CONGRESSIONAL BUDGET OFFICE

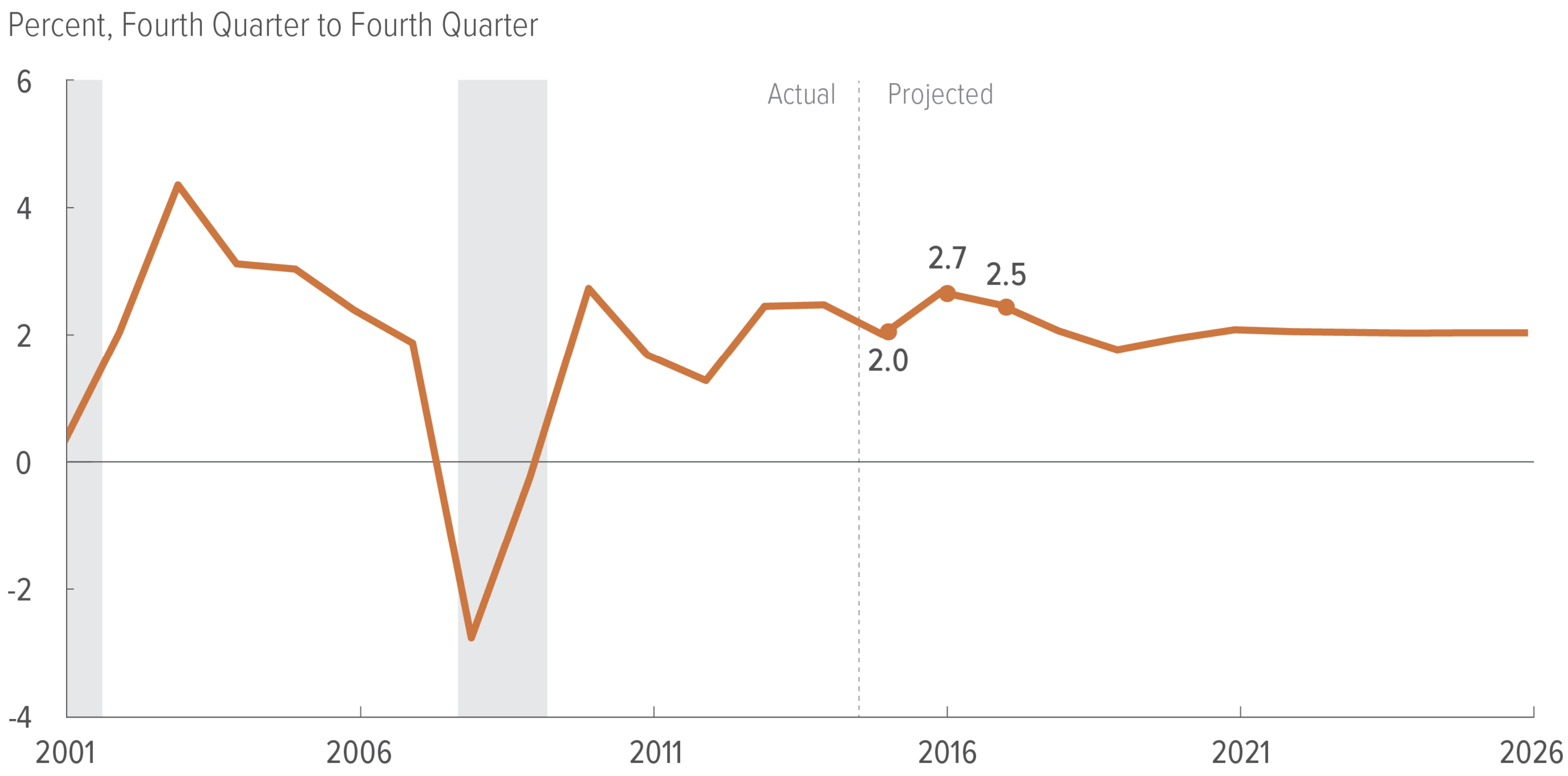
The Economic Outlook for 2016 to 2026 in 17 Slides

February 2016

For more details, see www.cbo.gov/publication/51129.

CBO expects that under current law economic activity will expand solidly in 2016 and 2017—faster than the rate experienced last year—and then moderate in subsequent years.

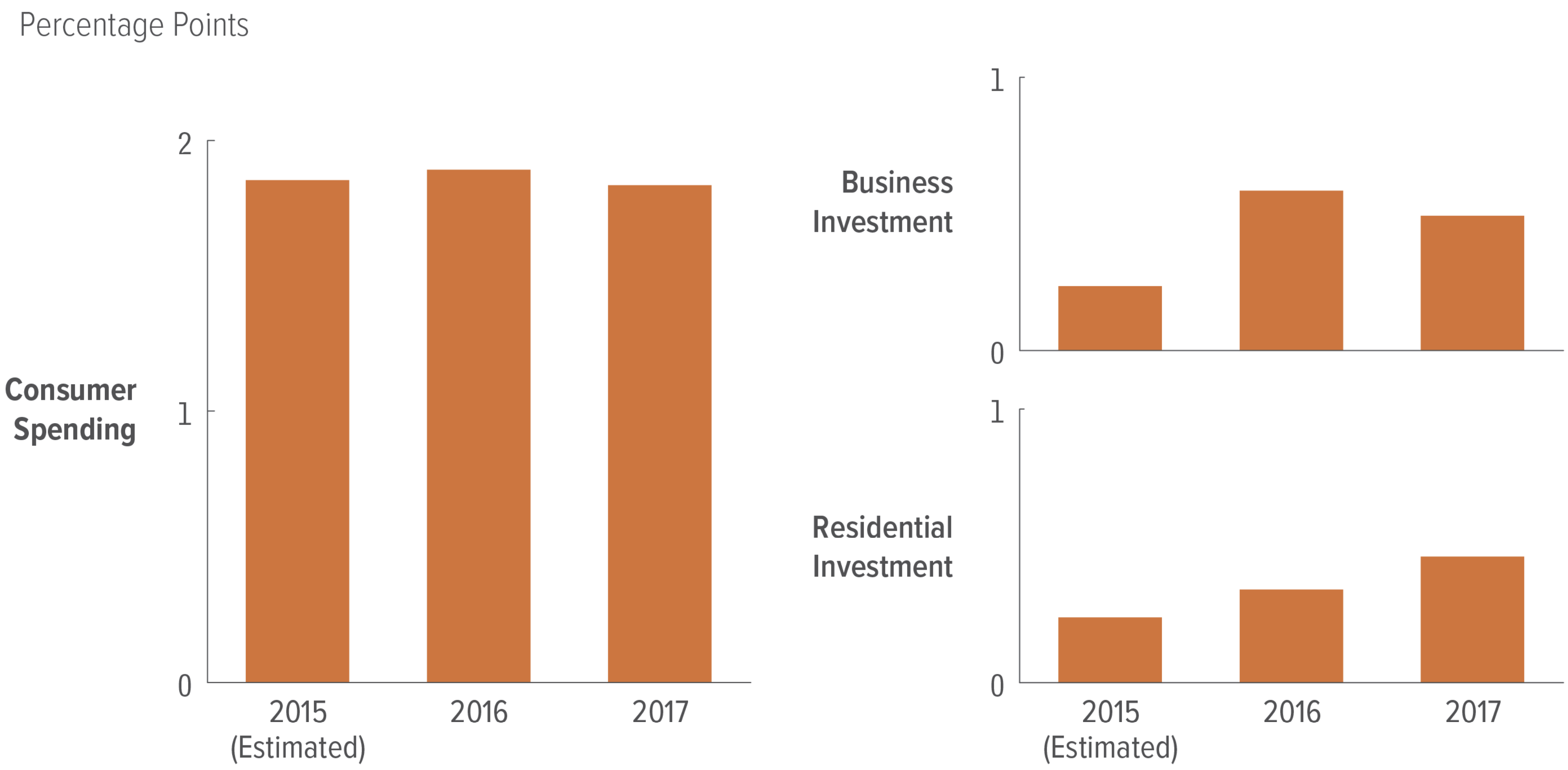
Growth of Real GDP



Real (inflation-adjusted) GDP will grow by 2.7 percent this year and 2.5 percent in 2017, CBO projects.

On January 29, 2015, after CBO's economic forecast was published, the Bureau of Economic Analysis reported that real GDP growth for 2015 was 1.8 percent.

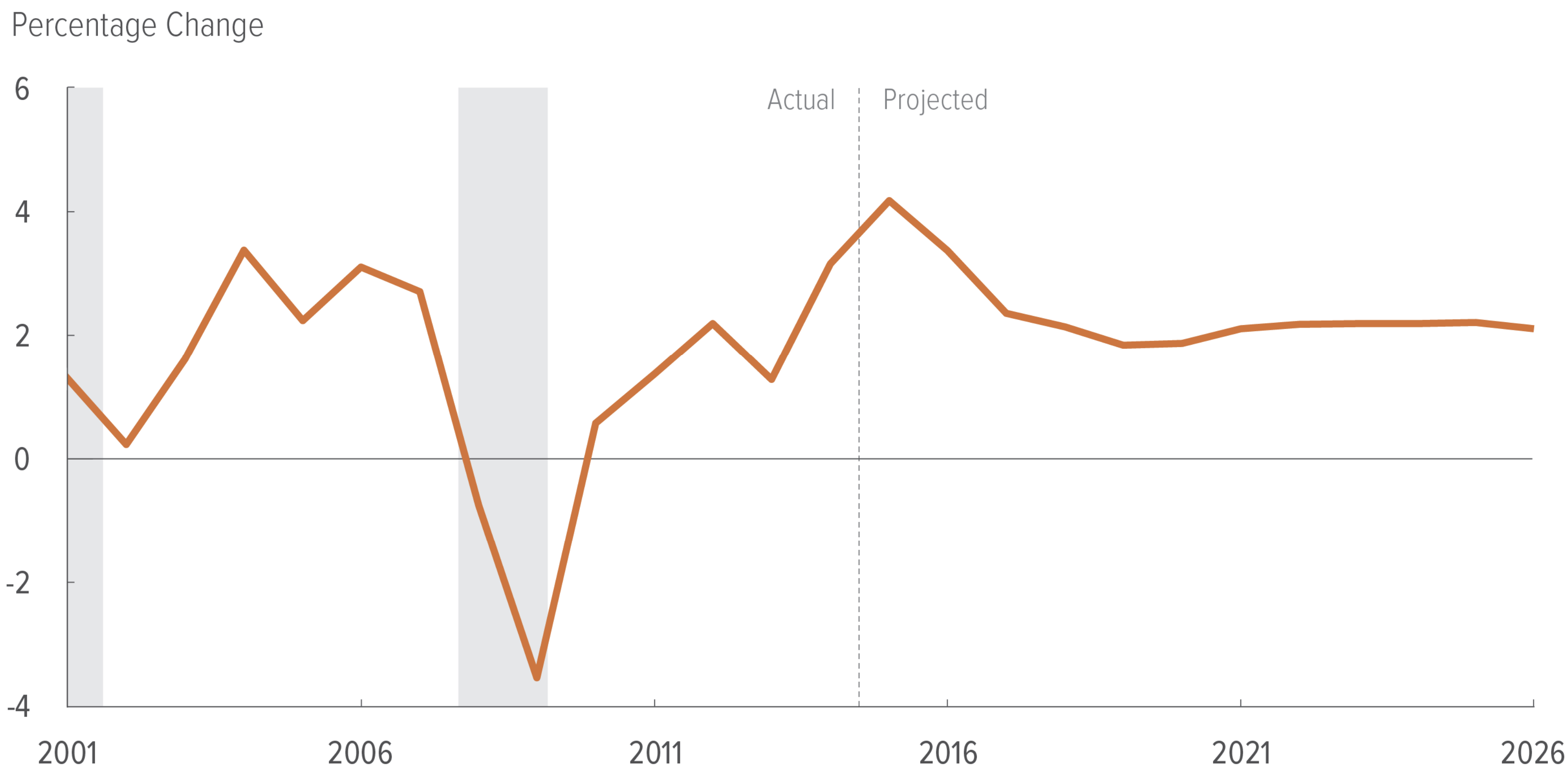
Projected Contributions to the Growth of Real GDP



CBO expects that consumer spending and both business and residential investment will drive growth of real GDP in coming years.

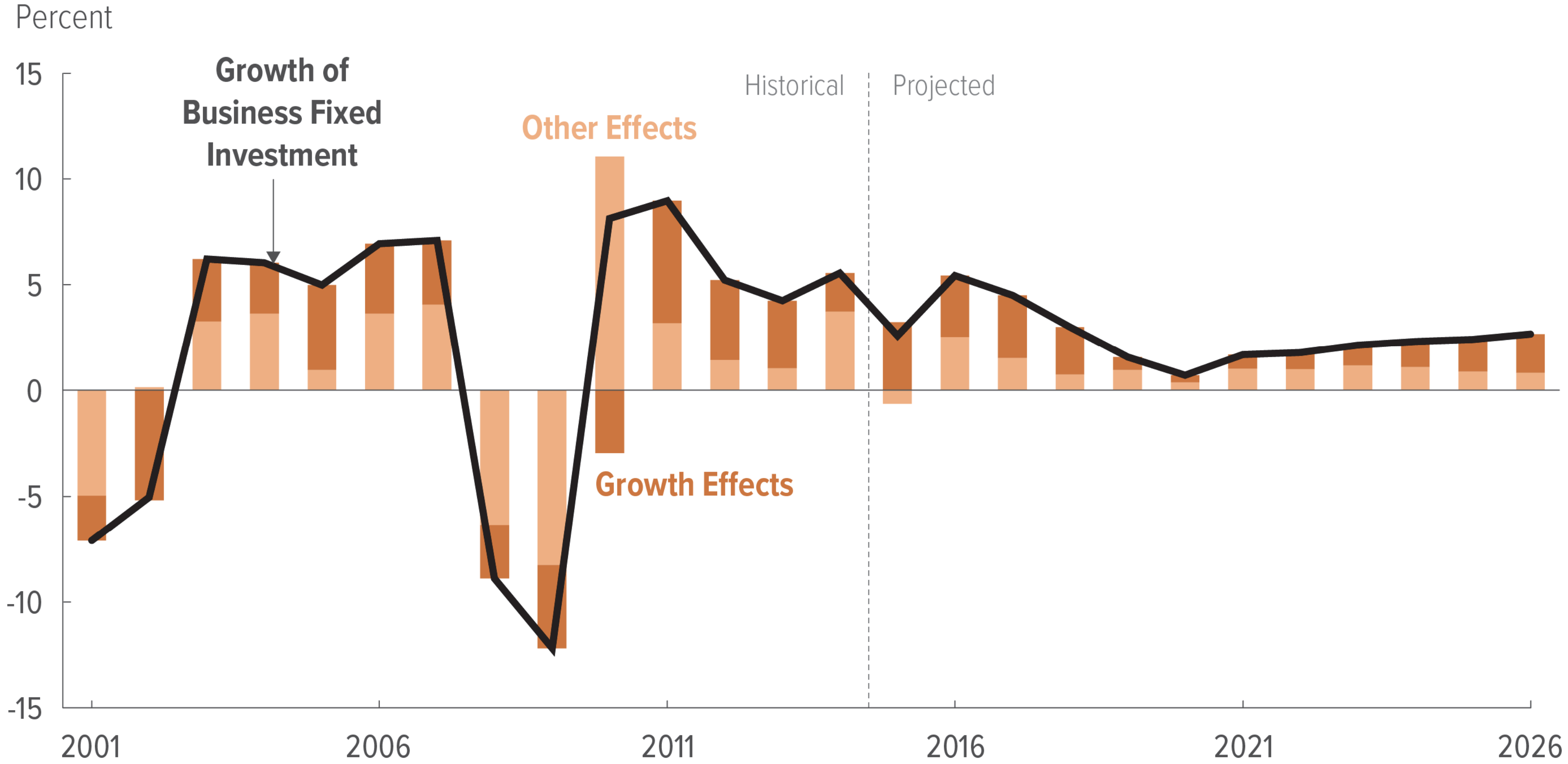
What factors underlie the projected contributions to the growth of real GDP?

Total Real Compensation of Employees



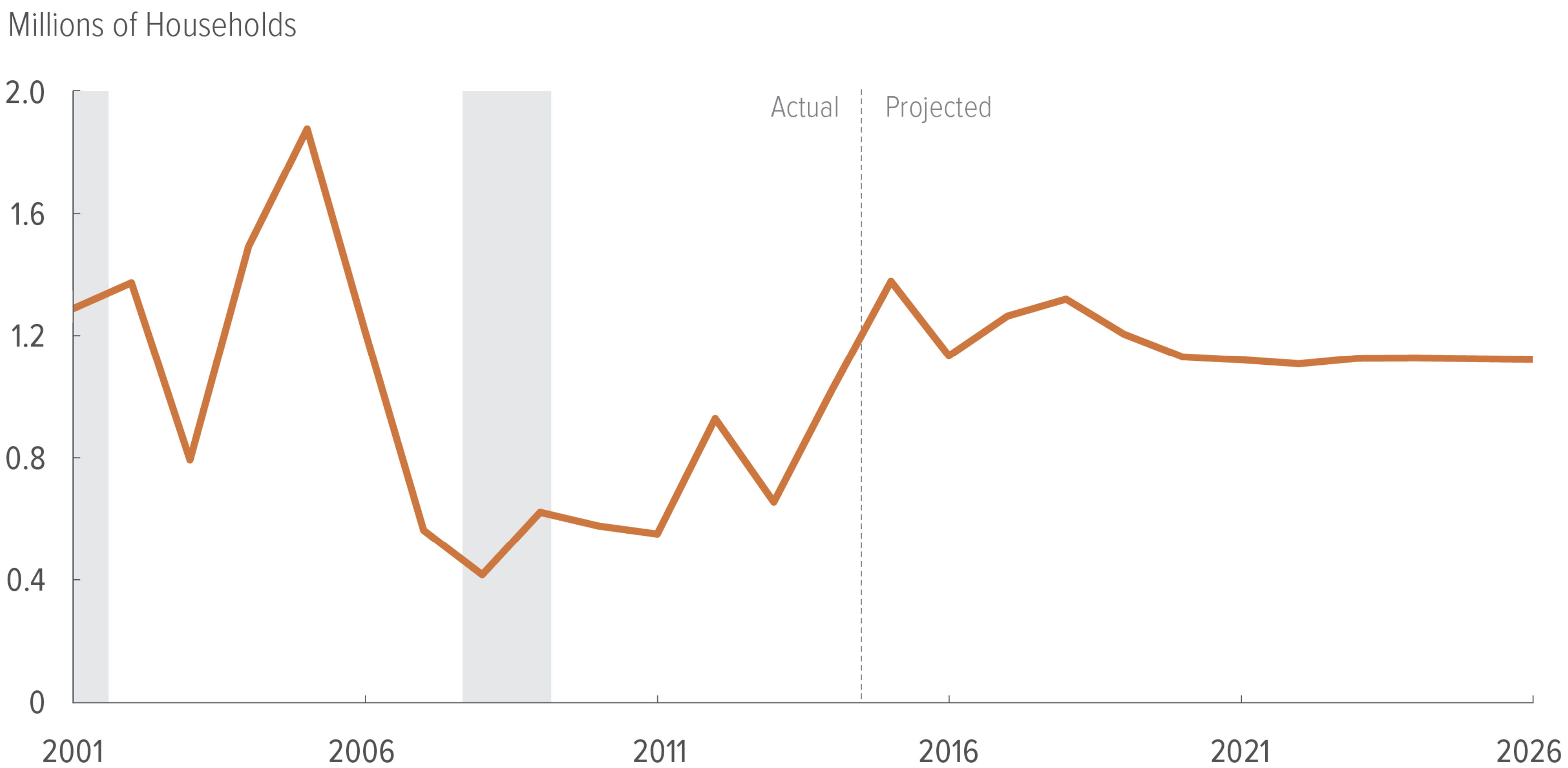
Solid growth in the total amount of real compensation of employees is projected to support growth in consumer spending in the next few years.

Effects of Output Growth on the Growth of Business Fixed Investment



CBO expects that past output growth and expected growth in the future will significantly boost business investment this year and next—as businesses acquire new assets to meet actual and anticipated demand for their goods and services—but will provide a smaller boost in later years as output growth slows.

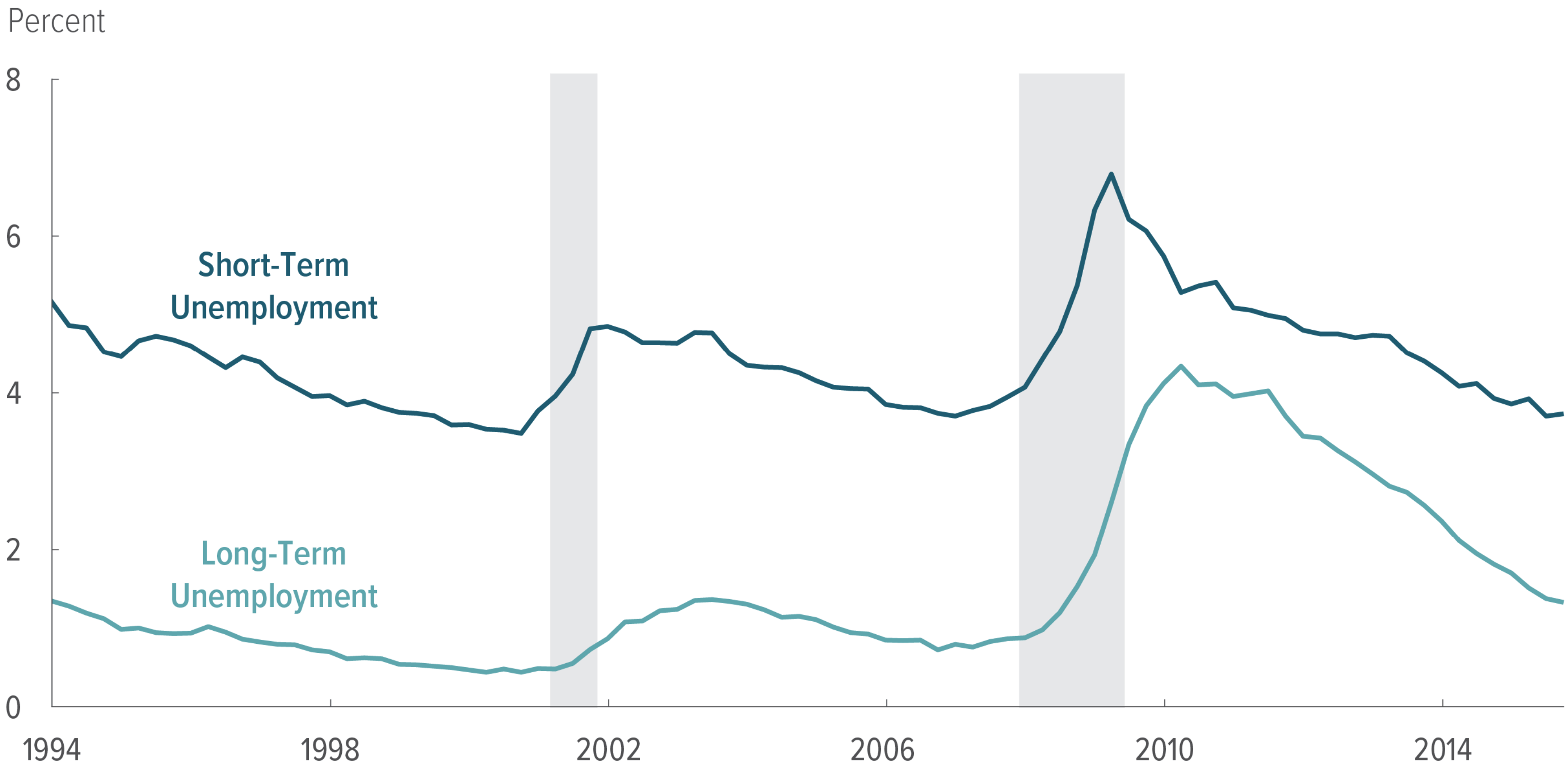
Household Formation



Household formation, along with robust demand for replacement housing units and less restrictive mortgage lending standards, will contribute to solid growth in residential investment over the next few years.

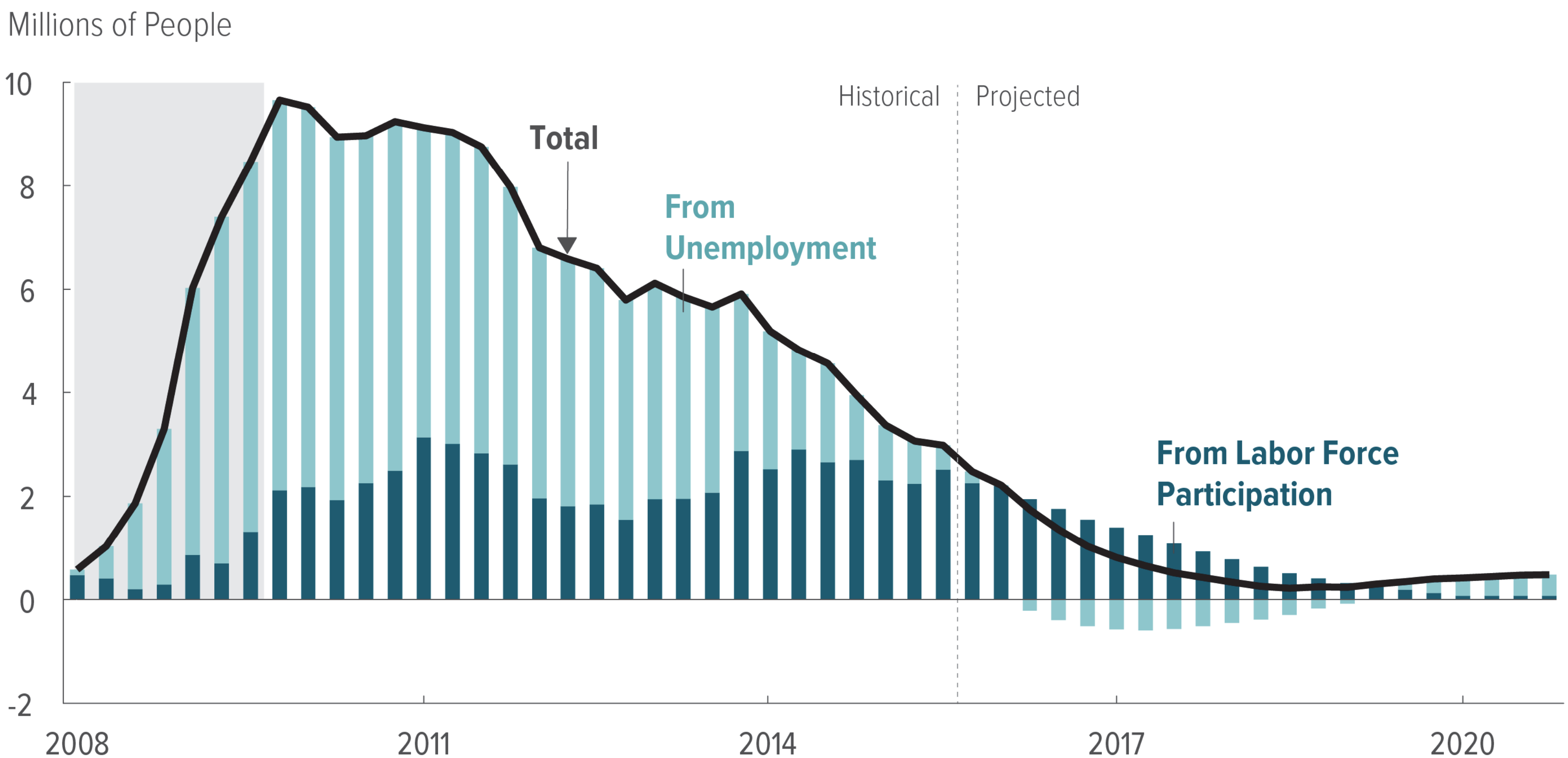
CBO expects the economic expansion over the next few years to reduce the slack in the labor market; in later years, growth in employment will be constrained by relatively slow growth in the labor force.

Rates of Short- and Long-Term Unemployment



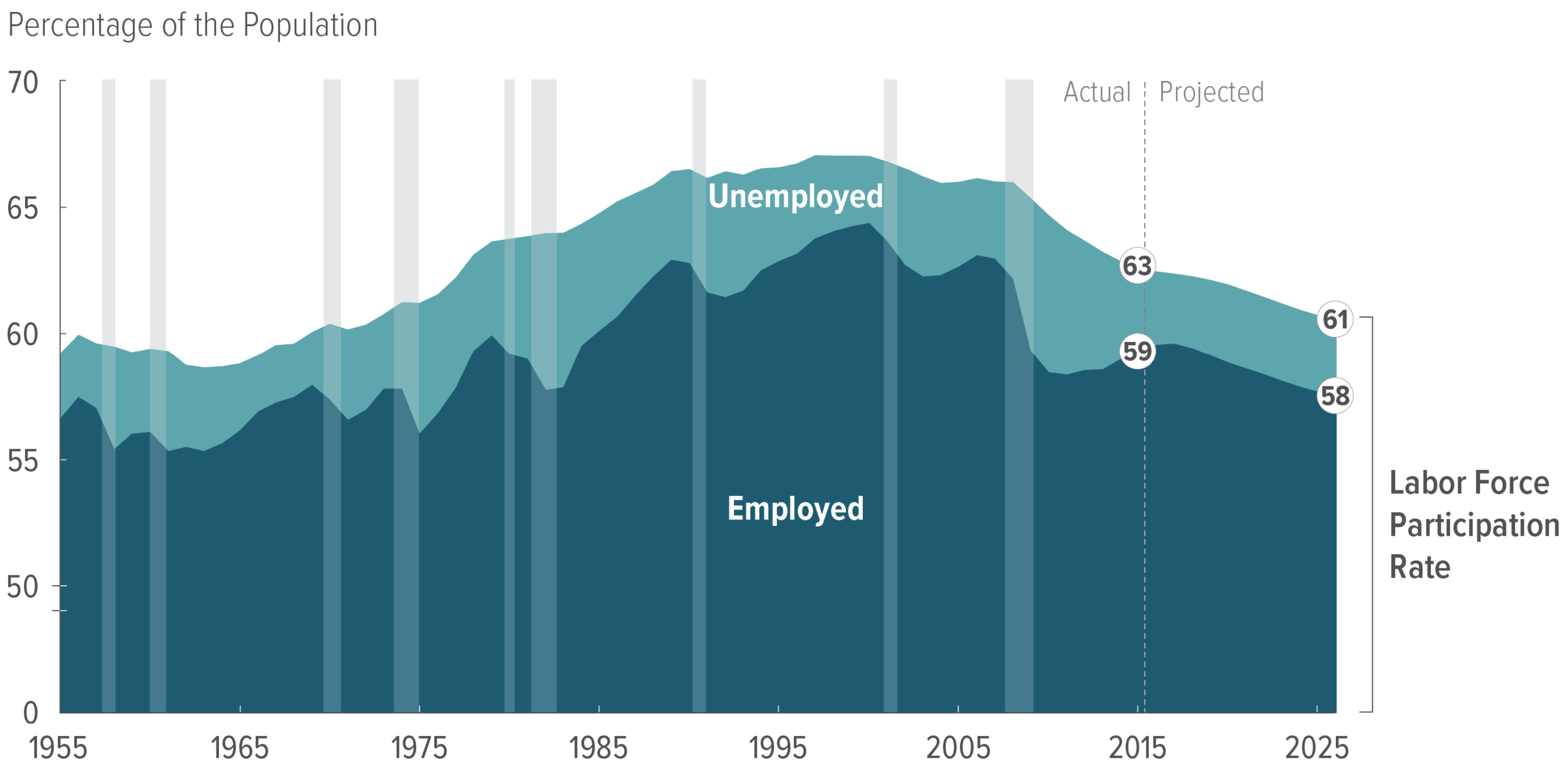
Most of the decline in the overall unemployment rate in the past few years reflected a drop in long-term unemployment (being out of work for 27 consecutive weeks or more), suggesting that the effects of stigma and the erosion of skills that can stem from long-term unemployment are diminishing.

Employment Shortfall



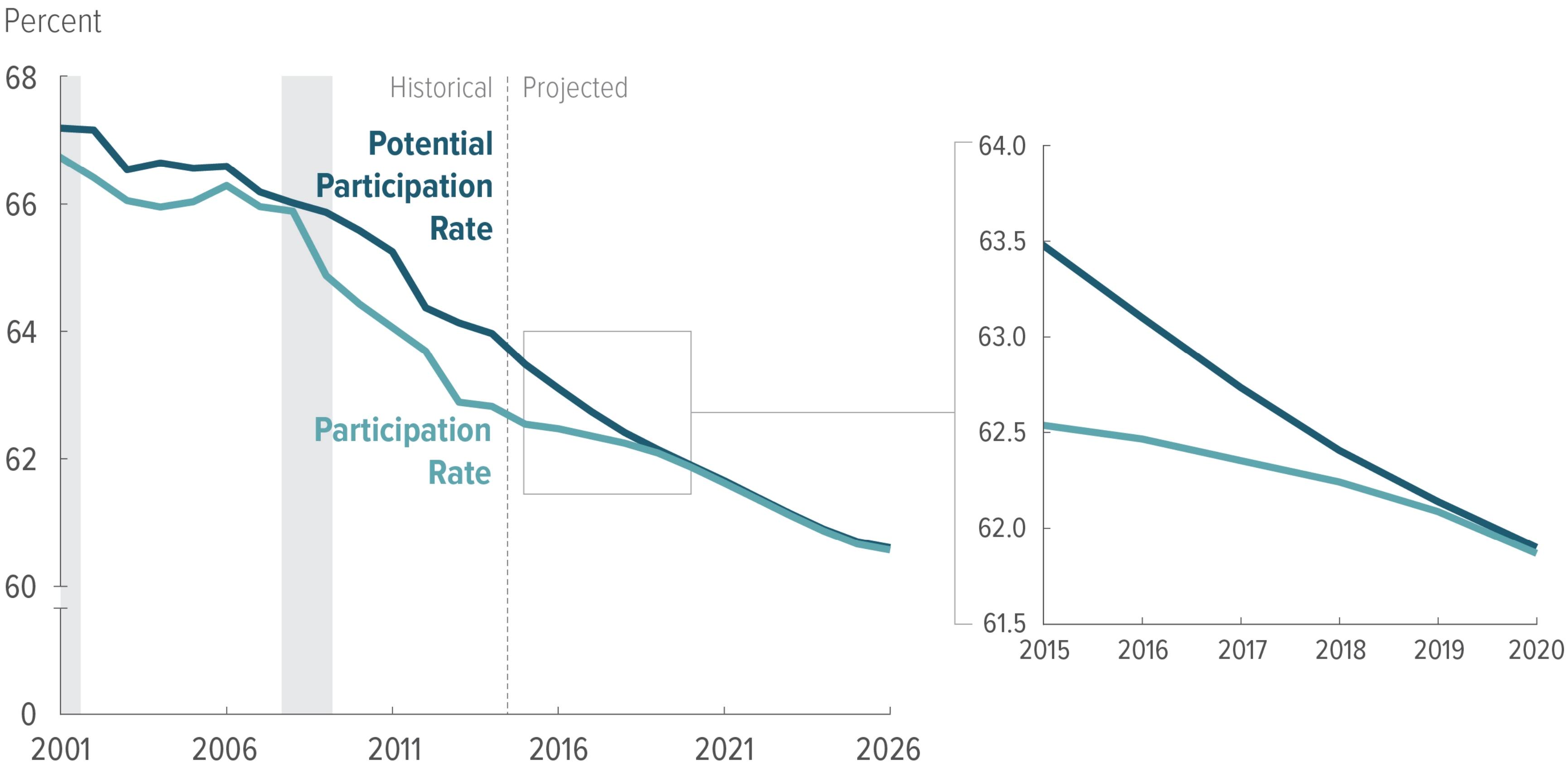
The employment shortfall is the number of people who would be employed if the unemployment rate equaled its natural rate (that arising from all sources except fluctuations in the overall demand for goods and services) and if the labor force participation rate equaled its potential rate. The employment shortfall has dropped sharply since 2009 because of a decline in the unemployment rate; it currently remains elevated, however, mostly from low labor force participation.

The Labor Force, Employment, and Unemployment



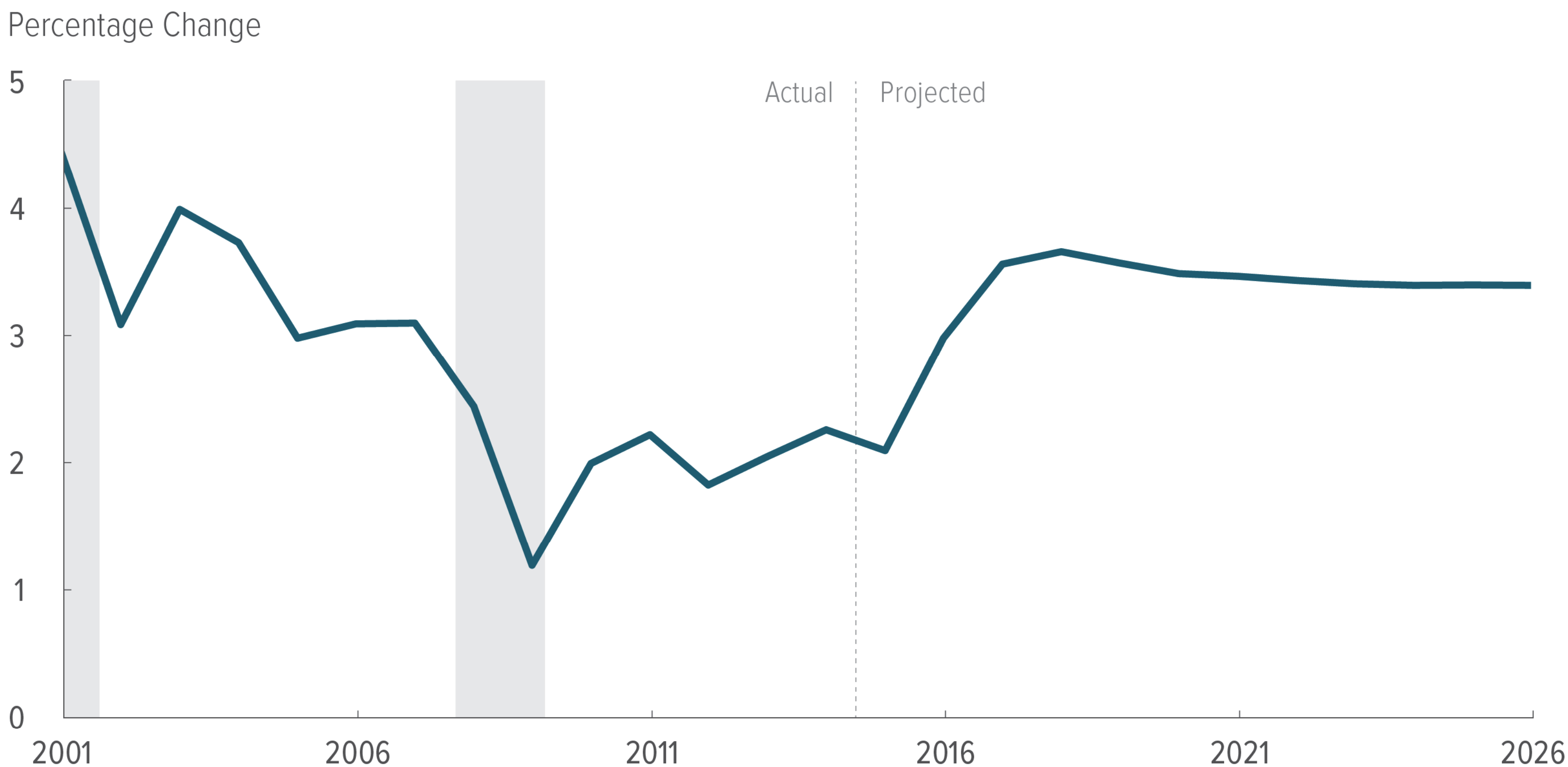
The percentage of the population that is employed is projected to remain roughly unchanged over the next few years and then decrease through 2026 because of declining participation in the labor force, mainly by baby boomers as they age and move into retirement.

Labor Force Participation Rates



The rate of labor force participation—although expected to remain largely unchanged over the coming year—is projected to decline, along with the potential participation rate, through 2026. Those projected declines reflect several factors, the most important being the aging of members of the baby-boom generation. The lingering effects of the recession and ensuing weak recovery, as well as certain aspects of the government's tax and spending policies, will also push down participation.

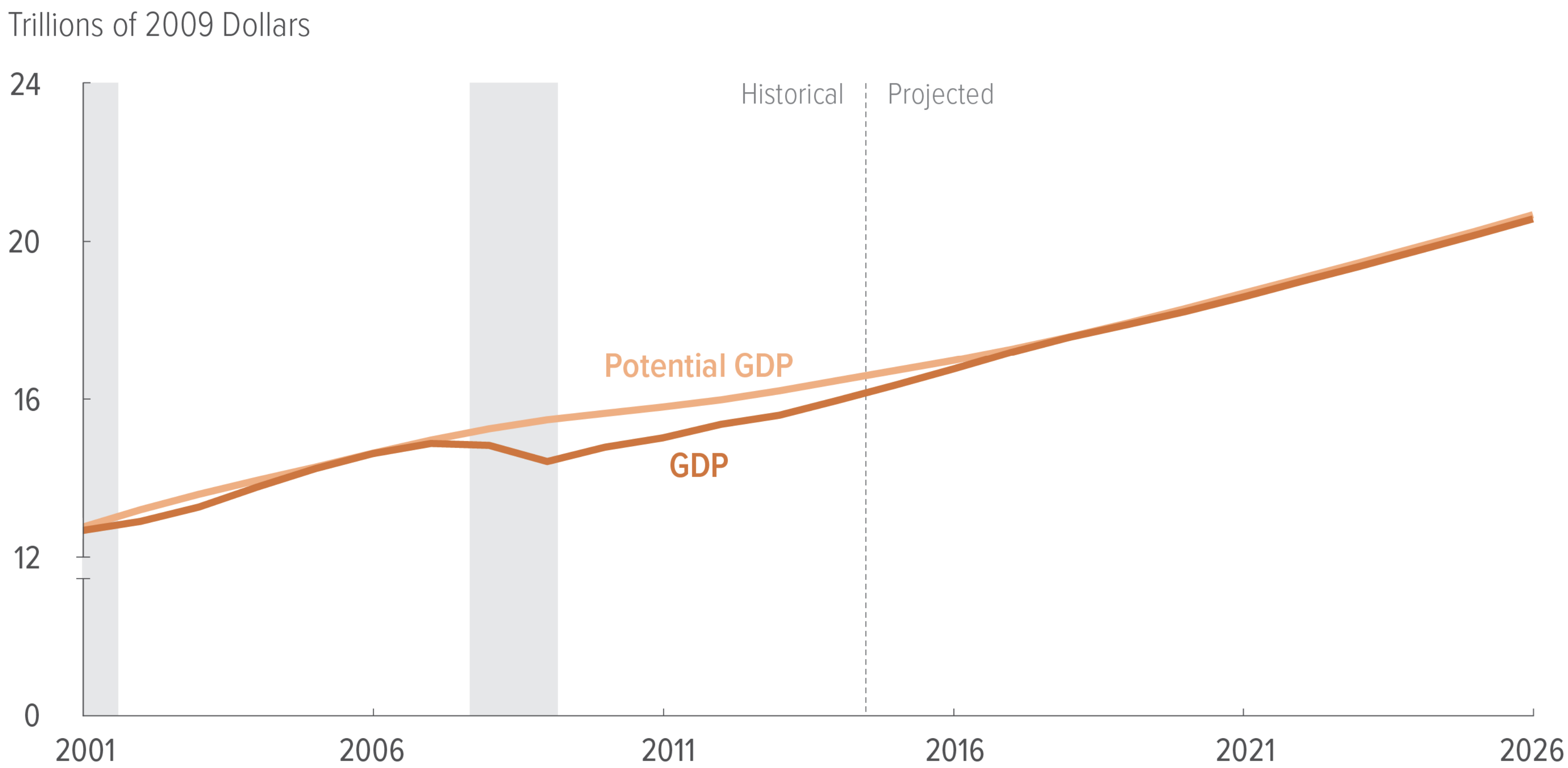
Hourly Labor Compensation



CBO projects that, over the next several years, labor compensation will rise more rapidly than it did in 2015, spurred by continued gains in the demand for labor, which will reduce slack in the labor market, and faster growth in productivity and prices.

Over the next few years, a near elimination of slack in the economy—as evidenced by the closing gap between GDP and potential GDP—will put upward pressure on inflation and interest rates.

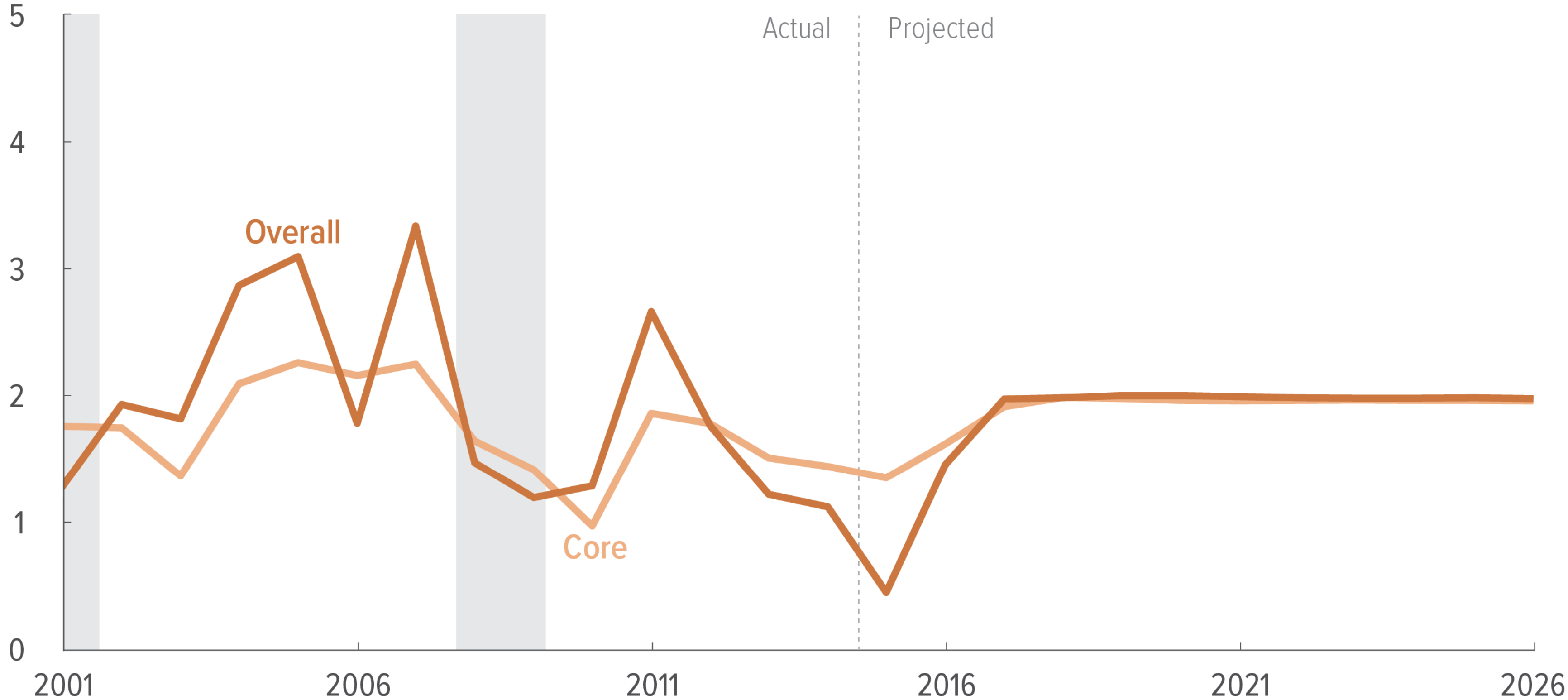
GDP and Potential GDP



The gap between the economy's actual and potential output will be largely eliminated by the middle of 2018, CBO projects, and then increase to its historical average—about one-half of one percent of potential GDP—by 2020.

Inflation

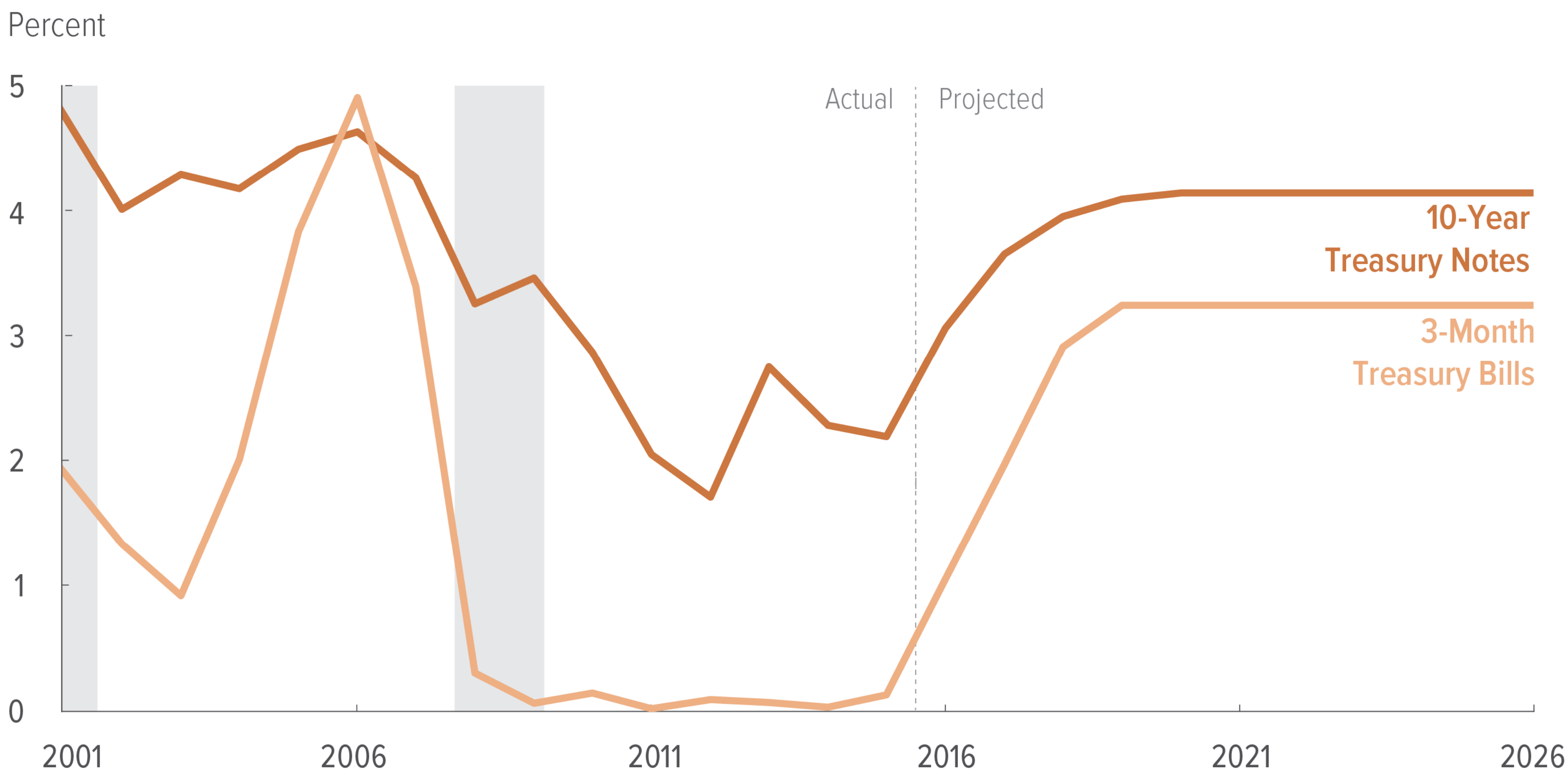
Percentage Change in PCE Price Indexes



CBO anticipates that inflation will rise to the Federal Reserve's goal of 2 percent over the next two years, which is consistent with CBO's projection of the diminishing slack in the economy.

PCE = personal consumption expenditures; the core rate excludes prices for food and energy.

Interest Rates on Treasury Securities



CBO projects that interest rates on Treasury securities will rise steadily over the next few years, reflecting continued economic improvement and increases in the federal funds rate.

About This Document

Leigh Angres, Christine Bogusz, Lauren Bresnahan, Maureen Costantino, Kim Kowalewski, Leah Loversky, and Shiqi Zheng prepared these slides.

For more details about the economic outlook as well as the agency's most recent budget projections, see *The Budget and Economic Outlook: 2016 to 2026* (January 2016), www.cbo.gov/publication/51129. That report is the result of work by many analysts at CBO.