United States

Real GDP is projected to grow by 2.6% in 2024 and 1.8% in 2025. Growth was strong in 2023 and is expected to continue at a fairly robust pace through 2024. The fiscal deficit will remain large but tighten modestly. Core PCE inflation declined during 2023 and continues to ease year-on-year, though at a modest pace. Monetary policy easing is expected to begin in the second half of 2024. Downside risks to the growth forecast include delays in the anticipated policy rate cuts and the imposition of additional trade restrictions. Upside risks include stronger-than-expected labour market growth, helping to boost household spending.

Large budget deficits are expected for the foreseeable future, while fiscal pressures from ageing are rising. A gradual but significant fiscal adjustment is needed over the medium term. There is space for tax reform and increased spending efficiency, particularly in health, to help put public finances on a sustainable path. Further efforts to improve skills among young people, including education for people from disadvantaged groups, would help to boost productivity. For monetary policy, lowering the policy rate in the second half of 2024 would be appropriate if core inflation eases as anticipated.

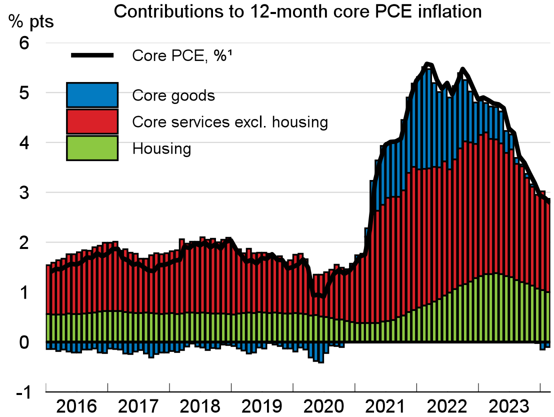
Growth held strong in 2023 as inflation fell

The pace of GDP growth was faster than expected in 2023, reflecting both strong household and government consumption growth, and stronger-than-expected capital formation. Estimates of consumer spending thus far in the first quarter of 2024 point to continued momentum. Core inflation steadily moderated after peaking in 2022 and was near 2% in the second half of 2023, though it has increased at an annualised rate above 3% in the first quarter of 2024. Core goods inflation has declined to near zero, after a period where supply shortages and shifts in consumer demand pushed core goods inflation up. The services and housing components have eased at a more modest pace and continue to keep core inflation above pre-pandemic levels and target. Wage growth continues to slow, while the labour market continues to re-balance after a period where demand outstripped supply. Overall, there is little evidence that wages are feeding inflation. Housing inflation has continued to moderate and current market rents data indicate a potential slower pace of rent growth in coming quarters.

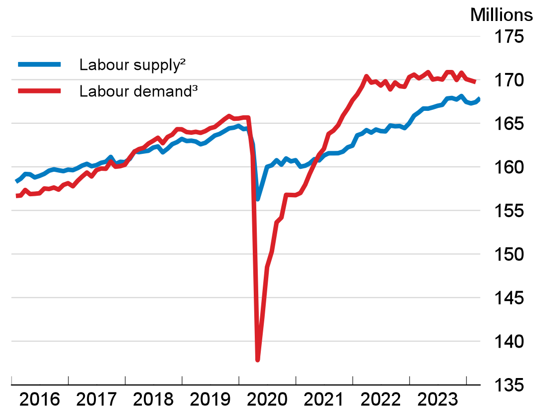
International developments were supportive in the second half of 2023 and net exports contributed positively to GDP growth even as the dollar effective exchange rate remained elevated. Petroleum exports rose to record levels in 2023 and the United States was a net petroleum exporter. However, bilateral trade with China fell in 2023, with imports from China declining by 20% over the prior year, and exports to China declining by just under 5%.

United States 1

Core inflation is falling, but housing and services inflation are still elevated
Contributions to 12-month core PCE inflation



Labour supply and demand have become more aligned



1. Personal Consumption Expenditures price index excluding food and energy.
2. Labour supply is total number of employed and unemployed people.
3. Labour demand is total number of employed persons plus total number of job openings.
Source: Bureau of Economic Analysis (BEA); Federal Reserve Bank of San Francisco (FRBSF); and US. Bureau of Labor Statistics (Current Population Survey and Job Openings and Labor Turnover Survey).

StatLink https://stat.link/9mp26v

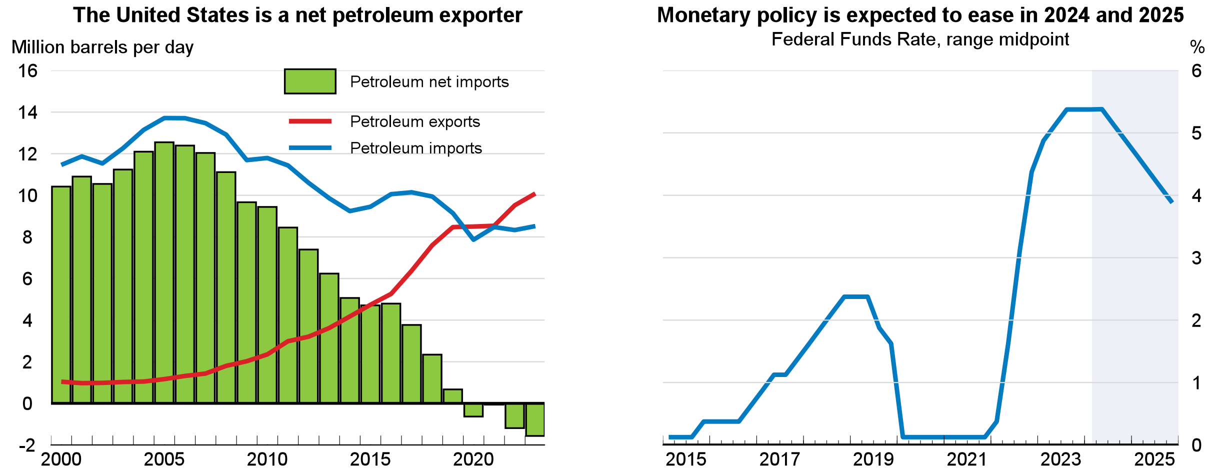
United States: Demand, output and prices

United States	2020	2021	2022	2023	2024	2025
	Current prices USD billion	Percentage changes, volume (2017 prices)				
GDP at market prices	21 322.9	5.8	1.9	2.5	2.6	1.8
Private consumption	14 206.2	8.4	2.5	2.2	2.5	1.8
Government consumption	3 178.3	0.3	-0.9	2.7	1.2	0.5
Gross fixed capital formation	4 602.4	5.3	0.9	2.1	3.4	3.2
Final domestic demand	21 986.9	6.6	1.7	2.3	2.5	1.9
Stockbuilding[1]	- 37.6	0.3	0.6	-0.3	0.1	0.0
Total domestic demand	21 949.3	6.9	2.3	1.9	2.5	1.9
Exports of goods and services	2 150.1	6.3	7.0	2.6	2.3	2.6
Imports of goods and services	2 776.5	14.5	8.6	-1.7	2.2	3.2
Net exports[1]	- 626.4	-1.2	-0.5	0.6	-0.1	-0.2
Memorandum items						
GDP deflator	_	4.6	7.0	3.6	2.3	2.0
Personal consumption expenditures deflator	_	4.2	6.5	3.7	2.4	2.0
Core personal consumption expenditures deflator[2]	_	3.6	5.2	4.1	2.6	2.1
Unemployment rate (% of labour force)	_	5.4	3.6	3.6	3.9	4.0
Household saving ratio, net (% of disposable income)	_	11.7	3.4	4.7	4.0	4.5
General government financial balance (% of GDP)	_	-11.5	-4.0	-8.0	-7.6	-7.7
General government gross debt (% of GDP)	_	124.8	119.9	122.5	125.4	129.4
Current account balance (% of GDP)	_	-3.5	-3.8	-3.0	-3.0	-3.1

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 115 database.

StatLink https://stat.link/zgtlcv

United States 2



Source: U.S. Energy Information Administration (EIA); and OECD Economic Outlook 115 database.

StatLink https://stat.link/av26w4

Monetary policy should ease in 2024, while the budget deficit will remain large

The Federal Funds Rate is currently in the 5¼-5½ per cent range, which is the expected peak of the tightening cycle that began in 2022. Policy rate cuts should begin in the second half of 2024, after inflation has fallen closer to the 2% target. The Federal Funds Rate is projected to fall to around 3¾ to 4 per cent by the end of 2025.

The budget deficit is expected to remain large with a modest tightening in fiscal policy in 2024 after an unexpected fiscal expansion in 2023. Though extraordinary supports for households and businesses have mostly been unwound, the fiscal deficit is elevated as the United States enters a period where spending on mandatory social programmes is rising due to population ageing, while the tax base has narrowed over the past decade. Government net lending as a share of GDP is projected to be 7.6% in 2024 and gross debt will increase to 125% of GDP in 2024 and rise further in 2025.

Growth will moderate in 2024 before returning to potential in 2025

Real GDP will continue to grow in 2024 and into 2025, though at a slower pace than in the second half of 2023. Growth will be supported by consumer spending, continued strength in the labour market, and eventually by monetary policy easing. The unemployment rate will remain at low levels by historical standards. Core inflation will continue to decline in the second half of 2024 as housing inflation eases.

The outlook could surprise on the downside if core inflation remains elevated, delaying any potential monetary policy easing. Volatility in bond markets may also be an impediment to growth, as could imposing additional trade restrictions. However, the outlook could surprise on the upside if the labour market outperforms expectations, providing additional support to household incomes.

Efforts to narrow the deficit should be prioritised

Large budget deficits and higher debt increase fiscal risks. Population ageing will push future mandatory pension and health outlays higher. A gradual but sustained medium-term fiscal adjustment is required to narrow the budget deficit and put the government debt ratio on a path to more sustainable levels. The scheduled expiration of some provisions of the Tax Cuts and Jobs Act (TCJA) in 2025 may help achieve this. There is scope to broaden the tax base and raise revenue in a more effective way, while there is scope to increase the efficiency of pension spending and reduce very high health costs. Adopting a solid medium-term focused framework to improve the sustainability of public finances could help manage these pressures and create space for policies to achieve the climate transition. The Inflation Reduction Act provided resources to assist in the climate transition, but further improvements in interagency coordination and streamlining of permitting processes are necessary to connect new clean energy sources to the power grid. Further efforts improve skills among young people, including education for people from disadvantaged groups, would help to boost productivity.

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