

Sober up America

By Warren Lovely & Taylor Schleich

As far as sobering reports go, the U.S. Congressional Budget Office (CBO) continues to be a veritable wellspring. Consider the non-partisan budget watchdog's latest 'Long-Term Budget Outlook'. This illustrative analysis—not to be confused with a government forecast—applies current laws to a reasonable economic scenario to highlight the status quo fiscal path the U.S. government is walking.

The good news? The trajectory for U.S. publicly held debt-to-GDP—one of the more closely watched leverage metrics—is no worse, actually a bit better, than the CBO previously flagged. But the fiscal fist bumps and budgetary back-patting ends there. Washington's debt load has pushed up to ~100% of GDP and is poised to breach the post-WWII high-water mark before the end of the decade. The slope of the debt curve is scary, even if not as steep as before.

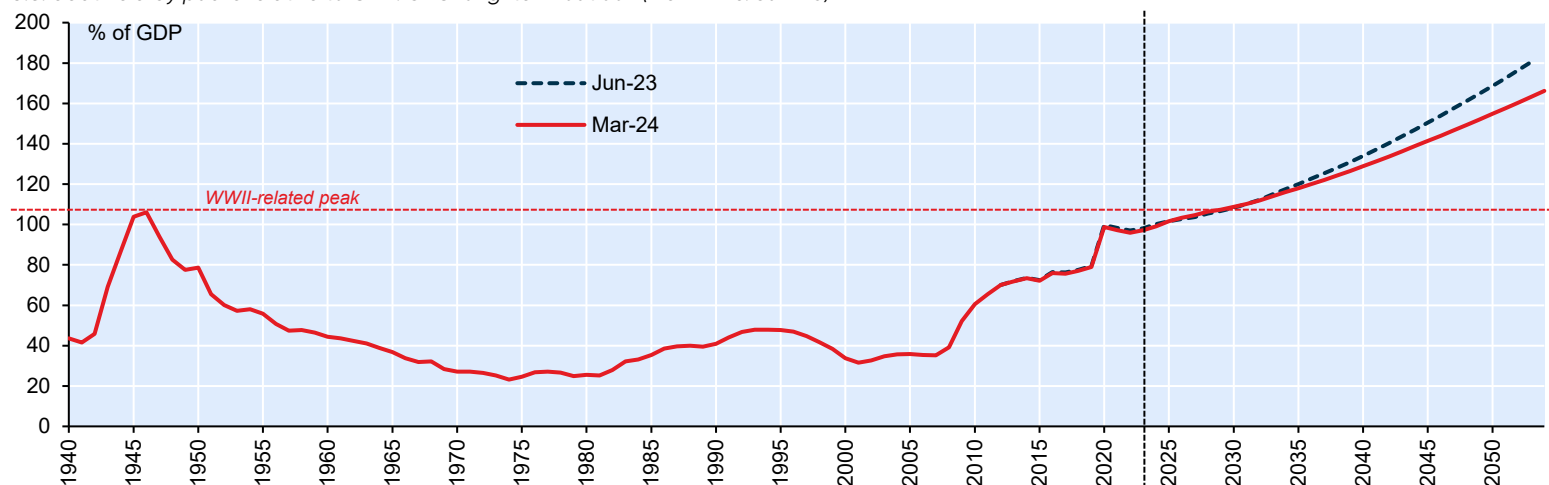
Converting to good ol' greenbacks can put the sheer magnitude of U.S. debt into perspective. Publicly held debt will breach the \$30 trillion mark in no time, the big-number debt thresholds approached ever faster. This means more and bigger Treasury auctions on an

almost perpetual basis. These dire debt dynamics are a function of a large structural budget deficit. On the face of it, Washington has less of a revenue problem and more an expenditure issue, the service of the public debt a noted sore spot. Interest is a growing deadweight loss, proving the point that 'there's no free lunch'... or 'no free debt'.

Canada's own independent fiscal watchdog—the Parliamentary Budget Officer (PBO)—recently provided its own assessment of Ottawa's finances. From a budgetary perspective, it may not be all roses and unicorns in Canada. And given stated commitments, the minority Liberals don't appear to have much fiscal wiggle room for new spending in Budget 2024, lest they opt for tax hikes (which we advise against, given the difficulty Canada already has attracting/retaining investment dollars). Still, if you want to see one area where Canada is hands down superior to the U.S., it's on long-term fiscal sustainability. And yes, that advantage still holds even if you measure, as one probably should, Canada's government sector more broadly, adding in the growing debt of provincial governments.

Chart 1: Latest CBO projections for U.S. debt somewhat less ugly... but this is still a seriously dangerous path to be walking

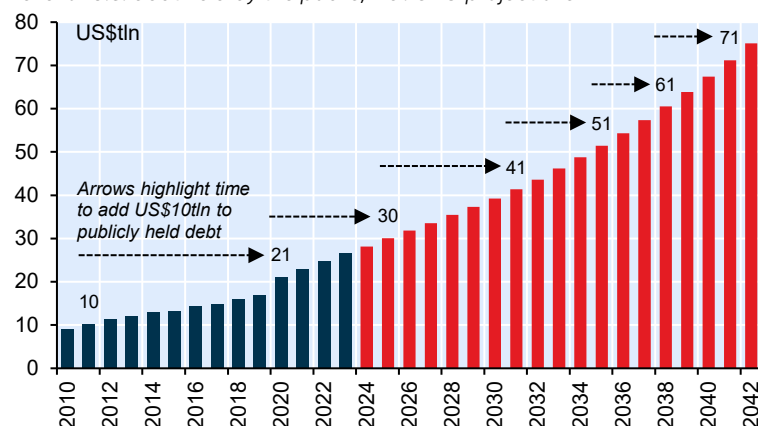
U.S. debt held by public relative to GDP: CBO long-term outlook (Mar-24 vs. Jun-23)



Source: NBF, CBO | Note: In all cases, CBO (& PBO) projections reflect existing/known public policies; subject to change as new government measures are introduced

Chart 2: U.S. public debt to (nearly) triple over next 20 years

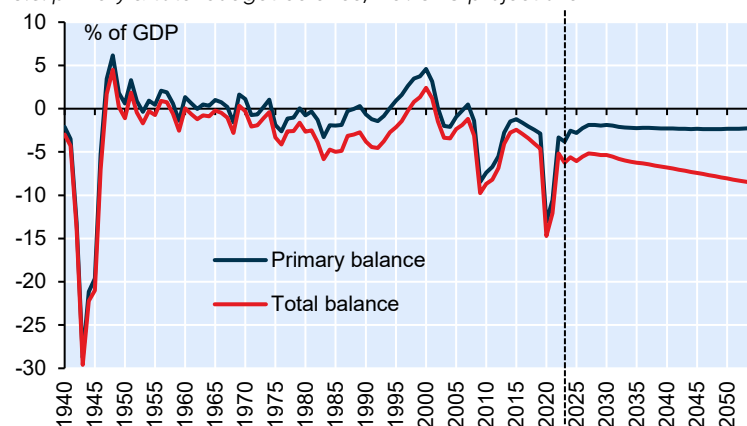
Level of U.S. debt held by the public, incl. CBO projections



Source: NBF, CBO

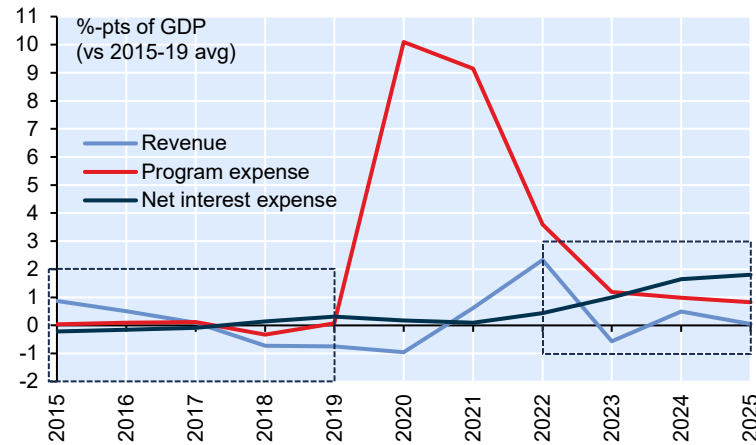
Chart 3: Ballooning interest charges to drive deficit pressure

U.S. primary & total budget balance, incl. CBO projections



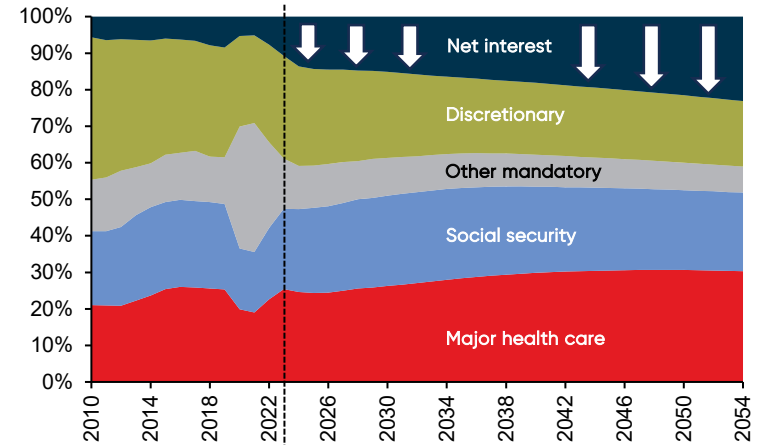
Source: NBF, CBO

Chart 4: Revenue back on trend... expenses not so much
U.S. core budget items relative to pre-COVID average (from 2015-19)



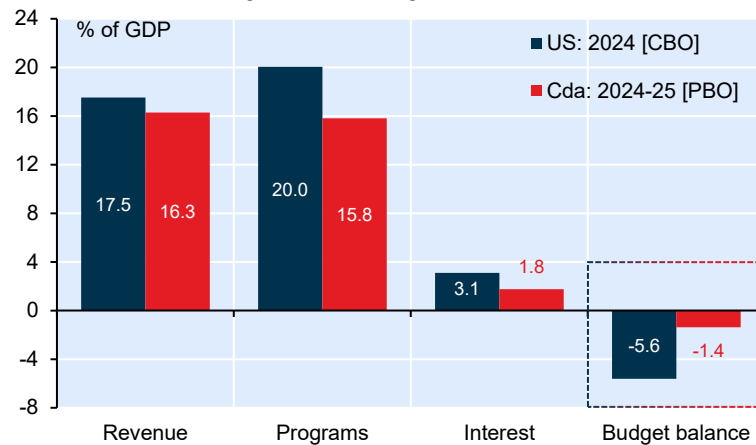
Source: NBF, CBO | Note: Program expense includes all items excl. net interest

Chart 5: Interest bill to squeeze discretionary spending
Share of U.S. government spending by major category, incl. CBO projections



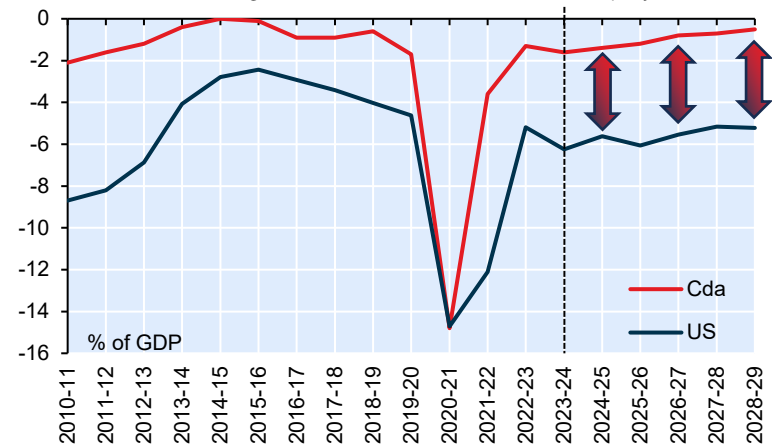
Source: NBF, CBO

Chart 6: Budgetary snapshot of two sovereign governments
U.S. vs. Canada central government budget metrics: Current outlook



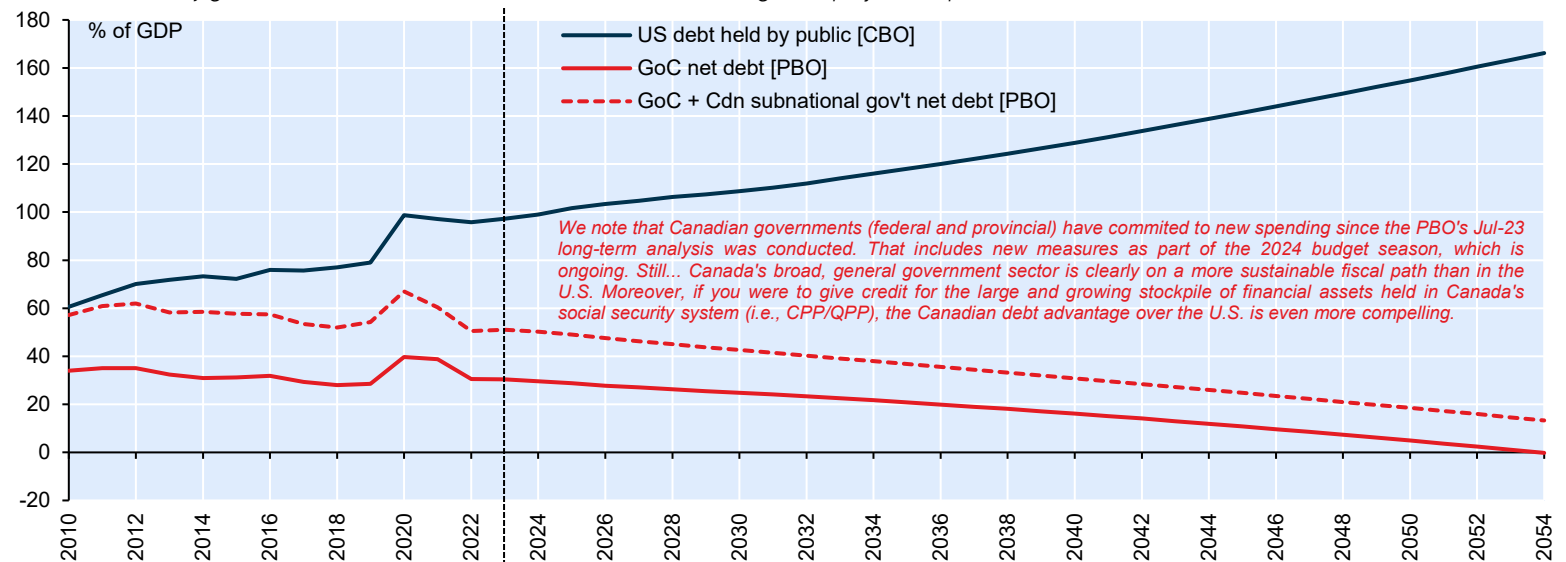
Source: NBF, CBO, PBO | Note: Central government only

Chart 7: Ottawa not perfect, but enjoys major edge vs. U.S.
U.S. vs. Canada central government balance, incl. CBO/PBO projections



Source: NBF, CBO, PBO

Chart 8: Independent long-term analysis shows Canada and U.S. government debt burdens growing further apart
U.S. vs. Canada key government debt-to-GDP measures, incl. CBO/PBO long-term projections | Please refer to embedded note in Chart



We note that Canadian governments (federal and provincial) have committed to new spending since the PBO's Jul-23 long-term analysis was conducted. That includes new measures as part of the 2024 budget season, which is ongoing. Still... Canada's broad, general government sector is clearly on a more sustainable fiscal path than in the U.S. Moreover, if you were to give credit for the large and growing stockpile of financial assets held in Canada's social security system (i.e., CPP/QPP), the Canadian debt advantage over the U.S. is even more compelling.

Source: NBF, CBO, PBO | Note: US projections based on Mar-24 CBO long-term report; Cda gov't net debt (central & subnational) based on Jul-23 PBO Fiscal Sustainability Report



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