

Economics Group

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Capitol Hill Update: Government Shutdown Avoided, for Now

This week Congress passed a continuing resolution (CR) to keep the federal government funded until Dec. 9. We caution that the budget debate in December following the election could be contentious.

Short-Term Agreement Leaves Many Issues to Be Resolved

After a week of political wrangling over a funding bill, Congress passed a short-term patch to keep the federal government funded until Dec. 9. The CR adopts FY 2016's budget levels and then applies a 0.496 percent across-the-board reduction to all spending categories to stay below the revised budget caps established last November. Besides providing 10 weeks of funding for government operations, the CR provides full-year appropriations for the Veterans Affairs Department and for military construction projects along with emergency funding provisions for combating the Zika virus and disaster aid for flooded areas.

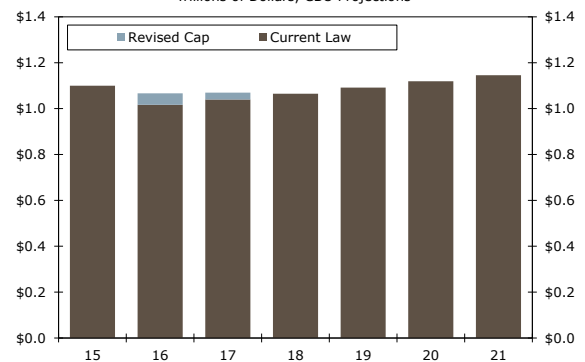
The final version of the legislation as scored by the Congressional Budget Office (CBO) shows an annualized discretionary spending level of \$1.21 trillion for federal FY 2017 compared to an estimated \$1.18 trillion in FY 2016. While it is difficult to draw any conclusions about full fiscal-year funding based on the estimated outlays from this short-term CR, should Congress more or less maintain the same annualized spending levels, the result would be a 2.5 percent increase in discretionary outlays for FY 2017. Until a longer-term budget resolution is enacted in December, we are maintaining our view of a federal budget deficit of \$620 billion in FY 2017.

After accounting for inflation and the composition of federal spending, we expect federal expenditures within GDP to rise 1.5 percent in calendar year 2017 compared to an estimated 0.8 percent pace in calendar year 2016. The slightly higher federal spending is due to higher federal discretionary outlays and in particular higher outlays for military construction activities. Even with somewhat stronger federal contributions to GDP growth next year, the continued pressures on state and local governments from higher Medicaid costs stemming from the Affordable Care Act and ongoing challenges with public pension liabilities are expected to slow the contribution of state and local spending in calendar year 2017. On net, we expect total government spending to fall slightly from an estimated 1.8 percent in calendar year 2016 to just 0.9 percent in 2017.

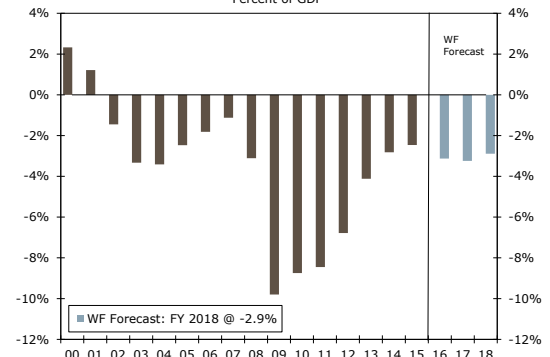
Expect a Tougher Fight Post-Election

Following the election, Congress will return on Nov. 14 to try to hammer out a longer-term budget deal to keep the government funded beyond Dec. 9. Should the election results indicate that control of either or both chambers of Congress flip party control, we expect a contentious and down-to-the-wire debate over government funding will take place. If this should transpire, we see a higher probability of a partial government shutdown in December. Our baseline case in December will be for another short-term CR to keep the government funded until March 15, at which point the 115th Congress will need to address federal funding and the need to lift the debt ceiling.

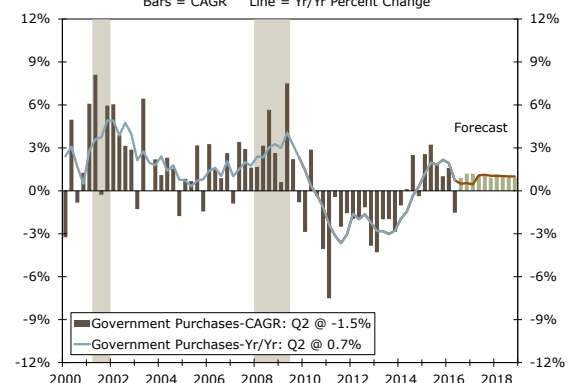
Changes to Discretionary Budget Authority
 Trillions of Dollars, CBO Projections



Federal Budget Balance
 Percent of GDP



Real Government Purchases
 Bars = CAGR Line = Yr/Yr Percent Change



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