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# Trillions

*US special*

**RaboResearch**

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## Summary

- Tomorrow, the House of Representatives is expected to approve the \$2.2 trillion fiscal stimulus package that the Senate passed yesterday. Then it can be signed into law by President Trump
- About \$130bn will be made available to hospitals. This is a substantial addition to what had been made available to the health sector in the 'phase 1' and 'phase 2' bills.
- The stimulus package includes \$500bn in helicopter money for households. However, the practical implementation could cause a delay. The IRS does not have a good track record in getting checks to people. The longer the delay, the deeper the decline in personal consumer spending in March and April.
- The \$250bn for expanding unemployment insurance does not come a moment too soon. Today's jobless claims report suggests that the unemployment rate is already at about 10%. We would not be surprised to see unemployment peak at 20-30% in the coming months.
- About \$500bn would allow the Treasury Department to make loans and loan guarantees (the latter partially through Fed facilities) to investment grade corporates. The funds from the stimulus bill could be used by the Treasury Department to prop up these Fed facilities. However, below investment grade problems could start to accumulate.
- About \$350bn will be available for loans to small businesses. Once this bill has been signed into law by President Trump, the launch of the Main Street Business Lending Program by the Fed is likely to follow soon.
- The big fiscal stimulus package is not likely to prevent a very sharp contraction of the economy in March and April, but it could help soften the impact in the remainder of the year.
- If the coronacrisis lasts longer than the US lawmakers anticipated when writing this bill, we may see even more trillions pumped into the US economy during the course of the year.

## Introduction

The third and largest bill dealing with the coronacrisis came out of a battle between Republicans and Democrats about who should benefit: businesses or households. It appears that in order to get both parties to agree, the cost of the bill has increased. When the Republicans were writing the bill they were talking about \$1.3tn, but in order to get the Democrats on board new items were added to the bill that in the end came to \$2.2tn. This is about 10% of GDP. A large stimulus package, but we have to keep in mind that many businesses, especially in the services sector, have seen a dramatic collapse in cashflow. What's more, we expect the unemployment rate to jump to 20-30% very soon. These are rates reminiscent of the Great Depression. In contrast, during the Great Recession unemployment peaked at about 10%.

Before we take a closer look at today's big stimulus package, we first recap the fiscal policy measures that have been taken by the Congress and the White House so far.

## Prior fiscal policy measures

The first corona bill by the US Congress was an \$8.3bn spending bill aimed at R&D of vaccines, test kits and medical treatments (\$3bn), aiding public health activities on prevention, preparedness and response (\$2.2bn), helping international efforts aimed at reigning in the virus (\$1.25bn). The second was a \$105bn-plus bill aimed at free testing, paid sick leave (\$105bn) and expanded safety-net spending.

In addition to these bills by Congress, President Trump announced a 'national emergency', releasing \$50bn in federal aid that can be distributed by FEMA to provide medical assistance to state and local authorities.

The President also invoked the Defense Production Act which could be used to force companies to produce for the US government. From an international perspective, invoking the Defense Production Act to divert medical supplies from foreign clients to domestic purposes could have adverse effects on other countries and fuel protectionist sentiments around the world at a time that international cooperation and coordination is needed the most.

The US Treasury and the IRS announced that they would allow individuals and corporations to defer making certain tax payments until July 15 (from April 15) with no penalties or interest. This should keep about \$300bn in the economy

## The big stimulus package

So, it is almost there: after passing the Senate the third corona bill is expected to be approved by the House of Representatives tomorrow and then signed by President Trump. The total cost of the bill is estimated at \$2.2tn. The longer it took, the higher the estimates of the cost of the bill got. It looks like a Democratic bill has been put on top of a Republican bill. To put this fiscal stimulus package into historical perspective: Obama's stimulus package, the American Recovery and Reinvestment Act (ARRA) of 2009 has been estimated at \$836bn by 2019. First we look at fiscal measures to support the health care sector, then households and businesses, and finally the state and local governments and federal agencies.

## Health care

About \$130bn will be made available to hospitals. While Republicans were aiming for \$75bn, Democrats demanded a bigger health care package. Another \$10bn will be available for drug development and \$4bn for masks, gloves, gowns and ventilators. This is a substantial addition to what had been made available to the health sector in the 'phase 1' and 'phase 2' bills.

## Helicopter money... with very old helicopters

A large chunk (\$500bn) of the stimulus package will be allocated to households in direct payments to people. This so-called 'helicopter money' should reach households in the form of two waves of checks of \$1200 for an individual earning up to \$75K per year. Families with children could receive up to \$3000 for a family of four.

While in theory [helicopter money](#) is a very effective tool to support consumer spending in the current circumstances, implementation could be a serious problem. The Internal Revenue Service (IRS) is the appropriate government agency to send the helicopter money to households as it has the information needed to dispense the checks. In fact, Treasury Secretary Mnuchin said today that people should get their checks within 3 weeks. However, reports are that due to budget cuts over the years the IRS is now working with outdated technology. For example, there are reports

that the IRS still uses computer systems that are working on the 1960s computer language COBOL. When the IRS was asked to perform similar actions in the past, the implementation was slow as well. The Bush tax rebates in 2001 took more than 6 weeks, while the first payments in response to the Great Recession in 2008 took nearly 3 months after Bush signed the bill into law. Since FY2010 the IRS budget has dropped by 20% adjusted for inflation. On the bright side, 89% of tax filings were made electronically in 2018, a substantial improvement from 58% in 2008. On balance, it will take at least a substantial number of weeks before the checks reach their destination. Since 11% of Americans could only afford their household expenses for up to a week in case of a quarantine, and another 15% could only afford those expenses up to 3 weeks, a substantial fraction of consumers cannot afford to wait for the government checks. If they have no other means of obtaining cash, their spending on consumer goods will plunge in March and April.

## Unemployment insurance

There is also \$250bn available for expanding unemployment insurance. This item was included to appease the Democrats. This importance of this item of the stimulus bill was underlined today by the initial jobless claims skyrocketing in the third week of March (the week ending on March 21). While the level of jobless claims gives an underestimation of unemployment, because many are not eligible for benefits, if we look at the initial jobless claims in the third week of March and compare them to the continued jobless claims in the second week (the week ending on March 14), this report suggests that the unemployment rate has tripled. Starting from 3.5% in February, that would get us to about 10.5% in March. Note that this is comparable to the peak of unemployment during and after the Great Recession. The actual BLS figure for March to be published next week may not yet fully capture this because it is based on a household survey in the week of the 12th of the month, but this is where we are heading. And it won't stop there. Not only are the initial jobless claims an underestimation because many unemployed are not eligible for benefits, there may also be a delay between getting unemployed and filing for benefits, especially now that there are queues. What's more, if we simply look at the occupations in the employment data of the Bureau of Labor Statistics (BLS) that would be affected by lockdown-type measures we get to 20.7% unemployment. If we then add a drop in aggregate demand for goods and services, we would not be surprised to see the unemployment rate reach 20-30% in April or May. These are levels comparable to the Great Depression.

## Big business

About \$500bn will be made available in 'liquidity assistance' to corporate America. About \$425bn would allow the Treasury Department to make loans and loan guarantees (largely through Fed facilities) to businesses. The remaining \$75bn would go to distressed industries. This includes \$61 bn for airlines and related contractors, about evenly split between \$32bn in grants and \$29bn in loans. Note that airlines had indicated that they would need grants in order to offset the revenue that has been lost forever. This trade-off could become relevant to other businesses as well as the coronacrisis continues. How many loans will really be repaid and will the federal government be forced to change them into grants if the alternative is a prolonged recession? This could have an additional upward impact of the public debt trajectory.

The support for larger companies will come from the Fed's credit facilities, rather than direct grants from the government. The Fed has already launched the [Commercial Paper Funding Facility \(CPFF\)](#), the Term Asset-Backed Securities Loan Facility (TALF), [the Primary Market Corporate Credit Facility \(PMCCF\)](#) and the [Secondary Market Corporate Credit Facility \(SMCCF\)](#) to provide loans to businesses. The funds from the stimulus bill could be used by the Treasury Department to prop up these Fed facilities, and allow the Fed to launch the Main Street Business Lending Program. The funds can also be used to enlarge the Fed's Money Market Mutual Fund Liquidity Facility (MMLF). Until now, the Treasury Department used funds from the Exchange Stabilization Fund (ESF) to make equity investments in the Fed's special purpose vehicles (SPVs). Now more funds have

become available to support the Fed's special lending facilities. For more details and an overview of the Fed's lending facilities we refer to [Alphabet Soup](#).

Will this be enough to help the business sector through the coronacrisis? It remains to be seen what fraction of the business loans in the end will morph into grants. Also, the Fed's corporate credit facilities are open to investment grade companies only. Lower rated firms are on their own as far as the Fed is concerned.

## Small business

About \$350bn will be available for loans to small businesses. These funds could be used by the Treasury Department to allow the Fed to launch the expected Main Street Business Lending Program. So once this bill has been signed into law by President Trump, the launch of the Main Street Business Lending Program by the Fed is likely to follow soon. The divergence between the Markit and ISM PMIs in February suggests that small businesses - especially in tourism, travel and leisure - were already feeling the first impact of the coronavirus in February. However, they are the last to get a lifeline from the Fed.

## State and local governments versus federal agencies

The \$150bn to support state and local governments was included at the request of the Democrats. This money is much needed at a number of corona hotspots. For example, Governor Cuomo of New York has repeatedly complained about the lack of federal support for his severely affected state. In many cases, we have seen more urgency from state and local authorities than from the federal government. Federal agencies will receive \$45.8bn from the bill.

## What's next?

In [Crash to zero](#) we speculated on the US recession starting in March and recent economic data are increasingly confirming this. The Markit PMIs showed a sharp decline in services sector activity in March and today's jobless claims point to a jump in unemployment in the third week of March. The big fiscal stimulus package is not likely to prevent a very sharp contraction of the economy in March and April, but it could help soften the impact in the remainder of the year.

Large corporations – if investment grade – are already getting support from the Fed. This support can now be enhanced through the Treasury putting more money into the Fed's facilities. However, below investment grade problems could start to accumulate.

The fiscal stimulus package should finally give small and medium sized businesses the support they need. Through the Fed this could be done rather quickly.

The stimulus package also includes helicopter money for households. However, the practical implementation could pose a serious problem. How fast can the federal government get checks to households? The IRS does not have a good track record. The longer the delay, the steeper the decline in personal consumer spending in March and April.

During the negotiations for the Senate bill, Treasury Secretary Mnuchin – who was heavily involved – said that the bill was based on a lockdown of 10-12 weeks. If the coronacrisis lasts longer than the US lawmakers anticipated when writing this bill, we may see even more trillions pumped into the US economy during the course of the year.

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A summary of the methodology can be found on our website [www.rabobank.com](http://www.rabobank.com)

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