

CBO ECONOMIC AND BUDGET OUTLOOK: AN UPDATE

The Congressional Budget Office (CBO) projects higher economic growth and lower deficits in 1994 and 1995 than it anticipated earlier this year. Unfortunately, the good news for those years does not signify any improvement in the longer term; CBO's projections of the gross domestic product (GDP) and the deficit in 1999 have changed little since last winter.

A recent surge in economic growth and the expected continuation of high levels of business investment and consumer spending have boosted CBO's forecast of real GDP growth to 4 percent in 1994 and 3 percent in 1995 (see the table on the reverse side). This strong growth will propel GDP above CBO's estimate of potential output and drive up interest rates and inflation, although the increases are expected to be smaller than those typically experienced in mature expansions since World War II.

CBO's projection of GDP in 1999 is essentially unchanged from the winter forecast. CBO does not attempt to forecast cyclical fluctuations in the economy more than two years into the future; projections for 1996 through 1999 assume a smooth path of economic growth leading to GDP that will be near potential output in 1999. Despite higher growth in 1994 and 1995, CBO has not detected changes in the underlying factors that determine the economy's potential that would justify an increase in the estimate of potential GDP.

CBO projects that the deficit will fall to \$202 billion in fiscal year 1994 and \$162 billion in 1995 under current policies. The 1995 deficit would be the lowest since 1989 and the lowest as a percentage of GDP since 1979. It would also be \$128 billion below CBO's March 1993 projection of the 1995 deficit. That drop is the result of policy changes enacted in the Omnibus Budget Reconciliation Act of 1993 (OBRA-93), economic performance that has exceeded expectations, and reestimates of spending and revenues for a variety of other reasons. The deficit of \$197 billion projected for 1998 is \$160 billion lower than was anticipated in March 1993; the policies enacted in OBRA-93 account for almost 90 percent of that reduction.

However, neither OBRA-93 nor economic growth has permanently tamed the deficit. After declining from the high levels of the early 1990s and stabilizing in mid-decade, the deficit as a percentage of GDP will begin to rise again as the decade ends. CBO's abbreviated projections for the 2000-2004 period indicate that trend will continue under current policies.

The changes in outlay, revenue, and deficit projections since CBO's winter baseline are relatively small in comparison with changes made in previous updates. Legislation enacted since that baseline was issued in April 1994 has had virtually no effect on projected spending or revenues. Changes in the economic assumptions and technical reestimates combined reduce the total 1994-1999 deficit projections by only \$18 billion. The 1994 and 1995 deficit estimates have been cut by \$26 billion and \$17 billion, respectively, but those reductions are partially offset by increases in the deficits projected for 1997 through 1999.

Questions concerning the budget projections should be directed to CBO's Budget Analysis Division (202-226-2880) and inquiries about the economic forecast to the Macroeconomic Analysis Division (226-2750). The Office of Intergovernmental Relations is CBO's Congressional liaison office and can be reached at 226-2600. For additional copies of the report, please call the Publications Office at 226-2809.



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Budget Projections and Underlying Assumptions

	1993	1994	1995	1996	1997	1998	1999
Budget Projection (By fiscal year, in billions of dollars)							
Total Deficit ^a	255	202	162	176	193	197	231
Standardized-Employment Deficit ^b	221	184	183	195	200	196	223
As a Percentage of GDP							
Total Deficit ^a	4.0	3.0	2.3	2.4	2.5	2.4	2.7
Standardized-Employment Deficit ^{b,c}	3.4	2.7	2.6	2.6	2.6	2.4	2.6
Economic Assumptions (By calendar year)							
Nominal GDP (Billions of dollars)	6,378	6,777	7,161	7,523	7,893	8,277	8,687
Real GDP (Percentage change)	3.0	4.0	3.0	2.4	2.1	2.1	2.2
CPI-U (Percentage change) ^d	3.0	2.6	3.1	3.3	3.4	3.4	3.4
Unemployment Rate (Percent) ^e	6.8	6.2	5.8	5.9	6.0	6.1	6.1
Three-Month Treasury Bill Rate (Percent)	3.0	4.1	5.5	5.1	4.9	4.9	4.9
Ten-Year Treasury Note Rate (Percent)	5.9	6.8	6.8	6.5	6.5	6.5	6.5

SOURCE: Congressional Budget Office.

NOTE: The projections include Social Security and the Postal Service, which are off-budget.

- a. The projections assume compliance with the discretionary spending caps of the Balanced Budget and Emergency Deficit Control Act of 1985, which limit annual appropriations through 1998. The projection for 1999 assumes discretionary spending will grow at the rate of inflation after 1998.
 - b. Excludes deposit insurance and cyclical factors.
 - c. Shown as a percentage of potential GDP.
 - d. The CPI-U is the consumer price index for all urban consumers.
 - e. The Bureau of Labor Statistics changed the unemployment survey methodology in January 1994. The projected levels shown here are based on the new survey methodology. Data for 1993, shown in italics, use the pre-1994 methodology.
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