COMMITTEE FOR A RESPONSIBLE FEDERAL BUDGET

Deficit Forecast $2 Trillion Bleaker at Mid-Session Review
August 25, 2009

Today, the Office of Management and Budget (OMB) released its annual Mid-Session Review. OMB is now projecting a deficit of $1.58 trillion (11.2% of GDP) for FY 2009, and $1.50 trillion (10.4% of GDP) for FY 2010 – a decrease of $262 billion and an increase of $243 billion respectively, assuming the President's proposals are adopted. More significantly, OMB projects a $9.05 trillion ten-year deficit between FY 2010 and FY 2019 – an increase of $1.9 trillion since its last projections in May.

"These numbers are simply alarming" said Maya MacGuineas, president of the Committee for a Responsible Federal Budget. "Even as the economy appears to be stabilizing, we are seeing unmanageable levels of red ink for the foreseeable future. Let's hope this new increase isn't the $2 trillion straw that breaks the budget's back."

Fig. 1 Updated OMB Projections (Billions)

	OMB Mid-Session Review	OMB Previous Estimate (May 2009)	Change
FY 2009			
Receipts	2,074	2,157	-83
Outlays	3,653	3,998	-345
DEFICIT	**1,580**	**1,841**	**-262**
FY 2010			
Receipts	2,264	2,333	-69
Outlays	3,766	3,591	175
DEFICIT	**1,502**	**1,258**	**243**
2010 – 2019			
Receipts	34,259	35,049	-790
Outlays	43,309	42,157	1,152
DEFICIT	**9,051**	**7,108**	**1,943**
DEBT FY 2019	**17,493**	**16,027**	**1,466**

The Congressional Budget Office (CBO) also released its updated Budget and Economic Outlook today. Its estimates – even before the President's policy proposals are taken into account – project $7.14 trillion in deficits over the next ten years – an increase of $2.7 trillion since its spring projection. CBO and OMB use different assumptions, and an updated CBO analysis of the President's budget would presumably provide even larger deficit projections than those released by OMB.

The changes in the FY 2009 OMB projections are in large part due to a decrease in direct outlays of $250 billion; which was initially added into the budget by OMB as a placeholder for financial recovery efforts. This accounts for a bulk of the reduction in outlays. Of greater significance is the ten-year deficit number, up $2 trillion from OMB's May estimate. This difference can be partly attributed to updated projections on economic growth. The changes in the CBO projections are primarily due to a weaker projected recovery in both 2010 and 2011, along with a continued uptick in levels of unemployment through 2010.

Fig. 2: Economic Assumptions

	Unemployment		**GDP Growth**		**10-Year Interest Rates**		**Inflation**	
	2009	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
MSR	**9.3**	**9.8**	**-2.8**	**2.0**	**3.6**	**4.5**	**-0.7**	**1.4**
CBO Update	**9.3**	**9.9**	**-2.5**	**1.7**	**3.3**	**4.1**	**-0.5**	**1.7**
President's Budget	8.1	7.9	–1.2	3.2	2.8	4.0	-0.6	1.6
CBO (March)	8.8	9.0	–3.0	2.9	2.9	3.4	-0.7	1.4
Blue Chip (August)	9.3	9.9	-2.6	2.3	3.4	4.1	-0.5	1.9

"Given the state of the economy, it would still be premature to expect smaller budget deficits immediately, which would undermine some of the stimulus efforts," MacGuineas explained. "But we need to start making plans to ensure that large deficits don't persist once the economy fully recovers. The ongoing high levels of red ink are a loud and urgent warning that the White House needs to come up with a credible medium-term budget plan to avert a future fiscal crisis."

In other news, President Obama announced he would reappoint Federal Reserve Board Chairman Bernanke for another term. "The Committee for a Responsible Federal Budget appreciates the focus Chairman Bernanke has put in his public comments on responsible budget policy as a necessary component of a sustained economic recovery. Everyone knows that when Chairman Bernanke speaks, markets listen; let's hope that when it comes to the need for a responsible budget as part of a recovery plan, politicians listen too," said MacGuineas.