ECONOMIC COMMISSION
FOR LATIN AMERICA
AND THE CARIBBEAN

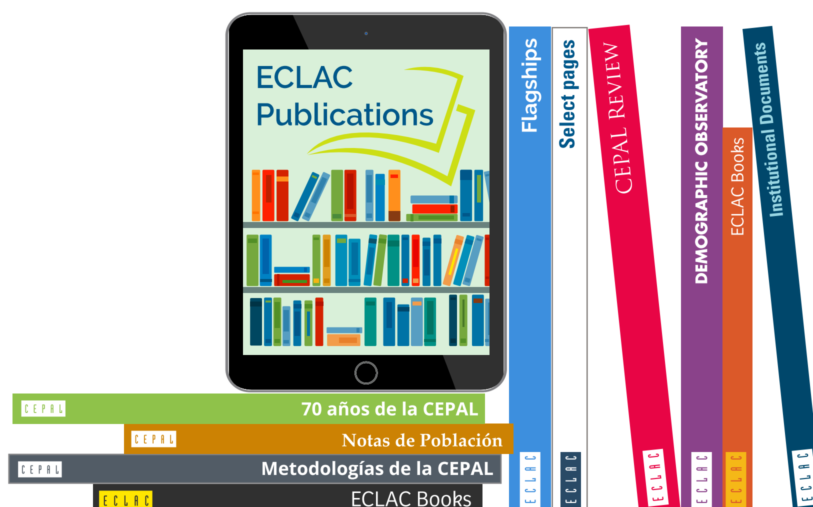
ECLAC Office in Washington, D.C.

United States economic outlook

First half of 2023

ECLAC

Thank you for your interest in this ECLAC publication



Please register if you would like to receive information on our editorial products and activities. When you register, you may specify your particular areas of interest and you will gain access to our products in other formats.

Register

www.cepal.org/en/publications

www.instagram.com/publicacionesdelacepal

www.facebook.com/publicacionesdelacepal

www.issuu.com/publicacionescepal/stacks

www.cepal.org/es/publicaciones/apps

ECONOMIC COMMISSION
FOR LATIN AMERICA
AND THE CARIBBEAN

ECLAC Office in Washington, D.C.

United States economic outlook

First half of 2023

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

Unless otherwise indicated, the cut-off date for the information used to prepare this report is 20 September 2023.

The United Nations and the countries it represents assume no responsibility for the content of links, hyperlinks or bookmarks to external sites in this publication, or for any mention of firm names and branded products and services, neither of which constitute or imply endorsement of websites, their content, owners, or any products or services mentioned or offered.

The views expressed in this document, which has been reproduced without formal editing, are those of the authors and do not necessarily reflect the views of the Organization or the countries it represents.

United Nations publication
LC/WAS/TS.2023/4
Copyright © United Nations, September 2023
All rights reserved
Printed at United Nations, Santiago
23-00912

This publication should be cited as: Economic Commission for Latin America and the Caribbean (ECLAC), *United States economic outlook: first half of 2023* (LC/WAS/TS.2023/4), Santiago, 2023.

Applications for authorization to reproduce this work in whole or in part should be sent to the Economic Commission for Latin America and the Caribbean (ECLAC), Documents and Publications Division, publicaciones.cepal@un.org. Member States and their governmental institutions may reproduce this work without prior authorization, but are requested to mention the source and to inform ECLAC of such reproduction.

Contents

Highlights 5
Overview 7
I. Quarterly developments 13
A. Quarterly GDP Growth 14
B. Industrial production 16
C. Retail sales 18
D. Labor market 19
E. Inflation 22
F. Monetary policy 22
G. Fiscal policy 23
H. Financial conditions 25
I. External sector 26
II. Impact on Latin American and Caribbean financial conditions 29
III. Looking ahead 31

Tables

Table 1 Quarterly forecasts for United States economic growth in 2023 10
Table 2 Annual forecasts for United States economic growth, 2023 and 2024 11

Figures

Figure 1 United States real Gross Domestic Product quarterly growth rate: Q1 2021—Q2 2023 7
Figure 2 Contributions to percent change in real GDP, Q1 and Q2 2023 8
Figure 3 United States Federal Reserve tightening cycles 1994—2023 9
Figure 4 Monthly job creation and unemployment, January—August 2023 9
Figure 5 Contributions to percent change in real GDP growth, second quarter 2021—second quarter 2023 ...13
Figure 6 United States real GDP quarterly growth, first quarter 2018—second quarter 2023 14
Figure 7 United States personal consumption expenditure growth, first quarter 2018—second quarter 2023 . 14
Figure 8 United States fixed investment growth, first quarter 2018—second quarter 2023............ 15
Figure 9 Contributions to U.S. real GDP growth, first quarter 2022—second quarter 2023 16
Figure 10 United States industrial production and manufacturing output, August 2022—August 2023..17
Figure 11 United States industrial production and manufacturing output, December 2017—August 2023........17
Figure 12 U.S. monthly construction spending growth since the COVID-19 pandemic: March 2020—June 2023 18
Figure 13 United States total retail sales, August 2021—August 2023 18
Figure 14 United States monthly job creation and unemployment rate, December 2020—August 202319
Figure 15 United States labor force participation share, February 2020—August 2023............ 20
Figure 16 United States average hourly earnings and unemployment rate, August 2013—August 2023 20
Figure 17 United States job openings vs number of unemployment persons: December 2000—July 2023....... 21
Figure 18 United States productivity and costs: first and second quarters of 2023 21
Figure 19 United States domestic prices: monthly evolution, December 2019—August 2023 22
Figure 20 U.S. federal funds target rate, December 2006—September 2023............ 23
Figure 21 United States federal deficit through first 11 months of fiscal year, FY2002—FY2022 23
Figure 22 United States federal surplus or deficit [-], August 2021—August 2023 24
Figure 23 U.S. stock market indices, December 2022—August 2023 25
Figure 24 U.S. Treasury security yields, December 2022—August 2023 25
Figure 25 U.S. balance of current account, first quarter 2018—second quarter 2023 26
Figure 26 United States balance on goods and services trade, January 2016—February 2023 27
Figure 27 Semi-annual LAC international bond issuance, first half 2000–first half 2023 29
Figure 28 LAC international bond issuance and 10-year U.S. Treasury yield, December 2020—June 2023... 30

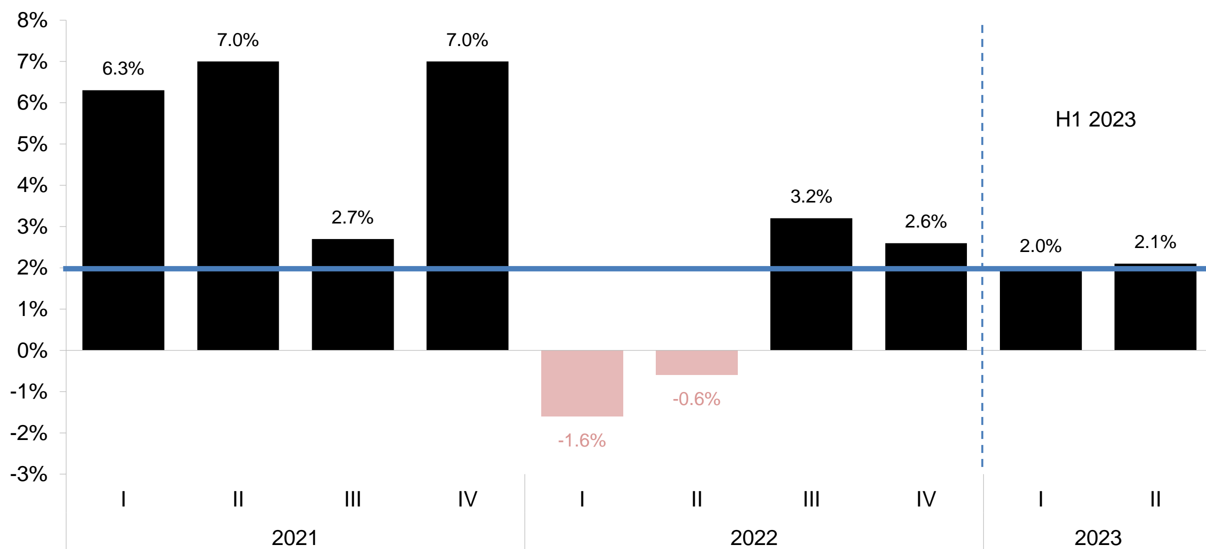
Highlights

- *The United States Gross Domestic Product (GDP) rose 2.0% and 2.1% in the first and second quarters of 2023, respectively.* Consumer spending was the main driver of economic growth in the first half of the year.
- *The labor market has continued to show strength.* An average of 236,000 new jobs were created per month and 1.9 million new jobs were added from January to August 2023, while the unemployment rate was at 3.8% at the end of August. Despite resilience in the labor market, it is showing signs of cooling, with job openings decreasing and quits now at the same level they were before the pandemic.
- *Inflation has continued to moderate*. It slowed to a low of 3% in June 2023 from 6.5% in December 2022. However, headline inflation increased to 3.2% and 3.7% in July and August respectively, as oil prices increased. Core inflation, which excludes volatile energy and food categories, declined to 4.3% in August, the lowest level in two years, from 5.7% in December 2022.
- *The Federal Reserve raised interest rates four times this year*, with quarter-point increases in January, March, May, and July 2023. The Fed left its policy rate unchanged at 5.25% to 5.50% in September, while the median forecast still shows one more quarter-point hike this year.
- Despite the interest rate hikes over the last year and in the first semester of 2023, the United States economy —supported by retreating inflation and a strong job market, with an unemployment rate that so far remains historically low— remains resilient, contributing to rising optimism for a soft landing.
- However, the risks of a hard landing remain, and uncertainty is high. Student loan distress, a government shutdown and strikes, as well as oil production cuts and a jump in oil prices are among the downside risks to the economic outlook.

Overview

The United States Gross Domestic Product (GDP) rose 2.0% and 2.1% in the first and second quarters of 2023, respectively. The second quarter of 2023 marked the fourth consecutive quarter of growth near or above the economy's potential, estimated at 2% (figure 1). Consumer spending was the main driver of the GDP increase in the first half of 2023, contributing 2.79% and 1.14% to growth in the first and second quarters, respectively (figure 2).

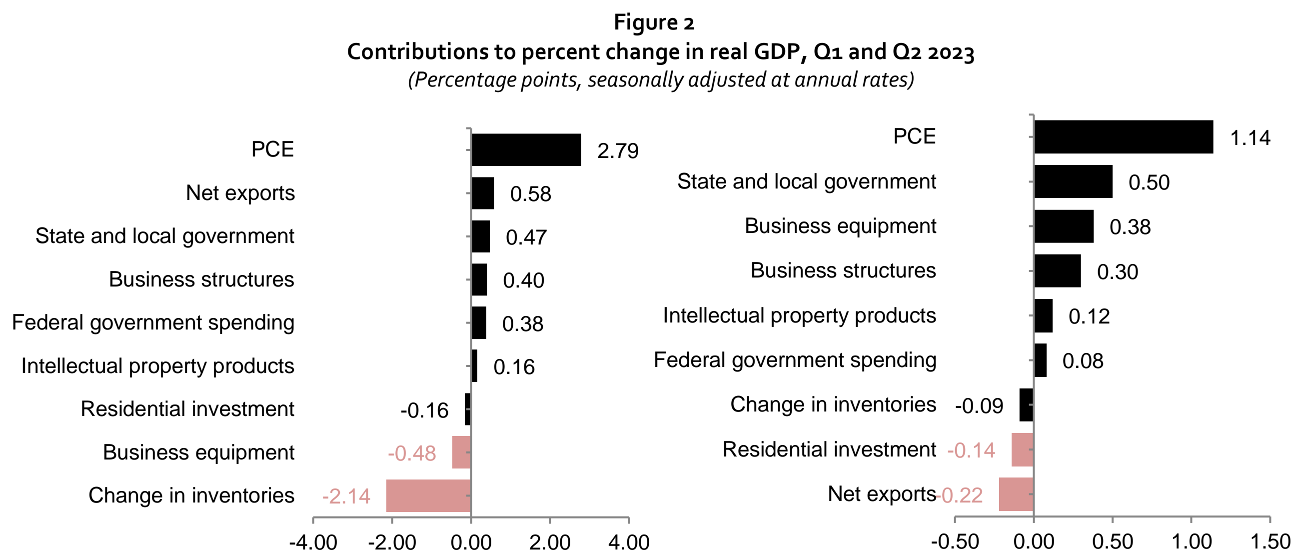
Figure 1
United States real Gross Domestic Product quarterly growth rate: Q1 2021—Q2 2023
(Percentage, not seasonally adjusted)



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

Consumer spending, hit hard by the pandemic, recovered quickly with government support and has been growing at a pace consistent with pre-pandemic trends. Its composition has changed since the pandemic, with spending on goods shifting higher and spending on services shifting lower. Growth in consumer spending has been supportive of U.S. economic growth and resilience, but not so strong as to stir inflation.

Figure 2
Contributions to percent change in real GDP, Q1 and Q2 2023
(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.
PCE: Personal Consumption Expenditures.

According to Moody's, the excess savings households accumulated during the pandemic is behind the strength in consumer spending. Lower- and middle-income households received substantial government support during the pandemic and were able to save some of that, at least for a while. Moody's estimates there was almost US$ 2.5 trillion in excess savings at the peak in fall 2021. Consumers have drawn down those savings since, in significant part to help prop up their purchasing power, which has come under severe pressure from high inflation. Households' debt burden is also less of a concern than it was in the past. Households are currently net creditors according to Moody's, thus have been insulated from the effect of the Federal Reserve's interest rate hikes.[1]

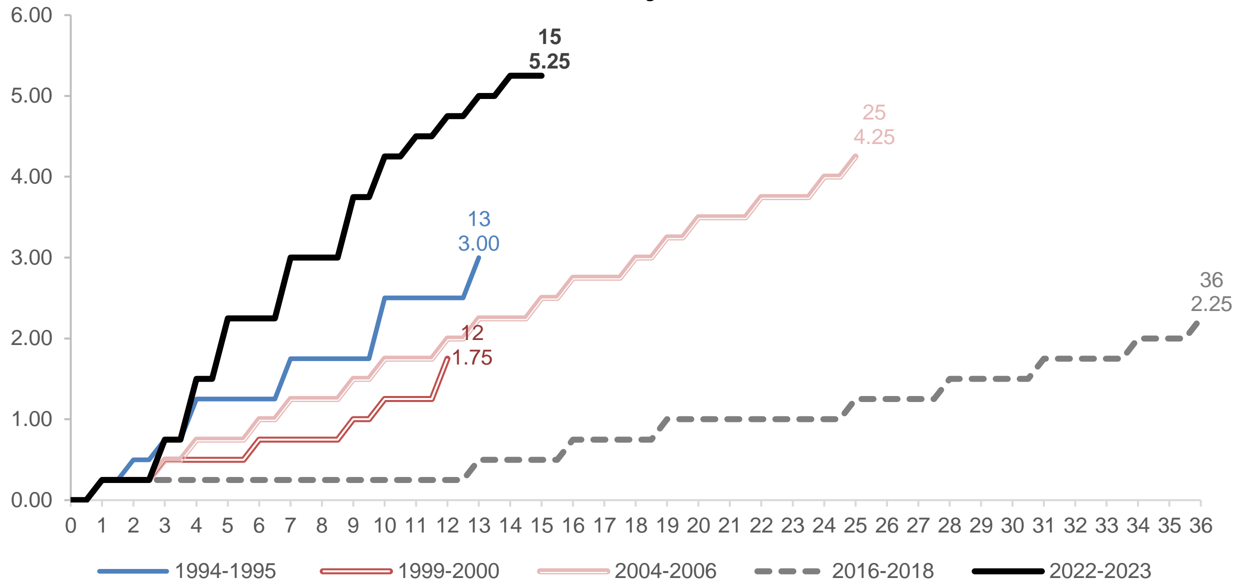
The inflation rate has been retreating this year and moving in a more positive direction. However, as the increase in the headline Consumer Price Index (CPI) in July and August attest, inflation remains a concern. After slowing to a low of 3% in June 2023 from 6.5% in December 2022, the CPI increased to 3.2% and 3.7% in July and August, as oil prices increased. However, core inflation, which excludes volatile energy and food categories, declined to 4.3% in August, the lowest level in two years, from 5.7% in December 2022.

The Federal Reserve raised interest rates four times this year. There were quarter-point interest rate increases in January, March, May and July 2023. In its last meeting in September, the Fed left its policy rate unchanged at 5.25% to 5.50%, while the median forecast still shows one more quarter-point hike this year. This was the Central Bank's second pause this year, the first pause taking place at the June meeting.

Since the current monetary policy tightening cycle started in March 2022, interest rates have increased at the fastest pace since the early 1980s and this is currently the United States' third longest monetary tightening cycle (figure 3). The Federal Reserve seems to be either at or close to the end of its interest rate hikes, although there is still a lot of uncertainty regarding when this cycle will end.

[1] See "U.S. Outlook: The Consumer Firewall", Analysis by Mark Zandi, *Moody's*, 18 September 2023.

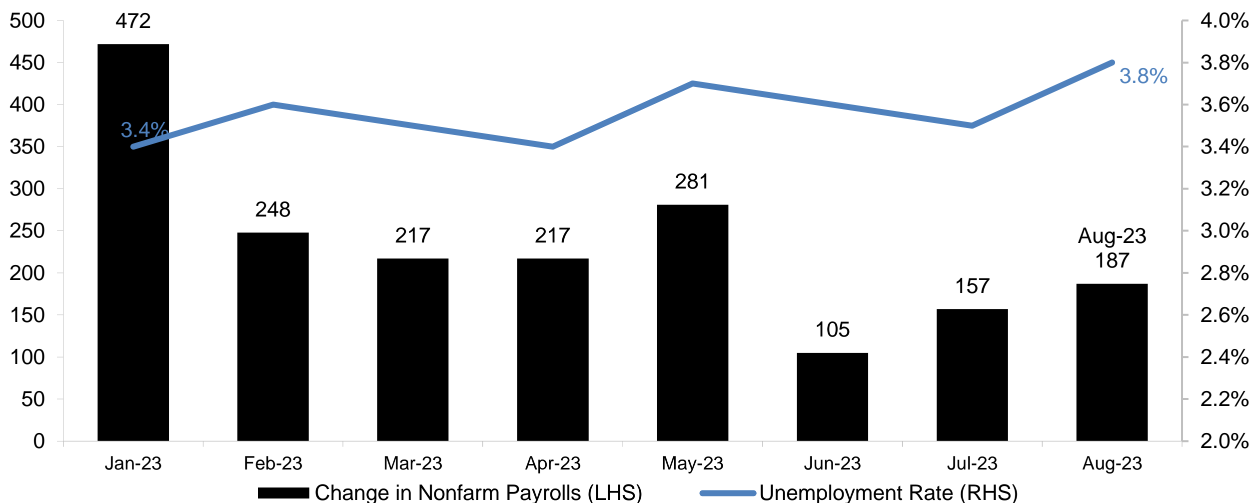
Figure 3
United States Federal Reserve tightening cycles 1994—2023
(Percentage)



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

The labor market remains strong but has started to cool down, which has been the ultimate goal of the current monetary tightening cycle. According to the Bureau of Labor Statistics, in July 2023 there were still 8.8 million job openings in the United States, but down from a peak of 12 million in March 2022. Businesses are hanging on to their workers and not resorting to layoffs but have cut some openings. A moderation in quit rates —which are now at the same level as before the pandemic— has also been observed, consistent with the Fed's plan. An average of 236,000 new jobs were created per month and 1.9 million new jobs were added from January to August 2023, while the unemployment rate went up from a record low of 3.4% in January to 3.8% in August 2023 (figure4).

Figure 4
Monthly job creation and unemployment, January—August 2023
(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.

Given the resilience of the U.S. economy in face of the rapid increases in interest rates over the last year and in the first semester of 2023, optimism for a soft landing —the notion that the Federal Reserve will be able to slow the economy and reduce inflation without causing a recession— is on the rise. The economic resilience, as we have seen, has been supported by retreating inflation and a strong job market, with an unemployment rate that so far remains historically low.

Consumer spending and households' low debt burden have helped the economy to navigate this monetary tightening cycle. Moreover, the laws that were passed in the past year and a half —the Infrastructure Investment and Jobs Act (IIJA) signed into law on 15 November 2021, the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act signed into law on 9 August 2022, and the Inflation Reduction Act signed into law on 16 August 2022— have turned manufacturing construction spending into a tailwind and are expected to make an even greater impact in coming months. Together, consumer spending and manufacturing construction, which have previously led the economy into downturns, remain resilient so far.

Reflecting this optimism, with market forecasts made mostly in September 2023, the U.S. economy is projected to grow 3% in the third quarter and 0.8% in the fourth on average (table 1). On an annual basis, average market projections point to growth of 2% in 2023 and of 1% in 2024, inflation at 4.1% in 2023 and 2.5% in 2024, unemployment rate at 3.7% in 2023 and 4.3% in 2024, and the federal funds rate at 5.3% in 2023 and 4.4% in 2024, with all projections made mostly in September 2023 (table 2).

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

	Q3 2023 (qoq)	Q4 2023 (qoq)	Date of Forecast
What Markets Say			
Bank of America/Merrill Lynch	2.0%	1.5%	Sep-23
Capital Economics	2.3%	-0.8%	Sep-23
JPMorgan	3.5%	1.5%	Sep-23
Moody's Economy.com	2.9%	0.5%	Sep-23
Mortgage Bankers Association	2.7%	1.1%	Sep-23
National Association of Realtors	1.2%	1.9%	Aug-23
National Bank of Canada	4.9%	0.1%	Sep-23
TD Bank Financial Group	3.7%	0.9%	Sep-23
Wells Fargo/Wachovia	3.4%	0.4%	Sep-23
Forecasts average	***3.0%***	***0.8%***	

Source: ECLAC Washington Office, based on market sources.

Despite the resilient economic outlook, risks of a hard landing remain. Consumer spending may be adversely impacted by student loan distress, as the moratory on student loan payments come to an end. The risk of a government shutdown as a result of disagreements in the United States Congress is on the rise,[2] although current expectations are that there will be a short-term resolution and even if a shutdown does happen, that it would be brief. Strikes are another risk to the outlook, with the United Auto Workers union having started limited strike action in mid-September. Its impact on overall GDP is expected to be limited, but according to Capital Economics, "if production backlogs create new supply shortages, then strikes could drive prices higher."[3] Oil production cuts and a jump in oil prices are also downside risks to the economic outlook.

[2] Under the Antideficiency Act (initially passed in 1884 and amended in 1950), federal agencies cannot spend or obligate any money without an appropriation (or other approval) from Congress. When Congress fails to enact the 12 annual appropriation bills, federal agencies must cease all non-essential functions until Congress acts. This is known as a government shutdown. If Congress enacts some but not all of the 12 appropriations bills, only agencies without appropriations have to shut down; this is known as a partial shutdown (See "What is a government shutdown? And why are we likely to have another one?" by David Wessel, *Brookings*, 17 September 2023).

[3] See "Shutdowns and strikes could disrupt economy", US Economics Weekly, Analysis by Paul Ashworth, *Capital Economics*, 15 September 2023.

Table 2
Annual forecasts for United States economic growth, 2023 and 2024
(Percentage change)

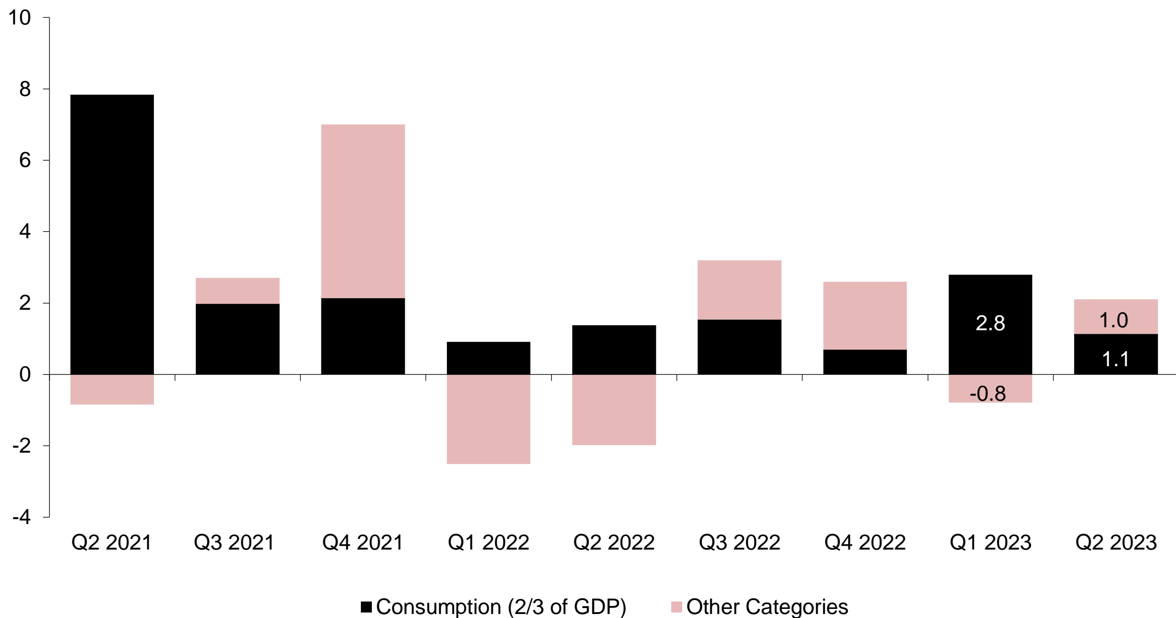
	Real GDP (% change, y/y)		Inflation (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		
	2023	2024	2023	2024	2023	2024	2023	2024	Date of Forecast
A. What Government Agencies Say									
FED[1]	2.1%	1.5%	3.3%	2.5%	3.8%	4.1%	5.6%	5.1%	*Sep-23*
CBO	1.5%	1.0%	4.2%	2.6%	3.7%	4.5%	5.0%	5.0%	*Jun-23*
OMB[2]	0.4%	1.8%	3.3%	2.5%	3.8%	4.4%	*na*	*na*	*Jun-23*
B. What Markets Say									
Bank of America/Merrill Lynch	2.1%	1.1%	4.1%	3.1%	3.6%	4.0%	5.6%	4.9%	*Sep-23*
Capital Economics	2.0%	1.0%	4.1%	2.2%	3.7%	4.6%	5.4%	3.4%	*Sep-23*
JPMorgan	2.3%	1.2%	4.1%	2.5%	3.7%	4.3%	*na*	*na*	*Sep-23*
Moody's Economy.com[3]	2.1%	1.4%	4.1%	2.7%	3.7%	4.1%	5.0%	5.1%	*Sep-23*
Mortgage Bankers Association	2.0%	0.3%	3.2%	2.4%	3.7%	4.6%	5.4%	3.9%	*Sep-23*
National Association of Realtors[3]	1.4%	1.7%	4.7%	2.9%	3.7%	4.1%	5.2%	4.7%	*Aug-23*
National Bank of Canada	2.4%	0.0%	4.0%	2.3%	3.7%	4.8%	5.5%	4.8%	*Sep-23*
TD Bank Financial Group	2.3%	1.3%	4.2%	2.7%	3.6%	4.2%	5.5%	4.0%	*Sep-23*
The Economist Intelligence Unit[4]	1.3%	0.8%	3.9%	2.2%	3.9%	4.5%	*na*	*na*	*Jul-23*
Wells Fargo/Wachovia[3]	2.2%	0.5%	4.1%	2.2%	3.6%	4.2%	5.3%	4.2%	*Sep-23*
Market Average	***2.0%***	***0.9%***	***4.1%***	***2.5%***	***3.7%***	***4.3%***	***5.4%***	***4.4%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	1.1%	1.0%	*na*	*na*	*na*	*na*	*na*	*na*	*May-23*
World Bank	1.1%	0.8%	*na*	*na*	*na*	*na*	*na*	*na*	*Jun-23*
OECD	2.2%	1.3%	3.8%	2.6%	*na*	*na*	*na*	*na*	*Sep-23*
IMF	1.8%	1.0%	*na*	*na*	*na*	*na*	*na*	*na*	*Jul-23*

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

Economic growth has shown resilience in the first half of 2023 and was driven by consumer spending, which accounts for about two-thirds of the United States Gross Domestic Product (GDP). Consumer spending contribution to growth was 2.8% in the first quarter and 1.1% in the second (figure 5).

Figure 5
Contributions to percent change in real GDP growth, second quarter 2021—second quarter 2023
(Percentage points, seasonally adjusted at annual rates)

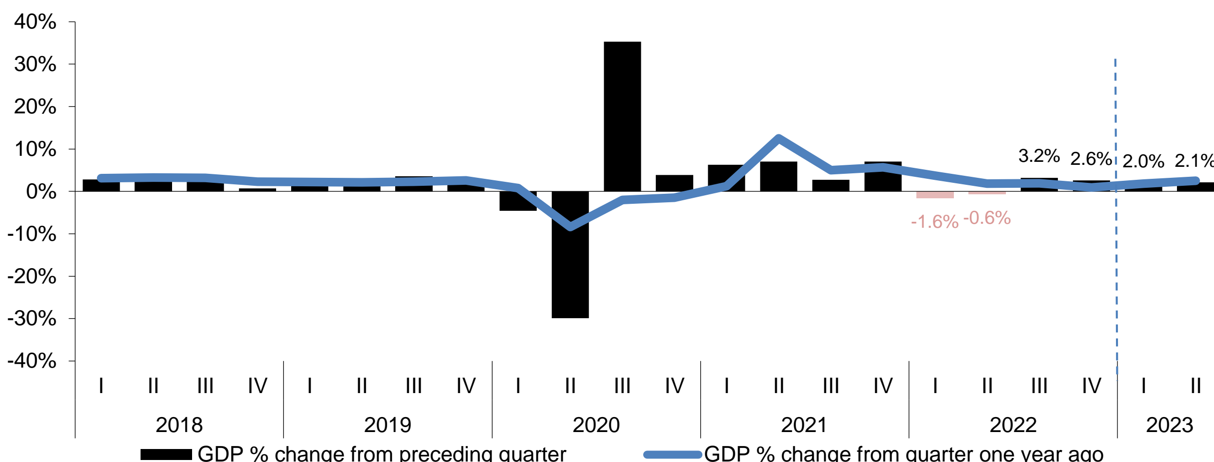


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

Real gross domestic product (GDP) increased at an annual rate of 2.1% in the second quarter of 2023 according to the second estimate released by the Bureau of Economic Analysis on 30 August 2023, the fourth consecutive quarter at or above trend growth (figure 6)

Figure 6
United States real GDP quarterly growth, first quarter 2018—second quarter 2023
(Percentage points)

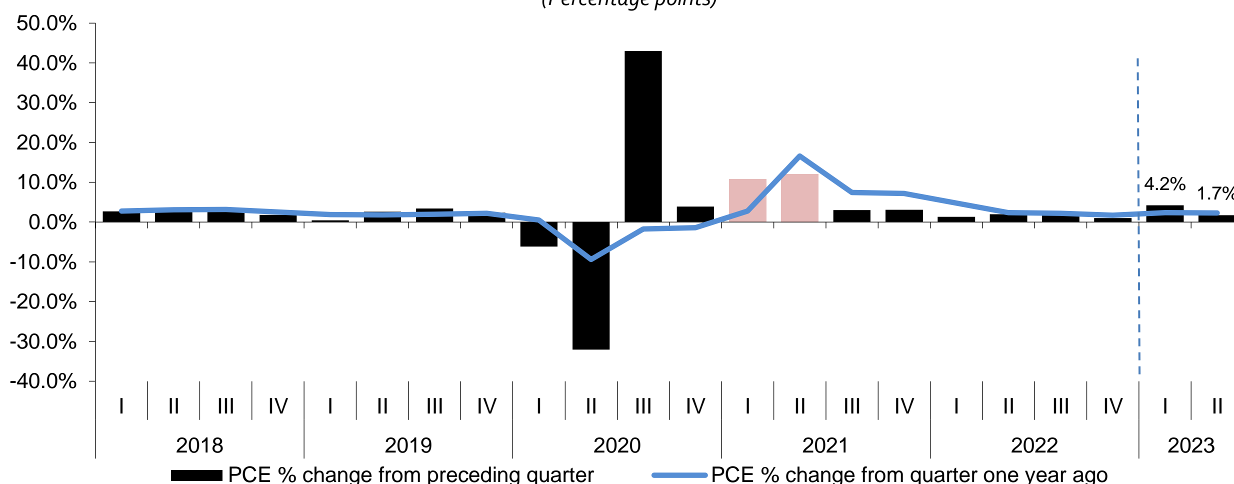


Source: ECLAC Washington Office, based on data from the Bureau of Economic analysis, U.S. Department of Commerce.

The increase in real GDP in the second quarter of 2023 primarily reflected increases in consumer spending, nonresidential fixed investment, state and local government spending, and federal government that were partly offset by decreases in exports, residential fixed investment and private inventory investment. Imports, which are a subtraction in the calculation of GDP, decreased.

Personal consumption expenditure (PCE) increased 1.7% in the second quarter of 2023, following an increase of 4.2% in the first (figure 7). As seen earlier, it was the most important source of growth in the first half of 2023.

Figure 7
United States personal consumption expenditure growth, first quarter 2018—second quarter 2023
(Percentage points)

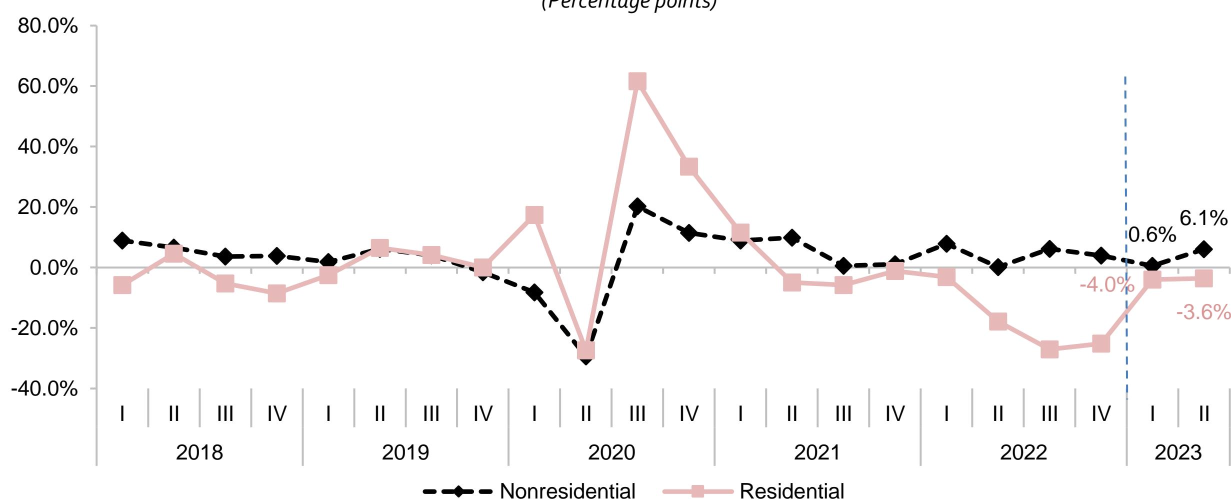


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

In the first half of 2023, consumer spending on services contributed more to economic growth than spending on goods. PCE on services contributed 1.44% and 0.99% to growth in the first and second quarters of 2023, respectively, while spending on goods contributed 1.34% and 0.15%, respectively. Overall, PCE contributed 2.79% and 1.14% to growth in the first and second quarters, respectively.

Fixed investment increased 3.9% in the second quarter, following four consecutive quarters of decline. In the first quarter, it declined 0.4%. Residential investment fell at an annual rate of 3.6% in the second quarter —the ninth consecutive quarterly decline— following a decline of 4% in the first. Non-residential investment grew 6.1% in the second quarter, following an increase of 0.6% in the first (figure 8).

Figure 8
United States fixed investment growth, first quarter 2018—second quarter 2023
(Percentage points)



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

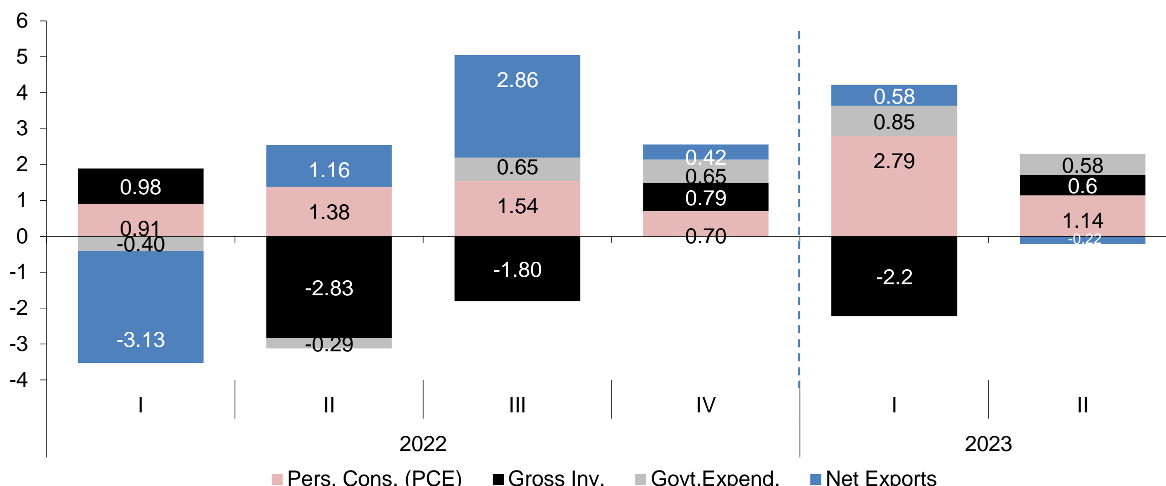
Fixed investment added 0.66% to growth in the second quarter and subtracted 0.08% from growth in the first. Residential investment subtracted 0.14% from growth in the second quarter (the second largest negative contribution to growth in the quarter) and 0.16% in the first, as rising mortgage rates continued to weigh on private residential spending. Nonresidential investment added 0.80% to growth in the second quarter and 0.08% in the first.

Change in private inventories subtracted from growth —0.09% in the second quarter and 2.14% in the first (the largest negative contribution to growth in that quarter). Gross private domestic investment added 0.57% to second quarter growth (0.66% from fixed investment minus 0.09% from change in private inventories) but subtracted 2.22% from first quarter growth (-0.08% from fixed investment and -2.14% from change in private inventories).

Government spending increased 3.2% in the second quarter, following an increase of 5% in the first. It made a positive contribution to growth in both quarters. Overall, government spending added 0.58% to growth in the second quarter and 0.85% in the first (figure 9).

Exports declined 10.6% in the second quarter, led by a fall of 16.4% in the exports of goods, which was partly offset by an increase in the exports of services (2.6%). Imports fell 7%, reflecting declines in both goods and services (7.2% and 6.2%, respectively). Net exports subtracted 0.22% from growth, the largest negative contribution to growth in the second quarter. In the first quarter, exports increased, due to an increase in the exports of goods, while imports also increased. Overall, net exports added 0.58% to growth in the first quarter.

Figure 9
Contributions to U.S. real GDP growth, first quarter 2022—second quarter 2023
(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.

U.S. economic growth has been close to the economy's potential, with real GDP advancing at just over 2% annualized during the first half of 2023. Although economic data for the third quarter have only started to be released, Moody's tracking estimate for real GDP growth so far indicates that it may be another solid quarter of growth.[4]

B. Industrial production

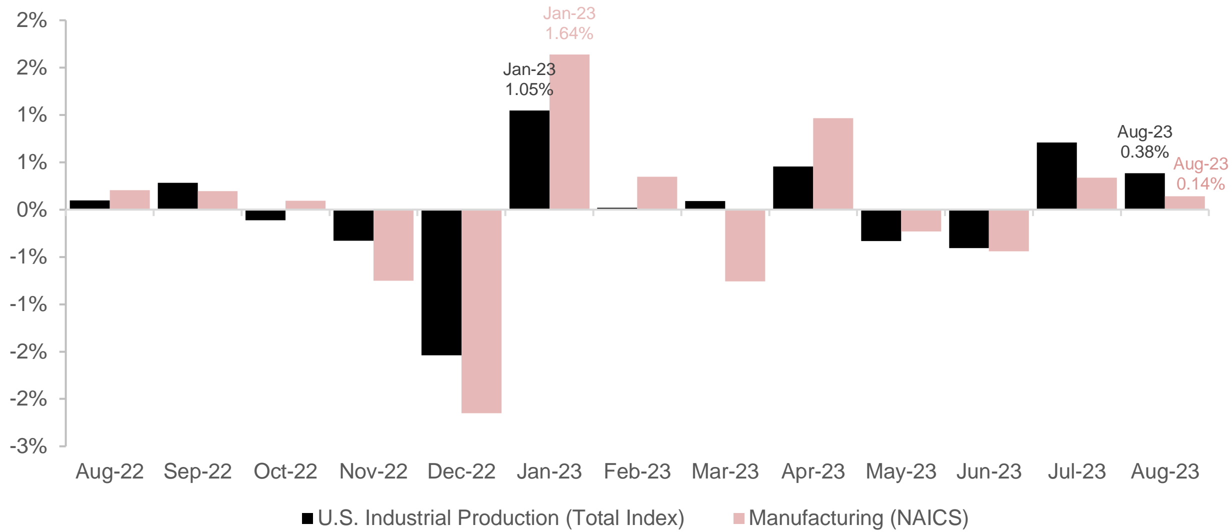
United States industrial production has grown solidly for two consecutive months. The 0.4% gain from July to August bests consensus expectations and follows a revised 0.7% gain the month before (previously 1%). Manufacturing output inched up 0.1% in August following a 0.4% gain in July (figure 10). Manufacturing output in August was lowered by a 5.0% month-on-month decline in motor vehicle output, which fully reversed the 5.1% surge in July, an increase that was mainly due to seasonal issues. Automotive production aside, manufacturing output increased by 0.6% month-on-month in August, the first gain in four months. Although manufacturing output has been holding its ground since February 2023, it remains below the peak reached in October 2022 (figure 11).

According to the August Institute of Supply Management (ISM) Manufacturing Index, manufacturing in the U.S. has contracted for ten consecutive months. At 47.6, the August headline index is 1.2 percentage points higher than July's 46.4 index value, but still below the index's neutral threshold of 50. It was, however, the highest reading in six months, a sign that overall activity growth is picking up slightly in the third quarter. The rise was driven by increases in the employment and production indices, to their highest levels since May.

According to Moody's, the pessimism among purchasing managers stands in contrast to the strength in private manufacturing construction. The U.S. Bureau of Economic Analysis estimates real investment in manufacturing structures increased 18% in the second quarter from the prior quarter, the third-largest quarterly gain on record. Over the past year, investment in manufacturing structures is up 54%.[5] Manufacturing construction put-in-place spending adjusted by the producer prices for new industrial buildings is used to estimate current-quarter manufacturing investment by the Bureau of Economic Analysis.

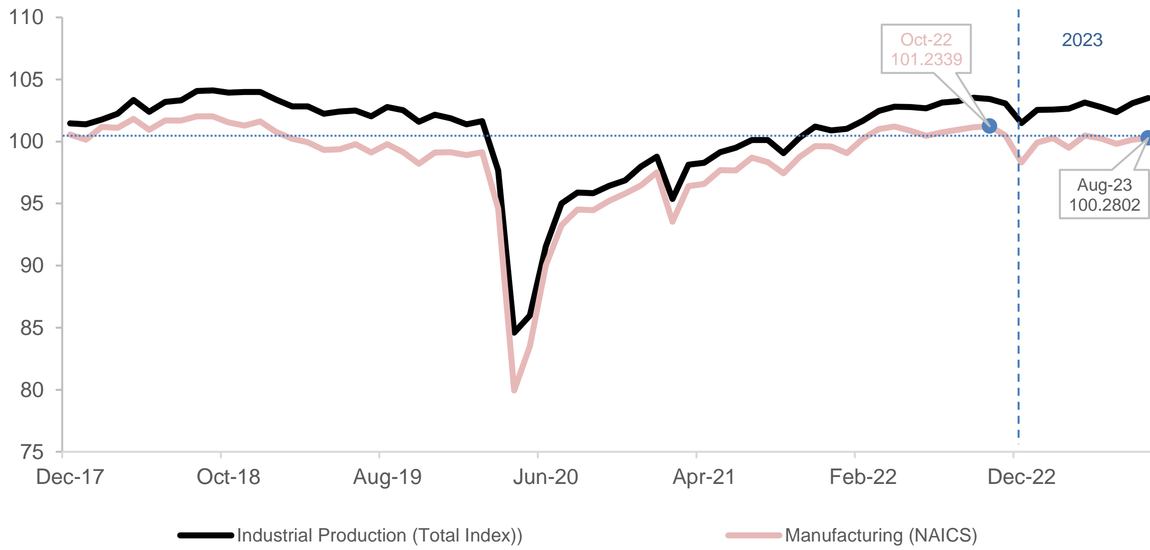
[4] Moody's, United States GDP indicator, Analysis by Scott Hoyt, 30 August 2023.
[5] Moody's, ISM Manufacturing Index, Analysis by Bernard Yaros, 01 September 2023.

Figure 10
United States industrial production and manufacturing output, August 2022—August 2023
(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).

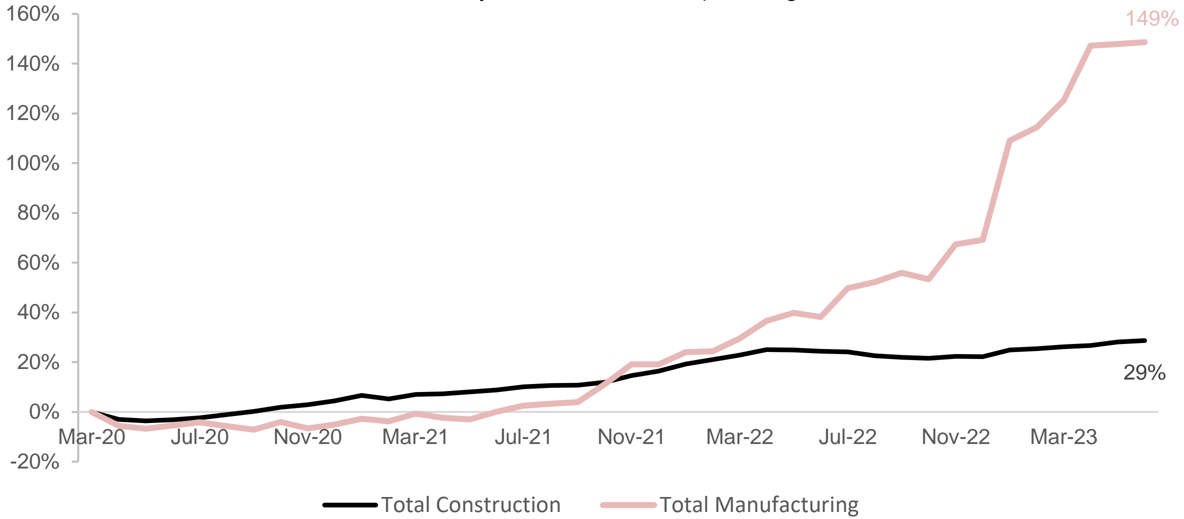
Figure 11
United States industrial production and manufacturing output, December 2017—August 2023
(Index 2017=100, Monthly, Seasonally Adjusted)



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

Increased construction activity related to manufacturing is already an ongoing, multiyear trend, with the three major pieces of legislation signed into law in the United States in the past eighteen months—the Infrastructure Investment and Jobs Act (IIJA), the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, and the Inflation Reduction Act (IRA)— providing a supportive policy environment for manufacturing construction. As of June 2023, construction spending on manufacturing was 2.5 times higher than in March 2020 (the beginning of the pandemic) in terms of amount, or 150% above the March 2020 level (figure 12).

Figure 12
United States monthly construction spending growth since the COVID-19 pandemic: March 2020—June 2023
(Monthly vs total construction, percentage)

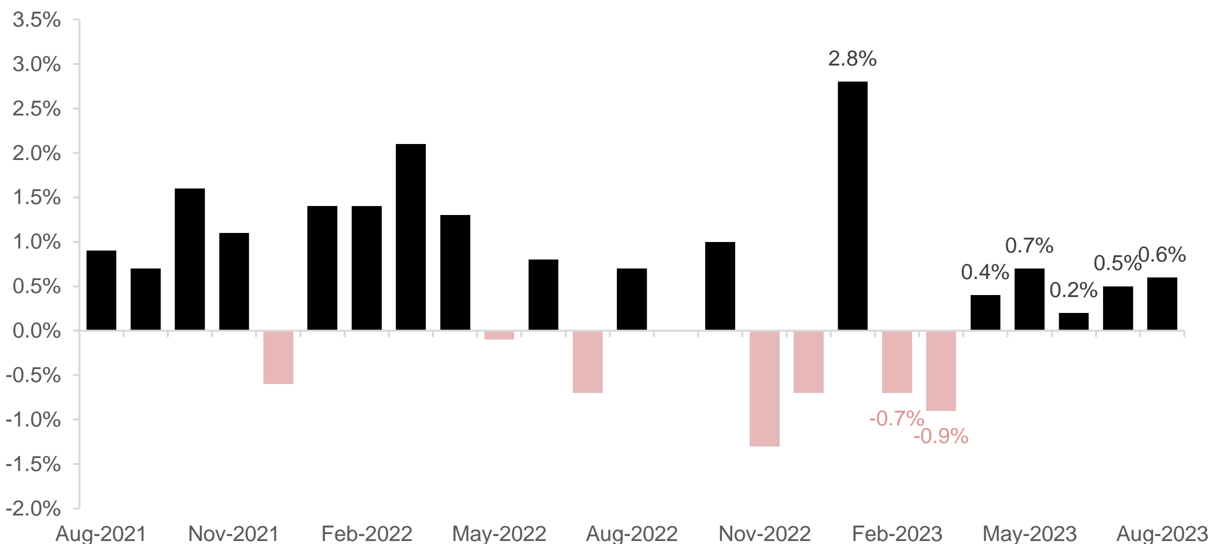


Source: United States Census Bureau, Construction Spending, Historical Value Put in Place. Monthly at a seasonally adjusted rate. Data extracted on 11 August 2023 https://www.census.gov/construction/c30/historical_data.html

C. Retail sales

Growth of retail sales, a measure of purchases at stores, restaurants and online, beat expectations in August, although the July gain was revised lower. Total sales rose 0.6%, mostly due to price-related strength in gasoline sales, after gaining 0.5% in July (0.8% before revision) and 0.2% in June (previously 0.3%) (figure 13). Core sales, excluding vehicle dealers and gasoline stations, rose a more modest 0.2%. Year-over-year growth was 2.5% compared with a revised 2.6% in July and led by restaurants, drugstores and nonstore retailers.

Figure 13
United States total retail sales, August 2021—August 2023
(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.

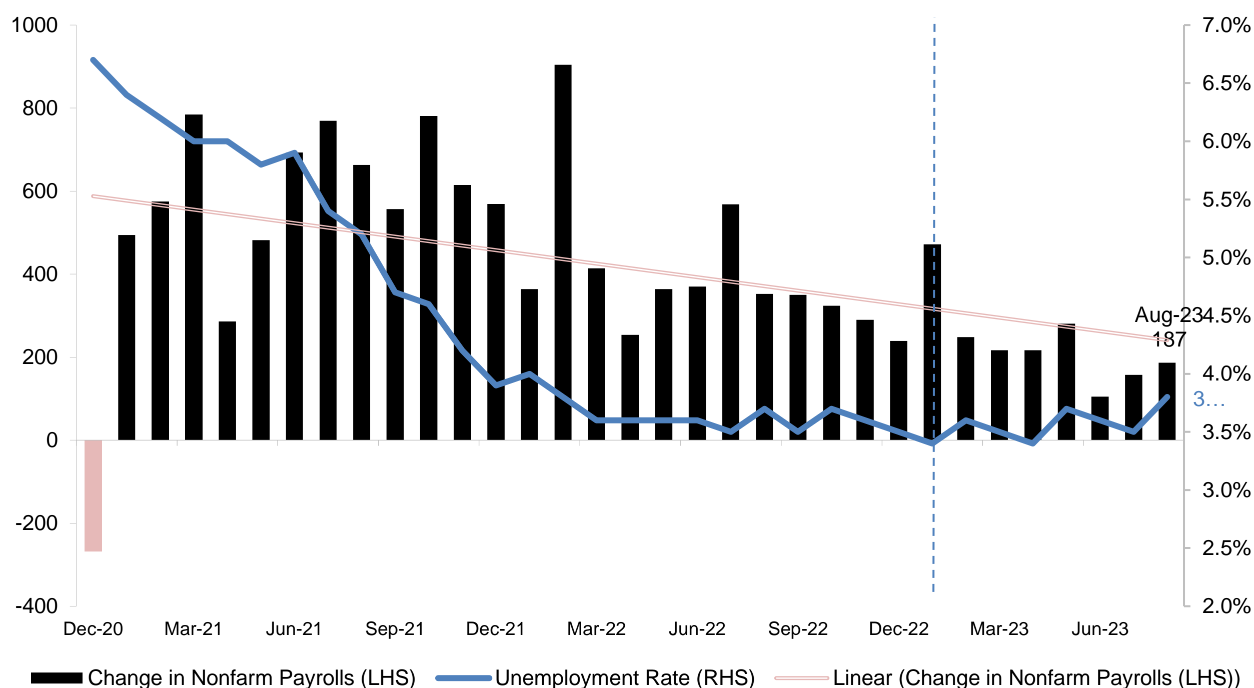
The fact that U.S consumers spent more on gasoline last month and companies faced rising costs for jet fuel and diesel fuel, offers fresh signs of stubborn inflation pressures working through the economy. Rising fuel prices pose a risk for broader consumer inflation, affecting airline fares and costs for truckers, factories, meal deliveries and other goods and services. Airfares paid by consumers, for example, rose 4.9% in August after declining earlier this summer, federal data show. Gasoline prices also have an outsize impact on consumers' expectations of future inflation.

D. Labor market

While the United States labor market remains resilient, the August 187,000 gain in non-farm payrolls and the jump in the unemployment rate to an 18-month high suggest that labor market conditions are approaching pre-pandemic norms. The U.S. economy added over 1.9 million jobs in the first eight months of 2023 on a seasonally adjusted basis, averaging 236,000 jobs per month. August 2023 was the 32nd consecutive monthly gain, even as policymakers take significant steps to cool the economy and ease inflation, but employment creation is trending lower (see linear trend in figure 14).

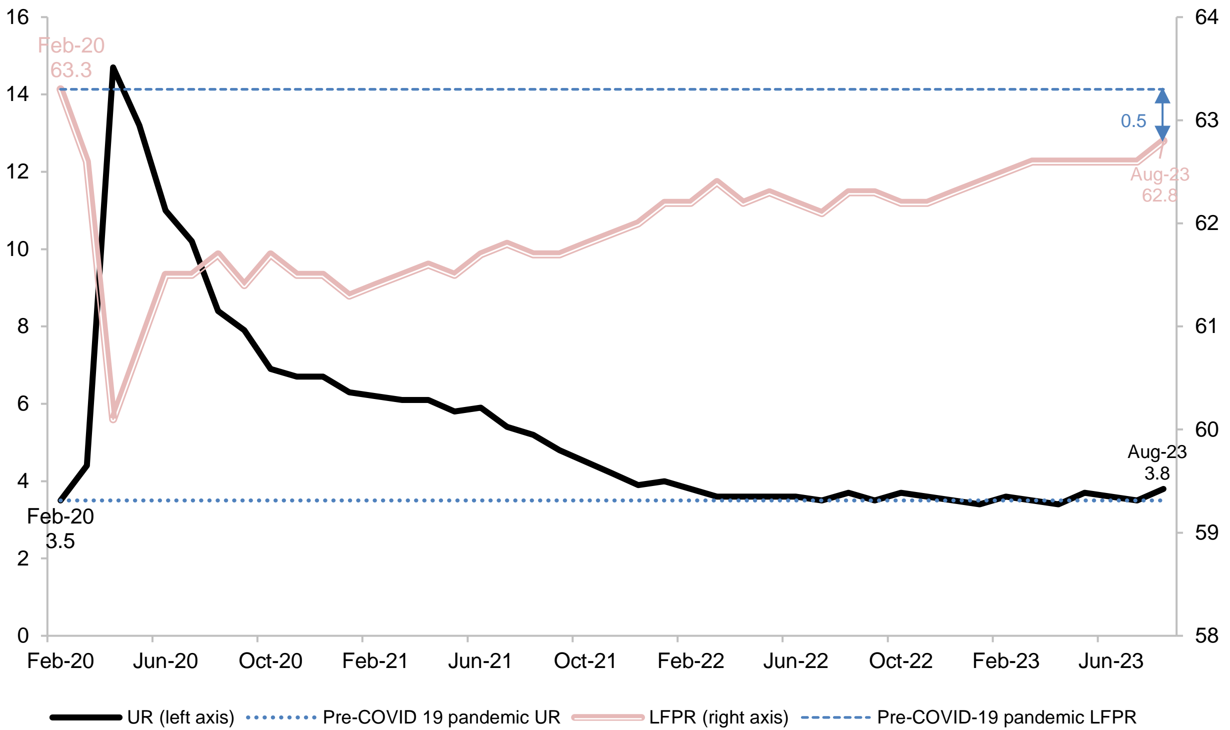
The unemployment rate, after reaching a historic low of 3.4% —the lowest rate since 1969— in January and April, jumped to 3.8% in August from 3.5% in July, though the surge was partly because of an outsize gain in the labor force. The labor force participation rate jumped to 62.8%, the highest rate since February 2020 and the first increase since early this year (figure 15). According to the Bureau of Labor Statistics, despite gradual recovery, the labor force participation rate (LFPR) in August 2023 remained a half percentage point lower than that of February 2020. While the labor-force participation rate has edged up in recent months, wage growth has slowed, both signs of a looser labor market. Over the past year, hourly earnings were up 4.3%, down from a peak of 5.9% in March 2022 and the lowest increase since June 2021 (figure 16).

Figure 14
United States monthly job creation and unemployment rate, December 2020—August 2023
(Average monthly job growth in thousands (left axis); Percentage (right axis)



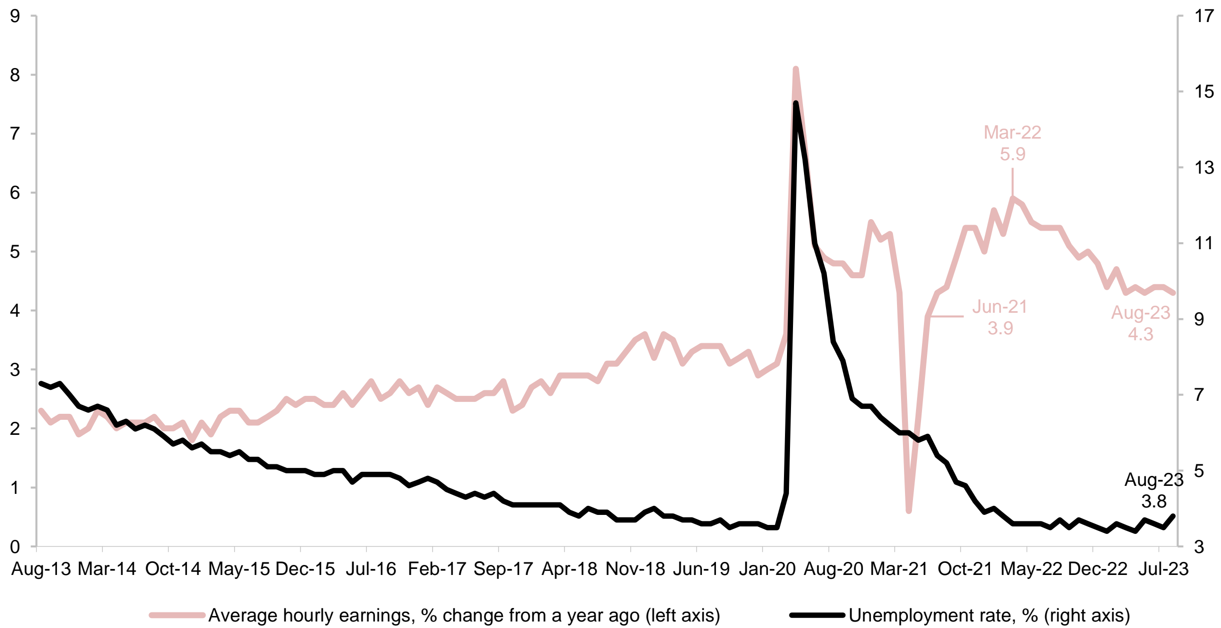
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Figure 15
United States labor force participation share, February 2020—August 2023
(Percentage)



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

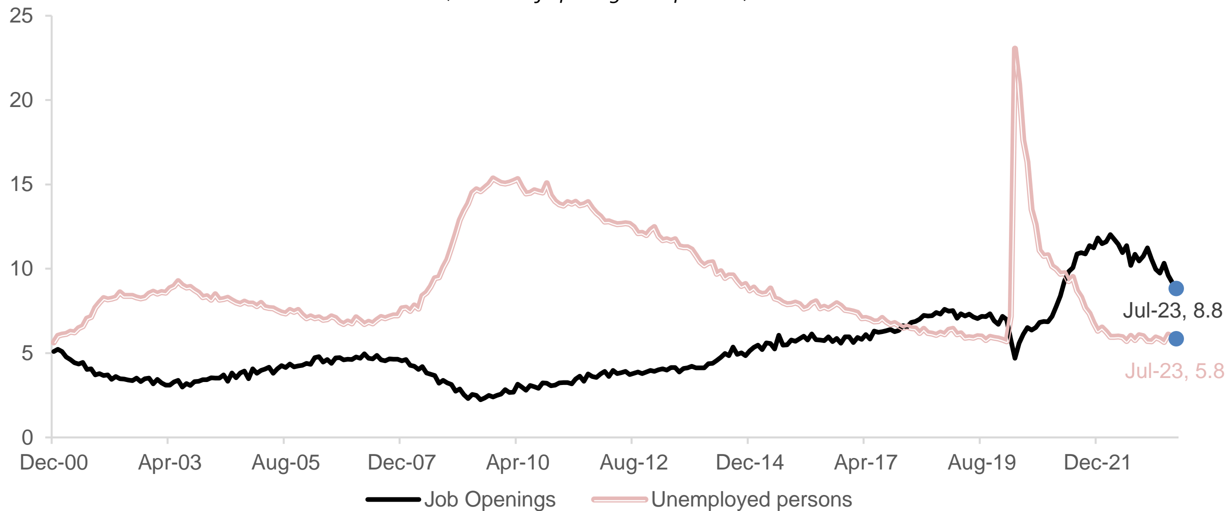
Figure 16
United States average hourly earnings and unemployment rate, August 2013—August 2023
(Percentage)



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

Despite the resilience in wages and solid job gains so far this year, labor market conditions are easing gradually. According to the latest Job Openings and Labor Turnover Survey (JOLTS) released on 29 August 2023, job openings fell to 8.8 million in July, the lowest figure since March 2021, in a sign that the Federal Reserve's efforts to slow the labor market may be having some impact. Job openings in August still far outnumbered the 5.8 million unemployed people seeking work, indicating the labor market remained tight (figure 17).

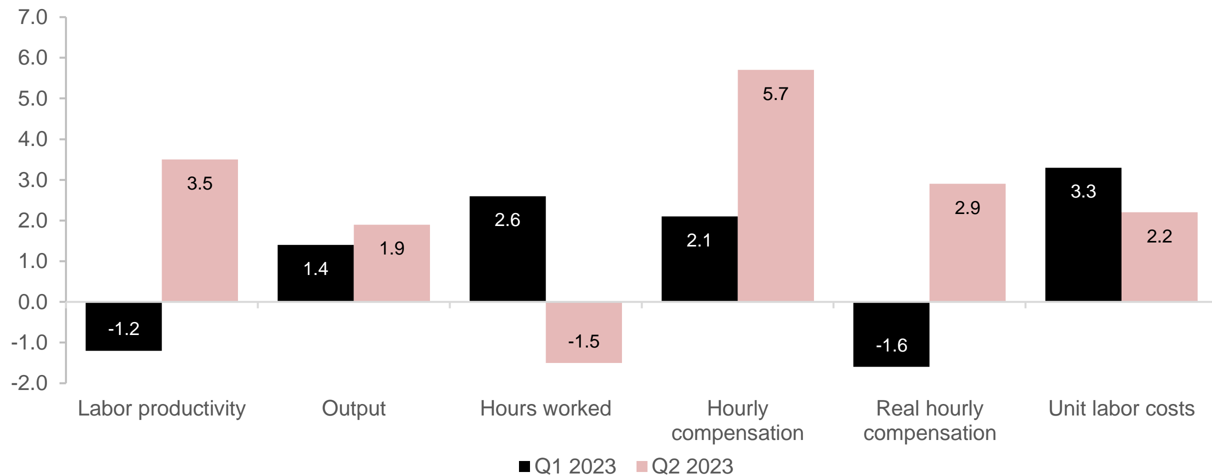
Figure 17
United States job openings vs number of unemployment persons: December 2000—July 2023
(Millions of openings and persons)



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.

Improved labor productivity gains have contributed to the resilience in the U.S. economy. The 3.5% annualized climb in U.S. labor productivity in the second quarter of 2023 is the strongest rate since the early recovery from the COVID-19 pandemic. While real GDP is the product of labor hours worked and labor productivity, labor hours worked have continued to decline as job growth slows (figure 18). On the inflation front, strong productivity growth means fewer wage increases are passed through to consumer prices.

Figure 18
United States productivity and costs: first and second quarters of 2023
(Percent change from previous quarter at seasonally adjusted annual rates)



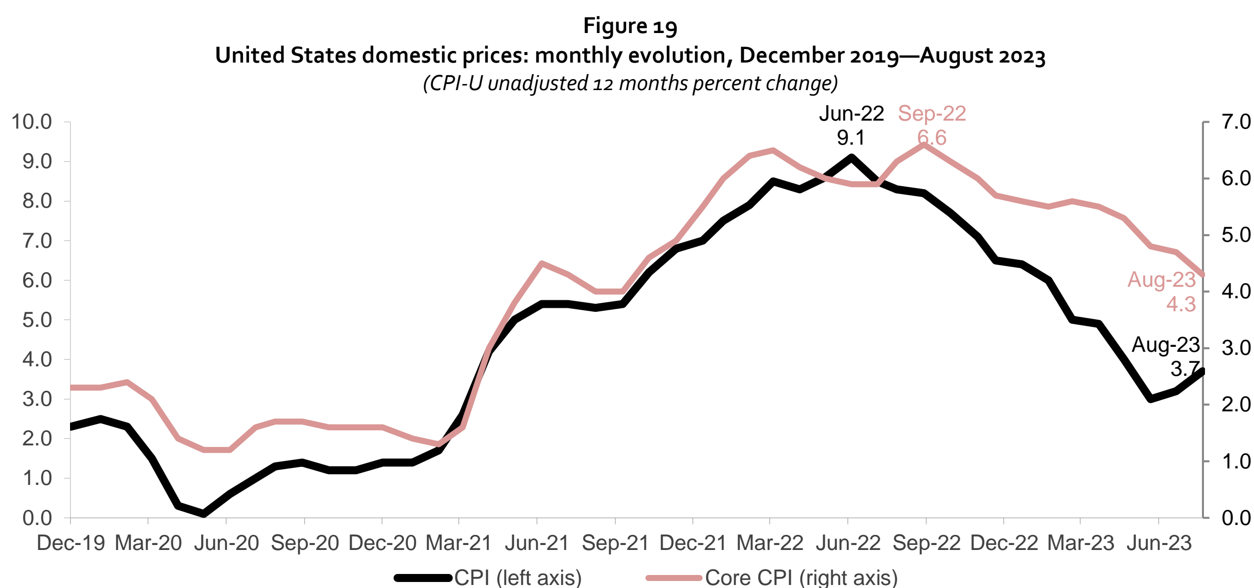
Source: U.S. Bureau of Labor Statistics.

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 3.7% in August 2023 at an annualized rate, up from 3.2% in July and 3% in June, the lowest headline inflation number since March 2021. Headline inflation in August was primarily driven by a 10.6% surge in gasoline prices, up from 0.2% in July. A continued rise in oil prices will keep the pressure on September headline inflation, but future prices suggest that the rise is unlikely to persist.

Prices excluding food and energy, the core CPI, rose 4.3% at an annualized rate in August 2023, down from a peak of 6.6% in September 2022 and the smallest 12-month increase in two years (figure 19). Looking forward, it is possible that softer economic growth and a continued normalization in the labor market may contribute to drive a sharper fall in core inflation over the next 12 months than expected.

Figure 19
United States domestic prices: monthly evolution, December 2019—August 2023
(CPI-U unadjusted 12 months percent change)



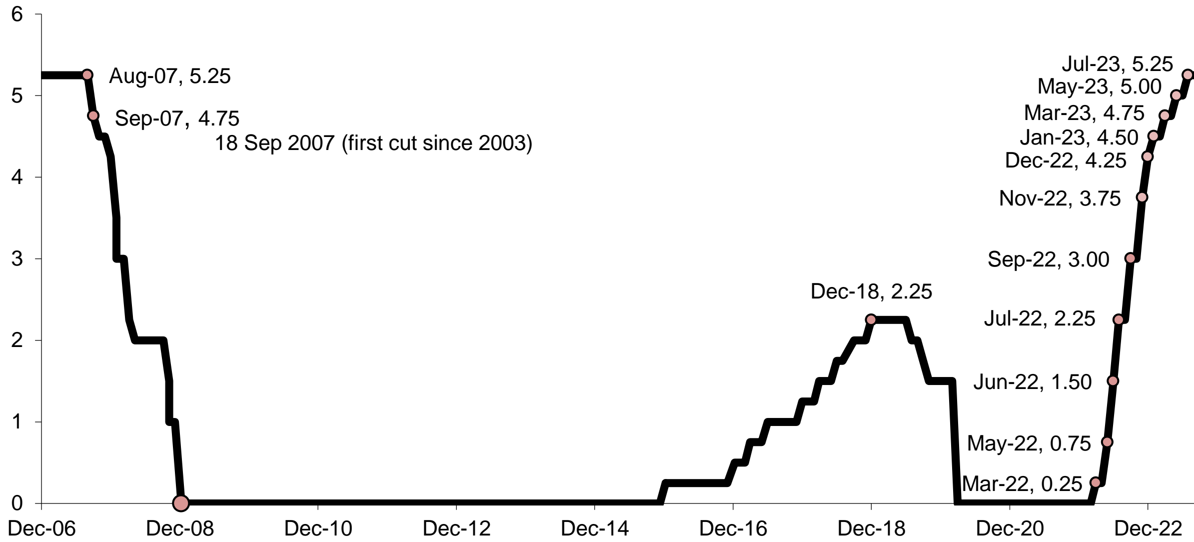
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics

F. Monetary policy

The August inflation numbers did not change the Federal Reserve's plans to hold interest rates unchanged at its Federal Open Market Committee (FOMC) September meeting. In an expected move, the FOMC voted unanimously to hold the federal funds rate's target range at 5.25%-5.50%, a 22-year high. As the previous section showed, inflation has trended downward steadily, allowing the committee to step back and evaluate the economy's reaction to its post-pandemic tightening. The Federal Reserve raised interest rates four times since January 2023. There were quarter-point interest rate increases in January, March, May and July 2023. The September pause was the second this year, the first pause taking place at the June meeting (figure 20).

There were changes to the FOMC's forecasts in September's Summary of Economic Projections. Real GDP growth for 2023 was raised to 2.1% from 1% in June's projections. Projections for 2024 growth were also raised to 1.5% from 1.1%. The median estimate for the unemployment rate in 2023 was lowered to 3.8% from 4.1%, and to 4.1% from 4.5% in 2024 (see table 2, p.11). The reacceleration of the U.S. economy over the summer months —evidenced by a steady flow of strong consumer, GDP and labor market data— drove the improved outlook. The median estimate for the federal funds rate in 2023 was unchanged, although for 2024 it was raised to 5.1% from 4.6%., pushing back the timeline for the committee's first rate cut.

Figure 20
U.S. federal funds target rate, December 2006—September 2023
(Percentage)



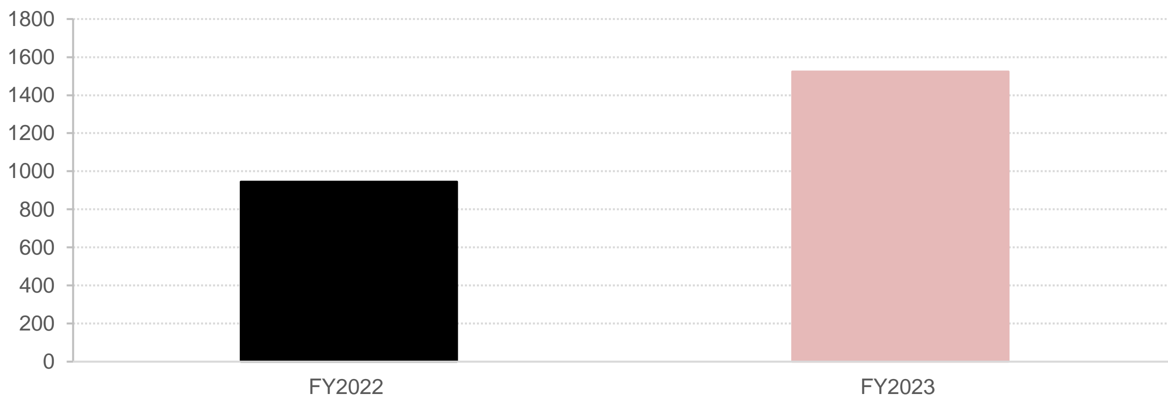
Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve. Rates in the chart are the bottom limit of the target range for the federal funds rate.

In his post-meeting press conference, Federal Reserve Chair Jerome Powell kept the door open for future hikes, with the projections showing that 12 of the 19 FOMC officials support another rate rise this year and fewer cuts in 2024. In their statement, the committee said it remained "highly attentive to inflation risks", noting that economic activity had been expanding at a "solid pace" and the jobs gains, while slower, were "strong". The FOMC meets again on 31 October—1 November, and in mid-December.

G. Fiscal policy

The United States federal deficit more than doubled in the first eleven months of the fiscal year that started on 1 October 2022 compared with the same period last year. The cumulative deficit came to US$ 1.5 trillion in the period, up US$ 578 billion, or 61%, from the comparable period of fiscal 2022 (figure 21).

Figure 21
United States federal deficit through first 11 months of fiscal year, FY2002—FY2022
(Trillions of Dollars)



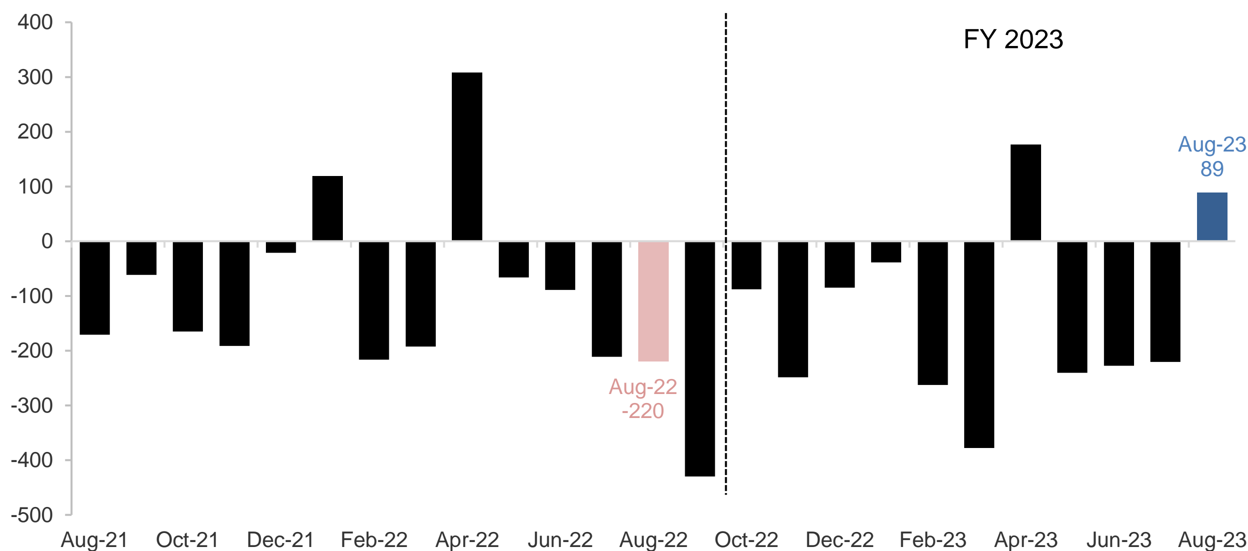
Source: ECLAC Washington Office, based on data from the U.S. Treasury Departments and FRED Graph Observations, Federal Reserve Bank of St. Louis.

While such a surge typically could be expected to stimulate growth and, in turn, inflation, inflation has steadily dropped over the same period, as seen in section E. The reason lies in what drove the deficit this year. Often, when the gap widens, it is because the U.S. Congress has cut taxes or approved a big spending package, as it did during the heights of the COVID-19 pandemic in 2020 and 2021, and that kind of direct support stimulates the economy. This year, though, among the causes of the growing deficit is a steep drop in tax revenue paid quarterly or through annual tax returns, rather than taxes withheld by employers. So-called nonwithheld tax revenue is down US$ 278 billion, or 26%, so far this year.

After financial markets soared in 2021, the government brought in a record-breaking tax haul in 2022 as taxpayers reported their realized gains. Net capital gains among U.S. taxpayers increased by 67% to roughly US$ 2 trillion in 2021, according to IRS data. This year, after financial markets slumped in 2022, revenue from capital-gains taxes has tumbled. On the other hand, the largest spending increase has been in paying interest on old debt. Government spending on interest on the debt has risen by US$ 136 billion, or 23%, as higher interest rates increase the cost of borrowing. Neither lower capital-gains tax receipts nor higher debt payments feed directly back into the economy in the short term.[6]

In August 2023, the latest monthly data available, the U.S. government posted a US$ 89 billion budget surplus, compared to a deficit of US$ 220 billion in August 2022 (figure 22). This is the first surplus on record for the month of August. The Supreme Court's decision to strike down the Biden Administration's student loan forgiveness plan led to a large, one-time decrease of approximately US$ 330 billion in outlays for the Department of Education. Without that reduction, spending would have been about the same in August 2023 as in August 2022. [7]

Figure 22
United States federal surplus or deficit [-], August 2021—August 2023
(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.

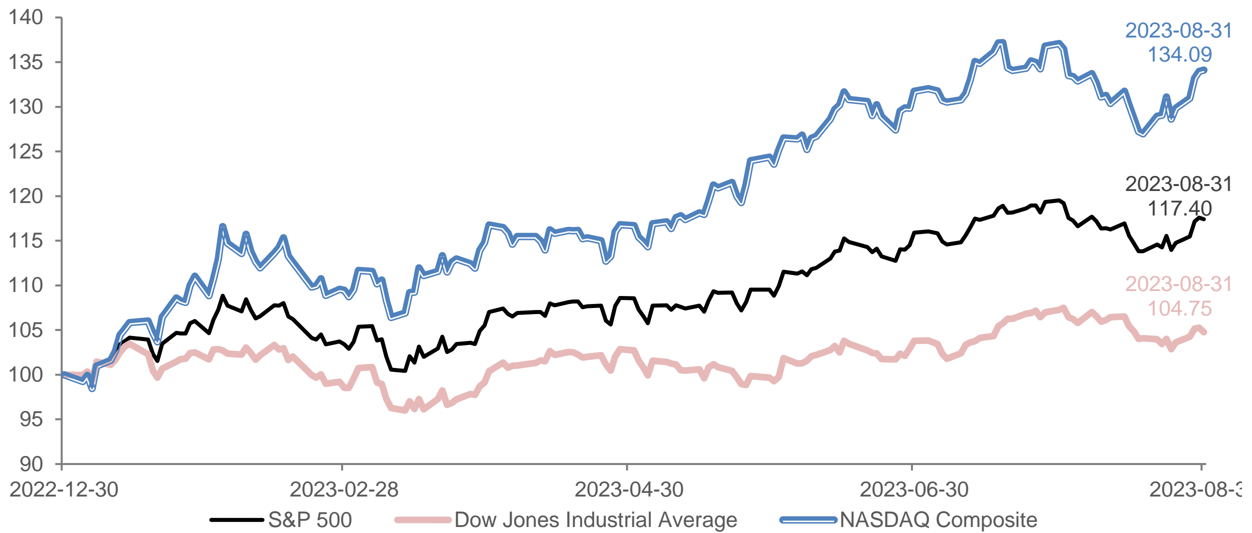
[6] See Andrew Duehren, "Do Higher Deficits Cause Inflation? Not This Year", *The Wall Street Journal*, 3 September 2023 [online] https://www.wsj.com/economy/central-banking/do-higher-deficits-cause-inflation-not-this-year-1177e15d?mod=Searchresults_pos2&page=1.

[7] Bipartisan Policy Center Deficit Tracker, 13 September 2023, [online] https://bipartisanpolicy.org/report/deficit-tracker/#:~:text=Tracking%20the%20Federal%20Deficit%3A%20August,by%20%24330%20billion%20(63%25).

H. Financial conditions

Despite monetary policy tightening, United States stocks have performed well in the first eight month of 2023, with the largest gains in tech stocks, from cloud computing to generative AI. The S&P 500 index gained 17%, the Dow Jones Industrial Average 5%, and the NASDAQ composite 34% in the period (figure 23).

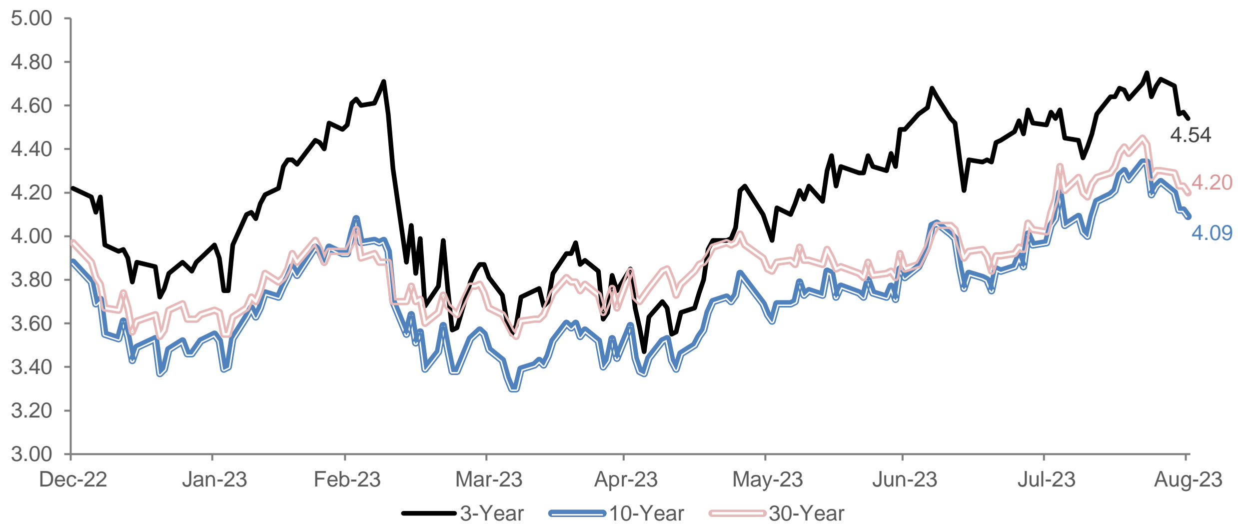
Figure 23
U.S. stock market indices, December 2022—August 2023
(Daily, not seasonally adjusted; 31 December 2022=100)



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

In the U.S. Treasury market, the 3-year, 10-year and 30-year Treasury yields were at 4.54%, 4.09% and 4.20%, respectively, at the end of August (figure 24).

Figure 24
U.S. Treasury security yields, December 2022—August 2023
(Constant maturities; daily yields)



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

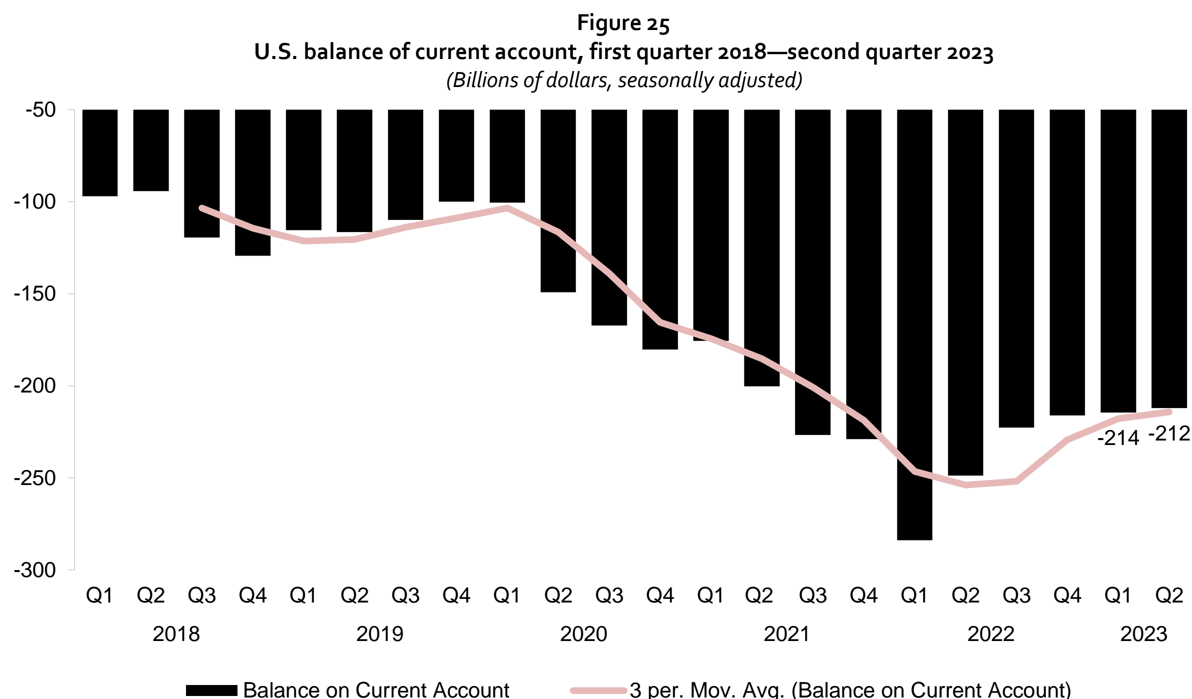
The Treasury yield curve started to flash a recession signal in mid-2022, with the 10-year yield below the rate on three-month Treasury notes, which has persisted in 2023 so far. What's known as an "inverted yield curve" occurs when some shorter-term government debt securities offer higher yields than those of longer-term bonds. History suggests that a yield curve inversion is a warning signal for the U.S. economy, potentially the precursor to a recession. However, the U.S. economy has maintained a slow but steady growth rate.

Those conflicting signals bear watching. Recession expectations were fueled in part by the Fed's continued short-term interest rate hikes. According to Capital Economics, a possible explanation may be the prevalence of fixed-rate debt in the U.S. economy, which helps explain why the rise in in interest rates over the past two years has not yet had a significant impact on debt servicing costs. On the other hand, the rise of fixed-term debt implies that the Fed may eventually need to cut rates more aggressively if it wants to support the economy further ahead.[8]

I. External sector

The U.S. current account deficit, which reflects the combined balances on trade in goods and services and income flows between U.S. residents and residents of other countries, fell to US$ 212.1 billion in the second quarter, narrowing by US$ 2.4 billion (1.1%) from a revised US$ 214.5 billion in the first quarter (figure 25). As a share of the economy, the deficit in the second quarter stood at 3.2% of GDP. The narrowing of the current account deficit resulted from a combination of rising surpluses in services trade and net primary income receipts, while the deficit in goods trade increased by a nearly similar amount.

Figure 25
U.S. balance of current account, first quarter 2018—second quarter 2023
(Billions of dollars, seasonally adjusted)

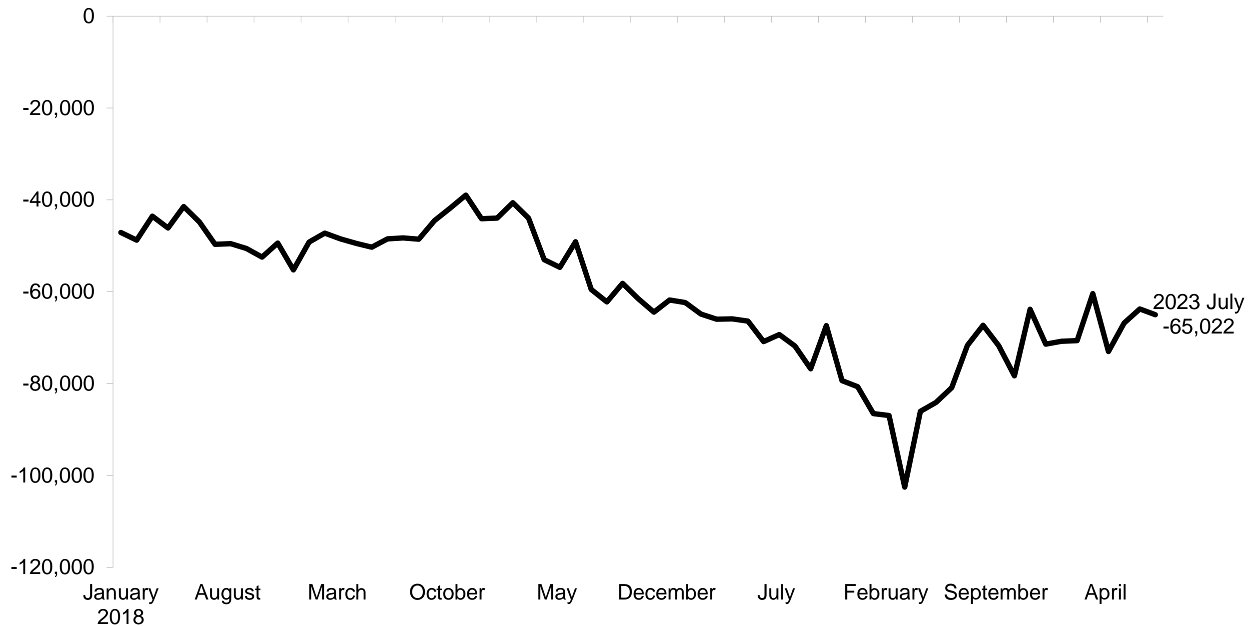


Source: U.S. Bureau of Economic Analysis, U.S. International Transactions, 4th Quarter and Year 2022, 23 March 2022.

[8] See "Fixed-rate debt blunting impact of Fed hikes", US Economics Update, Analysis by Andrew Hunter, *Capital Economics*, 20 September 2023.

In July 2023, latest data available, the U.S. trade deficit in goods and services grew to US$ 65.0 billion from US$ 63.7 billion in June, according to data released on 6 September by the Bureau of Economic Analysis, as imports rose by more than exports (figure 26).

Figure 26
United States balance on goods and services trade, January 2016—February 2023
(Millions of dollars, months seasonally adjusted)



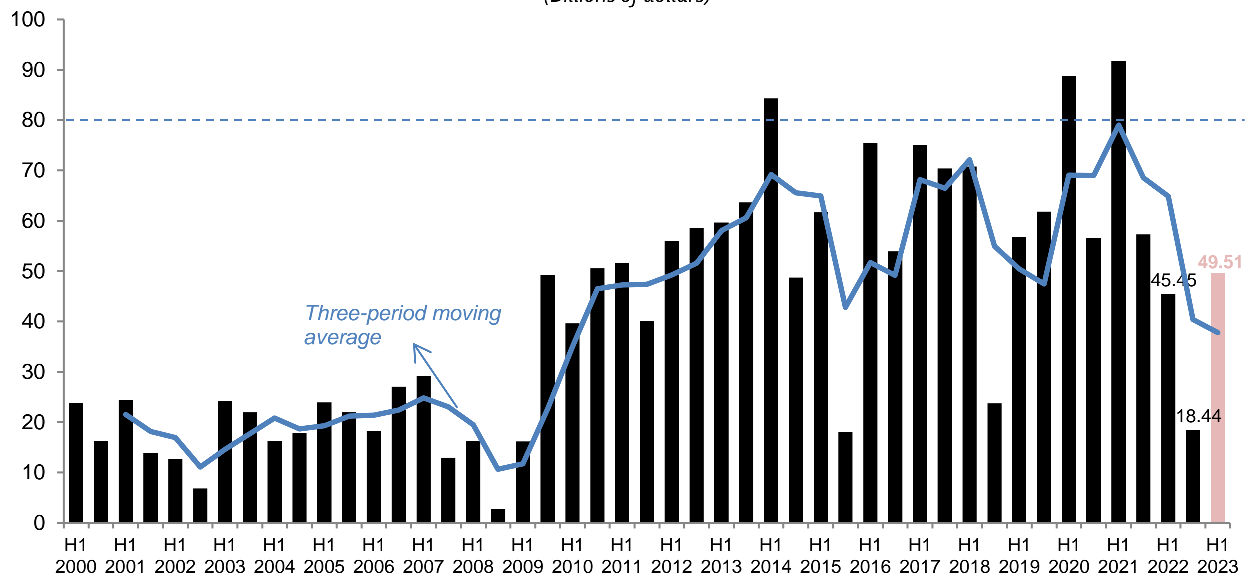
Source: U.S. Census Bureau and the Bureau of Economic Analysis, U.S. Commerce Department.

A US$ 2 billion increase in the net deficit in goods trade was partly offset by a US$ 700 million increase in the surplus in services, as U.S. service exports climbed but imports stayed flat in July. On the whole, both imports and exports were driven by a continued strong expansion of two-way trade in automotive products, despite softening commodity prices that have lowered valuations for many agricultural and industrial supplies over the year. Signs point to net trade resuming its positive contribution to U.S. economic growth in the third quarter after subtracting 0.22% from second quarter growth.

II. Impact on Latin American and Caribbean financial conditions

Latin American and Caribbean (LAC) bond issuers placed US$ 49.5 billion in international bond markets in the first half of 2023, with an average coupon that was 0.3% higher and an average maturity that was almost two years greater than in the second half of 2022. This total was 9% higher than in the first half of 2022 and 158% higher than in the second (figure 27). The U.S. Federal Reserve hitting pause on its benchmark interest rate at its 13-14 June meeting, after hiking ten times in a row, may have been a contributing factor to the flurry of new LAC bond issuances in the last two weeks of June. Despite the rebound, global financial conditions remain challenging for the region's sovereign and corporate issuers due to higher borrowing costs and tighter lending conditions, adding to their domestic challenges.

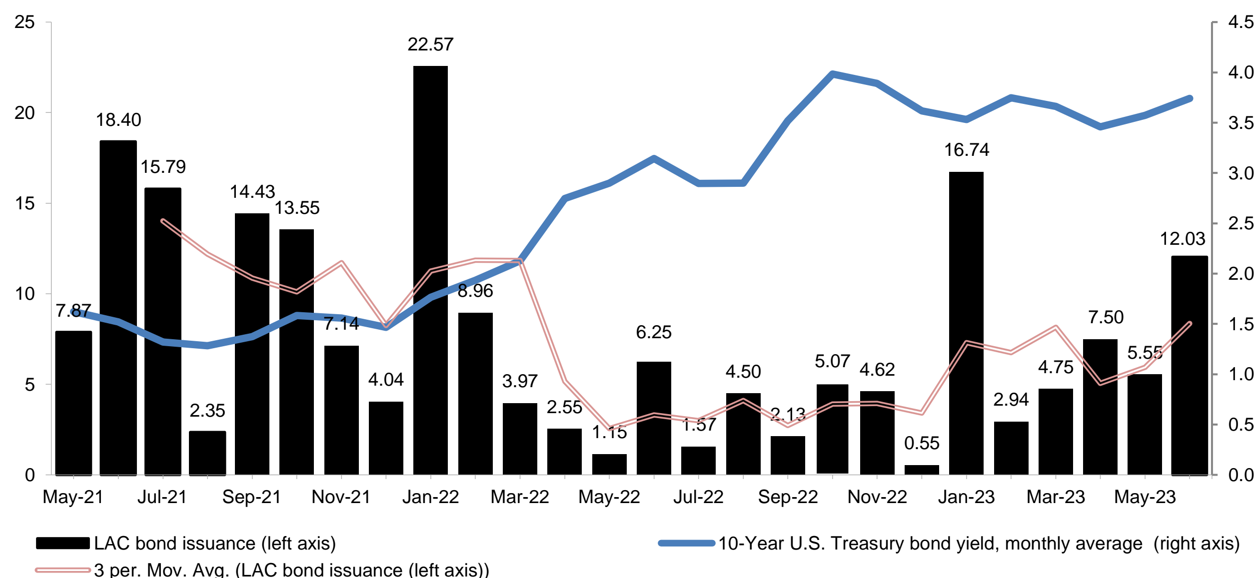
Figure 27
Semi-annual LAC international bond issuance, first half 2000–first half 2023
(Billions of dollars)



Source: ECLAC, Capital flows to Latin America and the Caribbean: first half of 2023 (LC/WAS/TS.2023/3), Santiago, 2023 <online> https://www.cepal.org/en/publications/49048-capital-flows-latin-america-and-caribbean-first-half-2023

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% in August. The yield on this government bond benchmark 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, and lower international debt issuance (figure 28).

Figure 28
LAC international bond issuance and 10-year U.S. Treasury yield, December 2020—June 2023
(Left axis, billions of dollars; Right axis, percentage)



Source: ECLAC, Capital flows to Latin America and the Caribbean: first half of 2023 (LC/WAS/TS.2023/3), Santiago, 2023 <online> https://www.cepal.org/en/publications/49048-capital-flows-latin-america-and-caribbean-first-half-2023

Despite declines in the United States inflation rate, the U.S. economy is likely to continue its contractive monetary policy as the economy continues to show strength. The September projections released by the Federal Reserve show that 12 of the 19 Fed officials support another rate rise this year and fewer cuts in 2024, which means no significant cut to external interest rates is expected this year, thus financing costs for LAC countries will likely remain high.

III. Looking ahead

The United States economy showed resilience in the first half of 2023. The labor market remained strong —1.9 million jobs were added in the first eight months of 2023 and August marked the 32nd consecutive month of job gains— but it is gradually cooling down. The unemployment rate jumped to 3.8% in August from 3.5% in July, although it remains historically low and part of the jump was due to an increase in the labor force participation rate, which is a positive development.

Inflation is also gradually decelerating. The economy seems to have overcome supply chain disruptions and the aggressive tightening in monetary policy over the past year and a half has contributed towards reducing excess demand. While inflation started in goods affected by supply chain issues, as supply chain pressures eased, the prices of services rose. According to data from the Bureau of Labor Statistics, for the 12 months ended in August 2023, core service prices were up 5.9% (down from a peak of 7.3% in February 2023) while core goods prices rose only 0.2% the same month, down from a peak of 12.3% in February 2022.

The Federal Reserve seems to be approaching the end of its monetary tightening cycle. Although policy uncertainty persists, and there is a possibility that there will be one more interest rate this year, economic forecasters do not anticipate a series of rate hikes. The September projections released by the Federal Reserve show that 12 of the 19 Fed officials support another rate rise this year and fewer cuts in 2024, which means no significant cut to external interest rates is expected this year. This has an impact on the financing costs for Latin American and Caribbean countries, which will likely remain high. Higher borrowing costs will keep the lid on new international debt issuances from the region.

Optimism for a U.S. soft landing is on the rise, but it is unclear when a consensus will emerge that a soft landing has happened. Some suggest focusing on inflation, when it is definitely contained, others on when the Federal Reserve starts normalizing (cutting) interest rates. Looking forward, some economic indicators other than labor market and inflation data may be relevant to inform towards what kind of landing —soft or hard— the U.S. economy is heading. Indicators such as consumer confidence, as a recession tend to follow when this measure falls by more than 20% in the prior three months, unemployment insurance claims, which indicate that layoffs are on the rise and with them the risk of a recession, or corporate high-yield bond spreads, as spreads higher than 7.5% are consistent with a recession, can also be helpful in informing where the U.S. economy is headed. So far, none of these indicators are flashing warning signals. Risks of a hard landing remain, however, and uncertainty is high. Student loan distress, a government shutdown and strikes, as well as oil production cuts and a jump in oil prices are among the downside risks to the economic outlook.

The United States economy expanded by 2.0% and 2.1% in the first and second quarters of 2023, respectively, driven mainly by consumer spending in the first half of the year. The second quarter marked the fourth consecutive quarter of growth near or above the economy's potential. Labour market growth remained solid, with 1.9 million jobs added in the first eight months of 2023, but is moderating. Inflation is also gradually decelerating. Despite interest rate hikes in 2022 and in the first half of 2023, the United States economy —supported by a strong job market and retreating inflation— remains resilient, fuelling optimism for a soft landing.

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.

Economic Commission for Latin America and the Caribbean (ECLAC)
Comisión Económica para América Latina y el Caribe (CEPAL)
www.eclac.org