United States

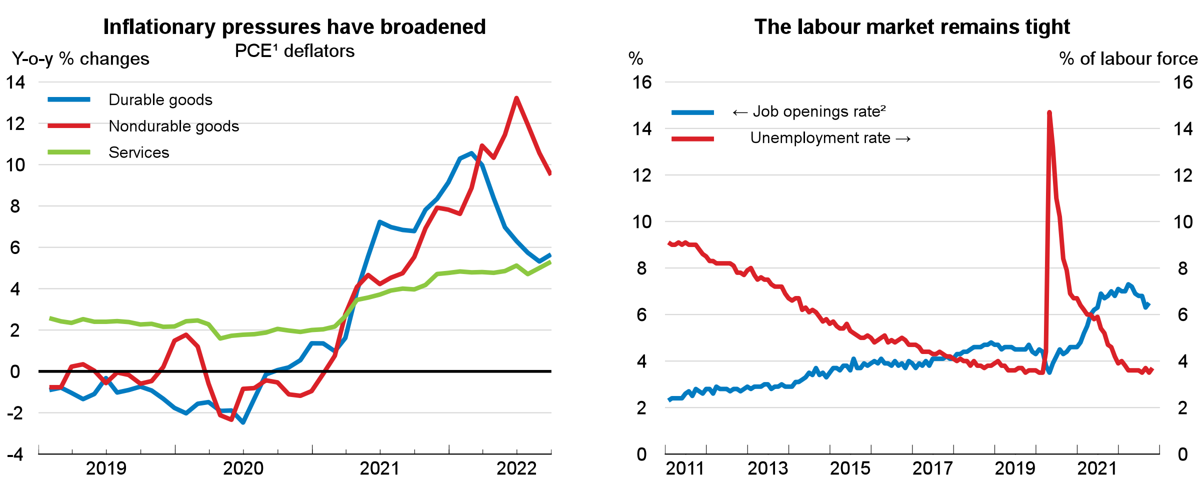
Real GDP is projected to grow by 1.8% in 2022, 0.5% in 2023 and 1.0% in 2024. High inflation and tighter financial conditions will further crimp spending plans across the economy. With the notable slowing in domestic production, labour demand and wage growth will weaken. Price pressures will recede as energy prices stabilise and demand slows, but core inflation is not projected to return to the vicinity of the Federal Reserve target until late 2024.

The continued tightening of monetary policy will provide a headwind to near-term growth. Government spending has now returned to more normal levels with the unwinding of pandemic support, though some states have introduced new measures in response to rising energy prices. Further reducing dependence on fossil fuels continues to be a priority given global energy shortages and the aim to reach net zero emissions by 2050. Nonetheless, climate change policies will have different effects across regions, industries and households that should be reflected explicitly in the national climate strategy.

Economic activity is slowing but inflationary pressures persist

Economic growth is slowing. Personal consumption expenditures have continued to increase, but at a more modest pace since the start of 2022. Investment has weakened, especially in the housing market. Accordingly, labour demand growth has moderated, although some sectors continue to experience labour shortages. Nominal wages have risen, leading to stronger growth in unit labour costs. This has contributed to broadening inflationary pressures. While goods price inflation remains high, services inflation has also gradually picked up. Real wages have declined.

United States 1



1. Personal Consumption Expenditures price index.
2. The job openings rate is the number of job openings on the last business day of the month as a per cent of total employment plus job openings.
Source: U.S. Bureau of Economic Analysis; and U.S. Bureau of Labor Statistics.

StatLink https://stat.link/uzxko5

United States: Demand, output and prices

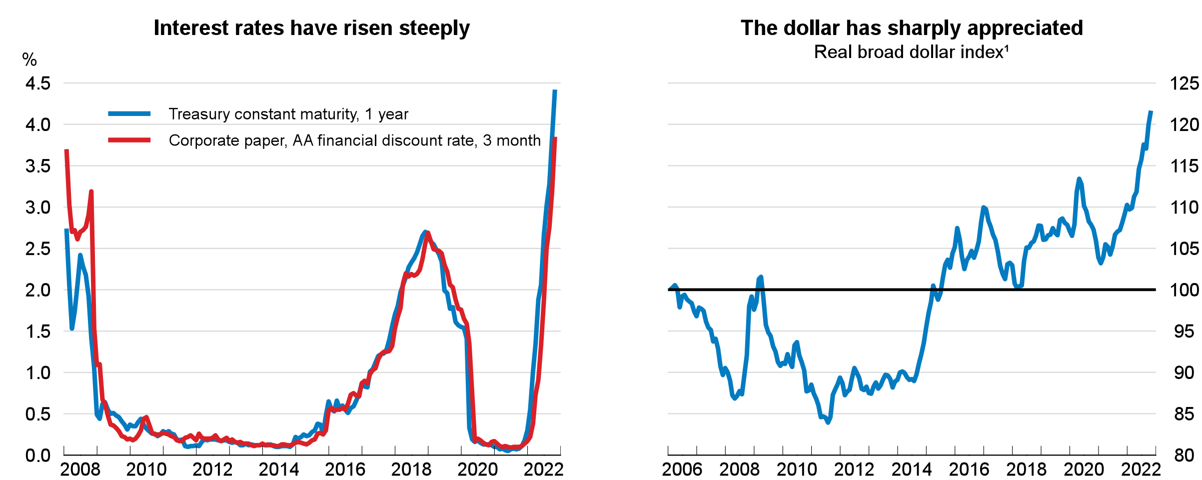
United States	2019	2020	2021	2022	2023	2024
	Current prices USD billion	Percentage changes, volume (2012 prices)				
GDP at market prices	21 381.0	-2.8	5.9	1.8	0.5	1.0
Private consumption	14 392.7	-3.0	8.3	2.6	0.6	1.0
Government consumption	3 008.8	2.2	1.3	-0.4	0.6	0.5
Gross fixed capital formation	4 485.5	-1.2	5.7	-0.5	0.0	1.7
Final domestic demand	21 887.0	-1.9	6.7	1.5	0.5	1.1
Stockbuilding[1]	72.8	-0.6	0.2	0.7	-0.2	0.0
Total domestic demand	21 959.8	-2.4	7.0	2.2	0.3	1.1
Exports of goods and services	2 538.5	-13.2	6.1	7.4	4.2	3.3
Imports of goods and services	3 117.2	-9.0	14.1	8.7	1.1	2.7
Net exports[1]	- 578.8	-0.3	-1.2	-0.5	0.3	0.0
Memorandum items						
GDP deflator	_	1.3	4.5	6.9	3.5	2.5
Personal consumption expenditures deflator	_	1.1	4.0	6.2	3.5	2.6
Core personal consumption expenditures deflator[2]	_	1.3	3.5	5.0	3.6	2.6
Unemployment rate (% of labour force)	_	8.1	5.4	3.7	4.2	4.7
Household saving ratio, net (% of disposable income)	_	17.5	12.4	4.1	4.2	4.4
General government financial balance (% of GDP)	_	-14.9	-12.1	-4.1	-3.7	-3.7
General government gross debt (% of GDP)	_	133.3	126.2	121.9	121.9	122.3
Current account balance (% of GDP)	_	-2.9	-3.6	-3.8	-3.5	-3.6

1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 112 database.

StatLink https://stat.link/c8ae3l

The direct economic impact from Russia's war of aggression against Ukraine has been more limited than in many other OECD countries. The United States is a net exporter of energy and some other commodities that have experienced trade disruptions due to the war. US exports of natural gas and wheat have risen in response to shortages on global markets. Nonetheless, largely as a result of the war, domestic food and gasoline prices remain elevated compared with the pre-pandemic period.

United States 2



1. Higher levels indicate U.S. dollar appreciation.
Source: U.S. Federal Reserve System.

StatLink https://stat.link/jtonbi

Macroeconomic policy is becoming more restrictive

The Federal Open Market Committee is now rapidly tightening monetary policy in response to the surge in inflation. The Federal Funds Rate has been lifted by 3¾ percentage points since March 2022 and central bank holdings of Treasury securities, agency debt and agency mortgage-backed securities are being reduced. Market interest rates have risen sharply at all maturities, reflecting both actual policy decisions and the expectation of further monetary policy tightening ahead. The rapid tightening of monetary policy has contributed to a sharp appreciation in the exchange rate, providing a headwind to export activity. The disinflationary impact of the appreciation is more limited, however, as the bulk of US imports is invoiced in US dollars.

Government support introduced during the pandemic has now been largely unwound, but some transfers from Federal to state and local governments are yet to be fully spent and some households still hold accumulated savings from the fiscal programmes. Some state governments have also suspended state gas taxes in response to rising gas prices. The ongoing implementation of the Infrastructure Investment and Jobs Act will push public investment slightly higher in the coming years. The overall impact on aggregate demand of the various Inflation Reduction Act provisions will be limited in the period to 2024, with expenditure on a range of climate and energy initiatives and extensions to health care subsidies estimated to be largely offset by the introduction of a minimum corporate tax. Overall, fiscal policy is assumed to tighten in 2023 and 2024 as both pandemic-related and energy-related fiscal supports fully expire.

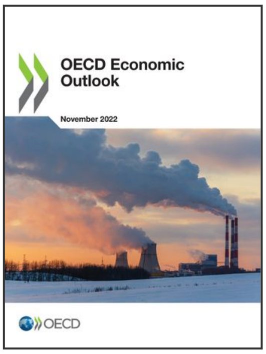
Economic growth will ease further

Real GDP is projected to grow by 1.8% in 2022, 0.5% in 2023 and 1.0% in 2024. Rising inflation has eroded household purchasing power and the OECD projections assume that the Federal Funds Rate will be further increased to a peak of 5-5¼ per cent in early 2023. Private investment, especially in housing, is expected to moderate further in response to weaker demand and higher interest rates. With the slowing in domestic production, pressure in the labour market will begin to abate; vacancies are expected to decline further and the unemployment rate is projected to rise to 4.7% in 2024. Wage growth will moderate in response. The further reorientation of domestic demand back toward the services sector should help attenuate supply shortages. Price pressures are expected to recede, but core inflation is not projected to return to around the Federal Reserve 2% target until late 2024.

Risks to the growth projections are tilted to the downside. Inflationary pressures may prove more persistent than anticipated, prompting stronger tightening of monetary policy. This could particularly impact heavily indebted firms. Further disturbances to global markets in response to Russia's war against Ukraine could also have substantial negative impacts. On the upside, recent easing in supply chain bottlenecks and commodity prices could contribute to a faster moderation in inflationary pressures than is currently projected.

The climate transition remains a top priority

Reforms that further reduce dependence on fossil fuels will be key against the backdrop of global energy shortages and the administration's commitment to reach net zero greenhouse gas emissions by 2050. Recent measures announced as part of the Inflation Reduction Act are an important step. Nonetheless, further regulatory changes, green investment, structural reforms and carbon pricing will be required over the years ahead. Climate policies will have different effects across regions, industries and households. The national climate strategy should explicitly take the distributional effects of different climate change policies into account. Those regions most heavily reliant on fossil fuel production for employment and output will require a combination of place-based policies and reduced barriers to geographical and labour mobility of those affected by employment losses. Any displaced workers would also benefit from further modernisation of state-based unemployment insurance systems. Many states continue to experience significant delays in processing unemployment claims and have outdated software systems that limit the design of support measures. As part of the modernisation process, such systems should be well integrated with job search assistance and training programmes.



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