

POLITICAL PULSE

Modeling the 2016 Presidential Election

Wednesday, November 12, 2014

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You heard it here first -- GOP by 145 Electoral College votes, and congressional control too.

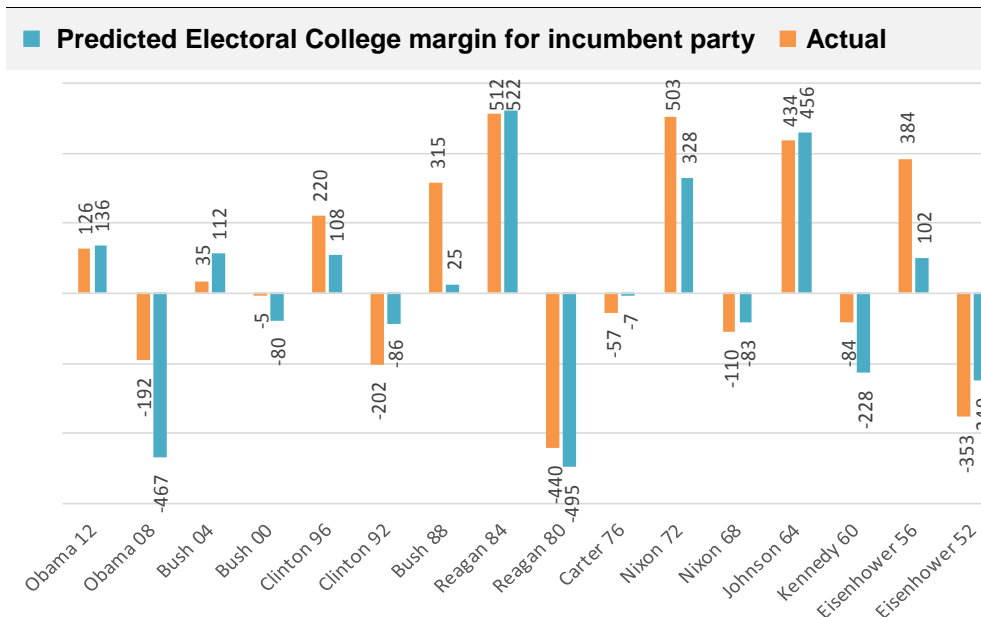
We correctly called the 2014 mid-term elections for the GOP (see ["On the 2014 Midterms"](#) November 5, 2014) in a contrarian prediction made over a year ago in the midst of the government shutdown (see ["On the Shutdown and Debt Limit Deal"](#) October 17, 2013). Now -- onward to 2016!

- Our mid-term prediction was informal. It was based only on the very strong historical precedent that whichever party controls the White House tends to lose congressional seats in mid-terms -- bolstered by the GOP's very favorable map (see ["Mid-term Cliffhanger"](#) September 24, 2014).
- We introduced a formal presidential election model six weeks before the 2012 election (see ["TrendMacro's Election Model"](#) September 28, 2012).
- In back-tests our model correctly calls every election starting in 1952 (please see the chart below). It has been able to explain the winning margin in Electoral College votes with an r-squared of 80%.

Update to strategic view

ELECTION MODEL: We introduce our 2016 election model, which now predicts a GOP president, winning by 145 Electoral College votes. Two years out, economic variables slightly favor the Democrats, but this is swamped by the rarity of either party keeping the White House for more than two terms. At the same time, the GOP is likely to keep congressional control.

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Source: Various, TrendMacro calculations

- It correctly predicted *ex ante* Obama's win in 2012, underestimating the Electoral College spread by only 4 votes based on data available at the time (see "[On the 2012 Election](#)" November 7, 2012; and note that based on revised data available now, the model overestimates Obama's margin by 10 votes -- either way, virtually perfect).
- Unlike most of the popular models offered now by various media outlets, ours does not use polling information. Instead, it is based on the postures of six economic variables that have proven their relevance going back to the first Eisenhower election.
- In addition, the model considers whether there is an incumbent candidate in the election (an advantage) -- and whether a candidate's party has held the White House already for two terms of more (a disadvantage). In 2016 there will be no incumbent on the ballot, and the Democrats will have held the White House for two terms -- a disadvantage with no offsetting advantage.
- *Because our model does not rely on polls, we are able to make a prediction for 2016 right now -- but that prediction is based on today's economic variables, which will change over the two years between now and the election.*
- *Based on today's economic variables, our model says the GOP would win the White House by 145 Electoral College votes, slightly more than Obama's winning margin of 126 votes in 2012.*

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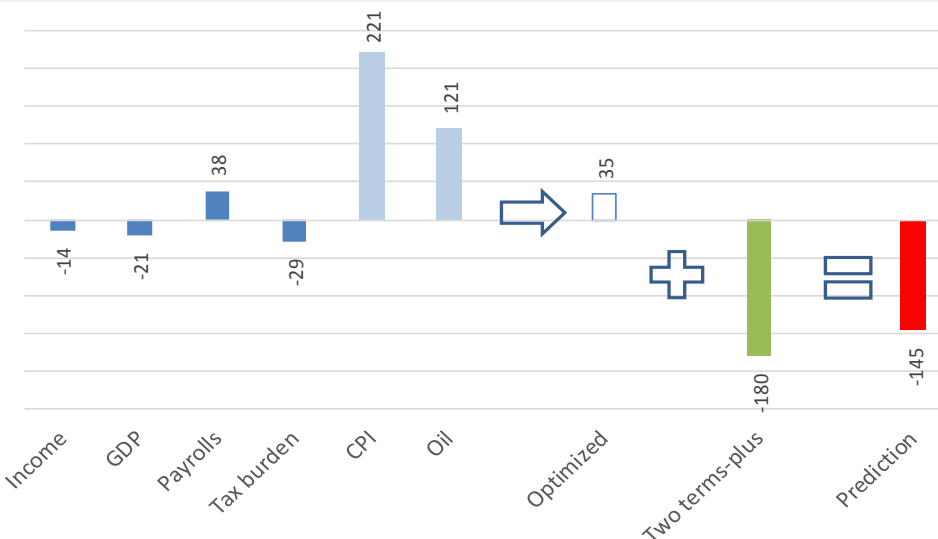
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Using only economic variables -- assuming today's look the same two years from now -- the Democrats would win the White House.

- *Of our model's six economic variables, three favor the Democrats and three favor the GOP* (please see the chart below).
- Year-over-year change in the oil price and in inflation are strongly

Flow of variables in Electoral College votes for incumbent party

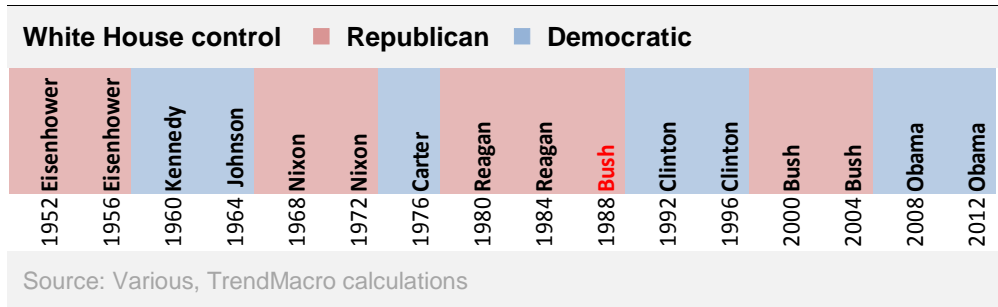
■ Strong ■ Weak □ Aggregate ■ Adjustment ■ Output



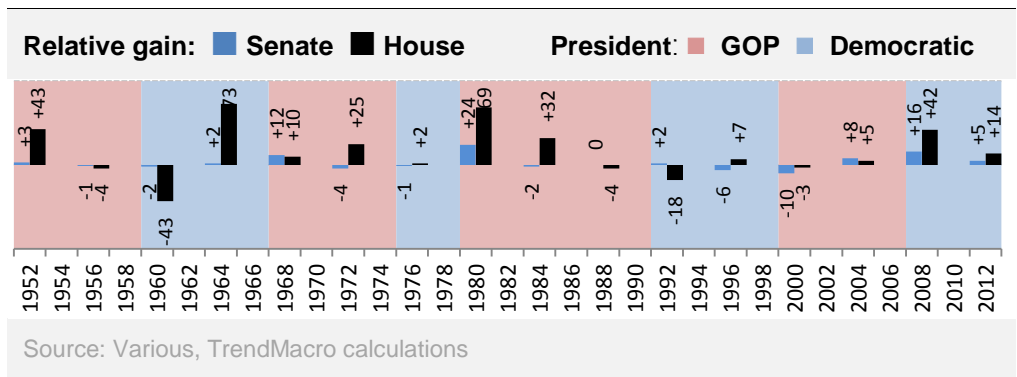
Source: Various, TrendMacro calculations

favorable to the Democrats -- that is, oil prices are sharply lower and inflation is tame (see ["Don't Let a Good Oil Crisis Go to Waste"](#) October 21, 2014). But these variables are weighted only weakly in the model, because they have shown relatively poor predictive power. Year-over-year change in payrolls is a highly weighted variable, but it's been so lackluster it's little help to the Democrats.

- On the other hand, year-over-year change in GDP and real per capita disposable income, and 4-year change in the tax burden have moved modestly in directions favorable to the GOP -- that is, GDP and income growth are lackluster, and the tax burden has risen, but none has been horrible. But all are heavily weighted.
- So the model's optimized weighting of all the variables gives only a slight edge to the Democrats -- 35 Electoral College votes.
- However, the penalty for having controlled the White House for two terms or more is very consequential in the model. It is worth 180 Electoral College votes, which more than wipes out the Democrats' small advantage from the economic variables.
- *If this seems disproportionate, it is in part a function of how perfectly balanced the economic variables are at the moment, so that they barely matter at all.*
- But consider, also, the lessons of history. Only once in the post-war record has either party been able to stretch White House control from two terms to three -- regardless of how favorable the economic backdrop may have been (please see the chart below). It seems to be very nearly a natural law of US politics that after two terms in the White House a party becomes "shopworn" in the eyes of the electorate -- disappointing, dissipated, boring, even corrupt.



- Another lesson of history -- another natural law -- is that in presidential election years the Senate and the House tend (albeit imperfectly) to move in the same partisan direction as the presidency (please see the chart below).



- So if our model is right and the GOP takes the White House, the GOP will likely have congressional control at the same time.

Our election model can be faulted, perhaps, for not considering polls, nor demographics. We would ask you to remember that polls, and the narratives retailed by the media about demographics, were poor predictors of the outcome of the mid-terms -- none of it predicted the GOP "wave."

Our model, instead, is built from the economic realities that make the electorate satisfied or dissatisfied with the party in power, and the durable patterns of history that result from the periodicity of the presidential and congressional election cycles in a stable two-party system. We only have one out-of-sample data point -- the 2012 presidential election -- but we got that one right within four Electoral College votes. And we would note that the popular prediction models in the media -- based mostly on polls -- have no more out-of-sample data points than we do, and poorer results.

- We don't say these things to toot our own horn. *Rather, we want to clients to at least keep an open mind that, despite the media narrative holding that the electoral map virtually ensures a Democratic president in 2016, instead we think the most likely outcome is a Republican president.*
- *And if a Republican is indeed elected president in 2016, history favors the GOP preserving or even expanding the congressional control it won in the mid-terms.*
- We know from the George W. Bush years that single-party rule by the GOP does not ensure uniformly excellent economic policy. But we always try to think at the margin -- and in that sense, we would expect a strong improvement over the policy stasis, indeed the many serious mis-steps, we've endured in the Obama years.

The risk to the prediction we are making today is that the economic variables in the model are likely to change considerably over two years. Indeed, our expectation, with oil prices falling and systemic risk receding, is that the economy will improve across most dimensions, moving the economic variables more toward the Democrats. Starting Monday, we will update the election model in each week's Strategy Summary.

Bottom line

We introduce our 2016 election model, which now predicts a GOP president, winning by 145 Electoral College votes. Two years out, economic variables slightly favor the Democrats, but this is swamped by the rarity of either party keeping the White House for more than two terms. At the same time, the GOP is likely to keep congressional control. ▶