If current laws governing taxes and spending remain in effect (CBO’s baseline projection), debt held by the public will fall from 73 percent of GDP in fiscal year 2012 to 58 percent of GDP in 2022. If policymakers altered those laws to maintain many policies that have been in effect in recent years (CBO’s alternative fiscal scenario), debt would climb to 90 percent of GDP by 2022. In either case, debt would be relatively high by historical standards.
An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022

August 2012

The Budget Outlook
Deficits under CBO’s current-law baseline projection average about 1 percent of GDP over the 2013–2022 period. By comparison, under an alternative scenario, in which some changes specified in current law would not occur and many tax and spending policies that have been in effect in recent years would continue instead, deficits over that period would average about 5 percent of GDP.
The caps on discretionary spending—either with the required automatic reductions (as in CBO’s baseline) or without them (as in the alternative fiscal scenario)—will necessitate a reduction in the real resources available for many government programs, compared with the funding provided for 2012. If, instead, funding was allowed to grow at the rate of inflation, it would be 17 percent higher in 2022 than the amounts projected in the baseline.
The economy has continued to expand modestly this year. Real (inflation-adjusted) GDP rose at an average annual rate of 1.7 percent in the first half of the year, somewhat slower than in 2011 and less than its average rate during the previous expansion. CBO anticipates that the pace of economic expansion will increase slightly during the rest of 2012.
Business investment has grown rapidly over the past year. Real (inflation-adjusted) business fixed investment—in structures, equipment, and software—grew by 10.2 percent over the year that ended in the second quarter of 2012. Despite that growth, the total amount of net investment (fixed investment minus depreciation) as a fraction of GDP remains unusually low.
A recovery in the housing market appears to be under way. Real (inflation-adjusted) residential investment—spending on home construction and improvements, mobile homes, and brokers’ commissions—was almost 11 percent higher in the second quarter of 2012 than in the same quarter last year. House prices seem to have reached their bottom and have been rising in 2012.
Economic growth among the nation's leading trading partners, which peaked in mid-2010, has continued to slow, while the U.S. economy has continued to grow at a modest pace since mid-2011. That different pattern of growth is a primary factor behind CBO's forecast of weaker net exports in the second half of 2012. (Actual data include the July 2012 revisions to the national income and product accounts; projected data do not.)
The share of unemployment accounted for by the long-term unemployed—people who have been seeking work for more than 26 consecutive weeks—has topped 40 percent for the past two and a half years. By comparison, that share was about 22 percent in 2003, in the aftermath of the 2001 recession.
Inflation
(Percentage change in prices from same quarter of previous year)

Inflationary pressures remain subdued: The average rate of inflation in consumer prices during the year ending in the second quarter of 2012 was less than 2 percent.
Because of the sharp deficit reduction that will occur under current law, CBO projects that the unemployment rate will rise to about 9 percent in the fourth quarter of 2013. Under an alternative scenario, in which some changes specified in current law would not occur and many tax and spending policies that have been in effect in recent years would continue instead, unemployment would remain near 8 percent in 2013.
CBO expects that real (inflation-adjusted) GDP will stay below the economy's potential—a level that corresponds to a high rate of use of labor and capital—until 2018. Potential GDP is projected to grow at an average annual rate of 2.4 percent between 2018 and 2022 and by an average of 2.2 percent for the 2012–2022 projection period. (Actual data include the July 2012 revisions to the national income and product accounts; projected data do not.)
Since the end of the recession, labor income has fallen as a share of gross domestic income—the sum of all income earned in the production of GDP—reinforcing its downward trend since 1980. In CBO’s projections, labor income grows faster over the next decade, bringing its share to about 61 percent by 2022, just below the historical average since 1980. (Actual data include the July 2012 revisions to the national income and product accounts; projected data do not.)