

The Waiting is the Hardest Part

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

Mark Twain once famously quipped that “*predictions are difficult, especially about the future*”. Well, apparently they’re also difficult about things that happened three days ago. Because **here we stand, three days after the U.S. election and almost nothing has been officially settled**. While Joe Biden currently leads by extremely narrow margins in a few crucial states, we will all likely need to continue to breathe deeply and await a number of recounts before the results are finalized. Not meaning to pile onto the Mount Everest of political chatter this week, but **the other outcome that remains in doubt is the Senate**. While the initial post-election take was that the Republicans had managed to narrowly hold their majority, even that is now in question with the possibility of two, count ‘em two, run-offs in Georgia early in 2021. If, perchance, both of those flip to the Democrats (in a state where the Presidential vote was nearly 50-50), the Senate could then sit at 50-50. How so very 2020.

Markets were not biding their time after the vote, with an **amazing snapback in equities** after a rough ride just one short week ago. (Question: Wasn’t an uncertain outcome that could be contested the “worst possible outcome for markets”? Imagine where we would be if the results had been clear cut!) As of noon Friday, the S&P 500 was on pace for a 7% surge this week, more than reversing the hefty 5.6% drop last week. However, investors turned a tad more cautious at the end of the week, as the notion that the Senate may still be in play weighed. The initial post-election view was “*gridlock is good; there will be no major changes in taxes and regulation*”. Yet, the still-slim possibility of a 50-50 Senate tie (albeit faint) has not fully shut the door to the Blue Ripple scenario.

What does this all imply for the economy? We dig into much greater detail in this week’s Focus Feature, but for the short-term, the key issue is the fate of any stimulus support. Senate and House leaders sent some constructive messages in the wake of the election, and the lame duck session has often proven to be an ideal time to get things done. However, with the outcome of the Senate still hanging in the balance, the **calculus gets complicated** to say the least. While there is still a reasonable chance a deal could get done this year, it’s probably safer to assume that nothing will arrive until the New Year, with the size pretty much entirely riding on what unfolds in Georgia. We would assume something more modest of around \$1 trillion, which is still a meaty 5% of GDP.

Meanwhile, the **economic data mills** stayed busy this week, churning forward even as the world awaited the election results. The **early run of U.S. data** for October was generally on the **positive** side of the ledger, with employment and the ISM for manufacturing both topping expectations. A highlight was the whopping 2.2 million rise in the household survey, which sliced the official jobless rate by a full percentage point to 6.9%. Keeping with the theme of goods over services, the factory PMI surged to 59.3, a level that has historically been consistent with roughly 4% GDP growth.

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Some slightly less upbeat signals were sent by auto sales, which dipped last month to a 16.2 million pace (still down a bit from last year's 17 million), and the services PMI which dipped to 56.6. The combined message from the October data is that the U.S. economy continued to grind ahead a bit better than expected, even amid the distraction of the election and the renewed run-up in virus cases. As a result of the reasonable results, **we have revised up our call on Q4 GDP growth by a point to 4.0%**, albeit we also shaved the Q1 view amid the election muddle and yet more uncertainty on any stimulus bill.

Canada's October data generally set a **similar** tone, with the economy holding up well in the face of renewed restrictions in a few major provinces. Employment posted a sturdy, albeit unspectacular, gain of 83,600 last month, led by the private sector and full-time positions. Similar to the U.S., auto sales dipped slightly in the month, but at down 2.1% y/y, they are essentially back to 'normal' levels. Meantime, city after city reported another booming month for existing home sales in October, with Toronto's 25% y/y gain and 14% y/y average price rise quite typical across the country. On balance, we would be more inclined to revise our forecast higher rather than lower based on how the economy fared last month amid new rollbacks. However, there's that little matter of the uncertainty to the south... and the probability of a more subdued and/or delayed stimulus package from Washington.

At the profound risk of causing election over-load, a state that many of us are likely a few light years beyond at this point, here are some random, neutral, observations on this week's historic vote:

- **Pollsters:** I am personally very grateful for them—they make economic forecasters look great by comparison. "Did we say Biden would win Florida by 3 points? Oh no, we meant *lose* it by 3!" Seriously, the final poll averages had Biden winning the national vote by about 8 percentage points, whereas it will be closer to 3 points. That miss is a big reason why the Democrats lost ground in the House, and why the race is so razor close.
- Who knew **Nevada** and its 6 electoral college votes would prove to be a linchpin in the overall race? How many had *that* in their office pools?
- Whatever your political leanings, the fact is that **people are engaged**. The turnout was the highest since 1900. The total vote tally for each Presidential candidate topped any prior candidate ever. (Note that Donald Trump received roughly 7 million more votes in this election than in 2016.) The world is watching. Few will ever take another election for granted.

Final thought: **Grover Cleveland**. Look him up... just saying.

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