

US fiscal compass

Macroeconomics Team

May 8, 2025



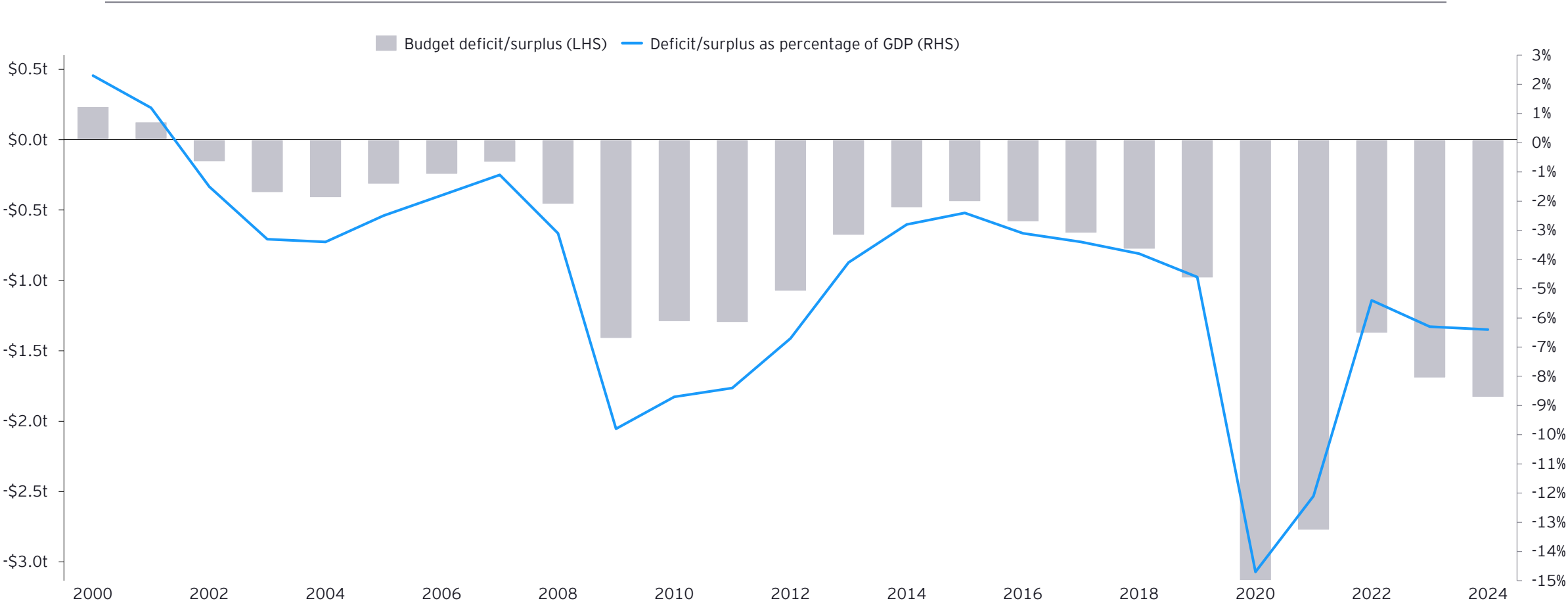
The better the question. The better the answer. The better the world works.

| Agenda

- **Fiscal situation**
 - Government spending
 - Government revenues and tax policy
 - Debt holdings
 - Fiscal policy developments
 - Government employment
 - Macroeconomics Team contacts

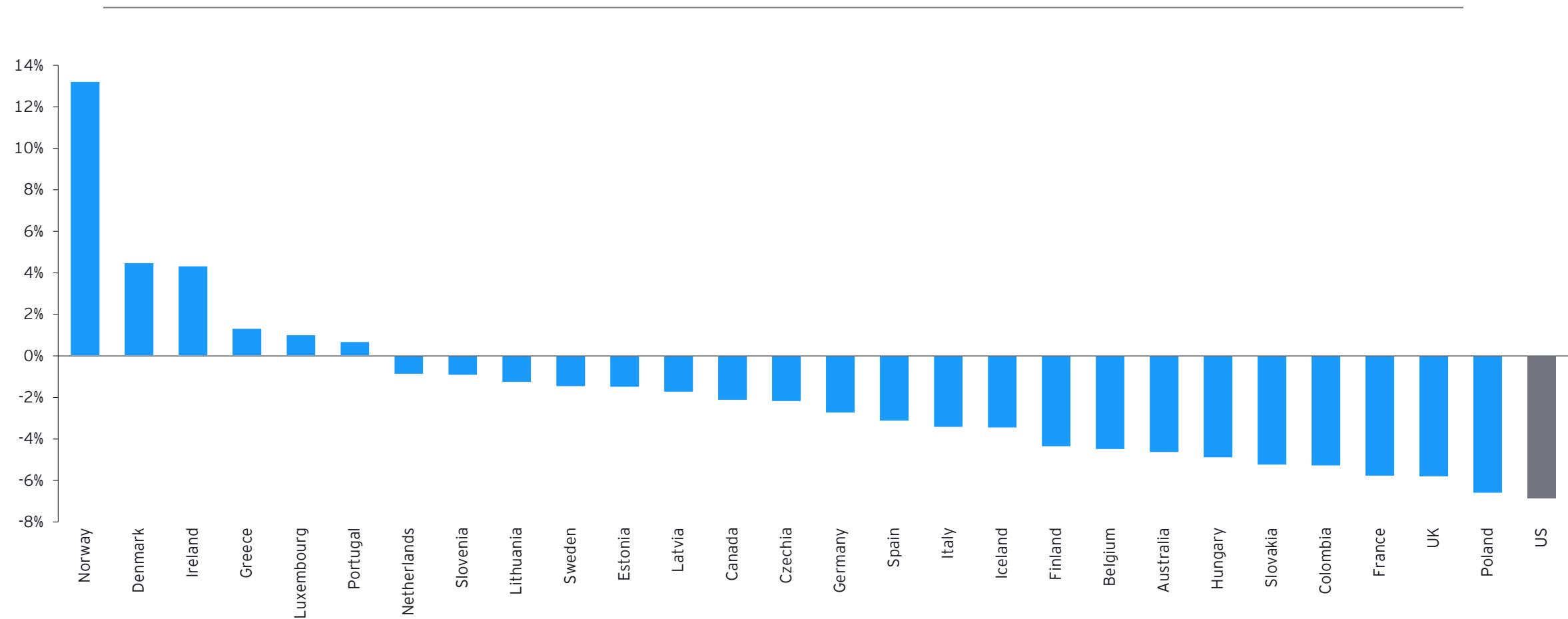
Two decades in the red: the US has run a persistent budget deficit since the early 2000s with the balance averaging 6.4% of GDP in FY2024

US federal budget: deficit or surplus
FY2000-24



The US holds one of the largest general budget deficits in the OECD

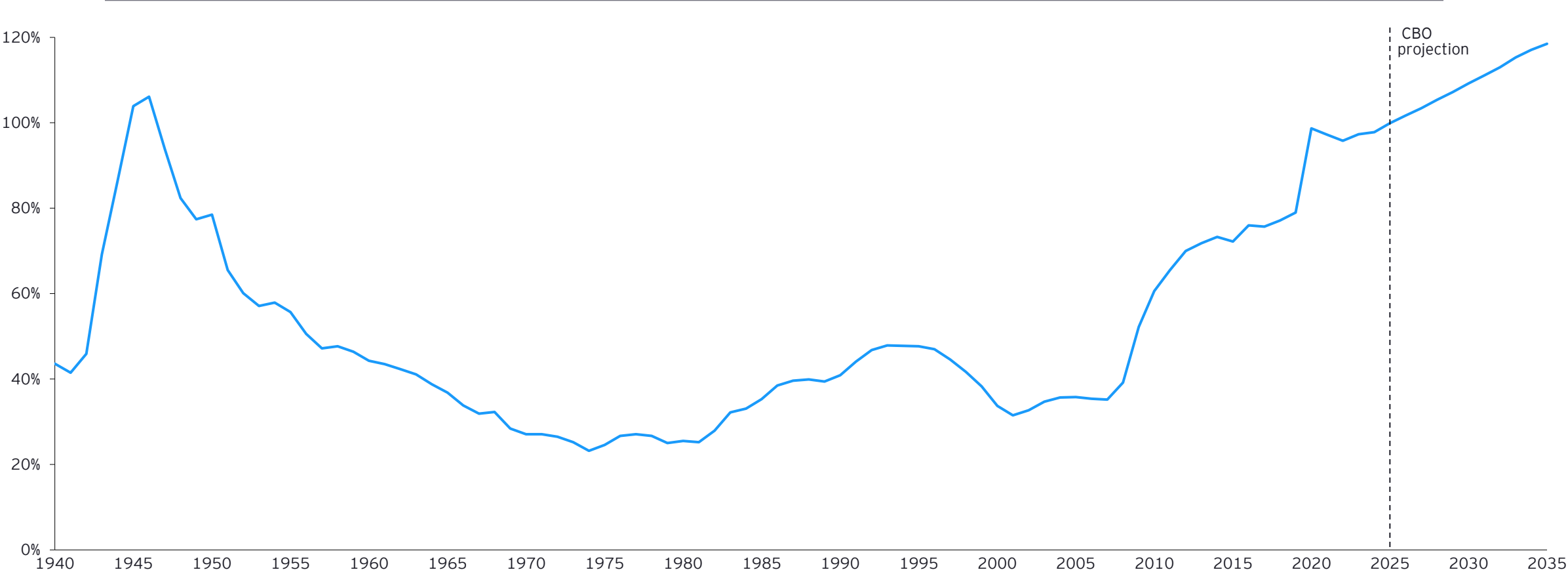
General budget balance as a percentage of GDP
2024



Source: U.S. Treasury; OECD

US public debt is projected to reach historic highs, rising from 100% to 118% of GDP by 2035

US federal debt held by the public as a percentage of GDP
FY1940-FY2035F



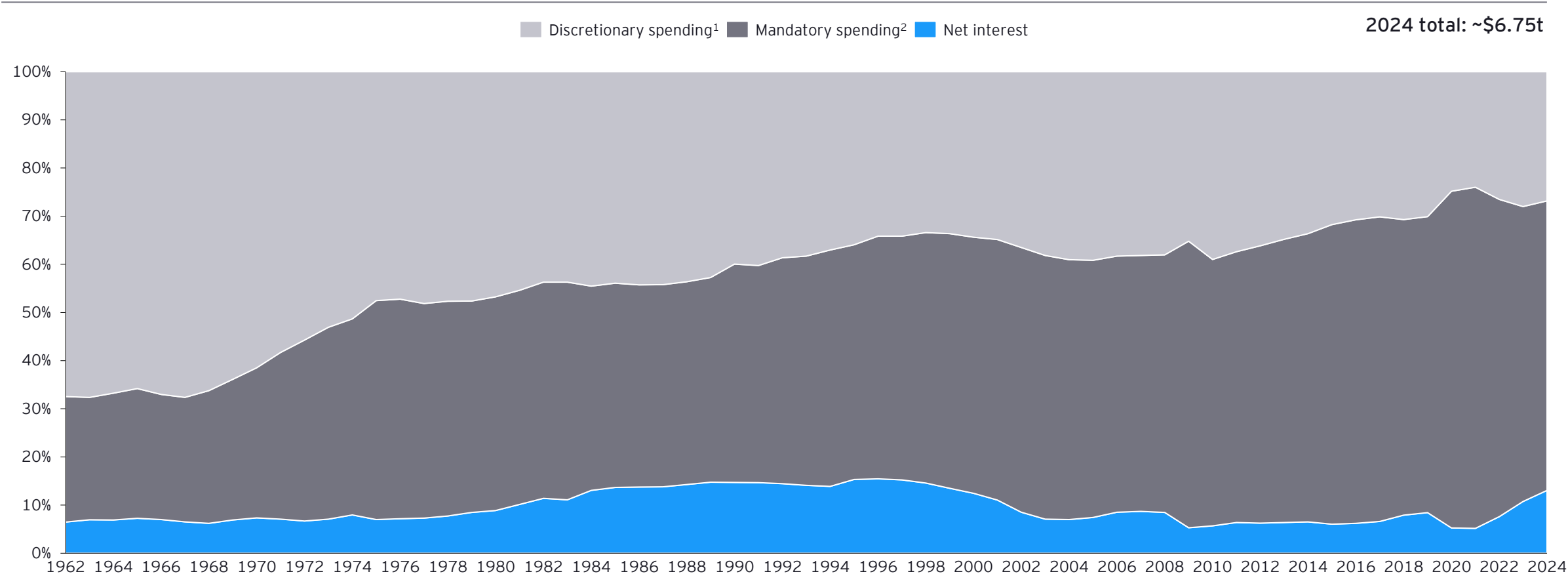
Source: CBO; Haver Analytics; EY-Parthenon

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Discretionary spending has declined as a share of total outlays, while mandatory programs and interest costs claim a growing portion of the federal budget

US federal expenditure across categories as a percentage of total outlays
FY1962-24

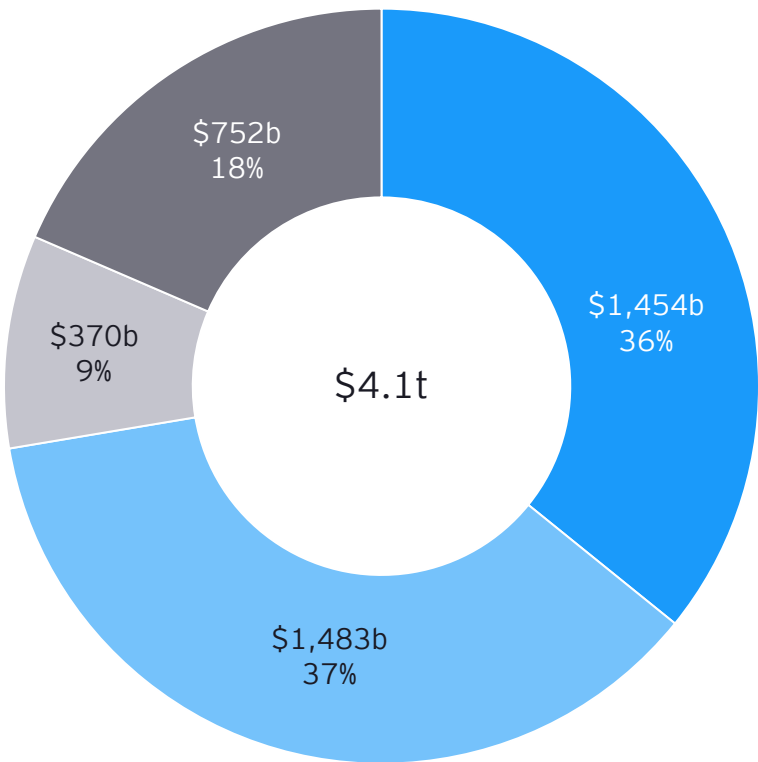


1. Discretionary spending is determined through annual appropriation acts passed by Congress and covers programs like veterans' health care and administrative costs, along with many other programs that are not mandatory.
2. Mandatory spending, or direct spending, includes automatic outlays for programs like Social Security, Medicare and Medicaid, based on eligibility rules set by law and not subject to yearly approval.
Source: Congressional Budget Office

Roughly \$3t of the \$6.8t in federal government outlays in 2024 were allocated to social security and major health care programs

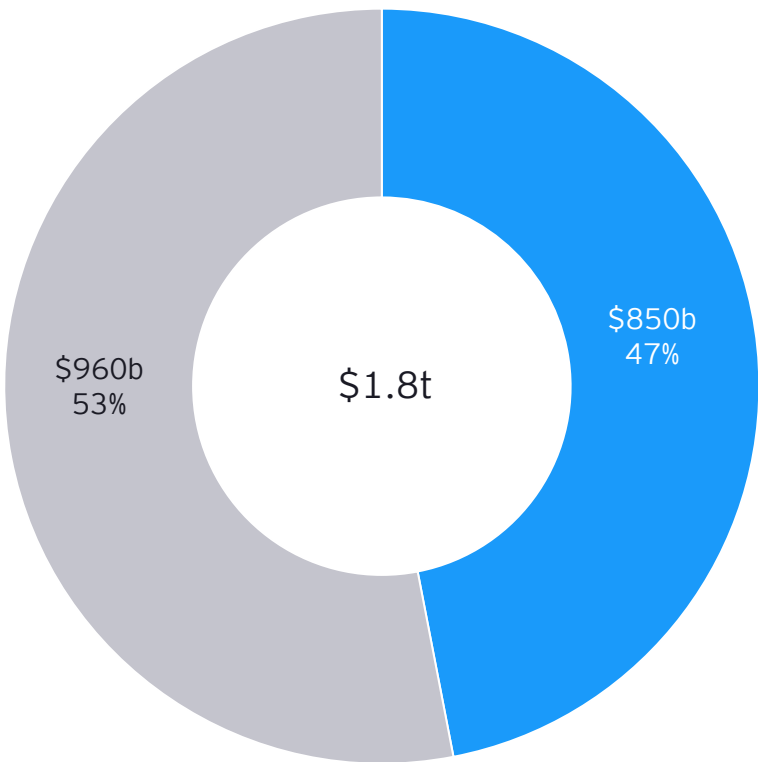
US government mandatory spending
FY 2024

Social security Medicare and Medicaid Income security programs Other



US government discretionary spending
FY 2024

Defense Non-defense¹

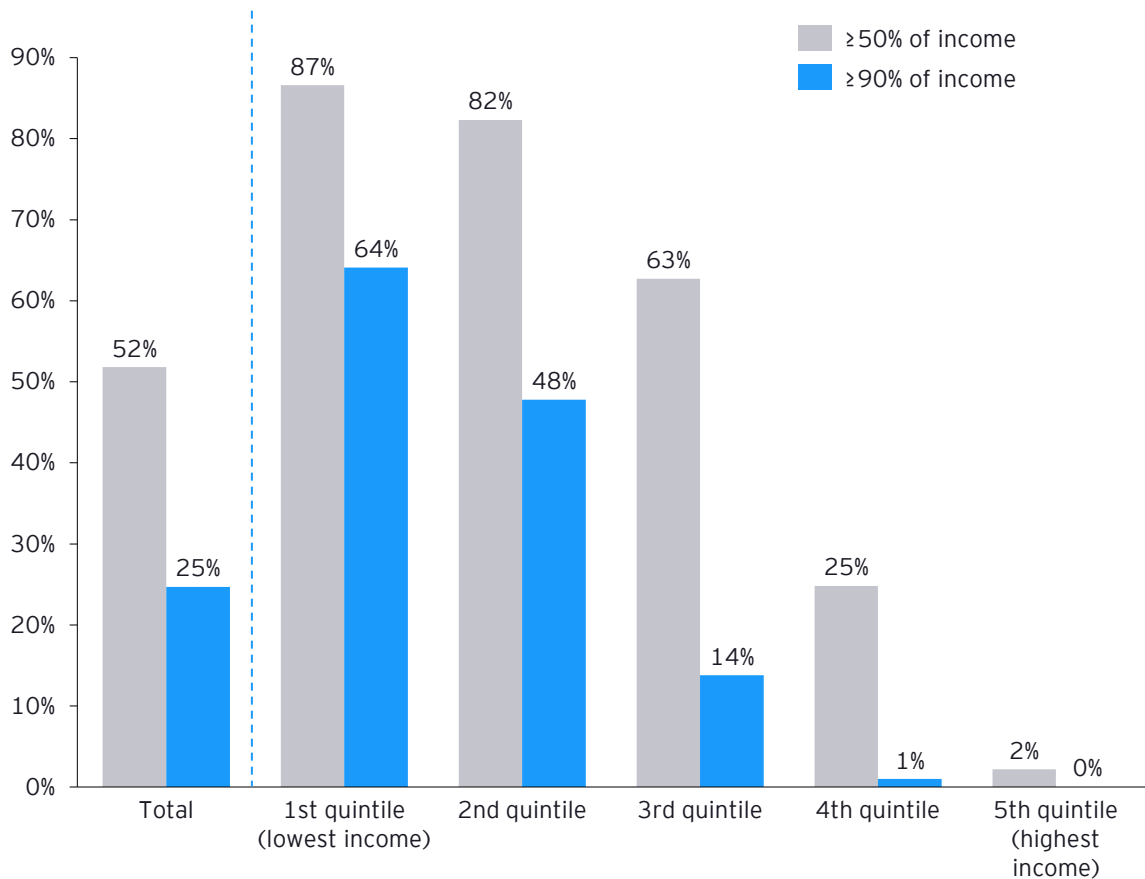


1. Non-defense discretionary spending includes certain veterans' benefits, transportation, education, training, employment, social services, income security, health, administration of justice, international affairs, natural resources and environment, community and regional development, general science, space and technology, etc.

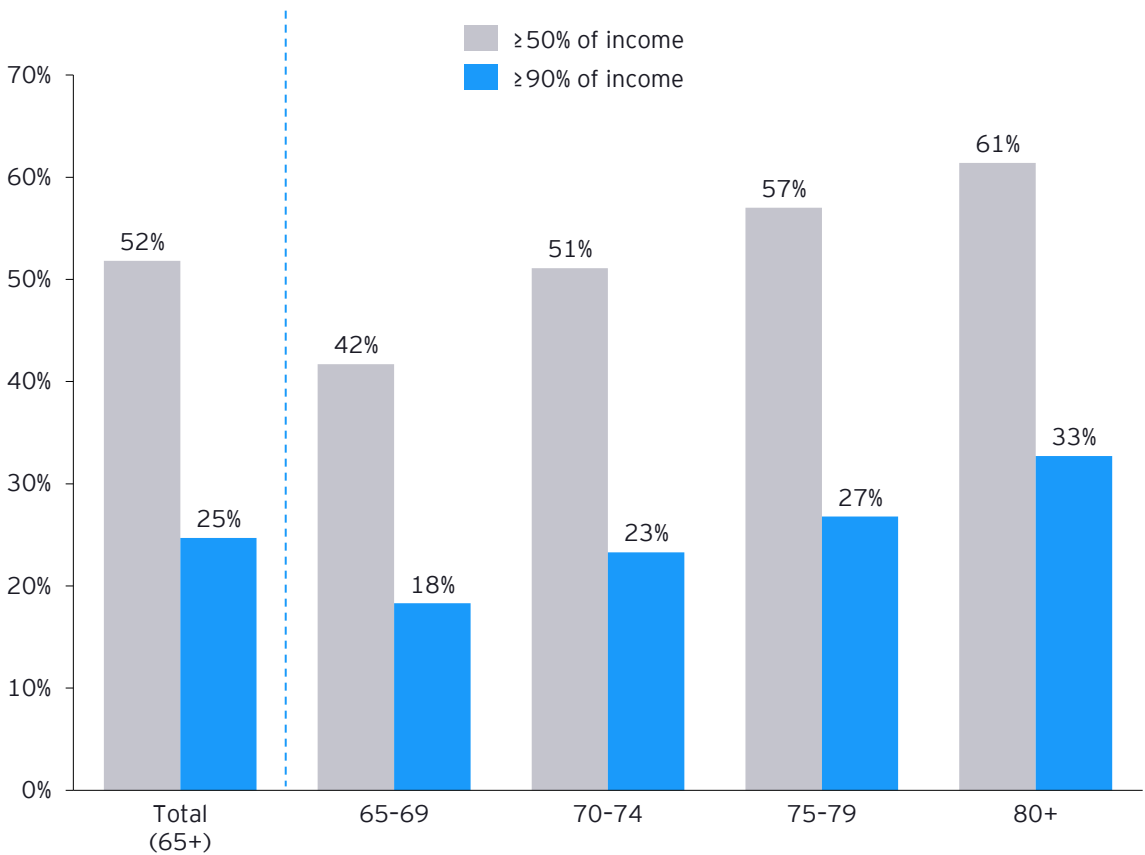
Source: CBO

As of 2014, for a majority of retirees in the lowest 40% by income, social security benefits represent over 90% of their income

US social security benefits as a share of total income for seniors (65+) by income group 2014

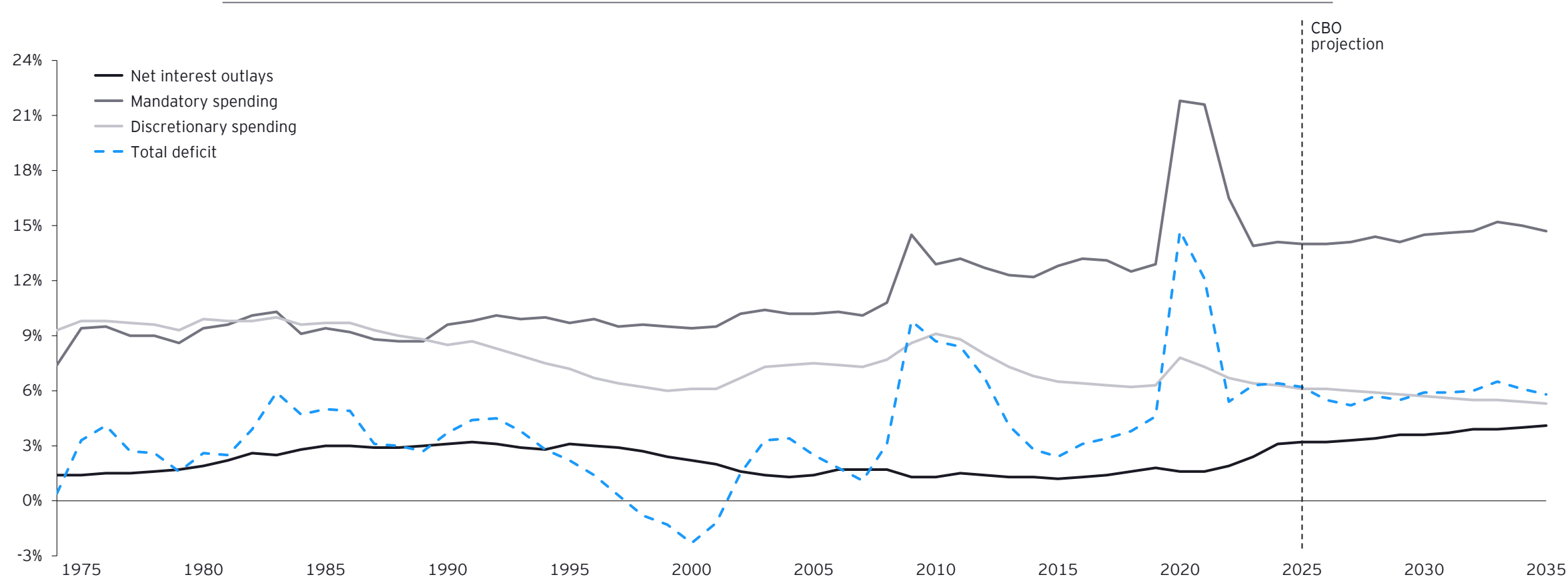


US social security benefits as a share of total income for seniors (65+) by age group 2014



Spending on entitlement programs and debt servicing is expected to rise faster than GDP compared to spending on discretionary defense and nondefense

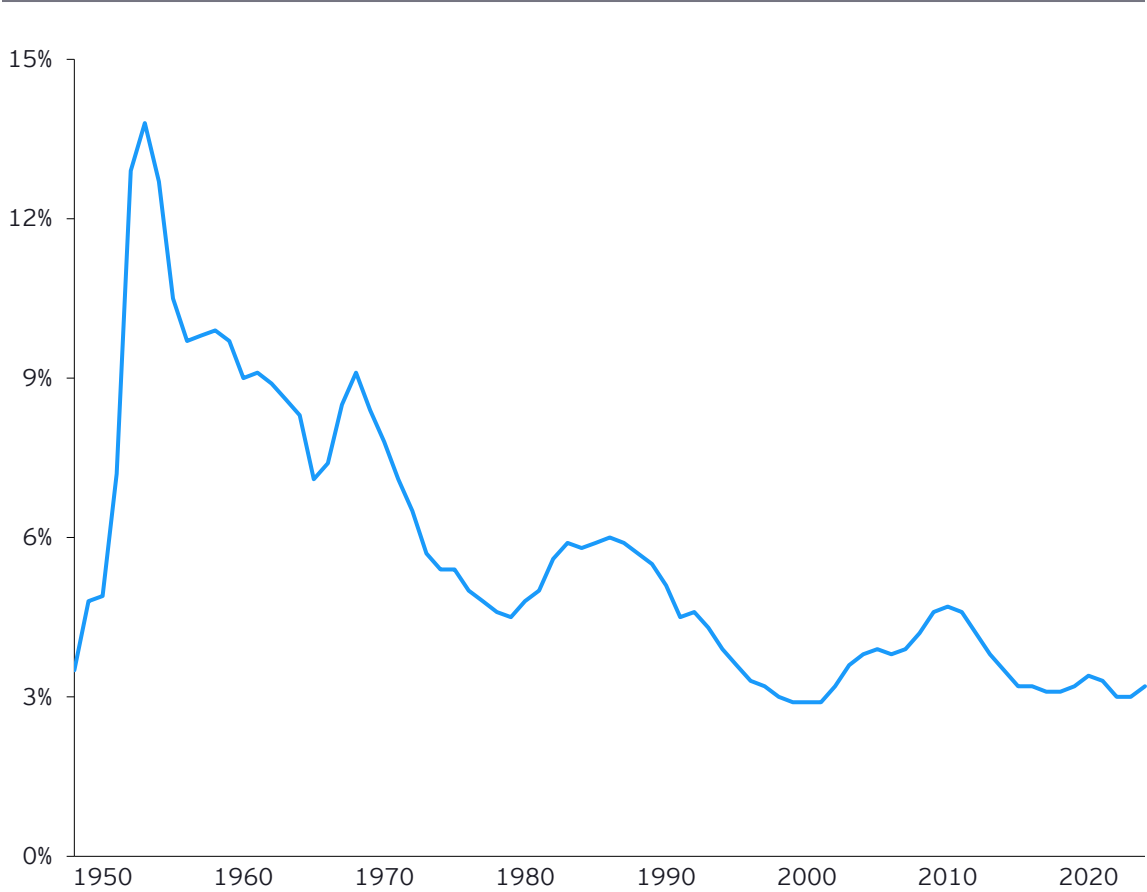
US government spending segments as a percentage of GDP
FY1974-FY2035F



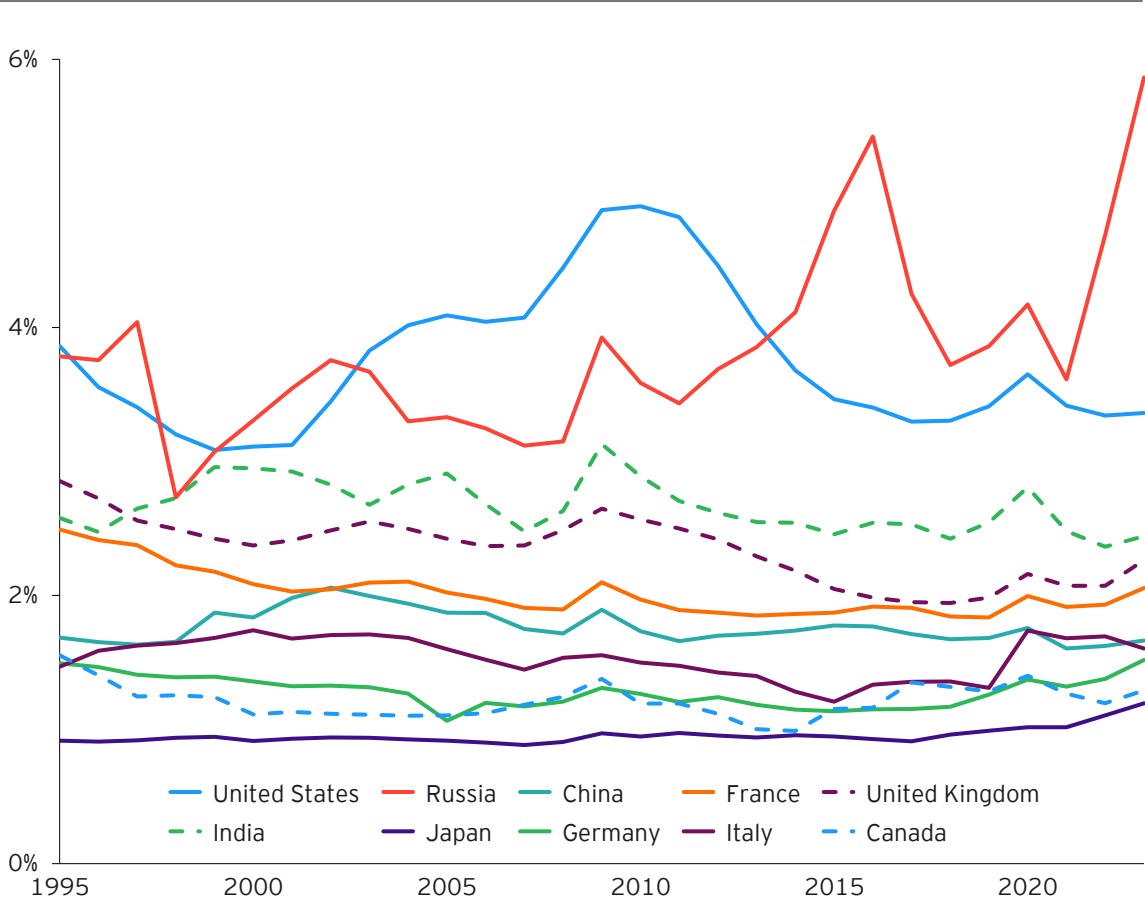
Source: Congressional Budget Office; Haver Analytics

Defense spending has averaged around 3% of GDP over the past decade, outpacing most other major economies around the world

US federal outlays on national defense as a percentage of GDP
FY1948-24

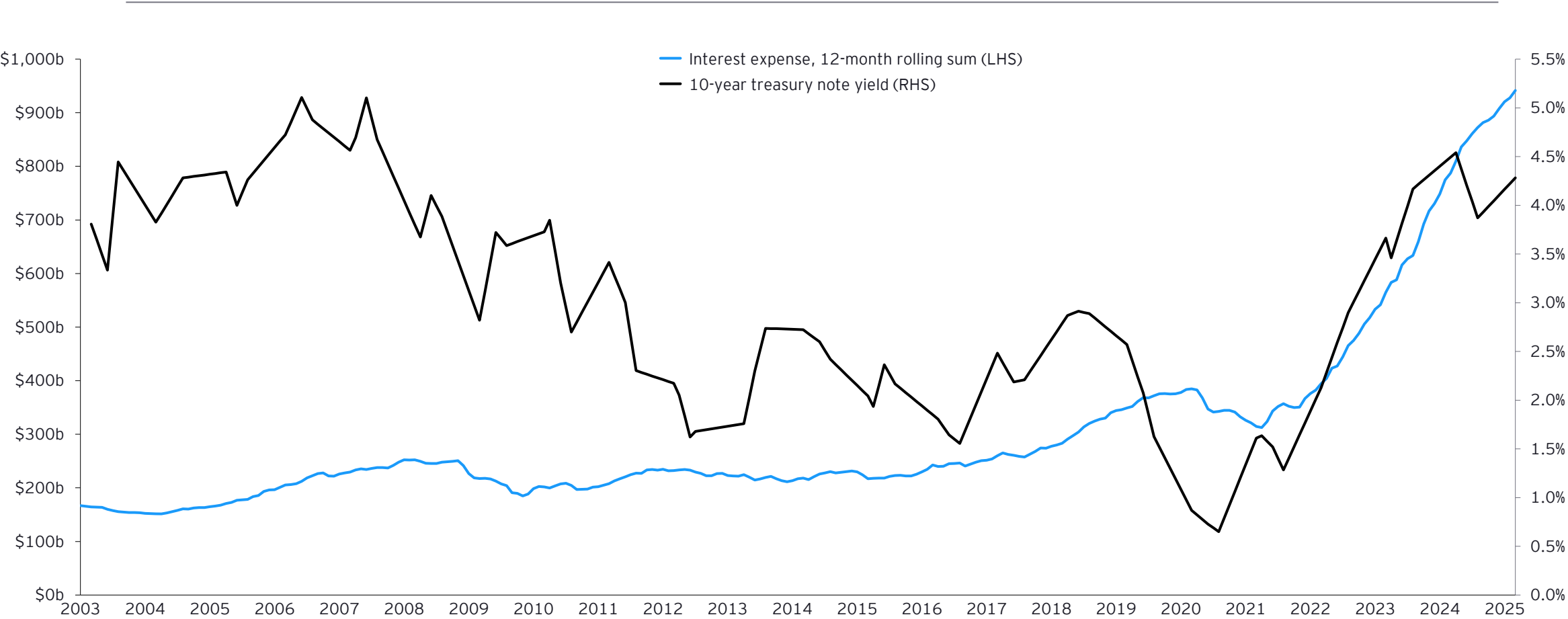


US federal outlays on national defense as a percentage of GDP
1995-2023



Interest payments on the debt are increasing as debt levels are rising and Treasury rates remain elevated

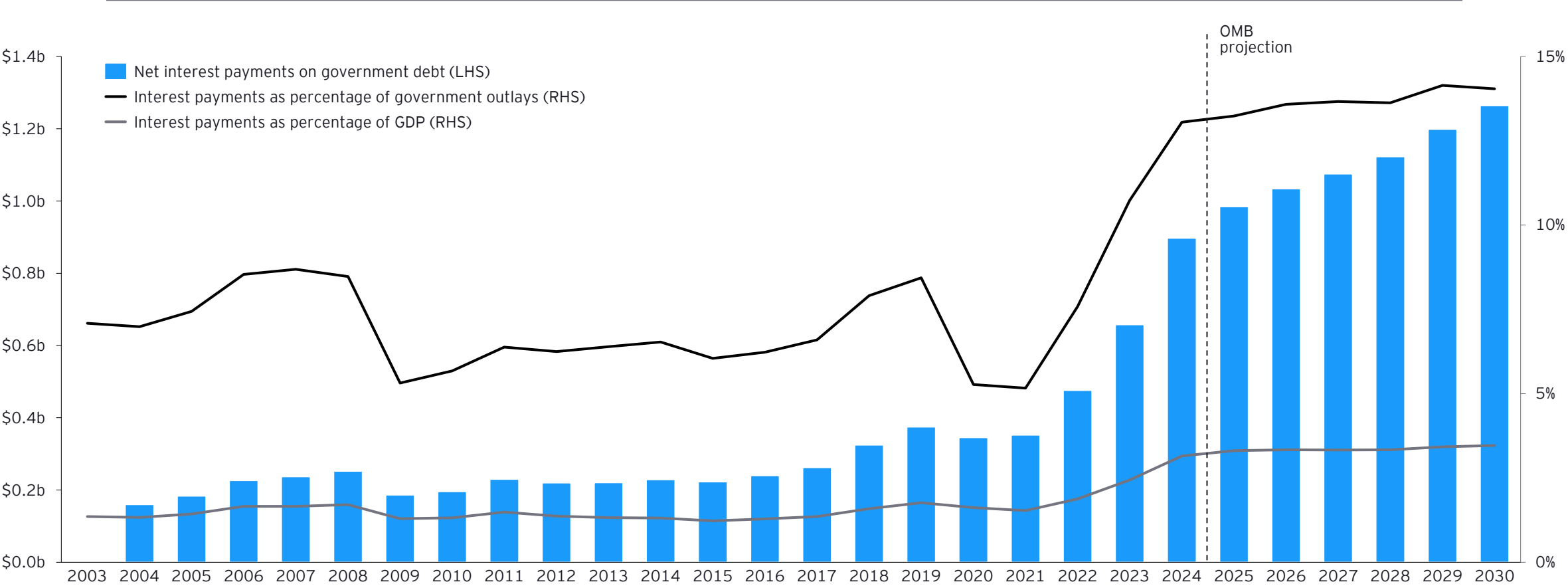
Total US debt interest expense and 10-year treasury note yield
January 2003-March 2025



Source: U.S. Treasury; Federal Reserve Board

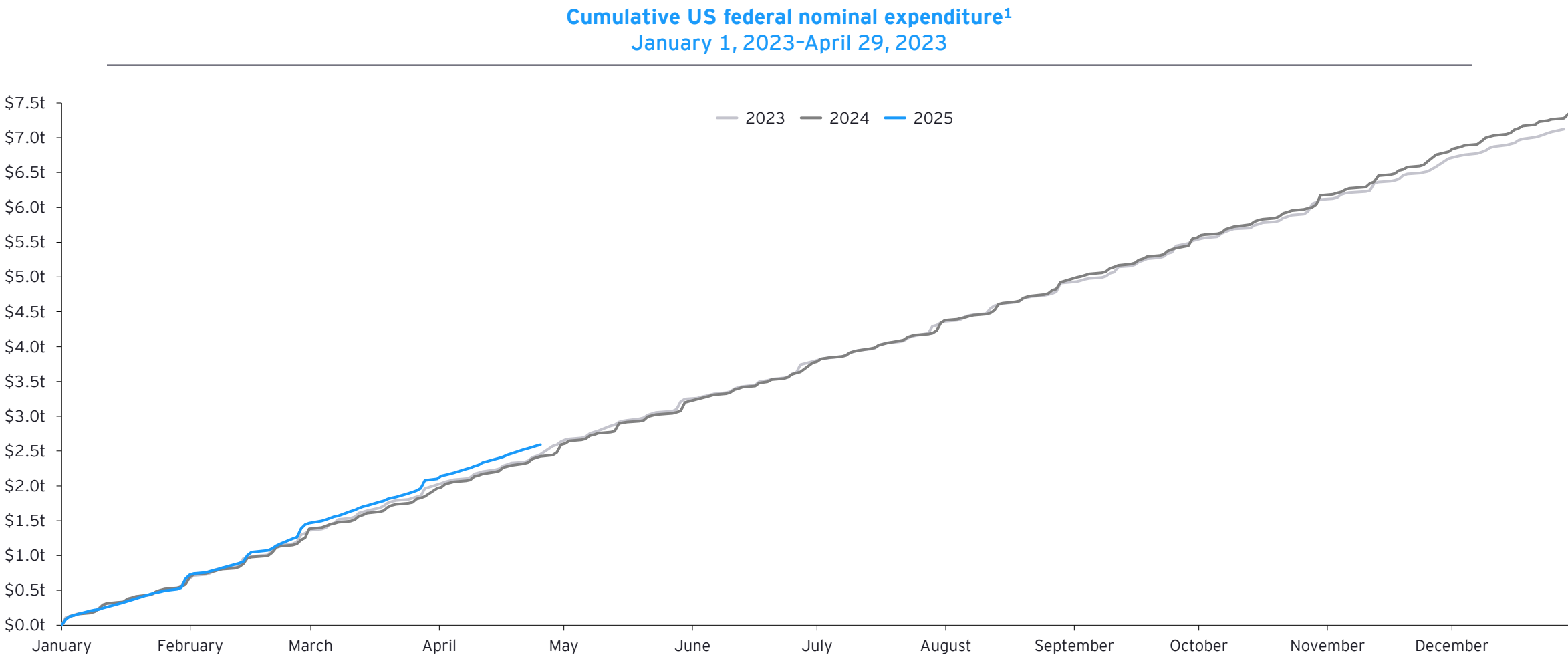
Debt servicing takes a bigger bite as interest payments consume 13% of total government spending and 3% of GDP in FY2024

US net interest payments on government debt and interest payments as percentage of government outlays and GDP
FY2003-FY2024



Source: Office of Management and Budget

Year-to-date data indicates an increase in federal government outlays despite announced DOGE cuts



1. Sum of outlay categories excluding public debt cash redemptions.
Source: The Hamilton Project; Department of the Treasury

The US Treasuries term premium has reached a decade-high amid investor concerns over fiscal sustainability along with inflation and monetary policy uncertainty

US 10-year Treasury yield and premium
January 3, 2000 - May 6, 2025

— 10-year yield — 10-year premium

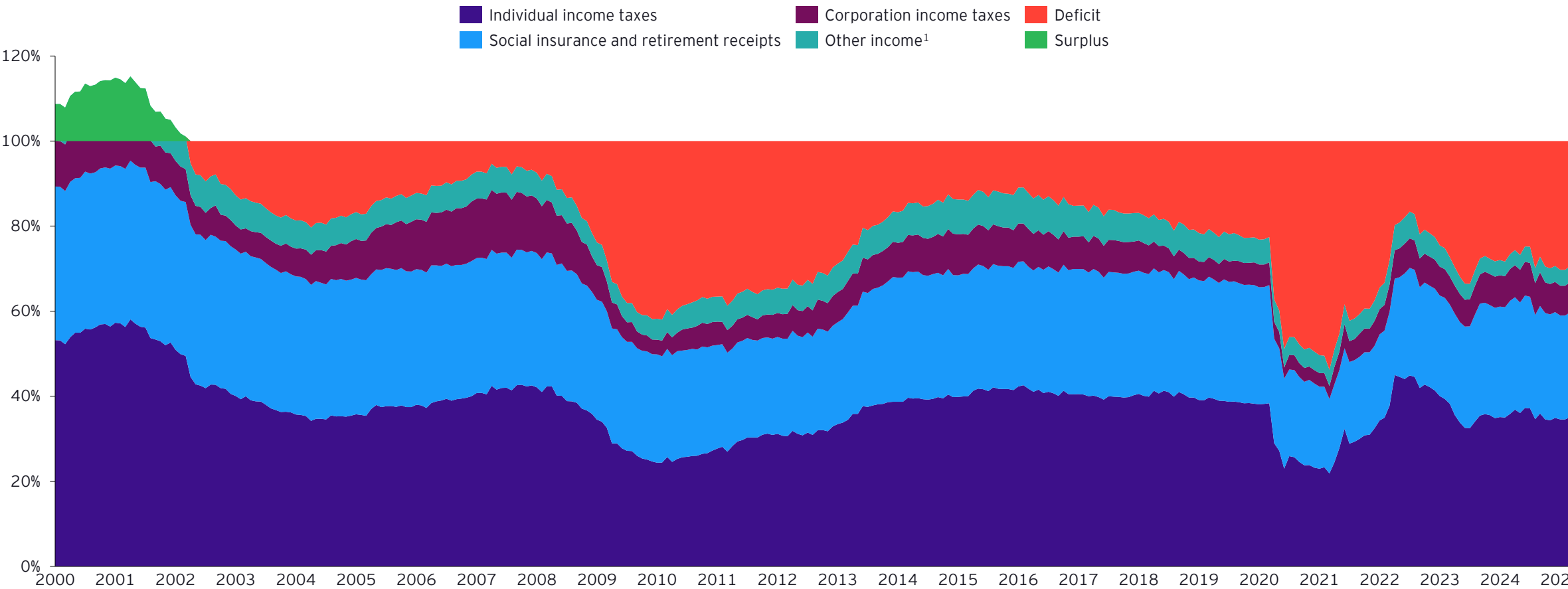


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Government revenue consistently falls short of spending, with individual and corporate income tax receipts trending lower as a share of government outlays

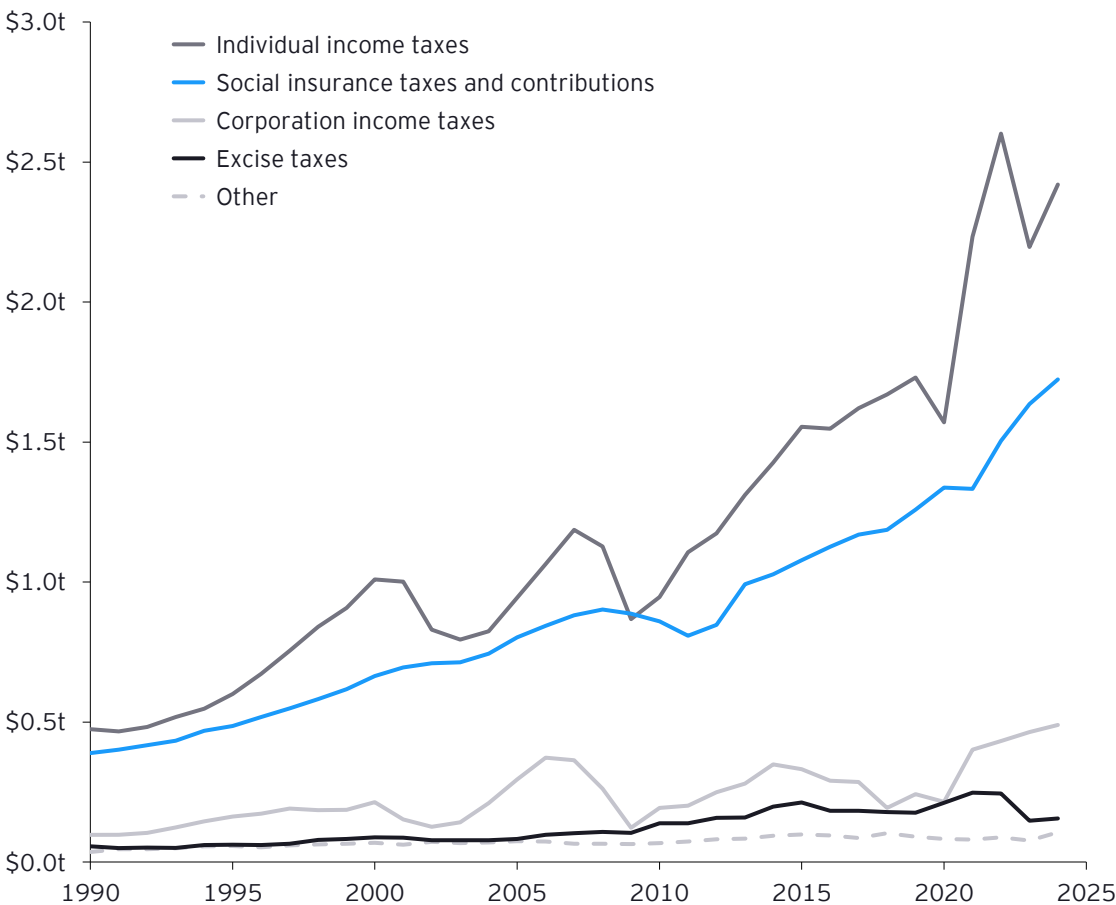
US government revenue as a percentage of total spending
12-month rolling sums, January 2000-March 2025



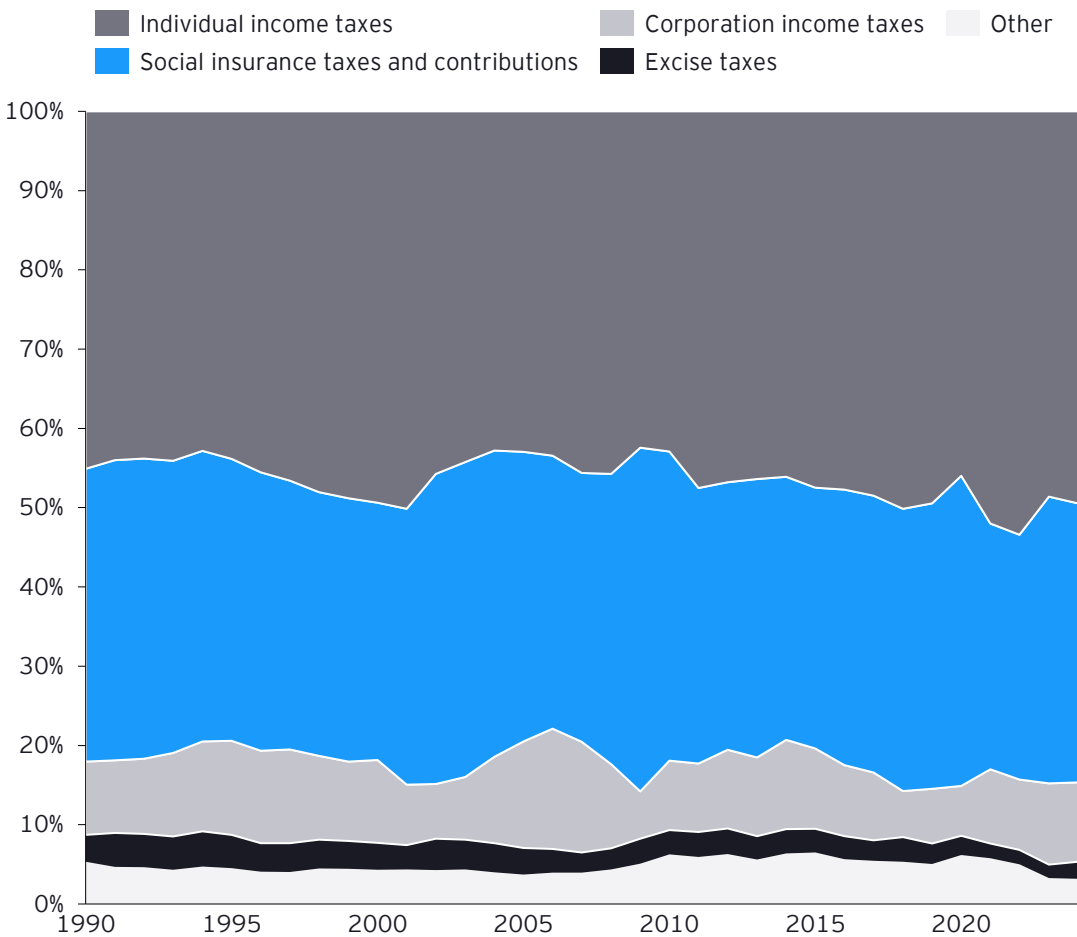
1. Includes custom duties, estate and gift taxes, excise taxes, and miscellaneous receipts.
Source: U.S. Treasury

Income and payroll tax receipts represented 85% of total federal government revenues in 2024

US federal receipts segmented by source
1990-2024

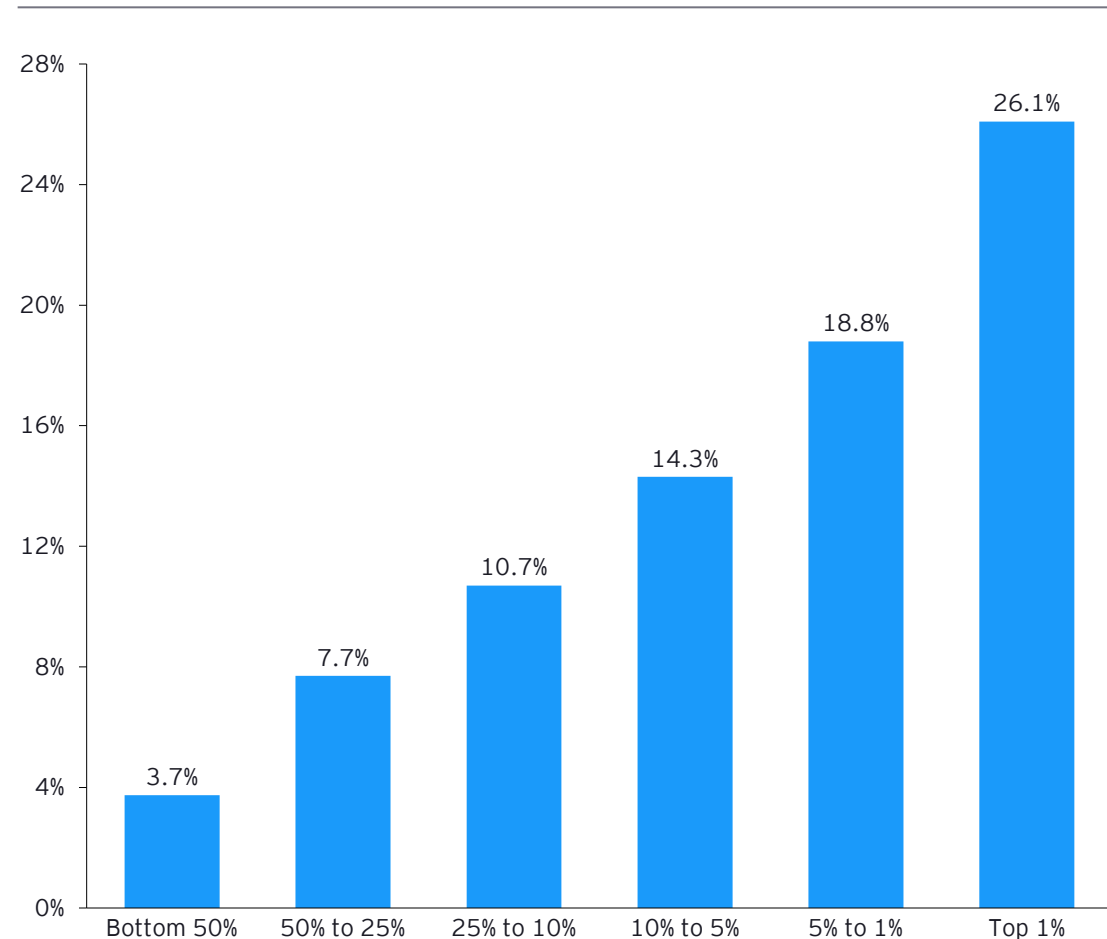


US federal receipts as a percentage of total
1990-2024

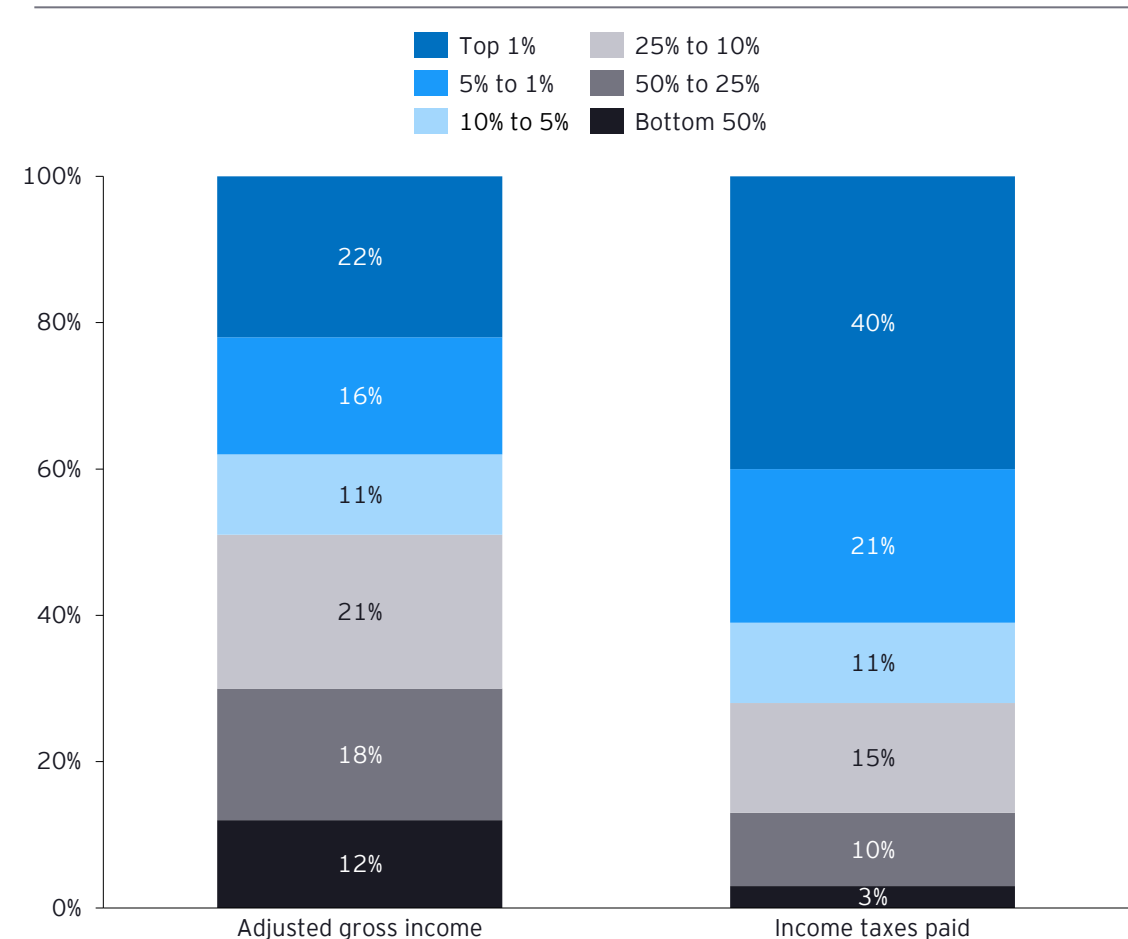


The top 10% of income earners earn 50% to total adjusted gross income and pay nearly three-quarters of total income taxes

US average effective federal income tax rate by income group
2022

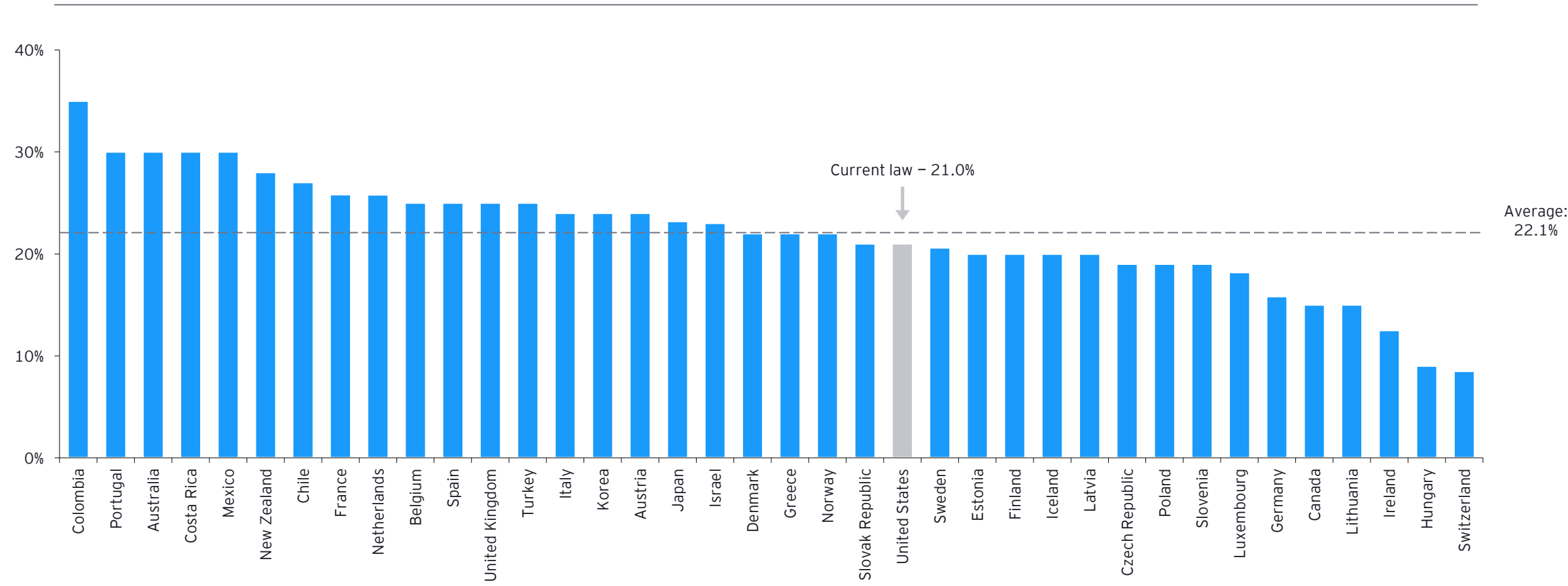


US adjusted gross income and federal income tax payments
by income group
2022



The US federal corporate tax rate of 21% falls just below the OECD average

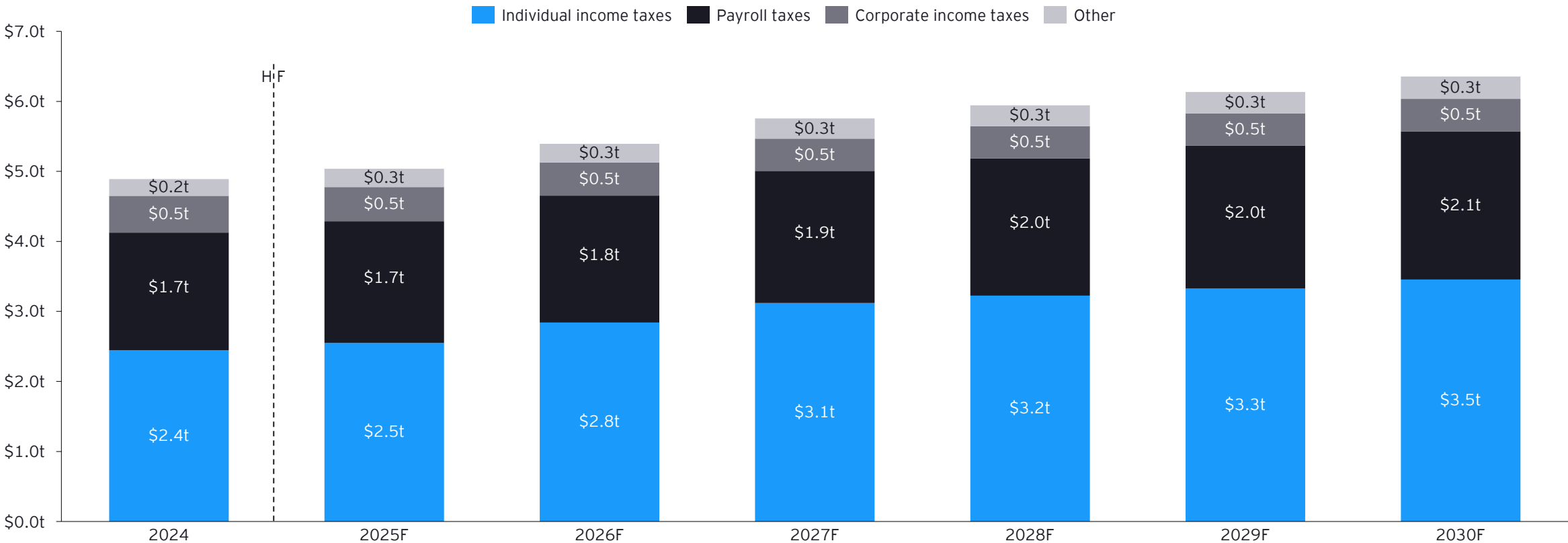
Central government corporate tax rate for OECD countries
2023



Source: Organisation for Economic Co-operation and Development; EY-Parthenon

CBO projects revenue growth from rising incomes and scheduled tax hikes, assuming TCJA provisions expire – though key tax provisions are likely to be extended

US federal revenue segmented by tax source¹
2024-30F



1. Congressional Budget Office (CBO) projections assume current revenue and spending law remain unchanged. This assumes the Tax Cuts and Jobs Act (TCJA) is not extended.
Source: Congressional Budget Office

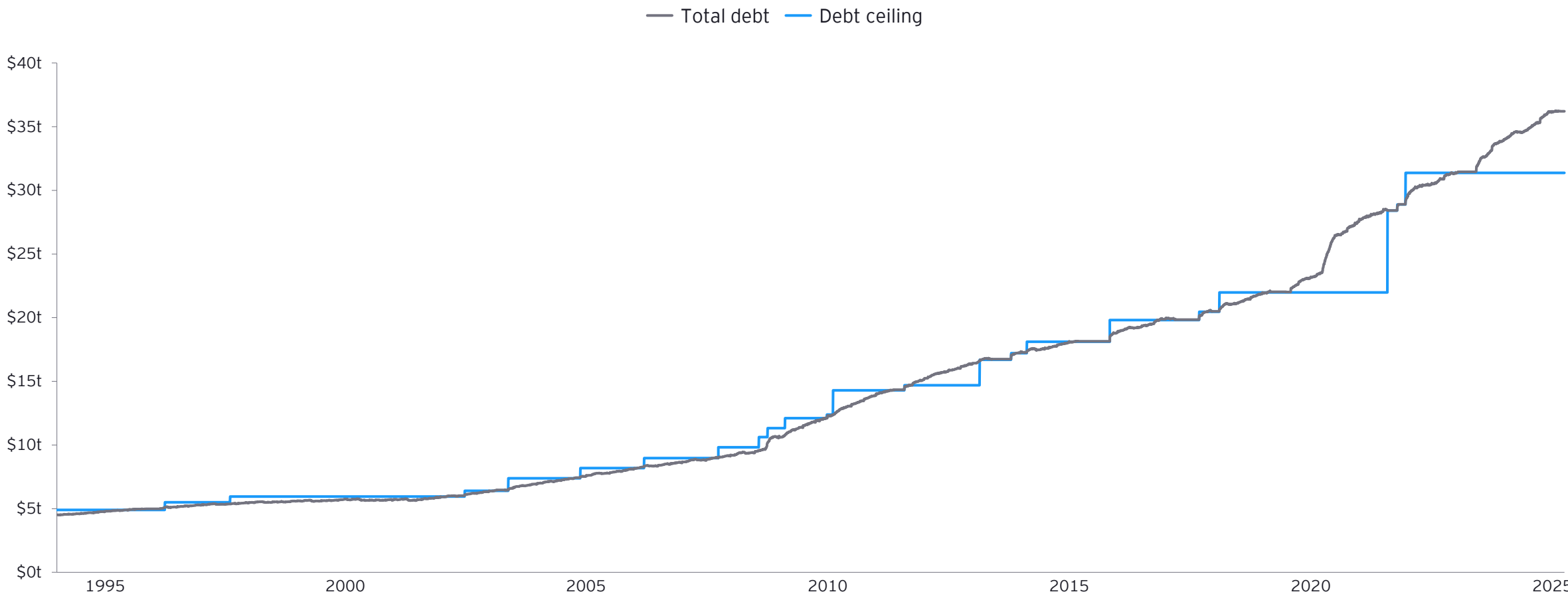
EY Parthenon 21

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Lawmakers have yet to agree on a debt ceiling plan, as the Senate proposes a \$5t hike and the House favors a more limited \$4t debt raise

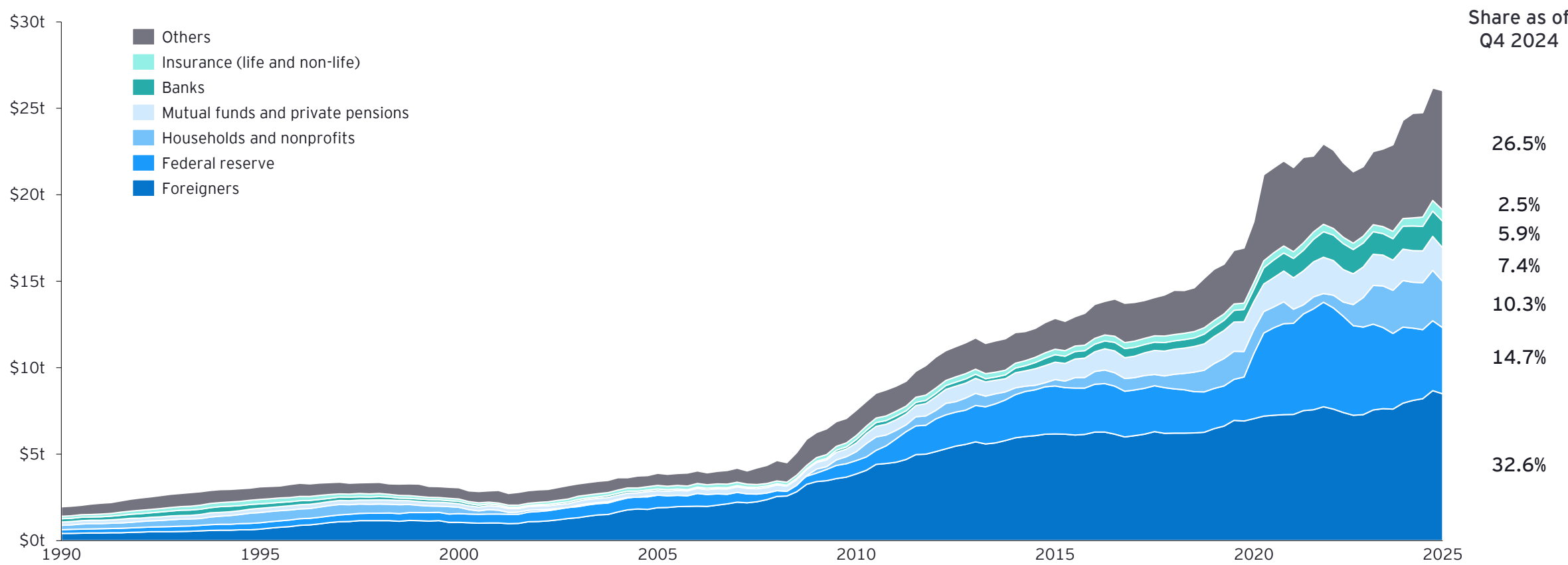
US government debt and debt ceiling
January 1, 1994-April 4, 2025



Source: U.S. Treasury; Library of Congress

Foreign investors (33%), the Fed (15%) and mutual funds (7%) hold the majority of the \$25t in marketable US Treasuries

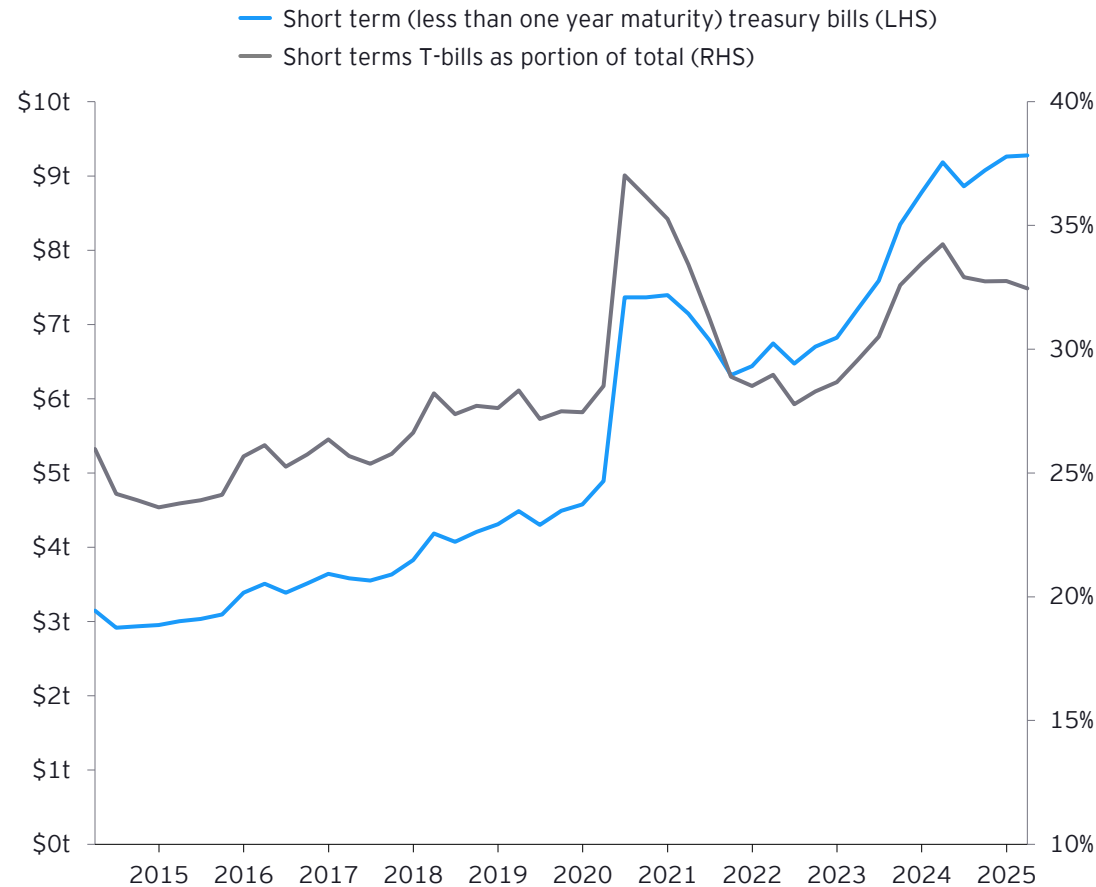
Holdings of marketable US Treasuries by entity
Q1 1990-Q4 2024



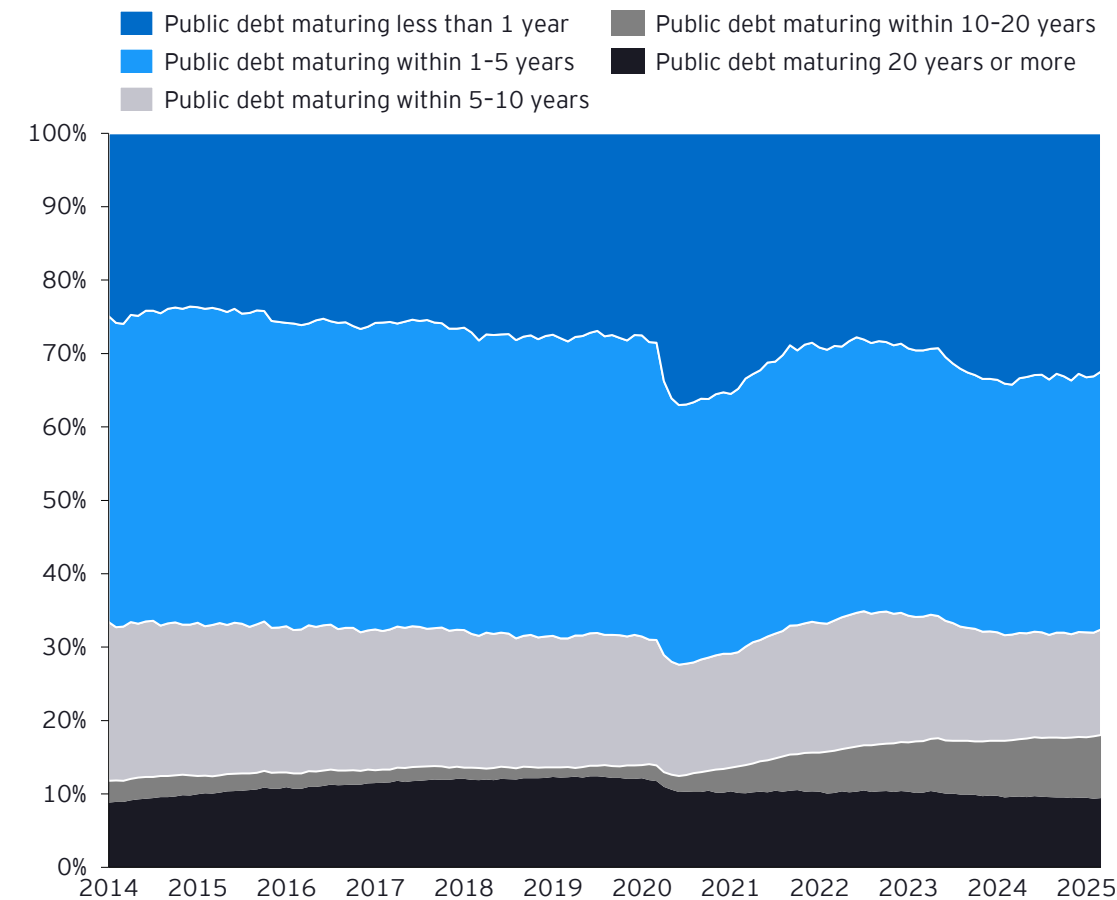
Source: Federal Reserve Board

Over \$9t in federal debt is set to mature within a year, with Treasury bills representing an increasing share (33%) of public debt

US value of short-term treasury bills
Q1 2020-Q1 2025



US public debt by maturity as a percentage of total
January 2014-March 2025

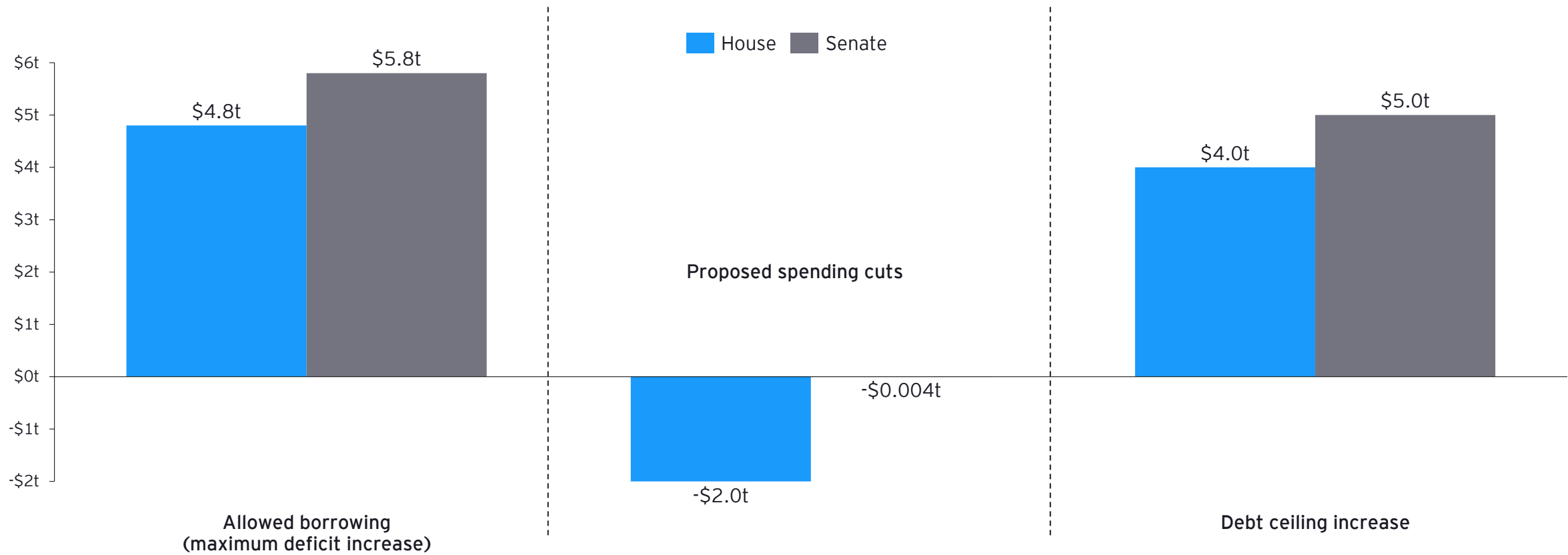


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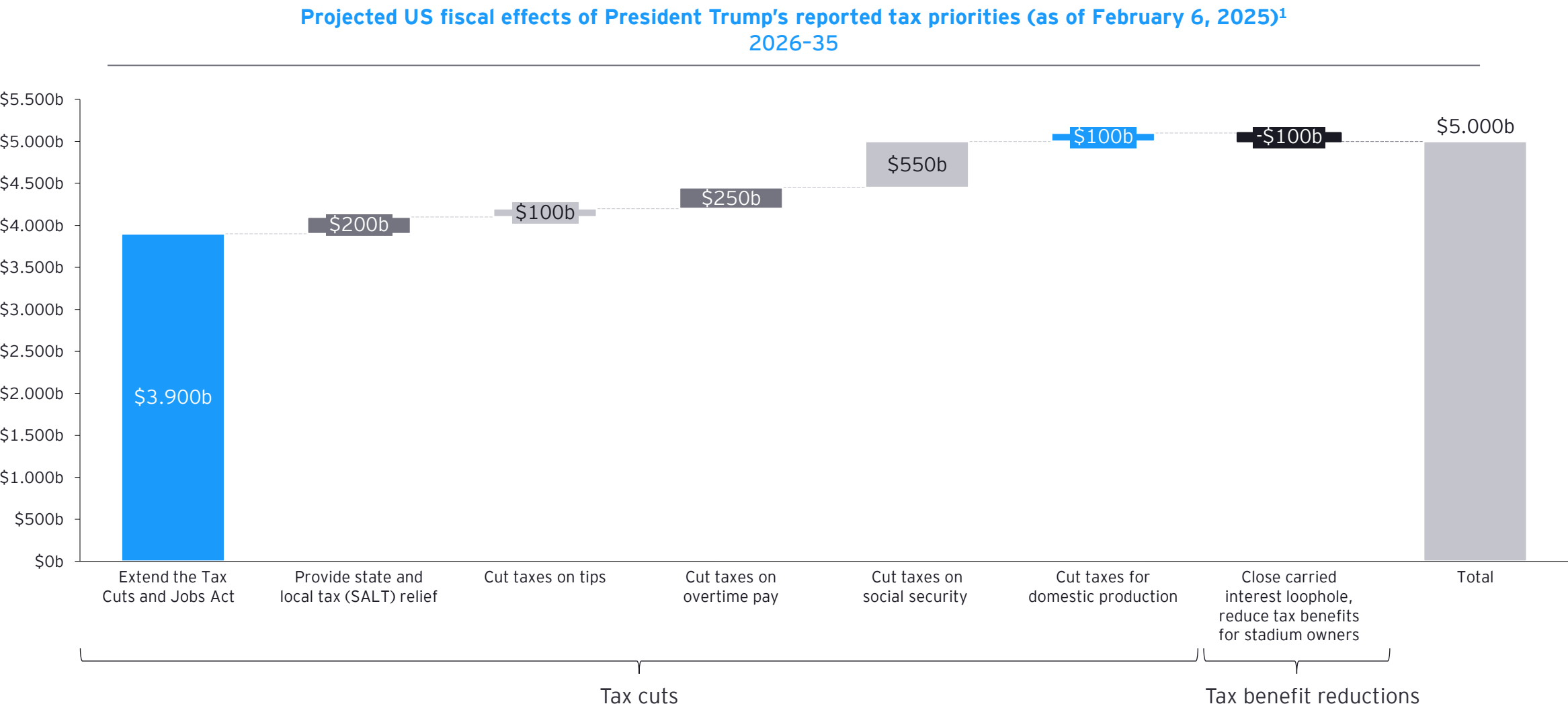
House and Senate budget resolutions for FY25 show different borrowing and savings goals, highlighting the challenge of finalizing the budget before next fiscal year begins

US budget resolution¹
FY 2025



1. The Senate passed its budget resolution on April 5, followed by the House on April 10.
Source: Committee for a Responsible Federal Budget; EY-Parthenon

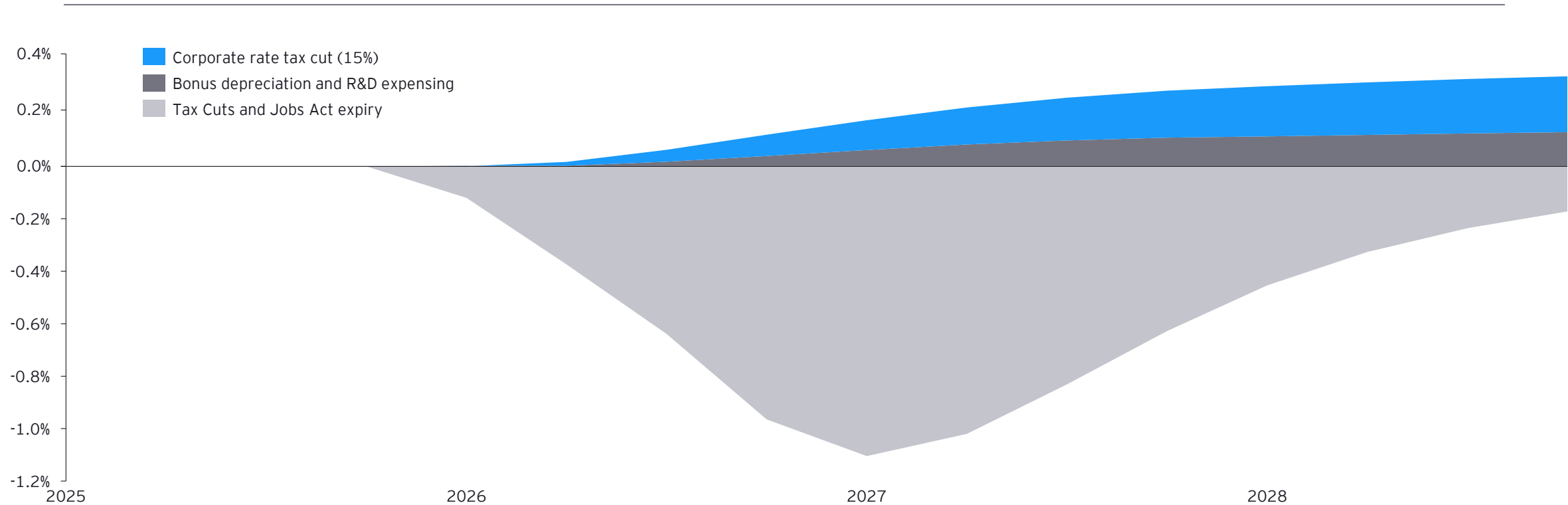
The US administration tax priorities center on extending TCJA, costing up to \$5t over the next decade



1. The estimate assumes no adjustments to payroll taxes or the trust-fund portion of Social Security taxation.
Source: Committee for a Responsible Federal Budget; EY-Parthenon

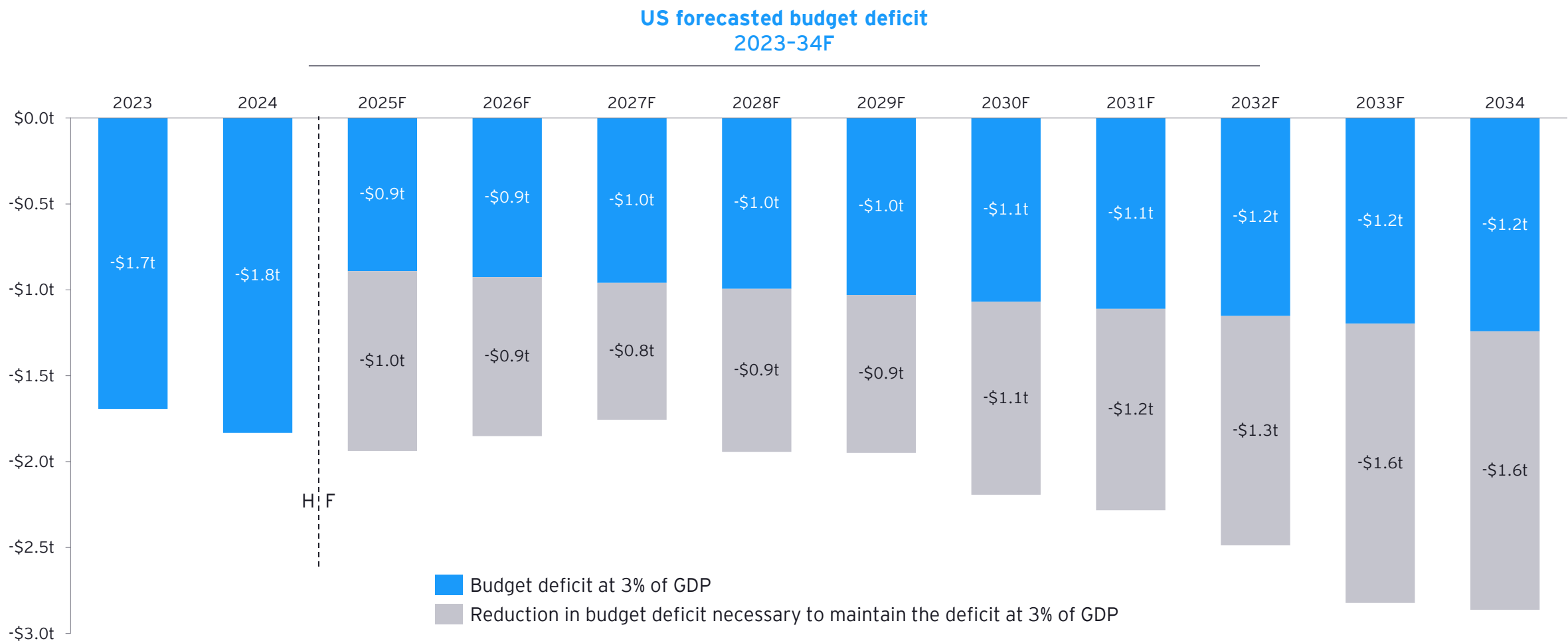
The economic fallout from not extending the TCJA would be substantial – supporting our expectation that it will be renewed

US year-over-year (y/y) real GDP growth difference vs. baseline
2025 Q1-2028 Q4



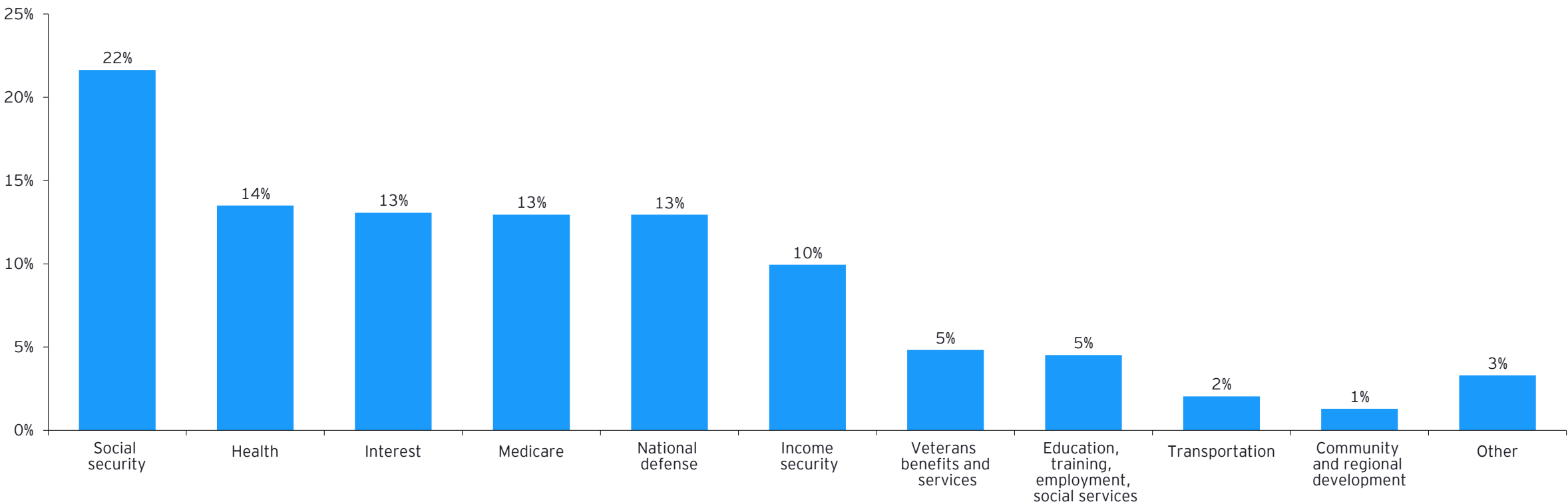
- The looming TCJA fiscal cliff would represent a drag on real GDP of 0.5% in 2026 and a cumulative drag of 0.9% in 2027, with an estimated price tag of around \$4.5t through 2034. Given that some Republican lawmakers may be reticent to legislate such a large increase in the deficit and debt, lawmakers may opt for a full but temporary extension of the TCJA.

Reducing budget deficit to 3% of GDP – as suggested by Treasury Secretary Bessent – would require cutting \$800b-\$1.6t per year, assuming TCJA is not extended



It is increasingly difficult to achieve meaningful spending cuts without addressing entitlement programs¹ and interest costs

US federal spending as a percentage of total outlays
FY 2024



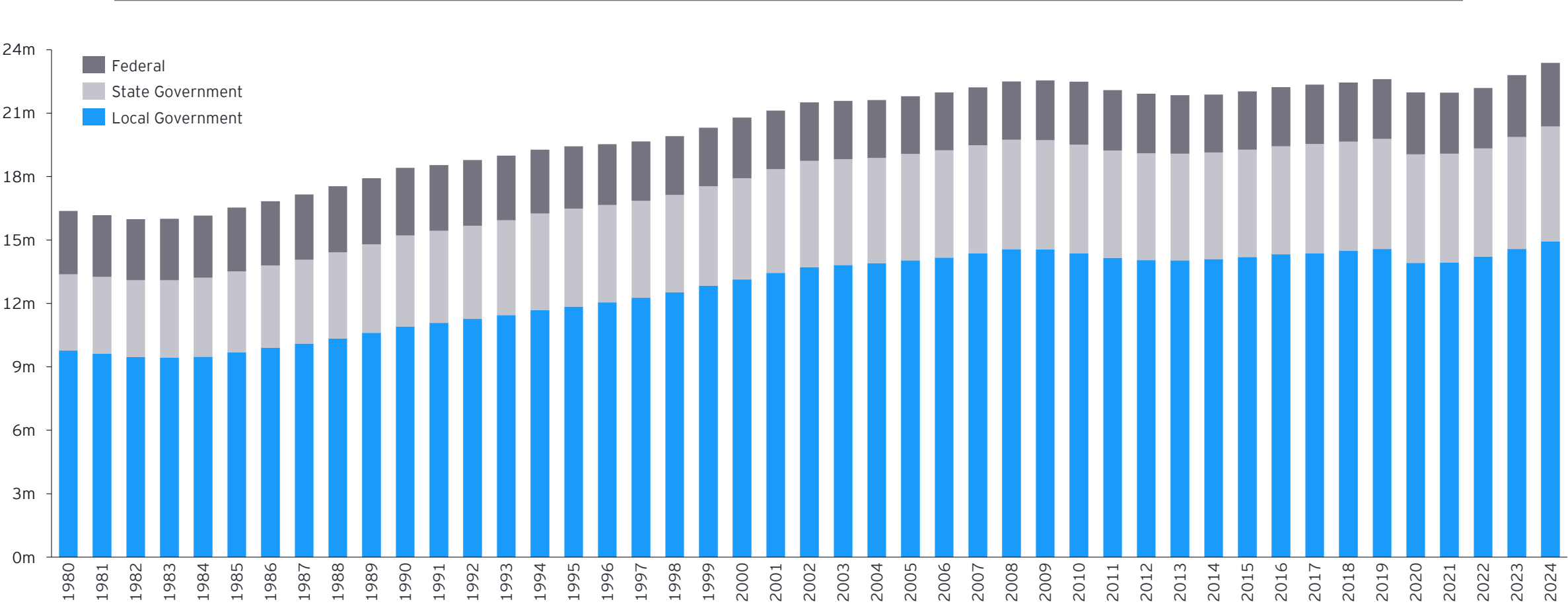
1. Entitlement programs include Social Security, Medicare, Medicaid (within Health), Income Security, and parts of Veterans Benefits, as they provide mandatory benefits to eligible individuals under current law.
Source: U.S. Treasury; EY-Parthenon

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Government employment increase since 1980s has been driven by local and state employment – total employment surpassed 23m in 2024

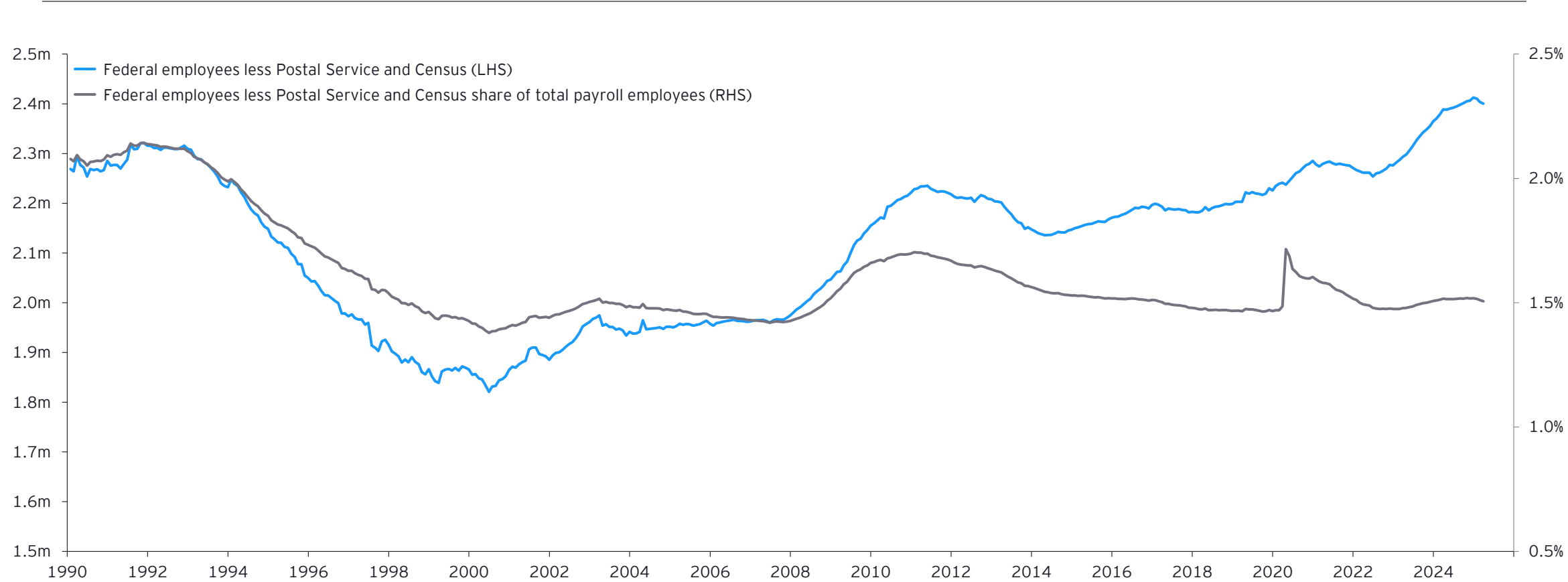
Employees in the US government sector
Q1 2010-Q1 2025



Source: Bureau of Labor Statistics

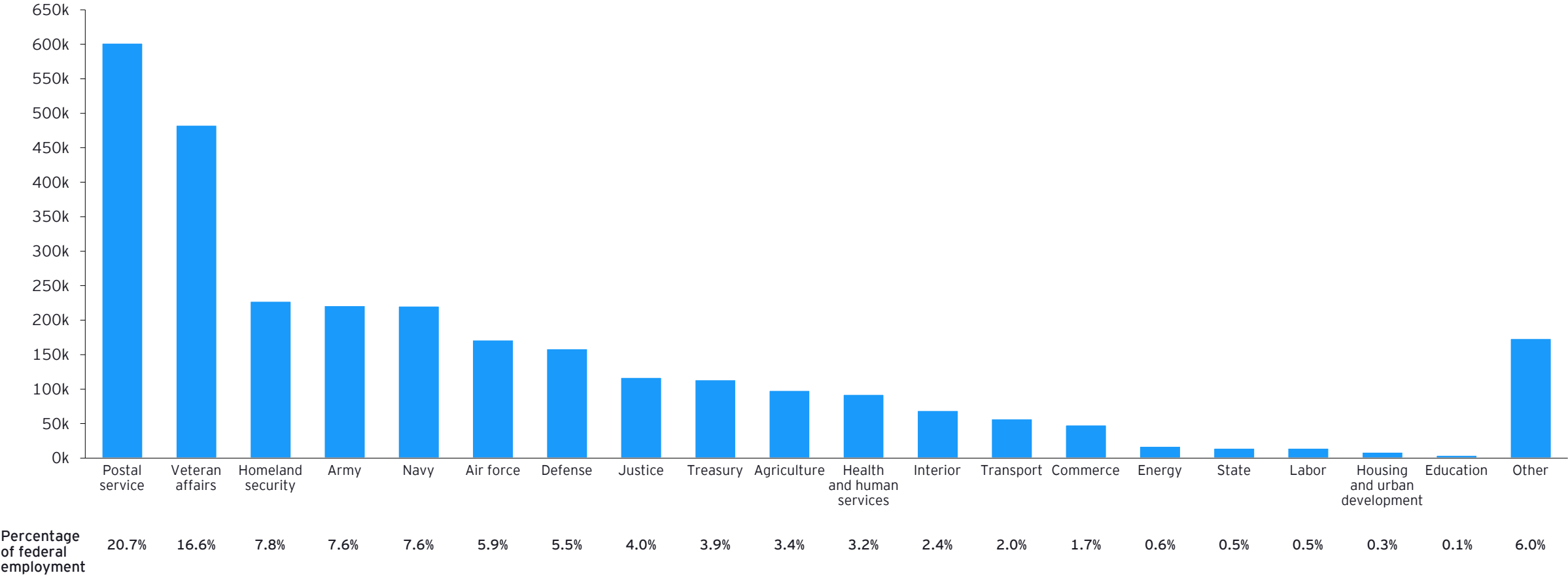
Federal employment rose to a record high of 2.4m in 2024, but its share of total payrolls has remained steady around 1.5% since 2000

US number of federal employees and share of total employment
January 1990-March 2025



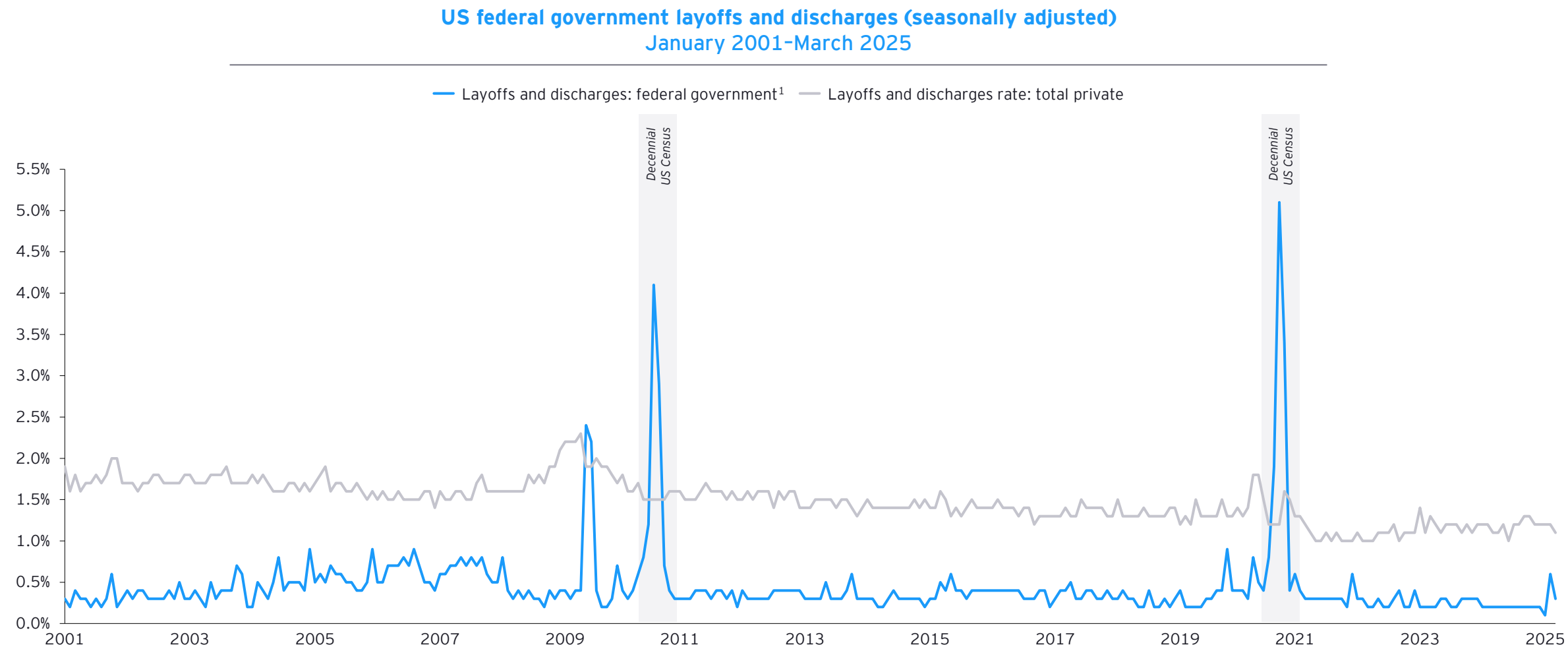
Total workforce across different federal departments

US civilian employment by federal agency
September 2024



Source: Office of Personnel Management; Bureau of Labor Statistics

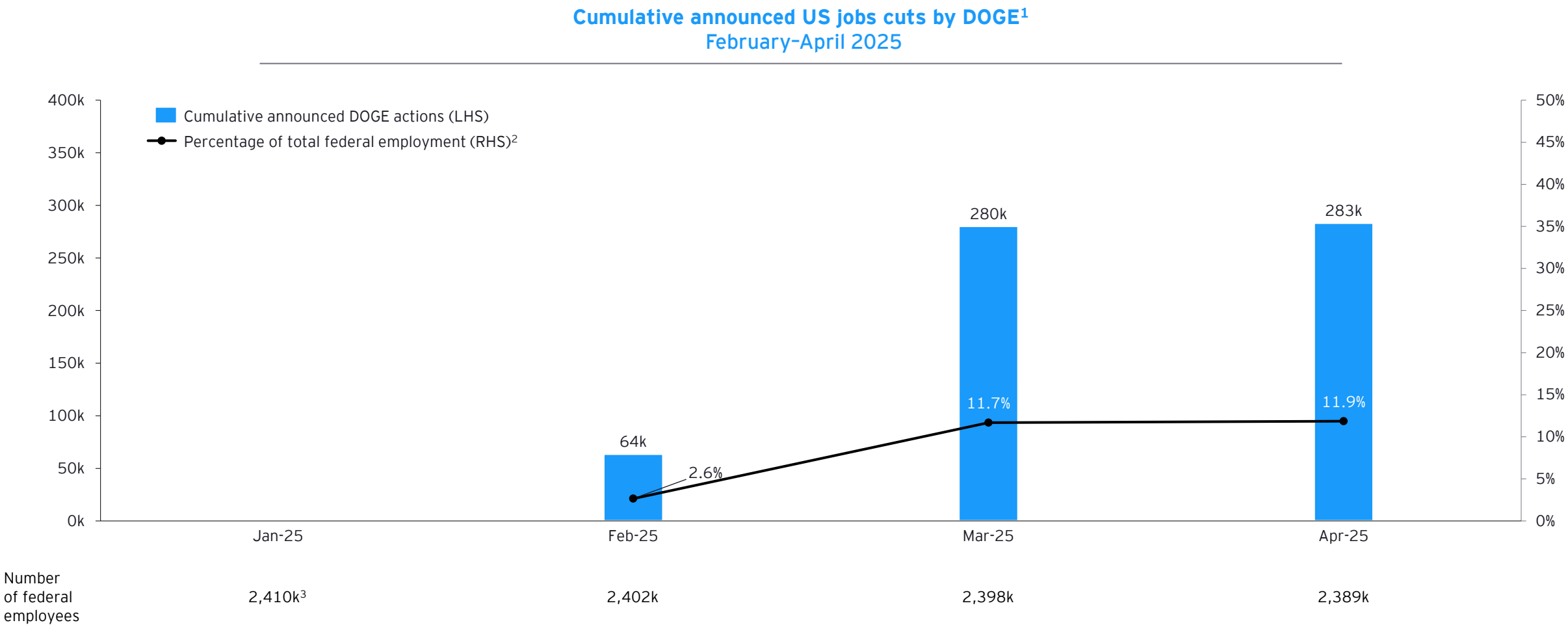
The layoff rate in the public sector has historically been roughly one-fourth of the rate seen in the private sector



1. The increases in federal employment layoffs in 2010 and 2020 are primarily due to the termination of temporary positions created for the decennial US Census; they do not represent fundamental changes in the workforce structure.

Source: Bureau of Labor Statistics

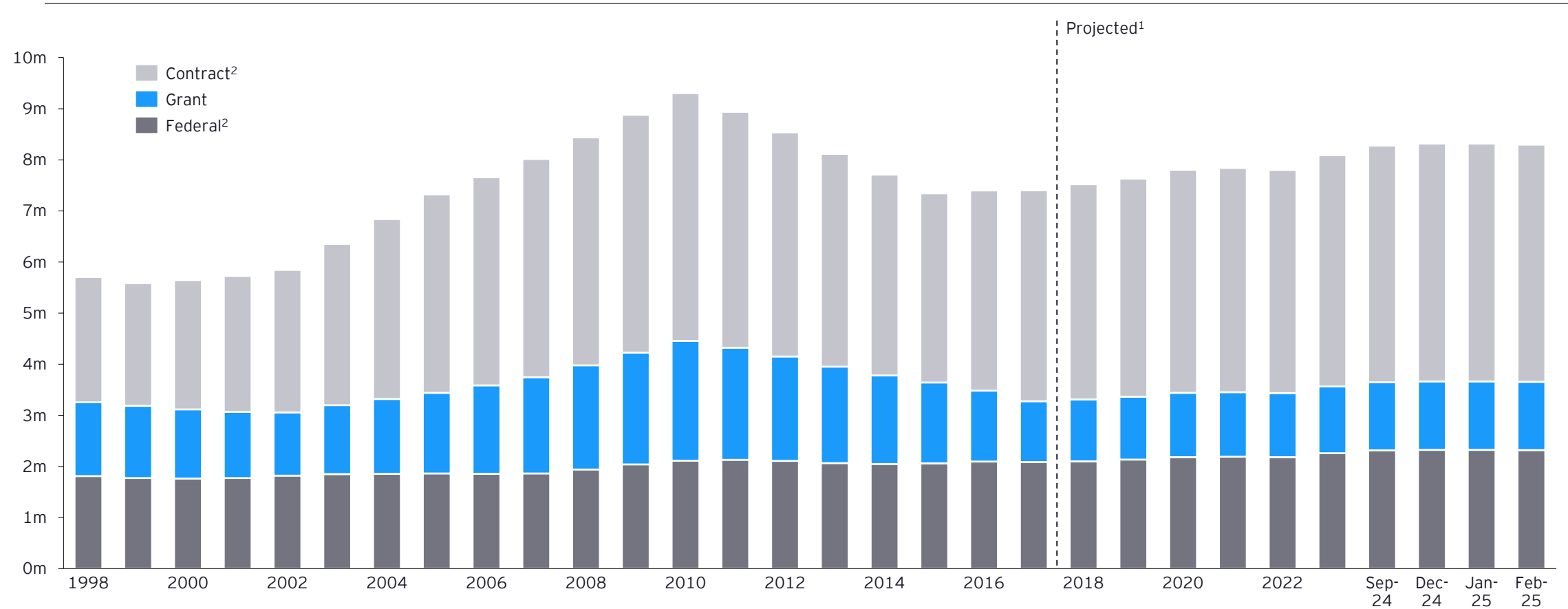
Since the start of the year, DOGE actions have been attributed to 283k layoff plans of federal workers and contractors, but federal payrolls have only declined by 21k



1. Department of Government Efficiency.
2. Federal employment excluding Postal Service and Census workers.
3. January included for relative comparison.
Source: Challenger, Gray & Christmas; Haver Analytics

For every federal employee, there are 2.6 additional contractors or grant workers, which means cutting 200k federal workers could impact 720k workers

US federal industrial workforce
1998-February 2025 (projected)¹



1. Projections assume a constant ratio of federal full-time equivalents (FTEs) to contract/grant FTEs. Projections for contract/grant FTEs start in 2018; federal FTE projections start in September 2024.
2. Contract/grant FTEs data for years where FTE data is unavailable is approximated with linear interpolation.
Source: Office of Personnel Management; EY-Parthenon

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Please direct initial questions and requests to Dan, Shikhar and Daler.

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