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United States economic outlook

2023 year-in-review and early 2024 developments

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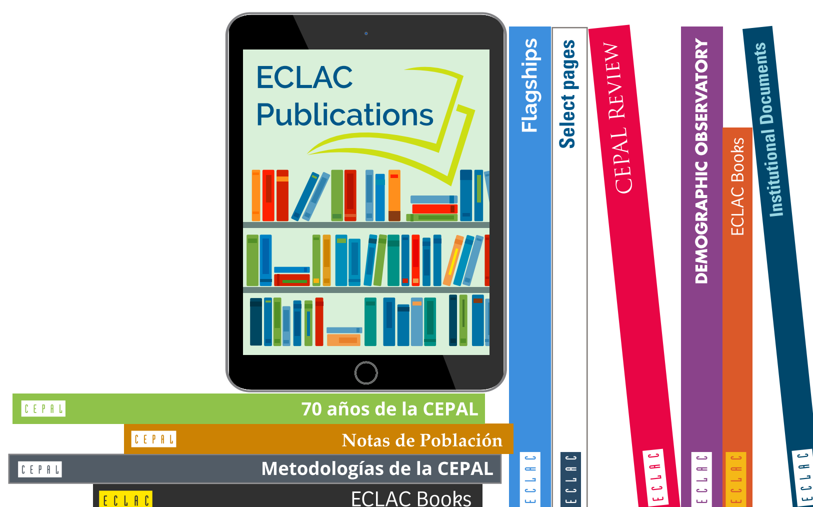

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This document was prepared by Helvia Velloso, Economic Affairs Officer, under the supervision of Andrés Valenciano, Acting Chief of the Economic Commission for Latin America and the Caribbean (ECLAC) office in Washington, D.C.

Unless otherwise indicated, the cut-off date for the information used to prepare this report is 10 April 2024.

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United Nations publication
LC/WAS/TS.2024/2
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Printed at United Nations, Santiago
S.2400640[E]

This publication should be cited as: Economic Commission for Latin America and the Caribbean (ECLAC), *United States economic outlook: 2023 year-in-review and early 2024 developments* (LC/WAS/TS.2024/2), Santiago, 2024.

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Highlights

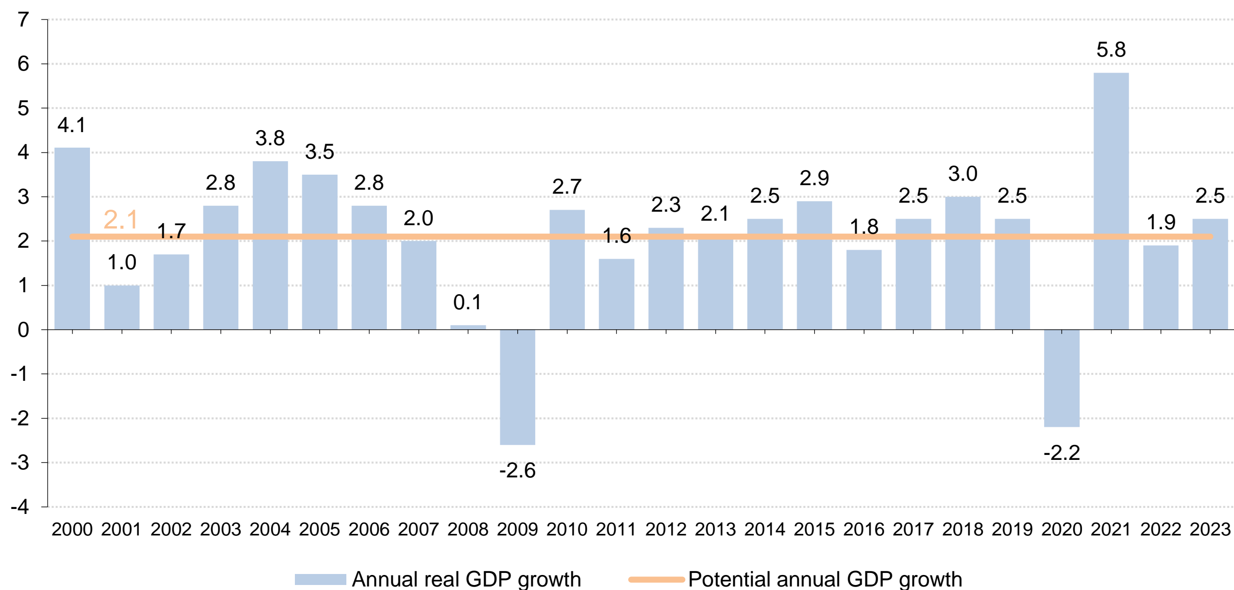
- The United States Gross Domestic Product (GDP) rose 2.5% in 2023 —well above the economy's long-term growth potential, estimated at 2%— compared with an increase of 1.9% in 2022. The economic outlook improved in the second half of the year, with the economy growing 4.9% and 3.4% in the third and fourth quarters, respectively, compared to 2.2% and 2.1% in the first and second quarters.
- The 2023 above-potential growth was driven by a resilient consumer —consumer spending contributed 1.5% to annual growth— supported by a strong labor market and receding inflation.
- The labor market remained strong in 2023 but slowed when compared to 2022. An average of 251,000 new jobs were created per month (compared to 377,000 in 2022) and 3 million new jobs were added on an annual basis (compared to 4.5 million in 2022). The unemployment rate was at 3.7% at the end of December.
- The labor market has continued to show resilience with 829 million jobs created in the first quarter of 2024. The unemployment rate was at 3.8% at the end of March. Jobs grew at a brisk pace in March 2024, with 303,000 jobs being added, but wage growth was contained. Recent employment data has continued to support the U.S. economic expansion without fanning inflation.
- Inflation in 2023 was half of the level in 2022, declining from an annual rate of 8% in 2022 to 4.1% in 2023. The Consumer Price Index (CPI) slowed to 3.4% in December 2023 from 6.5% in December 2022, but rose to 3.5% in March 2024, from 3.2% in February. Core CPI, which excludes the volatile energy and food categories, declined to 3.9% in December 2023 from 5.7% in December 2022, and to 3.8% in March 2024, the lowest level since May 2021. However, March was the third consecutive 0.4% month-on-month gain in core CPI, diminishing hopes for a June interest rate cut.
- The Federal Reserve raised interest rates four times in 2023, with quarter-point increases in January, March, May, and July 2023, but has left its policy rate unchanged since then at a range of 5.25% to 5.50%, the highest level since 2001.
- Given the strength of the U.S. economy, it is uncertain when the Federal Reserve will start to cut rates. According to the Federal Open Market Committee (FOMC)'s summary of economic projections released in March, 10 out of 19 members expect at least three rate cuts by the end of 2024. As the inflation data has come above expectations since the start of 2024, markets now expect no cuts until later in 2024.

- Despite high interest rate levels, the United States economy remains resilient. According to the March 2024 Bank of America's Global Fund Manager Survey, investors view a "soft landing" as the new base case, while bets on a "no landing" scenario, where GDP remains strong, are on the rise.
- Even as recession fears fade, risks around the United States economic outlook remain, such as the possibility of interest rates being cut too soon or too late, concerns about the U.S. fiscal position, and geopolitical risks.

Overview

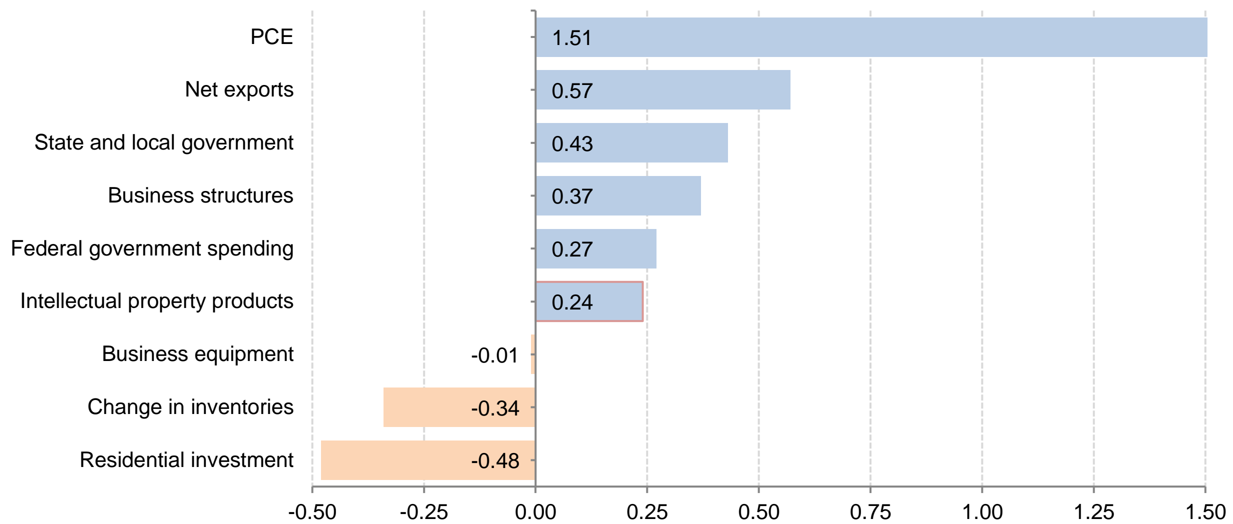
The United States Gross Domestic Product (GDP) rose 2.5% in 2023, above the economy's long-term growth potential and the 1.9% growth in 2022 (figure 1). Consumer spending was the main driver of the GDP increase in 2023, contributing 1.51% to annual growth. GDP growth in 2023 was also supported by trade, government spending and non-residential investment, which comprises business structures, business equipment, and intellectual property products (figure 2). Stimulative fiscal policies, including infrastructure spending and an array of tax credits, have encouraged government and business investment.

Figure 1
United States real GDP annual growth rate, 2000–2023
(Percentage, not seasonally adjusted)



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

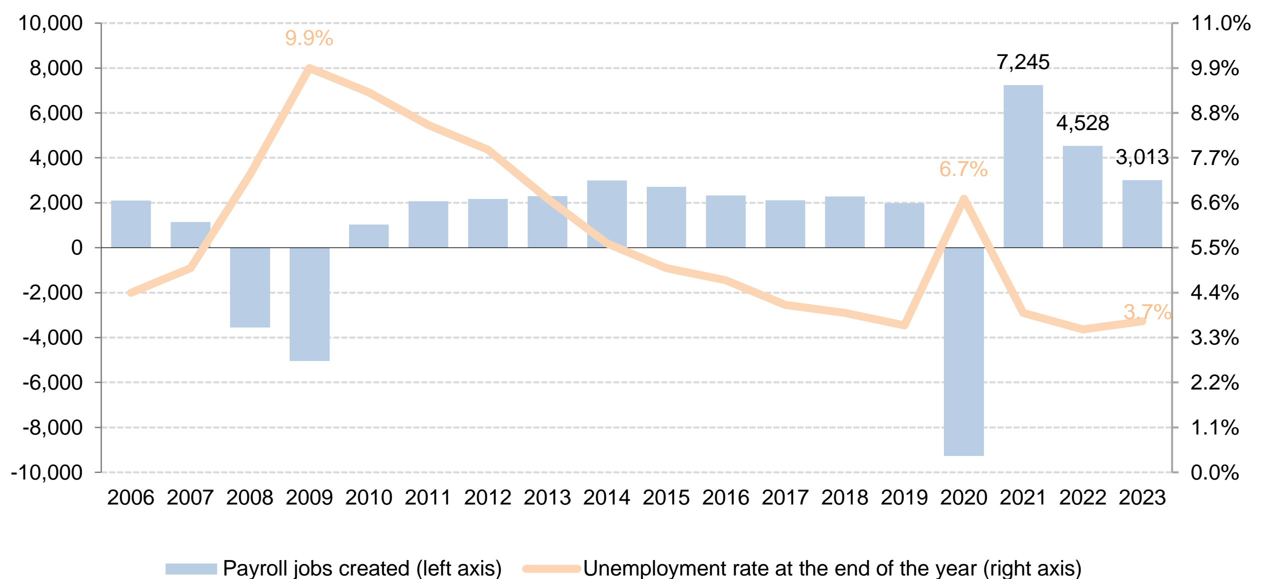
Figure 2
United States: contributions to percent change in real GDP, 2023
(Percentage points, seasonally adjusted at annual rates)



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

The resilience of consumer spending was supported by a strong labor market and receding inflation. An average of 251,000 new jobs were created per month and 3 million new jobs were added in 2023 (figure 3). The unemployment rate went up from a record low of 3.4% in January to 3.7% in December 2023. The labor market has continued to show resilience, with 829 million jobs added in the first three months of 2024. The unemployment rate was at 3.8% at the end of March, continuing a streak of below 4% readings that has lasted for more than two years.

Figure 3
Annual job creation and unemployment, 2006–2023
(Annual job growth in thousands (left axis); Percentage (right axis))



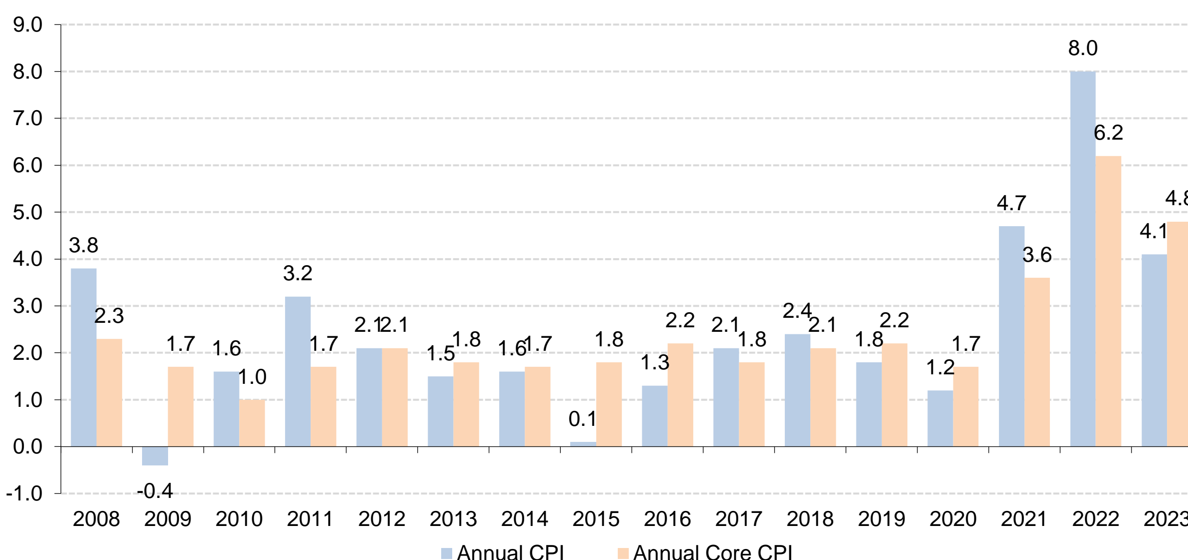
Source: ECLAC Washington Office based on data from the United States Bureau of Labor Statistics.

A consensus is emerging that immigration has been an important contributing factor to why the U.S. labor market has remained robust even as interest rates remain at a 22-year high. Census figures released in March 2024 showed that accelerating immigration to the U.S. boosted population growth (and labor supply) in major metropolitan areas in 2023. Recent studies from Brookings, a think-tank, to Goldman Sachs, an investment bank, suggest that the Census data actually understated the increase in immigration in 2023. According to the Goldman Sachs study, the rise in immigration also explains the slight climb in unemployment rate over the last year from a historic low of 3.4% in April 2023. It reflects "the combination of elevated immigration and a higher rate of unemployment amongst recent immigrants, which is unlikely to trigger a vicious cycle of job and income loss and further unemployment."[1]

The labor market remains strong but has started to cool down, which has been the ultimate goal of the current monetary tightening cycle. Also consistent with the Federal Reserve's plan, job openings have decreased and the rate of job quits, which can serve as a measure of workers' willingness or ability to leave jobs, has held steady for four consecutive months at 2.2%. The quits rate has been trending down since April 2022, when it reached 3%. According to the Bureau of Labor Statistics, in the last business day of February 2024 there were still 8.8 million job openings in the United States, but down from a peak of 12 million in March 2022. Businesses are hanging on to their workers and not resorting to layoffs but have cut some job openings.

Together with the strong labor market, moderating inflation has also supported consumer spending. Measured by the Consumer Price Index (CPI), inflation was halved in 2023, going from an average annual rate of 8% in 2022 to 4.1% in 2023. Core prices, which strip out volatile food and energy components, declined from an average annual rate of 6.2% in 2022 to 4.8% in 2023 (figure 4).

Figure 4
United States Consumer Price Index, 2000–2023
(Annual average, percentage, not seasonally adjusted)

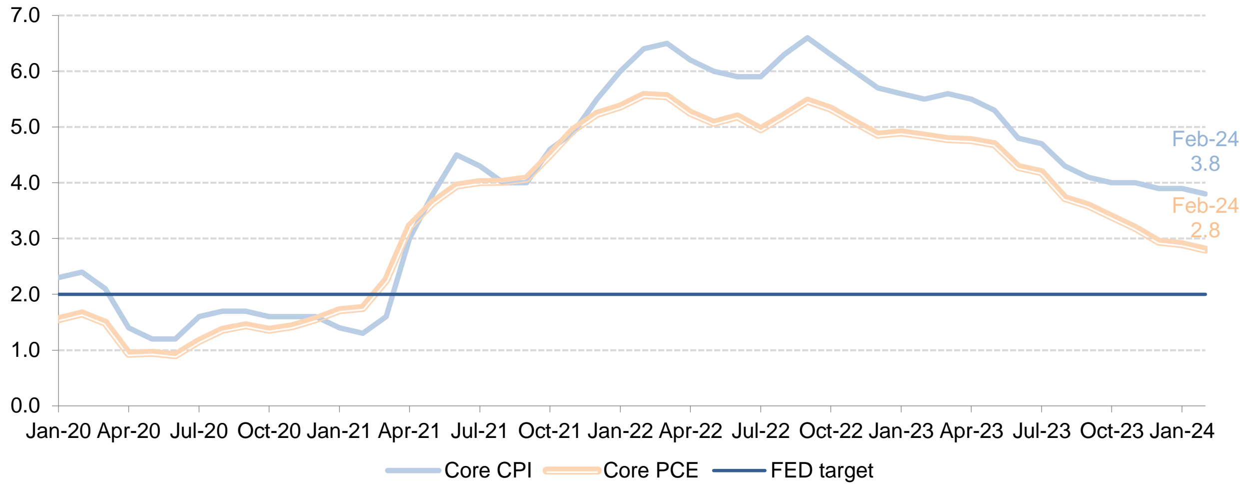


Source: United States Bureau of Labor Statistics, U.S. Department of Commerce.

The CPI figures are not the focus of the Federal Reserve, however. Instead, the central bank bases its 2% inflation target on the Personal Consumption Expenditure (PCE) Price Index from the Commerce Department's monthly report on income and spending. More specifically, it looks at the core PCE, a measure by which inflation is getting closer to the 2% target (figure 5).

[1] Robin Wigglesworth, "Immigration helps explain US economic strength: Goldman", FT Alphaville-Global Economy, *Financial Times*, 18 March 2024.

Figure 5
United States domestic prices: monthly evolution, January 2020–February 2024
(CPI-U unadjusted 12 months percent change)

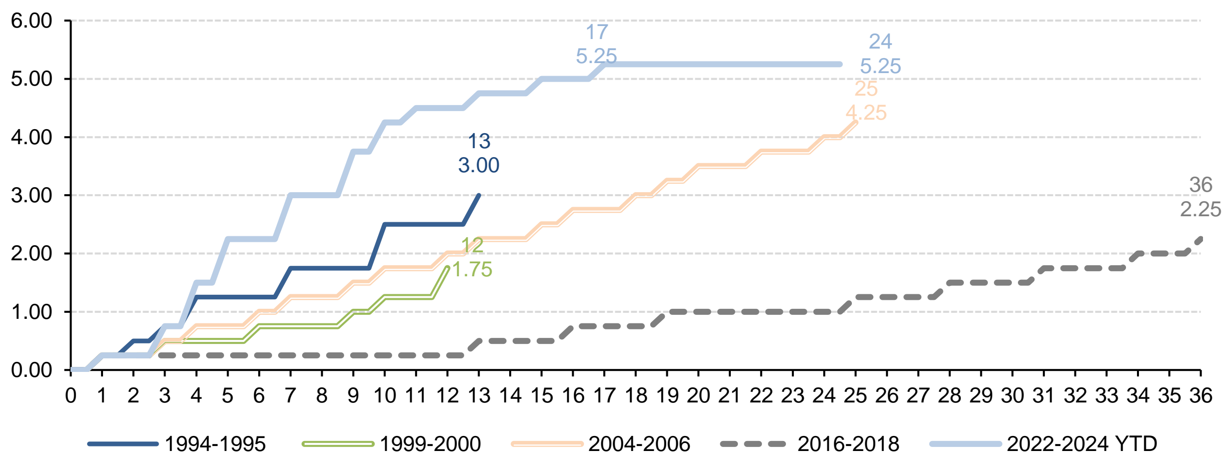


Source: United States Bureau of Labor Statistics, Labor Department and Bureau of Economic Analysis, Commerce Department.

The composition of the core PCE differs from the core CPI. The price weights for different items in the CPI depend on how much spending consumers say they devote to them, based on annual surveys. Price weights in the PCE are based on where money actually gets spent based on Commerce Department data. The price-weight differences have been particularly significant in housing. In the CPI, shelter costs for homeowners and renters account for about 34% of the index's weight, compared to only 15% of the PCE. The gap between the two measures has been particularly wide since 2022, especially because of rent and owners' equivalent rent. In the 60 years before the pandemic, their median gap was just 0.4 percentage point.

The Federal Reserve raised interest rates four times in the first seven months of 2023 to combat inflation —there were quarter-point interest rate increases in January, March, May and July 2023— but has kept them unchanged since July. In its latest meeting in March 2024, the Fed left its policy rate unchanged at the range of 5.25% to 5.50%, the highest level since 2001. The current tightening cycle, which started in March 2022, is the United States's third longest cycle, soon to become the second, and with the fastest pace of increases (figure 6).

Figure 6
United States Federal Reserve tightening cycles 1994–2024 YTD
(Percentage)



Source: ECLAC Washington Office, based on data from the United States Federal Reserve. YTD: year-to-date (as of March 2024).

Given the resilience of the U.S. economy in face of the rapid increases in interest rates in 2022 and in the first semester of 2023, optimism that the United States economy is approaching a soft landing —the notion that the Federal Reserve will be able to slow the economy and reduce inflation without causing a recession— is on the rise. A soft landing would be unusual, since in the past 80 years the Federal Reserve has never managed to bring inflation down substantially without sparking a recession. According to the Bank of America's Global Fund Manager Survey released in March 2023, investors view a "soft landing" as the new base case, while bets on a "no landing" scenario, where GDP remains strong, are on the rise.[2]

Market growth projections suggest positive prospects for the U.S. economy in the first half of 2024. Consumer spending remains supportive of economic growth, while continued moderation in inflation may further improve consumers' purchasing power. According to Moody's, still-substantial excess savings built up during the pandemic by middle- and especially high-income households continue to support spending, while near-record stock prices and housing values, along with still-low and stable debt service burdens, are also supportive of the economy.[3]

The U.S. economy is projected to grow 2.1% on average in the first quarter of 2024 and 1.4% in the second, according to market forecasts (table 1). On an annual basis, average market projections point to growth of 2.2% in 2024 and of 1.6% in 2025, inflation at 2.9% in 2024 and 2.3% in 2025, unemployment rate at 3.9% in 2024 and 4.2% in 2025, and the federal funds rate at 4.7% in 2024 and 2.6% in 2025, with all projections made in March 2024 (table 2).

Table 1
Quarterly forecasts for United States economic growth in the first half of 2024
(Percentage change)

	Q1 2024 (qoq)	Q2 2024 (qoq)	Date of Forecast
What Markets Say			
Bank of America/Merrill Lynch	2.5%	2.0%	Mar-24
Capital Economics	2.0%	1.5%	Mar-24
JPMorgan	2.3%	1.5%	Mar-24
Moody's Economy.com	2.4%	1.5%	Mar-24
Mortgage Bankers Association	0.9%	0.8%	Mar-24
National Bank of Canada	2.3%	1.0%	Mar-24
TD Bank Financial Group	2.1%	1.3%	Mar-24
Wells Fargo/Wachovia	2.4%	1.3%	Mar-24
Forecasts average	***2.1%***	***1.4%***	

Source: ECLAC Washington Office, based on market sources.

Despite the resilient economic outlook, risks remain. The downside risks to growth include the possibility of cutting rates too soon, worsening inflation (March 2024 was the third consecutive 0.4% gain in core CPI on a month-to-month basis), or keeping interest rates higher for longer, which could eventually negatively impact consumer and business spending. Fiscal concerns are another risk to the outlook. In November 2023, Moody's revised the outlook on the U.S. Government's credit ratings to negative, saying that downside risks to the country's fiscal strength have increased. Given higher interest rates and the lack of effective measures to reduce public spending or increase revenues, the agency said it expects fiscal deficits to remain large.

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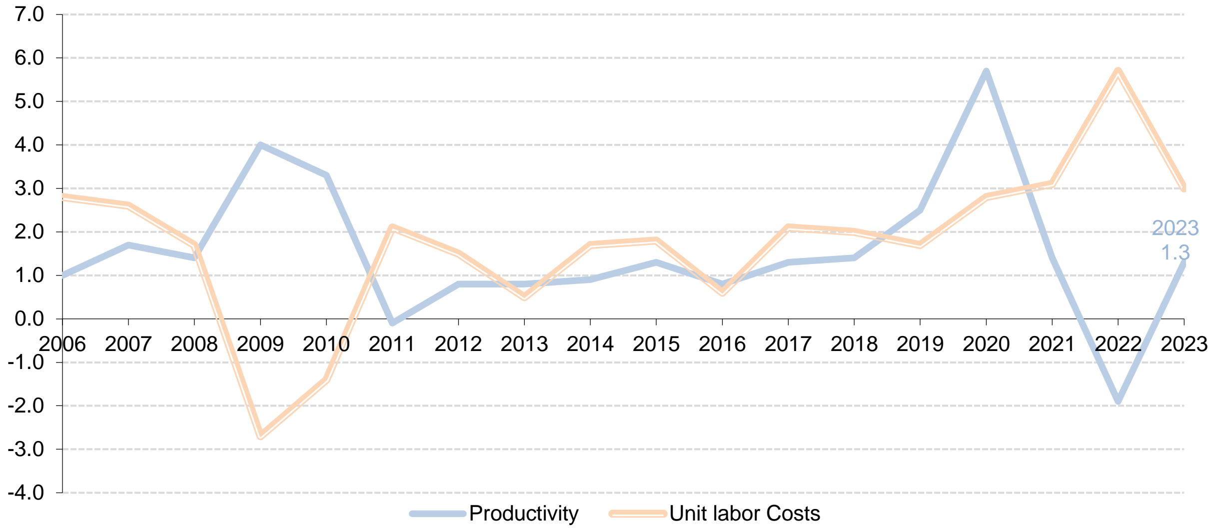
[2] Rob Kozlowski, "Fund managers grow more bullish, raise bets on equities – BofA survey," *Pensions & Investments*, 19 March 2024 [online] https://www.pionline.com/economy/bank-america-fund-managers-survey-shows-global-managers-growing-more-bullish.

[3] Moody' Analytics, *Daily Economic Roundup*, 28 March 2024.

There are upside risks to the outlook as well. Policy tightening may never take a major toll on individuals and businesses, consumer spending may remain resilient if inflation continues its downward trend, and an increase in productivity could be supportive of growth. After being on a downward trend since 2020, U.S. labor productivity increased 1.3% in 2023, according to the Bureau of Labor Statistics (figure 7). More importantly, productivity increased at an annualized rate of 3.1%, 4.7% and 3.2% in the second, third and fourth quarters of 2023, three consecutive quarterly increases above the 1.6% average productivity growth of the current cycle as defined by the Bureau of Labor statistics (Q4 2019–Q4 2023).[4]

Figure 7
United States annual productivity and unit labor costs, 2006–2023
(Percent change, seasonally adjusted)



Source: United States Bureau of Labor Statistics, Labor Department.

[4] Current cycle defined by Bureau of labor Statistics; data obtained on 5 April 2024, https://www.bls.gov/productivity/images/pfei.png

Table 2
Annual forecasts for United States economic growth, 2024 and 2025
(Percentage change)

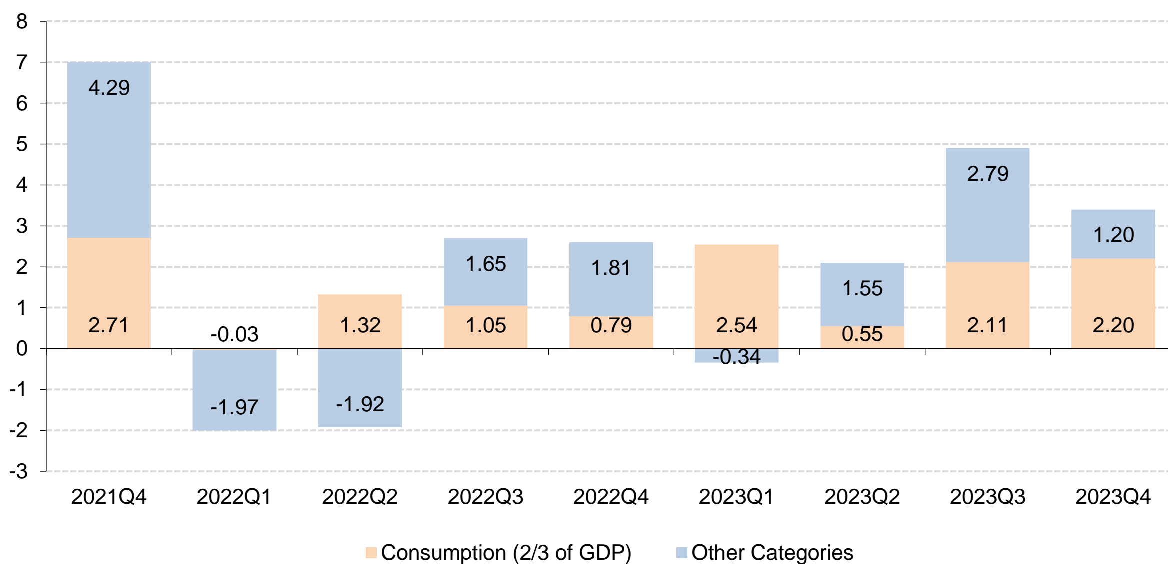
	Real GDP (% change, y/y)		Inflation (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		
	2024	2025	2024	2025	2024	2025	2024	2025	Date of Forecast
A. What Government Agencies Say									
FED[1]	2.1%	2.0%	2.4%	2.2%	4.0%	4.1%	4.6%	3.9%	*Mar-24*
CBO	1.8%	2.0%	2.6%	2.5%	4.2%	4.4%	5.1%	4.1%	*Feb-24*
OMB[2]	1.3%	2.0%	2.5%	2.3%	4.0%	4.0%	*na*	*na*	*Mar-24*
B. What Markets Say									
Bank of America/Merrill Lynch	2.7%	1.9%	3.2%	2.5%	3.9%	4.0%	4.6%	3.6%	*Mar-24*
Capital Economics	2.4%	2.0%	2.9%	2.3%	3.8%	3.9%	4.4%	3.4%	*Mar-24*
JPMorgan	2.3%	*na*	2.9%	*na*	4.0%	*na*	4.8%	*na*	*Mar-24*
Moody's Economy.com[3]	2.5%	1.5%	2.8%	2.3%	3.9%	4.1%	5.2%	4.3%	*Mar-24*
Mortgage Bankers Association	1.0%	1.4%	2.6%	2.2%	4.2%	4.7%	4.6%	3.6%	*Mar-24*
National Bank of Canada	2.1%	0.8%	3.2%	2.4%	4.0%	4.7%	4.8%	3.5%	*Mar-24*
TD Bank Financial Group	2.3%	1.8%	3.2%	2.2%	4.0%	4.1%	4.8%	2.8%	*Mar-24*
The Economist Intelligence Unit[4]	1.8%	1.6%	2.5%	2.1%	3.7%	4.4%	4.1%	4.0%	*Mar-24*
Wells Fargo/Wachovia[3]	2.4%	1.8%	3.1%	2.4%	3.9%	3.8%	5.0%	3.9%	*Mar-24*
Market Average	***2.2%***	***1.6%***	***2.9%***	***2.3%***	***3.9%***	***4.2%***	***4.7%***	***3.6%***	
C. What International Organizations Say									
United Nations DESA (Baseline)	1.4%	1.7%	*na*	*na*	*na*	*na*	*na*	*na*	*Jan-24*
World Bank	1.6%	1.7%	*na*	*na*	*na*	*na*	*na*	*na*	*Jan-24*
OECD	2.1%	1.7%	2.2%	2.0%	*na*	*na*	*na*	*na*	*Feb-24*
IMF	2.1%	1.7%	*na*	*na*	*na*	*na*	*na*	*na*	*Jan-24*

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); *na*: not available.
[1] Projections of change in real GDP and inflation (measure used is PCE inflation, the FED's preferred measure) are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. [2] Projections are for real, chained (2012) dollars GDP, fourth quarter-over-fourth quarter; CPI: fourth quarter-over-fourth quarter; unemployment rate: annual. [3] Moody's, the National Association of Realtors, and Wells Fargo/Wachovia forecast the Fed funds rate as an annual average, not end-period [3] CPI: average; Fed Funds Rate: end-period.

I. Quarterly developments

In 2023, the U.S. economy showed steadfast resilience, with consumer spending being a substantial driver. In the first quarter, consumer spending contribution to GDP growth stood at 2.54%, moderating to a 0.55% contribution in the second quarter, and rebounding to 2.11% and 2.20% in the third and fourth quarters, respectively. Other categories also rebounded from a negative contribution in the first quarter to positive contributions of 1.55%, 2.79% and 1.20% in the second, third and fourth quarters (figure 8).

Figure 8
Contributions to percent change in real GDP growth, fourth quarter 2021–fourth quarter 2023
(Percentage points, seasonally adjusted at annual rates)

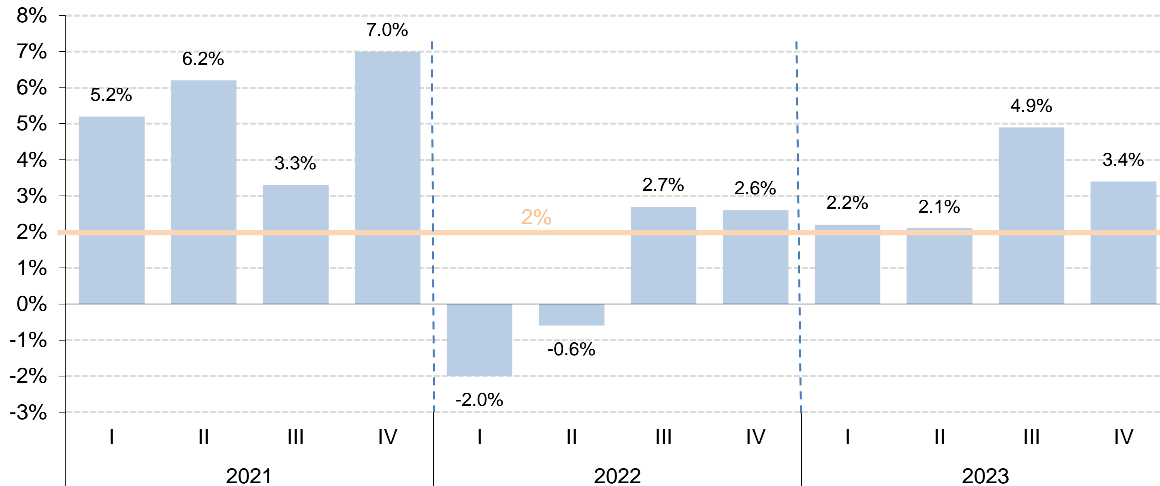


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, United States Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

A. Quarterly GDP Growth

Real gross domestic product (GDP) increased at an annual rate of 3.4% in the fourth quarter of 2023 according to the Bureau of Economic Analysis's third and final GDP estimate released on 28 March 2024, still strong but down from the 4.9% increase of the third quarter. This is the sixth consecutive quarter of growth above 2% (figure 6).

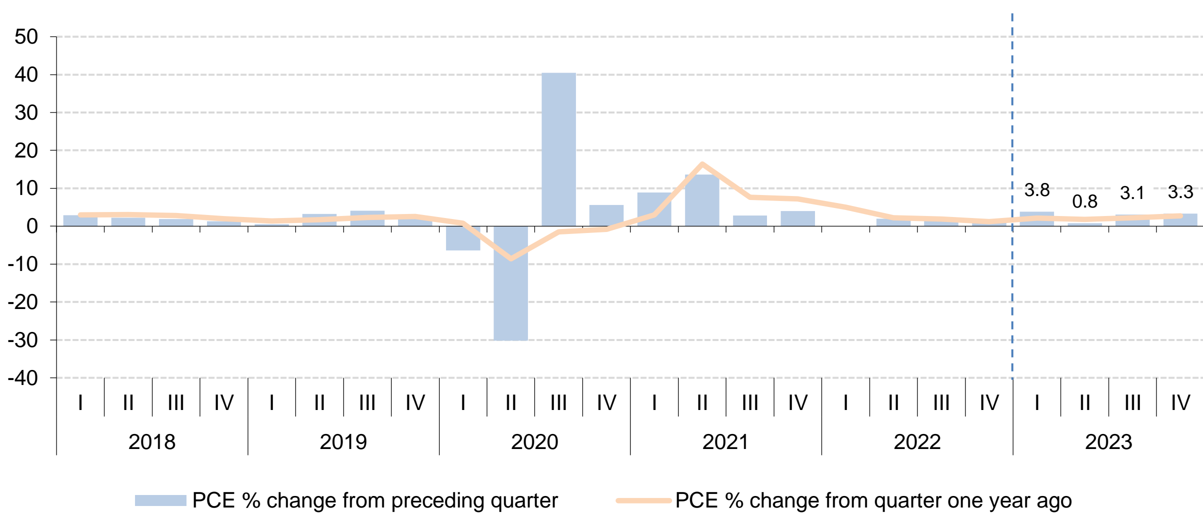
Figure 9
United States real GDP quarterly growth, first quarter 2021–fourth quarter 2023
(Percent change from preceding period, seasonally adjusted at annual rates)



Source: Bureau of Economic analysis, United States Department of Commerce.

The fourth-quarter increase in real GDP primarily reflected increases in consumer spending, state and local government spending, exports, nonresidential fixed investment, federal government spending, and residential fixed investment that were partly offset by a decrease in private inventory investment. Imports, which are a subtraction in the calculation of GDP, increased. Personal Consumption Expenditures (PCE), the most important source of growth in the fourth quarter, increased 3.3%, up from the 3.1% increase in the third quarter (figure 10).

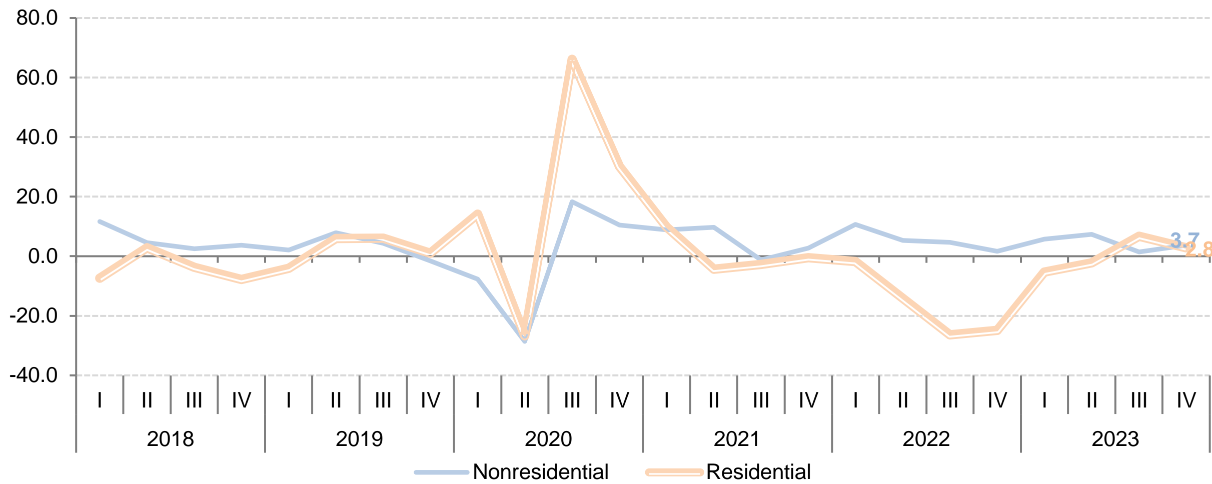
Figure 10
United States personal consumption expenditure growth, first quarter 2018–fourth quarter 2023
(Percent change from preceding period, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce.

Fixed investment, which includes residential and nonresidential investment, increased 3.5% in the fourth quarter, more than in the third (2.6%) but less than in the second quarter (5.2%). Residential investment increased at a positive annualized rate of 2.8%, compared to a positive 6.7% rate in the third quarter, which was the first quarterly increase after nine consecutive quarters of decline. Non-residential investment grew 3.7%, following increases of 1.4% and 7.4% in the third and second quarters, respectively (figure 11).

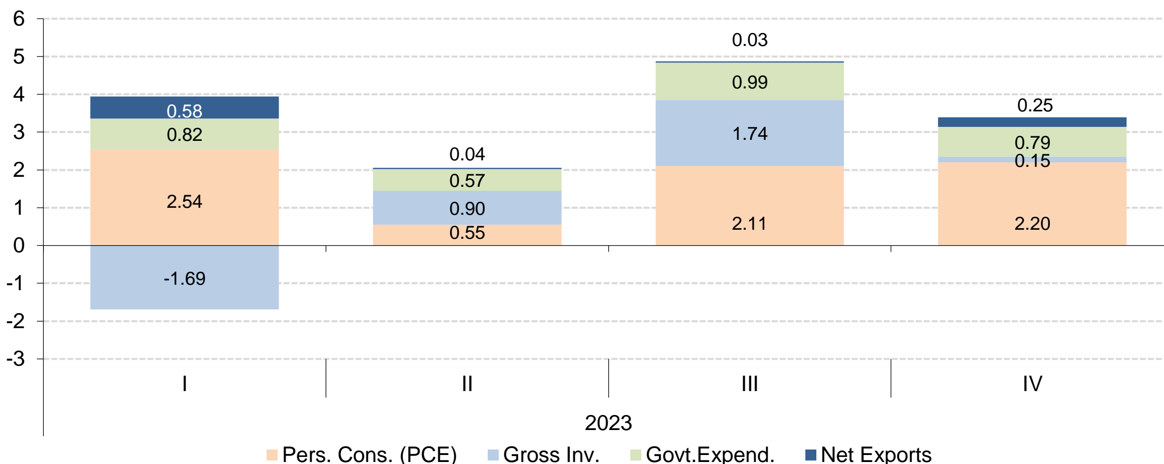
Figure 11
United States fixed investment growth, first quarter 2018–fourth quarter 2023
(Percent change from preceding period, seasonally adjusted at annual rates)



Source: Bureau of Economic Analysis, United States Department of Commerce.

Nonresidential fixed investment contributed 0.50% to growth in the fourth quarter, and residential investment contributed 0.11%, its second positive contribution since the start of 2021. Fixed investment thus added 0.61% to fourth-quarter growth, while private wholesale inventory accumulation subtracted 0.47%. Overall, gross private domestic investment added only 0.15% to growth in the fourth quarter (0.61% from fixed investment plus -0.47% from change in private inventories) (figure 12).

Figure 12
Quarterly contributions to U.S. real GDP growth, 2023
(Percentage points)



Source: Bureau of Economic Analysis, United States Department of Commerce.
Note: Contributions to growth are measured at seasonally adjusted annual rates.

Government spending increased 4.6% in the fourth quarter, following increases of 5.8% and 3.3% in the third and second quarters, respectively. It added 0.79% to fourth-quarter growth.

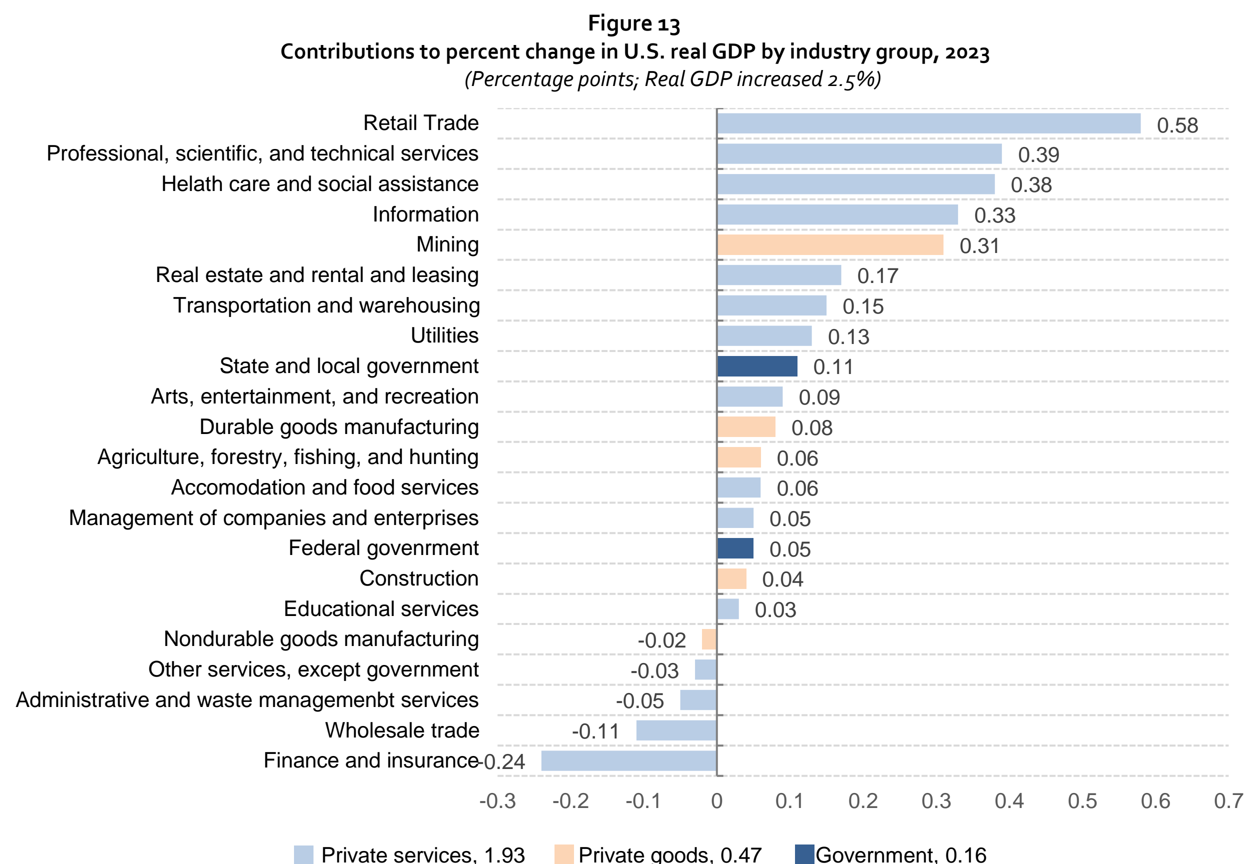
Exports increased 5.1% in the fourth quarter, after an increase of 5.4% in the third quarter and a decline of 9.3% in the second. Exports of goods and services increased by 6.2% and 2.8%, respectively. Imports, a subtraction to growth, increased 2.2%, reflecting increases in both goods and services (1.3% and 6.2%, respectively). Overall, net exports added 0.25% to fourth-quarter growth.

The U.S. economy's recent performance has consistently exceeded the expectations of those who anticipated a recession by now. The strong growth in the second half of 2023 has reiterated this trend.

B. Industrial production

Overall, 17 of 22 industry groups contributed to the increase in real GDP in 2023 according to the Bureau of Economic Statistics. Within private goods-producing industries, the leading contributor to the increase was mining. The increase in private services-producing industries was led by retail trade; professional, scientific, and technical services; health care and social assistance; and information. These increases were partly offset by decreases in finance and insurance as well as wholesale trade. The increase in government reflected increases in state and local government as well as federal government (figure 13).

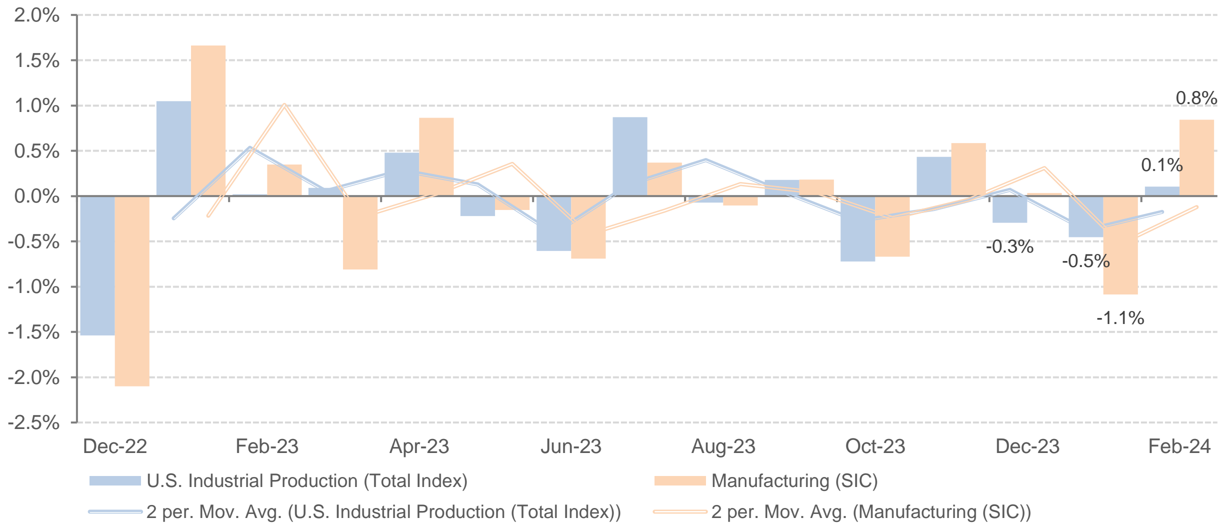
Figure 13
Contributions to percent change in U.S. real GDP by industry group, 2023
(Percentage points; Real GDP increased 2.5%)



Source: Bureau of Economic Analysis, United States Department of Commerce.

In February 2024, following two months of contraction, U.S. total industrial production expanded 0.1%. Manufacturing output bounced back, rising 0.8% after a 1.1% fall in January, as weather effects (winter snowstorms) faded (figure 14).

Figure 14
United States industrial production and manufacturing output, December 2022–February 2024
(Index 2017=100, Monthly, Seasonally Adjusted; Monthly Percent Change;)



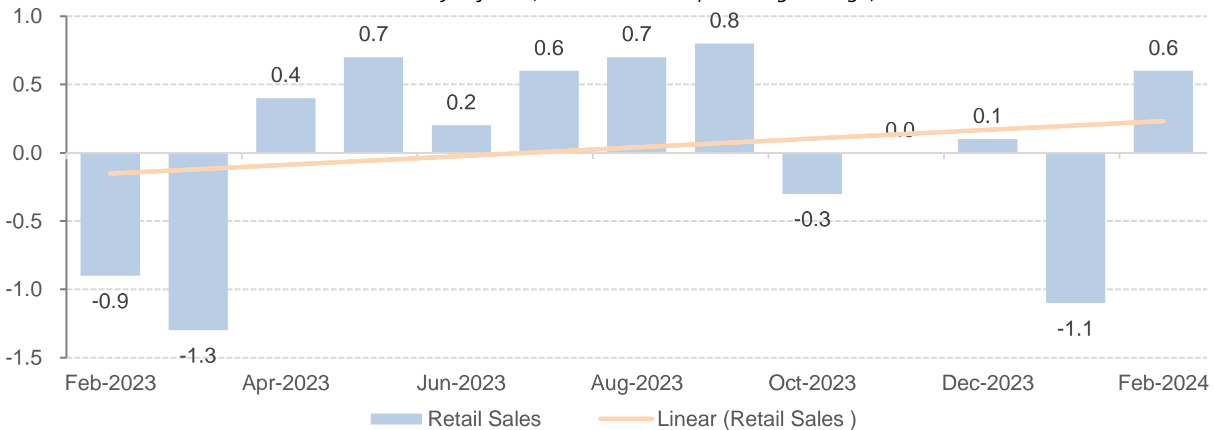
Source: ECLAC Washington Office, based on data from the U.S. Federal Reserve and the Federal Reserve of St. Louis (FRED).

The outlook for the manufacturing sector appears to be improving. U.S. manufacturing activity expanded in March 2024 after 16 consecutive months of contraction according to the ISM Manufacturing Index. The index jumped to 50.3 (crossing over the threshold of 50 into expansionary territory) from 47.8 in February, an improvement that was broad-based with the new orders, production and employment indexes all rising.

C. Retail sales

Retail sales, which include spending at stores, restaurants, dealerships and online, rose a seasonally adjusted 0.6% in February 2024 from the month before, the Commerce Department said on 14 March. That was a rebound from January's downwardly revised 1.1% decline (figure 15). The gain lifted year-over-year growth, which was up 1.5% from February 2023. Year-over-year gains were led by nonstore retailers and restaurants. Nonstore retailers were up 6.4% and food services and drinking places were up 6.3% from February 2023.

Figure 15
United States total retail sales, February 2023–February 2024
(Seasonally adjusted, Month to month percentage change)



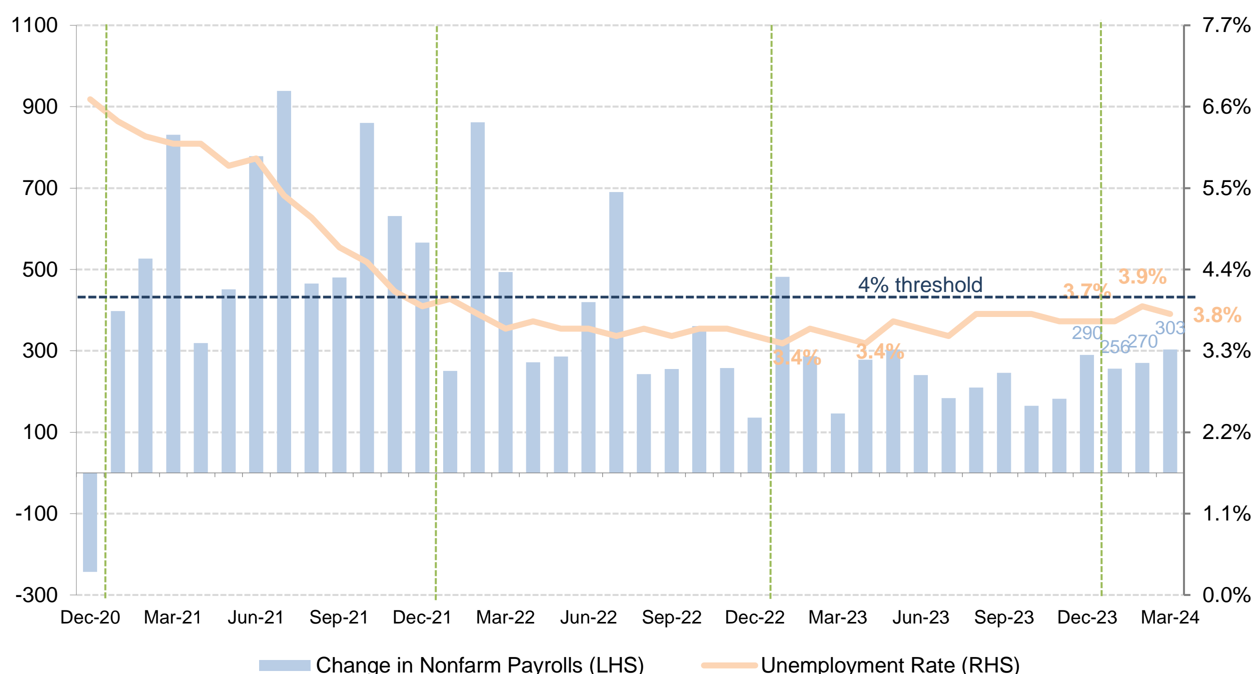
Source: ECLAC Washington Office, based on data from Advance Monthly Sales for Retail and Food Services, U.S. Census Bureau.

Consumers' willingness to spend, particularly online and at food service establishments, continues to support retail figures. Solid consumer spending, coupled with easing inflation and low unemployment, are supportive of a soft-landing scenario.

D. Labor market

Hiring remained robust in 2023 and the first quarter of 2024.The U.S. economy added 3 million jobs in 2023 on a seasonally adjusted basis, averaging 251,000 jobs per month. In the first quarter of 2024, the U.S. economy added 829 million new jobs, with the three-month average gain accelerating to 276,000 jobs per month. March 2024 was the 39th consecutive monthly gain, even as interest rates remain at a 22-year high. The unemployment rate reached a historic low of 3.4% —the lowest rate since 1969— in January and April 2003, and was at 3.8% at the end of March 2024, down from February 2024's 3.9% rate, which was the highest rate since January 2022 (figure 16). A streak of below 4% readings has lasted for more than two years.

Figure 16
United States monthly job creation and unemployment rate, December 2020–March 2024
(Average monthly job growth in thousands (left axis); Percentage (right axis)

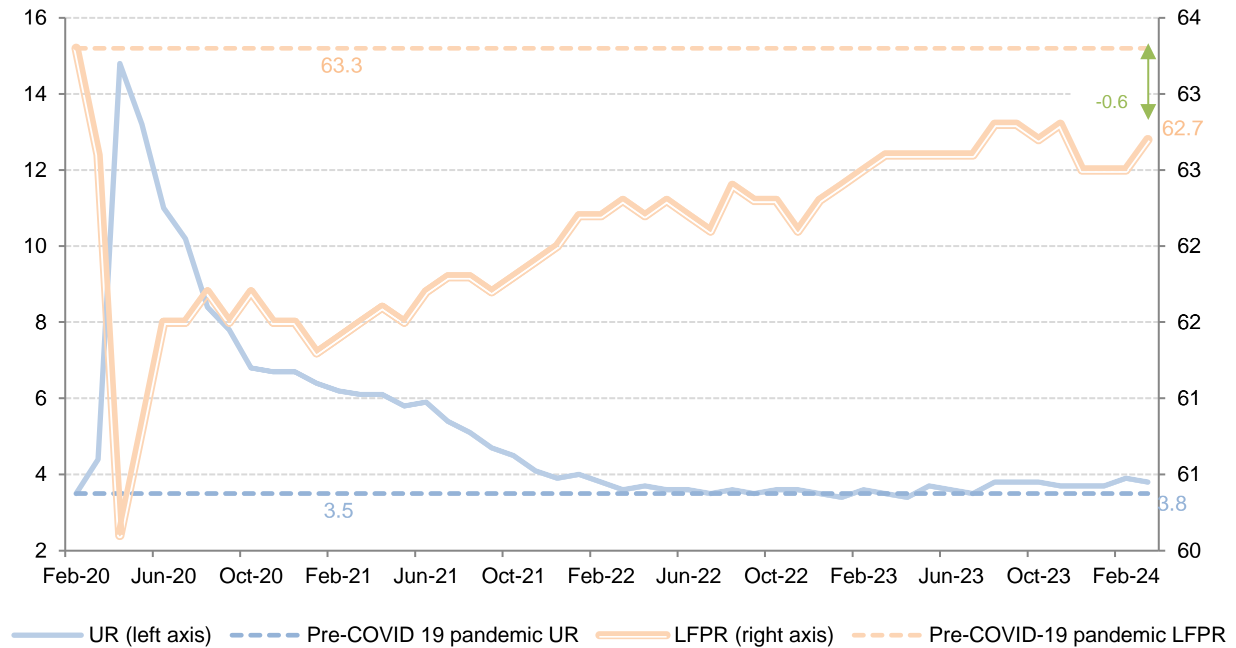


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics, Labor Department.

The labor force participation rate rebounded to a five-month high of 62.7% in March 2024. According to the Bureau of Labor Statistics, despite gradual recovery, the labor force participation rate (LFPR) in March 2024 remained more than a half percentage point lower than that of February 2020 (figure 17). While the prime-age participation rate for men, 20 years and older, is still 1.6 percentage points below its February 2020 level, the participation rate for women 20 years and older is less than a half percentage point lower (figure 18). According to Capital Economics, in the post-pandemic world, where working from home and job flexibility have become the norm, working mothers (and the firms that employ them) have benefitted.[5]

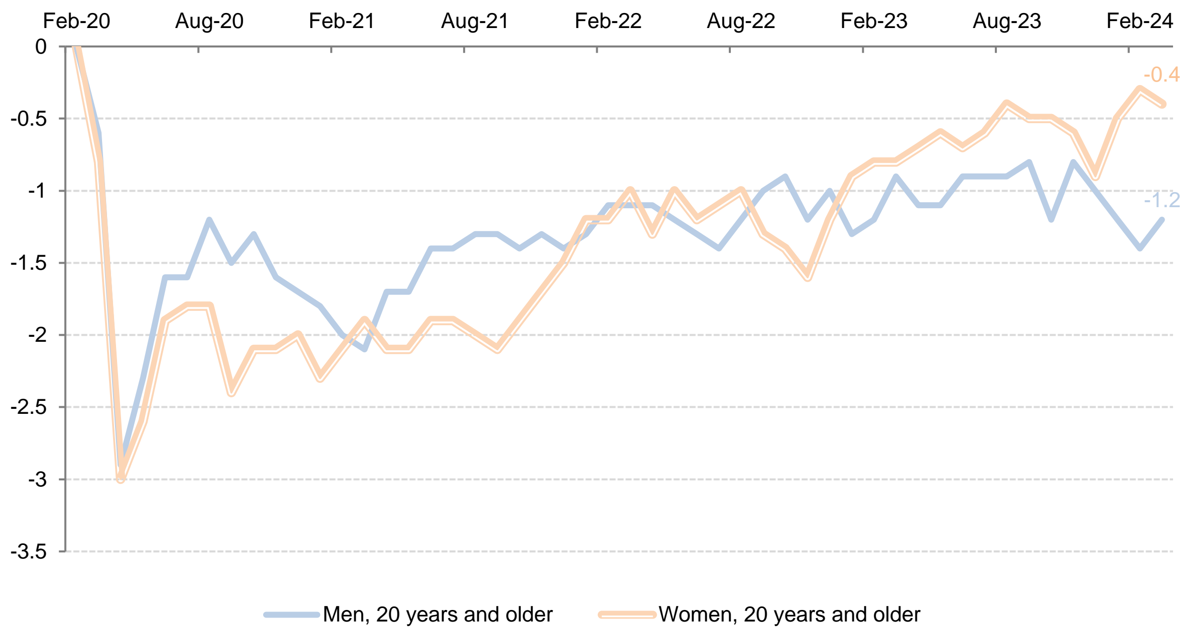
[5] Paul Ashworth, "Falling full-time employment not a sign of weakness," US Economics Update, *Capital Economics*, 8 April 2024.

Figure 17
United States labor force participation share and unemployment rate, February 2020–March 2024
(Percentage)



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

Figure 18
United States labor force participation share by gender, February 2020–March 2024
(Civilian labor participation rate, seasonally adjusted; percentage point change in share)

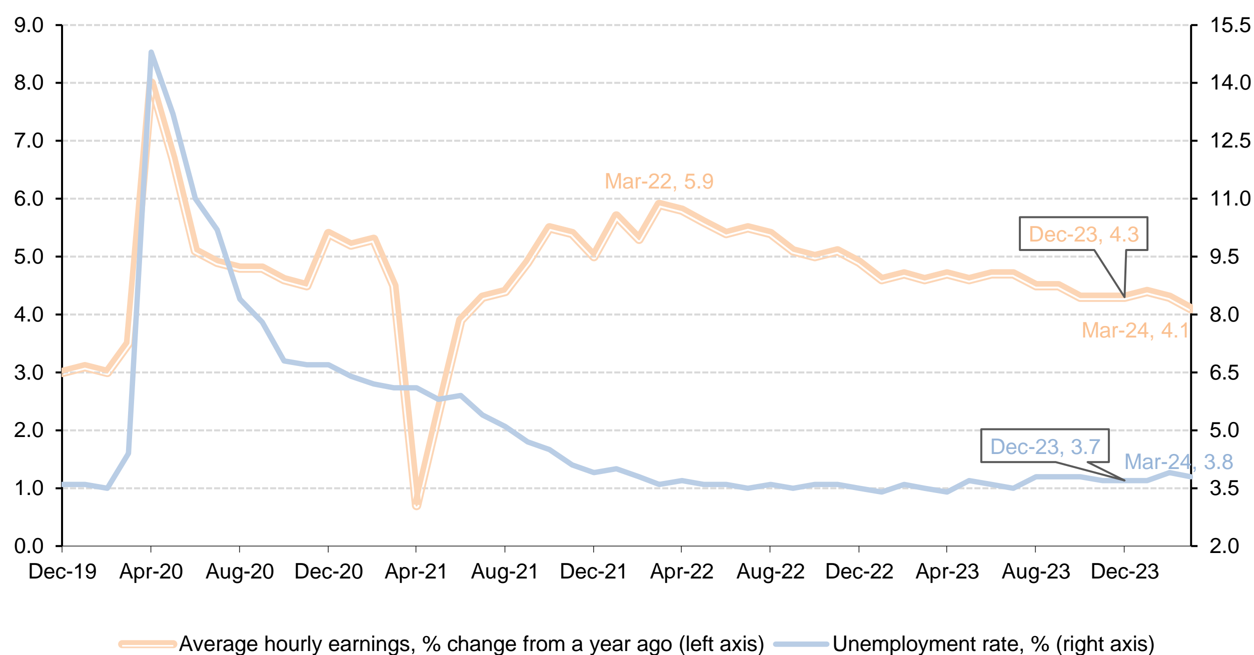


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics. Participation rate in February 2020: Men, 20 years and older, 71.4%; women, 20 years and older, 59.3%. Participation rate in March 2024: Men, 20 years and older, 70.2%; women, 20 years and older, 58.9%.

According to a recent Brookings study, the latest immigration estimates from the Congressional Budget Office (CBO) suggest faster population and labor force growth in recent years than currently reported by the Bureau of Labor Statistics using Census population estimates. In 2019, the CBO projected that net immigration in 2023 would total 1 million people. Now the agency estimates that net immigration in 2023 was 3.3 million. Higher immigration rates mean that employment growth does not need to slow significantly to get the labor market to a sustainable pace. The authors of the study estimate that "the labor market in 2023 could accommodate employment growth of 160,000 to 230,000—versus previous projections of 60,000 to 130,000—without adding pressure to wages and price inflation. The uptick can also help to explain the surprising strength in consumer spending and overall economic growth since 2022." [6]

While the labor-force participation rate edged up in March, wage growth slowed, meaning that recent employment data has continued to support the U.S. economic expansion without fanning inflation. Hourly earnings were up 4.1% in March 2024 year-on-year, down from 4.3% in February and a peak of 5.9% in March 2022 (figure 19).

Figure 19
United States average hourly earnings, December 2019–March 2024
(Percentage change from a year ago)

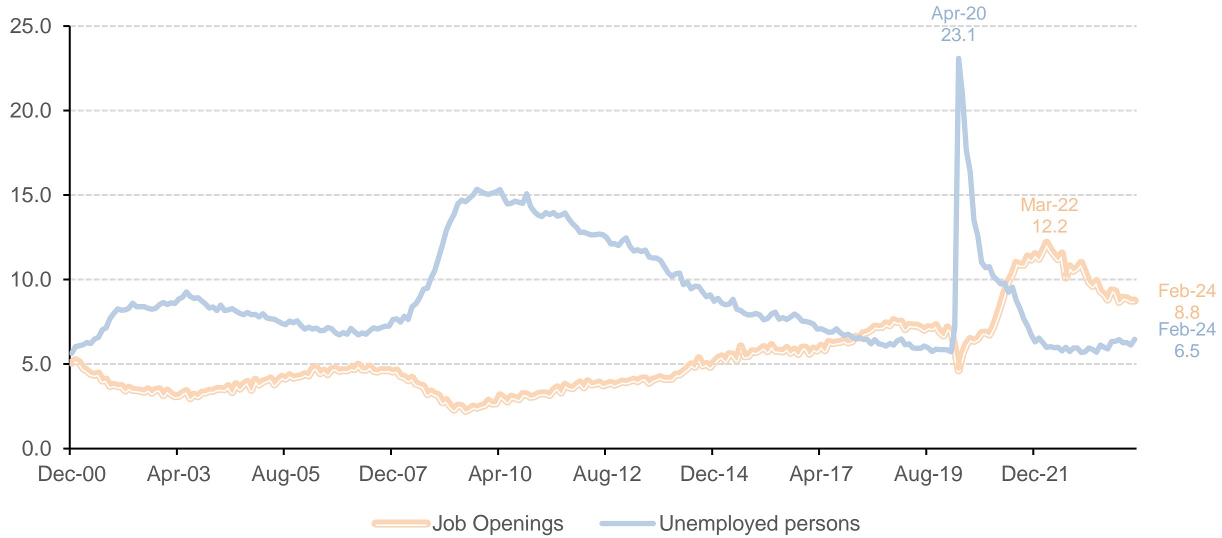


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics, Labor Department.

Despite the resilience in wages and solid job gains in 2023 and early 2024, labor market conditions have eased. According to the latest Job Openings and Labor Turnover Survey (JOLTS) released on 2 April 2024, job openings fell to 8.8 million on the last business day of February 2024, down from a peak of 12.2 million in March 2022. Job openings have been on a downward trajectory since reaching that peak, as the Federal Reserve works to cool the labor market. Job openings in February still far outnumbered the 6.5 million unemployed people seeking work, indicating the labor market remained tight (figure 20).

[6] Wendy Edelberg and Tara Watson, "New immigration estimates help make sense of the pace of employment," The Hamilton Project, *Brookings*, March 2024, p.1 [online] https://www.brookings.edu/articles/new-immigration-estimates-help-make-sense-of-the-pace-of-employment/.

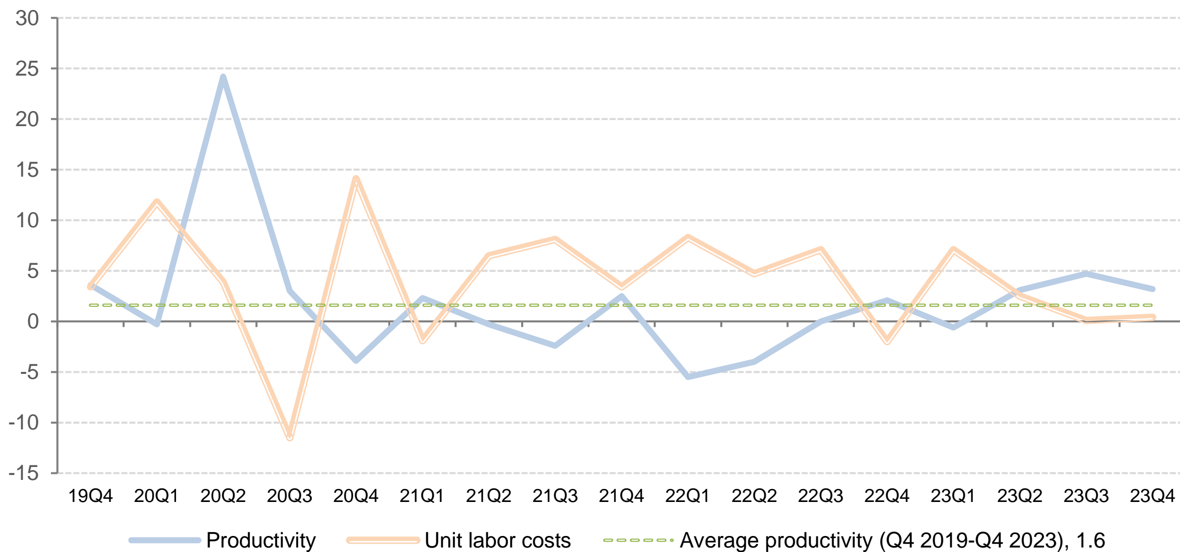
Figure 20
United States job openings vs number of unemployment persons, December 2000–February 2024
(Millions of openings and persons)



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

Improved labor productivity gains have contributed to the U.S. economy's resilience. Productivity increased at an annualized 3.1%, 4.7% and 3.2% in the second, third and fourth quarters of 2023, three consecutive quarterly increases above the 1.6% average productivity growth of the current Q4 2019–Q4 2023 cycle as defined by the Bureau of Labor Statistics. The 4.7% annualized climb in U.S. labor productivity in the third quarter of 2023 exceeded expectations and is the strongest quarterly rate since the early recovery from the COVID-19 pandemic in mid-2020 (figure 21). On the inflation front, strong productivity growth means fewer wage increases are passed through to consumer prices. In addition, in the context of the recent above-potential U.S. economic growth, above-trend productivity gains is good news for monetary policy.

Figure 21
United States productivity and costs, 2023
(Percent change from previous quarter at seasonally adjusted annual rates)



Source: U.S. Bureau of Labor Statistics, Labor Department.

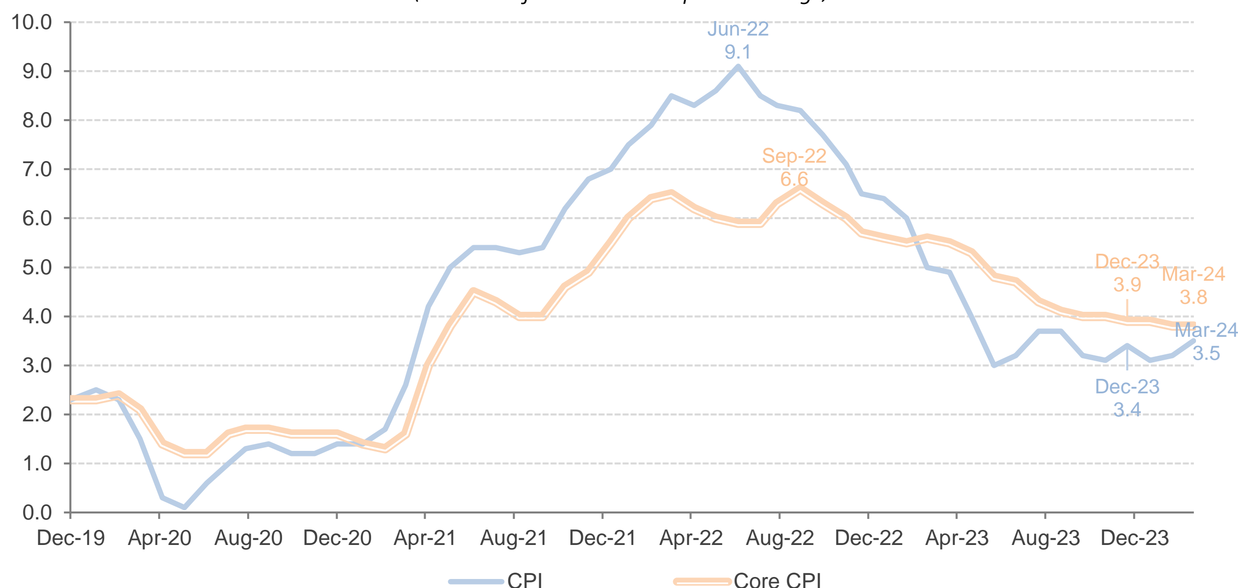
E. Inflation

Following a trend of moderating price increases from a peak of 9.1% in June 2022 to 3.4% in December 2023, 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 3.5% in March 2024 at an annualized rate, up from 3.2% in February and the highest level since September 2023. On a month-to-month basis, the March CPI increased 0.4%, the third consecutive month where the index has surprised to the upside.

After a 3.8% rise in February, the CPI for gasoline rose 1.7% in March. So far in April, energy prices have been on the rise and are likely to deliver another positive boost to headline CPI. Food prices inched up 0.1% in March and were 2.2% higher than a year earlier. Prices for food away from home have been stickier, rising 0.3% from February to March and up 4.2% on a year-ago basis.

Prices excluding food and energy, the core CPI, also rose 0.4% month-on-month in March for the third consecutive month. Core CPI was at 3.8% at an annualized rate, the same as February (figure 22).

Figure 22
United States domestic prices: monthly evolution, December 2019–March 2024
(CPI-U unadjusted 12 months percent change)

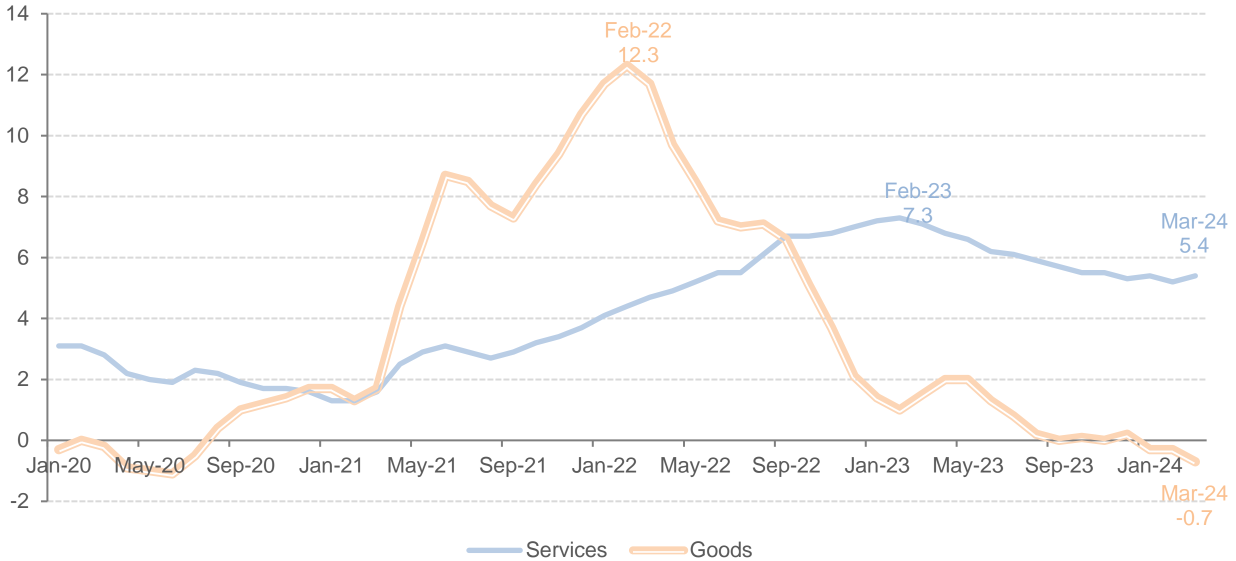


Source: U.S. Bureau of Labor Statistics, Labor Department.

In the twelve months leading up to March 2024, core goods prices decline 0.7% year-on-year, continuing the downward trend observed since the April-May 2023's 2% peak. The overall peak (12.3%) was reached in February 2022 (figure 23). This suggests that the supply chain issues that escalated the costs of goods in 2022 have been mitigated.

As of March 2023, the core inflation rate for services stood at 5.4% year-over-year, showing a decrease from February 2023's high of 7.3%, yet indicating that cost pressures within the service sector persist. Within the services category, both rent and owners' equivalent rent increased 0.4% month-on-month in March, an improvement over the last two months. Non-housing services prices were boosted by a 0.6% month-on-month surge in medical care prices and a 2.6% month-on-month increase in motor vehicle insurance, increases that will not necessarily be repeated in the Fed's preferred PCE measure, which uses different definitions and source data.

Figure 23
Core goods and services United States domestic prices: monthly evolution, January 2020–March 2024
(12 months percent change)



Source: U.S. Bureau of Labor Statistics, Labor Department.

F. Monetary policy

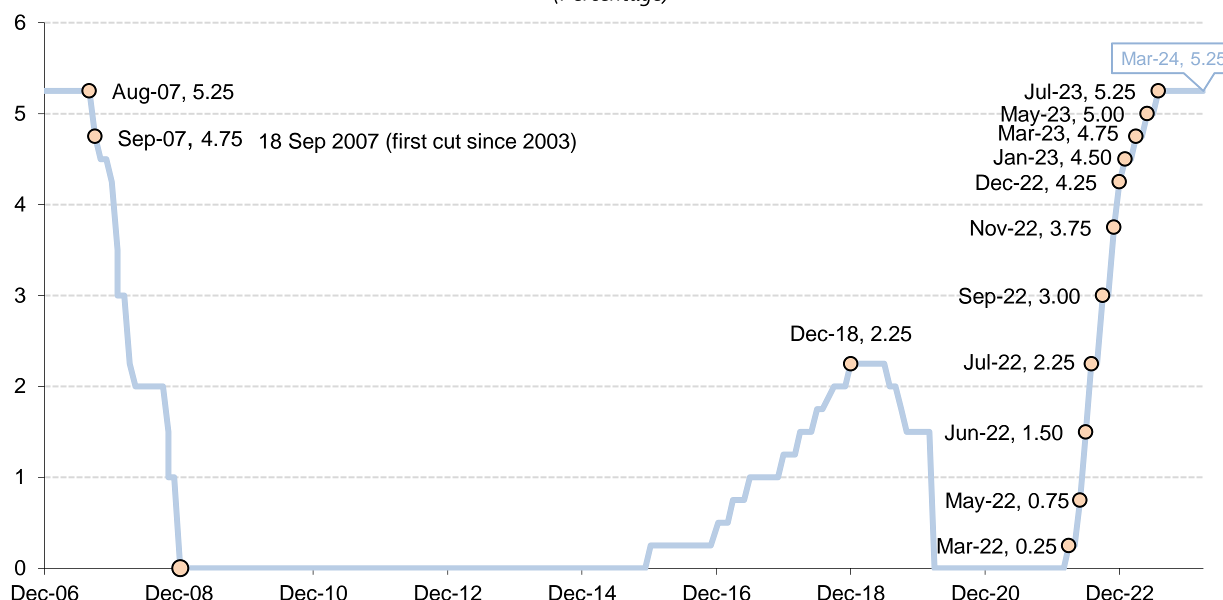
On 20 March 2024, the Federal Reserve held interest rates steady at a 22-year high of 5.25%-5.50% for a fifth consecutive meeting. According to the minutes of the Federal Open Market Committee's (FOMC)'s March policy meeting, however, "almost all participants judged that it would be appropriate to move policy to a less restrictive stance at some point this year if the economy evolved broadly as they expected." Most Fed officials penciled in three interest rate cuts for 2024 in projections released after their two-day meeting. The Federal Reserve raised interest rates four times in 2023. There were quarter-point interest rate increases in January, March, May and July 2023 (figure 20).

The so-called dot plot —a chart that summarizes the FOMC outlook for the federal funds rate— showed that 10 out of 19 members expect at least three rate cuts by the end of 2024, even as the core PCE inflation projections for the end of the year were revised a touch higher to 2.6% from the 2.4% projected in December 2023. The dot plot thus suggests that core PCE inflation at the 2% target is not a prerequisite for policy easing. In the futures markets, the first rate cut has been pushed to September and only 1.6 rate cuts are now priced for 2024, below the three cuts indicated by the latest dot plot.

The Fed also expects real GDP to expand by 2.1% in the fourth quarter of 2024 versus a year ago, up from its 1.4% forecast in December. While the Fed remains data dependent, the meeting reflects the central bank's desire to balance the risk of a downturn from holding rates too high for too long versus the risk of running a hot economy by cutting rates prematurely.

March 2024 employment and inflation numbers —monthly payroll employment gains picked up, the U.S. headline CPI surprised to the upside and the core CPI gained 0.4% month-on-month for the third consecutive time— have made it unlikely that the FMOC will start loosening policy at its meeting in June, as previously anticipated. Although inflation has cooled significantly from 40-year highs, three months of above-expectations readings have contributed to reinforce the Fed's "wait-and-see" approach to interest rate cuts. The Fed may gain enough confidence to cut rates in a future meeting if the broad set of data suggest abating inflationary pressures.

Figure 24
U.S. federal funds target rate, December 2006–March 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 5.50%, a 22-year high.

The Fed is currently allowing up to US$ 60 billion per month in Treasury bonds and up to US$ 35 billion per month in mortgage bonds to mature and not be replaced as part of the quantitative tightening (QT) agenda. According to the minutes of the FOMC's latest policy meeting released on 10 April, policymakers "generally favored" reducing the monthly pace of runoff by roughly half from "the recent overall pace" by adjusting the redemption cap on Treasury securities while leaving the cap on mortgage-backed securities unchanged, in an effort to extend the process of reducing holdings and diminish the risk of market turmoil.

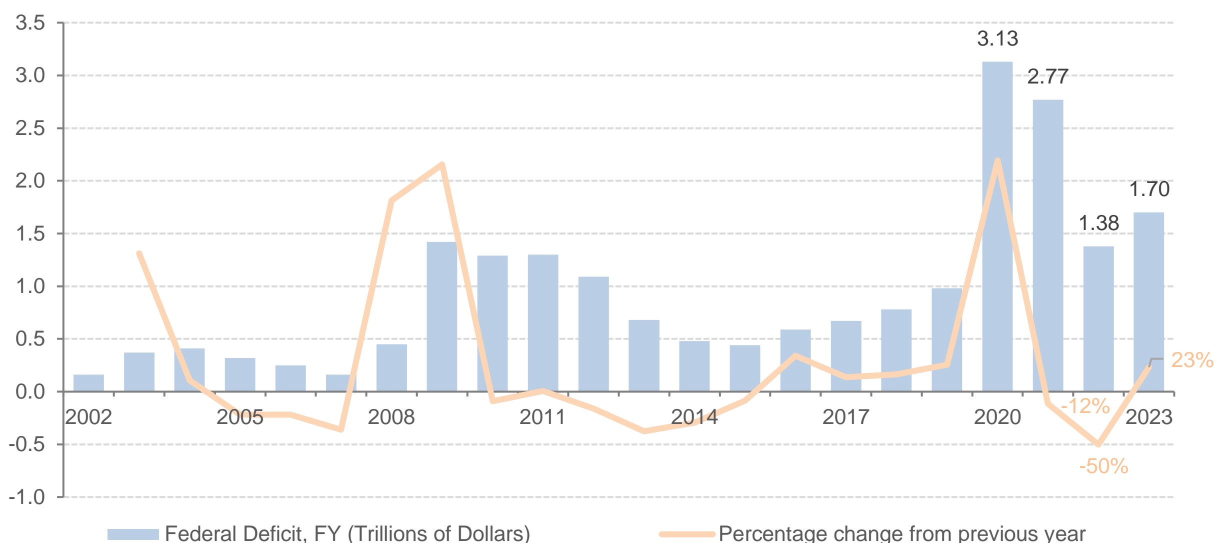
On 4 April, the Federal Reserve released its weekly H.4.1 data on reserve balances, which showed a US$ 46 billion decrease in its balance sheet to US$ 7.49 trillion, driven by a US$ 43 billion decrease in securities holdings from quantitative tightening (QT), a US$ 2 billion reduction in Bank Term Funding Program (BTFP) loans, and a US$ 1 billion decrease in discount window borrowings.

G. Fiscal policy

The United States federal deficit increased by 23% in the 2023 fiscal year (FY) compared with FY 2022. The cumulative deficit came to US$ 1.7 trillion, up US$ 320 billion from fiscal 2022. The increase followed declines of 12% in 2021 and 50% in 2022 (figure 25). The Congressional Budget Office (CBO) projects that the United States budget deficit will increase to US$ 2.6 trillion over the next ten years.

According to the CBO projections, interest payments on U.S. government debt would account for about three-quarters of the rise in deficit between now and 2034. The deficit's share as a proportion of GDP is projected to increase from 5.6% in 2024 to 6.1% in 10 years' time, due to the debt-servicing costs, remaining well above the average of 3.7% over the past 50 years. The U.S. federal debt was at US$ 26.2 trillion at the end of 2023 or 97% of GDP, according to CBO numbers. The CBO projections highlight the mounting fiscal challenges facing governments around the world that spent heavily to support their economies during the COVID-19 pandemic but are now facing much higher interest rates as they repay their debts.

Figure 25
United States federal deficit, FY, 2002–2023
(Trillions of Dollars)



Source: ECLAC Washington Office, based on data from the U.S. Treasury Department, https://fiscaldata.treasury.gov/americas-finance-guide/national-deficit/ .

The widening deficit led credit rating agency Fitch to strip the United States of its triple A rating in August 2023, saying that the country's fiscal predicament meant its debt burden would exceed levels seen in other countries that held its top rating. Moody's still rates the U.S. triple A, but in November 2023 announced it was revising the outlook on the U.S. government's ratings to negative, while affirming the long-term issuer and senior unsecured ratings at Aaa.

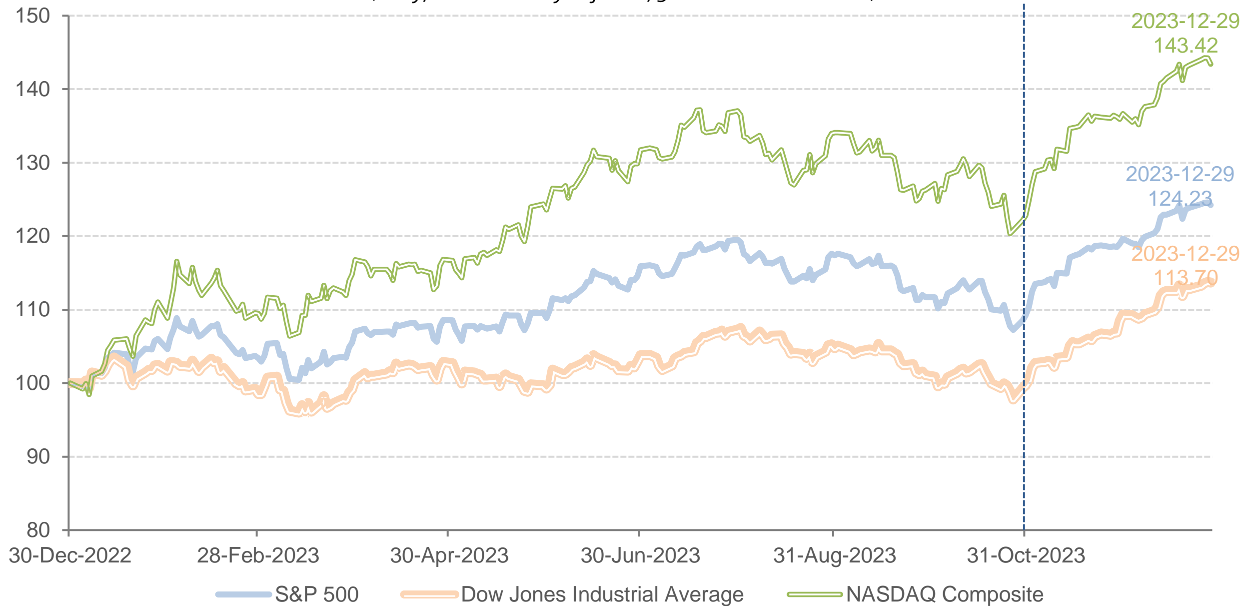
A key driver to the outlook change was Moody's assessment that downside risks to the country's fiscal strength have increased "and may no longer be fully offset by the sovereign's unique credit strengths." Given higher interest rates and without effective measures to reduce government spending or increase revenues, the agency said it expects fiscal deficits will remain very large and debt affordability would be significantly weakened. The rise in Treasury bond yields has increased pre-existing pressure on debt affordability, Moody's added. The agency expects interest payments relative to revenue to rise to around 26% in 2033 from 9.7% in 2022. Additionally, Moody's said it sees interest payments relative to GDP will rise to around 4.5% in 2033, from 1.9% in 2022. In affirming the country's rating, Moody's said the United States' "formidable credit strengths continue to preserve the sovereign's rating, in particular exceptional economic strength, high institutional and governance strength, and the unique and central roles of the U.S. dollar and Treasury bond market in the global financial system." [7]

H. Financial conditions

Despite monetary policy tightening, United States stocks performed well in 2023, with the largest gains in tech stocks, from cloud computing to generative AI. The S&P 500 index gained 24%, the Dow Jones Industrial Average 14%, and the NASDAQ composite 43%. Stocks began an upward trend in October 2023, as investors bet that the Federal Reserve's monetary policy tightening cycle had reached a peak (figure 26). The surging stock market has been a tailwind for consumers as it drives household wealth up.

[7] Moody's Rating Action, "Moody's changes outlook on United States' ratings to negative, affirms Aaa ratings" 10 November 2023 [online] https://ratings.moodys.com/ratings-news/411110.

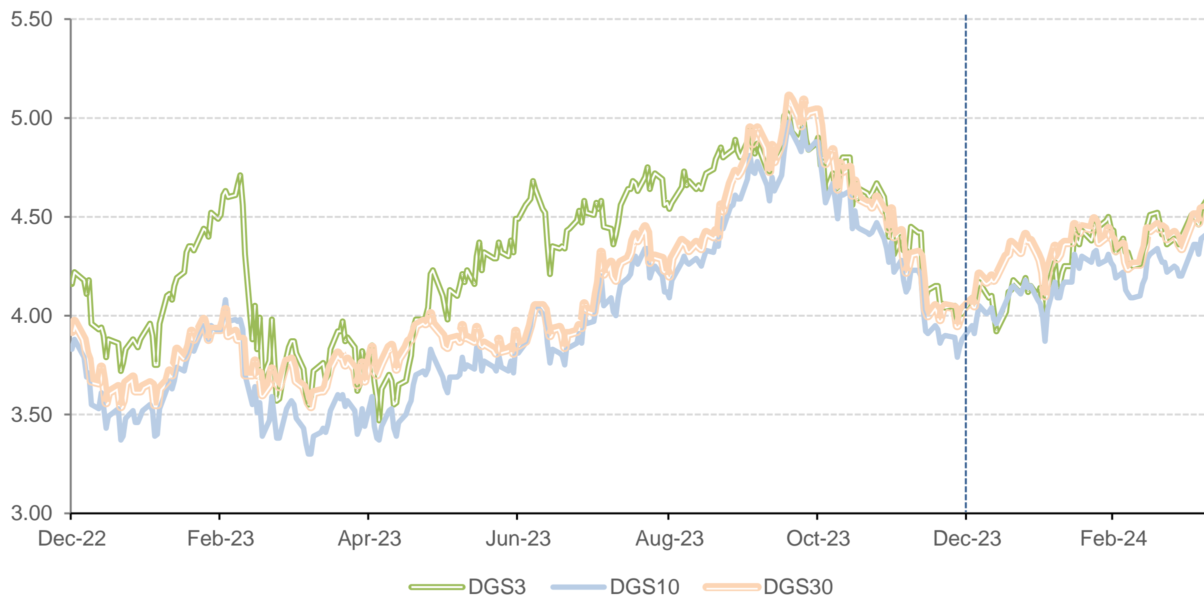
Figure 26
U.S. stock market indices, 30 December 2022–29 December 2023
(Daily, not seasonally adjusted; 30 December 2022=100)



Source: Federal Reserve of St. Louis (FRED).

In the U.S. Treasury market, the 3-year, 10-year and 30-year Treasury yields were at 4.01%, 3.88% and 4.03%, respectively, at the end of December 2023. Government bond yields, after breaching 5% for the first time in 16 years in October, declined from then to the end of December (figure 27). With Treasury yields declining from their peak in October, investors grew more bullish about stocks towards the end of 2023.

Figure 27
U.S. Treasury security yields, 30 December 2022–09 April 2024
(Constant maturities; daily yields)



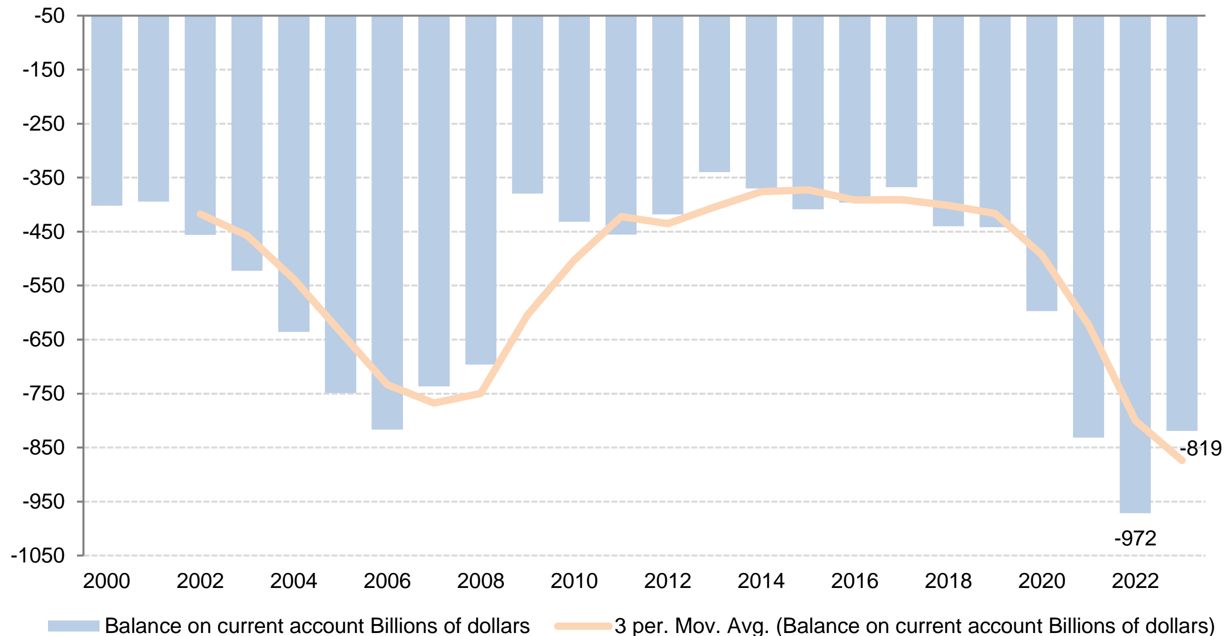
Source: Federal Reserve of St. Louis (FRED).

Treasury yields have been climbing in the first quarter of 2024. Following the release of a stronger-than-expected nonfarm payrolls report, U.S. Treasury yields jumped, the U.S. dollar strengthened and Fed rate cut bets for June retreated. The first cut in the federal funds rate is now only fully priced for September, while the 10-year Treasury yield, which rises when bond prices fall, was inching closer to 4.5% in the first ten days of April, posting its largest one-day climb in more than 18 months after the release of the higher-than-expected March CPI index on 10 April.

I. External sector

The United States current-account deficit narrowed in 2023 according to data from the Commerce Department. The U.S. current-account deficit, which reflects the combined balances on trade in goods and services and income flows between U.S. residents and residents of other countries, narrowed by US$ 152.8 billion, or 15.7%, to US$ 818.8 billion in 2023 (figure 28).

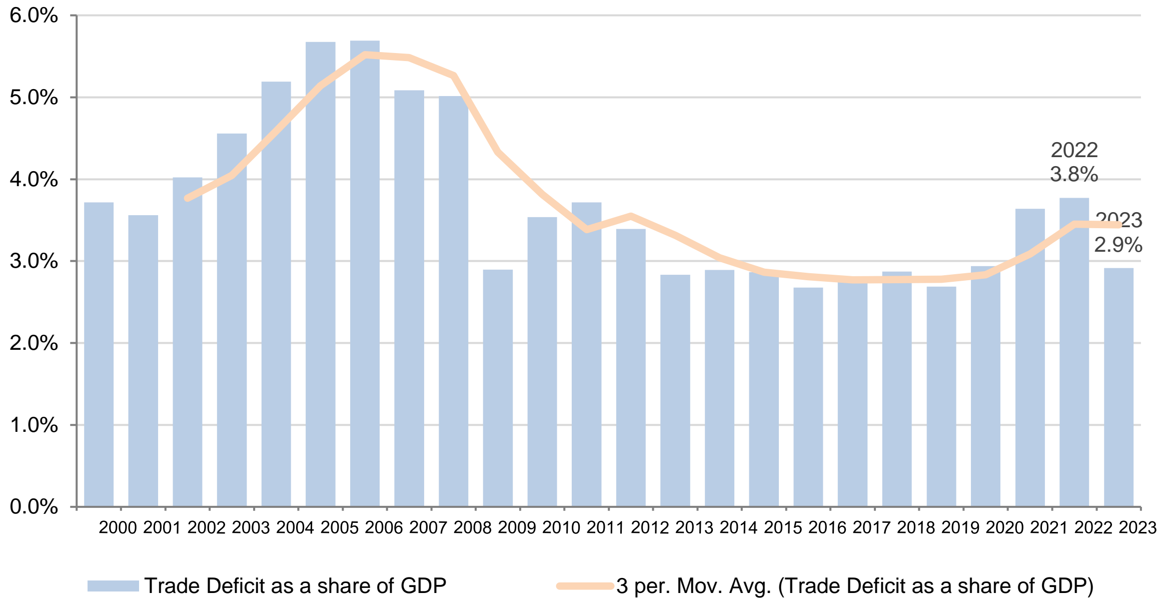
Figure 28
United States balance on current account, 2000–2023
(Billions of dollars, annual, seasonally adjusted)



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

Since the trade balance (exports minus imports) is generally the largest determinant of the current account surplus or deficit, the current account balance often displays a cyclical trend. During a strong economic expansion, import volumes typically surge; if exports are unable to grow at the same rate, the current account deficit will widen. In 2023, however, the current-account balance improved at the same time as the economy grew, as net exports contributed 0.57% to the annual GDP growth of 2.5% (see p.8, figure 2). The trade deficit as a share of GDP also improved in 2023, declining to 2.9% from 3.8% in 2022 (figure 29).

Figure 29
United States trade deficit as a share of GDP, 2000–2023
(Percent)



Source: Bureau of Economic Analysis, U.S. Commerce Department, GDP and Personal Income table.

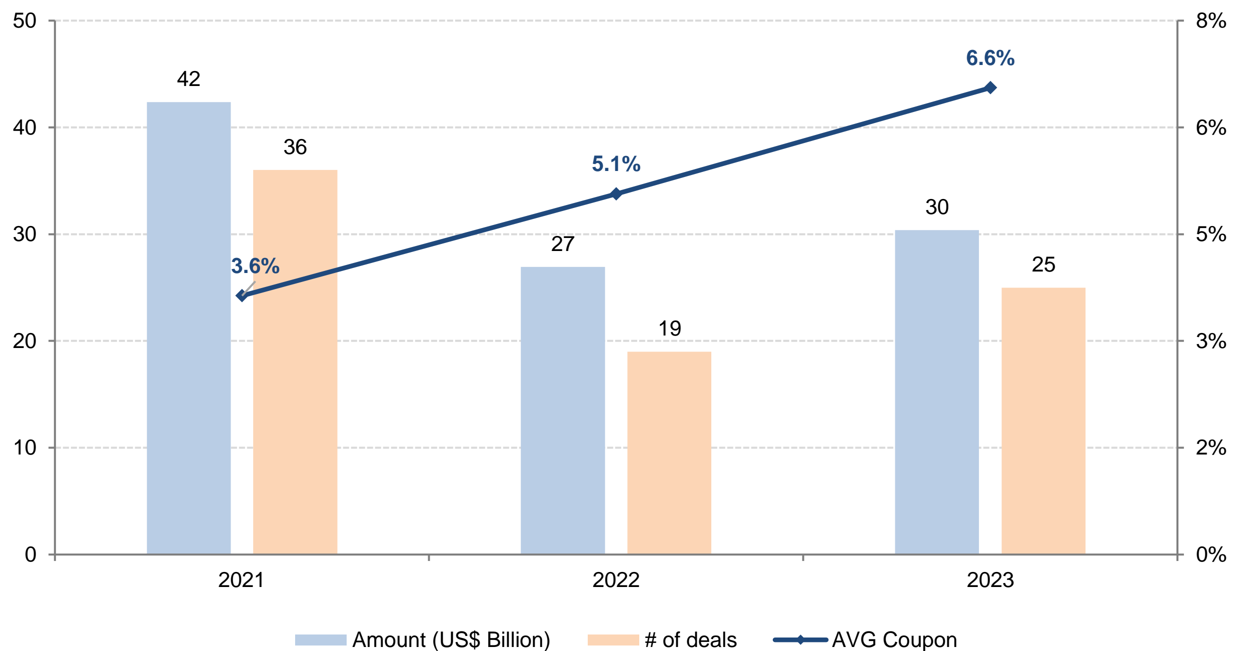
There were strong gains in exports and imports in February 2024, the latest data available, which was released on 4 April. The gains suggest that net trade may be a negative for first-quarter growth. The gains most likely reflect the support to import demand from strong consumer spending. The nominal deficit widened to US$ 68.9 billion from US$ 67.6 billion in January.

Trade data released in February also showed that Mexico overtook China in 2023 to become the top exporter to the United States, whose efforts to bring supply chains closer to home are intensifying. The value of Mexican goods sold to the U.S. has been rising steadily and reached almost US$ 476 billion for the year. The equivalent figure for Chinese goods has fallen sharply, and now sits at US$ 427 billion.

II. Impact on Latin American and Caribbean financial conditions

High interest rates in advanced economies, in the United States in particular, have translated into higher financing costs for the corporates and governments of Latin America and the Caribbean (LAC). Average coupon rates on the region's dollar-denominated sovereign debt issuances have climbed steadily in recent years, from 3.6% in 2021 to 5.1% in 2022 and 6.6% in 2023, illustrating how the region's borrowing costs have increased (figure 30).

Figure 30
Annual LAC sovereign issuance of dollar-denominated debt in international markets by amount, number of deals and interest rate, 2021–2023
(Billions of dollars, percentage)



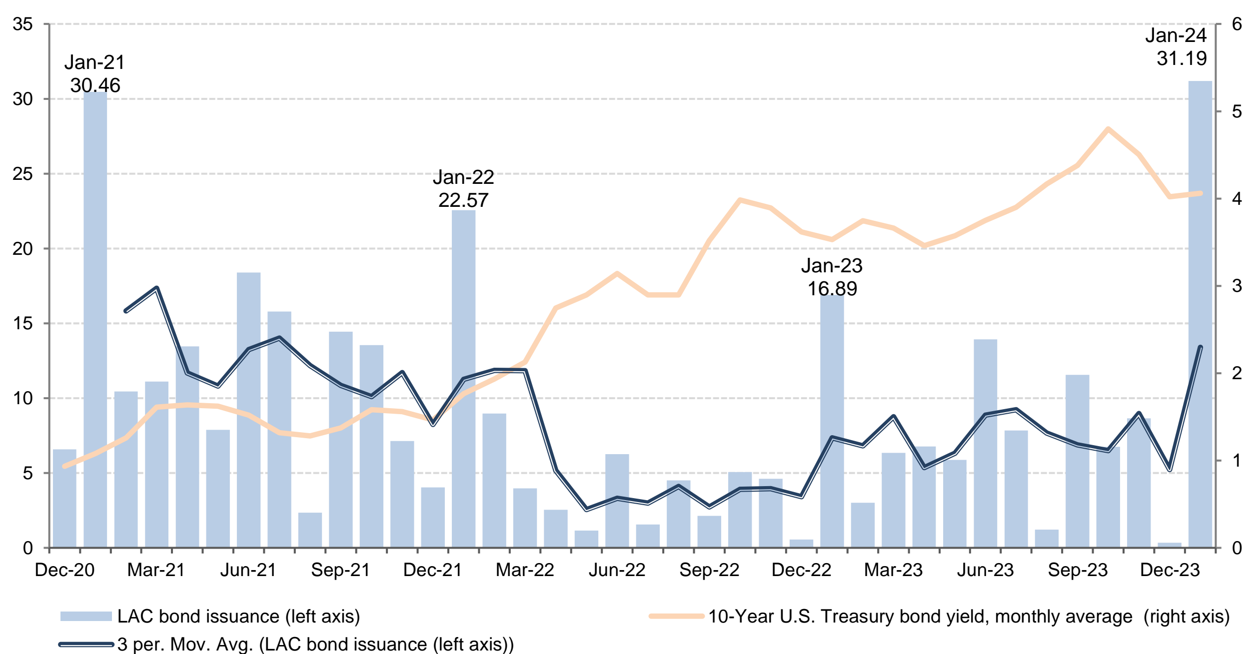
Source: ECLAC, Capital flows to Latin America and the Caribbean: 2023 year-in-review and early 2024 developments (LC/WAS/TS.2024/1), Santiago, 2024 [online] https://www.cepal.org/en/publications/69079-capital-flows-latin-america-and-caribbean-2023-year-review-and-early-2024.

Despite a rebound in the region's international bond issuances in 2023 to a total of US$ 89 billion, 40% higher than in 2022, higher borrowing costs and tighter lending conditions persist. Since July 2023, the Fed has kept its benchmark interest rate unchanged at a range of 5.25%-5.50%, the highest level since 2001. In addition, throughout most of September and October 2023, U.S. 10-year Treasury yields climbed towards 5%, perceived by markets as an important threshold (figure 31).

Figure 31

Monthly LAC international bond issuance and 10-year U.S. Treasury yield, December 2020–January 2024

(Left axis, billions of dollars; Right axis, percentage)



Source: ECLAC, Capital flows to Latin America and the Caribbean: 2023 year-in-review and early 2024 developments (LC/WAS/TS.2024/1), Santiago, 2024 [online] https://www.cepal.org/en/publications/69079-capital-flows-latin-america-and-caribbean-2023-year-review-and-early-2024.

The 10-year Treasury yield influences borrowing costs for consumer and businesses and has big implications for the value of emerging market debt securities. When it moves higher, there is an adverse impact on the international bond issuances from Latin America and the Caribbean. As seen in Part I, section H, it has been climbing in the first quarter of 2024. Following the release of a stronger-than-expected nonfarm payrolls report and inflation numbers in March, the 10-year Treasury yield jumped, the U.S. dollar strengthened, and Fed rate cut bets for June retreated, which all have an adverse impact on the region's borrowing conditions.

Beyond the impact on financial conditions, the region has also been affected in two other ways by the recent economic developments in the United States. First, a surge in net immigration in 2023 has increased the size of the U.S. labor force and enhanced its economic growth potential. According to the New York Times, the U.S. administration acted to move migrants into the work force by extending temporary protected status to Venezuelans who were in the United States before 31 July 2023, a move covering 472,000 people. It has also expanded the use of humanitarian parole for people coming from countries considered to be in turmoil, including Cuba, Haiti and Nicaragua; the designation lasts two years and requires that applicants have a financial sponsor in the United States.[8]

[8] Lydia DePillis, "The U.S. Economy is surpassing expectations. Immigration is one reason," *The New York Times*, 29 February 2024 [online] https://www.nytimes.com/2024/02/29/business/economy/immigrants-labor.html.

Second, opportunities are rising for Latin America and the Caribbean as the United States moves towards the implementation of three major pieces of legislation signed in late 2021 and in 2022 —the Infrastructure Investment and Jobs Act (IIJA), signed into law on 15 November 2021, the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act, signed on 9 August 2022, and the Inflation Reduction Act (IRA) signed on 16 August 2022— which together authorize more than US$ 2 trillion in funding and incentives to rebuild the country's infrastructure, accelerate the transition to a green economy, and strengthen the domestic semiconductor industry.[9]

As part of the effort to accelerate the green transition and strengthen the domestic industry, the United States is also focusing on securing supply chains and reducing its dependence on China by "reshoring," "nearshoring" or "friendshoring" production to the United States, its neighbors, and allies. As seen in the previous section, Mexico overtook China in 2023 to become the top exporter to the United States.

While the CHIPS and Science Act is best known for its subsidies to build facilities on U.S. soil, it also provides some funding for allies. Costa Rica and Panama have received funding to strengthen their work forces and their infrastructure. The Dominican Republic looks poised to be next in line. Costa Rica, for example, is positioning itself to become a major hub outside Asia for packaging and testing microchips.[10]

[9] R. Artecona, H. Velloso and H. Vo, "From legislation to implementation: building a new industrial policy in the United States", Studies and Perspectives series-ECLAC Office in Washington, D.C., No. 24 (LC/TS.2023/185-LC/WAS/TS.2023/7), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2023 [online] https://www.cepal.org/en/publications/68769-legislation-implementation-building-new-industrial-policy-united-states.

[10] Farah Stockman, "Is this the Silicon Valley of Latin America?" The New York Times, Opinion, 01 April 2024 [online] https://www.nytimes.com/2024/04/01/opinion/intel-costa-rica-semiconductors.html.

III. Looking ahead

In 2023, the United States economy grew 2.5%, above the economy's long-term growth potential and the 1.9% growth in 2022. The labor market has remained strong —3 million jobs were added in 2023 and March 2024 marked the 39th consecutive month of job gains— but it is gradually cooling down. The unemployment rate was at 3.8% in March 2024, continuing a streak of below 4% readings —which most economists consider to be maximum employment— that has lasted for more than two years.

Inflation is also gradually decelerating, although a third consecutive strong CPI reading in March 2024 has triggered a market repricing of policy outlook. The economy seems to have overcome supply chain disruptions and the aggressive tightening in monetary policy over the past year and a half has contributed towards reducing excess demand. While inflation started in goods affected by supply chain issues, as supply chain pressures eased, the prices of services rose. According to data from the Bureau of Labor Statistics, for the 12 months ended in March 2024, core service prices were up 5.4% (down from a peak of 7.3% in February 2023) while core goods prices, down from a peak of 12.3% in February 2022, fell 0.7%.

The Federal Reserve is adopting a "wait-and-see" approach before declaring the end of its monetary policy tightening cycle. Fed officials are trying to guard against the risk of easing too soon or too much, squandering recent gains in bringing down inflation. They also don't want to leave rates at levels that unnecessarily slow the economy and cause a serious downturn, what may be a difficult balance to achieve.

Since it started in 2022, the U.S. tightening cycle has led to higher financing costs for Latin American and Caribbean (LAC) countries, discouraging international debt issuance. With U.S. interest rates on hold since July 2023, however, LAC debt issuers have started to return to the international market, while accepting that rates may remain higher for longer. In 2023, the region placed US$ 89 billion of bonds in international markets, a total that was 40% higher than in 2022, although with an average coupon rate that was 1.65 percentage points higher.[11]

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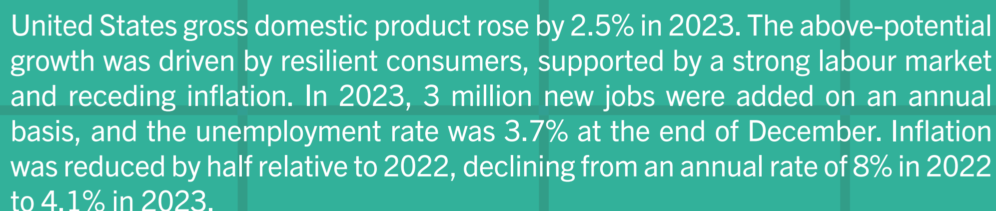
[11] See ECLAC, Capital flows to Latin America and the Caribbean: 2023 year-in-review and early 2024 developments (LC/WAS/TS.2024/1), Santiago, 2024 [online] https://www.cepal.org/en/publications/69079-capital-flows-latin-america-and-caribbean-2023-year-review-and-early-2024.

A "soft landing" for the United States economy is the new base case scenario among investors. However, according to the Bank of America's Global Fund Manager Survey released in March 2023, bets on a "no landing" scenario, where GDP remains strong, are on the rise. Rather than settling down, the economy appears to be booming as prices continue to climb more quickly than usual.

As the possibility that the economy is not really landing looms, some economists and officials suggest that the Fed's next move may even be a rate increase and not a reduction, feeding uncertainty towards the future path for U.S. monetary policy. In early April, however, Federal Reserve Chairman Jerome Powell said at a conference in Stanford, that "the recent data do not...materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down to 2% on a sometimes bumpy path."[12]

[12] Nick Timiraos, "Powell still sees room for the Fed to cut rates this year" *The Wall Street Journal*, Economy | Central Banking, 3 April 2024 [online] https://www.wsj.com/economy/central-banking/powell-still-sees-room-for-the-fed-to-cut-rates-this-year-6621eb27.



United States gross domestic product rose by 2.5% in 2023. The above-potential growth was driven by resilient consumers, supported by a strong labour market and receding inflation. In 2023, 3 million new jobs were added on an annual basis, and the unemployment rate was 3.7% at the end of December. Inflation was reduced by half relative to 2022, declining from an annual rate of 8% in 2022 to 4.1% in 2023.

Cognizant of the strength of the U.S. economy, the Federal Reserve is nevertheless adopting a "wait and see" approach rather than declaring an immediate end to its monetary tightening cycle, which has had an impact on Latin American and Caribbean external financing costs. The region's debt issuers have started to anticipate the end to global interest rate hikes —while accepting that rates may remain higher for some time yet— and are gradually returning to the international market. In 2023, the region issued US$ 89 billion in bonds in international markets, a total that was 40% higher than in 2022.

The *United States economic outlook* report, published by ECLAC three times a year, presents and analyses the main macroeconomic developments in the United States and examines how they could affect financial conditions in Latin America and the Caribbean.

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