34. THE UNITED STATES

The US economy is set to contract sharply in 2020 because of the impact of COVID-19 and the sharp deterioration of both consumer and business sentiment. Once the worst effects of the coronavirus are left behind, the economy is expected to recover gradually as of the second half of 2020 supported by unprecedented monetary policy easing and a historically large fiscal stimulus. Risks are tilted to the downside in a context of very high economic uncertainty.

Solid economic performance in 2019 before a dramatic contraction in 2020

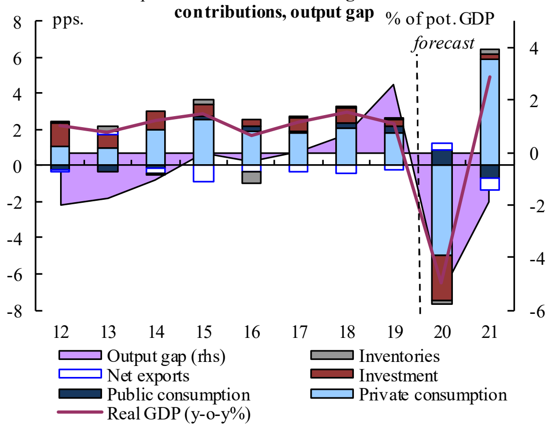
Real GDP increased by 2.3% in 2019 driven by robust private consumption and a strong labour market. Nevertheless, domestic demand gradually softened because of subdued private investment and a weak manufacturing sector suffering from restrictive trade policies and the global slowdown. The positive contribution from residential investment confirmed the pick-up of the housing sector.

Following a similar baseline scenario of the unfolding pandemic, as assumed for the euro area, GDP is expected to contract sharply in the first half of 2020 against the backdrop of a steep contraction of household consumption and private investment while the severe global recession is expected to weigh heavily on the export sector. The economy is set to recover from the second half of 2020 onwards and rebound over the forecast horizon on the back of private consumption, which is projected to be supported by a massive fiscal stimulus, a reduction of relatively high saving rates and a gradual recovery of the labour market. Private investment is expected to grow more slowly than consumption and remain rather subdued because of high debt levels in the corporate sector, the significant adverse impact of very low oil prices in the energy sector, significant doubts about the profile of the economic recovery and the elevated uncertainty about the trade and the global outlook. In this context, government consumption is set to play a significant counter-cyclical role by growing markedly in 2020 and declining later as the economic activity recovers.

Total exports and imports are forecast to contract sharply in 2020 against the backdrop of the sharp fall in economic activity, especially investment, and major disruptions to global value chains. Trade is expected to recover in 2021 even though imports are expected to grow faster than exports because of the significant recovery of private consumption compared to external demand. As a result, the current account is expected to deteriorate also in line with the major increase in the fiscal deficit.

Thus, the US economy is expected to contract by 6½% in 2020 and then rebound by almost 5% in 2021.

Graph II.34.1: **US - Real GDP growth and contributions, output gap**



Macroeconomic policies will be exceptionally supportive to the economy

Macroeconomic policies are set to remain particularly supportive in 2020 on the back of the unprecedented set of facilities adopted by the US Federal Reserve (Fed) and a comprehensive package of fiscal measures worth some USD 2.2 trillion (around 11% of the US GDP).

The Fed cut its funds target range a full 150 bps to 0-0.25% in March. It then began an open-ended purchase of Treasuries and mortgage-backed securities at an even faster pace than during the financial crisis. The unlimited Quantitative Easing was complemented by a set of other unconventional measures aimed at providing liquidity, restoring normal market functioning and easing financing conditions to support economic recovery.

The fiscal stimulus was adopted to cushion the dramatic effects of the partial shutdown on economic activity. The stimulus is a 2020 one-off that consists of a set of instruments that provides direct income support to many citizens, expands unemployment insurance, offers loans to businesses, and provides additional resources to the healthcare sector. The general government deficit-to-GDP ratio is expected to soar to above 17% of GDP in 2020 and the debt-to-GDP ratio to increase by close to 25 percentage points over 130% of GDP.

Unemployment will reach the highest level in many decades

Having touched a historic low of 3.4%, the unemployment rate is set to increase sharply and reach a double-digit figure in the course of 2020. Unemployment is expected to rise across the whole economy even though some sectors such energy as well as tourism, retail or the aircraft industry are likely to be particularly hard hit. Job creation is set to resume as of the second half of 2020 even though the unemployment rate is likely to remain still above 6% at the end of 2021. Consumer price inflation is estimated to soften markedly in 2020, reflecting depressed demand, an unprecedented collapse of oil prices and the intense deterioration of the labour market.

An exceptionally high degree of uncertainty

Disruptions to economic activity could be even more severe if the duration of the virus outbreak is longer or new waves of infections force the extension of public health measures beyond the second quarter. A major hit to corporate profits and a sharp reassessment of financial risks may expose vulnerabilities of the most highly leveraged companies, and compromise the expected recovery of economic activity and employment. In addition, the massive fiscal stimulus may not be as effective as needed in cushioning the impact of the COVID-19 on domestic demand. Furthermore, financing conditions could also tighten more than expected if volatility in financial markets remains elevated.

Table II.34.1:

Main features of country forecast - UNITED STATES

	2018		Annual percentage change						
	bn USD Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	20580.2	100.0	2.0	1.6	2.4	2.9	**2.3**	**-6.5**	**4.9**
Private Consumption	13998.7	68.0	2.3	2.7	2.6	3.0	**2.6**	**-7.2**	**8.5**
Public Consumption	2904.3	14.1	1.1	1.8	0.6	1.7	**1.8**	**6.6**	**-4.7**
Gross fixed capital formation	4260.8	20.7	1.8	1.9	3.7	4.1	**1.8**	**-12.2**	**1.7**
of which: equipment	1376.0	6.7	3.9	-0.9	4.8	6.7	**1.9**	**-6.7**	**0.8**
Exports (goods and services)	2510.2	12.2	4.0	0.0	3.5	3.0	**0.0**	**-13.4**	**10.3**
Imports (goods and services)	3148.5	15.3	3.8	2.0	4.7	4.4	**1.0**	**-12.9**	**13.2**
GNI (GDP deflator)	20848.1	101.3	2.2	1.6	2.5	3.0	**2.4**	**-7.2**	**5.4**
Contribution to GDP growth:	Domestic demand		2.1	2.5	2.6	3.1	**2.4**	**-6.5**	**5.4**
	Inventories		0.0	-0.5	0.0	0.1	**0.1**	**-0.2**	**0.2**
	Net exports		-0.1	-0.3	-0.3	-0.3	**-0.1**	**0.3**	**-0.7**
Employment			-	1.5	1.2	1.7	**1.1**	**-6.3**	**2.0**
Unemployment rate (a)			6.3	4.9	4.4	3.9	**3.7**	**9.2**	**7.6**
Compensation of employees / f.t.e.			3.1	0.9	3.1	3.3	**3.1**	**0.4**	**1.3**
Unit labour costs whole economy			1.6	0.8	1.9	2.1	**1.9**	**0.5**	**-1.5**
Real unit labour cost			-0.4	-0.3	0.0	-0.4	**0.2**	**1.2**	**-3.0**
Saving rate of households (b)			11.3	12.3	12.5	13.3	**13.7**	**18.8**	**10.5**
GDP deflator			2.0	1.0	1.9	2.4	**1.7**	**-0.6**	**1.5**
Consumer-price index			-	1.3	2.1	2.4	**1.8**	**0.5**	**1.5**
Terms of trade goods			-0.2	0.4	0.3	0.7	**0.6**	**0.4**	**0.0**
Trade balance (goods) (c)			-4.9	-4.2	-4.3	-4.4	**-4.1**	**-3.7**	**-4.2**
Current-account balance (c)			-3.3	-2.3	-2.3	-2.4	**-2.3**	**-3.0**	**-3.0**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.3	-2.3	-2.3	-2.4	**-2.3**	**-3.0**	**-3.0**
General government balance (c)			-6.2	-5.4	-4.3	-6.6	**-7.2**	**-17.8**	**-8.5**
Cyclically-adjusted budget balance (d)			-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)			-	-	-	-	**-**	**-**	**-**
General government gross debt (c)			78.3	106.8	106.0	104.3	**106.6**	**130.6**	**131.0**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

(*) Employment data from the BLS household survey.