



## MORNING BRIEFING

March 17, 2021

### What's in this Sausage?

Check out the accompanying [chart collection](#).

(1) "V" is for "V-covery." (2) \$1,400 checks times 287 million Americans is serious money. (3) Business sales of goods at record high during January. (4) S&P 500 revenues outlook is bright. (5) Forward earnings of S&P 500/400/600 all at record highs. (6) Plenty of beef and pork in American Rescue Plan Act. (7) Lots of shots and checks. (8) Free money: \$402 billion in checks, \$362 billion for state and local governments, \$206 billion for unemployed, \$196 billion for schools. (9) Setting the stage for UBI? (10) Uncle Joe has lots of presents for the kids.

**Strategy: V-covery.** Despite yesterday's weak retail sales and industrial production reports, the economy continues to trace out a "V-covery," i.e., a V-shaped recovery. Both economic indicators dropped in February following strong increases during January. Both were depressed by really bad winter weather around the country. Consider the following:

(1) *Retail sales.* Yesterday, we learned that retail sales fell 3.0% m/m during February, but that followed an upwardly revised 7.6% increase during January, which was fueled by \$600 relief checks sent by the Treasury to 230 million Americans (by our estimate). Another round of \$1,400 relief checks is currently being sent to 287 million Americans (by our estimate). So March and April retail sales should rise sharply.

Retail sales has been highly correlated with government social benefits in personal income, which includes the so-called "economic impact payments" ([Fig. 1](#)).

(2) *Business sales.* Total business sales, which includes retail sales as well as manufacturing shipments and wholesale trade sales, also came out yesterday for January. It jumped 4.7% m/m to a record high ([Fig. 2](#) and [Fig. 3](#)). It is highly correlated with quarterly S&P 500 aggregate revenues, even though it includes only goods and excludes services. The y/y growth rate in monthly business sales tends to be very close to the y/y growth rate in quarterly revenues. The former was up 7.1% y/y during January, while the latter was up 0.4% during Q4-2020.

The outlook for S&P 500 revenues is very good given that business sales are about to get another boost from the third round of relief checks. The positive outlook for quarterly S&P 500 revenues per share is confirmed by the weekly forward revenues per share of the S&P 500, which was back at its record high of a year ago during the March 4 week ([Fig. 4](#)).

(3) *Forward earnings*. The same can be said about the weekly forward operating earnings per share of the S&P 500 ([Fig. 5](#)). In yesterday's [Morning Briefing](#), Joe observed that the forward earnings of the S&P 500/400/600 all rose to record highs during the week of March 11 ([Fig. 6](#)). That's the first time that's happened since October 2018.

**Fiscal Policy I: Where's the Beef?** President Joe Biden declared on Monday that within 10 days the US would achieve his goal of administering 100 million vaccination shots and delivering 100 million stimulus checks to Americans. "Shots in arms and money in pockets," he said.

President Biden's \$1.9 trillion [American Rescue Plan Act](#) (ARPA) was enacted on March 11, exactly one year after the pandemic was first declared by the World Health Organization. That's a lot of free money that will be deficit-financed and monetized by T-Fed. Last week, we discussed all the legislative sausage making that produced it. Recall that the Senate's legislative proceedings included a ceremonious 10-hour reading of the 600-plus-page bill. But as we see it, the handful of federal spending items that compose the meat of the bill can be summarized in less than 300 words. Here goes.

Most of the money is going directly into individuals' pockets in the form of relief checks, unemployment compensation, and childcare credits. The rest largely is a bailout of state programs. Additional direct support for small businesses and large corporations is relatively minimal except for the hard-hit airlines.

About 80% of the spending is attributable to just two of the 11 titles, namely Title 2 and Title 9, according to our review of the Congressional Budget Office (CBO)'s estimates by title. (See the [detailed tables](#) on the CBO's [webpage](#) "Estimated Budgetary Effects of H.R. 1319, American Rescue Plan Act of 2021 as passed by the Senate on March 6, 2021.") Title 2 covers the \$304.60 billion in estimated budget authority granted to the Committee on Health, Education, Labor, and Pensions, while Title 9 allocates \$1.22 trillion over to the Committee on Finance (see the CBO's summary table, Table 2):

(1) *Title 2: \$300 billion for education, childcare, and Covid-fighting.* Of Title 2's \$304.60 billion, \$169.20 billion is mostly for elementary, secondary, and higher education relief funds; \$38.97 billion is for childcare development and stabilization; and \$47.80 billion is for virus testing, contact tracing, and mitigation activities.

(2) *Title 9: \$1 trillion for pandemic-related relief.* Of Title 9's \$1.22 trillion, \$549.97 billion is provided for promoting economic security, \$205.82 billion is to support unemployed workers, and \$362.05 billion is for state and local government relief. Drilling down, we see \$402.17 billion for the relief checks and \$88.90 billion for child tax credits.

Dividing \$402.17 billion in relief checks by \$1,400 per check suggests that the Treasury will be cutting 287 million checks. That's a lot of meat.

**Fiscal Policy II: Where's the Pork?** President Joe Biden's ARPA reminds us of "The Price Is Right" gameshow, where everyone in the excited audience anticipates getting a prize. Likewise, Biden's arrival in the White House may signal more big prizes to many Americans. Lots of people already have raked in sizable gifts from the federal government since the pandemic began.

In fact, Melissa and I think that the ARPA arguably could set the stage for a Universal Basic Income (UBI). We have been writing about UBI since at least 2017. Back then, we speculated that if artificially intelligent robots were to take over lots of jobs, it might justify a UBI. At that time, nobody saw the Great Virus Crisis (GVC) coming—not even self-made billionaire/entrepreneur/investor Mark Cuban.

What a difference a crisis makes! In May 2020, Cuban [called](#) for monthly recurring stimulus payments as a bridge to a federal jobs program. Back in 2017, he said that UBI was a "slippery slope," as we covered in our April 26, 2017 [Morning Briefing](#). We also wrote: "If robots are taxed, should the revenues fund a Universal Basic Income (UBI), where everyone would receive a small stipend to cover basic needs? ... These questions will be pondered by lots of brains in the years to come, no doubt including artificial ones."

Not wasting the opportunity presented by the GVC, left-wing brains have created new economic supports for individuals that are starting to look a lot like the basis for a UBI. Here is more on the direct deposits coming from Uncle Joe:

(1) *You get a relief check.* As noted above, we estimate that the Treasury will send checks to 287 million individuals. That is more than 80% of the population. The latest checks together with the \$600 sent in January total \$2,000 in aid for eligible adults and their dependents this year. A married couple with two children will receive up to \$5,600 this round. That is in addition to the [first round](#) of \$1,200 payments (plus an extra \$500 per kid under 17) people received last April. So by our count, an eligible married couple with two children will have received relief of \$11,400 (first round \$3,400, second round \$2,400, third round \$5,600)! Of course, this may be small compensation for the many who lost their income due to the crisis.

This latest time around, eligibility requirements were narrowed as the bill was negotiated. The latest payments phase out for individuals and married couples filing jointly with adjusted gross income (AGI) in the \$75,000-\$80,000 and \$150,000-\$160,000 ranges, respectively; people earning more are ineligible for the latest round.

Taxpayers who earn close to the upper limits will have a strong incentive to reduce their AGI for 2020, e.g., by increasing their 401(k) contributions. In some cases, a family could be better off after taxes if it made less money before taxes with the new legislation, especially considering the eligibility rules for the checks and Child Care Tax Credits, a March 12 [WSJ article](#) observed.

(2) *You get a kid credit.* Expanded in Biden's sweeping plan for one year is the Child Tax Credit. For the tax year 2021, US parents will receive a fully refundable tax credit of up to \$3,000 for their children aged 6 to 17 and \$3,600 for children under age 6. The expanded amounts phase out at AGIs above \$75,000 for individuals and \$150,000 for married couples filing jointly.

For all the media hubbub about it, the expansion is not that much more than what families previously received, especially relative to how much childcare costs on an annual basis. Center-based infant care in the US [costs](#) around \$1,200 per month (or around \$15,000 per year) per child. Care for older kids isn't much cheaper when factoring in before- and after-school supervision and full-day care when school is out for vacations and summers.

Eligible families previously could claim a partially refundable tax credit of up to \$2,000 per child under age 17. Families that earn too much to qualify for the newly expanded tax credit would

still receive the \$2,000 credit up to income limits of \$200,000 annually for individuals and \$400,000 for married couples filing jointly.

One quirk in the old law is that the credit was only partially refundable—so if a taxpayer's credit exceeded their taxes owed, then they would still get the credit (a.k.a. free money). But in the old law, the credit phased in with income and was refundable only up to \$1,400. So the benefit of the credit mostly went to folks higher on the income scale, as a Brookings commentary [discussed](#). Now it will be fully refundable, as CNBC has [detailed](#).

That piece of the new law and the fact that it is now advanceable are what make the Child Tax Credit seem like the harbinger of a UBI for parents. Biden's plan allows for the expanded credit to be paid monthly, beginning in July, instead of in a lump sum during tax time. In other words, many people with kids may grow accustomed to regular "free money" deposits from the Internal Revenue Service (IRS) in their bank accounts. Low-income parents with several kids who don't pay for childcare stand to receive the most benefit from this fully refundable and advanceable credit.

While the expanded benefit might not make a big difference for higher-income folks, it could make a big difference for the more than 4 million children who would be lifted out of poverty as a result of the new tax credit, [reported](#) MSN, based on an [analysis](#) by the Center on Poverty & Social Policy.

Expanding the Child Tax Credit has been on Biden's mind since the early days of his campaign, as we wrote in our October 14 [Morning Briefing](#). This won't be the last time he thinks about it, either. Democrats on the Hill have [indicated](#) that they would support a permanent expansion of the credit as part of their next major piece of legislation, i.e., the [Build Back Better](#) plan.

(3) *You get unemployment benefits.* The ARPA extends through early September from mid-March the following Coronavirus Aid, Relief, and Economic Security (CARES) Act programs: the federally funded weekly supplemental unemployment benefit payments, the Pandemic Unemployment Assistance (PUA) for those not typically eligible for benefits, and the Pandemic Emergency Unemployment Compensation (PEUC) for the long-term unemployed. The maximum number of weeks that one can collect under the PUA and PEUC programs is also extended.

The initial \$600-per-week federal payment combined with state unemployment insurance provided more than 100% of replacement income for many, as we discussed in our June 29 [Morning Briefing](#). The latest bill opened for negotiation with a \$400 supplemental weekly payment and was settled at \$300 in the law. Nevertheless, the \$300 remains ample enough to replace around three-quarters of the average worker's lost income, according to a CNBC [analysis](#) discussed in a March 10 CNBC [article](#).

Now that tax time is nearing, many who collected unemployment benefits last year have just discovered that those benefits are taxable. Even if that's not news, the withholding rates on income earned prior to termination wouldn't likely be great enough, in many cases, to compensate for the fact that IRS withholding for unemployment benefits defaults at a low 10%. That could mean that many of the unemployed, rather than receiving a tax refund as usual, would owe the Treasury money instead—were it not for another Biden plan.

Yes, Biden has a plan for that! For individuals with AGI of less than \$150,000 last year, the plan provides for an exemption of the first \$10,200 of unemployment. The amount of the exemption is \$20,400 for married couples filing jointly who both collected benefits.

This won't likely be Biden's last change to the tax code. But more than likely his next move will be to push them in the other direction (up), primarily for higher-income folks. Someone will have to pay for all these gifts or it'll get pretty hot around here!

## CALENDARS

**US: Wed:** Housing Starts & Building Permits 1.56mu/1.75mu, MBA Mortgage Applications, EIA Crude Oil Inventories, Fed Interest Rate Decision 0.25%, FOMC Economic Projections.

**Thurs:** Leading Indicators 0.3%, Initial & Continuous Jobless Claims 700k/4.07m, Philadelphia Fed Manufacturing Index 23.0, EIA Natural Gas Storage. (DailyFX estimates)

**Global: Wed:** Eurozone Headline & Core CPI 0.9%/1.1% y/y, Canada CPI 0.7% m/m/1.3% y/y, Australia Employment Change & Unemployment Rate 30k/6.3%, Mauderer, Elderson. **Thurs:** European Car Registrations, UK Gfk Consumer Confidence -20, Japan Core CPI -0.4% y/y, BOE Interest Rate Decision & Quantitative Easing 0.1%/£875b, BOJ Interest Rate Decision -0.1%, LaGarde, McCaul, Guindos, Mauderer, Schnabel. (DailyFX estimates)

## US ECONOMIC INDICATORS

**Retail Sales** ([link](#)): Retail Sales ([link](#)): Severe winter weather and a lapse in government aid caused a larger-than-expected drop in February retail sales, though January sales were revised significantly higher. The next round of stimulus checks, along with the notable decline in coronavirus cases, due to vaccinations, should give a big boost to spending going forward. Both headline (-3.0%) and core retail sales (-3.5%)—which excludes autos, gasoline, building materials, and food services—tumbled in February, though January increases for both the headline (to 7.6% from 5.3) and core (8.7 from 6.0) measures were much larger than first reported. There was a sea of red in February's retail sales report, with 11 of the 13 sales categories posting notable declines, while gasoline services stations (+3.6%) recorded a price-related increase and sales at food & beverage stores held steady. Here's a snapshot of the sales performances of the remaining 11 retailers: sporting goods & hobby (-7.5%), general merchandise (-5.4)—with department stores down 8.4%, motor vehicle dealers (-4.2%), furniture & home furnishings (-3.8), miscellaneous store retailers (-3.4), building materials & garden equipment (-3.0), clothing (-2.8), restaurants (-2.5), electronics & appliances (-1.9), and health & personal care (-1.3).

**Business Sales & Inventories** ([link](#)): Nominal business sales jumped sharply in January to a new record high, while real business sales in December dipped fractionally for the second month, though is within 0.6% of October's record high. Nominal business sales expanded a whopping 4.7% in January and 32.4% since last April, while real sales (reported with a one-month lag) dipped slightly during the two months through December, though was up 19.0% from April lows—more than reversing its Covid-related losses. Real sales of retailers is stalled just below October's record high, but is still a solid 6.0% above its pre-pandemic level, while real sales of wholesalers has dipped slightly since October's record high and is now 0.6% below its pre-pandemic reading. Real manufacturing sales has advanced seven of the past eight months, by a total of 17.1%, and is just a tick shy of its pre-pandemic level. January's nominal inventories-to-sales ratio sank to 1.26 (lowest since April 2012) after five months at 1.32; it had shot up from 1.38 in February to 1.67 in April. Meanwhile, the real inventories-to-sales ratio for December was little changed at 1.37; it had soared to a record high of 1.66 in April from 1.43 in February.

**Industrial Production** ([link](#)): Industrial production in February contracted for the first time in five months and only the second time in 10 months, as severe winter weather triggered widespread declines. Headline production slumped 2.2% after climbing eight of the prior nine prior months by 17.3%, with only utilities (+7.4%) output in the black last month—as power production was stepped up to meet the heating demands that hit most of the country during



mid-February. Meanwhile, manufacturing (-3.1%) and mining (-5.4) output fell last month, and were 4.0% and 15.3% below pre-pandemic levels. Here's a snapshot of output by market group (and their components) during February, and where they stand relative to their pre-Covid levels: Business equipment (-3.1% & -5.8%), led by transit equipment (-6.7 & -8.9), followed by industrial equipment (-2.3 & -5.7), and information processing equipment (-1.9 & -3.7). The same exercise for consumer goods (-0.6% & +1.0%) production shows its February decline was led by consumer durable goods (-4.7 & -2.8), while output of consumer nondurable goods (+0.7 & +2.2) continued to climb last month.

**Capacity Utilization** ([link](#)): The capacity utilization rates were also impacted by February's severe winter storms. The overall utilization rate sank to 73.8%, after climbing steadily from 64.2% to 75.5% at the start of this year; February's rate was 5.8ppts below its long-run average. Manufacturing's capacity utilization rate slumped to 72.3% (6.3ppts below its long-term average) after advancing from 60.1% last April to 74.6% this January. The utilization rate for mining dropped to 77.5% after reaching a nine-month high of 81.8% in January, while the winter weather boosted the capacity utilization for utilities to a 15-month high of 78.5%—though both rates remained below their long-run averages.

**Import Prices** ([link](#)): Import prices have heated up the past three months, climbing 1.3% in February and 3.7% over the period after changing little the prior three months. Prices are up 8.3% since bottoming last April, pushing the yearly rate (3.0% y/y) to its highest reading since October 2018. Before turning positive this January (+1.0% y/y), the yearly rate was negative for 11 successive months. Petroleum prices were a big contributor to both the February and three-month gain in overall import prices—jumping 11.3% and 32.7% over the respective periods. However, nonpetroleum prices rose 0.5% and 1.8% over the same periods, pushing this yearly rate up to 2.9%—the highest since the end of 2011. The rate for industrial supplies & materials imports (10.9% y/y) accelerated to its highest reading since October 2018, after turning positive for the first time in a year in January, while the rate for capital goods (1.0% y/y) continues to hold around 1.0%, up from November 2019's bottom of -2.0%. Rates for consumer goods ex autos (0.3% y/y) remained around zero, though has moved to the north side, while the rate for autos (1.1) remains in a flat trend around 1.0%. Food prices (0.8% y/y) continued to hover around zero, slowing from October's 15-month high of 2.0%; the rate was negative from March through August. Import prices are picking up among our trading partners, with import prices for goods from the EU (2.8% y/y) accelerating to a 31-month high, while China's (1.2% y/y) moved further above zero this month to its highest reading since May 2012. The rate for the NICs (2.2% y/y) was the highest since summer 2018, while the rate for Japan



(0.7) remained near zero, but is accelerating, posting its best rate since December 2018.

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