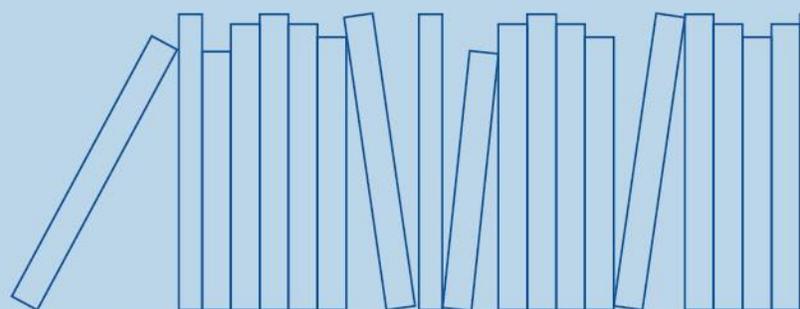


Economic Commission for Latin America and the Caribbean  
**ECLAC OFFICE IN WASHINGTON, D.C.**



# **U.S. Economic Outlook**

Third Quarter 2019

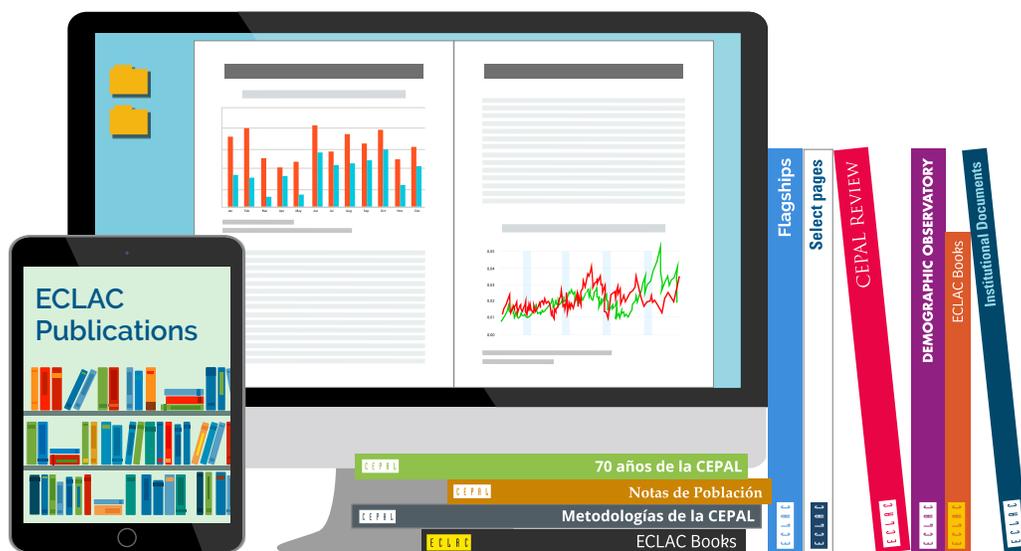


UNITED NATIONS



Washington, D.C., 11 December 2019

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## Highlights

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- In the third quarter of 2019, the U.S. economy grew at a 2.1% annualized rate. Growth was driven by consumer and government spending, and a buildup in inventories.
- The third quarter of 2019 was the 41<sup>st</sup> consecutive quarter of growth and November the 125<sup>th</sup> month of consecutive growth for the U.S. economy. The current expansion is the longest on record.
- The Federal Open Market Committee (FOMC) cut the federal funds rate three times this year, in July, September and October, due to slowing global growth and trade uncertainty, contributing to diminish recession fears. Federal Reserve Chairman Jerome Powell has announced a “wait-and-see” posture for future changes in monetary policy.
- The nominal trade deficit narrowed by 7.6% in October to US\$ 47.2 billion. It has narrowed in four of the past five months and is the narrowest since the first half of 2018. It is expected to make a positive contribution to growth in the fourth-quarter.
- U.S. employers added 266,000 jobs in November, beating expectations and confirming the continued strength of the labor market. The unemployment rate dropped back to a historic low of 3.5%, and hourly earnings increased 3.1% over the past year, also exceeding estimates.
- In November, U.S. consumer price inflation edged up (0.3%) following another rise in October (0.4%). Over the last 12 months, the all items Consumer Price Index (CPI) rose 2.1%. The core CPI was up 2.3%.

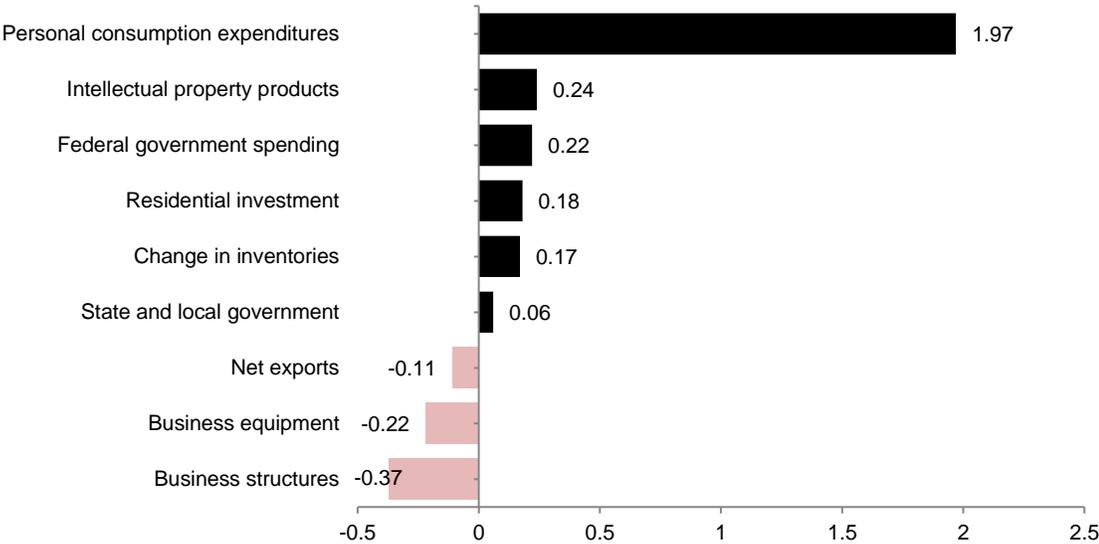


# Overview

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The U.S. economy has slowed from around 3% annualized growth in 2018 to 2% in 2019. Consumers remain confident, buoyed by low interest rates, rising incomes and a strong labor market. On the other hand, trade uncertainty has weighed heavily on business sentiment, exports and investment. At the end of November third quarter real GDP growth was revised up to 2.1% from 1.9% in the advance estimate. The increase was due largely to an upward revision to inventories, which is a negative for growth in the next quarter. The revision did not change much the overall picture of the U.S. economy.

**CHART 1:**  
**CONTRIBUTIONS TO U.S. GROWTH: Q3 2019**  
*(Percentage)*



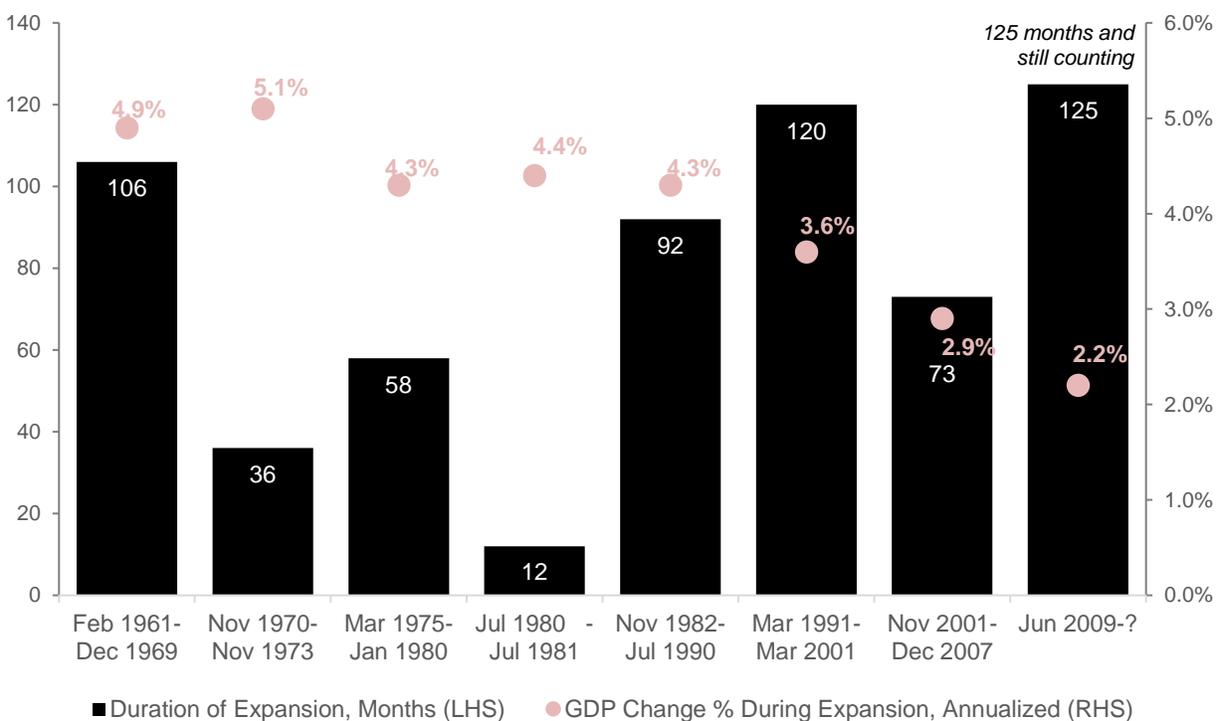
Source: ECLAC Washington Office based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Economic policy uncertainty has risen since 2018, in large part because of trade disputes, which have led some U.S. firms to delay investment. Concerns regarding a U.S. recession tapered down in November, following three cuts in the federal funds rate by the Federal Reserve in July, September and October, and a steepening in the yield curve amid increasing optimism about a trade deal with China. However, there is no deadline for a deal with China yet and tariff tensions with other countries, including exports of steel and aluminum from Brazil and Argentina, as well as US\$ 2.4 billion of goods from France, have arisen.

The latest U.S. job report showed a jump in hiring and a fall in unemployment rate in November, helped in part by the end of a General Motors strike. The strong job report added support to the recent “wait-and-see” posture on interest rates announced by Fed officials, after interest rates were cut three times, as well as fuel to the economic expansion.

The current economic expansion is now ten years old and counting. The third quarter of 2019 was the 41<sup>st</sup> consecutive quarter of growth, and November the 125<sup>th</sup> month of consecutive growth for the U.S. economy. It is the longest U.S. expansion on record. However, growth has been shallower than in previous expansions (chart 2).

**CHART 2:**  
**THE CURRENT U.S. EXPANSION: LONG IN DURATION BUT LACKING VIGOR**  
(Number of Months, Percentage)



Source: ECLAC Washington Office, based on data from the National Bureau of Economic Research (NBER) and the Bureau of Economic Analysis (BEA), Commerce Department.

While the U.S. expansion is in position to keep going, there is a danger that unless business confidence and investment rebounds, a resilient consumer and easy central bank policy may face a harder time nurturing economic activity. According to Morgan Stanley Wealth Management, “more than a third of the companies have year-over-year earnings contractions”. It warns that “profit pullbacks of this breadth in 2002 and 2009 coincided with broader economic recessions.”

The U.S. nominal trade deficit narrowed more than anticipated in October, and according to Moody's projections, this puts net exports on track to add more to fourth-quarter GDP growth than previously thought. Market projections for fourth-quarter growth suggest a slowdown from the third-quarter pace, pointing to a 1.6% growth rate on average (table 1). The Federal Reserve of Atlanta's GDPNow model predicts a GDP growth rate of 2% in the fourth quarter as of December 6, up from 1.5% percent on December 5 following the release of the employment report by the U.S. Bureau of Labor Statistics. Market projections for the first and second quarter of 2020 are 1.5% and 1.7%, respectively, on average, with most projections made in November, before the release of the latest employment report.

**TABLE 1:  
QUARTERLY FORECASTS FOR U.S. ECONOMIC GROWTH**

	Q4 2019 (qoq)	Q1 2020 (qoq)	Q2 2020 (qoq)	Date of Forecast
<b><i>What Markets Say</i></b>				
Bank of America/Merrill Lynch	1.5%	1.7%	1.7%	Nov-19
Capital Economics	1.5%	1.0%	1.5%	Nov-19
J.P. Morgan	2.0%	1.3%	1.5%	Nov-19
Moody's Economy.com	2.0%	1.9%	1.7%	Oct-19
Mortgage Bankers Association	1.4%	0.5%	0.7%	Nov-19
National Association of Realtors	2.0%	2.0%	2.2%	Nov-19
National Bank of Canada	1.2%	2.3%	1.9%	Dec-19
TD Bank Financial Group	1.8%	1.4%	1.9%	Sep-19
Wells Fargo/Wachovia	1.2%	1.7%	1.9%	Nov-19
<b><i>Forecasts average</i></b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.7%</b>	

Source: ECLAC Washington Office, based on several market sources.

A more muted pace of growth in 2019 is expected compared to 2018 (when the economy grew 2.9%), due to weaker global growth, the waning effects of the 2017 tax-cuts, and the rise in uncertainty, although the U.S. economy still has strong support from low unemployment, low interest rates and strong consumer spending. On average, market projections point to growth of 2.2% in 2019 and 1.7% in 2020 (table 2).

TABLE 2:  
ANNUAL FORECASTS FOR U.S. ECONOMIC GROWTH

	Real GDP (% change, y/y)		CPI (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		Date of Forecast	
	2019	2020	2019	2020	2019	2020	2019	2020		
<b>A. What Government Agencies Say</b>										
FED*	2.2%	2.0%	1.5%	1.9%	3.7%	3.7%	1.9%	1.9%	Sep-19	
CBO	2.6%	2.1%	1.9%	2.4%	3.7%	3.7%	na	na	Aug-19	
Administration (Office of Management and Budget)	3.2%	3.1%	2.1%	2.3%	3.7%	3.8%	na	na	Jun-19	
<b>B. What Markets Say</b>										
Bank of America/Merrill Lynch	2.3%	1.7%	1.8%	2.2%	3.7%	3.7%	1.63%	1.63%	Nov-19	
Capital Economics	2.2%	1.4%	1.8%	1.9%	3.8%	4.2%	1.63%	1.63%	Nov-19	
JPMorgan	2.2%	1.8%	1.8%	2.4%	3.6%	3.5%	1.75%	1.50%	Nov-19	
Moody's Economy.com	2.3%	1.7%	1.8%	2.0%	3.7%	3.7%	2.17%	1.36%	Oct-19	
Mortgage Bankers Association	2.1%	0.9%	1.8%	1.9%	3.7%	4.1%	1.63%	1.63%	Nov-19	
National Association of Realtors	2.1%	2.2%	2.0%	1.9%	3.7%	3.8%	2.30%	1.70%	Nov-19	
National Bank of Canada	2.3%	1.9%	1.8%	2.3%	3.7%	3.4%	1.75%	1.75%	Dec-19	
TD Bank Financial Group	2.3%	1.7%	2.2%	2.4%	3.7%	3.8%	2.19%	1.75%	Sep-19	
The Economist Intelligence Unit	2.2%	1.6%	1.8%	1.6%	3.7%	4.2%	na	na	Nov-19	
Wells Fargo/Wachovia	2.3%	1.8%	2.2%	2.4%	3.7%	3.6%	2.19%	1.50%	Nov-19	
<b>Market Average</b>	<b>2.2%</b>	<b>1.7%</b>	<b>1.9%</b>	<b>2.1%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>1.9%</b>	<b>1.6%</b>		
<b>C. What International Organizations Say</b>										
United Nations DESA (Baseline)	2.3%	2.1%	na	na	na	na	na	na	May-19	
World Bank	2.5%	1.7%	na	na	na	na	na	na	Jun-19	
OECD*	2.3%	2.0%	1.5%	2.1%	3.7%	3.5%	na	na	Nov-19	
IMF	2.4%	2.1%	1.8%	2.3%	3.7%	3.5%	na	na	Oct-19	

Source: ECLAC Washington Office based on official and market sources.

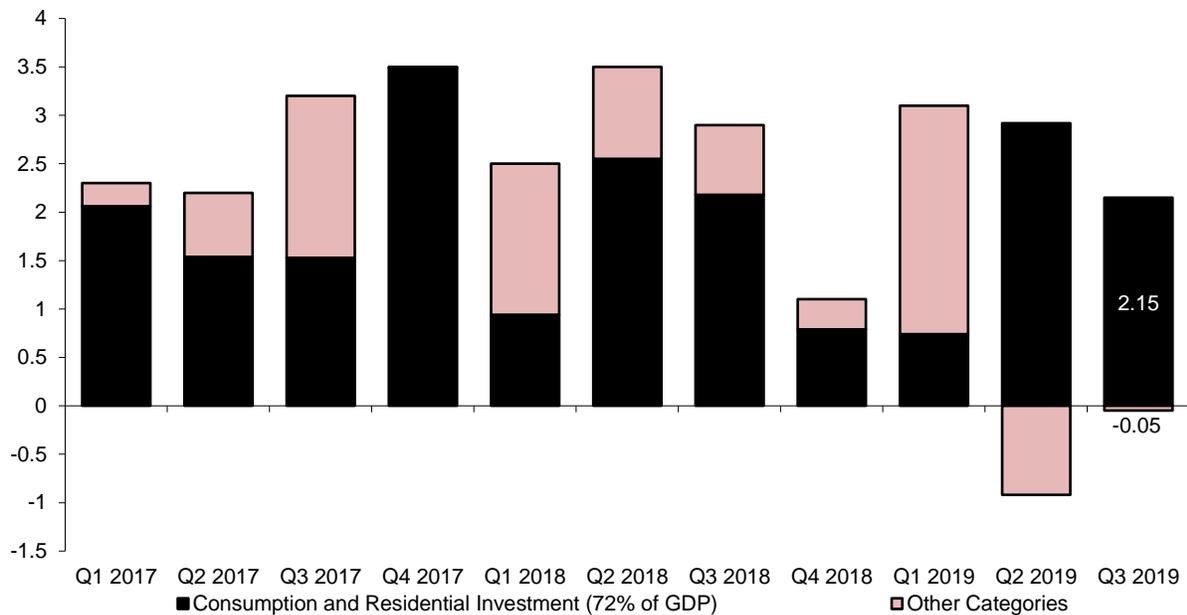
Note: FED: Federal Reserve; CBO: Congressional Budget Office; OMB: Office of Management and Budget (U.S. Administration's forecasts).

\*Forecast for PCE inflation.

## I. Quarterly Developments

U.S. growth in the third quarter of 2019 (2.1%) improved relative to the second quarter (2%), but it was considerably lower compared to third-quarter growth last year (3.5%). The core of the U.S. economy – consumption and residential investment – contributed 2.15% to growth compared to a contribution of 2.92% in the second quarter, while other categories, including business investment, subtracted 0.05% from third-quarter growth (chart 3).

**CHART 3:**  
**CONTRIBUTIONS TO U.S. REAL GDP GROWTH**  
*(Percentage Points)*

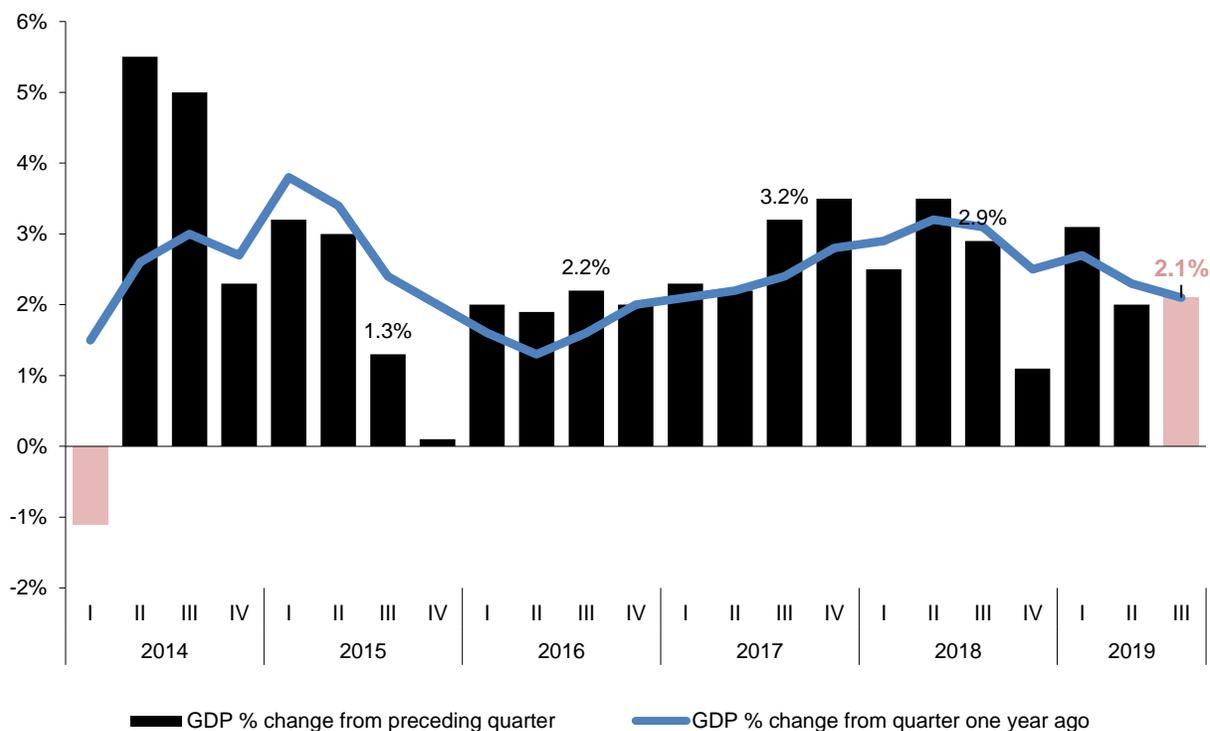


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.  
Note: Contributions to growth are measured at seasonally adjusted annual rates.

## A. GDP Growth

According to the second estimate released by the U.S. Department of Commerce on 27 November 2019, the U.S. economy grew at an annual rate of 2.1% in the third quarter, following an increase of 2% in the previous quarter. This was the slowest third-quarter growth since 2015 (chart 4). The U.S. government will release its initial estimate for fourth-quarter GDP on January 30, 2020.

**CHART 4:**  
**U.S. REAL GDP: QUARTERLY GROWTH**  
(Percentage Points)



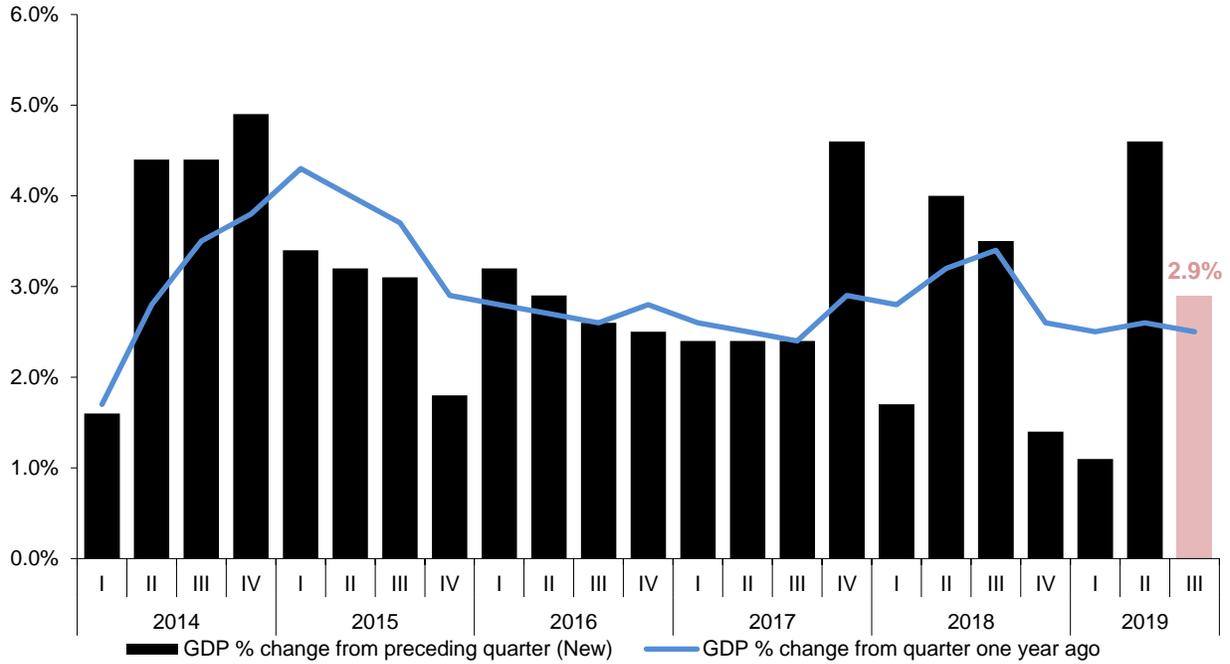
Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

The acceleration in real GDP in the third quarter reflected improvements in private inventory investment, exports, and residential fixed investment that were partly offset by decelerations in personal consumption expenditures (PCE), federal government spending, and state and local government spending, and a larger decrease in nonresidential fixed investment

PCE, the largest component of GDP, grew 2.9% in the third quarter of 2019, after increasing 4.6% in the second quarter (chart 5). Still, consumer spending was the biggest driver of growth, contributing 1.97% to growth in the third quarter. This was a smaller contribution than in the second quarter, however, when PCE contributed 3.03% to growth.

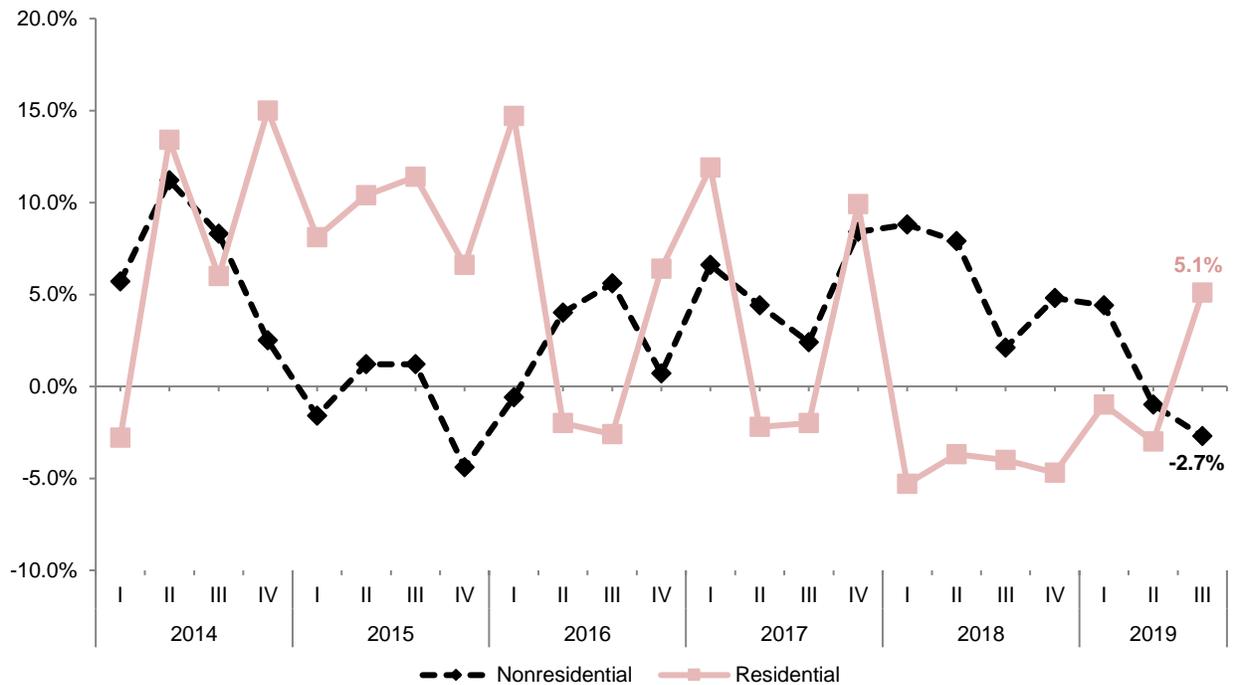
Fixed investment subtracted 0.18% from growth in the third quarter. The change in private inventories added 0.17%, after subtracting 0.91% in the second quarter, and it was the fifth driver of growth in the third quarter. Overall, gross private domestic investment declined at a 0.1% annual rate, following another decline of 6.3% in the second quarter. It subtracted 0.01% from third-quarter GDP growth (with a negative contribution of 0.18% due to business fixed investment – +0.18% from residential and -0.36% from nonresidential – and a positive contribution of 0.17% due to inventories).

**CHART 5:**  
**PERSONAL CONSUMPTION EXPENDITURE: QUARTERLY GROWTH**  
(Percentage Points)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

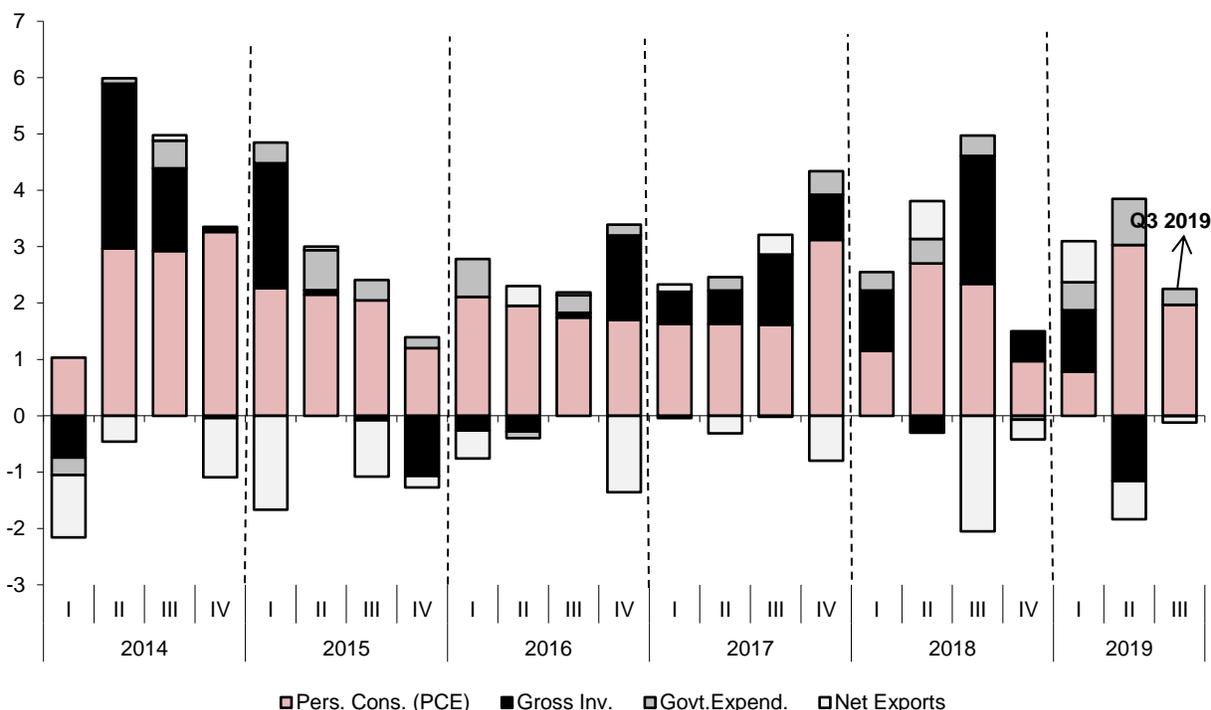
**CHART 6:**  
**GROSS PRIVATE DOMESTIC INVESTMENT: QUARTERLY GROWTH**  
(Percentage Points)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Overall, government spending increased 1.6% and added 0.28% to growth in the third quarter. State and local government spending increased 0.5% and federal outlays increased 3.4% (national defense spending increased 2.2%, while nondefense spending increased 5.1%). Finally, net exports subtracted 0.11% from growth in the third quarter. Exports increased 0.9% and imports increased 1.5%, adding 0.11% and subtracting 0.22%, respectively, from third-quarter growth (chart 7).

**CHART 7:  
CONTRIBUTIONS TO REAL GDP GROWTH**  
(Percentage Points)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.  
Note: Contributions to growth are measured at seasonally adjusted annual rates.

Real GDP growth has slowed from the middle of last year, when it was driven by deficit-financed tax cuts, but looks to be settling near the pace of 2% that has prevailed throughout much of this record-long expansion. The U.S. economy has also received a little help from the Federal Reserve, which cut interest rates three times this year, a hard pivot away from the interest rate hikes that prevailed in 2018. This has boosted the outlook for rate-sensitive sectors of the economy, including housing.

## B. Industrial production

Industrial production, a measure of factory and utility output, fell at a seasonally adjusted 0.8% in October from September, according to data from the Federal Reserve (table 3), below the consensus forecast. The United Auto Workers strike contributed to a 7.1% drop in output of motor vehicles and parts, but this strike has been resolved, therefore output is expected to be boosted in November and December. Excluding motor vehicles and parts, industrial production still fell 0.5% but weather was also a factor. From a year earlier, industrial production declined 1.1% in October. Capacity utilization for the industrial sector decreased 0.8% in October to 76.7%, a rate that is 3.1% below its long-run (1972–2018) average.

**TABLE 3:  
U.S INDUSTRIAL PRODUCTION**

	Total Industrial Production		Capacity Utilization Rate
	Index 2012=100	Percentage Change From Previous Period	Total Industry (%)
<b>2018 Q4</b>	<b>110.3</b>	<b>3.9</b>	<b>79.4</b>
October	109.9	0.2	79.3
November	110.5	0.5	79.6
December	110.6	0.0	79.5
<b>Annual</b>	<b>108.6</b>	<b>3.9</b>	<b>78.7</b>
<b>2019 Q1</b>	<b>109.8</b>	<b>-1.9</b>	<b>78.6</b>
January	110.1	-0.4	79.0
February	109.6	-0.5	78.5
March	109.7	0.1	78.4
<b>2019 Q2</b>	<b>109.2</b>	<b>-2.3</b>	<b>77.7</b>
April	109.0	-0.6	77.8
May	109.2	0.2	77.8
June	109.3	0	77.7
<b>2019 Q3</b>	<b>109.5</b>	<b>1.4</b>	<b>77.6</b>
July	109.1	-0.1	77.4
August	109.9	0.7	77.9
September	109.6	-0.3	77.5
<b>2019 Q4</b>			
October	108.7	-0.8	76.7

Source: ECLAC Washington Office, based on data from U.S. Federal Reserve, Industrial Production and Capacity Utilization  
Note: Quarterly changes are at annual rates. Annual changes are calculated from annual averages.

U.S. manufacturers have faced higher costs for many components and metals because of U.S. tariffs on goods from China and a strong dollar that makes U.S. exports more expensive. Though manufacturing accounts for a small share of GDP, the sector is highly sensitive to shifts in global demand, making it a bellwether for the broader U.S. economy. The U.S. manufacturing sector contracted at a slightly faster rate in November, according to the ISM manufacturing index, which fell from 48.3 in October to 48.1 in November. It was the fourth consecutive month of contraction for the U.S. manufacturing sector.

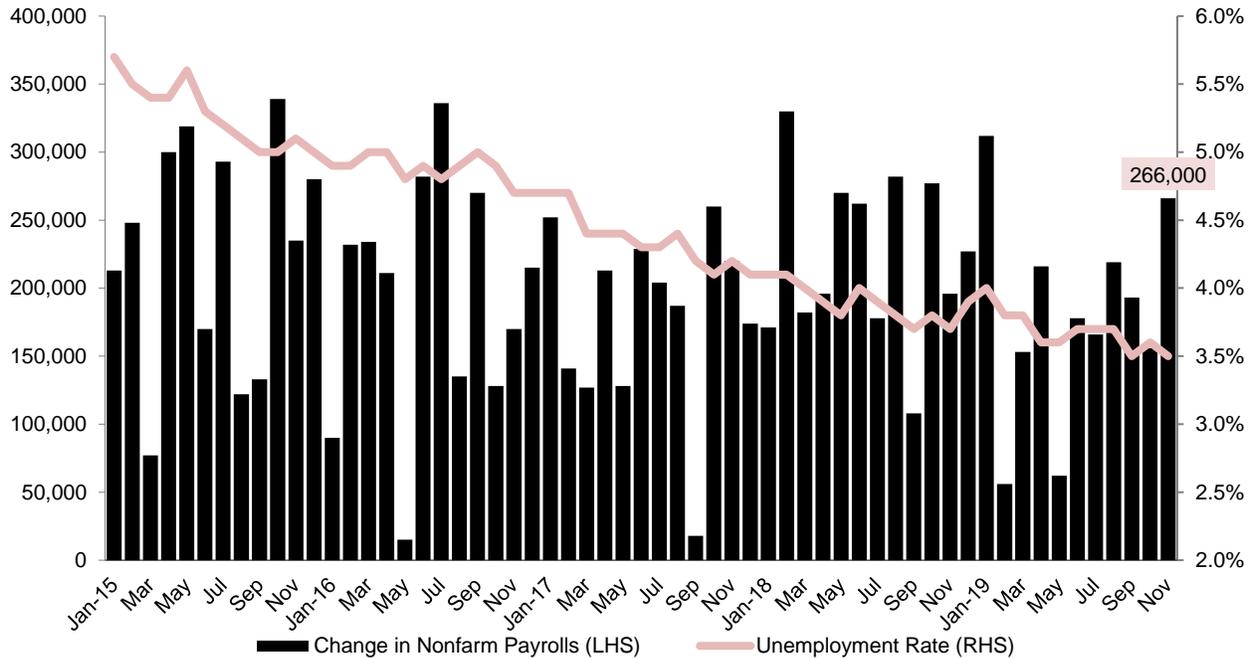
## C. Labor market

The U.S. economy added 266,000 jobs in November (chart 8). The pickup in hiring came at a stronger pace than the consensus forecast was suggesting. The number was helped by the return of 41,000 striking GM workers, but even allowing for that, labor market conditions remain solid. Jobs have grown an average 205,000 per month in the three months through November, a pickup from the pace earlier in the year but less than 223,000 per month for the same period a year ago.

The average jobs growth for the third quarter of 2019 was 192,667 a month, and the year-to-date average stands at 179,727, down from 223,250 in 2018 but in line with the expected slowdown in growth this year. Last year 2.7 million jobs were created, while 1.98 million jobs were created from January to November 2019. A tight job market is insulating a slowing economy and the November employment report should provide relief to the Federal Reserve, which has signaled it will pause before it provides any more stimulus.

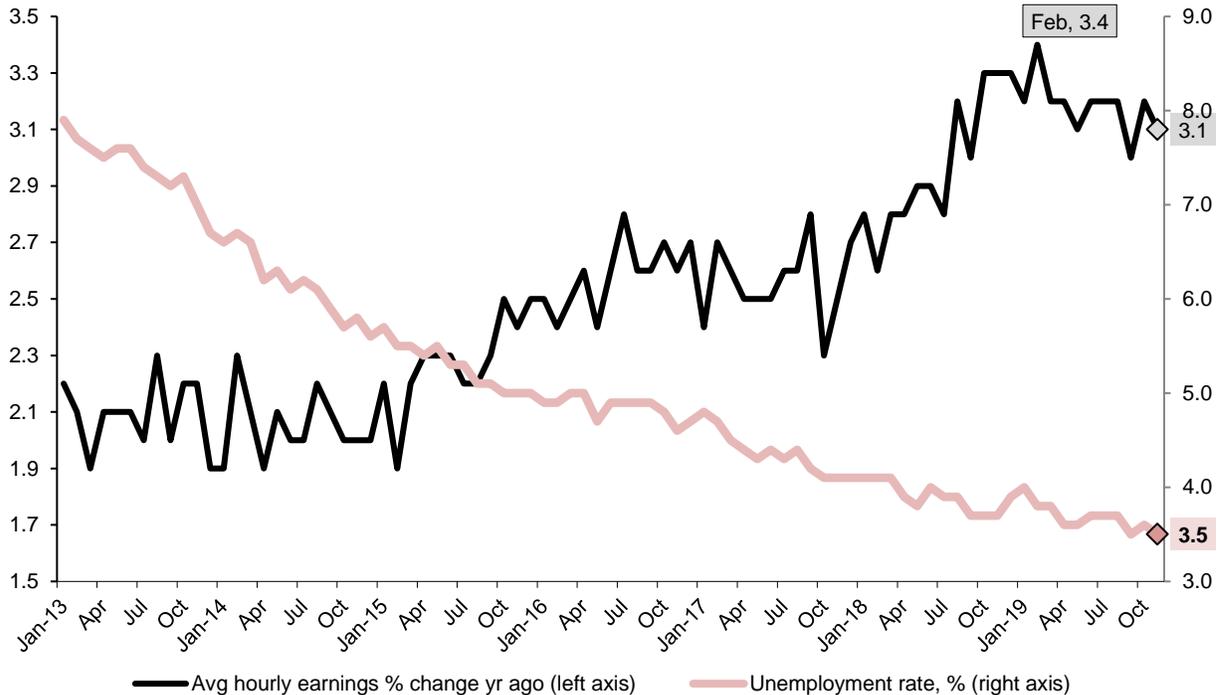
The unemployment rate dropped back to a historic low of 3.5%, the lowest level since 1969, from 3.6% in October. The labor force participation rate declined to 63.2% in November, however, after reaching a six-year high in October. The U-6 rate fell again to its cyclical low of 6.9% from 7% in October. Average hourly earnings were up 3.1% on a year-ago basis in November but have drifted down since hitting a post-recession peak of 3.4% in February (chart 9).

**CHART 8:**  
**THE U.S. LABOR MARKET: MONTHLY JOB CREATION AND UNEMPLOYMENT RATE**  
*(Average Monthly Job Growth (left axis); Percentage Points (right axis))*



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

**CHART 9:**  
**U.S. UNEMPLOYMENT RATE AND AVERAGE HOURLY EARNINGS**  
*(Percentage Points)*



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Nonfarm productivity fell 0.2% at an annualized rate in the third quarter of 2019 (table 4) after rising 2.5% in the second quarter and 3.5% in the first. Productivity growth is very volatile from quarter to quarter and year to year. Still, trend productivity growth had been showing some signs of improvement. On a year-ago basis, productivity was up 1.5% in the third quarter. Unit labor costs rose 2.5% at an annualized rate in the third quarter, up 2.2% on a year-ago basis (chart 10).

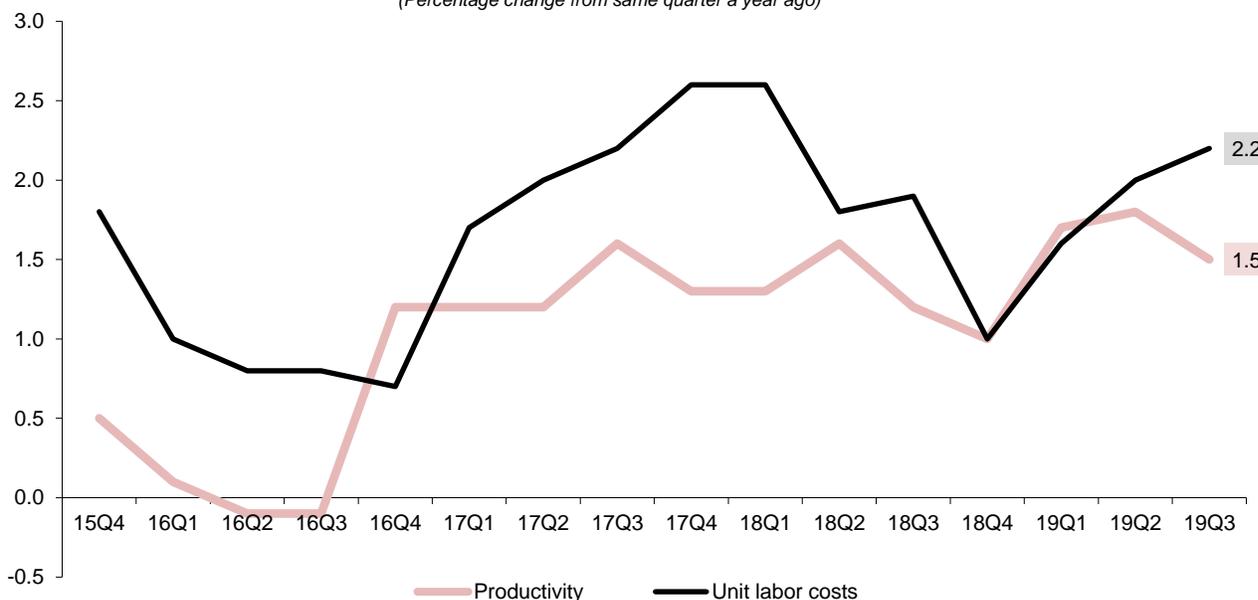
Moody's has noted that the combination of weak productivity and the acceleration in unit labor costs isn't favorable for corporate profit margins, which have been compressing. This could keep a lid on business investment, the agency argues, adding that compression of profit margins usually precedes recessions, as it causes businesses to become more cautious.

**TABLE 4:  
U.S. PRODUCTIVITY AND COSTS**

Productivity and costs: Revised first-quarter 2019 annual averages (Seasonally adjusted annual rates)								
Sector	Percentage change from:	Labor		Hours	Hourly	Real hourly	Unit labor	
		Productivity	Output	Worked	compensation	compensation	costs	
Nonfarm business	Previous quarter	-0.2	2.3	2.5	2.3	0.5	2.5	
	A year ago	1.5	2.3	0.9	3.7	1.9	2.2	
Business	Previous quarter	-0.2	2.4	2.6	2.3	0.5	2.5	
	A year ago	1.5	2.4	0.9	3.7	1.9	2.2	
Manufacturing	Previous quarter	0.1	1.3	1.2	3.1	1.3	3.0	
	A year ago	-0.1	-0.5	-0.4	4.3	2.5	4.4	
Durable	Previous quarter	0.7	1.8	1.0	2.6	0.8	1.8	
	A year ago	0.4	0.3	-0.1	4.0	2.2	3.6	
Nondurable	Previous quarter	-0.8	0.8	1.6	4.2	2.4	5.0	
	A year ago	-0.4	-1.4	-1.0	4.8	3.0	5.2	

Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

**CHART 10:  
U.S. NONFARM BUSINESS SECTOR: PRODUCTIVITY VS UNIT LABOR COSTS**  
(Percentage change from same quarter a year ago)



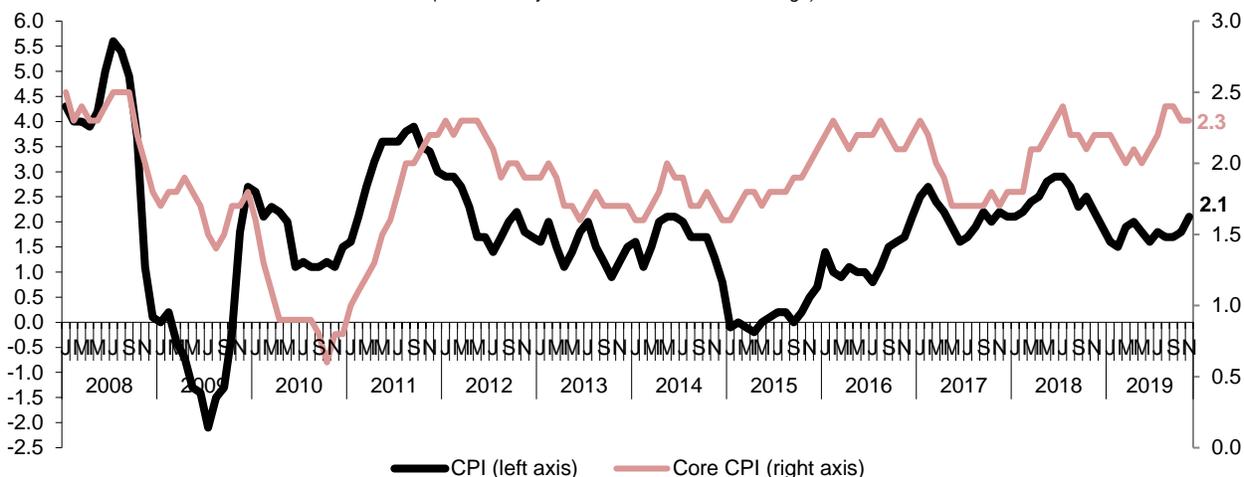
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

## D. Inflation

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% on a seasonally adjusted basis in November driven by rent and energy costs, after rising 0.4% in October, which was the largest gain in the CPI since March. The CPI for energy increased 0.8% in November and 2.7% in October, after falling in August and September, while food prices were up 0.1% in November and 0.2% in October. The index for all items less food and energy increased 0.2%.

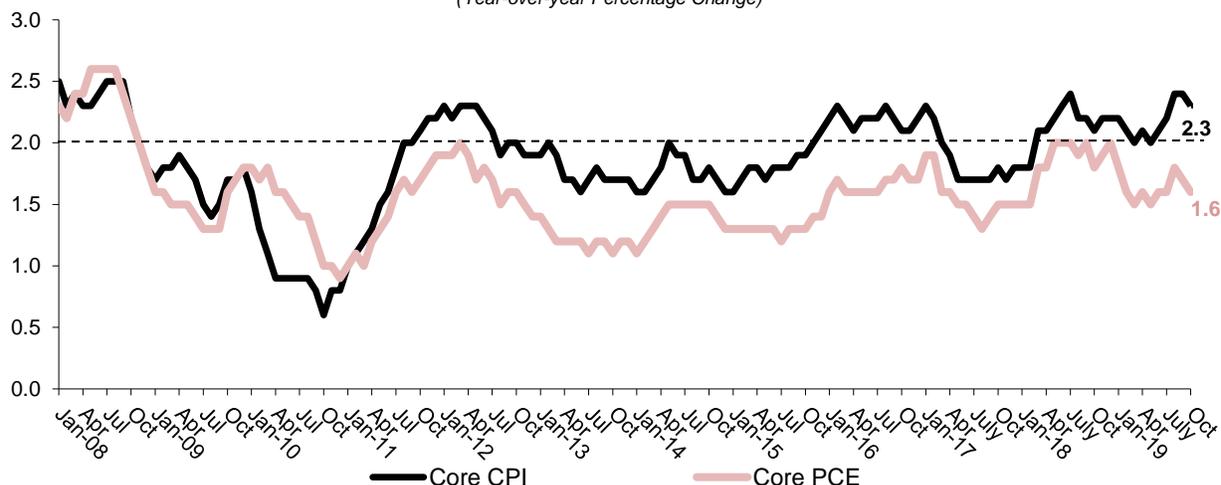
For the 12 months ending in November, the all items index increased 2.1%. The index for all items less food and energy rose 2.3% over the last 12 months (chart 11). The food index rose 2% over the last 12 months, while the energy index declined 0.6% over the last year. The Personal Consumption Expenditure (PCE) core price index advanced at 1.6% in October (chart 12), the latest information available. The recent inflation readings, together with abating fears of a recession, support the Fed’s signal for no further interest rate cuts in the near term.

**CHART 11:**  
**U.S. DOMESTIC PRICES: MONTHLY EVOLUTION**  
(CPI-U Unadjusted 12-month Percent Change)



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

**CHART 12:**  
**U.S. CORE CONSUMER PRICE INDICES**  
(Year-over-year Percentage Change)



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics (BLS), Department of Labor and the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

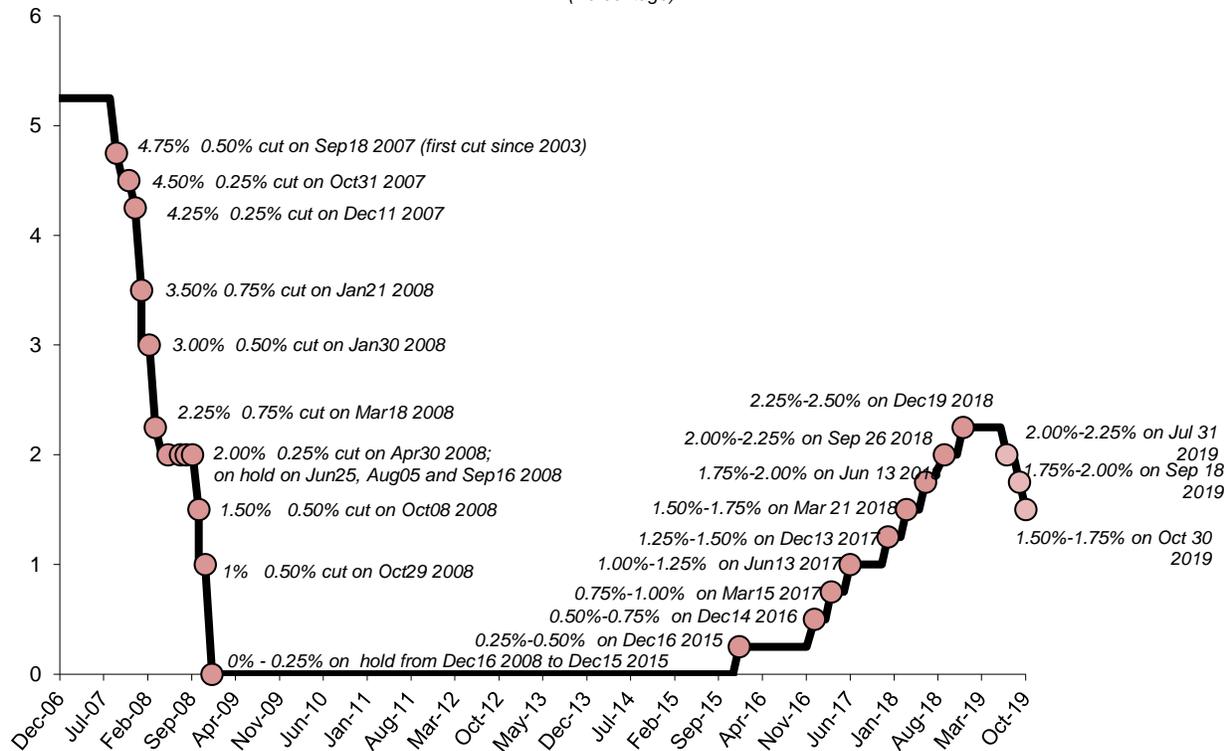
## E. Monetary policy

After the previous three-and-a-half years normalization of interest rates following the vast monetary stimulus of the post-crisis decade, the Federal Reserve reversed the direction of its policy in 2019. In December 2018, the Fed put the plans for further tightening on hold, and at the meetings in July, September and October of 2019, the Federal Open Market Committee (FOMC) cut the target range for the fed funds rate by 0.25% each time, which as of end-October was at 1.5% to 1.75%. FOMC officials wanted to inoculate the economy against the harmful effects of uncertainty and slowing global demand, which have included diminished business investment and manufacturing weakness.

However, officials have signaled that the Fed is shifting to a more patient mode. A key line from the FOMC post-meeting statement was dropped, in which it pledged to “act as appropriate to sustain the expansion,” language it had been using to signal a willingness to lower interest rates. Mr. Powell backed that up during his subsequent news conference, making it clear that the Fed would need to see economic deterioration before cutting interest rates again. On its last meeting of the year on December 11, the Federal Reserve left its policy rate unchanged at 1.5-1.75% and indicated that it had no plans to make any more changes in 2020.

The Fed is also considering introducing a rule that would let inflation run above its 2% target, when the year-long review of its monetary policy tools is due next year. The idea would be to avoid entrenching low U.S. price growth, which has consistently undershot its goal. If the Fed adopts this strategy, it would mark the biggest shift in how it carries out its interest rate policy since it began to target 2% inflation in 2012.

**CHART 13:**  
**U.S. FEDERAL FUNDS TARGET RATE**  
(Percentage)



Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve.

## F. Financial conditions

In the third quarter of 2019, the Dow Jones Industrial Average, the S&P 500, and NASDAQ gained 2.8%, 3.2%, and 3.3%, respectively. From January to October, they gained 12%, 16% and 19%, respectively. By conventional measures, the current bull market began in March 2009, when the S&P 500 bottomed after the global financial crisis, and like the current expansion it is a little more than 10 years old, making it the longest in history. The average bull market lasts 4.5 years.

U.S. Treasury security yields have declined this year. In the third quarter, 3-year, 10-year and 30-year Treasury yields fell 11%, 18% and 16%, respectively. From January to October, they fell 43%, 40% and 29%, respectively. The decline in short-term Treasury yields has been sharper than the declines in longer Treasury maturities (table 5).

TABLE 5:

STOCK PRICES				U.S. TREASURY SECURITY YIELDS			
Monthly Stock Prices				Constant Maturities			
Dow Jones				Monthly Yields			
	Industrial	S&P 500	Nasdaq		3-year	10-year	30-year
<b>2018</b>	<b>Average</b>			<b>2019</b>			
December	23,805.55	2,567.31	6,814.29	December	2.67	2.83	3.1
<b>2019</b>				<b>2019</b>			
January	24,157.80	2,607.39	6,979.66	January	2.52	2.71	3.04
February	25,605.53	2,754.86	7,430.08	February	2.48	2.68	3.02
March	25,722.62	2,803.98	7,629.37	March	2.37	2.57	2.98
April	26,401.58	2,903.80	7,993.15	April	2.31	2.53	2.94
May	25,744.79	2,854.71	7,804.82	May	2.16	2.40	2.82
June	26,160.10	2,890.17	7,825.46	June	1.78	2.07	2.57
July	27,089.19	2,996.11	8,205.60	July	1.80	2.06	2.57
August	26,058.23	2,897.50	7,910.93	August	1.51	1.63	2.12
September	26,900.21	2,982.16	8,087.70	September	1.59	1.70	2.16
October	26,736.80	2,977.68	8,079.28	October	1.53	1.71	2.19

Source: Economic Indicators, U.S. Government

## G. Fiscal policy

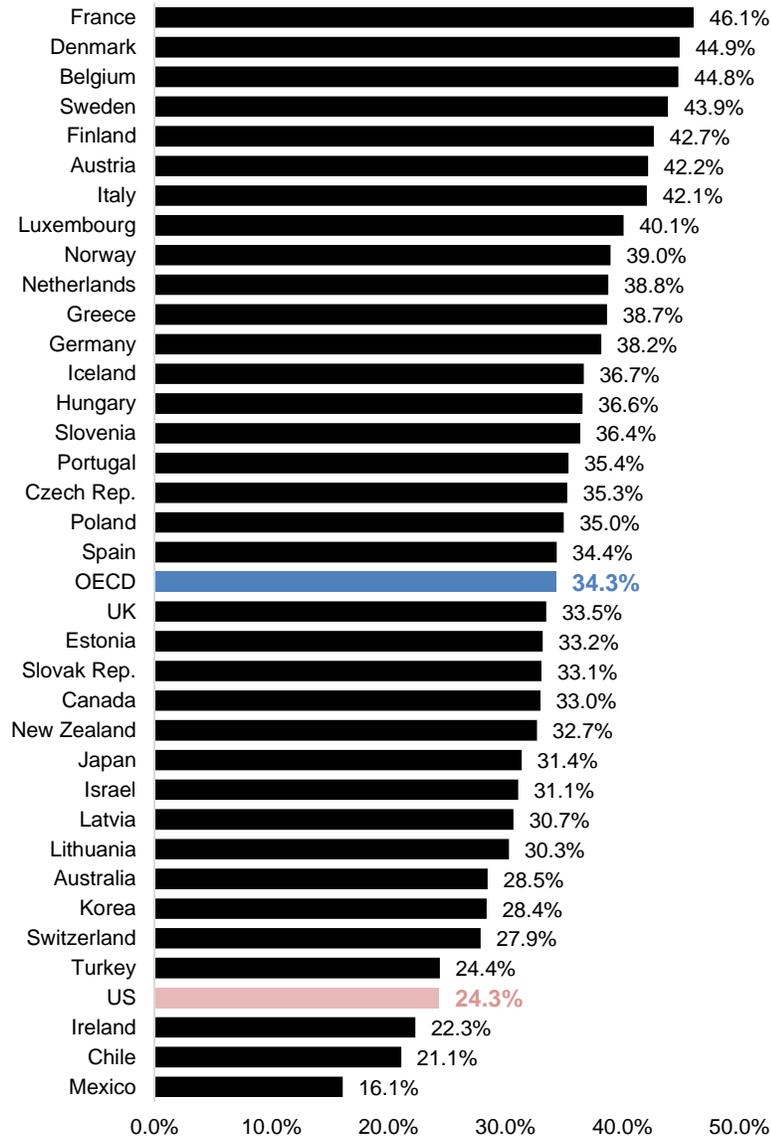
The U.S. budget gap widened in fiscal 2019 to its largest margin in seven years. The government ran a US\$ 984 billion deficit in the fiscal year that ended on September 30, 2019, a 26% increase from the US\$ 779 billion deficit the previous year, according to the Treasury Department. As a share of GDP, the deficit represented 4.6% in fiscal 2019, up from 3.8% in 2018. Receipts totaled US\$ 3.4 trillion, up 4% through September, while federal spending rose 8%, to US\$ 4.4 trillion, including higher spending on the military, interest payments on the debt and Medicare.

Annual deficits have nearly doubled in the past two years, despite a historically low jobless rate and stronger wage gains, as tax cuts enacted restrained revenue growth last year and two bipartisan budget deals ramped up government spending. Deficits are on track to exceed US\$ 1 trillion a year over the coming decades.

According to the Organization for Economic Development (OECD), the U.S. tax cuts in 2017 reduced its tax burden to one of the lowest among major world economies. The U.S. now has lower taxes than all but three countries (Ireland, Chile and Mexico) in the OECD. U.S. taxes at all levels of government

fell to 24.3% of GDP in 2018, down from 26.8% a year earlier and 25.9% in 2016. That 2.5% drop was only the fourth time since 1995 that any country's tax burden has declined by at least that much in one year outside of the financial crisis, according to the OECD. Measured as a share of the U.S. economy, taxes are now 10% below the 2018 OECD average of 34.3% (chart 14).

**CHART 14:**  
**TAX REVENUES AS A SHARE OF GDP**  
(Percentage)



Note: Data for Australia and Japan refer to 2017 (preliminary data for 2018 not yet available).  
Source: OECD (2019), *Revenue Statistics 1965-2018*.

The 2018 data mark the culmination of nearly two decades of tax-cutting in the United States, starting with the tax cuts of 2001 and 2003. At the end of 2012, the U.S. Congress let some of those cuts expire and raised some taxes on high-income households.

## H. External sector

The U.S. trade deficit fell in October to a 16-month low, to US\$ 42.7 billion from US\$ 51.1 billion in September (chart 15). The sharp trade deficit narrowing in October is explained by a GM-strike related fall in auto imports and a fall in consumer goods imports, as the stock buildup ahead of the September tariffs went into reverse. The decline puts net exports on track to contribute more to fourth quarter growth than previously expected.

**CHART 1:**  
**U.S. BALANCE ON GOODS AND SERVICES TRADES<sup>3</sup>**  
(US\$ Million, Monthly)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Commerce Department.

Imports dropped by 1.7%, or US\$ 4.3 billion, to US\$ 254.3 billion. That decline was driven by fewer imports on products including cellphones, toys and games, and passenger cars. That decline could signal a weakening U.S. consumer as the trade tensions with China continue. Both countries have hit each other's products with tariffs for nearly two years, denting investor sentiment.

Overall, U.S. exports dipped 0.2%, or US\$ 400 million, to US\$ 207.1 billion. That decline was driven by an US\$ 800 million drop in goods sent out of the U.S., which ranged from consumer to pharmaceutical and automotive products.

There remain considerable uncertainties and trade tensions may continue to escalate, adding to economic costs. U.S. and Chinese trade negotiators are laying the groundwork for a delay of a fresh round of tariffs set to kick in on December 15, according to officials on both sides. On a positive note, a deal for the ratification of the USMCA – the trade deal reached last year with Canada and Mexico to replace Nafta – has been announced by the Speaker of the U.S. House of Representatives and the President.

## **II. Recent U.S. trends and Latin America and the Caribbean**

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The change in the direction of U.S. monetary policy – with three rate cuts by the U.S. Federal Reserve taking place this year – was supportive of emerging market and Latin American and Caribbean assets. Easier financial conditions allowed emerging markets to issue foreign currency denominated bonds at increasingly low rates and at a pace not too far below the 2017 peak. In Latin America and the Caribbean, debt issuance from January to October of 2019 totaled US\$ 103 billion, up 20% from the US\$ 86 billion issued in the same period of 2018.

Emerging market and Latin American and Caribbean assets have also benefited from falling U.S. real yields, which have curbed the U.S. dollar. Gains for local currencies against the dollar have lent support to LAC dollar-denominated credit this year. However, recent currency depreciations in some countries in the region may pose challenges to the continuation of this trend.



### III. Looking ahead

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A tight job market has contributed to reduce recession fears, providing support to the broader economy by keeping incomes and consumer spending strong. However, trade tensions are expected to persist, and they have taken a direct hit to manufacturing and farming. Increased uncertainty has also had an impact on business investment, which subtracted from growth in the third quarter of 2019.

The U.S. Federal Reserve changed the direction of its policy and cut interest rates three times this year. The policy reversal has succeeded in providing support to a slowing economy. The U.S. expansion entered its second decade this year, unemployment held at a 50-year low in October, and stocks remain near all-time highs.

Looking ahead, trade developments are expected to continue to drive market sentiment and business investment, while the labor market should remain solid for a while longer. Investors are almost unanimous in betting that the U.S. central bank will keep interest rates unchanged at 1.5-1.75% for most of 2020. Market forecasts suggest slower growth ahead, however. On average, market projections, made mostly in November, point to growth of 1.7%, inflation of 2.1% and unemployment rate at 3.8% in 2020.

Regarding near-term challenges, Congressional leaders have just until December 20 to pass a dozen spending bills to fund the U.S. federal government and avoid another shutdown.



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