

UNITED STATES

Economic growth is set to strengthen in 2017 and 2018, as an assumed fiscal stimulus boosts the economy and the effects of dollar appreciation, declines in energy investment and a substantial inventory correction abate. Employment has risen steadily, although the pace is expected to ease somewhat in 2017. A pick-up in wages will further support growth, offsetting somewhat sluggish external demand.

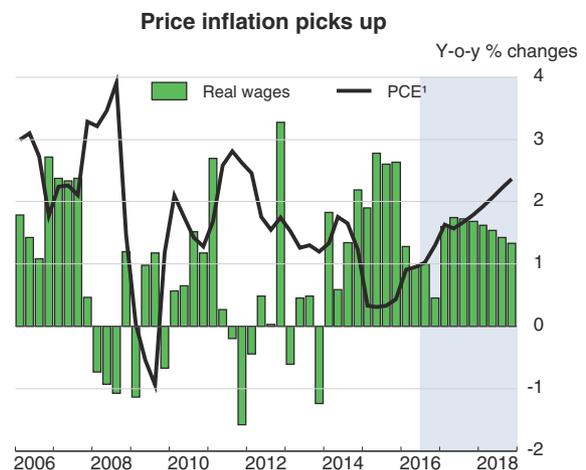
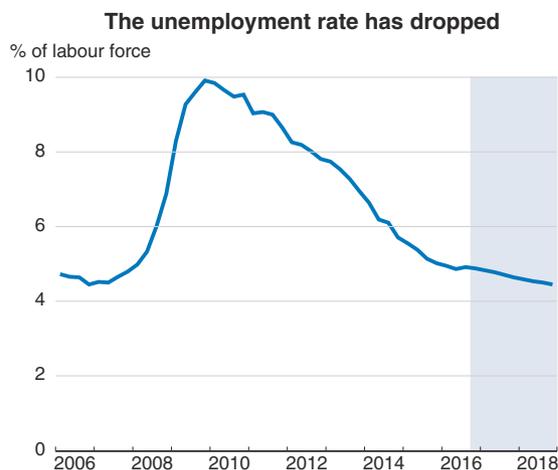
Monetary policy has remained very accommodative, consistent with inflation running below target. As economic slack is eliminated and pressure on resources emerges, policy rates will gradually increase. Monetary policy needs to tread a cautious path. Some measures of inflation expectations have edged down and persistently undershooting the inflation target could entrench lowered expectations. On the other hand, sustained low interest rates create financial market risks, which may require stronger macro-prudential action. More supportive fiscal policy eases the burden on monetary policy.

Fiscal policy was broadly neutral in 2016. The new Administration will begin implementing its policy priorities next year and in this context the fiscal stance is projected to become more expansionary as public spending and investment rise, while taxes are cut. This will provide a boost to the economy, particularly in 2018. Action will be needed to ensure public finances are sustainable in the medium term.

The economy is emerging from a soft patch

The economy entered a soft patch in 2016 as the fall in oil prices led to a sharp decline in the energy sector, an appreciation of the dollar hurt exports and manufacturing investment, and inventories were drawn down. Residential investment has been modest by historical standards, though there are signs that activity may be picking up as supply bottlenecks are overcome. Business investment has also been sluggish, but some signs – such as strengthening R&D spending – suggest it will accelerate. Household spending

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1. Personal Consumption Expenditures price index.
Source: OECD Economic Outlook 100 database.

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

Percentage changes

	2014	2015	2016	2017	2018
Employment ¹	1.8	2.1	1.7	1.5	1.5
Unemployment rate ²	6.2	5.3	4.9	4.7	4.5
Compensation per employee ³	2.6	2.6	2.0	3.8	3.7
Labour productivity	0.6	0.5	-0.2	0.7	1.5
Unit labour cost	2.2	2.1	2.2	2.9	1.9
GDP deflator	1.8	1.1	1.3	1.9	2.4
Consumer price index	1.6	0.1	1.2	1.9	2.2
Core PCE deflator ⁴	1.6	1.4	1.7	1.8	2.2
PCE deflator ⁵	1.5	0.3	1.1	1.7	2.2
Real household disposable income	3.5	3.5	2.5	3.2	2.2

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 100 database.

StatLink  <http://dx.doi.org/10.1787/888933438686>

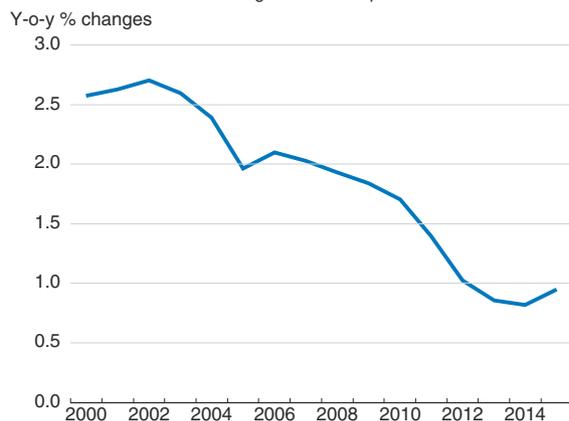
remained strong, however, benefitting from employment and wage gains as well as an increase in purchasing power due to the fall in energy prices. Weak external demand and the exchange rate appreciation constrained export growth during much of 2016, while the slowdown in import-intensive investment has weighed on imports.

The labour market has continued to perform well. Employment gains and wage growth have remained solid, labour force participation has been edging up, and the unemployment rate has fallen close to historical norms. Steady progress in reducing labour market slack has not spread to all areas. Notably little progress was made in 2016 in

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The growth of the government capital stock has slowed

General government capital stock



Fiscal policy becomes more expansionary

Change in the underlying primary balance



Source: OECD Economic Outlook 100 database; and Bureau of Economic Analysis.

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United States: **Financial indicators**

	2014	2015	2016	2017	2018
Household saving ratio, net ¹	5.6	5.8	5.7	6.2	5.7
General government financial balance ²	-5.0	-4.4	-5.0	-4.9	-5.4
General government gross debt ²	112.3	114.0	115.6	116.9	117.5
Current account balance ²	-2.3	-2.6	-2.5	-2.6	-2.9
Short-term interest rate ³	0.3	0.5	0.9	1.5	2.3
Long-term interest rate ⁴	2.5	2.1	1.8	2.4	3.6

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 100 database.

StatLink  <http://dx.doi.org/10.1787/888933438696>

reducing the numbers of workers employed part-time for economic reasons or the long-term unemployment rate. Furthermore, wage growth (measured as compensation per hour) has remained weak, although it strengthened recently.

Macroeconomic policy will be supportive

As inflation is rising, the Federal Reserve is assumed to raise policy rates gradually to 2% by end-2018. Inflation overshoots the target during the projections, though the monetary tightening, fading of the fiscal impulse and anchored expectations will return it towards target in the medium term. The gradual rise in interest rates will begin to reduce

United States: **Demand and output**

	2015	2016	2017	2018	Fourth quarter		
					2016	2017	2018
	Current prices USD billion	Percentage changes from previous year, volume (2009 prices)					
GDP at market prices	18 036.7	1.5	2.3	3.0	1.8	2.5	2.9
Private consumption	12 283.7	2.6	2.7	2.8	2.6	2.9	2.5
Government consumption	2 604.9	0.9	1.3	3.2	0.7	1.9	3.1
Gross fixed investment	3 576.7	0.6	2.3	5.3	-0.1	3.5	6.0
Public	613.4	0.5	1.1	5.6	-1.2	4.4	4.2
Residential	651.9	4.2	1.5	3.0	-1.0	3.5	2.7
Non-residential	2 311.3	-0.4	2.9	5.9	0.5	3.3	7.3
Final domestic demand	18 465.3	1.9	2.4	3.4	1.8	2.9	3.3
Stockbuilding ¹	93.3	-0.4	0.0	0.0			
Total domestic demand	18 558.6	1.5	2.4	3.3	1.6	2.9	3.2
Exports of goods and services	2 264.3	0.9	3.5	3.0	3.6	2.5	3.2
Imports of goods and services	2 786.3	0.9	4.4	5.4	1.7	5.0	5.6
Net exports ¹	- 522.0	0.0	-0.2	-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 100 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	2 242.3	2 363	2 482
Goods and services imports	2 884.1	2 786.3	2 726.5	2 905	3 122
Foreign balance	- 508.8	- 522.0	- 484.2	- 542	- 641
Invisibles, net	116.7	59.0	21.6	47	49
Current account balance	- 392.1	- 463.0	- 462.6	- 495	- 591
	Percentage changes				
Goods and services export volumes	4.3	0.1	0.9	3.5	3.0
Goods and services import volumes	4.4	4.6	0.9	4.4	5.4
Export performance ¹	0.7	- 1.7	- 0.3	0.8	0.1
Terms of trade	0.3	3.1	1.3	- 0.2	- 0.1

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 100 database.

StatLink  <http://dx.doi.org/10.1787/888933438717>

some of the financial distortions that have emerged under a policy of sustained very low interest rates. Concerns about valuations of commercial real estate have already prompted regulators to issue guidance and prudential regulation should remain ready to counter emerging threats if needed.

Following the presidential elections, the incoming Administration and Congress will begin defining their fiscal priorities in 2017 when the current continuing resolutions expire. The fiscal stance is projected to shift in 2017 from broadly neutral to expansionary. This will stimulate economic activity and ease some of the burden that has been placed on monetary policy. Partly because of this stimulus, government debt is projected to inch up only slightly. Nevertheless, in the long term, mandatory spending will begin to rise more strongly under current policy settings, and fiscal adjustment of some sort will be needed to ensure fiscal sustainability.

The projected fiscal stimulus will also go some way to reversing the marked slowdown in spending on public infrastructure, which has fallen substantially as all levels of government have retrenched. The boost to spending on infrastructure and other investments (such as improving skills and facilitating job finding success through more active labour market policies and the provision of child care) will combat inequality and counter the steady decline in labour force participation rates, both by prime-age men and women. Investment in public infrastructure, such as mass transit systems, will also be needed to move towards a more environmentally sustainable economy. Reforms to personal and corporate taxation could enhance efficiency by lowering marginal rates and removing provisions that narrow the tax base and invite tax avoidance.

GDP is projected to accelerate

GDP is projected to return to a moderate growth trajectory in 2017 and strengthen in 2018, mainly due to the projected fiscal stimulus, which takes effect particularly in 2018. Indeed, projected fiscal support will boost GDP growth by just under ½ and 1 percentage point in 2017 and 2018 respectively. Household spending continues at a healthy pace, supported by the tax cuts, employment gains and strengthening wage growth boosting

household disposable income. Furthermore, tightening labour market conditions will encourage greater labour force participation as discouraged workers return. Business investment is expected to surge with cuts to corporate income tax (assumed to be part of a fiscal stimulus package) and as demand growth recovers.

Risks to the outlook are sizeable. The fiscal stimulus of the new Administration may be bigger or smaller than assumed in the projections. Labour market slack may evaporate more quickly and wage growth could rise more rapidly than anticipated, stoking stronger inflationary pressures and requiring the Federal Reserve to react more strongly. On the other hand, weakening external demand and further appreciation of the dollar could create a drag on net exports and depress investment, creating disinflationary pressures and requiring macroeconomic policy to become more accommodative. Disruptions to international trade, including breaking global value chains would hurt growth. There are also risks of financial market turbulence as the Federal Reserve begins tightening. In particular, as policy in other major currency areas is projected to remain very accommodative, the divergence with the United States could unleash unpredictable market reactions and financial flows.