

Chart of the Day



On Tuesday, June 18, the Congressional Budget Office (CBO) raised their projected US Gov’t FY2024 budget deficit to nearly \$2 trillion (-6.7%), the 3rd largest in US history after the COVID crisis deficits of 2020 and 2021. Publicly held US government debt is also expected to nearly equal the size of the US economy in 2024, at 99% of GDP.

The deficit shortfall represents a \$200 bn increase from FY 2023, and a \$400 billion increase from prior FY 2024 CBO projections released in February. According to the CBO, 80% of the unexpected increase arose from:

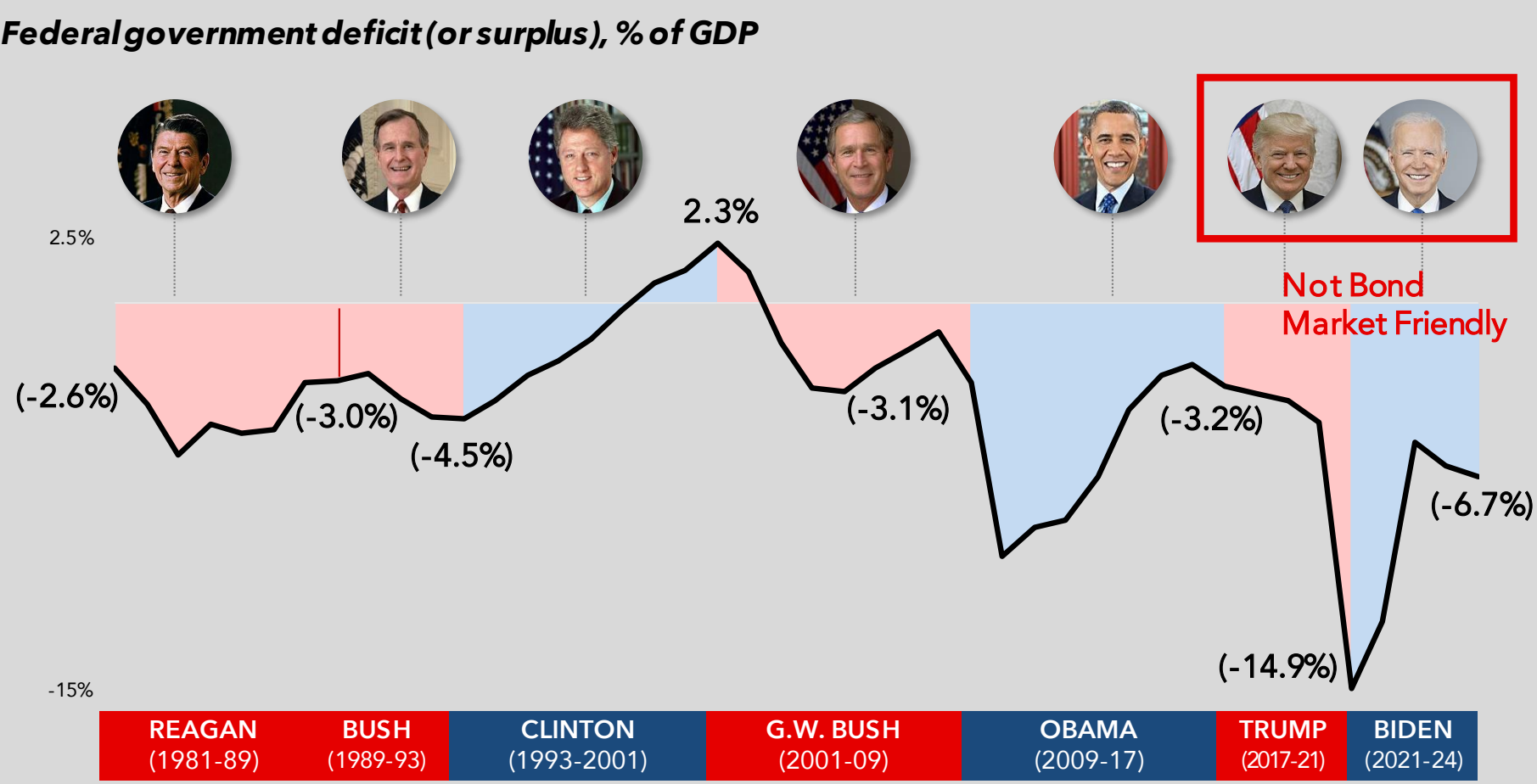
- \$145 bn additional outlays for student loans;
- \$70 bn in FDIC losses from 2023 bank failures;
- \$60 bn in funding for Ukraine, Israel and others in Indo-Pacific
- \$50 bn of additional Medicaid outlays

The magnitude and necessity of US deficits are difficult to fathom for a US economy that has been growing at above trend rates for two years now. However, rising deficits have plagued Washington for decades, with Bill Clinton the only US President in 50 years to finish his Presidential term with a surplus.

President Trump’s unfunded personal and corporate tax cuts (the TCJA) drove US deficits sharply higher in 2017, followed by massive COVID era stimulus. President Biden inherited the Trump tax-related deficits, added significant COVID stimulus, and sharply increased spending for legislative priorities including infrastructure, energy transition, semiconductors, student loan forgiveness and foreign aid.

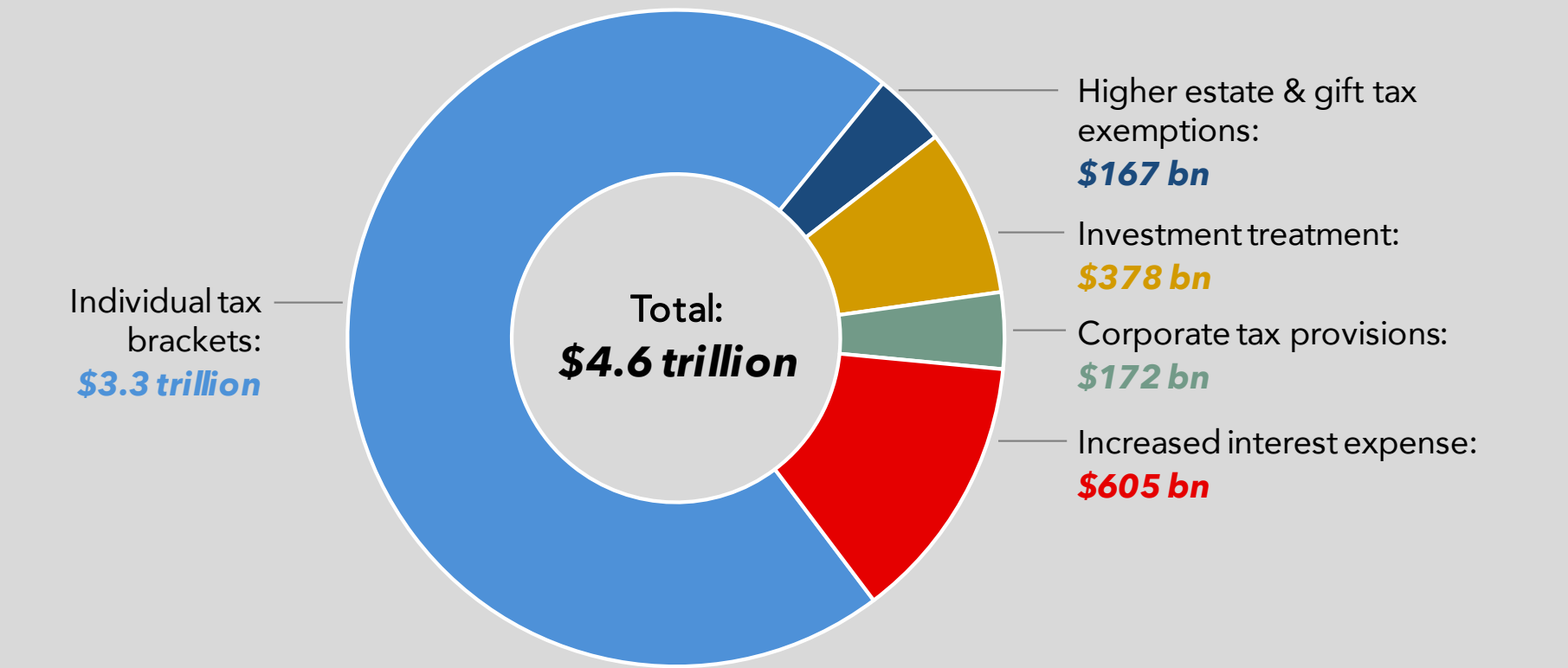
To be sure, neither side of the aisle has demonstrated an appetite for fiscal discipline, and we do not foresee that changing anytime soon, under either election outcome.

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Without an extension, many of President Trump’s TCJA tax cuts from 2017 will expire and revert to pre-TCJA levels after 2025. According to the CBO’s latest scoring, the cost of extending the expiring TCJA tax cuts would be nearly \$5 trillion over 10 years, with the extension of individual tax cuts alone accounting for over \$3 trillion. Under either 2024 US election outcome, Trump or Biden, we would expect a substantive portion of these unfunded tax cuts to be extended (though more so under President Trump and a Republican controlled US Senate).

10 year cost of extending the 2017 Trump Tax Cuts



Source: (1) Congressional Budget Office. Long-Term Budget Outlook 2024 to 2054. Historical Data on federal Debt Held by the Public. Bloomberg. Data as of June 19, 2024. 2023 FY deficit is actual. 2024 is CBO forecast as of June 2024. Oxford Economics, “Why CBO’s deficit projection doesn’t change the growth picture”. Data as of June 19, 2024. (2) Veda Partners (Treyz). CBO, “Budgetary Outcomes Under Alternative Assumptions About Spending and Revenue” (May 2024).

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“Macro stability isn’t everything, but without it, you have nothing.”