

United States economic outlook

2024 year-in-review and
first half of 2025



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2024 year-in-review and
first half of 2025



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This document was prepared by Helvia Velloso, Officer in Charge of the Economic Commission for Latin America and the Caribbean (ECLAC) office in Washington, D.C., with valuable comments from Daniel E. Perrotti, Economic Affairs Assistant, and Rex Garcia, Senior Statistics Assistant, of the same office.

Unless otherwise indicated, the cut-off date for the information used to prepare this report is 29 August 2025. The report has been prepared on the basis of economic indicators from official statistics and market information is drawn from market views.

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Highlights

2024 year-in-review:

- **GDP Growth:** The U.S. economy grew 2.8% in 2024, slightly below the 2.9% rate in 2023 but still robust. Personal consumption spending, which accelerated to 2.8% in 2024, from 2.5% in 2023, was the main driver. This marked the fourth consecutive year of growth above the economy's long-term potential.
- **Labor Market:** The labor market remained solid but showed signs of softening. By December 2024, the U.S. had achieved 48 consecutive months of job gains. An average of 167,667 new jobs were created per month, totaling 2.01 million for the year—22% fewer than in 2023. The unemployment rate edged up slightly from 3.8% in December 2023 to 4.1% in December 2024, remaining low by historical standards.
- **Inflation:** Inflation gradually eased but remained above target. The Consumer Price Index (CPI) inflation fell from 3.4% in December 2023 to 2.4% in September 2024, its lowest in over three years. However, progress stalled in the fourth quarter, with CPI rising to 2.9% in December. Core CPI, which excludes energy and food, declined from 3.9% in December 2023 to 3.2% in December 2024.
- **Monetary Policy:** The Federal Reserve cut interest rates three times—on 18 September, 7 November, and 18 December—reducing the federal funds rate by a total of 1% to 4.25–4.50% by year-end. In December, Chair Jerome Powell emphasized caution, noting that progress in reducing inflation had stalled in the fourth quarter and that monetary policy should avoid being too aggressive or too passive.
- **Fiscal Policy:** Federal spending grew in 2024 due to automatic increases in mandatory programs and defense. The calendar-year budget deficit rose to about US\$ 2.0 trillion in 2024, from US\$ 1.8 trillion in 2023, as spending growth outpaced higher tax revenues amid steady economic growth. Overall, fiscal policy remained broadly supportive, helping to sustain economic activity.
- **Trade and Current Account:** Both trade and current-account deficits widened. The U.S. goods and services trade deficit rose 17% to US\$ 903.5 billion (3.1% of GDP) in 2024, from US\$ 774.2 billion (2.8% of GDP) in 2023, driven mainly by higher goods imports, partially offset by higher services exports. The current account deficit totaled US\$ 1.19 trillion in 2024, widening by US\$ 257 billion (28%) from 2023.

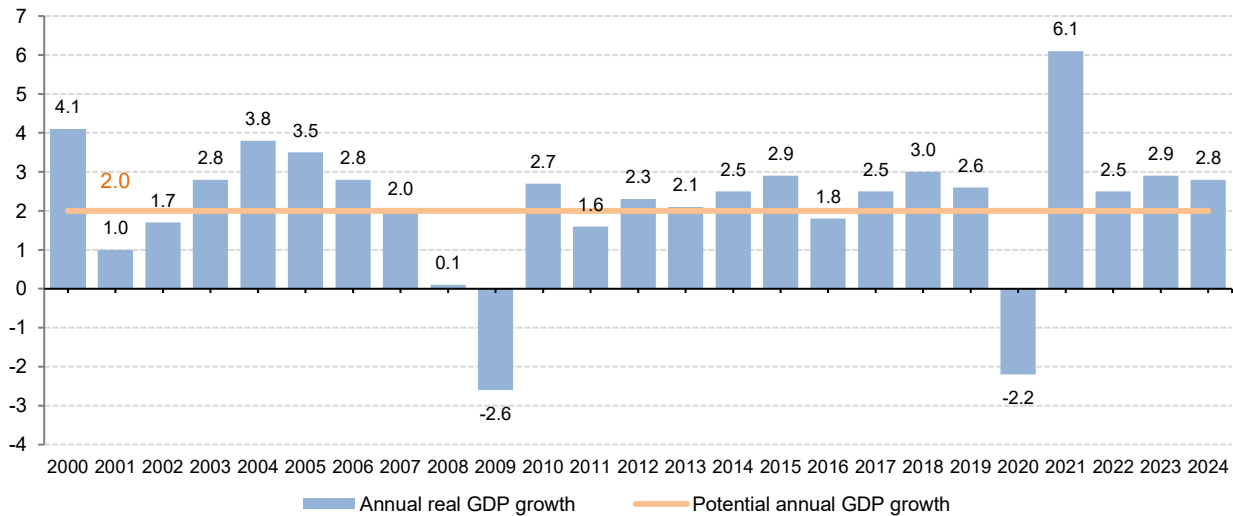
2025 mid-year review:

- **GDP Growth:** U.S. economic growth moderated through the first half of 2025, as consumers slowed spending after a late-2024 surge and companies navigated policy uncertainty. GDP fell at an annual rate of 0.5% in the first quarter—the first quarterly contraction in three years—mainly due to a surge in imports ahead of higher tariffs, and reduced government spending. However, in the second quarter, growth rebounded strongly to a 3.3% annualized rate, as imports declined. Overall, growth averaged 1.4% in the first half of 2025.
- **Labor Market:** The labor market showed signs of cooling off compared with 2024. 597,000 jobs were created from January to July 2025, 44% fewer than in the same period in 2024. The unemployment rate rose slightly to 4.2% in July from 4.1% in June.
- **Inflation:** Inflation remained relatively contained in early 2025 but edged upward by mid-year. The CPI inflation declined from 2.9% in December 2024 to a low of 2.3% in April 2025 before rising to 2.7% in June and holding steady at 2.7% in July. Core CPI, which excludes food and energy, rose to 3.1% in July, up from 2.9% in June, indicating lingering price pressures, particularly in housing and services.
- **Monetary Policy:** The Federal Reserve remained on hold in the first half of 2025, citing persistent price pressures, potential tariffs' impact on the economy, and overall policy uncertainty. As of mid-2025, markets priced in potential rate cuts in late 2025 or early 2026, although these expectations, as usual, remain data-dependent and subject to change.
- **Fiscal Policy:** The July tax-and-spending bill provides short-term economic support but raises concerns about long-term fiscal sustainability. The One Big Beautiful Bill (OBBB) extends provisions of the 2017 tax cuts, reduces social program spending, and increases allocations for defense and border security. The Congressional Budget Office (CBO) projects that it will raise the federal deficit by US\$ 3.4 trillion over ten years, or US\$ 4.1 trillion including interest. The U.S. Administration considers these estimates overstated, emphasizing that rising tariff revenues could meaningfully offset the projected increase.
- **Trade and Tariffs:** The U.S. Administration announced major tariff increases in early April and subsequently began negotiations with trade partners. In late July and early August, the prospect of further tariff hikes resurfaced, while many of the announced trade agreements remained without details. Over January–July, the trade deficit totaled US\$ 654.2 billion, a 31% increase compared with the same period in 2024. Tariffs continue to be a dominant source of policy uncertainty.
- **Latin America and the Caribbean:** Regional financial conditions in the first half of 2025 were influenced by U.S. economic and policy developments, with higher yields and tariff-related uncertainty keeping external financing costs relatively elevated.

Overview

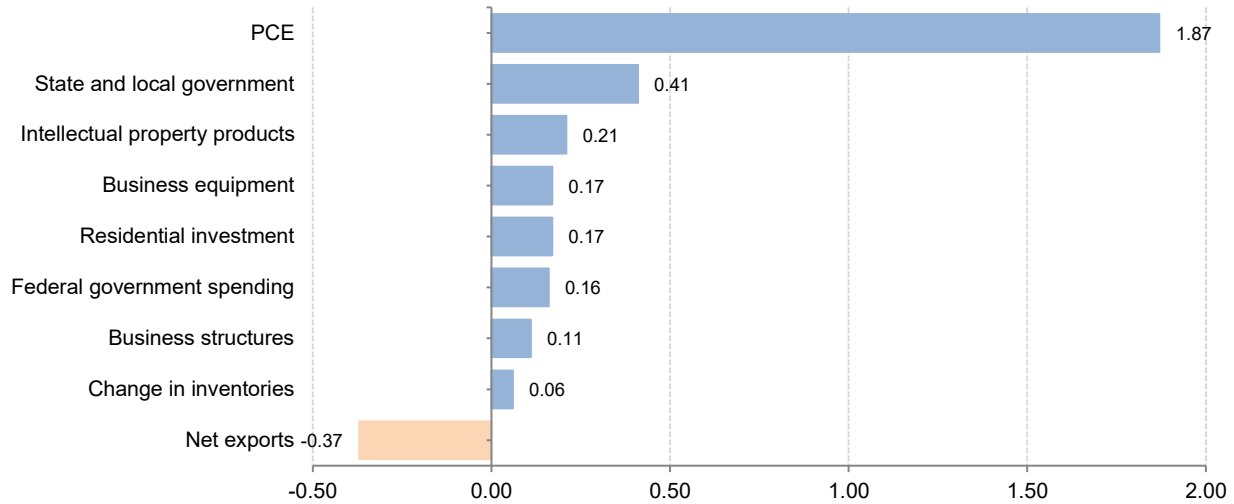
U.S. Gross Domestic Product (GDP) grew 2.8% in 2024, slightly below the 2.9% pace in 2023 but above the economy’s long-term potential and the 2.5% growth recorded in 2022 (figure 1). As in the previous two years, consumer spending was the largest contributor, adding 1.87 percentage points to annual growth. Expansionary fiscal measures —such as infrastructure spending and various tax credits— also supported government and business investment, while net exports were the only component to detract from growth (figure 2).

Figure 1
United States real GDP annual growth rate, 2000–2024
(Percentage, not seasonally adjusted)



Source: Real GDP annual growth rate: Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025. Potential annual GDP growth: Congressional Budget Office (CBO), [The Budget and Economic Outlook: 2025 to 2035](#), table C-3, January 2025.

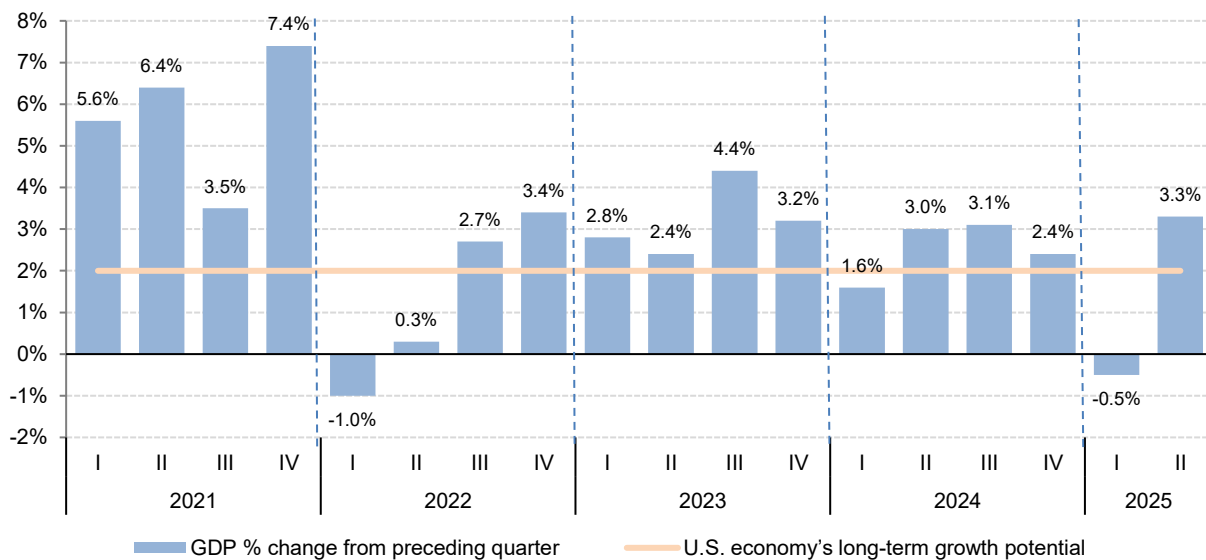
Figure 2
United States: contributions to percent change in real GDP, 2024
(Percentage points, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025.
 PCE: Personal Consumption Expenditures.

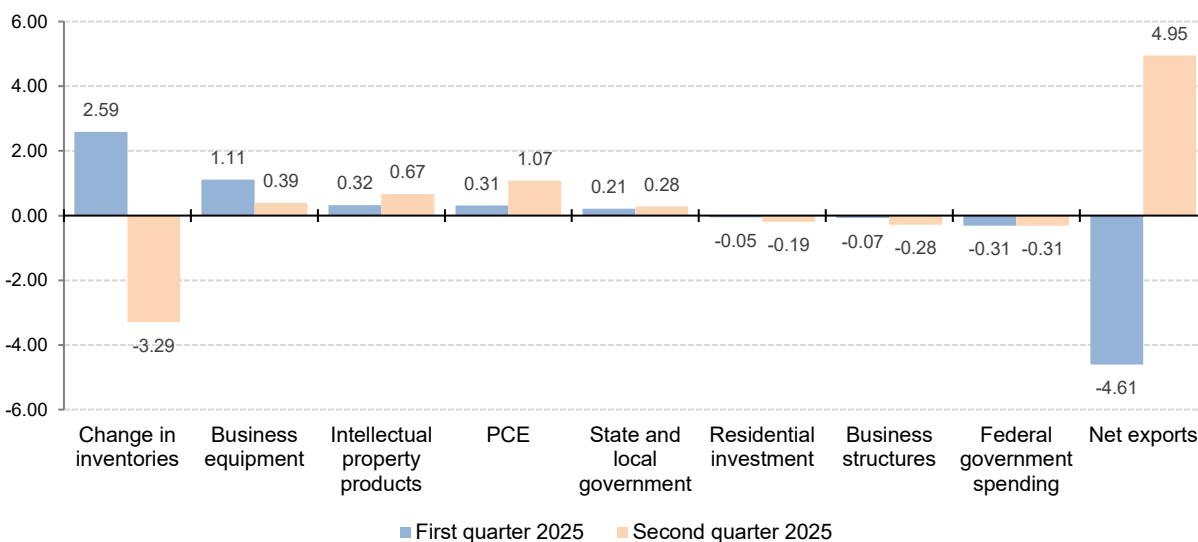
The U.S. economy in the first half of 2025 experienced slower, but positive, growth. On average, GDP rose 1.4% during this period, following a 0.5% decline in the first quarter —primarily due to a pre-tariff increase surge in imports and reduced government spending— and a 3.3% rebound in the second quarter, driven largely by a drop in imports (figure 3). Both quarters’ figures were affected in opposite directions by sharp swings in trade and inventories resulting from tariff policies (figure 4).

Figure 3
United States real GDP quarterly growth rate, first-quarter 2021– second-quarter 2025
(Percentage, not seasonally adjusted)



Source: Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025.

Figure 4
United States: contributions to percent change in real GDP, first-half of 2025
(Percentage points, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025.
PCE: Personal Consumption Expenditures.

Tariff policy uncertainty fueled volatility in the first half of the year. Businesses and consumers stockpiled goods in the first quarter, causing imports to surge and net exports to subtract 4.61% from GDP. In the second quarter, net exports contributed nearly 5% to growth as imports fell, partially offsetting earlier losses. Annualized consumer spending remained positive but slowed sharply, falling below 1%—the weakest pace since early 2019, excluding 2020—on a two-quarter moving average basis (Moody's, 2025).¹

Compared with 2024, the labor market cooled off in the first half of 2025. By July, the U.S. had recorded 55 consecutive months of job gains, but monthly growth averaged 85,286 jobs, about half the 2024 pace of 167,667. In January–July 2025, 597,000 jobs were created, 44% fewer than in the same period in 2024. July's gain of 73,000 jobs was the weakest since the COVID-19 pandemic. Downward revisions for May and June cut 258,000 jobs from earlier estimates, bringing the three-month average to 35,000 per month. The unemployment rate rose slightly to 4.2% in July from 4.1% in June (figure 5). On 5 September, the Bureau of Labor Statistics (BLS) reported that the U.S. economy added 22,000 jobs in August, following revisions showing a net loss of 13,000 jobs in June and a 79,000 gain in July. The unemployment rate rose to 4.3%, its highest level since 2021.

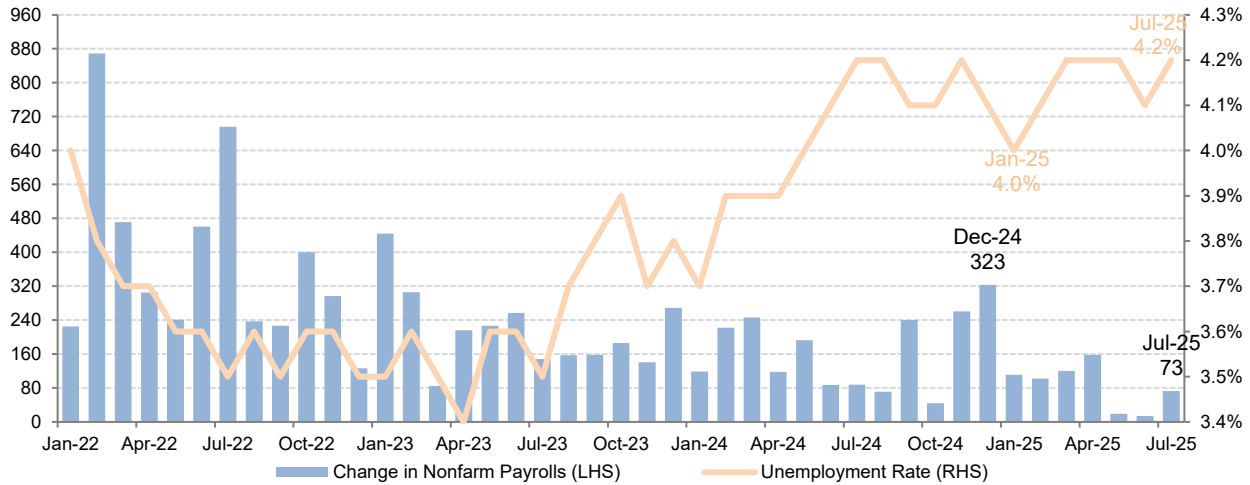
Measured by the Consumer Price Index (CPI), inflation stayed relatively contained in early 2025 before edging up by mid-year. CPI fell from 2.9% in December 2024 to 2.3% in April 2025, then rose to 2.7% in June and held steady in July (figure 6). Core CPI, excluding food and energy, climbed to 3.1% in July from 2.9% in June, reflecting lingering price pressures, especially in housing and services.

The downward trend in inflation that started in mid-2022 and continued through the first nine months of 2024 enabled the Federal Reserve to cut interest rates three times in 2024—on 18 September, 7 November, and 18 December—lowering the federal funds rate by 1 percentage point to 4.25–4.50% by year-end. In December 2024, Chair Jerome Powell urged caution, noting stalled progress on inflation in the fourth quarter and the need to avoid overly aggressive or overly passive policy. The Fed held rates steady in the first half of 2025, citing lingering price pressures, uncertainty over tariff impacts, and broader policy uncertainty.

¹ Moody's analysis, "[Cracks in the Firewall: U.S. consumers are pulling back as the labor market weakens and concerns about the direction of the U.S. economy mount](#)" by Matt Colyar and Elise Burton, 6 August 2025, available online.

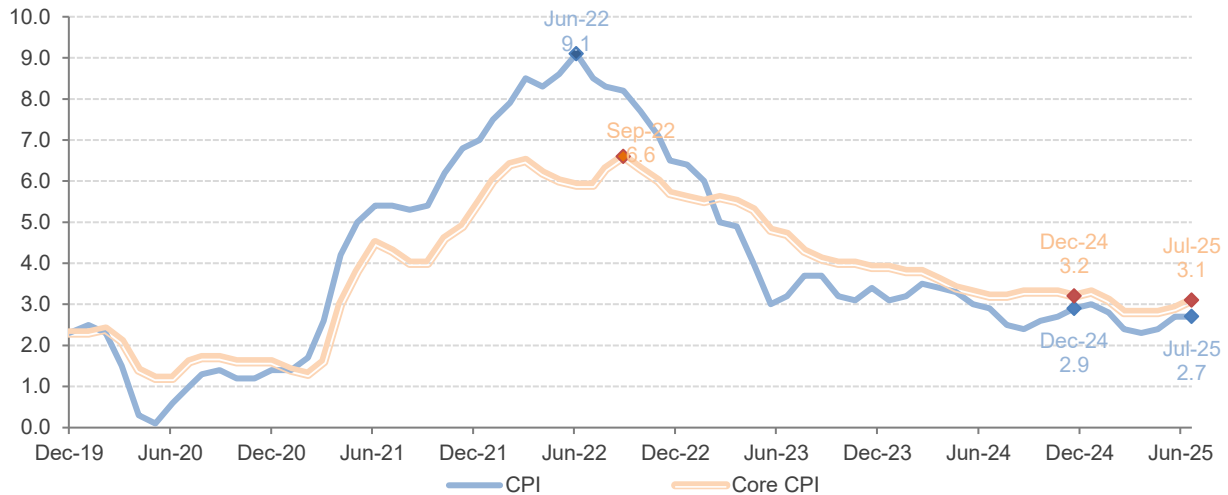
According to minutes from July’s meeting of the Federal Open Market Committee, released on 20 August, a majority of policymakers considered inflation a bigger risk to the U.S. economy than unemployment at the time of the meeting. By mid-2025, markets anticipated possible rate cuts in late 2025 or early 2026, though these expectations remained highly data-dependent. The lower than expected number of jobs added in August contributes to intensifying pressure on the Federal Reserve to cut interest rates this month.

Figure 5
United States monthly job creation and unemployment rate, January 2022–July 2025
(Monthly job growth in thousands (left axis); Percentage (right axis))



Source: ECLAC Washington Office based on data from the United States Bureau of Labor Statistics, retrieved on 29 August 2025.

Figure 6
United States domestic prices: monthly evolution, December 2019–July 2025
(CPI-U unadjusted 12 months percent change)



Source: Bureau of Labor Statistics, United States Department of Commerce, retrieved on 29 August 2025.

On 21–23 August 2025, at the Jackson Hole Economic Policy Symposium—an annual gathering of central bankers, policymakers, economists, and academics hosted by the Federal Reserve Bank of Kansas City—Chair Jerome Powell signaled that the Federal Reserve could lower interest rates as soon as its September meeting. His remarks underscored divisions within the Fed, as officials continue to contend with

inflation that has stalled above the 2% target and a labor market showing early signs of weakness, amid heightened uncertainty over how these dynamics will evolve.²

The tax-and-spending bill passed in July could provide a short-term economic boost but adds long-term debt concerns. The One Big Beautiful Bill (OB BB) extends 2017 tax cuts, reduces social program spending, and raises defense and border security budgets. The Congressional Budget Office (CBO), an independent, nonpartisan agency, projects it will increase the federal deficit by US\$ 3.4 trillion over ten years (US\$ 4.1 trillion including interest). The U.S. Administration argues that the CBO's deficit projections for the OB BB are overstated, emphasizing rapidly rising tariff revenues as a key offset. Treasury Secretary Scott Bessent projected customs duties could exceed US\$ 500 billion annually (about 1% of GDP), while credit-rating agencies such as S&P Global and Fitch have noted strong tariff inflows—US\$ 21 billion in July alone—as a stabilizing factor for the U.S. credit rating, even as they caution that long-term fiscal risks remain.³ In May, Moody's downgraded the U.S. sovereign credit rating, citing high deficits and rising interest costs, stripping the country of its last triple -A rating from a major credit rating firm, following similar moves by Fitch in 2023 and S&P in 2011.⁴

The U.S. economy continues to be shaped by uncertainty surrounding economic policy—including tariffs and trade, the Federal Reserve's monetary stance, and government spending decisions. Market economic projections point to continued expansion but at a more moderate pace. According to forecasts compiled in August 2025, GDP is expected to grow by an average of 1.0% in the third quarter and 1.1% in the fourth quarter (table 1), suggesting positive but slowing momentum over the coming months.

Table 1
Quarterly forecasts for United States economic growth in the second half of 2025 and first quarter of 2026
(Percentage change)

	Q3 2025 (qoq)	Q4 2025 (qoq)	Q1 2026 (qoq)	Date of Forecast
What Markets Say				
Bank of America/Merrill Lynch	1.0%	1.6%	1.6%	Aug-25
Capital Economics	2.1%	1.7%	1.5%	Aug-25
JPMorgan	1.0%	0.5%	2.0%	Aug-25
Moody's Economy.com	1.1%	1.0%	1%	Aug-25
Mortgage Bankers Association	0.8%	0.8%	1.3%	Aug-25
National Bank of Canada	-0.3%	0.4%	1.1%	Aug-25
TD Bank Financial Group	1.2%	1.7%	2.3%	Jun-25
Wells Fargo/Wachovia	1.2%	0.7%	1.4%	Aug-25
Forecasts average	1.0%	1.1%	1.6%	

Source: ECLAC Washington Office, based on market sources, retrieved on 15 August 2025.

On an annual basis, projections from government agencies, markets, and international organizations indicate that U.S. economic growth will fall below the economy's long-term potential in 2025 and 2026, ending a four-year streak of growth above potential. Average market forecasts suggest GDP growth of 1.5% in 2025 and 1.6% in 2026, inflation at 2.8% in both years, unemployment rate at 4.3% in 2025 and 4.5% in 2026, and the federal funds rate at 4.2% in 2025, declining to 3.6% in 2026 (table 2).

² Bloomberg, "Fed's Jackson Hole Exposes Hard Road Ahead for Central Bankers" 24 August 2025, available online.

³ Reuters, "Bessent says US tariff revenue could be well over \$500 billion a year" by David Lawder, 26 August 2025 and Financial Times, "Tariff revenue will cut US deficits by \$4tn over next decade, fiscal watchdog says," by Myles McCormick, 22 August 2025.

⁴ Moody's Investors Service (2025, May 16), "Moody's downgrades U.S. long-term issuer and senior unsecured ratings to Aa1 from Aaa; outlook changed to stable." Retrieved from <https://ratings.moody.com/ratings-news/443154>; Fitch Ratings (2023, August 1), "Fitch downgrades United States' long-term rating to 'AA+' from 'AAA'; outlook stable." Retrieved from Reuters summary (via Fitch) <https://www.reuters.com/markets/us/fitch-cuts-us-governments-aaa-credit-rating-by-one-notch-2023-08-01/>; Standard & Poor's Global Ratings (2011, August 5), "United States of America long-term rating lowered to 'AA+' due to political risks and rising debt burden; outlook negative." Retrieved from <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/883558>.

Table 2
Annual forecasts for United States economic growth, 2025 and 2026
(Percentage change)

		Real GDP		Inflation		Unemployment		FED Funds Rate		Date of Forecast
		(% change, y/y)	(% change, y/y)	(% change, y/y)	(% change, y/y)	Rate (%)	Rate (%)	(%)	(%)	
		2024	2025	2024	2025	2024	2025	2024	2025	
A. What Government Agencies Say										
	FED ¹	1.4%	1.6%	3.0%	2.4%	4.5%	4.5%	3.9%	3.6%	Jun-25
	CBO	2.1%	1.8%	2.2%	2.4%	4.3%	4.0%	4.0%	3.5%	Jan-25
B. What Markets Say										
	Bank of America/Merrill Lynch	1.7%	1.7%	2.7%	2.4%	4.2%	4.5%	4.4%	3.4%	Aug-25
	Capital Economics	1.8%	1.7%	2.8%	3.0%	4.2%	4.5%	4.4%	3.6%	Aug-25
	JPMorgan	1.6%	1.7%	3.0%	2.9%	4.3%	4.6%	4.2%	3.5%	Aug-25
	Moody's Economy.com ²	1.6%	1.4%	2.8%	3.2%	4.2%	4.6%	4.2%	3.4%	Aug-25
	Mortgage Bankers Association	1.0%	1.4%	3.2%	3.0%	4.3%	4.7%	3.9%	3.6%	Aug-25
	National Bank of Canada	1.4%	1.4%	2.7%	2.7%	4.3%	4.2%	4.5%	4.3%	Aug-25
	TD Bank Financial Group	1.7%	2.1%	2.9%	2.7%	4.3%	4.3%	4.3%	3.4%	Jun-25
	The Economist Intelligence Unit	0.9%	1.3%	2.8%	2.6%	4.5%	5.2%	4.1%	3.1%	Jul-25
	Wells Fargo/Wachovia ²	1.6%	1.9%	2.7%	2.8%	4.2%	4.2%	4.3%	3.8%	Aug-25
	Market Average	1.5%	1.6%	2.8%	2.8%	4.3%	4.5%	4.2%	3.6%	
C. What International Organizations Say										
	United Nations DESA (Baseline)	1.6%	1.5%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	May-25
	World Bank	1.4%	1.6%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	Jun-25
	OECD	1.6%	1.5%	3.2%	2.8%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	Jun-25
	IMF	1.9%	2.0%	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	<i>na</i>	Jul-25

Source: ECLAC Washington Office based on official and market sources, retrieved on 29 August 2025.

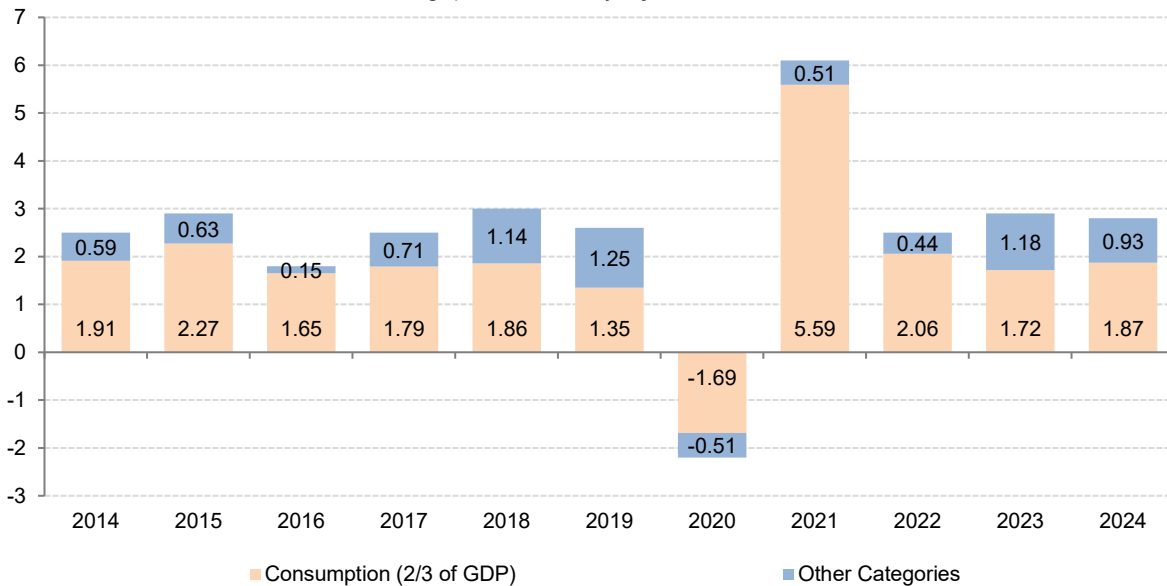
Note: FED: Federal Reserve; CBO: Congressional Budget Office; *na*: not available.

¹Projections of change in real GDP and inflation (measure used is PCE inflation, the FED's preferred measure) are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. ² Moody's, and Wells Fargo/Wachovia forecast the Fed funds rate as an annual average, not end-period.

I. 2024 year-in-review

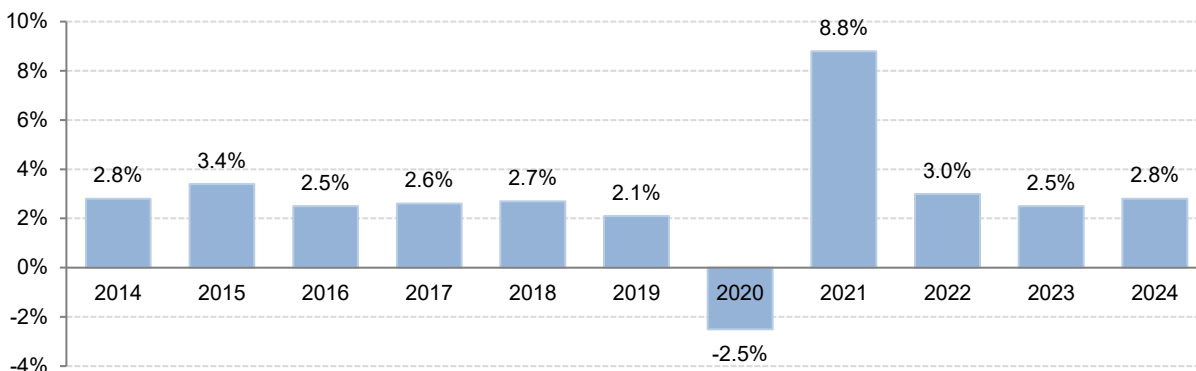
In 2024, personal consumption expenditures (PCE) were the main driver of U.S. GDP growth, contributing roughly two-thirds of the 2.8% expansion. Strong consumer demand for durable goods and healthcare services, supported by solid real wage growth and a resilient labor market, underpinned this increase. PCE added 1.87 percentage points to GDP growth, rising to 2.8% from 2.5% in 2023 (figures 7 and 8).

Figure 7
United States: contributions to percent change in real annual GDP growth, 2014–2024
(Percentage points, seasonally adjusted at annual rates)



Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025. Note: Contributions to growth are measured at seasonally adjusted annual rates.

Figure 8
United States personal consumption expenditure annual growth, 2014–2024
(Percent change from preceding period, seasonally adjusted at annual rates)

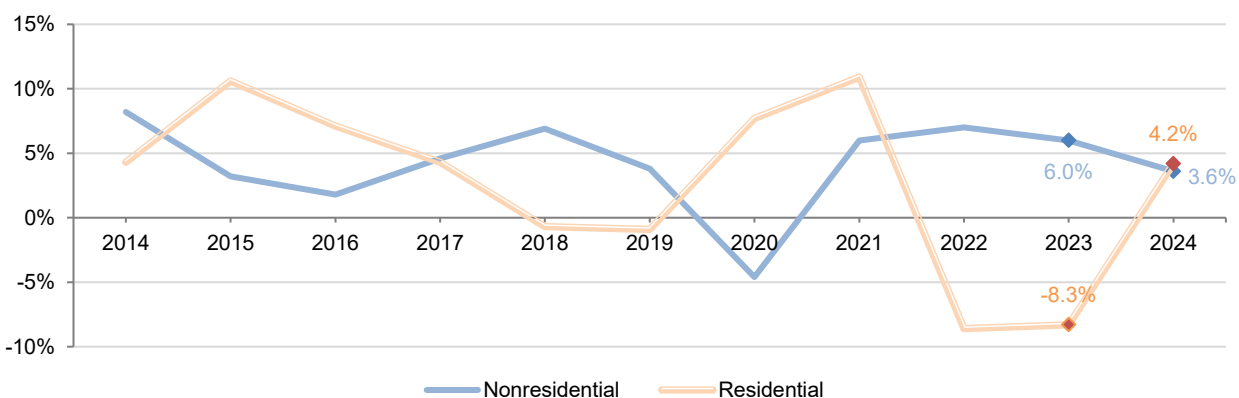


Source: Bureau of Economic Analysis, United States Department of Commerce, Table 1.1.1., retrieved on 29 August 2025.

Personal income increased by about 5% in 2024 from the previous year. With inflation easing, real purchasing power improved, sustaining personal consumption expenditures (PCE) as the main contributor to economic growth. Real median household income also rose 4% in 2023 to US\$ 80,610, indicating that households entered 2024 with a stronger financial position.⁵ Consumer spending offset weaker contributions from investment and trade, though the pace of income growth will remain a key factor for spending in 2025.

Gross private fixed investment played a more muted role in growth than household consumption. Both residential and nonresidential components contributed, though with differing momentum. Residential investment turned positive after two consecutive years of decline, rising 4.2% in 2024 compared with an 8.6% and an 8.3% drop in 2022 and 2023, respectively. This rebound reflected some easing in mortgage rates in the second half of the year, gradual improvements in affordability, and stronger household balance sheets. Nonresidential investment grew 3.6%, a slowdown from 6.0% in 2023 and 7.0% in 2022 (figure 9). Overall, fixed investment added 0.66 percentage point to GDP growth, less than household consumption but still an important source of support.

Figure 9
United States fixed investment annual growth, 2014–2024
(Percent change from preceding period, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce. Table 1.1.1., retrieved on 29 August 2025.

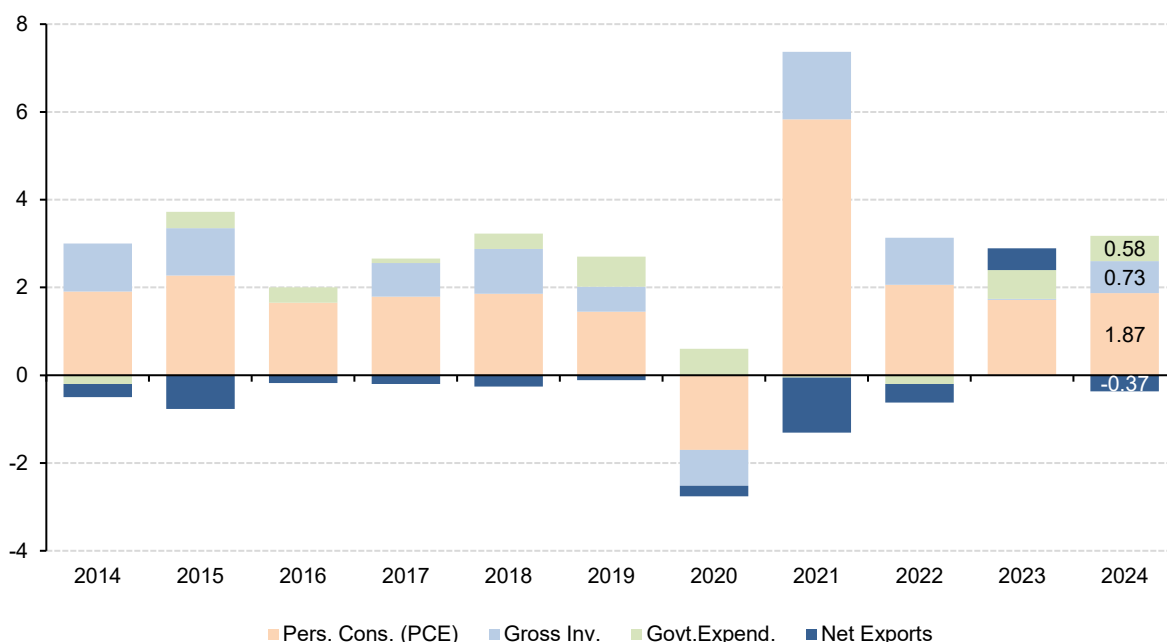
⁵ U.S. Census Bureau, "[Income in the United States: 2023](#)", available online. This is the first statistically significant annual increase in real median household income since 2019.

Government spending also contributed to growth. Total government consumption and investment rose 3.4% in 2024, down slightly from 3.9% in 2023. Federal outlays grew 2.6%, driven by defense and infrastructure programs, while state and local governments expanded spending by 3.9% on the back of healthy tax revenues and education and public health expenditures. Together, government spending added 0.58 percentage point to GDP growth.

By contrast, trade weighed on activity. Exports of goods and services rose 3.3% on solid global demand, but imports increased 5.3%, widening the trade deficit and subtracting 0.37 percentage point from annual GDP growth (figure 10).

Taken together, these components depict an economy where household consumption was the main engine of growth, investment provided moderate support, government spending remained steady, and trade weighed on growth.

Figure 10
United States: contributions to real GDP growth, 2014–2024
(Percentage points)



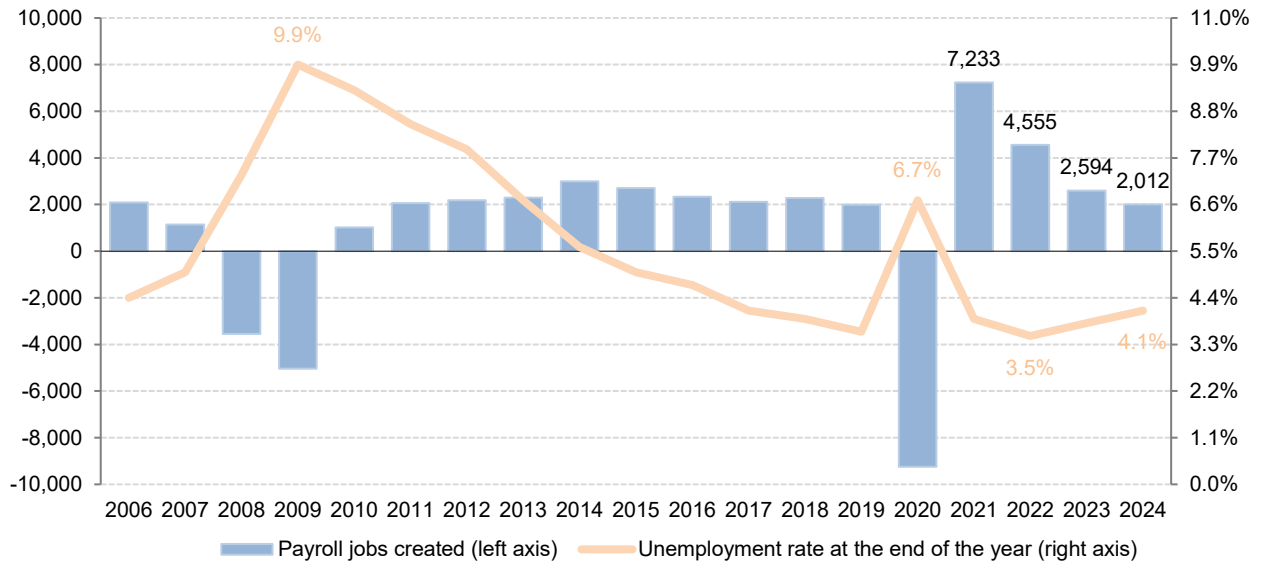
Source: Bureau of Economic Analysis, United States Department of Commerce. Table 1.1.2., retrieved on 29 August 2025.

Note: Contributions to growth are measured at seasonally adjusted annual rates.

Household spending in 2024 was supported by a robust labor market. According to the Labor Department, the U.S. economy added 2 million jobs in 2024, 22.4% fewer than in 2023, averaging 167,667 jobs per month. While job growth remained solid, it marked the fourth consecutive annual slowdown since the surge in hiring that followed the COVID-19 pandemic in 2021. The unemployment rate hovered near historic lows, ending the year at 4.1% (figure 11).

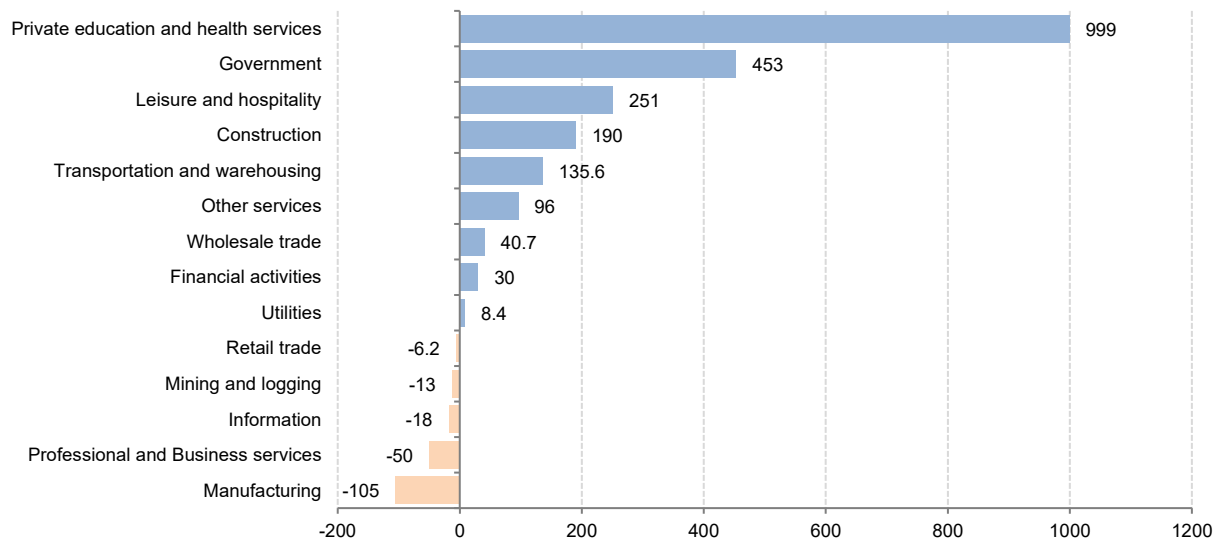
Healthcare, the public sector, and leisure and hospitality were the primary drivers of job creation in 2024. Employment gains were led by a 999,000 increase in private education and health services, with healthcare alone contributing 674,000 new jobs. The public sector added 453,000 jobs, mostly in state (134,000) and local government (273,000), while leisure and hospitality contributed 251,000. In contrast, employment declined in mining and logging, information, professional and business services, and manufacturing, with manufacturing experiencing the largest loss of 105,000 jobs (figure 12).

Figure 11
United States annual job creation and unemployment rate, 2006–2024
(Annual job growth in thousands (left axis); Percentage (right axis))



Source: ECLAC Washington Office based on data from the United States Bureau of Labor Statistics, retrieved on 29 August 2025.

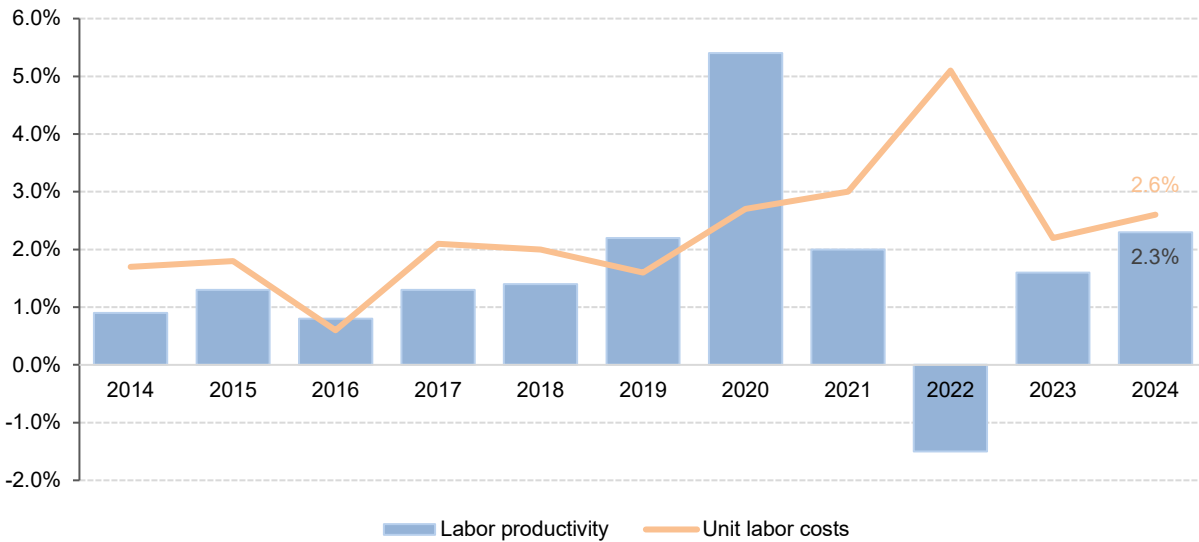
Figure 12
United States monthly job creation by industry, 2024
(Net annual job changes in thousands, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, Labor Department, Current Employment Statistics, Detailed Industry Employment Analysis, retrieved on 29 August 2025.

Labor productivity in the nonfarm business sector rose 2.3% in 2024, following gains of 1.6% in 2023 and a decline of 1.5% in 2022 (figure 13). This improvement reflected a 2.9% increase in output alongside a 0.6% rise in hours worked. Unit labor costs increased 2.6%, driven by a 5.0% rise in hourly compensation offset by productivity gains. This followed increases of 2.2% in 2023 and 5.1% in 2022. Real hourly compensation, which takes into account changes in consumer prices, grew 2.0% in 2024 (figure 13).

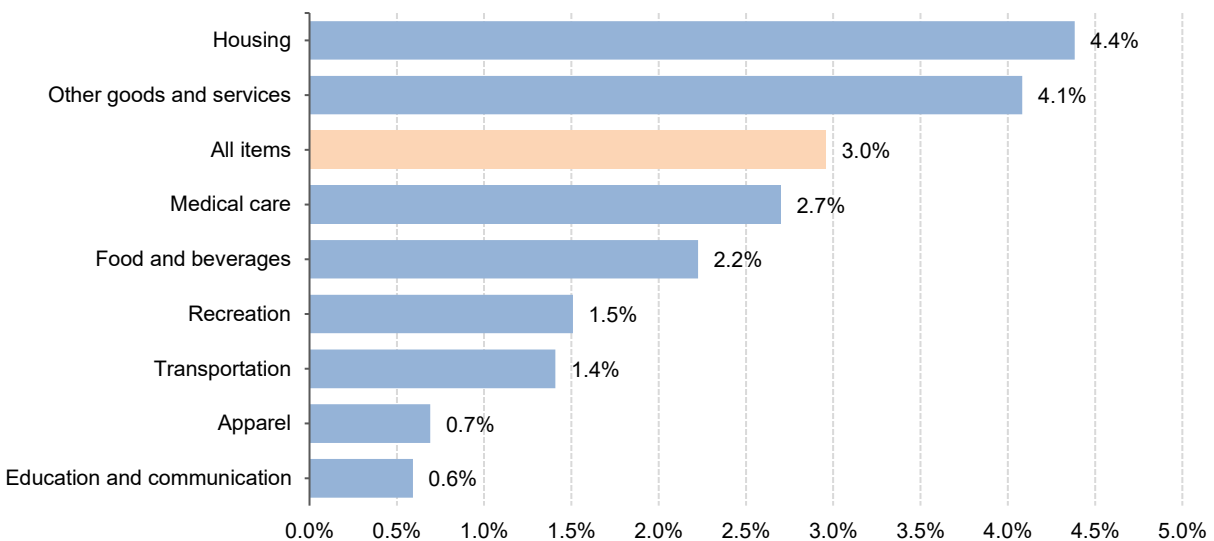
Figure 13
United States monthly nonfarm business sector labor productivity and labor unit costs, 2014–2024
(Annual average percent)



Source: U.S. Bureau of Labor Statistics, Labor Department, retrieved on 29 August 2025; TED: The Economics Daily, "[Productivity up 2.3 percent in 2024](#)," 12 February 2025.

Inflation gradually eased in 2024 but remained above the Federal Reserve’s target. The Consumer Price Index (CPI) inflation fell from 3.4% in December 2023 to 2.4% in September 2024, its lowest level in over three years, before rising to 2.9% in December, reflecting stalled progress in reducing inflation in the fourth quarter. Core CPI, which excludes energy and food, also declined over the year, from 3.9% to 3.2%. Rising housing (shelter) costs, along with other goods and services, were the main drivers of inflationary pressures in 2024 (figure 14).

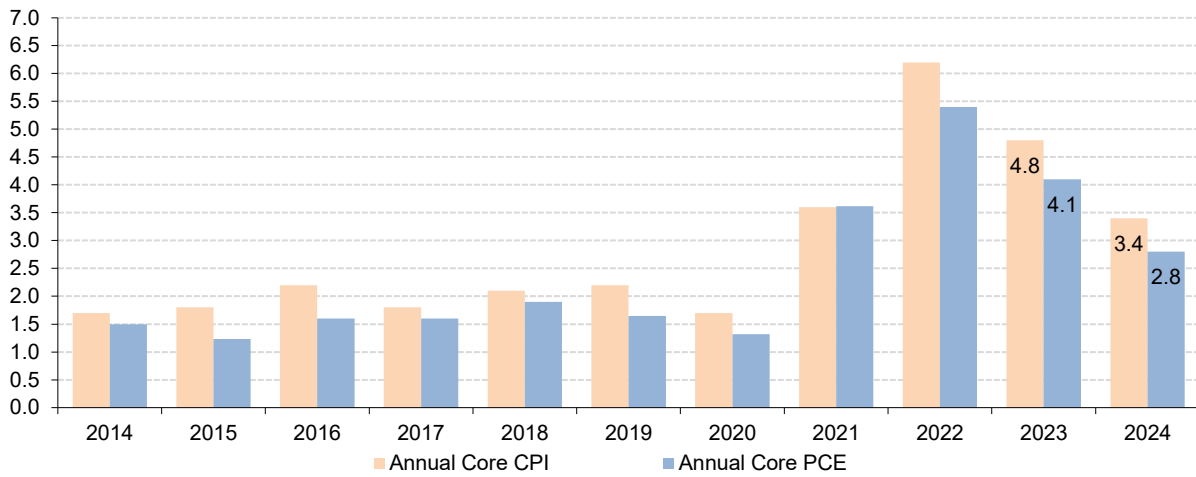
Figure 14
United States CPI by major groups, 2024
(Annual average percent change)



Source: U.S. Bureau of Labor Statistics, Labor Department, retrieved on 29 August 2025.

The CPI is not the Federal Reserve’s preferred gauge of inflation. Instead, the central bank focuses on the Personal Consumption Expenditures (PCE) Price Index, published monthly by the Commerce Department, with particular attention to core PCE. In 2024, core PCE inflation averaged 2.8% (figure 15). Housing accounts for 33% of the CPI basket but only 15% of PCE, making PCE a somewhat different measure of underlying inflation. The slowdown in core PCE inflation from 4.1% in 2023 to 2.8% in 2024 gave the Fed room to cut interest rates three times in the second half of the year.

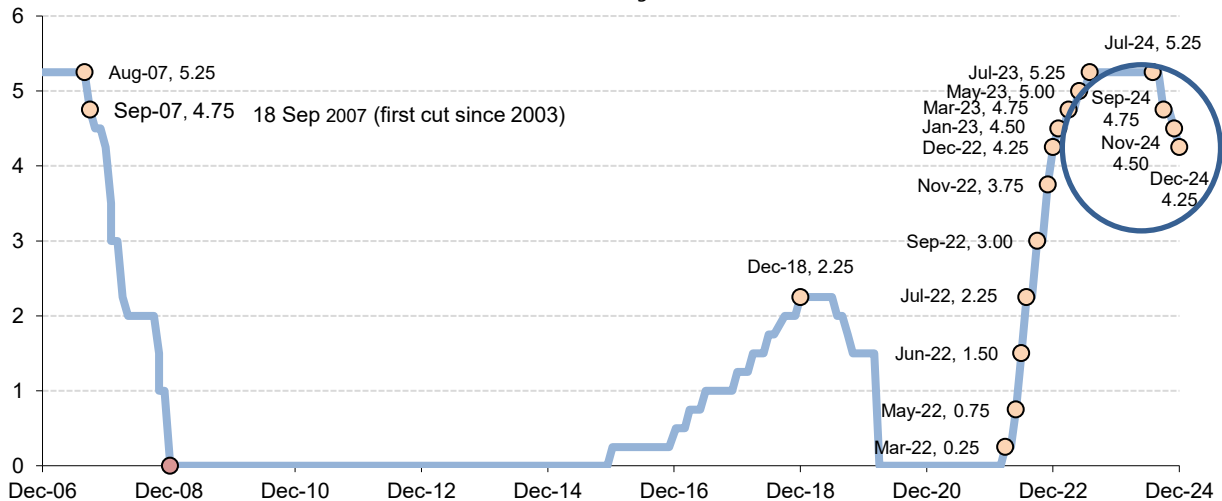
Figure 15
United States Core CPI vs Core PCE, 2014–2024
(Annual average percent change)



Source: U.S. Bureau of Labor Statistics, Labor Department (Annual Core CPI) and Bureau of Economic Analysis, United States Department of Commerce (Annual Core PCE), retrieved on 29 August 2025.

In 2024, the Federal Reserve began its first post-pandemic easing cycle, cutting rates three times and lowering the federal funds rate to 4.25–4.50% by year-end. While the cuts brought borrowing costs to a two-year low, Chair Jerome Powell stressed caution, noting that progress in reducing inflation had stalled — a rise in core PCE reinforced this view— and emphasizing the need to tread carefully with monetary policy, avoiding both being too aggressive or too passive.

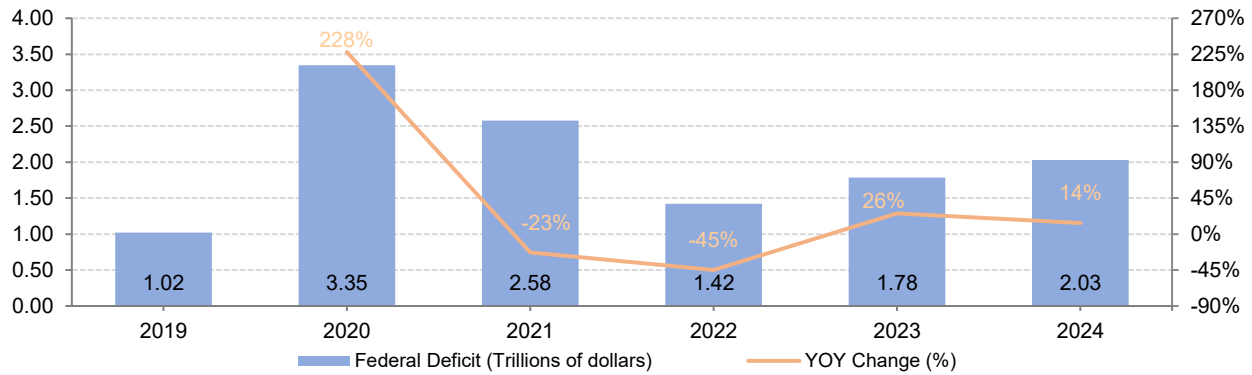
Figure 16
United States federal funds target rate, December 2006–December 2024
(Percentage)



Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve. Rates in the chart are the bottom limit of the target range for the federal funds rate. The top limit is currently 4.5% (since 18 December 2024).

Fiscal policy remained broadly supportive in 2024, sustaining overall economic activity. Expansionary measures—including infrastructure projects and targeted tax credits—further encouraged government and business investment, reinforcing the economy’s resilience. At the same time, federal spending rose due to automatic increases in mandatory programs such as Social Security and Medicare, as well as higher defense outlays, further increasing spending. Despite higher tax revenues amid steady economic growth, the calendar-year budget deficit widened to about US\$ 2.0 trillion, up from US\$ 1.8 trillion in 2023, as spending growth outpaced revenue gains (figure 17). After two years of declining deficits following the wind-down of pandemic-related spending, the federal deficit began to rise again in 2023.

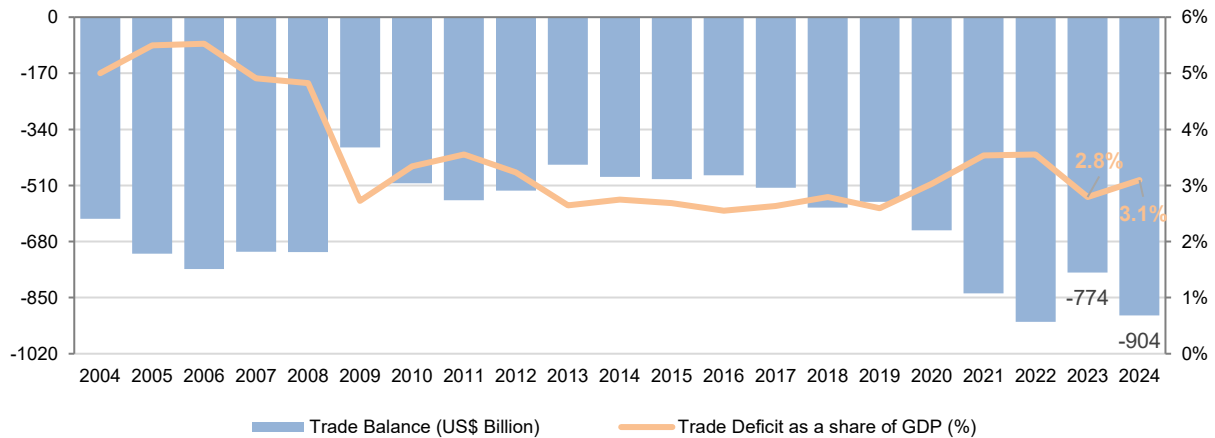
Figure 17
United States cumulative deficits over the calendar year and year-over-year change, 2019–2024
(Left axis: trillions of dollars, right axis: percentage)



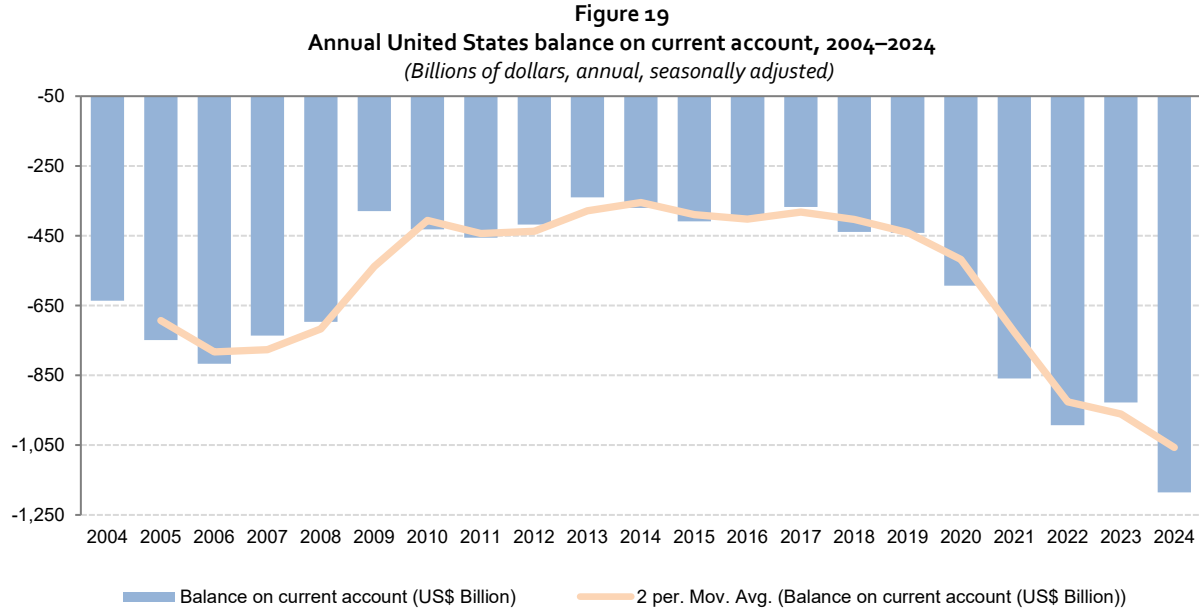
Source: Federal reserve Bank of St. Louis, FRED Graph Observations, Federal Surplus or Deficit (MTSDS133FMS), retrieved on 29 August 2025.

As the economy showed resilience and demand remained strong, both trade and current-account deficits widened in 2024. The U.S. goods and services trade deficit rose 17% to US\$ 903.5 billion (3.1% of GDP) from US\$ 774.2 billion (2.8% of GDP) in 2023, driven mainly by higher goods imports and persistent goods shortfalls, partially offset by services exports (figure 18). The current account deficit totaled US\$ 1.19 trillion, widening by US\$ 257 billion (28%) from 2023 (figure 19). These trends highlight that, while strong domestic activity supported economic growth, external imbalances continued to expand, underlining potential longer-term implications for trade, investment, and currency dynamics.

Figure 18
United States international trade in goods and services trade, 2004–2024
(Left axis: billions of dollars, right axis: percentage of GDP)



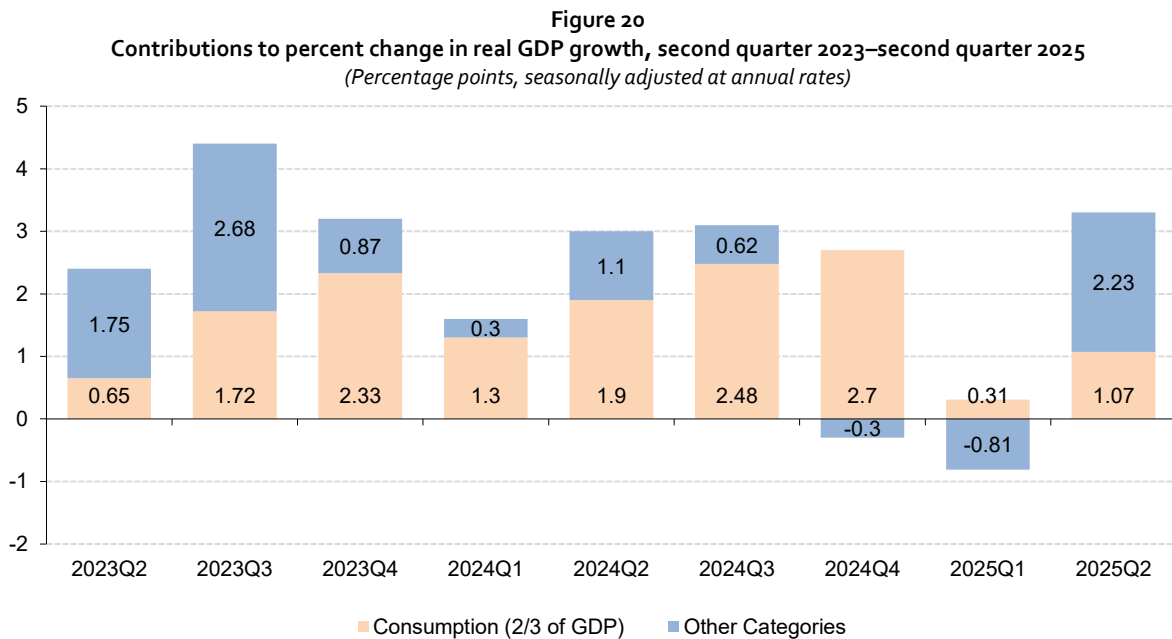
Source: U.S. Census Bureau and the Bureau of Economic Analysis, U.S. Commerce Department, retrieved on 29 August 2025.



Source: U.S. Census Bureau and the Bureau of Economic Analysis, U.S. Commerce Department, retrieved on 29 August 2025.

II. 2025 mid-year review

In the first half of 2025, consumer spending continued to support U.S. economic growth, but its pace slowed. Personal consumption expenditures (PCE)'s contribution to GDP growth was 0.31% in first quarter and 1.07% in the second. Meanwhile, the contribution of other categories of the economy shifted dramatically—from subtracting 0.81% in the first quarter to contributing 2.23% in the second (figure 20). This swing highlights a notable rebalancing in growth drivers during the period (figure 20).



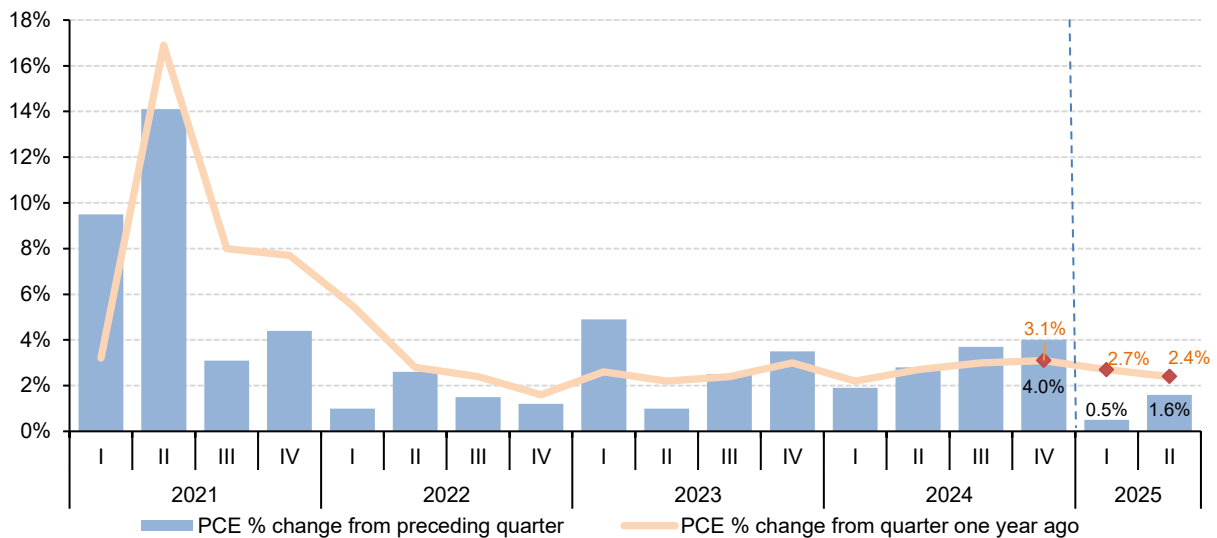
Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025. Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Mid-Year GDP Growth

In the first half of 2025, real GDP grew at a slower pace. It fell 0.5% in the first quarter, reflecting a pre-tariff surge in imports and weaker government spending, before rebounding 3.3% in the second, driven by a drop in imports. Businesses rushed to import goods ahead of anticipated higher tariffs, swelling inventories in the first quarter, while imports dropped sharply in the second, as firms drew on those stockpiles, boosting net exports. These quarter-to-quarter swings were thus amplified by sharp changes in trade and inventories linked to tariff policies, which impacted growth figures in opposite directions.

While Personal Consumption Expenditures (PCE) remained a positive contributor to economic growth, they were not the primary driver. Instead, swings in trade flows dominated. In the first quarter, PCE rose only 0.5%, the lowest growth since the first half of 2020. In the second quarter, consumer spending strengthened—up 1.6%—as demand for autos rebounded and services such as health care and dining out picked up. Even so, PCE rose more slowly on a year-ago basis—2.7% in the first quarter and 2.4% in the second, down from 3.1% in the fourth quarter of 2024—indicating that while spending continued to support growth, the underlying momentum of consumption cooled in the first half of the year (figure 21).

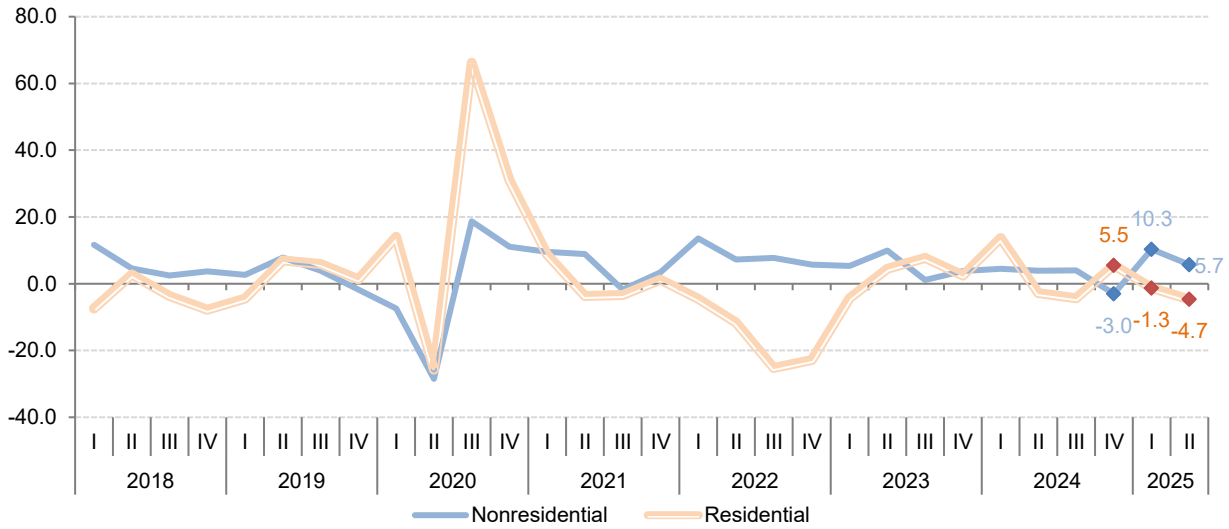
Figure 21
United States personal consumption expenditure growth, first quarter 2021–second quarter 2025
(Percent change from preceding period, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025.

Fixed investment, which includes residential and nonresidential investment, increased 7.6% in the first quarter and 3.3% in the second, rebounding from a decline of -1.1% in the fourth quarter of 2024. Nonresidential investment showed stronger momentum, rising 10.3% in the first quarter (led by equipment investment) and 5.7% in the second (led by intellectual property products), following a 3% decline in the fourth quarter of 2024. The increase in business investment reflects ongoing spending on productivity-enhancing equipment and intellectual property, suggesting that firms are maintaining capital expenditure. However, residential investment declined in the first and second quarters (-1.3% and -4.7% respectively), after rising 5.5% in the fourth quarter of 2024 (figure 22). Rising home prices and high mortgage rates have worsened housing affordability, reducing new homebuilding and slowing opportunities for households to build equity. This weakness has also limited growth in construction-related employment and restrained overall consumption, particularly in housing-related spending.

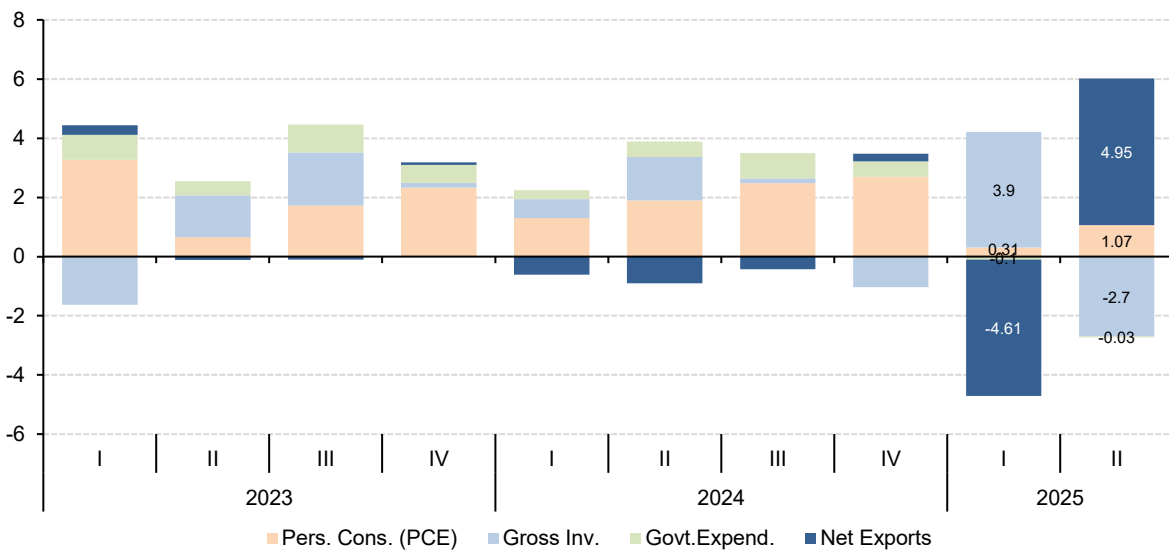
Figure 22
United States fixed investment growth, first quarter 2018–second quarter 2025
(Percent change from preceding period, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025.

Nonresidential investment contributed 1.36 and 0.78 percentage points to GDP growth in the first and second quarters of 2025, respectively, while residential investment subtracted 0.05 and 0.19 percentage point. Together, fixed investment added 1.31 and 0.59 percentage points. Inventory accumulation had a large impact as well, contributing 2.59 percentage points in the first quarter but subtracting 3.29 percentage points in the second. Overall, gross private domestic investment (fixed investment plus change in private inventories) added 3.90 percentage points to growth in the first quarter but subtracted 2.70 percentage points in the second, reflecting divergent forces within the investment component of GDP and underscoring uncertainty for businesses and investment decisions amid tariff policy uncertainty (figure 23).

Figure 23
Quarterly contributions to U.S. real GDP growth, 2023–2025
(Percentage points)



Source: Bureau of Economic Analysis, United States Department of Commerce, retrieved on 29 August 2025.

Note: Contributions to growth are measured at seasonally adjusted annual rates.

Government spending declined 0.6% in the first quarter and 0.2% in the second quarter of 2025. This overall decline reflected a 4.6% and 4.7% reduction in federal spending, respectively, partly offset by state and local government increases of 2.0% and 2.6%. As a result, government spending subtracted 0.10 percentage point from GDP growth in the first quarter and 0.03 percentage point in the second quarter, indicating a modest drag on overall economic activity.

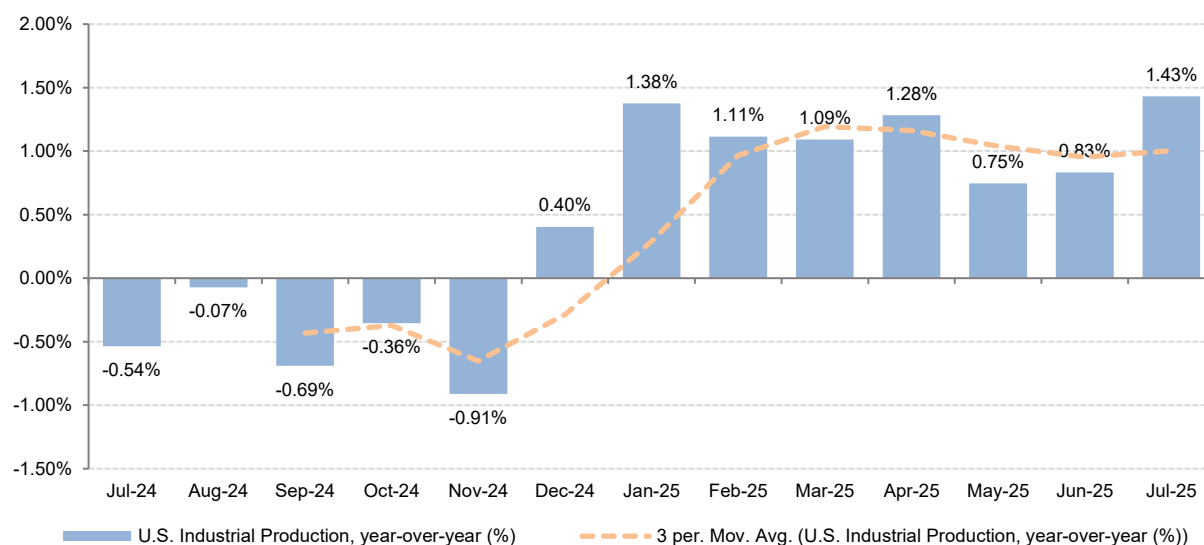
Trade dynamics had a significant impact on GDP growth. Exports of goods and services rose 0.4% in the first quarter but declined 1.4% in the second quarter. Imports, which are counted as a subtraction in GDP calculations, surged 37.9% in the first quarter but fell 29.8% in the second quarter. Consequently, net exports subtracted 4.61 percentage points from growth in the first quarter but contributed 4.95 percentage points in the second, highlighting the volatility in trade flows and the effects of tariff policy uncertainty on the U.S. economy.

B. Industrial production

United States industrial production posted modest growth in the first half of 2025, with total output up 1.4% year-over-year by July (figure 24). According to the Federal Reserve’s G.17 release (via FRED), manufacturing output increased at the same pace (1.4% year-over-year). Growth was concentrated in the durable-goods sector — especially electrical equipment, appliances, aerospace, furniture, and other miscellaneous durable goods — which supported factory activity. Mining provided modest support (1.9% year-over-year), while utilities declined slightly. Manufacturing output was flat in July after earlier gains. Capacity utilization stood at 77.5% in July, below its 1972–2024 average of 79.6%, underscoring continued slack in the industrial sector.

While industrial production and manufacturing output showed modest year-over-year growth, the Institute for Supply Management (ISM) Manufacturing Purchasing Managers’ Index (PMI)—a widely watched monthly survey of U.S. factories that gauges the overall health of the sector—indicates ongoing month-to-month contraction. The ISM Manufacturing PMI fell to 48.0% in July 2025, down from 49.0% in June, signaling that, despite growth relative to last year, manufacturing momentum is weak and activity remains subdued.

Figure 24
United States industrial production, July 2024–July 2025
(Year-over-year percent change; index 2017=100, seasonally adjusted)

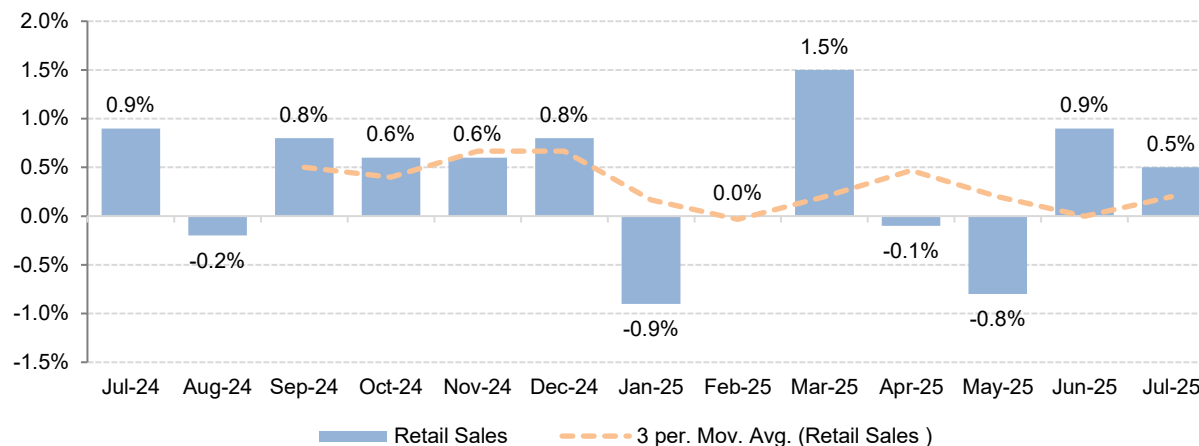


Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve and the Federal Reserve of St. Louis (FRED), retrieved on 29 August 2025.

C. Retail sales

These trends in industrial production and manufacturing activity mirrored the evolution of domestic demand, with retail sales providing a key gauge of consumption dynamics. Retail sales, which include spending at stores, restaurants, dealerships and online, increased a seasonally adjusted 0.5% in July 2025 from the previous month, marking the second consecutive month of solid growth (figure 25).

Figure 25
United States total retail sales, July 2024–July 2025
(Seasonally adjusted, Month to month percentage change)



Source: U.S. Census Bureau, Advance Monthly Sales for Retail and Food Services, retrieved on 29 August 2025.

On a year-over-year basis, retail sales rose 3.9% in July, reflecting robust consumer spending. The July monthly gain was led by automobiles and auto parts, which increased 1.6%, partly driven by purchases of electric vehicles ahead of the federal tax credit expiration on 30 September 2025. Excluding autos, retail sales grew 0.3%, with gains concentrated in nonstore retailers (up 8.0% year-over-year) and food services and drinking places (up 5.6% year-over-year), highlighting resilience in e-commerce and dining sectors.⁶

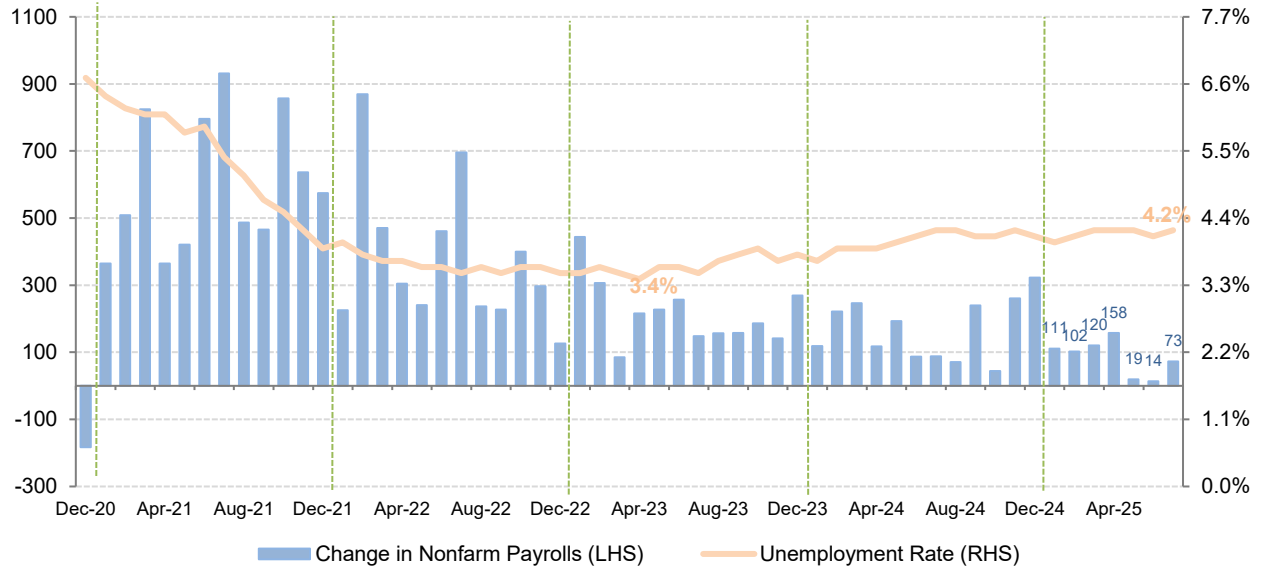
D. Labor market

Compared with 2024, the labor market cooled off in the first half of 2025. By July, the U.S. had recorded 55 consecutive months of job gains, but monthly growth averaged 85,286 jobs—roughly half the 2024 pace of 167,667. From January through July 2025, 597,000 jobs were added, 44% fewer than during the same period in 2024. July's gain of 73,000 jobs was the weakest since the COVID-19 pandemic. Downward revisions for May and June reduced reported payrolls by 258,000, leaving the three-month average at 35,000 jobs per month.⁷ The unemployment rate rose slightly to 4.2% in July, up from 4.1% in June (figure 26).

⁶ Reuters, [US retail sales rise in July; softening job market poses risk to spending](#) by Lucia Mutikani, 15 August 2025.

⁷ Downward revisions to employment data are not unusual, as the Bureau of Labor Statistics (BLS) routinely updates figures as more complete data becomes available. [According to BLS summary data](#), the average revision to the monthly jobs numbers since 2003 is 51,000. Note that this is in absolute terms, meaning on average the revision is either an increase or decrease of 51,000. Historical BLS data show that, in the first 300 months of this century—excluding the volatile early months of the COVID-19 pandemic—there have been 10 downward revisions exceeding 100,000 and 21 upward revisions of similar size. However, the May and June 2025 payroll revisions, which lowered growth by a combined 258,000, were the largest two-month downward adjustment since 1968 according to [Reuters](#) and [CBS News](#) and have drawn heightened political attention. On 1 August 2025, the U.S. administration fired the BLS Director, citing dissatisfaction with the revisions. The move has raised concerns about the independence of the BLS and the potential politicization of official labor data.

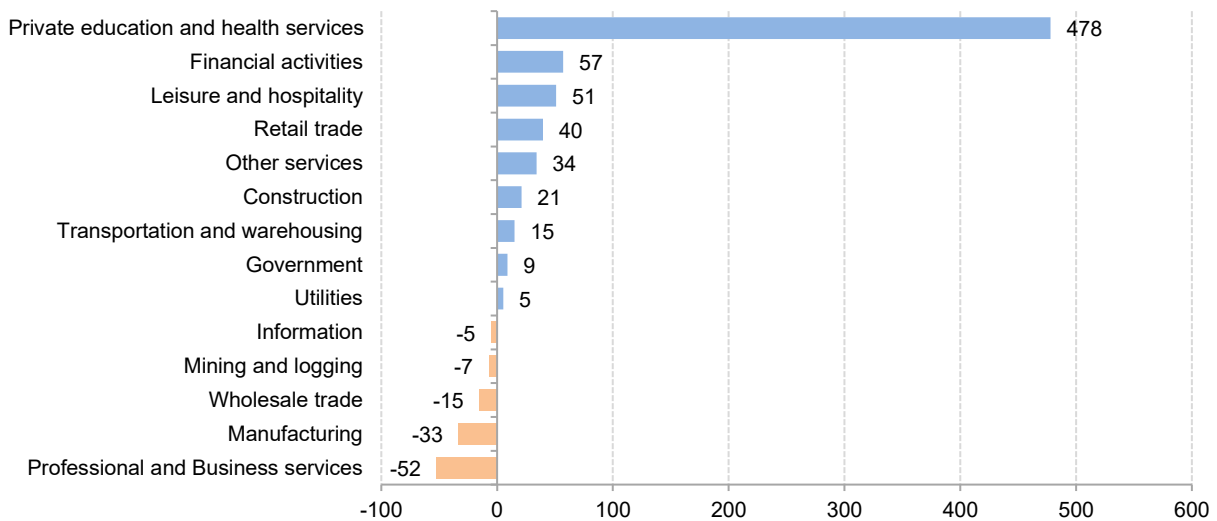
Figure 26
United States monthly job creation and unemployment rate, December 2020–July 2025
(Monthly job growth in thousands (left axis); Percentage (right axis))



Source: ECLAC Washington Office based on data from the United States Bureau of Labor Statistics, retrieved on 29 August 2025.

The composition of job creation also shifted noticeably. Private education and health services remained the largest contributor, adding 478,000 jobs (249,000 in health care alone), followed by financial activities (57,000) and leisure and hospitality (51,000). In contrast, the public sector, which had been a major driver of employment in 2024 with 453,000 jobs, added only 9,000 jobs from January to July 2025, falling out of the top three contributors. Employment declined in professional and business services (-52,000), manufacturing (-33,000), wholesale trade (-15,000), mining and logging (-7,000), and information (-5,000). These numbers indicate a slower labor market in the first half of 2025 (figure 27).

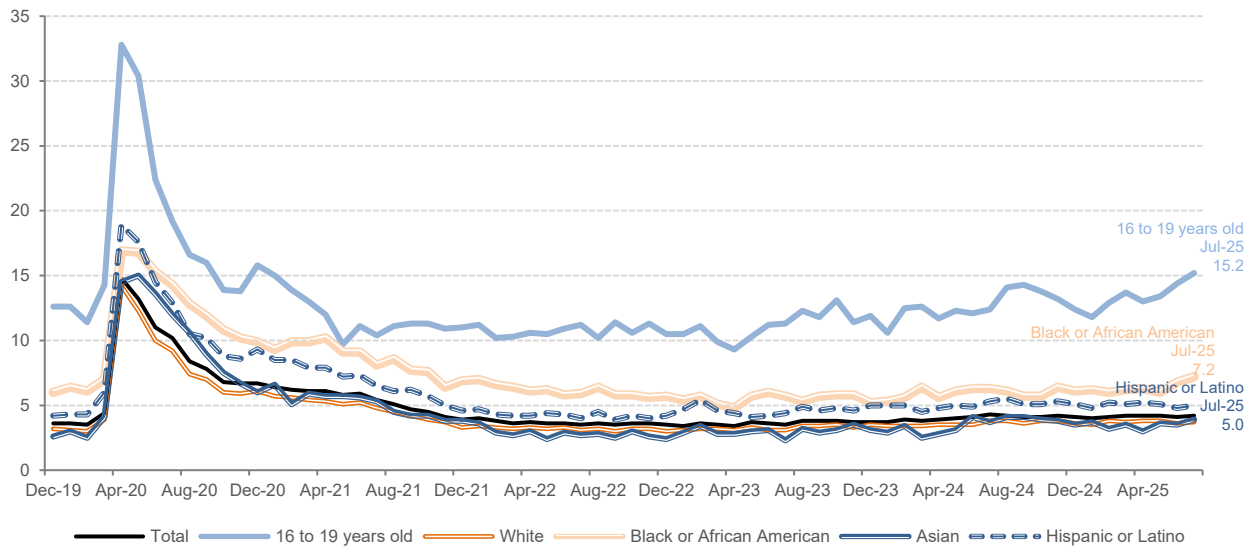
Figure 27
United States job creation by industry, January–July 2025
(Net job changes in thousands, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, Labor Department, Current Employment Statistics, Detailed Industry Employment Analysis, retrieved on 28 August 2025. The period includes January to July 2025.

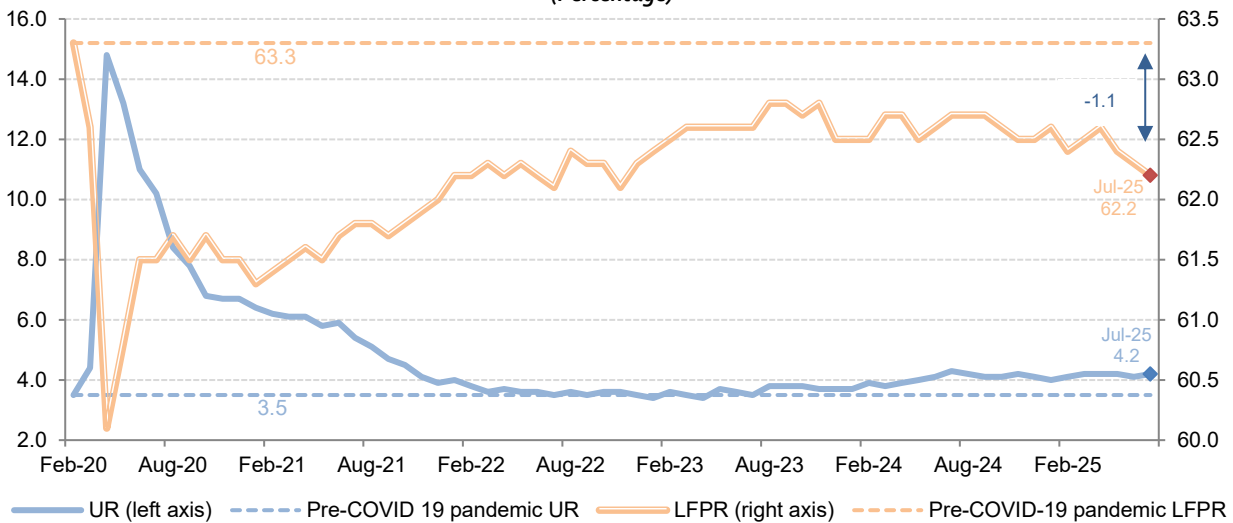
While the aggregate data reflects a gradually moderating but still solid labor market, some groups remain more vulnerable. In July 2025, the unemployment rate for African American workers rose to 7.2% from 6.1% in December 2024, nearly double the rate for White (3.7%) and Asian workers (3.9%); the jobless rate for teenagers climbed to 15.2% from 12.4%, underscoring their sensitivity to shifts in hiring conditions. By contrast, Hispanic workers experienced a slight improvement, with unemployment edging down to 5.0% in July 2025, from 5.1% in December 2024. These divergent patterns highlight the uneven distribution of labor market benefits and risks, with implications for inequality and household resilience should growth continue to slow (figure 28).

Figure 28
United States civilian unemployment rate, December 2019–July 2025
(Percent, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics, Labor Department, <https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm#>, retrieved on 29 August 2025. Note: Persons whose ethnicity is identified as Hispanic or Latino may be of any race.

Figure 29
United States labor force participation share and unemployment rate, February 2020–July 2025
(Percentage)

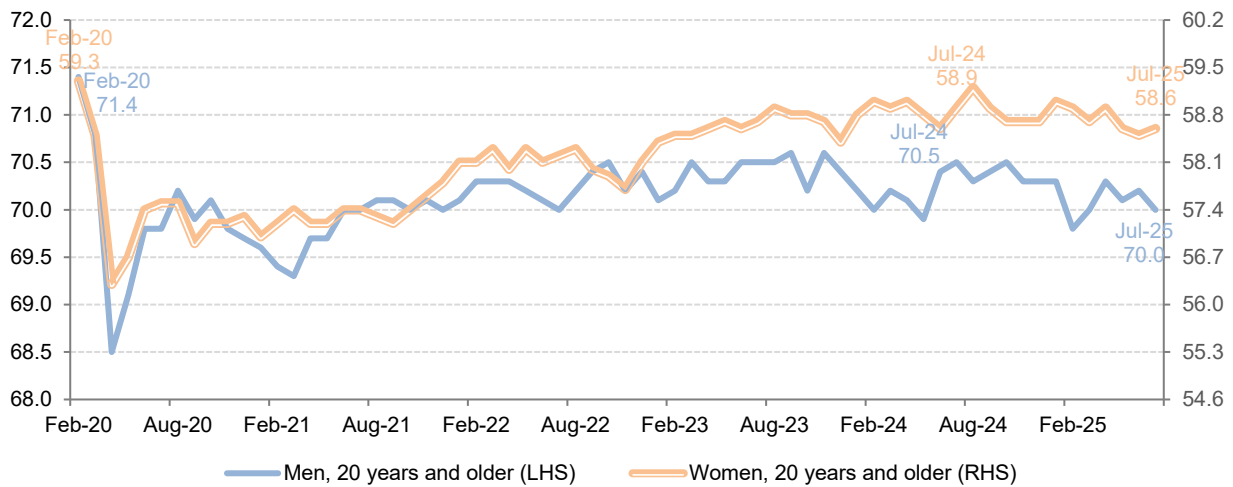


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics, retrieved on 29 August 2025. UR: unemployment rate; LFP: labor force participation rate.

Labor force participation has declined. The labor force participation rate (LFPR)—the share of the working-age population either employed or actively seeking work—eased to 62.2% in July 2025, down from 62.5% in December 2024. It has remained within a narrow range of 62.5% to 62.7% since December 2023 and in July 2025 it was 1.1 percentage point below its February 2020 mark, just before the pandemic hit (figure 29).

Participation among prime-age workers continues to show persistent gaps. The rate for men aged 20 and older remains 1.4 percentage points below its February 2020 level, while the rate for women aged 20 and older is 0.7 percentage points lower. Women’s participation continues to lag well behind men’s, reflecting a long-standing and consistent gap (figure 30).

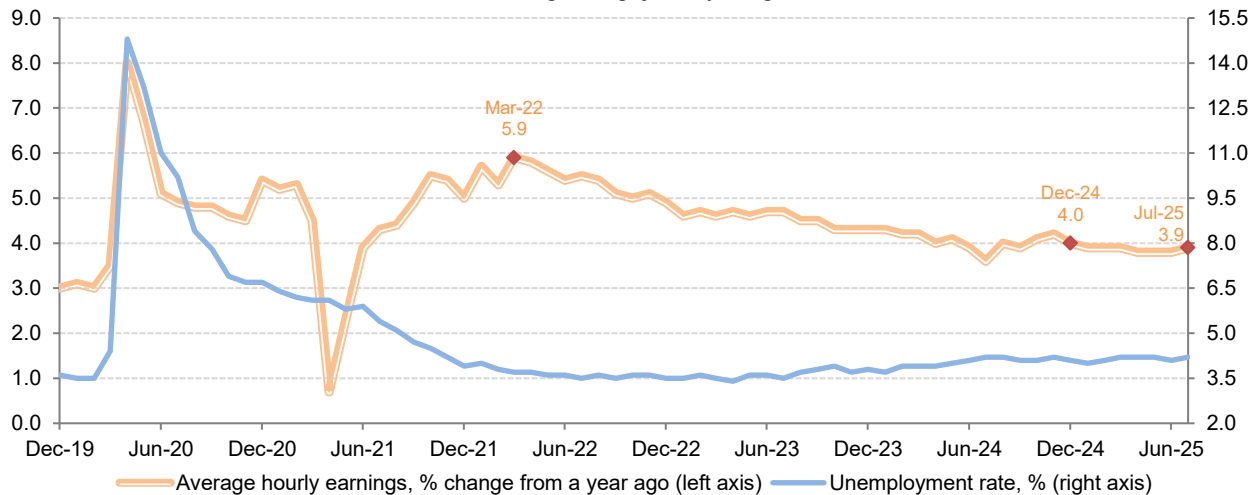
Figure 30
United States labor force participation share by gender, February 2020–July 2025
(Civilian labor participation rate, seasonally adjusted; percentage)



Source: United States Bureau of Labor Statistics, retrieved on 29 August 2025.

Meanwhile, wage growth has moderated. In the first half of 2025, average hourly earnings slowed, from 4.0% in January to 3.8% in June, before edging back up to 3.9% in July. This remains well below the peak of 5.9% in March 2022, underscoring the ongoing deceleration in wage pressures (figure 31).

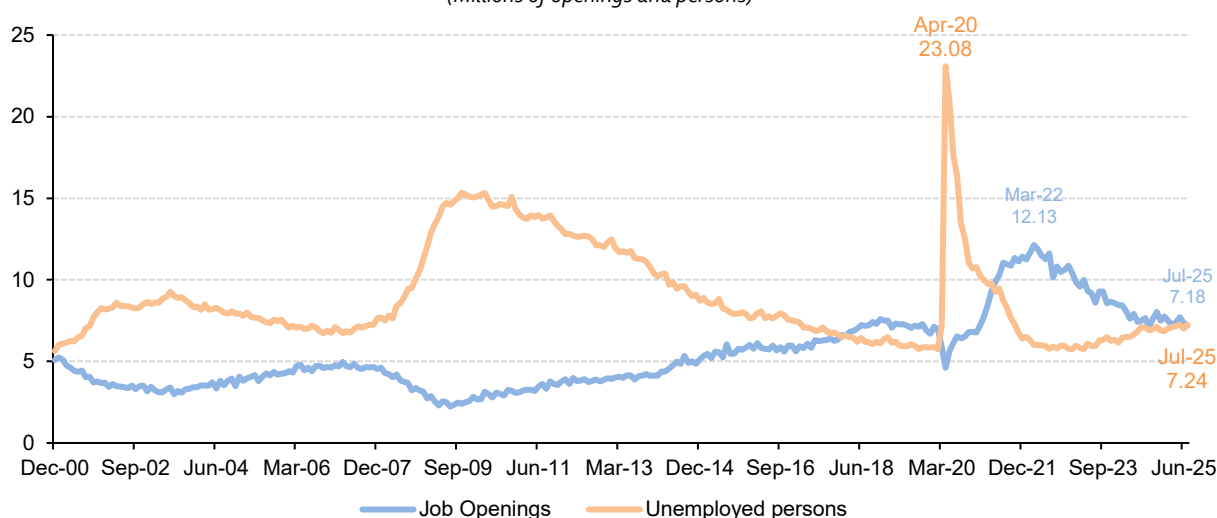
Figure 31
United States average hourly earnings, December 2019–July 2025
(Percentage change from a year ago)



Source: United States Bureau of Labor Statistics, retrieved on 29 August 2025.

Signs of softening demand for labor are also suggested in job openings. The latest Job Openings and Labor Turnover Survey (JOLTS) released on 3 September 2024 shows the number of job openings at 7.18 million on the last business day of July 2025, down from 7.36 million in the previous month, marking the lowest level in 10 months. Job opening are now below the number of unemployed workers (at 7.24 million) for the first time since April 2021 (figure 32). This decline was driven by health care, retail trade, and leisure and hospitality, with vacancies in health care, which has been a major source of new jobs this year, falling to their lowest level since 2021. Capital Economics noted that the drop in health care openings could signal a slowdown in the sector's payroll gains going forward.⁸

Figure 32
United States job openings vs number of unemployment persons, December 2000–July 2025
(Millions of openings and persons)



Source: FRED Graph Observations, Federal Reserve Bank of St. Louis; Job Openings: Total Nonfarm, Level in Thousands, Monthly, Seasonally Adjusted and Unemployment Level, Thousands of Persons, Monthly, Seasonally Adjusted, retrieved on 3 September 2025.

Employer sentiment seems to align with these trends. A Conference Board survey indicates that one in five U.S. employers plans to slow hiring in the second half of 2025—nearly double the share of companies that anticipated hiring cutbacks at the same time last year. Many firms are restraining hiring to manage costs amid economic uncertainty. Contributing factors include tariff policy uncertainty, stricter immigration enforcement that has disrupted labor-intensive industries such as meatpacking, and an ongoing push by companies to adopt artificial intelligence to improve workforce productivity. Half of the employers surveyed indicated that current U.S. administration policies are likely to have a negative impact on the workforce, up from 36% in March. This marks the second consecutive year that a substantial share of chief HR officers plan to limit hiring.⁹

Demand for workers has moderated, yet the unemployment rate has remained stable as the supply of labor has also slowed. The slowdown in labor supply is partly driven by immigration trends. A near halt in unauthorized border crossings, increased deportations, and a potentially less welcoming climate for foreign workers could result in net negative immigration for the first time in decades, according to some projections.¹⁰ In the short term, this dynamic helps to explain why softer labor demand has not translated into higher unemployment, which currently stands at historically lows.

⁸ Capital Economics, [JOLTS points to a gradually easing labour market](#) by Alexandra Brown, 3 September 2025

⁹ Wall Street Journal, ["More U.S. Companies Plan to Slow Hiring in Second Half of 2025"](#) by Ray A. Smith, 21 August 2024.

¹⁰ Ibid, ["How a Historic Immigration Drop Is Changing the Job Market"](#) by Paul Kiernan, 24 August 2025.

E. Inflation

Progress on containing inflation showed mixed signals in the first seven months of 2025. On average, the Consumer Price Index for All Urban Consumers (CPI-U)—which tracks the cost of everyday goods and services, from groceries to healthcare—rose 2.7% year-over-year through July (unchanged from June), and 0.2% on a month-on-month basis (a slight slowdown from June’s 0.3% pace).

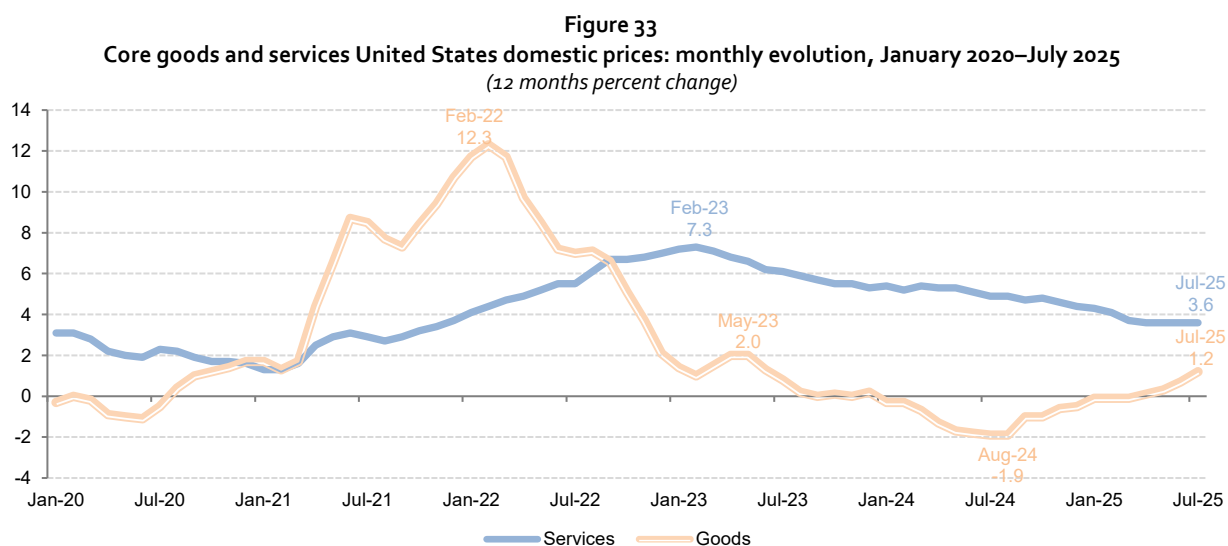
Energy prices were the main driver behind the deceleration in the headline CPI inflation. The CPI for energy fell 1.1% from June to July and was 1.6% lower than a year earlier, with gasoline prices down 2.2% over the month and electricity down 0.1%. Food prices were unchanged over the month, as the CPI for food at home—a proxy for grocery store prices—declined 0.1% in July, while food-away-from-home rose 0.3%.

Prices excluding food and energy, the core CPI, rose 0.3% month-on-month, the fastest monthly pace since January, pushing the 12-month rate from 2.9% to 3.1%. Moody’s Analytics estimates that the three-month annualized core CPI inflation rate was 2.8% and the six-month annualized rate was 2.4% in July.¹¹

Within core goods, price trends were uneven. Apparel prices declined modestly year-over-year (-0.2%), while used car and truck prices increased 4.8%. On the services side, shelter costs—the heaviest-weighted component of the CPI—continued to climb, though at a more moderate pace. Shelter costs rose 0.2% month-on-month, the same as in June, and 3.7% on a year-over-year basis. Transportation services accelerated to 0.8% in July from 0.2% in June (3.5% year-over-year), while medical care services rose 0.8% month-on-month after a 0.6% gain in June, translating into a 4.3% annualized pace.

In the twelve months leading up to July 2025, core goods prices advanced 1.2% year-on-year, reversing a downward trend that began after their May 2023 peak of 2.0% and bottomed at -1.9% in August 2024. The overall peak (12.3%) was reached in February 2022, and the mitigation of the supply chain issues that escalated the costs of goods in 2022 explain the downward trend since then.

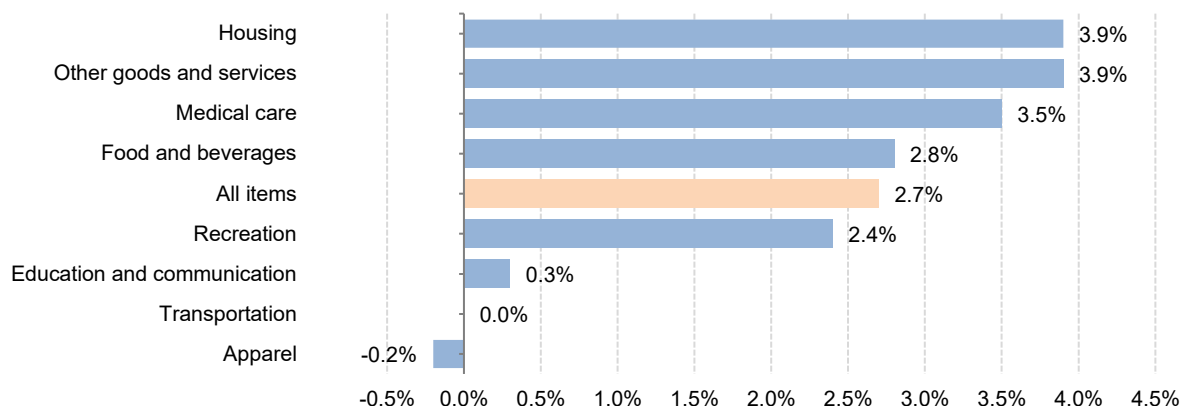
Core services inflation (services less energy services, including shelter, transportation and medical care services) stood at 3.6% year-over-year in July 2025, down from the February 2023 high of 7.3%, but still signaling persistent cost pressures (figure 33). Housing, medical care, and transportation services, along with food and beverages, were the primary drivers of inflationary pressures in July (figures 34).



Source: U.S. Bureau of Labor Statistics, Labor Department, retrieved on 29 August 2025.

¹¹ Moody's, Indicators, Consumer Price Index, analysis by Matt Colyar, 12 August 2025.

Figure 34
United States CPI by major groups, July 2025
(12-month percent change)



Source: U.S. Bureau of Labor Statistics, Labor Department, retrieved on 29 August 2025.

While headline inflation has moderated, the persistence of services inflation and emerging pressures in core components suggest that disinflation progress may be uneven, complicating the policy outlook for interest rates and consumer purchasing power.

F. Monetary policy

On July 30–31, 2025, the Federal Reserve held its benchmark interest rate steady at 4.25%–4.50%, maintaining a cautious stance amid signs of slowing growth and softening labor market dynamics. This was the fourth consecutive meeting in which the Fed kept interest rates unchanged. Notably, the July 2025 meeting produced the first FOMC dual dissent since 1993, highlighting a growing debate within the Committee about whether policy had become overly restrictive. In a rare split, two governors—Michelle Bowman and Christopher Waller—dissented, favoring a 25 basis point cut, citing weakening employment conditions and arguing that recent inflationary effects from tariffs appear transitory.

The post-meeting statement emphasized that monetary policy would remain data-dependent and flexible, as the Committee continues monitoring labor market indicators, inflation trends, and evolving risks to its dual mandate of maximum employment and price stability. The Fed also reaffirmed its commitment to gradually reducing its holdings of Treasury and mortgage-backed securities.

Looking ahead, statements from officials—including Fed Chair Powell and Governor Waller—and market commentary suggest that a rate cut could occur as soon as the 16-17 September 2025 meeting, depending on upcoming jobs and inflation data.

At the 2025 Jackson Hole Symposium (21–23 August), Fed Chair Jerome Powell unveiled a significant recalibration of the Federal Reserve’s monetary policy framework.¹² The Committee scrapped its 2020-era doctrine of flexible average inflation targeting, which had permitted moderate inflation overshoots following periods of undershooting, acknowledging that such an approach had ultimately proven irrelevant amid the sharp inflation surge of recent years. The updated framework returns to a flexible—but symmetric—2% inflation target, emphasizing that overshoots will no longer be tolerated, and reaffirms the Fed’s readiness to act forcefully to anchor expectations. In the same vein, the Fed signaled that quantitative tightening (QT)—its balance sheet reduction process—has entered a new, more nuanced phase, shifting focus toward draining bank reserves and managing liquidity via standing repo facilities rather than relying solely on reverse

¹² Federal Reserve, “[Monetary Policy and the Fed’s Framework Review](#)”, speech by Chair Jerome H. Powell, 22 August 2025.

repos. Together, these adjustments signal a deliberate move toward restoring clarity and discipline in price stability, while maintaining flexibility to support maximum employment under evolving economic conditions.

Additionally, the Fed's global impact extends beyond domestic policy tools like rate adjustments and QT. Through its standing swap lines, the Federal Reserve acts as de facto global lender of last resort in U.S. dollars—offering critical liquidity to foreign central banks during periods of international funding stress. These arrangements, which date back to the 1960s and were bolstered during the Global Financial Crisis and the COVID-19 pandemic, have provided hundreds of billions in dollar funding to key central banks, mitigating disruptions and stabilizing markets. Chair Powell reiterated in mid-2025 that the Fed remains fully prepared to deploy these tools if needed—a reminder that even as the Fed reasserts strict inflation discipline at home, it continues to fulfill a vital stabilizing function in global financial systems.¹³

After the 2008–09 financial crisis, successive rounds of quantitative easing (QE) led major central banks to hold a large share of their own governments' debt. While balance sheet expansion was intended to support growth, the subsequent unwinding through quantitative tightening (QT) has proven difficult to manage. Recent episodes of bond market volatility highlight the challenges central banks face as they reduce these holdings. The relationship between monetary policy and government funding has therefore become far more complex than it was in the late 1990s and 2000s, and understanding these dynamics also requires examining fiscal policy.

G. Fiscal policy

In the first half of 2025, U.S. fiscal policy reflected ongoing spending commitments alongside targeted measures to support economic activity, with implications for both the budget deficit and broader macroeconomic conditions. On 4 July 2025, President Trump signed the One Big Beautiful Bill (OB BB) into law, a comprehensive fiscal package that permanently extends the 2017 tax cuts, adds new benefits such as no tax on overtime and an additional senior tax deduction, and partially offsets these changes by cutting Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and student loan programs. The law also allocates US\$ 350 billion for enhanced immigration enforcement.

The Congressional Budget Office (CBO) projects that the OB BB will increase the federal deficit by US\$ 3.4 trillion over ten years—or US\$ 4.1 trillion including interest—raising the debt-to-GDP ratio from 100% to 124%. This reflects US\$ 5.9 trillion in tax cuts and spending increases, US\$ 2.5 trillion in offsets, and over US\$ 700 billion in additional interest costs.¹⁴ The Administration contends that the CBO's ten-year cost projections for the One Big Beautiful Bill are overstated, as they do not fully account for rising tariff revenues. Treasury Secretary Scott Bessent asserted in late August that customs duty receipts could exceed US\$ 500 billion per annum, equating to over 1% of GDP in 2025.¹⁵

This view finds institutional reinforcement from credit-rating agencies. S&P Global reaffirmed its AA+ rating for the United States, noting that tariff collections surged by US\$ 21 billion in July alone and represent a "meaningful offset" to the deficit-increasing aspects of recent legislation. Additionally, both S&P and Fitch have cited tariff-driven revenues as a key factor in sustaining U.S. fiscal ratings, while also emphasizing that long-term debt sustainability concerns persist.¹⁶

The Committee for a Responsible Federal Budget (CRFB) estimates that the law could add more than US\$ 5.5 trillion to the debt through 2034, making its long-term impact significantly larger than simply making

¹³ See Tristan Loa and David Wessel, [What are Federal Reserve swap lines?](#), Brookings Institution, July 12, 2023. and Reuters, [Fed's Powell says dollar swap lines remain important tool](#), July 1, 2025.

¹⁴ Congressional Budget Office (CBO), [Effects on Deficits and the Debt of Public Law 1190-21 and of Making Certain Tax Policies in the Act Permanent](#), 4 August 2025.

¹⁵ Reuters, [Bessent says US tariff revenue could be well over \\$500 billion a year](#) by David Lawder, 26 August 2025.

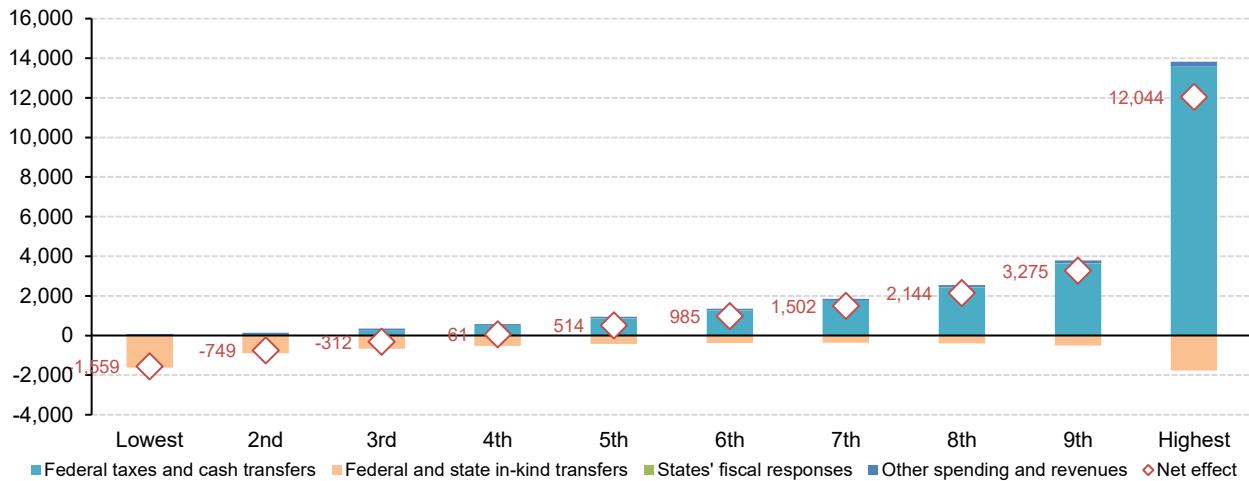
¹⁶ Reuters, [S&P affirms 'AA+' credit rating for US, cites impact of tariff revenue](#), 19 August 2025.

the 2017 Tax Cuts and Jobs Act (TCJA) permanent. In the near term, the CRFB projects that the OBBB will increase deficits by US\$ 500 billion in 2026 and US\$ 635 billion in 2027, including interest, before declining below US\$ 400 billion annually in later years as temporary provisions expire and offsets take effect. If all temporary measures are made permanent, deficits could rise by US\$ 723 billion in 2034, representing an average increase of 1.1% of GDP over the decade—or 1.5% if temporary provisions are extended.¹⁷

Federal spending in the first half of 2025 rose by US\$ 142 billion compared to the same period in 2024, totaling US\$ 3.6 trillion. This increase was primarily driven by automatic growth in entitlement programs such as Social Security and Medicare, which will continue to pressure federal finances in the coming decades.¹⁸ The CBO projects that U.S. national debt could grow by US\$ 23.9 trillion over the next decade, excluding the roughly US\$ 4 trillion in additional costs from OBBB identified earlier, which would push debt even higher. Rising mandatory outlays and interest costs suggest that federal spending will continue to climb without further reforms. These dynamics may translate directly into higher Treasury borrowing needs, putting upward pressure on government bond issuance and influencing yields, investor demand, and broader financial market conditions.

Beyond its impact on the deficit and debt, the OBBB would also affect income distribution. According to a CBO analysis, the top 10% of earners could see income gains of over 2%, while the bottom 10% could experience declines exceeding 3% due to cuts in social programs. The bill would increase the wealthiest Americans’ disposable income by about US\$ 12,000 per year while reducing that of the poorest by roughly US\$ 1,600 (figure 35).¹⁹

Figure 35
CBO projection of the average annual change in household income under OBBB (2026-2034) by household income decile (2025 dollars)



Source: Congressional Budget Office (CBO), [How H.R. 1, the One Big Beautiful Bill Act, Would Affect the Distribution of Resources Available to Households](#) accessed on 26 August 2025.

H. Financial conditions

In financial markets, rising fiscal pressures in 2025 have been met with larger Treasury issuance, pushing up long-term yields and adding volatility across asset classes. The U.S. benchmark 10-year Treasury yield remained above 4% through the first half of the year, reaching 4.23% at the end of August (figure 36). Elevated

¹⁷ Committee for a Responsible Federal Budget (CRFB), [What’s In the One Big Beautiful Bill Act?](#) 22 July 2025.

¹⁸ Ibid, [Treasury Confirms Spending Up \\$142 Billion in 2025](#), 11 July 2025.

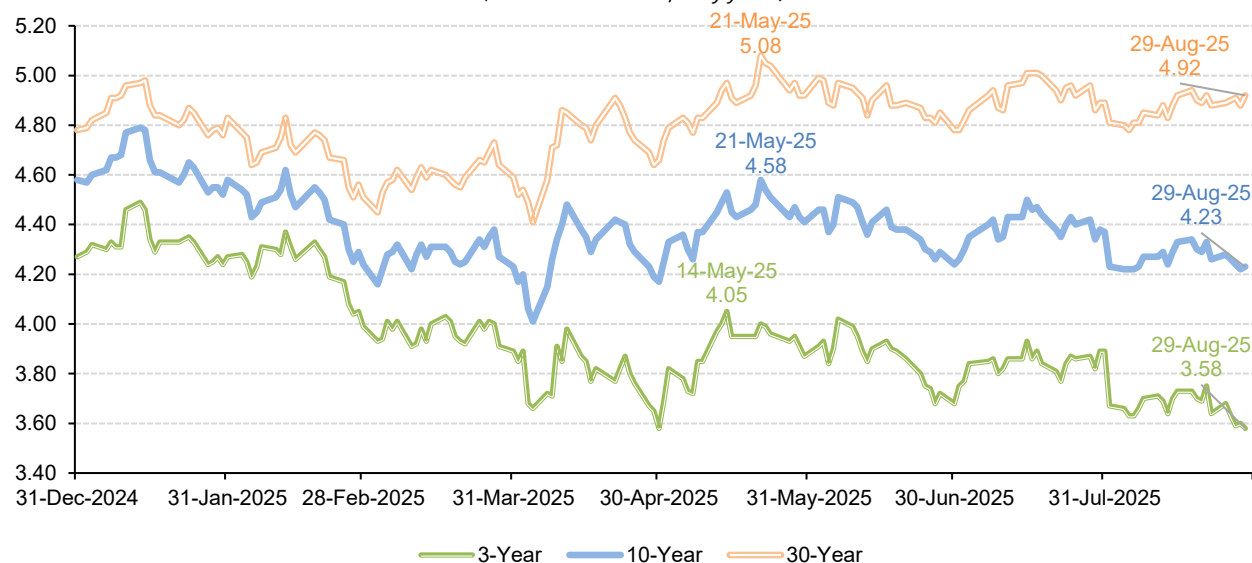
¹⁹ Congressional Budget Office (CBO), [How H.R. 1, the One Big Beautiful Bill Act, Would Affect the Distribution of Resources Available to Households](#) accessed on 26 August 2025.

government borrowing needs and shifting expectations about monetary policy have been the main drivers. Because the 10-year Treasury serves as a benchmark for a wide range of borrowing rates — from mortgages and corporate bonds to municipal and student loans — yields above 4% translate into higher financing costs across the economy. This tightening of financial conditions risks dampening investment, housing demand, and consumer spending.

Beyond fiscal pressures, tariff policies have also influenced the behavior of long-term yields. By raising import costs, tariffs feed into higher inflation expectations, prompting investors to demand greater compensation on Treasury securities. At the same time, legal and policy uncertainty around tariff measures has added volatility, as markets reassess their impact on fiscal revenues and growth. In 2025, these dynamics have contributed to upward pressure on 10-year yields alongside elevated government borrowing needs.

Notably, 10-year Treasury yields spiked to a local peak on 21 May 2025, following a relatively weak 20-year Treasury auction that underscored concerns about investor appetite for U.S. debt. This came just days after Moody's downgraded the U.S. credit outlook, amplifying concerns over fiscal sustainability. The episode triggered a widening of the term premium —the extra compensation investors require for holding long-dated bonds— and reinforced the perception that U.S. fiscal and trade policies were adding to financial market volatility.

Figure 36
U.S. Treasury security yields, 31 December 2024–29 August 2025
(Constant maturities; daily yields)



Source: Federal Reserve of St. Louis (FRED), retrieved on 29 August 2025.

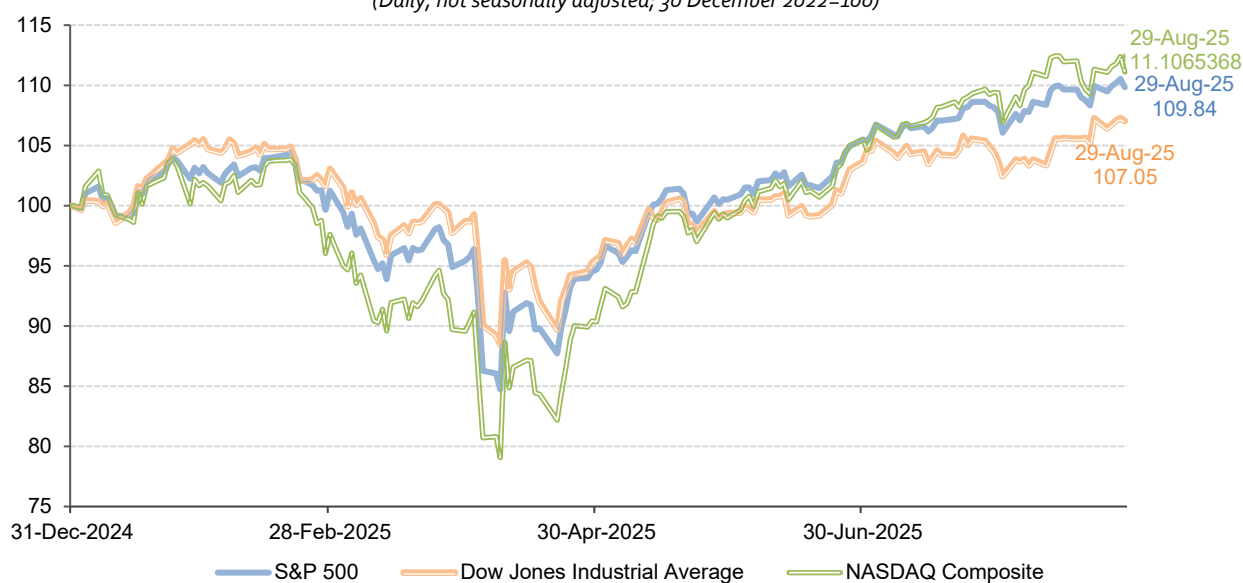
While bond markets faced fiscal and trade-driven volatility, U.S. equities posted significant gains. As of 29 August, the S&P 500 rose 9.8%, the Dow Jones Industrial Average 7.1%, and the NASDAQ Composite 11.1%, based on daily stock prices (figure 37). However, equity markets experienced notable volatility in April following tariff announcements. On 2 April, the Administration unveiled broad new tariffs, prompting the S&P 500 to fall over 4% and the Nasdaq to decline nearly 6%, as investors weighed potential trade disruptions, higher input costs, and impacts on corporate profits. A brief rally on 9 April, triggered by a 90-day pause on the tariffs, produced a significant single-day gain in equities.

Alongside tariff-related volatility, currency dynamics also played a role in shaping equity performance. The U.S. dollar index declined more than 10% in the first half of 2025, its worst first-half performance since

1973.²⁰ Concerns about fiscal sustainability, widening deficits, and trade policy uncertainty have weighed on the currency.

A weaker dollar has implications for trade competitiveness, import costs, and global capital flows, influencing both domestic financial conditions and international economic dynamics. It also provided support to corporate earnings, particularly for multinational companies. A report by UBS, the largest global wealth manager and the leading bank in Switzerland, highlighted that sectors such as technology “have benefited from the sharp decline in the U.S. dollar since its peak early in 2025.”²¹ Because a significant portion of S&P 500 companies’ revenues comes from abroad, a weaker dollar boosts reported earnings when foreign revenue is converted into dollars, helping offset some of the pressures from higher tariffs and other input costs. Together, the interplay of higher Treasury yields, tariff-induced volatility, and dollar-driven earnings support help to explain why equity markets ultimately posted gains in the first half of the year, despite higher volatility.

Figure 37
U.S. stock market indices, 31 December 2024–29 August 2025
(Daily, not seasonally adjusted; 30 December 2022=100)



Source: Federal Reserve of St. Louis (FRED), retrieved on 29 August 2025.

Equity market concentration in the U.S. has climbed to levels not seen since the dot-com bubble. According to Deutsche Bank’s analysis in a recent report on equity concentration, the S&P 500’s performance has been increasingly driven by a narrow group of companies—Apple, Microsoft, Alphabet, Amazon, and Nvidia. Nvidia’s dominance, in particular, has reached historic proportions: its market capitalization now exceeds the combined value of every stock exchange in the world, except those of the U.S., China, Japan, and India. The ongoing boom in artificial intelligence has reinforced this trend. Despite these significant gains, risks of reversal remain. The rapid growth of the largest technology firms has relied heavily on aggressive capital expenditure. Unlike other developed markets—where valuations remain near historical averages—the risk of stock price reversal appears concentrated in the U.S.²²

²⁰ Financial Times, [US dollar suffers worst start to year since 1973](#) by Ian Smith, 30 June 2025.

²¹ Bloomberg Línea, [Este es el impacto que tiene un dólar barato en las ganancias del S&P 500](#), by Carlos Rodríguez Salcedo, 29 August 2025.

²² Bloomberg Línea, [Cinco empresas concentran cerca de 30% del S&P 500: ¿hay un riesgo de burbuja?](#) by Carlos Rodríguez Salcedo, 3 September 2025 and Deutsche Bank, [Thematic Research: DB CoTD: Concentration or Diversification?](#) by Jim Reid and Raj Bhattacharyya, 30 July 2025.

I. External sector

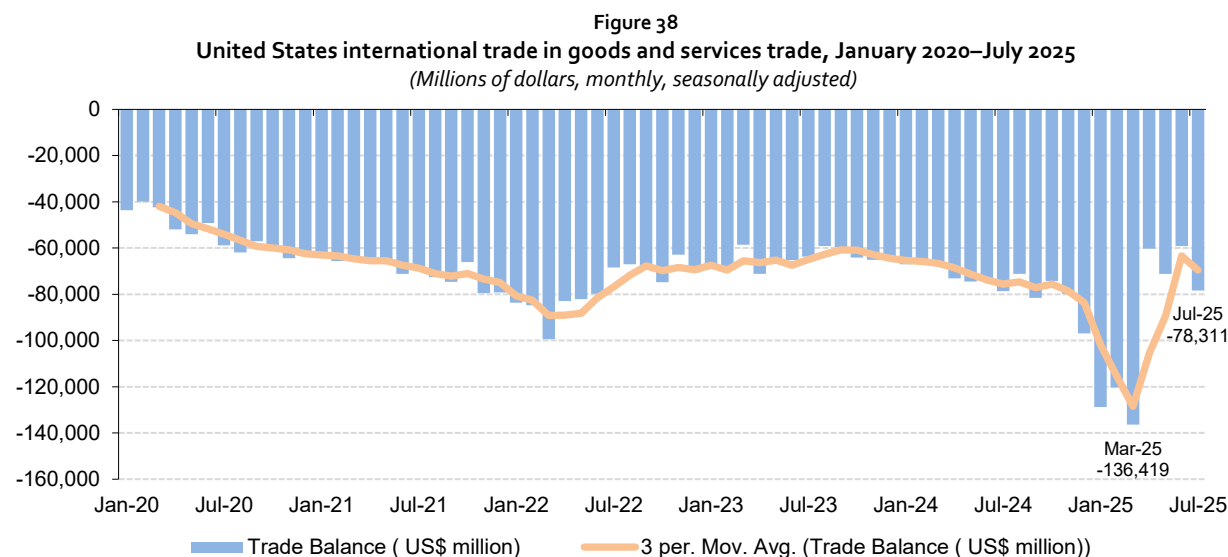
The U.S. trade deficit widened in the first quarter of 2025 but improved somewhat in the second quarter. For the first half of the year (January to July), the trade deficit widened to US\$ 654.2 billion, 31% higher than in the same period in 2024.

In July, the trade deficit widened to US\$ 78.3 billion, up 33% from US\$ 59.1 billion in June. However, it remains well below the US\$ 136.4 billion peak recorded in March, during the height of tariff-driven front-loading of imports. Total exports of goods and services rose by US\$ 800 million (+0.3%) while total imports rose by US\$ 20 billion (+5.9%). This surge in imports drove most of the July deficit increase.

A significant portion of the import surge—US\$ 9.6 billion of the US\$ 18.3 billion rise in goods imports—was due to non-monetary gold, such as gold bullion and finished metal shapes. Goods exports rose modestly by US\$ 0.2 billion. Excluding gold, which the Bureau of Economic Analysis (BEA) of the U.S. Commerce Department also excludes from GDP calculations, real imports were up a smaller 3% month-on-month in July, while exports remained unchanged. Highlighting gold imports allows analysts to distinguish between trade driven by typical goods and services and highly volatile commodity or investment flows that do not directly affect domestic production.

Looking ahead, Capital Economics expects net trade to make a very small positive contribution to third-quarter GDP growth, currently estimated just below 3%.²³ Moody's, in contrast, sees real net exports likely to worsen again in the third quarter, returning to a drag on U.S. GDP growth as both global and domestic supply chains adjust to changing U.S. tariff policy.²⁴

The accompanying chart (figure 38) illustrates the evolution of U.S. trade in goods and services from January 2020 to July 2025. It highlights the notable deterioration in the trade balance in the months leading up to the tariff announcements in April 2025. Imports surged ahead of these policy changes, reflecting anticipatory buying by businesses and consumers seeking to avoid higher tariffs. This surge outpaced exports, widening the trade deficit. The pattern underscores how trade policies can influence short-term business behavior, as firms adjust purchasing and supply chain strategies in anticipation of regulatory changes, ultimately affecting the overall trade balance.



Source: U.S. Census Bureau and the Bureau of Economic Analysis, U.S. Commerce Department, retrieved on 29 August 2025.

²³ Capital Economics, [US International Trade \(Jul. 2025\) | Capital Economics](#) by Thomas Ryan, 4 September 2025.

²⁴ Moody's, [United States: International Trade \(FT900\) : Moody's Analytics Economic View](#) by Mark Hopkins, 4 September 2025.

III. Impact on Latin American and Caribbean financial conditions

Latin American and Caribbean financial conditions in the first half of 2025 were closely influenced by developments in the U.S. economy. Shifts in U.S. trade policy, a weaker dollar, and rising global volatility affected capital flows and borrowing costs across the region. Economies with high trade exposure to the U.S. or substantial external financing needs experienced more pronounced movements in asset prices and currency values. Notably, many regional currencies appreciated against the U.S. dollar, gaining on average around 6% in the first half of the year.²⁵ The Brazilian real strengthened nearly 10%,²⁶ while the Mexican peso rose more than 5% over the past three months, supported by dollar weakness, carry-trade dynamics, and strong domestic fundamentals.²⁷ This appreciation helped contain imported inflation, though it raised concerns about export competitiveness in some economies.

The U.S. Administration's economic policies have heightened uncertainty and sharpened monetary policy trade-offs. Despite this challenging backdrop, Latin American and Caribbean bond issuers placed international bonds at a rapid pace in the first half of the year. Quarterly placements reached a record of US\$ 52.2 billion in the first quarter of 2025, surpassing the previous peak from the first quarter of 2021; and at US\$ 49.8 billion, ranked third overall in the second quarter, according to ECLAC preliminary data. Much of this activity reflected front-loading, as issuers moved to secure financing before U.S. higher tariffs and rising Treasury yields could raise borrowing costs further (figure 39).

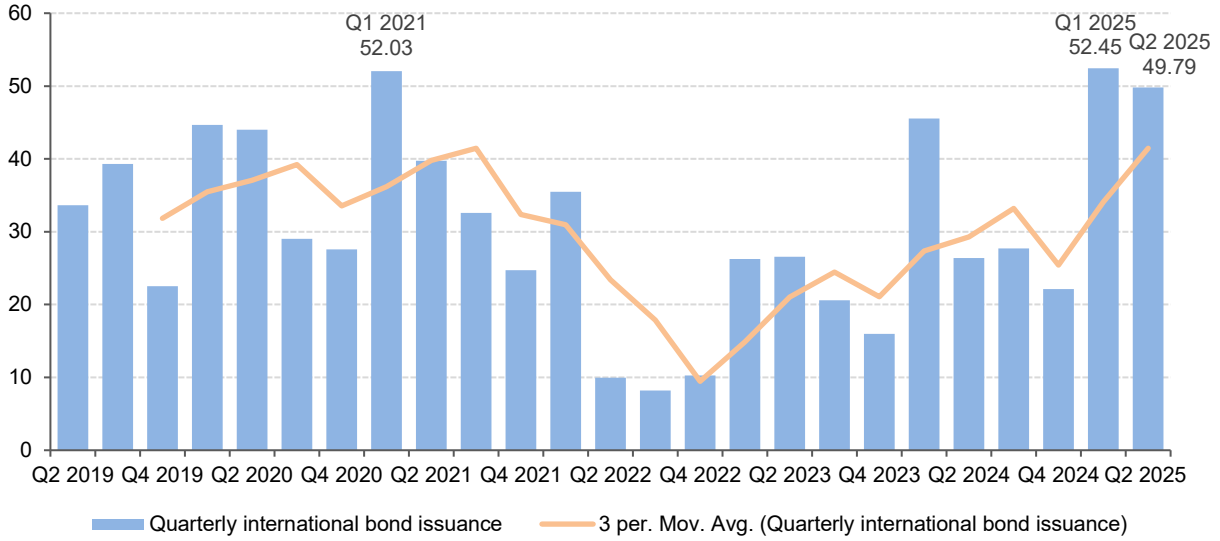
Looking ahead, uncertainty about the U.S. monetary policy path could continue to weigh on LAC financial markets. The bellwether 10-year U.S. Treasury yield remained above 4% through the first half of the year, keeping regional borrowing costs abroad elevated and limiting the scope for easier financial conditions. While global investor demand for LAC debt has remained strong, portfolio flows could become more volatile if geopolitical risks intensify or if U.S. interest rates stay higher for longer. Regional central banks are therefore expected to maintain a cautious stance, balancing the benefits of stronger currencies with the risks of tighter global financial conditions.

²⁵ UPI, [Latin American currencies strengthen amid global instability - UPI.com](#) by Mar Puig, 18 July 2025, available online.

²⁶ Reuters, [Brazil currency seen flat in near-term, restrained by trade worries: Reuters poll | Reuters](#) by Gabriel Burin, 4 June 2025, available online.

²⁷ Financial Times, [Mexican peso soars as 'carry trade' reignites after tariff delays](#) by Ian Smith and Joseph Cotterill in London and Christine Murray in Mexico City, 12 August 2025, available online.

Figure 39
Quarterly LAC international bond issuance, second quarter 2019–second quarter 2025
(Left axis, billions of dollars; Right axis, percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), [Capital flows to Latin America and the Caribbean: 2024 year-in-review and early 2025 developments](#) (LC/WAS/TS.2024/2), Santiago, 2025. Updated to end of June 2025. Data is preliminary and will be updated in the next Capital Flows report to be released in October 2025.

IV. Looking ahead

Policy developments will remain central to the outlook for the U.S. economy. The fiscal package adopted in July is expected to provide some short-term support to growth but also adds to medium-term fiscal challenges. Trade measures introduced earlier in the year continue to affect business planning and supply chains, and their evolution will be an important factor for investment decisions. At the same time, the Federal Reserve's recalibration of its monetary policy framework, returning to a symmetric 2% inflation target, provides greater clarity about the Fed's inflation objective and reinforces its commitment to anchoring expectations, while still maintaining flexibility to respond to evolving labor market conditions.

Financial conditions would stay relatively tight, as elevated government borrowing needs and policy uncertainty may keep yields high and influence credit costs across the economy. Equity markets and the U.S. dollar will remain sensitive to these dynamics, with implications for global capital flows. For Latin America and the Caribbean, the external environment will continue to be shaped by U.S. monetary, fiscal, and trade developments, with regional authorities expected to weigh in the benefits of stronger currencies against the risks of tighter external financing conditions and more volatile capital flows.

More broadly, the global outlook remains subject to considerable uncertainty. Geopolitical tensions, commodity market fluctuations, and the ongoing adjustment of international supply chains could interact with U.S. policy changes to influence growth, trade, and financial stability in the period ahead.

In 2024, the United States economy expanded 2.8%, led by consumer spending. Job creation slowed and the unemployment rate edged up to 4.1% in December. Inflation eased to 2.4% in September but closed the year at 2.9%, with the core consumer price index (CPI) at 3.2%. The Federal Reserve cut rates in September, November and December, lowering the federal funds target range to 4.25%–4.50%, while trade and fiscal deficits widened.

In the first half of 2025, GDP growth averaged 1.4%, with a contraction of 0.3% in the first quarter and an uptick of 3.3% in the second. From January to July, the economy added 597,000 jobs—44% fewer than in the same period of 2024—and the unemployment rate rose to 4.2%. Inflation remained above target, with CPI at 2.7% and core CPI at 3.1% in July, while the Federal Reserve kept rates unchanged. United States economic and policy developments affected Latin America and the Caribbean in the first half of 2025, as external financing costs remained relatively high amid higher yields and tariff related uncertainty.

The United States economic outlook reports follow the main macroeconomic developments of the United States economy and how they may affect financial conditions in Latin America and the Caribbean.



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