

## Economics Group

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# Federal Deficit Widens; Funding, Debt Ceiling Battles Loom

*The federal budget deficit was \$42.9 billion in July and \$566.0 billion through the first 10 months of the fiscal year. When Congress returns, it has just a few weeks to fund the government and raise the debt ceiling.*

## Federal Revenue Growth Shows Signs of Life

The federal budget deficit widened in July despite an uptick in revenue growth. As illustrated in the top chart, federal revenues increasingly look like they have turned the corner amid steady employment growth and strengthening corporate profits. July had one more Monday this year than last, which bolstered the monthly numbers, but on a fiscal year to date basis withheld individual income tax collections were up a solid 6.1 percent.

On the outlays side, procurement spending by the military has reached a multi-year high on a year-over-year, 12-month moving average basis (middle chart). Early indications in Congress are that this category of spending is in store for another boost next fiscal year. If realized, this would help jolt government's contribution to real GDP growth, which until the last quarter had been somewhat lackluster.

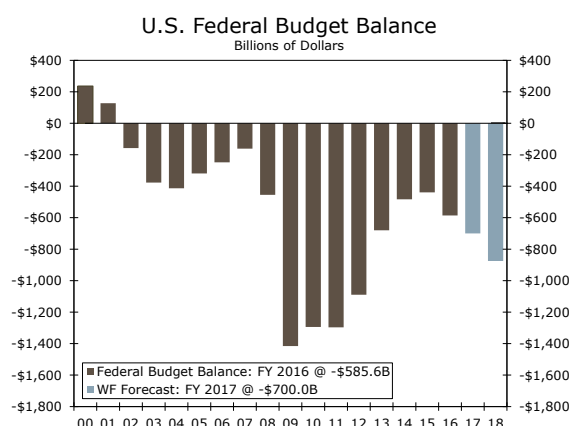
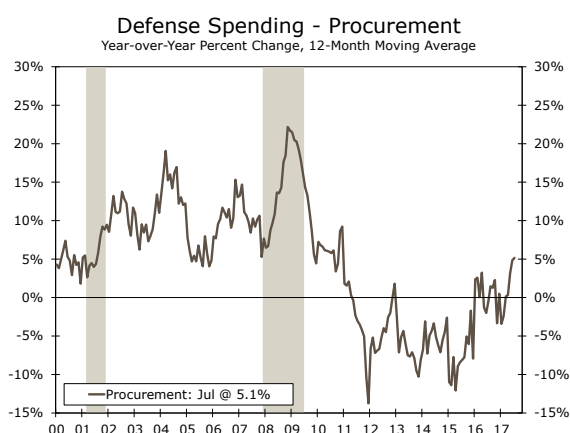
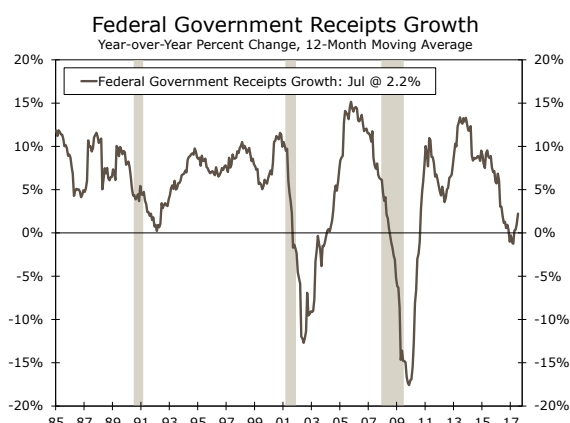
## The Wheels on the Bus Go Nowhere Fast

When Congress returns on September 5, it faces two separate but related issues that must be addressed: funding the government and raising the debt ceiling.

By the letter of the law, Congress must pass 12 appropriation bills each year to fund the government. To simplify matters, policymakers often combine the 12 bills into one giant bill (an "omnibus") or multiple smaller packages (a "minibus").\* Thus far, the House has passed just four appropriation bills, packaged into one minibus, and the Senate has passed zero appropriation bills. With time scarce, we expect Congress will pass a continuing resolution by the end of September to keep the government funded through December. At that point, an omnibus style agreement may occur that would fund the government through the remainder of the fiscal year.

On the debt ceiling front, we expect Congress to eventually pass a "clean" bill that does not include deep spending cuts or other policy riders. The timeline is tight, however, as Treasury Secretary Mnuchin has cited September 29 as the date by which policymakers must act. This matches our own analysis, as September 29 is a Friday, and the following Monday will be the first day of October and of the new fiscal year, meaning several scheduled payments will be imminent. Complicating matters further, the House is scheduled to be on recess the week of September 18-22.

We anticipate that the debt ceiling will be addressed some time in mid-September. If the debt ceiling is tied to the funding bill, however, this likely raises the probability that a debt ceiling increase will not occur until the final days of the month. This will be both the first debt ceiling hurdle for the new administration and the first time Republicans have addressed the debt ceiling with a unified government in more than a decade, so uncertainty will likely remain high throughout the month. Stay tuned.



Source: U.S. Department of the Treasury and Wells Fargo Securities

\*For more on this process, see our latest report: Brown, M.A & Pugliese, M. (2017). "[Demystifying the Federal Budget Process](#)"

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