

POLITICAL PULSE

## Inside Our 2020 Presidential Election Prediction Model

Monday, March 18, 2019  
 Donald Luskin

Trump's predicted win is robust to a cooling economy, but *not* to even a mild recession.

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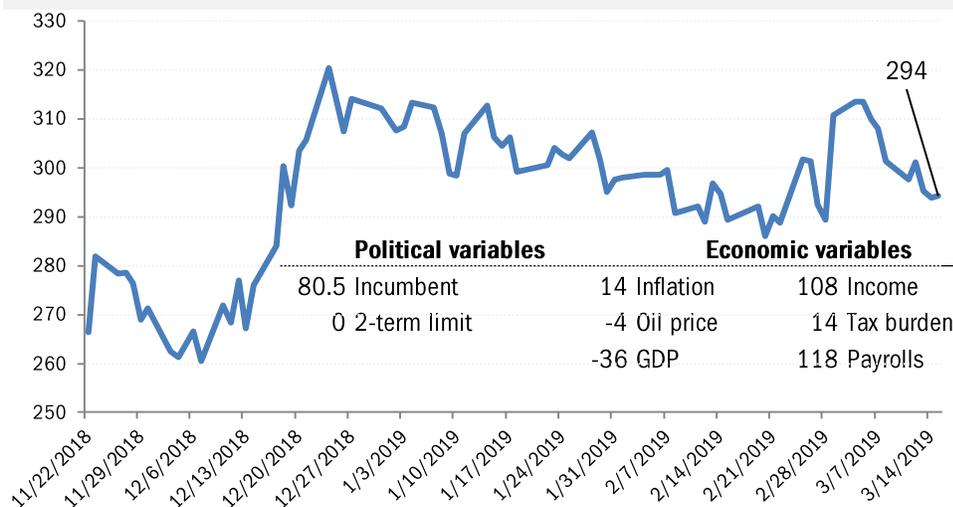
Trigger warning: this report talks about politics. TrendMacro is apolitical and non-partisan. We do not endorse any candidate or party. Our interest in predicting election results is strictly to inform our strategic outlook for the markets and the economy.

We've updated our proprietary quantitative presidential election model, which we first introduced before the 2012 election (see ["TrendMacro's Election Model"](#) September 28, 2012). For the 2020 election – if economic conditions then are the same as they are today – it is predicting that the Republican candidate will win. If the candidate is incumbent Donald J. Trump, he will win by a margin of 294 electoral college votes. If the candidate is someone else, say Michael Pence, he would win by 214 electoral college votes.

We run the model every day, and its prediction changes as the economic variables in it change (please see the chart below). We publish the updated results every Monday in our "Investment Strategy Summary."

- That vote-margin seems implausibly large, given the seemingly

2020 presidential election model: predicted electoral college vote-margin for Trump



Source: Various, TrendMacro calculations

Update to strategic view

**US ELECTION MODEL, US MACRO, ASIA MACRO:** Our proprietary quantitative presidential election model predicts that Trump will be re-elected by a margin of 294 electoral college votes, assuming economic conditions are the same in November 2020 as they are today. A non-incumbent GOP candidate such as Pence is predicted to win by 214. The predicted margin is robust to some degree of cooling off from today's very strong economic variables. Historically, when the economy is merely okay, incumbents always win unless their party has held the White House for two terms or more. But a GOP candidate could not survive even a mild recession, because it would come on the heels of today's very hot economy. Conventional "business cycle" thinking says a recession is long overdue, but a successful conclusion to the US/China trade war could reinvigorate global growth and easily forestall one through the election.

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locked-in votes for any Democratic candidate that can be expected from the [“blue wall”](#) of large-population states. *So consider it a directional prediction – and one with a large cushion for error.*

- In 2016, running in real time (not in backtest) the model predicted Trump would win by 228 electoral college votes (see [“Our Fearless Predictions”](#) November 7, 2016), when in fact his winning margin turned out to be only 77. *But the model was directionally correct in predicting a Trump win, when virtually all competing quantitative models were pointing – unquestioningly, dogmatically, stridently – in exactly the opposite direction.*
- In 2012, running in real time (not in backtest), the model predicted Barak Obama would win by 122 electoral college votes (see [“On the 2012 Election”](#) November 7, 2012), *essentially a perfect prediction of his win by 126.*
- Prior to that, *the model correctly predicts every election from 1952.* From 1952 to 2016, the model’s predictions have errors in vote-margin ranging from 151 to -210. The mean error is zero and *the coefficient of determination (r-squared) is 0.84.*

Our model uses no polling data, even though most competing quantitative models depend on that almost exclusively. But those models [don’t work very well](#). So instead, our model stands on the shoulders of giants, primarily the work of [Yale econometrician Ray C. Fair](#), which uses only political and economic variables.

- As in Fair’s work, our model assigns a *penalty to any candidate whose party has held the White House for two terms or more.* Presently that penalty is 127 electoral college votes, but it won’t come into play in 2020.
- Also as in Fair’s work, our model assigns a *bonus to any candidate who is running as an incumbent.* Presently that bonus is 81 electoral college votes, and it will come into play if Trump runs (but not if another Republican does).
- As long as the term-limit penalty is larger than the incumbent bonus, those two factors alone enable a model to correctly predict every election from 1952, with two exceptions: in 1980 incumbent Jimmy Carter failed to win re-election despite his party having held the White House for only one term; and 1988 when George H. W. Bush won following two Republican terms for Ronald Reagan.
- As in Fair’s work, the addition of economic variables enables a model to overcome the anomalies of 1980 (when the economy was so weak, an incumbent *could not* win) and in 1988 (when the economy was so strong, a term-limited party *could* win).
- Fair’s economic variables include only real GDP and inflation. *Our model uses real GDP, CPI inflation, the oil price, disposable personal income, payrolls, and the personal tax burden.*
- Fair’s model makes the fundamental error of attempting to predict the result of the popular vote. Instead, *our model predicts the electoral college vote*, which is, after all, the game the candidates are actually playing.

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## Recommended Reading

[Friedrich von Hayek: His Nobel Prize and Family Collection](#)  
Sotheby’s  
March 19, 2019

[Why China Silenced a Clickbait Queen in Its Battle for Information Control](#)  
Javier C. Hernández  
*New York Times*  
March 16, 2019

[A Forensic Examination of China’s National Accounts](#)  
Wei Chen, Xilu Chen, Chang-Tai Hsieh and Zheng (Michael) Song  
*Brookings Papers on Economic Activity*  
March 7, 2019

[The Yale Dad Who Set Off the College-Admissions Scandal](#)  
Jennifer Levitz and Melissa Korn  
*Wall Street Journal*  
March 14, 2019

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The model's prediction has already swung in a range of about 60 electoral college votes in the short time since we re-estimated it late in late November of last year (again, please see the chart on the first page). That's mostly been due to the extreme fluctuations in oil prices over the period – they were lower year-on-year by as much as 22.5% near year-end, but are 1.3% higher today. It's an effective reminder that *the model's forecast is likely to be very different on election day, 596 days from today, as all six economic variables fluctuate.*

- The model is an equation that integrates all six variables, and the variables themselves are causally inter-related. So it is difficult to answer the question often asked by clients as to exactly what fluctuations would be required to reverse the model's prediction of a Trump victory.
- In the case of oil, all else equal, a one percent change (downward or upward) in year-on-year price change is worth about 3 electoral college votes (upward or downward, respectively). Our intermediate-term outlook on oil tends toward the bearish (see ["Why Aren't Oil Prices Higher?"](#) February 12, 2019). So we would expect to see ongoing support in the vote-margin between now and the election from this factor – that is, provided the oil price doesn't experience a disorderly collapse as it did in 2015-16, which would spill over into stress in financial markets.
- Presently year-on-year payroll gains are 1.7%. At this point it's hard to see the rate of gains improving. If it falls to 0.7% – which would not imply a recession *per se*, but only a cyclical maturation of the labor market, that would reduce the model's prediction by 69 votes.
- A 1% drop in year-on-year disposable personal income growth would cost 42 votes. We have no reason for forecasting such a drop.
- A 1% increase in tax burden would cost only 8 votes, but because this is a four-year measure, we have no reason to think it will change much between now and the election.
- A 1% increase in the change in the year-on-year CPI inflation rate would cost 62 votes. But we would expect, ordinarily, that a *slowdown* in the rate of growth for payrolls and income would not be associated with an *increase* in the inflation rate, so there is likely an offsetting diversification effect with this variable.
- Another offset is real GDP growth. While this would seem to be the supreme economic variable – it is one of only two that Fair looks at – it so happens that in our model it has a negative and small coefficient. There's no articulatable reason for that. It just turns out that in the model's regression equation, considering all the variables involved and their correlations with each other, the best result comes from – admittedly counterintuitively – giving GDP a small weight and a negative one. A 1.0% deceleration in GDP growth costs about 8 electoral college votes.
- You can see that a somewhat cooler economic expansion at election time would narrow the model's predicted vote-margin, but likely preserve it in favor of Trump. Remember, though, that Trump gets an 81 vote bonus for running as an incumbent. So he has that to fall back on to preserve his predicted winning margin in the face

of a slowdown, while another Republican (such as Pence) would not.

- But you can also see that an outright recession would quickly erode the predicted margin. Even with recessionary offsets such as a falling oil price, falling inflation and (because of the negative weight) falling GDP, even mild recessionary levels for the payroll and income variables are enough to make the election a toss-up, even for Trump as an incumbent. That is, in part, because the model looks at changes, not levels, in several of the variables – so any slowdown would be unfavorably contrasted with today’s very hot economy.
- The conventional wisdom about “business cycles” – if there even is such a thing! – is that the present economic expansion has already been going on for a weirdly long time and the economy is running out of workers (which, supposedly, leads to higher inflation). At the same time, the US has to share the global economy with Europe, Japan and China who, at the moment, are threatening more to bring the US down than to lift it up. Can we really stay out of recession for another 596 days?
- That’s a sincere question, not a rhetorical one.
- We think that after a decade of so-called secular stagnation, there are still many workers on the sidelines in the US economy. We really aren’t running out of jobs (see, for example, [“On the May Jobs Report: What Labor Shortage?”](#) June 1, 2018).
- And we think that a tremendous growth impulse can be unleashed – and, at the same time, a crippling uncertainty removed – by a successful conclusion to the US/China trade war. We define “success” as helping China avoid a recession, and step into an era of higher growth as a less-protectionist large economy (see, most recently, [“Fail in Hanoi, Win in Beijing”](#) March 4, 2019).
- So we’re a long way from assuming, as a baseline, that Trump will have to face a recession when he runs for re-election. Either way, the model will tell us day by day, data release by data release.

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## Bottom line

Our proprietary quantitative presidential election model predicts that Trump will be re-elected by a margin of 294 electoral college votes, assuming economic conditions are the same in November 2020 as they are today. A non-incumbent GOP candidate such as Pence is predicted to win by 214. The predicted margin is robust to some degree of cooling off from today’s very strong economic variables. Historically, when the economy is merely okay, incumbents always win unless their party has held the White House for two terms or more. But a GOP candidate could not survive even a mild recession, because it would come on the heels of today’s very hot economy. Conventional “business cycle” thinking says a recession is long overdue, but a successful conclusion to the US/China trade war could reinvigorate global growth and easily forestall one through the election. ▶