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

TESTIMONY

An Update to the Budget and Economic Outlook: 2024 to 2034

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Before the Committee on the Budget
United States Senate

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Chairman Whitehouse, Ranking Member Grassley, and Members of the Committee, thank you for inviting me to testify about the Congressional Budget Office's most recent analysis of the outlook for the budget and the economy. My statement summarizes CBO's new baseline budget projections and economic forecast, which the agency released on June 18.

The Budget Outlook

Deficits

In CBO's projections, the federal budget deficit in fiscal year 2024 is $1.9 trillion. Adjusted to exclude the effects of shifts in the timing of certain payments, the deficit amounts to $2.0 trillion in 2024 and grows to $2.8 trillion by 2034. With such adjustments, deficits equal 7.0 percent of gross domestic product (GDP) in 2024 and 6.5 percent of GDP in 2025. By 2027, as revenues increase faster than outlays, they drop to 5.5 percent of GDP. Thereafter, outlays generally increase faster than revenues. By 2034, the adjusted deficit equals 6.9 percent of GDP—significantly more than the 3.7 percent that deficits have averaged over the past 50 years.

Debt

Relative to the size of the economy, debt swells from 2024 to 2034 as increases in interest costs and mandatory spending outpace decreases in discretionary spending and growth in revenues. Debt held by the public rises from 99 percent of GDP this year to 122 percent in 2034, surpassing its previous high of 106 percent of GDP.

Outlays and Revenues

Federal outlays in 2024 total $6.8 trillion, or 23.9 percent of GDP; adjusted to exclude the effects of shifts in the timing of certain payments, they amount to $6.9 trillion, or 24.2 percent of GDP. With such adjustments, outlays equal 23.5 percent of GDP in 2025, stay close to that level through 2028, and then increase to 24.9 percent of GDP by 2034. The main reasons for that increase are growth in spending on programs that benefit older people and rising net interest costs. Revenues total $4.9 trillion, or 17.2 percent of GDP, in 2024. They rise to 18.0 percent of GDP by 2027, in part because of the scheduled expiration of provisions of the 2017 tax act, and remain near that level through 2034.

Changes in CBO's Budget Projections

In CBO's current projections, the deficit for 2024 is $0.4 trillion (or 27 percent) larger than it was in the agency's February 2024 projections, and the cumulative deficit over the 2025–2034 period is larger by $2.1 trillion (or 10 percent). The largest contributor to the cumulative increase was the incorporation of recently enacted legislation into CBO's baseline, which added $1.6 trillion to projected deficits. That legislation included emergency supplemental appropriations that provided $95 billion for aid to Ukraine, Israel, and countries in the Indo-Pacific region. By law, that funding continues in future years in CBO's projections (with adjustments for inflation), boosting discretionary outlays by $0.9 trillion through 2034.

Projections for 2024

Budget deficit:
$1.9 trillion

Debt held by the public:
99% of GDP

Outlays:
$6.8 trillion

Revenues:
$4.9 trillion

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Because those shifts can distort budgetary trends, CBO often presents adjusted projections of deficits and outlays that treat the payments as if they were not subject to the shifts.

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**	**17.2**	**17.0**	**18.0**	**4,441**	**4,890**	**5,038**	**7,459**
Individual income taxes	8.0	8.1	8.6	8.6	9.7	2,176	2,447	2,550	4,021
Payroll taxes	6.0	6.0	5.9	5.8	5.9	1,614	1,678	1,737	2,455
Corporate income taxes	1.8	1.6	1.8	1.6	1.2	420	525	490	507
Other	1.5	0.9	0.8	0.9	1.2	230	239	260	476
Outlays	**21.0**	**22.7**	**24.2**	**23.5**	**24.9**	**6,123**	**6,880**	**6,975**	**10,305**
Mandatory	11.0	13.9	14.7	13.9	15.3	3,747	4,191	4,127	6,336
Social Security	4.4	5.0	5.1	5.2	6.0	1,348	1,452	1,549	2,478
Major health care programs	3.4	5.8	5.8	5.7	6.8	1,556	1,654	1,690	2,821
Medicare	2.1	3.1	3.2	3.1	4.2	832	903	935	1,735
Medicaid, CHIP, and marketplace subsidies	1.3	2.7	2.6	2.5	2.6	724	750	755	1,086
Other mandatory	3.2	3.1	3.8	3.0	2.5	843	1,086	889	1,037
Discretionary	8.0	6.4	6.3	6.2	5.5	1,719	1,797	1,832	2,259
Defense	4.2	3.0	3.0	3.0	2.8	806	849	905	1,144
Nondefense	3.7	3.4	3.3	3.1	2.7	913	948	928	1,115
Net interest	2.1	2.4	3.1	3.4	4.1	658	892	1,016	1,710
Total deficit (-)	**-3.7**	**-6.2**	**-7.0**	**-6.5**	**-6.9**	**-1,683**	**-1,990**	**-1,938**	**-2,846**
Primary deficit (-)	-1.6	-3.8	-3.9	-3.1	-2.7	-1,024	-1,098	-922	-1,136
Debt held by the public at the end of each period	48.3	97.3	99.0	101.6	122.4	26,236	28,178	30,188	50,664

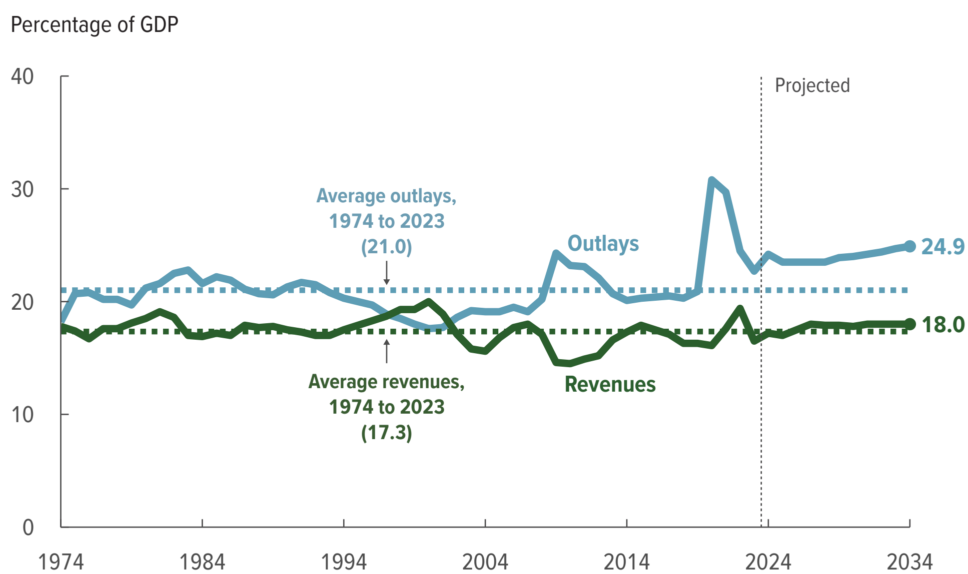
When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Outlays and deficits have been adjusted to remove the effects of those shifts.

CHIP = Children's Health Insurance Program.

The Budget Outlook in Six Figures

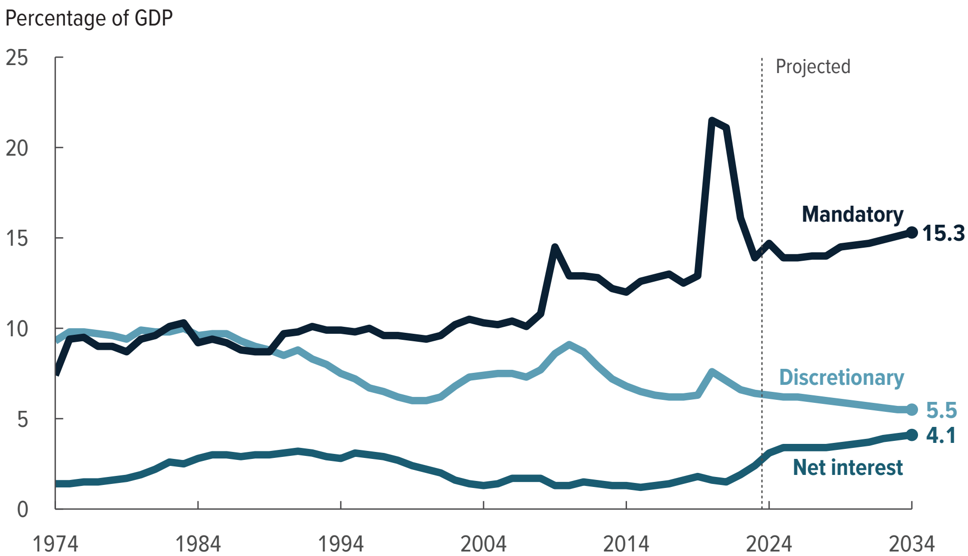
Total Outlays and Revenues

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



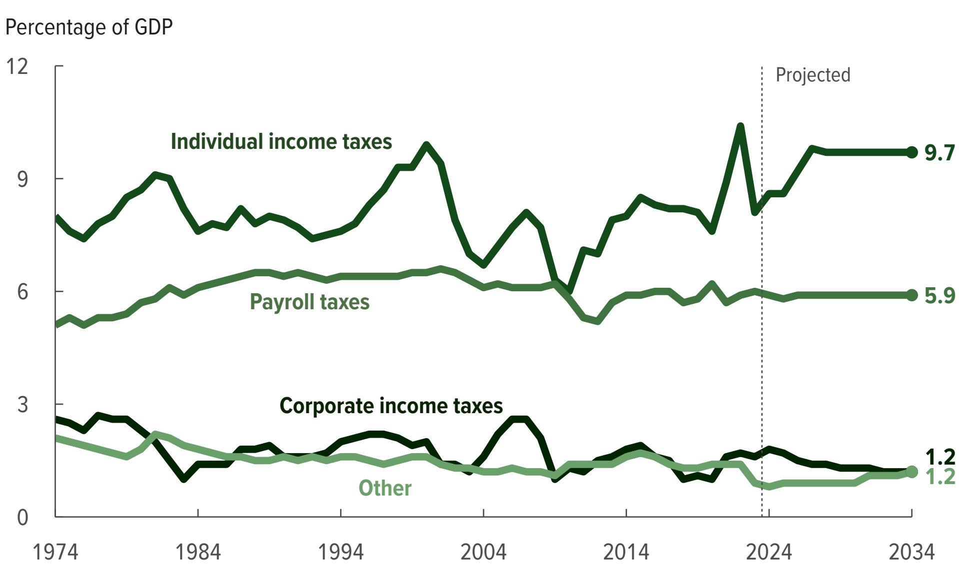
Outlays, by Category

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 higher interest rates and mounting debt cause net outlays for interest to increase. Beginning in 2025, 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) and exceed outlays for defense and outlays for nondefense programs and activities.



Revenues, by Category

Receipts from individual income taxes fell sharply in 2023, from a historic high in 2022—in part because capital gains from sales of assets were smaller and because the Internal Revenue Service postponed some tax payment deadlines. In CBO's projections, revenues rise in 2024 as those delayed payments are made. They rise again in 2026 and 2027, following the scheduled expiration of certain provisions of the 2017 tax act. After 2027, revenues change little as a percentage of GDP.



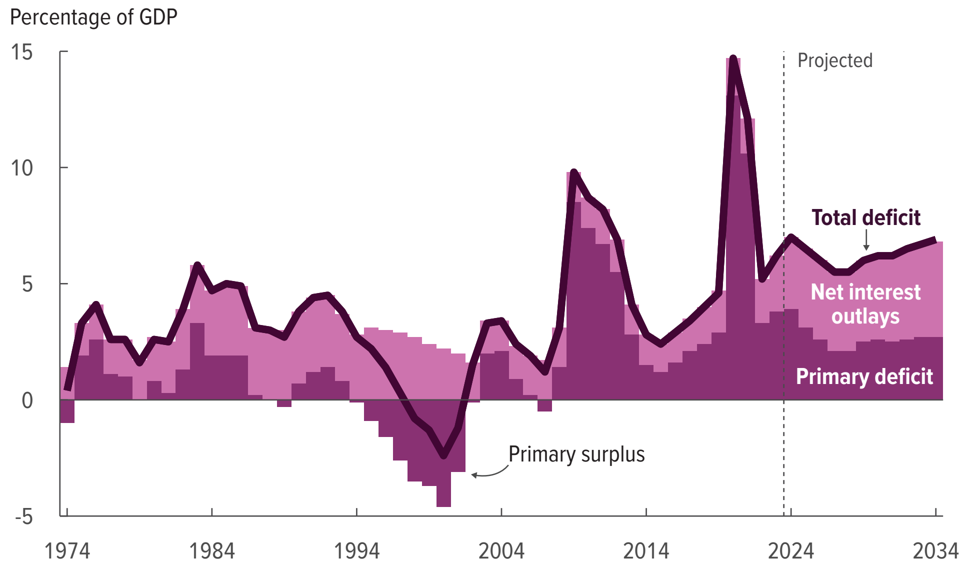
Outlook for **2024–2034**

Increases in mandatory spending and rising net interest costs push outlays to **$10.3** trillion, or **24.9%** of GDP, in 2034.

Revenues in 2034 total **$7.5** trillion, or **18.0%** of GDP.

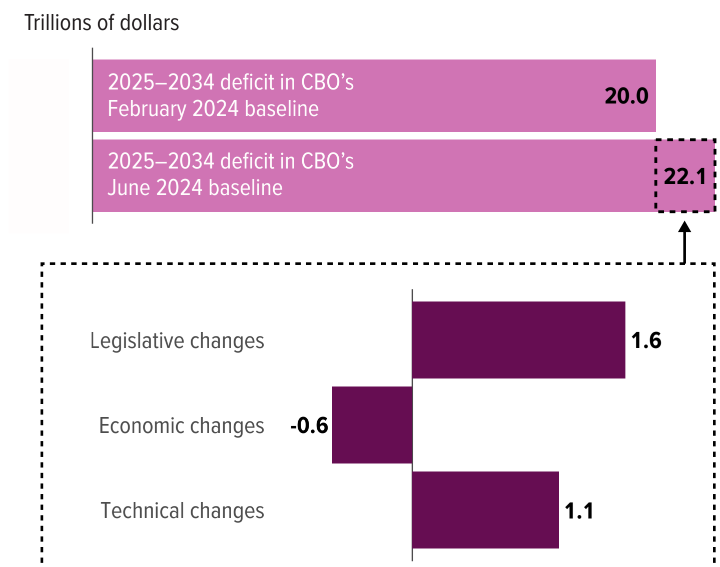
Total Deficit, Net Interest Outlays, and Primary Deficit

In CBO's projections, the total deficit—the amount by which outlays exceed revenues—equals 6.9 percent of GDP in 2034. By that year, net interest payments grow to 4.1 percent of GDP and account for about one-sixth of all federal spending. The primary deficit (which excludes those payments) equals 2.7 percent of GDP in 2034.



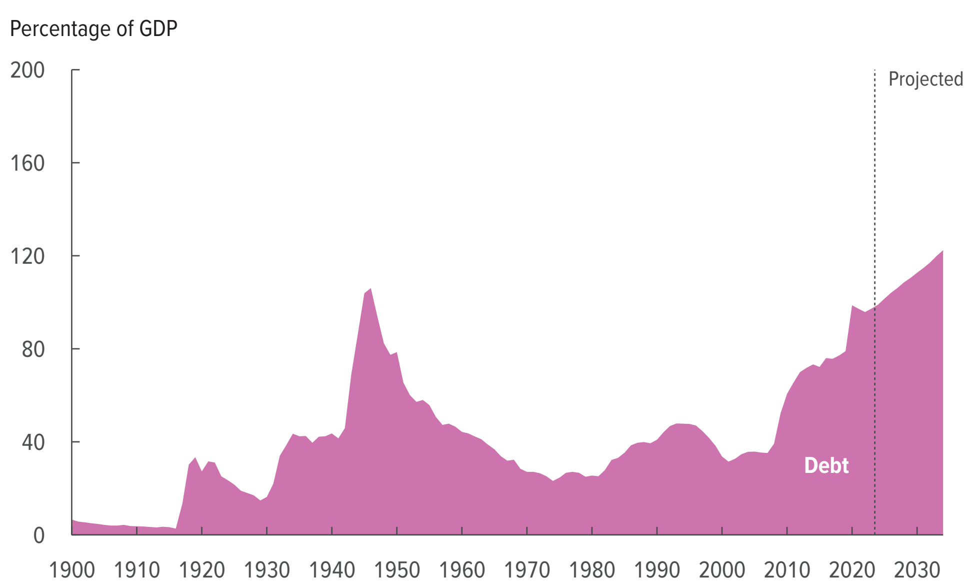
Changes in CBO's Projections of the 10-Year Deficit Since February 2024

The deficit for the 2025–2034 period is projected to total $22.1 trillion, $2.1 trillion more than CBO projected in February. That increase stems in part from the incorporation of recently enacted legislation, including the emergency supplemental appropriations provided so far in 2024. In CBO's baseline, those amounts continue in future years with adjustments for inflation, as required by law. Technical (that is, neither economic nor legislative) changes that reduced revenues and increased mandatory outlays also boosted projected deficits.



Federal Debt Held by the Public

Debt held by the public rises in each year, from 99 percent of GDP in 2024 to 122 percent in 2034—higher than at any point in history.



The Economic Outlook

Economic Growth

Economic growth is projected to slow from 3.1 percent in calendar year 2023 to 2.0 percent in 2024 amid higher unemployment and slightly lower inflation. CBO expects the Federal Reserve to respond by reducing interest rates, starting in early 2025. In CBO's projections, economic growth remains steady at 2.0 percent in 2025 before settling at roughly 1.8 percent in 2026 and later years. A surge in immigration that began in 2021 continues through 2026, expanding the labor force and boosting economic output.

Inflation

The overall growth of prices is expected to slow slightly in 2024. In CBO's projections, inflation as measured by the price index for personal consumption expenditures (PCE) falls from 2.7 percent in 2024 to a rate roughly in line with the Federal Reserve's long-run goal of 2 percent by 2026 and stabilizes thereafter.

Interest Rates

Short-term interest rates change little in 2024 as the federal funds rate (the rate financial institutions charge each other for overnight loans) remains at its highest level since 2001. That rate begins to decline in the first quarter of 2025. Interest rates on 10-year Treasury notes fall through the end of 2026, then gradually rise.

Changes in CBO's Economic Projections

Since February 2024, when CBO published its most recent economic forecast, the agency has raised its projections of economic growth, inflation (as measured by the PCE price index), and short-term interest rates for 2024 while lowering its projection of the unemployment rate. The differences between CBO's current and previous forecasts generally narrow as the forecasts extend further into the future.

Outlook for **2024–2034**

Economic growth slows to **2.0%** in 2024 as inflation eases slightly and the federal funds rate remains steady.

In 2025 and later years, economic growth and inflation moderate.

The Economic Outlook, by Calendar Year

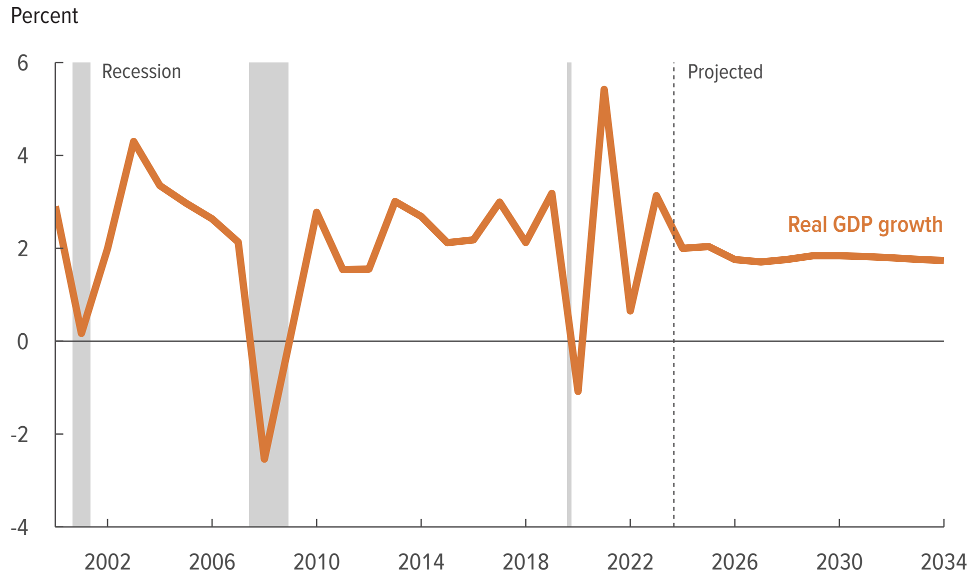
Percent

	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	2.0	2.0	1.8	1.7	1.8
Inflation						
PCE price index	2.8	2.7	2.1	1.9	1.9	2.0
Consumer price index	3.2	3.0	2.3	2.2	2.2	2.2
Payroll employment (net monthly change, in thousands)	245	195	130	78	60	52
			Annual average			
Unemployment rate	3.6	3.9	4.0	4.2	4.4	4.5
Interest rates						
Effective federal funds rate	5.0	5.3	4.8	3.8	3.1	3.0
3-month Treasury bills	5.1	5.2	4.5	3.6	2.9	2.8
10-year Treasury notes	4.0	4.5	4.1	3.7	3.6	4.0
Tax bases (percentage of GDP)						
Wages and salaries	43.2	43.3	43.5	43.7	43.8	43.9
Domestic corporate profits	10.0	10.2	10.1	9.8	9.4	9.0

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 an increase in the share of domestic purchases fulfilled by foreign production. Real (inflation-adjusted) GDP is projected to grow by 2.0 percent in 2025 before settling at an annual growth rate of roughly 1.8 percent in 2026 and beyond.



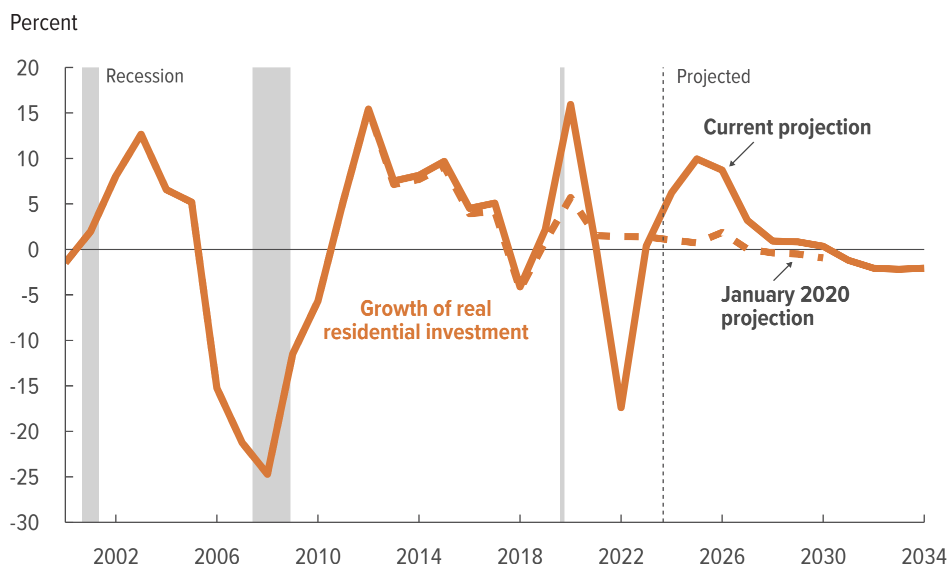
Outlook for **2024–2034**

Real GDP grows by **2.0%** in 2025 and by **1.8%** in 2026.

A strong expansion in residential investment supports economic growth in those years.

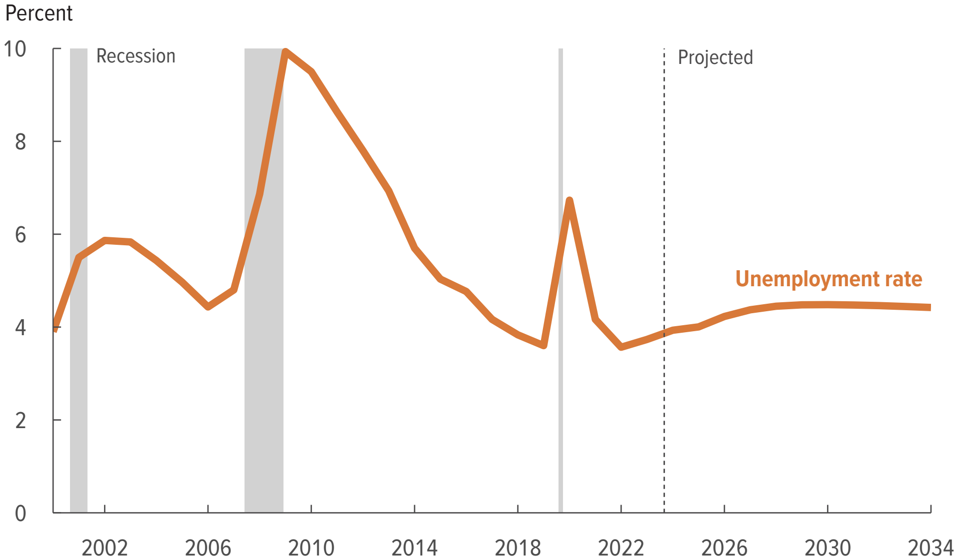
Residential Investment

The growth rate of real residential investment, which includes home construction, renovations, and brokers' commissions, is expected to rise from 6.2 percent in 2024 to an average of 9.3 percent per year in 2025 and 2026 as recent increases in immigration and declines in mortgage interest rates boost the demand for housing. In later years, that growth slows.



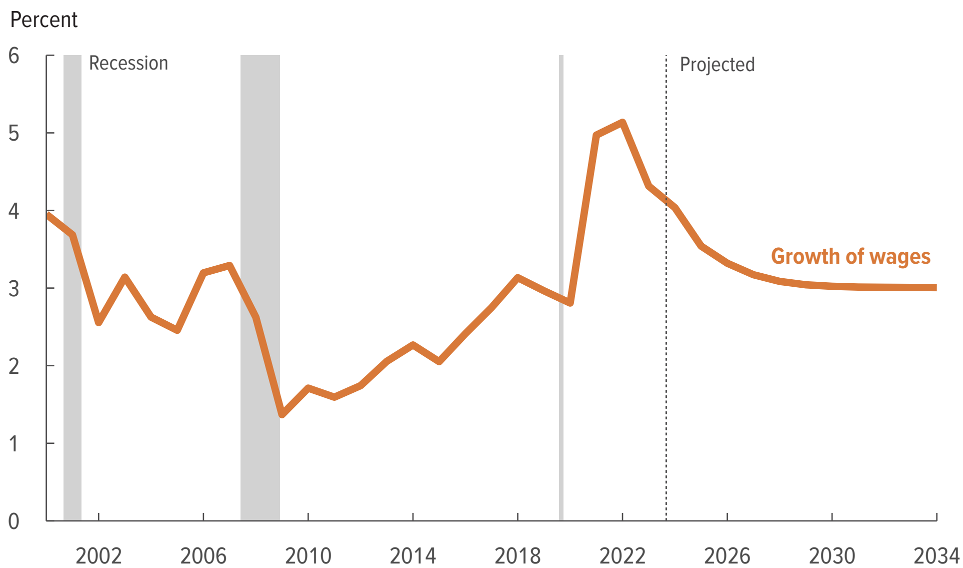
Unemployment

In CBO's projections, the unemployment rate, which was 3.8 percent in the first quarter of 2024, rises gradually for the next several years as the growth of real economic output slows. The unemployment rate ticks up to 4.0 percent by the end of 2025, rises to 4.5 percent in 2030, and declines slightly thereafter.



Wages

From 2024 to 2034, slowing demand for labor and declining inflation restrain the growth of nominal wages. The employment cost index for wages and salaries of workers in private industry—a measure of the hourly price of labor, excluding fringe benefits—grows by 4.0 percent in 2024, down from 4.3 percent in 2023. Wage growth continues to slow through 2029 but remains above 2.7 percent, its annual average in the five years before the onset of the coronavirus pandemic in early 2020.



Outlook for **2024–2034**

The unemployment rate rises slowly, reaching **4.5%** in 2030.

Over the same period, the growth of nominal wages gradually falls to **3.0%**.

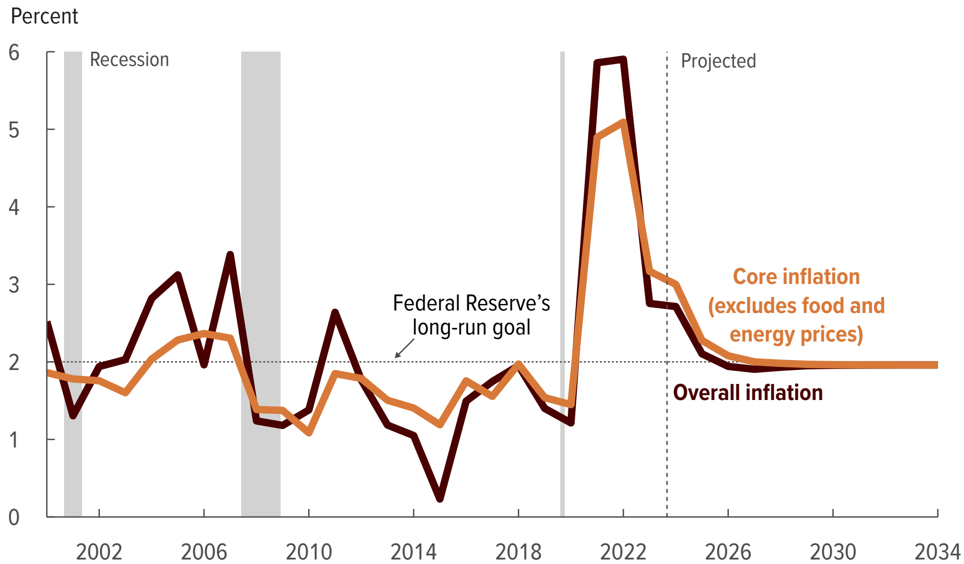
Outlook for
2024–2034

Inflation settles at **2.0%** or less after 2025.

Interest rates also decline over the next few years. In later years, long-term interest rates rise slightly as short-term rates hold steady.

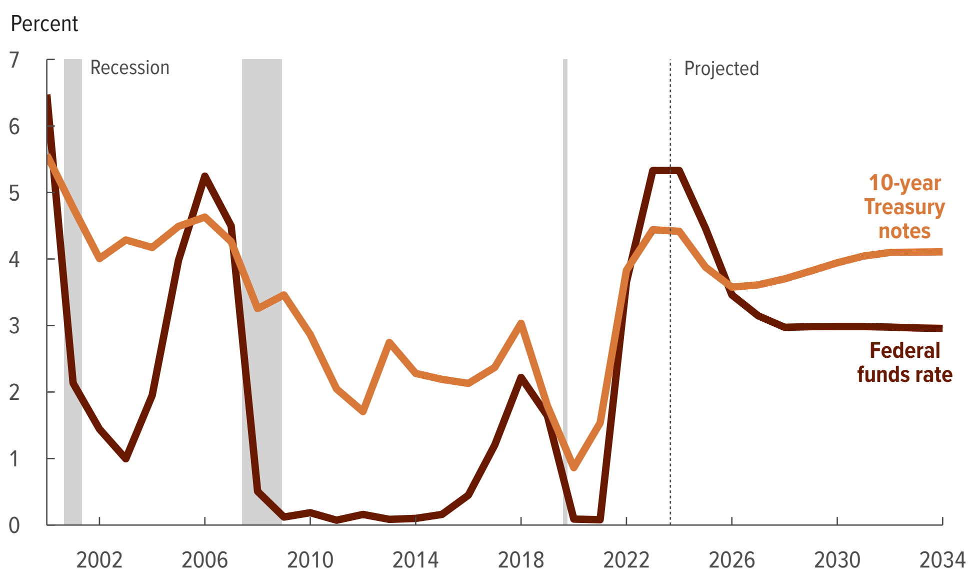
Overall Inflation and Core Inflation

In CBO's projections, overall prices (as measured by the PCE price index) increase less in 2024 and 2025 than they did last year. The rate of inflation is projected to be slightly lower in 2024 than it was in 2023 for three main reasons: supply chains will have largely recovered from pandemic-induced problems; rising unemployment will put downward pressure on wage growth; and higher long-term interest rates will put downward pressure on certain prices.



Interest Rates

CBO expects that in early 2025, 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.



This testimony reiterates the executive summary of *An Update to the Budget and Economic Outlook: 2024 to 2034*, which is one in a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget.

In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. Both publications are available on CBO's website, at www.cbo.gov/publication/60039 and www.cbo.gov/publication/60440, respectively.

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