



3. Economic Outlook

30, 2016

The U.S. economy firmed up in Q2 but growth was still disappointing. According to a second estimate, GDP increased at a seasonally-adjusted annualized rate of 1.1% (previously reported: +1.2% SAAR). The result was above the 0.8% increase in Q1 and showed that private consumption continued to be the main source of growth. Data also showed that fixed investment and government spending contracted, while exports rebounded. July payrolls increased strongly, providing reassurance that the U.S. labor market remains solid, whereas growth in retail sales and the manufacturing sector declined in the same month. Going forward, household spending is likely to continue boosting economic growth on the back of buoyant consumer confidence, solid employment and faster wage growth. The latest polls indicate that Donald Trump's approval rating has fallen behind that of Hillary Clinton, but political analysts suggest the game is not yet over.

United States Economy Data

	2011	2012	2013	2014	2015
Population (million)	312	314	317	319	321
GDP per capita (USD)	49,725	51,384	52,608	54,375	55,868
GDP (USD bn)	15,518	16,155	16,663	17,348	17,947
Economic Growth (GDP, annual variation in %)	1.6	2.2	1.5	2.4	2.4
Domestic Demand (annual variation in %)	1.6	2.1	1.3	2.5	3.0
Consumption (annual variation in %)	2.3	1.5	1.7	2.7	3.1
Investment (annual variation in %)	6.4	9.8	4.2	5.3	4.0
Exports (G&S, annual variation in %)	6.9	3.4	2.8	3.4	1.1
Imports (G&S, annual variation in %)	5.5	2.2	1.1	3.8	4.9
Industrial Production (annual variation in %)	2.9	2.8	1.9	2.9	0.3
Retail Sales (annual variation in %)	7.3	5.0	3.7	3.9	2.2
Unemployment Rate	8.9	8.1	7.4	6.2	5.3
Fiscal Balance (% of GDP)	-8.4	-6.7	-4.1	-2.8	-2.4
Public Debt (% of GDP)	98.3	102	104	105	106
Money (annual variation in %)	7.4	8.6	6.8	6.2	5.9

Inflation Rate (CPI, annual variation in %, eop)	3.1	1.8	1.5	0.7	0.7
Inflation Rate (CPI, annual variation in %)	3.1	2.1	1.5	1.6	0.1
Inflation (PPI, annual variation in %)	3.9	1.8	1.4	1.6	-0.9
Policy Interest Rate (%)	0.25	0.25	0.25	0.25	0.50
Stock Market (annual variation in %)	5.5	7.3	26.5	7.5	-2.2
Current Account (% of GDP)	-3.0	-2.8	-2.3	-2.2	-2.7
Current Account Balance (USD bn)	-460.4	-449.7	-376.8	-389.5	-484.1
Current Account Balance (USD billion)	-740.7	-741.2	-702.6	-741.5	-759.3

Sample Report

of United States economic forecasts for more than 30 economic indicators.

United States Economy Overview

Economic Overview of the United States

Facing challenges at the domestic level along with a rapidly transforming global landscape, the U.S. economy is still the largest and most important in the world. The U.S. economy represents about 20% of total global output, and is still larger than that of China. Moreover, according to the IMF, the U.S. has the highest per capita GDP (PPP), surpassed only by small countries such as Norway and Singapore. The U.S. economy features a highly-developed and technologically-advanced services sector, which accounts for about 80% of its output. The U.S. economy is dominated by services-oriented companies in areas such as technology, financial services, healthcare and retail. Large U.S. corporations also play a major role on the global stage, with more than a fifth of companies on the Fortune Global 500 coming from the United States.

Even though the services sector is the main engine of the economy, the U.S. also has an important manufacturing base, which represents roughly 15% of output. The U.S. is the second largest manufacturer in the world and a leader in higher-value industries such as automobiles, aerospace, machinery, telecommunications and chemicals. Meanwhile, agriculture represents less than 2% of output. However, large amounts of arable land, advanced farming technology and generous government subsidies make the U.S. a net exporter of food and the largest agricultural exporting country in the world.

The U.S. economy maintains its powerhouse status through a combination of characteristics. The country has access to abundant natural resources and a sophisticated physical infrastructure. It also has a large, well-educated and productive workforce. Moreover, the physical and human capital is fully leveraged in a free-market and business-oriented environment. The government and the people of the United States both contribute to this unique economic environment. The government provides political stability, a functional legal system, and a regulatory structure that allow the economy to flourish. The general population, including a diversity of immigrants, brings a solid work ethic, as well as a sense of entrepreneurship and risk taking to the mix. Economic growth in the United States is constantly being driven forward by ongoing innovation, research and development as well as capital investment.

The U.S. economy is currently emerging from a period of considerable turmoil. A mix of factors, including low interest rates, widespread mortgage lending, excessive risk taking in the financial sector, high consumer indebtedness and lax government regulation, led to a major recession that began in 2007. The housing market and several major banks collapsed in 2008 and the U.S. economy proceeded to contract until the third quarter of 2009 in what was the deepest and longest downturn since the Great Depression. The U.S. government intervened by using USD 700 billion to purchase troubled mortgage-related assets and propping up large floundering corporations in order to stabilize the financial system. It also introduced a stimulus package worth USD 831 billion to be spent across the following 10 years to boost the economy.

The economy has been recovering slowly yet unevenly since the depths of the recession in 2009. The economy has received further support through expansionary monetary policies. This includes not only holding interest rates at the lower bound, but also the unconventional practice of the government buying huge amounts of financial assets to increase the money supply and hold down long term interest rates—a practice known as “quantitative easing”.

While the labor market has recovered significantly and employment has returned to pre-crisis levels, there is still widespread debate regarding the health of the U.S. economy. In addition, even though the worst effects of the recession are now fading, the economy still faces a variety of significant challenges going forward. Deteriorating infrastructure, wage stagnation, rising income inequality, elevated pension and medical costs, as well as large current account and government budget deficits, are all issues on the radar.

U.S. Economic History

The end of World War II marked the beginning of a golden era for the U.S. economy. This period was marked by a surge in economic activity and productivity, a growing and more prosperous middle class, and the rise of the baby boomer generation. From the late 1940s to the early 1970s, U.S. GDP grew at an

average annual rate of nearly 4%. By the 1970s, the structural change in the economy away from industry and manufacturing to services was in full force. However, after several decades of unprecedented growth, the economy began to show signs of slowing and a series of events, including the collapse of the Bretton Woods system, the 1973 oil crisis and increased global competition, precipitated important economic changes. The 1970s were marked by a period of stagnating growth and inflation referred to as “stagflation”.

The 1980s gave rise to Reaganomics, a series of economic policies promoted by President Ronald Reagan. The main objectives were reduced government spending and regulation, as well as lower taxes and a tighter money supply. Regan was highly successful in overhauling the tax code and pushing ahead with deregulation in several major sectors of the economy; and while growth and productivity increased, the government's debt multiplied significantly. In a broader Reaganomics marked a turn toward free-market supply-side economics and away from the Keynesian-inspired economics that had been favored since at Depression.

ng global integration and the rise of new technology, including the adoption of productivity-enhancing IT in the workplace and the surge of high-tech ies, helped fuel an economic boom in the 1990s. The period between 1993 and 2001 marked the longest sustained expansion in U.S economic and powered a steep rise in employment, income and consumer demand.

er, the strong growth and low unemployment during this time were particularly remarkable because the government budget was reigned in eously and actually achieved a surplus for four years between 1998 and 2001. The fiscal improvement was made possible in part by tax increases ed by President Bill Clinton, but also thanks to the booming economy and surging stock market. The stock market was driven up by the rise of internet- ompanies in what is known as the “dot-com bubble”, which generated vast sums of unanticipated revenue for the government on capital gains taxes ig salaries. However, the overvaluation of dot-com stocks eventually became apparent and the bubble burst in 2000.

: years of the 2000s saw a sharp drop in economy activity following the dot-com burst. The terrorist attacks on September 11, 2001, and several te scandals put a further damper on economic activity and business confidence. The Federal Reserve (the Fed), under Alan Greenspan, stepped in to act the struggling economy by introducing low interest rates. This move would later be considered a major factor in causing the massive housing bubble that burst and precipitated the Great Recession that began in 2008.

United States' Balance of payments

Over the past several decades, the U.S. current account balance has been heavily influenced by international trade flows, with the ongoing trade deficit resulting in a consistent current account deficit. Earnings on U.S. assets and investments owned abroad have a very small part in the current account, and a surplus in this category is not nearly enough to offset the large trade deficit. Overall, the current account deficit implies that the value of the goods and services being purchased from abroad by the United States exceeds the value of the goods and services being sold to foreigners. The U.S. current account deficit widened progressively since the 1990s and reached an all-time record and global high of 5.8% of GDP in 2006. The deficit narrowed in the following years and reached 2.4% in 2013. The improvement has been driven in large part by increased domestic oil production.

The current account deficit is mirrored by a capital account surplus. The net amount of capital inflows received in the United States from abroad makes it possible to finance the current account deficit. Foreigners continue to invest in U.S. assets and companies, and so the net international investment position of the United States has grown over time. The United States is by far the top recipient of foreign direct investment (FDI). The U.S. economy received USD 166 billion in FDI in 2012, pushing the cumulative stock to USD 2.7 trillion. About 80% of FDI in the United States comes from a set of just nine industrialized countries. The UK, Japan and the Netherlands are the top sources of FDI in the U.S. The U.S. manufacturing sector draws about 40% of FDI.

United States' Trade Structure

The U.S. is the 2nd leading exporter of goods and services in the world and the number one leading importer. The U.S. consistently runs a trade deficit, mainly due to the dependence on foreign oil to meet its energy needs and high domestic demand for consumer goods produced abroad. In 2013, the United States recorded a USD 702 billion deficit in trade of goods, including a USD 232 billion deficit in petroleum products. Meanwhile, the U.S. had a USD 231 billion surplus in trade of services. The main trading partners of the U.S. are Canada, China, Mexico and Japan. Canada is the main destination for U.S. exports, whereas China is the main source of imports. The trade deficit with China hit a record high USD 318 billion in 2013.

The U.S. plays a major role in the international trade system and is generally seen as a proponent of reduced trade barriers and free trade agreements. The United States currently has more than a dozen free trade agreements in place. Among them are the North American Free Trade Agreement (NAFTA), which was created in conjunction with Canada and Mexico in 1994. In 2011, the United States signed free trade agreements with Panama, Colombia, and South Korea. The United States is also an active member of the World Trade Organization (WTO).

Exports from the United States

Although the United States has lost some of its competitive edge in recent decades, material goods still represent two thirds of its total exports. The United States mainly exports high-value capital goods and manufactured products, including industrial machinery, airplanes, motor vehicles and chemicals. In 2013, the U.S. exported USD 1.579 trillion in goods.

The United States is the world's leading exporter of services. This includes financial and professional business services as well as other knowledge-intensive services. Travel, transportation and tourism services are also a major export. The United States exported a record high USD 682 billion of services in 2013,

which represented about one third of its exports.

Imports to the United States

About 80% of total imports brought to the United States from abroad are goods. Roughly 15% of these imports are in the form crude oil, fuel oil and petroleum products. Industrial machinery, supplies and equipment represent another 15% of imported goods. Almost 25% of imported goods are capital goods, such as computers, computer accessories, electronics, medical equipment, and telecommunications equipment. Consumer goods represent another 25% of imported goods. Cellphones, pharmaceuticals, toys, household equipment, textiles, apparel, televisions, and footwear are the main types of consumer goods imported to the United States. An additional 15% of imported goods are automotive vehicles, parts, and engines. Food and beverages represent only about 5% of imported goods. Services represent only 20% of total imports, and are primarily financial services, as well as travel and transportation.

States' Economic Policy

The U.S. government has faced the momentous task of reversing the effects of the recession with a combination of expansionary fiscal and monetary policy. On the fiscal side, government stimulus spending and tax cuts prevented further deterioration of the economy. On the monetary side, the Federal Reserve has addressed economic weakness with both traditional and unconventional policies.

The United States is typically regarded as the home of free-market economic policies. However, the U.S. government exercises a significant amount of oversight over economic, commercial and financial activities. Following the recession, the government stepped up its oversight in the financial sector. The Dodd-Frank Act, passed in 2010, represents the most comprehensive reform of financial markets regulation since the Great Depression.

States' Fiscal Policy

The U.S. government tends to spend more money than it takes in, and thus has incurred fiscal deficits almost uninterruptedly during the past several decades. The only time when the government managed to balance a budget in recent history was between 1998 and 2001, when the strong economy resulted in higher-than-usual tax revenues. The fiscal deficit reached the highest point since 1945 in 2009 at 9.8% of GDP, but has improved progressively since then; the deficit dropped to 4.0% of GDP in 2013.

The largest portion of government spending is mandated by existing laws, with a large amount of funds allocated to entitlement programs such as Social Security and Medicaid. Mandatory spending represents nearly 60% of total government spending. The remainder is referred to as discretionary spending, and is determined by the annual federal budget. About half of the discretionary budget is spent on the military and defense, with the other half spent on government programs and public services.

Nearly 50% of tax obtained by the U.S. government comes from income taxes on individuals, with an additional 10% coming from income taxes on businesses and corporations. Another 35% of collections come from payroll and social security taxes. Excise taxes charged on goods such as liquor, tobacco and gasoline bring in a smaller amount. Tax revenues equaled about 18% of GDP on average between 1970 and 2010.

The stimulus package introduced by the Obama administration in 2009 included USD 288 billion in tax cuts and incentives. Less than two years later, Obama announced an extension to the tax cuts that had been introduced during the Bush administration at a cost of more than USD 400 billion over two years.

United States' Monetary Policy

The U.S. Congress has established that the monetary policy objectives of the Federal Reserve are to promote maximum employment and price stability in what is known as the "dual mandate". The Federal Open Market Committee (FOMC) is the Fed's monetary policymaking body. The FOMC meets about eight times a year to discuss developments and the outlook for the U.S. economy and to debate different policy options, including the level of interest rates. The federal funds rate, the main interest rate managed by the Fed, is the rate which deposit banks charge each other to trade funds overnight in order to maintain reserve balance requirements. The federal funds rate is one of the most important in the U.S. economy because it influences all other short term interest rates.

During the years since the recession hit, the Fed has been very active. The Fed has maintained a policy of keeping the federal funds rate near zero. Interest rates were initially supposed to be kept low only until the unemployment rate dropped to 6.5% or inflation surpassed 2.5%. However, this specific forward guidance was revamped in March 2014 when the Fed announced that any future decisions to hike interest rates no longer depended on previously-established quantitative thresholds, but rather on the assessment of a broad range of more qualitative information. In an additional response to counter the effects of the recession, in December 2012, the Fed announced an unconventional policy known as "quantitative easing". This policy involves the purchase of vast sums of financial assets in an attempt to increase the money supply and hold down long-term interest rates.

United States' Exchange Rate Policy

The U.S. dollar is often referred to as the world's currency because it is by far the most used currency in international transactions and also the most widely held reserve currency. Almost two thirds of currency reserves held throughout the world are in U.S. dollars.

Although the Treasury Department has the primary authority to oversee international financial issues, the Treasury's decisions regarding foreign exchange are made in consultation with the Federal Reserve. However, U.S. intervention in the foreign exchange market has become increasingly less frequent. U.S. authorities typically let the open foreign exchange market and domestic monetary policies determine rates.

Sample Report

Sample report showing all the data and analysis covered in our Regional, Country and Commodities reports.

United States Facts

	Value	Change	Date
10 Year Treasury Yield	1.60	1.91 %	Sep 02
Prime Lending Rate	1.12	-0.27 %	Sep 02
S&P 500 Market	18,492	0.39 %	Sep 02

United States Economic Growth

August 30, 2016

The U.S. economy is expected to strengthen in the second half, buoyed by solid private consumption and a bounce-back in inventories. Nonetheless, a persistently strong U.S. dollar and prospects of further weakening in the global economy will restrain growth in export-oriented industries, while low oil prices will continue to weigh on fixed investment. Analysts expect GDP to increase 1.7% in 2016, which is down 0.2 percentage points from last month's forecast. For 2017, our panel sees GDP growth at 2.1%.

Upcoming Events





United States Economic News

United States: Non-farm payrolls post another solid gain in August

September 2, 2016

Non-farm payrolls grew 151,000 in August, which followed July's upwardly-revised increase of 275,000 (previously reported: +255,000) and fell short of the 165,000 gain that the markets had expected.

United States: U.S. manufacturing sector contracts in August for first time in six months

September 2, 2016

The ISM manufacturing index declined more than expected in August and entered into contractionary territory for the first time since February.

United States: Consumer confidence hits an 11-month high in August

August 30, 2016

After remaining virtually unchanged in July, consumer confidence hit an 11-month high in August.

United States: House prices moderate further in June

August 30, 2016

The S&P/Case-Shiller 20-city home composite index rose 0.8% in June over the previous month.

United States: Assessing Clinton and Trump's economic policies

August 26, 2016

As the dust settles following the presidential conventions, major opinion polls show Hillary Clinton with a sizable lead over Donald Trump.

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more
MENA

Egypt
Iran
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more
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Brazil
Colombia
Mexico
Venezuela
more
Euro Area

Eurozone
France
Germany
Italy
Spain

more
East & South Asia

China
Hong Kong

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Eastern Europe

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Romania
Turkey
more
Sub-Saharan Africa

Angola
Ethiopia
Kenya
Nigeria
South Africa
more
Central America

Costa Rica
Haiti
Jamaica
Panama
Puerto Rico
more
Real Sector

GDP
GDP per capita
Consumption
Investment
Industry

Unemployment
Fiscal Balance
Public Debt
Monetary and Financial Sector

Inflation
Interest Rate
Money
Exchange Rate
External Sector

Current Account
Trade Balance

Exports
Imports

ional Reserves
l Debt

rude Oil
Coal

Gas

l Coal
rude Oil
e Metals

Alumina
Aluminium
Aluminium Alloy
Copper
Iron Ore
Lead

Nickel
Steel (Europe)
Steel (USA)
Tin
Zinc

Agricultural
Cocoa
Coffee
Corn
Cotton
Oats
Soybeans

Sugar
Wheat
Wool
Precious Metals

Gold
Palladium
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Silver





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