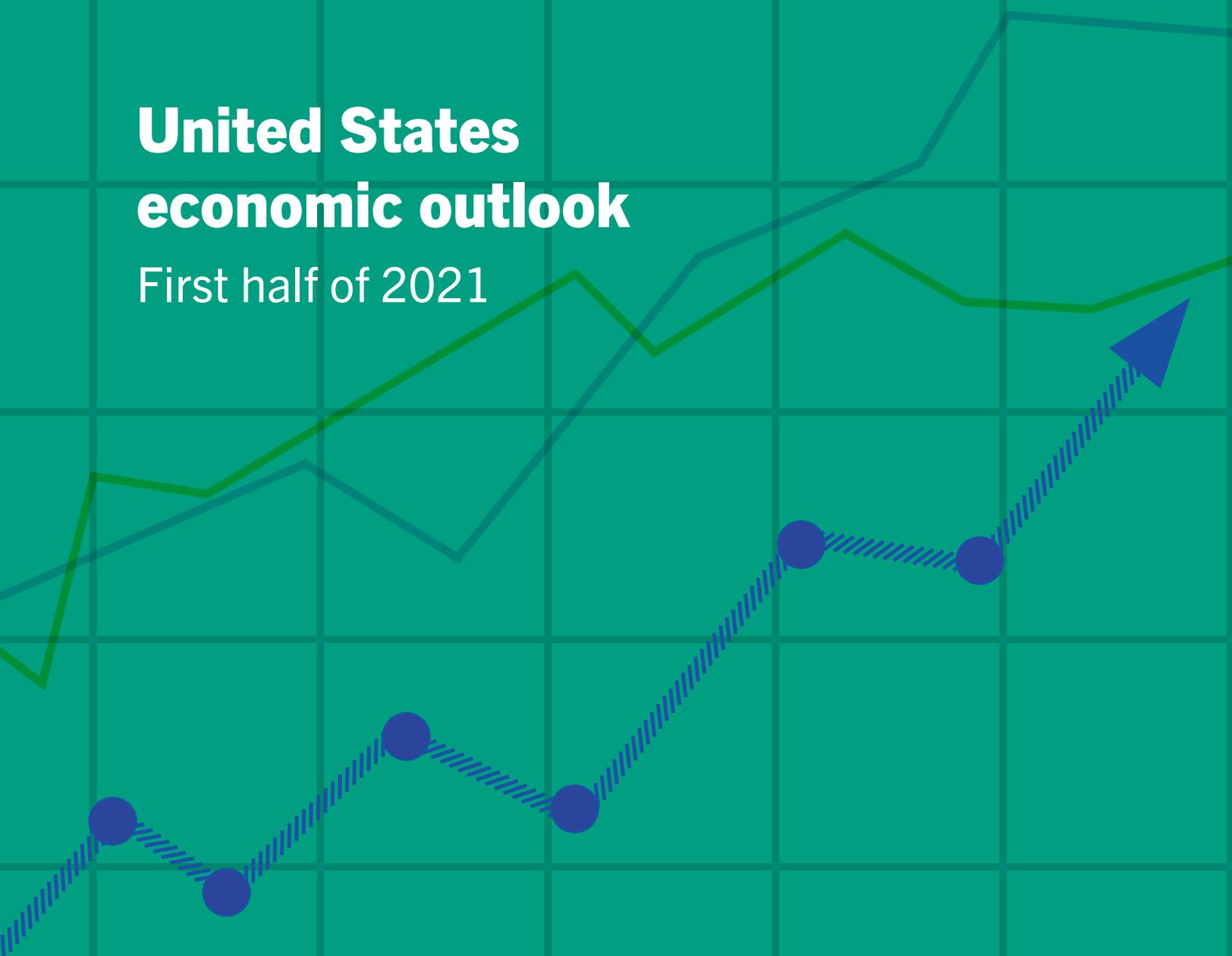


# United States economic outlook

First half of 2021



UNITED NATIONS

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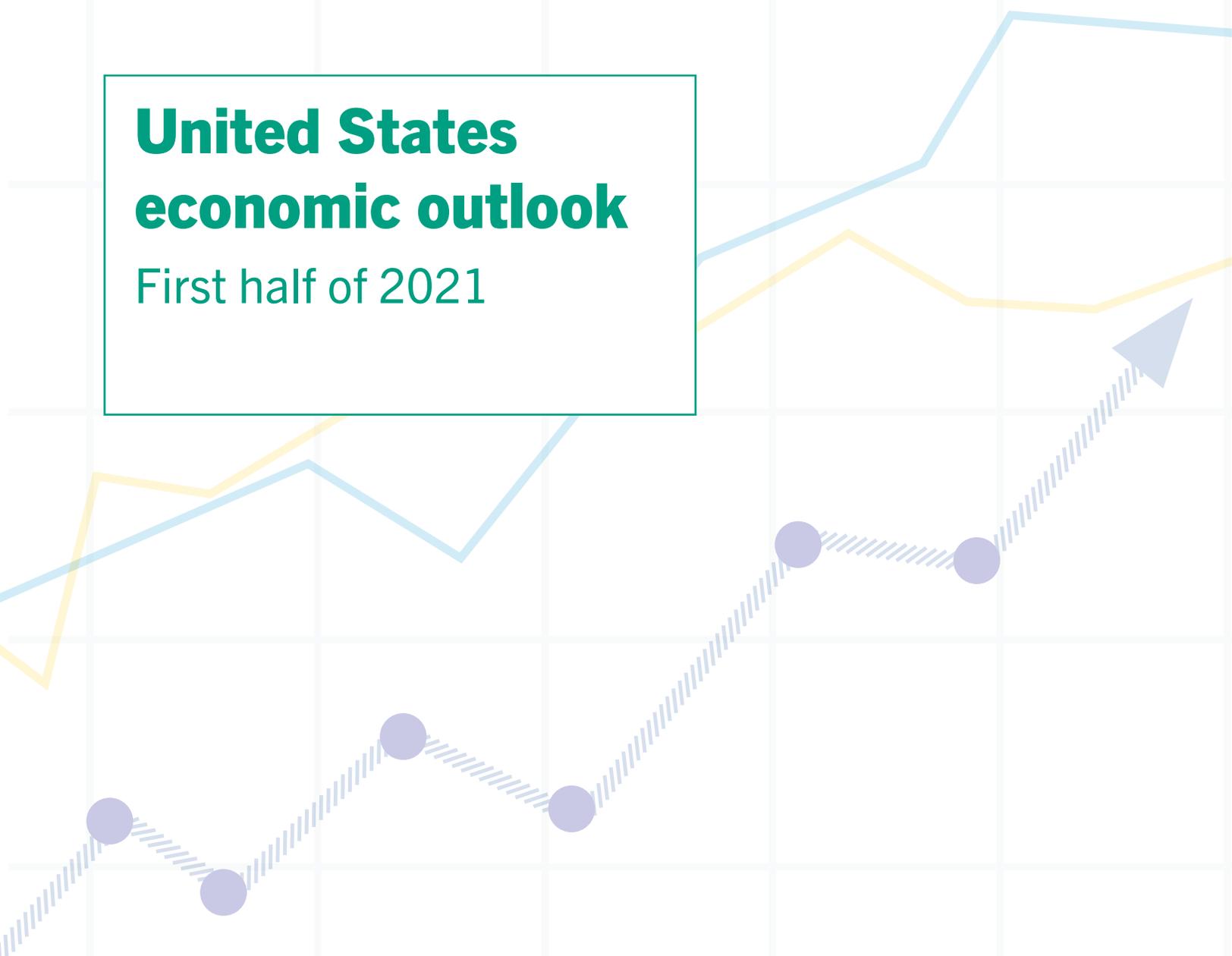
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# United States economic outlook

First half of 2021



UNITED NATIONS



This document was prepared by Helvia Velloso, Economic Affairs Officer, under the supervision of Raquel Artecona, Officer in Charge of the Washington Office of the Economic Commission for Latin America and the Caribbean (ECLAC).

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## Highlights

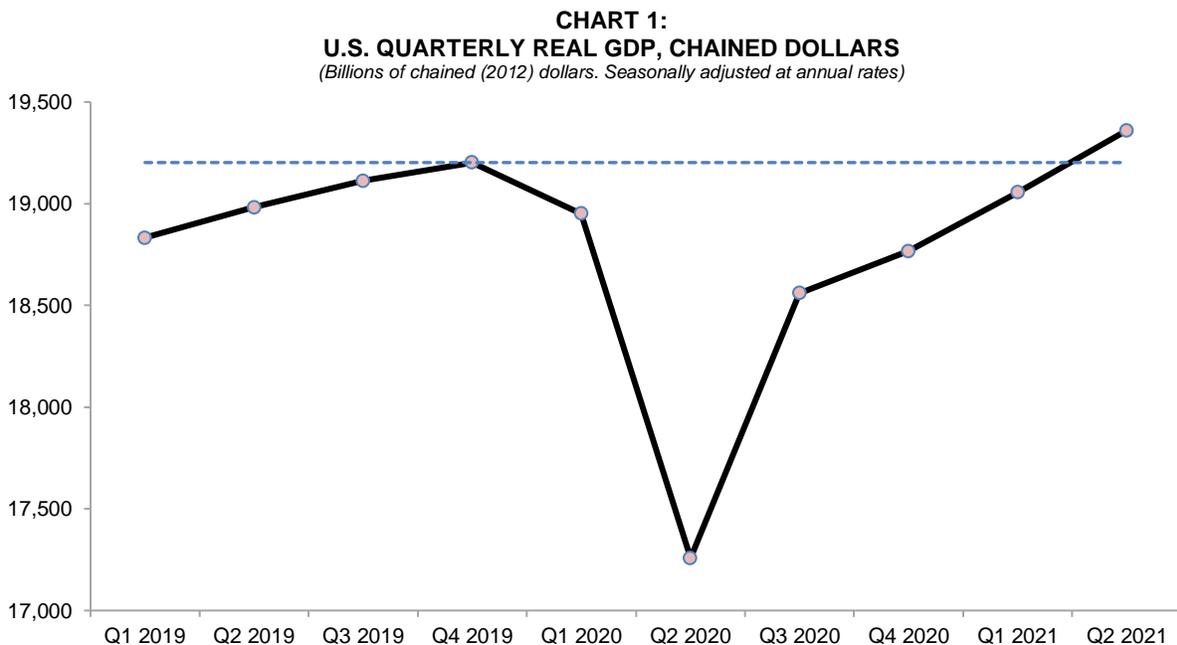
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- *The United States economy grew at a 6.6% annual rate in the second quarter of 2021 and at 6.3% in the first quarter.* The growth in the first half of 2021, the fastest pace in 37 years, was sufficient to push the U.S. economy above its pre-pandemic level.
- *Federal stimulus spending helped the economy expand at a better than 6% annualized rate in the first half of the year.* However, the expiration of pandemic-era jobless benefits for more than 7.5 million people in early September will test the strength of the economic recovery.
- *The pace of hiring slowed considerably in August.* The 235,000 nonfarm employment gain was significantly below expectations and the 570,000 monthly average for the first half of the year. Details showed a clear impact from the resurgence of COVID-19 cases linked to the Delta variant. Employers slowed hiring and consumers are pulling back on purchases as they readjust to renewed mask mandates, travel restrictions, event cancellations and delayed office reopenings.
- *Inflationary pressures remain, but may ease as the boost from reopening the economy fades.* The Consumer Price Index (CPI) rose 0.3% in August, a deceleration from the 0.5% gain in July and the 0.9% gain in June. Rising inflation, together with the resurgence of coronavirus cases, dented consumer confidence in August.
- *Amid the spread of the Delta variant, uncertainty around the economic impact of COVID-19 has risen once again.* Looking ahead, fading fiscal support and uncertainty regarding when to remove monetary stimulus pose risks to the economy. More immediate risks include the need to pass a short-term extension of government funding to avoid a government shutdown when the current-year funding expires at the end of September, and to raise the debt ceiling by October.
- *Finally, a shift in policy response away from emergency measures and in favor of long-term changes to the safety net is underway.* Policy proposals put forward by the President to answer to long-term structural challenges are currently under discussion in the United States Congress.



## Overview<sup>1</sup>

The United States economy remained strong in the second quarter of 2021, growing at an annualized rate of 6.6%, sufficient to push the economy above its pre-pandemic level (chart 1). Second-quarter growth topped the first quarter's 6.3%, according to the Bureau of Economic Analysis' second estimate, as fiscal stimulus continued to flow through the economy and vaccine distribution allowed more restrictions to be lifted.

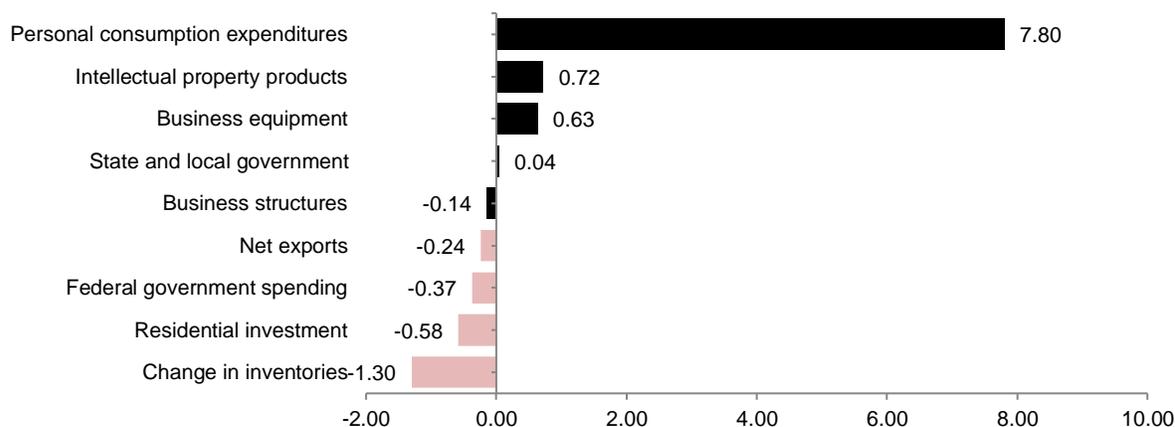


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.

<sup>1</sup> Unless otherwise indicated, the cut-off date for the information used to prepare this report is 22 September 2021.

Overall, second-quarter growth was led by strength in consumer spending, which increased 11.9% and contributed 7.8% to growth in the quarter, as consumers benefitted from federal-stimulus funds<sup>2</sup> (chart 2). Investment in intellectual property products, business equipment and state and local government spending also made a positive contribution, while investment in business structures, net exports, federal government spending, residential investment and inventories, subtracted from second-quarter growth.

**CHART 2:**  
**CONTRIBUTIONS TO U.S. GROWTH: Q2 2021**  
(Percentage points)



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

As the stimulus boost fades, the economy may decelerate. According to the Federal Reserve Beige Book, a report that collects anecdotal information from businesses around the country, the economic recovery slowed and prices continued rising over the summer, as a resurgence of COVID-19 cases linked to the Delta variant led consumers to reduce spending and supply chain problems to persist, hampering businesses.

A summer that was expected to bring a return to pre-pandemic activity has thus disappointed. Though the acceleration in inflation may be temporary, it—along with the jump in COVID-19 cases—appears to be taking a severe toll on consumer sentiment. Driven by the rapidly spreading Delta variant and higher prices, the University of Michigan’s Consumer Sentiment Index suffered in August one of its largest monthly losses in 40 years, falling to 70.3 (the lowest reading since 2011) from 81.2 in July. The survey’s chief economist, Richard Curtin, said the drop also reflected “an emotional response, from dashed hopes that the pandemic would soon end and lives could return to normal.” The Conference Board Consumer Confidence Index also fell from a revised 125.1 (previously 129.1) in July to 113.8 in August, way below a pre-pandemic level of 132.6 posted in February of 2020. The summer surge in COVID-19 cases has hit confidence hard, but the overall economic costs are expected to be less than in past waves.

Impact has also been felt in the labor market. The recovery of the labor market moderated significantly in August following two very strong months. Job gains of 235,000 fell far short of expectations and the monthly average of 570,000 for the first half of the year. Yet some upward revision to the previous two months’ sizeable gains left the three-month moving average at a very strong 750,000 jobs gained per month. Details showed a clear impact from the Delta variant, with leisure and hospitality sectors registering zero new job growth in August on labor shortages, following five straight months of gains averaging 350,000, and government payrolls in education showing weakness. The unemployment rate fell to 5.2% from 5.4% in July, and the broad U6 measure (which also includes discouraged and underemployed workers) fell from 9.2% to 8.8%.

<sup>2</sup> Individuals were the biggest beneficiaries of the American Rescue Plan Act of 2021 – the economic stimulus bill passed by the 117th United States Congress and signed into law by President Joe Biden on 11 March 2021 – receiving US\$ 672 billion in direct relief. The largest source of household income support in the Act was a third round of stimulus checks of as much as US\$ 1,400 per person, costing US\$ 410 billion.

Jobless claims, a proxy for layoffs, fell to 310,000 in the week ending on 4 September 2021, a pandemic low. Claims have trended lower since mid-July, signaling that employers are holding on to workers despite the rise in COVID-19 cases tied to the spread of the Delta variant in many parts of the United States and weaker-than-expected job growth in August.

The COVID-19 pandemic has had a disproportionate impact on women, as it exacerbated many of the challenges women already faced, including access to financing, industry segmentation and child care. However, with the accelerated pace of vaccinations in the Spring, many believed this impact would be short-lived and things would ameliorate in the fall. As children head back to school in the fall, the Delta variant is tampering hopes of a return to a somewhat “normal” for women, as the same issues remain, particularly where child care is concerned. Already, several school districts have been forced to close due to the surge in COVID-19 cases.

Market forecasters anticipate a slowdown in growth in the second half of the year. On average, with forecasts made in the second half of August and early September, the U.S. economy is projected to grow at 5% in the third and fourth quarters (table 1). Forecasts have been downgraded following the resurgence of the COVID-19 cases in the summer, with forecasters citing lower demand and production shortages, particularly in the car industry, as contributing factors to the downgrade.

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

	Q3 2021 (qoq)	Q4 2021 (qoq)	Date of Forecast
<b><i>What Markets Say</i></b>			
Bank of America/Merrill Lynch	4.5%	6.0%	10-Sep-21
Capital Economics	4.0%	3.1%	10-Sep-21
JPMorgan	7.0%	3.0%	3-Sep-21
Moody's Economy.com	5.0%	7.5%	7-Sep-21
Mortgage Bankers Association	6.2%	6.0%	18-Aug-21
National Association of Realtors	4.3%	3.3%	Aug-21
National Bank of Canada	4.6%	4.7%	Sep-21
Wells Fargo/Wachovia	4.6%	5.7%	9-Sep-21
<b><i>Forecasts average</i></b>	<b>5.0%</b>	<b>4.9%</b>	

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. Market projections made in August and September point to growth of 5.9% in 2021 on average and of 3.9% in 2022 (table 2). The outlook remains highly uncertain, however. The pandemic remains a risk despite the availability of vaccines, given vaccine hesitancy and faster-spreading virus variants with the potential to affect economic activity. Policy risks are also on the rise.

On the fiscal side, the boost from the American Rescue Plan Act signed into law in March is starting to wane, as some of the provisions begin to expire.<sup>3</sup> The United States Congress is currently working to enact as much as US\$ 4 trillion in new fiscal stimulus over the next 10 years to drive President Biden's Build Back Better agenda, moving away from emergency measures towards addressing long-standing structural challenges. The proposals being discussed include increasing spending in public healthcare, education, low income tax credits, and infrastructure, but challenges remain finding consensus on the details of how much to spend and how to finance it.

<sup>3</sup> The federal pandemic programs paid aid to those not typically eligible to unemployment benefits, such as gig and self-employed workers, and those who exhausted benefits via regular state programs, typically capped at 6 months or less. Those two programs expired on 6 September 2021, along with a US\$ 300 weekly enhancement to benefits paid under all programs.

In addition, the need to pass a short-term extension of government funding when the current-year funding expires on 30 September, and to raise the debt ceiling by October, is contributing to short-term policy uncertainty and risks.

On 21 September 2021, the United States House of Representatives passed a bill to avert a government shutdown on 1 October and extend the debt limit until December 2022, but without having resolved the partisan standoff poised to derail it in the Senate. The Senate is expected to vote on the measure in the coming days. The White House said in a statement it supported the bill. If the stand-off over government funding remains unresolved by the end of the month it would lead to the closure of many federal operations on 1 October — and if no compromise is reached on the borrowing limit, the United States may be forced into a damaging default on its sovereign debt. Even if short-lived, a default would harm business and consumer confidence, raise short-term borrowing costs, and negatively impact the credit rating of the United States, as well as upend global financial markets. It would harm not only the United States' but also the nascent global economic recovery from the COVID-19 pandemic.

On the monetary side, the adverse impact on economic activity and consumer confidence brought about by the spread of the Delta variant makes the Federal Reserve balance act more difficult. The decision regarding when to reduce accommodation is fraught with uncertainty, while the nature of the rise in inflationary pressures over the summer (whether transitory or more permanent), which affected consumer confidence, remains unclear.

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

		Real GDP (% change, y/y)		Inflation (% change, y/y)		Unemployment Rate (%)		FED Funds Rate (%)		Date of Forecast
		2021	2022	2021	2022	2021	2022	2021	2022	
<b>A. What Government Agencies Say</b>										
	FED*	5.9%	3.8%	4.2%	2.2%	4.8%	3.8%	0.1%	0.3%	Sep-21
	CBO	6.7%	5.0%	3.3%	2.5%	5.5%	3.8%	0.1%	0.1%	Jul-21
	OMB**	7.1%	3.3%	4.8%	2.5%	5.5%	4.2%	na	na	Aug-21
<b>B. What Markets Say</b>										
	Bank of America/Merrill Lynch	5.9%	5.2%	4.3%	2.9%	5.5%	3.8%	0.1%	0.1%	10-Sep-21
	Capital Economics	5.8%	3.5%	4.2%	2.3%	5.6%	4.4%	0.1%	0.1%	10-Sep-21
	JPMorgan	6.0%	3.7%	4.4%	3.4%	5.6%	4.4%	0.1%	0.1%	3-Sep-21
	Moody's Economy.com	6.0%	4.3%	4.4%	3.5%	5.5%	3.6%	0.1%	0.1%	7-Sep-21
	Mortgage Bankers Association	6.2%	3.0%	4.9%	2.4%	5.5%	4.1%	0.1%	0.1%	18-Aug-21
	National Association of Realtors	4.8%	2.7%	4.5%	3.4%	5.9%	5.5%	0.1%	0.1%	Aug-21
	National Bank of Canada	5.7%	4.1%	4.3%	3.3%	5.7%	4.9%	0.25%	0.25%	Sep-21
	TD Bank Financial Group	6.9%	4.3%	3.7%	2.6%	5.6%	3.9%	0.25%	0.31%	17-Jun-21
	The Economist Intelligence Unit	6.0%	3.7%	3.6%	2.2%	5.6%	4.7%	0.1%	0.1%	19-Aug-21
	Wells Fargo/Wachovia	5.9%	4.5%	4.3%	3.3%	5.6%	4.3%	0.25%	0.25%	9-Sep-21
	<b>Market Average</b>	<b>5.9%</b>	<b>3.9%</b>	<b>4.3%</b>	<b>2.9%</b>	<b>5.6%</b>	<b>4.4%</b>	<b>0.2%</b>	<b>0.2%</b>	
<b>C. What International Organizations Say</b>										
	United Nations DESA (Baseline)	6.2%	3.2%	na	na	na	na	na	na	May-21
	World Bank	6.8%	4.2%	na	na	na	na	na	na	Jun-21
	OECD	6.0%	3.9%	3.6%	3.1%	na	na	na	na	Sep-21
	IMF	7.0%	4.9%	na	na	na	na	na	na	Jul-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).

\*Projections of change in real GDP and inflation (measure used is PCE inflation, the FED's preferred measure) are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. \*\* Projections are for real, chained (2012) dollars GDP, fourth-quarter-over-fourth-quarter; CPI: fourth-quarter-over-fourth-quarter; unemployment rate: annual.

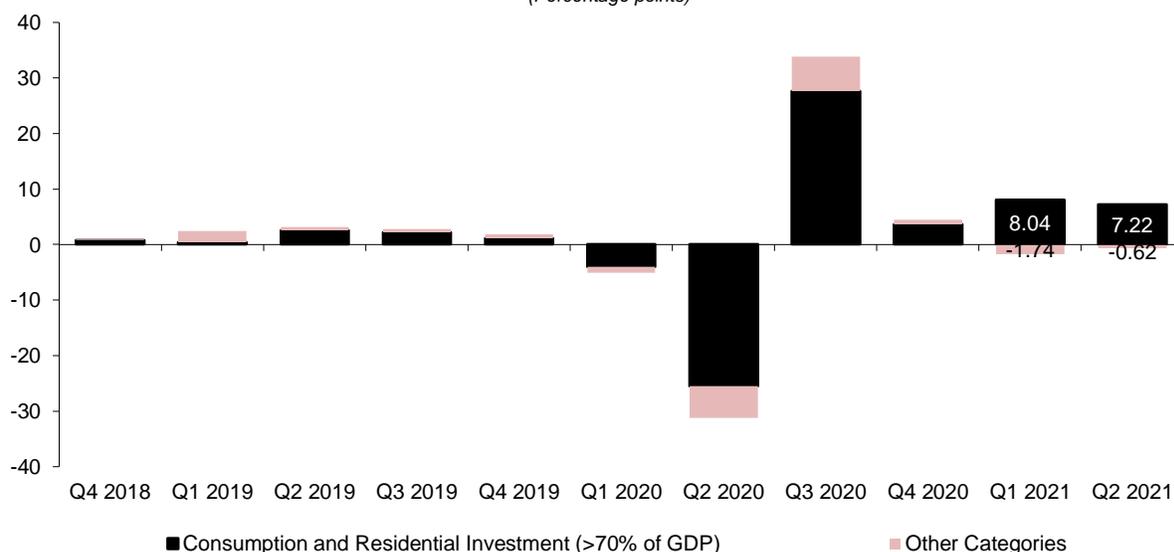


## I. Quarterly developments

The real GDP expansion in the second quarter of 2021 reflected increases in personal consumption expenditures, nonresidential fixed investments, exports, and state and local government spending that were partially offset by decreases in private inventory investment, residential fixed investment, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.

The core of the U.S. economy —consumption and residential investment— contributed 7.22% to second-quarter growth (chart 3), with consumption adding 7.8% and residential investment subtracting 0.58%.

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

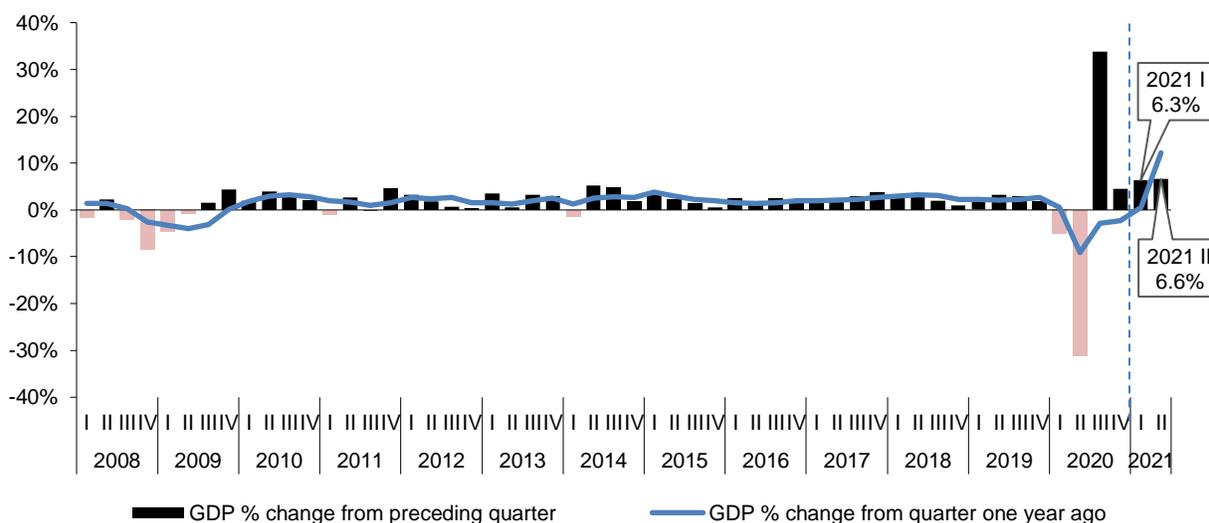


Source: ECLAC Washington Office, based on data from the Bureau of Economic Analysis, U.S. Department of Commerce.  
Note: Contributions to growth are measured at seasonally adjusted annual rates.

## A. Quarterly GDP Growth

Real gross domestic product (GDP) increased at an annual rate of 6.6% in the second quarter of 2021, according to the second estimate released by the Bureau of Economic Analysis on 26 August 2021. In the first quarter, real GDP increased 6.3% (chart 4).

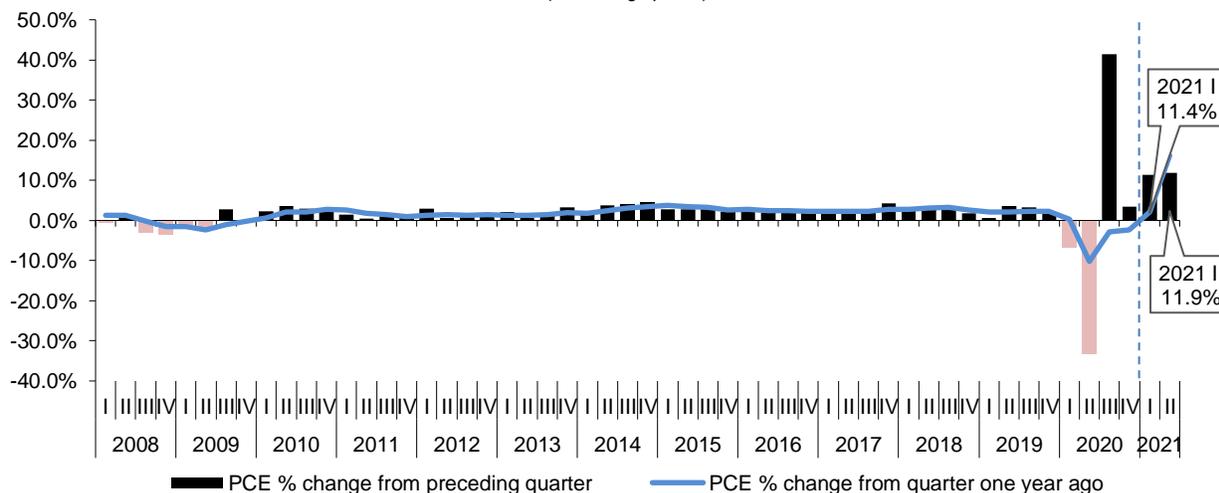
**CHART 4:**  
**U.S. REAL GDP: QUARTERLY GROWTH**  
(Percentage points)



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

Private consumption expenditure (PCE) increased by 11.9% after an increase of 11.4% in the first quarter (chart 5), adding 7.8% to growth in the second quarter and 8.04% in the first. The rise in consumer spending was supported by government stimulus and lessening restrictions on activity as vaccination efforts progressed. In the second quarter, the increase in PCE reflected increases in services (led by food services and accommodations) and goods (led by "other" nondurable goods, notably pharmaceutical products, as well as clothing and footwear).

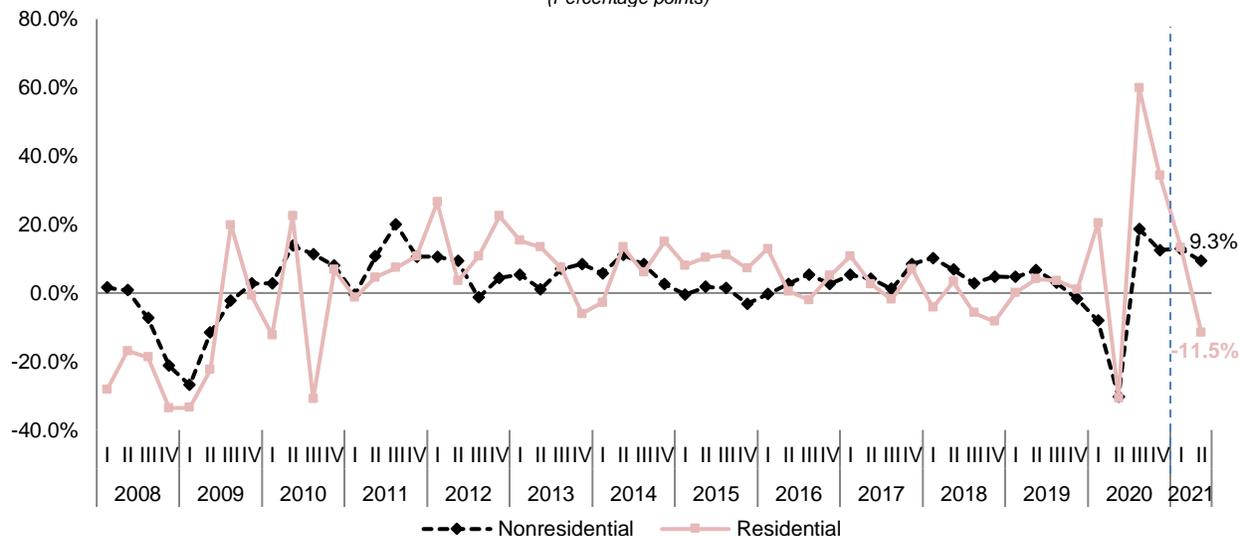
**CHART 5:**  
**PERSONAL CONSUMPTION EXPENDITURE: QUARTERLY GROWTH**  
(Percentage points)



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

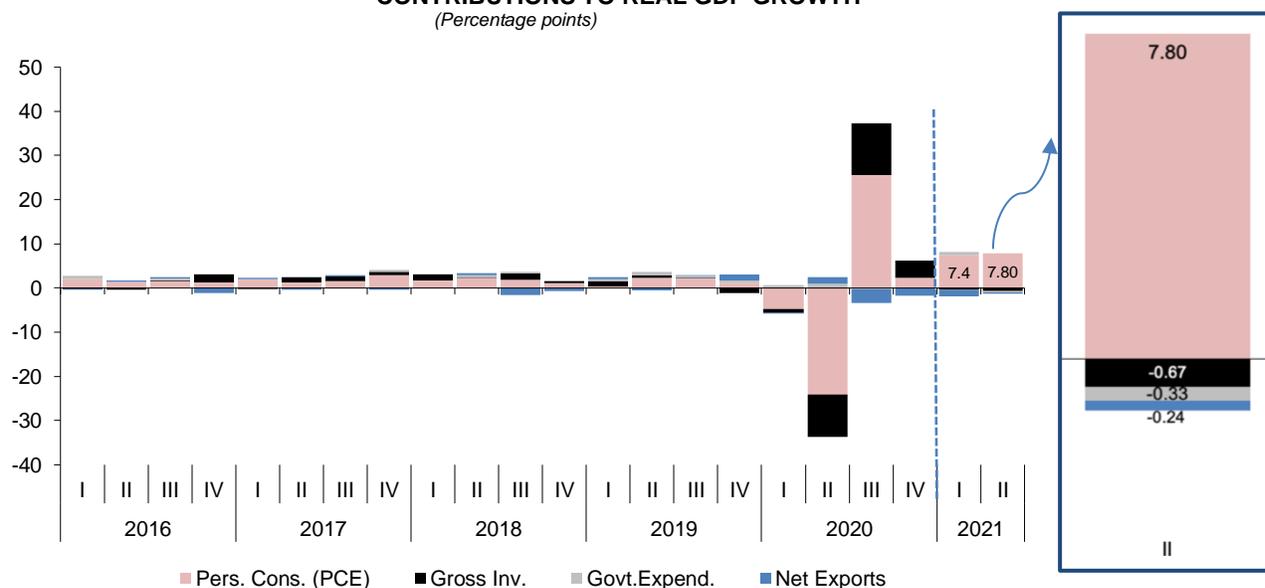
Fixed investment increased by 3.4% in the second quarter, with residential investment declining 11.5% and non-residential investment growing 9.3% (chart 6). The growth in nonresidential fixed investment reflected increases in intellectual property products (led by research and development as well as software) and equipment (led by transportation equipment). Nonresidential investment added 1.21% to growth in the second quarter, but residential investment subtracted 0.58%. The change in private inventories also reduced growth in the second quarter, by 1.3%. Due to the negative contributions from residential investment and inventories, gross private domestic investment declined by 4% in the second quarter, reducing second-quarter growth by 0.67% (chart 7).

**CHART 6:**  
**FIXED INVESTMENT: QUARTERLY GROWTH**  
(Percentage points)



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

**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.

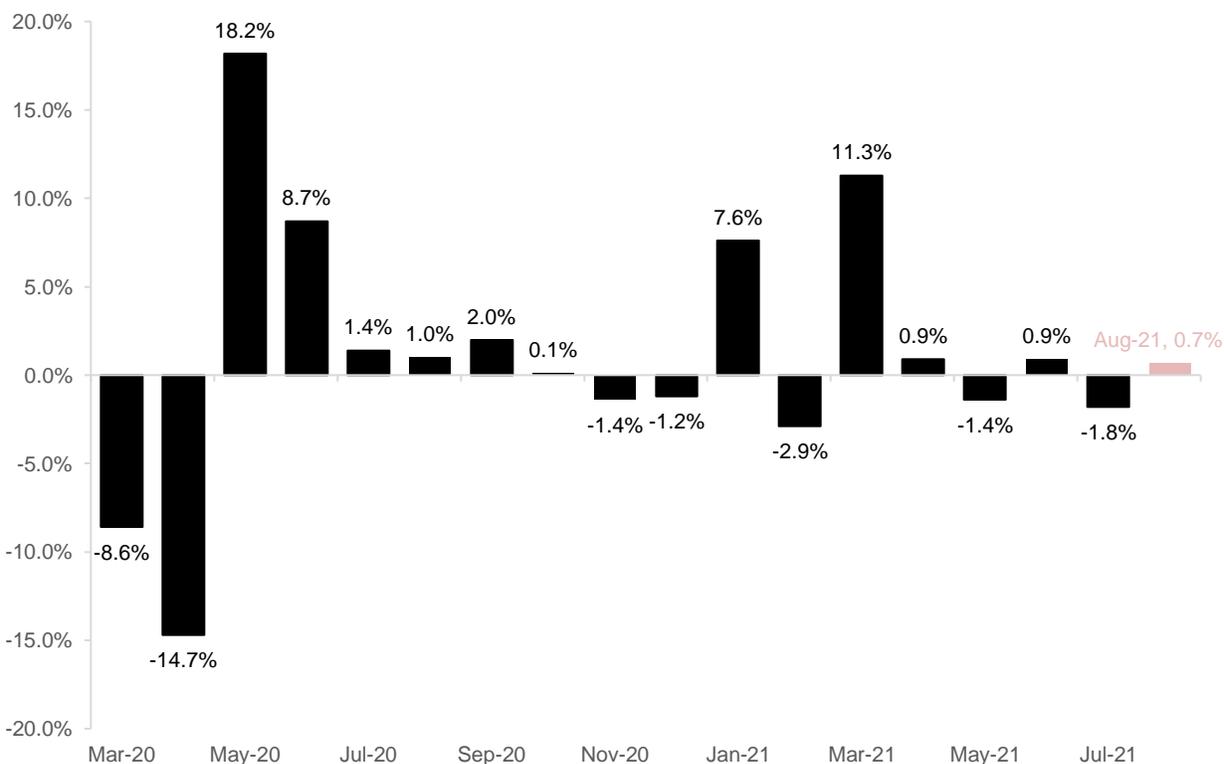
Government turned to a minor drag on growth in the second quarter, with a reduction in federal spending concentrated in nondefense spending outweighing a slight increase in state and local spending. Overall, government spending contracted 1.9% and subtracted 0.33% from growth in the second quarter. According to the Bureau of Economic Analysis, the decrease in federal government spending primarily reflected a decrease in nondefense spending on intermediate goods and services, as the processing and administration of Paycheck Protection Program (PPP) loan applications by banks on behalf of the federal government declined.

Finally, net exports subtracted 0.24% from growth in the second quarter, as exports grew less than imports. Exports increased by 6.6%, adding 0.7% to growth. Imports grew by 6.7%, subtracting 0.94% from growth in the quarter.

## B. Retail sales

Retail sales, a measure of purchases at stores, restaurants and online, rose a seasonally adjusted 0.7% in August 2021 from a month earlier, according to the Commerce Department, despite a big decline in car sales related to product shortages and shipping problems (chart 8). Excluding cars, sales rose 1.8%. Retail sales bounced back from a 1.8% decline in July, and beat expectations of a decline, after a resurgence of coronavirus infections and rising prices appeared to dampen consumer confidence. Demand at department stores and home improvement and furniture outlets, as well as stronger spending online, helped drive the increase in August sale. The rise in online and grocery store spending contrasts with stagnant spending at bars and restaurants, suggesting that Delta fears are playing a key role.

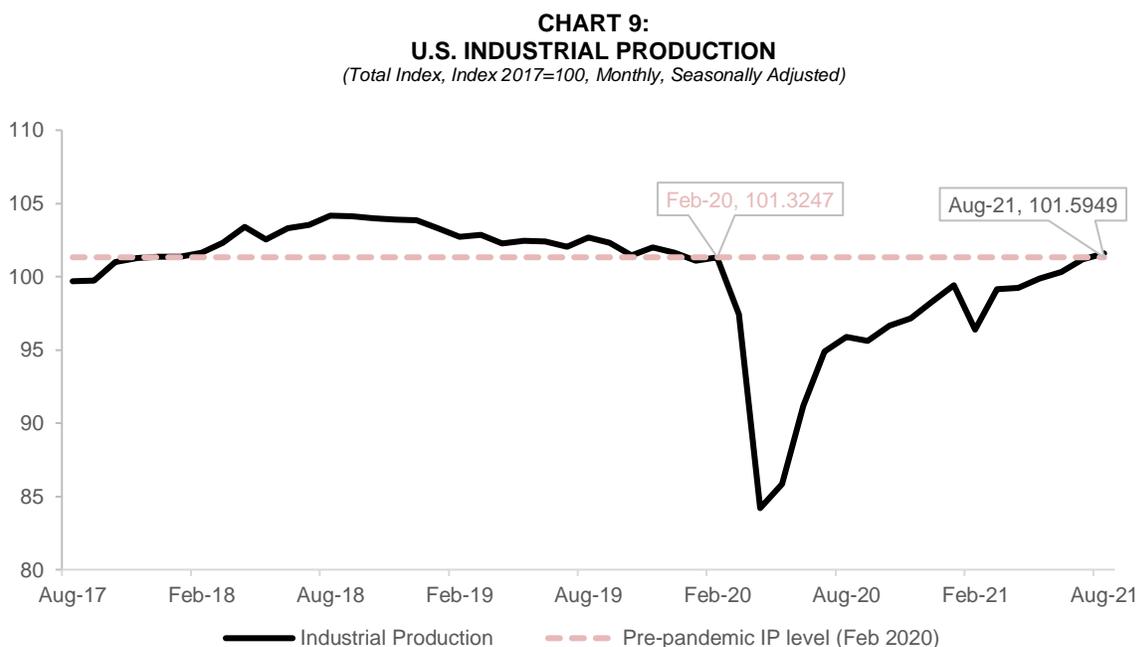
**CHART 8:**  
**U.S. TOTAL RETAIL SALES**  
(Seasonally adjusted, Month to month percentage change)



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 0.4% in August 2021, which was less than the market consensus anticipated, but enough to push it above its pre-pandemic February 2020 level by a slight 0.3% (chart 9). The relatively modest gain in industrial production may be reflecting global supply shortages. The spread of the Delta coronavirus variant has caused renewed disruption to global supply chains, particularly in Asia.



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

Late-month shutdowns related to Hurricane Ida held down the August gain in industrial production by an estimated 0.3 percentage point, according to the Federal Reserve.<sup>4</sup> Although the hurricane forced plant closures for petrochemicals, plastic resins, and petroleum refining, overall manufacturing output rose 0.2%. Mining production fell 0.6%, reflecting hurricane-induced disruptions to oil and gas extraction in the Gulf of Mexico. The output of utilities increased 3.3%, as unseasonably warm temperatures boosted demand for air conditioning. With the Delta variant causing renewed disruption to global supply chains and Hurricane Ida weighing on oil and gas production, a further slowdown in September is a possibility.

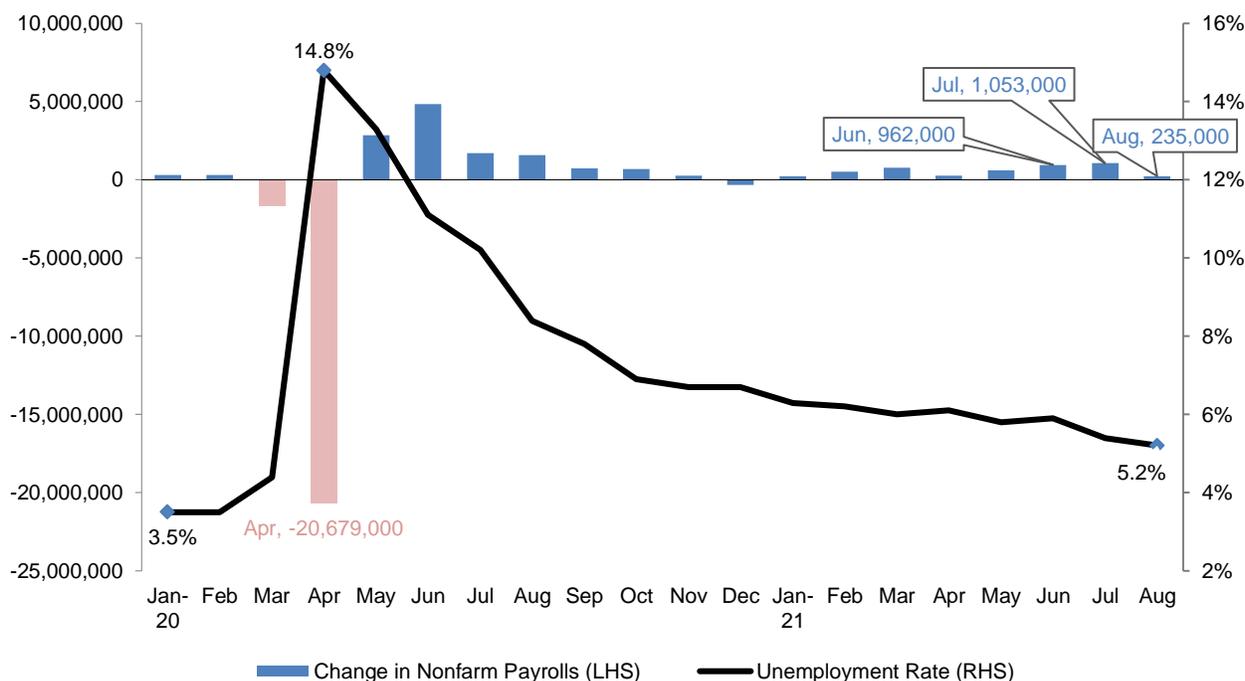
## D. Labor market

After several straight months of strong growth, the United States labor market faced a sharp deceleration in August, fueled by the rapid spread of the coronavirus' Delta variant. In particular, the nonfarm payroll August number showed a significant slowdown in services sectors, as strong wages persisted. The U.S. economy added just 235,000 jobs in August, well below forecasts and a steep drop from June's 962,000 jobs added and July's number, which was revised upward to 1.1 million (chart 10). Job growth in August usually comes in weaker than the consensus, but this time the drop was more pronounced.<sup>5</sup> The unemployment rate edged down to 5.2% from 5.4% in July.

<sup>4</sup> Federal Reserve statistical release, G.17 (419) Industrial Production And Capacity Utilization, 15 September 2021.

<sup>5</sup> According to Moody's (Economic Roundup, 3 September 2021, analysis by Ryan Sweet), over the past five years, the initial estimate of August job growth has been revised higher by an average of 75,000 jobs between the initial and third estimates primarily due to low responses to the preliminary survey.

**CHART 10:**  
**THE U.S. LABOR MARKET: MONTHLY JOB CREATION AND UNEMPLOYMENT RATE**  
*(Average monthly job growth (left axis); Percentage (right axis))*



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

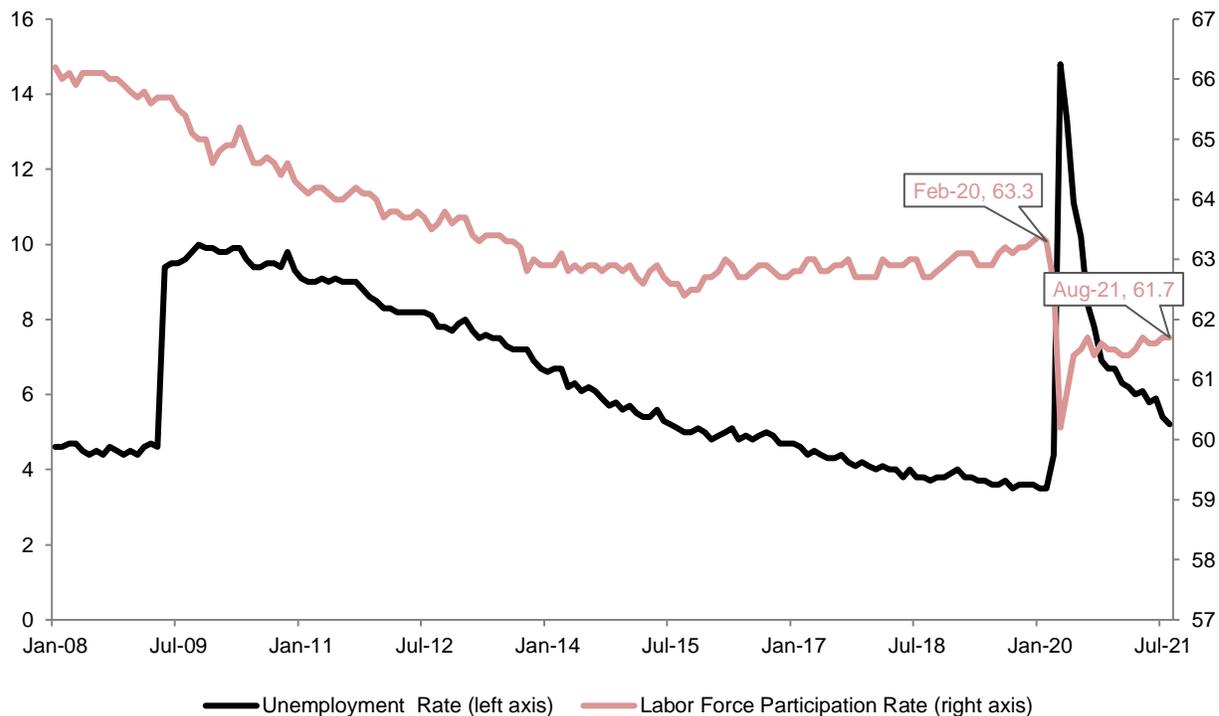
Job growth was driven by 74,000 jobs added in professional and business services, 53,000 jobs added in transportation and warehousing, 40,000 in private education and 37,000 in manufacturing. However, the spread of the Delta variant appears to be dragging on the parts of the economy that had begun to open up and hire again in recent months. The leisure and hospitality sector, which added an average of 350,000 jobs a month for the last six months, registered zero new jobs in August on labor shortages, while government payrolls in education also showed weakness. Food and services/drinking places employment fell 41,500 in August, construction employment slipped, and employment in retail trade dropped by 28,500, led by declines at building and material supply stores. Government employment was down 8,000 due to a reduction in state and local government education.

The surge in infections appear to be playing a key role explaining labor supply shortages. The U.S. Census Bureau's Household Pulse Survey conducted in the week of 18 – 30 August 2021 found that about 3.2 million adults aren't working because they are afraid of getting or spreading the coronavirus. This was a sharp uptick from the 2.5 million recorded at the end of July.<sup>6</sup>

The labor force participation rate was unchanged at 61.7% in August, still considerably lower than the pre-pandemic level (chart 11). Average hourly earnings rose more than expected by 0.6% month-over-month (4.3% on an annual basis), partly due to composition (fewer lower wage workers hired) as well as very strong wage increase in leisure and hospitality (1.3% mom). In the past five months, pay went up 8.8% for nonmanagerial workers in the leisure and hospitality sector and 6.1% for warehouse workers, as many former service sector workers are reluctant to return due to long hours and increased exposure to the virus. It seems to be working, since of the 3.1 million jobs gained since March, almost half were in hospitality.

<sup>6</sup> United States Census, [Week 36 Household Pulse Survey: 18 August – 30 August](#) and [Week 34 Household Pulse Survey: 21 July – 2 August](#) Employment Tables, Table 3.

**CHART 11:**  
**U.S. UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES**  
*(Percentage; Unemployment rate (left axis); Labor force participation (right axis))*



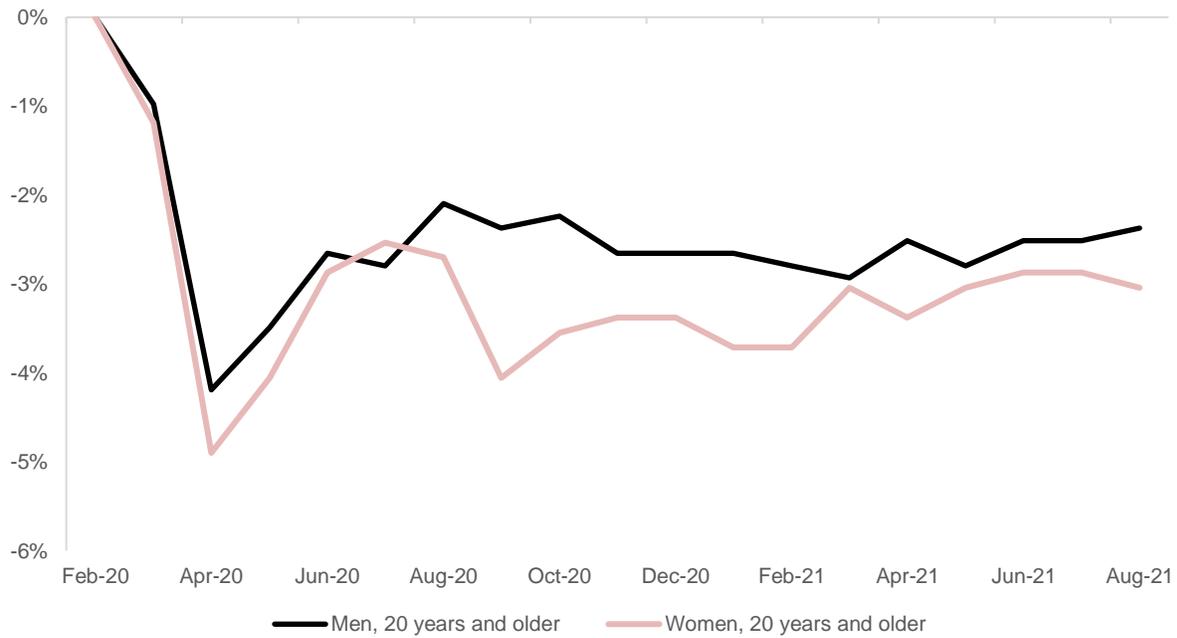
Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics.

Women continue to be disproportionately affected by losses in employment because of their overrepresentation in many high-contact industries that suffered some of the largest job losses, including healthcare, education and hospitality. Moreover, school and childcare center closures have created hardship for working parents, particularly for women. More women remain out of the labor force than men, and the gap in labor force participation recovery between female and male workers, after narrowing in March, started to widen again since then (chart 12). In August, the seasonally adjusted civilian labor participation rate for women, 20 years and older, was 57.4% compared to 59.2% in February 2020, while the participation rate for men, 20 years and older, was 69.9%, compared to 71.6% in February 2020.

The unemployment rate in August 2021 for men 20 years and over was 5.1%, while for women it was 4.8% (and 5.4% and 5.0%, respectively, for workers 16 years and over). Although women's unemployment rate is currently lower than men's, women's employment losses since February 2020 are still higher than losses for men, with the gap, which had been closed in March, having opened up again over the summer. In August 2021, when compared to the pre-pandemic employment levels of February 2020, women's employment level was 3.9% lower, while men's was 3.4% lower according to data from the Bureau of Labor Statistics (BLS)' Current Population Survey (chart 13).<sup>7</sup> As children head back to school in the fall, the Delta variant is tampering hopes of a return to a somewhat "normal" for women, as the same issues remain, particularly where child care is concerned, given that several school districts have been forced to close due to the surge in COVID-19 cases.

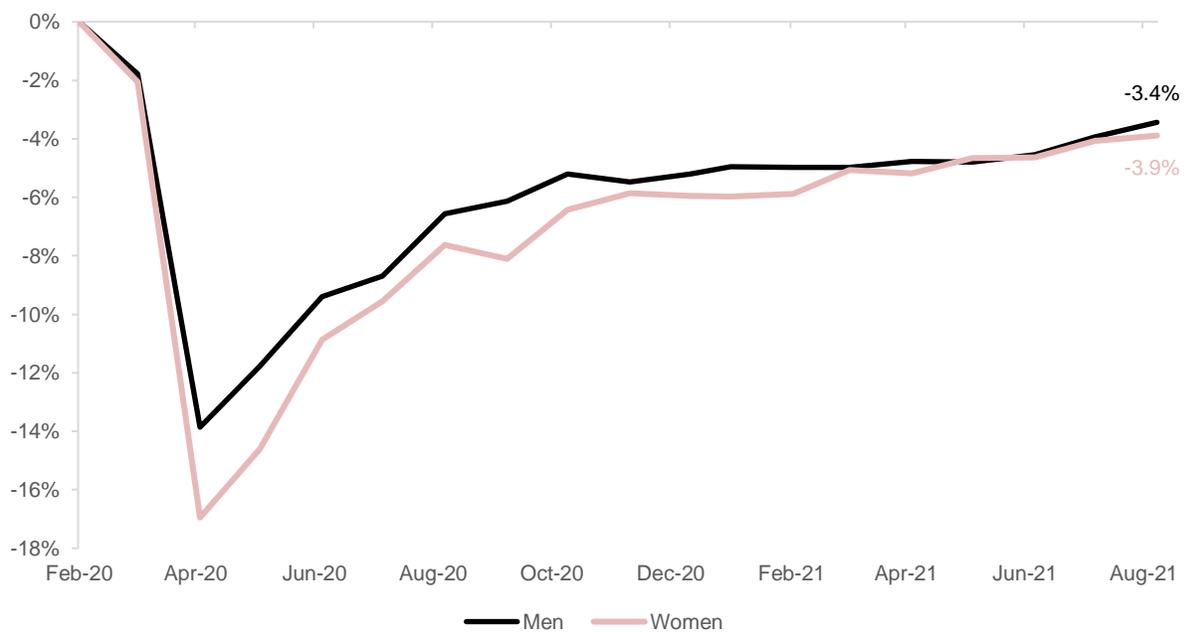
<sup>7</sup> The BLS has two monthly surveys that measure employment levels and trends: the Current Population Survey (CPS), also known as the household survey, and the Current Employment Statistics (CES) survey, also known as the payroll or establishment survey.

**CHART 12:**  
**CHANGE SINCE FEBRUARY 2020 IN U.S. LABOR FORCE PARTICIPATION SHARE BY GENDER**  
*(Percentage)*



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

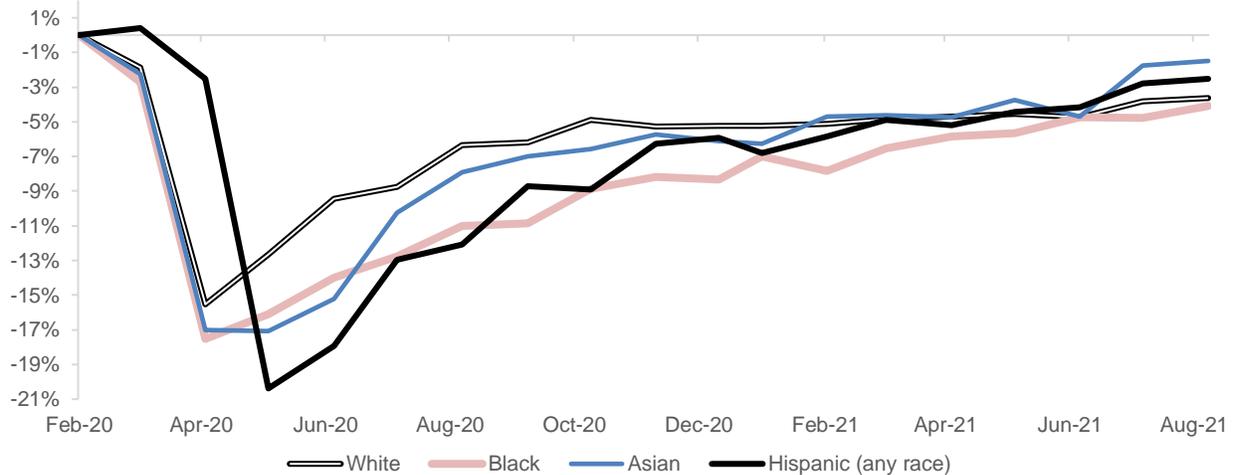
**CHART 13:**  
**CHANGE SINCE FEBRUARY 2020 IN U.S. EMPLOYMENT LEVELS BY GENDER**  
*(Percentage)*



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Series ID LNS12000025 and LNS12000026.

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 August 2021 was higher for African American (8.8%) and Hispanic (6.4%) workers than for Asian (4.6%) and white (4.5%). Losses in employment since February 2020 have also remained higher for African American workers (chart 14), who continue to struggle to regain the jobs lost early in the spring of 2020.

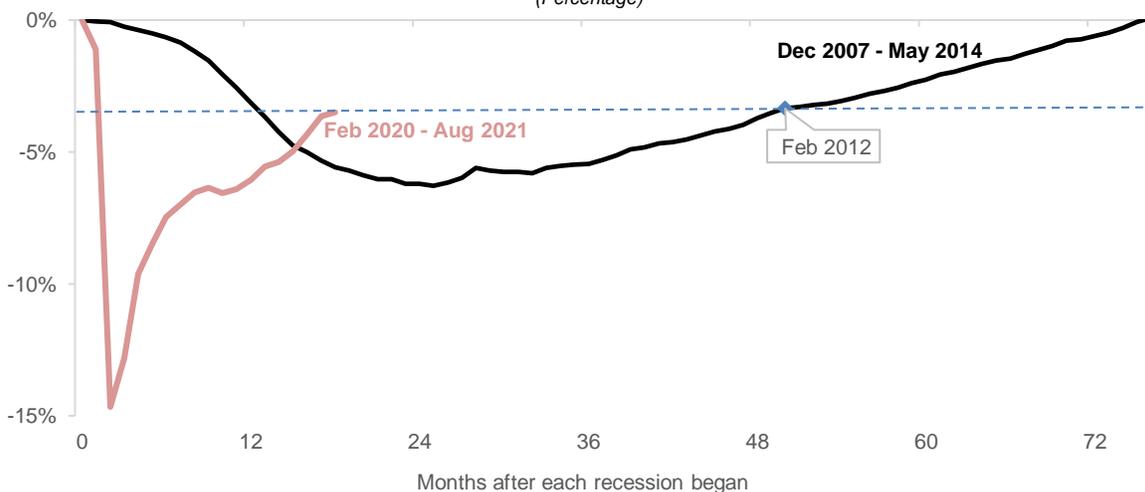
**CHART 14:**  
**CHANGE SINCE FEBRUARY 2020 IN THE NUMBER OF EMPLOYED PERSONS BY RACE**  
(Percentage)



Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, (Series ID LNS120000, LNS12000003, LNS12000006, and LNS12032183).

Despite the August deceleration in the labor market, many unemployed workers that were temporarily laid off have been rehired. In just over a year, the U.S. labor market has recovered more than 75% of the jobs lost since the start of the pandemic. This contrasts with the recovery from the Great Recession, when it took almost four years for the U.S. labor market to recover to this degree (chart 15). Private forecasters anticipate all the jobs lost could be back by mid to late 2022 – a rebound of about two years, compared to the six-plus years it took for the labor market to recover from the Great Recession.

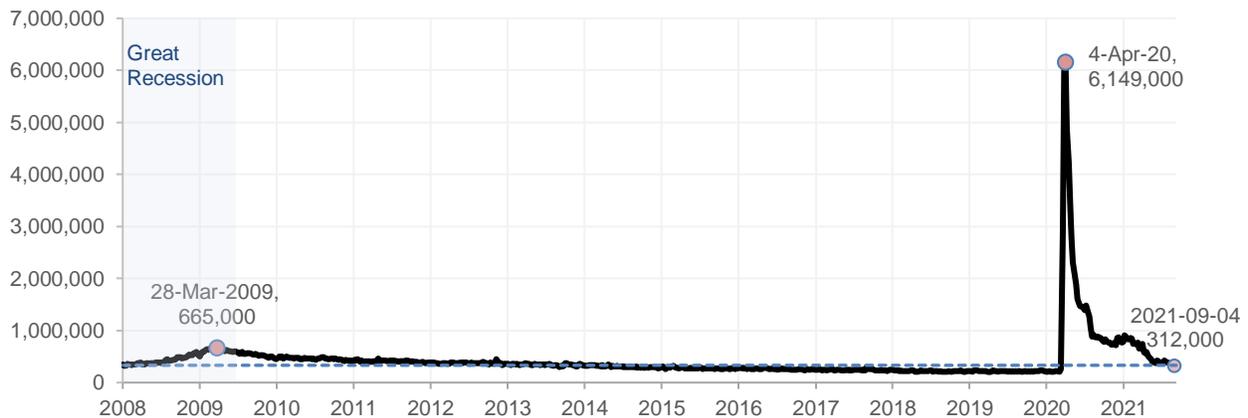
**CHART 15:**  
**EMPLOYMENT CHANGE: COVID-19 PANDEMIC VS GREAT RECESSION**  
(Percentage)



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

First-time claims for unemployment benefits – a proxy for layoffs across the United States – rose slightly in the week ending on 11 September 2021, but remained near pre-pandemic lows, according to data from the labor Department. Claims grew 20,000 to 332,000 from 312,000 in the week before, which had been a pandemic low. Although claims remain well above the pre-pandemic average of about 215,000 new filings per week, they are back to the average before the Great Recession (chart 16). The four-week moving average for claims, which smooths out weekly volatility, fell to 335,750, the lowest level since March 2020, and continuing claims, a proxy for the number of individuals receiving benefits, fell to 2.67 million in the week ending on 4 September, a pandemic low. The decline in continuing claims signals some unemployed workers are leaving the unemployment rolls for new jobs.

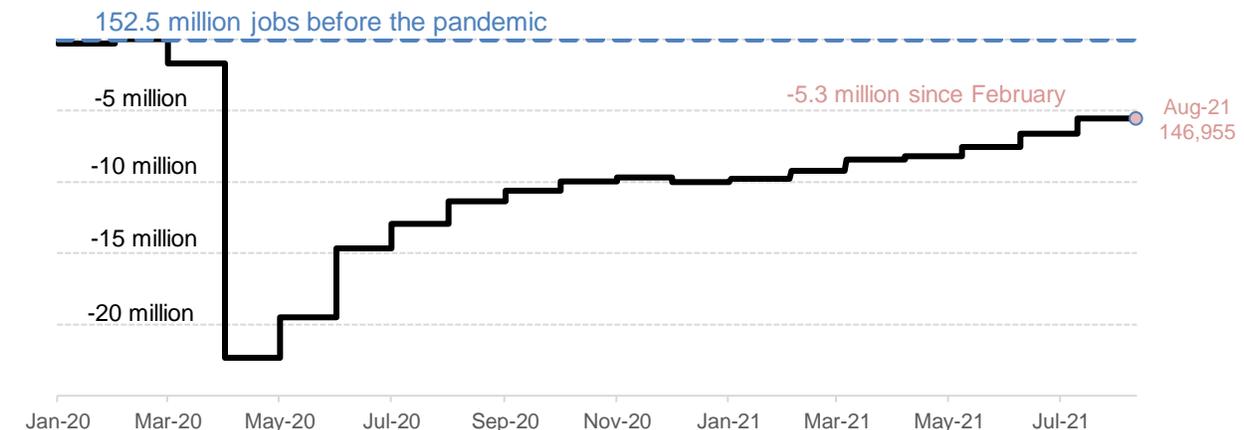
**CHART 16:**  
**INITIAL UNEMPLOYMENT CLAIMS FILED WEEKLY**  
*(Number of claims)*



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

Despite recent strides in the labor market, including solid hiring and declining layoffs, the U.S. economy is still down more than 5 million jobs from before the pandemic (chart 17). The large number of individuals receiving ongoing unemployment benefits and the smaller workforce suggest that strong hiring and lower initial claims are masking the reality that millions are experience long-term joblessness, and the data suggest that these people are disproportionately minorities.

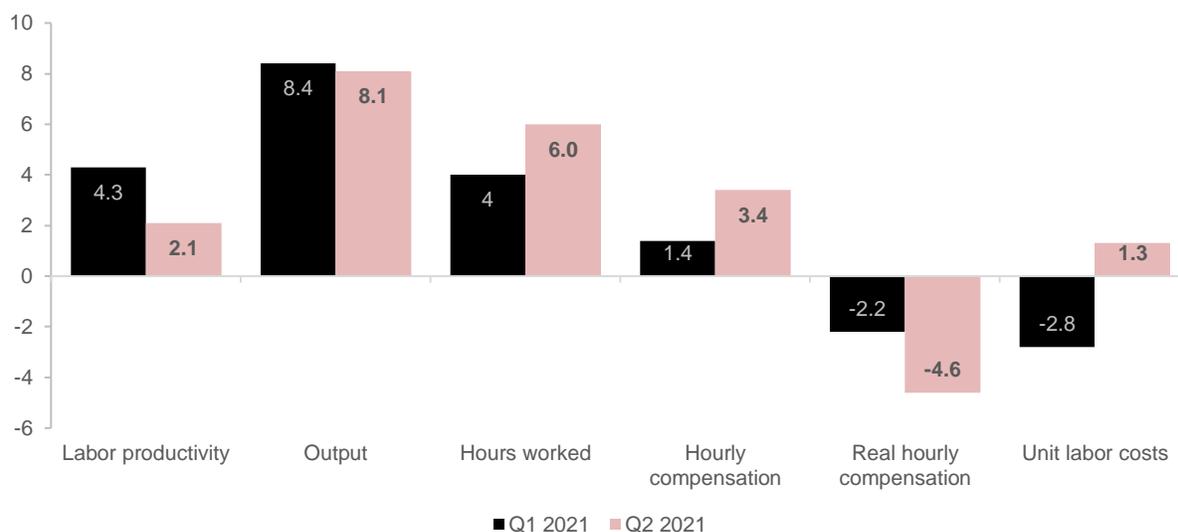
**CHART 17:**  
**CUMULATIVE LOSS OF JOBS SINCE THE BEGINNING OF THE PANDEMIC**  
*(Average monthly job growth)*



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

Finally, labor productivity growth in the nonfarm business sector, which has been vigorous in the wake of COVID-19 pandemic, increased at an annualized rate of 2.1% in the second quarter, down from 4.3% in the first quarter (chart 18). Unit labor costs increased 1.3%, up from a decline of 2.8% in the first quarter. Manufacturing labor productivity increased 8% at an annualized rate, following a decline in productivity in the first quarter (-0.9%). The BEA estimate for the second quarter shows that intellectual property investment increased at an annualized rate of 14.6%, which is a positive for future productivity growth. Given the backdrop of low borrowing costs, businesses seem to be looking at these types of investment as a way to hedge against rising labor costs.

**CHART 18:**  
**NONFARM BUSINESS SECTOR: LABOR PRODUCTIVITY AND COSTS, FIRST-HALF 2021**  
(Percent change from previous quarter at annual rate. Seasonally adjusted.)



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

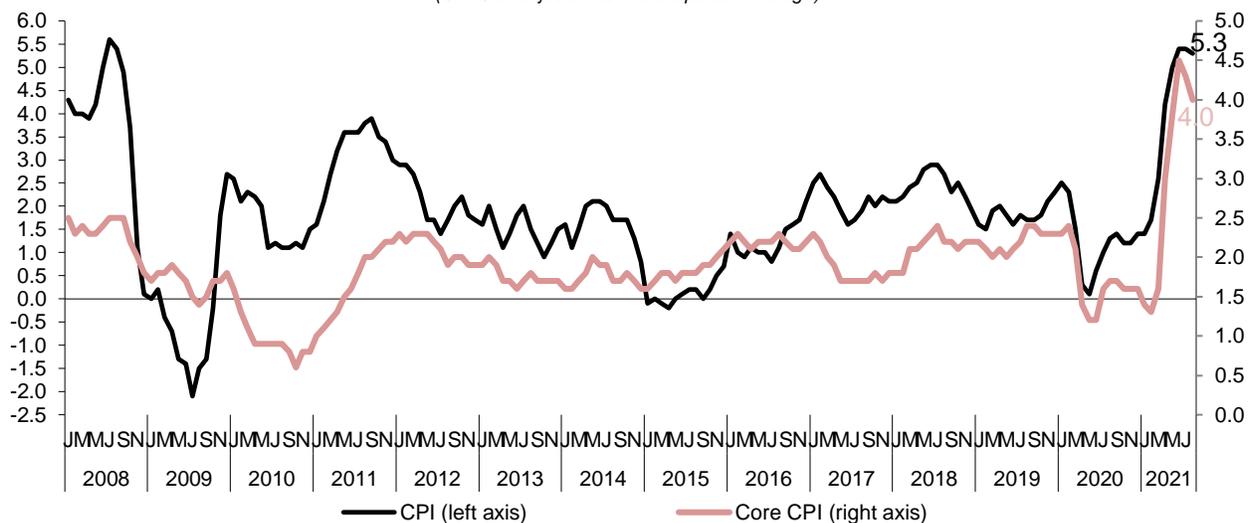
The August data for the labor market is a reminder that the United States economy's path is still dependent on an resolution to the pandemic, as the surge in Delta-variant COVID-19 cases was a factor in job growth falling below expectations. The August figures for the labor market seem to have ruled out any announcement by the Federal Reserve that it could start tapering its US\$ 120 billion in monthly asset purchases at its meeting on 21-22 September.

## E. Inflation

Inflation showed signs of cooling in August as a surge in COVID-19 infections slowed economic growth, but remained higher than normal, as pandemic-related shortages of labor and material supplies continued to drive up prices. 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 5.3% in August 2021 at an annualized rate, down from 5.4% in July. Prices excluding food and energy were also more subdued in August, with the core CPI at 4.0%, down from 4.3% in July (chart 19).

On a monthly basis, price gains moderated to a 0.3% increase between July and August, down from 0.5% the prior month and a 0.9% pace in June. Price eased for autos, with used vehicle prices dropping sharply, while hotel rates and airline fares also declined in August. Prices for services hit hardest by the pandemic are still recovering to pre-pandemic levels, including for air travel, accommodation, entertainment and recreation. The outbreak of the Delta variant likely weakened that rebound, taking some pressure off overall inflation in August.

**CHART 19:**  
**U.S. DOMESTIC PRICES: MONTHLY EVOLUTION**  
*(CPI-U unadjusted 12 months percent change)*

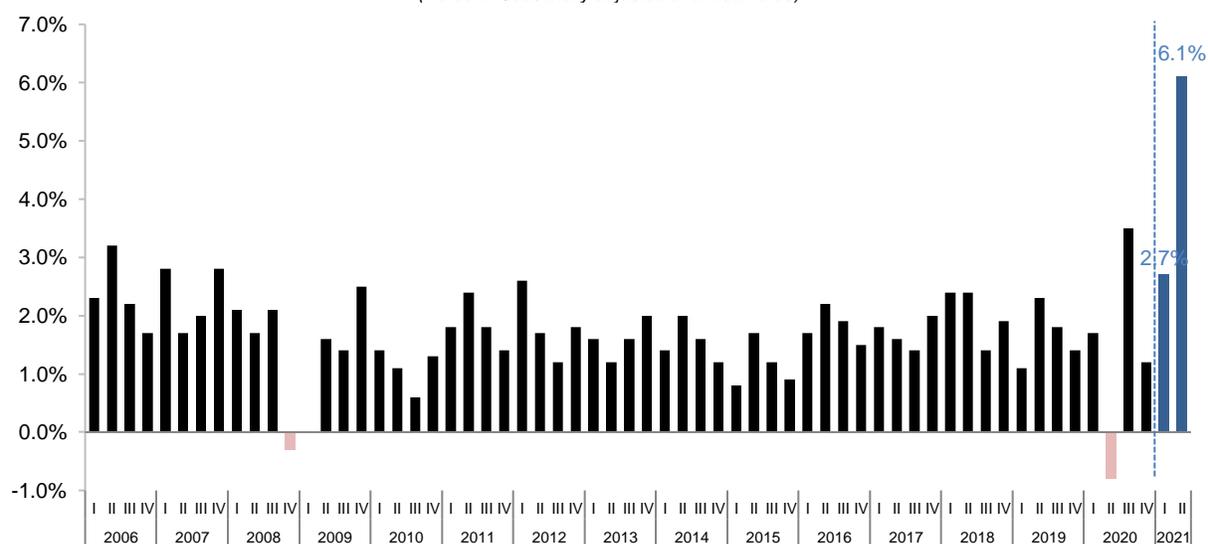


Source: ECLAC Washington Office, based on data from the U.S. Bureau of Labor Statistics

Over the past year, prices for used cars and trucks have taken up a significant share of inflation, in large part due to chip shortages. Overall, prices for vehicles were up nearly 32% in August over the last 12 months, but from July to August, prices for used cars and trucks fell 1.5%. Similarly, prices for hotels and motels fell 3.3%, while airline fares fell 9.1%.

However, the quarterly trajectory of the core Personal Consumption Expenditures Price Index (core PCE), which measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices, shows the strength of inflation in the first half of the year, and why it weighed on consumer confidence. The core PCE rose 6.1% in the second quarter, following an increase of 2.7% in the first (chart 20).

**CHART 20:**  
**QUARTERLY PERSONAL CONSUMPTION EXPENDITURE PRICE INDEX EXCLUDING FOOD AND ENERGY**  
*(Percent. Seasonally adjusted at annual rates)*



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

The Office of Management and Budget, which oversees the performance of federal agencies and administers the federal budget, doubled its forecast for annual inflation in 2021, saying consumer prices would rise 4.8% in the fourth quarter from a year earlier, up from the 2% rise that it forecast in February. Still, the forecast implies that the agency expects a sharp deceleration in prices over the coming months from the current pace. Officials say price pressures are primarily related to temporary supply-chain disruptions that will eventually fade. They estimate consumer prices in 2021 will rise just 2.5%, in line with inflation forecasts from Federal Reserve officials (table 2, p.13).

Federal Reserve Chairman Jerome Powell has argued for a while that the higher inflation is largely driven by temporary factors unique to the pandemic. In a speech in late August at the Jackson Hole Economic Symposium hosted by the Federal Reserve Bank of Kansas City, Mr. Powell reiterated his view that inflation is likely to cool over time, as supply-chain bottlenecks and other effects related to the economy's reopening subside. Mr. Powell said that so far there is little evidence that inflation is rising beyond a "relatively narrow group of goods and services that have been directly affected by the pandemic and the reopening of the economy." He singled out the sudden rise in durable goods prices – in contrast to the more modest rise in services prices – as evidence that inflation should fall back to the central bank's 2% goal.

In the past 25 years leading up to the pandemic, overall consumer prices – which combine services and goods – climbed by an average of 1.8% a year. That rise was driven by the faster rise in the costs of services, which grew an average 2.6% a year over that time. Prices for durable consumer goods – items designed to last at least three years – did the opposite, falling an average 1.9% a year between 1995 and early 2020, according to the Federal Reserve's preferred inflation gauge, the Personal Consumption Expenditures Price Index (PCE).

Chairman Powell cited globalization and technology as some of the forces driving down prices for durable goods. Globalization increased outsourcing to lower wage countries, decreasing the costs of parts and products, while technology made possible the use of new software and more advanced machinery that enabled factories to reduce their own costs by reducing the number of people and hours needed to make a product. More efficient shipping also contributed to cut costs, and the cost reductions ultimately translated into lower prices for consumers. By contrast, prices have persistently risen for services, because by default they are labor intensive, and services industries have not raised productivity as much as factories.

The COVID-19 pandemic has reversed this dynamic, Mr. Powell said, as durable consumer goods have become a big driver of inflation. The reason is that demand rose more quickly than supply because of the fiscal stimulus and the shift away from services caused by lockdowns and social distancing measures. According to researchers at the Cleveland Federal Reserve, both factors contributed equally to the rise in spending on durable goods. Excluding durable goods, core inflation in the 18 months through June 2021, which smooths out temporary ups and downs in some prices during the pandemic, was 2.2%, not far from its 12-year average of 2%. Mr. Powell added that the secular forces that had driven down prices for durable goods in the past – globalization and technology – have not gone away.

However, although the August lower inflation pace gives some support to the notion that price pressures may be transitory, the risk that inflationary pressures could be deeper and more persistent remain. According to the Bureau of Labor statistics, the energy index rose 25% over the last 12 months, almost as fast as prices for used cars and trucks, and the food index increased 3.7%. Both were larger than the increases for the 12-month period ending July. Food price growth is accelerating worldwide and services inflation may also pick up, as home prices and rents are rising quickly and employers in labor-intensive service businesses are facing higher labor costs. A combination of significant fiscal and monetary policy support, and the risk of a more long-lasting drop in the labor force, with a large share of those who left the labor force during the pandemic having retired, also raise the possibility that inflation could be more sustained.

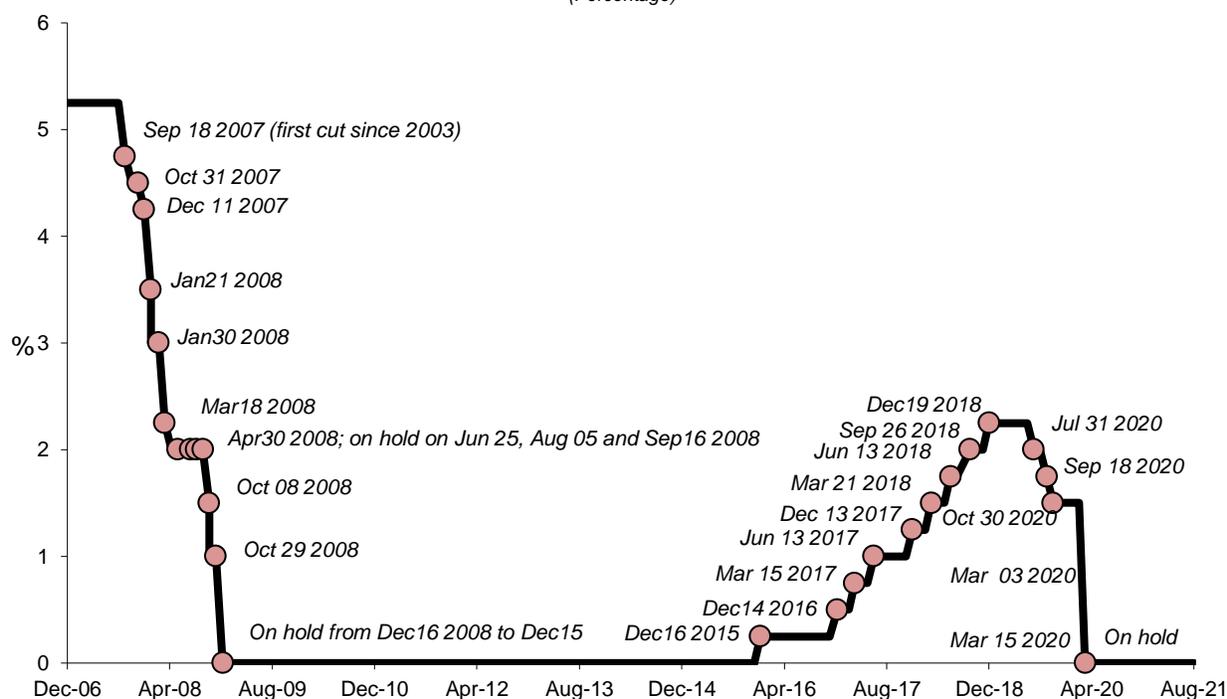
Federal Reserve officials are closely watching many inflation measures to gauge whether the recent jump in prices will prove temporary or long-lasting. Consumer expectations of future inflation are an

important factor to watch. Consumers' median inflation expectations for three years from now rose to 4% in August from 3.7% in July, according to a survey by the New York Federal Reserve. August's reading was the highest since the survey began in 2013. Persistent high inflation could compel Fed officials to tighten their accommodative monetary policy sooner than expected – or to react more aggressively later – to achieve their 2% average inflation goal.

## F. Monetary policy

The Federal Reserve cut its short-term benchmark interest rate to near zero in March 2020 (chart 21) and has been buying US\$ 80 billion of Treasury securities and US\$ 40 billion of mortgage-backed securities every month since June 2020 to support financial markets during the pandemic and protect the economy against a more pronounced economic contraction.

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



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

Given the strong pace of economic growth in the first half of the year, Federal Reserve officials are now debating when to begin scaling back the US\$ 120 billion asset purchase program put in place last year. The central bank set out two thresholds to meet before withdrawing or “tapering” that support, including “substantial further progress” towards 2% inflation and maximum employment. Federal Reserve officials have shown agreement that the first of these goals has already been met, but after August’s lackluster jobs report, no tapering was announced at the policy meeting of the Federal Open Market Committee (FOMC) on 21-22 September. The FOMC added a key phrase to its statement following the September meeting, however, saying that the economy has made progress toward the central bank’s goals and if “progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted.” Markets are preparing for a taper announcement at the Committee’s November gathering.

Policymakers still have to determine the exact pace of any taper. Some have advocated reducing purchases of Treasury and mortgage-backed securities in regular, proportional intervals so that asset purchases could be concluded by the middle of 2022. One possible path under consideration would see the central bank reduce its purchases of Treasury bonds by US\$ 10 billion a month and mortgage-backed securities by US\$ 5 billion a month.

Mr. Powell has attempted in his public remarks to sever any perceived link between tapering plans and the Federal Reserve's thinking about when to begin raising interest rates. The FOMC kept its main interest rate on hold at the range of 0 to 0.25%, but penciled in a faster transition to tighter monetary policy once interest rates are lifted. New projections released at the end of the FOMC's two-day policy meeting showed that half of the 18 officials now expect to raise interest rates by the end of 2022. In June, just seven officials anticipated that. Now nine officials predict the first interest rate increase would happen next year, while the other nine expect a liftoff in 2023. The new projections also suggest that at least one more interest rate increase is expected than officials had predicted in June, bringing the total to at least three. At the start of the summer, most Fed officials predicted at least two interest rate increases in 2023.

Meeting participants also submitted new economic projections of the most likely outcomes for real GDP growth, the unemployment rate, and inflation for each year from 2021 to 2023 and over the longer run. The new set of economic projections suggested more elevated inflation than initially expected in June, with those estimates increasing to 4.2% in 2021 and 2.2% in 2022. The unemployment rate is set to steady at 4.8% this year, slightly higher than June's forecasts, while GDP growth is expected to moderate. Fed officials see the economy expanding 5.9% this year, compared to 7% in June, and 3.8% in 2022 (table 2, p.13).

## **G. Fiscal policy**

The U.S. budget deficit narrowed to US\$ 2.7 trillion during the first 11 months of the fiscal year from US\$ 3 trillion in the same period a year earlier, with the gap between spending and revenue declining as the recovery from a pandemic-induced recession boosted taxes.

According to the Treasury Department, outlays for the 11 months through August 2021 rose 4%, to a record US\$ 6.3 trillion. Spending has been boosted by pandemic-related costs that included tax credits, expanded unemployment compensation, emergency small-business loans and stimulus checks to households, but Treasury officials have said such outlays are generally declining. Federal revenue during the 11-month period increased 18% from the previous year to a record US\$ 3.6 trillion, largely due to higher receipts from individual and corporate income taxes.

The deficit for August alone was US\$ 171 billion and compared with US\$ 200 billion a year earlier. Revenue increased 20.2% to US\$ 268 billion in August 2021 compared with the same month last year. Spending for the month increased 3.7% to US\$ 439 billion, as further pandemic relief under the American Rescue Plan Act, signed into law on 11 March 2021, was distributed to households and other beneficiaries.

There has been growing evidence recently that the U.S. economy is losing momentum as COVID-19 cases have risen in recent months. Supply-chain challenges and a lack of workers for lower-paying jobs are also challenging economic growth. With pandemic relief fading, lawmakers are now focusing away from emergency measures and towards the economy's long-run productive capacity.

The United States Senate passed the Infrastructure Investment and Jobs Act on 10 August 2021. Its total cost is US\$ 1.2 trillion, containing US\$ 550 billion in new spending over five years combined with the renewal of existing funding for infrastructure. This is a potentially historic expenditure that the President has put on par with the building of the transcontinental railroad or interstate highway system. The 69-30 votes for approval provided momentum for the first phase of President Biden's "Build Back Better" priorities, and the legislation has headed to the House, where 27 September 2021 is the tentative date for its consideration.

On 11 August 2021, Senate Democrats also approved a US\$ 3.5 trillion budget blueprint for their antipoverty, education and climate plan, with the Senate voting 50-49 to adopt the resolution. This is the first step toward bypassing the 60 vote threshold required to pass most legislations in the Senate through a process called budget reconciliation.<sup>8</sup> The agreed US\$ 3.5 trillion in spending and tax credits – which the lawmakers hope to offset with tax increases on corporations and high-income households and savings elsewhere – will determine the specific policy priorities that can be included into the final budget reconciliation legislation. On 24 August 2021, the House passed an identical budget resolution. This was a needed step before committees can start crafting the details of the legislation within the overall framework, allowing the reconciliation process to move forward.

White House officials have argued that over the long-term, the spending measures contained in both the infrastructure bill and the budget resolution will ease price pressures by addressing longstanding supply constraints, for example in the housing and child-care sectors. Some market analysts agree, saying that the combined US\$ 4.1 trillion headline figure (US\$ 550 billion in new infrastructure spending and US\$ 3.5 billion budget resolution) overstates the upside risk to inflation. According to analysis from Moody's Analytics, the infrastructure and social investments would be spread out over the next decade, averaging only 1.4% of GDP per annum. Moreover, they would be partially paid for by higher taxes on corporations and well-to-do households, offsetting some of their inflationary potential. Most importantly, several aspects of the combined US\$ 4.1 trillion plans could conspire to ease certain inflation pressures in the long run.

The US\$ 3.5 trillion package would fund free preschool and community college, an increased Pell Grant for lower-income students, and affordable childcare. According to Moody's, "this would lower out-of-pocket costs for education and childcare, which have outpaced overall inflation in the past two decades. The same package would invest in affordable housing, easing shelter-cost inflation." Lawmakers are also weighing granting Medicare the power to negotiate lower drug prices. This would reduce prescription drug-price inflation, especially as measured in the core personal consumption expenditure deflator, which captures prices paid by and on behalf of households. The analysis also suggests that under the two plans, greater educational attainment and infrastructure spending would lift labor productivity, while childcare support and paid family and medical leave would prop up the labor-force participation rate by 0.5 percentage point a decade from now. Higher labor supply and productivity would help keep potential inflation pressures at bay.<sup>9</sup>

Finally, lawmakers are once again discussing the need to raise the debt ceiling and to keep government funded beyond the end of September to avoid a government shutdown.

The debt ceiling sets a limit on the amount that the United States Treasury Department can borrow to pay government commitments already approved by the United States Congress. Once the ceiling is reached, lawmakers must either increase or suspend it to allow for the agency to issue new debt and raise the necessary funds to cover its bills. It was last suspended in 2019, and on 1 August it was reinstated at about US\$ 28.5 trillion, which includes all the debt accrued since the previous suspension.

On 8 September, Janet Yellen, the United States Treasury Secretary, warned lawmakers through a letter sent to Congress that the Treasury Department could exhaust cash-conservation measures in October. The Treasury Department has been using emergency cash-conservation measures for several months to cover its payments. In her letter, Ms. Yellen said that waiting too long to act to increase the debt ceiling "can cause serious harm to business and consumer confidence, raise short-term borrowing costs for taxpayers, and negatively impact the credit rating of the United States."

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<sup>8</sup> Budget reconciliation provides a fast-track process for consideration of bills to implement the policy choices embodied in the annual congressional budget resolution, regarding taxes, spending, and the debt limit. Only policies that change spending or revenues can be included. Senate debate time is limited, and only certain kinds of amendments can be offered.

<sup>9</sup> Bernard Yaros, United States Treasury Budget, *Indicators, Moody's Analytics*, 13 September 2021 [https://www.economy.com/economicview/indicator/usa\\_treasury/62569AE4-24D9-40D4-B666-5BDEFA06E3D8/Treasury-Budget](https://www.economy.com/economicview/indicator/usa_treasury/62569AE4-24D9-40D4-B666-5BDEFA06E3D8/Treasury-Budget)

Lawmakers have also to reach an agreement on government funding by the end of September. They have to pass a temporary measure known as “continuing resolution” to keep the government funded at current levels while they take more time to negotiate a permanent deal on the annual budget. President Biden has asked Congress to include in the package to fund the government later in September more than US\$ 30 billion in new spending on disaster aid and hurricane relief (US\$ 10 billion to pay for the government’s response to Hurricane Ida and US\$ 14 billion in aid for extreme weather events), and on Afghan refugees resettlement (US\$ 6.4 billion).

With less than two weeks before the government’s current funding expires at 12:01 a.m. 1 October, the House of Representatives passed a package that would fund the government through 3 December 2021, and suspend the debt limit through 16 December 2022, without having resolved the partisan standoff poised to derail it in the Senate. The House legislation would also provide more than US\$ 34 billion in additional funding for Afghan refugee aid and disaster relief, as requested by the President.

Most Senate Republicans have said they will not vote to increase the debt limit, saying Democrats should shoulder responsibility on their own after passing the US\$ 1.9 trillion American Rescue Plan Act earlier this year without any Republican votes. Democrats, who narrowly control the House and the Senate, are currently trying to also pass the roughly US\$ 3.5 trillion package of healthcare, education and climate-change provisions without Republican support, but they want it to be paid for, thus not contributing to a debt increase. However, as mentioned earlier, raising the debt limit does not authorize new spending, but rather allows the Treasury Department to issue new debt to cover spending that Congress has already authorized, including payments to bondholders, Social Security recipients and veterans.

Republicans noted that Democrats could add an increase in the debt limit into the US\$ 3.5 trillion package they are attempting to pass through the budget reconciliation process. Democrats, on the other hand, have said they do not want to increase the debt limit through that process, which could be complicated and time consuming, and noted that they voted with Republicans to raise the debt ceiling under former President Donald Trump’s administration. They add that the spending that requires the increase in the debt ceiling is spending that both Republicans and Democrats have already authorized, a shared responsibility.

As the U.S. Congress focuses on other legislative topics, such as the infrastructure package and spending authorization for Fiscal Year 2022, they may postpone the debt ceiling voting closer to the date of the actual depletion of the Treasury Department’s available resources, increasing the risk of a short-lived technical default, in which the government might be unable to make all of its regular payments in full and on time. The threat of such a default could derail markets and hit U.S. economic growth. A full default has never occurred, though a fight over the debt ceiling in 2011 rattled markets and helped lead to a sovereign credit rating downgrade by Standard and Poor’s. If no agreement is reached, the United States could face a shutdown of federal operations at the same time as a debt ceiling crisis, compounding the damage and disruption to the economy and markets.

## H. Financial conditions

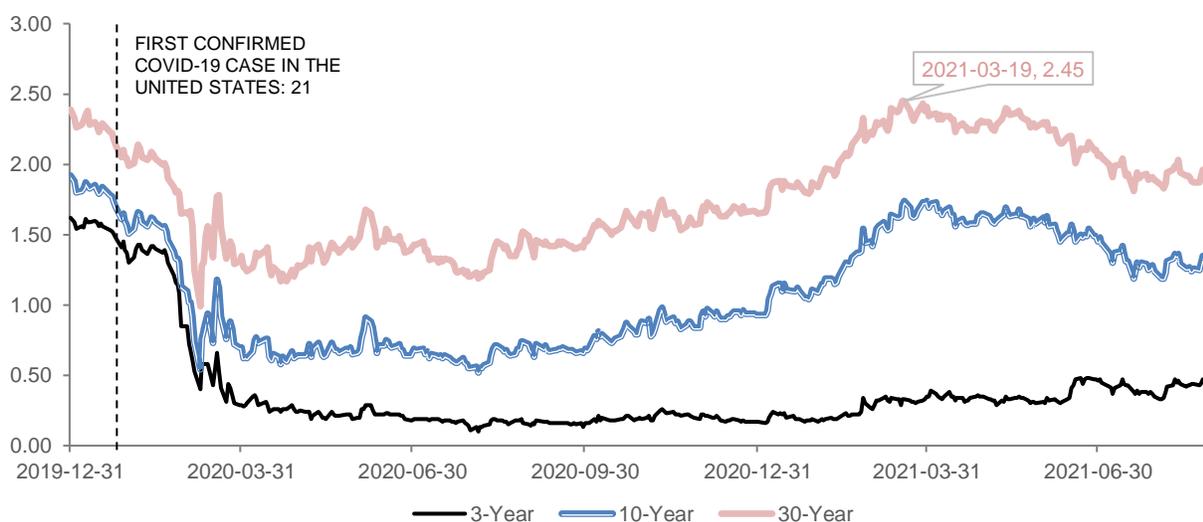
Investors are starting to price-in the possibility of a delayed congressional resolution for the debt ceiling. The risk is that this could potentially cause a short-lived technical default that could lead to credit rating agencies acting negatively on the United States credit rating, and to a reduction in foreign demand for United States Treasury bonds.<sup>10</sup> The debt ceiling impasse could upend global financial markets, and it would harm not only the United States’ but also the nascent global economic recovery from the COVID-19 pandemic. Considering the last 5 major episodes of the debt ceiling resolution, the largest market impact was observed when the new legislation was passed only days before a potential technical default in 2011.

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<sup>10</sup> Overseas buyers bought more than a quarter of the US\$ 41 billion of 10-year Treasury notes on offer in August, the highest percentage in three years. This high level of foreign demand, if it continues, would be helpful to soften the impact of a potential Federal Reserve’s tapering announcement at the end of the year.

U.S. Treasury security yields have increased in the first eight months of 2021, following a sharp decline in 2020, when demand for safe Treasury assets increased sharply as volatility and uncertainty spiked (chart 22). The decline in short-term Treasury yields was sharper than the declines in longer Treasury maturities in 2020. The increase in yields from January to August 2021 has followed the reverse pattern: the increase in short-term Treasury yields has been sharper than the increases in longer Treasury maturities. As of end-August 2021, the 3-year, 10-year and 30-year Treasury yields surged 135%, 40% and 16%, respectively, with the 3-year Treasury yields surge more than compensating for their decline in 2020 (table 3). There has been an overall increase in the first eight months of the 2021, but U.S. Treasury yields declined in July and August, with strategists pointing to a number of reasons for the surprise drop in yields in these two months, from technical issues to fears that inflation would force the Federal Reserve to move too fast to tighten policy, slowing the economy as a result.

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



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

**TABLE 3:**  
**U.S. TREASURY SECURITY YIELDS**  
(Percentage Change)

	3-year	10-year	30-year
<b>2020</b>	<b>-89.51%</b>	<b>-51.56%</b>	<b>-30.96%</b>
Q1 2021	105.88%	87.10%	46.06%
Q2 2021	31.43%	-16.67%	-14.52%
H1 2021	170.59%	55.91%	24.85%
<b>JAN-AUG 2021</b>	<b>135.29%</b>	<b>39.78%</b>	<b>16.36%</b>

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

Stock markets are heading into September near record highs but the fast-spreading Delta coronavirus variant is making some investors reassess how so-called reflation trades could perform in coming months.<sup>11</sup> A string of indicators from consumer surveys to derivatives suggest that without fresh catalysts markets could be in for a pause or even a reversal over the autumn months. From January to August 2021, the Dow Jones Industrial Average, the S&P 500 and NASDAQ gained 16%, 21% and 18%, respectively (table 4).

<sup>11</sup> The reflation trade is a bet that certain sectors of the market perform well immediately after a recession or economic crisis. It's essentially a bet on cyclical stocks at the beginning of a market recovery.

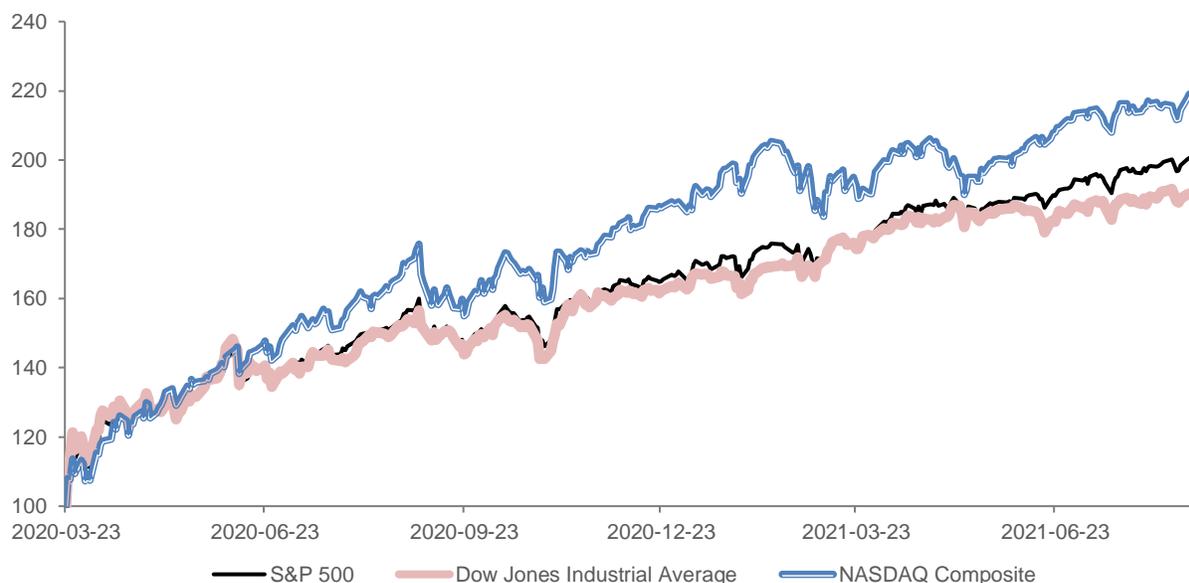
**TABLE 4:**  
**STOCK PRICES**  
(Percentage Change)

	Dow Jones Industrial Average	S&P 500	Nasdaq
<b>2020</b>	<b>7.25%</b>	<b>16.26%</b>	<b>-11.46%</b>
Q1 2021	7.76%	5.77%	2.78%
Q2 2021	4.61%	8.17%	9.49%
H1 2021	12.73%	14.41%	12.54%
<b>JAN-AUG 2021</b>	<b>15.66%</b>	<b>20.57%</b>	<b>18.45%</b>

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

Disruptive technologies got a boost compared to other stocks because 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 have shown an even bigger increase since the pandemic low reached on 23 March 2020 than other stocks. For example, at the end of August 2021, the NASDAQ index had gained 122.5% since 23 March, more than the S&P 500 (102.4%) and the Dow Jones (90.4%) (chart 23).

**CHART 23:**  
**U.S. STOCK MARKET INDICES: 23 MARCH 2020 – 30 AUGUST 2021**  
(Daily, not seasonally adjusted; 31 December 2019=100)

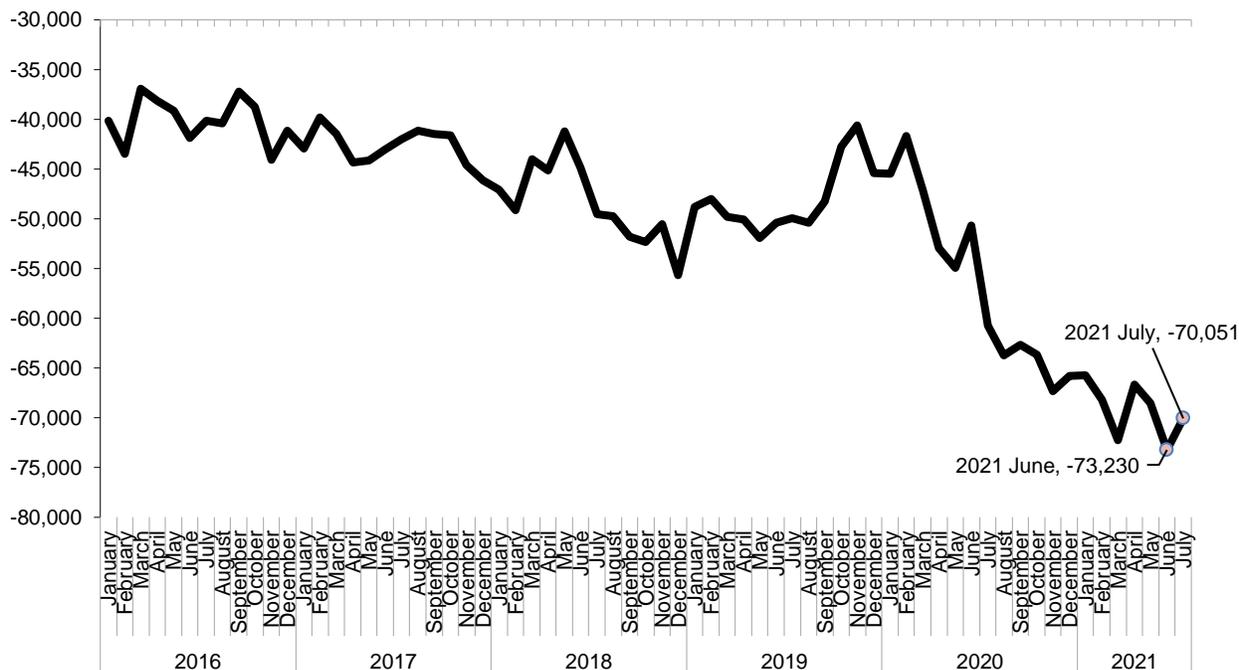


Source: ECLAC Washington Office, based on data from the Federal Reserve of St. Louis (FRED).

## I. External sector

Trade data is another example of a slowdown – at least temporarily – in United States consumer activities. The U.S. trade deficit in July, released in early September by the Commerce Department, suggests that the fast economic growth in the United States is losing momentum. The U.S. trade deficit shrank 4.3% in July from the previous month to a seasonally adjusted US\$ 70.1 billion, as consumers and businesses pulled back on purchases of imported goods amid rising COVID-19 cases caused by the Delta variant. The trade deficit had just reached a record level in June, which had been a result of the U.S. economy's strong appetite for imports in the previous three months, even as the slower recovery in other parts of the world kept U.S. export growth in check (chart 24).

**CHART 24:**  
**U.S. BALANCE ON GOODS AND SERVICES TRADE**  
*(Millions of dollars, months seasonally adjusted)*



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

Imports fell 0.2% in July from June to US\$ 282.9 billion as demand slowed for consumer goods. Imports of consumer goods fell 3.4% in July, with shipments of toys, games and sporting goods tumbling 22%.<sup>12</sup> Purchases of industrial supplies and material also declined. Exports expanded 1.3% to US\$ 212.8 billion. That was helped in part by a rebound in auto shipments, which had been suppressed by a semiconductor shortage in recent months.

The temporary disruption to the global economy caused by the renewed spread of the coronavirus, particularly across Asia, could weigh on trade over the next few months. As economic recoveries overseas catch up with that of the United States, exports should continue to grow. However, as domestic consumption growth slows down, stronger export growth may not prevent overall GDP growth from slowing over the second half of 2021.

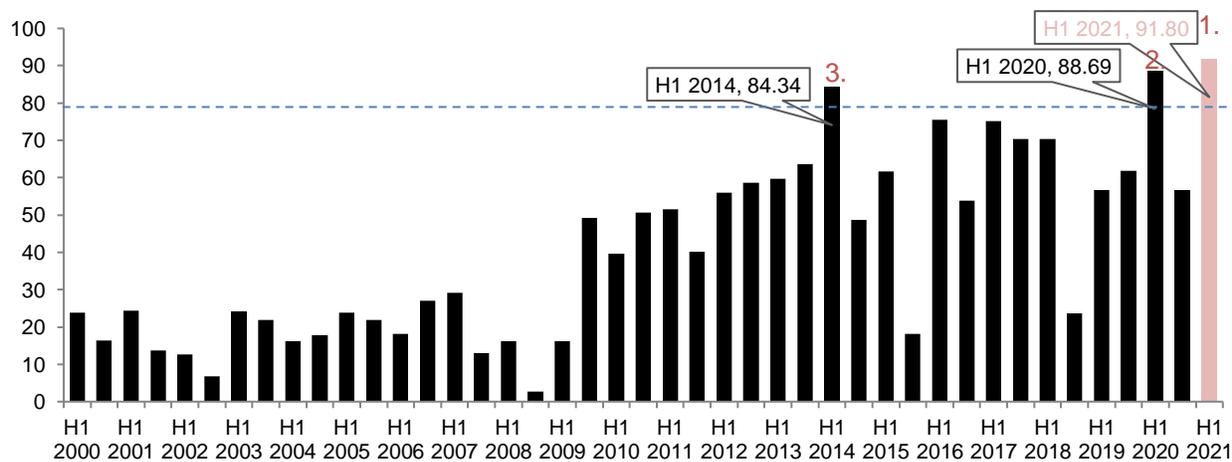
<sup>12</sup> Other reports for July had shown that retail sales declined 1.8% while overall consumer spending growth slowed to 0.3% – less than a third of the pace in June, which economists believed was the result of the spread of the Delta variant contributing to curb consumer spending.

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

The improved market liquidity created by the U.S. Federal Reserve in response to the COVID-19 pandemic, which helped avert a global depression, also encouraged portfolio managers to return to emerging markets where they could earn higher returns. The resumption of private financial flows to Latin America and the Caribbean staved off the wave of debt defaults and restructuring that were anticipated in the wake of the pandemic.

Supported by massive government spending and a rapid vaccine rollout, the United States economy emerged as a main engine for the global economic recovery in the first half of 2021. This powerful recovery brightened economic prospects for countries closely tied to its economy, with sizable positive spillovers to its trading partners in the LAC region. In the first half of 2021, total Latin American and Caribbean (LAC) bond issuance in international markets reached US\$ 92 billion, the region's highest half-yearly issuance ever recorded (chart 25).

**CHART 25:**  
**HALF-YEARLY LAC DEBT ISSUANCE IN INTERNATIONAL MARKETS**  
(US\$ Billions)



Source: ECLAC Washington Office, based on data from Dealogic, LatinFinance and Bloomberg.

For now, the region's issuers are enjoying some of the lowest lending costs on record, but the amount of debt is increasing. Unexpected signaling of tighter monetary policy in the United States would lead to higher market volatility.

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 LAC issuers have borrowed at longer maturities, protecting themselves from short-term surges in interest rates, and 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. However, this commitment is fraught with uncertainty since it is not yet clear whether inflationary pressures will be temporary.

If inflation in the United States turns out to be more long-lasting than Fed officials currently expect, 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 economic prospects. Higher U.S. interest rates would act as an incentive for fund managers to sell LAC securities and invest the money in the United States.

As foreign currency bond repayment levels increase, so do risks for the region's issuers in the medium and long-term. 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 still trying to recover from the damage caused by the pandemic. Heightened debt servicing costs could cause a long-term squeeze on their finances.

### III. Looking ahead

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The rebound from the COVID-19 pandemic recession in the first half of 2021 was rapid and robust, with the United States economy growing above 6%. Yet the economic recovery remains uneven. In some sectors, consumer demand remains depressed. In others, spending is high but supply constraints – whether for materials or workers or both – are pushing up prices. Some workers and small businesses owners face difficulties, while others are thriving. In addition, the support from the earlier fiscal emergency and stimulus spending packages have already started to fade and will soon run their course, while the Federal Reserve may soon start to taper its monthly asset purchases. The spread of the Delta variant and the failure to bring the pandemic under control is damping business expectations of a rapid economic revival, forcing companies to reset plans and revise forecasts.

The Biden administration is looking to accelerate the economy's reopening by mandating vaccines or weekly testing for private sector employees before they can return to workplaces. This decision, affecting all employers with 100 or more employees, was announced by the President on 9 September. The Labor Department's Occupational Safety and Health Administration plans to issue an emergency temporary standard implementing the new requirement, which will cover 80 million private-sector workers. The Biden administration will also require federal employees in the executive branch and government contractors to be vaccinated against COVID-19. The new mandates will cover about 100 million workers, or two-thirds of all workers in the United States, administration officials said. The move is not only an effort to save lives but also an attempt to counter the continuing and evolving threat that the virus poses to the economy.

As lawmakers in the United States Congress discuss an infrastructure bill and a US\$ 3.5 trillion budget blueprint for an antipoverty, education and climate plan, the Census Bureau reported on 14 September that poverty fell to 9.1% in 2020 after accounting for all the government aid — the lowest rate on record and a significant decline from 11.8% in 2019.<sup>13</sup> This is the latest and most conclusive evidence that poverty fell because of the government aid, and indicates that the fiscal response to the pandemic succeeded in pushing poverty in the opposite direction of what usually occurs during recessions. The Census Bureau estimated that the direct checks alone lifted 11.7 million people out of poverty last year. After accounting for the government aid, poverty declined in every age group, racial and ethnic group and educational level.

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<sup>13</sup> Poverty in the United States is defined as a family of four living on less than about US\$ 26,250 a year.

Some of the largest declines in poverty were reported for families headed by single mothers, African Americans, Hispanic Americans and adults without a high school degree.

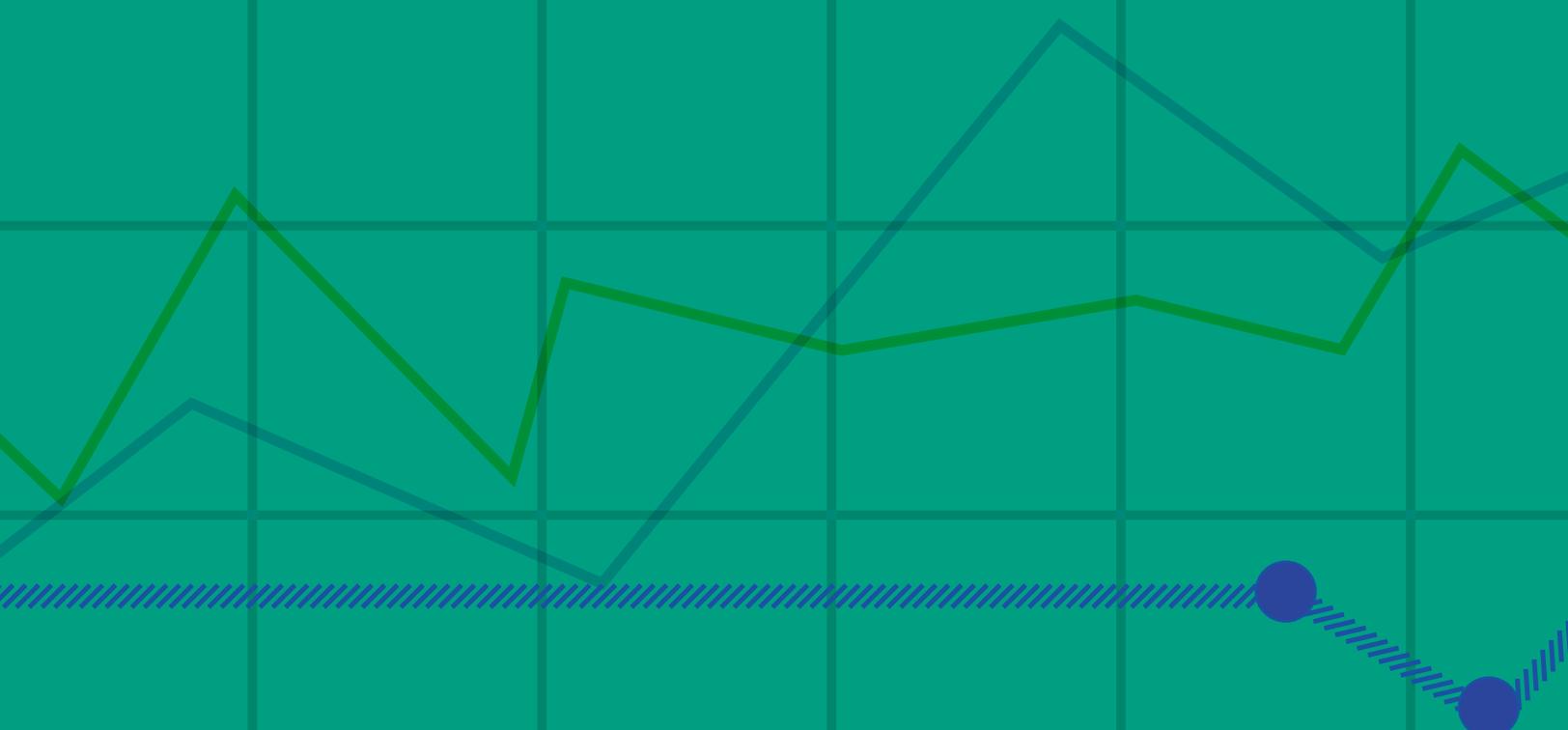
The report also showed the first significant decline in household income in nearly a decade. The last time median household income fell significantly was 2011, in the aftermath of the 2007-09 recession. The Census Bureau's top-line income figure includes unemployment benefits but does not account for income and payroll taxes nor stimulus checks or other noncash benefits like federal food programs. If those had been counted, the median household income would actually have risen 4% to US\$ 62,773.

President Biden is urging Congress to enact more programs to help the poor and working class as part of the US\$ 3.5 trillion budget resolution under discussion, which would make significant investments in many parts of the economy. White House officials point to the success of the pandemic aid as an example of how additional resources can make a dramatic difference in decreasing poverty and hardship.

Finally, the optimism for the growth outlook this year and beyond has been diminished somewhat with the resurgence of the coronavirus infections. There is increasing evidence that the coming months of the recovery could be more halting than previously anticipated. Private forecasters have pared back growth expectations for the end of the year, citing the spread of the Delta variant and waning fiscal stimulus, as risks and uncertainty rise. Risks of political stalemate are rising, and the need to reach agreements regarding government funding by the end of September and the debt ceiling in October add another element of uncertainty to the outlook. Also, the Federal Reserve balance act has become more difficult in this backdrop of unpredictability. Ultimately the pandemic, and how it will unfold in the coming months, remains the most unpredictable factor in the United States economic outlook.

The United States rebounded rapidly and robustly from the COVID-19 pandemic recession in the first half of 2021, as federal stimulus spending helped the economy expand at an annualized rate of over 6%. However, the economic recovery remains uneven.

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



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