July 12, 2019

Economics Group

Jay H. Bryson, Acting Chief Economist
jay.bryson@wellsfargo.com • (704) 410-3274
Michael Pugliese, Economist
michael.d.pugliese@wellsfargo.com • (212) 214-5058

The Federal Debt Ceiling Outlook: An Update

At present, we still think the debt ceiling "X date" will fall in early October. However, there remains a risk that the "X date" will fall in late August/early September, a possibility complicated by the Congressional calendar.

Debt Ceiling Deadline Drawing Closer

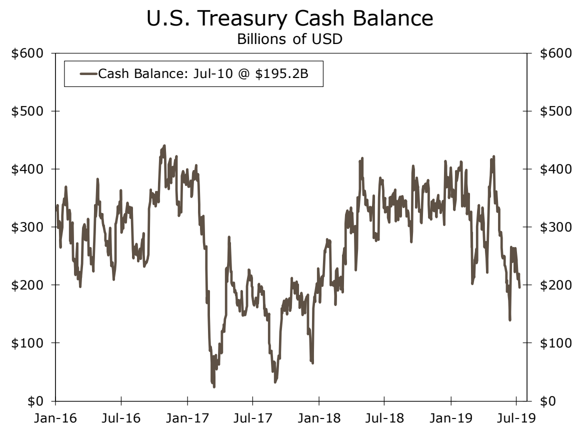
On May 2, we published a report on the federal debt ceiling outlook. At the time, we wrote that our baseline assumption was for the U.S. Treasury's "extraordinary measures to be exhausted sometime early in October, though we think there is a risk they could run out in late August instead."

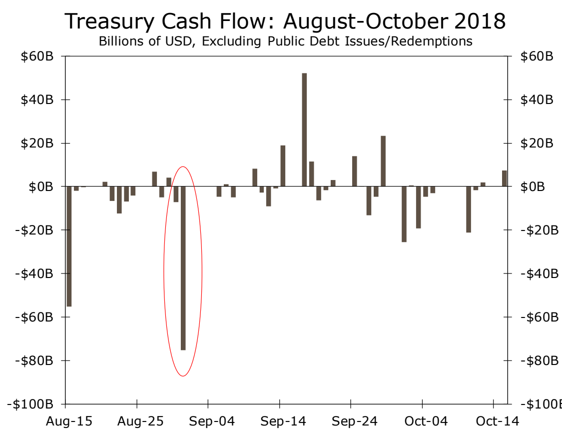
Our forecast has not changed since then. Our base case remains that the true "X date" will fall in the first week of October. But, the late August/early September period could bring the government *very* close to running out of cash. At present, the Treasury's cash balance is just shy of $200 billion (top chart). At the start of July, the remaining extraordinary measures available to the Treasury were probably another $100 billion or so. We project the budget deficit will total $262 billion over July and August, which if realized could leave the Treasury running very light on cash at the end of August.

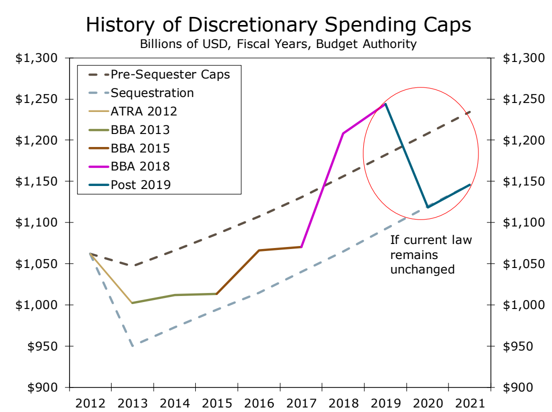
However, as we also discussed in our report from May, the monthly budget deficits do not tell the full story. The Treasury's actual daily cash flow is not evenly distributed over the course of a month. In order for the government to remain solvent into October, the key will be reaching the middle of September. Quarterly corporate tax payments are due on Sept. 15 and should provide an infusion of cash to the Treasury. Getting to Sept. 15, however, will require the Treasury to navigate a tricky period around Labor Day. The middle chart illustrates Treasury's daily cash flow from August-October 2018. As can be seen, there were large net outflows in late August, and when these outflows occur again this year, they could bring the Treasury's cash balance down to unusually low levels, probably sub-$100 billion (in "normal" times, the Treasury's cash balance is $300-$400 billion).

The Congressional calendar adds an additional wrinkle to this debt ceiling calculus. At present, the House of Representatives is scheduled to leave Washington, D.C. for its August recess on July 26, while the Senate is scheduled to finish up on August 2. Neither chamber is scheduled to return until Sept. 9, making it much more difficult for policymakers to react quickly if the "X date" ends up being closer than analysts currently expect.

Given the uncertainty, why not lift the debt ceiling before leaving town? Indeed, politicians on both sides of the aisle have stated that they do not want to put the full faith and credit of the U.S. government at risk. The challenge is that policymakers in both parties have a strong preference to tie a debt ceiling vote to a broader budget deal. As we have discussed previously, if the federal government does not have a budget in place past Sept. 30, and if no deal is reached by then, the government would enter a partial shutdown on Oct. 1, and large spending cuts would automatically take place a couple months later (bottom chart). The uncertain fiscal outlook is one more factor likely to tilt the Fed towards a 25 bps rate cut at its meeting later this month.







Source: U.S. Department of the Treasury, Congressional Research Service, CBO and Wells Fargo Securities

Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

WELLS FARGO SECURITIES