

# ECONOMIC VIEWPOINT

## United States: The 2022 Midterm Elections and the US Economy A look at the issues and the potential economic fallout of the November 8 elections

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Voters will be heading to the polls on Tuesday, November 8. Every seat in the US House of Representatives and a little over a third of US Senate seats are up for grabs. There are also a number of state and local races on the ballot. The president's party typically loses seats in the midterm election, and that could spell trouble for Democrats. This is borne out in the latest polls, which show that Americans are worried about the rising cost of living and have low consumer confidence. If Republicans win a majority in either house of Congress, we're unlikely to see much federal action on the economy for the next two years.

### The Current Congressional Makeup and the Midterms

Congressional elections are held every two years in the US. An election held in the middle of a president's four-year term is called a midterm election. Joe Biden was elected president in 2020, so this year is a midterm election. There are 435 members of the House, all with 2-year terms, and there are 100 Senators, all with 6-year terms. All 435 House seats are up for grabs, but only 34 Senate seats are on the ballot. There's also a special election to replace a Senator from Oklahoma who's retiring. There are a number of state and local races as well, including 36 for governor.

Democrats have controlled the House since 2018. They currently hold a slim 220-212 majority, and there are 3 open seats.

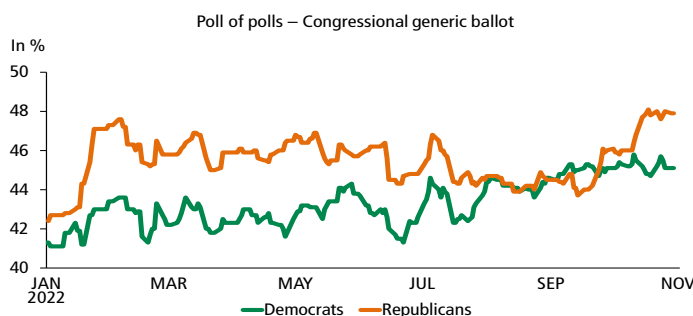
The Senate has been evenly divided 50-50 (two independents caucus with the Democrats) since the 2020 general election and the January 5, 2021 special election in Georgia. Despite this split, the Democrats have a majority in the Senate. That's because under the Constitution, the vice president of the United States, Kamala Harris, is the president of the Senate and casts the deciding vote in the event of a 50-50 tie. But since Democrats don't have a 60-vote supermajority, it's tough for them to pass their legislative agenda.

### What to Expect

It's hard to say what will happen on November 8. Right now, most polls have Republicans ahead. They were recently up about 3% nationally, and that lead has been growing (graph 1). But parties can lose the popular vote and still win a majority in one

### GRAPH 1

#### Recent polls have Republicans ahead



Sources: RealClearPolitics, Bloomberg and Desjardins, Economic Studies

or both chambers. On the House side, that is partly explained by the partisan concentration of voters in federal districts. It's also because of gerrymandering, the redrawing of electoral maps to favour one party over the other, which has gotten worse since 2010. In the current environment, it's tougher for Democrats to win. They need to win substantially more of the popular vote to take the House or retain their House majority, as they're trying to do this year.

Democrats are also trying to defy history. Since the turn of the 20th century, the president's party has lost House seats in all but three midterm elections (1934, 1998 and 2002).

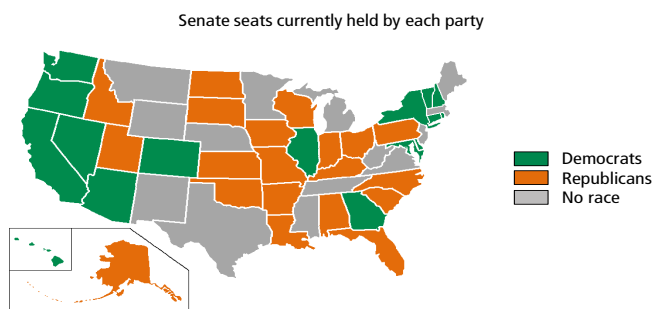
According to recent polling, Republicans are on course to win a fairly clear majority in the House. They could easily flip a number

of seats currently held by Democrats, and many of the tight races feature Democratic incumbents. Republicans are reportedly also competitive in some traditionally Democratic strongholds such as California, New York, Oregon and New England.

On the Senate side, the outcome is less clear. Republicans are defending 21 of the 35 seats at stake this year (graph 2), so Democrats theoretically have a better chance of making gains. What's more, six of those 21 Republican seats are open, meaning the incumbent isn't seeking re-election. Republicans therefore don't have the incumbent advantage in those races. But many of the seats the GOP is defending are in safely Republican states especially in the Midwest and along the Mississippi River.

### GRAPH 2

**Senate: More Republican seats are up for grabs this cycle**



Sources: U.S. Senate and Desjardins, Economic Studies

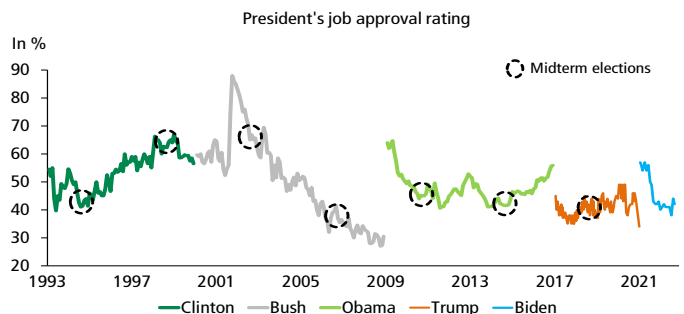
State-level Senate polling is also painting a mixed picture. It looks like Senate control will come down to Pennsylvania (currently Republican) where polls are giving the Democrat candidate a slight edge, and Nevada and Georgia (both currently Democratic) where Republicans have taken a slim lead. It'll also be interesting to see what happens in Arizona and New Hampshire (currently held by Democrats) and North Carolina, Ohio and Wisconsin (three Republican-held seats). Polls in all five races have been tight in recent months.

### The Top Issues

A number of issues can sway midterm voters. Unlike in presidential years, when White House contenders and their platforms dominate the news cycle, midterms can turn on different issues. But while state and local issues matter, national politics usually take precedence. Since the party in the White House typically takes a drubbing, you might think the midterms are just a referendum on the president. If that were the case, the Democrats would be in real trouble given President Biden's low approval rating (graph 3).

### GRAPH 3

**President Biden's approval rating has plummeted to a relatively low level**



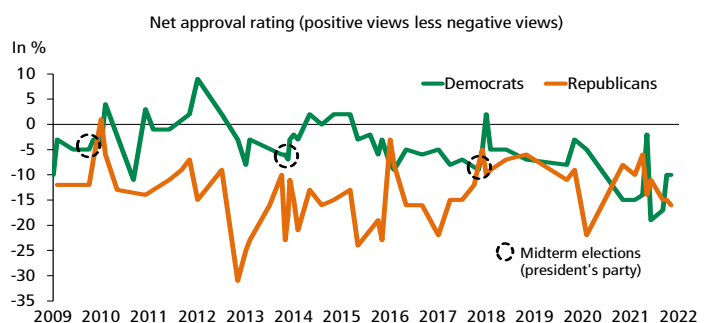
Sources: University of California and Desjardins, Economic Studies

But according to some [studies](#), the midterms are more a referendum on the president's party. And the more power the party had in Congress during the previous term, the more voters usually want to clip its wings and move to more divided government. Biden and his Democratic allies in Congress didn't really have full control, however. They easily passed the American Rescue Plan in March of 2021, but they had to compromise with Republicans to enact other key measures like the Infrastructure Investment and Jobs Act of 2021 and negotiate with centrist Senate Democrats to pass the Inflation Reduction Act of 2022.

During the Obama administration, Democrats took a beating in the 2010 and 2014 midterms, losing 63 and 13 seats respectively. The Democratic party's net approval rating is even lower now (graph 4). It's also below Republicans' approval rating in 2018, when the GOP lost 42 seats in the House.

### GRAPH 4

**Democrats have a low net approval rating**



Sources: NBC News and Desjardins, Economic Studies

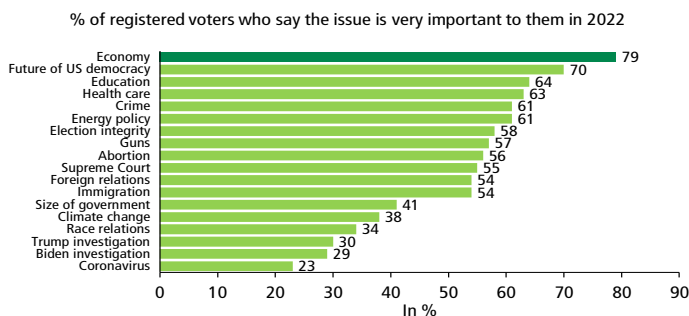
### The Economy is the #1 Issue

Americans obviously weigh a number of issues when deciding how they'll vote, but the economy tops the list (graph 5). It's what they want their leaders to focus on most, along with getting more done in Washington (graph 6).

But the state of the economy is viewed through a very partisan lens. According to the [Pew Research Center](#) poll in graph 4, 92% of Republicans say the economy is very important, while only 65% of Democrats say the same. For Democrats, the future of US democracy (80%), health care (79%), abortion (75%), the Supreme Court (69%) and climate change (68%) are more important this election. For Republicans, the biggest issues after the economy are immigration (76%) and crime (74%).

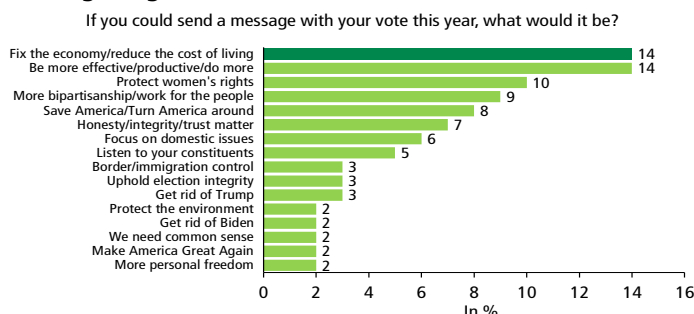
Democrats and Republicans also disagree on the health of the US economy. Just 9% of Republican respondents rated the economy as excellent or good compared with 26% of Democrats. These diverging views are apparent in other economic indicators such as consumer confidence. According to the University of Michigan consumer sentiment survey, Republicans have been down on the economy for quite some time (graph 7). Their take was quite different when Donald Trump was in office. Weak consumer confidence, whether based in reality or partisan politics, is a sign

**GRAPH 5**  
The economy is the #1 issue for voters



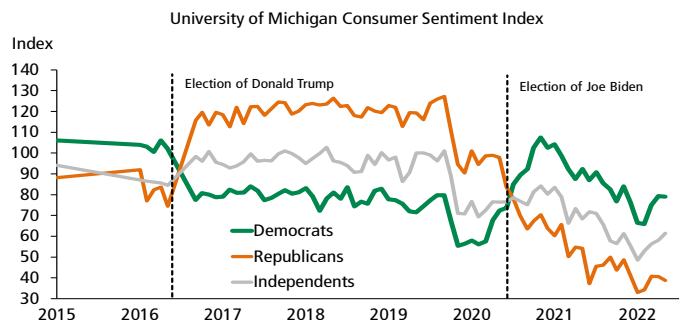
Sources: Pew Research Center and Desjardins, Economic Studies

**GRAPH 6**  
Americans want politicians to focus on the economy and the cost of living and get more done



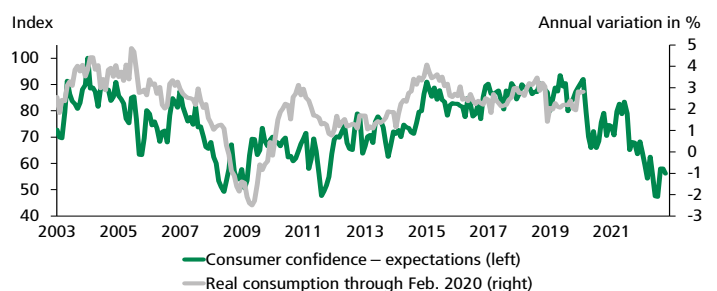
Sources: NBC News and Desjardins, Economic Studies

**GRAPH 7**  
Consumer confidence is much lower among Republicans



Sources: University of Michigan and Desjardins, Economic Studies

**GRAPH 8**  
Weak consumer confidence points to lower real consumption



Sources: University of Michigan, Bureau of Economic Analysis and Desjardins, Economic Studies

of a shaky economy. In the past, a low reading on the University of Michigan survey has been a precursor of anemic or negative real consumption growth (graph 8).

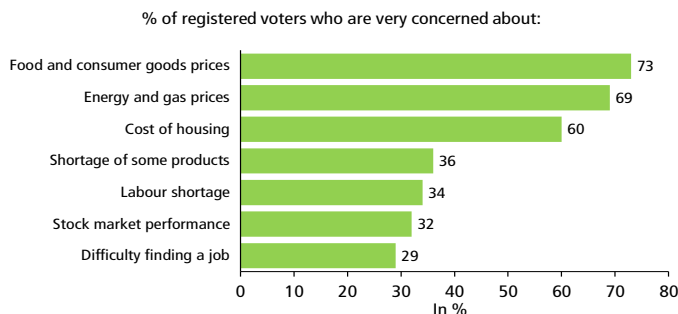
### Inflation, Inflation, Inflation

One of the biggest reasons consumer confidence has declined over the past year is the dramatic rise in inflation. This is backed up by the polls. Prices for food and consumer goods are a major concern for 73% of respondents, while gas and energy prices are a leading concern for 69%. The cost of housing also ranks high. Jobs and other economic issues aren't a major concern right now (graph 9 on page 4).

Consumer confidence indicators edged up over the summer as gas prices and other pressures eased. Falling prices also affected voting intentions, as polls shifted slightly in Democrats' direction between May and September (graph 10 on page 4). President Biden's approval rating got a boost as well.

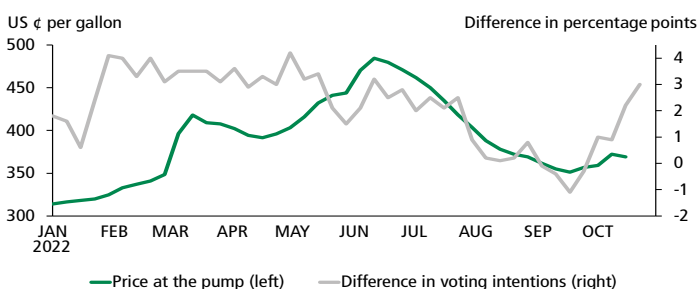
If economic conditions change after the election, consumers' top economic concerns could also change. But as inflation gradually declines, so too will inflation fears. Housing could continue to be a pain point, however, as interest rates remain relatively high and home prices keep falling. And the labour market isn't

**GRAPH 9**  
Inflation and the rising cost of living are the top concerns for voters



Sources: Pew Research Center and Desjardins, Economic Studies

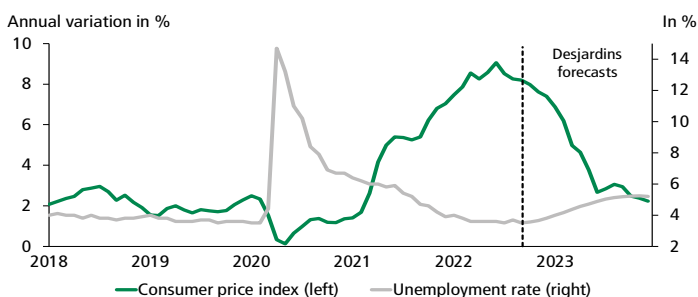
**GRAPH 10**  
Lower gas prices gave Democrats a temporary boost



Sources: RealClearPolitics, Bloomberg, Energy Information Administration and Desjardins, Economic Studies

expected to hold up much longer. Based on our scenarios, we see unemployment going up (graph 11). Jobs and inflation are therefore likely to swap places on the list of consumers' top concerns.

**GRAPH 11**  
The US could see lower inflation but higher unemployment next year



Sources: Bureau of Labor Statistics and Desjardins, Economic Studies

## The Potential Economic Fallout

During midterm elections, candidates don't typically offer as much substance on policy—economic or otherwise. The party in power wants to leave the president enough leeway to pass the agenda they ran on, while the party out of power criticizes the president's job performance to try and prevent them from passing more of their agenda.

The parties' platforms are also quite different. As in the past, Republicans are running on taxes. They want to extend Trump's 2018 tax cuts and cancel Biden's tax hikes, including the minimum corporate tax. Meanwhile Democrats especially want to move forward with the measures already adopted by Congress and the White House.

## Divided Government Will Mean More Gridlock

Divided government—when one party has the presidency and the other controls one or both houses of Congress—typically results in political gridlock. We saw this in 2010, when Republicans took control of Congress during President Obama's first term. Democrats currently have the slimmest of majorities in the Senate. That means the administration has to negotiate with Republicans and/or centrist Democrats to get legislation passed. And because Democrats don't have the supermajority needed to overcome a filibuster, the Biden administration has had to use complicated procedural maneuvers to pass some bills.

If Democrats end up in the minority in one or both chambers as expected, they'll lose control of the legislative agenda. The president will have to compromise with Republicans on everything, and that could be difficult on most issues.

But a crisis could change that dynamic. In 2008, George W. Bush was able to work with the Democratic-controlled Congress to address the financial crisis, and at the beginning of the pandemic in 2020, Donald Trump and Democrats in Congress reached a deal on the first pandemic relief package. Given the current climate, however, we're unlikely to see any new large-scale stimulus programs, even with an economic downturn looming. Inflation is the leading economic issue for consumers, businesses and markets right now. Neither the Biden administration nor Republicans want to add fuel to the inflationary fire. There are also important lessons to be learned from the recent political and financial debacle in the United Kingdom. As one British Conservative economic adviser noted, ["\[...\] financial markets are concerned that any fiscal easing may add to inflation. Thus, to keep the markets inside, it is important that fiscal policy is explained clearly, that fiscal actions now are targeted and, further ahead, are focused on the supply side of the economy. There is a need to convince the markets that fiscal action is necessary, affordable and non-inflationary."](#) Markets are calling for caution, so Republicans can't slash taxes, and Democrats can't balloon



federal spending or boost household income. Also on the side of the president's party, they will want to give time to the policies already enacted, notably the Inflation Reduction Act, to take full effect. But compromise may be possible if the recession is worse than expected, inflation falls rapidly and unemployment spikes.

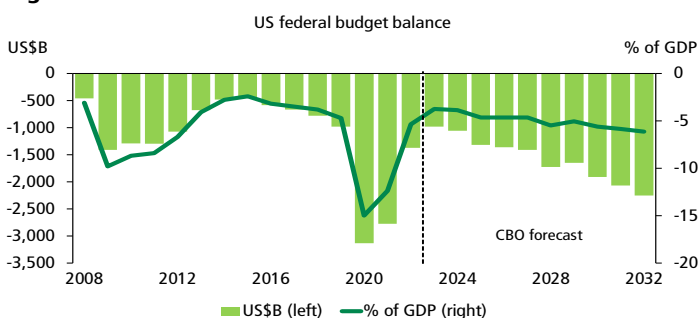
### A Bumpy Road Ahead

If Republicans take the House or Senate, we could see new political battles over raising the debt ceiling or funding the federal government.

Because both houses of Congress and the president must agree on the federal budget, political gridlock could lead to a partial government shutdown. This has happened several times in the past, including 1995–1996 under President Clinton, 2013 under President Obama and 2018–2019 under President Trump. The federal government is currently funded through December 16. A new funding bill could pass relatively easily since the new Congress won't be sworn in until early January. But after that, the budget could quickly become a bone of contention between President Biden and Republicans.

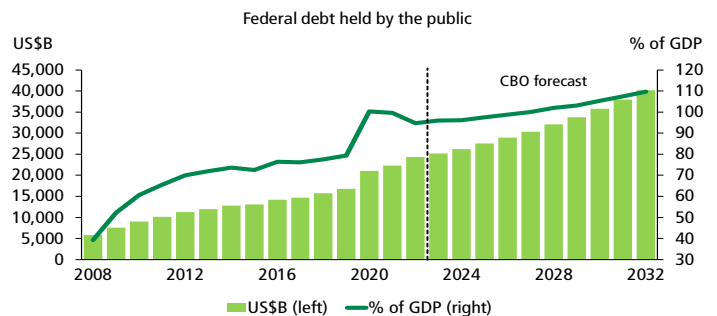
There's also the issue of the debt ceiling. Given actual and projected budget deficits (graphs 12 and 13), the debt ceiling has to be raised regularly to allow the federal government to borrow the funds it needs to operate. It was raised most recently in December 2021. If the US Treasury takes the extraordinary measures at its disposal, the debt ceiling probably wouldn't have to be raised again until next summer. But Republicans are already talking about using it as a political cudgel. According to a recent [piece](#) in the New York Times, "Multiple top Republicans have signaled that unless Mr. Biden agrees to reduce future government spending, they will refuse to lift the borrowing cap."

**GRAPH 12**  
Deficits are down due to post-COVID growth, but will remain high



CBO: Congressional Budget Office  
Sources: CBO and Desjardins, Economic Studies

**GRAPH 13**  
The debt will continue to grow



CBO: Congressional Budget Office  
Sources: CBO and Desjardins, Economic Studies

### Conclusion: Two Years of Little New Policy, but Lots of Partisan Politics

The economy is the top issue in this year's midterms. But unlike in previous cycles, it's not jobs, taxes or economic recovery that's on Americans' minds, it's the rising cost of living. The federal government can't do a whole lot about that. The Federal Reserve has the best tools to rein in inflation, and it's been tightening monetary policy aggressively since the start of the year. We'll have to see what President Biden and the new Congress will do if the economy tanks, especially if Republicans take one or both chambers. Given the parties' very different economic platforms, compromise could prove difficult. It's therefore unlikely we'd see any major new economic policies out of Washington. Hopefully political rancour won't lead to new fights over government funding or the debt ceiling, which could hurt investor, consumer and business confidence.

Once the midterms are over, the focus will shift to the next presidential election. But don't read too much into the midterm results. Midterms usually don't tell us much about the next presidential race. That's especially true this time around, as it's unclear whether President Biden will run for a second term and whether Donald Trump will attempt a comeback after losing four years ago. Bottom line? The 2024 election will likely have a bigger impact on the US and global economies than this year's midterms.