Economic Commission for Latin America and the Caribbean

ECLAC WASHINGTON OFFICE

U.S. Economic Outlook

Quarterly developments

UNITED NATIONS

ECLAC

Washington, D.C., 28 june 2016

This document was prepared by Helvia Velloso, Economic Affairs Officer, under the supervision of Inés Bustillo, Director, ECLAC Washington Office.

United Nations Publication
LC/WAS/L.142

Printed in Santiago, Chile – United Nations

Contents

Highlights

- It seems increasingly likely the U.S. Federal Reserve will delay plans to raise short-term rates in the near future, at least until it becomes clearer how events in Europe – following Britain's decision to leave the European Union on June 23 – will affect the U.S. economic outlook.

- On June 15, the U.S. Federal Reserve held the target range for the federal funds rate at 0.25-0.50%, where it has been since the central bank lifted rates by ¼ point from near-zero levels in December 2015. Whereas in March all but one of the 17 Fed meeting participants thought the central bank would raise rates at least twice this year, there are now six who expect only a single, quarter-point move. Participants also lowered growth projections for the years beyond 2016.

- The Fed cited slower jobs growth and low inflation, and although it did not mention the U.K.'s referendum on its European Union membership in its statement, it said that it was continuing to "closely monitor inflation indicators and global economic and financial developments."

- Hiring by U.S. employers in May slowed to the weakest pace since 2010, with nonfarm payrolls rising by a seasonally adjusted 38,000, well below expectations for growth of about 160,000.

- At the same time, the unemployment rate reached its lowest level since November 2007 – 4.7% – but the decline from a previous 5% rate was driven by people quitting the labor force, rather than an increase in hiring.

- Headline CPI increased by a lower-than-expected 0.2% month-on-month (mom) in May, though core CPI increased at a consensus 0.2% mom. On an annual basis, CPI expanded only 1.0%, well below the 2.0% that the Fed considers most consistent with long-term price stability. Core CPI held steady at 2.2%.

- Though inflation is slowly moving in the right direction – this was the third straight monthly rise in overall prices, as the damping effect of low oil prices and a strong dollar fade – the May consumer price index reading did not convey any sense of urgency for the Fed to raise rates for a second time.

- In the first quarter of 2016, the U.S. economy grew at an annualized rate of 1.1%, compared with a previous estimate of 0.8%, but still lower than the 1.4% rate in the fourth quarter of 2015, and considerably lower than the 3.9% of last year's second quarter.

- Consumer spending and the housing market were resilient in the first quarter, but business spending lagged behind as the fall in oil prices led energy groups to continue to cut back on capital projects.

- Productivity growth failed to gather momentum in the first quarter of 2016. Nonfarm output per hour fell 0.6% in the first three months of the year. Slumping productivity gains have led to disappointing real GDP growth this expansion.

- Unit labor costs rose by a greater-than-expected 4.5%, while hourly compensation, encompassing everything from salaries to retirement benefits and health care costs, surged at a 3.9% annual rate in the first quarter. It rose 3.7% over the past year, marking the biggest annual gain in two years.

- A strong U.S. dollar weighed on the manufacturing sector by making U.S. exports more expensive in the first quarter. However, in a sign that the manufacturing sector may be firming, the Institute for Supply Management said its index of manufacturing activity rose to a higher-than expected 51.3 in May, from 50.8 in April.

- Regarding the external sector, the current account deficit, the broadest measure of U.S. trade with the rest of the world, increased from a revised US$ 113.4 billion in the last quarter of 2015 to US$ 124.7 billion in the first quarter of 2016.

- The strong U.S. dollar is making U.S. exports of goods and services relatively expensive while lowering the cost of imports. The U.S. trade deficit increased 5.3% in April to a seasonally adjusted US$ 37.44 billion, according to the U.S. Commerce Department's latest release on June 3.

- In its June statement, the Fed said that growth "appears to have picked up" from its slow start in the first quarter. Market-based projections made on May and early-June also suggest that U.S. economic growth has increased in the second quarter, with growth projected to be stronger in the second half of the year.

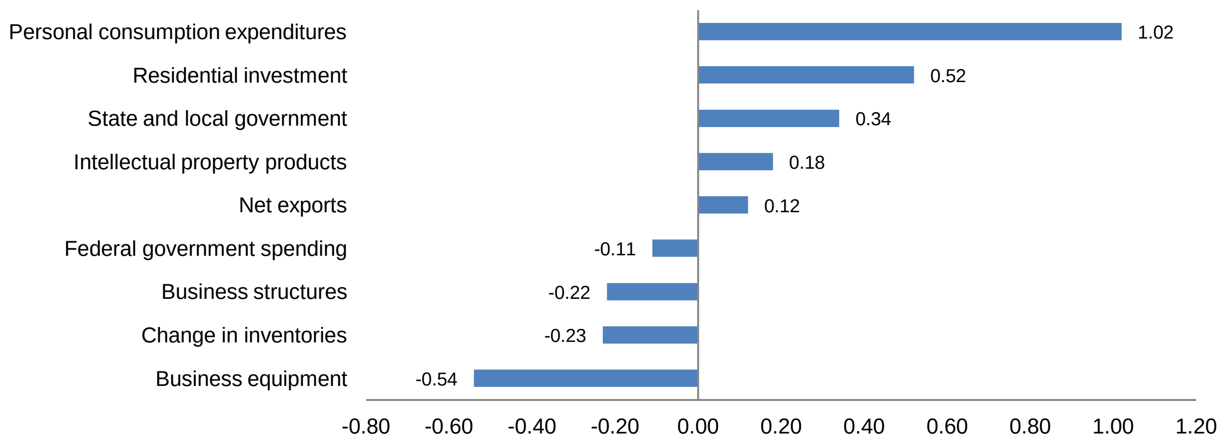
- However, uncertainty is on the rise. While the latest sales report released on June 14 was upbeat, suggesting consumer spending has continued to be strong and economic growth has accelerated, data released on durable goods orders on June 24 showed an unexpected contraction of 2.2% in May, signaling downside risks for second quarter growth. Moreover, the "Leave" camp's victory in the U.K.'s referendum has ushered significant domestic and international uncertainty, which may potentially undermine U.S. economic growth.

Overview

U.S. economic growth disappointed in the first quarter of 2016, as global conditions continued to have an adverse impact. According to the U.S. Department of Commerce's third estimate, the GDP grew at a 1.1% annualized pace in the first quarter, up from a previous estimate of 0.8%, and down from 1.4% in the fourth quarter of 2015. Growth was under 1.5% for the last two quarters, the worst six-month performance in nearly three years.

Consumer spending was a main driver of growth, contributing 1.02%, the biggest contribution to growth in the first quarter (chart 1). Residential investment added 0.52% to first-quarter growth, state and local government added 0.34%, investment in intellectual property products (software and R&D) added 0.18%, and net exports added 0.12%. Overall investment was a negative for growth, as nonresidential investment (business structures and business equipment, with the latter contracting the most) subtracted 0.76% from first-quarter growth. Also subtracting from growth were inventories (-0.23%) and federal government spending (-0.11%).

CHART 1:
CONTRIBUTIONS TO U.S. GROWTH: Q1 2016
(Percentage Points)



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

Nonfarm payrolls rose by a seasonally adjusted 38,000, well below expectations for growth of about 160,000 and the weakest job growth in six years. Following subdued growth in the first quarter, the weak May payroll report raised questions about the health of the U.S. economy, leading the Federal Reserve to remain on hold at its June meeting. On the positive side, job openings remain close to record highs, firing rates near record lows and wage growth is accelerating.

At its June meeting, the Federal Reserve kept the target federal funds rate unchanged at 0.25-0.50%, where it has been since it was lifted by ¼ point from near-zero levels in December 2015. The policy statement was viewed as dovish by markets, despite language noting that economic activity and household spending have picked up recently. Policy makers noted a mix of good news and bad, what by now has become a typical occurrence. Economic growth is picking up, but job growth has slowed. Consumers are spending, but businesses have lowered investments. Inflation is slowly moving in the right direction, but market-based measures of inflation expectations have recently declined. Exports are rebounding as the impact of a strong dollar begins to fade.

The Fed cited slower jobs growth and low inflation, and although not mentioned in the statement, the U.K.'s referendum was a source of concern and uncertainty. In its statement, the Fed said that it was continuing to "closely monitor inflation indicators and global economic and financial developments."

Fed officials still anticipate a raise in rates before year-end. However, whereas in March all but one of the 17 Fed meeting participants thought the central bank would raise rates at least twice this year, there are now six who expect only a single, quarter-point move. Rates forecasts for 2017 and 2018 have been pared back (to 1.6% and 2.4%, respectively, from 1.9% and 3.0% projected in March), as has the Fed's estimate of the longer-run policy rate (to 3.0% from 3.3% in March).

May industrial production was weak, showing a decline of 0.4%. The decline in manufacturing output was exacerbated by a squeeze in auto production, which had posted healthy increases in prior months. Manufacturing tends to lag final sales, which were weak earlier in the year. However, with retail sales strengthening recently (the latest sales report released on June 14 was upbeat) and construction spending near all-time highs, factories are expected to perform better in the second half of the year, as the pressure from a stronger dollar and cutbacks in energy-related capital spending fade. The Institute for Supply Management (ISM) factory survey shows manufacturing activity rising to a higher-than expected 51.3 in May, from 50.8 in April.

Recent data releases would suggest that U.S. growth in the second quarter and in the second half of the year will increase the pace relative to the beginning of the year. On average, markets project that the U.S. economy will grow at a 2.1% rate in the second quarter, and 2.4% and 2.3% in the third and fourth quarters, respectively, with most forecasts made in May (table 1). Risks include a fragile global economy, increased financial volatility and sell-offs following the "leave" victory in the June 23 U.K. referendum, and uncertainty over the Federal Reserve's monetary policy path in this scenario of turmoil in global markets.

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

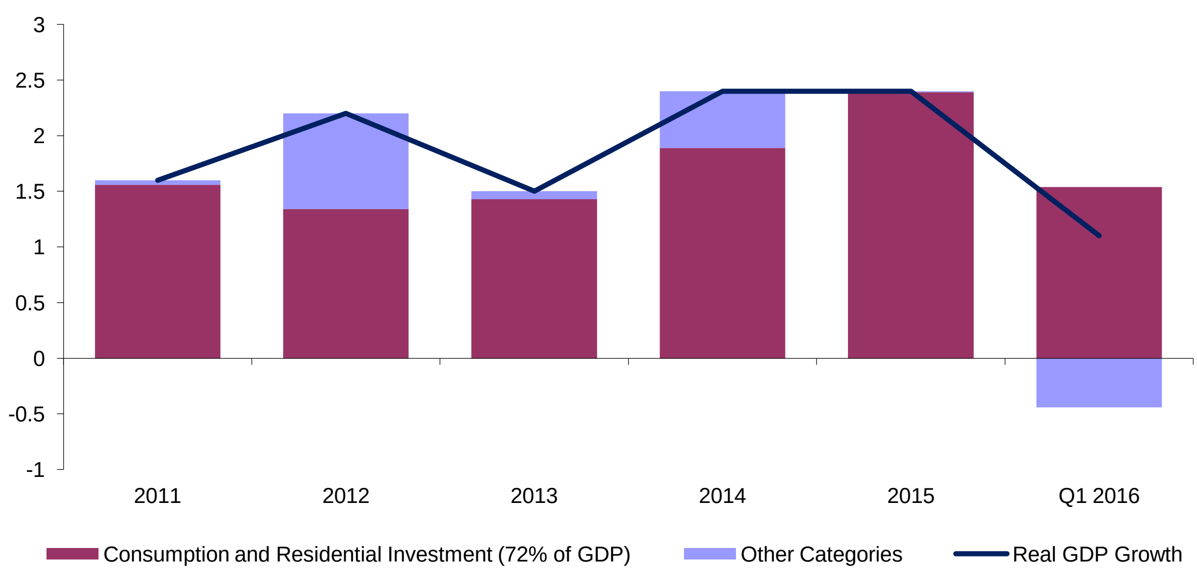
	Q2 2016 (qoq)	Q3 2016 (qoq)	Q4 2016 (qoq)	Date of Forecast
What Markets Say				
TD Bank Financial Group	2.6%	2.3%	2.0%	Jun-16
National Association of Realtors	1.7%	2.0%	2.2%	May-16
Mortgage Bankers Association	2.2%	2.2%	2.3%	May-16
Bank of America/Merrill Lynch	2.0%	2.3%	2.2%	May-16
Credit Suisse	1.9%	2.3%	2.6%	May-16
Moody's Economy.com	2.2%	2.9%	2.9%	May-16
J.P. Morgan	2.0%	2.3%	2.3%	May-16
Wells Fargo/Wachovia	1.4%	2.6%	2.5%	May-16
RGE	2.7%	2.7%	1.8%	Jun-16
Forecasts average	***2.1%***	***2.4%***	***2.3%***	

Source: ECLAC, on the basis of several market sources.

I. Quarterly Developments

U.S growth faltered at the beginning of 2016. Headwinds came from global weakness, as well as elevated inventories and a continued slowdown in energy investment. However, the core of the U.S. economy – consumption and residential investment – remained resilient in the first quarter of 2016 (chart 2). On the negative side, business equipment investment contracted sharply.

CHART 2:
CONTRIBUTIONS TO U.S. REAL GDP GROWTH
(Percentage Points)

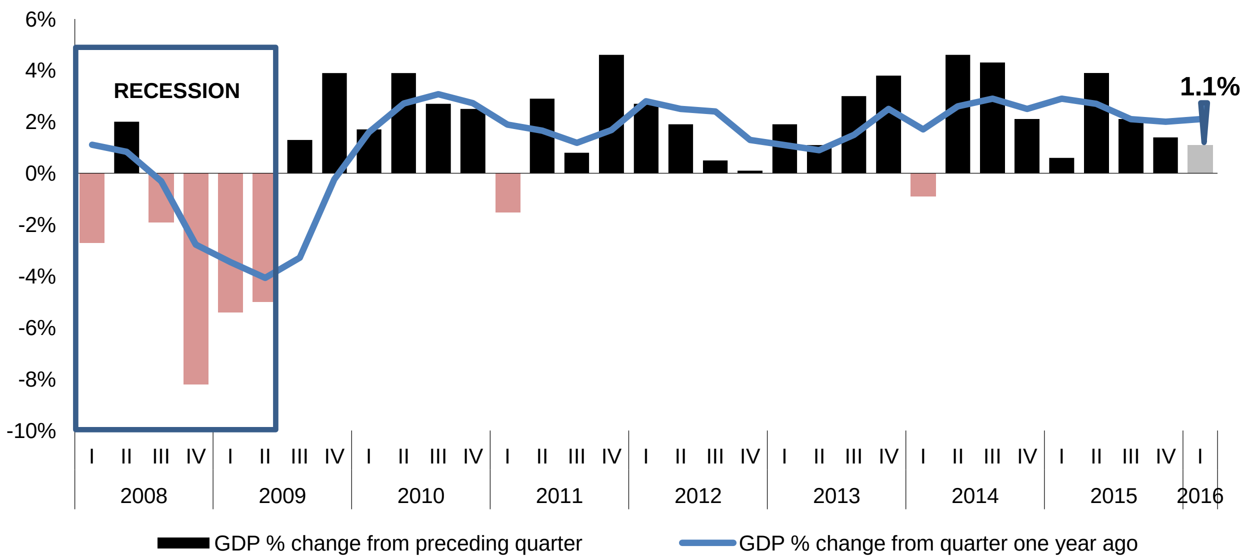


Source: ECLAC, on the basis of data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. GDP Growth

According to the third estimate released by the U.S. Department of Commerce on 28 June 2016, the U.S. economy grew at an annual rate of 1.1% in the first quarter, following an increase of 1.4% in the previous quarter. It followed a similar pattern to recent years, with a sharp slowdown early in the year (chart 3). As first quarter growth has been soft for several years, some analysts believe the weakness may be coming from problems in seasonal adjustment. Growth seems to be already surging in the second quarter, and smoothing over the volatility reveals an economy that is growing moderately despite weak global demand, a strong dollar and low oil prices. Consumer spending, residential investment, state and local government spending and net exports made positive contributions to growth in the first quarter, while nonresidential fixed investment, private inventory investment, and federal government spending subtracted from growth.

CHART 3:
U.S. REAL GDP: QUARTERLY GROWTH
(Percentage Points)

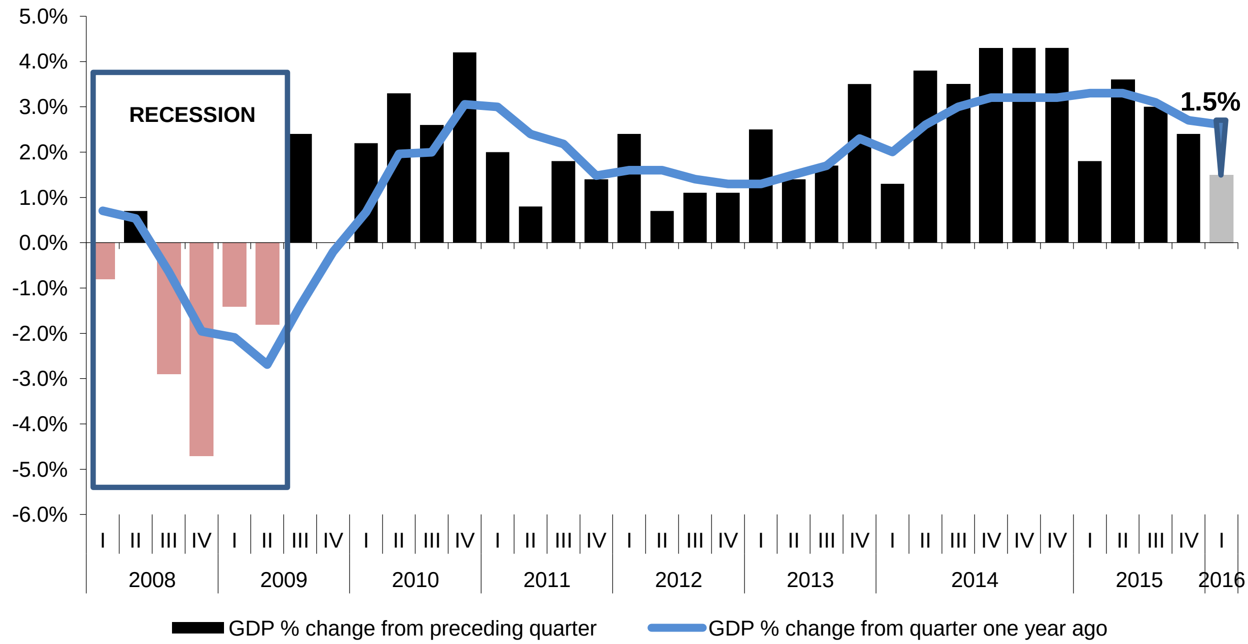


Source: ECLAC, on the basis of data from the Bureau of Economic Analysis, U.S. Department of Commerce.

The largest component of GDP, real personal consumption expenditures, grew 1.5% in the first quarter, following an increase of 2.4% in the fourth quarter of 2015 (chart 4). It was a main driver of growth, adding 1.02% to the first quarter expansion, the largest contribution to growth in the quarter. Stronger and higher-quality job growth in recent years, low borrowing costs and record low debt service burdens, rebounding housing prices, and lower oil prices have supported consumer spending. However, consumer spending was revised downwards from a previous 1.9% estimate, which caught attention of some analysts who expected consumer spending to be stronger due to a slight pickup in wages and cheap oil prices.

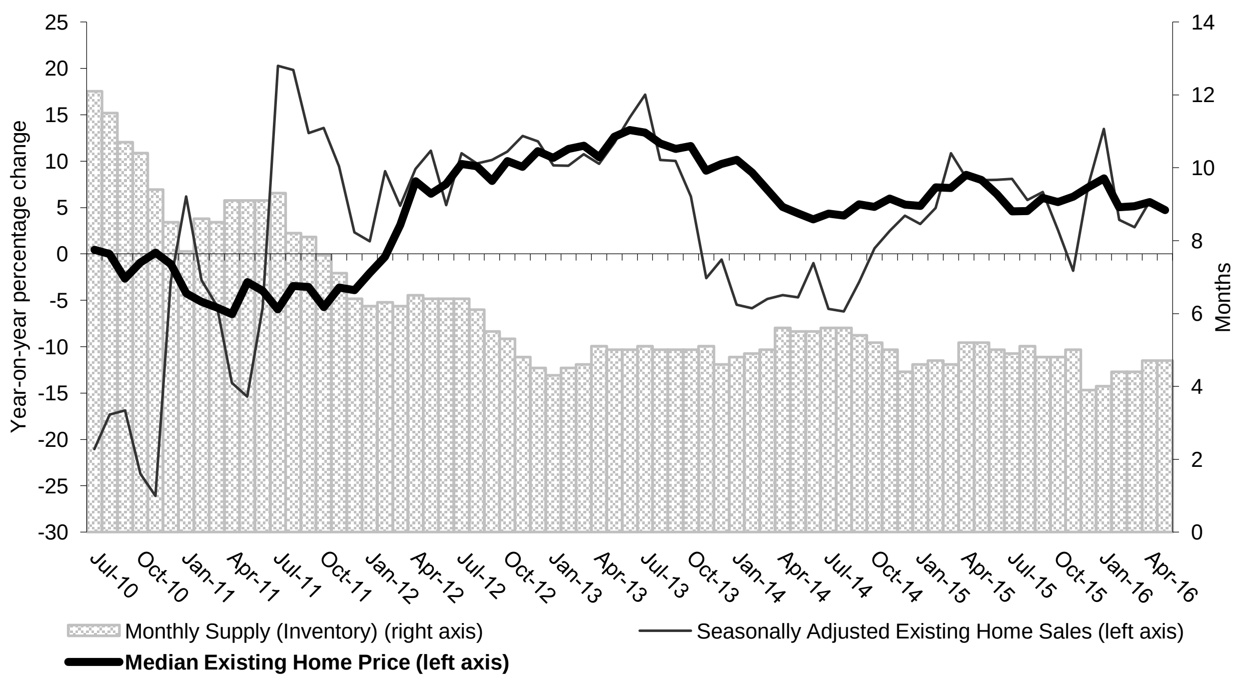
Conditions in the housing market continued to improve in the first quarter. Sales of existing homes climbed to a seasonally adjusted annual rate of 5.53 million in May, according to the National Association of Realtors, up 4.5% from May 2015 (5.29 million) and the highest annual pace since February 2007 (5.79 million), the latest sign the housing market is gaining traction. The national median existing home sale price was US$ 239,700, up 4.7% from a year earlier and the highest figure recorded by the Realtors' group. Unsold inventory is at a 4.7-month supply at the current sales pace, which is unchanged from April (chart 5). In 2015, existing-home sales came in at a pace of 5.25 million, the highest level since 2006.

CHART 4:
PERSONAL CONSUMPTION EXPENDITURE: QUARTERLY GROWTH
(Percentage Points)



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

CHART 5
U.S. HOUSING MARKET
(July 2010 to May 2016)

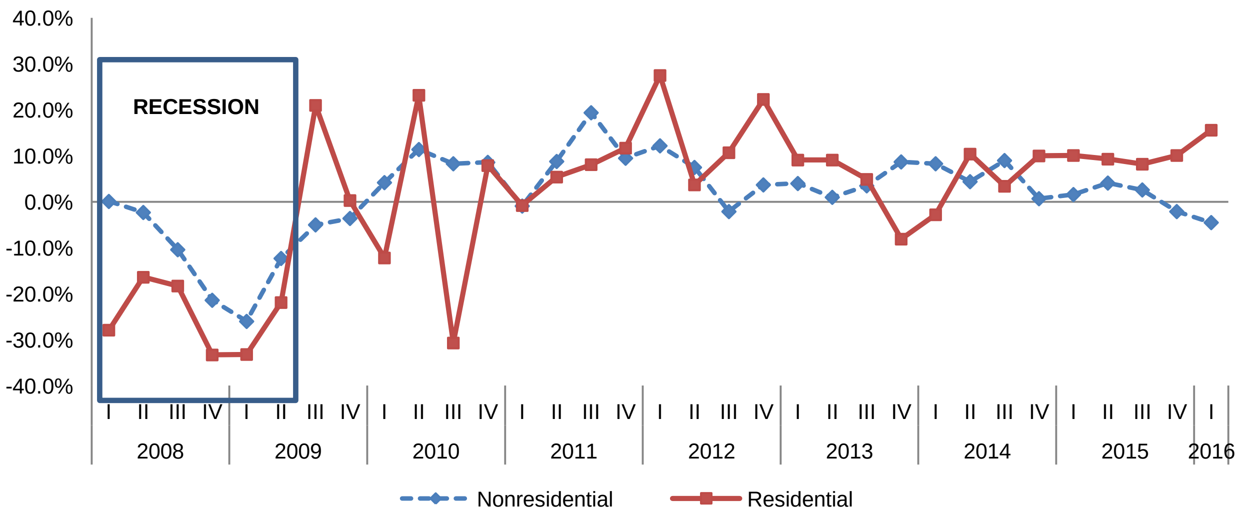


Source: ECLAC, on the basis of data from National Association of Realtors.

Real residential investment rose at a 15.6% pace (contributing 0.52% to first-quarter growth), following an increase of 10.1% in the previous quarter (chart 6). The invigorated housing market has provided a boost to the economy, helping offset a downturn in the energy sector and a slowdown in business spending.

Companies are pulling back on investments despite a strengthening housing sector, a solid labor market, and continuing low interest rates. Real nonresidential fixed investment, which represents overall business spending, declined at a 4.5% annual rate in the first quarter (chart 6), following another decline of 2.1% in the previous quarter (it subtracted 0.58% from first-quarter growth). Investment in equipment fell 8.7%, after declining 2.1% in the fourth quarter of 2015. Investment in intellectual property products – including software, R&D, entertainment, literary and artistic originals – increased 4.4%, following a decline of 0.2% in the fourth quarter. Investment in nonresidential structures declined 7.9%, after a decline of 5.1% in the previous quarter. Business investment lagged behind as the fall in oil prices prompted companies in the energy sector to continue cutting back on spending on capital projects, and a strong U.S. dollar weighed on U.S. manufacturers by making the price of their exports more expensive.

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



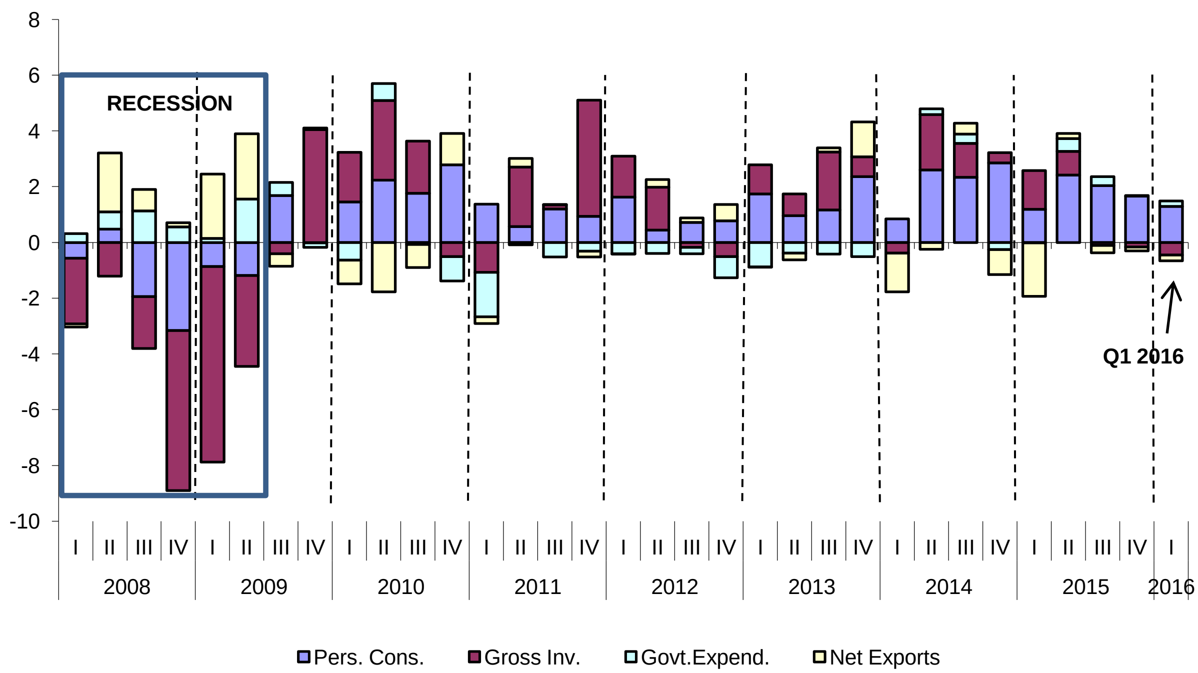
Source: ECLAC, on the basis of data from the Bureau of Economic Analysis, U.S. Department of Commerce.

The change in private inventories subtracted 0.23% from the first quarter change in real GDP, after subtracting 0.22% from growth in the previous quarter. Overall, gross private domestic investment declined at a 1.8% annual rate in the first quarter, subtracting 0.29% from first-quarter GDP growth (with -0.06% due to business fixed investment – -0.58% from nonresidential and 0.52% from residential – and -0.23% due to inventories). Real final sales – GDP excluding the change in inventories – expanded at a 1.3% pace, down from the 1.6% pace in the previous quarter.

Total government consumption was a positive to growth in the first quarter. Overall, government spending increased 1.3% and contributed 0.23% to growth in the first quarter. State and local government spending increased 3.2%, but federal outlays declined 1.6% in the first quarter (national defense spending fell 3.7%, while nondefense spending increased 1.6%).

Finally, net exports added 0.12% to growth in the first quarter. Exports increased 0.3% and imports declined 0.5%, as the dollar stabilized against major currencies and global conditions improved towards the end of the quarter (chart 7).

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



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

In summary, the second estimate of GDP growth in the first quarter was revised up, but it still looks disappointing. Weak capital expenditures by U.S. businesses weighed on growth. The first quarter saw the steepest decline in fixed nonresidential investment – a proxy for U.S. business spending – since the tail end of the recession, including sharply lower spending on structures and equipment. Much, but not all of the weakness, stems from the energy sector's woes. Recent data, however, suggest that activity is bouncing back, so growth in the second quarter is expected to increase.

B. Industrial production

Signs of improvement in the industrial sector remain elusive, as a stronger dollar and inventory correction weigh on manufacturing activity, while the downturn in oil drilling weighs on mining. Industrial production declined 1.6% in the first quarter, following a decline of 3.3% in the fourth. Manufacturing – the largest component of that index – increased by 0.6% in the first quarter, following a decline of 0.7% in the fourth.

Industrial production fell 0.4% in May. This is the third decline in the last four months and was a larger-than-expected decline (consensus was -0.2% mom). More important, production has lost 3% since peaking in November 2014. Manufacturing output also contracted 0.4%. The decline in output was largely driven by the decline in motor vehicles and parts (-4.2% mom). Business equipment production fell 0.7% in May after advancing in April, which was revised upward from 0.8% to 1.2%. Consumer goods production, meanwhile, also fell 0.7% in May. Utilities output fell for the third time in four months, slipping 1.0% in May, whereas mining output inched 0.2% higher for the first time in a year. Production in mining has declined nearly 18% since late 2014.

Capacity utilization fell from 75.3% in April to 74.9% in May; for manufacturing, it also edged lower to 74.8% from 75.2% in the previous month. Market analysts have noted that declining capacity utilization has historically been more associated with slack and disinflation rather than a gradual increase in inflation, such as that forecast by the Federal Reserve's FOMC.

TABLE 2:
U.S INDUSTRIAL PRODUCTION

	Total Industrial Production		**Capacity Utilization Rate**
	Index 2012=100	Percentage Change From Previous Period	Total Industry (%)
2015	**105.2**	**0.3**	**76.7**
2016 Q1	**104.1**	**-1.6**	**75.4**
January	104.6	0.5	75.8
February	104.4	-0.2	75.6
March	103.4	-1.0	74.8
2016 Q2			
April	104.0	0.6	75.3
May	103.6	-0.4	74.9

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

The Institute for Supply Management's index of manufacturing activity, on the other hand, rose to a higher-than-expected 51.3 in May, from 50.8 in April. A reading above 50 indicates that factory activity is expanding while a reading below 50 signals contraction. This is the third straight month the sector has been in expansionary territory, following five months of contraction. The sector is starting to shake off some of the factors that have been holding it back, such as low commodity prices and past appreciation of the U.S. dollar. Energy is expected to become less of a drag on the economy but it could take longer to lessen some of the weight on both employment and factory production.

C. Labor market

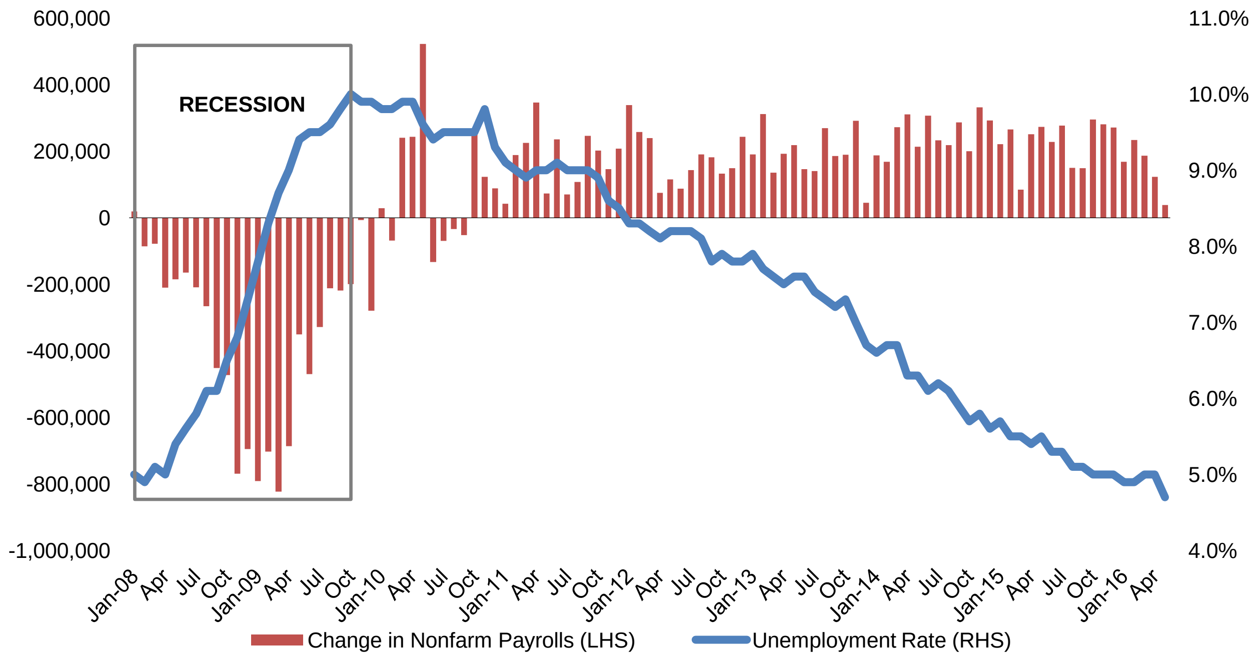
The U.S. economy added 38,000 jobs in May, the weakest performance since September 2010. Although the impact of a strike by workers from Verizon, a telecommunications company, on payroll employment was expected – it brought information employment down by about 34,000 – the generally weak report surprised the markets. In addition, estimates of job growth in April and March were revised down, showing that employers took on 59,000 fewer workers than previously reported.

The average jobs growth for the first quarter of 2016 was 196,000 a month, while the average gains for 2016 year-to-date are 149,600 a month. In 2015, the economy added 229,000 jobs per month on average. The trend shows a slowdown in hiring, as the unemployment rate continues to decline.

The unemployment rate fell to 4.7% in May from 5.0% in April. That was the lowest level since November 2007, but the decline was driven by people leaving the labor force, rather than buoyant hiring. The unemployment figure averaged 4.6% in the years before the recession then peaked at 10% in 2009 (chart 8). The broadest measure of underemployment (U-6 unemployment rate) was unchanged at 9.7% in May. This measure includes workers who have given up searching and also part-time workers who would prefer to work full time. This is the lowest level since 2008.

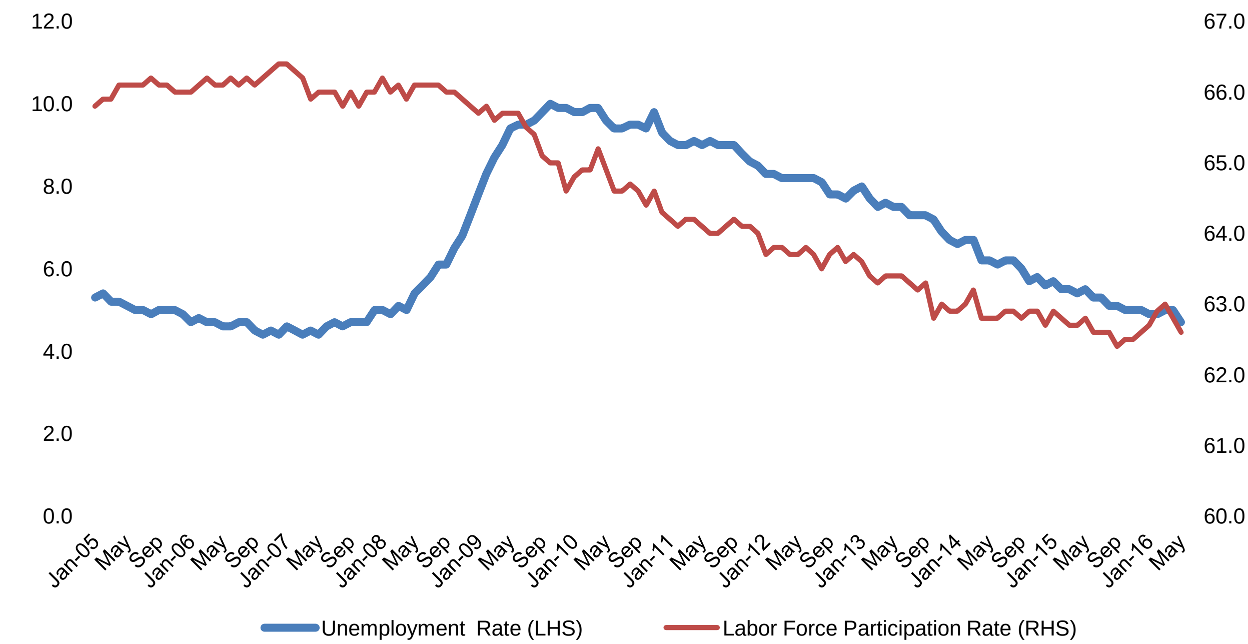
In May, the civilian labor force participation rate decreased by 0.2% to 62.6%. The rate has declined by 0.4% over the past 2 months, offsetting gains in the first quarter. The rate started to climb in the fall of last year and through the early months of this year, but that trend seems to have reversed (chart 9). The employment-population ratio, at 59.7%, was unchanged in May.

CHART 8:
THE U.S. LABOR MARKET
(Average Monthly Job Growth (left axis); Percentage Points (right axis))



Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

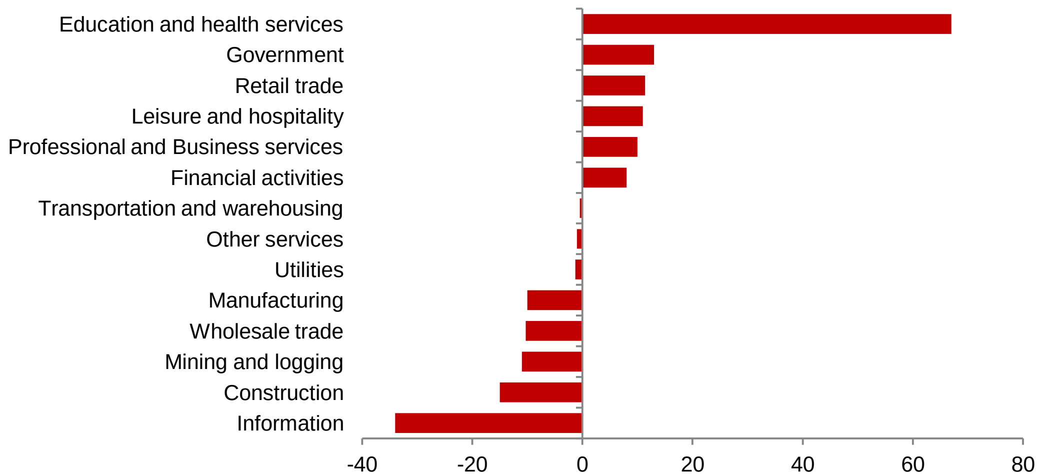
CHART 9:
U.S. UNEMPLOYMENT RATE AND LABOR FORCE PARTICIPATION
(Percentage Points)



Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

The slowdown in May undermined the notion that labor market conditions are continuing to strengthen and contributed to give Federal Reserve officials a reason to stay on hold in June. Jobs growth in May was concentrated in the private sector, which added 25,000 jobs, while government payrolls grew by 13,000. The month of May saw strong gains in healthcare employment, but other major sectors experienced declines, including manufacturing, where 10,000 jobs were shed; construction posted a second month of decline, shedding 15,000 jobs; and mining, which continued to suffer the effects of low commodity prices and shed 10,200 jobs. The strike by Verizon workers contributed to the losses seen in the information sector (chart 10).

CHART 10:
U.S. EMPLOYMENT REPORT BY SECTOR: MAY 2016
(Month-on-Month Change in Payrolls, Thousands)



Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

Forecasters have sharply lowered their expectations for job growth in the coming year. They now expect the U.S. economy will add about 155,000 jobs a month over the next year, a pace of about 1.9 million annually. In 2015, 2.7 million jobs were created. That is the third consecutive month of lowered expectations for the jobs outlook. The estimates fell from about 180,000 in May, 185,000 in April and 190,000 in March.

With not enough credit growth and sluggish business formation, the U.S. economy is suffering from stalled productivity. The productivity slowdown in the U.S. economy continued in the first quarter of 2016. Nonfarm output per hour fell 0.6% in the first three months of the year. On a year-ago basis, nonfarm output per hour is up only 0.7%, a historically low level.[1] In addition to slowing total factor productivity, analysts attribute the weakness in productivity to persistent weakness in business investment.

Workers' hours and compensation are accelerating, suggesting the labor market is nearing a level of employment deemed to be healthy without stoking too much inflation. Over the past year, hourly compensation rose 3.7%, marking the biggest annual gain in two years. Hourly compensation increased 3.9% in the first quarter of 2016, implying an increase in unit labor costs of 4.5% (table 3, chart 11). If companies can't boost productivity, they must either absorb the costs in their profit margins or raise prices.

The challenges for labor-intensive companies are growing as wage pressures gradually build in a context of low growth and stagnant productivity. U.S. businesses are facing a combination of historically low productivity growth, accelerating wages and slow demand, raising the risk they will slow hiring, cut spending further and weaken an already-fragile economy. The weak May employment report and persistent low productivity have thus clouded the outlook and the prospects for a Federal Reserve rate increase in the summer.

[1] Productivity grew at an annual average of 2.2% since World War II but has expanded just 0.5% over the last five years.

TABLE 3:
U.S. PRODUCTIVITY AND COSTS

Revised first quarter 2016 annual averages
(Seasonally adjusted annual rates)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
	Percent change from preceding quarter					
Nonfarm business	-0.6	0.9	1.5	3.9	4.2	4.5
Business	-0.7	0.8	1.6	3.8	4.1	4.5
Manufacturing	1.3	0.6	-0.7	2.5	2.8	1.1
Durable	-0.6	-0.2	0.4	1.6	1.9	2.2
Nondurable	4.2	1.6	-2.5	4.0	4.3	-0.2

Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

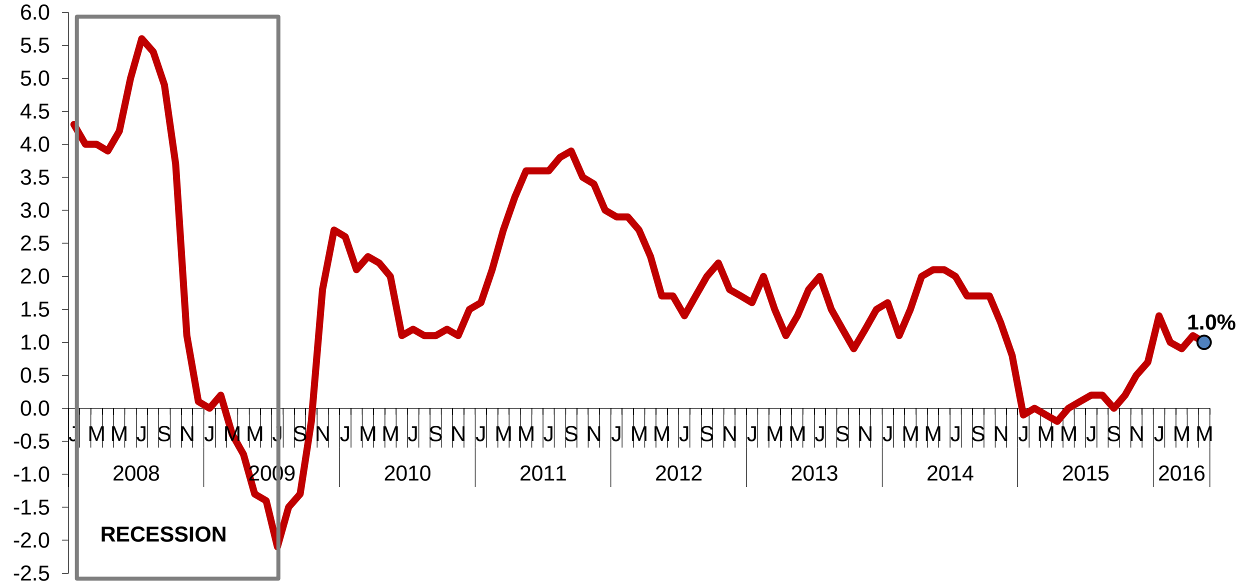
CHART 11:
U.S. NONFARM BUSINESS SECTOR: PRODUCTIVITY VS UNIT LABOR COSTS
(Percentage Change from Previous Quarter at Annual Rates)

Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

D. Inflation

The downward pressure on consumer prices from declines in energy prices and an appreciating U.S. dollar has diminished in recent months. In May, the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% after posting a 0.4% gain in April, which was the largest monthly gain since 2013. It was the third straight monthly rise in overall prices as the downward effects of low oil prices and a strong dollar fade. Over the last 12 months, the all items index rose only 1.0% before seasonal adjustment (chart 12). The energy CPI rose 1.2% after rising 3.4% in April. Food prices fell 0.2% in May, reversing April's gain. It was the fifth time in the past seven months that grocery prices had declined.

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



Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

Excluding food and energy, the CPI rose 0.2% for the second consecutive month, propelled by a 0.4% increase in shelter costs, the largest one-month jump since February 2007. The core CPI was up 2.2% on the year, marking the seventh consecutive month that annual core inflation matched or exceeded 2%. The firming in core prices has largely reflected the swift rise in the cost of shelter, especially rent. Shelter prices rose 3.4% in May from a year earlier, the largest annual gain for the category since September 2007.

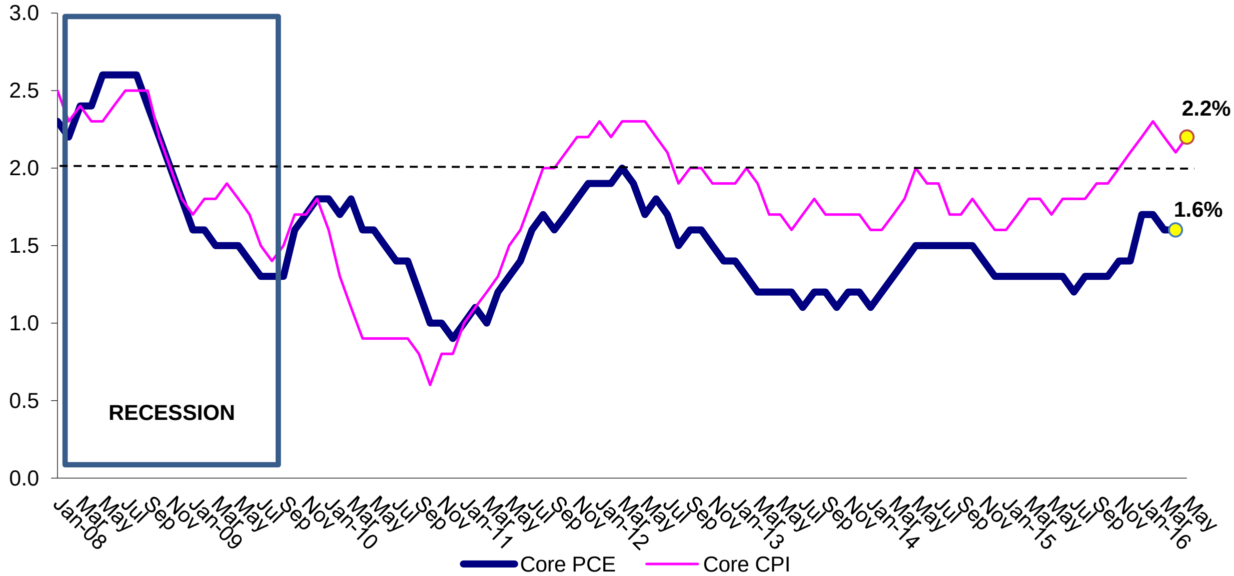
The most closely watched measure by the Federal Reserve – the Personal Consumption Expenditure (PCE) core price index– increased at an annualized 1.7% in the first quarter. In April, the latest data available, the core PCE advanced at 1.6%, lower than the Federal Reserve's treshold of 2%. April marked the 48th consecutive month in which prices have fallen short of the Fed's 2% annual target (chart 13).

PCE, which is published by the U.S. Commerce Department's Bureau of Economic Analysis, is derived from retail-sales data collected in business surveys, and in this data, medical care tends to carry the greatest weight. The CPI, on the other hand, is derived from consumer purchases reported in household surveys. Typically, consumers report spending more on shelter than anything else, giving that category more weight in the CPI. Since shelter costs have been rising, the core CPI has been been increasing faster than the core PCE.

U.S. inflation has been broadly muted in the wake of the 2007-2009 recession. Inflation measures were pushed down further starting in 2014 by falling global oil prices and a rise in the dollar's value against other major currencies, which reduced prices for imports. As seen in chart 13, overall price growth has undershot the Federal Reserve's 2% annual target for the past four years by the central bank's preferred measure, the core PCE.

However, there are signs of building wage and price pressures as the labor market tightens. Real hourly compensation increased 4.2% in the first quarter of 2016 according to the U.S. Labor Department. Oil prices have risen in recent months, and the dollar has stabilized against other major currencies. However, the Fed seems increasingly concerned about inflation expectations, as recent inflation survey and market-implied data have pointed to falling longer-term inflation expectations. The Fed has vowed to watch the recent trend carefully.

CHART 13:
U.S. CORE CONSUMER PRICE INDICES
(Year-over-year Percentage Change)

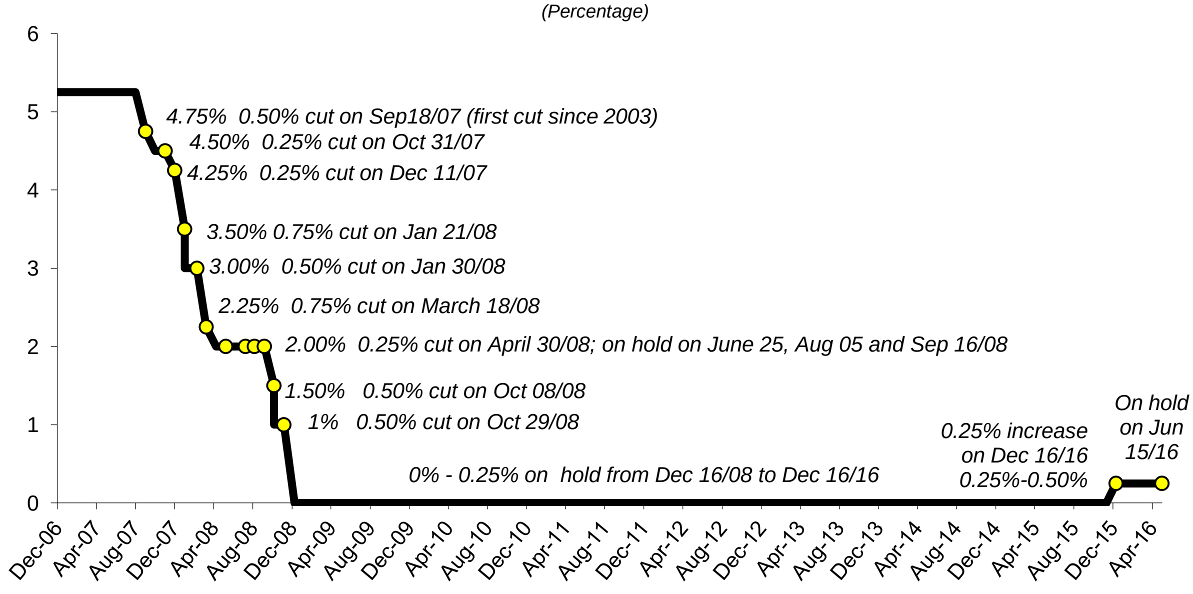


Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics (BLS), Department of Labor and the Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

E. Monetary policy

The Federal Open Market Committee (FOMC) remained on hold following its two-day meeting on June 14-15 (chart 14). The decision to wait was unanimous. "Recent economic indicators have been mixed, suggesting that our cautious approach to adjusting monetary policy remains appropriate," the Fed Chair, Janet Yellen, told a news conference after the meeting.

CHART 14:
U.S. FEDERAL FUNDS TARGET RATE
(Percentage)



Source: ECLAC, on the basis of data from the U.S. Federal Reserve.

Although early in the month the committee seemed set to increase the benchmark interest rate a second time at the June meeting, a disappointing jobs report in May and unease regarding external conditions, particularly the Brexit vote, raised policymakers concerns about the health of the U.S. economy. “The labor market appears to have slowed down, and we need to assure ourselves that the underlying momentum in the economy has not diminished,” Ms. Yellen said.

In this environment of slow growth and weak inflation, Fed officials once again dialed back their expectation for future rate increases. In December 2015, the Fed had predicted four rate increases this year. After its June meeting, the Fed released new projections showing that 15 of 17 policy makers now expect no more than two increases this year, and six of those officials predict just one. The median projection of Fed officials was that the Fed’s benchmark rate would rise to just 2.4% by the end of 2018, down from a March median of 3%.

Markets are more pessimistic than the Fed. The yield on the benchmark 10-year Treasury fell of its lowest level since 2012 after the meeting. Investors were heavily discounting the chances of a rate increase at the Fed’s next meeting in July, or the following meeting in September. Those chances, derived from asset prices, stood at 12% and 28% respectively on June 15, according to the Chicago Mercantile Exchange. On June 24, in the aftermath of the U.K. referendum, the chances of an increase in July fell to zero. The odds for the Fed to raise rates by December fell to 13% from 43% a day earlier.

Once again, it remains a matter of uncertainty whether the Fed will be able to raise rates again this year. Britain’s decision to leave the European Union makes it increasingly likely the Federal Reserve will delay plans to raise short-term interest rates in the near future. Some speculate that, if it becomes clear the U.S. economy has been adversely affected by the U.K. decision in a lasting way, and the Fed’s projections for future growth and inflation are significantly downgraded, U.S. interest rates may be cut, moving closer to zero.

From the Fed’s perspective, the possibility of a severe appreciation of the U.S. dollar, which rose 2% against a broad basket of currencies in the aftermath of the vote, may be a concern. The strengthening dollar is in effect a policy tightening for the U.S. It hurts exports and puts downward pressure on import prices. The Fed has set up U.S. dollar swap lines with five global central banks – the Bank of England, European Central Bank, Bank of Japan, Swiss National Bank and Bank of Canada – through which it can make dollars available to financial institutions overseas if the Brexit vote spins into a crisis.

F. Financial conditions

Financial markets provide a risk channel from global developments to the U.S. economy. A prolonged slump in global risk appetite, which drives equity markets lower and increases risk aversion, could lead U.S. firms to cut back investment and hiring plans. U.S. equity market’s exposure to global growth is greater than the exposure of U.S.-based factories. Around 40% of S&P 500 revenues come from outside the United States. Volatility in financial markets may spark greater risk aversion and lead to slower Fed rate normalization.

Stock markets did not perform well in the first quarter of 2016, with the Dow Jones Industrial Average, the S&P 500, and NASDAQ loosing 1.37%, 1.56%, and 5.68%, respectively. Most of the losses took place in the first two months of 2016 (-7.09%, -7.29% and -11.45%, respectively). In the beginning of the year, credit and equity investors were deeply concerned about the risk of further slowdown in China’s GDP and the possibility of further devaluation of its currency, and about signs that the U.S. growth could be slowing while interest rates were set to increase.

However, monetary easing by major central banks, a firming of commodity prices, and increasing confidence that the U.S. Federal Reserve was not planning to raise interest rates again, powered U.S. stocks higher towards the end of the quarter. In March, the Dow Jones Industrial Average, the S&P 500, and NASDAQ gained 6.15%, 6.17% and 6.53%, respectively. From March to May 2016, they gained 8.54%, 8.46% and 7.28%, respectively.

The global hunger for U.S. government debt has been intensifying as investors search for safety while seeking better returns from the negative yields and record-low fund rates in Japan and Europe. On June 9, an auction of 30-year Treasury debt attracted some of the highest demand ever from overseas buyers, at a yield of 2.475%, the lowest for the 30-year bond since January 2015.

U.S. Treasury security yields with a 3-, 10- and 30-year maturity declined 18.75%, 15.16% and 9.76%, respectively, in the first quarter of 2016, and although there was an increase in yields in March, in 2016 year-to-date yields have declined 24.22%, 19.20% and 11.45%, respectively. The global demand for fixed-income products, seemingly at any price, remains deep around the world.

The simultaneous strengthening of safe-haven bonds and stocks might not be sustainable, market analysts warn. In the aftermath of Britain's vote to leave the European Union, while S&P 500 futures opened 3.3% lower, investors piled onto safe-haven bonds to preserve capital. Yields on U.S. Treasury notes plunged toward record lows as a result. The yield on the benchmark 10-year note fell to 1.419%, according to Tradeweb, just a little above its record low of 1.404% set in July 2012.

TABLE 4:
U.S. STOCK PRICES AND TREASURY SECURITY YIELDS

	STOCK PRICES				U.S. TREASURY SECURITY YIELDS		
	Monthly Stock Prices				Monthly Yields		
	Dow Jones	S&P 500	Nasdaq		3-year	10-year	30-year
2014				**2014**			
January	16,243.72	1,822.36	4,154.36	January	0.78	2.86	3.77
February	15,958.44	1,817.03	4,199.45	February	0.69	2.71	3.66
March	16,308.63	1,863.52	4,276.36	March	0.82	2.72	3.62
April	16,399.50	1,864.26	4,119.31	April	0.88	2.71	3.52
May	16,567.25	1,889.77	4,135.37	May	0.83	2.56	3.39
June	16,843.75	1,947.09	4,332.74	June	0.90	2.60	3.42
July	16,988.26	1,973.10	4,434.13	July	0.97	2.54	3.33
August	16,775.15	1,961.53	4,464.83	August	0.93	2.42	3.20
September	17,099.13	1,993.23	4,551.58	September	1.05	2.53	3.26
October	16,701.87	1,937.27	4,403.23	October	0.88	2.30	3.04
November	17,648.98	2,044.57	4,687.70	November	0.96	2.33	3.04
December	17,754.24	2,054.27	4,732.70	December	1.06	2.21	2.83
2015				**2015**			
January	17,542.26	2,028.18	4,673.70	January	0.90	1.88	2.46
February	17,945.41	2,082.20	4,854.26	February	0.99	1.98	2.57
March	17,931.75	2,079.99	4,938.01	March	1.02	2.04	2.63
April	17,970.51	2,094.86	4,985.95	April	0.87	1.94	2.59
May	18,124.71	2,111.94	5,029.94	May	0.98	2.20	2.96
June	17,927.22	2,099.28	5,073.04	June	1.07	2.36	3.11
July	17,795.02	2,094.14	5,082.14	July	1.03	2.32	3.07
August	17,061.59	2,039.87	4,934.62	August	1.03	2.17	2.86
September	16,339.95	1,944.40	4,748.00	September	1.01	2.17	2.95
October	17,182.28	2,024.81	4,879.04	October	0.93	2.07	2.89
November	17,723.77	2,080.62	5,082.51	November	1.20	2.26	3.03
December	17,542.86	2,054.08	5,040.54	December	1.28	2.24	2.97
2016				**2016**			
January	16,305.25	1,918.60	4,610.71	January	1.14	2.09	2.86
February	16,299.90	1,904.42	4,463.21	February	0.90	1.78	2.62
March	17,302.14	2,021.95	4,754.48	March	1.04	1.89	2.68
April	17,844.37	2,075.54	4,892.17	April	0.92	1.81	2.62
May	17,692.32	2,065.55	4,788.24	May	0.97	1.81	2.63

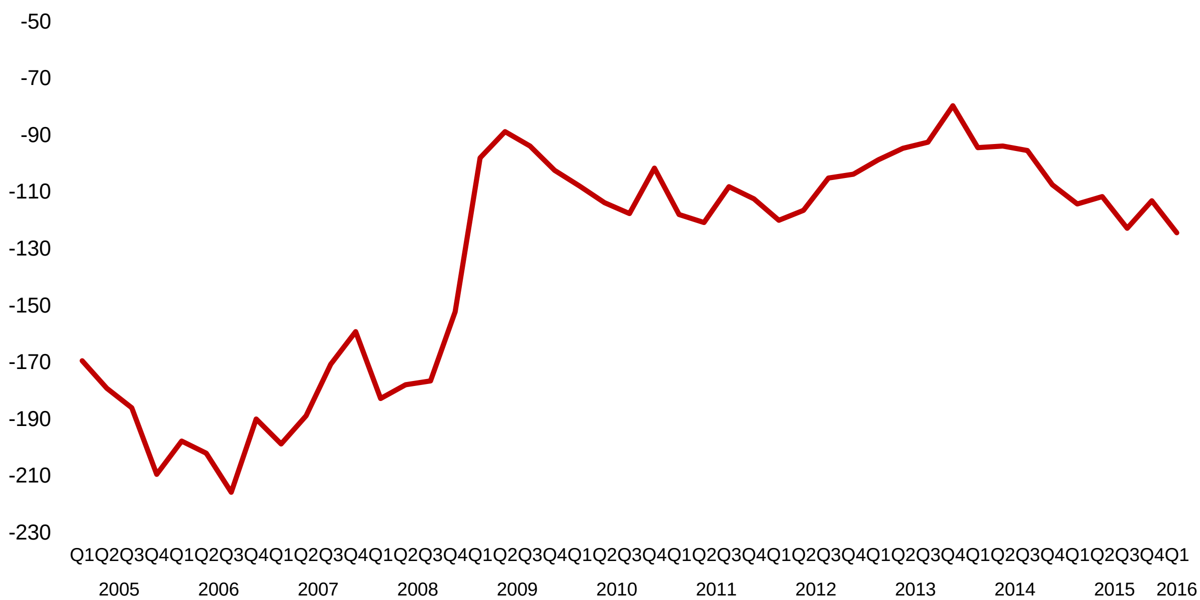
Source: Economic Indicators, U.S. Government

Regarding the banking sector, in the first part of its annual stress tests released on June 23, the Federal Reserve calculated that 33 of the largest U.S. banks would have loan losses of US$ 385 billion under a hypothetical scenario that envisioned the U.S. unemployment rate more than doubling to 10%, the stock market loosing half of its value and U.S. Treasury rates turning negative as investors pay the U.S. government to hold their money. Yet, even with these losses, regulators said, all of the big banks would remain in relatively good financial health due to a steady increase in capital on their books, an improvement in the quality of their loans and a drop in costs related to crisis-era litigation. The second round, which uses a broader set of criteria, is due within a week. The Fed will then judge not just the balance sheets but also banks' risk management practices.

G. External sector

The U.S. current account deficit, the broadest measure of net exports to the rest of the world because it includes income payments and government transfers in addition to foreign trade, widened from a revised US$ 113.4 billion in the last quarter of 2015 (2.5% of GDP) to US$ 124.7 billion in the first quarter of 2016 (2.7% of GDP). The deficit is among the highest since 2009 because of the strength of the dollar and weak external conditions. The strong U.S. dollar is making U.S. exports of goods and services relatively expensive while lowering the cost of imports. Foreign trade makes up the biggest share of the current account, and the large trade deficit the U.S. runs keeps the current account negative.

CHART 15:
U.S. BALANCE ON CURRENT ACCOUNT
(Quarters, Seasonally Adjusted, US$ Billion))



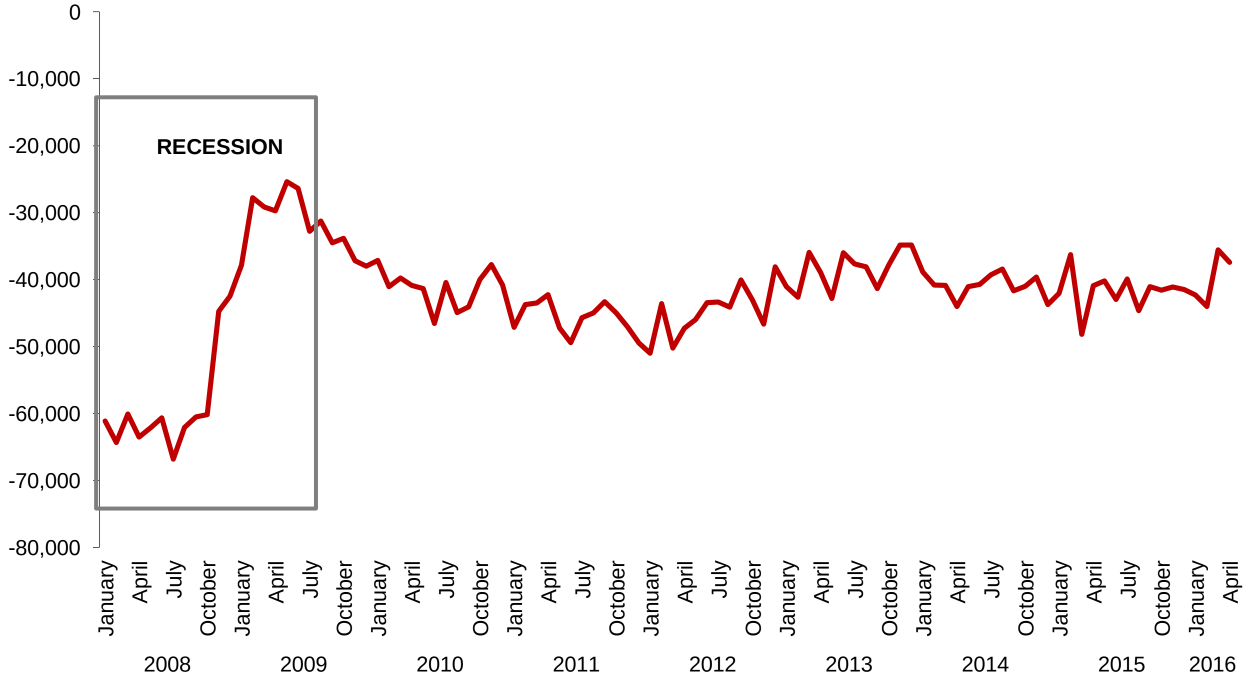
Source: ECLAC, on the basis of data from the Bureau of Economic Analysis, U.S. Commerce Department.

The trade gap increased 5.3% from March to a seasonally adjusted US$ 37.44 billion in April, the latest data available, according to the Commerce Department. Exports of goods and services rose 1.5%, while imports climbed 2.1%. March's trade deficit was revised to US$ 35.54 billion from a previously estimated US$ 40.44 billion. The updated figure for March was the lowest deficit since December 2013 (chart 16). The report highlights weak global demand for goods and services during the opening months of the year. For the January to April period, U.S. exports and imports were both down just over 5% from the same time a year earlier.

In April, total exports gained 1.5%. Automotive exports surged 6.9%. Total imports rose 2.1%, as nearly all categories increased. Imports of capital goods posted the largest gain, rising 5.3%. Reflecting low oil prices and domestic energy production that is still historically robust, the petroleum deficit was the lowest since February 1999 and the trade surplus with Canada – the top supplier of foreign oil to the U.S. – was the highest on record. Total petroleum product imports decreased slightly by volume, falling 2.3% to 294 million barrels, but their value increased by 7.3%.

The U.S. accumulated a trade deficit of $159.3 billion in the first four months of 2016, compared with a deficit of $167.4 billion in the same period a year earlier.

CHART 16:
U.S. BALANCE ON GOODS AND SERVICES TRADE
(Monthly, US$ Million)



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

II. Recent trends and Latin American and Caribbean economies

Since the release of the U.S. jobs report in May showing the worst monthly job creation in six years, emerging market portfolio investors have been surging into emerging market and Latin American and Caribbean (LAC) stocks and bonds on the assumption that the U.S. Federal Reserve would not raise interest rates at its June or July monetary policy meetings.

Flows had turned negative in the middle of last year as fears spread of a global slowdown led by a faster-than-expected fall in economic growth in China. Flows then recovered as such fears receded, but at the end of 2015, after the Fed raised its policy rate for the first time since the global financial crisis, investors went back to unload emerging market and LAC assets. Since then flows have see-sawed along with views of whether or not the Fed will act again.

Since the Fed raised rates for the first time in December 2015, both the U.S. and particularly the global economy have slowed. The interest rate increase brought to an end seven years of unprecedented monetary ease. The Fed began winding down its bond-buying program in 2013 and in 2014 it signaled it would raise rates in the coming year. Meanwhile, China's growth slowed, while oil production continued to be boosted. Commodity prices tumbled, and both U.S. shale companies and emerging-market companies began to find it harder to borrow. According to the OECD, commodity-related investment fell 16% globally in 2015. These changes helped send oil, emerging-market and LAC currencies and U.S. stocks down earlier in this year. They have since stabilized, in part because the Fed has decided to wait before raising interest rates again.

Another Fed rate increase would not have the same shock value as the first, but it would still push the U.S. dollar higher, putting renewed pressure on commodity prices. It would likely reignite capital flight from China and other emerging markets. The U.S. dollar has a central role in the international financial system, and remains as influential as ever. It accounts for most currency transactions, the biggest share of global reserves, and most of the cross-border debts issued around the world are in U.S. dollars. Oil prices also respond to the dollar (and not only to supply and demand), because oil trading far exceeds actual consumption, and trading is conducted in dollars. Similarly, the Bank for International Settlements has noted that when the dollar is weak, dollar loans are plentiful, but when it rises, the supply is reduced.

While the weak May U.S. payroll report points to weakness in the U.S. and global economies, it also points to lower U.S. rates for longer, which means investors will be more prone to take the risk of higher-yielding assets such as LAC stocks and bonds. The Institute of International Finance (IIF) has pointed out that, as the prospect of a Fed rise has receded, "both risk and safe-haven assets have been buoyed." Global equities, high-yield bonds, emerging market currencies, oil and U.S. and German 10-year bonds have all seen price rises in June.

Market analysts agree that an environment with the Fed on the sidelines and where global growth holds up, even if it remains low, would be bullish for emerging markets and commodities, thus the Latin American commodity producers. A seemingly softer approach from the U.S. towards raising interest rates, a weaker dollar and stabilizing oil prices have helped drive money back into the Latin America and Caribbean region since March. A common view from market participants is that the future path of the U.S. interest rates is a major factor that will determine the future swings in LAC assets. A gradual increase in U.S. interest rates could take the shine off the recent rebound in LAC financial assets.

But even if the Fed does not choose to raise its benchmark rate, a turnaround in the U.S. dollar continues to be a possibility due to the U.K. vote to leave the European Union. The decision will probably mean a flow of funds to the dollar, which could put renewed pressure on LAC markets. A continued appreciation of the U.S. dollar as a result of Brexit could be, in the view of market analysts, an important channel of contagion to global markets. If the dollar strengthens, investors would likely make the transition from “risk” to “risk off.”

III. Looking ahead

The U.S. economy slowed down at the beginning of the year, but since then incoming data has been more positive. Economic growth is expected to pick up in the second quarter, and particularly in the second half of the year. However, forecasts for U.S. growth in 2016 have been cut as a result of the weak growth in the beginning of the year.

Market projections for real GDP growth in 2016 (made mostly in May and June), now range from 1.6% to 2.0% (see forecasts table on appendix 1). On average, growth in 2016 is expected to expand at an annual pace of 1.8%. Market projections for real GDP growth in 2017 currently range from 2.0% to 3.0%. On average, growth in 2017 is expected to expand at an annual pace of 2.2%.

The May jobs report showed much slower hiring than expected. Looking ahead, market projections for the unemployment rate in 2017 range from 4.4% to 5.3%. On average, the unemployment rate is expected to be at 4.6% in 2017.

Since the global crisis, job creation has been one of the most important goals of economic policy makers, but with full employment coming into view, productivity now is gaining attention, given its centrality to wage gains and overall standards of living for households. Unless productivity growth revives soon, the economy will not deliver the necessary economic growth, income, profits, tax revenues and asset returns to keep the U.S. economy buoyant.

Market projections for CPI inflation in 2016 range from 1.1% to 1.7%, reflecting the effect of declining oil prices at the beginning of the year, and for 2017 they range from 1.6% to 3.0%. On average, CPI inflation is expected to be around 1.3% in 2016, substantially higher than the 0.1% increase in 2015, and 2.3% in 2017.

The Fed held interest rates steady in June, and planned slower increases in the next three years. On average, Fed policy makers expect to raise rates two times in 2016. All 17 top officials of the Fed expect at least one interest rate to happen this year according to the Fed’s June projections, although financial futures markets price in only about a 40% chance that it will happen.

There are difficulties ahead for economic policy. The divergence between the economies of the U.S. on the one hand and the Euro zone and Japan on the other has not been helpful. Even if the Fed doesn’t tighten, the other central banks are still easing. Monetary divergence was the driver of the dollar's strength and so far there are no signs that that will change.

With the European Central Bank and the Bank of Japan in loosening mode, any hint of a U.S. rate rise leads to a capital flight from negative interest rate territory to the U.S., where Treasury securities provide a pick-up in yield. A vicious cycle then starts, with the dollar strengthening as a consequence, causing corporate earnings and the stock market to fall. Financial conditions thus tighten, and the next interest rate rise becomes more difficult. In the absence of stronger growth in the Euro zone and Japan, normalization of monetary policy in the U.S. may remain elusive.

Speaking on June 21 in her semi-annual testimony to Congress, Fed Chair Janet Yellen said the U.S. economy's long-term prospects remain favorable, but signaled that headwinds, including slower employment gains in recent months, weak productivity growth and persistently sluggish inflation have prompted the Federal Reserve to adopt a more cautious stance. Yellen said that "considerable uncertainty about the economic outlook remains." But despite the caution, she has emphasized that she does not see a recession on the horizon. "The odds of a recession are low," she said. She added that recessions are usually preceded by the threat of rising inflation and tightening monetary policy, conditions that are not in play right now.

However, the U.K. vote to leave the European Union by 51.9% to 48.1% has clouded the economic outlook. Markets are expected to remain volatile and conditions could quickly swing from "risk-on" to "risk-off." There is now significant uncertainty as how U.S. policy makers will navigate this new landscape, as well as how markets will react as the impact of Britain's exit from the European Union unfolds. In her testimony to Congress, Yellen said that a "leave" vote "could have significant economic repercussions." She added that a vote to leave the EU would "usher in a period of uncertainty" and fuel volatility in world markets. "That would negatively affect financial conditions and the U.S. economy."

Appendix 1: Forecasts for the U.S. Economy

	Real GDP		CPI		Unemployment Rate		FED Funds Rate		
	(% change, y/y)	(% change, y/y)	(%)		(%)				
	2016	2017	2016	2017	2016	2017	2016	2017	Date of Forecast
A. What Government Agencies Say									
FED*	2.0%	2.0%	1.7%	1.9%	4.7%	4.6%	0.9%	1.6%	*Jun-16*
CBO	2.5%	2.6%	1.3%	2.3%	4.7%	4.4%	*na*	*na*	*Jan-16*
Administration (Office of Management and Budget)	2.6%	2.6%	1.5%	2.1%	4.7%	4.5%	*na*	*na*	*Feb-16*
B. What Markets Say									
National Bank of Canada	1.9%	2.0%	1.4%	2.3%	4.9%	5.3%	0.75%	1.25%	*May-16*
TD Bank Financial Group	1.9%	2.1%	1.5%	2.8%	4.7%	4.4%	0.75%	1.25%	*Jun-16*
National Association of Realtors	1.6%	2.2%	1.7%	3.0%	4.8%	4.6%	0.5%	1.3%	*May-16*
Mortgage Bankers Association	1.8%	2.2%	1.4%	2.0%	4.8%	4.7%	0.875%	1.875%	*May-16*
Bank of America/Merrill Lynch	1.7%	2.1%	1.4%	2.3%	4.8%	4.5%	0.6%	0.9%	*May-16*
Credit Suisse	1.7%	2.4%	1.1%	2.1%	*na*	*na*	*na*	*na*	*May-16*
Fitch Ratings	1.8%	2.1%	1.3%	2.5%	*na*	*na*	1.0%	1.8%	*May-16*
Moody's Economy.com	1.8%	3.0%	1.4%	2.7%	5.0%	4.7%	0.6%	2.0%	*May-16*
The Economist Intelligence Unit	2.0%	2.3%	1.3%	2.2%	4.8%	4.5%	*na*	*na*	*May-16*
JPMorgan	1.7%	2.0%	1.2%	2.4%	4.8%	4.5%	*na*	*na*	*May-16*
Wells Fargo/Wachovia	1.6%	2.2%	1.3%	2.2%	4.8%	4.5%	0.69%	1.38%	*May-16*
Roubini Global Economics	1.8%	2.1%	1.1%	1.6%	*na*	*na*	0.63%	1.13%	*May-16*
Market Average	***1.8%***	***2.2%***	***1.3%***	***2.3%***	***4.8%***	***4.6%***	***0.7%***	***1.4%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	2.2%	2.5%	*na*	*na*	*na*	*na*	*na*	*na*	*May-16*
World Bank	1.9%	2.2%	*na*	*na*	*na*	*na*	*na*	*na*	*Jun-16*
OECD	1.8%	2.2%	1.1%	2.0%	5.0%	4.7%	1.0%	1.5%	*Jun-16*
IMF	2.4%	2.5%	0.8%	1.2%	4.9%	4.8%	*na*	*na*	*Apr-16*

Source: ECLAC on the basis of official and market sources.

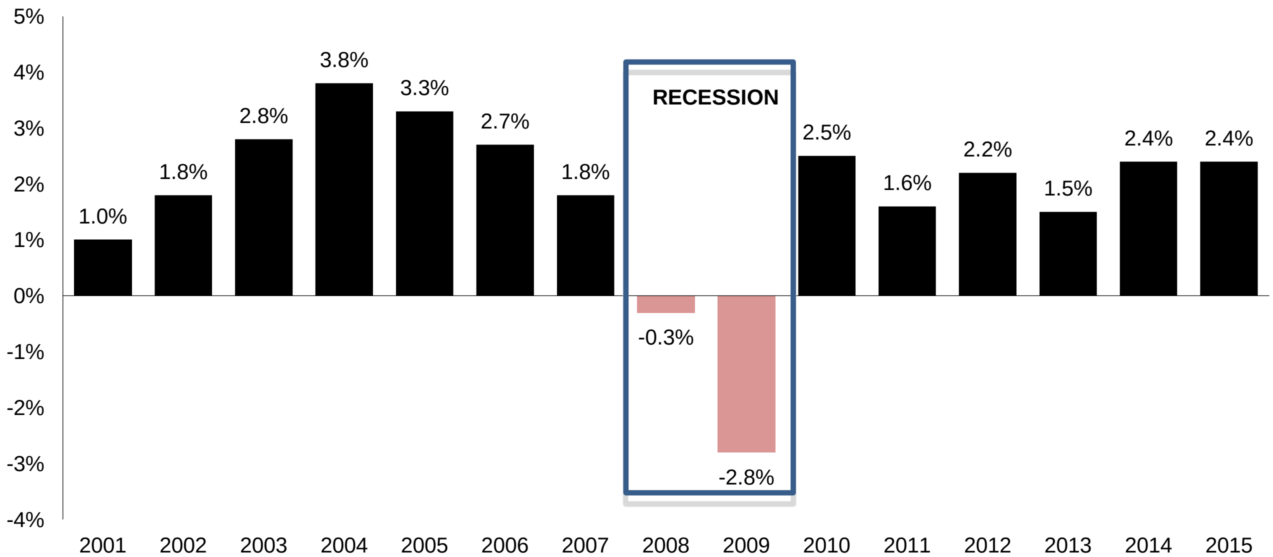
Note: * FED forecast for core PCE inflation, the FED's preferred measure.

Appendix 2: U.S. economic developments in 2015

A. GDP Growth

The U.S. economy grew at a 2.4% rate in 2015, the same rate as in 2014 (chart 1). The U.S. economy ended 2015 on a weak note according to the GDP data, however, although employment additions were much stronger. Real GDP rose 1.4% in the fourth quarter, according to the Bureau of Economic Analysis' third estimate, down from 2% growth in the prior quarter.

CHART 1:
U.S. REAL GDP: ANNUAL GROWTH
(Percentage Points)



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

B. Industrial production

Total industrial production increased 0.3% in 2015, while capacity utilization fell to 76.7% from 78.2% in 2014. Industrial production also ended the year on a sour note, falling 0.4% in December, after falling 0.6% in November.

TABLE 1:
U.S INDUSTRIAL PRODUCTION

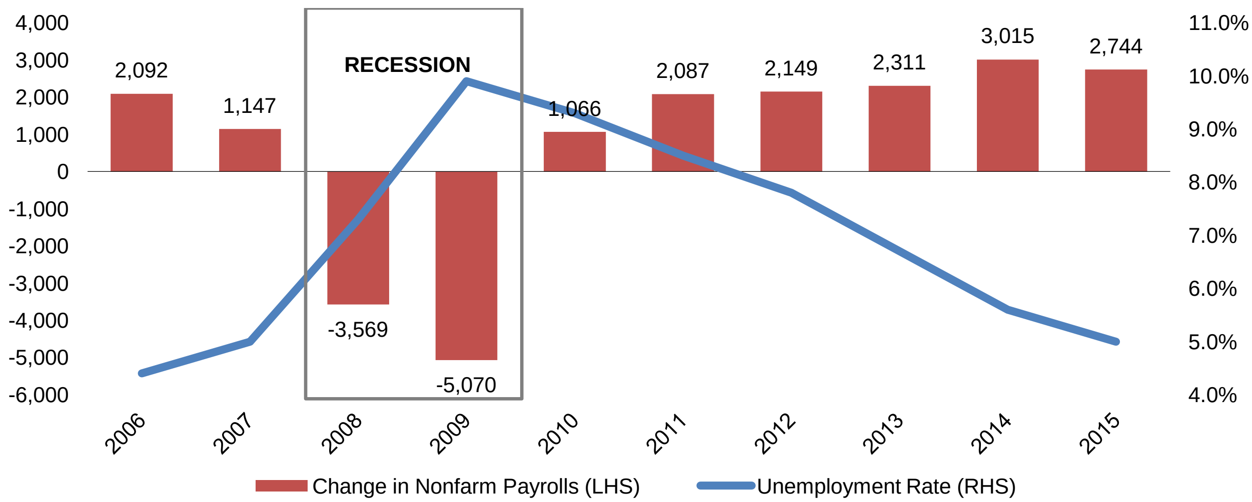
	Total Industrial Production		**Capacity Utilization Rate**
	Index 2012=100	Percentage Change From Previous Period	Total Industry (%)
2014	**104.9**	**2.9**	**78.2**
2015 Q4	**104.6**	**-3.3**	**75.8**
October	105.2	-0.1	76.3
November	104.5	-0.6	75.7
December	104.0	-0.4	75.4
2015	**105.2**	**0.3**	**76.7**

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

C. Labor market

In 2015, 2.74 billion payroll jobs were created, the second highest annual job creation in the past ten years. The U.S. labor market ended 2015 on a strong note, with nonfarm payrolls rising by a net 292,000 in December. On average, 229,000 jobs were created monthly in 2015. The unemployment rate ended at 5.0% in December.

CHART 2:
THE U.S. LABOR MARKET
(Average Annual Job Growth in Millions (left axis); Percentage Points (right axis))

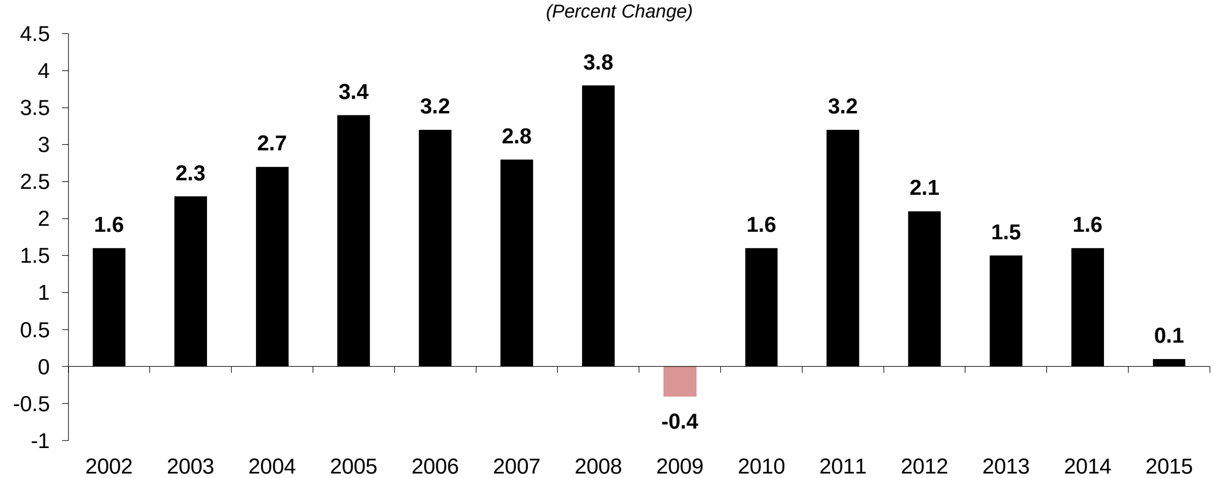


Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

D. Inflation

In 2015, the headline CPI increased by only 0.1%, due to substantially lower energy prices in the second half of the year.

CHART 3:
U.S. DOMESTIC PRICES: ANNUAL EVOLUTION
(Percent Change)

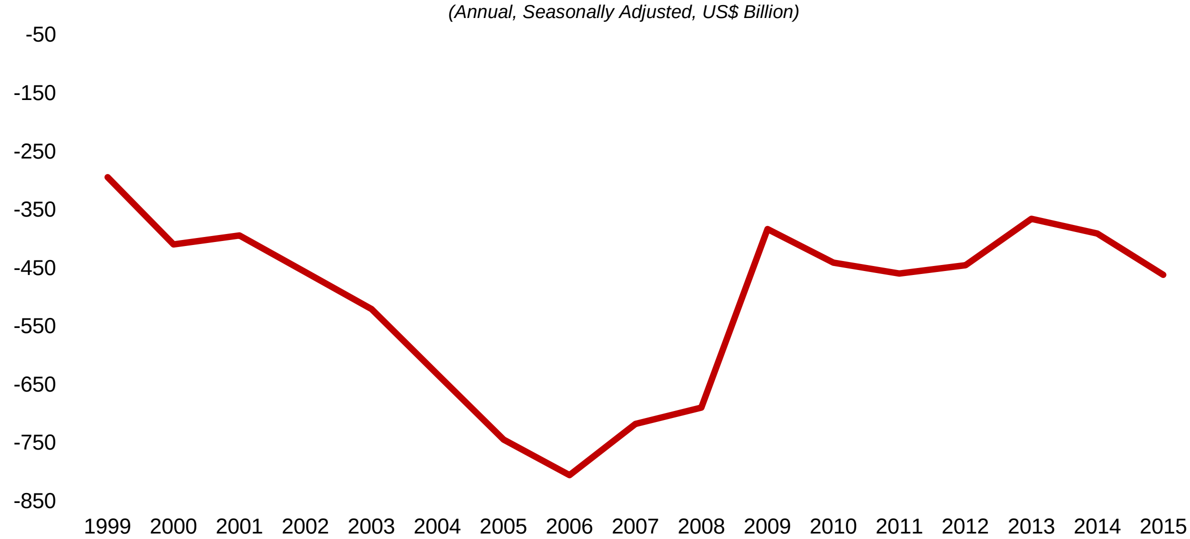


Source: ECLAC, on the basis of data from the U.S. Bureau of Labor Statistics.

F. External sector

The current account deficit increased in 2015 to US$ 463 billion from US$ 392 billion in 2014, because of the strength of the dollar and weak external conditions.

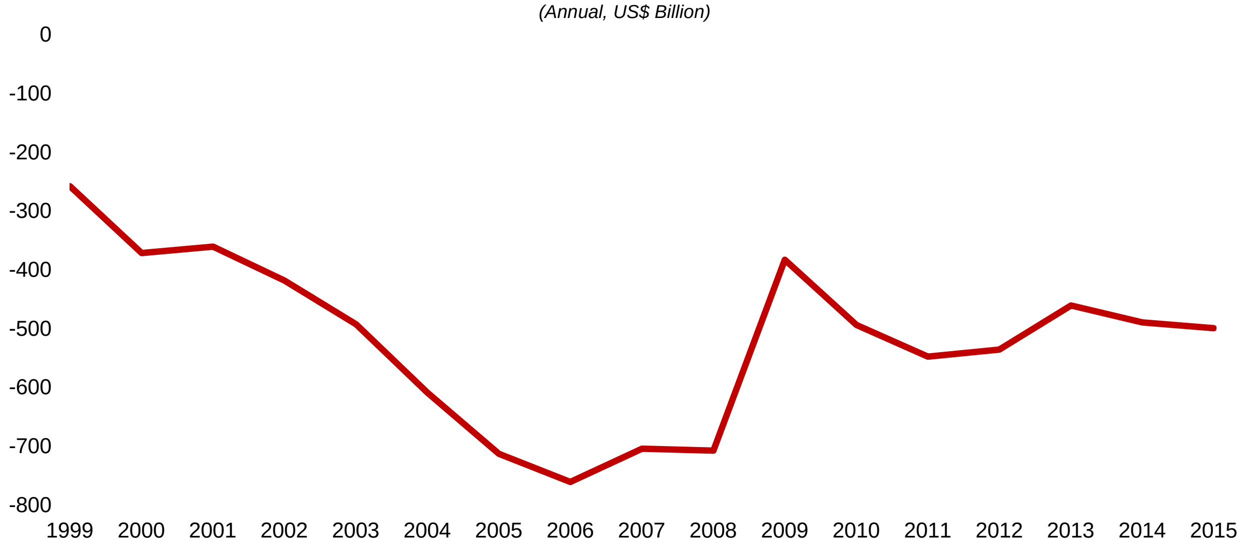
CHART 4:
U.S. BALANCE ON CURRENT ACCOUNT
(Annual, Seasonally Adjusted, US$ Billion)



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

The trade balance is by far the largest component of the current account balance and an increase in trade deficit to US$ 500 billion in 2015 from US$ 490 billion in 2014 contributed to the increase in the current account deficit in 2015.

CHART 5:
U.S. BALANCE ON GOODS AND SERVICES TRADE
(Annual, US$ Billion)



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