UNITED STATES

Economic growth is strengthening to about 3% largely due to a substantial fiscal boost. Employment growth remains robust which, coupled with buoyant asset prices and strong consumer confidence, is sustaining income and consumption growth. Business investment is projected to strengthen as a result of major tax reform and supportive financial conditions. A pick-up in the world economy is underpinning export growth, although tensions have emerged on how best to reduce barriers to trade.

Fiscal policy is set to loosen substantially. As spending appropriations are determined, they should prioritise boosting the productive capacity of the economy, such as by supporting infrastructure investment. Fiscal policy combined with structural policies can also help those on the margins of the labour force into employment. As macroeconomic policy rebalances, the projected gradual withdrawal of monetary accommodation is needed to ensure that inflation returns to target and inflation expectations rise to their historical norms. Heightened risks in the non-financial corporate sector have emerged.

Fiscal policy is fuelling the expansion

The expansion is now one of the longest on record, though it has been relatively weak in comparison with the past. Jobs have been created at a healthy pace, but, in comparison with many other OECD countries employment remains relatively low as a share of the working age population. Productivity growth has been weak since the start of the expansion, which has been a feature across the OECD.

Job growth coupled with buoyant asset prices, consumer confidence and the effects of the tax reforms are supporting strong consumption growth. The fiscal boost should increase labour force participation and push down unemployment rates further. Wage growth remains lacklustre notwithstanding unemployment rates falling below estimates of the structural rate, even as other indicators of labour market slack suggest limited spare

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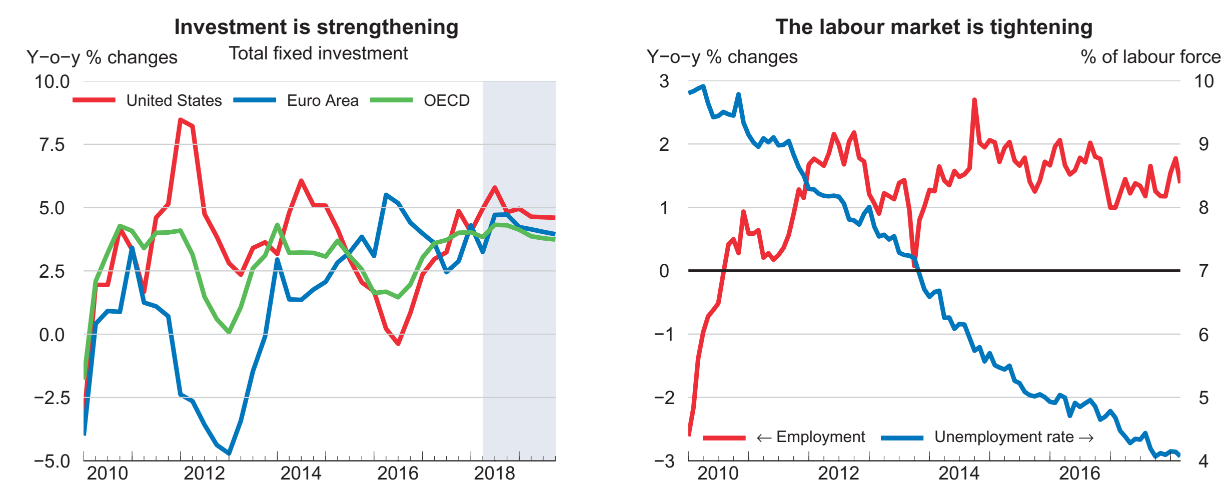

Source: OECD Economic Outlook 103 database.

StatLink http://dx.doi.org/10.1787/888933730693

United States: **Demand, output and prices**

	2014	2015	2016	2017	2018	2019
	Current prices USD billion	Percentage changes, volume (2009 prices)				
GDP at market prices	17 427.6	2.9	1.5	2.3	2.9	2.8
Private consumption	11 863.7	3.6	2.7	2.8	2.5	2.2
Government consumption	2 562.7	1.3	1.0	0.1	2.2	4.3
Gross fixed capital formation	3 432.8	3.5	0.6	3.4	4.9	4.7
Final domestic demand	17 859.1	3.3	2.1	2.5	2.9	3.0
Stockbuilding[1]	78.0	0.2	-0.4	-0.1	0.1	0.0
Total domestic demand	17 937.1	3.5	1.7	2.4	3.0	3.0
Exports of goods and services	2 373.6	0.4	-0.3	3.4	4.8	4.4
Imports of goods and services	2 883.2	5.0	1.3	4.0	5.3	5.3
Net exports[1]	- 509.5	-0.8	-0.2	-0.2	-0.2	-0.3
Memorandum items						
GDP deflator	_	1.1	1.3	1.8	2.0	2.2
Personal consumption expenditures deflator	_	0.3	1.2	1.7	2.2	2.2
Core personal consumption expenditures deflator[2]	_	1.3	1.8	1.5	2.0	2.2
Unemployment rate (% of labour force)	_	5.3	4.9	4.3	3.9	3.6
Household saving ratio, net (% of disposable income)	_	6.1	4.9	3.4	3.7	4.7
General government financial balance (% of GDP)	_	-4.3	-5.0	-3.6	-5.5	-6.1
General government gross debt (% of GDP)	_	105.1	107.0	105.4	107.1	109.3
Current account balance (% of GDP)	_	-2.4	-2.4	-2.4	-2.8	-3.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. Deflator for private consumption excluding food and energy.
Source: OECD Economic Outlook 103 database.

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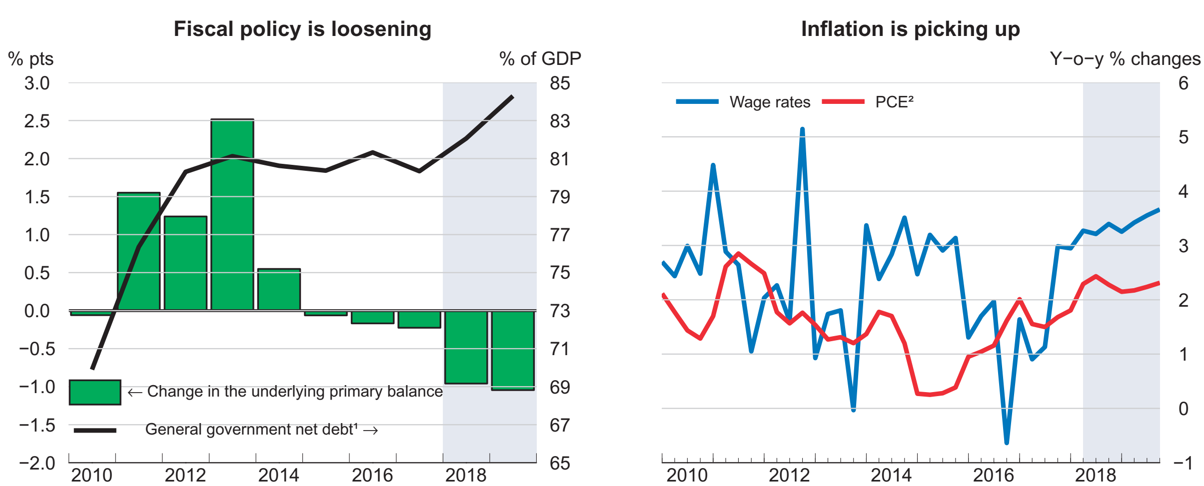

1. General government shows the consolidated (i.e. with intra-government amounts netted out) accounts for all levels of government (central plus State/local) based on OECD national accounts. This measure differs from the federal debt held by the public, which was 76.5% of GDP for the 2017 fiscal year.
2. Personal Consumption Expenditures price index.
Source: OECD Economic Outlook 103 database.

StatLink http://dx.doi.org/10.1787/888933730712

capacity. However, underlying demographic trends suggest labour force growth will eventually decelerate, although the effect on household income will be offset by stronger wage growth in a tight labour market. Investment began to recover in 2017, driven by surging investment in oil and gas exploration and production as the oil price rose. As investment in the oil and gas sector stabilises, the impact of December's tax reform will sustain healthy business investment in the near term.

Policy to sustain the expansion

Macroeconomic policy is rebalancing with fiscal policy set to loosen substantially over the next two years. Tax reform and increases in spending will see the general government deficit rise by around 2 percentage points of GDP during the projection, pushing up government debt levels. While the tax reforms have an effect immediately, the spending increases have not been translated into appropriations and there is likely to be some slippage from 2018 appropriations into the 2019 fiscal year. Ensuring long-term fiscal sustainability is a concern and efforts to restrain spending growth and raise revenue from more growth-friendly sources will be important in this regard.

Monetary policy is gradually becoming less accommodative. Although price inflation has continued to run below target, inflation is set to rise to modestly above target over the course of the projection. With the substantial projected fiscal easing, the Federal Reserve is projected to raise interest rates to 3.25% by the end of 2019. Determining the path of interest rates is complicated by the uncertainty about the future fiscal stance. If higher spending ceilings are not adopted for 2020, the fiscal impulse would become contractionary and policy tightening may pause until there is greater clarity. After a sustained period of monetary policy accommodation a number of financial risks have emerged, notably in the non-financial corporate sector, where leverage is high by historical standards.

With little apparent labour market slack remaining, sustaining future growth in living standards will require bringing more people into the labour force and strengthening productivity growth. The employment-to-population ratio appears low in comparison with many other OECD countries and policies that help people into employment, such as greater assistance in job search and training, would underpin stronger activity and reduce inequality. Deregulation and government support of investment in infrastructure would help mitigate bottlenecks that have emerged in ageing and often poorly maintained infrastructure assets. Strengthening competitive pressures, such as by reducing restrictions on tradeable services, easing occupational licensing, and restricting the use of non-compete contracts, would help lift productivity.

Growth is projected to remain robust

The fiscal boost will contribute to investment and labour market tightening. This will support income growth and consumption, offsetting some of the demographic pressures that will slow employment growth. The fiscal boost will lead to sizeable budget deficits and rising debt levels. Against the backdrop of widespread improvements in external demand export growth is expected to strengthen, though this is offset by rising imports of investment goods. These developments coupled with a decline in national saving due to the fiscal loosening will contribute to a rising current account deficit.

Trade represents a risk to the outlook. Addressing trade-related concerns multilaterally would minimise the risk of retaliatory measures undermining global trade growth. Financial risks have built up in some areas, particularly in the non-financial corporate sector where leverage is high. Reform efforts to reduce regulatory burdens in the financial sector should be careful to avoid exacerbating vulnerabilities. After a long period of quiescent wage and price inflation, the fiscal stimulus could support an acceleration that would boost incomes and price inflation.