



Grupo de Pesquisa em
Gestão e Planejamento Econômico-Financeiro
Universidade Federal do Rio de Janeiro – UFRJ

The Quarterly Observatory of the
U.S. Economy:
Macroeconomic Trends,
2nd Quarter 2023

Textos para Discussão

No. 14 – agosto, 2023.

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Manuel Alcino Ribeiro da Fonseca (mfonseca@facc.ufrj.br).

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Título

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Autor

GPEF *

* Grupo de Pesquisa em Gestão e Planejamento Econômico-Financeiro

Resumo:

O principal objetivo do Observatório Trimestral é avaliar a evolução da economia norte-americana em uma perspectiva de mais longo prazo, e levando em conta um referencial macroeconômico bem definido. Este referencial, assim como as previsões elaboradas no texto, seguem material disponível em outro Texto para Discussão:

“A macro-econometric model containing income distribution, price changes and Government financing: Solutions and dynamic analysis for the US.”

https://modelosfinanceiros.com.br/assets/documentos/gpef_-_texto_para_discusso_no_11_-_20222.pdf

Abstract:

The main objective of the Quarterly Observatory is to evaluate the path of the U.S. economy in a longer-term perspective and considering a well-defined macroeconomic framework. This framework, as well as the predictions elaborated in the text, follow material available in another Text for Discussion:

“A macro-econometric model containing income distribution, price changes and Government financing: Solutions and dynamic analysis for the US.”

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Econômico-Financeiro

Introduction

In the second quarter of 2023, the trend of reduced growth in aggregate output, that initiated after the third quarter of last year, was interrupted – GDP growth was 0.1 percentage point higher than in the first quarter. In the case of private consumption, there was a decrease in the growth rate, but private investment had a relatively strong performance in the second quarter. On the other hand, total employment in the private sector continued to show declining growth rates – a trend that has been present since 2021.

Inflation rates, as measured by both the CPI and the GDP deflator, continued to trend downward – in the latter index, there was a reduction of 1.7 percentage point in the second quarter's inflation rate. In relation to price changes, the peak occurred in the second quarter of 2022. The second quarter of this year was also marked by more favorable fiscal data for the federal government, with a moderate increase in expenditure items (minus 2.3 percentage points in relation to first quarter's growth) and a reduction in net transfers.

1. GDP growth and its main factors

The growth of GDP improved in relation to the first quarter of the year. Two factors contributed to higher GDP increase, namely, the slight reduction of the trade deficit and a relatively strong growth of private investment.

On the other hand, in the second quarter of 2023, private consumption had a lower rate of growth – a movement that follows the passage of average real interest rates into positive territory.

1. GDP growth and its main factors

	Units	Last II-23	Previous I-23	Change (%)												
				IV-21	I-22	II-22	III-22	IV-22	I-23	II-23						
Real net exports	Mil. 2012 USD	-1,205,519	-1,208,397	2.38	14.72	-3.90	-11.30	-2.37	-2.43	-0.23						
Real private consumption	Mil. 2012 USD	14,418,828	14,360,357	0.77	0.33	0.50	0.56	0.25	1.02	0.40						
Real private investment	Mil. 2012 USD	3,629,237	3,579,051	7.19	1.31	-3.73	-2.48	1.10	-3.11	1.40						
Real interest rates		Real Rate (%)								Forecast (%)						
Moody's Aaa yield	% (GDP Deflator)	II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23	2023	2024	2025	2026	2027	
		0.98	-0.69	-3.26	-3.27	-3.14	-2.38	-1.85	-0.69	0.98	1.05	1.11	0.94	0.87	0.83	
		Change (%)														
Real GDP	Mil. 2012 USD	II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23	2023	2024	2025	2026	2027	
		20,404,088	20,282,760	1.69	-0.41	-0.14	0.80	0.63	0.49	0.59	2.24	2.74	2.45	2.23	2.13	

2. Inflation and monetary aggregates

After peaking in the second quarter of 2022, CPI inflation has entered into a consistently lower trajectory, and the same trend is observed in the GDP deflator.

Among the factors associated with the reduction of inflation are the sharp decrease of the money supply (M1 stock) in the second quarter and a moderate expansion of the monetary base.* These last two trends are consistent with the rise in nominal interest rates that apply to the economy as a whole (business rates). On the other hand, the reduction in money supply was offset in part by the increase of M1 velocity.

Another factor even more important contributing to lower CPI rates is the decrease of wholesale prices. In the second quarter of 2023 there was, in fact, a major decline in the index PPI – all commodities.

* One major issue with data for monetary variables was the change in the definition of M1 adopted by the Fed in May 2020, which caused a fourfold increase in the figure for that month. To deal with this change, an adjustment has been made to bring recent data in line with the original series.

2. Inflation and monetary aggregates

	Units	Last	Previous	Annual Change (%)											
		II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23	Forecast (%)				
Consumer Price Index (CPI)	1982-84 = 100	303.84	301.80	7.19	8.51	8.93	8.21	6.44	4.98	3.09					
GDP Deflator	2012 = 100	131.51	130.80	6.11	6.93	7.61	7.14	6.40	5.33	3.63	2023	2024	2025	2026	2027
		II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23	2023	2024	2025	2026	2027
Monetary base	Mil. USD	5,608,200	5,571,000	23.17	5.05	-8.63	-15.30	-15.71	-9.18	1.84	2.80	2.64	2.53	2.44	2.36
M1*	Mil. USD	4,445,958	4,596,276	14.67	11.14	6.42	2.06	-3.38	-8.29	-10.18	2.80	2.64	2.53	2.44	2.36
M1 income velocity	N.A.	4.486	4.287	3.710	3.645	3.735	3.859	3.983	4.287	4.486					
Producer Price Index (PPI) All commodities	1982 = 100	253.95	257.02	20.36	20.93	22.43	13.67	6.87	-1.15	-9.38					

* See previous page.

3. Broad sectors in the economy

The trajectory of nominal income in the sector with the greatest link with the economy's overall cyclical pattern – Utilities, Construction and Manufacturing – peaked in the last quarter of 2021 and has shown a downward pattern in the nominal rate of change thereafter. In the case of Trade and Transportation, there is not such a distinct trend – instead, up and down movements in the nominal rate of change have been observed.

In the case of financial services, there were negative and decreasing nominal rates of change in the last three quarters of 2022. This worsening scenario is undoubtedly affected by the problems in the real estate segment. The sector of personal and business services, as expected, has shown a more regular behavior (in nominal values).

3. Broad sectors in the economy: National income

	Units	Last	Previous	Change (%)		Forecast (real rate, %)									
		I-23	IV-22	III-21	IV-21	I-22	II-22	III-22	IV-22	I-23	2023	2024	2025	2026	2027
Utilities, Construc. and Manufactur.	Bil. USD	3,597	3,588	3.72	4.94	3.59	3.25	1.94	1.03	0.26	4.55	2.79	2.36	2.23	2.18
Trade and Transportation	Bil. USD	3,653	3,616	2.12	3.71	2.64	1.66	3.18	-0.07	1.02	3.11	2.87	1.74	2.10	2.12
Financial services	Bil. USD	3,358	3,353	0.95	3.10	0.62	-0.53	-1.02	-3.36	0.16					
Professional and business services	Bil. USD	3,581	3,509	3.20	3.83	3.46	1.41	2.77	0.70	2.04					

4. Labor market

The growth (annual rate) of total non-farm employment has been in a diminishing trend since the record rate observed in the last quarter of 2021. A similar pattern is also present in the total employment of the private sector, as well as in the case of services provided by private companies.

In both the construction and manufacturing sectors, however, the highest rate of growth of employment occurred in the second quarter of 2022 – two quarters after the peak of labor increase in the overall economy.

As expected, the pattern of the productivity level in the private sector is less regular, with a succession of small increases and decreases in comparison with the previous year's data. In the second quarter of 2023, there was a more robust increase in productivity.

4. Labor market

Employment	Units	Last	Previous	Annual Change (%)												
		II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23						
Total non-farm	Thousands	156,155	155,472	5.10	4.91	4.54	3.99	3.20	2.67	2.45						
Employment	Thousands	Annual Change (%)									Forecast (%)					
		II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23	2023	2024	2025	2026	2027	
Total private		133,469	132,907	5.69	5.63	5.26	4.56	3.53	2.74	2.43	2.26	2.14	1.68	1.51	1.63	
Employment	Thousands	II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23						
Construction		7,952	7,890	3.24	4.01	4.71	4.34	3.48	2.57	2.61						
Employment	Thousands	II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23						
Manufacturing		12,987	12,976	3.15	3.63	4.42	3.85	3.09	2.04	1.31						
Employment	Thousands	II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23						
Private services		111,888	111,406	6.19	5.98	5.38	4.64	3.56	2.81	2.53						
Labor productivity	2012=100	II-23	I-23	IV-21	I-22	II-22	III-22	IV-22	I-23	II-23						
in private sector		114.32	113.29	0.75	-1.59	-0.88	0.24	0.48	-0.19	0.90						

5. Government budget

The tax receipts of the Federal Government had a major decrease in this year's first quarter.

Federal Government's consumption had a more moderate expansion in the second quarter of 2023.

After a major increase in the first quarter, the Federal Government's net transfers had a negative rate of growth afterwards.

Although the Federal Government's deficit had a 36.5% increase in the first quarter, the debt went up only moderately (3.5%) due to the limitations imposed by the debt ceiling.

5. Government budget

	Units	Last	Previous	Change (%)											
		I-23	IV-22	III-21	IV-21	I-22	II-22	III-22	IV-22	I-23					
Federal Govmt. tax revenue	Mil. USD	2,956,035	3,193,384	3.29	4.32	12.85	2.65	0.73	-0.82	-7.43					
Federal Govmt. consumption	Mil. USD	1,345,196	1,340,606	1.06	-0.01	0.38	2.39	2.16	2.65	0.34					
Federal Govmt. net transfer payments	Mil. USD	2,325,057	2,356,644	-15.49	-3.63	-0.18	-0.95	0.79	3.59	-1.34					
Federal Govmt. net saving	Mil. USD	-1,663,986	-1,219,318	-31.58	-34.15	-39.03	-5.29	15.43	20.04	36.46					
				Annual Change (%)						Forecast (%)					
		I-23	IV-22	III-21	IV-21	I-22	II-22	III-22	IV-22	I-23	2023	2024	2025	2026	2027
Total federal debt	Mil. USD	31,458,438	31,419,689	5.50	6.73	8.06	7.14	8.79	6.08	3.47	3.20	3.04	3.13	3.04	2.96