CONGRESSIONAL BUDGET OFFICE

The Economic Outlook for 2017 to 2027 in 16 Slides

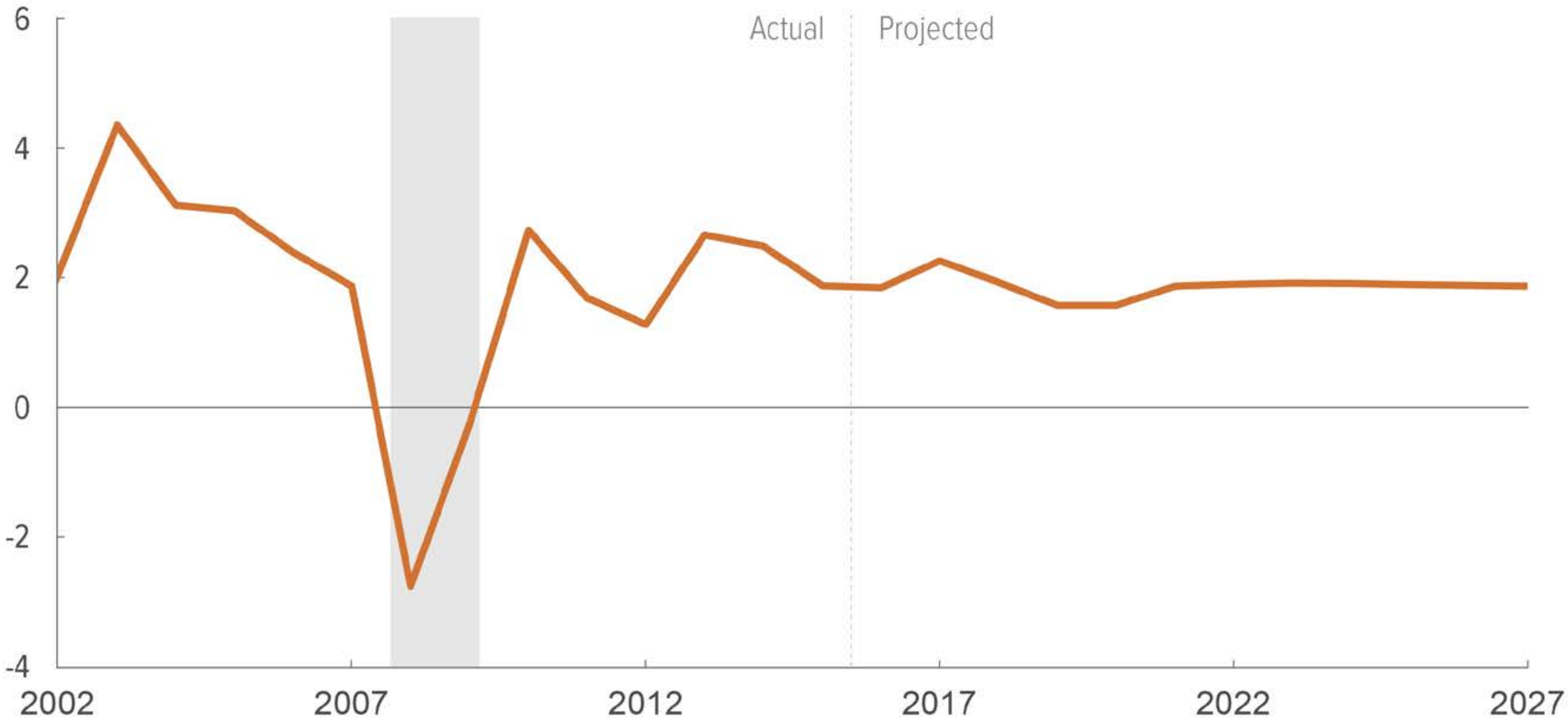
January 2017

For more details, see www.cbo.gov/publication/52370.

CBO expects that continued expansion of economic activity over the next two years will virtually eliminate underused resources, or slack, in the economy. After that, the economy is expected to grow more slowly.

Growth of Real GDP

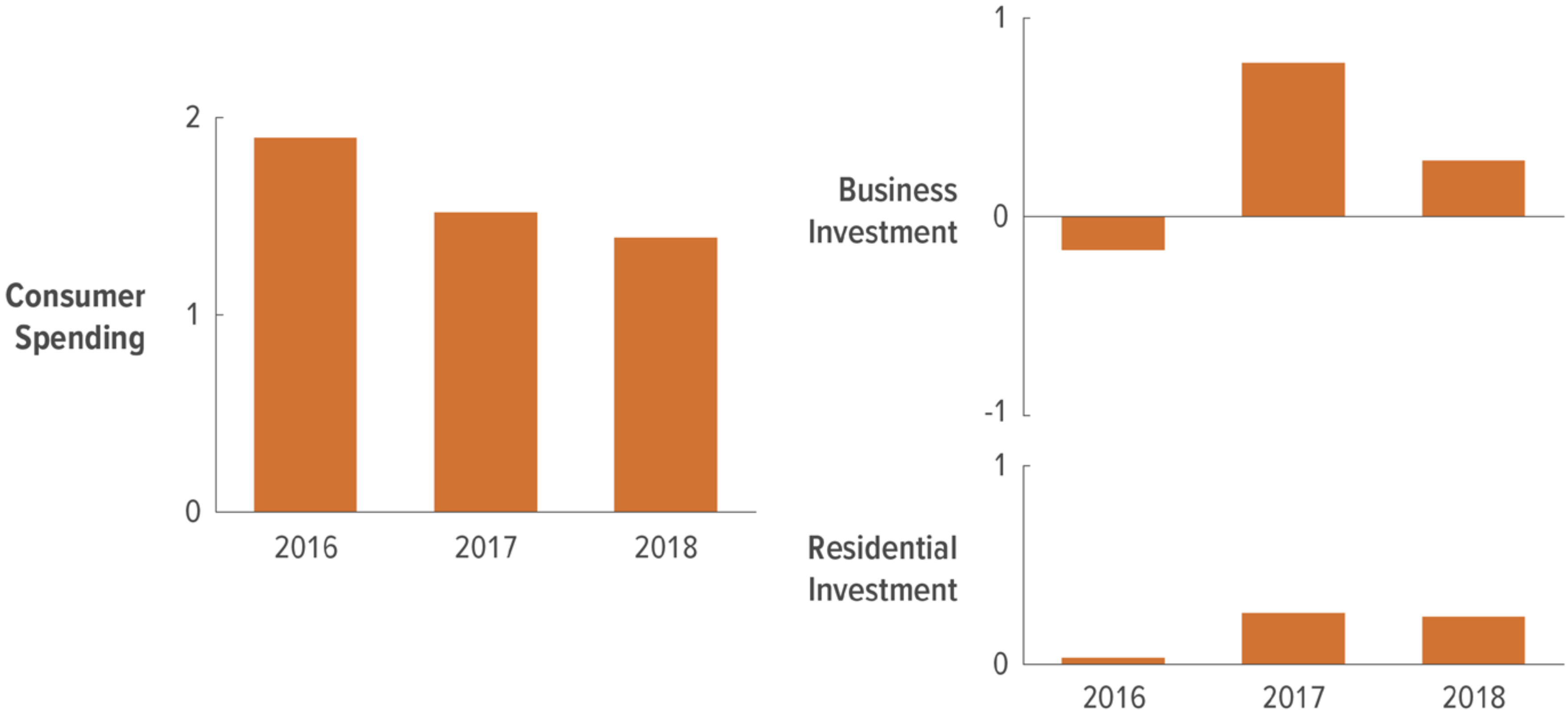
Percent, Fourth Quarter to Fourth Quarter



CBO expects real (inflation-adjusted) GDP to grow by 2.3 percent this year and by 1.9 percent next year.

Projected Contributions to the Growth of Real GDP

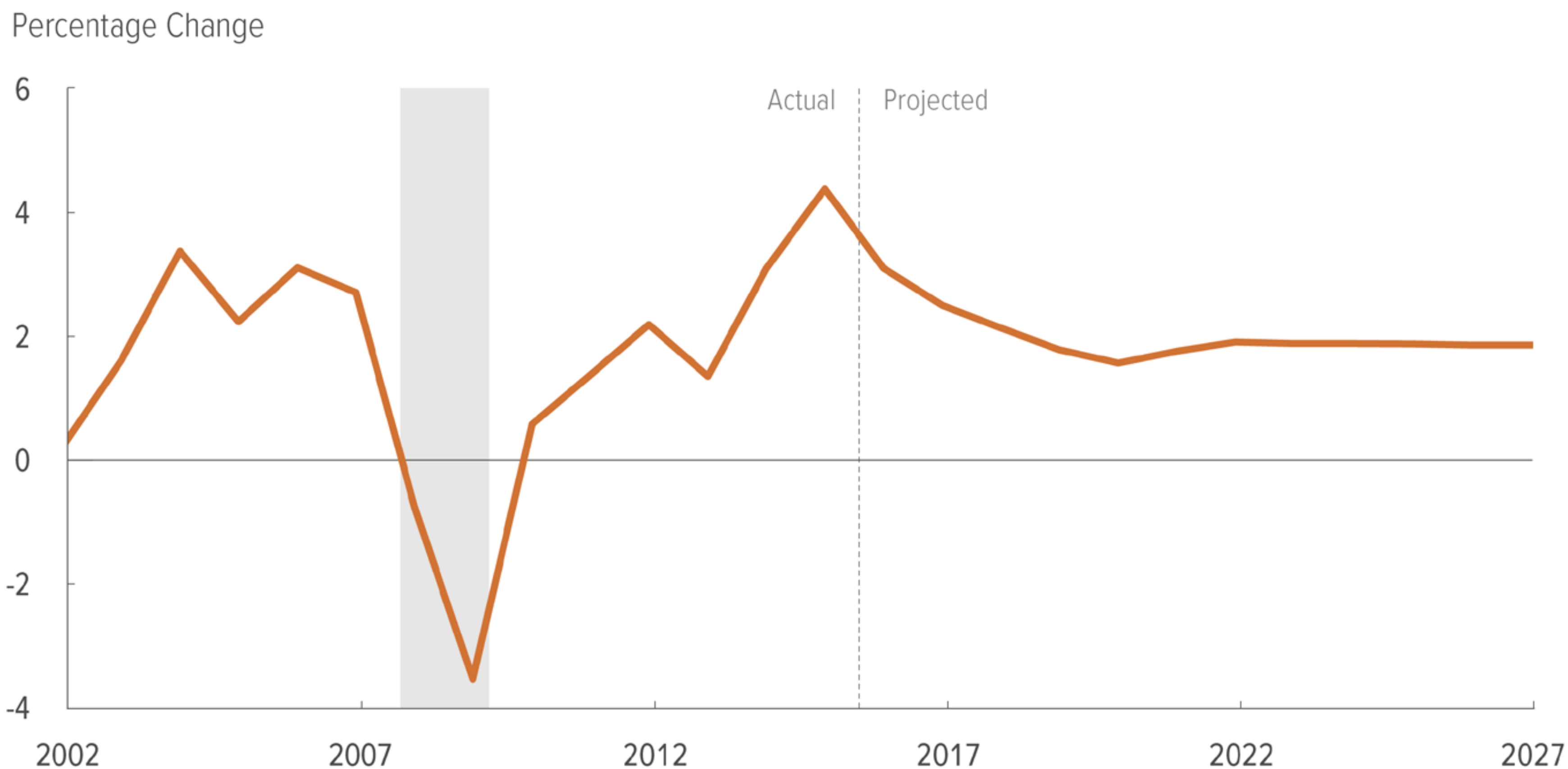
Percentage Points



Consumer spending, which accounts for over two-thirds of economic output, is expected to provide the largest contribution to economic growth, as it has generally done in the past. However, the pickup in economic growth that CBO projects for 2017 stems largely from faster growth in business investment.

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

Real Compensation of Employees

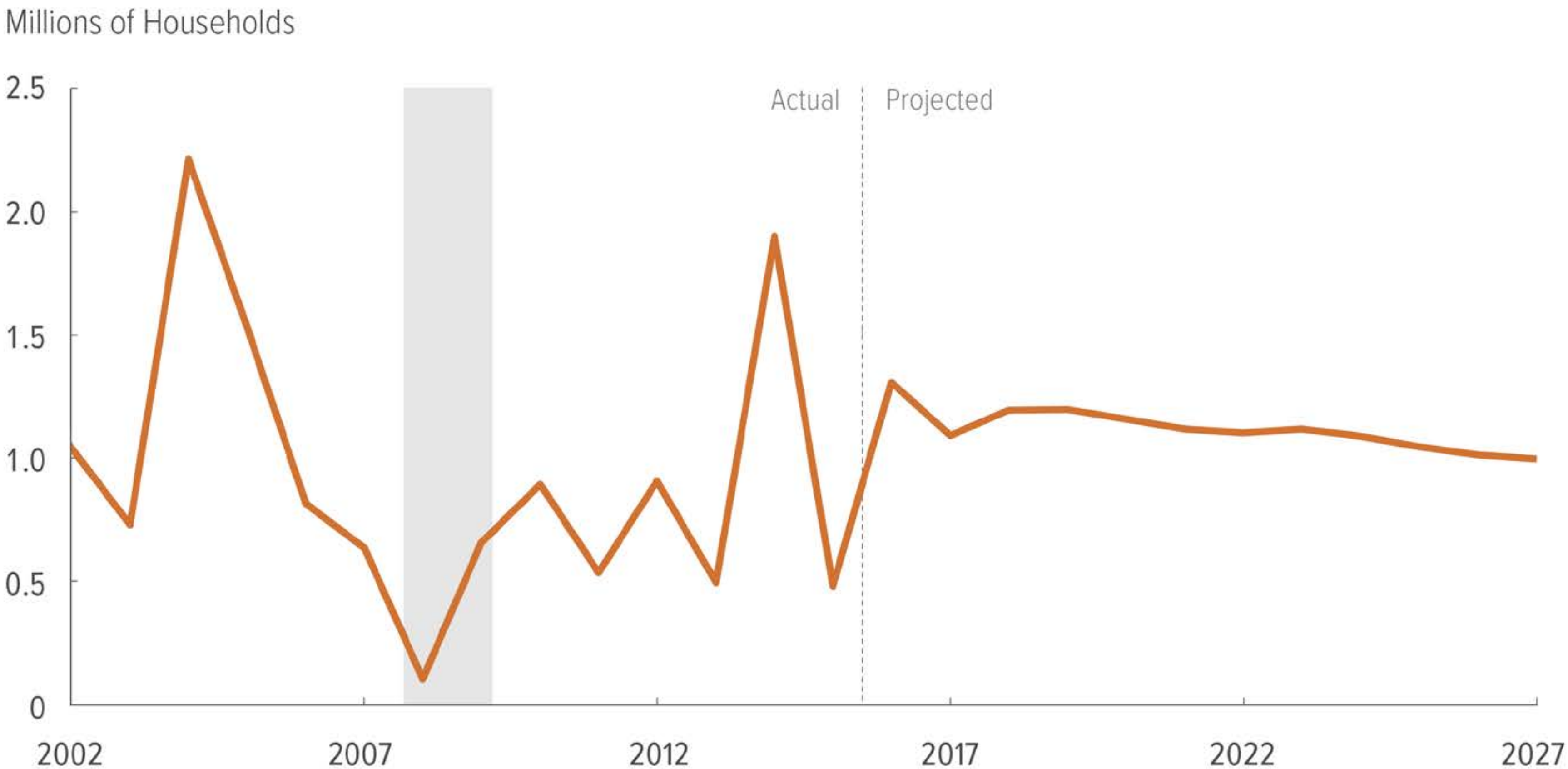


Slowing growth in employees' real compensation in total, mostly because of slower employment growth, is projected to constrain consumer spending over the next few years.

Real Mining Investment

One factor contributing to the faster growth of business investment this year is faster growth in mining investment, the result of higher oil prices.

Household Formation

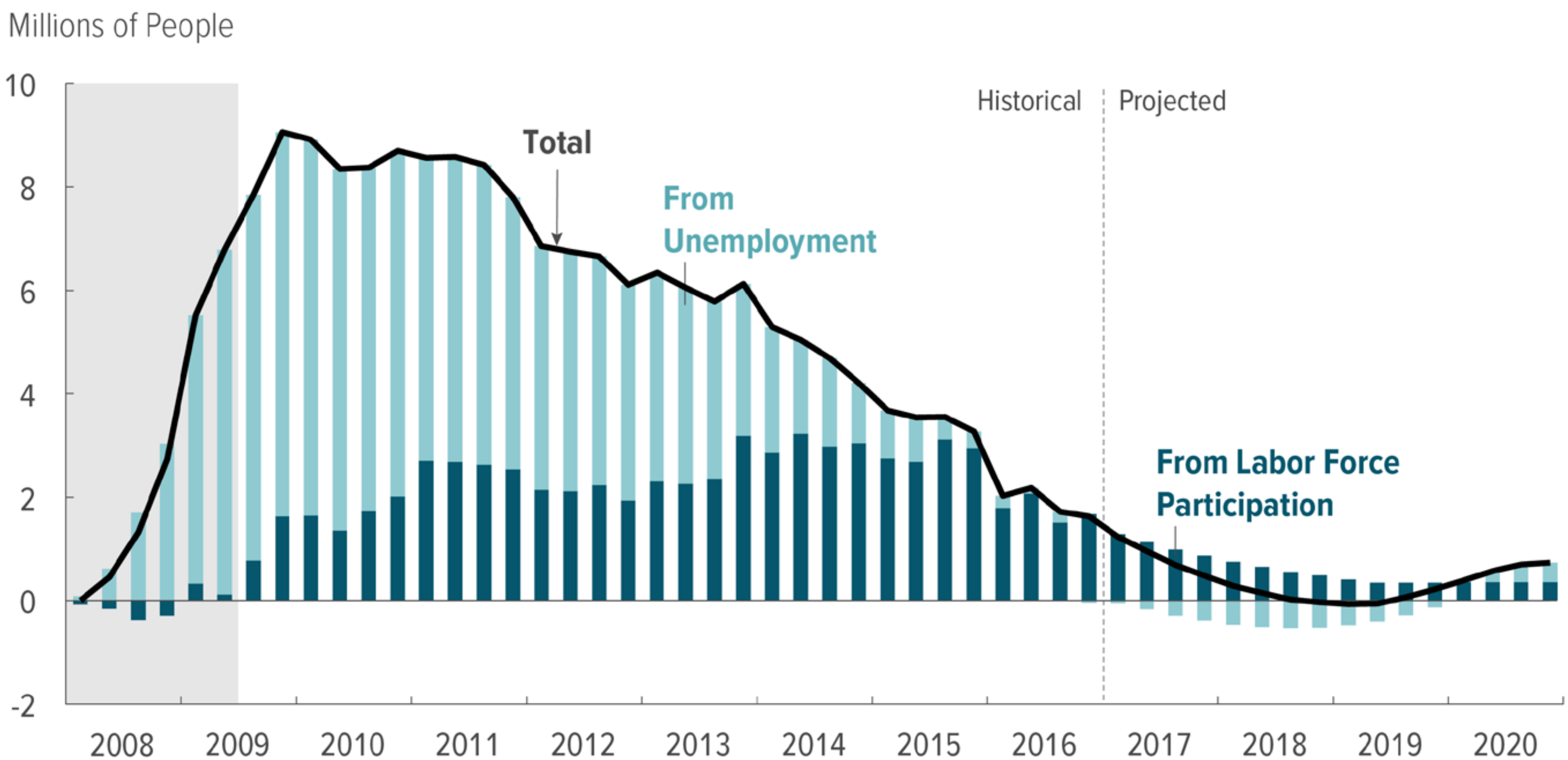


CBO anticipates that the construction of new dwellings will be the primary contributor to the growth of residential investment, mainly because of robust household formation.

CBO expects slack in the labor market to disappear in 2018 as the growth in output heightens the demand for labor.

Also, increased demand for labor and competition for workers are projected to boost the growth of hourly compensation over the next two years.

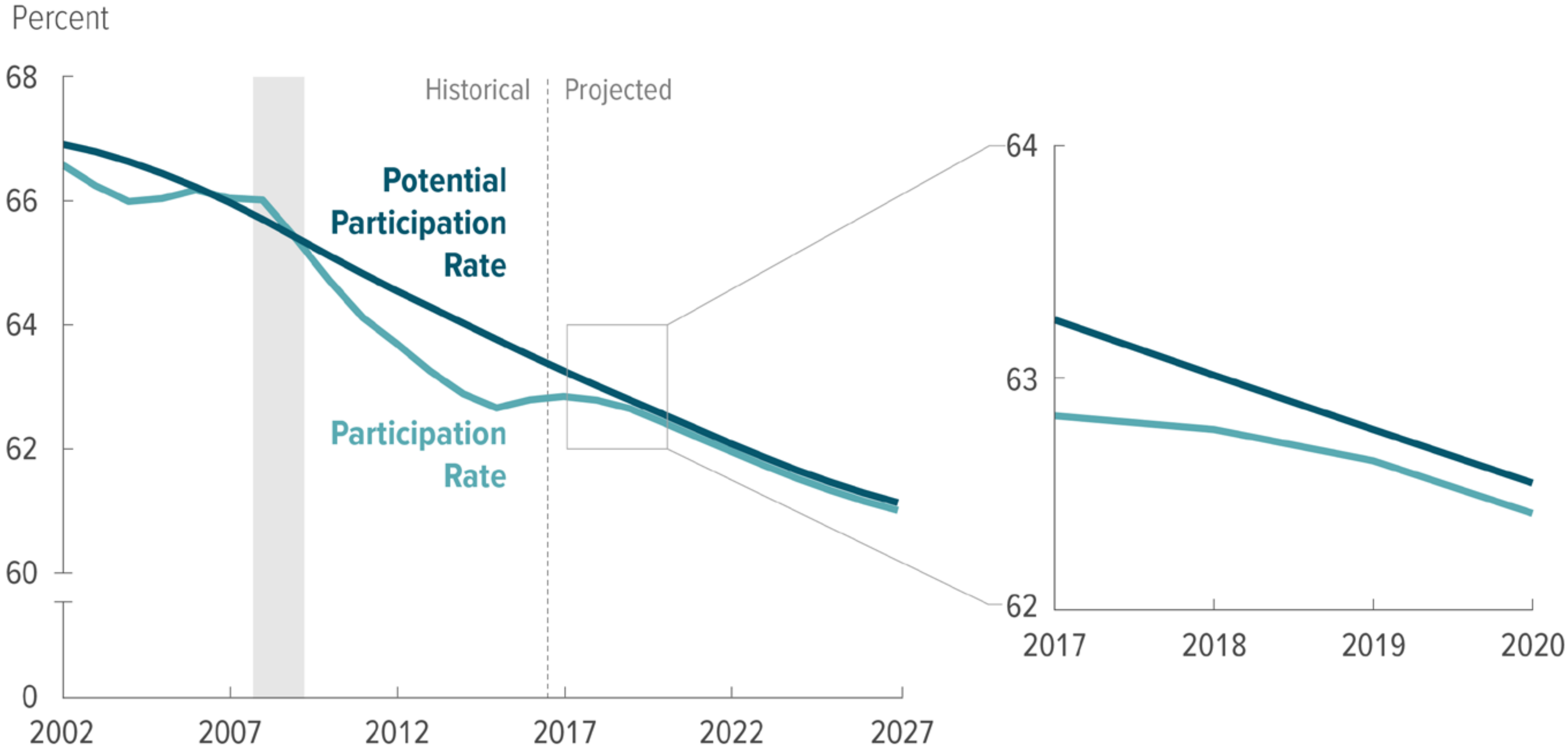
Employment Shortfall



The growth of aggregate demand for goods and services in the economy will increase the demand for labor, eliminating the shortfall between actual and potential employment by the end of 2018.

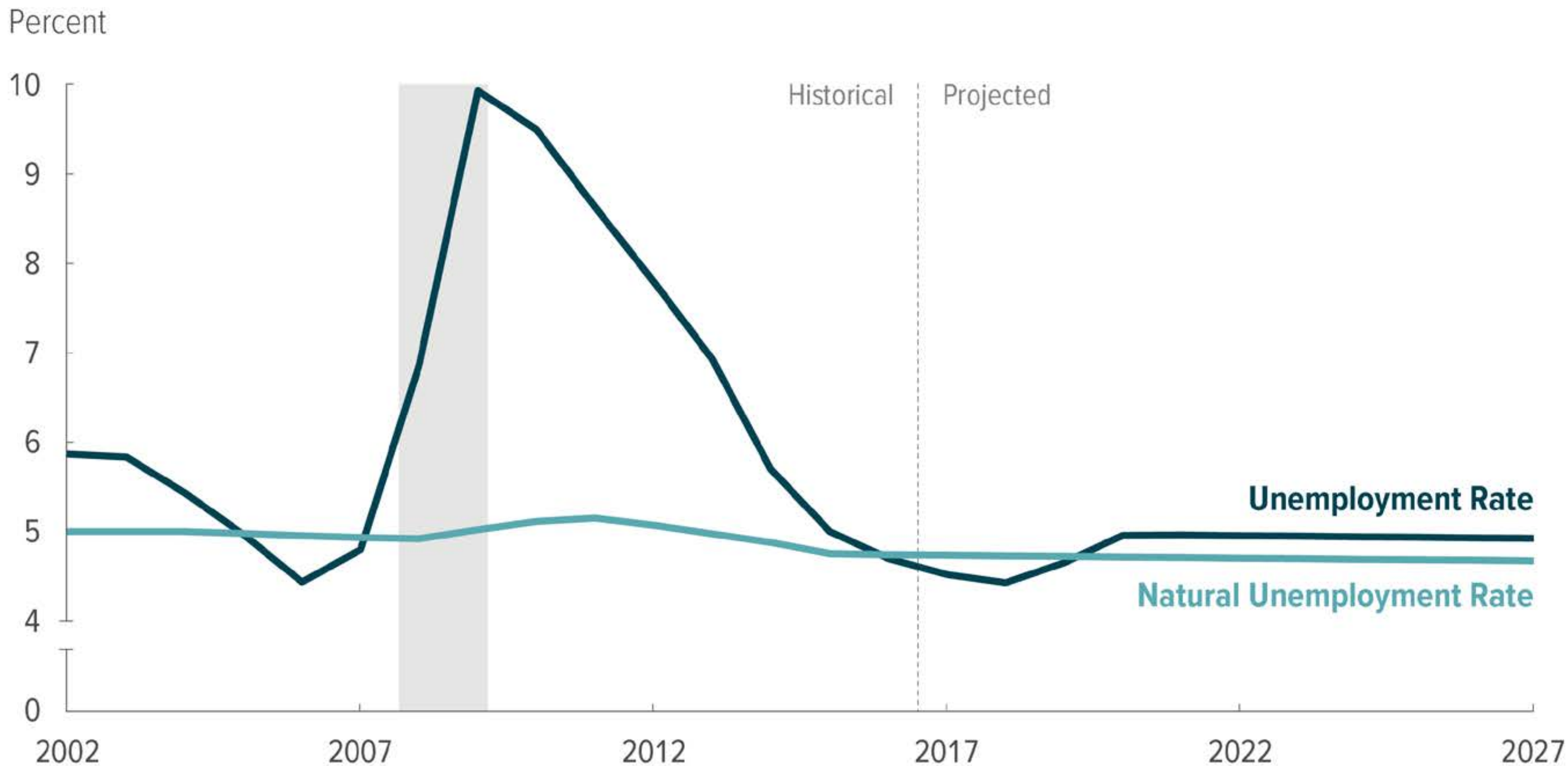
Potential employment is the number of people who would be employed if the unemployment rate equaled its natural rate and if the labor force participation rate equaled its potential rate.

Labor Force Participation Rates



As the increase in employers' demand for labor continues to draw workers back into the labor force, the strengthening economy is expected to slow the downward trend in the rate of labor force participation, which largely reflects the retirement of the baby boomers.

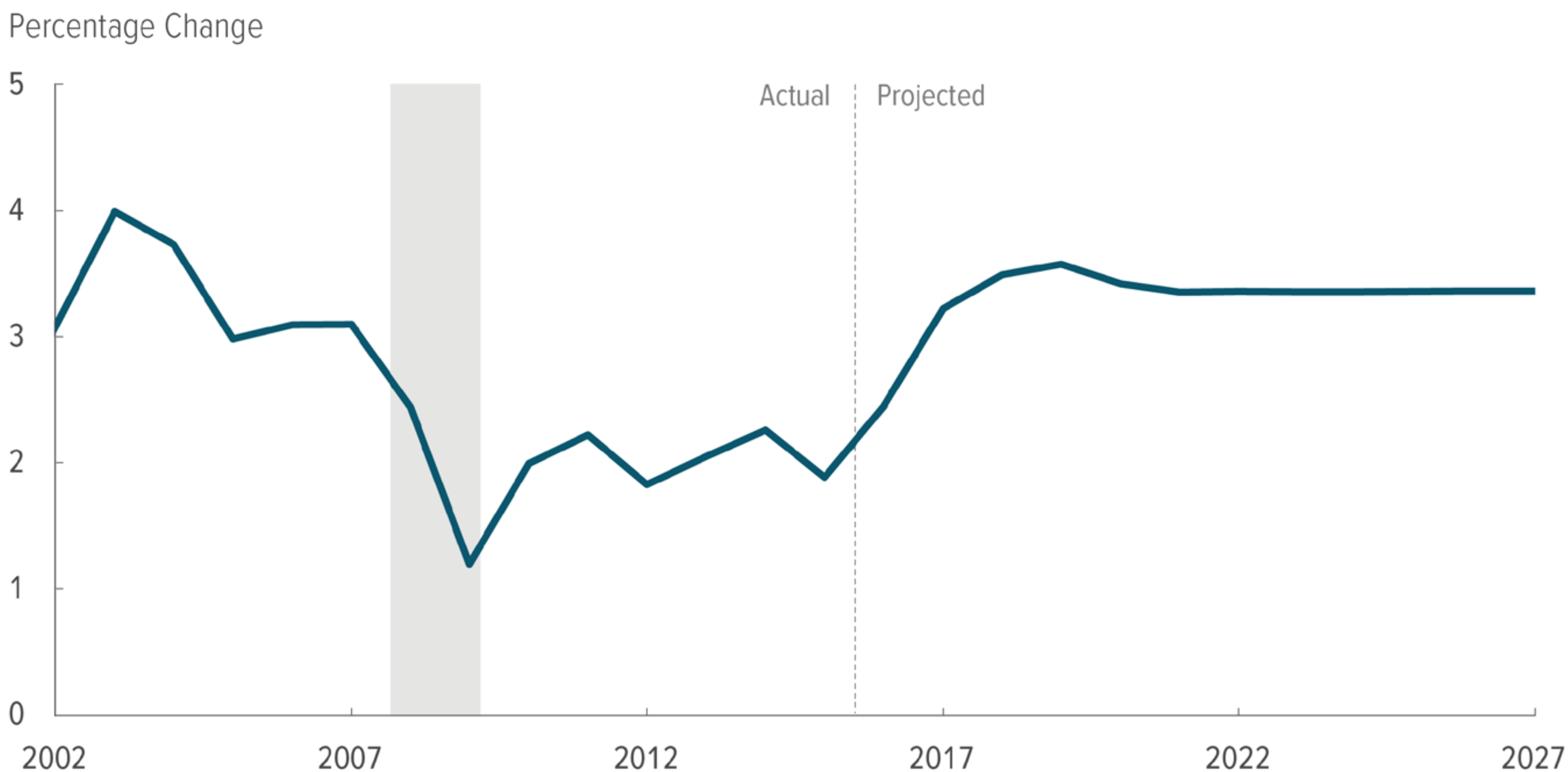
Actual and Natural Unemployment Rates



The unemployment rate falls below the agency's estimate of its natural rate during the next two years because economic growth is expected to boost hiring. In the longer term, those two rates are projected to return to their average historical relationship.

The natural unemployment rate is the rate of unemployment arising from all sources except fluctuations in the overall demand for goods and services.

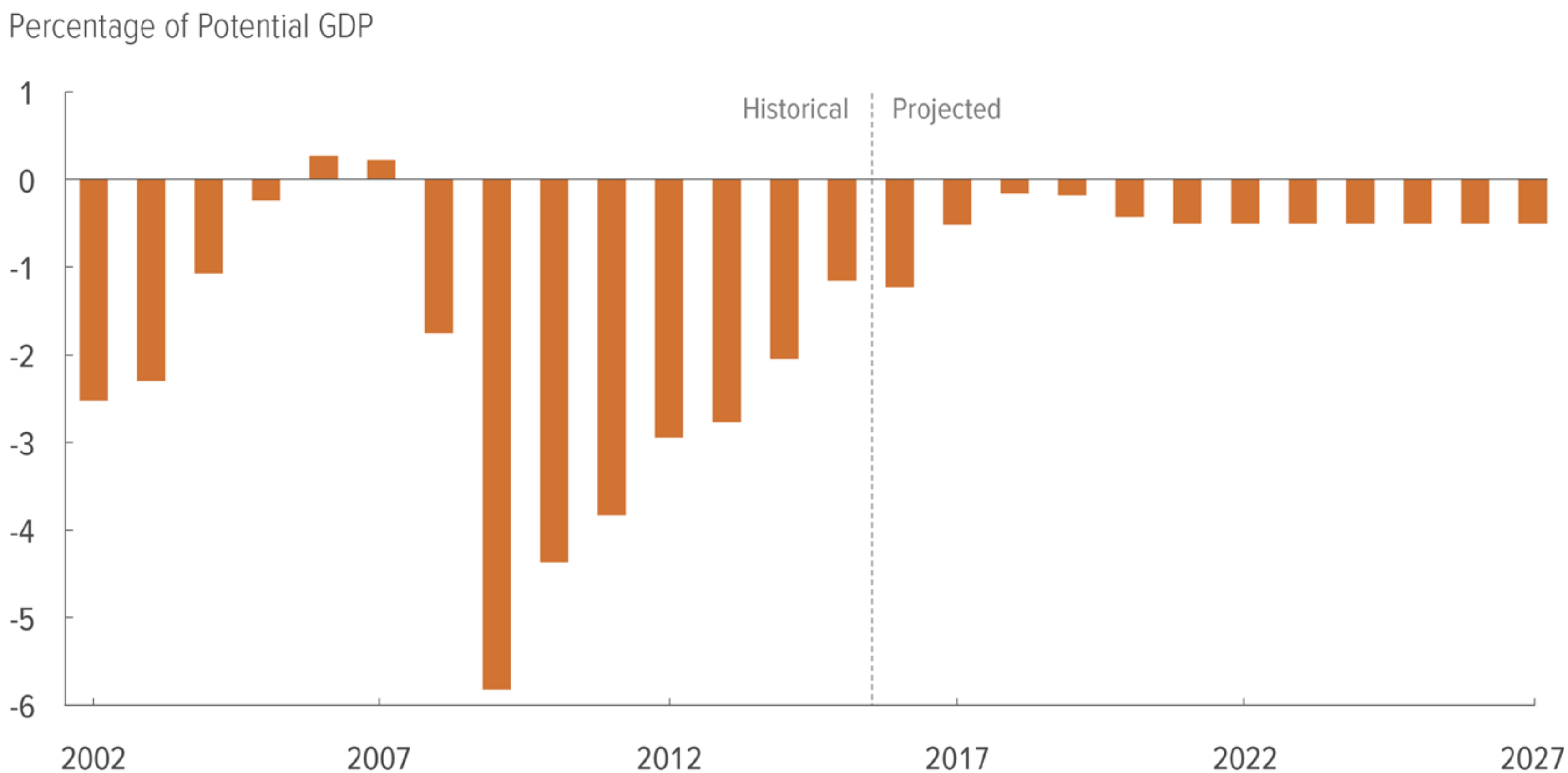
Hourly Labor Compensation



Hourly labor compensation will rise more quickly over the next several years than in 2016, CBO projects, spurred by growth in productivity, prices, and the demand for labor.

The near elimination of slack in the economy—as evidenced by the narrowing of the output gap—will put upward pressure on inflation and interest rates.

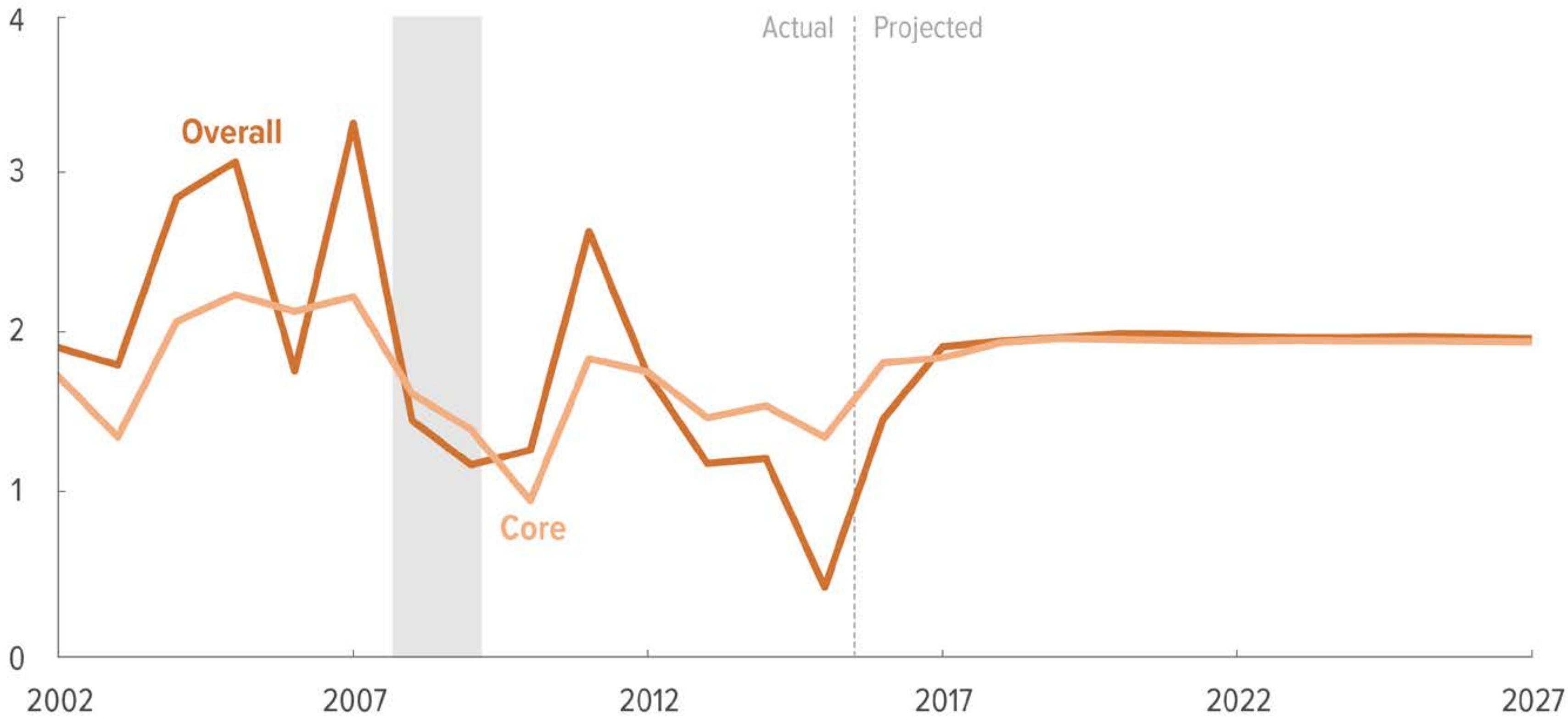
Output Gap



The gap between the economy's actual and potential output will largely disappear by the end of 2018. Then, the output gap is projected to transition to its historical average of roughly –0.5 percent by 2021.

Inflation

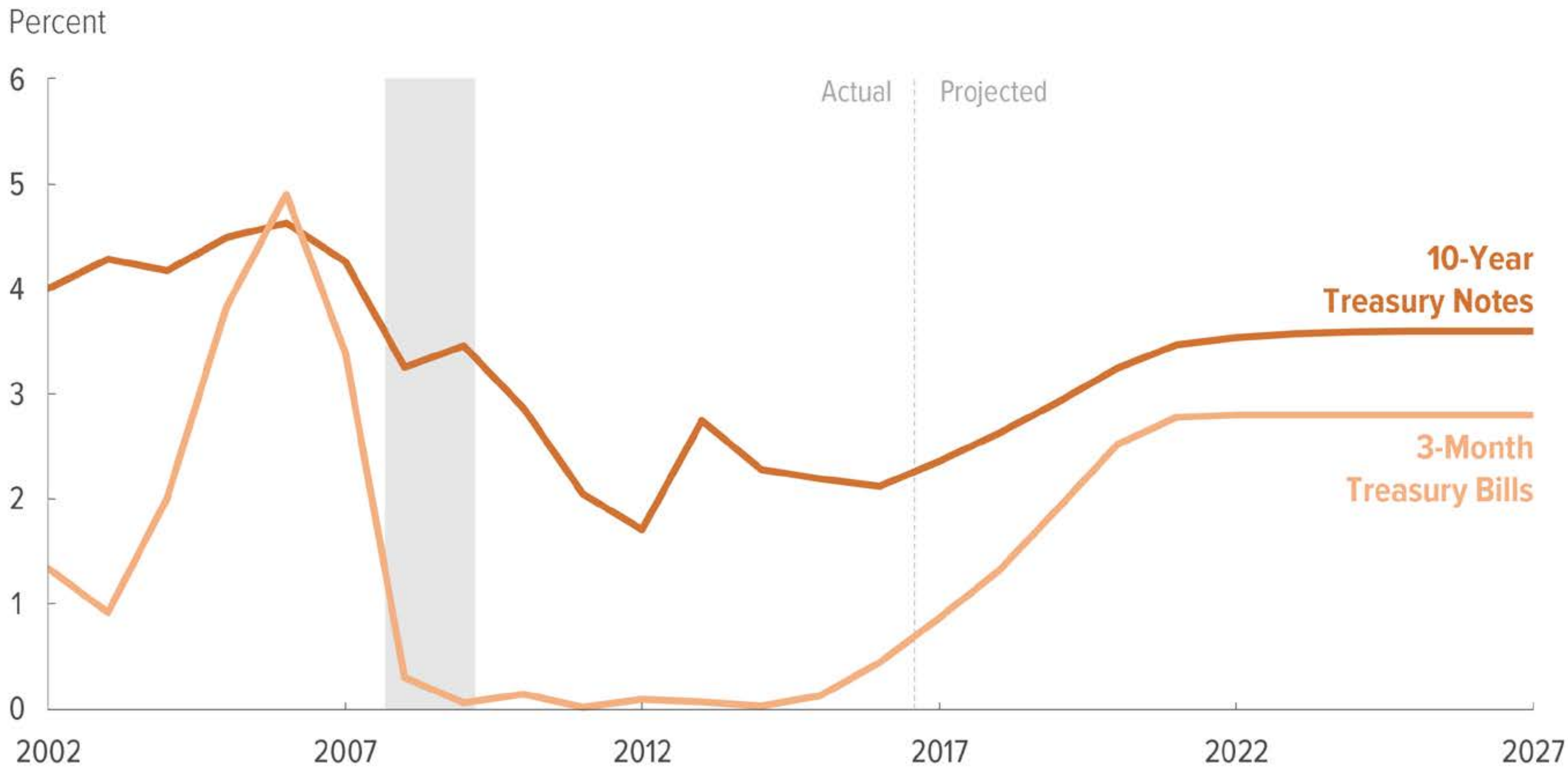
Percentage Change in PCE Price Indexes



CBO anticipates that over the next two years, as slack in the economy diminishes, inflation will rise to the Federal Reserve's goal of 2 percent.

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

Interest Rates



Interest rates on Treasury securities will rise, CBO projects, reflecting continued economic improvement and increases in the federal funds rate.

About This Document

Leigh Angres, Christine Bogusz, and Maureen Costantino prepared these slides from the work of CBO's Macroeconomic Analysis Division.

For more details about the economic forecast as well as the agency's most recent budget projections, see *The Budget and Economic Outlook: 2017 to 2027* (January 2017), www.cbo.gov/publication/52370. That report is the result of work by many analysts at CBO.