URL: <https://www.cbo.gov/system/files/2024-02/59710-Executive-Summary.pdf>

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

# The Budget and Economic Outlook: 2024 to 2034
# **Executive Summary**

FEBRUARY | 2024

The Congressional Budget Office regularly publishes reports presenting its baseline projections of what the federal budget and the economy would look like in the current year and over the next 10 years if laws governing taxes and spending generally remained unchanged. This report is the latest in that series.

## The Budget Outlook

**Deficits**

In CBO's projections, the federal budget deficit grows from $1.6 trillion in fiscal year 2024 to $2.6 trillion in 2034. Deficits also expand in relation to the size of the economy, from 5.6 percent of gross domestic product (GDP) in 2024, when the collection of certain postponed tax payments temporarily boosts revenues, to 6.1 percent of GDP in 2025. In 2026 and 2027, revenues increase faster than outlays, causing the deficit to shrink to 5.2 percent of GDP by 2027. Thereafter, outlays rise faster than revenues. By 2034, the deficit returns to 6.1 percent of GDP—significantly larger than the 3.7 percent that deficits have averaged over the past 50 years.

**Debt**

Debt held by the public rises each year in relation to the size of the economy, reaching 116 percent of GDP in 2034—an amount greater than at any point in the nation's history. From 2024 to 2034, increases in mandatory spending and interest costs outpace declines in discretionary spending and growth in revenues and the economy, driving up debt. That trend persists, pushing federal debt to 172 percent of GDP in 2054.

**Outlays and Revenues**

Federal outlays in 2024 total $6.5 trillion, which amounts to 23.1 percent of GDP. They stay close to that level through 2028 and then increase, reaching 24.1 percent of GDP by 2034. Growth in spending on programs that benefit elderly people and rising net interest costs drive those increases. Revenues in 2024 total $4.9 trillion, or 17.5 percent of GDP. They reach 17.9 percent of GDP in 2027, in part because of the expiration of provisions of the 2017 tax act, and remain near that level through 2034.

**Changes in CBO's Budget Projections**

The deficit for 2024 is $0.1 trillion (or 4 percent) smaller in CBO's current projections than it was in the agency's May 2023 projections, and the cumulative deficit over the 2024–2033 period is smaller by $1.4 trillion (or 7 percent). The biggest factor contributing to smaller projected deficits over the 10-year period is a $2.3 trillion reduction in projected discretionary outlays stemming from the combination of the Fiscal Responsibility Act and the Further Continuing Appropriations and Other Extensions Act, 2024.

Projections for **2024**

Budget deficit:
**$1.6** trillion

Debt held by the public:
**99%** of GDP

Outlays:
**$6.5** trillion

Revenues:
**$4.9** trillion

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Deficits and outlays have been adjusted to exclude the effects of shifts that occur in the timing of certain payments when the fiscal year begins on a weekend. Without those adjustments, the deficit projected for 2024 is $1.5 trillion (or 5.3 percent of GDP).

## The Budget Outlook, by Fiscal Year

| | | Percentage of GDP | | | | Billions of dollars | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average, 1974–2023 | Actual, 2023 | 2024 | 2025 | 2034 | Actual, 2023 | 2024 | 2025 | 2034 |
| **Revenues** | **17.3** | **16.5** | **17.5** | **17.1** | **17.9** | **4,439** | **4,935** | **4,996** | **7,474** |
| Individual income taxes | 8.0 | 8.1 | 8.8 | 8.6 | 9.5 | 2,176 | 2,469 | 2,520 | 3,973 |
| Payroll taxes | 6.0 | 6.0 | 5.9 | 5.9 | 5.9 | 1,614 | 1,663 | 1,734 | 2,466 |
| Corporate income taxes | 1.8 | 1.6 | 2.0 | 1.7 | 1.3 | 420 | 569 | 494 | 551 |
| Other | 1.5 | 0.8 | 0.8 | 0.8 | 1.2 | 229 | 234 | 247 | 485 |
| **Outlays** | **21.0** | **22.7** | **23.1** | **23.1** | **24.1** | **6,123** | **6,517** | **6,768** | **10,032** |
| Mandatory | 11.0 | 13.9 | 13.9 | 13.9 | 15.1 | 3,742 | 3,908 | 4,061 | 6,298 |
| Social Security | 4.4 | 5.0 | 5.2 | 5.3 | 5.9 | 1,348 | 1,453 | 1,545 | 2,471 |
| Major health care programs | 3.4 | 5.8 | 5.6 | 5.5 | 6.7 | 1,556 | 1,574 | 1,619 | 2,781 |
| Medicare | 2.1 | 3.1 | 3.2 | 3.2 | 4.2 | 832 | 896 | 940 | 1,740 |
| Medicaid, CHIP, and marketplace subsidies | 1.3 | 2.7 | 2.4 | 2.3 | 2.5 | 724 | 678 | 679 | 1,042 |
| Other mandatory | 3.2 | 3.1 | 3.1 | 3.1 | 2.5 | 838 | 881 | 897 | 1,046 |
| Discretionary | 8.0 | 6.4 | 6.2 | 6.0 | 5.1 | 1,722 | 1,739 | 1,756 | 2,106 |
| Defense | 4.2 | 3.0 | 2.9 | 2.9 | 2.5 | 805 | 822 | 845 | 1,034 |
| Nondefense | 3.7 | 3.4 | 3.3 | 3.1 | 2.6 | 917 | 917 | 911 | 1,071 |
| Net interest | 2.1 | 2.4 | 3.1 | 3.2 | 3.9 | 659 | 870 | 951 | 1,628 |
| **Total deficit (-)** | **-3.7** | **-6.2** | **-5.6** | **-6.1** | **-6.1** | **-1,684** | **-1,582** | **-1,772** | **-2,557** |
| Primary deficit (-) | -1.6 | -3.8 | -2.5 | -2.8 | -2.2 | -1,025 | -712 | -821 | -929 |
| Debt held by the public at the end of each period | 48.3 | 97.3 | 99.0 | 101.7 | 116.0 | 26,240 | 27,897 | 29,749 | 48,300 |

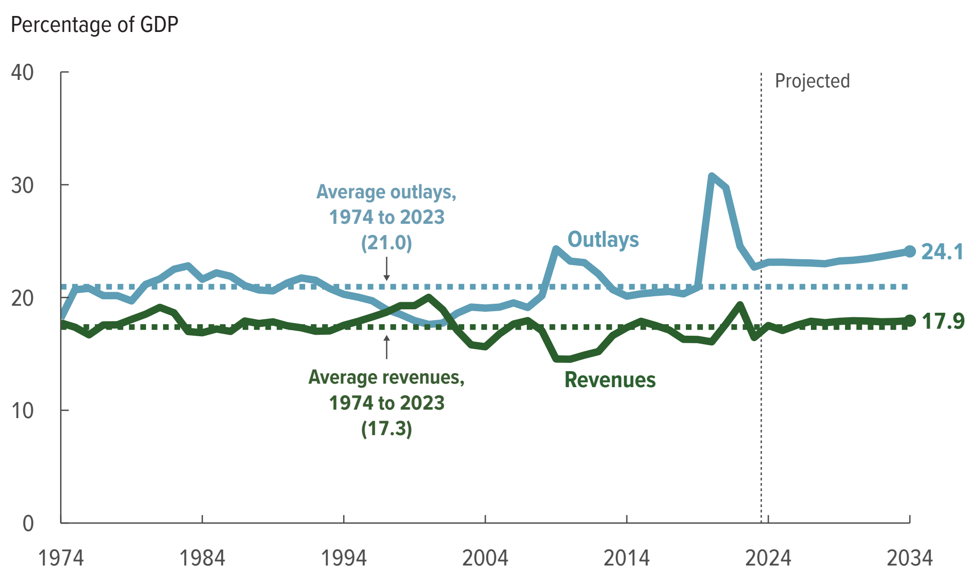
*See Chapter 1.* When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays and deficits have been adjusted to remove the effects of those timing shifts.

## The Budget Outlook in Six Figures

### Total Outlays and Revenues

Measured as a percentage of GDP, federal outlays exceed their 50-year average each year from 2024 to 2034 in CBO's projections. Revenues fall below their 50-year average in 2025 but hover slightly above it thereafter.

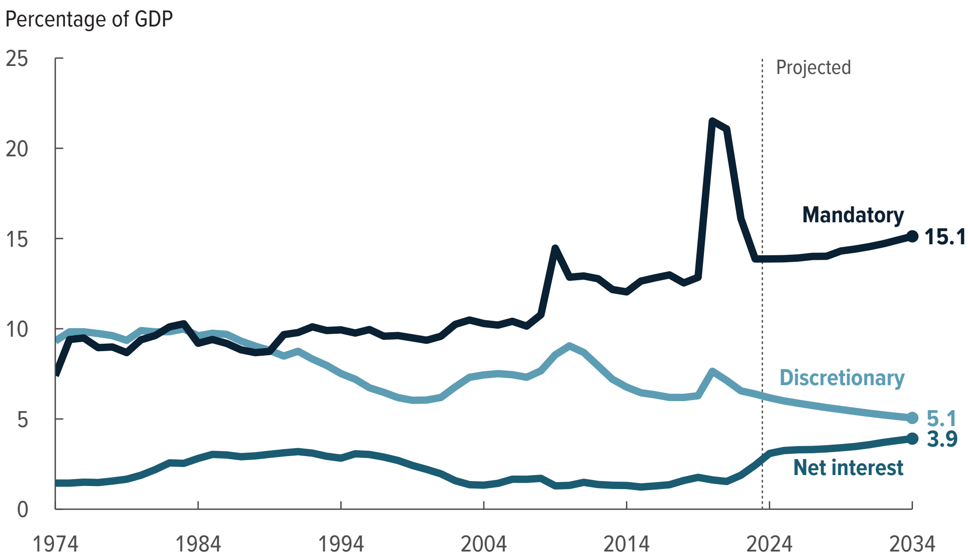
*See Figure 1-3*



### Outlays, by Category

In CBO's projections, rising spending for Social Security and Medicare boosts mandatory outlays. Discretionary spending as a share of GDP falls to historic lows. And mounting debt and higher interest rates cause net outlays for interest to increase. Starting next year, net interest costs are greater in relation to GDP than at any point since at least 1940, the first year for which the Office of Management and Budget reports such data.

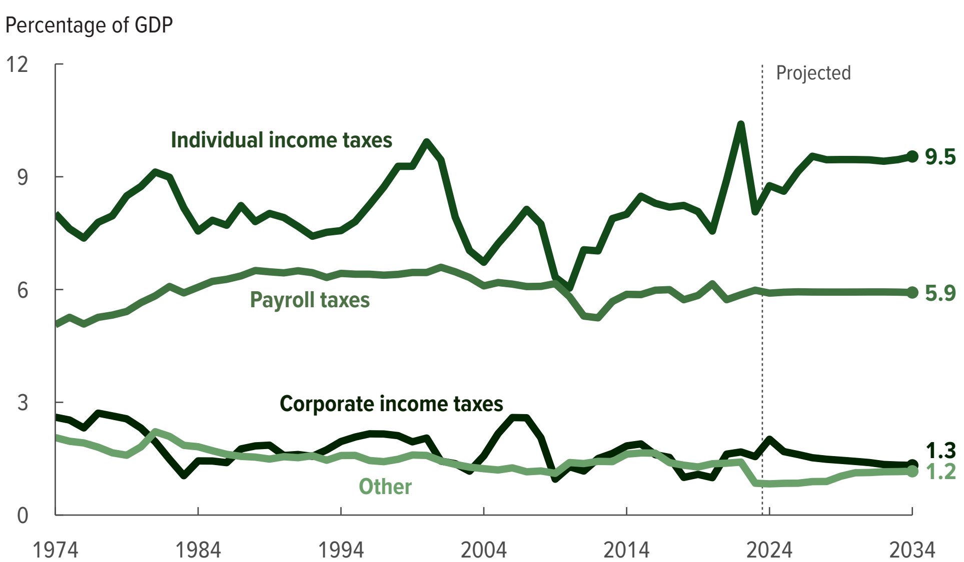
*See Figure 1-4*




### Revenues, by Category

Receipts from individual income taxes fell sharply as a percentage of GDP in 2023, from a historic high in 2022. They declined in part because capital gains on sold assets were smaller and because the Internal Revenue Service extended some tax payment deadlines. As those delayed payments are made, revenues rise in 2024. They rise again in 2026 and 2027, following the scheduled expiration of certain provisions of the 2017 tax act.

*See Figure 1-5*




Outlook for
**2024–2034**

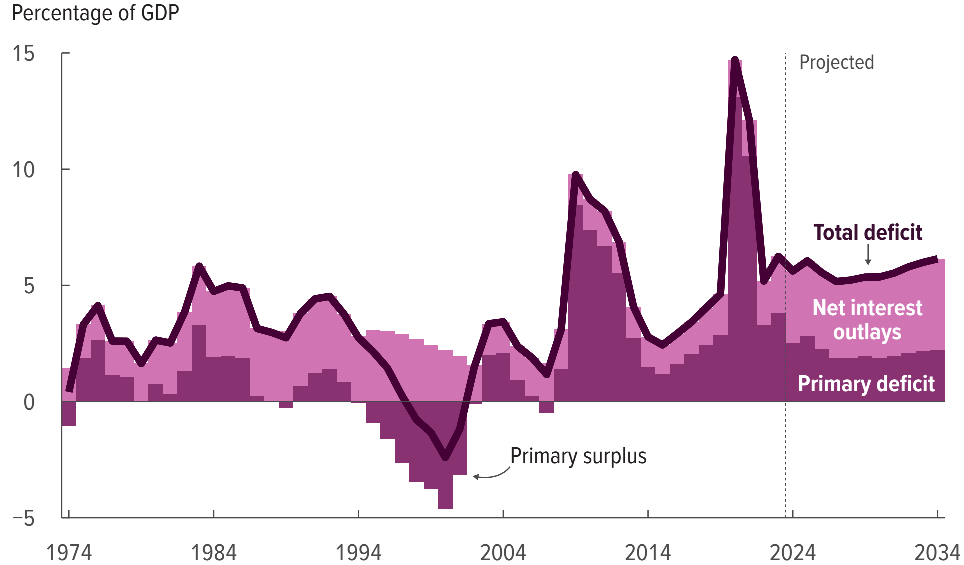
Increases in mandatory spending and rising net interest costs push outlays to **$10.0** trillion, or **24.1%** of GDP, in 2034.

Revenues in 2034 total **$7.5** trillion, or **17.9%** of GDP.

### Total Deficit, Net Interest Outlays, and Primary Deficit

In CBO's projections, the total budget deficit—the amount by which outlays exceed revenues—equals 6.1 percent of GDP in 2034. Net interest payments grow in relation to GDP, reaching 3.9 percent of GDP in 2034. Primary deficits (which exclude net outlays for interest) increase in 2025, decline over the next few years, and then increase again.

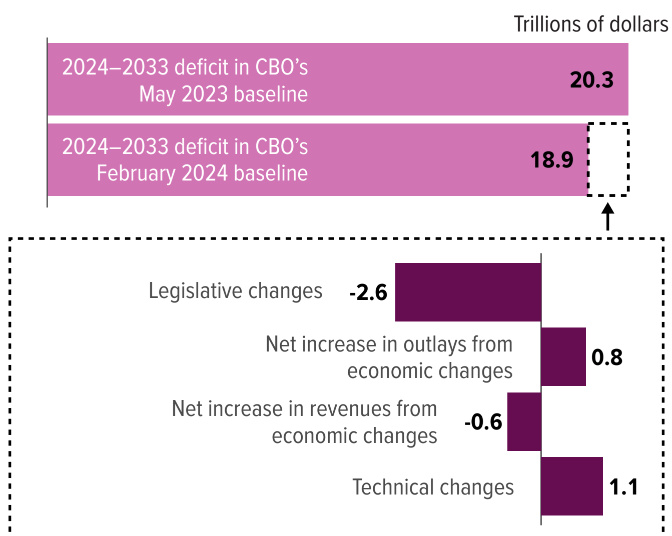
*See Figure 1-1*




### Changes in CBO's Baseline Projections of the 10-Year Deficit Since May 2023

The deficit for the 2024–2033 period is projected to total $18.9 trillion, $1.4 trillion less than CBO projected in May 2023. The biggest factor contributing to smaller projected deficits is the reduction in projected discretionary outlays stemming from the Fiscal Responsibility Act and the Further Continuing Appropriations and Other Extensions Act, 2024. Those decreases are partially offset by technical changes that reduce projected revenues and increase projected outlays for Medicare, Social Security, and clean vehicle and energy-related tax credits.

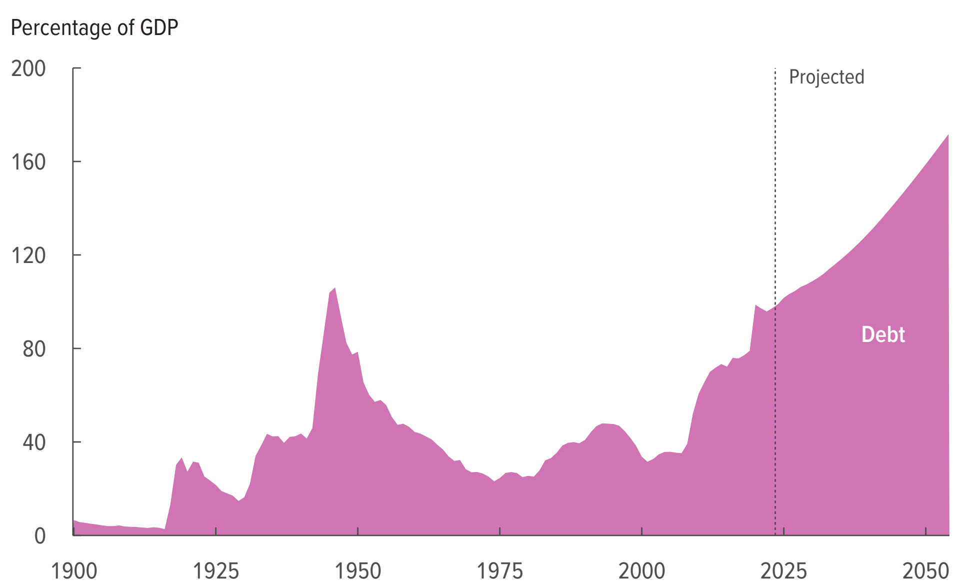
*See Figure 3-1*




### Federal Debt Held by the Public

Federal debt held by the public increases each year in CBO's projections, swelling to an all-time record of 116 percent of GDP in 2034. In the two decades that follow, growing deficits cause debt to soar to 172 percent of GDP by 2054.

*See Figure 1-2*



# The Economic Outlook

### Economic Growth

In calendar year 2023, the U.S. economy grew faster than it did in 2022, even as inflation slowed. Economic growth is projected to slow in 2024 amid increased unemployment and lower inflation. CBO expects the Federal Reserve to respond by reducing interest rates, starting in the middle of the year. In CBO's projections, economic growth rebounds in 2025 and then moderates in later years. A surge in immigration that began in 2022 continues through 2026, expanding the labor force and increasing economic output.

### Interest Rates

Interest rates rose in 2023 as the federal funds rate (the rate financial institutions charge each other for overnight loans) increased to its highest level since 2001. In CBO's projections, that rate begins to decline in the second quarter of 2024. Interest rates on 10-year Treasury notes rise in 2024 and then fall through 2026.

### Inflation

Inflation slowed markedly in 2023. In CBO's projections, inflation as measured by the price index for personal consumption expenditures (PCE) slows further in 2024, to a rate roughly in line with the Federal Reserve's long-run goal of 2 percent. It then ticks up in 2025, before declining slightly.

### Changes in CBO's Economic Projections

Since February 2023, when CBO published its last full economic forecast, the agency has lowered its projections of economic growth and inflation (as measured by the PCE price index) for 2024. CBO also expects interest rates to be higher from 2024 to 2027 than it projected last year. After 2027, CBO's current and previous economic forecasts are generally similar.

## Outlook for **2024–2034**

The growth of real GDP slows to a rate of **1.5%** in 2024 as inflation continues to decline and the federal funds rate falls.

After 2024, real GDP grows at a moderate pace.

## The Economic Outlook, by Calendar Year

Percent

| | Actual, 2023 | 2024 | 2025 | 2026 | Annual average 2027–2028 | Annual average 2029–2034 |
|---|---|---|---|---|---|---|
| | Change from fourth quarter to fourth quarter | | | | | |
| Real (inflation-adjusted) GDP | 3.1 | 1.5 | 2.2 | 2.2 | 2.1 | 1.9 |
| Inflation | | | | | | |
| PCE price index | 2.7 | 2.1 | 2.2 | 2.1 | 2.0 | 1.9 |
| Consumer price index | 3.2 | 2.5 | 2.5 | 2.2 | 2.2 | 2.2 |
| Payroll employment (net monthly change, in thousands) | 229 | 84 | 178 | 104 | 63 | 51 |
| | Annual average | | | | | |
| Unemployment rate | 3.6 | 4.2 | 4.4 | 4.3 | 4.4 | 4.5 |
| Interest rates | | | | | | |
| Effective federal funds rate | 5.0 | 5.1 | 4.1 | 3.3 | 2.9 | 2.9 |
| 3-month Treasury bills | 5.1 | 4.9 | 3.8 | 3.1 | 2.7 | 2.8 |
| 10-year Treasury notes | 4.0 | 4.6 | 4.6 | 3.9 | 3.8 | 4.1 |
| Tax bases (percentage of GDP) | | | | | | |
| Wages and salaries | 43.2 | 43.5 | 43.8 | 43.9 | 43.8 | 43.8 |
| Domestic corporate profits | 9.9 | 9.7 | 9.6 | 9.4 | 9.2 | 9.0 |

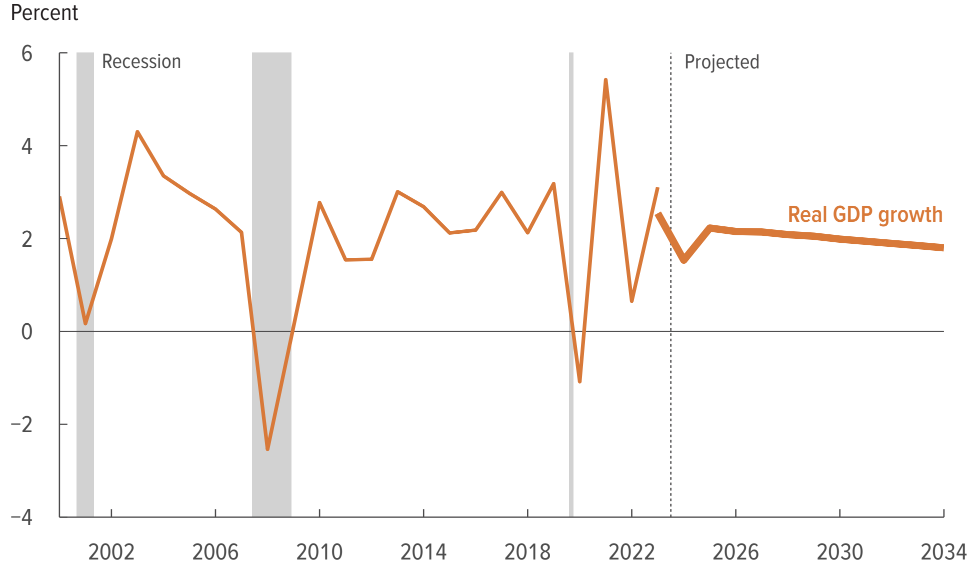
*See Table 2-1.* Domestic corporate profits are estimated for 2023.

## The Economic Outlook in Six Figures

### Growth of Real GDP

The growth of economic output, as measured by the nation's GDP, is projected to slow in 2024 because of weaker growth in consumer spending and a decline in business investment in non-residential structures. Growth of real (inflation-adjusted) GDP is projected to increase in 2025 after the Federal Reserve responds to weaker economic conditions in 2024 by lowering interest rates.

*See Figure 2-1*




Outlook for **2024–2034**

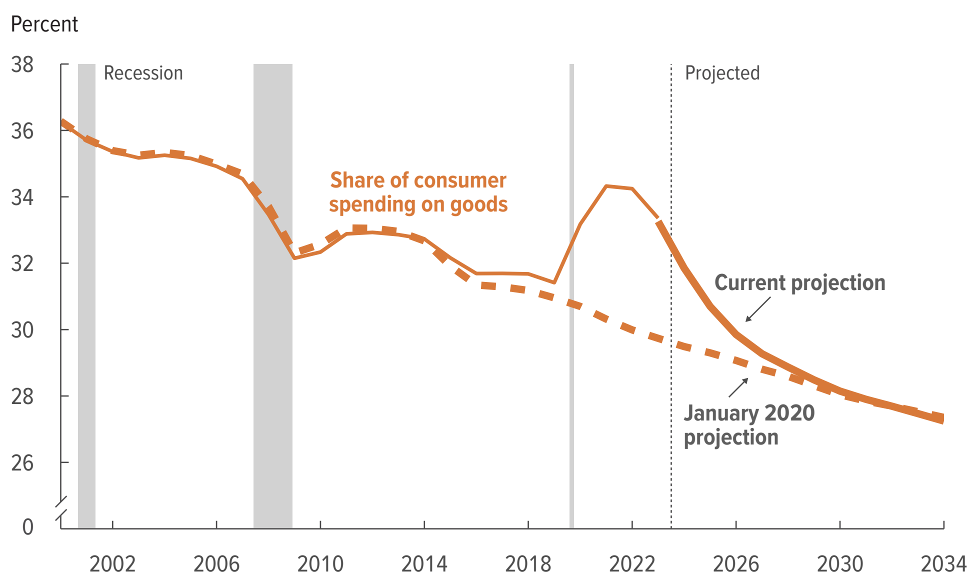
Real GDP growth averages **2.2%** annually from 2025 to 2028.

Consumer spending, which shifted sharply toward goods and away from services during the pandemic, returns to prepandemic patterns.

### Consumer Spending on Goods and Services

CBO expects consumer spending to continue shifting from goods to services as people gradually resume their prepandemic patterns of consumption. By 2030, the share of consumer spending devoted to goods returns to its prepandemic trend of a gradual decline, in CBO's projections.

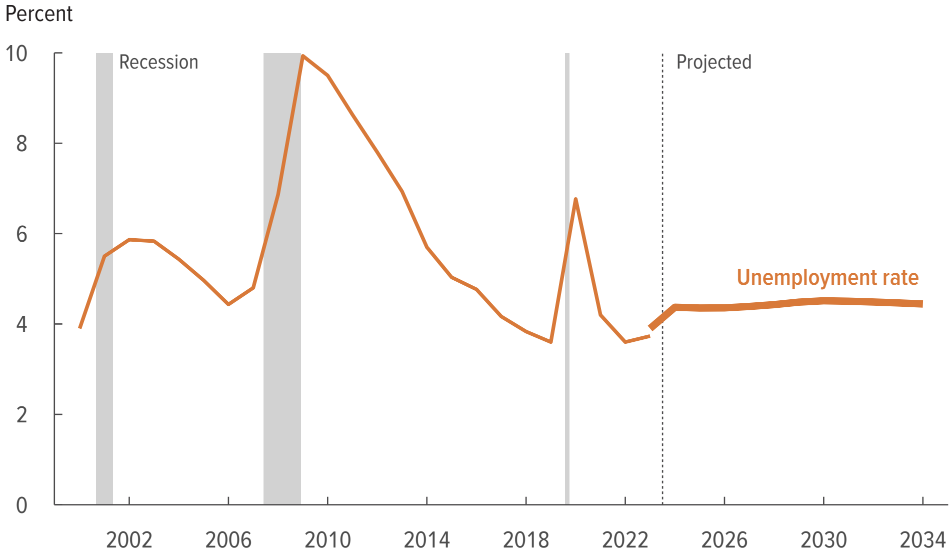
*See Figure 2-2*



## Unemployment

In CBO's projections, the unemployment rate rises to 4.4 percent by the fourth quarter of 2024, reflecting the slowdown in economic growth. In later years, the unemployment rate ranges from 4.3 percent to 4.5 percent. Fluctuations in that rate are mainly attributable to changes in economic growth and in the size and composition of the labor force.

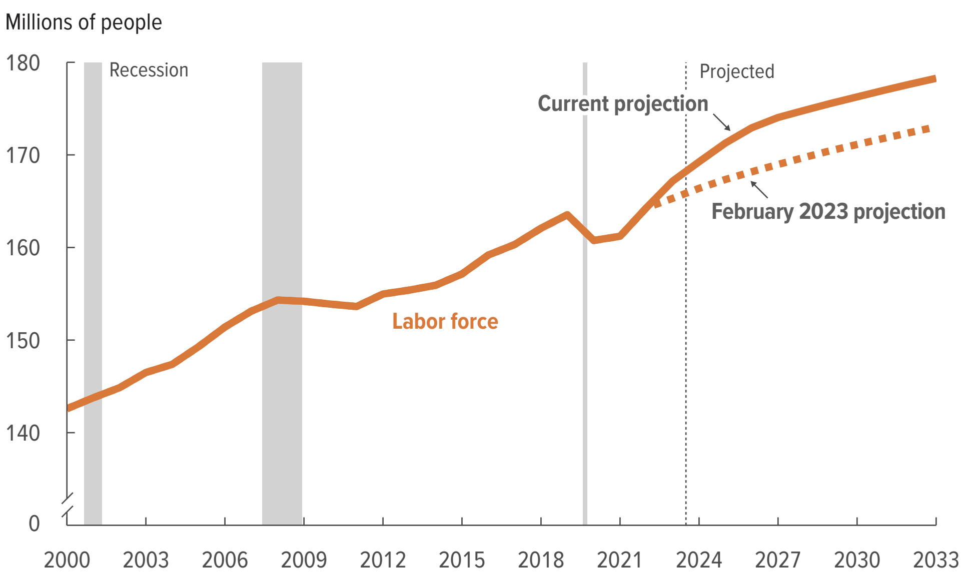
*See Figure 2-4*




## The Labor Force

In CBO's current projections, the number of people who are working or actively seeking employment continues to expand at a moderate pace through 2026. Higher population growth in those years, mainly from increased immigration, more than offsets a decline in labor force participation due to slowing demand for workers and the rising average age of the population. A large proportion of recent and projected immigrants are expected to be 25 to 54 years old—adults in their prime working years.

*See the figure in Box 2-1*




Outlook for **2024–2034**

Unemployment rises to **4.4%** by the end of 2024 and then levels off.

The labor force expands moderately over the next few years.

Outlook for **2024–2034**

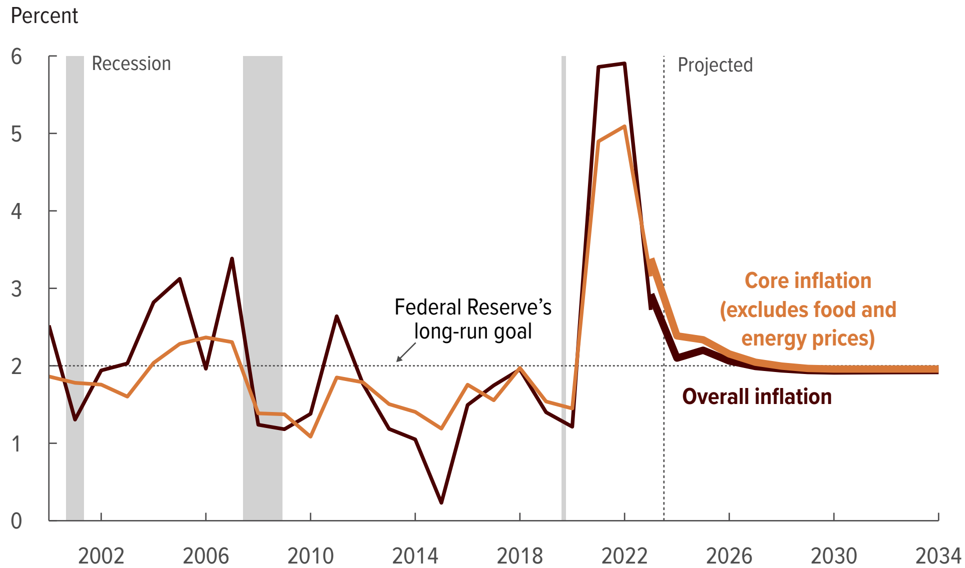
Inflation falls further over the next few years, dropping to **2.0%** or less after 2026.

Interest rates also decline over the next few years and then stabilize.

### Overall Inflation and Core Inflation

In CBO's projections, overall prices (as measured by the PCE price index) increase less in 2024 and 2025 than they did last year. One key reason that inflation is projected to be lower than in recent years is the easing of upward pressures on the prices of food, energy, and other goods. Another key reason is weaker growth in the prices of shelter services (which reflect the costs of both rental and owner-occupied housing) because of elevated interest rates in 2024.

*See Figure 2-5*




### Interest Rates

CBO expects that in the second quarter of 2024, the Federal Reserve will respond to slowing inflation and rising unemployment by lowering the federal funds rate, which affects interest rates throughout the economy. Starting this year, the difference between the federal funds rate and the interest rate on 10-year Treasury notes is projected to gradually return to its long-run average.

*See Figure 2-6*