WEEKLY UPDATE

United States: An X-Ray of the Federal deficit.

The US Federal deficit shot up unexpectedly in 2023 to more than 6% of GDP. Projections suggest it is likely to remain high through 2024. This has increased markets concerns, who are worried about the sustainability of US public debt, and helped drive the autumn surge in long-term yields. Detailed analysis shows two main factors are inflating the deficit: falling Federal government revenues and rising debt interest. On the other hand, despite the hefty deficit, strong headline growth in the economy has kept public debt stable as a share of national income. And even if the economy starts to stutter, the government has plenty of levers it can pull to get debt back on track ... politics permitting.

Deficit is mostly due to a fall in revenue. The United States economy has grown spectacularly this year, with headline growth – i.e. raw growth unadjusted for inflation – estimated at 6.6%. Normally, stronger growth should increase the government revenues. However, the Federal government's income has instead been shrinking, by around 8% in annualised terms in October, which explains much of the rising deficit. The prime culprit is a fall in the tax income from household income (**chart 1**), itself due to three factors: a decline in capital gains tax receipts from financial and real estate assets as markets underperformed in 2022, special tax holidays to help people through severe weather events, and the continuing impact of cuts in tax rates voted through in 2017 and scheduled to remain in place until 2025. The secondary driver of falling receipts is lower profit transfers from the Federal Reserve to the Treasury. Finally, corporation tax receipts have remained stable as a share of GDP due to tax breaks on investment brought in by the Inflation Reduction Act (IRA). Some of these factors are temporary, which should mean the tax take rises slightly in 2024 bringing a slight improvement in the deficit.

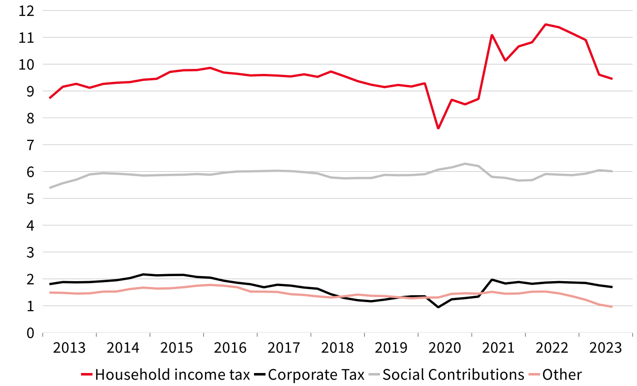
Debt service costs are boosting spending. In contrast, the spending side of the public accounts had a positive contribution in the deficit dynamic. Public spending continues to decline as a share of GDP, falling from 30% in 2021 to 23% in 2023. Partly this is due to the end of the moratorium and the early repayment of student's loans to the Department of education (USD 680 bn). Other major spending items, aside from debt interest, have moved in line with inflation. So, the only spending item to really increase in 2023 was debt service costs, which jumped from 1.5% of GDP to 2.5% in 2023. This largely mirrors the increase in interest rates but has been given an extra boost by a shift in the structure of Federal borrowing to rely increasingly on short-term bills, the segment where rates have risen most (**see chart 2**). Short-term debt now makes up 20% of public sector financing.

Public debt ratios remain under control so far. Deficits have been running high since 2020 but public marketable debt as a share of GDP has remained broadly stable over the period at around 95%. This is basically because nominal GDP growth has been rising substantially faster than the debt service burden. Provided nominal growth remains high, and higher than debt interest, the primary federal deficit should not jeopardize the sustainability of US public sector debt. Should the nominal growth rate slow sharply while interest rates remain high the debt path might start to look problematic. In these circumstances, though, the various branches of government could reverse their recent tax cuts and restore the public finances without too much difficulty. The big issue here is whether they can achieve the necessary political stability to push through such measures.

Growth in the federal deficit in 2023 mainly reflects lower revenues

United States: Federal government revenues

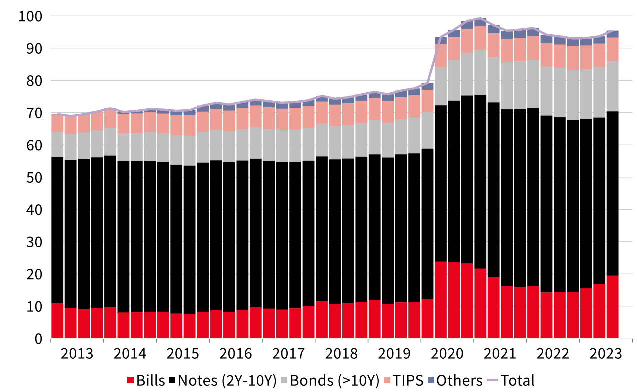
% of GDP



Government debt-to-GDP ratio remains stable due to higher nominal debt growth

United States: Marketable public debt

% of GDP



SOCIETE GENERALE
Private Banking

OUR MACRO COMMENTS

Events of the week

Bank lending in the euro area continues to slow, expanding at yearly rate of just 0.1% in October. Bank loans to households fell to 0.6% in October from 0.8% in September, while loans to non-financial companies actually fell, by 0.7%, the first decline since Covid broke. Bank loans in France seem to be holding up better than in the rest of the monetary union. Lending grew by 1.5%, including a near 1-point rise for households. With monetary policy set to remain tight over coming months, lending too is likely to stay weak.

Euro area inflation declined to 2.4% in November on a yearly rate, its lowest level since July 2021 and once again well below forecasts. This was largely due to the ongoing fall in energy prices, down by 11.5% in November year-on-year, and the ongoing slowdown in food price inflation. The prices of services and non-energy industrial goods also slowed down, driving underlying inflation down to 3.6% compared to 3.9% forecast.

Figures of the week

	Actual	Forecast	Last
Consumer Confidence (November)	87 ⬆*	84	84
Inflation (November, YoY)	3.4% ⬇	3.7%	4%
Inflation (November, YoY)	3.2% ⬇	3.5%	3.8%
Unemployment Rate (November)	5.9% ⬆	5.8%	5.8%
Retail Sales (October, YoY)	4.2% ⬇	5.9%	6.2%
Consumer Confidence (November)	36.1 ⬆	35.6	35.7
Economic Sentiment (November)	93.8 ⬆	93.7	93.5
Unemployment Rate (October)	6.5% ➡	6.5%	6.5%
Inflation (November, YoY)	2.4% ⬇	2.7%	2.9%
Core Inflation (November, YoY)	3.6% ⬇	3.9%	4.2%

Sources : Macrobond, December 1st 2023.
*Arrows represent variation from consensus

The week ahead

Monday

Inflation (November)

Tuesday

Industrial Production (October)

PMI services (November, ISM)

Wednesday

Retail Sales (October)

Friday

Job creation and unemployment (November)

SOCIETE GENERALE
Private Banking

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	3,90	3,90	3,65	1,91	1,39
USD SOFR O/N	5,31	5,31	5,30	4,30	3,82
JPY TONAR O/N	-0,02	-0,01	-0,05	-0,02	-0,08
GBP SONIA O/N	5,19	5,19	5,19	3,43	2,93
CHF O/N	1,69	1,69	1,79	0,80	0,80

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	82,61	1,3%	-3,1%	-3,9%	-4,6%
Or, USD/oz	2 044	2,7%	5,2%	11,9%	15,6%
Copper, USD/metric ton	8 472	0,9%	0,5%	0,9%	3,3%
Platinium, USD/oz	938	0,1%	-4,6%	-11,9%	-7,2%
Palladium, USD/oz	1 047	-3,1%	-15,4%	-41,4%	-44,4%
Silver, USD/oz	24,97	4,7%	1,4%	4,3%	15,8%

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,98	3,12	3,06	2,98	2,41
10Y Bund	2,41	2,56	2,54	2,44	1,94
10Y BTP	4,11	4,25	4,18	4,55	3,87
10Y JGB	0,75	0,70	0,63	0,41	0,25
10Y Bonos	3,42	3,55	3,55	3,51	2,94
10Y Swiss	0,86	0,93	0,95	1,57	1,06
10Y Gilt	4,17	4,24	4,43	3,66	3,17
10Y USTnote	4,27	4,42	4,12	3,88	3,68

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,10	0,7%	0,9%	2,8%	5,9%
EUR/CHF	0,96	-0,2%	0,3%	-2,7%	-2,1%
USD/GBP	0,79	-1,9%	0,2%	-5,1%	-6,2%
USD/JPY	147,41	-1,5%	1,1%	12,7%	5,7%
USD/BRL	4,89	-0,1%	0,2%	-8,4%	-7,0%
USD/CNY	7,08	-1,0%	-2,7%	2,7%	-0,1%
USD/RUB	88,59	0,0%	-7,8%	21,4%	45,5%

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,10	3,33	3,40	3,12	2,77
EUR Corporate Baa	4,32	4,51	4,59	4,65	4,22
GBP Corporate Baa	4,83	4,91	5,42	4,59	4,29
USD Corporate Aaa	4,81	4,97	4,81	4,62	4,43
USD Corporate Baa	5,82	6,02	5,90	5,70	5,60
USD EM aggregate	7,61	7,79	7,64	7,52	7,59

Equity indices	-1W	-3M	YTD	-12M
Developped markets	0,4%	-0,6%	2,6%	0,2%
Euro area	0,4%	1,3%	13,3%	10,2%
Germany	1,3%	1,7%	14,9%	12,3%
France	0,1%	-1,3%	10,2%	7,9%
United Kingdom	-0,6%	-0,7%	-0,4%	-2,0%
Switzerland	-0,3%	-2,6%	0,7%	-2,9%
United States	-0,1%	0,8%	18,5%	11,5%
Japan	-0,6%	2,2%	25,0%	19,1%
Brazil	0,1%	7,3%	18,6%	12,2%
Hong Kong	-4,2%	-8,1%	-14,1%	-8,6%
India	1,3%	2,8%	9,4%	6,0%
China	-1,6%	-7,9%	-9,9%	-9,5%

Source: Bloomberg, on December 1st, 2023.
-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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