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ECLAC Office in Washington, D.C.

United States economic outlook

Third quarter of 2022

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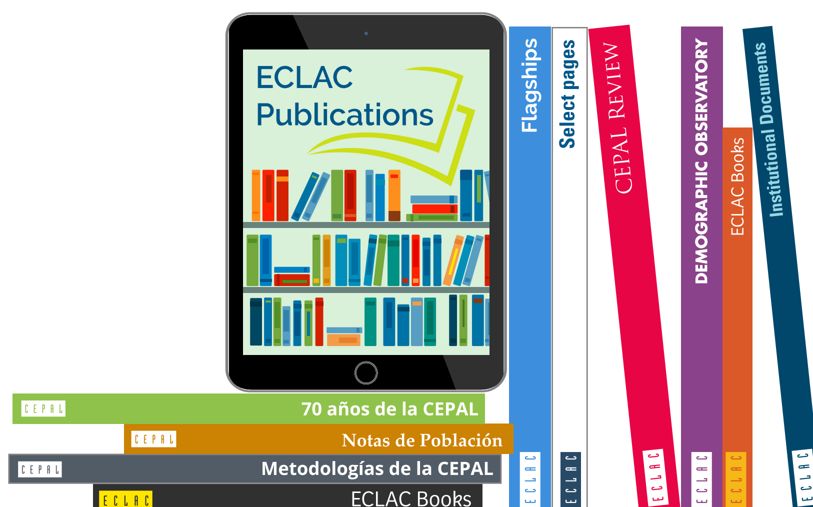

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This document was prepared by Helvia Velloso, Economic Affairs Officer, under the supervision of Raquel Artecona, Officer in Charge of the office of the Economic Commission for Latin America and the Caribbean (ECLAC) in Washington, D.C.

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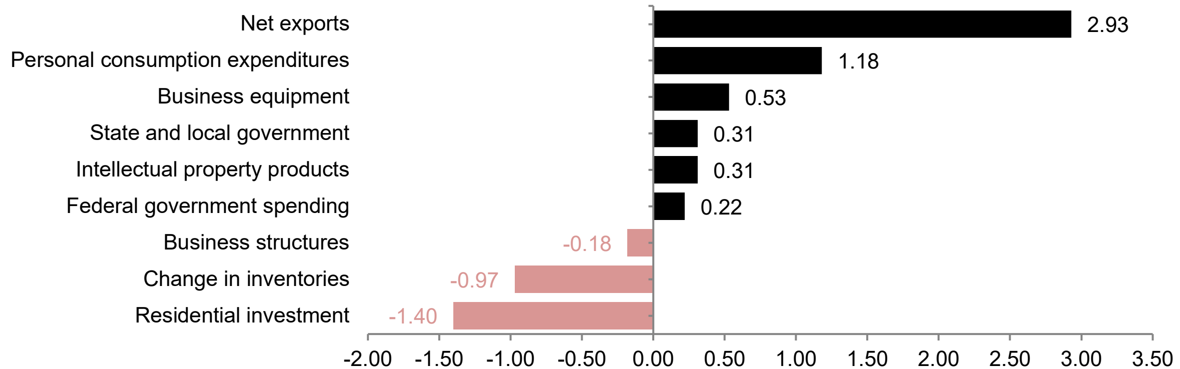
Highlights

- *The United States economy grew at 2.9% in the third quarter of 2022, a sharp turnaround following two quarters of contraction.* Trade was the main source of growth, followed by consumer spending.
- *The labor market continues to show strength.* It averaged 392,000 new jobs per month from January to November 2022 with 4.3 million new jobs being created in the period, after 6.7 million jobs were created in 2021. At the end of November, the U.S. labor market was a net 1 million jobs above its pre-pandemic level.
- *Inflation rose 7.1% in November, the slowest 12-month pace since December 2021,* closing out a year in which inflation hit the highest level in four decades. The November inflation number builds on a trend of moderating price increases that started after a peak of 9.1% was reached in June. Core inflation rose 6.0% in November, easing from a 6.3% gain in October. The rapid pace of price increases in 2022 added pressure on the Federal Reserve to raise rates aggressively to tame inflation.
- *The Federal Reserve raised interest rates seven times this year, at the most aggressive pace since the 1980s.* The Federal Reserve, while tightening monetary conditions, is aiming to achieve a soft landing for the economy and avoid a deep recession. Market participants are starting to consider the possibility that the central bank may indeed be able to engineer a soft landing for the United States economy, as signs of disinflation begin to take hold while the economy remains resilient. However, with the central bank projecting economic growth at just 0.5% in 2023, there is little room for policy error.
- *Markets continue to be concerned about the possibility of a recession in the coming 12 months because of the Federal Reserve's efforts to combat inflation.* While growth and job figures point to economic resilience and inflation has started to slow, market forecasters still expect the lagged impact of higher interest rates to push the real economy into a mild recession next year. Moreover, the risk that recent policy moves by the central bank cause a sharper slowdown than expected remains a concern.

Overview

The United States Gross Domestic Product (GDP) rose 2.9% in the third quarter of 2022, reversing the declines in the previous two quarters. Trade was a major support, adding 2.9% to third quarter growth, with consumer spending, business investment and government spending also making positive contributions. Inventories and housing investment made negative contributions, subtracting 1.0% and 1.4%, respectively, from growth in the quarter (figure 1).

Figure 1
Contributions to percent change in real GDP, third quarter of 2022
(Percentage points, seasonally adjusted at annual rates)

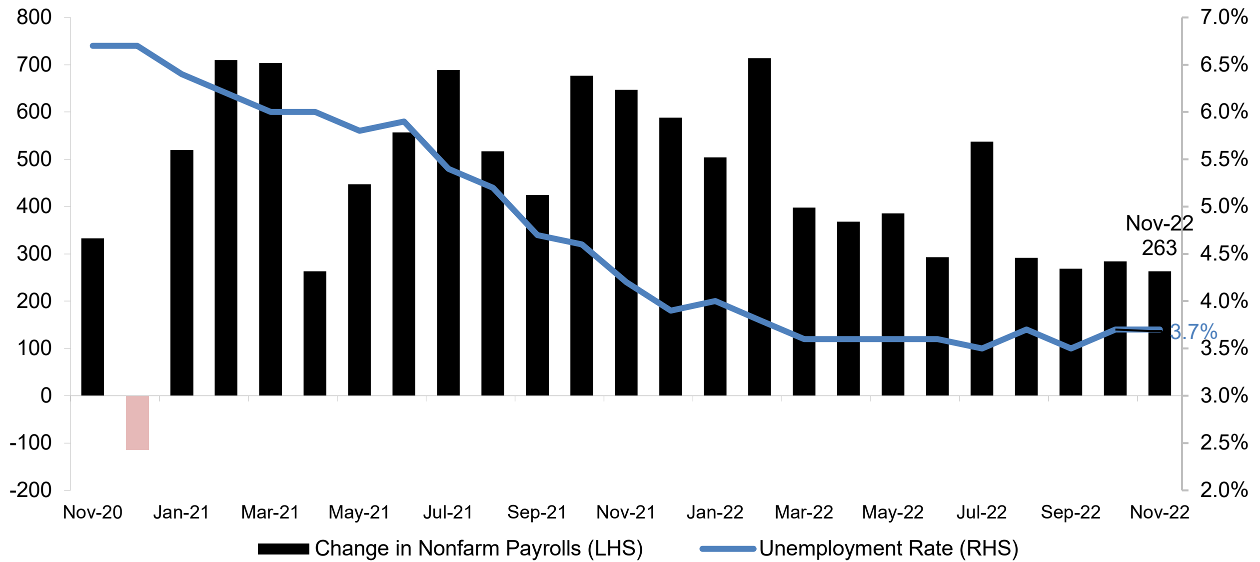


Source: ECLAC Washington Office based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Rising interest rates have weighed on growth this year, as the Federal Reserve acted to contain inflation. Inflation has started to gradually slow, after reaching a 9.1% peak in June. The Consumer Price Index (CPI) rose 7.1% in November from a year earlier, the slowest 12-month pace since December 2021, down sharply from 7.7% in October. Although wages have increased as demand for workers has exceeded the number of unemployed people looking for work for the past year, the strength of inflation is still offsetting gains in workers' pay —average hourly earnings were up 5.1% in November, above consensus expectations and above the 4.9% increase in October, but well below inflation.

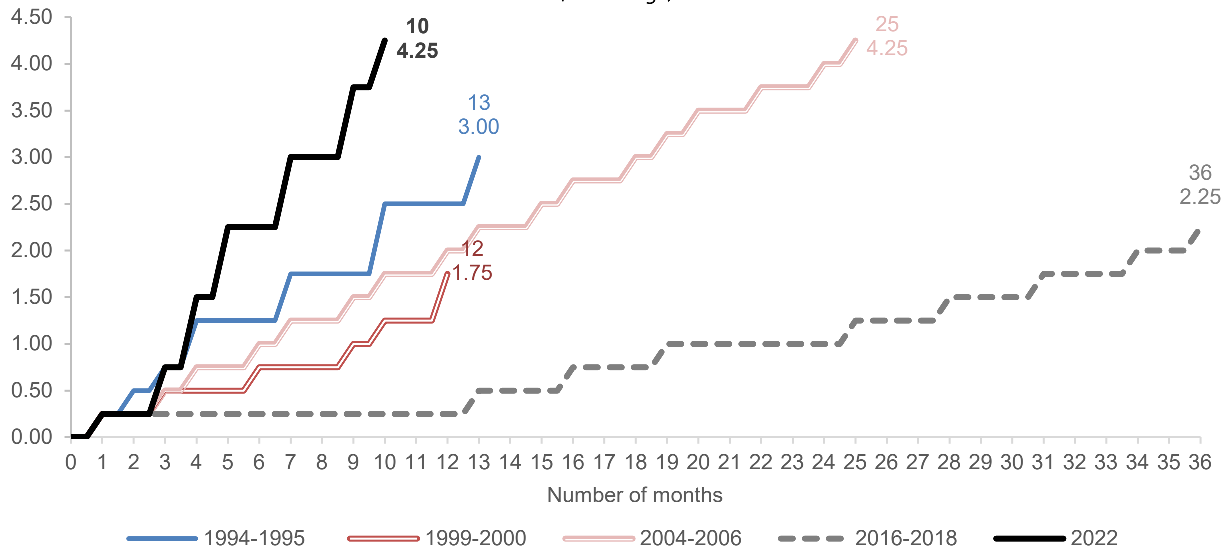
Nonfarm payrolls surprised to the upside in November 2022, rising by 263,000, the 23rd straight month of job gains (figure 2). From January to November, the labor market averaged 392,000 new jobs per month, with 4.3 million new jobs being created overall. The unemployment rate was at 3.7% in November, remaining near historic lows. While the pace of job gains has slowed this year from the 562,000 monthly average in 2021, the labor market remains resilient in face of the fastest pace of monetary policy tightening since the early 1980s: in just 10 months the federal funds rate has risen 4.25 percentage points (figure 3).

Figure 2
Monthly job creation and unemployment rate, November 2020—November 2022
(Average monthly job growth in thousands (left axis); Percentage (right axis))



Source: ECLAC Washington Office based on data from the United States Bureau of Labor Statistics.

Figure 3
United States Federal Reserve tightening cycles 1994—2022
(Percentage)



Source: ECLAC Washington Office, based on data from the United States Federal Reserve.

The Federal Reserve approved seven interest rate increases this year, including four consecutive 0.75 percentage point increases, as well as a plan to shrink its US$ 9 trillion asset portfolio to combat inflation. On 14 December 2022, the Federal Reserve enacted its seventh straight interest rate increase but began to slow the pace of tightening, increasing the federal funds rate by 0.50 percentage points (instead of 0.75), and taking it to a range of 4.25%-4.50%, a 15-year high.

Investors are weighing prospects for a slowdown in the pace of rate increases against the resilience of recent economic data, which suggests tighter monetary policy may be needed for longer. The U.S. economy is ending the year on a stronger note —the Federal Reserve of Atlanta's GDP forecast (GDP Now) for the fourth quarter of 2022 was at 2.8% on 15 December— fueling speculation that a higher terminal interest rate (the rate at which the Fed will stop hiking) and a longer period of interest rate increases may be needed to bring inflation back to target. Fed officials have revised their interest rate projections up at their December meeting, with the median estimate for the peak next year now at 5.1%, and 7 out of 19 officials seeing rates rising even higher.

Despite the stronger U.S. economy in the second half of the year, market forecasters anticipate that growth will falter in 2023, as the effects of the rapid increase in interest rates, which tend to impact the economy with a lag, take hold. On average, with forecasts made mostly in December, the U.S. economy is projected to stay flat in the first quarter of 2023, contract 0.3% in the second, and remain flat in the second half of the year. However, there are wide differences in the forecasts on when growth will start to falter, and by how much. Overall, about half of our sample of forecasts expects a contraction to take place in the second and third quarters of 2023, with growth returning in the fourth quarter (table 1).

Table 1
Quarterly forecasts for United States economic growth in 2022 and 2023
(Percentage change)

	Q4 2022 (qoq)	Q1 2023 (qoq)	Q2 2023 (qoq)	Q3 2023 (qoq)	Q4 2023 (qoq)	Date of Forecast
What Markets Say						
Bank of America/Merrill Lynch	0.5%	-1.0%	-2.0%	-1.5%	1.0%	8-Dec-22
Capital Economics	1.5%	-0.5%	-1.1%	-0.3%	0,7%	9-Dec-22
JPMorgan	1.5%	1.0%	0.8%	0.5%	-0.5%	9-Dec-22
Moody's Economy.com	0.8%	0.1%	0.7%	1.5%	-2.8%	9-Dec-22
Mortgage Bankers Association	0.2%	-1.7%	-0.7%	1.3%	1.8%	21-Nov-22
National Association of Realtors	1.5%	1.6%	0.7%	1.0%	2.4%	Dec-22
National Bank of Canada	1.8%	-0.4%	-1.7%	0.2%	1.1%	Nov-22
TD Bank Financial Group	1.1%	0.7%	0.4%	0.2%	0.7%	13-Dec-22
Wells Fargo/Wachovia	1.5%	0.6%	0.0%	-3.1%	-2.9%	8-Dec-22
Forecasts average	***1.2%***	***0.0%***	***-0.3%***	***0.0%***	***0.1%***	

Source: ECLAC Washington Office, based on market sources.

On an annual basis, average market projections point to growth of 1.7% in 2022, and of 0.5% in 2023, with most projections made in November and December (table 2). Economic projections released by the Federal Reserve following their December rate-setting meeting on 14 December 2022 show officials expect their interest-rate increases to slow the economy over the coming year and push up the unemployment rate. The new projections show that economic growth in 2023 was downgraded to 0.5% from a forecast of 1.2% in September and that the unemployment rate is expected to increase to 4.6% in 2023, from 3.7% in November. Historically, such a large increase in unemployment in that span of time has coincided with a recession.

Table 2
Annual forecasts for United States economic growth, 2022 and 2023
(Percentage change)

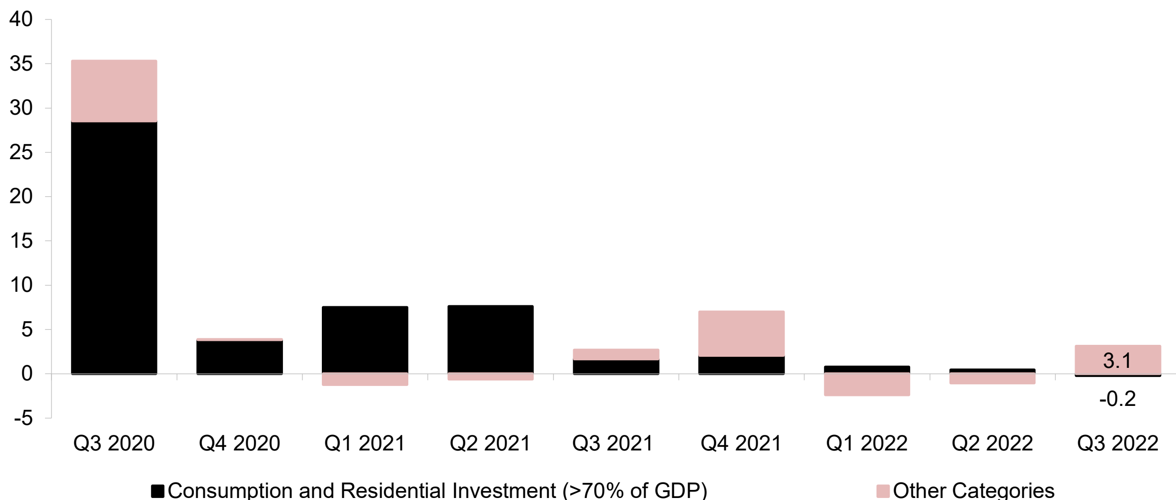
	Real GDP (% change, y/y)		Inflation (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**Date of Forecast**
A. What Government Agencies Say									
FED[1]	0.5%	0.5%	5.6%	3.1%	3.7%	4.6%	4.4%	5.1%	*Dec-22*
CBO	3.8%	2.8%	6.1%	3.1%	3.8%	3.5%	*na*	*na*	*May-22*
OMB[2]	1.4%	1.8%	6.6%	2.8%	3.7%	3.7%	*na*	*na*	*Jun-22*
B. What Markets Say									
Bank of America/Merrill Lynch	1.9%	-0.3%	8.0%	4.1%	3.6%	4.5%	4.4%	2.9%	*8-Dec-22*
Capital Economics	2.0%	0.3%	8.0%	3.2%	3.7%	4.4%	4.4%	2.9%	*9-Dec-22*
JPMorgan	2.0%	1.0%	8.1%	3.9%	3.7%	4.0%	4.5%	5.0%	*9-Dec-22*
Moody's Economy.com[3]	1.9%	0.9%	8.0%	4.1%	3.7%	4.0%	1.7%	4.7%	*9-Dec-22*
Mortgage Bankers Association	0.1%	0.2%	7.6%	2.8%	3.7%	4.8%	4.4%	4.6%	*21-Nov-22*
National Association of Realtors[3]	1.2%	1.3%	7.6%	4.1%	3.7%	4.0%	2.3%	4.2%	*Dec-22*
National Bank of Canada	1.9%	0.3%	8.0%	3.4%	3.7%	4.3%	4.5%	3.5%	*Nov-22*
TD Bank Financial Group	1.9%	0.9%	8.1%	4.7%	3.7%	4.3%	4.5%	2.8%	*13-Dec-22*
The Economist Intelligence Unit[4]	1.9%	0.1%	8.1%	3.8%	3.7%	4.5%	2.0%	4.8%	*6-Dec-22*
Wells Fargo/Wachovia[3]	2.0%	0.2%	8.0%	3.8%	3.7%	4.3%	2.5%	5.3%	*8-Dec-22*
Market Average	***1.7%***	***0.5%***	***8.0%***	***3.8%***	***3.7%***	***4.3%***	***3.5%***	***4.1%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	2.6%	1.8%	*na*	*na*	*na*	*na*	*na*	*na*	*May-22*
World Bank	2.5%	2.4%	*na*	*na*	*na*	*na*	*na*	*na*	*Jun-22*
OECD	1.5%	0.5%	6.2%	3.4%	3.7%	4.3%	*na*	*na*	*Oct-22*
IMF	1.6%	1.0%	8.1%	3.5%	3.7%	4.6%	*na*	*na*	*Oct-22*

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).
[1] Projections of change in real GDP and inflation (measure used is PCE inflation, the FED's preferred measure) are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. [2] Projections are for real, chained (2012) dollars GDP, fourth-quarter-over-fourth-quarter; CPI: fourth-quarter-over-fourth-quarter; unemployment rate: annual. [3] Moody's, the National Association of Realtors, and Wells Fargo/Wachovia forecast the Fed funds rate as an annual average, not end-period [3] CPI: average; Fed Funds Rate: end-period..

I. Quarterly developments

Growth returned in the third quarter of 2022, but the core of the United States economy —consumption and residential investment— which account for over 70% of the United States GDP, was a net negative to growth, as residential investment declined sharply while consumer spending made a relatively modest positive contribution (figure 4). The real GDP expansion in the third quarter of 2022 reflected increases in exports, consumer spending, nonresidential fixed investment, state and local government spending, and federal government spending, that were partly offset by decreases in residential fixed investment and private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased.

Figure 3
Contributions to percent change in real GDP growth, third quarter 2020—third quarter 2022
(Percentage points, seasonally adjusted at annual rates)

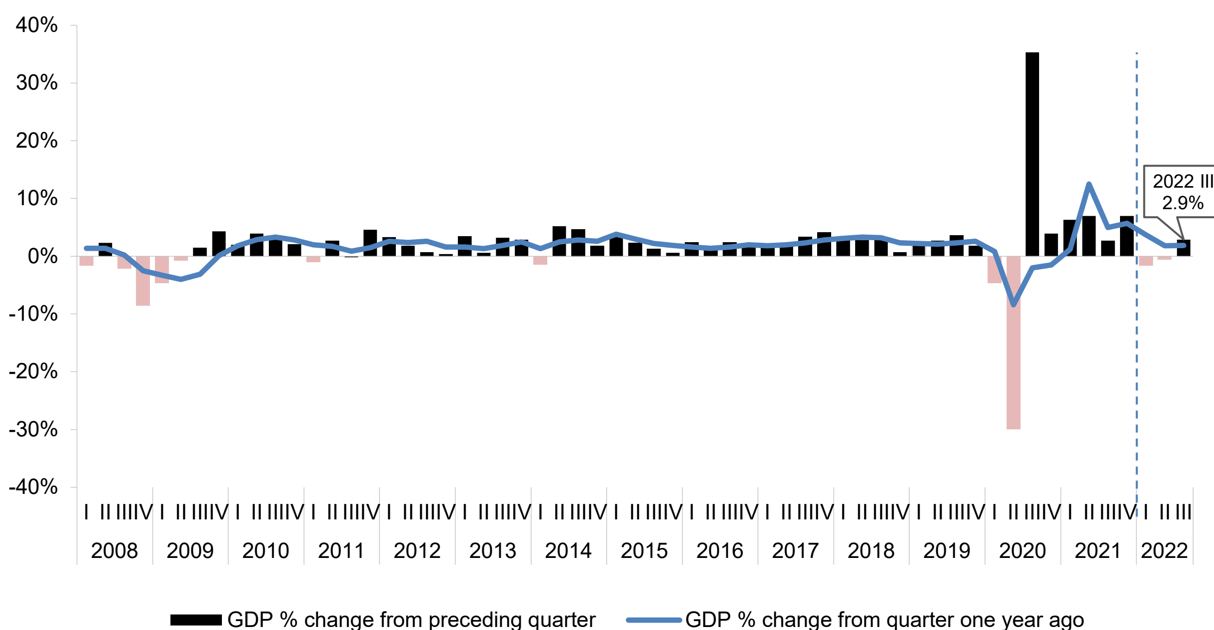


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

Real gross domestic product (GDP) increased at an annual rate of 2.9% in the third quarter of 2022 according to the second estimate released by the Bureau of Economic Analysis on 30 November 2022, as trade became a major support growth. The return to growth follows declines of 1.6% and 0.6% in the first and second quarters, respectively (figure 5). The second estimate primarily reflected upward revisions to consumer spending and nonresidential fixed investment that were partly offset by a downward revision to private inventory investment. Imports decreased more than previously estimated.

Figure 4
United States real GDP quarterly growth, first quarter 2008—third quarter 2022
(Percentage points)



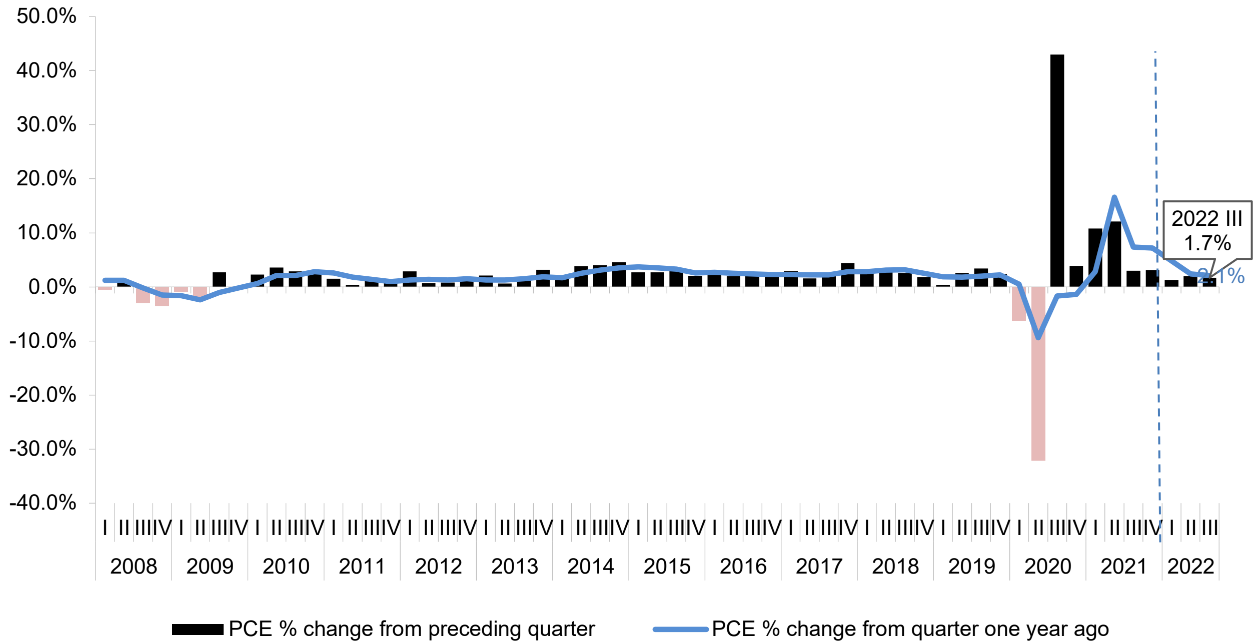
Source: ECLAC Washington Office, based on data from the Bureau of Economic analysis, U.S. Department of Commerce.

Personal consumption expenditure (PCE) increased 1.7% in third quarter of 2022, following increases of 1.3% and 2.0% in the first and second quarters, respectively (figure 6). It remained an important source of growth in the third quarter but has been contributing more modestly in the face of steadily falling real incomes. It added 1.18% to growth in the quarter. The contribution to growth came entirely from the services sector, as spending in durable and nondurable goods was nearly flat.

Fixed investment declined 4.1% in the third quarter of 2022. Residential investment fell at an annual rate of 26.8% and non-residential investment grew 5.1% (figure 7). Housing costs, which has been one of inflation's largest component, are poised to ease, as mortgage rates rise and the economy slows. In August, home prices declined at the fastest pace in more than a decade, and the new-home market has shown signs of weakness.

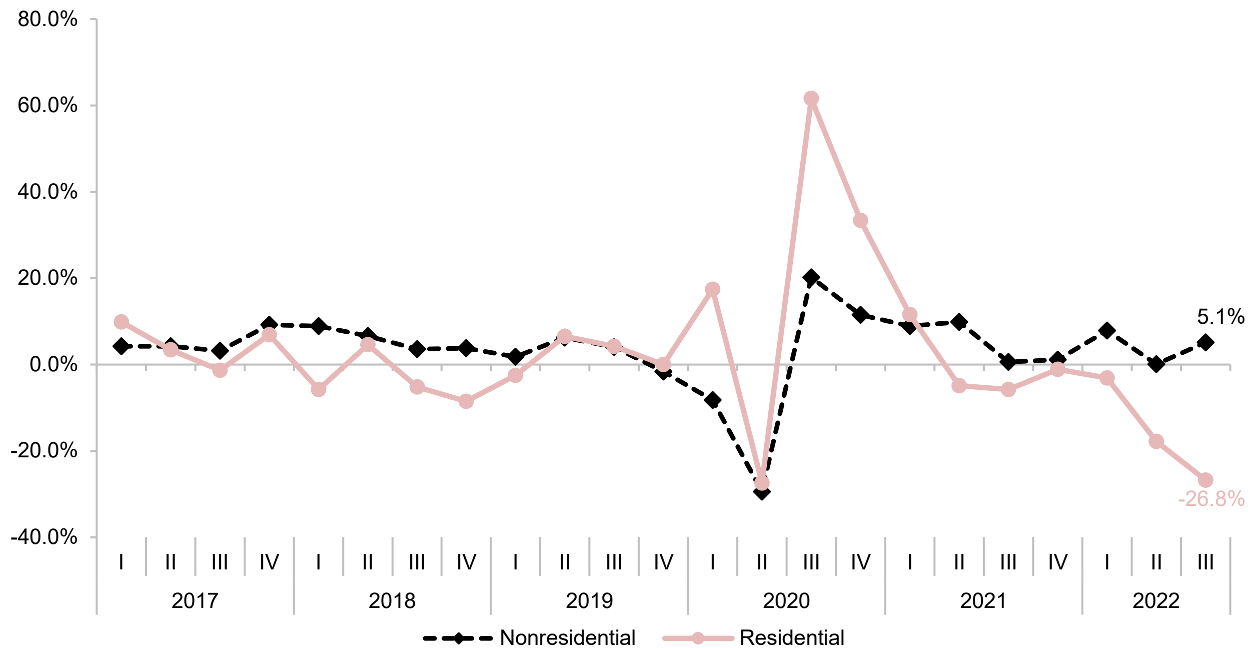
Fixed investment subtracted 0.74 percentage points from growth in the third quarter, with residential investment subtracting 1.40 (the largest negative contribution to growth in the quarter) and nonresidential investment adding 0.66 percentage points. Inventories subtracted 0.97 percentage points from growth as the accumulation of inventories slowed. Due to the negative contributions from residential investment and inventories, gross private domestic investment subtracted 1.71% overall from third-quarter growth (figure 8).

Figure 5
United States personal consumption expenditure growth, first quarter 2008—third quarter 2022
(Percentage points)



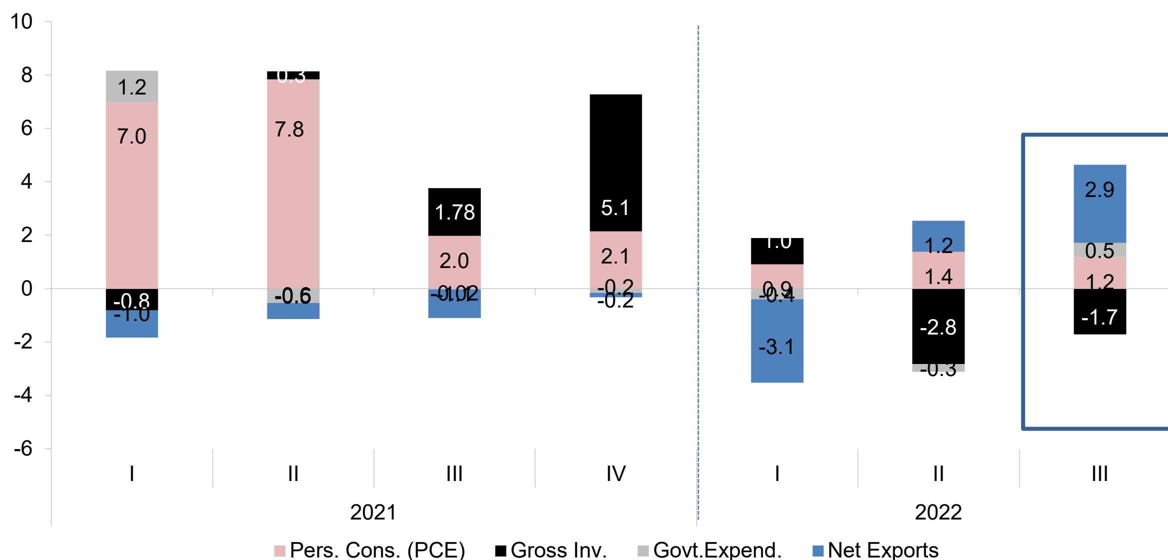
Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Figure 6
United States fixed investment growth, first quarter 2008—third quarter 2022
(Percentage points)



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

Figure 7
Contributions to U.S. real GDP growth, 2021 and 2022
(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.

Government spending, increasing 3% after five quarters of decline, made a positive contribution to growth in the third quarter of 2022. Overall, government spending added 0.53% to growth in the third quarter.

Exports increased 15.3%, reflecting increases in both goods and services, while imports declined 7.3% in the third quarter of 2022, led by a decrease in imports of goods (notably consumer goods), which was partly offset by an increase in imports of services (mainly travel). Net exports added 2.93% —the largest contribution— to growth in the third quarter. Excluding net exports, the economy failed to grow. This is a concern for the economic outlook, since the strong dollar and weakening economies overseas are already driving up the trade deficit, which may weigh down on future growth.

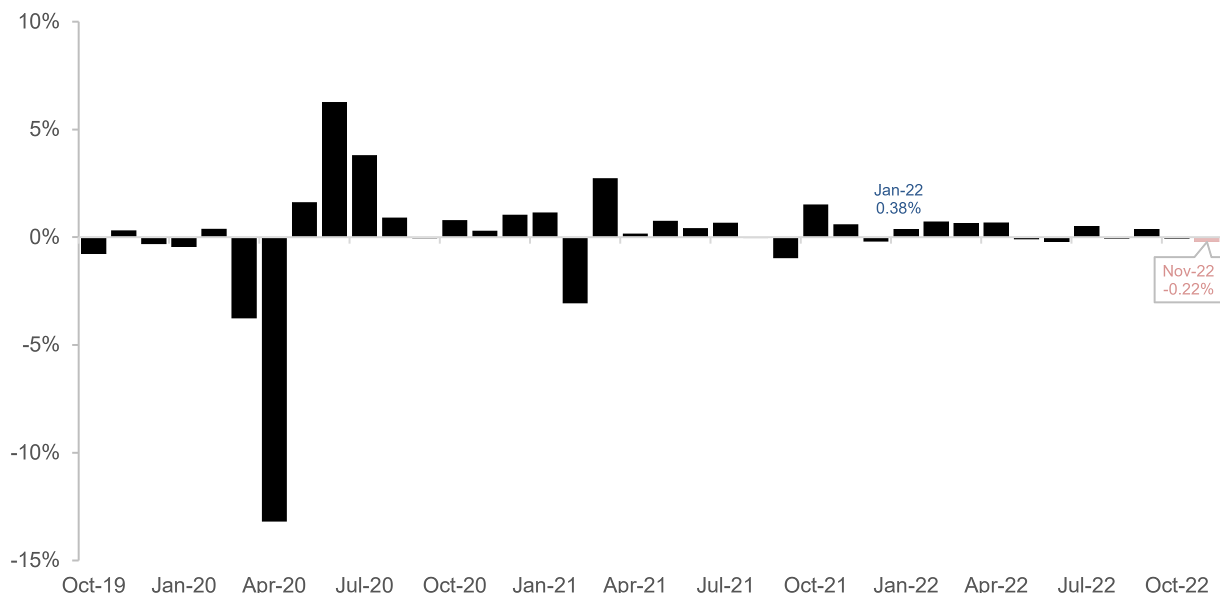
B. Industrial production

United States industrial production fell 0.2% in November 2022 (figure 9), coming below consensus expectations and following October's unrevised 0.1% decline. On a year-ago basis, industrial production was up 2.5% in November.

Manufacturing production fell 0.6%, following two consecutive months of 0.3% growth. November's decline was owed to an even reduction across durable and nondurable manufacturing, both of which fell 0.6%. Relative to a year ago, manufacturing output was up 1.2% in November. Mining production has fallen 0.7% for two consecutive months. Capacity utilization for mining fell from October's 88.9% to 88.2% in November. Utilities output, which is volatile and dependent on weather, rose 3.6% in November. The latest monthly figure breaks a three-month streak of declines owed to unseasonably warm weather. Total capacity utilization slid from 79.9% in October to 79.7% in November (table 3).

Financial market conditions have tightened significantly, confidence has declined, and the Federal Reserve is quickly tightening monetary policy, which together have an adverse impact on manufacturing conditions. Despite the prospect of a relaxation in China's zero-COVID policy, which is a positive for the manufacturing sector, there is a risk that this relaxation may be uneven and punctuated by setbacks and it may take time for normality to resume. With geopolitical risks on the rise and the continued war in Ukraine, there is significant uncertainty to the manufacturing sector and the overall economic outlook.

Figure 8
United States industrial production, October 2019—October 2022
(Total Index, Index 2017=100, Monthly, Seasonally Adjusted)



Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve and the Federal Reserve of St. Louis (FRED).

Table 3
United States total industrial production and capacity utilization
(Index and percentage)

	Index 2012=100	Percentage Change From Previous Period	Total Industry
2022 Q1	**102.9**	**4.7**	**79.4**
January	102.1	0.4	78.9
February	102.9	0.7	79.4
March	103.6	0.7	79.8
2022 Q2	**104.1**	**5.0**	**80.0**
April	104.3	0.7	80.2
May	104.2	-0.1	80.0
June	103.9	-0.2	79.7
2022 Q3	**104.6**	**1.7**	**80.0**
July	104.5	0.5	80.0
August	104.4	-0.1	79.9
September	104.8	0.4	80.1
2022 Q4	**NA**	**NA**	**NA**
October	104.7	-0.1	79.9
November	104.5	-0.2	79.7

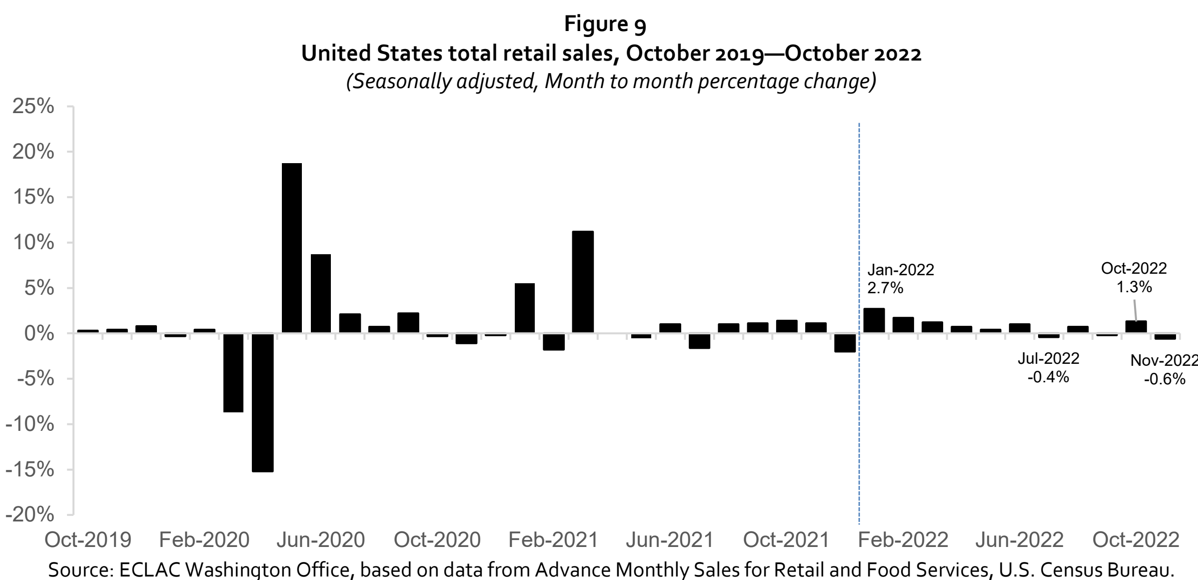
Source: United States Federal Reserve, Industrial Production and Capacity Utilization. NA: not available.

Although the buoyancy in consumer demand is keeping producers occupied, spending continues to shift away from goods and toward services. Growth at U.S. service providers unexpectedly accelerated in November. The Institute of Supply Management (ISM) nonmanufacturing survey's composite index, which measures the breadth of growth in nonmanufacturing, showed service sector activity expanding for the 30th consecutive month in November, with the headline index increasing the most since March 2021, from 54.4 to 56.5.

C. Retail sales

Retail sales, a measure of purchases at stores, restaurants and online, fell a larger-than-anticipated seasonally adjusted 0.6% in November 2022 from a month earlier, according to the Commerce Department. That was a slowdown from October's robust 1.3% sales increase (figure 10).

Figure 9
United States total retail sales, October 2019—October 2022
(Seasonally adjusted, Month to month percentage change)



Source: ECLAC Washington Office, based on data from Advance Monthly Sales for Retail and Food Services, U.S. Census Bureau.

Monthly sales declines of over 2% were widespread and included department, furniture and building supply stores and vehicle dealers. Electronics and appliance stores and online retailers also posted large declines. Gains among major segments were fewer and more modest but were led by restaurants, grocery stores, and general merchandise stores other than department stores —as food prices continued to rise— and drug stores. In sum, shoppers spent less on holiday categories including electronics, clothing, sporting goods —both online and at department stores— and more on everyday staples such as food, at health-care stores, and also on restaurant meals.

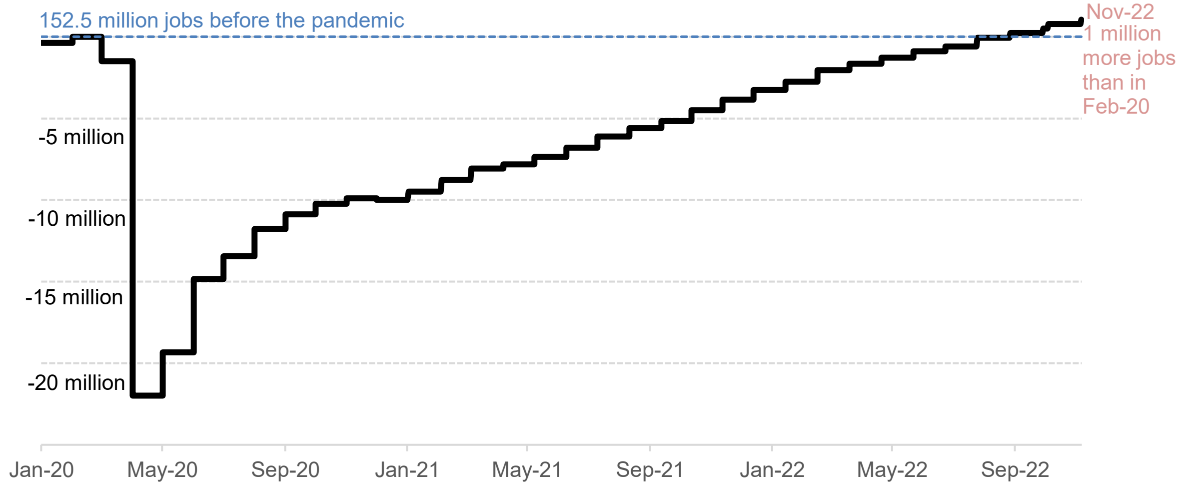
On an annual basis, retail sales were up 6.5% in total in November, and a more modest 5.6% excluding gasoline stations, which still led growth. Other growth leaders include restaurants and miscellaneous store retailers. Electronics and appliance stores, furniture stores and department stores were the only major segments to post a year-over-year sales decline.

The strength of underlying retail sales in October suggested U.S. consumers were continuing to spend despite higher borrowing costs, supported by rising prices (since retail sales are not inflation adjusted, rising prices are a net positive to reported growth), job growth and abundant job openings. However, the decline in November was the largest this year and suggests the economy may be losing momentum.

D. Labor market

The United States labor market remained strong in November. After adding 6.7 million non-farm payroll jobs in 2021 and averaging 562,000 new jobs per month, it added 4.3 million from January to November 2022, averaging 392,000 jobs per month. Employers added 263,000 jobs in November on a seasonally adjusted basis, down from an upwardly revised 284,000 in October. November was the 23rd consecutive monthly gain, even as policymakers take significant steps to cool the economy and ease inflation. The gain leaves nonfarm employment 1 million above its pre-pandemic level, which was finally reached in August 2022, 29 months after the start of the pandemic (figure 11).

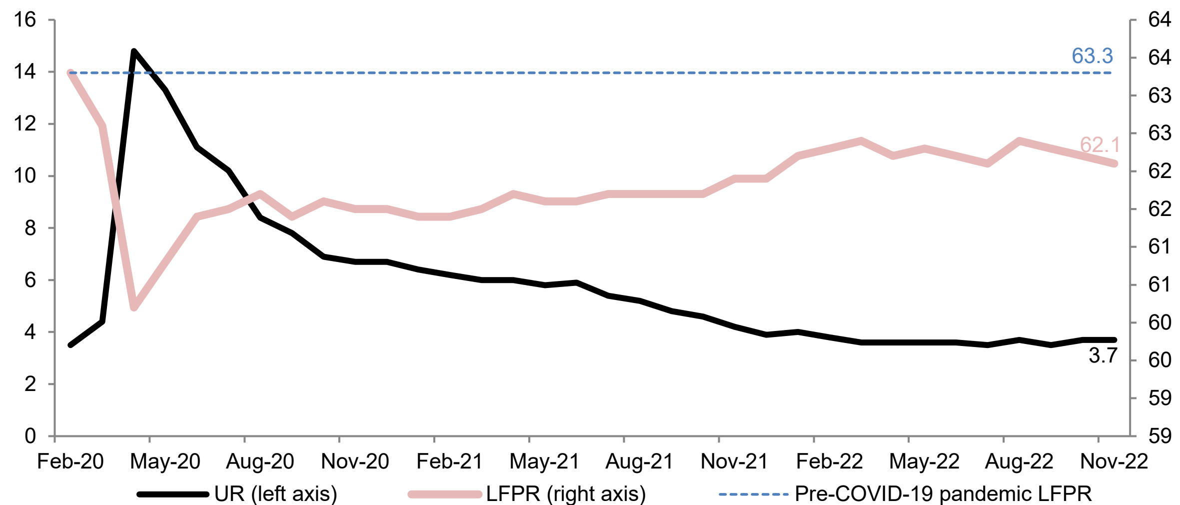
Figure 10
United States cumulative loss/gain of jobs since the beginning of the pandemic as of November 2022
(Average monthly job growth, millions)



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

In the past six months, there has been a gentle downward trend in the pace of job creation. While the average of jobs created in the past three months (September to November) is 272,000, the average in the three months prior to that (June to August) was 374,000. The household survey in November showed a worse picture than the payroll survey, as it did in October. Although the unemployment rate in November was unchanged at 3.7% —near a post-pandemic low— the labor force shrank by 186,000, driving the labor force participation rate down to 62.1%, way below its pre-pandemic level (figure 12).

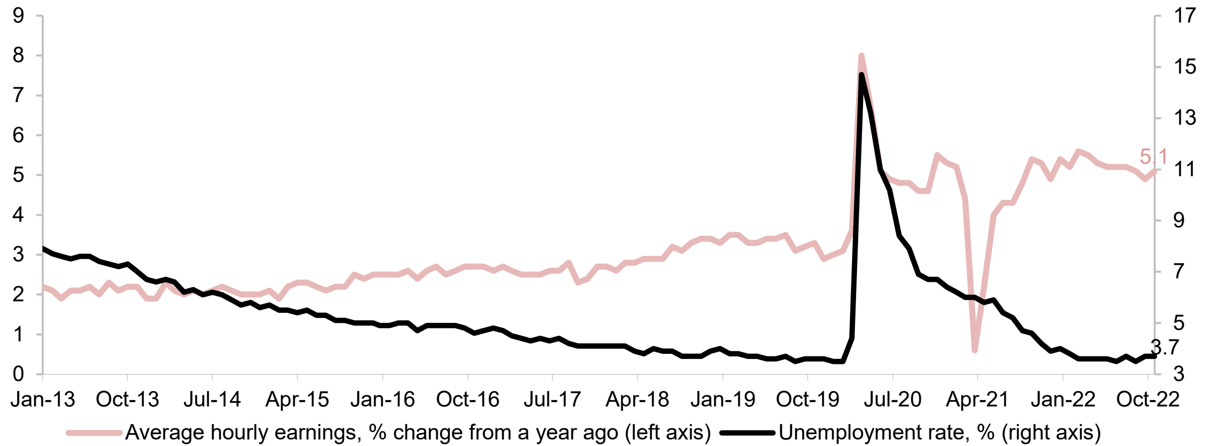
Figure 11
United States labor force participation share, February 2020—November 2022
(Percentage)



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics. UR: unemployment rate; LFPR: labor force participation rate.

The renewed exit of workers from the labor force might partly explain the resilience in wages. Wage growth picked up in November, with average hourly wages rising to US$ 32.82, up 5.1% from a year ago (figure 13). That was more than the 4.6% economists in a Bloomberg survey had forecast. On a monthly basis, wages climbed 0.6%, the strongest pace since January. Job and wage growth need to go down substantially more for the Federal Reserve to pause monetary tightening.

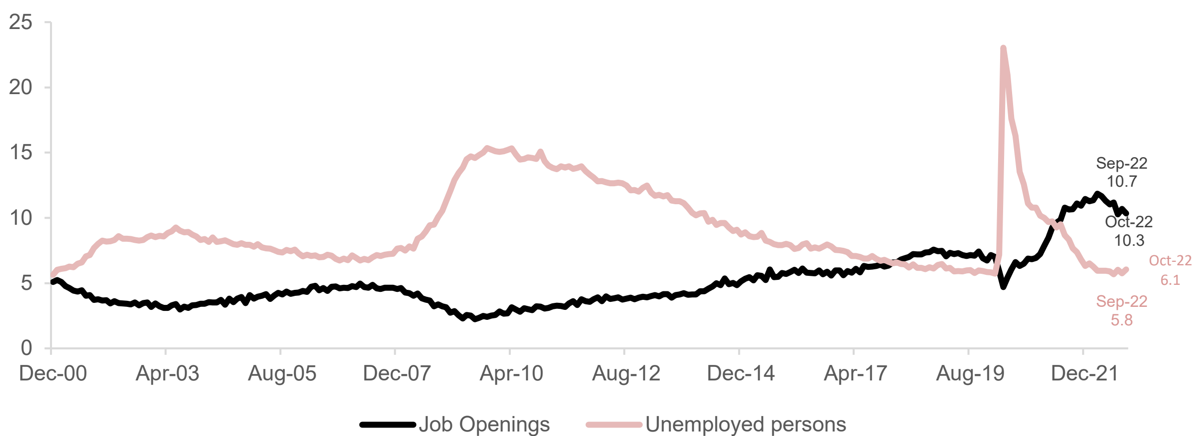
Figure 12
United States average hourly earnings and unemployment rate, January 2013—November 2022
(Percentage)



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

Despite the resilience in wages and solid job gains in November, labor market conditions seem to be easing gradually. Job openings in October 2022, the lates figure available, declined to 10.3 million from 10.7 million in September according to the Job Openings and Labor Turnover Survey (JOLTS), though they remain historically high (figure 14).The fall in the job openings rate to 6.3% in October from 6.5% in September left it in line with its lowest level since mid-2021. Meanwhile, hiring eased to a rate of 3.9% from 4%, its first time below 4% since the pandemic. The October JOLTS report provides further confirmation that the labor market is slowly moderating, but it is uncertain whether it is moderating quickly enough to affect Federal Reserve's policy decisions. "Job growth remains far in excess of the pace needed to accommodate population growth over time –about 100,000 per month by many estimates," Mr. Powell said in a recent speech, noting that the labor market "shows only tentative signs of rebalancing."[1]

Figure 13
United States job openings vs number of unemployment persons: December 2000—October 2022
(Millions of openings and persons)



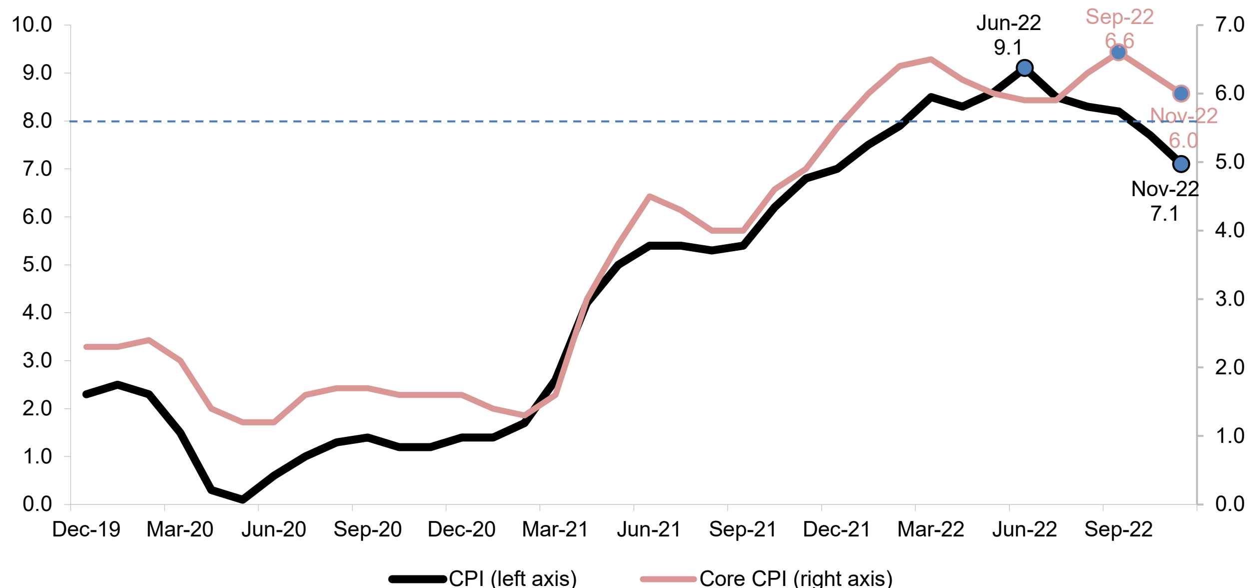
Source: ECLAC Washington Office, based on data from FRED Graph Observations, Federal Reserve Bank of St. Louis, Job Openings: Total Nonfarm, Level in Thousands, Monthly, Seasonally Adjusted and Unemployment Level, Thousands of Persons, Monthly, Seasonally Adjusted.

[1] "Inflation and the Labor Market", Speech by Chair Jerome H. Powell, Federal Reserve, 30 November 2022, https://www.federalreserve.gov/newsevents/speech/powell20221130a.htm

E. Inflation

Building on a trend of moderating price increases since inflation reached a peak of 9.1% in June 2022, the Consumer Price Index for All Urban Consumers (CPI-U) —which measures the costs of everyday goods and services from food to dental care— advanced 7.1% in November 2022 at an annualized rate, below consensus forecast and down from 7.7% in October. That was the slowest 12-month pace since the period ending December 2021, and the second straight month since February in which inflation was below 8% (figure 15).

Figure 14
United States domestic prices: monthly evolution, December 2019—November 2022
(CPI-U unadjusted 12 months percent change)



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

Prices excluding food and energy, the core CPI, reached 6% at an annualized rate in November, down from 6.3% in October and a peak of 6.6% in September that represents the largest jump since August 1982. According to the U.S. Bureau of Labor Statistics, the energy index increased 13.1% for the 12 months ending in November, and the food index increased 10.6% over the last year; all of these increases were smaller than for the period ending in October.

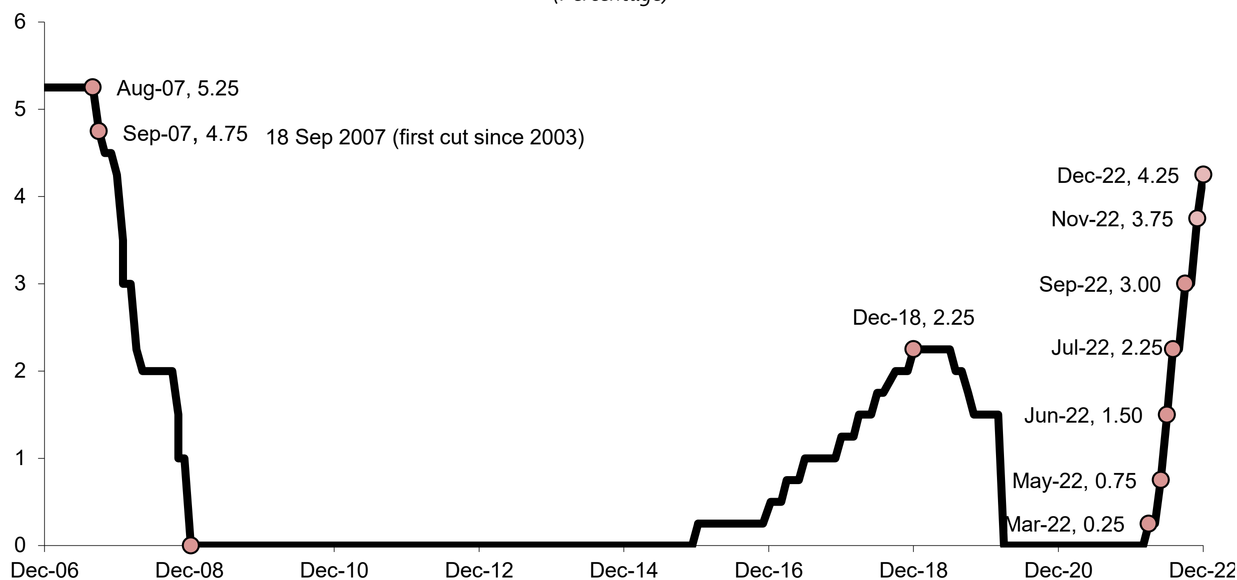
On a monthly basis, the CPI was up a seasonally adjusted 0.1% in November 2022 compared with gains of 0.4% in September and October, softening significantly. The increase in the CPI in November was lower than the consensus forecast. The index for shelter, which according to the Bureau of Labor Statistics includes rent and owner's equivalent rent of residences, was by far the largest contributor to the monthly all items increase, more than offsetting decreases in energy indexes. The food index increased 0.5% over the month with the food at home index also rising 0.5%. The energy index decreased 1.6% over the month as the gasoline index, the natural gas index, and the electricity index all declined. Excluding food and energy, the CPI increased 0.2% in November, after rising 0.3% in October. The increase in the core CPI was similarly less than what the consensus had anticipated.

Overall inflation has eased since the summer as supply bottlenecks have improved. Inflation remains high, however, and has spread to more labor-intensive services as wages surged in a tight labor market where demand for workers exceeds the number of unemployed persons looking for jobs. Low unemployment and wage gains are supporting consumer spending, which has remained robust despite rising prices.

F. Monetary policy

The Federal Reserve increased its short-term benchmark interest rate seven times this year (figure 16), 0.25% in March, 0.50% in May, 0.75% (the largest increase since 1994) in June, July, September and November, and 0.50% in December, bringing the federal-funds rate to a range of 4.25%-4.50%. The decision to raise the rate by a smaller 0.50% at the end of the two-day policy meeting concluded on 14 December 2022 was unanimous and suggests that monetary tightening and rate-setting by the Federal Open Market Committee (FOMC) is entering a new stage that may involve smaller changes and a more careful calibration. Nonetheless, the statement maintains the language that "ongoing increases" in rates will be required, pointing to multiple increases next year.

Figure 15
U.S. federal funds target rate, December 2006—December 2022
(Percentage)



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

The median rate projection puts the policy rate as high as 5.1% at end-2023 and still at 4.1% at end-2024, which is a full 1% higher than market expectations before the December FOMC meeting. Moreover, seven officials expect the peak in rates to be even higher than that. Only two of the 19 officials thought the peak in rates in 2023 would be lower than 5%. Most officials penciled in plans to raise the rate to between 5% and 5.5% next year, with the median projection implying a further 0.75 percentage point in rate rises. In September, they anticipated lifting it to around 4.6% by the end of next year.

Meeting participants also submitted new economic projections of the most likely outcomes for real GDP growth, the unemployment rate, and inflation for each year from 2022 to 2025 and over the longer run. Most officials now see growth of around 0.5% this year and next, compared to projections in September that showed growth rising by 0.2% this year and 1.2% in 2023.

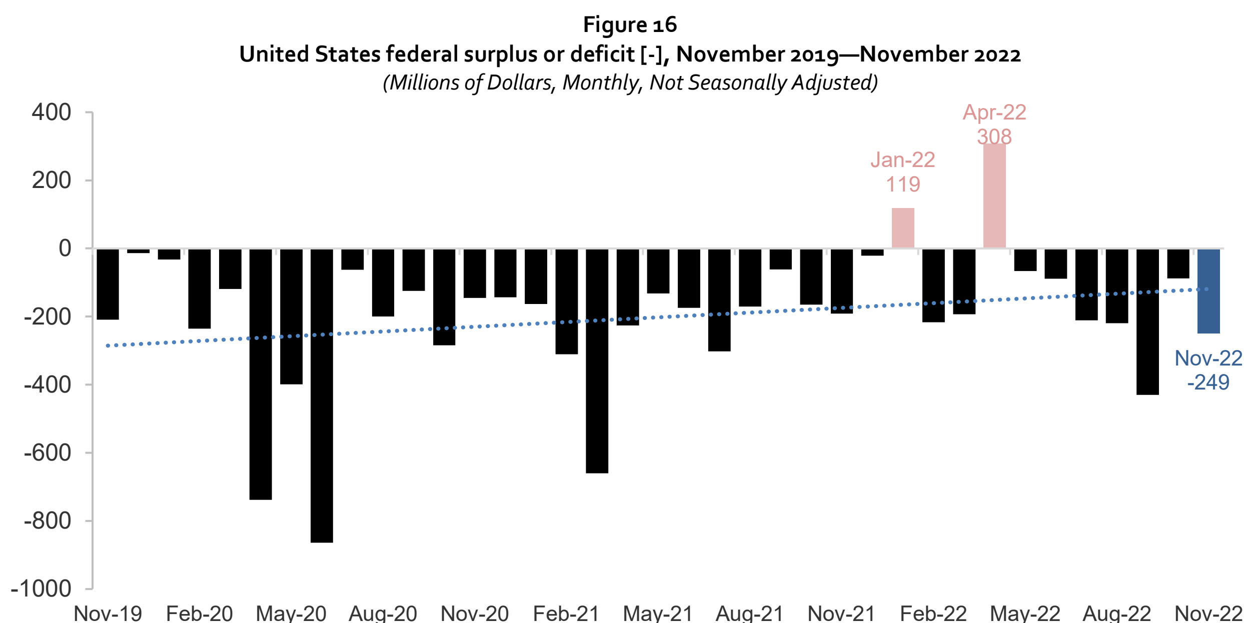
The unemployment rate is expected to rise in 2023. The median projections showed the unemployment rate, which stood at 3.7% in November, rising to 4.6% in 2023. At the news conference following the meeting, Fed Chair Jerome Powell suggested the central bank would strongly consider dialing down the size of rate rises to a more traditional quarter-percentage-point increment at its next meeting on 31 January-1 February.

Starting on 1 June 2022, the Fed initiated a program that withdraws stimulus by shrinking its US$ 8.9 trillion asset portfolio through attrition, allowing securities to exit from its portfolio by not reinvesting the proceeds when they mature.

G. Fiscal policy

According to the United States Treasury Department's release on 12 December, monthly federal deficit was US$ 249 billion in November, US$ 57 billion wider than the same month last year (figure 17). The federal government spent US$ 501 billion, a US$ 28 billion increase, while tax revenue dropped by US$ 29 billion compared with last November, with the government collecting US$ 252 billion. Adjusting for calendar differences in last year's tax receipts, government tax revenue dropped US$ 13 billion compared with last November.

Figure 16
United States federal surplus or deficit [-], November 2019—November 2022
(Millions of Dollars, Monthly, Not Seasonally Adjusted)



Source: ECLAC Washington Office, based on data from the U.S. Treasury Departments and FRED Graph Observations, Federal Reserve Bank of St. Louis.

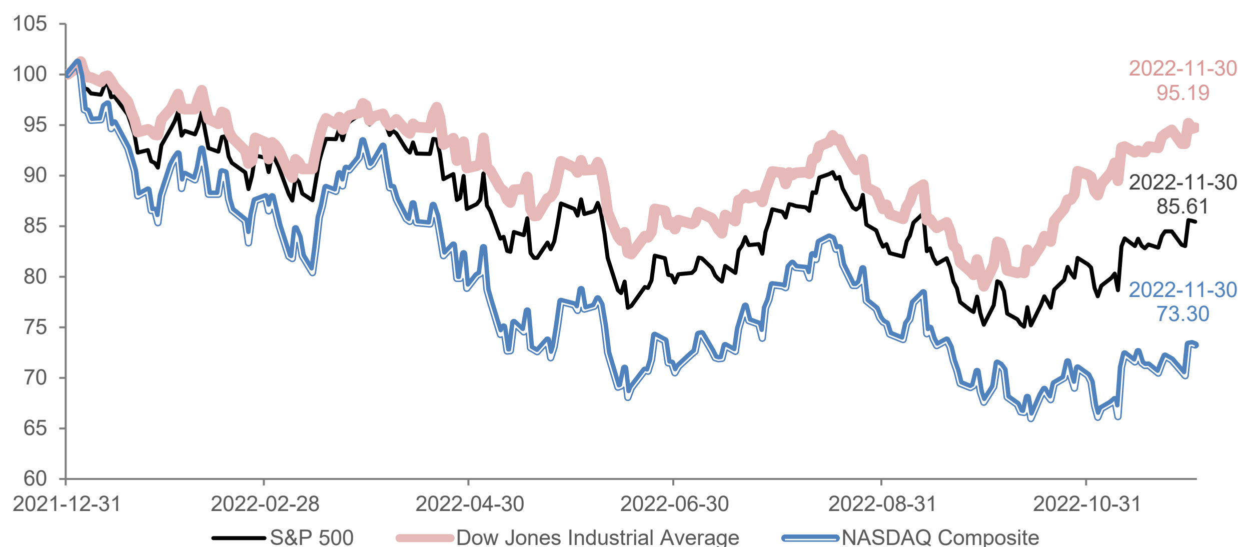
The deficit narrowed sharply last fiscal year, which ended on 30 September 2022, as broad fiscal support during the COVID-19 pandemic ended, and rapid economic growth led to record-level tax revenues, contributing to the smaller deficit and to the two surpluses recorded in January and April 2022. Both those trends are on track to end this fiscal year, however. Government spending won't drop precipitously as last year, since the pandemic support has already been curtailed, and the United States Congress has not approved any new one-time massive fiscal aid packages, as they did during the pandemic. Moreover, as the Federal Reserve rapidly raises interest rates to combat the highest inflation in decades, a slowing economy could also result in lower tax receipts going forward. The Fed's tightening is also expected to create higher borrowing costs for the government. The Treasury spent 53% more on borrowing costs this November than it did last November.

With the House of Representatives coming under Republican control next year, the federal government's finances could once again become a point of contention and uncertainty for the economy and global markets. Some Republican representatives have already said they could refuse to raise the country's borrowing limit without an agreement on broad cuts to the federal budget, including potentially cuts to Social Security and Medicare.

H. Financial conditions

The United States stock markets have been volatile in 2022 (figure 18). After a decade of low interest rates and central bank asset purchases, high inflation is being met by rising interest rates and a slowdown in the asset purchases, which have increased financial markets vulnerability. These trends are reducing market liquidity, the ability to transact without dramatically moving prices, and increasing the risk that sudden price moves in one market will force sales of other market assets, with unpredictable results. This volatility has weighed heavily on major indexes this year, with the S&P down about 16% from January to November 2022, the Dow Jones Industrial Average down about 6% and the NASDAQ down about 29% (table 4).

Figure 17
U.S. stock market indices, December 2021— November 2022
(Daily, not seasonally adjusted; 31 December 2019=100)



Source: ECLAC Washington Office, based on data from the Federal Reserve of St. Louis (FRED).

Table 4
Stock prices
(Percentage Change)

	S&P 500	Dow Jones Industrial Average	Nasdaq
2020	16.32	7.04	43.75
2021	26.51	18.22	22.63
Q1 2022	-6.06	-4.52	-11.96
Q2 2022	-11.21	-7.59	-16.18
Q3 2022	-1.24	-2.53	-0.14
Jan-Nov 2022	-16.20	-6.24	-29.09

Source: ECLAC Washington Office, based on data on Monthly Stock Prices, Economic Indicators, U.S. Government, https://www.govinfo.gov/app/collection/econi/. Monthly stock prices data are averages of daily closing prices.

Liquidity has also dried up in the U.S. Treasury market, as the Federal Reserve has hiked interest rates at a rapid pace and major holders of Treasury debt such as the Federal Reserve and the Bank of Japan have retreated. Uncertainty and volatility in the Treasury market this year have made Treasury notes harder to trade, leading to concerns about the market's overall health.

From January to November 2022, the 3-year, 10-year and 30-year Treasury yields surged 357%, 165% and 116%, respectively (table 5). The average yield on the benchmark U.S. 10-year Treasury note reached 4% in October 2022 for the first time in a decade amid concerns of surging inflation pressures and slowing

economic growth. The yield on the government bond has profound effects on the U.S. economy, feeding into higher home mortgage rates and borrowing costs for companies. It also has profound effects overseas, feeding into higher borrowing costs for emerging market sovereign and corporate debt issuers.

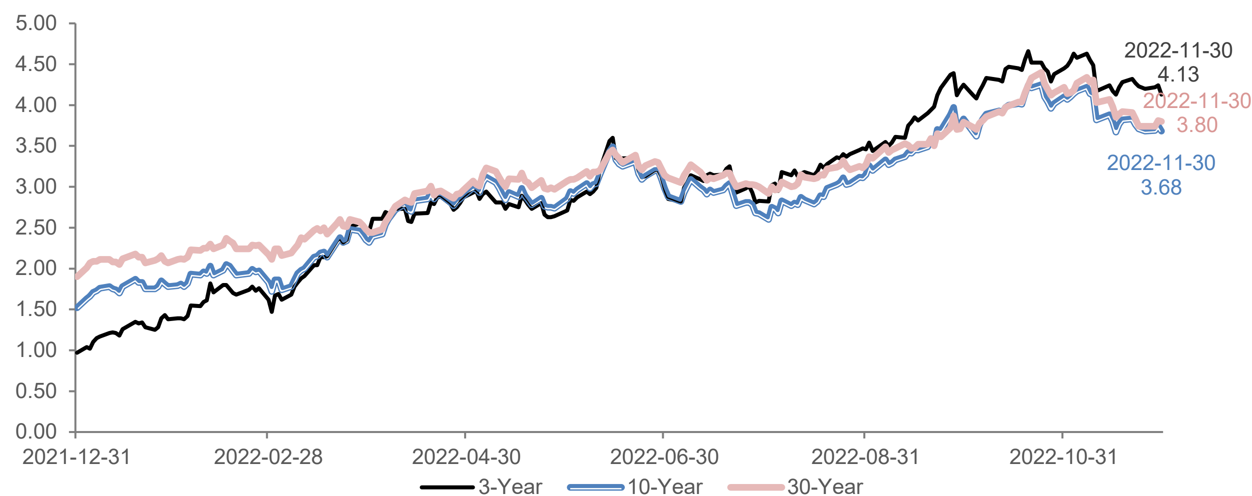
The Treasury yield curve is flashing a recession signal (the 10-year yield is now below the rate on three-month Treasury notes), but the still-high level of long-term Treasury yields suggests the bond market itself is not quite alarmed yet. The yield curve is now deeply inverted, with short-term rates far above long-term ones (figure 19), maybe signaling the market's belief that the Federal Reserve, which raised interest rate for the seventh time this year by a half-percentage point on 14 December, will end up weakening the economy to the point it needs to cut rates later.

Table 5
U.S. Treasury security yields
(Percentage Change)

	3-year	10-year	30-year
2020	-88.34	-50.00	-27.39
2021	400.00	58.06	10.78
Q1 2022	120.00	44.90	30.27
Q2 2022	50.72	3647.42	34.85
Q3 2022	23.17	12.10	9.54
Jan-Nov 2022	356.84	164.63	116.22

Source: ECLAC Washington Office, based on data on Monthly Yields, Constant Maturities, Economic Indicators, U.S. Government https://www.govinfo.gov/app/collection/econi/

Figure 18
U.S. Treasury security yields, December 2021—November 2022
(Constant maturities; daily yields)



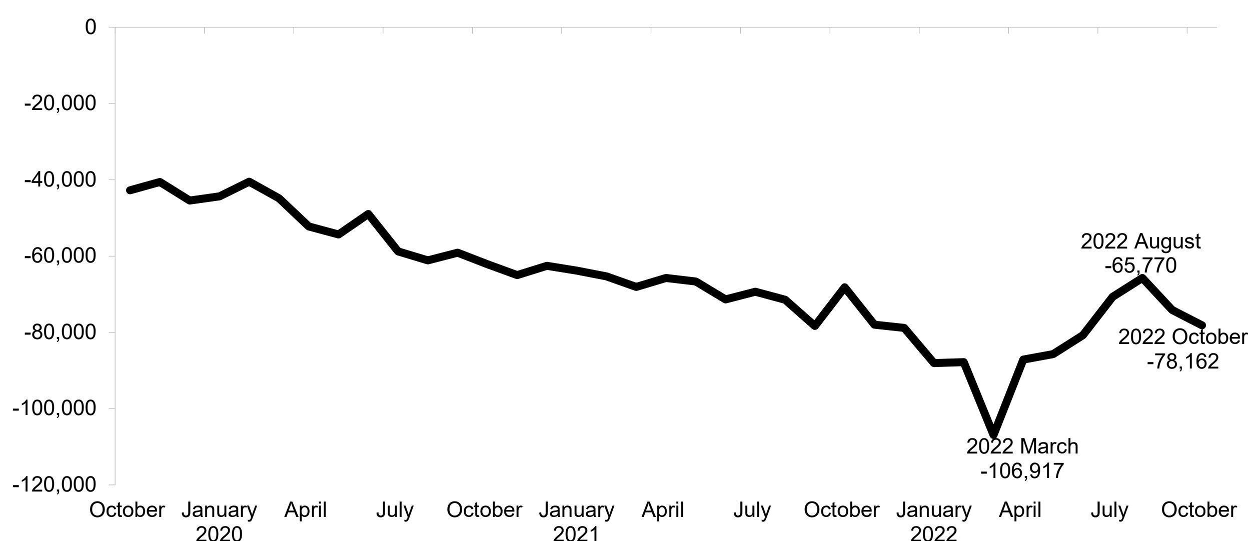
Source: ECLAC Washington Office, based on data from the Federal Reserve of St. Louis (FRED).

Investors in stock markets, however, seem to be growing more confident that the Federal Reserve will be able to achieve a soft landing. These investors have larger-than-average positions in shares of industrial, materials and energy companies, according to Goldman Sachs analysts, and all three groups tend to be sensitive to changes in the economy, meaning that investors' bet should eventually pay off if the United States can avoid a deep and prolonged downturn , or a "hard landing". Recent data have offered investors some hope for that scenario. The labor market has remained strong, consumer spending is up and there are signs that inflation is easing. Market analysts at a number of firms, including Goldman Sachs, BMO Wealth Management and Credit Suisse, are predicting the economy will be able to avoid a hard landing next year.

I. External sector

The United States economic growth in the third quarter of 2022 was supported by a sizable contribution from net exports, but a widening trade deficit may modestly reduce growth in the fourth quarter. Softer demand for U.S. energy and consumer goods abroad contributed to a larger trade deficit in October. According to the International Trade in Goods and Services released in December 2022 by the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, the deficit in trade in goods and services widened to US$ 78.2 billion in October from a revised US$ 74.1 billion in September, the second straight monthly increase after narrowing since March (figure 20). The deficit has increased by more than US$ 12 billion since August, driven by lower receipts for exports and higher payments for imports.

Figure 19
United States balance on goods and services trade, October 2019—October 2022
(Millions of dollars, months seasonally adjusted)



Source: U.S. Census Bureau and the Bureau of Economic Analysis, U.S. Commerce Department.

The weakness in global demand is beginning to weigh on exports, which declined by US$ 1.9 billion from September to October, to US$ 256.6 billion. October imports were US$ 334.8 billion, US$ 2.2 billion more than September imports. According to the release, the October increase in the goods and services deficit reflected an increase in the goods deficit of US$ 6.1 billion to US$ 99.6 billion and an increase in the services surplus of US$ 2.1 billion to US$ 21.4 billion. Year-to-date, the goods and services deficit increased US$ 136.9 billion, or 19.9%, from the same period in 2021. Exports increased US$ 415.3 billion or 19.8%. Imports increased US$ 552.2 billion or 19.8%.

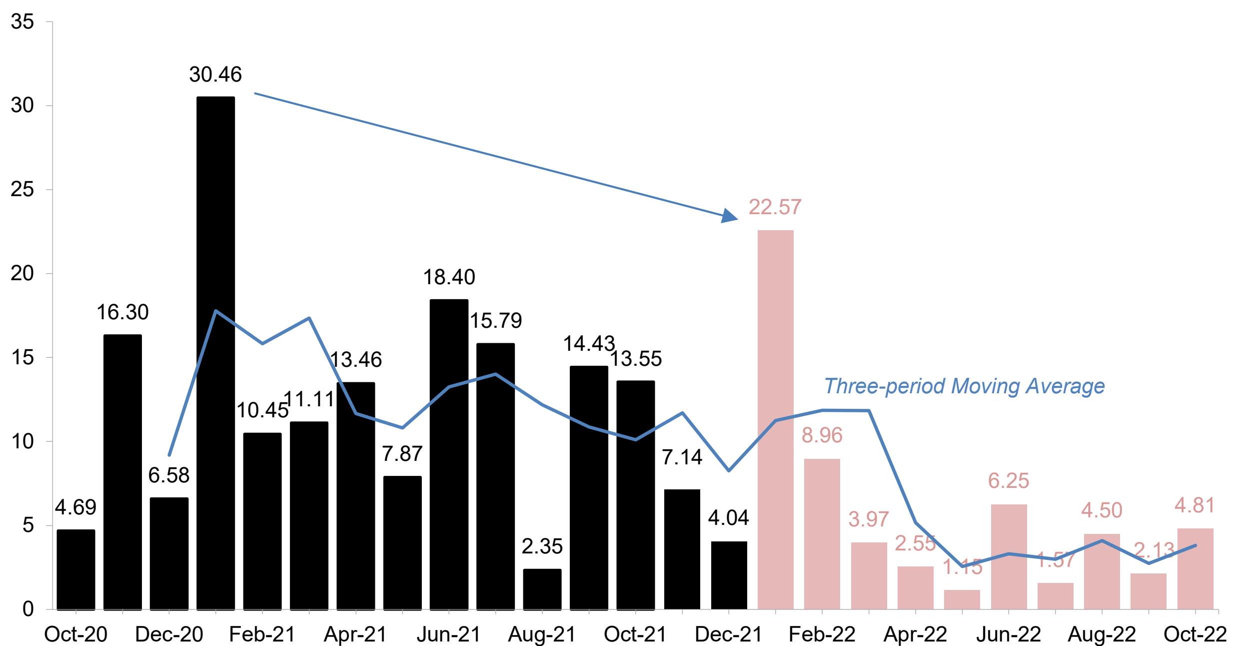
Trade with Canada and Mexico expanded strongly in the first ten months of the year, with exports up 19% from the same period in 2021 to US$ 572.4 billion and imports up 24% to US$ 753 billion. Trade with the European Union also expanded, with exports growing 30% to US$ 290.6 billion and imports rising 13% to US$ 455.9 billion. Exports to China increased 1.8% to US$ 124.5 billion, while imports expanded 13.6%, to US$ 462.6 billion.

According to the World Trade Organization (WTO), growth in global trade is likely to slow at the end of 2022 and early 2023, as the global economy faces challenges brought by the war in Ukraine, high inflation and interest rate increases in the United States and other countries. The WTO's trade barometer, a composite leading indicator of trade, fell to 96.2 in November from 100 in August, reflecting lower demand for traded goods.

II. Impact on Latin American and Caribbean financial conditions

Inflation concerns, the United States Federal Reserve's tightening monetary policy stance and the strength of the dollar contributed to push funding costs higher in Latin America and the Caribbean (LAC). Against the backdrop of higher global interest rates and borrowing costs, LAC issuers placed US$ 58.5 billion worth of bonds in international bond markets from January to October of 2022, down 58% from the same period in 2021 and with an average coupon that was almost 1.5% higher (figure 21).

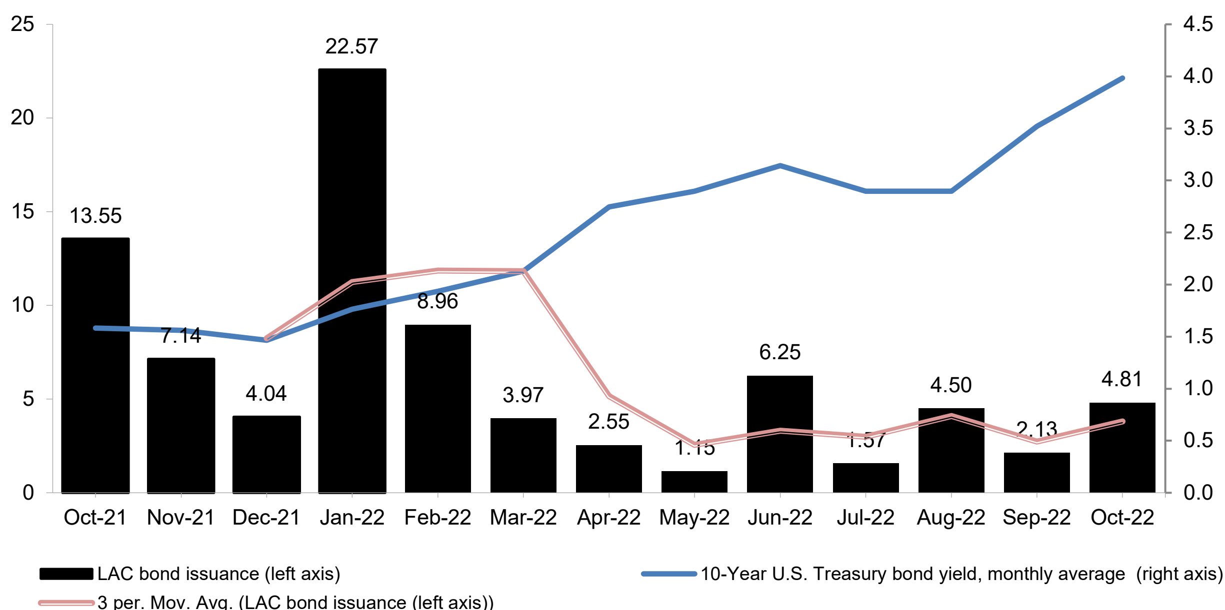
Figure 20
Latin American and Caribbean international bond issuance, October 2020—October 2022
(Billions of dollars)



Source: ECLAC, Capital flows to Latin America and the Caribbean: a slowdown in 2022 (LC/WAS/TS.2022/07), Santiago, 2022, <online> https://www.cepal.org/en/publications/48572-capital-flows-latin-america-and-caribbean-slowdown-2022 .

In addition, increased volatility in government bond markets has carried the yield on the 10-year U.S. Treasury note —a benchmark for global borrowing costs— above 4% for the first time in a decade, feeding into higher borrowing costs and lower international debt issuance for the region's sovereign and corporate debt issuers alike (figure 22).

Figure 21
Higher global borrowing costs feeds into lower LAC international debt issuances
(Left axis, billions of dollars; Right axis, percentage; as of 31 October 2022)



Source: ECLAC, Capital flows to Latin America and the Caribbean: a slowdown in 2022 (LC/WAS/TS.2022/07), Santiago, 2022, <online> https://www.cepal.org/en/publications/48572-capital-flows-latin-america-and-caribbean-slowdown-2022

The shift by the Federal Reserve and other central banks towards a tightening stance has put LAC assets under pressure this year and led to capital outflows. The war in Ukraine has compounded external risks. The international market has remained open to investment grade and some stronger high yield issuers from the region, but coupons and issuance concessions have increased. Lower funding needs and greater reliance on local markets have helped LAC issuers to offset some of the pressure from international investors' lower risk tolerance this year. However, the prospect of a slower pace of the Federal Reserve's monetary tightening in coming months, as inflation begins to slow in the United States, suggests that tide may be turning, and the change in the Federal Reserve's monetary stance may lead to capital inflows into the region's assets.

III. Looking ahead

The state of the Unite States economy has improved in the second half of the year. The labor market has remained historically tight, with November 2022 marking the 23rd consecutive month of job gains, but the pace of job creation has begun to gradually slow. The unemployment rate remains near a record low. Workers' pay rose more than expected in November, but are still well below inflation.

Inflation is also gradually declining, as the economy overcomes supply chain disruptions and the aggressive tightening in monetary policy begins to work towards reducing excess demand. While inflation started in goods affected by supply chain issues, as supply chain pressures eased over the summer of 2022, the prices of services rose. For the 12 months ended in November 2022, core service prices were up 6.8% according to data from the Bureau of Labor Statistics, the fastest pace since 1982. They are rising faster than core goods prices, which rose 3.7% the same month, down from a peak of 12.3% in February.

Personal income data released in early December show the United States saving rate in October hitting its lowest level since 2005 and the second lowest level on record. The implications of the current low saving rate are much different than in 2005, however. According to Moody's, "consumers today, at least in the aggregate, are simply drawing down assets accumulated during the pandemic, when spending was low by necessity, but income was high because of government largess. Debt burdens today are lower than at any time between 1980 and 2019".[2] As pandemic-generated excess saving is exhausted, the impact of rising interest rates works its way through the economy, and the economy overcomes supply chain disruptions, inflation should continue on its downward trend.

The Federal Reserve has been focused on developments in the labor market, and according to Chairman Jerome Powell, job and wage growth need to go down substantially more before the central bank pauses its monetary tightening. In a recent speech, he decomposed the central bank's preferred measure of inflation, the core personal consumption expenditure deflator (which fell to 5.0% in October, the latest number available, from 5.2% in September), into three categories: core goods, housing, and core services excluding housing. Of these three categories, the third is the largest, accounting for more than half of the core PCE deflator. Moreover, core

[2] Moody's, "New implications for low saving rate", *Daily Economic Roundup*, 6 December 2022.

services excluding housing, which encompasses everything from healthcare to hospitality, are labor-intensive, so the degree of tightness in the job market is an informative guide in the path of inflation in service industries.[3]

The Federal Reserve raised interest rates for the seventh time this year on 14 December, to a range between 4.25% to 4.50%. More importantly, the Fed projects the benchmark interest rate to rise to 5.1% by the end of 2023. This is higher than the 4.6% rate projected in September. Whether the Federal Reserve will be able to calibrate its policy response to achieve a soft landing adds uncertainty to the economic outlook. Fed officials are striving to achieve a fine balance, to bring prices down without causing a recession, but they have acknowledged that their more aggressive efforts could lead to harsher consequences. The higher interest rates need to go to fight inflation, the more doubtful achieving a soft landing will be, with higher unemployment and a recession becoming more likely.

[3] "Inflation and the Labor Market", Speech by Chair Jerome H. Powell, Federal Reserve, 30 November 2022, https://www.federalreserve.gov/newsevents/speech/powell20221130a.htm and Moody's, "Federal Reserve Hyper-Focused on Labor Market", analysis by Dante DeAntonio, *Daily Economic Roundup* , 9 December 2022.

The United States economy grew by 2.9% in the third quarter of 2022, a sharp turnaround following two quarters of contraction. Trade was the main source of growth, followed by consumer spending. The labour market averaged 392,000 new jobs per month from January–November 2022, with 4.3 million new jobs created in the period. Inflation rose by 7.1% in November, the slowest 12-month pace since December 2021, closing out a year in which it climbed to the highest level in four decades. The rapid pace of price increases in 2022 added pressure on the Federal Reserve to tame inflation by raising interest rates aggressively, which it did seven times, at the fastest pace since the 1980s.

The *United States economic outlook: third quarter of 2022* presents and analyses the main economic developments in the United States in the third quarter of 2022 and in 2022 to date, and how these could affect financial conditions in Latin America and the Caribbean.

Economic Commission for Latin America and the Caribbean (ECLAC)
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