

## US Macroeconomics

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### The Real Story is Excess Government Spending

Much has been made about excess personal savings associated with pandemic-related federal tax and spending initiatives. A surfeit of cash has certainly kept consumption stronger than it otherwise would be especially in light of declining real wages, elevated borrowing costs and dwindling credit availability.

**By our estimation, the last of the excess personal savings evaporated late last year.** Rising automobile, credit card and student loan delinquencies attest to this. Still, overall consumption has been relatively strong, expanding 2.6% at an annualized rate through the first three quarters of 2023. Why?

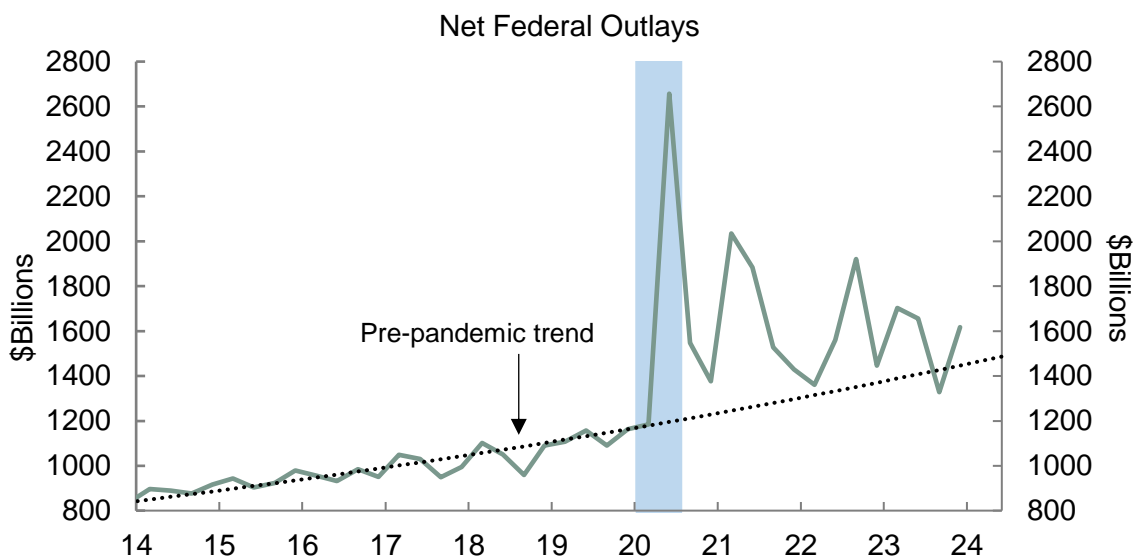
**The economy is being propped up by excessive federal outlays which are helping to keep the labor market afloat.** In fact, government job creation (state and local is included here) is growing at its fastest pace in over two decades and at twice the pace of private sector employment. This is maintaining some baseline level of aggregate demand which is important because as long as individuals have jobs, consumers will continue to spend.

The chart below shows net federal outlays in level terms with the dashed line representing the nominal 5.6% pre-pandemic annualized trend. Excess spending represents the total dollar outlays above the dashed trend-line. Admittedly, the surge in spending began with the onset of the pandemic. But this was necessary because the national economy was forced to close for health reasons.

The previous Administration with the help of the Congress shepherded through the CARES Act providing an income support program designed to keep people on shuttered businesses' payrolls. This helped achieve a rapid V-shaped recovery that began in early Q2 2020. However, federal spending persisted long afterwards even as the economy remained on the mend.

**According to our calculations, there has been a record large \$3.3 trillion in cumulative excess federal spending since 2021.** The run-rate on outlays briefly dipped below trend in November, but the December Treasury budget statement that was released earlier this week pushed outlays back above trend.

Massive excess fiscal spending will keep the economy more buoyant than it otherwise would be. But underling private sector job creation is expected to continue to slow. Eventually, this will lead to weaker consumer spending, but the latter may not be as weak as we had envisioned in light of government largesse.



Source: Treasury, Haver, SMBC Nikko

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