Midterms Potential Impact on Economy, Businesses

The 2018 U.S. midterm elections are in the rearview mirror, yet they will have an impact over the next two years as the country prepares for the 2020 presidential election. According to credit insurer Euler Hermes, the split of Congress this November (Democratic majority House; Republican-controlled Senate) will “change the course of policy creation in Washington and impact both small and large businesses.”

A report by Euler Hermes underlines six areas companies should watch out for following the elections on Nov. 6, 2018. The items of interest included taxes, infrastructure, budget, trade, regulation and immigration. Reviewing all six impacts together, there is a greater possibility of a U.S. recession within the next year. Euler Hermes predicts the chance of a recession could increase from 15% to 25% at the end of next year, connected with a forecasted decelerated gross domestic product growth by year-end 2019.

A potential extension of the Qualified Opportunity Zone program will give businesses that are looking to expand or relocate additional financing incentives, yet smaller businesses should be cautious as 2025 approaches since there is a low probability tax cuts are extended beyond that, said Euler Hermes.

The initial trillion-dollar-plus infrastructure plan is still at ground level, waiting for a way to raise the large government contribution. Construction entities such as cement suppliers, roofing, flooring and plumbing companies, and construction machine suppliers among other building material companies stand to benefit the most from infrastructure spending. Roughly 10% of the $200 billion of government funding has been spent—$1.5 trillion in private funds is bookmarked as well.

Based on four credit risk variables, the basic materials and utilities sectors are the most exposed should the budget be affected by the new government. The tightening of monetary and financial conditions adds 10% to Euler Hermes’ recession probability.

Tariffs and trade could have a large impact on business depending on how negotiations go. According to the report, if Chinese tariffs on U.S. agriculture products are removed, ag and technology sectors as well as wholesalers and retailers will be the big winners. Deregulation will give smaller companies easier access to credit, while hitting pharmaceutical companies’ profit.

Moody’s Investors Service predicts mixed credit implications for certain business sectors, along with state and local governments’ credit quality following the midterms. The elections results will not have a large impact on the direction of U.S. policy, but they could slow the progress of the executive branch’s agenda.

“When it comes to the economy, the good news is that much of what has propelled the U.S. economy to these new heights has not been due to the actions of government as much as the collective actions of the business community and the nation's consumers,” said NACM Economist Chris Kuehl, Ph.D.

There are several factors that link the midterm elections to a likely retail boom this holiday season. According to Kuehl they include a strong economy (near 3% GDP growth, low unemployment, etc.); less anxiety and public relaxation following the results; and both political sides able to celebrate victory after the Democrats won the House and the GOP remained the majority in the Senate.

“So, for retail shoppers, the political environment will be calming down and economic activity is strong enough to give them optimism about consuming. The ugliness can subside a bit. That will probably open up and increase consumption in the near term,” noted Kuehl.

-Michael Miller, managing editor