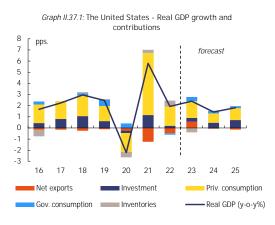
# 37. THE UNITED STATES

Economic growth in the US has been remarkably robust despite the steep monetary tightening. This reflects healthy household balance sheets, a resilient labour market and government support for investment. After a strong 2023, the pace of economic activity is forecast to slow in 2024, gradually responding to tight financial conditions and high cost of credit, but to rebound in 2025. Disinflation has been gradually progressing and is expected to continue over the forecast horizon. The balance of risks to real activity has improved, but the fiscal outlook is increasingly clouded.

## A cyclical slowdown in 2024 to be followed by a return to potential growth in 2025

The US economy continued to expand robustly in 2023, despite the steep tightening of monetary policy since early 2022. A tight labour market with improving employment and participation rates helped sustain solid real income growth, and consumer demand remained solid, despite elevated inflation. While residential investment has contracted as high mortgage rates weighed on housing demand, government industrial policies and support for re-shoring have bolstered non-residential construction investment, especially in the green energy and semiconductor sectors. In view of a buoyant 2023-Q3 outturn, GDP is forecast to increase by 2.4% in 2023, after rising by 1.9% in 2022. With tight credit and financial conditions, and a restrictive monetary policy stance expected to be maintained for most of 2024, output growth is set to slow to 1.4% in 2024, before returning to near-potential of 1.8% in 2025.

Private consumption is expected to grow by around 2.2% in 2023 but then decelerate in 2024 to 1.2%, as the post-COVID pent-up demand fades, a greater share of households have drawn down their savings, consumer credit remains depressed and demand for labour softens. By contrast, total investment is projected to rise by 1.6% in 2023 with growth accelerating to 2.2% in 2024, driven especially by non-residential sector, backed by government policies. A gradual loosening of monetary policy and financial conditions from the second half of 2024 should help private consumption growth to rebound to 1.6% in 2025 and further boost investment by



3.4%. Net exports' contribution to growth is expected to remain broadly neutral in 2024-2025.

### Disinflation gradually progresses, despite a relatively tight labour market

The labour market is cooling only gradually with employment continuing to rise, albeit at a slowing rate. The unemployment rate has increased above the post-COVID trough, but at 3.8% in September, remains low. Wage inflation is slowly moderating but remained at a high 4.2% annual in September. Labour demand is forecast to continue to weaken gradually in the coming quarters as growth softens, with the unemployment rate set to increase from 3.7% in 2023 to 4.1% in 2024, before the projected rebound in activity helps to reduce it to 3.9% in 2025.

The Fed increased the federal funds rate range to a 22-year high of 5.25%-5.5% in September 2023 and signalled an intention to keep rates "high for longer". This has led to a surge in yields, with the 10-year yields approaching briefly the 5% mark in October, the highest since 2007. Tight credit and financial conditions have contributed to a contraction in bank lending and an uptick in corporate defaults. Higher household loan delinquency rates and the October resumption of student loan payments, which had remained in forbearance since the pandemic, are expected to weigh on domestic demand in the coming quarters.

Consumer price inflation has been on a steady downward trend since 2022-Q2, despite oil prices recently increasing. Headline inflation is forecast to moderate further in the coming quarters helped by declining housing price inflation, reflecting past house price trends. Inflation in the labour-intensive services sectors may be slower to decline if wage growth remains elevated. Tight monetary conditions and softening labour market, however, are set to pave the way for further disinflation over the forecast horizon. After reaching 4.2% in 2023, consumer price inflation is expected to moderate to 3.0% in 2024 and to 2.2%, close to the Fed target, in 2025.

#### The fiscal outlook is set to deteriorate

The general government headline deficit fell to 3.8% of GDP in 2022 but is set to reach 8.0% of GDP in 2023, as revenues tumbled (mainly due to lower capital gains tax receipts and dividends paid by the Fed) and interest expenses soared. The deficit is expected to be reduced slightly in 2024-2025, but at 7.5% and 7.4% of GDP, respectively, is projected to remain elevated under the current policies. High deficits and interest expenses have fuelled general government debt, which after having fallen from its 2020 peak, is set to increase from 122.5% of GDP in 2022 to 127.4% of GDP in 2025. A prolonged period of elevated long-term rates and worsening repeated political disagreements about government funding are adding to the risks to the mid-term fiscal outlook.

### The balance of risks has improved

Risks to the growth outlook appear more balanced, as the disinflation process has gradually progressed without a major dent in economic activity. Further improvements in the labour participation rate and/or gains in labour productivity would allow the labour market to remain resilient, while reducing the pressure on wages and prices. Continued good financial situation of households, especially at the fragile low-income brackets, could support private consumption. However, more persistent inflation, additional Fed policy interest rate hikes, prolonged tight financial conditions and a high cost of credit could worsen household and corporate balance sheets, depressing demand and weakening employment compared to the current projections. While the banking sector overall remains healthy, banks and nonbanks' balance sheet mismatches persist, especially among some more specialised lenders, and could worsen should financial conditions tighten further.

Table II.37.1:

Main features of country forecast - UNITED STATES

	2022				Annual percentage change					
	bn USD	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP		25744.1	100.0	2.0	-2.2	5.8	1.9	2.4	1.4	1.8
Private Consumption		17511.7	68.0	2.1	-2.5	8.4	2.5	2.2	1.2	1.6
Public Consumption		3570.1	13.9	0.8	2.9	0.3	-0.9	2.7	1.7	1.1
Gross fixed capital formation		5476.1	21.3	2.2	-1.0	5.3	0.9	1.6	2.2	3.4
Exports (goods and services)		2995.0	11.6	4.4	-13.1	6.3	7.0	2.1	0.9	3.4
Imports (goods and services)		3966.2	15.4	3.3	-9.0	14.5	8.6	-2.1	1.1	3.7
GNI (GDP deflator)		25926.0	100.7	2.1	-2.5	5.6	1.9	2.4	1.5	1.8
Contribution to GDP growth:	[	Domestic demand	k	2.0	-1.5	6.8	1.8	2.2	1.5	1.9
	I	nventories		0.0	-0.5	0.2	0.5	-0.4	0.0	0.0
	1	Net exports		0.0	-0.2	-1.2	-0.5	0.6	-0.1	-0.1
Employment				0.8	-5.8	3.3	3.8	1.8	0.2	0.5
Unemployment rate (a)				6.1	8.1	5.3	3.6	3.7	4.1	3.9
Compensation of employees / head				2.8	7.6	5.0	2.9	3.9	2.9	2.6
Unit labour costs whole economy				1.6	3.7	2.6	4.8	3.3	1.7	1.3
Saving rate of households (b)				11.8	22.1	17.4	11.2	14.2	13.3	14.0
GDP deflator				2.0	1.3	4.6	7.0	3.7	2.6	2.1
Consumer price index				2.1	1.2	4.7	8.0	4.2	3.0	2.2
Terms of trade goods				0.0	-1.3	6.0	4.0	-0.9	0.4	0.2
Trade balance (goods) (c)				-4.8	-4.1	-4.6	-4.7	-3.9	-3.8	-3.9
Current-account balance (c)				-3.3	-2.7	-3.6	-3.8	-2.9	-2.8	-2.8
General government balance (c)				-6.8	-14.7	-11.9	-3.8	-8.0	-7.5	-7.4
Structural budget balance (d)				:	:	:	:	:	:	:
General government gross debt (c)				89.7	130.1	125.5	122.0	122.5	125.0	127.4

(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.