



November 19, 2015

CBO's Assessment of the Economic Outlook Over the Next Decade

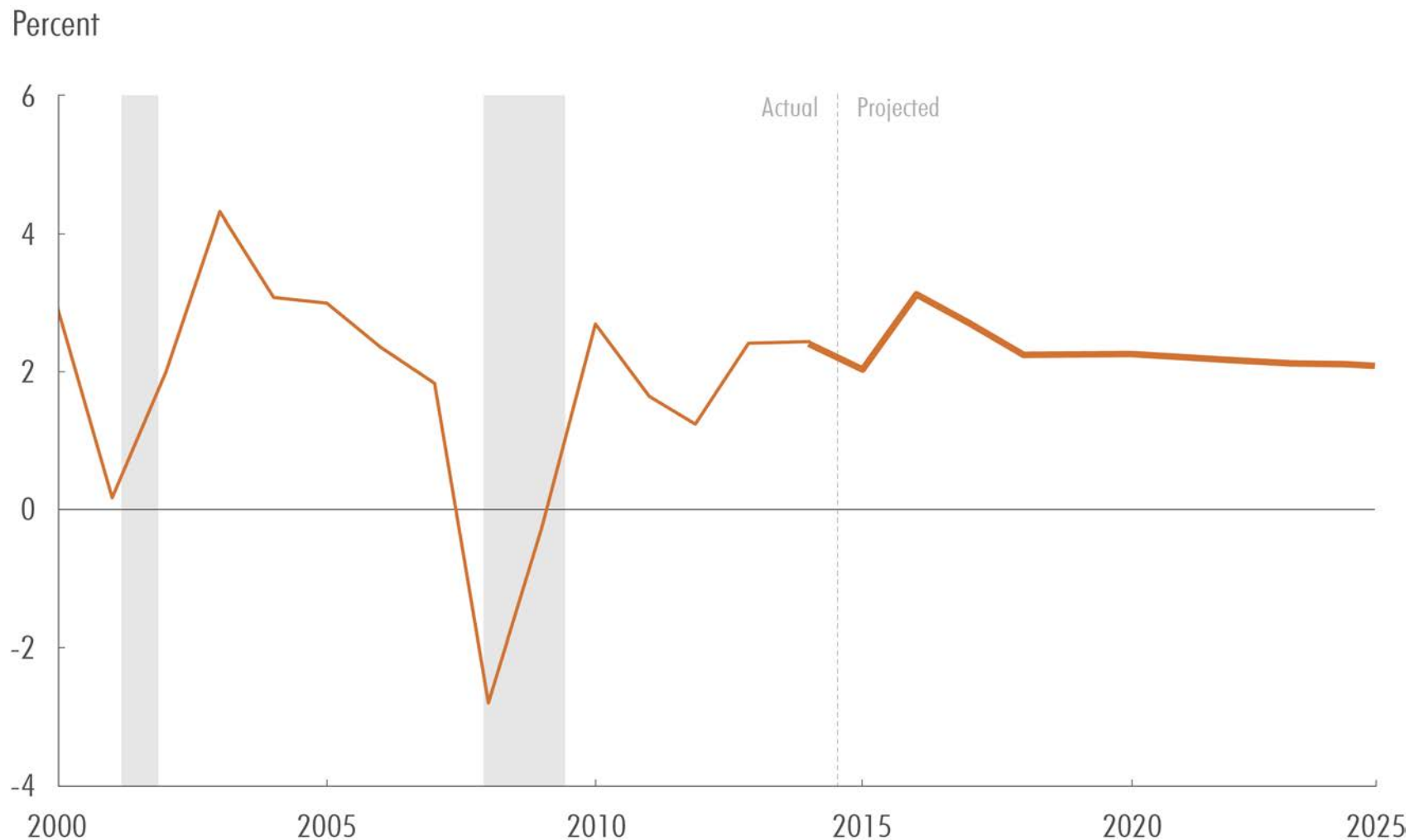
Presentation at the University of Michigan's 63rd Annual
Economic Outlook Conference

Wendy Edelberg
Assistant Director, Macroeconomic Analysis

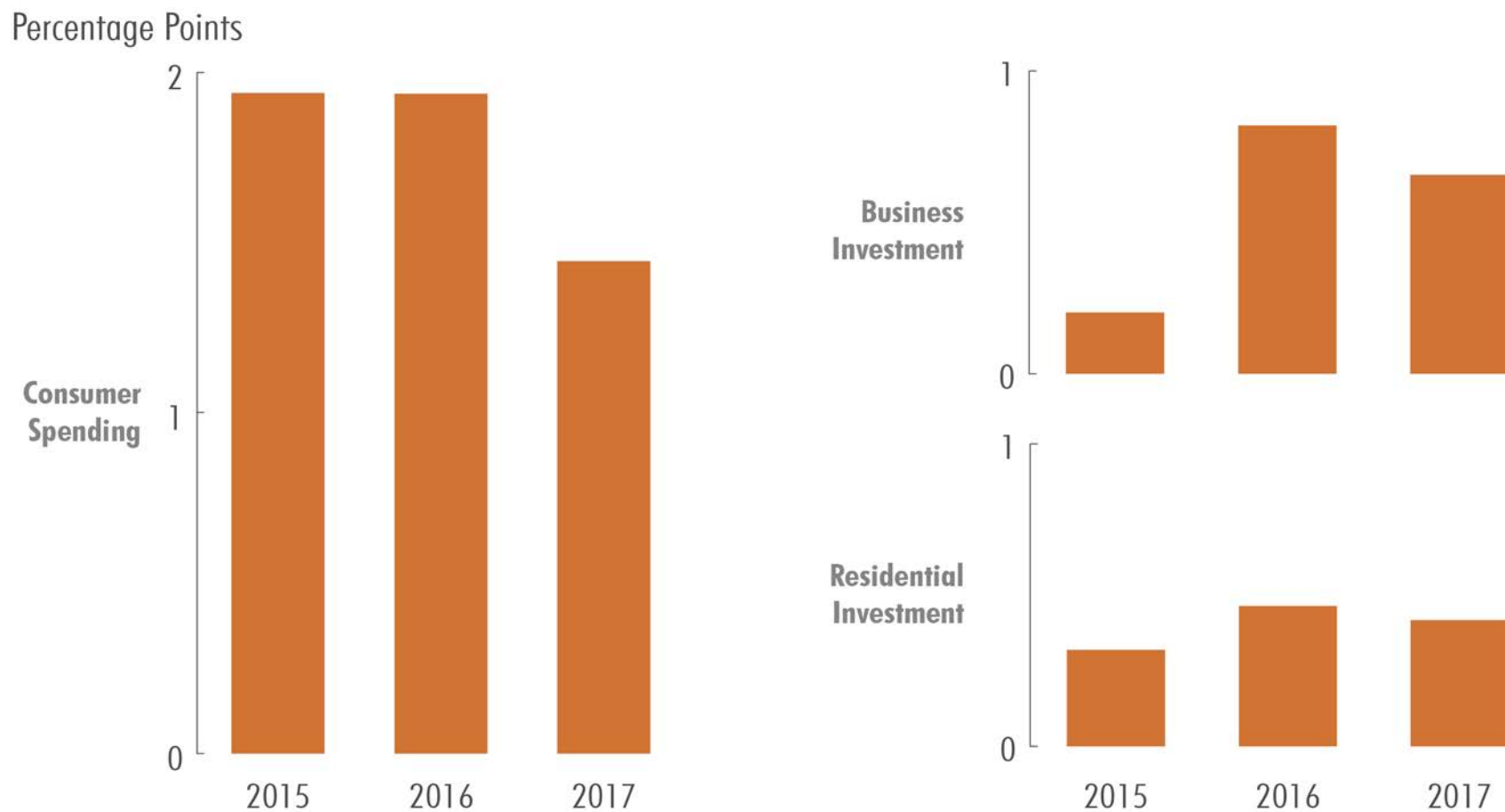
This presentation shows CBO's most recent economic forecast, which was published in August 2015; see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2015 to 2025*, pp. 29–60, www.cbo.gov/publication/50724.

Under current law, CBO expects **economic activity to continue to expand modestly this year, to grow at a more solid pace in 2016 and 2017, and then to moderate in subsequent years.**

Growth of Real GDP

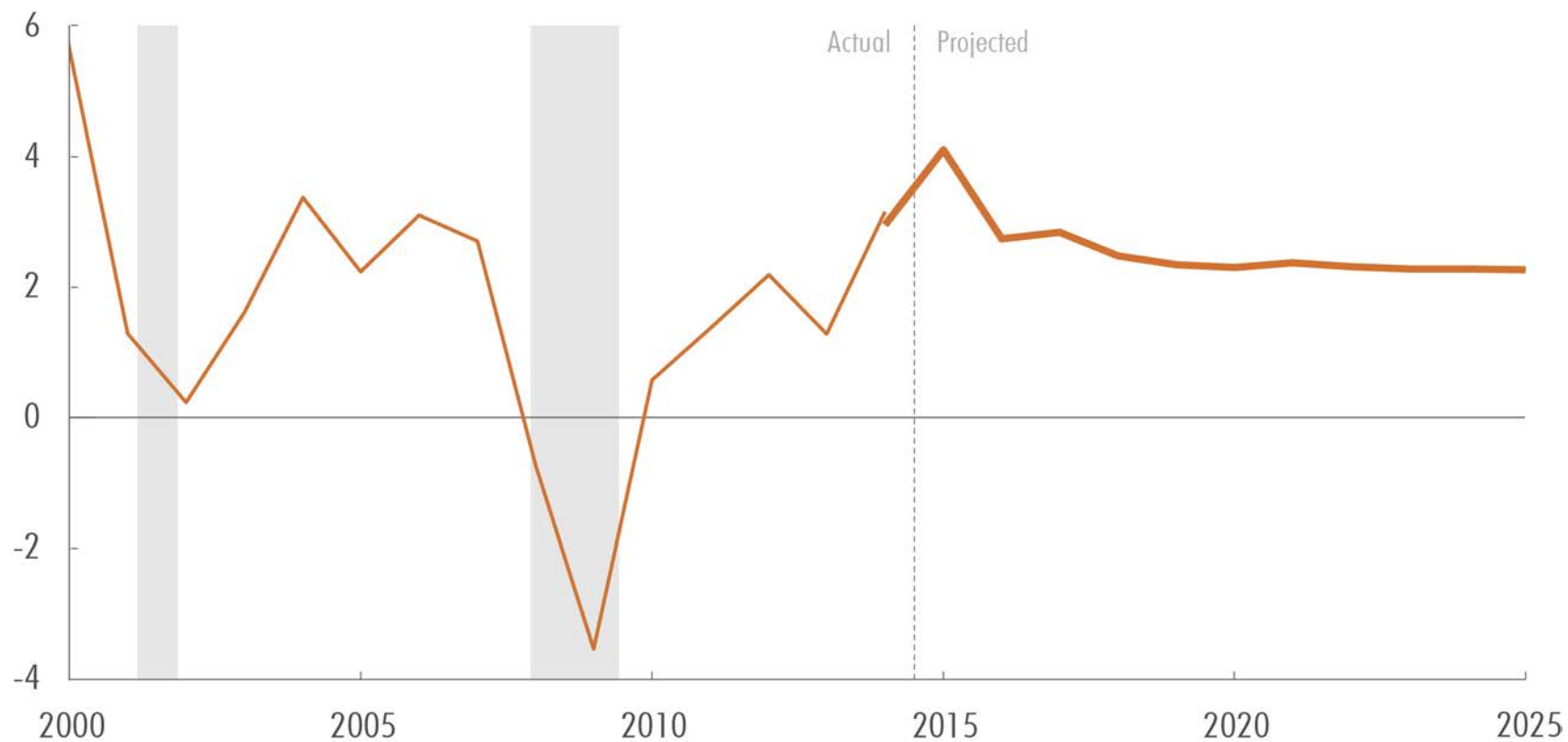


Contributions to the Growth of Real GDP



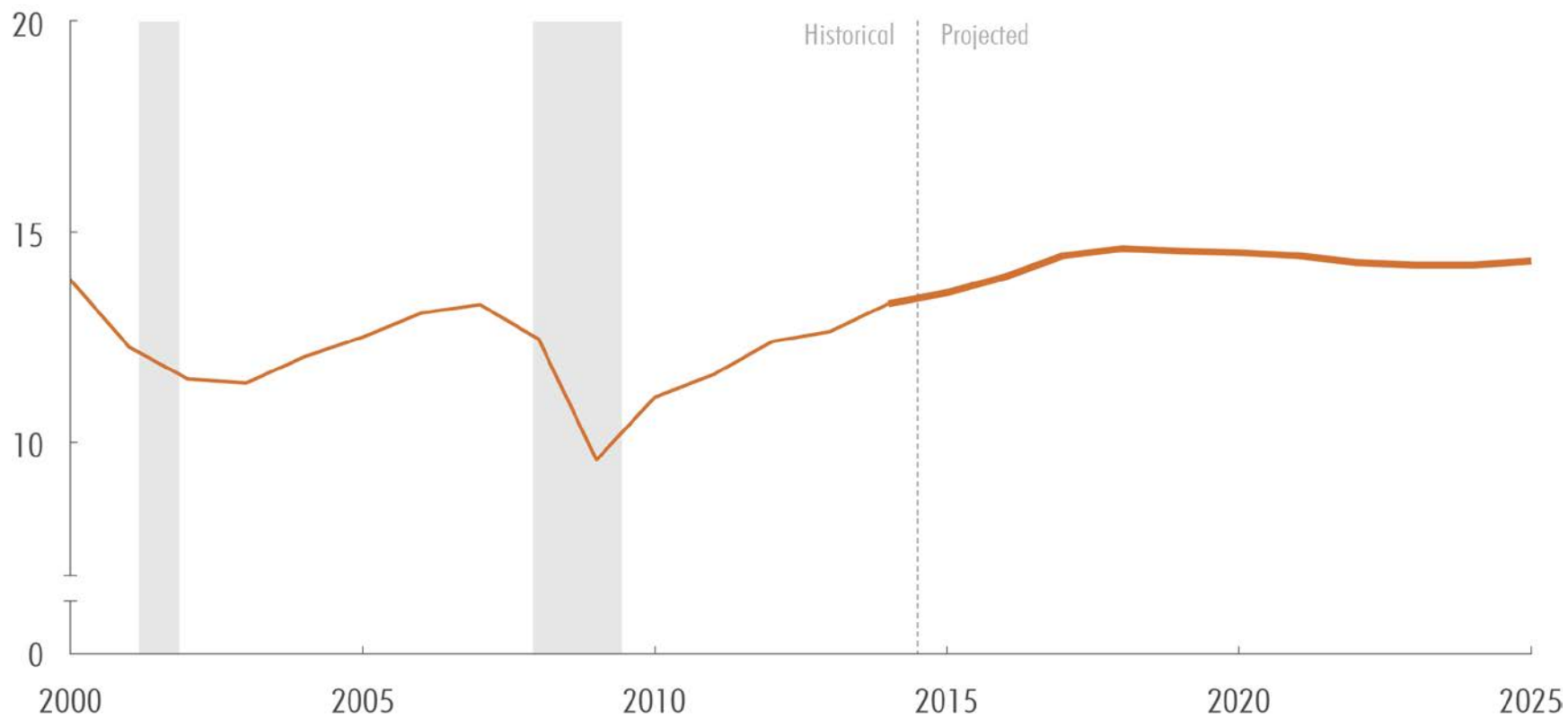
Real Total Compensation of Employees

Percentage Change



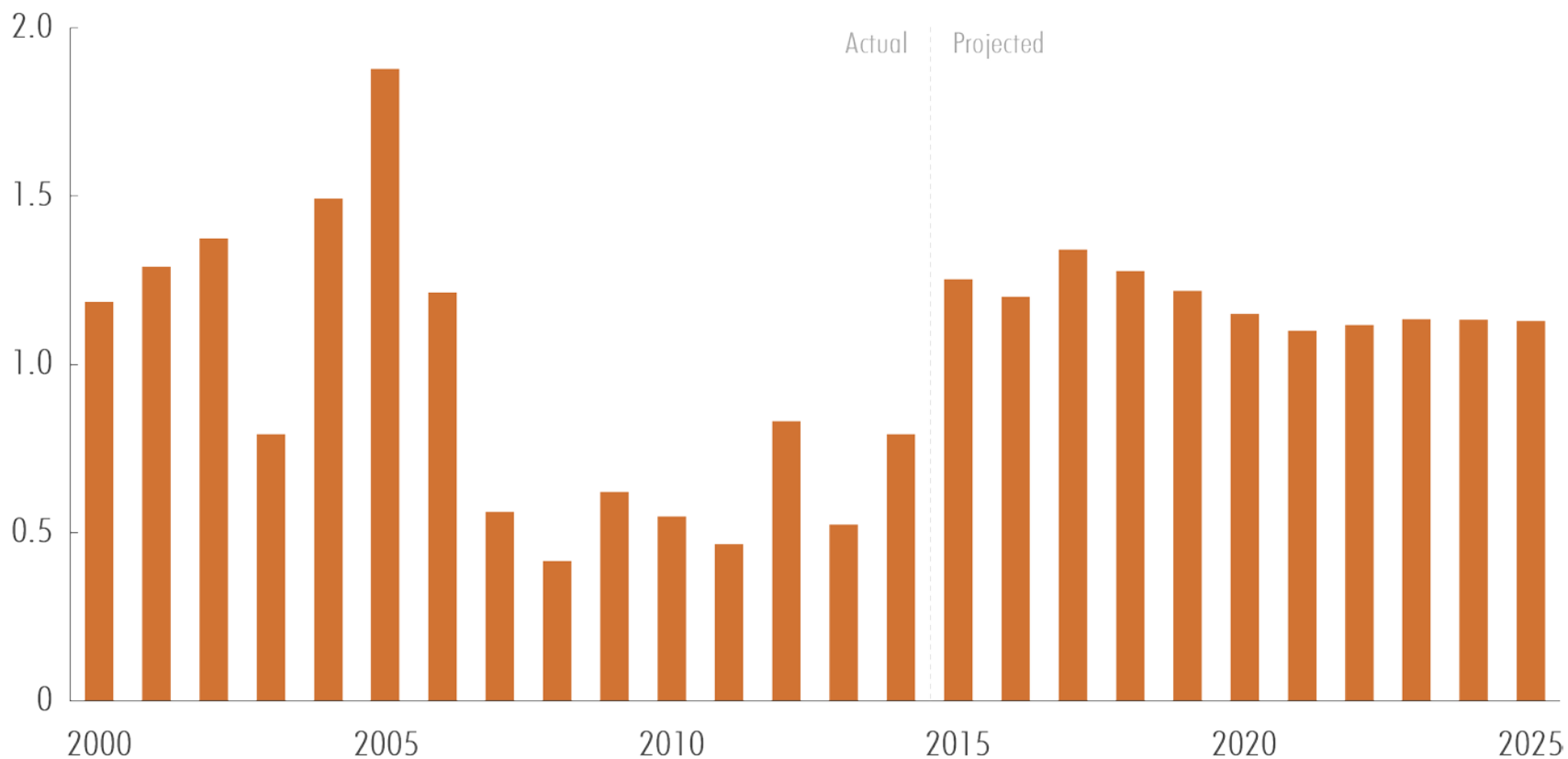
Business Investment

Percentage of Potential GDP

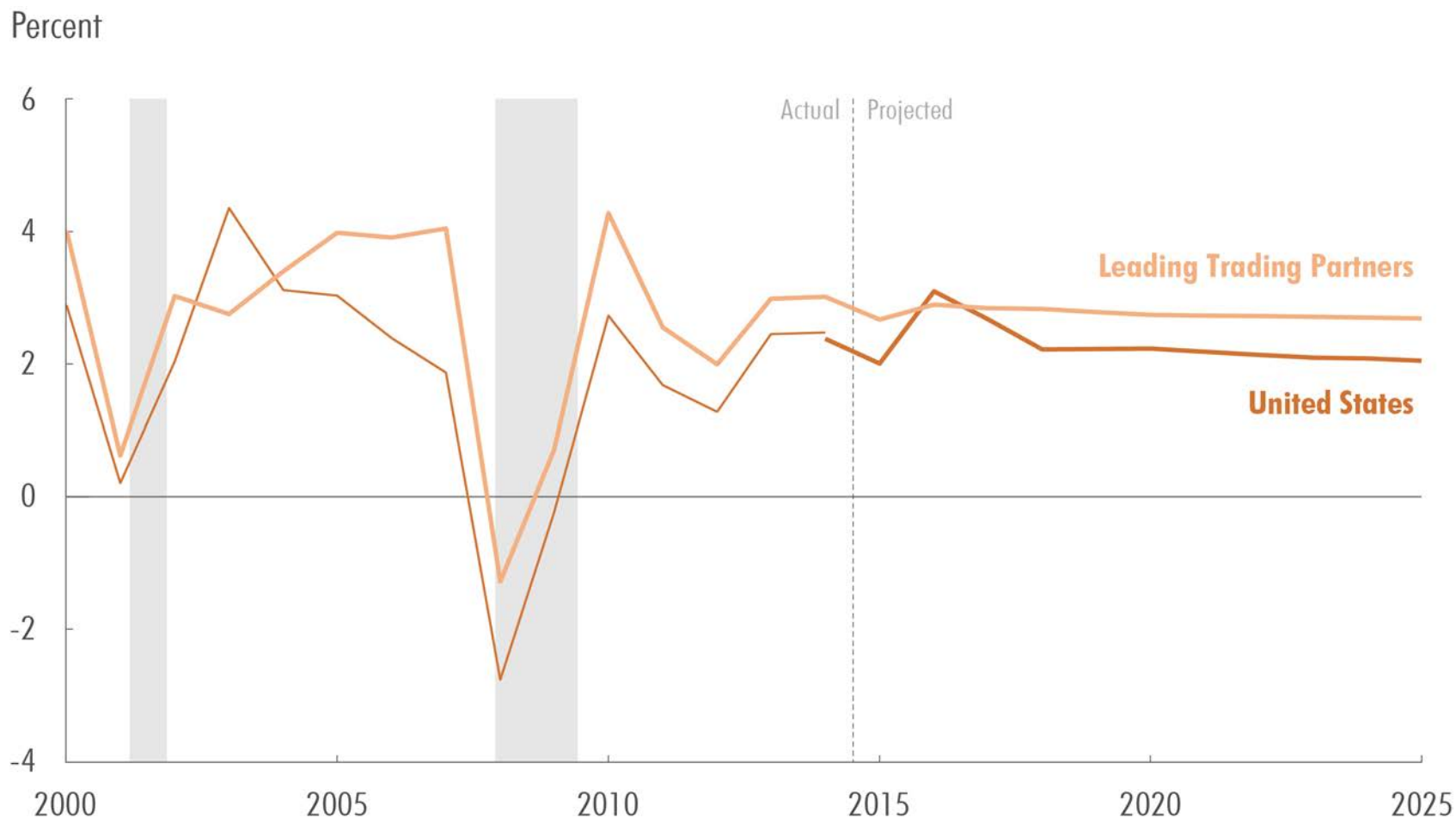


Household Formation

Annual Change in the Number of Households, in Millions

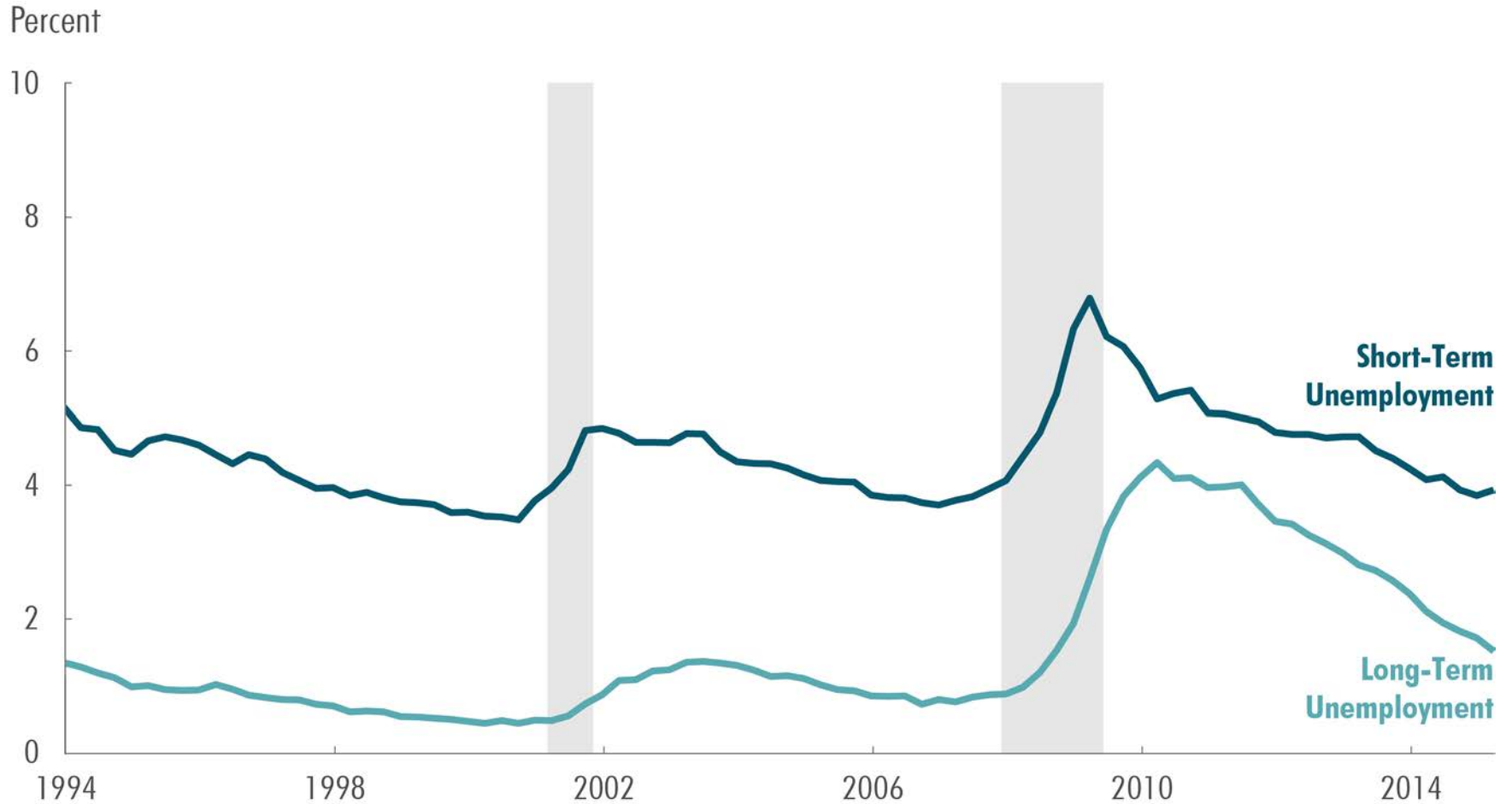


Economic Growth of U.S. and Leading Trading Partners



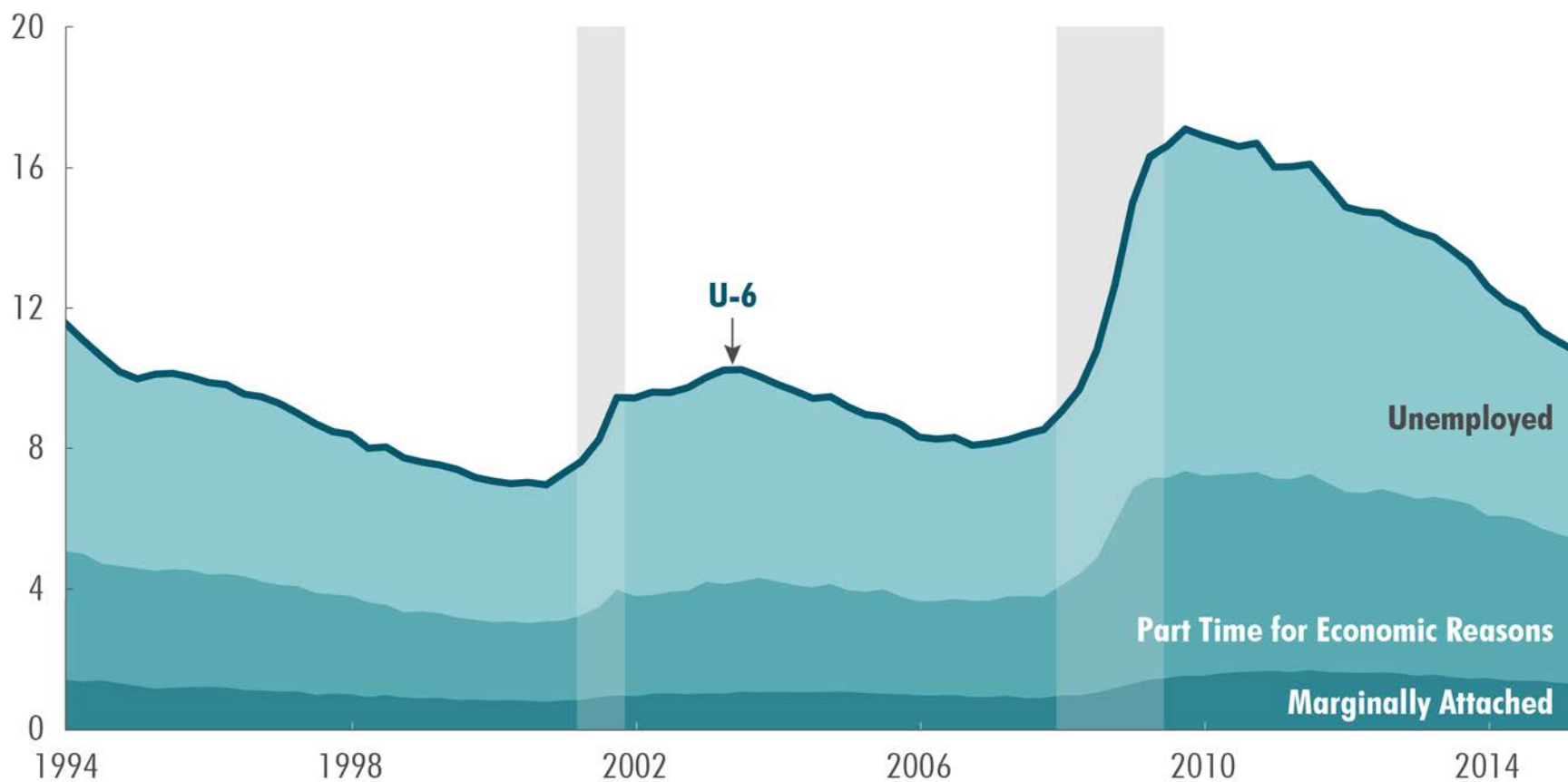
As the slack in the economy lessens over the next few years, slack in the labor market will also dissipate, CBO estimates.

Rates of Short- and Long-Term Unemployment

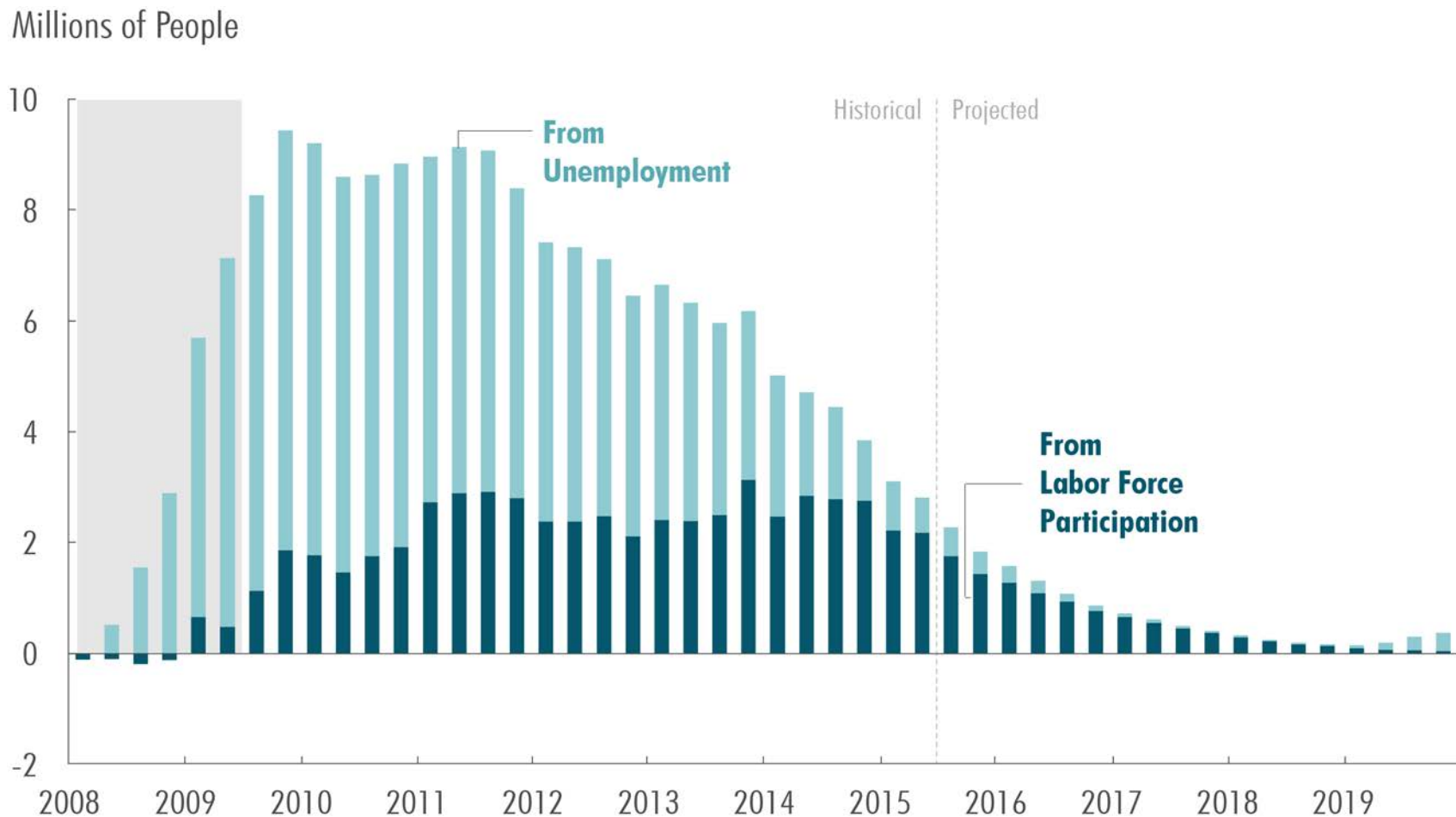


Underuse of Labor

Percentage of the Labor Force Plus Marginally Attached Workers

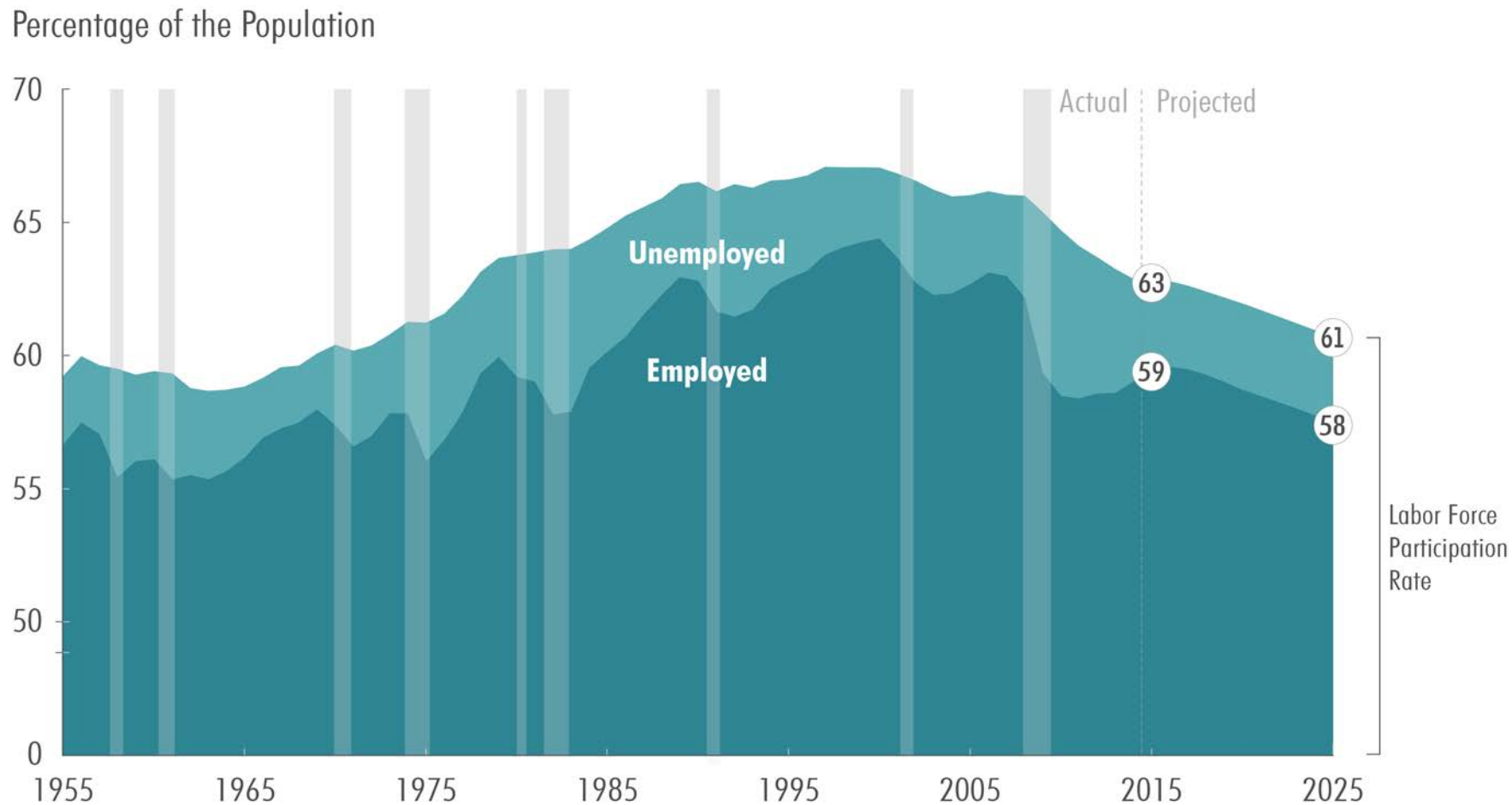


Employment Shortfall

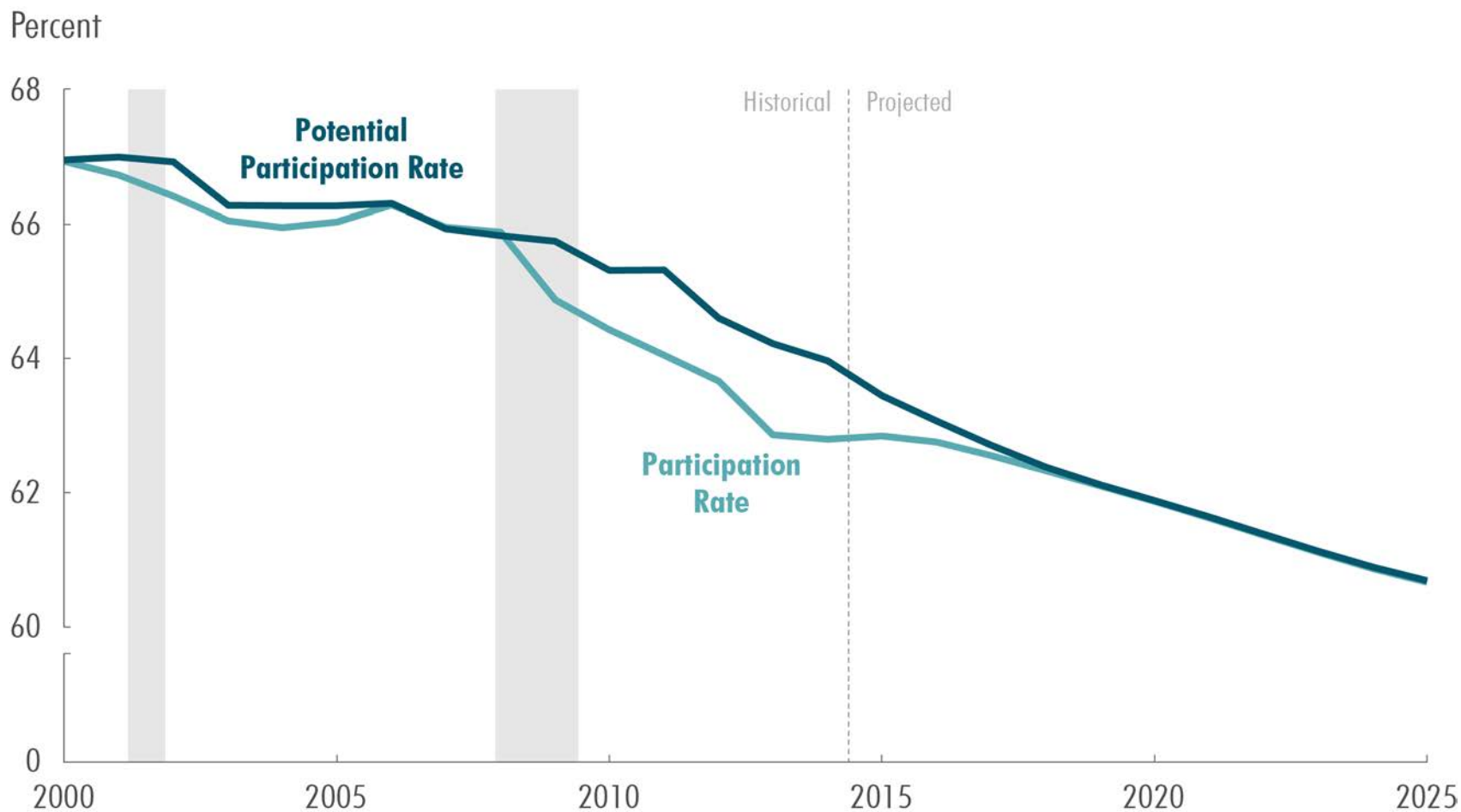


The employment shortfall is the number of people who would be employed if the unemployment rate equaled its rate in December 2007 (the light blue bars) and if the labor force participation rate equaled its potential rate (the dark blue bars).

The Labor Force, Employment, and Unemployment

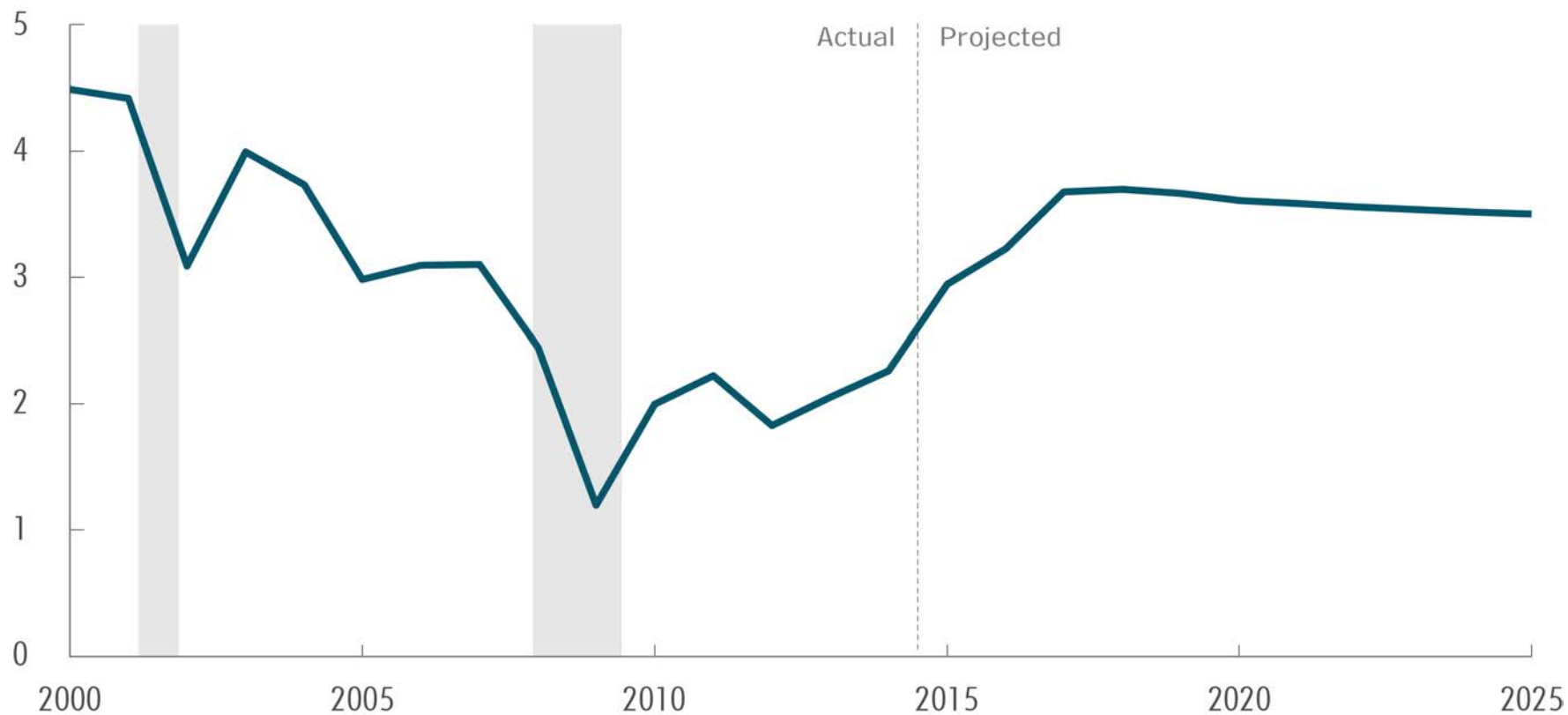


Labor Force Participation Rates



Hourly Labor Compensation

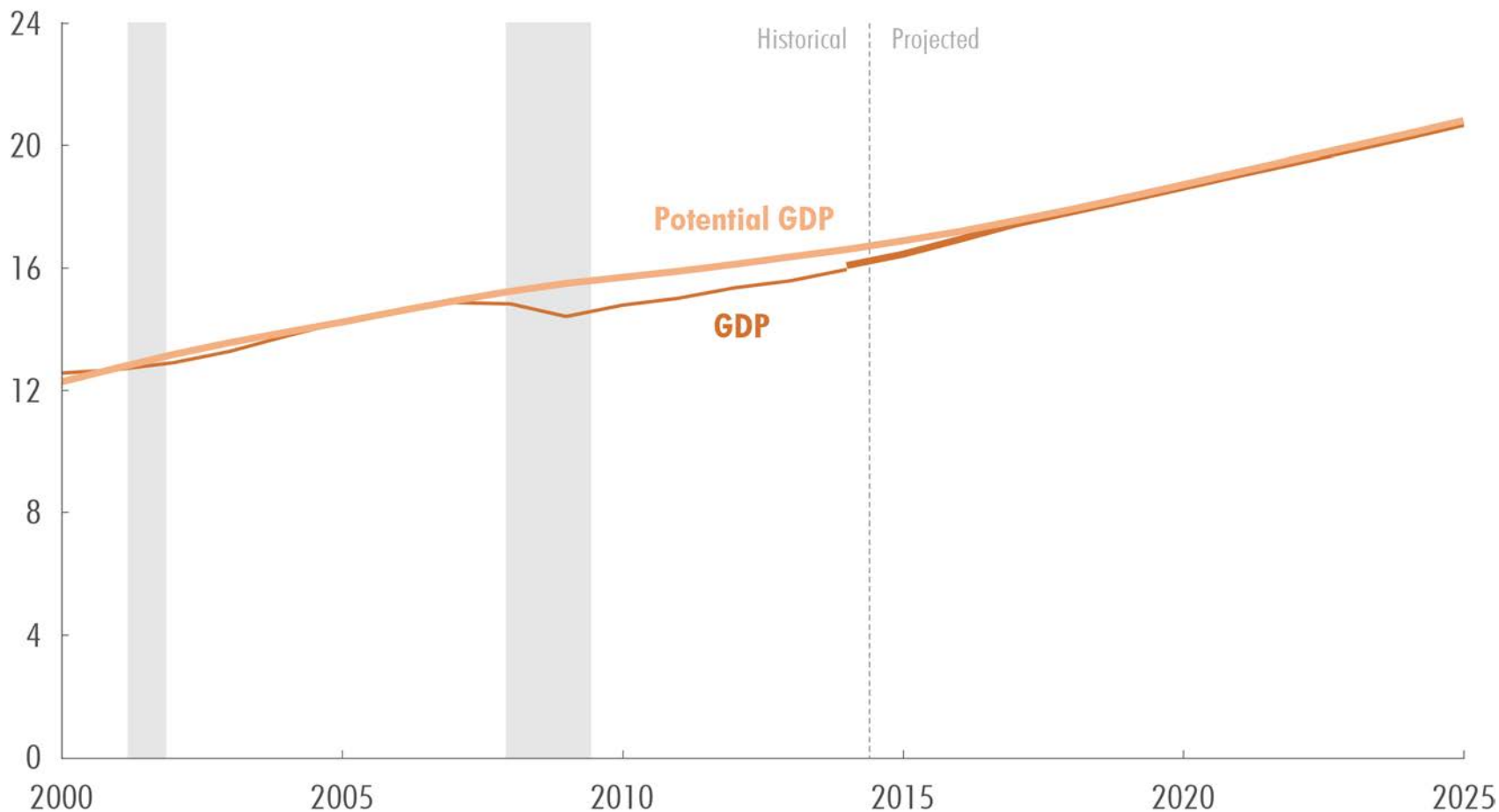
Percentage Change



Over the next few years, reduced slack in the economy—as evidenced by the narrowing gap between GDP and potential GDP—will put upward pressure on inflation and interest rates.

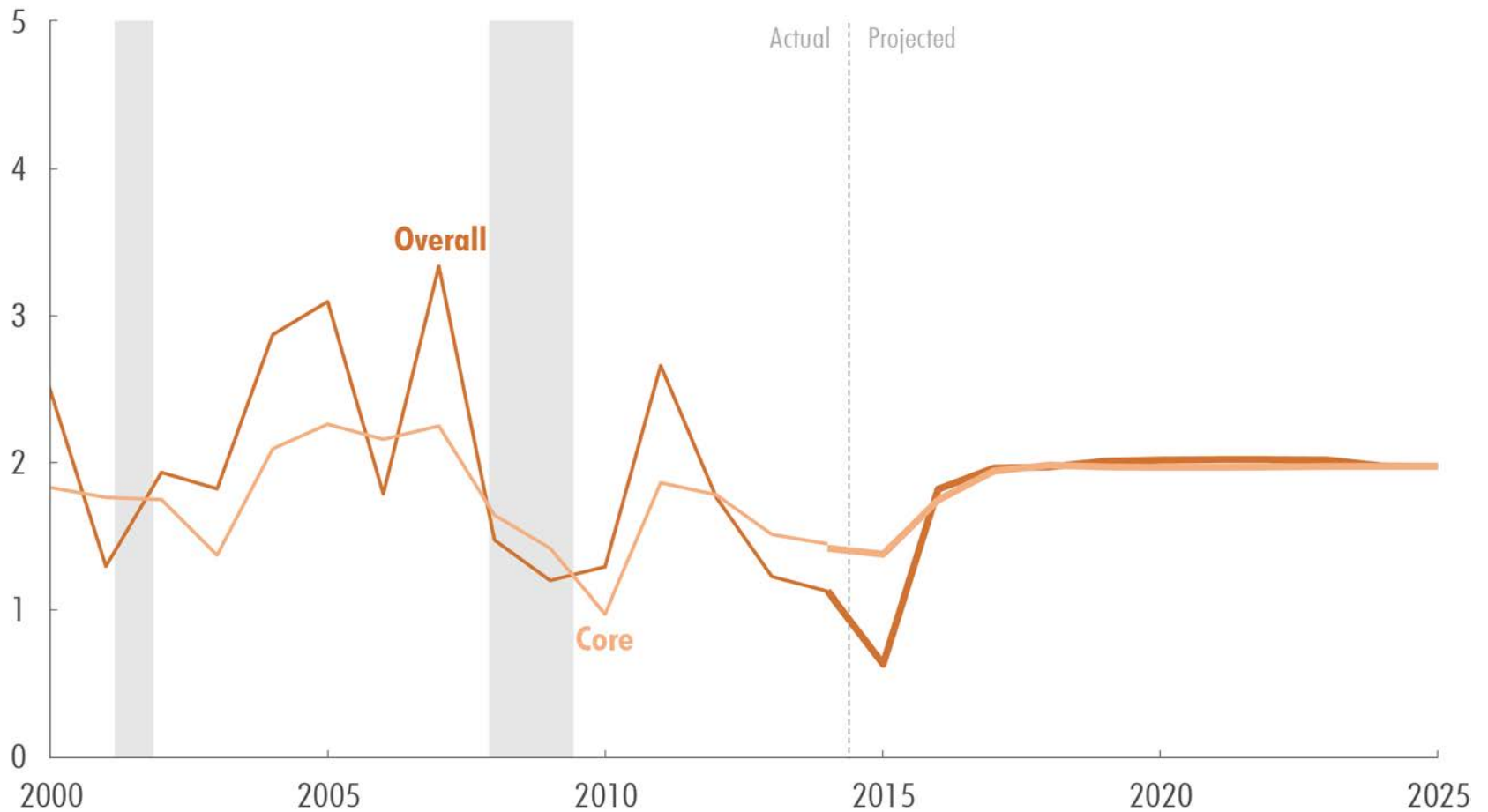
GDP and Potential GDP

Trillions of 2009 Dollars

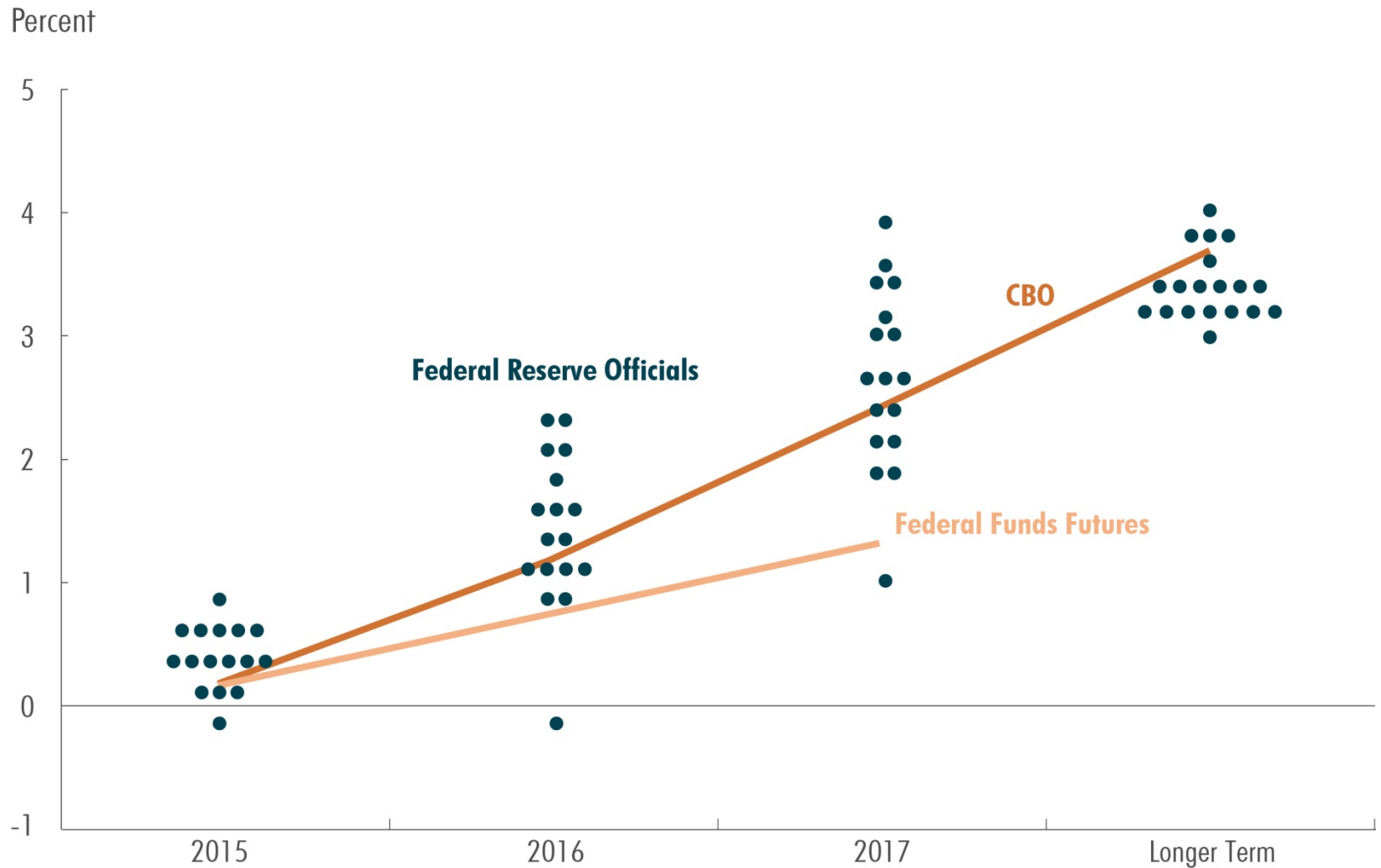


Inflation

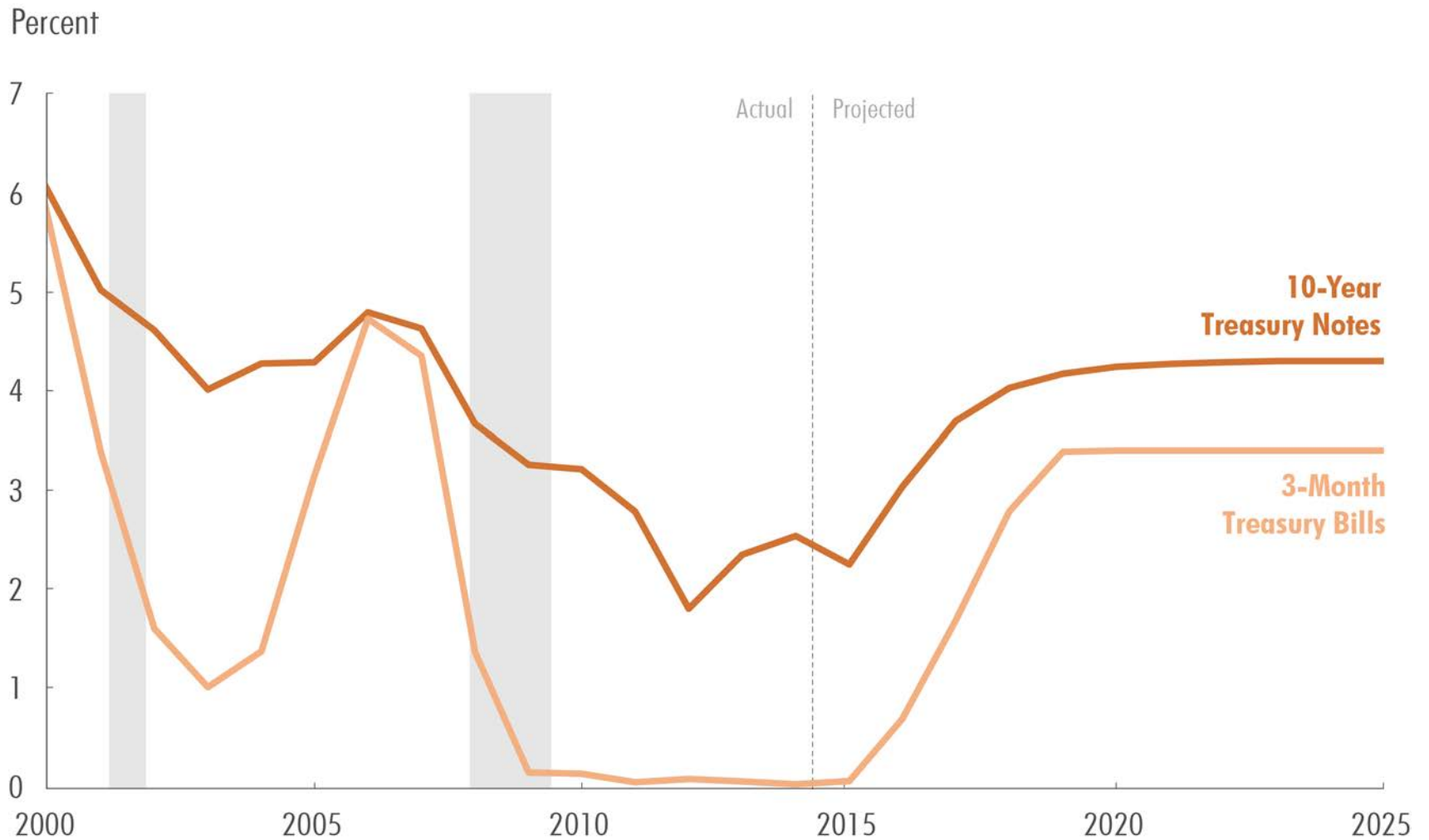
Percentage Change in Prices for Personal Consumption Expenditures



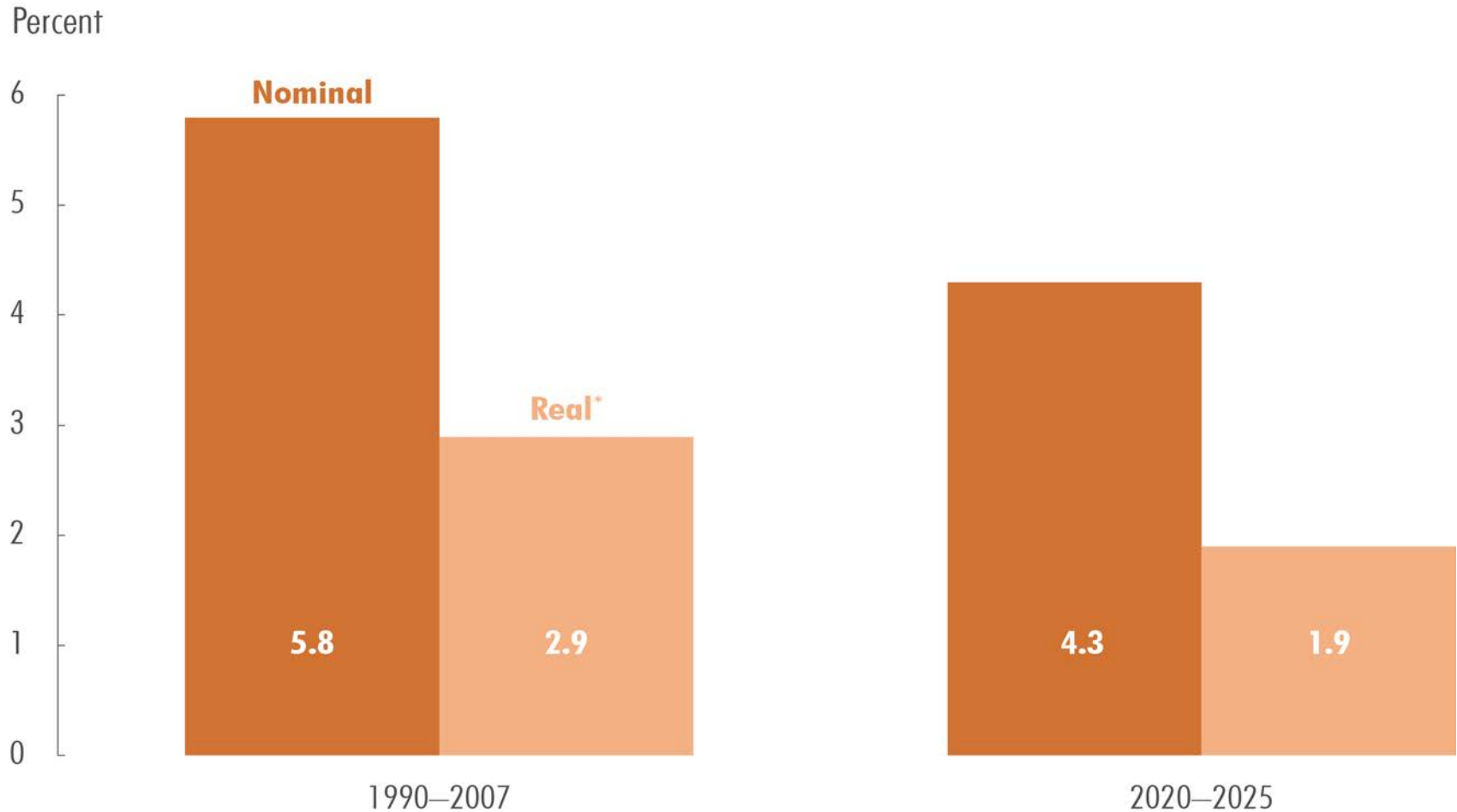
Forecasts of Federal Funds Rate by CBO, the Federal Reserve, and Federal Funds Futures



Interest Rates



Nominal and Real Interest Rates on 10-Year Treasury Notes

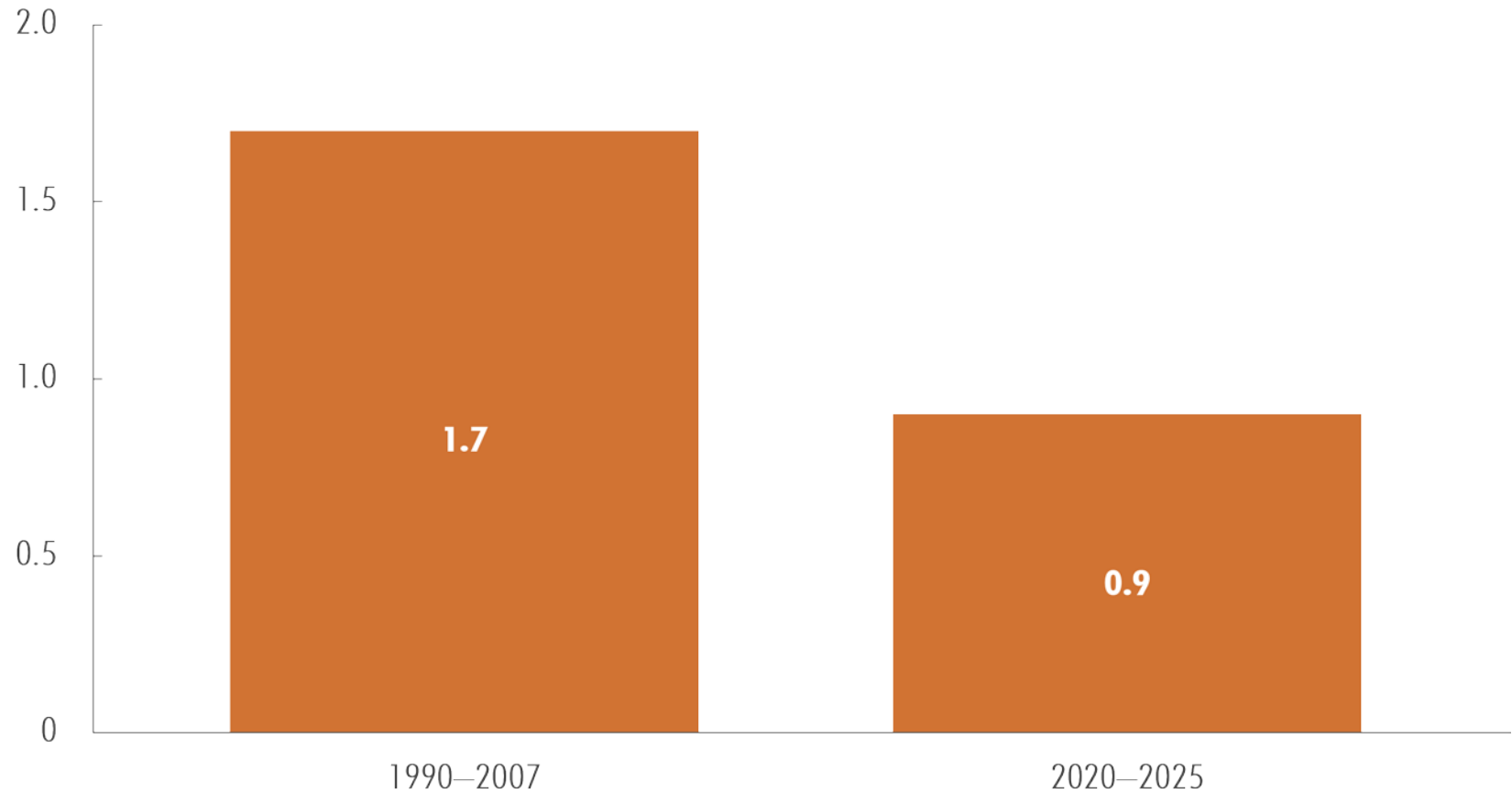


*Calculated using the consumer price index for all urban consumers.

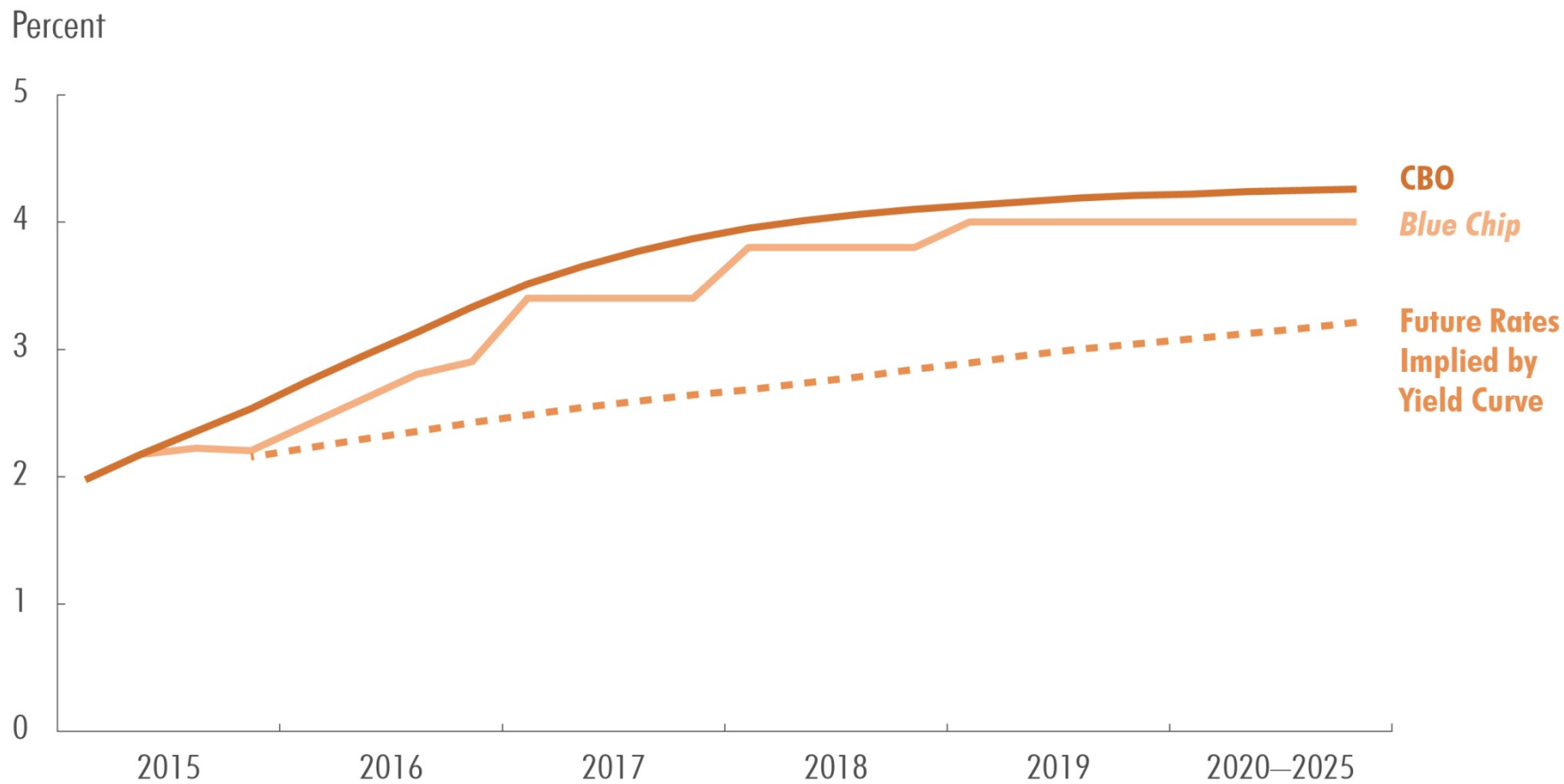
Spread Between 10-Year Treasury Notes and 3-Month Treasury Bills

A Flatter Yield Curve Over the Next Decade

Percentage Points



Different Projections of Interest Rates on 10-Year Treasury Notes



Notes

- Except where noted, historical data and projections come from *An Update to the Budget and Economic Outlook: 2015 to 2025*, pp. 29–60, www.cbo.gov/publication/50724.
- On slide 18, the dot plot is from the Federal Open Market Committee’s September 17, 2015, Survey of Economic Projections (www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20150917.pdf); the federal funds futures market forecast is based on data from November 16, 2015; and the CBO forecast is from August 2015.
- On slide 22, the *Blue Chip* data are from November 2015; future rates implied by the yield curve are based on data through October 2015; and the CBO forecast is from August 2015.