34. THE UNITED STATES

The US recovered rapidly in late 2020 and early 2021, reaching pre-pandemic GDP levels in Q2-2021. The pace of growth has moderated as supply side bottlenecks have restricted activity, vaccination rates have slowed sharply, and COVID-19 cases surged over the summer. Inflation has also picked up, reflecting base effects, rising energy prices and temporary supply constraints. The US output gap is expected to close in the first half of 2022, with inflation gradually moderating as supply side disruptions ease.

A rapid recovery from the 2020 contraction, but momentum has now slowed

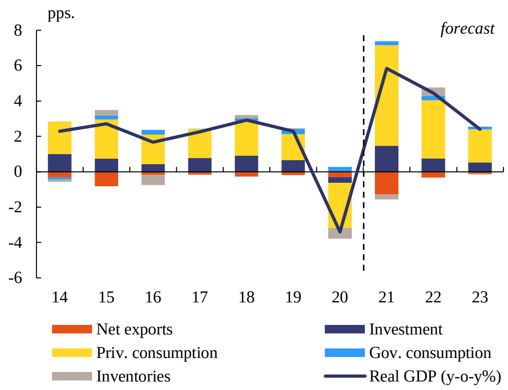
The US output contraction in 2020 was less severe than other large advanced economies at 3.5%. Activity saw a sharp rebound in the second half of 2020, underpinned by highly accommodative monetary policy and a series of large fiscal packages and executive orders that provided additional COVID-19 relief. At the end of 2020 US output was only 2.4% below its pre-pandemic level. Growth remained solid in both Q1 and Q2 of 2021 as private consumption grew strongly, boosted by an additional large fiscal package in March 2021, the American Rescue Plan. The pre-pandemic level of output was reached in Q2. Momentum has subsequently slowed, with the percentage of population vaccinated plateauing, investment tailing off, and the recovery in the labour market stalling somewhat over the summer.

Growth expected to slow gradually, with the output gap closing in early 2022

GDP is expected to grow by 5.8% in 2021. This is slower than previously expected, as supply side bottlenecks and the pandemic situation in the US have remained a significant drag on activity. High frequency indicators saw a clear softening over the summer, and COVID-19 infection rates picked up very steeply from early July. Vaccination rates have slowed sharply, with less than 60% of the population fully vaccinated by end September. New case numbers peaked in mid-September and have since trended downwards, but remain elevated and substantially higher than in other advanced economies. This has slowed the recovery in the service sector, while also likely limiting the willingness of some workers to return to employment, affecting the supply of labour and constraining the expansion

Private consumption and investment are projected to be the main growth drivers throughout the rest of 2021 and into 2022 as pandemic-related uncertainty recedes and households reduce their cushion of excess savings from earlier fiscal packages. The gradual withdrawal of fiscal support from past stimulus packages and relatively high inflation rates will however act as a drag on incomes and expenditure, while supply side bottlenecks are expected to gradually fade in 2022. Growth is forecast to slow to 4.5% in 2022, with the US closing the output gap in Q1-2022, and then 2.4% in 2023.

Graph II.34.1: **The United States - Real GDP growth and contributions**



Volumes of imports are projected to grow at close to 15%, reflecting the quick recovery in domestic demand and large base effects from 2020. Exports of goods are also set to grow sharply, but service exports are lagging noticeably, partly due to travel restrictions. Net exports will exert a significant negative impact on GDP in 2021 of 1.3pp. This drag is expected to fall sharply in 2022 as goods imports slow and services trade gradually normalises. The current account deficit widened in 2020 and 2021 in absolute terms and as a percentage of GDP, but is projected to remain steady in terms of GDP over the forecast horizon.

Inflationary pressures have added to the complicated dynamics

Headline CPI inflation dropped to 1.2% in 2020 as the pandemic took hold, but rose sharply in 2021 to reach around 5% in Q2 and Q3, influenced by strong base effects, high energy prices, and supply constraints. Both the CPI and PCE inflation are expected to remain elevated in coming months, and then moderate into 2022 as supply chain constraints recede, with headline PCE falling back towards the 2% target in 2023. Although there are signs of wage pressure in some market segments, labour market slack remains significant, particularly in the service sectors. Jobs growth has slowed sharply in recent months, though average working hours have increased somewhat, suggesting that temporary demand/supply mismatches are playing a key role. The unemployment rate is set to fall to around 4% in late 2022 and remain at around that level in 2023 as the economy returns to trend growth.

Policy remains supportive, but is set to gradually tighten

The Fed's new monetary policy framework allows for some temporary overshoot of the 2% PCE inflation target, and the target Fed funds rate remains at 0.25%, though the September FOMC meeting indicated tapering of asset purchases is likely to begin soon. Although recent high inflation prints have pushed nominal long yields to almost pre-pandemic levels, real interest rates remain unusually low. On the fiscal front, the general government deficit-to-GDP ratio is set to fall from 16% of GDP in 2020 to around 11% in 2021 and then to around 7% in 2023. Some additional spending from the new Infrastructure bill has been factored in for 2022 and 2023. After a steep increase of about 20 pps of GDP in 2020, general government debt is set to reach 132% of GDP in 2021 and then fall slightly in 2022 and 2023.

Both downside and upside risks remain

On the downside, higher inflationary pressures could erode consumer purchasing power, while also entailing a further tightening of financing conditions if data surprises lead markets to push nominal yields significantly higher. Uncertainties also exist in both directions as regards the pace of labour market adjustment and resolution of supply side disruptions. On the upside, the adoption of further fiscal measures is a strong possibility, which could imply some boost to growth in 2022 and 2023, while a faster-than-assumed release of private savings could also accelerate consumption growth in both 2022 and 2023.

Table II.34.1:

Main features of country forecast - UNITED STATES

	2020			Annual percentage change					
bn USD	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	20893.7	100.0	2.0	2.9	2.3	-3.4	**5.8**	**4.5**	**2.4**
Private Consumption	14047.6	67.2	2.2	2.9	2.2	-3.8	**8.5**	**4.8**	**2.7**
Public Consumption	3078.0	14.7	0.8	1.2	2.0	2.0	**1.5**	**1.7**	**1.1**
Gross fixed capital formation	4478.9	21.4	1.9	4.4	3.1	-1.6	**6.8**	**3.5**	**2.5**
of which: equipment	1292.0	6.2	3.6	6.3	3.7	-7.0	**12.9**	**4.7**	**2.6**
Exports (goods and services)	2123.4	10.2	4.1	2.8	-0.1	-13.6	**6.1**	**7.7**	**3.8**
Imports (goods and services)	2774.6	13.3	3.5	4.1	1.2	-8.9	**14.3**	**7.8**	**3.5**
GNI (GDP deflator)	21116.1	101.1	2.0	2.8	2.1	-3.6	**5.8**	**4.5**	**2.4**
Contribution to GDP growth:	Domestic demand		2.0	3.0	2.4	-2.6	**7.4**	**4.3**	**2.6**
	Inventories		0.0	0.2	0.0	-0.6	**-0.3**	**0.5**	**-0.1**
	Net exports		-0.1	-0.3	-0.2	-0.3	**-1.3**	**-0.3**	**-0.1**
Employment			0.6	1.7	1.2	-5.8	**3.1**	**3.0**	**1.2**
Unemployment rate (a)			6.3	3.9	3.7	8.1	**5.5**	**4.2**	**4.0**
Compensation of employees / head			2.9	3.2	3.0	7.4	**3.1**	**3.8**	**3.6**
Unit labour costs whole economy			1.5	2.0	1.9	4.8	**0.4**	**2.3**	**2.3**
Real unit labour cost			-0.4	-0.4	0.1	3.6	**-3.1**	**-0.3**	**0.2**
Saving rate of households (b)			11.6	13.4	13.1	23.2	**17.6**	**14.2**	**13.5**
GDP deflator			1.9	2.4	1.8	1.2	**3.6**	**2.6**	**2.1**
Consumer price index			2.1	2.4	1.8	1.2	**4.3**	**3.3**	**2.2**
Terms of trade goods			-0.2	0.8	0.6	-1.2	**5.2**	**0.8**	**0.4**
Trade balance (goods) (c)			-4.9	-4.3	-4.1	-4.3	**-4.9**	**-5.0**	**-5.0**
Current-account balance (c)			-3.6	-2.1	-2.2	-2.8	**-3.6**	**-3.6**	**-3.5**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.6	-2.2	-2.3	-2.8	**-3.6**	**-3.6**	**-3.5**
General government balance (c)			-6.7	-6.2	-6.6	-15.8	**-11.4**	**-7.9**	**-6.8**
Cyclically-adjusted budget balance (d)			:	:	:	:	**:**	**:**	**:**
Structural budget balance (d)			:	:	:	:	**:**	**:**	**:**
General government gross debt (c)			84.9	107.0	108.5	127.0	**129.3**	**128.6**	**129.8**

(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.