WEEKLY COMMENTARY

Biden vs. Trump: A Fiscal Policy Preview

By Francis Généreux, Principal Economist

Budget season is drawing to a close here in Canada, with the federal government set to present its plan on April 16. Stateside, on March 11 the Biden administration unveiled its proposed budget for fiscal year (FY) 2025, which begins in October. As we saw last year, however, the president's budget proposal is rarely enacted as written. That's because the US Constitution gives Congress the power of the purse.

But the president's proposed budget does shed light on the state of public finances by outlining the administration's priorities. It gives us a better idea of how the president's proposed budget measures would affect federal public finances. This is especially instructive in a presidential election year like the current one. The budget president Biden just released lays out what his agenda would be if he wins re-election. That means we can compare his priorities with the proposals put forward by his opponents. Let's take a closer look at the potential fiscal implications of the Biden–Trump rematch.

The Current State of US Public Finances

Before we can make any comparisons, we need a sense of where the US federal government's finances stand and the outlook for the next few years. The federal government ended fiscal year 2023 on September 30 with a deficit of US$1.695 trillion (6.3% of GDP) and debt held by the public of US$26.240 trillion (97.3% of GDP). February data from the U.S. Treasury show that over the previous 12 months, the government ran a deficit of US$1.801 trillion and the debt rose to US$27.380 trillion.

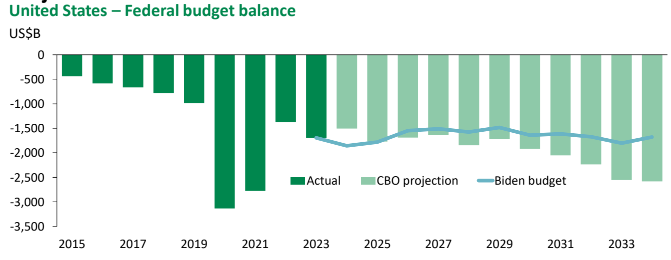
According to the latest Budget and Economic Outlook released by the Congressional Budget Office (CBO) in February, which takes into account only legislation that has been enacted, the deficit will shrink in FY2024, then grow in most years thereafter. The total budget shortfall for the 10-year period from 2025 to 2034 is expected to be US$20.016 trillion. Debt held by the public is projected to hit US$48.300 trillion (116.0% of GDP) by the end of fiscal 2034.

Biden's Budget

The Biden administration's budget proposal contains a somewhat rosier outlook for US public finances over the 2025–2034 period than the CBO does. According to Biden's budget, the deficit would clock in at US$1.781 trillion in 2025, a smidge higher than the US$1.772 trillion projected by the CBO. But the two forecasts diverge appreciably from that point on (graph 1). Biden's budget predicts that the deficit over 10 years will total US$16.297 trillion, US$3.719 trillion less than the CBO projection based on laws currently on the books. And public debt would be 105.6% of GDP in 2024 instead of 116.0%.

How does Biden do it? He isn't proposing an austerity budget, that's for sure. Government spending would increase from US$6.941 trillion (24.6% of GDP) in 2024 to US$10.316 trillion (24.2% of GDP) in 2034. Over that period, spending would climb an average of 4.0%—in line with projections for nominal GDP growth (+4.2%). But revenue would grow much faster (+5.4%), improving the fiscal picture somewhat.

Graph 1
Biden's Budget Predicts Smaller Deficits than the CBO's Baseline Projection
United States – Federal budget balance



Congressional Budget Office, Office of Management and Budget and Desjardins Economic Studies

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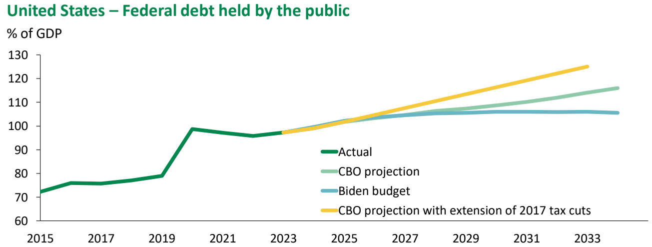
Overall, the Biden administration's 2025 budget is heavy on social program spending. The biggest new expenses are in health care, education and support for families and workers. Most of the increase in overall spending would go to fund social programs and to service the debt, while discretionary spending would be relatively stable (and lower as a share of GDP). New spending would be partially offset by higher taxes on corporations and the wealthy (defined as those making US$400,000 or more).

Proposals by Trump and Congressional Republicans

So far this election cycle, Donald Trump has proposed very few new measures when it comes to taxes and the economy. Instead, he's been playing up his administration's economic record and claiming Biden's economic policies have destroyed "the greatest economy in the history of the world."

Right now, Trump seems to be running on three economic policies: boosting energy production, eliminating regulation and repealing the Biden tax hikes. If Trump wins a second term, he will undoubtedly try to make permanent the Republican tax cuts passed in late 2017 that are set to expire at the end of 2025. This would come with a hefty price tag of around US$3.8 trillion over 10 years and could send public debt soaring to over 125% of GDP in 2033 (graph 2).

Graph 2
US Public Debt Would Be Even Higher If the 2017 Tax Cuts Were Extended
United States – Federal debt held by the public



Congressional Budget Office, Office of Management and Budget, Committee for a Responsible Federal Budget and Desjardins Economic Studies

To get a better sense of what fiscal policy would look like under a second Trump administration, we can look at what congressional Republicans have proposed. After all, the 2017 tax cuts were largely the brainchild of the Republican majorities in the House and Senate, not the White House.

The Republican Study Committee, a group of congressional conservatives that includes House Republican leaders, recently published its own budget proposal. And while the plan is chock-full of proposed measures, it lacks the detailed figures the White House and CBO documents contain. This makes comparisons difficult, especially since it appears to include drastic spending cuts in fiscal 2025 that would slash the deficit over 10 years but seem unlikely to make it into law. The plan would balance the budget by 2031, however. Debt held by the public would plummet from 97.3% of GDP in 2025 to 69.3% in 2034. Federal finances would improve even though the budget would "cut taxes by nearly $4.2 trillion over the next 10 years." To offset the drop in revenue, overall spending would be cut to 26% below CBO projections in 2034 and 41% below for non-defense discretionary spending. In short, the draconian cuts proposed by congressional Republicans would require major changes to the way the federal government operates.

Fiscal Agendas: A Work in Progress

It may seem like the campaign has already been going on forever, but it's really just started. November 5 is still over 7 months away, leaving the candidates lots of time to lay out their vision for a second term. In the meantime, Biden's budget and the measures proposed by Trump and congressional Republicans give us a hint of what each side would do. The contrast between the two parties is already quite stark. Both are looking to build on their first-term accomplishments. Biden and the Democrats would support a strong federal government funded by higher taxes on corporations and the wealthy. The other side would dole out tax breaks and reduce the role of the federal government by slashing regulation (Trump) or drastically but unrealistically cutting federal spending (congressional Republicans). Either way, it's clear that public finances will continue to be a huge challenge for the US.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Macro Strategist, Marc Desormeaux, Principal Economist, Marc-Antoine Dumont, Senior Economist, and Francis Généreux, Principal Economist

UNITED STATES

MONDAY April 1 - 10:00

March	
Consensus	48.4
Desjardins	46.6
February	**47.8**

ISM Manufacturing index (March) – Although regional indexes generally pointed to an improvement in February, the ISM Manufacturing index dropped 1.3 points, marking the end of the 2.5-point total increase from November to January. As a result, the index is now further away from the 50-point threshold, the boundary between an expansion and a contraction of manufacturing activity. The ISM Manufacturing index has now been below 50 for sixteen consecutive months. The regional manufacturing indexes published so far this month have generally been negative, so we don't expect any improvement in March. The index likely dropped to 46.6.

WEDNESDAY April 3 - 10:00

March	
Consensus	52.8
Desjardins	53.5
February	**52.6**

ISM Services index (March) – After almost falling below 50 at the end of 2023, the ISM Services index recovered in January. It then dropped 0.8 points in February but remained at a solid 52.6. The business activity and new orders components stayed particularly high, at 57.2 and 56.1 respectively. Based on information provided by regional and consumer confidence indexes, the ISM Services index may have increased to 53.5 in March.

FRIDAY April 5 - 8:30

March	
Consensus	215,000
Desjardins	200,000
February	**275,000**

Change in nonfarm payrolls (March) – Establishment survey prints remain strong. In February, net hires exceeded forecasts again at 275,000, coming in above 200,000 for the third month in a row. We still expect fairly strong growth in March, albeit a little slower than the stellar numbers we've seen recently. Unemployment insurance claims remained relatively low in March, particularly in the week that the establishment survey was conducted. Meanwhile the components related to the job market in the Conference Board's Consumer Confidence Index rose slightly. We believe around 200,000 new jobs were added in March. It'll also be interesting to see how the labour market evolves based on the household survey, which has been more negative than the establishment survey for a few months now. Even though the household survey is generally less reliable, some analysts are starting to see it as a sign that the labour market is weakening.

CANADA

THURSDAY April 4 - 8:30

February	**$B**
Consensus	n/a
Desjardins	0.20
January	**0.50**

International trade (February) – Canada's trade balance is expected to have remained in positive territory in February. Inputs to our forecast suggest that lower auto production and oil prices (seasonally adjusted) weighed on exports. That said, higher volumes of crude oil likely mitigated much of the effect of lower oil prices. We also expect the slight depreciation of the Canadian dollar to have modestly supported imports. However, we don't yet have US trade data for February, which creates some additional uncertainty around our estimate.

FRIDAY April 5 - 8:30

March	
Consensus	38,500
Desjardins	10,000
February	**40,700**

Net change in employment (March) – Hiring in the Canadian economy likely slowed to 10K in March, down from an average of 28K over the past three months. Population growth remains elevated and probably outpaced job creation in March. As such, we expect the unemployment rate to increase from 5.8% to 5.9%. That said, news that the government is planning to restrict the number of temporary residents should see these population figures begin to slow in the coming months and years. That's not a bad thing per se. The Canadian labour market is more balanced today, and there's less need for foreign workers to fill job vacancies. While wage growth probably moved higher in March, the Bank of Canada tends to put less weight on this measure relative to other indicators from the SEPH and national accounts. These alternative measures suggest wage pressures are easing at the margin.

WEDNESDAY April 3 - 5:00	
March	**y/y**
Consensus	2.5%
February	**2.6%**

OVERSEAS

Eurozone: Consumer price index (March, preliminary) – Eurozone headline inflation continues to fall. It was 2.6% in February, a major improvement from the 8.5% print a year earlier. The year-over-year change of -3.7% in energy prices is clearly helping the situation, but we're also seeing a slowdown in the core index that strips out food, energy, alcohol and tobacco. Year-over-year, core inflation fell from 5.6% twelve months ago to 3.1% in February. Preliminary March data will tell us whether headline and core inflation are continuing to slow toward the European Central Bank's target.

Economic Indicators

Week of April 1 to 5, 2024

Date	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
MONDAY 1	10:00	Construction spending (m/m)	Feb.	0.5%	1.1%	-0.2%
	10:00	ISM Manufacturing index	March	48.5	46.6	47.8
TUESDAY 2	---	Total vehicle sales (ann. rate)	March	15,950,000	16,000,000	15,810,000
	10:00	Factory orders (m/m)	Feb.	1.0%	0.8%	-3.6%
	12:00	Speech by Federal Reserve Bank of New York President J. Williams				
	12:05	Speech by Federal Reserve Bank of Cleveland President L. Mester				
	13:30	Speech by Federal Reserve Bank of San Francisco President M. Daly				
WEDNESDAY 3	10:00	ISM Services index	March	52.6	53.5	52.6
	12:00	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	12:00	Speech by Federal Reserve Chair J. Powell				
THURSDAY 4	8:30	Trade balance – goods and services (US$B)	Feb.	-65.7	-65.0	-67.4
	8:30	Initial unemployment claims	March 25–29	n/a	214,000	210,000
	10:00	Speech by Federal Reserve Bank of Philadelphia President P. Harker				
	12:45	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
	14:00	Speech by Federal Reserve Bank of Cleveland President L. Mester				
FRIDAY 5	8:30	Change in nonfarm payrolls	March	216,000	200,000	275,000
	8:30	Unemployment rate	March	3.8%	3.9%	3.9%
	8:30	Average hourly earnings (m/m)	March	0.3%	0.2%	0.1%
	8:30	Average weekly hours	March	34.3	34.3	34.3
	15:00	Consumer credit (US$B)	Feb.	n/a	18.000	19.495
CANADA						
MONDAY 1	10:30	Release of the Bank of Canada's Business Outlook Survey				
TUESDAY 2	---	2024 Manitoba Budget				
WEDNESDAY 3	---	---				
THURSDAY 4	8:30	International trade ($B)	Feb.	n/a	0.20	0.50
FRIDAY 5	8:30	Net change in employment	March	38,500	10,000	40,700
	8:30	Unemployment rate	March	5.8%	5.9%	5.8%

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of April 1 to 5, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
SUNDAY 31							
Japan	19:50	Tankan Large Manufacturers Index	Q1	10		12	
Japan	20:30	Manufacturing PMI – final	March	n/a		48.2	
MONDAY 1							
	---	---					
TUESDAY 2							
United Kingdom	2:00	Nationwide house prices	March	0.3%	2.4%	0.7%	1.2%
Italy	3:45	Manufacturing PMI	March	49.0		48.7	
France	3:50	Manufacturing PMI – final	March	45.8		45.8	
Germany	3:55	Manufacturing PMI – final	March	41.6		41.6	
Eurozone	4:00	Manufacturing PMI – final	March	45.7		45.7	
United Kingdom	4:30	Manufacturing PMI – final	March	49.9		49.9	
Germany	8:00	Consumer price index – final	March	0.4%	2.3%	0.4%	2.5%
Japan	20:30	Composite PMI – final	March	n/a		52.3	
Japan	20:30	Services PMI – final	March	n/a		54.9	
WEDNESDAY 3							
Italy	4:00	Unemployment rate	Feb.	7.2%		7.2%	
Eurozone	5:00	Consumer price index – preliminary	March	0.8%	2.5%	0.6%	2.6%
Eurozone	5:00	Unemployment rate	March	6.4%		6.4%	
THURSDAY 4							
Italy	3:45	Composite PMI	March	n/a		51.1	
Italy	3:45	Services PMI	March	52.5		52.2	
France	3:50	Composite PMI – final	March	47.7		47.7	
France	3:50	Services PMI – final	March	47.8		47.8	
Germany	3:55	Composite PMI – final	March	47.4		47.4	
Germany	3:55	Services PMI – final	March	49.8		49.8	
Eurozone	4:00	Composite PMI – final	March	49.9		49.9	
Eurozone	4:00	Services PMI – final	March	51.1		51.1	
Eurozone	4:00	Producer price index	Feb.	-0.7%	-8.5%	-0.9%	-8.6%
United Kingdom	4:30	Composite PMI – final	March	52.9		52.9	
United Kingdom	4:30	Services PMI – final	March	53.4		53.4	
FRIDAY 5							
Japan	1:00	Leading index – preliminary	Feb.	n/a		109.5	
Japan	1:00	Coincident index – preliminary	Feb.	n/a		112.1	
Germany	2:00	Factory orders	Feb.	0.5%	-10.1%	-11.3%	-6.0%
France	2:45	Industrial production	Feb.	0.5%	0.2%	-1.1%	0.8%
United Kingdom	4:30	Construction PMI	March	50.0		49.7	
India	5:00	Reserve Bank of India meeting	April	6.50%		6.50%	
Eurozone	5:00	Retail sales	Feb.	-0.3%	-0.3%	0.1%	-1.0%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).