

Euler Hermes North America: The Midterm Votes Are In; Six Things Businesses Need To Know

Baltimore, Nov. 7, 2018 – The votes are in, and the American voters have come back with a split decision – Democrats won back the House of Representatives while the Republicans maintain control of the Senate. There’s no question that the results will change the course of policy creation in Washington and impact both small and large businesses. Euler Hermes, a global leader in trade credit insurance, shares what business leaders need to know now that the midterm elections are over.

“From trade wars to tax cuts, these last two years have certainly been filled with ups and downs for businesses,” said Dan North, chief economist at Euler Hermes North America. “With the results of the midterm elections in, it’s important for leaders to refocus and think about how to best rise to a new set of challenges and opportunities.”

1. Don’t Count on Tax Cuts

The Tax Cuts and Jobs Act has a provision creating “Qualified Opportunity Zones” that provide financing for small businesses looking to relocate and expand. However, these new tax laws are currently set to phase out in 2025, and a vote to make them permanent seems unlikely as Democrats will probably not support making these laws permanent. Businesses that were planning to expand using the benefits from this law should proceed with caution.

2. Infrastructure Spending is Coming

Both parties understand the benefits of infrastructure spending, and a plan to raise funding for infrastructure may be the first bi-partisan effort we see when Congress returns in January. The Federal Gasoline tax rate has been unchanged since 1993. If congress agrees to raise it from 18.4% to 22%, \$200 billion could be raised in just five years to fund infrastructure projects, providing a big boost for the economy.

3. Trade War No More?

Things will still be rocky, but as evidenced by the new USMCA agreement with Mexico and Canada, the President is more flexible on trade than he initially indicates. A likely scenario is that with a few concessions from the Chinese (think tariffs on US agriculture and ending the requirement for technology companies to form joint ventures to operate in China) he could agree to a return to prior trade conditions. This would be a win for tech, agriculture, wholesalers, and retailers. That said, there could be lasting damage. The Chinese have already looked for new food supply sources, and US manufacturers, either exporting products to China or having their facilities there, face new burdens that make this market less appealing.

4. Be Ready for Budget Drama

The counter-balance in Congress is likely to indicate a tax neutral landscape, but also leaves the U.S. with a fiscal deficit that will continue to deepen in the context of a highly polarized Congress. Budget drama will create significant bouts of volatility and contribute to a tightening of monetary and financial conditions. The basic materials and utilities sectors are most vulnerable to the significant tightening of monetary and financial conditions.

5. A Change in Course for Regulation

Pharmaceutical companies can expect to hurt as rising drug prices are a concern for both sides of the aisle. The banking sector can expect deregulation to continue, which will translate to a benefit for small companies looking to get credit. A note of caution – deregulation means an increased level of risk in the banking and financial sector similar to what was seen before 2008.

6. Softening Immigration Policy

With a split Congress, a relaxation of immigration policies may be the price Republicans need to pay in order to pass budgets. Democrats have their eye on saving policies like DACA and preventing family separation. An increase in immigration could provide needed relief for labor intensive companies already struggling with a tight labor market.

A split congress provides both challenges and opportunities to the business world – the key for leaders will be focusing on the right risks to in order to keep a steady course and see continued growth. [Read the full report.](#)

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