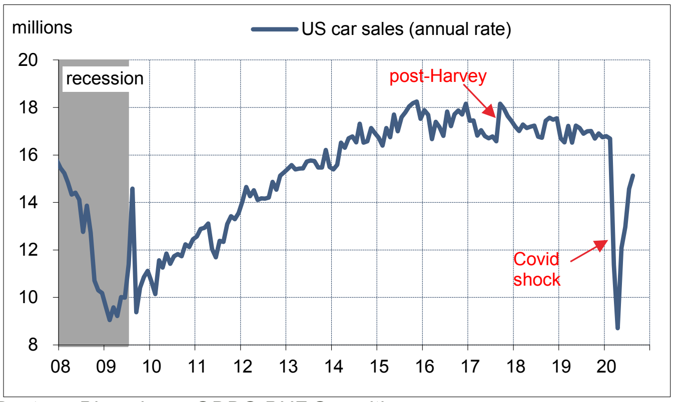


Appendix 2 - Consumer



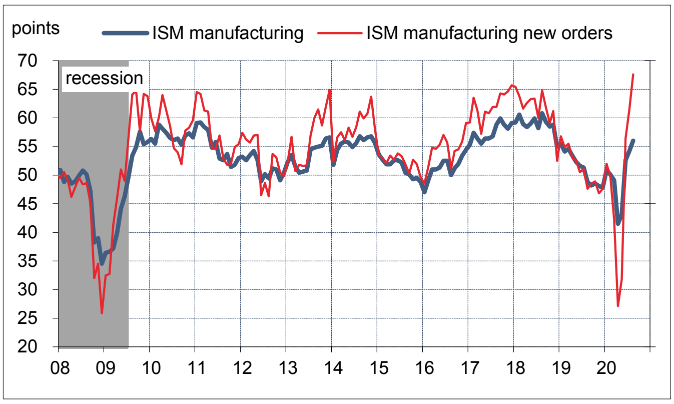


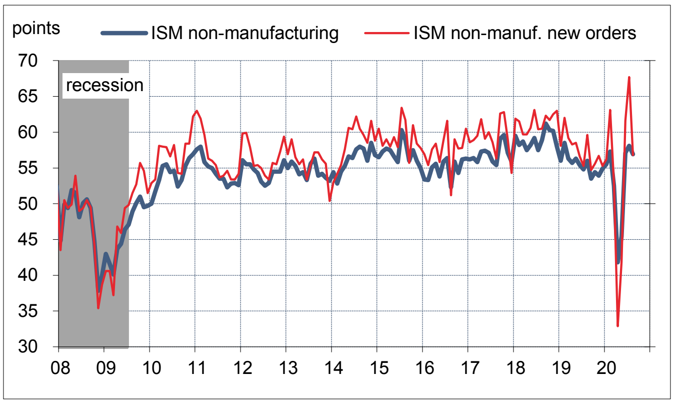


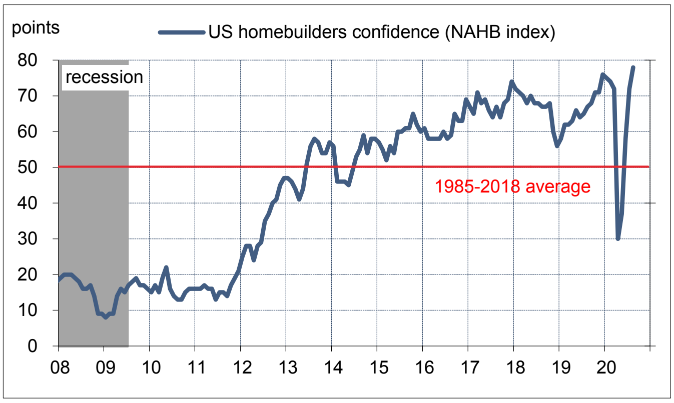


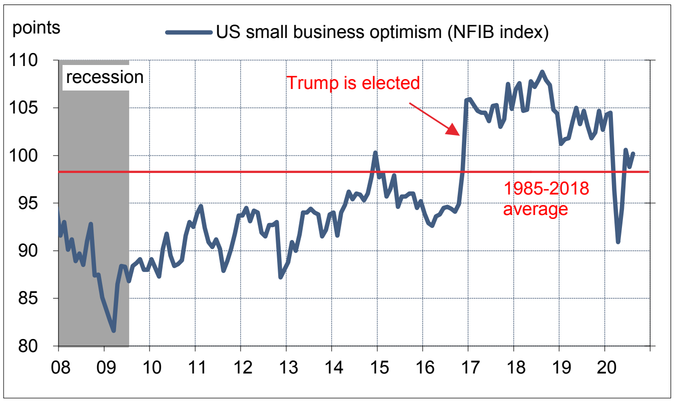
Sources: Thomson Reuters, Bloomberg, ODDO BHF Securities

Appendix 3 - Business climate

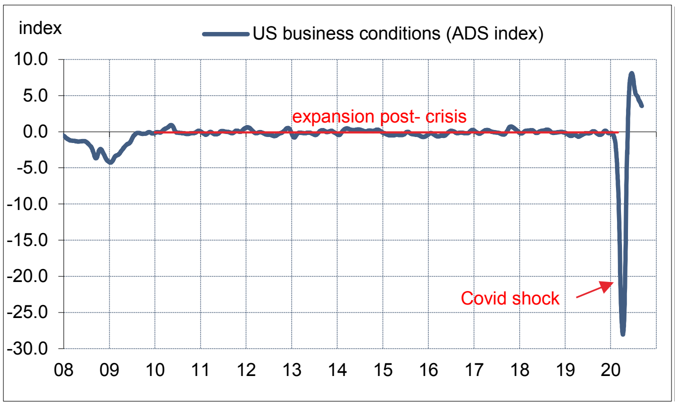


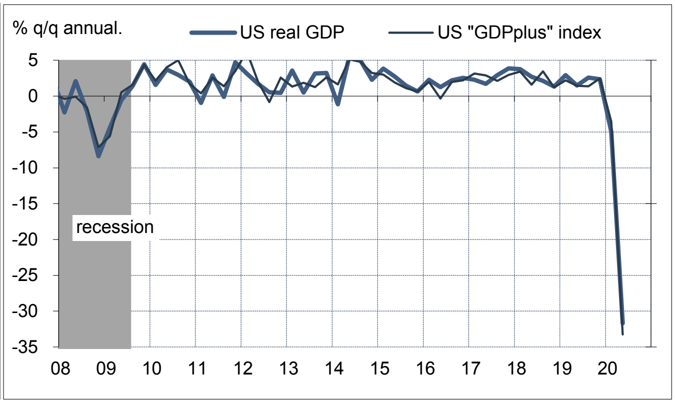


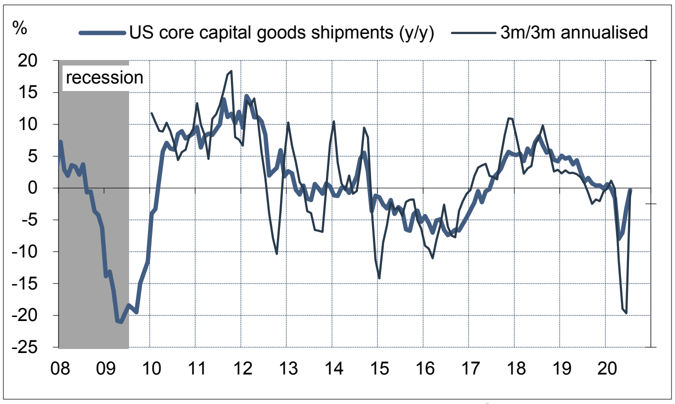


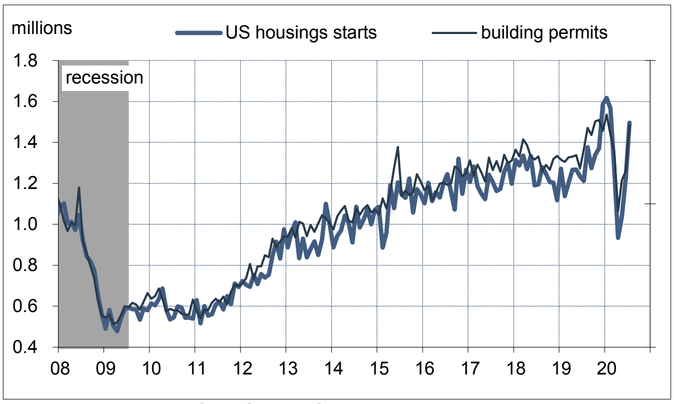


Appendix 4 - Conditions of economic activity



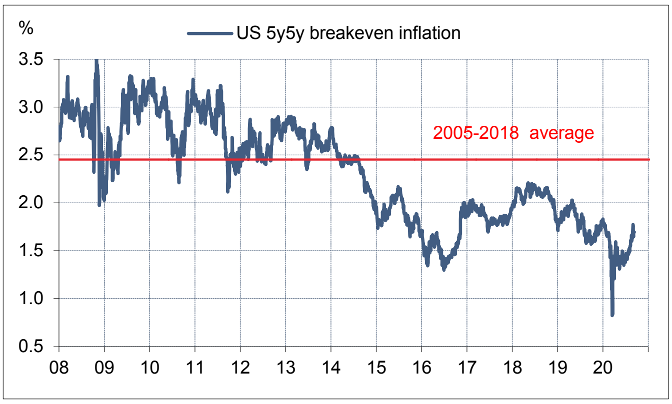


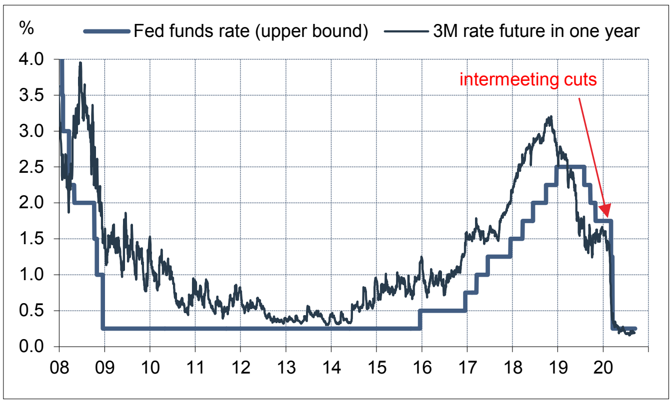


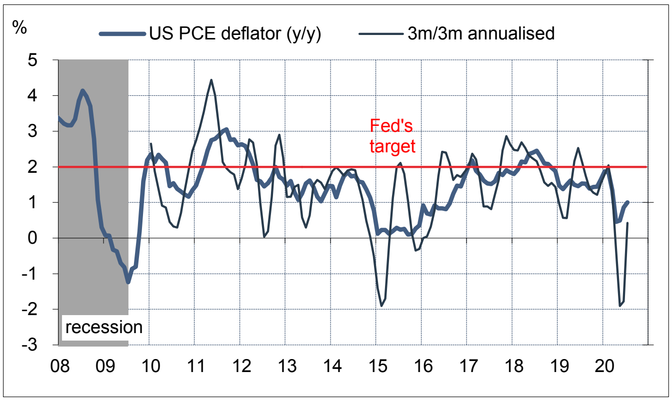


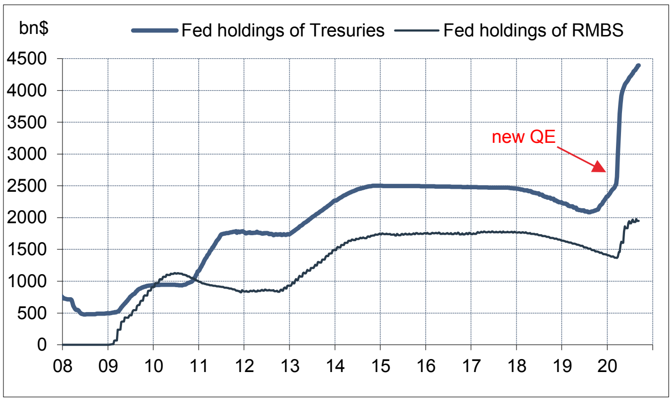
Sources: Thomson Reuters, Bloomberg, ODDO BHF Securities

Appendix 5 - Inflation and monetary policy

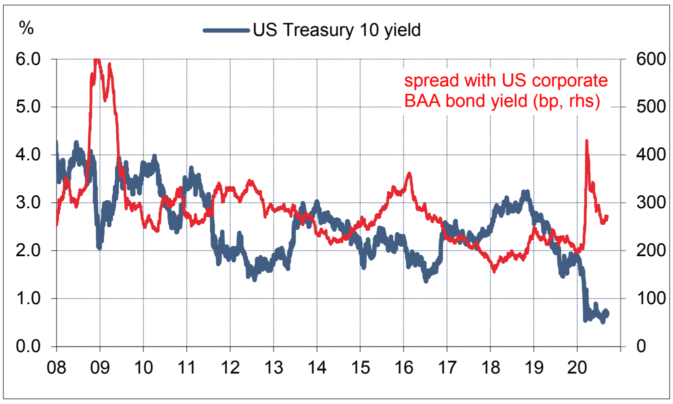


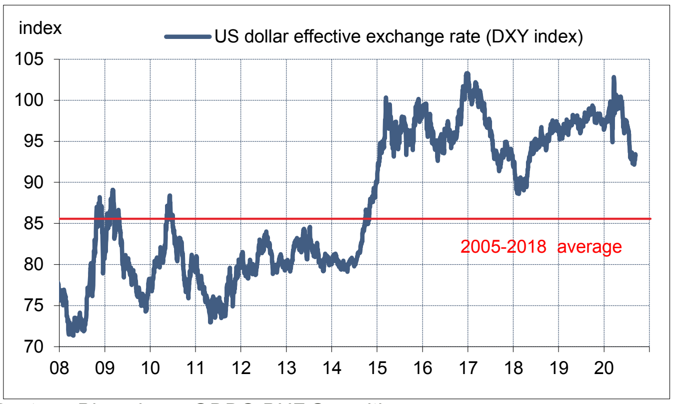






Appendix 6 - Financial markets





Sources: Thomson Reuters, Bloomberg, ODDO BHF Securities

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