



# Economics Group

**John E. Silvia, Chief Economist**  
[john.silvia@wellsfargo.com](mailto:john.silvia@wellsfargo.com) • (704) 410-3275  
**Michael A. Brown, Economist**  
[michael.a.brown@wellsfargo.com](mailto:michael.a.brown@wellsfargo.com) • (704) 410-3278

## Federal Budget Deficit Outlook

*Given somewhat stronger revenue growth combined with ongoing declines in outlay growth, we have reduced our budget deficit forecast for the year. Policy uncertainty remains, however, in the second half of the year.*

### Revenues Up, Outlays Down – A Temporary Phenomenon

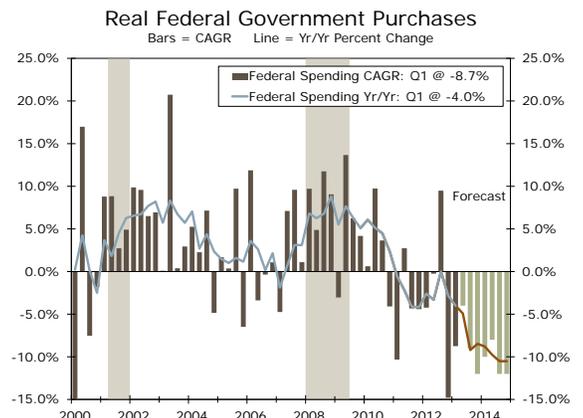
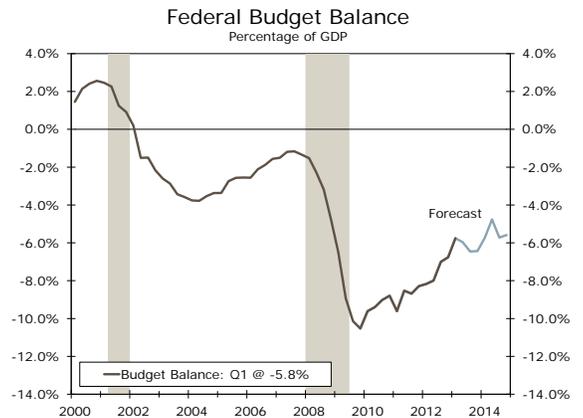
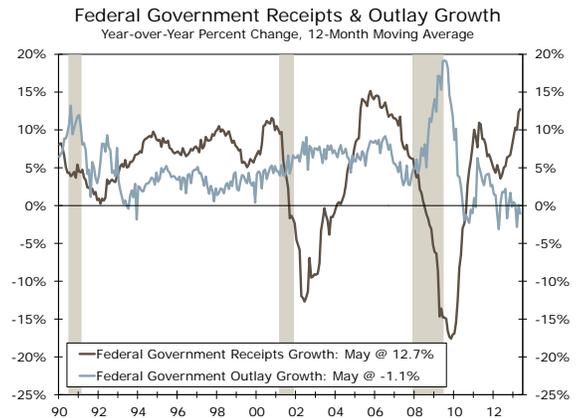
Eight months into the federal fiscal year, revenue collections are outperforming expectations on news of higher tax collections and repayments from Fannie Mae and Freddie Mac expected in June. In addition, the budget sequestration set in motion in March has led to a pullback in federal outlays. While the automatic spending cuts will likely remain in place, there is reason to believe that the boost to federal revenues will likely not continue. The higher tax revenue collections in April were primarily supported by higher income tax collections as firms paid bonuses and dividend payments ahead of the impending tax rate changes in January. This suggests that revenues will return to a more normalized level through the rest of this year, as evidence by the May Treasury Statement which showed collections rising 9.1 percent over last year's levels for the month as opposed to the 27.6 percent rise in April (top graph). In addition, next April's tax collections will likely not be as impressive due to an offsetting effect to this year's push by firms at the end of 2012 to avoid the new higher 2013 tax rates by paying bonuses and dividend income ahead of the tax policy changes.

### Budget Deficit Outlook Improves

Given the higher-than-expected revenue collections along with continued outlay reductions, we have revised our forecast for the federal budget deficit to \$850 billion from \$900 billion for the 2013 federal fiscal year. We have also downwardly revised our budget deficit forecast for federal fiscal year 2014 to \$750 billion to reflect the higher-than-expected tax revenues from January's tax policy changes as well as our expectation that the budget sequestration will remain in effect through the next fiscal year (middle graph). The ongoing cuts to federal spending will continue to negatively affect headline GDP growth through the end of our current forecast horizon of 2014 (bottom graph).

### Fall Debt Ceiling Debacle 2.0?

While increased revenues and reduced outlay growth is some welcome news on Capitol Hill, there are several outstanding budget issues that need to be addressed in the coming months. The 2014 federal fiscal year budget has yet to be resolved with the House and Senate budget proposals still far apart and no immediate plans for a conference committee to resolve these differences. In addition, according to Treasury Secretary Jack Lew, the nation will run out of options for remaining under the debt limit sometime after September 2<sup>nd</sup>. The ongoing political gridlock around both the federal budget and the debt ceiling leads us to believe that Congress will again utilize continuing resolutions to keep the government functioning beyond September especially in light of the impending 2014 election cycle. The net result for business decision makers is more policy uncertainty ahead.



## Wells Fargo Securities, LLC Economics Group

|                       |   |                                  |                                     |
|-----------------------|---|----------------------------------|-------------------------------------|
| Diane Schumaker-Krieg | Global Head of Research, Economics & Strategy | (704) 410-1801<br>(212) 214-5070 | diane.schumaker@wellsfargo.com      |
| John E. Silvia, Ph.D. | Chief Economist                               | (704) 410-3275                   | john.silvia@wellsfargo.com          |
| Mark Vitner           | Senior Economist                              | (704) 410-3277                   | mark.vitner@wellsfargo.com          |
| Jay Bryson, Ph.D.     | Global Economist                              | (704) 410-3274                   | jay.bryson@wellsfargo.com           |
| Sam Bullard           | Senior Economist                              | (704) 410-3280                   | sam.bullard@wellsfargo.com          |
| Nick Bennenbroek      | Currency Strategist                           | (212) 214-5636                   | nicholas.bennenbroek@wellsfargo.com |
| Eugenio Aleman, Ph.D. | Senior Economist                              | (704) 410-3273                   | eugenio.j.aleman@wellsfargo.com     |
| Anika Khan            | Senior Economist                              | (704) 410-3271                   | anika.khan@wellsfargo.com           |
| Azhar Iqbal           | Econometrician                                | (704) 410-3270                   | azhar.iqbal@wellsfargo.com          |
| Tim Quinlan           | Economist                                     | (704) 410-3283                   | tim.quinlan@wellsfargo.com          |
| Michael A. Brown      | Economist                                     | (704) 410-3278                   | michael.a.brown@wellsfargo.com      |
| Sarah Watt            | Economist                                     | (704) 410-3282                   | sarah.watt@wellsfargo.com           |
| Kaylyn Swankoski      | Economic Analyst                              | (704) 410-3276                   | kaylyn.swankoski@wellsfargo.com     |
| Sara Silverman        | Economic Analyst                              | (704) 410-3281                   | sara.silverman@wellsfargo.com       |
| Zachary Griffiths     | Economic Analyst                              | (704) 410-3284                   | zachary.griffiths@wellsfargo.com    |
| Peg Gavin             | Executive Assistant                           | (704) 410-3279                   | peg.gavin@wellsfargo.com            |
| Cyndi Flowe           | Administrative Assistant                      | (704) 410-3272                   | cyndi.h.flowe@wellsfargo.com        |

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC. ("WFS") is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. ("WFBNA") is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. WFS and WFBNA are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2013 Wells Fargo Securities, LLC.

### Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Services Authority. The content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FSA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

WELLS  
FARGO

SECURITIES