The U.S. Federal Debt Ceiling Has Gone Over US$20,000B

On September 8, the U.S. federal debt ceiling went over US$20,000B for the first time. It leaped by US$318B from September 7 to 8, when the legal debt ceiling was postponed to December 8 after President Donald Trump made an agreement with the Democratic leaders in Congress. Before that the total debt had been at US$19,844B since March. As of September 22 it was at US$20,182B.

Not all of this debt is in the financial markets. A sizeable portion, around 27% ($US5,552B as at September 22), is held by the federal government itself in various funds. The Treasury Department can manipulate those funds to keep the government working when the legal debt ceiling has been reached, as it did during the spring and summer.

The federal debt held by the public was at US$14,630B on September 22. That is the outstanding amount that is usually traded on the bond markets. In July some US$6,250B was in foreign hands and the Federal Reserve held about US$2,500B.

While the total debt has doubled since reaching US$10,000B in the fall of 2008, public debt expressed as a percentage of GDP had an almost equally abrupt spike. The ratio was 39.1% in September 2008 and is now 76.0%.

IMPLICATIONS

Future deficits in the United States should continue to increase the federal debt. The Congressional Budget Office is expecting a public debt that would reach 91% of the GDP in 2027, according to medium-term forecasts. That projection is based on current laws and programs coupled with forecasts of stable growth, although anything could change it. Drastic tax cuts, higher spending or a slowdown in the economic cycle could easily worsen the federal government’s budget situation. Investors have been fond of federal securities during this cycle, and bond yields went down just as noticeably as the debt went up. But in the long run we cannot rule out that indebtedness could return as an influential factor on bond yields.

Francis Généreux, Senior Economist

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François Dupuis, Vice-President and Chief Economist • Mathieu D’Anjou, Senior Economist
Benoît P. Durocher, Senior Economist • Francis Généreux, Senior Economist • Jimmy Jean, Senior Economist • Hendrix Vachon, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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