



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 2024

Textos para Discussão

No. 18 – julho, 2024.

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Título

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Autor

GPEF *

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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, segue 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.”

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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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Introduction

In the second quarter of 2024, the trend of reduced growth that occurred in the first quarter was reversed – the rate of GDP growth doubled and reached 0.7%. Some of the factors explaining this expansion are the stronger performance of both private consumption and investment. The trade deficit, on the other hand, maintained the high rate of growth. In addition, the level of employment in the private sector kept the trend of diminishing growth rates – a pattern that has been present since the end of 2021.

Annual inflation measured by the GDP deflator increased after a long period of cooling. On the other hand, according to the CPI index, there was a significant reduction in inflation in twelve months – in the second quarter, the annual inflation rate based on this indicator was 3.0% (a decrease of 0.5 percentage point).

Fiscal data for the federal government have shown some improvement. There was a relatively strong revenue growth in the first quarter (last data available), a more moderate expansion of consumption and transfers in the second quarter and, especially, a reduction of the deficit. The annual rate of change of the federal debt, however, continues to maintain the strong upward trend. The latest figure, referring to the first quarter of 2024, is 9.9%.

1. GDP growth and its main factors

In the second quarter of 2024, the growth rate of GDP doubled in relation to the previous quarter, from 0.35% to 0.70%. The factors most directly linked to this trend are the stronger expansion of consumption and, mainly, of private investment – in the case of the latter, the rate of change almost doubled, reaching 2.0% in the quarter. On the other hand, real interest rates had a slight reduction.

In the case of the trade deficit, it continues to expand at increasing rates – in the second quarter, the rate of change was 4.9%.

1. GDP growth and its main factors

	Units	Last II-24	Previous I-24	Change (%)											
				IV-22	I-23	II-23	III-23	IV-23	I-24	II-24					
Real net exports	Bil. 2017 USD	-1,007.0	-960.3	-1.60	-3.16	-0.74	0.27	-1.31	4.54	4.87					
Real private consumption	Bil. 2017 USD	15,733.0	15,643.0	0.29	0.93	0.20	0.77	0.81	0.36	0.58					
Real private investment	Bil. 2017 USD	4,248.0	4,163.2	0.84	-2.34	1.27	2.41	0.19	1.08	2.04					
Real interest rates				Real Rate (%)					Forecast (%)						
Moody's Aaa yield	% (GDP Deflator)	II-24	I-24	IV-22	I-23	II-23	III-23	IV-23	I-24	II-24	2024	2025	2026	2027	2028
		2.48	2.52	-1.87	-0.68	1,13	1.88	2.04	2.52	2.48	1.69	2.09	1.76	1.63	1.52
				Change (%)											
Real GDP	Bil. 2017 USD	II-24	I-24	IV-22	I-23	II-23	III-23	IV-23	I-24	II-24	2024	2025	2026	2027	2028
		22,918.7	22,758.8	0.64	0.56	0.51	1.19	0.84	0.35	0.70	0.90	2.15	1.76	1.52	1.38

2. Inflation and monetary aggregates

The long trajectory of reduction of inflation measured by the GDP deflator was interrupted in the second quarter. The annual rate increased by just over 0.1 percentage point and reached 2.6%.

In the case of the CPI index, however, the opposite trend occurred. The annual inflation rate suffered a significant reduction and stood at 3.0% in the second quarter.

Among the factors that affect the trajectory of prices, the lower pressure on inflation that results from the behavior of the money supply (M1) should be highlighted. The trajectory of M1 has been sharply declining since the beginning of last year. * In the second quarter, the reduction was less significant, with an annual rate of –2.3%. On the other hand, in the same period, the M1 income velocity kept showing higher growth rates.

An even more important factor on the behavior of inflation is the average change of commodity prices, which, since the beginning of last year, had been on a downward trajectory. This pattern was reversed in the second quarter, as the PPI index rose 0.6%.

* 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-24	I-24	IV-22	I-23	II-23	III-23	IV-23	I-24	II-24					
Consumer Price Index (CPI)	1982-84 = 100	313.05	312.23	6.41	4.94	3.05	3.69	3.32	3.48	2.98					
		Annual Change (%)									Forecast (%)				
		II-24	I-24	IV-22	I-23	II-23	III-23	IV-23	I-24	II-24	2024	2025	2026	2027	2028
GDP Deflator	2017 = 100	124.92	124.21	6.42	5.32	3.48	3.19	2.65	2.43	2.59	3.69	3.57	2.91	2.62	2.68
Monetary base	Mil. USD	5,731,800	5,883,000	-15.70	-9.17	1.85	2.88	7.79	5.59	2.19	2.66	3.76	3.45	3.71	4.00
M1*	Mil. USD	4,342,012	4,361,342	-3.35	-8.29	-10.28	-10.58	-8.92	-5.16	-2.26	-0.33	3.26	4.95	4.71	4.50
		M1 Velocity													
M1 income velocity	N.A.	II-24	I-24	IV-22	I-23	II-23	III-23	IV-23	I-24	II-24					
		4.820	4.764	4.015	4.348	4.548	4.665	4.698	4.764	4.820					
		Annual Change (%)													
Producer Price Index (PPI) All commodities	1982 = 100	II-24	I-24	IV-22	I-23	II-23	III-23	IV-23	I-24	II-24					
		255.42	254.96	6.86	-1.14	-9.42	-3.35	-3.11	-0.82	0.61					

* See previous page.

3. Broad sectors in the economy

In the first quarter (latest data available), the sectors Utilities, Construction, and Manufacturing, and Trade and Transportation, which are more directly linked to the cyclical economic pattern, had a significant reduction in the nominal income growth rate. In both cases, this reduction surpassed one percentage point.

However, the trajectory of the sectors Financial Services and Professional and Business Services was the opposite, that is, these sectors had an increase in the growth rate of nominal income, which was well over one percentage point.

3. Broad sectors in the economy: National income

	Units	Last		Previous		Change (%)					Forecast (real rate, %)				
		I-24	IV-23	III-22	IV-22	I-23	II-23	III-23	IV-23	I-24	2024	2025	2026	2027	2028
Utilities, Construc. and Manufactur.	Bil. USD	3,837	3,811	1.79	1.30	0.31	-0.05	1.92	1.78	0.68	1.40	-2.50	2.72	1.35	1.12
Trade and Transportation	Bil. USD	3,876	3,867	3.76	-0.25	1.44	1.26	1.15	1.49	0.25	-1.50	4.85	0.17	1.36	1.35
Financial services	Bil. USD	3,646	3,531	-0.24	-2.46	0.95	-1.61	-0.08	1.81	3.25					
Professional and business services	Bil. USD	3,703	3,639	2.97	1.09	2.82	1.07	1.04	0.21	1.75					

4. Labor market

The growth (annual rate) of total employment in the private sector has been on a downward trend since the beginning of 2022, and this general pattern is present for most segments of the economy.

The downward growth trend in employment has been especially strong in the Manufacturing sector, with a virtually zero annual rate of change in the second quarter of 2024. As the labor market loses momentum, the level of productivity in the private sector tends to rise. In the second quarter of 2024, labor productivity increased by 2.8% (annual rate).

4. Labor market

	Units	Last	Previous	Annual Change (%)							Forecast (%)				
		II-24	I-24	IV-22	I-23	II-23	III-23	IV-23	I-24	II-24	2024	2025	2026	2027	2028
Employment															
Total non-farm	Thousands	158,638	158,106	3.02	2.53	2.41	2.03	1.95	1.86	1.67					
Employment				Annual Change (%)							Forecast (%)				
Total private	Thousands	135,274	134,837	3.31	2.53	2.33	1.90	1.74	1.68	1.50	0.91	2.02	1.57	1.44	1.31
Employment															
Construction	Thousands	8,245	8,207	3.81	3.07	3.26	3.05	2.99	3.34	2.93					
Employment															
Manufacturing	Thousands	12,950	12,951	2.85	1.69	0.99	0.42	0.20	0.14	0.03					
Employment															
Private services	Thousands	113,445	113,036	3.30	2.57	2.40	1.97	1.83	1.74	1.58					
Labor productivity															
in private sector	2012=100	I-24	IV-23	III-22	IV-22	I-23	II-23	III-23	IV-23	I-24					
		112.01	111.93	-1.83	-1.89	-0.33	1.34	2.44	2.72	2.83					

5. Government budget

The tax receipts of the Federal Government, after a major drop in the beginning of last year, have mostly shown positive and increasing rates since then. In the first quarter of 2024 (last data available), it reached the significant growth rate of 6.8%. Part of the explanation for this strong increase in revenue lies in the very favorable performance of main financial assets and the profit gains in these markets.

Following a relatively strong expansion in the third quarter of 2023, Federal Government consumption has shown a more moderate rate of growth. In the second quarter the rate of change was only 0.9%. Nevertheless, the Federal Government's net transfers have shown relatively higher rates of growth in 2024 – in the second quarter, this rate was 1.2%.

The major increase in the Federal Government's deficit that occurred in the first quarter of last year (34.8%) contributed to a strong expansion of Federal debt since the second quarter of 2023. Afterwards, however, the deficit has shown negative rates of change. In this year's first quarter, this rate was -4.5%. However, the federal debt remains in a steep and increasing upward trend. In the first quarter (last official data available), the annual rate of change was 9.9%.

5. Government budget

	Units	Last	Previous	Change (%)							Forecast (%)					
		I-24	IV-23	III-22	IV-22	I-23	II-23	III-23	IV-23	I-24	2024	2025	2026	2027	2028	
Federal Govmt. tax revenue	Mil. USD	3,026,027	2,834,062	0.08	-1.70	-9.64	0.28	0.86	0.76	6.77						
Federal Govmt. consumption	Mil. USD	1,387,614	1,375,782	2.88	2.77	0.32	2.99	1.02	1.15	0.86						
Federal Govmt. net transfer payments	Mil. USD	2,248,020	2,222,364	0.09	1.59	-1.62	-3.67	0.12	2.34	1.15						
Federal Govmt. net saving	Mil. USD	-1,579,500	-1,653,308	11.69	15.71	34.84	-0.48	-0.09	-0.65	-4.46						
					Annual Change (%)							Forecast (%)				
		I-24	IV-23	III-22	IV-22	I-23	II-23	III-23	IV-23	I-24	2024	2025	2026	2027	2028	
Total Federal debt	Mil. USD	34,586,533	34,001,494	8.41	10.52	3.48	5.77	7.24	8.22	9.94	8.86	6.06	5.25	4.71	4.50	