

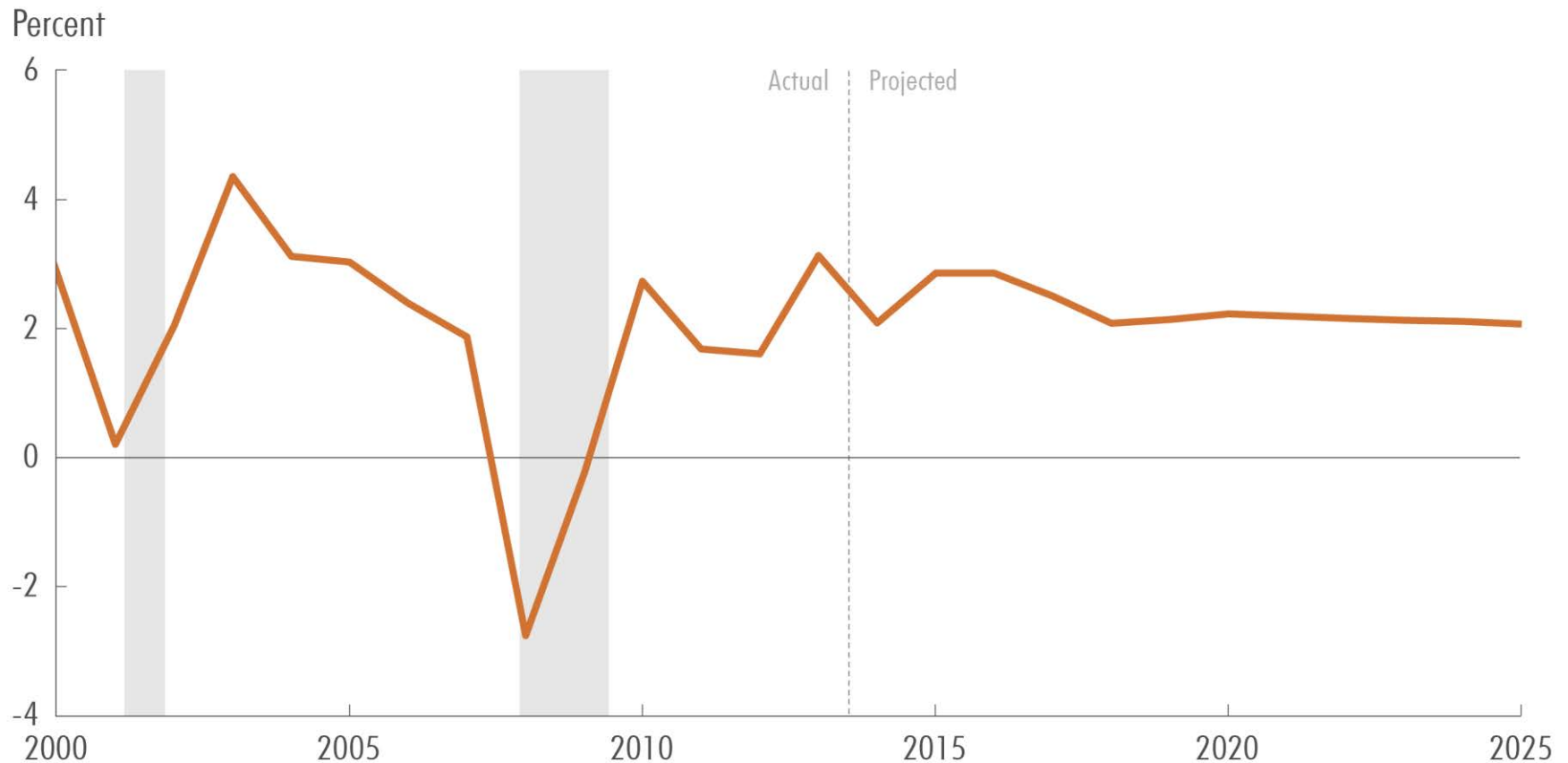
The Economic Outlook for 2015 to 2025 in 17 Slides

January 2015

For more details, see www.cbo.gov/publication/49892.

Under current law, economic activity will expand at a solid pace in 2015 and over the next few years, CBO projects.

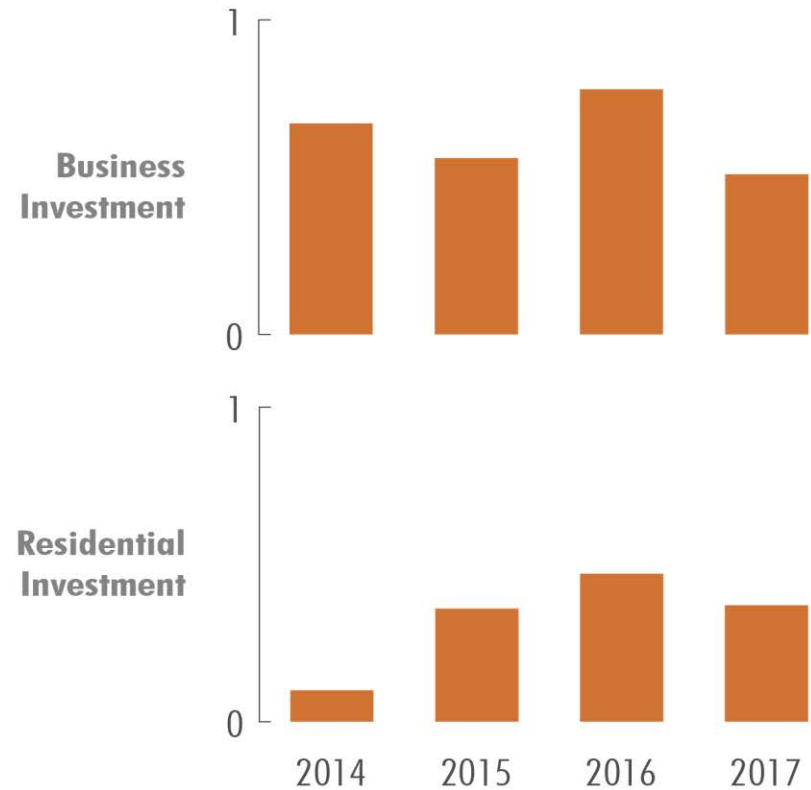
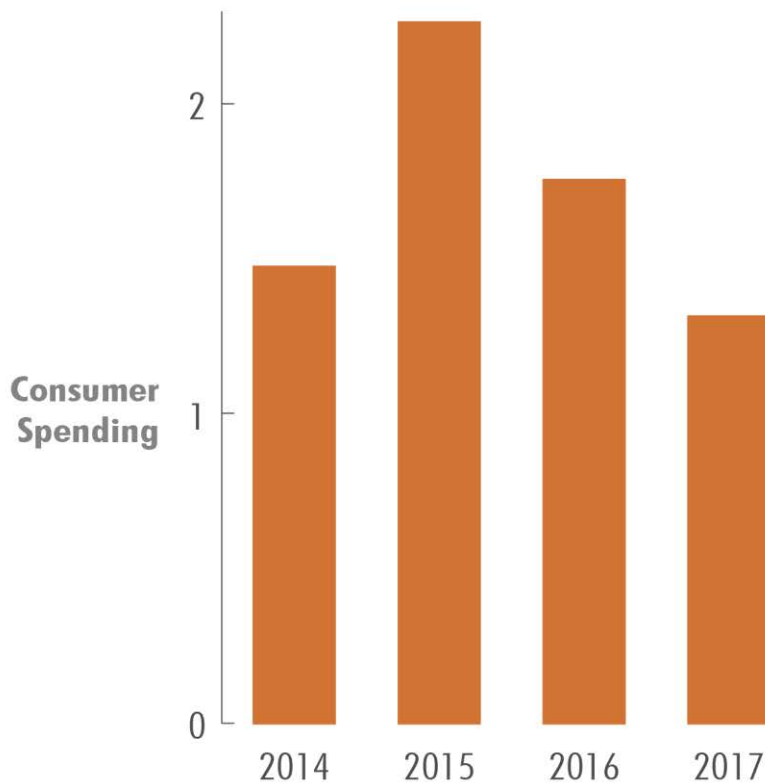
Real GDP Growth



Real (inflation-adjusted) GDP will grow by 2.9 percent this year and in 2016 and by 2.5 percent in 2017, CBO projects.

Contributions to the Growth of Real GDP

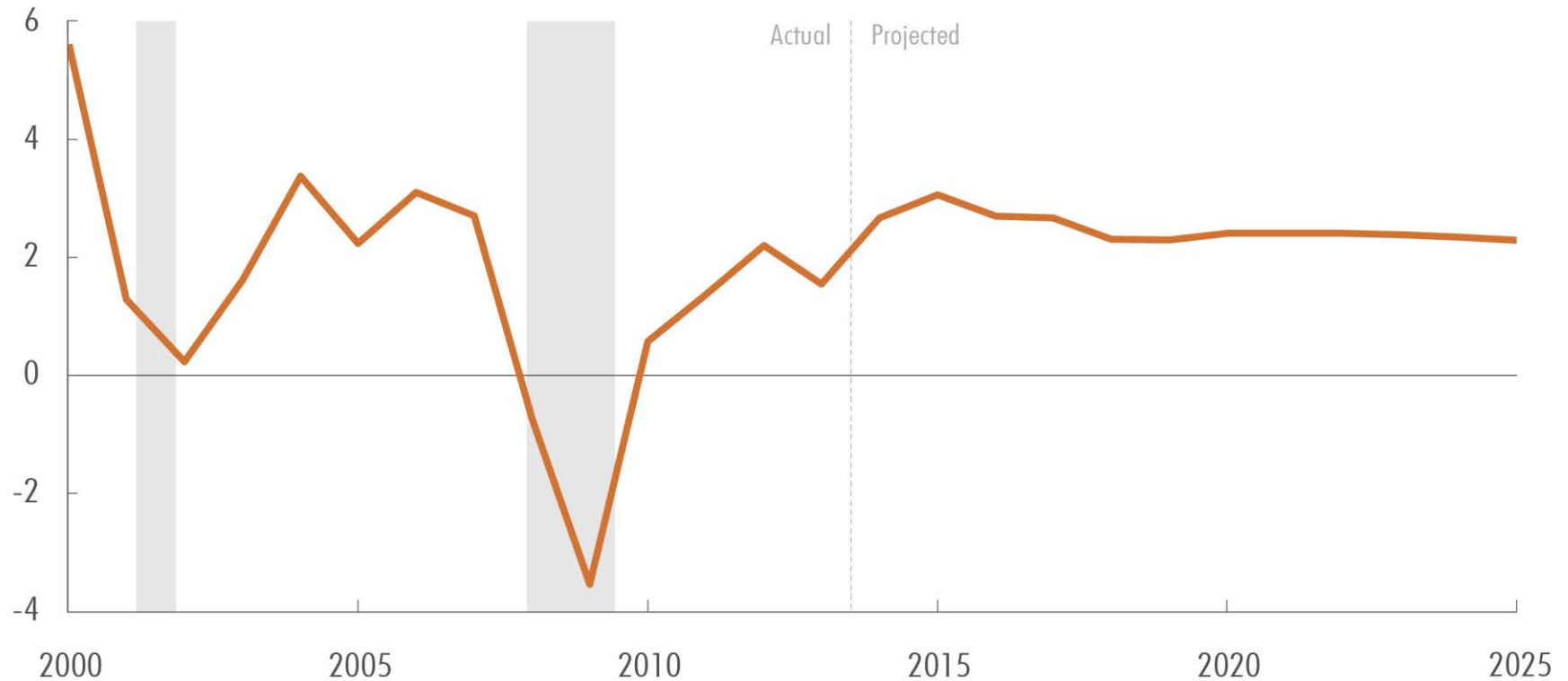
Percentage Points



Consumer spending and investment are expected to drive the growth of real GDP over the next few years, in CBO's estimation.

Growth in Real Compensation of Employees

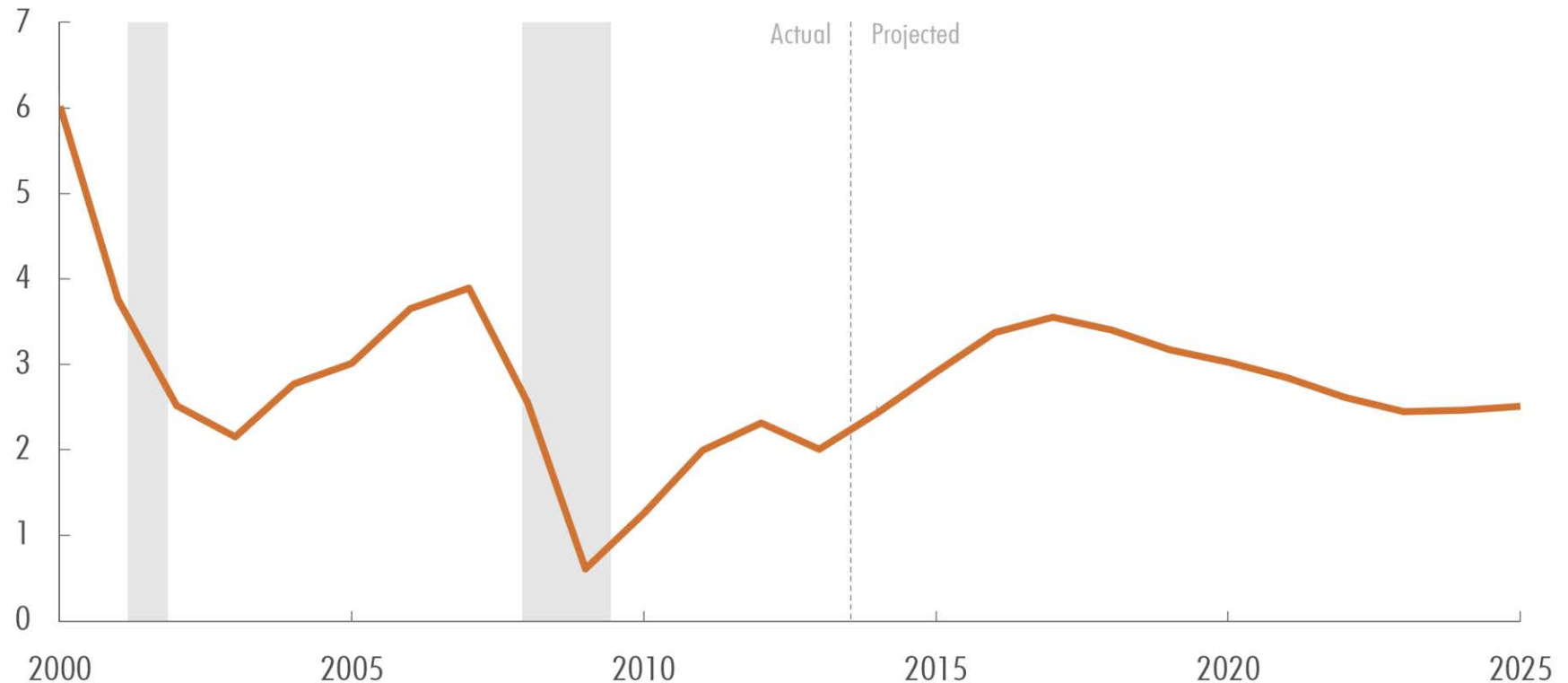
Percent



Solid growth in the real (inflation-adjusted) compensation of employees is projected to support faster growth in consumer spending in the next two years.

Growth of Capital Services

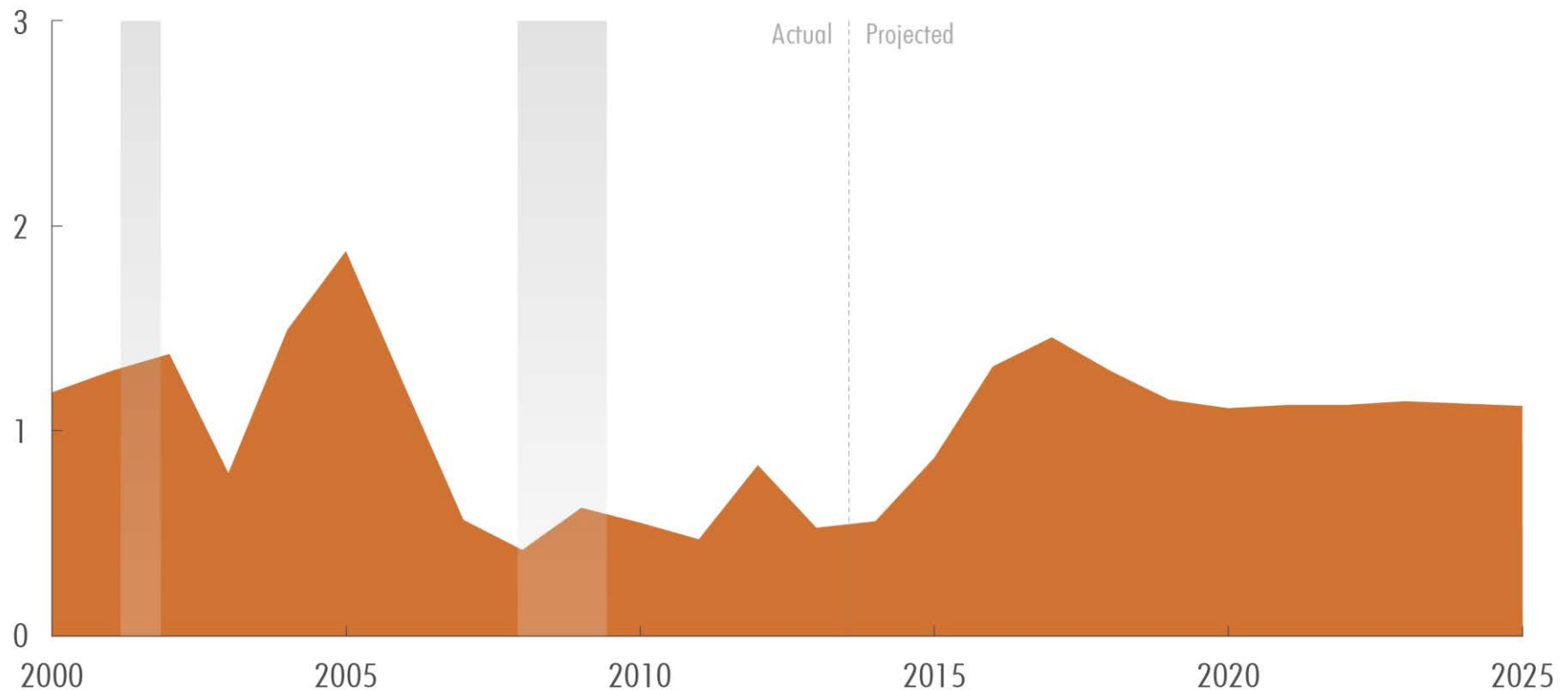
Percent



The growth of capital services (the flow of services available for production from equipment, structures, and intellectual property products) is projected to rise over the next few years because increases in the demand for goods and services will spur business investment.

Household Formation

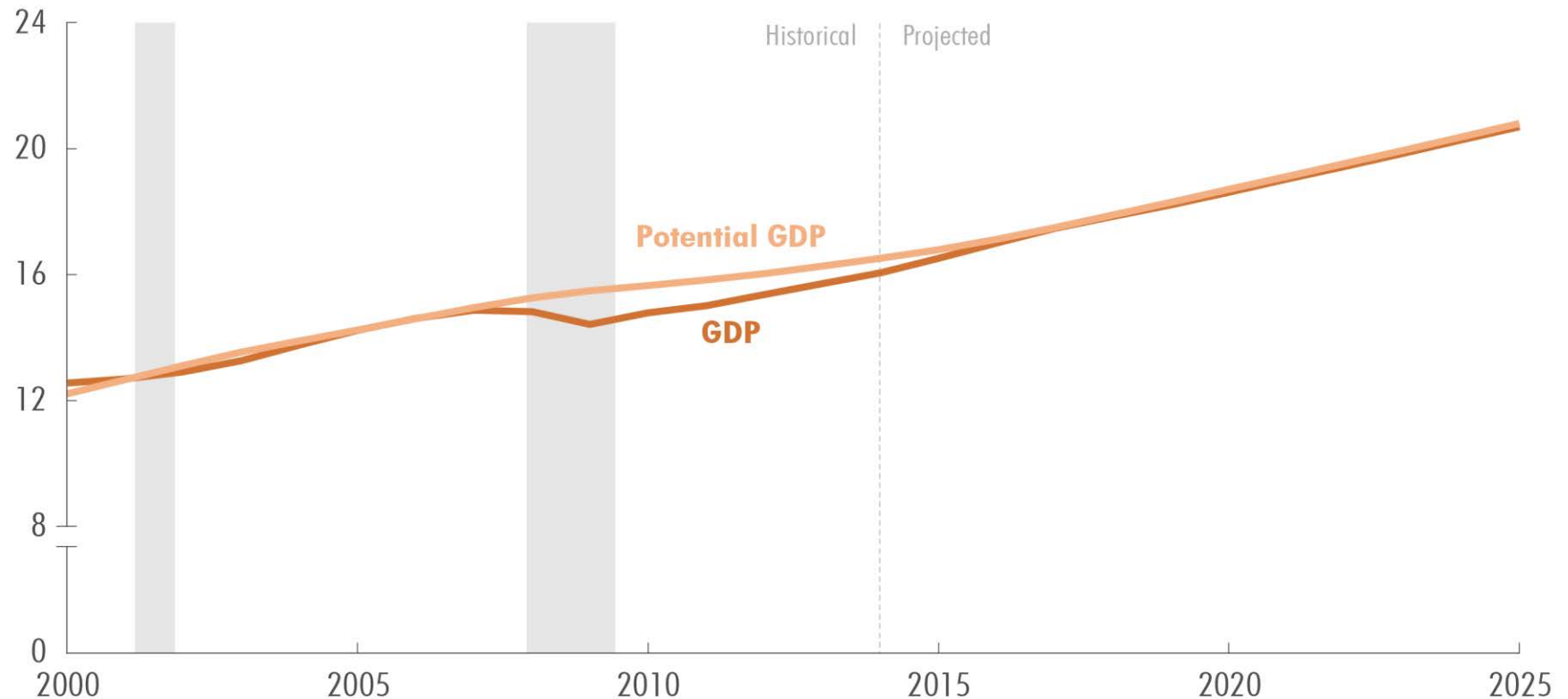
Annual Change in the Number of Households, in Millions



An increase in the number of households is projected to boost the demand for housing and spur residential investment for the next few years.

GDP and Potential GDP

Trillions of 2009 Dollars

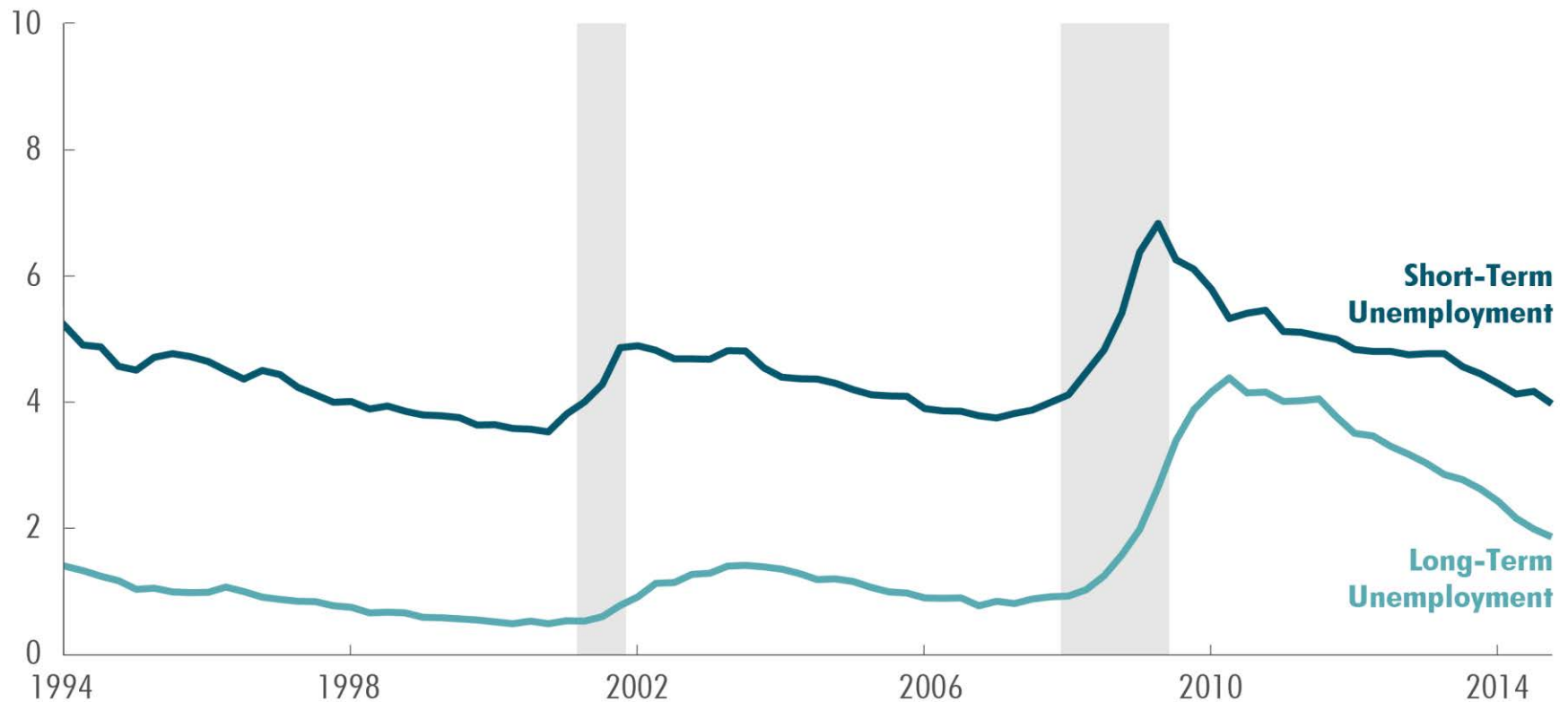


As the economy expands, the gap between GDP and potential GDP—a measure of underused resources, or slack—will essentially be eliminated by the end of 2017, CBO expects.

Employment climbed briskly in 2014, but a significant amount of slack in the labor market remains, CBO estimates.

Rates of Short- and Long-Term Unemployment

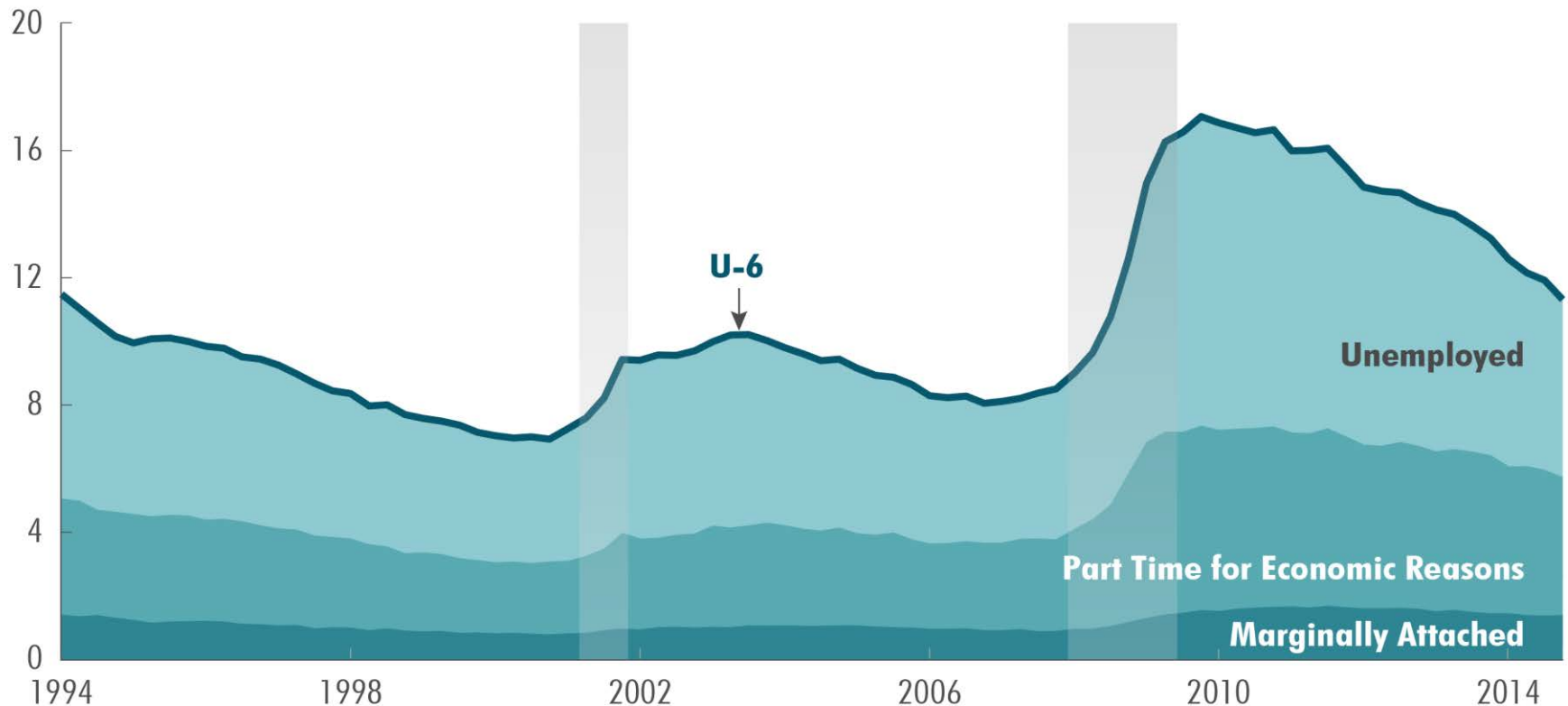
Percent



The overall unemployment rate remains elevated partly because of weakness in the demand for goods and services and partly because of the stigma and erosion of skills that can stem from long-term unemployment (being out of work for 27 consecutive weeks or more).

Underuse of Labor

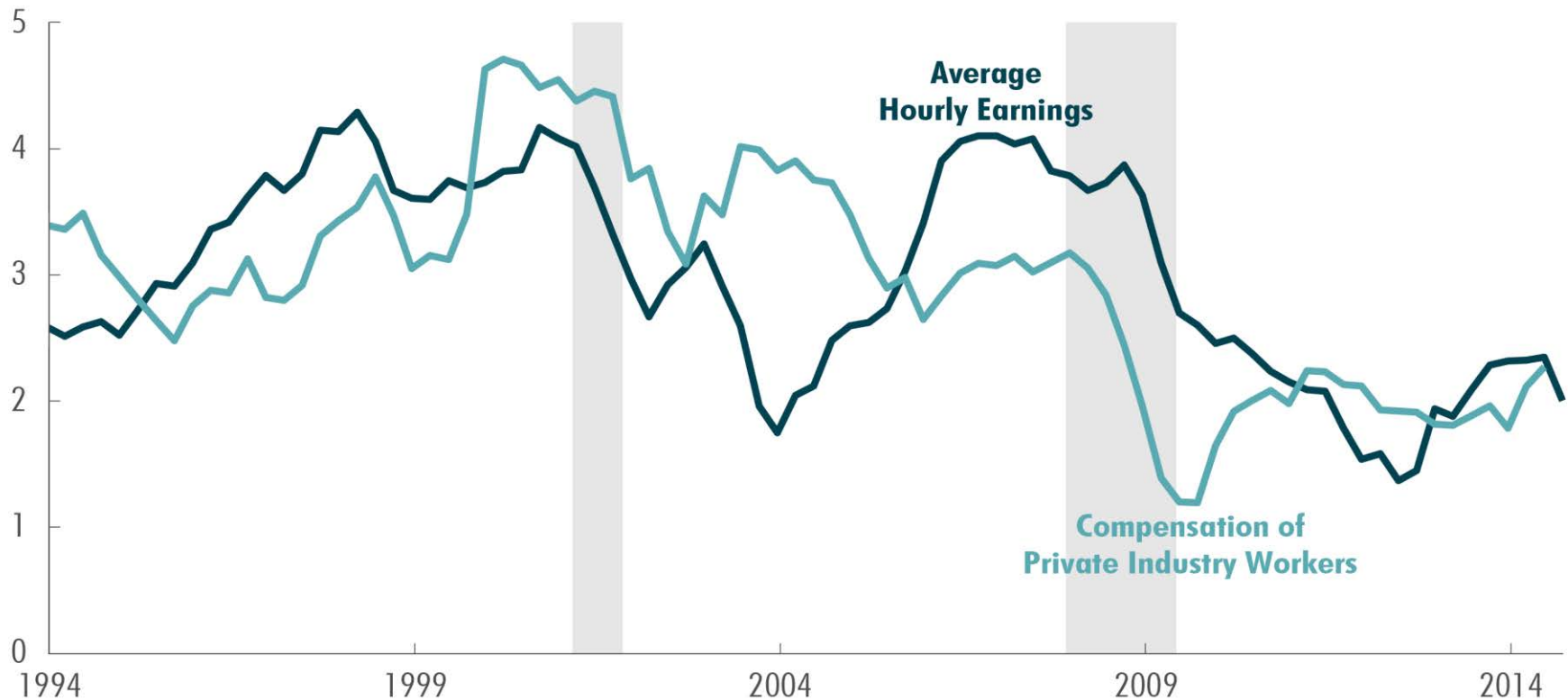
Percentage of the Labor Force Plus Marginally Attached Workers



The U-6 measure of the underuse of labor has fallen since the end of the recession but remains quite high: The percentage of people who are unemployed, the percentage of people who are employed part time for economic reasons, and the percentage of people who are marginally attached to the labor force are all greater than they were before the recession began.

Measures of Compensation Paid to Employees

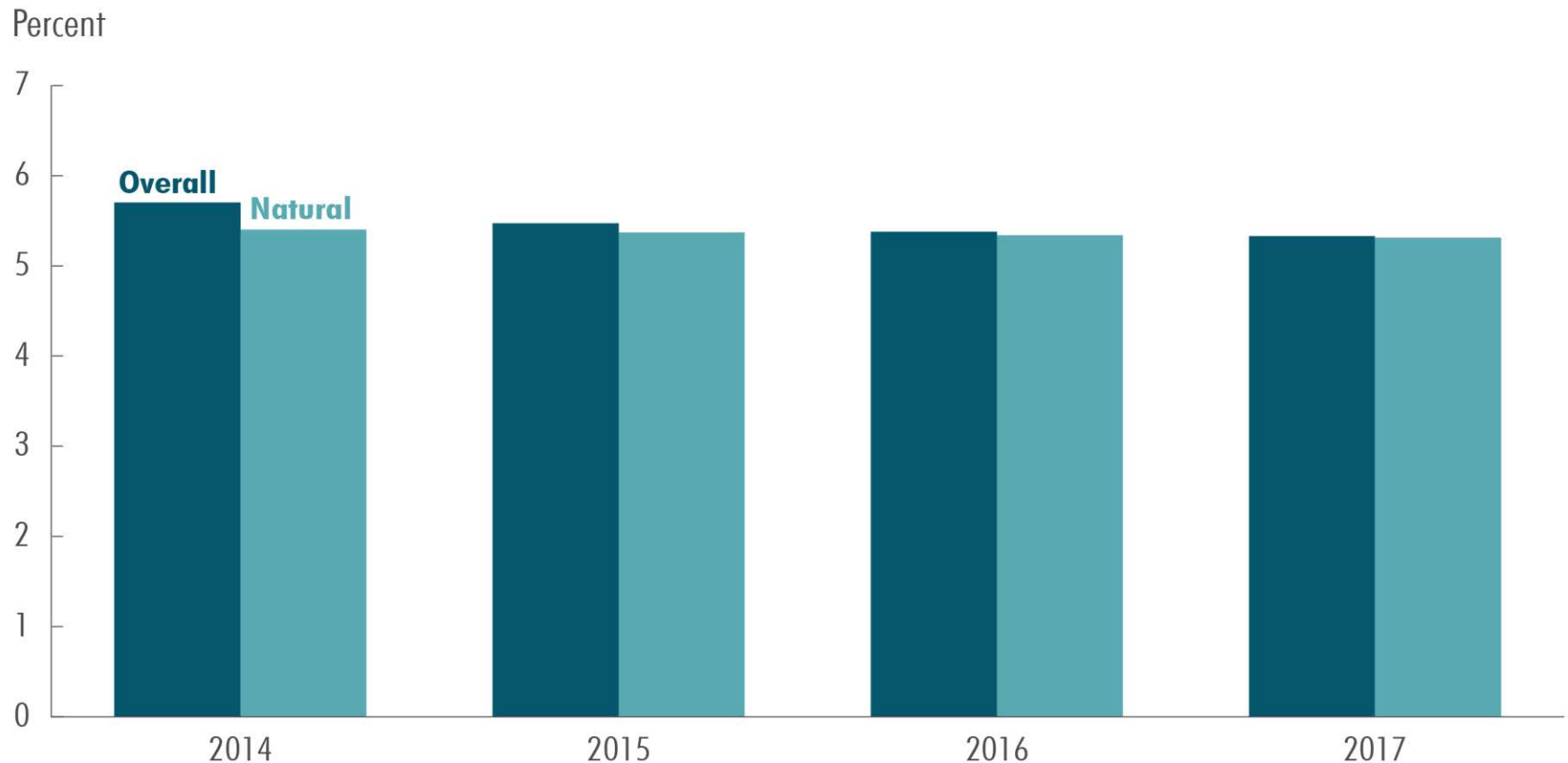
Percentage Change



When labor is underused—as is currently the case—firms can hire from a relatively large pool of underemployed workers and thus have less incentive to increase compensation to attract workers. Accordingly, compensation has been growing considerably more slowly than it did before the recession.

Still, CBO anticipates that the strengthening economy will lead to continued gains in employment, largely eliminating the current labor market slack by 2017.

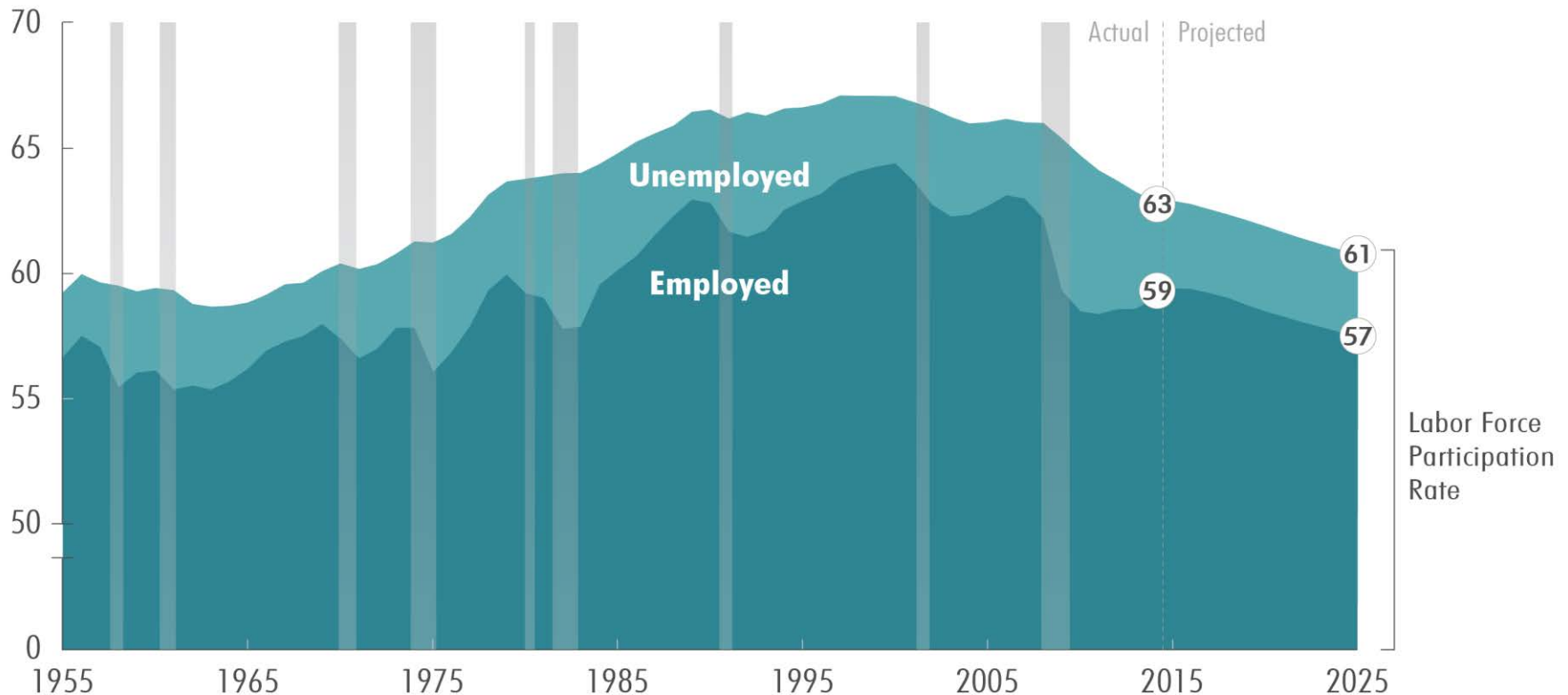
Overall and Natural Rates of Unemployment



Stronger demand for labor will close the gap between the overall rate of unemployment and CBO's estimate of the natural rate (that is, the rate arising from all sources except fluctuations in overall demand for goods and services). CBO also expects the natural rate to fall, as the effects of stigma and erosion of skills among the long-term unemployed fade.

The Labor Force, Employment, and Unemployment

Percentage of the Population

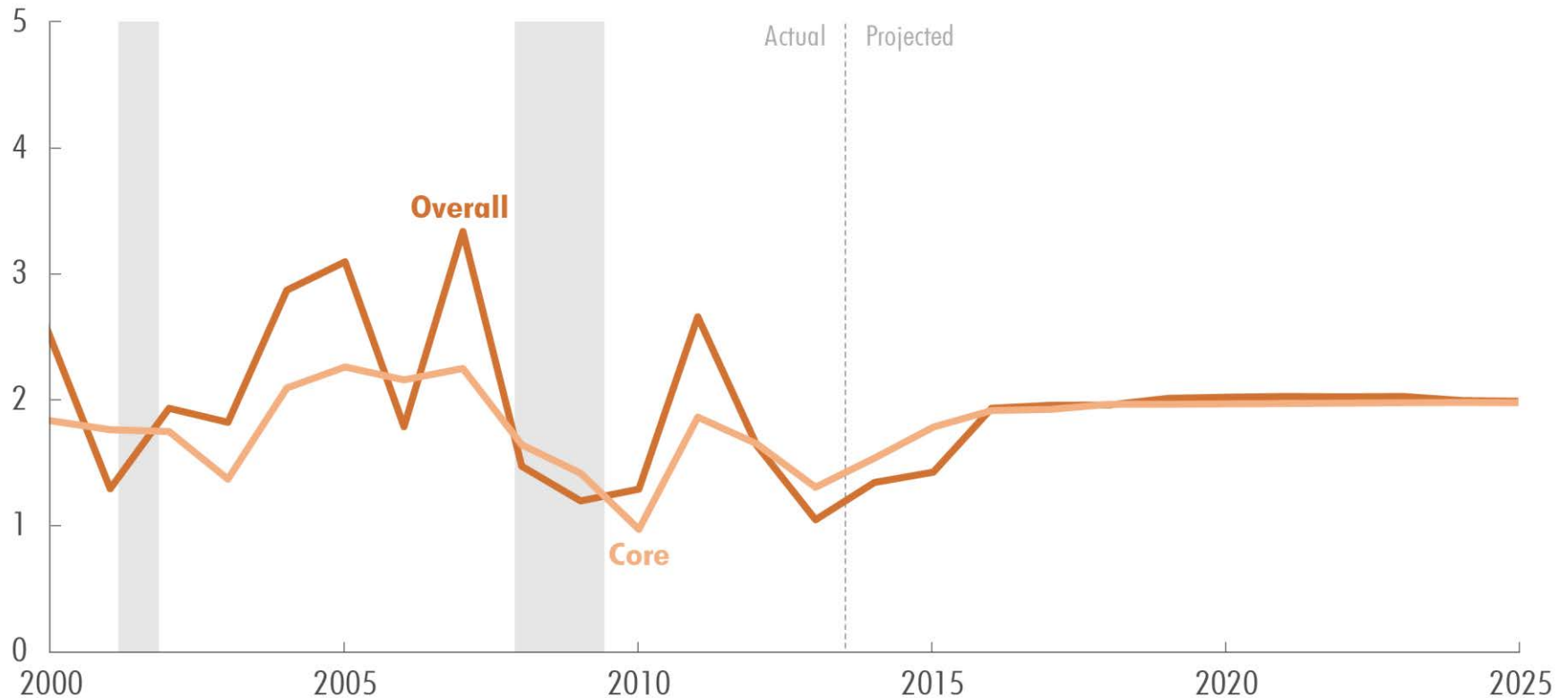


Even with employment gains, the percentage of the population that is employed is projected to fall because of declining participation in the labor force, mainly by baby boomers as they age and move into retirement.

Over the next few years, reduced slack in the economy will diminish the downward pressure on inflation and interest rates.

Inflation

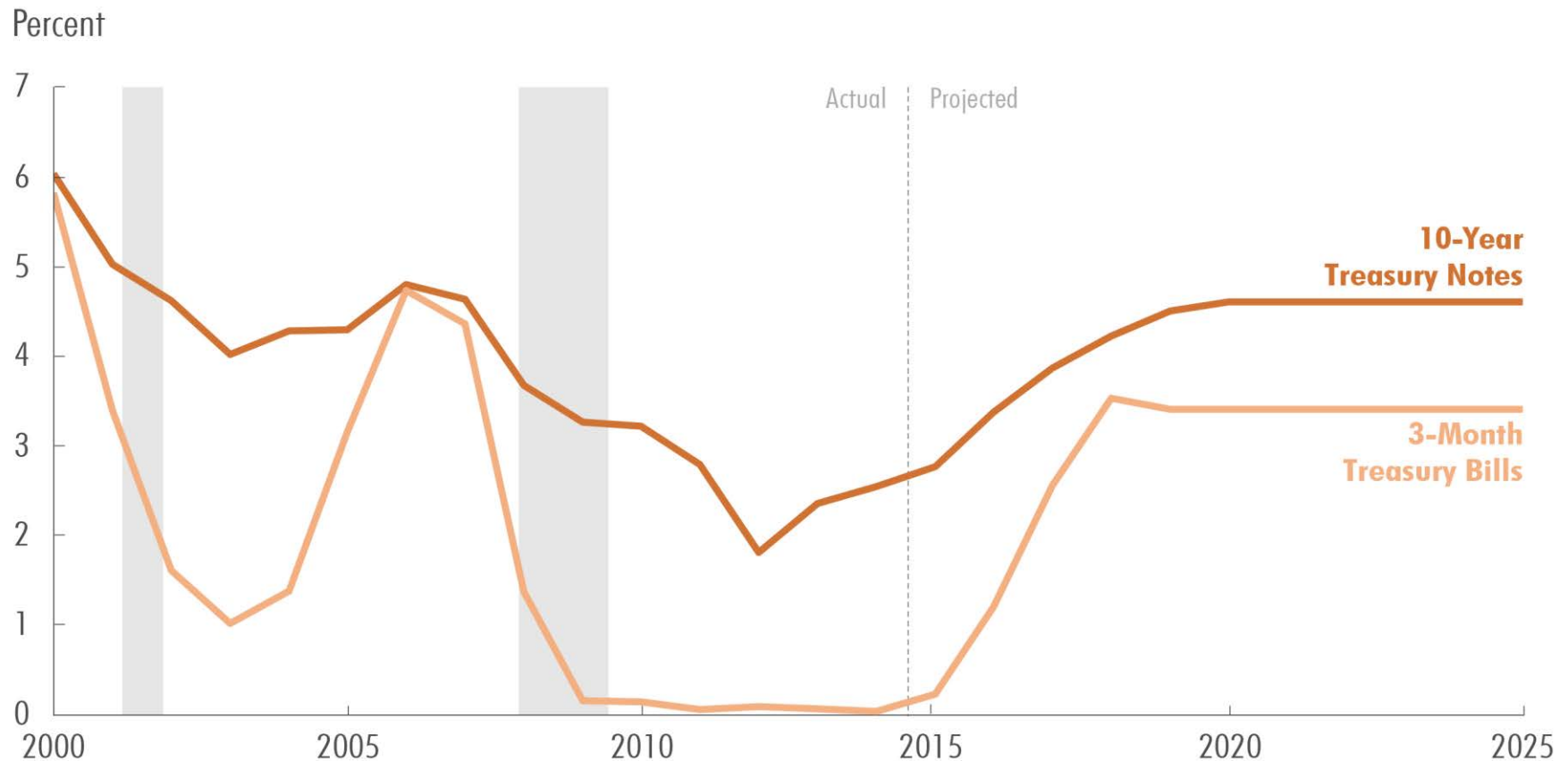
Percentage Change in the PCE Price Index



CBO anticipates that prices will rise modestly over the next several years, reflecting the remaining slack in the economy and widely held expectations for low and stable inflation.

Note: PCE = personal consumption expenditures.

Interest Rates on Treasury Securities



Over the next several years, interest rates are projected to be pushed up by a tightening of monetary policy by the Federal Reserve and by market participants' expectations of an improving economy.

About This Document

Leigh Angres, Alex Arnon, Christine Bogusz, Maureen Costantino, Daniel Fried, Kim Kowalewski, Leah Loversky, and Charles Whalen prepared these slides.

For more details about CBO's economic outlook as well as the agency's most recent budget projections, see *The Budget and Economic Outlook: 2015 to 2025* (January 2015), www.cbo.gov/publication/49892. That report is the result of work by many analysts at CBO.