First Trust
Monday Morning OUTLOOK

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Tuesday Results and the 2022 Economic Outlook

In spite of what listening to the mainstream media might make you think, the voting public doesn't change much from year to year or election to election. As a result, when leaders try to take policy too far in one direction, without enough public support, they often get punished at the polls. That's our takeaway from the Virginia and New Jersey gubernatorial and down-ballot state legislative elections last week.

Here are five key political lessons from Tuesday. First, if former President Trump isn't running, (or in office) it's hard for Democrats to use him as a bogeyman to scare voters. Second, white working class and rural voters will turn out in high numbers without Trump on the ballot and in favor of more conventional GOP candidates.

Third, early signs suggest the GOP continues to make headway with Hispanic voters. One of the counties in New Jersey that shifted the most toward the GOP was Passaic County, with some towns with heavy concentrations of Hispanic voters leading the way. As a result, according to at least one political betting market, Republicans are now favored to win the Senate seats in Arizona and Nevada, even though both seats will have incumbent Democrats running for re-election.

Fourth, Republicans may have won in Virginia this year, but it is still a blue state. Four years ago, when Trump was in office, the Democrats won Virginia by nine points; this year the GOP won by two points. The party that wins by nine and loses by two is still the majority party.

And last, the GOP is in excellent position to win the House next year and probably the Senate, as well. Usually, the Virginia governor's race is a harbinger of which way the mid-terms will go. If Republicans see nationwide gains that are equivalent to the gains they made in Virginia, they'd easily win the House.

However, the mid-term elections are still a year away. The Congress and the President still have plenty of time to enact legislation they agree on, before submitting themselves to the voters. That happened late last week when the House rubber-stamped a "bipartisan" $1 trillion infrastructure spending bill passed this summer by the Senate, sending it to President Biden's desk. This bill will generate extra spending for highways, mass transit, airports, water systems, Amtrak, broadband, electric-vehicle charging, and "renewable" energy.

This spending shifts resources from the private sector to the public sector, and to the extent that this is paid for by Federal Reserve money printing, it will push inflation higher. However, this bill did not create new entitlements, and is a small part of total nominal GDP over the next 10 years – which the Office of Management and Budget pegs at $282 trillion. In spite of this spending, the budget deficit should be substantially smaller in 2022.

Meanwhile, the larger, fully partisan plan to raise taxes and create new entitlements has lost momentum. Right now, we put the odds of passage of this much more economically harmful legislation at less than 50%, in part because of last week's election results.

However, this legislation remains a threat to the forecast for 2022 and beyond. As does monetary policy. The financial markets appear to expect two or three rate hikes in 2022. But personnel changes, and political pressure, at the Federal Reserve will make it less hawkish. As a result, we are looking at one rate hike very late next year, but no more than that.

In addition, businesses across the country must be wondering what's going to happen with the Biden Administration's draconian COVID-related OSHA rules, which mandate vaccines for "private" companies of over 100 employees. This would deter some workers from seeking jobs while making it much more costly for many businesses to hire. Oddly, these new rules coincide with the arrival of new treatments that should make the vaccine debate obsolete. A federal court has temporarily put the rules on hold. Hopefully, for the job market's sake, policymakers rethink the rules and decide to withdraw them.

From a forecasting point of view, 2021 was simple. Solid economic growth, higher inflation, and a bull market in stocks have been our mantra all year along. As we focus on 2022, the Fed is still pumping money, interest rates remain low, and the economy continues to add back the jobs it lost during lockdowns. At the same time, election results show a backlash against bigger government. For 2022, we watch with cautious optimism.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-9 / 7:30 am	PPI – Oct	+0.6%	**+0.7%**		+0.5%
7:30 am	"Core" PPI – Oct	+0.5%	**+0.3%**		+0.2%
11-10 / 7:30 am	Initial Claims – Nov 6	260K	**270K**		269K
7:30 am	CPI – Oct	+0.6%	**+0.5%**		+0.4%
7:30 am	"Core" CPI – Oct	+0.4%	**+0.3%**		+0.2%
11-12 / 9:00 am	U. Mich Consumer Sentiment -Nov	72.5	**72.0**		71.7