

WEEKLY COMMENTARY



Could the US Midterm Elections Affect the Economy?

By Francis Généreux, Principal Economist

The US midterm elections are coming up on November 8. All 435 seats in the House of Representatives and 35 of the 100 Senate seats are up for grabs. Earlier this week, we published an [Economic Viewpoint](#) on the economic stakes of the election.

As we discussed in our note, recent polls suggest the House could shift to Republican control, and the Senate could move from a 50-50 split to a Republican majority. If this comes to pass, Congress will likely block most of President Biden's agenda. And while the rising cost of living has hurt Democrats and overshadowed social issues this cycle, the president's party typically struggles in the midterms.

So what would be the economic fallout of divided government? For one, you probably won't see much federal action on the economy. But if you think government inaction on the looming recession is cause for concern, you'd only be half right.

Given current economic conditions, federal government policies that would help the economy avoid or quickly emerge from a recession would not be optimal. The Federal Reserve (Fed) is aggressively raising interest rates to bring supply and demand into balance, which will in turn bring price growth back closer to the 2% target. Unfortunately, this will hurt the job market, the housing market and asset prices. If the government tried to soften the blow, the Fed would have to tighten monetary policy even further.

In fact, the government has already done just about everything it can. Congress and the Biden administration have enacted legislation that should eventually start to shore up domestic supply. These include the *Infrastructure Investment and Jobs Act* of 2021, the *Inflation Reduction Act* passed this summer, and the *CHIPS and Science Act* signed into law in August. These multi-year programs won't have an immediate effect on inflation, but

they're proof that government can boost supply and support the economy over the long term without exacerbating demand and inflation in the short term. They also show that compromise is possible in Congress, as both the infrastructure plan and the semiconductor plan passed with bipartisan support.

But if the US economy tanks, the government may have to step in again. If we see several quarters of severe economic contraction along with a spike in unemployment and a sharp decline in inflation, the government could take action in tandem with Fed rate cuts. As 2008 and 2020 taught us, Congress and the White House can work together when they have to. Granted, there seems to be better cooperation when there's a Republican president and a Democratic-controlled Congress.

What would be more unfortunate is if divided government and political gridlock make things worse. Consumer confidence is very low in the United States right now, and markets are already shaky. Manufactured crises over government funding or the debt ceiling would be bad news and potentially hurt the economy. Let's hope Republicans and Democrats don't fall into those traps.

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What to Watch For

By Francis Généreux, Principal Economist

THURSDAY November 10 - 8:30

October	m/m
Consensus	0.6%
Desjardins	0.6%
September	0.4%

FRIDAY November 11 - 10:00

November	
Consensus	59.5
Desjardins	58.0
October	59.9

FRIDAY November 11 - 2:00

Q3 2022	q/q
Consensus	-0.5%
Q2 2022	0.2%

UNITED STATES

Consumer price index (October) – Inflation in the United States has been declining since June on the back of three successive months of falling energy prices. But they are not expected to give the same boost in October. Gasoline prices rose 2.1% during the month, and we think food prices have surged again too. Core CPI, which strips out food and energy, is forecast to be slightly weaker than the 0.6% we saw in both August and September. We're anticipating that prices of used cars will drop further. Meanwhile, price pressures on services are likely to remain acute in the very short term. Core CPI is projected to increase 0.5%. Overall, we expect the month-over-month change in the all items index to come in at 0.6%, which would mark the first time it has risen faster than core CPI since June. The year-over-year change in the all items index should fall from 8.2% to 7.9%, with core inflation edging down from 6.6% to 6.5%.


University of Michigan consumer sentiment index (November – preliminary) – Consumer sentiment as measured by the University of Michigan index continued to improve in October. This is the first time since the pandemic began that the index has risen for the fourth month in a row. However, we think this streak will probably end in November. Declines in the Conference Board and TIPP indexes in October mean that the Michigan index is now an outlier and therefore likely to backslide in November. Recession fears and high inflation are still palpable, but the stock market has been going up since mid-October and gas prices have started to come back down. That said, we expect the University of Michigan index to dip slightly to 58.0.


OVERSEAS

United Kingdom: Real GDP (Q3) – Economic growth has virtually ground to a halt in the United Kingdom. Non-annualized real GDP rose just 0.2% in the second quarter, and third-quarter carry-over growth is negative based on subsequent monthly GDP prints. The UK economy is grappling with a number of challenges, including high inflation that's eroding household income and real consumer spending, coupled with economic and political uncertainty. This week's projections from the Bank of England describe a very challenging outlook for the UK economy, which "is expected to be in recession for a prolonged period." This recession may well have started in the third quarter.

Economic Indicators

Week of November 7 to 11, 2022

Day	Hour	Indicator	Period	Consensus		Previous data
UNITED STATES						
MONDAY 7	15:00	Consumer credit (US\$B)	Sept.	31.750	28.200	32.241
	15:40	Presidents speeches of the Federal Reserve Bank of Boston, S. Collins, and the Federal Reserve Bank of Cleveland, L. Mester				
	18:00	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
TUESDAY 8	---	---				
WEDNESDAY 9	3:00	Speech of the Federal Reserve Bank of New York President, J. Williams				
	10:00	Wholesale inventories – final (m/m)	Sept.	0.8%	0.8%	0.8%
	11:00	Speech of the Federal Reserve Bank of Richmond President, T. Barkin				
THURSDAY 10	2:00	Speech of a Federal Reserve Governor, C. Waller				
	8:30	Initial unemployment claims	Oct. 31-Nov. 4	220,000	220,000	217,000
	8:30	Consumer price index				
		Total (m/m)	Oct.	0.6%	0.6%	0.4%
		Excluding food and energy (m/m)	Oct.	0.5%	0.5%	0.6%
		Total (y/y)	Oct.	7.9%	7.9%	8.2%
		Excluding food and energy (y/y)	Oct.	6.5%	6.5%	6.6%
	9:35	Speech of the Federal Reserve Bank of Dallas President, L. Logan				
	12:30	Speech of the Federal Reserve Bank of Cleveland President, L. Mester				
	13:30	Speech of the Federal Reserve Bank of Kansas City President, E. George				
FRIDAY 11	14:00	Federal budget (US\$B)	Oct.	-90.0	n/a	-429.7
	---	Markets closed (Veterans Day)				
	10:00	Michigan's consumer sentiment index – preliminary	Nov.	59.5	58.0	59.9
CANADA						
MONDAY 7	---	---				
TUESDAY 8	---	---				
WEDNESDAY 9	---	---				
THURSDAY 10	11:50	Speech of the Bank of Canada Governor, T. Macklem				
FRIDAY 11	---	Markets closed (Remembrance Day)				

NOTE: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are Eastern Standard Time (GMT - 5 hours).  Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of November 7 to 11, 2022

Country	Hour	Indicator	Period	Consensus		Previous data	
				m/m (q/q)	y/y	m/m (q/q)	y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US\$B)	Oct.	95.97		84.74	
MONDAY 7							
Germany	2:00	Industrial production	Sept.	0.0%	2.0%	-0.8%	2.1%
TUESDAY 8							
Japan	0:00	Leading indicator – preliminary	Sept.	97.6		101.3	
Japan	0:00	Coincident indicator – preliminary	Sept.	101.1		101.8	
France	2:45	Trade balance (€B)	Sept.	-14,650		-15,301	
France	2:45	Current account (€B)	Sept.	n/a		-5.1	
Italy	4:00	Retail sales	Sept.	0.2%	n/a	-0.4%	4.3%
Euro zone	5:00	Retail sales	Sept.	0.4%	-1.1%	-0.3%	-2.0%
Japan	18:50	Current account (¥B)	Sept.	6.3		-530.5	
China	20:30	Consumer price index	Oct.		2.4%		2.8%
China	20:30	Producer price index	Oct.		-1.6%		0.9%
WEDNESDAY 9							
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THURSDAY 10							
France	2:45	Wages – preliminary	Q3	1.2%		1.1%	
Italy	4:00	Industrial production	Sept.	-1.5%	1.0%	2.3%	2.9%
Mexico	14:00	Bank of Mexico meeting	Nov.	10.00%		9.25%	
Japan	18:50	Producer price index	Oct.	0.6%	8.8%	0.7%	9.7%
FRIDAY 11							
Germany	---	Current account (€B)	Sept.	n/a		0.6	
United Kingdom	2:00	Trade balance (£B)	Sept.	-7,000		-7,080	
United Kingdom	2:00	Construction	Sept.	-0.6%	4.4%	0.4%	6.1%
United Kingdom	2:00	Index of services	Sept.	-0.5%		-0.1%	
United Kingdom	2:00	Monthly GDP	Sept.	-0.4%		-0.3%	
United Kingdom	2:00	Real GDP – preliminary	Q3	-0.5%	2.1%	0.2%	4.4%
United Kingdom	2:00	Industrial production	Sept.	-0.2%	-4.3%	-1.8%	-5.2%
Germany	2:00	Consumer price index – final	Oct.	0.9%	10.4%	0.9%	10.4%

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are Eastern Standard Time (GMT - 5 hours).