WEEKLY COMMENTARY

Should We Be Worried About How the Election Will Affect Public Finances?

By Francis Généreux, Principal Economist

The tension and uncertainty over the November 5 presidential election in the United States are at their peak. The polls have tightened, and the differences in voting intentions for Donald Trump and Kamala Harris fall well within each survey's margin of error. Right now there's no telling who will be sitting in the Oval Office on January 20.

Yet despite the uncertainty, we need to prepare for contingencies, and financial markets seem to be doing just that. The polls have shifted in Trump's favour, leading some portfolio managers to make a few adjustments. Volatility on the US stock market is significantly higher than it was in the first half of the year, while bond market volatility has also jumped. In particular, bond yields have risen. Over the past month, the yield on US 10-year bonds has climbed more than 60 basis points to almost 4.30%. Several factors have helped fuel the run-up in yields. First, the US economy is still going strong, as shown by some of this week's major data releases. Third-quarter real GDP and the Conference Board Consumer Confidence Index posted solid gains. Even the underwhelming job numbers (mostly due to hurricanes and a labour dispute) don't really change the overall picture. As a result, the Fed is likely in no rush to normalize interest rates. This means longer yields will feel less downward pressure.

But we shouldn't underestimate the election's impact on the outlook for financial markets, especially the bond market. As mentioned in our *Economic Viewpoint* on election issues and the candidates' platforms, the plans proposed by Kamala Harris and especially Donald Trump are inflationary in nature. More importantly, they could have major repercussions on US public finances.

This is especially true given that the federal government's finances aren't exactly stellar. This could be seen in the US Treasury's official data for the 2024 fiscal year, which ended September 30. They showed a public deficit of US$1,832.8 billion. That's worse than the US$1,695.2 billion deficit posted in fiscal 2023.

Why Have Federal Finances Deteriorated Once Again?

The biggest problem isn't government revenues, which climbed US$479.5 billion, or 10.8%. The growth in household income and persistent inflation have boosted revenue from personal income tax by 11.5%, which accounts for half of that increase.

The problem is spending, which soared 10.1% (by US$617 billion) in fiscal 2024. Some of this increase is explained by the fact that we're comparing against artificially low spending levels in 2023. These did not take into account the changes made to the student loan program in response to a Supreme Court decision. Once those changes are factored in, the increase falls to US$283 billion (+4.4%). Most of that increase is debt service payments totalling US$254 billion, mainly because of higher interest rates. We also noticed that spending went up on things like Social Security (+US$103 billion), defence (+US$50 billion) and Medicare (+US$28 billion). This was partly offset by a reduction in spending on the deposit insurance program (-US$55 billion), the pension guarantee program (-US$28 billion) and the food benefits program for low-income households (-US$28 billion).

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Spiralling Debt

Of course, the size of the 2024 deficit drove up the national debt, which totalled US$35,464.7 billion as of September 30. On its own, debt held by the public (which excludes federal intergovernmental holdings but includes debt held by the Federal Reserve) amounted to US$28,307 billion. That's equal to about 98% of GDP, up from 96% at the end of fiscal 2023.

The national debt will likely surpass GDP during the next few years. In its June projections, the Congressional Budget Office (CBO) slightly underestimated the size of the deficit and debt for 2024. It also sees debt held by the public growing to 99% in 2025 and 101.6% in 2026.

Neither of the two candidates' proposed platforms are going to solve this problem. In our *Economic Viewpoint*, we estimated that the cost of Kamala Harris's key measures could swell the deficit by almost US$2,695 billion over 10 years, even though some of the proposals would increase tax revenues. Donald Trump's policy proposals would inflate the deficit even more, by US$4,900 billion. That doesn't take into account the other proposed tax cuts he has put forward in recent weeks. It also doesn't include any of his as-yet-unspecified plans to slash federal spending, including a commission on this subject that would presumably be led by Elon Musk.

There's Still a Lot We Don't Know

But it's hard to believe the winner of Tuesday's vote will have the power to do whatever they want when they take over the Oval Office in January. Economic and geopolitical conditions can quickly change a new administration's priorities.

The presidential race is a toss-up, and we also don't know which party will end up controlling the House and Senate. As of this writing, the odds suggest the Republicans will win a narrow majority in the Senate, while the Democrats take the House of Representatives by a razor-thin margin. This would be the exact opposite of the current configuration. A divided Congress always holds back the White House. In such a situation, if Harris were to win, the US would be in a similar situation to the one it's in now, with very few new programs and no serious effort to balance the public books. And if Trump were to become president with a Democratic majority in the House, his new tax cuts would be dead on arrival.

It appears the markets are pricing in a potential Trump victory. However, they also seem to believe he'll focus more on tax cuts than plans (such as imposing across-the-board tariffs and deporting immigrants) that most economists believe would hamper growth. This would be the best scenario for US corporate earnings. But a divided Congress would make it much less likely. If the Republicans don't win a majority, Trump would have trouble passing new tax cuts for businesses and high-net-worth individuals. However, he would have more freedom to change trade and immigration policies. The US (and Canada) may therefore have to deal with the consequences of more inflationary measures that would curb growth, without the potentially positive impact of additional tax cuts.

The long election campaign is almost over. But there are still a lot of uncertainties that could shake consumer confidence (as in 2016 and 2020, when confidence indexes shifted in response to partisan sentiment) and fuel market volatility, even after November 5. Unfortunately, there's one thing we can bet on: short of a major turnaround and tremendous political courage, it doesn't seem like US public finances will get any better.

What to Watch For

UNITED STATES

TUESDAY November 5 - 10:00	
October	
Consensus	53.5
Desjardins	55.2
September	**54.9**

ISM Services index (October) – The ISM Services index surged 3.4 points in September to 54.9. This was the index's strongest monthly growth since May, putting it at its highest level since February 2023. The production and new orders components performed particularly well. Based on most regional non-manufacturing indexes published so far this month, as well as more upbeat consumer confidence indexes, the ISM Services index likely remained high in October and may have even topped 55.0.

THURSDAY November 7 - 14:00	
November	
Consensus	4.75%
Desjardins	4.75%
September 18	**5.00%**

Federal Reserve meeting (November) – Immediately after September's 50-basis-point cut, it seemed likely that November's meeting would produce a repeat performance. We were expecting a 25-basis-point drop—and still are—but the current debate isn't about whether the Federal Reserve (Fed) will lower rates by 50 or 25 basis points, but rather whether we'll see a 25-basis-point cut or no cut at all. That's because most of the economic data published in the past month points to a still-strong US economy, although October's labour market results were less positive due to a labour dispute and hurricanes. Inflation is still falling, but progress on core inflation has slowed recently. Fed officials may have a tougher decision on their hands than we imagined just a few weeks ago. Tuesday's election means that the Fed has postponed its meeting by one day. The press release will be published Thursday afternoon, just before Jerome Powell's press conference.

THURSDAY November 7 - 15:00	
September	**US$B**
Consensus	14.450
Desjardins	11.500
August	**8.929**

Consumer credit (September) – Consumer credit pulled back sharply between July and August, from US$26.6 billion to US$8.9 billion month-over-month. Based on weekly bank credit data, we're expecting a slightly stronger showing for September. This would also be in line with higher motor vehicle sales and a smaller decline in gasoline prices.

FRIDAY November 8 - 10:00	
November	
Consensus	70.6
Desjardins	70.8
October	**70.5**

University of Michigan consumer sentiment index (November – preliminary) – Consumer sentiment as measured by the University of Michigan index improved slightly in October. The preliminary version (68.9) was down compared to September's print (70.1), but the final version was up at 70.5. This improvement came primarily from respondents who identified as Republicans, amid growing confidence that Donald Trump would be the next president. The election has the potential to shift November's consumer sentiment index significantly, and we could see vastly different numbers in the preliminary and final versions. November's preliminary version will be based on data collected between October 22 and November 4 (the day before the election), while the final version will be based on data collected until November 18. If we prioritize economic data over political uncertainty, the University of Michigan consumer sentiment index should continue its modest October rally. Gasoline prices have continued to drop, while the stock market has been fairly flat. However, mortgage rates have increased. The Conference Board Consumer Confidence Index—which often foreshadows where the University of Michigan index is headed—posted a strong October print, and weekly unemployment claims have fallen recently, both of which are positive signs. Overall, we expect the University of Michigan index to have edged up in October.

CANADA

TUESDAY November 5 - 8:30

September	**$B**
Consensus	-1.50
Desjardins	-0.70
August	**-1.10**

International trade (September) – Canada's trade deficit is expected to have narrowed in September. On the export side, the anticipated decline is likely a price story, as the appreciation of the Canadian dollar is predicted to have lowered the value of exports. The decline in the US import price index also suggests that Canadian export prices may have receded. That said, higher gold prices and auto production could offset some of the weakness. On the import side, US advanced trade data suggests a decline in September—larger than the one expected in exports. Adding uncertainty to the forecast is Hurricane Francine, which made landfall in Louisiana and could have disrupted the flow of goods, notably of energy products, with unknown repercussions for the trade balance.

FRIDAY November 8 - 8:30

October	
Consensus	30,000
Desjardins	30,000
September	**46,700**

Net change in employment (October) – Hiring in the Canadian economy likely continued in October. We estimate 30K new jobs were added, slightly more than consensus forecasts. With the monetary easing cycle well underway, there are nascent signs of a pickup in economic activity, which should translate into a reacceleration in the labour market. That said, labour supply looks to have outpaced demand, so look for the unemployment rate to increase one tick to 6.6%. Outside of the headline unemployment figure, close attention should be paid to unemployment rates for those ages 25–54, as these cohorts have the greatest exposure to mortgages and tend to spend the most on average. The rise in the unemployment rate has mostly been driven by new immigrants and youth, but plans to reduce the number of temporary residents could lower the unemployment rate next year by reducing the supply of idle workers. We expect the unemployment rate to peak this winter before falling next year with the help of rate cuts.

OVERSEAS

THURSDAY November 7 - 7:00

November	
Consensus	4.75%
Desjardins	4.75%
September 19	**5.00%**

United Kingdom: Bank of England meeting (October) – So far, the Bank of England (BoE) has cut its key interest rate by just 25 basis points, much less than other major central banks. UK inflation remained higher for longer, which gave the BoE much less latitude to ease monetary policy. However, the latest inflation figures were more encouraging. Headline inflation dropped below the 2% target, while the three-month annualized change in core inflation—which strips out food and energy—came down substantially and now stands at 2.5%. UK inflation seems to have caught up with the other major economies, which should reassure the BoE and prompt it to lower interest rates again next week, after which it will likely cut several more times. It will be interesting to see how the BoE's inflation forecasts will shift in its latest monetary policy report. In its August report, the BoE didn't see inflation falling as quickly in the short term and anticipated a rebound in inflation next year. We'll also have to wait and see if the BoE prices in the impact of the government's new budget, which includes tax increases and more spending. Ultimately, the Office for Budget Responsibility feels that the budget may generate a little more inflation than initially anticipated.

FRIDAY November 8 - 20:30

October	**y/y**
Consensus	0.3%
September	**0.4%**

China: Consumer price index (October) – Inflation fell further in China from 0.6% in August to 0.4% in September. The five biggest increases were again concentrated in the food sector, led by fresh vegetables (+21.8%) and pork (+16.1%). As a result, core inflation, which excludes food and energy, was lower at 0.1%. We don't expect prices to pick up anytime soon. Confidence in China is still shaky, and it will be some time before the economic stimulus measures recently announced by the government and the central bank have much of an effect.

Economic Indicators

Week of November 4 to 8, 2024

Day	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 4	10:00	Factory orders (m/m)	Sep.	-0.4%	-0.1%	-0.2%
TUESDAY 5	---	Election Day				
	8:30	Trade balance – goods and services (US$B)	Sep.	-74.5	-84.1	-70.4
	10:00	ISM Services index	Oct.	53.5	55.2	54.9
WEDNESDAY 6	---	---				
THURSDAY 7	8:30	Initial unemployment claims	Oct. 28–Nov. 1	225,000	218,000	216,000
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q3	2.3%	3.2%	2.5%
	8:30	Unit labor costs – preliminary (ann. rate)	Q3	0.8%	0.1%	0.4%
	10:00	Wholesale inventories – final (m/m)	Sep.	-0.1%	-0.1%	-0.1%
	14:00	Federal Reserve meeting	Nov.	4.75%	4.75%	5.00%
	14:30	Speech by Federal Reserve Chair J. Powell				
	15:00	Consumer credit (US$B)	Sep.	14.450	11.500	8.929
FRIDAY 8	10:00	University of Michigan consumer sentiment index – prel.	Nov.	70.6	70.8	70.5
	11:00	Speech by Federal Reserve Governor M. Bowman				
CANADA						
MONDAY 4	---	---				
TUESDAY 5	8:30	International trade ($B)	Sep.	-1.50	-0.70	-1.10
WEDNESDAY 6	12:25	Speech by Bank of Canada Senior Deputy Governor C. Rogers				
	13:30	Release of the Bank of Canada Summary of Deliberations				
THURSDAY 7	9:00	Speech by Bank of Canada Deputy Governor R. Mendes				
FRIDAY 8	8:30	Net change in employment	Oct.	30,000	30,000	46,700
	8:30	Unemployment rate	Oct.	6.6%	6.6%	6.5%

NOTE: Each week, Desjardins Economic Studies takes part 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 month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT -5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of November 4 to 8, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
DURING THE WEEK							
China	---	Trade balance (US$B)	Oct.	74.20		81.71	
MONDAY 4							
Italy	3:45	Manufacturing PMI	Oct.	48.7		48.3	
France	3:50	Manufacturing PMI – final	Oct.	44.5		44.5	
Germany	3:55	Manufacturing PMI – final	Oct.	42.6		42.6	
Eurozone	4:00	Manufacturing PMI – final	Oct.	45.9		45.9	
TUESDAY 5							
France	2:45	Industrial production	Sep.	-0.8%	-0.5%	1.4%	0.5%
United Kingdom	4:30	Composite PMI – final	Oct.	51.7		51.7	
United Kingdom	4:30	Services PMI – final	Oct.	51.8		51.8	
Australia	22:30	Reserve Bank of Australia meeting	Nov.	4.35%		4.35%	
WEDNESDAY 6							
Germany	2:00	Factory orders	Sep.	1.5%	-2.6%	-5.8%	-3.9%
Italy	3:45	Composite PMI	Oct.	50.1		49.7	
Italy	3:45	Services PMI	Oct.	50.5		50.5	
France	3:50	Composite PMI – final	Oct.	47.3		47.3	
France	3:50	Services PMI – final	Oct.	48.3		48.3	
Germany	3:55	Composite PMI – final	Oct.	48.4		48.4	
Germany	3:55	Services PMI – final	Oct.	51.4		51.4	
Eurozone	4:00	Composite PMI – final	Oct.	49.7		49.7	
Eurozone	4:00	Services PMI – final	Oct.	51.2		51.2	
Eurozone	5:00	Producer price index	Sep.	-0.6%	-3.4%	0.6%	-2.3%
Brazil	16:30	Central Bank of Brazil meeting	Nov.	11.25%		10.75%	
THURSDAY 7							
Germany	2:00	Trade balance (€B)	Sep.	20.9		22.7	
Germany	2:00	Industrial production	Sep.	-1.0%	-3.2%	2.9%	-2.7%
Sweden	3:30	Bank of Sweden meeting	Nov.	2.75%		3.25%	
Norway	4:00	Bank of Norway meeting	Nov.	4.50%		4.50%	
Eurozone	5:00	Retail sales	Sep.	0.5%	1.3%	0.2%	0.8%
United Kingdom	7:00	Bank of England meeting	Nov.	4.75%		5.00%	
FRIDAY 8							
France	2:45	Trade balance (€M)	Sep.	n/a		-7,371	
France	2:45	Current account (€B)	Sep.	n/a		-0.6	
France	2:45	Wages – preliminary	Sep.	0.5%		0.6%	
Italy	4:00	Industrial production	Sep.	-0.3%	-3.6%	0.1%	-3.2%
Italy	6:00	Retail sales	Sep.	n/a	n/a	-0.5%	0.8%
China	20:30	Consumer price index	Oct.		0.3%		0.4%
China	20:30	Producer price index	Oct.		-2.5%		-2.8%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Standard Time (GMT -5 hours).