



An Overview of the Economic Outlook: 2021 to 2031

FEBRUARY | 2021

The 2020–2021 coronavirus pandemic caused severe economic disruptions last year as households, governments, and businesses adopted a variety of mandatory and voluntary measures—collectively referred to here as social distancing—to limit in-person interactions that could spread the virus. The impact was focused on particular sectors of the economy, such as travel and hospitality, and job losses were concentrated among lower-wage workers.

Over the course of the coming year, vaccination is expected to greatly reduce the number of new cases of COVID-19, the disease caused by the coronavirus. As a result, the extent of social distancing is expected to decline. In its new economic forecast, which covers the period from 2021 to 2031, the Congressional Budget Office therefore projects that the economic expansion that began in mid-2020 will continue (see Table 1). Specifically, real (inflation-adjusted) gross domestic product (GDP) is projected to return to its prepandemic level in mid-2021 and to surpass its potential (that is, its maximum sustainable) level in early 2025. In CBO’s projections, the unemployment rate gradually declines through 2026, and the number of people employed returns to its prepandemic level in 2024.

CBO is using this economic forecast as the basis for updating its budget projections for 2021 to 2031. The agency plans to release those budget projections later in February and a more detailed report about this forecast later this winter. The forecast incorporates economic and other information available as of January 12, 2021, as well as estimates of the economic effects of all legislation (including pandemic-related legislation) enacted up to that date.

The Economic Outlook for 2021 to 2025

In CBO’s projections, which incorporate the assumptions that current laws governing federal taxes and spending (as of January 12) generally remain in place and that no significant additional emergency funding or aid is provided, the economy continues to strengthen during the next five years.

- Real GDP expands rapidly over the coming year, reaching its previous peak in mid-2021 and surpassing its potential level in early 2025. The annual growth of real GDP averages 2.6 percent during the five-year period, exceeding the 1.9 percent growth rate of real potential GDP (see Figure 1).
- Labor market conditions continue to improve. As the economy expands, many people rejoin the civilian labor force who had left it during the pandemic, restoring it to its prepandemic size in 2022.¹ The unemployment rate gradually declines throughout the period, and the number of people employed returns to its prepandemic level in 2024.
- Inflation, as measured by the price index for personal consumption expenditures, rises gradually over the next few years and rises above 2.0 percent after 2023, as the Federal Reserve maintains low interest rates and continues to purchase long-term securities.
- Interest rates on federal borrowing rise. The Federal Reserve maintains the federal funds rate (the rate that financial institutions charge each other for overnight loans of their monetary reserves) near zero through mid-2024 and then starts to raise that rate gradually. The interest rate on 3-month Treasury bills closely

1. The labor force is the number of people age 16 or older in the civilian noninstitutionalized population who have jobs or who are available for work and are actively seeking jobs.

Table 1.

CBO's Economic Projections for Calendar Years 2021 to 2031

	2020	2021	2022	2023	Annual Average	
					2024–2025	2026–2031
Percentage Change From Fourth Quarter to Fourth Quarter						
Gross Domestic Product						
Real ^a	-2.5	3.7	2.4	2.3	2.2	1.6
Nominal	-1.2	5.6	4.5	4.3	4.4	3.8
Inflation						
PCE price index	1.2	1.7	1.9	1.9	2.1	2.1
Core PCE price index ^b	1.4	1.5	1.9	1.9	2.1	2.1
Consumer price index ^c	1.2	1.9	2.2	2.3	2.4	2.4
Core consumer price index ^b	1.6	1.5	2.2	2.3	2.4	2.4
GDP price index	1.3	1.9	2.0	2.0	2.1	2.1
Employment Cost Index ^d	2.8	2.3	2.8	3.0	3.2	3.3
Fourth-Quarter Level (Percent)						
Unemployment Rate	6.8	5.3	4.9	4.6	4.0 ^e	4.3 ^f
Percentage Change From Year to Year						
Gross Domestic Product						
Real ^a	-3.5	4.6	2.9	2.2	2.3	1.7
Nominal	-2.3	6.3	4.9	4.2	4.4	3.8
Inflation						
PCE price index	1.2	1.6	1.8	1.9	2.0	2.1
Core PCE price index ^b	1.4	1.5	1.8	1.9	2.0	2.1
Consumer price index ^c	1.3	1.9	2.1	2.3	2.3	2.4
Core consumer price index ^b	1.7	1.6	2.1	2.3	2.4	2.4
GDP price index	1.2	1.6	1.9	2.0	2.1	2.1
Employment Cost Index ^d	2.9	2.1	2.6	2.9	3.1	3.3
Annual Average						
Unemployment Rate (Percent)	8.1	5.7	5.0	4.7	4.2	4.1
Labor Force Participation Rate (Percent) ^g	61.7	61.9	62.1	62.0	61.9	61.2
Payroll Employment (Monthly change, in thousands) ^h	-765	521	145	145	135	40
Interest Rates (Percent)						
Three-month Treasury bills	0.4	0.1	0.1	0.2	0.4	1.7
Ten-year Treasury notes	0.9	1.1	1.3	1.5	2.0	3.0
Tax Bases (Percentage of GDP)						
Wages and salaries	44.8	44.0	43.9	43.9	43.9	43.6
Domestic corporate profits ⁱ	7.6 ^j	7.9	7.5	7.7	8.2	8.0
Current Account Balance (Percentage of GDP) ^k	-2.8 ^j	-2.9	-2.4	-2.0	-2.0	-2.2

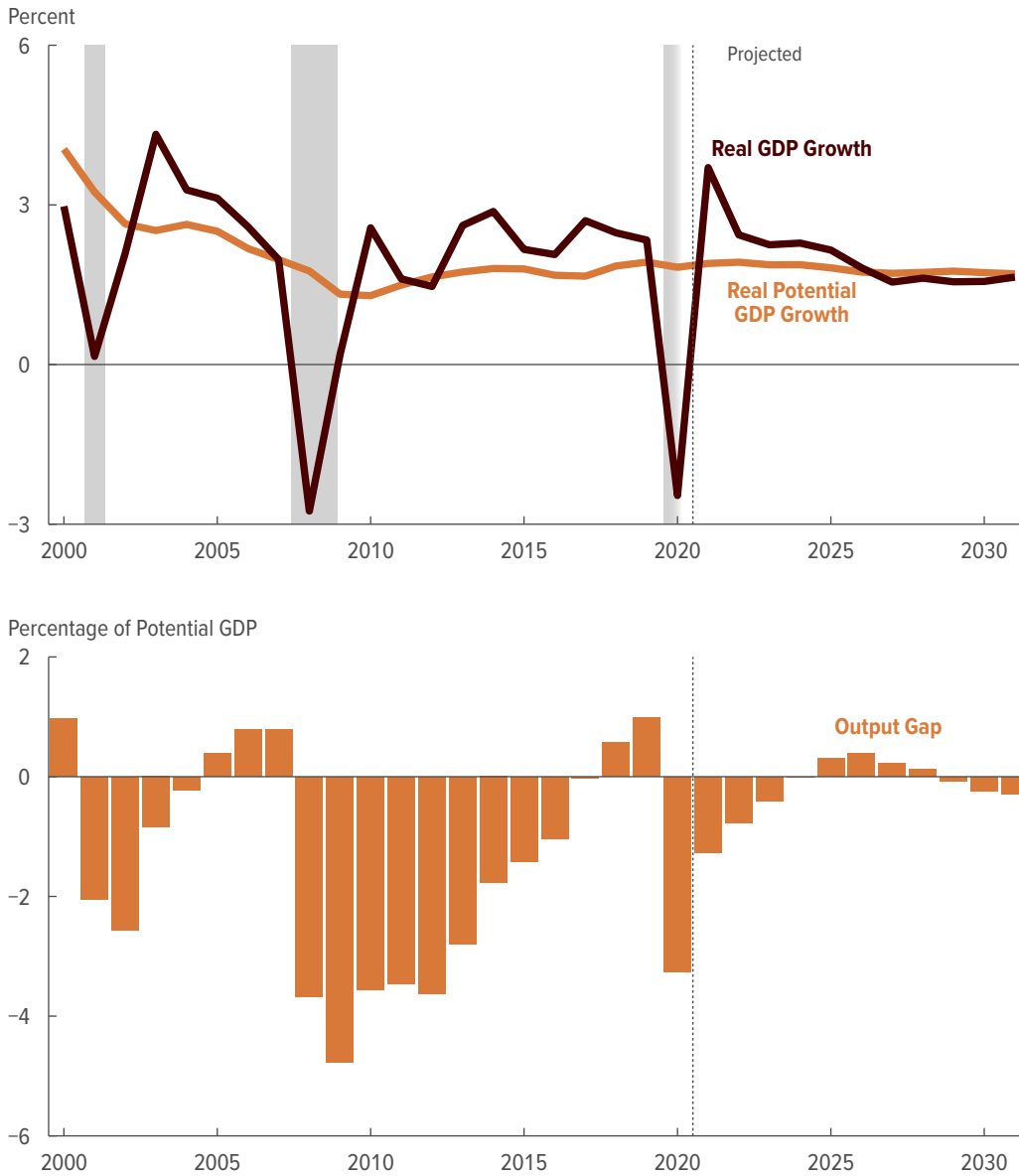
Data sources: Congressional Budget Office; Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve. See www.cbo.gov/publication/56965#data.

GDP = gross domestic product; PCE = personal consumption expenditures.

- a. Real values are nominal values that have been adjusted to remove the effects of changes in prices.
- b. Excludes prices for food and energy.
- c. The consumer price index for all urban consumers.
- d. The employment cost index for wages and salaries of workers in private industry.
- e. Value for the fourth quarter of 2025.
- f. Value for the fourth quarter of 2031.
- g. The labor force participation rate is the share of the civilian noninstitutionalized population age 16 or older that is working or actively seeking work.
- h. The average monthly change in the number of employees on nonfarm payrolls, calculated by dividing the change from the fourth quarter of one calendar year to the fourth quarter of the next by 12.
- i. Adjusted to remove distortions in depreciation allowances caused by tax rules and to exclude the effects of changes in prices on the value of inventories.
- j. Estimated value for 2020.
- k. Represents net exports of goods and services, net capital income, and net transfer payments between the United States and the rest of the world.

Figure 1.

The Relationship Between GDP and Potential GDP



In CBO’s projections, the annual growth of real (inflation-adjusted) GDP exceeds that of real potential GDP until 2026 and then falls below it. The output gap between real GDP and real potential GDP is positive for several years, starting in 2025, before moving back toward its historical average.

Data sources: Congressional Budget Office; Bureau of Economic Analysis. See www.cbo.gov/publication/56965#data.

Real values are nominal values that have been adjusted to remove the effects of changes in prices. Potential GDP is CBO’s estimate of the maximum sustainable output of the economy. Growth of real GDP and of real potential GDP is measured from the fourth quarter of one calendar year to the fourth quarter of the next.

The output gap is the difference between GDP and potential GDP, expressed as a percentage of potential GDP. A positive value indicates that GDP exceeds potential GDP; a negative value indicates that GDP falls short of potential GDP. Values for the output gap are for the fourth quarter of each year.

The shaded vertical bars indicate periods of recession, which extend from the peak of a business cycle to its trough. The National Bureau of Economic Research (NBER) has determined that an expansion ended and a recession began in February 2020. Although the NBER has not yet identified the end of that recession, CBO estimates that it ended in the second quarter of 2020.

GDP = gross domestic product.

follows the federal funds rate. The interest rate on 10-year Treasury notes rises gradually as the Federal Reserve reduces the pace of its asset purchases and investors anticipate rising short-term interest rates later in the decade.

CBO's projections of economic growth have been boosted by various laws enacted in 2020.² Most recently, in late December, the Consolidated Appropriations Act, 2021 (Public Law 116-260), appropriated funds for the remainder of fiscal year 2021, provided additional emergency funding for federal agencies to respond to the public health emergency created by the pandemic, and provided financial support to households, businesses, and nonfederal governments affected by the economic downturn, among other measures. CBO estimates that the pandemic-related provisions in that legislation will add \$774 billion to the deficit in fiscal year 2021 and \$98 billion in 2022.³ Those provisions will boost the level of real GDP by 1.5 percent, on average, in calendar years 2021 and 2022, CBO estimates; the bulk of the impact will occur in 2021.

The Economic Outlook for 2026 to 2031

In CBO's projections, the economy continues to expand from 2026 to 2031. Real GDP grows by 1.6 percent per year, on average (see Table 2). Real potential GDP grows slightly more rapidly (see Table 3). For most of the period, the Federal Reserve allows inflation to remain above its target level; the level of real GDP likewise remains above the level of real potential GDP for several years. Eventually, less accommodative policies on the part of the Federal Reserve help push GDP back toward its historical average relationship with potential GDP.

A mild increase in productivity growth causes potential output in CBO's projections to grow more quickly over the 2021–2031 period than it has grown since the 2007–2009 recession. However, potential output still grows more slowly than it has grown since 1950, mainly

because of an ongoing, long-term slowdown in the growth of the labor force.

Uncertainties in the Economic Outlook

CBO's projections reflect an average of possible outcomes under current law. But these projections are subject to an unusually high degree of uncertainty, and that uncertainty stems from many sources, including the course of the pandemic, the effectiveness of monetary and fiscal policies, and the response of global financial markets to substantial increases in public deficits and debt. As a result, the economy could expand substantially more quickly or more slowly than CBO projects. Labor market conditions could likewise improve more quickly or slowly than projected, and inflation and interest rates could rise more rapidly or slowly as well. Also uncertain is the impact of the pandemic on the economy over the longer term, including its effects on productivity, the labor force, and technological innovation.

Comparisons With Previous Projections

CBO currently projects a stronger economy than it did in July 2020, in large part because the downturn was not as severe as expected and because the first stage of the recovery took place sooner and was stronger than expected (see Table 4 on page 7).⁴ GDP and employment are projected to be higher and to be accompanied by modestly higher inflation and higher interest rates than they were in CBO's July projections. The fact that the downturn was less severe and the recovery stronger than previously projected also changed the projected pattern of growth: CBO's current projections of GDP growth are stronger, on average, for the 2021–2025 period than they were in July but weaker for the 2026–2031 period.

CBO made those changes to its economic projections even though it expects social distancing to be more pronounced and to last longer than projected in July. The projected effects of the Consolidated Appropriations Act, 2021, played a part in improving the economic outlook.

2. See Congressional Budget Office, *The Effects of Pandemic-Related Legislation on Output* (September 2020), www.cbo.gov/publication/56537.

3. Those provisions are contained in divisions M, N, and EE of the Consolidated Appropriations Act, 2021.

4. For the July projections, see Congressional Budget Office, *An Update to the Economic Outlook: 2020 to 2030* (July 2020), www.cbo.gov/publication/56442.

Table 2.

The Projected Growth of Real GDP and Its Components

Percent

	2020	2021	2022	2023	Annual Average	
					2024– 2025	2026– 2031
	Percentage Change From Fourth Quarter to Fourth Quarter					
Real GDP	-2.5	3.7	2.4	2.3	2.2	1.6
Components of Real GDP						
Consumer spending ^a	-2.6	3.5	3.0	2.7	2.7	1.9
Business investment ^b	-0.1	6.9	1.2	1.8	3.2	2.4
Business fixed investment ^c	-1.3	5.9	3.0	2.1	3.1	2.5
Residential investment ^d	13.7	4.8	-2.1	-1.7	-0.9	-0.5
Purchases by federal, state, and local governments ^e	-0.6	0.9	0.1	0.7	1.0	0.6
Federal	2.5	1.6	-0.8	-0.5	0.2	0.3
State and local	-2.5	0.5	0.6	1.5	1.4	0.8
Exports	-11.0	12.4	3.1	2.5	2.1	1.6
Imports	-0.6	9.1	0.4	1.2	3.1	2.2
	Contributions to the Growth of Real GDP (Percentage points)					
Components of Real GDP						
Consumer spending ^a	-1.8	2.4	2.1	1.8	1.8	1.3
Business investment ^b	*	0.9	0.2	0.3	0.4	0.3
Business fixed investment ^c	-0.2	0.8	0.4	0.3	0.4	0.3
Residential investment ^d	0.5	0.2	-0.1	-0.1	*	*
Purchases by federal, state, and local governments ^e	-0.1	0.2	*	0.1	0.2	0.1
Federal	0.2	0.1	-0.1	*	*	*
State and local	-0.3	0.1	0.1	0.2	0.2	0.1
Exports	-1.2	1.3	0.3	0.3	0.2	0.2
Imports	0.1	-1.2	-0.1	-0.2	-0.4	-0.3

Data source: Congressional Budget Office. See www.cbo.gov/publication/56965#data.

Real values are nominal values that have been adjusted to remove the effects of changes in prices.

GDP = gross domestic product; * = between zero and 0.05 percentage points.

- a. Consists of personal consumption expenditures.
- b. Comprises business fixed investment and investment in inventories.
- c. Consists of purchases of equipment, nonresidential structures, and intellectual property products.
- d. Includes the construction of single-family and multifamily structures, manufactured homes, and dormitories; spending on home improvements; and brokers' commissions and other ownership transfer costs.
- e. Based on the national income and product accounts.

Table 3.

Key Inputs in CBO's Projections of Real Potential GDP

Percent

	Average Annual Growth							Projected Average Annual Growth		
	1950–1973	1974–1981	1982–1990	1991–2001	2002–2007	2008–2020	Total, 1950–2020	2021–2025	2026–2031	Total, 2021–2031
Overall Economy										
Real Potential GDP	4.0	3.2	3.2	3.2	2.4	1.7	3.1	1.9	1.7	1.8
Potential Labor Force	1.6	2.5	1.6	1.2	1.0	0.5	1.4	0.4	0.3	0.4
Potential Labor Force Productivity ^a	2.3	0.7	1.6	2.0	1.4	1.2	1.7	1.5	1.4	1.4
Nonfarm Business Sector										
Real Potential Output	4.1	3.5	3.5	3.7	2.7	1.9	3.4	2.1	2.0	2.1
Potential Hours Worked	1.4	2.3	1.7	1.2	0.2	0.5	1.3	0.4	0.3	0.3
Capital Services ^b	3.8	3.7	3.5	3.9	2.8	2.3	3.4	2.3	2.2	2.2
Potential Total Factor Productivity ^c	1.9	0.8	1.1	1.6	1.6	0.8	1.4	1.1	1.1	1.1
Contributions to the Growth of Real Potential Output (Percentage points)										
Potential hours worked	0.9	1.5	1.2	0.8	0.2	0.4	0.8	0.3	0.2	0.2
Capital input	1.2	1.2	1.1	1.3	0.9	0.7	1.1	0.7	0.7	0.7
Potential total factor productivity	1.9	0.8	1.1	1.6	1.6	0.8	1.4	1.1	1.1	1.1
Total Contributions	4.0	3.5	3.4	3.6	2.7	1.9	3.3	2.1	2.0	2.1
Potential Labor Productivity ^d	2.6	1.2	1.7	2.4	2.4	1.4	2.1	1.8	1.7	1.7

Data source: Congressional Budget Office. See www.cbo.gov/publication/56965#data.

Real values are nominal values that have been adjusted to remove the effects of changes in prices. Potential GDP is CBO's estimate of the maximum sustainable output of the economy.

The table shows compound annual growth rates over the specified periods. Those rates are calculated from the fourth quarter of the year immediately preceding each period to the fourth quarter at the end of that period.

GDP = gross domestic product.

- The ratio of potential GDP to the potential labor force.
- The services provided by capital goods (such as computers and other equipment) that constitute the actual input in the production process.
- The average real output per unit of combined labor and capital services, excluding the effects of business cycles.
- The ratio of potential output to potential hours worked in the nonfarm business sector.

Table 4.

CBO's Current and Previous Economic Projections for Calendar Years 2020 to 2030

	2020	2021	2022	Annual Average		Total, 2020–2030
				2020–2024	2025–2030	
Percentage Change From Fourth Quarter to Fourth Quarter						
Real GDP ^a						
January 2021	-2.5	3.7	2.4	1.7	1.7	1.7
July 2020	-5.9	4.8	2.2	1.0	2.1	1.6
Nominal GDP						
January 2021	-1.2	5.6	4.5	3.5	3.9	3.7
July 2020	-5.7	6.2	4.1	2.5	4.2	3.4
PCE Price Index						
January 2021	1.2	1.7	1.9	1.7	2.1	1.9
July 2020	0.4	1.3	1.7	1.4	1.9	1.7
Core PCE Price Index ^b						
January 2021	1.4	1.5	1.9	1.7	2.1	1.9
July 2020	0.6	1.3	1.7	1.4	1.9	1.7
Consumer Price Index ^c						
January 2021	1.2	1.9	2.2	2.0	2.4	2.2
July 2020	0.4	1.6	2.0	1.7	2.2	2.0
Core Consumer Price Index ^b						
January 2021	1.6	1.5	2.2	2.0	2.4	2.2
July 2020	1.0	1.5	1.9	1.7	2.2	2.0
GDP Price Index						
January 2021	1.3	1.9	2.0	1.8	2.1	2.0
July 2020	0.2	1.3	1.8	1.5	2.0	1.8
Employment Cost Index ^d						
January 2021	2.8	2.3	2.8	2.7	3.3	3.0
July 2020	1.7	2.6	2.3	2.4	3.0	2.7
Real Potential GDP ^a						
January 2021	1.8	1.9	1.9	1.9	1.7	1.8
July 2020	1.6	1.5	1.8	1.7	1.8	1.8

Continued

Table 4.

Continued

CBO's Current and Previous Economic Projections for Calendar Years 2020 to 2030

	2020	2021	2022	Annual Average		Total, 2020–2030
				2020–2024	2025–2030	
				Annual Average		
Unemployment Rate (Percent)						
January 2021	8.1	5.7	5.0	5.6	4.1	4.8
July 2020	10.6	8.4	7.1	7.7	4.8	6.1
Interest Rates (Percent)						
Three-month Treasury bills						
January 2021	0.4	0.1	0.1	0.2	1.4	0.9
July 2020	0.4	0.2	0.2	0.2	1.0	0.6
Ten-year Treasury notes						
January 2021	0.9	1.1	1.3	1.3	2.8	2.1
July 2020	0.9	0.9	1.1	1.2	2.6	2.0
Tax Bases (Percentage of GDP)						
Wages and salaries						
January 2021	44.8	44.0	43.9	44.1	43.7	43.9
July 2020	44.3	43.8	43.7	43.8	43.7	43.8
Domestic corporate profits ^e						
January 2021	7.6 ^f	7.9	7.5	7.7	8.1	7.9
July 2020	7.5	7.4	7.7	7.7	8.2	8.0

Data sources: Congressional Budget Office; Bureau of Labor Statistics; Federal Reserve. See www.cbo.gov/publication/56965#data.

GDP = gross domestic product; PCE = personal consumption expenditures.

- a. Real values are nominal values that have been adjusted to remove the effects of changes in prices.
- b. Excludes prices for food and energy.
- c. The consumer price index for all urban consumers.
- d. The employment cost index for wages and salaries of workers in private industry.
- e. Adjusted to remove distortions in depreciation allowances caused by tax rules and to exclude the effects of changes in prices on the value of inventories.
- f. Estimated value for 2020.

This document is one of a series of reports on the state of the economy that the Congressional Budget Office issues each year. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

CBO consulted with members of its Panel of Economic Advisers during the development of this report. Although those advisers provided considerable assistance, they are not responsible for the contents of this report.

Robert Shackleton wrote the report. Leigh Angres, Christina Hawley Anthony, Sebastien Gay, Theresa Gullo, Deborah Kilroe, John McClelland, and Mia Williams provided helpful comments. The economic forecast and related estimates were prepared by Aaron Betz, Yiqun Gloria Chen, Erin Deal, Daniel Fried, Edward Gamber, Ronald Gecan, Mark Lasky, Junghoon Lee, Michael McGrane, Jaeger Nelson, Sarah Robinson, Jeffrey Schafer, John Seliski, Robert Shackleton, and Christopher Williams. Many other analysts at CBO contributed information about the pandemic and the effects of actions taken in response to it. Erin Deal and Sarah Robinson fact-checked the report. The writing of the report and the preparation of the forecast were supervised by Jeffrey Werling, John Kitchen, Robert Arnold, and Devrim Demirel.

Mark Doms, Jeffrey Kling, and Robert Sunshine reviewed the report. Benjamin Plotinsky was the editor, and Casey Labrack was the graphics editor. The report is available on CBO's website (www.cbo.gov/publication/56965).

CBO continually seeks feedback to make its work as useful as possible. Please send any comments to communications@cbo.gov.



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