

Biden Plan To Lift Inflation and Growth

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The Biden Plan Goes Beyond COVID Relief

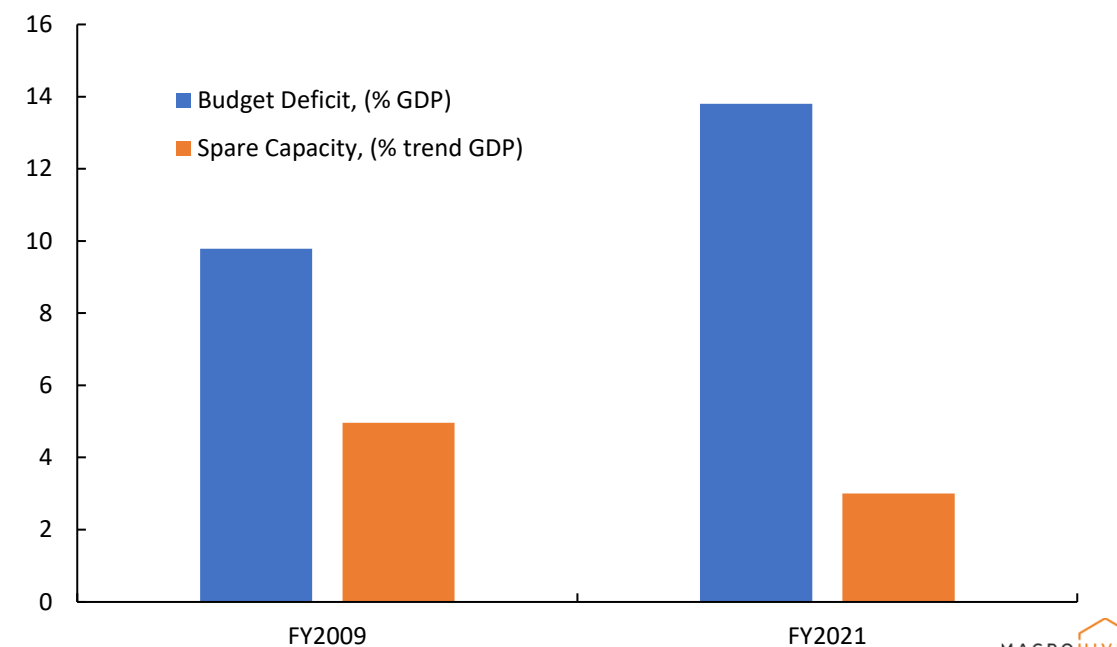
Table 1: Full Biden Plan to be Adopted Through Reconciliation

	CY2020 Covid Relief		Biden Plan	
	Mar.-Apr. 2020	Dec. 2020	Total (\$bn)	Apr. - Sep. 2021 (\$bn)
	Laws (\$bn)	Law (\$bn)		
TOTAL	2222	693	1877	1277
STATES	150	0	350	350
HOUSEHOLDS	787	335	922	702
Economic Impact Payments	281	168	422	404
Unemployment Insurance	441	119	246	246
Other	65	48	254	52
SMALL BUSINESSES	564	164	50	48
PPP	541	100		
Other	23	64	50	48
HEALTH & education	434	158	362	40
OTHER	287	36	194	136

Source: Macro Hive, CBO



Chart 1: The Biden Plan is out of Step with the Impact of the Pandemic



Source: Macro Hive, CBO

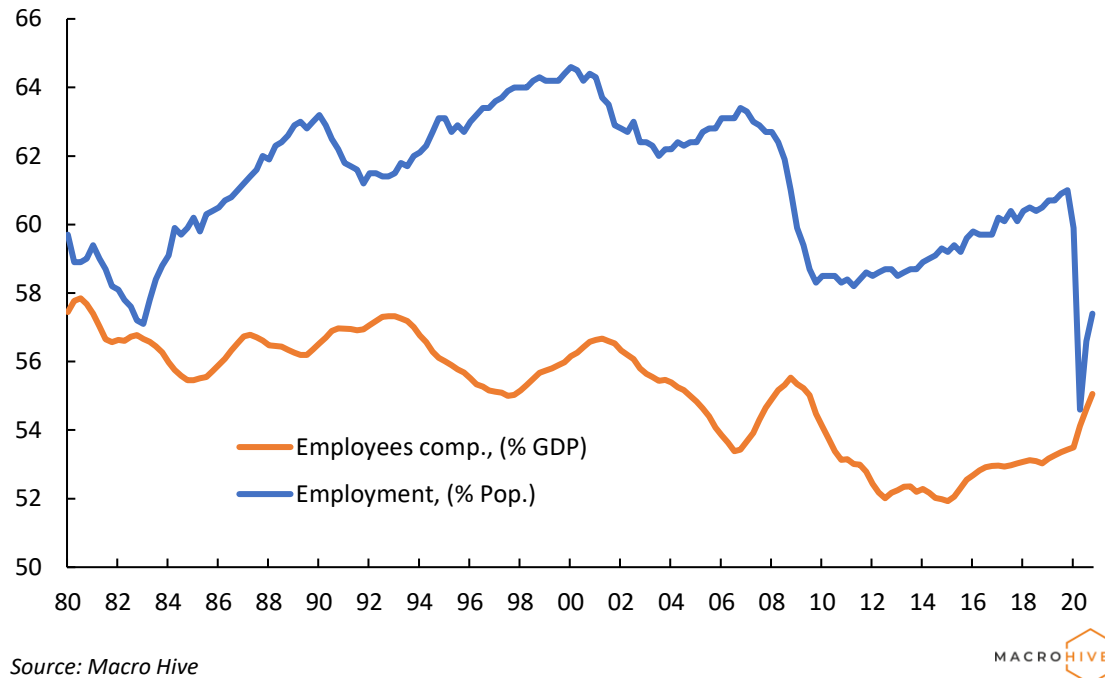


The Administration Is Aiming At The Nov. 2022 Midterms

- Democrats have a majority of 10 in the House and 1 in the Senate
- Mid-term elections usually bring a swing against the president's party
- Senate election risks balanced between GOP and Democrats
- Democratic House Majority at risk due to redistricting after 2020 census
- Biden plan's large, untargeted transfers to households are popular with voters and could turn labour market hot before the midterms

A Hot Economy Will Reduce Inequalities

Chart 2: A Hot Labour Market Increases Labour Income Share



- **Yellen:** a “high-pressure economy improves upward mobility “ as “those with less education and minorities—are experiencing the largest gains in wages and declines in unemployment”.
- No fiscal cliff ahead of the Nov. 2022 elections: FY2022 deficit could remain in double digits, likely through front loaded infrastructure expenditures

Labor Market Slack Drives Inflation

Chart 3: Inflation is Mainly Driven by Services

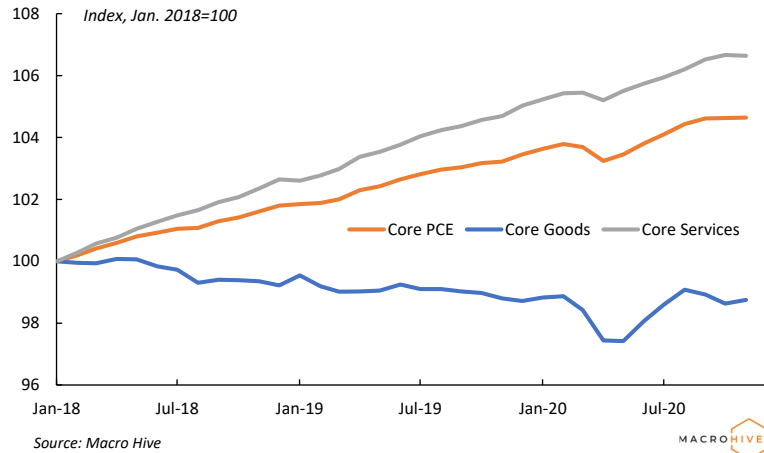


Chart 4: Services Inflation is Mainly Driven by Wages

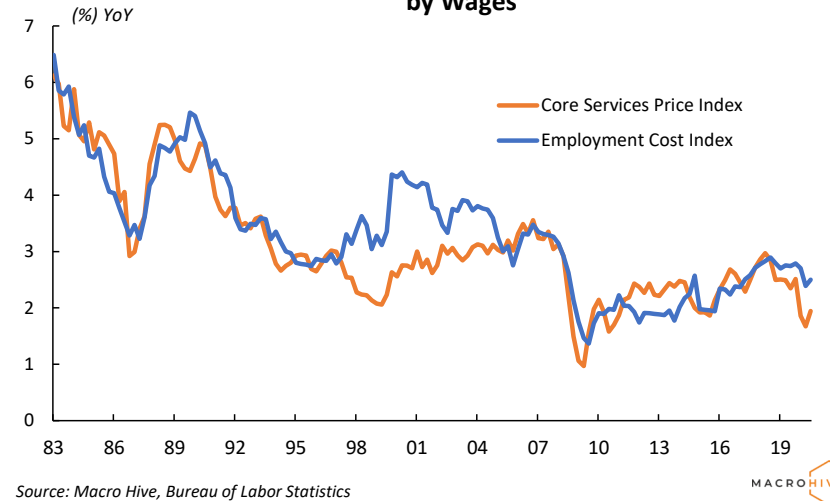


Chart 5: Wages are Mainly Driven by Labour Market Slack

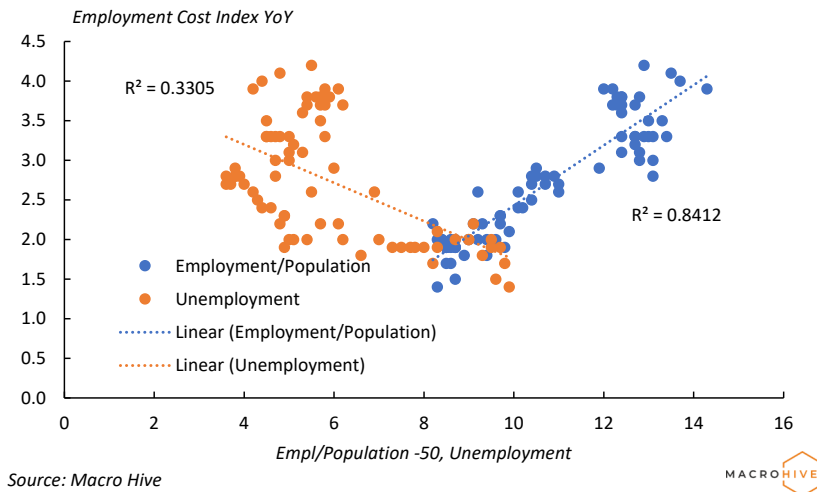
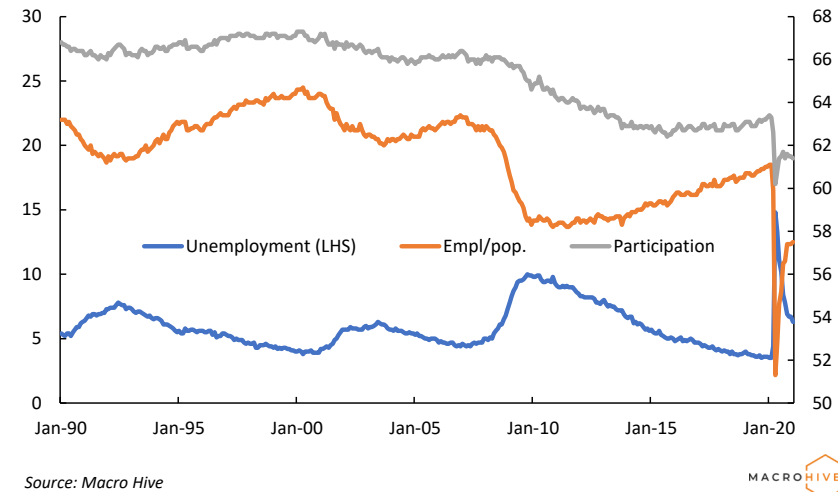
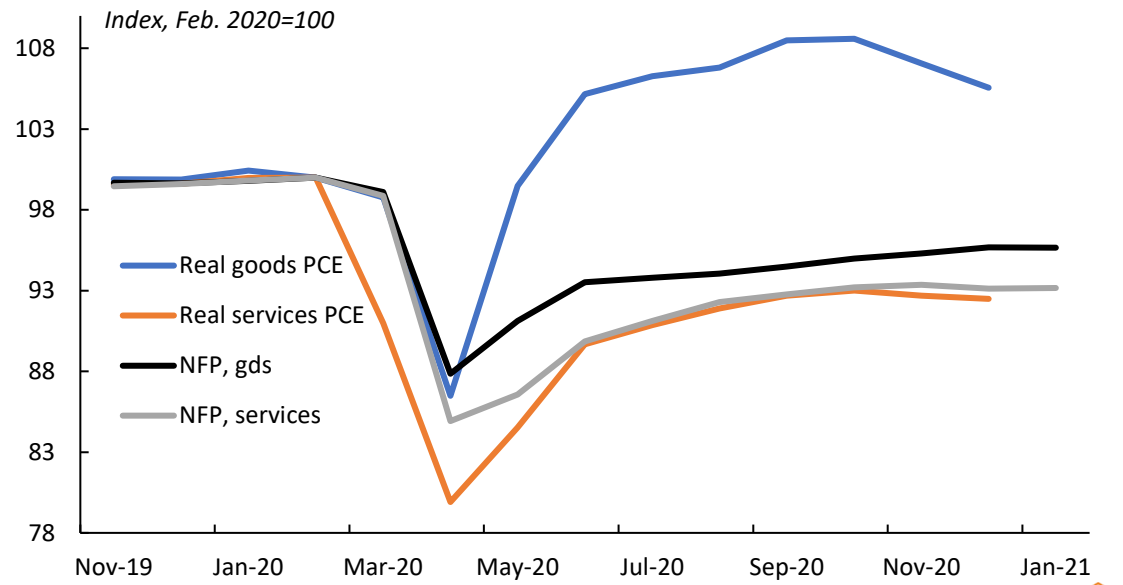


Chart 6: Labour Market Slack is Unprecedented



The K-shaped recovery has increased the labor market slack relative to the output gap

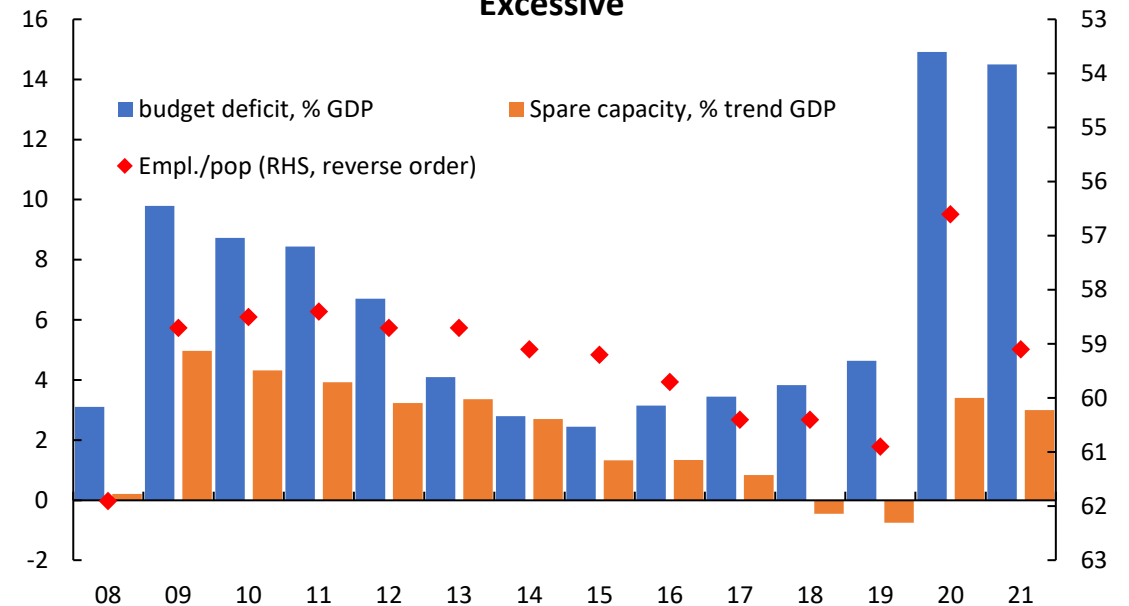
Chart 7: The K Shaped Recovery has Led to Very Large Labour Market Slack



Source: Macro Hive



Chart 8: Set Against Labour Market Slack the Biden Plan Seems Less Excessive

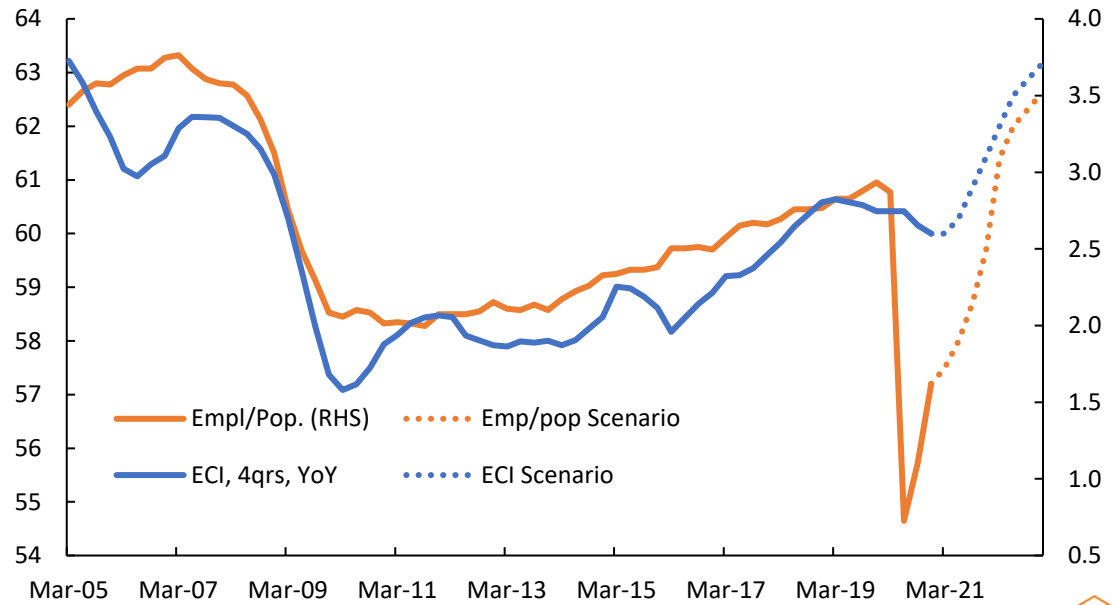


Source: Macro Hive, CBO



Base Case Inflation Scenario Is Benign

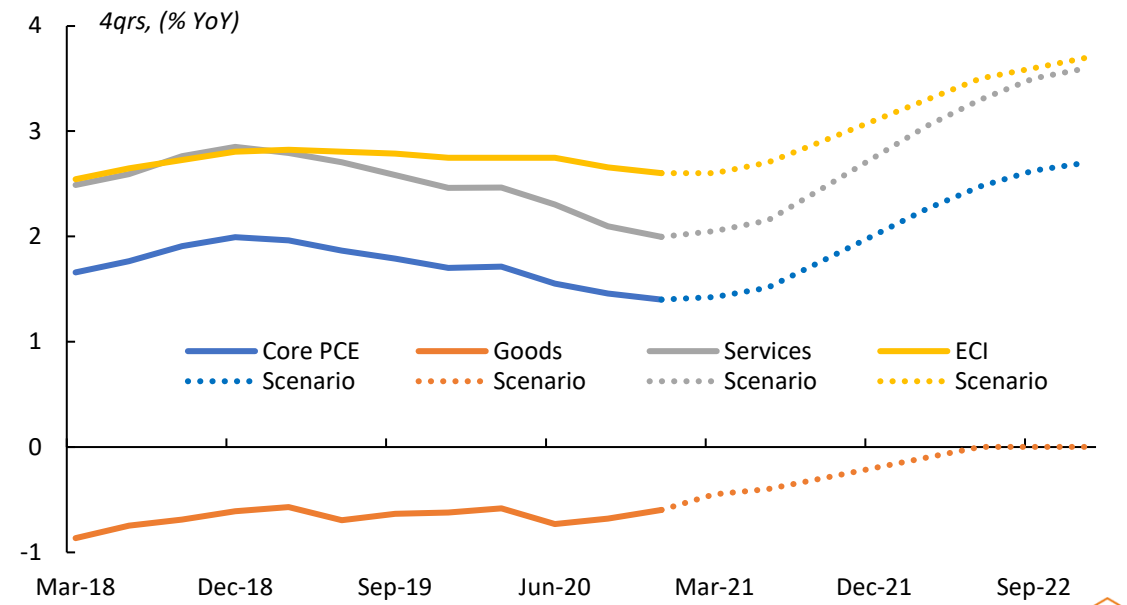
Chart 9: Wages Could Accelerate Above pre-GFC Growth



Source: Macro Hive



Chart 10: Core PCE Could Cross 2% in Late 2021

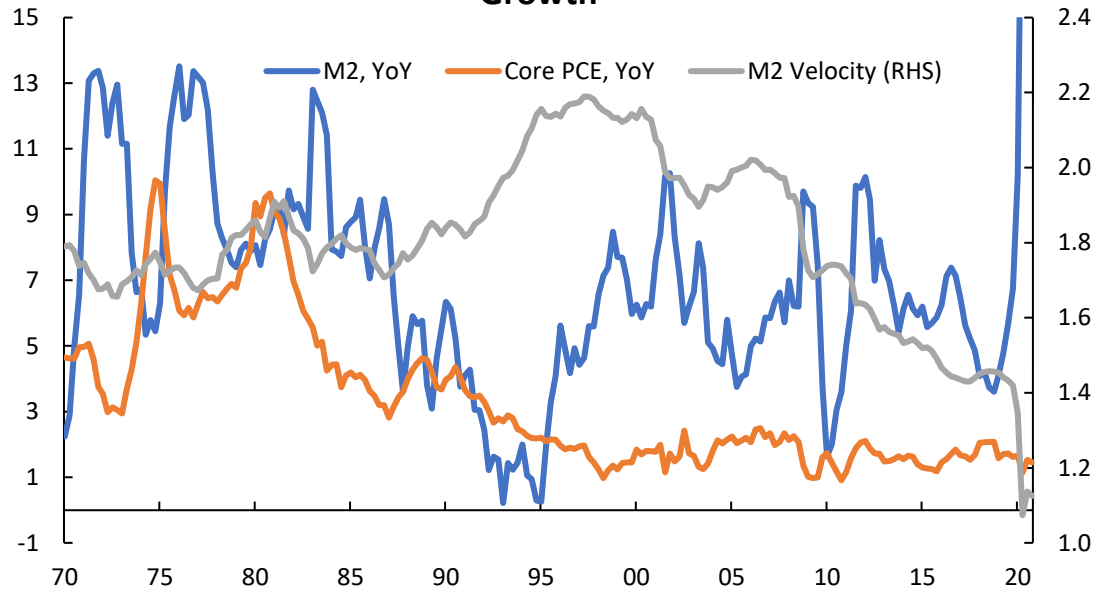


Source: Macro Hive



M2 Growth Unlikely To Fuel CPI Inflation

Chart 11: Since the 1990s, Inflation has Decoupled from Money Growth



Source: Macro Hive



Table 2: Most of the Increase in Money has Taken Place at High Income Households or Non Financial Businesses, Sep 2019- Dec. 2019

	M1 (\$bn)	Time & Sav. Dep. (\$bn)	MMF (\$bn)	total (M2+ inst. MMF) (4bn)
Households	860	1128	258	2247
Incl. Top 20pct	556	786	197	1538
Non Fin bus.	572	187	378	1137
ROW	119	80	28	227
Other	139	-60	110	189
Total	1691	1334	774	3799

Source: Macro Hive, FED



Key Risks

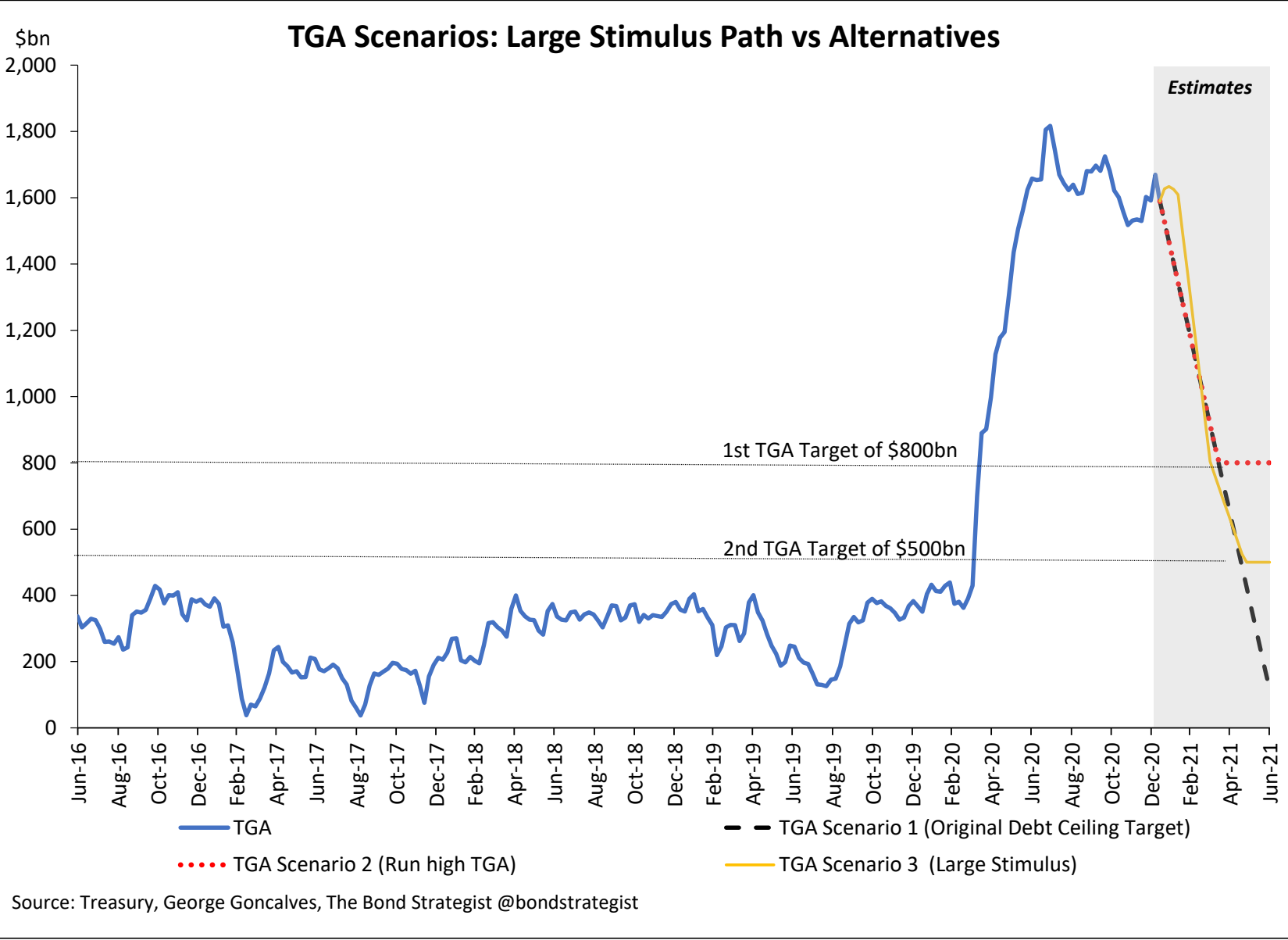
- Increase in labour participation is key to the success of the Biden plan
- Corporate sector leverage
- Mid term elections

Draining the TGA: Supply and Market Implications

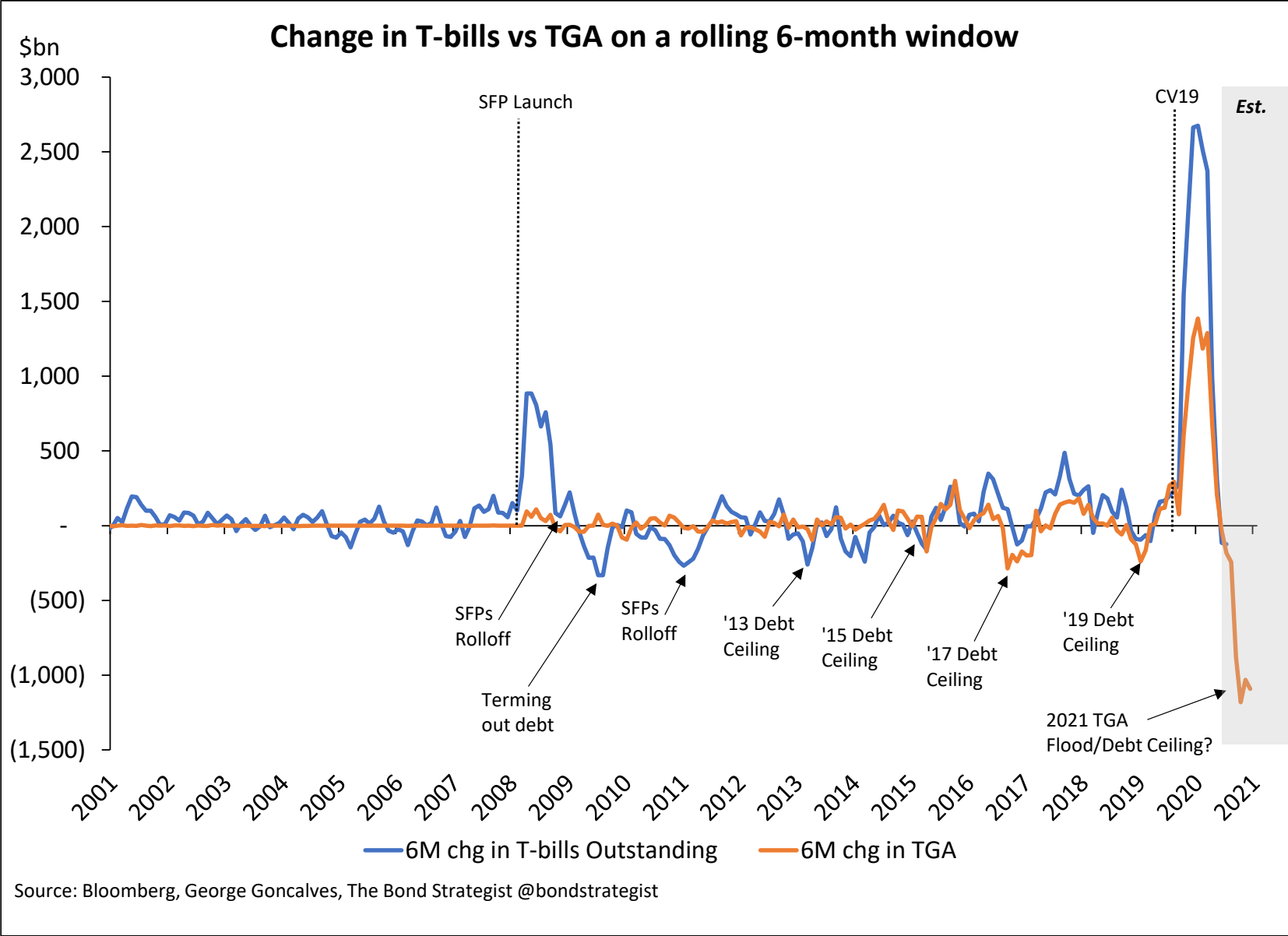
George Goncalves, The Bond Strategist

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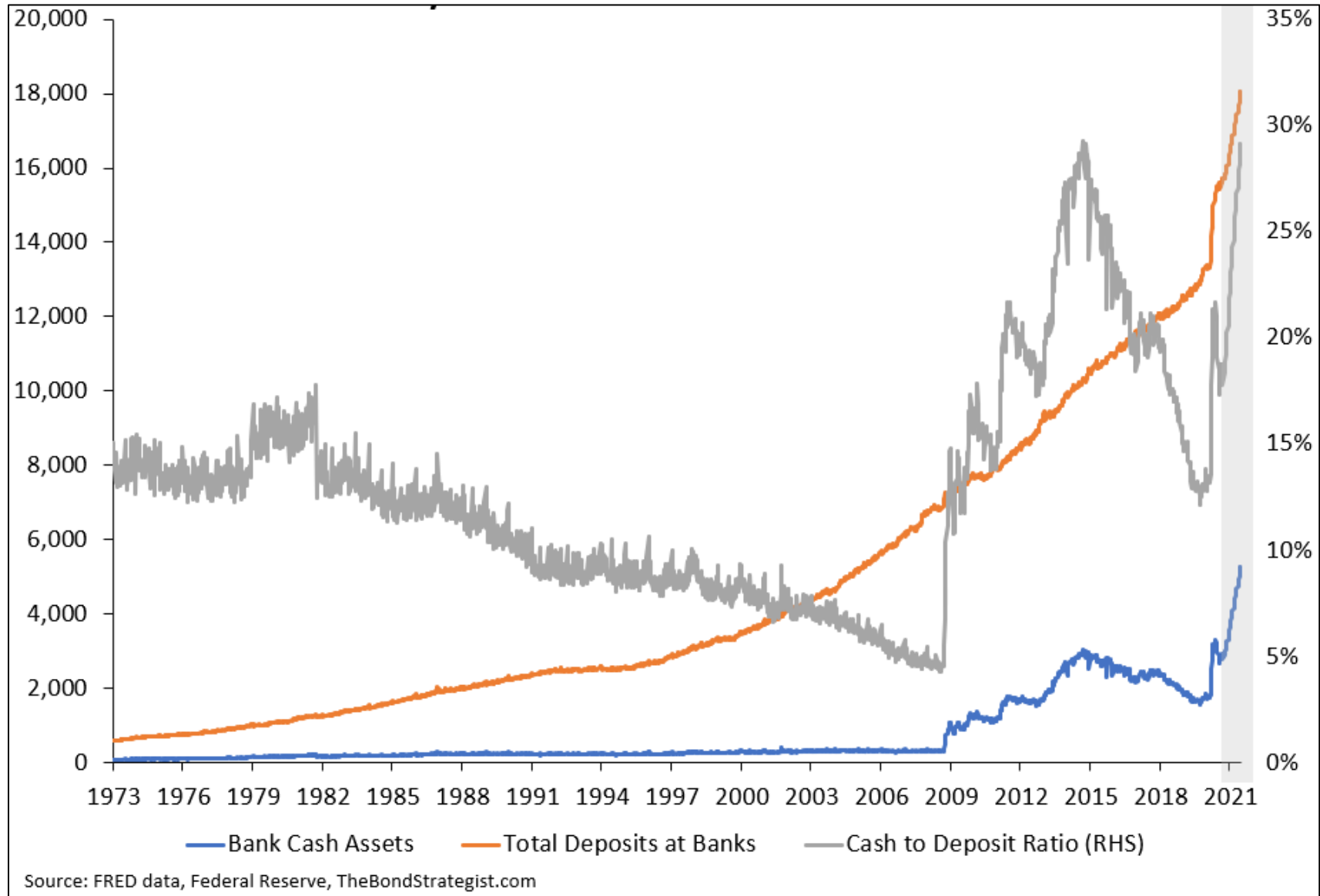
TGA Path Dependent: Treasury Cash Usage, Unleashes a Flood?



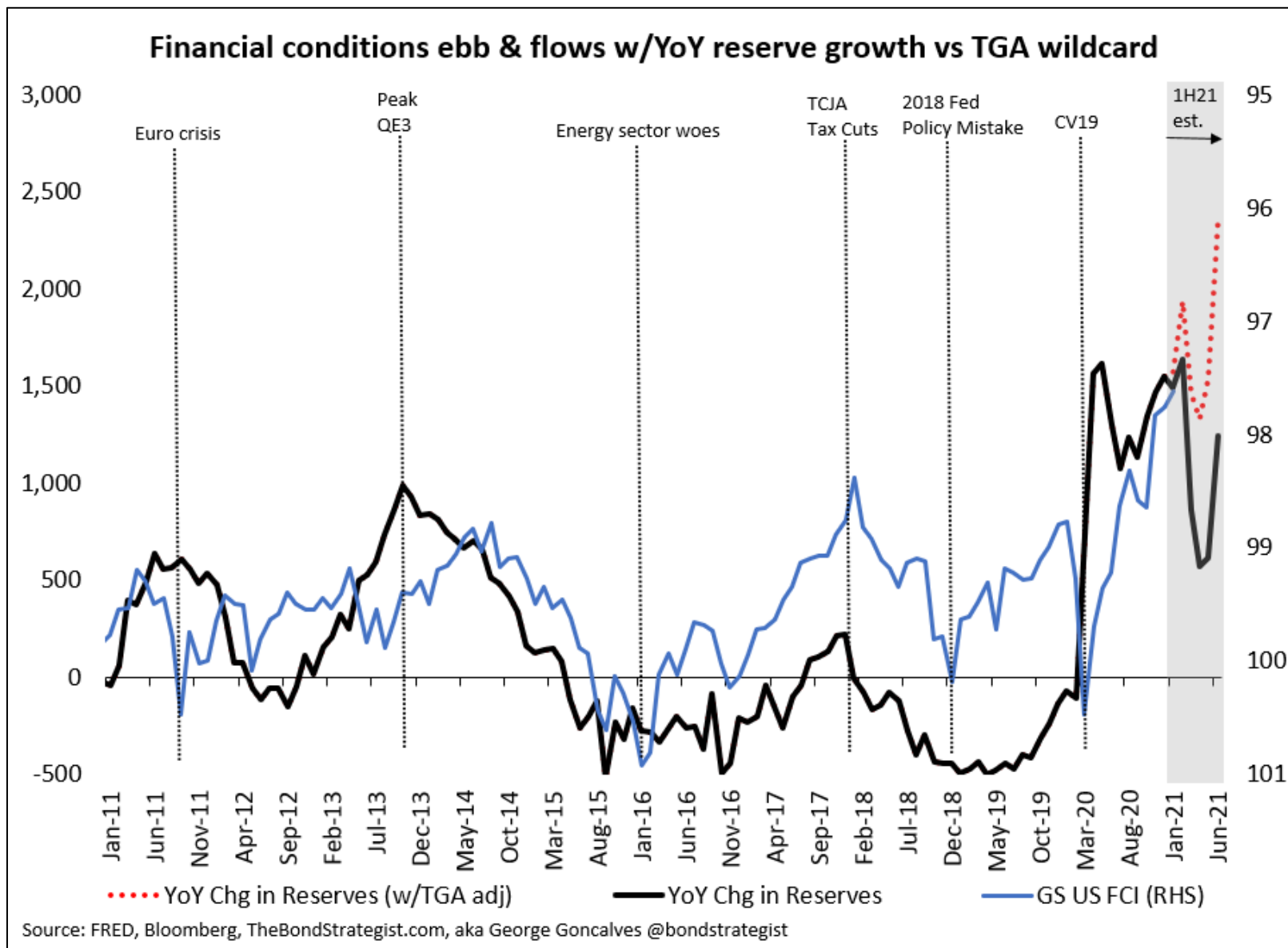
TGA Path Dependent: Bills Issuance to Drop as TGA Falls



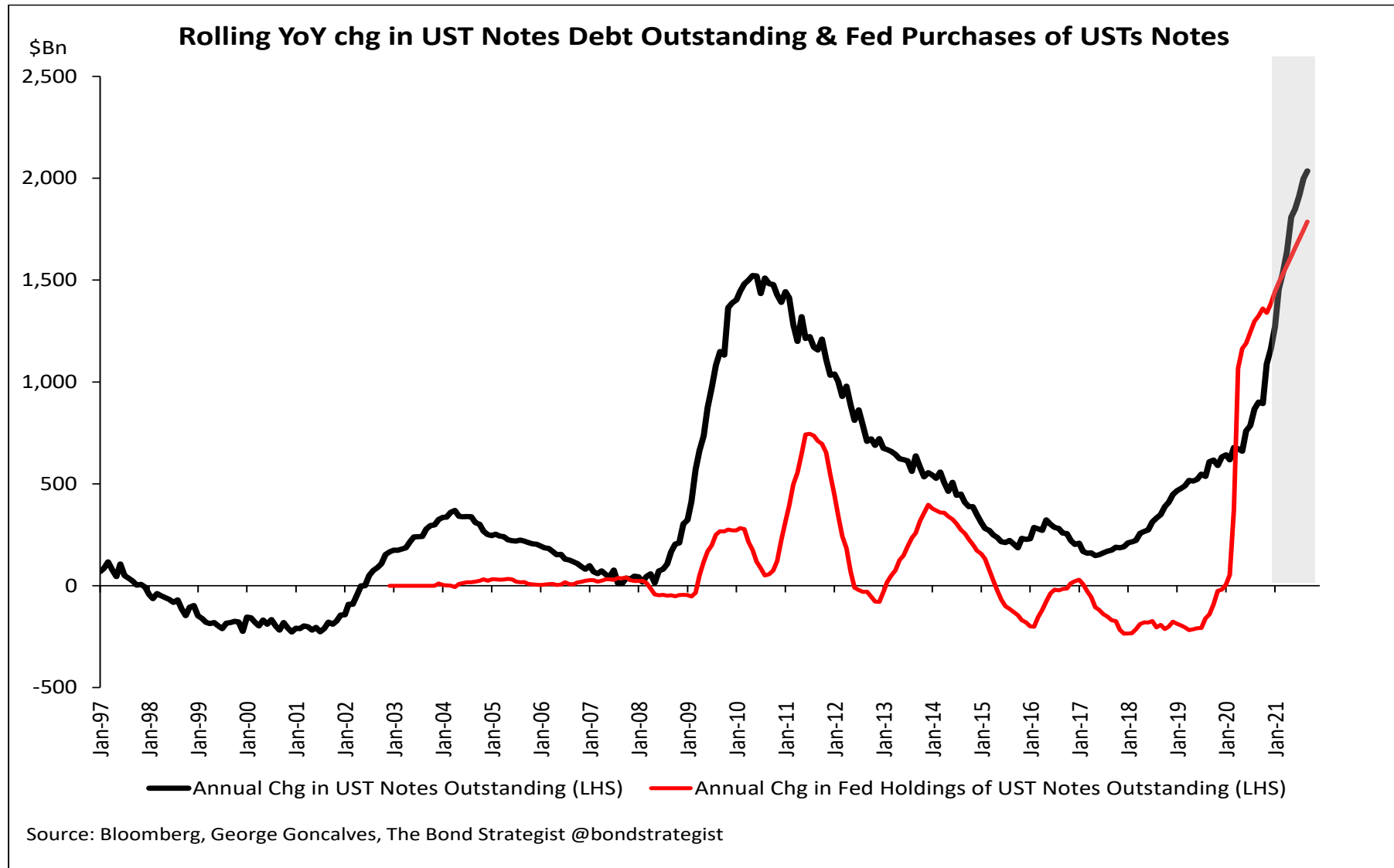
TGA Path Dependent: Bank Reserves are Likely to Spike



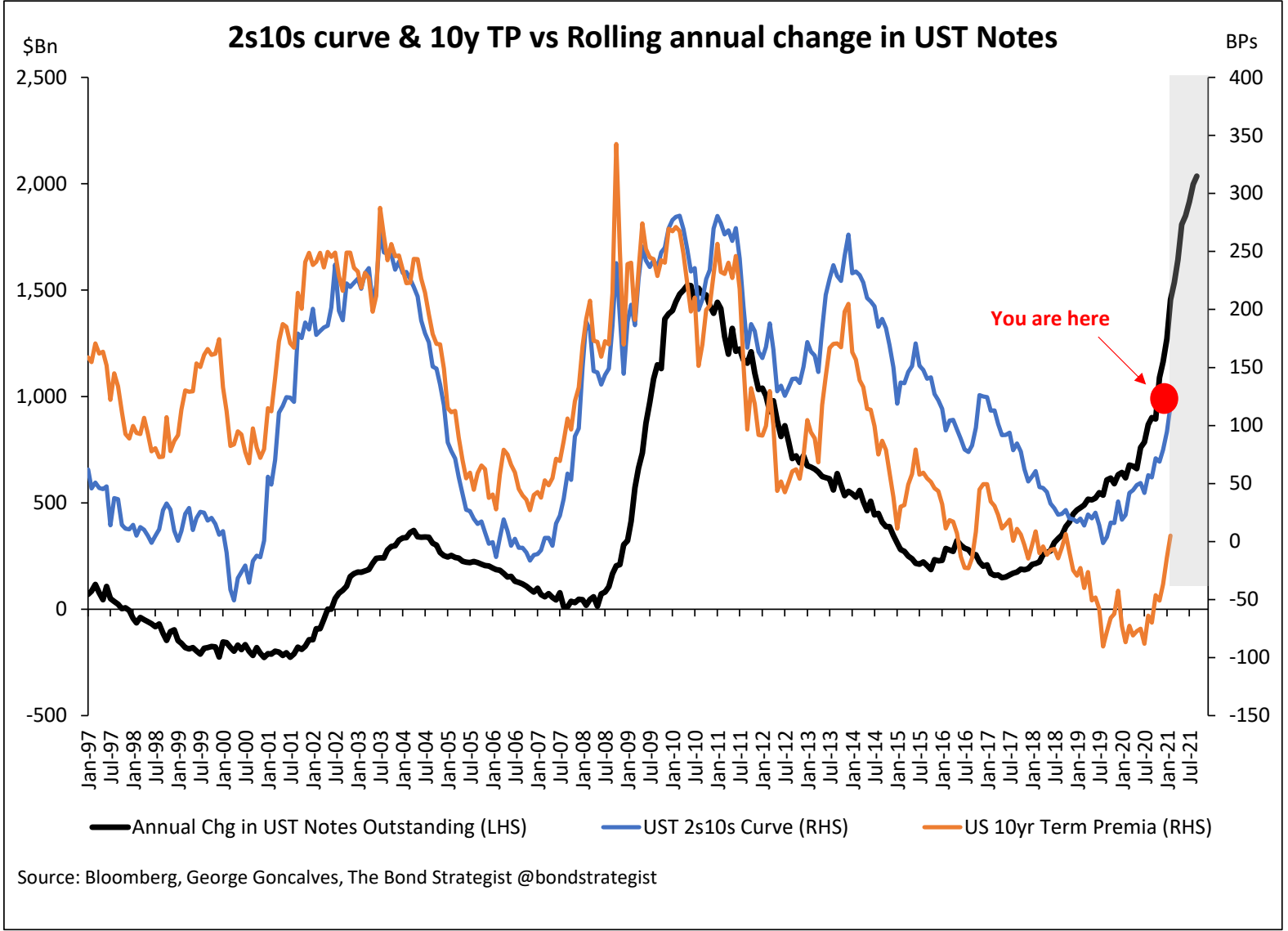
TGA Path Dependent: RRP Usage Will be Key to Watch...



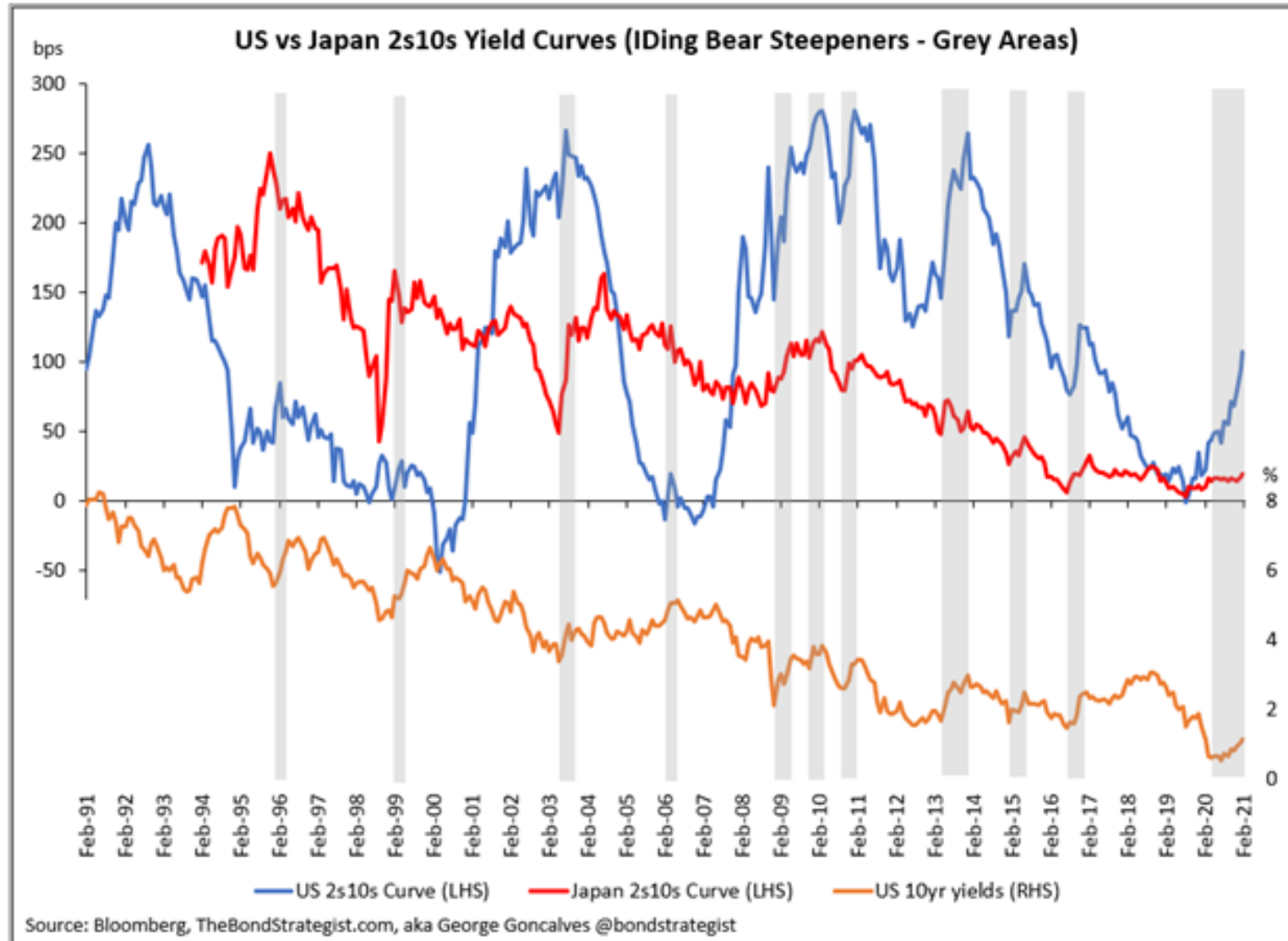
UST Supply: Terming Out the Debt = Fed Buying Falls Behind



UST Supply: Terming Out the Debt = Steep Curves, How Steep?



Recap: History Doesn't Always Repeat, but it Can Rhyme



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