



Congressional Budget Office

CBO's Outlook for the Economy

Presentation to the National Association for Business Economics

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Director

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Notes for the slides can be found at the end of the presentation.

How will the labor market evolve?

How rapidly will potential output grow?

How rapidly will actual output grow?

**What will be the paths of inflation, interest rates,
and the labor share of income?**

What is the resulting budget outlook?

How Will the Labor Market Evolve?

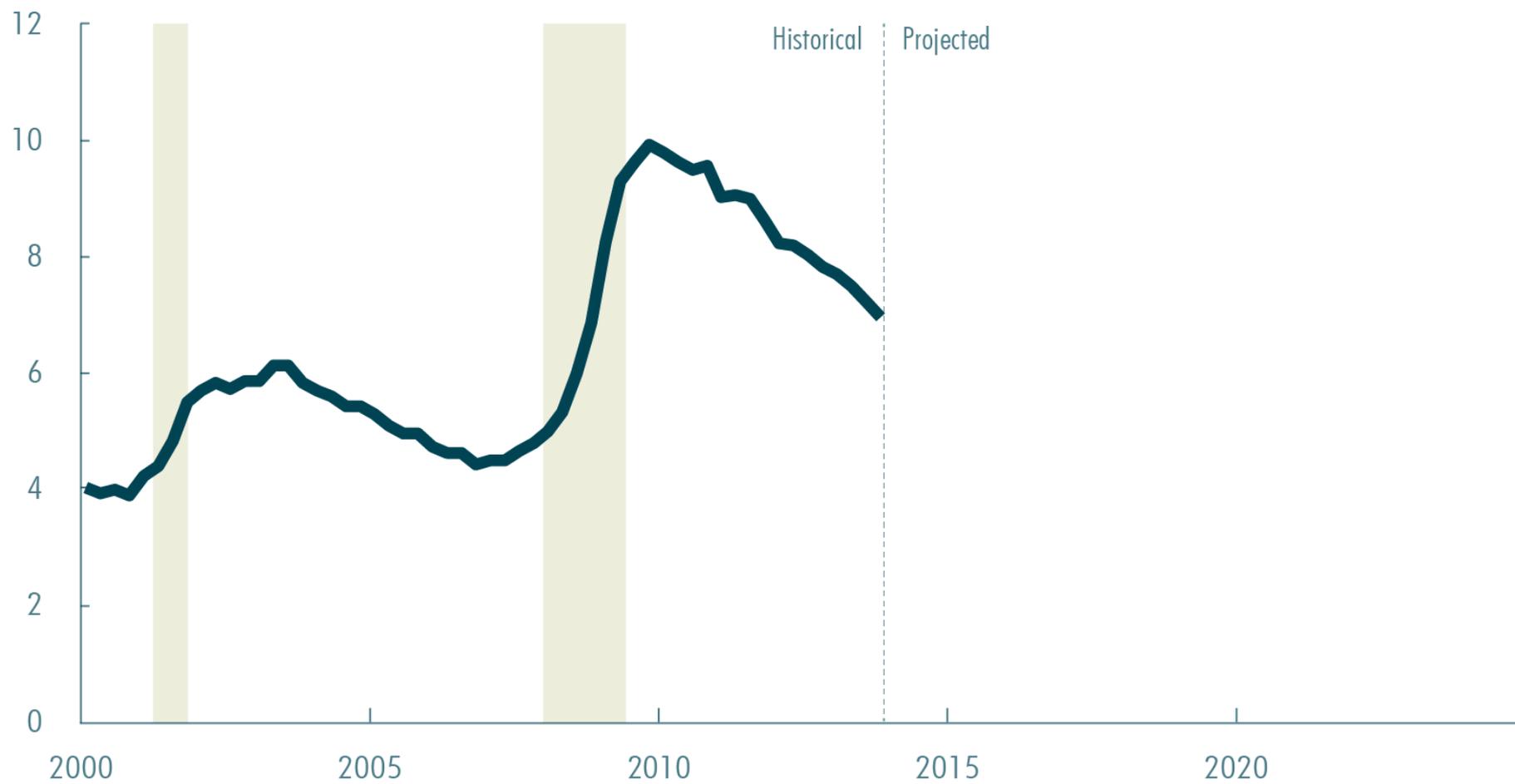
In our view, the **slow recovery of the labor market largely reflects slow growth in the demand for goods and services**, with a smaller role for structural factors.

We estimate that **considerable slack remains in the labor market**.

The **economy is about 6 million jobs short** of where it would be if the unemployment rate was back down to its prerecession level and the participation rate was back up to the level it would be without the current cyclical weakness.

Unemployment Rate

Percent



CBO estimates that...

Of the **roughly 2 percentage-point net increase in the unemployment rate** between the end of 2007 and the end of 2013, the portions that can be attributed to different factors:

Percentage Points

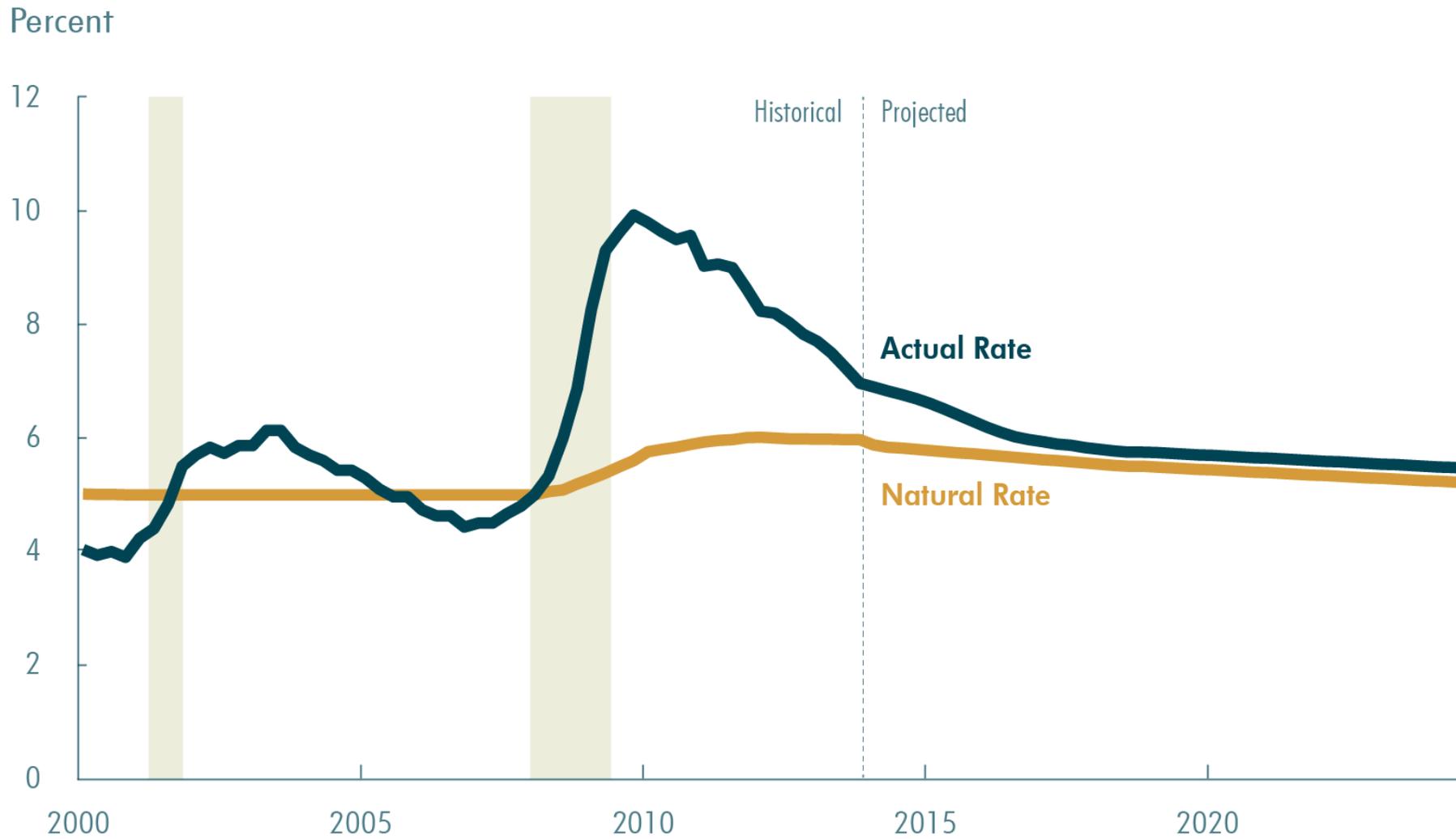
About 1 Cyclical weakness in demand for goods and services

About 1 Structural factors

About 1/2 Stigma and erosion of skills from long-term unemployment

About 1/2 Decrease in efficiency of matching workers and jobs, at least partly from mismatches in skills and locations

Actual and Natural Rates of Unemployment



CBO projects that...

In 2024, the unemployment rate will be 5½ percent. **The difference of ½ percentage point** relative to the rate of about 5 percent at the end of 2007 can be attributed to:

Percentage Points

About 1/4

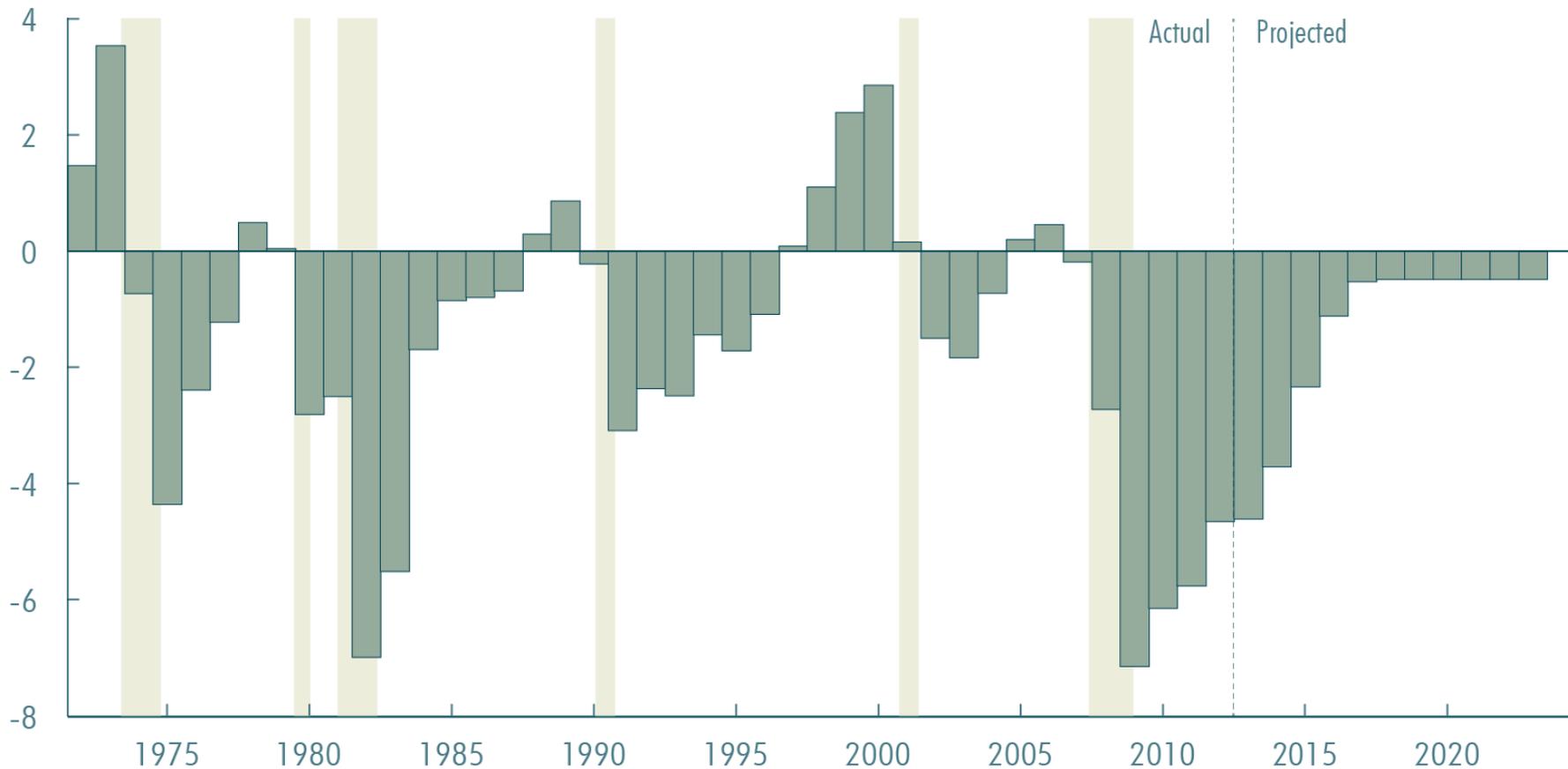
Stigma and erosion of skills from long-term unemployment (thus, the natural rate of unemployment will be 5¼ percent)

About 1/4

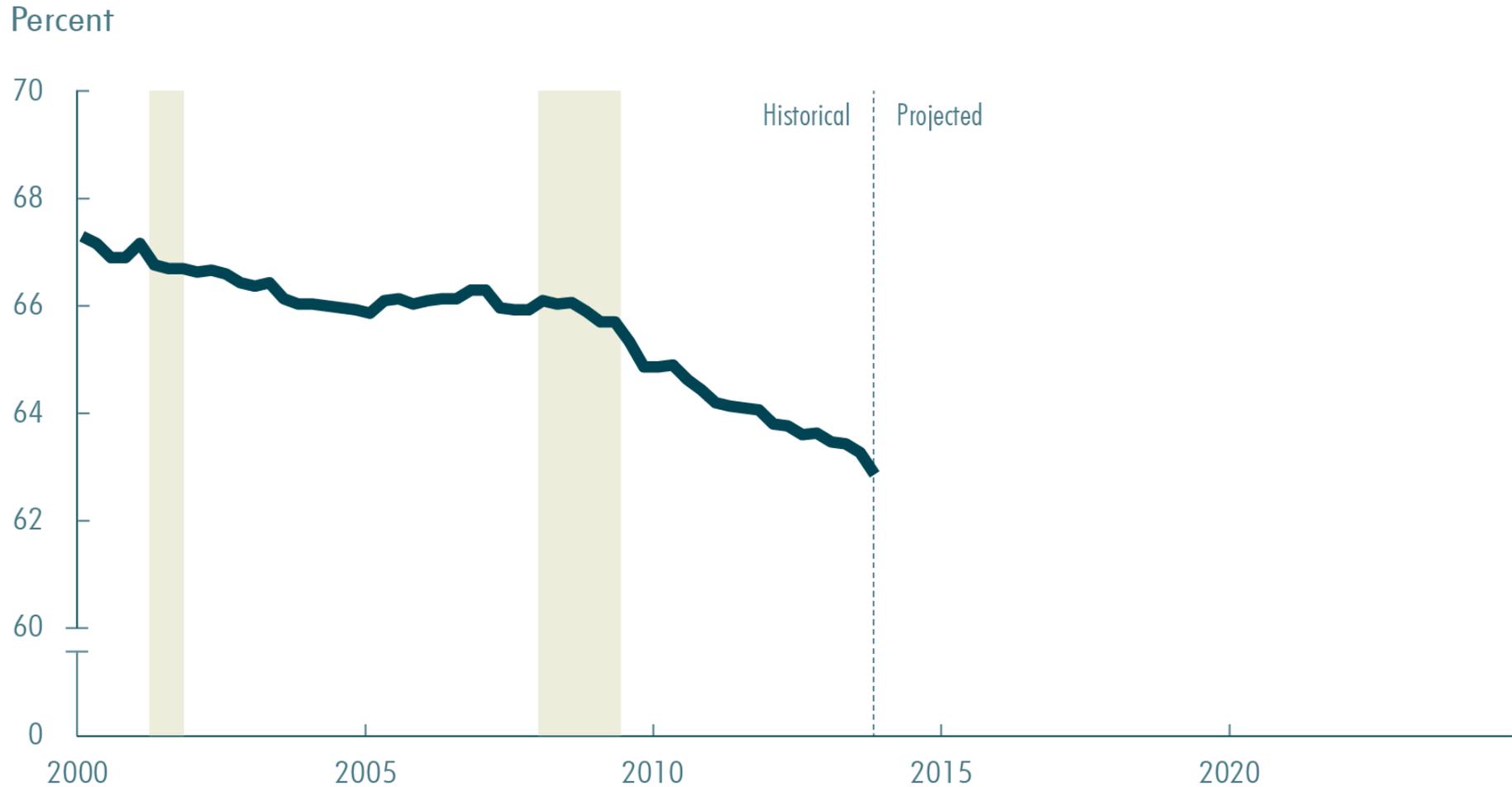
Average historical shortfall of output relative to potential

Gap Between Actual and Potential GDP

Percentage of Potential GDP



Rate of Participation in the Labor Force



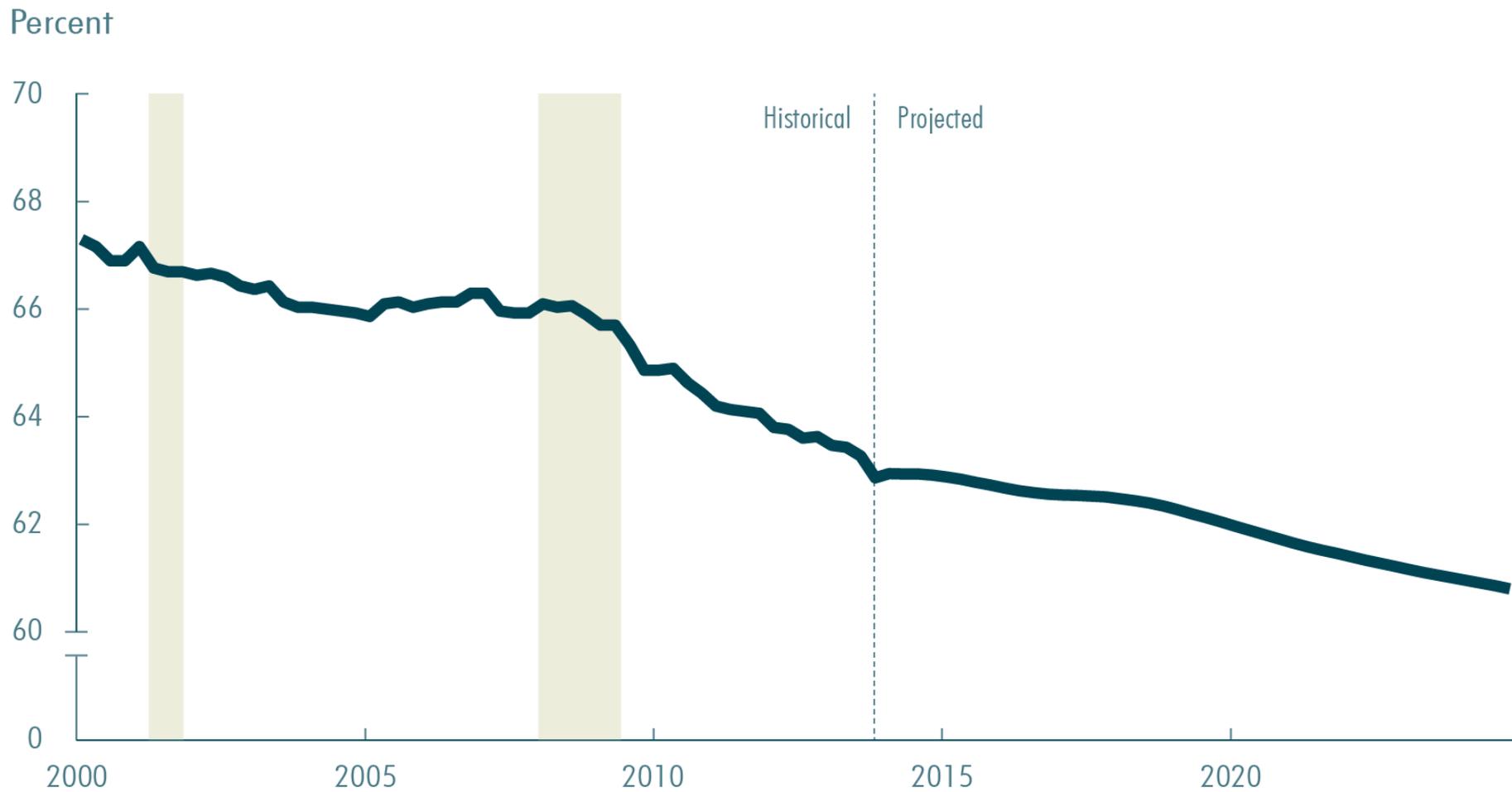
CBO estimates that...

Of the **roughly 3 percentage-point net decline in the labor force participation rate** between the end of 2007 and the end of 2013, the portions that can be attributed to different factors:

Percentage Points

| | |
|------------------|---|
| About 1½ | Long-term trends (primarily aging) |
| About 1 | Cyclical weakness in job prospects and wages |
| About 1/2 | Discouraged workers who have dropped out of the labor force permanently |

Rate of Participation in the Labor Force



CBO estimates that...

In 2024, the labor force participation rate will be 60.9 percent. **The difference of roughly 5 percentage points** relative to the rate of about 65.9 percent at the end of 2007 can be attributed to:

Percentage Points

About 3½

Long-term trends (primarily aging)

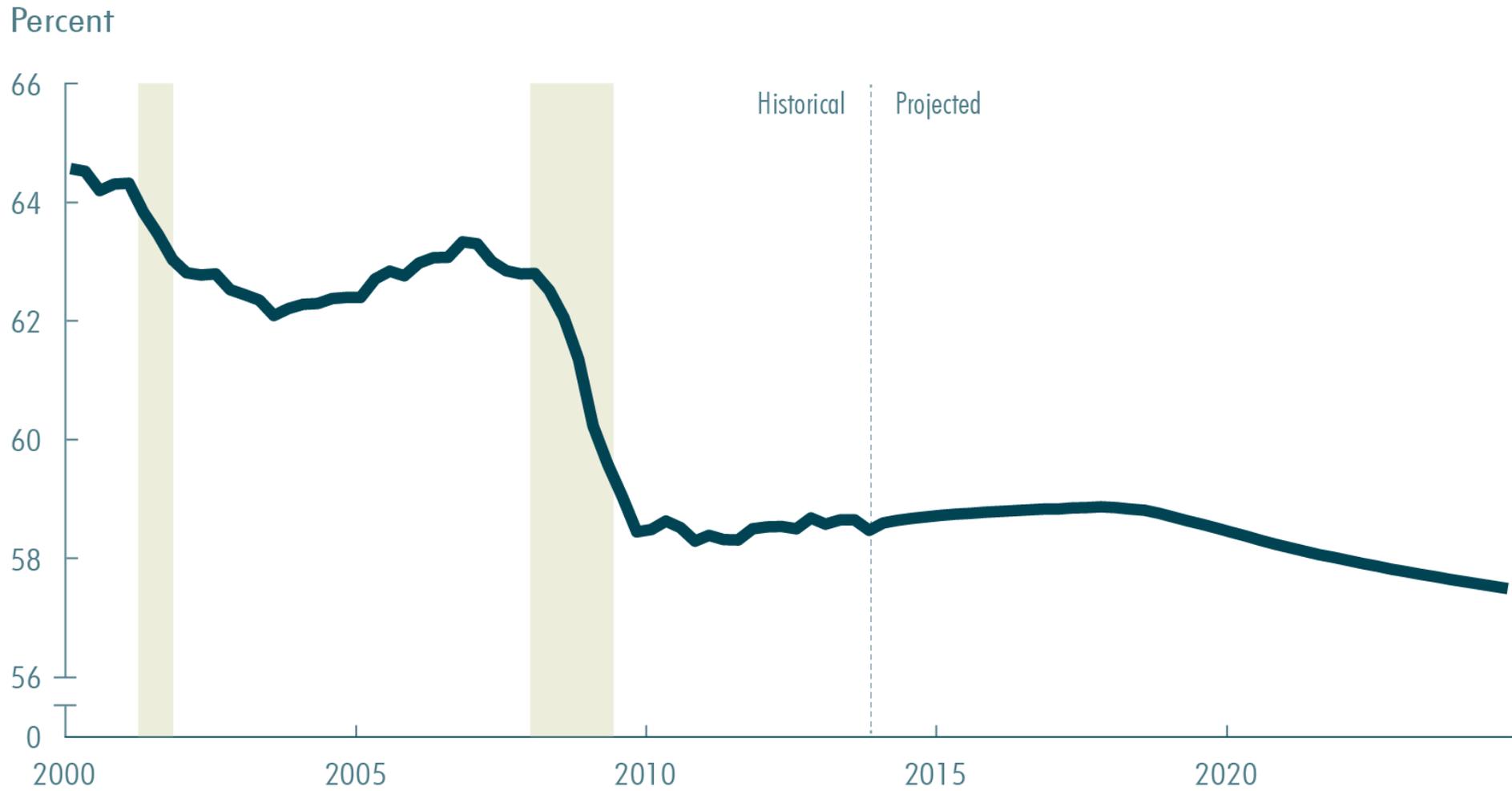
A little under ½

Discouraged workers who have dropped out of the labor force permanently

About 1

Affordable Care Act and real bracket creep in the individual income tax

Share of the Population That Is Employed



How Rapidly Will Potential Output Grow?

According to CBO's analysis ...

Average Annual Growth

1950-2013
Estimated

2014-2024
Projected

Potential GDP

3.3

2.1

Potential Labor Force

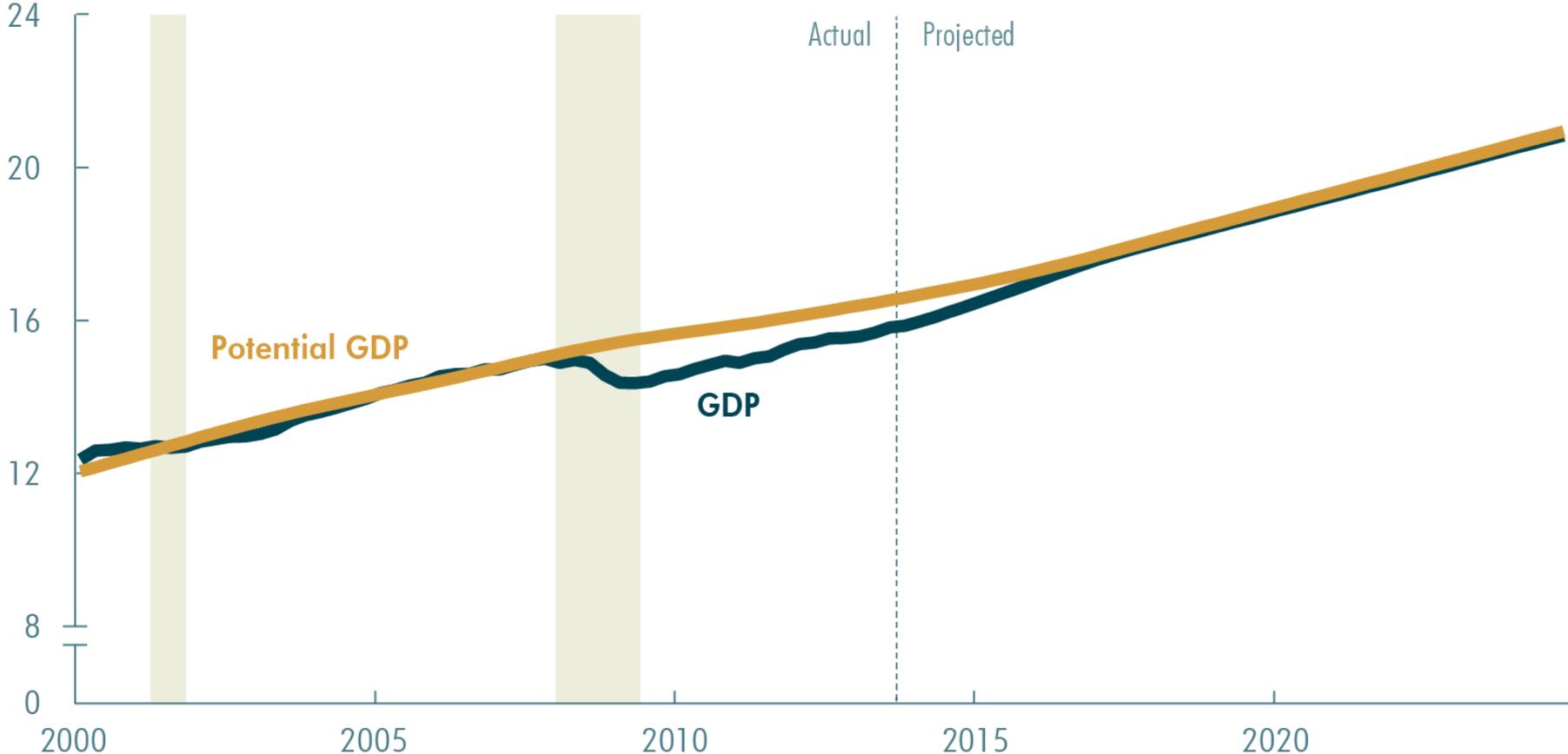
1.5

0.5

How Rapidly Will Actual Output Grow?

GDP and Potential GDP

Trillions of 2009 Dollars



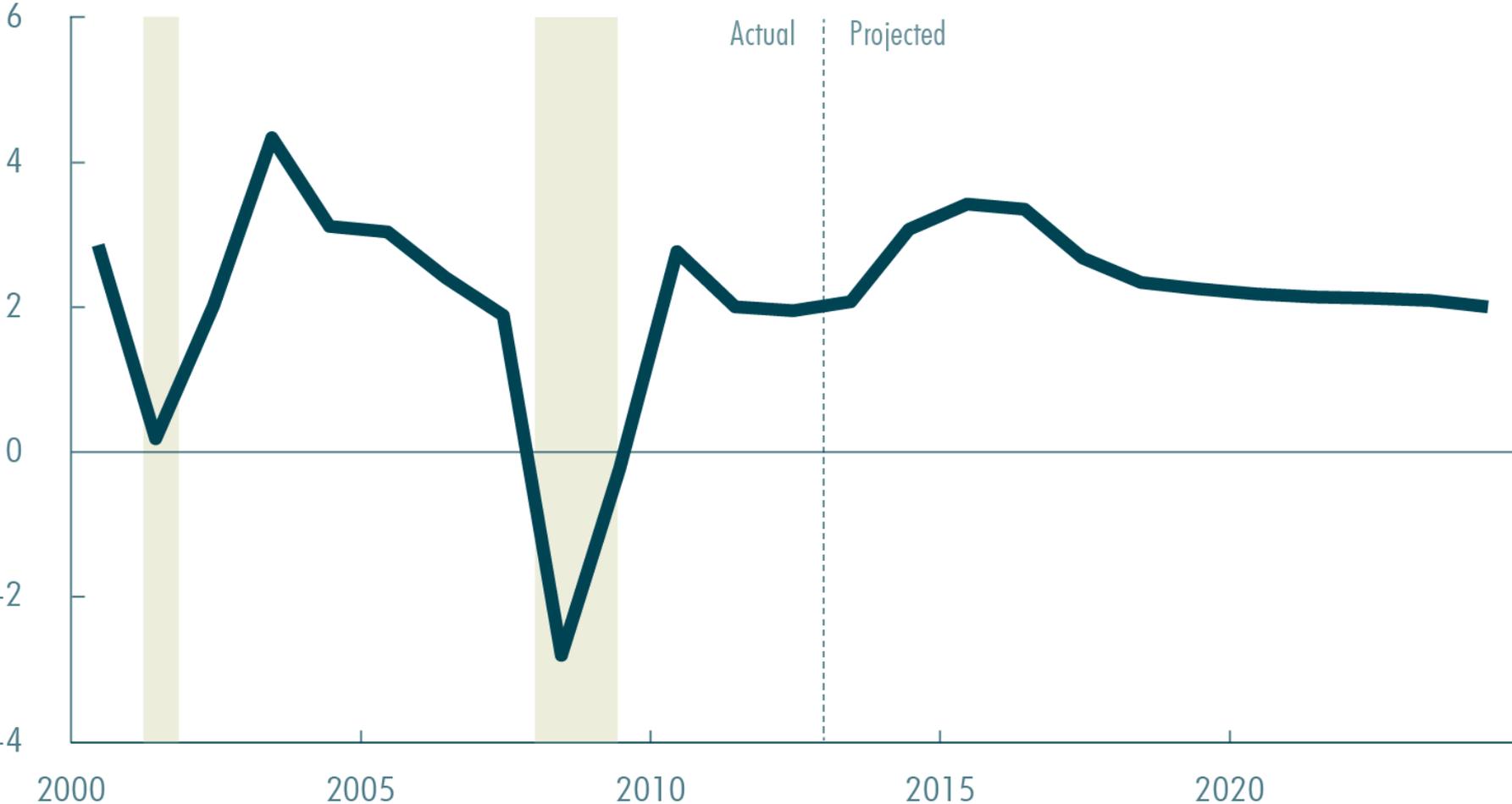
CBO projects, under current law, that ...

The output gap will close from about 4 percent at the end of 2013 to about ½ percent at the end of 2017 and in subsequent years.

Real GDP growth will average 2.5 percent per year between 2014 and 2024.

Real GDP

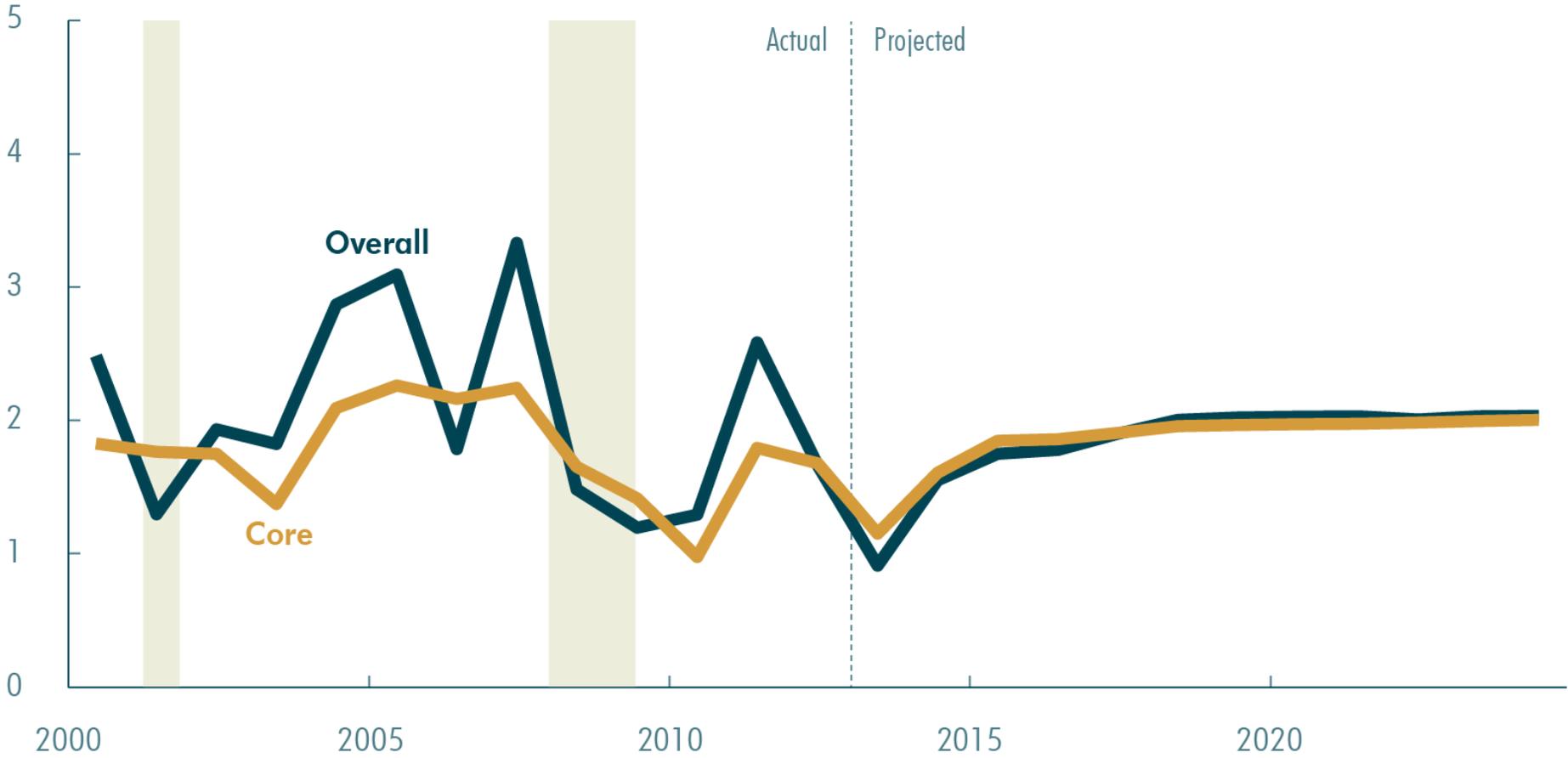
Percentage Change



What Will Be the Paths of Inflation, Interest Rates, and the Labor Share of Income?

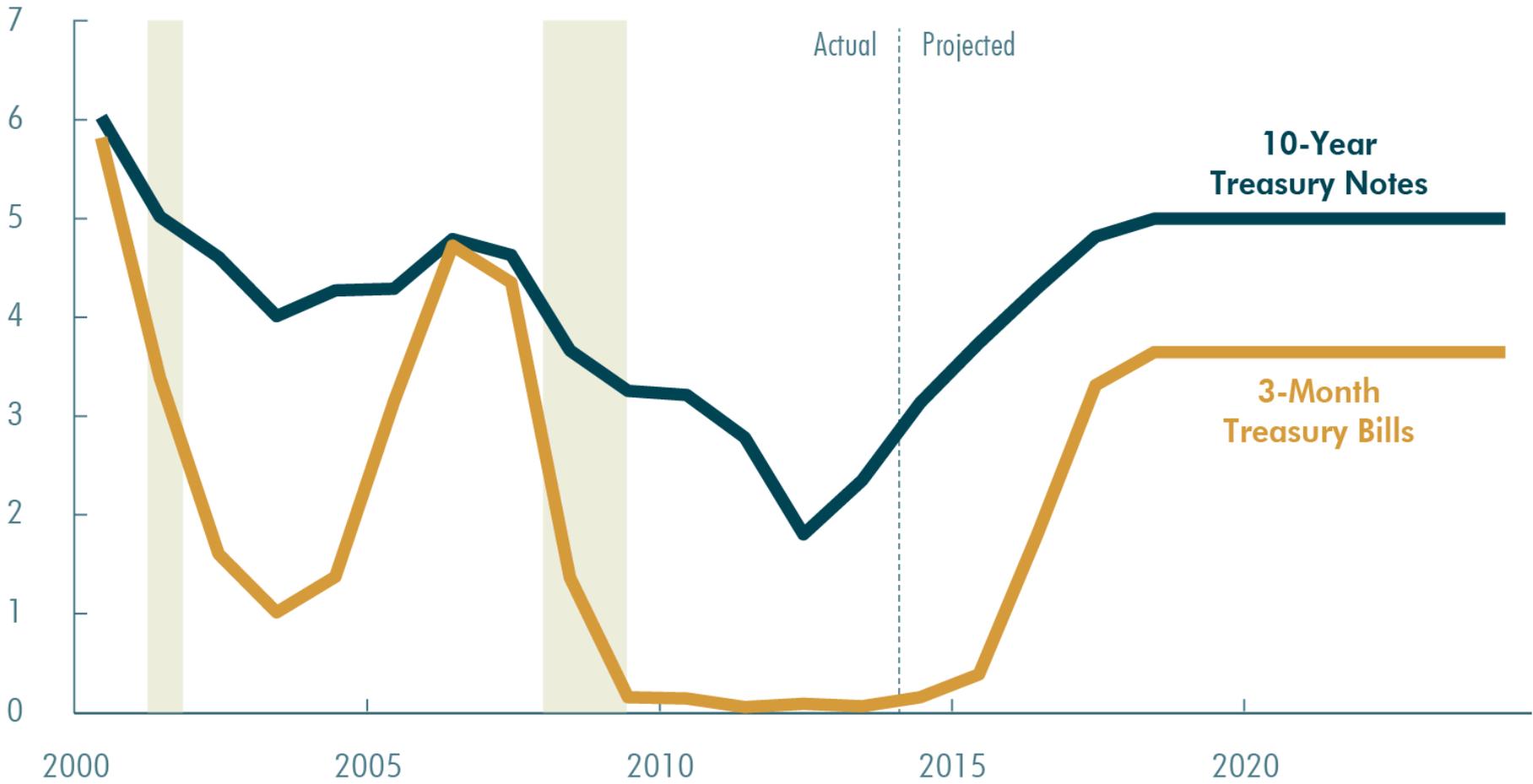
Inflation

Percentage Change in PCE Prices



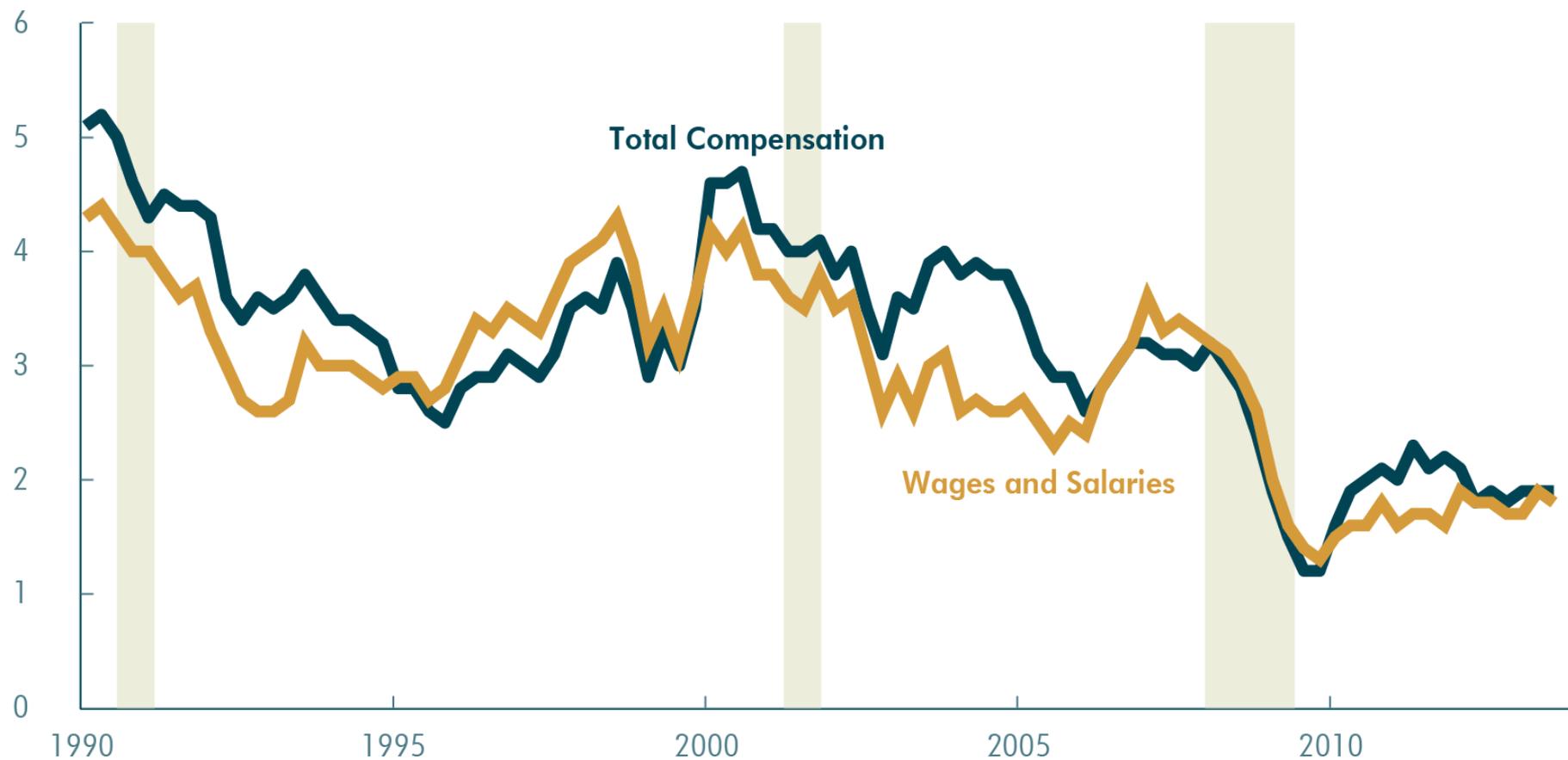
Interest Rates

Percent



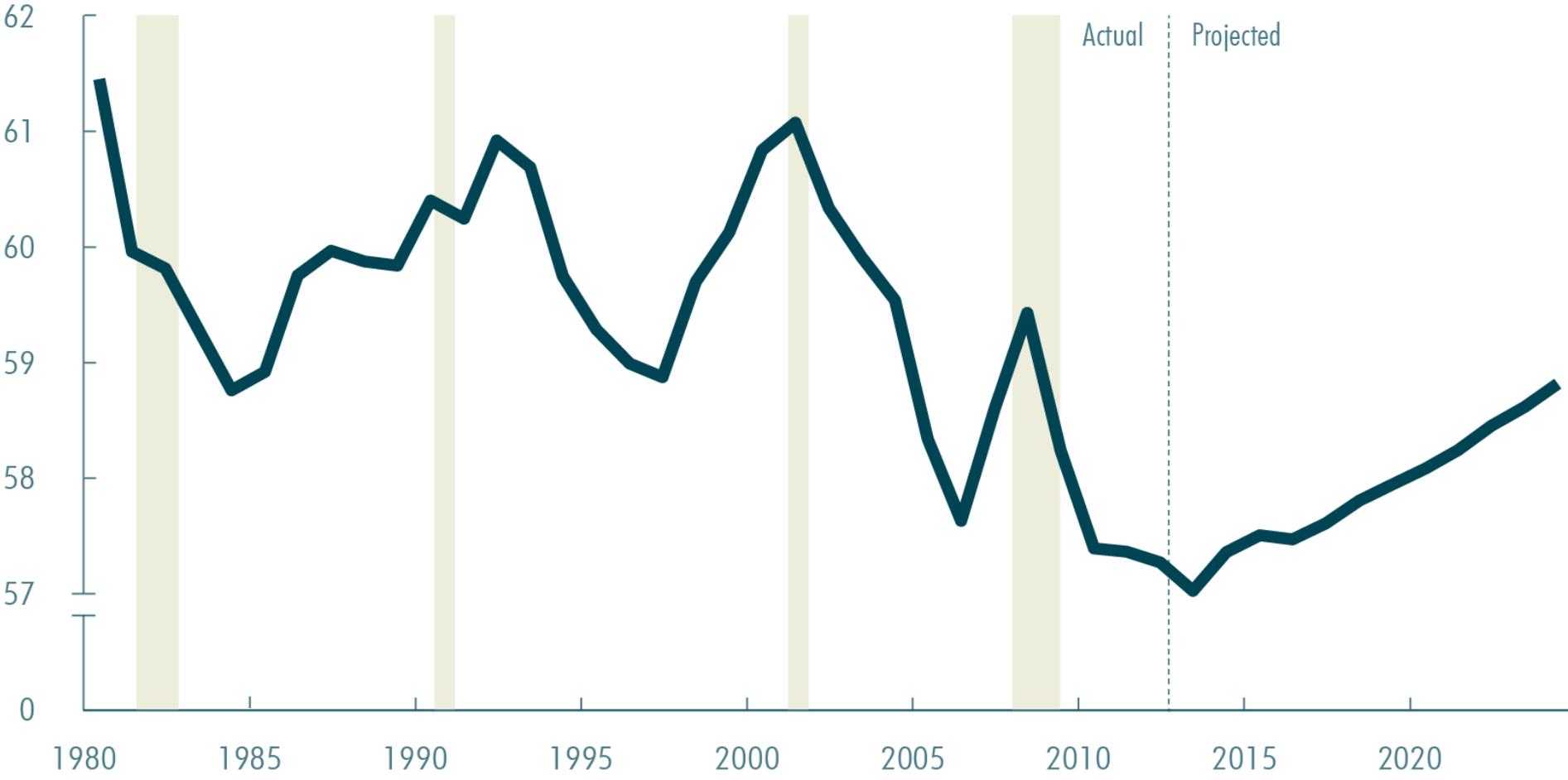
Hourly Labor Compensation

Percentage Change From the Previous Year



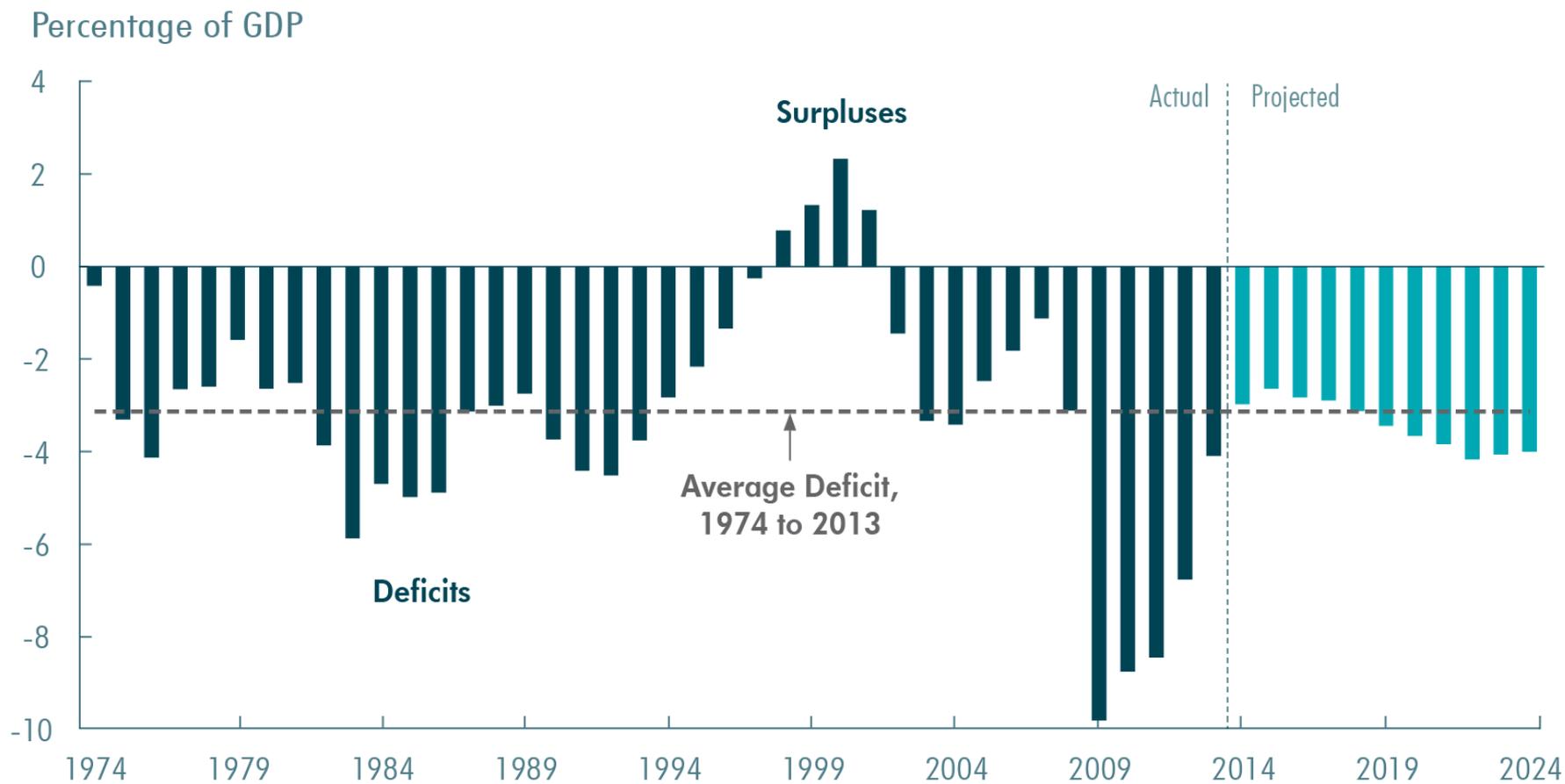
Labor Income

Percentage of Gross Domestic Income



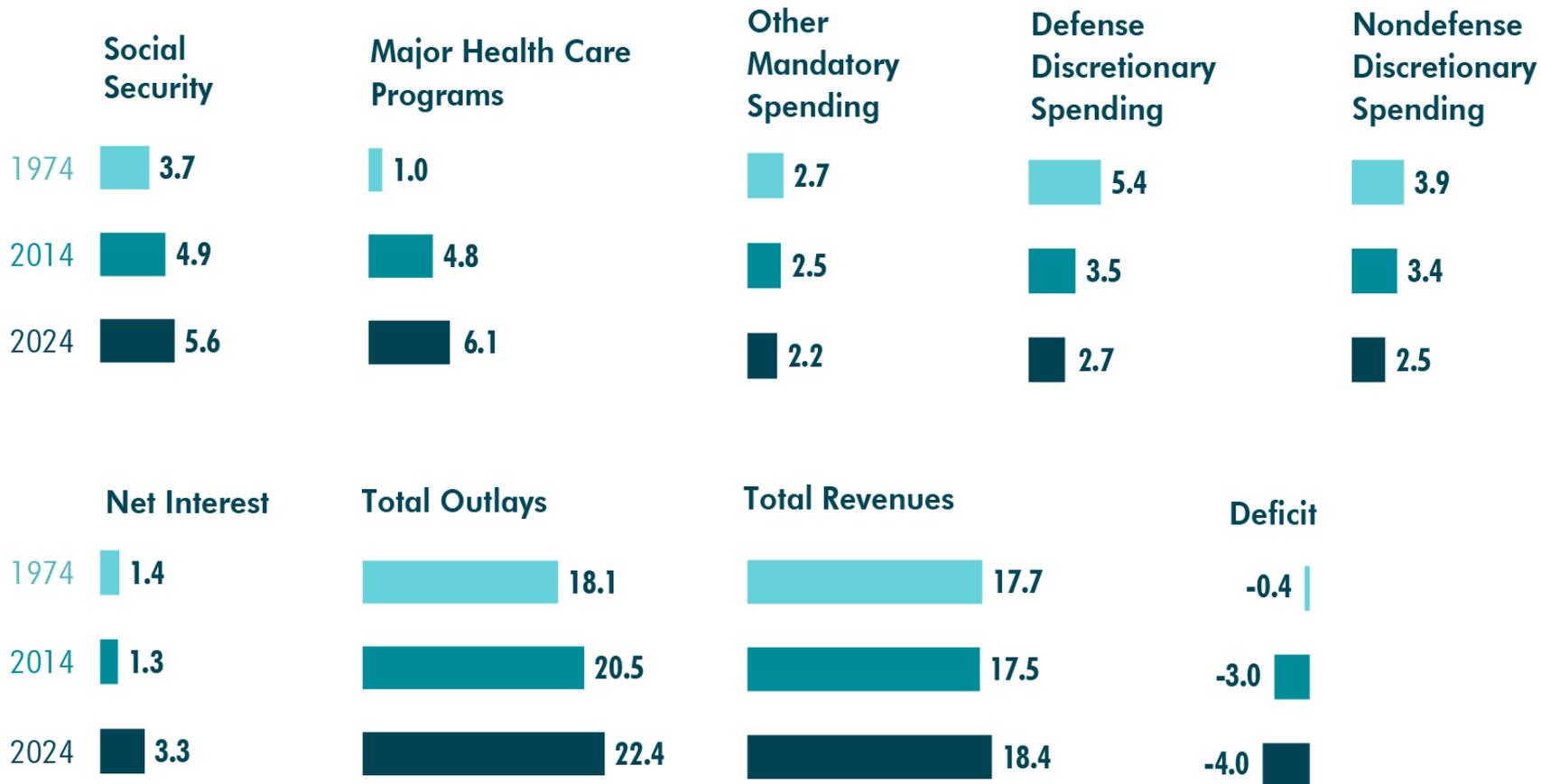
What Is the Resulting Budget Outlook?

Total Federal Deficits or Surpluses



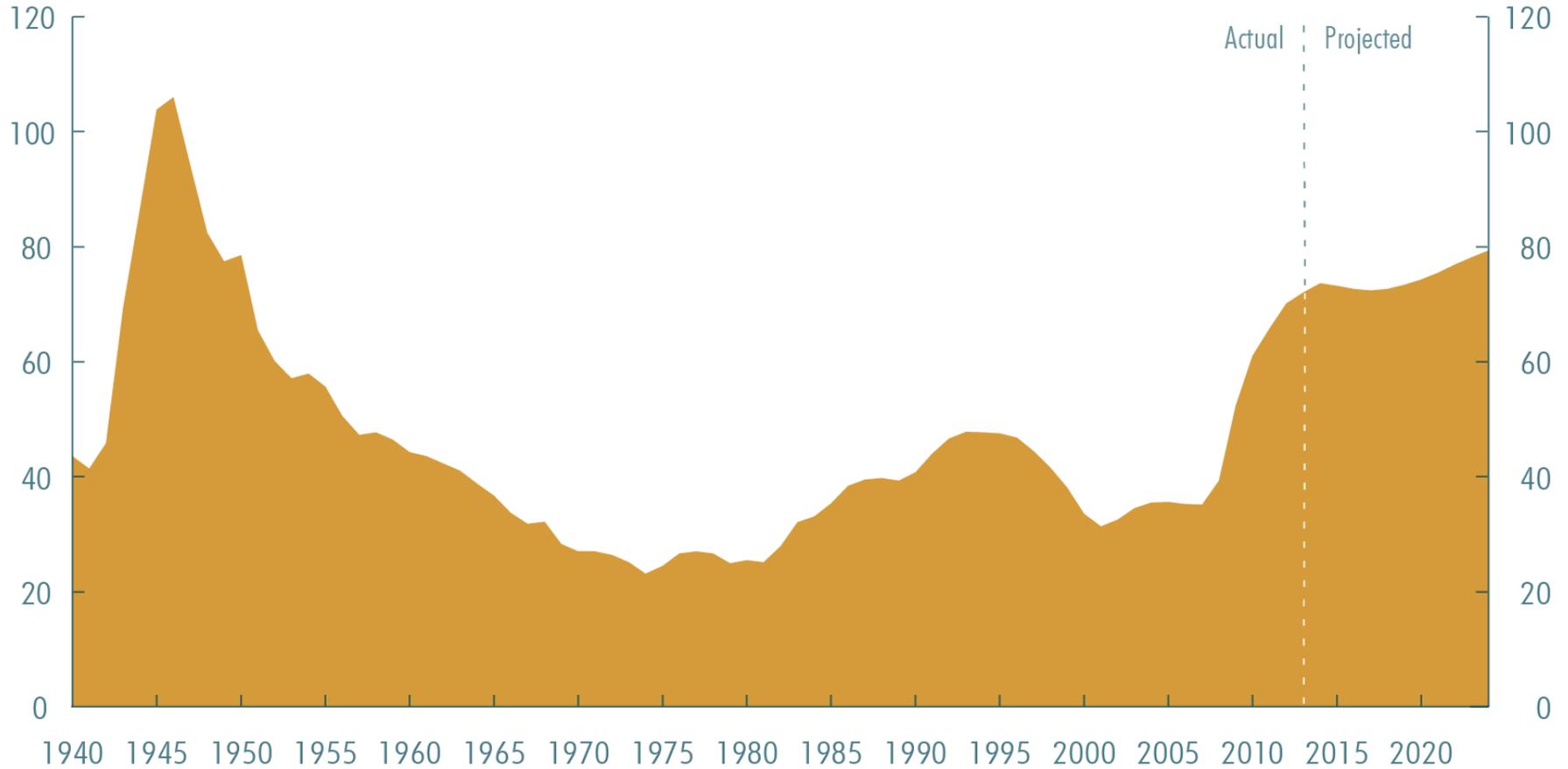
Spending and Revenues Projected in CBO's Baseline, Compared With Levels in 1974

Percentage of GDP



Federal Debt Held by the Public

Percentage of GDP



Endnotes

Slides 3 through 15: For more information, see *The Slow Recovery of the Labor Market* (February 2014), www.cbo.gov/publication/45011 and *The Budget and Economic Outlook: 2014 to 2024* (February 2014), www.cbo.gov/publication/45010.

Slides 16 through 28: For more information, see *The Budget and Economic Outlook: 2014 to 2024* (February 2014), www.cbo.gov/publication/45010.

Slide 27: Major health care programs consist of Medicare, Medicaid, the Children’s Health Insurance Program, and subsidies offered through health insurance exchanges and related spending. (Medicare spending is net of offsetting receipts.) Other mandatory spending is all mandatory spending other than that for Social Security and major health care programs.