ECONOMIC COMMISSION
FOR LATIN AMERICA
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ECLAC Office in Washington, D.C.

United States economic outlook

2021 year-in-review and first quarter of 2022

ECLAC

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Unless otherwise indicated, the cutoff date for the information used to prepare this report is 17 June 2022.

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United Nations publication
LC/WAS/TS.2022/2
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Printed at United Nations, Santiago

This publication should be cited as: Economic Commission for Latin America and the Caribbean (ECLAC), *United States economic outlook: 2021 year-in-review and first quarter of 2022* (LC/WAS/TS.2022/02), Santiago, 2022.

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Highlights

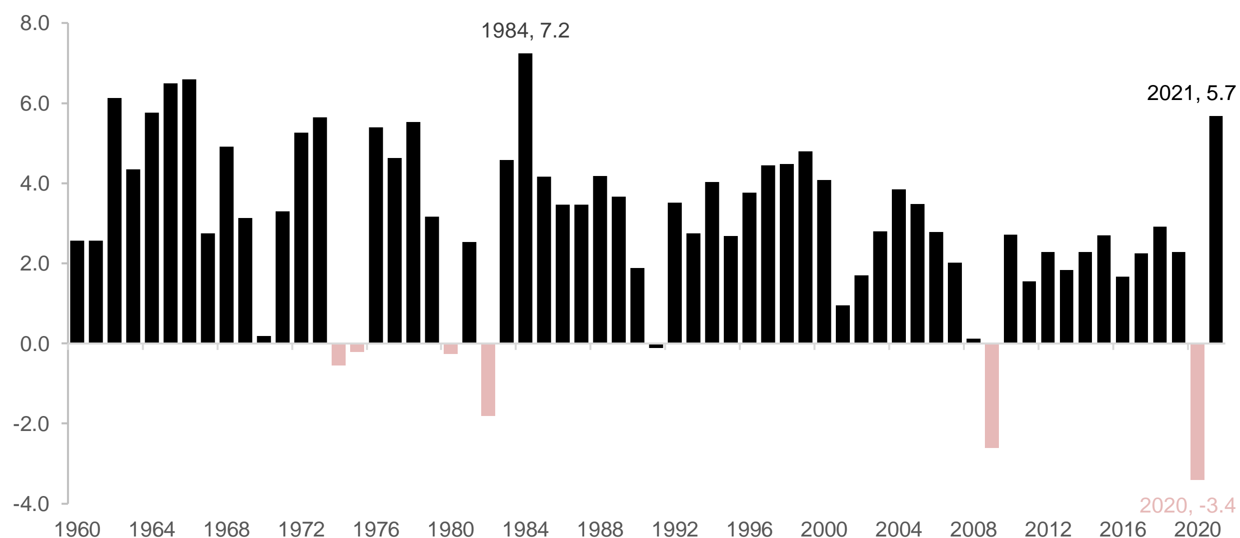
- *The United States Gross Domestic Product (GDP) increased 5.7% in 2021, the strongest annual pace since 1984.* Consumer activity and business spending led the gains, as the economy recovered from the unprecedented collapse in economic activity in early 2020 due to the COVID-19 pandemic.
- *The labor market was strong in 2021.* It averaged 562,000 new jobs per month, with 6.7 million new jobs being created in 2021. Overall, the economy was still 3.3 million jobs below its pre-pandemic level at the end of the year.
- *While economic growth accelerated and labor market strengthened, inflation also surged, especially in the second half of 2021.* From December 2020 to December 2021, consumer prices for all items rose 7.0%, the largest December to December percent change since 1981, as supply couldn't keep up with strong demand, particularly for goods.
- *In a sharp reversal, the United States economy contracted 1.5% in the first quarter of 2022 after growing 6.9% in the fourth quarter of 2021.* The GDP decline in the first quarter stemmed from a widening trade deficit, with the increase in imports far outpacing the increase in exports. Inventories and federal government spending also subtracted from growth.
- *The labor market continues to show strength, with 2.4 million new jobs created from January to May 2022, an average of 488,000 new jobs per month.* May 2022 was the 17th consecutive month of employment gains. Job growth was broad-based, and the unemployment rate was at 3.6%.
- *Inflationary pressures remain elevated*. The Consumer Price Index (CPI) was above 8% in March, April and May 2022. While in April inflation edged down to 8.3% from 8.5% in March, in May it came higher than expected, increasing to a 40-year high of 8.6%, with energy and food prices soaring to new levels. The continued rapid pace of price increases adds pressure on the Federal Reserve to raise rates aggressively to tame inflation.

- *In June, the Federal Reserve increased its benchmark interest rate by 0.75 percentage point, the largest increase since 1994.* The Fed signaled it would continue lifting rates this year at the most rapid pace in decades. This was the third interest rate increase in 2022, following a quarter percentage point increase in March, and a half percentage point increase in May. Also in May, the central bank outlined a program in which it eventually will reduce its bond holdings by US$ 95 billion a month.
- *With the Federal Reserve in the process of raising interest rates at the most aggressive pace since the 1980s, recession risks are rising.* The Federal Reserve, while tightening monetary conditions, is aiming to achieve a soft landing for the economy and avoid a recession. Whether policymakers will be successful in avoiding a hard landing is uncertain. Rising prices and the monetary policy response add uncertainty to the United States economic outlook.

Overview

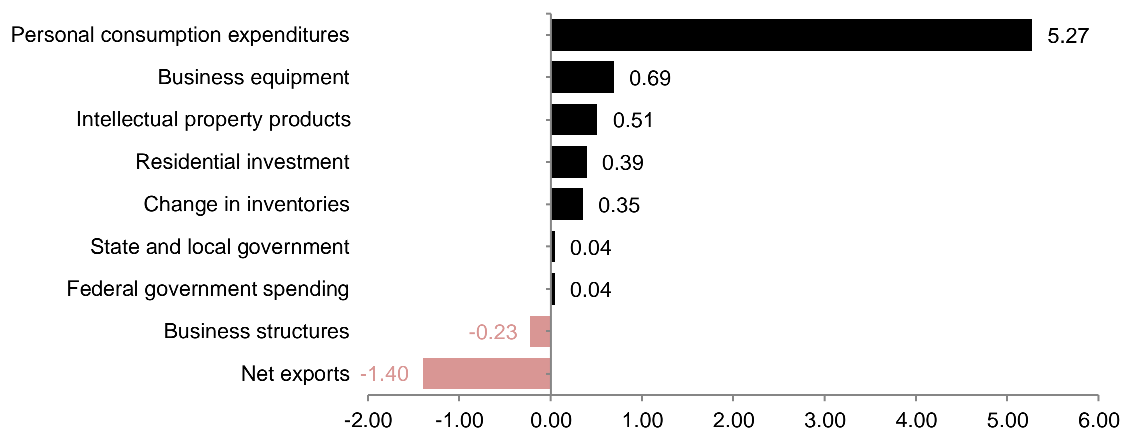
In 2021, economic growth in the United States was the strongest since 1984 (figure 1). Overall, growth was driven by consumer spending, which contributed 5.3% to annual growth (figure 2). Investment in business equipment, intellectual property products, residential investment, inventories, and government spending also contributed to growth. Investment in business structures and net exports made negative contributions. Net exports subtracted 1.4% from growth in 2021, with imports increasing sharply as businesses tried to replenish depleted inventories to meet robust domestic demand.

Figure 1
United States real Gross Domestic Product annual growth rate: 1960-2021
(Percentage, not seasonally adjusted)



Source: Federal Reserve Economic Data, FRED Graph Observations, Gross Domestic Product by Expenditure in Constant Prices: Total Gross Domestic Product for the United States, Growth Rate Previous Period, Annual, Not Seasonally Adjusted.

Figure 2:
Contributions to United States annual growth in 2021
(Percentage points)

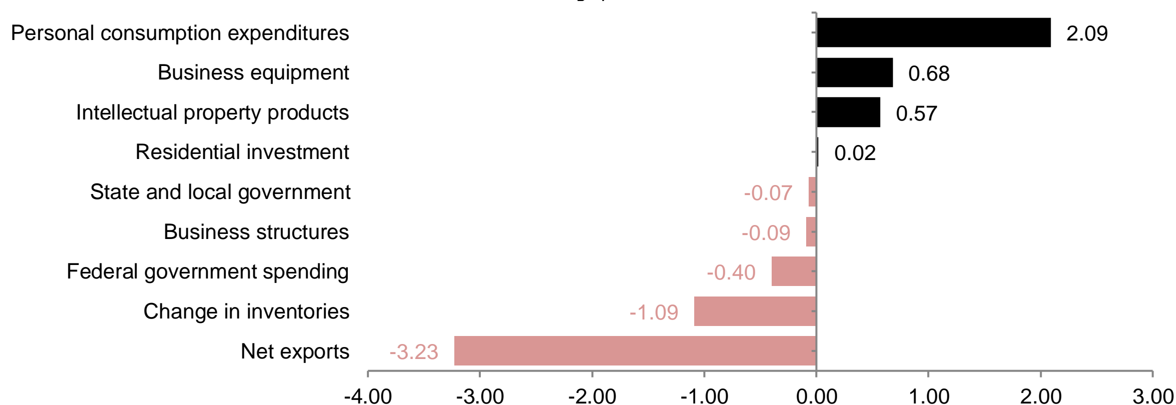


Source: ECLAC Washington Office based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

The United States GDP fell 1.5% in the first quarter of 2022, a sharp reversal from the 6.9% annual growth rate in the fourth quarter of 2021. The GDP decline in the first quarter stemmed from a widening trade deficit, with the increase in imports far outpacing the increase in exports. According to Moody's, large swings in inventory accumulation and trade flows have put economic growth on a volatile path, with GDP growing almost 7% in the second quarter of 2021, less than 2.5% in the third quarter, and nearly 7% in the final three months of last year, only to contract 1.5% in the most recently ended quarter. In addition to inventories and trade, some of the volatility has come from waves of the COVID-19 pandemic.[1]

Next exports subtracted 3.2% and inventories 1.1% from growth in the first quarter of 2022 (figure 3). Government spending, with fiscal support waning, and investment in business structures also subtracted from growth. Consumer spending, investment in business equipment, intellectual property products, and residential investment made positive contributions. Consumer spending added 2.1% to growth in the first quarter, the largest positive contribution.

Figure 3:
Contributions to United States annual growth in the first quarter of 2022
(Percentage points)



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

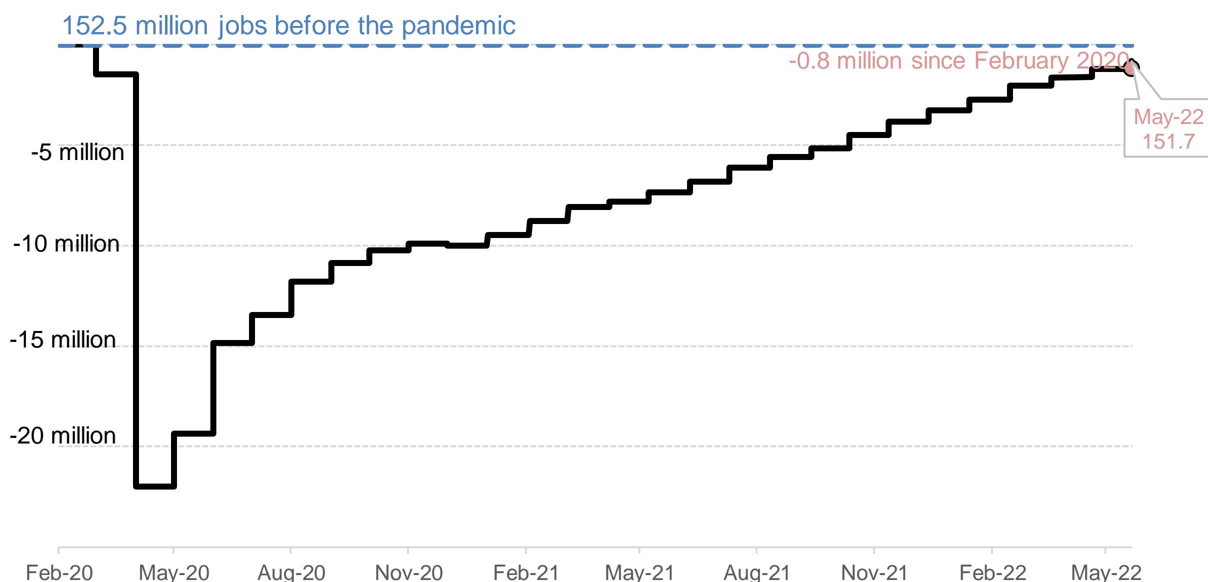
[1] Scott Hoyt, United States GDP, First quarter of 2022, *Economic View*, *Moody's Analytics*.

Also weighing on growth this year are rising interest rates as the Federal Reserve acts to contain inflation. In March, central bank officials lifted their benchmark rate by a quarter percentage point from near zero, in early May by a half percentage point, then the largest rate hike since May 2000, and in June by three quarters of a percentage point rate hike, the largest increase since 1994, signaling similar-large hikes are coming later this year. This brought the number of interest rate increases to three so far this year. Minutes from the May 3-4 meeting show the Federal Reserve officials discussed the possibility of moving the central bank to a "restrictive" policy stance that would better fight inflation.

Inflation in the United States is running near its fastest pace in forty years, with prices rising for gas, food and rent and cutting into households' purchasing power. The Consumer price Index (CPI) rose 8.6% in May from a year earlier, a four-decade high, and 8.3% in April. Wages have increased as demand for workers has exceeded the number of unemployed people looking for work for the past year. However, the strength of inflation is erasing gains in workers' pay: average hourly earnings were up 5.2% in May and 5.5% in April, but well below inflation.

The U.S. is experiencing a historically tight labor market—with May 2022 marking the 17th straight month of job gains—adding to positive signs for the second-quarter performance by the U.S. economy. In 2021 it averaged 562,000 new jobs per month, with 6.7 million new jobs being created. 2.4 million new jobs were created from January to May 2022, an average of 488,000 new jobs per month. Job growth was broad-based in May 2022, and the unemployment rate was at 3.6%. Employment is on track to return to its pre-pandemic level in the second half of this year. Overall, as of May 2022, the economy is 0.8 million jobs down from before the pandemic (figure 4).

Figure 4:
United States cumulative loss of jobs since the beginning of the pandemic as of May 2022
(Average monthly job growth, millions)



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

Market forecasters anticipate that growth will resume in the coming quarters. On average, with forecasts made mostly in May and in the first half of June, the U.S. economy is projected to grow at 3.1% in the second quarter of 2022, 2.4% in the third, and 2.2% in the fourth (table 1).

Table 1:
Quarterly forecasts for United States economic growth in 2022

	Q2 2022 (qoq)	Q2 2022 (qoq)	Q4 2022 (qoq)	Date of Forecast
What Markets Say				
Bank of America/Merrill Lynch	3.1%	2.5%	1.8%	14-Jun-22
Capital Economics	3.6%	1.5%	1.7%	14-Jun-22
JPMorgan	3.3%	2.8%	2.0%	14-Jun-22
Moody's Economy.com	2.6%	3.6%	2.7%	6-Jun-22
Mortgage Bankers Association	2.3%	2.6%	2.9%	10-Jun-22
National Association of Realtors	2.3%	2.5%	2.3%	May-22
National Bank of Canada	3.5%	2.0%	1.8%	May-22
TD Bank Financial Group	3.2%	2.3%	2.9%	17-Mar-22
Wells Fargo/Wachovia	4.2%	2.2%	2.1%	8-Jun-22
Forecasts average	***3.1%***	***2.4%***	***2.2%***	

Source: ECLAC Washington Office, based on market sources.

However, following the Federal Reserve’s announcement of a 0.75 percentage point increase in interest rates on 15 June to fight the highest inflation rate in forty years, forecasters could start to steadily downgrade their outlook for economic growth in the months ahead. IHS Markit, an information services provider that completed a merger with S&P Global in 2022, estimated the second-quarter GDP at just 0.8% on 16 June, while the week before they were projecting a 2.4% growth rate. A forecasting tool from the Federal Reserve Bank of Atlanta has an even more pessimistic forecast: no growth (a rate of 0%).

On an annual basis, market projections point to growth of 2.5% in 2022 on average, and of 1.9% in 2023), with most projections made in May and in the first half of June. Economic growth was downgraded in the latest projections released by the Federal Reserve on 15 June 2022. The Fed now projects a growth rate of 1.7% in 2022 and 2023 (table 2). With the United States economic outlook clouded by uncertainty, the risk of a potential recession is increasing, especially if the Federal Reserve has to raise interest rates faster and higher than expected to contain inflation. Investors see monetary policy as a key risk to financial market stability.

Table 2:
Annual forecasts for United States economic growth, 2022 and 2023

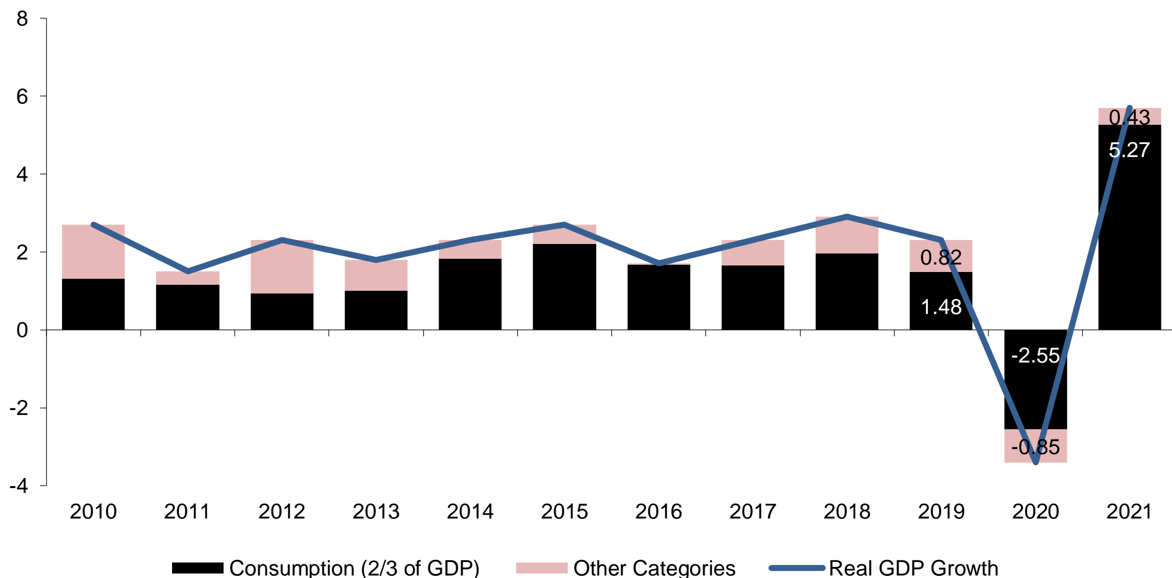
	Real GDP (% change, y/y)		Inflation (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		
	2022	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**	**2023**	**Date of Forecast**
A. What Government Agencies Say									
FED*	1.7%	1.7%	5.2%	2.6%	3.7%	3.9%	3.4%	3.8%	*Jun-22*
CBO	3.8%	2.8%	6.1%	3.1%	3.8%	3.5%	*na*	*na*	*May-22*
OMB**	3.8%	2,5%	2.9%	2.3%	3.9%	3.6%	*na*	*na*	*Mar-22*
B. What Markets Say									
Bank of America/Merrill Lynch	2.6%	1.5%	7.6%	3.5%	3.5%	3.4%	2.6%	3.4%	14-Jun-22
Capital Economics	2.6%	1.5%	7.6%	2.2%	3.5%	3.2%	2.6%	3.4%	14-Jun-22
JPMorgan	2.7%	1.8%	8.0%	3.6%	3.6%	3.5%	2.8%	3.3%	14-Jun-22
Moody's Economy.com	2.7%	2.6%	7.2%	2.9%	3.5%	3.5%	1.1%	2.7%	6-Jun-22
Mortgage Bankers Association	1.6%	1.9%	5.4%	2.7%	3.7%	4.3%	2.6%	3.4%	10-Jun-22
National Association of Realtors	2.2%	1.7%	8.2%	5.1%	3.7%	3.8%	1.0%	2.8%	May-22
National Bank of Canada	2.6%	2.1%	7.3%	3.6%	3.5%	3.5%	2.5%	2.5%	May-22
TD Bank Financial Group	3.2%	2.5%	7.0%	2.4%	3.6%	3.5%	1.8%	2.3%	17-Mar-22
The Economist Intelligence Unit***	2.3%	1.3%	7.7%	3.7%	3.6%	4.0%	2.6%	3.1%	23-May-22
Wells Fargo/Wachovia	2.8%	2.1%	8.2%	3.3%	3.6%	3.5%	1.9%	3.6%	8-Jun-22
Market Average	***2.5%***	***1.9%***	***7.4%***	***3.3%***	***3.6%***	***3.6%***	***2.1%***	***3.0%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	2.6%	1.8%	*na*	*na*	*na*	*na*	*na*	*na*	*May-22*
World Bank	2.5%	2.4%	*na*	*na*	*na*	*na*	*na*	*na*	*Jun-22*
OECD	2.5%	1.2%	7.0%	3.5%	*na*	*na*	*na*	*na*	*Jun-22*
IMF	3.7%	2.3%	*7.7%*	*2.9%*	*na*	*na*	*na*	*na*	*Apr-22*

Source: ECLAC Washington Office based on official and market sources.
Note: FED: Federal Reserve; CBO: Congressional Budget Office; OMB: Office of Management and Budget (U.S. Administration's forecasts).
*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 2021 reflected increases in personal consumption expenditures (PCE), nonresidential fixed investment, exports, residential fixed investment, and private inventory investment. Imports, which are a subtraction to growth, increased. Consumption contributed 5.3% to the annual growth of 5.7%, following a negative contribution in 2020 (figure 5).

Figure 5:
Contributions to United States annual real GDP growth, 2010-2021
(Percentage points)

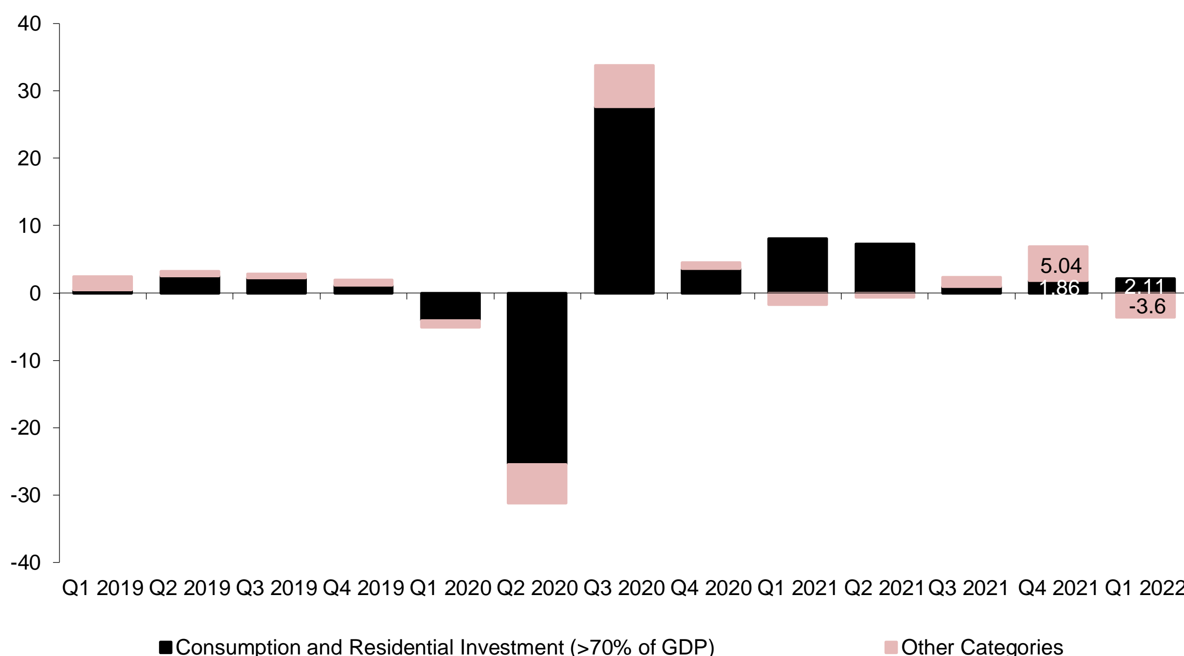


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

The expansion paused in the first quarter of 2022. The decline in real GDP In the first quarter of 2022 reflected decreases in private inventory investment (after being a major support to growth in the second half of last year), exports, federal government spending, and state and local government spending, while imports, which are a subtraction in the calculation of GDP, increased. Consumer spending, nonresidential fixed investment, and residential fixed investment increased.

The core of the U.S. economy —consumption and residential investment— contributed 2.11% to first-quarter growth, slightly up from a 1.86% contribution in the fourth quarter of 2021, with consumption adding 2.09% and residential investment 0.02% (figure 6).

Figure 6:
Contributions to United States quarterly real GDP growth, first quarter 2019 – first quarter 2022
(Percentage points)



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

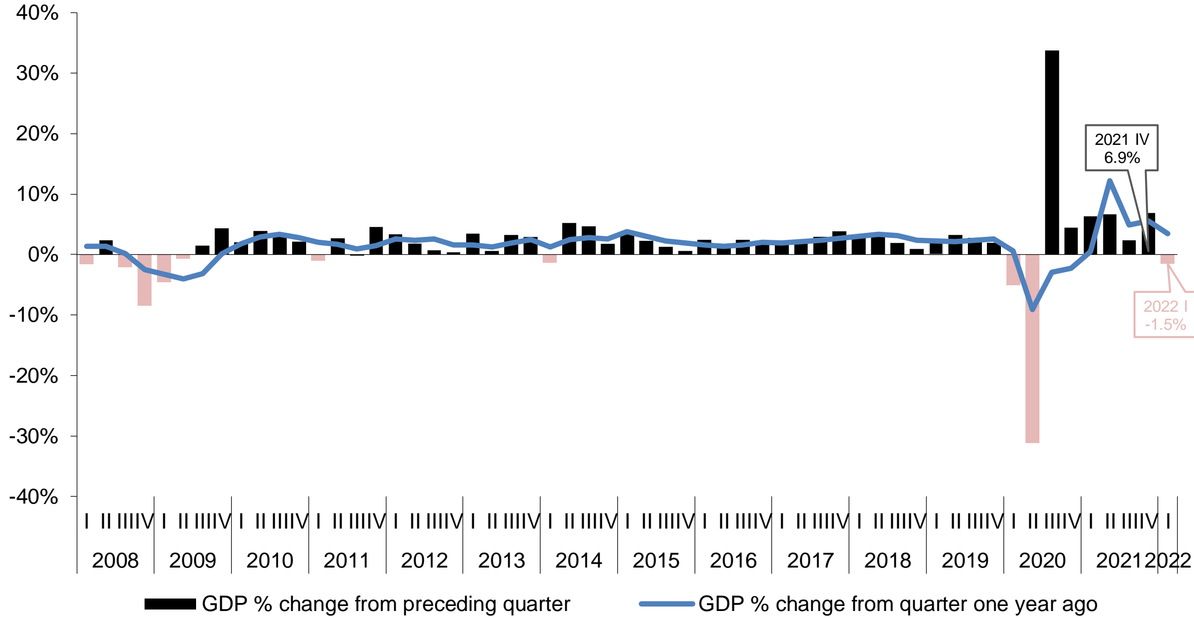
A. Quarterly GDP Growth

Real gross domestic product (GDP) declined at an annual rate of 1.5% in the first quarter of 2022 according to the second estimate released by the Bureau of Economic Analysis on 26 May 2022, as trade became a major drag on growth (figure 7). Inventories and government spending also contributed negatively, offsetting growth in fixed investment and consumer spending.

The negative contribution from inventories followed a period of stock building that added 5.3% to the 6.9% real GDP growth in the fourth quarter of 2021. Volatility in the contributions from net exports and inventories will likely continue for the remainder of the year, as retailers work to rebuild depleted inventories against a backdrop of periodic supply chain disruptions and transportation congestion due to the ongoing COVID-19 pandemic, which have been exacerbated by the war in Ukraine.

Government spending was another source of weakness in the first quarter of 2022. With fiscal support fading, government expenditures fell by 2.7% in the first quarter of 2022.

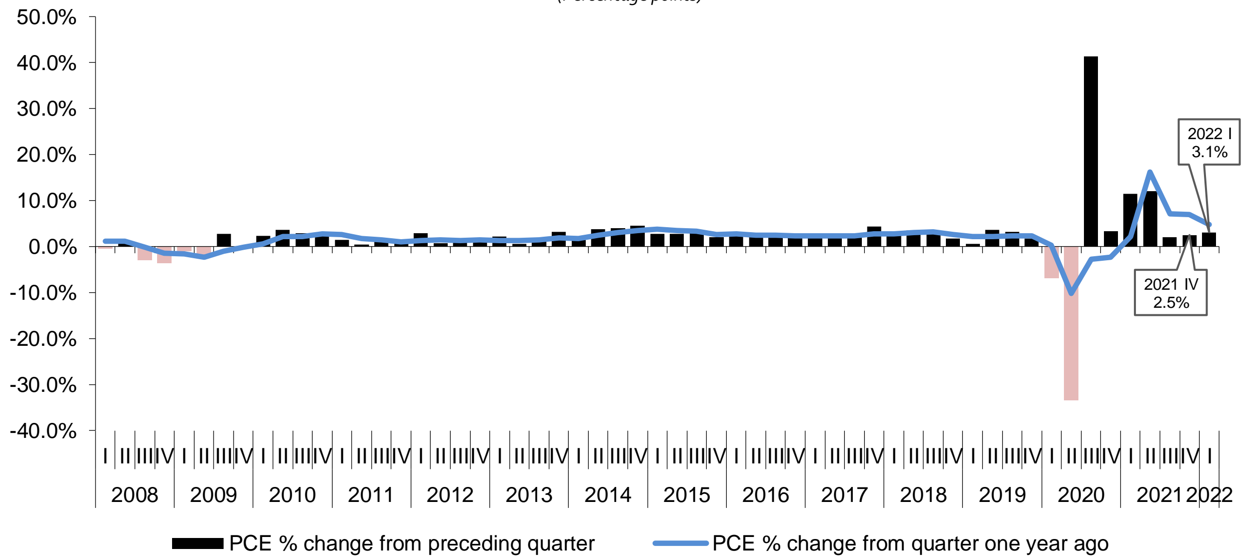
Figure 7:
United States real GDP quarterly growth, first quarter 2008 – first quarter 2022
(Percentage points)



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

Personal consumption expenditure (PCE) increased by 7.9% in 2021 and 3.1% in the first quarter of 2022, after an increase of 2.5% in the fourth quarter of 2021 (figure 8). Consumer spending remained an important source of growth in the first quarter of 2022 but has been contributing more modestly in the face of steadily falling real incomes. It added 5.3% to growth in 2021, and 2.1% to growth in the first quarter of 2022. The contribution to growth in the first quarter came entirely from the services sector, as a modest gain in durable goods spending was offset by a decline in nondurable goods spending.

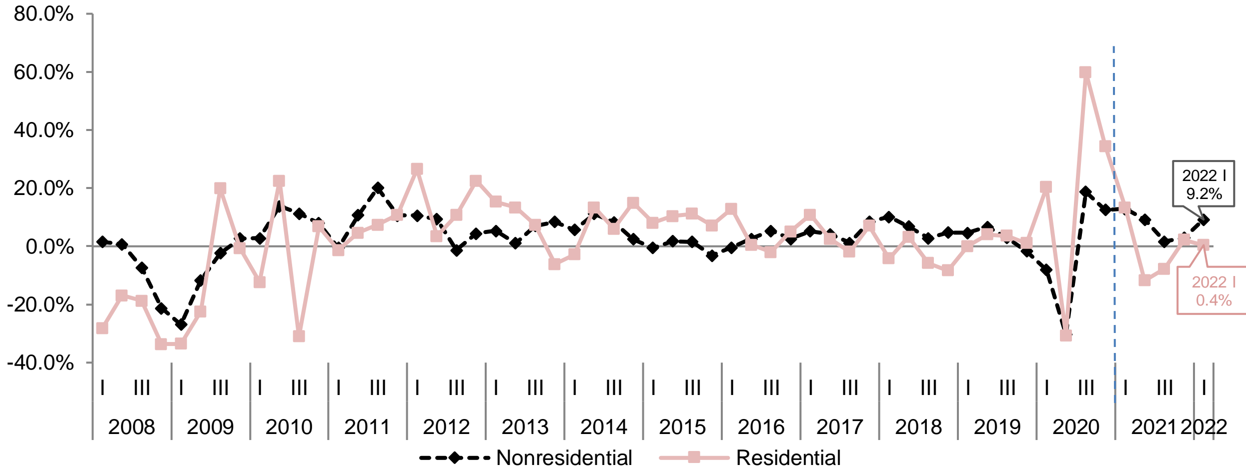
Figure 8
United States personal consumption expenditure growth, first quarter 2008 – first quarter 2022
(Percentage points)



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

Fixed investment increased by 7.8% in 2021 and 6.8% in the first quarter of 2022. Residential investment increased 9.2% in 2021 and non-residential investment grew 7.4%. In the first quarter of 2022, residential investment increased by only 0.4%, while non-residential investment increased by 9.2% (figure 9).

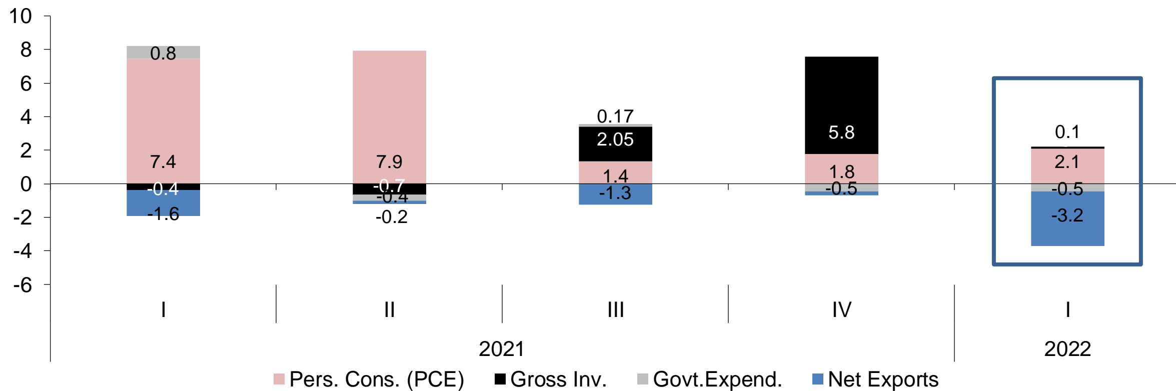
Figure 9:
United States fixed investment growth, first quarter 2008 – first quarter 2022
(Percentage points)



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

Nonresidential investment added 0.97% to growth in 2021 and 1.16% in the first quarter of 2022. Residential investment added 0.39% in 2021, and only 0.02% in the first quarter of 2022. Despite the impact of shortages on production, inventories added 0.35% points to overall GDP growth in 2021, but they subtracted 1.09% from growth in the first quarter of 2022, as the accumulation of inventories, which had been a major support to growth in the second half of last year, slowed. Consumers are spending more on services, as in-person activities such as dining at restaurants resume, a switch from goods to services that has left retail stockpiles at a record high. According to the Bureau of Economic Analysis, the decrease in private inventory investment was led by decreases in wholesale trade (mainly motor vehicles) as well as mining, utilities, and construction. Due to the negative contribution from inventories, gross private domestic investment contributed only 0.1% to first-quarter growth (figure 10).

Figure 10:
Contributions to U.S. real GDP growth, 2021 and first quarter of 2022
(Percentage points)



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

Government spending made a negative contribution to growth in the first quarter of 2022, with government expenditure falling by 2.7% in the first quarter of 2022 after a decline of 2.6% in the fourth quarter of last year. Overall, government spending subtracted 0.5% from growth in the first quarter, the same as in the last quarter of 2021. According to the Bureau of Economic Analysis, the decrease in federal government spending primarily reflected a decrease in defense spending on intermediate goods and services.

Finally, net exports subtracted 3.23% from growth in the first quarter of 2022, as the increase in imports far outpaced the increase in exports. With exports of goods declining by 8.9% and of services increasing by 3.6%, exports declined by 5.4% overall and subtracted 0.62% from growth. Imports grew by 18.3% and subtracted 2.61%. Trade was also a drag in 2021, as imports increased more than exports. Net exports subtracted 1.4% from annual growth, with exports adding 0.47% and imports subtracting 1.88%.

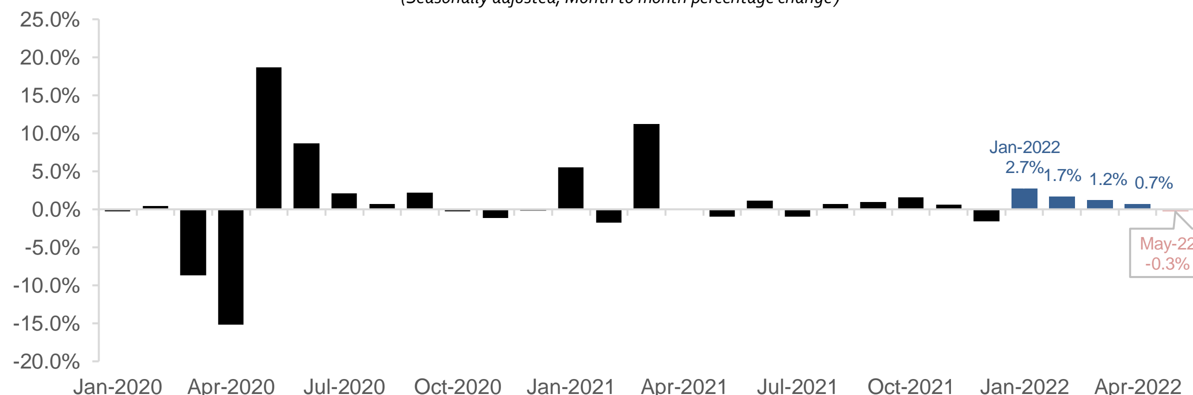
B. Retail sales

Retail sales, a measure of purchases at stores, restaurants and online, fell a seasonally adjusted 0.3% in May 2022 from a month earlier, according to the Commerce Department, after four straight months of gains (figure 11). In the first four months of the year, retail sales were boosted by rising wages in a tight labor market, healthy household balance sheets and inflationary pressures. Retail sales are not adjusted for inflation. While consumers have continued to spend, they are getting less for their money due to rapidly rising prices.

In May, a sharp drop in vehicles sales – due to high prices, low inventory and rising interest on car loans – played an outsized role in the decline in month-over-month retail spending. Interest rates are set to rise further and may be a potential damper on consumer spending in the months ahead, as car loans and credit-card debt become more expensive. Excluding autos, retail sales rose 0.5% in May. Growth was led by gasoline stations, grocery stores and restaurants. Gasoline station sales soared 4% as higher prices drained money away from other retailers, a sign that high gas prices are taking up a greater share of consumers' spending.

As more in-person activities such as travel and dining out resume, consumers are shifting spending towards services from goods, contributing to a moderation in retail spending. A strong labor market and rising wages are helping support spending on services, for which there is pent-up demand from the pandemic.

Figure 11:
United States total retail sales, January 2020-May 2022
(Seasonally adjusted, Month to month percentage change)

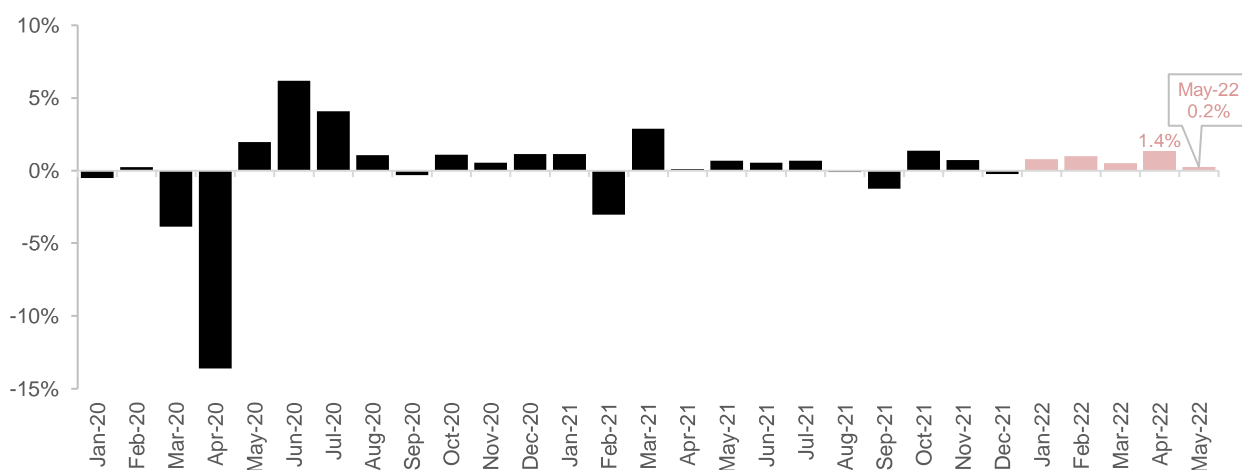


Source: ECLAC Washington Office, based on data from Advance Monthly Sales for Retail and Food Services), U.S. Census Bureau.

C. Industrial production

United States industrial production rose a muted 0.2% in May 2022, a fifth consecutive month of gain, but it followed a much larger gain of 1.4% in April, another sign that the economy has lost momentum (figure 12). Manufacturing industrial production fell 0.1% because of a big drop in machinery output. Motor vehicles and parts production was up 0.7% in May after increasing 3.3% in April. Utilities production was up 1% while mining, supported by higher global energy prices, rose 1.3%. Mining production has risen in excess of 1% in each of the past three months. The increase in energy prices encouraged business investment in mining exploration, shafts and wells. Mining production increased 1.3% following a 1.1% gain in April. Total capacity utilization rose from 78.9% in April to 79% in May.

Figure 12:
United States industrial production, January 2020-April 2022
(Total Index, Index 2017=100, Monthly, Seasonally Adjusted)



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

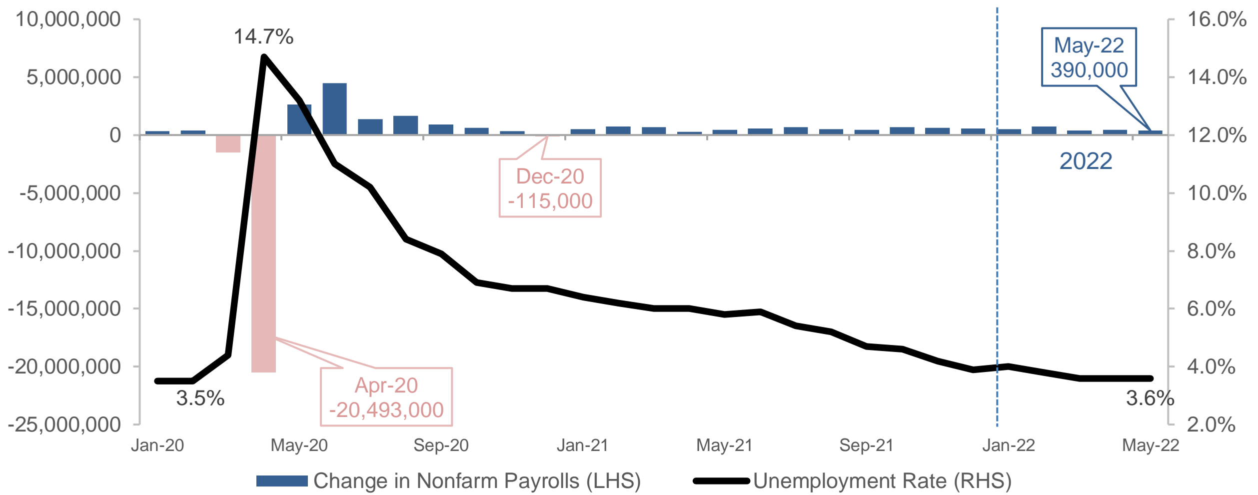
Manufacturing conditions have softened as the economy loses momentum. Financial market conditions have tightened significantly, confidence has declined, and the Federal Reserve is quickly removing monetary policy accommodation. China's pandemic-related lockdowns, which have reignited supply-chain stress, and the war in Ukraine, also add significant uncertainty to the outlook.

D. Labor market

The United States labor market remains strong. After adding 6.7 million non-farm payroll jobs in 2021 and averaging 562,000 new jobs per month, it added 2.4 million from January to May 2022, averaging 488,000 jobs per month. Employers added 390,000 jobs in May, better than the market consensus anticipated and the 17th consecutive monthly gain, even as policymakers start to take steps to cool the economy and ease inflation. Hiring was fairly broad-based. The gain leaves nonfarm employment 822,000 below its pre-pandemic level, which should be recouped over the next few months. Excluding leisure and hospitality, employment is already above its pre-pandemic level.[2] The unemployment rate was at 3.6% for the third straight month and is approaching its pre-pandemic level of 3.5%, a 50-year low (figure 13).

[2] This does not account for the jobs that would have been created if the pandemic had not taken place. According to Moody's, this number would have been around 5 million (Moody's, *Economic Roundup*, "U.S. Labor is Too Hot to Handle", Analysis by Ryan Sweet, 3 June 2022).

Figure 13:
The United States labor market: monthly job creation and unemployment rate, Jan 2020-May 2022
(Average monthly job growth (left axis); Percentage (right axis))

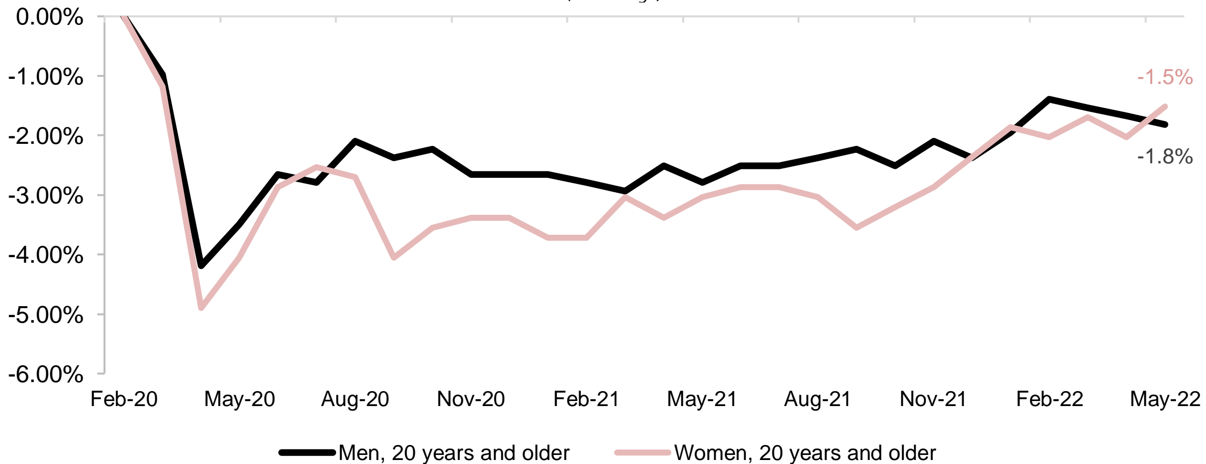


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

The services sector led job gains in May. Leisure and hospitality led net hiring, adding 84,000 jobs. Professional and business services added 75,000 jobs, similar to the 74,000 added in healthcare. Retail trade lost 60,700 jobs, however, with the majority of losses in general merchandise stores, as spending has shifted to services. Construction added 36,000 jobs despite rising interest rates and input prices. Manufacturing gains eased somewhat, to 18,000, mostly due to a decline in motor vehicle and parts payrolls as the industry struggles with supplies. Government added 57,000 jobs, with the largest share of gains at the state level.

The labor force participation rate increased to 62.3%, as the labor force expanded by 330,000 following an April decline. In May 2022, when compared to the pre-pandemic levels of February 2020, women's labor force participation rate was 1.5% lower, while men's was 1.8% lower according to data from the Bureau of Labor Statistics (BLS) Current Population Survey (figure 14). Overall, the notion that women lost jobs at a higher rate than men as a result of the pandemic was not borne out.

Figure 14:
Change since February 2020 in the United States labor force participation share by gender, as of May 2022
(Percentage)



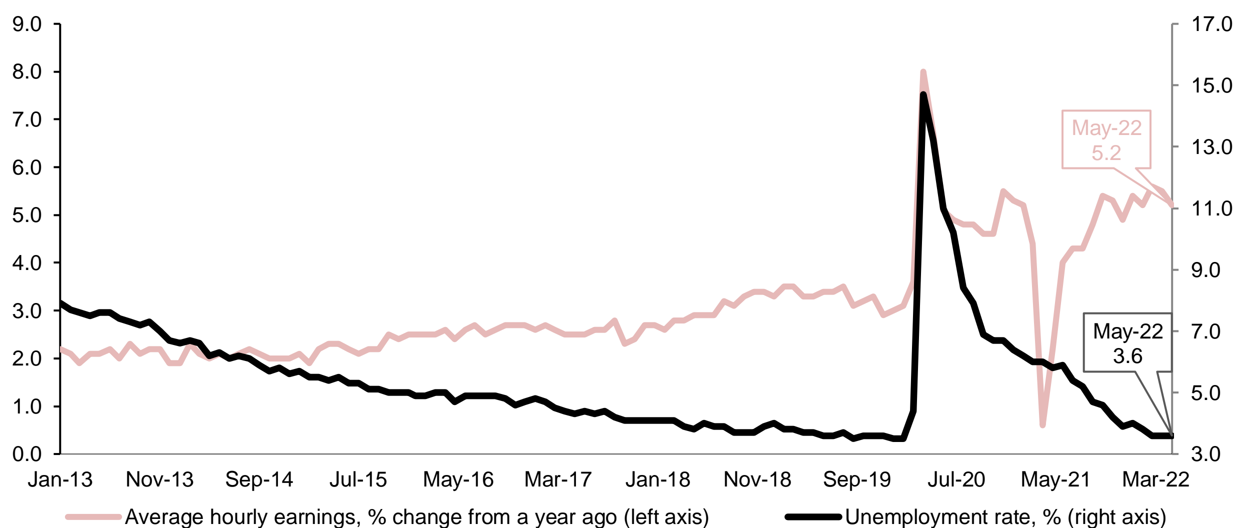
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

The employment-to-population ratio edged higher to 60.1%. 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, returned to 80% in May. Historically, a prime-age labor force participation rate of 80% is consistent with an economy at full-employment, according to Moody's, though the pre-pandemic peak was 80.5%. Given broader labor market underutilization, the economy is likely not at full employment just yet.[3]

With respect to the unemployment rate, there were differences by demographic groups. The unemployment rate rose for African American (to 6.2% from 5.9% in April) and Hispanic workers (to 4.3% from 4.1%), and adult women (to 3.4% from 3.2%). The unemployment rate fell for adult men (to 3.4% from 3.5%) and Asian workers (to 2.4% from 3.1%), and stayed the same for white workers.

Average hourly earnings rose 0.3% in May for a second consecutive month, bringing the annual rate down to 5.2% from 5.5% (figure 15). The rise in wages has been feeding into faster unit labor cost growth. The deceleration in wage growth may be an encouraging sign pointing to a gradual deceleration in inflationary pressures.

Figure 15:
United States average hourly earnings and unemployment rate
(Percentage)



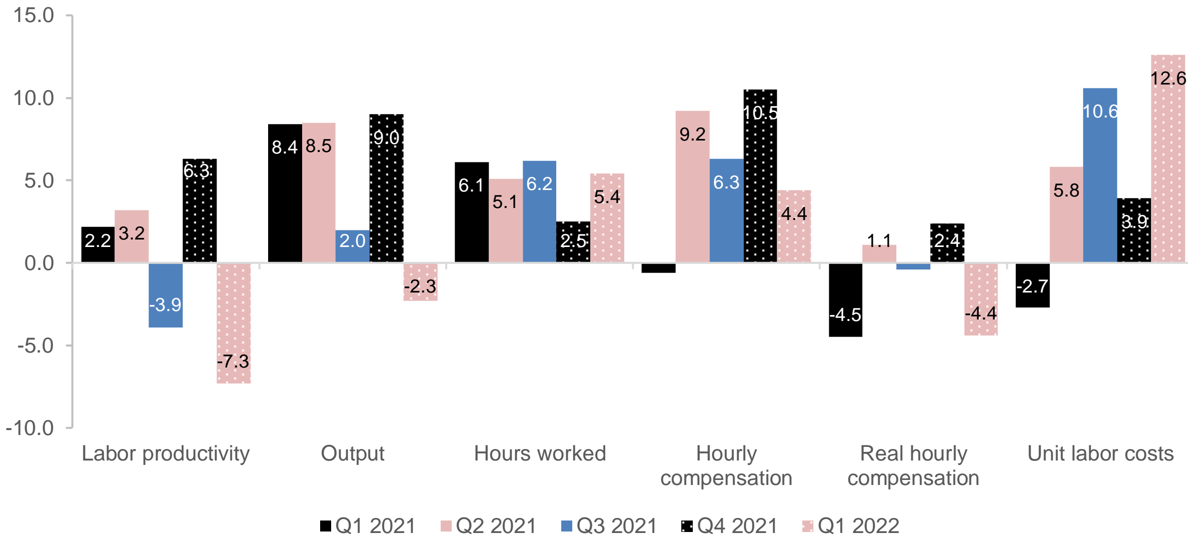
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Labor productivity growth in the nonfarm business sector fell 7.3% on an annualized basis in the first quarter of 2022, more than reversing the 6.3% annualized gain in the final three months of last year. For 2021, productivity rose 1.9%, lower than in 2020 and 2019.

Nonfarm business output contracted 2.3% at an annualized rate in the first quarter of 2022. The decline reverses little of the 9% annualized gain in the final three months of last year. Hours worked rose 5.4% at an annualized rate. After cooling in the fourth quarter, unit labor costs were up 12.6% at an annualized rate in the first quarter. This is the second double-digit growth in unit labor costs in the past three quarters. Real compensation per hour was down 4.4% at an annualized rate (figure 16).

[3] The return to work over the last two years has been uneven across several dimensions, however. The employment recoveries for older and younger workers have been particularly uneven. Workers 55 and older have been slower to return to the workforce because of early retirements and health concerns related to the pandemic, among other reasons. See Moody's, Daily Economic Roundup, *Economic View* - Global, 8 June 2022. Authors: Ryan Sweet, Senior Director-Economic Research and Dante DeAntonio, Director-Economic Research.

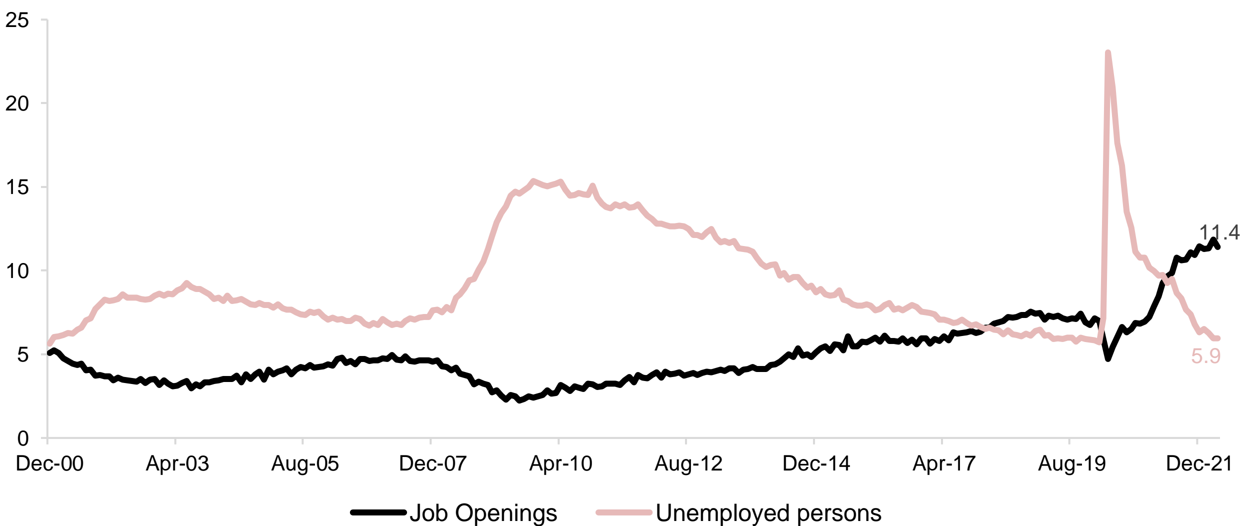
Figure 16:
United States Nonfarm business sector: labor productivity and costs, Q1-Q4 2021 and Q1 2022
(Percent change from previous quarter at annual rate. Seasonally adjusted.)



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. Job openings in April 2022 remained near record highs with 11.4 million jobs openings according to the Job Openings and Labor Turnover Survey (JOLT) survey (figure 17). However, if the labor market remains too tight, the Federal Reserve may have to increase interest rates more aggressively, which would increase the odds of a recession. Achieving a soft landing would require a lower number of job openings without a significantly higher number of unemployed people.

Figure 17:
United States job openings vs number of unemployment persons: Dec 2000-Apr 2022
(Millions of openings and persons)



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

Historically, job openings have not gone down without a sharp increase in unemployment, as figure 17 shows. Federal Reserve Governor Christopher Waller in a recent speech argued that hires per vacancies are currently at historically low levels, thus reducing vacancies from an extremely high level to a lower (but still strong) level would have limited effect on hiring and on unemployment, which would made soft landing a possibility.[4]

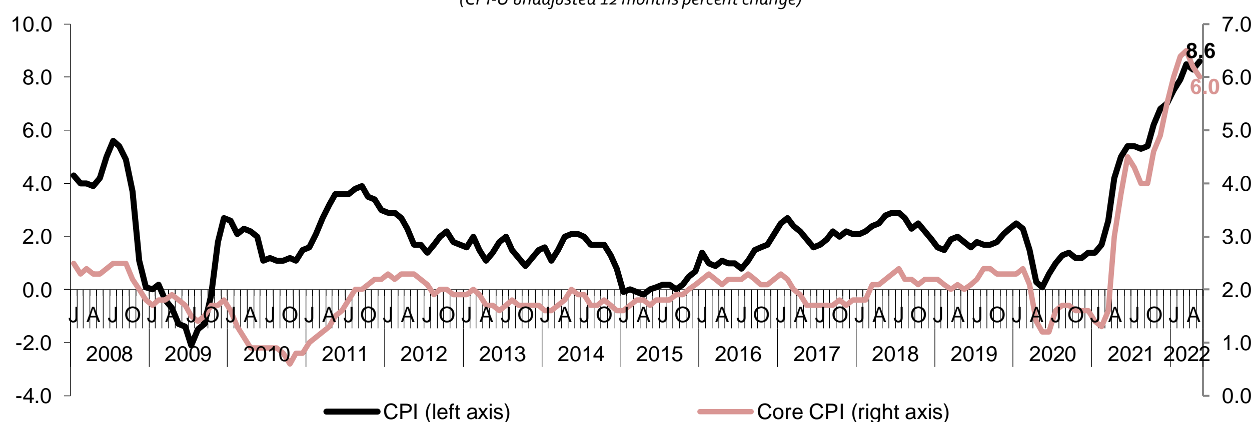
Despite the labor market strength, which has made it easier for workers to find jobs and to earn raises, the relative positions of employees and employers so far has not changed. According to the data from the Department of Commerce, wages and benefits accounted for a 62.9% of national income in the first quarter of 2022, not far from the 62.7% share in the fourth quarter of 2019.

The labor share increased in the first half of 2020, during the pandemic-induced economic recession, but it dropped back in the second half of the year as the economic recovery took hold. Why the workers' share of the economic pie is not growing in this favorable labor market is a question mark. Wage increases may have largely gone to people switching jobs, who represent a relatively small share of the workforce in any given month. According to the Federal Reserve Bank of Atlanta, the median wage increase for those switching jobs was 7.2% in April, compared to 5.3% for those who stayed at their jobs. A second reason could be that strong consumer demand has given firms the power to raise prices and collect higher revenues. In any case, some economists point to the labor share to argue that the risk that higher wages will feed into higher inflation in a "wage-price" spiral is low, given that the labor share is not increasing substantially.

E. Inflation

Inflation hit a 40-year high in May 2022, as surging energy and food prices pushed prices higher. 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 8.6% in May 2022 at an annualized rate, up from 8.3% in April. That was the fastest pace since the period ending December 1981, and the third straight month in which inflation topped 8% (figure 18).

Figure 18:
United States 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

[4] "Responding to High Inflation, with Some Thoughts on a Soft Landing", Speech by Governor Christopher J. Waller at the Institute for Monetary and Financial Stability (IMFS) Distinguished Lecture, Goethe University Frankfurt, Germany, 30 May 2022 https://www.federalreserve.gov/newsevents/speech/waller20220530a.htm

Prices excluding food and energy, the core CPI, reached 6% at an annualized rate in May, down from 6.2% in April and 6.5% in March. According to the U.S. Bureau of Labor Statistics, the energy index rose 34.6% over the last year, the largest 12-month increase since the period ending September 2005. The food index increased 10.1% for the 12-months ending May, the first increase of 10% or more since the period ending March 1981.

Energy prices rose in May as the war in Ukraine continued to push up prices for crude-oil and natural gas. Gasoline prices have breached record levels in recent weeks. Treasury Secretary Janet Yellen, speaking at a House Ways and Means Committee hearing on 8 June 2022, said disruptions in global oil markets caused by the war and the subsequent sanctions imposed on Russia are likely to keep oil prices elevated. She said President Biden's decision to release oil from the strategic petroleum reserve this year was the administration's main tool to put downward pressure on prices. She added that the Biden administration is considering ways to reconfigure tariffs on imports from China as a means of helping to ease decades-high inflation.

On a monthly basis, The CPI was up a seasonally adjusted 1% in May 2022 compared with gains of 0.3% in April and 1.2% in March. The increase in the CPI in May was larger than the consensus forecast for a 0.8% gain. The CPI for food increased 1.2% while energy prices were up 3.9%. Within energy, the CPI for gasoline rose 4.1% after falling in April. Excluding food and energy, the CPI increased 0.6% for the second consecutive month.

The causes of inflation are falling in three related areas: strong demand, as consumer spending remains strong, supply chain disruptions that has led to fewer goods, and service-sector pressures as consumer shift their spending away from goods towards services, leading to higher prices in services industries. Rents, restaurant bills, airline tickets and hotel rooms are costing more.

The continued rapid pace of price increases adds pressure on the Federal Reserve to raise rates aggressively to tame inflation. The central bank has already committed to moving monetary policy "expeditiously" to a more "neutral" level that no longer stimulates the economy, but further evidence that inflation is becoming more entrenched could compel officials to lift interest rates more aggressively than financial markets expect.

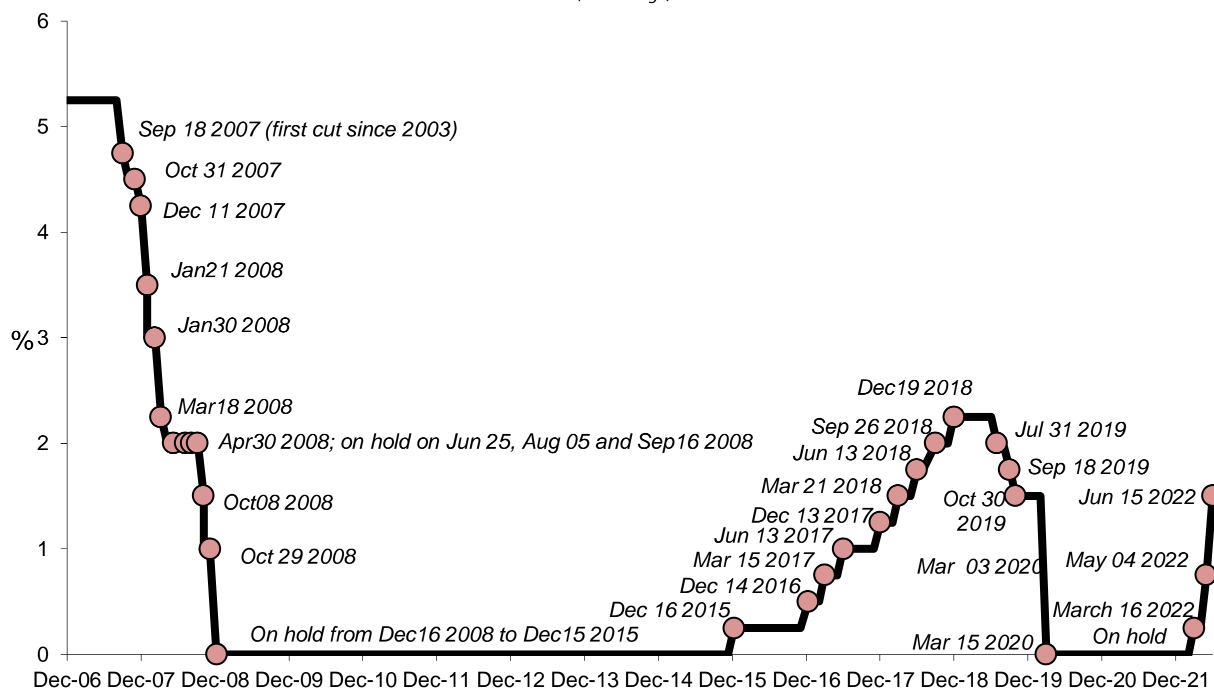
According to a poll conducted by The Washington Post and George Mason University's Schar School of Policy and Government,[5] most of the population expect inflation to get worse in the next year and are adjusting their spending habits in response to rising prices. Inflation-driven lifestyle changes are more common among the segment of the population who says rising prices are a "major financial stress" for their household. The risk is that these changes and expectations feed into more inflation.

F. Monetary policy

The Federal Reserve increased its short-term benchmark interest rate three times this year (figure 19), 0.25% in March, 0.50% in May and 0.75% in June (the largest increase since 1994), bringing the federal-funds rate to a range of 1.5% and 1.75%. The rate increase at the end of the two-day policy meeting concluded on 15 June 2022, departed from the guidance delivered by many members of the rate-setting Federal Open Market Committee (FOMC) in recent weeks, indicating they would raise rates by a smaller half percentage point, as officials did at their meeting in May. The FOMC vote was 10-1, with Kansas City Fed President Esther George dissenting in favor of a half-percentage point increase.

[5] Source: April 21-May 12, 2022, Washington Post-Schar School poll of 1,055 U.S. adults with an error margin of +/- 4 percentage points.

Figure 19:
U.S. federal funds target rate, December 2006 -May 2022
(Percentage)



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

New projections showed all 18 officials who participated in the meeting expect the Fed to raise interest rates to at least 3% this year. The median projection would lift the fed-funds rate to around 3.375%, or by an additional 1.75 percentage point over the following four meetings this year, and officials see the rate rising to around 3.75% by the end of 2023, up from the 2.75% rate projected in March. Such a pace of increases would represent the most aggressive rate-rise cycle since the 1980s.

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 economic projections show many officials expect they will need to raise rates to deliberately slow the economy's growth. Most officials now see growth of around 1.7% this year and next, compared to projections in March that showed growth rising by 2.8% this year and 2.2% in 2023.

The projections revealed that all but one official expects the unemployment rate to rise over the next two years. The median projection showed the unemployment rate, which stood at 3.6% in May, ending at 3.7% this year before rising to 4.1% in 2024. The Federal Reserve Chairman Jerome Powell said the path to a so-called soft landing where the Fed slows the economy enough to bring down inflation without a recession "is not getting easier" amid continued supply-chain disruptions and rising energy and commodities prices. Officials left their inflation forecasts little changed compared with March. They projected so-called core prices, which exclude volatile food and energy prices, increasing 4.3% this year, up from a projection of 4.1% last month. In its statement the FOMC pledged that it "is strongly committed to returning inflation to its 2% objective" while the wording arguing that the labor market would remain strong, even as policy was tightened, was dropped.

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

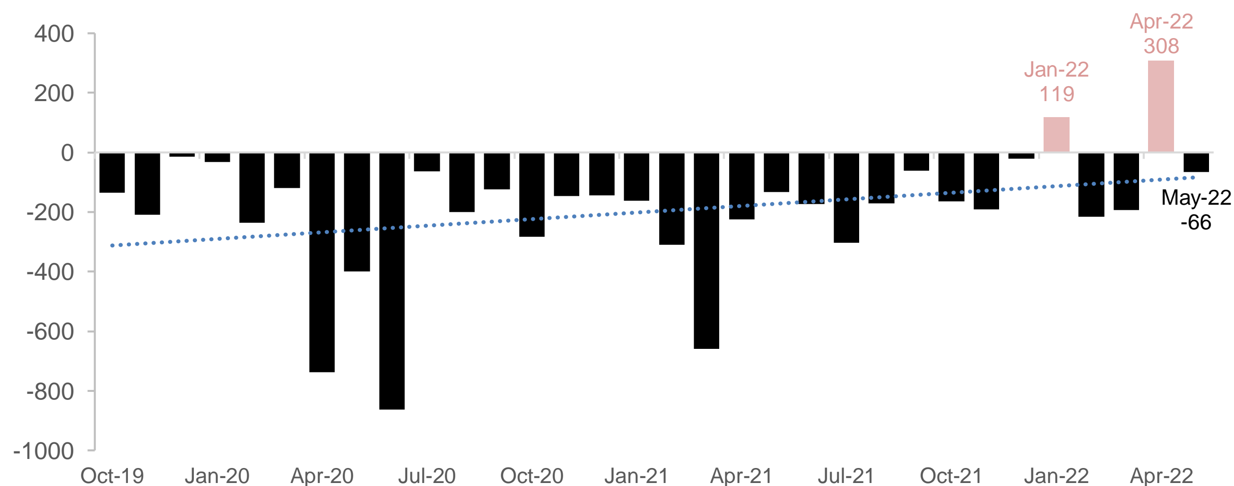
G. Fiscal policy

The combination of lower spending and higher revenue has led to a precipitous drop in the deficit from its pandemic-fueled highs. In April 2022, federal revenue almost doubled compared to a year earlier, reaching a record and driving a monthly budget surplus of US$ 308 billion. Government revenues from taxes and other receipts for April rose by 97% from a year earlier to US$ 864 billion, not adjusting for calendar differences, according to the Treasury Department. April's surplus was the largest recorded in a single month on record. It is only the second monthly surplus recorded since 2019 (figure 20). Historically, it is common for the government to record a surplus in April, the month when tax bills are paid, but the deadline was delayed for tax payments in 2020 and 2021 to later in the year.

In May 2022, the federal budget ran a US$ 66 billion deficit, but this figure represented a 50% decline from a year earlier as the government cut spending on pandemic programs. Federal outlays in May fell by 24% to US$ 455 billion, not adjusting for calendar differences. That reflected a reduction in spending on pandemic programs at the Treasury and Labor Departments and the Small Business Administration. Government receipts for the month fell by 16% from a year earlier to US$ 389 billion, the Treasury said. Treasury officials said the drop in revenue reflected the return to an April filing deadline for individual tax returns this year compared with 2021, when the deadline was postponed to May.

Spending so far this fiscal year has fallen 19% from last year, to US$ 3.8 trillion, with receipts up 29% from 2021 to roughly US$ 3.4 trillion, according to the Monthly Treasury Statement for May, in part because individual income-tax payments are on pace to reach a record level. The United States Congress likely will not need to raise the federal government's borrowing limit before the third quarter of 2023, reflecting strong growth in tax collections, according to a new projection from the Bipartisan Policy Center released on 14 June.

FIGURE 20:
UNITED STATES FEDERAL SURPLUS OR DEFICIT [-], OCTOBER 2019-MAY 2022
(Millions of Dollars, Monthly, Not Seasonally Adjusted)



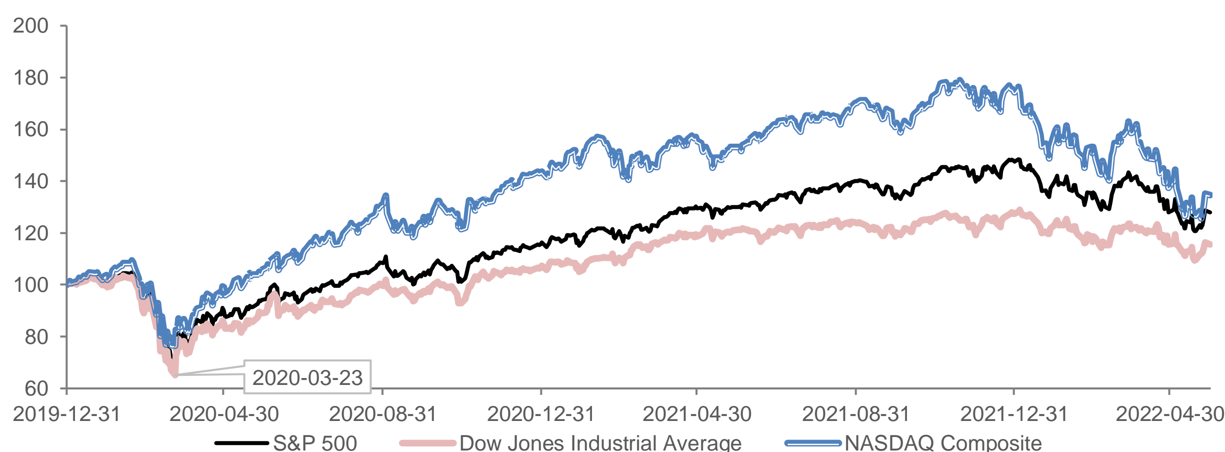
Source: ECLAC Washington Office, based on data from the U.S. Treasury Departments and FRED Graph Observations, Federal Reserve Bank of St. Louis.

The federal deficit has fallen substantially during the first three quarters of the fiscal year, which began last October. It is on track to fall to US$ 1 trillion this fiscal year, compared with roughly US$ 2.8 trillion the previous year, according to estimates from the Congressional Budget Office.

H. Financial conditions

After gaining since the low reached in March 2020 during the pandemic, the United States stock markets have been volatile in 2022 and have started to decline (figure 21). They dropped sharply into bear market territory on 13 June, one day before the Federal Open Market Committee (FOMC)'s two-day June meeting began, as anxiety about high inflation and the prospect of aggressive monetary tightening by central banks increased. Although stocks rally immediately after the meeting, the next day the Dow Jones Industrial Average fell below 30,000 for the first time since January 2021, as volatility continued to impact the market. The S&P 500 closed down more than 3%, plunging deeper into the bear market that officially began in the beginning of the week.[6]

FIGURE 21:
U.S. STOCK MARKET INDICES: DEC 2019-MAY 2022
(Daily, not seasonally adjusted; 31 December 2019=100)



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

The concerns that have been driving the volatility since the beginning of the year remain unresolved. It is too soon to know when consumer prices will peak, whether the Federal Reserve will chart the right path for interest rates, or how well the economy will hold up in the face of fast inflation and rising borrowing costs. Investor sentiment remains fragile and lack conviction that the economy can avoid a recession as it faces rising interest rates and inflation. Those factors have combined to weigh heavily on major indexes this year, with the S&P down about 14% from January to May 2022, the Dow Jones Industrial Average down about 9% and the NASDAQ down about 24%. In 2021, the indexes gained 26%, 18% and 23%, respectively (table 3).

TABLE 3:
STOCK PRICES
(Percentage Change)

	S&P 500	Dow Jones Industrial Average	Nasdaq
2020	16.32%	7.04%	43.75%
2021	26.51%	18.22%	22.63%
Q1 2022	-6.06%	-4.52%	-11.96%
Jan-May 2022	-13.57%	-9.15%	-23.55%

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

[6] The S&P 500 index fell 3.9% on 13 June 2022, closing the day nearly 22% below its 3 January 2022 peak and firmly in a bear market, crossing a symbolic threshold after a meteoric rise over the last two years. On 16 June, the index was almost 24% below the peak. Bear markets – when stocks decline at least 20% from their recent peaks – are relatively rare. The most recent bear market, just as the coronavirus began spreading globally, was the shortest on record.

In 2021, the 3-year, 10-year and 30-year Treasury yields surged 400%, 58% and 11%, respectively, with the 3-year Treasury yields surging to more than four times their decline in 2020 (table 4). From January to May 2022, the 3-year, 10-year and 30-year Treasury yields surged 194%, 97% and 66%, respectively. The average yield on the benchmark U.S. 10-year Treasury note reached 3% in May 2022 amid concerns of surging inflation pressures and slowing economic growth (figure 22). On 13 June 2022, it reached 3.371%, its highest close since April 2011. The yield on the government bond has profound effects on the U.S. economy, feeding into home mortgage rates and borrowing costs for companies. It also has profound effects overseas, feeding into higher borrowing costs for emerging market sovereign and corporate debt issuers.

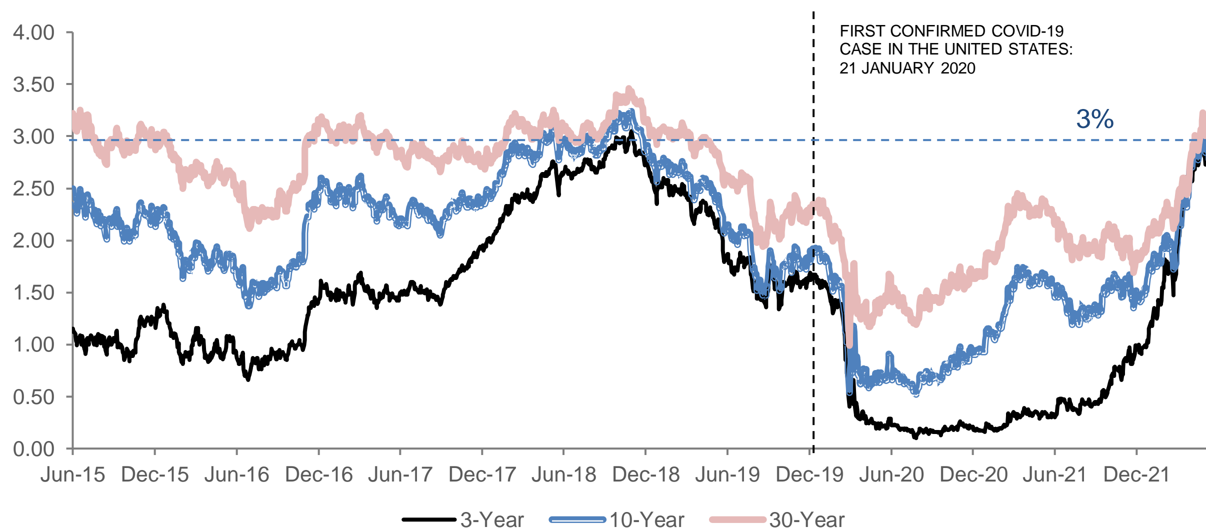
In the latest semiannual Financial Stability Report released in early May, the Federal Reserve said that elevated and persistent inflation, coupled with a sharp rise in interest rates, are among the greatest near-term risks to the financial system, while warning that the war in Ukraine could also affect financial stability.

TABLE 4:
U.S. TREASURY SECURITY YIELDS
(Percentage Change)

	3-year	10-year	30-year
2020	-88.34%	-50.00%	-27.39%
2021	400.00%	58.06%	10.78%
Q1 2022	120.00%	44.90%	30.27%
Jan-May 2022	193.68%	97.28%	65.95%

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

FIGURE 22:
U.S. TREASURY SECURITY YIELDS
(Constant maturities; daily yields)



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

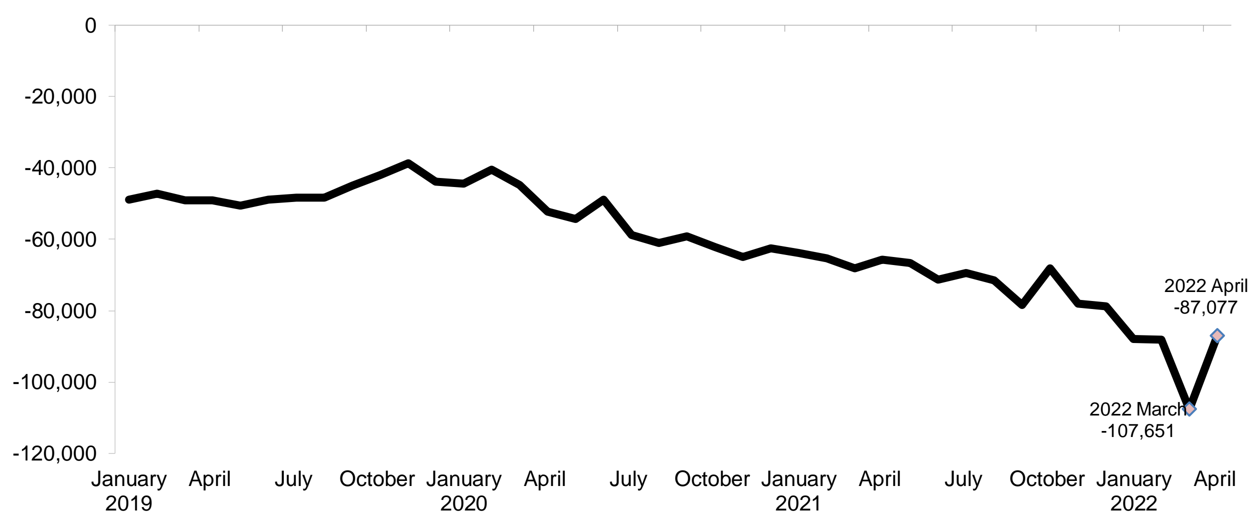
I. External sector

The United States economic growth in the first quarter of 2022 was hurt by a sizable drag from net exports. According to the International Trade in Goods and Services release in April 2022 by the U.S. Census Bureau and the U.S. Bureau of Economic Analysis, the deficit in trade in goods and services was

US$ 87.1 billion in April, down from US$ 107.7 billion in March (figure 23). Before the COVID-19 pandemic, the United States trade deficit had fluctuated for years between US$ 40 billion and US$ 50 billion a month. The April release suggests that net exports may be less of a hindrance to GDP growth in the second quarter. The trade deficit narrowed in April as imports declined, reflecting a moderating appetite for foreign goods from consumers and businesses.

Imports fell 3.4% to US$ 339.7 billion, the first month-on month decline since July 2021, driven by a drop in clothing, household goods, toys, pharmaceutical products and finished metal, as consumers shifted their spending from goods to services. The decline in imports represent a turn from the trend of previous months when businesses added to their inventories at brisk paces following prolonged supply-chain disruptions triggered by the COVID-19 pandemic. It also came amid cooling of commodity markets after steep price increases caused by the war in Ukraine. Exports continued their upward trend in recent months, rising 3.5% to US$ 252.6 billion.

Figure 23:
United States balance on goods and services trade, Jan 2019-Apr 2022
(Millions of dollars, months seasonally adjusted)



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

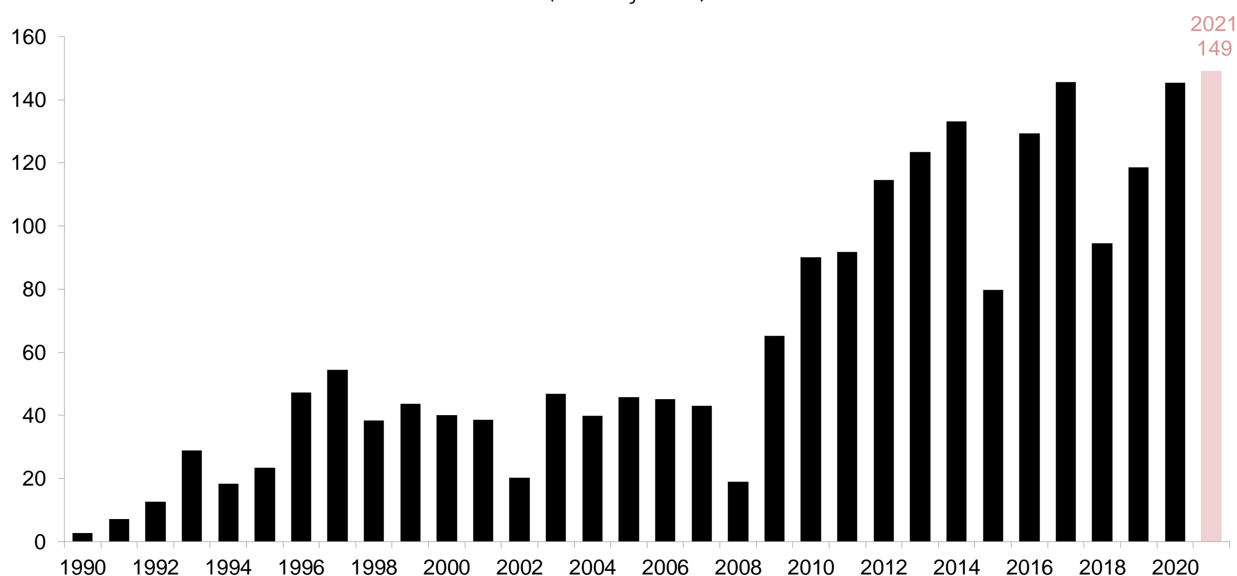
Concerns about the United States' economic approach to China have taken on new urgency amid rapid inflation. Debate has been stirred, including within the United States administration, on whether removing, or at least reducing the tariffs imposed on more than US$ 300 billions of imports from China could be a lever to help reduce inflation. Many United States industries are facing higher costs and few have been able to get greater access to the Chinese market. However, the U.S. trade representative and labor groups argue that removing the tariffs would constitute giving up leverage unilaterally, given that many of the policies that prompted the measures have yet to be addressed by the Chinese government.

Trade in itself is at a difficult juncture. The World Trade Organization (WTO) gathered trade ministers in the week of 13 June 2022 for the first meeting of top officials from WTO member countries since 2017 and faced important pressing issues, including increasing food security challenges amid war-induced shortages and responding to the ongoing pandemic. The organization, which was established in 1995 to promote free trade, faces numerous challenges, as the United States, together with the European Union, begin to shift their focus towards reshoring and friend-shoring, putting bigger emphasis on domestic production and trade with like-minded countries to minimize supply-chain disruptions triggered by the pandemic and war.

II. Impact on Latin American and Caribbean financial conditions

Against the backdrop of low U.S. interest rates and borrowing costs, Latin American and Caribbean (LAC) issuers placed US$ 149 billion worth of bonds in international bond markets in 2021, reaching a new annual peak according to ECLAC estimates (figure 24).

Figure 24
Annual Latin American and Caribbean debt issuance in international markets, 1990-2021
(Billions of dollars)



Source: ECLAC, Capital flows to Latin America and the Caribbean: 2021 year-in-review and first four months of 2022 (LC/WAS/TS.2022/1), Santiago, 2022. https://www.cepal.org/es/node/56408

However, there has been a slowdown in the region's international debt issuance this year so far. From January to April 2022, LAC issuers placed US$ 37.9 billion in international bond markets, down 42% from the same period in 2021, as the Federal Reserve's tightening monetary policy stance and the war in Ukraine contributed to push funding costs higher.

Prices in the United States economy are rising at the fastest pace in four decades, and a tight labor market has started to feed into wage increases. Concerns that the Federal Reserve may need to raise its target interest rate at a faster pace and above current market expectations are rising. The war in Ukraine has compounded these risks. Although Latin America and the Caribbean have few direct economic and financial linkages with Russia and Ukraine, the surge in energy prices and new round of supply shocks resulting from the conflict are constraining access to key food and industrial commodities, resulting in renewed inflation pressures and the likelihood of continued monetary policy tightening.

Moreover, for many governments in the region, domestic funding costs are at the highest levels in recent years. As sovereign issuances serve as benchmark for issuers in other asset classes, rising sovereign funding costs point to an overall tightening of financial conditions. Higher global and domestic financing costs can accelerate capital outflows and represent a challenge for the region. In this scenario, the countries that may be most affected would be those rated below Ba by credit rating agencies and that lack deeper domestic credit markets.

Faced with this challenging backdrop, Latin American and Caribbean countries could maintain capital flows and reap their benefits by implementing sound macroeconomic policies, deepening financial markets, strengthening financial regulation and supervision, and improving institutional capacity. Green, social, sustainability and sustainability-linked (GSSS) bonds can present a unique opportunity to help them in this most adverse scenario, contributing to promote a sustainable recovery. Despite a slowdown in LAC external debt issuance this year so far, the share of GSSS international bond issuance in the region's total issuance in international markets has increased from 31.0% in 2021 to 35.4% in the first four months of 2022.[7] These debt instruments can contribute to further develop the key role that debt markets can play in funding sustainable investment in the region.

[7] The 2021 share was more than three times the 2020 share of 9.3%, and almost eight times the 4.2% average of the 2015-2020 period. See ECLAC, Capital flows to Latin America and the Caribbean: 2021 year-in-review and first four months of 2022 (LC/WAS/TS.2022/1), Santiago, 2022. https://www.cepal.org/es/node/56408

III. Looking ahead

The state of the Unite States economy is a combination of strong data in some areas and warning signals in others. It is experiencing a historically tight labor market, with May 2022 marking the 17th consecutive month of job gains. Workers' pay has been rising and the unemployment rate was near a record low in May. Jobless claims – a proxy for layoffs and a key barometer of labor market tightness – fell by 3,000 in the week ending on 11 June 2022 to 229,000, according to the Labor Department. Claims remain near 2019 pre-pandemic levels, when the job market was also historically tight. Personal consumption expenditures increased 3.1% in the first quarter, reflecting widespread increases in services (led by housing and utilities). Industrial production has had five consecutive months of gains from January to May. However, there are warning signs that a slowdown is underway and recession fears are rising.

Recent reports show declines in key sectors. In May, home construction fell sharply, consumers broadly cut spending at retailers for the first time this year, and inflation increased to a forty-year high as food and energy prices continue to surge, erasing gains in workers' pay. Supply chain disruptions and the war in Ukraine further complicate the outlook for inflation. On 13 June, the S&P 500 dropped more than 20% from its recent high into a bear market as investors became anxious at the prospect of aggressive monetary tightening, and the yield on the U.S.10-year Treasury increased to its highest level in more than a decade. High inflation, war in two key commodity-producing regions, declining real wages, slowing economic growth, fears of excessive monetary policy tightening and turbulence in financial markets contribute to a highly uncertain outlook for the United States economy in the months ahead.

The Federal Reserve raised interest rates for the third time this year on 15 June, to a range between 1.50% to 1.75%. More importantly, the Fed projects the benchmark interest rate to rise to 3.375% by the end of the year. This is much higher than the 1.875% rate projected in March, meaning mortgage and businesses loans are expected to become more expensive, corporate expansion plans may be thwarted and the expansion in the labor market hindered. Fed officials are striving to achieve a fine balance, to bring prices down without causing a recession, but they have acknowledged that their more aggressive efforts could lead to harsher consequences. The higher interest rates need to go to fight inflation, the more doubtful achieving a soft landing will be, with higher unemployment and a recession becoming more likely.

The United States economy expanded by 5.7% in 2021, the strongest annual growth since 1984, but in a sharp reversal it contracted 1.5% in the first quarter of 2022. Although the overall economy is expected to resume modest growth in the second quarter of 2022 and beyond owing to robust consumer spending and a strong labour market, risks to the economic outlook are rising. Inflation is at a 40-year high, and the Federal Reserve is raising interest rates at the most aggressive pace since the 1980s.

The *United States economic outlook: 2021 year-in-review and first quarter of 2022* presents and analyses the main economic developments in the period and examines how they could affect financial conditions in Latin America and the Caribbean.

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