



CBO's Current View of the Economy From 2025 to 2027

DECEMBER | 2024

The Congressional Budget Office periodically updates its economic forecast to reflect recent economic developments and changes in laws that affect taxes and spending. This report provides details about CBO's latest projections of the economy through 2027 (see Table 1). Those projections reflect economic developments and current law as of December 4, 2024. Early next year, the agency will publish its budget and economic projections for the full 2025–2035 period.

CBO develops its economic projections so that they fall in the middle of the range of likely outcomes under current law. Those projections are highly uncertain, and many factors could cause actual outcomes to differ from them.

CBO's latest economic forecast includes the following projections:

- The growth of real gross domestic product (GDP, adjusted to remove the effects of changes in prices) is estimated to be 2.3 percent in 2024. Such growth is 1.9 percent in 2025 and 1.8 percent in 2026 and 2027 in CBO's projections. Spending by consumers and governments, which was stronger than expected in 2024, moderates over the next three years. Higher tax rates following the expiration of some of the provisions of the 2017 tax act at the end of 2025 contribute to the slowdown in consumer spending.
- Labor market conditions soften through 2027. In CBO's projections, the unemployment rate, which is estimated to be 4.2 percent in the fourth quarter of 2024, rises to 4.4 percent in the second quarter of 2026 and remains there through the end of 2027. The growth of nonfarm payroll employment slows through 2027.

- CBO expects the slowdown in economic growth and the rise in unemployment to lessen the demand for goods and services and contribute to a downward movement in inflation over the next three years. Measured from the fourth quarter of one calendar year to the fourth quarter of the next, inflation in the price index for personal consumption expenditures (PCE) falls from an estimated 2.5 percent in 2024 to 2.2 percent in 2025, 2.1 percent in 2026, and 2.0 percent in 2027.
- Interest rates continue to fall through early 2027 in CBO's projections as inflation eases and economic growth slows. The Federal Reserve is projected to lower the federal funds rate (that is, the interest rate that financial institutions charge each other for overnight loans of their monetary reserves) from an estimated 4.6 percent in the fourth quarter of 2024 to 3.4 percent at the end of 2027. The rate on 10-year Treasury notes declines from 4.2 percent in the fourth quarter of 2024 to 3.9 percent in the second half of 2027.

CBO last updated its economic forecast in June 2024.¹ The agency's projection of average real GDP growth for the 2025–2027 period has remained roughly unchanged since then. CBO's projections of the average unemployment rate, average long-term interest rates, and average inflation rates are now somewhat higher over that period.

The upward revision to CBO's projection of the unemployment rate reflects a higher-than-expected unemployment rate over the second half of 2024. That higher rate

1. Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2024 to 2034* (June 2024), www.cbo.gov/publication/60039.

Table 1.

CBO's Economic Projections for 2025 to 2027

Percent

	Estimated, Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Estimated, 2024	2025	2026	2027
	Change from previous quarter (annual rate)					Change from fourth quarter to fourth quarter			
Gross domestic product									
Real ^a	1.9	2.0	2.0	1.9	1.7	2.3	1.9	1.8	1.8
Nominal	4.4	4.3	4.2	4.1	3.9	4.9	4.1	3.9	3.8
Inflation									
PCE price index	2.4	2.3	2.1	2.2	2.2	2.5	2.2	2.1	2.0
Core PCE price index ^b	2.7	2.5	2.4	2.3	2.2	2.9	2.3	2.1	2.0
Consumer price index ^c	2.6	2.2	2.1	2.5	2.6	2.6	2.3	2.4	2.3
Core consumer price index ^b	3.1	2.4	2.4	2.5	2.5	3.2	2.4	2.3	2.3
Employment cost index ^d	3.8	3.5	3.4	3.5	3.4	3.7	3.5	3.3	3.2
	Average monthly change over the quarter ^e					Average monthly change over the year ^f			
Payroll employment (thousands)	150	86	104	90	78	185	90	58	46
	Quarterly average					Fourth-quarter average			
Unemployment rate	4.2	4.2	4.3	4.3	4.3	4.2	4.3	4.4	4.4
Interest rates									
Effective federal funds rate ^g	4.6	4.3	4.1	3.9	3.7	4.6	3.7	3.4	3.4
10-year Treasury notes	4.2	4.2	4.1	4.0	4.0	4.2	4.0	3.9	3.9

Data sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve. See www.cbo.gov/publication/60890#data.

GDP = gross domestic product; PCE = personal consumption expenditures.

- a. Real values are nominal values that have been adjusted to remove the effects of changes in prices.
- b. Excludes prices for food and energy.
- c. The consumer price index for all urban consumers.
- d. The employment cost index for wages and salaries of workers in private industries.
- e. Calculated by taking total nonfarm payroll employment in one quarter, subtracting the value of that measure in the previous quarter, and dividing that difference by 3.
- f. Calculated by taking total nonfarm payroll employment in the fourth quarter of one calendar year, subtracting the value of that measure in the fourth quarter of the previous year, and dividing that difference by 12.
- g. The median interest rate that financial institutions charge each other for overnight loans of their monetary reserves, weighted by loan volume.

is projected to persist over the next several quarters. The agency's current projections of the unemployment rate converge with its June 2024 projections at the end of 2027, when the unemployment rate reaches 4.4 percent.

The upward revision to projected long-term interest rates is largely due to CBO's revising upward its forecast of

short-term interest rates in 2027 and beyond. The agency estimates that interest rates on long-term bonds depend in part on the expected path of future short-term interest rates.

And finally, CBO raised its projection of overall inflation slightly to account for an upward revision to projected energy prices.

This document is one of a series of reports on the state of the economy that the Congressional Budget Office issues each year. In keeping with the agency's mandate to provide objective, impartial analysis, the report makes no recommendations.

CBO consulted members of its Panel of Economic Advisers during the development of this report. Although the agency's outside advisers provided considerable assistance, they are not responsible for the contents of this report; that responsibility rests solely with CBO.

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Mark Doms and Jeffrey Kling reviewed the report. Bo Peery edited it, and R. L. Rebach prepared it for publication. The report is available on CBO's website at www.cbo.gov/publication/60890.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.



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