SOUNDING THE ALARM

Moody’s Bleak U.S. Economic Outlook: From Stable to Negative

Over the weekend, Moody’s Investors Service lowered its fiscal outlook for the United States government debt from stable to negative. Credit rating agencies, such as Fitch, Moody’s, and Standard & Poor’s, provide ratings of the creditworthiness of debt issuers as a tool for investors.

The report pointed to heightened interest rates and an unclear path within a divided government to address deficit spending as threatening the fiscal stability of the United States with the potential to wreak further havoc on the American economy.

WORD ON THE STREET

Via Moody’s

- “Downside risks to the U.S.’ fiscal strength have increased and may no longer be fully offset by the sovereign’s unique credit strengths.”

- “In the context of higher interest rates, without effective fiscal policy measures to reduce government spending or increase revenues, Moody's expects that the U.S.’ fiscal deficits will remain very large, significantly weakening debt affordability.”

- “In particular, the U.S.’ lack of an institutional focus on medium-term fiscal planning… is fundamentally different from what is seen in most other AAA-rated peers… [exacerbated by] limited fiscal flexibility - because a very large portion of nondiscretionary budgetary spending is on mandatory entitlement programs and debt service.”

THE BIG PICTURE

Moody’s reasons for cutting U.S. fiscal outlook include:

Downside risks of the U.S. fiscal situation have increased:

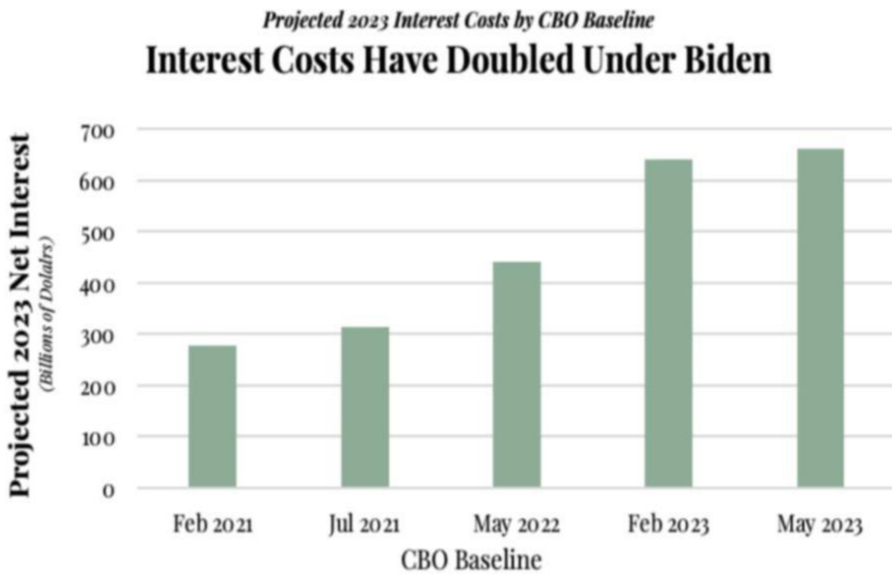
Moody’s negative long-term projections for the U.S. economy and fiscal stability are beginning to outweigh offsets from positive performance and America’s legacy as lender of last resort.

They note an increased likelihood of a negative economic climate in the near future due to high interest rates, deficits, and spending chipping away at the reliability and stability of the American economy. Moody's warns the United States is reaching an inflection point where the downside risk associated with U.S.-issued debt will force a credit downgrade.

Moody's expects deficits will remain high, spiking interest rates even higher and weakening debt affordability:

Interest rates have doubled under President Biden, rising to a fourteen year peak—and, as House Republicans have warned, they could continue to rise as inflation remains hot and deficits remain high.

In less than five years, interest payments on the debt will exceed what we spend on national defense. By 2033, interest payments will be the third most expensive federal program (behind only Social Security and Medicare) and consume 20 percent of federal revenue. By 2051, interest payments on the debt will be the largest item in the federal budget. High interest rates make it harder to dig ourselves out of the hole of federal debt.



[If we don't act now,](#) lawmakers of the future will have to choose between spending even more or siphoning resources away from other important services the government has to provide, including Medicare and national defense.

Lack of a medium-term fiscal framework:

Since the enactment of the Congressional Budget Act in 1974, Congress has not passed a budget on time in over 25 years—it's truly unacceptable, and a dereliction of Congress' most basic responsibility to the American people. Washington's broken budget process is failing our nation.

The House Budget Committee is pushing to find ways to responsibly reform the broken budget process. Our new [Budget Process Reform Task Force](#) is seeking solutions to change how Congress taxes and spends, including overhauling the Congressional Budget Act of 1974.

Our *reverse the curse* budget resolution also balances the budget in ten years and reduces deficits by $16.3 trillion over that same timeframe, resulting in a $130 billion surplus by FY2033. It's the way forward Americans are looking for to provide financial security and preserve the blessings of liberty for future generations of Americans.

? WHY IT MATTERS !

Why do we care what Moody's thinks?

A worsening outlook for U.S. debt means interest rates will be forced to rise to attract buyers due to higher perceived risk. This will raise interest rates on both the federal debt and individual American families. A decline in confidence in America's fiscal trajectory has already driven ten-year Treasury yields to a 16-year high, blowing up mortgage rates and interest on all other purchases in the U.S. economy to the highest level since 2007. This announcement has the potential to drive yields even higher.

Earlier this year, Fitch Ratings, another of the three major rating agencies, downgraded its U.S. credit ratings from AAA to AA+, citing "expected fiscal deterioration over the next three years" due to unsustainable spending and federal debt, only the second time our credit rating has been lowered in history.

Finally, the left-leaning Moody's is sounding the alarm on what House Republicans have repeatedly warned—insatiable government spending is destroying the U.S. economy, America's debt burden has grown unsustainable, and as we continue down this road, the U.S. fiscal outlook grows bleaker by the day.

THE BOTTOM LINE

Today, the debt is nearly unfathomable, standing at $33.7 trillion, and it continues to rise at a rapid rate as President Biden and Congressional Democrats continue to spend. As they continue their reckless spending spree, our deficits balloon, debt explodes, inflation spikes, and interest rates soar. The report from Moody's is just one more piece of the puzzle that points to the need for new leadership and a reformed approach to tackle our unprecedented fiscal challenges.