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ECONOMIC TALKING POINTS

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The Pandemic Rescue Package Debate: A Bad Time for the GOP to Become Born Again Deficit Hawks

A rich feast of economic indicators will be out this week. How Congress digests them all could shape the next pandemic rescue package. These reports might spur legislators to thrash out a plan to support the economy --- or lead to more political dyspepsia. At the very least, all the new data should offer more clues on the health of the economy and its probable direction.

Among the key questions they might address this week are these?

• Are businesses cutting back on new investments?
(Advance Order for Durable Goods)

• Has consumer anxiety resurfaced in July after the latest surge in Covid-19 cases?
(Conference Board's Consumer Confidence and the University of Michigan's Consumer Sentiment surveys)

• How is the housing market performing?
(S&P/Case Shiller home price index and Pending Home Sales)

• Will the Federal Reserve announce any change in monetary policy or their economic projections?
(FOMC meeting and press conference)

• How much did the economy contract in the second quarter?
(GDP for 2Q report, preliminary)

• Will there be two consecutive weeks of increases in applications for jobless benefits?
(Weekly Claims for Unemployment Insurance)

• Did Americans continue to shop in June, or have they turned more cautious? (Personal Income and Spending)

What these economic reports tell us could play a consequential role in how Washington crafts the next trillion dollar plus fiscal package. Not all these metrics carry the same weight, however.

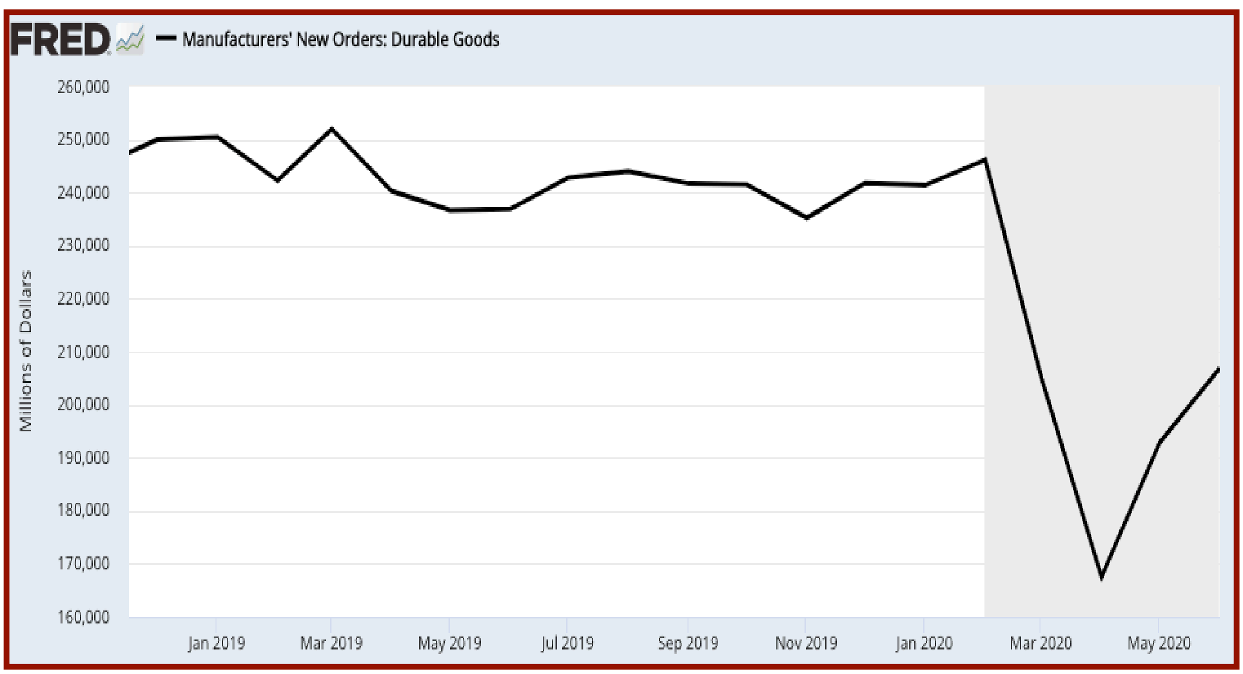
Let me begin with those I believe will be less influential.

S&P/Case Shiller Home Price Index and Pending Home Sales:

The housing market has already shown remarkable resilience, particularly in new home sales, housing starts and builder confidence. So we doubt the S&P/Case Shiller Home Price Index or Pending Home Sales will dramatically move financial markets much or greatly impact the ongoing talks in Congress.

Durable Goods Orders:

Similarly, we're not giving much weight to the advance orders for durable goods. To begin with, these numbers are highly volatile month to month. Collecting the data in the middle of a pandemic and partial business shutdown has also proven challenging. Moreover, we know major industries are already hurting, like airlines, commercial construction and oil production. And while new orders jumped 15.7% in May, their total dollar value remains the lowest in a decade. The consensus forecast calls for an increase of 7.2% in June. But even that would keep the orders far below its pre-Covid February level.



Personal Income & Spending:

We do not expect any surprises on the personal spending front in large part because many Americans ventured out last month after being cooped up in their homes for weeks this spring. We know retail sales took a big bounce in June, but that only reflects consumer purchases of goods. It is spending on services that took a real beating so far this recession as households cut back on travel, restaurants, hair cuts, and entertainment.

Since services accounts for 70% of total personal expenditures, it will be interesting to see to what extent this sector recovered last month.

Another data point in worth monitoring will be the personal savings rate. How much income did households sock away again in June? Prior to the pandemic, the savings rate hovered between 7% and 8%, at least since 2017. But the combination of Covid-led layoffs, store shutdowns and the fear of contagion kicked the savings rate up to an historic 32.2% in April. It did decline somewhat in May but stood at a fairly high 23.2%. Our projection is that it fell again in June to a still elevated 19%.

Here are the key indicators that could significantly change the negotiating dynamics in Congress this week.

1. **The Federal Reserve's FOMC meeting**:

While no major change is expected in terms of monetary policy, Congress may pay especially close attention to what Jerome Powell says during his press conference. If the Fed Chairman emphasizes the urgent need for fiscal policy to address the widening economic divide in this country caused by the Covid-driven recession, it will be hard for those on Capital Hill to ignore it.

2. **Consumer Confidence and Sentiment:**

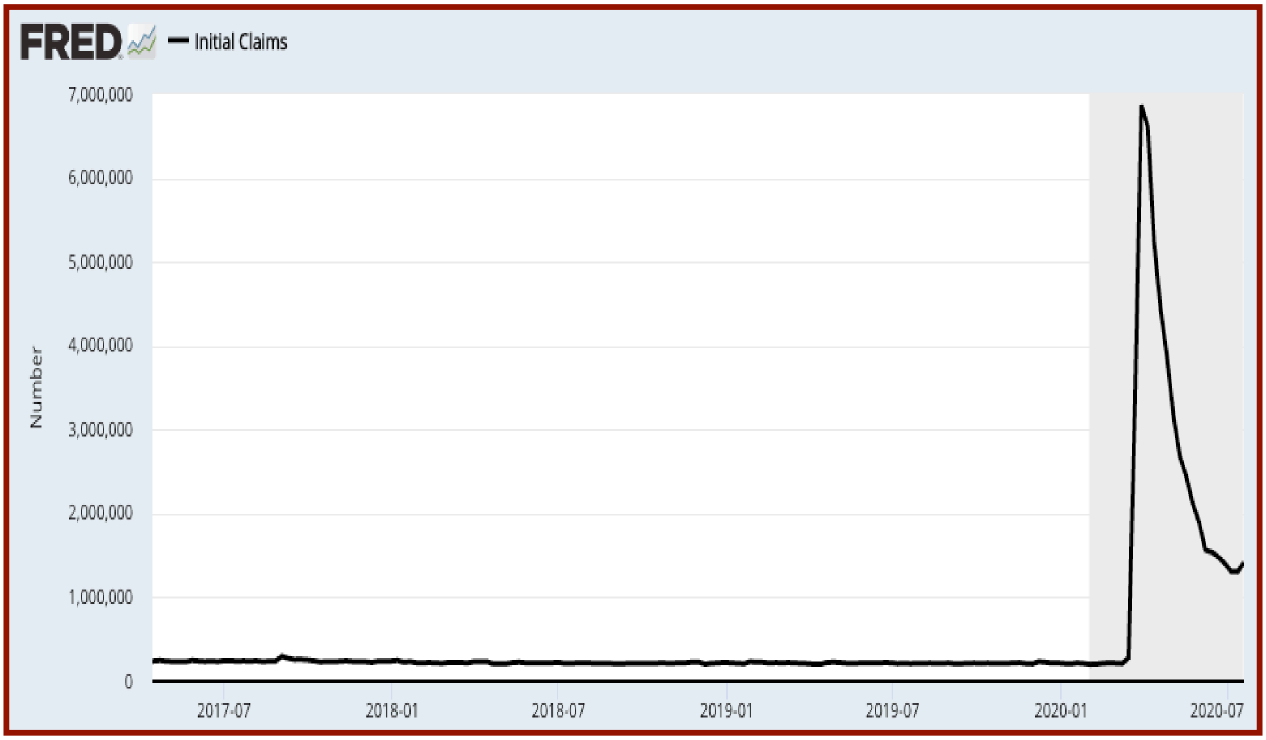
Two reports on the mood of consumers also bear close watching given the crucial role they play in the economy. Congress will be on the lookout for signs Americans are turning nervous again about the latest surge in coronavirus infections and their impact on future job and income security.

In addition, more than 25 million Americans who depend on the additional $600/week PUA benefit fear it will end this week, long before the economy and job market recovers. So a sharp drop in confidence levels may convince legislators to support extending these benefits. (More in this topic in a moment.)

3. **New Claims for Unemployment insurance:**

Of all the indicators out this week, new applications for jobless benefits will probably capture the most attention in Congress and on Wall Street. Filings for jobless benefits came to 282,000 a week in mid March and then suddenly rocketed up to 6.9 million by the end of the month. Since then, the numbers of new applications had been declining—until last week when it unexpectedly rose again, from 1.30 million to 1.41 million.

The spotlight will now be on this Thursday's numbers to see if applications for unemployment benefits jumped two weeks in a row. If so, there would be enormous pressure on Senate Republicans to pass an extension of PUA at the same $600/week amount or close to it.



A final word about the GOP opposition to extend the full PUA.

Senate Republicans have so far resisted extending the $600/week assistance program because they believe the amount is too generous and creates a disincentive for unemployed Americans to return to work. But that argument is terribly simplistic.

Critics opposing the $600/week extension cite a survey conducted last May by the National Federation of Independent Business (NFIB), which included a question on whether that supplemental amount made it more difficult for employers to re-hire workers. The NFIB has a membership of 300,000 small business owners and the trade group took a random sample to answer the survey questions.

They managed to collect 685 responses in that survey and just 18% (123 businesses) admitted that an employee declined a job offer and preferred to stay on unemployment. In contrast, nearly 7 out of 10 businesses said they experienced no such problem and were able to get people off unemployment and return to work.

It would be poor strategy indeed for Congress to end the PUA program or dramatically cut the benefit amount on the basis of that 18%.

Secondly, the belief that many unemployed Americans would prefer sit on a couch, watch daytime TV and collect unemployment for a few weeks, rather than being employed, earning a secure income and getting health care benefits utterly defies logic. People do want to get back to a safe work environment and maintain their skills and professional contacts. They know full well that employers these days can choose from a much larger pool of unemployed because of the massive layoffs in recent months. Rejecting an invitation to return runs the risk of losing that position permanently.

Let's also remember there are many industries where you can not return to work at all, like airlines, restaurants, lodging, retailers, telecommunications, banking, entertainment, oil, and advertising. They have had to let go tens of thousands of workers in this environment.

Finally, with a national election just 100 days away that will determine who sits in the Oval Office the next four years and which party controls the Senate and House, does it make any political sense to sharply cut back on the enhanced unemployment benefits in the middle of the worst pandemic in over a century?

What an awful time for Senate Republicans to suddenly get religion again and become born again deficit hawks —especially after the GOP enthusiastically supported the 2017 tax cut that benefited mostly high-income households and further blew up the deficit!

Without a major fiscal package that leans closer to the HEROES Act passed in the House, the economy would be condemned to terribly weak growth in the second half of this year.

United States

	I 2019	II 2019	III 2019	IV 2019	I 2020	II 2020	III 2020	IV 2020	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022
Real Gross Domestic Product (GDP):																
%	3.1	2.0	2.1	2.1	-5.0	-28.5	2.1	3.8	2.2	2.8	2.5	3.1	2.8	4.5	4.0	3.7
Personal Consumption Expenditures:																
PCE %	1.1	4.6	3.2	1.8	-6.8	-24.7	2.4	4.1	2.3	2.5	2.7	3.3	2.4	5.1	4.8	3.7
Inflation, end of period, year-over-year:																
CPI %	1.9	1.6	1.7	2.3	1.5	0.6	-0.6	1.0	1.3	1.8	1.8	2.0	2.1	2.5	2.3	2.2
Unemployment Rate (end of period):																
%	3.8	3.7	3.5	3.5	3.8	13.0	14.0	10.9	10.6	9.5	9.1	8.0	7.5	6.9	6.2	6.0
Non-farm Payrolls, monthly avg. thousand:																
	174	152	188	210	-142	-4,429	-250	280	780	765	550	1,100	650	320	650	850
Treasury 10-yr Note Yield % (end of period):																
	2.42	2.00	1.65	1.88	0.63	0.65	0.45	0.50	0.75	1.00	1.15	1.20	1.20	1.30	1.38	1.40
Federal funds rate % (end of period):																
	2.38	2.38	1.88	1.63	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.63	1.13

GDP Growth - Global Economy

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
US	2.6	1.6	2.2	1.8	2.5	2.9	1.6	2.4	2.9	2.3	-6.9	2.7	3.8
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-8.8	3.5	2.5
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-10.9	3.8	3.9
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	2.2	0.3	0.7	-5.2	2.4	3.2
Canda	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-7.6	4.1	3.4
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.2	-4.4	5.9	6.4
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	1.1	7.2	6.2
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-6.6	1.9	2.7
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-9.1	1.8	2.8
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-6.9	4.4	3.8
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.3	-7.5	2.9	3.3
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.9	-4.7	3.3	4.2