



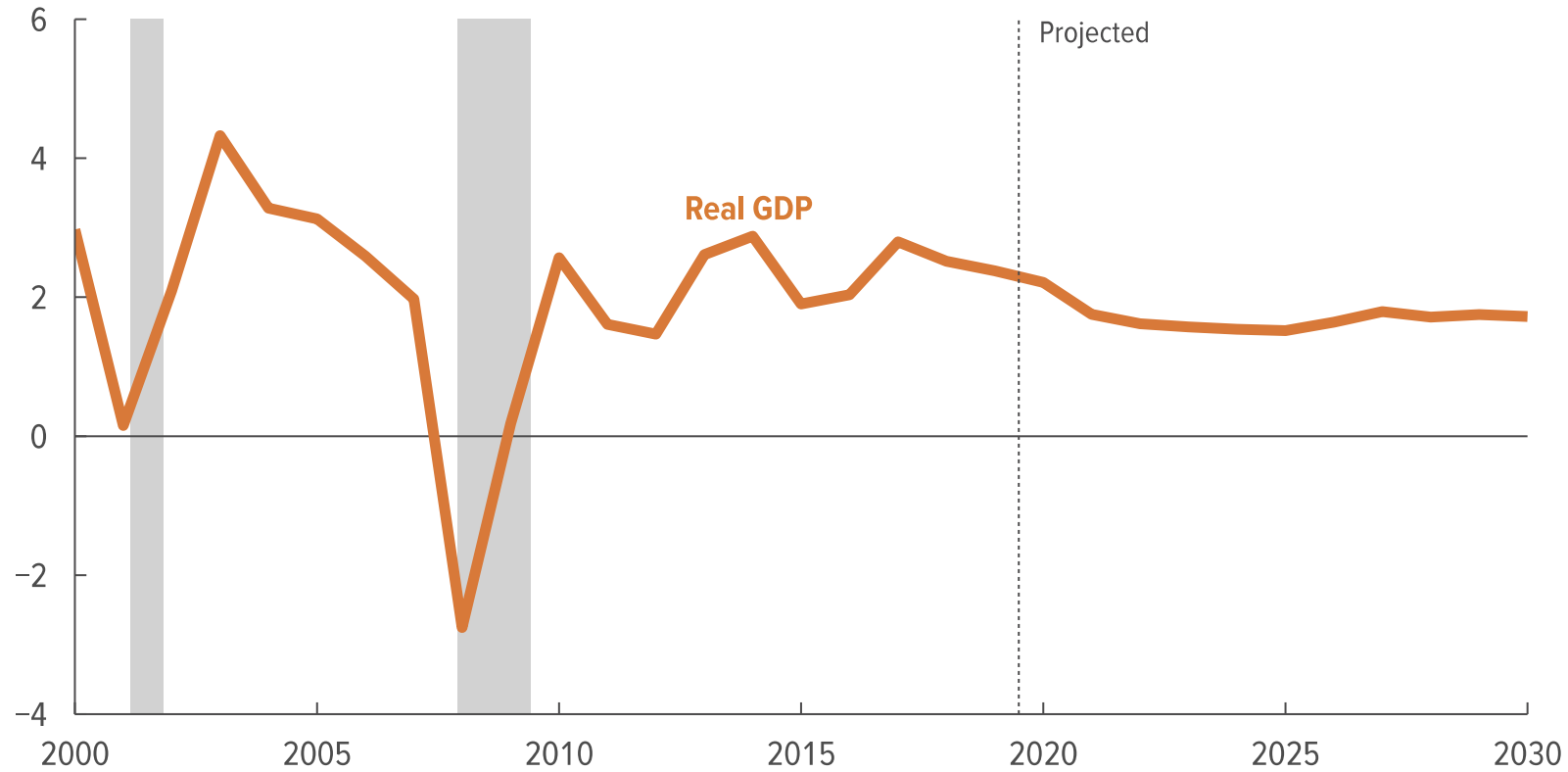
CONGRESSIONAL BUDGET OFFICE

The Economic Outlook for 2020 to 2030 in 24 slides

January 2020

Output

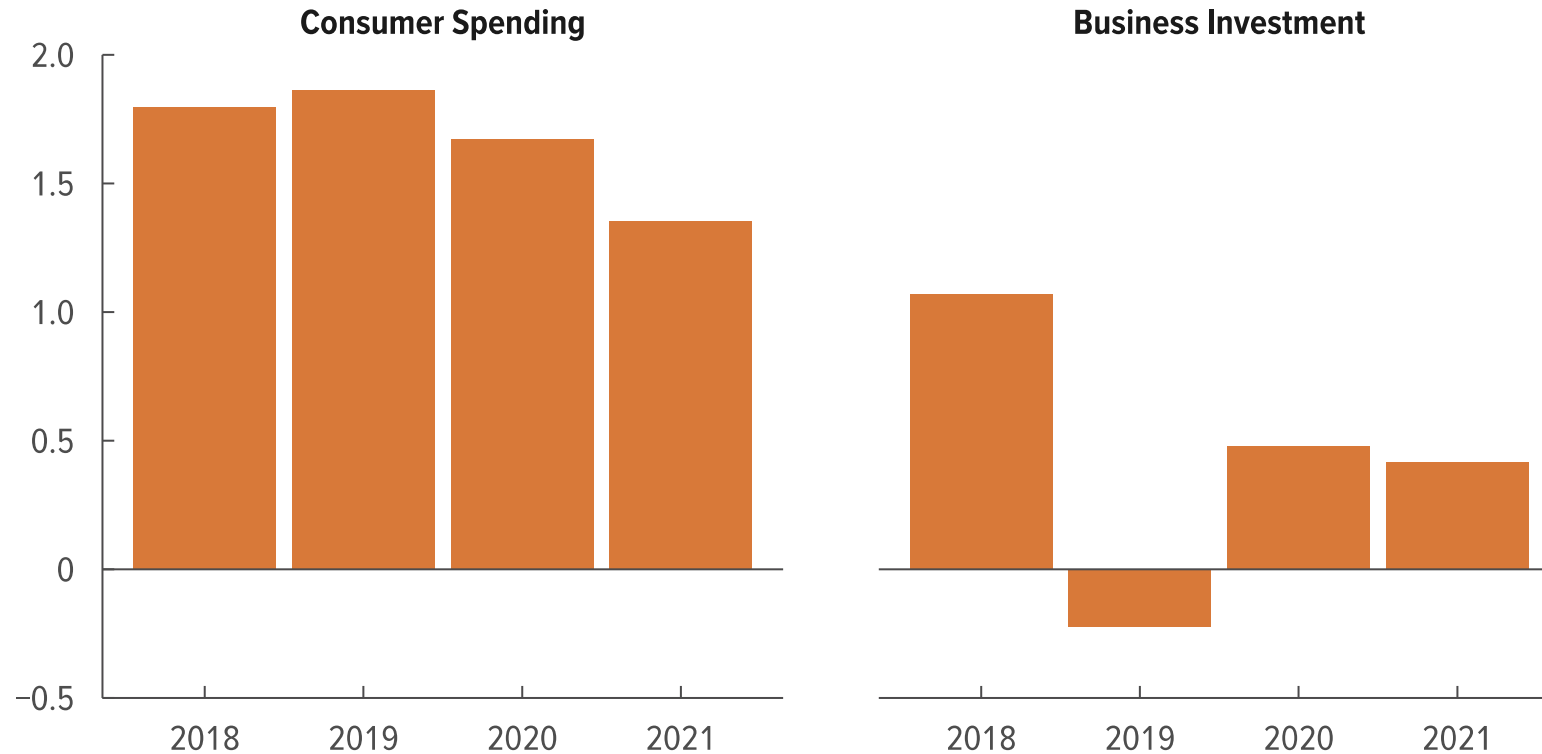
Percentage Change



Adjusted for inflation, GDP is projected to grow by 2.2 percent in 2020, largely because of strong consumer spending and a rebound in business fixed investment. In later years, economic growth slows as growth in consumer spending and private investment moderates.

Percent

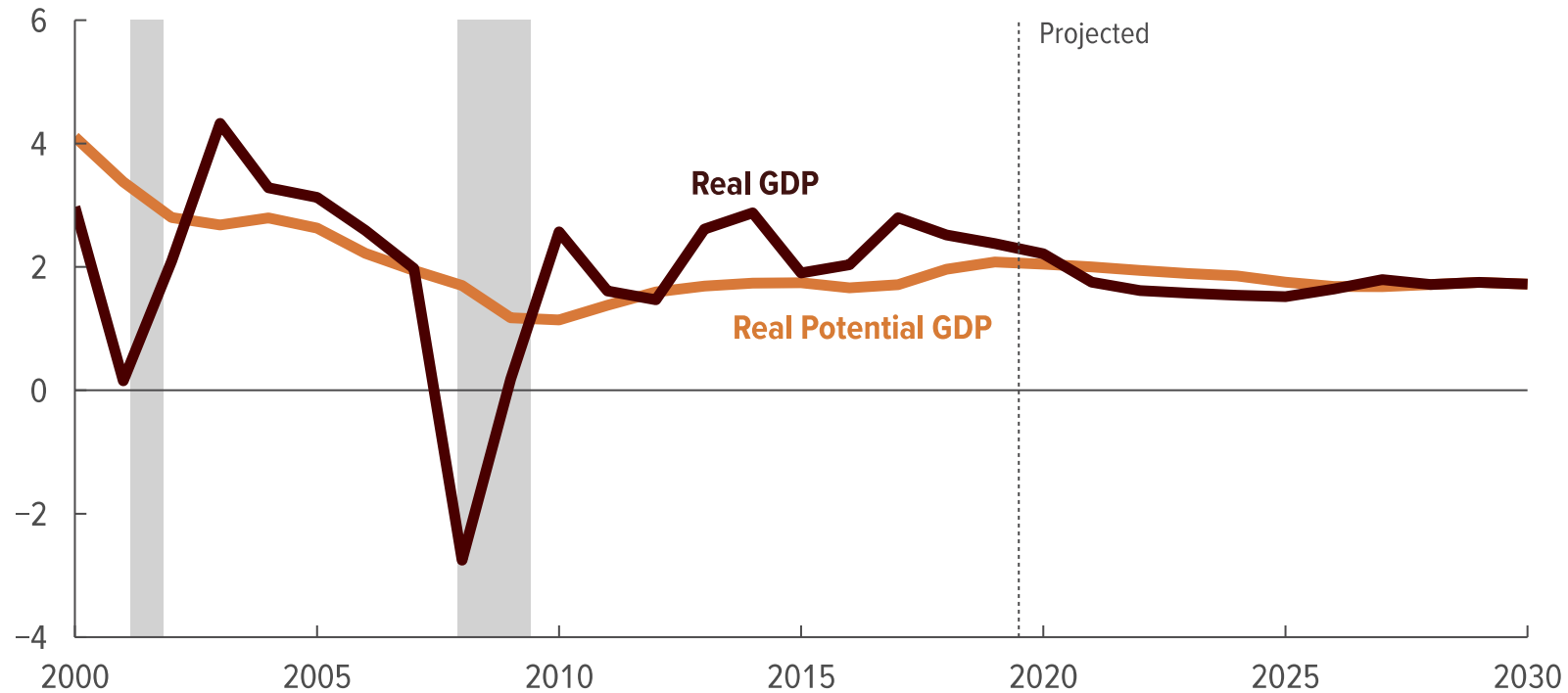
Contributions to the Growth of Real GDP



Growth in consumer spending is expected to remain solid in 2020, buoyed by recent gains in household wealth and by momentum in the growth of wages and salaries.

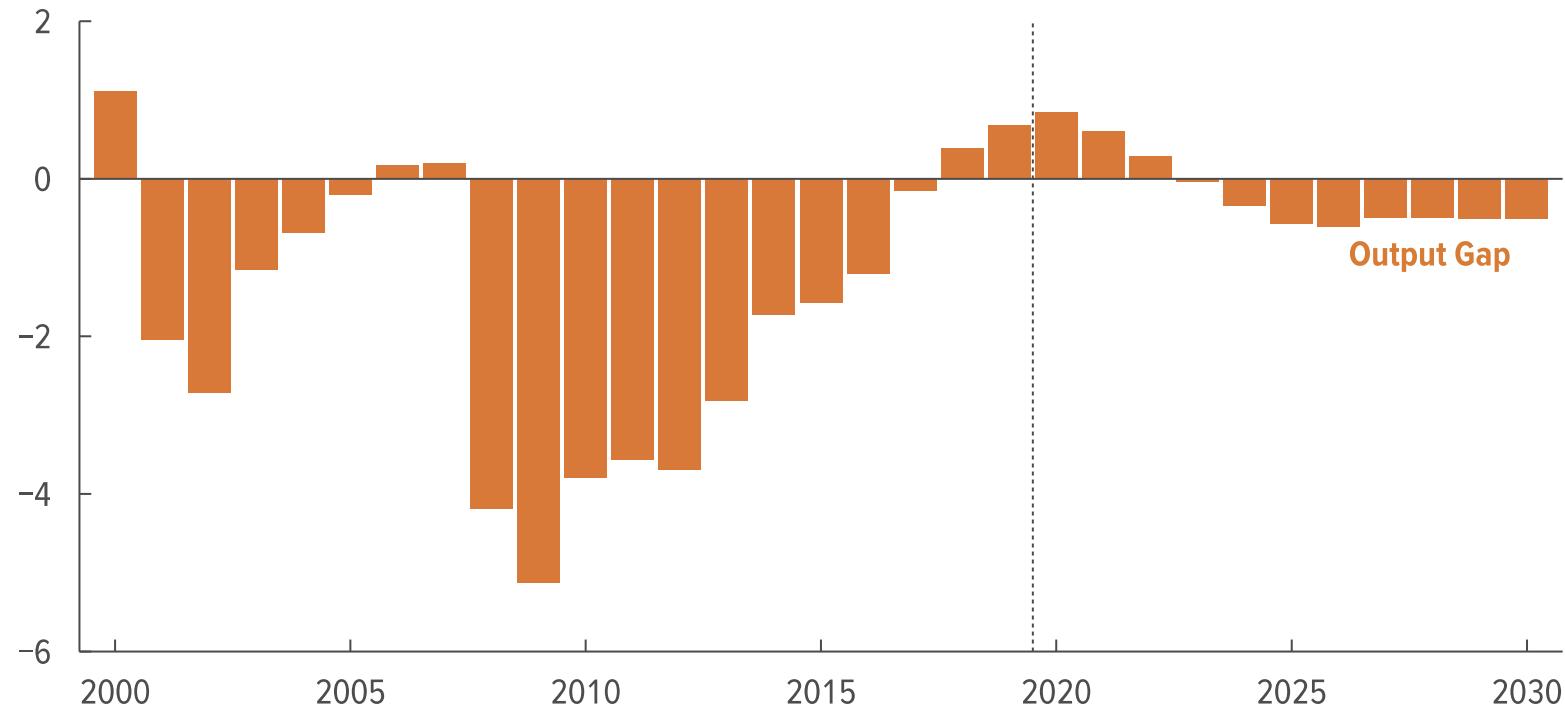
Growth of business fixed investment will rebound this year, CBO projects, because many of the factors that weighed on investment during 2019—including lower oil prices, businesses' increasing uncertainty about future trade policies, and a decline in aircraft purchases—are expected to reverse or to have a smaller impact on growth.

Percentage Change



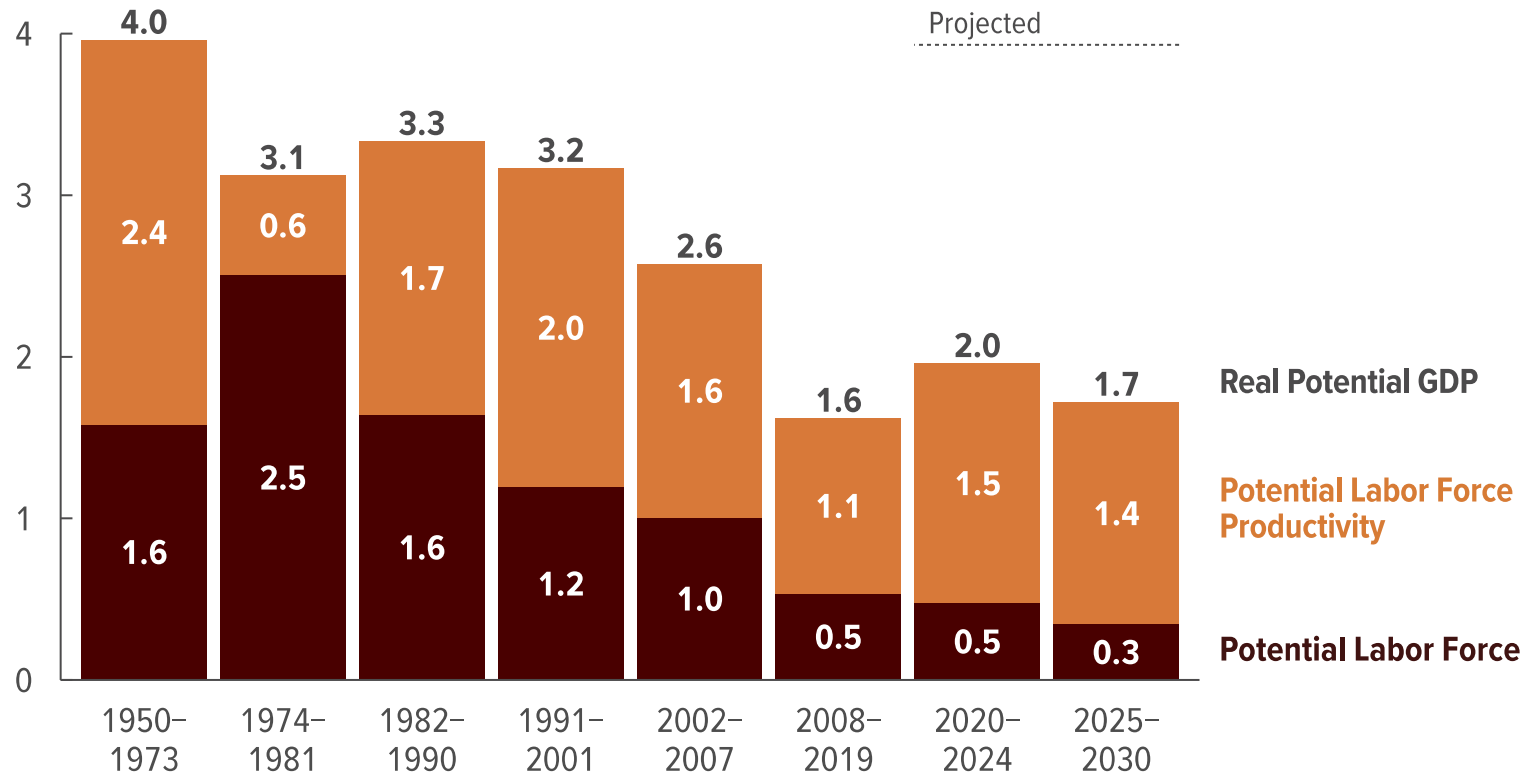
In CBO's projections, output grows faster than the economy's maximum sustainable output (or potential GDP) in 2020. From 2021 to 2030, output is projected to grow at an average annual rate of 1.7 percent, roughly the same rate as potential GDP, which is determined by factors such as the size of the labor force, the average number of hours worked, capital investment, and productivity growth.

Percentage of Potential GDP



The difference between actual and potential GDP, known as the output gap, is projected to be larger than it has been in recent years, leading to higher inflation and interest rates after a period in which both were low, on average. Over the next few years, the output gap narrows, reducing the upward pressure on inflation and interest rates.

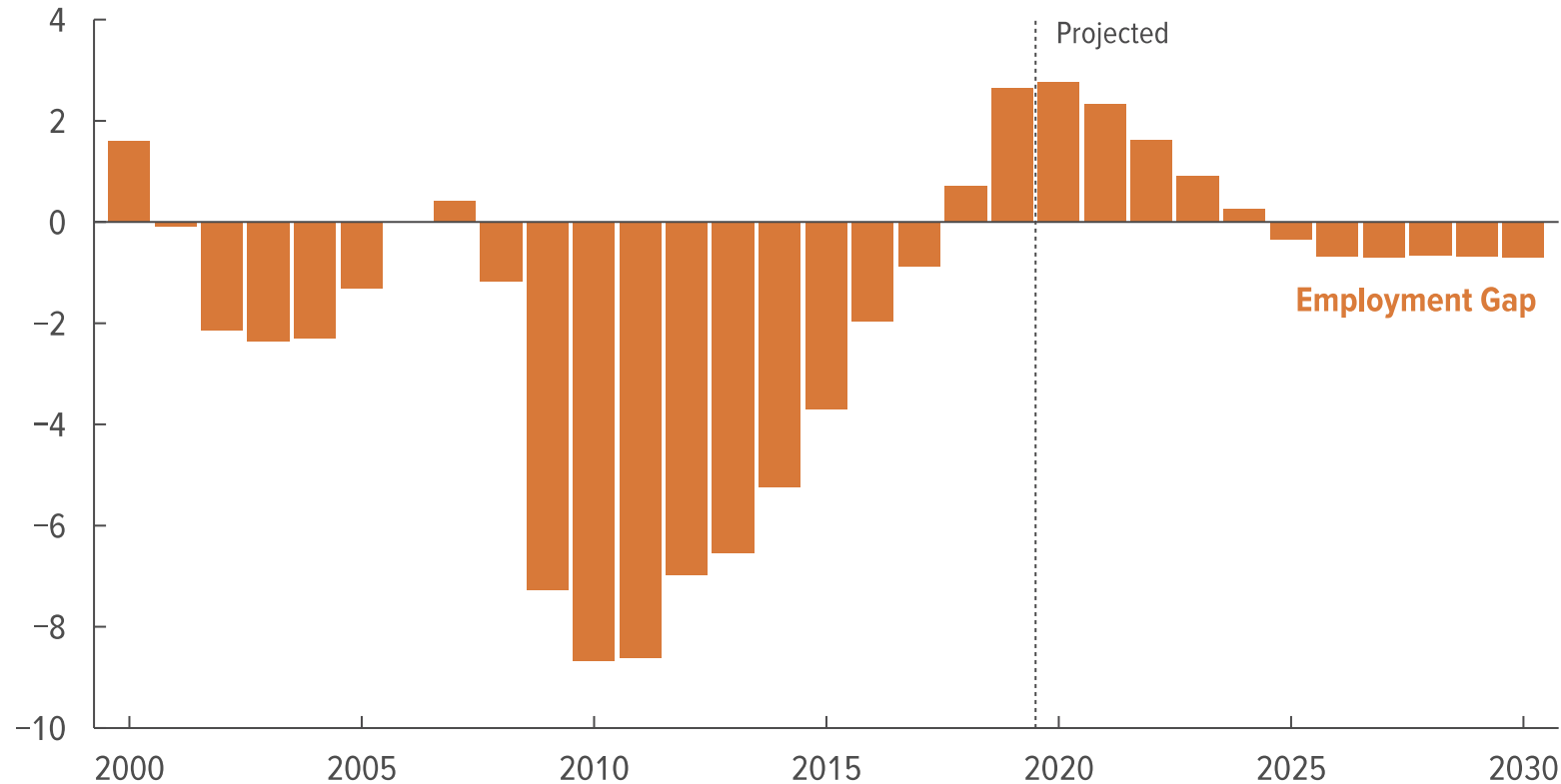
Percentage Change



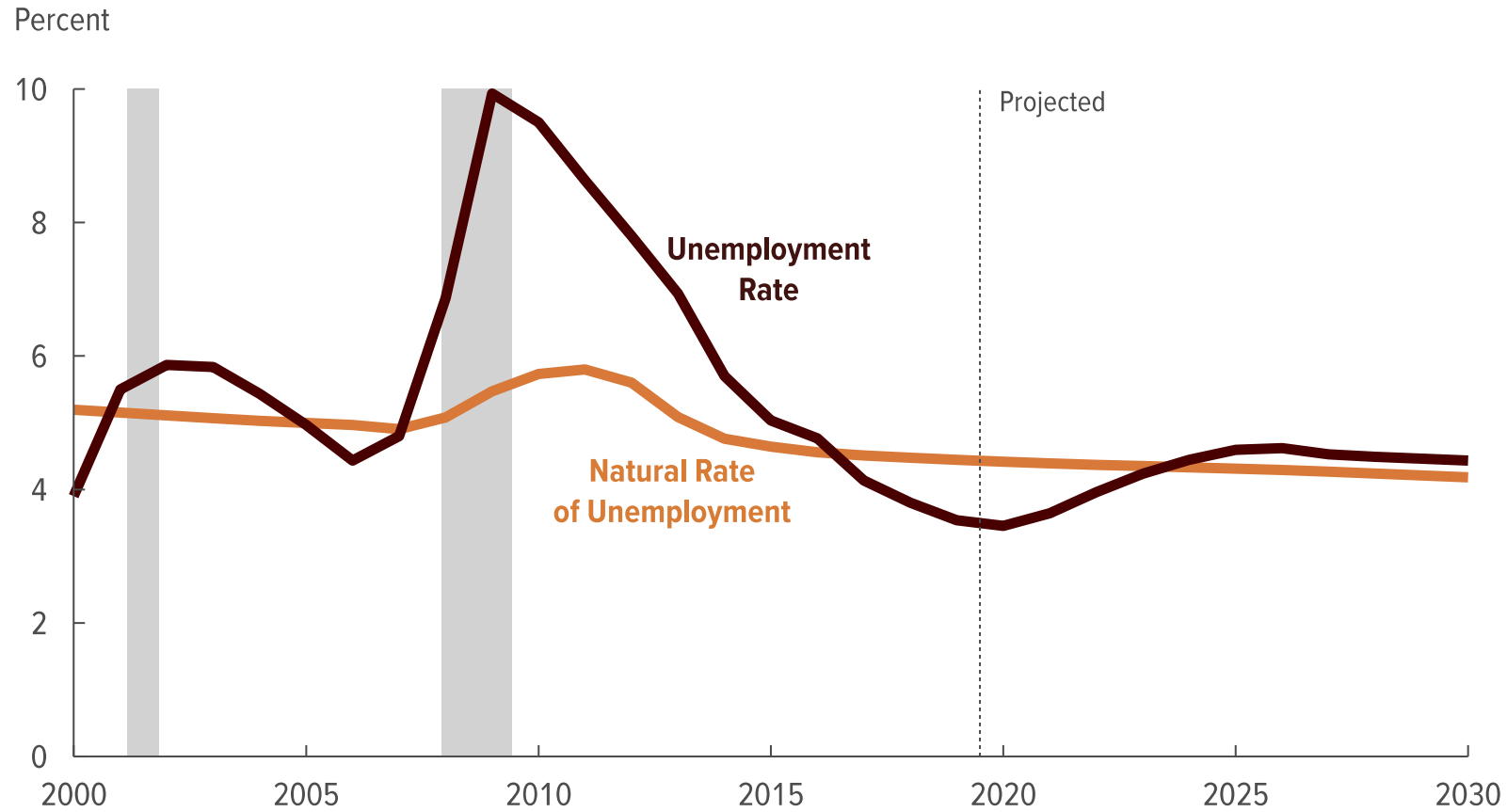
Over the next decade, real potential GDP is projected to grow faster than it has since the last recession because of faster growth in potential labor force productivity. However, growth in the potential labor force is projected to be slower than in previous periods, largely because of the aging of the population.

The Labor Market

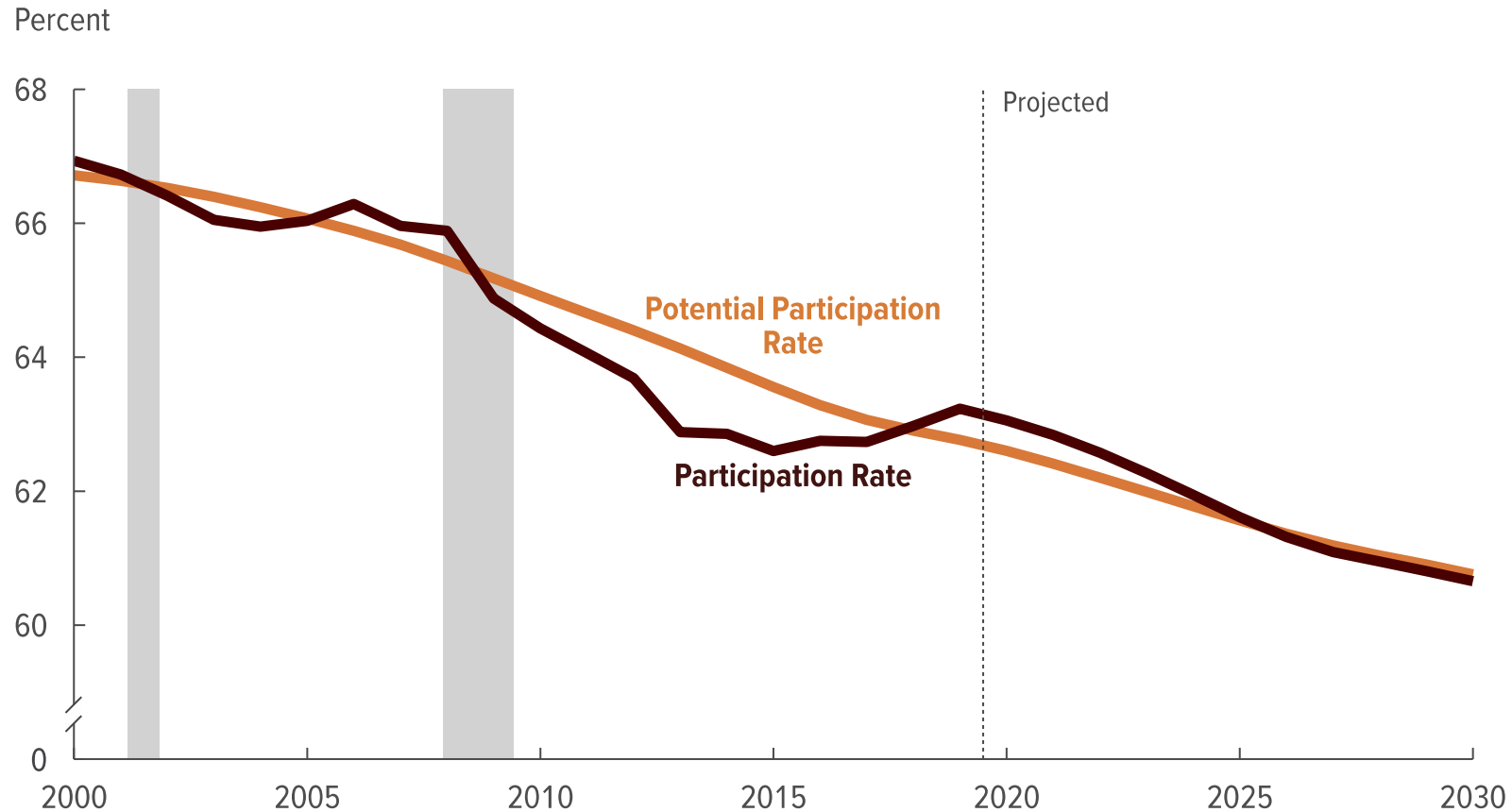
Millions of People



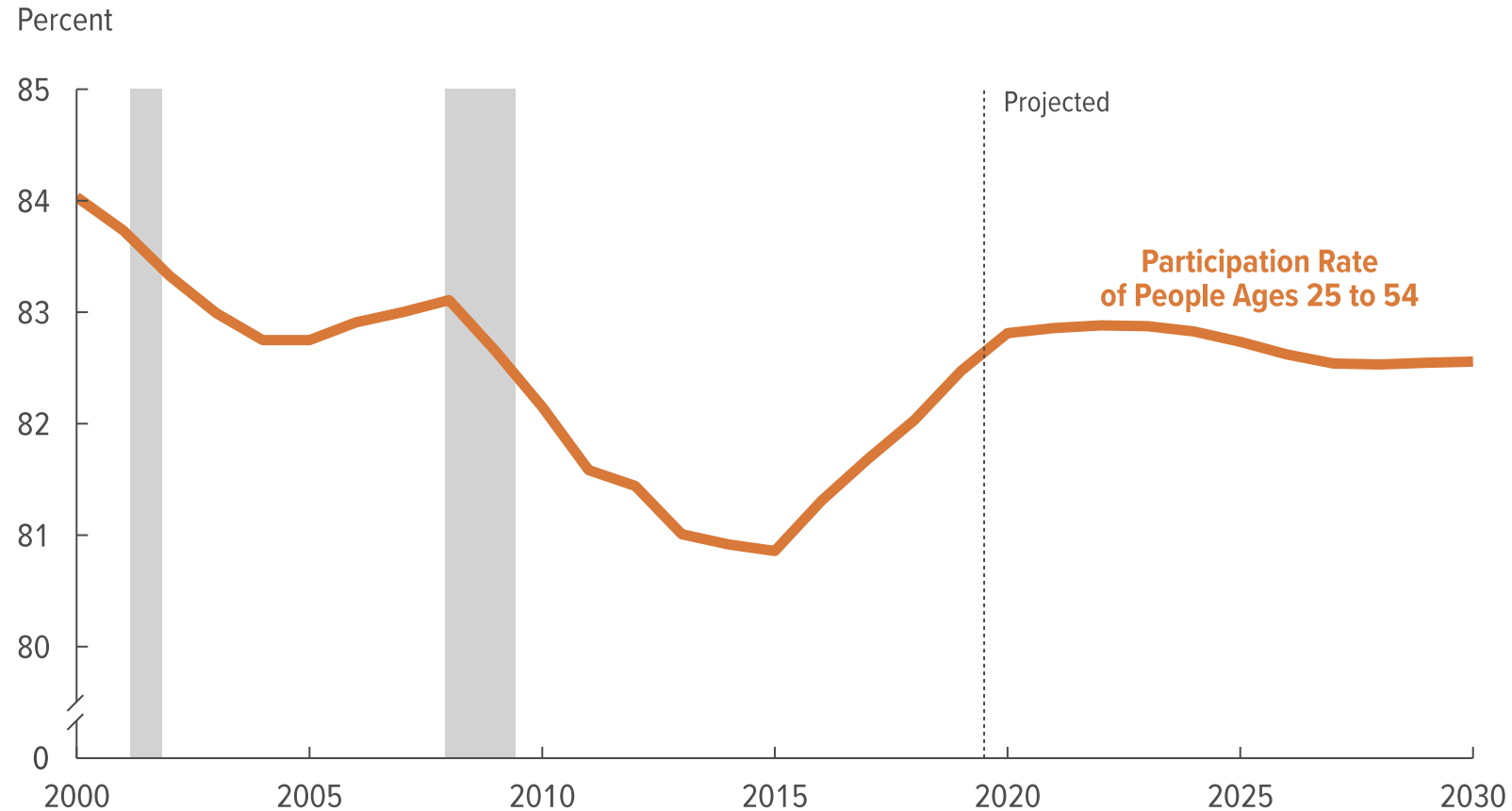
In CBO's estimation, strong growth in labor demand this year will move employment further above its maximum sustainable amount, thereby increasing the employment gap. Although economic and job growth are projected to slow in later years, employment, which tends to lag behind movements in output, is expected to remain above its maximum sustainable level over the next five years, supporting relatively robust wage growth during that time.



In CBO's projections, the unemployment rate remains near historic lows throughout 2020. It then rises steadily, mostly because of slower economic growth, and surpasses the natural rate of unemployment in 2024.

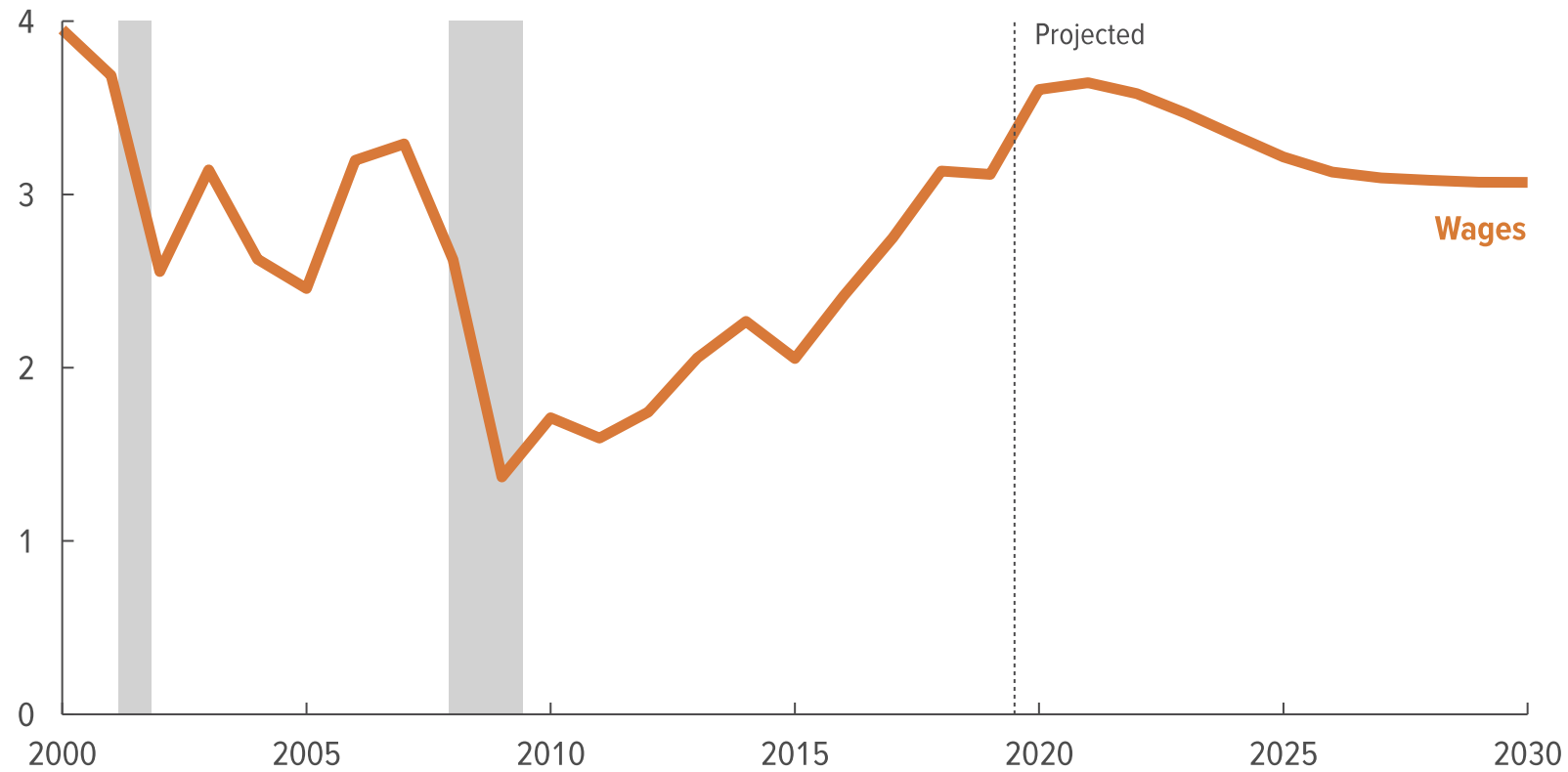


The strong labor market keeps the labor force participation rate elevated for much of 2020. Starting in 2021, as economic and job growth slows, participation falls toward its potential rate—which also decreases, largely because of the aging of the population.



In recent years, participation in the labor force among 25- to 54-year-olds has almost reached prerecession levels as a result of sustained economic growth. As economic growth slows in CBO's projections, that upward trend flattens.

Percentage Change

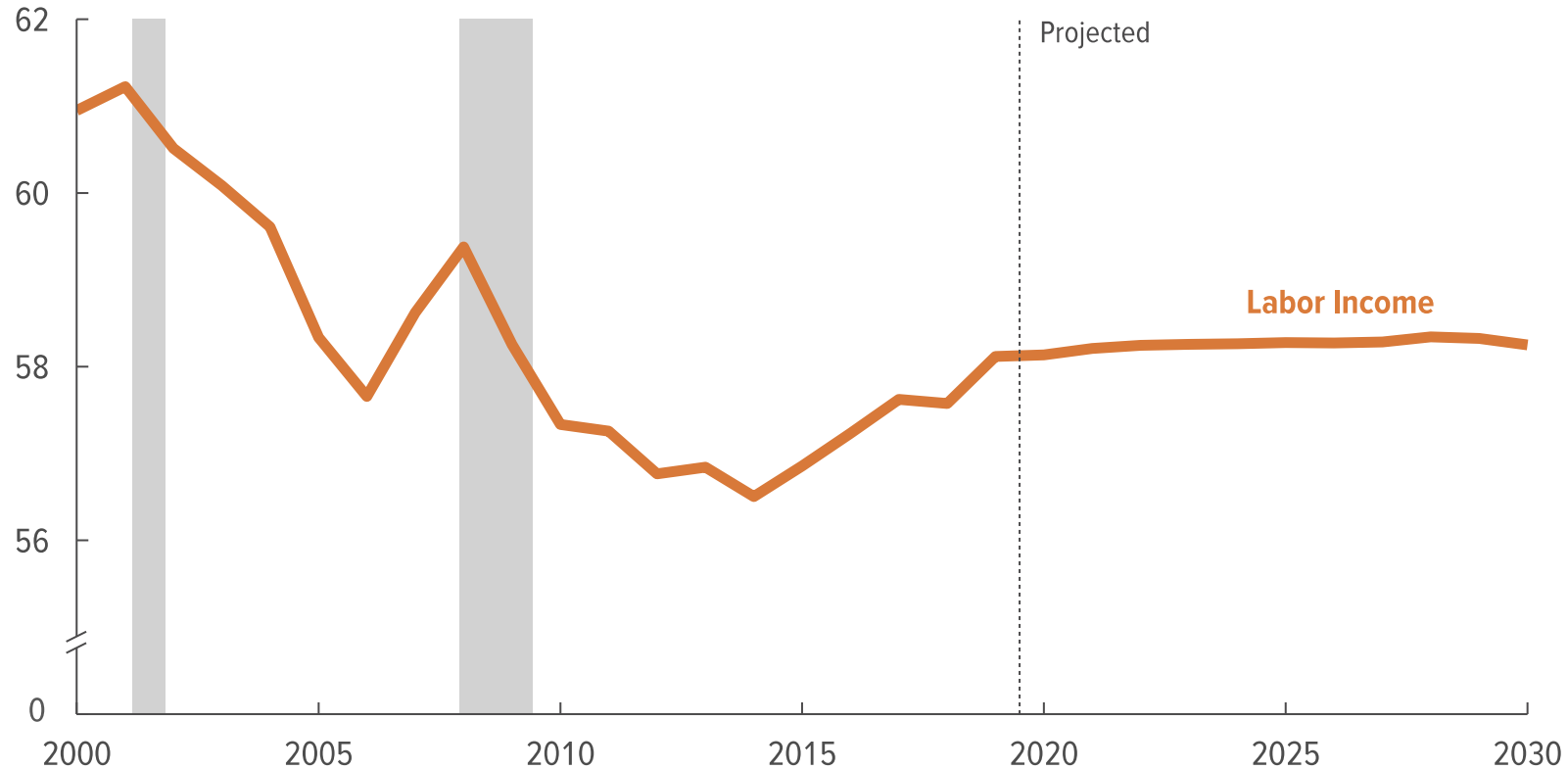


Wage growth remains strong over the next several years as employers continue to bid up the price of labor to recruit and retain workers.



Economywide, data from household surveys show that gains in hourly wages have become increasingly broad-based in recent years: They have been especially strong for low-wage earners since late 2016. In 2019, wage growth also picked up notably for middle-wage earners.

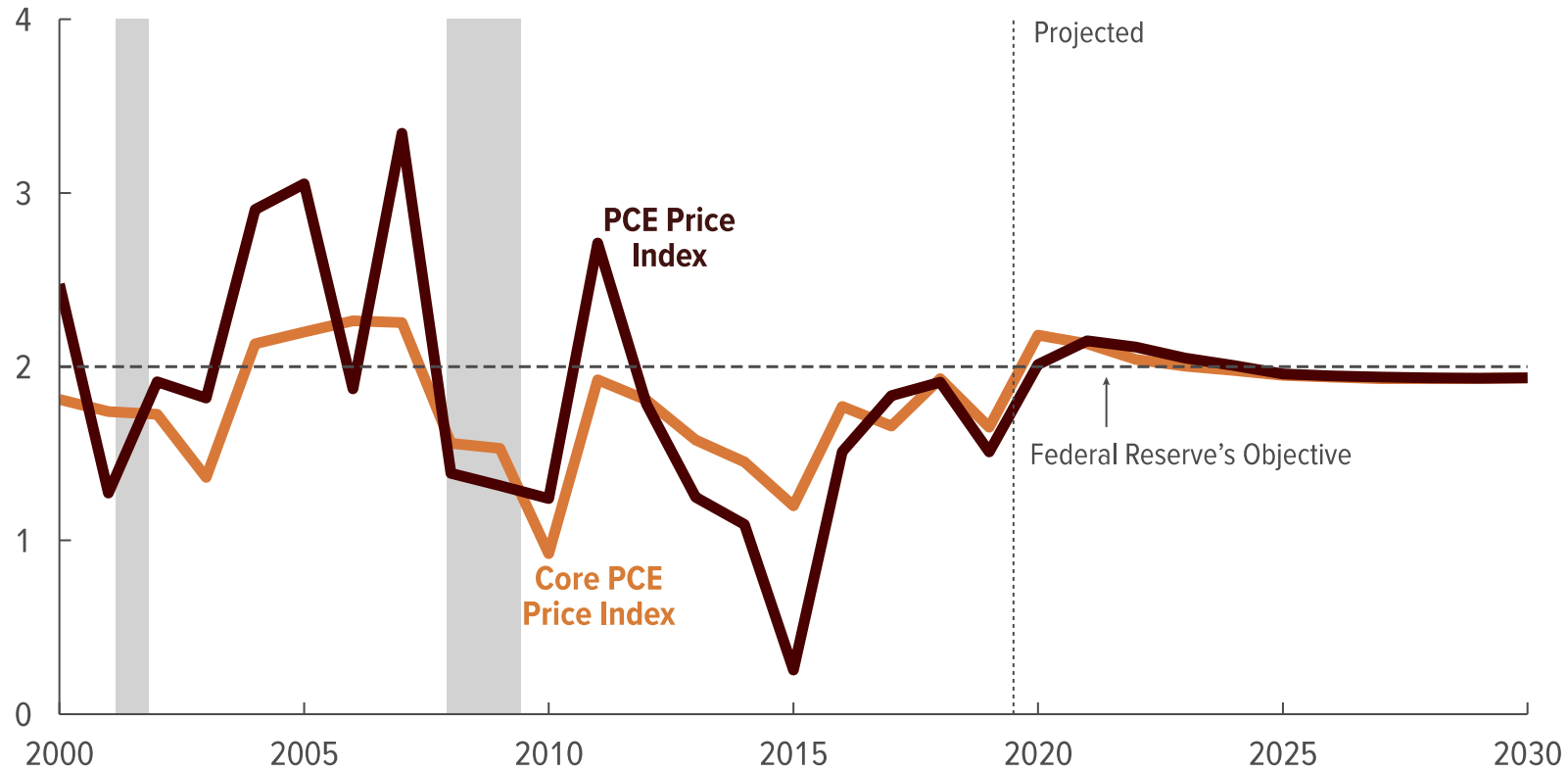
Percentage of Gross Domestic Product



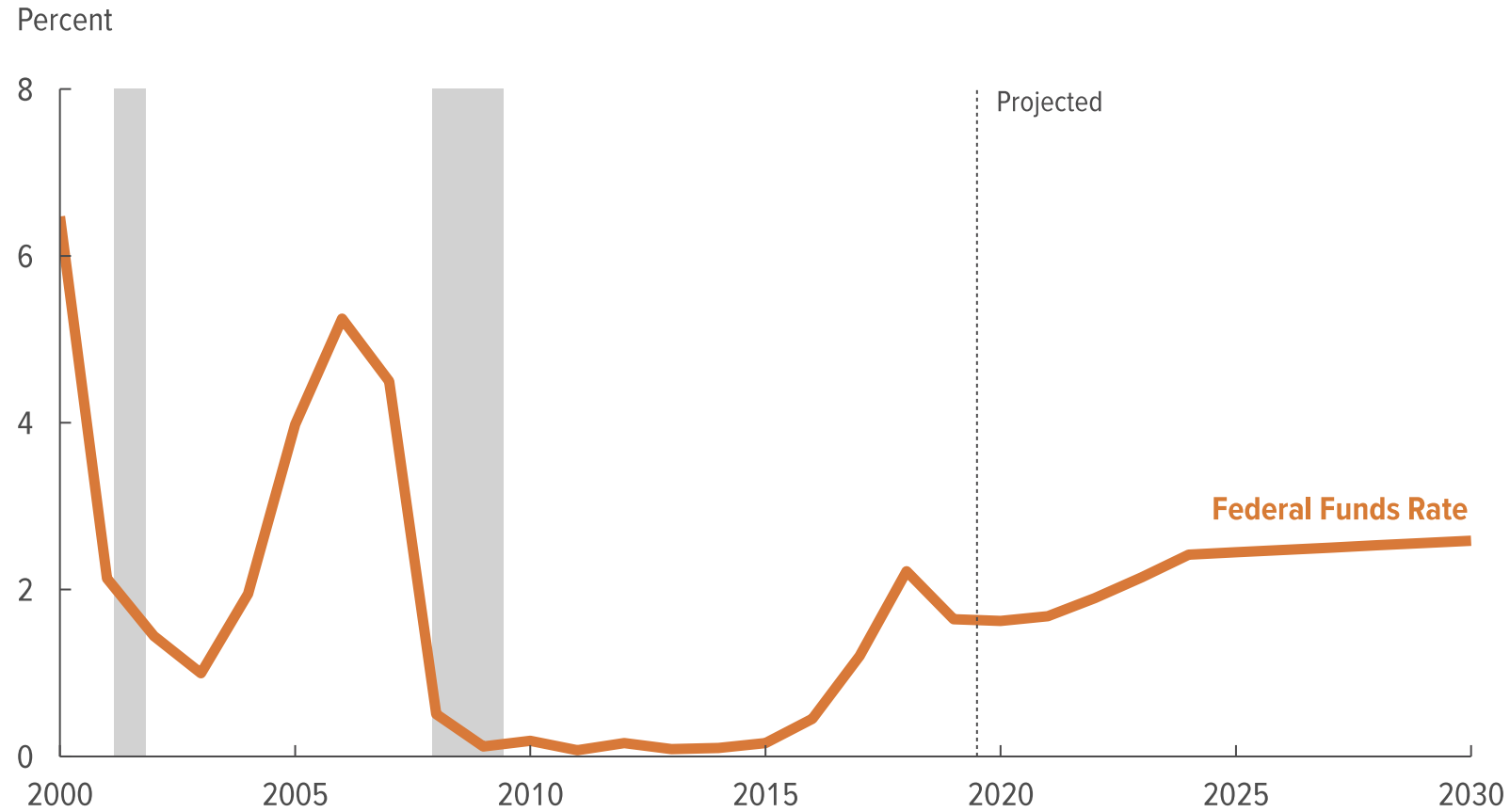
Labor income as a share of GDP is projected to rise slightly, reaching 58.6 percent in 2028, as wages and salaries grow more quickly than the rest of national income. That share is projected to remain close to 58.5 percent through the end of 2030.

Inflation and Interest Rates

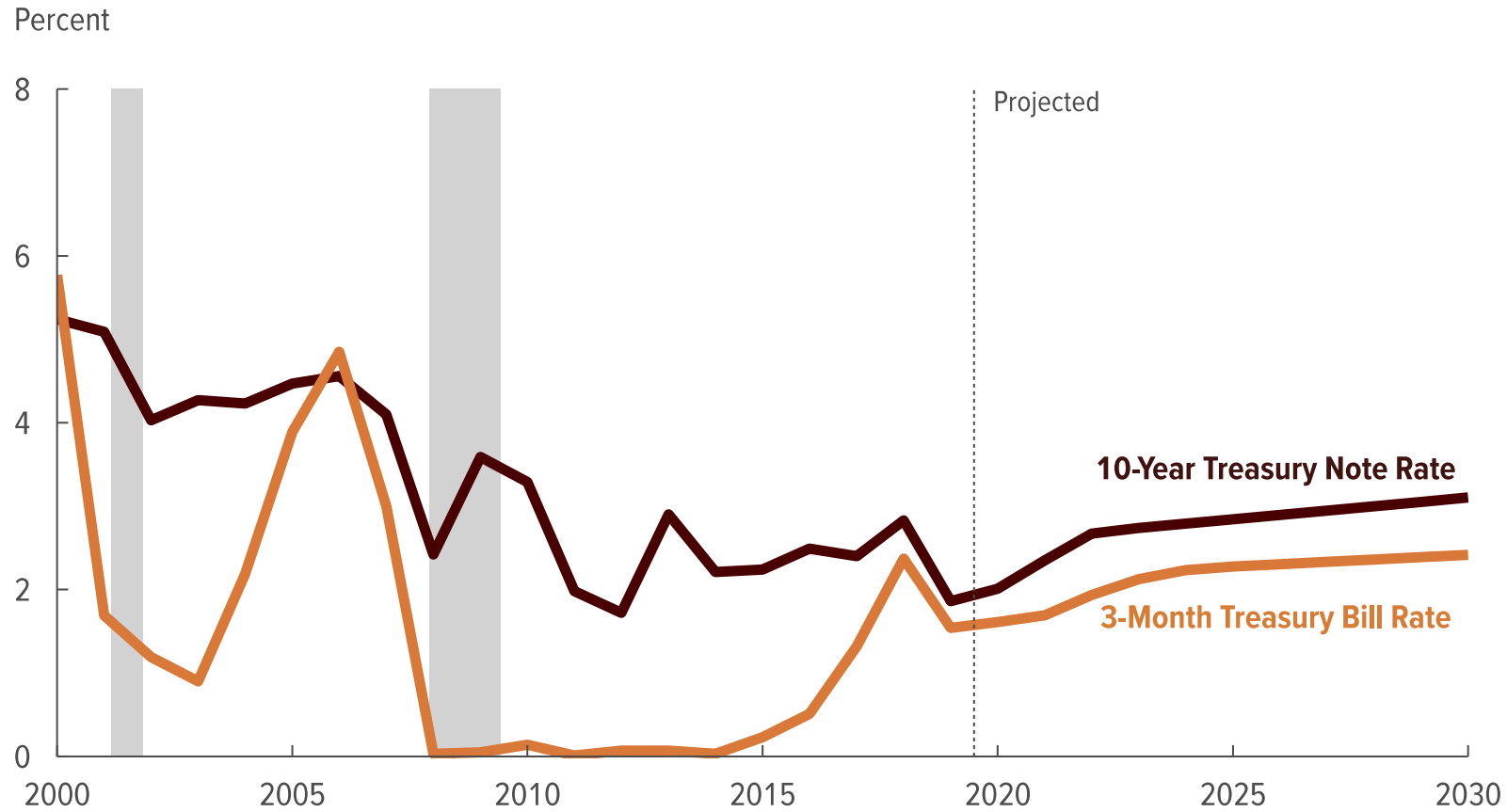
Percentage Change



In CBO's projections, several factors cause inflation to accelerate in 2020, including strong labor and product markets. After 2021, diminishing strength in those markets slows the rate of inflation.



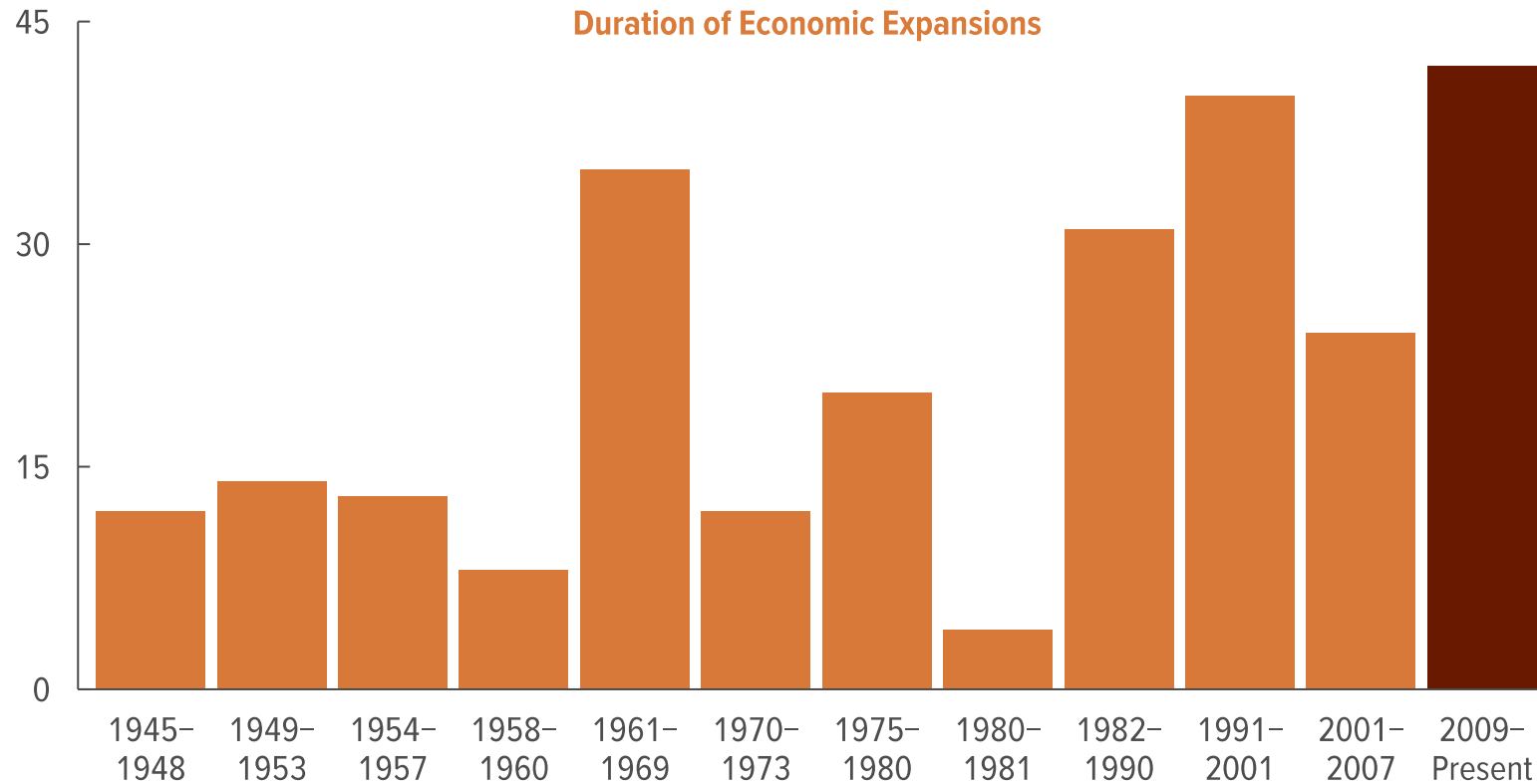
In CBO's projections, the Federal Reserve begins raising the target range for the federal funds rate at the end of 2021—which helps reduce inflationary pressures, in line with the Federal Reserve's long-run objectives.



In CBO's projections, short-term interest rates follow a path similar to that of the federal funds rate over the next several years, and long-term interest rates rise—in part because of investors' expectations about short-term rates.

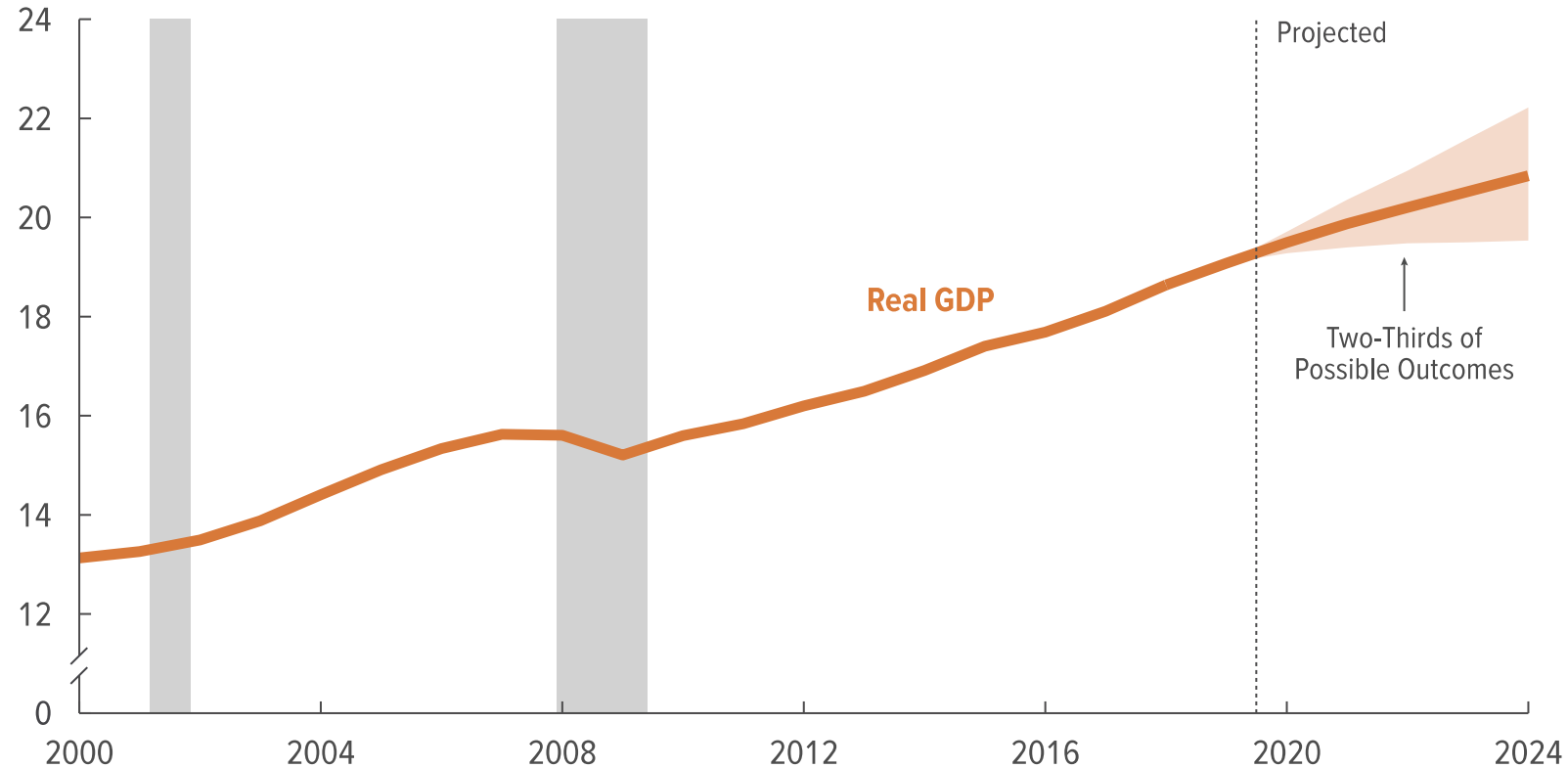
Some Uncertainties in the Economic Outlook

Quarters



As the current economic expansion continues, certain risk factors—such as unintended adverse effects of economic policies, economic and financial imbalances, or external shocks—may arise or compound, increasing the likelihood of a recession.

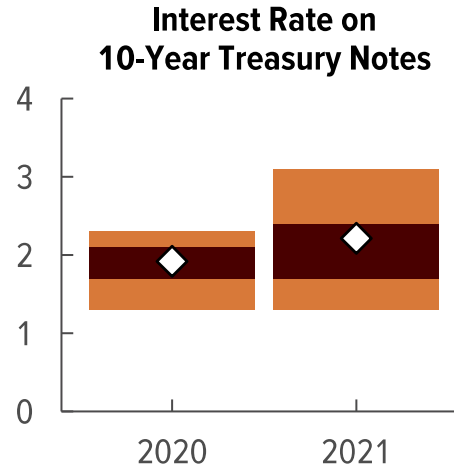
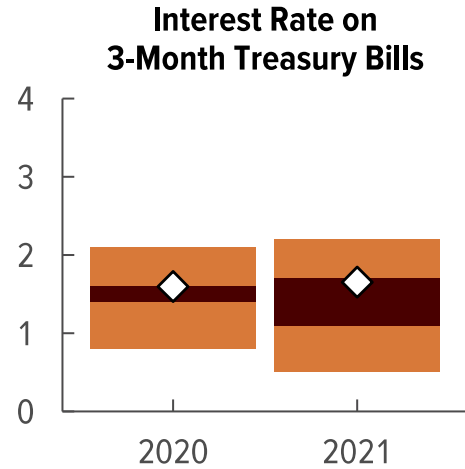
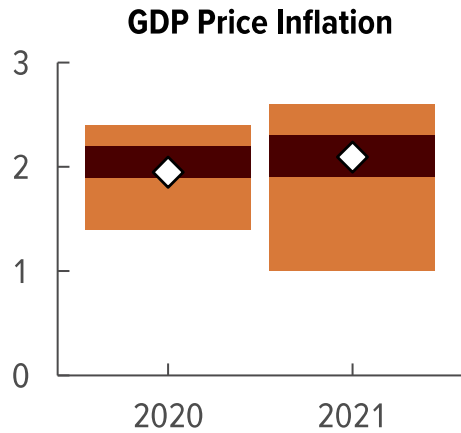
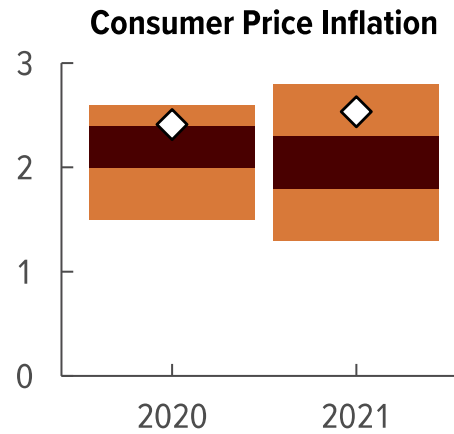
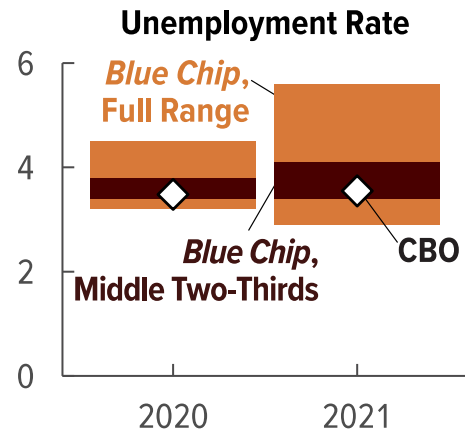
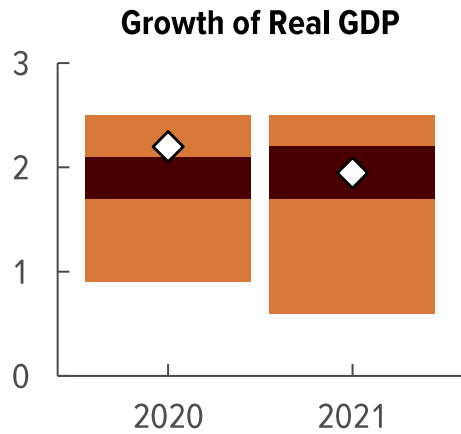
Trillions of 2012 Dollars



CBO estimates that—if the errors in the agency’s current economic forecast are similar to those in its previous forecasts—there is approximately a two-thirds chance that the average annual rate of real GDP growth would be between 0.5 percent and 3.1 percent over the next five years.

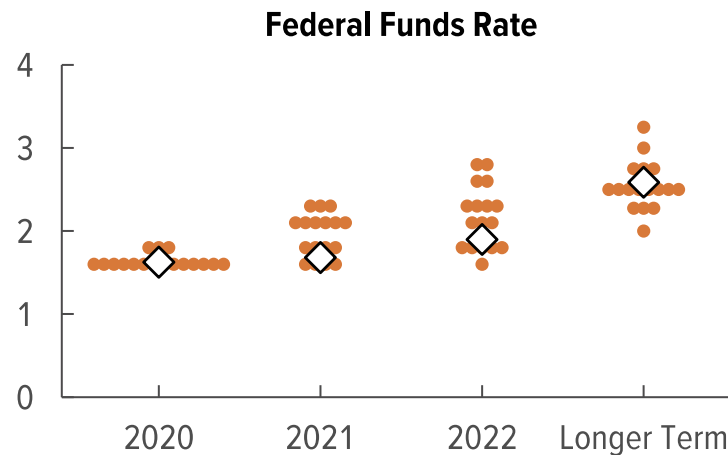
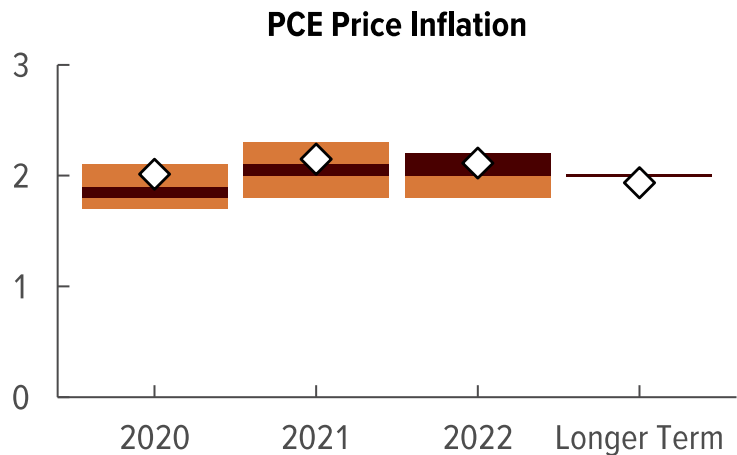
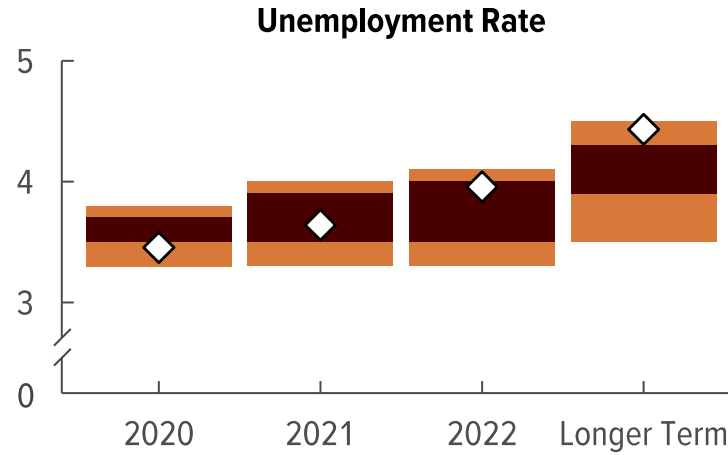
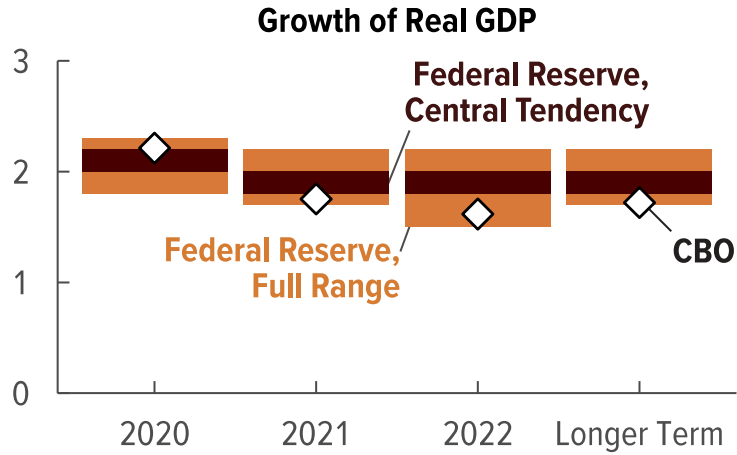
Comparison With Other Forecasts

Percent



CBO's forecasts for the next two years are generally stronger than those in the *Blue Chip* survey.

Percent



Compared with the forecasts made by Federal Reserve officials, CBO's projections suggest a slightly stronger outlook for 2020 but a slightly weaker outlook for 2021, 2022, and the longer term.

Each of the data points for the federal funds rate represents a forecast made by one of the members of the Federal Reserve Board or one of the presidents of the Federal Reserve Banks in December 2019.

About This Document

These slides were prepared by Casey Labrack and Jeffrey Schafer. For more details about CBO's economic outlook as well as the agency's most recent budget projections, see *The Budget and Economic Outlook: 2020 to 2030* (January 2020), www.cbo.gov/publication/56020. That report was the result of work by many analysts at CBO.