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CBO's 10-Year Economic Forecast and How It Is Produced

Congressional Research Service Seminar

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CBO's Economic Forecast Process

Step 1: Background Analysis

- Develop preliminary forecast for exogenous variables (e.g., oil prices)
- Review recent data



Step 2: Preliminary Forecast

- Use macroeconomic model to develop preliminary forecast
- Incorporate preliminary federal tax and spending projections



Step 3: Internal and External Review

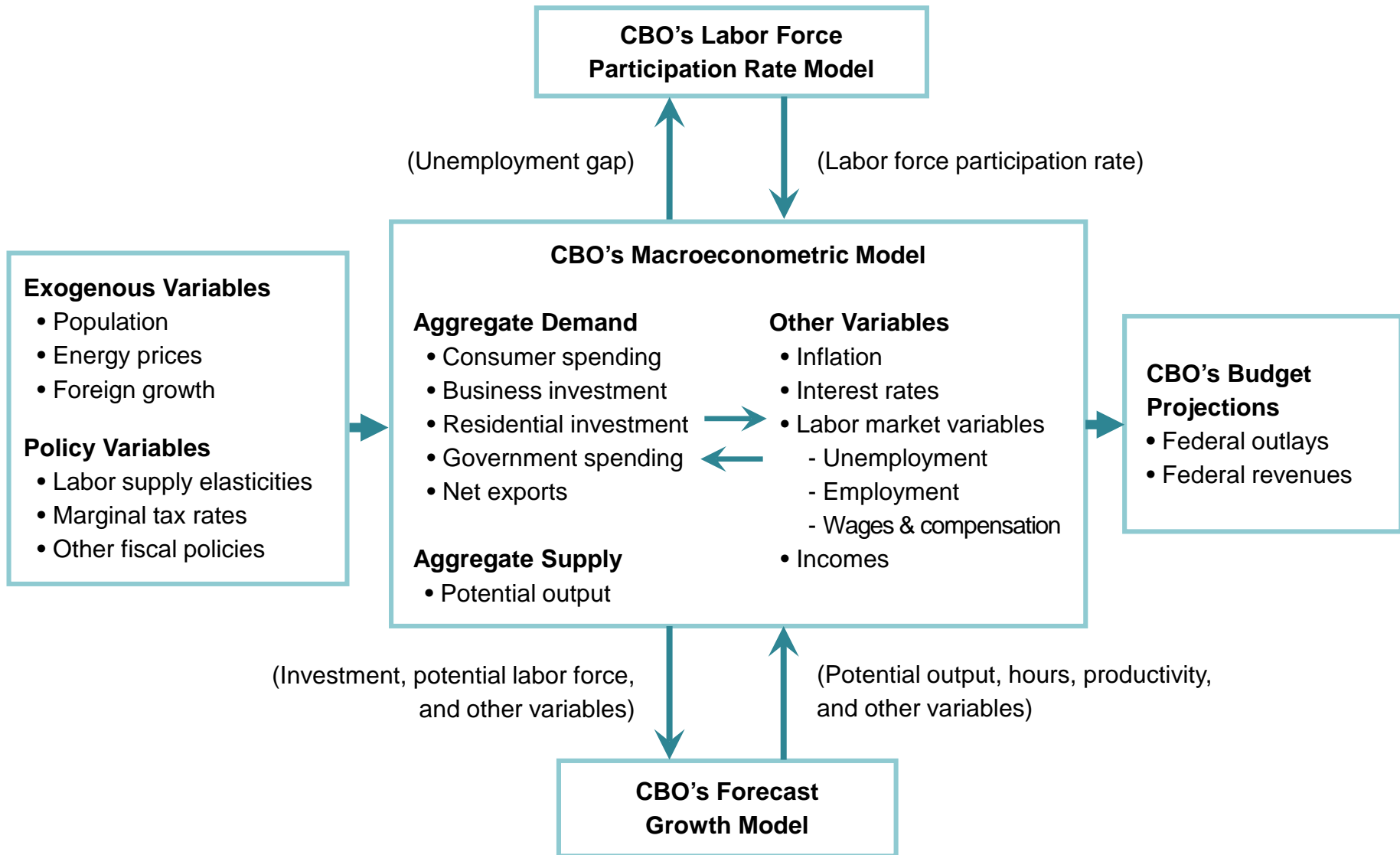
- Obtain input from CBO's senior staff and other divisions within the agency
- Obtain feedback from CBO's Panel of Economic Advisers and staff of Congressional budget committees



Step 4: Final Forecast

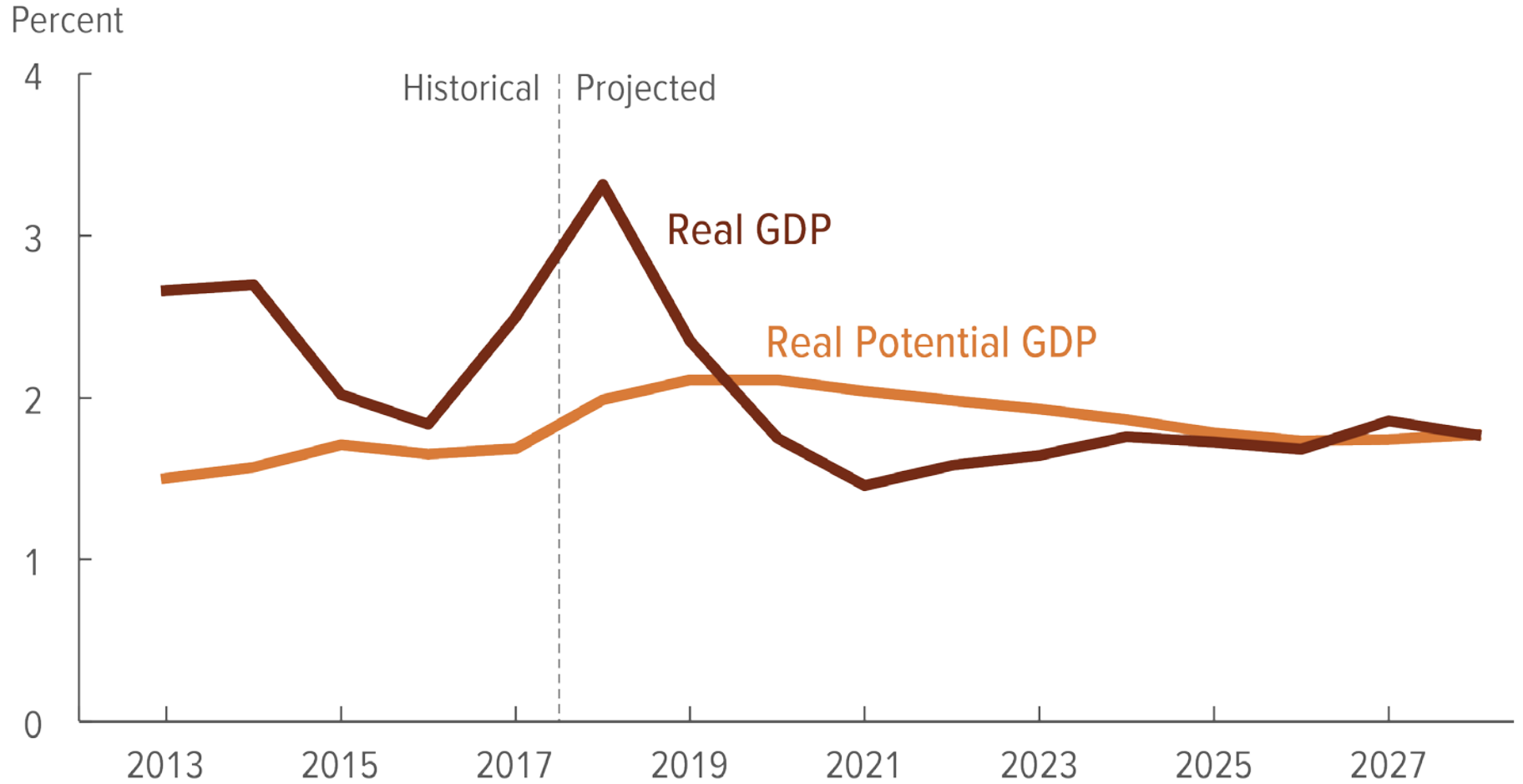
- Incorporate feedback and latest data to produce final forecast
- Transmit to CBO's budget and tax divisions to develop budget projections

CBO's Forecasting Models



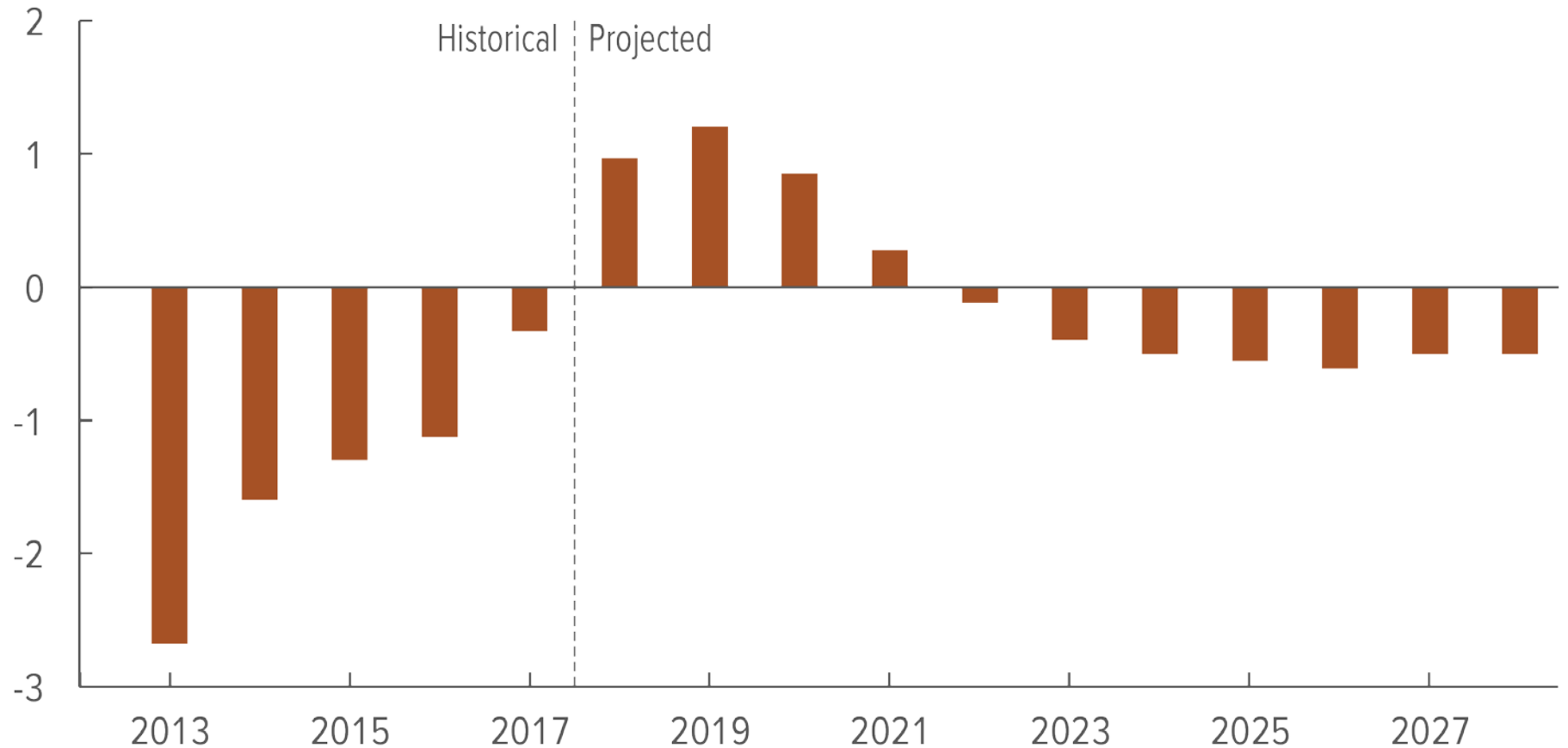
CBO's Current Economic Forecast

Growth of Real GDP and Real Potential GDP

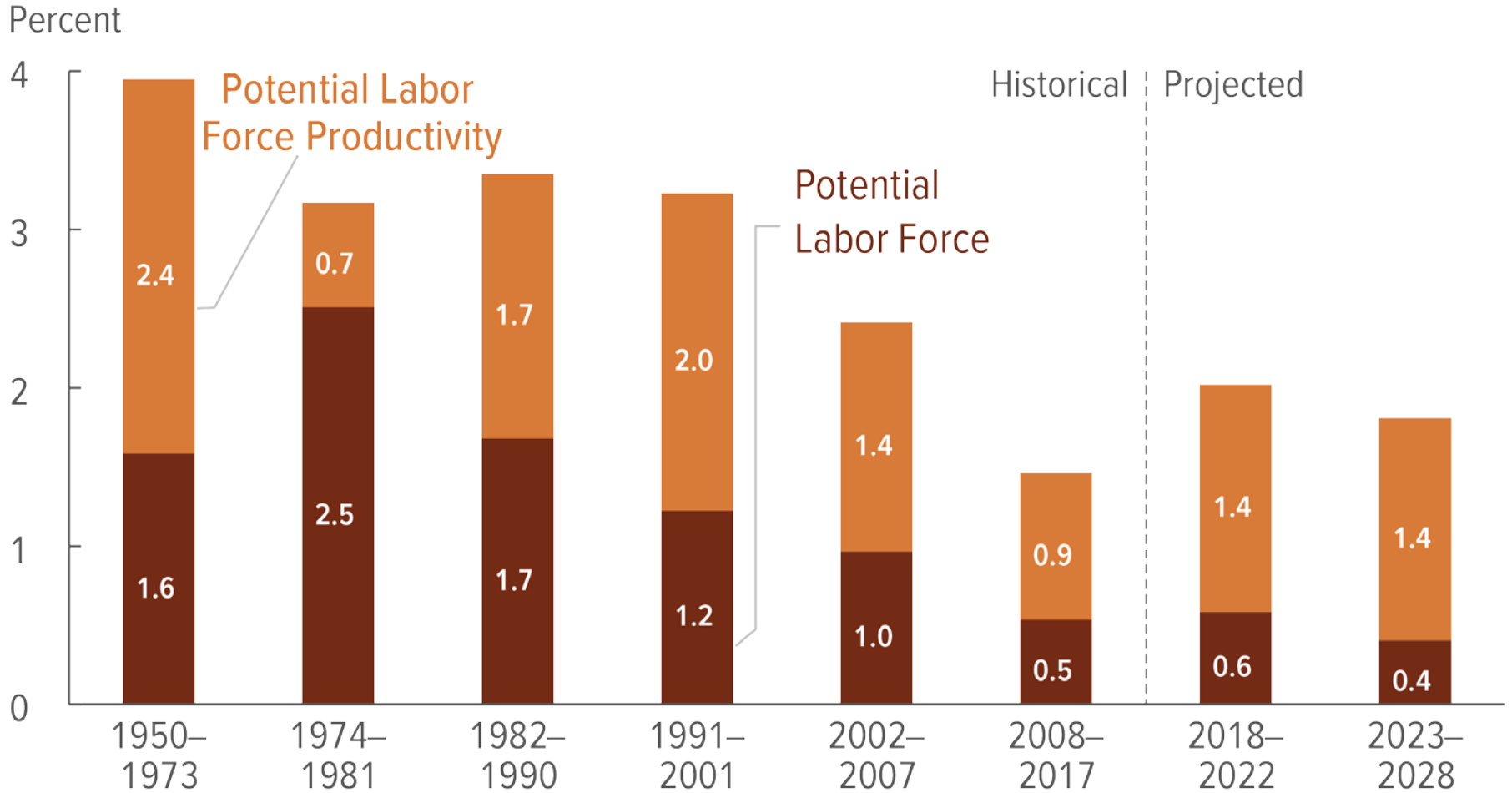


Output Gap

Percentage of Potential GDP

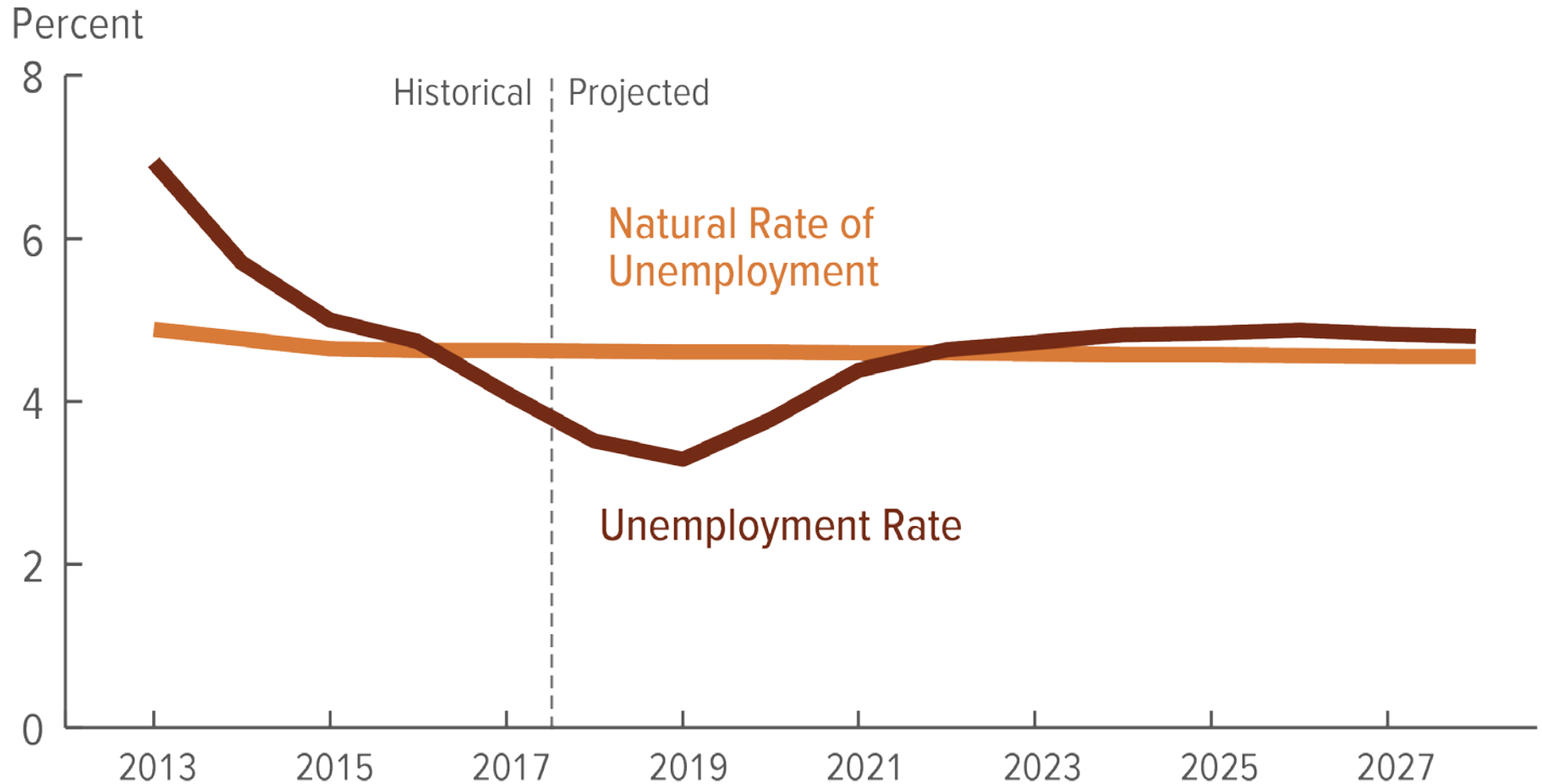


Determinants of the Growth of Real Potential GDP



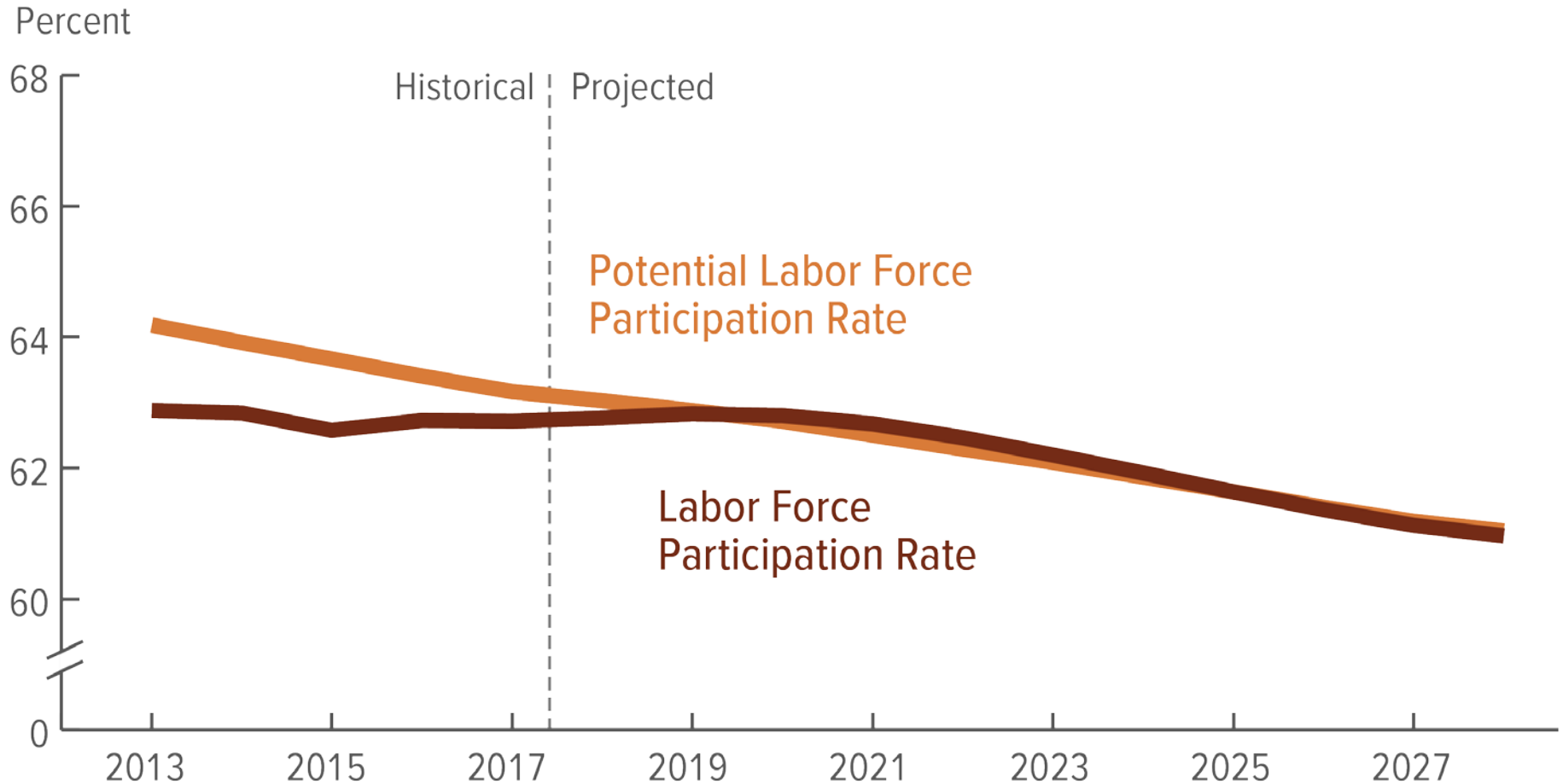
Potential labor force productivity is the ratio of real potential GDP to the potential labor force, which is CBO's estimate of the size of the labor force arising from all sources except fluctuations in the overall demand for goods and services.

Unemployment Rate



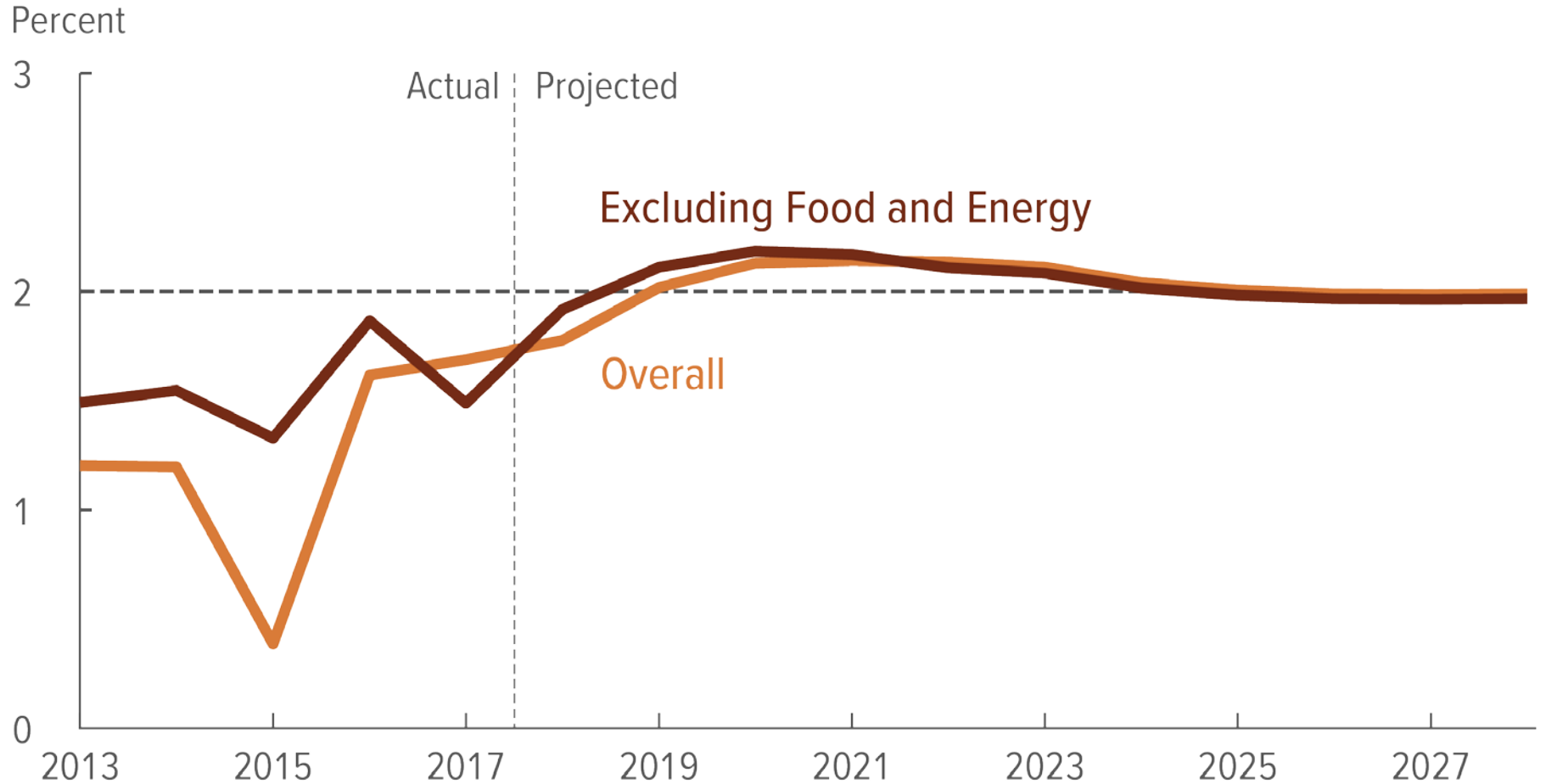
The unemployment rate is the number of jobless people who are available for and seeking work, expressed as a percentage of the labor force. The natural unemployment rate is CBO's estimate of the rate of unemployment arising from all sources except fluctuations in the overall demand for goods and services.

Labor Force Participation Rate

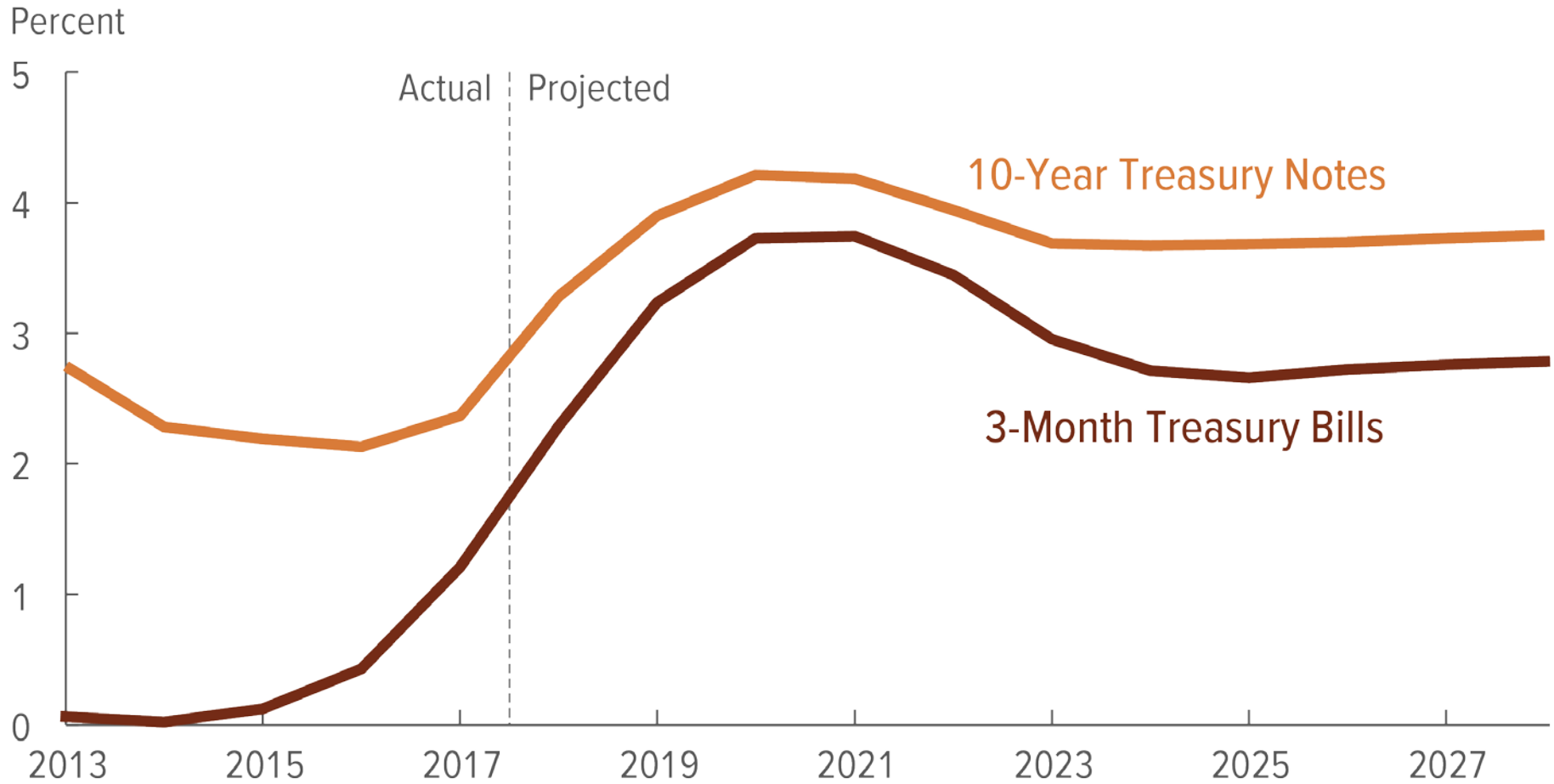


The labor force participation rate is the percentage of people in the civilian noninstitutionalized population who are at least 16 years old and either working or seeking work. The potential labor force participation rate is the rate that CBO estimates to arise from all sources except fluctuations in the overall demand for goods and services

Consumer Price Inflation



Interest Rates



Effects of the 2017 Tax Act

Macroeconomic Effects of the Tax Act

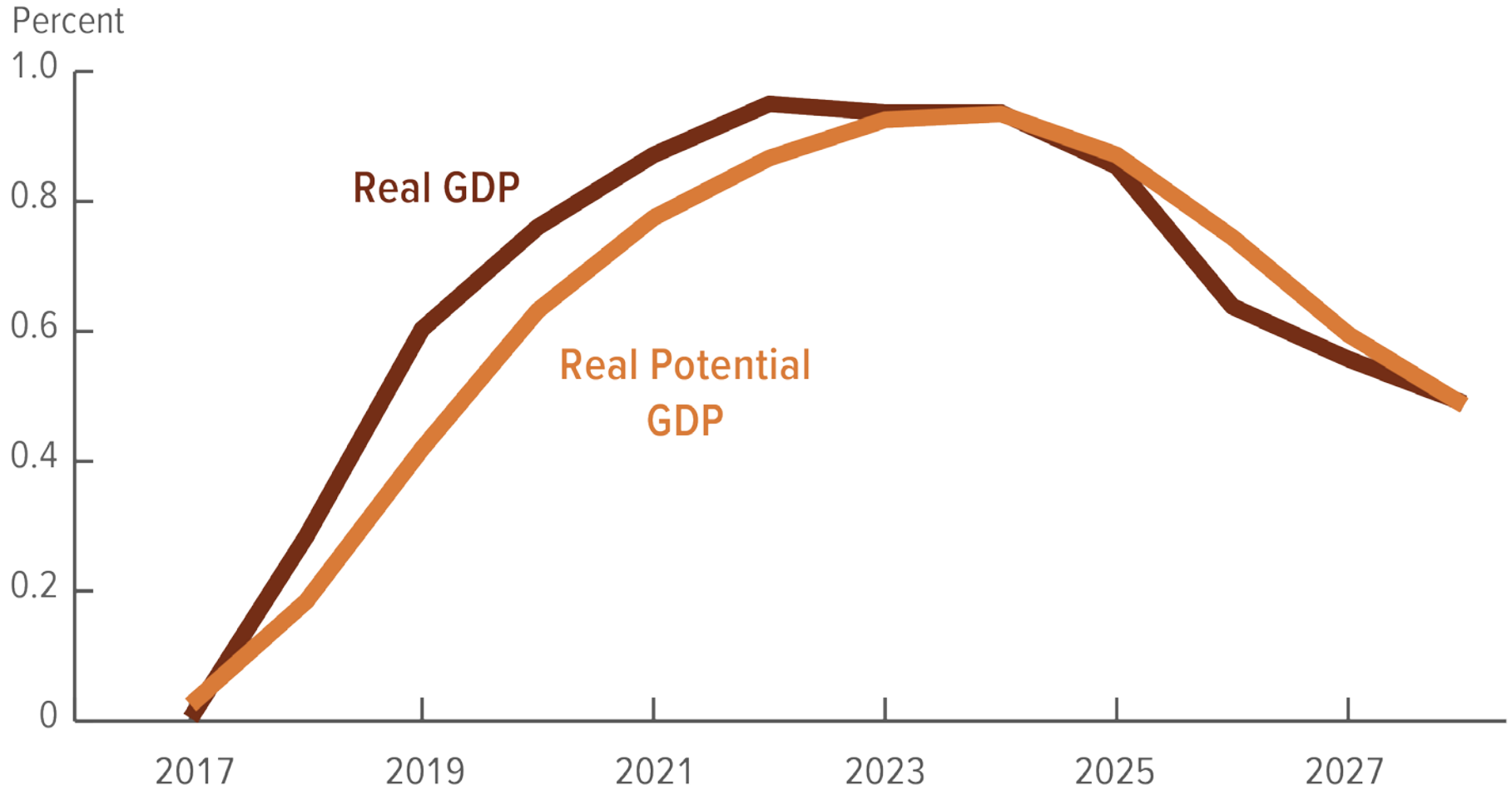
Effects on Aggregate Supply:

- Increased business fixed investment
- Increased labor supply
- Decreased residential investment

Effects on Aggregate Demand:

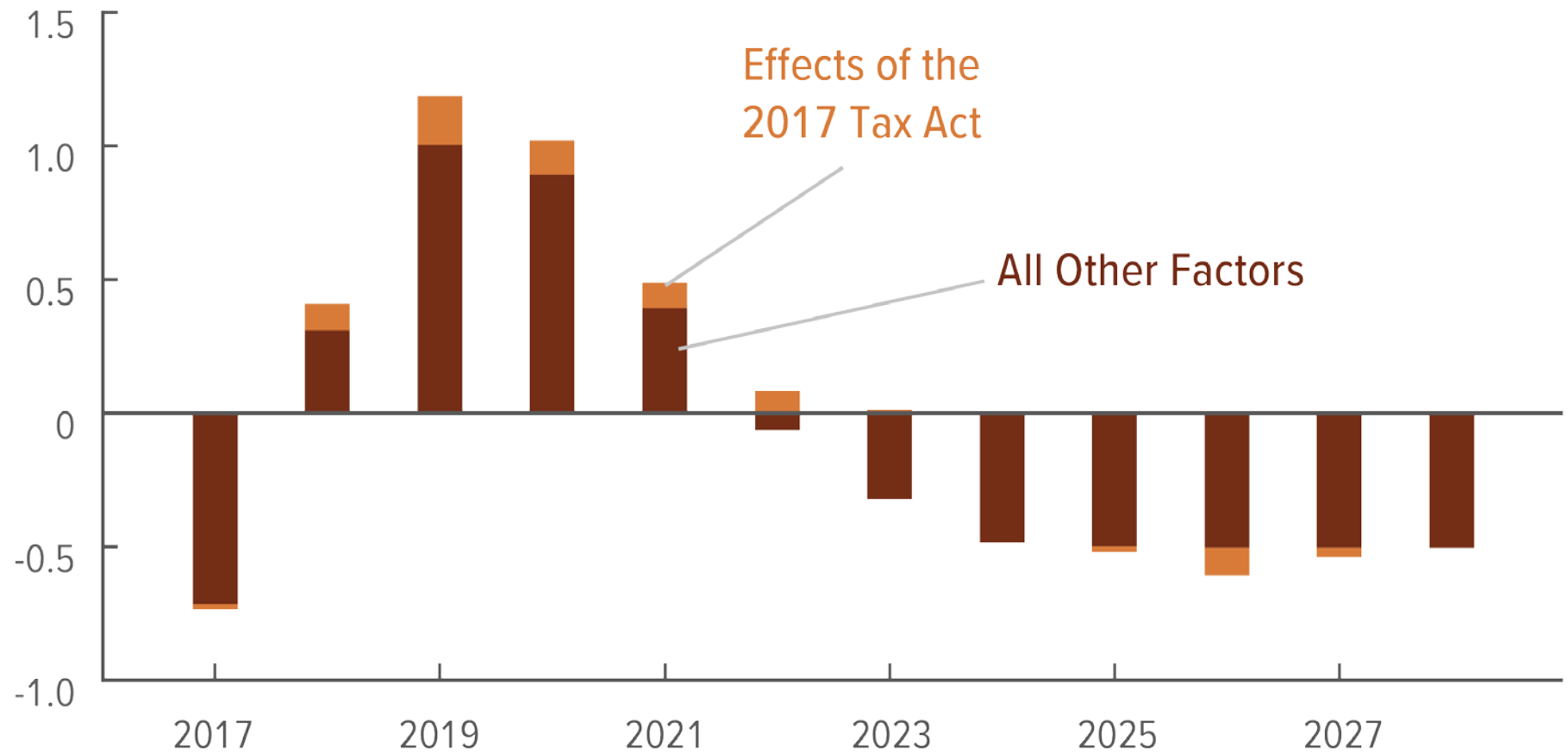
- Increased consumption
- Decreased net exports

Effects on Real GDP and Real Potential GDP

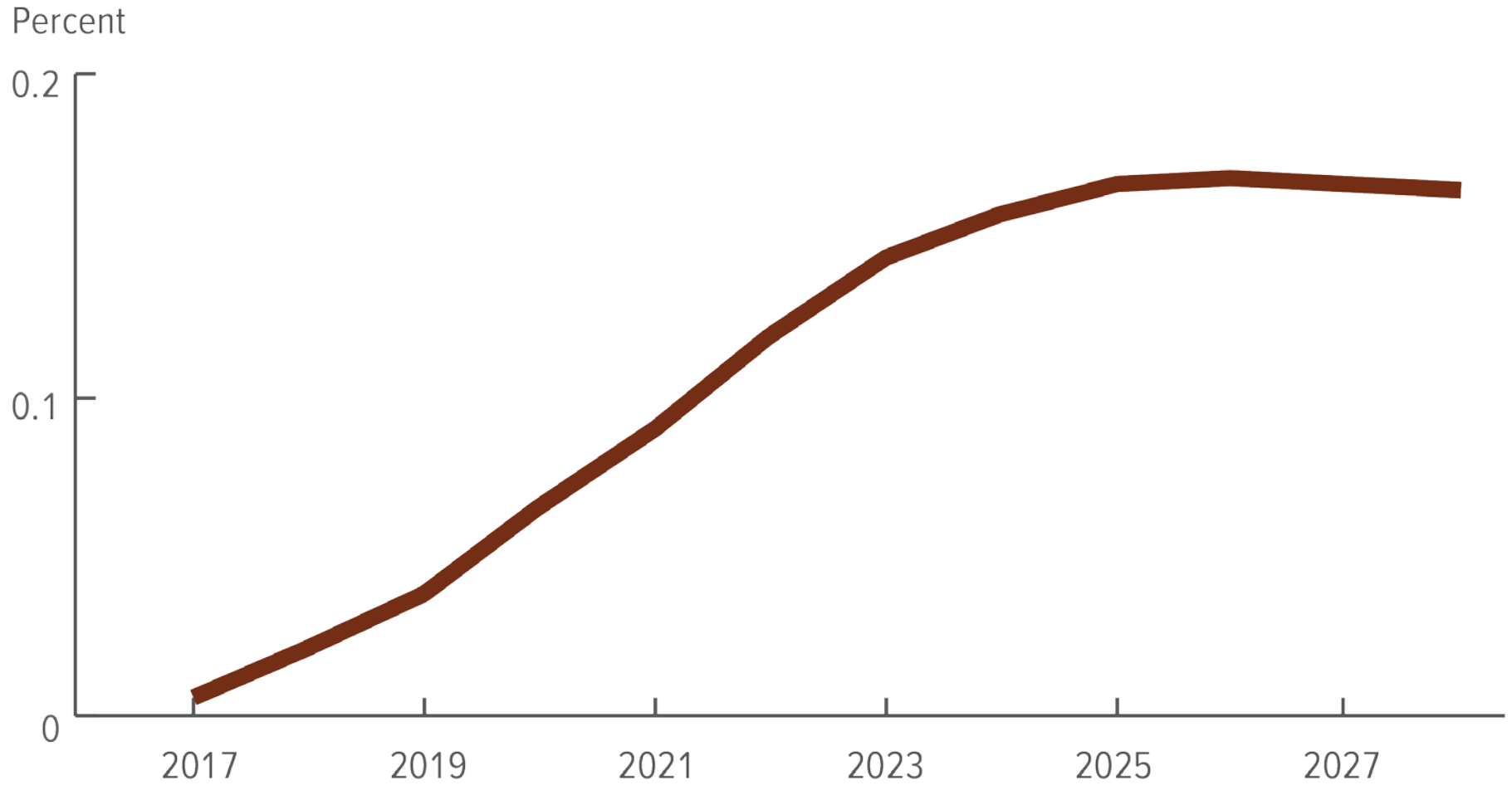


Effects on the Output Gap

Percentage of Potential GDP

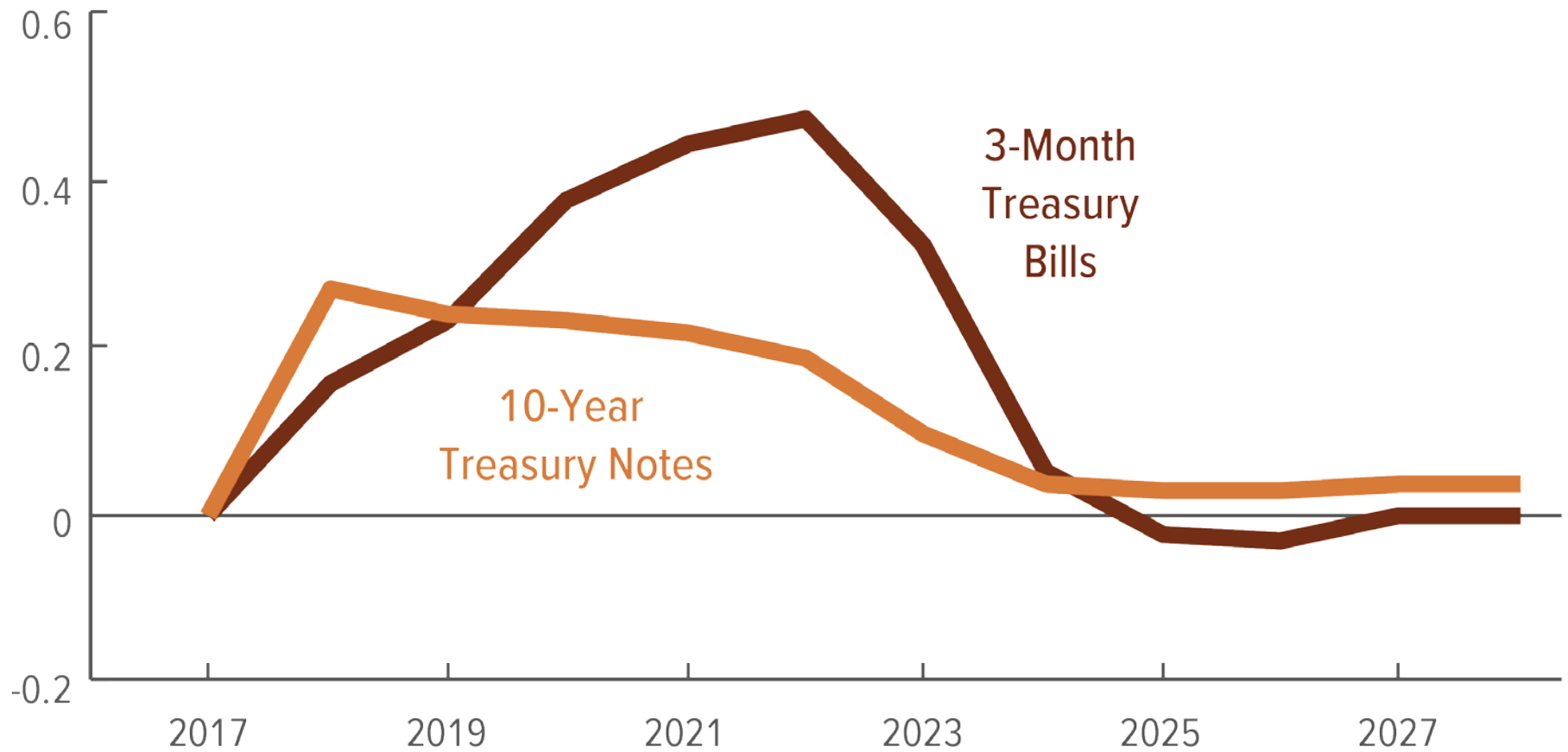


Effects on Consumer Prices



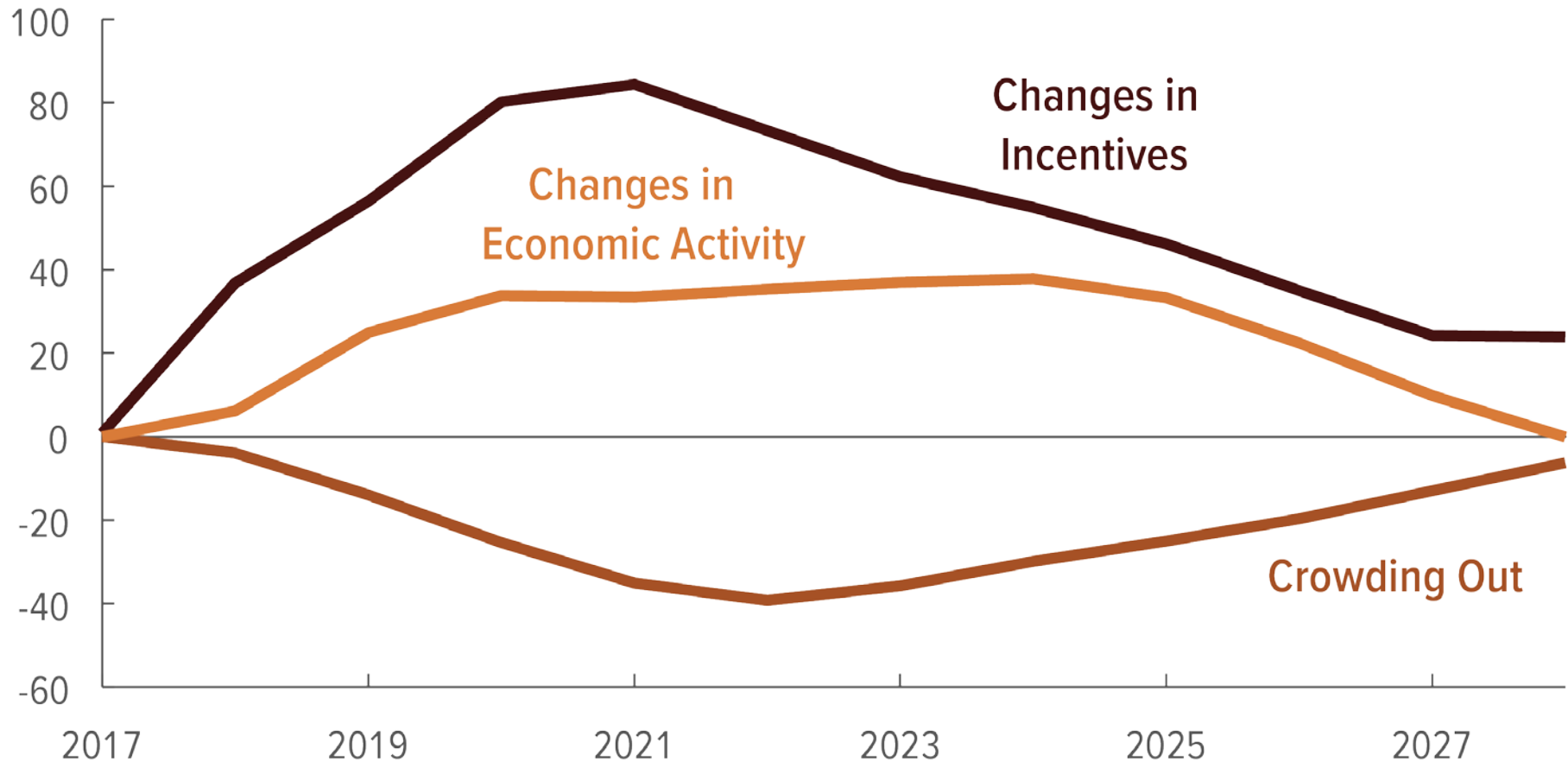
Effects on Interest Rates

Percentage Points



Effects on Business Fixed Investment

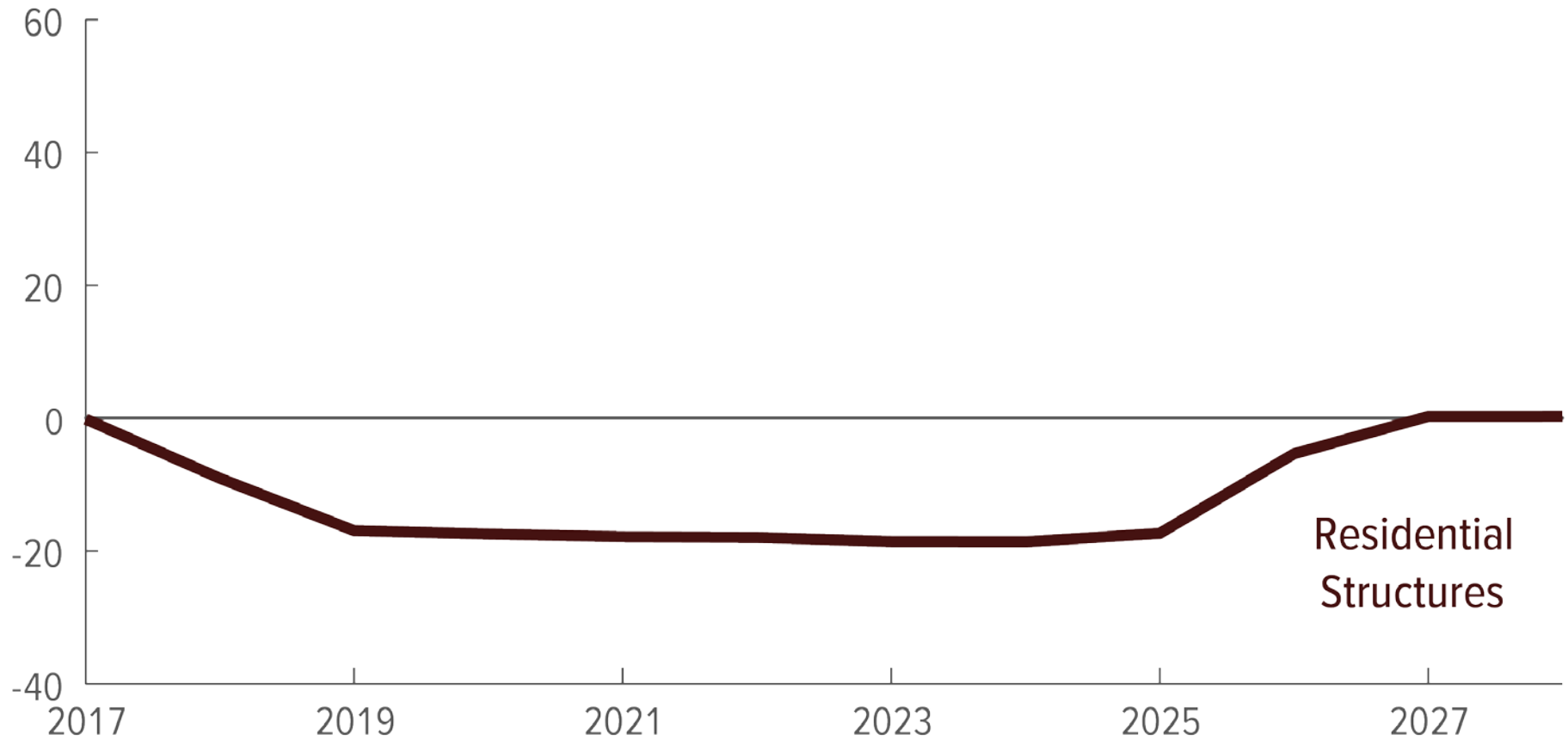
Billions of Dollars



Business fixed investment is businesses' purchases of equipment, nonresidential structures, and intellectual property products. The changes in incentives consist of changes in the user cost of capital, which is the gross pretax return on investment that provides the required return to investors after covering taxes and depreciation, and changes in the benefits of locating business establishments in the United States. Changes in economic activity consist of changes in demand for goods and services and changes in the supply of labor. Crowding out occurs when larger federal deficits reduce the resources available for private investment.

Effects on Residential Investment

Billions of Dollars



Residential
Structures

Related Publications

Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), www.cbo.gov/publication/53651.

Robert W. Arnold, *How CBO Produces Its 10-Year Economic Forecast*, Working Paper 2018-02 (Congressional Budget Office, February 2018), www.cbo.gov/publication/53537.