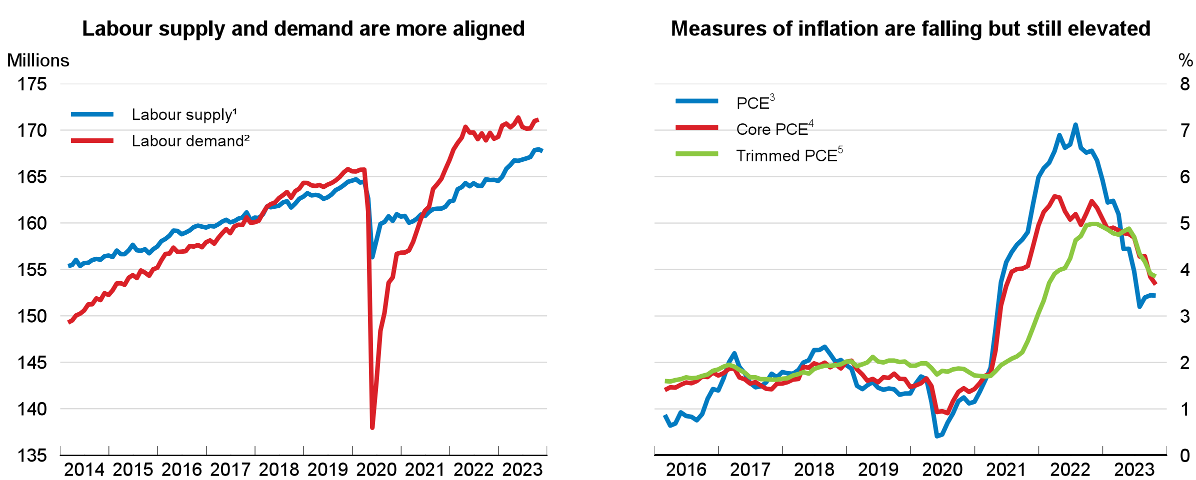
United States

Real GDP is projected to grow by 2.4% in 2023, 1.5% in 2024, and 1.7% in 2025. Growth in private consumption and investment are expected to moderate in response to the effects of tighter monetary and financial conditions. Employment growth will slow further in response to weaker demand and the unemployment rate will continue to edge up through the first half of 2024. Inflation will decline, allowing for monetary policy easing in the second half of 2024 and a recovery of domestic demand growth in 2025. The outlook could worsen if the effects of tighter policy rates are stronger than assumed or lead to financial stress. A stronger decline in inflation combined with resilient employment could lead to a greater easing of financial conditions and an improved growth outlook.

Monetary policy will remain restrictive in the near term, exerting downward pressure on inflation while still allowing for economic growth, but will ease gradually from late 2024. The budget deficit will narrow somewhat in 2024 but remain large, while long-term fiscal pressures are mounting. Adopting a framework to improve the sustainability of public finances will help produce a more sustainable and inclusive economic future, while enhancing macroeconomic stability.

United States 1



1. Labour supply is total number of employed and unemployed people.
2. Labour demand is total number of employed persons plus total number of job openings.
3. Personal Consumption Expenditures price index.
4. Personal Consumption Expenditures price index excluding food and energy.
5. The Trimmed Mean PCE inflation rate is published by the Federal Reserve Bank of Dallas and is an alternative measure of core inflation in the price index for personal consumption expenditures (PCE).

Source: U.S. Bureau of Economic Analysis (BEA); Federal Reserve Bank of Dallas; and US. Bureau of Labor Statistics (Current Population Survey and Job Openings and Labor Turnover Survey).

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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	2.4	1.5	1.7
Private consumption	14 206.2	8.4	2.5	2.2	1.5	1.6
Government consumption	3 178.3	0.3	-0.9	2.6	0.8	0.5
Gross fixed capital formation	4 602.4	5.3	0.9	1.4	1.7	3.4
Final domestic demand	21 986.9	6.6	1.7	2.1	1.5	1.8
Stockbuilding[1]	- 37.6	0.3	0.6	-0.3	0.1	0.0
Total domestic demand	21 949.3	6.9	2.3	1.8	1.6	1.8
Exports of goods and services	2 150.1	6.3	7.0	2.5	1.9	1.8
Imports of goods and services	2 776.5	14.5	8.6	-1.5	1.9	2.5
Net exports[1]	- 626.4	-1.2	-0.5	0.5	-0.1	-0.1
Memorandum items						
GDP deflator	_	4.6	7.0	3.8	2.7	2.1
Personal consumption expenditures deflator	_	4.2	6.5	3.9	2.8	2.2
Core personal consumption expenditures deflator[2]	_	3.6	5.2	4.2	2.7	2.2
Unemployment rate (% of labour force)	_	5.4	3.6	3.6	4.1	4.2
Household saving ratio, net (% of disposable income)	_	11.7	3.4	4.4	3.5	4.0
General government financial balance (% of GDP)	_	-11.5	-4.0	-7.8	-7.0	-7.0
General government gross debt (% of GDP)	_	124.8	119.8	120.9	123.8	127.1
Current account balance (% of GDP)	_	-3.5	-3.8	-3.1	-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 114 database.

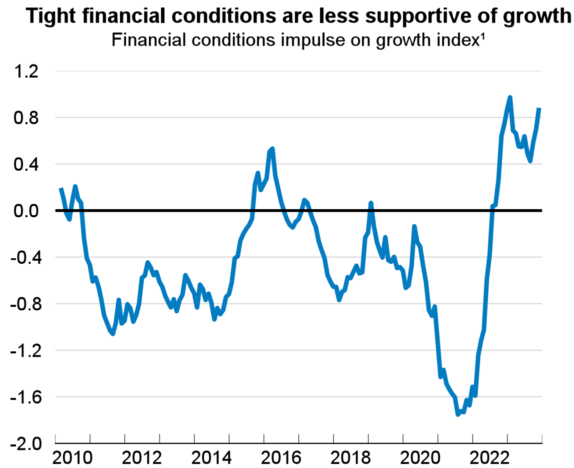
StatLink https://stat.link/9vrk3z

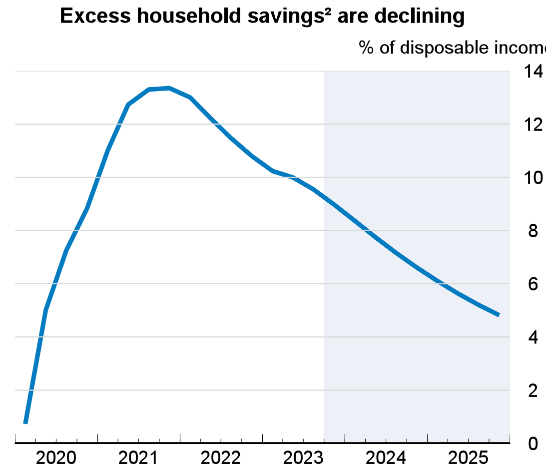
Growth has remained resilient and the labour market has eased

Real GDP growth remained robust in the first half of 2023 and strengthened in the third quarter to an annualised rate of 4.9%. After a period where labour demand growth outpaced labour supply, supply and demand are now more aligned, and job growth has continued at a moderate but slowing pace in 2023. The unemployment rate has edged up in recent months but remains low by historical standards. Measures of inflation have decreased since the beginning of 2023, though headline inflation has recently risen again due to higher energy prices. Still, core and headline inflation are elevated, with housing and services inflation putting upward pressure on core inflation.

International developments were supportive of growth in the first half of 2023 and net exports contributed positively to GDP growth, even as the dollar effective exchange rate remained elevated. Petroleum exports have risen to record levels in 2023. However, bilateral trade with China fell in the first half of the year. Exports to China are roughly flat but imports from China fell by 25% from a year earlier.

United States 2





1. The figure shows the Financial Conditions Impulse on Growth computed with 3-year lookback window. Positive (negative) values of the index denote headwinds (tailwinds) to GDP growth over the next year.
2. Excess savings in 2020-2025 are estimated and projected using the 2015-2019 average household saving rate as a benchmark.
Source: Ajello, A., M. Cavallo, G. Favara, W. Peterman, J. Schindler, and N. Sinha (2023). "A New Index to Measure U.S. Financial Conditions," *FEDS Notes*. Washington: Board of Governors of the Federal Reserve System and OECD calculations.

StatLink https://stat.link/z9tka5

Monetary and fiscal policy will exert a contractionary influence in 2024

The federal funds rate is currently in the 5¼-5½ per cent range, which is near the expected peak of the tightening cycle that began in 2022, and is likely to remain elevated until the second half of 2024 given the anticipated persistence of core inflation. Recent increases in the 10-year bond yield—and the pass-through to private rates—have further tightened financial conditions. The OECD projections assume that cuts in the federal funds rate will begin in the third quarter of 2024, after inflation has fallen closer to the 2% target. The federal funds rate is projected to fall to around 4 to 4¼ per cent by the end of 2025 with the 10-year interest rate at a similar level.

Fiscal policy is expected to tighten in 2024 after an unexpected fiscal expansion in 2023, and be broadly neutral in 2025. Though extraordinary supports for households and businesses have mostly been unwound, the fiscal deficit increased in 2023 due to a combination of lower-than-expected tax receipts and higher-than-expected spending on mandatory social programs. Government net lending as a share of GDP is projected to be 7% in 2024 and gross debt will increase to 124 per cent of GDP in 2024, and rise further in 2025.

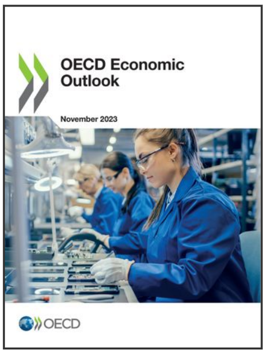
Growth will be sluggish before recovering

Real GDP growth will slow to 1.5% in 2024 before increasing to 1.7% in 2025. More restrictive financial conditions due to tighter monetary policy will act as a headwind. The supportive effects of earlier rising asset prices and accumulated excess household savings are fading. Housing and business investment will slow through the first half of 2024. As demand slows, employment growth will ease further, and the unemployment rate will edge up. Inflation will continue to decline as core inflation eases due to a slowing economy, and as supply conditions ease further. As inflation subsides and monetary policy eases, consumption and investment growth are projected to pick up in the second half of 2024 and into 2025.

The outlook could surprise on the downside if the effects of tight financial conditions prove to be stronger than anticipated or if core inflation remains elevated, delaying any potential monetary policy easing. Banking sector stress in early 2023 has subsided, but volatility in bond markets may prove to be a stronger impediment to growth. In the near-term, a potential government shutdown would be a drag on growth until its resolution. However, the outlook could surprise on the upside if the labour market loosening continues without a rise in unemployment and declines in inflation continue unabated.

Policy should focus on durably reducing inflation and narrowing the deficit

Monetary policy should remain tight until the Federal Reserve’s inflation objectives are durably achieved, while continuing to assess the impact on real activity. Financial stability risks arising from the financial sector should continue to be closely monitored. Stronger efforts should be made to narrow the large budget deficit and put the government debt ratio on a downwards path to more sustainable levels. Population ageing will push future outlays higher, with increases in pension and health expenditures projected to rise by more than 3 percentage points of potential GDP by 2040. Adopting a solid medium-term focused framework to improve the sustainability of public finances would ease these pressures and create space for the funding of future productivity-enhancing projects, such as improvements to public digital infrastructure, and policies to achieve the climate transition.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