

Obama Raises 2010 Deficit Estimate to \$1.5 Trillion

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 a weaker economic recovery than it saw in May as the gross domestic product shrinks 2.8 percent this year before expanding 2 percent next year, according to the administration's mid-year economic review issued today. The Congressional Budget Office, in a separate assessment, forecast the economy will grow 2.8 percent next year. Both see the GDP expanding 3.8 percent in 2011.

"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 White House report said. "The long-term deficit outlook remains daunting."

The budget shortfall for 2010 would mark the second straight year of trillion-dollar deficits. Along with the unemployment numbers, the deficit may complicate 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. "No matter the specific numbers, they're a constant reminder that we're in bad, bad shape."

Spending Caps

House Republican Leader [John Boehner](#) of Ohio seized on the estimates 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.

The two budget agencies say the shortfall is being driven by the recession as outlays rise for unemployment compensation, [food stamps](#) or other programs meant to stabilize the economy rise and tax receipts fall.

Administration and congressional budget officials expect the unemployment rate, which was 9.4 percent last month, to keep rising. White House officials said the rate likely will rise to 10 percent by the end of 2009, averaging 9.3 percent for the entire year. It will worsen to a 9.8 percent average in 2010 instead of the 7.9 percent estimate in May.

The CBO report also estimates the 2009 jobless rate at 9.3 percent. It puts next year's average at 10.2 percent.

Deficit Projections

The OMB raised its deficit projection for fiscal 2010, which begins Oct. 1, from the \$1.26 trillion forecast in May, reflecting slower economic growth 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 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 outlook for the 2009 fiscal year is slightly better than the previous forecast. The government's shortfall will peak this year at \$1.58 trillion before narrowing over the 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.

The CBO estimates the budget deficit will total \$1.6 trillion this year, or 11.2 percent of the GDP, and \$1.4 trillion in 2010.

Bailout Money

"The Obama White House deserves some credit for managing the financial situation so that the additional bailout wasn't necessary," said [Stan Collender](#), a former budget analyst for the House and Senate budget committees.

Orszag said reining in the deficit is a "top priority" of the administration. 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 OMB added almost \$2 trillion to the 10-year deficit from its May forecast, to \$9.05 trillion. The nonpartisan CBO's long-range projection was \$7.14 trillion. The difference stems from the CBO's assumption that tax cuts enacted in 2001 and 2003 will expire on schedule in 2011. Obama has promised to keep the lower tax rates for middle-income Americans.

Market Reaction

"The market will view this as a very consensus-oriented forecast" and there won't be any significant reaction, said [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 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 they shouldn't be used to block the administration's health-care initiative. Revising the way the nation pays for medical care will help save money, 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.

Back to Growth

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."

"A return to employment growth will take longer," Romer said, adding that the jobless rate likely will peak in the fourth quarter of this year.

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 of 0.7 percent this year, a rise of 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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