UNITED STATES

Economic growth is projected to pick up in 2017 and 2018 as headwinds from past exchange rate appreciations abate and support from fiscal policy begins to appear. Consumer spending will benefit from continued, though slowing, employment gains and, as the labour market tightens, stronger wage growth.

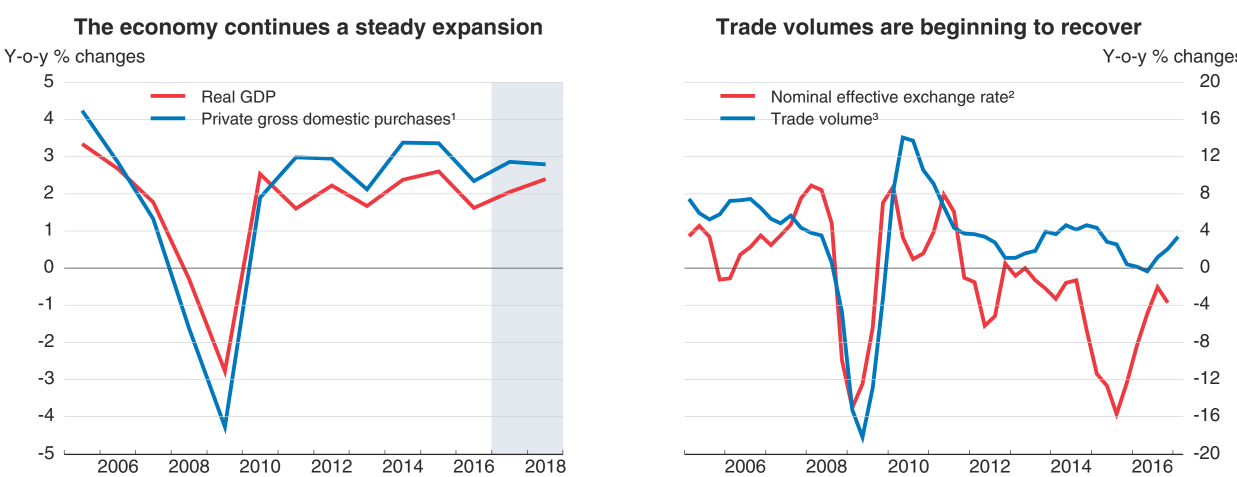
With inflation nearing its target and unemployment edging down further, monetary policy stimulus has begun to be withdrawn gradually. As growth picks up, further interest rate rises are projected to contain inflationary pressures and reduce the risk of financial-market distortions. Reducing the size of the central bank's balance sheet will soon become appropriate. The Administration and Congress are formulating plans to cut taxes and boost infrastructure spending. The present projection assumes no spending increase at the federal level, but a tax reform is projected, which will support consumer spending and investment in 2018.

The United States is an important participant in global value chains and foreign trade has become a more important driver of economic activity. Together with technical change, this has brought many benefits to consumers, though in certain areas job losses have contributed to persistent unemployment and poverty, while displaced workers who find new jobs may need to take a significant pay cut. In comparison with other OECD countries, the United States devotes relatively few resources to helping workers retrain or find new employment. The successful experience of some states in harnessing vocational training suggests that more can be done to improve employment opportunities.

The expansion continues

The US expansion continues as the economy emerges from the headwinds of a past exchange rate appreciation and from the fall in oil prices which damaged the oil-producing

United States



1. Private domestic final purchases is the sum of PCE and gross private domestic investment.
2. A decrease denotes an appreciation.
3. Goods and services trade (imports and exports) volume.

Source: OECD Economic Outlook 101 database.

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United States: **Employment, income and inflation**

Percentage changes

	2014	2015	2016	2017	2018
Employment[1]	1.8	2.1	1.7	1.4	1.4
Unemployment rate[2]	6.2	5.3	4.9	4.6	4.3
Compensation per employee[3]	2.6	2.6	2.1	2.5	3.3
Labour productivity	0.6	0.5	-0.1	0.8	0.9
Unit labour cost	2.2	2.1	2.3	1.9	2.2
GDP deflator	1.8	1.1	1.3	2.1	2.3
Consumer price index	1.6	0.1	1.3	2.5	2.2
Core PCE deflator[4]	1.6	1.4	1.7	1.9	2.2
PCE deflator[5]	1.5	0.3	1.1	2.1	2.1
Real household disposable income	3.5	3.5	2.6	1.8	2.8

1. Based on the Bureau of Labor Statistics (BLS) Establishment Survey.
2. As a percentage of labour force, based on the BLS Household Survey.
3. In the total economy.
4. Deflator for private consumption excluding food and energy.
5. Private consumption deflator. PCE stands for personal consumption expenditures.

Source: OECD Economic Outlook 101 database.

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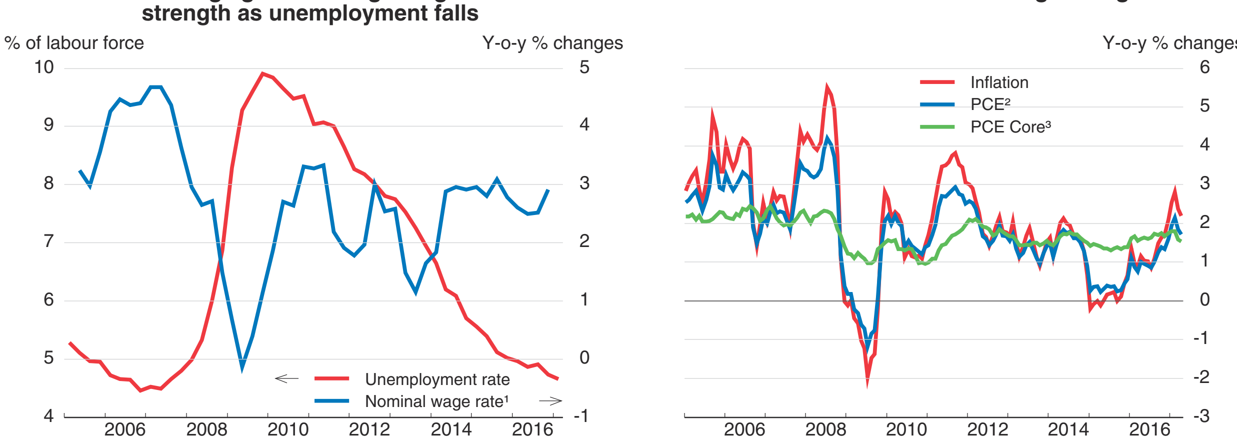
sector. As the exchange rate and the oil price stabilised, trade volumes and oil producing activity, notably oil exploration, have begun to rise. Household spending remains solid, with the slowing in early 2017 partly reflecting the temporary impact of warm weather reducing heating requirements and higher energy prices weighing on real disposable income growth. Consumer spending and private investment point to a continuing steady expansion. Furthermore, household and business confidence measures remain relatively upbeat.

United States

Wage growth is regaining strength as unemployment falls | **Price inflation has been strengthening**



1. Three-quarter centred moving average.
2. Personal Consumption Expenditures price index.
3. Personal Consumption Expenditures excluding food and energy price index.

Source: OECD Economic Outlook 101 database, and Federal Reserve Bank of St. Louis.

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United States: **Financial indicators**

	2014	2015	2016	2017	2018
Household saving ratio, net[1]	5.6	5.8	5.7	5.3	5.6
General government financial balance[2]	-5.0	-4.4	-5.0	-4.7	-5.2
General government gross debt[2]	105.0	105.4	107.1	107.8	109.2
Current account balance[2]	-2.3	-2.6	-2.6	-2.4	-2.8
Short-term interest rate[3]	0.3	0.5	0.9	1.5	2.2
Long-term interest rate[4]	2.5	2.1	1.8	2.7	3.4

1. As a percentage of disposable income.
2. As a percentage of GDP.
3. 3-month rate on euro-dollar deposits.
4. 10-year government bonds.

Source: OECD Economic Outlook 101 database.

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The labour market continues to strengthen. Employment gains have remained solid and wage growth shows some signs of sustained increases. The unemployment rate has fallen somewhat below most estimates of the structural rate, but remains high among less-skilled workers, especially youth and some minorities. The labour force participation rate has been edging up, although it has been slipping for prime-age workers.

The policy environment is supportive

As economic slack is being eliminated, inflation rates have risen to around the Federal Reserve's 2% target. Hence, monetary policy stimulus has begun to be withdrawn. Given

United States: **Demand and output**

	2015	2016	2017	2018	Fourth quarter 2016	Fourth quarter 2017	Fourth quarter 2018
	Current prices USD billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	18 036.7	1.6	2.1	2.4	2.0	2.1	2.5
Private consumption	12 283.7	2.7	2.4	2.4	3.1	2.0	2.5
Government consumption	2 604.9	0.8	0.5	2.4	0.3	1.1	2.6
Gross fixed investment	3 576.7	0.7	3.9	4.2	0.1	5.0	4.6
Public	613.4	0.8	0.8	3.2	-0.3	2.3	3.2
Residential	651.9	4.9	5.4	4.8	1.1	6.2	5.2
Non-residential	2 311.3	-0.5	4.4	4.3	-0.1	5.3	4.8
Final domestic demand	18 465.3	2.1	2.4	2.8	2.1	2.4	2.9
Stockbuilding[1]	93.3	-0.4	0.0	0.0			
Total domestic demand	18 558.6	1.7	2.4	2.7	2.1	2.3	2.8
Exports of goods and services	2 264.3	0.4	2.9	3.0	1.5	3.5	3.1
Imports of goods and services	2 786.3	1.1	4.7	5.1	2.6	4.6	5.2
Net exports[1]	- 522.0	-0.1	-0.3	-0.4			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 101 database.

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United States: **External indicators**

	2014	2015	2016	2017	2018
			USD billion		
Goods and services exports	2 375.3	2 264.3	2 232.5	2 353	2 469
Goods and services imports	2 884.1	2 786.3	2 733.7	2 947	3 159
Foreign balance	- 508.8	- 522.0	- 501.2	- 594	- 690
Invisibles, net	116.7	59.0	20.0	121	123
Current account balance	- 392.1	- 463.0	- 481.2	- 473	- 566
			Percentage changes		
Goods and services export volumes	4.3	0.1	0.4	2.9	3.0
Goods and services import volumes	4.4	4.6	1.1	4.7	5.1
Export performance[1]	0.7	- 2.0	- 0.9	- 0.5	- 0.3
Terms of trade	0.3	3.1	1.3	- 0.5	- 0.1

1. Ratio between export volume and export market of total goods and services.
Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933505201

the underlying strength of the economy and inflation developments, further steps in reducing the supportive policy stance remain appropriate. Accordingly, the Fed funds rate is projected to rise gradually to 2¼ per cent at the end of 2018, although specific moves will depend on incoming data on inflation and employment. In addition, the Federal Reserve has begun to discuss the possibility of reducing its balance sheet. A small reduction in the reinvestment of principal from maturing debt is projected in early 2018, which will serve to tighten financial conditions modestly. Further moves will depend on incoming economic data.

Fiscal policy is projected to remain broadly neutral in 2017 and then become expansionary in 2018, when personal and corporate income taxes are cut. These tax cuts will support household consumption and investment activity. If they were to be part of a broader reform package, limiting tax deductions for high-income earners could go some way to mitigating income inequality. Tax simplification for the corporate sector would ease the burden, especially for smaller enterprises, which have recovered sluggishly from the financial crisis. As the expansion continues, state and local budgets will improve from the weakness in recent years, which will support a pick-up in government investment.

The United States is an important country for international trade, with large multinational enterprises creating a complex web of global supply chains. This has boosted competition and productivity, and brought benefits to consumers. Nonetheless, some workers and communities have been hurt by trade and technology developments. While trade and technology facilitate new job gains, the process of matching people who have lost jobs to the new employment opportunities can be slow. Individuals with lower levels of educational attainment are at a greater risk of dropping out of the labour force completely, contributing to persistent unemployment and poverty in affected areas. The United States spends relatively little on labour market programmes, such as trade adjustment assistance, that help people who have lost their jobs acquire different skills and find new career opportunities. In some states, community colleges are effective in helping individuals. Expanding the eligibility of the earned income tax credit to childless workers would also help address poverty and encourage greater labour force attachment.

Growth is projected to pick up

GDP growth is projected to rise moderately in 2017 and 2018, thanks to the ongoing strength of household spending and fiscal policy support for households and investment. An improvement in external demand conditions should support export growth; import growth is set to increase strongly, largely due to a pick-up in import-intensive investment. Real disposable income growth will be supported by wages accelerating further, reflecting the tightening labour market, and by the effects of tax reforms on income and labour supply. Tax reforms should increase business investment spending. In aggregate, fiscal support is worth somewhat more than 0.7% of GDP in 2018, raising growth by a little more than 0.4 percentage point.

Risks to the outlook remain sizeable. First and foremost, the size and timing of the fiscal stimulus are uncertain. The labour market may tighten more quickly than projected, stoking wage pressures and ultimately requiring the Federal Reserve to react more strongly than anticipated. Further rises in consumer confidence could reduce the saving rate, strengthening consumption and a pick-up in world trade growth could provide an additional boost to the economy. On the other hand, wage pressures may fail to materialise, in which case monetary policy will remain more accommodative. Emerging interest rate differentials between the United States and other major currency areas may contribute to increased financial market tensions and turbulence due to unpredictable financial flows. Finally, international trade disturbances could disrupt global supply chains and dent growth.