34. THE UNITED STATES

The US economy's contraction in 2020 was severe, but less deep than initially feared. Private demand recovered quickly in the second half of 2020, supported by very accommodative monetary policy and large fiscal stimulus measures. A rapid vaccination programme, high levels of excess savings and a recovering labour market should allow for strong consumption growth in 2021, with the US surpassing pre-pandemic GDP levels early in Q2. While inflation is expected to pick up in the near term, pricing pressures are expected to be transient, reflecting base effects and temporary supply constraints.

A deep but short-lived contraction in 2020

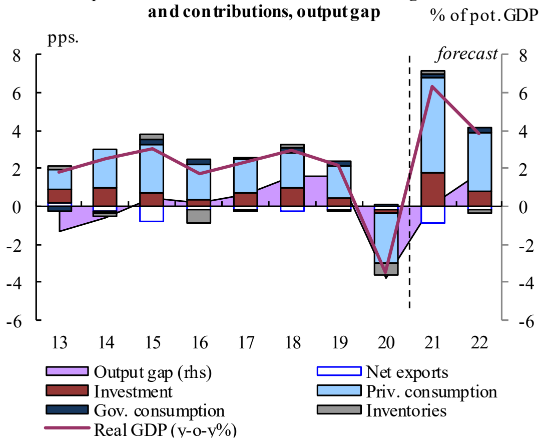
US output contracted by 3.5% in 2020, less severely than in many other advanced economies. Following the COVID outbreak, GDP fell to a level almost 10% below that in 2019-Q4 by the second quarter of 2020, but recovered briskly in the second half of 2020. At the end of the year, US output was only 2.4% below its pre-pandemic level. Private consumption recovered quickly, with fiscal support measures leading to an increase in personal disposable incomes in 2021 despite a sharp rise in unemployment. Investment was also surprisingly firm and stood 2.3% above its level a year earlier in 2020-Q4, with expenditure on residential housing and equipment particularly strong. Imports also recouped most of their 2020 losses by year end, in line with the strong rebound in domestic demand. However, exports in 2020-Q4 remained 11% below their pre-COVID level.

A strong 2021 underpinned by policy support and the release of private savings

GDP is expected to grow by 6.3% in 2021, a strong showing that will see output rise above its pre-COVID level in the second quarter. This assumes that the fast pace of vaccination is maintained, ensuring that most containment measures are removed by end-June. Under this assumption, we expect the economy to continue normalising in the second and third quarters of 2021 as service providers reopen - with a more gradual reopening of the tourism sector. Rapid growth in 2021 is set to be underpinned by strong fiscal support from the March 2021 American Rescue Plan (ARP) and accommodative monetary policies [see Technical X.X]. Growth is expected to slow to 3.8% in 2022, as the post-COVID rebound naturally attenuates while fiscal support will be lower as most of the ARP measures expire.

Private investment and consumption are expected to remain the main growth drivers throughout 2021-2022 as COVID-related uncertainty recedes, households slowly reduce their cushion of accumulated excess savings and employment recovers, particularly in the service sector.

Graph II.34.1: **The United States - Real GDP growth and contributions, output gap**



Imports are expected to grow by double digits in 2021, supported by strong domestic demand and favourable base effects, and should remain robust in 2022. Exports are expected to rebound in a more staggered fashion, in line with the slower pace of recovery in key trade partners. The trade deficit, having remained roughly constant over 2019-2020, is projected to increase sharply in both USD terms and as a percentage of GDP in 2021-2022. Overall, net exports are expected to contribute negatively to growth over this period.

Following a dip in inflation in 2020 (the CPI fell to 1.2% from 1.8% in 2019) consumer prices are projected to temporarily exceed the Fed's 2% target in 2021 due to base effects and recovering energy prices. Disruptions to global supply chains and transport network may also add to short term prices pressures, while the re-opening of the service sector could see a spike in services prices as businesses rebuild capacity. Inflation should however fall back towards target in 2022 as capacity and supply chain constraints recede. Underlying inflationary pressures remain muted, with significant labour market slack. The US unemployment rate climbed to 14.7% in mid-2020, despite a fall in the active labour force of almost 2pp, and with a disproportionate impact on lower income and service sector workers. Unemployment fell back to just over 6% by March 2021 and is expected to decline further through 2021 and 2022, together with a gradual recovery in the participation rate. Employment growth is expected to lag output growth to some degree, with the unemployment rate expected to reach 3.4% in 2022, just above the pre-pandemic low of 3.2%.

Monetary policy likely to remain supportive, but the fiscal policy stance is more uncertain

The Fed's new monetary policy strategy gives greater weight to employment objectives and aims for average inflation of 2%, allowing for some temporary over or undershooting of target. Monetary policy is therefore set to remain accommodative over the forecast horizon, but the improved economic outlook has already led to a recovery in long-term bond yields to close to pre-pandemic levels. Temporary price pressures may push nominal yields higher but financing conditions are expected to remain favourable. Fiscal policy will continue to be strongly supportive in the first three quarters of 2021, but a relatively sharp fiscal retrenchment is possible in 2022. The new measures currently under discussion but not yet adopted (e.g. a new infrastructure package) have not been included in this forecast. The general government deficit-to-GDP ratio is set to be around 16% of GDP in both 2020 and 2021 and the debt-to-GDP ratio will further increase in 2021, following a steep increase of about 20 percentage points in 2020. General government gross debt is set to reach 135% of GDP in 2021.

Both downside and upside risks remain

On the downside, the main risk is that higher inflationary pressures could entail a sharper-than-expected tightening of financing conditions. Some short term volatility in inflation is expected, but given the remaining uncertainties over the pace of recovery, markets could push yields too high too fast on data surprises. On the upside, a new fiscal package, could imply stronger growth in 2021-2022, while a faster-than-assumed release of private savings could significantly accelerate consumption growth in both 2021 and 2022.

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	2.3	3.0	2.2	**-3.5**	**6.3**	**3.8**
Private Consumption		14544.6	67.9	2.2	2.6	2.7	2.4	**-3.9**	**7.4**	**4.5**
Public Consumption		2995.1	14.0	1.1	0.6	1.5	1.8	**0.3**	**1.6**	**1.9**
Gross fixed capital formation		4454.9	20.8	1.6	3.5	4.8	2.3	**-0.8**	**8.2**	**3.8**
of which: equipment		1404.9	6.6	3.2	3.5	7.8	2.5	**-4.1**	**12.0**	**3.8**
Exports (goods and services)		2514.8	11.7	3.5	3.9	3.0	-0.1	**-13.0**	**9.1**	**7.7**
Imports (goods and services)		3125.2	14.6	3.1	4.7	4.1	1.1	**-9.3**	**13.5**	**7.2**
GNI (GDP deflator)		21702.9	101.3	2.0	2.6	2.9	2.0	**-3.8**	**6.3**	**3.9**
Contribution to GDP growth:	Domestic demand			2.0	2.6	3.1	2.4	**-2.8**	**7.0**	**4.2**
	Inventories			0.0	0.0	0.2	0.0	**-0.7**	**0.2**	**-0.1**
	Net exports			-0.1	-0.2	-0.3	-0.2	**-0.2**	**-0.9**	**-0.2**
Employment				0.5	1.2	1.6	1.2	**-6.2**	**4.3**	**3.2**
Unemployment rate (a)				6.4	4.4	3.9	3.7	**8.1**	**4.6**	**3.4**
Compensation of employees / head				2.9	3.0	3.2	2.9	**7.0**	**0.7**	**2.7**
Unit labour costs whole economy				1.5	1.8	1.8	1.9	**4.0**	**-1.2**	**2.1**
Real unit labour cost				-0.4	-0.1	-0.6	0.1	**2.7**	**-3.4**	**0.1**
Saving rate of households (b)				11.5	12.5	13.3	14.6	**24.4**	**22.1**	**16.0**
GDP deflator				1.9	1.9	2.4	1.8	**1.2**	**2.3**	**2.0**
Harmonised index of consumer prices				2.1	2.1	2.4	1.8	**1.2**	**2.2**	**2.0**
Terms of trade goods				0.0	0.4	0.7	0.5	**-1.6**	**0.6**	**0.0**
Trade balance (goods) (c)				-4.9	-4.3	-4.4	-4.1	**-4.3**	**-4.7**	**-4.9**
Current-account balance (c)				-3.6	-2.0	-2.3	-2.3	**-2.9**	**-3.4**	**-3.4**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.7	-2.1	-2.3	-2.4	**-3.0**	**-3.4**	**-3.4**
General government balance (c)				-6.6	-4.3	-6.2	-6.6	**-16.1**	**-16.0**	**-6.8**
Cyclically-adjusted budget balance (d)				:	:	:	:	**:**	**:**	**:**
Structural budget balance (d)				:	:	:	:	**:**	**:**	**:**
General government gross debt (c)				81.7	105.6	106.6	108.2	**127.4**	**135.6**	**133.7**

(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.