



Congressional Budget Office

March 30, 2017

The 2017 Budget and Economic Outlook

Presentation to the Prosperity Caucus
Washington, D.C.

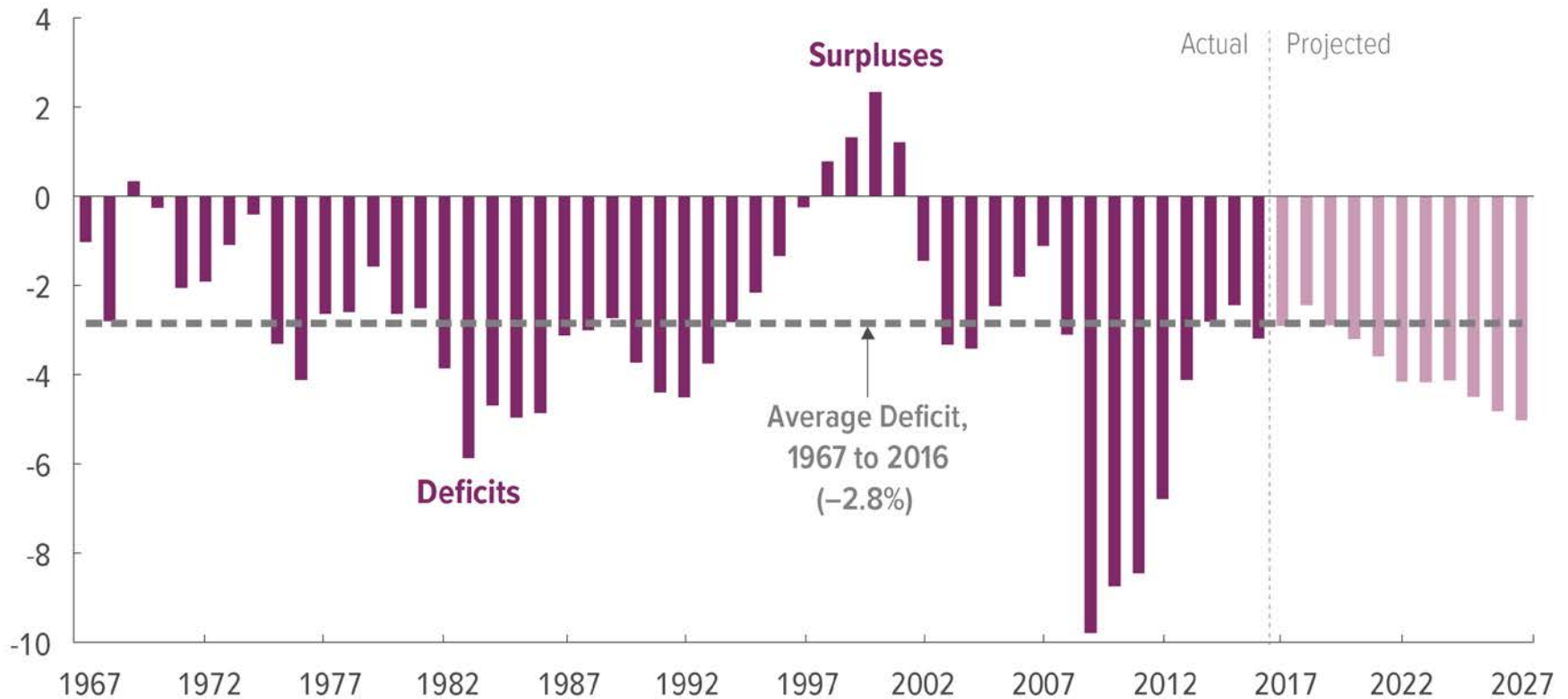
Keith Hall
Director

This presentation draws on *The Budget and Economic Outlook: 2017 to 2027* (January 2017), www.cbo.gov/publication/52370.

The Budget Outlook

Total Deficits or Surpluses

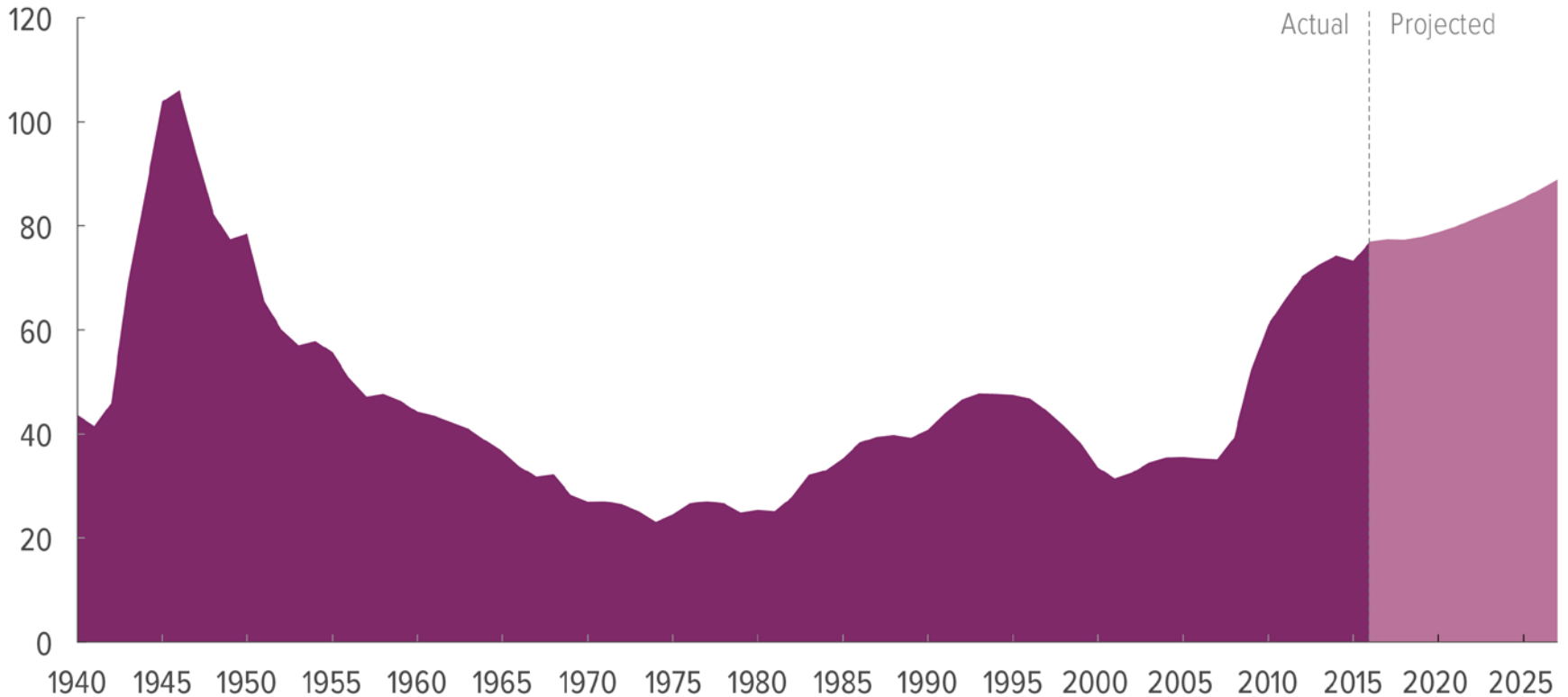
Percentage of GDP



By 2027, if current laws remained generally unchanged, the deficit would reach 5.0 percent of GDP, far exceeding its 50-year average.

Federal Debt Held by the Public

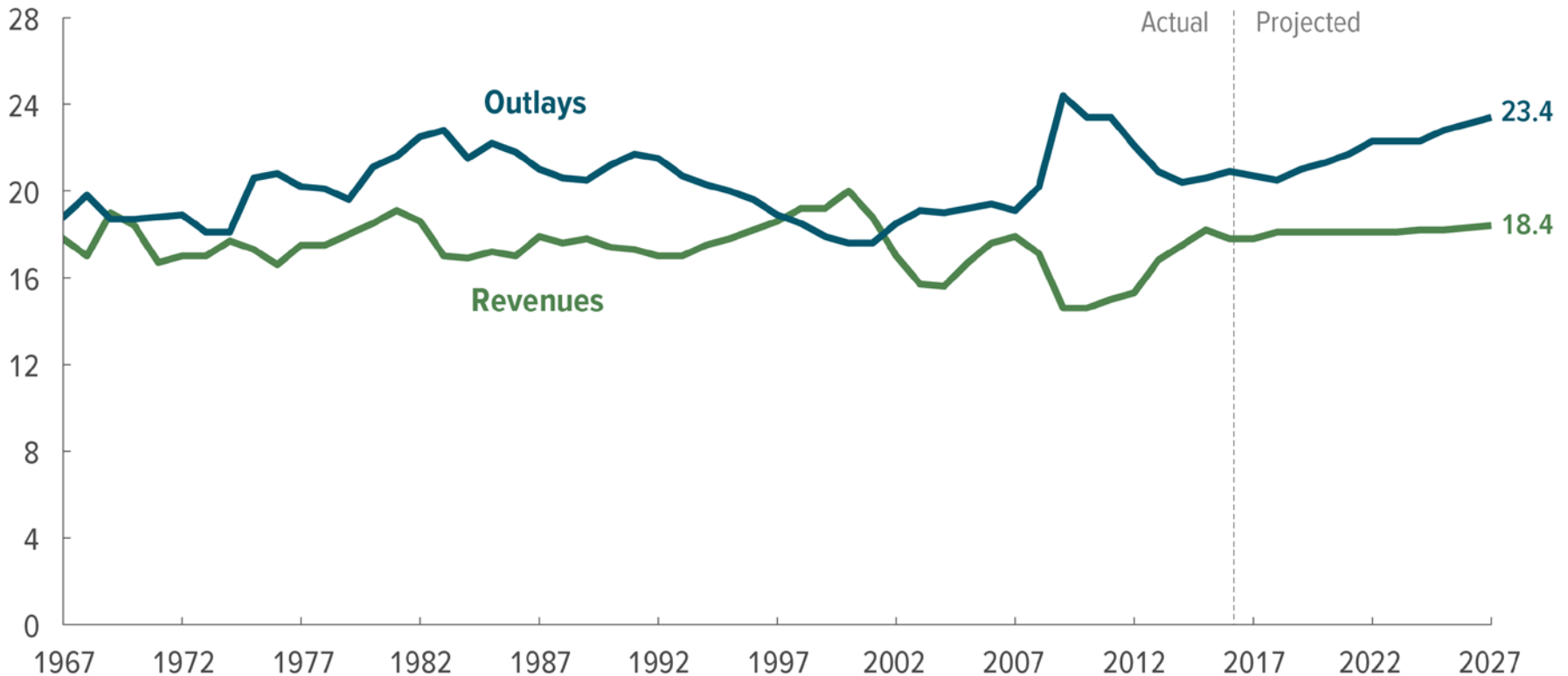
Percentage of GDP



High and rising federal debt would have serious negative consequences for the nation, including increasing federal spending for interest payments, restraining economic growth in the long term, giving policymakers less flexibility to respond to unexpected challenges, and eventually increasing the risk of a fiscal crisis.

Total Revenues and Outlays

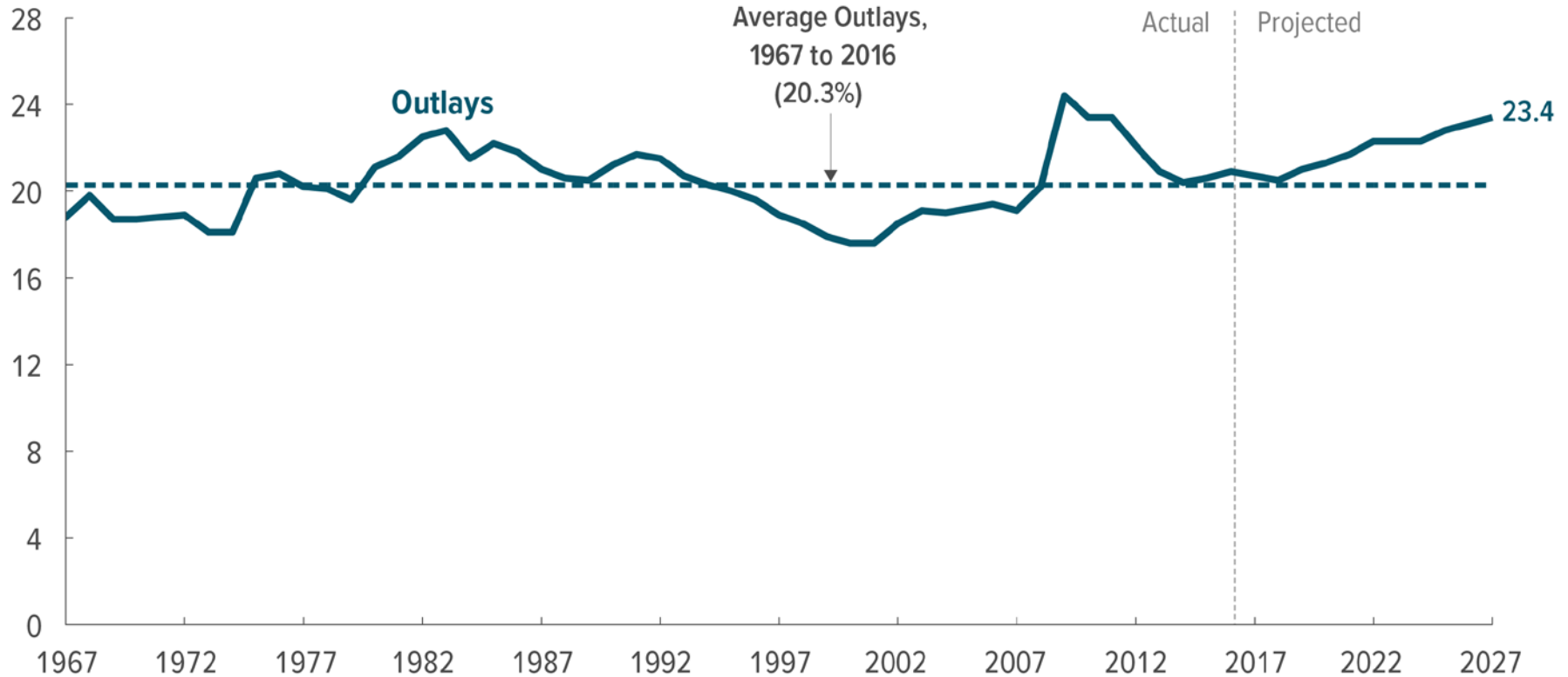
Percentage of GDP



Under current law, revenues would rise by about 4 percent a year, on average, but outlays would rise faster—by about 5 percent a year, on average (in nominal dollars). By the end of the 10-year projection period, revenues would total 18.4 percent of GDP, whereas outlays would total 23.4 percent.

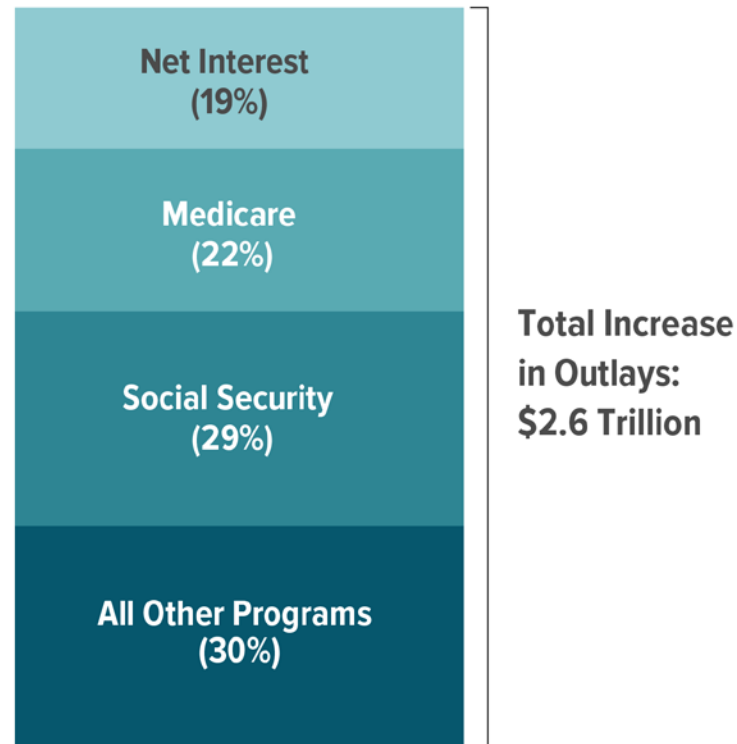
Total Outlays

Percentage of GDP



In CBO's projections, outlays remain near 21 percent of GDP for the next few years, which is higher than their 50-year average of 20.3 percent. Later in the coming decade, outlays would rise to 23.4 percent of GDP.

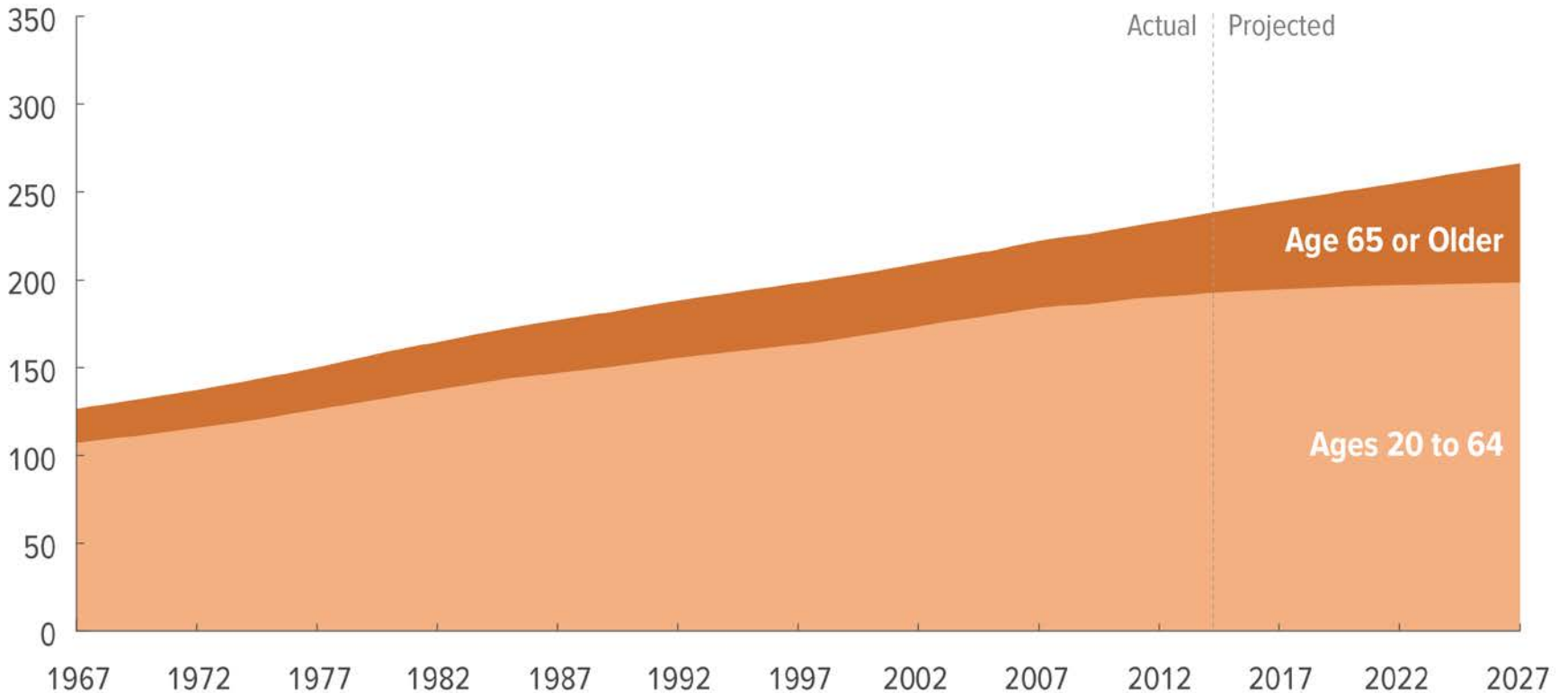
Components of the Total Increase in Outlays in CBO's Baseline Between 2017 and 2027



Three components of the budget—Social Security, Medicare, and net interest—would account for 70 percent of the total increase in outlays, in nominal terms, over the coming decade. Social Security and Medicare alone would account for more than half of the increase—mainly because of the aging of the population and rising health care costs per person.

Population, by Age Group

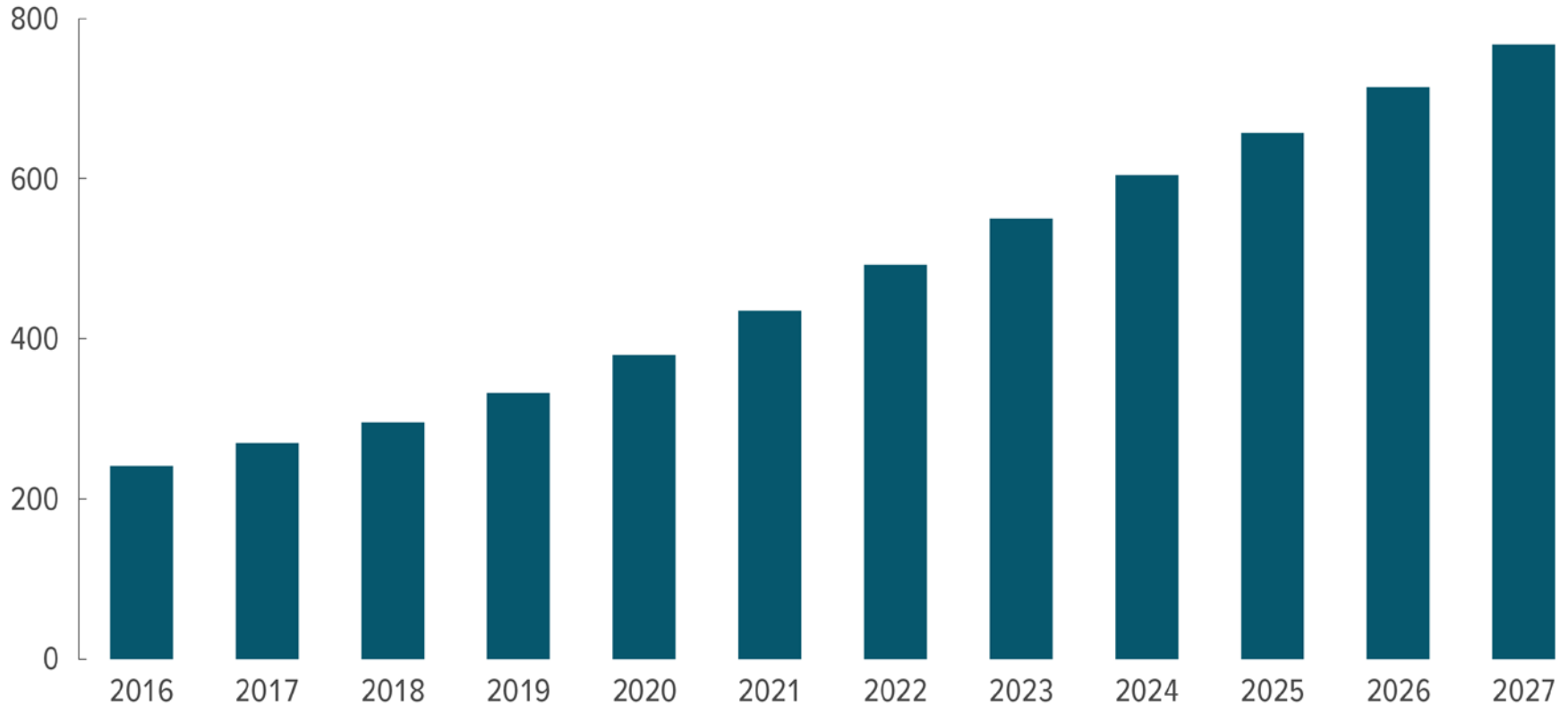
Millions of People



The number of people age 65 or older in the United States—now more than twice what it was 50 years ago—is expected to grow by more than a third over the next 10 years. Thus, enrollment in Social Security and Medicare would continue to rise. By 2027, spending for people age 65 or older by those two programs—as well as by Medicaid and by military and federal civilian retirement programs—would account for 45 percent of all federal noninterest spending.

Projected Net Interest Outlays

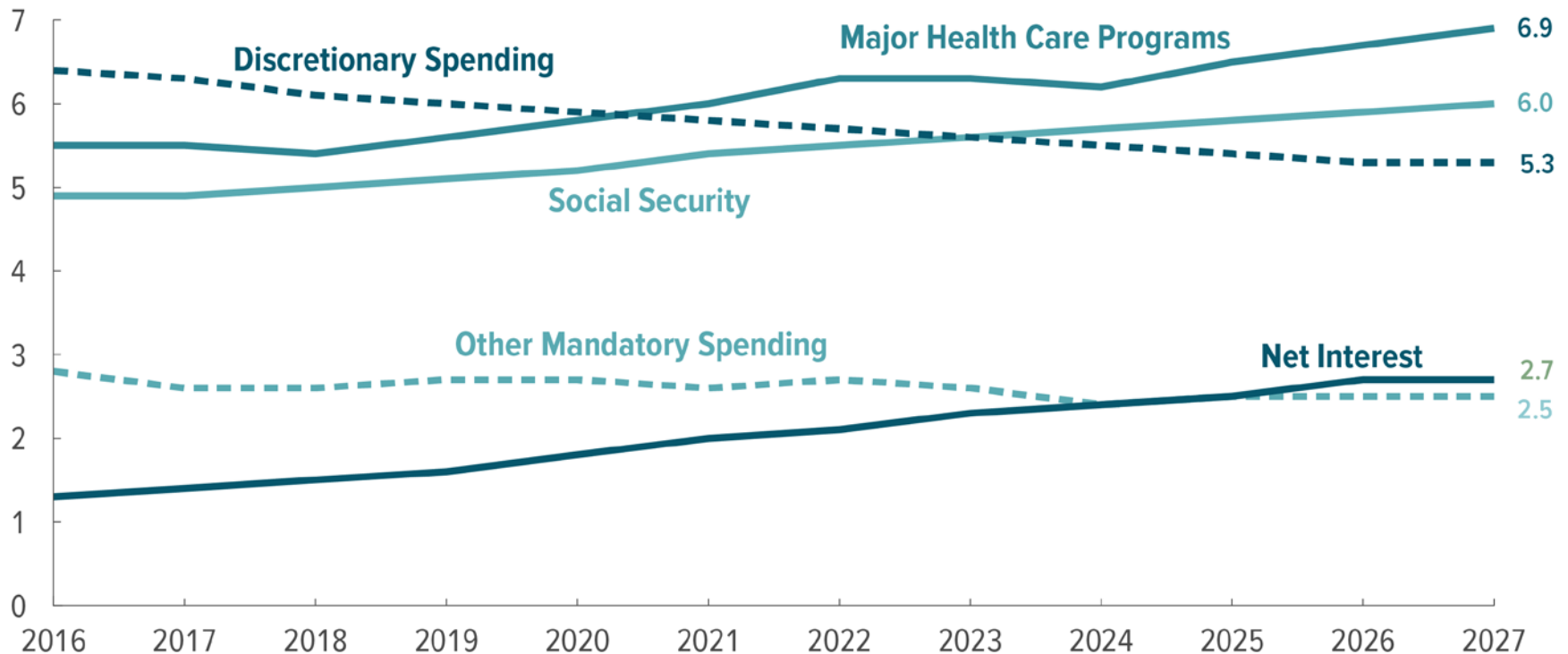
Billions of Dollars



Because of rising interest rates and, to a lesser extent, growing federal debt held by the public, the government's interest payments on that debt are projected to rise sharply over the next 10 years—nearly tripling in nominal terms and almost doubling relative to GDP.

Projected Outlays for Major Budget Categories

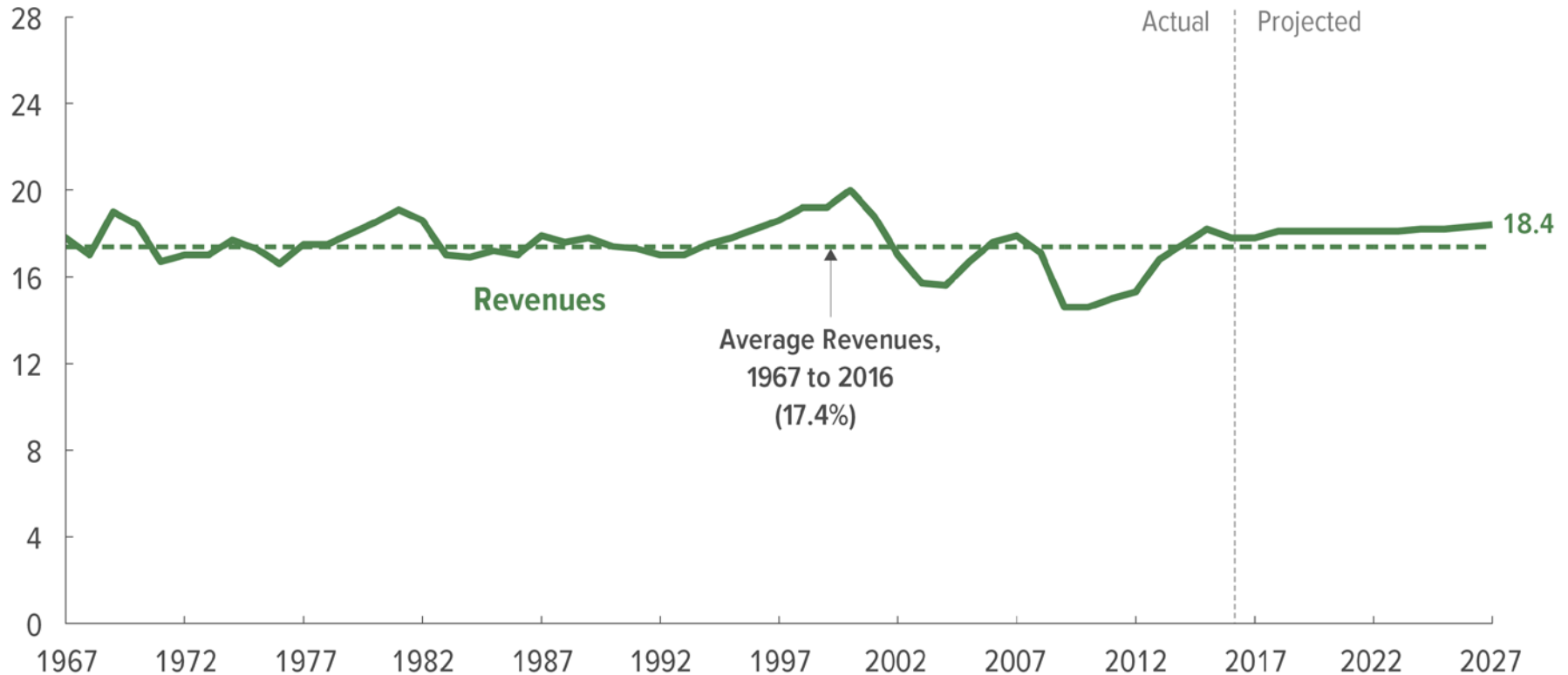
Percentage of GDP



By 2027, discretionary spending is projected to drop to its lowest share of GDP in any year to date since 1962 (the earliest year for which such data have been reported). That reduction occurs because most discretionary funding is capped through 2021 at amounts that increase more slowly than the projected growth of the economy.

Total Revenues

Percentage of GDP



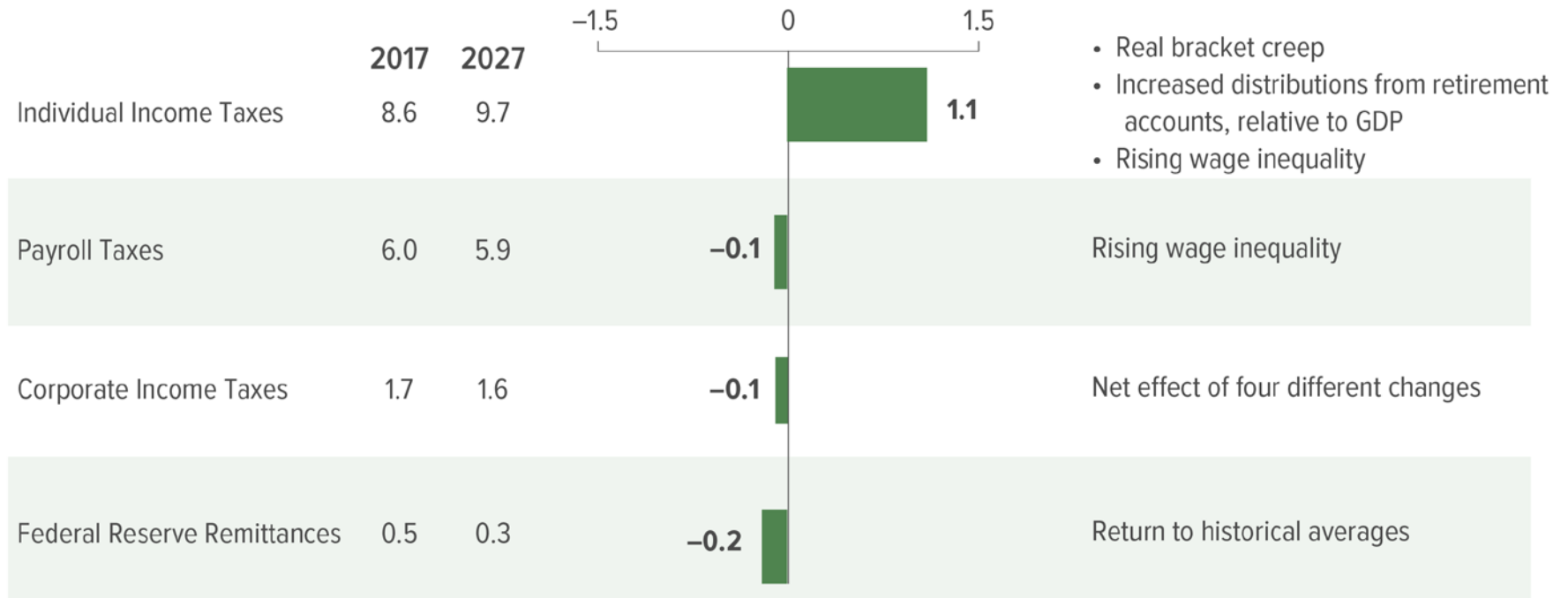
Revenues are projected to rise by about 4 percent a year (in nominal dollars), on average, increasing from 17.8 percent of GDP in 2017 to 18.4 percent of GDP in 2027—about a percentage point above their 50-year average.

Major Changes in Projected Revenues From 2017 to 2027

Revenues as a Percentage of GDP

Percentage-Point Change

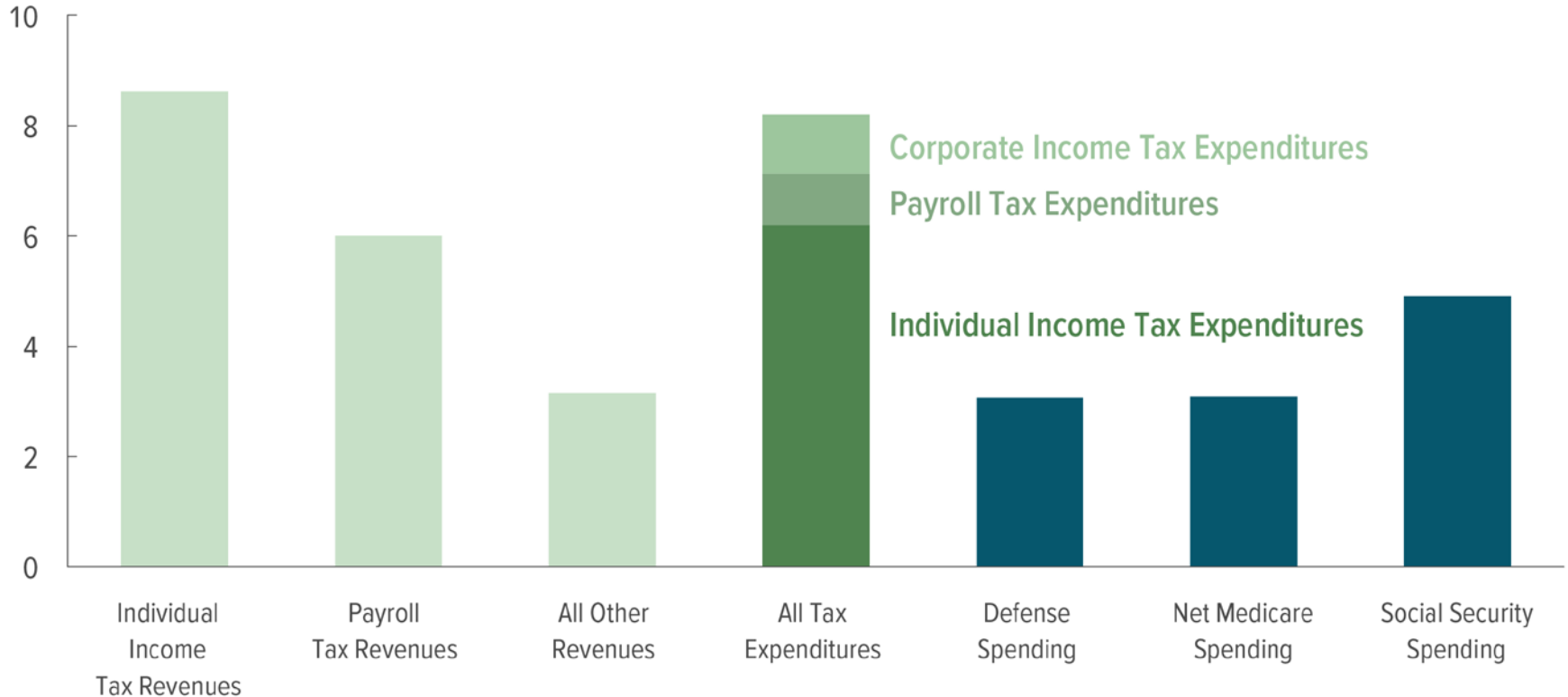
Major Reasons for Change



Only revenues from individual income taxes would grow faster than the economy over the course of the decade.

Tax Expenditures and Other Budget Categories in 2017

Percentage of GDP

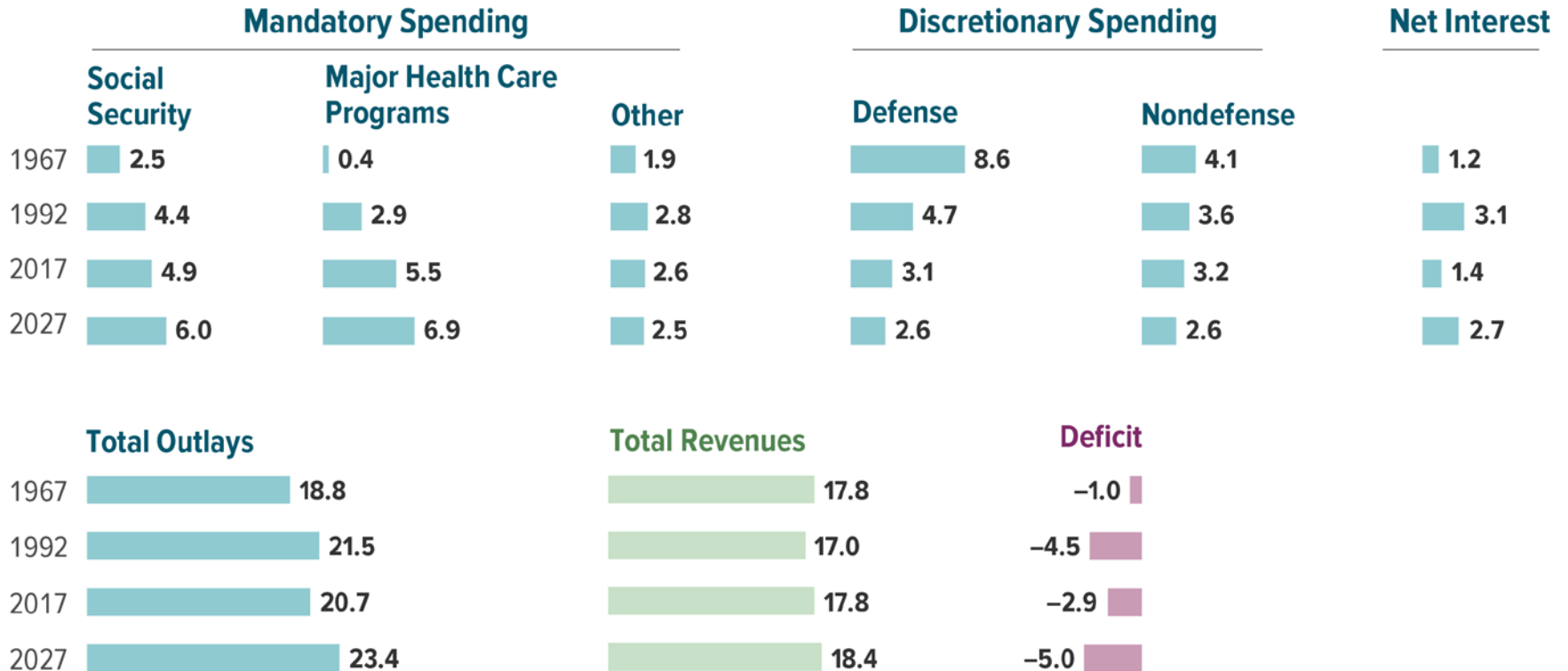


Tax expenditures, projected to total more than \$1.5 trillion (or more than 8 percent of GDP) in 2017, cause revenues to be lower than they would be otherwise, and, like spending programs, contribute to the deficit. Such tax expenditures would equal nearly half of all federal revenues projected for 2017.

This figure is based on estimates by the staff of the Joint Committee on Taxation. Tax expenditures are provisions in law that resemble government spending in that they provide financial assistance for particular activities or to certain entities or groups of people.

Spending and Revenues Projected in CBO's Baseline, Compared With Actual Values 25 and 50 Years Ago

Percentage of GDP

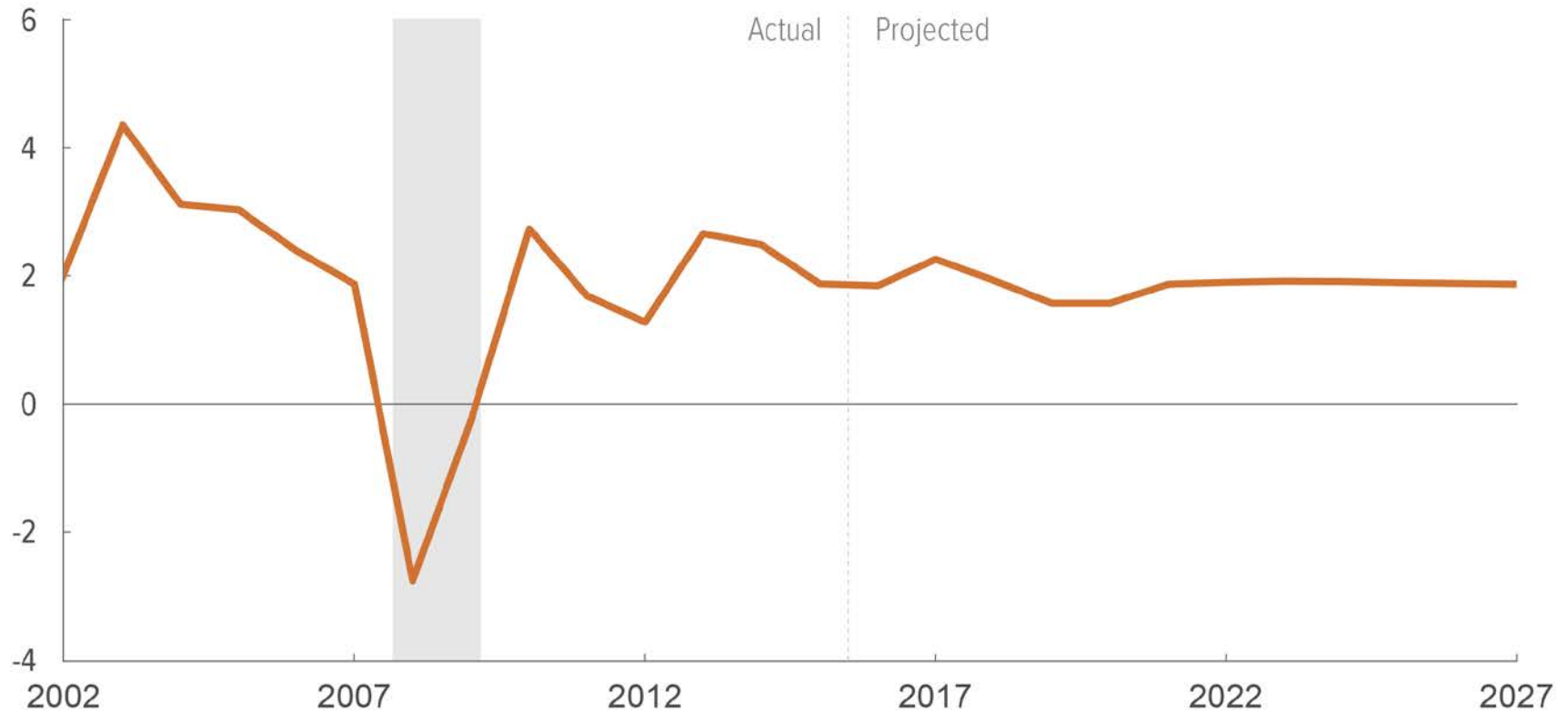


As a percentage of GDP, spending for Social Security and the major health care programs is projected to be much greater, and outlays from appropriations for defense and other programs much smaller, than they have been in the past.

The Economic Outlook

Growth of Real GDP

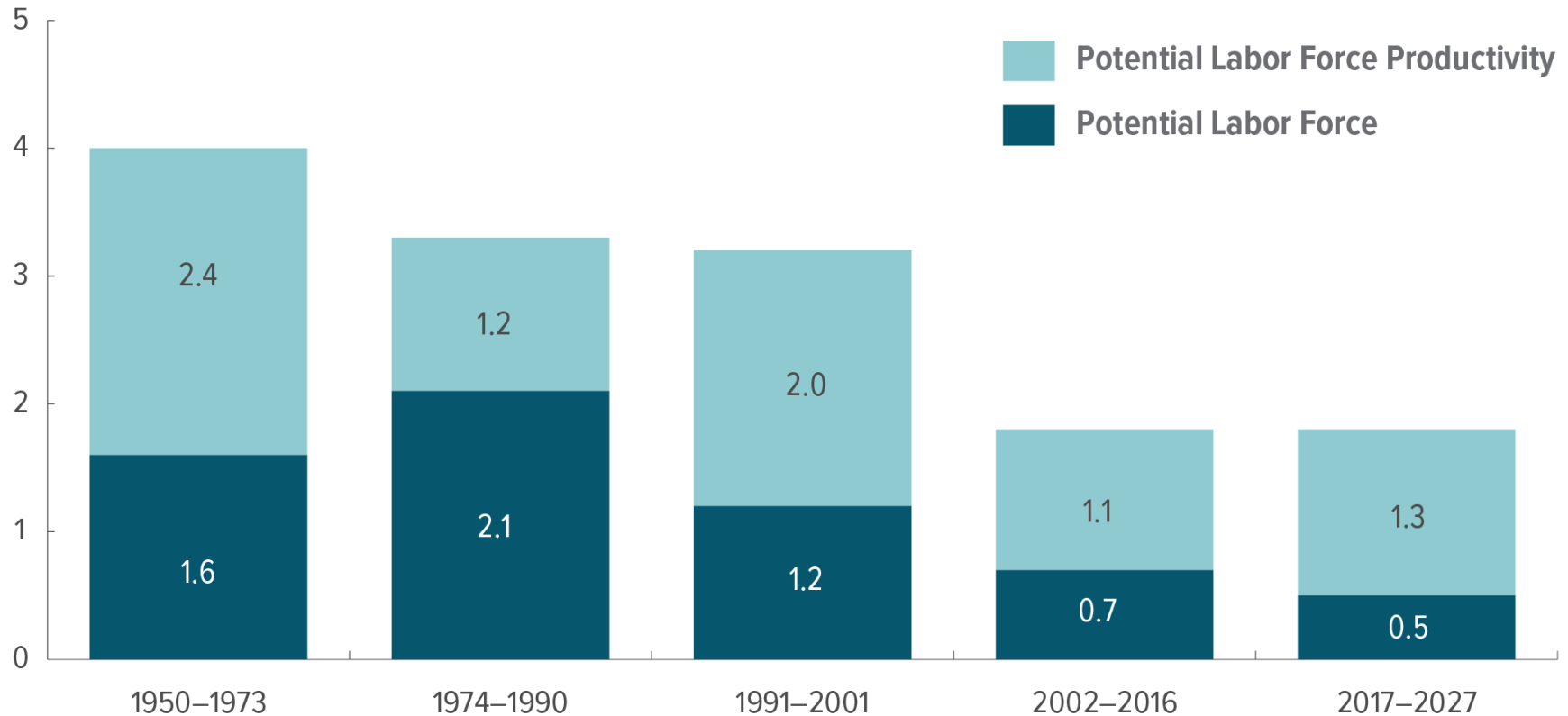
Percent, Fourth Quarter to Fourth Quarter



CBO expects real (inflation-adjusted) GDP to grow by 2.3 percent this year and by 1.9 percent next year.

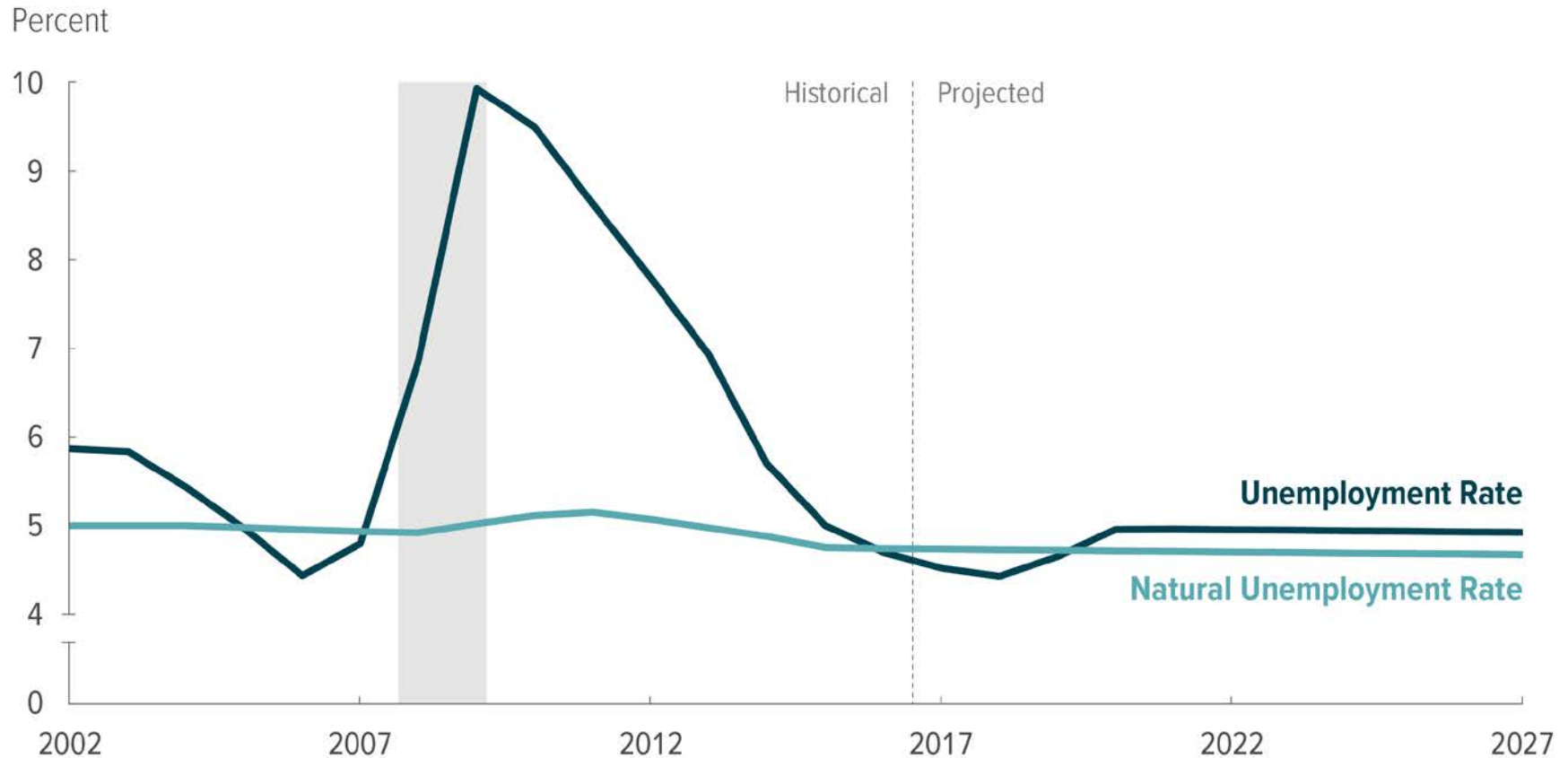
Average Annual Growth of Real Potential GDP

Percent



Real potential GDP—that is, the economy’s maximum sustainable output adjusted to remove the effects of inflation—is projected to grow more slowly during the coming decade than it did during the latter half of the previous century in large part because of slower growth in the nation’s potential labor force.

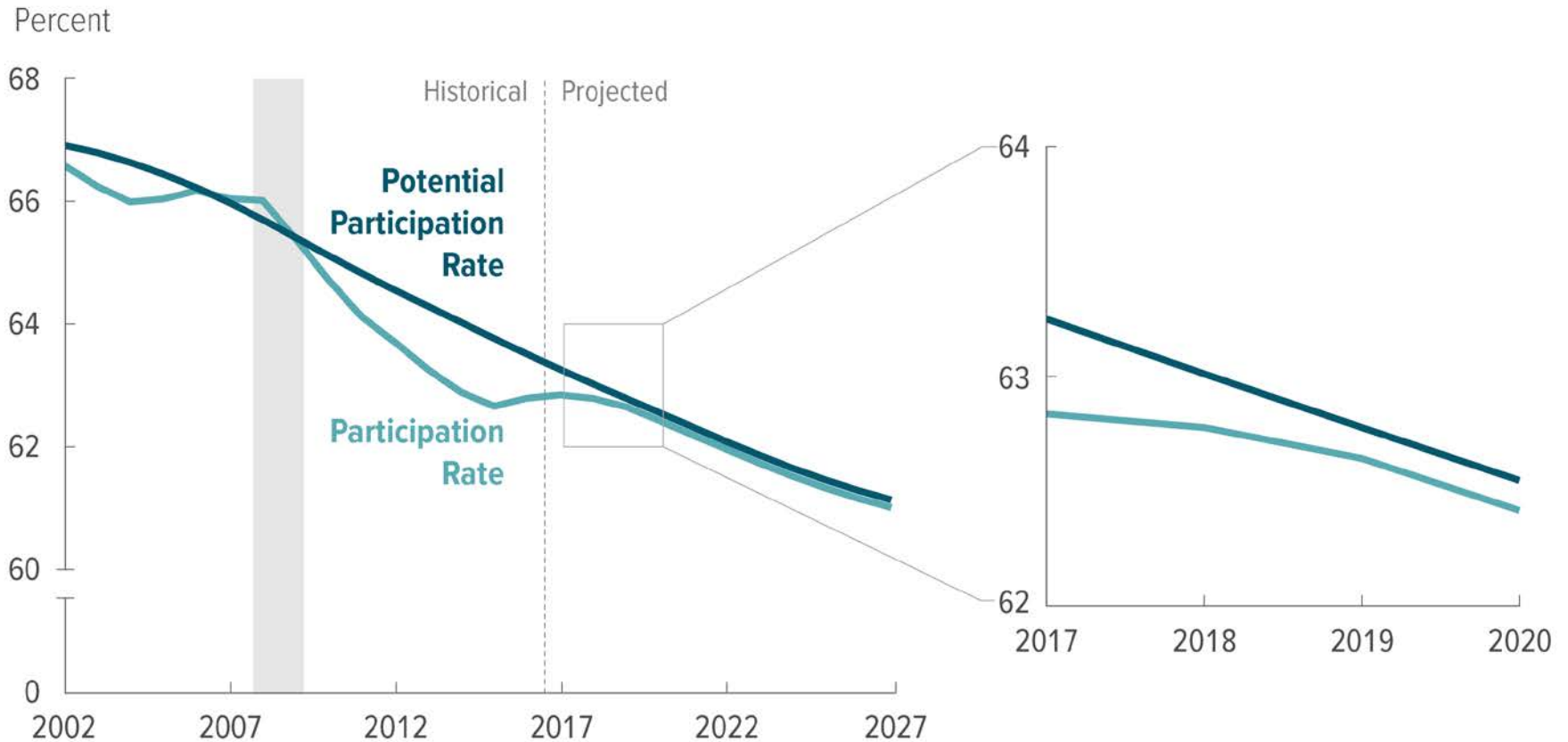
Actual and Natural Unemployment Rates



The unemployment rate is projected to fall below the agency's estimate of its natural rate during the next two years because economic growth is expected to boost hiring. In the longer term, those two rates are projected to return to their average historical relationship.

The natural unemployment rate is the rate of unemployment arising from all sources except fluctuations in the overall demand for goods and services.

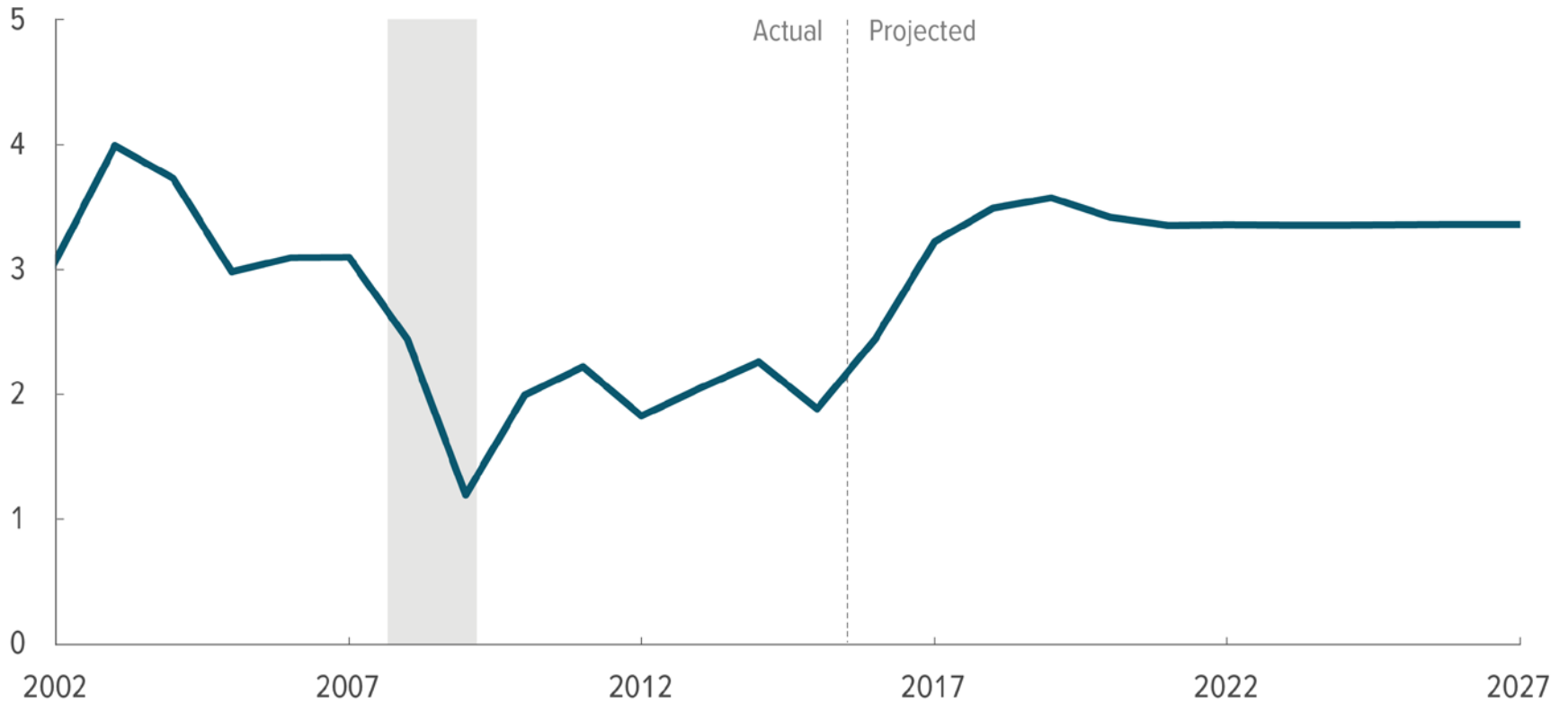
Labor Force Participation Rates



As the increase in employers' demand for labor continues to draw workers back into the labor force, the strengthening economy is expected to slow the downward trend in the rate of labor force participation, which largely reflects the retirement of the baby boomers.

Hourly Labor Compensation

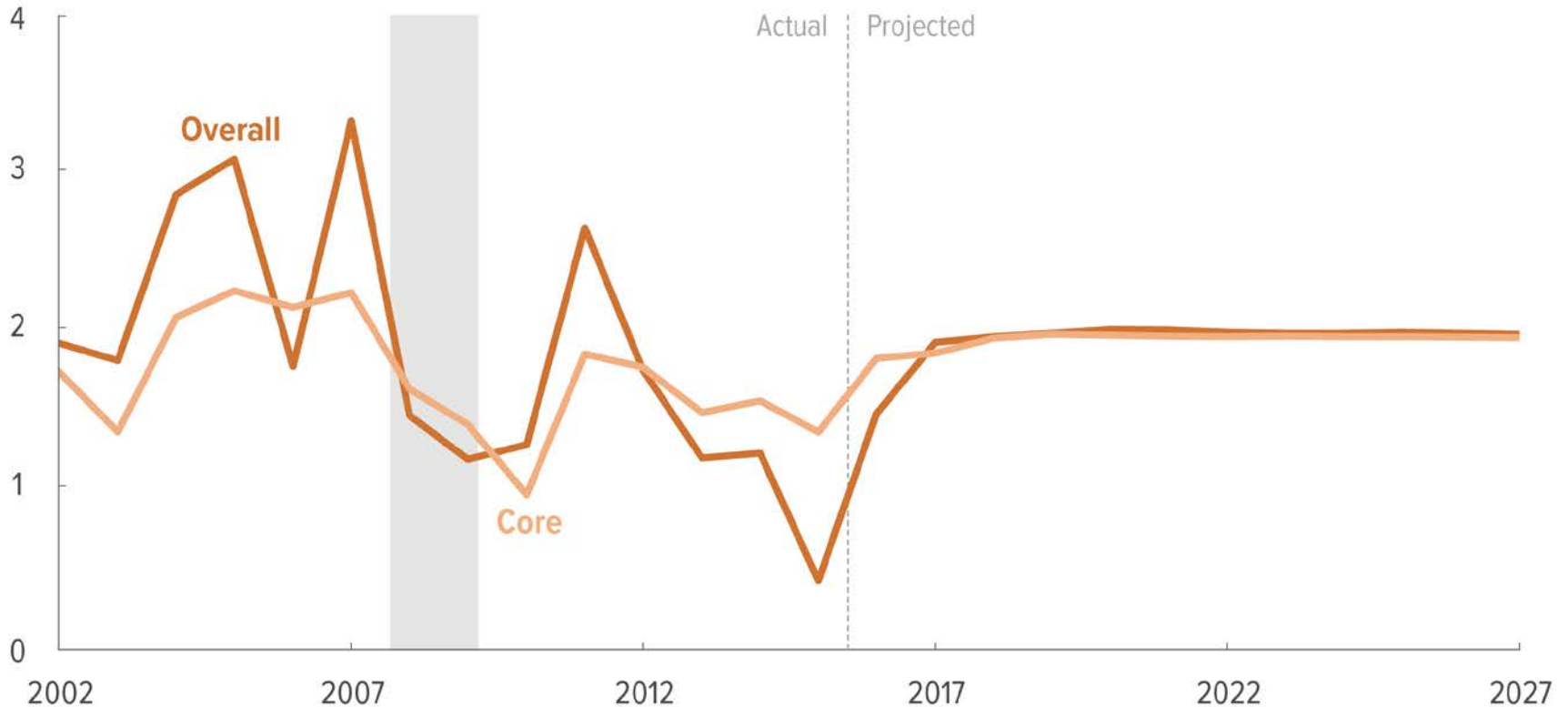
Percentage Change



Hourly labor compensation will rise more quickly over the next several years than in 2016, CBO projects, spurred by growth in productivity, prices, and the demand for labor.

Inflation

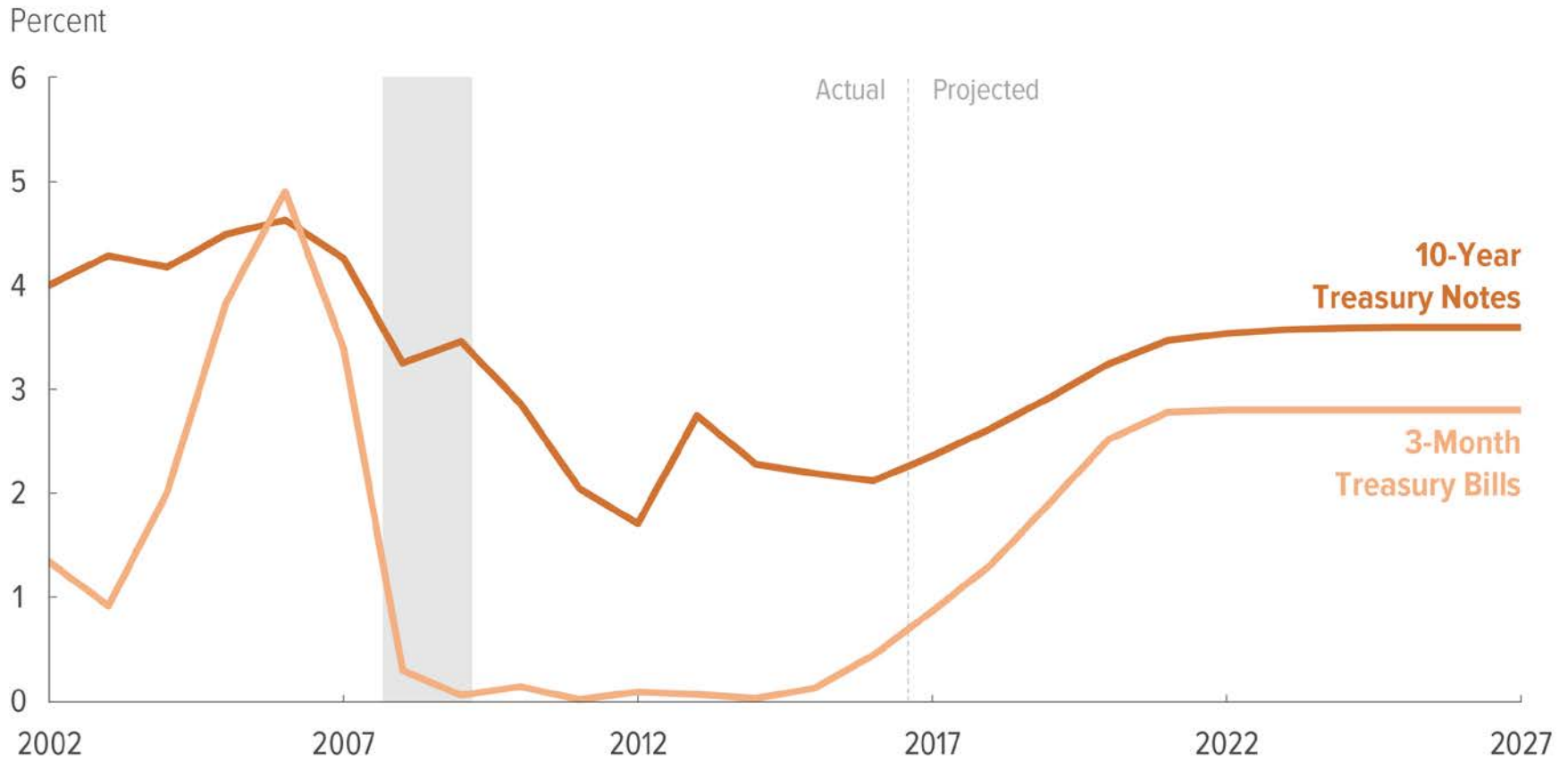
Percentage Change in PCE Price Indexes



CBO anticipates that over the next two years, as slack in the economy diminishes, inflation will rise to the Federal Reserve's goal of 2 percent.

PCE = personal consumption expenditures; the core rate excludes prices for food and energy.

Interest Rates



Interest rates on Treasury securities will rise, CBO projects, reflecting continued economic improvement and increases in the federal funds rate.