

Pandemic relief bill's trillions can offer US economy only breathing room

Friday, March 27, 2020 11:06 AM ET

By Evan Fallor
Market Intelligence

The \$2.2 trillion coronavirus relief package that will likely soon make its way to President Donald Trump's desk should help keep struggling Americans and the U.S. economy afloat in the short term, but it is also likely to show the shortcomings of financial remedies during a medical crisis.

"It will help, but it will not overturn the drop in economic activity we're about to see," Rajeev Dhawan, the director of the Economic Forecasting Center at Georgia State University, said in an interview. "It will not bring people back to flying and staying at hotels."

The CARES Act, which passed the Senate 96-0, would provide \$1,200 to Americans who earn less than \$75,000 annually, as well as \$2,400 for couples who earn less than \$150,000 per year. People who make \$75,000 to \$99,000 per year would see phased-down checks, and any Americans earning over \$99,000 are exempt.

The bill also includes \$500 billion in loans or investments for corporations, as well as \$377 billion in loans and grants to small businesses.

Small-business relief

The bulk of the small-business relief is in the form of \$350 billion in federally guaranteed loans to provide two months of cash flow to maintain payroll. If payrolls are maintained, those loans would be forgiven.

Economic relief in \$2 trillion stimulus bill

Corporations	\$500 billion
Small businesses	\$377 billion
State and local governments	\$150 billion
Hospitals	\$130 billion
Adults who earn less than \$75,000	\$1,200
Children	\$500
Four months of unemployment insurance	

Data compiled March 25, 2020.
Source: U.S. Senate

For companies, Dhawan said, the bill is a stopgap measure.

"I think no company is in the mood to say, 'Let's see how we're going to expand in late 2020-21,'" Dhawan said. "Everyone is in survival mode: 'We need to make sure we make payroll, keep cash and survive.'"

Still, a stopgap is what thousands of restaurants will need after dozens of states

and cities have ordered mass closures of eateries, which tend to not have much cash on hand, struggle to keep employees and rents paid. "This measure is an important first step to help restaurants weather the storm, take care of our employees, and prepare for when we are given the signal to open our doors once again," said Sean Kennedy, executive vice president of public affairs for the National Restaurant Association.

Hotel owners and operators have closed properties, furloughed workers, suspended dividends and drawn down cash in response to unprecedented performance declines in the pandemic, and some will be eligible for small-business loans as a result of the bill — even some that are not small businesses.

The New York Times reported that the American Hotel and Lodging Association pushed for a change that would enable the Small Business Association loans — typically restricted to businesses with fewer than 500 employees in other industries — to be made to lodging and food services companies with fewer than 500 employees per physical location. The industry group argued that the change would enable loans to cover an additional 33,000 hotels with roughly 1 million employees, the paper reported.

More help needed

The bill, which is equivalent to roughly 9% of U.S. GDP, is unlikely to prevent a recession in the near term, so Congress needs to act more after the emergency relief is enacted, said Bernard Yaros Jr., an economist for Moody's Analytics.

The individual financial assistance should be provided each month for at least as long as much of the country has issued shelter-in-place orders, Yaros said. That includes the additional unemployment insurance benefits of \$600 per week, which are slated to run through the end of July.

"The duration of this increase in UI benefits should be further extended," Yaros said. "Not only do health experts and policymakers warn that COVID-19 could plague for us for much longer, but also there will be an initial lag to the rollout of unemployment insurance benefits with state offices deluged."

The relief could not come soon enough for many Americans. The Department of Labor on March 26 reported a record 3.28 million new U.S. jobless claims that smashed even the most grim expectations, with several economists projecting that number will only continue to rise in the coming weeks.

'Not relevant'

Treasury Secretary Steven Mnuchin, who on March 26 said the unprecedented surge in jobless claims is "not relevant," said he hopes to have checks to Americans within three weeks.

"The majority of this bill is all about small business and American workers. We wanted to include in the definition of small businesses, as you said, the new gig economy, sole proprietorships," Mnuchin told CNBC. "Between the small business retention loans, again, which is about 50% of the payroll for companies that don't qualify that, there's retention tax credits that they get for retaining people."

House Speaker Nancy Pelosi, D-Calif., has said her chamber will vote on the measure March 27, and she expects it to easily pass. The House is expected to hold a voice vote, thus limiting individual exposure for lawmakers.

Originally projected to top out at \$1.8 trillion, the aid package is now worth an estimated \$2.2 trillion. The expected House passage comes as confirmed virus cases in the U.S. top 80,000, leading the world, according to data compiled by Johns Hopkins University.

The bill comes after two failed attempts in the Senate to agree on a major relief package. The version that passed includes roughly \$250 billion more in unemployment benefits, allowing those who have lost their jobs to receive an additional \$600 per week for four months.

Flying again

Among those industries poised to gain the most is the beleaguered airline industry, which is facing severely reduced demand and widespread flight groundings as people around the world stay at home for extended periods of time and governments issue travel bans, along with a halt in production by major producer Boeing Co.

The CARES Act includes \$33 billion in grants for airlines to pay employees, with \$25 billion of that going to passenger airlines and \$4 billion for cargo air carriers. Passenger and cargo air carriers would also receive \$25 billion and \$4 billion in loans, respectively.

It also includes \$17 billion in loans for companies considered crucial for national security, which could include Boeing.

The International Air Transport Association estimates that airline bookings will be down 50% in March and April and 40% in May, leading to a \$252 billion year-over-year drop in airline revenues in 2020.

"The types of emergency funding programs in the CARES Act could make the difference between keeping a business up and running over the coming weeks or being forced to reduce salaries, layoff employees, or shutter businesses entirely," Thomas Donohue, the U.S. Chamber of Commerce's CEO, said in a statement.

Stocks responded well to the Senate passage and increasing optimism that the relief bill would be signed by the House and signed into law within the week. The S&P 500 was up 154.51 points, or 6.24% at close March 26. However, the index was 3.7% lower at about 11 a.m. ET.

Jake Mooney contributed to this article.

This article was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global.