

Stimulus, Bailouts, and the Fed

Back room deals in Washington, DC always die and come back to life, over and over, again. And, even though a “COVID-shutdown rescue package” seems like a no brainer, it’s been caught up in politics for months.

Democrats have been holding out for a huge, potentially \$3 trillion dollar bill, while Republicans are looking at debt in the years ahead and suggesting that too much spending would create economic problems down the road. Nonetheless, a deal somewhere between \$900 billion and \$1 trillion appears likely to pass before year-end.

The details are still up in the air, but we’re confident anything that gets passed will include (among various other provisions) enlarged and extended unemployment benefits, more help for small businesses, some sort of liability shield to protect businesses from being held liable for COVID-19 infections, as well as some aid for state and local governments.

Although many in the GOP don’t like the idea of the federal government bailing out the states, we think some temporary extra federal funding could be justified under these extraordinary circumstances given that the light is at the end of the tunnel; a pandemic-related recession is not a normal recession. Small businesses didn’t expect to be fighting a pandemic this year and neither did state and local governments.

However, states are all different. Some came into 2020 with surpluses (rainy day funds), while others, like Illinois, were in financial trouble. It’s important that the federal government makes sure any funds going to states are designed to offset fiscal damage caused by COVID and the reaction to it, not to fix fiscal problems the states had prior to COVID.

One solution would be to distribute federal money to states based on their respective population sizes. This would compensate for lost revenue from shutdowns and avoid bailing out underfunded pension funds. Our best guess is that the current

state bailout number being thrown around – about \$160 billion – would comfortably compensate states for lost revenue from COVID shutdowns.

We also can’t help but notice that some big companies are pulling up stakes and moving their tents from California to Texas, while others are either moving from New York City to Florida or seriously considering it. These are big, headline grabbing moves, but probably just the tip of the iceberg.

What we hope is that this is the last big spending bill of the COVID crisis. In 2021, the vaccine itself is the best stimulus we could ask for. As frontline workers get vaccinated, and vaccines for those who are most at risk are just weeks or months away, states should open up their economies relatively quickly.

Meanwhile, the Federal Reserve meets this week, and will issue a policy statement on Wednesday. Fed Chairman, Jerome Powell will hold the normal post-meeting press conference shortly thereafter. We expect the statement to be roughly the same as the last one in early November, which itself was very close to the prior statement in September. The Fed remains in stimulus mode.

We’ll be closely watching for changes to the Fed’s economic projections or the “dot plots,” which show where the Fed thinks it will be setting short-term interest rates for the next few years. In particular, when does the Fed think we’ll get back to a roughly 4.0% unemployment rate, or below? Does the Fed still think we won’t see 2.0% inflation until 2023? Do only four policymakers, like back in September, see the first rate hike happening before the end of 2023?

Many public policy questions will be answered this week. But keep in mind that these decisions are not what really drives the economy. Policy matters, but it’s entrepreneurs that ultimately drive economic growth.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
12-15 / 7:30 pm	Empire State Mfg Index – Dec	6.5	9.1		6.3
7:30 am	Import Prices – Nov	+0.3%	+0.3%		-0.1%
7:30 am	Export Prices – Nov	+0.2%	+0.2%		+0.2%
8:15 am	Industrial Production – Nov	+0.3%	+0.1%		+1.1%
8:15 am	Capacity Utilization – Nov	73.0%	72.8%		72.8%
12-16 / 7:30 am	Retail Sales – Nov	-0.3%	-0.3%		+0.3%
7:30 am	Retail Sales Ex-Auto – Nov	+0.1%	+0.2%		+0.2%
9:00 am	Business Inventories – Oct	+0.6%	+0.7%		+0.7%
12-17 / 7:30 am	Initial Claims – Dec 12	815K	853K		853K
7:30 am	Housing Starts - Nov	1.535 Mil	1.535 Mil		1.530 Mil
7:30 am	Philly Fed Survey – Dec	20.0	26.7		26.3