

## FAQ

21 JULY, 2020

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## Q&A: Who Will Be the Next President?

*Because of the large number of questions we received from our webinar on July 16, 2020, we have combined many in this document. If you have further questions, please email us at [help@economy.com](mailto:help@economy.com).*

### Question: Do you have projections on the Senate? Will it flip?

Answer: Of the 35 Senate seats that are in play, 23 are held by Republicans, and Democrats need a net gain of only three or four seats to win back the Senate majority (depending on which party wins the White House, since the vice president can break ties in the Senate). At first blush, the Senate map looks overly favorable to Democrats. However, the path to a Democratic Senate majority is extremely narrow. Only two of these 23 Republican seats are in states that former Secretary of State Hillary Clinton won in 2016: Colorado and Maine. Political expert opinion considers only three other seats as toss-ups: Arizona, Montana and North Carolina. Moreover, former Auburn football coach Tommy Tuberville is favored to dislodge Senator Doug Jones from his Alabama seat. Therefore, a lot would have to go their way for Democrats to flip the Senate, and history is not on their side. Since WWII, the in-cumbent president's party has lost on net an average of about one Senate seat in presidential election years, not enough for the Senate to flip in 2020 (see Table 1).

Though Moody's Analytics does not forecast individual Senate races, we do follow the polls, prediction markets, and qualitative assessments made by professional political handicappers. Since June, political betting markets are increasingly favoring Democrats to retake the Senate.

**Table 1: All Postwar U.S. Senate Outcomes During Presidential Election Years**

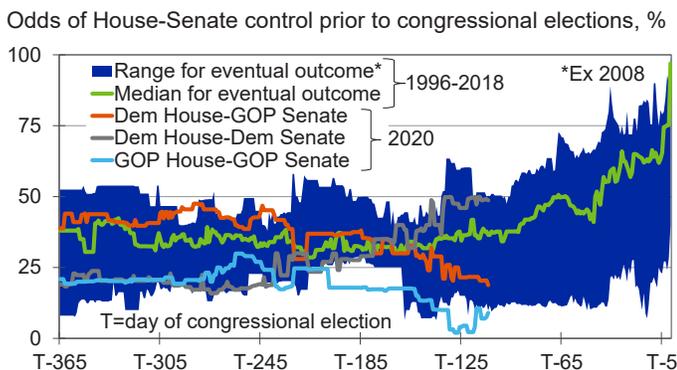
	Net Senate gain/loss (+/-) for incumbent president's party	Did Senate majority flip?	Incumbent president's party
1948	9	Yes	D
1952	-1	Yes	D
1956	-1	No	R
1960	2	No	R
1964	1	No	D
1968	-6	No	D
1972	-2	No	R
1976	0	No	R
1980	-12	Yes	D
1984	-2	No	R
1988	0	No	R
1992	0	No	R
1996	-2	No	D
2000	5	Yes	D
2004	4	No	R
2008	-8	No	R
2012	2	No	D
2016	2	No	D
<b>Avg</b>	<b>-0.5</b>		

Sources: U.S. House of Representatives, Moody's Analytics

Moody's Analytics concurs with betting markets that at present the odds, on balance, favor a Democratic Senate takeover, though we caution that a lot can change in the next 3½ months before the election (see Chart 1).

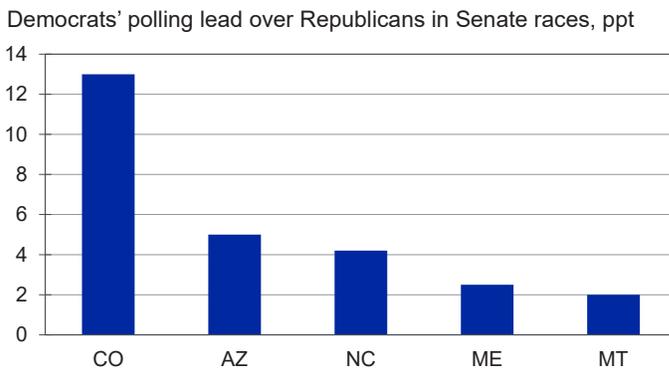
The Cook Political Report rates the Arizona, Colorado, Maine, Montana and North Carolina races as toss-ups, where the Senate majority will be won or lost (see Chart 2). In these high-stakes Senate races, Democratic candidates are leading their Republican opponents in the polls, with margins as large as 13 percentage points in Colorado and as slim as 2 percentage points in Montana.

### Chart 1: Surging Democratic Odds



Sources: Iowa Electronic Markets, Moody's Analytics

### Chart 2: Democrats Lead Toss-Up Races



Sources: RealClearPolitics, Moody's Analytics

Of these five toss-up races, Colorado seems to be the safest bet for Democrats. President Trump is deeply unpopular in the state, and even the net approval of Republican Senator Cory Gardner, who is defending this seat against former Governor John Hickenlooper, is under water, according to Morning Consult.

Arizona appears to be the next best bet for Democrats. The average error in RealClearPolitics' average of final Arizona Senate polls going back to 2006 is 2 percentage points, which would not be enough to reverse Democrat Mark Kelly's current lead in the polls over Republican Senator Martha McSally. Moreover, Moody's Analytics finds that the average of final pre-election polls has tended to overestimate Republican Senate candidates' polling margins by about a percentage point. This particular polling issue has become apparent since 2012, with the most egregious error occurring in the 2018 Arizona Senate race. In that contest, the polls suggested that Democrat Kyrsten Sinema would lose by a percentage point even though she ended up winning by more than 2 points.

Since late June, Democrat Cal Cunningham has climbed in the polls of the North Carolina Senate race, thrusting Senator Thom Tillis into the position of underdog. The average error in RealClearPolitics' average of final North Carolina Senate polls going back to 2004 is 2.5 percentage points, which would not be enough to undo Cunningham's current advantage against Tillis. Nevertheless, Cunningham and Tillis were neck and neck in the polls as recently as late June, so a lot can change between now and the election.

If we were to assume former Vice President Joe Biden wins, Democrats sweep the Colorado, Arizona and North Carolina Senate seats, but Jones loses against Tuberville in Alabama, then Democrats would still be one seat short of a Senate majority. As a result, the fate of the Senate will likely come down to Maine and Montana, where the odds are not as clear-cut, and possibly slightly unfavorable to Democrats.

Senator Susan Collins is running for re-election in Maine for the fourth time. Even though she is trailing Democratic opponent Sara Gideon by 2.5 percentage points, it is worth remembering that the polls have, on average, underestimated Collins' margin by 8 percentage points in her last two re-election bids of 2014 and 2008. The 2020 race may be Collins' toughest re-election campaign yet, but she is a proven political survivor and it is risky to bet against her.

Therefore, it could come down to Montana if Democrats are to win back the Senate. RealClearPolitics is reporting only one poll from Public Policy Polling, which shows current Democratic Governor Steve Bullock leading Republican Senator Steve Daines by 2 percentage points. Moody's Analytics has counted two other polls showing Bullock with leads from 4 to 7 percentage points. However, one poll has shown the Montana Senate race to be a dead heat, and the latest poll from Civiqs puts Daines ahead with a 2-point lead. The final pre-election polls have had a good track record in the past two Senate races, so if the current trend in polling holds, Bullock would head into Election Day with an advantage. However, unlike the other incumbent Republican Senators in these toss-up races, Daines' net approval is not under water. Among all voters, his net approval is 16 percentage points, according to Morning Consult.

**Q: How do you see COVID-19 impacting turnout, if at all? Do you lean toward a lower-turnout scenario due to COVID-19?**

A: On the one hand, COVID-19 could spur greater turnout if disillusionment with President Trump's handling of the coronavirus crisis is a major motivator for voters, who would otherwise keep to the sidelines on Election Day. Net disapproval of the president's handling of the pandemic has steadily increased since early April, and is currently as wide as 19 percentage points, according to RealClearPolitics.

Nevertheless, COVID-19 could also depress turnout by scaring voters away from the ballot box, especially in urban areas where transmission of the virus can easily be exacerbated by high population densities. Though a growing share of the electorate has been voting by absentee ballot, mail-in ballot demand is all but certain to shatter records in 2020. Expanding absentee voting will be costly for state governments, which are already facing a fiscal crisis of their own, and it is unlikely that Congress and the White House will agree on further funding for mail-in ballots in the general election on top of what the CARES Act provided. If state election systems cannot keep up with surging mail-in ballot demand, it could lead to absentee ballots getting lost in the mail or never making it in time to voters. Also, some voters may not have their votes counted if they do not return their absentee ballots in time, which has been an issue in recent primaries. Finally, closures of polling places due to public health concerns could create confusion or long lines at other polling locations that could also serve as a deterrent for turnout.

**Q: How many presidential elections have you used this model on, and how many times have you been correct?**

A: All three presidential election models, which underpin our Electoral College projection, accurately predict the winner of every presidential election since the 1980 Reagan-Carter contest. For more information, please read our first [white paper](#) on the 2020 presidential election in which we provide back-testing results of our three models.

**Q: Why will housing prices fall so much if interest rates are still very low?**

A: We are forecasting a modest correction in home values nationally toward the end of 2020 and into mid-2021. Home values are 7.6% above their equilibrium value and prices will revert downward to trend in the coming quarters. Moreover, despite some recent respite, the labor market remains in an enfeebled state, wages and salary income has plummeted back to its late-2017 level, and consumer confidence remains severely impaired. With the decline in incomes, downward pressure on affordability has also intensified and our proprietary housing affordability index has dropped back to its late-2008 level. This will put further downward pressure on house prices during the coming quarters. The prospects for another slowdown in the broader economy have also risen significantly in recent weeks as large states, including Florida and Texas, have begun reclosing portions of their economies because of a spiking number of COVID-19 cases. As of mid-July, states accounting for about three-quarters of national GDP either halted their reopening plans or started reclosing major parts of their economies. The reversal could exacerbate the downturn in consumer confidence, spur another leg down in the labor market, and, in turn, deal another blow to housing demand.

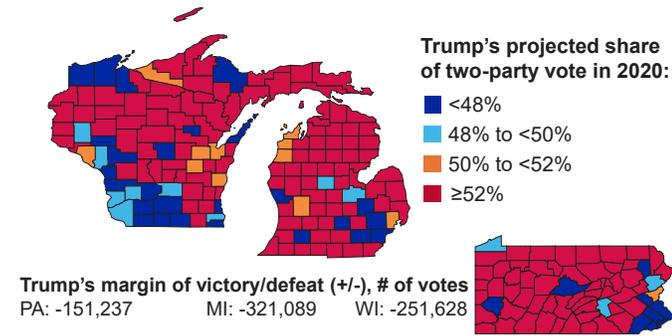
Counterbalancing a portion of the downward pressure on home values will be the continued foreclosure mitigation measures implemented in the CARES Act passed back in the first quarter of this year. The legislation enables homeowners that have federally backed home loans to defer all or a portion of their mortgage payments until May 2021. Approximately three-quarters of all mortgages outstanding nationwide are federally backed. Therefore, a large share of potential foreclosures will be prevented, but the erosion in home equity due to deferred payments will still sting. Early-stage delinquencies, which include those borrowers who are part of a mortgage-payment deferral program, skyrocketed to their highest level in more than 20 years in April, indicative of growing financial pressure on homeowners. Greater troubles will persist for overleveraged homeowners who are reliant on non-federally backed loans such as jumbo loans, which are not covered under the CARES Act foreclosure mitigation measures. Consequently, foreclosure filings and inventories will rise in the coming months and the corresponding uptick in distress sales will exert downward pressure on home values.

**Q: Was there a determination made to voter turnout in each county by party to arrive at this forecast?**

A: To arrive at our forecast for 2020 presidential election outcomes in Pennsylvania, Michigan and Wisconsin counties, we did not make any qualitative adjustments to our turnout assumptions for a given county. It is a purely model-driven process in which we use one pooled regression for each state to determine the share of registered voters that will turn out on Election Day based on a mix of quantifiable political variables, as well as economic ones. Since our predicted turnout rates are applied to the most recent voter registration data that are provided on the official election websites of these states, our model results will reflect real-time trends if registrations are rising faster in blue counties versus red counties, and vice versa (see Chart 3).

### Chart 3: Biden to Rebuild Blue Wall

How counties will vote during pandemic if noninc. turnout is avg

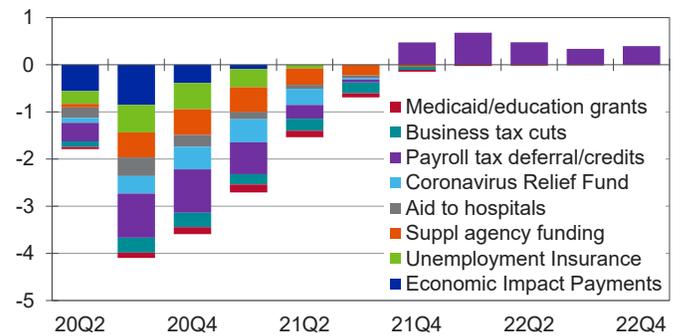


Source: Moody's Analytics

Note: Results reflect Jun 2020 forecast

### Chart 4: Joblessness Would Be Higher

Impact from federal rescue funds on U.S. unemployment rate, ppt



Sources: BEA, CBO, JCT, Moody's Analytics

### Q: As for the three states, the unemployment rate is the important factor for your model projection. Given the government relief programs have impacted disposable incomes, were these impacts incorporated into the model?

A: Our U.S. macroeconomic forecast incorporates the impact of the CARES Act and its three sibling pandemic relief packages. Our state- and county-level models rely on the change in the unemployment rate from the first quarter to the third quarter of a presidential election year. Our forecast for the U.S. unemployment rate in the third quarter of 2020 would have been at least 4 percentage points higher if not for all of the stimulus measures that have been enacted so far (see Chart 4). Our U.S. unemployment rate forecast flows down into our subnational economic forecasts for all U.S. states and metro areas, which in turn influence our U.S. county forecasts. Therefore, the impact of recent government rescue funds is present in our county-level forecasts for the three battleground states we analyzed in depth.

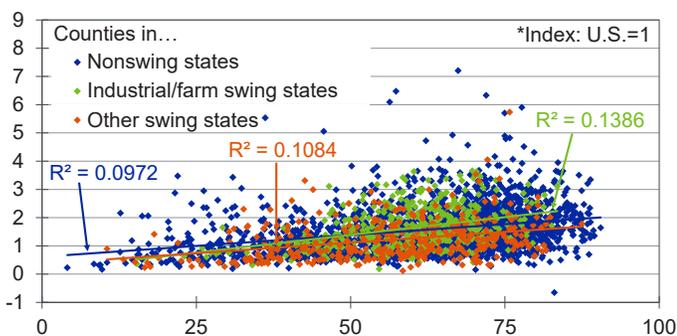
### Q: What is the impact of the U.S.-China trade war?

A: The U.S.-China trade war has disproportionately hurt U.S. states and counties that voted for President Trump in 2016. This is especially the case in swing states in the farm belt and the traditionally industrial Great Lakes region (see Chart 5). Prior to the pandemic, U.S. manufacturing was arguably in a recession, and agriculture was struggling as well. Our county election model for Wisconsin had Democrats beating Trump even before the pandemic, since the unemployment rate in the Badger State had been on the rise since late 2018. As a result, such state economies entered the pandemic in worse shape than they would have otherwise.

Federal bailout funds to farmers affected by the trade war have likely provided some protection for Trump support in the farm belt and the swing state of Iowa. In nominal terms, the level of government farm subsidies during the Trump era has been unprecedented. The last time the government bailed out farmers to nearly this extent was in 2005, when soaring energy prices and low corn prices driven by a production glut depressed farm income (see Chart 6).

### Chart 5: Trump Country Bears the Brunt

X-axis: Trump's 2016 vote share, %; Y-axis: Trade war impact\*

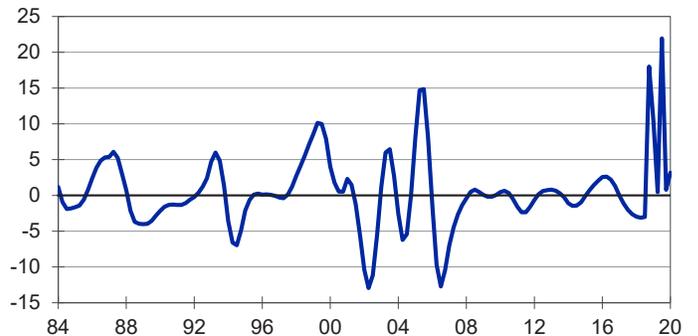


Sources: BEA, WSJ, Moody's Analytics

Note: Smallest 10% of counties removed

### Chart 6: Trump Bailout Breaks Record

Federal agricultural subsidies, \$ bil, change yr ago



Sources: BEA, Moody's Analytics

**Q: Will there be an impact of the vice president selection for Biden? How will the model factor in the "hometown" bump that Biden may or may not get from his choice of VP?**

A: Vice presidential selections can have an impact on the election outcome of a running mate's home state. FiveThirtyEight's Nate Silver [finds](#) that the VP pick has, on average, conferred a net gain of about 2 percentage points for the top of the ticket in their home state since 1920. Other political [scientists](#) have found an even greater effect on a ticket's performance in the VP's home state of 2.67 percentage points since 1884, which could have been enough to influence four presidential election results since 1960.

In past election cycles, we have attempted to include in our presidential models a dummy variable to capture the "favorite son" effect whereby the incumbent party candidate derives more support from their native state. However, such a variable has turned out to be statistically insignificant, probably owing to our limited data sample that goes back only to 1980. Therefore, our models do not factor in any potential "hometown" advantage Biden may get from his VP pick.

**Q: What will former Vice President Joe Biden's policy be on Social Security?**

A: According to Biden's tax plan, he would apply the 12.4% Old-Age, Survivors and Disability Insurance payroll tax to earnings above \$400,000, which would raise close to \$2.8 trillion through 2040, according to the Tax Policy Center. Removing the limit on the amount of earnings subject to payroll tax is one of the most effective policies in terms of staving off the looming depletion of Social Security's trust funds. Such a policy would extend the solvency of Social Security's combined trust funds to 2065, which would be 30 years later than the projected depletion date under current law (see Chart 7). This would be one of the more substantive reforms to the old-age entitlement program since 1983, when President Ronald Reagan and a divided Congress fast-tracked already-scheduled payroll tax rate increases, gradually raised the full-benefit retirement age, and taxed benefits, among other changes.

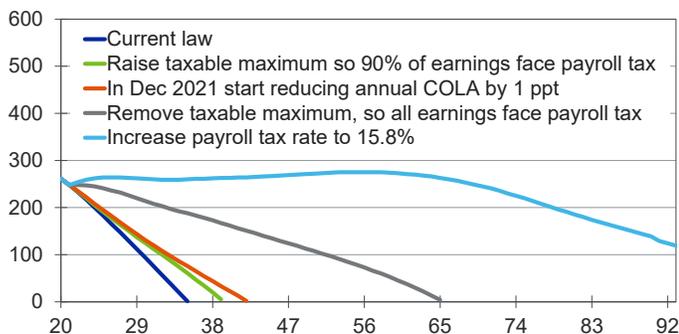
**Q: What are the potential weakest links that may derail Biden's campaign? How likely will Trump change or delay the timing of November's election?**

A: Between now and Election Day, there is the possibility of an "October Surprise" that crops up and reverses Biden's current strength in the polls. Thus far, campaign gaffes, Tara Reade's sexual assault allegations, and Senate Republicans' probe of Hunter Biden do not seem to have swayed his standing in the polls. A more fundamental problem for Biden has been his apparent enthusiasm deficit relative to Trump. A recent survey from Pew Research Center captures this dynamic perfectly. The majority of Trump voters are voting for Trump rather than against Biden, whereas the majority of Biden voters are voting against Trump rather than for Biden himself. Nevertheless, negative partisanship can be as potent as a wellspring of support from one's political base, so this apparent enthusiasm gap may not be problematic for Biden (see Chart 8).

By law, Trump cannot cancel or postpone the November election date. Only Congress has the power to change the date when the U.S. holds federal elections, and it is extremely unlikely that Congress would agree to do such a thing this year, even during the pandemic.

**Chart 7: Some Ideas Better Than Others**

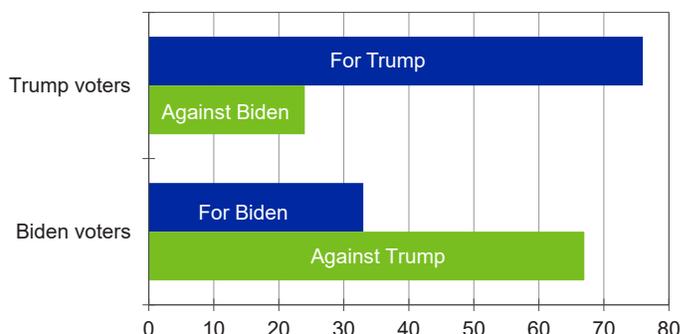
Social Security trust fund ratio under policy alternatives, %



Sources: Social Security Administration, Moody's Analytics

**Chart 8: Will Partisanship Buoy Biden?**

% of voters who say their choice is a vote...



Sources: Pew Research Center, Moody's Analytics

## About the Author

[Bernard Yaros](#) is an assistant director and economist at Moody's Analytics focused primarily on federal fiscal policy. He is responsible for maintaining the Moody's Analytics forecast models for federal government fiscal conditions and providing real-time economic analysis on fiscal policy developments coming out of Capitol Hill.

Besides fiscal policy, Bernard covers Virginia and Puerto Rico and develops forecasts for Switzerland. He regularly advises clients and policymakers of all levels on the Puerto Rico economic outlook after Hurricane Maria. He has been featured in a number of print media outlets from Bloomberg to Bond Buyer for his work on Switzerland and Puerto Rico.

His most recent research has ranged from U.S. fiscal multipliers to the regional impacts of the 2018-2019 government shutdown and federal disaster relief in Puerto Rico. Bernard has performed research on other subjects including stress-testing U.S. state budgets and forecasting the 2018 midterms.

Bernard holds an MSc in international trade, finance and development from the Barcelona Graduate School of Economics and a BA in political economy from Williams College.

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