

Further USD 1.5-2 Trillion of US fiscal stimulus delayed but still likely

The coronavirus pandemic has prompted governments across the globe to use fiscal measures to support their economies. So far, the US government has spent around USD 3 Trillion (Tn) to spur demand and protect individuals and corporates from bankruptcy (see table below). However, the persistence of the virus and its economic impact means that further stimulus is likely to be required to prevent the recovery fading away.

US fiscal stimulus packages
(USD Bn)

Fiscal policy measures		USD Bn
11-Mar	Low interest loans to companies	50
13-Mar	National emergency declared freeing up government funding	50
18-Mar	Congress passed fiscal package to provide sick leave and child care leave	100
27-Mar	Coronavirus Aid, Relief and Economy Security Act (CARES Act)	~2,300
23-Apr	Paycheck Protection Program and Health Care Enhancement Act	483
Under discussion	CARES 2 Act	1,000-2,000

Sources: International Monetary Fund, Morgan Stanley, QNB analysis

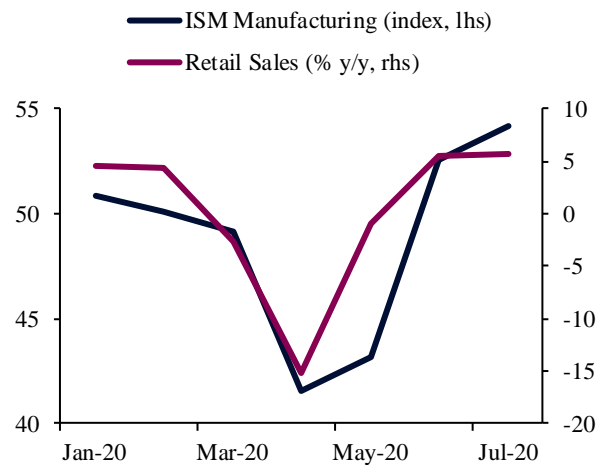
Negotiations in Congress on further fiscal stimulus via the CARES 2 Act have stalled. In response, the White House issued several Executive Orders targeted at key provisions of the first CARES Act that were due to expire. However, Congressional deal is still required due to both practical and legal challenges associated with executive orders. For example, state and local government finances, which are already under pressure, would be squeezed further, without any additional aid. In addition, the supplemental unemployment program is very limited in size and faces high hurdles with regards to implementation.

Our analysis covers the likelihood, timing and size of the proposed new US stimulus package.

First, we judge that the stimulus package is likely to pass because of widespread agreement on the need for additional support, despite political differences on the details. Prolonged delays are beginning to weigh on household incomes and both state and local

government spending. Therefore, if this additional stimulus package is not passed, it would threaten to interrupt the recovery that we have had so far (see chart below).

US retail and manufacturing



Sources: Haver, QNB analysis

Second, we expect an agreement in September. The federal fiscal year ends at the end of September and the government would then partially shut down without a new spending bill. This is likely an outcome that both sides would like to avoid, so we expect agreement in early September. The stimulus package has been delayed because of the current dispute in the legislative branch. Further delays also mean that there might not be enough time for policies to impact the economy before the election, which could reduce Republican support. However, there is a risk that Democrats delay further aid until after the election, as they may wait in hope of a Biden presidency that could result in greater fiscal support.

Third, we expect the size of the stimulus to be around USD 1.5-2 Tn. The Democrats are arguing for a broad based package that adds up to USD 2 Tn. On the other hand, the Republicans are arguing the recent recovery does not justify a package of that size, so they are pushing for a smaller package of USD 1 Tn. As agreement and implementation are pushed out further, the total size of the package seems likely to increase with it. Both parties are now in favour of stimulus checks, which alone could add USD 300-600 Billion (Bn) to the total size of the

package, on top of prior expectations of USD 1 Tn. Indeed, markets seem to be expecting sizable fiscal stimulus on the rational of the Republicans accepting a larger package to support the economy ahead of the November election.

In the meantime, the lack of a fiscal package is becoming a headwind for the US economy. Executive orders to provide USD 300 per week will

likely not start before the end of the month and only provide half as much income support as the prior policy. However, once approved, the stimulus should buttress economic activity, allowing the flexibility and creativity at the core of the US economy to drive the recovery.

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