UNITED STATES

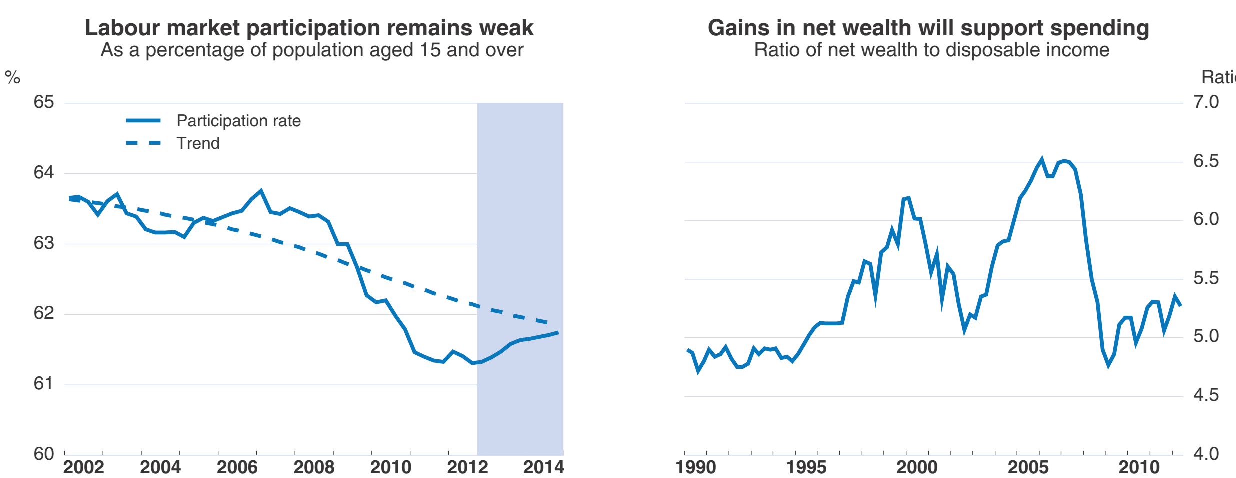
The gradual recovery is continuing. Activity has been expanding at a pace just slightly ahead of potential, while the labour market has recovered very slowly. The housing market has shown signs of a turnaround, but its contribution to overall GDP growth remains small. Faced with these developments, the Federal Reserve announced in September that it would take further measures to sustain the upturn through a new round of long-term asset purchases, and that the federal funds rate was likely to remain at exceptionally low levels at least through mid-2015. Nevertheless, given the substantial fiscal drag still ahead, output is projected to expand only moderately next year and pick up slowly thereafter.

Reducing the large federal budget deficit is necessary to restore fiscal sustainability, but this should be done gradually and in the context of a well identified medium-term consolidation plan. It is thus essential that current legislation be amended to smooth the implementation of tax increases and spending cuts and to raise the debt ceiling in an orderly manner. Given the low levels of resource utilisation, monetary policy can remain accommodative for an extended period, provided that inflation expectations stay well anchored.

The recovery remains sluggish

Economic activity increased at an annual rate of about 2 per cent in the first three quarters of 2012. Private consumption increased moderately, but growth in business investment softened noticeably, likely owing to caution in the face of uncertainty about the US fiscal outlook and developments in Europe, as suggested by weak business confidence indicators. By contrast, household confidence has been relatively buoyant, moving up close to its pre-recession average. GDP growth in the second half of this year will be held back by drought-related losses in farm output and disruptions related to Hurricane Sandy, but these effects should be reversed early next year.

United States



Source: OECD Economic Outlook 92 database, U.S. Federal Reserve and the Bureau of Economic Analysis.

StatLink http://dx.doi.org/10.1787/888932743862

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

Percentage changes

	2010	2011	2012	2013	2014
Employment[1]	-0.7	0.9	1.5	1.6	1.5
Unemployment rate[2]	9.6	8.9	8.1	7.8	7.5
Compensation per employees[3]	2.9	2.9	2.1	2.2	2.9
Labour productivity	3.1	0.9	0.8	0.4	1.3
Unit labour cost	-0.1	2.2	1.3	1.5	2.0
GDP deflator	1.3	2.1	1.8	1.8	1.9
Consumer price index	1.6	3.1	2.1	1.8	2.0
Core PCE deflator[4]	1.5	1.4	1.8	1.7	1.9
PCE deflator[5]	1.9	2.4	1.8	1.8	2.0
Real household disposable income	1.8	1.3	1.4	1.0	2.8

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 92 database.

StatLink http://dx.doi.org/10.1787/888932744242

Conditions in the housing sector have improved noticeably…

The housing market has shown noticeable improvement, with home sales rising steadily and house prices up more than 7% since the start of the year. Although stronger housing demand will boost residential investment, the still-high levels of vacancies and foreclosure sales are likely to restrain construction activity for some time.

… but foreign demand has weakened

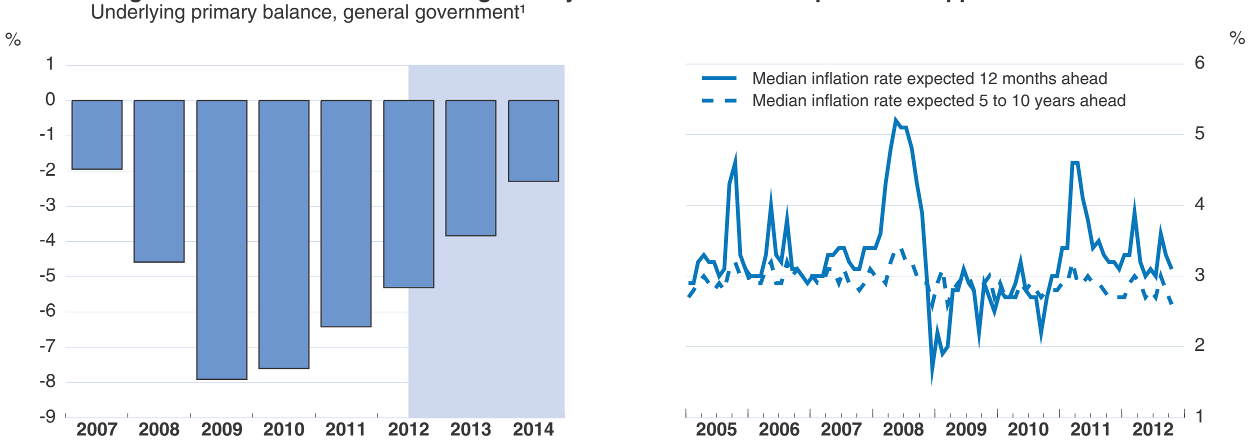
After rising at a solid pace in the first half of this year, both exports and imports decelerated sharply in the third quarter. The slowing of

United States

The budget deficit is assumed to narrow gradually

Underlying primary balance, general government[1]

Inflation expectations appear well anchored



1. Includes all levels of government as well as social security funds and non-profit institutions that are controlled and mainly financed by government.

Source: OECD, Economic Outlook 92 database and Datastream/ Michigan Surveys of Consumers.

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United States: **Financial indicators**

	2010	2011	2012	2013	2014
Household saving ratio[1]	5.1	4.2	3.7	2.7	2.7
General government financial balance[2]	-11.4	-10.2	-8.5	-6.8	-5.2
General government gross debt[2]	97.8	102.2	109.8	113.0	114.1
Current account balance[2]	-3.0	-3.1	-3.0	-3.0	-3.2
Short-term interest rate[3]	0.5	0.4	0.4	0.4	0.5
Long-term interest rate[4]	3.2	2.8	1.8	2.0	2.6

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month rate on euro-dollar deposits.
4. 10-year government bonds.

Source: OECD Economic Outlook 92 database.

StatLink http://dx.doi.org/10.1787/888932744261

exports is in large part due to weaker foreign demand, although the temporary effects of the drought may also have played a role.

The labour market recovery has proceeded slowly

Recovery in the labour market has been slow, with payrolls expanding below their long-run average pace. The unemployment rate was little changed for most of the year before dropping below 8% in October, more than 2 percentage points below the peak in 2009. The modest pace of job creation so far this year has occurred against a backdrop of continued weakness in the participation rate, which stands near its lowest levels since the 1980s.

United States: **Demand and output**

	2011	2012	2013	2014	Fourth quarter 2012	Fourth quarter 2013	Fourth quarter 2014
	Current prices $ billion	Percentage changes from previous year, volume (2005 prices)					
GDP at market prices	15 075.7	2.2	2.0	2.8	1.8	2.2	3.2
Private consumption	10 729.1	1.9	2.1	2.9	2.0	2.4	3.2
Government consumption	2 579.6	-1.0	-0.5	-0.8	-0.3	-0.7	-0.8
Gross fixed investment	2 298.5	5.7	4.4	7.1	3.3	5.9	7.7
Public	480.2	-4.0	-0.6	-1.1	-3.2	-0.9	-1.1
Residential	338.7	11.8	12.4	15.6	13.7	12.9	17.1
Non-residential	1 479.6	7.4	3.8	6.9	3.0	5.9	7.2
Final domestic demand	15 607.2	2.0	2.1	3.0	1.8	2.4	3.3
Stockbuilding[1]	36.6	0.2	0.0	0.0			
Total domestic demand	15 643.7	2.2	2.1	3.0	1.6	2.5	3.3
Exports of goods and services	2 094.2	3.6	4.1	6.2	3.2	5.4	6.7
Imports of goods and services	2 662.3	2.8	4.0	6.6	1.7	6.0	6.7
Net exports[1]	- 568.1	0.0	-0.1	-0.3			

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 92 database.

StatLink http://dx.doi.org/10.1787/888932744280

United States: **External indicators**

	2010	2011	2012	2013	2014
			$ billion		
Goods and services exports	1 844.5	2 094.2	2 184.8	2 278	2 445
Goods and services imports	2 356.1	2 662.3	2 748.9	2 864	3 098
Foreign balance	- 511.6	- 568.1	- 564.1	- 586	- 653
Invisibles, net	69.6	102.1	93.8	105	114
Current account balance	- 442.0	- 465.9	- 470.3	- 482	- 540
			Percentage changes		
Goods and services export volumes	11.1	6.7	3.6	4.1	6.2
Goods and services import volumes	12.5	4.8	2.8	4.0	6.6
Export performance[1]	- 2.5	0.4	0.4	- 0.5	- 0.2
Terms of trade	- 1.4	- 1.3	0.3	- 0.1	- 0.4

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 92 database.

StatLink http://dx.doi.org/10.1787/888932744299

The withdrawal of fiscal support will weigh on the recovery…

Further reductions in the large federal budget deficit are necessary to restore fiscal sustainability, but the pace of consolidation should be gradual so as not to derail the already weak recovery. The projection assumes that current law is amended to limit the reduction in the underlying primary deficit to about 1½ per cent of GDP in each of 2013 and 2014. Even so, growth in disposable income will be restrained significantly by the withdrawal of fiscal support.

…and accommodative monetary policy is warranted

In September, the Federal Reserve extended to at least mid-2015 its conditional commitment to keep the policy rate close to zero and announced a further round of quantitative easing focused on mortgage-backed securities. With significant slack in resource utilisation and inflation expectations appearing well anchored, this highly accommodative stance of monetary policy is warranted.

Improvements in financial conditions will support aggregate demand

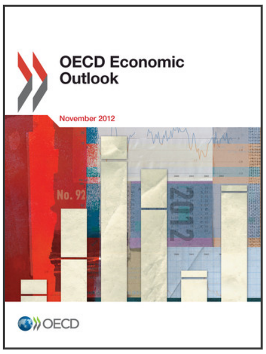
Household balance sheets continue to improve, with equity values recently returning to near cyclical highs and home prices showing a sharp and sustained upturn. The gains in net wealth, coupled with low interest rates and a continued easing in lending conditions, should contribute to a pick-up in aggregate demand going forward.

Growth will pick up after next year and inflation will remain low

The pace of output growth is projected to be little better than potential next year but then to strengthen gradually to above 3% in mid-2014. The output gap is projected to narrow to 2½ per cent by the end of 2014, and improvements in the labour market to bring the unemployment rate down to 7½ per cent over the same period. Given the abundant slack in the economy, underlying price inflation is set to remain below 2%, although wages may move up a bit more rapidly as the labour market continues to firm.

The looming fiscal cliff and euro area risks are of major concern

If unresolved, the fiscal cliff would generate a significant drop in activity in 2013. In addition, the potential credit market disruptions associated with the ongoing crisis in the euro area remain a major concern. On the other hand, the continued easing in financial conditions could release pent-up demand that drives a quicker than expected normalisation of economic activity.



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