# United States

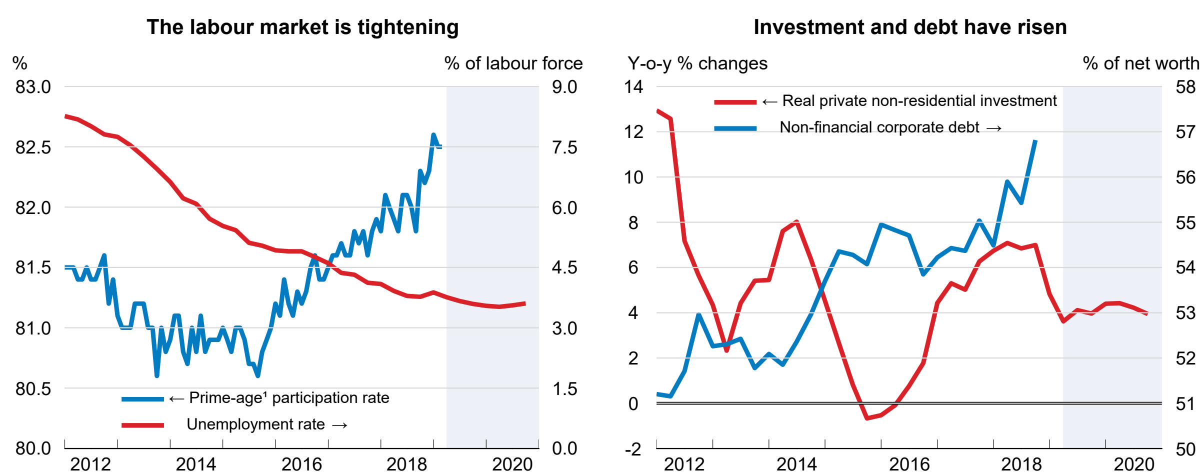
Economic growth is slowing as fiscal policy becomes less supportive, and headwinds from a weaker global outlook, as well as trade and political uncertainties, weigh on activity. The labour market remains strong and, while job growth will slow, wages are picking up, which will underpin continued consumption growth. Uncertainty about trade policy and the consequences of past trade measures, coupled with the current weakness in global demand, are damping exports and investment.

Fiscal policy will be broadly neutral over the projection period, with the spending ceilings assumed to be raised to prevent a contraction in 2020. The government recent shutdown imposed costs on households and while the economy will recover, it is important to avoid further manifestations of brinksmanship. Monetary policy is assumed to remain unchanged due to concerns about the outlook and persistent undershooting of the inflation target, which is to keep annual price increases at around 2%. In this low interest rate environment, prudential regulators and supervisors need to ensure that loan standards do not deteriorate further. Removing barriers to labour force participation would help offset the impact of population ageing.

## The expansion continues

After the unexpectedly strong upturn at the start of 2019, economic growth will slow gradually as the fiscal boost dissipates. Consumer and business confidence remain at high levels and financial conditions are supportive. The labour market continues to add substantial numbers of jobs, supporting higher labour force participation while keeping the unemployment rate low. Labour market tightness is beginning to spur more sustained wage increases, although this has not translated into stronger price inflation. Consumer spending and business investment remain solid. On the other hand, weaker external demand and retaliatory measures introduced in trade disputes continue to damp export growth.

### United States 1




1. Defined as 25-54 year olds.

Source: OECD Economic Outlook 105 database; US Bureau of Labor Statistics; and Federal Reserve Economic Data.

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## United States: Demand, output and prices

| United States | 2015<br>Current prices USD billion | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| | | Percentage changes, volume (2012 prices) | | | | |
| **GDP at market prices** | 18 219.3 | 1.6 | 2.2 | 2.9 | 2.8 | 2.3 |
| Private consumption | 12 294.5 | 2.7 | 2.5 | 2.6 | 2.4 | 2.1 |
| Government consumption | 2 612.7 | 1.5 | -0.1 | 1.2 | 1.6 | 2.4 |
| Gross fixed capital formation | 3 704.8 | 1.7 | 4.0 | 4.8 | 3.2 | 3.8 |
| Final domestic demand | 18 612.0 | 2.3 | 2.5 | 2.9 | 2.5 | 2.5 |
| Stockbuilding[1] | 128.7 | -0.5 | 0.0 | 0.1 | 0.3 | -0.1 |
| Total domestic demand | 18 740.7 | 1.8 | 2.5 | 3.0 | 2.7 | 2.4 |
| Exports of goods and services | 2 265.0 | -0.1 | 3.0 | 4.0 | 1.7 | 2.4 |
| Imports of goods and services | 2 786.5 | 1.9 | 4.6 | 4.5 | 1.2 | 3.4 |
| Net exports[1] | - 521.4 | -0.3 | -0.3 | -0.2 | 0.0 | -0.2 |
| *Memorandum items* | | | | | | |
| GDP deflator | _ | 1.1 | 1.9 | 2.3 | 1.6 | 2.1 |
| Personal consumption expenditures deflator | _ | 1.1 | 1.8 | 2.0 | 1.4 | 2.1 |
| Core personal consumption expenditures deflator[2] | _ | 1.7 | 1.6 | 1.9 | 1.7 | 2.2 |
| Unemployment rate (% of labour force) | _ | 4.9 | 4.4 | 3.9 | 3.7 | 3.6 |
| Household saving ratio, net (% of disposable income) | _ | 6.7 | 6.7 | 6.7 | 6.7 | 6.9 |
| General government financial balance (% of GDP) | _ | -5.4 | -4.3 | -6.6 | -6.6 | -6.7 |
| General government gross debt (% of GDP) | _ | 106.7 | 106.0 | 107.1 | 110.3 | 113.4 |
| Current account balance (% of GDP) | _ | -2.3 | -2.3 | -2.4 | -2.4 | -2.6 |

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 105 database.

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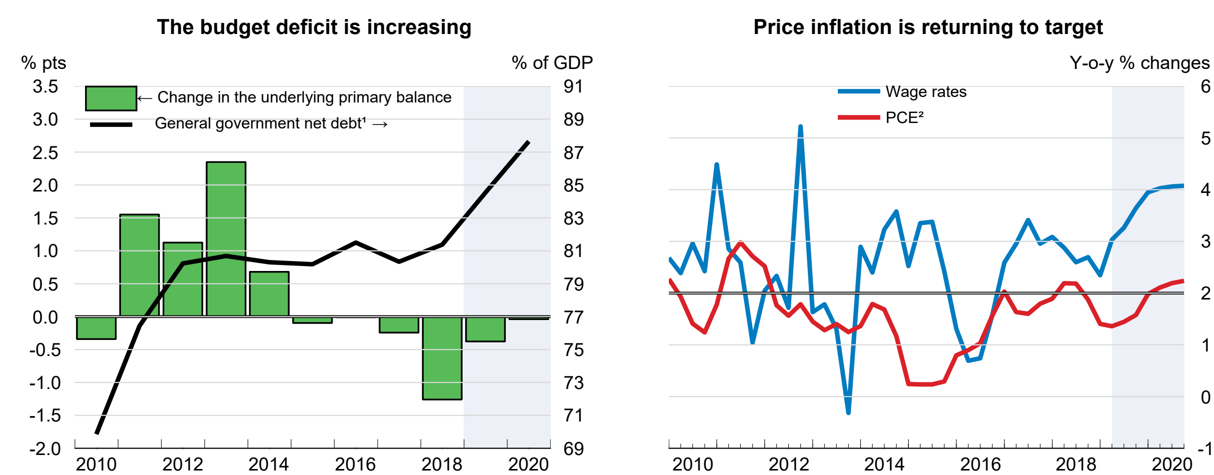
## United States 2




1. General government shows the consolidated (i.e. with intra-government amounts netted out) accounts for all levels of government (central plus State/local) based on OECD national accounts. This measure differs from the federal debt held by the public, which was 77.8% of GDP for the 2018 fiscal year.
2. Personal Consumption Expenditures price index.
Source: OECD Economic Outlook 105 database.

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## Policy measures will be needed to support employment and productivity growth

After the longest government shutdown in December and January dented GDP growth, fiscal policy is set to remain broadly neutral with the spending ceilings from the Budget Control Act assumed to be raised to avoid a sharp contractionary impulse. Developing policy to support infrastructure investment would lay the foundation for a targeted spending boost should the economy falter. At the same time, easing regulatory barriers would help sustain stronger growth of private investment.

The Federal Reserve is unlikely to raise interest rates further over the projection as growth is moderating and inflation expectations remain well anchored, albeit towards the lower end of their normal range. A further reason for caution is that inflation has risen only very gradually towards target, questioning the extent to which the inflation target is viewed as symmetrical. The Federal Reserve has announced that quantitative tightening, or reducing the size of its balance sheet, will end later in 2019, leaving the federal funds rate as the principal monetary policy instrument. In this low-interest rate environment, prudential regulators need to ensure robust lending standards. In particular, regulators need to ensure that high levels of non-financial corporate debt do not pose systemic risks.

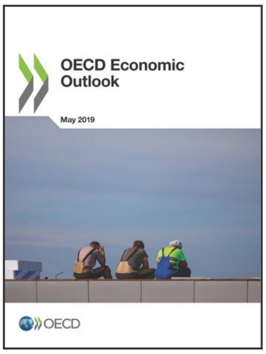
Labour force participation has recovered from the crisis, which is particularly notable amongst prime-age workers, but there is scope for further increases. The impact of labour market tightness has induced greater participation of older workers and groups that have remained on the margins of the labour force. For example, disability rolls have begun to decline after a long period of steady increases. In recent years, these developments have lifted household income and reduced poverty rates. However, demographic pressures dictate that labour force growth will slow. This puts a priority on easing remaining barriers to participation and spatial mobility, such as reducing occupational licensing, increasing training of needed skills, or facilitating job search.

Reducing policy uncertainty about international trade would also support growth. Current uncertainty is likely depressing investment in companies reliant on global supply chains. Exporters, notably agriculture, are suffering the consequences of retaliatory measures, while importers of affected goods have faced higher prices and largely passed these on to consumers. Relaxing these barriers to trade would benefit both exporters and consumers. The projections assume trade measures remain unchanged from late April, with neither new barriers (including the increase in tariffs on imports from China announced in mid-May) nor relaxation of existing ones.

## Growth is projected to slow gradually

In the absence of further shocks, the economy is on track to continue its solid expansion and grow somewhat faster than the rest of the OECD on average. Strong growth will support higher household incomes and reduce poverty rates further. However, as the fiscal impulse diminishes and labour force growth begins to slow, economic growth will gradually moderate. Growth and labour market tightness will nonetheless help to keep inflation around the Federal Reserve's target. Fiscal deficits will remain sizeable and debt levels continue to mount (with net debt exceeding 87% of GDP in 2020) and will eventually need corrective action.

In the context of moderating growth and a weaker external environment, policy needs to avoid inflicting further economic self-harm, notably by avoiding the debt ceiling, inducing another government shutdown, or ratcheting up trade tensions and provoking retaliatory measures. Failure risks aggravating current account imbalances and increasing government debt. In addition, financial risks from high levels of corporate debt could disrupt financial markets and weaker global growth could provide additional headwinds. On the other hand, a stronger pick-up in productivity growth, a brighter international outlook and a diminishment of trade tensions could support stronger growth and inflation rising somewhat above target, dispelling the concerns of persistent undershooting. In these conditions, the expansion would be on track to become the longest on record.

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