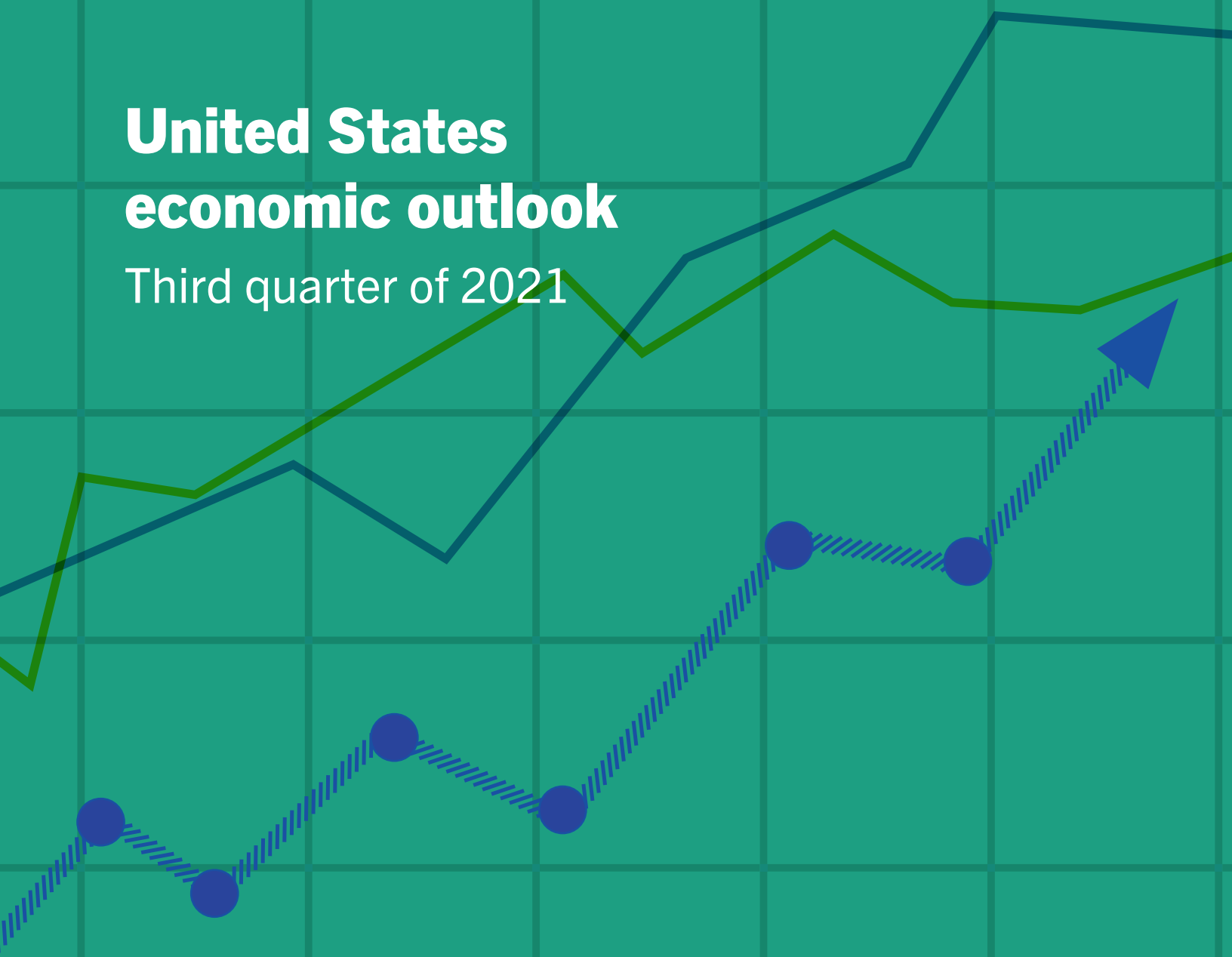


United States economic outlook

Third quarter of 2021



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Highlights

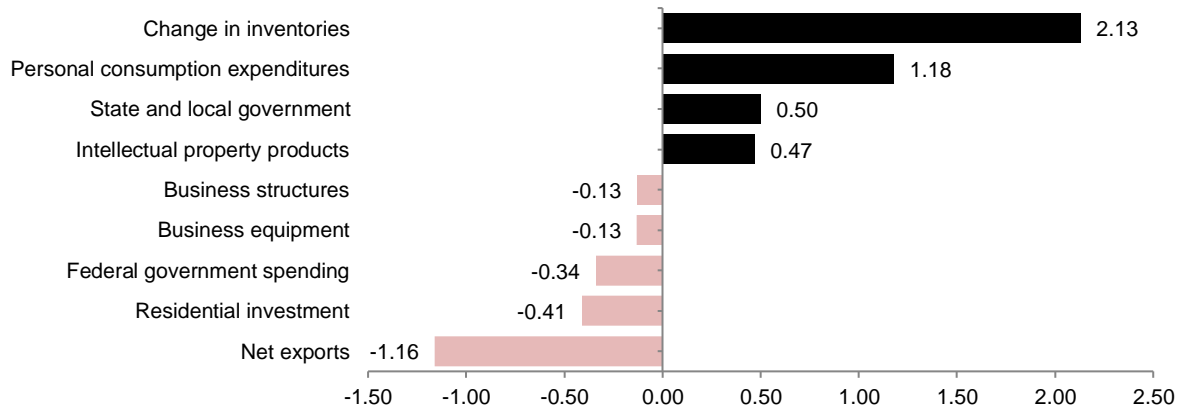
- *Economic growth in the United States slowed to a 2.1% annual rate in the third quarter of 2021, from a 6.7% annual rate in the second.* Consumer spending in the third quarter rose at its slowest pace since the recovery began, as durable goods spending fell sharply.
- *Multiple factors contributed to the slowdown in growth.* These included fading federal stimulus spending, a new wave of COVID-19 infections caused by the Delta variant, and supply shortages, which contributed to rising prices.
- *Inflationary pressures increased in the third quarter, as well as in October and November.* The Consumer Price Index (CPI) rose 6.8% in November from the same month a year ago, the sixth straight month in which inflation topped 5%, and the fastest pace since 1982. The CPI is being boosted by a rise in energy prices and by supply-chain disruptions, as well as by strong demand.
- *The labor market averaged 651,000 new jobs per month in the third quarter. In November, the latest data available, the pace of hiring slowed but the labor force increased.* The 210,000 nonfarm employment gain in November was significantly below expectations, but the labor force rose by a strong 594,000 and the unemployment rate fell to 4.2%, from 4.6% in October.
- *The monetary policy stance has shifted towards removing policy accommodation at a faster pace.* The policy statement after the Federal Reserve' last meeting of the year, which ended on 15 December, dropped language describing inflation as largely transitory and announced the decision to double the speed of tapering.
- *A shift in fiscal policy response away from emergency measures and in favor of long-term changes to the safety net is underway.* The United States Infrastructure Investment and Jobs Act (IIJA) was signed into law on 13 November 2021, delivering the first piece of President Biden's "Build Back Better" economic agenda.
- *The COVID-19 pandemic continues to be a major risk to the outlook, with the emergence of the Omicron variant and the continued spread of Delta threatening the economic expansion.*

Overview

The rebound in the United States economic activity in the third quarter slowed considerably – to 2.1% from 6.7% in the second quarter – as a new wave of COVID-19 infections caused by the Delta variant, the waning fiscal stimulus, and supply shortages, particularly of motor vehicles, triggered a marked slowdown in consumption growth.

Consumer spending rose at its slowest pace since the recovery began, as durable goods spending fell sharply. According to the United States Bureau of Economic Analysis, the decrease in spending on durable goods in the third quarter largely reflected falling purchases of automobiles and parts because of shortages of semiconductors and other supplies. After contributing 7.92 percentage points to growth in the second quarter, consumer spending contributed only 1.18 percentage points to growth in the third (chart 1).

CHART 1:
CONTRIBUTIONS TO U.S. GROWTH: Q3 2021
(Percentage points)



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

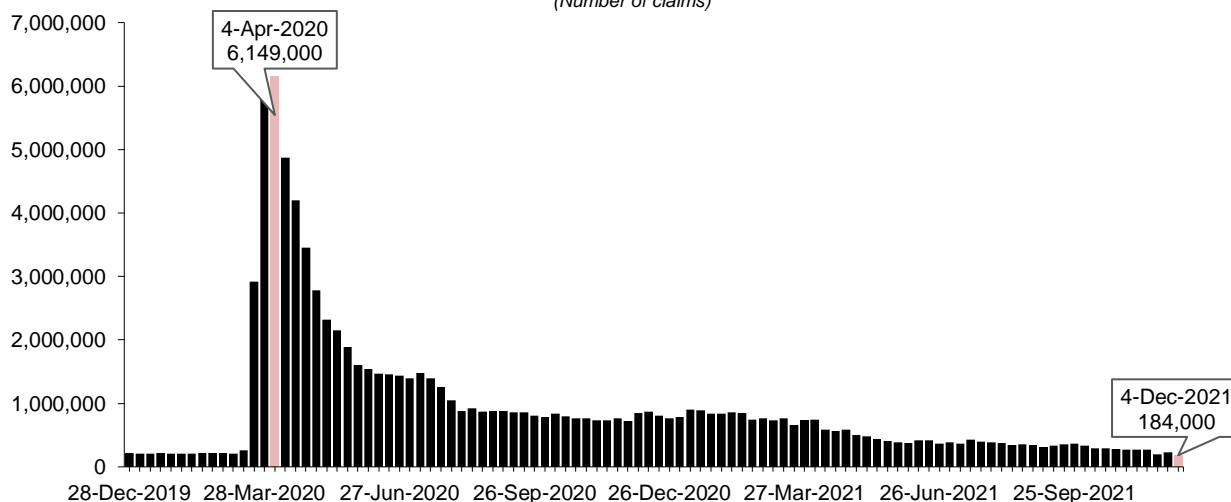
Overall, inventories were the primary source of growth, adding 2.13 percentage points to growth in the third quarter. Trade subtracted 1.16 percentage points from growth, as imports rose and exports fell. Government offered a small support to growth in the quarter, with a reduction in federal spending concentrated in nondefense spending outweighed by an increase in state and local spending. Fixed investment was a slight drag on growth on net, as a decline in residential fixed investment exceeded a small gain in nonresidential fixed investment (which includes business structures and equipment, and intellectual property products).

The strength of inflation is affecting consumer confidence. In November, the Michigan consumer confidence index was at a decade low. The Consumer Price Index (CPI) rose 6.8% in November from the same month a year ago, the sixth straight month in which inflation topped 5%, and the fastest pace since 1982. Rising energy prices have contributed heavily to the recent increase in inflation. However, energy prices have been falling sharply in recent weeks, leading market analysts to believe that November may have marked a peak in the CPI index.¹ Excluding food and energy, the index rose 4.9%, the highest rate since 1991. Core inflation has been greatly affected by shortages of inputs, such as semiconductors for automobiles, and bottlenecks such as for ocean freight.

The CPI is being boosted by energy and supply-chain issues, but also by a booming demand, which has been lifted by strong policy support, a buoyant job market, and robust household savings. The job market has improved significantly this year. Although the 210,000 gain in non-farm payroll jobs in November, the last data available, was disappointing, the labor force rose by a strong 594,000 and the unemployment rate fell to 4.2% (from 4.6% in October), on track to fall below 4% early next year.

A shortage of available workers during the third quarter led to higher labor costs – unit labor costs rose at a 9.6% seasonally adjusted annual rate in the third quarter according to the Bureau of Labor Statistics – and pushed companies to raise prices to offset them. First-time claims for unemployment benefits, a proxy for layoffs, fell to 184,000 in the week ended on 4 December. This was the lowest level since September 1969, just 18 months after the pandemic prompted six million workers to file for unemployment in one week (chart 2).

CHART 2:
INITIAL UNEMPLOYMENT CLAIMS FILED WEEKLY
(Number of claims)



Source: ECLAC Washington, based on data from the Department of Labor unemployment insurance weekly claims report and the Federal Reserve of St. Louis (FRED).

¹ Crude oil spot prices, as of 10 December 2021, were down 14% to from their recent peak in October, while natural gas prices had fallen by 41%.

Recognizing that persistently elevated inflation was hitting consumer budgets – prices for vehicles, rent, furniture and airline fares rose in November – Federal Reserve Chairman Jerome Powell said in a testimony to the United States Congress on 30 November that it was time to retire the use of the word “transitory” to describe inflation. During the testimony, Mr. Powell described the economy as strong and inflation as high. He also conveyed a heightened sense of urgency to reduce the central banks’ monthly asset purchases at a faster pace. A doubling of the pace of tapering was indeed announced after the December meeting of the Federal Open Market Committee concluded on 15 December.

Regarding the external sector, the United States nominal trade deficit narrowed to US\$ 67.1 billion in October from US\$ 81.4 billion in September. The improvement leaves it below its third-quarter average of US\$ 75 billion, and bodes well for GDP growth in the fourth quarter.

Market forecasters anticipate faster growth in the fourth quarter than in the third. On average, with forecasts made in late November and early December, the U.S. economy is projected to grow at 5.8% in the fourth quarter, slowing down to 3.7% in the first quarter of 2022 (table 1). The Omicron variant of COVID-19, a new variant that was first reported to the World Health Organization in late November and subsequently designated as a Variant of Concern, is a downside risk to the forecasts. On 1 December 2021, the first confirmed U.S. case of Omicron was identified.

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

	Q4 2021 (qoq)	Q1 2022 (qoq)	Date of Forecast
<i>What Markets Say</i>			
Bank of America/Merrill Lynch	6.0%	4.0%	3-Dec-21
Capital Economics	6.5%	2.0%	3-Dec-21
JPMorgan	7.0%	2.5%	3-Dec-21
Moody's Economy.com	6.7%	5.4%	6-Dec-21
Mortgage Bankers Association	4.5%	5.4%	22-Nov-21
National Association of Realtors	3.3%	3.0%	Nov-21
National Bank of Canada	4.1%	3.7%	Nov-21
Wells Fargo/Wachovia	8.0%	3.8%	12-Nov-21
<i>Forecasts average</i>	5.8%	3.7%	

Source: ECLAC Washington Office, based on market sources.

The emergence of Omicron and the continued spread of Delta could threaten the economic expansion. Although past virus surges put downward pressure on prices for travel, recreation and other services that involve in-person interaction, a COVID-19 resurgence could ultimately push inflation higher by worsening supply-demand imbalances, as strong demand for goods such as autos, furniture and appliances has driven much of the recent inflation surge. Inventories are expected to continue to add to growth in the fourth quarter and in the first half of next year, but according to Moody’s, they could cause problems down the road, as volatility in prices could lead to mistakes, either in over- or under-building inventories.²

On an annual basis, forecasters say the United States economy is positioned for its fastest year of growth since 1984. Market projections made mostly in November and December point to growth of 5.5% in 2021 on average, and of 3.8% in 2022 (table 2).

The Federal Reserve released updated economic projections at the end of its December meeting. The U.S. economy is now expected to grow 5.5% in 2021 (compared to 5.9% in September) and 4% in 2022. Inflation is projected to be at 5.3% this year, before dipping to 2.6% in 2022 (and core inflation is projected to be 4.4% in 2021 and 2.7% in 2022). The unemployment rate is estimated at 4.3% in 2021 and falling to 3.5% in 2022. The median projections also point to an increase in the Federal Funds Rate to 0.9% in 2022.

² Moody’s, “Inflation and Hawkish Fed Cause Changes to December U.S. Baseline,” *Economic Roundup*, analysis by Ryan Sweet, 7 December 2021.

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

	Real GDP (% change, y/y)		Inflation (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		Date of Forecast	
	2021	2022	2021	2022	2021	2022	2021	2022		
A. What Government Agencies Say										
FED*	5.5%	4.0%	5.3%	2.6%	4.3%	3.5%	0.1%	0.9%	Dec-21	
CBO	6.7%	5.0%	3.3%	2.5%	5.5%	3.8%	0.1%	0.1%	Jul-21	
OMB**	7.1%	3.3%	4.8%	2.5%	5.5%	4.2%	na	na	Aug-21	
B. What Markets Say										
Bank of America/Merrill Lynch	5.6%	4.0%	4.7%	5.0%	5.4%	3.7%	0.1%	0.5%	3-Dec-21	
Capital Economics	5.8%	3.0%	4.6%	3.4%	5.4%	4.2%	0.1%	0.1%	3-Dec-21	
JPMorgan	5.7%	3.8%	4.7%	4.3%	5.4%	3.7%	0.1%	0.4%	3-Dec-21	
Moody's Economy.com	5.6%	4.4%	4.6%	4.2%	5.4%	3.6%	0.1%	0.2%	6-Dec-21	
Mortgage Bankers Association	4.9%	4.3%	5.8%	3.0%	5.4%	3.8%	0.1%	0.4%	22-Nov-21	
National Association of Realtors	5.1%	2.6%	5.7%	5.1%	5.6%	4.9%	0.1%	0.3%	Nov-21	
National Bank of Canada	5.5%	3.4%	4.6%	4.5%	5.5%	4.5%	0.25%	0.75%	Nov-21	
TD Bank Financial Group	5.6%	4.1%	4.3%	3.0%	5.6%	4.0%	0.25%	0.31%	21-Sep-21	
The Economist Intelligence Unit***	5.5%	3.8%	4.4%	3.2%	5.5%	4.5%	0.1%	0.6%	5-Nov-21	
Wells Fargo/Wachovia	5.7%	4.4%	4.7%	5.3%	5.4%	3.8%	0.25%	0.44%	10-Dec-21	
Market Average	5.5%	3.8%	4.8%	4.1%	5.5%	4.1%	0.2%	0.4%		
C. What International Organizations Say										
United Nations DESA (Baseline)	6.2%	3.2%	na	na	na	na	na	na	May-21	
World Bank	6.8%	4.2%	na	na	na	na	na	na	Jun-21	
OECD	5.6%	3.7%	3.9%	4.4%	5.4%	3.8%	na	na	Nov-21	
IMF	6.0%	5.2%	4.3%	3.5%	na	na	na	na	Oct-21	

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).

*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. ** Projections are for real, chained (2012) dollars GDP, fourth-quarter-over-fourth-quarter; CPI: fourth-quarter-over-fourth-quarter; unemployment rate: annual.

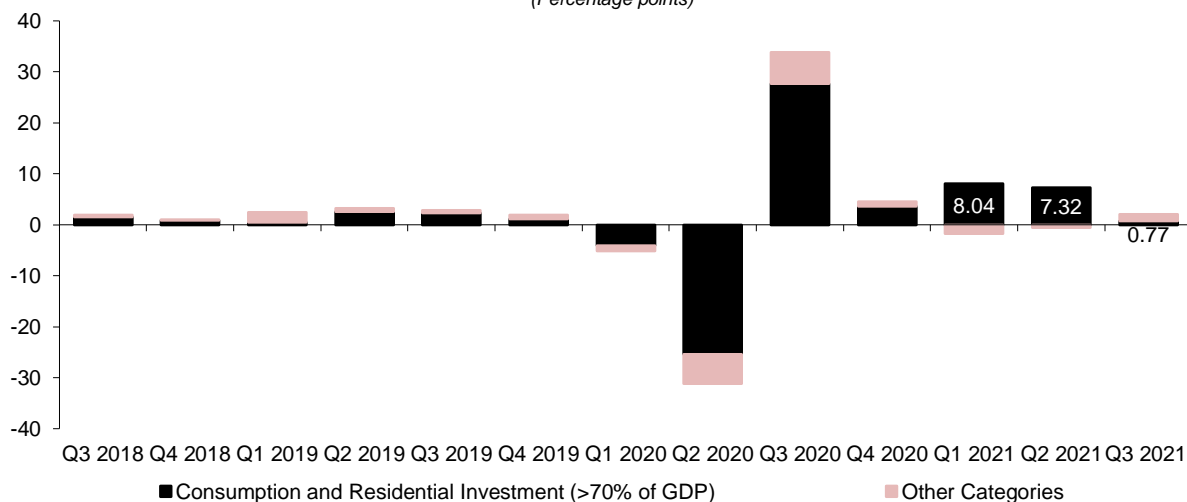
*** CPI: average; Fed Funds Rate: end-period.

I. Quarterly developments

The real GDP expansion in the third quarter of 2021 reflected increases in private inventory investment, personal consumption expenditures, state and local government, and nonresidential fixed investments, that were partially offset by decreases in residential fixed investment, federal government spending, and exports. Imports, which are a subtraction in the calculation of GDP, increased.

The core of the U.S. economy —consumption and residential investment— contributed only 0.77% to third-quarter growth, down from a 7.32% contribution in the second-quarter (chart 3), with consumption adding 1.18% and residential investment subtracting 0.41%.

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

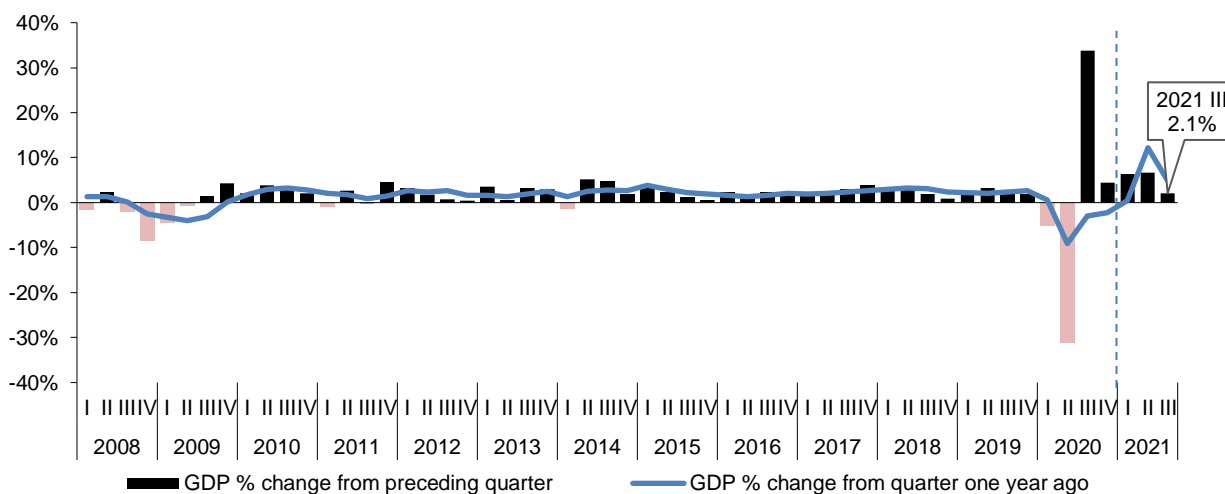


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

Real gross domestic product (GDP) increased at an annual rate of 2.1% in the third quarter of 2021, according to the second estimate released by the Bureau of Economic Analysis on 24 November 2021. In the second quarter, real GDP increased 6.7% (chart 4).

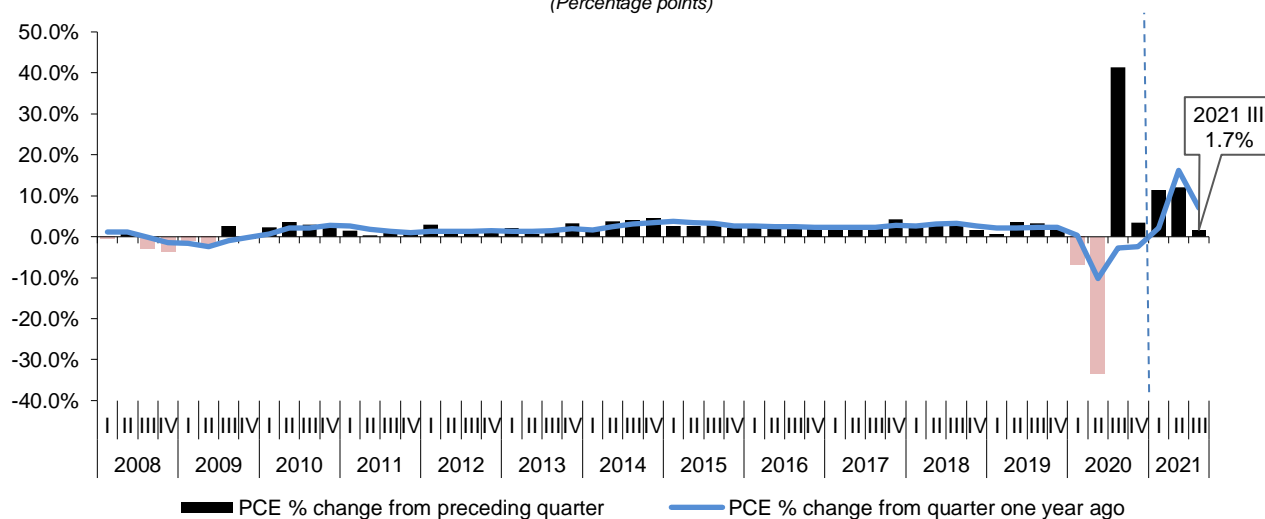
**CHART 4:
U.S. REAL GDP: QUARTERLY GROWTH**
(Percentage points)



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

Private consumption expenditure (PCE) increased by 1.7% in the third quarter, after an increase of 12% in the second (chart 5). Spending on services increased by 7.6%, while spending on goods fell by 8.4%, led by a decline of 24.4% in spending on durable goods. The Delta wave of coronavirus infections, the fading fiscal stimulus, and supply shortages, particularly of motor vehicles (which led to falling purchases of automobiles and parts), contributed to slowdown growth in consumer spending in the third quarter. PCE contributed 1.18% to third-quarter growth, after adding 7.92% in the second.

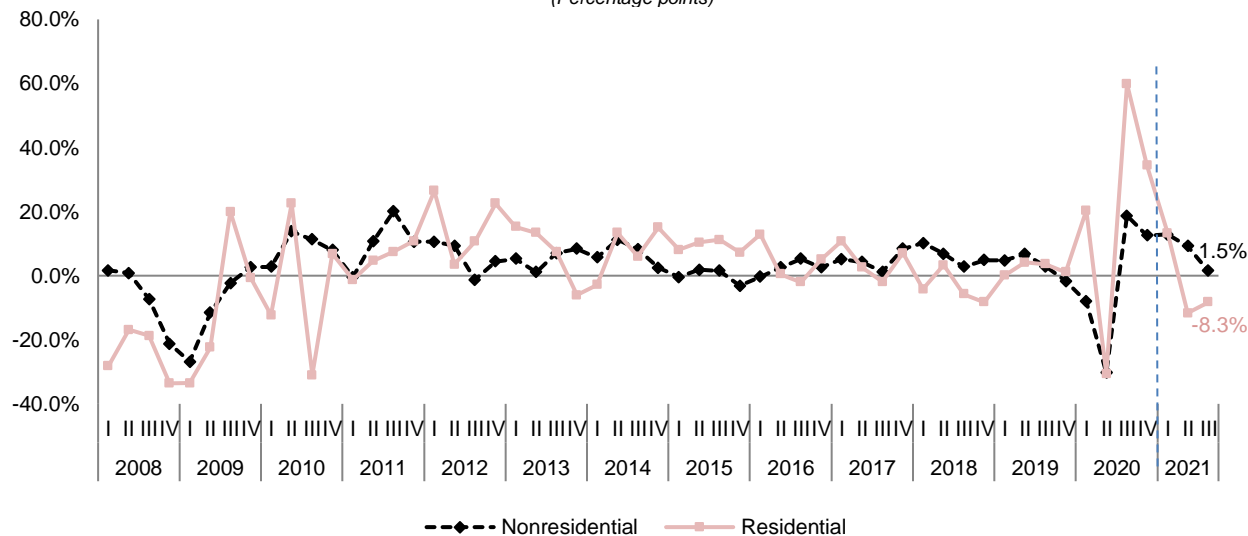
**CHART 5:
PERSONAL CONSUMPTION EXPENDITURE: QUARTERLY GROWTH**
(Percentage points)



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

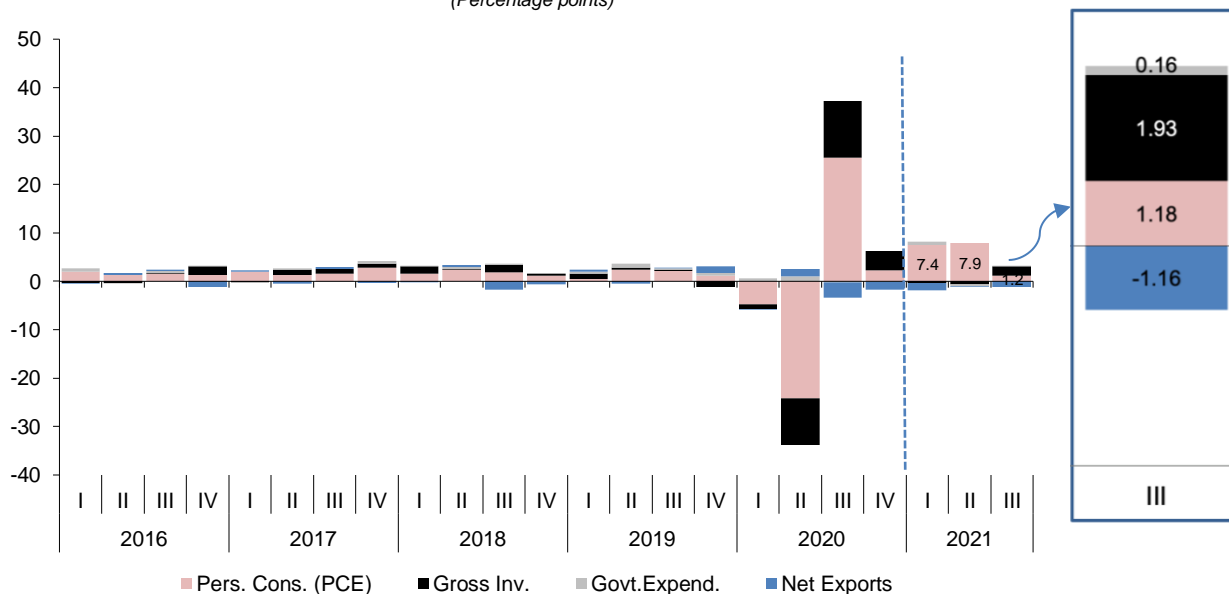
Fixed investment increased by 11.6% in the third quarter, with residential investment declining 8.3% and non-residential investment growing 1.5% (chart 6). The growth in nonresidential fixed investment reflected increases in intellectual property products (led by research and development as well as software). Nonresidential investment added 0.21% to growth in the third quarter, but residential investment subtracted 0.41%. Despite the impact of shortages on production, inventories added 2.13% points to overall GDP growth, after having reduced growth in the second quarter by 1.26%. Due to the positive contributions from inventories and non-residential investment, gross private domestic investment contributed 1.93% to third-quarter growth (chart 7).

**CHART 6:
FIXED INVESTMENT: QUARTERLY GROWTH**
(Percentage points)



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

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



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

Government was a minor support to growth in the third quarter, with a reduction in federal spending concentrated in nondefense spending outweighed by a slight increase in state and local spending. Overall, government spending increased 0.9% and added 0.16% to growth in the quarter. According to the Bureau of Economic Analysis, the decrease in federal government spending primarily reflected a decrease in nondefense spending on intermediate goods and services after the processing and administration of Paycheck Protection Program loan applications by banks on behalf of the federal government ended in the second quarter.

Finally, net exports subtracted 1.16% from growth in the third quarter, as exports declined and imports increased. With exports of goods declining by 5.8% and of services increasing by 3.7%, exports declined by 3% and subtracted 0.33% from growth. Imports grew by 5.8% and subtracted 0.83%.

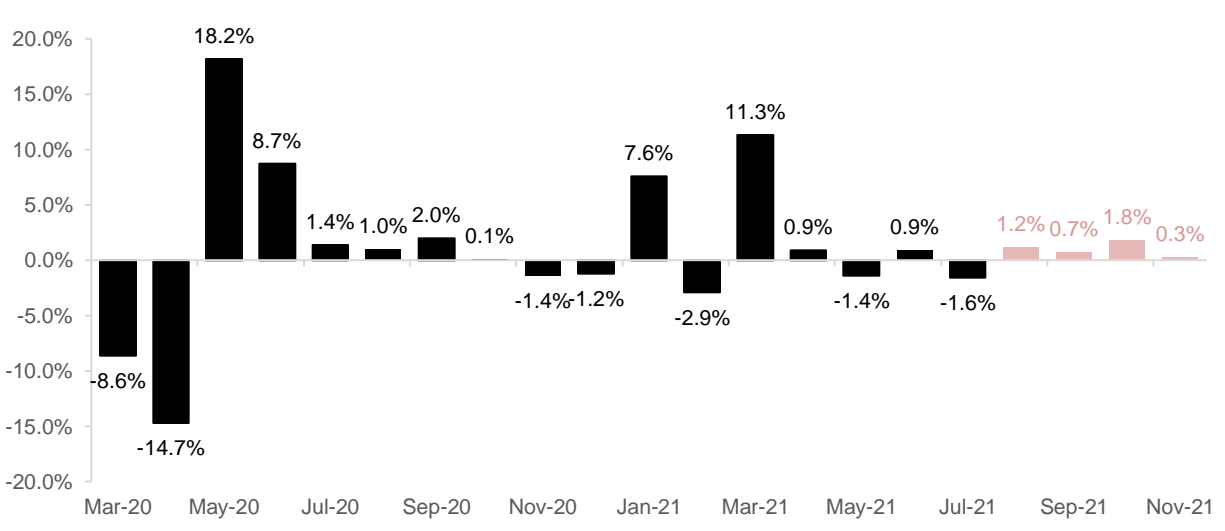
B. Retail sales

Retail sales, a measure of purchases at stores, restaurants and online, rose a seasonally adjusted 1.8% in October 2021 and 0.3% in November from a month earlier, according to the Commerce Department, marking four straight months of gains (chart 8). Retail sales have bounced back from a 1.6% decline in July, boosted by rising wages in a tight labor market, healthy household balance sheets and inflationary pressures that are causing prices to advance at the fastest pace in nearly 40 years.

The four straight months of gains in retail sales suggest that real consumption growth may improve in the fourth quarter from its subdued level in the third. Data released by the Commerce Department on household spending in October (which rose 1.3% from a month earlier), and personal income (which increased 0.5%), also point in this direction, as consumers are benefitting from a strong labor market.

The slowdown in November retail sales from the robust gain in October suggests a modest start of the holiday season, however. Broadly consumer demand is still strong, and is well above last year's levels. Retail sales rose 18.2% in November from a year earlier, showing low unemployment, rising wages and savings from stimulus payments have given consumers the capacity to spend more this year. Nonetheless, with inflation at a 39-year high and supply chain and labor issues causing shortages of goods and depleted capacity in the service industry, challenges to further spending are increasing.

CHART 8:
U.S. TOTAL RETAIL SALES
(Seasonally adjusted, Month to month percentage change)

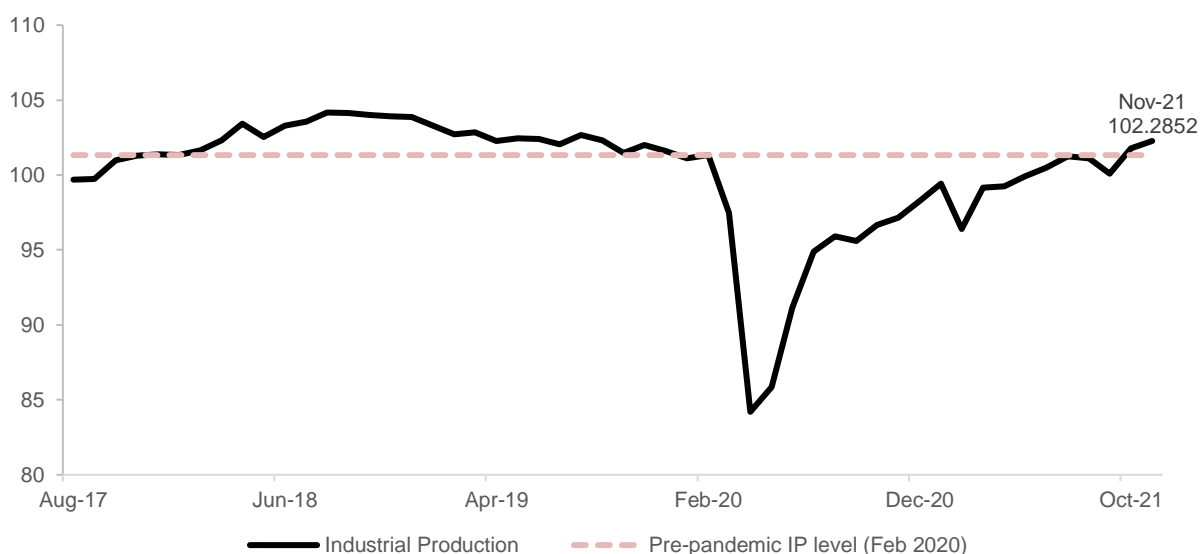


Source: ECLAC Washington Office, based on data from Advance Monthly Sales for Retail and Food Services), U.S. Census Bureau.

C. Industrial production

United States industrial production rose 1.7% in October and 0.5% in November 2021, bouncing back after the lingering effect of Hurricane Ida put a significant strain on September's number. The increase in November pushed industrial production to 1% above its pre-pandemic February 2020 level (chart 9). Manufacturing production was up 1.4% in October after falling in each of the prior two months, and 0.7% in November. November's 0.7% gain was helped by a continued recovery in auto output, with production in the sector rising 2.2%, following October's 10.1% gain. Mining output was up 0.7% while utilities output, which is sensitive to fluctuations in weather, was down 0.8% in November after rising 0.6% in October. Capacity utilization increased from 76.5% to 76.8% in November. There is still room for improvement as it remains 2.8 percentage points below its long-run average.

CHART 9:
U.S. INDUSTRIAL PRODUCTION
(Total Index, Index 2017=100, Monthly, Seasonally Adjusted)

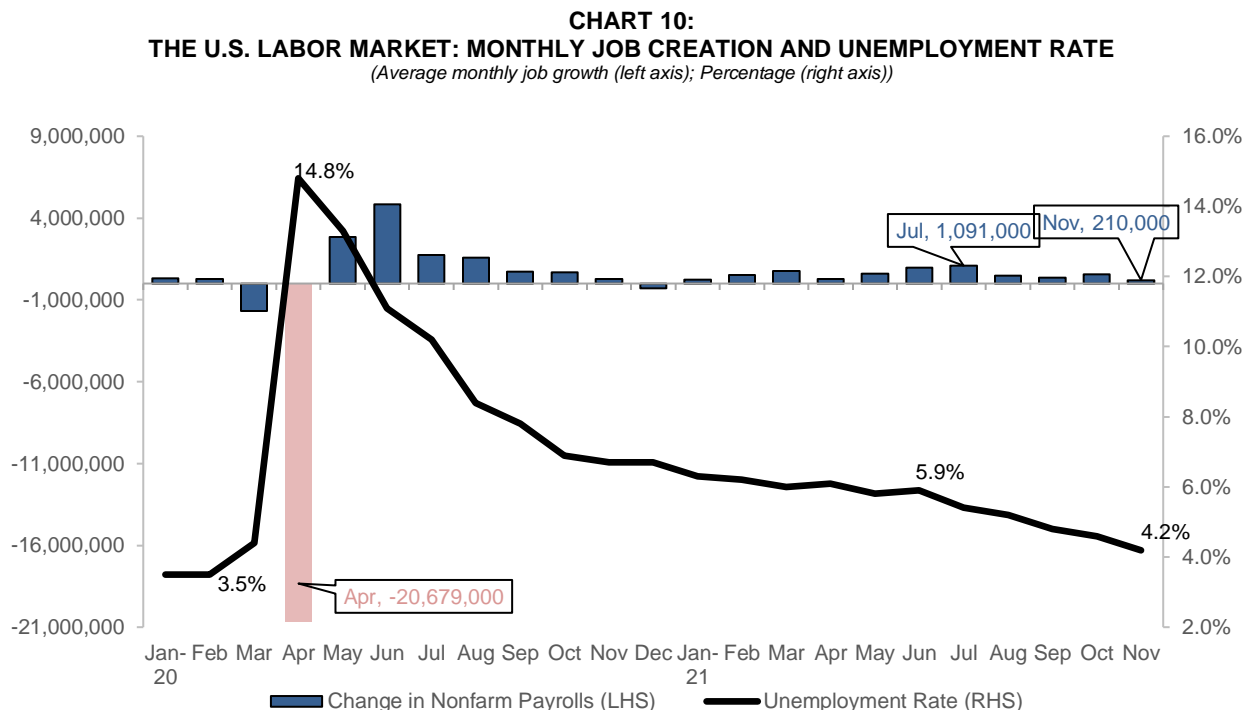


Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve and the Federal Reserve of St. Louis (FRED).

Supply-chain issues have been limiting the recovery in manufacturing output but the gains in October and November suggest that shortages may be gradually easing. The ISM manufacturing survey of manufacturing conditions also showed a small improvement in November due to a slight easing in supply-chain issues. The ISM manufacturing index rose from 60.8 in October to 61.1 in November. The supplier deliveries index fell from 75.6 to 72.2, indicating slightly faster deliveries in November. There was a modest improvement in both new orders and production, while inventories were little changed.

D. Labor market

The labor market had a strong start in the third quarter, but a weaker ending. After adding more than 1 million non-farm payroll jobs in July, the peak for the year, there was a slowdown in August and September, fueled by the rapid spread of the coronavirus' Delta variant. Still, the third-quarter average was 651,000 jobs created per month, higher than the monthly average of 566,500 in the first half of the year. Following a rebound to 546,000 jobs added in October, the November 210,000 gain in non-farm payrolls was disappointing. Declines in retail trade and government payrolls, and weak gains in leisure and hospitality, pulled down the November figure. The unemployment rate, however, fell to 4.2% from 4.6% in October. Less than six months ago, it hovered closer to 6% (chart 10).



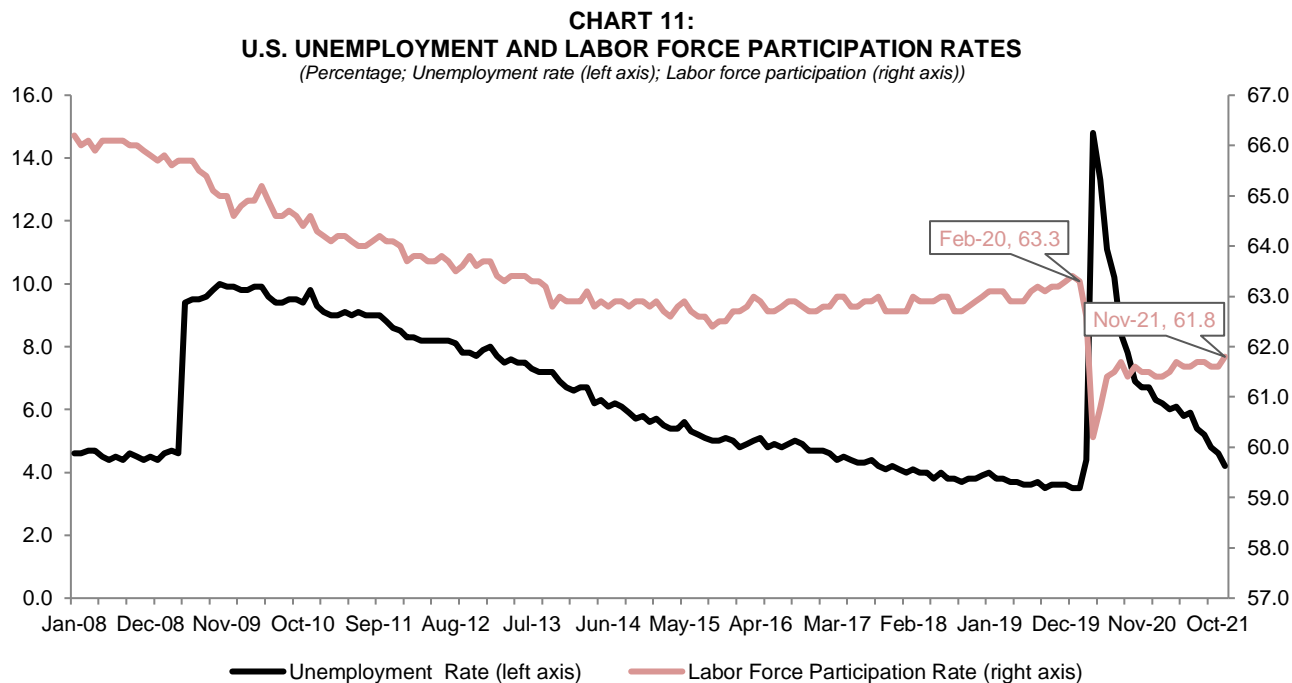
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Goods producers added a solid 60,000 jobs in November, with half the gains in construction and half in manufacturing. However, supply-chain issues pulled vehicle manufacturing employment down by 10,000. Machinery manufacturing also contracted. Services were the primary disappointment, with retailers shedding 20,400 jobs. Transportation/warehousing, which like retail is a holiday-driven industry, added nearly 50,000 jobs, however. Leisure/hospitality, following large gains earlier in the year, added only 23,000 jobs. Education lost jobs and healthcare gains were weak, likely because of the impact of the pandemic still. Government employment, primarily local, declined as well. On the positive side, professional/business and financial services payrolls added more than 100,000 positions.

Labor market data from the household survey was very strong, however.³ The unemployment rate fell by 0.4 percentage point to 4.2%, and the number of unemployed persons fell by 542,000 to 6.9 million. According to the November employment report, both measures are down considerably from their highs at the end of the February-April 2020 recession, but they remain above their levels prior to the COVID-19 pandemic (3.5% and 5.7 million). While the establishment survey suggested a slowdown in hiring, the household survey showed a gain of 1.1 million jobs, and the labor force participation rate increased to 61.8% from 61.6% in October, although it is still about 1.5 percentage points lower than in February 2020 (chart 11). Childcare issues and pandemic-related concerns are among the reasons most often cited for holding back people from returning to the workforce – a dynamic that could be exacerbated by the recent emergence of the new Omicron coronavirus variant.

³ The Bureau of Labor Statistics (BLS) has two monthly surveys that measure employment levels and trends: the Current Population Survey (CPS), also known as the household survey, and the Current Employment Statistics (CES) survey, also known as the payroll or establishment survey. The payroll survey (CES) is designed to measure employment, hours, and earnings in the nonfarm sector, with industry and geographic detail. The survey is best known for providing a highly reliable gauge of monthly change in nonfarm payroll employment. A representative sample of businesses in the U.S. provides the data for the payroll survey. The household survey (CPS) is designed to measure the labor force status of the civilian noninstitutional population with demographic detail. The national unemployment rate is the best-known statistic produced from the household survey. The survey also provides a measure of employed people, one that includes agricultural workers and the self-employed. A representative sample of U.S. households provides the information for the household survey (Bureau of Labor Statistics, https://www.bls.gov/web/empsit/ces_cps_trends.htm).

The prime-age (workers aged between 24 and 54) employment-to-population ratio, which tracks the percentage of the population in the age bracket who currently have jobs, improved substantially in November, nonetheless, rising to 78.8% from 78.3%. This is the highest level since early 2020. Historically, a prime-age labor force participation rate of 80% is consistent with an economy at full-employment, according to Moody's.⁴



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

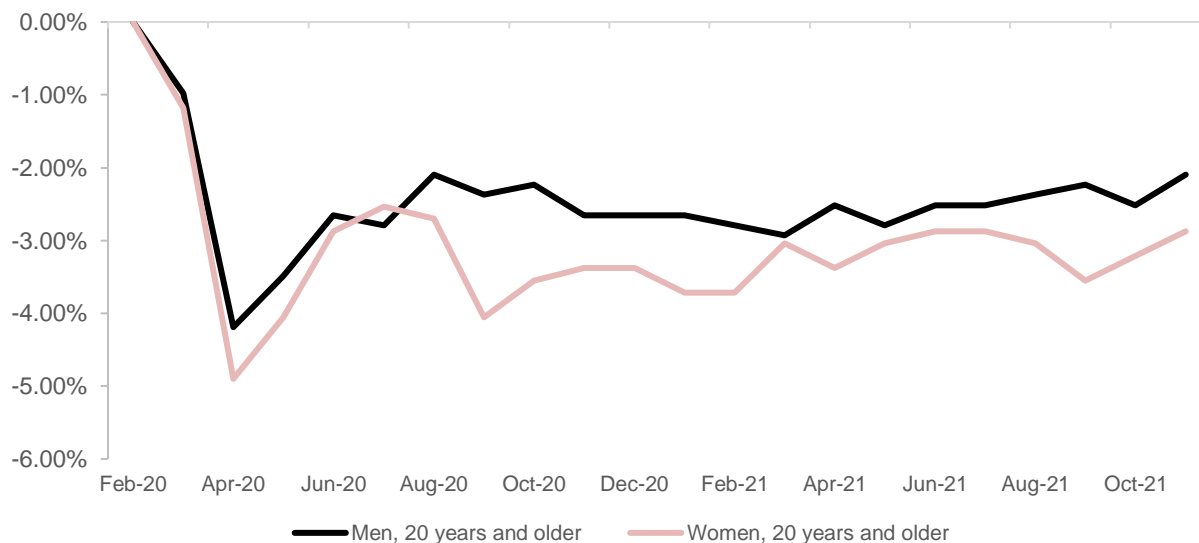
Women continue to be disproportionately affected by losses in employment because of their overrepresentation in many high-contact industries that suffered some of the largest job losses, including healthcare, education and hospitality. Moreover, school and childcare center closures have created hardship for working parents, particularly for women. More women remain out of the labor force than men, and the gap in labor force participation recovery between female and male workers, after narrowing in March, started to widen again since then (chart 12). In November, the seasonally adjusted civilian labor participation rate for women, 20 years and older, was 57.5% compared to 59.2% in February 2020, while the participation rate for men, 20 years and older, was 70.1%, compared to 71.6% in February 2020.

The unemployment rate in November 2021 for men and women 20 years and over was 4% (and 4.2% and 4.3%, respectively, for workers 16 years and over). Although women's unemployment rate is currently the same as men's, women's employment losses since February 2020 are still higher than losses for men, with the gap, which had been closed in March, having opened up again over the summer.

In November 2021, when compared to the pre-pandemic employment levels of February 2020, women's employment level was 2.8% lower, while men's was 1.9% lower according to data from the Bureau of Labor Statistics (BLS)' Current Population Survey (chart 13). As children headed back to school in the fall, the Delta variant tampered hopes of a return to a somewhat "normal" for women, as the same issues remained, particularly where child care is concerned, given that several school districts were forced to close due to the surge in COVID-19 cases.

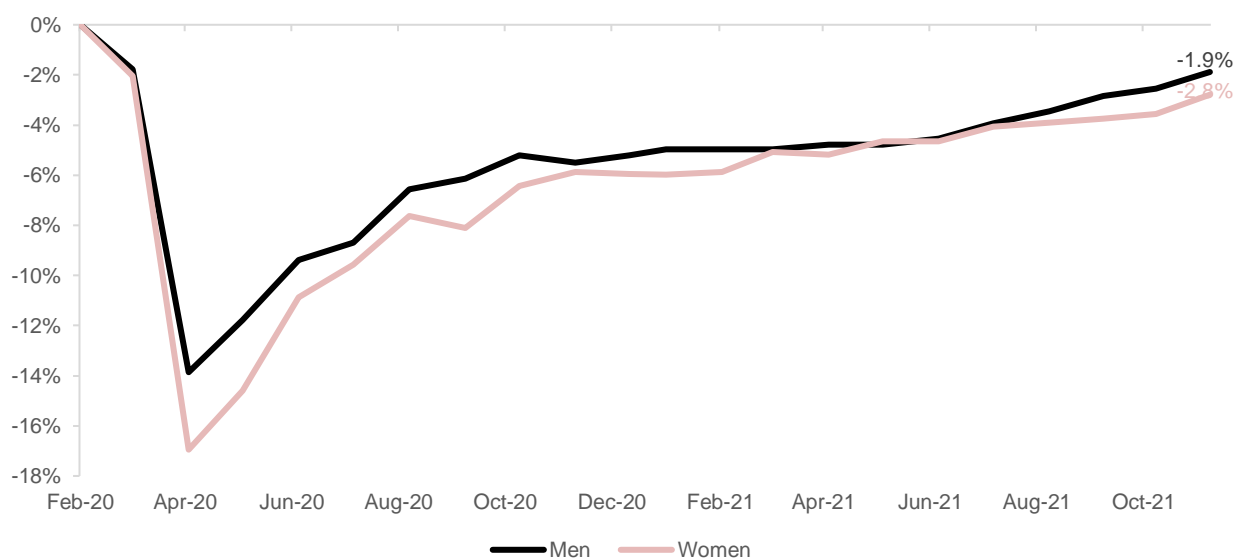
⁴ Moody's, "Tale of Two U.S. Employment Surveys," *Economic Roundup*, analysis by Ryan Sweet, 3 December 2021.

CHART 12:
CHANGE SINCE FEBRUARY 2020 IN U.S. LABOR FORCE PARTICIPATION SHARE BY GENDER
(Percentage)



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

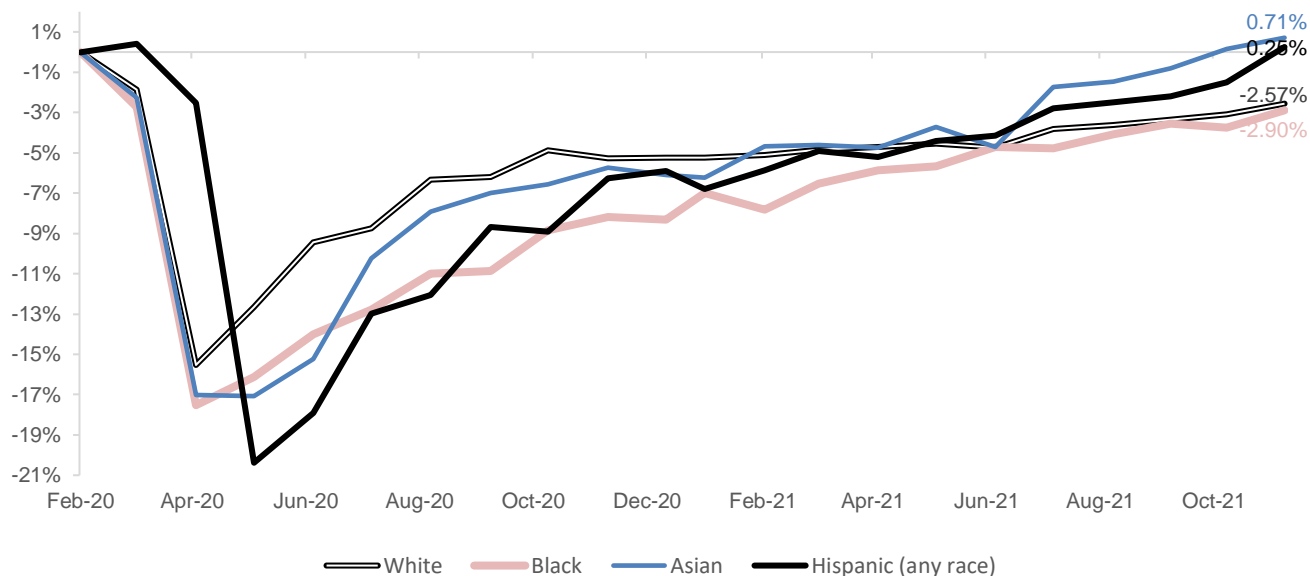
CHART 13:
CHANGE SINCE FEBRUARY 2020 IN U.S. EMPLOYMENT LEVELS BY GENDER
(Percentage)



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Series ID LNS12000025 and LNS12000026.

There are other inequities that persist in this labor market recovery. Regarding the impact of the pandemic on the labor market by race, the unemployment rate in November 2021 was higher for African American (6.7%) and Hispanic (5.2%) workers than for Asian (3.8%) and white (3.7%). Losses in employment since February 2020 remain higher for African American (still almost 3% below the pre-pandemic level) and white workers (2.6% below pre-pandemic level), while employment for Asian and Hispanic workers have recovered and surpassed their pre-pandemic levels (chart 14).

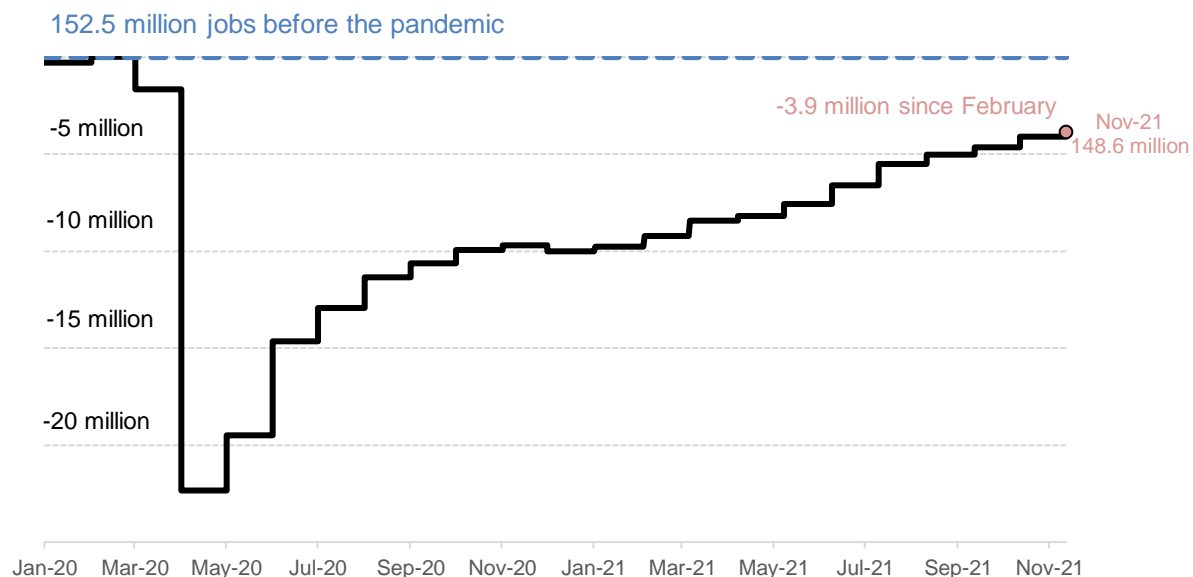
CHART 14:
CHANGE SINCE FEBRUARY 2020 IN THE NUMBER OF EMPLOYED PERSONS BY RACE
(Percentage)



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, (Series ID LNS120000, LNS12000003, LNS12000006, and LNS12032183).

The U.S. economy is still down almost 4 million jobs from before the pandemic (chart 15). However, the number of available unfilled jobs grew to more than 11 million in October, the second-highest on record, according to the BLS monthly Job Openings and Labor Turnover (JOLT) Survey. The number of unemployed persons per job opening fell to its lowest level since the early 1950s, underlining tightness in labor market conditions and suggesting that recent rapid wage gains may continue.

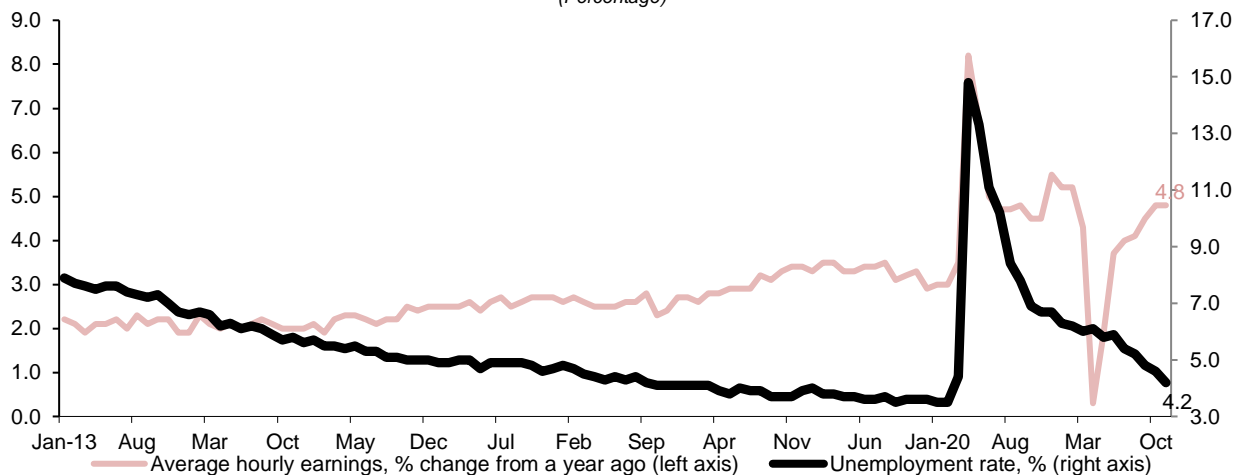
CHART 15:
CUMULATIVE LOSS OF JOBS SINCE THE BEGINNING OF THE PANDEMIC
(Average monthly job growth)



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

In November, average hourly earnings rose 0.3% from October, with the annual rate unchanged at 4.8% (chart 16). Wages have been on the rise and feeding into faster unit labor cost growth. Even if wage growth doesn't rise further, the current elevated rate may still pose a problem for the Federal Reserve, as it has not been matched by an improvement in productivity.

CHART 16:
AVERAGE HOURLY EARNINGS AND UNEMPLOYMENT RATE
(Percentage)

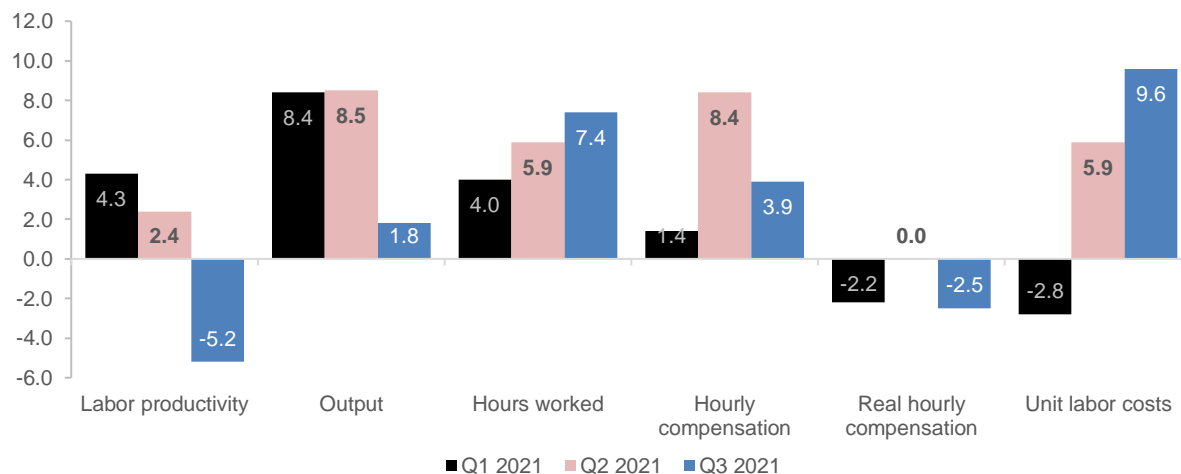


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Labor productivity growth in the nonfarm business sector fell 5.2% on an annualized basis in the third quarter, maybe partly reflecting the rapid rebound in lower-skilled employment. Productivity growth has boomed in the wake of the pandemic and the third quarter represents a moderation from the previous strong quarters of growth (chart 17). Additionally, a wave of COVID-19 infections driven by the Delta variant weighed heavily on output in the third quarter.

Nonfarm business output rose 1.8% in the quarter, a marked slowdown from the more than 8% annualized growth in the first two quarters of the year. Hours worked, on the other hand, jumped 7.4% on an annualized basis. Unit labor costs increased 9.6%, up from an increase of 5.9% in the second quarter.

CHART 17:
NONFARM BUSINESS SECTOR: LABOR PRODUCTIVITY AND COSTS, FIRST-HALF 2021
(Percent change from previous quarter at annual rate. Seasonally adjusted.)



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

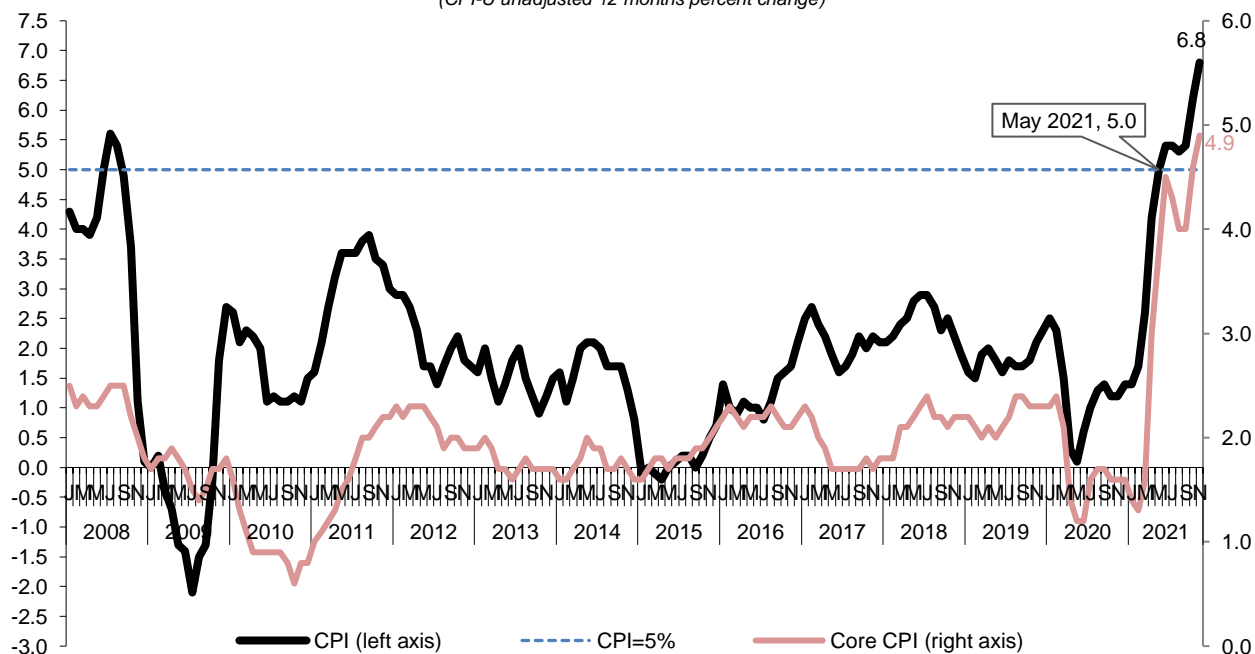
Despite not having recovered the pre-pandemic level of jobs, the current labor market situation is perhaps the most worker-friendly climate in decades, as workers have the ability to sort through near record-levels of job openings. In October, 4.2 million workers quit their jobs according to the JOLT survey. Industries with the highest level of employees leaving are those that have been affected the most by the pandemic, including accommodation and food services, retail and entertainment. Child and family care pressures stemming from the pandemic continue to be an issue for many people, while public health concerns complicates in-person work, particularly jobs that rely on interaction with consumers or large numbers of people. The Omicron variant of COVID-19 could affect the job market if it causes a deterioration in public health conditions and leads workers to leave the labor force or further delay their return.

E. Inflation

Inflation hit a 39-year high in November, as demand-supply imbalances persisted. On one hand, demand has been bolstered by fiscal and monetary stimulus, combining increased federal spending and zero-bound interest rates, which is driving down unemployment. As seen in the previous sections, the unemployment rate dropped to 4.2% from 4.6%, with 1.1 million more people employed in November than in October, while household spending has also remained strong, advancing 1.3% in October, the most recent government figures. On the supply side, global developments that pushed up oil and gas prices, combined with pandemic-related bottlenecks and supply chain disruptions, have also contributed to higher 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 6.8% in November 2021 at an annualized rate, up from 5.2% in October. That was the fastest pace since 1982 and the sixth straight month in which inflation topped 5%. Prices excluding food and energy also showed a sharper increase than in October, with the core CPI reaching 4.9%, up from 4.5% in October (chart 18).

CHART 18:
U.S. DOMESTIC PRICES: MONTHLY EVOLUTION
(CPI-U unadjusted 12 months percent change)



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

On a monthly basis, the CPI increased a seasonally adjusted 0.8% in November from the prior month, slightly lower than October's 0.9% increase. Prices for vehicles, rent, furniture and airline fares rose in November. Some energy prices showed signs of easing, but gasoline prices rose by 6.1% for the second straight month. Prices for recreation and communication, however, declined in November.

Unlike in past recoveries, strong demand for goods such as autos, furniture and appliances has driven much of the inflation surge. Prices for services – such as for travel and recreation – have generally increased much less due to softer demand. The holiday season is likely exacerbating these dynamics.

Over the past year, prices for used cars and trucks have taken up a significant share of inflation, in large part due to chip shortages. In November, vehicle prices continued to rise. The index for used cars and trucks rose 2.5% over the month, the same increase as in October. The index for new vehicles rose 1.1% in November, after a 1.4% increase in October.

After keeping the description of inflation as largely “transitory” at its November meeting, Chair Jerome Powell in a testimony to Congress on 30 November said “it’s probably a good time to retire the word.” Along with keeping prices stable and supporting maximum employment, the Federal Reserve must also clearly communicate how it views the economy for markets, households and businesses alike. Although the central banks’ view continues to be that inflation will not become permanently entrenched in the economy, since its November meeting, it has felt the need to clarify its view and convey to households and businesses, which have been grappling with price pressures for months, that it is heedful of not letting inflation out of control.

The seasonal rise on COVID-19 cases underway in parts of the United States, and uncertainty over the new Omicron variant, pose downside risks to the economic outlook. Chair Jerome Powell and other top Federal Reserve officials have recently emphasized the potential for another coronavirus wave to exacerbate supply chain problems and add to price pressures, pointing to a change in stance towards a less accommodative monetary policy.

F. Monetary policy

The Federal Reserve cut its short-term benchmark interest rate to near zero in March 2020 (chart 19) and in June 2020 began buying US\$ 80 billion of Treasury securities and US\$ 40 billion of mortgage-backed securities every month to support financial markets during the pandemic and protect the economy against a more pronounced economic contraction.

In November, the Federal Open Market Committee (FOMC) announced it would begin reducing the monthly pace of its net asset purchases by US\$ 10 billion for Treasury securities and US\$ 5 billion for agency mortgage-backed securities. Tapering asset purchases is the first step towards policy normalization. The November statement added that although the Committee judged that similar reductions in the pace of net asset purchases would likely be appropriate each month, it was prepared to adjust the pace of purchases if warranted by changes in the economic outlook.

At its last meeting of 2021 on 14-15 December, the Committee decided to reduce the monthly pace of its net asset purchases by US\$ 20 billion for Treasury securities and US\$ 10 billion for agency mortgage-backed securities, doubling the pace of tapering. At this pace it would wrap up the tapering process by mid-March.

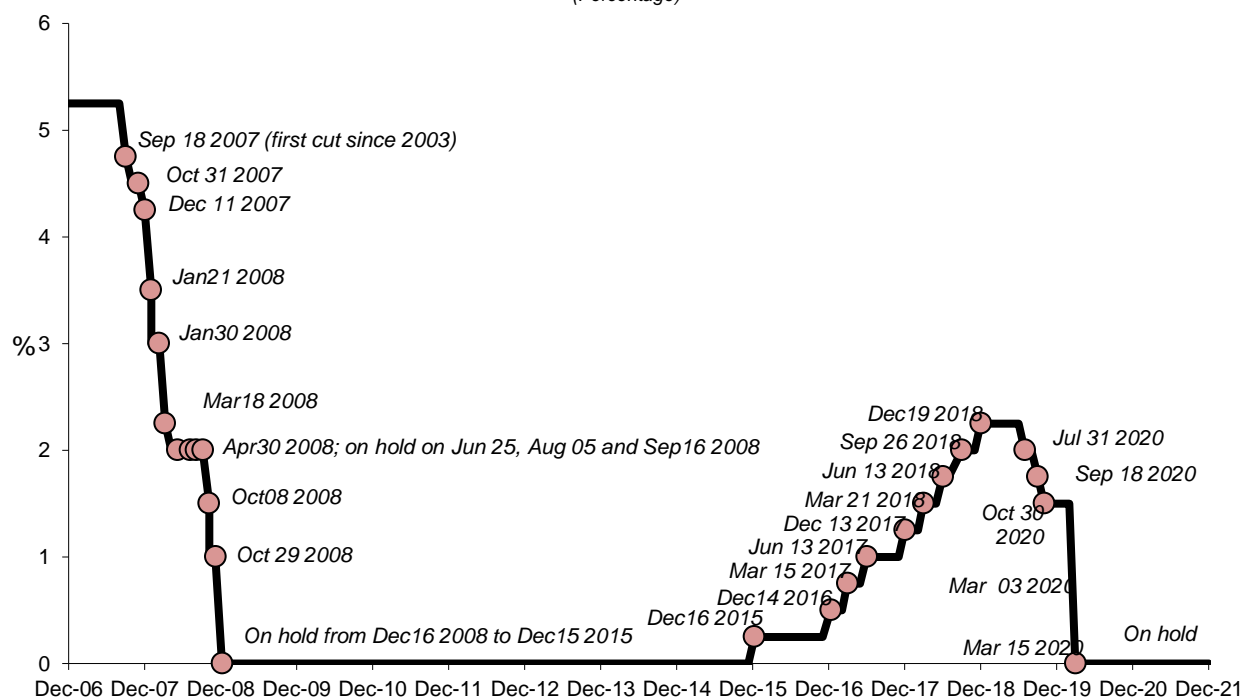
The policy statement dropped language describing inflation as largely transitory, noting instead that supply problems and reopening “continued to contribute” to elevated inflation. The FOMC kept its main interest rate on hold at the 0 to 0.25% range, but new projections released at the end of the two-day policy meeting showed that all 18 participants expect rates will need to rise next year.

Most officials now expect three hikes in 2022, a substantial shift from September, when officials were equally split between one rate increase and leaving rates unchanged. After projecting three quarter-

percentage-point rate rises next year, most officials penciled in at least three more rate increases in 2023 and two more in 2024. That would leave short-term interest rates slightly below what is known as the neutral level designed to neither spur nor slow growth.

Meeting participants also submitted new economic projections of the most likely outcomes for real GDP growth, the unemployment rate, and inflation for each year from 2021 to 2023 and over the longer run. The new set of economic projections suggested more elevated inflation than initially expected in September, with those estimates increasing to 5.3% (from 4.2% in September) in 2021 and 2.6% (from 2.2%) in 2022. The unemployment rate is set to steady at 4.3% this year, lower than September's forecasts, while GDP growth is expected to moderate. Fed officials see the economy expanding 5.5% this year, compared to projections of 5.9% in September and 7% in June, and 4.0% in 2022 (table 2, p.10).

CHART 19:
U.S. FEDERAL FUNDS TARGET RATE
(Percentage)



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

G. Fiscal policy

The U.S. budget deficit narrowed to US\$ 2.77 trillion during the 2021 fiscal year ended 30 September, from US\$ 3.13 trillion in the 2020 fiscal year, with the gap between spending and revenue declining as the recovery from a pandemic-induced recession boosted taxes. Nonetheless, that was the second highest annual deficit on record, exceeded only by the 2020 deficit. The deficits for both years were inflated by the trillions of dollars in government spending approved by Congress to keep the country from sliding into a deeper downturn because of the COVID shutdowns. The Congressional Budget Office (CBO) is forecasting that the deficit for the current 2022 budget year will narrow further to US\$ 1.2 trillion.

The U.S. budget deficit totaled US\$ 356.4 billion in the first two months of the new budget year, which started on 1 October. It was down 17% from the same period a year ago due to a sharp jump in government revenues that offset a smaller increase in spending. In its monthly budget report release on 10

December, the Treasury Department said that the government's deficit in October and November was US\$ 72.9 billion below the deficit in the same two months last year.

For the October-November period, tax revenues totaled US\$ 565.1 billion, 23.6% above revenues in the same period last year and a record for the first two months of the budget year. The big increase reflected an improving economy that has seen corporate profits rise and millions of people going back to work, which boosts individual tax payments. In addition, businesses are having to make up for their portion of Social Security tax payments that were deferred last year as part of the tax relief Congress granted during the pandemic-triggered recession. Government spending totaled US\$ 921.5 billion, also a record for the first two months of the budget year, and 3.9% higher than the same two months last year.

Regarding policy, on 9 December the United States Senate approved legislation creating a one-time, fast-track process for raising the debt limit with a simple-majority threshold, which was signed by President Joe Biden the next day. It paved the way for a separate vote to raise the debt limit on 14 December, when the House passed a measure raising the debt limit by US\$ 2.5 trillion to nearly US\$ 31 trillion, raising it to a level commensurate with the funding needed to get into 2023, and officially staving off default and avoiding a fiscal crisis.⁵ The Treasury department had said that it could breach the statutory debt limit soon after 15 December, and would no longer be able to finance the government's obligations. Earlier in December, a short-term extension of government funding was also passed by Congress and signed by the President, averting a partial government shutdown.

The United States Infrastructure Investment and Jobs Act (IIJA) was passed by the House on 6 November 2021, following its Senate approval on 10 August 2021. It was signed into law by the President on 13 November 2021, checking off the first piece of his "Build Back Better" economic agenda. The legislation will provide significant public investment in transportation networks, broadband, and public works projects.

According to a breakdown of the IIFJA by McKinsey, the act allocates an estimated US\$ 1.2 trillion in total funding over ten years, including US\$ 550 billion in new spending during the next five, divided between improving the surface-transportation network (US\$ 284 billion) and society's core infrastructure (US\$ 266 billion). Transportation improvement includes US\$ 110 billion for roads and bridges; US\$ 66 billion for passenger and freight rail; US\$ 42 billion for airports, ports and waterways; US\$ 39 billion for public transit; US\$ 15 billion for electric-vehicle infrastructure, buses, and transit; US\$ 11 billion for safety; and US\$ 1 billion for reconnecting communities. Core infrastructure improvement includes US\$ 73 billion for power infrastructure and grid transformation; US\$ 65 billion for broadband; US\$ 55 billion for water infrastructure; US\$ 47 billion for environmental resiliency; US\$ 21 billion for environmental remediation; US\$ 5 billion for other cross-sector initiatives and funding programs.⁶

On 11 August 2021, Senate Democrats also approved a US\$ 3.5 trillion budget blueprint for their antipoverity, education and climate plan, with the Senate voting 50-49 to adopt the resolution. This is the first step toward bypassing the 60 vote threshold required to pass most legislations in the Senate through a process called budget reconciliation.⁷ On 24 August 2021, the House passed an identical budget resolution. This was a needed step before committees could start crafting the details of the legislation within the overall framework, allowing the reconciliation process to move forward.

Since then, the headline number has come down. Senate Democrats are aiming to vote and approve a roughly US\$ 2 trillion package, known as the "Build Back Better Act," to overhaul health care, education, climate, immigration and tax laws before the end of the year, hoping to deliver the remaining piece of

⁵ The United States debt reached nearly US\$ 29 trillion in early December, according to the Treasury Department.

⁶ McKinsey, "The US Infrastructure Investment Jobs Act: Breaking it down," 12 November 2021 <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-us-infrastructure-investment-and-jobs-act-breaking-it-down>

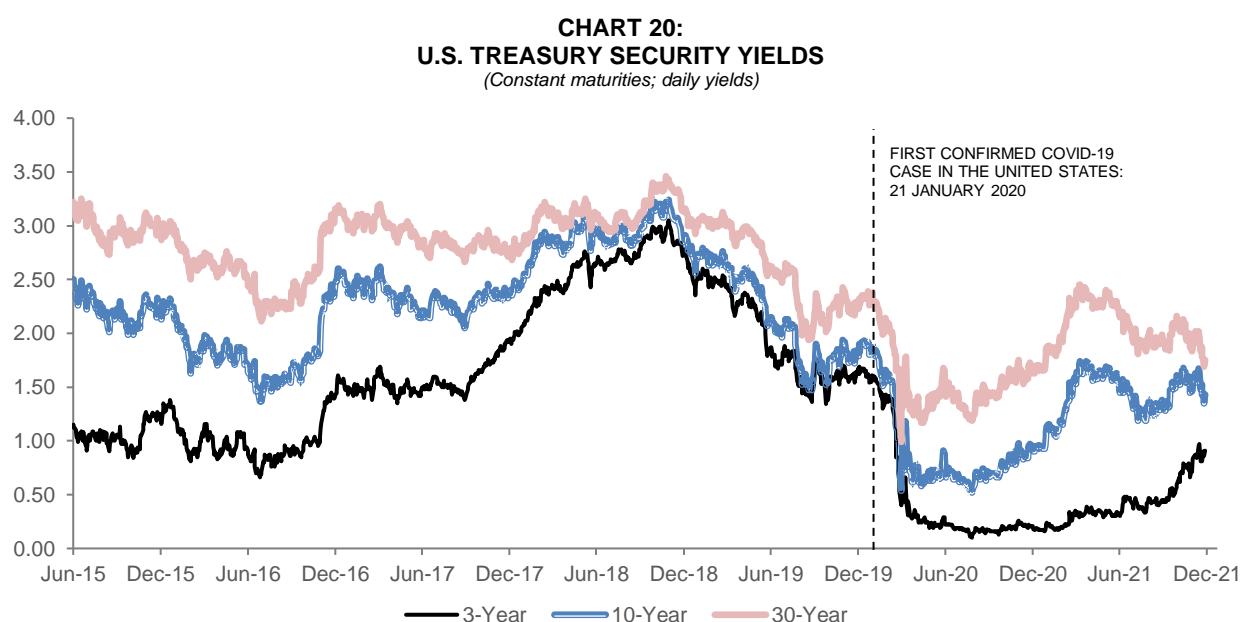
⁷ Budget reconciliation provides a fast-track process for consideration of bills to implement the policy choices embodied in the annual congressional budget resolution, regarding taxes, spending, and the debt limit. Only policies that change spending or revenues can be included. Senate debate time is limited, and only certain kinds of amendments can be offered.

President Biden’s economic agenda. The proposal aims to expand Medicare coverage, invest new sums to combat climate change, authorize universal prekindergarten and provide new aid to low-income families, all financed through tax increases targeted at high-income individuals and corporations. House Democrats adopted the bill in November.

White House officials have argued that over the long-term, the spending measures contained in both the infrastructure bill and the budget resolution will ease price pressures by addressing longstanding supply constraints, for example in the housing and child-care sectors.

H. Financial conditions

The deals addressing government funding and the increase in the debt ceiling removed some of the policy uncertainty that markets had priced-in for the end of the year. Yields for 10-year and 30-year U.S. Treasury securities declined 6% and 14%, respectively, in October and November (chart 20).



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

From January to November 2021, the 3-year, 10-year and 30-year Treasury yields surged 376%, 54% and 8%, respectively, with the 3-year Treasury yields surging to more than four times their decline in 2020. There has been an overall increase in yields in the first eleven months of the 2021, but U.S. Treasury yields declined in the third quarter, with strategists pointing to a number of reasons for the drop in yields, from technical issues to fears that inflation would force the Federal Reserve to move too fast to tighten policy, slowing the economy as a result (table 3).

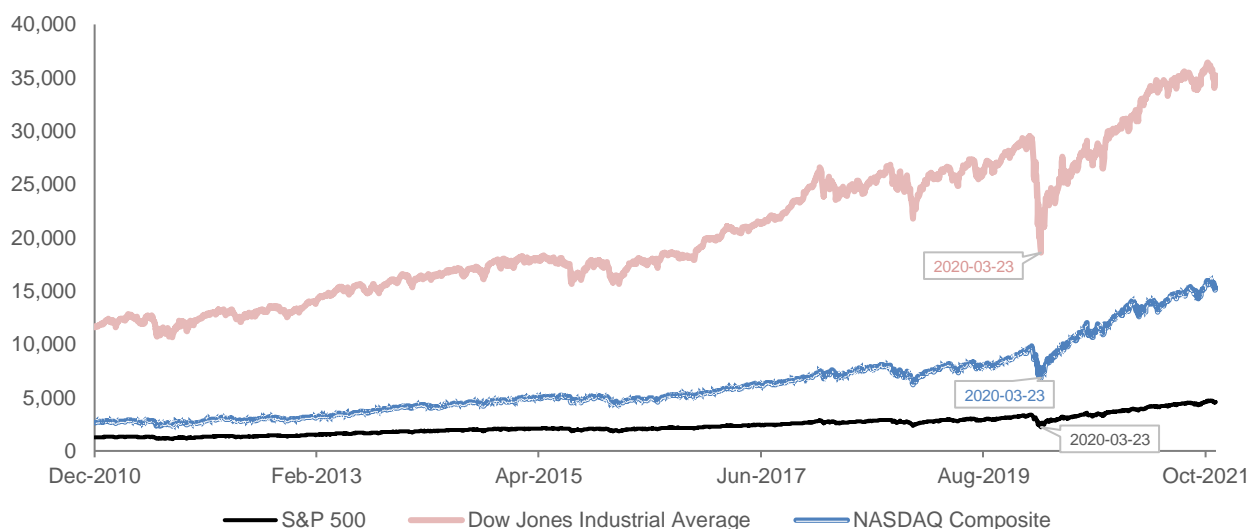
TABLE 3:
U.S. TREASURY SECURITY YIELDS
(Percentage Change)

	3-year	10-year	30-year
2020	-89.51%	-51.56%	-30.96%
Q1 2021	105.88%	87.10%	46.06%
Q2 2021	31.43%	-16.67%	-14.52%
H1 2021	170.59%	55.91%	24.85%
Q3 2021	-13.21%	-4.61%	-0.96%
JAN-NOV 2021	376.47%	53.76%	7.88%

Source: ECLAC Washington Office, based on data on Monthly Yields, Constant Maturities, Economic Indicators, U.S. Government.

Stock markets are heading into the end of the year near record highs, although they recorded a few losses after the Omicron variant of the coronavirus emerged (chart 21). However, following a pattern that has held during the pandemic, the stocks market is already recovering. Since February 2020, each bout of pandemic-driven volatility in the stock market has been shorter than the one before according to the New York Times, and followed by a recovery to a new high.⁸ The S&P 500 through 6 December had recovered nearly all its losses from its previous peak after Omicron's existence was announced by official on 26 November. From January to November 2021, the Dow Jones Industrial Average, the S&P 500 and NASDAQ gained 13%, 22% and 21%, respectively (table 4).

CHART 21:
U.S. STOCK MARKET INDICES: 2010 –2021
(Daily, not seasonally adjusted)



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

TABLE 4:
STOCK PRICES
(Percentage Change)

	Dow Jones Industrial Average	S&P 500	Nasdaq
2020	7.25%	16.26%	-11.46%
Q1 2021	7.76%	5.77%	2.78%
Q2 2021	4.61%	8.17%	9.49%
H1 2021	12.73%	14.41%	12.54%
Q3 2021	-1.91%	0.23%	-0.38%
JAN-NOV 2021	12.67%	21.59%	20.56%

Source: ECLAC Washington Office, based on data on Monthly Stock Prices, Economic Indicators, U.S. Government, <https://www.govinfo.gov/app/collection/econ/>.

I. External sector

The United States nominal trade deficit narrowed noticeably in October, the latest data available, as an increase in exports of energy and agricultural commodities outpaced growth in imports, which were restrained by a backlog at U.S. ports that month. The deficit in trade in goods and services fell by 17.6% to a seasonally adjusted US\$ 67.1 billion in October, according to data released by the Commerce Department

⁸ Karl Russell and Mohammed Hadi, "The Stock Market's Covid Pattern: Faster Recovery From Each Panic," *The New York Times*, 7 December 2021

on 7 December, compared with a record US\$ 81.4 billion gap in September (chart 22). This is a positive development for growth in the fourth quarter.

CHART 22:
U.S. BALANCE ON GOODS AND SERVICES TRADE
(Millions of dollars, months seasonally adjusted)



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

Imports rose 0.9% in October to US\$ 290.7 billion, but exports grew more, rising 8.1% to US\$ 223.6 billion. The strong month for U.S. exports was driven by a range of factors, some of which are unlikely to persist. For example, crude-oil exports increased by US\$ 1.2 billion, as refineries came back online in October after being partially shutdown in September due to Hurricane Ida. Food, feed and beverage exports climbed by US\$ 2.1 billion, a gain that was driven in part by China stepping up purchase of soybeans in the final months of the two-year Phase One U.S.-China trade deal, which called for Beijing to hit certain purchase targets of U.S. goods. Automobile exports, which have been restrained in recent months, increased US\$ 1.5 billion.

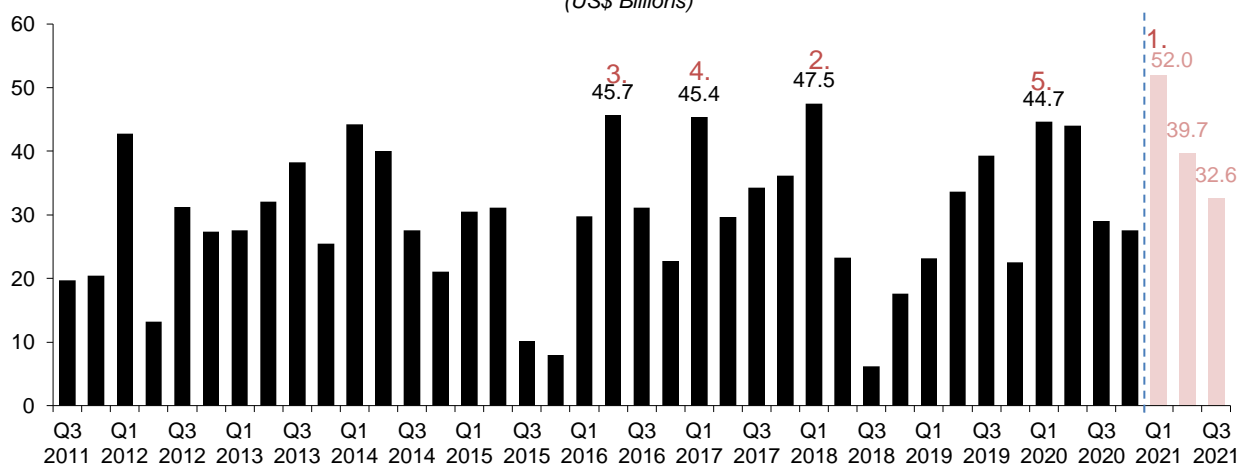
Goods exports rose 11.1% while services grew 1.6%. Services have grown slowly in recent months as the pandemic continues to hold back much of the in-person interactions that many services depend upon. Tourism to the United States, a major driver of services exports, remains deeply depressed compared to its pre-pandemic level. The recent lifting of travel restriction on overseas visitors to the United States from a number of countries is expected to boost the sector. Rules replacing the ban require international visitors to show proof of vaccination and a recent negative COVID-19 test, but these could be reversed. The Omicron variant lends downside risk to the trade forecast, however, as it could disrupt supply chains and also hurt nominal service exports.

II. Impact on financial conditions: Latin America and the Caribbean

The improved market liquidity created by the U.S. Federal Reserve in response to the COVID-19 pandemic, which helped avert a global depression, also encouraged portfolio managers to return to emerging markets where they could earn higher returns. The resumption of private financial flows to Latin America and the Caribbean staved off the wave of debt defaults and restructuring that were anticipated in the wake of the pandemic. Latin American and Caribbean (LAC) markets are proving more resilient than expected as a result, despite the many challenges the region has faced since the onset of the COVID-19 pandemic.

Access to international bond markets, in particular, has remained strong. Regional international bond issuance reached a milestone in the first half of 2021, registering the highest half-yearly issuance on record. Issuance in the third quarter, although lower than in the first half, remained strong (chart 25), and preliminary data for October point to a healthy monthly issuance of US\$ 13.5 billion. The region's international bond issuance in 2021 is on pace to breaking an all-time annual record.

CHART 25:
QUARTERLY LAC DEBT ISSUANCE IN INTERNATIONAL MARKETS
(US\$ Billions)



Source: ECLAC Washington Office, based on data from Dealogic, LatinFinance and Bloomberg. Note: 1-5: top 5 quarterly issuances.

However, there are many challenges ahead. The pandemic has battered LAC economies and worsened the region's long-standing structural problems such as poverty and inequality, low investment and productivity, labor informality and unemployment. Governments have issued more debt under emergency circumstances. The current debt level and lack of fiscal space, if unaddressed, may pose challenges to the future development of the region.

The United States Federal Reserve started tapering its asset purchases in November, and at its December meeting, it announced it was doubling the tapering monthly pace. In addition, three increases in interest rates are expected in 2022, according to its newest projections, with three more rate rises penciled in for 2023, followed by two in 2024, a faster pace of tightening than was projected earlier. As a result, external financial conditions next year may not be as favorable as they have been this year for the region, which may weigh on future bond issuances. Domestic financial conditions in the region have already tightened on the back of higher interest rates in response to rising inflationary pressures and growing fiscal risks. Tighter financial conditions domestically and abroad will likely increase downside risks to the region's economic recovery.

III. Looking ahead

There was a slowdown in the United States economic growth in the third quarter, but market forecasters anticipate faster growth in the fourth quarter. Households are still in a good position financially and the labor market continues to recover. Inflation is high, but energy prices have been falling sharply in recent weeks, while the ISM supplier deliveries index indicated slightly faster deliveries in November, suggesting that supply chain issues have at least stopped getting worse. This is leading market analysts to believe that November may have marked a peak in the CPI index, and that the outlook for economic growth in the fourth quarter and the holiday period is positive.

The longer-term outlook is also looking promising according to market forecasts, with forecasts pointing to growth of almost 4% in 2022 on average. However, a tightening of monetary policy could temper growth in the sectors most exposed to interest rates, such as business investment and real estate.

President Biden is urging Congress to deliver the remaining piece of its “Build Back Better” agenda before the end of the year, after the United States Infrastructure Investment and Jobs Act (IIJA) was signed into law on 13 November 2021. The “Build Back Better Act,” under discussion in the Senate, would be approved through a budget resolution and would overhaul health care, education, climate, immigration and tax laws to make significant investments in many parts of the economy and to help the poor and working class. White House officials point to the success of the pandemic aid as an example of how additional resources can make a dramatic difference in decreasing poverty and hardship.

The emergence of Omicron and the continued spread of Delta are risks to the economic outlook. A COVID-19 resurgence could ultimately worsen supply-demand imbalances and push inflation higher as it aggravates supply chain disruptions, forcing the Federal Reserve to raise interest rates faster than expected. Volatility in prices is a risk that could also lead to over- or under-building inventories, as well as lower consumer confidence, ultimately impacting economic growth.

Economic growth in the United States slowed to 2.1% year-on-year in the third quarter of 2021, from 6.7% year-on-year in the second quarter of 2021. Consumer spending in the third quarter rose at its slowest pace since the recovery began, as durable goods spending fell sharply amid supply shortages and rising inflationary pressures. The labour market remained strong, averaging 651,000 new jobs per month. With the Federal Reserve shifting its stance towards reducing accommodative measures at a faster pace, Latin America and the Caribbean may experience tighter external financial conditions next year.

The *United States economic outlook: third quarter of 2021* presents and analyses macroeconomic developments in the United States economy and examines how they could affect financial conditions in Latin America and the Caribbean. The report includes the gender perspective of the impact of the pandemic on the labour market.