United States

Outlook

	Average 12-16	2017	2018	2019	2020	2021	2022	2023	Forecast 2024
GDP growth (%)	2.3	2.5	3.0	2.5	–2.2	5.8	1.9	2.5	2.2
CPI inflation (%)*	1.3	2.1	2.4	1.8	1.2	4.7	8.0	4.1	2.6
Fiscal balance (% of GDP)	–6.1	–4.4	–6.1	-6.7	-14.8	–11.5	–4.0	–8.2	-7.4
Public debt (% of GDP)	103	104	106	108	130	126	122	123	127
Reference rate (%)*	0.31	1.13	1.96	2.25	0.50	0.25	2.02	5.23	5.13
Exchange rate (USD/EUR)*	1.23	1.13	1.18	1.12	1.14	1.18	1.05	1.08	1.09
Current balance (% of GDP)	-2.3	–1.9	–2.1	–2.1	–2.7	-3.6	–3.8	-3.0	–2.8
External debt (% of GDP)	96	95	94	94	97	95	93	95	97

Note: * Annual average.
Source: CaixaBank Research, based on data from the BEA, BLS, IMF and Oxford Economics (via Refinitiv).

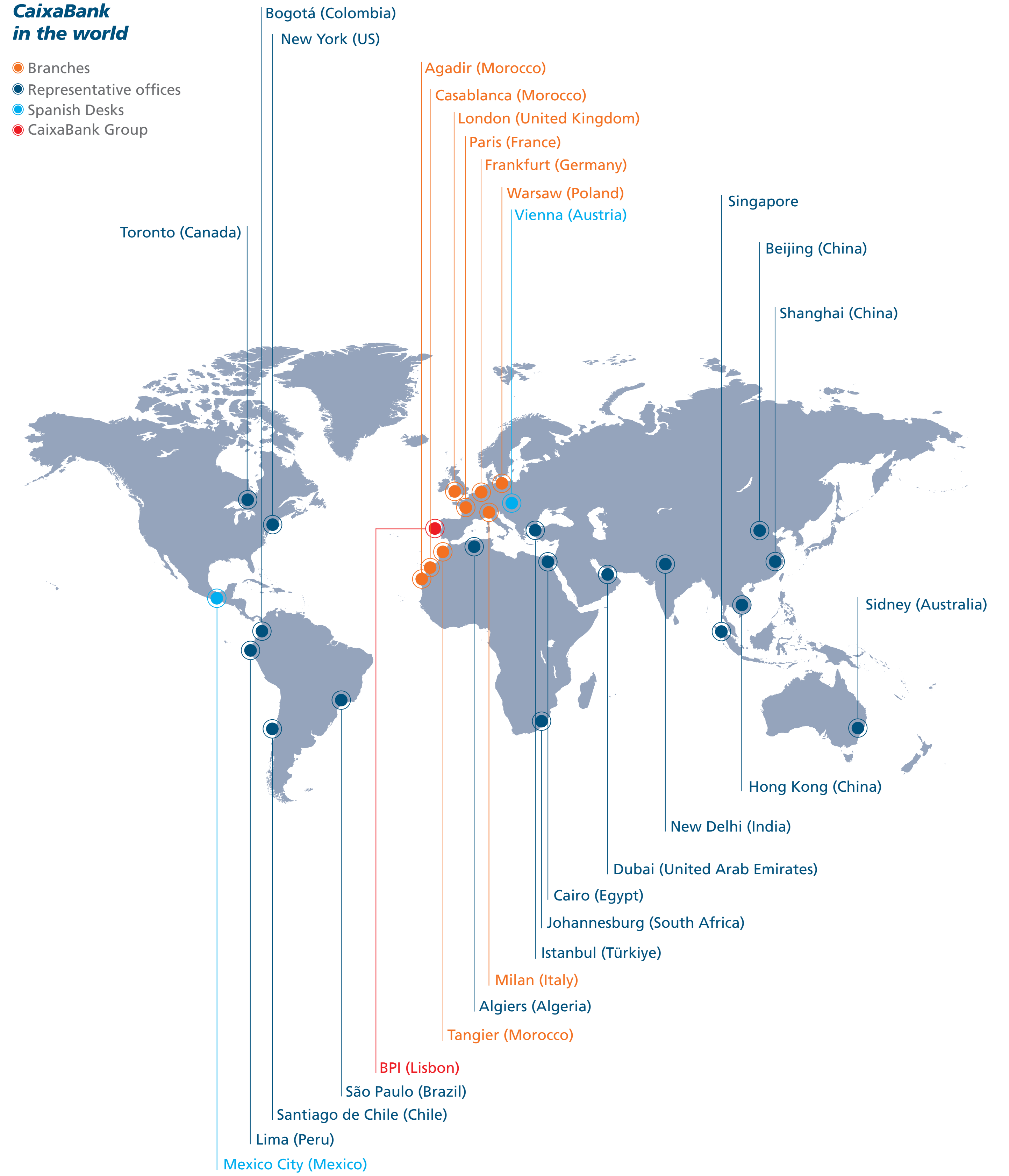
- **The growth of the US economy exceeded expectations in 2023 and we believe this rate of growth will return to normal in 2024**. At the start of 2023, inversion of the yield curve, turbulence in the banking sector and high interest rates ushered in a marked slowdown or recession of the economy. However, the labour market remained stable (with the unemployment rate at 3.7%) and GDP grew by 2.5%, far beyond what was forecast by analysts, thanks to a notable increase in public expenditure (4%) and the support of the last remnants of savings stored up by households during the pandemic. However, we believe that, in 2024, with these tailwinds fading and the lagging impact of high interest rates, GDP growth will return to normal.

- **Inflation, for its part, should continue on the path to 2%**. If 2023 was the year of significant disinflation, where headline CPI went from growing by 6.5% in December 2022 to 3.4% at the end of 2023, we expect this dynamic to continue in 2024. However, this so-called «last mile» will be gradual and won't be without turbulence. Although bottlenecks and energy prices returning to normal have contributed to the marked decline observed in 2023, disinflation should occur in 2024 due to lower inflationary pressures in services. On the one hand, we think that housing price inflation (shelter, with a weight of 35% in the consumption basket) should ease significantly at some point in 2024, following the dynamics observed in the rental market. On the other hand, the remaining services are showing dynamics consistent with greater inflationary persistence. The Federal Reserve is therefore being cautious when it comes to cutting interest rates and, although it will lower them at some point in 2024, it is in no rush to do so at the start of the year. Our expectation is that the first cut will occur in June this year, followed by three more that will leave the Fed's target in the 4.25%-4.50% range at the end of the year.

- There are **several downside risks in this scenario**. On the one hand, doubts regarding the commercial real estate (CRE) sector are generating financial turbulence in banking sectors that are the most exposed, a dynamic that may be sharpened by the spike in interest rates. Likewise, if inflationary pressures in services, including shelter do not subside, or even intensify, this may lead the Federal Reserve to maintain a restrictive monetary policy for even longer, which could be a strong tailwind in the face of economic growth. On the fiscal side, current policies, according to the Congressional Budget Office, would take federal public debt from 100% of current GDP to close to 120% in 10 years, something that is showing no signs of changing, regardless of the outcome of the presidential elections on 5 November. Repeatedly reaching the debt limit represents a downside risk for activity, while the potential implementation of a more sustainable fiscal path could worsen the region's economic outlook.

Closing date of this edition: 28 February 2024

CaixaBank in the world



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