First Trust Portfolios Canada
Monday Morning OUTLOOK

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A Recession Wouldn't Help the Budget

Every so often we hear a theory that makes sense superficially but on closer examination doesn't add up. The most recent one is that the Trump Administration wants a recession (or at least wouldn't mind one) because interest rates would drop, making it easier to service the national debt.

We will come back to this theory in a moment, but it seems like this is either misguided thinking, or an attempt to place political blame for long-term problems.

Everyone knows that there has to be a price paid for lousy management. If you treat your body poorly, say with gluttony or sloth, it may seem fun for a while, but you eventually pay a price. And rehab is never fun. Companies that manage themselves poorly are often taken over by better managers who make drastic changes. Not fun either. And the government, when it gets out of control, needs to be reined in, too, which can upset the lives of those who let it get that way in the first place.

No one blames the rehab physician or nutritionist for recommending a path back to health, even if they take away the fun. But for some reason those who come in to fix broken corporations get nicknames like "Chainsaw Al" or "Rambo in Pinstripes." Now, Elon Musk may brandish a chainsaw (as a gift from Javier Milei) but doesn't wear pinstripes, so he gets called other names.

What we are saying is that any budget restraint now being implemented might cause some short-term pain – maybe even a recession – but that doesn't mean a recession is by design to make the debt easier to service.

To the contrary, a recession would make our fiscal situation worse, not better. Yes, a recession would likely lead to lower interest rates. But because the average maturity of government debt is roughly five years, interest payments would only fall gradually.

In the meantime, tax revenue would drop and spending on unemployment insurance and other programs for the jobless and low-income workers would go up faster. And all of this would be included in any CBO scoring of the budget. Plus, there'd be increased pressure on Congress to pass temporary measures to fight the recession by expanding the deficit even more, like during COVID.

Even though net interest on the debt has soared, it's still only about 13% of federal spending. So even if a recession could temporarily reduce interest, making that 13% easier to service, it would dry up revenue used to finance the other 87% of spending.

To be clear, we think the Administration is aware that its efforts to cut the government could cause short-term economic pain and they're not letting that fear deter them. But that doesn't mean they're trying to cause a recession; they'd certainly prefer that the economy keeps growing amid all the spending cuts, because economic growth will help limit debt in the long run.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-17 / 7:30 am	Retail Sales – Feb	+0.6%	**+0.7%**	+0.2%	-0.9%
7:30 pm	Retail Sales Ex-Auto – Feb	+0.3%	**+0.4%**	+0.3%	-0.4%
7:30 am	Empire State Mfg Survey – Mar	-1.9	**1.1**	-20.0	5.7
9:00 am	Business Inventories – Jan	+0.3%	**+0.3%**	+0.3%	-0.2%
3-18 / 7:30 am	Housing Starts – Feb	1.381 Mil	**1.379 Mil**		1.366 Mil
7:30 am	Import Prices – Feb	-0.1%	**0.0%**		+0.3%
7:30 am	Export Prices – Feb	-0.2%	**+0.4%**		+1.3%
8:15 am	Industrial Production – Feb	+0.2%	**+0.1%**		+0.5%
8:15 am	Capacity Utilization – Feb	77.8%	**77.8%**		77.8%
3-20 / 7:30 am	Initial Claims – Mar 15	224K	**222K**		220K
7:30 am	Philly Fed Survey – Mar	10.0	**9.0**		18.1
9:00 am	Existing Home Sales – Feb	3.940 Mil	**3.930 Mil**		4.080 Mil