

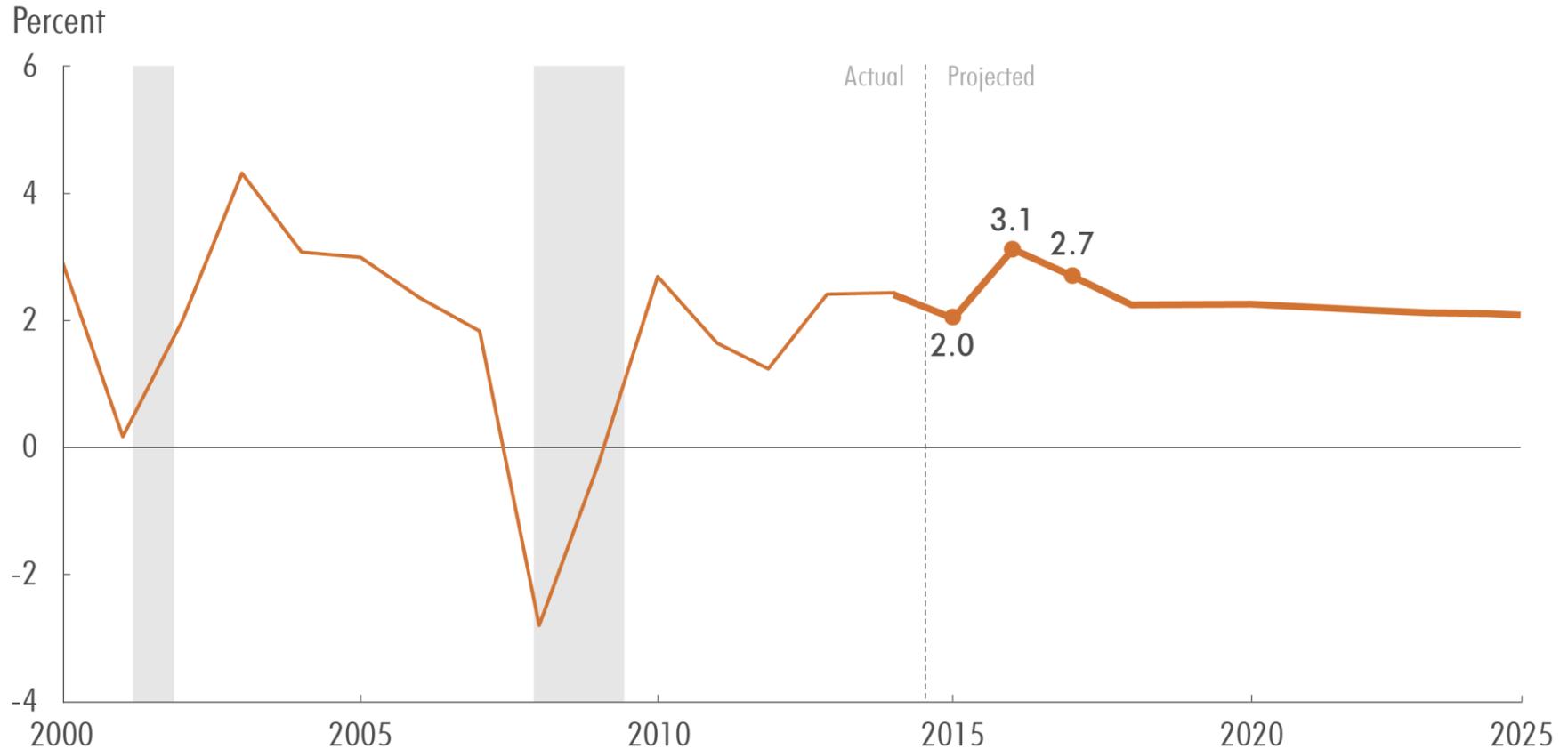
# **The Economic Outlook for 2015 to 2025: An Update in 18 Slides**

August 2015

For more details, see [www.cbo.gov/publication/50724](http://www.cbo.gov/publication/50724).

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

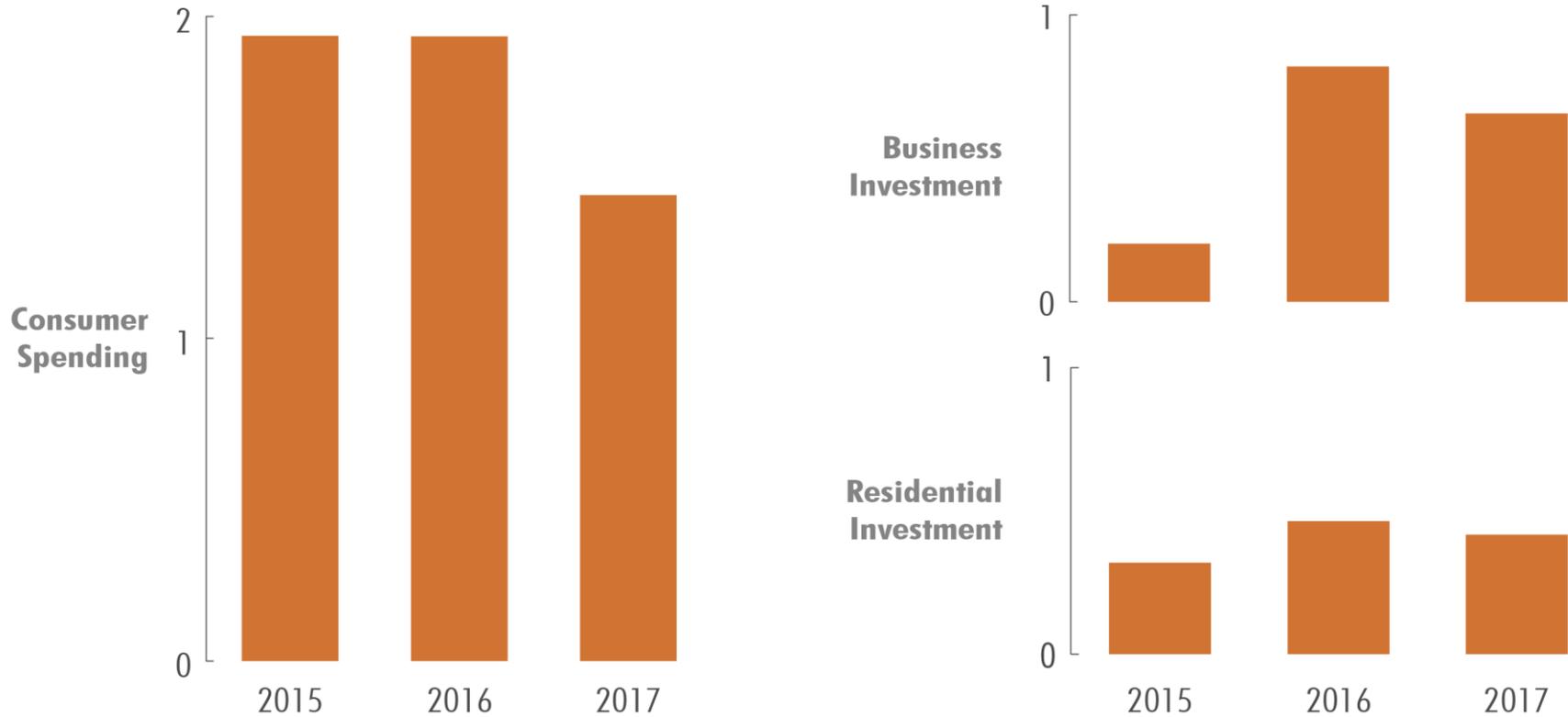
# Growth of Real GDP



Real (inflation-adjusted) GDP will grow by 2.0 percent this year, 3.1 percent in 2016, and 2.7 percent in 2017, CBO projects.

# Contributions to the Growth of Real GDP

Percentage Points

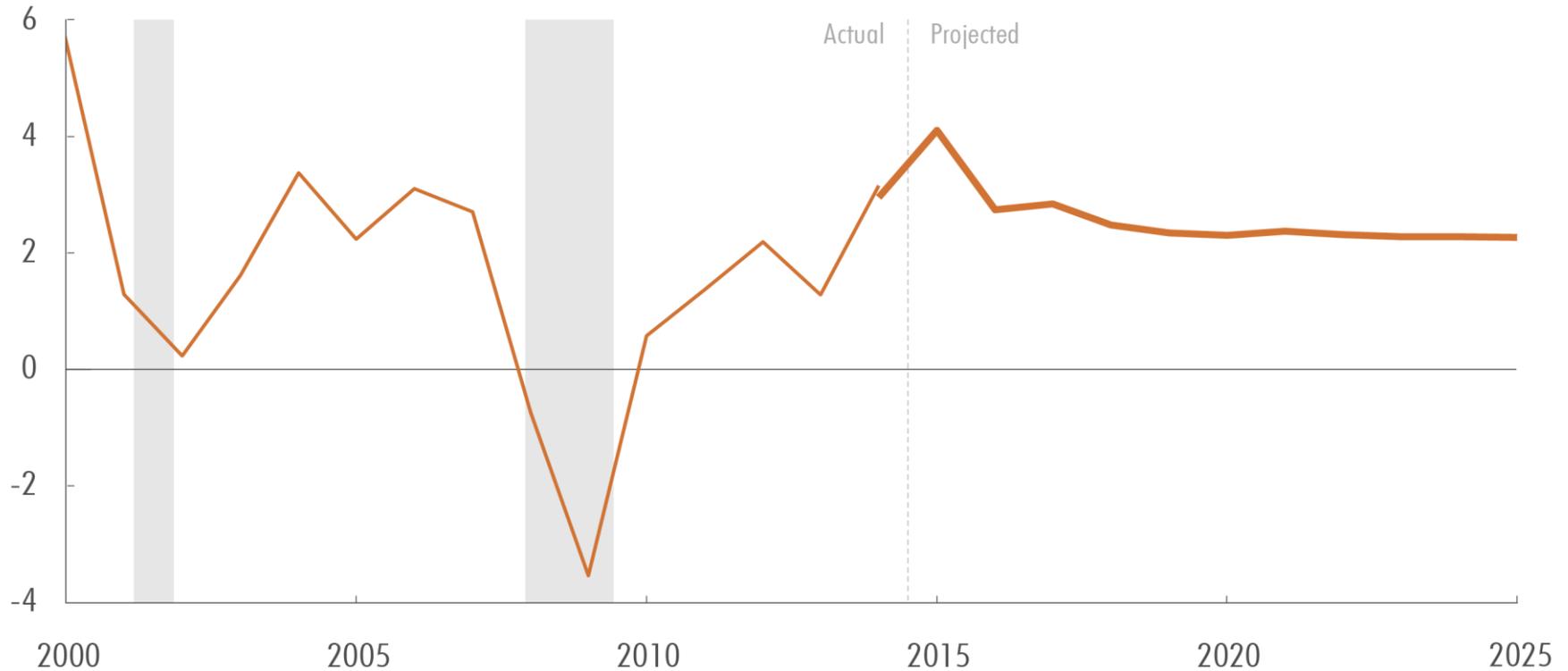


Consumer spending and investment are expected to drive the growth of real GDP over the next few years, in CBO's estimation.

**What factors underlie the projected contributions to the growth of real GDP?**

# Real Total Compensation of Employees

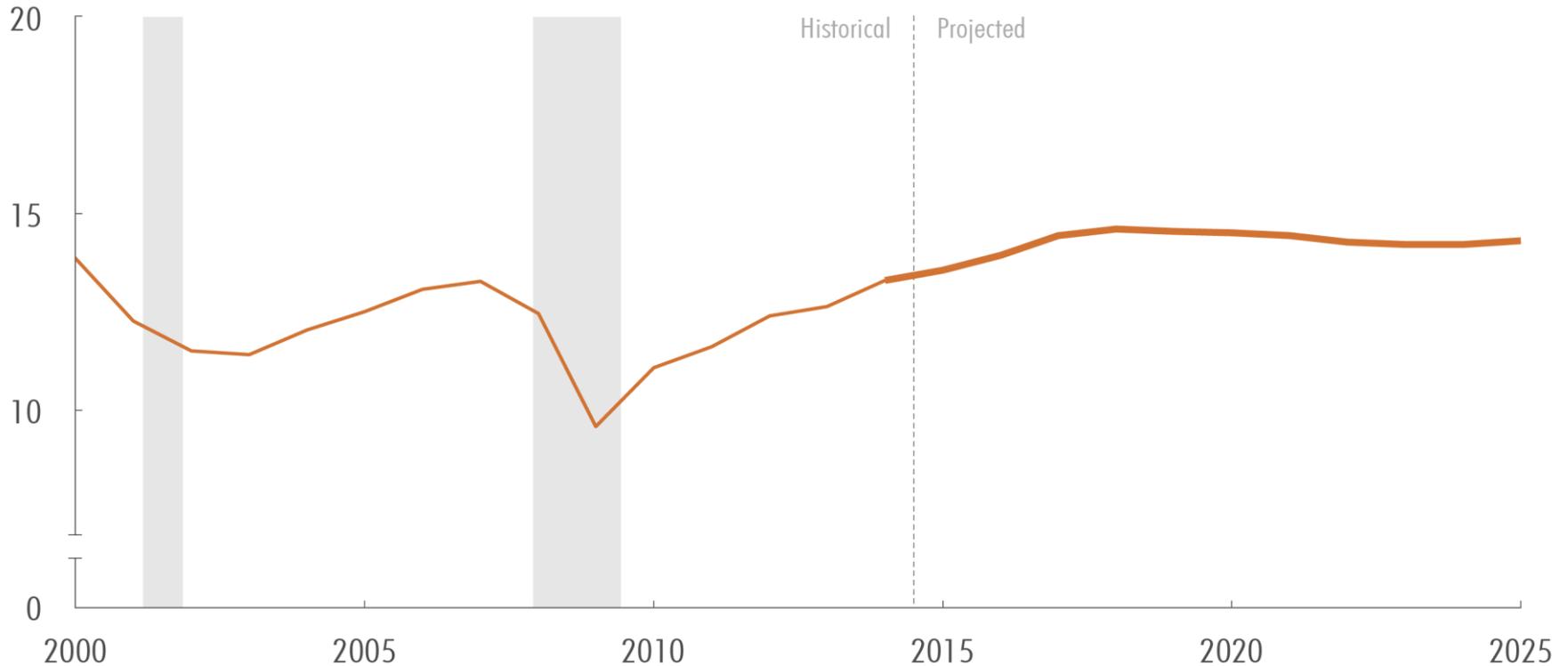
Percentage Change



Solid growth in the total amount of real compensation of employees is projected to support faster growth in consumer spending in the next few years.

# Business Investment

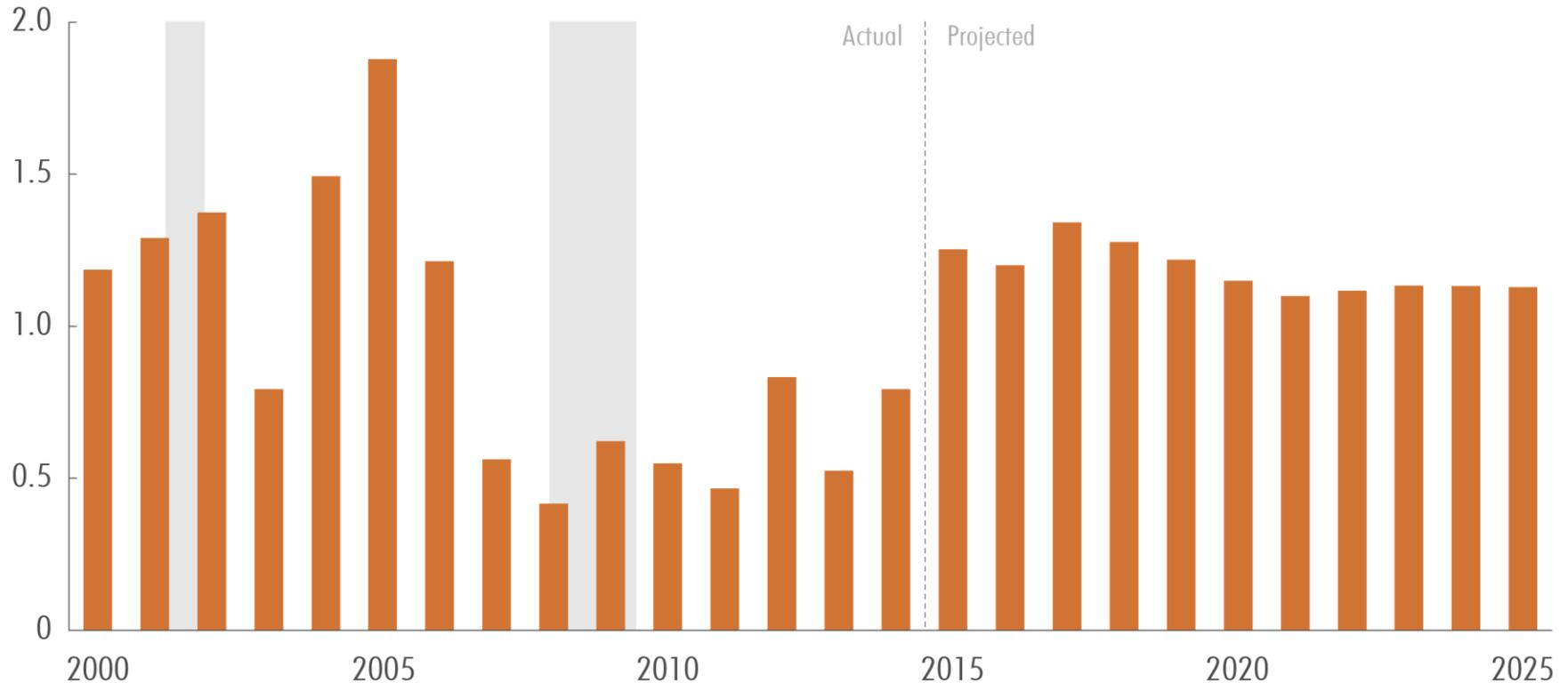
Percentage of Potential GDP



Business investment will rise above current levels in the next few years as businesses make up for investments that they did not undertake during the recession.

# Household Formation

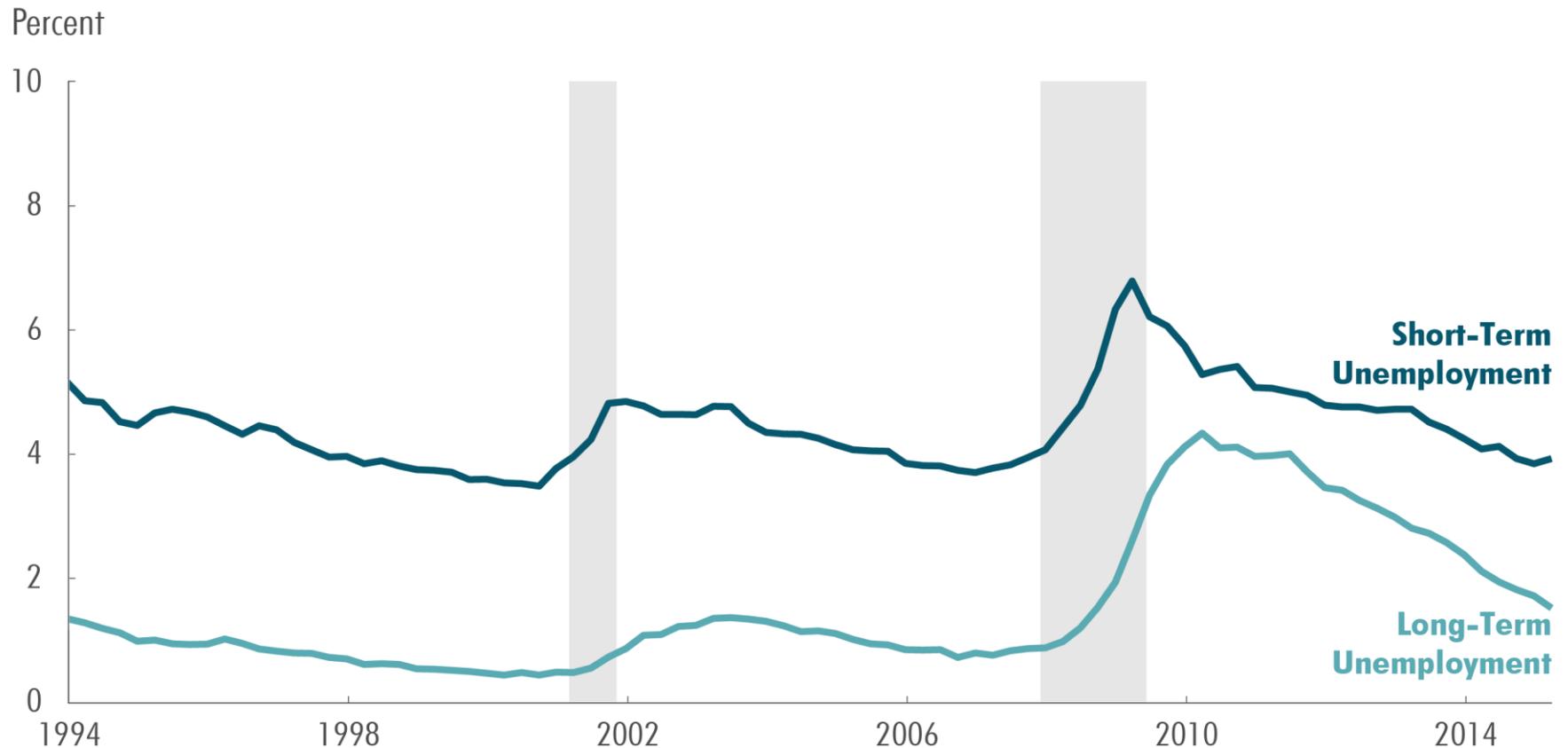
Annual Change in the Number of Households, in Millions



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

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

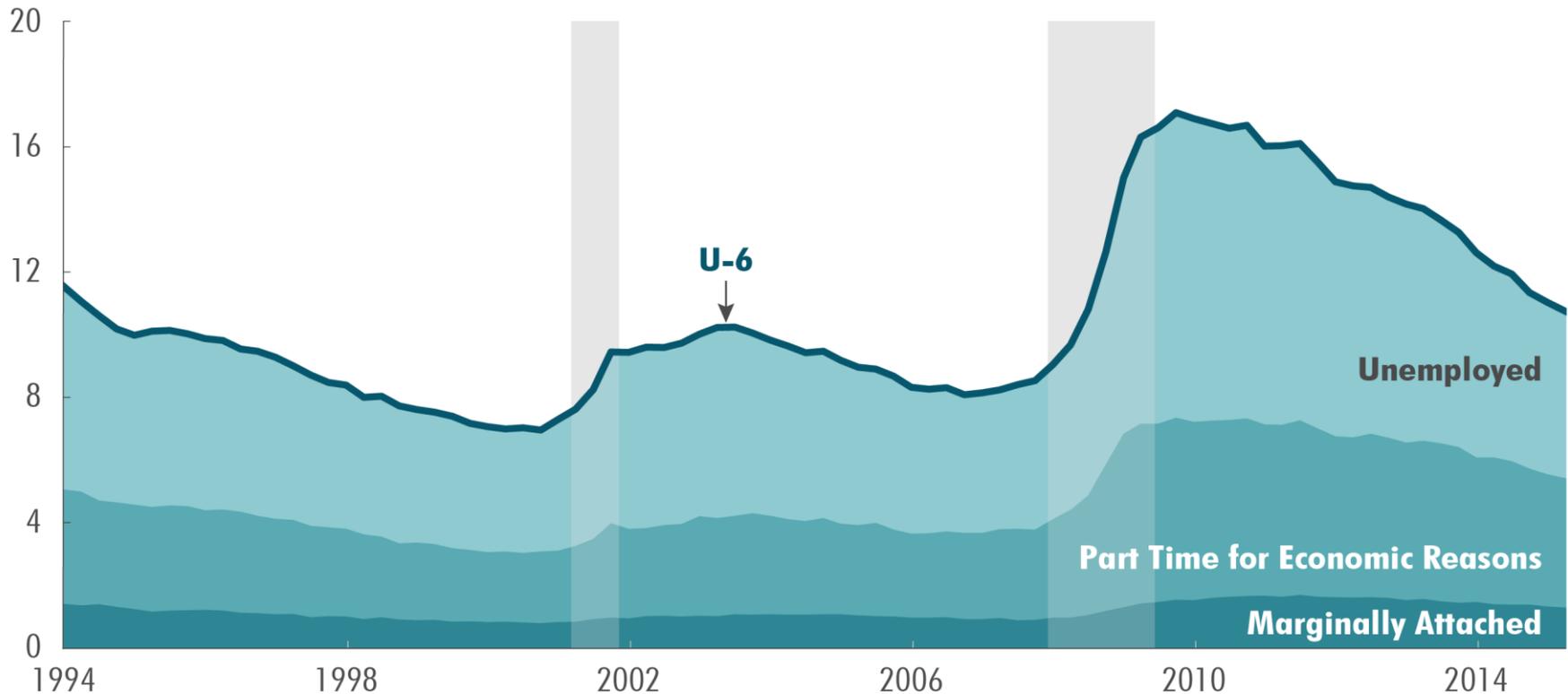
# Rates of Short- and Long-Term Unemployment



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 high: 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 greater than they were before the recession began.

# Employment Shortfall

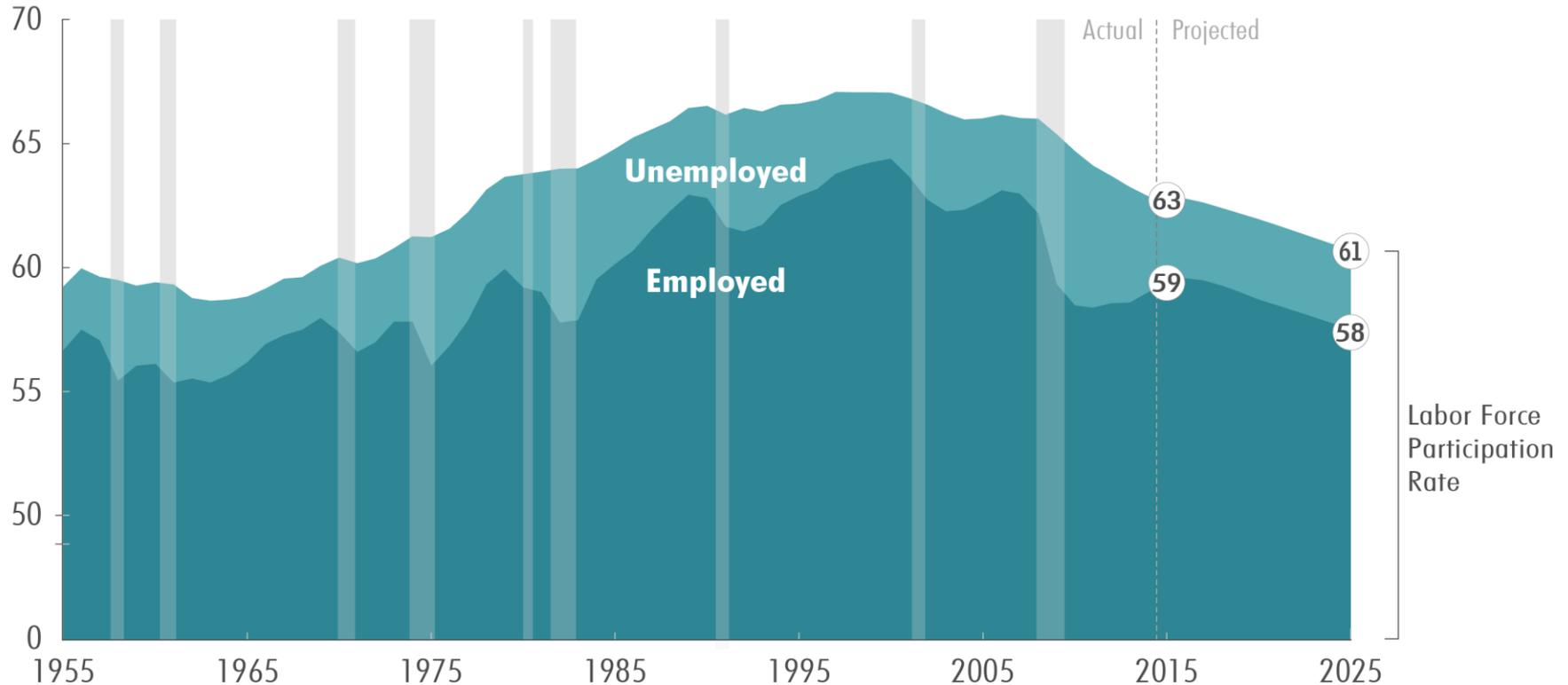
Millions of People



The employment shortfall is the number of people who would be employed if the unemployment rate equaled its rate in December 2007 (the shortfall from unemployment) and if the labor force participation rate equaled its potential rate (the shortfall from labor force participation). The employment shortfall has dipped sharply since 2009 because of a decline in the unemployment rate but remains elevated—mostly because of low labor force participation.

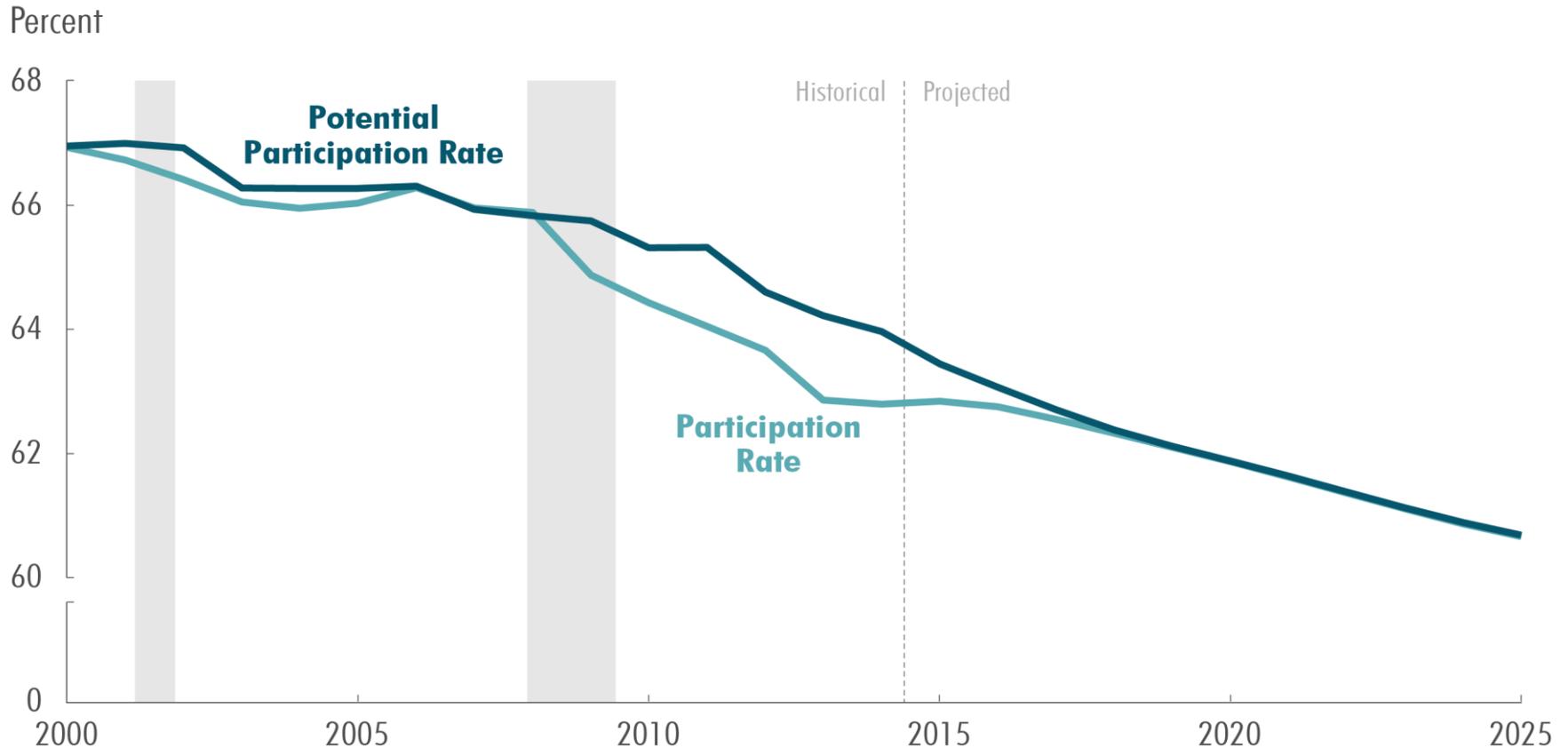
# The Labor Force, Employment, and Unemployment

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.

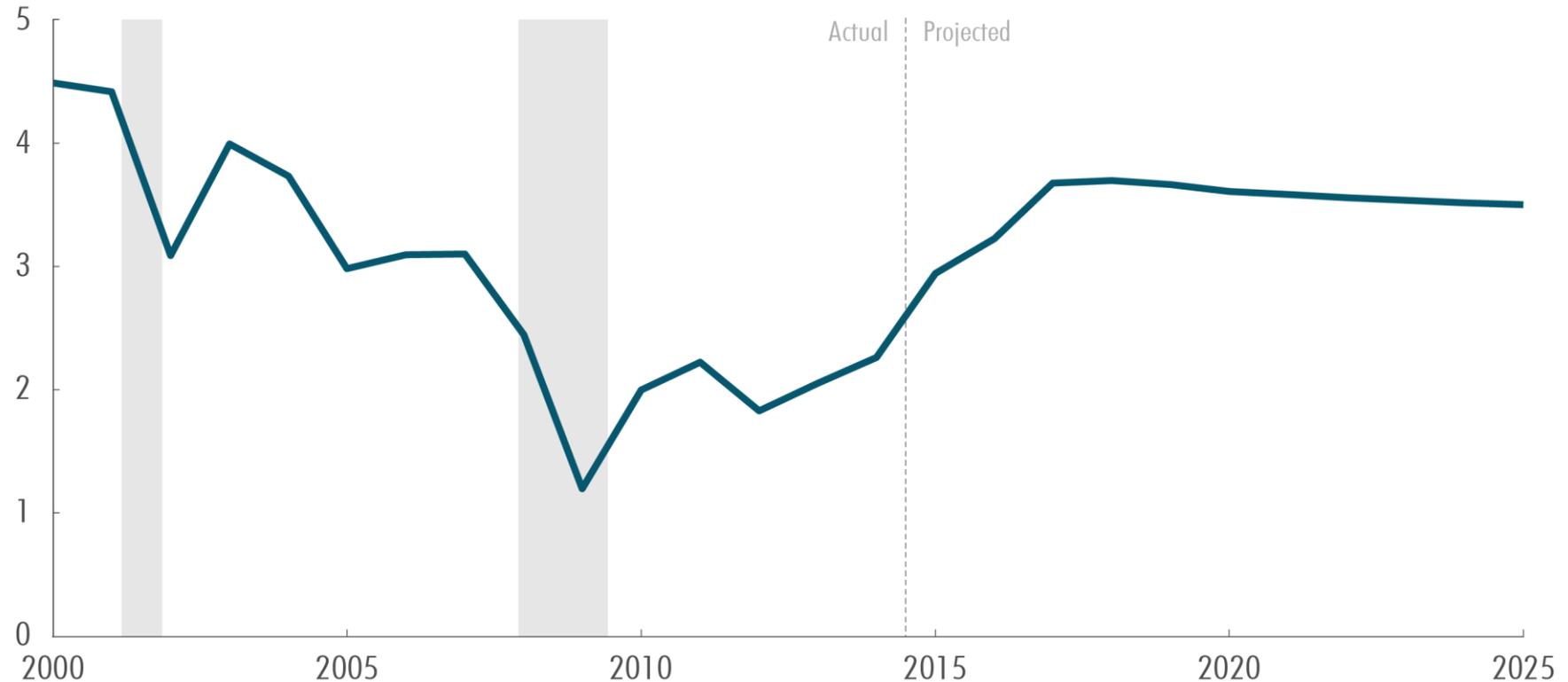
# Labor Force Participation Rates



Some workers who left the labor force temporarily, or who stayed out of the labor force because of weak employment prospects, will enter it in the next few years as demand for labor continues to strengthen. Therefore, CBO expects the rate of labor force participation to move closer to its potential—the rate excluding the effects of the business cycle—over the next few years.

# Hourly Labor Compensation

Percentage Change

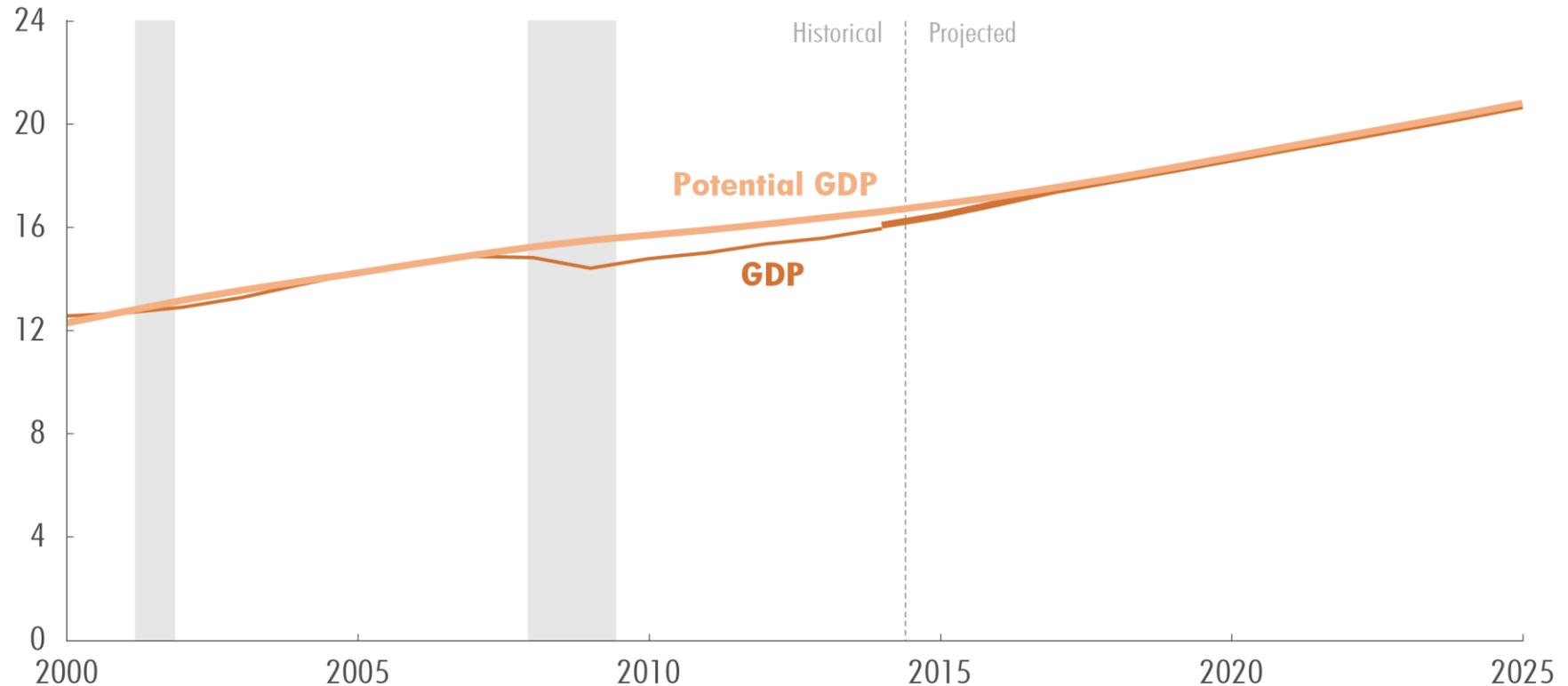


Although hourly labor compensation has grown slowly in recent years, CBO projects that growth over the next several years will be stronger than in 2014, as the demand for workers continues to rise and slack in the labor market diminishes.

**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

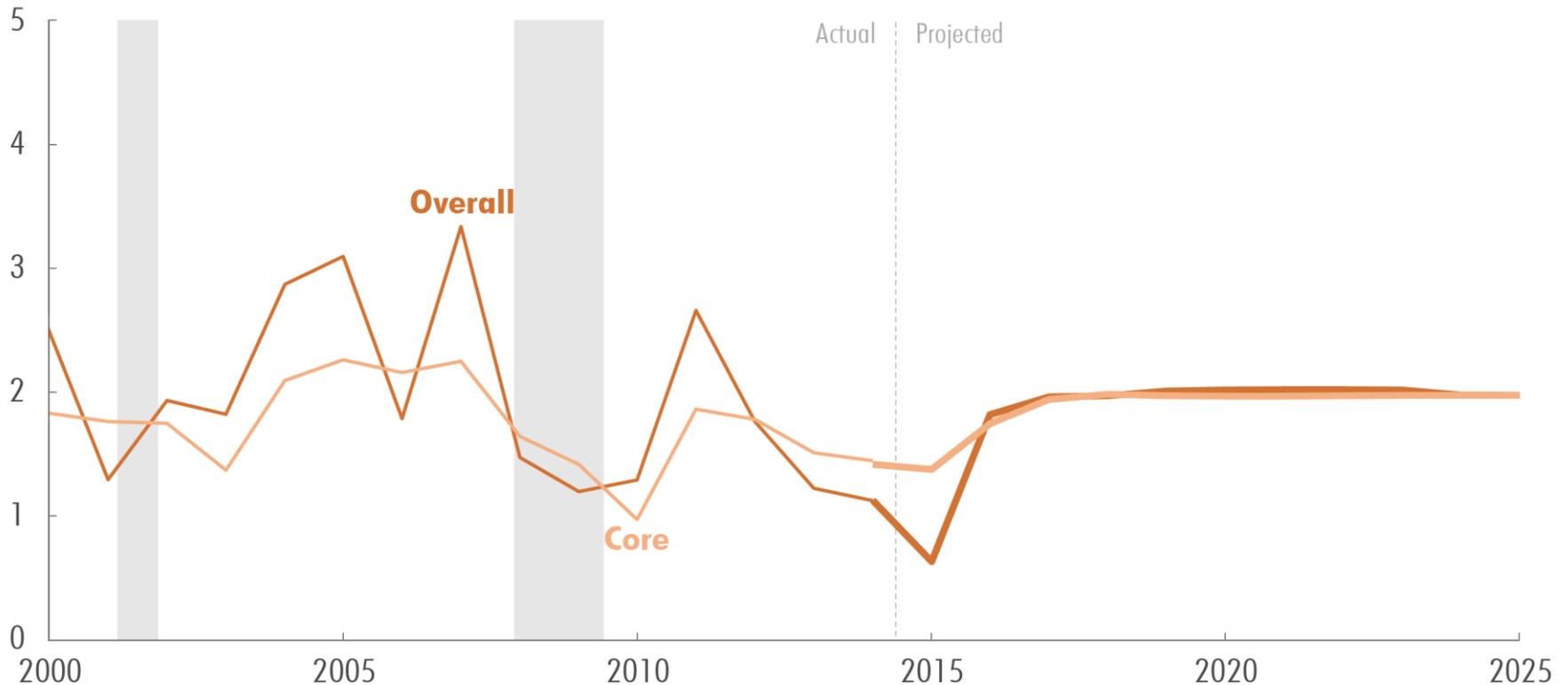
Trillions of 2009 Dollars



The gap between the economy's actual and potential output, adjusted for inflation, narrows to its historical average—about one-half of one percent of potential GDP—by the end of 2017 in CBO's projection.

# Inflation

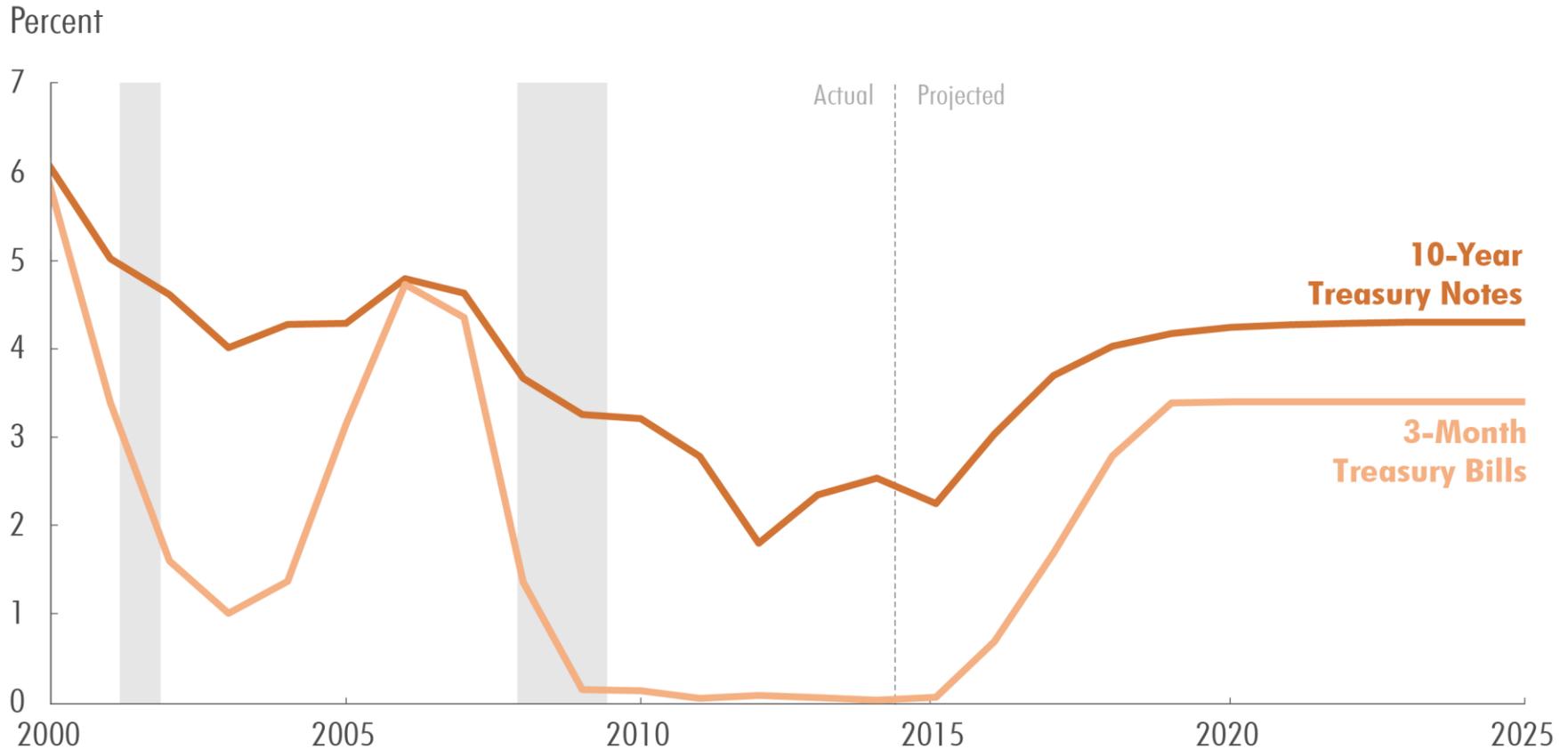
Percentage Change in the PCE Price Index



CBO anticipates that core prices will rise modestly, 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



CBO projects that interest rates on Treasury securities will rise with the anticipated increase in the federal funds rate and with expectations of continued improvement in economic conditions.

## **About This Document**

Christine Bogusz, Maureen Costantino, Kim Kowalewski, John Skeen, and Shiqi Zheng prepared these slides.

For more details about the economic outlook as well as the agency's most recent budget projections, see *An Update to the Budget and Economic Outlook: 2015 to 2025* (August 2015), [www.cbo.gov/publication/50724](http://www.cbo.gov/publication/50724). That report is the result of work by many analysts at CBO.