WELLS FARGO

Special Commentary — February 19, 2021

Where Do Things Stand on COVID Relief?

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Summary

- In our previous forecast update, we assumed Congress would approve a roughly $1 trillion COVID relief bill sometime in March, with the balance of risks skewed toward a larger rather than a smaller deal.
- In the forecast update we released today in our *Weekly Economic & Financial Commentary*, we explicitly upped the assumption underlying our macroeconomic forecast to a $1.5 trillion COVID relief package enacted sometime in mid-March.
- Relative to our previous forecast, our new assumption includes more state and local aid, slightly bigger direct checks, an extra $400 per week in unemployment insurance (UI) benefits rather than $300, expanded UI benefits that are in effect through August rather than June and a robust child tax credit expansion.
- If realized, we project that a package along these lines would push the FY 2021 federal budget deficit to roughly $3.5 trillion.
- The combination of sizable direct checks, a bigger child tax credit and more generous unemployment benefits would likely push real disposable personal income to unprecedented levels in March and April.
- A vote on final passage in the House will probably take place next week, possibly even over the weekend, and, assuming it passes, it would then head to the Senate.
- The Senate will ultimately have two options: pass the bill as is with no changes and send it to President Biden for his signature, or make some changes, vote on it, and then send it back to the House for one last vote.
- Ultimately, if the final package is a little bit bigger or smaller than the $1.5 trillion we have baked into our forecast, this will probably not have a major impact on the contours of our macroeconomic forecast. More importantly, in our view, is that passage of a sizable COVID relief bill well north of $1 trillion appears more and more likely by the day.
- Looking to the spring and summer, the ingredients are coming together for a booming period of economic growth. COVID cases have declined rapidly, and the pace of vaccines administered continues to slowly ramp up. Better weather should also permit more economic activity and at least marginally improve the COVID situation in many parts of the country.
- If Congress delivers a COVID relief package similar to what our forecast assumes, households will enter this period flush with cash and, perhaps for the first time in months, possess enough confidence in the public health situation to spend significantly on many service activities.
- We have revised our already above-consensus 2021 full year real GDP growth forecast to 6.2% from 5.3%.

A COVID Relief Deal Is Coming, and It's a Big One

Democratic members of Congress have continued to slowly but steadily move the ball down the field on another COVID relief deal. In our previous forecast update, we assumed Congress would approve a roughly $1 trillion COVID relief bill sometime in March, with the balance of risks skewed toward a larger rather than a smaller deal. In the forecast update we released today in our *Weekly Economic & Financial Commentary*, we explicitly upped the assumption underlying our macroeconomic forecast to a $1.5 trillion COVID relief package enacted sometime in mid-March.

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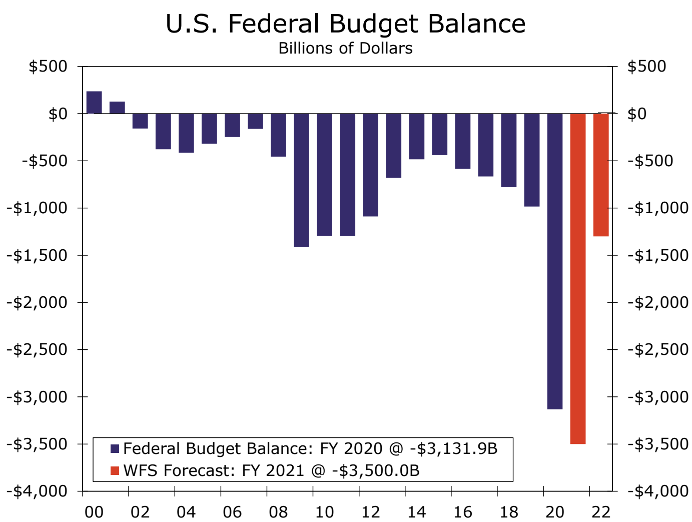
Why have we pushed our assumption higher? Thus far, Democratic policymakers seem content to pass a package without Republican support. The budget resolution, which enabled the COVID relief bill to be written via budget reconciliation, was passed in both the House and the Senate without a single Republican vote. The lack of any bipartisan support has led Democratic policymakers to pursue a bigger package than we previously anticipated. Furthermore, any pushback from the more moderate Democratic Senators up to this point has been fairly minimal and has largely been centered on portions of the package that have more limited budgetary implications, such as the proposed minimum wage increase. As a result, while we would still take the under on Biden's full $1.9 trillion proposal becoming law, ultimately we expect a final bill that contains most of his plan.

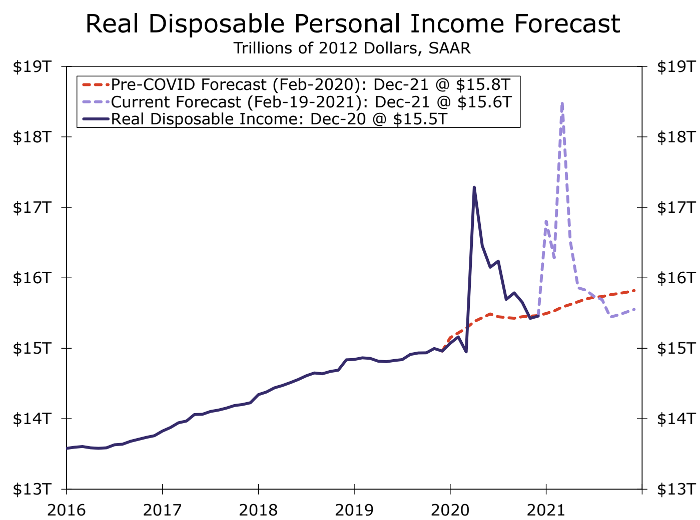
Relative to our previous forecast, our new assumption includes more state and local aid, slightly bigger direct checks, an extra $400 per week in unemployment insurance (UI) benefits rather than $300, expanded UI benefits that are in effect through August rather than June and a robust child tax credit expansion. If realized, we project that a package along these lines would push the FY 2021 federal budget deficit to roughly $3.5 trillion (Figure 1). This would be about $400 billion more than FY 2020, though it would only be slightly bigger than FY 2020 when viewed as a share of GDP. The combination of sizable direct checks, a bigger child tax credit and more generous unemployment benefits would likely push real disposable personal income to unprecedented levels in March and April (Figure 2).

Figure 1



Source: U.S. Department of Treasury and Wells Fargo Securities

Figure 2



Source: U.S. Department of Commerce and Wells Fargo Securities

Where Are We in the Legislative Process?

In budget reconciliation, the various Congressional committees write their respective portions of the bill, and then the House Budget Committee pulls these pieces together into a single, final package. Next week, the House Budget Committee will take this step of marking up the final package, and by the end of next week a final bill should be complete. Although we do not yet have a Congressional Budget Office (CBO) score for the bill in its entirety, CBO has analyzed many of the components individually, and it looks quite likely to us that the final House bill will be very close to the $1.9 trillion requested by the Biden Administration. A vote on final passage in the House will probably take place late next week, possibly even over the weekend.

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Assuming the House passes the bill, from there it heads to the Senate. The Senate will ultimately have two options: pass the bill as is with no changes and send it to President Biden for his signature, or make some changes, vote on it, and then send it back to the House for one last vote. Bear in mind that if no Republican supports the bill, Senate passage will require zero Democratic defections given the 50-50 party split. Also remember that the rules governing a reconciliation bill are different in the Senate than in the House. Specifically, the "Byrd Rule" is only in effect in the Senate. Senate Republicans may use the Byrd Rule to strip out a few provisions from the bill, perhaps most notably the proposed minimum wage increase. The Senate parliamentarian determines which flagged provisions do or do not hold up under the Byrd Rule.

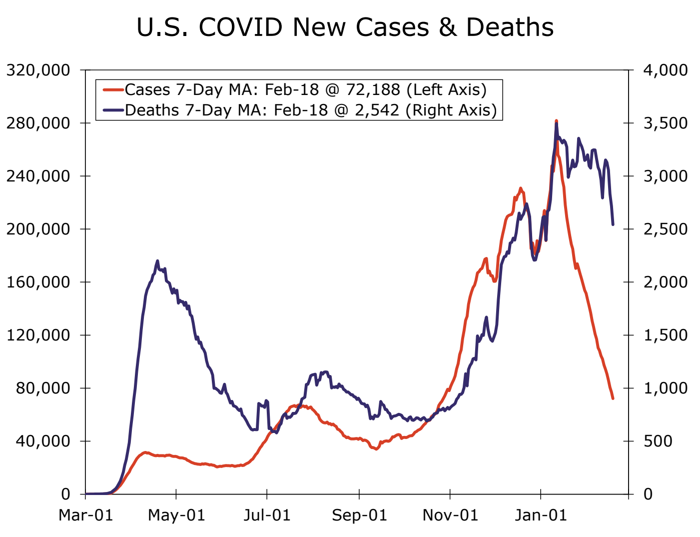
Expect a Spring/Summer Boom in Economic Growth

Looking to the spring and summer, the ingredients are coming together for a booming period of economic growth.

Ultimately, if the final package is a little bit bigger or smaller than the $1.5 trillion we have baked into our forecast, this will probably not have a major impact on the contours of our macroeconomic forecast. More importantly, in our view, is that passage of a sizable COVID relief bill well north of $1 trillion appears more and more likely by the day. This week's booming retail sales report showed what COVID relief can do to consumption in the short-run, and the January surge in retail sales came at a time when confirmed COVID cases were near their all-time high (Figure 3). February may see some payback as the immediate effect from the December COVID relief bill fades and abnormally cold weather throughout much of the country weighs on consumption.

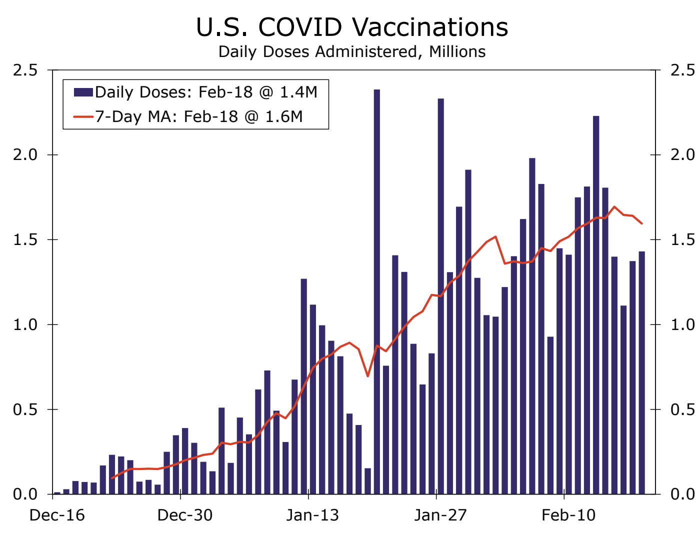
That said, looking to the spring and summer, the ingredients are coming together for a booming period of economic growth. COVID cases have declined rapidly, and the pace of vaccines administered continues to slowly ramp up (Figure 4). Better weather should also permit more economic activity and at least marginally improve the COVID situation in many parts of the country. If Congress delivers a COVID relief package similar to what our forecast assumes, then households will enter this period flush with cash and, perhaps for the first time in months, possess enough confidence in the public health situation to spend significantly on many service activities. We have revised our already above-consensus 2021 full year real GDP growth forecast to 6.2% from 5.3%.

Figure 3



Source: Bloomberg LP and Wells Fargo Securities

Figure 4



Source: Bloomberg LP and Wells Fargo Securities

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