ECONOMIC COMMISSION
FOR LATIN AMERICA
AND THE CARIBBEAN

ECLAC Office in Washington, D.C.

United States economic outlook

2020 in review and early 2021 developments

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United Nations publication
LC/WAS/TS.2021/3
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Printed at United Nations, Santiago
21-00263

This publication should be cited as: Economic Commission for Latin America and the Caribbean (ECLAC), *United States economic outlook: 2020 in review and early 2021 developments* (LC/WAS/TS.2021/3), Santiago, 2021.

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Highlights

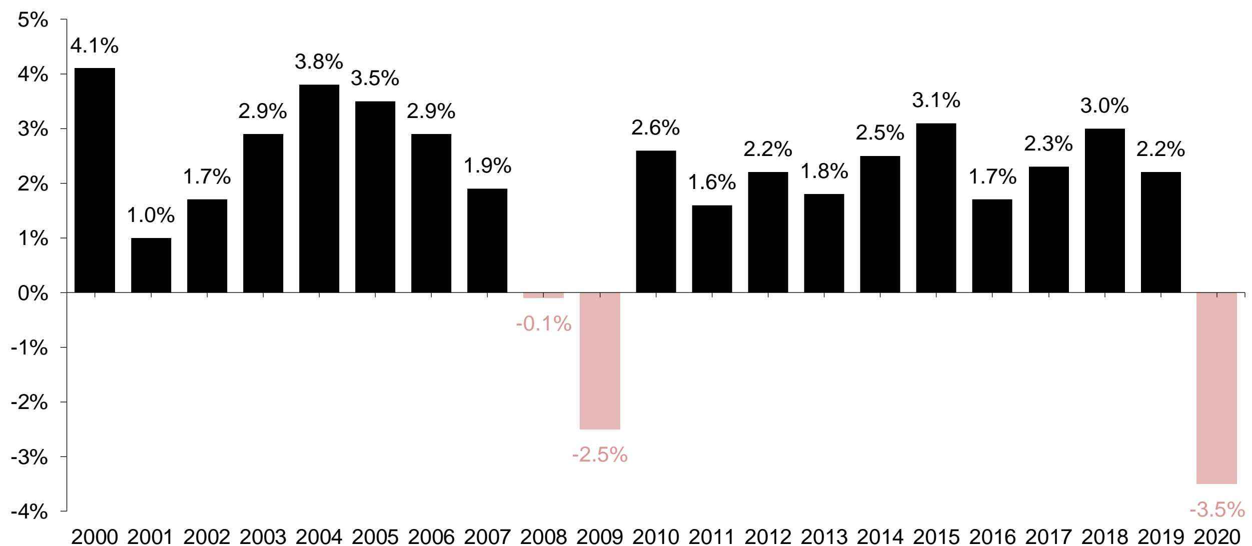
- *The COVID-19 pandemic created unprecedented volatility in economic growth in 2020*. A record-shattering decline in real GDP in the second quarter was followed by a similarly record-breaking gain in the third. However, economic activity slowed dramatically in the fourth quarter, as infection rates and restrictions on activity increased. Growth retreated from 33.4% in the third quarter to 4.3% in the fourth. For 2020 as whole, the economy contracted at a 3.5% annual rate.
- *Policy support has been strong.* Four major fiscal packages to deal with the impact of the pandemic were passed in 2020, the last one in December. Together, they amounted to almost US$ 4 trillion in economic relief. On 11 March 2021, another fiscal package – the American Rescue Plan, a US$ 1.9 trillion stimulus bill – was signed into law. The Federal Reserve has held interest rates near zero since March 2020 and has been spending about US$ 120 billion in asset purchases each month. It has also adopted a new "flexible average inflation targeting" framework that aims for inflation rate to average 2% over time. Under this framework, the Fed funds rate will likely stay low for longer, with a strong emphasis on the maximum employment objective of the dual mandate.
- *The pandemic's impact has been uneven*. At the end of 2020, there were roughly 10 million fewer jobs in the United States than there were before the pandemic, and the labor participation rate fell to 61.4% from 63.3%. Employment fell more for black and Hispanic workers. More than 2 million women in the United States left the workforce over the last year. Women were driven out of the workforce by the disproportionate impact of pandemic restrictions on female-dominated industries and the lack of school and adequate child-care options.
- *Recent data releases suggest that economic growth is accelerating,* supported by a faster pace of vaccinations that is contributing to ease business restrictions and increase consumer spending. In March 2021, manufacturing activity hit its highest mark since December 1983, and nonmanufacturing activity reached its highest level since the late 1990s, according to the Institute for Supply Management. Retail spending increased by almost 10% from a month earlier, as federal-stimulus funds made their way to households, warmer weather set in, and the economy reopened more fully. Moreover, almost 1 million jobs were created, and the unemployment rate fell to 6% from 6.2% in February.

- *An accelerating economy could lead to an increase in inflation*, as supply constraints and the return to normalcy puts upward pressure on prices. Consumer prices rose 0.6% in March according to the Labor Department, the quickest pace since August 2012, as increased vaccinations and unprecedented fiscal stimulus unleashed pent-up demand. So far, upward pressures on prices are expected to be transitory.
- *Forecasts for economic growth in 2021 have been upgraded*. With the vaccination rollout picking up pace, and with the combined strength of fiscal and monetary stimulus, Federal Reserve officials, as well as private forecasters, say the United States economy – currently projected to grow at about 6.5% in 2021–is positioned for its fastest year of growth since the early 1980s.
- *But the U.S. economy still has a long way to go before it fully recovers.* In March 2021, the number of unemployed 27 weeks or longer increased to 4.2 million from 4.1 million in February, and one year after the pandemic started, there are still 8.4 million fewer jobs in the United States economy.

Overview[1]

The United States economy contracted 3.5% in 2020 (chart 1). The recession caused by the COVID-19 pandemic was the shortest on record, but also the most severe, as it wiped out a decade's worth of job creation in the span of three months. The rebound in the second half of 2020 did not fully reverse the massive decline suffered in the first half, leaving real GDP in the fourth quarter 2.4% below its fourth-quarter level in 2019, according to data from the Bureau of Economic Analysis of the U.S. Department of Commerce.

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

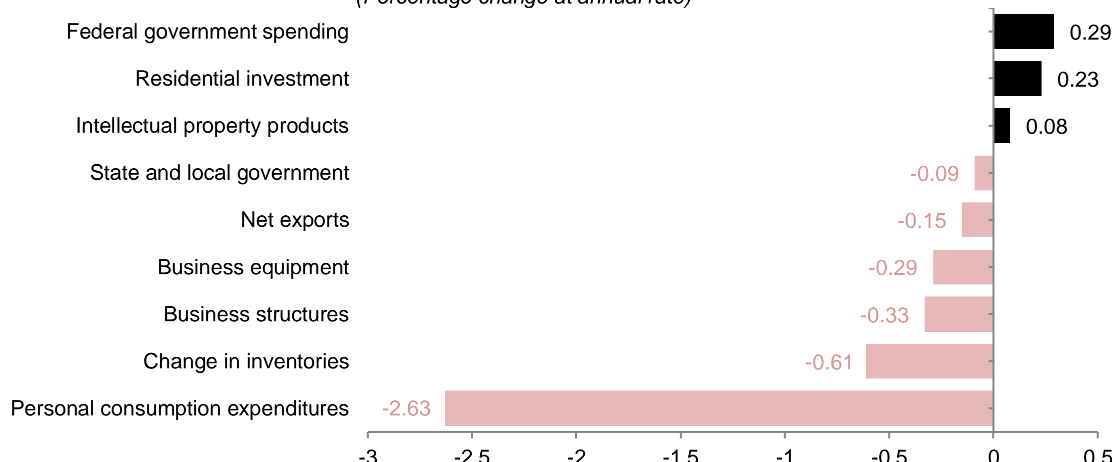


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

[1] Unless otherwise indicated, the cut-off date for the information used to prepare this report is 15 April 2021.

Overall, the contraction was driven by a decline in consumer spending, which decreased 3.9% in 2020 and subtracted 2.63% from annual growth (chart 2). Inventories, investment in business structures and equipment, net exports and state and local government spending also subtracted from 2020 growth, while federal government spending, residential investment and investment in intellectual property products made a positive contribution.

CHART 2:
CONTRIBUTIONS TO U.S. GROWTH: 2020
(Percentage change at annual rate)



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

Consumer spending made positive contributions to growth in the second half of 2020, however, and in March 2021 consumer confidence rose to its highest level since the pandemic started a year ago, according to the Conference Board's consumer-confidence index. It was the index's third-consecutive monthly increase. Despite recent gains, the index (at 109.7 in March) remains below a pre-pandemic level of 132.6 posted in February of last year.

By many measures, the United States economy is rebounding strongly, as vaccination rates are powering consumer spending, businesses restrictions are relaxing, and federal-stimulus funds are flowing through the economy. U.S. retail sales in March 2021 rose by the most in 10 months, growing at a seasonally adjusted 9.8% compared to the previous month. That spending was bolstered by the arrival of a fresh round of federal stimulus cash. This jump in retail sales was the second-biggest rise on record, behind the 18.3% rise in May 2020 when strict stay-at-home orders were eased in many parts of the United States.

The Institute for Supply Management's gauge for manufacturing activity in March hit its highest mark since December 1983, and the ISM index of nonmanufacturing activity is at its highest level since its inception in the late 1990s, with employment, new orders and business activity all improving between February and March.

More than 900,000 jobs were created in March, and the unemployment rate fell to 6% from 6.2% in February. However, the unemployment rate for the bottom 25% of wage earners, at about 20%, is much higher. Many low-wage service-sector jobs disproportionately employed minorities. Those jobs could be some of the last to return, as they depend heavily on person-to-person contact.

While more than 2 million women in the United States left the workforce over the last year, driven out by the disproportionate impact of pandemic restrictions on female-dominated industries and the lack of school and adequate child-care options, 492,000 women reentered the workforce in March 2021. Reentering was made possible by the reopening of schools for in-person learning.

Jobless claims, a proxy for layoffs, fell to 576,000 in the week ending on 10 April, the lowest weekly figure since March 2020. However, claims remain higher than the pre-pandemic levels of around 220,000.

The Chair of the Federal Reserve, Jerome Powell, said in a recent interview that the United States economy is at an "inflection point" with growth and hiring set to accelerate, because of widespread vaccination and strong fiscal and monetary support. He added that the economy would have been much worse without the aid. The Fed's forecast is that the economy could produce close to 1 million jobs a month for "a string of months," although he warned the new surges of COVID-19 could impede the recovery.

Market forecasters anticipate a pick-up in quarterly growth, from 4.3% in the fourth quarter to a projected 6.0% in the first quarter of 2021, 8.2% in the second and 7.4% in the third, on average, with forecasts made in the second half of March and early April (table 1). Forecasts were upgraded after the American Recovery Act of 2021, a US$ 1.9 trillion stimulus bill, was signed into law on 11 March 2021.

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

	Q4 2020 (qoq)	Q1 2021 (qoq)	Q2 2021 (qoq)	Date of Forecast
What Markets Say				
Bank of America/Merrill Lynch	7.0%	10.0%	9.0%	9-Apr-21
Capital Economics	7.1%	9.6%	4.4%	9-Apr-21
JPMorgan	5.0%	9.5%	8.3%	9-Apr-21
Moody's Economy.com	5.5%	7.2%	9.0%	6-Apr-21
Mortgage Bankers Association	4.7%	6.0%	6.5%	19-Mar-21
National Bank of Canada	8.6%	7.7%	5.8%	Mar-21
TD Bank Financial Group	4.9%	7.0%	6.8%	18-Mar-21
Wells Fargo/Wachovia	4.8%	8.5%	9.2%	7-Apr-21
Forecasts average	***6.0%***	***8.2%***	***7.4%***	

Source: ECLAC Washington Office, based on market sources.

On an annual basis, forecasters say the United States economy is positioned for its fastest year of growth since 1984. The Federal Reserve and the International Monetary Fund expect growth of 6.5% (Q4/Q4) and 6.4% in 2021, respectively. On average, market projections made in March and April point to growth of 6.2% in 2021 on average (6.4% if only the April forecasts are taken into account) and growth of 4.1% in 2022 (table 2).

The outlook remains highly uncertain, however. Risks to the forecast include vaccine hesitancy or hiccups in vaccine distribution, faster-spreading virus variants, faster than expected inflation, and the potential drag from a lagging economic recovery abroad, which could undercut growth this year.

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

	Real GDP (% change, y/y)		CPI (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		
	2020	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**Date of Forecast**
A. What Government Agencies Say									
FED*	6.5%	3.3%	2.4%	2.0%	4.5%	3.9%	0.1%	0.1%	*Mar-21*
CBO	4.6%	2.9%	1.9%	2.1%	5.7%	5.0%	0.1%	0.1%	*Feb-21*
B. What Markets Say									
Bank of America/Merrill Lynch	7.0%	5.5%	2.7%	2.3%	5.0%	3.7%	0.1%	0.1%	*9-Apr-21*
Capital Economics	6.5%	4.0%	2.8%	1.8%	5.3%	4.4%	0.1%	0.1%	*9-Apr-21*
JPMorgan	6.3%	4.0%	2.7%	2.2%	5.2%	3.8%	0.1%	0.1%	*9-Apr-21*
Moody's Economy.com	6.4%	5.3%	2.6%	2.5%	5.4%	4.0%	0.1%	0.1%	*8-Mar-21*
Mortgage Bankers Association	5.7%	2.7%	2.2%	2.5%	5.5%	4.3%	0.1%	0.1%	*19-Mar-21*
National Bank of Canada	6.6%	3.8%	2.7%	2.4%	5.3%	4.2%	0.1%	0.1%	*Mar-21*
TD Bank Financial Group	6.0%	2.9%	2.4%	2.0%	5.7%	4.1%	0.1%	0.1%	*18-Mar-21*
The Economist Intelligence Unit	4.5%	3.0%	1.9%	2.1%	5.8%	5.2%	0.1%	0.1%	*24-Mar-21*
Wells Fargo/Wachovia	6.4%	5.5%	2.8%	2.5%	5.4%	4.3%	0.1%	0.1%	*7-Apr-21*
Market Average	***6.2%***	***4.1%***	***2.5%***	***2.3%***	***5.4%***	***4.2%***	***0.1%***	***0.1%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	3.4%	2.7%	1.9%	1.6%	*na*	*na*	*na*	*na*	*Jan-21*
World Bank	3.5%	3.3%	*na*	*na*	*na*	*na*	*na*	*na*	*Jan-21*
OECD*	6.5%	4.0%	*na*	*na*	*na*	*na*	*na*	*na*	*Mar-21*
IMF	6.4%	3.5%	2.3%	2.4%	5.8%	4.2%	*na*	*na*	*Apr-21*

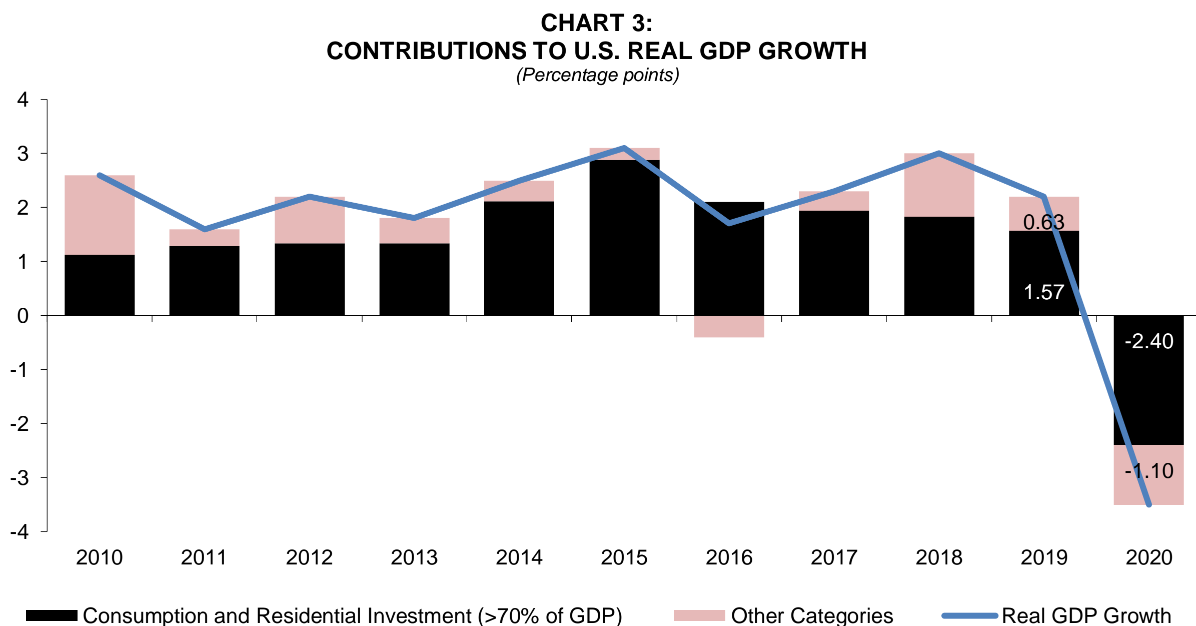
Source: ECLAC Washington Office based on official and market sources.
Note: FED: Federal Reserve; CBO: Congressional Budget Office; OMB: Office of Management and Budget (U.S. Administration’s forecasts).
*Forecast for PCE inflation, and for GDP o.

I. 2020 in review and recent developments

The real GDP contraction in 2020 reflected reflected decreases in personal consumption expenditures, exports, private inventory investment, nonresidential fixed investment, and state and local government that were partly offset by increases in federal government spending and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.

The core of the U.S. economy —consumption and residential investment— subtracted 2.40% from growth in 2020 (chart 3), with consumption subtracting 2.63% and residential investment adding 0.23%.

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

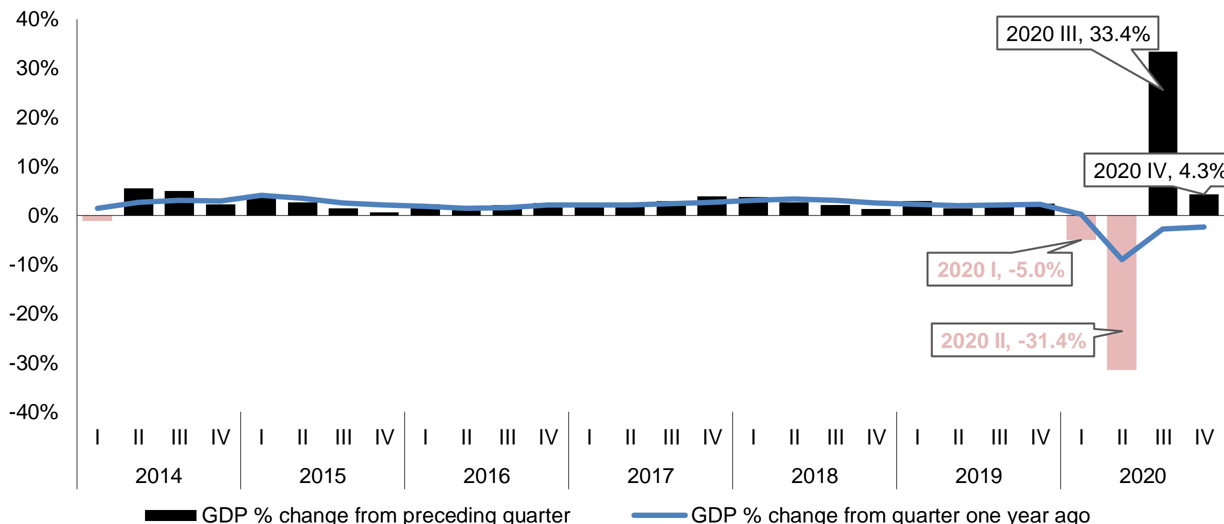


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

There was a slowdown in growth in the fourth quarter of 2020. After the record-shattering decline in real GDP in the second quarter was followed by a similarly record-breaking gain in the third, the rebound in economic activity slowed dramatically in the fourth quarter, as infection rates and restrictions on activity increased. Growth retreated from 33.4% in the third quarter to 4.3% in the fourth, according to the third estimate released by the U.S. Department of Commerce on 25 March 2021 (chart 3).

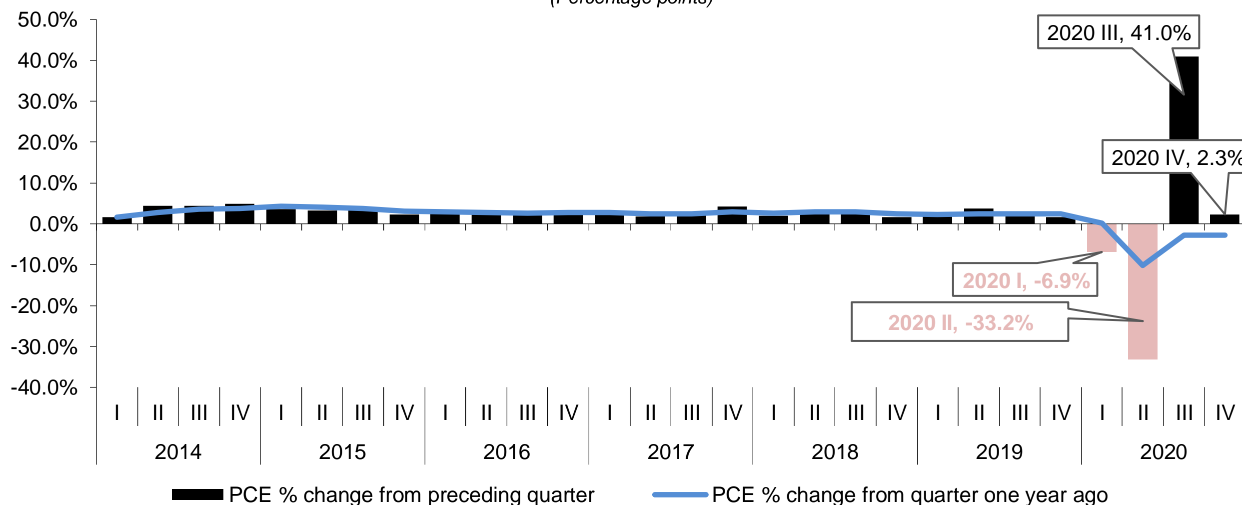
CHART 4:
U.S. REAL GDP: QUARTERLY GROWTH
(Percentage points)



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

Private consumption expenditure increased by 2.3% after an increase of 41% in the third quarter (chart 5), adding 1.58% to growth in the fourth-quarter. The increase in PCE reflected an increase in services (led by health care).

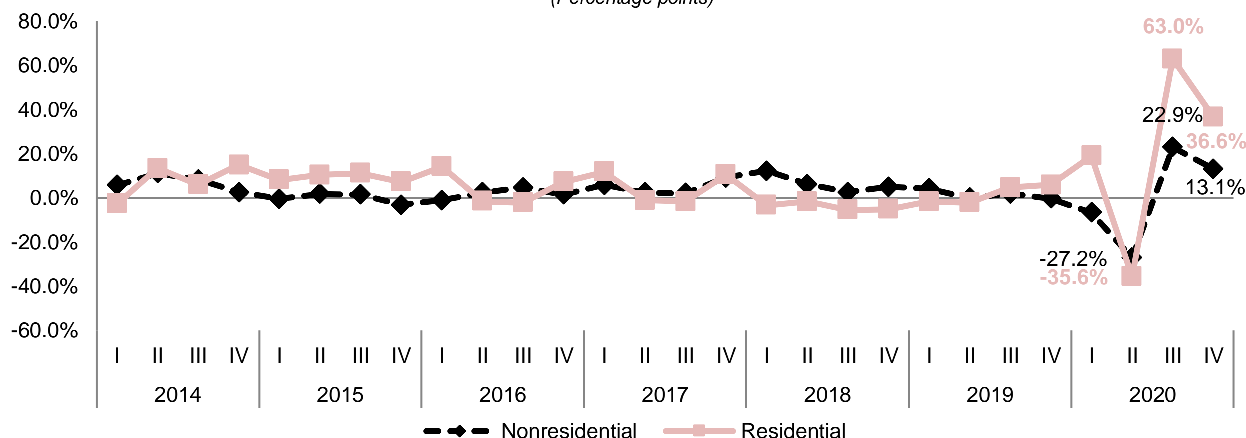
CHART 5:
PERSONAL CONSUMPTION EXPENDITURE: QUARTERLY GROWTH
(Percentage points)



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

Gross private domestic investment grew by almost 28% and added 4.41% to growth in the fourth quarter. Fixed investment increased by 18.6%, with residential and non-residential investment growing 36.6% and 13.1%, respectively, and together adding 3.04% to growth (chart 6). The change in private inventories added 1.27%. The increase in residential fixed investment mostly reflected an increase in single family units. The increase in private inventory investment primarily reflected an increase in manufacturing, including both durable and nondurable goods industries.

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

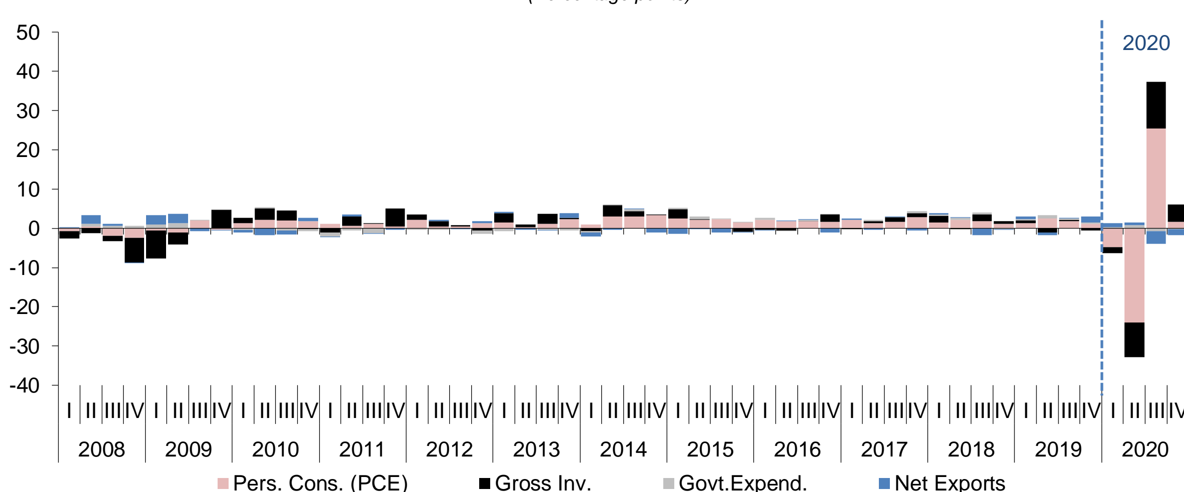


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

Overall, government spending contracted 0.8%, and subtracted 0.14% from growth in the fourth quarter, with funding from the CARES Act rescue slowly receding as fiscal measures expired. State and local government spending declined by 0.8%, while federal outlays declined by 0.9% (with national defense increasing 4.8% and nondefense spending contracting 8.9%).

Finally, net exports subtracted 1.53% from growth in the fourth quarter. Exports increased by 22.3%, primarily reflecting an increase in the exports of goods, adding 2.04% to growth. Imports grew by 29.8%, subtracting 3.57% from growth in the quarter (chart 7).

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



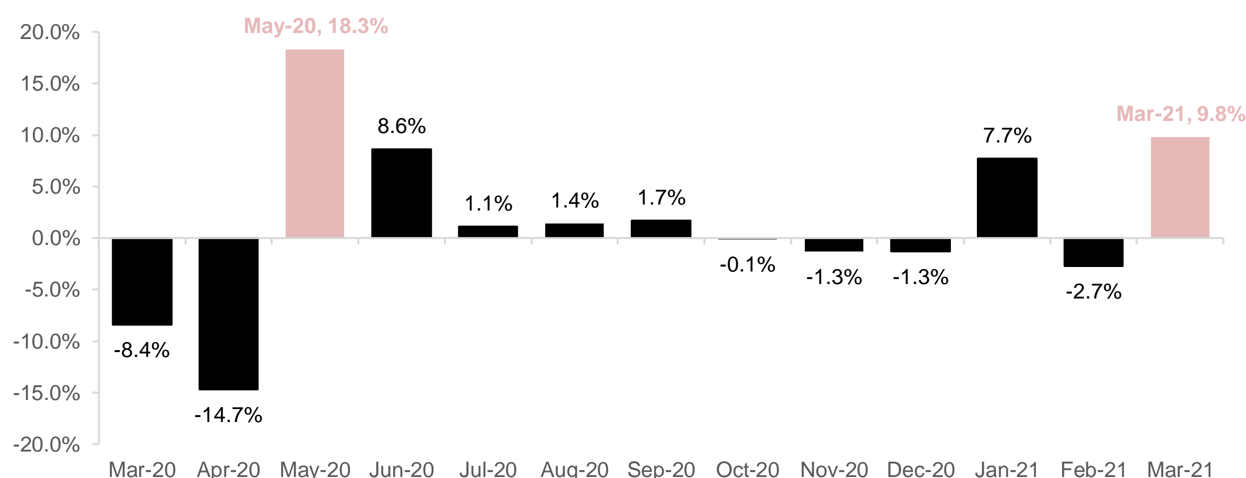
Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

B. Retail sales

Retail sales, a measure of purchases at stores, restaurants and online, rose a seasonally adjusted 9.8% in March 2021 from a month earlier, according to the Commerce Department, as federal-stimulus funds made their way to households, warmer weather set in, and the economy reopened more fully from pandemic-related restrictions. The federal government has since mid-March disbursed to households about 159 million stimulus payments of more than US$ 376 billion from the American Rescue Plan, according to the U.S. Treasury Department.

This was the largest monthly gain in retail sales since May 2020, when there was an initial bounce back from lockdowns early in the pandemic (chart 8). Shoppers spent more across several categories, with double-digit gains in sales at restaurants and bars and on clothing, electronics and sporting goods. Spending on food and drink services surged 13.4%, and 18.1% in clothing store sales, with spending increasing at physical and online stores.

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



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

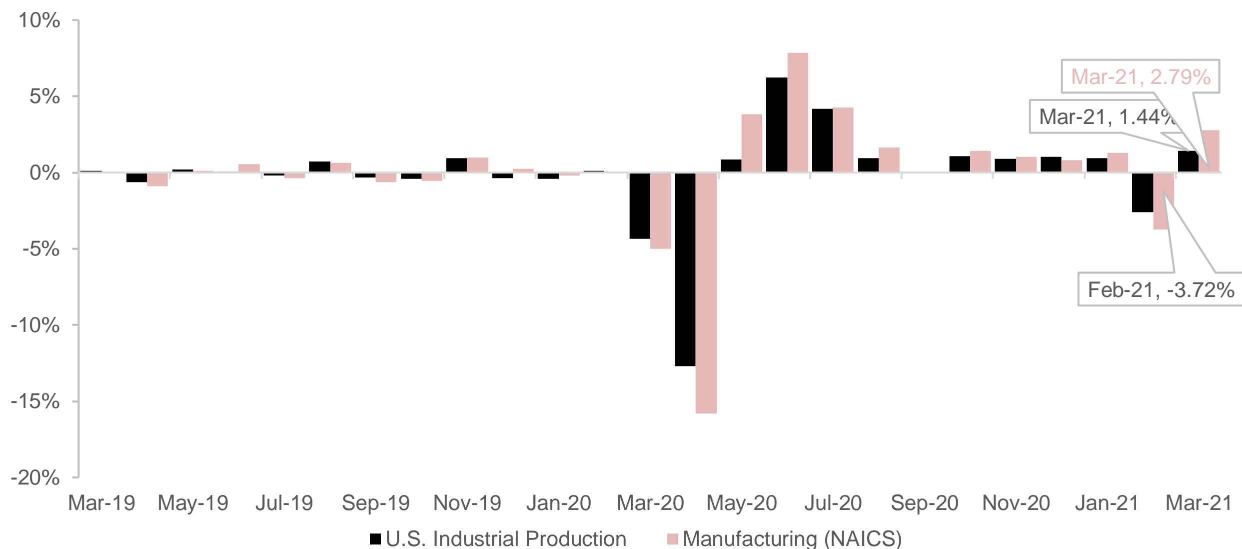
C. Industrial production

U.S. industrial production rose 1.4% in March 2021, which was less than the market consensus anticipated. Manufacturing output rose 2.8%, reversing some of the 3.7% drop in February that was due to weather disruptions (chart 9). More than a year on, industrial and manufacturing output are still 3.4% and 1.7%, respectively, below their pre-pandemic levels. Within manufacturing, motor vehicle and parts output was up 2.8% after dropping 10% in February. Utilities fell more than expected and were down 11.4%. Natural gas output, which is volatile, fell 21.1% in March. Mining output rose 5.7% after dropping 5.6% in February.

The relatively modest gain in industrial production, which was weaker than expected, may be reflecting global supply shortages, which are continuing to hold back production in some sectors. According to Capital Economics, "worsening shortages and supply bottlenecks are likely to remain a headwind to production, as well as putting renewed upward pressure on goods prices."[2]

[2] Andrew Hunter, US Data Response, Industrial Production (Mar.), *Capital Economics,* 15 April 2021.

CHART 9:
U.S. INDUSTRIAL AND MANUFACTURING PRODUCTION
(Seasonally adjusted, Month to month percentage change)

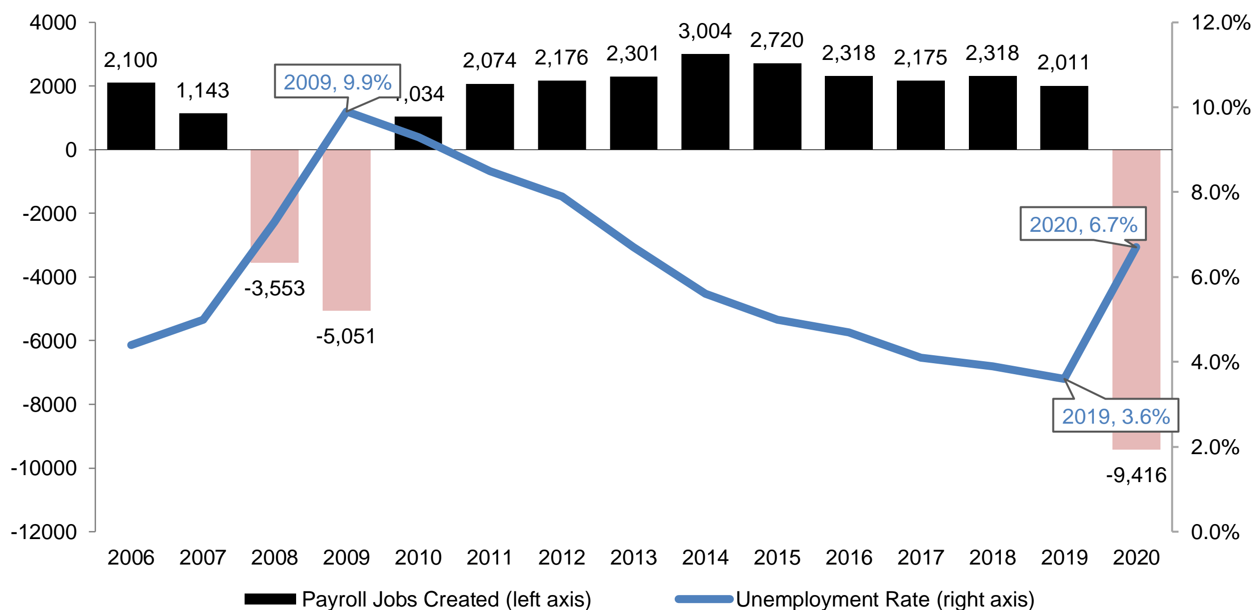


Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve and the Federal Reserve of St. Louis (FRED).

D. Labor market

The U.S. economy lost 9.4 million jobs in 2020, and the unemployment rate was at 6.7% at the end of December (chart 10). The job market now seems to be on its way to recovery, however. In March 2021, 916,000 jobs were added (chart 11), an increase fueled by the accelerating pace of vaccinations and a new injection of federal aid. Hiring was stronger in some sectors that had been hit hardest by the pandemic recession – leisure and hospitality, public and private education, and construction.

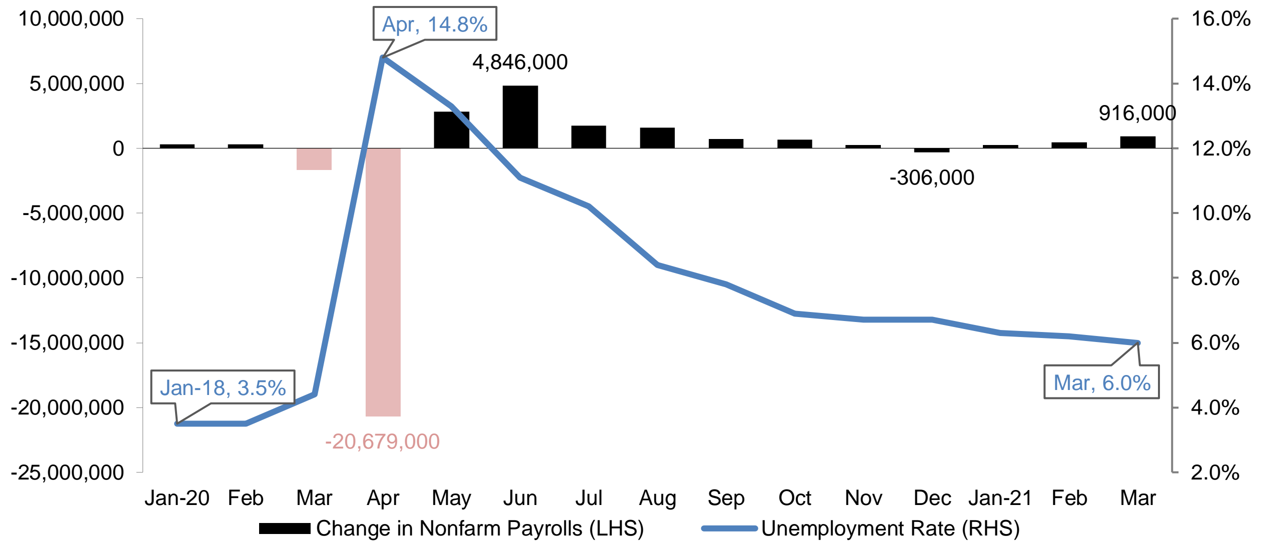
CHART 10:
THE U.S. LABOR MARKET: ANNUAL JOB CREATION AND UNEMPLOYMENT RATE
(Average annual job growth in thousands (left axis); Percentage points (right axis))



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

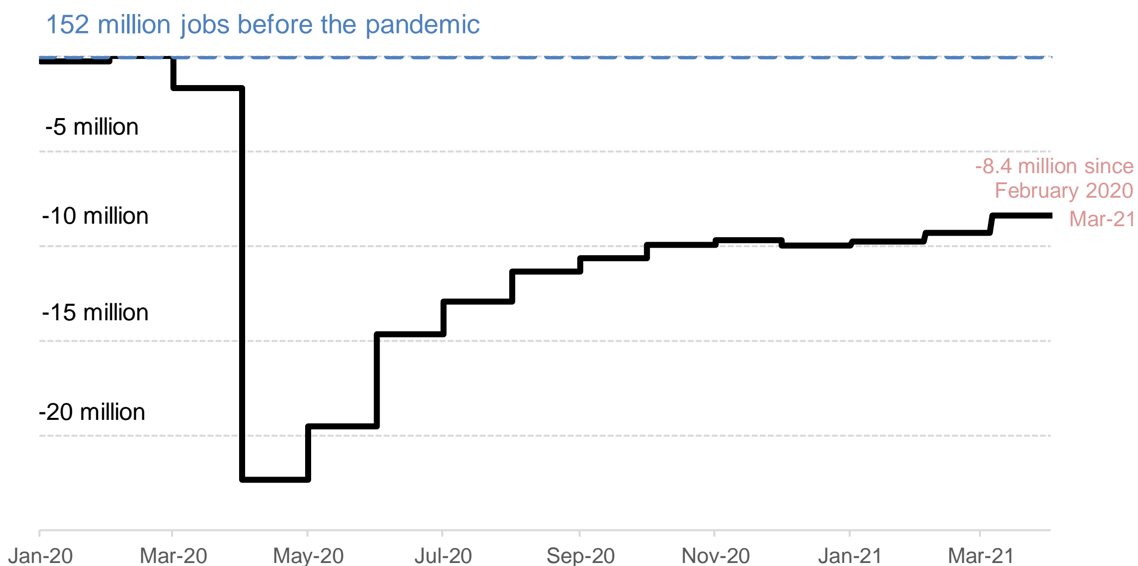
The labor market recovered about 12 million of the 22 million jobs lost in the first two months of the pandemic by October. The pace of recovery had slowed drastically after the peak reached in June, as the virus cases surged and states began to reimpose restrictions on businesses, and over the winter the recovery stalled, with employers cutting more than 300,000 jobs in December. While almost 1 million jobs were created in March 2021, and the unemployment rate fell to 6% from 6.2% in February, the number of unemployed 27 weeks or longer increased to 4.2 million from 4.1 million in February. One year after the pandemic started, there are still 8.4 million fewer jobs in the United States economy (chart 12).

CHART 11:
THE U.S. LABOR MARKET: MONTHLY JOB CREATION AND UNEMPLOYMENT RATE
(Average monthly job growth (left axis); Percentage points (right axis))



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

CHART 12:
CUMULATIVE LOSS OF JOBS SINCE THE BEGINNING OF THE PANDEMIC
(Average monthly job growth)

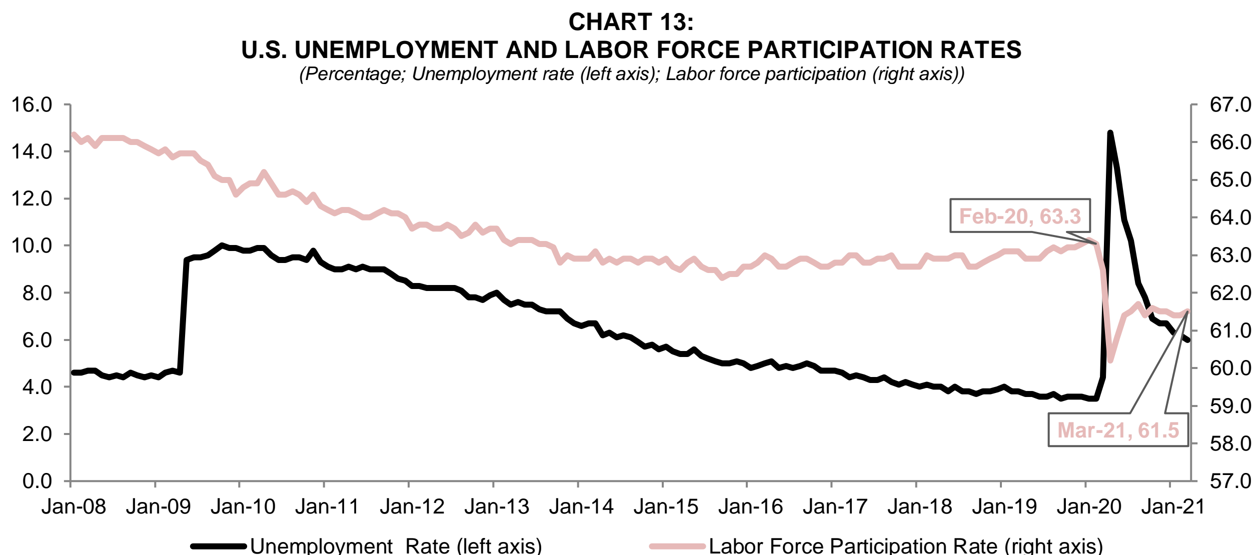


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

A U.S. Census survey conducted in the week of 3 – 15 March 2021 found that about 4.65 million adults aren't working because they are afraid of getting or spreading the coronavirus.[3] The large number helps explain why some companies say labor is scarce even though the unemployment rate is at 6%. It suggests that even with generous fiscal and monetary stimulus, the U.S. labor market might not fully recover until the pandemic is under control.

Many economists say the current 6% unemployment rate somewhat exaggerates the health of the labor market because so many people without jobs aren't looking for one, and thus do not figure in the rate calculation. The labor-force participation rate – the share of adults either working or looking for work – has fallen to 61.5% from 63.3% before the pandemic, a decline of nearly 3.9 million people (chart 13).

CHART 13:
U.S. UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES
(Percentage; Unemployment rate (left axis); Labor force participation (right axis))



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

In 2020, more than 2 million women in the United States left the workforce, driven out by the disproportionate impact of pandemic restrictions on female-dominated industries and the lack of school and adequate child-care options. In September 2020, in particular, as the school year began, the women's labor force participation share was 2.4 percentage points lower than in February, falling to 56.8% from 59.2%. The fall in men's share was less pronounced (1.7 percentage points), from 71.6% in February 2020 to 69.9% in September, according to data from the U.S. Bureau of Labor Statistics (chart 14).

In March 2021, however, 492,000 women reentered the workforce, as schools reopened for in-person learning, bringing the number of men and women who have left the workforce into roughly equal proportions, according to Labor Department data. Women's labor force participation rate improved to 57.4% in March from 57% in February. The unemployment rate in March 2021 for men 20 years and over was 5.8%, while for women it was 5.7% (and 6.2% and 5.9%, respectively, for workers 16 years and over).

Although women's unemployment rate is now roughly equal to men's, women's employment losses since February 2020 are still higher than losses for men.[4] In March 2021, when compared to the pre-pandemic employment levels of February 2020, women's employment level was 6.1% lower, while men's was 4.9% lower (chart 15).

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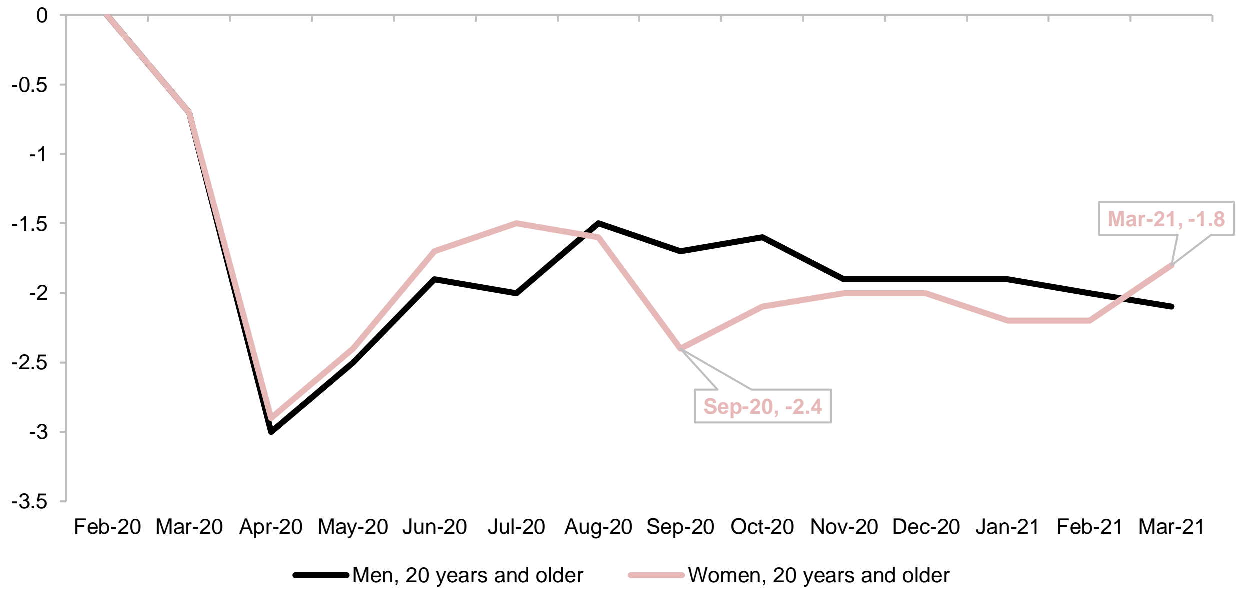
[3] United States Census, Week 26 Household Pulse Survey: March 3 – March 15, Employment Tables, Table 3 and Gwynn Guilford, The Other Reason the Labor Force Is Shrunken: Fear of Covid-19, *Wall Street Journal*, 11 April 2021.

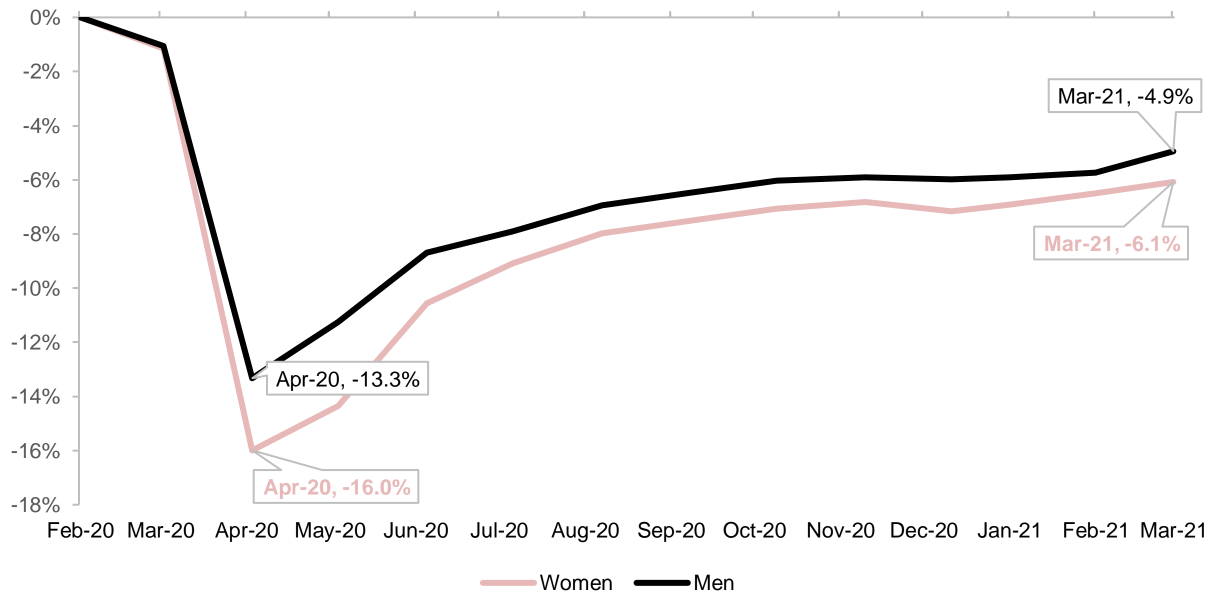
[4] The Bureau of Labor Statistics (BLS) has two monthly surveys that measure employment levels and trends: the Current Population Survey (CPS), also known as the household survey, and the Current Employment Statistics (CES) survey, also known as the payroll or establishment survey. The unemployment rate comes from the household survey, while employment levels come from the establishment survey.

CHART 14:
CHANGE SINCE FEBRUARY 2020 IN U.S. LABOR FORCE PARTICIPATION SHARE BY GENDER
(Percentage points)



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

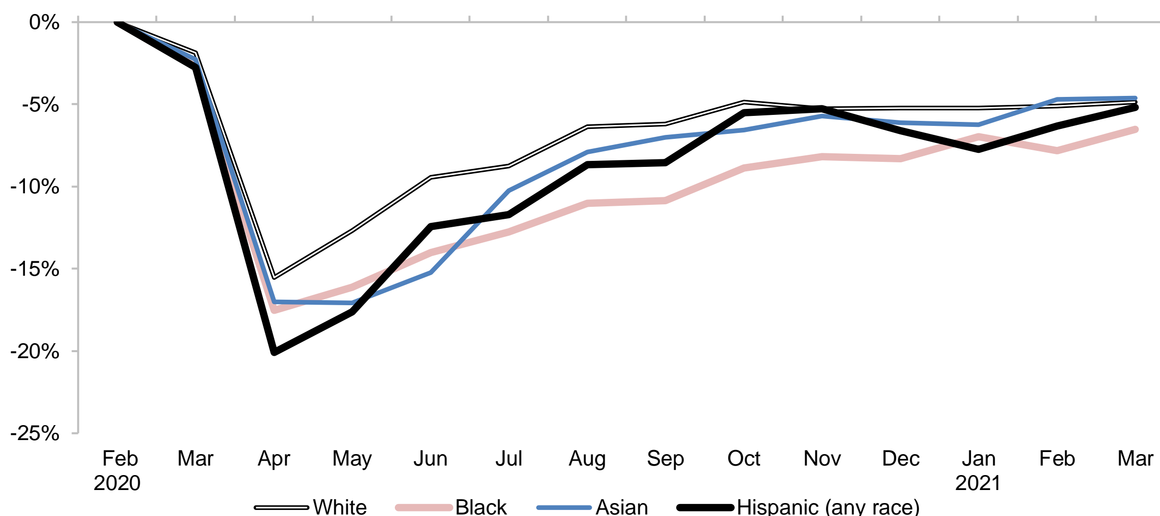
CHART 15:
CHANGE SINCE FEBRUARY 2020 IN U.S. EMPLOYMENT LEVELS BY GENDER
(Percentage)



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

There are other inequities that persist in this labor market recovery. Regarding the impact of the pandemic on the labor market by race, the unemployment rate in March 2021 was higher for African American (9.6%) and Hispanic (7.9%) workers than for Asian (6%) and white (5.4%). Employment losses since February 2020 have also been higher for African American and Hispanic workers (chart 16), who continue to struggle to regain the jobs lost early in the spring of 2020.

CHART 16:
CHANGE SINCE FEBRUARY 2020 IN U.S. EMPLOYMENT LEVELS BY RACE
(Percentage)



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

Although the March 2021 employment report exceeded expectations, the Federal Reserve Chair has called attention that the unemployment rate for the bottom quartile of wage earners is at 20%. Moreover, according to the White House Council of Economic Advisors (CEA), the headline unemployment rate likely understates unemployment in a pandemic relative to a typical downturn, given the way the Bureau of Labor Statistics identifies and defines unemployed workers. Accounting for labor force dropouts and misclassification issues related to the Bureau of Labor Statistics' survey questions, the CEA says, implies an overall unemployment rate of around 9%, and not 6%: 8% for Asian, 8.5% for white workers, 11.5% for Hispanic, and 13.4% for black, and 9.1% for both women and men (table 3).

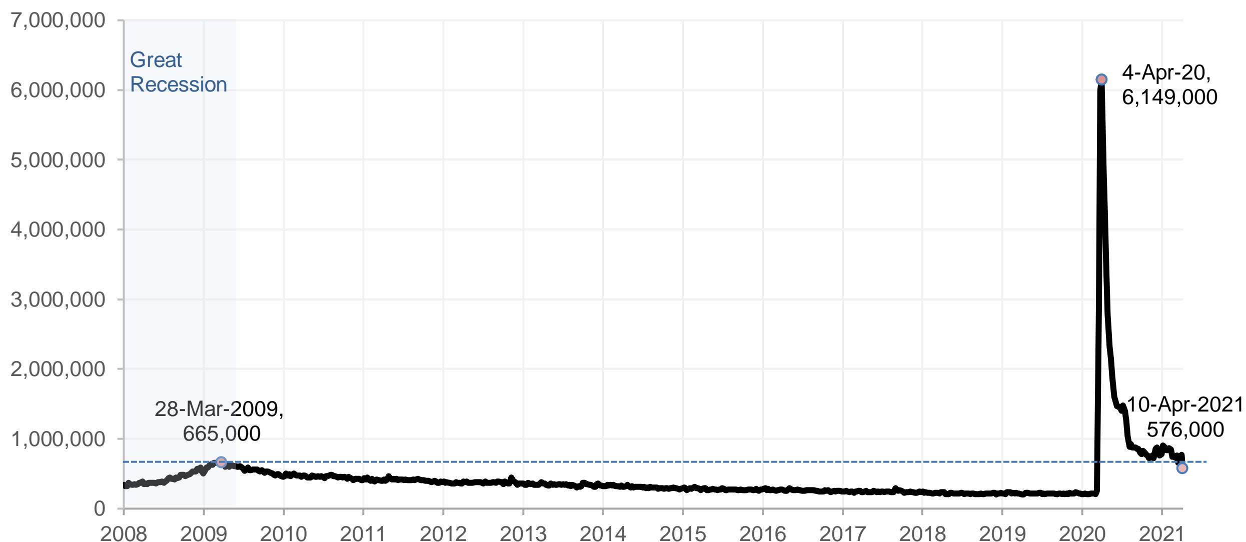
TABLE 3:
ADJUSTED UNEMPLOYMENT RATE BY RACE AND GENDER, MARCH 2021

Demographic	BLS Official Unemployment Rate	LFPR and Misclassification-Adjusted UR
Total	6.0%	9.1%
White	5.4%	8.5%
Black	9.6%	13.4%
Asian	6.0%	8.0%
Latino	7.9%	11.5%
Male	6.2%	9.1%
Female	5.9%	9.1%

Source: U.S. Bureau of Labor Statistics; Council of Economic Advisors calculations.
Note: Rate of misclassification among employed workers is assumed to be identical across demographic groups. All data are for workers 16 years and over. LFPR – labor force participation; UR – unemployment rate.

First-time claims for unemployment benefits is another indicator that shows the recovery in the U.S. labor market still has a long way to go. Despite a steady decline since reaching a peak at the end of March 2020, they are still high by historical standards, what highlights the economic impact of the COVID-19 crisis on the labor market. Although they fell by 193,000 in the week ending 10 April 2021, there were still 576,000 new applications for jobless aid on a seasonally adjusted basis. This is the lowest level since 14 March 2020, when 256,000 claims were filed, although it is still more than double that level. However, this is a number that finally fell below the peak reached in the Great Recession (chart 17).

CHART 17:
INITIAL UNEMPLOYMENT CLAIMS FILED WEEKLY
(Number of claims)

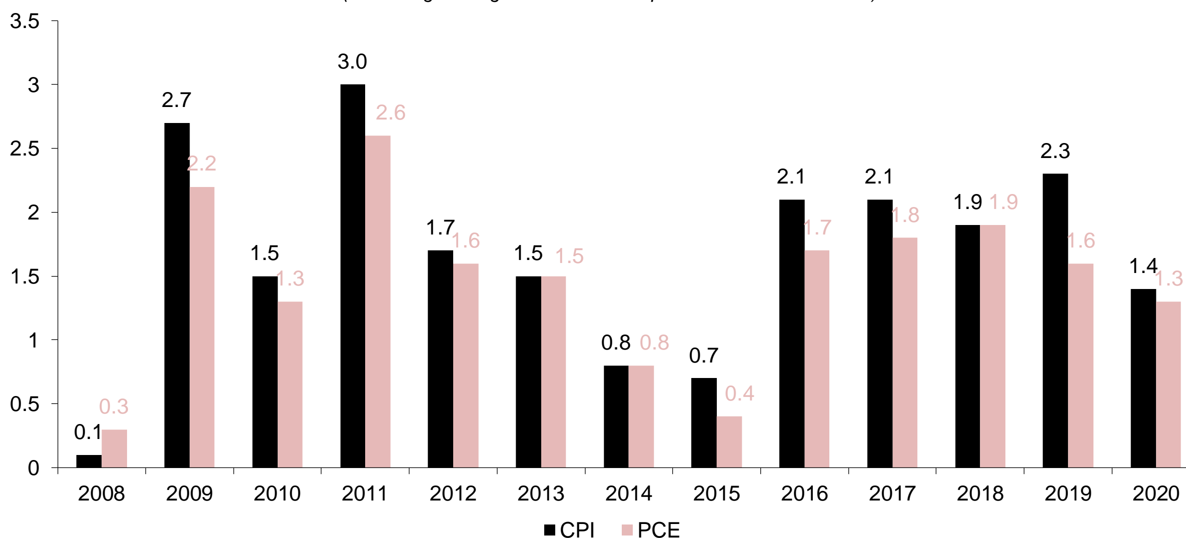


Source: ECLAC Washington, based on data from the Department of Labor unemployment insurance weekly claims report and the Federal Reserve of St. Louis (FRED).

E. Inflation

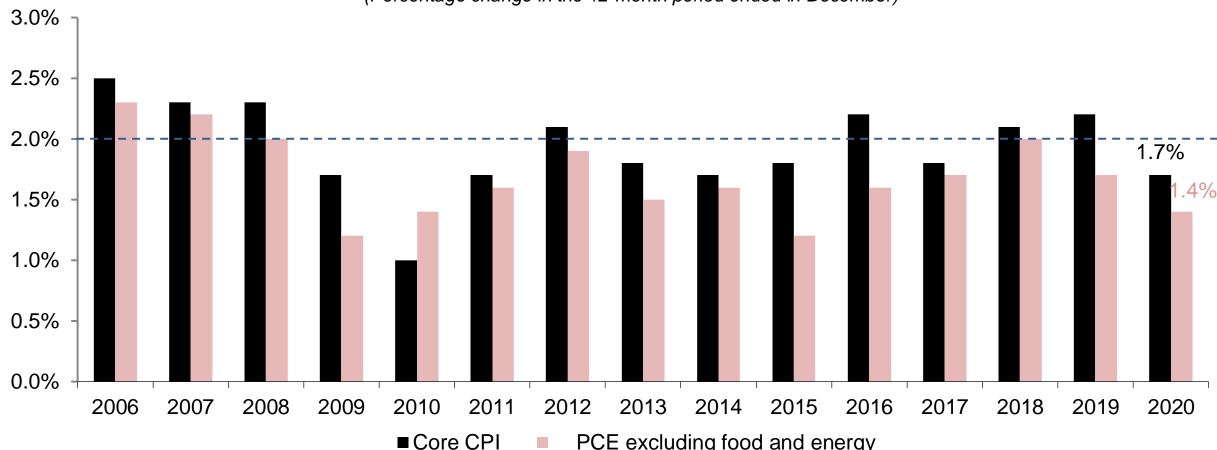
The Consumer Price Index for All Urban Consumers (CPI-U) —which measures the costs of everyday goods and services from food to dental care—advanced 1.4% in 2020, down from 2.3% in 2019. The Personal Consumption Expenditures (PCE) price index was also down in 2020, to 1.3% from 1.6% in 2019 (chart 18). Prices excluding food and energy were also more subdued in 2020. The core CPI was at 1.7% in December from a year earlier, lower than the 2.2% in 2019, and the core PCE was at 1.4%, down from 1.7% in 2019 (chart 19).

CHART 18:
U.S. DOMESTIC PRICES: ANNUAL EVOLUTION
(Percentage change in the 12-month period ended in December)



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

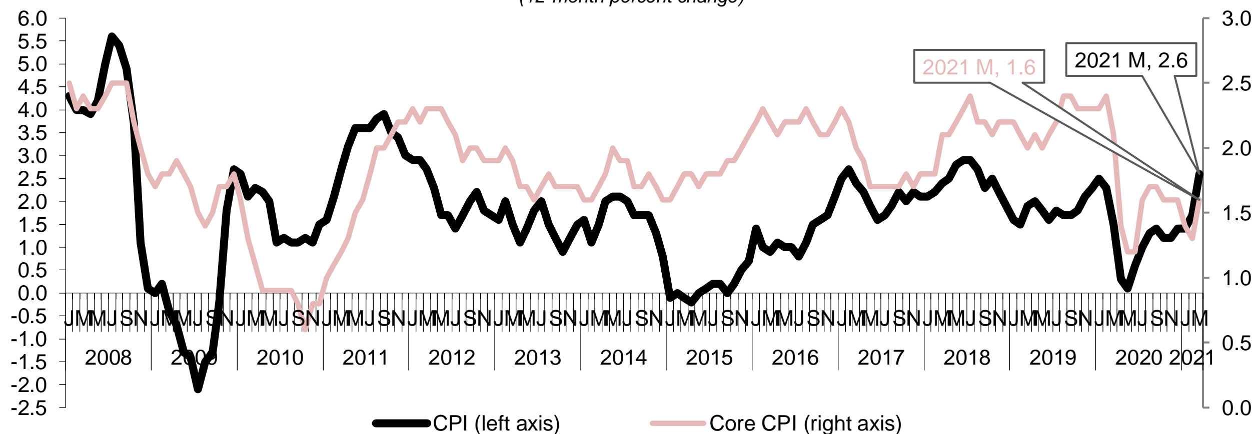
CHART 19:
U.S. DOMESTIC PRICES EXCLUDING FOOD AND ENERGY: ANNUAL EVOLUTION
(Percentage change in the 12-month period ended in December)



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

Since the approval of further fiscal stimulus in March 2021, inflation concerns have started to arise. Although inflation remains low in the United States, in March 2021, the latest data available, the CPI-U rose 0.6% on a seasonally adjusted basis, above the market consensus forecast of 0.5%, and higher than the 0.4% increase in February. The March 1-month increase was the largest rise since a 0.6% increase in August 2012. The CPI for energy was up 5%, after rising 3.9% in February. Gasoline prices rose 9.1% between February and March. Food and beverage prices rose 0.1% for the third consecutive month. Over the last 12 months, the all items index increased 2.6% before seasonal adjustment, although base effects contributed to some of the acceleration in year-over-year growth.[5] Excluding food and energy, the CPI rose 0.3% in March 2021. Over a year-ago basis, the core CPI was up 1.6% (chart 20).

CHART 20:
U.S. DOMESTIC PRICES: MONTHLY EVOLUTION
(12-month percent change)



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

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[5] Because of COVID-19 lockdowns and subsequent reopening, year-over-year growth will overstate the strength of the economy over the next several months and understate it in the second half. According to Jay Shambaugh, a Nonresident Senior Fellow at the Brookings Institute, "inflation is typically reported as the change in prices over a 12–month period. Monthly changes are often volatile, so focusing on a 12–month change can smooth those bounces. Since prices fell from February to March in 2020, the comparison or "base" month will fall when March 2021 data are reported. If we focus on the rebound in prices since then without appreciating that it was just partially returning prices to their prior level, it may seem like inflation is rising out of control. Even if prices remained perfectly flat over the next few months, it would look like inflation is rising as the 12–month–ago base comparison is actually going down, " "Don't overreact to inflation data this spring", 8 April 2021, *Brookings*.

The increase of 0.3% month-on-month in CPI prices excluding food and energy is the biggest gain since August of last year. It mostly reflected stronger service prices, as the prices of the components most affected by the pandemic – such as hotel prices (increase of 4.4% m/m), auto insurance (up by 3.3%), and recreational services (up by 0.8%) – finally began to rebound. Despite concerns about supply disruptions and the impact they may have on goods prices, in March the strongest upward pressure on prices came from the services sector.

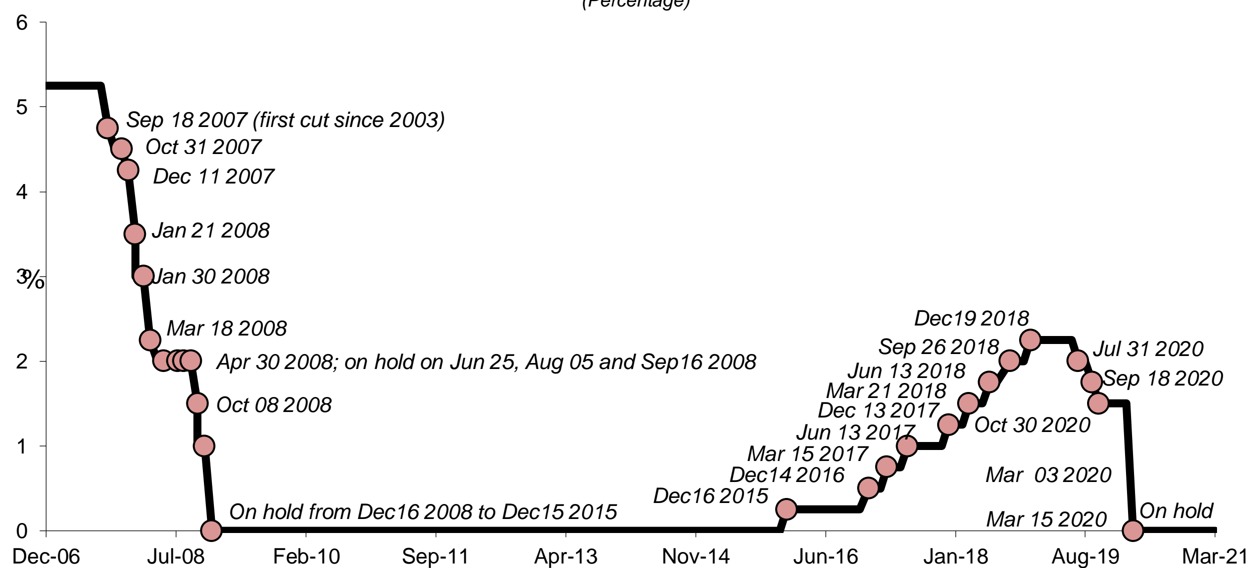
The March 2021 CPI reading is not expected to change the Federal Reserve's policy. Federal Reserve officials have reiterated that inflation is likely to rise in the short-run, but that the increase in prices are expected to be transitory.

F. Monetary policy

In its meeting on 16-17 March 2021, the Federal Open Market Committee (FOMC) kept the target range for the federal funds rate at 0-0.25% (chart 21) and maintained its asset purchases at US$ 120 billion a month, saying in its statement that it will continue "to increase its holdings of Treasury securities by at least US$ 80 billion per month and of agency mortgage-backed securities by at least US$ 40 billion per month until substantial further progress has been made toward the Committee's maximum employment and price stability goals."

In a virtual event held by the Economic Club of Washington D.C. in mid-April, Federal Reserve Chairman Jerome Powell said the central bank will begin to slow the pace of its bond purchases "well before" raising interest rates. In his words, "we will taper asset purchases when we have made substantial further progress toward our goals when we announced that guidance." "That would in all likelihood be before –well before—the time we consider raising interest rates."

CHART 21:
U.S. FEDERAL FUNDS TARGET RATE
(Percentage)



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

The FOMC reiterated that its new flexible average inflation targeting framework differs from its old approach, saying that "with inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved."

The new Summary of Economic Projections shows that core inflation is expected to be at or slightly above target over the next few years, and this did not alter the Committee's expected path for the fed funds rate. The projections point to inflation at 2.1% in 2023, but with no rate increases. As Fed officials indicate that they expect to hold U.S. short-term interest rates near zero through 2023, they have pointed to three conditions to raise interest rates: a job market consistent with maximum employment, inflation that is running at a sustainable rate of 2%, and evidence that inflation will run, for a time, above 2%.

Mr. Powell has argued that the Federal Reserve should not pare back its support for the economy based on inflation expectations. The unemployment rate for the bottom 25% of wage earners, a number he stresses frequently, is about 20%. Many low-wage service-sector jobs disproportionately employed minorities. Those jobs could be some of the last to return, as they depend heavily on person-to-person contact. Moreover, there is the challenge whether many jobs that disappeared in 2020 will return at all. According to Powell in an interview on CBS's "60 Minutes" on 11 April, "the economy we are going back to is going to be different from the one we had", making it that much harder for people to regain a foothold in the labor force.

G. Fiscal policy

The U.S. budget deficit grew to a record US$ 1.7 trillion in the first half of the 2021 fiscal year as a third round of stimulus payments sent federal spending higher in March. On an annual basis, the United States budget deficit, broadened by the COVID-19 pandemic and related shutdowns that impacted the economy, hit US$ 3.1 trillion in 2020. The number is an all-time high that far surpassed the previous record of US$ 1.4 trillion in 2009, during the depths of the Great Recession.

In March 2021, the budget deficit was US$ 660 billion, 454% wider than it was in the same month a year ago. Revenues rose 13% to US$ 268 billion, while spending increased 161% to US$ 927 billion. Total spending in March was the third-highest monthly spending on record, after June and April of last year, and amounted to more than double the level from March 2020, a jump due primarily to the disbursal of stimulus payments under the US$ 1.9 trillion American Rescue Plan. The Congressional Budget Office projects the deficit for the fiscal year ending on 30 September 2021will total US$ 2.3 trillion, almost US$ 1 trillion less than last year's record gap of US$ 3.1 trillion.

The government's spending surge has provided a cushion to the economy from the pandemic's devastation, but it has also sent the federal debt, as a proportion of the economy, soaring to levels not seen since the end of World War II. Despite an almost US$ 4 trillion expansion in debt in 2020, a 25% increase, interest payments on that debt declined 8%. The yield on the 10-year Treasury Note fell as low as 0.52% last summer, and at roughly 1.53% as of 15 April 2021, it remains far below its average in recent years.

Even before the American Recovery Act was signed into law, the CBO projected that federal debt would equal 102% of GDP in 2021. It has exceeded that level only twice before in U.S. history, in 1945 and 1946, after a surge in federal spending as a result of World War II. The CBO has projected that the federal debt will almost double from here to 202% of GDP by 2051, reflecting rising costs for healthcare and debt service.

The Biden administration is proposing other fiscal plans that would not widen the fiscal imbalance. It says that their proposed US$ 2 trillion job and infrastructure plan (the American Jobs Plan) would be paid for. As of now, the proposal is to increase taxes on corporations as a way of financing the plan (the proposal is to raise the corporate tax rate to 28% from 21%). Working with the G-20 countries, the U.S. Treasury Secretary Janet Yellen is also looking to reach an agreement on a global minimum corporate tax rate.

The administration's infrastructure plan offers a reimagining of what infrastructure means. Besides spending on roads, bridges, broadband and buildings, it also includes funding for the country's caregiving infrastructure, proposing major investments in home care for older people and persons with disabilities, and funding to upgrade and add child-care centers. A second plan, to be proposed soon, is expected to include additional investments in universal preschool, childcare affordability and paid family leave.

H. Financial conditions

The combination of loose monetary policy and substantial fiscal spending since the beginning of the pandemic crisis was a catalyst for equity and credit markets in 2020. Despite a dramatic fall in the first quarter, stock prices recovered in the following quarters. In 2020, the Dow Jones Industrial Average, the S&P 500 and NASDAQ gained 7%, 16% and 44%, respectively (table 4).

TABLE 4:

STOCK PRICES

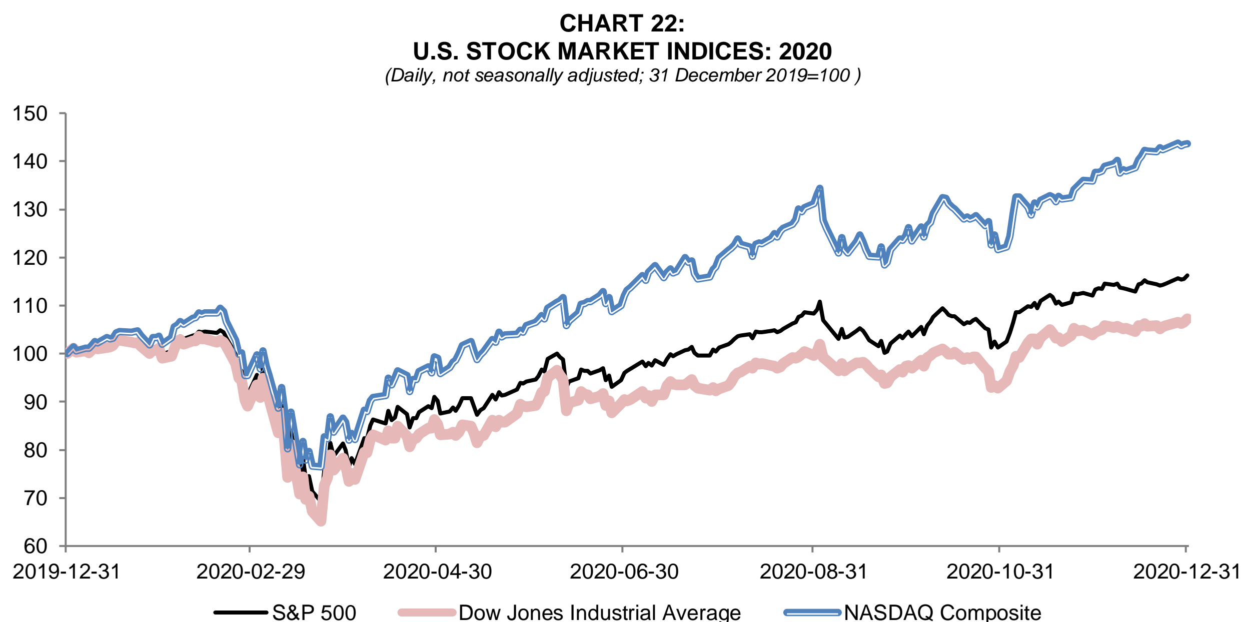
(Percentage change)

	Dow Jones Industrial Average	S&P 500	Nasdaq
Q1 2020	-19.63%	-16.51%	-11.46%
Q2 2020	15.13%	17.05%	26.60%
Q3 2020	6.41%	8.40%	12.69%
Q4 2020	8.71%	9.80%	13.80%
2020	7.04%	16.32%	43.75%

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

Disruptive technologies got a big boost as a result of stay-at-home orders due to the pandemic. Stocks with real, or perceived, exposure to the cloud, digital payments, electric vehicles, plant-based food, or anything related to the stay-at-home economy increased dramatically. That's why the NASDAQ index showed the biggest gain in 2020 (chart 22).

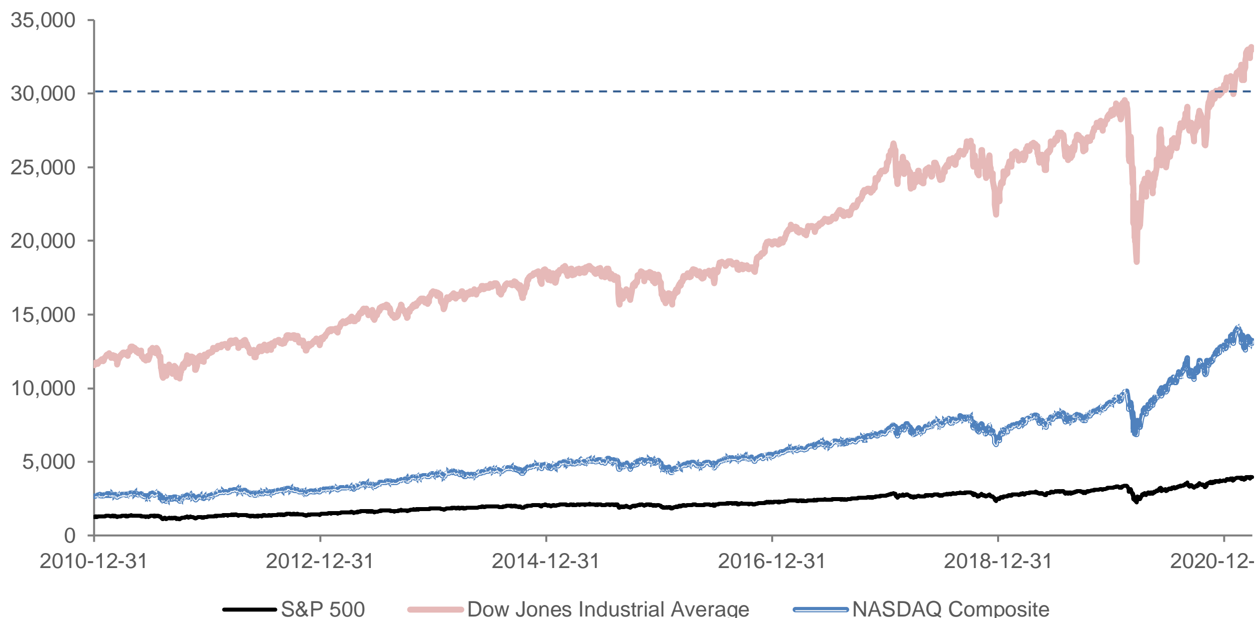
CHART 22:
U.S. STOCK MARKET INDICES: 2020
(Daily, not seasonally adjusted; 31 December 2019=100)



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

The news of the emergence of several credible, effective coronavirus vaccines triggered a burst of optimism in November 2020. The Dow Jones Industrial Average jumped past 30,000 for the first time on 24 November 2020 as a result (chart 23). The rally at the end of 2020 was powered by stocks that had been largely left behind during the pandemic, such as energy stocks, airlines, hotel groups and smaller U.S. companies, as investors saw the global economy poised for a powerful rebound in 2021. The impact of easy monetary policy, including very low interest rates – and the prospect of it continuing for longer – was a dominant driver.

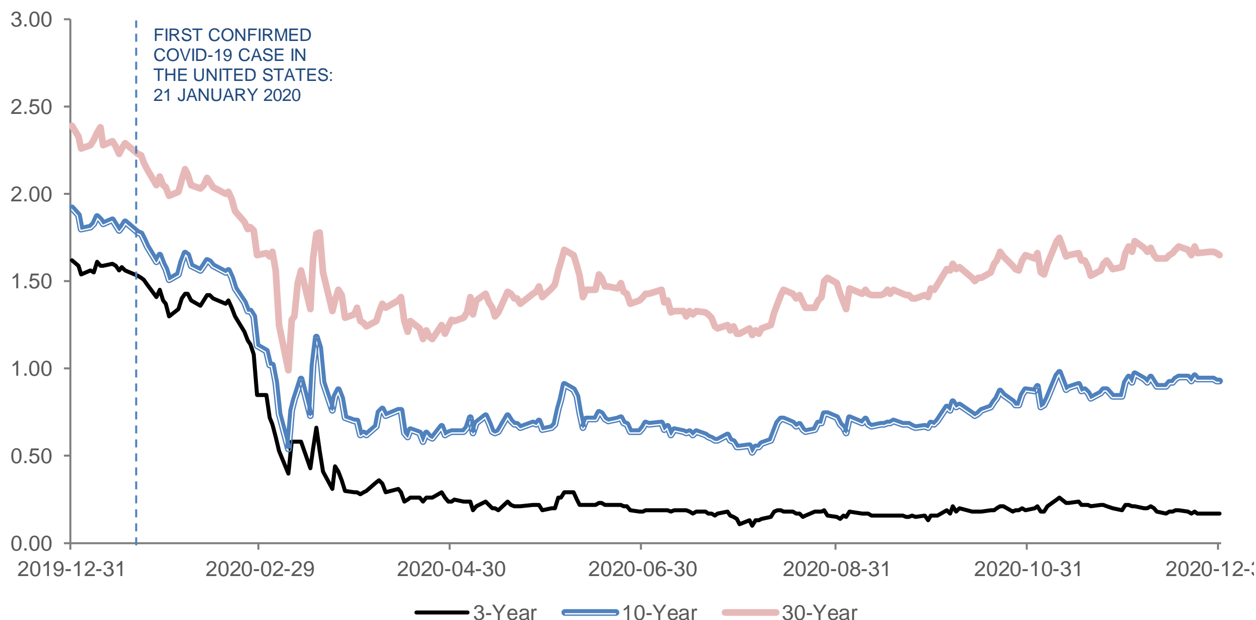
CHART 23:
U.S. STOCK MARKET INDICES: 2010 - 2020
(Daily, not seasonally adjusted)



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

U.S. Treasury security yields declined in 2020, with demand for safe Treasury assets increasing sharply as volatility and uncertainty spiked (chart 24). The decline in short-term Treasury yields was sharper than the declines in longer Treasury maturities. In 2020, the 3-year, 10-year and 30-year Treasury yields fell 88%, 50% and 27%, respectively (table 5).

CHART 24:
U.S. TREASURY SECURITY YIELDS
(Constant maturities; daily yields)



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

TABLE 5:
U.S. TREASURY SECURITY YIELDS
(Percentage change)

	3-year	10-year	30-year
Q1 2020	-69.33%	-53.23%	-36.52%
Q2 2020	-56.00%	-16.09%	2.05%
Q3 2020	-27.27%	-6.85%	-4.70%
Q4 2020	18.75%	36.76%	17.61%
2020	-88.34%	-50.00%	-27.39%

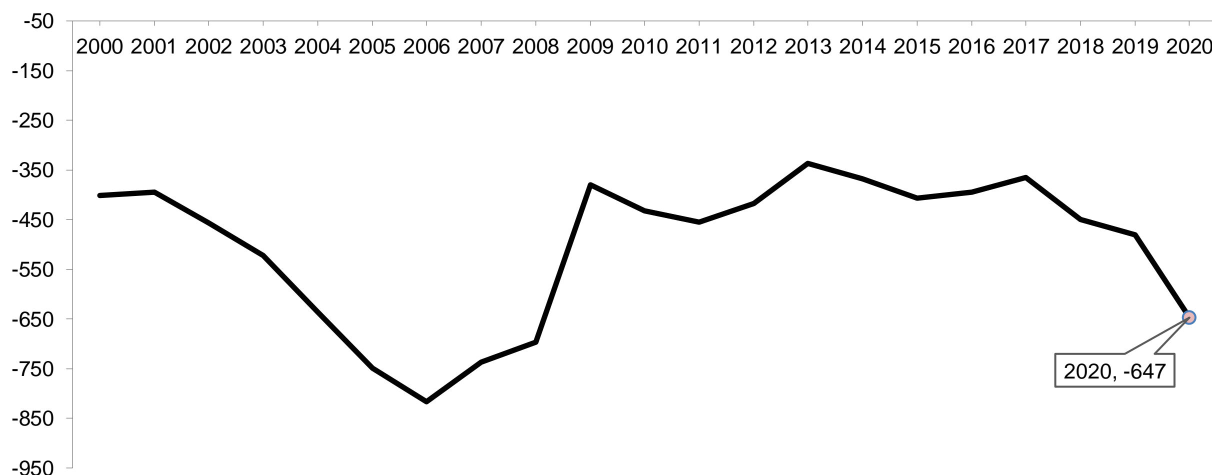
Source: ECLAC Washington Office, based on data on Monthly Yields, Constant Maturities, Economic Indicators, U.S. Government.

Forecasts that the U.S. Economy will grow 6.5% in 2021, the fastest pace in three decades, have sent investors to buy U.S. assets in a rush, driving U.S. Treasury yields higher in the second half of March 2021 and early April. Should this trend continue, it would lead to a tightening of financial conditions and destabilize emerging market economies that rely on U.S. dollar financing. The concern is that the higher returns offered for riskless investments in the United States could pull money from emerging markets, where vaccine campaigns have been trailing and in some cases have barely begun. It is also unclear whether the large quantities of Treasury securities that the United States is expected to issue this year could crowd out borrowing by some emerging markets.

I. External sector

The U.S. current account deficit, the broadest measure of net exports to the rest of the world, increased to US$ 647 billion in 2020, from US$ 480 billion in 2019, a 35% increase (chart 25). The current account deficit widened significantly due to the pandemic. Although trade flows began to recover after the significant disruption suffered in the second quarter, imports rose faster than exports, widening the deficit. The U.S. has maintained a surplus in net exports of services but a deficit in goods over time. This structure weighed on the trade balance in 2020, as the pandemic forced a shift in consumer spending away from services and toward goods. Spending on services such as international travel was severely constrained by pandemic restrictions. Meanwhile, significant fiscal stimulus in the U.S. propped up demand for goods. Imports of consumer goods were nearly 14% above their prerecession level in the fourth quarter of 2020, while exports of consumer goods had still not fully recovered.

CHART 25:
U.S. BALANCE ON CURRENT ACCOUNT
(Annual, seasonally adjusted, US$ Billion))



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

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

The improved market liquidity created by the U.S. Federal Reserve and other major central banks in 2020 offered relief to Latin American and Caribbean debt issuers. In March, the region experienced increasing interest rates and capital flight. By May, these trends had reversed as the U.S. Federal Reserve's and other major central banks' policies stabilized the markets. With a backdrop of low global interest rates and borrowing costs, Latin American and Caribbean (LAC) sovereign and corporate borrowers placed US$ 145.3 billion worth of bonds in international markets in 2020, the region's second highest annual issuance on record.[6]

In 2021, the United States economy is emerging as a main engine for the global economic recovery. A powerful recovery in the United States, supported by massive government spending and a rapid vaccine rollout will brighten the economic prospects for countries closely tied to its economy, meaning that there will be sizable positive spillovers to its trading partners in the LAC region. However, if inflation takes hold and U.S. interest rates start rising rapidly and in a persistent manner, financial conditions for highly indebted middle and low income countries in the region may tighten, potentially hurting their recovery prospects.

Most of the crossborder bond issuances from LAC are in United States dollars. In 2020, the dollar share of the region's total issuance in international bond markets was 91%. The classic risk of a sudden stop – when capital inflows reverse, the local currency depreciates rapidly and borrowers suddenly struggle to refinance their debt – may not happen this time, as the U.S. Federal Reserve has committed to a lower-for-longer interest rate strategy, which allows inflation to run above target for a period. Moreover, LAC issuers have borrowed at longer maturities, protecting themselves from short-term surges in interest rates.

However, there are risks for the region's issuers in the medium and long-term, as foreign currency bond repayment levels increase. Even without a sudden stop, higher U.S. bond yields could have a damaging effect on the region's issuers. When it comes time to refinance longer-term debt, they may face steeper interest rates for dollar borrowing, at a time when their economies are much less recovered than the U.S. economy. Heightened debt servicing costs could cause a long-term squeeze on their finances.

[6] Economic Commission for Latin America and the Caribbean (ECLAC), *Capital flows to Latin America and the Caribbean: 2020 year-in-review in times of COVID-19* (LC/WAS/TS.2021/1), Santiago, 2021.

III. Looking ahead

The United States economy contracted 3.5% in 2020, the worst contraction since World War II, but is expected to grow an estimated 6.5% in 2021, the fastest pace in three decades. With the passage of another fiscal stimulus bill in March and anticipation of an infrastructure package on the way, the U.S. economy is expected to reach its pre-pandemic level this year. According to Jerome Powell, the Federal Reserve Chairman, the United States economy is at an "inflection point," on the cusp of growing more quickly.

Looking ahead, there may be good prospects for economic growth beyond 2021. There is evidence that the pandemic has accelerated technology use by firms, partly through increased equipment investment but mainly through a change in the way people work.[7] In addition, the Biden administration is proposing an ambitious infrastructure plan, adding a policy component that could support growth prospects in the long-term. The plan offers a wider view of what constitutes infrastructure, and includes not only spending on traditional transportation infrastructure projects, but also on expanding broadband, strengthening the country's electric grid and water systems, basic research and development in new technologies, and workforce development, including funding for the country's caregiving infrastructure. If sustained, technological changes, combined with policy support for investment in infrastructure, could lead to higher productivity gains.

While there is optimism for the growth outlook this year and beyond, there is also uncertainty and risks. The health crisis is not over, and coronavirus cases are rising. With 8.4 million fewer jobs than before the pandemic started, the scars of long-term unemployment, especially for women and other minorities, may still cast a shadow on the recovery. Vaccine hesitancy or hiccups in vaccine distribution, faster-spreading virus variants, and faster than expected inflation may slow the economic recovery. A lagging economic recovery abroad could also be a drag and weaken growth this year.

[7] Investment in automation and technology accelerated to 7% year-over-year growth in the third quarter of 2020 from 5% growth in the same period a year earlier, according to a McKinsey Global Institute analysis of 4,000 U.S. companies' financials.

The United States economy contracted by 3.5% in 2020 —the worst performance since the Second World War— but is currently expected to grow by an estimated 6.5% in 2021, the fastest pace in three decades. While there is optimism for the growth outlook this year and beyond, uncertainty and risks prevail.

The United States economic outlook: 2020 in review and early 2021 developments presents and analyses the developments in the United States economy in 2020 and early 2021, and examines how they could affect financial conditions in Latin America and the Caribbean. The report includes a gender focus on the impact of the pandemic on the labour market.

ECLAC

Economic Commission for Latin America and the Caribbean (ECLAC)
Comisión Económica para América Latina y el Caribe (CEPAL)
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