

Special Commentary — February 8, 2024

The 2024 U.S. Elections: Setting the Stage - Part I

Summary

- The 2024 U.S. elections will be a defining feature of the year as households, businesses and investors weigh the election's economic implications. So far, the presidential nomination process for the two parties has been relatively uneventful. A 2024 election rematch of Joe Biden and Donald Trump seems highly probable. If this occurs, it would become just the third instance in U.S. history of a race between two or more individuals who had been president previously.
- With roughly nine months to go until Election Day, much can change between now and then. That said, if the 2020 election is indicative of the 2024 rematch, the race should be fairly competitive. Biden carried the day in 2020, winning the Electoral College 306-232 and the popular vote 51.3%-46.9%. But, several key swing states were decided by very tight margins.
- We will be keeping an eye on head-to-head polls, approval ratings, prediction markets, forecasts of top political analysts and, of course, economic conditions to monitor the race. President Biden's net approval rating is currently a bit weaker than Donald Trump's was at this point in his first term. At present, prediction markets appear to give the edge in the race to Donald Trump, albeit not overwhelmingly so as neither candidate's odds are above 50%. Political forecasters, such as Larry Sabato and team at the University of Virginia's Center for Politics, also do not seem to see a clear-cut favorite at this point in time.
- The race for the White House may gain the most attention, but control of Congress will also play a critical role in shaping the economic policy outlook. In recent years, unified party control of the House of Representatives, Senate and White House has produced much of the major legislation that has driven shifts in the economic outlook.
- At present, Republicans hold a slim majority of 219-213 in the House of Representatives, with three seats currently vacant. All 435 seats in the House are up for election every two years, and it takes 218 seats to hold the majority.
- Big swings in the makeup of the House tend to occur in midterm elections rather than in presidential elections. Majority control of the House has not switched parties in a presidential election year since 1952. At the moment, Republicans have a small edge in the generic ballot polling. That said, given that Republicans have such a small majority, Democrats need to pick up just a handful seats on net to retake the House, so a change in majority control would not surprise us.
- The outlook for control of the Senate is more unique compared to the House. The Senate is currently split between 49 Republicans, 48 Democrats and 3 Independents who caucus with the Democrats, thus giving the Democrats a small majority.
- Political analysts generally view this year's Senate map as more favorable to Republicans. There are 34 Senate seats up for grabs: 23 are held by Democrats (including the three independents) and 11 are held by Republicans. As a result, Democrats are playing "defense" in more states than Republicans.
- Furthermore, Democrats are defending three seats in states that Donald Trump won in 2020 (West Virginia, Montana and Ohio) as well as several more in states that were competitive at the presidential level in 2020. These factors afford Republicans more opportunities to capture the much-coveted 51st seat, although there remains a long road ahead to Election Day.

Economist(s)

Michael Pugliese

Senior Economist | Wells Fargo Economics
Michael.D.Pugliese@wellsfargo.com | 212-214-5058

Aubrey George

Economic Analyst | Wells Fargo Economics
Aubrey.B.George@wellsfargo.com | 704-410-2911

Welcome to the 2024 Election Cycle

The 2024 election cycle has arrived, and with it attention has turned to what the elections mean for the economic outlook. In a [recent report](#), we examined the relationship between election years and various economic variables such as real GDP growth, employment and consumer spending. In this report, which is Part I in a series on the U.S. presidential election and its implications for the U.S. economy, we provide some background on this year's election. In Part II, we will review what history tells us about Federal Reserve monetary policy decisions in election years. In Part III, we will examine some key economic policy areas that will be impacted by this year's election outcome.

Control for the White House: An Unusual Rematch

In a presidential election cycle, attention naturally gravitates to the race for the White House. Yet, so far the nomination process for the two parties has been relatively uneventful. On the Republican side, former President Donald Trump appears to be firmly in control of the nomination for his party. Initial wins in the Iowa caucuses and New Hampshire primary as well as a robust [lead in the polls](#) suggest it would take a major development to derail his road to the nomination. Similarly, current President Joe Biden seems unlikely to be unseated by his main challenger, House of Representatives member Dean Phillips.

Thus, a 2024 election rematch of Joe Biden and Donald Trump seems highly probable. If this occurs, it would become just the third instance in U.S. history of a race between two or more individuals who had been president previously. In 1912, incumbent President William Taft, a Republican, faced a challenge from the Democratic Governor of New Jersey Woodrow Wilson. However, Theodore Roosevelt, who was president from 1901-1909 as a Republican, ran as a third party candidate as part of the Progressive or "Bull Moose" party. The other instance occurred in 1888 and is more analogous to today's situation. The 1892 election was a rematch of the 1888 election and featured incumbent Republican President Benjamin Harrison against former Democratic President Grover Cleveland. In that campaign, the sitting incumbent (Harrison) lost, and Grover Cleveland became the first and only person in American history to be elected to a non-consecutive second term. If Donald Trump wins the presidency this November, he would be the second person to accomplish this feat.

A 2024 election rematch of Joe Biden and Donald Trump seems highly probable. If this occurs, it would become just the third instance in U.S. history of a race between two or more individuals who had been president previously.

Figure 1

U.S. Presidential Election Results: Key States					
State	Electoral Votes		Popular vote: Republican - Democrat (%)		
	Trump	Biden	2020 Trump-Biden	2016 Trump-Clinton	2012 Romney-Obama
Colorado	0	9	-13.5	-4.9	-5.4
New Mexico	0	5	-10.8	-8.2	-10.1
Virginia	0	13	-10.1	-5.3	-3.9
Maine	1	3	-9.1	-3.0	-15.3
New Hampshire	0	4	-7.4	-0.4	-5.6
Minnesota	0	10	-7.1	-1.5	-7.7
Michigan	0	16	-2.8	0.2	-9.5
Nevada	0	6	-2.4	-2.4	-6.7
Pennsylvania	0	20	-1.2	0.7	-5.4
Wisconsin	0	10	-0.6	0.8	-6.9
Arizona	0	11	-0.3	3.5	9.1
Georgia	0	16	-0.2	5.1	7.8
North Carolina	15	0	1.3	3.7	2.0
Florida	29	0	3.4	1.2	-0.9
Texas	38	0	5.6	9.0	15.8
Ohio	18	0	8.0	8.1	-3.0
Iowa	6	0	8.2	9.4	-5.8
Total	232	306			

Source: Federal Election Commission and Wells Fargo Economics

With roughly nine months to go until Election Day, much can change between now and then. Look no further than the last presidential election, when a global pandemic rocked the world and upended that year's race. Today, the U.S. economy appears poised to [achieve a "soft landing"](#) as economic growth remains resilient and inflation slows, but recession risks remain elevated in our view. That said, if the 2020 election featuring Joe Biden and Donald Trump is indicative of the 2024 rematch,

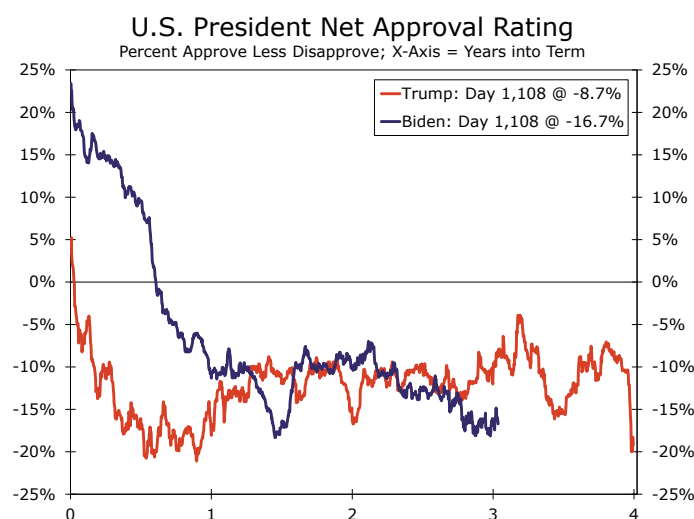
The U.S. economy appears poised to achieve a "soft landing", but recession risks remain elevated in our view.

the race should be fairly competitive. Biden carried the day in 2020, winning the Electoral College 306-232 and the popular vote 51.3%-46.9%. But, several key swing states including Georgia, Arizona and Pennsylvania were decided by tight margins (Figure 1).

Both President Biden and President Trump possessed net approval ratings that were “underwater” at this point in their presidencies (Figure 2). However, President Biden's net approval rating is currently a bit weaker than Donald Trump's was at this point in his first term. At present, prediction markets seem to view Donald Trump as the favorite to win the presidency, albeit not overwhelmingly so. The RealClearPolitics aggregator for various prediction and betting markets assigns a greater probability to a Trump presidency than a Biden one, but neither candidate's odds are above 50% (Figure 3). Political forecasters, such as Larry Sabato and team at the University of Virginia's Center for Politics, do not seem to see a clear cut favorite at this point in time. Sabato's Crystal Ball projections currently have 260 electoral college votes in the Democratic column and 235 in the Republican column, with the remaining 43 electoral college votes in the “toss-up” category.¹ On balance, there remains plenty of uncertainty about who will emerge victorious on election night in November.

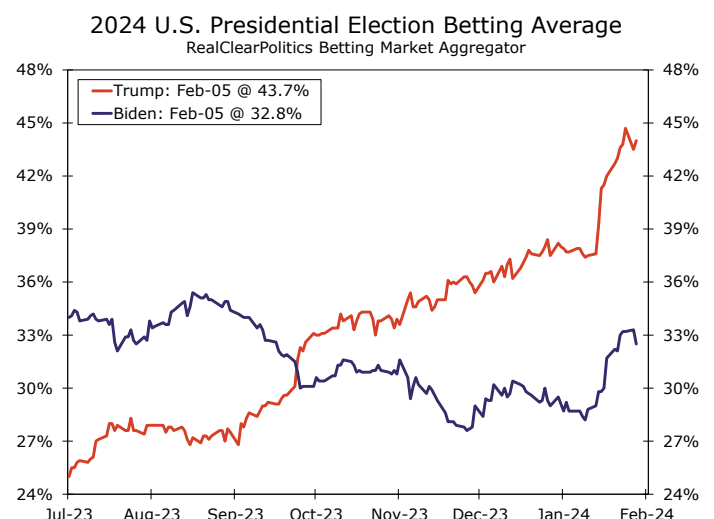
Both President Biden and President Trump possessed net approval ratings that were “underwater” at this point in their presidencies.

Figure 2



Source: 538 and Wells Fargo Economics

Figure 3



Source: Bloomberg Finance L.P. and Wells Fargo Economics

Control of the House: A Tight Race

The race for the White House may gain the most media attention, but party control of Congress also will play a critical role in shaping the economic policy outlook for 2025 and beyond. Periods of unified party control of the House of Representatives, Senate and White House have generated much of the major legislation that has become law in recent years. The Inflation Reduction Act under President Biden, the Tax Cuts and Jobs Act under President Trump and Dodd-Frank and the Affordable Care Act under President Obama were all enacted during periods of unified control of Congress and the White House. In contrast, divided control of Congress and the White House has frequently led to gridlock or more incremental policy changes.

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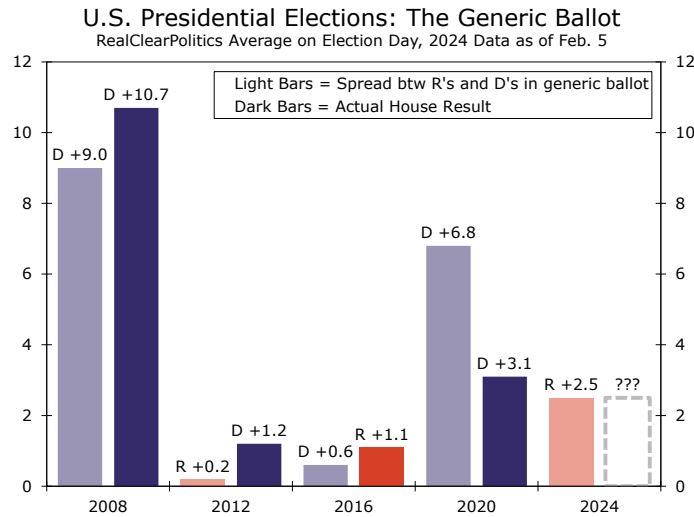
At present, Republicans hold a slim majority of 219-213 in the House of Representatives, with three seats currently vacant. All 435 seats in the House are up for election every two years, and it takes 218 seats to hold the majority. Generally speaking, big swings in the makeup of the House of Representatives occur in midterm elections rather than in presidential elections. The average net change in House seats over the past seven presidential elections is eight seats, much smaller than the average net change of 24 seats in midterm elections over the same period. Furthermore, majority control of the House of Representatives has not switched parties in a presidential election year since 1952.

That said, given that Republicans have such a small majority, Democrats need to pick up just a handful seats on net to retake the House, so a change in majority control would not surprise us. One tool utilized by political analysts to measure the general state of the race for control of the House is generic ballot polling. Generic ballot polling asks respondents whether they would vote for a

Majority control of the House of Representatives has not switched parties in a presidential election year since 1952.

Republican or Democrat for Congress without actually naming specific candidates. Figure 4 shows the RealClearPolitics generic ballot polling average as of February 5, as well as the average position of this indicator on Election Day in the past four presidential cycles.

Figure 4



Source: RealClearPolitics and Wells Fargo Economics

As can be seen, the generic ballot polling average has come within a few percentage points of the actual House popular vote margin in the past few presidential elections.² In 2008, Barack Obama won the White House and helped House Democrats win the nationwide popular vote by about 11 percentage points, netting more than 20 seats. More recently, the House popular vote margin nationwide has been closer in presidential election years, and the number of seats gained or lost much smaller. At the moment, Republicans have a small edge in the generic ballot polling, but once again we would caution that much can change between now and November, and even small changes matter when dealing with a House of Representatives that is so evenly divided between the two parties.

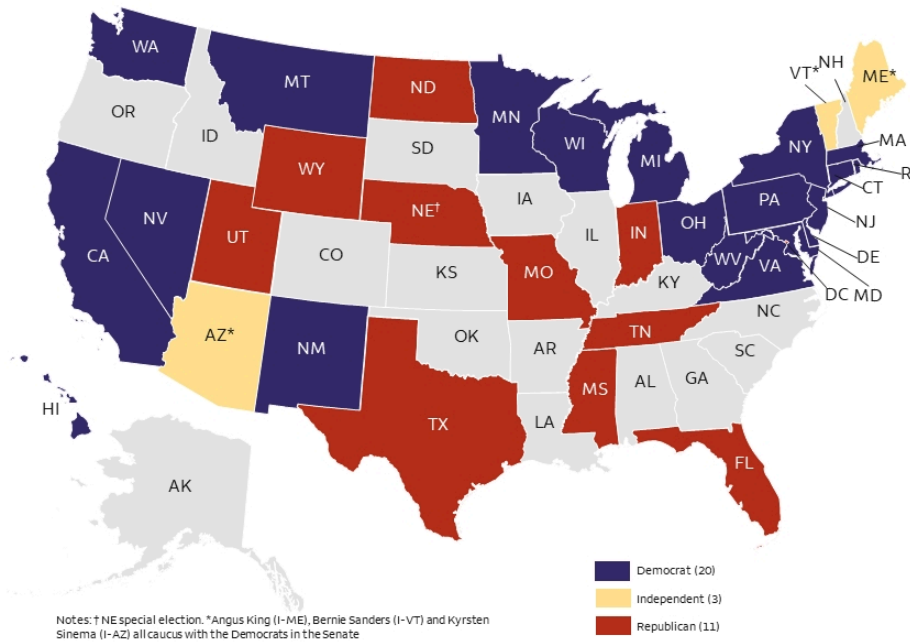
Control of the Senate: A Favorable Map for Republicans

The outlook for control of the Senate is more unique compared to the House of Representatives. Unlike the House, the entire Senate is not up for election every two years. Instead, Senators are elected to six year terms, and one-third of the Senate is up for election every two years. The Senate is currently split between 49 Republicans, 48 Democrats and 3 Independents. Those three independents all caucus with the Democrats, thus giving the Democrats majority control of the chamber. Republicans need to pick up at least two seats on net to retake control of the chamber. If they pick up just one seat, a 50-50 tie would be decided by the incoming vice president.

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Figure 5

2024 Senate Races



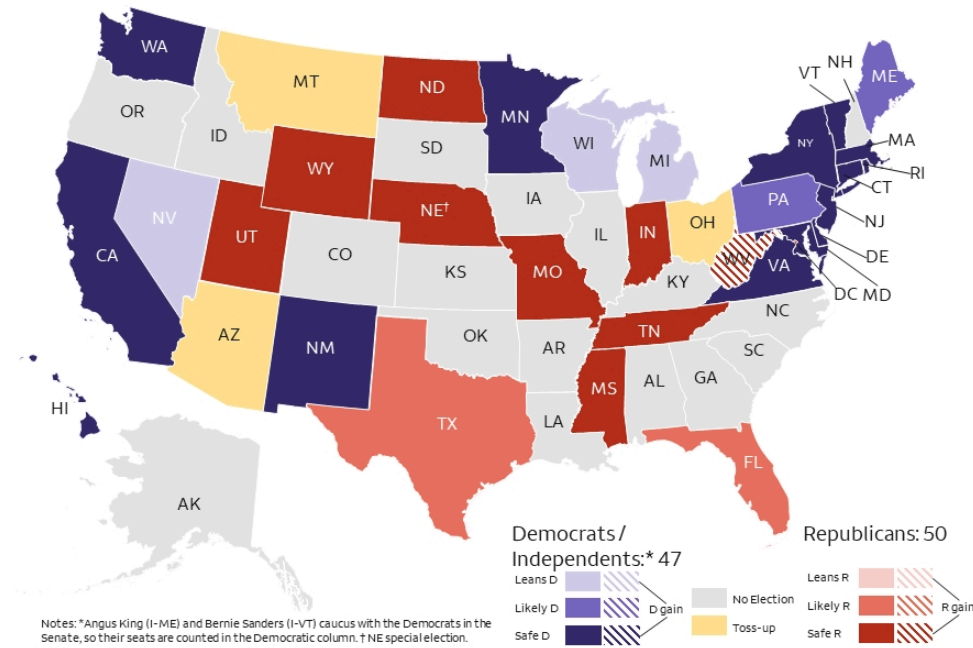
Source: Sabato's Crystal Ball at the University of Virginia Center for Politics and Wells Fargo Economics

Political analysts generally view this year's Senate map as more favorable to Republicans. There are 34 Senate seats up for grabs: 20 are held by Democrats, 11 are held by Republicans and the remaining three are held by the independents who caucus with the Democrats (Figure 5). As a result, Democrats are playing "defense" in more states than Republicans. The seat held by retiring Senator Joe Manchin (D-WV) is up for grabs, and Sabato's Crystal Ball has it rated as a prime pick-up opportunity for Republicans (Figure 6). Democratic Senators also face potentially competitive races in states that Donald Trump won in 2020 (Montana, Ohio) as well as races in states that were tight at the presidential level in 2020 (Wisconsin, Nevada, Arizona, Michigan, Pennsylvania). On the Republican side, most political forecasters envision fewer pick-up opportunities for Democrats. Republican senators up for re-election in Florida and Texas represent Democrats' best chances of flipping a couple of seats. The race for control of the Senate remains a long way from over, but this year's map affords Republicans more opportunities for the much-coveted 51st seat.

Political analysts generally view this year's Senate map as more favorable to Republicans.

Figure 6

Sabato's Crystal Ball 2024 Senate Ratings



Source: Sabato's Crystal Ball at the University of Virginia Center for Politics and Wells Fargo Economics

A Long Road to November

It appears highly likely that the 2024 presidential election will be a rematch featuring incumbent President Joe Biden and former President Donald Trump. Much can change between now and Election Day on November 5, and it likely will be several months before the state of the race comes into sharper focus. That said, we will be keeping an eye on head-to-head polls, approval ratings, prediction markets, forecasts of top political analysts and, of course, economic conditions to monitor the race. Although the race for the White House likely will garner the most attention, we believe it is critical to also focus on the outlook for control of Congress. In recent years, unified government has produced much of the major legislation that has driven shifts in the economic outlook. Republicans currently hold a razor-thin majority in the House of Representatives, and as a result Democrats need to net just a handful of seats to flip control of the House. In the Senate, Republicans need to pick up just two seats on net to gain a majority, and this year's Senate races afford them plenty of opportunities to do so. We will keep our readers updated as this year's elections develop. Stay tuned.

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Endnotes

1 – See Sabato's Crystal Ball at the University of Virginia Center for Politics [2024 Electoral College ratings](#). (Return)

2 – Bear in mind that, unlike in some parliamentary systems, winning the national popular vote at the Congressional level does not necessarily translate directly into a majority. The 'first-past-the-post' system, as well as the drawing of Congressional districts, can impact the actual number of seats won. Generally speaking though, the popular vote margin is a solid proxy for number of House seats captured. (Return)

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Economics Group

Jay H. Bryson, Ph.D.	Chief Economist	704-410-3274	Jay.Bryson@wellsfargo.com
Sam Bullard	Senior Economist	704-410-3280	Sam.Bullard@wellsfargo.com
Nick Bennenbroek	International Economist	212-214-5636	Nicholas.Bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	704-410-3283	Tim.Quinlan@wellsfargo.com
Sarah House	Senior Economist	704-410-3282	Sarah.House@wellsfargo.com
Azhar Iqbal	Econometrician	212-214-2029	Azhar.Iqbal@wellsfargo.com
Charlie Dougherty	Senior Economist	212-214-8984	Charles.Dougherty@wellsfargo.com
Michael Pugliese	Senior Economist	212-214-5058	Michael.D.Pugliese@wellsfargo.com
Brendan McKenna	International Economist	212-214-5637	Brendan.Mckenna@wellsfargo.com
Jackie Benson	Economist	704-410-4468	Jackie.Benson@wellsfargo.com
Shannon Grein	Economist	704-410-0369	Shannon.Grein@wellsfargo.com
Nicole Cervi	Economist	704-410-3059	Nicole.Cervi@wellsfargo.com
Patrick Barley	Economic Analyst	704-410-1232	Patrick.Barley@wellsfargo.com
Jeremiah Kohl	Economic Analyst	704-410-1437	Jeremiah.J.Kohl@wellsfargo.com
Aubrey George	Economic Analyst	704-410-2911	Aubrey.B.George@wellsfargo.com
Delaney Conner	Economic Analyst	704-374-2150	Delaney.Conner@wellsfargo.com
Anna Stein	Economic Analyst	212-214-1063	Anna.H.Stein@wellsfargo.com
Coren Burton	Administrative Assistant	704-410-6010	Coren.Burton@wellsfargo.com

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