# UNITED STATES

**Growth is projected to slow in the coming two years as macroeconomic policy becomes less supportive. While employment growth slows, consumption growth remains solid, supported by wage growth picking up as the labour market tightens further. Strong business investment in 2019 and 2020 is underpinned by the recent tax reform and supportive financial conditions. A weaker global outlook and already introduced trade measures weigh on activity.**

**The large fiscal stimulus enacted in 2017 and 2018 is continuing, albeit more weakly, in 2019; the budget will have a broadly neutral impact on activity in 2020. Monetary policy will tighten to ensure that inflation remains near the target of 2% and that inflation expectations stay well anchored. Further restraints on imports should be avoided as this would weaken domestic growth. Risks to financial stability from elevated asset prices and non-financial corporate sector debt should raise macro-prudential concerns; implementing counter-cyclical capital buffer provisions should be considered if these trends continue.**

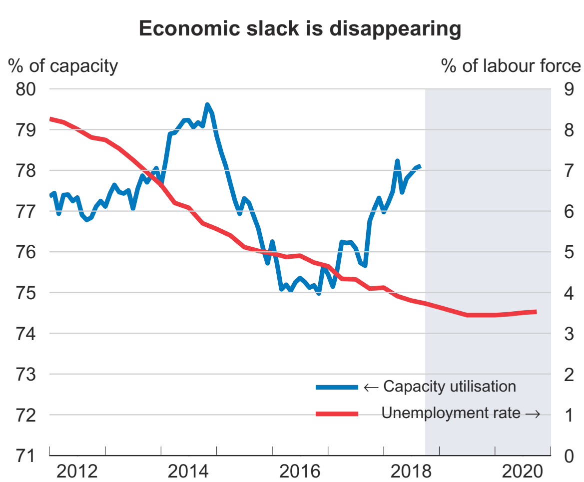
### *The expansion continues*

The long expansion is eliminating slack in the economy. Robust job growth has brought the unemployment rate down to very low levels. Employment growth and wage increases, albeit modest, are supporting consumption growth, while the rise in oil prices and the recent tax reform are boosting investment and with it imports. Measures of consumer and business confidence are high. Despite these positive outcomes, productivity growth remains sluggish, although this is a feature common across OECD countries.

### *Policy measures are needed to sustain the expansion*

The long expansion has largely eliminated the remaining pockets of slack in the labour market and capacity utilisation is rising. With strong job creation and demographic pressures arising from an ageing population, labour shortages are beginning to emerge.

**United States**





*Source:* OECD Economic Outlook 104 database; and Federal Reserve Economic Data.

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

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| | Current prices USD billion | Percentage changes, volume (2012 prices) | | | | |
| **GDP at market prices** | 18 219.3 | 1.6 | 2.2 | 2.9 | 2.7 | 2.1 |
| Private consumption | 12 294.5 | 2.7 | 2.5 | 2.7 | 2.7 | 2.0 |
| Government consumption | 2 612.7 | 1.5 | -0.1 | 1.5 | 3.6 | 2.7 |
| Gross fixed capital formation | 3 704.8 | 1.7 | 4.0 | 4.9 | 4.2 | 3.8 |
| Final domestic demand | 18 612.0 | 2.3 | 2.5 | 3.0 | 3.1 | 2.5 |
| Stockbuilding[1] | 128.7 | -0.5 | 0.0 | 0.1 | 0.1 | 0.0 |
| Total domestic demand | 18 740.7 | 1.8 | 2.5 | 3.0 | 3.2 | 2.5 |
| Exports of goods and services | 2 265.0 | -0.1 | 3.0 | 4.1 | 2.1 | 2.8 |
| Imports of goods and services | 2 786.5 | 1.9 | 4.6 | 4.7 | 5.3 | 4.8 |
| Net exports[1] | - 521.4 | -0.3 | -0.3 | -0.2 | -0.6 | -0.4 |
| *Memorandum items* | | | | | | |
| GDP deflator | _ | 1.1 | 1.9 | 2.2 | 2.2 | 2.5 |
| Personal consumption expenditures deflator | _ | 1.1 | 1.8 | 2.1 | 2.1 | 2.4 |
| Core personal consumption expenditures deflator[2] | _ | 1.7 | 1.6 | 1.9 | 2.1 | 2.4 |
| Unemployment rate (% of labour force) | _ | 4.9 | 4.3 | 3.9 | 3.5 | 3.5 |
| Household saving ratio, net (% of disposable income) | _ | 6.7 | 6.7 | 6.7 | 6.7 | 7.0 |
| General government financial balance (% of GDP) | _ | -5.4 | -4.3 | -6.6 | -6.9 | -7.1 |
| General government gross debt (% of GDP) | _ | 106.6 | 105.1 | 106.8 | 109.9 | 113.3 |
| Current account balance (% of GDP) | _ | -2.3 | -2.3 | -2.4 | -2.9 | -3.3 |

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 104 database.

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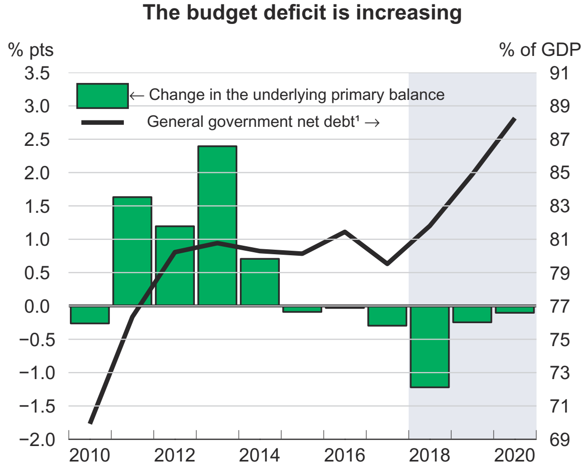
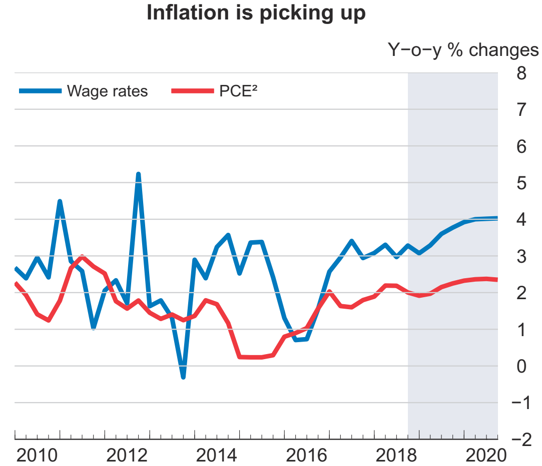
## United States

**The budget deficit is increasing**




**Inflation is picking up**




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 104 database.

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This makes it important for fiscal policy to become less expansionary, as planned, so as to mitigate the rising tensions on production capacity.

Growth could be sustained by measures to improve the job opportunities of those still on the margins of the labour market, and by product market reforms that strengthen productivity growth. The employment-to-population ratio is low in comparison with many other OECD countries. Policies such as greater assistance in job search and training would boost job opportunities and reduce inequality. Reducing regulatory burdens and increasing investment in infrastructure would mitigate bottlenecks that have emerged. Strengthening competitive pressures, such as by reducing restrictions that hinder businesses in tradeable services, easing occupational licensing and restricting the use of non-compete contracts, would lift productivity.

Trade growth has recovered from the past appreciation of the dollar, but the outlook is uncertain as external demand is weak and the possibility exists of further trade measures being introduced. In these projections, already implemented tariff measures are assumed to remain in place, but no additional actions are taken. The existing measures have a small upward impact on inflation and create a small drag on growth. Significant further import restraints, including raising tariffs to 25% on imports from China, would raise prices and lower GDP growth further. On a more positive note, the recent United States-Mexico-Canada Agreement reduces uncertainty for North American supply chains.

Fiscal policy loosened substantially in late 2017, as the tax reform had a depressing impact on tax revenue. Federal spending increases in 2018 and 2019 are further contributing to growing budget deficits and pushing up government debt levels. In 2020, fiscal policy becomes broadly neutral for growth as the spending increases are scaled back. Ensuring long-term fiscal sustainability is a concern and efforts to restrain spending growth and raise revenue will be important items on the future reform agenda.

Monetary policy is gradually tightening as price inflation nears the Federal Reserve's 2% target. Inflation is projected to rise to modestly above target as economic slack disappears and prices rise somewhat due to the application of tariffs. The Federal Reserve is projected to raise interest rates to 3.5% by the end of 2019 and then keep them at that level during 2020 as the economy slows. Even with the economy slowing, monetary policy should remain contractionary as inflationary pressures intensify from the labour market. Wages are projected to pick up, rising by over 4% in 2020. Furthermore, a number of financial risks have emerged, notably elevated asset prices in some markets and heightened leverage in the non-financial corporate sector. Increasing the resilience to these risks would require the introduction of macro-prudential measures, such as counter-cyclical capital buffers in the banking system.

### *Growth is projected to remain strong*

As the fiscal boost fades and monetary policy tightens, growth will slow. Against a backdrop of weakening external demand, export growth is projected to remain muted. The trade deficit widens as import demand remains strong due to strong investment growth, notwithstanding the introduction of tariffs. These developments coupled with a decline in national saving due to the fiscal loosening will contribute to a rising current account deficit.

After a long period of low wage and price inflation, there are risks that they could gather stronger pace than projected as economic slack is eliminated. While inflation expectations appear firmly anchored, monetary policy may need to be prompt in addressing inflation risks. Trade also represents a risk to the outlook. Addressing trade-related concerns multilaterally would minimise the risk of retaliatory measures undermining global, and US, trade growth and remove uncertainty that may be clouding investment decisions. 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, particularly at the largest systemically important financial firms.