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#US / #Politics / #Fiscal policy

US election 2024: Is it still "the economy, stupid"?

Trump is the presumptive Republican nominee for president and leads Biden in early head-to-head polls nationally and in swing states. Biden's approval ratings have been harmed by high inflation but easing price growth and a still solid economy could help his re-election prospects if sentiment improves.

Key Takeaways

- Trump is all but assured to win the Republican primary contest and leads Biden in early national head-to-head polling, including in five of the six swing states that will probably decide the general election.
- Voters report negative perceptions of Biden, most notably in his handling of the economy despite its strong performance in recent quarters. The disconnect between weak economic sentiment and stronger hard data has been called the 'vibecession'.
- This is in part due to ongoing sensitivity to total price increases over Biden's presidency. The highly polarised state of American politics is also skewing sentiment surveys, with partisan commitments affecting assessments of the state of the economy.
- US consumer confidence has started to rebound recently, helped by slower inflation, indicating that the 'vibecession' may be at an end. However, this has yet to translate into any polling boost for Biden.
- The stakes for the 2024 election are high, with a second Trump presidency likely to lead to even more economic and foreign policy volatility than his first.
- Given these risks, we will explore the implications of Trump's proposals, including the introduction of significant and widespread tariff increases, the roll-back of aspects of Biden's legislative efforts and the reshaping of US foreign policy in a series of notes ahead of the 2024 election.

The Republican primary was over almost as soon as it began

Donald Trump closed out the Iowa caucus with a resounding victory and only one primary challenger, Nikki Haley, remaining.

With Haley polling well behind Trump in all upcoming primary states – and losing to the 'none of the above' option in the Nevada primary in which Trump did not compete – he is the de-facto Republican nominee for president.

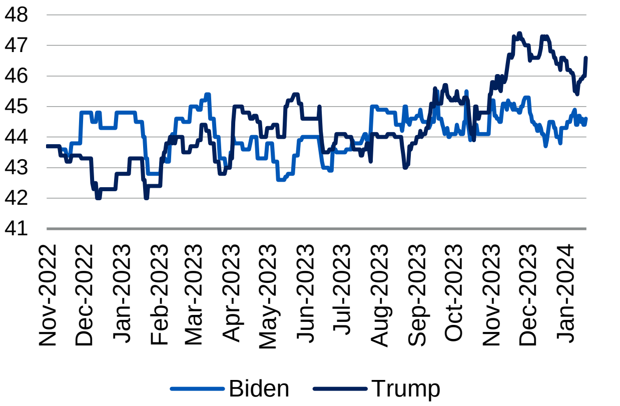
The speed with which he has consolidated his position is unusual and shows that he retains extremely high levels of support among Republican voters.

Trump is polling well for the presidential election

Simple polling averages show Trump has a consistent lead over President Joe Biden in head-to-head polling for the presidential election, which will be held on 5 November this year (see Figure 1).

With nine months until election day, much will change and early polling should be treated as a snapshot of the current mood, rather than a prediction of the final result. Nonetheless, given Democrats have won the popular vote in the US in seven of the last ten elections, which tends to give them an advantage in early election polling, there are warning signs in Trump's early strength that should be taken seriously.

Figure 1: Trump leads Biden in national polling averages



Source: RealClearPolitics, abrdn, February 2024

The unique features of this election, including the age and unpopularity of both candidates, as well as Trump's legal issues, will make the race volatile. But Trump's lead leaves him as the candidate to beat, especially in the all-important swing states.

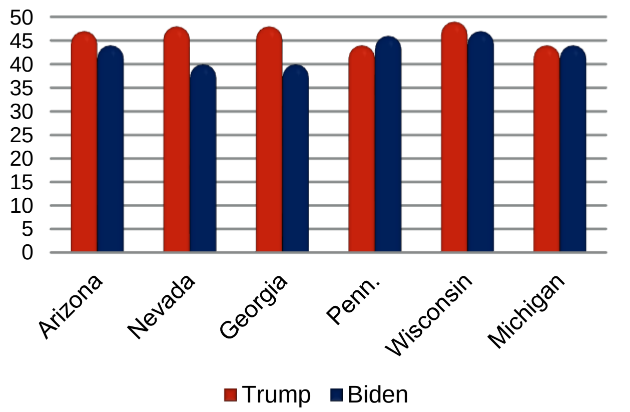
Six states will probably decide the race

Political polarisation has left most states with a clear political alignment that makes their electoral choices relatively predictable. The most notable exceptions to this are Arizona, Nevada, Georgia, Wisconsin, Michigan and Pennsylvania. These states have decided the outcomes of the last two presidential elections in the US by extremely small margins. They are viewed by pollsters as being 'toss-ups', where the outcome is too close to call.

The electoral college compounds the impact of these narrow divisions. In 2020, despite a victory of over 7 million in the popular vote, 44,000 votes across Georgia, Arizona and Wisconsin separated Biden and Trump from a tie in the electoral college.

As things stand, Trump narrowly leads Biden in five of the six key states (see Figure 2). So, it is clear that Biden has ground to make up among vital voter constituencies in order to secure re-election.

Figure 2: Trump leads Biden in five of the six toss-up states



Source: abrdn, 270 to win, February 2024

The increasing discrepancy between the margins deciding the popular vote and the electoral college outcome also raises the risk of instability in the immediate aftermath of the election. Disputes over election outcomes, regardless of the eventual winner, are likely and may result in delays in results, and legal action.

Trump's legal issues will weigh on his campaign

Trump currently faces 91 federal charges across four separate cases. He will spend much of the later stages of the campaign in the court room.

There is evidence that his legal cases may act as a drag on his chances among the wider electorate, particularly if he receives a conviction.

Exit polls show nearly one-third of caucus-goers in Iowa said they would consider Trump to be unfit for the presidency if he was convicted of a crime. 42% of voters in the Republican primary in New Hampshire also stated he would be unfit for the presidency if convicted. This sizeable response, across two demographically different states, suggests that a conviction in any of Trump's ongoing trials could have a material impact on voter behaviour ahead of the election.

Trump is also using significant amounts of campaign funds on legal fees. The latest Federal Election Commission filings show that in the final three months of 2023, more than 50% of donations to Trump went towards his legal defence bills. Though Biden's cash advantage has yet to translate into any polling lead, this may change later in the race as voters begin to actively engage with the campaign.

Vibes appear to be influencing voters

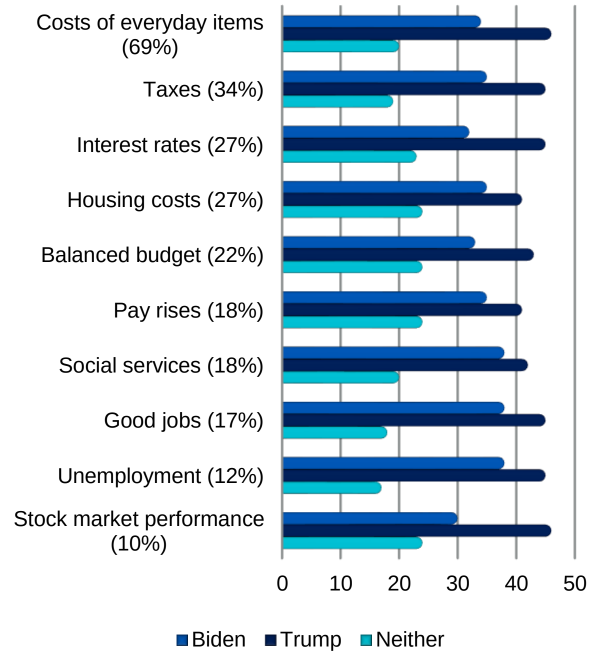
Typically, approval ratings are at least somewhat affected by economic performance. However, despite robust growth, low unemployment and falling inflation through 2023, Biden's net approval rating fell over the same period, and is now marginally lower than Trump's at the same point in his presidency.

The gap between strong economic performance and weak economic sentiment has been labelled a 'vibecession'. The 'vibes' about the economy are recessionary even if the economy itself it solid. Indeed, some measures of US consumer confidence have been sitting at levels consistent with a recession in 2023.

Polling of swing state voters demonstrates that across a broad range of economic issues, Trump was the more trusted candidate (see Figure 3). Any path to victory for Biden is likely to rely on eroding at least some of Trump's lead in these competency metrics.

Figure 3: Trump polls ahead of Biden in economic competency

Q: Who do you trust more to handle each of the following economic issues? (Percent identifying as one of top 3 issues)



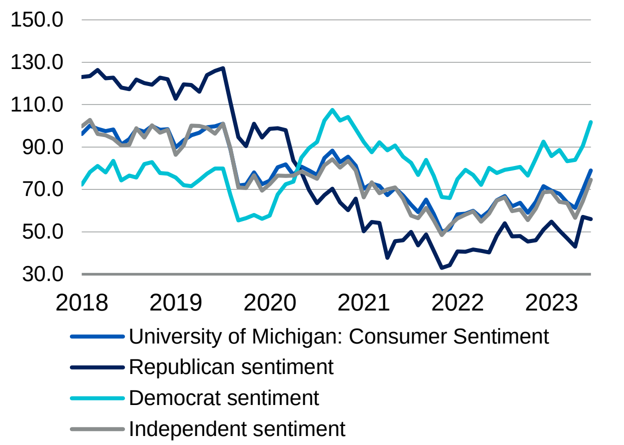
Source: abrdn, Bloomberg/Morning Consult, February 2024

Sentiment hit by partisan politics and lingering effects of high inflation

The 'vibecession' is likely driven by two key factors. First, voters are still sensitive to the effects of inflation, and consistently cite the costs of goods and services as their principal economic concern. While inflation has now fallen, prices are significantly higher than in 2020 and it is likely that US consumers are still adjusting to the "sticker shock".

Second, increasing political partisanship means that voters are increasingly likely to record low confidence in the economy if they do not support the party of the incumbent president. In other words, somewhat regardless of the actual state of the economy, voters are more likely to feel the economy is doing well when the president represents their preferred party (see Figure 4).

Figure 4: US consumer sentiment has been improving recently, but is skewed by political polarisation



Source: abrdn, University of Michigan, February 2024

Interestingly, the sentiment of registered independent voters closely tracks the overall consumer sentiment index and seems more responsive to economic fundamentals. The performance of the overall index may be a useful indicator of how independent and undecided voters may lean in the election.

There are signs that voters are now starting to internalise the recent strong performance of the economy. The Michigan measure of consumer sentiment rebounded to a two-year high in January 2024, leading to speculation that after several false dawns, the 'vibecession' has ended.

Should this trend be sustained, historic norms would indicate this would lead to an improvement in Biden's polling, although there are few signs of this so far.

A Trump win would see 'Trumponomics' return

Should Trump win in November, his campaign pledges point to even more economic policy volatility than during his first term.

Policy volatility was in a sense intrinsic to Trump's governing style. The threat and implementation of tariffs was frequently used to exact policy concessions from trade partners before being partially rolled back. If, as Trump is indicating, the tariffs in his second term become larger than his first, the impact of these decisions, even if short-lived, could be significant.

In addition to a proposed 10% baseline tariff on all US imports, and a 60% tariff on Chinese imports, other key policies Trump has advocated for include extending the sunsetting components of the 2017 Tax Cuts and Jobs Act and additional cuts to corporation tax.

He also discussed rolling back key aspects of Biden's economic policies including the tax credits in the Inflation Reduction Act, which could undermine private sector investment in some affected sectors including renewable-energy generation and electric-vehicle production.

At this stage of the election cycle, the exact specifics of these policies may not become the eventual policy platform, but the broad areas of focus should be taken seriously.

While Trump's instinctive fiscal dovishness was broadly supportive of risk markets for much of his first term, this may be less true this time. With corporate tax rates now low, there is less room for easing here. Additionally, given the size of the US government deficit, material fiscal easing, or even a watered-down version of his fiscal plans, could put significant upward pressure on bond yields and increase concerns about long-term fiscal sustainability.

Furthermore, a Trump Presidency brings risks of perceived institutional degradation, including around Federal Reserve independence.

Trump was not shy in criticising decisions taken by the Fed in his first term, and he has already indicated he would not be inclined to re-appoint Chair Jay Powell when his term expires in 2026. At that point, a less credible figure, with less independence from a Trump presidency, could be appointed. This would risk undermining long-run inflation expectations and confidence in the Fed's ability to respond appropriately to economic crises. Even before 2026, Trump could try to influence Fed policy through moral suasion, rhetorical attacks, and other appointments.

Foreign policy may also be a source of volatility, with risks to America's role within the global security architecture, especially around Ukraine, Taiwan and NATO membership.

The structure of Congress will be crucial

Despite these risks, it is important to stress that presidents always struggle to meet their campaign pledges in office. This is in part due to the necessity of congressional approval for most policy changes. In fact, divided control of Congress since 2022 has essentially halted any legislative progress. While not always as extreme, presidents who lack unified control of Congress are forced to compromise and may find many of their policy ideas blocked.

Democrats face an extremely difficult Senate map in 2024. With a majority of 51 to 49, they are defending three seats in states won by Trump in 2020.

The House, currently controlled by an extremely thin margin by Republicans, likely narrowly favours the Democrats given the dysfunction that has plagued it since Republicans took control in 2022.

The structure of Congress, and the extent to which that will help or hinder the next president, will be a key factor influencing policy risk after 2024.

We will be covering the issues discussed in this note in detail in future publications.

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