First Trust
Weekly OUTLOOK

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Modest Government Spending Shrinkage

The federal government is still on an unsustainable fiscal path with the national debt reaching $39 trillion in March and set to move higher in the years ahead as we keep running budget deficits. However, beneath the headlines both revenue and spending trends have shifted in a positive direction. It's possible that investors are recognizing this and this may be helping buoy stock markets.

On the tax front, yes, the Big Beautiful Bill enacted last year made permanent many of the temporary tax changes originally enacted back in 2017. And because of this the official scorekeepers in Congress could describe it as a "tax cut," because in the absence of passing the BBB many tax rates would have gone back up. But for most people the BBB simply kept the tax system the same as it had been for the past several years, so they avoided a tax hike, but didn't get a cut.

In the meantime, however, the Trump Administration has raised tariffs substantially. This includes finding ways to keep higher tariffs in place even after the Supreme Court struck down many of the new Liberation Day tariffs introduced in 2025. As a result, all combined, the tax system is designed to raise more revenue than it has for years.

In addition, federal government spending has been roughly flat since President Trump took office even as real GDP and inflation have continued to rise. In the twelve months ending in January 2025 – the final twelve months of the Biden Administration – net outlays were $7.05 trillion. In the most recent twelve months (ending March 2026), net outlays have been $7.09 trillion, which is barely a rounding error.

What makes this impressive is that it's happened even as more Baby Boomers have been retiring, which has driven up Social Security and Medicare spending. In addition, net interest on the national debt has been rising and Trump Administration has raised military spending.

Put these two phenomenon together – more tariff revenue and some modest budget cuts – and the deficit has dropped, as well. The budget deficit was $2.12 trillion in the final twelve months of the Biden Administration ending in January 2025 (equal to 7.2% of GDP) but was $1.64 trillion in the past twelve months (we estimate equal to 5.2% of GDP).

Some of this progress against the deficit may not hold. Much of the revenue from tariffs that were struck down by the courts will eventually be refunded. The Iran War will require extra spending. Also, you can't make the same cuts multiple times. USAID can only be liquidated once and was low-hanging fruit.

But hopefully in the months ahead government officials will dig deeper into rooting out fraud in government health care programs like Medicare (think fake hospice centers) and Medicaid (think fake autism centers and other scams that have yet to be exposed). This would help put some more downward pressure on entitlement spending, as well.

Again, none of this suggests our long-term fiscal issues have been solved. Our deficit is still enormous even though the unemployment rate is 4.3%, which is a national embarrassment. The last fiscal year before COVID was 2019, when we ran a budget deficit of 4.6% of GDP. We are still not even back to that level, and that wasn't exactly good, either.

Ultimately what matters is that the American public makes spending and deficit control a priority when they vote, this year, in 2028, and beyond. This was true in much of the 1980s and 1990s, politicians listened, and better government was the result.

One thing for voters to remember is that the President and the administration can only do so much. As we see often, executive orders are reversed when new leadership comes in (latest example: Virginia). Congress needs to codify a different direction in spending, taxation, and regulation in order to lock-in the current progress in budget trends. It remains to be seen whether this will happen.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-21 / 7:30 am	Retail Sales – Mar	+1.4%	**+1.5%**		+0.6%
7:30 am	Retail Sales Ex-Auto – Mar	+1.4%	**+1.4%**		+0.5%
9:00 am	Business Inventories – Feb	+0.3%	**+0.4%**		-0.1%
4-23 / 7:30 am	Initial Claims – Apr 18	210K	**209K**		-207K