United States

The American economy has been losing momentum for several months due to waning domestic demand, in spite of a rebound in household consumption at the beginning of 2023. Thus, GDP growth slowed to +0.3% in Q1 2023 (after +0.6% in Q4 2022), hampered in particular by the very negative contribution of changes in inventories (-0.5 points, ►**Figure 1**) resulting from another fall in manufacturing output (-0.2% in Q1, after -0.8%) and in spite of a rebound in household consumption.

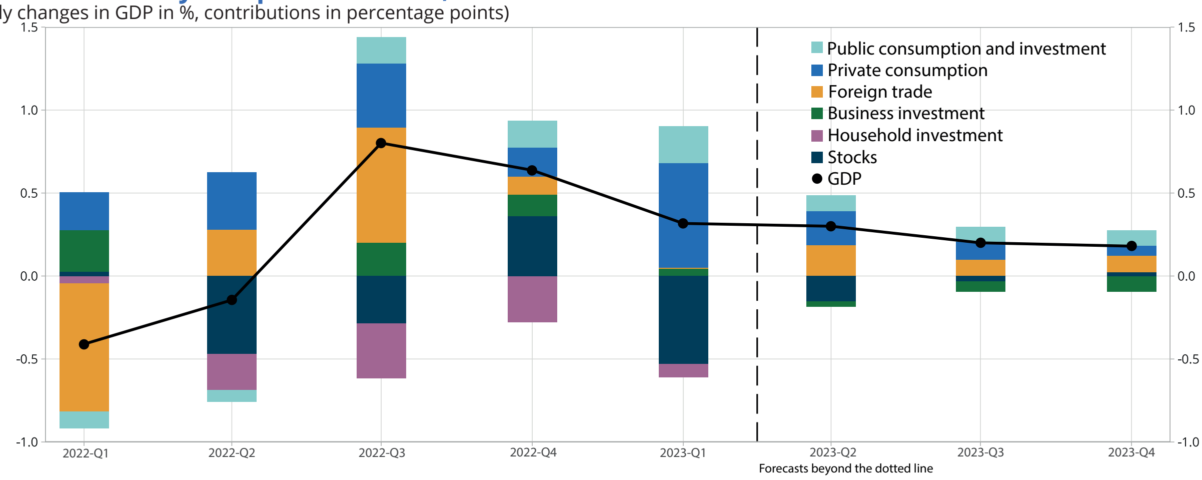
This rebound in household consumption (+0.9% in Q1) is exclusively due to a bounce in January (+1.3% against December, with the support of automobile purchases in particular) which was followed by a slight decline in February and March. This spurt in the middle of an overall slowdown could be explained, in particular, by the substantial increase in nominal household income in January (►**Figure 2**), linked to the reduction in income tax in many States and with the wage increases seen in a labour market that was particularly buoyant at the beginning of the year.

In fact, wages have continued to rise in response to the increase in prices, which remains sustained, the fall in the year-on-year change in the price index mainly reflecting some "base effects". The dynamics of inflation (as defined by the CPI) have fundamentally changed compared to 2022 (►**Figure 3**): energy prices are now falling year-on-year (-5.1% in April) whilst food inflation also fell sharply (+7.7% year-on-year in April, as against +10.1% in January). The rise in inflation is now mainly being driven by rents, including imputed rents, a very rigid component in the price index which is expected to prevent headline inflation returning rapidly to the 2% level targeted by the Federal Reserve. In spite of the continued rise in prices, household purchasing power picked up in Q1 (+1.9%, after +0.6%), driven by tax reductions in January (►**Figure 2**).

In addition, investment is still being affected by higher interest rates and continued to fall back in Q1. On the one hand, home investment fell for the eighth consecutive quarter, although more moderately than at the end of 2022 as 30-year borrowing rates stabilised. It is now at a very low rate (-19% year-on-year in Q1) whereas real estate prices remain at a high level compared to the trend before the health crisis (►**Focus** international real estate comparison). On the other hand, corporate investment, which was still buoyant in 2022, has been treading water (+0.3% after +1.0%), due to a fall in equipment investment (-1.8%) offsetting the rise in investment in infrastructure (+2.7%).

In this context, domestic demand is likely to slow significantly over the rest of the year, gradually returning to normal in relation to output. Private investment is expected to continue slipping back. Public consumption and foreign trade, however, are expected to bolster activity. In particular, exports should grow moderately, in a lacklustre international environment, whilst following a rebound in Q1 in the wake of increased consumption, imports are expected to fall in Q2. That being the case, GDP is expected gradually slow until the end of year, although without actually falling by then. ●

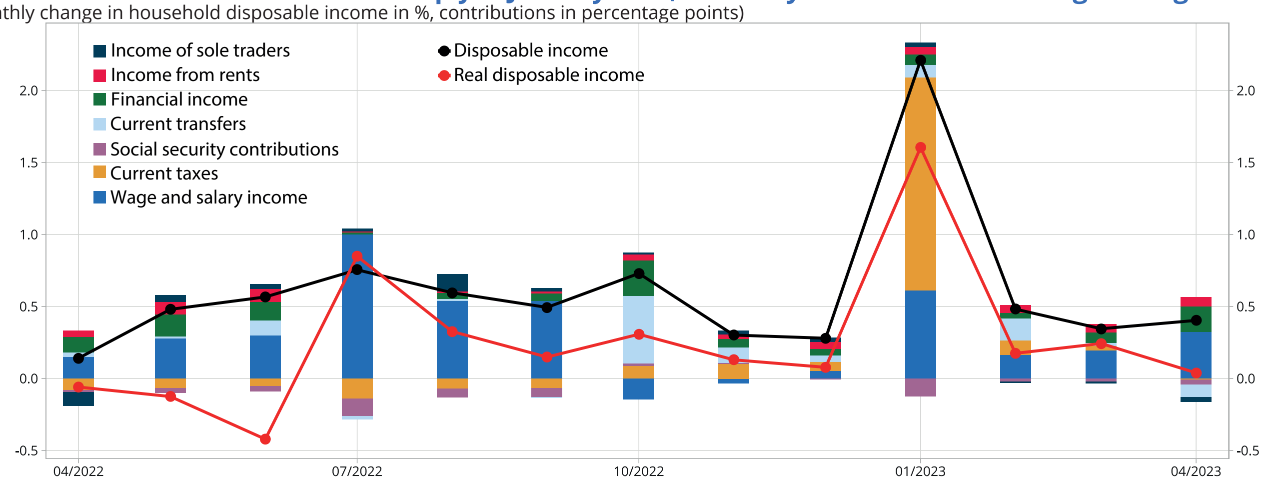
►1. The US economy is expected to slow, but not fall back in 2023
(quarterly changes in GDP in %, contributions in percentage points)



How to read it: in Q1 2023, GDP increased by 0.3% and private consumption contributed +0.6 points to this change.
Source: Bureau of Economic Analysis.

►2. Household income increased sharply in January 2023, driven by tax reductions and higher wage incomes

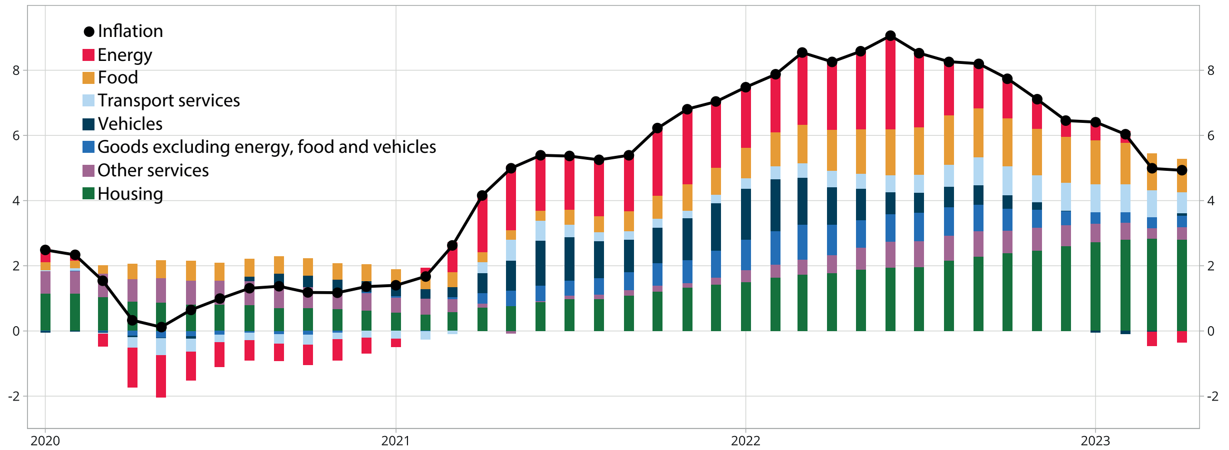
(monthly change in household disposable income in %, contributions in percentage points)



How to read it: in January 2023, the increase in wage incomes contributed 0.6 percentage points to the 2.1% rise in households' disposable income. Corrected for inflation, real household disposable income rose by 1.5%.
Source: Bureau of Economic Analysis.

►3. In the United States, inflation is now mainly being driven by rents

(year-on-year change in the consumer price index in %, contributions in percentage points)



Note: the "Housing" component in the US consumer price index (CPI) includes the prices of rent, and in particular imputed rents (which is not the case in the French CPI where only "real" rents are counted). The Harmonised Indices of Consumer Prices (HICP) presented in the International Summary of this *Economic Outlook* only concern the scope of real rents so as to allow comparisons between countries.
How to read it: in April 2023,the consumer prices index increased 4.9% year-on-year, and the increase in house prices contributed 2.8 points to that change.
Source: Bureau of Labor Statistics.