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

# U.S. Macroeconomic & Fiscal Outlook

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Presentation at the Annual Economic Policy Conference of the National Association for Business Economics

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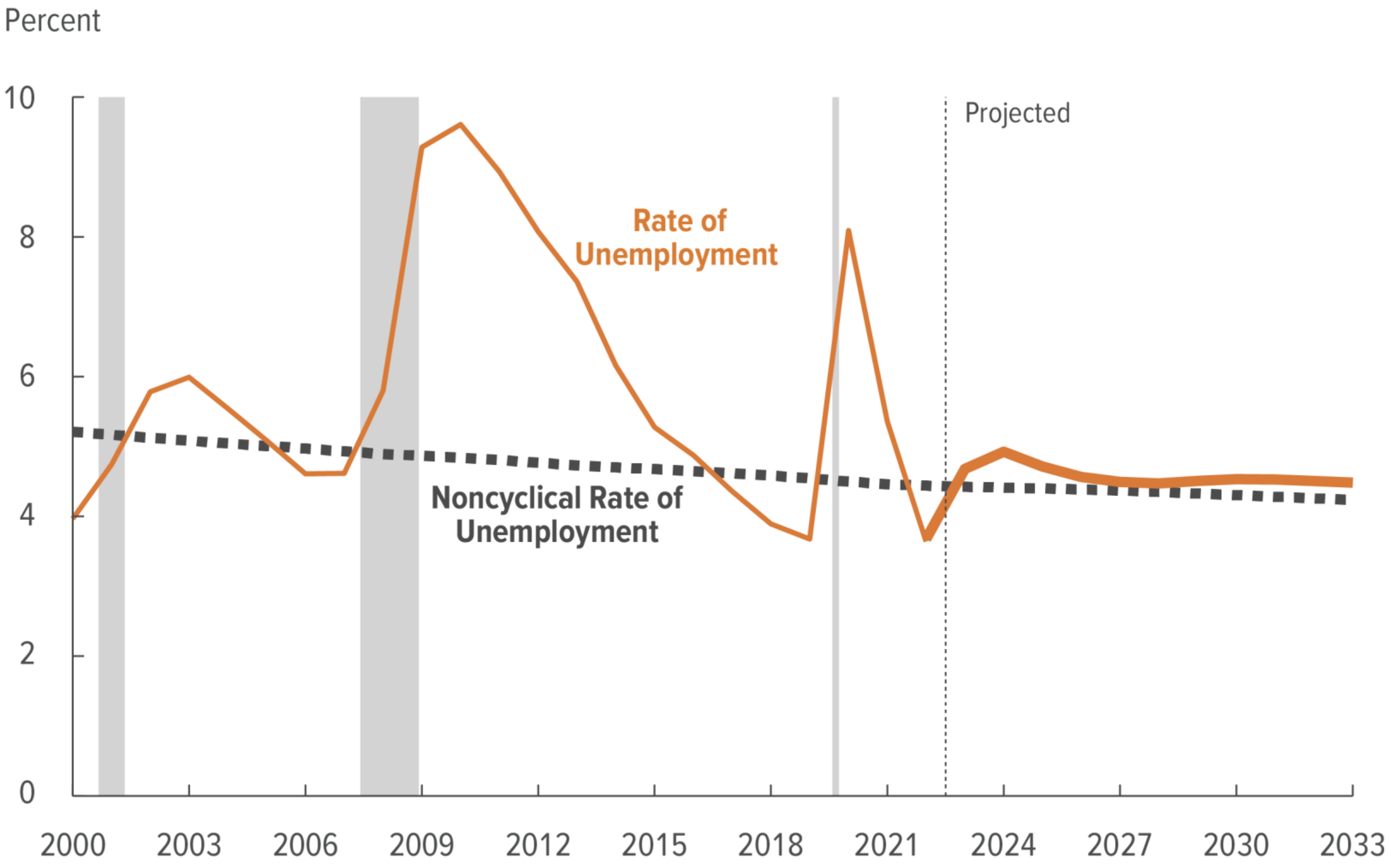
For information about the conference, see https://tinyurl.com/ynex9vz4.

# The Economy

See CBO, *The Budget and Economic Outlook: 2023 to 2033* (February 2023), Chapter 2, www.cbo.gov/publication/58848. In this section, years are calendar years. Shaded vertical bars indicate periods of recession. The thin lines (values for 2000 to 2022) reflect data available from the Bureau of Economic Analysis in early February 2023. The thick lines (values for 2022 to 2033) reflect data for the fourth quarter of 2022, which were not available when CBO developed its current projections.

# Unemployment



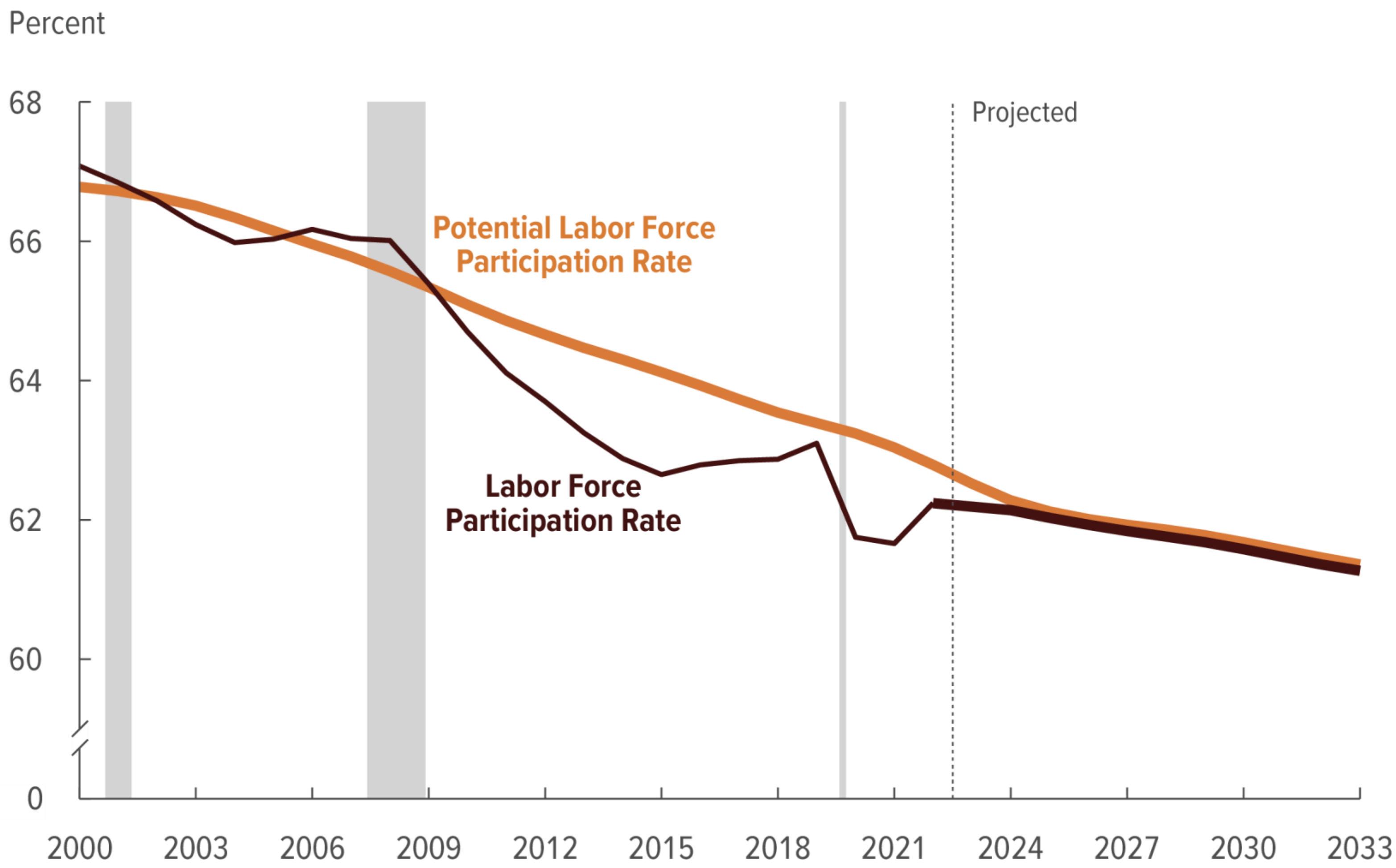

Conditions in the labor market were tight throughout much of 2022.

The unemployment rate rises through early 2024 in CBO's projections, reflecting a slowdown in economic growth.

The unemployment rate is the number of people not working who are available for work and are either seeking work or expecting to be recalled from a temporary layoff, expressed as a percentage of the labor force.

The noncyclical rate of unemployment is the rate that results from all sources except fluctuations in aggregate demand, including normal turnover of jobs and mismatches between the skills of available workers and the skills necessary to fill vacant positions.

# Labor Force Participation

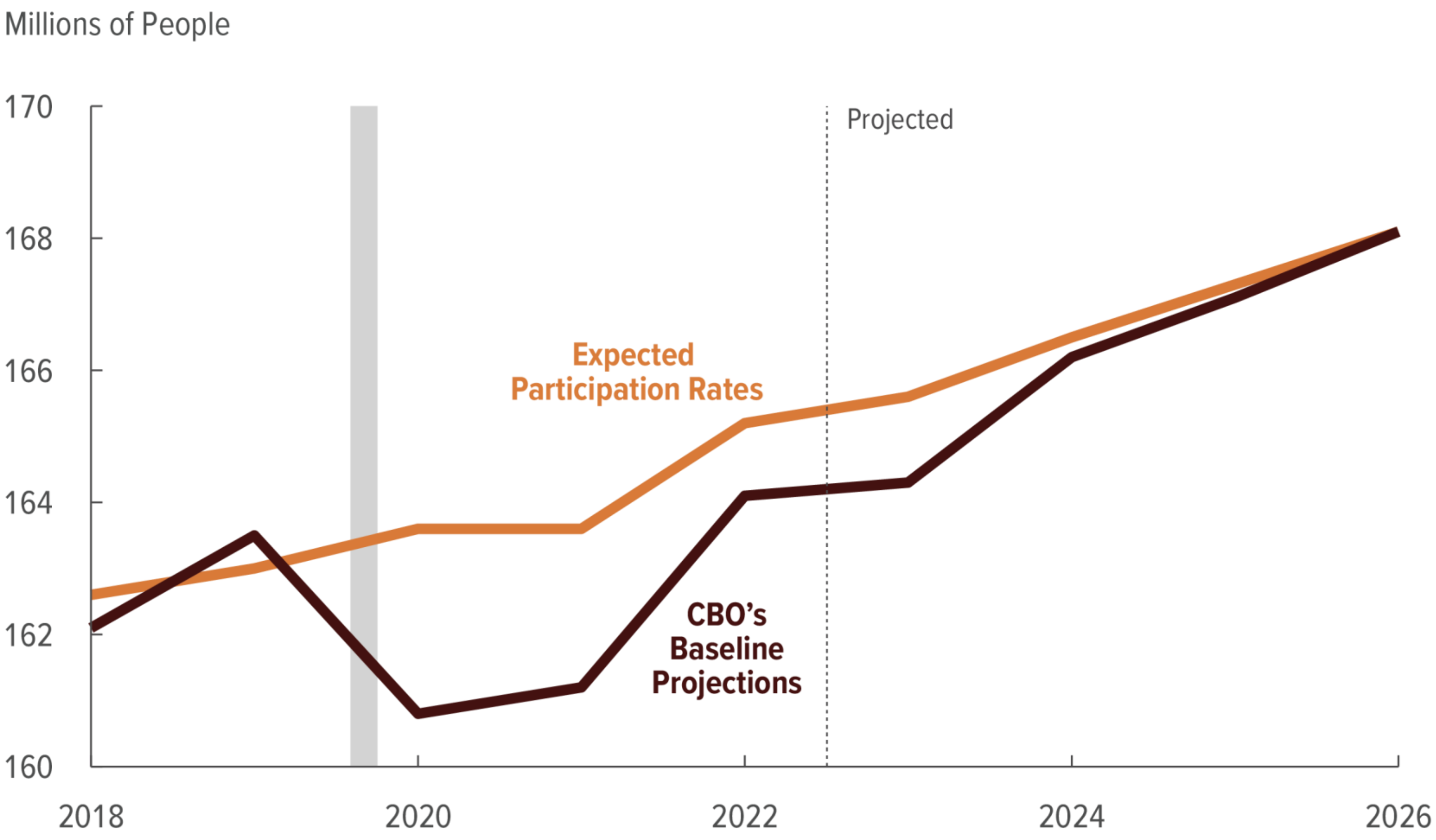



The labor force participation rate declines after 2023 as the negative effects of the aging of the population offset the short-term effects of the expanding economy.

The labor force participation rate is the share of the civilian noninstitutionalized population age 16 or older that has jobs or that is available for work and is either seeking work or expecting to be recalled from a temporary layoff.

The potential labor force participation rate is CBO’s estimate of the rate that would occur if economic output and other key variables were at their maximum sustainable amounts.

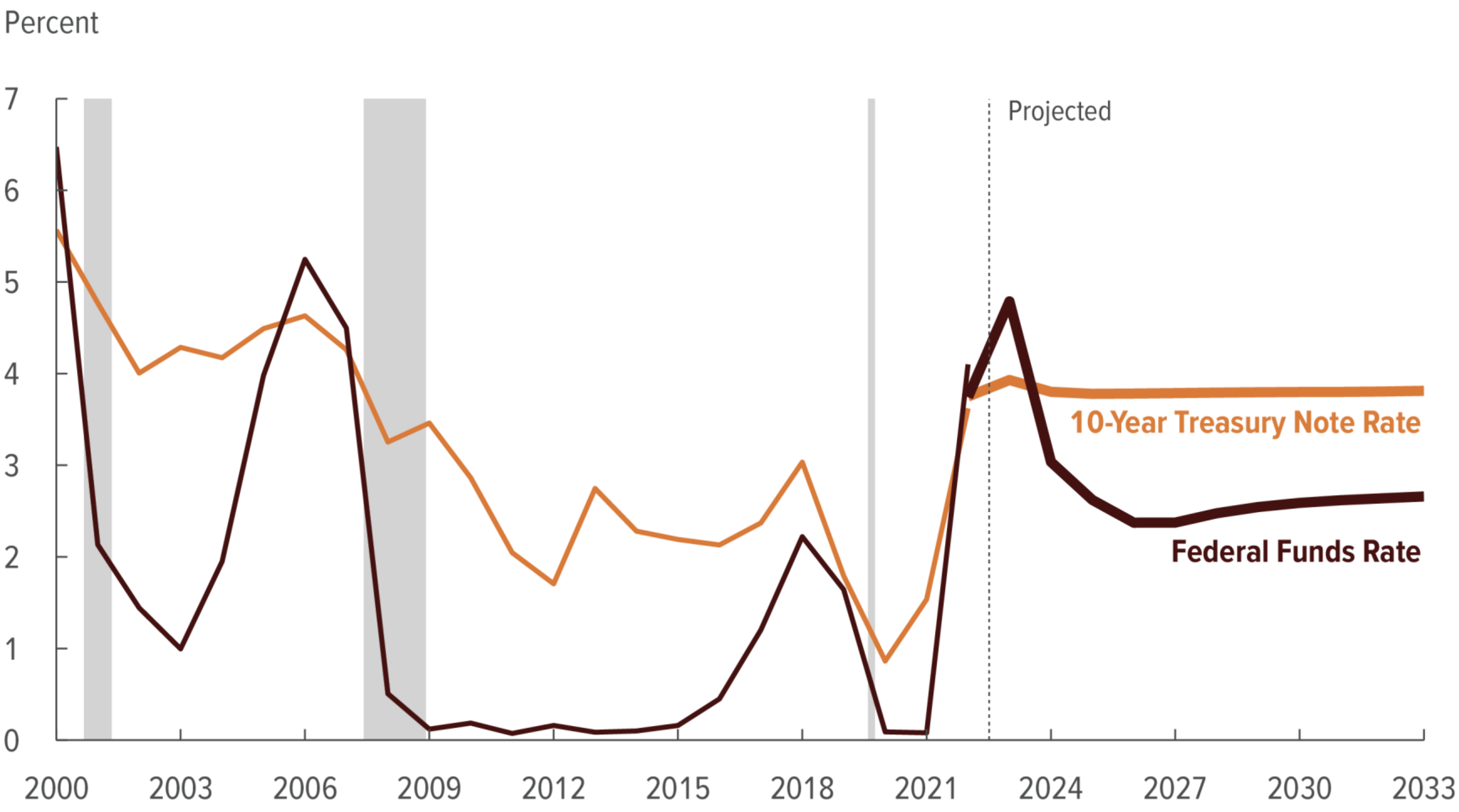
# Size of the Labor Force




In CBO's current projections, the number of missing labor force participants—the difference between the expected and projected numbers—increases in 2023 and then gradually declines over the next several years as participation by older people with more education increases.

CBO estimated the total number of missing labor force participants for 516 demographic groups defined by age, sex, race, and education and then added the number of missing participants—the difference between the expected numbers (based on historical participation rates) and the projected numbers—from each group to arrive at the total.

# Interest Rates

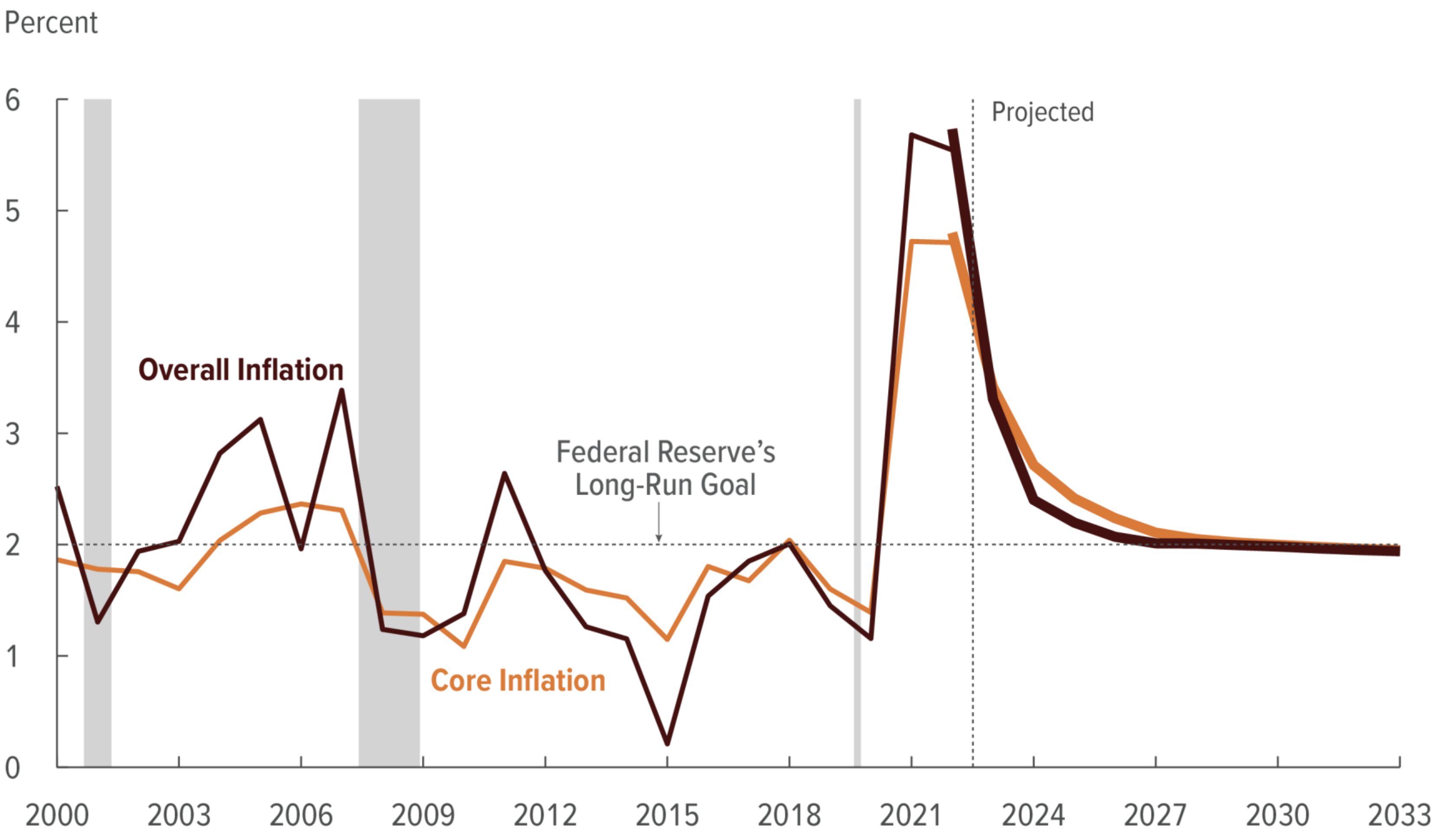



In CBO's projections, the Federal Reserve further increases the target range for the federal funds rate in early 2023 to reduce inflationary pressures in the economy. That rate is projected to fall in 2024, as inflation slows and unemployment rises.

The interest rate on 10-year Treasury notes, however, remains at 3.8 percent from 2024 to the end of the projection period.

The federal funds rate is the interest rate that financial institutions charge each other for overnight loans of their monetary reserves.

# Inflation

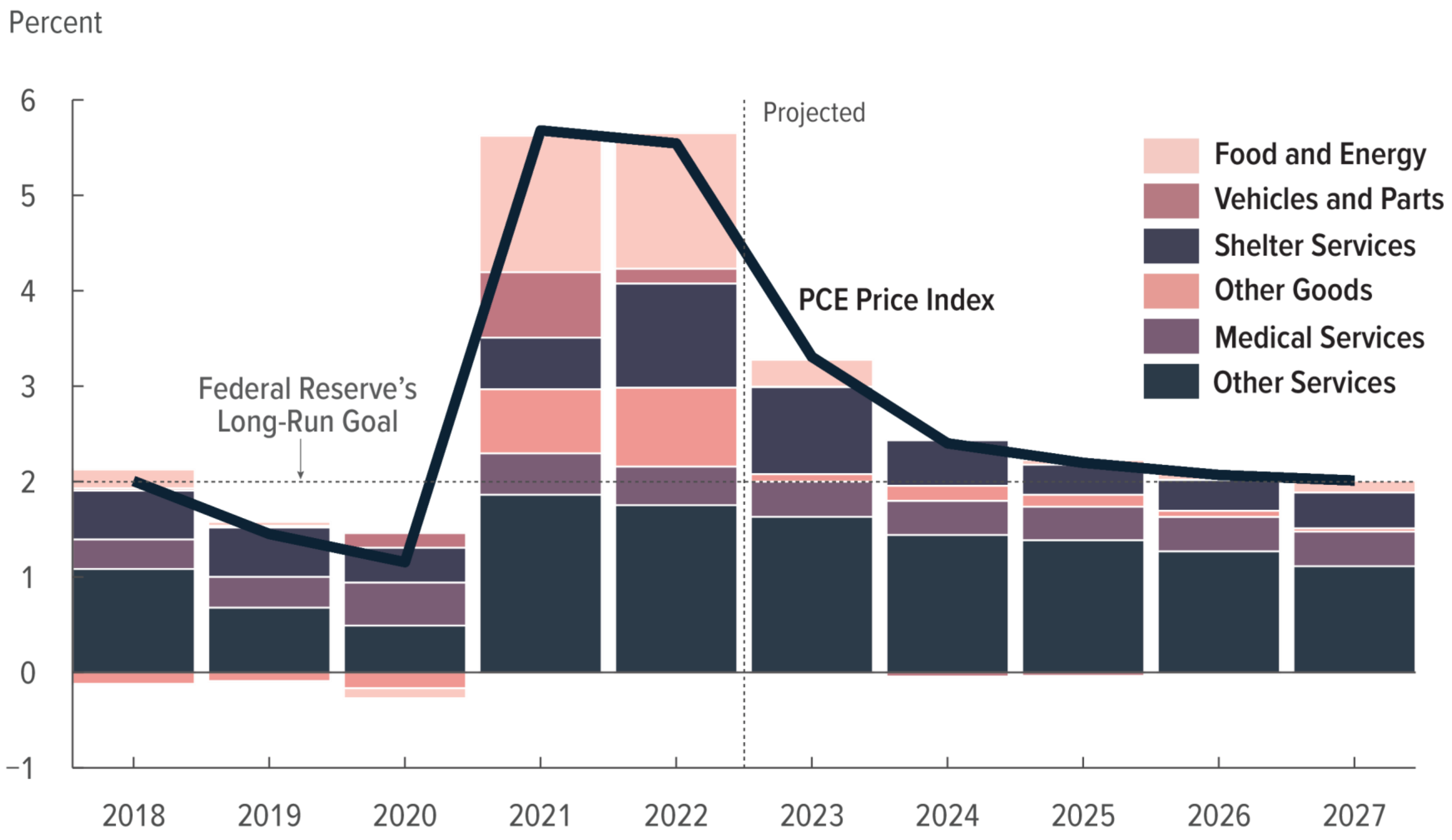



In CBO's projections, inflation declines in 2023 as pressures ease from factors that, since mid-2020, have caused demand to grow more rapidly than supply.

That decline continues until 2027, when the rate of inflation reaches the Federal Reserve's long-run goal. (Inflation is measured by the price index for personal consumption expenditures.)

Core inflation excludes food and energy prices.

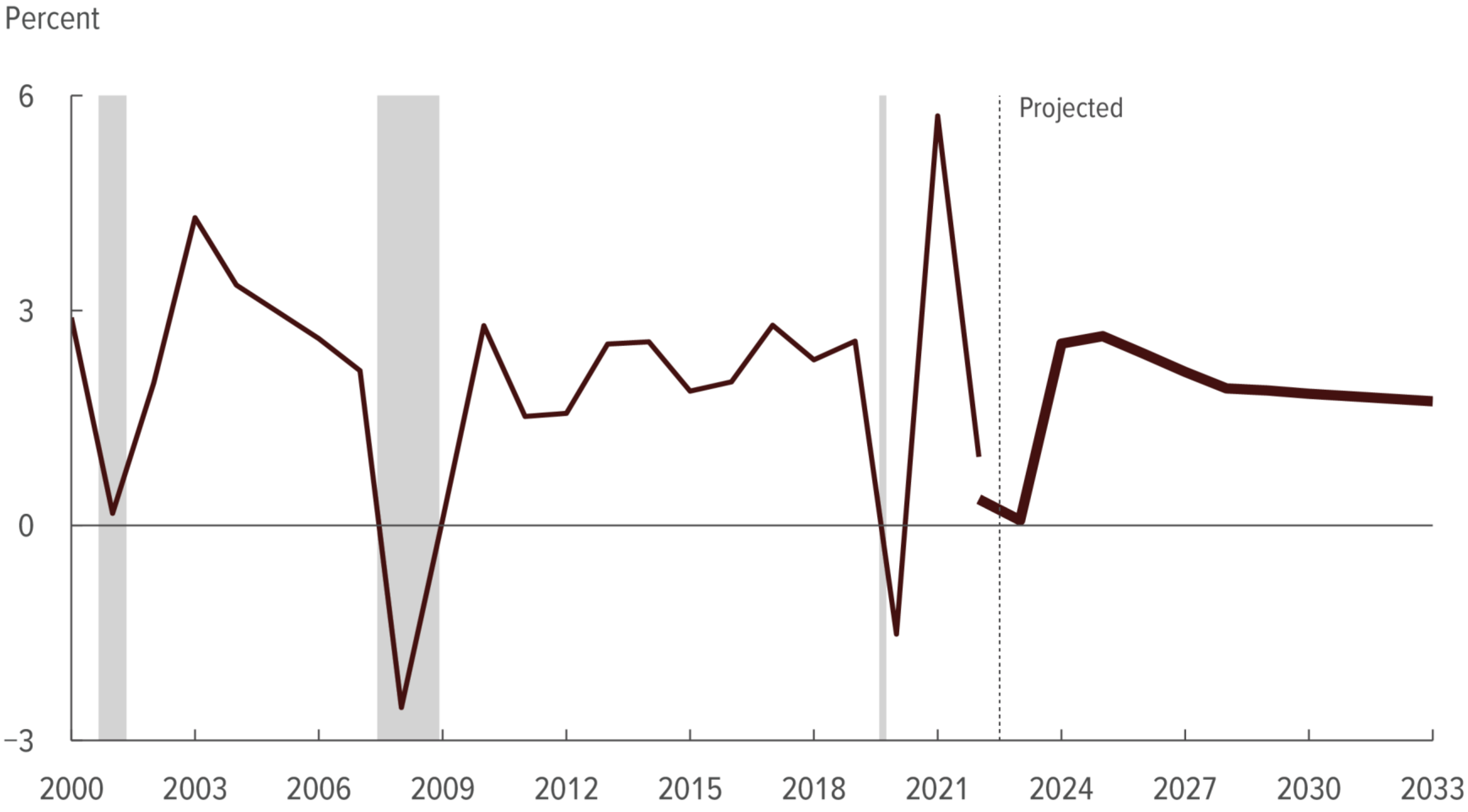
# Contributions to Overall Inflation




The alleviation of upward pressure on the prices of food, energy, and other goods and the downward pressure on prices in shelter services are the two main causes of falling inflation in 2023 and 2024.

PCE = personal consumption expenditures.

# Growth of Real Gross Domestic Product

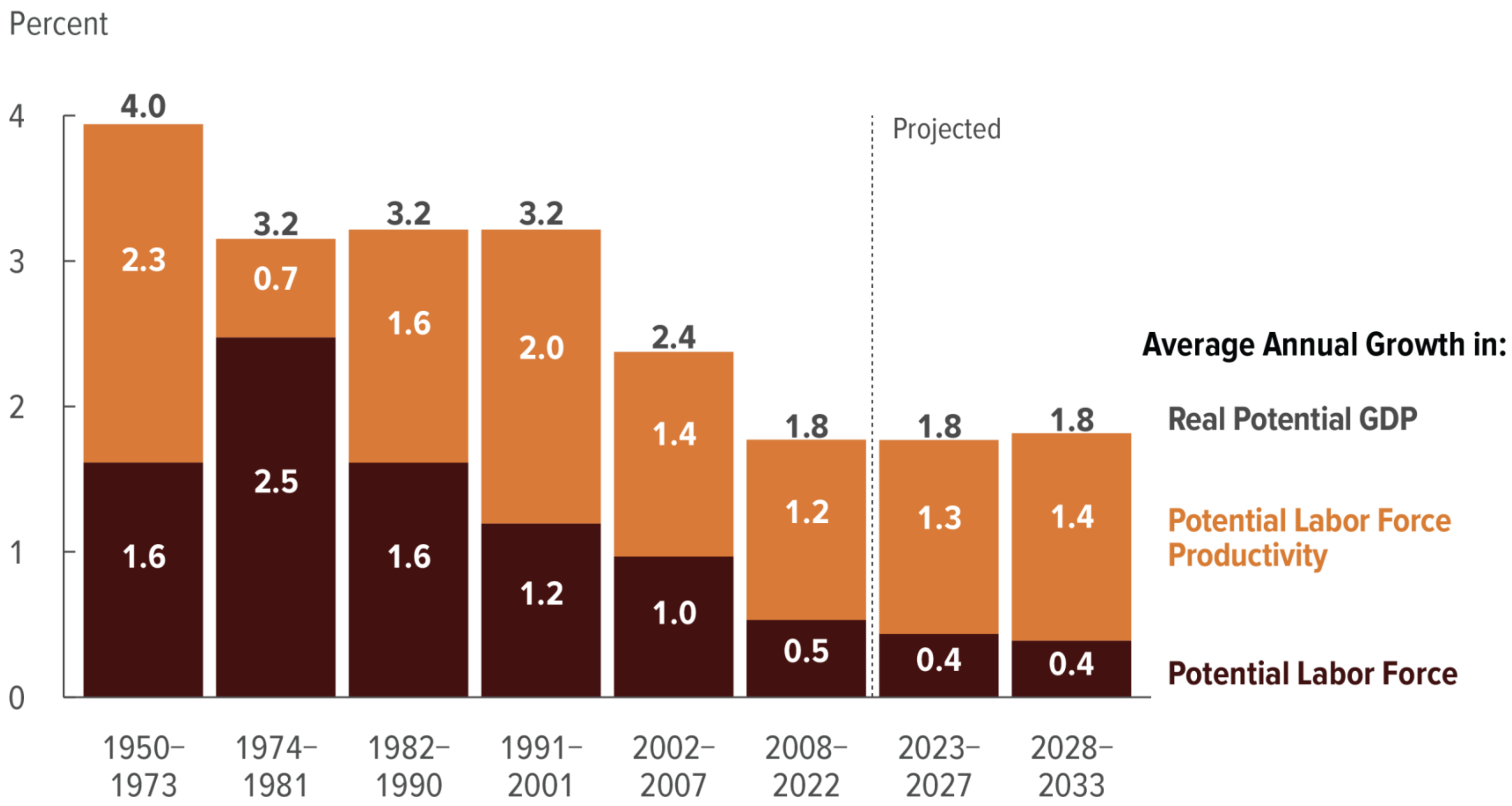



In CBO's projections, output growth comes to a halt in 2023 in response to the sharp rise in interest rates during 2022.

Then, as falling inflation allows the Federal Reserve to reduce the target range for the federal funds rate, the growth of real GDP rebounds, led by the interest-sensitive sectors of the economy.

Real values are nominal values that have been adjusted to remove the effects of inflation.

# Composition of the Growth of Real Potential Gross Domestic Product




In CBO’s projections, real potential GDP grows during the next five years at a rate similar to its growth rate since the 2007–2009 recession.

Because of the aging of the population, the potential labor force grows more slowly than it has in previous periods. But that slower growth is offset by faster growth in potential labor force productivity.

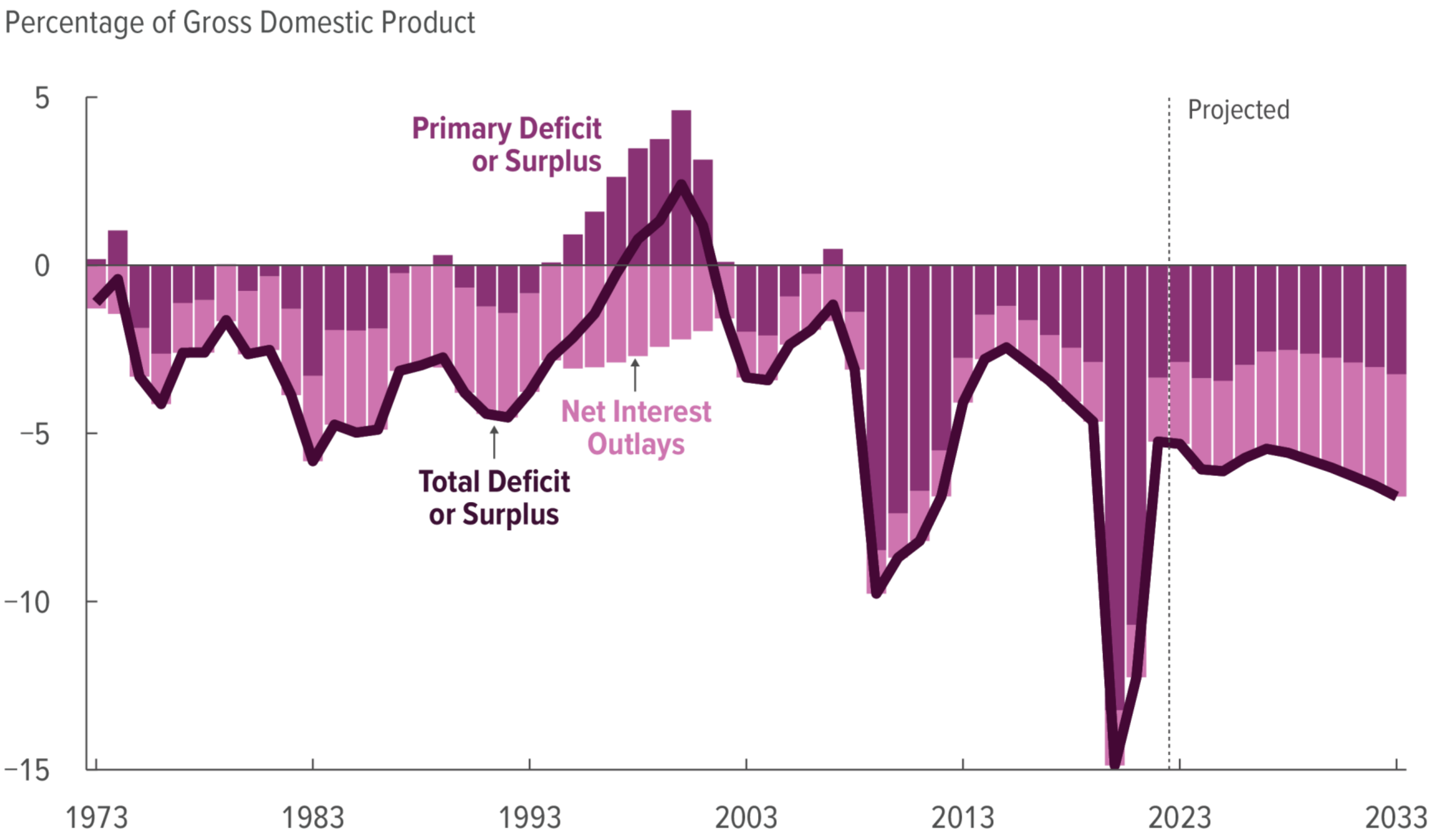
Growth in real potential GDP (that is, the maximum sustainable output of the economy) is the sum of growth in the potential labor force and growth in potential labor force productivity.

The potential labor force is CBO’s estimate of the size of the labor force that would occur if economic output and other key variables were at their maximum sustainable amounts.

Potential labor force productivity is the ratio of real potential GDP to the potential labor force.

# The Budget

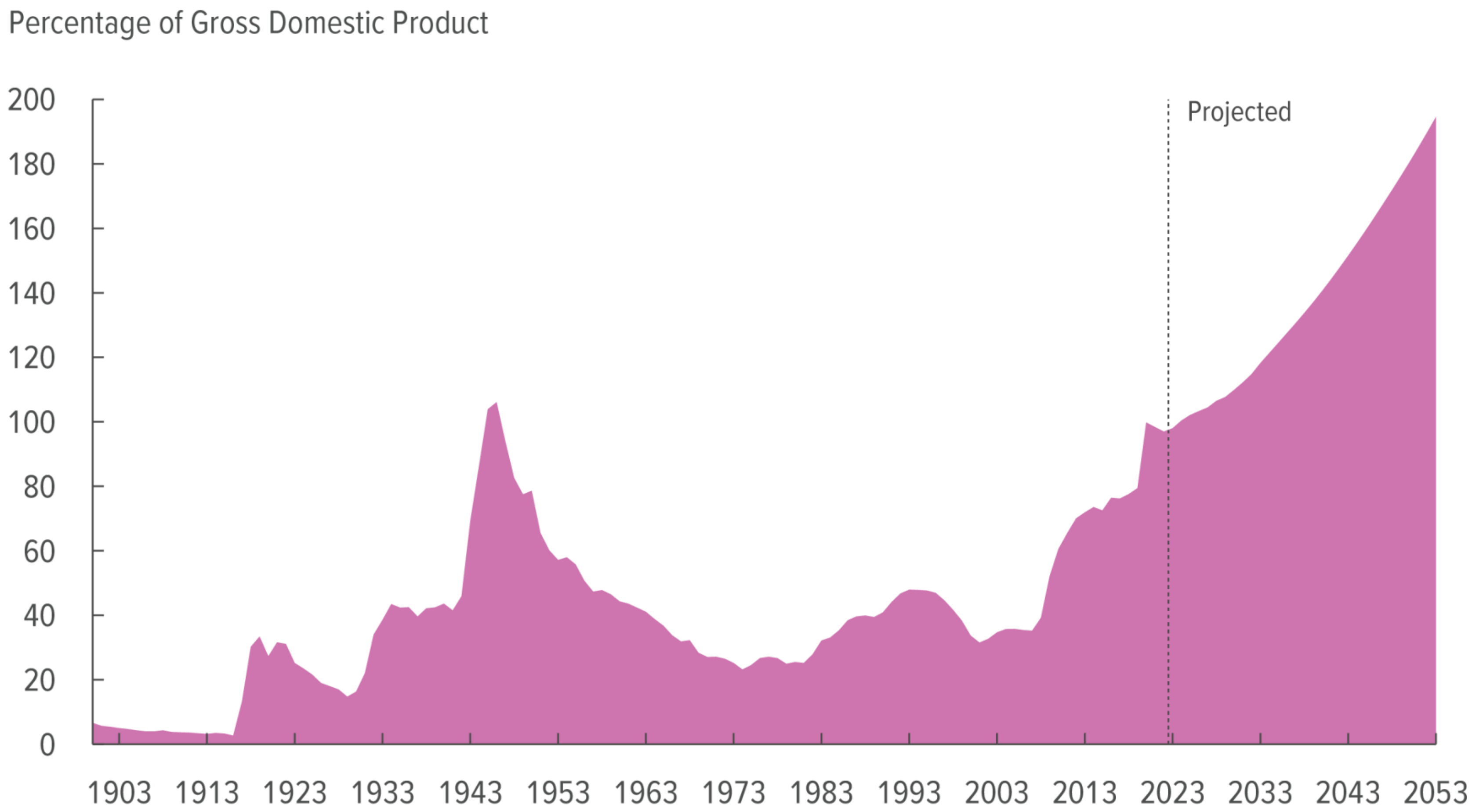
# Total Deficits, Primary Deficits, and Net Interest Outlays




In CBO's projections, primary deficits (that is, revenues minus noninterest outlays) average 3.0 percent of GDP from 2024 to 2033, about double their average over the past 50 years, and total about $10 trillion.

Net interest outlays average 3.1 percent of GDP during the projection period and also total roughly $10 trillion.

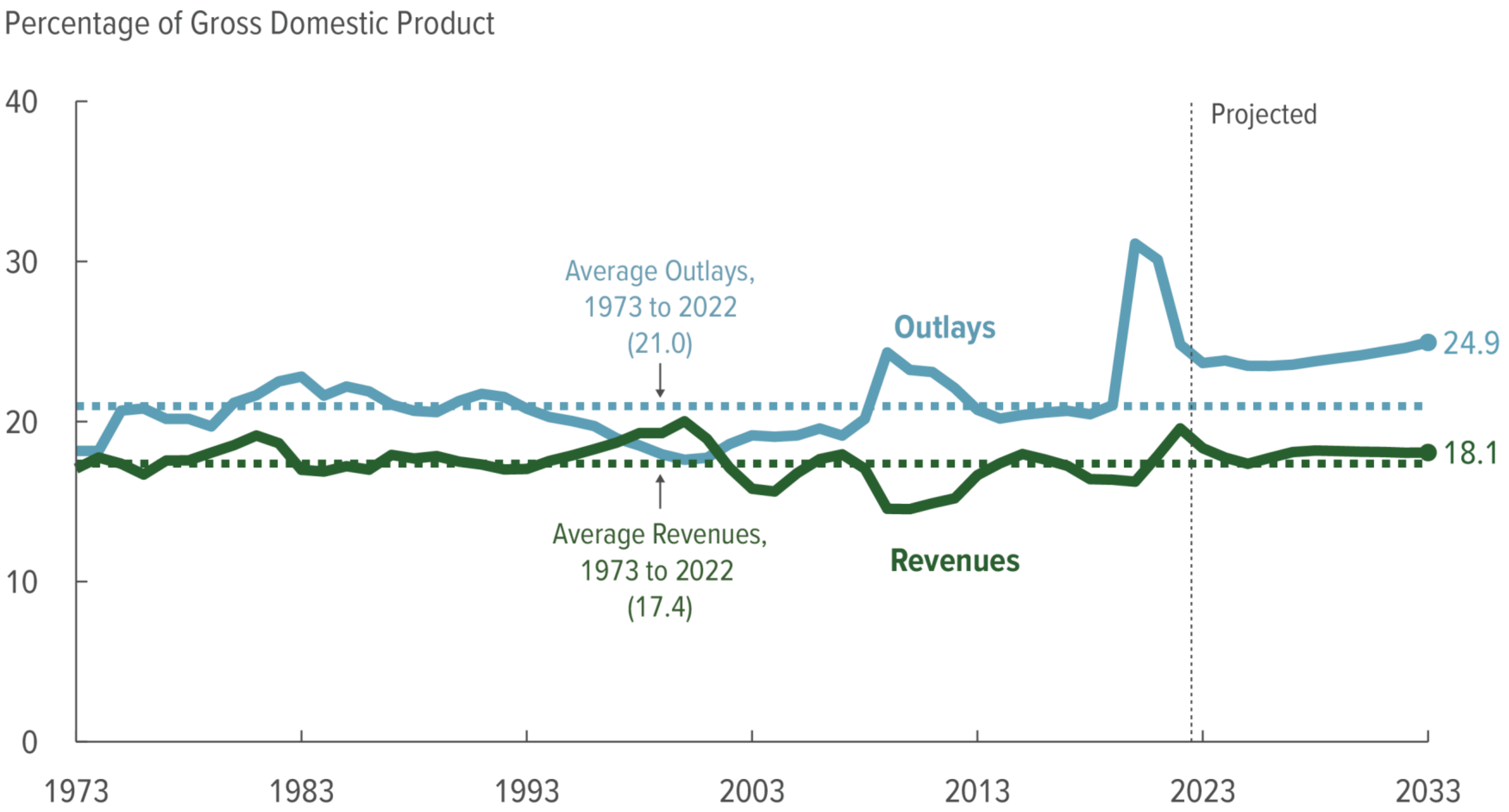
# Federal Debt Held by the Public




Federal debt held by the public is projected to increase in each year of the projection period and to reach 118 percent of GDP in 2033—higher than it has ever been.

In the two decades that follow, growing deficits are projected to push federal debt higher still, to 195 percent of GDP in 2053.

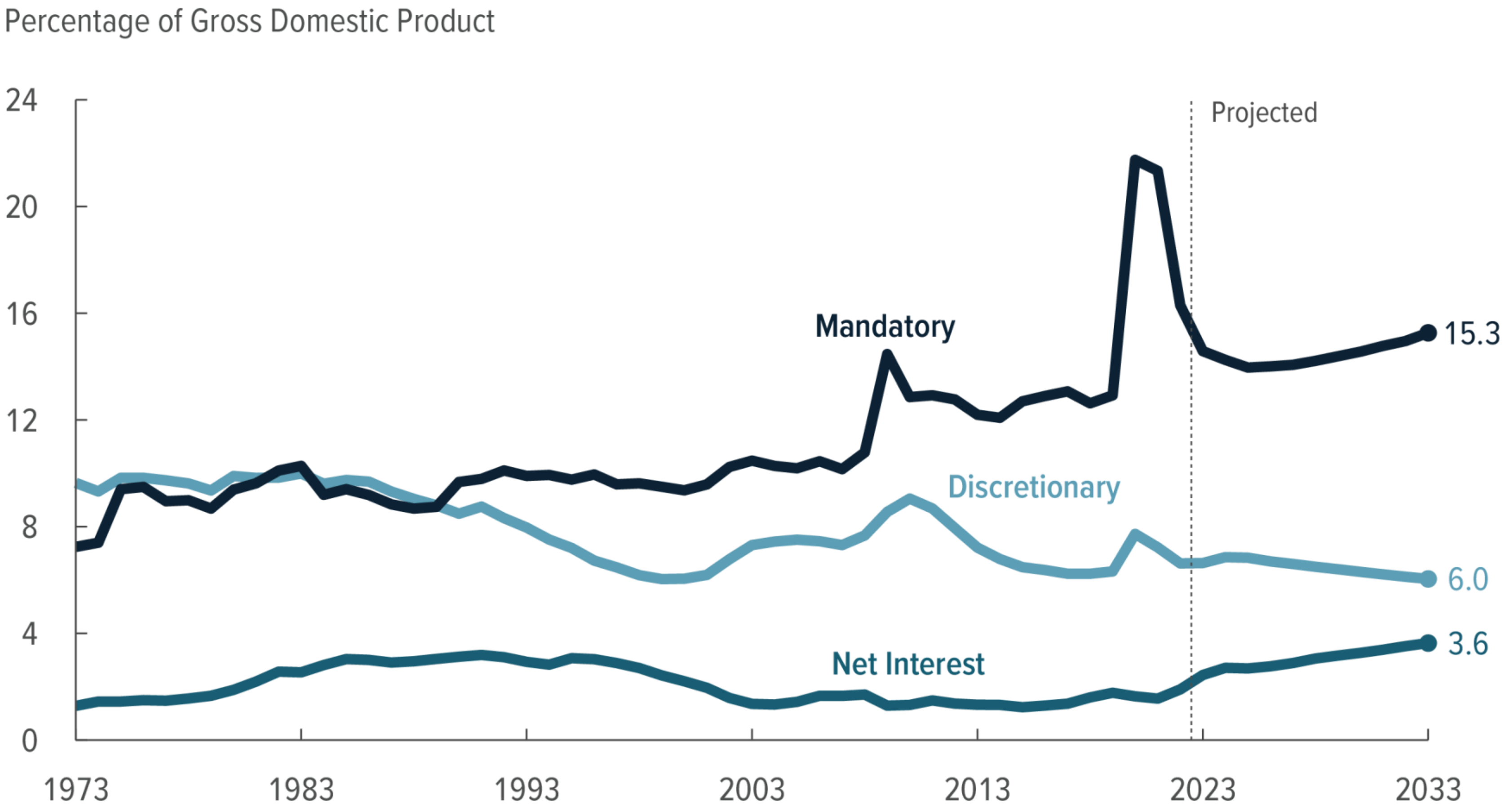
# Total Outlays and Revenues




Measured as a percentage of GDP, projected outlays remain about the same for the next several years, as growth in outlays for interest payments and mandatory spending is offset in part by waning pandemic-related spending.

Outlays and revenues equal or exceed their 50-year averages in each year of the 2024–2033 period.

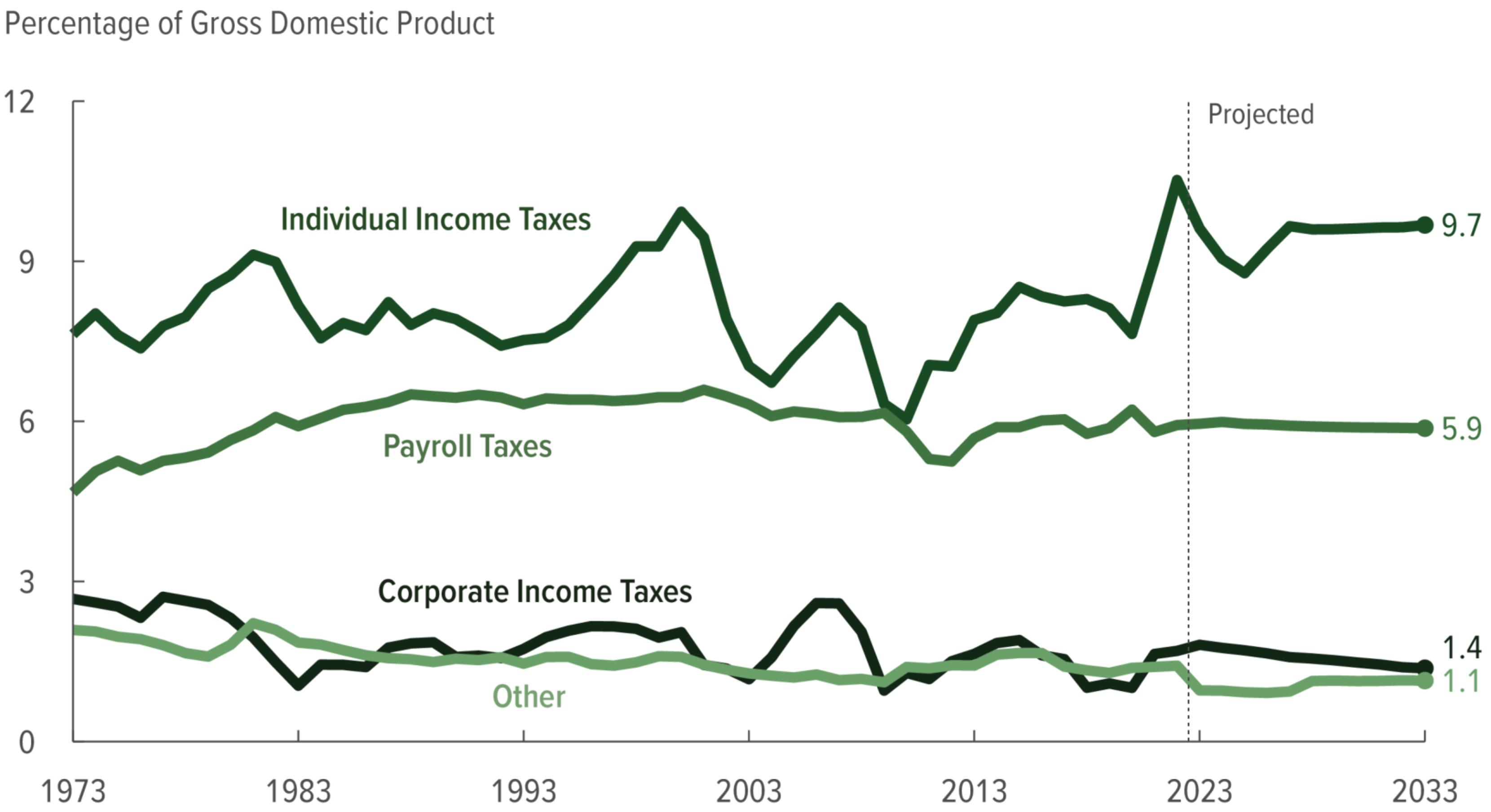
# Outlays




In CBO's projections, rising spending on Social Security and Medicare boosts mandatory outlays, but total discretionary spending falls in relation to GDP.

As the cost of financing the nation's debt grows, net outlays for interest increase substantially and, beginning in 2030, exceed their previous peak.

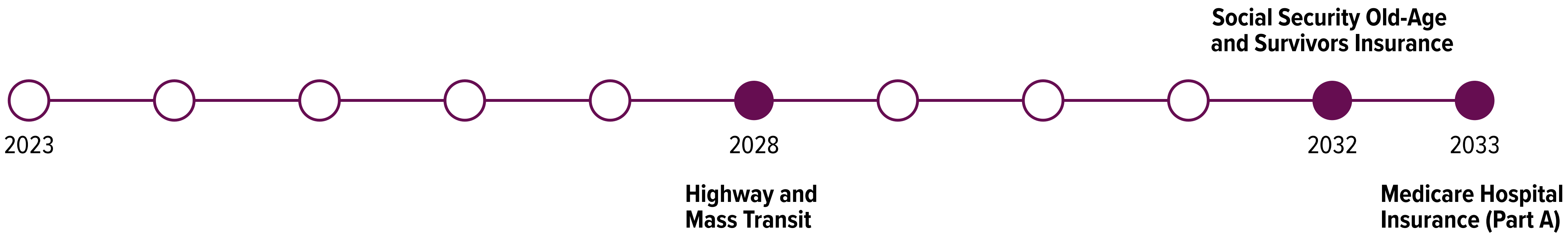
# Revenues




After reaching a historic high in 2022, receipts from individual income taxes are projected to fall in 2023 because collections from taxes on capital gains realizations and other sources, which have been strong in recent years, fall in CBO's projections.

Receipts are projected to rise again after 2025 because of the scheduled expiration of certain provisions of the 2017 tax act.

# Trust Fund Exhaustion Dates




The trust funds would not have the authority to make payments in excess of receipts if their balances were depleted. Excise, income, and payroll taxes designated for the funds would continue to be collected, and the funds would continue to make payments using those receipts.

For example, most Social Security benefits would be smaller by one-quarter, CBO projects, if outlays were limited to what was payable from annual revenues after the trust fund's exhaustion in 2032.

For additional information about trust funds, see CBO, *The Budget and Economic Outlook: 2022 to 2032* (May 2022), Appendix B, www.cbo.gov/publication/57950. For the agency's most recent estimates, see CBO, "10-Year Trust Fund Projections," www.cbo.gov/data/budget-economic-data#5. CBO's baseline budget projections follow provisions in section 257 of the Deficit Control Act, which requires the agency to project spending for certain programs—including Social Security and Medicare—under the assumption that they will be fully funded and thus able to make all scheduled payments, even if the trust funds associated with those programs do not have sufficient resources to make full payments.

# Projected Savings From Options for Reducing the Deficit

Billions of Dollars

| Option | Title | Savings, 2023–2032 |
|---|---|---|
| 1 | Establish Caps on Federal Spending for Medicaid | 501 to 871 |
| 2 | Limit State Taxes on Health Care Providers | 41 to 526 |
| 3 | Reduce Federal Medicaid Matching Rates | 68 to 667 |
| 4 | Increase the Premiums Paid for Medicare Part B | 57 to 448 |
| 5 | Reduce Medicare Advantage Benchmarks | 392 |
| 6 | Reduce Tax Subsidies for Employment-Based Health Insurance | 500 to 893 |
| 7 | Reduce Social Security Benefits for High Earners | 40 to 184 |
| 8 | Set Social Security Benefits to a Flat Amount | 270 to 593 |
| 9 | Increase the Maximum Taxable Earnings That Are Subject to Social Security Payroll Taxes | 670 to 1,204 |
| 10 | Reduce Spending on Other Mandatory Programs | 580 |
| 11 | Reduce the Department of Defense's Annual Budget | 995 |
| 12 | Reduce Nondefense Discretionary Spending | 332 |
| 13 | Increase Individual Income Tax Rates | 502 to 1,329 |
| 14 | Eliminate or Limit Itemized Deductions | 541 to 2,507 |
| 15 | Impose a New Payroll Tax | 1,136 to 2,253 |
| 16 | Impose a Tax on Consumption | 1,950 to 3,050 |
| 17 | Impose a Tax on Emissions of Greenhouse Gases | 571 to 865 |

The range of savings for an option reflects the effects of different policy specifications for that option. See CBO, *Options for Reducing the Deficit, 2023 to 2032—Volume I: Larger Reductions* (December 2022), Table 1, www.cbo.gov/publication/58164. For a related discussion, see Phillip L. Swagel, "Options for Reducing the Deficit," *CBO Blog* (March 6, 2023), www.cbo.gov/publication/58981.

# Key Points

CBO’s projections suggest that, over the long term, changes in fiscal policy would need to be made to address the rising costs of interest and mitigate other adverse consequences of high and rising debt.

- In coming decades, the aging of the population and rising health care costs will put increasing pressure on the federal budget.
- Revenues under current law will not keep pace with spending.
- Major trust funds will be exhausted within 10 years, reducing benefits for vulnerable people.
- Changes to both spending and revenues could be made in many ways.
- Undertaking new initiatives that were paid for would not improve the fiscal trajectory.
- The longer action is delayed, the larger the policy changes would need to be.

# CBO’s Projections

# Budget Outlook, by Fiscal Year

| | Percentage of Gross Domestic Product | | | | | Billions of Dollars | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average, 1973–2022 | Actual, 2022 | 2023 | 2024 | 2033 | Actual, 2022 | 2023 | 2024 | 2033 |
| **Revenues, Total** | **17.4** | **19.6** | **18.3** | **17.7** | **18.1** | **4,896** | **4,812** | **4,838** | **7,098** |
| Individual income taxes | 8.0 | 10.5 | 9.6 | 9.0 | 9.7 | 2,632 | 2,523 | 2,467 | 3,803 |
| Payroll taxes | 6.0 | 5.9 | 6.0 | 6.0 | 5.9 | 1,484 | 1,562 | 1,633 | 2,307 |
| Corporate income taxes | 1.8 | 1.7 | 1.8 | 1.8 | 1.4 | 425 | 475 | 479 | 539 |
| Other | 1.6 | 1.4 | 1.0 | 1.0 | 1.1 | 356 | 251 | 260 | 449 |
| **Outlays, Total** | **21.0** | **24.8** | **23.7** | **23.8** | **24.9** | **6,208** | **6,206** | **6,493** | **9,799** |
| Mandatory, subtotal | 10.9 | 16.3 | 14.6 | 14.3 | 15.3 | 4,076 | 3,825 | 3,885 | 5,997 |
| Social Security | 4.4 | 4.8 | 5.1 | 5.3 | 6.0 | 1,213 | 1,336 | 1,450 | 2,355 |
| Major health care programs | 3.3 | 5.6 | 5.7 | 5.6 | 6.7 | 1,404 | 1,508 | 1,528 | 2,629 |
| Medicare, net of offsetting receipts | 2.0 | 2.8 | 3.1 | 3.3 | 4.1 | 710 | 820 | 894 | 1,623 |
| Medicaid, CHIP, and marketplace subsidies | 1.2 | 2.8 | 2.6 | 2.3 | 2.6 | 695 | 688 | 634 | 1,005 |
| Other | 3.2 | 5.8 | 3.7 | 3.3 | 2.6 | 1,459 | 981 | 908 | 1,014 |
| Discretionary, subtotal | 8.0 | 6.6 | 6.6 | 6.9 | 6.0 | 1,657 | 1,741 | 1,869 | 2,373 |
| Defense | 4.3 | 3.0 | 3.1 | 3.1 | 2.8 | 746 | 800 | 848 | 1,105 |
| Nondefense | 3.8 | 3.6 | 3.6 | 3.7 | 3.2 | 910 | 941 | 1,022 | 1,269 |
| Net interest | 2.0 | 1.9 | 2.4 | 2.7 | 3.6 | 475 | 640 | 739 | 1,429 |
| **Deficit, Total** | **-3.6** | **-5.2** | **-5.3** | **-6.1** | **-6.9** | **-1,312** | **-1,394** | **-1,655** | **-2,702** |
| Deficit, Primary | -1.5 | -3.3 | -2.9 | -3.4 | -3.2 | -837 | -755 | -916 | -1,273 |
| Debt Held by the Public | 46.9 | 97.0 | 98.0 | 100.4 | 118.2 | 24,257 | 25,716 | 27,370 | 46,445 |

See CBO, *The Budget and Economic Outlook: 2023 to 2033* (February 2023), Chapter 1, www.cbo.gov/publication/58848. When October 1 falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Mandatory outlays, discretionary outlays, and deficits have been adjusted to exclude the effects of those timing shifts.

# Economic Outlook, by Calendar Year

Percent

| | Actual, 2022 | 2023 | 2024 | 2025 | Annual Average 2026–2027 | Annual Average 2028–2033 |
|---|---|---|---|---|---|---|
| | | | **Change From Year to Year** | | | |
| Real (Inflation-adjusted) GDP | 2.1 | 0.3 | 1.8 | 2.7 | 2.4 | 1.8 |
| Inflation | | | | | | |
| PCE price index | 6.2 | 3.8 | 2.7 | 2.2 | 2.1 | 2.0 |
| Consumer price index | 8.0 | 4.8 | 3.0 | 2.2 | 2.1 | 2.3 |
| | | | **Annual Average** | | | |
| Unemployment Rate | 3.6 | 4.7 | 4.9 | 4.7 | 4.5 | 4.5 |
| Payroll Employment (Monthly change, in thousands) | 427 | 9 | 66 | 97 | 80 | 67 |
| Interest Rates | | | | | | |
| 3-month Treasury bills | 2.0 | 4.5 | 3.2 | 2.5 | 2.2 | 2.3 |
| 10-year Treasury notes | 3.0 | 3.9 | 3.8 | 3.8 | 3.8 | 3.8 |
| Tax Bases (Percentage of GDP) | | | | | | |
| Wages and salaries | 43.8 | 44.3 | 44.5 | 44.5 | 44.3 | 44.0 |
| Domestic corporate profits (Estimated value for 2022) | 9.7 | 7.9 | 7.5 | 7.9 | 8.2 | 8.0 |

See CBO, *The Budget and Economic Outlook: 2023 to 2033* (February 2023), Table 2-1, www.cbo.gov/publication/58848. Actual values for 2022 reflect data available from the Bureau of Economic Analysis and the Bureau of Labor Statistics in early February 2023. The data contain values for the fourth quarter of 2022, which were not available when CBO developed its current projections.