Economics Group

No Fiscal Deal in Congress, but Executive Orders Galore

After talks between Congressional Democrats and the White House fell through, President Trump issued a series of executive orders that attempt to keep some financial relief flowing into the economy.

Executive Orders in the Absence of Congressional Action

Last week, talks between Congressional Democrats and the White House for another round of COVID-19 fiscal relief petered out. At present, both the House and the Senate have left town for August recess, though members are on call to return to Washington D.C. in the event of a major breakthrough. Against this backdrop, President Trump has attempted to take matters into his own hands through executive orders. First, the president instructed the U.S. Treasury to halt collection of payroll taxes from September 1 through December 31 for workers who earn approximately $100,000 or less per year. Second, emergency federal unemployment benefits were reinstated at $400 per week, down from the previous $600 that lapsed on July 31. Third, the Secretary of Health and Human Services and the Director of the CDC were directed to “consider” whether temporarily halting residential evictions is necessary to prevent the spread of COVID-19. Finally, interest on student loans held by the federal government will be waived through the end of 2020, and payments can be deferred until December 31.

These steps represent more financial support for the economy than would have occurred otherwise. But, they are not as material as initially meets the eye. The payroll tax holiday is a deferral, not an outright cut, so these taxes will still be owed at some point, although President Trump has said he will push Congress for a permanent cut at a later date. The $400 per week in unemployment benefits utilizes an emergency disaster relief unemployment program and requires states to cover one-quarter of the cost. The executive order draws on $44 billion appropriated to Federal Emergency Management Agency (FEMA) in the CARES Act. Even if this entire $44 billion is utilized for unemployment benefits in the weeks ahead, we estimate that this is only enough money to last four to six weeks given the expected number of claims. Legal challenges could also create headaches for implementation.

Could a Deal from Congress Still Be Coming?

Congress holds the keys to a more sweeping and impactful fiscal package, but talks between the two sides are at a standstill. For months we have resisted explicitly putting another sizable round of stimulus in our forecast, and for now we are maintaining that view. Thus, should Congress and the White House strike a deal, it would likely result in upside risk to our forecasts for real GDP growth, nonfarm payrolls, net Treasury issuance, etc.

However, there may be a window of opportunity. Lost amid the negotiations is the need to pass a budget by the end of the fiscal year on September 30. Perhaps negotiators can continue to hammer away in the coming weeks, and then in September pass both a funding bill and a COVID-19 relief bill at the same time. This would be a huge lift, but it would also be a major step towards clearing the legislative deck before the election on November 3.

Source: Congressional Budget Office, U.S. Department of Labor and Wells Fargo Securities
Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Clearing Services, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Canada, Ltd., Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC. and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2020 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients
For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL, an authorized person under the Act. WFSIL does not deal with retail clients as defined in the Directive 2014/65/EU ("MiFID2"). The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE