



June 1, 2020

Honorable Charles E. Schumer
Democratic Leader
United States Senate
Washington, DC 20510

Re: Comparison of CBO's May 2020 Interim Projections of Gross Domestic Product and Its January 2020 Baseline Projections

Dear Mr. Leader:

In response to your letter of May 27, I am writing to describe how the Congressional Budget Office's May 2020 interim projections of gross domestic product (GDP) compare with the baseline projections the agency published in January this year.¹

Nominal GDP

In the May 2020 report, CBO projected that the level of nominal GDP in the second quarter of 2020 would be \$790 billion (or 14.2 percent) lower than the agency had previously forecast in January 2020.² The two largest differences between the two forecasts result from the economic effects of the COVID-19 pandemic in reducing output and the legislation enacted between January and early May in response, which partly offsets that reduction. Subsequently, the difference between those projections of nominal GDP narrows from \$533 billion (9.4 percent lower in the May

¹ See Congressional Budget Office, *Interim Economic Projections for 2020 and 2021* (May 2020), www.cbo.gov/publication/56351, and *The Budget and Economic Outlook: 2020 to 2030* (January 2020), www.cbo.gov/publication/56020.

² That reduction is expressed at a quarterly rate (not at an annual rate, as commonly presented by the Bureau of Economic Analysis) to capture the actual dollar amount lost. An annual rate would represent the drop in production in the second quarter as if it persists for a full year and therefore is less appropriate in understanding exactly how GDP changed in the second quarter alone.

projection) by the end of 2020 to \$181 billion (2.2 percent lower) by 2030 (see Figure 1 after the text of this letter). As a result of those differences, CBO projects that over the 2020–2030 period, cumulative nominal output will be \$15.7 trillion less than what the agency projected in January (see Figure 2). That difference constitutes 5.3 percent of the value for cumulative nominal GDP for that period that the agency projected in January.

Real GDP

The revised forecast for nominal GDP reflects a significant markdown in CBO’s projection of real (inflation-adjusted) production in the United States as a result of the pandemic. Business closures and social distancing measures are expected to curtail consumer spending, while the recent drop in energy prices is projected to severely reduce U.S. investment in the energy sector. Recent legislation will, in CBO’s assessment, partially mitigate the deterioration in economic conditions.

CBO’s May projection of real GDP in the second quarter of 2020 was \$724 billion (or 13.3 percent) lower in 2019 dollars than the agency’s projection from January. Beyond the second quarter of 2020, the difference between those projections of real GDP shrinks, to \$422 billion in 2019 dollars (7.6 percent lower in the more recent projection) by the end of 2020 and roughly disappears by 2030 (see Figure 3). As a result of those differences, CBO projects that over the 11-year horizon, cumulative real output (in 2019 dollars) will be \$7.9 trillion, or 3.0 percent of cumulative real GDP, less than what the agency projected in January.

The Role of Inflation

CBO also marked down its projection of nominal output because the agency expects that inflation will be weaker as a result of the pandemic. Lower projected inflation rates, particularly in 2020 and 2021, reduce the level of prices and nominal GDP relative to what CBO projected in January. In the May projections, the downward revision to inflation derives mostly from lower projected rates of inflation for energy prices and the prices of travel and transportation services.

Over the first few years of the 2020–2030 period, the revision to estimates of nominal GDP primarily reflects changes in real production, but as the

effect of changes in real production wane in later years, the lower price level has an increasing influence. The contribution of those lower prices to the lower estimates of nominal GDP can be seen by comparing the revisions to the projections for nominal and real output (see Figure 4). By 2030, lower prices account for roughly all of the revision to nominal GDP.

Uncertainty

An unusually high degree of uncertainty surrounds these economic projections, particularly because of uncertainty about how the pandemic will unfold this year and next year, how the pandemic and social distancing will affect the economy, how recent policy actions will affect the economy, and how economic data will ultimately be recorded for a period when extreme changes have disrupted standard estimation methods and data sources. Additionally, if future federal policies differ from those underlying CBO's economic projections—for example, if lawmakers enact additional pandemic-related legislation—then economic outcomes will necessarily differ from those presented here.

Future Work

CBO will continue to evaluate the impact of the pandemic and the trajectory of the U.S. economy. Later this year, the agency will publish a more comprehensive economic forecast covering the years through 2030. The May projections for years after 2021 are preliminary because they do not fully reflect changes to CBO's forecast. In particular, the agency did not update its estimates of the economy's potential output in light of the pandemic beyond the effect that lower business and residential investment has on the nation's capital stock (or productive resources).

Honorable Charles E. Schumer

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I hope this information is helpful to you. If you have further questions, please contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Phillip L. Swagel". The signature is fluid and cursive, with a long, sweeping horizontal stroke at the end.

Phillip L. Swagel
Director

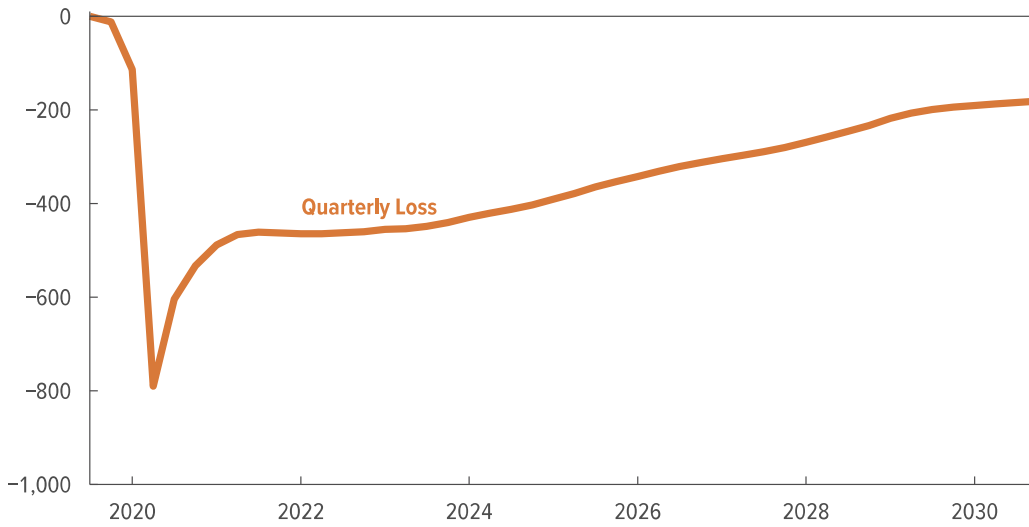
cc: Honorable Mitch McConnell
Majority Leader
United States Senate

Identical letter sent to the Honorable Bernard Sanders.

Figure 1.

Difference in Nominal Gross Domestic Product Between CBO's May 2020 and January 2020 Projections

Billions of Dollars

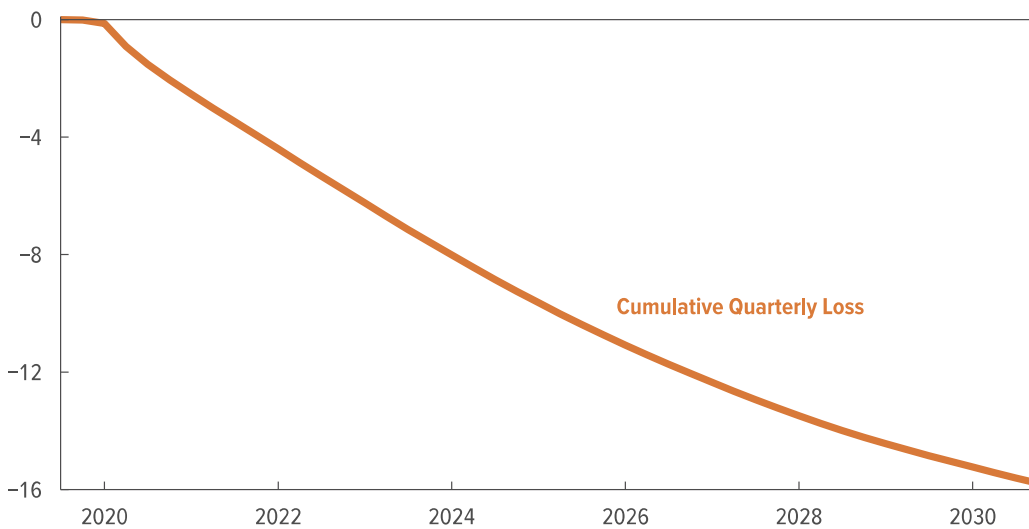


Source: Congressional Budget Office.

Figure 2.

Cumulative Difference in Nominal Gross Domestic Product Between CBO's May 2020 and January 2020 Projections

Trillions of Dollars

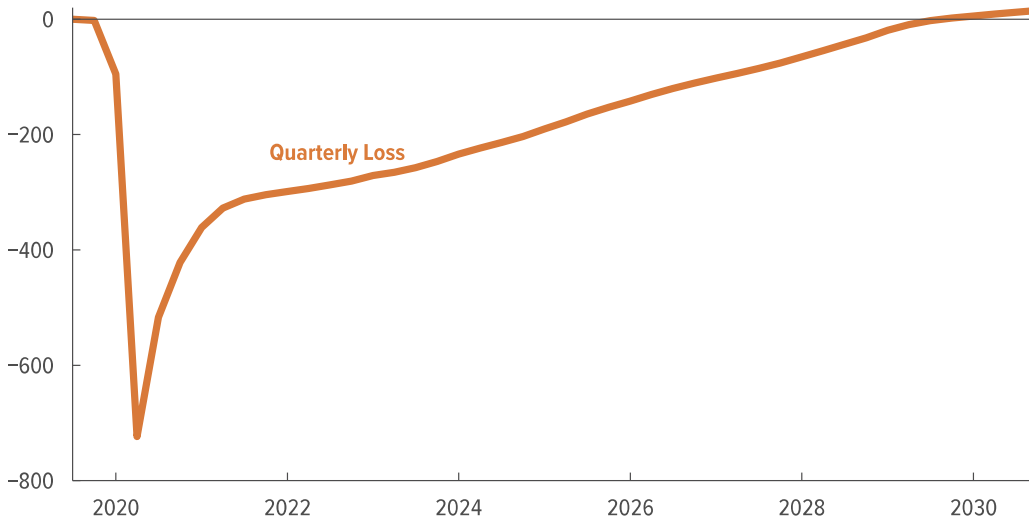


Source: Congressional Budget Office.

Figure 3.

Difference in Real Gross Domestic Product Between CBO's May 2020 and January 2020 Projections

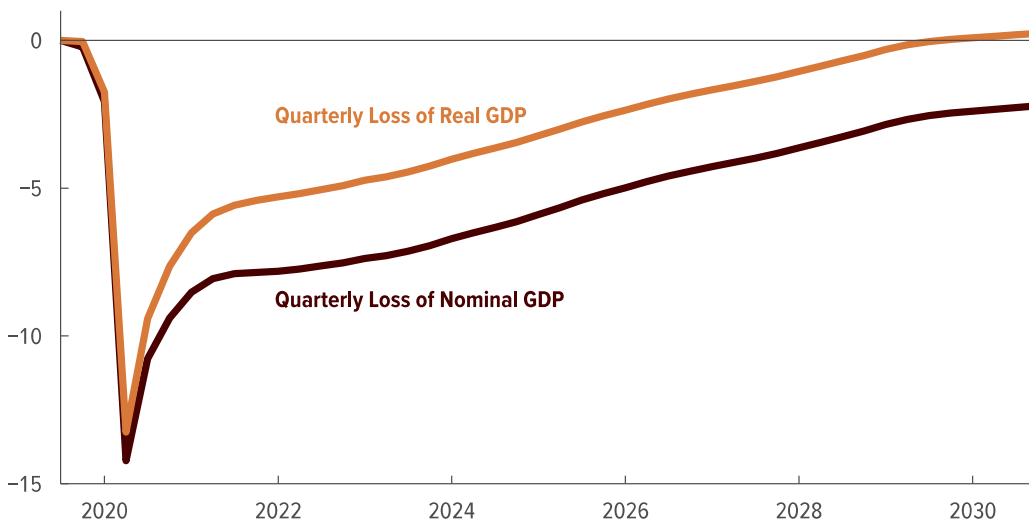
Billions of 2019 Dollars



Source: Congressional Budget Office.

Figure 4.

Percentage Difference in Nominal and Real Gross Domestic Product Between CBO's May 2020 and January 2020 Projections



Source: Congressional Budget Office.