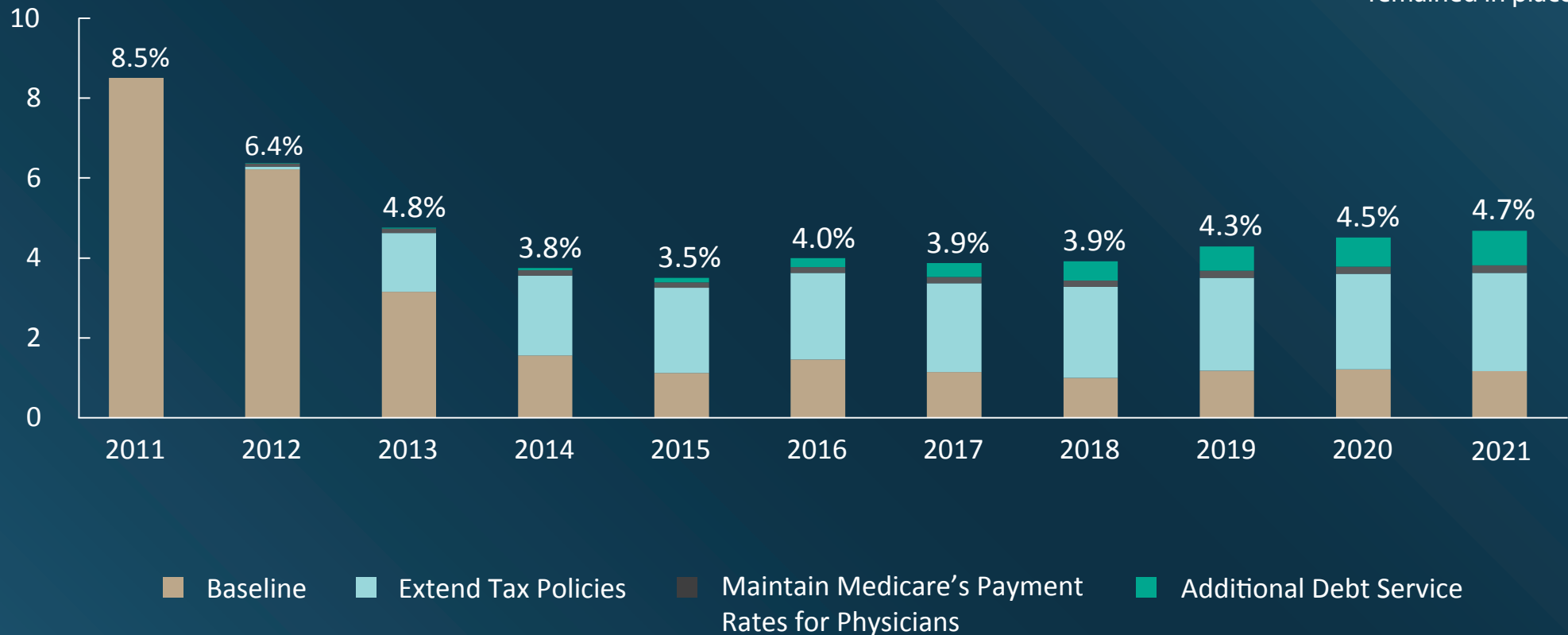


Deficit Assuming Continuation of Certain Policies

(Percentage of GDP)

Under CBO's baseline assumptions, deficits would drop from 8.5 percent of GDP this year to 1.2 percent of GDP in 2021. However, deficits would not fall as far if certain policies were continued. CBO estimates that the deficit would be 4.7 percent of GDP if those policies remained in place.



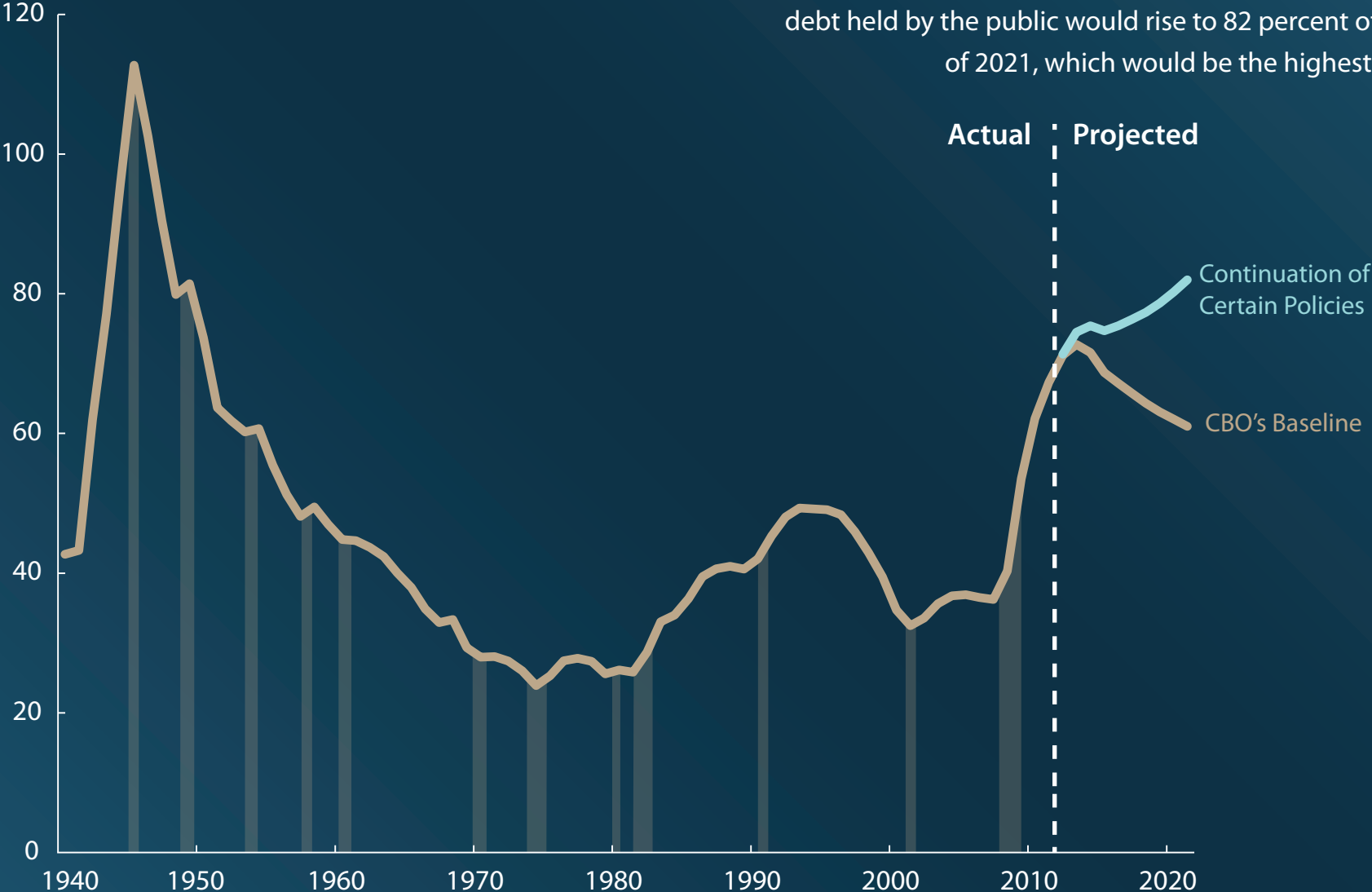
Source: Congressional Budget Office.

Note: "Extend Tax Policies" reflects the following policy assumptions: Most of the provisions in the 2010 tax act that were originally enacted in 2001, 2003, 2009, and 2010 are extended (instead of being allowed to expire on December 31, 2012, as scheduled), and the alternative minimum tax is indexed for inflation. "Maintain Medicare's payment Rates for Physicians" involves preventing the nearly 30 percent reduction in Medicare's payment rates for physicians' services that is scheduled to take effect at the end of 2011. "Additional Debt Service" is the amount of interest payments on the additional debt issued to the public that would result from the continuation of the specified policies.

Federal Debt Held by the Public

(Percentage of GDP)

With modest deficits projected for the latter part of the 2012–2021 period under CBO’s current-law baseline, debt held by the public recedes as a percentage of GDP. However, if certain provisions that are part of current law did not expire as scheduled, debt held by the public would rise to 82 percent of GDP by the end of 2021, which would be the highest level since 1948.



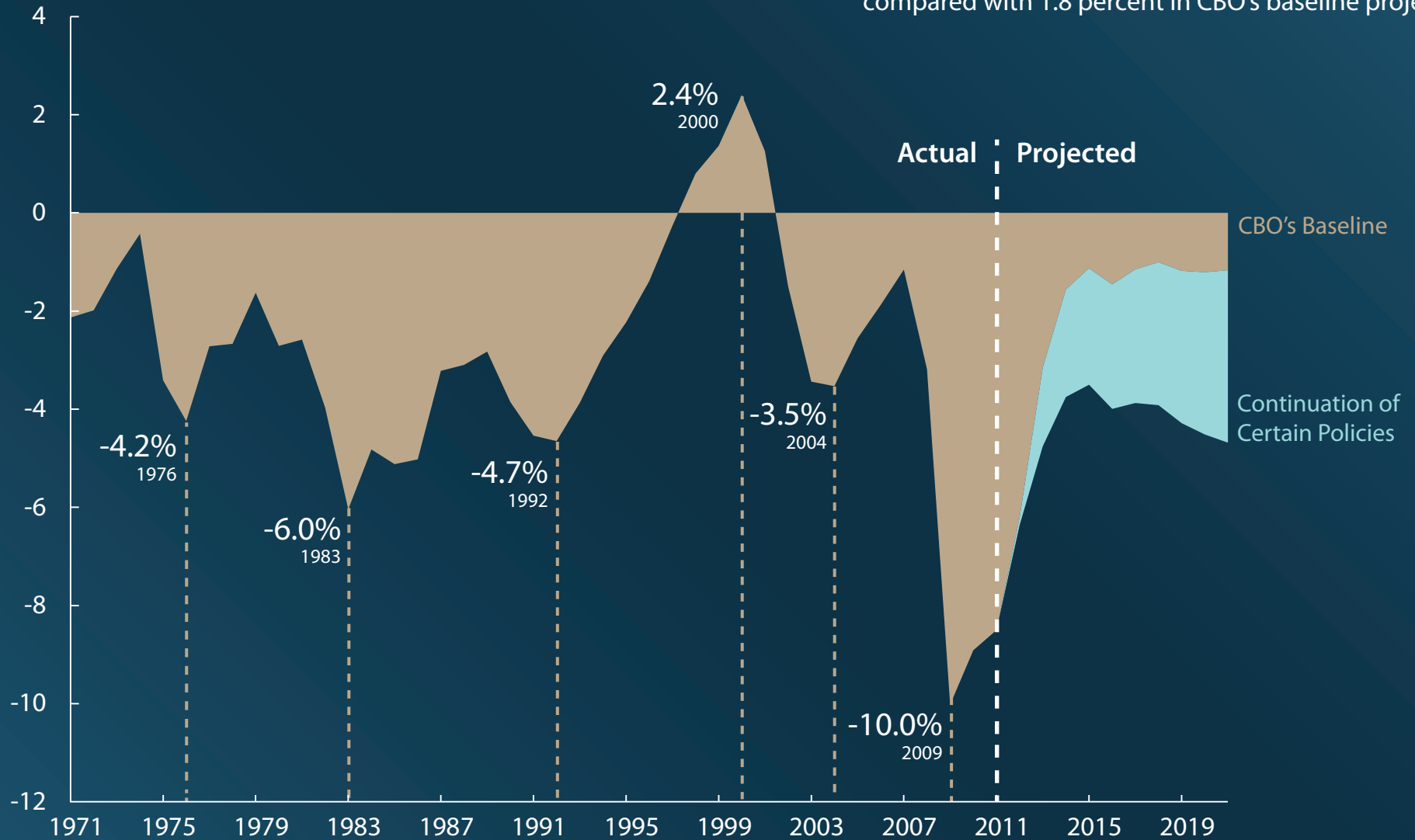
Source: Congressional Budget Office.

Note: The projected debt with the continuation of certain policies is based on several assumptions: first, that most of the provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 that originally were enacted in 2001, 2003, 2009, and 2010 do not expire on December 31, 2012, but instead continue; second, that the alternative minimum tax is indexed for inflation after 2011; and third, that Medicare’s payment rates for physicians are held constant at their 2011 level. Shaded bars indicate periods of recession.

Total Deficits or Surpluses

(Percentage of GDP)

If some of the changes specified in current law did not occur and certain current policies were continued instead, then annual deficits from 2012 through 2021 would be much higher—averaging 4.3 percent of GDP, compared with 1.8 percent in CBO's baseline projections.



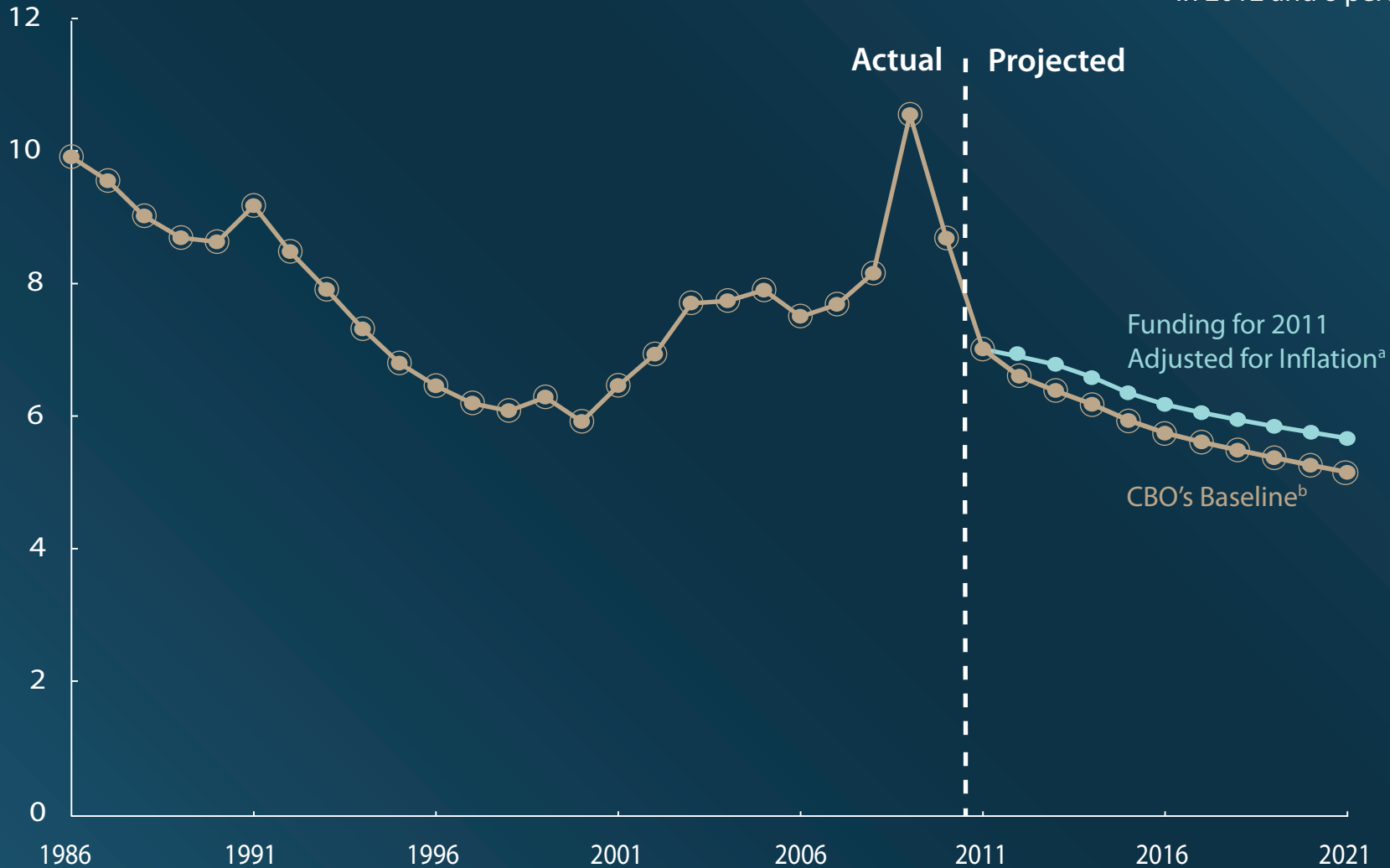
Source: Congressional Budget Office.

Note: The projected deficit with the continuation of certain policies is based on several assumptions: first, that most of the provisions of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 that originally were enacted in 2001, 2003, 2009, and 2010 do not expire on December 31, 2012, but instead continue; second, that the alternative minimum tax is indexed for inflation after 2011; and third, that Medicare's payment rates for physicians are held constant at their 2011 level.

Total Discretionary Budget Authority Excluding War Funding

(Percentage of GDP)

If discretionary budget authority was allowed to grow at the rate of inflation, without the constraint on nonwar funding imposed by the caps established in the Budget Control Act, that budget authority would be about 4 percent higher in 2012 and 8 percent higher in 2021.



Source: Congressional Budget Office.

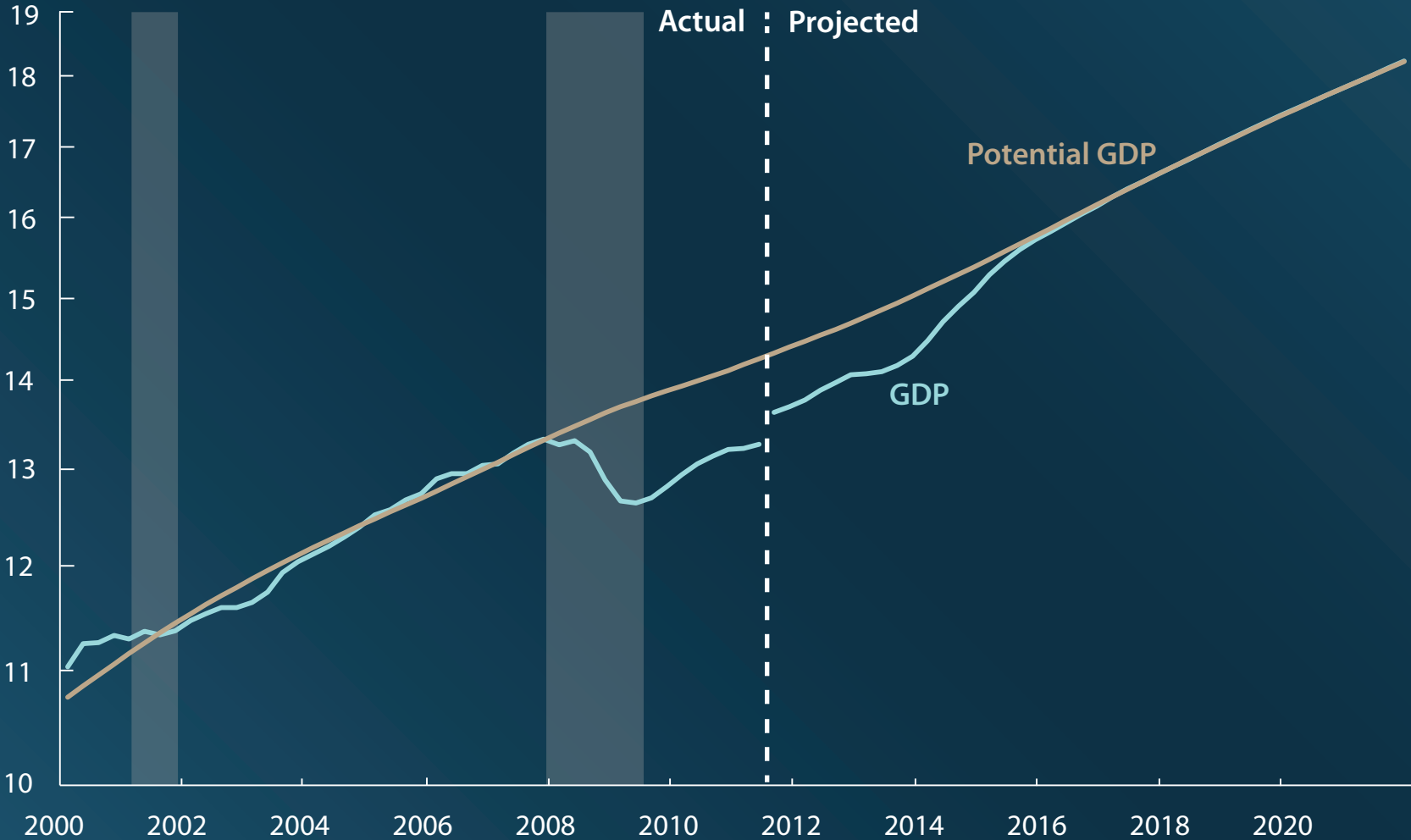
^a Data reflect the assumption that discretionary funding related to federal personnel is inflated using the employment cost index for wages and salaries. All other discretionary funding is adjusted using the gross domestic product price index.

^b When constructing its baseline, CBO assumes that discretionary funding will adhere to the statutory caps recently enacted into law by the Budget Control Act of 2011.

Real Gross Domestic Product

(Trillions of 2005 dollars, logarithmic scale)

CBO expects that the economic recovery will continue but that real (inflation-adjusted) GDP will stay below the economy's potential—a level that corresponds to a high rate of use of labor and capital—until 2017.



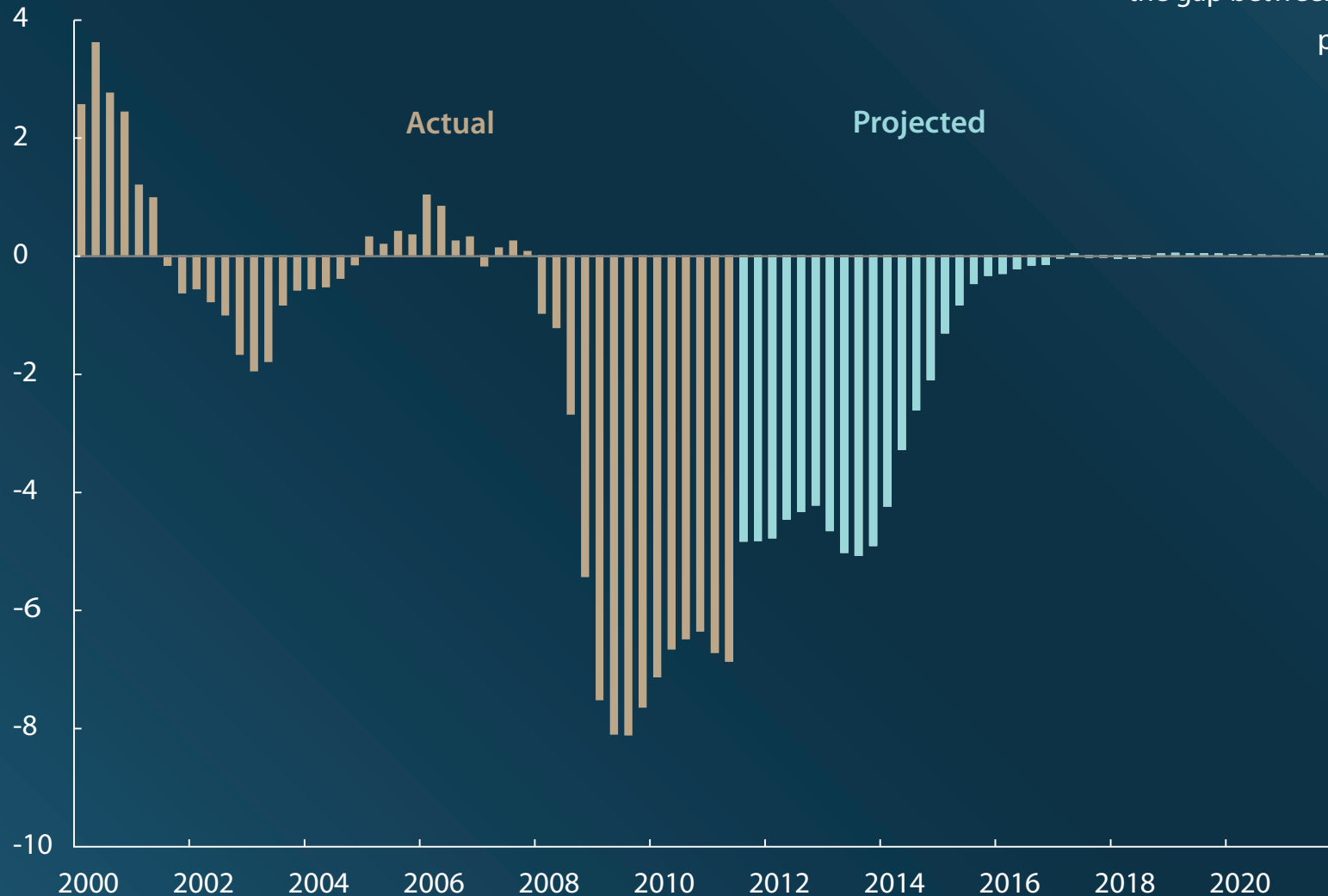
Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: Real gross domestic product is the output of the economy adjusted to remove the effects of inflation. Potential GDP is CBO's estimate of the output that the economy would produce with a high rate of use of its labor and capital resources. Data are quarterly. Actual data for GDP, which are plotted through the second quarter of 2011, incorporate the July 2011 revisions of the national income and product accounts. Projections of GDP, which are plotted through the fourth quarter of 2021, are based on data issued before the revisions. Shaded bars indicate periods of recession.

Ratio of GDP to Potential GDP

(Percent)

CBO projects that GDP will grow considerably faster than potential GDP between 2013 and 2016. That growth will bring the economy to a high rate of resource use—completely closing the gap between the economy’s actual and potential output—by 2017.



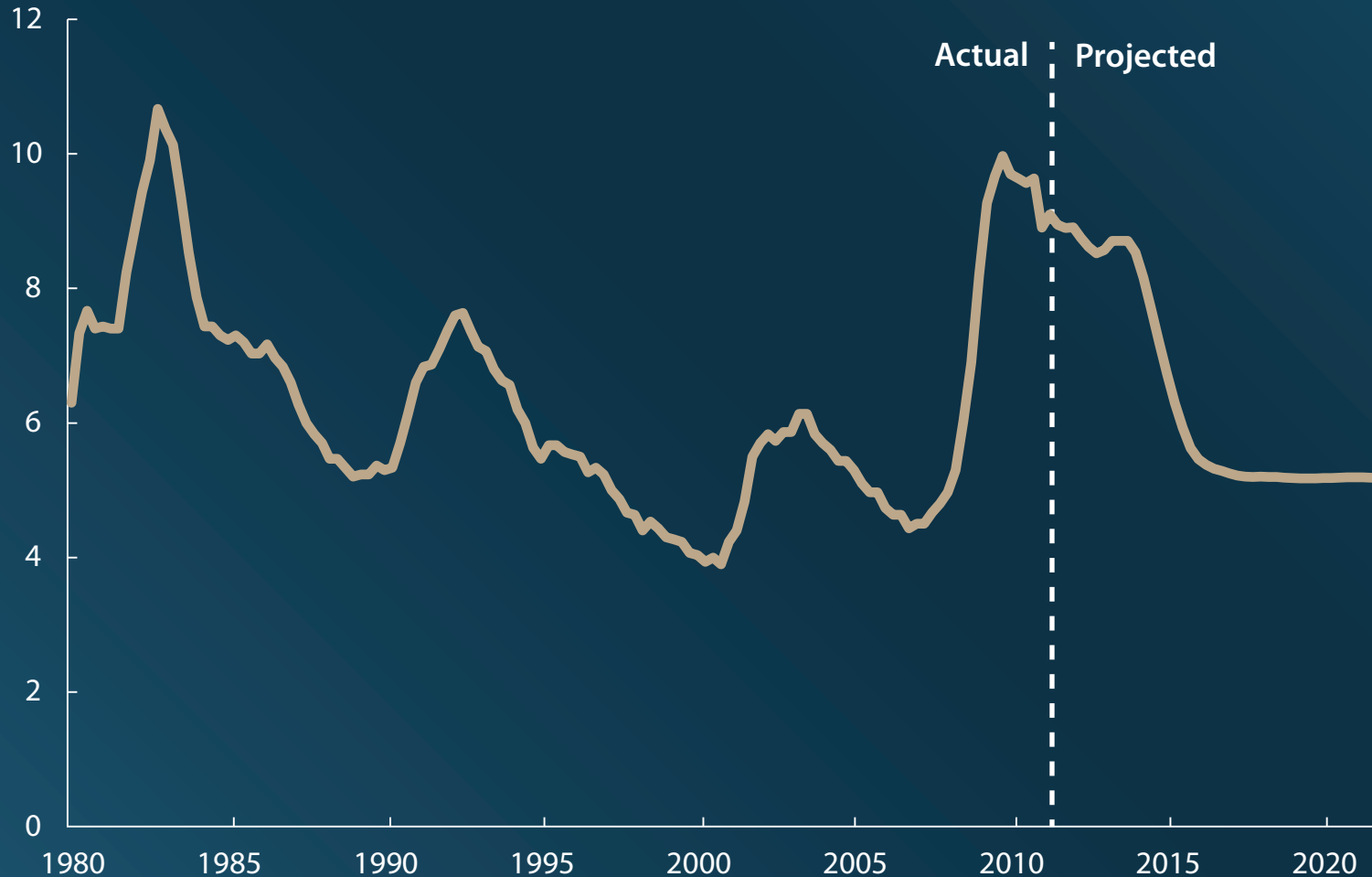
Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: Real gross domestic product is the output of the economy adjusted to remove the effects of inflation. Potential GDP is CBO’s estimate of the output that the economy would produce with a high rate of use of its labor and capital resources. Data are quarterly. Actual data for GDP, which are plotted through the second quarter of 2011, incorporate the July 2011 revisions of the national income and product accounts. Projections of GDP, which are plotted through the fourth quarter of 2021, are based on data issued before the revisions.

Unemployment Rate

(Percent)

With the projection of modest growth in output, CBO expects employment to expand slowly during the rest of this year and next year. The unemployment rate is projected to fall from an average of 9.1 percent in the second quarter of 2011 to 8.9 percent in the fourth quarter of 2011 and to 8.5 percent in the fourth quarter of 2012.



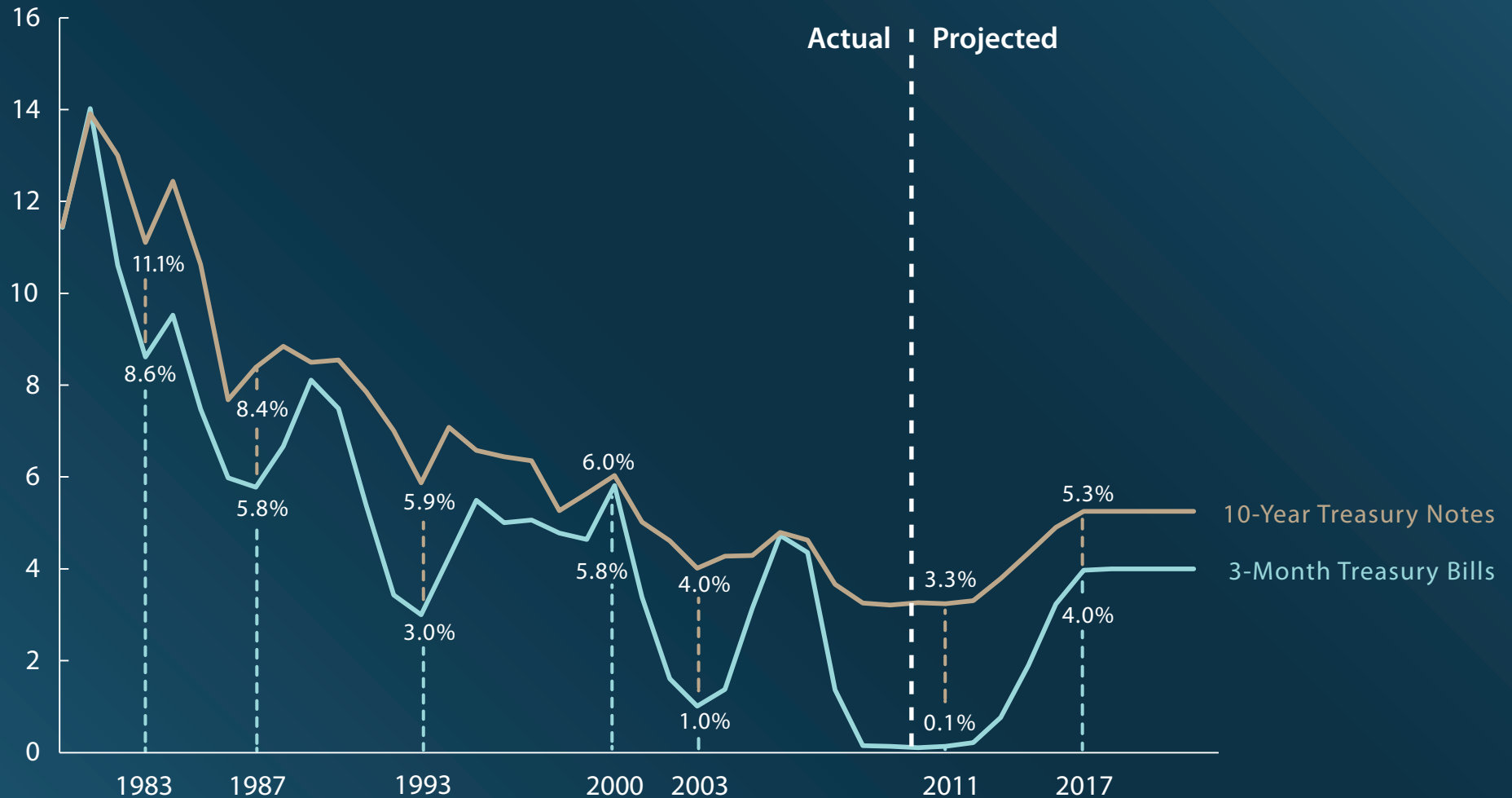
Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

Notes: The unemployment rate is a measure of the number of jobless people who are available for work and are actively seeking jobs, expressed as a percentage of the labor force. Data are quarterly. Actual data are plotted through the second quarter of 2011; projections are plotted through the fourth quarter of 2021.

Interest Rates

(Percent)

Consistent with its forecast of modest economic growth through 2013 under current law, CBO projects that interest rates will remain very low for the next few years and then rise to more-normal levels as output approaches its potential in 2017.



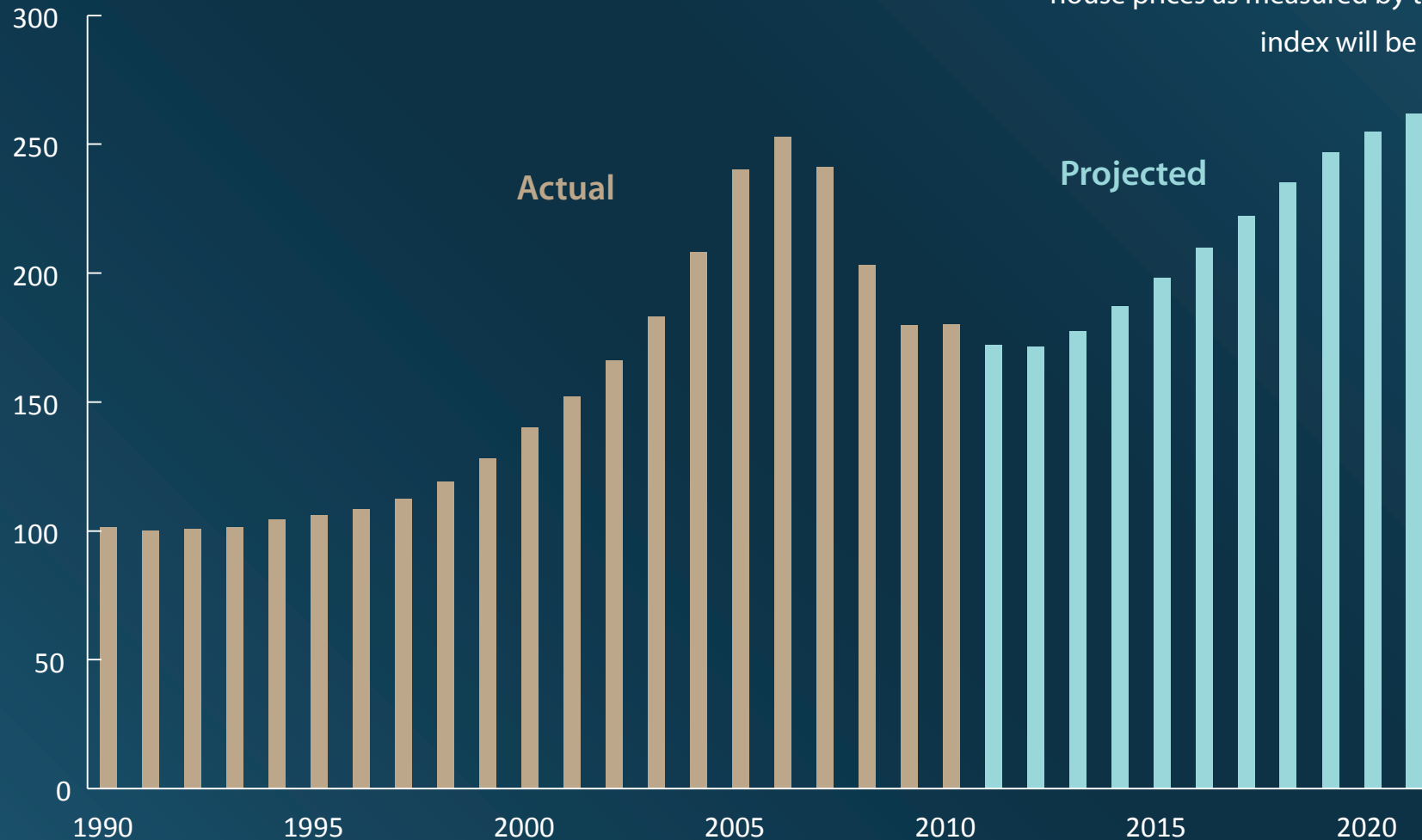
Sources: Congressional Budget Office; Federal Reserve.

Notes: Data are annual. Actual data are plotted through 2010; projections are plotted through 2021.

House Prices

(Index, 1991 = 100)

House prices are nearing the end of their decline, in CBO's estimation. But they probably will not begin a sustained increase until the second half of 2012, when CBO expects there to be fewer foreclosures and distressed sales. CBO projects that by the end of 2013, house prices as measured by the S&P/Case-Shiller index will be back to 2003 levels.



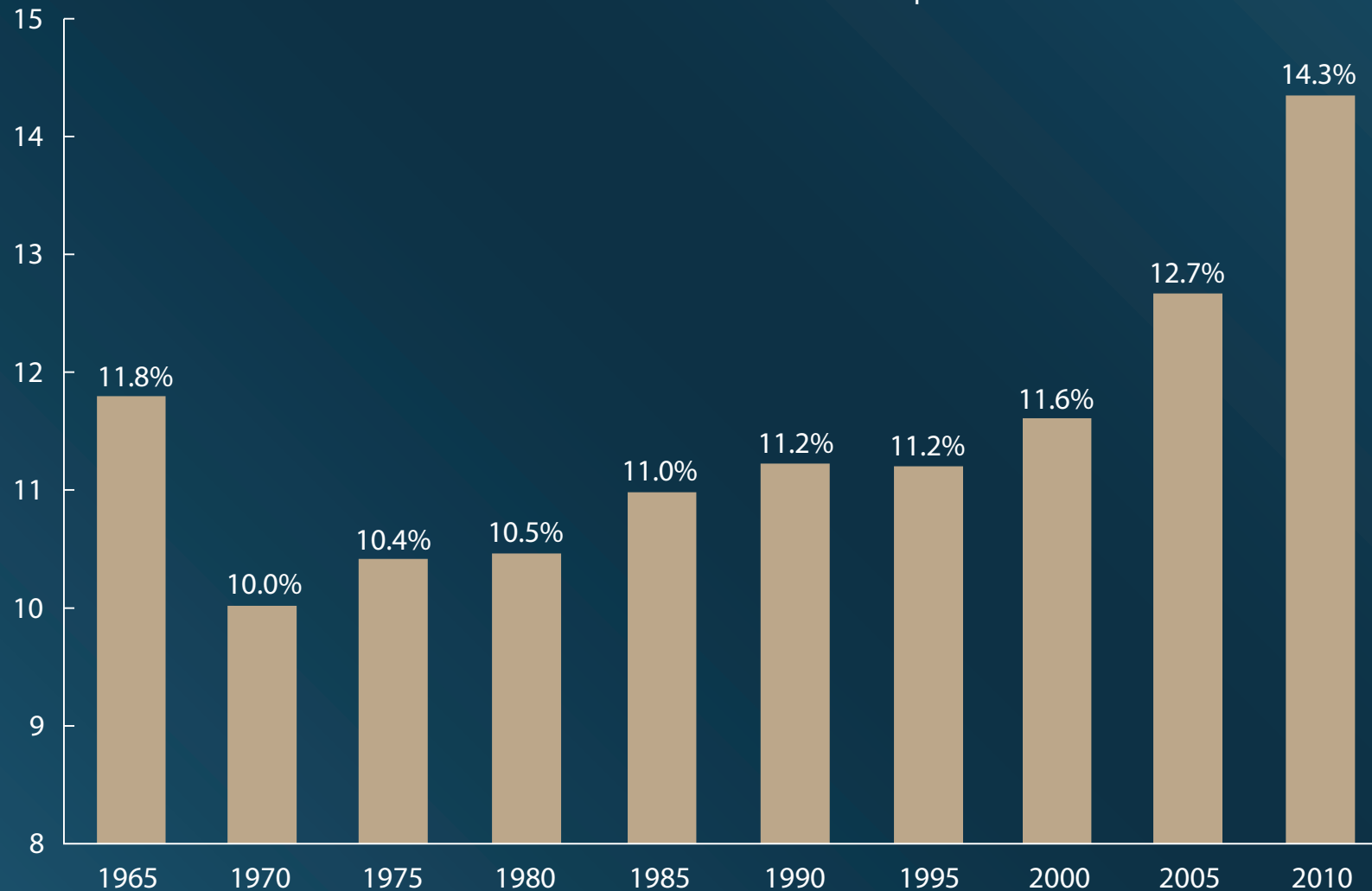
Sources: Congressional Budget Office; Standard & Poor's (S&P) Financial Services.

Notes: The S&P/Case-Shiller national home price index tracks the prices of home sales financed using mortgages purchased or securitized by Fannie Mae or Freddie Mac as well as sales financed with mortgages that do not conform to the size or credit criteria for purchase by Fannie Mae or Freddie Mac. Values shown are annual averages of quarterly data. Actual data are plotted through 2010; projections are plotted through 2021.

Vacant Housing Units

(Percentage of total units)

The recovery of the housing market is likely to be slowed by the fact that an unusually large percentage of housing units are now vacant. That percentage, which was already high before the 2007–2009 recession because of overbuilding during the housing boom, partly reflects the large number of foreclosures and continued slow pace of household formation since the end of the recession.



Sources: Congressional Budget Office; Department of Commerce, Census Bureau.

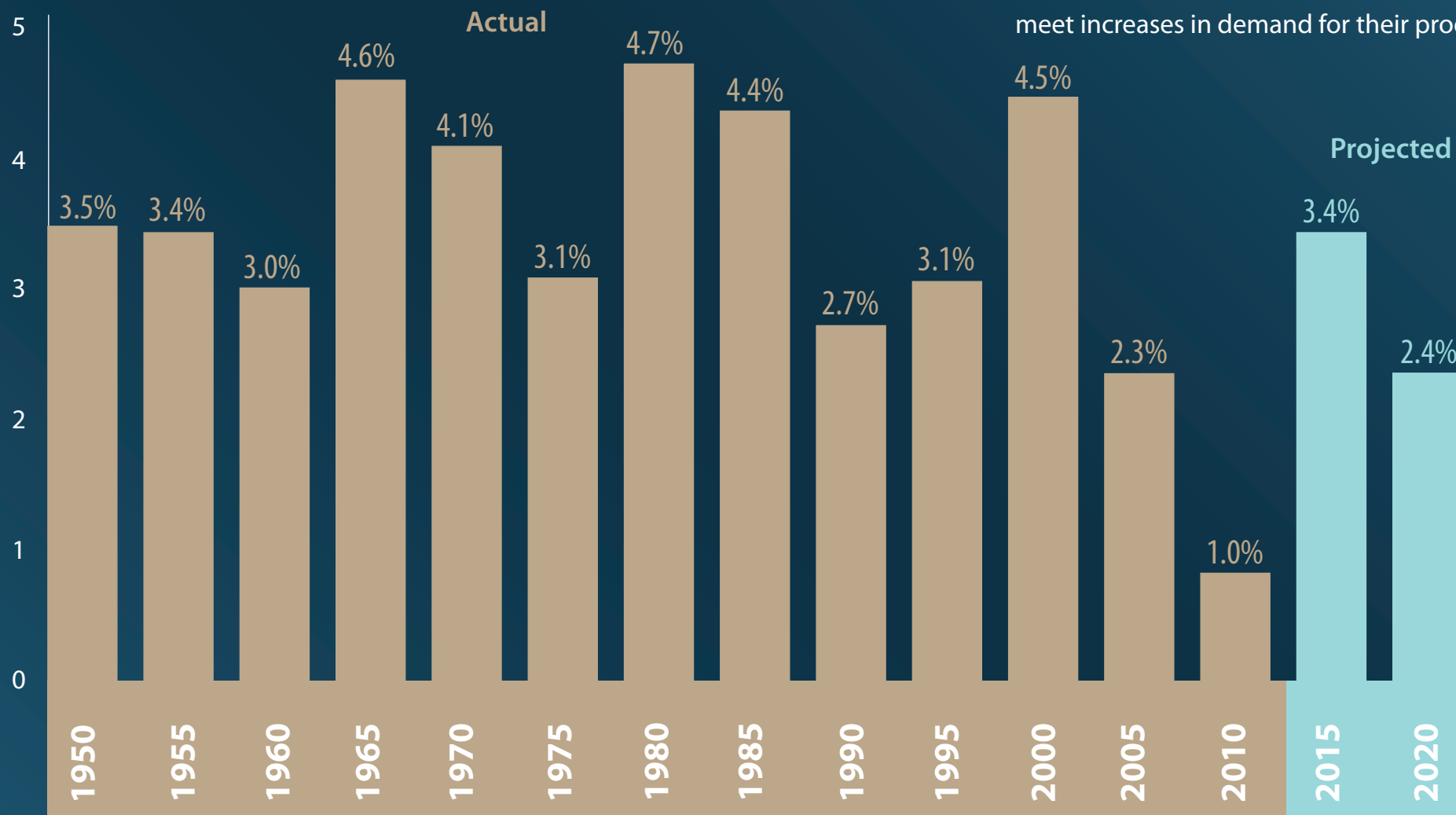
Notes: Housing units comprise occupied units and vacant units, including units intended for year-round use and seasonal units.

Values are annual averages of quarterly data.

Net Business Fixed Investment

(Percentage of GDP)

Investment by businesses declined sharply during the recession, and although it picked up a bit relative to GDP in 2010, it remained well below its long-run historical average. The growth in GDP that CBO has projected for the near term will encourage businesses to boost net fixed investment to meet increases in demand for their products.



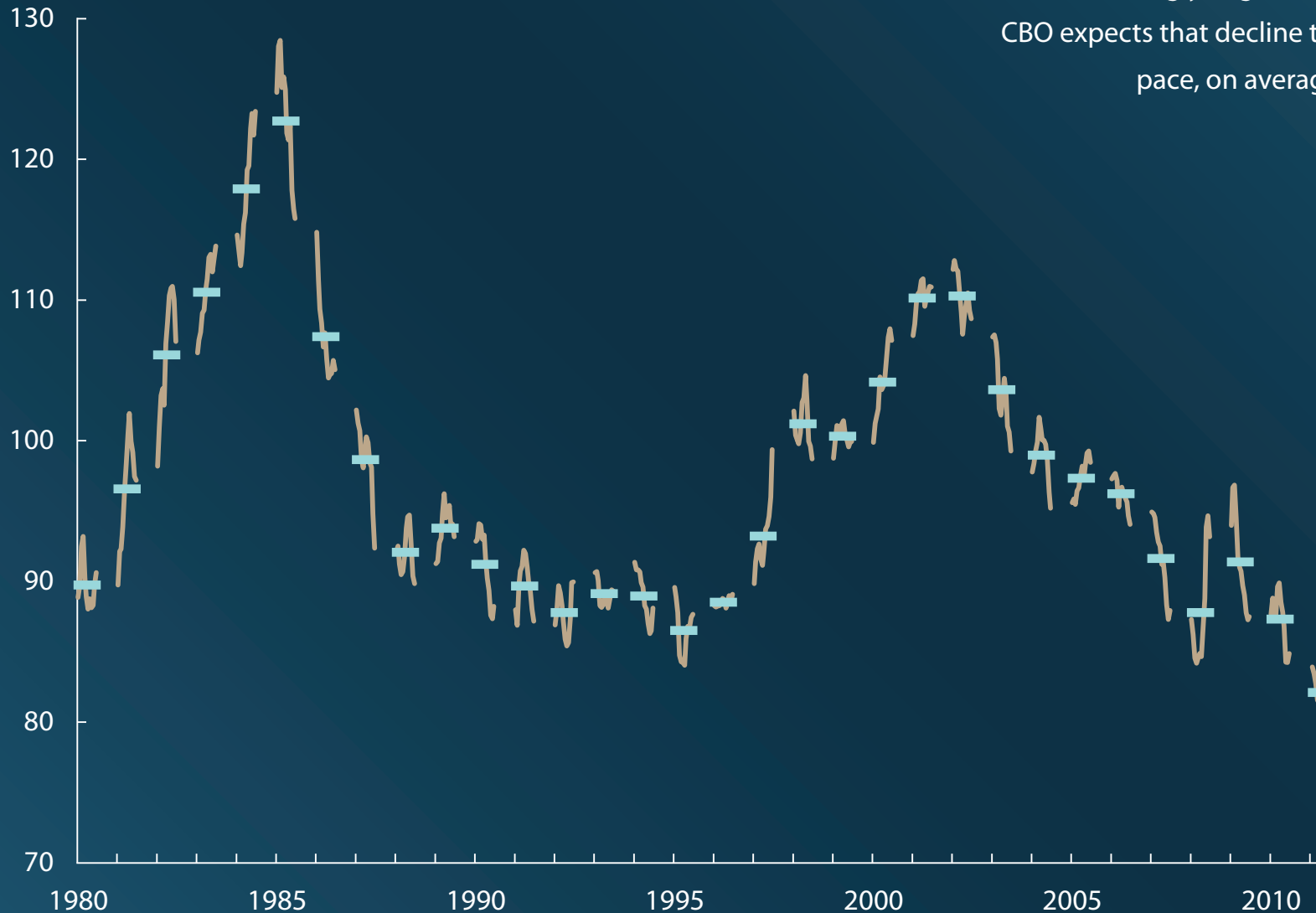
Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: Business fixed investment consists of businesses' spending on nonresidential structures, equipment, and software. It is shown here net of depreciation. Data are annual. Actual data incorporate the July 2011 revisions to the national income and product accounts; projections are based on data issued before the revisions.

Exchange Value of the U.S. Dollar

(Index, March 1973 = 100)

The trade-weighted exchange value of the dollar declined for most of the past decade, as foreign investors became less willing to keep adding to their increasingly large holdings of U.S. dollar assets. CBO expects that decline to continue at a moderate pace, on average, over the next 10 years.



Sources: Congressional Budget Office; Federal Reserve.

Notes: This index is an average of the U.S. dollar's exchange value against the currencies of a large group of major U.S. trading partners, adjusted for inflation and weighted by the amount of trade the United States conducts with each of those countries. The index weights change over time. Data are monthly and are plotted through July 2011. Tan lines represent a year's worth of values; light blue bars represent the annual average.

Net Job Growth per Month

(Thousands of jobs)

Labor market conditions deteriorated dramatically during the recent recession, and despite a modest recovery in job growth beginning in early 2010, employment remains well below its prerecession level.



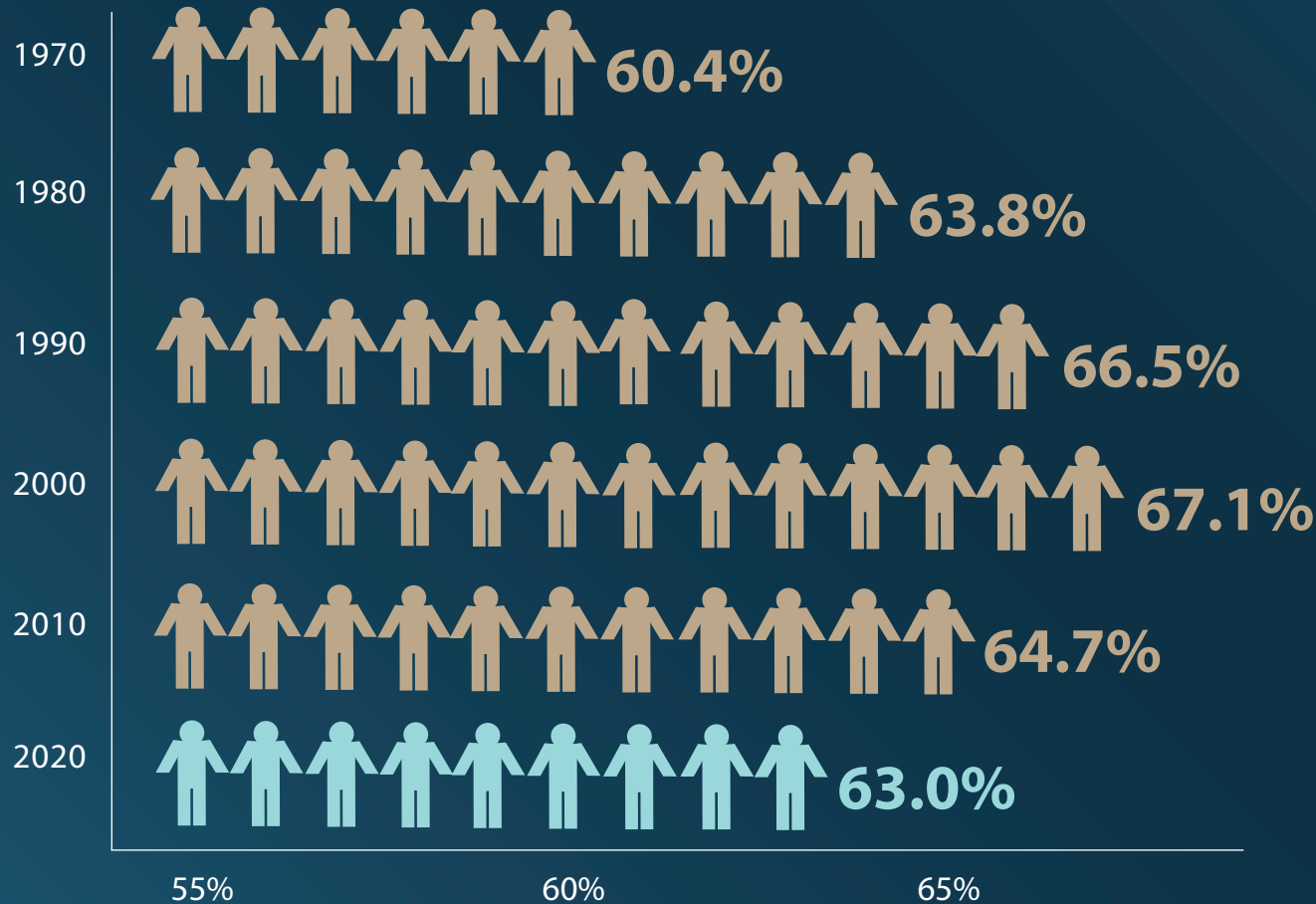
Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

Notes: Data are monthly and are plotted through July 2011. They exclude temporary jobs associated with the 2010 census.

Labor Force Participation Rate

(Percent)

The labor force participation rate has fallen significantly in the past decade. Although economic recovery will increase the demand for labor, CBO expects that rate to continue to decline as the aging of the baby boomers and tax increases scheduled under current law prompt more people to leave the labor force.



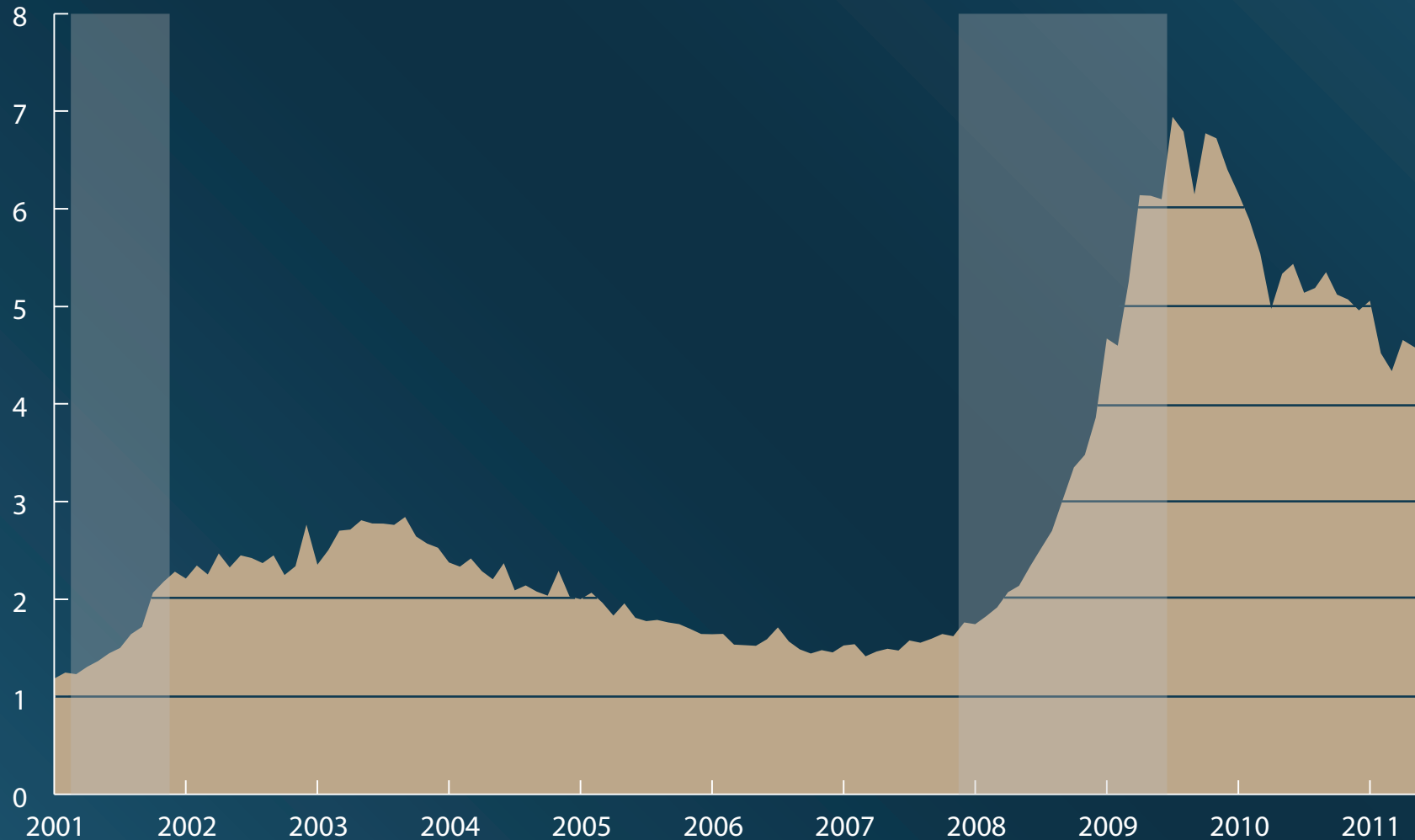
Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

Notes: The labor force participation rate is the percentage of the civilian noninstitutionalized population age 16 or older that is either working or actively looking for work. Values are annual averages of quarterly data.

Unemployed Workers per Job Opening

(Number)

The number of unemployed workers per job opening averaged about 4½ in the first half of 2011—down from an average of more than 6 in 2009 but still much higher than before the recent recession.



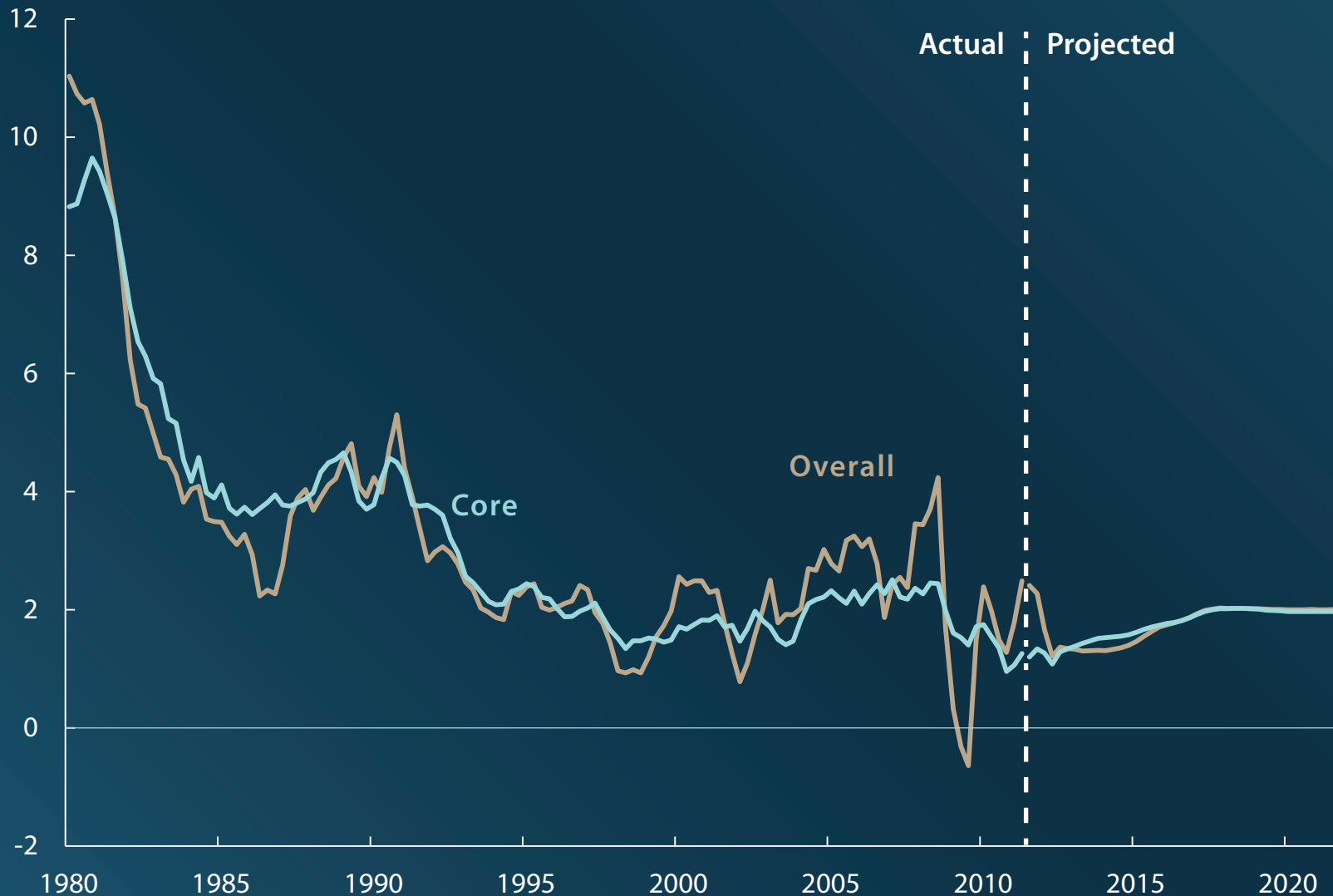
Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics.

Notes: Data are monthly and are plotted through June 2011. Shaded bars indicate periods of recession.

Inflation

(Percentage change in prices from previous year)

Although inflation increased in the first half of 2011, CBO projects that it will recede somewhat in the second half and that prices will rise at a subdued pace over the next few years.



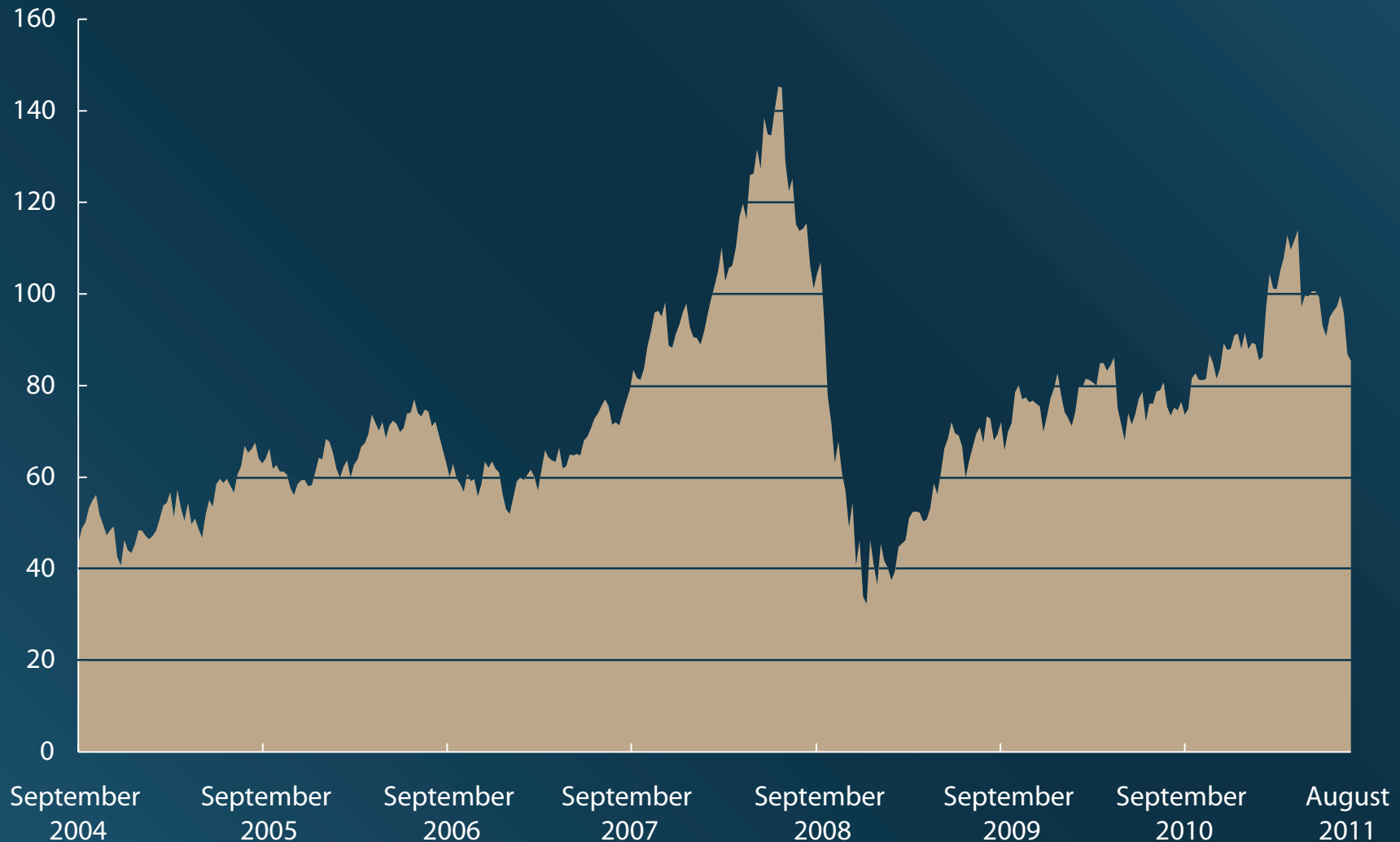
Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: The overall inflation rate is based on the price index for personal consumption expenditures; the core rate excludes prices for food and energy. Data are quarterly. Actual data, which are plotted through the second quarter of 2011, incorporate the July 2011 revisions of the national income and product accounts. Projections, which are plotted through the fourth quarter of 2021, are based on data issued before the revisions.

Crude Oil Prices

(Dollars per barrel)

A key reason for the increase in inflation earlier this year was a spike in the price of oil, which rose from an average of about \$75 per barrel last summer to more than \$110 in late April, partly because of political uncertainty and supply disruptions in the Middle East and North Africa. The benchmark price of crude oil fell back below \$100 at the end of June and has declined further since then.



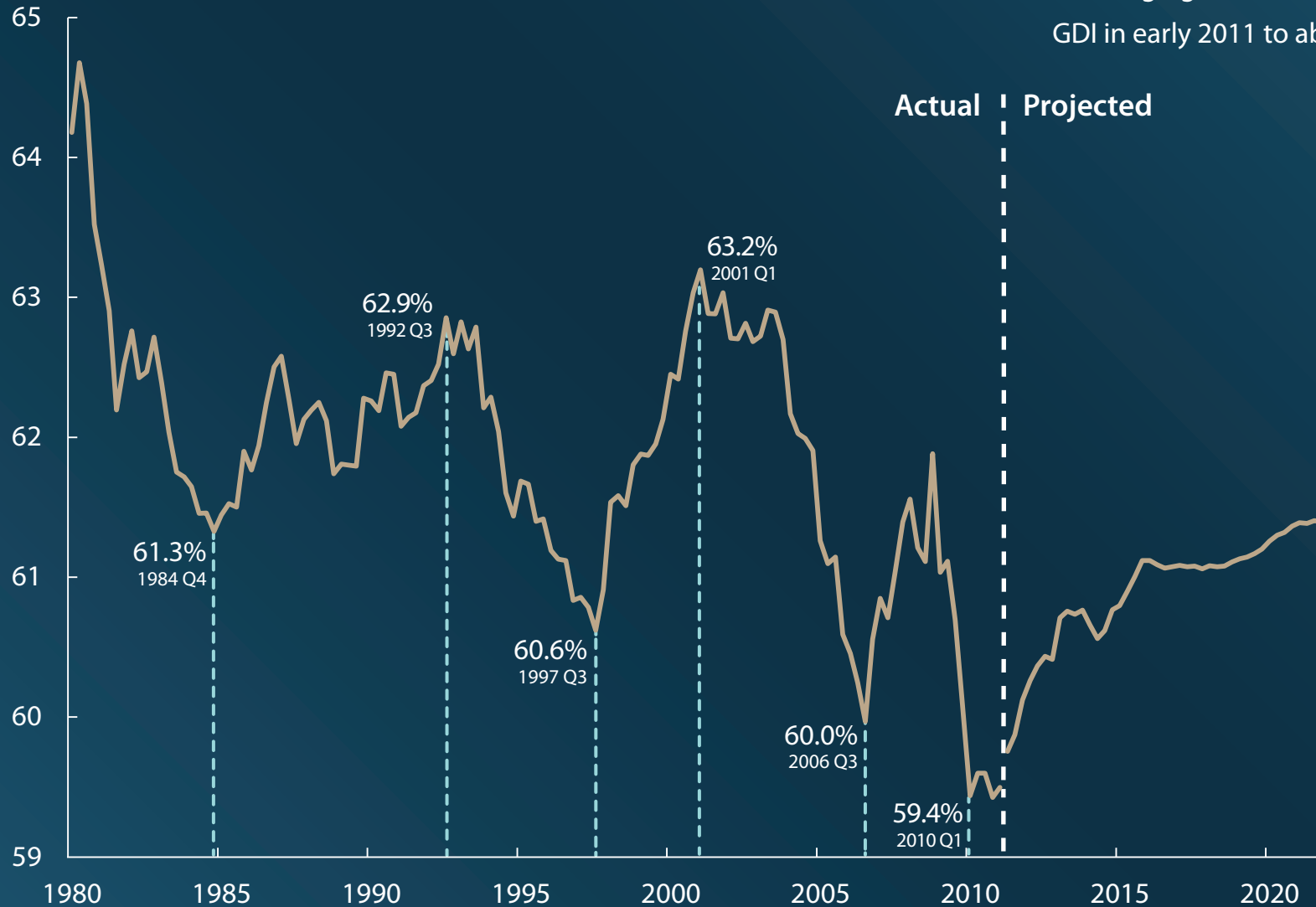
Sources: Congressional Budget Office; Bloomberg.

Notes: The price shown is the spot price of the West Texas Intermediate grade of crude oil delivered at Cushing, Oklahoma. Data are prices at the end of each week and are plotted through August 12, 2011.

Labor Income

(Percentage of gross domestic income)

Labor income has fallen sharply as a share of gross domestic income since 2009—well below its share during most of the past 30 years. In CBO's projections, labor income grows faster than GDI over the next decade, bringing its share from about 60 percent of GDI in early 2011 to about 61 percent by 2021.



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: Labor income is defined here as labor compensation plus 65 percent of proprietors' income. Gross domestic income is the sum of all income earned in the production of gross domestic product. Data are quarterly. Actual data, which are plotted through the first quarter of 2011, incorporate the July 2011 revisions of the national income and product accounts. Projections, which are plotted through the fourth quarter of 2021, are based on data issued before the revisions.

Stock Prices

(Index, 1941–1943 = 10)

Stock prices, as measured by the value of the S&P 500 index, dropped by more than 15 percent between early July and mid-August 2011, returning to their level of late 2010.



Sources: Congressional Budget Office; Bloomberg.

Notes: The Standard & Poor's (S&P) 500 index includes the prices of actively traded common stocks of 500 leading companies in key industries of the U.S. economy. Data are monthly; the value for August 2011 runs through August 19. The span of each line reflects the high and low index values for that month.