

# ECONOMIC PULSE

## UNITED STATES: IS THE INFLATION REDUCTION ACT LIVING UP TO ITS NAME?

The US labour market continues to perform well. The unemployment rate stood at 3.7% in August, up slightly from 3.5% in the previous month. Total nonfarm payroll employment growth is slowing down but remains significant (+315k m/m), particularly in professional and business services, health care, and retail trade. The labour market's resilience to the slowdown in growth is an important element in mitigating the impact of the rising cost-of-living.

Although US inflation fell slightly in July, as measured by the Personal Consumption Expenditures (PCE) Price Index, thereby surprising positively, it remains very high (6.3% year-on-year). Core inflation rose slightly (+0.1% m/m), but this was the smallest increase since February 2021 and, year-on-year, it fell slightly (-0.2 points to 4.6%).

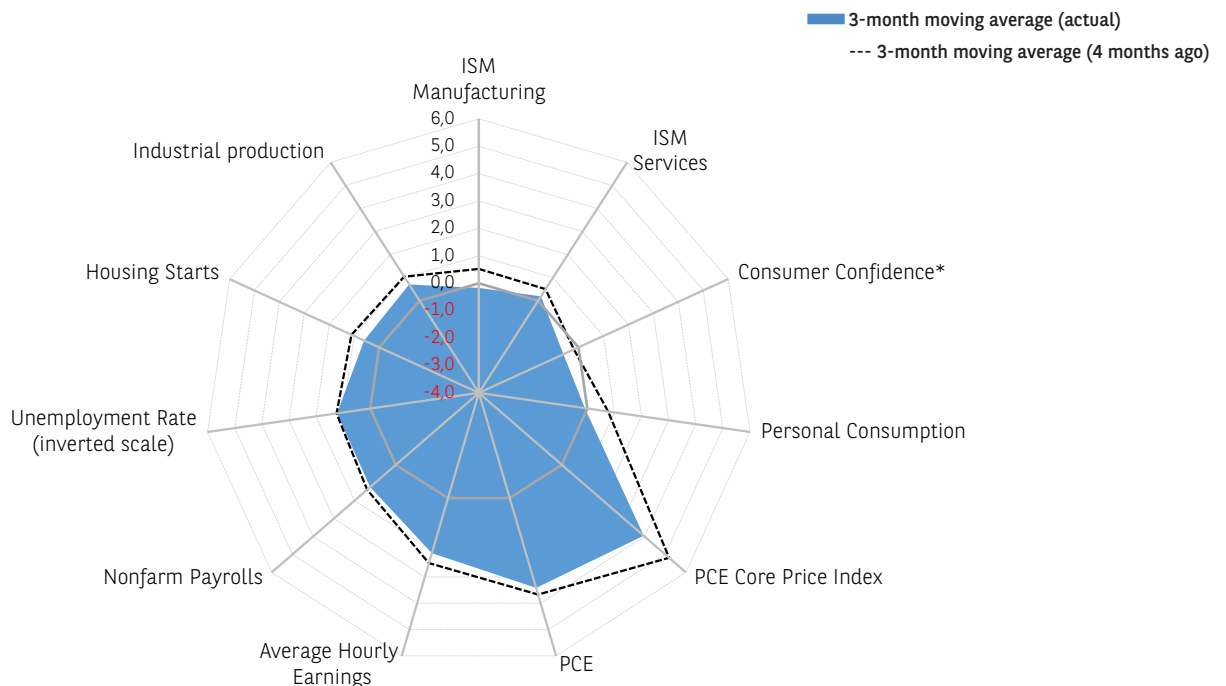
The scale of fiscal support provided to the economy in 2021 is now considered responsible for some of this inflationary surge. Congress passed the Inflation Reduction Act (IRA) in August with two objectives: to make people forget the mistakes of the last stimulus package and to accelerate the implementation of the environmental and social components of the Build Back Better plan. To avoid being criticised for taking inflationary measures, the legislator is renewing its effort to reduce the budget deficit (by USD 305 billion through 2031 according to the Congressional Budget Office). It also plans to raise revenue and lower prescription drug costs, to fund energy, climate, and health care provisions.

However, its ability to reduce inflation remains limited, especially in the short term. The beneficial effects of reforming the cost of prescription drugs, which should reduce household healthcare costs, are microeconomic in nature and likely to take time to be felt. In the longer term, several macroeconomic measures should reduce dependence on fossil fuels (and paradoxically increase their supply), which should then reduce the cost of energy and its inflationary effects.

However, this attempt at fiscal consolidation is partly offset by the adoption of the Transforming Student Debt to Home Equity Act, the cost of which could exceed USD 519 billion according to the University of Pennsylvania. With this Act, the federal government plans to cancel between USD 10,000 and 20,000 of debt per student for those earning less than USD 125,000. This highly symbolic measure should give some financial leeway to the most vulnerable.

Félix Berte

### UNITED STATES: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -4 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

