

Update on the Administration’s Economic Assumptions

Each year, the Council of Economic Advisers (CEA), Office of Management and Budget (OMB), and Department of the Treasury develop an economic forecast for the President’s Budget. That forecast is used to project a range of fiscal metrics in the Budget.

Because agencies base their budget forecasts and estimates of the impact of the President’s policies in part on these projections, assumptions must be finalized well in advance of the Budget release. CEA, OMB, and Treasury work to develop the most accurate possible forecast based on the information available to them at the time.

This year, as is typical, the Administration finalized its economic assumptions for the FY 2025 Budget in early November 2023. At the time, and as has been true across this Administration’s forecasts, the forecast was broadly consistent with other official and private sector forecasts across key metrics.

Since the forecast was finalized in early November, the U.S. economy has continued to outperform expectations, with continued progress on inflation and an improved outlook for economic growth and the labor market. Specifically, since November, economic growth has improved with a stronger-than-forecasted estimate for the four-quarter growth of real GDP. Labor market progress continued as well with the fourth quarter unemployment rate averaging 3.7%, a tenth of a percentage point lower than forecasted. Additionally, four-quarter CPI inflation during 2023 came in at 3.2%, down from 7.1% a year ago, and 0.2 percentage point lower than the Administration’s forecast.

Finally, due to a 1 percentage point decline in the 10-year Treasury interest rate over the last two months of the year, the 2023 average was 4.0%, a tenth of a percentage point lower than expected. The table below compares the Administration’s forecast for 2023 that was finalized in November to actual economic activity, inflation, labor market, and interest rate data received since then.

Update to the Economic Assumptions	Administration Forecast	Actual	Difference
2023 Real GDP Growth (Q4/Q4)	2.6%	3.1%	0.5p.p.
2023 Headline CPI Inflation (Q4/Q4)	3.4%	3.2%	-0.2p.p.
2023 Unemployment Rate (Q4 Average)	3.8%	3.7%	-0.1p.p.
2023 10 Year Interest Rate (Average)	4.1%	4.0%	-0.1p.p.

In light of the new data available since we formulated our assumptions, a forecast for 2024 assembled today would likely be stronger than we assumed in November, much as consensus private sector forecasts have improved since November. In particular, updated projections for near-term GDP would likely be higher, and projections for near-term unemployment would be lower, than the forecast we finalized in November.

The resilience of the American economy—which defied forecasts of a recession in 2023—is welcome news for workers, families, and businesses. Moreover, the continued strength of the labor market and overall economy during a period of moderated inflation has enabled the strongest recovery for real wage growth in half a century, providing breathing room to American families. The President’s Budget includes proposals that would build on this progress and the President’s historic infrastructure, climate change, and clean energy investments in the American economy through the Inflation Reduction Act

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and the Bipartisan Infrastructure Law to further lower costs for families and invest in continued, broad-based growth.

CEA, OMB, and Treasury will develop a new comprehensive economic forecast later this year, in preparation for the Mid-Session Review of the Budget.