ECONOMIC COMMISSION
FOR LATIN AMERICA
AND THE CARIBBEAN

ECLAC Office in Washington, D.C.

United States economic outlook

2021 year-in-review and first quarter of 2022

UNITED NATIONS

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Unless otherwise indicated, the cutoff date for the information used to prepare this report is 17 June 2022.

United Nations publication
LC/WAS/TS.2022/2

Printed at United Nations, Santiago

This publication should be cited as: Economic Commission for Latin America and the Caribbean (ECLAC), *United States economic outlook: 2021 year-in-review and first quarter of 2022* (LC/WAS/TS.2022/02), Santiago, 2022.

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Highlights

- *The United States Gross Domestic Product (GDP) increased 5.7% in 2021, the strongest annual pace since 1984.* Consumer activity and business spending led the gains, as the economy recovered from the unprecedented collapse in economic activity in early 2020 due to the COVID-19 pandemic.
- *The labor market was strong in 2021.* It averaged 562,000 new jobs per month, with 6.7 million new jobs being created in 2021. Overall, the economy was still 3.3 million jobs below its pre-pandemic level at the end of the year.
- *While economic growth accelerated and labor market strengthened, inflation also surged, especially in the second half of 2021.* From December 2020 to December 2021, consumer prices for all items rose 7.0%, the largest December to December percent change since 1981, as supply couldn't keep up with strong demand, particularly for goods.
- *In a sharp reversal, the United States economy contracted 1.5% in the first quarter of 2022 after growing 6.9% in the fourth quarter of 2021.* The GDP decline in the first quarter stemmed from a widening trade deficit, with the increase in imports far outpacing the increase in exports. Inventories and federal government spending also subtracted from growth.
- *The labor market continues to show strength, with 2.4 million new jobs created from January to May 2022, an average of 488,000 new jobs per month.* May 2022 was the 17th consecutive month of employment gains. Job growth was broad-based, and the unemployment rate was at 3.6%.
- *Inflationary pressures remain elevated*. The Consumer Price Index (CPI) was above 8% in March, April and May 2022. While in April inflation edged down to 8.3% from 8.5% in March, in May it came higher than expected, increasing to a 40-year high of 8.6%, with energy and food prices soaring to new levels. The continued rapid pace of price increases adds pressure on the Federal Reserve to raise rates aggressively to tame inflation.

- *In June, the Federal Reserve increased its benchmark interest rate by 0.75 percentage point, the largest increase since 1994.* The Fed signaled it would continue lifting rates this year at the most rapid pace in decades. This was the third interest rate increase in 2022, following a quarter percentage point increase in March, and a half percentage point increase in May. Also in May, the central bank outlined a program in which it eventually will reduce its bond holdings by US$ 95 billion a month.
- *With the Federal Reserve in the process of raising interest rates at the most aggressive pace since the 1980s, recession risks are rising.* The Federal Reserve, while tightening monetary conditions, is aiming to achieve a soft landing for the economy and avoid a recession. Whether policymakers will be successful in avoiding a hard landing is uncertain. Rising prices and the monetary policy response add uncertainty to the United States economic outlook.