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Obama Raises '10 Deficit Outlook 19% to \$1.5 Trillion (Update1)
 

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By Roger Runningen and Brian Faler

Aug. 25 (Bloomberg) -- U.S. **unemployment** will surge to 10 percent this year and the budget **deficit** will be \$1.5 trillion next year, both higher than previous Obama administration forecasts because of a recession that was deeper and longer than expected, White House budget chief **Peter Orszag** said.

The Office of Management and Budget forecasts that the U.S. economy will shrink 2.8 percent this year, worse than the 1.2 percent contraction the OMB projected in May. For next year, the budget office said the gross domestic product will grow 2.0 percent, less than the 3.2 percent expected in May. By 2011, the economy would be well on its way to recovery, growing at a 3.8 percent annual rate, according to the administration's mid-year economic review, released this morning.

"While the danger of the economy immediately falling into a deep recession has receded, the American economy is still in the midst of a serious economic downturn," the budget office's report said. "The long-term deficit outlook remains daunting."

Separately, the nonpartisan **Congressional Budget Office** today predicted that the jobless rate would average 10.2 percent next year, gloomier than the White House projection, and forecast the deficit for this year at \$1.6 trillion, slightly worse than the White House estimate.

Impact on Agenda

The budget shortfall for 2010 would mark the second straight year of trillion-dollar deficits. Along with the unemployment numbers, the deficit may weigh down President **Barack Obama's** drive for his top domestic priority, overhauling the U.S. health care system.

"It throws a wrench in health-care reforms," **Maya MacGuineas**, president of the bipartisan **Committee for a Responsible Federal Budget**, said in an interview before the report was released. "No matter the specific numbers, they're a constant reminder that we're in bad, bad shape."

House Republican Leader **John Boehner** of Ohio seized on the numbers to call for the Democrat-controlled Congress to impose "strict annual caps on federal spending."

The health-care overhaul "is just the latest in a long line of expensive Democratic experiments that will add to the deficit, raise taxes on families and small businesses and cost more American jobs," Boehner said in a statement.

Slower Growth

The projected deficit for the fiscal year that begins Oct. 1 is higher than the \$1.26 trillion forecast in May and reflects expectations that economic growth will be slower this year and next because of "the severity of the crisis in the U.S. and in our trading partners," said **Christina Romer**, White House chief economist, who along with Orszag briefed reporters on the report.

The administration said last week that the deficit for the 2009 fiscal year, which ends Sept. 30, will peak this year at \$1.58 trillion before narrowing over next decade. That is less than the \$1.84 trillion projected in May because budget officials were able to delete hundreds of billions of dollars that had been set aside for bank bailouts.

Last year's deficit was \$459 billion.

Over the next decade, the budget picture is darker, with the 10-year deficit reaching \$9.05 trillion, up from \$7.1 trillion forecast in May, the budget office said Aug. 19.

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"Whatever their cause, the administration is very concerned about these out-year deficits, and getting those deficits under control is a top priority of the administration," Orszag said.

#### 'Sustainable Path'

He said the budget blueprint Obama submits to Congress in February will "include proposals to put the nation back on a fiscally sustainable path." He declined to give specifics.

The median estimate of 31 economists in a Bloomberg News survey completed Aug. 21 was for a fiscal year 2010 deficit of \$1.3 trillion.

"The market will view this as a very consensus-oriented forecast" and there won't be any significant reaction, [Mark Zandi](#), chief economist at Moody's Economy.com in West Chester, Pennsylvania.

Zandi predicted Congress will pass a second "mini" stimulus bill next year of about \$250 billion to aid jobless workers, state governments and tax credits to help home buyers. "The economy will be growing at an uncomfortably slow rate, not enough to bring down unemployment, and of course it's an election year" for Congress, he said.

Orszag defended the trillion-dollar deficits during a recession and said the government must reduce them as the economy recovers.

#### Paying for Programs

"The first step is to stop making those deficits worse" by enforcing pay-as-you-go legislation so that "any new tax or entitlement" programs are paid for, and by adopting an overall of the U.S. health-care system that doesn't add to the deficit, he said.

"I know there are going to be some who say this report proves we can't afford health reform," Orszag said. "I think that has it backwards," because savings must be squeezed from the system.

Even with economic conditions worse than originally forecast, Romer said "we do expect positive GDP growth by the end of this year" for the fourth quarter, as the economy reaches "a turning point." This is in line with 94 percent of Blue Chip economists, according to Orszag.

"A return to employment growth will take longer," Romer said.

#### Unemployment Rate

Obama and his advisers have repeatedly warned that their [unemployment](#) forecast of 8.1 percent for 2009 from earlier this year would be have to be revised. The president said in a Bloomberg Television interview in June that he expected it to reach at least 10 percent before declining.

The jobless rate, which hit 9.5 percent in June before dipping to 9.4 percent last month, likely will rise to 10 percent by the end of 2009, averaging 9.3 percent for the entire year, Romer said. It will worsen to a 9.8 percent average in 2010, instead of the 7.9 percent estimate in May.

"It's in the fourth quarter of this year that we expect it to peak," Romer said. "The recession was, simply, worse than" government forecasters expected, she said. "None of us has a crystal ball."

Romer said the economic stimulus package probably is adding "between 2 and 3 percentage points" to economic growth in the second quarter of this year, blunting conditions that would have been worse. A report on the effect of the stimulus program is due to Congress next month, she said.

Inflation will remain subdued. Projections for the consumer price index show a contraction to 0.7 percent this year, rising to 1.4 percent next year and 1.5 percent in 2011, Romer said.

The economic assumptions were compiled by the Council of Economic Advisers, Treasury Department and the Office of Management and Budget. The estimates reflect conditions as of early June.

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