



## Insight

# Highlights of the August 2019 CBO Budget and Economic Outlook

GORDON GRAY | AUGUST 21, 2019

The Congressional Budget Office (CBO) released its [Update to the Budget and Economic Outlook: 2019 to 2029](#), which provides Congress with an update to its 10-year baseline budget projection to evaluate the costs of potential legislation. Underpinning the budgetary estimate is CBO's updated economic forecast for the next decade, which incorporates the assumed economic effects of federal laws currently in force.

### By the Numbers

|         |             | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025   | 2026   | 2027   | 2028   | 2029   |
|---------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue | \$ Billions | 3,330  | 3,451  | 3,620  | 3,792  | 3,971  | 4,163  | 4,392  | 4,585  | 4,900  | 5,206  | 5,390  | 5,619  |
|         | % GDP       | 16.5   | 16.3   | 16.4   | 16.6   | 16.7   | 16.9   | 17.2   | 17.3   | 17.8   | 18.2   | 18.1   | 18.2   |
| Outlays | \$ Billions | 4,109  | 4,411  | 4,628  | 4,826  | 5,130  | 5,344  | 5,543  | 5,869  | 6,174  | 6,466  | 6,868  | 6,997  |
|         | % GDP       | 20.3   | 20.8   | 21.0   | 21.1   | 21.6   | 21.7   | 21.7   | 22.1   | 22.4   | 22.6   | 23.1   | 22.7   |
| Deficit | \$ Billions | 779    | 960    | 1,008  | 1,034  | 1,159  | 1,181  | 1,151  | 1,284  | 1,274  | 1,260  | 1,479  | 1,378  |
|         | % GDP       | 3.9    | 4.5    | 4.6    | 4.5    | 4.9    | 4.8    | 4.5    | 4.8    | 4.6    | 4.4    | 5.0    | 4.5    |
| Debt    | \$ Billions | 15,750 | 16,685 | 17,755 | 18,841 | 20,042 | 21,264 | 22,457 | 23,784 | 25,102 | 26,407 | 27,917 | 29,322 |
|         | % GDP       | 77.8   | 78.9   | 80.7   | 82.4   | 84.5   | 86.4   | 88.0   | 89.7   | 91.2   | 92.4   | 94.0   | 95.1   |

**Taxes:** By the end of the 10-year budget window, tax revenues will amount to 18.2 percent of gross domestic product (GDP). Tax revenues will average 17.3 percent of GDP over the next 10 years, which is slightly below CBO's previous projected 10-year average of 17.5 percent projected in CBO's [May update](#), and the 17.4 percent historical average. It is important to note that significant elements of the Tax Cuts and Jobs Act sunset in 2025, helping to drive up revenue as a share of the economy in the budget window's last 4 years.

**Spending:** CBO estimates that, by the end of the budget window, overall spending will total 22.7 percent of GDP, and average 22.1 percent over the 2020-2029 period. In nominal terms, federal spending will total \$57.8 trillion over this period. The topline spending number is remarkably unchanged from CBO's previous forecast, which belies the \$1.7 trillion increase in projected discretionary spending and the \$1.1 trillion decrease in projected net interest costs. Total entitlement, or mandatory, spending will continue to grow as a share of the federal budget, comprising 64 percent of federal expenditures in 2029, up from 61 percent in 2019 and 29 percent in 1969.

**Deficits:** Projected budget deficits will grow substantially over the budget window, reaching over \$1 trillion in 2020 at a time when CBO forecasts unemployment of 3.7 percent. For context, the last time the deficit exceeded \$1 trillion was in 2012, when unemployment was 8.2 percent for the year – more than twice the rate forecast for 2022.

**Interest Payments:** Interest payments on the debt will reach \$807 billion in 2029. This figure reflects a more than doubling of debt service costs of \$325 billion in FY2018. Despite the increase over time, this projection reflects a substantial downward revision from CBO’s May projection, owing to a reduction in CBO’s interest rate forecast. While the downward revision in interest costs is good news for the budget, the magnitude of the revision belies the budget risk from interest rate fluctuations.

**Debt Held by the Public:** Borrowing from the public is projected to increase as a share of the economy under current law, reaching 95.1 percent of GDP in 2029. Only in 1945 and 1946 was the debt held by the public higher.

### Economic Projections

|                                       | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---------------------------------------|------|------|------|------|------|------|------|------|------|------|------|
| <b>Real GDP Growth (%)</b>            | 2.7  | 2.2  | 1.9  | 1.7  | 1.7  | 1.7  | 1.8  | 1.7  | 1.8  | 1.8  | 1.8  |
| <b>Unemployment Rate (%)</b>          | 3.7  | 3.7  | 3.8  | 4.1  | 4.4  | 4.6  | 4.7  | 4.7  | 4.7  | 4.7  | 4.6  |
| <b>10-Year Treasury Note Rate (%)</b> | 2.5  | 2.2  | 2.4  | 2.8  | 3.0  | 3.1  | 3.1  | 3.1  | 3.2  | 3.2  | 3.2  |

CBO’s economic outlook is broadly similar to its [January 2019 estimates](#). The 10-year economic forecast from CBO therefore reflects the agency’s somewhat consistent view that the U.S. economy gradually moderate to a long-run average of real growth of below 2 percent per year. This outlook is generally consistent with those of the *Blue Chip* forecast and those published by members of the Federal Reserve. The most significant change from CBO’s economic projections from January is a downward revision in interest rates.