



# Congressional Budget Office

September 22, 2016

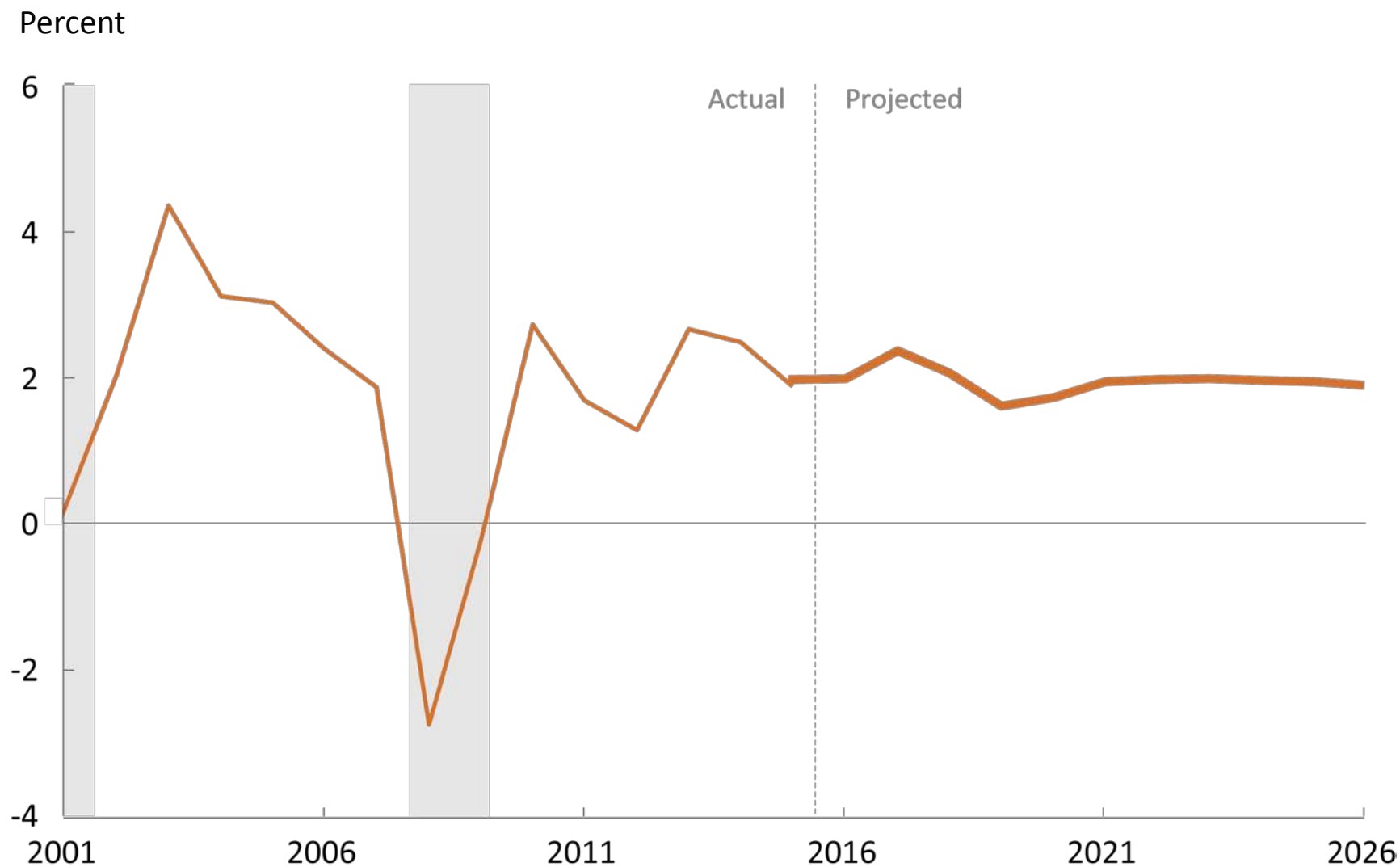
## **CBO's Assessment of the Economic Outlook**

Seminar on Forecasting  
George Washington University

Wendy Edelberg  
Associate Director for Economic Analysis

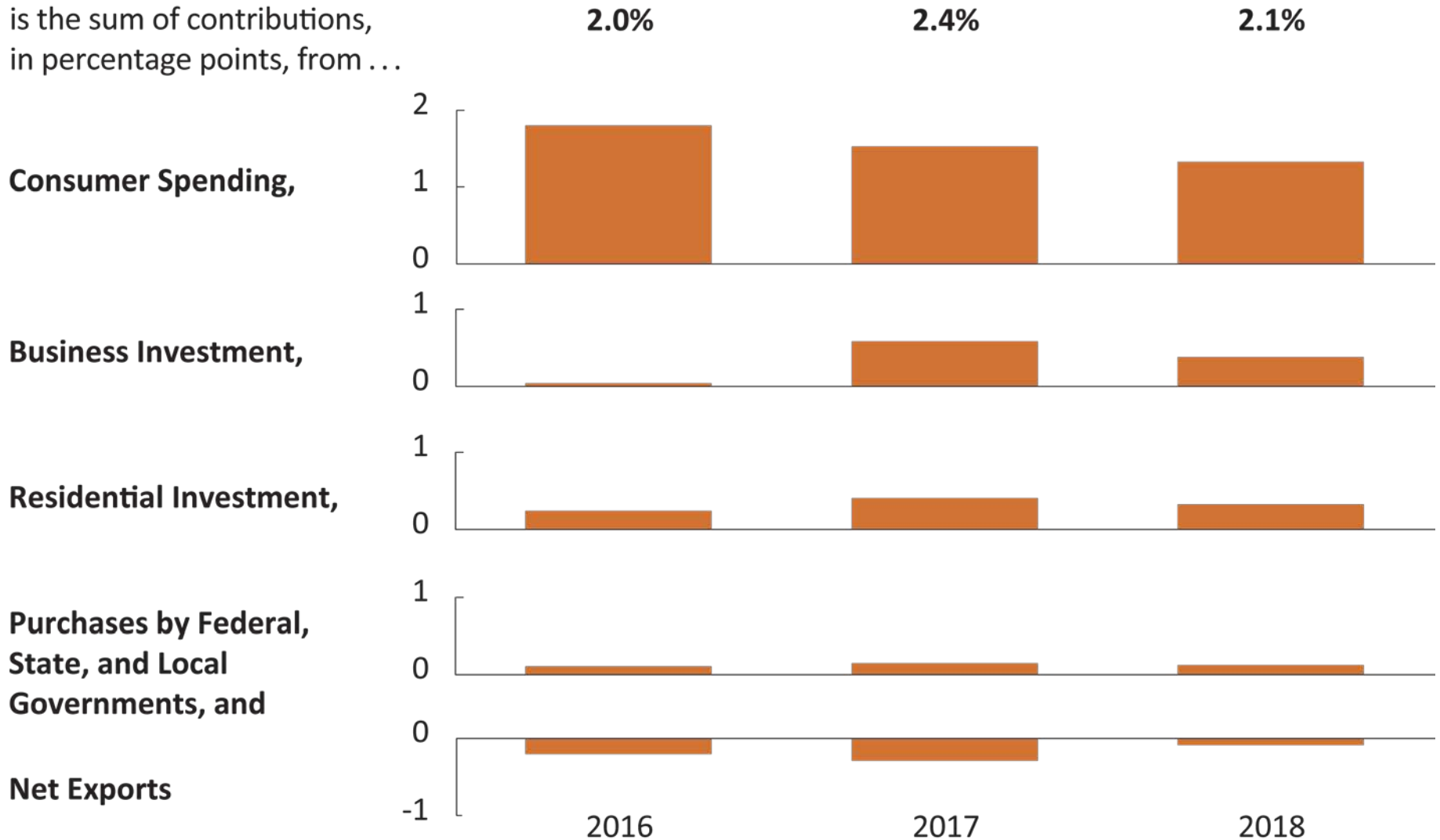
Under current law, CBO projects that **economic activity** will expand at a modest pace this year and then grow more slowly in subsequent years.

# Growth of Real GDP



# Projected Contributions to the Growth of Real GDP

The projected growth of real GDP is the sum of contributions, in percentage points, from ...

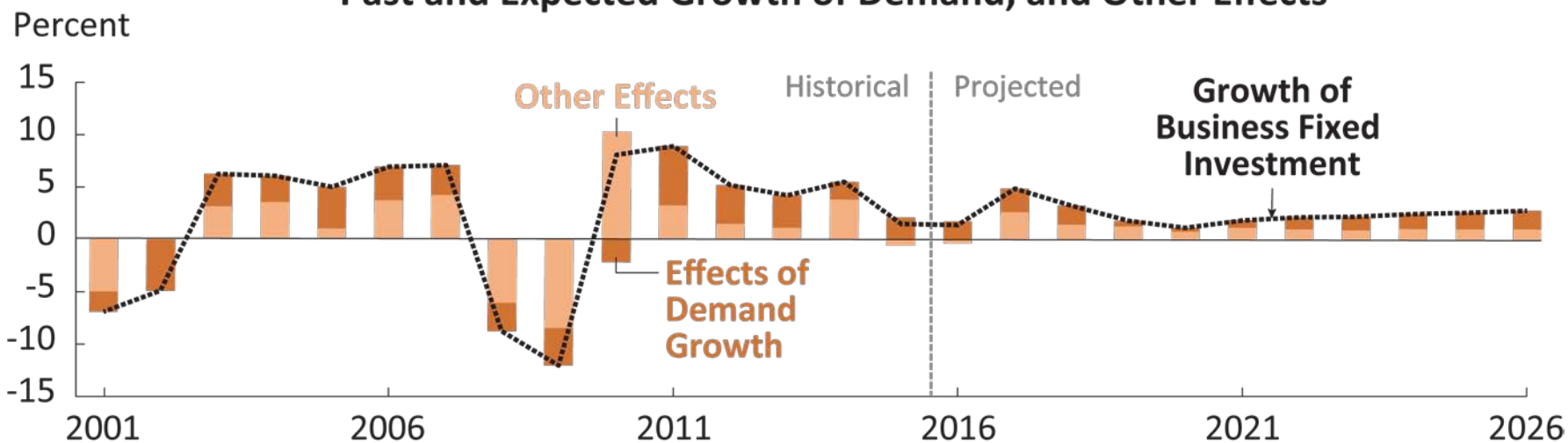


# Factors Underlying the Projected Contributions to the Growth of Real GDP

## Employees' Real Compensation



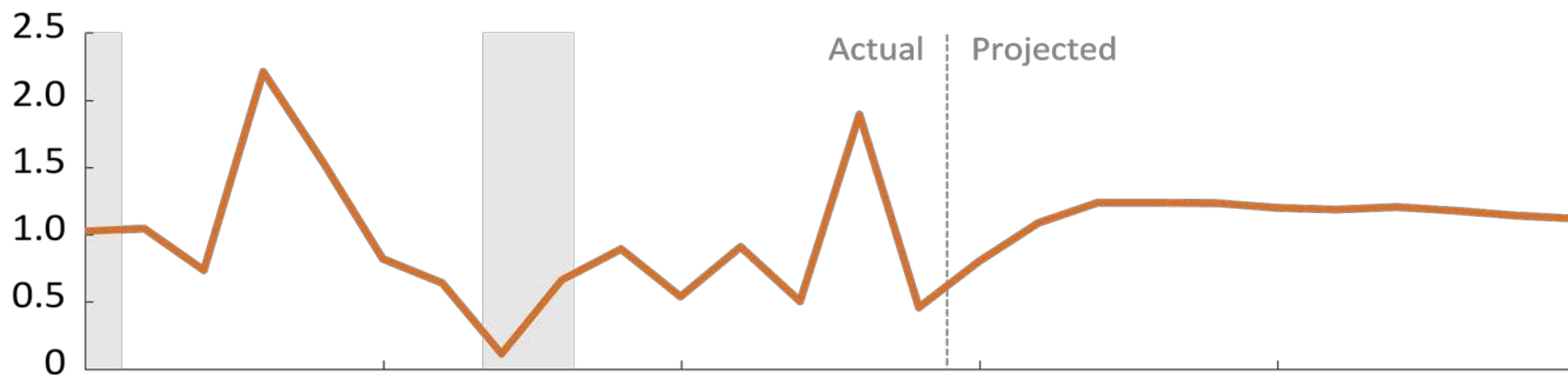
## Past and Expected Growth of Demand, and Other Effects



# Factors Underlying the Projected Contributions to the Growth of Real GDP (Continued)

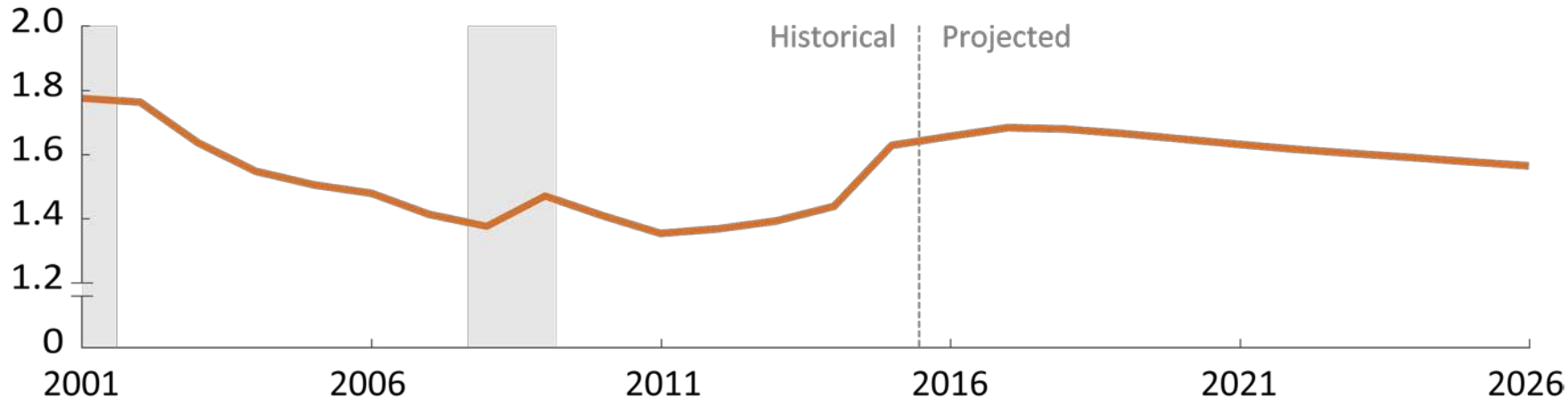
## Household Formation

Millions of Households



## Exchange Rate of the U.S. Dollar

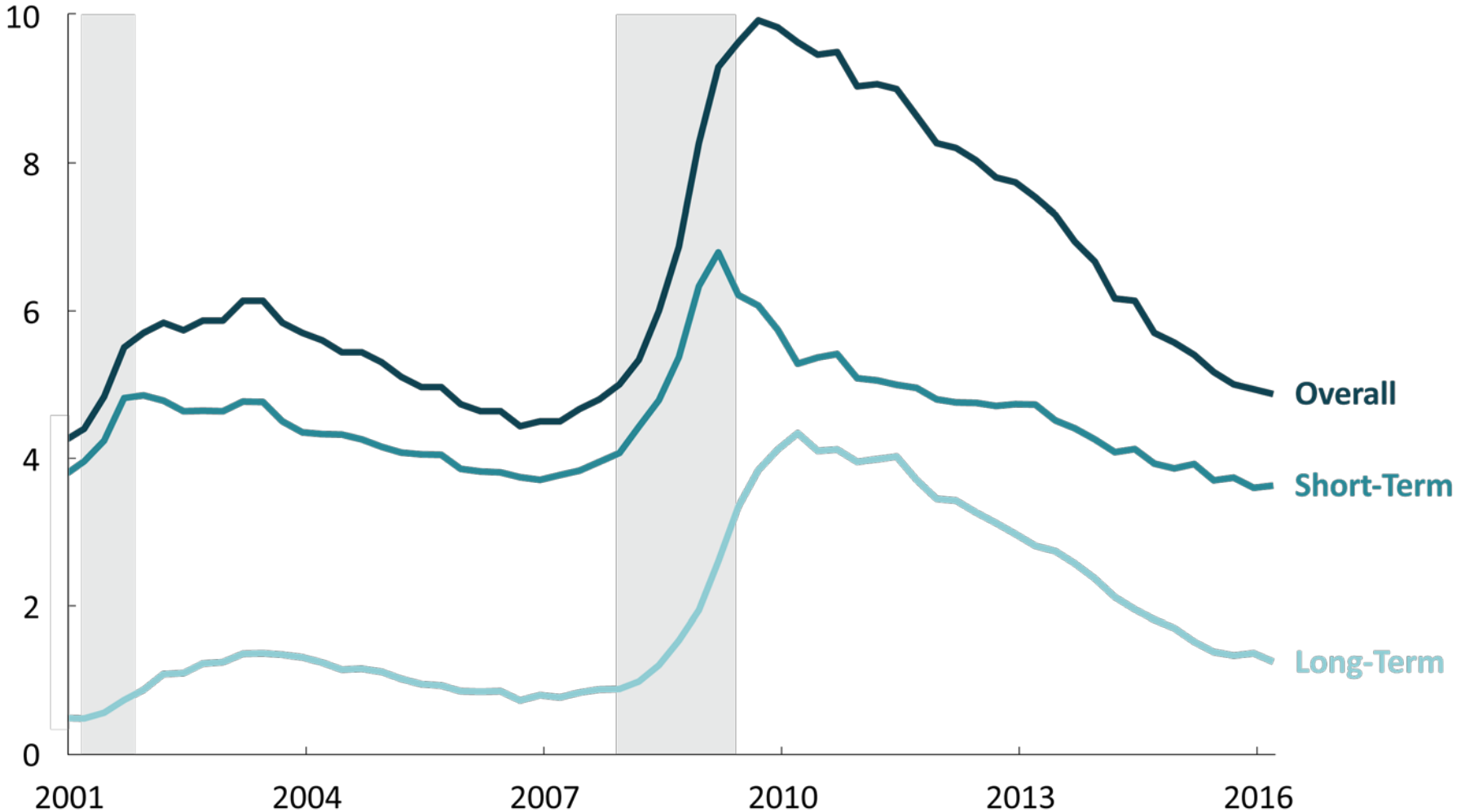
Index, 1970 = 1



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

# Unemployment Rates

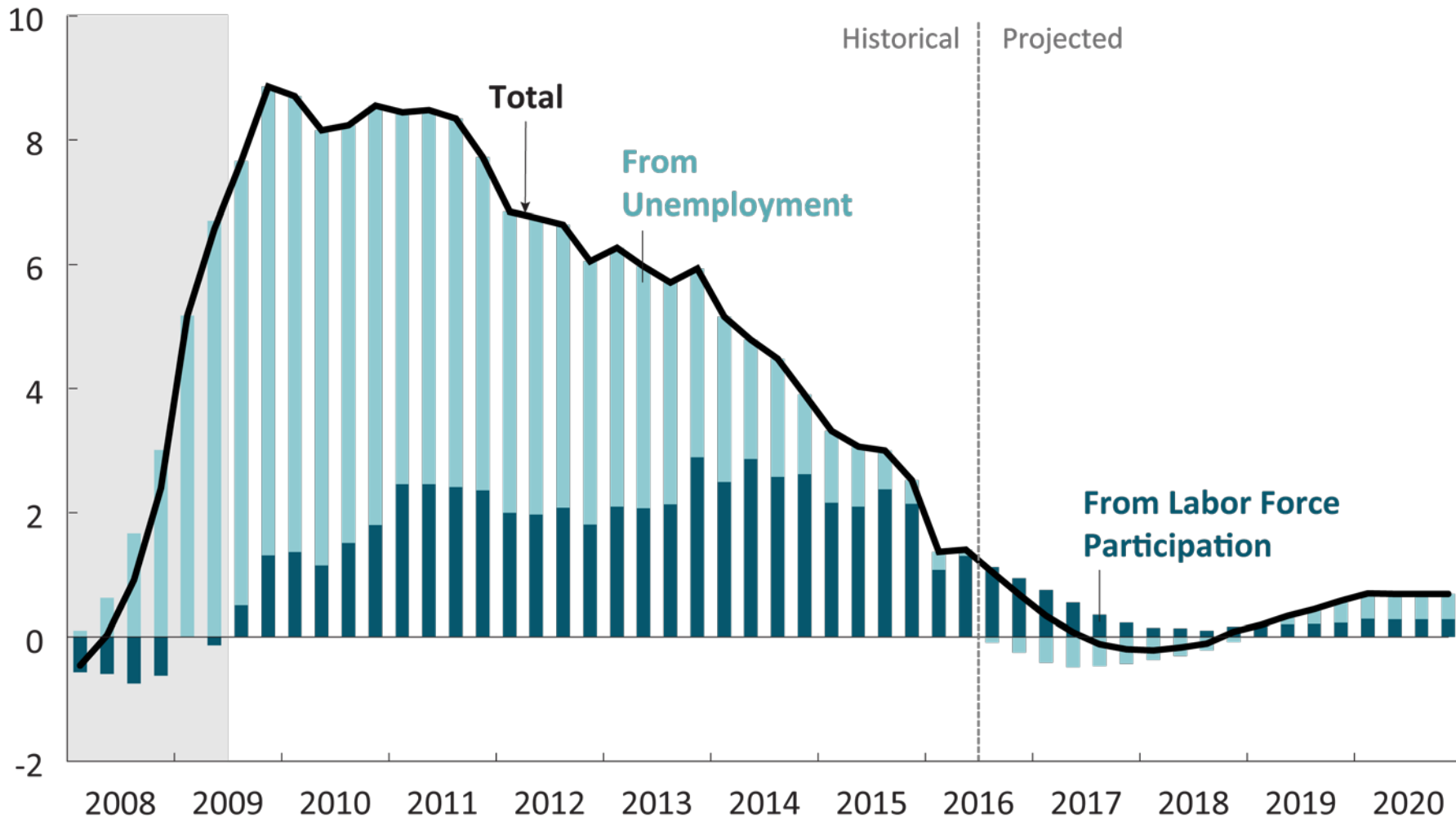
Percent





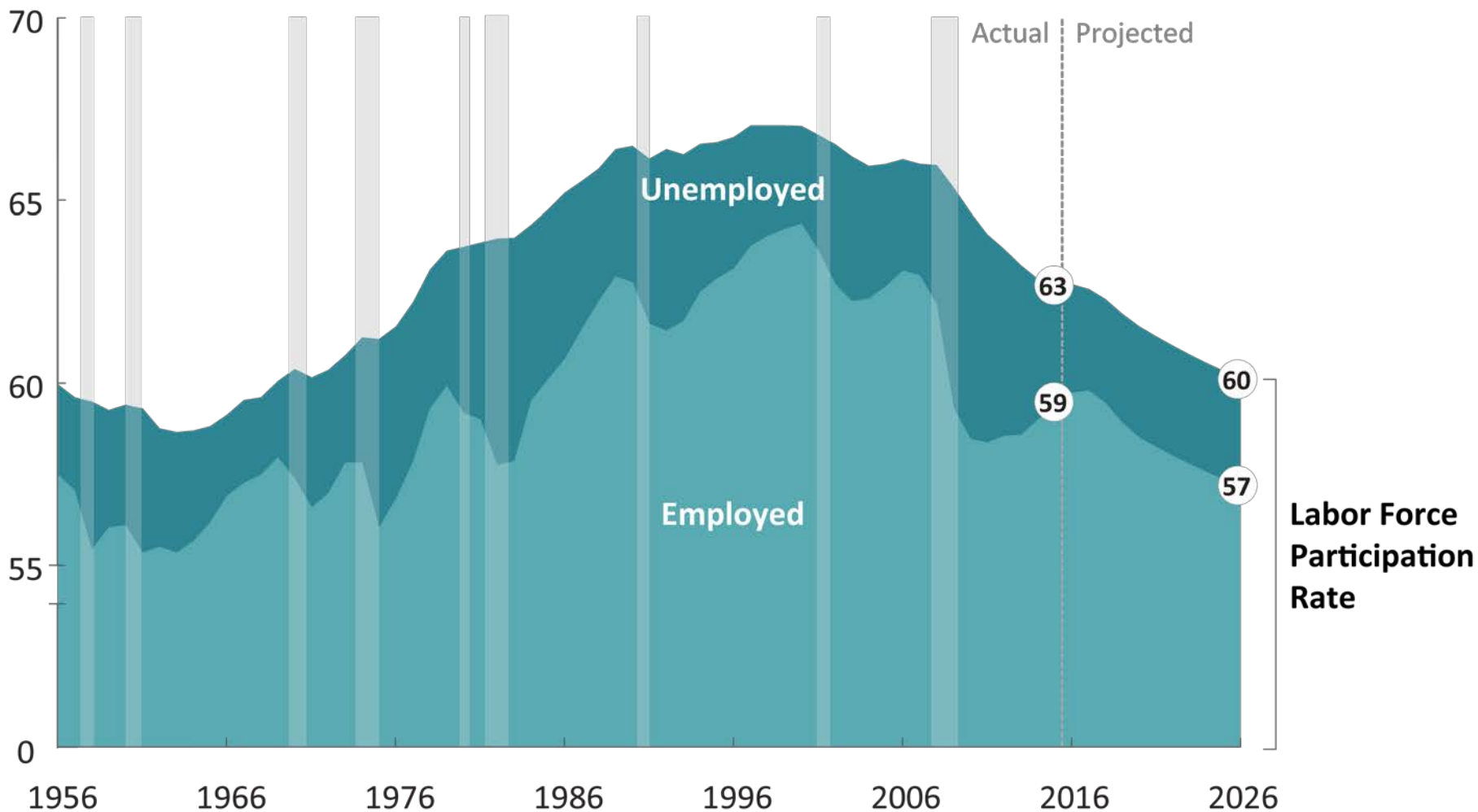
# The Employment Shortfall

Millions of People



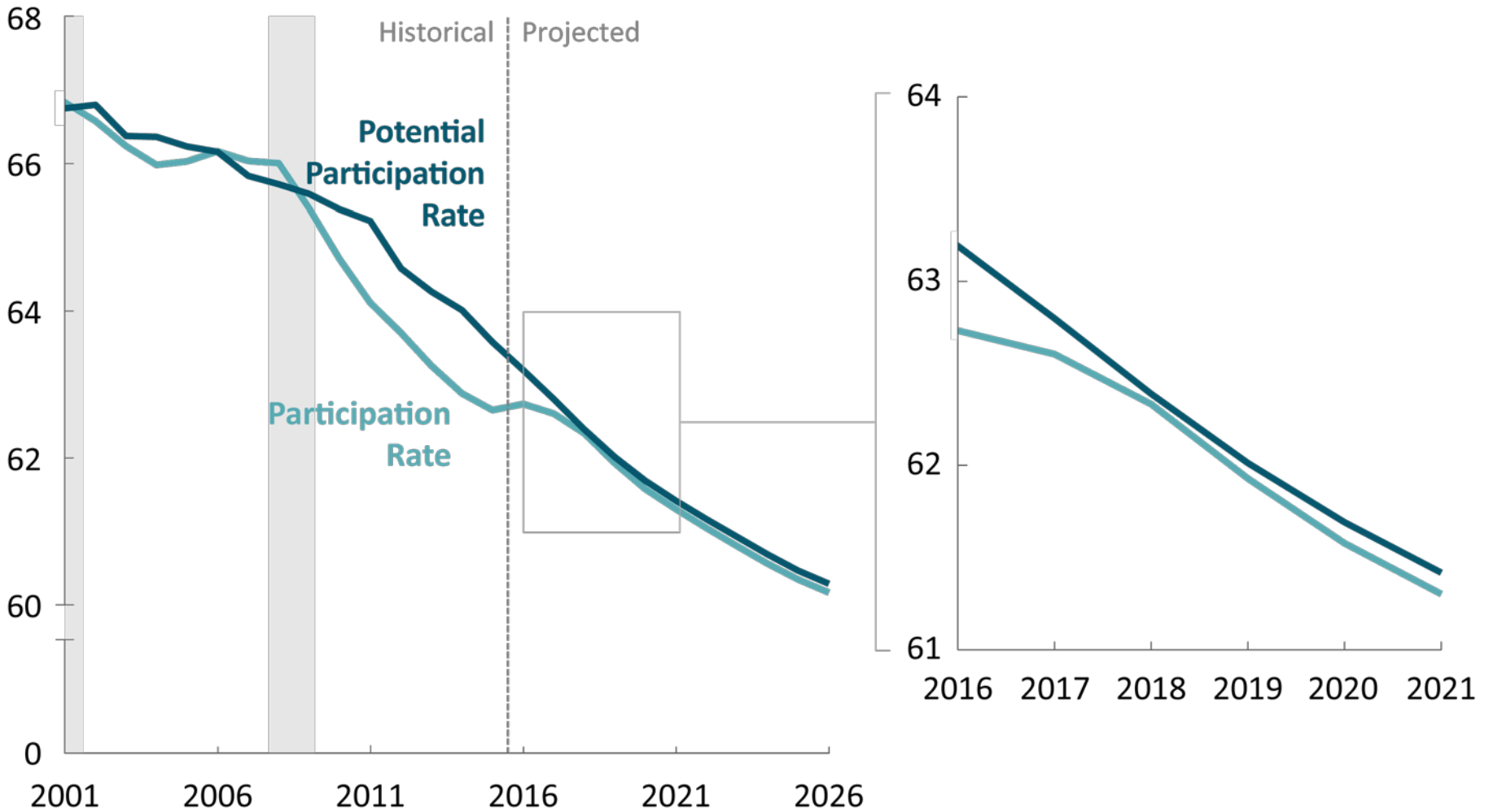
# The Labor Force, Employment, and Unemployment

Percentage of the Population



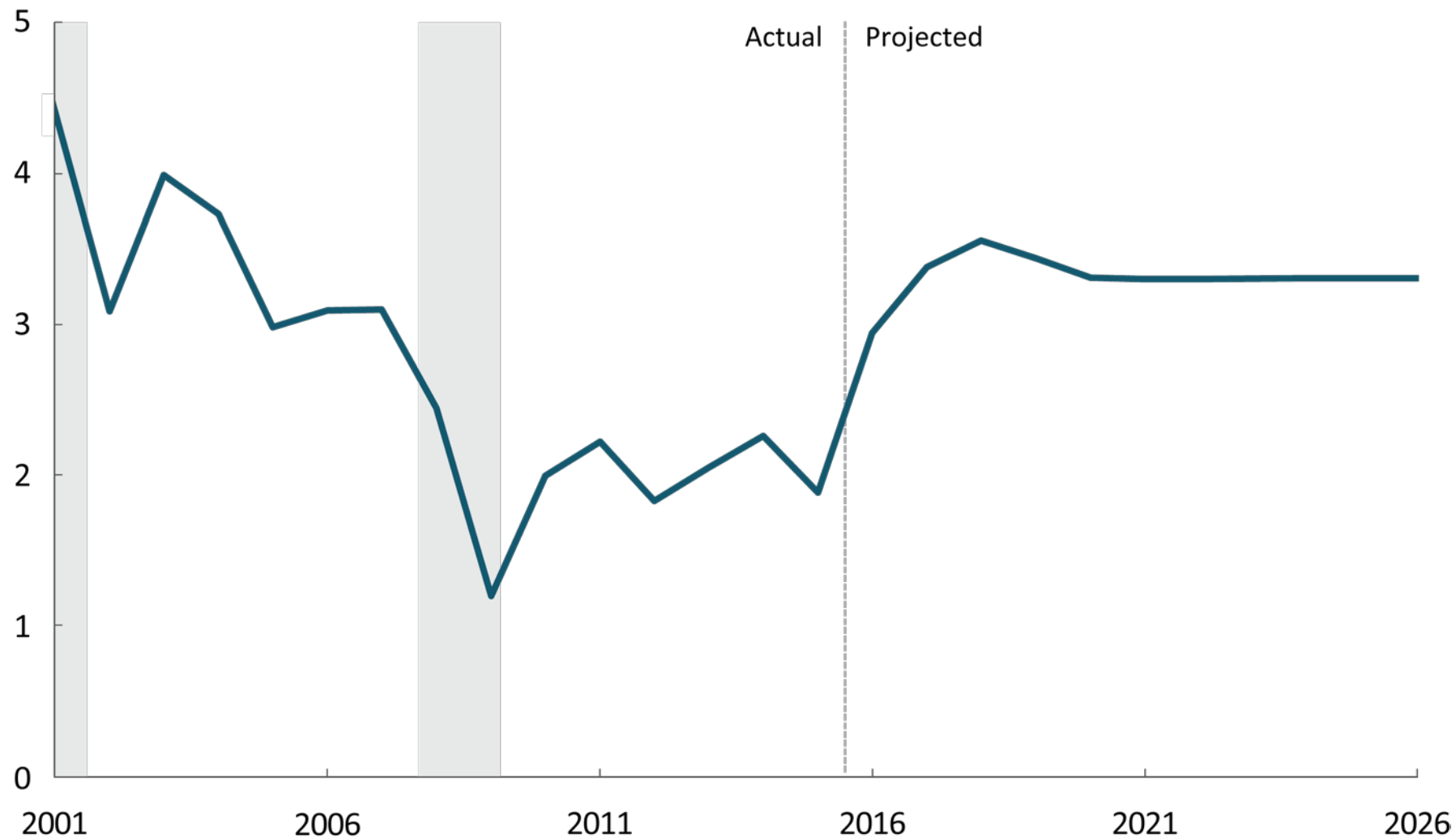
# Labor Force Participation Rates

Percent



# Hourly Labor Compensation

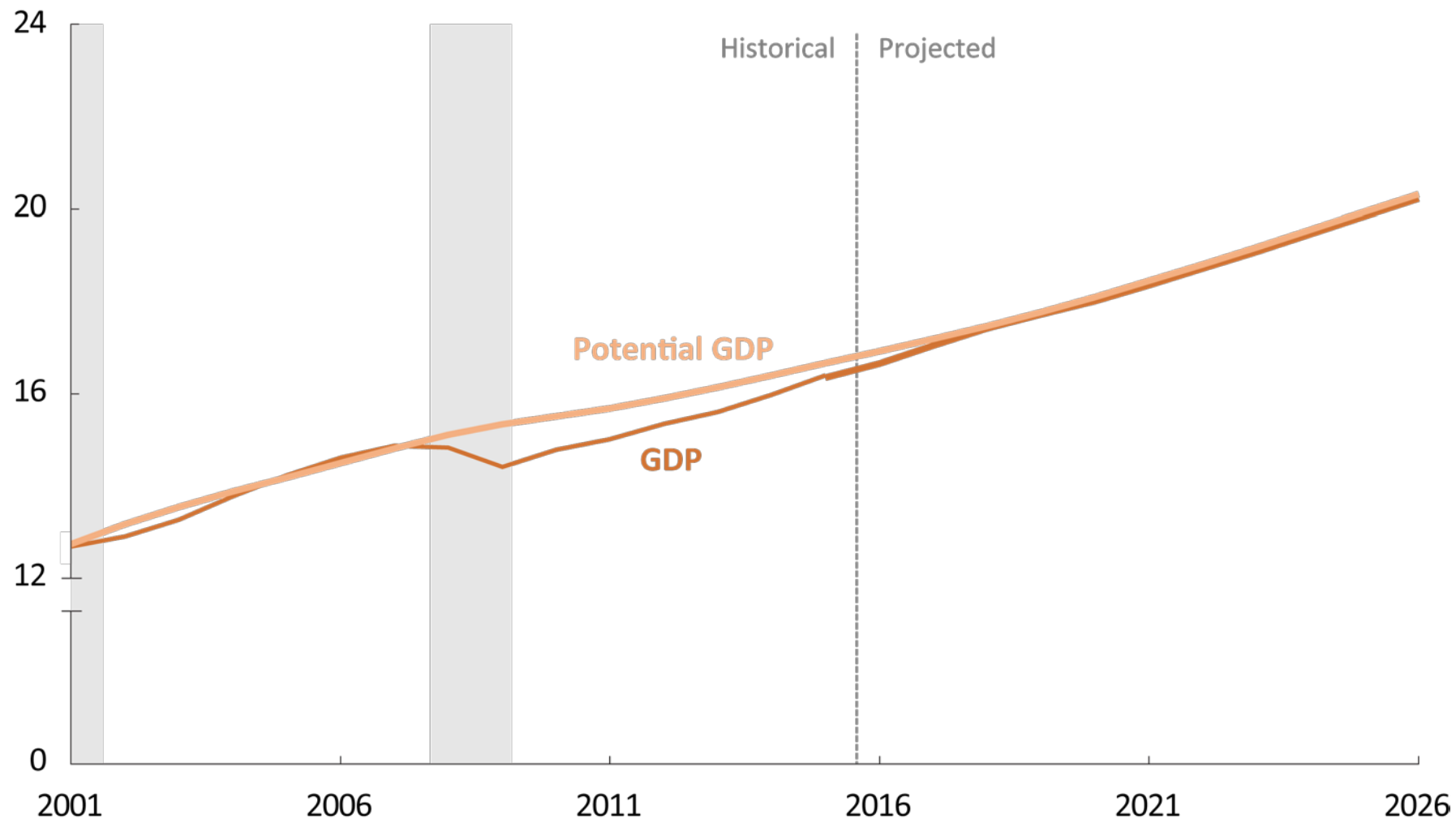
Percentage Change



Over the next two 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**.

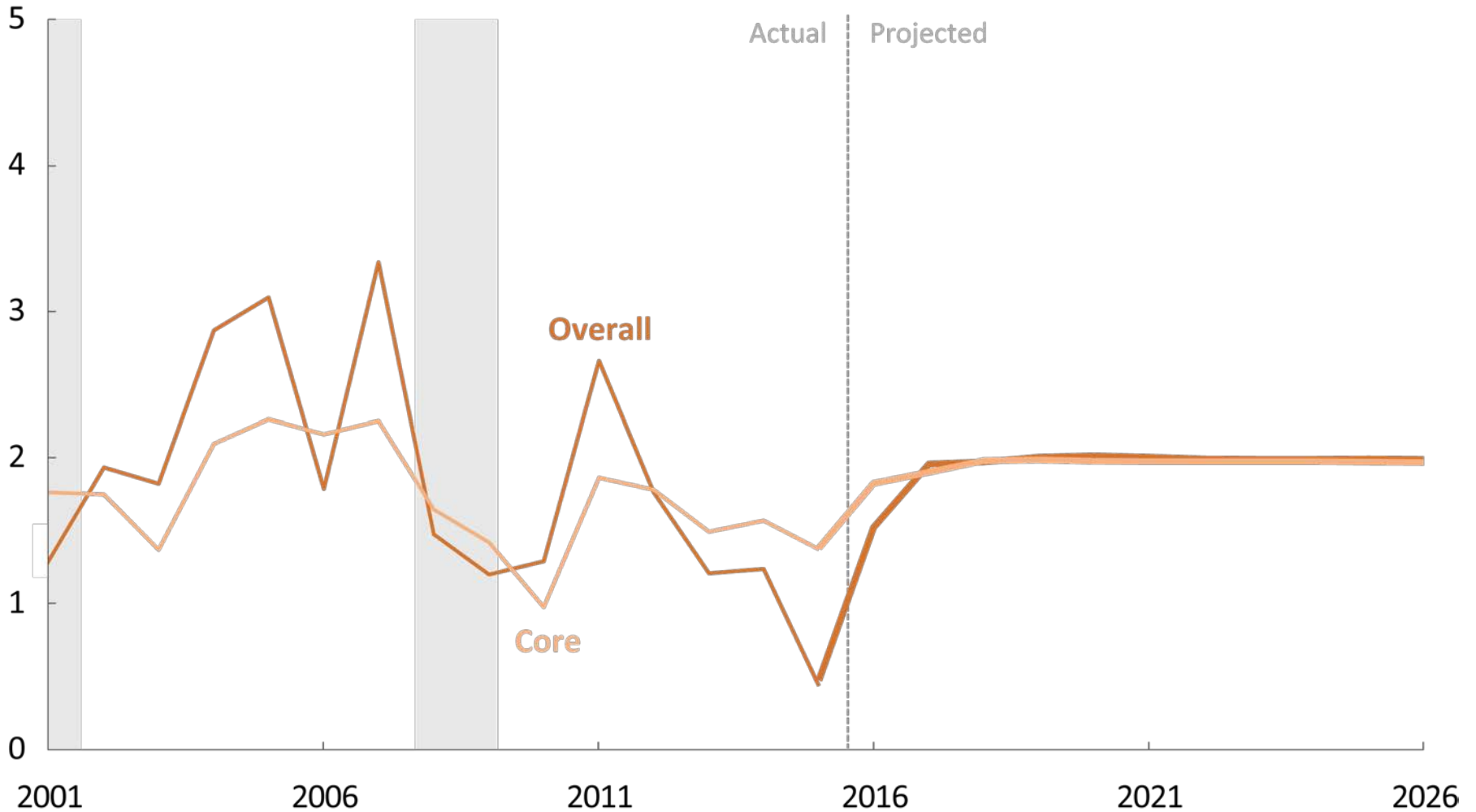
# GDP and Potential GDP

Trillions of 2009 Dollars



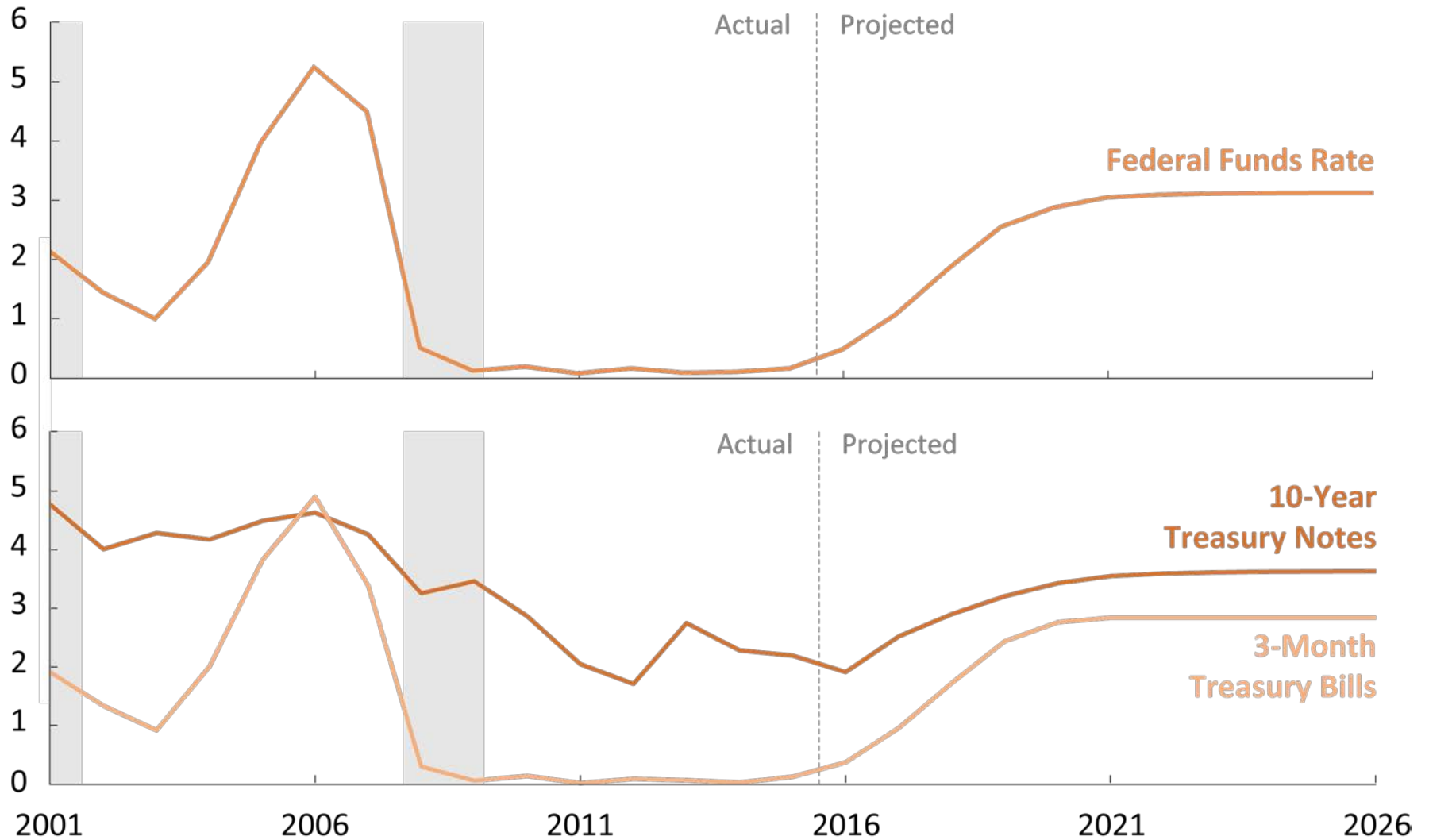
# Inflation

Percentage Change in Prices



# Interest Rates

Percent

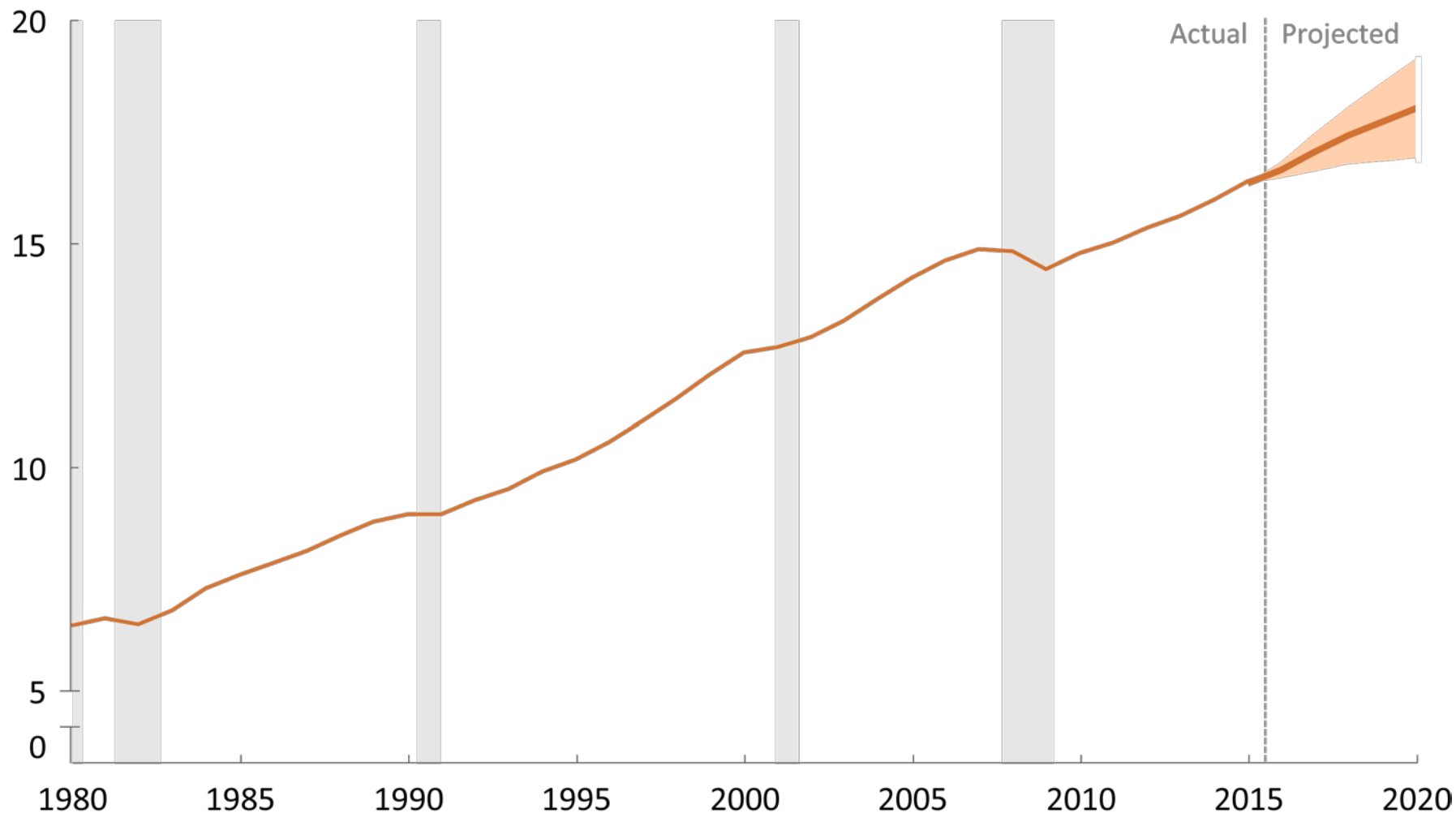




Economic forecasts over the next 10 years are subject to considerable **uncertainty**.

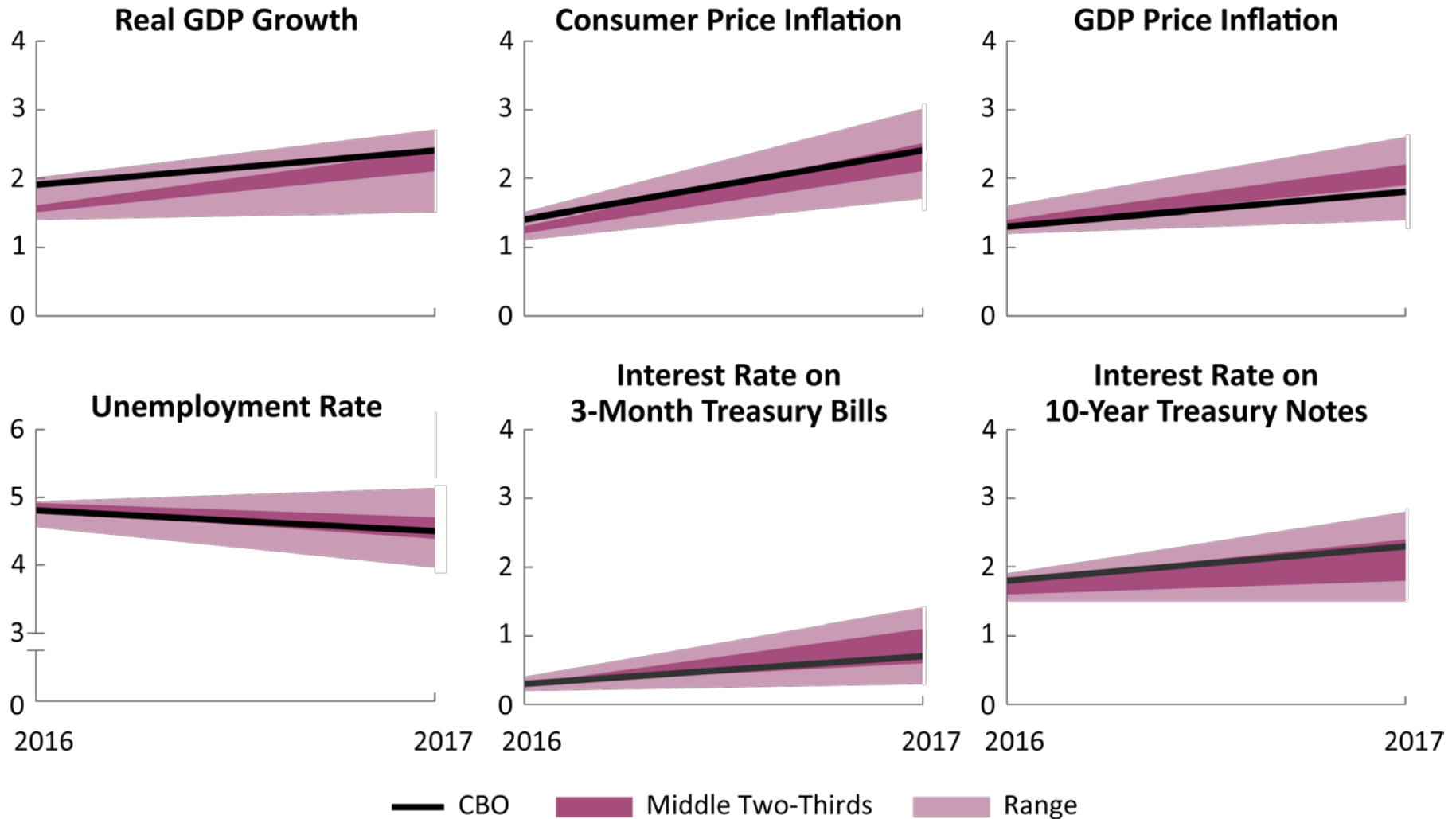
# The Uncertainty of CBO's Projection of Real GDP

Trillions of 2009 Dollars



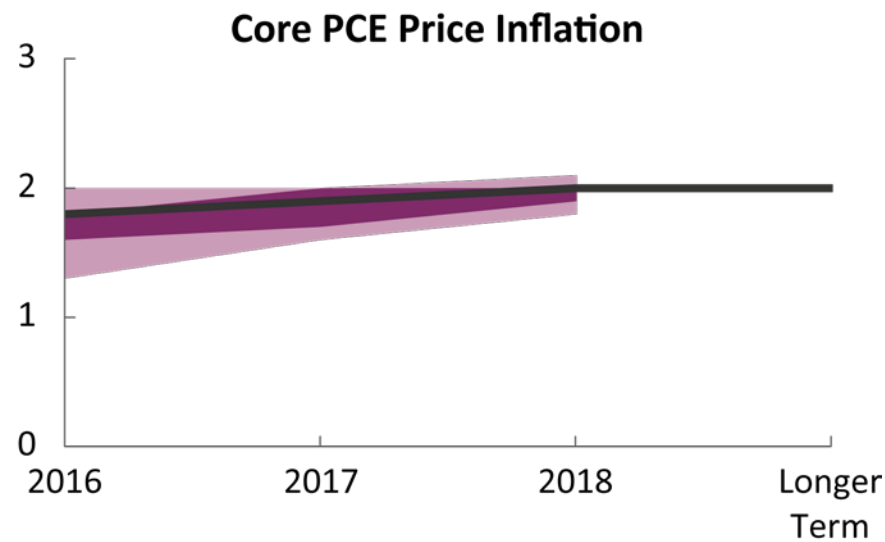
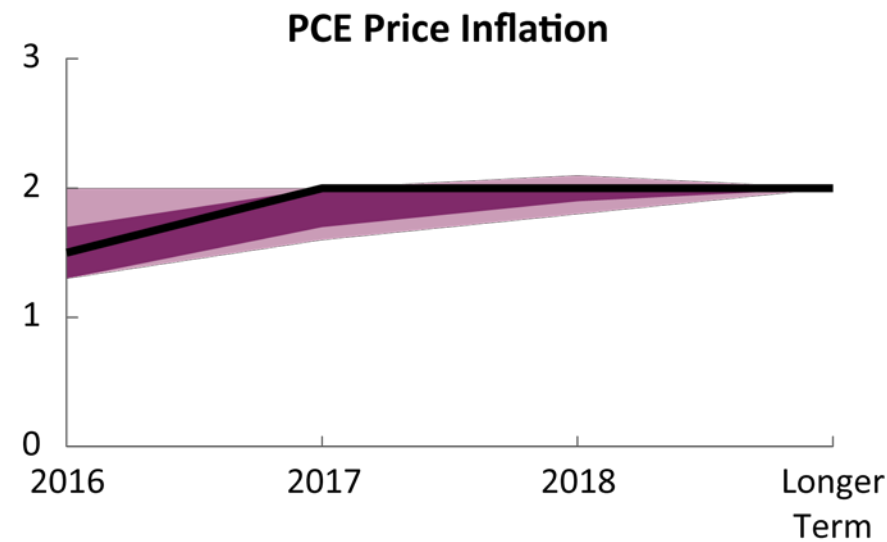
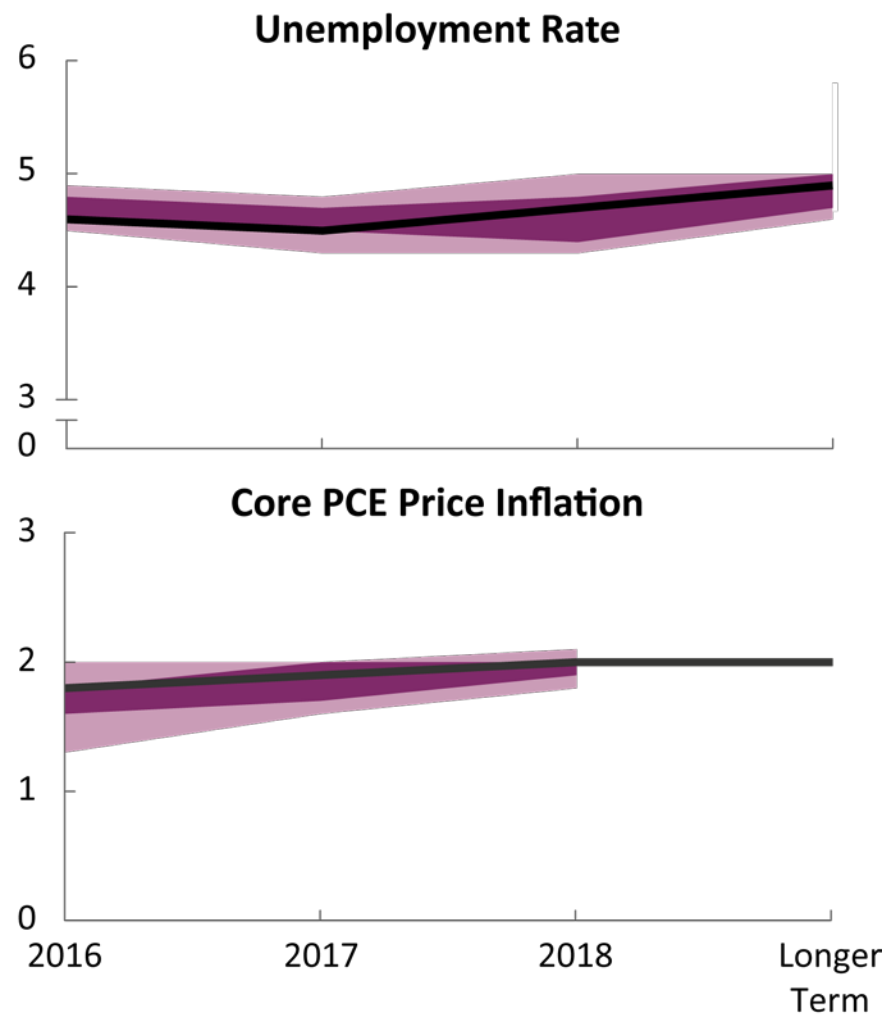
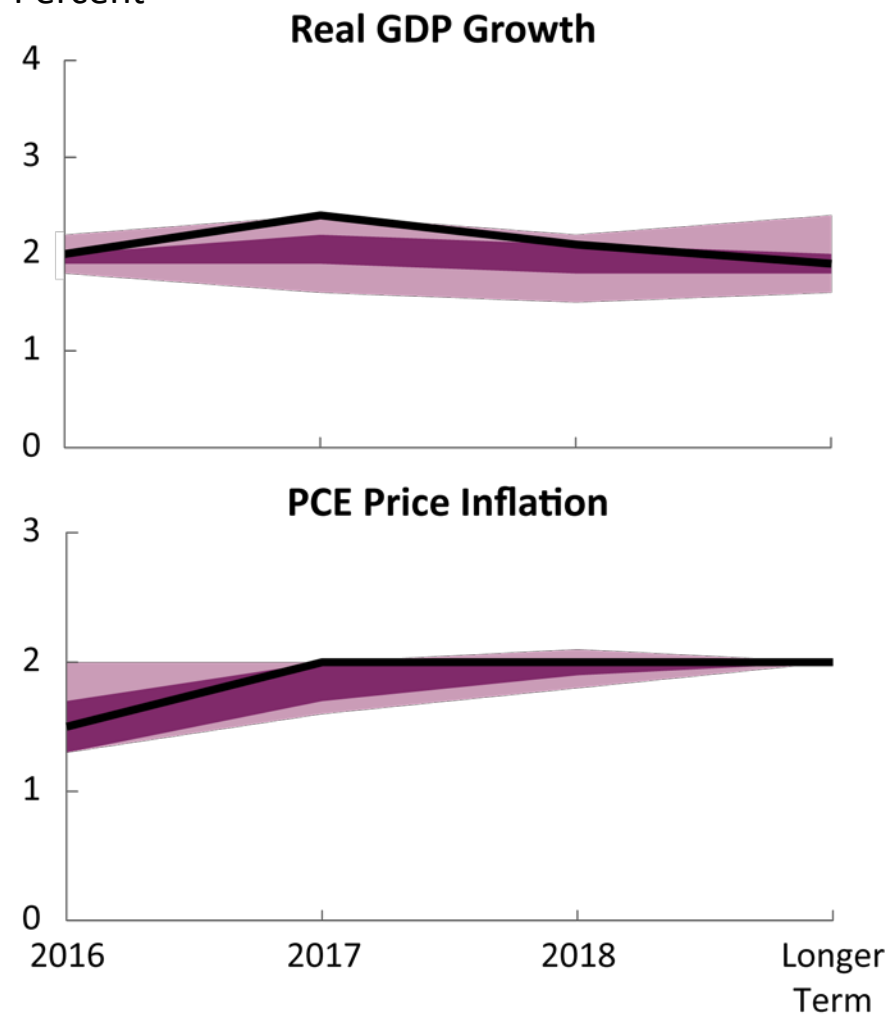
# Comparison of Economic Projections by CBO and *Blue Chip Forecasters*

Percent



# Comparison of Economic Projections by CBO and Federal Reserve Officials

Percent



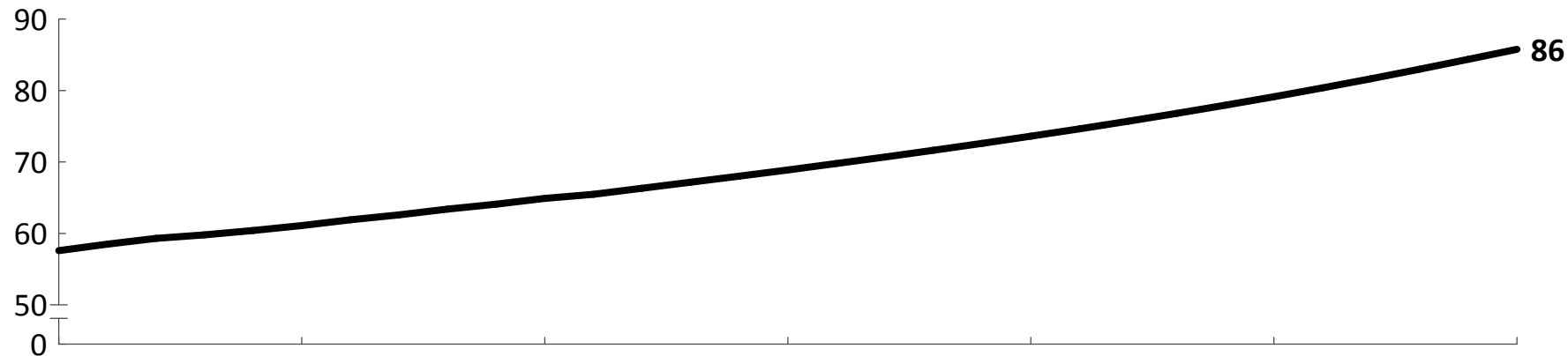
— CBO    ■ Central Tendency    ■ Range

In July 2016, CBO released its annual *Long-Term Budget Outlook*, describing the agency's projections of the federal budget and the economy over the next 30 years. Those projections are subject to significant uncertainty.

# Output per Person and Debt Under CBO's Extended Baseline

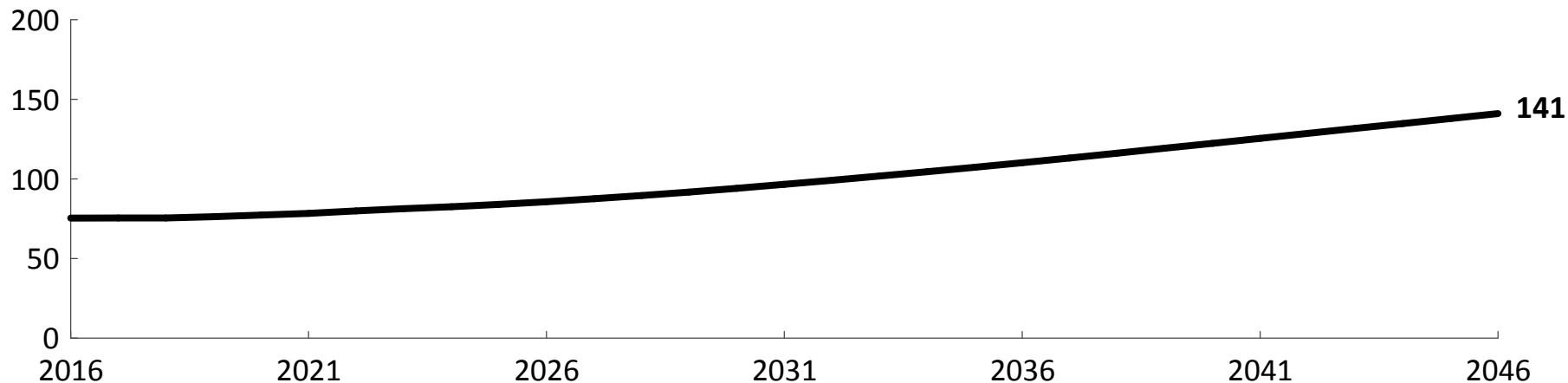
## Real Gross National Product per Person

Thousands of 2016 Dollars, by Calendar Year

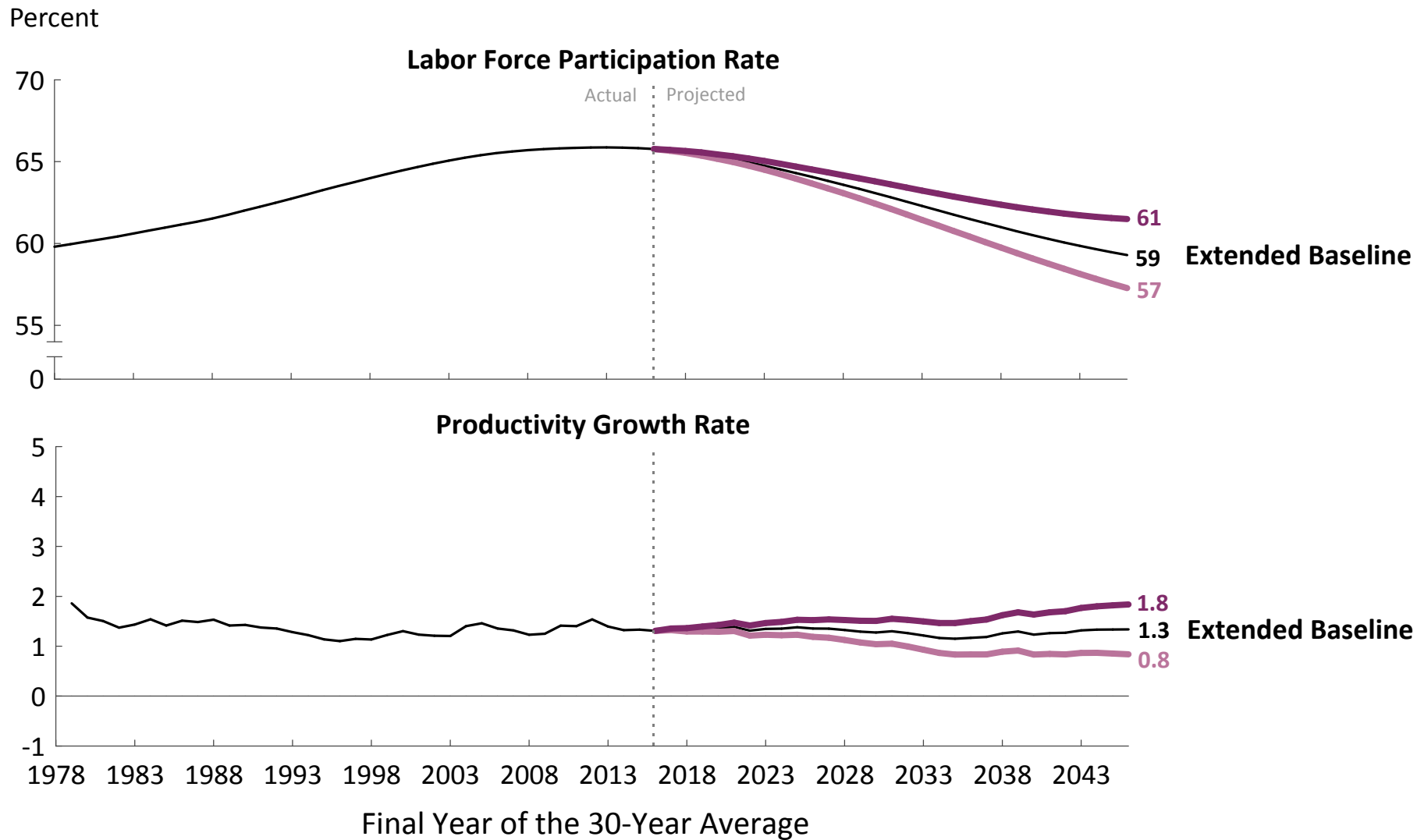


## Federal Debt Held by the Public

Percentage of Gross Domestic Product, by Fiscal Year



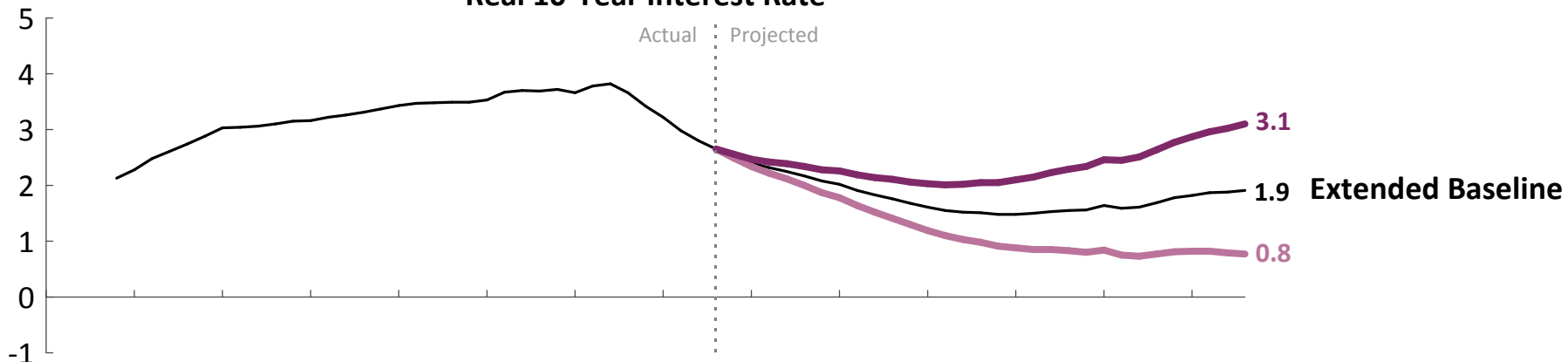
# The 30-Year Averages CBO Used to Illustrate Uncertainty in Long-Term Budget Projections



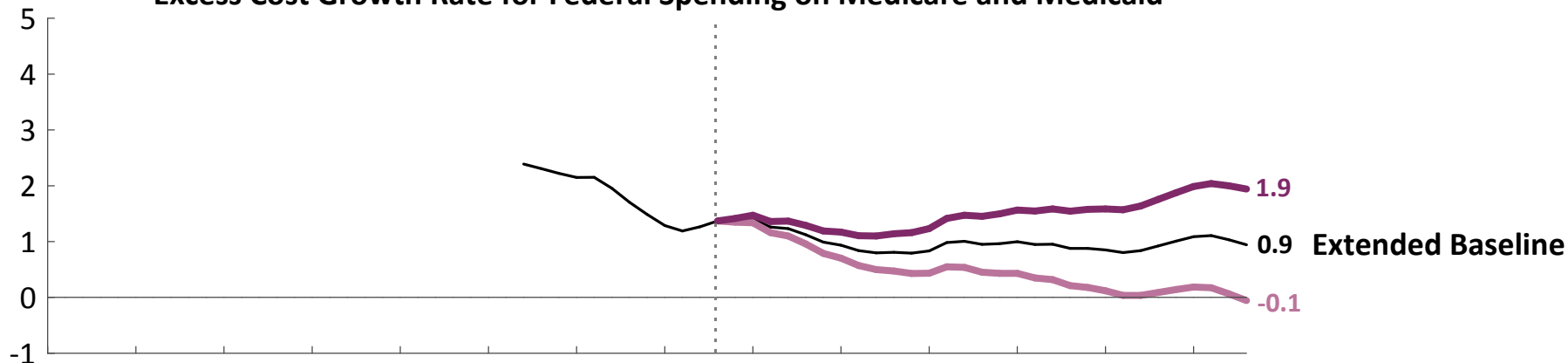
# The 30-Year Averages CBO Used to Illustrate Uncertainty in Long-Term Budget Projections (Continued)

Percent

### Real 10-Year Interest Rate



### Excess Cost Growth Rate for Federal Spending on Medicare and Medicaid

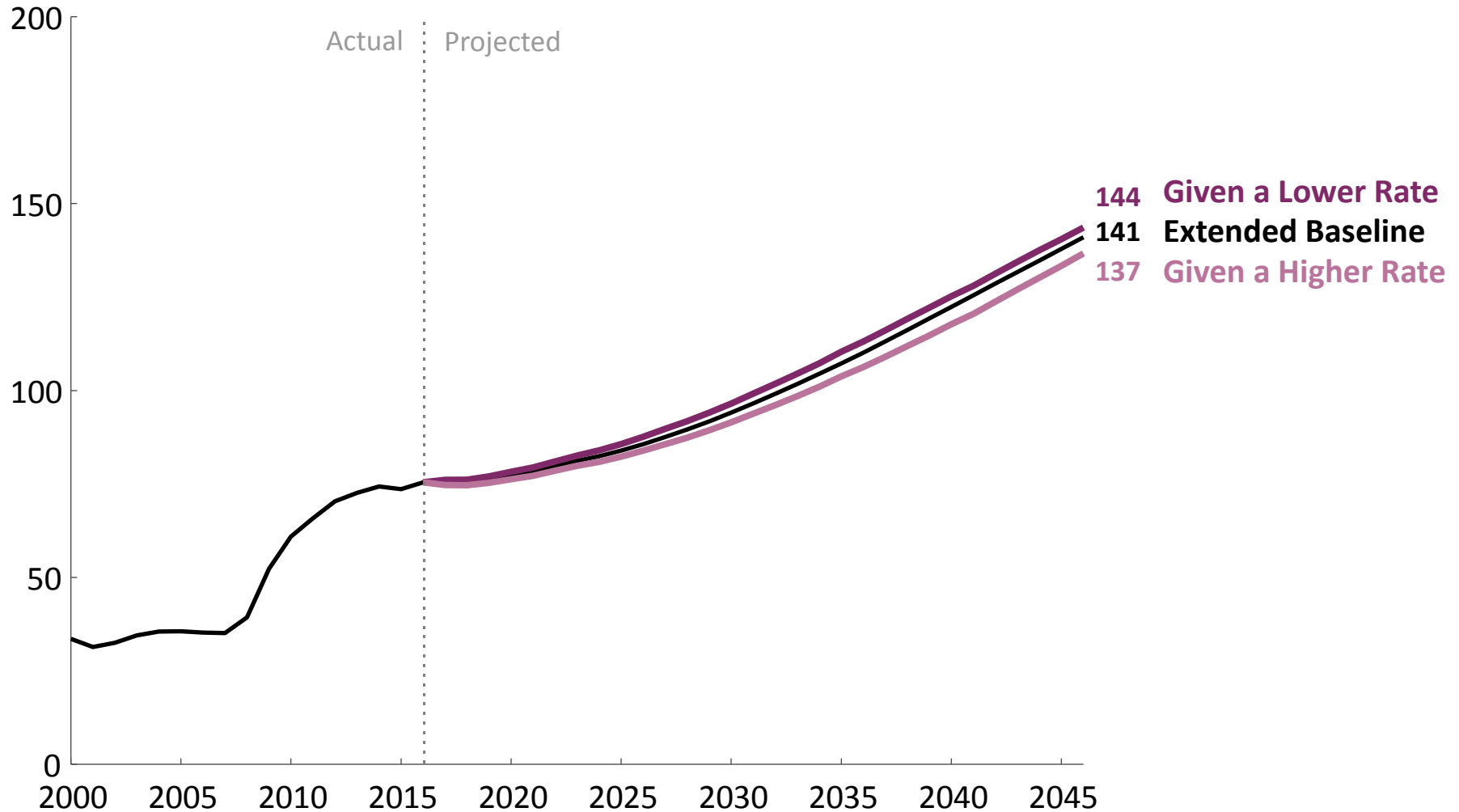


Final Year of the 30-Year Average



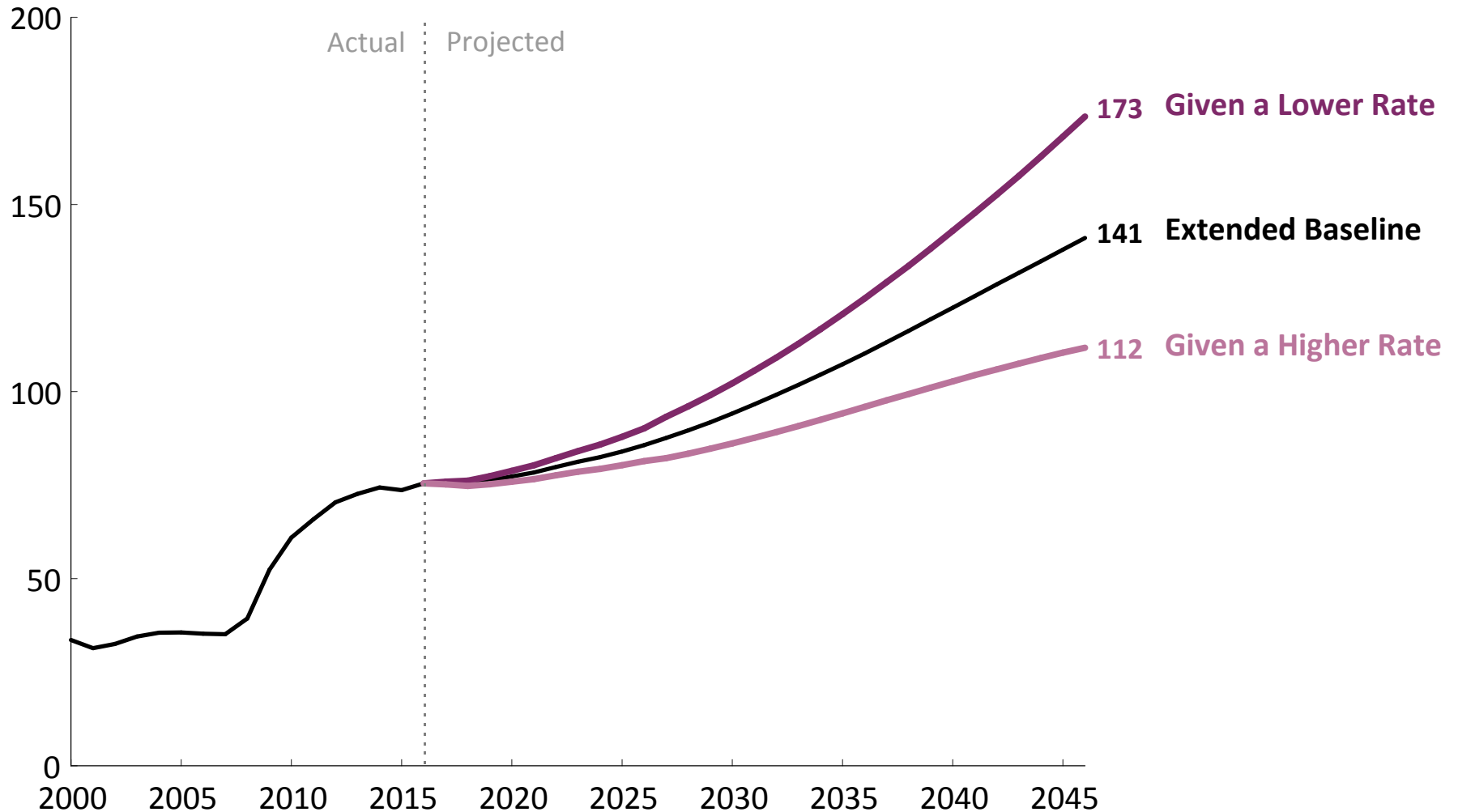
# Federal Debt Given Different Labor Force Participation Rates

Percentage of Gross Domestic Product



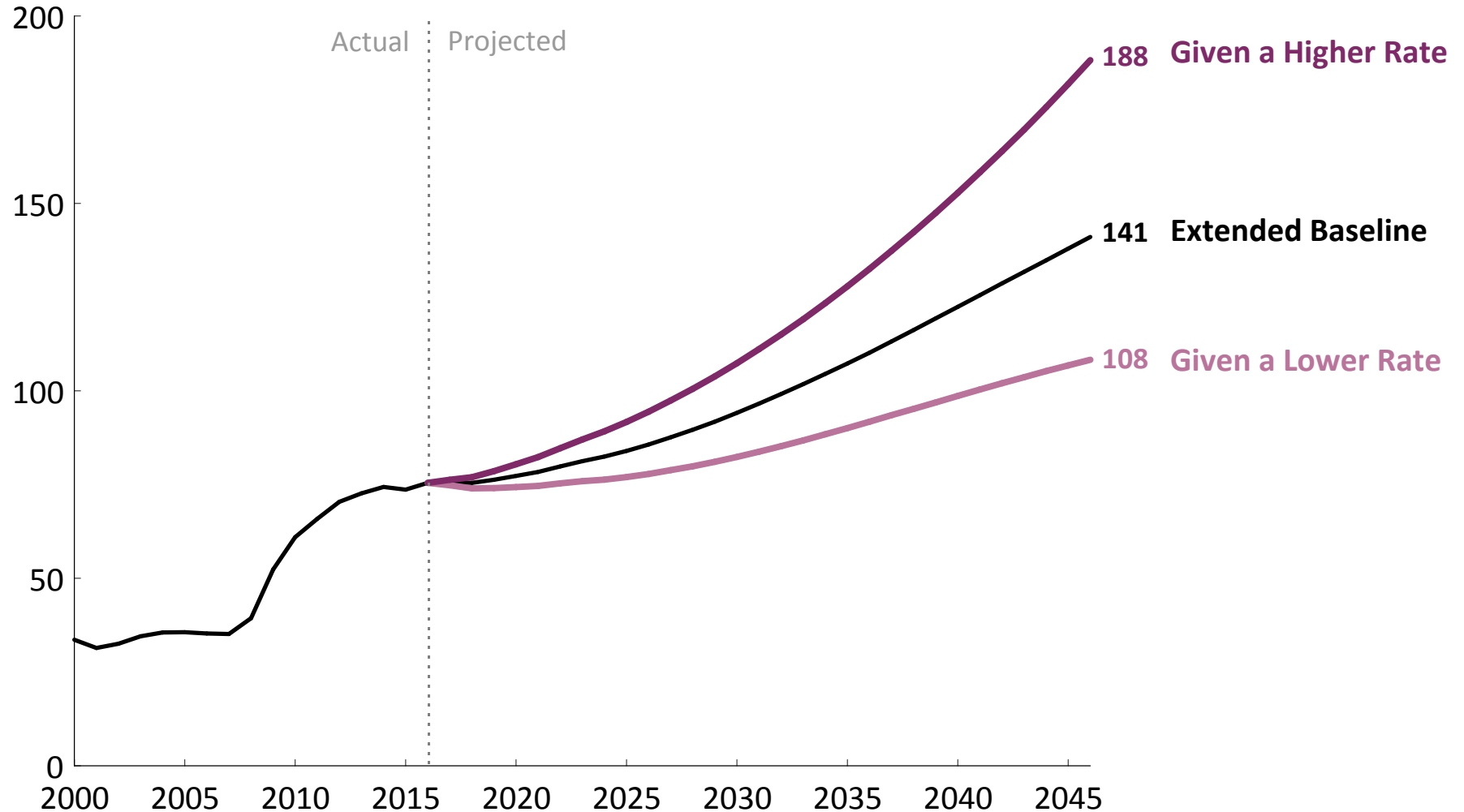
# Federal Debt Given Different Productivity Growth Rates

Percentage of Gross Domestic Product



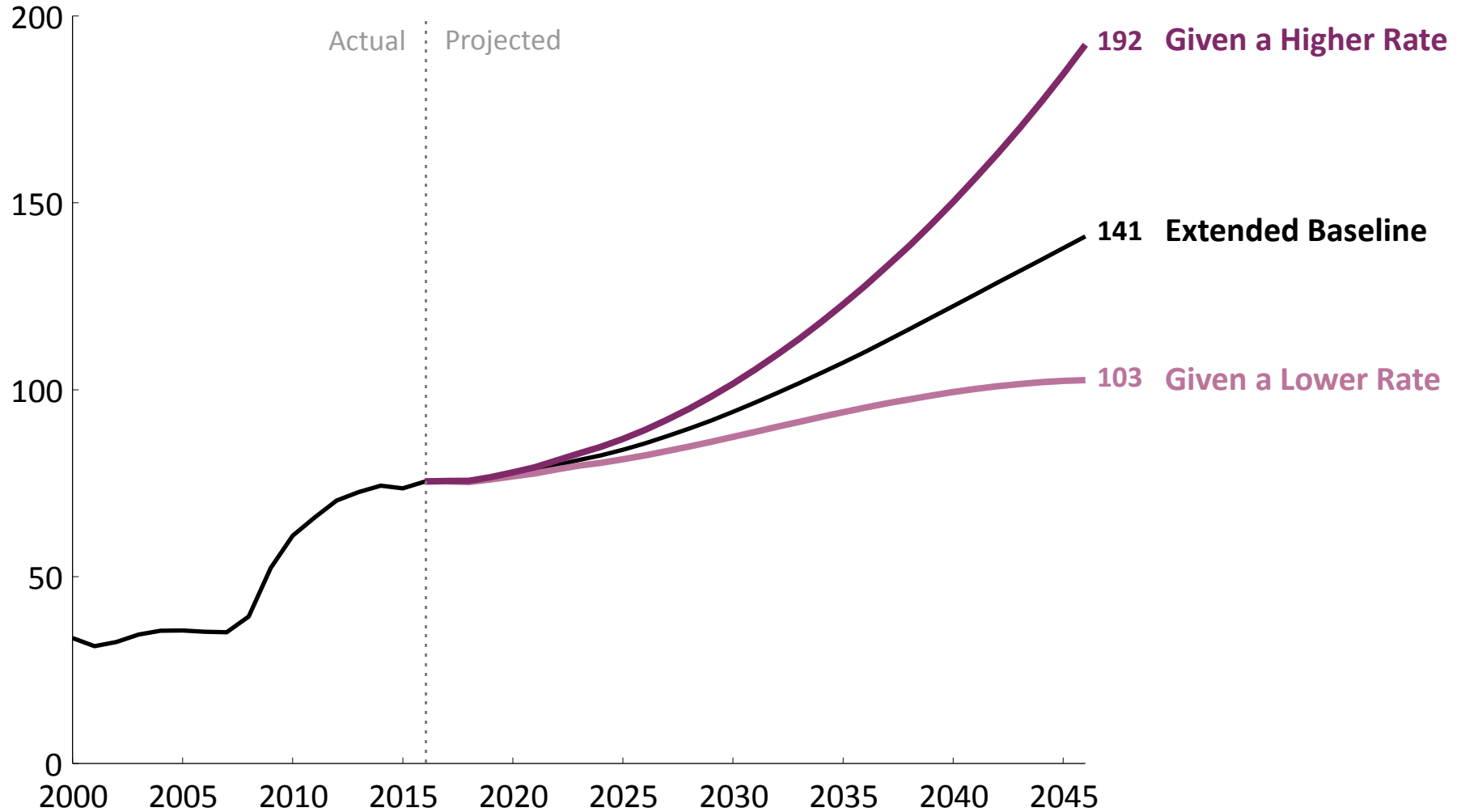
# Federal Debt Given Different Federal Borrowing Rates

Percentage of Gross Domestic Product



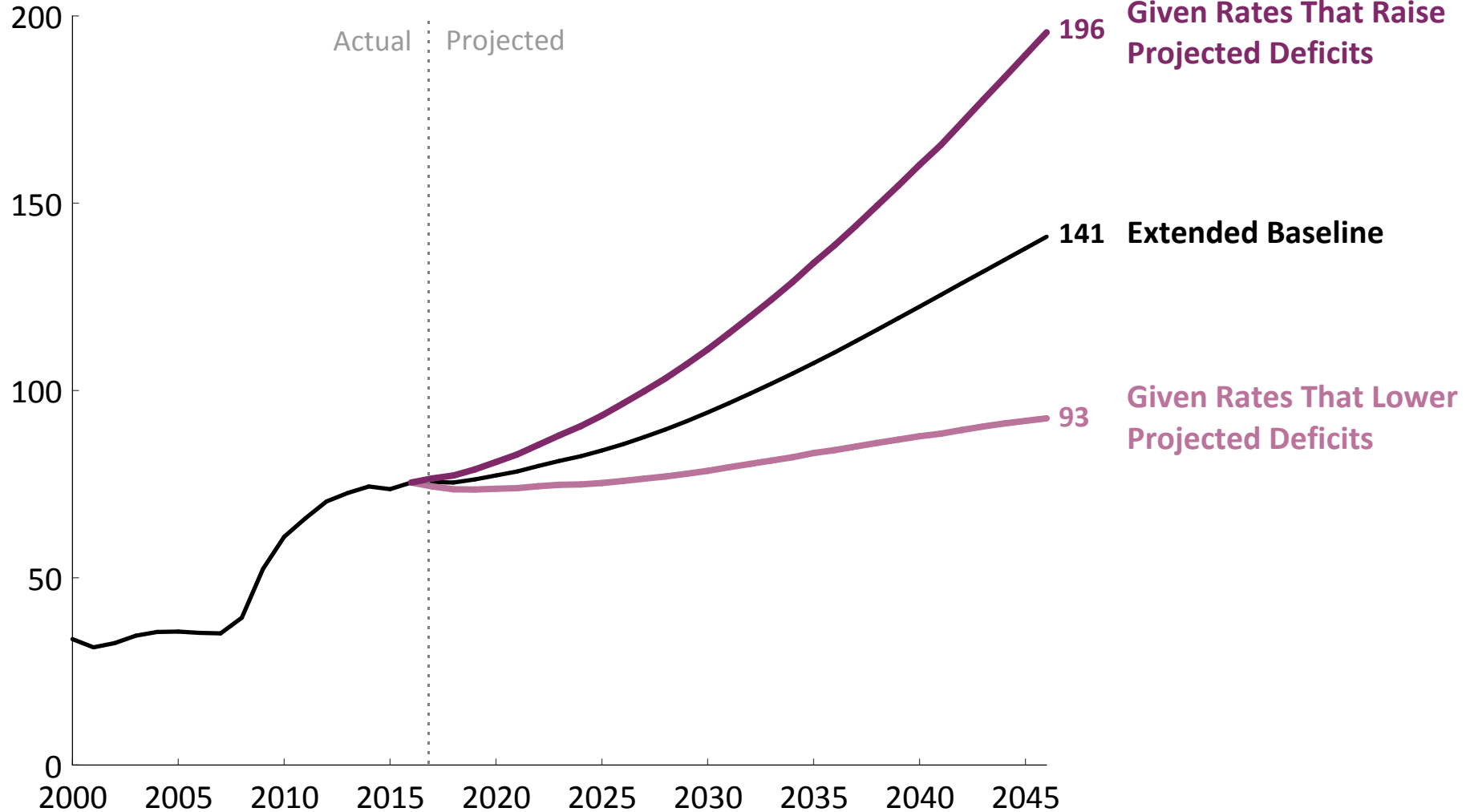
# Federal Debt Given Different Rates of Excess Cost Growth for Federal Spending on Medicare and Medicaid

Percentage of Gross Domestic Product



# Federal Debt Given Different Labor Force Participation Rates, Productivity Growth Rates, Federal Borrowing Rates, and Rates of Excess Cost Growth for Federal Spending on Medicare and Medicaid

Percentage of Gross Domestic Product



## Sources

Congressional Budget Office, *The 2016 Long-Term Budget Outlook* (July 2016), [www.cbo.gov/publication/51580](http://www.cbo.gov/publication/51580).

Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2016 to 2026* (September 2016), [www.cbo.gov/publication/51908](http://www.cbo.gov/publication/51908)).

Slide 19: Congressional Budget Office; Wolters Kluwer, *Blue Chip Economic Indicators* (August 10, 2016).

Slide 20: Congressional Budget Office; Board of Governors of the Federal Reserve System, “Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, June 2016” (June 15, 2016), <http://go.usa.gov/xTWAW> (PDF, 165 KB).