FLASH: 11 MARCH 2021

The Check is in the Mail

US Fiscal Stimulus, Round 4

The Event: On Wednesday March 10, The US House of Representatives passed the Biden Administration's $1.9 trillion additional fiscal stimulus bill into law.

This latest package includes a new round of means-tested direct payments of up to USD1,400 for most American adults, a weekly top-up of up to USD300 in federal unemployment benefits, another USD350bn in aid to state and local governments and an expansion of tax credits for children.

History: This latest spending package follows initial US government spending programs passed in March and April 2020, when the US government passed three main relief packages (including the CARES Act) and one supplemental package, totalling nearly USD2.8 trillion.

The CARES Act included a one-time, direct cash payment of $1,200 per person, plus $500 per child, expansion of unemployment benefits to include people furloughed, gig workers, and freelancers until Dec. 31, 2020 and additional USD600 of unemployment per week until July 31, 2020

In December 2020, the U.S. Congress passed a USD900 billion stimulus and relief bill attached to the main omnibus budget bill, including a direct USD600 cheque per person for adults earning up to USD75,000 per year.

Effects on Growth: Even before the passing of this latest US fiscal stimulus bill, BNP Paribas Wealth Management was forecasting a robust 4.2% US GDP growth rate for 2021, while the consensus forecast moved gradually as high as 5%, according to Bloomberg. Our global economic forecast is under review with mainly the US but also key trading partners likely to be upgraded.

Note that with the passing of this bill, the OECD now forecasts US GDP growth of as high as 6.5% this year (a huge upwards revision from their 3.2% prediction in December 2020), driving world GDP growth of 5.6%. According to the OECD:

"The significant fiscal stimulus in the United States, along with faster vaccination, could boost US GDP growth by over 3 percentage points this year, with welcome demand spillovers in key trading partners."

Inflation effect? This may in time have an upwards effect on US inflation rates; but one should bear in mind that the starting point remains relatively low, with the Federal Reserve's preferred broad measure of US inflation, the core Personal Consumption Expenditure deflator, at just 1.5%. This remains some way below the Fed's symmetrical 2% medium-term inflation target, a level that has not been seen in the US since the end of 2018.

In addition, wage inflation is unlikely to be a problem in the near-term, given the substantial labour slack in the US economy highlighted by the U-6 underemployment rate of 11.1%, higher than at any point since the start of 2015 and still almost double as high compared to pre-covid (see figure 1). One indicator to follow is the NFIB (National Federation of Independent Business) survey and particularly for "hard to fill jobs", as well as statistics on the number of people working part time but wanting to work full time. Initial jobless claims are also key because they are available weekly.

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Figure 1: US Unemployment

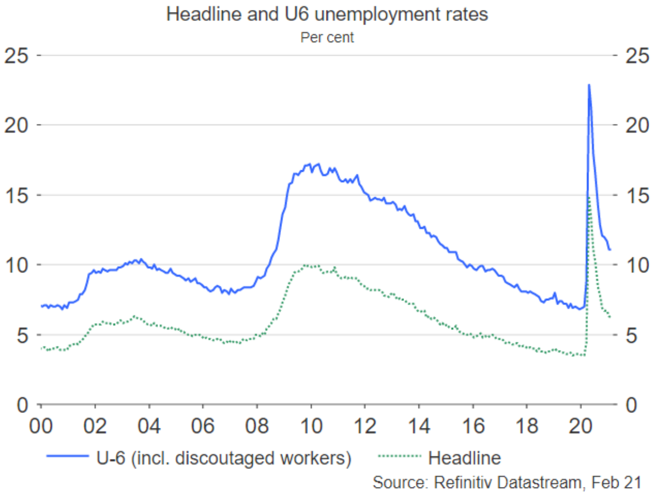
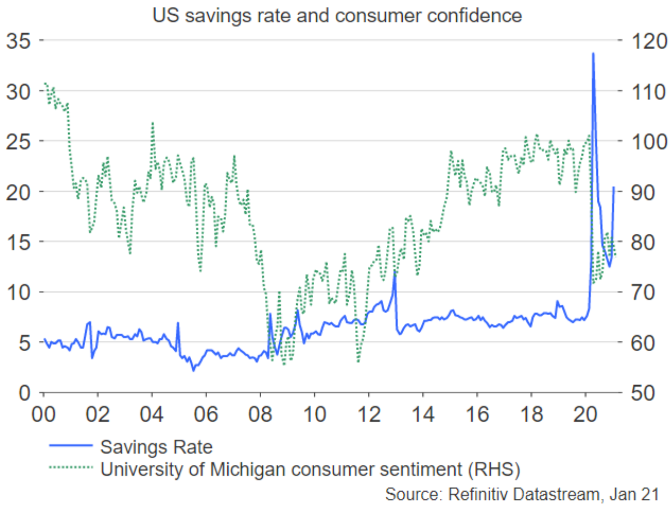


Figure 2: US Savings Confidence



Inflation also forms part of the Federal Reserve's mandate and greatly influences long-term rates. We will watch consumer expectations of inflation (University of Michigan survey) as a sharp rise generates an impact on wage negotiations and can have a self-fulfilling element. The latest data still show a relatively moderate rise.

Market Conclusions: together with the sharp fall in COVID infection and hospitalisation rates evident in the US, this additional government spending together with a rapid reopening of the US consumer/services economy should drive a welcome boost for consumer services, including Retail and Travel & Leisure. The key trigger will be the evolution of consumer confidence. It is still lagging and a sharp rebound would be a sign that saving rates could finally fall, accelerating the multiplier effects (see figure 2).

At the stage we keep our yield forecast unchanged at 1.40%. We assume the Federal Reserve will strongly reduce market expectations about the date of the next rate hike. For more details see the Flash here.

However, the additional direct payment of USD1,400 to lower and middle-income households may also fuel continued retail investor flows into "popular" US stocks, including Big Tech (the FAANGs), Special Purpose Acquisition Vehicles and stocks with high social sentiment scores (from websites such as Twitter, Reddit, TikTok and Facebook) as tracked by the BUZZ NextGen AI US Sentiment Leaders Index.

This additional fiscal stimulus should be a positive additional catalyst for cyclical consumer and investment-related sectors in the US, but also for global companies keyed into US consumption, such as Asian consumer goods manufacturers, semiconductor companies and European building supplies companies.

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