September 10, 2019

The Current Outlook for the Economy and the Budget

A Presentation at PwC

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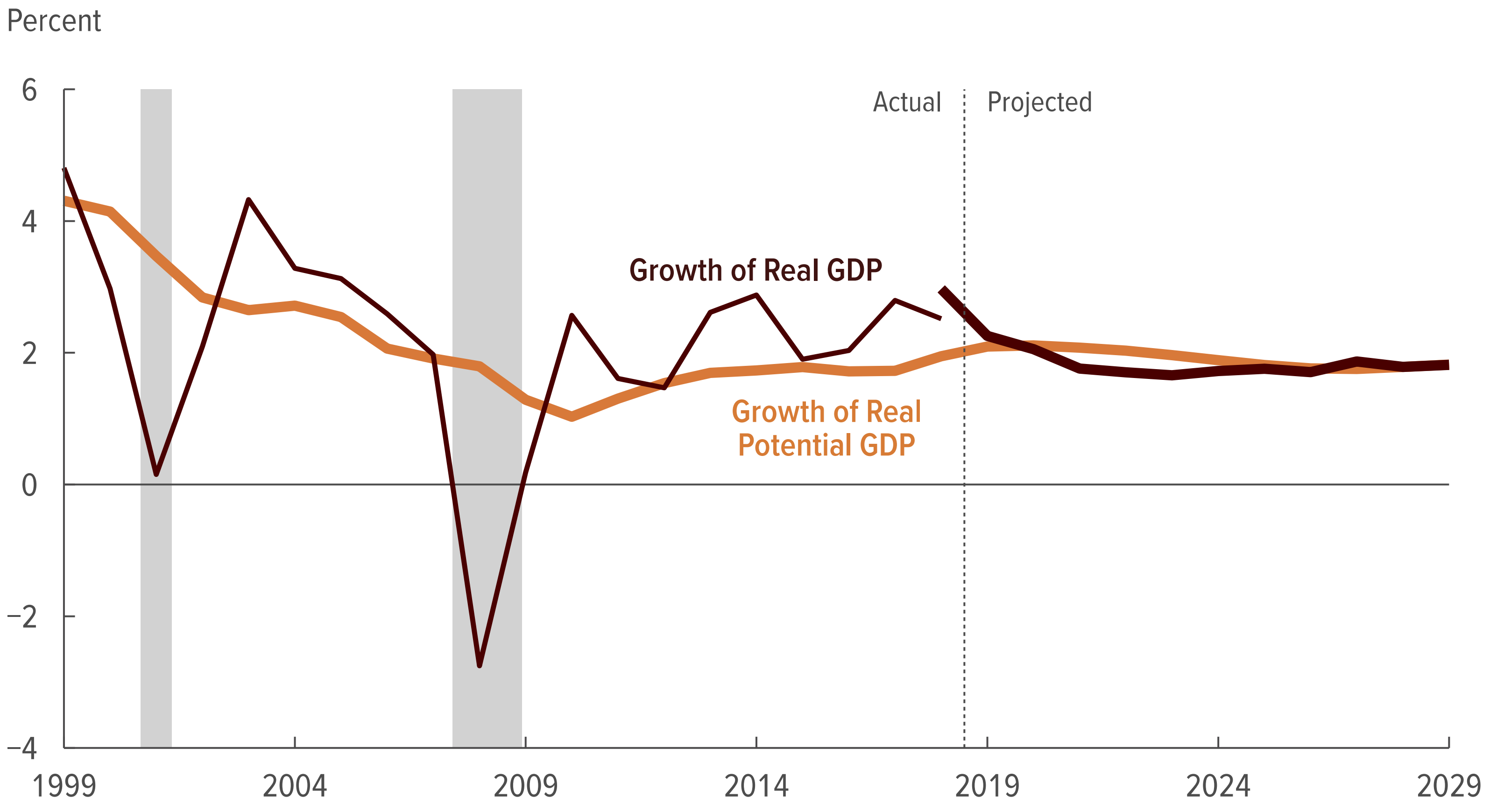
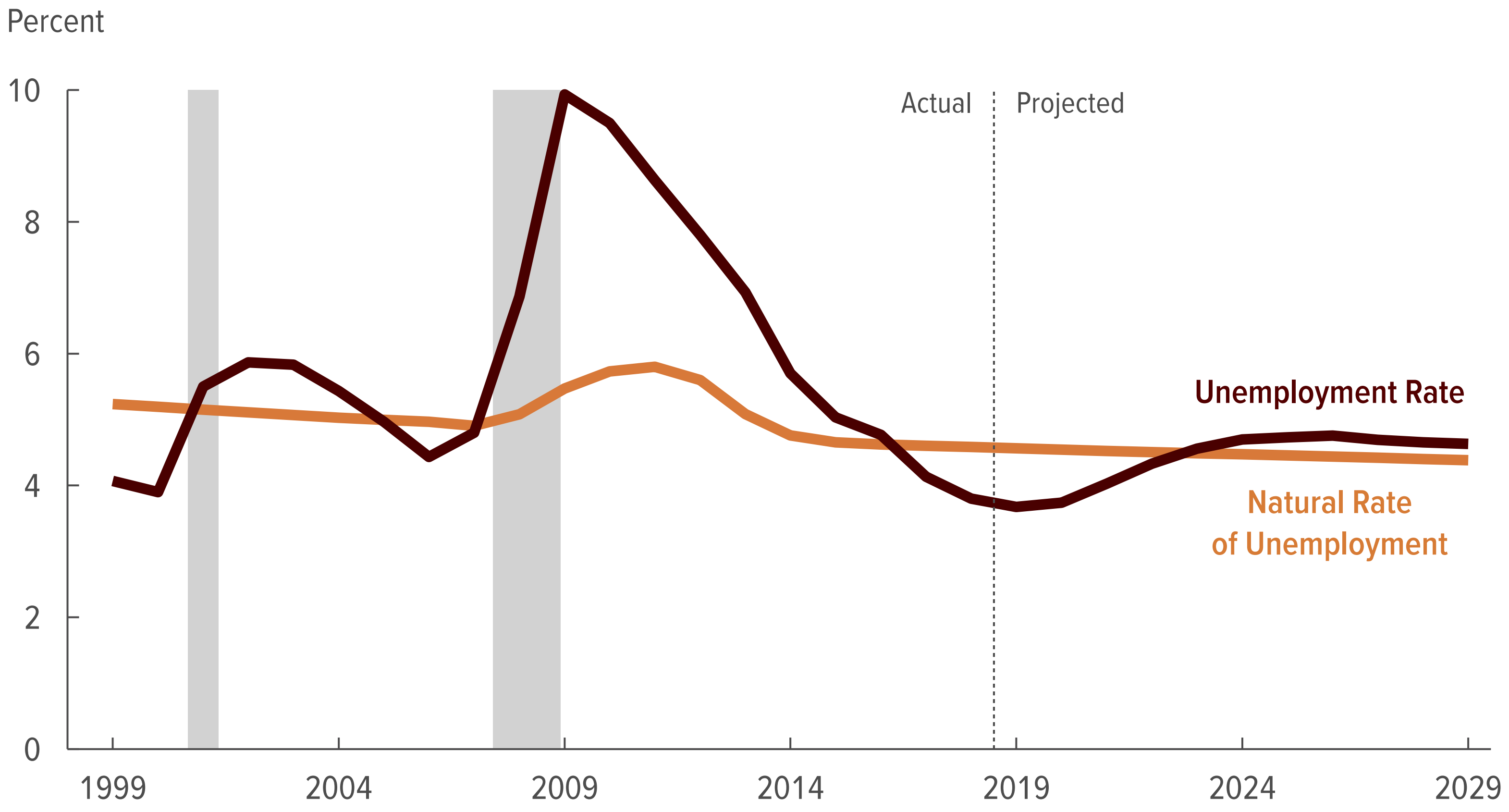
The Economy

The figures in this section of the presentation have vertical bars that indicate the duration of recessions.

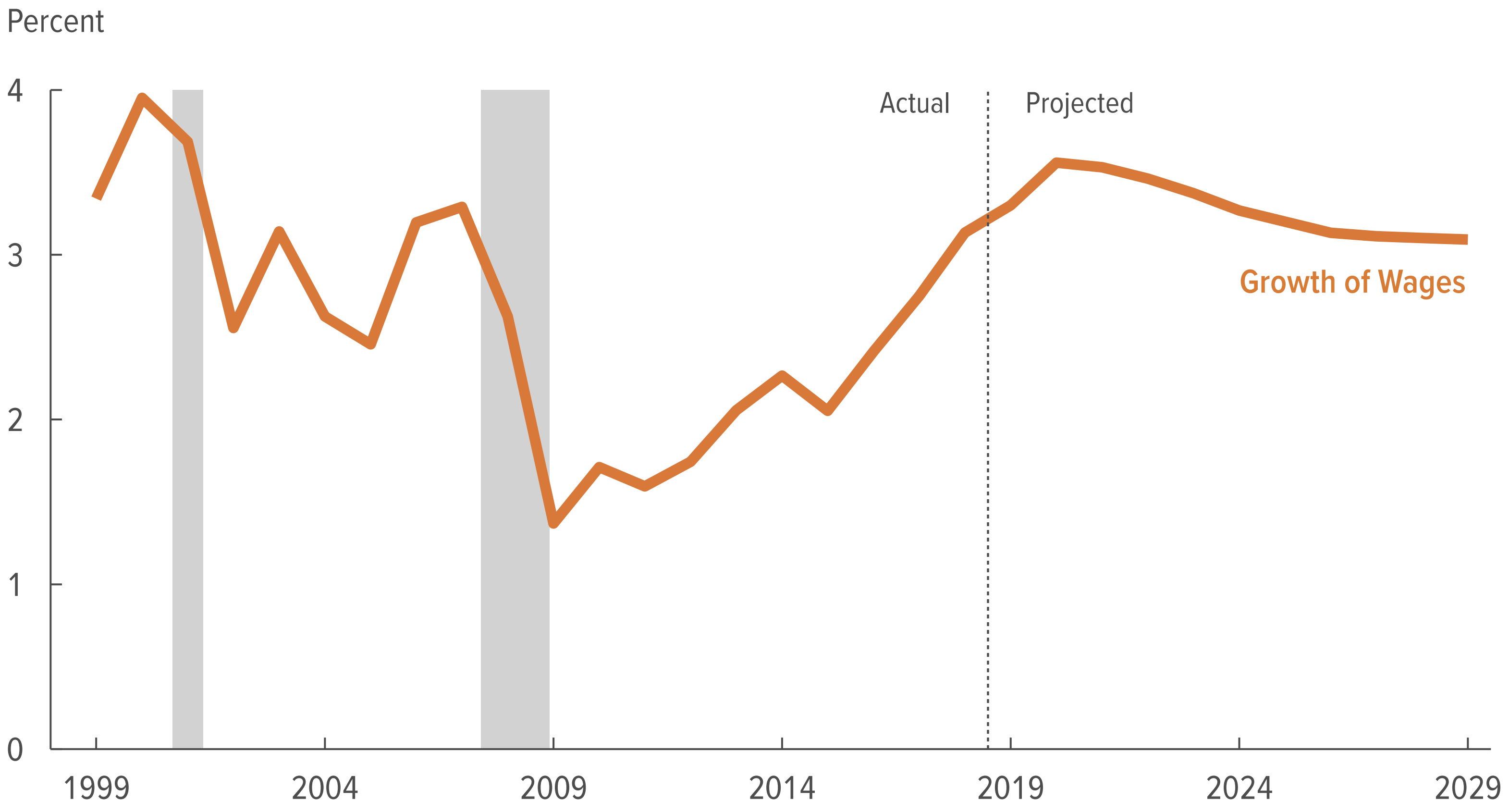


In CBO's projections, the growth of real GDP slows over the next few years, largely because of slower growth in consumer spending. The growth of real potential GDP is faster than its average rate since the end of 2007, mostly because of accelerated productivity growth.

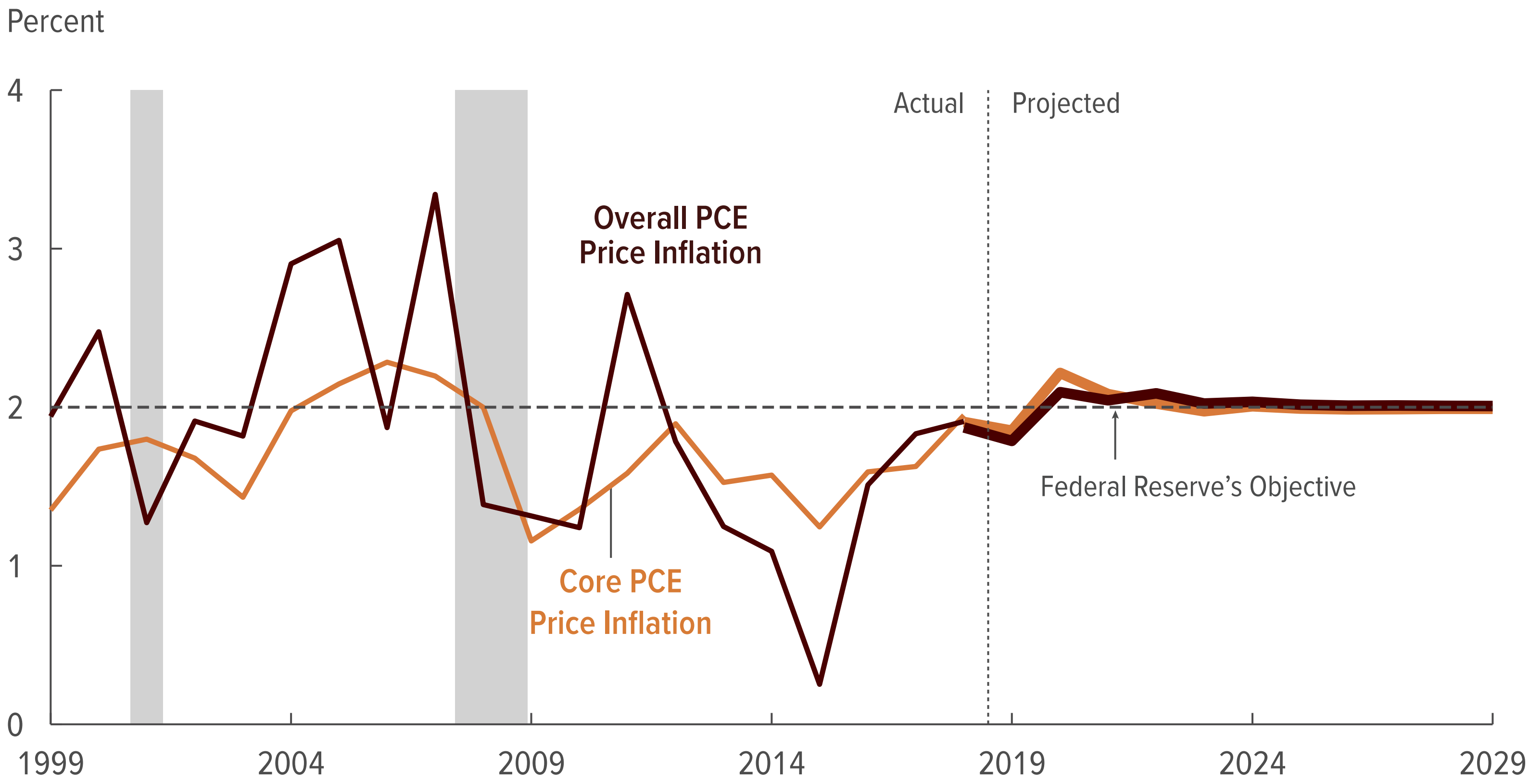
Values for real GDP growth from 1999 to 2018 (the thin line) reflect revisions to the national income and product accounts that the Bureau of Economic Analysis released on July 26, 2019. Values from 2018 to 2029 (the thick line) reflect the data available when the projections were made earlier in July.



The unemployment rate is expected to rise steadily, reaching and surpassing its natural rate of 4.5 percent in 2023 before settling into its long-term trend in later years.

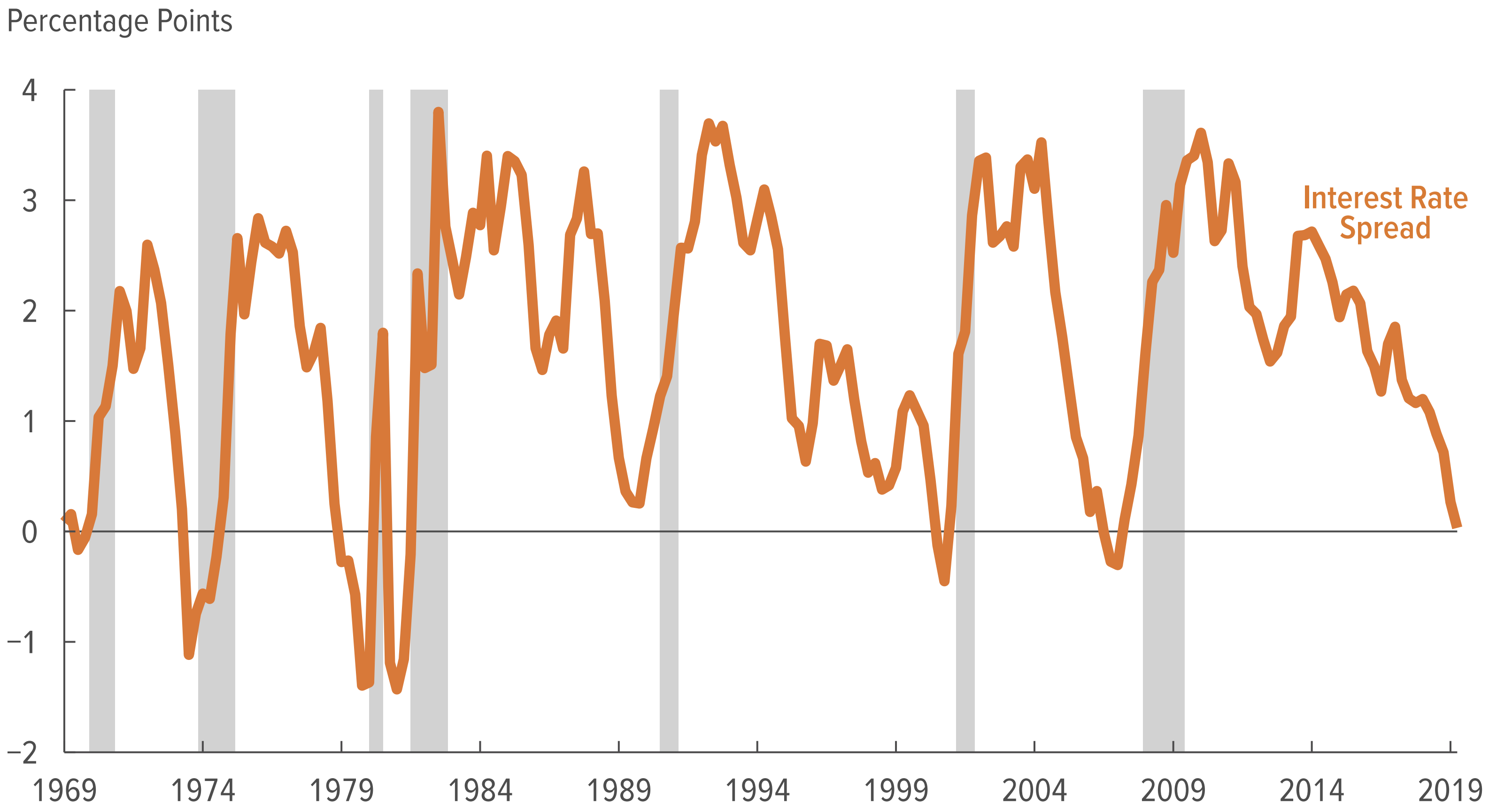


Wage growth, which tends to lag movements in output growth, is expected to pick up further in the next few years before slowing.

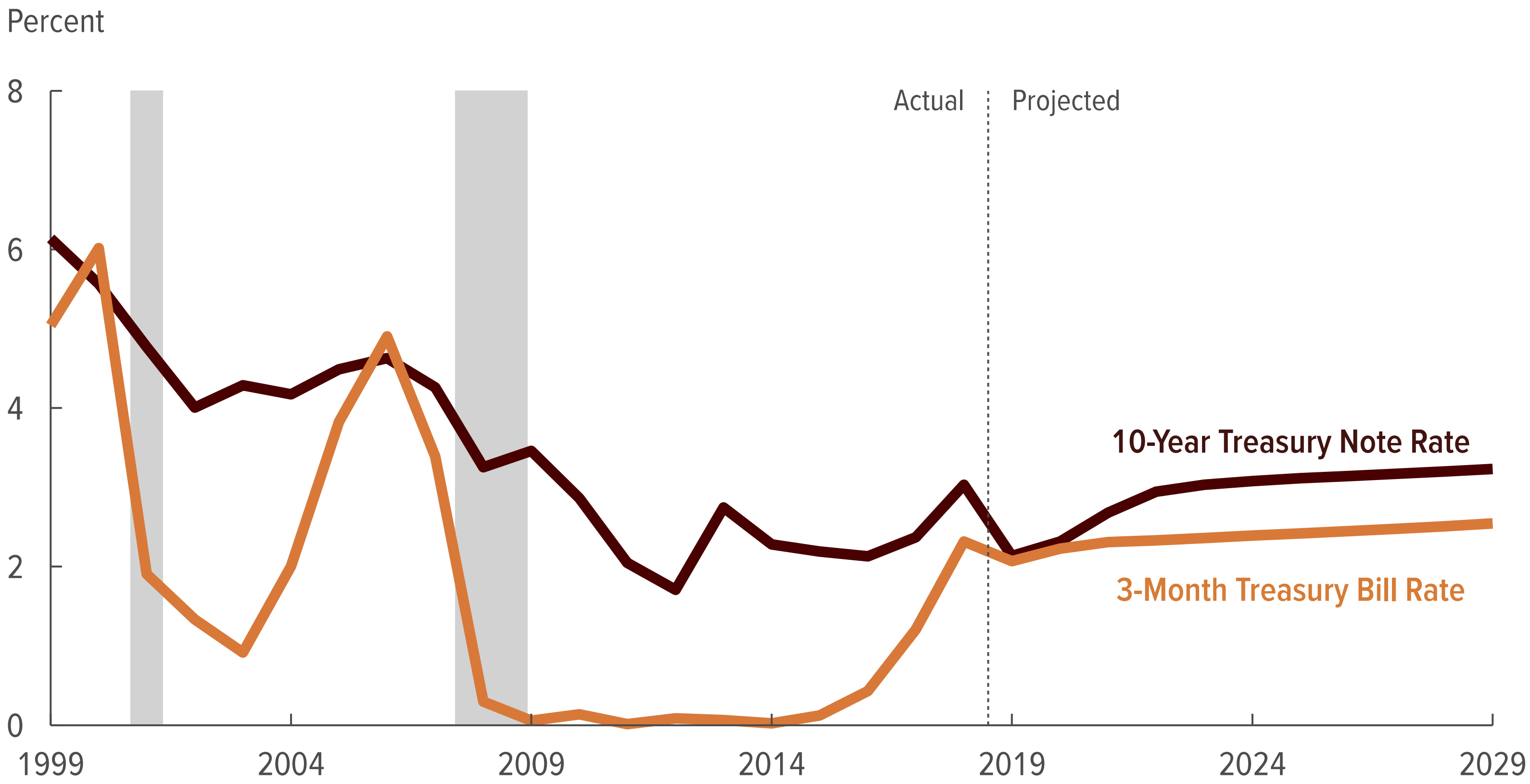


In CBO's projections, a number of factors, including strong labor market conditions, cause growth in the core PCE price index to rise from 1.9 percent in 2019 to 2.2 percent in 2020.

The overall inflation rate is based on the price index for personal consumption expenditures; the core rate excludes prices for food and energy. Values for inflation from 1999 to 2018 (the thin lines) reflect revisions to the national income and product accounts that the Bureau of Economic Analysis released on July 26, 2019. Values from 2018 to 2029 (the thick lines) reflect the data available when the projections were made earlier in July.

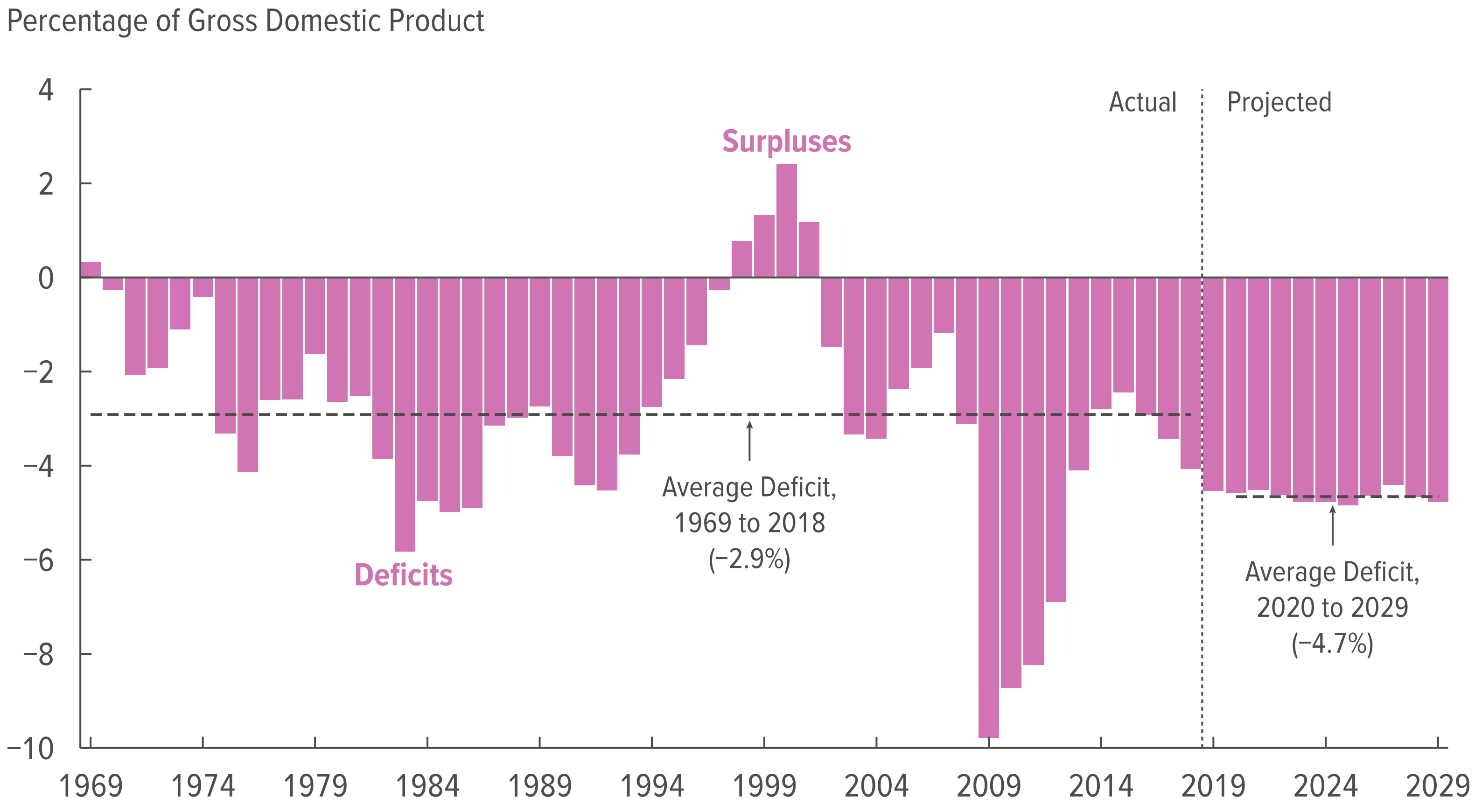


The spread between long-term and short-term interest rates on Treasury securities is near zero, probably in part because of market participants' concerns about weak future economic growth.

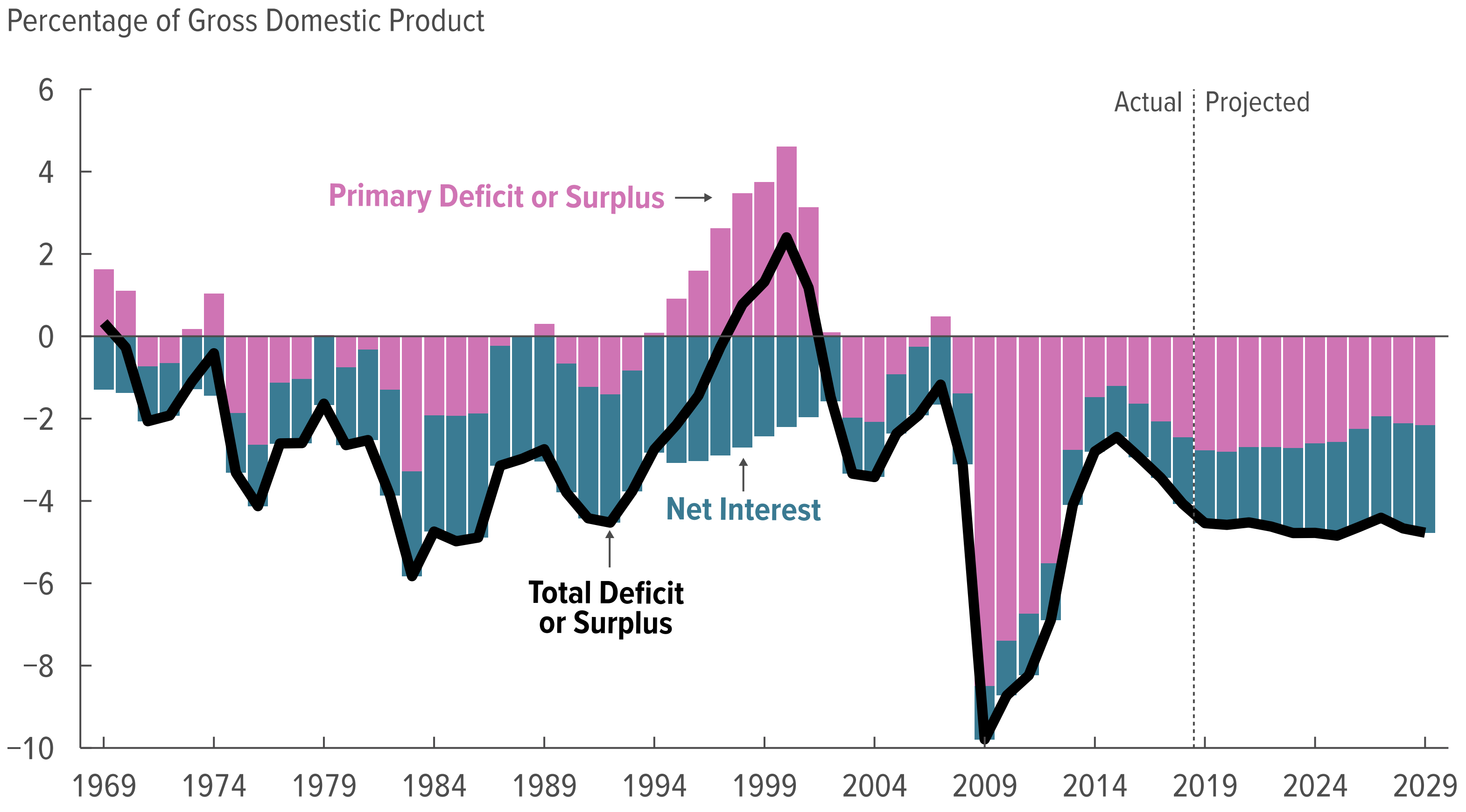


CBO expects both short-term and long-term interest rates to remain near their current levels through most of 2020 and then to rise gradually as inflation stabilizes at 2 percent—the Federal Reserve's long-run objective.

Persistent Deficits

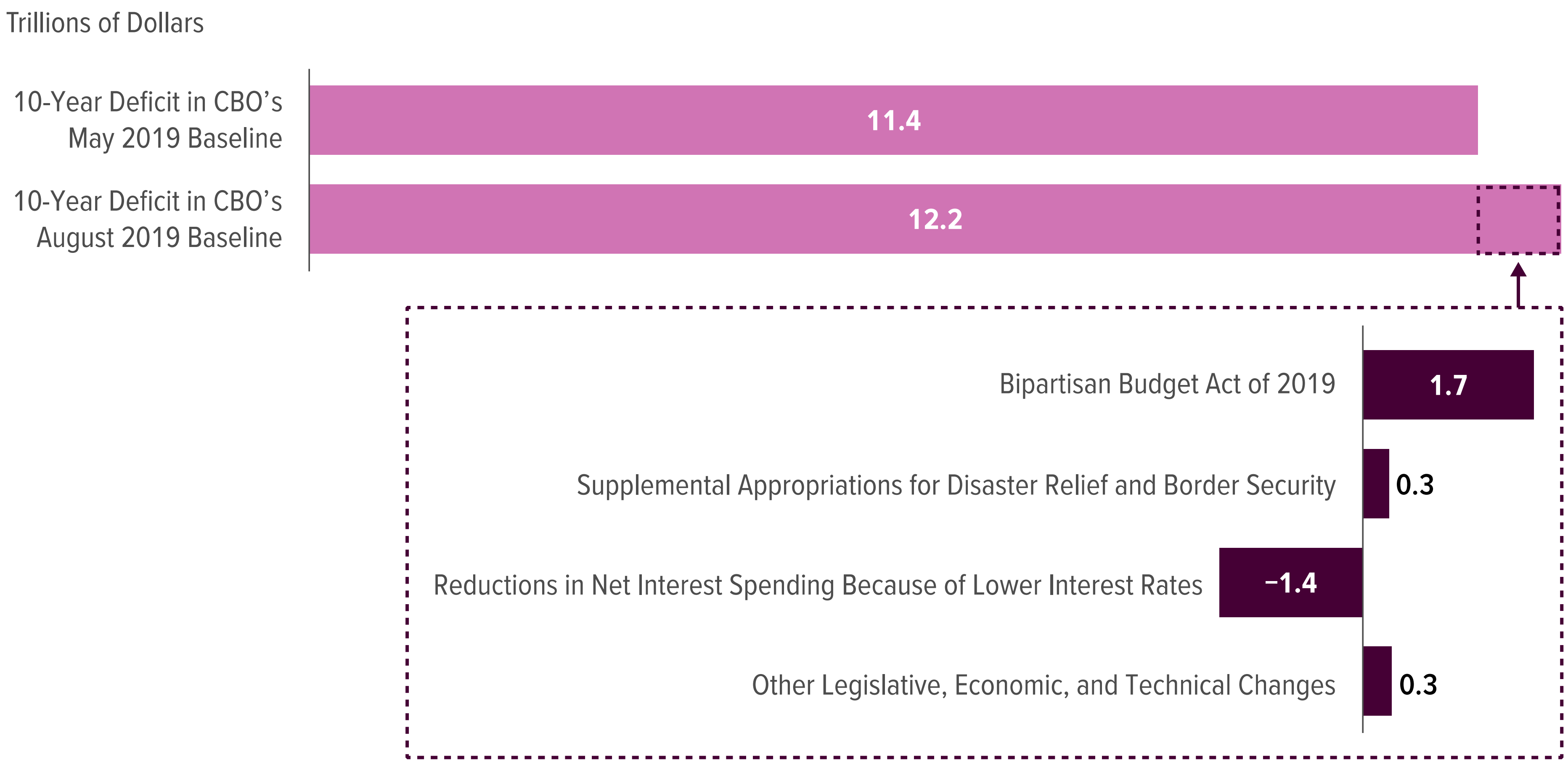


Deficits as a percentage of gross domestic product are projected to remain relatively stable over the coming decade. They exceed their 50-year average throughout the 2020–2029 period.

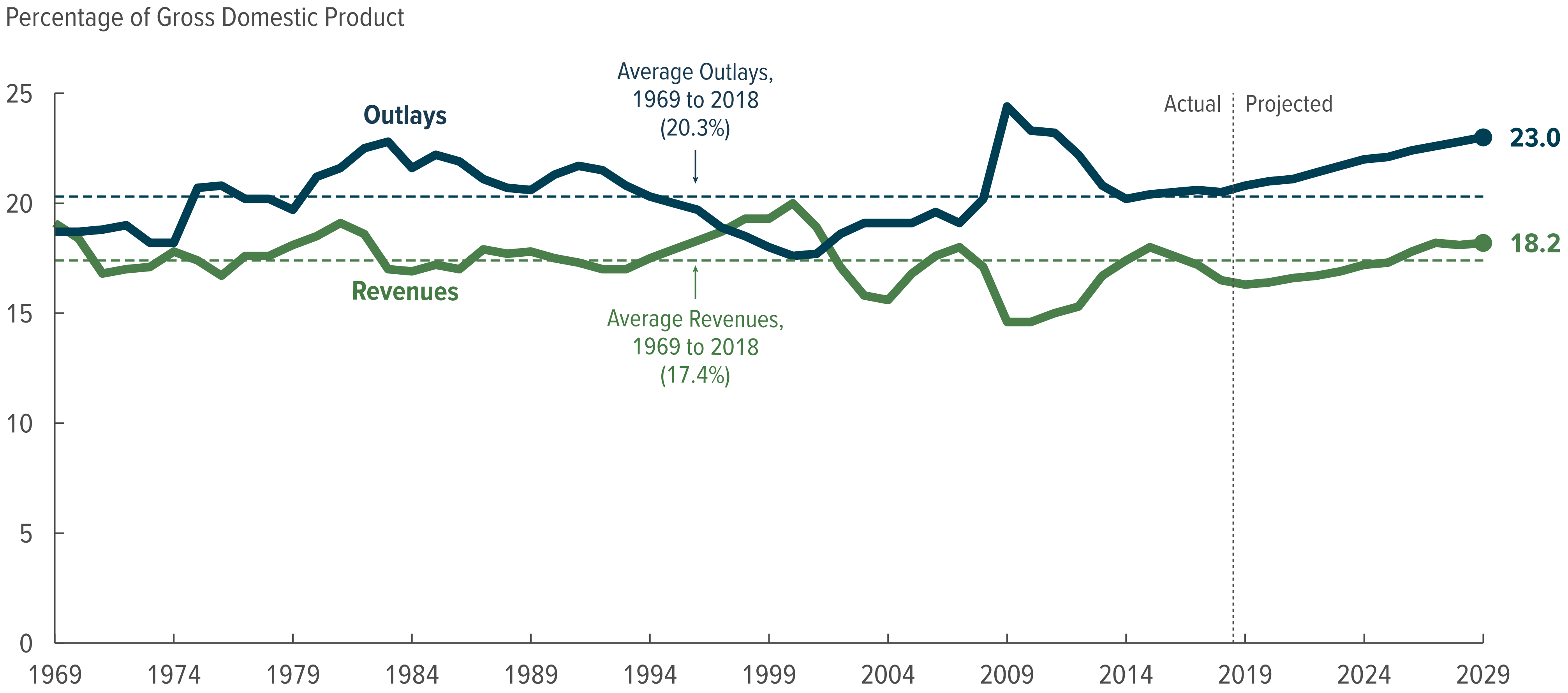


In CBO's projections, primary deficits shrink as a percentage of gross domestic product, but total deficits grow because of rising interest costs.

Primary deficits or surpluses exclude outlays for net interest.


Trillions of Dollars
10-Year Deficit in CBO's May 2019 Baseline
11.4
10-Year Deficit in CBO's August 2019 Baseline
12.2
Bipartisan Budget Act of 2019
1.7
Supplemental Appropriations for Disaster Relief and Border Security
0.3
Reductions in Net Interest Spending Because of Lower Interest Rates
−1.4
Other Legislative, Economic, and Technical Changes
0.3

Outlays and Revenues


Percentage of Gross Domestic Product
Outlays
Average Outlays,
1969 to 2018
(20.3%)
Actual
Projected
23.0
18.2
Revenues
Average Revenues,
1969 to 2018
(17.4%)
25
20
15
10
5
0
1969
1974
1979
1984
1989
1994
1999
2004
2009
2014
2019
2024
2029

Percentage of Gross Domestic Product

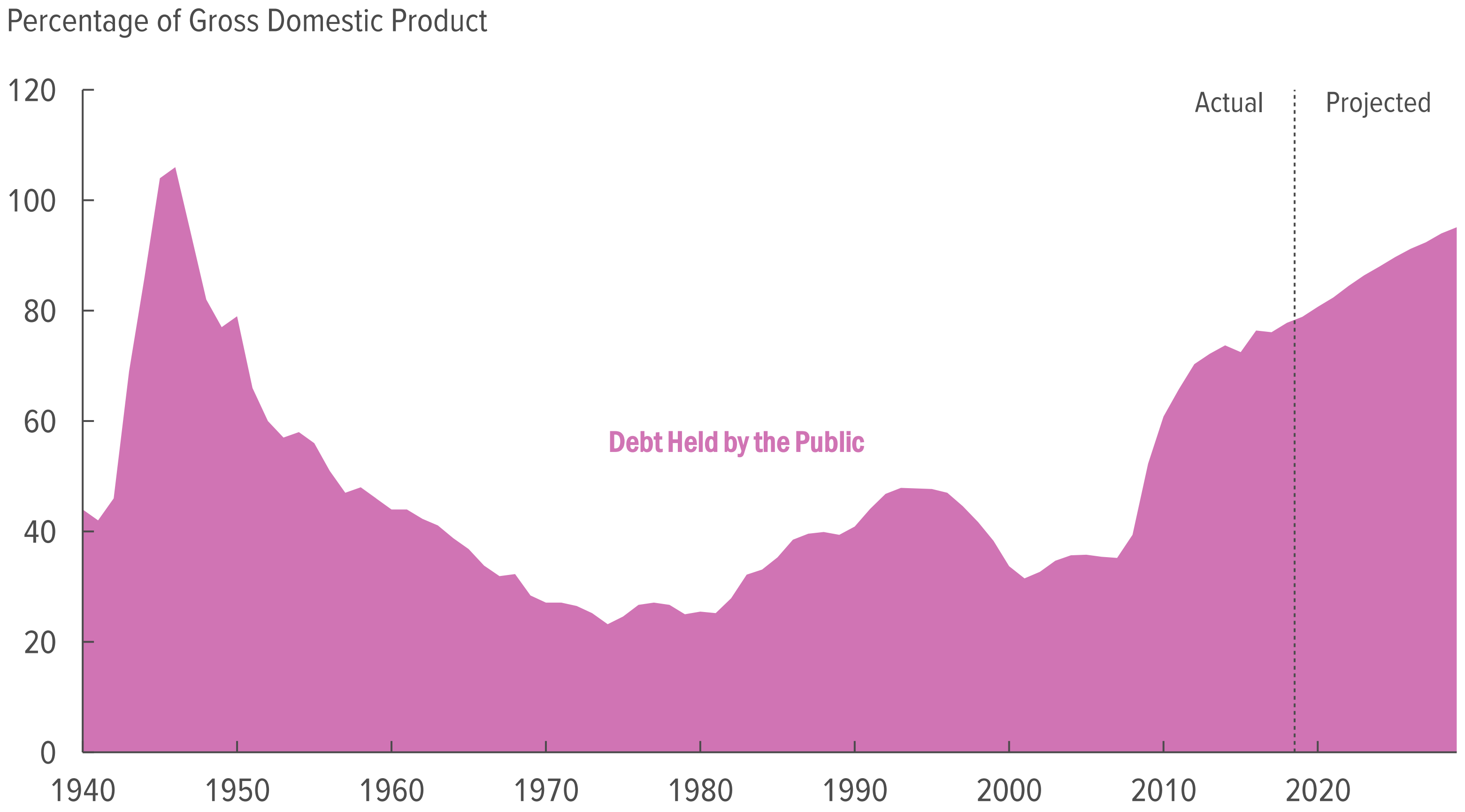
	Outlays 2019	Outlays 2029	Change (Percentage points)	Major Reasons for Change
Social Security	4.9	5.9	1.0	Aging of the population
Major Health Care Programs	5.3	6.6	1.3	Aging of the population; rising costs of health care
Other Mandatory Spending	2.6	2.3	−0.4	Inflation rate is less than nominal GDP growth
Discretionary Spending	6.3	5.6	−0.7	Caps on funding; inflation rate is less than nominal GDP growth
Net Interest	1.8	2.6	0.9	Accumulating debt; rising interest rates

Percentage of Gross Domestic Product

	Revenues 2019	Revenues 2029	Change (Percentage points)	Major Reasons for Change
Individual Income Taxes	8.0	9.6	1.6	Expiration of temporary tax provisions after 2025; real bracket creep
Payroll Taxes	5.9	5.9	*	Not applicable
Corporate Income Taxes	1.1	1.3	0.3	Scheduled changes in tax rules enacted in the 2017 tax act; dissipation of temporary weakness in recent tax collections
Other Sources of Revenue	1.3	1.3	*	Not applicable

* = between zero and 0.05 percent of gross domestic product.

Rising Debt



As a percentage of gross domestic product, federal debt held by the public would increase from 79 percent in 2019 to 95 percent in 2029. At that point, such debt would be the largest since 1946 and more than twice the 50-year average.

If federal debt, measured as a percentage of GDP, continued to rise at the pace that CBO projects that it would under current law, the economy would be affected in two significant ways.

- Economic output over time would be dampened.
- Rising interest costs associated with that debt would increase interest payments to foreign debt holders and thus reduce the income of U.S. households by increasing amounts.

That debt path would also pose significant risks to the fiscal and economic outlook, although those risks are not currently apparent in financial markets.

- The risk of a fiscal crisis—that is, a situation in which the interest rate on federal debt rises abruptly because investors have lost confidence in the U.S. government’s fiscal position—would increase.
- There would also be a growing likelihood of less abrupt but still significant economic and financial consequences, such as expectations of higher inflation and more difficulty financing public and private activity in international markets.

Fiscal Policy Choices

To put the federal budget on a sustainable long-term path, lawmakers would need to make significant policy changes:

- Allowing revenues to rise more than they would under current law,
- Reducing spending for large benefit programs to amounts below those currently projected, or
- Adopting some combination of those approaches.

CBO does not make policy recommendations.

Its role is to explain where it projects the budget is headed and what the effects would be if the Congress made changes to current law.

Lawmakers may ask several questions as they consider policies that would reduce budget deficits.

- What is an acceptable amount of federal debt?
- What is the proper size of the federal government, and what would be the best way to allocate federal resources?
- How large would policy changes need to be to reach certain targets for debt?
- When should any changes in deficits occur, and at what pace should they take place?
- Is it more valuable to reduce or increase budget deficits now?
- What types of policy changes would most enhance prospects for near-term and long-term economic growth?
- What would be the distributional implications of proposed changes—that is, who would realize economic losses or benefits?

Reducing deficits sooner would probably require older workers and retirees to sacrifice more but would benefit younger workers and future generations.

Reducing deficits later would require smaller sacrifices from older people but greater ones from younger workers and future generations.

Even if lawmakers waited to implement policy changes to reduce debt in the long term, deciding about those changes sooner would offer two main advantages.

- People would have more time to prepare by changing the number of hours that they worked, the age at which they planned to retire, and the amount they chose to save.
- Policy changes that reduced debt over the long term would hold down longer-term interest rates and could lessen uncertainty, thus enhancing businesses’ and consumers’ confidence. Those factors would boost output and employment in the near term.