

UNITED STATES

Economic activity is projected to pick up in 2014 once the effects of severe winter weather dissipate. Given ample corporate cash flow and an improved demand outlook, business investment should accelerate significantly. Sizable gains in asset prices have boosted household wealth, which, combined with steady progress on the labour market, should provide support to private consumption and residential investment.

Fiscal contraction is creating less of a drag on economic growth, although further consolidation at a slower pace will be needed to ensure fiscal sustainability. Monetary policy appropriately remains very accommodative, with slack remaining in the labour market and inflation remaining weak. The Federal Reserve began the process of reducing the pace of its asset purchases, which should continue through most of 2014. It will be appropriate to keep policy rates low for some time, but they are expected to begin to rise by mid-2015.

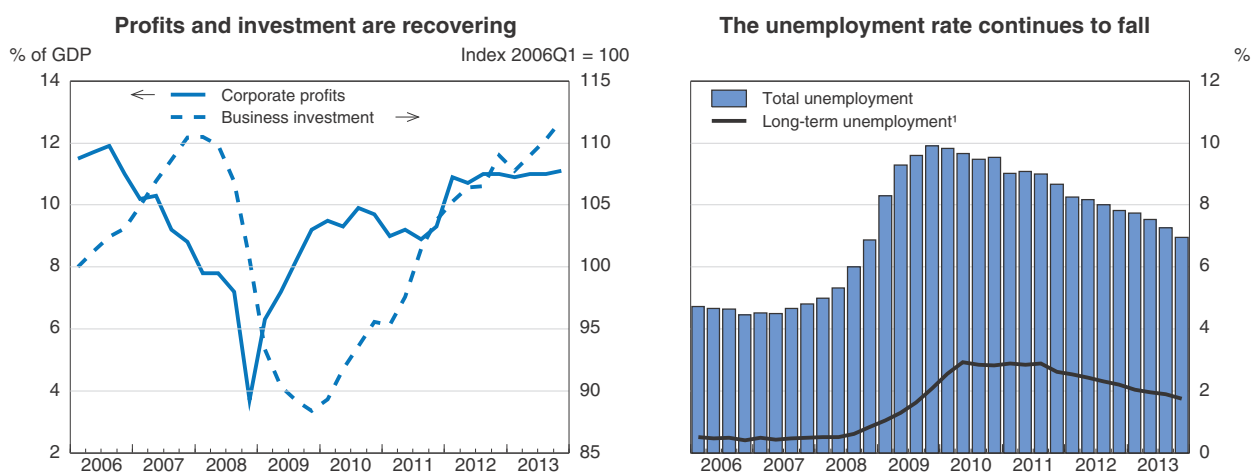
The economic effects of bad weather are dissipating

Unusually severe winter weather depressed growth in early 2014 by an estimated one percentage point at an annualised rate. Moreover, reversing previous large positive growth contributions, changes in stockbuilding reduced growth by $\frac{1}{2}$ percentage point in the first quarter. However, forward-looking indicators, such as investment intentions and business expectations, and rises in measures of consumer and business confidence suggest activity is bouncing back.

Investment and consumption will pick up


Favourable financial conditions and the acceleration of aggregate demand will support a substantial rise in business investment growth. This recovery will be facilitated by ample corporate profits, which have been strong, partly reflecting muted wage pressure. Household deleveraging and the rise in asset prices have caused household net wealth to rise significantly, which will help sustain consumption growth.

United States



1. Persons unemployed for 52 weeks and over.

Source: OECD Economic Outlook 95 database; US Bureau of Labor Statistics; and the Bureau of Economic Analysis.

StatLink  <http://dx.doi.org/10.1787/888933049021>

United States: **Employment, income and inflation**

Percentage changes

	2011	2012	2013	2014	2015
Employment ¹	1.0	1.6	1.4	1.7	1.7
Unemployment rate ²	8.9	8.1	7.4	6.5	6.0
Compensation per employee ³	2.7	2.3	1.2	1.9	2.9
Labour productivity	0.9	1.1	0.4	0.8	1.8
Unit labour cost	2.0	1.2	1.0	1.0	1.0
GDP deflator	2.0	1.7	1.5	1.5	1.9
Consumer price index	3.1	2.1	1.5	1.5	1.7
Core PCE deflator ⁴	1.4	1.8	1.2	1.3	1.6
PCE deflator ⁵	2.4	1.8	1.1	1.3	1.6
Real household disposable income	2.4	2.0	0.7	2.5	3.2

1. Based on the Bureau of Labor Statistics (BLS) Establishment Survey.


2. As a percentage of labour force, based on the BLS Household Survey.

3. In the total economy.

4. Deflator for private consumption excluding food and energy.

5. Private consumption deflator. PCE stands for personal consumption expenditures.

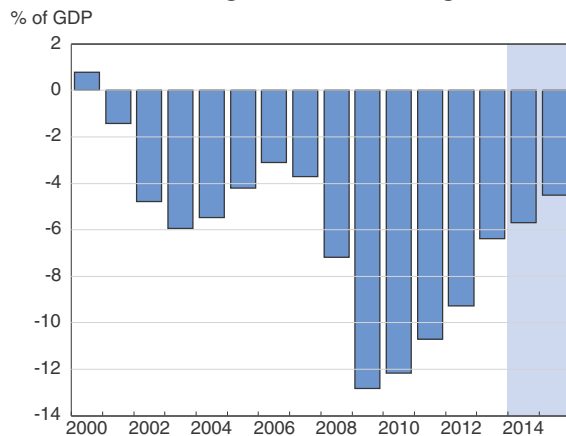
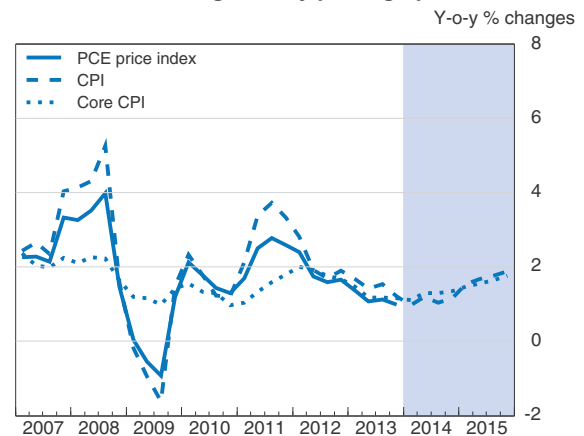
Source: OECD Economic Outlook 95 database.

StatLink  <http://dx.doi.org/10.1787/888933050446>


Residential investment should pick up from historically depressed levels, boosted by demand from pent-up household formation, although higher mortgage interest rates have recently tempered activity.

The labour market continues to heal

The unemployment rate has fallen steadily since 2009, reaching 6.7% in early 2014, as a result of steady employment growth. In addition, the decline in labour force participation reversed in early 2014 as sizable numbers of people outside the labour force entered both employment and unemployment. However, the number of long-term unemployed and

United States**Budget deficits are falling****Inflation is gradually picking up**

Source: OECD Economic Outlook 95 database; and the Bureau of Economic Analysis.

StatLink  <http://dx.doi.org/10.1787/888933049040>

United States: **Financial indicators**

	2011	2012	2013	2014	2015
Household saving ratio, net ¹	5.7	5.6	4.5	4.1	4.0
General government financial balance ²	-10.7	-9.3	-6.4	-5.8	-4.6
General government gross debt ³	98.8	102.1	104.3	106.2	106.5
Current account balance ²	-2.9	-2.7	-2.3	-2.5	-2.9
Short-term interest rate ⁴	0.4	0.4	0.3	0.3	0.9
Long-term interest rate ⁵	2.8	1.8	2.4	3.0	3.6

1. As a percentage of disposable income.


2. As a percentage of GDP.

3. As a percentage of GDP at market value.

4. 3-month rate on euro-dollar deposits.

5. 10-year government bonds.

Source: OECD Economic Outlook 95 database.

StatLink  <http://dx.doi.org/10.1787/888933050465>

discouraged workers remains high by historical standards, and a large proportion of workers report working part time due to economic reasons. With the recovery gaining strength and the labour market continuing to work off slack, growth in labour compensation, which has been weak, will gradually become stronger.

Monetary policy has begun to taper

Monetary policy remains very accommodative, as is appropriate given slack in the labour market and weakness in price and wage developments. Inflation has fallen to low rates, though some of the factors behind the fall are likely to be transitory, and wage pressures


United States: **Demand and output**

	2012	2013	2014	2015	Fourth quarter		
					2013	2014	2015
	Current prices \$ billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	16 244.6	1.9	2.6	3.5	2.6	2.7	3.6
Private consumption	11 149.6	2.0	3.0	3.2	2.3	3.2	3.2
Government consumption	2 548.1	-2.0	-0.5	0.0	-2.4	0.5	0.1
Gross fixed investment	3 028.1	2.9	3.5	9.2	2.2	5.8	9.1
Public	619.0	-3.2	-3.4	-0.2	-2.4	-3.0	-0.3
Residential	439.2	12.2	4.9	15.8	6.9	10.6	15.0
Non-residential	1 970.0	2.7	5.3	10.1	2.6	7.1	10.0
Final domestic demand	16 725.8	1.6	2.6	3.9	1.6	3.3	3.9
Stockbuilding ¹	66.0	0.2	0.1	0.0			
Total domestic demand	16 791.8	1.7	2.6	3.9	2.3	3.2	3.9
Exports of goods and services	2 195.9	2.7	2.7	5.3	4.9	1.9	5.3
Imports of goods and services	2 743.1	1.4	3.1	7.2	2.8	4.8	7.1
Net exports ¹	- 547.2	0.1	-0.2	-0.5			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 95 database.


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United States: **External indicators**

	2011	2012	2013	2014	2015
\$ billion					
Goods and services exports	2 101.2	2 195.9	2 259.9	2 345	2 494
Goods and services imports	2 669.9	2 743.1	2 757.2	2 876	3 113
Foreign balance	- 568.8	- 547.2	- 497.3	- 531	- 619
Invisibles, net	111.0	106.8	118.0	95	76
Current account balance	- 457.7	- 440.4	- 379.3	- 436	- 544
Percentage changes					
Goods and services export volumes	7.1	3.5	2.7	2.7	5.3
Goods and services import volumes	4.9	2.2	1.4	3.1	7.2
Export performance ¹	0.2	0.0	- 0.3	- 1.5	- 0.7
Terms of trade	- 1.3	0.4	1.1	- 0.1	0.1

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 95 database.

StatLink  <http://dx.doi.org/10.1787/888933050503>

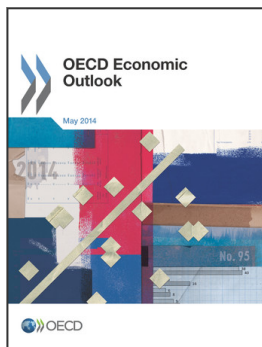
remain muted. With the recovery gaining ground, the Federal Reserve began to reduce its large-scale asset purchases in January 2014. The gradual reduction in purchases is projected to continue through most of 2014. With the continuing strengthening of the economy, monetary policy accommodation is expected to be removed gradually as the economic situation normalises, and policy interest rates are expected to begin to rise by mid-2015.

Fiscal policy is less of a drag on activity

The political agreement leading to the passage of the Bipartisan Budget Act and the subsequent lifting of the debt ceiling reduces uncertainty about fiscal policy for the projection period. Nevertheless, fiscal policy remains a drag on growth. The actual reduction in the pace of consolidation is relatively modest at around 0.25% of GDP in both 2014 and 2015, leading to an improvement in the underlying primary balance of around $\frac{2}{3}$ per cent of GDP in both years, significantly less than the $1\frac{3}{4}$ per cent of GDP reduction in 2013. According to CBO longer-term projections, spending pressures will re-emerge after 2015, underlining the importance of developing a medium-term strategy to ensure fiscal sustainability.

Risks to the recovery remain substantial

The economic recovery remains subject to various risks. On the negative side, business investment would rebound less vigorously than projected if firms' growth expectations faltered. On the positive side, households' stronger financial situation could reduce the savings rate, strengthening consumption more than projected. Economic growth could also be stimulated more robustly than expected by factors such as improved competitiveness and low energy prices.



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