CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

December 15, 2023

Honorable Steve Daines
United States Senate
Washington, DC 20510

Re: CBO's Current View of the Economy and the Implications for the Federal Budget and for Workers

Dear Senator:

This letter responds to questions you and your colleagues asked about the Congressional Budget Office's current view of economic growth and interest rates and the implications of that view for the federal budget—as well as about the implications of inflation for workers.

CBO will publish its budget and economic projections for 2024 to 2034 early next year in its annual *Budget and Economic Outlook*. The agency is currently in the midst of preparing that report, and this letter is informed by that work. In particular, CBO published its current economic projections for the next two years earlier today.[1] Those projections reflect the assumption that current laws governing federal taxes and spending generally remain unchanged.

Economic Growth

You and your colleagues asked about CBO's current view of growth in gross domestic product adjusted to remove the effects of inflation (real GDP). You also asked about the implication for the budget if growth was slower than projected.

Projections. In CBO's current projections, real GDP grows by 1.5 percent in 2024 and by 2.2 percent in 2025, as measured in the fourth quarter of the year relative to the fourth quarter of the previous year. Those rates are

[1] See Congressional Budget Office, *CBO's Current View of the Economy From 2023 to 2025* (December 2023), www.cbo.gov/publication/59837.

about the same as they were in the agency's previous projections, published in July 2023.[2]

CBO has not published projections of economic growth beyond 2025 since those released in February 2023.[3] In those projections, from the fourth quarter of 2023 to the fourth quarter of 2033, real GDP grew at an average rate of 2.1 percent. CBO currently expects economic growth to be about the same over that period.

Implications of Slower Growth for the Budget. To answer your question about the implications of slower economic growth, CBO used the workbook posted on its website that allows users to define and analyze alternative economic scenarios by specifying values for economic variables that are different from those underlying the agency's February 2023 projections for the budget and the economy.[4] According to those calculations, if economic growth in 2024 was 1 percentage point slower because of slower productivity growth, then the federal budget deficit from 2024 to 2033 would be about $360 billion larger.[5]

You also asked how the deficit would be affected if growth was stagnant for two years. According to calculations using CBO's workbook, if economic growth in both 2024 and 2025 was 1 percentage point slower because of slower productivity growth, then the federal budget deficit from 2024 to 2033 would be about $690 billion larger.[6] Under a scenario with no growth in those years (instead of growth of 1.5 percent and 2.2 percent in the current projections), the deficit would be larger still, the agency expects. But such a scenario is outside the range for which CBO's workbook can be used to reliably estimate the amount of the effect. That scenario would involve significant changes to many aspects of the economy and would

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[2] See Congressional Budget Office, *An Update to the Economic Outlook: 2023 to 2025* (July 2023), www.cbo.gov/publication/59258.

[3] See Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033* (February 2023), www.cbo.gov/publication/58848.

[4] See Congressional Budget Office, "Workbook for How Changes in Economic Conditions Might Affect the Federal Budget: 2023 to 2033" (March 2023), www.cbo.gov/publication/59027. For related information, see Congressional Budget Office, *How Changes in Economic Conditions Might Affect the Federal Budget: 2023 to 2033* (April 2023), www.cbo.gov/publication/58605.

[5] CBO produced that estimate by comparing the results of a scenario with an increase in productivity growth of 0.45 percent in 2024 with those of a scenario with a decrease in productivity growth of 0.45 percent in that year.

[6] CBO produced that estimate by comparing the results of a scenario with an increase in productivity growth of 0.45 percent in 2024 and 2025 with those of a scenario with a decrease in productivity growth of 0.45 percent in those two years.

require a comprehensive analysis that could not be completed in the time since you asked your questions earlier this week.

Interest Rates

You and your colleagues asked how CBO's current view of interest rates compares with the forecast underlying its most recent *Long-Term Budget Outlook*.[7] Those projections used the aforementioned economic forecast published in February 2023. You also asked about the implication for the budget if interest rates were higher than projected.

Projections. In CBO's current projections, the interest rate on 10-year Treasury notes is 4.6 percent in 2024 and in 2025, on average. That rate is higher than the one projected in CBO's 2023 *Long-Term Budget Outlook*, which averaged 3.8 percent in 2024 and in 2025.

CBO has not yet updated its projections of the interest rate on all federal debt held by the public. That rate was 2.9 percent in 2024 and 2.8 percent in 2025 in the agency's 2023 *Long-Term Budget Outlook*. CBO now expects that rate to be higher in those years.

Implications of Higher Interest Rates for the Budget. You also asked how the federal deficit would have been affected in those projections if the interest rate on 10-year Treasury notes had been 4.0 percent for the 2023–2033 period instead of the values projected in the 2023 *Long-Term Budget Outlook*. In that scenario, interest rates would have been about 0.2 percentage points higher over the period, on average, than those underlying the long-term projections. To assess the budgetary implications of that scenario, using the same workbook referred to above, CBO calculates that the deficit from 2024 to 2033 would have been about $590 billion larger.

Implications of Inflation for Workers

You and your colleagues asked how a percentage-point increase in inflation would affect a middle-class American worker. The agency is in the process of updating its previous analysis of the effects of inflation on workers to examine their experience in 2023 and expects to release those results early next year.[8] The net effects of higher inflation in the prices of goods and

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[7] See Congressional Budget Office, *The 2023 Long-Term Budget Outlook* (June 2023), www.cbo.gov/publication/59014.

[8] For the previous analysis, see Congressional Budget Office, *How Inflation Has Affected Households at Different Income Levels Since 2019* (September 2022), www.cbo.gov/publication/58426.

services on workers depend on the extent to which inflation in wages is also higher. Analysis of that issue could not be completed in the time since you asked your questions earlier this week.

I hope this information is useful to you. Please contact me if you have questions or would like to request further analysis.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable John Barrasso, Honorable Marsha Blackburn, Honorable Katie Boyd Britt, Honorable Bill Cassidy, Honorable John Cornyn, Honorable Mike Crapo, Honorable Bill Hagerty, Honorable Ron Johnson, Honorable James Lankford, Honorable Cynthia M. Lummis, Honorable John Thune, Honorable Thom Tillis, and Honorable Todd Young