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TALKING POINTS

DEFICIT ESTIMATE DROPS TO $260 BILLION

CBO REPORT CONFIRMS IMPROVED BUDGET PICTURE FOR 2006

August 17, 2006

The Congressional Budget Office [CBO] today released its revised estimates of the budget deficit, receipts, outlays, and budget authority for fiscal years 2006-16 based on updated economic conditions and changes in law since the agency's projections in March.

Key Facts:

➢ ***Improving Deficit Picture Confirmed.*** CBO formally reduced its budget-deficit estimate for 2006 to $260 billion – the lowest level in four years – resulting from surging federal revenues, generated by strong economic growth. The revised estimate is:

- $76 billion less than CBO's March deficit projection.
- $36 billion less than the Administration's July deficit projection.
- $58 billion less than the 2005 deficit.

➢ ***Lower Taxes, Higher Revenues.*** The deficit reduction has resulted primarily from faster-than-expected growth in federal tax revenue, a product of robust economic growth and job creation during the first half of 2006.

- Revenue is $90 billion higher than CBO estimated in March. Revenues grew by 14.5% in 2005, and are expected to increase by 11.6% – or $249 billion – this year to just over $2.4 trillion. These are the highest percentage increases in the past 25 years.
- As a share of GDP, revenues are expected to rise from 17.5% in 2005 to 18.3% this year – higher than the average of the past four decades.

CBO Baseline Budget Estimates
(By fiscal year in billions of dollars)

	2006	2007	2008	2009	2010	2011	2007-2011	2007-2016
Outlays[a]	2,663	2,801	2,945	3,079	3,217	3,382	15,425	34,494
Revenue[b]	2,403	2,515	2,672	2,775	2,890	3,156	14,007	32,733
Deficit (-)[a,b]	-260	-286	-273	-304	-328	-227	-1,418	-1,761
Deficit as a % of GDP[a,b]	-2.0	-2.1	-1.9	-2.0	-2.0	-1.4	n.a.	n.a.

[a] CBO's baseline spending estimates for future years assume the continuation of supplemental and emergency spending amounts, even though these were enacted as temporary spending measures.
[b] Revenue estimates for 2011 and thereafter assume automatic tax increases resulting from the expiration of 2001 and 2003 tax relief provisions.
Source: Congressional Budget Office.

- ***The Economy Remains Strong.*** Although economic growth is expected to moderate during the next 6 months – as the Blue Chip consensus of private forecasters has indicated since early this year – CBO projects overall growth rates exceeding 3% this year and next.

  - *GDP*. CBO estimates annual growth in real (inflation-adjusted) GDP of 3.5% in 2006 and 3% in 2007 – both healthy figures.

  - *Jobs.* The unemployment rate is estimated at 4.7% for this year and 4.8% next year – <u>below</u> the 5% level typically considered "full employment."

  - *Inflation*. Inflation as measured by the consumer price index [CPI] is projected at 3.5% for 2006 and 2.5% next year. *CBO reports that this year's higher-than-expected rate is largely due to sharp increases in energy prices. Although the direct effects of these prices occur in areas such as transportation, they also ripple throughout the economy, contributing to an overall increase in inflation. CBO estimates these pressures will ease in the coming year, but concedes the trend in energy prices remains an important uncertainty for the economic outlook.*

  - *Interest Rates*. CBO estimates the rate on 3-month Treasury bills to increase from 4.8% this year to 5% next year. The rate on 10-year Treasury notes is projected to rise from 5.1% this year to 5.4% in 2007.

- ***Spending Control Critical.*** CBO's report shows the continued pressure of rising entitlement costs, and underscores the need for Congress to build on its efforts to rein in mandatory spending growth. *Last year's Deficit Reduction Act provided critical reform to several of our largest entitlement programs, saving taxpayers nearly $40 billion over the next 5 years.*

- ***Out-Year Estimates Assume Current Law.*** CBO's figures reflect the commitments and estimated costs of policies as written in current law, without change. They assume the continuation each year of temporary emergency supplemental spending; no further congressional efforts to restrain spending growth; and no changes in tax laws, including the scheduled expiration of tax relief provisions enacted in 2001 and 2003. For these reasons, the out-year projections are not realistic.