Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

The U.S. Economic Outlook

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The Congressional Budget Office’s Economic Outlook in Brief

Forecast for 2023 to 2025:

- Growth will be sustained but with a soft patch in the near term.
- Unemployment will rise slightly.
- Inflation will gradually return to prepandemic levels.
- Interest rates will decline as inflation comes under control.

Risks to the Outlook:

- The outlook for inflation presents the greatest uncertainty.
- The upside risks of lower inflation and faster growth are balanced with the downside risks of higher inflation and slower growth.

CBO's Outlook at a Glance

	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024	2022	2023	2024	2025
	Percentage Change (Annual Rate)								Percentage Change (Q4 to Q4)			
Real Gross Domestic Product	1.3	1.4	0.6	0.3	0.9	1.4	1.6	2.2	0.9	0.9	1.5	2.4
	Quarterly Average								Q4 Average			
Unemployment (Percent)	3.5	3.6	3.8	4.1	4.3	4.5	4.6	4.7	3.6	4.1	4.7	4.5
	Percentage Change (Annual Rate)								Percentage Change (Q4 to Q4)			
Inflation												
PCE Inflation	4.2	3.0	3.0	3.1	2.8	2.5	2.5	2.4	5.7	3.3	2.6	2.2
Core PCE Inflation	5.0	3.5	3.2	3.0	2.8	2.6	2.5	2.4	4.8	3.7	2.6	2.2
	Quarterly Average								Q4 Average			
Interest Rates (Percent)												
Federal Funds	4.5	5.0	5.3	5.4	5.4	5.1	4.9	4.5	3.7	5.4	4.5	3.6
10-Year Treasury Notes	3.6	3.6	3.8	4.0	4.1	4.1	4.0	4.0	3.8	4.0	4.0	3.5

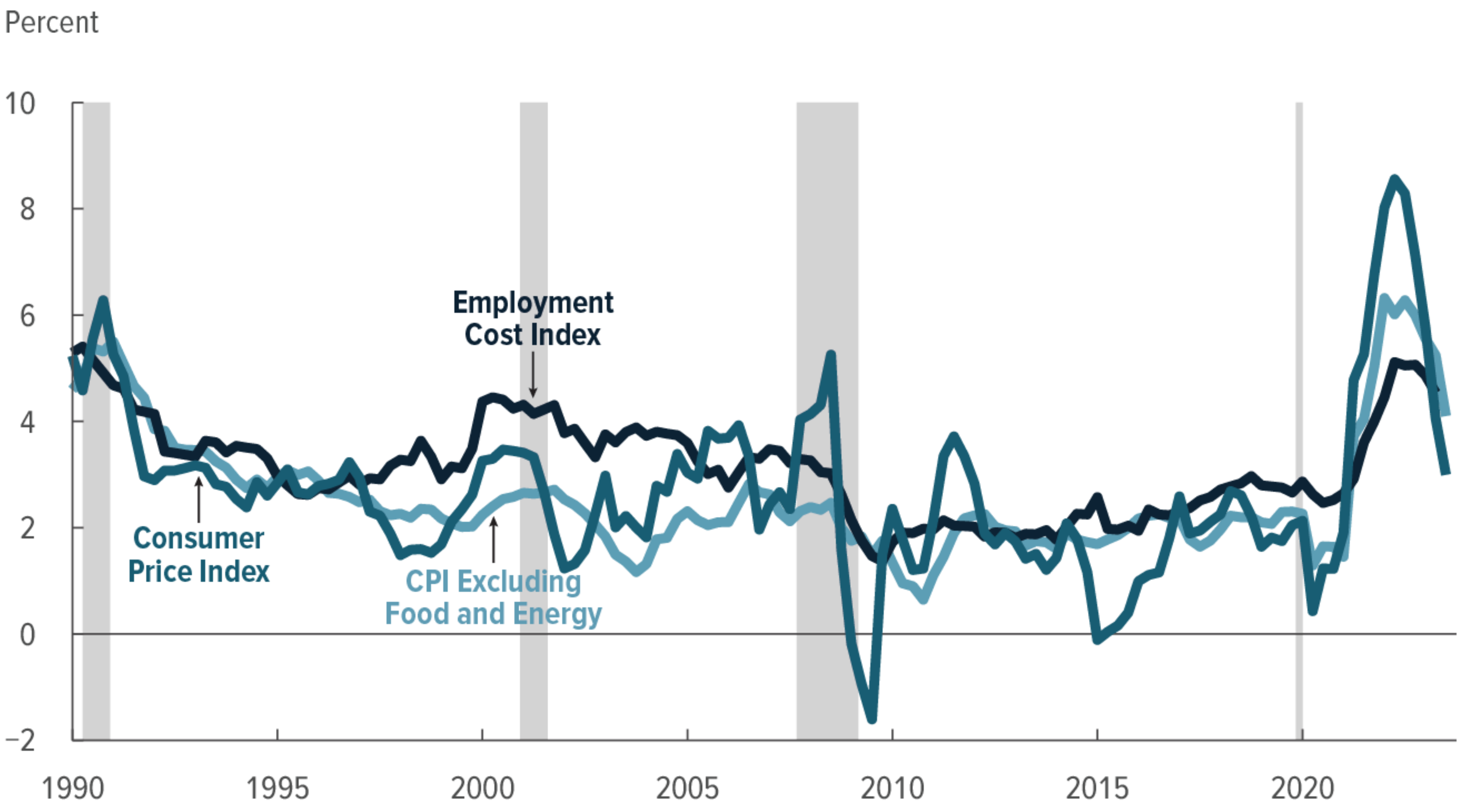
In CBO's forecast, output growth remains positive but is too slow to prevent unemployment from rising—although only by about 1 percentage point.

Inflation declines as a result of increased slack in the economy and an end to supply chain disruptions.

Interest rates decline as inflation declines and monetary policy becomes less restrictive.

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

Inflation

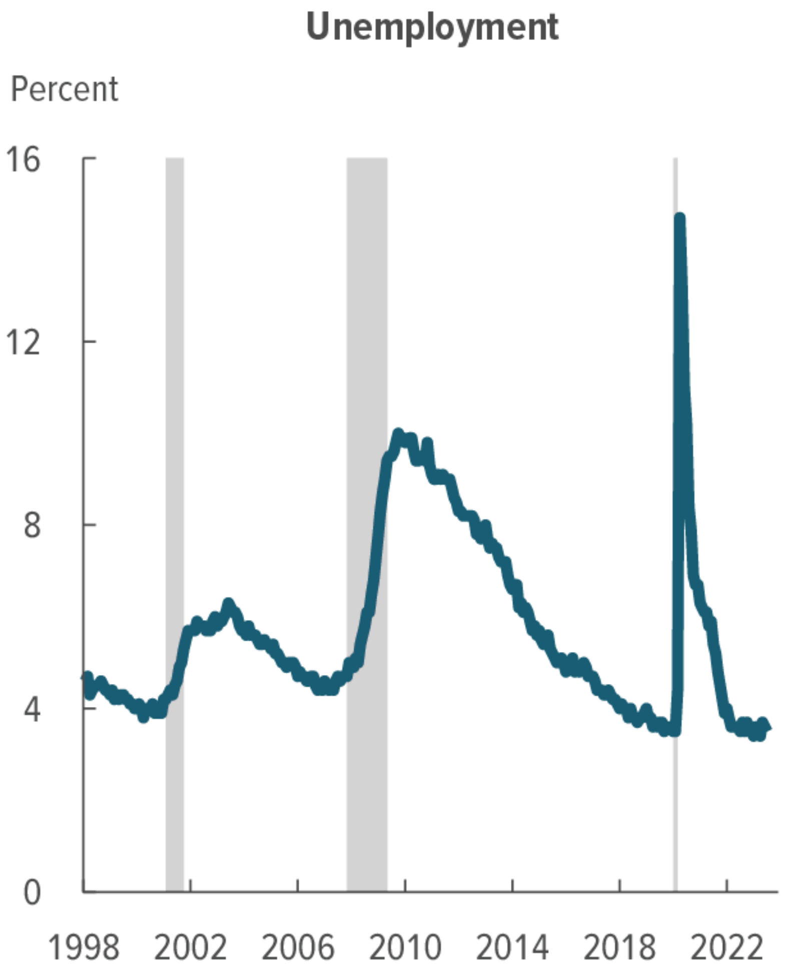


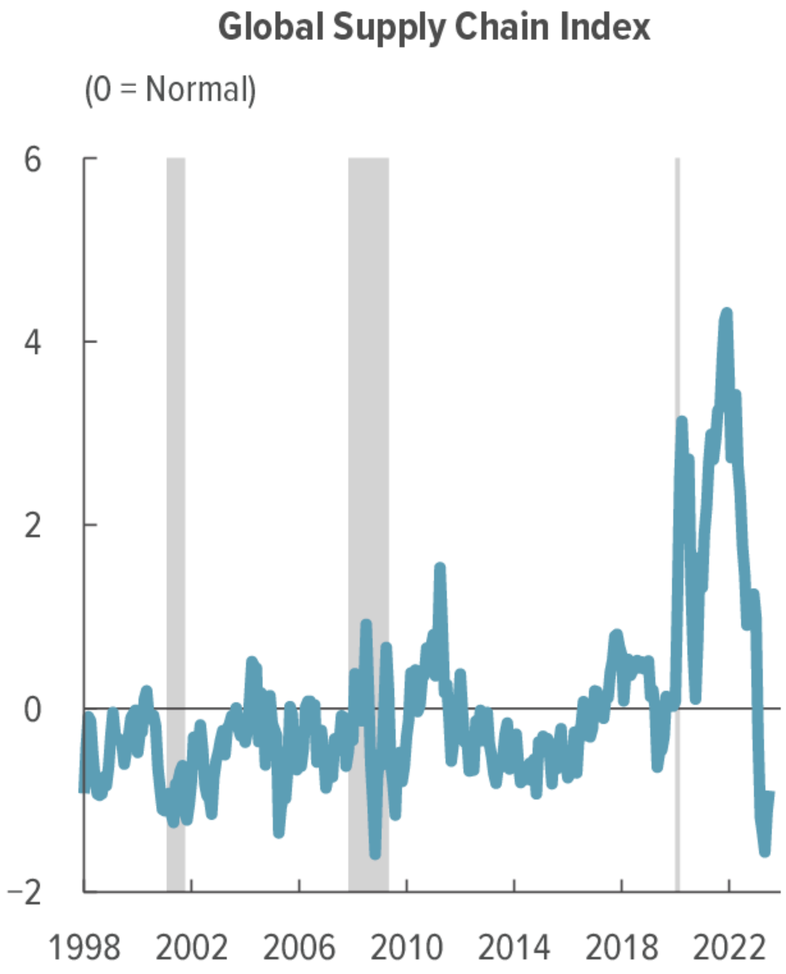
Broad measures of inflation peaked in mid-2022—their highest levels in decades. The decline over the past year has been dramatic, however.

CBO and other economic forecasters have struggled to determine the extent to which those dynamics reflect fundamental and persistent supply constraints or idiosyncratic and transitory disruptions related to the coronavirus pandemic.

Data source: Congressional Budget Office, using data from the Bureau of Labor Statistics.

Inflation Determinants: Fundamental or Idiosyncratic?





Unemployment averaged 3.6 percent in 2022, well below CBO's estimate of the noncyclical rate of 4.4 percent. The unemployment rate was also 3.6 percent in 2019, when inflation (excluding food and energy prices) was a modest 1.6 percent, suggesting that labor constraints were not the dominant inflationary pressure.

Alternatively, supply disruptions were severe in 2022 but have improved dramatically since then.

See, for example, U. Devrim Demirel and Matthew Wilson, *Effects of Fiscal Policy on Inflation: Implications of Supply Disruptions and Economic Slack*, Working Paper 2023-05 (Congressional Budget Office, April 2023), www.cbo.gov/publication/59056.