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Economics Group

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Just Another Final Hour Budget Deal

In the final hour, Congress completed its work to keep the government funded with the passage of a bill that funds most of the government through the end of the current federal fiscal year.

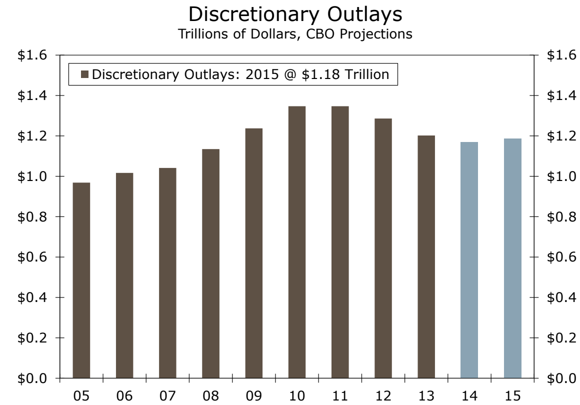
The Budget Deal: A CRomnibus?

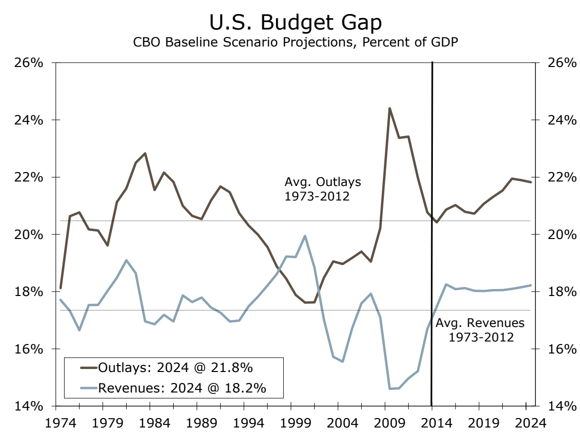
In typical fashion, the House and Senate passed a budget deal in the final hours to keep the government open. The debate last week over what should be included in the bill ended up preventing a larger agreement from being passed in time. Thus, two short-term bills were passed to keep the government open through this Wednesday to allow time for the larger bill to clear both chambers. The bill is being referred to as a CRomnibus. For the non-policy wonks, the CRomnibus spending bill is a combination of a Continuing Resolution (CR), which provides short-term funding, and an omnibus appropriations bill, which provides funding for several agencies in one bill, in this case through the end of the current federal fiscal year. Under the CRomnibus, the Department of Homeland Security is the one agency that only receives funding under a continuing resolution (CR) through Feb. 27. All other portions of the government will be funded until the end of the current federal fiscal year, ending Sept. 30, 2015. Total discretionary outlays in fiscal 2015 are slated to grow slightly to $1.18 trillion, a 1.5 percent increase over last year's outlay estimate (top graph). The discretionary spending levels for both defense and nondefense are consistent with the Ryan-Murray agreement passed last year.

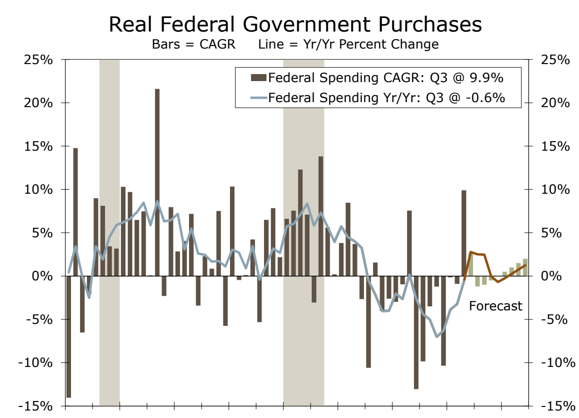
According to the Congressional Budget Office, under current law, the 2015 federal fiscal year is slated to be the last over its current 10-year forecast horizon that will see a reduction in the budget deficit (middle graph). The deficit is expected to shrink to 2.6 percent of GDP from the estimated 2.9 percent of GDP in the 2014 federal fiscal year. Beginning in the 2016 fiscal year, the deficit is expected to grow again to around 2.9 percent of GDP. Given that the Ryan-Murray agreement only amended spending limits through the current 2015 fiscal year, we will be watching the appropriations process closely early next year to see if the spending reductions under the Budget Control Act of 2011 are partially rolled back as they have been for the past couple of fiscal years.

Implications for Growth: Much Needed Clarity

With clarity around most of the federal budget through the end of the current federal fiscal year, most of the agencies will be able to better plan their expenditures. Our expectation is that real federal government spending will be less of a drag on overall GDP growth in the year ahead, reflecting the slight increase in discretionary spending. The added clarity should also help government contractors better plan their operations over the next several months. In lock-step with the expected further growth in outlays in 2016, we expect federal spending to again slightly add to economic growth. The hope is that regular order around the budget process will resume in the next Congress, removing the budget uncertainty that has been the norm for the past several years.







Source: Congressional Budget Office, U.S. Department of Commerce and Wells Fargo Securities, LLC

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