

Resisting the Budget Blowout

President Biden and Congress agreed to a roughly \$2 trillion stimulus back in March and are now contemplating two new additional multi-trillion dollar pieces of legislation, on both infrastructure and social spending, as well as some massive tax hikes. Ultimately, though, it's extremely important to keep in mind that the legislative process surrounding these bills is going to be long and arduous and that it is going to be very difficult for the Biden Administration to get everything it wants.

One hurdle is obvious: Senator Joe Manchin, a Democrat from West Virginia, has said he will not vote to get rid of the Senate filibuster and wants new major pieces of legislation to be bipartisan. In the end, we think he holds the line on keeping the filibuster but probably capitulates to a president of his own party by supporting some extra spending on a party-line vote, maybe something around \$2 trillion total rather than the \$4 trillion-plus the Biden Administration is seeking.

But other Senate Democrats are going to have reason to resist big spending programs and higher taxes, as well, including relative moderates such as Mark Kelly and Krysten Sinema, both from Arizona, and John Tester, from Montana.

Then there is Senate Democratic Leader Chuck Schumer. Think about all the high-income earners in New York who support him, but don't want higher capital gains or dividends taxes. We fully expect Schumer to vote for higher investment taxes; his party's president is proposing these policies and he doesn't want to give Rep. Alexandria Ocasio-Cortez an excuse

to challenge him in the NY Senate primary in 2022. But, behind the scenes, we are skeptical he will twist other Senators' arms to get the votes for drastic tax hikes on investment.

Then there's the House. When President Clinton passed a tax hike in 1993, the Democrats started out with a 258-176 majority, but ended up losing 40 Democrats and barely won the vote 218-216. If the Democrats had lost merely one more vote then the Clinton tax hike would have gone down in flames.

This time around the Democrats have a razor thin majority to start. Yes, when it comes to twisting arms, Speaker Pelosi has been like Hercules in the past, but everyone knows she will not run for Speaker again in 2022 and this is her last term holding the gavel. And with such a short remaining time in office it becomes harder to make good on her "backroom" political promises; she just doesn't have much time to deliver.

Meanwhile, relatively moderate Democrats in swing districts know their party was eviscerated in the 1994 and 2010 mid-term cycles, after a combination of tax hikes and spending increases. Some of these moderates were first elected in the past couple of election cycles and want to have long careers in the House. They know, if they vote for current legislation as it stands, they better start circulating their resumes, as well.

The best bet now is that spending and taxes both go up, but not nearly as much as President Biden or the far-left has asked for. Hold onto your hats, it's going to be a wild ride.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-3 / 9:00 am	ISM Index – Apr	65.0	65.0	60.7	64.7
9:00 am	Construction Spending – Mar	+1.7%	+1.1%	+0.2%	-0.8%
afternoon	Total Car/Truck Sales – Apr	17.6 Mil	17.8 Mil		17.7 Mil
afternoon	Domestic Car/Truck Sales – Apr	13.6 Mil	13.7 Mil		13.5 Mil
5-4 / 7:30 am	Int'l Trade Balance – Mar	-\$74.3 Bil	-\$74.9 Bil		-\$71.1 Bil
9:00 am	Factory Orders – Mar	+1.3%	+0.6%		-0.6%
5-5 / 9:00 am	ISM Non Mfg Index – Apr	64.1	64.0		63.7
5-6 / 7:30 am	Initial Claims – May 2	540K	550K		553K
7:30 am	Q1 Non-Farm Productivity	+4.2%	+3.8%		-4.2%
7:30 am	Q1 Unit Labor Costs	-1.0%	+0.9%		+6.0%
5-7 / 7:30 am	Non-Farm Payrolls – Apr	978K	990K		916K
7:30 am	Private Payrolls – Apr	900K	900K		780K
7:30 am	Manufacturing Payrolls – Apr	60K	60K		53K
7:30 am	Unemployment Rate – Apr	5.7%	5.9%		6.0%
7:30 am	Average Hourly Earnings – Apr	0.0%	+0.2%		-0.1%
7:30 am	Average Weekly Hours – Apr	34.9	34.9		34.9
2:00 pm	Consumer Credit – Mar	\$20.0 Bil	\$15.0 Bil		\$27.6 Bil