The U.S. federal deficit deteriorates—a first since 2009

The financial crisis was a burden on U.S. government finances. Between 2007 and 2009, the deficit exploded from US$161.5B to US$1,415.7B. The situation with the U.S. budget has improved since then. The deficit started to retract as of 2010 and stagnated in 2011. Economic improvements, the mitigation of program costs to jump-start the economy, some tax increases, the disengagement of the military in the Middle East and better control of discretionary spending following the debt ceiling crisis in 2011 all contributed to reducing the deficit. As such, the budget deficit fell to -US$439.1B in 2015, or only -2.4% of GDP.

The improvements in U.S. public finances seem to have reached an end. Published last Friday, the results for fiscal 2016, which ended in September, show a deficit of US$587.4B—3.2% of GDP.

Several factors explain this deterioration. In terms of revenues, corporate taxes have fallen significantly. Two factors appear to be driving this decline: reduced corporate profits, partly due to the drop in energy prices, and a strong dollar. Secondly, a tax change led to a jump in investment deductions. In terms of government expenditures, healthcare services for seniors and low income earners posted the sharpest increases.

Implications: Fiscal 2016 may mark the start of a new period of dwindling public finances in the United States. For the next 10 years, the Congressional Budget Office is expecting the deficits to expand at a fairly steady pace. This deterioration would stem mainly from an increase in spending tied to the aging of the population (health and public retirement plan). With interest rates currently at low levels, this is not a problem right now. However, budget constraints may become a bigger challenge for the next occupant of the White House.