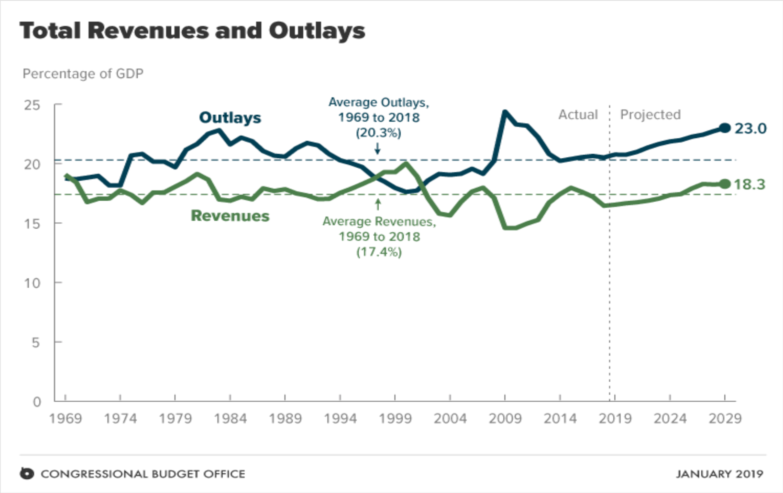
PRIVATE ASSET MANAGEMENT, INC.
WEALTH STRATEGY ADVISORS
PARADIGM

March 2019

The Congressional Budget Office (CBO) recently updated its ten-year federal budget forecast. As in the past, we find it useful to review the data and pass on some salient points we hope you find of interest.

The recent update incorporates data from the 2017 tax act, recent trends in spending, plus thoughts on tariffs and the partial shutdown. Unfortunately, given disagreements about future economic growth (2% or 3%) , the long-term outlook for inflation and interest costs, plus the 2025 expiration of certain tax cut benefits, it is harder than normal to draw specific conclusions from the update. Finally, remember these projections are "under current law," which will change.

In the graph below, Revenues and Outlays are shown as a percentage of Gross Domestic Product (GDP) along with the average for the past 50 years. Outlays have averaged 20.3% of GDP over the past 50 years and are expected to rise to 23% of GDP by 2029. Revenues have averaged 17.4% of GDP over the past 50 years. They decrease this year due to the 2017 tax act and are expected to rise substantially post-2025 when certain tax laws are scheduled to phase out.


Total Revenues and Outlays

CONGRESSIONAL BUDGET OFFICE
JANUARY 2019

The U.S. **budget deficits relative to GDP** are well above long-term averages. For 2019, the deficit is projected to be $900 billion or 4.2% of GDP. Deficits are expected to average 4.3% of GDP over the next 10 years (2019—2028) compared to an average of 2.9% over the past 50 years (1969—2018).

According the CBO's analysis, the **recent tax cuts** are expected to add to deficits. The CBO's future GDP growth rate in real terms is roughly 2%. Real GDP growth would have to be 3% for several more years for the tax law changes to pay for themselves.

Perhaps the most interesting aspects of the forecast is a **decrease for some Outlays** from the last update. Part of this is in the form of discretionary spending. Two examples referenced are spending in Afghanistan plus less emergency spending on items such as fires and hurricanes. Another part of the decrease is due to lower projected interest expense. This is the function of lower forecasted interest rates from the last update.

The CBO also included estimates for recent events. We pass the data on so you can appreciate how hard it is to "turn the dial" on the American economic machine.

The "CBO projects that the recent **changes in trade policy** in the United States and its trading-partner countries will reduce the level of U.S. real GDP by about 0.1 percent by 2022". The CBO admits that forecasting errors for this data could be larger. Also, the impact on specific businesses (soybeans and steel come to mind) will be materially different than the 0.1% figure.

The effect of the **partial government shutdown** on 2019's GDP will be negligible. The level of real GDP in the first quarter is likely to be reduce by 0.2%. However, most but not all of the lost GDP is likely to be recovered during the remainder of 2019. The result is that for the full year, GDP is expected to be 0.02% smaller that it would have been.

The CBO continues to be concerned about future deficits caused by higher spending on the Baby Boomers plus the high likelihood that interest rates will ultimately increase. Higher future deficits have the CBO worried about the government's flexibility and horsepower when the next recession or financial tremor arises.

Budgetary clouds are clearly on the horizon. However, the CBO seems to stress "in the future" and not "imminent". We will keep you updated.

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