38. THE UNITED STATES

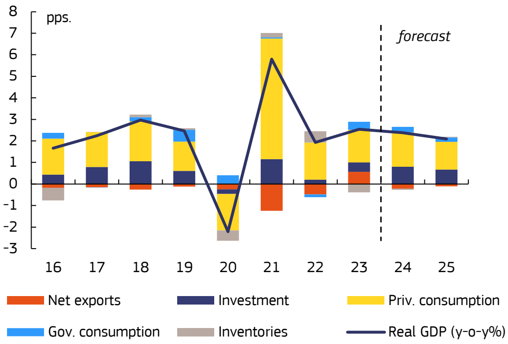
US economic growth held up well last year and is forecast to remain robust in 2024 before moderating in 2025 due to slower household consumption. The gradual disinflation process is set to continue, albeit at a slower pace. Risks to the growth outlook are balanced, though with heightened uncertainty stemming also from the upcoming presidential election.

Robust economic growth is expected to continue

The US economy grew by 2.5% in 2023. After expanding by 0.8% q-o-q in 2023-Q4, US economic growth slowed down to 0.4% q-o-q in 2024-Q1 with still robust domestic demand components. The annual real GDP growth is forecast to reach 2.4% in 2024, partly due to the high starting position (carry-over of 1.4 pps. from last year). Moderating inflation should allow the FED to start easing monetary policy in the second half of this year, helping the economy to maintain momentum. As household consumption is projected to gradually moderate with pandemic-related savings being depleted, real GDP growth is forecast to ease to 2.1% in 2025.

Household consumption set to moderate as excess savings dissipate...

Graph II.38.1: **The United States - Real GDP growth and contributions**



The labour force expanded more rapidly in 2023 than previously estimated. This was mainly due to a surge in immigration but also to increased participation rates, partly explaining the strong economic performance. Surging labour supply was absorbed by an equally strong labour demand thus the unemployment rate remained at a historically low level of 3.6% in 2023. As labour demand is set to moderate ahead, the unemployment rate is forecast to increase to 3.9% in 2024 and to 4% in 2025. Private consumption received additional boost last year from the significant reduction of the savings accumulated during the pandemic. However, these “excess” household savings have now been largely depleted. Solid real wages and job gains are set to support household consumption going forward, but the growth rate is expected to moderate from last year’s elevated levels and reach 2.4% in 2024 and 1.9% in 2025.

...while investment growth broadens

Investment growth in 2023 was mainly driven by non-residential construction investment boosted by US industrial policy subsidies. However, investment drivers are set to broaden over the forecast horizon. After contracting last year, residential investment is projected to rebound on account of the housing shortage related to the strong population growth and of the expected improving mortgage credit conditions. Improving manufacturing sentiment and last year’s surge in non-residential construction investment are set to pave the way for a pick-up in equipment investment. Overall investment growth is forecast to expand by 3.8% in 2024 and by 3.2% in 2025.

Slower ‘last mile’ disinflation ahead

Having fallen substantially last year, consumer price inflation is on the rise again. The annual CPI rate increased from 3.1% in January to 3.5% in March. In particular, services inflation and housing inflation appear stickier than previously anticipated. Nevertheless, as wage growth is expected to moderate and housing (shelter) inflation to follow the decrease of housing rents last year, the disinflation process is set to continue, albeit at a slower pace. After reaching 4.1% in 2023, consumer price inflation is forecast to moderate to 2.9% this year and further ease to 2.4% in 2025.

The general government deficit is forecast to remain elevated

The general government deficit widened substantially from 4% of GDP in 2022 to an estimated 8.4% of GDP in 2023 partly due to higher interest payments. Despite the strong economic growth, the general government deficit is projected to remain elevated over the forecast horizon mainly because of a further rise in debt service and increased health and demography related spending. The fiscal deficit is expected to narrow to 7.5% of GDP in 2024 on account of higher payroll and income taxes (backed by strong performance of the financial markets last year), and hover around this level in 2025. The general government debt is set to increase further from historically high levels of 124% of GDP in 2023 to above 127% of GDP in 2025 driven by the high fiscal deficit.

Risks are balanced though with heightened uncertainties

The outlook is surrounded by risks, where the strong labour market outlook, robust household balance sheets and increasing financial wealth of the households could provide additional boost to private consumption. On the downside, inflation could prove more persistent than anticipated, leading to monetary policy remaining tight for longer. The forthcoming presidential election in November is a major source of uncertainty for the 2025 outlook as substantial policy changes could take place in several major areas impacting the economic outlook.

Table II.38.1:

Main features of country forecast - UNITED STATES

	2023			Annual percentage change						
	bn USD	Curr. prices	% GDP	04-19	2020	2021	2022	2023	2024	2025
GDP		27360.9	100.0	2.0	-2.2	5.8	1.9	**2.5**	**2.4**	**2.1**
Private Consumption		18570.6	67.9	2.1	-2.5	8.4	2.5	**2.2**	**2.4**	**1.9**
Public Consumption		3752.6	13.7	0.8	2.9	0.3	-0.9	**2.7**	**1.8**	**1.5**
Gross fixed capital formation		5782.8	21.1	2.2	-1.0	5.3	0.9	**2.1**	**3.8**	**3.2**
Exports (goods and services)		3027.2	11.1	4.4	-13.1	6.3	7.0	**2.6**	**2.0**	**2.7**
Imports (goods and services)		3825.9	14.0	3.3	-9.0	14.5	8.6	**-1.7**	**3.2**	**2.9**
GNI (GDP deflator)		27525.1	100.6	2.1	-2.5	5.6	1.9	**2.4**	**2.3**	**2.1**
Contribution to GDP growth:	Domestic demand			2.0	-1.5	6.8	1.8	**2.3**	**2.6**	**2.2**
	Inventories			0.0	-0.5	0.2	0.5	**-0.4**	**-0.1**	**0.0**
	Net exports			0.0	-0.2	-1.2	-0.5	**0.6**	**-0.2**	**-0.1**
Employment				0.8	-5.8	3.3	3.8	**1.7**	**1.1**	**0.6**
Unemployment rate (a)				6.1	8.1	5.3	3.6	**3.6**	**3.9**	**4.0**
Compensation of employees / head				2.8	7.6	5.0	2.9	**4.0**	**2.9**	**2.6**
Unit labour costs whole economy				1.6	3.7	2.6	4.8	**3.2**	**1.7**	**1.1**
Saving rate of households (b)				11.8	22.1	17.4	11.5	**12.1**	**10.3**	**10.2**
GDP deflator				2.0	1.3	4.6	7.0	**3.6**	**2.5**	**1.8**
Consumer price index				2.1	1.2	4.7	8.0	**4.1**	**2.9**	**2.4**
Terms of trade goods				0.0	-1.3	6.0	4.0	**-1.1**	**-0.4**	**-0.2**
Trade balance (goods) (c)				-4.8	-4.1	-4.6	-4.7	**-3.9**	**-4.0**	**-4.1**
Current-account balance (c)				-3.3	-2.7	-3.6	-3.8	**-3.0**	**-3.1**	**-3.2**
General government balance (c)				-6.8	-14.8	-11.5	-4.2	**-8.4**	**-7.5**	**-7.8**
Structural budget balance (d)				:	:	:	:	**:**	**:**	**:**
General government gross debt (c)				89.7	130.1	125.5	122.0	**124.3**	**125.1**	**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.