SOLUTIONS
Economic & Market Watch

June 16, 2025

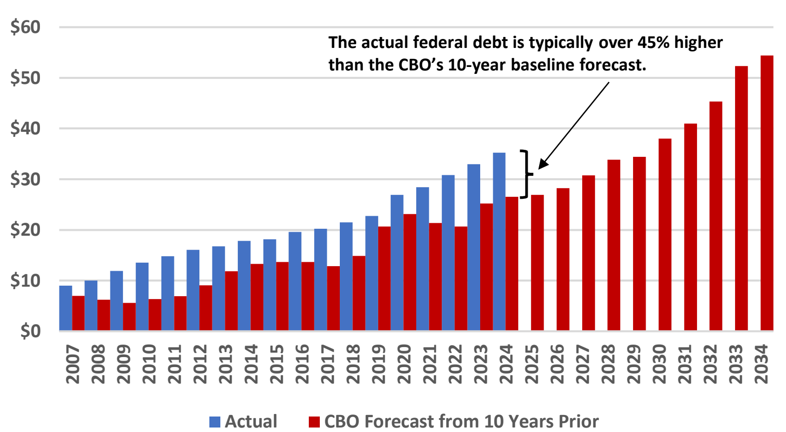
Economic & Market Watch Intelligence Brief

Briefing

- The Congressional Budget Office (CBO) produces economic and budget forecasts for the federal government. Since 1997, the CBO's baseline forecasts have typically overestimated federal revenue (receipts) and underestimated federal spending (outlays). The result is that the CBO's baseline forecasts underestimated future debt 90% of the time (**Figure 1**).
- When forecasting five years into the future, the CBO underestimated deficits for 2002–2005 by a total of $1.7 trillion. The CBO underestimated deficits for 2021–2024 by a total of $5.4 trillion (**Figure 2**).
- The CBO's current baseline forecast is that the debt will grow to $60 trillion by 2035 (from $36 trillion today). If the CBO's current forecasts are off by as much as its historic forecasts, then the debt will actually approach $90 trillion by 2035 (**Figure 3**).
- Before 2022, gross interest on the debt averaged 15% of tax revenue. That is, of every $1 collected in tax revenue, 15 cents went to paying interest on the debt. The combination of higher interest rates and ballooning debt will likely push this number up. Adjusting the CBO's forecasts for historical bias, it is likely that interest on the debt will come close to consuming 45 cents out of every dollar of tax revenue by 2035 (**Figure 4**).

Chart of the Week

Actual Federal Debt (trillions) vs. CBO Forecast



Commentary

The CBO is responsible for producing nonpartisan economic and budget forecasts for the federal government. For its baseline forecasts, the CBO typically employs static, rather than dynamic, forecasting. Static forecasting ignores secondary effects of policy changes. For example, a static analysis of a tax increase would ignore the resulting downward pressure on economic growth. The benefit to static forecasting is that there is less room for opinion and less need for intermediate estimations. The cost is that static forecasts are biased in one direction: They tend to underestimate the negative effects of tax hikes and overestimate the negative effects of tax cuts. The CBO baseline projections also assume no changes to existing legislation.

Since 1997, the actual federal debt has been higher than the CBO's forecasts more than 90% of the time. The magnitude of the bias varies depending on how far into the future the CBO is forecasting. On average, the actual debt has been 5% greater than the CBO's two-year forecast, 17% greater than its five-year forecast, 28% greater than its seven-year forecast and 46% greater than its 10-year forecast (**Chart of the Week**).

Snapshots

Figure 1. Breakdown of CBO Baseline Forecast Errors (1997 to present)

	# Forecasts	# Under-Forecasts	Under-Forecast Rate	Average Forecast Error
Receipts	253	67	26%	12% too high
Outlays	253	170	67%	8% too low
Debt	253	228	90%	14% too low

Figure 2. Five-Year Baseline Forecasts of Federal Deficits (trillions)

	2002–2005	2006–2010	2011–2015	2016–2020	2021–2024
Projected Total Deficits	$0.4 surplus	$0.3 surplus	$0.6	$3.0	$2.3
Actual Total Deficits	$1.3	$3.6	$4.0	$6.2	$7.7
Under-Forecast	$1.7	$3.9	$3.4	$3.2	$5.4

*An "under-forecast" is a forecast that is less than the actual.

Figure 3. CBO Debt Forecasts Adjusted for Historical Bias
(trillions)

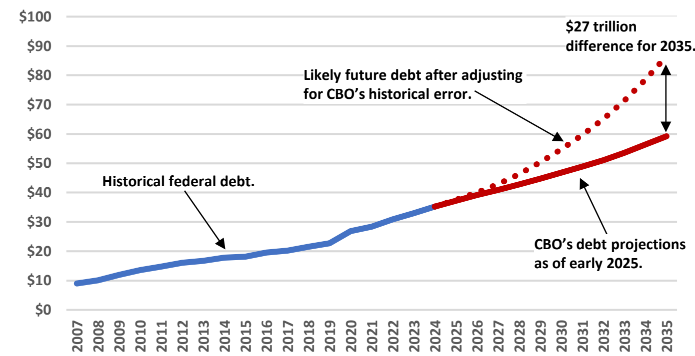
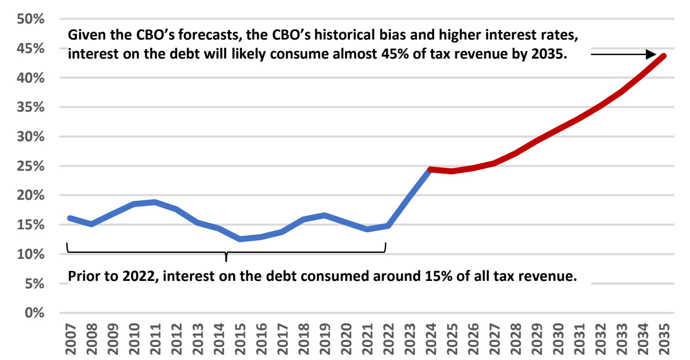


Figure 4. Interest on the Debt per Federal Receipts
(Based on CBO Forecasts Adjusted for Historical Bias)



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Economic & Market Watch Dashboard

Key Indicators

INTEREST RATES[1]		2025		2026		
	Current	Q3	Q4	Q1	Q2	Q3
Fed Funds Target[2] (%)	4.50	4.25	4.00	3.75	3.75	3.50
SOFR (%)	4.28	3.95	3.70	3.48	3.28	3.17
2Y UST (%)	3.95	3.68	3.55	3.47	3.39	3.33
5Y UST (%)	4.00	3.87	3.79	3.73	3.68	3.65
10Y UST (%)	4.41	4.27	4.22	4.19	4.16	4.14
30Y UST (%)	4.90	4.65	4.61	4.58	4.54	4.51

ECONOMY		2025		2026		
	Current	Q3	Q4	Q1	Q2	Q3
PCE Inflation (YoY %)	2.1	3.6	3.0	2.8	2.4	2.3
CPI Inflation (YoY %)	2.4	3.7	3.2	2.9	2.6	2.5
Real GDP (QoQ %)	(0.2)	0.5	0.8	1.4	1.7	1.9
Unemployment (%)	4.2	4.4	4.6	4.7	4.7	4.7
Consumer Spending (QoQ %)	1.2	0.7	0.8	1.5	1.7	1.8
Industrial Production (YoY %)	1.5	0.9	0.8	1.1	0.6	0.7

Equities & Currency

	Current	Year ago
DJIA	42,656	38,589
Nasdaq	19,705	17,689
S&P 500	6,046	5,432
US Dollar Index	$1,198.58	$1,266.91

Commodities

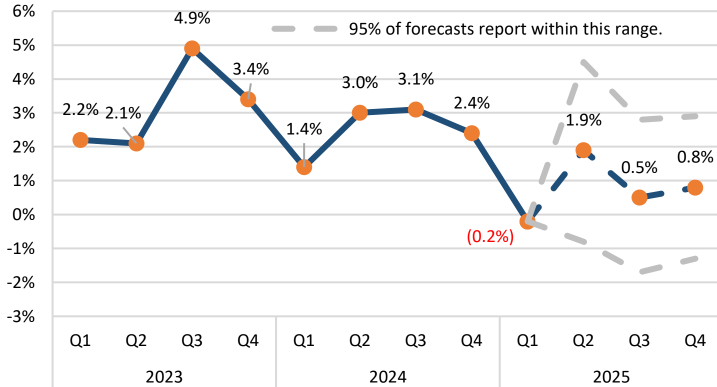
	Current	Year ago
Crude Oil (Per Barrel)	$69.61	$78.45
Natural Gas (Per MMBtu)	$3.64	$2.88
Coal (Per Short Ton)	$14.30	$13.60
Gold (Per Ounce)	$3,391.50	$2,331.40
Corn (Per Bushel)	$432.50	$450.00
Soybean (Per Bushel)	$10.67	$11.80

Industry

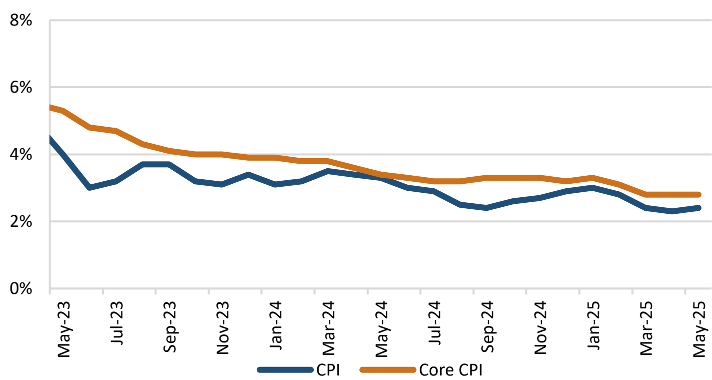
	Current	Year ago
Natural Gas Storage (Billion Cubic Feet)	2,707	3,045
U.S. Daily Power Consumption (MWh)	11,538,157	12,280,616
World Container Index (Per 40ft)	$3,543	$4,801

Forecasts

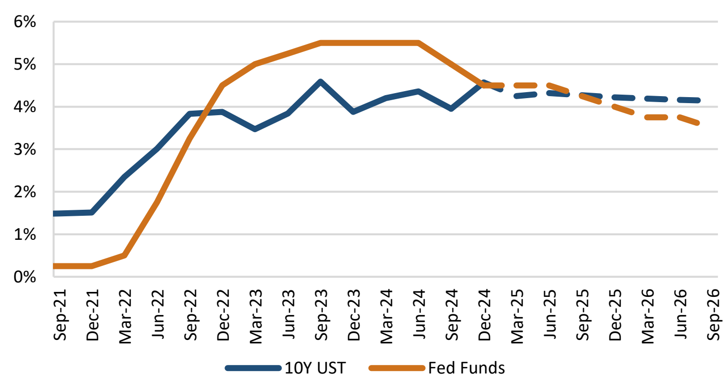
Real GDP Growth Trend



Headline vs. Core Inflation



10-Year US Treasury vs. Fed Funds Trend



[1] Unless otherwise indicated, forecasts are from the Blue Chip Professional Forecasters.
[2] Target rate forecast is based on futures market contracts.

Source: Blue Chip Financial Forecasts, Trading Economics, Moody's Analytics, Statista, Trading Economics, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Energy Information Administration, U.S. Treasury Department, Federal Reserve Bank of Atlanta, Federal Reserve Bank of New York, Federal Reserve Bank of St. Louis, International Monetary Fund, World Bank, University of Michigan, The Conference Board.