

Committee on Ways and Means

U.S. Economic Outlook for 2007 Remains Healthy

The Congressional Budget Office (CBO) recently released its *Budget and Economic Outlook: Fiscal Years 2008 to 2017*. CBO reports a healthy economic outlook following a record of strong growth in the U.S. economy.

Gross Domestic Product

- ✓ The U.S. economy has grown 20 straight quarters at an average rate of 3.0%.
- ✓ CBO forecasts real economic growth of 2.3% for 2007 and 3.0% for 2008.

Prices and Wages

- ✓ Inflation increased 3.4% during 2006. CBO forecasts inflation to remain contained at 1.9% in 2007.
- ✓ CBO forecasts wages and salaries will increase 4.9% in 2007 and in 2008—well above the projected rate of inflation.

Employment

- ✓ 1.8 million jobs were created in 2006. Over 6.4 million jobs were created in the last 40 months.
- ✓ The U.S. unemployment rate averaged 4.6 % in 2006. CBO forecasts the U.S. unemployment rate will remain at 4.7 % in 2007, well below the recent historical average.

Tax receipts

- ✓ Tax receipts have increased 11.8% in fiscal year 2006 to over \$2.4 trillion (on top of fiscal year 2005's 14.6% increase).
- ✓ CBO predicts:
 - tax receipts will increase by 5.6 % in 2007 reaching almost \$4.3 trillion by 2017.
 - if current tax cuts are allowed to expire, tax receipts will grow from 18.4 % of GDP in 2006 to 20.1 % in 2017, well above the average over the last 40 years of 18.2%.

- ✓ If the 2001 and 2003 tax cuts are extended beyond 2010, tax receipts would still be 18.5% of GDP in 2017.

Budget Outlook

- ✓ Under the current law baseline, CBO predicts the fiscal year 2007 deficit to fall to \$172 billion, or 1.3 % of GDP and for the budget to be in surplus by fiscal year 2012.
- ✓ CBO estimates that indexing the AMT for inflation, extending other expiring tax provisions and extending mandatory spending programs would cost over \$4.1 trillion through 2017.

Entitlements

- ✓ CBO projects that Medicare and Medicaid outlays will more than double from \$555 billion in 2006 to over \$1.2 trillion by 2017.
- ✓ CBO projects Social Security outlays will nearly double from \$544 billion in 2006 to over \$1 trillion by 2017.
- ✓ CBO estimates that spending for Medicare, Medicaid, and Social Security will together equal nearly 11% of GDP in 2017, compared with a little less than 9% this year. As entitlements grow faster than the economy in general, they will put further pressure on both revenues and discretionary spending programs.