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Policy Points

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GOP Lawmakers Now Confront the Hard Part, Developing Reconciliation Package Details. Congress returns today, and Republican lawmakers have set an aggressive timeline for committees to produce portions of the reconciliation package. GOP congressional leaders maintain they would like to deliver a bill for President Trump to sign by Memorial Day (May 26). Committees have a self-imposed and nonbinding May 9 deadline for their respective portions to have the package on the House floor the week of May 19. In a recent **TIME** interview, President Trump said he would veto a bill that had cuts to Social Security, Medicare, and Medicaid, the addition of Medicaid to that list being somewhat new. The House Energy & Commerce has jurisdiction over Medicaid and is scheduled to mark up its section on May 7. Its reconciliation instruction calls for cutting $880 billion which likely assumed/s significant savings from Medicaid. See the list of the House and Senate committee instructions **here**. Some House Republicans are considering implementing new work requirements for Medicaid recipients as well as phasing in cost-sharing changes over a longer time period. Several House committees will start marking their respective portions of the reconciliation package this week, with some of the more politically complex negotiations scheduled for next week. On Tuesday (April 29), the **House Homeland Security**, **Armed Services**, and **Education & Workforce** Committees are scheduled to mark up their portions of the reconciliation package. The **House Financial Services** and **Oversight and Government Reform** Committees are expected to mark up their portions on Wednesday (April 30). The House **Judiciary** and **Transportation & Infrastructure**Committees are also expected to mark up their portions later this week. *While this appears to be an ambitious timeline, Johnson has repeatedly demonstrated his ability to secure legislative victories despite his razor-thin majority, often leaning on the White House to corral holdouts in support of advancing Republicans' broader agenda. That said, agreement over the budget resolution was secured by punting key substantive differences among Republicans, which remain for them to sort out after the recess. These include very basic questions such as the size and scope of spending cuts and whether to use a "current policy" budget baseline to score a permanent extension of expiring Tax Cut & Jobs Act (TCJA) provisions, which will speak directly to the amount of offsets Republicans will need to produce to achieve their ambition to extend the tax cuts from Trump's first term permanently. We would expect some of these spending and tax disagreements to get settled before the House starts voting on the Energy & Commerce and Ways & Means portions to prevent House members from having to vote for certain policies that aren't ultimately included or can't pass in the Senate. We see a more realistic timeline for final action on the respective packages, which should be July 4 or ahead of the August recess.* ***(Steve Pavlick) (Steve Clagett)***

Treasury To Provide "X-Date" Estimate This Week or Next.
We anticipate the Treasury Department will provide Congress with its estimate of when the federal government will exhaust its ability to meet all of its obligations on time and in full, also known as the "X-Date" later this week or early next. The Treasury Department estimate comes following April tax receipts which help sharpen the picture on Treasury cash needs in the coming months. On March 26, the **Congressional Budget Office** (CBO) estimated the "X-Date" to fall between August and September, which would suggest Congress needs to act before the August recess. This is a slightly tighter estimate than a March 24 **Bipartisan Policy Center** (BPC) forecast of mid-July to early October. *In the event that Republican's reconciliation package is not ready by the X-date, Congressional leaders may need to handle the debt limit on a different vehicle, one that would require Democratic support in the Senate where 60 are needed, and Republicans have 53 seats. One such back-up option might include it as part of a disaster supplemental package. Another option might be to attach debt limit legislation to a government funding bill needed by the end of fiscal year 2025 on September 30. Legislative uncertainty could lead to a downgrade from Moody's, the last of three major credit rating agencies, to maintain a AAA rating for U.S. sovereign debt following downgrades from Standard & Poor's and Fitch in 2011 and 2023, respectively. While Moody's has maintained its AAA rating, it lowered its* ***outlook*** *to negative in November 2023, citing "[c]ontinued political polarization within the U.S. Congress raises the risk that successive governments will not be able to reach consensus on a fiscal plan to slow the decline in debt affordability," thus the X-date will be closely watched in Washington for its impact on the Congressional agenda and also market perceptions of policy uncertainty broadly.* ***(Steve Pavlick)***

Trump Administration Provides Reciprocal Tariff Talk Timeline.
On April 25, the ***Wall Street Journal*** reported that the Trump administration plans to streamline reciprocal tariff negotiations with approximately 18 major trading partners over the next two months by using a common framework created by the office of the United States Trade Representative (USTR). The USTR template reportedly "lays out broad categories for negotiation: tariffs and quotas; non-tariff barriers to trade, such as regulations on U.S. goods; digital trade; rules of origin for products; and economic security and other commercial issues." The U.S. will demand individual trading partners make concessions within those categories. The initial plan is for six trading partners to come in for talks in one week, followed by a second group of six the following week, and a final group of six during the third week, and then repeat the cycle ahead of the Trump administration's self-imposed July 8 deadline from the 90-day reciprocal tariff extension. Today, the Senate will vote on the motion to invoke cloture on David Perdue to serve as Ambassador to China. Cloture has also been filed for Warren Stephens to be Ambassador to the United Kingdom (UK), Tom Fertitta to be Ambassador to Italy, and Tom Barrack to be Ambassador to Turkey. When confirmed, these Ambassadors could play a role in facilitating trade negotiations. *It is worth noting that the Trump administration's focus on reaching agreements to avoid reimposing reciprocal tariffs in 90 days, as well as meeting with business groups to discuss potential exemptions and exclusions, was received positively by the stock market last week. Large Asian economies such as Japan, Korea and India appear to be at the front of the queue. The European Union (EU) is also*

*likely to be a priority. Mexico and China are not likely to be included in these discussions as they are currently exempt from the reciprocal tariffs. Canada may be better positioned to negotiate following today's election (see below). China is also unlikely to be included as the two sides appear to remain far apart on the terms of a negotiated settlement. Last week, President Trump and Treasury Secretary Scott Bessent suggested that the current tariff levels on Chinese imports would likely be lowered at some point. On April 23, the **Wall Street Journal** reported that the tariffs on Chinese imports could be reduced to roughly 50%-65% from the current 145% rate, with 35% for items deemed not to pose a national security threat and those that do with at least a 100% rate. On April 26, the **Wall Street Journal** reported that the Chinese Communist Party had provided exemptions for some U.S. imports. De-escalating tariffs could be the first step toward starting what is likely to be a lengthy negotiation process that will be likely heavily influenced by efforts to strike agreements with other trading partners.* ***(Steve Pavlick)***

Key Inflation and Employment Data This Week Could Influence Next Week's FOMC Meeting as Members Remain in Blackout.

This week will feature two key economic data points ahead of the Federal Open Market Committee (FOMC) meeting next week (May 6-7). FOMC speakers will also be subject to the blackout period prior to next week's meeting. On Wednesday (April 30), the Bureau of Economic Analysis (BEA) will release its March Personal Income and Outlay report, which will include the personal consumption expenditure (PCE). The Fed's preferred inflation metric is the so-called core PCE, which removes volatile food and energy prices. For February, PCE rose 0.3% on a monthly basis and 2.5% on an annual basis. Core PCE rose 0.4% on a monthly basis and 2.8% on an annual basis. According to **Barron's**, the consensus estimate among economists surveyed is for a 2.2% increase for PCE and a 2.6% increase for core PCE annually. A 2.6% increase in core PCE would be the lowest annual reading since March 2021. On Friday (May 2), the Bureau of Labor Statistics (BLS) will release its April Employment Situation Report. For March, 228,000 nonfarm jobs were added, and the unemployment rate was 4.2%. According to **Barron's** the consensus estimate among economists surveyed is for a gain of 130,000 in nonfarm payrolls and for the unemployment rate to remain unchanged at 4.2%. *While the effects of the Trump administration's economic policies have shown up in soft economic sentiment data, the effects have not been as visible in the hard economic data regarding employment and inflation. According to the **CME FedWatch Tool**, investors are pricing in a 95.1% probability that the FOMC will leave interest rates unchanged at its upcoming May meeting but a 58.2% probability for a 25 bps cut at the June FOMC meeting. This may reflect the view among most economic forecasters that the Fed's recessionary impulse will supersede its inflationary impulse and that it will pursue a path of interest rate cuts to address a slowdown in economic growth despite inflation remaining above its desired 2% goal. More attention will probably be paid to Fed Chair Powell's post-FOMC meeting press conference when he will provide a public update on the Fed's thinking about interest rates. While President Trump has been clear that he thinks the Fed should reduce interest rates, he also said last week that he was not planning to fire Powell before his term as Fed Chair ends in May 2026, though we expect that his criticism of Powell will likely continue.* ***(Steve Pavlick)***