WEEKLY COMMENTARY

The Federal Budget ... South of the Border

By Francis Généreux, Principal Economist

It's budget season here in Canada. This week, the ministers of finance of six provinces, including Quebec and Ontario, tabled their budget plans for fiscal year 2023–2024. Federal Finance Minister Chrystia Freeland will present her budget next Tuesday, March 28.

But what about our neighbours to the south? US President Joe Biden recently released his 2024 budget for the fiscal year beginning October 1. But unlike budgets in our British-inspired parliamentary systems, the budget unveiled by the White House on March 9 is unlikely to become law. In fact, it's actually a budget request—a statement of the policies and measures the president would like Congress to enact. That's because Congress has the power of the purse. It starts by passing a budget resolution that sets spending limits for the fiscal year. It then passes appropriation bills to fund the various federal departments and agencies. That's how it should work, anyway. Congress is supposed to pass a budget resolution by April 15, but they haven't met this deadline since FY 2004. There are usually intense budget negotiations between both houses of Congress and the White House. If they do reach a budget deal, it bears little resemblance to the president's initial wish list. Increasingly, the budget process drags on past the start of the fiscal year on October 1. Hence the need for short-term funding bills to prevent a federal government shutdown.

A Look at the US Government's Finances

Before we dig into President Biden's budget for fiscal year 2024, let's see where things currently stand. The US ran a deficit of US$1.38 trillion in FY 2022, which ended on September 30. That's down sharply from the so-called pandemic deficits of US$2.78 trillion in 2021 and US$3.13 trillion in 2020, but higher than 2019's shortfall of US$983.6 billion. As a share of GDP, the deficit soared from 4.6% in 2019 to a record high 14.9% in 2020 before dropping to 12.3% in 2021 and 5.5% in 2022. The federal debt held by the public surged from 79.4% of GDP in 2019 to 97.0% in 2022.

And it seems to have gotten worse this fiscal year. In February, the 12-month deficit stood at US$1.62 trillion, or 6.1% of projected first quarter GDP. Last month, the Congressional Budget Office (CBO) forecast a deficit of US$1.41 trillion (5.3% of GDP) for fiscal 2023, while President Biden's 2024 budget projects a deficit of US$1.57 trillion (6% of GDP) at the end of FY 2023.

The pandemic and government relief programs drove large deficits and ballooned the debt. Add to that the Trump tax cuts passed in late 2017 and the parts of President Biden's agenda that have been signed into law. According to the CBO, the Inflation Reduction Act passed last summer should reduce the 2023 deficit by $17.8 billion, but the bipartisan infrastructure plan enacted in 2021 will add an estimated US$8.9 billion to the FY 2023 deficit.

President Biden's 2024 Budget

The White House's proposed budget released on March 9 doesn't include any immediate improvement in the federal government's financial position. If Congress were to pass President Biden's budget as-is (and the US economy grows as assumed in the plan), the federal government would run an estimated deficit of US$1.85 trillion in the fiscal year beginning October 1

So what's in this budget? Let's start by saying it's 184 pages long with 1,840 pages of appendices and supplemental materials, plus countless spreadsheets and historical tables. In other words, it's hard to summarize. And US budgets always have a ten-year window, meaning the Biden budget covers FY 2024 through FY 2033.

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It features new spending of US$2.23 trillion over ten years as well as tax cuts and tax credit enhancements totalling US$615 billion. Key measures include expanding access and funding for childcare and preschool, establishing a national parental and sick leave plan, making community college free and expanding coverage of the Affordable Care Act (Obamacare). It would also extend and expand tax credits for families and workers.

The budget identifies funding sources and spending cuts that would offset the cost of the proposed measures. It contains US$574 billion in spending reductions over 10 years, including lower prescription drug and other health costs and more moderate growth in military spending. But it relies heavily on US$4.96 trillion in tax increases. It calls for raising the corporate tax rate from 21% to 28%, overhauling international tax rules and changing the tax structure for the wealthy, businesses and the self-employed. The president's budget assumes that deficits will fall by about US$3 trillion over ten years compared to a baseline forecast.

Despite these efforts to put public finances on a sounder footing, there's no plan to return to a balanced budget. (The federal government hasn't run a surplus since 2001.) Deficits are expected to decline over the next three years, falling to "just" US$1.57 trillion by fiscal year-end 2027. Starting in 2026, deficits are expected to be around 5% of GDP. The federal fiscal situation isn't expected to improve significantly over the medium to long term as social program and debt servicing costs continue to rise.

The economic assumptions underlying this budget are relatively modest. The White House is forecasting real GDP growth of 0.6% in 2023, 1.5% in 2024 and 2.3% in 2025. This is fairly consistent with our forecast of 0.9% in 2023, 1.4% in 2024 and 2.9% in 2025. But the president's budget projects a smaller increase in the unemployment rate. It sees it rising to just 4.6% in 2024, while we predict it will hit 5.1%. It should be noted, however, that both our forecast and the president's are fraught with uncertainty, and downside risks have been mounting amid the recent turmoil in the banking sector.

A Divided Congress Means the Budget Is Dead on Arrival

It's virtually impossible for a president to get their budget passed by Congress as written. Members of both houses can propose their own budgets and add amendments as they hash out a deal. These negotiations are easier when the same party controls both houses of Congress and the White House, but more challenging when Congress is divided like it is right now. Currently, the Democrats control the White House and the Senate, while the Republicans control the House of Representatives. And House leaders have already come out against most of the proposals in the president's 2024 budget.

Meanwhile debt ceiling talks are ongoing. Since the debt limit was reached on January 19, the US Treasury has been taking extraordinary measures to fund the government without issuing new debt. It can probably continue to do so until June, if not later. But time is quickly running out. Congress and the White House will eventually need to reach an agreement to keep the federal government running and avoid a default. So far, both sides remain entrenched. As a condition for raising the debt limit, one group of Republicans proposed cuts ranging from US$2.9 to US$3.7 trillion over ten years—including US$275 to US$775 billion by 2025—and measures that run counter to the president's priorities.

Talks will continue over the coming weeks and only intensify as we approach the debt ceiling deadline. These negotiations will obviously take precedence over the Biden budget as well as the other budget proposals that will emanate from a divided Congress. But the parties' contrasting visions for the role of the federal government contained in those budget proposals are sure to feature prominently in the 2024 presidential election.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Francis Généreux, Principal Economist, Marc-Antoine Dumont, Economist and Maëlle Boulais-Préseault, Economist

UNITED STATES

TUESDAY, March 28 - 9:00

January	y/y
Consensus	n/a
Desjardins	2.4%
December	**4.7%**

S&P/Case-Shiller index of existing home prices (January) – Existing home prices fell again in December, their third successive 0.5% monthly drop. However, this pace remains slower than the average 1.3% dip that we saw in August and September. Although some housing market indicators appear to be stabilizing, prices are likely to continue falling. We're forecasting a 0.6% decline in January. We also think year-over-year price growth will slow sharply from 4.7% to 2.4%.

TUESDAY, March 28 - 10:00

March	
Consensus	101.5
Desjardins	102.2
February	**102.9**

Conference Board consumer confidence index (March) – The Conference Board index lost 3.1 points in February, continuing a similar trend after shedding 3.0 points in January. However, at 102.9, the index is still higher than it was in November. We expect a further decline in March. The banking sector turmoil and resulting slump in the major stock market indexes probably spooked US households. However, gasoline prices have remained relatively stable and mortgage rates have dropped. The labour market also remains very strong and unemployment claims are still very low. All things considered, we expect the Conference Board index to edge down to 102.2.

FRIDAY, March 31 - 8:30

February	m/m
Consensus	0.3%
Desjardins	0.0%
January	**1.8%**

Consumer spending (February) – After a difficult holiday season, real consumer spending surged in early 2023. Excluding the spikes caused by the pandemic and the various stimulus plans, January's 1.1% gain was the biggest since data began being published. We're expecting a much calmer February. New motor vehicle sales and retail sales both dipped last month, suggesting that consumption is declining. We also think spending in the food services sector will contract, but growth in energy demand should mitigate the impact on total spending on services. Overall, we expect real consumer spending to fall 0.3%. Combined with the projected 0.3% increase in the Personal Consumption Expenditures deflator, nominal consumption is likely to be flat.

CANADA

FRIDAY, March 31 - 8:30

January	m/m
Consensus	n/a
Desjardins	0.4%
December	**-0.1%**

Real GDP by industry (January) – Real GDP by industry is expected to have advanced by 0.4% in January, following a 0.1% contraction in December. This is modestly above Statistics Canada's flash estimate of 0.3%. Goods-producing sectors are the primary drivers of our optimistic outlook for January GDP. Indeed, December's decline in mining, quarrying, and oil and gas extraction activity due to unplanned maintenance looks to have reversed in the month, while manufacturing sales volumes and auto production increased sharply. At the same time, despite lower residential housing sales and starts, real construction moved higher in January. Services-producing sectors are also likely to have advanced, albeit at a more modest pace. For instance, real retail sales and wholesale trade posted substantial gains. Meanwhile, a rebound in rail activity following severe weather in December should move transportation and warehousing higher to start the year. Looking ahead to February real GDP growth, Statistic's Canada flash estimate is expected to come in within the +0.1% to +0.2% range, a marked slowdown from the January advance but still respectable.

THURSDAY, March 30 - 21:30	
March	**Index**
Consensus	n/a
February	**56.4%**

FRIDAY, March 31 - 5:00	
March	**y/y**
Consensus	7.2%
February	**8.5%**

OVERSEAS

China: Composite PMI (March) – China's PMIs reflected a sharp improvement in the economy in early 2023. The composite index surged 10.3 points in January and another 3.5 points in February. As there are few other indicators to gauge the pulse of the economy during the Lunar New Year period, March's PMI prints will give us a better idea of whether this economic rebound has continued or if it's starting to lose steam.

Eurozone: Consumer Price Index (March, preliminary) – Eurozone inflation continues to ease. The all items index was up 8.5% year-over-year in February, down sharply from October's 10.6% peak. The most recent decline is mainly due to base effects, as the index increased 0.8% month-over-month in February. Furthermore, the all items less food and energy index continues to rise. Preliminary data for March will provide more information on price trends in the eurozone.

Economic Indicators

Week of March 27 to 31, 2023

Day	Time	Indicator	Period	Consensus	Desjardins	Previous data
UNITED STATES						
MONDAY 27	17:00	Speech by Federal Reserve Governor P. Jefferson				
TUESDAY 28	8:30	Goods trade balance – preliminary (US$B)	Feb.	-89.9	-90.7	-91.5
	8:30	Retail inventories (m/m)	Feb.	n/a	n/a	0.3%
	8:30	Wholesale inventories – preliminary (m/m)	Feb.	n/a	n/a	-0.4%
	9:00	S&P/Case-Shiller home price index (y/y)	Jan.	n/a	2.4%	4.7%
	10:00	Consumer confidence	March	101.5	102.2	102.9
WEDNESDAY 29	---	---				
THURSDAY 30	8:30	Initial unemployment claims	March 20–24	n/a	196,000	191,000
	8:30	Real GDP – third estimate (ann. rate)	Q4	2.7%	2.7%	2.7%
	12:45	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	12:45	Speech by Federal Reserve Bank of Boston President S. Collins				
FRIDAY 31	8:30	Personal income (m/m)	Feb.	0.3%	0.2%	0.6%
	8:30	Personal consumption expenditures (m/m)	Feb.	0.3%	0.0%	1.8%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	Feb.	0.3%	0.3%	0.6%
		Excluding food and energy (m/m)	Feb.	0.4%	0.3%	0.6%
		Total (y/y)	Feb.	5.1%	5.1%	5.4%
		Excluding food and energy (y/y)	Feb.	4.7%	4.7%	4.7%
	9:45	Chicago PMI	March	43.6	42.5	43.6
	10:00	University of Michigan consumer sentiment index – final	March	63.4	63.4	63.4
	10:00	Testimony of Federal Reserve Vice Chair M. Barr before a House committee				
	15:00	Speech by Federal Reserve Bank of New York President J. Williams				
	16:00	Speech by Federal Reserve Governor C. Waller				
	17:45	Speech by Federal Reserve Governor L. Cook				
CANADA						
MONDAY 27	---	---				
TUESDAY 28	---	2023 Federal Budget				
WEDNESDAY 29	12:30	Speech by Bank of Canada Deputy Governor T. Gravelle				
THURSDAY 30	---	---				
FRIDAY 31	8:30	Real GDP by industry (m/m)	Jan.	n/a	0.4%	-0.1%

NOTE: Desjardins, Economic Studies are involved every week in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. The times shown are daylight saving time (GMT - 4 hours). Forecast of Desjardins, Economic Studies of the Desjardins Group.

Economic Indicators

Week of March 27 to 31, 2023

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous data m/m (q/q)	Previous data y/y
OVERSEAS							
MONDAY 27							
Japan	1:00	Coincident index – final	Jan.	n/a		96.1	
Japan	1:00	Leading indicator – final	Jan.	n/a		96.5	
Germany	4:00	Ifo survey – business climate	March	91.0		91.1	
Germany	4:00	Ifo survey – current situation	March	94.1		93.9	
Germany	4:00	Ifo survey – expectations	March	88.0		88.5	
Eurozone	4:00	M3 money supply	Feb.		3.2%		3.5%
TUESDAY 28							
France	2:45	Business confidence	March	103		103	
France	2:45	Production outlook	March	0		0	
Italy	4:00	Consumer confidence	March	104.0		104.0	
Italy	4:00	Economic confidence	March	n/a		109.1	
WEDNESDAY 29							
Germany	2:00	Consumer confidence	April	-29.5		-30.5	
France	2:45	Consumer confidence	March	81		82	
THURSDAY 30							
Italy	4:00	Unemployment rate	Feb.	8.0%		7.9%	
Eurozone	5:00	Consumer confidence – final	March	n/a		-19.2	
Eurozone	5:00	Economic confidence	March	99.8		99.7	
Eurozone	5:00	Industrial confidence	March	0.5		0.5	
Eurozone	5:00	Services confidence	March	9.8		9.5	
Germany	8:00	Consumer price index – preliminary	March	0.7%	7.3%	0.8%	8.7%
Mexico	15:00	Bank of Mexico meeting	March	11.25%		11.00%	
Japan	19:30	Tokyo Consumer Price Index	March		3.2%		3.4%
Japan	19:30	Unemployment rate	Feb.	2.4%		2.4%	
Japan	19:50	Retail sales	Feb.	0.4%	5.9%	1.9%	6.3%
Japan	19:50	Industrial production – preliminary	Feb.	2.7%	-2.1%	-5.3%	-3.1%
China	21:30	Composite PMI	March	n/a		56.4	
China	21:30	Manufacturing PMI	March	51.8		52.6	
China	21:30	Non-manufacturing PMI	March	54.3		56.3	
FRIDAY 31							
Japan	1:00	Housing starts	Feb.		-0.5%		6.6%
Germany	2:00	Retail sales	Feb.	0.5%	-5.2%	-0.3%	-4.6%
United Kingdom	2:00	Nationwide house prices	March	-0.5%	-2.4%	-0.5%	-1.1%
United Kingdom	2:00	Real GDP – final	Q4	0.0%	0.4%	0.0%	0.4%
United Kingdom	2:00	Current account (£B)	Q4	-17.4		-19.4	
France	2:45	Personal consumption expenditures	Feb.	0.0%	-3.6%	1.5%	-3.7%
France	2:45	Consumer price index – preliminary	March	0.7%	5.6%	1.0%	6.3%
Italy	5:00	Consumer price index – preliminary	March	0.0%	8.3%	0.3%	9.2%
Eurozone	5:00	Consumer price index – preliminary	March	1.1%	7.2%	0.8%	8.5%
Eurozone	5:00	Unemployment rate	Feb.	6.6%		6.7%	

Note: In contrast to the situation in Canada and the United States, disclosure of overseas economic figures is much more approximate. The day of publication is therefore shown for information purposes only. The abbreviations m/m, q/q and y/y correspond to monthly, quarterly and yearly variation respectively. The times shown are daylight saving time (GMT - 4 hours).