

US Daily: Further Fiscal Stimulus in 2020 Looks Unlikely (Phillips)

- The prospects for further fiscal stimulus have dimmed further, as another week has gone by without any progress. At this point, a major stimulus package before the election looks like a long shot and we expect Congress to leave at the end of September without extending the extra unemployment insurance payment, approving another round of stimulus payments, or providing additional support to small businesses or state and local governments.
- Next week is likely to bring some clarity. Congress is likely to start moving next week on the final piece of major pre-election legislation, to extend spending authority past September 30, the end of the fiscal year. If fiscal stimulus measures are not included in that bill, or a deal is not announced next week, fiscal stimulus will likely be on hold for the rest of the year.
- The outcome of the fiscal debate is likely to mean changes to our forecast for Q4. Our current forecast assumes a \$1 trillion package, including partial extension of the extra unemployment benefit and additional PPP loans. Failure to pass any additional fiscal measures would likely lead us to downgrade our growth estimates for Q4. By contrast, enactment of the sort of package that President Trump or Speaker Pelosi have both endorsed would likely lead us to upgrade our view for Q4.
- There is still a fairly good chance for additional stimulus, eventually. If Democrats win the White House and both chambers of Congress, we expect them to pass a large fiscal stimulus package, similar to the \$2.2 trillion proposal Speaker Pelosi has endorsed, as one of the first orders of business in 2021. This would be in addition to Vice President Biden's longer-term fiscal expansion plans. Some additional fiscal relief would also be possible under divided government, though the magnitude would likely be much smaller.

Jan Hatzius
+1(212)902-0394 | jan.hatzius@gs.com
Goldman Sachs & Co. LLC

Alec Phillips
+1(202)637-3746 | alec.phillips@gs.com
Goldman Sachs & Co. LLC

David Mericle
+1(212)357-2619 | david.mericle@gs.com
Goldman Sachs & Co. LLC

Spencer Hill, CFA
+1(212)357-7621 | spencer.hill@gs.com
Goldman Sachs & Co. LLC

Daan Struyven
+1(212)357-4172 | daan.struyven@gs.com
Goldman Sachs & Co. LLC

David Choi
+1(212)357-6224 | david.choi@gs.com
Goldman Sachs & Co. LLC

Joseph Briggs
+1(212)902-2163 | joseph.briggs@gs.com
Goldman Sachs & Co. LLC

Blake Taylor
+1(202)637-3756 | blake.taylor@gs.com
Goldman Sachs & Co. LLC

Ronnie Walker
+1(917)343-4543 | ronnie.walker@gs.com
Goldman Sachs & Co. LLC

Laura Nicolae
+1(917)343-6594 | laura.nicolae@gs.com
Goldman Sachs & Co. LLC

Further Fiscal Stimulus in 2020 Looks Unlikely

Two weeks ago we reduced our expectations for fiscal stimulus, both in terms of the size of a potential package and the probability that Congress passes it this year. In light of the lack of progress since then, the odds have declined further and we believe the most likely scenario is that Congress will have passed no additional fiscal relief when lawmakers leave Washington at the end of September.

At this point there appear to be several obstacles to a deal. The two parties have different incentives and priorities ahead of the election. President Trump has emphasized the need for additional payments to individuals, which if enacted in late September would probably reach consumers in mid-October, roughly two weeks before Election Day. While Democrats included another round of payments in the “HEROES Act” that the House passed in May, they have not emphasized the issue recently. By contrast, House Speaker Pelosi has put particular emphasis on the need for fiscal aid to state and local governments, most of which would not reach the economy until after the election and which President Trump has described as a “bailout”.

The election outlook might be influencing positions in the negotiation. Prediction markets, polls, and external election models all imply that a Democratic sweep is the most likely outcome. If congressional Democrats also believe this, they might prefer to wait to enact a larger fiscal relief measure in early 2021 rather than a smaller package this month that might drain momentum for a larger bill next year. Of course, this has obvious disadvantages, namely the lapse of enhanced unemployment benefits and other fiscal support for four months.

Congressional Republicans and the White House have not unified around a single proposal. Senate Republicans released several proposals in early August that together would have totaled more than \$1 trillion. This did not have sufficiently broad Republican support and, more recently, the Senate voted on a scaled-down package that totaled \$650bn, partially offset by repealing \$350bn in unspent funds. The White House has supported a \$1.5 trillion figure but has not publicly released its own proposal. Without a single proposal to unify Republicans around, Democratic leaders are unlikely to feel pressure to compromise.

The deadlines that could have increased pressure to reach a deal look unlikely to do so. Funding for the extra \$300/week payment looks likely to run dry soon but the situation varies by state so it has failed to gain national attention. Government spending authority expires September 30, which also could have been a forcing event. However, Congress looks increasingly likely to pass a fairly “clean” continuing resolution (CR) to extend spending authority into December. While the CR could still serve as a legislative vehicle for any deal that lawmakers reach, it looks unlikely to create pressure to reach a deal.

We see three potential scenarios:

- 1. Congress does nothing before the election.** This appears to be the most likely outcome, for the reasons discussed above. In this scenario, we would expect that

Congress would recess for the election and reconvene from late November until mid-December. We would not entirely rule out passage of a limited package of fiscal relief measures at that point, given that most CARES Act provisions expire at year-end, including expanded eligibility for unemployment insurance. However, it seems very unlikely that Congress would pass a large (i.e., \$1 trillion or more) fiscal relief measure in a lame duck session near year-end.

- 2. Congress passes a \$1.5 trillion to \$2 trillion package.** This is still clearly possible, though it seems increasingly unlikely. As noted above, the President has emphasized another round of payments to individuals while Speaker Pelosi has emphasized state fiscal aid. For a large deal to be reached, the President would likely need to publicly propose an agreement in the range of \$2 trillion that includes a substantial amount of state fiscal aid, which he continues to publicly oppose. If he endorsed such a package, congressional Democrats might come under public pressure to support it. However, even if they did, there would likely still be disagreements over the composition of the package and Senate Republican leaders might hesitate to put a bill on the Senate floor that many Republican senators would likely oppose.
- 3. Congress passes a limited package that omits state fiscal aid and stimulus payments.** There appears to be fairly broad support for extending the extra unemployment payment though there is less agreement on what the weekly amount should be. There also appears to be broad support for allowing the hardest-hit small businesses to take a second round of PPP loans and to provide some additional funding for this, and House Republicans are mounting an effort to force a vote on standalone PPP legislation before Congress leaves at the end of the month. The cost of a limited package might be something like the \$650bn in the Senate Republican proposal, or less. This would allow lawmakers to avoid returning home empty-handed ahead of the election, but would probably not change the economic outlook in October enough to impact the election result.

We will probably know the answer by next week. We expect the House to take up its continuing resolution sometime between September 23 and 25, followed by the Senate the next week ahead of the September 30 deadline. Since the CR looks likely to be the last major legislation that Congress will pass before leaving for the election, if there are no fiscal stimulus measures added to that bill, the probability of pre-election fiscal stimulus would then be very low. We would also note that stimulus payments would likely take around two weeks to send out. With early voting and mail voting playing such a large role in this year's election, passing legislation after the end of the month would likely mean that many voters might have already voted by the time they receive their payment. This could reduce the political incentive the White House would have to enact major stimulus legislation in October.

The outcome of the stimulus is likely to lead us to make forecast changes. Our current economic forecast has assumed enactment of a \$1 trillion fiscal package that includes \$400/week unemployment benefits and another round of PPP loans. This was a middle-ground assumption which was roughly halfway between the \$1.5 to \$2 trillion package that has been discussed and no further stimulus in 2020, which we viewed as

almost as likely an outcome. If Congress passes a broad stimulus package (scenario 2 above), we would likely upgrade our forecast for growth in Q4, as it would exceed what we have currently assumed.

By contrast, if Congress fails to pass any stimulus measures, we are likely to downgrade our expectations for Q4. In a recent [report](#) we laid out the growth implications of this scenario. However, we applied standard marginal propensities to consume (MPCs) that might be too high in light of data for August showing that retail sales in August continued to grow despite the lapse in the extra \$600/week unemployment payment.

While the odds of additional stimulus in 2020 seem low, the odds of additional stimulus in the next year are much higher. Prediction markets put the probability of a Democratic sweep—control of the White House and both chambers of Congress—at 50%. Under this scenario, we would expect them to enact a substantial fiscal stimulus package in the range of the \$2.2 trillion figure that Speaker Pelosi has endorsed. This would be in addition to Vice Biden’s President longer-term fiscal expansion plans. Some additional fiscal relief would also be possible under divided government, though the magnitude would likely be much smaller. Taking prediction markets at face value and combined with the fairly low—but not zero—probability that Congress might enact a stimulus package this month, the odds of meaningful fiscal stimulus by Q1 2021 still appear fairly high. This might explain why financial markets have not responded more negatively to the worsening outlook for stimulus this year.

Alec Phillips

Disclosure Appendix

Reg AC

We, Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, CFA, Daan Struyven, David Choi, Joseph Briggs, Blake Taylor, Ronnie Walker and Laura Nicolae, hereby certify that all of the views expressed in this report accurately reflect our personal views, which have not been influenced by considerations of the firm's business or client relationships.

Unless otherwise stated, the individuals listed on the cover page of this report are analysts in Goldman Sachs' Global Investment Research division.

Disclosures

Regulatory disclosures

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; for equity securities, market making and/or specialist role. Goldman Sachs trades or may trade as a principal in debt securities (or in related derivatives) of issuers discussed in this report.

The following are additional required disclosures: **Ownership and material conflicts of interest:** Goldman Sachs policy prohibits its analysts, professionals reporting to analysts and members of their households from owning securities of any company in the analyst's area of coverage.

Analyst compensation: Analysts are paid in part based on the profitability of Goldman Sachs, which includes investment banking revenues. **Analyst as officer or director:** Goldman Sachs policy generally prohibits its analysts, persons reporting to analysts or members of their households from serving as an officer, director or advisor of any company in the analyst's area of coverage. **Non-U.S. Analysts:** Non-U.S. analysts may not be associated persons of Goldman Sachs & Co. LLC and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

Additional disclosures required under the laws and regulations of jurisdictions other than the United States

The following disclosures are those required by the jurisdiction indicated, except to the extent already made above pursuant to United States laws and regulations. **Australia:** Goldman Sachs Australia Pty Ltd and its affiliates are not authorised deposit-taking institutions (as that term is defined in the Banking Act 1959 (Cth)) in Australia and do not provide banking services, nor carry on a banking business, in Australia. This research, and any access to it, is intended only for "wholesale clients" within the meaning of the Australian Corporations Act, unless otherwise agreed by Goldman Sachs. In producing research reports, members of the Global Investment Research Division of Goldman Sachs Australia may attend site visits and other meetings hosted by the companies and other entities which are the subject of its research reports. In some instances the costs of such site visits or meetings may be met in part or in whole by the issuers concerned if Goldman Sachs Australia considers it is appropriate and reasonable in the specific circumstances relating to the site visit or meeting. To the extent that the contents of this document contains any financial product advice, it is general advice only and has been prepared by Goldman Sachs without taking into account a client's objectives, financial situation or needs. A client should, before acting on any such advice, consider the appropriateness of the advice having regard to the client's own objectives, financial situation and needs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests and a copy of Goldman Sachs' Australian Sell-Side Research Independence Policy Statement are available at: <https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html>. **Brazil:** Disclosure information in relation to CVM Instruction 598 is available at <https://www.gs.com/worldwide/brazil/area/gir/index.html>. Where applicable, the Brazil-registered analyst primarily responsible for the content of this research report, as defined in Article 20 of CVM Instruction 598, is the first author named at the beginning of this report, unless indicated otherwise at the end of the text. **Canada:** Goldman Sachs Canada Inc. is an affiliate of The Goldman Sachs Group Inc. and therefore is included in the company specific disclosures relating to Goldman Sachs (as defined above). Goldman Sachs Canada Inc. has approved of, and agreed to take responsibility for, this research report in Canada if and to the extent that Goldman Sachs Canada Inc. disseminates this research report to its clients. **Hong Kong:** Further information on the securities of covered companies referred to in this research may be obtained on request from Goldman Sachs (Asia) L.L.C. **India:** Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (India) Securities Private Limited, Research Analyst - SEBI Registration Number INH000001493, 951-A, Rational House, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India, Corporate Identity Number U74140MH2006FTC160634, Phone +91 22 6616 9000, Fax +91 22 6616 9001. Goldman Sachs may beneficially own 1% or more of the securities (as such term is defined in clause 2 (h) the Indian Securities Contracts (Regulation) Act, 1956) of the subject company or companies referred to in this research report. **Japan:** See below. **Korea:** This research, and any access to it, is intended only for "professional investors" within the meaning of the Financial Services and Capital Markets Act, unless otherwise agreed by Goldman Sachs. Further information on the subject company or companies referred to in this research may be obtained from Goldman Sachs (Asia) L.L.C., Seoul Branch. **New Zealand:** Goldman Sachs New Zealand Limited and its affiliates are neither "registered banks" nor "deposit takers" (as defined in the Reserve Bank of New Zealand Act 1989) in New Zealand. This research, and any access to it, is intended for "wholesale clients" (as defined in the Financial Advisers Act 2008) unless otherwise agreed by Goldman Sachs. A copy of certain Goldman Sachs Australia and New Zealand disclosure of interests is available at: <https://www.goldmansachs.com/disclosures/australia-new-zealand/index.html>. **Russia:** Research reports distributed in the Russian Federation are not advertising as defined in the Russian legislation, but are information and analysis not having product promotion as their main purpose and do not provide appraisal within the meaning of the Russian legislation on appraisal activity. Research reports do not constitute a personalized investment recommendation as defined in Russian laws and regulations, are not addressed to a specific client, and are prepared without analyzing the financial circumstances, investment profiles or risk profiles of clients. Goldman Sachs assumes no responsibility for any investment decisions that may be taken by a client or any other person based on this research report. **Singapore:** Further information on the covered companies referred to in this research may be obtained from Goldman Sachs (Singapore) Pte. (Company Number: 198602165VV). **Taiwan:** This material is for reference only and must not be reprinted without permission. Investors should carefully consider their own investment risk. Investment results are the responsibility of the individual investor. **United Kingdom:** Persons who would be categorized as retail clients in the United Kingdom, as such term is defined in the rules of the Financial Conduct Authority, should read this research in conjunction with prior Goldman Sachs research on the covered companies referred to herein and should refer to the risk warnings that have been sent to them by Goldman Sachs International. A copy of these risks warnings, and a glossary of certain financial terms used in this report, are available from Goldman Sachs International on request.

European Union: Disclosure information in relation to Article 6 (2) of the European Commission Delegated Regulation (EU) (2016/958) supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest is available at <https://www.gs.com/disclosures/europeanpolicy.html> which states the European Policy for Managing Conflicts of Interest in Connection with Investment Research.

Japan: Goldman Sachs Japan Co., Ltd. is a Financial Instrument Dealer registered with the Kanto Financial Bureau under registration number Kinsho 69, and a member of Japan Securities Dealers Association, Financial Futures Association of Japan and Type II Financial Instruments Firms Association.

Sales and purchase of equities are subject to commission pre-determined with clients plus consumption tax. See company-specific disclosures as to any applicable disclosures required by Japanese stock exchanges, the Japanese Securities Dealers Association or the Japanese Securities Finance Company.

Global product; distributing entities

The Global Investment Research Division of Goldman Sachs produces and distributes research products for clients of Goldman Sachs on a global basis. Analysts based in Goldman Sachs offices around the world produce research on industries and companies, and research on macroeconomics, currencies, commodities and portfolio strategy. This research is disseminated in Australia by Goldman Sachs Australia Pty Ltd (ABN 21 006 797 897); in Brazil by Goldman Sachs do Brasil Corretora de Títulos e Valores Mobiliários S.A.; Ombudsman Goldman Sachs Brazil: 0800 727 5764 and / or ouvidoriagoldmansachs@gs.com. Available Weekdays (except holidays), from 9am to 6pm. Ouvidoria Goldman Sachs Brasil: 0800 727 5764 e/ou ouvidoriagoldmansachs@gs.com. Horário de funcionamento: segunda-feira à sexta-feira (exceto feriados), das 9h às 18h; in Canada by either Goldman Sachs Canada Inc. or Goldman Sachs & Co. LLC; in Hong Kong by Goldman Sachs (Asia) L.L.C.; in India by Goldman Sachs (India) Securities Private Ltd.; in Japan by Goldman Sachs Japan Co., Ltd.; in the Republic of Korea by Goldman Sachs (Asia) L.L.C., Seoul Branch; in New Zealand by Goldman Sachs New Zealand Limited; in Russia by OOO Goldman Sachs; in Singapore by Goldman Sachs (Singapore) Pte. (Company Number: 198602165W); and in the United States of America by Goldman Sachs & Co. LLC. Goldman Sachs International has approved this research in connection with its distribution in the United Kingdom and European Union.

European Union: Goldman Sachs International authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority, has approved this research in connection with its distribution in the European Union and United Kingdom.

General disclosures

This research is for our clients only. Other than disclosures relating to Goldman Sachs, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. The information, opinions, estimates and forecasts contained herein are as of the date hereof and are subject to change without prior notification. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the analyst's judgment.

Goldman Sachs conducts a global full-service, integrated investment banking, investment management, and brokerage business. We have investment banking and other business relationships with a substantial percentage of the companies covered by our Global Investment Research Division. Goldman Sachs & Co. LLC, the United States broker dealer, is a member of SIPC (<https://www.sipc.org>).

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and principal trading desks that reflect opinions that are contrary to the opinions expressed in this research. Our asset management area, principal trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research, unless otherwise prohibited by regulation or Goldman Sachs policy.

The views attributed to third party presenters at Goldman Sachs arranged conferences, including individuals from other parts of Goldman Sachs, do not necessarily reflect those of Global Investment Research and are not an official view of Goldman Sachs.

Any third party referenced herein, including any salespeople, traders and other professionals or members of their household, may have positions in the products mentioned that are inconsistent with the views expressed by analysts named in this report.

This research is focused on investment themes across markets, industries and sectors. It does not attempt to distinguish between the prospects or performance of, or provide analysis of, individual companies within any industry or sector we describe.

Any trading recommendation in this research relating to an equity or credit security or securities within an industry or sector is reflective of the investment theme being discussed and is not a recommendation of any such security in isolation.

This research is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

Certain transactions, including those involving futures, options, and other derivatives, give rise to substantial risk and are not suitable for all investors. Investors should review current options and futures disclosure documents which are available from Goldman Sachs sales representatives or at <https://www.theocc.com/about/publications/character-risks.jsp> and

https://www.fiadocumentation.org/fia/regulatory-disclosures_1/fia-uniform-futures-and-options-on-futures-risk-disclosures-booklet-pdf-version-2018.

Transaction costs may be significant in option strategies calling for multiple purchase and sales of options such as spreads. Supporting documentation will be supplied upon request.

Differing Levels of Service provided by Global Investment Research: The level and types of services provided to you by the Global Investment Research division of GS may vary as compared to that provided to internal and other external clients of GS, depending on various factors including your individual preferences as to the frequency and manner of receiving communication, your risk profile and investment focus and perspective (e.g., marketwide, sector specific, long term, short term), the size and scope of your overall client relationship with GS, and legal and regulatory constraints. As an example, certain clients may request to receive notifications when research on specific securities is published, and certain clients may request that specific data underlying analysts' fundamental analysis available on our internal client websites be delivered to them electronically through data feeds or otherwise. No change to an analyst's fundamental research views (e.g., ratings, price targets, or material changes to earnings estimates for equity securities), will be communicated to any client prior to inclusion of such information in a research report broadly disseminated through electronic publication to our internal client websites or through other means, as necessary, to all clients who are entitled to receive such reports.

All research reports are disseminated and available to all clients simultaneously through electronic publication to our internal client websites. Not all research content is redistributed to our clients or available to third-party aggregators, nor is Goldman Sachs responsible for the redistribution of our research by third party aggregators. For research, models or other data related to one or more securities, markets or asset classes (including related services) that may be available to you, please contact your GS representative or go to <https://research.gs.com>.

Disclosure information is also available at <https://www.gs.com/research/hedge.html> or from Research Compliance, 200 West Street, New York, NY 10282.

© 2020 Goldman Sachs.

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of The Goldman Sachs Group, Inc.