



Basis Points – November 8, 2018

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Above the Fold

- Presidential election years usually attract a large number of voters to the polls, while midterm elections usually only bring out the truly committed and policy wonks. That was not the case this year — 114 million people voted in Tuesday's elections, a turnout that smashed the previous record for votes in a midterm election. Just 83.2 million voters cast ballots in the 2014 midterms. The 2018 turnout was also a strong showing compared to the 136 million that voted in the very popular 2016 presidential election.
- It is rare for one chamber of Congress to change power, as the House did on Tuesday, without the other chamber flipping too. This outcome has allowed both parties to declare victory after the election this week, as both parties materially gained seats and influence in one chamber.
- Democratic female candidates flipped more than a dozen Republican-held seats on Tuesday, helping to seal the party's new majority in the House. The 116th Congress will include more female representatives than ever before in U.S. history. Female candidates performed especially well in suburban districts across both red and blue states.
- The San Francisco homeless tax passed by a wide margin. Large businesses with offices in the city will pay a new higher tax rate, and the proceeds of the \$300 million in new taxes will be used to alleviate the homelessness crisis on the streets of the city.
- Colorado voters rejected a ballot measure calling for greater distances between oil and gas drilling and public spaces that would have sharply limited new wells in the fifth-largest oil-producing state in the country.

Three Things

- The price of crude oil has quietly entered bear-market territory, after declining 20 percent in the last month since its recent high of \$76.40 a barrel on October 3. Crude prices fell to \$61.25 yesterday, and a combination of a slowing global economy and a large amount of new supply coming into the market has caused the sharp decline. Renaissance Macro Research sees this large price decline filtering through to gas prices at the pump in the next few weeks, and gas prices should drop 15 to 25 cents a gallon. Americans buy about 140 billion gallons of gas each year, so that savings amounts to an extra \$35 billion in spendable consumer cash flow annually.
- The third year of a presidential term is usually a strong year for the stock market, as the midterm elections are in the past and the sitting president begins to worry about his re-election and wants to ensure that the economy stays strong into the election two years later. A president typically seeks to enact fiscal stimulus legislation to boost the economy in the third year of his term, which is usually positive for the stock market.
- The largest purchasers of capital goods in the technology space used to be companies that produced hardware and other manufactured products, as these companies built and upgraded factories, semiconductor manufacturing equipment and computer assemblers. Eight years ago, the largest spenders on cap-ex were Samsung, Intel, HP and Sony. However, the move to cloud computing has radically changed that list, as the cloud requires an ever-increasing amount of storage and centralized computing capacity. Today, it is software companies such as Microsoft, Google and Amazon that spend huge dollars on cap-ex to build and run server farms, cloud operations and deliver content to users. For example, Microsoft will spend \$12 billion this year on hardware, equal to the cap-ex budget of Intel.

Did You Know — Additional Election Thoughts

There will be increased discussion of a large infrastructure spending plan over the next year, but the actual effect on the economy will be extremely small no matter what legislation is enacted. With unemployment at very low levels, finding skilled people to work on these new projects will be very difficult. The projects would take many years to plan, permit and complete, so any short-term boost to the economy is negligible. Talk of a \$1 trillion new infrastructure package is beyond “pie-in-the-sky,” as President Obama was only able to spend \$7 billion in 2010 after the passage of his bold spending plan.

A winner from this election outcome is the Health Care sector. With Democratic control of the House, the Affordable Care Act now seems safe, and with Republican control of the Senate, the chances for meaningful cuts in drug prices are very slim.

President Trump endorsed Nancy Pelosi for Speaker of the House yesterday, tweeting, "In all fairness, Nancy Pelosi deserves to be chosen Speaker of the House by the Democrats. If they give her a hard time, perhaps we will add some Republican votes. She has earned this great honor!" There is no love lost between Pelosi and Trump, of course, so the thought may be that the devil he knows is preferable to one that he is not familiar with, and fellow Republicans can continue to run against Pelosi in many local races in 2020 by linking their Democratic challenger to Pelosi's record and persona.

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