Notes on the Federal Fiscal Forecasts

April 2017

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The April vintage includes a new forecast for several federal fiscal series, which have been adjusted in accordance with new assumptions. The forecast reflects about $500 billion in tax cuts over 10 years. These assumptions are consistent with deficit-neutral reforms or no reforms at all to the personal income tax code. As a result, the forecast path for FGFRTP (NIPA: Government Current Receipts - Federal - Tax Receipts - Personal Income, (Bil. USD, SAAR)) is more closely aligned with the forecast prior to the election.

In regard to business taxes, the forecast assumes that the border-adjustment tax fails to gain congressional approval and that corporate tax rates are lowered from 35% to 28%. The baseline path for FGFRTCI (NIPA: Government Current Receipts - Federal - Tax Receipts - Corporate Income, (Bil. USD, SAAR)) has been downwardly adjusted.

On the spending side, the April baseline forecast assumes a much smaller defense spending increase than that in the proposal from the Office of Management and Budget with no net offsetting cuts to nondefense discretionary spending. The forecast for FGFN (NIPA: Government Consumption Expenditures and Gross Investment - Nondefense - Total, (Bil. USD, SAAR)) is largely unchanged from the March vintage, while the forecast for FGFD (NIPA: Government Consumption Expenditures and Gross Investment - National Defense, (Bil. USD, SAAR)) reflects higher defense spending that persists beyond 2021.

The baseline forecast now also assumes that an infrastructure assistance package will become law by the end of 2017. The forecast assumes that the proceeds from the repatriation of foreign earnings from overseas, a one-time receipt of more than $200 billion, is used to fund an equal amount of infrastructure spending. This is the same amount of infrastructure spending penciled into the March forecast, and no changes were made to the path of FGFNIS (NIPA: Government Consumption Expenditures - Nondefense - Structures, (Bil. USD, SAAR)).

These changes to taxes and spending will result in a measurably positive effect on economic growth. The impacts are largest in 2018 and 2019, when tax savings and infrastructure are at their peak. The implications turn negative quickly as the direct impact of the fiscal stimulus fades beyond 2020, and the higher deficit and national debt weigh on the pace of long-term growth. The longer-run forecast path is now modestly lower for FGFB (Federal Budget: Surplus or Deficit, (Bil. USD, NSA)).