

US Macroeconomics

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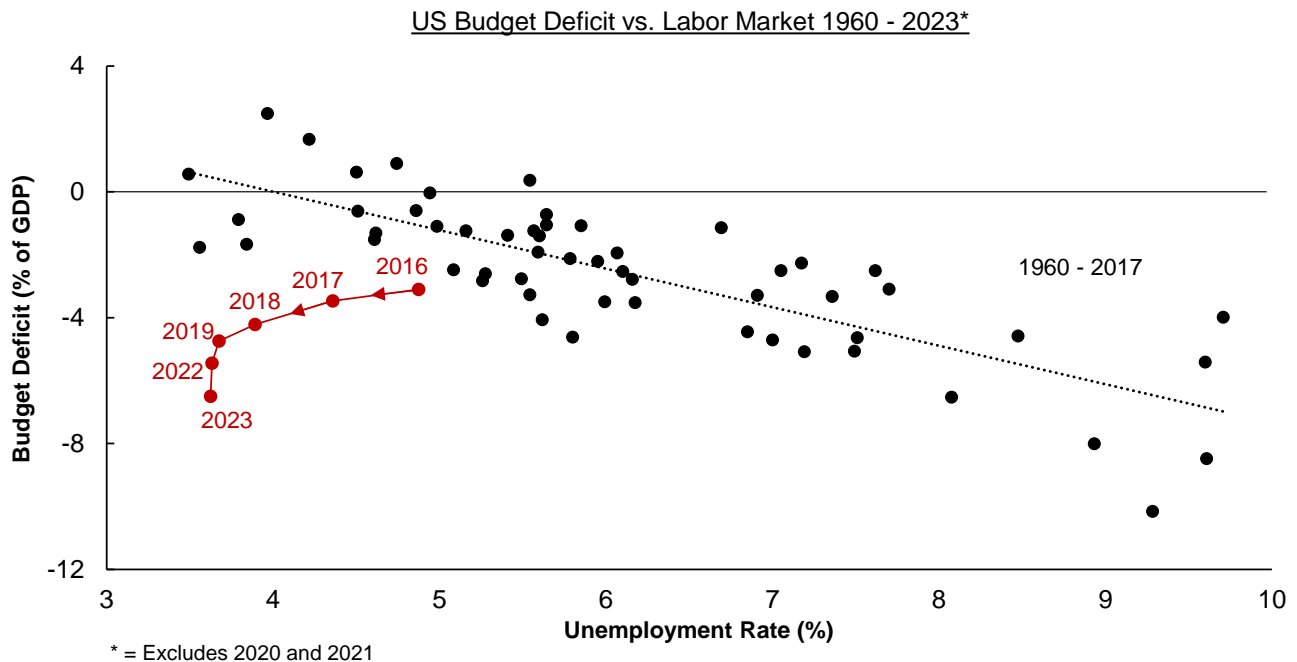
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Uncharted Waters

Most economists, analysts and policy wonks advocate for counter-cyclical fiscal policy. Meaning, the government should run budget deficits when the economy is weak and budget surpluses when the economy is strong. Unfortunately, this has almost never occurred outside of an exceptional few years between 1998 and 2001. **Even then, the recent demand-side fiscal stimulus against the backdrop of low unemployment is without precedent.** The US is running recession-esque budget deficits alongside full employment conditions with little prospect of improvement. **This partially explains the rates-defying economic buoyancy.**

Over the last several decades, budget deficits as a share of GDP have been on the rise. But take the last two fiscal years of 2022 and 2023, for example. These datapoints, as illustrated in the chart below, are outliers — far away from the fitted regression line. The budget deficit to GDP ratio rose from 5.4% in fiscal year (FY) 2022 to 6.3% in FY 2023 despite the constant, and ultra-low, 3.6% unemployment rate. To put this in context, the last time the unemployment rate averaged sub-4% readings in consecutive fiscal years was between 1966 and 1969. In those years, the US averaged just 0.9% deficits.

This matters for two reasons. First, excessive government spending has complicated the Fed’s goal of limiting inflationary pressures and slowing the economy. Second, whenever the next downturn comes, there may be less room for the federal government to institute a proper pro-growth framework in the event financial markets become uncooperative.



Source: BLS, US Treasury, BEA, Haver, SMBC Nikko

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