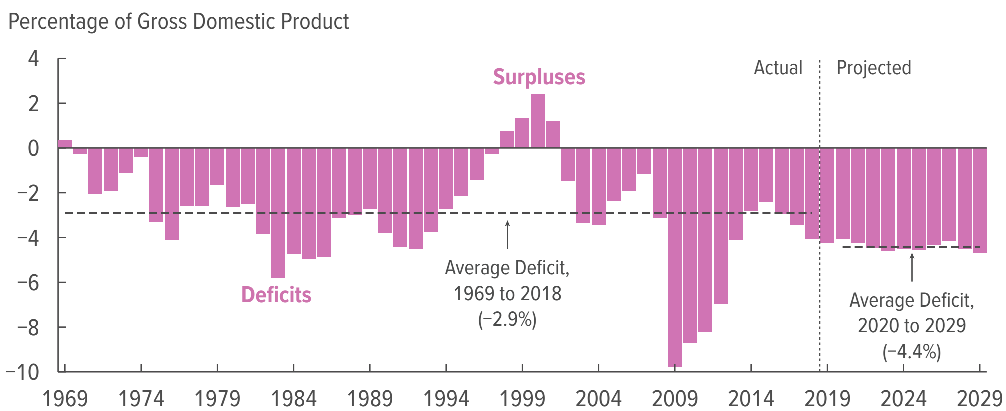
Visual Summary

In this report, the Congressional Budget Office provides projections of the federal budget and the U.S. economy under current law for this year and the following decade. The deficits projected in this update are smaller than those in the projections that CBO published last spring, primarily because funding for emergencies is now projected to be lower. The agency's economic forecast has changed little since it was last updated in August 2018.

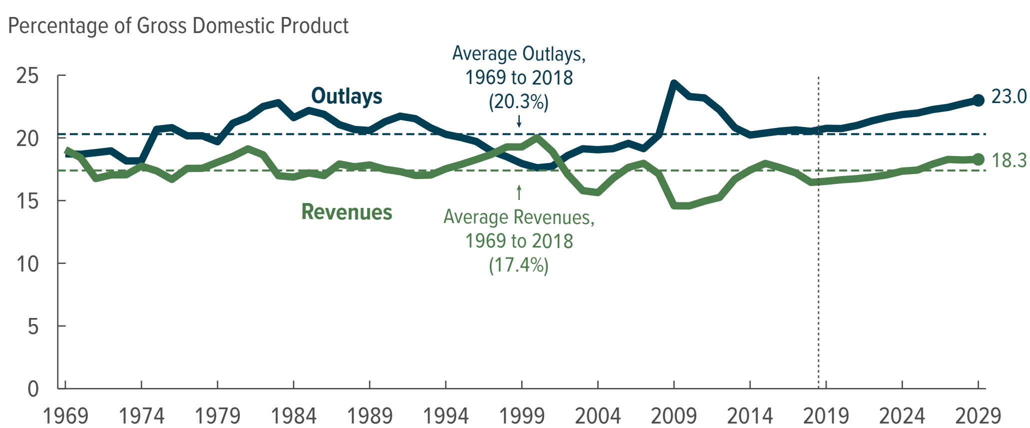
Deficits

CBO projects a 2019 deficit of about $900 billion, or 4.2 percent of gross domestic product (GDP). The projected shortfall (adjusted to exclude the effects of shifts in the timing of certain payments) rises to 4.7 percent of GDP in 2029.



See Figure 1-1

Over the 2020–2029 period, deficits are projected to average 4.4 percent of GDP, totaling $11.6 trillion. Such deficits would be significantly larger than the 2.9 percent of GDP that deficits averaged over the past 50 years.

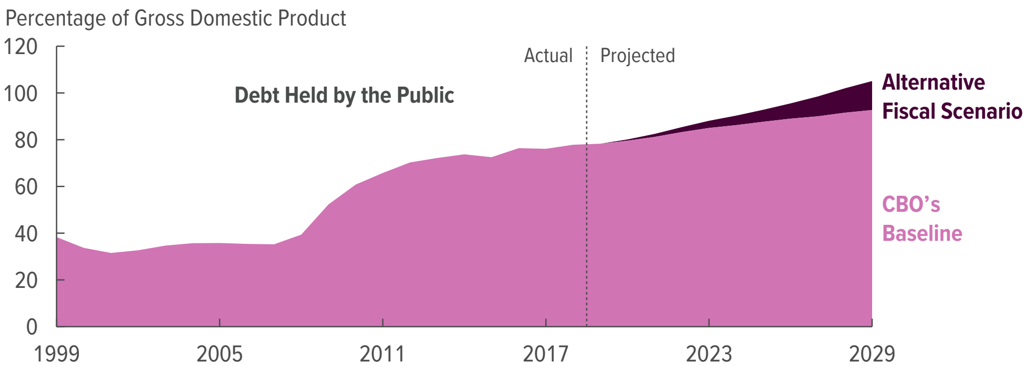


See Figure 1-2

Revenues and outlays are both projected to rise in relation to GDP, but the gap between them is projected to persist, resulting in large deficits and rising debt.

Debt

Federal debt held by the public is projected to reach $16.6 trillion at the end of 2019. Relative to the size of the economy, that amount—at 78 percent of GDP—would be nearly twice its average over the past 50 years. By 2029, debt is estimated to reach $28.7 trillion, or 93 percent of GDP—a higher level than at any time since just after World War II. It would continue to grow after 2029, reaching about 150 percent of GDP by 2049.

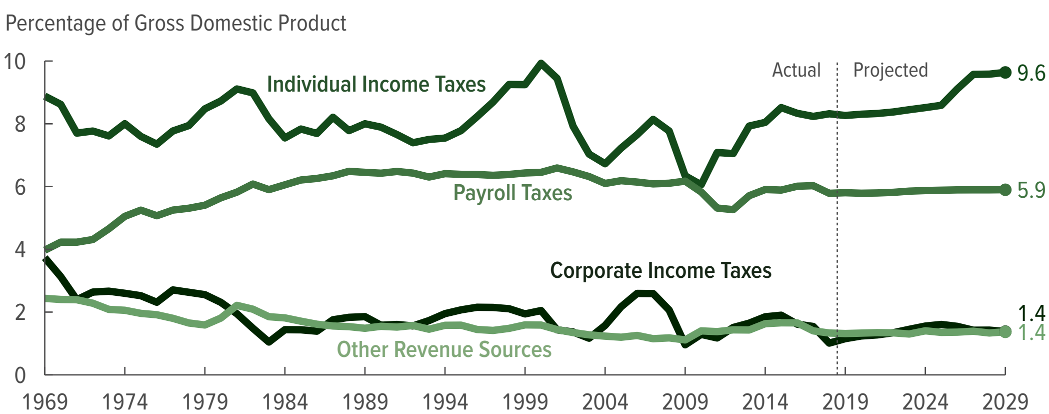


See Figure 5-3

In addition to its projections of outcomes under current law, CBO analyzed an alternative fiscal scenario in which substantial tax increases and discretionary spending cuts would not take place as scheduled; instead, major policies that are currently in place would be maintained. Under that scenario, federal debt would rise to 105 percent of GDP in 2029.

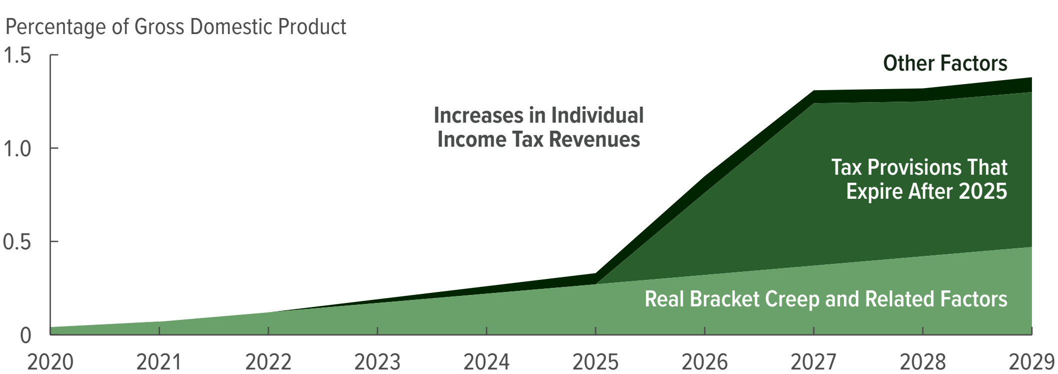
Revenues

In CBO's baseline projections, revenues total $3.5 trillion in 2019, or 16.5 percent of GDP, and rise to 18.3 percent of GDP in 2029. Over the past 50 years, revenues averaged 17.4 percent of GDP.



See Figure 4-2

Total revenues as a share of GDP are projected to rise, largely because of increases in individual income taxes.



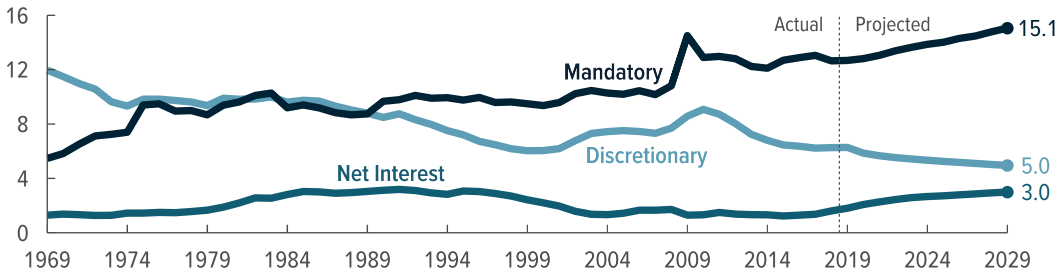
See Figure 4-3

Individual income taxes as a share of GDP are projected to rise by a total of 1.4 percentage points over the next decade. The biggest contribution to that increase is the expiration of certain provisions of the 2017 tax act at the end of 2025.

Spending

In 2019, outlays in CBO's baseline projections total $4.4 trillion, or 20.8 percent of GDP. They rise to 23.0 percent of GDP in 2029 (after an adjustment to exclude the effects of certain timing shifts). Over the past 50 years, outlays averaged 20.3 percent of GDP.

Percentage of Gross Domestic Product

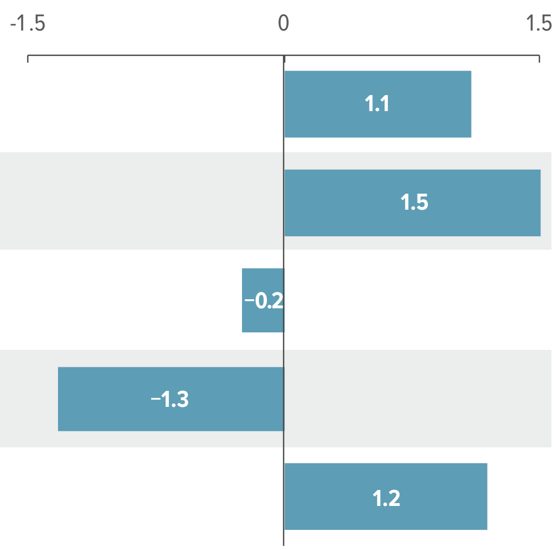


Increases in projected outlays stem from growth in mandatory spending (particularly for Social Security and Medicare) and in net interest costs.

See Figure 3-1

Percentage of Gross Domestic Product

	Outlays 2019	Outlays 2029	Change (Percentage points)
Social Security	4.9	6.0	1.1
Major Health Care Programs	5.2	6.8	1.5
Other Mandatory Spending	2.6	2.3	−0.2
Discretionary Spending	6.3	5.0	−1.3
Net Interest	1.8	3.0	1.2



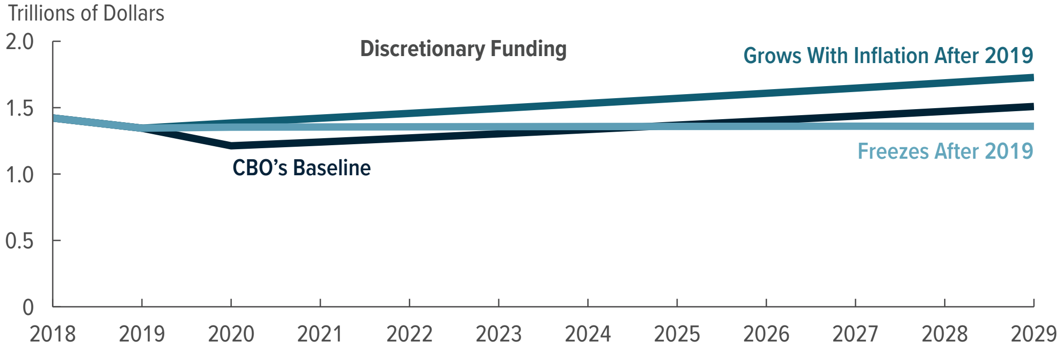
The aging of the population and rising cost of health care drive the increase in outlays for programs that provide benefits to the elderly.

Outlays for discretionary programs fall relative to GDP because of caps on funding and because rates of inflation, which are used to project future funding, are lower than the rate of nominal GDP growth.

Net interest costs rise sharply because of accumulating debt and rising interest rates.

See Figure 3-2

Trillions of Dollars

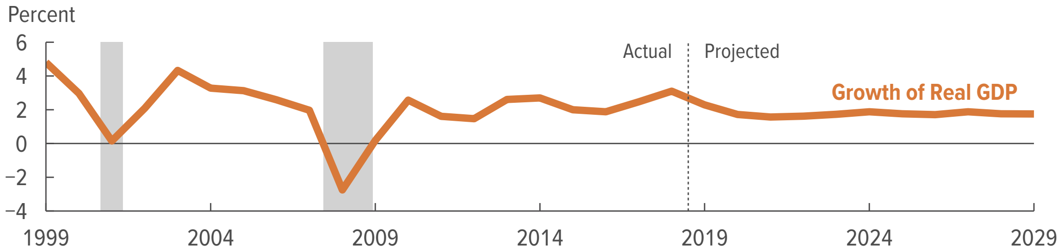


Discretionary funding in future years could differ from the amounts in CBO's baseline projections, which reflect the assumption that funding will adhere to the current-law caps through 2021. In later years, funding is projected to grow with inflation.

See Figure 5-1

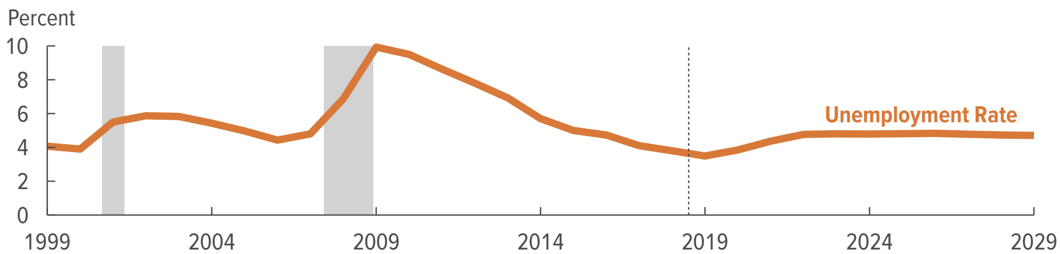
The Economy

In CBO's economic forecast, which underlies its budget projections, the economy expands more slowly over the next decade than it did in 2018, averaging annual growth of 1.7 percent over the 2020–2029 period. The slowdown begins in 2019 as the positive effects of recent tax legislation on business investment are expected to wane and federal purchases under current law are projected to drop sharply starting in the fourth quarter of the year. Over the longer term, growth is below its historical average, primarily because the labor force is expected to grow more slowly than it has in the past.



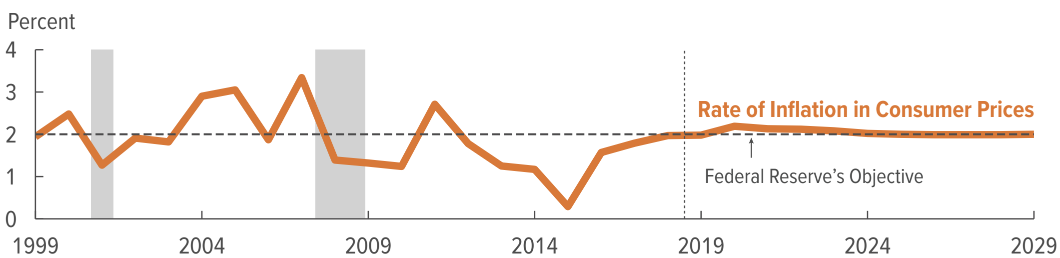
After growing by an estimated 3.1 percent in 2018, real GDP is projected to grow by 2.3 percent this year and more slowly thereafter—reflecting slower growth in business fixed investment after 2018 and in consumer spending after 2019.

See Figure 2-1



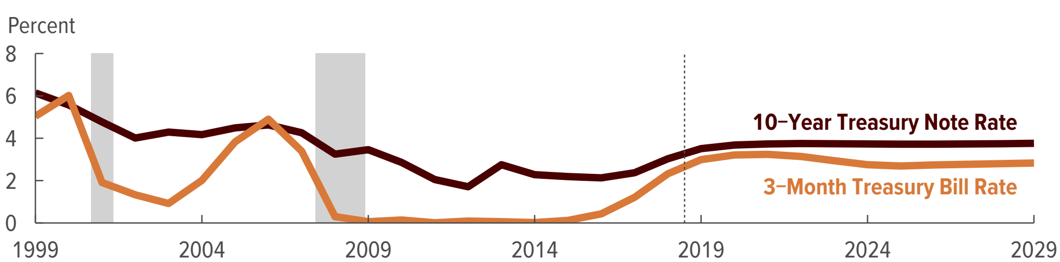
CBO expects the unemployment rate to continue to fall this year, putting upward pressure on wages. The rate begins rising next year because of the slower projected growth of real GDP.

See Figure 2-1



Stronger demand for goods, services, and labor is expected to push the rate of inflation in consumer prices slightly above the Federal Reserve's objective of 2 percent over the next few years.

See Figure 2-1



Interest rates are projected to continue to rise over the next two years as the Federal Reserve raises the federal funds rate to slow the growth of overall demand and reduce the associated inflationary pressures.

See Figure 2-1