UNITED STATES

The economy continues the recovery that began in mid-2009, although net job creation has been positive only since the beginning of 2010. Corporate profits have turned up, particularly in the financial sector, but bank lending conditions have not fully normalised. The speed of the recovery is projected to remain moderate through 2011 as households continue to rebuild net worth and the unemployment rate declines slowly.

The Federal Reserve and the Administration should gradually withdraw policy stimulus as economic growth becomes self-sustaining. Gauging the appropriate timing will not be a simple task, but keeping the stimulus in place risks recreating some of the imbalances in the housing and financial markets that led to the financial crisis. The Administration needs to develop sustainable medium-term consolidation plans setting out in detail how improvements in public finances are to be achieved.

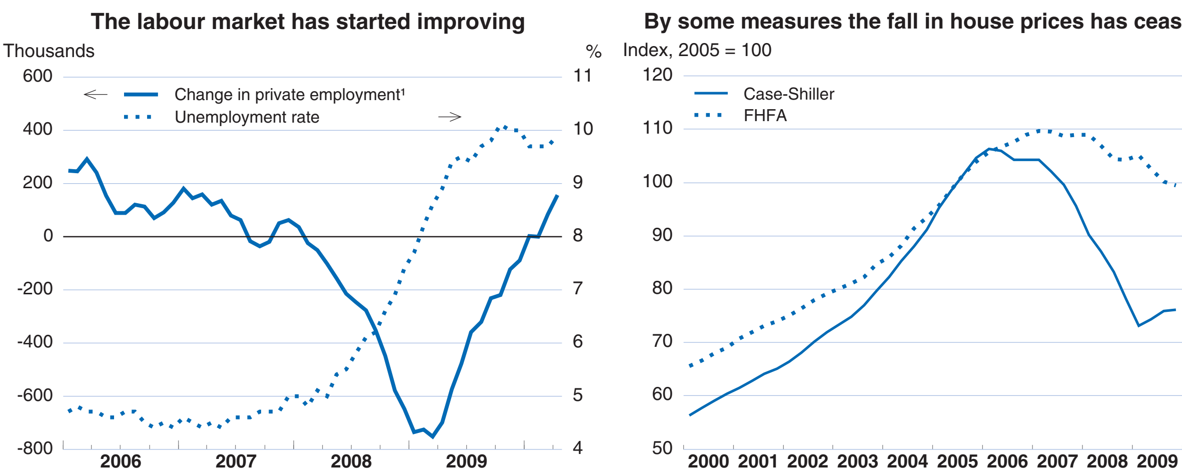
The economic recovery is well underway….

The economy continues to recover from arguably its most severe recession since the Great Depression of the 1930s. Buoyed by substantial economic stimulus and slowing inventory rundowns, real output has increased at an annual rate of 3¾ per cent since the middle of 2009. Industrial production and capacity utilisation have also trended upward since the middle of 2009. More recently, employment has begun growing, and a recovery in the stock market has helped return household wealth as a share of disposable income to about its long-run average.

… but the rebound will be weak by post-war standards

Despite these positive trends, output remains below its 2007 level, unemployment continues to be high, capacity utilisation lingers at a level lower than the troughs of the past two recessions, and household wealth is about 15% lower than its pre-recession peak. Growth over the next year and a half is projected to be weak by the standards of post-war recoveries. Some rebuilding of lost household net worth and sluggish wage growth

United States



1. Three-month moving average of one-month actual change of total private employment.

Source: OECD Economic Outlook 87 database; Bureau of Economic Analysis; Federal Housing Finance Agency and Datastream.

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

Percentage changes

	2007	2008	2009	2010	2011
Employment[1]	0.9	-0.7	-4.2	-0.1	1.9
Unemployment rate[2]	4.6	5.8	9.3	9.7	8.9
Employment cost index	3.1	2.8	1.5	1.6	1.2
Compensation per employee[3]	4.0	2.6	0.4	2.5	1.8
Labour productivity	1.3	1.2	1.8	3.3	1.2
Unit labour cost	3.0	1.8	-0.8	-0.7	0.7
GDP deflator	2.9	2.1	1.2	0.8	1.2
Consumer price index	2.9	3.8	-0.3	1.9	1.1
Core PCE deflator[4]	2.4	2.4	1.5	1.1	1.0
PCE deflator[5]	2.7	3.3	0.2	1.6	1.0
Real household disposable income	2.2	0.5	0.9	1.5	3.1

1. Nonfarm employment, 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 private sector.
4. Deflator for private consumption excluding food and energy.
5. Private consumption deflator. PCE stands for personal consumption expenditures.

Source: OECD Economic Outlook 87 database.

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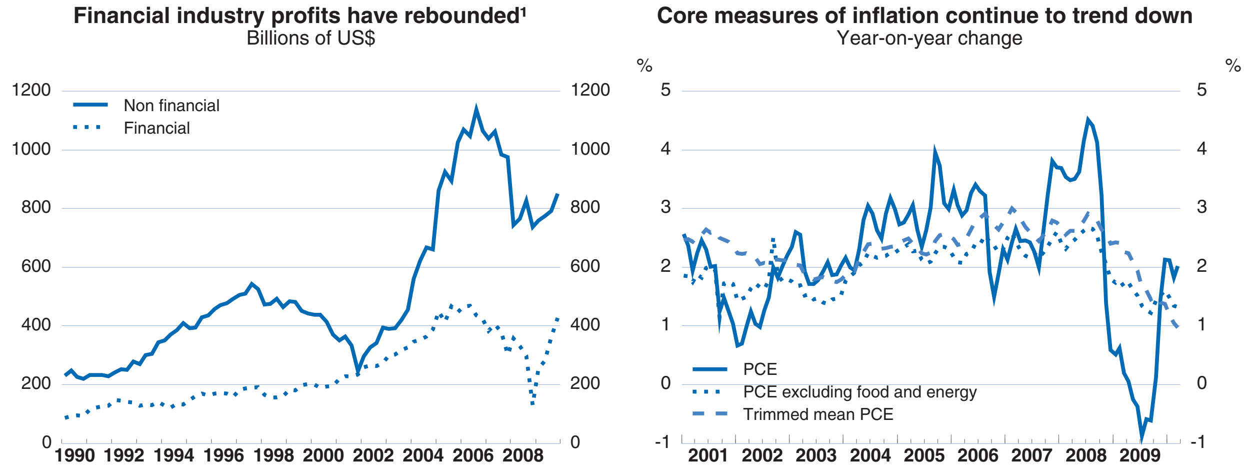
are likely to restrain consumption growth. With subdued demand growth, unemployment will remain a significant concern for some time.

Large businesses are recovering strongly, but smaller businesses remain credit constrained

The financial industry continues to recover strongly from the financial crisis. High interest margins and improving market conditions have allowed the financial industry to continue writing off a substantial amount of nonperforming loans while increasing compensation and profits to near pre-recession highs. Non-financial corporate profits are also increasing at a

United States



1. Corporate profits before tax with inventory valuation adjustment.

Source: OECD Economic Outlook 87 database; Federal Reserve; United States Department of Commerce; Bureau of Economic Analysis and Datastream.

StatLink http://dx.doi.org/10.1787/888932304145

United States: **Financial indicators**

	2007	2008	2009	2010	2011
Household saving ratio[1]	1.7	2.7	4.3	3.4	3.6
General government financial balance[2]	-2.8	-6.5	-11.0	-10.7	-8.9
Current account balance[2]	-5.2	-4.9	-2.9	-3.8	-4.0
Short-term interest rate[3]	5.3	3.2	0.9	0.5	2.4
Long-term interest rate[4]	4.6	3.7	3.3	4.1	5.4

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 87 database.

StatLink http://dx.doi.org/10.1787/888932306045

noteworthy pace. Strong profit growth, combined with corporate bond yields that have fallen below their pre-crisis levels, should support business investment growth despite low capacity utilisation. While credit conditions appear to be improving, lending activity remains very weak and small businesses continue to report that obtaining finance is a significant problem.

While unemployment has peaked, the labour market will remain depressed for some time

Employment is growing again, but it will be a number of years before it returns to pre-recession levels. At around 10% since late 2009, unemployment has reached its highest level since the early 1980s, but it is projected to fall slowly as demand picks up. However, the risk that high

United States: **Demand and output**

	2008	2009	2010	2011	Fourth quarter 2009	Fourth quarter 2010	Fourth quarter 2011
	Current prices $ billion	Percentage changes from previous year, volume (2005 prices)					
Private consumption	10 129.9	-0.6	2.6	2.7	1.0	3.0	2.8
Government consumption	2 386.9	1.8	1.5	1.0	1.3	1.5	0.7
Gross fixed investment	2 667.1	-14.5	2.0	8.8	-10.8	4.8	10.0
Public	496.4	1.9	-1.7	0.9	1.3	-1.1	0.6
Residential	477.2	-20.5	0.9	7.0	-12.6	1.7	8.7
Non-residential	1 693.6	-17.8	3.7	12.2	-14.1	7.9	13.5
Final domestic demand	15 183.9	-2.7	2.3	3.3	-1.0	3.0	3.6
Stockbuilding[1]	- 34.7	-0.7	1.2	0.1			
Total domestic demand	15 149.2	-3.4	3.5	3.4	-0.8	3.5	3.5
Exports of goods and services	1 831.1	-9.6	9.4	7.9	-0.7	5.8	9.0
Imports of goods and services	2 538.9	-13.9	10.0	8.4	-6.6	8.7	8.5
Net exports[1]	- 707.8	1.2	-0.3	-0.4			
GDP at market prices	14 441.4	-2.4	3.2	3.2	0.1	3.0	3.4

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook* Sources and Methods *(http://www.oecd.org/eco/sources-and-methods).*

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 (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306064

United States: **External indicators**

	2007	2008	2009	2010	2011
			$ billion		
Goods and services exports	1 656.0	1 831.1	1 564.2	1 774	1 973
Goods and services imports	2 369.7	2 538.9	1 956.6	2 314	2 559
Foreign balance	- 713.8	- 707.8	- 392.4	- 540	- 586
Invisibles, net	- 12.8	1.7	- 27.5	- 20	- 32
Current account balance	- 726.6	- 706.1	- 419.9	- 560	- 618
			Percentage changes		
Goods and services export volumes	8.7	5.4	- 9.6	9.4	7.9
Goods and services import volumes	2.0	- 3.2	- 13.9	10.0	8.4
Export performance[1]	0.9	1.3	2.6	- 1.9	- 0.3
Terms of trade	- 0.2	- 5.2	5.6	- 3.6	1.0

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 87 database.

StatLink http://dx.doi.org/10.1787/888932306083

long-term unemployment turns into a permanently higher level of unemployment will be a concern over the next couple of years. While this has not been a problem for the United States in the past, long-term unemployment currently far exceeds historical experience.

Real estate is slowly improving

Despite government policies that have helped to stabilise it, the housing market remains a weak element in the recovery. New home construction remains moribund. Loan delinquencies are elevated by historical standards and the high unemployment rate suggests that they are likely to increase further. At the end of 2009, about 25% of mortgaged homeowners owed more on their mortgages than the home was worth. However, housing prices appear to have stopped falling and housing affordability has improved significantly. While stocks of unsold new houses have shrunk considerably, the significant backlog of foreclosures will continue to be a drag on residential construction, housing prices and financial industry balance sheets for the next couple of years. As such, the recovery in residential investment is projected to be relatively weak by the standards of past recoveries. Related troubles in commercial real estate have yet to be fully realised and may take some time to fully develop. The smaller size of this market suggests that such problems should be significantly less severe for the broader economy although some smaller banks could be severely affected.

The fiscal position is poor

The recession exacerbated already weak budget positions at all levels of government. The general government budget deficit is projected to remain above 10% of GDP in 2010, and to fall to around 9% in 2011. Some improvement should naturally occur over the next couple of years as fiscal stimulus winds down and economic growth lowers unemployment and raises tax revenue. However, on the Administration's current plans, fiscal policy remains unsustainable, with public debt relative to GDP rising in the medium and long term.

The withdrawal of exceptional monetary support has started without incident

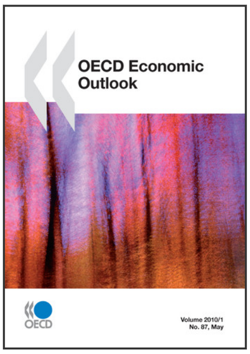
The Federal Reserve's winding down of liquidity programmes, which peaked at $1.5 trillion of credit extended in late-2008, as well as the ending of $1.75 trillion worth of purchases of mortgage backed securities (MBS), treasury securities, and agency securities, have occurred without causing any market turmoil. The Federal Reserve has laid out its broad strategy for using the interest rate on excess reserves, reverse repos, and sales of MBSs to prevent the doubling of its balance sheet since the middle of 2008 from stoking inflation. With substantial slack in the economy, and low (and falling) levels of inflation in recent months, very low inflation looks to be a greater near-term concern than higher inflation – unless inflation expectations were to become unanchored against the background of the continued extraordinarily loose macroeconomic policy settings.

The improvement in imbalances risks being undone

The recession led to improvements in a number of economic imbalances, but some of this progress is already starting to be undone. The household saving rate increased from 1¾ per cent of disposable income in 2007 to 4¼ per cent in 2009 as tax cuts increased disposable income and consumption fell. However, the saving rate has fallen in each of the past three quarters as consumption growth has resumed. Likewise, the US current account deficit fell from 6% of GDP in 2006 to 3% in 2009, but it is widening again as the government deficit, consumption and investment growth are all rising. In the absence of policy adjustment or market reaction, the recent winding down of economic imbalances, which had made a large contribution to the financial crisis, risks being undone.

Risks remain substantial on both sides

The turnaround in the economy over the past few quarters has largely been driven by fiscal and monetary stimulus combined with inventory adjustment. It is unclear if output growth is yet self-sustaining and how the economy will respond as the effect of the stimulus ebbs. Similarly, the large pool of unemployed workers may hold income growth quite low over the next couple of years, reducing consumption growth more than envisaged. However, improved consumer attitudes and a continued fall in household saving to the low rates seen before the recession could support a continuation of the rebound in consumption and business investment seen in the past few quarters while at the same time worsening longer-term imbalances.



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