URL: <*https://www.crfb.org/papers/analysis-cbos-may-2022-budget-and-economic-outlook*>

(the complete [150 page] *Outlook* report may be downloaded at URL: <https://www.cbo.gov/publication/57950>)

excerpt from the Committee for a Responsible Budget's:

Analysis of CBO's May 2022 Budget and Economic Outlook

MAY 25, 2022

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CBO's Economic Projections

CBO's new baseline incorporates a number of economic changes, including the recent surge in inflation. After growing by 6.7 percent in calendar year (CY) 2021, CBO estimates Consumer Price Index (CPI) inflation will grow 4.7 percent in 2022, 2.7 percent in 2023, and normalize at about 2.3 percent per year thereafter. Similarly, Personal Consumption Expenditures (PCE) inflation will total 4.0 percent in 2022, 2.3 percent in 2023, and normalize at about 2.0 percent per year thereafter.

CBO also expects the economy will continue to recover, with real GDP growing by 3.1 percent in CY 2022, 2.2 percent in 2023, and by about 1.7 percent per year after that. CBO expects the unemployment rate to fall from 4.2 percent at the end of 2021 to 3.6 percent by the end of 2023, before rising to 4.5 percent by the end of 2032.

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Fig. 6: CBO's Economic Projections

Calendar Year	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Ten Year
Real GDP Growth (Q4 over Q4)												
CBO (May 2022)	3.1%	2.2%	1.5%	1.6%	1.4%	1.7%	1.8%	1.8%	1.8%	1.7%	1.7%	1.7%
CBO (July 2021)	3.1%	1.1%	1.1%	1.3%	1.6%	1.6%	1.6%	1.5%	1.6%	1.7%	N/A	1.6%
OMB (March 2022)	3.8%	2.5%	2.1%	2.0%	2.0%	2.0%	2.1%	2.2%	2.3%	2.3%	2.3%	2.2%
Federal Reserve	2.8%	2.2%	2.0%	Longer Run: 1.8%								N/A
CPI Inflation (Q4 over Q4)												
CBO (May 2022)	4.7%	2.7%	2.3%	2.3%	2.3%	2.3%	2.4%	2.4%	2.4%	2.3%	2.3%	2.4%
CBO (July 2021)	2.3%	2.3%	2.4%	2.4%	2.5%	2.5%	2.4%	2.4%	2.3%	2.3%	N/A	2.4%
OMB (March 2022)	2.9%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
PCE Inflation (Q4 over Q4)												
CBO (May 2022)	4.0%	2.3%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.1%
CBO (July 2021)	2.0%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.0%	2.0%	2.0%	N/A	2.1%
Federal Reserve	4.3%	2.7%	2.3%	Longer Run: 2.0%								N/A
Unemployment Rate (Q4)												
CBO (May 2022)	3.7%	3.6%	3.8%	3.9%	4.1%	4.3%	4.5%	4.5%	4.6%	4.5%	4.5%	4.2%
CBO (July 2021)	3.6%	3.8%	4.1%	4.2%	4.3%	4.3%	4.4%	4.5%	4.5%	4.5%	N/A	4.5%
OMB (March 2022)	3.9%	3.6%	3.7%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Federal Reserve	3.5%	3.5%	3.6%	Longer Run: 4.0%								NA
Interest Rate on Ten-Year Treasury Notes (Annual Average)												
CBO (May 2022)	2.4%	2.9%	3.1%	3.2%	3.5%	3.7%	3.8%	3.8%	3.8%	3.8%	3.8%	3.5%
CBO (July 2021)	1.9%	2.0%	2.3%	2.6%	2.8%	3.0%	3.2%	3.3%	3.4%	3.5%	N/A	N/A
OMB (March 2022)	2.1%	2.5%	2.7%	2.8%	3.0%	3.1%	3.1%	3.2%	3.2%	3.2%	3.3%	3.0%

Sources: Congressional Budget Office, Office of Management and Budget (OMB), and Federal Reserve.

The interest rate on a ten-year Treasury note is currently 2.8 percent, up from 1.4 percent in CY 2021. CBO projects the interest rate on ten-year Treasuries will rise further to 3.8 percent by 2028 and beyond. The interest rate on three-month

Treasury bills is currently 1.1 percent, up from close to 0 percent in 2021. CBO projects interest rates on three-month Treasuries will rise further to 2.6 percent by 2025, then drop to 2.3 percent by 2032.

Overall, CBO's economic forecasts are similar to other forecasters, though differ in some ways. For example, its PCE inflation projections of 4.0, 2.3, and 2.1 percent over the next three years, respectively, are only moderately below the Federal Reserve's forecast of 4.3, 2.7, and 2.3 percent. CBO's interest rate projections are, on average, about 50 basis points above OMB's.

Conclusion

CBO's latest budget projections confirm that the country is on an unsustainable fiscal trajectory, with debt and interest costs both on course to reach record shares of the economy by FY 2032. The expiration of COVID relief and rising inflation will offer a temporary one-time reprieve, but debt will continue to rise as policymakers continue to borrow instead of paying for their priorities.

Substantial deficit reduction is needed to put the debt on a sustainable path, yet most of the political discourse has revolved around enacting new spending or tax cuts. Simply extending current tax cuts and maintaining discretionary spending as a share of the economy would boost debt to 122 percent of GDP by FY 2032, and more thereafter. This additional borrowing should not be allowed.

With inflation at a 40-year high, policymakers should enact near-term deficit reduction and reforms to assist the Federal Reserve in its effort to bring inflation back down. More importantly, they should enact long-term fiscal improvements to stabilize our debt and begin to reduce it as a share of the economy.

Getting the country on solid fiscal ground will require lowering health care costs, securing Social Security and other trust funds that are headed toward insolvency, raising additional revenue, limiting discretionary spending growth, and cutting other low-priority spending and tax breaks. The sooner we act, the better.

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