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IMF cuts U.S. growth outlook, says full employment years off

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By Anna Yukhananov

WASHINGTON (Reuters) - The International Monetary Fund cut its growth forecast for the United States on Monday and said the economy would not reach full employment until the end of 2017, allowing interest rates to be held near zero for longer than financial markets expect.

In its annual health check of the U.S. economy, the IMF cut its 2014 forecast to 2 percent from the 2.8 percent it predicted in April, due to a weak first quarter. It kept its 2015 forecast unchanged at 3 percent, as job creation picks up after a harsh winter.

"Recent data ... suggest a meaningful rebound in activity is now underway and growth for the remainder of this year and 2015 should well exceed potential," the IMF said.

Yet the country's potential growth should only be around 2 percent going forward, below historical averages, as the population ages and productivity growth slows, it added.

To help support the economy and fight persistently high poverty, the IMF urged the United States to boost the minimum wage. The federal minimum wage is now at 38 percent of the median wage, below most international standards, it said.

The IMF said its forecasts show the economy would only return to full employment by the end of 2017, with inflation remaining low. "If true, (Fed) policy rates could afford to stay at zero for longer than the mid-2015 date currently foreseen by markets," it said.

At the same time, the IMF warned that financial markets could be too complacent about possible volatility as U.S. rates rise, with the Fund's managing director, Christine Lagarde, citing a "halo of uncertainty" around the outlook.

The IMF said the Fed should consider further changes to its communication to better guide markets, including holding a news conference after each meeting of its policy-setting committee and publishing quarterly reports on monetary policy. It currently holds news conferences quarterly and issues monetary policy reports to Congress twice a year.

"The (Fed's policy-setting panel) could provide greater clarity about how financial stability considerations figure into its monetary policy calculus," the IMF said. Fed policymakers meet on Tuesday and Wednesday to consider their monetary policy stance.

The IMF urged the United States to increase spending on infrastructure and education and change parts of its tax system, including boosting the federal gasoline tax and reinstating the tax credit for research and development, to help spur growth.

In the future, policymakers should also reform corporate taxes, introduce a carbon tax and move toward a federal value-added tax, the IMF said.

A greater reliance on growth-enhancing fiscal policies could allow the Fed to retreat more quickly from its extraordinary monetary stimulus, it added.

"This would be the best policy mix from an economic perspective but, regrettably, political agreement on such an approach remains elusive," the IMF said.

(Additional reporting by Krista Hughes and Moriah Costa; Editing by Paul Simao, Tim Ahmann and Meredith Mazzilli)

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