



# May Economic Chart Book (Snapshot)

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# May Economic Chart Book (Snapshot)

Enclosed are select charts from our May Economic Chart Book discussing:

- Updated global economic trends
- Why the US is a 2-2-2 economy for the new two years
- US GDP Outlook and risks
- State of the US consumer
- Policy options for the US, Europe and Japan when the next recession hits

[Link to Torsten Slok's full May Economic Chart Book can be found here.](#)

# Overview: Risks to the economic outlook



For the US we expect 2% growth, 2% inflation, and near 2% Fed funds rate for the next two years.

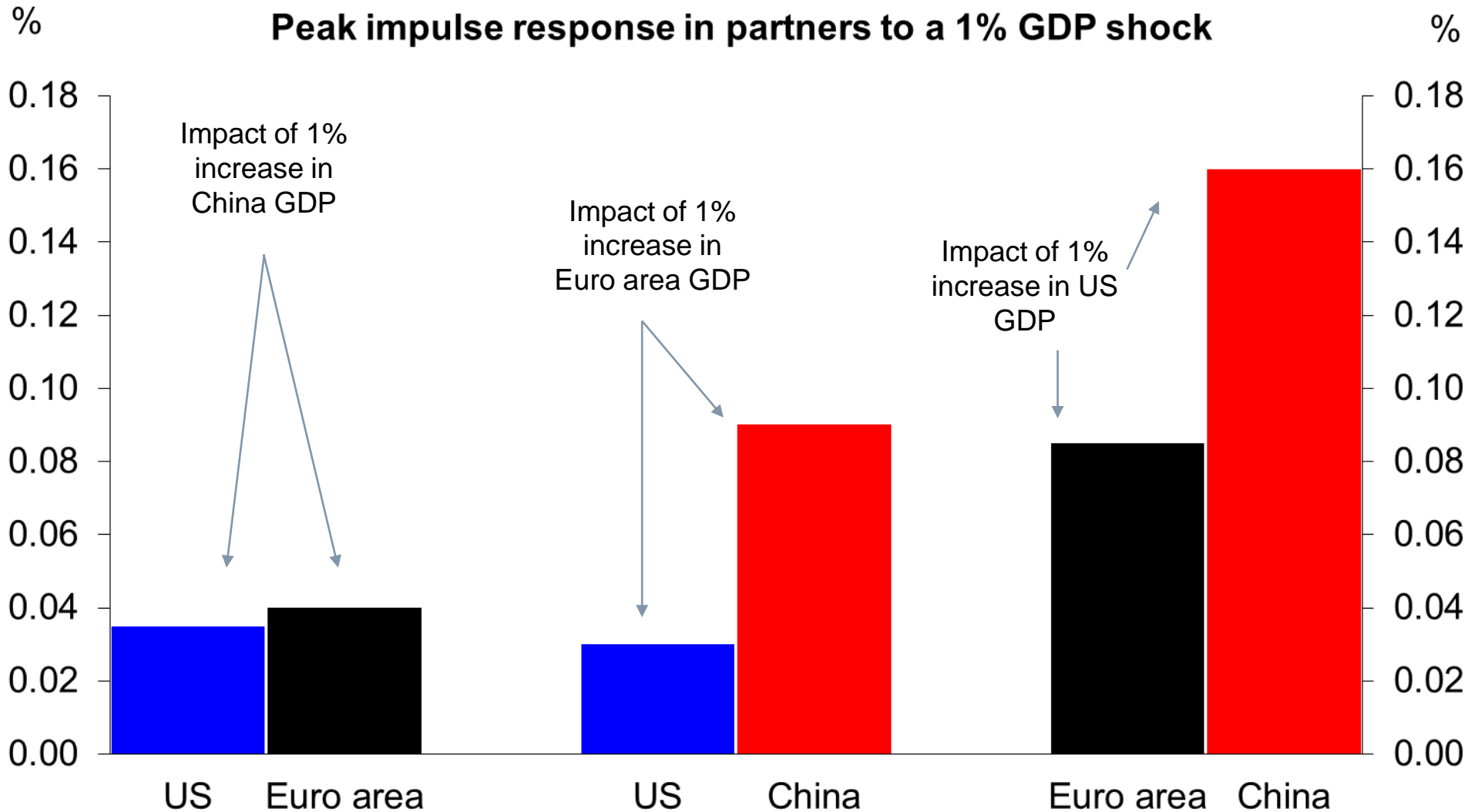
## **Upside risks:**

- US quickly completes trade deals with China and Europe
- Brexit gets resolved quickly
- European Parliamentary election in May with no impact on markets
- German fiscal expansion

## **Downside risks:**

- A sudden blowup in credit markets
- The US consumer gets tired
- The US trade war intensifies, in particular with Europe
- Fed credibility is severely damaged
- China gets a current account deficit

# US and Europe much more important for China than China is for US and Europe



Source: IMF Spillover Report, DB Global Research

# Consensus expectations



| 96) Chart                     |       | 97) Set as Default View |       | Economic Forecasts                                                      |       |                          |        |       |           |       |  |
|-------------------------------|-------|-------------------------|-------|-------------------------------------------------------------------------|-------|--------------------------|--------|-------|-----------|-------|--|
| Country/Region/World          |       | Contributor             |       | Contributor Composite                                                   |       |                          | Yearly |       | Quarterly |       |  |
| United States                 |       | Browse                  |       | <input checked="" type="radio"/> Private <input type="radio"/> Official |       |                          |        |       |           |       |  |
|                               |       | Actual / Forecasts      |       |                                                                         |       | Probability of Recession |        |       |           | 25.0% |  |
| Indicator                     | Q2 18 | Q3 18                   | Q4 18 | Q1 19                                                                   | Q2 19 | Q3 19                    | Q4 19  | Q1 20 | Q2 20     | Q3 20 |  |
| Real GDP (YoY%)               | 2.9   | 3.0                     | 3.0   | 2.9                                                                     | 2.5   | 2.2                      | 2.1    | 2.1   | 2.0       | 1.9   |  |
| Real GDP (QoQ% SAAR)          | 4.2   | 3.4                     | 2.2   | 1.8                                                                     | 2.5   | 2.2                      | 2.0    | 1.8   | 1.9       | 1.8   |  |
| Consumer Spending ...         | 3.8   | 3.5                     | 2.5   | 1.3                                                                     | 2.6   | 2.4                      | 2.3    | 2.0   | 2.1       | 2.0   |  |
| Government Spendin...         | 2.5   | 2.6                     | -0.4  | 2.0                                                                     | 2.6   | 1.7                      | 1.4    | 1.0   | 1.3       | 1.0   |  |
| Private Investment (...)      | -0.5  | 15.2                    | 3.7   | 3.0                                                                     | 3.4   | 3.1                      | 2.8    | 3.0   | 2.8       | 2.7   |  |
| Exports (QoQ% SAAR)           | 9.3   | -4.9                    | 1.8   | 2.5                                                                     | 3.0   | 3.0                      | 3.0    | 2.9   | 3.0       | 2.8   |  |
| Imports (QoQ% SAAR)           | -0.6  | 9.3                     | 2.0   | 1.7                                                                     | 3.5   | 3.5                      | 3.5    | 3.0   | 3.1       | 3.1   |  |
| Industrial Production (Yo...) |       |                         | 3.7   | 3.3                                                                     | 2.6   | 1.9                      | 1.7    | 1.9   | 2.0       | 1.7   |  |
| <b>Price Indices</b>          |       |                         |       |                                                                         |       |                          |        |       |           |       |  |
| CPI (YoY%)                    | 2.7   | 2.6                     | 2.2   | 1.7                                                                     | 1.9   | 1.9                      | 2.1    | 2.3   | 2.1       | 2.1   |  |
| PCE Price Index (YoY%)        | 2.2   | 2.2                     | 1.9   | 1.5                                                                     | 1.7   | 1.8                      | 1.9    | 2.1   | 2.0       | 2.0   |  |
| Core PCE (yoy%)               | 1.9   | 2.0                     | 1.9   | 1.8                                                                     | 1.8   | 1.9                      | 2.0    | 2.0   | 2.1       | 2.1   |  |
| <b>Interest Rates</b>         |       |                         |       |                                                                         |       |                          |        |       |           |       |  |
| Central Bank Rate (%)         | 2.00  | 2.25                    | 2.50  | 2.50                                                                    | 2.50  | 2.50                     | 2.55   | 2.55  | 2.55      | 2.55  |  |
| 3-Month Rate (%)              | 2.34  | 2.40                    | 2.81  | 2.60                                                                    | 2.60  | 2.63                     | 2.66   | 2.68  | 2.69      | 2.67  |  |
| 2-Year Note (%)               | 2.53  | 2.82                    | 2.49  | 2.26                                                                    | 2.43  | 2.48                     | 2.53   | 2.56  | 2.57      | 2.57  |  |
| 10-Year Note (%)              | 2.86  | 3.06                    | 2.69  | 2.41                                                                    | 2.62  | 2.69                     | 2.75   | 2.78  | 2.83      | 2.86  |  |
| <b>Exchange Rates</b>         |       |                         |       |                                                                         |       |                          |        |       |           |       |  |
| EURUSD                        | 1.17  | 1.16                    | 1.15  | 1.12                                                                    | 1.13  | 1.14                     | 1.16   | 1.18  |           |       |  |

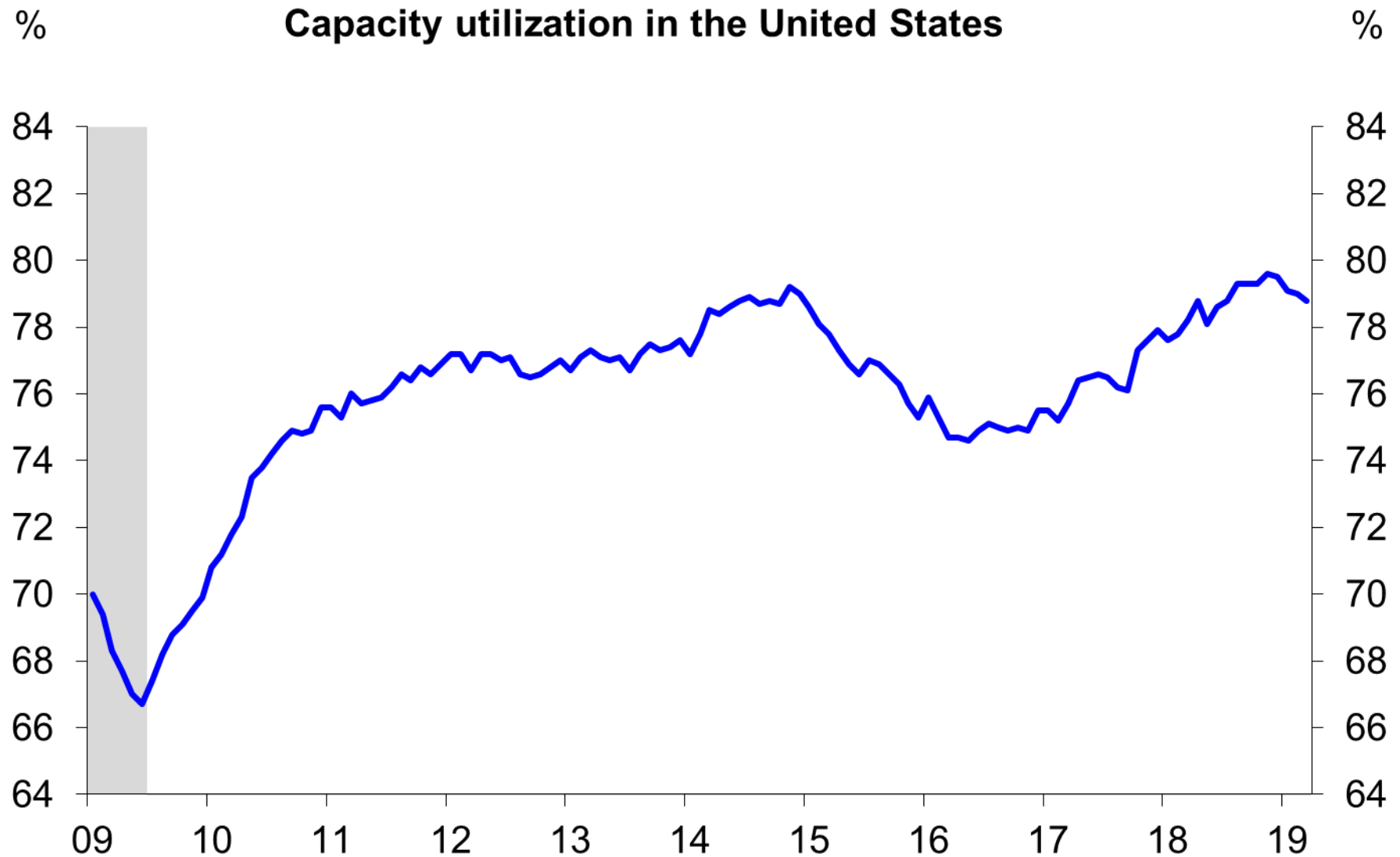
Consensus expects: 2% growth, 2% inflation, and Fed funds at 2.5%

Source: Bloomberg Finance LP, DB Global Research



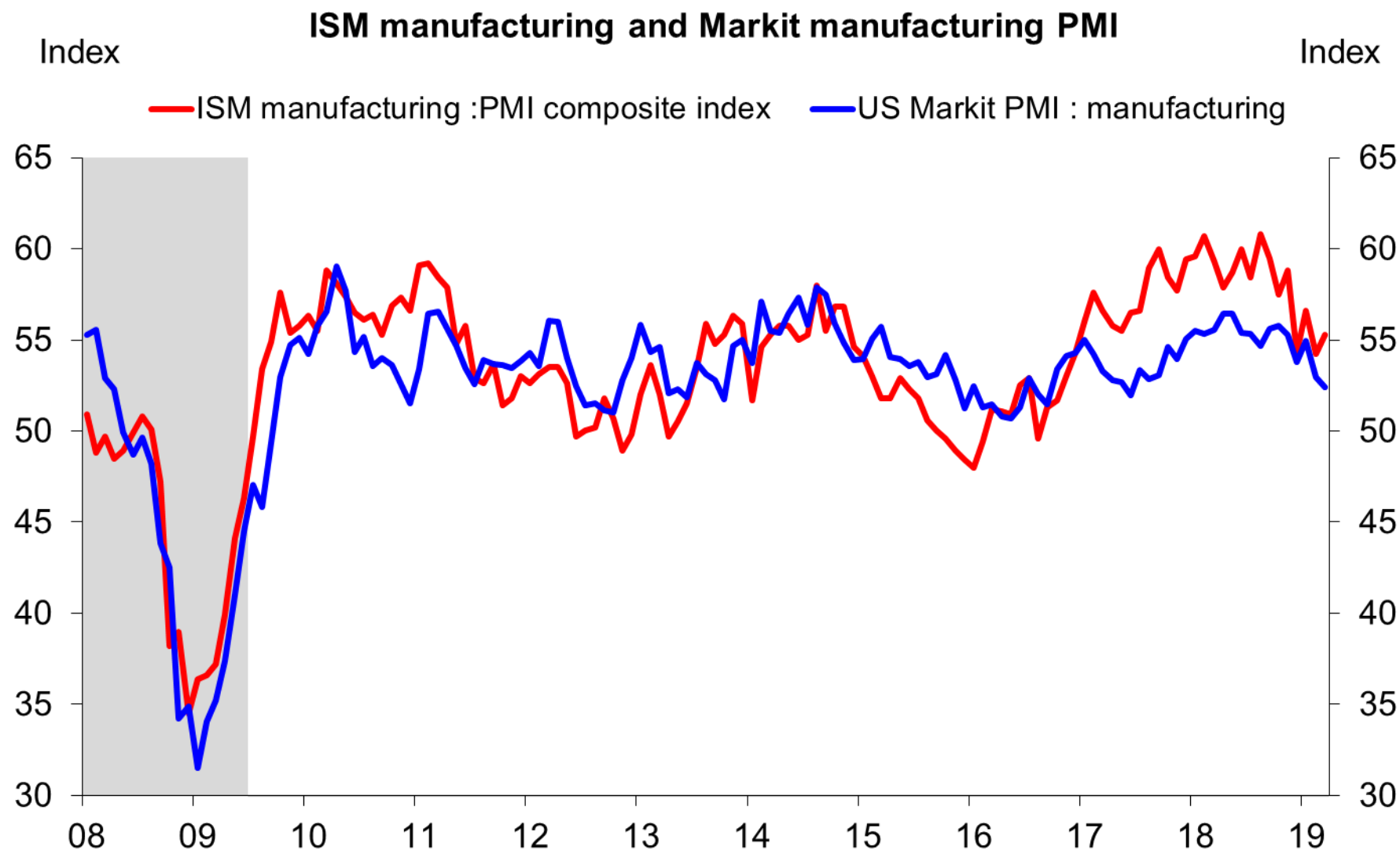
# Capacity utilization has peaked

## Capacity utilization in the United States



Source: FRB, Haver Analytics, DB Global Research

# ISM and Markit PMI point to some downside risks to growth

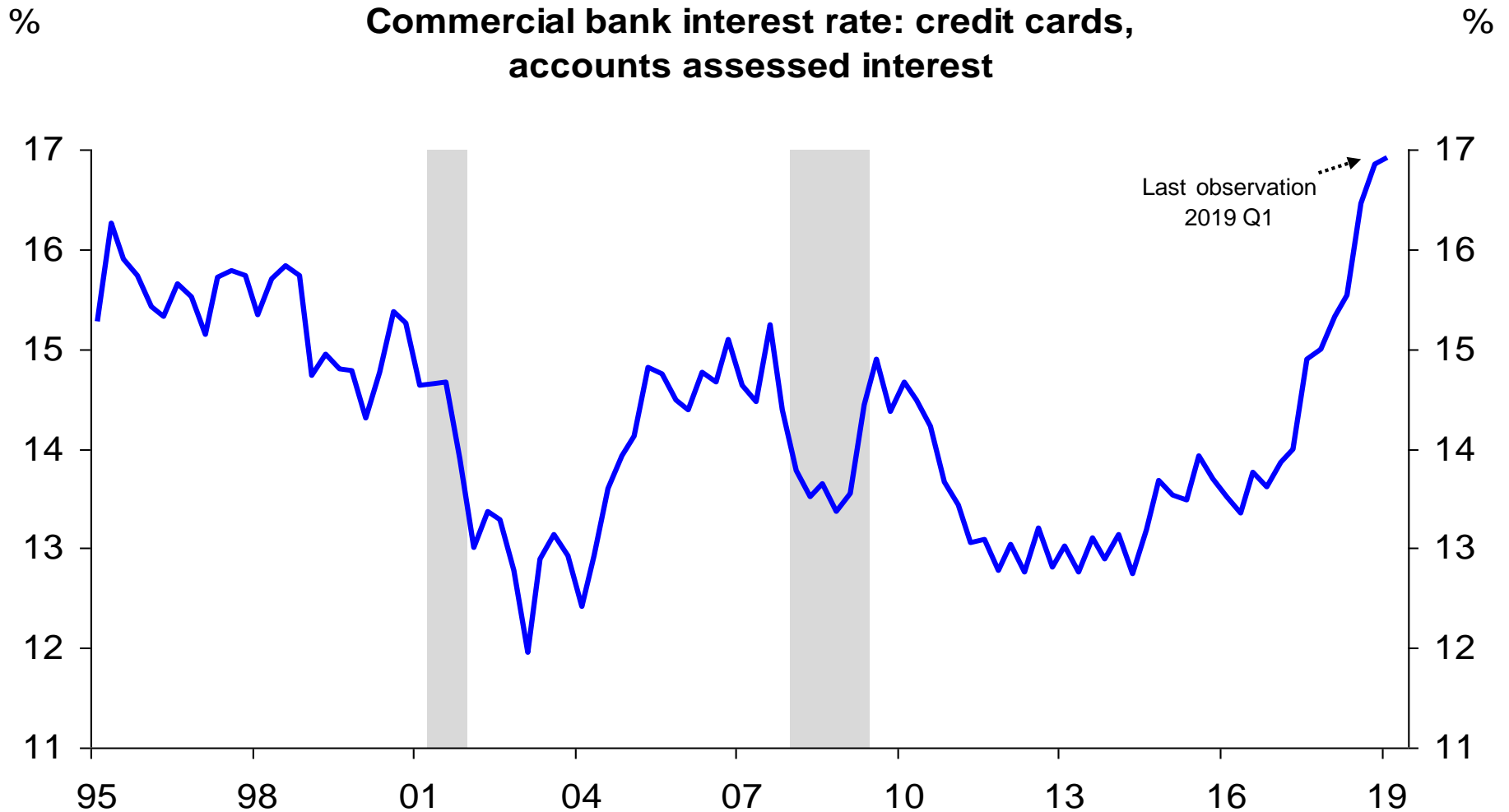


Source: ISM, IHSM, Haver Analytics, DB Global Research





# Credit card interest rate at highest level in decades



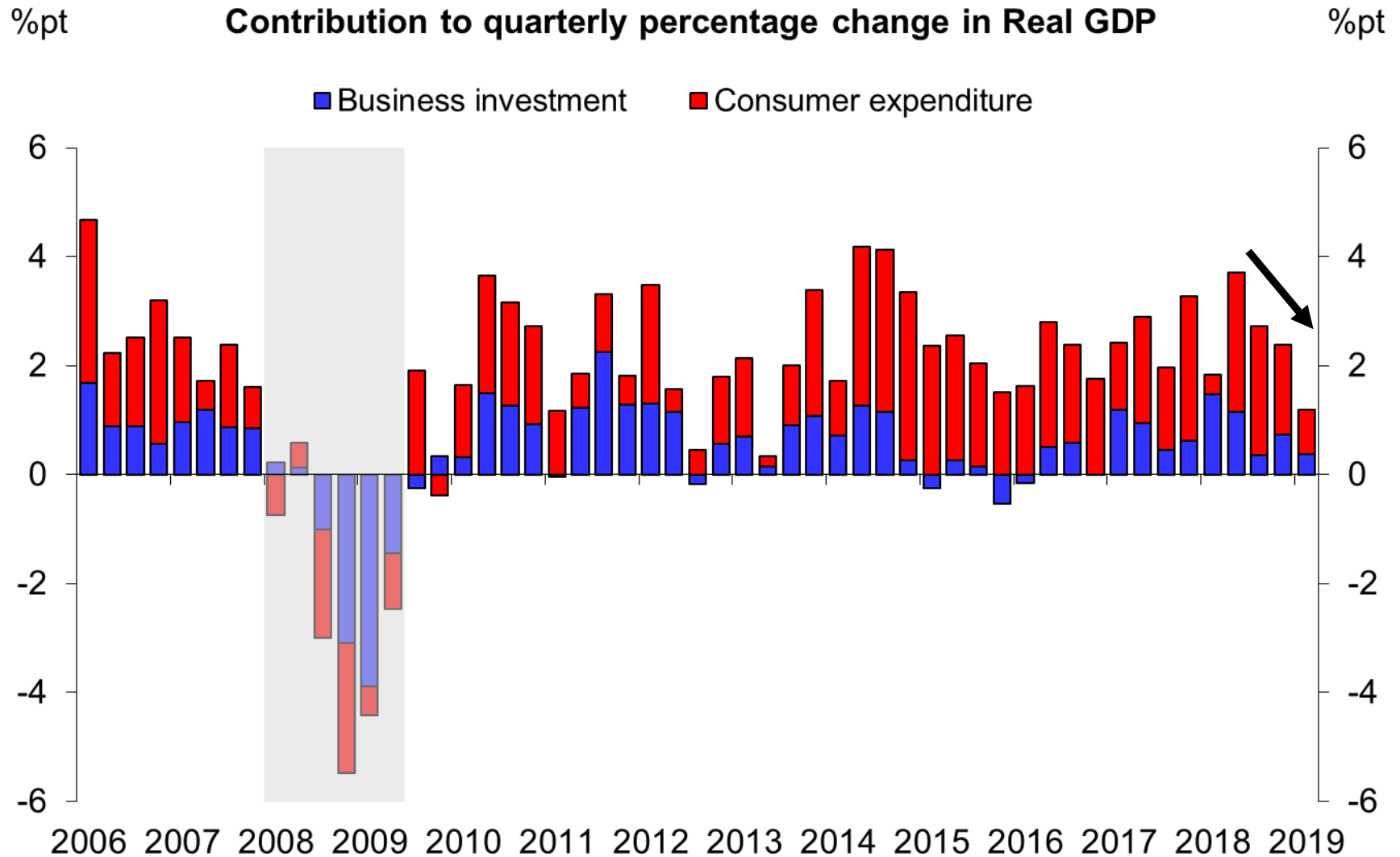
Note: This rate is the annualized ratio of total finance charges at all reporting banks to the total average daily balances against which the finance charges were assessed

Source: Federal Reserve Board, Haver Analytics, DB Global Research





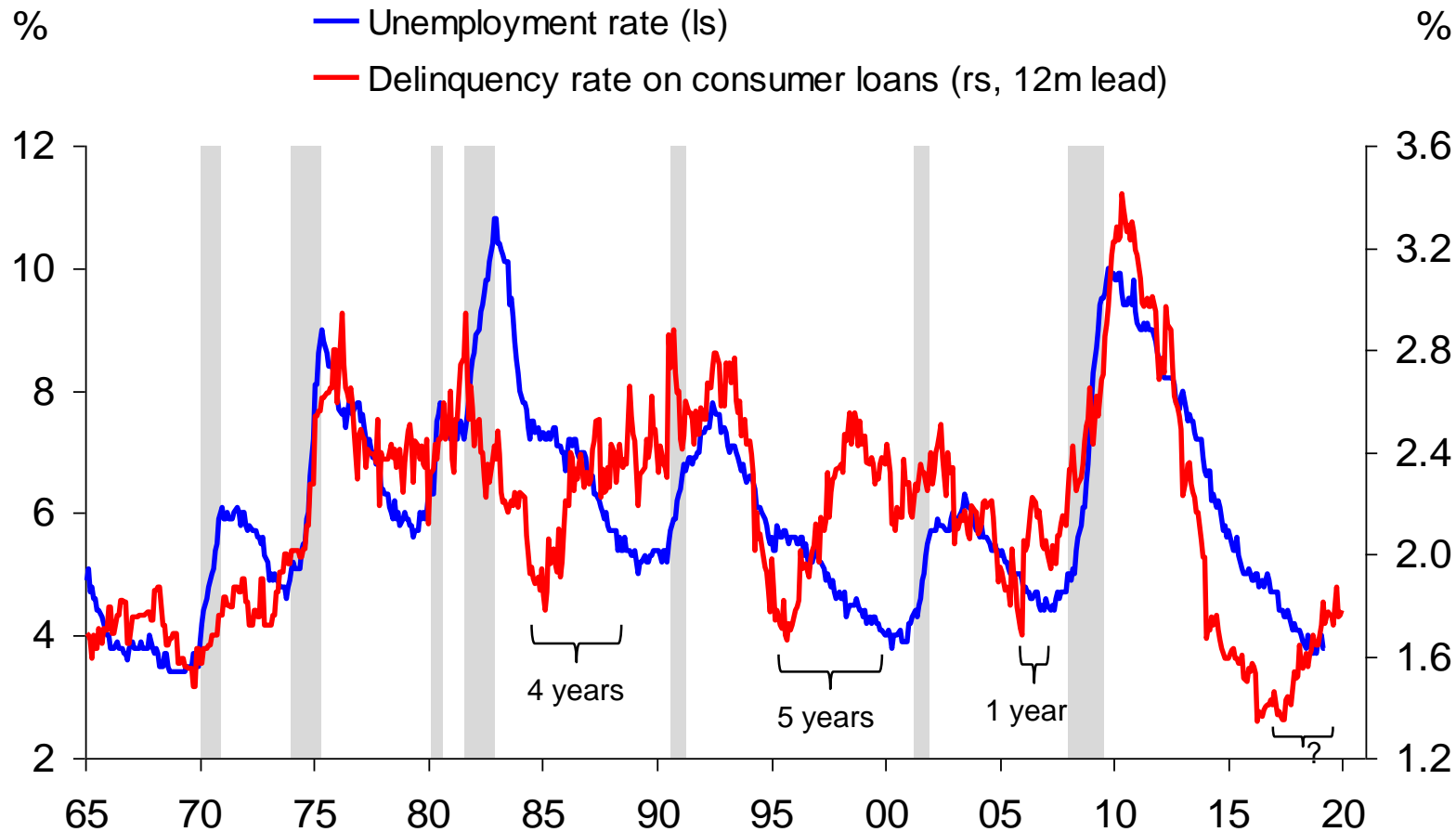
# Is the US expansion fizzling out?



Source: BEA, Haver Analytics, DB Global Research



# The credit cycle is leading the economic cycle. Economic slowdown risk is rising



Note: Composite consumer loans consists of eight loan types: personal, automobile direct & indirect, mobile homes, recreational vehicles, marine financing loans, property improvement and home equity and second mortgage loans.

Source: BLS, ABA, Haver Analytics, DB Global Research

# Overview: Policy options for US, Europe, and Japan when the next recession hits



## United States:

**Monetary policy:** Rate cuts, forward guidance, average inflation targeting, QE, yield curve control, and CCyB. Negative interest rates unlikely, changing inflation target unlikely.

**Fiscal policy:** Automatic stabilizers, active countercyclical policies, infrastructure spending

## Europe:

**Monetary policy:** Forward guidance, TLTRO, credit easing, depo tiering, QE, increase the 33% issuer-limit, add more asset classes to the eligible QE list.

**Fiscal policy:** Automatic stabilizers, German fiscal stimulus package, Italian structural reforms, complete banking union and capital markets union, more fiscal risk sharing.

## Japan:

**Monetary policy:** Rate cuts, forward guidance, lower 10y yield target, increase ETF purchase volume, increase JGB purchase volume, purchase other assets such as mortgages or munis. Impact of these initiatives would likely be minimal. TLTRO expected to harm bank earnings.

**Fiscal policy:** Postpone October's consumption tax hike, increase infrastructure spending



## Torsten Slok, Ph.D.

- **Chief International Economist, Managing Director**
- **Deutsche Bank Securities, Inc.**
- Torsten Slok joined Deutsche Bank Securities in the fall of 2005.
- Mr. Slok's Economics team has been top-ranked by Institutional Investor in fixed income and equities since 2010. Slok currently serves as a member of the Economic Club of New York
- Prior to joining the firm, Mr. Slok worked at the OECD in Paris in the Money and Finance Division and the Structural Policy Analysis Division. Before joining the OECD he worked for four years at the IMF in the Division responsible for writing the World Economic Outlook and the Division responsible for China, Hong Kong, and Mongolia.
- Mr. Slok studied at University of Copenhagen and Princeton University. He has published numerous journal articles and reviews on economics and policy analysis, including in Journal of International Economics, Journal of International Money and Finance, and The Econometric Journal.



# Appendix 1

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