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United States economic outlook

First half of 2024

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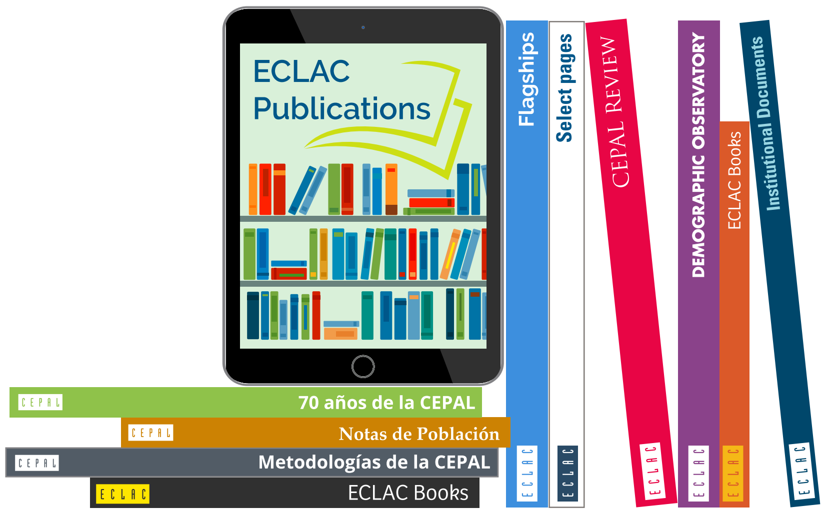

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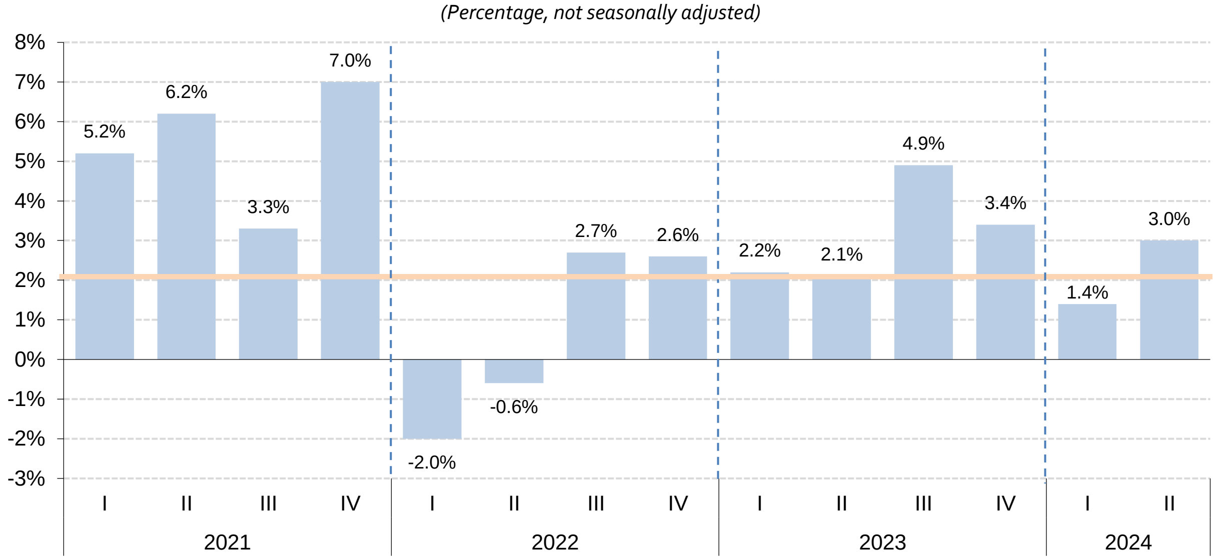
Highlights

- Capping two years of solid economic expansion, the United States Gross Domestic Product (GDP) grew at a robust 3.0% annualized rate in the second quarter of 2024, more than double the 1.4% increase in the first quarter and well above the economy's long-term growth potential. Personal consumption expenditure, the main driver of growth, accelerated to 2.9% from 1.5% in the first quarter.
- Employment has increased for 44 consecutive months, but the labor market is softening. In August 2024, U.S. nonfarm payrolls rose by 142,000 jobs, below consensus estimates, but an increase from the 89,000 jobs created in July, the lowest number since December 2020. July's low number sparked fears of a "hard landing" for the U.S. economy and a sharp drop in global financial markets. The unemployment rate edged lower to 4.2% (from 4.3% in July), breaking a streak of four consecutive monthly increases from April to July.
- Overall, an average of 184,000 new jobs were created per month from January to August 2024 (compared to 266,000 in the same period in 2023) and 1.48 million new jobs were added (compared to 2.13 million in the same period in 2023).
- Inflation has continued its descent. The Consumer Price Index (CPI) slowed to 2.5% in August 2024, the lowest level in more than three years, from 3.4% in December 2023 and a peak of 9.1% in June 2022. Core CPI, which excludes the volatile energy and food categories, was at 3.2% in August 2024, slowing from 3.9% in December 2023 and a peak of 6.6% in September 2022.
- In his highly anticipated Jackson Hole speech on 23 August 2024, Federal Reserve Chair Jerome Powell clearly signaled that interest rate cuts would begin in September. According to him, the "upside risks to inflation have diminished and the downside risks to employment have increased." The Federal Reserve announced an interest rate cut of 0.50% —the first cut since the Covid-19 pandemic began— at its 17-18 September rate-setting meeting, leaving the federal funds rate at a range of 4.75% to 5%.
- This report has a special chapter with a brief description of the U.S. Presidential candidates' positions on key economic policy issues and what they could mean for Latin America and the Caribbean. The United States presidential elections will take place on 5 November 2024.

Overview

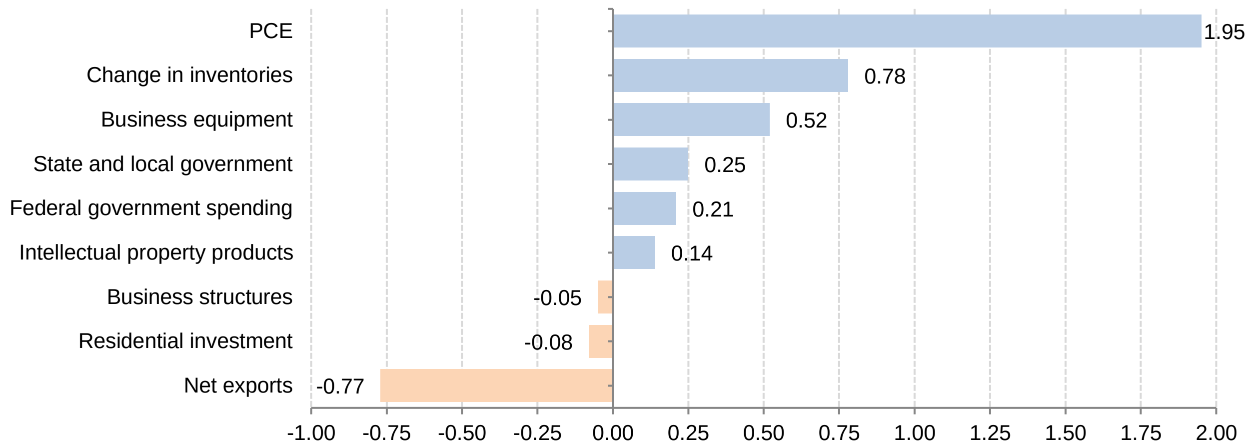
The United States Gross Domestic Product (GDP) rose 3.0% in the second quarter of 2024, above the economy's long-term growth potential (estimated at 2%) and the 1.4% growth in the first quarter (figure 1). Consumer spending was the main driver of the GDP increase in the first and second quarters, contributing 0.98% and 1.95%, respectively, to quarterly growth. GDP growth in the second quarter was also supported by growth in inventories, investment in business equipment, state, local, and federal government spending, and intellectual property investment. Investment in business structures, residential investment and net exports subtracted from second-quarter growth, with the largest negative contribution coming from net exports (figure 2).

Figure 1
United States real GDP quarterly growth rates, 2021–2024
(Percentage, not seasonally adjusted)



Source: Bureau of Economic Analysis, United States Department of Commerce.

Figure 2
United States: contributions to percent change in real GDP, second quarter of 2024
(Percentage points, seasonally adjusted at annual rates)

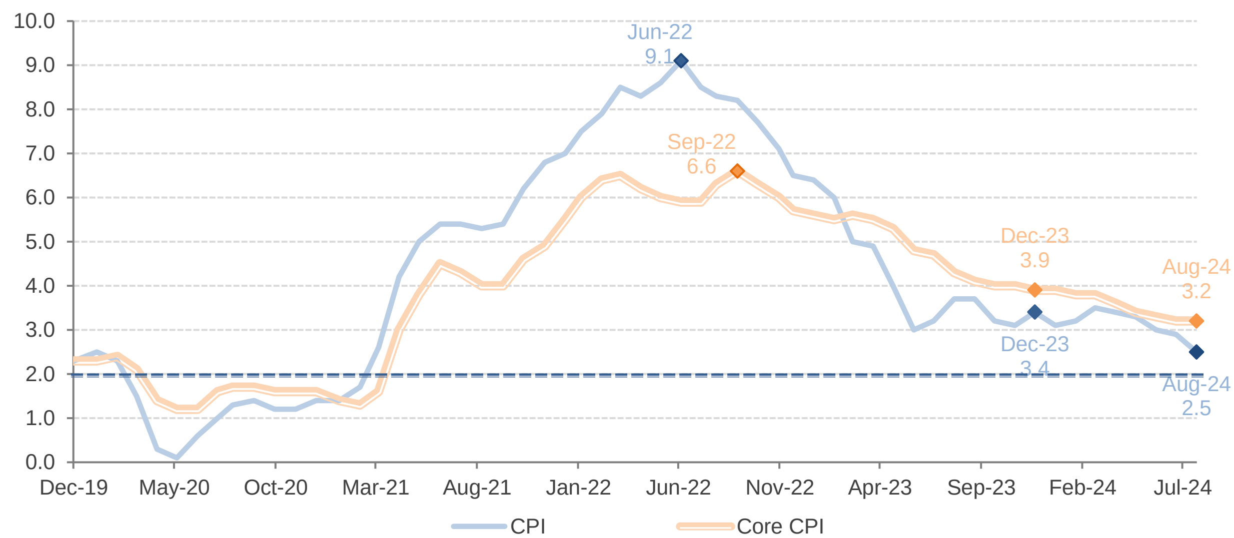


Source: Bureau of Economic Analysis, United States Department of Commerce.
PCE: Personal Consumption Expenditures.

The resilience of consumer spending has been supported by receding inflation and a robust labor market. According to new data from the U.S. Census Bureau, household incomes rose in 2023 for the first time since the Covid-19 pandemic began, reflecting the effects of easing inflation and a strong job market. Incomes have now returned to about where they were in 2019, the peak that was reached just before the pandemic. Inflation-adjusted median household income was US$ 80,610 in 2023, up 4% from US$ 77,540 in 2022, when household income gains were adversely impacted by the rapid increase in inflation.

Measured by the Consumer Price Index (CPI), inflation slowed to 2.5% in August 2024 —the lowest level since February 2021— from 3.4% in December 2023 and a peak of 9.1% in June 2022. Core CPI, which excludes the volatile energy and food categories, was at 3.2% in August 2024, slowing from 3.9% in December 2023 and a peak of 6.6% in September 2022 (figure 3).

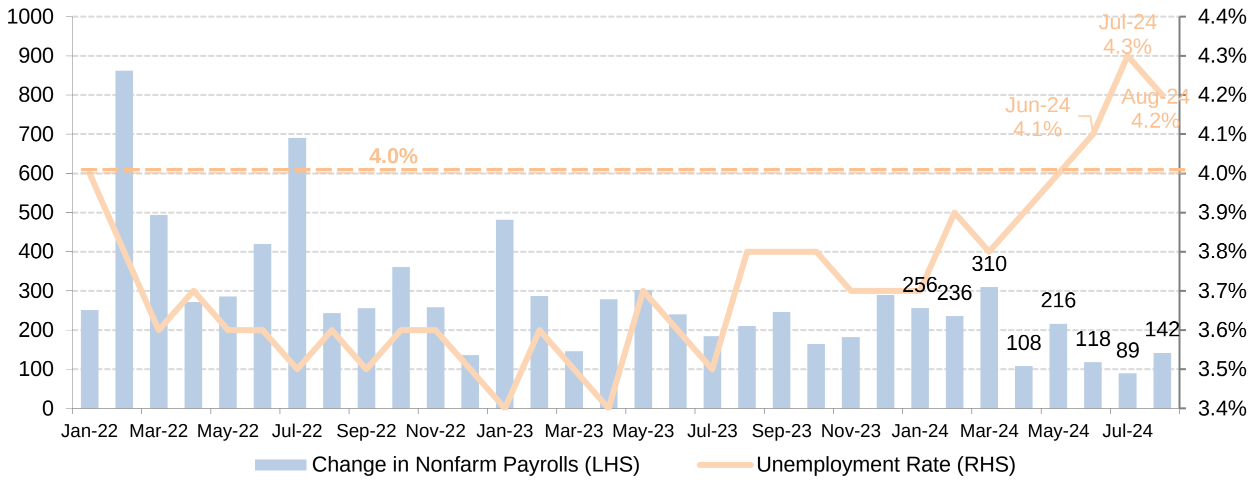
Figure 3
United States domestic prices: monthly evolution, December 2019–August 2024
(CPI-U unadjusted 12 months percent change)



Source: Bureau of Labor Statistics, United States Department of Commerce.

Employment has increased for 44 consecutive months, but the labor market is softening. Overall, an average of 184,000 new jobs were created per month from January to August 2024 (compared to 266,000 in the same period in 2023) and 1.48 million new jobs were added (compared to 2.13 million in the same period in 2023). In August 2024, U.S. nonfarm payrolls rose by 142,000 jobs, below consensus estimates but an increase from July, which showed the lowest monthly job creation since December 2020 and sparked fears of a "hard landing" for the U.S. economy, leading to a sharp drop in global financial markets. The unemployment rate edged lower to 4.2% from 4.3% in July, breaking a streak of four consecutive monthly increases from April to July (figure 4).

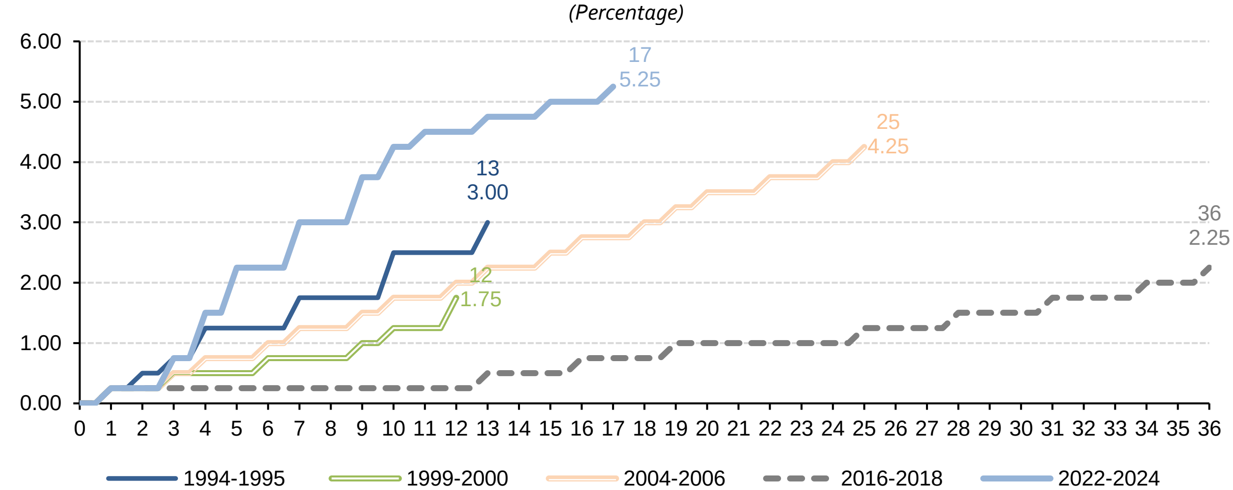
Figure 4
United States monthly job creation and unemployment rate, January 2022–August 2024
(Annual job growth in thousands (left axis); Percentage (right axis))



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

July's weaker employment numbers also sparked fears that the Federal Reserve was being slow to lower interest rates, which at a range of 5.25% to 5.50%, were at their highest level in 23 years. The Fed kept interest rates on hold at this level from July 2023 to August 2024. The tightening cycle, which started in March 2022 and ended in July 2023, raised the federal funds rate 11 times in the period and had the fastest pace of increases relative to previous cycles (figure 5).

Figure 5
United States Federal Reserve tightening cycles 1994–2023
(Percentage)



Source: ECLAC Washington Office, based on data from the United States Federal Reserve. The last increase in the recent cycle took place in July 2023.

Markets had seen the Federal Reserve's higher-for-longer interest rate strategy as the biggest threat to the U.S. economy's continued strong performance, but in his Jackson Hole speech on 23 August 2024, Federal Reserve Chair Jerome Powell clearly signaled that interest rate cuts would begin in September, saying that the "upside risks to inflation have diminished and the downside risks to employment have increased." The Federal Reserve announced an interest rate cut of 0.50% at its 17-18 September rate-setting meeting, launching its first easing cycle since the onset of the Covid-19 pandemic and signaling more reductions would follow. The half-point cut is larger than the Federal Reserve's more customary quarter-point pace and suggests the U.S. central bank is shifting its focus from inflation to the health of the labor market and to economic growth, as concerns about the prospects of a weakening economy rise after more than a year of holding rates at a 23-year high.

Market growth projections suggest positive but lower growth for the U.S. economy in the second half of 2024. The U.S. economy is projected to grow 1.9% on average in the third quarter of 2024 and 1.5% in the fourth, according to market forecasts, all made before the Federal Reserve's two-day rate setting meeting on 18 September (table 1). On an annual basis, average market projections point to growth of 2.4% in 2024 and of 1.8% in 2025, inflation at 2.9% in 2024 and 2.2% in 2025, unemployment rate at 4.1% in 2024 and 4.4% in 2025, and the federal funds rate at 4.8% in 2024 and 3.6% in 2025. According to the Federal Reserve's economic projections released on 18 September, most officials forecast the unemployment rate to peak at 4.4% over the next two years, up from its current level of 4.2% and higher than June's estimates, while economic growth stabilizes at a 2% over the next several years (table 2).

Table 1
Quarterly forecasts for United States economic growth in the second half of 2024
(Percentage change)

	Q3 2024 (qoq)	Q4 2024 (qoq)	Date of Forecast
What Markets Say			
Bank of America/Merrill Lynch	2.5%	2.0%	Sep-24
Capital Economics	2.0%	1.7%	Sep-24
JPMorgan	1.5%	1.0%	Sep-24
Moody's Economy.com	2.0%	2.0%	Sep-24
Mortgage Bankers Association	1.6%	1.5%	Aug-24
National Association of Realtors	1.0%	1.3%	Jun-24
National Bank of Canada	1.8%	0.7%	Sep-24
TD Bank Financial Group	1.7%	1.9%	Jun-24
Wells Fargo/Wachovia	2.6%	1.0%	Sep-24
Forecasts average	***1.9%***	***1.5%***	

Source: ECLAC Washington Office, based on market sources.

Table 2
Annual forecasts for United States economic growth, 2024 and 2025
(Percentage change)

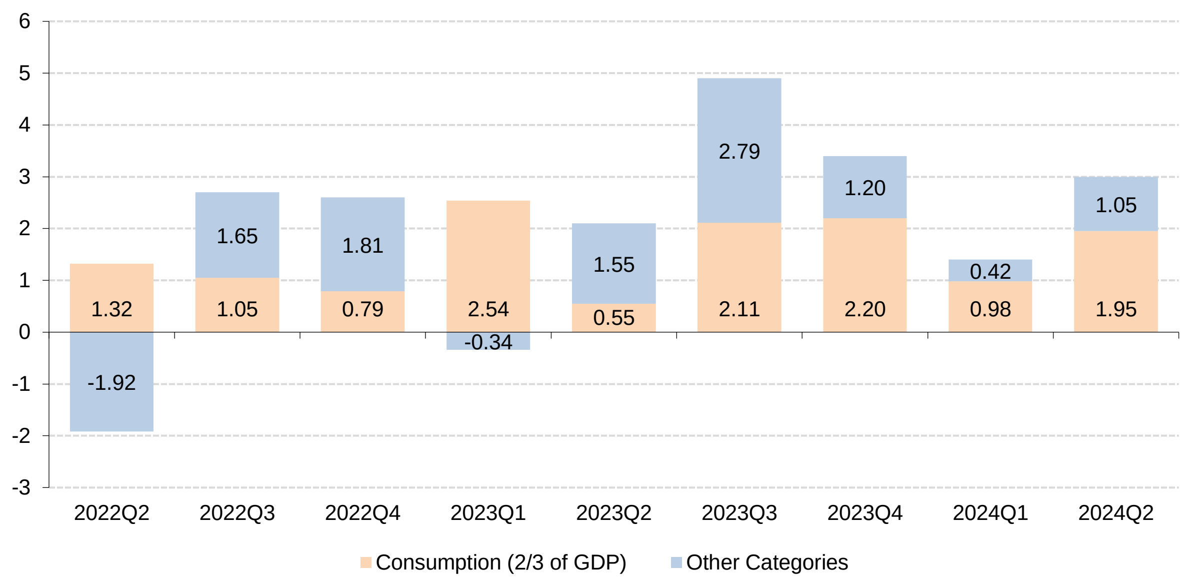
	Real GDP (% change, y/y)		Inflation (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		
	2024	2025	2024	2025	2024	2025	2024	2025	Date of Forecast
A. What Government Agencies Say									
FED[1]	2.0%	2.0%	2.3%	2.1%	4.4%	4.4%	4.4%	3.4%	*Sep-24*
CBO	2.6%	2.1%	3.2%	2.4%	3.9%	4.0%	5.3%	4.8%	*Jun-24*
OMB[2]	1.9%	2.1%	3.1%	2.3%	3.8%	3.8%	*na*	*na*	*Jul-24*
B. What Markets Say									
Bank of America/Merrill Lynch	2.7%	2.2%	2.8%	1.9%	4.1%	4.2%	4.3%	3.4%	*Sep-24*
Capital Economics	2.6%	2.3%	2.8%	1.8%	4.1%	4.4%	4.6%	3.4%	*Sep-24*
JPMorgan	2.5%	1.7%	2.8%	1.8%	4.2%	4.5%	4.3%	3.3%	*Sep-24*
Moody's Economy.com[3]	2.6%	2.1%	2.9%	2.4%	4.1%	4.1%	5.2%	4.4%	*Sep-24*
Mortgage Bankers Association	1.8%	1.3%	2.7%	2,1%	4.1%	4.7%	4.6%	3.6%	*Aug-24*
National Association of Realtors[3]	1.4%	1.9%	2.8%	2.4%	4.0%	4.3%	5.2%	4.3%	*Jun-24*
National Bank of Canada	2.5%	0.9%	2.8%	1.9%	4.1%	4.9%	4.5%	3.3%	*Jul-24*
TD Bank Financial Group	2.4%	2.0%	3.2%	2.2%	3.9%	4.0%	5.3%	3.5%	*Jun-24*
The Economist Intelligence Unit	2.4%	1.4%	3.0%	2.7%	4.1%	4.3%	*na*	*na*	*Sep-24*
Wells Fargo/Wachovia[3]	2.7%	1.9%	2.9%	2.3%	4.1%	4.3%	5.1%	3.4%	*Sep-24*
Market Average	***2.4%***	***1.8%***	***2.9%***	***2.2%***	***4.1%***	***4.4%***	***4.8%***	***3.6%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	2.3%	1.7%	3.0%	2.3%	*na*	*na*	*na*	*na*	*May-24*
World Bank	2.5%	1.8%	*na*	*na*	*na*	*na*	*na*	*na*	*Jun-24*
OECD	2.6%	1.8%	2.4%	2.0%	*na*	*na*	*na*	*na*	*May-24*
IMF	2.6%	1.9%	*na*	*na*	*na*	*na*	*na*	*na*	*Jul-24*

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); *na*: not available.
[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.

I. Quarterly developments

Consumer spending continues to be a substantial driver of economic growth in the United States. Its contribution to GDP growth stood at 0.98% and 1.95% in the first and second quarters of 2024, respectively. Other categories also accounted for a positive contribution to economic growth of 0.42% and 1.05% in the first and second quarters, respectively (figure 6).

Figure 6
Contributions to percent change in real GDP growth, second quarter 2022–second quarter 2024
(Percentage points, seasonally adjusted at annual rates)



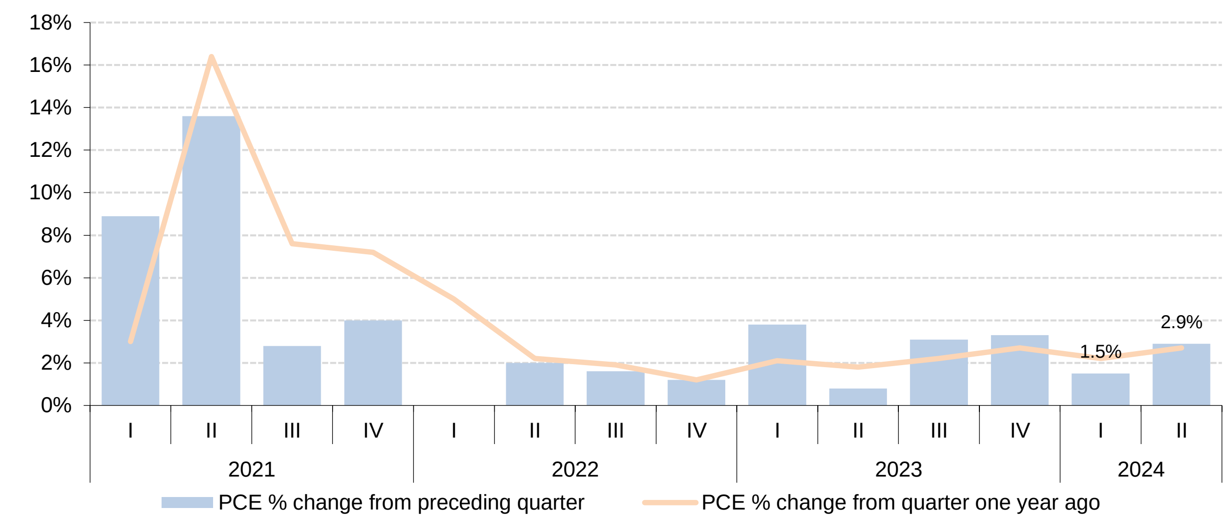
Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, United States Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

Real gross domestic product (GDP) increased at an annual rate of 3.0% in the second quarter of 2024 according to the Bureau of Economic Analysis's second GDP estimate released on 29 August 2024. Up from an 1.4% increase in the first quarter, which had interrupted a streak of six consecutive quarters of growth above 2.0%, growth reaccelerated to above the economy's long-term growth potential (figure 1, p.7). The second-quarter increase in real GDP primarily reflected increases in consumer spending, private inventory investment, and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

Personal Consumption Expenditures (PCE), the most important source of growth in the second quarter, increased to 2.9% from 1.5% in the first quarter (figure 7). U.S. consumers have continued to spend, supporting broader economic growth. After-inflation incomes, and thus consumers' purchasing power, have improved, supported by declining inflation and a solid job market. In July, personal income grew 0.3% month-on-month, above expectations. Relative to a year earlier, personal income was up 4.5%. Real median income increased 4% in 2023, according to the Census Bureau's annual report on income, poverty and health insurance coverage, to US$ 80,610 from US$ 77,540 in 2022. This is the first statistically significant annual increase in real median household income since 2019.

Figure 7
United States personal consumption expenditure growth, first quarter 2021–second quarter 2024
(Percent change from preceding period, seasonally adjusted at annual rates)

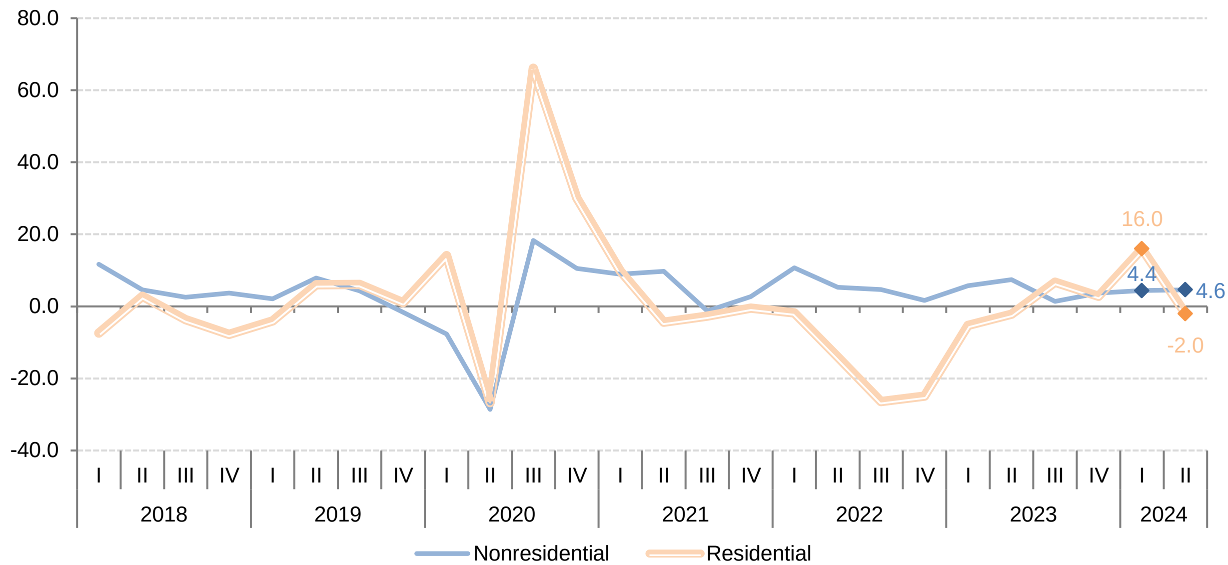


Source: Bureau of Economic Analysis, United States Department of Commerce.

Fixed investment, which includes residential and nonresidential investment, increased 3% in the second quarter and 7% in the first. Residential investment slightly declined in the second quarter (-2%) following an increase of 16% in the first quarter. Non-residential investment grew 4.6% in the second quarter of 2024 and 4.4% in the first (figure 8).

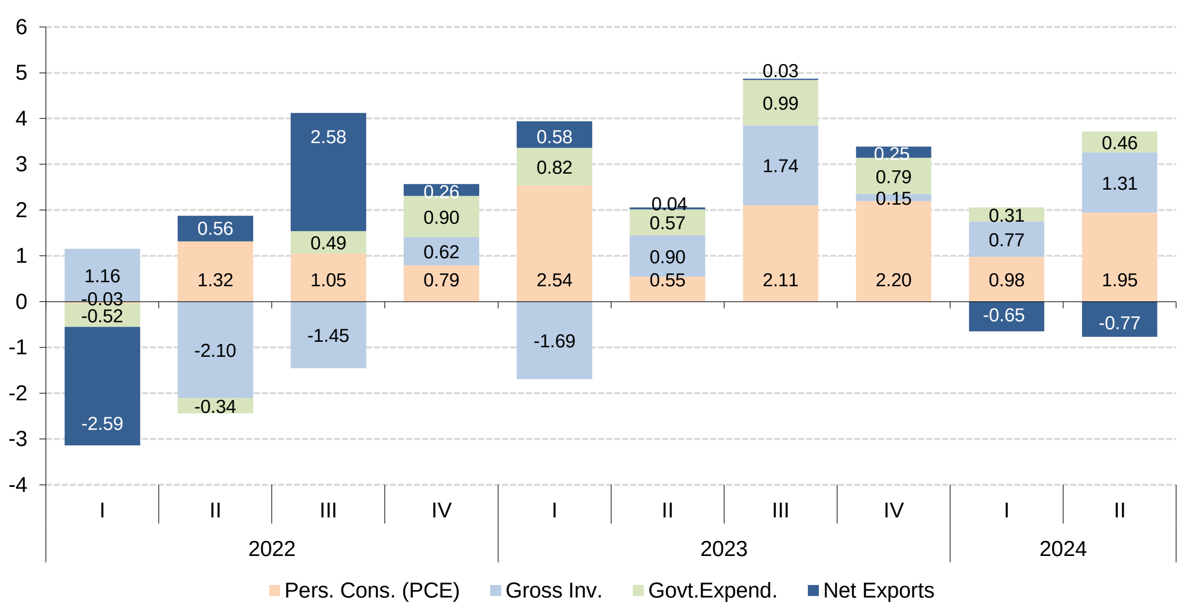
Nonresidential investment contributed 0.61% to growth in the second quarter following a contribution of 0.59% in the first, and residential investment subtracted 0.08%, following a positive contribution of 0.59% in the first quarter. Fixed investment (nonresidential and residential investment together) added 0.53% to second and 1.19% to first-quarter growth, while private wholesale inventory accumulation added 0.78% in the second quarter, after subtracting 0.42% in the first. Overall, gross private domestic investment added 1.31% to growth in the second quarter (0.53% from fixed investment plus 0.78% from change in private inventories) and 0.77% in the first (figure 9).

Figure 8
United States fixed investment growth, first quarter 2018–second quarter 2024
(Percent change from preceding period, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce.

Figure 9
Quarterly contributions to U.S. real GDP growth, 2022–2024
(Percentage points)



Source: Bureau of Economic Analysis, United States Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

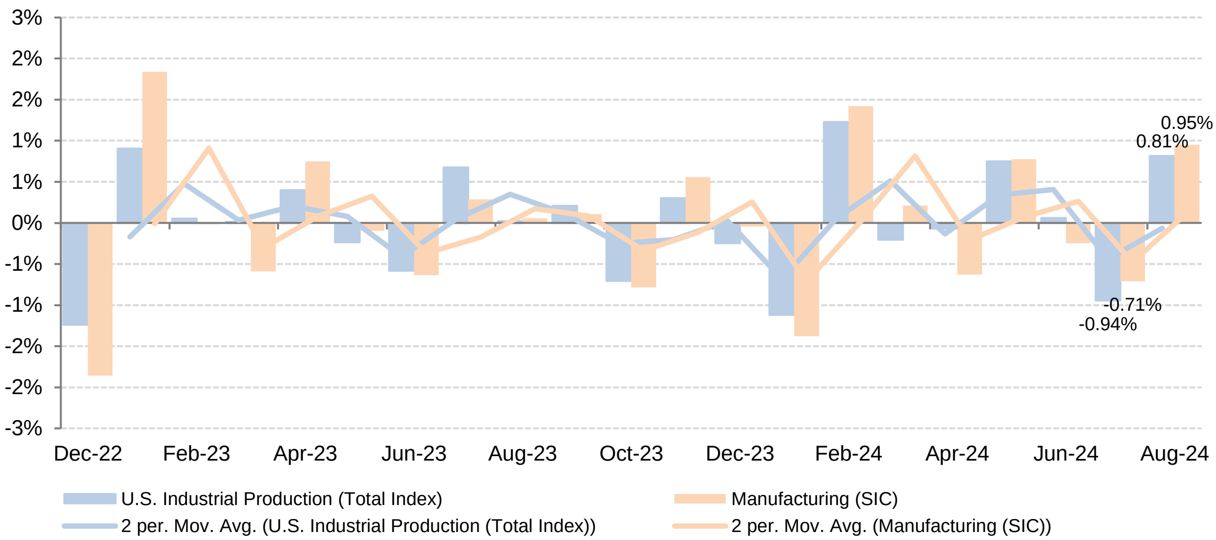
Government spending increased 2.7% in the second quarter, following an increase of 1.8% in the first. It added 0.46% to second-quarter growth and 0.31% to first-quarter growth.

Exports of goods and services increased by 1.6% in the first and second quarters. Imports, a subtraction to growth, increased 7.0% in the second quarter following an increase of 6.1% in the first. Overall, net exports subtracted 0.77% from the second quarter's growth and 0.65% from the first-quarter growth.

B. Industrial production

United States industrial production rebounded in August from a Hurricane Beryl-related slide a month earlier. Exceeding expectations, it expanded 0.81% in August, following a 0.94% contraction in July. Manufacturing output drove growth in August, rising 0.95% after falling 0.71% in July, as the temporary disruptions to production from the previous month were reversed (figure 10). Manufacturing, which accounts for three-fourths of total industrial production, was boosted by increased motor vehicle output. Excluding auto output, factory production increased 0.3% in August after falling in the prior two months. Capacity utilization climbed from 77.4% in July to 78% in August.

Figure 10
United States industrial production and manufacturing output, December 2022–August 2024
(Index 2017=100, Monthly, Seasonally Adjusted; Monthly Percent Change;)



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

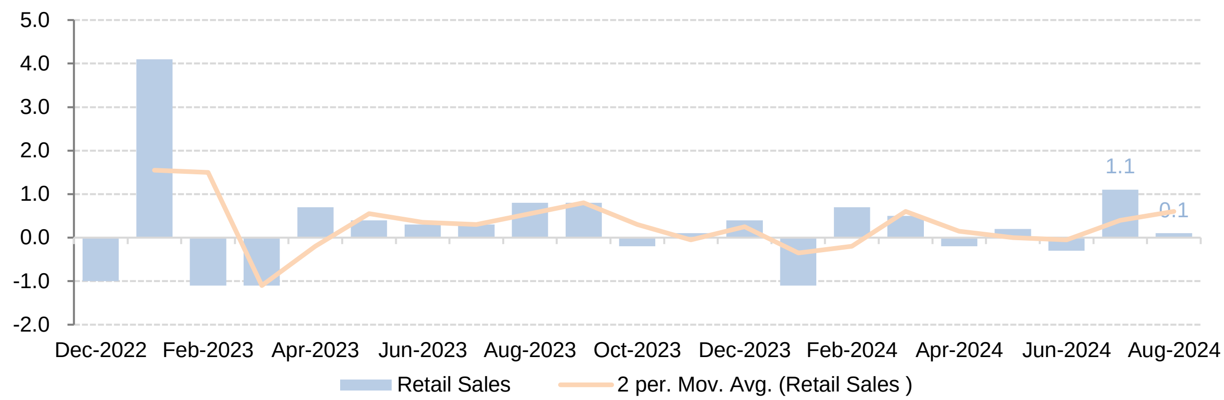
The ISM Manufacturing Index, which measures the breadth of growth in manufacturing, rose to 47.2 in August from 46.8 in July.[1] After briefly crossing the neutral threshold of 50 in March for the first time since late 2022, the index has moved back into contractionary territory and aligns with the mostly negative results that have emerged from regional Federal Reserve manufacturing surveys. The index suggests that manufacturers have continued to struggle in the face of higher interest rates and elevated borrowing costs, although the recent start of an easing cycle by the Fed should contribute to alleviating these cost pressures from now on.

C. Retail sales

Retail sales, which include spending at stores, restaurants, dealerships and online, posted a surprise gain in August. Retail sales increased a seasonally adjusted 0.1% last month (exceeding expectations of a small decline) after an upwardly revised 1.1% surge in July (the largest increase since January 2023), the Commerce Department's Census Bureau said on 17 September (figure 11). Compared with a year earlier, total retail sales were up 2.1% in August. The increases in July and August point to a resilient consumer, even in the face of high prices and borrowing costs, boosted by rapid wealth gains and falling energy prices.

[1] The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at manufacturing firms nationwide.

Figure 11
United States total retail sales, December 2022–August 2024
(Seasonally adjusted, Month to month percentage change)



Source: U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services.

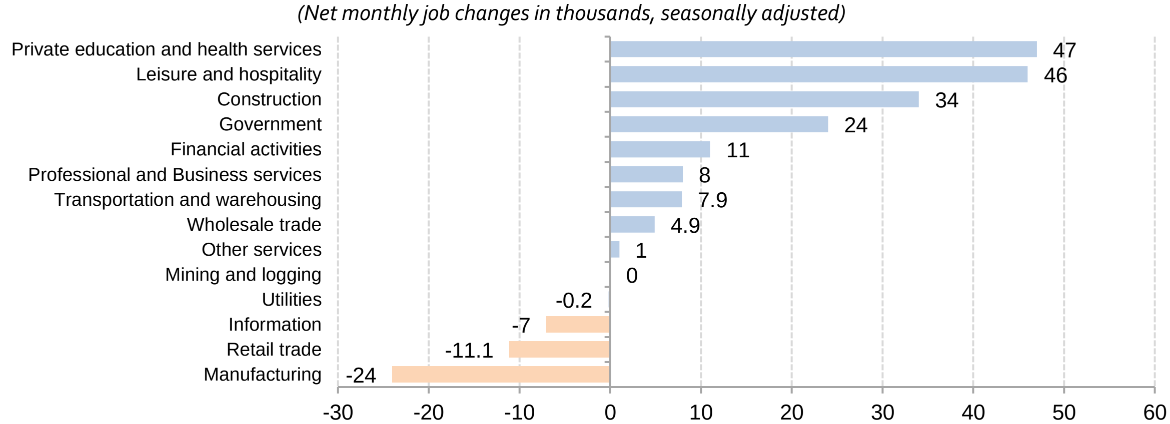
Retail sales growth in August was driven by spending at nonstore retailers, including electronic and mail order houses. Meanwhile, reduced nominal sales at gas stations and food and beverage stores partially offset gains elsewhere. Consumers' willingness to spend, particularly online, continues to support retail figures. Solid consumer spending, coupled with easing inflation and low unemployment, is supportive of a soft-landing scenario.

D. Labor market

The U.S. economy added 142,000 jobs in August according to the Labor Department. It was an increase compared to the previous two months, with 89,000 jobs being created in July, the lowest monthly reading since December 2020, and 118,000 in June. The biggest question in recent weeks had been whether the weak summertime hiring was momentary —perhaps a result of Hurricane Beryl curbing hiring— or evidence of a broader deceleration of the economy. The August employment report is still consistent with an economy experiencing a soft landing rather than rapidly falling into recession.

The August employment gain was driven by a 47,000 increase in private education and health services, 46,000 in leisure and hospitality, 34,000 in construction and 24,000 in government. The gains in construction and leisure could reflect a bounce back following the negative impact of Hurricane Beryl in July. Manufacturing employment declined by 24,000, however, reflecting a decline in durable goods industries (-25,000) and retail trade payrolls also declined (figure 12).

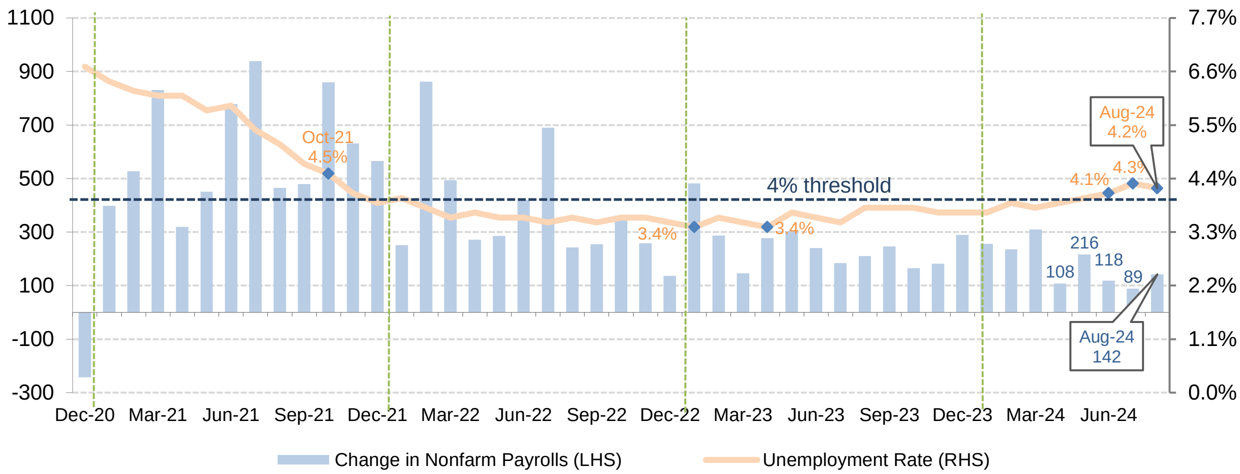
Figure 12
United States monthly job creation by industry, August 2024
(Net monthly job changes in thousands, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, Labor Department, Current Employment Statistics survey, 6 September 2024. Data are preliminary.

Overall, the U.S. economy added 1.48 million jobs from January to August 2024 on a seasonally adjusted basis (less than the 2.13 million created in the same period in 2023), averaging 184,000 jobs per month. August 2024 was the 44th consecutive monthly gain, even as interest rates reached a 23-year high during this period and remained at this level for many months. For more than two years the unemployment rate remained below 4% but crossed above this threshold in June 2024 (to 4.1%) for the first time since 2021. It increased to 4.3% in July, the highest rate since October 2021, and edged down to 4.2% at the end of August 2024 (figure 13).

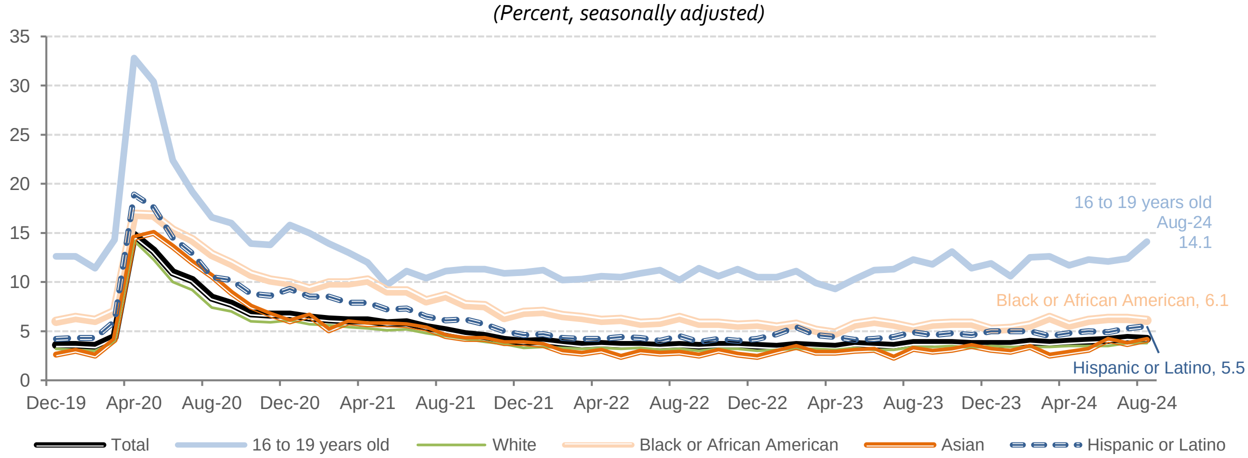
Figure 13
United States monthly job creation and unemployment rate, December 2020–August 2024
(Average monthly job growth in thousands (left axis); Percentage (right axis)



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

The leap in July's unemployment rate to 4.3% seems to have been driven in part by temporary forces, as Hurricane Beryl and high summer temperatures sidelined several workers. Moreover, the data shows that the rate increase was mostly driven by a surge of people newly looking for work, which increased the labor supply. However, July's employment numbers awakened fears of a hard landing for the U.S. economy and the impact it may have on the more vulnerable population. Young, Black and Hispanic workers tend to be more vulnerable to labor market weaknesses (figure 14).

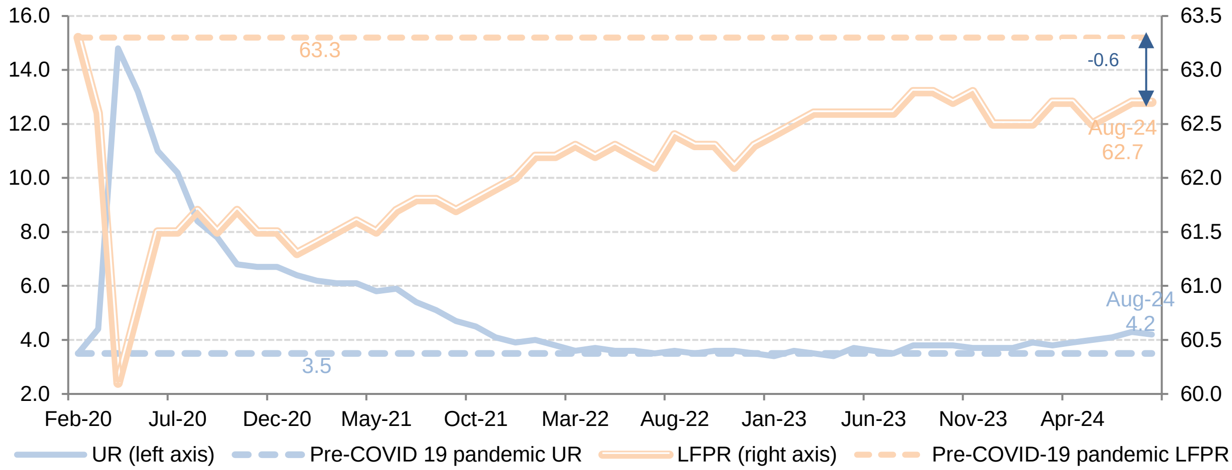
Figure 14
United States civilian unemployment rate, December 2019–August 2024
(Percent, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, Labor Department, https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm#. Note: Persons whose ethnicity is identified as Hispanic or Latino may be of any race.

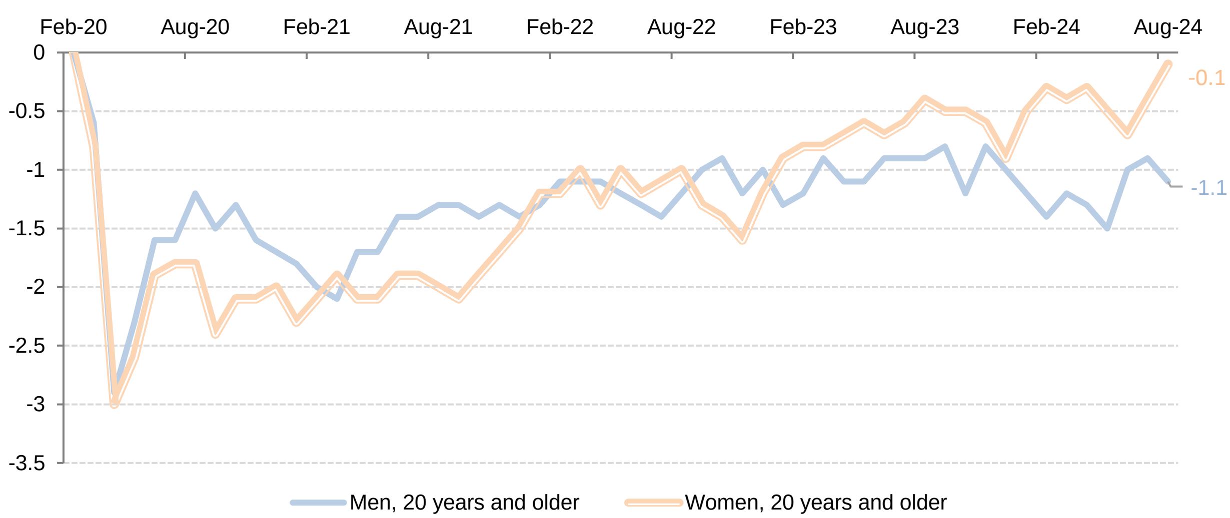
The labor force participation rate (LFPR) was at 62.7% in July and August 2024. According to the Bureau of Labor Statistics, despite gradual recovery, it remained more than a half percentage point lower than that of February 2020, before the pandemic hit (figure 15). While the prime-age participation rate for men, 20 years and older, is still 1.1 percentage points below its February 2020 level, the participation rate for women 20 years and older is only 0.1 percentage point lower (figure 16). According to Capital Economics, in the post-pandemic world, where working from home and job flexibility have become the norm, working mothers (and the firms that employ them) have benefitted.[2]

Figure 15
United States labor force participation share and unemployment rate, February 2020–August 2024
(Percentage)



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

Figure 16
United States labor force participation share by gender, February 2020–August 2024
(Civilian labor participation rate, seasonally adjusted; percentage point change in share)

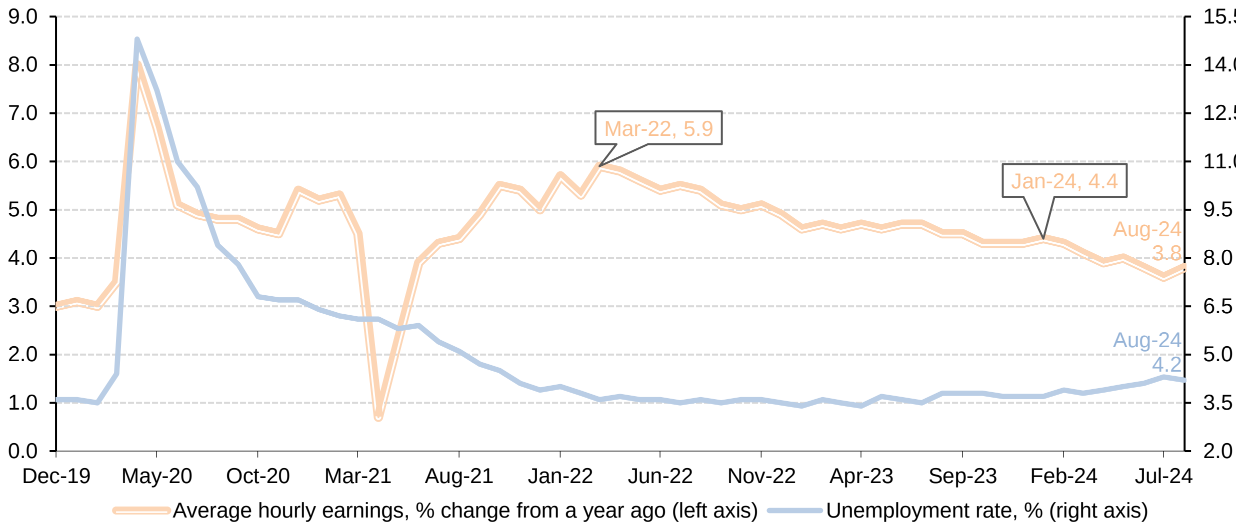


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics. Participation rate in February 2020: Men, 20 years and older, 71.4%; women, 20 years and older, 59.3%. Participation rate in August 2024: Men, 20 years and older, 70.3%; women, 20 years and older, 59.2%.

[2] Paul Ashworth, "Falling full-time employment not a sign of weakness," US Economics Update, *Capital Economics*, 8 April 2024.

Average hourly earnings increased by 0.4% in August from July, with the annual growth rate re-accelerating to 3.8% from 3.6%. Despite the slight increase, hourly earnings remain on a downward path this year from a peak of 5.9% that was reached in March 2022 and from a 4.4% rate in January 2024 (figure 17).

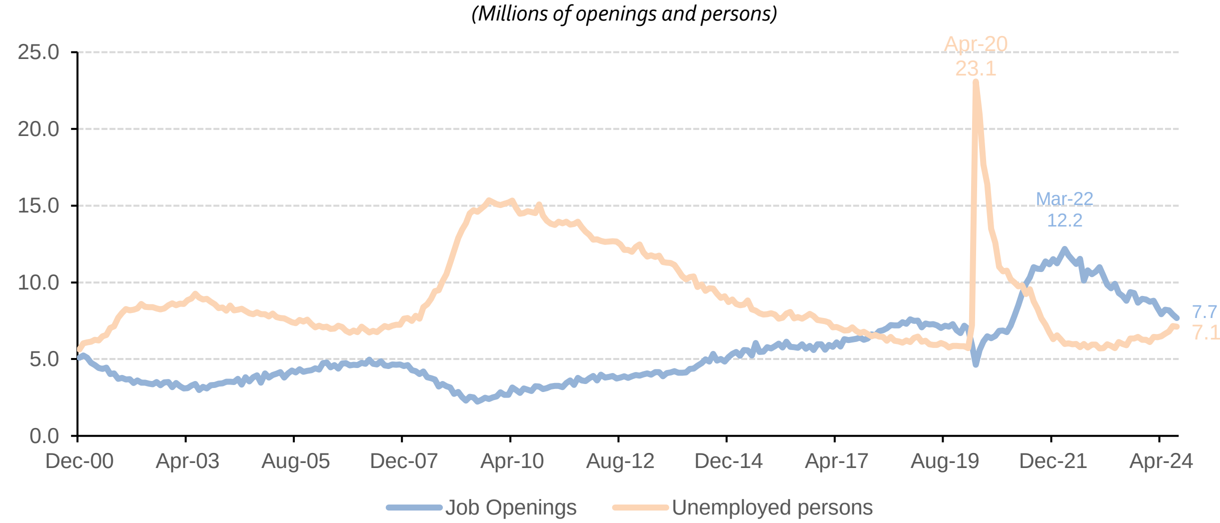
Figure 17
United States average hourly earnings, December 2019–August 2024
(Percentage change from a year ago)



Source: U.S. Bureau of Labor Statistics, Labor Department.

According to the latest Job Openings and Labor Turnover Survey (JOLTS) released on 4 September 2024, the number of job openings was at 7.7 million on the last business day of July 2024, down from 7.9 million in June and a peak of 12.2 million in March 2022. Job openings have been on a downward trajectory since reaching that peak, as the Federal Reserve worked to cool the labor market. Job openings in July still outnumbered the 7.1 million unemployed people seeking work, but the gap is closing as the labor market continues to normalize (figure 18).

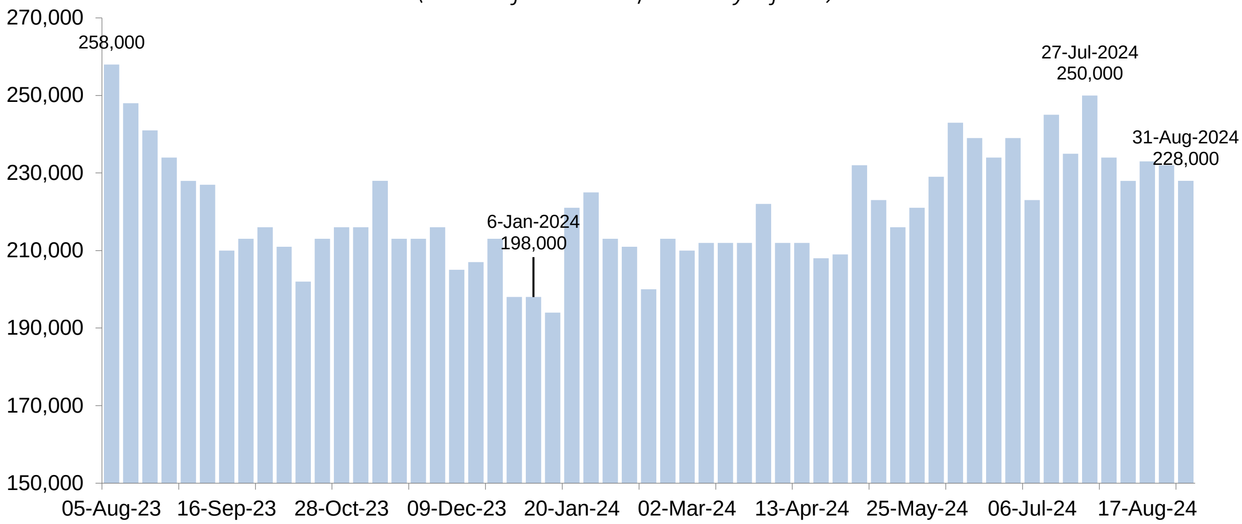
Figure 18
United States job openings vs number of unemployment persons, December 2000–August 2024
(Millions of openings and persons)



Source: 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.

Despite renewed concerns about a more abrupt softening in the labor market, unemployment insurance claims appear to be headed lower. The four-week moving average of initial claims peaked at 250,000 at the end of July and has fallen to 230,000 since. While claims remain slightly elevated from the average earlier this year, they remain consistent with a very low level of layoffs.

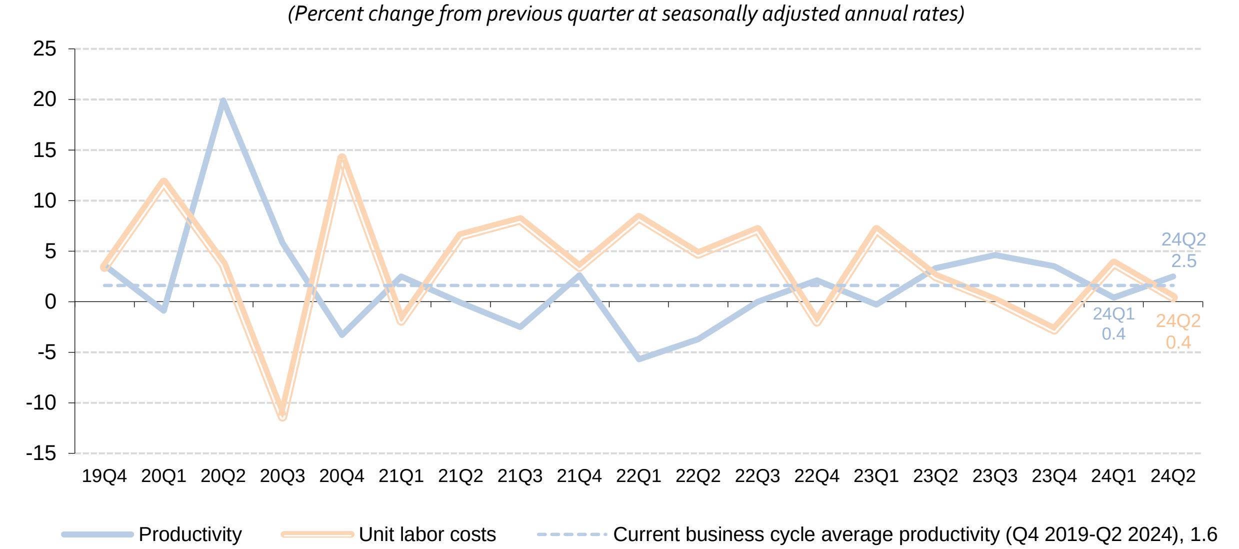
Figure 19
United States unemployment insurance weekly claims, August 2023–August 2024
(Number of initial claims, seasonally adjusted)



Source: FRED Graph Observations, Federal Reserve Bank of St. Louis. Data from U.S. Employment and Training Administration, Initial Claims [ICSA].

The productivity of American workers rose by a revised 2.5% annual rate in the second quarter, the Bureau of Labor Statistics announced on 5 September 2024, above the 1.6% average productivity growth of the current Q4 2019–Q2 2024 cycle as defined by the Bureau of Labor Statistics. The first quarter of 2024 interrupted a streak of three consecutive quarterly increases above this average —productivity increased at an annualized 3.3%, 4.6% and 3.2% in the second, third and fourth quarters of 2023 (figure 20). Over the past year, productivity increased by 2.7%. Unit labor costs rose by 0.3% over the same period.

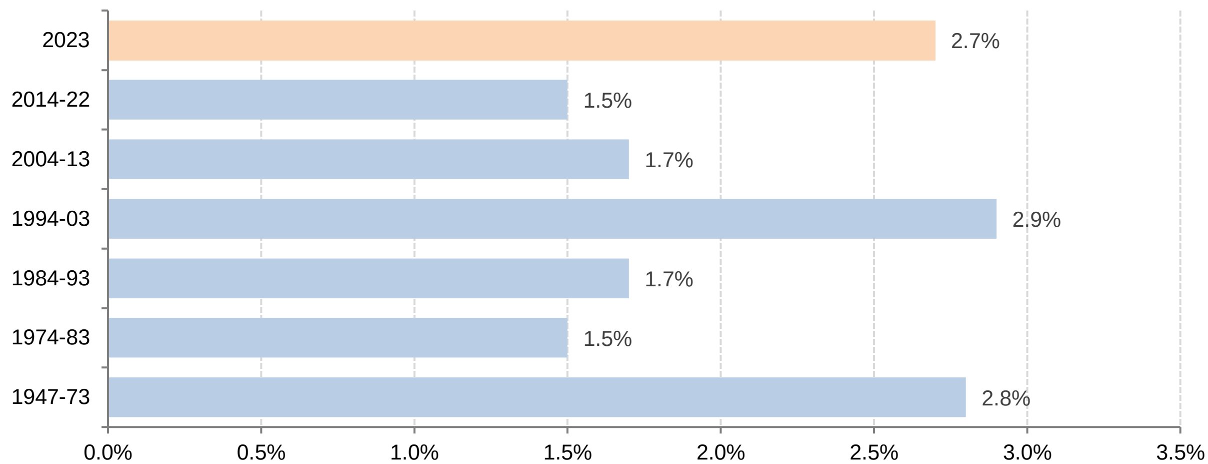
Figure 20
United States productivity and costs, Q4 2019–Q2 2024
(Percent change from previous quarter at seasonally adjusted annual rates)



Source: U.S. Bureau of Labor Statistics, Labor Department.

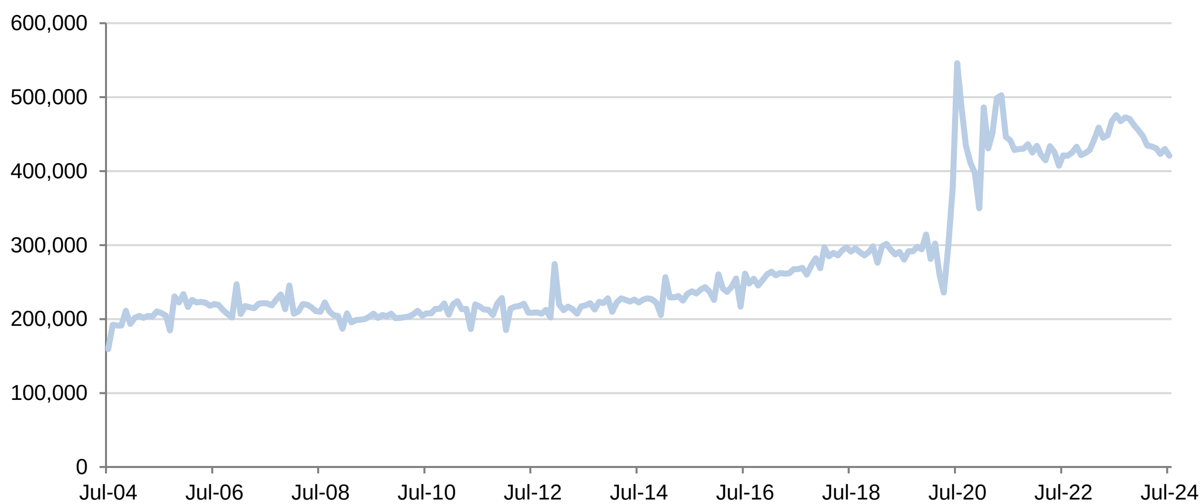
A new analysis of government data by the Aspen Economic Strategy Group finds that worker productivity is growing at the fastest pace since the decade-long surge of the 1990s — what is still the highest productivity growth rate in 50 years (figure 21). One shift in the post-pandemic economy that is likely to be driving the increase in the United States' productivity is the surge in new business creation across the country. In 2023, the Census Bureau counted nearly 5.5 million applications for new businesses, more than in any year since it began tracking this data two decades ago. This boost started in 2020, when new business applications jumped by 860,000 in one year, and it has increased by another million since (figure 22).[3]

Figure 21
Average change in U.S. labor productivity main periods of productivity growth since 1947
(Average annual percentage rate)



Source: Analysis of U.S. Bureau of Labor Statistics data by Aspen Economic Strategy Group (2024), https://www.economicstrategygroup.org/publication/in-brief-us-labor-productivity/

Figure 22
New U.S. business applications, July 2004–July 2024
(Seasonally Adjusted Business Applications, Units)



Source: U.S. Census Bureau, Business Formation Statistics. Data extracted on 9 September 2024.

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3 Aspen Economic Strategy Group (2024), "In Brief: The Recent Rise in US Labor Productivity" by Luke Pardue, 25 April 2024 [online] https://www.economicstrategygroup.org/publication/in-brief-us-labor-productivity/

Improved labor productivity gains may continue to contribute to the resilience of the U.S. economy. According to Luke Pardue, author of the Aspen Group analysis, the productivity boom of the 1990s was driven by the widespread adoption of the Internet and was accompanied by low unemployment and the fastest inflation-adjusted earnings growth in 40 years. The latest productivity data may be a sign that another such period could be starting, he says, but whether the U.S. economy will continue this path is highly uncertain. Whether the "new wave of start-ups turns this recent productivity upswing into a longer-term surge" will depend on ensuring that entrepreneurs have the resources necessary to thrive.[4]

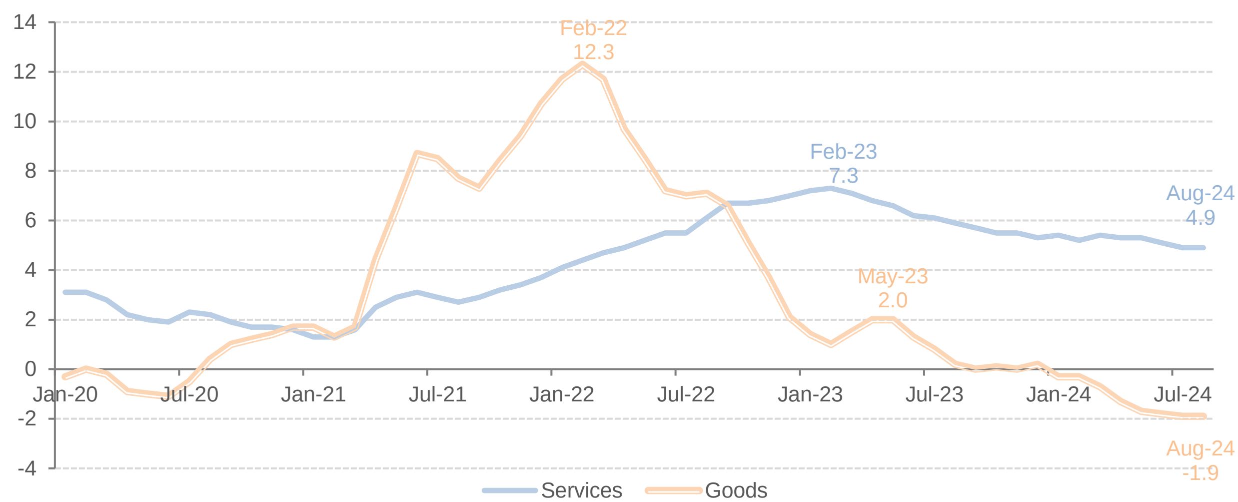
E. Inflation

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 2.5% in August 2024 at an annualized rate, down from 2.9% in July and the lowest level since February 2021, in part because of falling gas prices. This was the fifth consecutive monthly decline on an annual basis (figure 3, p.8). Gas prices were down 10.3% compared to last year. On a month-to-month basis, the August CPI increased 0.2%, in line with expectations.

Prices excluding food and energy, the core CPI, rose 0.3% month-on-month in August, its strongest monthly gain since April. The CPI for shelter rose 0.5% in August, the fastest monthly pace since January. Excluding shelter, core CPI rose 0.1% in August and fell on a year-ago basis. Core CPI held steady at 3.2% at an annualized rate, the same as July.

In the twelve months leading up to August 2024, core goods prices according to the CPI index declined 1.9% year-on-year, continuing the downward trend observed since the April-May 2023's 2% peak. The overall peak (12.3%) was reached in February 2022. This suggests that the supply chain issues that escalated the costs of goods in 2022 have been mitigated. The core CPI inflation rate for services (services less energy services include shelter, transportation and medical care services) stood at 4.9% year-over-year, showing a decrease from February 2023's high of 7.3%, yet indicating that cost pressures within the service sector persist (figure 23).

Figure 23
Core goods and services United States domestic prices: monthly evolution, January 2020–August 2024
(12 months percent change)

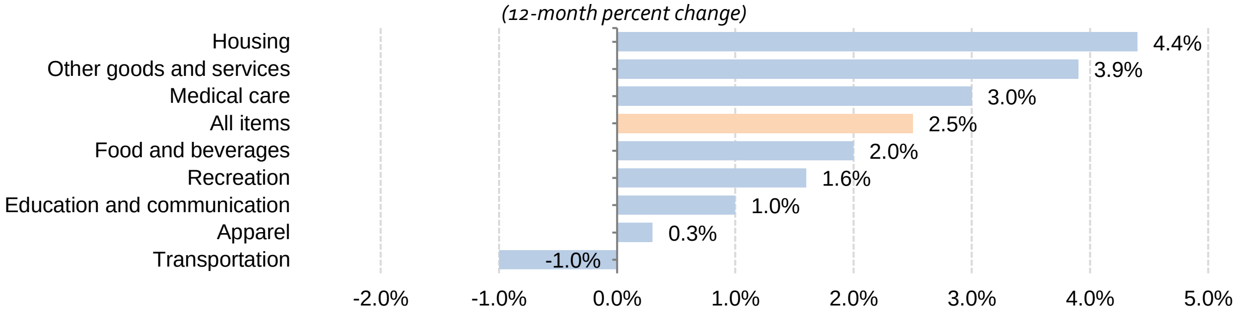


Source: U.S. Bureau of Labor Statistics, Labor Department.

[4] The Washington Post, "U.S. productivity is popping, and it's not because of AI." Opinion by Luke Pardue, 1 May 2024 [online] https://www.washingtonpost.com/opinions/2024/05/01/us-productivity-upswing/

Housing (shelter) costs accounted for more than 70% of the overall year-over-year increase of the Core CPI inflation and for the largest increase in prices in August by major groups (figure 24). However, policymakers are skeptical that the measures reflected in the CPI index offer an up-to-date snapshot of that market. Other real-time indicators have shown rents easing considerably, or even falling, in major cities for much of the year.

Figure 24
United States CPI by major groups, August 2024
(12-month percent change)

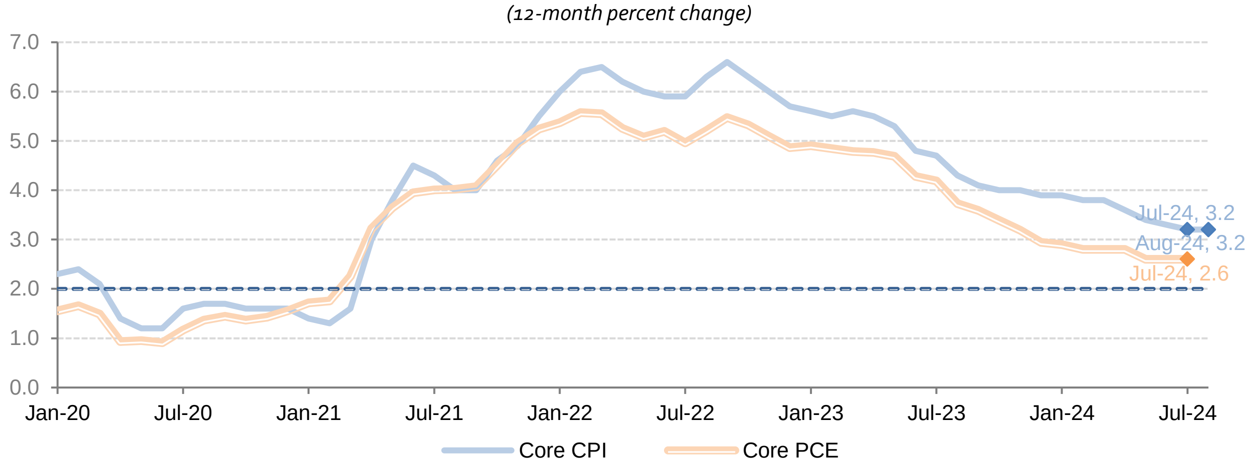


Source: U.S. Bureau of Labor Statistics, Labor Department.

A blog post from the White House's Council of Economic Advisers showed that while core inflation rose 3.2% over the past year, without housing, it rose at a much lower pace of 1.8%.[5] Nonetheless, the Census Bureau found that nearly half of the country's 42.5 million renter households spent more than 30% of their income on housing costs, a threshold that qualifies them as "cost burdened." Despite rising costs, incomes generally kept up with rent increases.[6]

The CPI figures are not the focus of the Federal Reserve, however. Instead, the central bank bases its 2% inflation target on the Personal Consumption Expenditure (PCE) Price Index from the Commerce Department's monthly report on income and spending. More specifically, it looks at the core PCE, a measure by which inflation is getting closer to the 2% target (figure 25). Core PCE remained at 2.6% in July, below the consensus forecast of 2.7%. Housing makes up 33% of the CPI basket but only 15% of PCE. The July PCE report was the last the Federal Reserve received before its 17-18 September rate-setting meeting.

Figure 25
United States Core CPI vs Core PCE, January 2020–August 2024
(12-month percent change)



Source: U.S. Bureau of Labor Statistics, Labor Department.

5 The White House, "The Role of Housing in U.S. Inflation", 11 September 2024.
6 United States Census Bureau, 2023 American Community Survey [online] https://www.census.gov/newsroom/press-kits/2024/acs-1-year-estimates.html

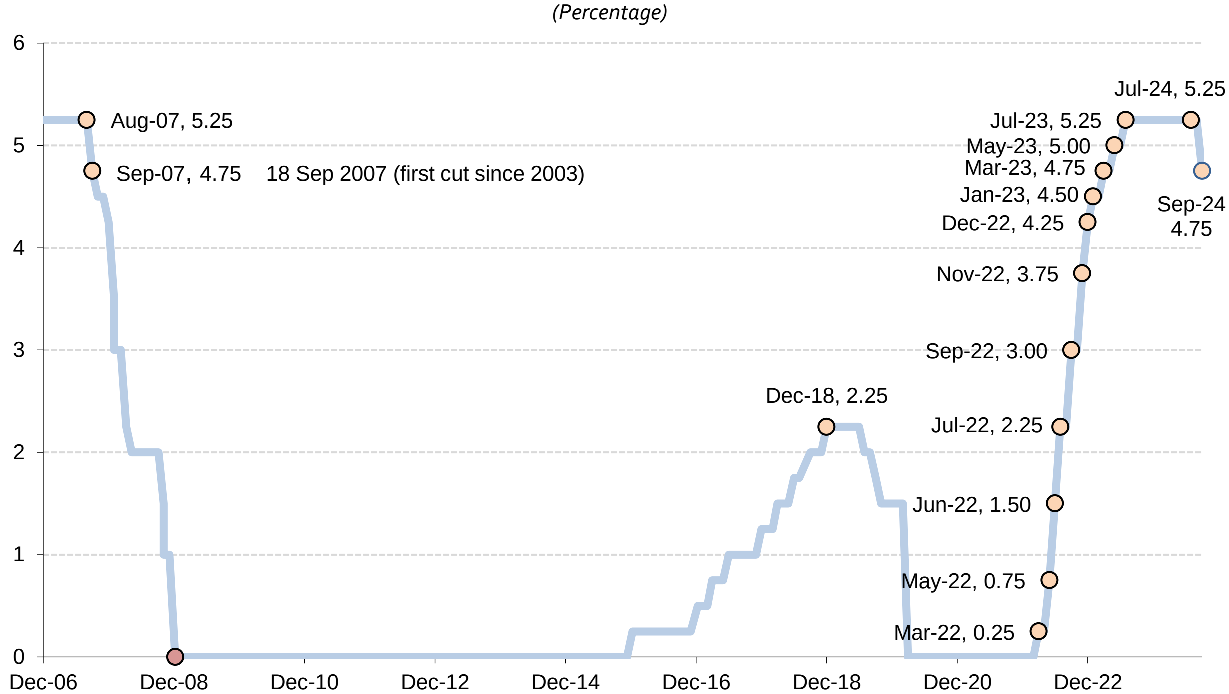
F. Monetary policy

On 18 September 2024, the Federal Reserve cut its benchmark interest rate by half a percentage point, launching its first easing cycle since the onset of the pandemic and signaling more reductions to follow (figure 26). According to the minutes of the Federal Open Market Committee's (FOMC)'s September policy meeting, "The committee has gained greater confidence that inflation is moving sustainably toward 2%, and judges that the risks to achieving its employment and inflation goals are roughly in balance," the Fed said in its policy statement. The rate cut reflected both "the progress on inflation and the balance of risks."

Eleven of 12 Federal Reserve voting officials backed the cut, which will bring the benchmark federal-funds rate to a range between 4.75% and 5%. Quarterly projections released at the end of the meeting showed a narrow majority of officials penciled in cuts that would lower rates by at least a quarter point each at meetings in November and December. The so-called dot plot —a chart that summarizes the FOMC outlook for the federal funds rate— showed that 9 out of 19 members expect the policy rate to fall to 4.25% to 4.5% by the end of 2024 (with 7 going for 4.50% to 4.75%), suggesting another large half-point reduction at either of the two remaining meetings this year or two quarter-point reductions. Overall, that is a significantly larger reduction than the quarter-point reduction projected by most officials in June, when the projections were last updated. The more aggressive approach suggests officials are proactively trying to ease pressure off the economy and keep the job market from slowing any further.

The decrease should provide some immediate relief to consumers with credit card balances and to small businesses with variable-rate debt. Long-term borrowing costs—on everything from mortgages to corporate debt—have already been declining in anticipation of a series of rate cuts this fall, particularly after Mr. Powell last month said reductions were on the way.

Figure 26
U.S. federal funds target rate, December 2006–September 2024
(Percentage)



Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve. Rates in the chart are the bottom limit of the target range for the federal funds rate. The top limit is currently 5%, as of 18 September.

Regarding Quantitative Tightening (QT), during his press conference following the two-day rate-setting meeting, Fed Chair Powell clarified that the balance sheet can continue to normalize alongside rates. Analysts recognize that despite the record drawdown of the balance sheet since May 2022 (as a percentage of its maximum size), bank reserves remain stable, indicating minimal impact from quantitative tightening on the financial system. Going forward, the Chair indicated that QT might continue for some time, though several market analysts expect it to end by year's end.

G. Fiscal policy

The Biden administration is in the process of implementing a corporate alternative minimum tax (CAMT) so that large profitable companies pay at least 15% in taxes. The Treasury Department on 12 September 2024 released 603 pages of proposed rules for the CAMT, reaching a milestone in this complex endeavor for regulators and corporate tax executives.

Congress created CAMT in 2022 in the Inflation Reduction Act. Besides raising money to pay for clean-energy tax breaks, CAMT was passed to prevent companies from reporting high profits to investors and reporting low tax rates to the Internal Revenue Service. That can happen through aggressive tax planning. It can stem from timing differences in when financial-accounting rules and tax-accounting rules require companies to record income and deductions. And it can result from companies simply using tax incentives that Congress approved.[7]

Ultimately, the Treasury Department projects that about 100 companies will pay CAMT, and that the government will collect about US$ 250 billion over a decade. Without the new tax, those companies would pay an average of 2.6%, according to Treasury officials. But the new tax itself doesn't bring every company up to 15% because Congress created exceptions for certain capital investments and tax credits.

In a briefing with reporters, Deputy Treasury Secretary Wally Adeyemo maintained that the proposal addresses a disparity that allows companies to report "record profits" while paying very little to the federal government. "We establish a degree of tax fairness, making sure that these companies that benefit from the investments we make in the economy are helping to pay for them," he said.

President Biden wants to raise the CAMT rate further to 21% and the regular 21% corporate tax rate to 28%, but there is little chance of these changes being implemented before he leaves office. The new federal tax guidelines arrive during an election season, the outcome of which will also shape the future of the soon-expiring tax cuts in the Tax Cuts and Jobs Act of 2017 (TCJA) adopted under former President Donald Trump. Mr. Trump, the 2024 Republican presidential nominee, and his Democratic opponent, Vice President Kamala Harris, have sharply divergent views about the way the U.S. government raises revenue, setting up a pivotal debate over the future of the United States' finances. The candidates' fiscal policy proposals are presented in Chapter III.

H. Financial conditions

As the Federal Reserve changes direction and turns its monetary policy towards a new easing cycle, markets have been unsettled. More recently, small shifts in economic indicators have been magnified into large market gyrations, reflecting a combination of uncertainty and recession fears, sometimes followed by relief rallies as market sentiment swings widely. July's weaker employment numbers were followed by a sharp drop in global markets in early August, partly reflecting concerns about the possibility of a "hard landing" for the U.S. economy and fears that the Federal Reserve had been slow to lower interest rates. Other economic indicators released shortly after the July employment report were more reassuring, however, putting a damper on speculation that the U.S. economy was slowing more quickly than anticipated.

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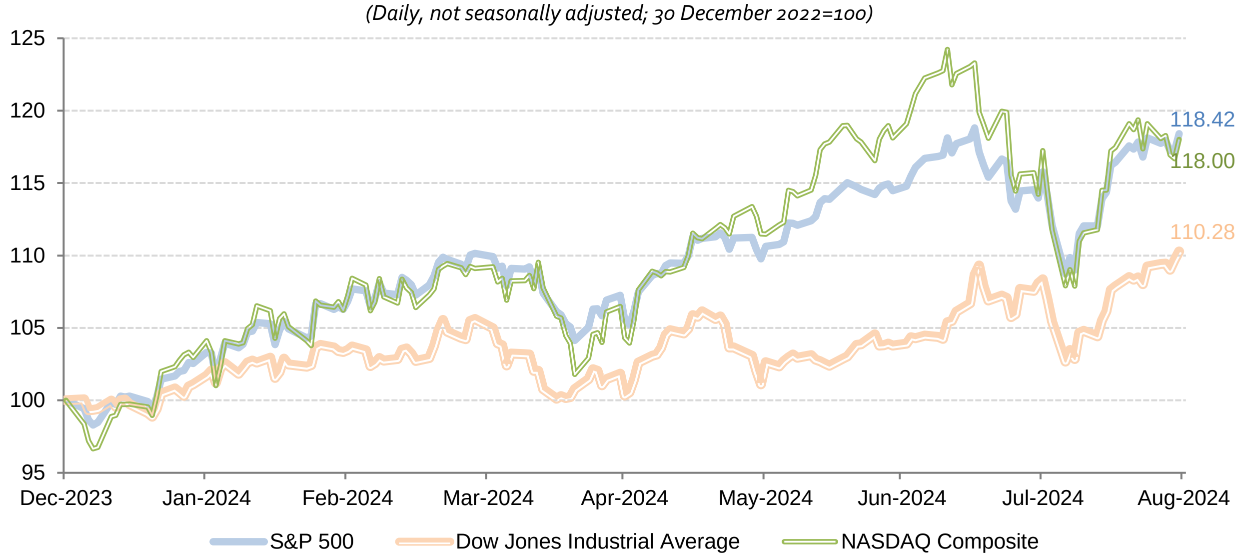
7 The Wall Street Journal, Biden's 15% Minimum Tax on Big Companies Gets 603-Page Rulebook - WSJ, by Richard Rubin and Jennifer Williams, 12 September 2024.

Among these indicators, mortgage rates fell to the lowest level in more than a year and there was a reassuring drop in initial claims for unemployment insurance from 250,000 to 233,000 in the week ended August 3, which eased some concerns about the labor market and triggered a rally in stocks following the indicators' release (figure 27). Despite the market volatility, major United States stock indexes closed a tumultuous August with monthly gains. Overall, from January to August 2024, the S&P 500 index gained 18%, the Dow Jones Industrial Average 10%, and the NASDAQ composite 18%, based on daily stock prices.

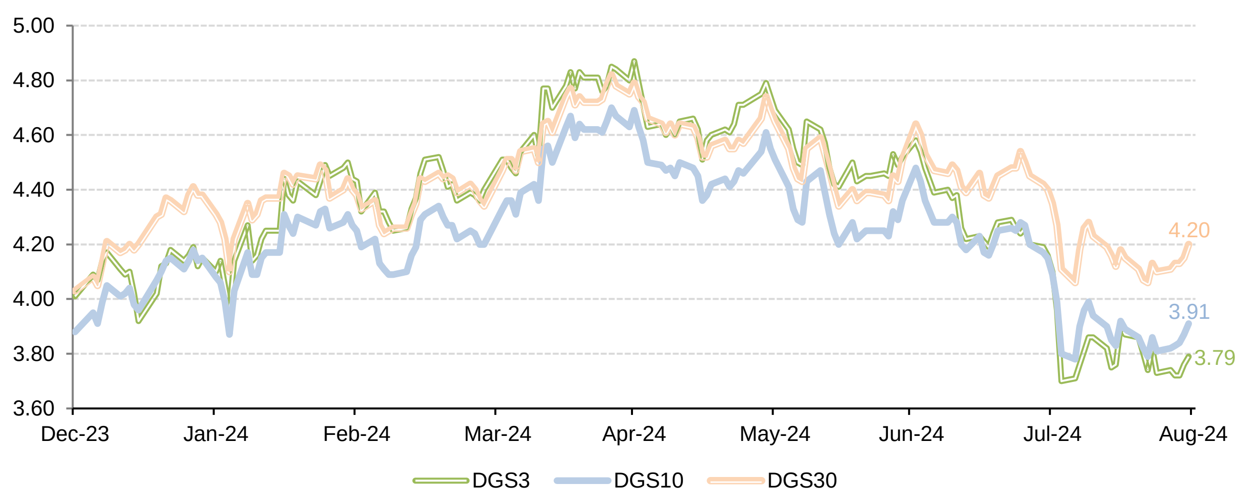
Figure 27
U.S. stock market indices, 29 December 2023–30 August 2024
(Daily, not seasonally adjusted; 30 December 2022=100)



Source: Federal Reserve of St. Louis (FRED).

In the U.S. Treasury market, the 3-year, 10-year and 30-year Treasury yields were at 4.20%, 3.91% and 3.79%, respectively, at the end of August 2024. Government bond yields on the benchmark 10-year Treasury note in August dropped below 4% for the first time since 2024's opening week. Yields were significantly lower than a 2024 peak of 4.70% in April (figure 28), and nearly 5% reached in October 2023.

Figure 28
U.S. Treasury security yields, 29 December 2023–30 August 2024
(Constant maturities; daily yields)



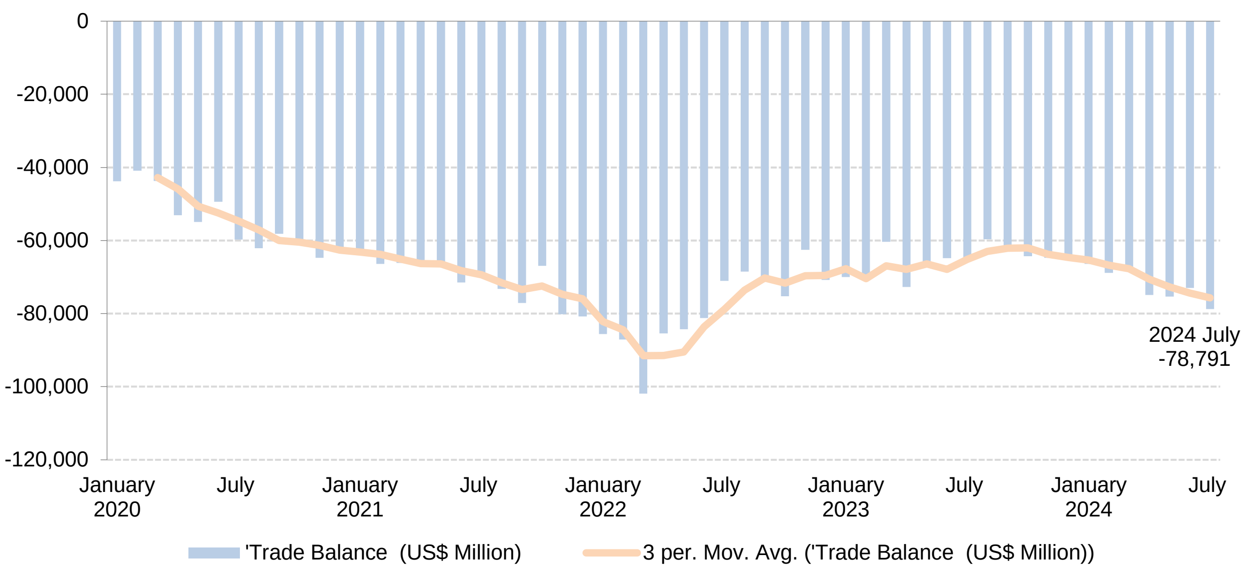
Source: Federal Reserve of St. Louis (FRED).

As markets assess economic prospects, investors can expect that yields will fluctuate in a modest range, at least in the near term. The larger question for the U.S. Treasury market, is at what pace the Federal Reserve's will ease interest rates from now on. Federal Reserve officials provided additional guidance when they set interest rate policy at the mid-September FOMC meeting, with more interest rate reductions to follow the first cut since 2020. However, despite the larger opening move, unless Fed officials become more concerned about the downside risks to the labor market, it looks like there will be a more measured pace of rate cuts from now on, given that the U.S. economy remains healthy.

I. External sector

There has been a widening of the U.S. trade deficit in 2024, after narrowing from April 2022 up until the second half of 2023. In contrast to deficits in the pandemic period, which resulted from disruptions to the economy's regular supply chains and shipping schedules, the current deficit has been the product of the relative strength of U.S. demand relative to its main trading partners. The sharp US$ 5.8 billion widening of the trade deficit to US$ 78.8 billion in July, the largest since June 2022, was due to a 2.1% rise in imports, which outpaced a 0.5% gain in exports (figure 29). The July trade data suggest that net trade will weigh on third-quarter growth.

Figure 29
United States international trade in goods and services trade, 2000–2024
(Millions of dollars, monthly, seasonally adjusted)

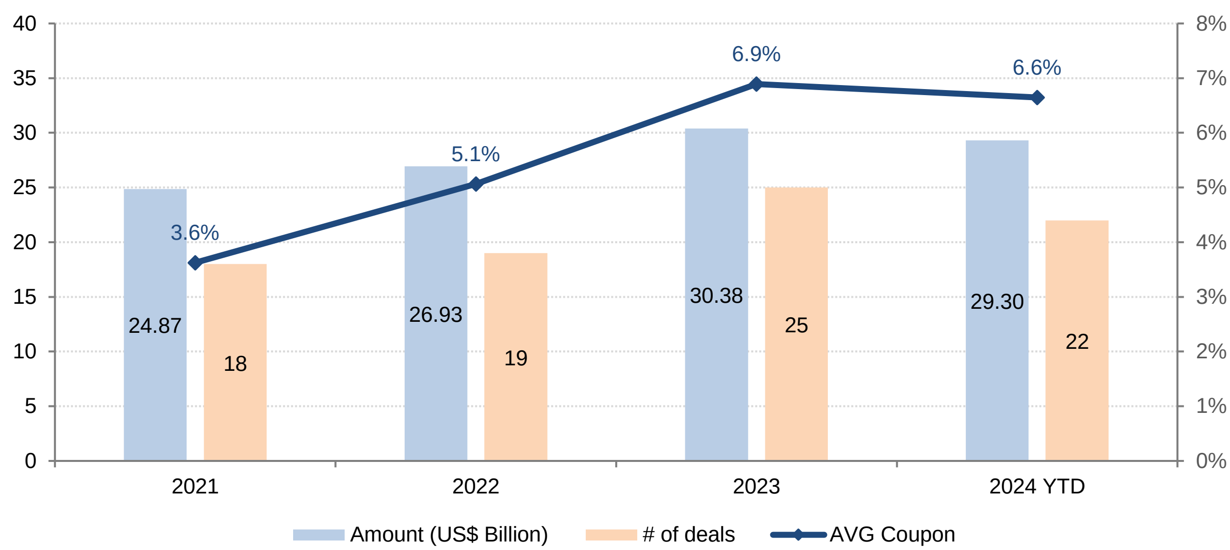


Source: U.S. Census Bureau and the Bureau of Economic Analysis, U.S. Commerce Department.

II. Impact on Latin American and Caribbean financial conditions

U.S. interest rates reached a peak in July 2023 and since then some of the pressure on Latin America and the Caribbean (LAC) financial conditions have eased. High interest rates in the United States translated into higher financing costs for the corporates and governments of Latin America and the Caribbean (LAC) in the past three years. Illustrating the increase in the region's borrowing costs, the average coupon rates on the region's dollar-denominated sovereign debt issuances climbed steadily from 3.6% in 2021 to 6.9% in 2023. From January to mid-September 2024, however, the coupon rates have slightly declined to 6.6% (figure 30).

Figure 30
Annual LAC sovereign issuance of dollar-denominated debt in international markets by amount, number of deals and interest rate, 2021–2024 Year-to-Date (YTD)
(Billions of dollars, percentage)



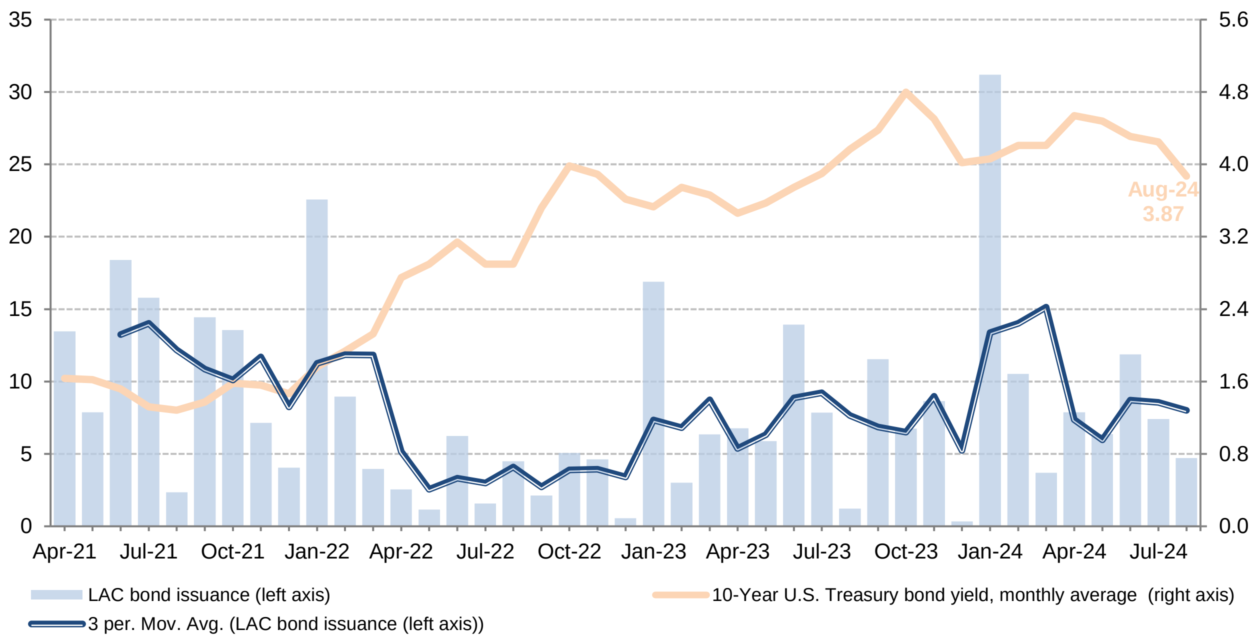
Source: ECLAC, Capital flows to Latin America and the Caribbean: 2023 year-in-review and early 2024 developments (LC/WAS/TS.2024/1), Santiago, 2024 [online] https://www.cepal.org/en/publications/69079-capital-flows-latin-america-and-caribbean-2023-year-review-and-early-2024. The figures for this chart have been updated up to mid-September 2024. YTD: as of 15 September 2024.

The Federal Reserve cut interest rates by 0.5% on 18 September, starting a new easing cycle that should help to further ease financial pressures in the LAC region. In addition, in August 2024, the U.S. 10-year Treasury yield dropped below 4% for the first time since 2024's opening week (figure 31). It has been declining since April, easing the region's borrowing conditions. Reflecting financial conditions that are gradually easing, LAC international total debt issuance was US$ 94 billion from January to mid-September 2024, 30% higher than in the same period last year.

Figure 31

Monthly LAC international bond issuance and 10-year U.S. Treasury yield, December 2020–January 2024

(Left axis, billions of dollars; Right axis, percentage)



Source: ECLAC, Capital flows to Latin America and the Caribbean: 2023 year-in-review and early 2024 developments (LC/WAS/TS.2024/1), Santiago, 2024 [online] https://www.cepal.org/en/publications/69079-capital-flows-latin-america-and-caribbean-2023-year-review-and-early-2024.

With the Federal Reserve starting a new monetary easing cycle, external borrowing costs for the region should continue to ease, but its impact on the region's domestic central banks' decisions should be more muted, as many of the region's central banks have started to cut interest rates well in advance of the Fed, some as early as July 2023. Their easing cycles are already entering a slower phase. In the case of Brazil, the central bank delivered a 0.25% hike in a unanimous decision on the same day as the Fed kicked off its easing cycle, taking the policy rate to 10.75%.

The impact of the U.S. rate cut on Latin America will depend on the economic structure of each country, according to sources consulted by Bloomberg Línea, and besides improved credit conditions, a mix of exchange rate relief and potential challenges for key exports to the U.S. (as they become more expensive at international prices) can be expected.

III. Presidential election: positions on key economic policy issues and what they could mean for Latin America and the Caribbean

The United States presidential election in November offer voters a choice between two presidential candidates with differing views on a range of policy issues. With less than two months until the election, the candidates are offering voters fundamentally different visions of the government's role in the economy. Overall, former President Trump, the Republican party candidate, focus his economic policies on lowering taxes, and increasing government efficiency by cutting public spending and committing to an aggressive deregulatory agenda. Vice President Harris, the Democratic party candidate, focus on promoting an opportunity economy through tax credits for childcare, tax benefits for small business owners and a wider social safety net, as well as on continuing to support U.S. leadership in semiconductors, clean energy, AI, and other cutting-edge industries of the future.

This section summarizes some of the information as it has been provided by the candidates themselves, their campaigns, and their surrogates on key policy issues, including fiscal, monetary, housing, trade, industrial, environmental, healthcare, immigration, and foreign policies (table 3) and what impact they could have on Latin America and the Caribbean. This is tentative, as some of the policy proposals lack details.

Table 3
United States 2024 presidential elections: positions on key economic policy issues

Policy areas	Republican Party: Trump	Democratic Party: Harris
Fiscal	Tax cuts (corporate tax rate decreased to 15%, extension of 2017 tax cuts, exempt social security income from taxation). Lower non-military discretionary spending.	Extension of most 2017 tax cuts. More support for childcare and tax credits, housing and medical care. Increased taxes on the wealthy (top 2%) and corporations (rise to 28%)
Monetary	Critical of Fed's independence and Chairman Powell. Believes the President should have a greater say in how the Fed sets interest rates. Has said he will not reappoint Chairman Powell after his current four-year term as chair expires in 2026. Appointees to the FOMC could be more political/controversial.	Respects central-bank independence. Has argued that corporate greed has contributed to the high inflation of the past three years and proposed rules against price gouging at the federal level (currently 37 states and the District of Columbia have anti-price-gouging laws that use government power to prevent or limit large price increases during emergencies).
Housing market	Proposes opening limited portions of Federal Lands to allow for new home construction, offering tax incentives and support to first-time buyers, and cutting unnecessary regulations that raise housing costs. Also promises to deport large numbers of undocumented immigrants to reduce demand for housing and cost pressures.	Wants to address the nation's affordable housing shortfall through tax cuts meant to spur home construction and a US$25,000 benefit to help first-time buyers break into the market. Committed to developing 3 million new housing units. Proposes a new US$ 40 billion innovation fund to spur innovative housing construction
Trade	10-20% tariffs on all U.S. goods imports. Up to 60% tariff on goods from China. Has also said he would impose a 100% tariff on imports from countries that shift away from using the U.S. dollar. Potential for further restrictions on exports of sensitive goods.	Continuation of incremental pressure on certain imports from China. Introduction of more restrictions on exports of sensitive goods.
Industrial	Favors deregulation and tariffs over industrial policy. Likely to roll back some of Biden's initiatives, such as electric vehicle (EV) tax credits in the Inflation Reduction Act.	Continuation of Biden's initiatives. Will continue to support U.S. leadership in semiconductors, clean energy, AI, and other cutting-edge industries of the future.
Environmental	Has vowed to repeal the Inflation Reduction Act and its subsidies for green technologies. Would eliminate a US$7,500 tax credit for EV that has spurred the industry. Would favor greater production of fossil fuels domestically.	Continuation of Biden's initiatives. Cast the tiebreaking vote in 2022 for the Inflation Reduction Act. No longer opposes fracking, arguing that the clean energy law is working, and she has seen that a thriving green energy economy can grow without banning fracking.
Healthcare	Drug price caps may be removed and eligibility requirements for Medicaid are likely to be tightened.	Cast tiebreaking vote to pass the Inflation Reduction Act, which gave the U.S. government the power to negotiate the price of prescription drugs it buys for Medicare patients. Promised to further efforts to cap everyone's out-of-pocket drug spending at US$2000 a year overall and US$35 a month for insulin.
Immigration	Mass deportation to remove 15-20 million undocumented immigrants. Security at the border and visa eligibility requirements are likely to be significantly tightened. Does not support the bipartisan Senate deal negotiated earlier this year.	Promised to sign the bipartisan Senate border deal, a bill that would have given the president authority to stop processing asylum seekers if crossings rose too high. It would also have increased legal immigration to the U.S. She has endorsed providing a path to citizenship for longtime undocumented immigrants in the country.
Foreign	Critical of U.S.'s regional alliances, like NATO.	Would likely seek to retain President Biden's multilateral approach to foreign policy.

Source: ECLAC Washington office based on several sources, including BMI, a FitchSolutions Company, Moody's Analytics, The Wall Street, The New York Times, Financial Times, The Washington Post, think-tanks and campaign websites, among others.

1. Fiscal policy

The bulk of the tax cuts in the Tax Cuts and Jobs Act of 2017 (TCJA) passed during Donald Trump's Administration will expire in 2025. Mr. Trump proposes to extend them indefinitely, preserving the lower tax rates, and larger standard deduction and child tax credit that Republicans put in place seven years ago. The tax cuts also include a higher estate-tax exemption and a tax break for closely held businesses.[8] He would also like to lower the corporate tax rate further to 15% from the 21% set by the TCJA. Mr. Trump has proposed new tax breaks on top of that, including ending taxes on tips, ending income taxes on Social Security benefits, and a new deduction for expenses associated with newborns. It is not clear how these tax proposals would be financed and how he would avoid increasing budget deficits. He has criticized Biden's expansion of Internal Revenue Service enforcement and could curtail those efforts if elected.

Ms. Harris would keep President Biden's pledge to prevent tax increases on households making under US$ 400,000. Her approach is to seek large tax increases on corporations and high earners to fund assistance for low-income and middle-class workers who are struggling to build wealth for themselves and their children. Her proposals include extending the expiring tax cuts of the TCJA for about 97% of U.S. taxpayers. To ensure fairness and allow action to build up the middle class while reducing the deficit, she proposes rolling back TCJA's tax cuts for the wealthiest taxpayers, enacting a billionaire minimum tax and increasing the tax on stock buybacks.[9]

She also supports eliminating taxes on tips for service and hospitality workers and restoring the American Rescue Plan's popular expansion of the child tax credit that would provide as much as US$ 3,600 per child to most parents (up from US$ 2,000). She has also proposed a new child tax credit of up to US$ 6,000 for parents of newborns and expanding the earned income tax credit for workers without children from an upper bound of US$ 600 to US$ 1,500. Ms. Harris is offering a 10-fold expansion of a tax deduction for new small businesses —an expansion of the startup-expense tax deduction for new businesses to US$ 50,000 from US$ 5,000— while reducing the everyday obstacles and red tape that can make it harder to grow a small business, and a goal of 25 million new small-business applications in her first term.

Under her plan, the corporate tax rate and the tax rate on long-term capital gains for those earning a million dollars a year or more will be 28% percent. The increase in the corporate-tax rate to 28% from 21% would raise more than US$ 1.3 trillion over a decade according to the U.S. Treasury Department, one of the largest revenue-raising items in Ms. Harris' economic plan (box 1).

Box 1
How would the candidates' fiscal policy proposals affect U.S. debt?

The national debt is on an unsustainable path. Federal debt relative to gross domestic product is on track to surpass its post-World War II record by 2027, according to the Congressional Budget Office. In addition, the country will almost certainly need more government investment in the years ahead because of national security concerns, an aging population and the threat posed by climate change.

As we saw, Vice President Kamala Harris and Republican opponent Donald Trump have floated new tax breaks and spending plans, as they try to persuade voters. Budget forecasters are struggling to keep up with the latest announcements, but so far, all estimates suggest Mr. Trump's agenda adding much more new federal debt than Ms. Harris'.

Mr. Trump has said he plans to extend all tax cuts he pushed through Congress in 2017, exempt Social Security and tip income from taxes, and further cut corporate income taxes. These changes would likely add US$ 3.6 trillion to US$ 6.6 trillion to primary U.S. deficits over 10 years, according to published individual and comprehensive estimates from four budget forecasters reviewed by Reuters: the Penn-Wharton Budget Model, the Committee for a Responsible Federal Budget (CRFB), the Tax Foundation and Oxford Economics.

[8] A closely held business, also known as a close corporation, is a corporation that has a small number of shareholders, and its stock is not publicly traded.

[9] The highest-income households would receive more than 45% of the benefits if the expiring provisions of the TCJA are extended, according to an analysis by the Urban-Brookings Tax Policy Center.

Ms. Harris' plans, which include expanding the Child Tax Credit, a US$ 6,000 bonus tax credit for newborns, a US$ 25,000 first-time homebuyer tax credit, and no taxes on tips for services and hospitality workers, could reduce deficits by as much as US$ 400 billion or add up to US$ 1.4 trillion to deficits over a decade, the same forecasters calculated.

In the forecasts by the four budget forecasters reviewed by Reuters, estimates of Harris' recently rolled-out tax deduction of up to US$ 50,000 for business startup costs, and a lower top capital gains tax than the one proposed by President Joe Biden are largely not included. The forecasts include Mr. Trump's proposal to lower the corporate income tax to 15% from 21% but not his latest comments that this rate would be reserved only for companies that produce their goods in the United States.

Natasha Sarin, a professor of Law at Yale who served as deputy assistant secretary for economic policy and later as a counselor to Treasury Secretary Janet Yellen, recently wrote a column about the fiscal impact of the candidates' proposals in the Washington Post, and she says Mr. Trump's proposals would add at least US$ 4.5 trillion to the deficit over the next decade. According to her, Ms. Harris could achieve some deficit reduction depending upon how much of the GOP tax cuts she opts to extend. At worst, her plan would increase deficits only modestly, by less than one-fifth of Mr. Trump's total

Ms. Harris has stated clear sources of revenue for her proposals. She embraces essentially all the tax increases outlined in President Joe Biden's fiscal 2025 budget request, except for his capital tax changes. She is proposing to raise capital gains rates for high earners by less than proposed in the budget. Overall, these proposals would generate around US$ 5 trillion in additional tax revenue from the wealthy and corporations over the next decade, including taxing unrealized gains from fortunes over US$ 100 billion and raising the corporate tax rate to 28%.

Vice President Harris's proposals thus have well-developed revenue raisers, while Mr. Trump's approach to taxes is more debt-fueled. Mr. Trump has not offered any conventional tax increases to offset his extended tax cuts. Other breaks, including exempting Social Security income, would reduce revenue by US$ 1.6 trillion, the Committee for a Responsible Federal Budget (CRFB) and the Tax Foundation estimate. He said his tax cuts would be paid for with "trillions of dollars" generated by stronger economic growth, new import tariffs, ending Biden's clean energy subsidies and a new government efficiency commission.

Although it is true that cutting taxes can lead businesses to invest in themselves in ways that grow the economy, empirical evidence on the impact of the 2017 Tax Cuts and Jobs Act, according to Chodorow-Reich et al. (2024), is that economic growth offset just two percentage points of the 41% decline in corporate tax collections that resulted from the legislation.

The Tax Policy Center has estimated that Mr. Trump's proposed 10% global tariff and 60% tariff on Chinese imports could raise up to US$ 3.8 trillion over a decade but would reduce other revenues due to its economic effects, including imposing a de facto tax on households. According to Reuters, the Tax Foundation was the only model they reviewed that included a tariff estimate as a revenue offset —US$ 2.6 trillion— but even then, it estimated that Mr. Trump's plans would boost deficits by nearly US$ 4 trillion over a decade.

Source: Prepared by the author, on the basis of several sources including "CBO: National Debt to Reach Record Share of GDP in Just Three Years" United States Senate Committee on the Budget, 18 June 2024, Reuters, "How Harris' and Trump's tax and spending plans affect US debt" by David Lawder, 10 September 2024, The Washington Post, "How would Trump and Harris affect U.S. debt? The difference is huge" opinion by Natasha Sarin, 13 September 2024, and Chodorow-Reich, Gabriel, Matthew Smith, Owen Zidar, and Eric Zwick, Tax Policy and Investment in a Global Economy, Working Paper 32180, Princeton University, March 2024.

2. Monetary policy

The president of the United States shapes the Federal Reserve by appointing members to its board. When president, Mr. Trump appointed the current Chairman, Mr. Jerome Powell, but was often critical of him. He has said he would not reappoint Mr. Powell after his current four-year term as chair expires in 2026. He has also criticized the independence of the central bank, arguing that as president, he should have a greater say in how the Federal Reserve sets interest rates, adding that there are other ways to bring down inflation without raising rates. Vice-President Harris has said she respects central-bank independence.

Regarding inflation and prices of everyday goods, Ms. Harris has argued that corporate greed has contributed to the high inflation of the past three years and proposed rules against price gouging at the federal level (currently 37 states and the District of Columbia have anti-price-gouging laws that use government power to prevent or limit large price increases during emergencies). Mr. Trump, by contrast, has said he would reduce prices by diminishing the government's role in the economy, promising to roll back regulations on energy and other unspecified industries, and to cut taxes, including on Social Security benefits.

3. Housing market policy

A constrained supply of existing homes and slower-than-needed construction of new homes are keeping upward pressure on prices, despite higher interest rates. In response to such affordability concerns, Ms. Harris has committed to developing 3 million new housing units —both single and multifamily— in her first term in office if elected in November. She pledged to send up to US$ 25,000 in down-payment assistance to every first-time home buyer over four years and to provide a US$ 10,000 tax credit for first-time homebuyers. To spur construction and supply, she is proposing a first-ever tax incentive for builders who build starter homes sold to first-time buyers and to expand an existing tax incentive for building affordable rental housing. In addition, Ms. Harris wants to create a new US$ 40 billion innovation fund to spur innovative housing construction, twice the size of a proposed fund previously announced by the Biden administration. The fund would look to empower local governments, developers and builders to construct more housing that's affordable and to support new methods of construction financing. Ms. Harris would seek to repurpose some federal land for affordable housing, similar to proposals floated by President Biden and Mr. Trump.

Mr. Trump has also proposed using federal land to help alleviate the housing shortage. He is also promising to lower housing costs by stopping "the unsustainable invasion of illegal aliens which is driving up housing costs," according to Karoline Leavitt, his campaign's national press secretary. In addition, the Republican National Committee platform says that the party will "promote homeownership with tax incentives and support for first-time buyers and cut unnecessary regulations that raise housing costs," as well as "reduce mortgage rates by slashing inflation."

4. Trade policy

As president, Mr. Trump imposed steep tariffs on China and more targeted tariffs on steel, aluminum and products from other countries, including allies. In a second term, Mr. Trump has said he would go further, imposing a tariff of at least 60% on China and 10% to 20% on the rest of the world.[10] He has also called for reciprocity, that is, setting tariffs at the same level other countries impose on the United States —mostly under 10%. He has said he wants to end "permanent normal trade relations" with China, which extends to China benefits of membership in the World Trade Organization. That, however, would require an act of Congress, as would permanent changes to tariff rates. Tariffs could be raised by Mr. Trump through executive authority, but that could face legal opposition in court. During a recent campaign event, Mr. Trump said that if elected he would also seek to keep the U.S. dollar as the world's dominant reserve currency, adding that he would impose a 100% tariff on imports from countries that shift away from using the U.S. dollar.

Ms. Harris would for the most part follow President Biden's trade policy, who has maintained most of Mr. Trump's tariffs on China while raising some, such as on electric vehicles, and negotiated resolutions to disputes over steel and commercial aircraft with key allies. President Biden has maintained Mr. Trump's blocking of new appointments to the WTO's dispute-settlement body, curtailing its enforcement role, while negotiating changes to how it operates.

5. Industrial policy

Vice President Harris is expected to offer a continuation of President Biden's initiatives, including landmark legislation —the Bipartisan Infrastructure Law, the CHIPS and Science Act, the Inflation Reduction Act, and the American Rescue Plan. She has pledged to continue to support U.S. leadership in semiconductors, clean energy, AI, and other cutting-edge industries of the future. She has proposed big tax breaks for companies engaged in what she sees as delivering great economic benefits, like manufacturing technologies needed to fight global warming, or building affordable housing.

[10] A study by Kimberly Clausing and Mary E. Lovely of the Peterson Institute for International Economics (PIIE) found that imposing a 20% across-the-board tariff combined with a 60% tariff on China would cost a typical U.S. household in the middle of the income distribution more than US$ 2,600 a year.

Mr. Trump favors deregulation and tariffs over industrial policy and is likely to roll back some of President Biden's initiatives. He would eliminate a tax credit for electric vehicles (EV), which has spurred the industry. He is likely to favor greater production of fossil fuels domestically.

6. Environmental policy

The Inflation Reduction Act, for which Kamala Harris cast the tiebreaking vote in 2022, provided several hundred billion dollars in grants, loans and tax incentives to promote renewable energy, reduce the use of fossil fuels and help communities prepare for the worst effects of climate change. During her acceptance speech at the Democratic National Convention, Ms. Harris said that many freedoms are at stake in the coming election, including "the freedom to breathe clean air and drink clean water and live free from the pollution that fuels the climate crisis."

Mr. Trump has repeatedly called climate change "a hoax" and said he would eliminate a US$ 7,500 tax credit for electric vehicles. He has also vowed to repeal the Inflation Reduction Act and its subsidies for green technologies such as wind-turbine manufacturing, solar components and battery plans. The Republican platform, posted on Mr. Trump's campaign website pledges to lift "restrictions on American Energy Production," which would mean attempting to repeal the Biden-Harris Administration rules on coal-burning power plants, vehicle tailpipe emissions and methane leaks from oil-and-gas operations. He has indicated that he will once again leave the Paris Agreement.

7. Healthcare policy

Lowering health costs has been a staple of the Biden-Harris administration's policy framework. The American Rescue Plan signed in 2021 expanded the income eligibility limit to receive Affordable Care Act health insurance subsidies. The Inflation Reduction Act included several provisions to lower prescription drug costs for Medicare recipients by capping out-of-pocket costs and enabling the federal government to negotiate prices for certain drugs covered by Medicare.

Ms. Harris said she will build on the Biden-Harris Administration's successes in bringing down the cost of lifesaving prescription drugs for Medicare beneficiaries by extending the US$ 35 cap on insulin and US$ 2,000 cap on out-of-pocket spending they achieved for seniors to everyone. The Inflation Reduction Act gave Medicare the power to negotiate lower drug prices and if elected, she has pledged to accelerate the negotiations to cover more drugs and lower prices further for the population.

As Vice President, Ms. Harris announced a new action by the Consumer Financial Protection Bureau (CFPB) that would remove medical debt from credit reports and helped cancel US$ 7 billion of medical debt for 3 million Americans. If elected, she has pledged to work with states to cancel medical debt for even more Americans.

Mr. Trump has vowed to protect Medicare and bring down healthcare costs overall. Despite his previous ambition to repeal and replace the Affordable Care Act, he said in April that he now plans to keep it and improve it. He has pledged to bring down prescription drug costs but hasn't said how exactly he would do that.

8. Immigration policy

On immigration policy, Mr. Trump has vowed to end birthright citizenship, a right enshrined in the Constitution, expand his earlier travel ban, and give States and the National Guard powers to carry out mass deportations of undocumented immigrants. He hasn't made clear how, as president, he could carry out his mass-deportation plan. Without Congress, the president wouldn't have enough money or detention space, and he would have trouble finding most of the immigrants in question, who live in Democratic-leaning states that have declined to work with federal immigration authorities. Mr. Trump has promised to return to an array of immigration policies he implemented as president, including "Remain in Mexico." He has vowed to halt all refugee admissions.

Ms. Harris has promised she would sign a bipartisan Senate border deal negotiated earlier this year that was blocked by Republicans in Congress. That bill would have given the president the authority to stop processing asylum seekers if crossings rose too high, deployed more detection technology to intercept fentanyl and other drugs, and added 1,500 border security agents to protect the border. At the same time, that measure would have increased legal immigration to the United States. She has endorsed providing a path to citizenship for longtime undocumented immigrants in the country.

9. Foreign policy

Ms. Harris would likely seek to retain President Joe Biden's multilateral approach to foreign policy if elected. This would entail unconditional commitment to NATO allies, plus Japan, South Korea, and others, as she has stated in her campaign website. In the Middle East, Ms. Harris has been an outspoken advocate of a cease-fire in Gaza and a two-state solution for the Israel-Palestine conflict. She would likely retain a tough stance towards China, as bipartisan sentiment towards Beijing has turned more negative in recent years.

Mr. Trump has maintained a more critical approach to the United States' regional alliances, like NATO. He has signaled he would try to re-establish ties with Moscow to move toward a settlement in Ukraine. He has pledged to support Israel's defense but has also said publicly that he would push Israel to "finish up" its war. He would likely maintain his tough approach to China, both from an economic and military perspective.

10. What do the policy proposals mean for Latin America and the Caribbean?

How the policy proposals being offered in the current presidential election's cycle would affect Latin America and the Caribbean is hard to predict, but there are three channels in particular, immigration, trade and industrial/environmental policies, through which the region could see a larger impact.

The immigration policy channel. If Mr. Trump's proposal to start deporting hundreds of thousands of people is effectively implemented, it would have profound effects on these migrants' home countries. In particular, the remittances that so many in the region rely on would dry up, exacerbating the economic conditions that cause many migrants to leave their home countries in the first place.

In the case of a Harris presidency, the focus will likely be on continuing to promote regional cooperation, following-up on the Biden-Harris Administration's "Los Angeles Declaration on Migration and Protection." This framework has already facilitated regional collaboration on migration management. As Vice President, she has led the diplomatic strategy to address the root causes of migration from Central America, largely focusing on increasing private investment and employment opportunities in the Northern Triangle. Her encouragement of investment into the Northern Triangle produced 30,000 jobs by some estimates.[11] Migrants from Guatemala, El Salvador and Honduras are among the few whose numbers have declined at the United States-Mexico border since 2021, but maybe not because of the root causes strategy, which is a longer-term effort.[12] Ms. Harris would likely continue U.S. assistance to address the causes of migration.

Given her work on addressing the root causes of migration, as well her advocacy for women's rights, her presidency would likely be supportive of gender initiatives in the Latin American and Caribbean region, including access to health care, combating gender-based violence and promoting women's economic empowerment.

The trade policy channel. A Harris administration would be unlikely to subordinate all U.S. interests in the region to migration suppression by Latin American countries. For example, having voted against the United States-Mexico-Canada Agreement (USMCA) in 2020 because of concerns over environmental and

[11] See Vanda Felbab-Brown, senior fellow for foreign policy at the Brookings Institution, in Latin America Advisor, "How Would Harris Shape U.S.-Latin America Relations?" The Dialogue Leadership for the Americas, 15 August 2024.

[12] See Stephanie Brewer, director for Mexico at the Washington Office on Latin America, in Latin America Advisor, "How Would Harris Shape U.S.-Latin America Relations?" The Dialogue Leadership for the Americas, 15 August 2024.

labor rights protection, Ms. Harris would have various opportunities, such as the 2026 USMCA review, to "break out of the migration straitjacket, which subordinated all other U.S. interests in Mexico to migration."[13]

Regarding tariffs, former President Trump's proposal to impose a 10% to 20% tariff across-the-board on the rest of the world has the potential to have an important adverse impact on the region. Such a tariff would "not distinguish between rivals and allies, critical necessities and nonessentials, ailing industries and superstars, or countries adhering to trade treaties and those violating them."[14] It is thus unclear whether this would apply even to countries with which the United States has free-trade agreements in the region: Chile, Colombia, Peru, the Dominican Republic, and Mexico, as well as several Central American countries. The countries around the Caribbean Basin stand to lose the most from new tariffs, since they depend heavily on trade with the United States, but South America would not be spared if reduced trade with the U.S. is accompanied by declining Chinese demand (if high U.S. tariffs on its goods force it to cut back production) for South American raw materials.[15]

Mr. Trump's 2018 tariffs caused a rebalancing of trade according to the International Monetary Fund, with China exporting more to other countries, and other countries exporting more to the United States. According to Kimberly Clausing at the Peterson Institute for International Economics, "when you're putting a tariff on everybody, that reshuffling gets shut down, and it just becomes a big price shock to the world."[16]

The industrial/environmental policy channel. Vice President Harris approach emphasizes close collaboration with allies and partners, which is evident in her work with Caribbean countries, particularly on climate action. Her commitment to addressing the climate crisis aligns with the region's pressing needs, where climate change threatens agriculture, infrastructure and coastal communities. Her pledge to continue and strengthen the historic investment in climate initiatives made by the Biden-Harris Administration could drive collaboration on renewable energy, conservation and sustainable development, aligning U.S. policies with regional efforts.[17]

A second Trump administration would focus on natural gas instead, according to Mauricio Claver-Carone, one of Mr. Trump's former Latin America advisors, who wrote in *Americas Quarterly* that "replacing Venezuela's heavy and dirty crude with clean U.S. liquefied natural gas (LNG), and building the supporting infrastructure for its transport, storage, and conversion, was at the heart of the *América Crece* energy and infrastructure investment frameworks," an initiative that he says should be resurrected. [18] It would also focus on reviving hemispheric economic growth through nearshoring and other policies, he writes, adding that a second Trump term should deprioritize support for regional multilateral development banks, such as the Washington-based Inter-American Development Bank, in favor of bilateral deals with countries that are "friendly" to the United States.[19]

[13] See Vanda Felbab-Brown, senior fellow for foreign policy at the Brookings Institution, in Latin America Advisor, "How Would Harris Shape U.S.-Latin America Relations?" The Dialogue Leadership for the Americas, 15 August 2024.

[14] The New York Times, "What Across-the-Board Tariffs Could Mean for the Global Economy" by Patricia Cohen, 27 August 2024.

[15] Project Syndicate, "What a Trump Victory Would Mean for Latin America" by Jorge Heine, 5 September 2024.

[16] The New York Times, "What Across-the-Board Tariffs Could Mean for the Global Economy" by Patricia Cohen, 27 August 2024.

[17] See Maria José Espinosa Carrillo, executive director of the Center for Democracy in the Americas, in Latin America Advisor, "How Would Harris Shape U.S.-Latin America Relations?" The Dialogue Leadership for the Americas, 15 August 2024.

[18] Maurício Claver-Carone, "Trump's Vision: "Make the Americas Grow Again" in Americas Quarterly, 16 July 2024.

[19] Ibid.

IV. Looking ahead

The U.S. economy has remained remarkably resilient, even as the Federal Reserve was hiking interest rates to decades-long highs. Those elevated borrowing costs have slowed key parts of the economy, such as housing and manufacturing, helping to bring down inflation from a peak of 9.1% in June 2022 to 2.5% in August. As price pressures tapered in recent months, investors and central bankers, who had focused on inflation for signals about the health of the U.S. economy since 2022, have turned their attention to the labor market. The labor market has delivered widespread rewards to workers in the form of better pay and productivity in the past three years but is showing signs of cooling. Wage growth and hiring have slowed, and the unemployment rate edged up to 4.3% in July, its highest level since 2021, although it edged down to 4.2% in August.

The Federal Reserve lowered its target interest rate by 0.50% in its September meeting (to a range of 4.75% to 5%), a larger cut than most analysts anticipated until just a few days ago. It is now trying to prevent past rate increases from further weakening the U.S. labor market. "We are committed to maintaining our economy's strength," Chairman Powell said at a news conference. "This decision reflects our growing confidence that with an appropriate recalibration of our policy stance, strength in the labor market can be maintained."[20] Since U.S. interest rates reached a peak in July 2023, some of the pressure on Latin America and the Caribbean financial conditions have eased. The start of the Fed's first easing monetary cycle since the onset of the Covid-19 pandemic, signaling more reductions will follow, should help to further ease financial pressures in the region.

The United States Presidential election in November offers voters a choice between two presidential candidates with differing views on a range of economic policy issues and fundamentally different visions of the government's role in the economy. How the policy proposals being offered would affect Latin America and the Caribbean is hard to predict, but there are three channels in particular —immigration, trade, and industrial/environmental policies— through which the region could see a larger impact. The region could also be affected by a shift in U.S. foreign policy, particularly if the view on its role in multilateralism and multilateral development banks changes and if geopolitical tensions with China increase.

[20] The Wall Street Journal, Fed Cuts Rates by Half Percentage Point - WSJ, article by Nick Timiraos, 18 September 2024.

The United States economy expanded at an annualized rate of 3.0% in the second quarter of 2024 —more than double the 1.4% GDP growth recorded in the first quarter and well above the economy's long-term growth potential—, driven primarily by consumer spending. The resilience of consumer spending has been supported by receding inflation and a robust labour market. Inflation slowed to 2.5% in August 2024, the lowest level in more than three years. Employment has increased for 44 consecutive months, but the labour market is softening. The Federal Reserve announced an interest rate cut of 0.50% in September, launching the first easing monetary cycle since the onset of the COVID-19 pandemic and signalling more reductions to follow, alleviating pressure on financial conditions in Latin America and the Caribbean.

The *United States economic outlook* reports are published three times a year and follow the main macroeconomic developments of the United States economy and how they could affect financial conditions in Latin America and the Caribbean. This issue contains a special chapter with a brief description of the positions of the United States presidential candidates on key economic policy issues and what they could mean for Latin America and the Caribbean.

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