US ECONOMICS UPDATE

Congress steps up to the plate

- **The $2trn stimulus package agreed by Congress will include a permanent fiscal expansion worth up to 5% of GDP and, in conjunction with the new lending facilities announced by the Fed, could channel up to $6trn in temporary financing to consumers and firms over the coming months. Even that won't be enough to prevent a sharp decline in GDP in the second quarter, but it should help to support an eventual recovery once the coronavirus outbreak has been brought under control.**

- After several days of intense negotiations, which has seen the estimated costs of the bill rise substantially, **the fiscal stimulus deal agreed by Congress early on Wednesday in response to the coronavirus crisis will reportedly be worth almost $2tn, or 10% of GDP. That's more than double the size of the Obama stimulus in 2009, with the vast majority of that funding likely to feed through in in the space of only a few months.**

- **Nearly half of that total is made up of permanent fiscal transfers to households and firms, providing an immediate support to demand worth around 5% of GDP.** Individuals will benefit from a $1,200 cash payment, with more generous terms than previously proposed pushing the total cost to around $300bn. The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will also be larger at $367bn. Lawmakers agreed to a significant temporary increase in unemployment insurance payments which will now cover 100% of lost wages for four months – no doubt spurred on by reports of an unprecedented surge in jobless claims around the country over the past week – potentially worth more than $200bn. The bill also includes more than $100bn of new funding for the healthcare system, and $150bn for state and local governments.

- The rest of the bill provides more temporary liquidity support to households and firms, including a variety of tax payment delays and waivers. **The main sticking point in negotiations had been over the proposed use of the Treasury's Exchange Stabilization Fund to provide loans for hard-hit industries, with the final bill providing $500bn of funding**. Democrats had criticised that as a "slush fund" for the Trump administration to grant corporate bailouts, but that appeared to reflect a misunderstanding over how these funds will be allocated. Although $75bn will be allocated directly by the Treasury, including $50bn for airlines, **the vast majority will be used to expand the new facilities announced by the Fed on Monday to support lending to consumers and non-financial firms.**

- That includes the Term Asset-Backed Securities Loan Facility, which allows the Fed to grant loans securitised by a variety of consumer debt, along with two new facilities which, for the first time, will allow direct lending to corporations via special purpose vehicles. The Fed will offer four-year loans to investment-grade corporates, with interest deferred for six months, and will also purchase corporate bonds in the secondary market. The Fed also announced a forthcoming plan to support lending to small businesses.

- **This means that the eventual size of these loans will be significantly larger than is widely appreciated.** With the Fed revealing that the Treasury's initial equity investment of $30bn would be used to provide loans of up to $300bn, this suggests that **the Treasury's new funding injection could allow the Fed to channel more than $4trn of loans to households and firms over the coming months.**

- Admittedly, with much of the economy already shut down**, none of this will prevent an unprecedented decline in GDP as the coronavirus outbreak takes its toll.** With lockdowns already in place across much of the country and likely to be extended as the virus spreads, **we now suspect the economy could contract by as much as 40% annualised in the second quarter, with the unemployment rate soaring above 10%.**

- Nevertheless, by limiting the number of viable firms forced into bankruptcy, and therefore the number of permanent job losses, **the stimulus measures enacted by the Fed and Congress in recent weeks should help to foster an eventual recovery when the virus is brought under control. Moreover, there is no reason to believe that Congress will now sit on its hands. Fiscal stimulus measures could easily be ramped up even further over the next couple of months as the economic damage becomes clear.**

Andrew Hunter, Senior US Economist, andrew.hunter@capitaleconomics.com