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January 26, 2010

**CBO Forecasts Economic Recovery,
Fiscal Challenges**

Dear Democratic Colleague:

Today, the Congressional Budget Office (CBO) released its budget and economic outlook for fiscal years 2010 to 2020.

CBO's report confirms that the recession inherited from the Bush Administration continues to erode the budget's bottom line, and that the economic rescue efforts needed to spur the recovery have had an impact as well. Economists agree that it is a mistake to balance the budget in the midst of a recession, and a healthy economy provides a critical foundation for building a fiscally sustainable future.

But these projections are another reminder that as the economy recovers, it is critically important to take steps to address the long-term budgetary challenges our nation is facing.

Attached please find a brief summary and analysis of the CBO report, prepared by the Budget Committee staff. The entire CBO report is available at the CBO website (www.cbo.gov). Tomorrow, the Budget Committee will hold a hearing on the new report with CBO Director Doug Elmendorf, and his testimony will be available on our website (www.budget.house.gov).

Please do not hesitate to contact me or the Budget Committee staff with any questions.

Sincerely,

A handwritten signature in black ink that reads "John M. Spratt, Jr." in a cursive style.

John M. Spratt, Jr.
Chairman



John Spratt, Jr.
Chairman

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON THE BUDGET

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January 26, 2010

CBO Forecasts Economic Recovery, Fiscal Challenges

Today the Congressional Budget Office (CBO) released its annual fiscal outlook. A year ago, the Bush Administration handed the Obama Administration an economy in free fall and a federal budget with record deficits in place of the record surpluses that it had inherited. Although too many people are still affected by the recession, today's CBO report paints a picture of a weakened but recovering economy – while reminding us of the economic and fiscal challenges ahead.

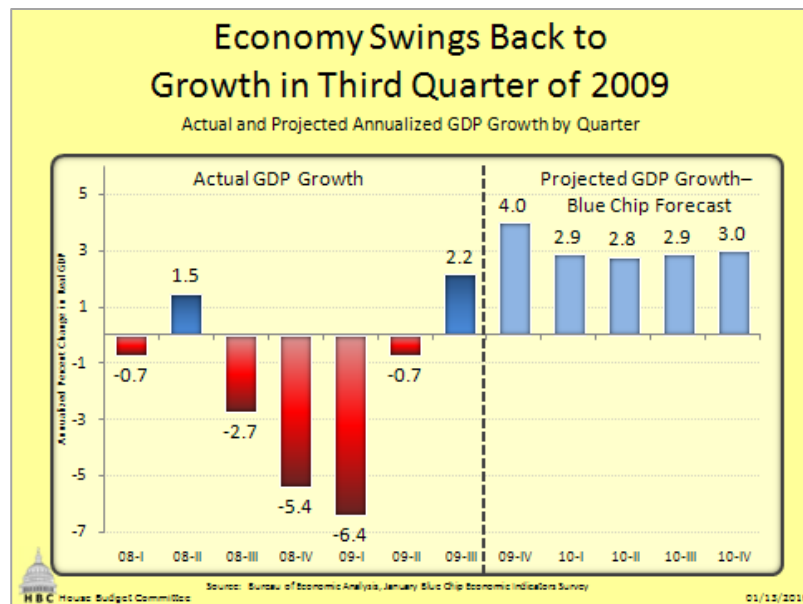
CBO Baseline Deficits

<u>2009</u>	<u>2010</u>
\$1.414 trillion	\$1.349 trillion

A Weakened but Improving Economy

In 2001, Republicans inherited a strong economy averaging 237,000 new jobs per month; a year ago, President Obama inherited an economy that was *losing* nearly 700,000 jobs each month. While there is clearly a long way to go before the economy returns to where it needs to be, today's CBO report does provide some moderately encouraging data.

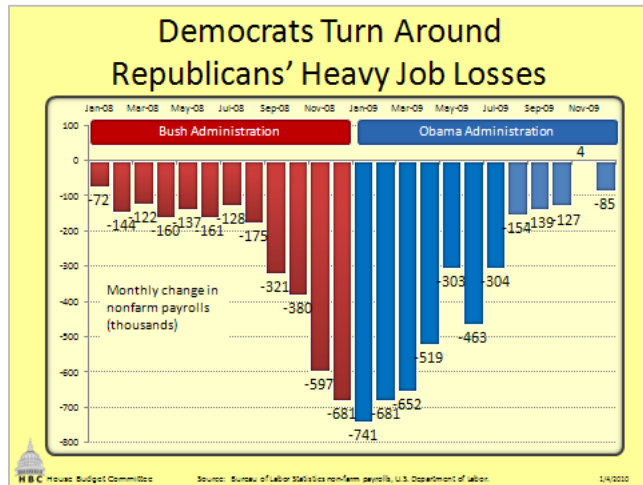
CBO Projects Economic Growth – After shrinking four consecutive quarters, the economy finally returned to growth in the third quarter of 2009, growing at 2.2 percent, its best output in two years. In today's report, CBO projects continuing growth of 2.5 percent for 2010. Growth at this level would be the strongest since 2006. Additionally, CBO projects the economy will continue to grow at 1.8 percent in 2011 and average 4.4 percent growth over 2012-14. The most recent Blue Chip forecast also calls for continuing GDP growth (as indicated in the chart).



Recovery Act is Having a Positive Impact – CBO estimates that the Recovery Act added between 1.3 and 3.5 percentage points to annualized GDP growth in the second half of 2009, and is responsible for between 600,000 and 1.6 million jobs. If Congress had not passed the Recovery Act, CBO estimates indicate that GDP might have contracted in the third quarter.

“CBO projects that [the Recovery Act] will increase real GDP by 1.5 to 4.5 percent during the first half of 2010, 1.2 to 3.8 percent in the second half...”

Job Losses Declining – Although jobs are still hard to find for far too many Americans, job losses have slowed in the months since the Recovery Act was passed: losses averaged 69,000 per month in the last three months of 2009, nearly 90 percent less than the 673,000 in average monthly losses during the last three months of the Bush Administration. CBO’s report estimates that the unemployment rate will peak at slightly above 10 percent in the first half of this year and then turn downward in the second half of the year.



The Challenge of Substantial Deficits

Recession and Response to Recession Increase Deficits for 2009 and 2010 – Even before the recession and economic recovery efforts, the previous Administration had converted record surpluses into large deficits for as far as the eye could see. The recession and the necessary cost of recovery efforts have increased deficits to \$1.4 trillion for 2009 and a projected \$1.3 trillion for 2010.

Economic Progress Beginning to Have Positive Effect on the Budget – While signs of economic recovery have not yet had sufficient impact on the lives of average Americans, the improving economy has begun to have some modest impact on the budget. Relative to CBO’s summer baseline, 10-year revenues in today’s report are about \$270 billion higher than CBO projected in August.

TARP Will Cost Less than Originally Estimated – TARP, which was initiated by the Bush Administration, has helped to restore stability to a financial system that was in crisis. With the stabilization of the financial system, the Obama Administration is winding TARP down and does not plan to use all of its authority. CBO reports that TARP will ultimately cost less than \$100 billion, significantly less than originally estimated by both CBO and the Office of Management and Budget for the almost \$700 billion program.

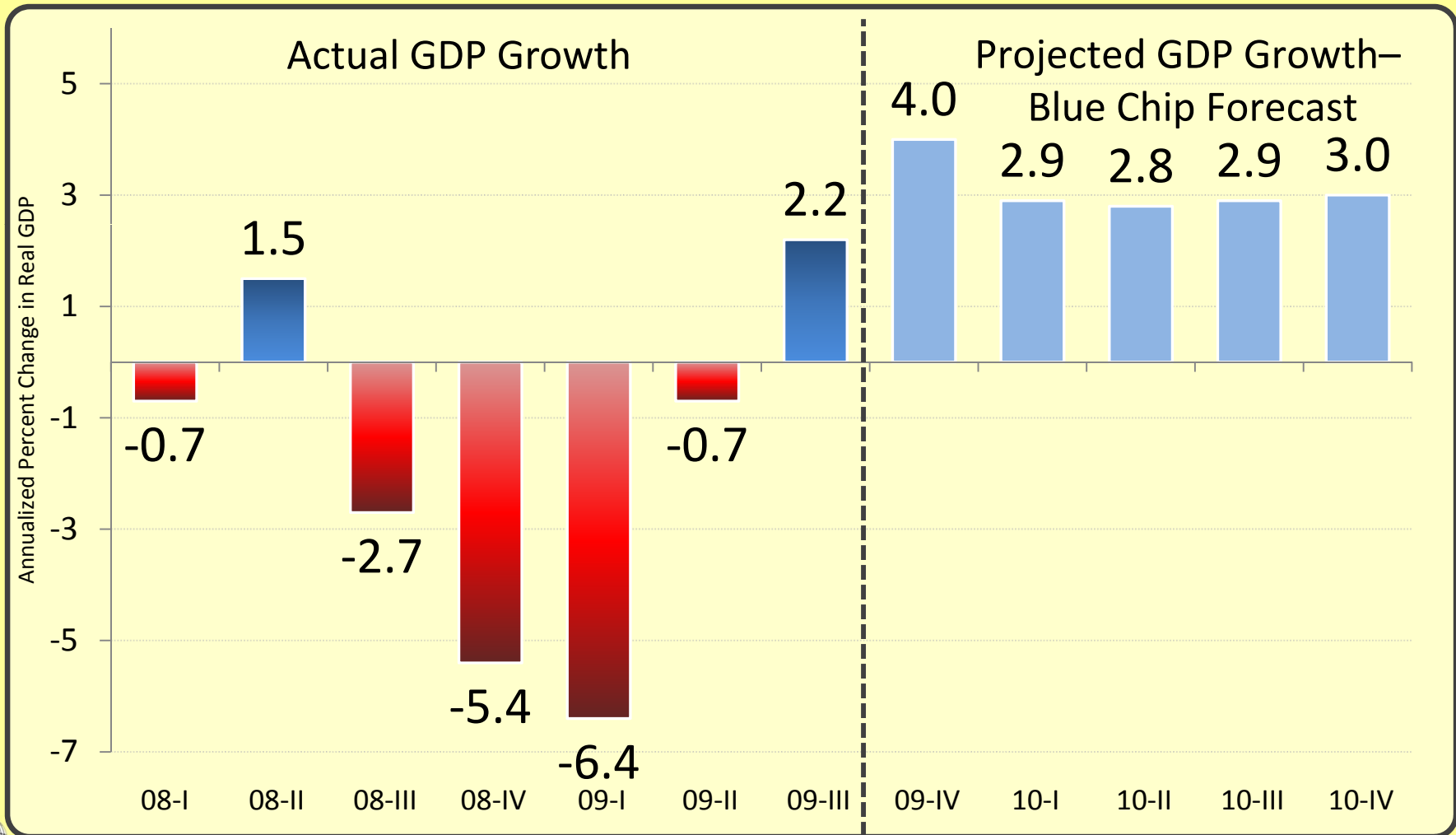
Structural Deficit Problem Remains – It is a mistake to try to balance the budget during a recession. But CBO’s report reminds us that even after the economy recovers, the structural deficits created during the last Administration will linger. CBO’s baseline forecast shows deficits of \$475 billion and

above for every year over the next ten years. (And, because CBO's baseline forecast reflects current law – which assumes the expiration of certain current policies – the deficits would be worse if current policies are continued unchanged.)

Tackling the Long-Term Deficit Challenge – The 111th Congress has already taken steps to begin putting the budget on a more sustainable path: the House has passed health care reform that lowers costs and reduces the deficit and voted to reinstate statutory “pay-as-you-go” rules like those that helped transform budget deficits into surpluses in the 1990s. The Clinton Administration proved that sustained deficit reduction efforts over time can successfully reduce deficits.

Economy Swings Back to Growth in Third Quarter of 2009

Actual and Projected Annualized GDP Growth by Quarter



Source: Bureau of Economic Analysis, January Blue Chip Economic Indicators Survey



Democrats Turn Around Republicans' Heavy Job Losses

