34. THE UNITED STATES

The US economy picked up relatively quickly from the collapse in April and May thanks to robust private demand, an improving labour market, and supported by very accommodative monetary policy and a large fiscal stimulus. The economy is set to continue to recover in coming quarters albeit at a slower pace, while uncertainty remains unusually elevated.

An unprecedented contraction of the economy in the first half of 2020

US output contracted by 9.0% (q-o-q) in the second quarter of 2020, following a decline of 1.3% in the first quarter, as the pandemic and the impact of containment measures spread throughout the economy. The fall in output in the second quarter was a record-high in the post-World War II period, but was still dwarfed by the collapse in the external sector, with exports declining by 23% and imports by 18% in the second quarter. Private consumption and investment fell by 9.6% and 6.8% q-o-q respectively.

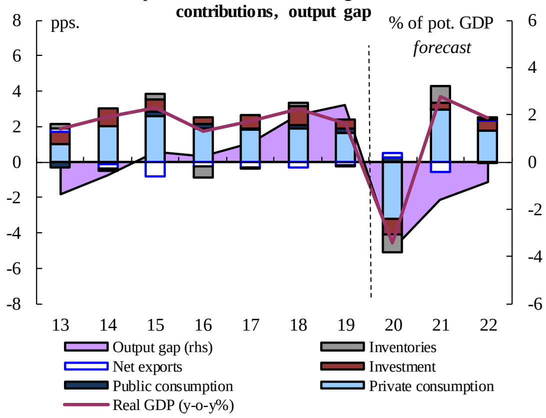
A brisk rebound heading into 2021 as private demand recovers, but soft spots will remain

For 2020 as a whole GDP is expected to contract by a more modest 4.6% as the economy sees a robust rebound in the second half of the year. This assumes strict lockdowns are avoided or replaced by more localised measures with lower direct economic impact. Under this assumption we expect the economy to continue normalising in the third and fourth quarters of 2020 as service providers reopen and industry - including the battered energy sector - bounces back and furloughed employees gradually return to work. The recovery is set to be underpinned by accommodative financing conditions, supportive monetary policy and a relatively high buffer of precautionary savings that households have accumulated as a result of fiscal stimulus measures. The recovery is expected to continue throughout 2021 and 2022, with GDP increasing by around 3¾% and 2½% respectively. At this pace of growth economic activity will reach its pre-pandemic level at the beginning of 2022. By contrast, employment is expected to increase more slowly and is not expected to reach its pre-pandemic level over the forecast horizon.

The forecast adheres strictly to a no-policy change assumption and hence assumes no new fiscal support measures. Private investment has shown more resilience to date than may have been expected but is projected to remain subdued due to high uncertainty linked both to COVID-19 and trade and geopolitical tensions. Private consumption will remain an important motor of growth as households slowly reduce their precautionary savings cushion and unemployment gradually falls.

The global recession and the uncertain economic outlook of main trade partners, as well as broader shifts in value chains, are set to weigh heavily on the export sector in the coming quarters. In effect, exports are forecast to only gradual converge towards their pre-pandemic levels after a severe contraction in 2020. Imports are set to decline less than exports in 2020 and recover more quickly, reaching their pre-pandemic peak in the second half of 2022, reflecting resilient private consumption. As a consequence the trade deficit, having narrowed slightly in USD terms in 2020, is projected to increase in both USD terms and as a percentage of GDP in 2021-2022.

Graph II.34.1: **US - Real GDP growth and contributions, output gap**



The US lost over 20 million job in April 2020 and the unemployment rate climbed to 14.7%, despite a fall in the active labour force. A large number of workers were rapidly re-employed and unemployment fell to 7.9% in September, but the unemployment rate is expected to remain about 1.7 pps. above the 2019 level at the end of the forecast horizon as re-hiring slows and the participation rate recovers. After falling by about 0.7% in 2020, consumer price inflation is expected to rise in 2021 and 2022 but to remain below the Federal Reserve's 2% target at the end of 2022.

Supportive monetary policy will continue while fiscal policy stance remains more uncertain

Fiscal policy is projected to be significantly less supportive in coming quarters than in the first half of 2020. Some stimulus measures have already expired, such as additional temporary payments to the unemployed, and there has as yet been no agreement in Congress on a new stimulus package, though this deadlock may break following the November Presidential election. By contrast, monetary policy is set to remain exceptionally accommodative. The policy rate is not expected to increase over the forecast horizon and the liquidity measures rolled out by the Fed are likewise set to remain in place. This outlook is underpinned by the recent review of the Fed's operating framework that moves to average inflation targeting, allowing for a temporary overshooting of the 2% inflation target rate. The general government deficit-to-GDP ratio is set to be above 15% of GDP in 2020 and the debt-to-GDP ratio is expected to increase by close to 20 percentage points compared to 2019, with gross general government debt projected to reach almost 130% of GDP in 2021.

An exceptionally high degree of uncertainty with both downside and upside risks

A sustained increase in the number of daily infections could further dampen economic activity, while early availability of an effective vaccine constitutes an upside risk. The pace of labour market recovery has surprised on the upside in recent months, but stronger-than-expected scarring effects on small and medium firms could slow down future growth in employment. Lower corporate profits and a reassessment of credit risk may also expose vulnerabilities among the most highly leveraged companies. Although equity markets have been very buoyant, renewed concern for the medium term outlook could lead to a significant correction. Continued trade and geopolitical tension could also hinder the recovery, particularly in investment and exports. On the upside, a new and sizeable fiscal package could provide a renewed boost to incomes, limit corporate insolvencies and accelerate recovery.

Table II.34.1:

Main features of country forecast - UNITED STATES

		2019			Annual percentage change					
	bn USD	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		21433.2	100.0	1.9	2.4	2.9	2.3	**-4.6**	**3.7**	**2.5**
Private Consumption		14544.6	67.9	2.2	2.6	3.0	2.6	**-4.9**	**4.4**	**2.6**
Public Consumption		2995.1	14.0	1.1	0.6	1.7	1.8	**1.8**	**0.1**	**-0.1**
Gross fixed capital formation		4454.9	20.8	1.6	3.7	4.1	1.8	**-3.6**	**1.6**	**2.7**
of which: equipment		1404.9	6.6	3.3	4.8	6.7	1.9	**-10.7**	**1.2**	**2.9**
Exports (goods and services)		2514.7	11.7	3.5	3.5	3.0	0.0	**-13.9**	**7.1**	**3.6**
Imports (goods and services)		3125.2	14.6	3.1	4.7	4.4	1.0	**-12.1**	**8.3**	**2.3**
GNI (GDP deflator)		21702.8	101.3	1.9	2.6	2.8	2.2	**-5.0**	**3.7**	**2.6**
Contribution to GDP growth:	Domestic demand			2.0	2.6	3.1	2.4	**-3.8**	**3.3**	**2.3**
	Inventories			0.0	0.0	0.1	0.1	**-0.8**	**0.8**	**0.1**
	Net exports			-0.1	-0.3	-0.3	-0.1	**0.1**	**-0.4**	**0.1**
Employment				-	1.2	1.7	1.1	**-6.3**	**2.1**	**1.9**
Unemployment rate (a)				6.4	4.4	3.9	3.7	**7.7**	**6.2**	**5.4**
Compensation of employees / f.t.e.				2.8	3.2	3.4	3.0	**4.2**	**0.3**	**1.9**
Unit labour costs whole economy				1.4	2.0	2.2	1.8	**2.3**	**-1.3**	**1.3**
Real unit labour cost				-0.5	0.1	-0.3	0.2	**1.1**	**-2.5**	**0.1**
Saving rate of households (b)				11.5	12.5	13.3	13.8	**19.6**	**12.3**	**11.2**
GDP deflator				1.9	1.8	2.5	1.6	**1.1**	**1.2**	**1.3**
Consumer-price index				-	2.1	2.4	1.8	**1.1**	**1.6**	**1.8**
Terms of trade goods				0.0	0.6	0.7	0.0	**-3.1**	**-1.9**	**-0.4**
Trade balance (goods) (c)				-4.9	-4.3	-4.4	-4.1	**-4.3**	**-4.8**	**-4.7**
Current-account balance (c)				-3.2	-1.9	-2.2	-2.2	**-3.0**	**-3.4**	**-3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.2	-1.9	-2.2	-2.2	**-3.0**	**-3.4**	**-3.2**
General government balance (c)				-6.6	-4.3	-6.6	-7.2	**-15.3**	**-6.9**	**-4.7**
Cyclically-adjusted budget balance (d)				-	-	-	-	**-**	**-**	**-**
Structural budget balance (d)				-	-	-	-	**-**	**-**	**-**
General government gross debt (c)				81.7	105.9	106.9	108.7	**127.9**	**128.7**	**128.7**

(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.