



Economics Group

John E. Silvia, Chief Economist

john.silvia@wellsfargo.com • (704) 410-3275

Michael A. Brown, Economist

michael.a.brown@wellsfargo.com • (704) 410-3278

Post-Election Update: Different Congress, Not Much Change

The midterm elections this week resulted in Republicans taking control of the Senate and maintaining their hold on the House of Representatives. Even with a one-party Congress, do not expect much to change.

Republicans Gain Power in Congress

Last night's midterm elections resulted in the Republicans taking control of the Senate and, in turn, Congress. Now that the elections are over, Congress will be back in session next Wednesday with a host of issues that still need to be addressed before the new Congress begins in January. In this note we review some of the issues likely to come up over the next few months and provide our views on how the political landscape of the next Congress may impact policy and the economy in the year ahead.

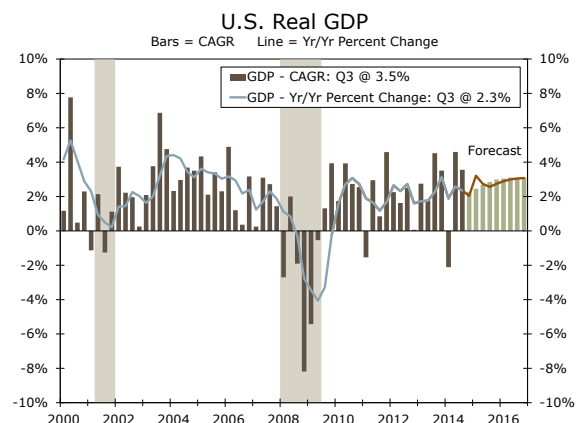
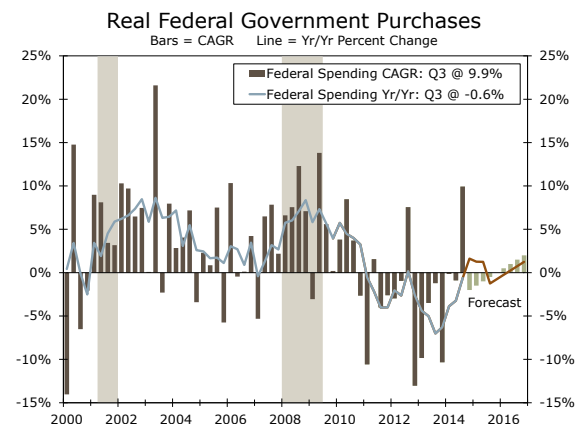
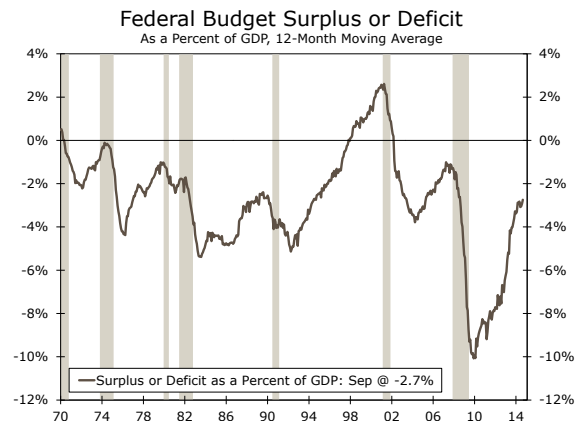
Unfinished Business, The Budget and Tax Extenders

The government is currently operating under a Continuing Resolution (CR) to keep the government funded through December 11th. House and Senate staff have begun working behind the scenes in an attempt to hammer out an omnibus appropriation bill that would provide funding for the rest of the current federal fiscal year. We expect that an omnibus bill will be passed, as opposed to another CR, providing much-needed budget certainty to federal agencies and state and local governments relying on federal grants. Both parties have an incentive to complete an omnibus bill. Democrats will have more of an influence over the bill if it is completed before year's end, while Republicans have a need to get some of these budget debates behind them and begin with a clean slate in January. Besides passing a funding bill, there are also a host of tax breaks that expired at the beginning of this year which need to be addressed, including an accelerated depreciation business tax credit and a research & development tax credit, both of which have been popular. The current thinking is that many of these expired tax credits will be extended retroactively for this year and perhaps beyond.

New Congress, But Same Old Issues and Partisanship

In the wake of last night's election results, our biggest concern will be the debt ceiling debate which will occur sometime next spring. With Republicans in control of Congress, the debate over how to handle the debt ceiling will likely become a political lightning rod once again. It is likely that Republicans will attach policy riders or other unrelated legislation to a debt ceiling bill in order to force the President to sign key policy items into law. This showdown will begin early next spring and could have implications for financial markets. It is currently too early to determine the exact date when we will reach the debt limit but right now the window to hit the borrowing limit is between March and June. The exact date will be determined by the structure of the funding bill and tax collections.

In short, there will likely be more legislation moved through Congress; however without a supermajority in the Senate and the veto power of the President, we do not see much in the way of major policy changes taking place over the next two years. The political gridlock may look different, but it likely will remain.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah Watt House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Erik Nelson	Economic Analyst	(704) 410-3267	erik.f.nelson@wellsfargo.com
Alex Moehring	Economic Analyst	(704) 410-3247	alex.v.moehring@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

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